



Department for
International Trade

May 2021



Annex A

Information note for the Call for
Input on prospective Free Trade
Agreements between the United
Kingdom and Canada, and the
United Kingdom and Mexico

Contents

1: Introduction	4
2: UK-Canada economic, trade and investment relationship	6
2.1 Overview of economies	7
2.2 Trade flows between the UK and Canada	7
2.3 Basis of current trading relationship	9
3.1 Trade flows between the UK and Mexico	15
3.2 Basis of current trading relationship as set out in the UK–Mexico TCA	17
Annex - list of FTA areas	23
Notes	24
Notes	25

Contents

1 - Introduction	4
2 - UK-Canada economic, trade and investment relationship	6
2.1 - Overview of economies	7
2.2 - Trade flows between the UK and Canada	7
2.3 - Basis of current trading relationship	9
3 - UK-Mexico trading relationship	14
3.1 - Trade flows between the UK and Mexico	15
3.2 - Basis of current trading relationship as set out in the UK–Mexico TCA	17
4 - Other relevant agreements	21
5 - Link to CPTPP accession	22
Annex - list of FTA areas	23

1: Introduction



The Department for International Trade (DIT) is the international economic department responsible for securing UK and global prosperity by promoting and financing international trade and investment, as well as championing free trade around the world. Free Trade Agreements facilitate UK businesses to export to foreign markets and enable producers and consumers to access a greater range of intermediate and final products at competitive prices. Greater trade liberalisation also has a positive economic impact by increasing innovation, productivity and competition.











On 9 December 2020, the United Kingdom (UK) and Canada signed the UK-Canada Trade Continuity Agreement (UK-Canada TCA) with Canada. This replicated, as far as possible, the effect of the existing Comprehensive Economic and Trade Agreement between the European Union and Canada (CETA).

On 15 December 2020, the UK and Mexico signed the UK-Mexico Trade Continuity Agreement (UK-Mexico TCA), maintaining preferential access for trade between the two countries and replicating, as far as possible, the effect of the EU-Mexico Economic Partnership, Political Coordination and Cooperation Agreement (EPPCCA, also known as the Global Agreement).

These continuity agreements provide the basis of our evolving trading relationships with Canada and Mexico, and a platform on which to build and strengthen those relationships, paving the way for us to begin negotiating new and ambitious trade deals with both countries.

We have agreed with both Canada and Mexico that we will open negotiations to upgrade our trade arrangements during 2021. In advance of agreeing a UK mandate for these negotiations, DIT is seeking input from members of the public, businesses, and any other interested stakeholders to inform which aspects of current trading arrangements with Canada and Mexico we should look to improve or amend. The aim of this document is to provide:

- Background information on current trade flows between the UK to better understand the existing trading relationship, as well as;
- Information to help guide stakeholders to identify priority areas of the current trading relationship including the potential for further ambition or amendments.

		Canada	Mexico
 <p>In 2019, there were 12,500 UK VAT registered businesses exporting to Canada, and 3,800 UK VAT registered businesses exporting to Mexico.</p>	2019 exports from the UK	 <p>£979 million in machinery and mechanical appliances</p>	 <p>£351 million in machinery and mechanical appliances</p>
		 <p>£1.3 billion in insurance and pensions services</p>	 <p>£249 million in other business services</p>
 <p>In 2019, there were 8,400 UK VAT registered businesses importing from Canada, and 1,300 UK VAT registered businesses importing from Mexico</p>	2019 imports to the UK	 <p>£626 million in machinery and mechanical appliances</p>	 <p>£304 million in machinery and mechanical appliances</p>
		 <p>£809 million in intellectual property services</p>	 <p>£788 million in travel services</p>



2: UK-Canada economic, trade and investment relationship

2.1 Overview of economies

In 2019, Canada had a gross domestic product (GDP) per capita of £40,475. This compares to the UK's GDP per capita of £39,115 over the same period. Canada's total GDP is around 60% of the size of the UK's. Total trade (imports plus exports) is equivalent to a similar proportion of GDP for both Canada and the United Kingdom.¹

The UK is slightly more specialised in services than Canada, whose industrial and agricultural sectors make up a slightly larger share of the economy. This can be seen in the value added figures in Table 1.²

Table 1: Headline economic indicators for Canada and the UK, 2019

Economic Indicator	Canada	UK
GDP, PPP (2019 prices)	£1.5 trillion	£2.5 trillion
GDP per capita, PPP (2019 prices)	£40,475	£39,115
Trade (% GDP)	65.0%	64.3%
Population	37.6 million	66.8 million
Agriculture, value added (% GDP)	1.9% (2016)	0.6% (2019)
Industry, value added (% GDP)	23.3% (2016)	17.4% (2019)
Services, value added (% GDP)	68.0% (2016)	71.3% (2019)

Source: World Bank: World Development Indicators

1 World Bank: World Development Indicators. Converted using Bank of England annual average spot exchange rates for 2019.

2 Value added as a percentage of GDP can be used as a measure of the relative contribution of a sector towards overall economic output in an economy. Organisation for Economic Co-operation and Development (OECD), 2021

2.2 Trade flows between the UK and Canada

Canada is the UK's 15th largest trading partner, accounting for 1.6% of total UK trade.³ Total trade in goods and services between the UK and Canada was £22.8 billion in 2019.⁴

In 2019, UK exports to Canada were £11.4 billion, making it the UK's 15th largest export market (accounting for 1.7% of all UK exports). UK imports from Canada were £11.4 billion over the same period, making it the UK's 16th largest import source (accounting for 1.6% of all UK imports).

Table 2: Trade between the UK and Canada, 2019 (£, billion)

	Trade in goods	Trade in services	Total trade
UK exports to Canada	5.7	5.7	11.4
UK imports from Canada	8.4	3.0	11.4
Total trade	14.1	8.7	22.8

Source: ONS, (2019). UK total trade: all countries, non-seasonally adjusted (accessed 18th March 2021)

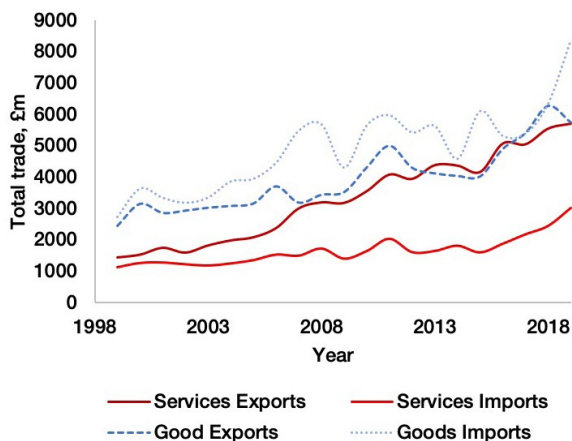
3 EU members are treated as individual trading partners with the UK.

4 ONS, (2020). UK Total Trade: all countries, non-seasonally adjusted (Accessed: 18th March 2021).

As set out in Figure 1, UK trade with Canada has increased since 1999, with UK imports of goods from Canada being almost always higher than UK export of goods to Canada. Conversely, UK exports of services has remained higher than UK imports, with this gap widening over time.

During the first 3 quarters of 2020, UK exports to Canada were up 1% from the same period in 2019, compared with a 13% reduction in UK exports to the world. Conversely, UK imports from Canada were down 56% from the same period in 2019, compared with a 23% reduction in UK imports from the world.⁵

Figure 1: UK trade with Canada over time



Source: ONS, (2019). UK total trade: all countries, non-seasonally adjusted (accessed 18th March 2021)

The top UK goods exported to Canada in 2019 were machinery and mechanical appliances (HS84, £979 million), vehicles other than railway or tramway stock (HS87, £793 million) and aircraft, spacecraft and parts thereof (HS88, £757 million), together representing nearly 50% of all UK goods exports to Canada.

The UK's top goods imported from Canada in 2019 were largely in precious stones and metals (HS71, £8.9 billion) representing almost three quarters of the total value of goods imported from Canada.

Figure 2: Top 5 UK goods exports to Canada, 2019 (at HS2⁶, £ million)

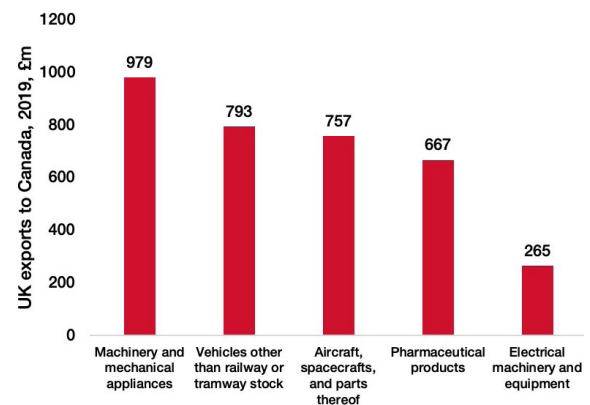
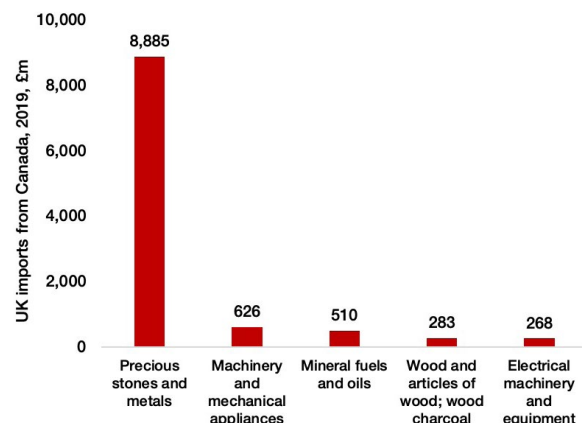


Figure 3: Top 5 UK goods imports from Canada, 2019 (at HS2⁷, £ million)



Source: HMRC trade statistics by commodity code (accessed 19th March 2021). 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.

Insurance and pensions were the largest UK service exports to Canada in 2019, valued at £1.3 billion. Intellectual property was the largest UK service import from Canada in 2019, valued at £809 million. The second largest UK service export to, and import from, Canada, was other business services at £1.2 billion and £642 million, respectively.⁸

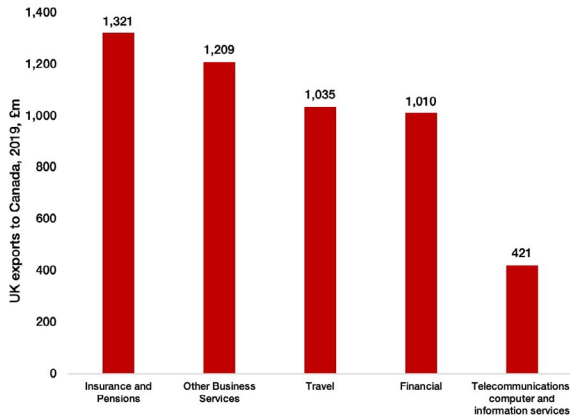
⁵ ONS, (2019). UK total trade: all countries, non-seasonally adjusted (accessed 18th March 2021)

⁶ 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.

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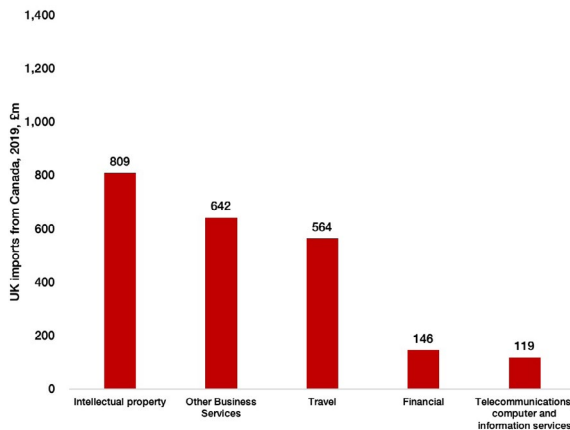
⁸ Other business services comprised of sectors including legal, accounting, management consulting and others

Figure 4: Top 5 UK services exports to Canada, 2019 (£ million)



Source: ONS, (2019). UK trade in services: service type by partner country, non-seasonally adjusted (Accessed 19th March 2021)

Figure 5: Top 5 UK services imports from Canada, 2019 (£ million)



Source: ONS, (2019). UK trade in services: service type by partner country, non-seasonally adjusted (Accessed 19th March 2021)

2.3 Basis of current trading relationship

The UK-Canada trading relationship includes the UK-Canada TCA that was signed on 9 December 2020.

Goods market access

Goods chapters in trade agreements set out the treatment and the level of access to the domestic market granted to the goods of each of the respective parties.

The UK-Canada TCA liberalises almost 99% of all tariff lines, 98% of which were liberalised fully immediately, and approximately 1% of which have been, or are being, gradually reduced to 0%. There are a limited number of sensitive agricultural products that are either subject to a Tariff Rate Quota (TRQ) or are excluded from any tariff reduction altogether.

Table 3 shows that around 70% of product lines for UK exports to Canada have an MFN rate of 0%, and these lines represent just over 75% of total UK exports to Canada.

Table 3: Breakdown of tariff lines in Canada's MFN schedule

	No. of lines	UK exports to Canada (2017-19 average) (£, billion)
MFN zero	4,797	3.8
MFN non-zero	2,015	1.2
MFN not available	11	0.02

Source: ITC TradeMaps (accessed Feb 2021)

The TCA, in comparison to trading at MFN rates, is estimated to reduce annual duties by £42 million on UK exports to Canada, and £25 million worth of annual duties on UK imports from Canada. These figures assume that available preferences are fully utilised by exporters and importers.⁹

⁹ DIT calculations using tariff data from ITC Market Access Map (MacMaps) and trade data from ITC Trade Map (accessed September 2020) for exports calculations. DIT calculations using tariff data from the European Commission and Eurostat trade data (accessed August 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 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 WTO or preferential quotas.

The products where the largest annual duty reductions are estimated on UK imports from Canada are:

- plastics and articles thereof (HS39, £3 million)
- preparations of meat or fish (HS16, £3 million)
- fish and crustaceans (HS03, £3 million).

Remaining annual duties on UK exports to Canada are estimated at £32 million, primarily from vehicles other than railway or tramway stock (HS87).

The products where the largest annual duty reductions are estimated on UK exports to Canada are:

- vehicles other than railway or tramway stock (HS87, £13 million)
- perfumery, cosmetic or toilet preparations (HS33, £4 million)
- articles of apparel and clothing accessories (HS62, £3 million)

Remaining annual duties on UK imports are around £5 million, primarily from preparation of meat or fish (HS16, £4 million) and vehicles other than railway or tramway stock (HS87, £1 million).

The above values assume that utilisation of available preferences is 100%, which is not true in practice.

The average preference utilisation rate for UK exports to Canada in 2019 was 30%, meaning that 30% of UK exports by value entered under preferential terms and the remainder under MFN terms.¹⁰ The sectors i) animals and animal products, and ii) prepared foodstuffs had the highest utilisation rates (at 96% and 83% respectively), and the sections i) transportation equipment and ii) mineral products had the lowest utilisation rates (14% and 15% respectively).

The average preference utilisation rate for UK imports from Canada in 2019 was 50%. The sectors of i) animal or vegetable fats and ii) arms and ammunition had the highest utilisation rates (86% and 84% respectively), and the sections of i) hides and skins and leather and ii) instruments – measuring, musical, had the lowest utilisation rates (3% and 19% respectively).

Utilisation rates vary greatly across sections and agreements. It is worth noting that agreements often have low utilisation rates soon after their entry into force while traders become accustomed to the new rules. Utilisation rates are also likely affected by agreement-specific factors such as rules of origin requirements for goods and the profile of businesses which export those goods.

Tariff Rate Quotas

Tariff-rate quotas (TRQs) allow a certain quantity of a product to enter the importing market at a zero or reduced tariff rate. Imports above the quota are subject to a higher tariff – usually the MFN rate.

The TCA includes inward TRQs for Canadian exports of the following products, which are duty free in quota:

- Sweetcorn
- Low/medium quality wheat
- Processed shrimp
- Frozen cod
- Beef and veal
- Bison
- Pork

The UK and Canada have also agreed that UK cheese will continue to be eligible for import under the EU reserve of Canada's WTO cheese TRQ until 31 December 2023, rather than moving to the smaller non-EU reserve. Full details of the TRQs can be found in the Parliamentary report which accompanies the UK–Canada TCA.

Rules of Origin

In trade agreements, rules of origin (RoO) are used to determine the economic nationality of a good. In order to benefit from the preferential tariff rates under the UK–Canada TCA, goods must “originate” in either the UK or Canada. Examples of rules include “wholly obtained” and “sufficiently worked and processed”, and these and other rules are fully described at the following [link](#).

To provide maximum continuity for business, the UK–Canada TCA provides that until 01 April 2024 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 Canada.

However, the UK–Canada TCA has committed both Parties to review this approach to cumulation within 30 months of entry into force of the agreement (by 1 October 2023).

Origin Quotas allow a volume of specific product lines to be exported under a more lenient rule of origin. The TCA includes origin quotas for a range of goods. Full details of the origin quotas can be found in the Parliamentary report which accompanies the UK–Canada TCA ([link](#)).

Non-tariff measures

Non-tariff measures (NTMs) are defined as policy measures, other than ordinary customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded or prices or both.¹¹ This includes customs controls and differences in national regulatory regimes.

Sanitary and Phytosanitary (SPS) provisions in trade agreements concern the application of food safety and animal and plant health regulations. The SPS chapter in the UK–Canada TCA maintains the Parties' right to take necessary measures to avoid risks to food safety, animal or plant life or health. Those measures must be transparent, science-based and should not be put in place to create unnecessary and unjustifiable SPS-related trade restrictions.

Technical barriers to trade (TBT) provisions in trade 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. The UK–Canada TCA commits the Parties to cooperate, exchange information, and work together closely to ensure compatibility of technical regulations for testing and certifying products where possible.

Data from UNCTAD indicates that Canada imposes 14 export-related measures, 8 quantity control measures and 19 sanitary and phytosanitary measures on the UK.¹²

The measures applied by Canada, and the number which fall under each category, which affect all countries include:

- technical barriers to trade (1,145)
- sanitary and phytosanitary (204)
- quantity control measures (109)
- export related measures (77)
- price control measures (32)
- pre-shipment inspection (8)
- other measures (2)

Customs and trade facilitation

Customs and Trade Facilitation provisions allow for the efficient transport of goods across national borders while seeking to minimise the financial, administrative and operational burden on traders. The chapters achieve that by setting an efficient appeals processes, clear tariff classifications, public and transparent customs requirements, and pre-arrival processing mechanism.

The UK–Canada TCA seeks to ensure that efficient border measures expedite the movement of goods, while security and safety measures are maintained. The chapter allows goods to be released at the first point of arrival in the importing country and enables importers to remove goods from customs' control before the payment of relevant duties and taxes have been made.

The Trade Facilitation Index (TFI) estimated by the OECD for the UK and Canada, covers 11 indicators. Each indicator, such as automation of processes, required documents, fees and charges, is scored from 0 to 2, where 2 represents the best performance that can be achieved.

The best performing sections for trade facilitation for Canada are governance and impartiality (2.00) and documents (1.89), with the worst sections being appeal procedures (1.62) and automation (1.62).¹³

For the UK, the best-performing sections are governance and impartiality (2.00) and external border agency co-operation (2.00), with the worst-performing sections being internal border agency co-operation (1.64), procedures (1.67) and appeal procedures (1.67).

Services

Services provisions in trade agreements set out the treatment and the level of access to the domestic market granted to that trade partner's service suppliers and services. The UK–CANADA TCA reduces restrictions between services trade. The agreement provides legal certainty for professionals who temporarily enter the UK or Canada to do business and allows the two Parties to mutually recognise professional qualifications.

In addition to national treatment, most-favoured-nation treatment and market access obligations, the UK–Canada TCA's services chapter includes specific commitments on regulatory transparency and the cross-border transfer and processing of information by financial institutions.

11 MAST (Multi-Agency Support Team, composed of the Food and Agriculture Organization of the United Nations, International Trade Centre, Organization for Economic Cooperation and Development (OECD), UNCTAD, United Nations Industrial Development Organization, World Bank and WTO). See UNCTAD (2019) https://unctad.org/en/PublicationsLibrary/ditctab2019d5_en.pdf

12 UNCTAD, TRAINS, accessed April 2021

13 OECD Trade Facilitation Indicators, 2.0 = best performance, 0.0 = area to improve. Accessed April 2021

With regards to Financial Services, the UK–Canada TCA gives financial institutions and investors in the UK and Canada to benefit from fair, equal access to each other’s markets in specific sectors like certain insurance and banking services.

According to OECD research, the sectors with the highest restrictiveness for UK exports to Canada are courier services, air transport, broadcasting and telecommunication.¹⁴ The sectors with the lowest restrictiveness are logistics freight forwarding, logistics customs brokerage, rail freight transport and sound recording.

Investment

Investment provisions seek to improve market access for businesses by removing barriers to establishing a commercial presence abroad.

The UK–Canada TCA’s Investment chapter sets out measures to open up investment between the Parties, provides a clear framework or rules regulating investment, and puts mechanisms in place to protect foreign investors from mistreatment by the host state.

In 2019, the stock of foreign direct investment from the UK in Canada was £32.1 billion, accounting for 2.1% of total UK outward FDI stock. Over the same period, the stock of foreign direct investment from Canada in the UK was £20.0 billion, accounting for 1.3% of total UK inward FDI stock.¹⁵

Competition and Subsidies

Chapters or articles in free trade agreements relating to competition and subsidies help to ensure open and fair competition exists for both parties. They detail key principles and can refer to domestic laws for each party. The competition chapter in the UK–Canada TCA details key principles to ensure there is a fair and transparent competition environment for both parties and commits the Parties to take action against anti-competitive business practices.

The UK–Canada TCA ensures transparency around government subsidies and puts a mechanism in place for the Parties to consult each other on subsidies which may have a negative impact on trade. The chapter also prohibits the Parties subsidising exports of agricultural products.

Government procurement

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. The UK–Canada TCA provides for procurement opportunities at national, regional, provincial and local levels, and outlines how the Parties governments may offer goods and services to each other, as long as businesses fulfil specific requirements. The chapter also sets out a framework to ensure transparency and fairness in procurement processes.

Intellectual Property

Intellectual Property (IP) provisions provide protection for, and enforcement of, IP rights. These include registered IP rights such as patents, trademarks and designs, and unregistered rights such as copyright, trade secrets and unregistered designs. This chapter in the UK–Canada TCA establishes mechanisms to ensure that the UK and Canada can cooperate on fulfilling their international obligations ensuring there is an effective protection of Intellectual Property (IP). The UK–Canada TCA complements the commitments made by both Parties as members of the World Intellectual Property Organization (WIPO) and the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). The UK–Canada TCA also retains Geographical Indication (GI) protections for Scotch Whisky and Irish Whisky and Irish Cream.

Trade remedies

Trade remedies provide a safety net for domestic industry against injury caused by dumped, subsidised or unexpected surges of imports. The UK–Canada TCA refers to the WTO obligations the Parties are bound by, and also includes measures to ensure transparency and information sharing by the Parties, with a view to preventing unfair trade practice.

Dispute settlement

The economic benefits of trade 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, provides an effective mechanism for enforcing commitments, and for resolving any disputes that may arise in the future.

The UK–Canada TCA sets out the formal procedure for the Parties to follow in the event of a dispute about the interpretation or application of the agreement.

¹⁴ Applied STRI (services trade restrictiveness index), commitments under Canada-UK TCA, OECD

¹⁵ DIT Trade and Investment Factsheets, <https://www.gov.uk/government/collections/trade-and-investment-factsheets> (accessed 30th March 2021)

Labour and Environment

The UK has long supported the promotion of our values globally. We want to ensure economic growth, labour and environmental protections go hand-in-hand. The UK–Canada TCA includes chapters on labour, trade, and sustainable development, ensuring the involvement of non-government organisations.

The UK–Canada TCA establishes a Joint Committee on Trade and Sustainable Development, to ensure that both sides meet their commitment that economic growth will support their mutual social and environmental goals. It also puts in place mechanisms to ensure that the Parties implement the provisions in practice. Further, the UK–Canada TCA's Environmental Chapters mandate the signatories to commit to conservation and sustainable management of forests and fisheries, and to cooperate on trade-related environmental issues of common interest such as climate change.

3: UK-Mexico trading relationship



3.1 Trade flows between the UK and Mexico

In 2019, Mexico had a GDP per capita of \$20,944 (£16,406).¹⁶ This compares to the UK's GDP per capita of \$49,932 (£39,115). Mexico's overall GDP is just under half of the size of the UK's. Total trade (imports plus exports) as a proportion of GDP is higher for Mexico (77.9%) than for the United Kingdom (64.3%).

In terms of value added, the UK is more specialised in services than Mexico. Conversely, the industrial goods and agriculture sectors make up a larger share of the Mexican economy¹⁷.

Table 1: Headline economic indicators for Mexico and the UK, 2019

Economic Indicator	Mexico	UK
GDP, PPP (2019 prices)	£2.1 trillion	£2.6 trillion
GDP per capita, PPP (2019 prices)	£16,406	£39,115
Trade (% GDP)	77.9%	64.3%
Population	127.6 million	66.8 million
Agriculture, value added (% GDP)	3.4%	0.6% (2019)
Industry, value added (% GDP)	30.9%	17.4% (2019)
Services, value added (% GDP)	59.9%	71.3% (2019)

Source: World Bank: World Development Indicators

Mexico is the UK's 41st largest trading partner,¹⁸ accounting for 0.4% of total UK trade. Total trade in goods and services between the UK and Mexico was £5.1 billion in 2019.¹⁹

¹⁶ World Bank Development Indicators, current US dollars, 2019. Converted using Bank of England annual average spot exchange rates for 2019.

¹⁷ Value added as a percentage of GDP can be used as a measure of the relative contribution of a sector towards overall economic output in an economy.

¹⁸ Organisation for Economic Co-operation and Development (OECD), 2021

¹⁹ ONS. UK Total Trade: all countries, non-seasonally adjusted (Accessed: 18th March 2021).

In 2019, UK exports to Mexico were £2.5 billion, making it the UK's 43rd largest export market (accounting for 0.4% of all UK exports). UK imports from Mexico were £2.6 billion, making it the UK's 43rd largest import source (accounting for 0.4% of all UK imports).

Table 2: Trade between the UK and Mexico, 2019 (£ billion)

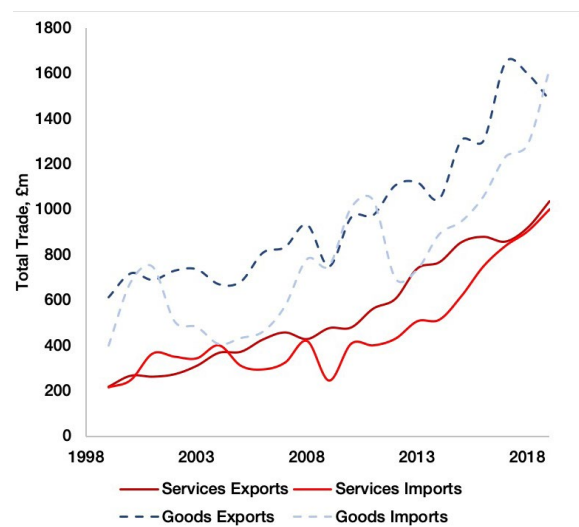
	Trade in goods	Trade in services
UK exports to Mexico	1.5	1.0
UK imports from Mexico	1.6	1.0
Total trade	3.1	2.0

Source: ONS, (2020). UK Total Trade: all countries, non-seasonally adjusted (Accessed: 18th March 2021).

UK trade with Mexico has increased over time, with both UK exports of goods and services to Mexico generally remaining slightly higher than UK imports of goods and services from Mexico (Figure 6).

During the first 3 quarters of 2020, UK exports to Mexico were down 20% from the same period in 2019, compared with a 13% reduction in UK exports to the world. Conversely, UK imports from Mexico were down 40% from the same period in 2019, compared with a 23% reduction in UK imports from the world.²⁰

Figure 6: UK trade with Mexico over time



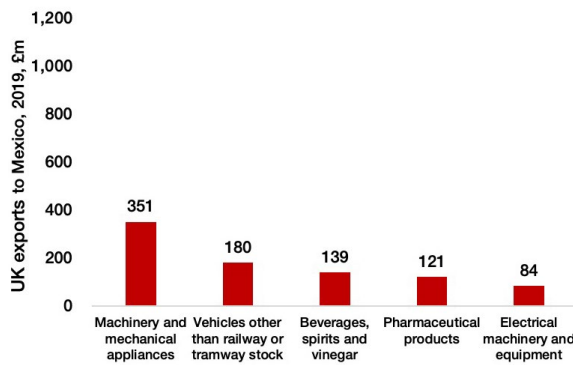
Source: ONS, (2020). UK Total Trade: all countries, non-seasonally adjusted (Accessed: 18th March 2021).

²⁰ ONS, (2019). UK total trade: all countries, non-seasonally adjusted (accessed 18th March 2021).

The top goods exported from the UK to Mexico in 2019 were machinery and mechanical appliances (HS84, £351 million) and vehicles other than railway or tramway stock (HS87, £180 million), together representing over a third of UK exports to Mexico.

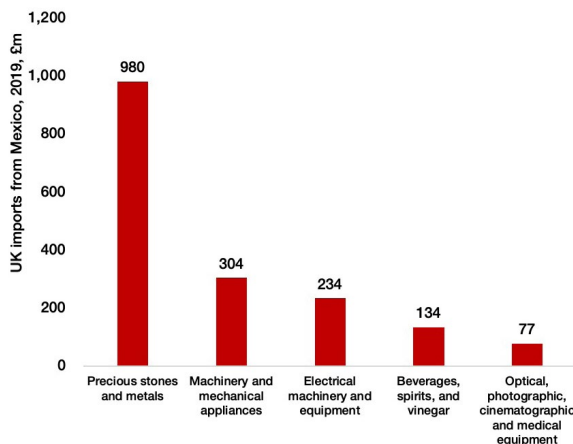
Precious stones and metals were the most imported goods from Mexico by the UK in 2019 (HS71, £980 million), making up 45% of total goods imports from Mexico.

Figure 7: Top 5 UK goods exports to Mexico, 2019 (HS2²¹, £ million)



Source: HMRC trade statistics by commodity code (accessed 22nd March 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.

Figure 8: Top 5 UK goods imports from Mexico, 2019 (HS2²², £ million)



Source: HMRC trade statistics by commodity code

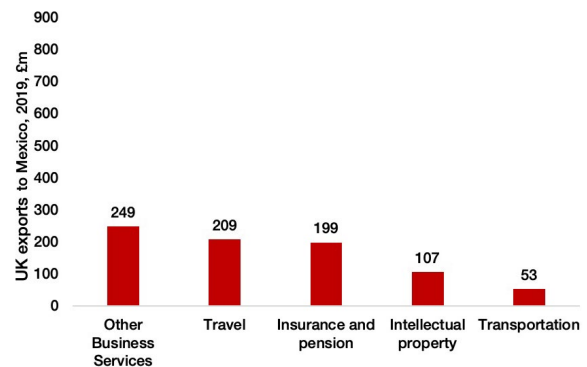
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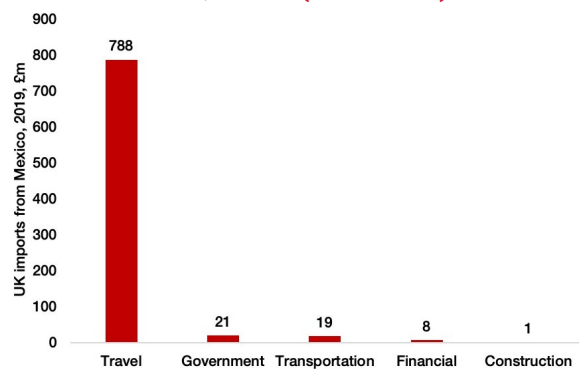
In 2019, the UK exported £1.0 billion in services to Mexico and imported £1.0 billion in services. Table 3 shows that in 2019, ‘other services’ (comprised of sectors including legal, accounting, management consulting and others) was the largest UK service exported to Mexico, valued at £249 million, with travel following as the second largest export (£209 million). Travel was the largest UK service imported from Mexico, valued at £788 million, with government services following at £21 million.

Figure 9: Top UK services exports to Mexico, 2019 (£ million)



Source:ONS, (2019). UK trade in services: service type by partner country, non-seasonally adjusted (Accessed 19th March 2021)

Figure 10: Top UK services imports from Mexico, 2019 (£ million)



Source:ONS, (2019). UK trade in services: service type by partner country, non-seasonally adjusted (Accessed 19th March 2021)

3.2 Basis of current trading relationship as set out in the UK–Mexico TCA

The UK-Mexico trading relationship includes the UK-Mexico TCA that was signed on 15 December 2020 and the Mutual Recognition and Protection of Designations for Spirit Drinks signed on 30 November 2020.

Goods market access

Goods chapters in trade agreements set out the treatment and the level of access to the domestic market granted to the goods of each of the respective parties. Under the UK–Mexico TCA, approximately 88% of product lines are fully liberalised.

Just under half of product lines for goods entering Mexico have an MFN rate of 0%, and these lines represent around 60% of UK exports to Mexico (£1.1 billion).

Table 4: Breakdown of tariff lines in Mexico’s MFN schedule

	Number of lines	UK Exports to Mexico (2016/18 average) (£, billion)
MFN zero	3,787	1.1
MFN non-zero	4,015	0.5
MFN not available ²³	45	0.2

Source: ITC TradeMaps (accessed Jan 2021)

The TCA, in comparison to trading at MFN rates, is predicted to have reduced annual duties on exports by £60 million for UK exports to Mexico, and by £19 million for UK imports from Mexico. These figures assume that available preferences are fully utilised by exporters and importers.²⁴

²³ Trade where MFN rates are not available are all in chapter HS98.

²⁴ 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.

The chapters where the largest duty savings exist on UK exports to Mexico are:

- vehicles other than railway or tramway stock (HS87, £29 million)
- pharmaceutical products (HS30, £7 million)
- perfumery, cosmetic or toilet preparations (HS33, £3 million)

Remaining duties on UK exports to Mexico are around £6 million, primarily from coffee, tea, mate, and spices (HS09, £3 million) and preparations of cereals, flour, starch or milk; pastrycooks’ products (HS19, £1 million).

The chapters where the largest duty savings exist on UK imports from Mexico are:

- plastics and articles thereof (HS39, £4 million)
- edible fruit and nuts (HS08, £3 million)
- preparations of vegetables, fruits, nuts (HS20, £2 million)

Remaining duties on UK imports are around £4 million, primarily from edible fruit and nuts (HS08, £1 million) and edible vegetables and certain roots and tubers (HS07, £1 million).

The above values assume that utilisation of available preferences is 100%, which is not true in practice.

The average preference utilisation rate for UK exports to Mexico in 2019 was 63%. The sectors i) arms and ammunitions, and ii) animals and animal products had the highest utilisation rates (100% and 99% respectively), and the sections i) precious stones and metals, and ii) instruments – measuring, musical had the lowest utilisation rates (7% and 8% respectively).²⁵

The average preference utilisation rate for UK imports from Mexico in 2019 was 43%. The sectors i) animal and animal products and ii) mineral products had the highest utilisation rates (100% and 95% respectively), and the sections i) arms and ammunition and ii) instruments – measuring, musical had the lowest utilisation rates (0% and 5% respectively).

Utilisation rates vary greatly across sections and agreements. Lower utilisation rates are likely affected by agreement-specific factors such as rules of origin requirements for goods and the profile of businesses which export those goods.

TRQs

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.

²⁵ DG Trade calculations, updated 21st October 2020

The TCA includes inward TRQs for Mexican exports of the following products, which are duty free in-quota.

- bananas
- asparagus
- orange juice
- pineapple juice
- mixtures of fruit
- cane molasses
- natural honey
- flowers
- frozen peas
- melons
- strawberries
- prepared or preserved fish
- tuna-loins
- chewing gum
- egg yolks and albumin
- eggs for hatching

In most cases, the quota sizes have been resized to account for the UK being a smaller market than the EU. The quota size for bananas for Mexican imports into the UK is 12,000 tonnes, six times greater than the quota size under the previous EU-Mexico agreement. Additionally, the quota size for asparagus has remained the same as under the EU-Mexico agreement (600 tonnes).

There is an outward quota for prepared or preserved fish.

TRQ solutions set quotas at a sufficient level to allow for continuity of historic trade flows, in most circumstances, for importers and exporters from both sides. Full details of the TRQs can be found in the Parliamentary report which accompanies the UK–Mexico TCA.

Rules of Origin

In trade agreements, rules of origin (RoOs) are used to determine the economic nationality of a good. In order to qualify for preferential tariff rates under the UK–Mexico TCA, a good must “originate” in the UK or Mexico (the Parties). Examples of rules include “wholly obtained” and “sufficiently worked and processed”, and these and other rules are fully described at the following [link](#).

To provide maximum continuity for business, the UK–Mexico TCA 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. However, the UK–Mexico TCA has committed both Parties to review this approach to cumulation within 30 months of entry into force of the agreement.

Origin Quotas allow a volume of specific product lines to be exported under a more lenient rule of origin. The TCA includes origin quotas for goods in the product categories of woven fabrics and footwear. Full details of the origin quotas can be found in the Parliamentary report which accompanies the UK–Mexico TCA.

Non-tariff measures

Non-tariff measures (NTMs) are defined as policy measures, other than ordinary customs tariffs, that can potentially have an economic effect on international trade in goods, changing quantities traded or prices or both.²⁶ These include customs controls and differences in national regulatory regimes.

Sanitary and Phytosanitary (SPS) provisions in trade agreements concern the application of food safety and animal and plant health regulations. The SPS chapter in the UK–Canada TCA maintains the Parties’ right to take necessary measures to avoid risks to food safety, animal or plant life or health. Those measures must be transparent, science-based and should not be put in place to create unnecessary and unjustifiable SPS-related trade restrictions.

Technical barriers to trade (TBT) provisions in trade 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. The UK–Canada TCA commits the Parties to cooperate, exchange information, and work together closely to ensure compatibility of technical regulations for testing and certifying products where possible.

Data from UNCTAD²⁷ indicates that Mexico imposes no specific measures on the UK.

Measures applied by Mexico which affect all countries include:

- Technical barriers to trade (337)
- Sanitary and phytosanitary (180)
- Quantity control measures (135)
- Export-related measures (114)
- Pre-shipment inspection (3)

26 MAST (Multi-Agency Support Team, composed of the Food and Agriculture Organization of the United Nations, International Trade Centre, Organization for Economic Cooperation and Development (OECD), UNCTAD, United Nations Industrial Development Organization, World Bank and WTO). See UNCTAD (2019) https://unctad.org/en/PublicationsLibrary/ditctab2019d5_en.pdf

27 UNCTAD, TRAINS, accessed April 2021.

- Price control measures (3)
- Contingent trade protective measures (2)
- Other measures (1)

Customs

Customs and Trade Facilitation provisions allow for the efficient transport of goods across national borders whilst seeking to minimise the financial, administrative and operational burden on traders. The UK–Mexico TCA aims to simplify customs processes at the border; encourage information exchange, training development and cooperation between the UK and Mexico; and agree the provision of technical assistance where necessary.

The Trade Facilitation Index (TFI) estimated by the OECD for the UK and Mexico, covers 11 indicators. Each indicator, such as automation of processes, required documents, fees and charges, is scored from 0 to 2, where 2 represents the best performance that can be achieved.

The best performing sections for trade facilitation²⁸ for Mexico are automation (1.92) and governance and impartiality (1.89), with the worst sections being appeal procedures (1.00) and information availability (1.24).

For the UK, the best sections are governance and impartiality (2.00) and external border agency co-operation (2.00), with the worst sections being internal border agency co-operation (1.64), procedures (1.67) and appeal procedures (1.67).

Intellectual Property

Intellectual Property (IP) provisions provide protection for, and enforcement of, IP rights. These include registered IP rights such as patents, trademarks and designs, and unregistered rights such as copyright, trade secrets and unregistered designs. The UK–Mexico TCA upholds 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. The UK–Mexico TCA also requires Mexico to accede to various international IP agreements.

Government Procurement

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. The UK–Mexico TCA provisions establish high level mutual ambition to open

government procurement markets on a reciprocal basis between the UK and Mexico.

Competition

Chapters or articles in free trade agreements relating to competition help to ensure open and fair competition exists for both parties. They detail key principles and can refer to domestic laws for each party. The UK–Mexico TCA provisions uphold the principles of competition law and establishes mechanisms of cooperation between the UK and Mexico.

Services

Services provisions in trade agreements set out the treatment and the level of access to the domestic market granted to that trade partner's service suppliers and services. The UK–Mexico TCA includes limited services provisions focussed narrowly on facilitating and regulating trade in financial services.

The sectors with the highest restrictiveness²⁹ for UK exports to Mexico are broadcasting and road freight, and the sectors with the lowest restrictiveness are telecommunications and sound recording.

Trade Remedies

Trade remedies provide a safety net for domestic industry against injury caused by dumped, subsidised or unexpected surges of imports. The UK–Mexico TCA upholds WTO Remedies commitments.

Dispute Settlement

The economic benefits of trade 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, provides an effective mechanism for enforcing commitments, and for resolving any disputes that may arise in the future.

The UK–Mexico TCA sets out the formal procedure for the Parties to follow in the event of a dispute about the interpretation or application of the agreement.

Investment

Investment provisions in trade agreements seek to improve market access for businesses by removing barriers to establishing a commercial presence abroad. They also seek to increase certainty, and in turn lower costs associated with foreign investment projects, thus reducing risks for business.

²⁸ OECD Trade Facilitation Indicators, 2.0 = best performance, 0.0 = area to improve (accessed April 2021)

²⁹ Applied STRI (services trade restrictiveness index), commitments under Mexico-UK TCA, OECD

The UK–Mexico TCA includes limited investment provisions focussed on investment promotion and creating a stable environment for investors.

Joint Political Declaration

Dialogue and co-operation between the UK and Mexico will continue; this is set out in a joint political declaration which accompanies the UK–Mexico TCA. Respect for democratic principles and fundamental human rights also constitute essential elements of the UK–Mexico TCA. In the case of a material breach of the TCA by one of the Parties appropriate measures may be taken in accordance with international law.

Agreement on the Mutual Recognition and Protection of Designations for Spirit Drinks between the UK and Mexico

The TCA is supported by a separate Spirits Agreement between the UK and Mexico, which is due to enter into force later in 2021. This Agreement ensures that spirits such as Scotch Whisky and Irish Whiskey will retain their protected Geographical Indications (GIs) in Mexico. Tequila and mezcal will also continue to be protected in the UK. Full details of this agreement can be found at <https://www.gov.uk/government/publications/ukmexico-agreement-on-the-mutual-recognition-and-protection-of-designations-for-spirit-drinks-cs-mexico-no12020>

4: Other Relevant Agreements

Both Mexico and Canada have recently engaged in negotiations to reach comprehensive agreements with other countries. These include the United States-Mexico-Canada Agreement (USMCA), and the EU-Mexico Modernised Agreement. USMCA entered into force on 1st July 2020; the Modernised Agreement is yet to come into force, however agreement in principle was reached on 21st April 2018.

You may wish to refer to these agreements when considering what you may, or may not, want to see included in a future UK-Canada or UK-Mexico agreement.

A summary of USMCA and the full text of the Agreement is available to view at <https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement/agreement-between>

A summary of the EU-Modernised negotiated outcome and provisional full text of the Agreement is



available to view at <http://trade.ec.europa.eu/doclib/press/index.cfm?id=1833>

5: Link to CPTPP accession

On Monday 1st February 2021, the UK submitted our notification of intent to begin the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) accession process. This is the first formal step towards accession before formal negotiations start later in the year. The UK's CPTPP accession process will run alongside bilateral UK-Canada and UK-Mexico FTA negotiations.

CPTPP is a trade agreement among Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam, and accounted for 13% of global GDP in 2019³⁰. This would rise to 16% if the UK were to join.³¹ The CPTPP agreement removes tariffs on 95% of goods traded between members, as well as other non-tariff barriers.³²

If the UK were to become a CPTPP member, businesses would be able to trade with CPTPP members, including Canada and Mexico, using provisions in either CPTPP or the bilateral agreement. For example, the CPTPP rules of origin allow content from any CPTPP member to count as 'originating', and this may make it easier for some UK exports to qualify for preferential tariff treatment than under bilateral FTAs and may also make it easier for imports to access preference.

CPTPP has relatively "deep" provisions which remove restrictions on trade in services sectors. Compared to not having a trade agreement, or compared to a relatively "shallow" trade agreement, CPTPP therefore increases market access. Compared to the deeper services trade agreements that the UK has with Canada or Japan, for example, CPTPP is more liberal on some counts and less so on others. As with goods exporters, businesses would be able to trade under either set of provisions.

The Government has previously consulted on the possibility of the UK seeking accession to CPTPP, of which Canada and Mexico are members, and published a summary of the responses to this Public Consultation in July 2019. Where relevant, this will also inform our approach to any additional amendments we may seek to make to the TCAs as part of our future UK-Canada and UK-Mexico Trade Agreements.

³⁰ Global GDP is from IMF World Economic Outlook, October 2020 (accessed November 2020), and consumer markets is from the World bank development indicators (accessed October 2020).

³¹ DIT Calculations using the IMF 'World Economic Outlook Database', October 2020 (viewed November 2020).

³² ASIAN Trade Centre (2018): Ten Benefits of the CPTPP.

Annex - list of FTA areas

Tariffs - Lowering import taxes (including tariff quota limits) so consumers and businesses can access goods and materials at a lower cost.

Rules of Origin - Rules of origin provide the criteria for testing whether a good can be considered to have been produced in a particular country. They determine whether a good qualifies for any reduction in tariffs negotiated in a trade agreement, and can be an important factor in determining levels of real access to a trading partner's market.

Customs Procedures - Improving and simplifying the procedures and processes which apply at the border to lower costs and increase the reliability of goods trade.

Products Standards, Regulation and Certification - Ensuring that approaches to regulation on products in each other's markets are as consistent as possible, don't unfairly favour one country's businesses over the other and that processes to comply with rules are as simple as possible.

Sanitary and Phytosanitary Measures - Policies necessary for the protection of human, animal or plant life or health.

Services - Making it easier to provide services in each other's services markets such as in engineering, legal, consultancy and design, including allowing people to work temporarily in other countries to provide these services.

Digital - Enabling digital goods, digital services and digitally-enabled transactions of goods and services, whether digitally or physically delivered (including through Telecommunications Services), involving consumers, business or government, all underpinned by movement of data across borders.

Competition - Ensuring businesses are treated fairly in each other's markets, including government support, the role of state owned businesses and competition law.

Public Procurement - Improving the access businesses have to government contacts in each other's markets.

Intellectual Property - Ensuring that protections for innovation and ideas are in place, for example seeking to ensure patents and copyright measures are respected.

Investment - Investment provisions make it easier for individuals or companies to invest into other countries, including to run businesses. Policy can also provide for protection of these investments once made.

Labour and Environment - Policy to maintain and promote high labour and environmental/climate protections in both countries.

Trade Remedies - Provide a safety net for domestic industry against injury caused by dumped, subsidised or unexpected surges of imports.

Dispute Settlement - Provides an effective mechanism for enforcing commitments, and for resolving any disputes that may arise in the future.

Small and Medium Size Enterprises (SME) Policy - Ensuring that policy is designed in a way which supports small and medium sized businesses.

Innovation - Provisions to ensure trade agreements are future-proofed and support innovative businesses to trade.

Gender Equality/ Women's economic empowerment - Policies and provisions aimed at supporting women's role in the economy with a view to realising the wider social and economic gains that can be achieved by improving gender equality.

Mutual Recognition of Professional Qualifications - The mutual recognition of professional qualifications allows people with professional qualifications obtained in one country to have these qualifications recognised in another.

The Department for International Trade (DIT) helps businesses export, drives inward and outward investment, negotiates market access and trade deals, and champions free trade.

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