EU-Mexico's new trade deal: What about a trilateral trade tango with Canada?

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In 2018, the first Trump Administration imposed tariffs – on purportedly national security grounds - on all imports of steel and aluminum, including from Mexico and Canada, its trading partners since 1994 in the North American Free Trade Agreement.[1] In 2019, Canada and Mexico agreed to renegotiate the NAFTA. The Canada-U.S.-Mexico Agreement (CUSMA) has been in force since 2020, providing for predictability and stability - and free trade - during one of the most destabilizing periods since WWII.

The situation shifted on February 1, 2025, when the United States announced that it was implementing 25 per cent tariffs on goods and 10 per cent on energy from Canada to go into effect on February 4, 2025.[2] On February 3, Canada, Mexico, and the U.S. agreed to suspend tariffs and retaliatory measures for 30 days, in return for renewed commitments on border security.[3]

Across the pond, the European Union (EU) is charting a different course. Equally powerful in trade terms, the EU has been busy diversifying its trade partnerships and forging new and stronger ties with its trading partners. The EU has recently finalized two massive free trade agreements. In December 2024, the EU struck a free-trade agreement with the South Common Market, the largest trading bloc in South America. (See, in this respect, the BLG Insight on the EU-Mercosur Agreement.) This past month, the EU finalized an updated free trade agreement with Mexico.[4] Both of these accomplishments are a testament to the EU's ongoing efforts to strengthen its global trade partnerships and adapt to evolving economic landscapes.

Mexico ranks as the second-largest economy in Latin America and the 12th largest globally. It's evident that establishing strong trade relations with Mexico is a smart move for any country. In 2023, bilateral trade between Mexico and the EU reached over €100 billion.[5] In fact, Mexico is the EU's second-largest trading partner in Latin America after Brazil.

In this article, we revisit some of the history behind the original EU-Mexico free trade agreement, discuss the implications of the modernized agreement and explore why Canada, like Mexico, should work towards diversifying its trade partnerships.

From tequila to tariffs: The road to trade talks

The 1990s marked a transformative period for Mexico as it made its debut on the global trade stage with its first major international trade agreement, the North American Free Trade Agreement (NAFTA). Seeking to continue liberalization efforts and reduce its dependence on the U.S., Mexico sought closer trade relations with the EU. At the same time, the EU was worried about potential trade diversions due to NAFTA and saw Mexico as a key partner to maintain its economic interests in the region and secure a foothold in Latin America.

In December 1997, the EU and Mexico kicked off negotiations in Brussels on a comprehensive free trade agreement. One of the biggest sticking points during the negotiations was arriving at an agreement on rules of origin - these are the detailed and strict rules used to determine the “origin” of a product and whether it can benefit from preferential tariffs under the free trade agreement. Mexico sought more lenient rules that would allow it to take advantage of its role as a manufacturing hub and allow products with substantial non-originating materials to qualify for preferential treatment. The EU, for its part, insisted on more stringent rules that would prevent trade deflection (the possibility that a third-party country might route goods through Mexico for preferential access to the EU). After hard-fought negotiations, the parties agreed to a balanced approach. For example, automobiles exported from either country would need to contain a minimum of 50 per cent of originating content to benefit from preferential tariffs.

Another point of contention was the liberalization of each party’s agricultural sector. Mexico was concerned that opening up the market to subsidized European agricultural goods could harm local farmers. Similarly, the EU sought the removal of trade barriers to allow its farmers to compete more effectively with their Mexican counterparts. After several rounds of negotiations, Mexico agreed to significant tariff reductions on industrial goods in exchange for the EU making concessions on agricultural products (however, pesky dairy was not included).

In March 2000, the parties signed the EU-Mexico Economic Partnership, Political Coordination and Cooperation Agreement (the Global Agreement), which entered into force in October 2000. The Global Agreement represented the first free trade agreement negotiated between the EU and a Latin American nation.

Throughout the negotiations, Mexico demonstrated a significant commitment towards securing a deal with the EU In particular, Mexico ensured that continuity of trade talks would be a top-level commitment for its government. Mexico also adopted, right from the get-go, a proactive approach to the specific needs of the various EU member states. As a demonstration of its interest, Mexico sent a delegation of business leaders to Brussels to communicate its keen intent on concluding a deal.

The EU and Mexico serve up a fresh trade deal

More than fifteen years after the EU-Mexico Global Agreement was signed, both parties agreed that it was time for an update. New challenges in trade, technology and environmental issues are but some of the reasons why rethinking the EU-Mexico trade framework made sense. Negotiations on the modernized agreement were formally

kicked off on May 25, 2016. Key areas of negotiations included the digital economy, expanded tariff reductions and the environment, amongst many others.

The finalization of the deal was stalled in 2024 when Mexico announced that it was undergoing constitutional reform to give preferential treatment to its state electricity company, cementing its status above foreign or private competitors.[6] Ultimately, the parties were able to push through, and a final text of the modernized agreement was signed on January 17, 2025.

The modernized Global Agreement removes high tariffs for agri-food exports such as pasta (up to 20 per cent), chocolate and confectionery (exceeding 20 per cent), blue cheese (up to 20 per cent) and potatoes (up to 20 per cent), amongst many others. The updated Global Agreement also provides for zero percent TRQ on Cheese and Beef, amongst many others. Further, existing tariffs as high as 100 percent on EU exports such as cheese, poultry, pork and pasta will be removed over time.

Below, we highlight two significant aspects of the modernized Global Agreement:

First, the modernized Global Agreement places a strong emphasis on sustainable development and social responsibility with binding commitments to labour rights, environmental protection, climate change and responsible business conduct. The parties agree to effectively implement the Paris Agreement and promote green economic growth and the positive contribution of trade to the transition to a low carbon economy.[7] (See, in this respect, the BLG Insight on carbon pricing.) The agreement also includes language on forest management and specifically requires that the parties shall encourage the conservation of forests, promote trade in forest products that have not given rise to deforestation and implement measures to combat illegal logging.[8] Lastly, the updated agreement upholds fundamental labour rights by requiring that both parties make continued and sustained efforts towards ratifying the fundamental International Labour Organization (ILO) Conventions.[9]

Second, the modernized agreement increases protections for geographical indications (GIs) – signs or words used on products to denote a specific geographic origin. The modernized EU-Mexico Global adds protections for almost 350 European and 20 Mexican GIs, bringing the total of GIs protected under the agreement to almost 600.[10]

Looking beyond the bargain

Forest management remains a significant challenge for Mexico as it seeks to comply with environmental clauses in the modernized EU-Mexico Global Agreement. While the country has made strides in combatting illegal logging, conservation and agricultural expansion, estimates suggest that between 30 and 70 of all wood harvested in Mexico comes from illegal logging.[11] Avocado growing and cattle ranching are also other significant contributors to deforestation in Mexico. For example, the Michoacán's state, where over 80 per cent of avocados are grown, has implemented a voluntary certification program that seeks to reduce deforestation using satellite surveillance.[12] The program applies stickers to avocados guaranteeing to consumers that their produce comes from registered farms that don't engage in illegal logging. While this initiative is commendable, Mexico will need to implement several other measures to protect its forests. As Mexico fights deforestation domestically, it remains to be seen how it will react to the implementation of the European Deforestation Regulation in December

2025, which will prohibit the entry into the EU of products linked to deforestation and forest degradation.[13]

Currently, Mexico has ratified 9 out of the 11 fundamental ILO conventions and must continue efforts to secure ratification of the remaining two, which address occupational health and safety.[14] However, these agreements may offer little benefit to Mexican workers if they cannot effectively use them for protection. This is particularly the case for the more than half of Mexican workers that have informal jobs – that is employment not formally regulated by laws and contracts.[15] The informal economy represents a significant obstacle in guaranteeing worker rights as well as the development of sustainable enterprises.

The additional protections offered to GIs will strengthen the economies of both regions by enhancing market access, protecting cultural heritage and supporting small-scale producers. Finally, the new agreement will need to be ratified by both trading blocks. Given the recent backlash observed by farmers in the wake of the Mercosur deal, it remains to be seen whether the EU-Mexican agreement will face similar criticism.

Time to branch out beyond the maple curtain: MEC?

The recent imposition of tariffs by Washington has highlighted the unpredictable nature of our Closest Friend. Canada should seize this occasion to focus on forging stronger trade relations with more stable and reliable partners. The time for Canada to reduce its dependence on the U.S. is long overdue, and it must, for reasons of national security, increasingly diversify its trade relations.

We posit that Canada should, together with Mexico, explore the possibility of a trilateral trade agreement with the EU (which we have dubbed the **M**exico **E**urope **C**anada Agreement). Both Canada and Mexico are already major trading partners with the EU under separate agreements, but a new MEC free trade agreement could streamline trade and foster greater regional cooperation and bolster their bargaining power on the global stage. While tariffs loom overhead, Canada would be wise to take control of its economic future by fostering stronger trade relations with dependable and reliable allies. In times of uncertainty, diversifying trade partners reduces economic vulnerability and ensures greater stability in the face of shifting policies.

Footnotes

[1] United States, Executive Office of the President [Donald Trump]. Proclamation 9704: Adjusting Imports of Aluminum Into the United States. March 8, 2018. *Federal Register*, vol. 83, No. 51, pp. 11619-11624. United States, Executive Office of the President [Donald Trump]. Proclamation 9705: Adjusting Imports of Steel Into the United States. March 8, 2018. *Federal Register*, vol. 83, No. 51, pp. 11625-11630.

[2] United States, Executive Office of the President [Donald Trump]. Executive Order 14193: Imposing Duties To Address the Flow of Illicit Drugs Across Our Northern Border. February 1 2025. *Federal Register*, vol. 90, pp. 9113-9116.

[3] United States, Executive Office of the President [Donald Trump]. Executive Order 14197: Progress On The Situation At Our Northern Border. February 3 2025. *Federal Register*, vol. 90, pp. 9183-9184.

[4] The European Commission, Press Release: Negotiations conclude on modernised Global Agreement with Mexico, January 16, 2025.

[5] The European Commission, EU trade relationship by country/region: Mexico, last consulted on February 3, 2025.

[6] Adam Williams, The Wilson Centre, *Mexico Energy Industry Transformed by Constitutional Reforms*, January 3, 2025.

[7] *Modernisation of the Trade part of the EU-Mexico Global Agreement*, Chapter XX: Trade and Sustainable Development, art 5, s 2 (a).

[8] *Modernisation of the Trade part of the EU-Mexico Global Agreement*, Chapter XX: Trade and Sustainable Development, art 5, s 2 (b)-(c).

[9] *Modernisation of the Trade part of the EU-Mexico Global Agreement*, Chapter XX: Trade and Sustainable Development, art 3, s 4.

[10] *Modernisation of the Trade part of the EU-Mexico Global Agreement*, Chapter XX: Intellectual Property, Annex II, Part A and B.

[11] Forest Trends, Mexico Timber Legality Risk Dashboard, August 1, 2021.

[12] Mexico News Daily, *Can satellite surveillance save Michoacán's forests from illegal avocado farming?*, August 29, 2024.

[13] *Regulation (EU) (2023/1115) of the European Parliament and of the Council of 30 May 2023*, OJL 150, 9.6.2023, p 206–247.

[14] International Labour Organization, Ratifications by country: Mexico, last consulted on February 3, 2025.

[15] International Labour Organization, *Strategy for the Promotion of Formalization in Latin American and the Caribbean (2024-2030)*, May 1, 2024.

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