

GENERAL AGREEMENT ON
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Memorandum on Foreign Trade Régime

The following communication dated 3 April 1979 has been received from the Permanent Mission of Mexico.

In connexion with the arrangements approved by the Council of Representatives of the CONTRACTING PARTIES to GATT at its meeting on 29 January last, I have pleasure in forwarding to you herewith the text of the Memorandum on the Foreign Trade Régime of Mexico, for circulation to the contracting parties before the meeting of the Working Party established by the Council of Representatives.

MEMORANDUM ON THE FOREIGN TRADE REGIME

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MEMORANDUM ON THE FOREIGN TRADE REGIMEI. Development of Mexico's foreign trade¹

Mexico's foreign trade has traditionally shown a deficit, which has worsened in recent years. Although the rate of growth in the value of its exports has been high (13 per cent annually between 1967 and 1976), the country's development needs have required an increasingly larger inflow of raw materials, intermediate inputs and capital goods, entailing a growth in total imports at an average annual rate of 14.7 per cent over the same period.

Between 1967 and 1976 the value of Mexico's commercial transactions with foreign countries rose by 227.6 per cent, from 2,850 to 9,338 million dollars. Nevertheless, during the same period, Mexico's share in world trade fell from 0.6 to 0.5 per cent, which is also the figure for 1977.

While the dollar value of exports between 1967 and 1976 rose by 200.4 per cent, that of imports increased by 244.9 per cent, with the result that the trade balance showed a rising deficit, which exceeded 1,000 million dollars for the first time in 1973 and reached its maximum in 1975, when it amounted to 3,709 million dollars. As a consequence of certain economic policies adopted by the Government of Mexico in 1976 - limitation of expenditure and credit, devaluation of the peso - the deficit declined to 1,325 million dollars in 1977. However, owing to the revival of the economy, the trade deficit rose again in 1978, to 2,219 million dollars.

A. Total trade (exports + imports)

While Mexico's foreign-trade figures showed moderate growth during the first years of the period beginning with 1967, there were marked increases in the later years, so that they rose during the period from 2,850 million dollars in 1967 to 9,431 million dollars in 1975. It must be noted, however, that since 1970 there has been a substantial increase in the value of international trade, due largely to the world-wide inflationary situation.

¹For technical reasons, this analysis makes a distinction between two periods: one (1967-76) prior to the economic recession, most sharply felt in 1976, and the other (1977-78), covering the stages of recovery from the recession and consolidation of the economy.

Since 1976, increasing oil exports and a rise in traditional coffee and cotton sales have helped to raise the value of foreign trade further, from 9,338 million dollars in 1976 to 13,883 million dollars in 1978.

The above has been reflected in the degree of the economy's external orientation, measured by the ratio of exports and imports to GDP at current prices. This ratio, which was 11.6 per cent in 1967, amounted to 11.8 per cent in 1976, in spite of the surge in the rate of growth of GDP at current prices, which amounted to 16.7 per cent annually over the same period.

Among other factors affecting this development was the different way in which these variables have been influenced by the volumes of trade, since exports increased moderately (and even declined in 1975), whereas purchases abroad expanded continuously.

During the 1976-1978 period, the economy's external orientation has grown, from 11.8 per cent in 1976 to 13 per cent in 1977 and, according to preliminary estimates, to 15.2 per cent in 1978.

Likewise, the extent to which exports finance imports has declined from 76.2 per cent in 1977 to 72.4 per cent in 1978.

B. Trade balance

As already stated, Mexico's trade balance has traditionally been in deficit. Apart from the fact that the import requirements connected with the country's development needs are responsible for the acquisition abroad of a very substantial amount of inputs and basic consumer goods, the export structure is very vulnerable owing to high concentration in certain products and markets, erratic fluctuations in export prices and constant instability in access to markets.

Over the 1967-1976 period, the deficit in the trade balance continually rose, from 642 million dollars to 2,706 million, i.e. by an average annual rate of 14.2 per cent, which is higher than the average growth rate of exports.

The increase in the value of imports was caused by a rising demand for goods from abroad and the higher prices charged for such purchases. It should be noted that, as compared to 1970, the average increase in import prices was 14.2, 39.4 and 53.4 per cent in 1973, 1974, 1975 respectively, while the increase in quantities imported amounted to 43.9, 94.6 and 89.4 per cent in the same years.

It must be stressed that in order to sustain domestic production it will be necessary to go on buying increasing quantities of machinery and other intermediate inputs. In other words, it is believed that, in spite of

anticipated increases in Mexico's exports, its import needs will be such as to entail the import of even greater quantities than at present.

Mexico's trade balance is negative with a large number of countries, the deficits with the United States, Japan, the European Economic Community and the Nordic countries constituting 87.4 per cent of the total in 1977.

C. Exports

From 1967 to 1976, Mexico's exports grew at an average annual rate of 13 per cent, rising from 1,104 to 3,316 million dollars, although in 1970 there was a decrease of 7.4 per cent from the level of 1969, and in 1975 the increase amounted to only 0.4 per cent over that of 1974.

In 1977, export sales rose by 34.2 per cent over 1976, amounting to 4,450 million dollars. Not counting petroleum products (1,033 million dollars and 23 per cent of total exports), exports in 1977 amounted to 3,417.1 million dollars, involving the following products: green coffee beans, 458 million (10.3 per cent); tomatoes, 215 million (4.8 per cent); uncarded cotton, 195 million (4.4 per cent); mechanical and electrical machinery and appliances, 292 million (6.6 per cent); shrimps, 185 million (4.2 per cent); transport-vehicle components and spare parts, 151 million (3.4 per cent); live animals of the bovine species, 92 million (2.1 per cent); and beans, except soya, 52 million (1.2 per cent).

While the extractive industries sector showed an increase in 1977 of 54.2 per cent, if petroleum products are excluded there was a decline of 8.6 per cent; the agricultural sector increased its sales between 1976 and 1977 by 21.6 per cent, while the processing sector grew by 38 per cent.

In spite of the increase in the above sales, it must be stressed that in the last three years the share of agriculture in total export sales has dropped considerably, since after accounting for 35.8 per cent in 1976, it fell to 32.4 per cent in 1977 and 25.4 per cent in 1978.

Exports of the extractive industries, including petroleum, have risen very steeply, petroleum deliveries accounting for 21 per cent in 1976, 27.4 per cent in 1977 and 35.8 per cent in 1978; if petroleum products are excluded, the share of these industries declined from 8.4 per cent in 1976 to 5.7 per cent in 1977 and 4.9 per cent in 1978. As to deliveries of the processing industry, from the 35.9 per cent of total sales it accounted for in 1976, there was an increase to 36.9 per cent in 1977, followed by a decline in 1978 to 36.7 per cent of total exports.

The principal countries taking Mexican products in 1977 were the following: United States, 2,468 million dollars (66 per cent of the total); Brazil, 150 million (4 per cent); Federal Republic of Germany, 90 million (2.4 per cent); Venezuela, 88 million (2.4 per cent); and Japan, 83 million (2.2 per cent). Exports of Mexican products to countries members of GATT in 1977 amounted to 3,429.5 million dollars, or 82 per cent of total exports.

In 1978, Mexico's principal customers were: United States, 3,549 million dollars (64.3 per cent); Federal Republic of Germany, 162 million (3 per cent); Brazil, 160 million (2.9 per cent); and Japan, 96 million (1.8 per cent).

D. Imports

Over the 1967-1976 period, imports rose rapidly, from 1,746 million dollars to 6,022 million, i.e. an increase of 245 per cent in ten years.

As compared to 1976, imports in 1977 declined by 3.1 per cent to the level of 5,842 million dollars. The main products imported in 1977 were: mechanical and electrical machinery, 1,698 million dollars (29 per cent of the total); organic chemical products, 422 million (7 per cent); components for domestically produced automobiles, 422 million (7 per cent); and iron and steel products, 301 million (5.2 per cent).

The recession which culminated in 1977 was a determining factor in the contraction of buying abroad, contributing to a reduction in purchases of capital goods (12.2 per cent), although it is to be noted that imports of non-durable consumer goods rose by 115.7 per cent.

From 1976 to 1978 the bulk of imports consisted of capital goods, which absorbed an average of more than 5,000 million dollars per year in foreign exchange.

The share of this sector in total imports was 86.4 per cent in 1976, 78.3 per cent in 1977 and 81.6 per cent in 1978.

The sub-sector of subsidiary raw materials accounted for more than half of the amount imported by the sector and 44.9 per cent of all imports in 1976, 42.6 per cent in 1977 and 47.8 per cent in 1978.

Prominent in this sub-sector are iron and steel products, whose share of total imports was 5.8 per cent in 1976, declining to 5.2 per cent in 1977 and increasing to 11.3 per cent in 1978. In the same three years, components for domestically produced automobiles accounted for 8.1, 7.2 and 6.6 per cent of total imports, and the share of organic chemical products was 6.1, 7.0 and 6.4 per cent respectively.

Lastly, in the capital-goods sector, mechanical and electrical machinery has had a determining effect on the behaviour of the sector. Purchases of mechanical machinery accounted for 25.3 per cent of the total in 1976, 21.2 per cent in 1977 and 21.8 per cent in 1978; for electrical machinery the respective figures are 8.2, 7.8 and 5.7 per cent.

The main suppliers of Mexico in 1977 were the United States, 3,485 million dollars (63.5 per cent of the total); Federal Republic of Germany, 311 million (5.7 per cent); Japan, 295 million (5.4 per cent); Canada, 166 million (3 per cent); France, 157 million (2.9 per cent); United Kingdom, 128 million (2.3 per cent); Brazil, 108 million (2 per cent); and Sweden, 79 million (1.4 per cent). Imports from members of GATT amounted to 5,399 million dollars, or 98 per cent of the total.

During 1978, the countries from which goods were purchased were the United States, 4,549 million dollars (60.2 per cent); Japan, 609 million (8.1 per cent); Federal Republic of Germany, 536 million (7.1 per cent); Brazil, 127 million (1.7 per cent); Canada, 125 million (1.7 per cent); and Sweden, 75 million (1.0 per cent).

II. Economic policy and trade-policy objectives

The principal objectives of the Mexican Government's economic and social development policy are: the raising of the standards of living of the population, disappearance of regional and sectoral imbalances, elimination of the problem of unemployment and underemployment, optimum utilization of national resources, and increased agricultural and industrial output. It is the Government's intention to achieve this through greater integration of the agricultural and industrial sectors. Obviously, the Mexican State is applying and will continue to apply, with full flexibility and with the co-operation of all sectors of the population, whatever general economic policy measures may be necessary to secure those objectives, basically adapting to them its fiscal, monetary, credit, profits and prices-and-wages policies, its foreign and domestic debt policy, its foreign-exchange and external-transactions policy, and its policies of investment and public expenditure.

With a view to facilitating the attainment of the above-mentioned objectives of general economic policy and economic development, Mexico's foreign-trade policy is aimed at gearing the external sector to competitive production and the country's development, in accordance with the general policies and targets of development and of generating employment. Basically, the objectives of its foreign-trade programmes are:

- promotion and encouragement of exports to overcome the effects of the imbalance in trade;
- selective import-substitution in order to move on to higher stages of the production process, towards more manufacture of capital goods and intermediate products;
- rationalization of imports with a view to adapting the structure of foreign trade to the priorities of national development;
- revision of existing protection, and progressive external orientation of the economy in keeping with the country's trading, financial and development possibilities and with international economic conditions;
- programming of public-sector imports on the basis of the country's development needs and of the availability of foreign exchange, with a view to improving the efficiency of domestic production;
- promotion of the trading operations taking place in the areas along the country's borders, and in free zones, with a view to continuing their export activities and accelerating the integration of these important markets in the national market;
- diversification of export markets and sources of supply;
- modernization of the trade infrastructure;
- international consultations and negotiations to increase, improve, defend and stabilize the access of Mexican products to foreign markets.

The Government of Mexico implements its foreign-trade policy on the basis of three premises: application of the most-favoured-nation principle, non-discrimination in the exercise of trade policy, and full convertibility of the Mexican peso.

It is a fact that Mexico's General Import Tariff is applied without distinction to all of its trading partners and that Mexico thereby grants most-favoured-nation treatment, which, apart from complying with one of the most important principles of international law, aims at enabling economic agents to choose freely and rationally the sources from which to obtain their goods.

Obviously, in harmony and concordance with the above is the principle of non-discrimination. Mexico does not engage in discrimination of any kind in the application of its trade policy to the countries with which it maintains relations.

Lastly, full convertibility and transferability of the Mexican peso ensure that commercial transactions can be carried out at any time and under any circumstances. In addition, in following this policy, Mexico is fulfilling its international monetary commitments.

III. Instruments of trade policy

Mexico's trade-policy strategy, based on the instruments described below, is consistent with the above-mentioned economic Policy objectives:

A. System of tariffs

1. Levies on imports.

The Federation's Revenue Act imposes the following levies on imports:

- A General Duty is applied depending on the tariff heading concerned (Article 1 of the Act establishing the General Import Tariff). In accordance with Article 3 of the same Act, to calculate the duty on a particular type of goods, the ad valorem rate is applied to the official price for the item line concerned or to the value stated in the invoice, whichever is higher. Where no official price is given for an item line, for purposes of calculation use is made of item 999 "Other" of the sub-heading concerned; where there is no such item line in the sub-heading the highest official price given in the sub-heading is used.

- Two per cent over the value of the General Duty.

Payment of the 2 per cent duty rate applies to all item lines of the General Import Tariff, with the exception of the 502 which have a rate of less than 5 per cent or are free of customs duty.

Also excepted from this payment are: imports coming from and originating in countries members of the Latin-American Free Trade Association (LAFTA) if the imported goods are covered by item lines enjoying preferential treatment under the Treaty of Montevideo; goods imported temporarily for incorporation in Mexican products that are to be exported; goods imported by firms or commercial centres established in border areas; goods imported for consumption in free zones; and, lastly, equipment and supplies imported for the prevention, control or reduction of environmental pollution.

- Additional levies

- (i) Three per cent additional over the General Duty, destined for the municipalities.
- (ii) Ten per cent over the General Duty, on imports by post.

a. Structure of the General Import Tariff.

The Official Gazette of the Federation, in its issues of 10 to 28 November 1964, published the Act concerning the General Import Tariff re-structured in accordance with the Customs Cooperation Council Nomenclature and its Explanatory Notes. This Act, modified as from 1 January 1975, eliminates specific duties and uses ad valorem rates only.

In addition to the General Duty, the Tariff indicates the preferential customs treatment accorded to other countries; this appears in a special column next to the General Duty. Also stated are the preferences granted to LAFTA countries and to relatively less developed LAFTA countries, which are listed in an appendix in accordance with the code of NABALALC (basic nomenclature for trade negotiations among countries signatories of the Treaty of Montevideo). Also, Rule II of the General Import Tariff provides for the application of preferential rates to countries not members of LAFTA, as in the case of the concessions granted under the Protocol relating to Trade Negotiations among Developing Countries.

At the present time the Tariff consists of 21 sections, 99 chapters and 1,098 headings. The number of item lines at national level has varied from year to year depending on the need to indicate customs rates for particular types of goods, and on 28 February 1979 the Tariff listed 7,455 items.

The rates applicable to imports are given in multiples of five, and become progressively higher as they move from raw materials of lesser

value-added to luxury products or products which are not indispensable to the production system.

The lower rates apply to raw materials and articles needed for human food or for agricultural products, which, if not free of duty, have rates of 5, 10 or 15 per cent and which are generally under the prior-permit régime.

Higher levels apply to chemical products that are considered raw materials of greater value-added. Where they are not produced in the country or continue to be under the prior-permit régime, rates of 10 or 15 per cent apply. However, where such goods are produced in Mexico and there is no prior-permit requirement, the duty varies between 20 and 60 per cent.

Intermediate products have rates of 20 to 35 per cent, depending on their degree of processing, except where such products are produced in the country and do not come under the prior-permit requirement, in which case they vary between 40 and 60 per cent.

Luxury articles are subject to customs duty varying between 60 and 100 per cent and are generally not under the prior-permit régime.

Machinery necessary for the production process, not under the prior-permit régime, has a customs duty of 10 per cent when it cannot be manufactured domestically in the near future, and of 30, 40 and 60 per cent in cases where domestic manufacture is protected. Machinery still under the prior-permit régime has a duty rate of 20 per cent. Spare parts of machinery generally have rates of 10 per cent.

2. Levies on exports

a. General rules

Mexican products are, in general, exported free of duty and of prior export permit, except for products with respect to which it is desired to safeguard rational export (raw materials) or to ensure supplies to the population and to industry, or where it has been decided to promote their processing.

b. Export duties

The Federation's Revenue Act imposes the following duties on exports:

(i) A General Duty applicable to the goods in question in accordance with the rate indicated in the General Export Tariff. Under Article IV of

the Act concerning the General Export Tariff, the ad valorem duty indicated in the Tariff is applied to the official price fixed for the goods in question, except where the price appearing in the invoice is greater than the official price, in which case the invoice price will apply.

(ii) Further, there are two classes of additional duty: the 2 per cent additional over the General Duty, and the 10 per cent over the General Duty for exports by post.

c. Structure of the General Export Tariff

The Official Gazette of the Federation of 23 December 1974 structures the General Export Tariff, in force as from 1 January 1975, in accordance with the system of the Customs Co-operation Council. The Export Tariff consists of 21 sections, 99 chapters and 1,098 headings.

Manufactured goods are free of duty, and rates are relatively high for non-renewable resources and lower (5 per cent) for agricultural products.

On 31 December 1978, the General Export Tariff contained 3,006 item lines of which 2,527 (84 per cent) are not under the prior-permit régime and 416 (14 per cent) are controlled.

Two per cent, i.e. 70, of the item lines are prohibited (animal and vegetable products, organic chemicals, pharmaceutical products, fur skins, leather, wool, wood, gold, art objects, reproductions of works of art, archaeological objects and scrap iron).

B. System of control measures

1. Unrestricted import

Unrestricted import applies to an item line of the General Import Tariff covering goods which do not require a prior permit from the Secretaría de Comercio to be imported and for which only some other rules must be complied with, such as payment of customs duty or the provisions relating to plant and animal health or national security.

2. Quantitative restrictions

a. Prior licensing

On the basis of articles 34 (V) of the Organic Law on the Federal Public Administration, 6 and 15 (I) of the Procedural Rules of the Secretaría de Comercio, and 2 of the Regulations concerning Import or

Export Permits for Goods Subject to Restrictions, a prior permit from the Secretaría de Comercio is required for the import of certain goods. This permit must be obtained before a firm commitment is made to acquire goods abroad.

Various procedures have been established to expedite processing of some of the applications for goods requiring a prior import permit:

(i) Import quotas.

These quotas determine the quantities of certain articles to be imported. They may be established because domestic manufacture does not cover all the varieties required by consumers and is therefore supplemented by imports, up to a certain amount, of the similar articles which are not being manufactured, thus permitting competition with foreign products and avoiding illegal imports as much as possible; or because an amount has been determined that is required from abroad for properly meeting the needs of industry.

(ii) Urgent repairs.

This procedure offers facilities to industry when it suddenly requires goods from abroad to repair machinery or equipment which is indispensable for the continuation of operations and which, even if manufactured in the country, is not immediately available.

(iii) Accelerated processing.

This refers to an administrative procedure which consists of incorporating, in the processing of permits by computer, the decision on import applications so that it is given automatically, thereby saving a considerable amount of time. This system also serves the purpose of strict statistical control.

(iv) Open permits

To deal appropriately with needs to import a wide range of articles of little value or of small consumption, to avoid having to process an application for each case and to speed up the administrative procedures involved, it has been decided that firms should present only one application indicating the type of goods covered by the above conditions and their total value over a given period during which the permit requested is to apply.

C. Changes in the recent past

Up to the end of 1974 there was no uniformity in the customs duties given in the General Import Tariff, the duties varying considerably in that they were applied both as specific and as ad valorem duties. This imbalance was more marked in the case of the high duties applied to the item lines headed "Other".

As the Director-General of GATT was informed on 3 June 1975, pursuant to the decision of the Government of Mexico to take part in the Tokyo Round, and with a view to a possible decision to request accession to the General Agreement, on a proposal by the Federal Executive, the Mexican Congress that year approved a new General Import Tariff to replace the one in force since 1964. The purposes of this reform were, *inter alia*, to promote a better organization of the mechanisms for supervising foreign trade by eliminating major disparities in the Tariff; to base the levels of protection on the degree of processing of the product, granting similar treatment within a single sub-heading to the items headed "Other"; and, in connexion with all that, to eliminate specific duties so as to operate solely with ad valorem rates.

At the same time, the Tariff was brought up to date as regards the General Rules, the wording of the headings, the Legal Notes and the Explanatory Notes for interpreting the Customs Co-operation Council Nomenclature.

Also, the surcharge of 10 per cent affecting 2,403 item lines was replaced by a surcharge of 2 per cent on all imports except for 356 item lines.

The 1964 General Import Tariff had contained duties of as much as 300 per cent ad valorem, including the impact of the abolished specific duty, whereas in the new Tariff 85 per cent of the items have a duty of less than 35 per cent, the maximum level being 75 per cent, with the exception of automobiles assembled abroad, which have a duty of 100 per cent.

In 1975 also, the General Export Tariff was restructured with a view to abandoning a hybrid system, Standard International Trade Classification - Uniform Central American Customs Nomenclature (CUCI-NAUCA), to bring it into line with the system of the Customs Co-operation Council (CCCN).

Following the restructuring of the General Import Tariff, it became necessary in August 1975 to raise duty rates, owing to the country's balance-of-payments problems, whereby products which were not considered indispensable to the production process were given higher duties. However, in conjunction with the change in the parity of the Mexican peso in September 1976, customs duty levels were again reduced, in some cases even below the levels prevailing at the time the Tariff was restructured in January 1975. Thus, there was a reduction in the rate of 6,526 of the 7,243 item lines in the Tariff (Official Gazette of 28 December 1976); the

reduction averaged 50 per cent, and went so far as complete exemption from duty in the case of articles destined for agriculture. As regards machinery and equipment, duties were reduced by 25 to 20 per cent to encourage the expansion of installed capacity and to facilitate the import of spare parts and repairs, on which the rate went down from 20 to 10 per cent.

Up to the beginning of the present administration in December 1976, protection of the Mexican industry was based primarily on prior import permits, and it is to be noted that in 1975, when the country was facing balance-of-payments problems, all imported goods were subject to the prior-permit régime (Official Gazette of 14 July 1975). On some goods prior permits started to be eliminated as from August 1975.

In 1977, the Government of Mexico initiated a revision of the policy of protection, consisting of a slow and gradual replacement of prior permits by rates of duty, while keeping the prior-permit régime for application as required by the country's development policies and needs, although the effect of this revision is to make customs duty the principal instrument of protection. The basic objective of the revision is to arrive at duties more in keeping with Mexico's economic realities.

As a result, 2,391 tariff items were freed of the prior-permit requirement in 1977, and 1,615 in 1978, which when added to the 1,098 already exempt from that requirement give a total of 5,104 items on 28 February 1979, or 68.5 per cent of all the item lines in Mexico's General Import Tariff.

D. Customs procedures

1. Customs valuation

On 27 December 1978, the Mexican Congress adopted the Customs Valuation Act, which, in substance, relies on technical methods for determining a uniform dutiable base, reflecting a valuation approach of a universal character, for the calculation of ad valorem import duties. This Act, which will enter into force on 1 July 1979, establishes what is the normal value of the goods to be imported, defining as such the value of the goods on the date of entry into the national territory in accordance with the provisions of the Customs Code, as a result of a sale effected under conditions of free competition between a buyer and a seller who are independent of each other.

When the new Act enters into force, official prices will continue to be applicable for tariff items exempt from prior permit in which there is domestic production and for luxury articles not manufactured in the country.

2. Official prices

The official price is the dutiable base, to which the ad valorem duty of the General Import Tariff is applied.

The policy that will be followed in the establishment and modification of the official prices in the General Import Tariff consists in adjusting them to the real wholesale-price levels of the main exporting country of each product to Mexico, and to that end studies are being made which are based on specialized publications and periodicals, price lists, catalogues, commercial documents and statistical average unit-values of the imported goods; use can also be made of any other source which supplements or clarifies the data dealt with.

The Secretaría de Comercio is the competent authority for analysing the official prices of the General Import Tariff, and when changes occur in those prices, they are made public in the Official Gazette of the Federation, entering into force on the day following publication.

3. Consular formalities (fees and consular invoices)

Under the Presidential Decree published in the Official Gazette of 2 March 1955, fees were established in respect of consular services. In accordance with the Decree published in the Official Gazette of 19 April 1978, these fees are charged at the rate of 250 pesos for the service rendered, it being a fixed rate independent of the amount of the invoice. The consular visa can be obtained at any consulate and not only in the place of origin of the goods.

As regards invoice visas, articles 200 and 203 of the Customs Code of the United Mexican States provide that a consular visa is required on commercial invoices for shipments to Mexico by sea or land when the value of the goods involved is more than 1,000 pesos. When the shipment is made by air or by post, the invoice does not require a consular visa regardless of the value of the goods involved.

The primary objective in imposing this requirement is to verify the correctness of the data provided in the invoice, mainly as regards the value of the shipment and consequently the price of the goods, since such data serve as the basis for determining the amount of the duty to be levied.

E. Compensated interchange

Private-sector imports which are subject to the mechanism of compensated interchange pay a duty which varies from 1.5 per cent for most products in this category to 17 per cent for some luxury products, in accordance with the lists of goods given this treatment as published in the Official Gazette of the Federation of 17 August 1978.

All imports by agencies of the Federal Public Administration, whether centralized or semi-public, come under the compensated interchange scheme, as provided for in the Official Gazette of the Federation of 23 June 1978, and pay a fixed duty of 1 per cent.

These duties form part of the budget of the Mexican Foreign Trade Institute, which is responsible for collecting them through the General Directorate of Customs of the Secretaría de Hacienda y Crédito Público.

F. Export incentives

1. Tax refund certificates (CEDI) and indirect tax refund certificates (EXTRA-CEDI)

Under a Decree dated 1 April 1977 the Federal Government re-established the indirect tax refund system and the general import system, (previously in force from 17 March 1971 to 6 September 1976) for exporters of domestic industrial manufactures, provided the products concerned have a minimum domestic content equivalent to 30 per cent of the f.o.b. price point of export or of the c.i.f. price, where in the latter case Mexican insurance and freight undertakings are used.

The refund may be up to the full amount of the net federal indirect taxes charged on the product and its inputs; the refund is determined in each individual case in the light of the domestic content, degree of processing and the annual increment in exports of the product.

No refund is allowed where the product to be exported is subject to export duties or where the relevant applications and supporting documents are presented later than ninety days following export.

Refunds are granted in the form of tax refund certificates (CEDI) issued by the Federal Treasury; these are used exclusively for payment of federal taxes not earmarked for any specific purpose.

The certificates are nominal and non-transferable, and their validity expires five years after the date of issue.

The field of application of the CEDI covers 1,827 item lines in the export tariff, which in 1978 accounted for 87 per cent of total exports of manufactures.

Furthermore, under a Presidential Decision published on 28 August 1975 in the Official Gazette of the Federation, foreign trade undertakings are granted a refund of the indirect taxes, up to the full amount of the net federal charge, paid by them in respect of their activities provided the corresponding funds are used in full to cover costs incurred in connexion with their foreign trade operations.

Foreign trade undertakings are deemed to be consortia of manufacturers and service undertakings, which in order to be eligible for the tax refund must constitute themselves as commercial enterprises, in the form of a variable-capital stock company, and must be registered with the Department of Trade, fulfilling the relevant provisions in regard to:

- amount and composition of nominal capital;
- administrative organization;
- services furnished to their associates;
- export increments in their first five years of operation;
- presentation of annual work programmes, subject to authorization.

The refund of indirect taxes is made in the form of a certificate (EXTRA-CEDI) issued in the name of the foreign trade undertaking; the certificates are non-transferable and their validity expires five years after the date of issue.

The total amount of indirect taxes refunded does not exceed 60 per cent of the estimated cost of the annual work programme of the foreign trade undertaking.

In 1973 foreign trade undertakings accounted for approximately 25 per cent of Mexico's exports of manufactures.

As from 1 January 1980, when the Act on Value-Added Tax is to enter into force, substantial changes will be made in Mexico's policy on export incentives in the form of indirect tax refund certificates.

Nevertheless, the Mexican Government has decided to maintain, after 1 January 1980, a policy of tax incentives to external trade to allow expansion of Mexican manufactures.

2. Temporary imports

The Customs Code of the United Mexican States allows the temporary admission of goods generally for six months, which may be extended by a further six months, for two main purposes: for finishing or equipment in the country or to serve as packing material or in manufacture; and for repair or equipment. The first case includes the import of raw materials for incorporation in the manufacture of domestic products and semi-manufactures; the second case, in addition to packing material, covers imports of moulds, dies and matrices.

In addition this system covers the admission of goods in processing traffic, to be re-exported with value added in Mexico.

For these operations, undertakings must comply with the minimum requirements for incorporation of manufactures of domestic origin, or with the provisions established in regard to processing traffic.

Goods that are subject to prior permit must be covered by a permit issued by the Department of Trade (Secretaria de Comercio) where the goods are not definitively acquired abroad and are to be re-exported or used in articles intended for export.

3. Financial incentives

In the light of the country's development needs, the Mexican Government is studying various ways of supplementing its system of financial incentives. The following are currently in existence:

(a) Export Promotion Fund for Manufactured Products (FOMEX)

FOMEX encourages exports of Mexican manufactures and guarantees credits granted through financing that operates through the National Bank.

I. Pre-export financing. This financing covers up to 70 per cent of the f.o.b. price of the product ex works, or up to 100 per cent of the direct cost of manufacture, at a rate of interest of 8 per cent annually payable on expiry of the credit for the duration of the manufacturing process.

II. Export financing. This applies to both sales covered by documents and sales on current account, through the discounting of credit documents, for periods corresponding to those prevailing in the international market.

The financing is granted in United States dollars or any other currency acceptable to the Fiduciario and its amount may be up to 100 per cent of the sales invoice in the case of credits for less than one year, and up to 85 per cent for credits of more than one year and up to five years; the rate of interest ranges from 6 to 8 per cent according to the term of credit, the latter being fixed depending on the type of product; the shortest credit term (up to three, six and twelve months) corresponds respectively to semi-manufactured products, final consumer products and durable consumer products; the longest credit term (up to five years) is in respect of exports of machinery and equipment.

III. Guarantees. In addition, Mexican exporters of manufactures, services or raw materials, can obtain from FOMEX guarantees against

political risks (non-transferability and non-convertibility of foreign exchange, expropriation, confiscation or requisition) in an amount of up to 90 per cent of the credits.

(b) National Foreign Trade Bank (BANCOMEXT)

In regard to exports, the Bank furnishes financial support in respect of exportable production by providing capital for the purchase of raw materials, labour, etc., and for maintenance of stocks, in the form of credits for forward sales of goods and services abroad.

Import replacement aids are granted for the production and marketing of goods not produced in the country or where domestic supply of the goods is not sufficient to meet demand in Mexico.

In regard to imports, the Bank grants credit primarily for foreign purchases deemed essential for the country's economic development; such credits are granted to both state enterprises and private undertakings.

BANCOMEXT opens various credit lines for banks in importing countries, in order to facilitate formalities and secure the necessary funds for increasing Mexico's exports.

As regards specialized banking services, the Bank offers facilities in regard to exchange, collection, commercial documentary credits, statements, checking accounts, purchase of CEDI, advisory assistance on international trade matters, management of trusts and mandates, administration and warranty.

G. Refund of import duty on foreign purchases of machinery and equipment

Import duty is refunded on foreign purchases of machinery, equipment and parts thereof which are essential for the activities of the following production sectors: capital goods, motor vehicle assembly and automotive parts, fishing, mining, etc., in order to promote the production of manufactures intended for export and to reduce Mexico's trade deficit; to this end, consideration is given to undertakings whose output is entirely or partly intended for export provided the products are competitive in regard to quality and price.

H. Internal taxation

1. National treatment of imported products

Internal taxes are established in Mexico under the Federal Revenue Act. They comprise taxes, duties and other charges that are not applied in a

discriminatory way to imported articles. Nevertheless there are exceptions to national treatment in respect of certain articles such as manufactured tobacco, xilol, toluol, benzol, naphthas of coal tar, petrol and other light petroleum products.

2. Differentiated taxation on exports

Similarly, the Federal Revenue Act provides for differentiated internal taxation on exports of petroleum, petroleum products and salt.

I. Transit charges on foreign goods

The provisions concerning transit through the Mexican Republic are set forth in the Customs Code; goods in transit are exempt from customs duty, but not from transit duties, in general without any discriminatory treatment in respect of certain countries. As regards transit duties the Customs Code stipulates under Article 399 that goods in transit are chargeable at the rate of 5 pesos for each 1,000 kg. or fraction thereof, and at the rate of 10 pesos per log for wood in river transit; these payments are designed to cover costs incurred in establishing the necessary infrastructure for transport of the goods concerned.

J. Protective measures against unfair business practices

For the moment, Mexico has no anti-dumping code nor any legislation on countervailing duties. It is appropriate to mention the Organic Law on implementation of Article 28 of the Constitution regarding monopolies. Article 5, paragraph 2, of that Law prohibits the import of goods that could be sold in Mexico in conditions of unfair competition. In addition the Department of Trade, which establishes and modifies official prices of goods, is also empowered to establish official prices on bases other than those mentioned in cases of unfair business practices.

K. Value-Added Tax

The Value-Added Tax Act, which will come into force on 1 January 1980, was published in the Official Gazette of 29 December 1978.

The technical characteristics of the Mexican system are summarized in the following points:

1. It is a tax that is not limited to operations of a commercial nature, but is applicable to all transfers of goods, all furnishing of independent services, the use or temporary

enjoyment of goods, and imports of goods or services, regardless of the party effecting the operations concerned and regardless whether or not the said operations are for any lucrative purpose.

2. It is in principle a tax on sales calculated on the value fundamentally constituted by the price as agreed between the parties and including all additional quantities; in addition a valuation can be made in the absence of an agreed price.

3. It has been decided to apply a single tax rate equivalent to 10 per cent of the value of sales, which is taken as the tax base.

4. The value added is determined by the indirect method of allowing the taxpayer to be credited with the amount of the taxes that would have been passed on to him or that would have been paid on the import of goods and services, including capital goods, as from the time of purchase thereof. This amount represents the value-added tax, which is applied exclusively at the final consumption stage.

5. The system allows accurate border tax adjustments to be made, since in accordance with the principle of country of destination, imports are liable to the tax, the stage of final sale is exempt when the goods are intended for export, and the entire amount of tax paid is refunded on products that are exported.

6. The intention has been to limit exemptions to the minimum normally allowed in comparable tax systems; basically they are the following:

- (a) Unprocessed agricultural products.
- (b) Staple foodstuffs.
- (c) Books, periodicals and magazines, currency and credit instruments.
- (d) Public services furnished directly by the Federation, the Federal District, States and municipalities.
- (e) Services furnished by public social security institutions.
- (f) Education services.
- (g) Public passenger transport in urban areas.
- (h) Services furnished by credit institutions.
- (i) Various services relating to the agricultural sector.

- (j) Services of the liberal professions and those rendered by performers or sportsmen.
- (k) Public spectacles.
- (l) Buildings intended exclusively for use as dwellings are exempt, and likewise properties intended solely for agricultural or livestock activities, and machinery and equipment intended for the same purpose.
- (m) Temporary imports or imports of goods whose transfer within the country is not subject to value-added tax.

IV. A. Trade relations with other areas and countries

1. LAFTA

The Montevideo Treaty has established a trade liberalization programme that is being implemented through annual multilateral negotiations. The concessions resulting from those negotiations are incorporated in the national schedule of each country and extended to all the contracting parties, in pursuance of the most-favoured-nation clause which governs this mechanism.

In addition there is the mechanism of exclusive concessions (lists of exclusive advantages) under which each of the relatively less-developed countries receives concessions that are not extended to the other countries. The countries benefiting from concessions of this type are Bolivia, Ecuador, Paraguay and, temporarily, Uruguay.

Concessions of another type are the result of negotiations under Articles 16 and 17 of the Treaty. Complementarity agreements are not extended to all the member countries, because the concessions established in them are applicable only to the signatory countries of each agreement. To date, twenty-five agreements have been negotiated, and Mexico has participated in twenty of these.

Under this programme, the LAFTA member countries have granted 11,238 concessions in national schedules. Of these, 1,220 concessions have been granted by Mexico.

Exclusive concessions granted in favour of the less-developed countries and Uruguay have reached a total of 7,601, of which 1,376 have been granted by Mexico.

1,895 concessions have been established under the 20 complementarity agreements in which Mexico participates; of these Mexico has granted 936 and has received 959 concessions.

In 1978, Mexico's trade with LAFTA countries accounted for 4 per cent of its imports and 8.1 per cent of its exports.

2. Protocol among developing countries

Within the framework of GATT, the Protocol relating to Trade Negotiations among Developing Countries was signed at Geneva, and Mexico has been a party to this since it entered into force on 8 December 1971. Under this Protocol Mexico has received concessions from other developing countries and has granted concessions to them.

B. Bilateral agreements on economic and trade co-operation

The trade agreements signed between Mexico and other countries provide for the reciprocal granting of most-favoured-nation treatment. Many of these agreements provide for the establishment of mixed commissions which constitute the institutional framework within which the parties examine their trade relations and problems connected with trade, subsequently making recommendations to their respective governments with a view to trade expansion.

To date, Mexico has trade agreements in force with nine developed countries, twelve developing countries and eight centrally-planned economies. These countries are: Brazil, Belgium, Bulgaria, Canada, Costa Rica, Czechoslovakia, Egypt, El Salvador, France, Gabon, German Democratic Republic, Greece, Hungary, India, Indonesia, Israel, Italy, Jamaica, Japan, Korea, Luxembourg, Netherlands, Poland, Romania, People's Republic of China, Spain, Switzerland, Union of Soviet Socialist Republics and Yugoslavia.

V. Institutional structure of Mexico's foreign trade

Under the law governing the public administration of the Mexican State, the Department of trade has responsibility for formulating commercial policy, and within it the Foreign Trade Division has specific responsibility for formulating Mexico's foreign trade policy and supervising its implementation, mainly in five areas of activity which are: tariff matters, foreign trade controls, foreign trade incentives, international trade negotiations and international economic co-operation.

In addition, under various decrees and other instruments established by the Executive, provision has been made for institutions with responsibility for supporting Mexico's foreign trade activities. Among these institutions, the principal ones are: the Mexican Foreign Trade Institute with responsibility for foreign trade promotion, co-ordination of efforts designed to promote foreign trade, and which is the advisory body in these matters; the National Foreign Trade Bank, which acts to promote financing of activities connected with international trade; the Committee on Public Sector Imports, which ensures adequate supplies for the various Mexican public entities in accordance with foreign exchange economy criteria.

