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TRADE POLICY REVIEW

REPORT BY

MEXICO

Pursuant to the Agreement Establishing the Trade Policy Review Mechanism (Annex 3 of the Marrakesh Agreement Establishing the World Trade Organization), the policy statement by Mexico is attached.

Contents

1 INTRODUCTION

1.1. This Fifth Trade Policy Review of Mexico is taking place against the backdrop of the worst global financial crisis in 80 years. Since the middle of 2008, the world has seen a significant contraction in demand on the main export markets, with the result that the volume of trade and production has plummeted in most countries while unemployment has skyrocketed. All of this had a profound impact on Mexico's growth in 2009.

1.2. In spite of these circumstances, on the economic front Mexico's public finances are sound, its inflation is under control, its economic growth is stable at twice the average for members of the Organisation for Economic Co-operation and Development (OECD), its banking system is adequately capitalized, it has a network of trade agreements providing for preferential access to markets which together account for three quarters of world GDP, and it has introduced measures that facilitate trade and contribute to the business climate.

1.3. Mexico continues to be committed to the multilateral trading system, with a trade policy that focuses on creating a favourable investment climate through the most ambitious unilateral tariff liberalization for over 20 years, trade facilitation, and improved protection of intellectual property rights. All of these commitments go hand in hand with the strengthening of the multilateral trading system.

1.4. This report is divided into five sections: the first describes Mexico's economic development and the impact of the global financial crisis; the second explains the country's open trade policy and the role it has played in strengthening the economy; the third highlights the importance for Mexico of the multilateral trading system; and the fourth describes the most important components of its trade policy. The final section contains the conclusions.

2 ECONOMIC ENVIRONMENT

2.1. There was no avoiding the negative impact of the world financial crisis on Mexico's international trade. It was in 2009 that the impact of the global economic slowdown on the country's economic growth was most strongly felt. The international environment inherited from the previous year had brought about a sharp fall in demand for Mexican exports, chiefly manufactures, not to mention constraints on external financing. The outbreak of influenza A(H1N1) further contributed to the fall in production during the first half of that year. In 2009, Mexico's GDP contracted by 5.95%.

2.2. That same year, Mexican exports suffered their worst decline in 60 years, falling 21% from US$291.3 billion to US$229.7 billion, while imports dropped 24%. Both exports and imports recovered considerably during 2010 and 2011, exports increasing by 30% and 17% respectively, and imports by 28% and 16% respectively. In October 2012, Mexico's global trade increased by 14.7% year on year.

2.3. In the end, Mexican exports grew by 28.6% between 2007 and 2011, from 271.8 billion dollars to 349.5 billion dollars. During that same period, imports grew by 24.4%, reaching 361 billion dollars in 2011. Thus, Mexico established itself as Latin America's leading exporter and importer.

2.4. However, the predicted decline in world economic growth, affecting in particular the country's main trading markets, will be a challenge for Mexico's export sector over the next few years.

2.5. A number of countercyclical measures were introduced to mitigate the negative impact of the international crisis. As a result, GDP recovered by 5.5% in 2010 and 3.9% in 2011, helped by the surge in exports and the recovery in private consumption and investment.

2.6. A growth of about 4% is forecast for 2012 and 2013.

2.7. Proper management of monetary policy targeting price stability ensured that the period of global financial turmoil and the resulting exchange rate adjustments did not adversely affect the price formation process in the Mexican economy. Thanks to the country's strong economic fundamentals, until 2011 inflation continued to approach the permanent target of 3% (with a margin of 1 percentage point), in spite of the deterioration in the external environment.

2.8. During 2012, the increase in the prices of agricultural products, including certain basic foods such as eggs, tomatoes, chicken and beef, led to an increase in inflation beyond the target that had been set, to an annual rate of 4.6% in September of that year. This inflationary situation is seen to be temporary, given the temporary nature of its origins: the underlying annual inflation during that month was 3.6%.

2.9. Although the Mexican economy has weathered the adverse global economic situation relatively well, a number of factors suggest that the environment could be even worse in the coming years. These include:

- a possible economic slow-down in the United States;

- greater volatility and uncertainty on the international financial markets owing to fiscal and banking problems in the euro area. This could encourage investors to relocate their assets and make it more difficult for the emerging economies like Mexico to attract resources;

- a slow-down in the emerging economies like China and India which could become more pronounced in the coming years, further affecting global demand.

2.10. Aware of these risks, the Government of Mexico has undertaken a series of structural reforms since the last trade policy review with a view to boosting productivity in order to achieve more rapid growth in aggregate demand without creating pressure on prices, to strengthen domestic sources of growth, and to stimulate economic growth. Some of these reforms are described below.

2.1 Energy reform

2.11. On 28 November 2008, Mexico set out to strengthen and modernize its petroleum industry with the publication of seven decrees enacting, amending, supplementing and repealing a number of laws.[1] These decrees make up the Energy Reform. The idea was to strengthen certain control and surveillance mechanisms to foster transparency and accountability on the part of Petróleos Mexicanos (PEMEX) in line with best corporate governance practices at the international level.

2.12. The reform rested on four guiding principles:

- Corporate governance: four professional advisers have been placed on the PEMEX Board of Directors. They are appointed by the Federal Executive and ratified by the Senate, with a clear mandate to generate economic value for Mexican society. The decisions of the Board of Directors have to be approved by at least two of the professional advisers.

- Transparency: the reform sought to strengthen control and monitoring procedures by introducing more effective transparency and accountability mechanisms and setting up a Transparency and Accountability Committee within the Board of Directors. This Committee may at any time conduct such investigations or internal audits as it deems necessary, and monitor and evaluate the financial and operational performance of PEMEX, both overall and by function.

- Under this same guiding principle, citizen bonds were issued so that all Mexicans could share in the profits generated by PEMEX. At the same time, these bonds serve as a tool for enhancing transparency and accountability. Their yield is linked to PEMEX's financial performance.

[1] The laws enacted include the Petróleos Mexicanos law; the Law on the Use of Renewable Energy and Financing of Energy Transition; the Law on the Use of Sustainable Energy; and the Law on the National Hydrocarbons Commission. Article 3 was added to the Federal Law on Parastatal Entities; Article 1 was added to the Law on Public Works and Related Services; and paragraph 3 was added to Article 1 of the Law on Acquisitions, Leases and Services of the Public Sector.

- Budget: a new tax regime was introduced that will enable PEMEX to responsibly exploit more complex and costly land or deep sea oil fields. PEMEX will also be able to use its budget more freely, with greater flexibility as regards financial consolidation. The reform enables PEMEX to obtain the external financing it needs and to enter into obligations constituting debt, in accordance with terms and conditions established by the Board of Directors.

- Institutional: the National Hydrocarbons Commission was set up as a decentralized agency of the Ministry of Energy (SENER). It operates as a technical branch for exploration and production in accordance with international best practices. The Regulatory Commission for Energy (CRE)[2] retains full technical and operational autonomy and has been granted management and decision-making autonomy. SENER was strengthened in order to enhance its authority to regulate hydrocarbons and to provide it with better planning tools.

2.2 Labour reform

2.13. Since Mexico's labour legislation had failed to keep up with demographic, economic and social developments, and in the light of recommendations made by different international bodies, on 30 November 2012 Mexico enacted a bill reforming the Federal Labour Law in pursuit of two objectives: to promote the creation of more and better jobs by stimulating company productivity and seeking to formalize labour relations; and to strengthen the mechanisms introduced to ensure effective compliance with the labour rights provided for in the Law. Among other things, this reform:

- establishes new types of contracts involving a trial period and training for up to six months, and seasonal contracts with salary, benefits, social security and seniority;

- recognizes teleworking on an equal footing with home work, and at the same time penalizes its use as a way of simulating or evading employers' obligations;

- makes it impossible for strikes to last indefinitely by providing for them to be submitted to arbitration by the Conciliation Board if they last more than 120 days;

- provides for better union transparency by establishing the right for any worker (and not the authorities or third parties) to receive information concerning the management of union assets;

- prohibits any kind of discrimination such as dismissal for pregnancy or requirement of non-pregnancy certificates.

2.14. The proper application of macroeconomic and countercyclical policies and the implementation of these structural reforms have enabled Mexico to overcome one of the most dramatic economic crises in history, a crisis whose origins were completely exogenous to the country, but which initially had a strong impact on Mexico's foreign trade. Although there may be more economic turbulence to come at the international level, Mexico is now in a better position thanks to its sound financial and monetary position.

3 MEXICO'S OPEN TRADE POLICY

3.1. Ever since it joined the General Agreement on Tariffs and Trade (GATT) 1947 in 1986, the Mexican Government has pursued a trade policy that has enabled the export sector, together with the attraction of foreign direct investment, to act as key components in driving economic growth,[3] creating more and better jobs,[4] providing access to pioneering technologies and

[2] The CRE is a decentralized SENER agency responsible for the transparent, impartial and efficient regulation of the gas, hydrocarbon refining and electricity industries.

[3] 2.2% of GDP growth in 2011 (3.9%) was due to the increase in exports. While trade represented 23% of GDP in 1993, its share had increased to over 60% in 2011.

[4] One out of five jobs in Mexico is related to exports, with salaries 37% higher on average than for jobs in non-exporting enterprises. In some industries where exports account for more than 50% of production, such as electronics, average wages have increased 149% over the past ten years.

innovation processes, and providing a wider choice of goods and services at more competitive prices for consumers, and a wider range of inputs for domestic producers.

3.2. During the period under review, the objective of Mexico's trade policy has been to strengthen and revitalize its export platform to ensure greater diversification of markets and products sold abroad, improve the competitiveness of its production sector, and speed up its integration in global production chains in keeping with its commitment as a strong advocate of green global markets, as well as to provide consumers with a wider range of better options. To achieve this objective, the Government of Mexico has pursued five strategic agendas.

3.1 Strengthening of the multilateral trading system

3.3. Mexico is convinced of the advantages of a sound multilateral trading system. It has been firm in its support of open markets and its resistance against protectionist pressures, and has taken concrete action in that respect.

3.4. Accordingly, acting to a large extent on the WTO's recommendations during its last review, Mexico undertook a series of reforms and actions which are described in Section 4 of this report, and essentially include:

- the most ambitious unilateral tariff reduction programme for more than 20 years;

- the introduction of a number of trade and customs facilitation measures, including the streamlining of foreign trade formalities;

- contribution to the transparency of trade and investment measures notified to the Trade Policy Review Body's monitoring mechanism and timely notification of subsidies, sanitary and phytosanitary measures, technical regulations, etc.;

- active participation in the Doha Round negotiations, taking a leading role in the efforts to break the current deadlock.

3.5. Mexico continues to participate actively in multilateral and regional trade forums in an effort to bring certainty to trade and foreign direct investment flows. In addition to the WTO, Mexico is also a member of the Asia-Pacific Economic Cooperation (APEC), the Organisation on Economic Co-operation and Development (OECD), the Group of 20 (G20), the United Nations Conference on Trade and Development (UNCTAD) and other forums.

3.6. In April 2012, the Meeting of Ministers of Economy and Trade of the G20 took place in Puerto Vallarta, Mexico. It was attended by 19 Ministers of Trade and Economy from the G20 countries as well as seven from guest countries. The meeting provided an opportunity to seek alternative means of promoting economic growth and an open world economy. At the same time, it addressed the implications of global production chains for trade and domestic policies.

3.2 Optimization of the existing network of trade agreements

3.7. Mexico has tried to enhance the benefits of the trade agreements it has negotiated by managing them and following them up, and by facilitating, developing and extending them. The aim is to take greater advantage of the existing network of 12 free trade agreements with 44 countries, nine economic complementarity agreements and 27 agreements on the promotion and reciprocal protection of investments, which together signify preferential access for Mexican products to more than a billion potential consumers and markets representing approximately 70% of world GDP and two thirds of world imports. This has involved, *inter alia*, the following actions:

3.2.1 North American competitiveness agenda

3.8. In December 2010, Mexico and the United States agreed on a Bilateral Action Plan for 21st Century Border Management, establishing a Bilateral Executive Steering Committee to provide a comprehensive and multidisciplinary response to current and future challenges. The Subcommittee on the Promotion of Justice and Security has taken a number of steps to combat transnational criminal organizations and hence the activities perpetrated by them, including smuggling and the transit of prohibited goods in the two countries.

3.9. In September 2010, Mexico and the United States set up the High-Level Regulatory Cooperation Council to supervise and coordinate efforts on technical regulations and sanitary and phytosanitary measures to which products are subjected in international trade.

3.10. In July 2011, Mexico and the United States signed a Memorandum of Understanding on cross-border trucking as a first step towards full compliance with the North American Free Trade Agreement (NAFTA) and with a view to reducing transport costs in the North American region, taking advantage of geographical proximity.

3.2.2 Protocol amending the Free Trade Agreement (FTA) between Mexico and Colombia

3.11. In August 2011, the FTA was adjusted following Venezuela's withdrawal, and trade with Colombia in products originally excluded from the Treaty was further liberalized, with the incorporation of disciplines to facilitate trade in products of importance to the two countries, such as tractor trucks, and the negotiation of certain agricultural and industrial products that were not included in the tariff reduction programme.

3.2.3 Protocol amending the Agreement between Japan and Mexico for the Strengthening of the Economic Partnership

3.12. This protocol entered into force in April 2012. It deepens the commitments to improve market access conditions for certain agricultural and industrial products of interest to both countries, and includes other trade facilitation disciplines, such as the Approved Exporter System.

3.2.4 Protocol amending the FTA between Mexico and Israel

3.13. This protocol entered into force in March 2010, and includes: (i) the amendment of the transhipment provisions so that an originating good does not lose its originating status when transhipped without customs supervision through a third country with which Mexico and Israel have a free trade agreement; (ii) a chapter on bilateral cooperation in the field of small and medium enterprises (SMEs) and new technologies.

3.3 Negotiation of new agreements

3.14. Responding to the current momentum in the international economy, Mexico has sought to promote the negotiation of new trade and investment agreements with markets of strategic interest to it, particularly in Latin America and the Asia-Pacific region.

3.3.1 Mexico-Peru Trade Integration Agreement

3.15. This Agreement, which entered into force in February 2012, goes beyond Economic Complementarity Agreement No. 8 signed in 1987 in the framework of the Latin American Integration Association (LAIA). With the help of the Agreement, it is hoped that bilateral trade with Peru will triple over the next five years.

3.3.2 Inclusion of Mexico in the Trans-Pacific Partnership (TPP) negotiations

3.16. Since 8 October 2012, Mexico has formally participated in the most important and ambitious plurilateral negotiations at the international level in terms of products covered and disciplines included, and in terms of the countries taking part which, in 2011, accounted for 22% of world imports, 19% of world exports and 30% of world GDP. This initiative represents a significant step towards the diversification of Mexico's markets for exports and for the supply of inputs, and considerably improves Mexico's position as an important destination for international investment.

3.17. The TPP is seeking to go beyond the traditional topic of tariff reductions on goods (featured in other regional agreements) to include, *inter alia,* economic, financial, scientific, technological and cooperation issues, including new ways of protecting and promoting investment and digital technologies; regulatory convergence; growth opportunities for small and medium enterprises; competitiveness; and development and supply chains.

3.18. Mexico is committed to working with its TPP partners towards a high-level comprehensive agreement that will not only progressively liberalize trade in goods and services, but will also reflect the challenges facing the economy in the 21st Century - in other words, that will streamline supply chains, reduce the overall cost of doing business and strengthen regulatory cooperation. The aim is to come up with a transparent, rules-based process that provides certainty to economic operators and encourages long-term investments that generate exports and create more jobs.

3.19. The TPP will help Mexico in its efforts to diversify exports to what has been the most dynamic region over the past few years, Asia. Exports with Asia have increased at an average annual rate of 20.3% over the past six years, three times higher than the 6.5% annual average for total exports. It is essential that Mexico develop closer links with that region.

3.3.3 Pacific Alliance Framework Agreement

3.20. In June 2012, the Presidents of Mexico, Chile, Colombia and Peru signed the Framework Agreement for the Establishment of the Pacific Alliance, thereby laying the legal foundations for a regional integration process that will move progressively towards the free movement of goods, services, capital and persons.

3.4 Convergence of agreements

3.21. Mexico has tried as far as possible to harmonize rules, facilitate trade and reduce transaction costs for the benefit of the productive sectors, in particular the SMEs.

3.4.1 Mexico-Central America FTA

3.22. In October 2011, Mexico, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua completed the negotiations to converge into a single instrument the three existing agreements between the parties. This should help to facilitate trade and strengthen trade integration in the region. Provision was made for the agreement to be phased in as each Member completed the required domestic legislative procedures, entering into force on 1 September 2012 between Mexico, El Salvador and Nicaragua, and on 1 January 2013 between Mexico and Honduras.

3.4.2 Cumulation of origin for textiles in favour of Mexico in the framework of the Free Trade Agreement between the Dominican Republic, Central America and the United States (CAFTA-DR)

3.23. This Agreement, initially implemented with Guatemala, Honduras, El Salvador and Nicaragua in August 2008, enables inputs from Mexico to be used in the manufacturing of articles of apparel and clothing accessories, other than knitted, in CAFTA-DR member countries. Finished goods are considered as originating in the region, and enjoy the preferences granted under the Agreement. Mexico included a similar clause in its FTAs with Costa Rica, Nicaragua, El Salvador, Guatemala and Honduras in order to accord reciprocal treatment to textile materials from the United States. This Agreement stimulates competitiveness, production and trade in the regional textile sector and favours Mexican exports to Central America and the United States.

3.5 Legal defence of Mexico's trade interests

3.24. During the review period, Mexico continued to defend the interests of its producers and exporters in the framework of the multilateral trading system and the different trade agreements it had concluded.

3.25. In the course of the period, Mexico participated in nine dispute settlement cases as complainant, two as respondent and 32 as a third party. This helped to ensure that its national productive sectors could complete on an equal footing both on the domestic market and on international markets.

3.26. As of 1 December 2012, the WTO had handled 452 disputes. Mexico ranks eighth among users of the system. Specifically, it ranks fifth as complainant (23 cases), seventh as respondent (14 cases) and tenth as third party (67 cases).

3.27. It is important to note that the rulings were in Mexico's favour in important disputes such as *US - Tuna II* and *US - COOL*, in which certain key provisions of the Agreement on Technical Barriers to Trade were clarified for the first time, and *China - Raw Materials*, which concerned export restrictions.

4 MEXICO AND THE MULTILATERAL TRADING SYSTEM

4.1. Mexico has been a firm advocate of maintaining market openness, resisting protectionist pressures and moving towards a rapid and successful conclusion of the Doha Round as a key to economic recovery and a means of tackling current international economic uncertainty, focusing on the main purpose of the Round, which is to improve the trade prospects of developing countries.

4.2. In the Doha Round negotiations, Mexico has sought to improve its market access conditions in the countries with which it does not have a trade agreement, to rationalize agricultural subsidies, strengthen the dispute settlement system and the disciplines applicable to unfair practices, to adopt measures aimed at eliminating or reducing current obstacles to the proper functioning of global production chains, and to deal with issues of current interest such as the relationship between trade and the environment.

4.3. We are convinced of the benefits of a solid multilateral trading system capable of eliminating distortions and protectionist measures that stand in the way of a more equitable sharing of the benefits of trade.

4.4. Accordingly, Mexico has been an active participant in the Doha Round negotiations and one of the leading sponsors of proposals to resolve the current stalemate, particularly as regards market access. In an effort to break the 2008 deadlock and to reach some kind of compromise, at an informal meeting in 2011 Mexico submitted a horizontal proposal on market access in agriculture, industrial products, environmental goods, and services - unfortunately, to no avail.

4.5. Mexico acknowledges and regrets the current state of play of the negotiations, and agrees that new criteria need to be applied in order to revitalize them, for example finding areas which could yield results immediately, such as trade facilitation and issues relating to development and special and differential treatment of the developing countries, while at the same time stepping up our efforts to find a consensus on the more controversial issues.

4.6. As we confront the greatest economic crisis in almost a century and the resulting uncertainty regarding the future of the world economy, protectionist pressures are steadily growing. Mexico has fully lived up to the commitment it assumed in the framework of the G20 and that was assumed by WTO Members at the Eighth Ministerial Conference not to impose measures that restrict trade (or investment): not only has it continued to support the opening up of trade, but at the national level it has moved ahead on its own with an ambitious tariff reduction strategy for industrial products, and more recently, for certain agricultural products. Mexico is convinced that we will get nowhere by protecting our domestic markets: on the contrary, we need to increase our interdependence in order to make the global market more efficient, predictable and sustainable.

4.1 Trade policy

4.1.1 Tariffs

4.7. In 2009, as part of the ongoing process of opening up trade as a means of boosting the Mexican economy's potential for growth and productivity and to provide Mexican enterprises with greater competitiveness and certainty in the wake of the international financial crisis, Mexico launched the most ambitious unilateral tariff reduction programme in over 20 years, covering 69% of the 12,117 items then making up the Mexican tariff. The idea was to reduce or eliminate most-favoured-nation (MFN) tariffs for countries with which Mexico had not yet concluded a trade agreement. The reduction took place in five stages between 2009 and 2013.

4.8. The programme covered goods classified under 70 of the 73 chapters corresponding to industrial products; only the chapters on fertilizers, works of art and special procedures were excluded.

4.9. In 2008, prior to the entry into force of this tariff reduction programme, the average tariff for industrial products was 10.4%. As of 1 January 2013, when the last stage of the programme was implemented, it was down to 4.3%. More than 60% of industrial products now have duty-free access, and the highest tariff for the products concerned was reduced from 50% to 20%.

4.10. In November 2012, there was an additional MFN tariff reduction involving 480 tariff items that had not been covered by the previous programme. Of these, 315 were agricultural products (including fisheries products) and 175 were chemical inputs, all classified under 37 chapters of the Mexican tariff.

4.11. With this additional measure, products such as poultry meat, fructose and potatoes, with tariffs exceeding 200%, will see their tariffs progressively reduced to 75% in 2017. As regards chemical products, a large number of which are currently subject to MFN tariffs of between 15% and 10%, the rates will be reduced to between 7% and 5% by 2017. Thus, the average MFN tariff will be reduced from 6.4% in 2012 to 5.1% in 2017.

4.12. It should be noted that both these programmes were implemented in an international context of strong protectionist pressures.

4.1.2 Trade facilitation

4.13. Since its last review, Mexico has implemented a variety of trade and customs facilitation measures aimed at making companies more competitive and facilitating their participation in international markets. The bulk of the changes began in 2008 with the Decree Granting Administrative Facilities for Customs and Foreign Trade Purposes. The main objectives of this Decree were to abolish various import requirements, streamline the procedures for obtaining certificates of origin, and computerize customs and foreign trade procedures, creating a single foreign trade window. It also includes a number of administrative simplification measures that have facilitated and speeded up customs clearance of goods.

4.1.2.1 Single window

4.14. The Decree Establishing the Mexico's Digital Window for Foreign Trade[5] was published on 14 January 2011. On 1 June 2012, the use of the single window became mandatory for government agencies, exporters, importers, carriers and customs auxiliaries. At least 40 documents, 165 formalities and 200 different data items were simplified.

4.15. Thanks to the Single Window it is possible, among other things, to meet all foreign trade requirements (permits, licences, authorizations, notices and certificates) by submitting the necessary information electronically, once only, through a single entity. This contributes to the paperless customs system and ensures the application of quality standards and best practices in the field. Users go through the process using an advanced electronic signature (AES), which replaces the written signature and enhances the security of the transactions.

4.16. As regards non-tariff regulations and restrictions, import and export requirements and regulations can now be consulted online, and there are plans for government-to-government and system-to-system electronic interchange of sanitary and phytosanitary certificates and other documents in order to speed up trade and ensure compliance with the different regulations.

4.1.2.2 New certified enterprise scheme

4.17. Since 2002, Mexico has had a "certified enterprises" programme under which authorized exporters or importers are given certain administrative facilities for the customs clearance of their goods.

[5] https://www.ventanillaunica.gob.mx.

4.18. December 2011 saw the launching of the New Certified Enterprises Scheme (NEEC), a programme which aims to enhance the security of the foreign trade logistics chain by implementing internationally recognized minimum security standards in cooperation with the private sector, and granting benefits to participating enterprises that comply with certain tax, customs and security obligations. These benefits help to further facilitate and streamline the goods exchange process, providing shipment with greater protection, and to speed up export and import formalities, thereby contributing to the competitiveness of enterprises.

4.19. Mexico adopted the World Customs Organization's SAFE Framework of Standards to Secure and Facilitate Global Trade on which this scheme is based.

4.1.2.3 Main projects to control and combat smuggling

4.1.2.3.1 Equipment and use of technology

4.20. In order to strengthen the control and detection of goods that have not been declared or whose access to the national territory is prohibited, Mexico continued to upgrade the equipment used by its customs authorities and to step up the training of customs officials in the conduct of rapid and efficient non-intrusive inspections using, for example, gamma ray, x-ray and radiation detection equipment.

4.21. Greater resources were earmarked for combatting crime through investment in technology and infrastructure for the intelligent use of information. Priority was given to improving risk analysis through segmentation of users based on risk and the type of goods, and strengthening all of the different regimes and their operational phases, using feedback from all of the customs analysis units.

4.1.2.3.2 Infrastructure projects and the modernization of customs services

4.22. As part of its 2007-2012 Customs Modernization Plan, Mexico launched a number of major projects to restructure various customs offices, enlarge the inspection areas in some of the bigger offices, and expand the existing customs infrastructure by building new installations. In 2011 and 2012, five new mutual administrative assistance agreements - with Italy, Chile, the Philippines, China and India - were added to those already concluded by the General Customs Administration (AGA). This has helped the customs authorities to strengthen security and make optimum use of information exchange arrangements, and to cooperate more closely with the customs authorities of other countries to promote safe foreign trade, combat customs fraud and improve the security of the foreign trade logistics chain.

4.1.2.4 Elimination of the country of origin certificate for non-preferential imports

4.23. Until the first quarter of 2008, the import declaration had to be accompanied by a country of origin certificate for the importation of goods subject to payment of a compensatory duty (*cuota compensatoria*). This requirement was eliminated in April 2008 with the publication of the Decree Granting Administrative Facilities for Customs and Foreign Trade Purposes.

4.1.3 Investment

4.24. Mexico considers the promotion and protection of foreign investment to be an important catalyst for development in that it has the potential to generate employment, increase savings and bring in foreign exchange as well as to stimulate competition, encourage the transfer of new technologies and promote exports. All of these elements have a positive impact on the country's productive and competitive environment.

4.25. Foreign investment is governed by the Foreign Investment Law and its Regulations which, within the limits imposed by the Constitution (Articles 27 and 73), also establishes requirements for foreigners with respect to ownership of land, water and other immoveable property and to the performance of certain economic activities in Mexico. At the bilateral level, foreign investment is also governed by the Reciprocal Investment Promotion and Protection Agreements (APPRIs) and by the chapters on investment negotiated in the framework of the FTAs concluded by Mexico.

4.26. During the review period, four new APPRIs entered into force - with India (2008), Slovokia (2009), China (2009), and Singapore (2011) - bringing the total number of APPRIs in force to 28. With the exception of Israel, all of the FTAs have a chapter or provision on investment, as do the FTA with Central America (2012) and the Trade Integration Agreement with Peru (2012).

4.27. Mexico has concluded 53 double taxation and tax evasion agreements, chiefly with a view to eliminating double taxation, which represents an excessive tax burden for residents of Mexico and residents of other countries that conduct business or financial transactions with each other. These excessive tax burdens are an obstacle to investment flows, and eliminating them brings legal certainty to the tax system applied to investments.

4.1.4 Services

4.28. The services sector is extremely important to the Mexican economy. It accounts for about 70% of GDP and employs approximately 60% of the labour force. Furthermore, over the past few years it has grown faster than the economy as a whole. The most dynamic sectors have been transport, tourism, telecommunications, and financial services.

4.29. As part of its policy aimed at improving the competitiveness of the Mexican economy, achieving sustained economic growth and speeding up job creation, Mexico has introduced a number of regulatory changes with a view to liberalizing the provision of services, protecting the consumer and establishing fair conditions of competition. The main sectors concerned by these regulatory changes were financial services, telecommunications and transport.

4.1.4.1 Financial services

4.30. A series of reforms were introduced to strengthen the role of the financial sector as a trigger for the country's economic growth and development. These include amendments to the Law on Credit Unions, which regulates the organization and operation of credit unions as well as the operations they can perform.

4.31. There was also a reallocation of responsibilities between the National Banking and Securities Commission and the Ministry of Finance and Public Credit; a more flexible approach was taken to the operations that can be performed by banks; a single procedure was introduced for imposing penalties; and measures were taken to ensure the imposition of judicial sanctions on persons that illegally obtained credit card data or committed fraud.

4.32. In 2009, the National Commission for the Protection and Defence of Financial Services Users (CONDUSEF) was given new responsibilities for transparency, handling complaints, and joint supervision, with the Federal Competition Commission, of the level of competition. Limits were also set on the operations that credit institutions were allowed to carry out through third parties, with the exception of third-party State entities.

4.33. As regards pension funds, the specialized pension fund investment companies (SIEFOREs) may invest in the following assets: instruments, foreign securities, variable income components, neutral investments, structures linked to underlying assets, goods and operations with derivatives, repos, and securities lending. In the case of goods, this may be done directly, through investment vehicles, or where appropriate, derivatives. In the case of foreign exchange, the investment may be direct or through derivatives. There has been gradual movement towards expanding the range of asset categories in which pension fund resources can be invested. Efforts have also been made to intensify financial penetration by bringing in new kinds of financial sector participants. It was in this context that niche banking and correspondent banking were introduced in 2008.

4.1.4.1.1 Banks

4.34. During the review period, a number of reforms were introduced to improve banking sector practices and promote competition. The Bank of Mexico introduced changes and reductions in the commissions paid by account holders for various transactions, which constitute one of the main sources of income for the Mexican banks. The Central Bank was also authorized to establish the formula, components and methodology for calculating the Total Annual Gain, to make it easy for those interested in placing an investment or savings to compare the returns on the various options available and thus choose the option that best suited their interest.

4.1.4.2 Telecommunications

4.35. The communications and transport sector, and especially telecommunications, has been very dynamic over the last decade in Mexico. Growth has stemmed primarily from the introduction of new technologies and services, as well as other factors such as lower prices for most of these services. In order to expand access to telecommunications services for an ever-larger number of Mexicans, reforms were carried out to boost competition among concession holders and thus increase service coverage in the country and bring down prices, modernize the regulatory framework and expand the technological infrastructure.

4.36. Private investment in telecommunications services totalled 24,739 million dollars over the period 2007-2012. In real terms, investment increased sharply as from 2010, after remaining stable for eight years. The upturn in investment over the period 2009-2010 was linked with the capital investment involved in network development for mobile operators to make use of the spectrum they acquired in the 20 and 21 Tenders.[6]

4.37. The volume and value of output of the telecommunications sector as a whole have grown steadily, while over the period 2006-2011 employment in the sector rose at an average annual rate of 4.7%.

4.38. Over the period 2007-2011, incomes in telecommunication services grew at an average annual rate of 6.8%, comparing favourably with the average annual inflation rate of 4.4%. Mobile telephony grew faster than the other telecommunications services, and over this period contributed 53.4% of total income in this sector.

4.1.4.2.1 Technological convergence and modernization

4.39. Convergence is a technological process enabling the provision of voice, data and video services through multiple technological platforms. This enhances efficiency in network use and also generates direct benefits for consumers by allowing a better supply of services at more affordable prices.

4.40. Promoting technological convergence means simplifying and reorganizing the various wired and non-wired networks. This was done over the period 2007-2012 through administrative simplification and the elaboration of various criteria in line with the current state of technology. Thus, the Federal Telecommunications Commission (COFETEL) prepared a study for the comprehensive planning of the spectrum for the next five years, with particular emphasis on third and fourth generation mobile services.

4.41. On the basis of these principles, COFETEL drew up a proposal relating to the official approval of the various existing concession titles, to ensure that the various telecommunication service providers delivering the same service have the same obligations, so that it will be possible to monitor compliance more efficiently. To this end, on 10 October 2011 COFETEL submitted a proposal to the Ministry of Communications and Transport for a model concession title for the installation, operation and exploitation of a public communications network.

4.42. A mutual recognition agreement between the Government of Mexico and the Government of the United States on conformity assessment of telecommunications equipment was published on 28 July 2011. Its main objective is to simplify conformity assessment for a wide range of telecommunications and related equipment and thus facilitate trade between the two countries.

4.1.4.2.2 Broadband services

4.43. The document "Actions to strengthen broadband and information and communication technologies" was published in early 2012, and publication of a National Broadband Plan that will

[6] Tender 20 included the frequencies 1850-1910/1930-1990 Mhz and Tender 21 included frequencies 1710-1755/2110-2155 Mhz.

identify infrastructures and modalities for tenders and concessions to ensure national coverage under conditions of healthy competition and improved quality and prices is pending.

4.44. Broadband service has grown rapidly: in 2006 there were about 3 million subscribers for the fixed broadband service and 3,000 subscribers for the mobile broadband service, as opposed to 13.1 and 9.7 million subscribers for the respective services in June 2012, representing a 7.6-fold increase in the total number.

4.1.4.2.3 Telephony

4.45. In 2007 COFETEL issued 11 rulings establishing the conditions for interconnection where these were not mutually agreed between public telecommunications network concession holders. In the case of mobile networks COFETEL ordered a gradual reduction in interconnection rates until 2010. In the case of fixed networks, COFETEL decided that there should be a reduction of about 18% in interconnection rates for terminating local calls in the fixed network of Teléfonos de México S.A.B. de C.V. (Telmex), as well as a reduction in local traffic rates charged by Telmex to other concession holders of about 40%. These rates had remained unchanged since 2002, as the concession holders had not complained about them to COFETEL.

4.46. In 2008 COFETEL for the first time established the requirement of network hierarchy interconnection, whereby Telmex should provide calls in local service areas where it is the only service provider. Interconnection charges of US$0.80 and US$1.05 were set, representing a reduction of about 85%.

4.47. In 2009, COFETEL issued ten rulings on interconnection conditions not agreed among public telecommunications networks concession holders. It pursued the gradual reduction in interconnection rates for terminating calls for mobile network applicable until 2010 under both the local and the national "caller pays" modalities.

4.48. In 2010 COFETEL issued eight rulings establishing interconnection conditions not agreed among concessionaires, pursuing the rate-cutting for interconnection at the various hierarchical levels of the Telmex public telecommunications networks and thus allowing a price reduction of about 85%.

4.49. In 2011 there was the biggest reduction in mobile, fixed and resale interconnection charges since 2006. The interconnection rate was set at Mex$0.03951 pesos for mobile networks and Mex$0.03951 pesos for fixed networks, with interconnection charges on a hierarchical basis: for level 1 interconnection, Mex$0.03951 pesos, for level 2, Mex$0.04530 pesos, and for level 1 transit, Mex$0.01904 pesos.

4.50. In the first half of 2012 COFETEL issued five rulings on interconnection conditions not agreed among public telecommunications network concessionaires. It is envisaged that once the COFETEL Plenary approves the cost models that have been drawn up in accordance with the cost model guidelines and submitted to public consultation, it will establish the rates for 2012 in its rulings concerning interconnection disputes.

4.51. In the second quarter of 2012 the COFETEL Plenary established specific obligations concerning rates, service quality and information for public telecommunications network concession holders possessing substantial market power in the wholesale markets for leased dedicated local links, leased dedicated national long-distance links, leased international long-distance dedicated links and leased dedicated interconnection links.

4.52. On 14 March 2012 the COFETEL Plenary issued a ruling identifying the mobile local service concession holders possessing substantial power in the mobile terminal market (case RA-029-2011).

4.53. COFETEL recently completed a draft ruling for the imposition of specific obligations for operators having substantial power in the mobile services retail market. This project could shortly lead to the establishment of asymmetric regulation for dominant telecommunications firms in the provision of retail services (end-user services) for mobile telephony, message services and data services.

4.54. It is estimated that from December 2006 to end 2012 the fibre optic cabling will have increased by 102.1 thousand kilometres, an average annual growth of 8.9%.

4.1.4.2.4 Free-to-air television

4.55. The Federal Telecommunications Commission announced that it had adopted the Programme for the granting of concessions of broadcasting frequencies for television services, under which the first public tender for free-to-air television broadcasting in the history of Mexico will be held. The programme includes the necessary frequencies for two 6MHz broadcasting channels to operate by means of digital terrestrial television, with a potential coverage reaching 93% of the population. The aim is to promote competition and encourage content diversity.

4.56. In May 2012 the policy for the adoption of digital terrestrial television was officially modified. Among other things, a new timetable was established for the phasing out of analogue broadcasting, running from 16 April 2013 to 26 November 2015; this is conditional upon a penetration of at least 90% of households whose service depends on free-to-air television by digital terrestrial television.

4.57. Also as part of this switch-over strategy a timetable was established for turning off analogue broadcasting, staggered city by city, beginning with Tijuana, Baja California, on 16 April 2013. In addition, on 26 November 2012, COFETEL awarded a private company a contract to carry out a comprehensive programme of visits to all households in Tijuana to determine which users will receive a 100%-free decoder antenna. This programme of visits to the approximately 430 thousand Tijuana households began on 11 December 2012.

4.1.4.2.5 Subscription Television (Pay TV)

4.58. The total number of subscribers increased at an annual average rate of 12.3% over the period 2007-2012. In terms of services, cable television grew by 6.3% annually, satellite television by 29.3% annually and microwave multipoint distribution (MMDS) fell by 26.1% annually. The decline in the microwave TV service stemmed from price and content promotional offers by the other Pay TV services.

4.1.4.2.6 Value-added services

4.59. Estimated preliminary figures indicate that over the period 2007-2012 Internet access subscriptions grew at an average annual rate of 32.1%, representing a rise of 20.7 million in the number of subscriptions.

4.60. The Ministry of Communications and Transport (SCT) and the Federal Telecommunications commission (COFETEL) recently endorsed the establishment of an Internet Exchange Point (IXP) in Mexico, as a commitment included in the Decalogue and document "Actions to strengthen broadband and information and communication technologies". At the end of November 2012, the SCT, together with COFETEL and CFE, witnessed the constitution of the Civil Association that will be responsible for the first IXP on Mexican territory, and signed with it a cooperation agreement to support its activities.

4.61. Following the amendment of the Federal Telecommunications Law in 2006, permits are no longer required for the installation and provision of special telecommunications services, such as value-added services, nor are there any nationality restrictions. The sole requirement is registration with the Ministry of Communications and Transport.

4.1.4.2.7 Number portability

4.62. A major step forward in telecommunications was number portability, officially established in July 2008, which allows users to change their fixed or mobile telephony operator without losing their telephone number. On 30 September 2012 over 6.6 million numbers had been carried over, of which 80.2% concerned prepaid mobile telephony, 2.6% postpaid mobile telephony and 17.2% fixed telephony.

4.1.4.3 Air transport

4.63. Following the liberalization of the Mexican domestic air market, which included some privatizations, competition increased considerably in this sector. Aeroméxico and Mexicana de Aviación, grouped in the corporate structure Grupo Cintra, accounted for 77% of the Mexican passenger transport market in 2000. After Mexicana de Aviación suspended its activities, in 2012 market shares were as follows: Aeroméxico held 43.7%, followed by the low-cost airlines Interjet (21.1%) and Volaris (20.6%). Three other companies shared the remaining 15%.

4.2 Intellectual property

4.64. Mexico has a solid legal and institutional system in the field of intellectual property. During the period under review significant progress continued to be made with regard to the protection of intellectual property rights through amendments to the Federal Criminal Code, the Industrial Property Law and the Federal Copyright Law, in order to bring domestic legislation into line with international rules; these were notified to the WTO, as was the conclusion of various international undertakings.

4.65. On 15 December 2011, the Senate ratified the Nagoya Protocol to the Convention on Biological Diversity, which is aimed at fair and equitable sharing of benefits arising from the utilization of genetic resources, and in particular appropriate access to such resources and appropriate transfer of relevant technologies, taking into account all rights over such resources and technologies. This will contribute, given appropriate financing, to the conservation of biological diversity and sustainable use of its components.

4.66. In September 2012 the Mexican Industrial Property Institute (IMPI) implemented a system for registering marks online, which offers a modern, convenient and sure means for users to fill in, pay for and submit applications for trademarks, collective marks, trade names and slogans from any location without having to go to their bank or to the Institute.

4.67. The purpose of this measure is to reduce by as much as 90% the mistakes users make in filling in an application for a mark, collective mark, trade name or slogan; streamline the procedures relating to formal corrections or amendments, reducing the cost to users arising from dealing with such formalities; and ensuring that applications are not submitted in incomplete form, for lack of documentation, proper payment or other defects.

4.68. In October 2011 the Federal Tribunal of Fiscal and Administrative Justice created an intellectual property chamber based in the Federal District, with specific jurisdiction over disputes throughout the national territory. Previously, any chamber of the tribunal could hear intellectual property disputes. The judges of this new chamber now deal exclusively with cases relating to intellectual property and plant varieties.

4.69. At the international level, Mexico signed *ad referendum* the Anti-Counterfeiting Trade Agreement (ACTA) in July 2012 for the purpose of fighting more efficiently the problem of fraud and piracy relating to trademarks, inventions and intellectual and artistic works. This international instrument needs to be approved by the Senate.

4.70. Mexico also acceded to the Madrid Protocol for the International Registration of Marks (Madrid System), which offers mark holders an affordable, simplified and user-friendly mechanism for the protection and management of their portfolio of marks at the international level. The instrument of accession was deposited with the World Intellectual Property Organization (WIPO) on 19 November 2012.

4.71. Since 2008, coordinated efforts by the federal authorities and the private sector in the framework of the National Anti-Piracy Decision have given an unprecedented boost to the war on piracy in the Mexican customs. Over 117 million articles have been seized since that date.

4.72. This led the World Customs Organization to present Mexico with the 2010 "Yolanda Benítez" award for results obtained during 2009 in this field. Mexico also had eight of its customs officials accredited as intellectual property rights experts, whose expertise and skills help to detect shipments that are presumed to infringe intellectual property rights.

4.73. During the period 2008 to 2012, with the support of national and international authorities, international organizations, chambers, associations and trademark holders and proxy representatives, 2912 customs officials have been trained with a view to capacity building for rapid and reliable detection of counterfeit goods. Coordination with trademark holders and proxy representatives has also furnished customs personnel with resources, such as magnifying glasses, hologram readers, ultraviolet light, and computer programs, for the identification of original products of specific trademarks.

4.74. In January 2012 the Tax Administration Service (SAT), through the General Customs Administration (AGA), launched the trademark database with the aim of detecting possible intellectual property irregularities in the country's customs. Aimed at the protection of intellectual property rights at the entry points into the country, this resource for the identification of products and trademarks is flexible, simple, cost-free, voluntary and user-friendly. The database contained 3,621 marks and 4,337 registrations in October 2012.

4.3 Competition policy

4.75. Economic competition, monopolies and free competition are governed by Article 28 of the Political Constitution and the Federal Law on Economic Competition (LFCE) and its Regulations. This legal framework is supplemented by the relevant provisions of most FTAs signed by Mexico and other international agreements.

4.76. During the review period, the LFCE was amended three times. The most important amendment took place in April 2011, with the aim of bringing it into line with international best practice. These amendments may be grouped under three headings:

- Strengthening of competition policy, by means of stiffer monetary and criminal penalties. The CFC is also empowered to impose precautionary measures on enterprises where irreversible harm to free competition might occur.

- Simplification of implementation of the LFCE. New features included oral hearings, non-litigious resolutions and the publication of technical criteria by the CFE with regard to the relevant market, and other measures as necessary for implementation of the LFCE.

- Strengthening of the operation of the CFC. The role of the CFC as a collegiate body was strengthened, by boosting the independence of the executive secretariat and establishing a clear separation of functions between it and the Plenary.

4.77. Since the previous review, the CFC has signed three bilateral cooperation agreements for technical assistance with Russia (2011), Ecuador (2011) and Nicaragua (2011), bringing the total number of such agreements to 11.

5 CONCLUSIONS

5.1. Our country has been one of the most active participants in the Doha Round negotiations and one of the main promoters of solutions to break the current deadlock. Mexico considers that bringing the Round to a successful conclusion will help reduce barriers to trade, expand opportunities for developing countries and strengthen the multilateral trading system. Accordingly, besides contributing to the negotiations through concrete proposals and activities, Mexico has fostered its objectives through an ambitious agenda of unilateral reforms applied on a most-favoured-nation basis.

5.2. The period covered by this review was marked by a sharp slow-down in global demand and hence in world exports of goods and services. Mexico was not spared the effects of the worst economic crisis of recent decades. However, its sound economic fundamentals and appropriate implementation of financial, monetary and countercyclical policies enabled its economy to perform more favourably. Nevertheless, there are still latent risks of a fresh global economic crisis and therefore a need to continue strengthening economic and trade instruments to minimize its impact.

5.3. Mexico has succeeded in enhancing the competitiveness of its export sector and gaining a better insertion in world production chains. This would not have been possible without the reduction achieved in the price of inputs, by significantly eliminating or reducing tariffs and other import and export restrictions on goods and services, including by means of significant improvements in sanitary and phytosanitary regulations and restrictions, as well as by introducing various internal measures to facilitate trade and doing business in the country.

5.4. At a time when transparency and accountability are a fundamental issue for public policy and there is also a worldwide concern to ensure that global economic activities are compatible with environmental policies, Mexico has established a wide range of robust and clear public policies and reforms. These have sought to link foreign trade activities with international instruments for the protection of the environment, management and conservation of natural resources, and forecasting of human health impacts, while at the same time promoting the competitiveness on green markets of the various operators involved in global trade.

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