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TRADE AGREEMENT MEXICO-CHILE

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Trade Policy Monitoring

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Report Highlights:

The Free Trade Agreement (FTA) between Mexico and Chile entered into force in August 1999, as a complement to the original bilateral trade agreement signed in 1991 [1]. Currently 99 percent of total Chilean exports to Mexico are duty free. Total agricultural trade between Chile and Mexico amounts to about \$625 million annually, with the balance of that trade heavily in Chile's favor. Under the provisions of the FTA, both countries exempted certain agricultural products from immediate duty-free treatment. Mexico's exclusions included certain dairy products, certain seafood, corn, wheat, barley, and grapes. Further reductions in these tariffs are subject to negotiation.

^[1] Acuerdo de Complementación Económica (ACE)

General Information:

Background

A bilateral trade agreement between Mexico and Chile was first signed on September 22, 1991, and operated since January 1, 1992. It was the first bilateral trade treaty signed by Mexico, and the second for

Chile. (The first was with Canada). After six years of successful operation of the original agreement, both countries agreed to further their economic and trade ties, signing the Free Trade Agreement Chile-Mexico. The agreement was signed on April 17, 1998 and entered into force on August 1, 1999.

The free trade agreement includes tariff elimination, which allows improvement in the bilateral trade, dispute settlement mechanisms that streamline procedures and improve legal certainty in controversial cases, customs procedures, rules of origin, safeguards, sanitary and phytosanitary measures, measures related to standardization and metrology, and rules relating to foreign investment and cross-border trade services. Also included are items related to intellectual property, as well as institutional arrangements, air transportation, telecommunications, temporary entry of business people as well as policy competition, monopolies and state enterprises. These aspects have made this treaty to be considered as a “last generation” agreement, as it incorporates more complex topics related to trade relations which strengthen and deepen economic relations.

With respect to agriculture and sanitary and phytosanitary measures, the FTA included the elimination of export subsidies, application of science and risk based sanitary and phytosanitary measures, harmonization of standards, agreement to seek equivalence in SPS measures, recognition of disease-free and low prevalence zones, and establishment of a bilateral Committee on Sanitary and Phytosanitary Measures.

The sector most active in the Chilean shipments to Mexico since the agreement entered into force has been mining, representing over 47 of the total exports, followed closely by the industrial sector representing 43 percent of the total. Agricultural and forestry products accounted for less than 10 percent of Chile’s exports to Mexico. In 2007 agriculture’s share of total exports from Chile fell to 4 percent. In fact, this fall in the participation of this sector responds to the deterioration of the fruit sector. While mining and industrial exports continued to dominate Chile’s exports to Mexico during 2007, their order was reversed with industry representing around 45 percent in value and mining 43.4 percent.

Tariff Reductions for Chilean products imported into Mexico

Most tariffs were eliminated immediately under the FTA. However, a number of agricultural products were excepted. Exceptions on imports into Mexico are included in Annex 03(04) of the Treaty.

The tariff-rate quotas established for apples was phased out between 1999 and 2005 so that as of January 1, 2006, imports of fresh apples (tariff 0808.10.01) imported into Mexico from Chile (and vice versa) became free of import charges and were no longer subject to quotas. Since the elimination of the tariff-rate quota, the amount of the product shipped to Mexico has been steadily growing. During 2007, exports of apples represented 2.5 times the amount sent in 2006. The variety of fresh apples Red Starking and the

Royal variety showed an increase in quantity exported during 2007 of 76% and 24% respectively in comparison to 2006. In terms of value, exports of fresh apples during 2007 reached a total of U.S. \$19 FOB million, representing an increase of 50.2% over the previous year.

The list of exceptions to the immediate elimination of tariffs in Annex 03(04) included certain seafoods (lobsters, prawns and shrimp), certain dairy products (evaporated milk and fresh and processed cheeses), grapes (April 15 – May 31), certain grains (wheat, barley, and corn), wheat flour, malt, vegetable oils (soy, peanut, palm, olive, sun and coconut), sugar and tobacco products. The tariff for these products was listed as a percentage reduction from the most favored nation tariff rate applied by Mexico on imports. Further tariff reductions on these products, as well as the products which Chile excepted from full duty-free treatment, can be negotiated by the two countries.

In 2007 the tariffs on products not eligible for duty-free treatment into Mexico included:

Agricultural Products for which Mexican Tariffs on Chilean Products Exceed Zero

		MFN rate	Rate applicable to Chile
0306.11.01	Lobster (<i>Palinurus</i> spp., <i>Panulirus</i> spp., <i>Jasus</i> spp.).	20	20
0306.12.01	Lobster (<i>Homarus</i> spp.).	20	20
0306.13.01	Shrimp, prawns <i>natantia</i>	20	20
0306.21.01	Lobster (<i>Palinurus</i> spp., <i>Panulirus</i> spp., <i>Jasus</i> spp.).	20	20
0306.22.01	Lobster (<i>Homarus</i> spp.).	20	20
0306.23.01	Postlarvae shrimp and aquaculture prawns	0	0
0306.23.99	The rest	20	20
0402.10.01	Dried milk or pills Subject to permit	63	44.1
0402.21.01	Dried milk	63	44.1
0402.91.01	Evaporated milk	45	45
0406.10.01	Fresh cheese (not mature), including the whey and curd.	125	125
0406.30.01	Melted cheese with a content by weight of fat Less than or equal to 36% and fat content measured in the dry matter weight higher than 48%, in convenient packaging of a net content exceeding 1kg	125	125
0406.30.99	The rest	125	125
0406.90.03	Soft cheese, Cologne type with a composition of: 3.5% to 37.7% Humidity, 3.2 to 3.3% ashes, 29.0% to 30.8% fat, 25% to 27.5% Chlorides, 1.3% to 2.7% acidity and .8% to .9% lacticid	125	125

	acid acidity		
0406.90.05	Petit suisse cheese, when its content consists of:	125	125
	68% to 70% of humidity, 6% to 8% fat (humid basis), dry		
	extract from 30% to 32%, minimum protein 6%, and ferments with or without fruits, sugar, vegetables, chocolate or honey.		
0406.90.06	Cheese, Egmont type, min 45 % fat (dry weight), max 40%	45	32.4
	moisture, min 60% dried material, min 3.9 percent salt		
0406.90.99	The rest	125	125
0713.33.99	Other subject to permit	125.1	0
0806.10.01	Grapes, fresh (from April 15-May31 of each year)	45	45
1001.10.01	Durum wheat (Triticum durum, Amber durum or crystal)	67	67
1001.90.01	Common wheat	0	0
1001.90.99	Other wheat	67	67
1003.00.02	Barley, whole with shell, except what is included on fraction 1003.00.01. subject to permit	115.2	80.64
1003.00.99	Barley, the rest	115.2	115.2
1005.90.03	Yellow corn	0	0
1005.90.04	White corn (harinero)	0	0
1005.90.99	Other corn	0	0
1101.00.01	Wheat flour or meslin	15	10.8
1107.10.01	Unroasted.	158	47.4
1107.20.01	Roasted. Subject to permit	158	47.4
1507.10.01	Crude oil, including degummed variety	7	7
1507.90.99	Others	14	14
1508.10.01.	Crude oil	10	10
1508.90.99.	Others	20	20
1510.00.99	Other oils and its fractions obtained from olives only, including refined, not chemically modified	10	7.2
1511.10.01	Crude oil	7	5.04
1511.90.99	Others	14	10.08
1512.11.01.	Crude oil	7	0
1512.19.99	Others	14	0
1512.21.01	Crude oil even without gossypol	7	0
1512.29.99	Others	14	0
1513.11.01.	Crude oil	7	0
1513.19.99	Others	14	0
1513.21.01	Crude oil	7	5.04
1513.29.99.	Others	14	14
1514.11.01	Crude Oils	7	7
1514.90.99.	Others	NOT FOUND	¿

1515.21.01.	Crude Oil	10	10
1515.29.99.	Others	20	20
1515.50.01	Sesame oil (sesame) and its fractions	10	10
1515.90.02	From copaiba, raw	10	5
1515.90.03	From almonds	10	7.2
1515.90.99.	Others	10	10
1701.11.01	Sugar whose content by weight of dry sucrose or whose polarization is equal or higher than 99.3 and less than 99.5 degrees	0.338 Dls	0.338 Dls
1701.12.01	Sugar whose content by weight of dry sucrose or whose polarization is equal or higher than 99.3 and less than 99.5 degrees	0.36 Dls	0.36 Dls
1701.91.01	With added coloring or flavoring	0.36 Dls	0.36 Dls
1701.99.01	Sugar whose content by weight of dry sucrose or whose polarization is equal or higher than 99.5 and less than 99.7 degrees	0.36 Dls	0.36 Dls
1701.99.99	Others	0.36 Dls	0.36 Dls
1702.90.01	Refined and liquid sugar and invertid sugar	.39586 D	.39586 D
2402.10.01	Cigars and small cigars that contain tobacco	45	45
2402.20.01	Cigarettes that contain tobacco	67	67
2402.90.99.	Others	67	67
2403.10.01	Tobacco and tobacco for pipes	67	67
2403.91.01	Tobacco used to wrap tobacco	45	45
2403.91.99.	Others	45	45

In 2007 Mexican agricultural imports (Chapters 1-24) from Chile and exports to Chile totaled about \$625 million, with the bulk of trade, about \$600 million, in imports from Chile. Chile accounts for about 3 percent of Mexico's total agricultural imports. In turn, Mexico accounts for just over 5 percent of Chile's agricultural exports.

Chile also exports significant amounts of wood and wood products, and hides and skins to Mexico including Sawn wood boards (4407), veneer sheets (4408), fiberboard (4411), plywood (4412), and hides and skins.

Source: World Trade Atlas

MEXICO-IMPORTS FROM CHILE millions of dollars

HS	Description	Jan-Dec 2003	Jan-Dec 2004	Jan-Dec 2005	Jan-Dec 2006	Jan-Dec 2007
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	Total	1082.072752	1463.828909	1754.121105	2469.725412	2593.96593
44	Wood	170.379711	232.557298	315.148555	318.541194	351.144219
08	Edible Fruit And Nuts	126.932033	135.816458	104.699568	117.632597	132.962931
04	Dairy,Eggs,Honey,Etc	26.536475	53.903789	83.039114	73.900606	99.393693
02	Meat	40.289013	88.592385	128.194792	129.944335	93.982803
20	Preserved Food	47.177581	56.932591	60.127748	64.974724	87.666238
21	Miscellaneous Food	10.510493	17.635467	16.632899	21.377438	43.208123
03	Fish And Seafood	19.721853	22.449853	25.298425	37.224838	38.652109
22	Beverages	14.559053	17.223336	19.920726	25.712496	29.389741
19	Baking Related	9.898348	10.383305	10.169297	8.128813	10.523764
10	Cereals	0.243255	0.888073	0.863037	0.889931	5.887948
41	Hides And Skins	5.332052	5.743403	6.965106	7.304594	5.56666
18	Cocoa	8.260586	9.086184	6.339958	6.910845	5.073466
07	Vegetables	12.452564	8.546854	7.365092	4.577747	4.011045
16	Prepared Meat,Fish,Etc	2.207924	1.858018	5.076375	5.827676	3.322469
17	Sugars	1.455295	2.145947	1.935597	1.568022	2.976464
06	Live Trees And Plants	0.525749	0.228379	0.608267	1.548201	1.654302

MEXICO-EXPORTS TO CHILE millions of dollars

HS	Description	Jan-Dec 2003	Jan-Dec 2004	Jan-Dec 2005	Jan-Dec 2006	Jan-Dec 2007
	Total	322.605117	478.193071	667.66711	904.933509	1170.375777
22	Beverages	2.538816	4.02945	4.511654	5.281563	8.074309
09	Spices,Coffee And Tea	0.148427	0.95089	1.112249	1.129117	2.423484
20	Preserved Food	0.290113	0.37059	1.529112	2.152758	2.382751
10	Cereals	0	0.035033	0	0.000309	1.854374
21	Miscellaneous Food	2.575525	3.544699	2.637671	2.299616	1.247478
17	Sugars	0.195882	0.187485	0.921563	1.130612	0.868125
12	Misc Grain,Seed,Fruit	0.107343	0.277771	0.365209	0.662636	0.552908
18	Cocoa	0.256973	0.268381	0.192919	0.368298	0.413499
41	Hides And Skins	0.400947	0.29379	0.43049	0.446589	0.410356
07	Vegetables	0.224625	0.074006	0.185754	0.344617	0.386161
03	Fish And Seafood	0	1.00E-06	0	0.22245	0.20174
14	Other Vegetable	0.040635	0.05139	0.04735	0.041525	0.07034
04	Dairy,Eggs,Honey,Etc	0.005145	0.040559	0.044647	0.086896	0.0613
06	Live Trees And Plants	0.008875	0	0	0.00032	0.015487
01	Live Animals	0.003185	0.00545	0.00312	0.009156	0.00908
44	Wood	0.045317	0.04398	0.16998	0.242638	0.006089
15	Fats And Oils	0.001821	0.001551	0.050766	0.012011	0.002035
02	Meat	0	0.082444	0.047412	3.00E-05	0
05	Other Of Animal Origin	1.00E-05	0	0	0	0

Source of data: Secretary of Economy

Mexico is Chile's seventh commercial partner, trading a wide variety of products that include poultry, dairy, fruits, salmons, wines, and treated lumber among others.

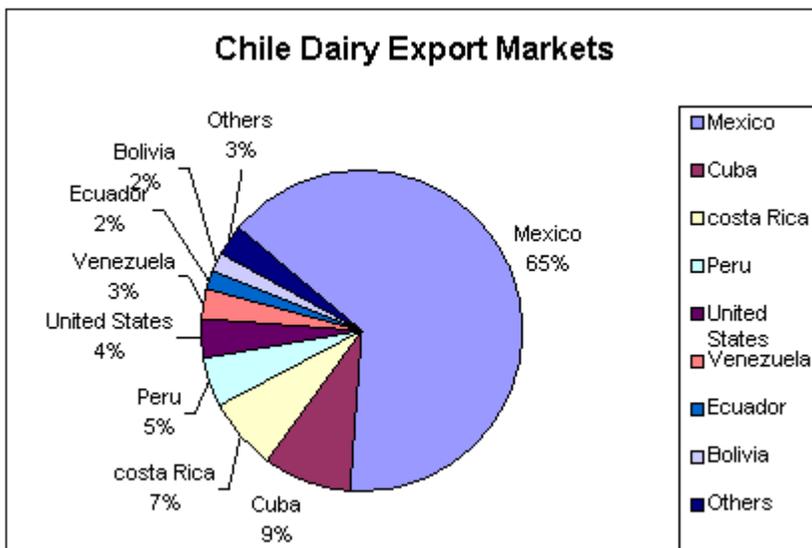
Mexico is a significant market for Chilean exports of edible offal, cream and cheese, preserved fruits and vegetables, and wine.

Chile has signed free trade agreements with Panama, Japan, China, United States, Korea, Costa Rica and El Salvador, a European Free Trade Association with Iceland, Liechtenstein, Norway and Switzerland.

Chile has Association Agreements with the EU, New Zealand, Singapore, Brunei and Darussalam. Chile has complementation agreements with Argentina, Bolivia, Colombia, Ecuador, Mercosur, Peru and Venezuela. Chile also has a partial agreement with India and has current negotiations with Australia, Malaysia and Turkey.

High increase in Chile dairy exports

Chile dairy exports during the first eight months of 2004 amounted to US\$ 50 million, a 55% rise compared to the same period of 2003. The main items exported during the period include condensed milk with US\$ 20 million, cheese \$19 million and milk powder with \$6 million. According to Mecropress, Chile dairy products are exported to Mexico (65%); Cuba (9%); Costa Rica (7%); Peru (5%); United States (4%); Venezuela (3%); Ecuador (2%); Bolivia (2%).



Chilean cheese exports registered a huge increase of 240% in the first quarter of 2004, compared to the same period in 2003, the Agrarian Studies and Policies Office (ODEPA) reported. During the period Cheese exports totaled US\$7.4 million in terms of value and totaled 2,951 tons in terms of volume, representing an increase of 192% compared to the first three months of 2004.

The main destination of the cheese exports was Mexico, representing 98% of the total exports. Other destinations for Chilean cheese were the United States, Peru, Bolivia, the United Kingdom and Brazil.

MEXICO- WORLD DAIRY IMPORTS

Rank	Country		Jan-Dec 2004	Jan-Dec 2005	Jan-Dec 2006	Jan-Dec 2007
0	-- World --	-	897.497383	1147.545561	1030.181339	1669.226796
1	United States	-	403.117566	541.778752	564.515027	929.503925
2	New Zealand		176.24918	240.721577	211.909634	355.456516
3	Chile	-	53.903789	83.039114	73.900606	99.393693
4	Uruguay	-	49.503779	70.046955	36.219693	97.643301
5	Argentina	-	43.002388	44.947644	43.349856	40.772295
6	Netherlands	-	16.443141	17.327131	15.712182	35.168516
7	United Kingdom	-	14.159232	14.873145	7.726147	23.439471
8	Belgium	-	25.57507	30.952374	16.987716	17.538372
9	Australia	-	16.294261	23.256852	26.132526	15.82505
10	Canada	-	9.121448	9.915314	5.440278	10.386343

Products sold to Mexico include apples, salmon, wood and wood products, gouda cheese, gouda cheese (US \$38m), frozen and boneless cuts and offal of rooster or chicken (US \$32m), condensed milk (US \$24m), red globe grapes (\$18m), peaches (\$17m) and dried prunes (\$16.3m).

Main Chilean Agricultural Exports to Mexico

Thousands of dollars

	2004	2005
Apples	8,845	13,597
Grapes	18,994	18,084
Gouda Cheese	23,248	42,012
Condensed milk	20,665	27,24
Cuts and offal of chicken	27,844	36,186
Wood and wood products	144,13	203,723
Grapes	18,994	18,084
Nectarines	19,111	19,35

-----The text of the Mexico-Chile FTA can be located on the Mexican Ministry of Economy (Economia) website at <http://www.economia.gob.mx/work/snci/negociaciones/chile/pdfs/tlcchile1.pdf>. For a complete list of Mexico's trade agreements, see Economia's website at <http://www.economia.gob.mx/?NLanguage=en&P=2555>.

KEY CONTACTS AND FURTHER INFORMATION

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