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The EU-Mexico Free Trade Agreement Seven Years On

A warning to the global South

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1. INTRODUCTION

When the “Global Agreement” between the European Union (EU) and Mexico came into force in 2000, Pascal Lamy, who was then EU trade commissioner and is now director general of the World Trade Organisation (WTO), touted the treaty’s significance for the future of Europe’s trade strategy. Lamy proudly called the agreement with Mexico “the first, the fastest and best.”¹ This was the first trans-Atlantic FTA signed by the EU, and it set the terms of negotiation for future trade agreements in the continent and in the world. The fact that it was completed in just a year demonstrates that it was negotiated hurriedly. There was no meaningful consultation with Mexican or European civil society organisations, and too little scrutiny from the Mexican Congress which, except for a minority that voted against it, did not even take the time to read it. Finally, Lamy called it “the best,” because the EU won 95 per cent deregulation for goods and services, as well as NAFTA parity with the inclusion of provisions in areas such as investment, public procurement, trade facilities and rules for competition. It went even farther than the WTO by including the Singapore issues.

After signing the Global Agreement with Mexico, the EU continued to promote free trade agreements and Investment Promotion and Protection Agreements (IPPAs) with other countries and regions in Latin America. Two years after the Mexican treaty, the EU signed a similar agreement with Chile, and it is pursuing, so far unsuccessfully, an agreement with Mercosur. It also continues to pressure the Caribbean countries to sign Economic Partnership Agreements (EPAs). The EU sought to set itself apart from the United States in negotiations by claiming that the agreements not only covered trade, but also promoted “regional development” in Latin America by including provisions related to cooperation and political dialogue. This is contradicted, however, by the EU’s motives for signing the agreements, especially: a) countering US influence in Latin America and avoiding displacement from Latin American markets, in the face of bilateral agreements being signed by the United States with Latin American countries, as well as the North American Free Trade Agreement (NAFTA), the possible Free Trade Agreement of the Americas (FTAA), etc.; b) speeding up widespread liberalisation of Latin American markets in terms of trade and investment; and c) ensuring benefits for trade and investment in areas that were blocked at the multilateral level in the WTO, such as the “Singapore issues” (investments, competition, transparency in public contracting and trade facilities).

A significant change in strategy for EU trade policy came in 2006, with repercussions

not only for Latin America, but also for other countries and regions of the world. With the collapse of the WTO Doha Round negotiations in July 2006, the United States' progress in signing bilateral trade and investment agreements, and persistent lobbying by transnational corporations, the European Union issued a strategy paper in October 2006 entitled, "Global Europe: Competing in the World," which set new goals for foreign trade policy.² This document directly promotes complete deregulation of markets for the benefit of large European corporations. Within this strategy, the main mechanism for achieving the EU's goals is the signing of Free Trade Agreements (FTAs) with the countries and regions that have the most attractive markets. In the strategy paper, the EU moves away from the rhetoric that previously accompanied its trade negotiations, presenting its interests and priorities directly for the first time. This change in language and the more aggressive nature of the new strategy are clearly reflected in the strategy paper when it says of free trade agreements, "In terms of content new competitiveness-driven FTAs would need to be comprehensive and ambitious in coverage, aiming at the highest possible degree of trade liberalisation including far-reaching liberalisation of services and investment. A new, ambitious model EU investment agreement should be developed in close coordination with Member States."

Other EU priorities mentioned in the paper include reducing non-tariff barriers for EU exports and investments; increasing access to raw materials; guaranteeing energy supplies by expanding trade in third countries' energy sectors; reinforcing the presence of EU corporations in emerging markets; opening up public procurement markets; improving implementation of anti-dumping mechanisms; and implementing intellectual property rights.³

Following the goals and priorities of this new strategy, the EU began negotiating free trade agreements with the Andean Community of Nations and Central America in Latin America, as well as South Korea, India and the Association of Southeast Asian Nations (ASEAN) in Asia. In accordance with the goals of the new strategy, all of these negotiations seek the greatest possible deregulation of the economies of the developing countries to facilitate penetration by European capital through chapters on trade in goods and services, investments, public procurement and rules for competition, seeking total reciprocity in the shortest possible time. In this sense, the EU increasingly resembles the United States in its aggressive trade policy and is setting aside its social and democratic ideals.

In this context, an analysis of the impacts of the EU-Mexico Global Agreement on Mexico's economy and society is crucial for anticipating the implications of similar agreements being pursued by the EU with other developing countries and regions. This study examines some of the lessons learned in the seven years since the EU-Mexico Free Trade Agreement went into force. That treaty includes many of the provisions that the EU is currently working to incorporate into agreements being

negotiated with Central America, the Andean Community of Nations, the Association of Southeast Asian Nations, South Korea and India. This paper will also consider some of the impacts observed in the wake of the signing of the free trade agreement between the EU and Chile.

As this study shows, the EU-Mexico FTA and the IPPA between Mexico and the EU not only have had serious economic and social impacts, but they have also left the Mexican state unable to implement policies to promote local small and medium-size enterprises. The Mexican finance sector, in particular, has been left to the mercy of EU and US capital, failing in its role of providing credit for production. In industry, the EU is increasingly gaining a foothold in sectors that are strategic for the country's future, justifying this with rhetoric promoting development and cooperation. In agriculture, on 1 January 2008, the Mexican countryside will be completely open to trade with the EU, as it is with NAFTA, leaving millions of small farmers and their families even less protected. Forced to compete with large, highly subsidized transnationals, they will have no choice but to continue migrating to cities and, eventually, to the United States.⁴

The main premise of this study is that reciprocal free trade agreements and investment promotion and protection agreements between countries that are highly unequal benefit only a handful of transnational corporations that are able to compete in international markets. They also have a negative effect on the ability of states to foster national and local economic development and to promote and protect human rights. In this regard, although they are accompanied by cooperation or political dialogue agreements, the FTAs that the EU is negotiating with developing countries are no different from those signed by the United States.

2. THE GLOBAL ACCORD BETWEEN MEXICO AND THE EUROPEAN UNION

The Economic Partnership, Political Coordination and Cooperation Agreement, between Mexico and the European Union, better known as the “Global Agreement,” entered into force in 2000. The main part of the accord is the European Union-Mexico Free Trade Agreement (EU-Mexico FTA). For Mexico, it is the second most important such treaty after the North American Free Trade Agreement (NAFTA). The Mexican government announced that the accord would offer the opportunity to diversify “our” exports and attract investment in production so as to create jobs. In the European Union (EU), it was highly touted because of the speed with which it was negotiated, its breadth (it is based on NAFTA and goes beyond the World Trade Organisation (WTO) by including the Singapore issues, investments, public procurement, trade facilities and rules for competition), and for being the best the EU had signed so far with a third country, making it a model for EU trade agreements with other countries.

Before signing the agreement, the EU had been gradually losing ground in Mexico, which had once been its largest Latin American market.⁵ It sought to regain its leading position as Mexico’s second most important trade partner after the NAFTA area.

WHO BENEFITS FROM THE EU-MEXICO FTA?

The EU-Mexico FTA has not benefited Mexico the way negotiators on both sides had promised. The chapters on cooperation and political dialogue have turned out to be mere accessories to the agreement. Those seeking to legitimate the agreement argue that these chapters provide opportunities for cooperation for development. Economically, however, Mexico suffers from a growing trade deficit, high concentration of investment, lack of job creation and denationalisation of companies. The question, then, is who has benefited from the signing of the accord?

Mexico’s growing trade deficit

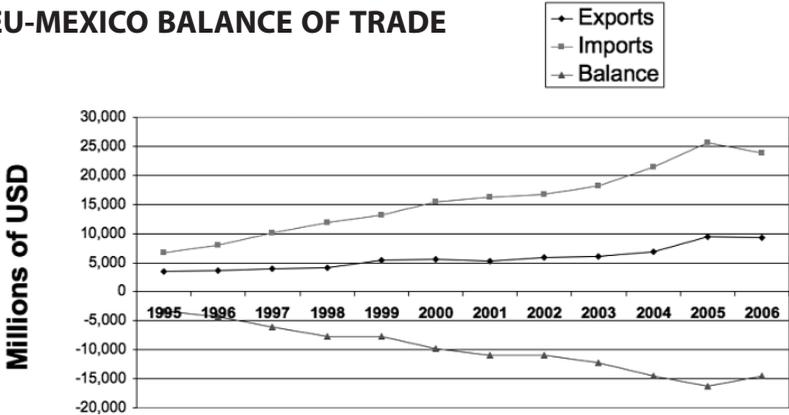
Although about 85 per cent of Mexico’s foreign trade is with the United States, the signing of the accord represented several advantages for the EU, allowing the EU to establish a platform for European companies seeking to assemble for or export to the North American market and keeping those companies from being displaced from the Mexican market. It also provided privileged access to resources, infrastructure and cheap labour to solidify the position of European transnationals in Latin

America's emerging markets. For Mexico, the signing of the accord responded to the orthodox view that only free trade could make the economy and business more competitive by providing access to higher-quality goods at lower prices, thereby improve the population's standard of living.

Since the EU-Mexico FTA has been in effect (2000-2006), Mexico's trade deficit with the EU has risen from US\$9.4 billion to US\$16.9 billion, an increase of 79.6 per cent (see Table 1). According to the Ministry of the Economy, nearly 90 per cent of Mexican imports are intermediate goods that are not produced in Mexico. This indicates a structural weakness in the economy that has not been corrected despite the free trade agreements: there is a need to import more and more in order to export, but the goods have less and less domestically produced content, which inhibits the development of domestic small and medium-size industry, as the National Association of Transformation Industries (*Asociación Nacional de Industrias de la Transformación*, ANIT) warned on various occasions. Mexican exports remain concentrated in three types of products: petroleum, vehicles and machinery. For that reason, when negotiation of the EU-Mexico FTA began, the Mexican Network for Action against Free Trade (*Red Mexicana de Acción contra el Libre Comercio*, RMALC) proposed that negotiations include rules of origin that would benefit domestic producers, something that was not done with NAFTA.

In the case of Mexican imports from the EU, 59 per cent are intermediate goods, 21 per cent are capital goods and 19.8 per cent are consumer goods.⁶ In fact, much of Mexico's trade with the EU involves intra-corporate trade, in which companies import goods that are assembled in the country and then exported by the same companies either to their own markets or to the United States.

EU-MEXICO BALANCE OF TRADE



Trade Balance EU – Mexico 2000-2006

Millions of USD

Year	Exports	Imports	Balance
2000	5,593	15,033	-9,439
2001	5,351	16,314	-10,963
2002	5,528	16,628	-11,100
2003	6,121	18,005	-11,884
2004	6,706	20,908	-14,203
2005	9,009	25,008	-16,000
2006	10,890	27,847	-16,957
Change %	94.7	85.2	79.6

Source: National Institute of Statistics, Geography and Information Technology

This confirms that the EU-Mexico FTA has mainly helped European companies by lowering their production costs and enabling them to use Mexico as a platform for shipping goods to markets that have greater purchasing power, as well as higher-income markets in Mexico (particularly luxury vehicles).

Highly concentrated foreign investment

There is obvious concentration of foreign direct investment (FDI); about 65 per cent comes from the United States and another 20 per cent from the European Union. Between 1999 and 2006, just four European countries represented 90 per cent of FDI in Mexico: Spain with 37.4 per cent, Holland with 35.6 per cent, the United Kingdom with 10.2 per cent, and Germany with 6.8 per cent. Three-quarters of FDI was concentrated in manufacturing (49.5 per cent) and financial services (24.7 per cent).

Because the EU-Mexico FTA did not allow requirements related to factors such as geographic location of companies or orientation toward specific sectors, it has not served as a tool for diversifying investment and thus contradicts the argument that FDI would spur greater regional development. On the contrary, it has reinforced the tendency toward concentration, limiting the benefits of trade to a handful of winners. European FDI is concentrated in only five of Mexico's 32 states (including the Mexico City Federal District), which represented 91.5 per cent of European investment during the period: 58.1 per cent in the Mexico City Federal District, 14.5 per cent in the state of Mexico, 12 per cent in Nuevo León, 3.6 per cent in Jalisco and 3.2 per cent in Puebla.

FDI Targets in México:

Federal District:	58.1%
Edomex:	14.5%
Nuevo León:	12.0%
Jalisco:	3.2%
Other:	12.2%



Origin of European FDI:

Spain:	37.4%
Holland:	35.6%
United Kingdom:	10.2%
Germany:	6.8%
Other:	10.0%

Instead of real poles of development, Mexico has seen the creation of enclave economies that are disconnected from the regional economy. European companies preferred to invest in states that already had the infrastructure and natural and human resources necessary to maximise their profits, as well as tax incentives offered by state governments that ultimately aggravate regional imbalances. This concentration spurs competition to attract companies by offering them better start-up conditions. Increased investment does not necessarily guarantee more jobs, however, because in many cases the companies simply purchase existing assets.

Along with the EU-Mexico FTA, European companies took steps to ensure the best conditions for protecting their profits by signing Investment Promotion and Protection Agreements (known as IPPAs, or by their Spanish acronym, APPRIs). Mexico has negotiated 23 such agreements, 16 of them with European countries: Germany (2001), Austria (2001), Denmark (2000), Spain (1996), Finland (2000), France (2000), Greece (2002), Iceland (2006), Italy (2002), the Netherlands (1999), Portugal (2000), the United Kingdom (pending), the Czech Republic (2004), Sweden (2001), Switzerland (1996) and the Belgium-Luxembourg Union (2003). The APPRIs between Mexico and the EU stemmed from Article 15 of the Global Accord, which said the parties would sign them,⁸ and are based on Chapter 11 of NAFTA⁹ or on the main clauses of the ill-fated Multilateral Agreement on Investment (MAI). If there is no single chapter on investments in the EU-Mexico FTA, it is because the European countries still reserve the right to negotiate APPRIs on the terms most beneficial to them in areas such as the free movement of capital and mechanisms for resolving disputes.

The effects of European investment, however, are not limited to the distortions they may cause in regions or sectors. The signing of the EU-Mexico FTA and APPRI has enabled various transnationals to take over considerable portions of the market in sectors that are strategic for the country's development. Tailor-made regulation (national treatment, prohibiting performance requirements, free flow of capital, etc.) and various anti-competitive practices — which would be illegal in their home countries — have brought them huge profits, to the detriment of market chains, consumers and workers.

The financial sector: high costs + poor services = big profits

Mexico's financial sector, especially banking, is an emblematic case of how the acquisition of companies by large transnationals created a highly concentrated and therefore less competitive market. While a well-regulated banking sector plays a significant role in resource allocation and development, in Mexico the oligopoly headed by a few banks — three of them European (BBVA, Santander and HSBC) — has slowed growth and been a source of consumer abuse.

Most banks were privatised in the early 1990s, but at that time no single person was allowed to hold more than 10 per cent of shares in a single institution and foreigners were limited to a maximum of 30 per cent in a commercial bank. With the signing of the NAFTA, the limit was set at a maximum of 8 per cent of shares in the entire banking system, with a deregulation timeline of six years. After the 1995 economic crisis, however, the need to capitalise the banks and the spectre of a system-wide crisis — caused by the banks themselves and the lack of regulation — led authorities to gradually reduce regulations related to control of Mexican banks. In 1999, all restrictions were lifted on shareholding in banks belonging to countries with which Mexico had free trade agreements,¹⁰ paving the way for the concentration of financial activity through ownership of multiple banks, which meant control not only of banks, but also of other financial institutions, such as pension fund management firms (*Administradoras de Fondos del Retiro*, AFORES), factorage firms, stockbrokers and insurance brokers, etc. As a result, the four largest banks are now part of transnational financial groups: BBVA-Bancomer (Spain), Banamex-Citigroup (United States), Santander-Serfin (Spain) and HSBC (United Kingdom).

According to Standard & Poor's, Mexico's banking sector is highly concentrated, which explains why commissions are high and interest rates are slow to drop. The system's four largest banks account for 78 per cent of consumer credit and 74 per cent of mortgages. As a result, "The banks and stockbrokers not only charge the highest commissions in the international arena, but (the country's) development is far from that of economies such as those of Chile or Argentina, which are smaller than that of Mexico, which limits the supply of products to domestic companies and investors."¹¹

Despite this concentration, the banking system's total assets represented barely 35 per cent of GDP in 2005, half the historic high of 70 per cent in 1994. This is low even in comparison with other emerging economies.¹² Private sector credit amounts to 14 per cent of GDP, while the average is 28 per cent for Latin America and 84 per cent for developed countries. Mexico's rate is lower than Africa's financial depth index, which ranges from 20 per cent to 29 per cent.¹³

How have banks become so profitable in a relatively small domestic market? Contrary to the promises that acquisition by large international financial groups would increase the system's efficiency, their strategy has been to take advantage of the lack of government regulation, focusing on the activities with the highest profit margins and reducing lending for production. The large profit margins have mainly been based on three mechanisms: government transfers from the bank bailout program (the Bank Fund for Savings Protection); large margins for financial intermediaries; and the uncontrolled increase in commissions for various services. In 2006 alone, bank profits totalled 66.7 billion pesos (approximately US\$6 billion), an increase of 33.65 per cent over the previous year. The four banks mentioned above, along with Scotiabank (Canada) and Banorte (Mexico), accounted for 92.4 per cent of profits, nearly 61.7 billion pesos,¹⁴ equivalent to US\$5.6 billion.

Margins for acting as financial intermediaries are also significant. According to the National Commission for Protection and Defence of Users of Financial Services (*Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros*, Condusef), "Particularly noteworthy are the broad margins in the area of consumer credit, where rates are slightly more than 38 per cent, while the average capture cost was about 4.72 per cent at the end of the year."¹⁵ ... "From another standpoint, it can be noted, for example, that in the past five years [2000-2005] the amount disbursed by banks to cover interest on customers' savings decreased by nearly 41 per cent in real terms."¹⁶

Condusef indicates that between 2000 and 2005, the annual increase in bank revenues from commissions was 19 per cent for BBVA Bancomer, 30 per cent for Santander and 28 per cent for HSBC. Income from net commissions is currently the banks' second-largest source of revenue, after lending margins. Between 1998 and 2005, the major banks saw a scandalous increase in their income from commissions and net rates: 217 per cent for HSBC, 214 per cent for BBVA Bancomer, 171 per cent for Banamex and 158 per cent for Santander Serfin. The European banks have the highest ratio of commissions to total revenue: 38.5 per cent for Santander-Serfin, 36 per cent for BBVA-Bancomer, and 35.7 per cent for HSBC; together, they represent 51.8 per cent of the entire banking system's commission revenues.¹⁷ The three European banks account for more than 50 per cent of the total in the Mexican banking system and had gross revenues of about US\$12.5 billion in 2005 alone.

Individually, Bancomer, which is owned by Spain's Banco Bilbao Vizcaya Argentaria (BBVA) consortium, is an emblematic case. In the first half of 2006, it had profits of 10.57 billion pesos, equivalent to 729 million euros, more than the group's profits in Spain and Portugal. While in Spain its profits grew by an annual rate of 11 per cent, in Mexican growth was 90 per cent. As with other banks, these profits came mainly from consumer credit, not loans for production. The Mexican subsidiary contributed 33 per cent of the transnational's total profits for that half of the year.¹⁸ Not by chance did the International Monetary Fund warn that Mexico has lost control of ownership of its banking system faster than any other country, putting it at risk of "contagion." In other words, Mexico is at high risk of suffering from any problems that might occur in its banks' home countries.¹⁹

Banking practices in Mexico

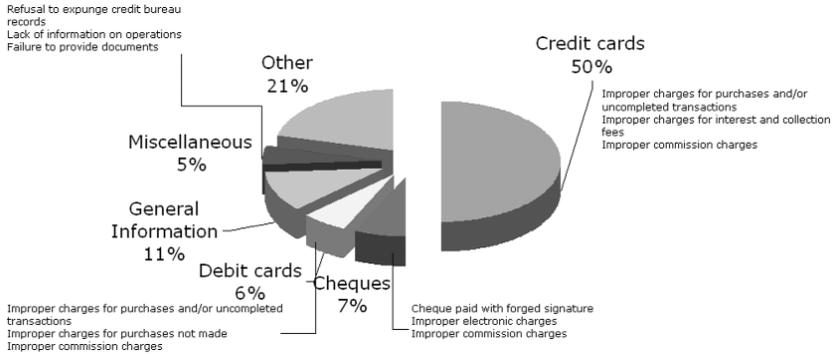
The impact of concentration in banking translates into both macroeconomic distortions and a series of abuses of the users of banking services. The most common practices include:

Tolerance of and irresponsibility in dealing with constant reports of electronic fraud. An analysis by the financial daily *El Financiero* indicates that as this type of crime increases, "account holders accuse the banking institutions of protecting cyber thieves and taking advantage of interpretations of the law in their favour to cover up cyber theft from bank accounts. ... Not only have banks not provided assistance to investigate and catch cyber thieves, but they also refuse to take responsibility for making good the fraudulent withdrawals." In addition, "when asked for information about the owners of accounts to which the money was illegally transferred, they refuse to provide it, even to authorities."²⁰

Unilateral decisions detrimental to account holders. Banks commonly make decisions without consulting their customers and without their customers' authorisation. One serious case is that of Bancomer, which is part of the Banco Bilbao Vizcaya Argentaria (BBVA) group, which made a unilateral decision in 2005 to cancel nine accounts belonging to the organisation Enlace Civil, A.C., headquartered in Chiapas. The decision was made with no prior warning or full justification and resulted in a delay in the disbursement of funds for various projects in indigenous communities with Zapatista influence.²¹

Abuses in the charging of various types of commission. The 2006 CONDUSEF report shows a steady increase in requests for assistance in matters concerning financial institutions, of which 62 were cases involving banks and other lending institutions, with 16,282 complaints, followed by insurance companies and pension funds²², which are controlled by the financial institutions. In multiple banking, most complaints involved inappropriate charges, refusal to expunge credit bureau records and lack of information regarding operations.²³

Claims to CONDUSEF



Source: National Commission for the Protection and Defence of Users of Financial Services (*Comisión Nacional para la Protección y Defensa de los Usuarios de los Servicios Financieros, Condusef*)

European companies in the electricity sector

Two chapters of NAFTA allowed foreign companies to acquire shares in the domestic electricity industry; like many other clauses, they automatically become part of the EU-Mexico FTA (“NAFTA parity”). Chapter VI establishes that a company from either party can establish, acquire or operate plants to generate or co-generate electricity to meet its needs. Independent electricity generation is also allowed, as are contracts involving the Federal Electricity Commission (*Comisión Federal de Electricidad, CFE*), independent electricity producers and electric companies from the other parties for cross-border sale of electricity. Chapter X establishes the government entities that can purchase goods and services from foreign providers; among them, CFE stands out for the volume of business.²⁴

Participation by European companies — such as Spain’s Unión FENOSA and Iberdrola or Electricité de France — in Mexico’s electricity sector has become a profitable business, yielding significant dividends that have increased the companies’ overall profits despite the illegality of so-called multiple service contracts according to the Mexican Constitution, under which the European companies invest.

For Iberdrola, in 2006 the Mexico-Guatemala region represented the largest chunk of sales in Latin America, with 58.5 per cent. At the close of the year, gross profits were 273.4 million euros. The company currently has six combined cycle plants in Mexico, with a capacity of 3,815 megawatts (Mw), more than 8 per cent of Mexico’s

total energy production. The company is also building the largest plant planned so far in the country, which is due to go on line in 2007.²⁵

Electricité de France is currently the second-largest private electricity producer in Mexico, with five combined cycle plants with a capacity of 2,300 Mw; nevertheless, this represents a scant 1.5 per cent of its worldwide capacity of 154,000 Mw. While the company recently announced its intention to withdraw from Mexico, that is not because the Mexican market is not profitable, but because it plans to focus on Europe and nearby areas where there is more freedom for users to choose their supplier. Company financial reports indicate that its Mexican operations yielded revenues of some 362 million euros in the first half of 2006 alone. Its Mexican assets are worth about US\$1.4 billion, but its most attractive features are the contracts to supply CFE for 25 years, some of which expire after 2030 and could be put up for sale to its main competitors, including Iberdrola and Unión FENOSA, or its partner, the Japanese company Mitsubishi.²⁶

Meanwhile, Unión FENOSA's short-term goal is to become the country's second-largest private energy producer if it wins four bids from CFE and arranges to buy the five thermoelectric plants that Electricité de France put up for sale. It currently has three combined cycle plants with a capacity of 1,550 Mw and contracts with CFE for 25 years. The company's Mexican operations represent 25 per cent of its global revenues, but that proportion could increase to 35 per cent to 40 per cent if it wins those bids.²⁷

Wind energy projects: doing private business with common goods

European companies' participation in the electricity sector is not limited to traditional generation. The companies are also entering the renewable energy field, especially with wind energy projects, which they consider a promising business.

Companies can enter the field as external producers or for self supply. In the former case, the Federal Electricity Commission (*Comisión Federal de Electricidad*, CFE) contracts the construction and operation of a wind farm with the commitment, through long-term contracts, to acquire the energy that is generated, but with a price subsidy because the cost is higher than that of conventional energy. In the case of self supply, a company generates electricity for exclusive consumption by one of its partners and does not require a subsidy.²⁸

While it is important to promote clean and renewable sources of energy, the possibility of long-term contracts and tax incentives attracted European companies such as DF (France), Endesa, Iberdrola, Unión FENOSA and Eoliatec (Spain) to enter into private business contracts based on backwardness and need in the communities where the projects are being implemented.

With regard to wind energy projects, a study of the social and environmental impact of European investment in Mexico and Europe done by Mexican and European organisations concluded.²⁹

- There are no social criteria regarding land use priorities; criteria based on economics and power tend to carry the day.
- There is misleading information about the environmental effects of this type of infrastructure, as well as a lack of a broad, comprehensive vision of land use.
- The project involves 100,000 hectares with no consideration of possible impacts that the installation of approximately 300 wind turbines will have on land and birds.

There has been no in-depth analysis of the project's possible ecological impacts.

Besides problems related to European corporations' operations and business practices, it is significant that national, state and local governments lose their regulatory role and their ability to take charge of strategic planning for the sector, ceding this function to transnational companies whose priorities are driven by profit.

Projects are currently in the works to generate wind energy that will be sold to private companies. Energies Nouvelles, a unit of Electricité de France (EDF), will invest US\$140 million to build a plant in Oaxaca, which will have a capacity of 67.5 megawatts. All of the electricity generated will supply some 350 Wal-Mart stores in Mexico as part of the chain's cost-reduction strategy.³⁰

Unión FENOSA is looking for other renewable energy projects to generate electricity that will make other companies self supplying. It is currently considering projects in the states of Oaxaca and Baja California while looking for potential customers.³¹

Electricity generation is not the only goal. In evaluating projects, CFE is also considering whether they will qualify for carbon credits under the Kyoto Protocol. The start-up of a new wind energy project in the state of Oaxaca already yielded about 1.5 million euros for CFE in this way, while other low-emission projects to be put out on bid could result in another 91 million euros between 2006 and 2012. Spain, Germany and France are seeking to collaborate with countries such as Mexico to invest in projects that will enable them to purchase credits to meet their quotas if they cannot do domestically or in other industrialised countries.³²

Investment in water: consumer abuse³³

European countries' participation in potable water and sewer services is relatively recent, but it has also been marked by a series of irregular practices that drain public coffers and violate consumers' rights.

The case of Aguas de Saltillo, in the north-eastern state of Coahuila, shows how companies have gained a foothold by taking advantage of national and local legislation. This was a semi-privatisation scheme in which the government retained ownership of the water, but management and implementation of the entire process was in the hands of a private investor, Aguas de Barcelona, which held 49 per cent of the shares.³⁴

Because consumers were dissatisfied with the service provided by the company, government officials were forced to do an audit of Aguas de Barcelona's operations. The findings included:

- Works not reported to the Administration Council.
- Various vehicle acquisitions that did not comply with procedures established in laws on procurement, leasing and contracting of government services or budgeting for government spending.
- Employee salaries and benefits that did not comply with company statutes.
- Increases in water and sewer rates that exceeded the rise in the national consumer price index.

The irregularities ranged from the high salaries of top company officials to unreported works, violation of labour rights and the charging of unjustified rates.

Public procurement

Civil society organisations consider NAFTA's definition of public enterprise, which was copied directly into the EU-Mexico FTA, to be unacceptable. By contrast to the Mexican Constitution, the free trade treaties define a public enterprise only in terms of ownership, not by its function or its role in national development (Article 1505 of NAFTA). This distorts the nature of a state-owned company by judging it only according to criteria of price and quality. Paragraph 1 of Article 29 of the EU-Mexico FTA is comparable to Annex XII, which establishes that in procurement procedures for public entities and state-owned enterprises, Mexico will follow the provisions of NAFTA under Articles 1002 and 1007-1016, while the EU will follow WTO rules. Paragraph 2 establishes that those rules can only be modified by

changes in NAFTA and/or the WTO. Regarding national treatment, Article 26 of the EU-Mexico FTA is phrased in the same terms as Article 1003 of NAFTA; the other party's goods and providers must be treated like domestic goods and providers, with no discrimination on grounds of origin or ownership of the goods or services.

This concept of national treatment cuts across the entire treaty (market access, investments services, etc.) and is of particular concern in the area of public procurement, which should play an essential role in stimulating national development. Various civil society organisations have proposed that beyond the exceptions specified in the treaties, the management and evaluation of public enterprises should be based not only on price and quality criteria, but on the specific objective for which these companies were created. Government purchases and public works have a significant impact on specific service sectors and industry. Because they are made with taxpayers' money, they should continue to serve as a tool of economic policy for national development and stimulate local economies and specific sectors, especially those that are most vulnerable to the effects of economic deregulation and free trade agreements. Government purchases can and should stimulate production in depressed areas, indigenous communities and especially businesses run by women, as well as other small-scale providers. The EU-Mexico FTA has turned its back on this concept, despite proposals by grassroots movements and civil society organisations.

The “Political Dialogue”: pressure for more openness

The EU-Mexico FTA and the APPRI have enabled European companies to take over sectors that are strategic for Mexico's domestic development. But this has not satisfied the appetite of big European capital. Through the so-called Political Dialogue, in meetings of the Joint Councils (of the executive branches), the EU has pressured Mexico to further open its economy and cede other sectors that are strategic for national development, such as energy and water, to powerful transnationals.³⁵ Not by chance was one of Felipe Calderón's first acts as president of Mexico a meeting with Spanish officials who insisted that he continue the policies that have opened the Mexican economy to investment under the terms of the EU-Mexico FTA.

In contrast, the Global Agreement mechanisms that include oversight and sanctions for anti-competitive practices are essentially moot, including Article 11: “The Parties shall agree on the appropriate measures in order to prevent distortions or restrictions of competition that might significantly affect trade between Mexico and the Community.”³⁶

Although that agreement contemplates cooperation and intervention by the Joint

Council in case of **any abuse of dominant position by one or more companies**, neither it nor Mexican regulatory agencies have addressed this aspect.

Moreover, the EU has been party to the imposition of infrastructure projects as part of Plan Puebla Panama, which has been widely rejected by indigenous peoples and civil society organisations in the region. They object that they have not been consulted or allowed to participate, and that instead of promoting sustainable development, the projects will violate their human rights, harm the environment and only serve the interests of large corporations. The most recent communiqué from the Mexico-EU Joint Council underscores the shared interest in developing these types of projects.³⁷

Little has been done to ensure that the political dialogue goes beyond the governments. So far, there is no place or mechanism in this dialogue for participation by parliaments and congresses or by civil society organisations, despite proposals put forth by the latter in two dialogue forums (Brussels in 2003 and Mexico in 2005). There has been no concrete response to any of the many proposals about participation, content or implementation of the Democratic Clause.³⁸

Social and Civil Organisations from Mexico and the EU: 10 years of joint effort towards a Global Agreement for economic and social justice

Since the onset of negotiations in 1997, social and civil organisations in Mexico, in collaboration with their European peers, have proposed a Global Agreement that is different from the NAFTA. The group Ciudadanos de México ante la Unión Europea (Citizens of Mexico before the European Union) was formed within the framework of the Red Mexicana de Acción frente al Libre Comercio – RMALC (Mexican Network of Action against Free Trade). Participants include a broad range of stakeholders: peasants, human rights organisations, SMEs, and organisations working on gender, the environment and other issues.

Furthermore, extensive research has been undertaken at different times, resulting in a number of publications, assessing and analysing the effects of the EU-Mexico FTA.

RMALC and the Copenhagen Initiative for Mexico and Central America (CIFCA) and other organisations have made the following proposals:

- **Positive Dimension of the Democratic Clause.** Create a mechanism to implement positive measures that strengthen human rights as described in article 1 of the Agreement. This means not only to establish sanctions for violations but that the Agreement is based on the assurance, respect and promotion of human rights.

- **Mixed Advisory Committee.** Establish another body within the Political Dialogue framework (Mixed Advisory Committee) that enables participation of Mexican and European civil society as well as the legislative branch, for decision-making of members of the Joint Council.
- **Social Observatory.** Form Social Observatories that follow up on and assess impacts of the Global Agreement on the economy, human rights and the environment, with participation of social and civil organisations.

Important campaigns have been conducted with European organisations and networks, within the framework of the Europe-Latin American and the Caribbean Bi-regional Network *Enlazando Alternativas*,³⁹ which have included the following activities:⁴⁰

- a) Attending different meetings of the European Commission, offices of countries within the European Union, the European Parliament and the Mexican government to begin true dialogue and consider the proposals put forth,
- b) Social Encounters, such as *Enlazando Alternativas*, among civil and social organisations from Mexico and the European Union, to conduct diagnoses, plan, hear monitoring reports, assess and define action strategies and constitute alternatives to the model implemented by the governments, moving towards an integration based on sustainable development and the needs of peoples.
- c) Seek out and expand alliances in Europe and in Mexico, to participate in constructing alternative proposals and reverting to the terms of the Global Agreement when appropriate.

Neglect of the Democratic Clause

This pillar of political dialogue has been incipient for other elements, such as the promotion and defence of human rights. The European Commission has barely called attention to serious human rights violations in Mexico; at no time has it invoked the Global Agreement's Democratic Clause, which remains purely decorative. The illegal detention and violation of the human rights of protesters in Guadalajara during the Third Summit of Heads of State of the EU, Latin America and the Caribbean demonstrated how little the leaders care about human rights. While flowery speeches were made inside the summit, there was a violent crack-down on dissenters outside.

The human rights situation has worsened since the end of President Vicente Fox's term. The new president has responded to the increase in violent crime related to drug trafficking by involving more military troops in public safety. The "firm hand"

translates into a continuation of the militarisation policy under the guise of public safety.

Government Secretary Francisco Ramírez Acuña, who is responsible for Mexico's internal policy, has repeatedly been accused of human rights violations. On 13 December 2006, members of the *Frente de Procesados "M-28"* filed a criminal complaint with the Attorney General's Office, accusing him of having masterminded torture, a serious crime according to Article 3 of the Federal Law to Prevent and Punish Torture. Those involved were victims of a police operation ordered by Ramírez Acuña when he was governor of Jalisco in a violent crackdown on demonstrations organised during the Summit of Heads of State and Government of the European Union, Latin America and the Caribbean in Guadalajara in May 2004. The last detainees were not released until March-April 2006, after an intensive campaign by grassroots and civil society organisations that included filing international complaints with various bodies of the European Union.

The government's response to various social conflicts has been to crack down on or turn a deaf ear to groups in various regions of the country, including Atenco, Oaxaca, Agua Caliente (Presa La Pearota) and Pasta de Conchos.

Various national and international human rights organisations have gathered testimony about excesses committed by authorities against demonstrators and social activists: arbitrary detention, physical and psychological abuse, sexual abuse, rape, torture and the deportation of foreigners, as well as isolation of detainees, all on the grounds of "restoring order." On his recent visit, Florentino Meléndez, commissioner of the Inter-American Commission of Human Rights (IACHR), stated that many complaints of torture are filed in Mexico.⁴¹ The Mexican government, however, has ignored or dismissed all of these complaints. Mexican and European authorities have also ignored reports of human rights violations committed by European companies in Mexico.

The Euzkadi Union's fight: Victory over European transnationals⁴²

One example of the way in which transnational corporations' interests are placed ahead of human rights is that of the closing of the Euzkadi tyre factory owned by Continental, a German consortium.

The plant, located in El Salto, Jalisco, was the most modern in Latin America, and the German company sought to turn it into a major truck tire manufacturing plant. That, however, required that the union accept more flexible working conditions. The most serious included a 12-hour work day, increased output without pay, elim-

ination of the mandatory Sunday off, and an end to profit sharing.

Because the union did not accept the abusive conditions that the factory owners sought to impose, in December 2001 the workers found the plant closed without prior notice, in violation of labour legislation. This illegal plant closing left 1,000 people out of work, violating their labour rights.

When the plant closed, the workers launched a tireless battle to defend their jobs, which included national and international demonstrations. Thanks to their determination, they resisted the company's threats and government pressure to accept a settlement so as not to "scare off" investors.

Despite the offer of money, the workers did not sell out. In an assembly, they voted by an overwhelming majority to reject the payment offered by the owners, file a complaint about the illegal plant closure and go on strike.

The Local Conciliation and Arbitration Board, which is charged with resolving conflicts between workers and owners, shamelessly took sides with the owners and declared the strike illegal, refusing to recognise its validity even though the owners had violated the law.

A meeting with Continental's German union was decisive, because it gave the Mexican workers access to a meeting of shareholders of the company that owned Euzkadi, where they spoke out about the injustice committed by the illegal plant closing.

Four years of demonstrations and complaints finally bore fruit when officials had no choice but to recognise the strike, a serious blow for the company. Because this ruling forced Continental to pay wages dating back more than three years, the owners were forced to negotiate a settlement that was relatively unfavourable to the company, accepting the workers' demand to take over the company as payment for damages.

Thanks to this battle, the workers have now formed the Cooperative of Democratic Workers of the West (*Cooperativa de Trabajadores Democráticos de Occidente*, TRADOC) and are co-owners of the Corporación de Occidente along with Llanti Systems of Queretero. They also won an initial investment of 50 million pesos from the federal government, through the Ministry of the Economy, as well as 5 million pesos from the state government. The cooperative now competes in the market with tyre factories owned by powerful transnational corporations, including Continental, Michelin and Bridgestone-Firestone.⁴³

In the face of petitions to invoke the Democratic Clause because of repeated reports of human rights violations by the Mexican government, various European Union officials have responded that because these do not constitute systematic violation of rights by the state, they cannot activate the mechanism to apply sanctions. Such statements only underscore that these chapters on cooperation and political dialogue are mere promises with no real impact on the implementation of the agreement. Mexican and European civil society organisations have proposed giving the Democratic Clause a positive dimension that includes not only monitoring the defence of human rights, but also promoting these rights within the framework of Mexican-EU relations.⁴⁴

Cooperation

While a true cooperation policy is an aspect of the agreement that has great potential, this chapter is ambiguous. While it has been widely touted, cooperation has been minimal — when compared with the huge profits made by European companies in strategic sectors of the Mexican economy, the exploitation of cheap labour and access to non-renewable natural resources — and has benefited projects facilitated by the EU-Mexico FTA. Between 2007 and 2013, the EU will earmark a scant 55 million euros for Mexico (a cutback of more than 1 million euros from the preceding period).

Not only is this cooperation — which according to the EU is what sets the Global Agreement apart from NAFTA — miniscule, it is also implemented in an exclusive fashion. That is the case with cooperation programs in Chiapas, which have been strongly questioned by local civil society organisations, particularly indigenous groups, which have demanded the suspension of the Social and Sustainable Development Project (*Proyecto de Desarrollo Social y Sostenible*, PRODESIS) funded by the EU and the Chiapas government. The organisations have complained that they have not been informed about the origin, content, funding, overall goals and specific objectives of the project signed in 2003, under which the EU is contributing US\$15 million.⁴⁵

One criticism of the project is that much of the money goes to wages, operating expenses, supplies and service providers, technical assistance, administration, training, sharing of experiences and auditing of the project, while the alleged beneficiary population has only received assistance in the form of “chickens and sheep,” which critics say cannot be considered sustainable development. Other organisations have said that the program is deliberately manipulated to benefit communities and *ejidos* aligned with the federal government, marginalising those who oppose government policy. The area to be covered by PRODESIS includes the Montes Azules reserve, which represents between 60 per cent and 70 per cent of the Lacandon jungle and coincides with the area where the Army has a notable presence, with about 40

encampments, and where there is strong *zapatista* influence. Because of its design, the project could also contribute to conflict and division or counterinsurgency, as well as pave the way for appropriation of the region's biodiversity.⁴⁶

In a unilateral move, in its 2007-2013 Country Strategy Paper (CSP) for Mexico, the EU criticised Fox's efforts to reduce poverty and inequality.⁴⁷ The EU's formula for Mexico, however, is more economic reforms to benefit its own companies. "Mexico should lift the regulations and impediments to business activities and investment" it says, while repeating that Mexico must carry out fiscal reform and reforms of the energy sector and labour market.

In environmental matters, civil society organisations have demanded that Sustainability Impact Assessments (SIAs) be done as part of the Global Agreement. Not one has been done. Given the lack of such assessments, it is not surprising that the EU, taking a Malthusian approach, blames the Mexican people for environmental damage and absolves the companies that cause the harm. According to the EU CSP, "Although (Mexico) is one of the 12 countries with the greatest biological diversity in the world, the **demographic explosion** has put great pressure on natural ecosystems, and one-third of the tropical forests have disappeared in the past 20 years. Mexico is currently one of the countries with the highest rates of destruction of forestry resources."

The EU-Chile FTA: Copper exporters are the winners⁴⁸

The free trade agreement between the European Union and Chile (EU-Chile FTA) went into force in 2002 and was signed on the premise of "a gradual and reciprocal liberalisation of trade, without excluding any sector and in compliance with WTO rules." This treaty is one more example of the free trade agreements that the EU seeks to sign with third countries and includes (like negotiations for more recent accords) chapters on the gradual liberalisation of investments, financial flows and public procurement. It also goes further than TRIPS regarding liberalisation of services. Chilean civil society groups, especially the Chilean Partnership for Fair and Responsible Trade (*Alianza Chilena por un Comercio Justo y Responsable*, ACCJR), state that these characteristics make the Chile-EU accord a "WTO Plus" that "reinforces a model that structurally creates a high level of inequality and concentration of wealth."

Negotiation of the EU-Chile FTA, like that of the EU-Mexico FTA, was characterised by a lack of transparency and lack of opportunity for participation by civil society organisations in design, negotiation and implementation. This was inconsistent with treaty's own Democratic Clause on Human Rights and internal EU commitments on democratic governance.

According to Chilean civil society organisations, the EU-Chile agreement makes minimal mention of labour rights. In comparison, even Chile's free trade agreement with the United States appears to provide better protection of basic labour rights, and "even in the area of cooperation it is more complete than the association agreement (with the EU)." The EU-Chile FTA does not take into account the asymmetries between the parties, given that the South American country exports mining and agriculture products with little value added, or, at best, semi-manufactured products. In return, it imports high value-added machinery and equipment.

According to Chilean civil society organisations, "the steady increase in unemployment in Chile on the one hand, and the strong increase in exports on the other, demonstrate the disconnect between the strategy of opening up trade and creating employment." According to ACCJR, "This is even more serious when we recall that the government's main argument for signing these agreements was that they would result in job creation."

The lack of a positive impact by exports on employment could stem from the fact that mining, especially copper, represents a high percentage of Chile's exports to the EU. This confirms that primary extractive industry was one of the central objectives of the EU-Chile FTA. In agriculture, the accord is of particular concern because of "the huge volume of subsidies received by (producers) in the European Union, which tend to distort international prices and make worldwide food security thresholds unstable." "In agriculture, there is a continued tendency to export products with little value added, which results in the following phenomenon: Corporate control over export agro-industry is reinforced, and the best land in Chilean valleys continues to be dedicated to export crops rather than the production of goods that guarantee national food security."

Chilean civil society groups are concerned that legal protection for capital flows and the liberalisation of national financial systems in the Southern Cone have not only failed to produce the promised results (high investment, sustained growth and more jobs), but have also caused serious financial, exchange and banking crises that have repeatedly battered Latin American economies and the most vulnerable sectors of the population. "During the 1990s, the main sources of massive flows of capital and investment into both Chile and the entire Southern Cone of Latin America were European. Far from leading to greater social investment in the target countries, these investments resulted in the implementation of International Monetary Fund (IMF) structural adjustment programs in various countries in the sub-region, such as Brazil, Argentina and Chile. ... These programs had multiple economic, political and social impacts on the companies that implemented them: privatisation and commercialisation of natural resources and basic services. Far from fulfilling the maxim that more investment would bring more trade and a higher standard of liv-

ing, the massive influx of foreign capital brought progressive unemployment. The increase of trade with Europe and the massive influx of capital from that region, particularly Spain, did not help solve the region's endemic problems. On the contrary, it helped make them worse.”

3 – MEXICO-EUROPEAN UNION FREE TRADE AGREEMENT EXPERIENCES: PROMISES AND REALITIES

A quick analysis of the Mexico-EU FTA after seven years in force shows how the objectives that were announced during negotiations and that it purportedly promoted – support to economic growth, diversification of foreign trade, greater investments in development and job creation, human rights protection and others – were nothing more than rhetoric in light of the evidence of economic and social impacts it has caused.

The official discourse, both of the Mexican government and the European Union, exalted the agreement as a more advanced instrument for development than the Free Trade Agreements, as it includes chapters on cooperation and political dialogue. Nevertheless, recent trends in the Mexican economy, along with actions by transnational corporations and political bodies of the European Union belie this optimism and provide a convincing sample of what other countries or regions can expect if they reach similar agreements with this economic block.

The following table shows how the original promises have not been kept in practice, and in many cases, the agreement has worsened the social, economic and political situation of Mexican society.

PROMISE	REALITY
The Mexico-EU FTA will support economic growth and job creation	GDP growth in Mexico during the first three years that the agreement was in effect was a mediocre 1 per cent. Even though there was a relative recovery in the years since, as economic growth in Mexico is closely tied to growth of the United States economy and its cycles, the Mexico-EU FTA has not brought dynamism to the economy during economic slumps. On the other hand, lack of quality and well-paid jobs is one of the major structural problems of the Mexican economy that has worsened precisely because of the FTA. There are several cases where European companies have weakened workers' rights and unfairly laid off workers, such as in the case of Continental Tyres.

<p>The Mexico-EU FTA will promote an increase and diversification of Mexican exports to the EU.</p>	<p>Foreign trade and direct investments are concentrated with the United States and the Mexico-EU FTA has done nothing to revert this situation. European companies have seen the country as a platform to lower costs and export to the United States. The trade balance deficit has risen 80 per cent since the EU-Mexico FTA went into effect. On the other hand, there are no performance requirements in the Agreement, and European investments remain concentrated both sectorally and regionally in enclaves that contribute little to the internal development of the country. A significant portion of Mexican 'exports' to Europe are transactions within transnational companies and the main Mexican product sold to the EU is oil.</p>
<p>The Mexico-EU FTA, including the APPRI (Reciprocal Promotion and Protection Agreement), will contribute to overcoming inequalities in Mexico.</p>	<p>These agreements have not only failed to contribute to overcoming inequalities in Mexico, they have aggravated them by de-nationalisation and deregulation of the national economy. The reason behind this is that the FTA's prime objective is to create ideal conditions for large transnational companies to maximize their profits to the detriment of the capacity of States to direct public policies that promote sustainable economic and social development.</p>
<p>The Mexico-EU FTA will promote greater quality and the arrival of new agents will provide the population with higher quality, lower cost services.</p>	<p>The presence of European companies in strategic sectors such as water, electricity and banks has not promoted enhanced quality, rather, on the contrary, an oligarchic market with high prices and widespread abuse of consumers. These practices, together with the lack of government regulations, have allowed them to acquire large utilities, thereby supporting their global businesses. Nonetheless, they continue pressing for increased openness, despite not having demonstrated to date that their presence has enhanced market conditions as originally promised.</p>

<p>The Mexico-EU FTA will support economic growth and job creation</p>	<p>The inclusion of the Singapore issues (investment protection, competition policy, transparency in government procurement and trade facilitation) in the Mexico-EU FTA and APPRI (which have been rejected within the WTO framework by developing countries) has had a strong negative impact of the State's capacity to conduct social and economic policies and measures favouring domestic growth and distribution of wealth, particularly in the financial and services sectors.</p>
<p>Signing the Global Agreement is an instrument for protecting human rights through the inclusion of a Democratic Clause that provides for sanctions to any country where these types of violations exist.</p>	<p>Authorities of the European Union have shown themselves to be indifferent in relation to the constant charges of human rights violations, both by the Mexican State as well as by European companies. The Democratic Clause is merely a decorative element in the Agreement.</p>
<p>Political dialogue enables participation of civil society organisations and sectors</p>	<p>European and Mexican authorities have ignored the demands of civil society raised in the Dialogue Venues. Practical proposals to institutionalise dialogue and to provide a positive sense to the Democratic Clause have not been addressed after five years!!</p>
<p>The cooperation chapter enables the channelling of funds for developing the country.</p>	<p>European cooperation fails to recognise the asymmetries and is tepid in light of the inequalities caused by the Mexico-EU FTA and the exorbitant profits earned by European companies (particularly Banks and the Financial Sector). Furthermore, projects resulting from cooperation have been designed with no real consultation with the communities in which they are to be conducted.</p>

The presentation of these realities should serve as a wake-up call both to civil society and to governments of the countries with which the EU is currently negotiating FTAs. FTAs that are negotiated under similar conditions and promising to these countries same benefits that the Mexico-EU FTA agreement promised seven years ago.

These false promises reflect the disastrous consequences that, in many cases, could have been avoided if the warnings and demands of CSOs had not been ignored. In any case, resistance by social movements and civil society organisations in Mexico and Europe has not weakened. On the contrary, it is as strong as it was in the beginning, as the negative impacts of the Agreement worsen.

Therefore civil society's demand continue standing and are as valid today as they were 7 years ago. Among them, we highlight:

1 – The Mexico-EU FTA has dressed itself in a “Global Agreement” that is nothing more than a cloak of rhetoric and decorative clauses, such as the Democratic Clause, which, despite CSO proposals, has not been enforced. Towards this end, it is necessary that all trade agreements ensure that human rights be granted primacy above mercantile rights, as described in binding rules in international agreements (Article 103 of the United Nations Charter), granting the democratic clause a positive dimension.

2- A pending issue is that CSOs be allowed real and substantive participation before, during and after all trade negotiations and preparation of “Country Strategy Documents” published by the EU for cooperation and political dialogue, as, to date, this participation has not taken place within the context of the EU-Mexico FTA and APPRI. Likewise, congresses and parliaments should become more actively involved and accountable in all processes of the association.

3 – Sustainability Impact Assessments (SIAs) have not yet been performed within the context of the EU-Mexico FTA and APPRI, even though they should have been conducted before its signing, and CSOs should actively participate in these assessments, particularly those from underprivileged social sectors such as indigenous groups. There is an urgent need that these assessments be conducted, in a participatory manner by society, given the context of the EU's support to the Puebla Panama Plan (PPP), which has been rejected by many groups in society, especially indigenous peoples, as it is a plan for business projects accessing natural resources.

4 – Trade opening processes must recognise asymmetries between countries, adopt a true Special and Differentiated Treatment and protect all sensitive and strategic sectors of local and national economies. Despite many proposals in this area, no attention has been paid to this demand within the EU-Mexico FTA and in exchange, European TNCs have been given the treatment of national companies and have thus achieved NAFTA *Parity*.

In conclusion, the Global Agreement between Mexico and the EU should not be used as a template for other agreements of this type. Nonetheless, the consequences that Mexican society have experienced and are still experiencing as a result of this agreement should be used as a wake-up call to the realities behind the FTAs proposed by the EU -no matter the names under which they are presented in order to pretend they are more than FTAs: Association Agreements, Economic Partnership Agreements, etc. The EU-Mexico FTA makes clear the EU's ambition of re-colonisation at the behest of its large corporations.

NOTES

¹ “The agreement overall institutionalises a high level, regular political dialogue on all current bilateral and international issues, with a view to co-ordinating common positions in the international arena. But more importantly, at least from my own perspective, the deal includes a Free Trade Agreement, and I shall always remember it because I closed the deal with Herminio Blanco in late 1999”. I always call it “the first, the fastest, the best”. The first, because it was not only the first real negotiation of my time as Commissioner, but also because it was the first ever transatlantic FTA. The fastest because it was negotiated in only a year, and it raced through the approval procedures on both sides in record time - indeed the EU Council and the Mexican Senate both approved the deal on 20 March 2000, and entered into force in July 2000. And the best because it represented (at the time) the most comprehensive agreement in terms of coverage we have ever concluded. On what criteria is it the best? First, in terms of product coverage in goods and services (over 95 per cent overall). Second, in terms of its width: not just classical trade in goods and services, but also the mutual opening of procurement markets, and the adoption of new disciplines in competition policy, investment and intellectual property). Third, in terms of short transition periods: both sides in general taking much less than the GATT allows, at least for industrial products. Fourth, in terms of the institutional mechanisms we set up to further and deepen our relationship - covering additional subjects such as sanitary and phyto-sanitary measures, rules of origin, technical standards, and so on, as well as a binding dispute settlement mechanism, but one entirely compatible with our WTO requirements. My belief is that it stands comparison with any FTA anywhere. From an EU perspective, it provided NAFTA parity (Mexico gave us more than 90 per cent of what it had given the US, and in some areas more - e.g., such as goods, services and intellectual property). Equally, we offered Mexico the fastest access into the EU ever offered to a third country partner”. Taken from: Lamy Pascal, *Commissioner of Trade, Speech /02/189: “Mexico and the EU: Married Partners, Lovers, or Just Good Friends?”*. Instituto de Estudios de la Integración Europea, Instituto Tecnológico Autónomo de México, Mexico City, 29 April 2002.

² Communiqué from the commission to the Council, the European Parliament, the European Economic and Social Council and the Committee of Regions. “A Global Europe: Competing in the World,” Brussels, 4 October 2006, COM(2006) 567 final. Available at:
http://www.s2bnetwork.org/s2bnetwork/download/globaleurope_oct06_es.pdf?id=173

³ The new EU strategy for a “Competitive Europe” at the service of corporations worldwide, Seattle to Brussels Network, November 2006. Available at: http://www.s2bnetwork.org/s2bnetwork/download/globaleurope_s2balert_nov06_es.pdf?id=176

⁴ Lifting of tariffs at different rates is supposedly the special and differentiated treatment that Mexico obtained under the EU-Mexico FTA. In other words, it gained a few years before the treaty, like NAFTA, struck the Mexican countryside a death blow.

⁵ Ministry of the Economy, Mexico: *International trade negotiations* (2007). <http://www.economia.gob.mx/?P=2113>, Accessed 28 August 2006

⁶ Ministry of the Economy, <http://www.economia.gob.mx/index.jsp?P=2113#>

⁷ Ministry of the Economy. Op. Cit.

⁸ Article 15 states: “The Parties shall help to create an attractive and stable environment for reciprocal investment. Such cooperation shall take the form inter alia of: (a) arrangements for information, identification and dissemination relating to legislation and investment opportunities; (b) support for the development of a legal environment conducive to investment between the Parties, where appropriate, by the conclusion between the Member States and Mexico, of agreements to promote and protect investment and agreements to prevent double taxation; (c) the development of harmonised and simplified administrative procedures; (d) the development of mechanisms for joint investments, in particular, with the small and medium-sized enterprises of both Parties”. *Official Journal L 276*, 28 October 2000, pp. 0045-0079, Economic Partnership, Political Coordination and Cooperation Agreement between the European Community and its Member States and the United States of Mexico. [http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:22000A1028\(01\):EN:HTML](http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:22000A1028(01):EN:HTML)

⁹ Chapter 11 of NAFTA requires the signatory states to offer a series of advantages to each other’s companies, such as: treating companies from the other parties as domestic companies, regardless of their size or economic capacity; prohibiting requirements related to environmental performance, location, promotion of specific sectors, domestic content, etc.; free transfer of capital and dividends to the home country; and the possibility of suing a national authority if the company believes that it has taken actions harmful to the company’s operations and future earnings. For the text of NAFTA, see: <http://www.laneta.apc.org/rmalc/tratados/tlcan/texto.htm>

¹⁰ Sidaoui, José J, “The Mexican Financial System: Reforms and Evolution 1995-2005,” in *The Banking System in Emerging Economies: How Much Progress has been Made?* Bank for International Settlements papers, # 28, August 2006, p. 284

¹¹ Daily *El Financiero*, 27 February 2007, pp. 5-6.

¹² Sidaoui, José J., op. cit. p. 287.

¹³ Alicia Salgado, *El Financiero*, 14 March 2007.

¹⁴ *La Jornada*, 21 March 2007.

¹⁵ Comisión Nacional para la protección y Defensa de Usuarios de los Servicios

Financieros (Condusef), *Comentarios sobre la banca, su infraestructura y las operaciones más recurrentes*, 22 March 2006, p. 15.

¹⁶ *Ibid.*, p.16.

¹⁷ *Ibid.*, p. 13.

¹⁸ Daily *La Jornada*, 27 July 2006.

¹⁹ *Global Financial Stability Report 2007*, International Monetary Fund.

²⁰ “Ciberrobos, el lado oscuro de la banca,” Intelligence and Strategic Analysis Unit, *El Financiero*, 13 November 2006.

²¹ Permanent People’s Tribunal, complaint presented by Enlace Civil, A.C.

²² Comisión Nacional para la Protección y Defensa de los Usuarios de Servicios Financieros, <http://www.condusef.gob.mx/>

²³ *Ibid.*

²⁴ Castañeda, Norma and Van der Fleirt, Lydia, *Estudio sobre el impacto social y medioambiental de las inversiones europeas en México y Europa*, Copenhagen Initiative for Central America (CIFCA) / Red Mexicana de Acción Frente al Libre Comercio (RMALC) / Heinrich Böll Foundation, Mexico, 2006, pp.31-32

²⁵ Data from the company’s Web site: www.iberdrola.es/wcorp/corporativa/iberdrola?IDPAG=ESPMEXGUAT&codCache=1177351637252765

²⁶ Margarita Palma Gutiérrez, *El Financiero*, 7 February 2007.

²⁷ Alma López, *El Financiero*, 26 March 2007.

²⁸ Castañeda, Norma and Van der Fleirt, Lidia, *op. cit.*, p. 36.

²⁹ *Idem.*, pp. 40-41.

³⁰ *El Financiero*, 16 February 2007.

³¹ Alma López, *El Financiero*, 26 March 2007

³² Lizbeth Pasillas, *El Financiero*, 2 April 2007.

³³ This section was based on research by Norma Castañeda and Lydia Van der Fleirt, *op. cit.* pp. 19-24.

³⁴ These public-private partnership schemes are a disguised means by which the European Union has been aggressively seeking a foothold in strategic sectors.

³⁵ The declaration from the last meeting of the Joint Council states that “The Parties examined the state of play of negotiations on the review clauses on agriculture, services and investments, and confirmed their intention to make progress”. PRES/07/87, EU-Mexico Joint Council, Santo Domingo, 19 April 2007.

<http://europa.eu/rapid/pressReleasesAction.do?reference=PRES/07/87&format=HTML&aged=0&language=EN&guiLanguage=en>

³⁶ *Diario Oficial de la Federación*, 26 June 2000, Section 2, p. 5, decree promulgating the Economic Partnership, Political Coordination and Cooperation Agreement, between the United States of Mexico and the European Community and its States Members. This article also states that cooperation includes reciprocal assistance for complying with politics on competition; to fulfil this objective, the Joint Council will rule, among other things, on **any abuse of dominant position by one or more companies, which has been ignored.**

³⁷ Mexico informed the EU of recent developments in connection with Plan Pueblo Panama, a regional integration initiative proposed for Mexico that promotes cooperation among the nine Mesoamerican countries with support from the international community, in areas with limited economic growth. Projects include infrastructure, energy, telecommunications, facilitating trade, human and sustainable development, and prevention of natural disasters. Mexico stated that during the Summit of PPP leaders in Campeche on 10 April 2007, the leaders reiterated their commitment to strengthen the initiative, creating better systems for coordination, promoting public-private cooperation and fostering the participation of other entities with common interests in Mesoamerica, a process in which the EU member states could participate through cooperation and investment.

³⁸ Article 1 of the agreement establishes that: "Respect for democratic principles and fundamental human rights, proclaimed by the Universal Declaration of Human Rights, underpins the domestic and external policies of both Parties and constitutes an essential element of this Agreement" *Diario Oficial de la Federación*, 26 June 2000, decree promulgating the Economic Partnership, Political Coordination and Cooperation Agreement, between the United States of Mexico and the European Community and its States Members.

³⁹ The Bi-Regional Network, Linking Alternatives was launched during the Linking Alternatives Social Encounter held in parallel to the Summit of Heads of State and the Government of Europe and the LAC, held in Guadalajara, Mexico in May 2005. For further information on the network, please see: www.enlazandoalternativas.org

⁴⁰ Taken from the series *Aprendamos del TLCAN: no más libre comercio*, Cuaderno # 8, "Acuerdo Global/TLC México-Unión Europea" ("We have learned from NAFTA: no more free trade, Section # 8, 'Global Agreement/FTA Mexico-European Union"), *Red Mexicana de Acción frente al Libre Comercio – RMALC (Mexican Network of Action against Free Trade)*, Mexico, 2006.

⁴¹ Notimex agency, 13 April 2007

⁴² Taken from the series, *Aprendamos del TLCAN: no más libre comercio*, Cuaderno # 8, "Acuerdo Global/TLC México-Unión Europea," Red Mexicana de Acción frente al Libre Comercio, Mexico, 2006.

⁴³ *El Financiero*, 26 June 2006

⁴⁴ Meyer, Maureen, "Retos y Posibilidades del Cláusula Democrática," Centro de Derechos Humanos Miguel Agustín PRO Juárez, 2004, available at: www.rmalc.org.mx/tratados/ue/documentos/meyer.pdf

⁴⁵ Statement by delegates from the three sub-regions of the Lacandon Jungle where PRODESIS has been implemented, 9 February 2007.

⁴⁶ See: www.ciepac.org. For example, Bulletin 490, "El Proyecto Prodesis, Chiapas y la UE," by Aldo Zanchetta.

<http://www.adital.com.br/site/noticia.asp?lang=ES&cod=20571&busca=>

⁴⁷ "Despite progress in recent years, absolute poverty rates and concentration of

wealth continue at unacceptable levels (...) In 2004, 13.2 million Mexicans lacked access to clean drinking water, 23.7 million lacked sewer service and 5.4 million did not have electricity.”

⁴⁸ Alianza Chilena por un Comercio Justo y Responsable (ACCJR): “¿Chile y MERCOSUR frente a la Unión Europea; hacia la alianza estratégica o integración restringida?” (2004).

WEBSITES FOR REFERENCE

For further information and access to other documents related to the Global Agreement between Mexico and the European Union and other EU free trade agreements, visit:

Red Mexicana de Acción frente al Libre Comercio (RMALC)
<http://www.rmalc.org.mx/>

Iniciativa de Copenhague para Centromérica y México (CIFCA)
<http://www.cifca.org/>

Hemispheric Social Alliance (HSA)
<http://www.asc-hsa.org>

ABOUT THE AUTHORS

Rodolfo Aguirre Reveles is currently responsible for monitoring the implementation of the EU-Mexico Global Agreement at the Mexican Action Network on Free Trade (RMALC). He holds a degree in Economics from the National Autonomous University of Mexico (UNAM). He has worked as a researcher on the CASA (Citizen Assessment of Structural Adjustment) initiative, as well as on themes of poverty, employment, and budgeting issues. He was also responsible for the Programme of Public Policy at the Miguel Agustín Pro Juárez Center for Human Rights, and has worked as a consultant with UNICEF.

Manuel Pérez Rocha L. holds an MA in the Politics of Alternative Development Strategies from the Institute of Social Studies (ISS) in The Hague, Netherlands. He has worked for many years with Mexican and international civil society organisations and networks, as well as with the Hemispheric Social Alliance (HSA), on trade and investment agreements. He is a Board member of RMALC. He currently lives in Washington DC, where he participates in the Alliance for Responsible Trade (ART).

When the EU-Mexico Free Trade Agreement (FTA) came into force in 2000, the then EU trade commissioner Pascal Lamy touted its significance for the future of Europe's trade strategy. It has since served as a model for further Investment Promotion and Protection Agreements (IPPAs) between the EU and Latin American countries and regions. Seven years on, though, the impact of the EU-Mexico FTA is clear. Instead of the promised economic and social benefits, the treaty has left the Mexican state unable to implement policies to promote local small and medium size companies. Mexico's finance sector is now at the mercy of EU capital, while across various economic sectors the FTA has worked to the benefit of European transnational corporations and to the detriment of Mexican industries. The Mexican example should serve as a warning to other countries in the global South, argue Rodolfo Aguirre Reveles and Manuel Perez Rocha. Where reciprocal trade and investment agreements are made between highly unequal economic actors, these damage national and local economic development and benefit only a handful of transnational corporations.

The Transnational Institute (TNI) was founded in 1974 as a worldwide fellowship of committed activist-scholars. In the spirit of public scholarship, and aligned to no political party, TNI seeks to create and promote international co-operation in analysing and finding possible solutions to such global problems as militarism and conflict, poverty and marginalisation, social injustice and environmental degradation.

ICCO's mission is to work towards a world where poverty and injustice are no longer present. The work of ICCO, Interchurch organisation for development co-operation, consists in financing activities which stimulate and enable people, in their own way, to organise dignified housing and living conditions. ICCO is active in countries in Africa and the Middle East, in Asia and the Pacific, in Latin America and the Caribbean, and in Central and Eastern Europe.

The Mexican Action Network on Free Trade (RMALC) is a coalition composed of trade unions, small farmers' and indigenous organisations, environmental and women's networks, NGOs and researchers, which aims to analyse, question and influence economic and political development in Mexico. It has a particular focus on trade. RMALC was founded in 1991 during the negotiations for NAFTA. It participates in the Hemispheric Social Alliance and also continues to monitor and campaign on the EU-Mexico Global Accord.