

WORLD TRADE ORGANIZATION

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Council for Trade in Goods

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MEXICO – REQUEST FOR AN EXTENSION OF THE TRANSITION PERIOD FOR THE ELIMINATION OF TRADE-RELATED INVESTMENT MEASURES

The following communication, dated 31 August 2001, has been received from the Permanent Mission of Mexico.

I. INTRODUCTION

1. Pursuant to Decision G/L/463 adopted by the Council for Trade in Goods on 31 July 2001, and with reference to the request by Mexico under Article 5.3 of the Agreement on Trade-Related Investment Measures (TRIMs Agreement) circulated in G/C/W/171, Mexico requests herewith an additional extension of the transition period provided for in the said Agreement of two years from 1 January 2002.

2. Pursuant to paragraph 2 of Decision G/L/463, and in order to ensure that it is considered favourably by the Council for Trade in Goods and approved in conformity with paragraph 3 of that Decision, the present request is accompanied by the items listed below.

3. The above is without prejudice to Mexico's rights and obligations under the provisions of the TRIMs Agreement and other WTO agreements.

II. PARTICULAR DIFFICULTIES MEXICO CONTINUES TO ENCOUNTER IN IMPLEMENTING THE PROVISIONS OF THE TRIMs AGREEMENT

4. The reasons for adopting the measures relating to the automotive industry contained in the *Decree for the Development and Modernization of the Automotive Industry* (hereinafter the Auto Decree) and other instruments submitted together with notification G/TRIMS/N/1/MEX remain valid, and are based on Mexico's development, financial and commercial needs.

5. As stated in the preamble to Decision G/L/463, Mexico has demonstrated that it is encountering particular difficulties in implementing the provisions of the TRIMs Agreement. These difficulties have persisted, and stem principally from the disruptions and uncertainty that would affect the domestic automotive industry, in particular its investment plans and employment, if the programme for the gradual phasing out of the requirements laid down in the Auto Decree were to be eliminated or altered. It should be borne in mind that this industry plays an important role in the Mexican economy.

6. The Auto Decree was conceived as an industrial policy instrument for the Mexican automotive industry. Its guidelines, which apply to the country's vehicle manufacturers, are intended to stimulate the development of local suppliers of parts and components at world quality standards.

7. It encourages the consolidation and growth of terminal enterprises and fosters the horizontal development of the automotive industry in Mexico by stimulating the growth of various branches of the industry, and by contributing to technological modernization and the generation of employment, both direct and indirect.

8. The Auto Decree has progressively been adjusted in response to the different conditions prevailing in the industry. The Decree in force incorporates the open trade policy pursued by Mexico as well as world trends in the automotive industry. This policy of openness was strengthened through the agreements concluded by Mexico with the United States and Canada in the framework of the North American Free Trade Agreement (NAFTA) which, following the conclusion of negotiations in 1992, entered into force 1 January 1994. The flexibility and opening up of trade achieved through NAFTA are not confined exclusively to Mexico's NAFTA trading partners: the adjustments made to the Auto Decree have enabled them to be extended to all of Mexico's trading partners.

9. Through these adjustments, Mexico has laid the groundwork for a programme involving the gradual phasing out of the national value added and trade balance requirements contained in the Auto Decree. This programme has provided the national automotive industry with a degree of certainty that has enabled it to make the investments necessary for its rationalization and modernization with a view to becoming internationally competitive, while significantly strengthening, in the process, the production chains. The establishment of clear rules, by creating an environment of certainty has been a fundamental contribution to investment decision-making. And indeed, vehicle and auto parts manufacturers have made significant investments over the past seven years.

10. Thus, if we were to eliminate the measures laid down in the Auto Decree or to alter the period of transition, we would modify the conditions and scenarios on which the automotive industry has based its planning, undermining the certainty and confidence needed by the manufacturing enterprises to continue with their current investment and employment plans and to pursue future projects, which are based on the rules laid down by the Auto Decree currently in force.

11. The planned shift in automotive policy towards an open and competitive regime has proven effective. This is reflected in the automotive industry's share in the country's GDP, which reached 2.8 per cent in 2000, while its share in the manufacturing GDP totalled 14 per cent. Similarly, this industry generated 634,000 jobs, making it the most important branch of the country's industrial sector.

12. At the same time, total production of vehicles grew on average by 9.4 per cent between 1994 and 2000. In 2000, it reached a record production level of 1.9 million units.

13. 3,625 million dollars were invested in the automotive industry during 2000 as a result of important projects undertaken both by the assembly enterprises and the autoparts manufacturing enterprises. In aggregate terms, more than 17 thousand million dollars were invested during the period 1994-2000.

III. DESCRIPTION OF THE STEPS MEXICO HAS TAKEN TO DATE AND/OR WILL TAKE TO ELIMINATE ITS REMAINING TRIMs

14. In 1995, the Auto Decree was amended in order to establish a timetable for the phasing down of the required percentage of national value added of autoparts and the trade balance requirement.

15. The reduction in the percentages of national value added of autoparts has made it possible for the enterprises of the motor vehicle industry to achieve a flexibility that enables them to import autoparts according to their production needs. This flexibility is reflected in the trade figures, since the period 1994-2000 saw a 72 per cent increase in imports of autoparts.

16. Similarly, the phasing down of the trade balance requirement has been accompanied by a greater opening up of the Mexican market: indeed, while in 1995, for every 77 cents worth of vehicles exported, 1 dollar worth of vehicles could be imported, the current figure is 60 cents for every 1 dollar worth of vehicles imported. This opening up of the Mexican market is reflected in the growing share of imported vehicles in market sales: from 12.5 per cent in 1994 it rose to 48.3 per cent in 2000.

17. The programme to phase out the national value added and trade balance requirements has been implemented and will continue to be implemented in accordance with the terms set forth in the Auto Decree as described below.

IV. PLAN FOR THE PHASING DOWN OF THE REMAINING TRIMs WITH A VIEW TO THEIR ELIMINATION BY 31 DECEMBER 2003

18. Mexico will dismantle the measures notified in document G/TRIMS/N/1/MEX/1 in accordance with the phasing-down programme established in the *Decree Amending and Supplementing the Decree for the Development and Modernization of the Automotive Industry*, including its implementation regulations and subsequent amendments. This Decree orders the dismantling of measures relating to national value added and trade balance as follows:

1. National value added

19. The percentage of national value added that an enterprise in the automotive assembly industry must incorporate each year in the manufacture, in Mexico, of autoparts and motor vehicles (Article 7 of the Auto Decree of 1995) is to be reduced as follows:

- 34 per cent from the entry into force of the Decree until 31 December 1998;
- 33 per cent from 1 January to 31 December 1999;
- 32 per cent from 1 January to 31 December 2000;
- 31 per cent from 1 January to 31 December 2001;
- 30 per cent from 1 January to 31 December 2002;
- 29 per cent from 1 January to 31 December 2003.

2. Trade balance

20. The factor used to (a) calculate the trade balance of an enterprise in the automotive assembly industry, and (b) to divide the trade balance surplus of an enterprise in the automotive assembly industry for the purposes of determining the total value of new motor vehicles that can be imported each year (Articles 8A and 12 of the Decree of 1995) is to be reduced as follows:

- .772 from 1 January to 31 December 1995;
- .744 from 1 January to 31 December 1996;
- .716 from 1 January to 31 December 1997;
- .689 from 1 January to 31 December 1998;
- .661 from 1 January to 31 December 1999;
- .633 from 1 January to 31 December 2000;
- .605 from 1 January to 31 December 2001;

- .577 from 1 January to 31 December 2002;
- .550 from 1 January to 31 December 2003.

21. The above phase-out programme meets Mexico's development, financial and commercial needs.

22. Pursuant to Decision G/L/463 and subject to approval of this request by the Council for Trade in Goods, the national value added and trade balance measures notified by Mexico in document G/TRIMS/N/1/MEX/1 will be totally eliminated by 1 January 2004.

3. Commitment to submit periodic reports to the Council for Trade in Goods

23. Mexico undertakes to submit periodic reports to the Council on Trade in Goods on the progress made in phasing out the remaining TRIMs in accordance with the programme set forth in Section III above.
