



Foreign &
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Office

Continuing the United Kingdom's Trade Relationship with Mexico

Trade Continuity Agreement between the United Kingdom of Great Britain and Northern
Ireland and the United Mexican States

January 2021



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**Trade Continuity Agreement between the United Kingdom of Great Britain and Northern
Ireland and the United Mexican States**

Presented to Parliament

by the Secretary of State for Foreign, Commonwealth and Development Affairs

by Command of Her Majesty

January 2021



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Introduction

1. This report explains HM Government's approach to delivering continuity in the trade relationship of the United Kingdom of Great Britain and Northern Ireland (the "UK") with the United Mexican States ("Mexico") now that we have left the European Union (the "EU").
2. With our exit from the EU, HM Government has sought to deliver the maximum possible certainty to businesses and consumers through ensuring continuity in our existing trade relationships. It is in no one's interests to disrupt existing trade flows.
3. To achieve this, HM Government has developed new bilateral agreements that replicate, as far as possible, the effects of the trade and association agreements we have with existing partners. The Trade Continuity Agreement between the United Kingdom of Great Britain and Northern Ireland and the United Mexican States (the "Agreement") is intended to take effect on the date the Economic Partnership, Political Coordination and Cooperation Agreement (EPPCCA) between the European Community and its Member States of the one part, and the United Mexican State, of the other part (the "EU-Mexico EPPCCA") ceases to apply to us (or as soon as possible thereafter). The new agreement will form the starting point for our future trade arrangements with our partners.
4. Wherever possible, HM Government has sought a technical replication of the existing EU agreements through these new bilateral 'continuity trade agreements', but in some cases, it has applied bespoke solutions for individual agreements as necessary to ensure continuity of effect in a bilateral context.
5. This report gives details of, and explains the reasons for, any significant differences between:
 - a. The Agreement; and
 - b. the EU-Mexico EPPCCA, signed in 1997 and entered into force in 2000.
6. This report first sets out the general drafting changes necessary across all HM Government's short form continuity trade agreements and which have no significant impact on our current trade relationships. It then considers provisions of the Agreement, in turn explaining any significant differences between the Agreement and the corresponding trade-related provisions of the EU-Mexico EPPCCA. To assist the reader, the report includes some discussion of the economic impacts as appropriate. This report focuses on the changes made to the trading arrangements between us and Mexico as ceases to be bound by the EU-Mexico EPPCCA and this Agreement enters into force. Any wider economic impacts resulting from our exit from the EU or the nature of the future relationship between us and the EU have been excluded from this report.

Legal approach

7. The UK and Mexico have agreed that using a short form agreement is the most pragmatic and sensible approach in the circumstances. The approach taken is similar to that used in the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (the "CPTPP"), where Article 1 of the CPTPP incorporates (save for a small number of articles) by reference the provisions of the Trans-Pacific Partnership Agreement into and makes them part of, *mutatis mutandis*, the CPTPP. The advantages of this approach include that:
 - a. the short form agreement can be drafted in such a manner as to accommodate different scenarios, such as the various possible outcomes of our ongoing negotiations with the EU regarding the future of the UK-EU relationship;

- b. the format itself will send a clear message to businesses, consumers, and investors in both the UK and Mexico that the aim is simply to secure continuity in existing trading arrangements, with the only changes being the ones clearly specified on the face of the Agreement; and;
 - c. the approach provides a clear legal text, making rights and obligations unambiguous where they have by necessity changed.
8. The Agreement replicates the effects of the trade-related provisions of the EU-Mexico Agreement as closely as possible, including the establishment of institutional arrangements between us and Mexico based on existing structures (such as the Joint Council) that allow for the ongoing management and updating of the Agreement.
 9. Many of the general changes to the EU-Mexico EPPCCA (such as replacing “EU” with “UK”) are applied by reading the EU-Mexico text of the EU-Mexico EPPCCA *mutatis mutandis*, that is, with the technical changes necessary to apply the EU-Mexico EPPCCA as if it had been concluded between us and Mexico in the first instance. This has avoided the need to reproduce every page of the EU-Mexico EPPCCA and has significantly reduced the volume of text required.
 10. Where more substantive amendments were required to ensure operability in a bilateral context, or where we and Mexico jointly agreed that *mutatis mutandis* would not deliver adequate certainty over rights and obligations, detailed amendments have been included in the Annexes to the Agreement.

Resources

11. This report is intended to aid businesses, consumers, and parliamentarians in understanding any significant changes made to our trade, political, economic, or social cooperation relationship with Mexico by the Agreement and the reasons for any changes, and their impact.
12. Should you wish to view the EU-Mexico EPPCCA as originally published, it can be found online on the [Organization of American States](#). This is accompanied by more detail, including decisions of the Association Council and Association Committee established under the EU-Mexico EPPCCA for the purpose of administering the EU-Mexico EPPCCA.
13. Should you wish to view the full text of the Agreement, it will be laid in Parliament alongside an Explanatory Memorandum as part of our treaty ratification process in accordance with the Constitutional Reform and Governance Act 2010 (the “CRaG Act”). The text will also be available on GOV.UK.

Economic Background

14. This section provides a country-specific background analysis of trade between the UK and Mexico.

Trade between the United Kingdom and Mexico

15. Mexico is our 42nd largest trading partner,¹ accounting for 0.4% of total trade. Total trade in goods and services with Mexico was £5.3 billion in 2019.²

16. In 2019, our exports to Mexico were £2.6 billion, making it our 40th largest export market (accounting for 0.4% of all exports). Our imports from Mexico were £2.7 billion, making it our 43rd largest import source (accounting for 0.4% of all British imports).

Table 1: Trade between the United Kingdom and Mexico, 2019 (£ billion)

	Trade in goods	Trade in services	Total trade
British exports to Mexico	1.6	1.0	2.6
British imports from Mexico	1.6	1.0	2.7
Total trade	3.2	2.0	5.3

Source: [ONS, \(2020\). UK total trade: all countries, non-seasonally adjusted](#) (accessed 13th November 2020).

17. Using data from HMRC for trade in goods only, Table 2 shows in 2019 the top goods exported to Mexico were machinery and mechanical appliances (HS84, £351 million), vehicles other than railway or tramway stock (HS87, £180 million) and beverages, spirits, and vinegar (HS22, £139 million), together making up almost half of the total value of goods exported to Mexico. Our top goods imported from Mexico were precious stones and metals (HS71, £980 million), representing 45% of the total value of goods imported from Mexico.

18. The Agreement on the Mutual Recognition and Protection of Designations for Spirit Drinks was signed on 30th November 2020, which is an important geographical indications agreement between the United Kingdom and Mexico to protect the spirits of both countries. The agreement protects three UK GIs; Irish Whiskey, Irish Cream and Scotch Whisky and four Mexican GIs; Tequila, Mezcal, Sotol and Charanda.

¹ EU Member States are treated as individual trading partners with the UK.

² ONS (2020), [UK total trade: all countries, non-seasonally adjusted](#) (accessed 13th November 2020)

Table 2: Top 5 UK goods exports to and imports from Mexico, 2019 (HS2³, £ million)

Top 5 UK goods exports to Mexico	Value	Top 5 UK goods imports from Mexico	Value
Machinery and mechanical appliances	351	Precious stones and metals	980
Vehicles other than railway or tramway stock	180	Machinery and mechanical appliances	304
Beverages, spirits, and vinegar	139	Electrical machinery and equipment	234
Pharmaceutical products	121	Beverages, spirits, and vinegar	134
Electrical machinery and equipment	84	Optical, photographic, cinematographic, and medical equipment	77

Source: [HMRC trade statistics by commodity code](#) (accessed 1st December 2020). Sectors classified according to Harmonised System chapters. Data presented is recorded on a physical movement basis where a good is recorded as an export (import) if it physically leaves (enters) the economic territory of a country.

19. In 2019, we exported £1.0 billion in services to Mexico and imported £1.0 billion in services.

Table 3 shows that in 2019, insurance and pension was the largest our service exported to Mexico, valued at £212 million, with 'other business services' (comprised of sectors including legal, accounting, management consulting and others) following as the second largest export (£200 million). Travel was our largest service imported from Mexico, valued at £789 million, with 'other business services' following as the second largest import (£133 million).

Table 3: Top United Kingdom services exports to and imports from Mexico, 2019 (£ million)

Top 5 British services exports to Mexico	Value	Top 5 British services imports from Mexico	Value
Insurance and pension	212	Travel	789
Other business services	200	Other business services	133
Travel	170	Transportation	33
Transportation	116	Telecommunications, computer, and information services	32
Financial	66	Government	21

Source: ONS, (2020). UK trade in services: service type by partner country, non-seasonally adjusted (accessed 16th November 2020).

³ The Harmonised System (HS) is an international nomenclature for the classification of products. It allows participating countries to classify traded goods on a common basis for customs purposes.

Import and export data for some sectors have been omitted by the ONS as the data might be disclosive, but the values are included in the overall totals.

ONS data is recorded on a 'Balance of Payments' or 'change of ownership' basis where a good or service leaving (entering) the economic territory of a country is recorded as an export (import) only if it has changed ownership between the resident of the reporting country and non-residents. Goods exports (imports) are recorded by HMRC if a good physically leaves (enters) the economic territory of a country.

British businesses exporting to and importing from Mexico

20. In 2019, HMRC estimated that around 3,800 VAT-registered businesses exported goods to Mexico and around 1,300 imported goods from Mexico.⁴ As these figures only include businesses trading in goods, they are likely to underestimate the total number of businesses trading with Mexico.
21. For context, provisional survey data from the ONS shows that around 340,500 (non-financial) registered British businesses traded in either goods or services or both in 2018 with another country.⁵ This was just under 15% of all VAT/PAYE registered businesses. There were around 211,100 (non-financial) registered businesses in the UK engaged in goods trade with another country and 188,400 (non-financial) registered businesses trading in services in 2018. Some of these businesses traded in both goods and services. There will be other businesses trading internationally, which are not identified by these surveys as they are not registered for VAT. Neither of these sources include businesses trading below the VAT registration threshold.

Economic impact of the EU-Mexico EPPCCA

22. The EU-Mexico EPPCCA, which established a free trade area, liberalising two-way trade in industrial products and progressively liberalising two-way trade in agricultural, agri-food and fisheries products, was signed in 1997 and entered into force in 2000. The EU-Mexico EPPCCA also contains *inter alia* provisions on quotas, movement of capital, competition, and intellectual property.
23. A 2018 European Commission report looking at implementation of EU free trade agreements included information on the EU-Mexico EPPCCA.⁶ It highlighted that between 2002 and 2017 EU goods exports to Mexico had increased by 12.0% and EU goods imports from Mexico by 19.6%, although it must be noted that trade would have been likely to expand in the absence of the agreement.

Potential loss to the United Kingdom if the Agreement is not brought into effect

24. The Agreement not being applied would result in businesses losing the preferences negotiated under the EU-Mexico EPPCCA. This would include the re-imposition of many tariffs, returning to World Trade Organization Most-Favoured Nation ("MFN") tariff treatment with Mexico. Any benefits derived from trading under preferences through the EU-Mexico EPPCCA, such as increases in trade flows, may then be reversed.

⁴ HMRC, (2020). [Regional trade statistics interactive analysis: second quarter 2020](#) (accessed 1st December 2020)

⁵ ONS, (2019). [Annual Business Survey exporters and importers](#) (accessed 1st December 2020)

⁶ European Commission (2018), '[Individual reports and info sheets on Implementation of EU Free Trade Agreements](#)'.

25. It is unlikely that the entire effect of the EU-Mexico EPPCCA would disappear. Tariffs would revert to MFN rates, discussed in further detail below, but it could take longer for some of the other benefits to be lost. Some gains might endure even in the long run. For example, we might still benefit from any regulatory arrangements agreed because of the EU-Mexico EPPCCA. Business connections formed because of the EU-Mexico EPPCCA might also endure.
26. The size of the impact of not bringing into force or applying the Agreement would depend on the responsiveness of trade flows to increased costs brought about by the loss of access to the preferences provided under the Agreement.⁷

Immediate impact if not brought into effect

Impact of tariffs under current MFN⁸

27. Much international goods trade takes place in products for which MFN rates are already zero. However, trade and association agreements provide additional opportunities by reducing tariffs on products where this is not the case. If the Agreement is not brought into effect, tariffs between the two countries would revert to MFN rates. This would lead to an increase in duties applied on some British exports to, and imports from, Mexico.
28. To estimate the potential impact of losing tariff preferences, assumptions have to be made. It is assumed all current trade between us and Mexico occurs at the negotiated preferential tariff rate and current patterns of trade remain unchanged in the future. Without taking into account the effect of unilateral preferences, reverting to Mexico's current MFN tariff rates and the UK Global Tariff (our post-transition period MFN schedule) would result in an annual increase in total duties of around £79 million. This would predominately consist of duties applied to our exports increasing by around £60 million, with duties on imports increasing by around £19 million.⁹
29. However, these estimates assume that all tariff preferences offered under the current EU-Mexico EPPCCA are fully utilised by exporters. This is unlikely to be true. For example, estimates from the European Commission suggest that in 2019, 63% of the UK's eligible goods exports to Mexico (defined as those which occurred under tariff lines where a preferential rate was offered under the EU-Mexico EPPCCA) actually utilised the tariff preferences. Additionally, evidence suggests that 43% of the UK's eligible goods imports from Mexico in 2019 were

⁷ Head K and Mayer T (2014), '[Gravity Equations - Workhorse, toolkit and cookbook](#)', *Handbook of International Economics*, 4, pp. 131-195.

Dhingra S, et al. (2018), '[Beyond Tariff Reductions: What Extra Boost From Trade Agreement Provisions?](#)' *CEP Discussion Paper No 1532*, LSE, pp. 1-38.

⁸ Tariff schedules used in this impact assessment are the applied tariff rates, not bound tariff rates.

⁹ DIT calculations using tariff data from ITC Market Access Map ([MAcMap](#)) and trade data from [ITC TradeMaps](#) for exports calculations (accessed September 2020). DIT calculations using tariff data from the European Commission and Eurostat trade data (accessed October 2020) for imports. Implied additional duties are calculated using the difference in MFN and preferential tariff rates (simple average tariffs at CN8 level) and the value of trade for each product at CN8 level (2019 for imports, 2018 for exports). Different approaches and data sources for this analysis are likely to yield different results. Calculations on duties applied to UK exports also assume trade is not eligible for duty relief under inward/outward processing rules, nor under specific plurilateral agreements such as those covering civil aviation and pharmaceuticals, nor WTO or preferential quotas. Calculations on import duties take into account inward/outward processing rules and trade which is eligible for relief under specific plurilateral agreements but not any WTO or preferential quotas.

imported utilising the preferences under the EU-Mexico EPPCCA.¹⁰ This means that the actual increase in duties could be lower than the estimates above.

30. The total duty which would in fact be charged on exports and imports would also depend on how quantities and prices of traded products adjusted to the imposition of tariffs. If British producers were not previously utilising the preferential rates or producers and consumers changed their behaviour in response to higher tariffs, this cost would be lower than estimated above. These are strong assumptions, so this figure should be treated as an indicative estimate of the magnitude of the trade barrier under this scenario.
31. The indicative estimates show that the largest implied increases in our duties on exports would be for vehicles other than railway or tramway stock (HS87) of around £29 million, pharmaceutical products (HS30) of around £7 million, and essential oils and resinoids; perfumery (HS33) of around £3 million.
32. Accounting for unilateral preferences, the largest implied increases in import duties would be in plastics and articles thereof (HS39) of around £4 million, edible fruits and nuts (HS08) of around £3 million, and preparations of vegetables, fruits or nuts (HS20) of around £2 million.
33. Indicative estimates of implied additional tariff duties are provided above to give a sense of scale of potential additional costs of trade. Tariff duties are transfers, where the cost to business is equal to the extra tariff revenue collected by the Exchequer and Mexican Government. However, there could be wider effects of increased costs of trade, including negative impacts on consumer choice, prices, and ultimately economic growth and welfare. Estimates of implied additional duties do not therefore constitute an estimate of the impact.

Businesses

34. Additional duties could be absorbed by either British or Mexican businesses (depending on whether it is the importer or exporter paying the duty), passed on to consumers, or existing trade patterns could be interrupted. This could impact on the competitiveness of British businesses, leading to disruptions in supply chains and job losses in the short term.
35. Businesses that rely on imports as part of their supply chains may be affected if import prices rise, including British exporters that rely on Mexican inputs to export goods to the rest of the world. In 2016 (latest data), around 15.4% of the value added in our gross exports reflected imports from abroad, with Mexico accounting for 0.1% of the total value added in our gross exports (latest country-level data from 2015).¹¹ British companies which rely on Mexican imports would also become less competitive.

Consumers

36. Imported products could be more expensive for consumers if retailers pass on additional duties to consumers through increases in domestic prices. This could disproportionately affect certain groups of consumers, for example those at the lower end of the income distribution, depending on the specific sectors affected. Consumers might also see a reduction in the choice of products and services available.

¹⁰ Preferential utilisation rates calculated by European Commission DG Trade (updated 20th September 2020).

¹¹ OECD, 2018. [Trade in Value Added \(TIVA\): Origin of value added in gross exports, December 2018](#). Experimental statistics.

Longer term impact if not brought into effect

37. In the long run, we would forgo the longer-term benefits that the Agreement would have brought to us. This could result in our long-term Gross Domestic Product (“GDP”) marginally decreasing if the Agreement is not brought into effect. Given the small share of our trade under the EU-Mexico EPPCCA, it is expected that any impact on our GDP would be relatively small.

Explanation of the Agreement, including Significant Differences between the Agreement and the EU-Mexico EPPCCA

38. The Agreement follows the short form approach, explained above in paragraphs 7 to 10 of this report. Beyond the general *mutatis mutandis* changes explained above, this section describes global changes made to continuity free-trade agreements following the short form approach and goes on to provide a detailed discussion of the Agreement.

Nature of the EU-Mexico EPPCCA and the Agreement

39. Technical transition of the trade-related provisions of the EU-Mexico EPPCCA with few changes means that the trade substance of the Agreement is broadly the same.

40. Dialogue and co-operation between the UK and Mexico will continue as stated in the joint political declaration accompanying the signing of the Agreement.

General Provisions

Removal and replacement of references to the EU

41. Under Article 3 of the Agreement, the trade-related provisions of the EU-Mexico EPPCCA are incorporated into the Agreement *mutatis mutandis*. This means the incorporated provisions are to be read taking into account any technical changes necessary to apply the EU-Mexico EPPCCA as if it had been concluded between us and Mexico, taking into account the object and purpose of this Agreement. Therefore, any references to the “European Union”, “the European Community”, the “EU”, and “Member States” are either not incorporated into the Agreement or replaced by “the United Kingdom”. Similarly, references to EU institutions have either not been incorporated or replaced with appropriate references to our equivalent institutions. All other references to the “European Union”, the “European Community”, the “EU”, “EU Party” and “Member States” that are not explicitly deleted are read, *mutatis mutandis*, as references to the UK.

Territorial Application

42. Territorial application provisions set out the territories to which the agreement in question applies, and how it applies to them. The territorial application of the EU-Mexico EPPCCA to the EU is defined by reference to the Treaties establishing the European Community. The Agreement replaces this provision with Article 5, which clarifies that the Agreement applies to the UK and the territories listed in Article 5 to the extent that and under the conditions which the EU-Mexico EPPCCA applied immediately before it ceased to apply to the UK. The Agreement will apply to Gibraltar and the Crown Dependencies (Isle of Man, Bailiwick of Jersey, Bailiwick of Guernsey). The territories, other than the UK itself, to which the Agreement applies are separated into the following categories based upon the application of EU law to date:

- a. the Crown Dependencies (Isle of Man, Bailiwick of Jersey, Bailiwick of Guernsey), to which, broadly, provisions relating to trade in goods and customs apply; and
- b. Gibraltar, to which, broadly, provisions not relating to trade in goods or customs apply.

Continuation of Time Periods

43. Trade provisions of the EU-Mexico EPPCCA that require an action within a certain time period which has not yet ended under that agreement become part of the Agreement reflecting only the remaining time in which the action must occur. Where time periods in such provisions of the EU-Mexico EPPCCA have ended, any ongoing right or obligation continues to apply between us and Mexico (the “Parties”) and the time period is not incorporated into the Agreement.

44. These outcomes are provided for by Article 6 of the Agreement, in relation to substantive rights or obligations (and unless the Agreement provides otherwise). Time periods that relate to a procedure or other administrative matter, such as a review, committee procedure or notification are not affected and therefore ‘start again’ when the Agreement enters into force.

Institutions and Committees

45. Most of the institutional provisions and bodies provided for in the EU-Mexico EPPCCA have been incorporated, *mutatis mutandis*, into the Agreement. The primary bodies responsible for overseeing the operation and implementation of the Agreement are the Joint Council (the “Council”) and the Joint Committee (the “Committee”). The Council and Committee are comprised of representatives of the Parties.
46. Article 7 of the Agreement confirms that the Council, established under Title VII of the EU-Mexico EPPCCA, is responsible for ensuring the Agreement operates properly. Article 7(2) further provides that the Council is deemed to have adopted the decisions of the Joint Council and Joint Committee established under the EU-Mexico EPPCCA before the EU-Mexico EPPCCA ceased to apply to us, to the extent those decisions relate to trade and to the Parties, *mutatis mutandis*. This approach provides for continuity of effect as it ensures that the decisions in force when the EU-Mexico EPPCCA ceases to apply to us continue to apply under the Agreement, and subject to the provisions of the Agreement.

Amendment Provisions

47. Amendment provisions set out the process to be followed if the parties agree to amend the provisions of an agreement after it enters into force. Although parties to an agreement are generally free to amend it as they deem necessary, amendment provisions serve to make the process clearer, more streamlined, and transparent.
48. Article 11 of the Agreement is an amendment provision which outlines the process to be followed if the Parties agree to amend the Agreement after it enters into force. Article 11 provides that the Parties may agree, in writing, to amend the Agreement. Such amendments shall enter into force after the Parties’ exchange written notifications certifying that they have completed their respective legal requirement and procedures. In the UK, amendments to the Agreement that are, pursuant to Article 11(1) of the Agreement, expressly subject to a formal exchange of notes to confirm completion of internal procedures would engage the Parliamentary scrutiny process set out in the CRaG Act.
49. Except where otherwise provided in the Agreement, the Council (or Committee insofar as such powers are delegated to it by the Council) may also make decisions which affect the Parties’ commitments under the Agreement, in specific areas where the Agreement provides such powers. Decisions and recommendations of the Council or the Committee shall be drawn up by agreement between the Parties. It is in our interests for the Council and the Committee to have this function to ensure continuity of effect of the EU-Mexico EPPCCA, as far as possible, and to streamline the process of making changes to the Agreement where required.
50. The inclusion of an amendment provision in the Agreement does not commit us to making any changes to the Agreement once it enters into force. It simply sets out a process which may be used if needed. Therefore, the inclusion of an amendment provision is not expected to have an impact on the operability of the Agreement in a bilateral context.

Entry into Force

51. Entry into force provisions specify the date from which the provisions of an agreement will bind the parties. Existing entry into force provisions in the EU-Mexico EPPCCA have been replaced with new provisions to ensure that the Agreement is able to enter into force as swiftly as possible once the EU-Mexico EPPCCA ceases to apply to us.

52. Article 12 of the Agreement provides that the Agreement shall enter into force on the later of:
- a. the date on which the EU-Mexico EPPCCA ceases to apply to the UK; and
 - b. the date of the later of the notifications by which the Parties notify each other that they have completed their respective legal procedures.
53. For the Agreement to enter into force, both Parties must first complete their domestic legal procedures required for entry into force. In our domestic law, before an agreement subject to ratification (as the term is defined in domestic law) may be brought into force, it must be laid before Parliament for scrutiny in accordance with the CRaG Act.
54. Each Party are required to submit notifications under Article 12(2) to the other Party in writing, through diplomatic channels, of the completion of its domestic procedures required for the entry into force of this Agreement.

Trade Remedies

55. Trade remedies provide a safety net for domestic industry against injury caused by dumped, subsidised or unexpected surges of imports. Most WTO Members, who are major economies, have a trade remedies system.
56. The Agreement replicates the effects of the trade remedies provisions in the EU-Mexico EPPCCA *mutatis mutandis*.

Dispute Settlement

57. The economic benefits of trade and association agreements can only be realised if they are faithfully implemented and complied with. A dispute settlement mechanism in an agreement signals the parties' intention to abide by the agreement, thereby increasing business and stakeholder confidence that the commitments set out in the agreement can, and will, be upheld. The dispute settlement mechanism therefore provides an important deterrent function. It also provides an effective mechanism for enforcing those commitments, and for resolving any disputes arising under the agreement in question.
58. The Agreement replicates the effects of the dispute settlement provisions under the EU-Mexico EPPCCA *mutatis mutandis*.
59. One of the impacts of replicating the dispute settlement provision in the existing EU trade and association agreements is that, in the event that a dispute arises, we will be directly responsible for any relevant costs associated with the dispute settlement process.

Subsequent Negotiations

60. The Agreement adds an additional provision, Article 9, this establishes that both Parties will commence subsequent negotiations for an ambitious, modern and comprehensive free trade agreement within one year of the date of entry into force of this Agreement. The Parties shall strive to conclude the negotiations within three years of entry into force of this Agreement.

Annexes and Protocols

Goods

61. Goods chapters in trade and association agreements set out the treatment and the level of access to the domestic market granted to the goods of each of the respective parties. Such provisions include setting tariff levels and quotas on various products, establishing agricultural safeguards and determining the rules of origin for goods to qualify for preferential treatment. Commitments on tariffs for both the Parties have, other than in those cases detailed below, been transitioned without changes. This means that, under the Agreement, tariff preferences applied by us for products from Mexico will remain the same as those applied by the EU on the date we cease to be bound by the EU-Mexico EPPCCA, and, likewise, Mexico will continue to apply the same tariff preferences to products from the UK that it is applying to products from the EU covered by the EU-Mexico EPPCCA.
62. The only exception to tariff commitments being transitioned without modifications relates to the size of tariff-rate quotas (see below), which can be found in the Annex to the Agreement, where these have been resized to account for the fact that the volumes apply to UK-Mexico trade rather than trade between the EU and Mexico. These changes are detailed further below.

Tariff Rate Quotas

Justification for policy change

63. Tariff-rate quotas (“TRQs”) allow a certain quantity of a product to enter the market at a zero or reduced tariff rate. Imports above the quota are subject to a higher tariff – usually the MFN rate. The EU has agreed TRQs, both for imports to the EU and exports to partner countries, in some of its trade and association agreements. In order for products to continue to benefit from the use of these TRQs bilaterally in trade between the UK and third countries, these quotas need to be present in the new our agreements with those partners.
64. Most TRQs administered by the us and by partner countries have been resized to reflect the fact that the United Kingdom is a smaller import and export market than the EU. Solutions were agreed with partner countries to set quotas at a sufficient level that would allow for continuity of historic trade flows, in most circumstances, for importers and exporters from both sides.
65. Where possible, TRQs have been resized based on three years’ worth of trade flow data which records the volume of goods that enter the United Kingdom. In order to address future market access opportunities for British and Mexican businesses, it was also agreed that a minimum level of access should be provided for all quotas, based on a proxy measure relevant to British trade. Doing so allows future market access opportunities for British and Mexican businesses using a fair, evidence-based methodology.
66. The agreed share has been applied to the TRQ volume at the time of signature, to account for any increases therein since the EU-Mexico EPPCCA first entered into force.
67. The TRQs provided in the Agreement have been calculated using trade flows. For fresh asparagus, we have resized the TRQ to the full quantity of the TRQ in the EU-Mexico EPPCCA to reflect the volume of imports from Mexico exceeding the full size of the EU-Mexico EPPCCA TRQ. For bananas, we have resized the TRQ to 12,000 tonnes to reflect the full volume of imports into the United Kingdom from Mexico, benefitting shoppers in Britain. This is larger than the full EU-Mexico TRQ of 2,010 tonnes. The in-quota tariff rate applied to bananas will be

£58/tonne which is the sterling equivalent of the EU-Mexico EPPCCA €70/tonne using the same conversion methodology that was applied to WTO bound rates and the UK Global Tariff.

Impacts

68. Without transitioning the TRQs from the EU-Mexico EPPCCA into the Agreement, and without any other mitigating actions, goods imported from Mexico under the TRQs in the EU-Mexico EPPCCA could face higher MFN tariffs. This could make these imports more expensive. The nature and size of the impact of this change will depend on a number of factors, including existing trading patterns and the behaviour and responsiveness of domestic consumers and businesses to the change in tariff rates. Our imports from Mexico based on trade data (at tariff-line level) of products that are currently covered by TRQs¹² were worth £24 million in total in 2019, equivalent to 1% of our total goods imports from Mexico.^{13,14}
69. Based on historical usage of the quotas and trade flows in relevant products, it is expected that the overall, immediate impact on British producers and consumers resulting from this approach to re-sizing TRQs would be limited. We do not produce bananas so there will be no impact on domestic production, and consumers and businesses are expected to benefit from cheaper bananas. The TRQ offered to Mexico is equal to current imports from Mexico (average 2014-16 figures), so we do not expect this to affect any other trade flows. Although asparagus is produced in the UK, the resized TRQ of 600 tonnes is substantially below the current level of imports, at 2,000 tonnes (average 2014-16 figures), so we do not expect this to affect any other trade flows. The remaining TRQs are not currently filled by Mexico so we do not expect these agreed TRQ volumes to significantly change trade flows – including in cane molasses and honey where product-specific share of trade proxies were used.
70. British goods exports to Mexico could be adversely affected if the relevant TRQ were not transitioned. In the absence of a free trade agreement that trade would face MFN tariffs. As explored above for British imports, the nature and size of the impact of this change would depend on a number of factors.

Inward TRQs

Table 4: List of TRQs from Mexico to the EU and new quota volumes in the Agreement

Quota No. ¹⁵	Product description	New UK quota volume (tonnes, unless otherwise specified)
091831	Eggs for hatching	41
091833	Natural honey	5,500
091834	Bananas	12,000
091835	Flowers, fresh, June to October	48
091837	Other flowers, fresh, June to October	54
091839	Flowers, fresh, November to May	48

¹² Trade data at tariff-line level. Products covered by quotas taken from the EU's [TARIC database](#).

¹³ Trade data at tariff-line level. Products covered by quotas taken from the EU's [TARIC database](#).

¹⁴ HM Revenue and Customs, UK trade statistics data. <https://www.uktradeinfo.com/Pages/Home.aspx>. 2019 average. It should be noted that not all commodity codes within the HS product codes will be covered in every TRQ. Further, it is not necessarily the case that all trade in products under the quota will enter under this access commitment. As such, estimates based on HS6 data are likely to give an upper bound to the volume of imports and exports covered by the TRQ.

¹⁵ Inward quotas, which are administered by the EU, each have a unique order number. Further information about existing EU quotas can be found on the EU Customs and Taxation website.

http://ec.europa.eu/taxation_customs/dds2/taric/quota_consultation.jsp?Lang=en

091841	Other flowers, fresh, November to May	54
091843	Asparagus, fresh or chilled, March to November	600
091845	Frozen peas	68
091849	Melons, fresh, January, April and May, October to December	136
091851	Strawberries	136
091853	Prepared or preserved fish	1,634 + 68/year
091854	Tuna-loins	817
091855	Cane molasses	106,125
091857	Chewing gum	136
091859	Asparagus, prepared or preserved	136
091861	Mixtures of fruit, prepared or preserved	204
091863	Orange juice, unfermented	136
091865	Orange juice, frozen	4,086
091867	Pineapple juice	341
091875, 091877, 091879, 091881	Egg yolks	136
091883, 091885, 091887	Egg albumin	409

Outward TRQs

Table 5: List of TRQs from the EU to Mexico and new quota volumes in the Agreement

Product description	New Mexico quota volume (tonnes)
Prepared or preserved fish	1634 + an annual increment of 68

Entry Price System

71. The EU's Entry Price System ("EPS") is a variable tariff mechanism applying to 15 types of fruits and vegetables. The EPS applies to apples, apricots, artichokes, cherries, clementines, courgettes, cucumbers, lemons, mandarins, oranges, peaches/nectarines, pears, plums, table grapes and tomatoes during their respective, approximate European growing seasons.

72. Under the EPS, a specific duty is charged in addition to the *ad valorem* duty, whenever the price at which the goods are imported is below a pre-determined entry price. The specific duty varies depending on the difference between the entry price and the import price of the goods. In most cases, if the import price of the consignment undercuts the entry price by more than 8%, the full bound specific tariff is applied. These entry prices and specific tariffs are provided in the EU's Schedule of Commitments to the WTO General Agreement on Tariffs and Trade ("GATT").

Justification for policy change

73. We are retaining the flexibility to implement an EPS following its withdrawal from the EU.
74. This provision provides continuity of effect by ensuring that if we apply an EPS, the modifications provided for in incorporated Annex 1 to Decision No 2/2000 of the EU-Mexico Joint Council will continue to apply under the Agreement. In the event that we apply an EPS, the Agreement provides that the *ad valorem* part of the duty will be eliminated, but the specific duty will be retained.

Impact

75. The UK's GATT Schedule of Commitments (published 24 July 2018) replicates the entry prices and specific tariffs as bound in the EU's GATT Schedule. Any future UK EPS will therefore have entry prices and specific duties no higher than those specified in our GATT Schedule.

Rules of Origin

76. In trade and association agreements, rules of origin ("RoOs") are used to determine the economic nationality of a good. In order to qualify for preferential tariff rates, a good must "originate" in one of the parties to the agreement. Trade and association agreements may also allow materials originating and/or processed in a country other than the exporting party to count towards meeting the specific origin requirements for preferential treatment, a process known as "cumulation".
77. There are two main categories relevant to determining whether goods "originate" in the exporting country for the purposes of a trade or association agreement:
- a. **Wholly obtained** – These goods are wholly obtained or produced entirely in a single country. Examples include: (i) mineral products extracted from the soil; and (ii) live animals born and raised there.
 - b. **Substantial transformation** – These goods are made from materials which come from more than one country, and the origin is, therefore, defined as that of the country where the goods were last substantially transformed. This can be determined in three ways:
 - I. **Value added** – This type of rule requires that a particular proportion of the final value of the product be added in the exporting country.
 - II. **Change in Tariff Classification ("CTC")** – This type of rule requires that the final product be sufficiently different from the imported materials so that it moves to a different tariff classification altogether.
 - III. **Specific processing or manufacturing** – These rules typically apply where value added or CTC rules may not adequately determine originating status, and where specific processes are required to meet originating criteria.
78. During the transition period, all British content is currently considered as "originating" in the EU and our exports are designated as "EU origin". This means that originating materials from, and processing in, the UK and the rest of the EU-27 Member States can be used interchangeably in our bilateral trade with existing EU trade partners. This will no longer be the case when existing EU trade and association agreements cease to apply to us at the end of the transition period.

79. At this point, the designation of our exports will shift from “EU” originating to “UK” originating, and EU content will (unless specific provision is made in the new UK continuity trade agreements) no longer count towards meeting the origin requirements for preferential treatment for either party. This change would have implications for goods traded between us, the EU and Mexico.
80. To address these implications and to provide maximum continuity for business, the Agreement provides that EU materials can be recognised (i.e. cumulated) in the Parties exports to one another. Furthermore, EU processing can be recognised (i.e. cumulated) in our exports to Mexico. The cumulation arrangements are set out in incorporated Annex III to Decision 2/2000. The provisions on cumulation of EU materials and processing will apply for 3 years after entry into force. Not more than 30 months after the entry into force of this Agreement, the Parties shall consider whether the period should be extended.

Impact

81. If cumulation of EU content for the Parties was not permitted under the Agreement, some UK and Mexican based exporters could find themselves unable to access preferences, as they are currently able to. For example, British exporters to Mexico who rely on EU content might have to revert to paying Most Favoured Nation (MFN) tariff rates, if they continued using EU content, or they might have to review and reassess their existing supply and value chains as a result of this change to existing terms. The impact would, of course, vary across sectors.
82. The Agreement provides only for trade between the Parties and does not provide for either Party’s direct trade with the EU, including, for example, where British and Mexican based exporters use content from each other in exports to the EU. On signature of the Agreement, the Parties also made an Exchange of Notes relating to a trilateral approach to rules of origin.

Origin Quotas

83. Origin Quotas allow a volume of specific product lines to be exported under a more lenient rule of origin. They allow exporters who may have struggled to meet the origin requirements in the list of product-specific rules to secure preferential access for a specified volume of their product.
84. The Origin Quotas in the EU-Mexico EPPCCA were agreed upon in relation to the size of the EU and Mexican markets. To provide continuity for businesses and maintain the market access for exporters offered under the original quotas for these products, the UK and Mexico have replicated the Origin Quotas between the EU and Mexico and re-sized them to reflect the bilateral trade flows observed in recent years and the fact that the UK is a smaller market than the EU28. Quota sizes were agreed with Mexico to allow for a sufficient level that will allow for continuity of historical trade flows.
85. Table 6 sets out the new UK-Mexico Origin Quotas applicable under the Agreement.

Table 6: List of origin quotas from the UK to Mexico and new quota volumes

Product description	New quota volume
Woven fabrics of cotton: other	148,800m ²
86. Woven fabrics of man-made filament yarn: Other	260,400m ²

Woven fabrics of man-made staple fibres: Other	148,800m ²
Woven pile fabrics and chenille fabrics, other than fabrics of heading No 5802 or 5806: Other Narrow-woven fabrics, other than goods of heading No 5807; narrow fabrics consisting of warp without weft assembled by means of an adhesive (bolducs): Other Quilted textile products in the piece, composed of one or more layers of textile materials assembled with padding by stitching or otherwise, other than embroidery of heading No 5810: Other	37,200m ²
Footwear with outer soles and uppers of rubber or plastics	8,928 pairs
Women's footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather, with customs value over USD 20	18,600 pairs
Men's footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather, with customs value over USD 20	18,600 pairs
Children's footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather, with customs value over USD 20	9,300 pairs
Footwear with outer soles of rubber, plastics leather or composition leather and uppers of textile materials	8,928 pairs

Customs

87. The Agreement incorporates the customs provisions of the EU-Mexico EPPCCA, *mutatis mutandis*. However, minor technical changes have been made to the following provisions of the Agreement:

a) Article 17(3) to Decision 2/2000 has been amended to reflect that an Annex on Mutual Administrative Assistance in Customs Matters has been adopted under the Incorporated Decision further to the EU-Mexico Joint Council's to Decision 5/2004.

b) Article 14 to the Annex on Mutual Administrative Assistance in Customs Matters to Decision 5/2004 has been amended by (i) removing 14(1)(c) which relates to communication between the EU Commission and customs authorities of EU Member

states and (ii) amending 14(2) to remove reference to cooperation agreements between individual EU Member States and Mexico and making this a commitment between the UK and Mexico.

88. The above minor changes are not expected to have any direct impact on trade flows.

Intellectual Property

89. The UK's existing Intellectual Property ("IP") obligations found in international and trade agreements will remain in place. We will remain a member of the World Intellectual Property Organization (WIPO), and remain fully compliant with those WIPO treaties to which we are already a Party. We will also remain fully compliant with the World Trade Organization's agreement on the trade related aspects of intellectual property rights (TRIPS).

90. The Agreement continues our obligations to provide adequate and effective Intellectual Property ("IP") protection in accordance with the highest international standards and to cooperate with Mexico on aspects of IP. It achieves this by incorporating the relevant provisions of the EU-Mexico EPPCCA, *mutatis mutandis*.

91. The Agreement also retains the obligations made under Decision 2/2001 of the EU-Mexico Joint Council which require Mexico to accede to various international IP agreements. As the Agreement replicates the effects of the current obligations under the EU-Mexico EPPCCA, this is not expected to have an impact on trade flows.

Government Procurement

92. Government procurement commitments in trade agreements provide enforceable rules and standards for a transparent and non-discriminatory framework on government procurement. They also liberalise specific procurement markets between the parties and provide enforceable market access commitments.

93. The Agreement has retained the commitments on public procurement that relate to the Parties.

94. An amendment has been made to Annex XIII to Decision 2/2000 to reflect the fact that upon entry into force of the Agreement, we will provide Mexico with the details of means of publication of procurement notices in the UK. This will replace the reference to the Official Journal of the European Union.

95. In addition, changes have been made to the statistical reporting obligation (Article 31(7)(a) to Decision 2/2000) and the procedures for updating applicable threshold values under the Agreement (paragraph 2 of Part C of Annex X to Decision 2/2000) to align with current practices.

96. These changes are not expected to have a significant impact on trade flows.

Technical Barriers to Trade

97. Technical barriers to trade ("TBT") provisions in trade and association agreements cover aspects relating to technical regulations, standards, and conformity assessment for goods. They play an important role in reducing non-tariff barriers for businesses, for example, through increasing the transparency of a trading partner's regulatory requirements.

98. It was not necessary to make any changes to the TBT provisions in the EU-Mexico EPPCCA when incorporating them into the Agreement.

Competition

99. Provisions in trade and association agreements relating to competition help to ensure that open and fair competition exists for the parties.
100. It was not necessary to make any changes to the competition law provisions in the EU-Mexico EPPCCA when incorporating them into the Agreement. The Agreement will not affect the financial support HM Government provides to our agricultural and fishing industries and it is not expected to have a significant impact on trade flows.

Services

101. Services provisions in trade and association agreements set out the treatment and the level of access to the domestic market granted to that trade partner's service suppliers and services. Commitments build upon the level of access and the treatment granted to all WTO Members, whilst protecting governments' rights to regulate their domestic markets. In the EU's trade and association agreements with third countries, the content of the services provisions and depth of the commitments undertaken vary considerably. The variety of these services provisions have, in some cases, necessitated a bespoke approach to deliver continuity in services commitments between us and the relevant partner country. Some agreements have not required amendment whilst others have required technical alteration to their text to deliver continuity of effect. Where such technical changes have been necessary the effects have been replicated, as far as possible.
102. The services provisions of the EU-Mexico EPPCCA are largely contained in Decision No.2/2001 of the EU-Mexico Joint Council. It was not necessary to make substantive changes to the services provisions in the EU-Mexico EPPCCA. Technical changes have been made to reflect that this is now a bilateral agreement between the Parties. These changes are not expected to have an impact on trade flows.

Sanitary and Phytosanitary Measures

103. Whilst no SPS chapter exists in the EU-Mexico EPPCCA, existing high-level commitments in relation to SPS have been maintained.
104. The right for the Parties to apply prohibitions or restrictions on trade in goods under the Agreement on the basis of various public policy reasons including the protection of health and life of humans, animals or plants, is preserved through the incorporation, *mutatis mutandis*, of Article 22 to Decision 2/2000 of the EU-Mexico EPPCCA without modification.

Rights and Responsibilities

105. Consistent with the Agreement focusing on trade, Titles II (political dialogue) and VI (co-operation) of the EU-Mexico EPPCCA have not been retained. Dialogue and co-operation between the UK and Mexico will continue as stated in the joint political declaration accompanying the signing of the Agreement.
106. The provisions of the EU-Mexico EPPCCA which set out the basis of that agreement are incorporated into the Agreement, *mutatis mutandis*. Accordingly, the Agreement provides that

respect for democratic principles and fundamental human rights constitutes an essential element of the Agreement. In the case of a material breach of the Agreement by one of the Parties appropriate measures may be taken in accordance with international law.

107. We have provided for a continuation of a regular bilateral political dialogue which will cover all issues of common interest to the Parties, and, in particular, rights and responsibilities, peace, security, and democracy. These have been incorporated into a joint political statement making clear that UK-Mexico dialogue and cooperation will continue, including in these areas. This is not expected to have a significant impact on trade flows.

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