MEXICO

TRADE SUMMARY

Two-way trade between the U.S. and Mexico grew from $81.5 billion in 1993 to $232.2 billion in 2002. The NAFTA has promoted additional trade between the two countries, contributing to Mexico surpassing Japan in 1999 to become the United States' second largest trading partner.

U.S. exports of private commercial services (i.e., excluding military and government) to Mexico were $14.6 billion in 2001 (latest data available), and U.S. imports were $11.0 billion. Sales of services in Mexico by majority U.S.-owned affiliates were $6.7 billion in 2000 (latest data available), while sales of services in the United States by majority Mexico-owned firms were $500 million.

U.S. goods exports to Mexico were $97.5 billion in 2002, a 3.7 percent decrease from the previous year. Imports from Mexico were $134.7 billion, an increase of 2.6 percent from 2001. The U.S. trade deficit with Mexico for 2002 was $37.2 billion, an increase of $7.2 billion from the 2001 deficit.

The stock of U.S. foreign direct investment (FDI) in Mexico in 2001 was $52.2 billion, up from $32.9 billion in 2000. U.S. FDI in Mexico is concentrated largely in manufacturing, finance and wholesale sectors.

Mexico is vigorously pursuing free trade agreements with other countries in order to reap the benefits of trade and to reduce its reliance on the U.S. market. It has a free-trade agreement with the European Union, and also benefits from agreements with 15 other countries. Negotiations to liberalize trade are ongoing with Brazil, Argentina, Panama, and Japan.

North American Free Trade Agreement

The North American Free Trade Agreement (NAFTA), signed by the United States, Canada, and Mexico, entered into force on January 1, 1994. The NAFTA progressively eliminates tariffs and non-tariff barriers to trade in goods; improves access for services trade; establishes rules for investment; strengthens protection of intellectual property rights; and creates an effective dispute settlement mechanism. The NAFTA is accompanied by supplemental agreements that provide for cooperation to enhance and enforce labor standards and to encourage environmentally friendly practices and bolster environmental protection in North America.

IMPORT POLICIES

Tariffs and Market Access

Under the terms of the NAFTA, Mexico eliminated tariffs on nearly all industrial and most agricultural products imported from the United States on January 1, 2003. Remaining tariffs and non-tariff restrictions will be phased out by January 1, 2008. The NAFTA Parties implemented the tenth annual regular tariff reductions on January 1, 2003. Mexico's average duty on U.S. goods has fallen from 10 percent prior to the NAFTA to less than 0.1 percent.

The most significant development in trade with Mexico over the last year has been a dramatic increase in the number of new barriers Mexico has put in place to block imports from its NAFTA partners on agricultural products. These include dumping orders, safeguards, illegitimate use of SPS measures and unsubstantiated questions about compliance with customs procedures. A number of organizations in Mexico are blaming NAFTA for the competitive pressures some sectors of Mexico's agricultural sector are now facing. Some also call for renegotiation of the Agreement. In fact, any disruption Mexico is experiencing today is largely due to a lack of action on the part of Mexico to develop adjustment plans over the ten or fifteen year transition periods provided by the NAFTA for sectors long regarded as less competitive.

Trade growth in agricultural products has in fact been remarkably balanced since the NAFTA was implemented, with U.S. exports increasing by 100.4 percent from 1993 to 2002, and imports increasing by 103 percent. Growth in non-agricultural trade, however, has been much higher for Mexican imports. U.S. imports from Mexico grew 251 percent, compared with U.S. export growth of 139 percent from 1993 to 2002.

The United States will work with Mexico to use the mechanisms contained in the NAFTA to complete implementation of the agreement and provide maximum benefits for both countries. However, the United States will not agree to alter or renegotiate long-settled NAFTA provisions. The NAFTA is a comprehensive agreement that provided for an overall balance of concessions and opportunities. Seeking changes in one sector would upset that balance, to the substantial detriment of many competitive exporters on both sides of the border.

As noted above, a number of U.S. exports are subject to antidumping and/or countervailing duties, which limit access to the Mexican market. Products subject to these duties currently include live swine, beef, apples, rice, liquid caustic soda ash, hydrogen peroxide, ammonium sulfate, gasoline additives, crystal polystyrene, polystyrene polymers, polyvinyl chloride, bond paper, corrugated rods, and unfinished steel tubes. Mexico initiated a countervailing duty investigation on plywood in 2002 and an antidumping duty investigation on pork in 2003. Mexico also imposed a provisional safeguard on poultry leg quarters in early 2003. The United States has not imposed any new duties on products of Mexico, and in fact exempted Mexico from a safeguard action on steel.

Pursuant to the requirements of NAFTA Article 303 and the timetable specified in Annex 303.7, on January 1, 2001, the three NAFTA Parties implemented limitations on the use of duty drawback and duty deferral programs with respect to trade with Mexico. The same provisions were implemented for trade between the United States and Canada in 1996. The NAFTA now limits the duty waivers that Mexico may grant for temporary importation of non-NAFTA originating goods incorporated into finished products that are subsequently exported to the United States or Canada. Such waivers may not exceed the lesser of: (a) the total amount of customs duties paid or owed on the good initially imported; or (b) the total amount of customs duties paid to another NAFTA government on the good, or the product into which the good is incorporated, when it is subsequently exported.

To minimize the increase in input costs for its manufacturers as a result of these new limitations, Mexico created several "Sectoral Promotion Programs" (Prosecs). Prosecs reduce the MFN applied tariffs (often to zero) on items in over 16,000 tariff categories used to produce specified products in 22 industries. While the industries and items eligible for the reductions are those of greatest importance to the temporary import (maquiladora) sector, the reduced tariffs are available to all qualifying producers, regardless of nationality, and do not condition benefits on subsequent exportation.

Implementation of NAFTA Article 303 continues the process of integrating maquiladoras into Mexico's domestic economy. The United States continues to monitor the consistency of Mexico's Prosec programs with the NAFTA.

On January 1, 2002, Mexico published amendments to its Income Tax Law that appear to discriminate against small retailers and distributors that sell imported products by subjecting them to higher taxes and more burdensome administrative reporting requirements. Article 137 precludes small companies that sell imported products from qualifying as "small contributors" for tax purposes, even if they meet all other qualifications (e.g., annual income limit of approximately less than $150,000 per year). As a result, small companies selling imported goods are categorized as "medium contributors," with an annual income not to exceed $400,000. Meanwhile, small companies only selling products produced domestically can continue to enjoy the "small contributor" status.

Agricultural Products

The United States exported $7.5 billion in agricultural products to Mexico in 2002. Mexico is the United States' third largest agricultural market. Under the NAFTA, Mexico continues to reduce import tariffs and increase tariff-rate quotas on many agricultural products from the United States, providing enhanced market access. As of January 1, 2003, the only U.S. agricultural exports subject to tariffs or tariff-rate quotas are corn, sugar, high fructose corn syrup (HFCS), dry beans and non-fat dry milk.

Mexico's Secretariat of Economy (SE) continued antidumping duties on beef and live hogs. In the case of beef product exports, the dumping duty rates assigned to individual companies only apply to beef aged less than 30 days and graded Choice or Select; to all other cuts of beef subject to the order, the higher rate applies. The live hog antidumping duty only applies to hogs weighing less than 110 kilos. These policies have significantly reduced the number of U.S. suppliers and have altered product trading patterns. Following communications with industry concerning this trade barrier, the United States believes that between $100 million to $500 million is lost each year due to dumping duties in this sector.

On June 12, 2000, the Mexican Congress amended Mexico's Animal Health Law to require that all import verification inspections for meat and poultry be conducted in Mexico. The provision was implemented in early October 2002.

On December 31, 2001, the Mexican Congress approved a 20 percent consumption tax on certain beverages sweetened with ingredients other than cane sugar, including HFCS. The action by the Mexican Congress was discriminatory and counterproductive, and established a major barrier to a settlement of broader sweetener disputes between the United States and Mexico. Industry estimates that the cost of this trade barrier to the United States is roughly $200 million in U.S. corn and HFCS exports and $800 million in U.S. investment in Mexico. HFCS sales fell well below prior volumes, as bottling companies in Mexico switched to cane sugar. On March 5, 2002, the Fox Administration suspended the tax for a period of seven months; however, the Supreme Court ruled this action unconstitutional and reinstated the consumption tax on July 12, 2002.

In late 2002, Mexico announced its "Agricultural Armor" initiative, a package of measures designed to keep Mexican agriculture competitive. The initiative calls for measures to increase sanitary, phytosanitary and food safety inspections and impose quality standards. Another element of the package are modifications to Mexico's antidumping and countervailing duty laws. For example, the timetable to complete antidumping and countervailing duty investigations was reduced from 260 days to 170 days. Antidumping duties may be imposed based on the "facts available" for exporters that do not participate in an investigation and when a producer did not export to Mexico during the period of investigation.

Sanitary and Phytosanitary Issues

Mexican sanitary and phytosanitary standards have created barriers to exports of certain U.S. agricultural goods, including grains, seed products, apples, stone fruit, pork, poultry, citrus, wood and wood products, avocados, and table eggs. In addition, procedural requirements regarding sanitary and phytosanitary inspections at the port-of-entry often do not reflect agreements reached between U.S. Department of Agriculture officials and the Mexican Secretariat of Agriculture, resulting in unnecessary delays at the border, seaports, and airports. In 2002, there were significant quantities of imports rejected by the Secretariat of Agriculture at the border. Reasons for rejection ranged from detection of a single quarantine pest to typographical errors on sanitary documents.

Prior to 1997, Mexico prohibited the entry of California sweet cherries due to alleged phytosanitary issues. Following successful consultations held within the context of the NAFTA Sanitary and Phytosanitary Committee, California cherries gained market access in 1997. At technical meetings in January 2001, Mexico agreed to eliminate the California cherry workplan to export to Mexico. Mexico agreed that California cherries did not pose a significant phytosanitary risk. However, Mexican plant quarantine officials still require restrictive entry protocols, extensive inspection rates, and shipper registration lists. The United States Animal and Plant Health Inspection Service (APHIS) requested that Mexico reduce its current cherry sampling rates and eliminate its cherry exporter registration requirements prior to the 2003 season. However, despite clean fruit shipments from California for the past six years, Mexico refuses to amend the cherry protocol.

Mexican phytosanitary restrictions still block access for U.S. fresh and seed potatoes, despite efforts to address the issue between the two Secretaries of Agriculture in 2002. In May and June 2002, APHIS proposed a market access protocol that would allow potatoes that were inspected and found free of pests to be exported to Mexico. In August 2002, the Mexican government responded with a proposal that banned imports from the major potato producing states and required commercially unfeasible pest area freedom guarantees. Efforts to finalize a work plan to allow entry for U.S. seed potatoes is progressing slowly, although Mexico has allowed access for Canadian seed potatoes.

In October 2001, the Mexican quarantine monitoring system for apples was to have been transferred to APHIS. While all but one Mexican inspector was withdrawn, the program remains in operation and the final transfer is subject to additional reviews. Also, Mexican plant quarantine authorities have notified APHIS of their intent to add new pests to their lists of quarantine concerns, even though no quarantine pests have been detected in over 52 million boxes of apples the United States has shipped to Mexico since 1993. Despite the eradication of low pathogenic avian influenza (LPAI) in eight U.S. states, Mexico maintains a complete ban on all poultry products from those states, as well as requiring excessive testing for LPAI on poultry from those states.

Administrative Procedures and Customs Practices

U.S. exporters continue to complain about Mexican customs administration procedures, including the lack of sufficient prior notification of procedural changes; inconsistent interpretation of regulatory requirements for imports at different border posts; requirements that particular goods enter only through certain ports; and discriminatory and uneven enforcement of Mexican standards and labeling rules. Agricultural exporters note that Mexican inspection and clearance procedures for some agricultural goods are long, burdensome, nontransparent and unreliable. Customs procedures for express packages also are burdensome. U.S. exporters continue to voice concerns about the lack of effective intellectual property rights enforcement at the border.

To be eligible to import well over 400 different items – including agricultural products, textiles, chemicals, electronics and auto parts – Mexican importers must apply to the Secretariat of Finance and Public Credit (SHCP) and be listed on a special industry sector registry. American exporters complain that the registry requirement sometimes causes costly customs clearance delays when new products are added to the list of subject items with immediate effect, with no grace period for new applicants. They also report that certain importers have been summarily dropped from the registry without prior notice or subsequent explanation, effectively preventing them from shipping goods to Mexico.

The requires import licenses for a number of commercially sensitive products. Mexico also uses estimated prices for customs valuation of a wide range of products imported from the United States and other countries –including apples, milled rice, beer, distilled spirits, chemicals, wood, paper and paperboard products, textiles, apparel, toys, tools and appliances. On October 1, 2000, the Mexican Government implemented a burdensome guarantee system for goods subject to these prices. Since that date, importers have been unable to post a bond to guarantee the difference in duties and taxes if the declared value of an entering good is less than the official estimated price. Instead they must deposit the difference in cash at a designated Mexican financial institution or arrange one of two alternative sureties (a trust or line of credit). The cash deposit is not returned for six months, and then only if the Mexican Government has not initiated an investigation and if the supplier in the country of exportation has provided an invoice certified by its local chamber of commerce. Mexican banks charge as much as $1,500 to open cash accounts and $250 for each transaction. While the United States has raised this issue with Mexico for the past eight years, we have seen no progress. The United States is considering next steps, including dispute settlement.

STANDARDS, TESTING, LABELING AND CERTIFICATION

Changes to the 1997 Federal Metrology and Standardization Law provided for privatization of the accreditation program and greater transparency of the rules applicable to technical regulations and voluntary standards. However, the Mexican Government continues to consider certain regulations to be executive orders that need not be published for comment and are thereby exempt from WTO and NAFTA rules concerning notification and comment periods. U.S. exporters of certain vitamins, nutritional supplements, and herbal remedies have reported that Mexico's revised health law regulations impede access to the Mexican market. While the Mexican Government has stated that it is looking at ways to address these concerns consistent with WTO and NAFTA obligations, the U.S. Government has seen no progress.

According to industry's estimations, the cost of this trade barrier to the U.S. is over $500 million each year.

Under NAFTA, Mexico was required, starting January 1, 1998, to recognize conformity assessment bodies in the United States and Canada on terms no less favorable than those applied in Mexico. The current Mexican position is to only recognize additional certification bodies on a "needs basis," a strong indication that the existing product certification bodies will continue to monopolize the market. U.S. exporters have complained that standards are enforced more strictly for imports than for domestically produced products. Imports are inspected at the border by Mexican customs, while domestic products are inspected randomly at the retail level by the Mexican federal consumer protection agency. U.S. exporters have also complained of inconsistencies among ports of entry. Mexico has over 700 mandatory technical regulations (NOMs) issued by a number of different agencies, each with its own compliance certification procedures. Only the Secretariat of Economy and the Secretariat of Agriculture (for a limited subsector of its NOMs) have published their procedures. The new procedures implemented in 2000 were designed to reduce the cost of exports to Mexico by eliminating redundant testing and certification. However, companies complain that the product certification bodies have increased the cost of certification and are charging for expansion of ownership of a certificate, so U.S. companies are not seeing benefits. In addition, key ministries such as Health, Energy and Labor have yet to publish their product procedures, compounding the problem of redundant testing requirements.

The United States is also concerned about draft voluntary standards that would impose Mexican standards on U.S. bottlers of tequila that are in conflict with U.S. requirements. On May 24, 2002, the Government of Mexico published proposed draft *normas* in the *Diario Oficial.* The United States has strong reservations to provisions in the draft regulations that would impose Mexican labeling standards on U.S. products. Some of the proposed Mexican labeling requirements on U.S. products containing tequila would most likely be considered misleading to the American consumer and therefore would be contrary to labeling requirements established by the Alcohol and Tobacco Tax and Trade Bureau of the U.S. Department of the Treasury.

GOVERNMENT PROCUREMENT

Mexico's efforts to make its government procurement regime more transparent through policies and technologies have resulted in increased competition and savings for the government. However, despite these efforts, reports of corruption are common. Complaints are especially prevalent relating to procurement by the national health agencies.

In March 2000, Mexico established price preferences for domestic products in two procurement laws when government purchases are not subject to the NAFTA. The implementing regulations were published on August 20, 2001.

U.S. firms have raised concerns regarding Mexico's sporadic use of procurement procedures that discourage bidding. In particular, Mexican procuring entities have allowed insufficient time for suppliers to submit bids and have set delivery deadlines that are too short. U.S. firms complain that, on occasion, Mexican procuring entities have not complied with the NAFTA obligation to provide at least 40 days for the submission of bids. Coupled with harsh penalties for late delivery, delivery requirements can pose formidable obstacles to U.S. firms that want to pursue procurement opportunities.

The NAFTA gradually increases U.S. suppliers' access to purchases by PEMEX and the Federal Electricity Commission (CFE), the parastatal petroleum and electricity monopolies, which are the two largest procuring authorities in the Mexican government. As of January 1, 2003, NAFTA limits the total value of contracts that PEMEX and CFE may remove from coverage under NAFTA to be no more than $300 million per year. The United States has not been able to confirm the proper implementation of this commitment as Mexico has not provided the statistics called for under NAFTA.

The United States has concerns with CFE procurement practices that are limiting opportunities for U.S. goods and services, in particular domestic content requirements in procurements for sub-stations and transmission lines. Also, in 2002, CFE decentralized its procurement activities. The effect of the decentralization has been to reduce the number of procurements covered by NAFTA . Mexico's "buy national" legislation provides a preference for Mexican products (at least 50 percent local content) that are sold by Mexican nationals when government purchases are not subject to the NAFTA. The trend to decentralize government procurement activities appears to be increasing throughout Mexico.

Although Mexico agreed under NAFTA to complete its list of services excluded from NAFTA coverage by July 1, 1995, this work has not yet been completed. Mexico is not a signatory to the WTO Government Procurement Agreement.

INTELLECTUAL PROPERTY RIGHTS (IPR) PROTECTION

Under the NAFTA and the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS), Mexico is obligated to implement certain standards for the protection of intellectual property rights and procedures to address infringement such as piracy and counterfeiting. The United States and Mexico review progress on intellectual property issues in regular consultative meetings. As a result of the progress it has made on intellectual property matters, Mexico was taken off the Special 301 Watch List in 2000, and has remained off since then. However, the United States remains concerned about the continuing high levels of piracy and counterfeiting in Mexico and closely monitors how the Mexican Government is addressing these problems. Mexican legislation on IPR matters is quite comprehensive; however, the enforcement of these IPR laws is limited and sporadic. Monetary sanctions and penalties are minimal and generally ineffective.

Copyright

Copyright piracy remains a major problem in Mexico, with U.S. industry loss estimates growing. A significant increase in the level of piracy during the past year, coupled with a decrease in the level of enforcement has resulted in the closure of legitimate copyright related businesses. Pirated sound recordings and video cassettes are widely available throughout Mexico. The International Intellectual Property Alliance (IIPA) estimates that trade losses due to copyright piracy in Mexico totaled $806 million in 2001. Piracy levels in some industries have declined since 1996. For instance, the estimated business software piracy level decreased from 67 percent in 1996 to 55 percent in 2001. Industry associations report that piracy has begun to shift from traditional formats to optical discs (CD, DVD, CD-ROM). This is particularly troubling, as content in digital form is easier to reproduce on a large scale. The music industry has seen a significant increase in piracy levels, from 50 percent in 1996 to 61 percent in 2002. Sales of legitimate CDs declined from 80 million units in 2000 to 72 million units in 2001, and industry projections forecast sales of only 79 million legitimate CDs in 2002.

Mexican law enforcement agencies have conducted hundreds of raids on pirates. However, there have been few convictions for piracy, thus undercutting the deterrent effect of the raids and arrests. Despite occasional raids, Mexico's informal markets are effectively tolerated by the government, making sustained reductions in piracy very difficult. In December 2002, the Mexican Congress approved a motion to classify piracy in the list of organized crimes. The penalties under the organized crime laws are considerably higher than the ones under the IPR legislation.

Patents and Trademarks

Patents and trademarks are under the jurisdiction of the Mexican Institute of Industrial Property (IMPI), an independent agency. The number of raids by IMPI against counterfeiters has increased in recent years, and use of administrative remedies is increasingly effective for U.S. trademark owners. Nonetheless, many U.S. trademark holders have encountered difficulties in enjoining former subsidiaries and franchisees from continued use of their trademarks. Many U.S. firms have reported difficulty enforcing their trademark rights.

U.S. pharmaceutical and agricultural chemical companies are concerned about the lack of coordination between IMPI and other Mexican agencies with regard to government procurement and the granting of marketing approval for their products. In mid-2002, the Mexican Ministry of Health agreed that starting with purchases scheduled for delivery on January 1, 2003, IMSS (Mexican Social Security Institute) and possibly ISSTE (Social Security Institute for

Government Workers) would purchase only patented products where a patent already exists in Mexico.

The Mexican Ministry of Health continues to grant health registrations to generic products without verifying with the Mexican Institute of Industrial Property (IMPI) whether a patent already exists. Innovator companies are forced to take the patent infringers to court – an expensive and time-consuming process, particularly in the absence of preliminary injunctive relief and other adequate enforcement measures. Such lawsuits also represent a waste of scarce Mexican judicial resources. Several years can elapse before a case is resolved, leading to considerable losses for pharmaceutical companies because the infringing products remain on the market during litigation. The lack of coordination between Mexican authorities remains a concern.

As part of the process to obtain approval to sell their products, pharmaceutical and agricultural chemical companies must submit data on the safety and efficacy of their products. The Ministries of Health and Agriculture have allowed Mexican interests to rely on the test data generated by U.S. patent holders without authorization, which appears to be inconsistent with the NAFTA and TRIPS.

U.S. companies holding trademarks in Mexico have cited problems with trademark enforcement and administration. When counterfeit items are discovered, injunctive relief measures issued against trademark violators are often unenforceable and are consistently challenged before the courts. Raids are limited to organized establishments in the formal economy and there are no transparent criteria for posting bonds when counterfeit goods are seized.

Although federal administrative actions are to be completed within four months, actions related to trademark enforcement often take as long as 18 months. The time can be lengthened by jurisdictional and procedural disputes within the Mexican government, as well as by internal coordination problems within IMPI. Trademark applications in Mexico are not subject to opposition. Registrations are issued and can only be cancelled post-registration. On average, it takes two and-a-half years to cancel a trademark registration, and the registrant is allowed to continue using the mark for one year following cancellation.

Border Enforcement

NAFTA Article 1718 and Article 51 of the TRIPS Agreement obligate Mexico to allow U.S. intellectual property rights holders to apply to Mexican authorities for suspension of release of goods with counterfeit trademarks or pirated copyright goods. Intellectual property rights owners seeking to use the procedure must obtain an order that directs customs officials to detain the merchandise from a competent authority. Companies requesting such actions report positive outcomes.

SERVICES BARRIERS

Telecommunications

Mexico's former state-owned telecom monopoly (Telmex) continues to dominate the country's telecommunications sector. Competition in the sector has been hampered by the inability of Mexico's telecommunications regulator (Cofetel) to enforce "dominant carrier" regulations to prevent Telmex from engaging in anticompetitive conduct. Mexico has not yet taken concrete enforcement action against Telmex in the face of violations of these dominant carrier regulations. Such violations which relate to Mexico's WTO obligations in cases including Telmex's refusal to provide key information required by the regulation (such as information regarding its network needed by competitors to offer service), Telmex's failure to offer competitors a non-discriminatory quality of service, and Telmex's failure to provide private lines in a timely manner. Failure to ensure non-discriminatory quality of service for interconnection, highlighted by a Cofetel report documenting the inferior quality Telmex provided to competitors, is particularly troubling. In addition, the Mexican Government has yet to take appropriate action to address the refusal of Telmex's wireless affiliate (America Movil) to abide by a regulatory ruling requiring the adoption of competitively neutral numbering rules. Cofetel has recommended that Telmex be fined for non-compliance with these rulings. However, the authority responsible for levying fines, SCT, has declined to take action, significantly undermining even the possibility of independent, impartial regulation. Such actions provide compelling evidence that SCT explicitly favors Telmex over its competitors, calling into question the Government of Mexico's commitment to competition in its telecommunications market.

Mexico has also failed to address much-needed reform to its international rules to permit competition in the offering of international services at cost-oriented rates, or provide alternatives to interconnecting at the border through the use of leased lines (international simple resale). Mexico's rules, which conflict with its WTO obligations, prevent competitive alternatives to the interconnection rates negotiated by Telmex (i.e. negotiating with competitors, or using leased lines to bring calls directly in to the domestic network). Mexico has a WTO obligation to ensure that international interconnection rates are cost-oriented and that the alternative of using leased lines is available. The United States has repeatedly raised concerns regarding the WTO-consistency of Mexico's international telecom regime (including these non-cost-oriented rates). On February 13, 2002, the United States requested formation of a WTO dispute settlement panel to resolve this issue. The WTO case is currently being considered by the panel. According to figures supplied by industry, the United States loses over $500 million in potential trade each year.

Film Law

The implementing regulations of the 1998 film law were published on March 29, 2001. The regulations contain several provisions that seriously impede the free flow of all audiovisual products distributed in Mexico. The Motion Picture Association (MPA) specifically cites a local printing obligation and a local dubbing obligation as barriers to the entry of foreign films. Dubbing restrictions effectively reserve a segment of the domestic film market for local films, thereby protecting local film producers from foreign competition.

INVESTMENT BARRIERS

Ownership Reservations

Mexico's Constitution and Foreign Investment Law of 1992 reserve ownership of certain sectors, such as oil and gas extraction and electric power transmission, to the state. This reservation is incorporated into the NAFTA. In addition, only Mexican nationals may own gasoline stations. Gasoline is supplied by PEMEX, the state-owned petroleum monopoly, and gasoline stations sell only PEMEX lubricants, although other lubricants are manufactured and sold in Mexico. A national foreign investment commission decides questions of foreign investment in Mexico.

Investment restrictions prohibit foreign ownership of residential real property within 50 kilometers of the nation's coasts and 100 kilometers of its borders. However, foreigners may acquire the effective use of residential property in the restricted zones through trusts administered by Mexican banks.