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DISCUSSION FOLLOWING THE REMARKS OF MR. ALVAREZ

QUESTION, MR. HAIGH: Guillermo, you mentioned near the beginning of your comments that because of the significant growth in trade over the last few years it may be an issue in the forthcoming election this year in Mexico. I was curious as to what the context of that remark would be and in what way you think the issue would arise.

ANSWER, MR. ALVAREZ: The North American Free Trade Agreement (NAFTA) will be an issue during the elections. None of the three leading candidates have gone as far as to say that they are going to repeal the NAFTA. I think they all recognize that since trade is such an important element of economic growth in Mexico, that it would be foolish to repeal the NAFTA.

Guauhtemoc Cardenas has criticized the NAFTA since before it was implemented. And before it was implemented, the Mexican Trade Minister, Jaime Serra, challenged him to a public debate on it. Cardenas has refused to participate in that debate so we do not know exactly what the roots of his criticism are. He said NAFTA has to be reviewed. We do not know how, he has not been specific about it. Francisco Labastida has publicly come out in support of the NAFTA, so we do not expect any significant change, or even a call for modification of the NAFTA from him. The third candidate, Vincente Fox, is pretty much in favor of free trade. If anything, I think he would be the only candidate who would review, for example, the situation regarding the Energy Sector.

But whatever happens and whoever is elected one of the virtues of the NAFTA is that it has locked in certain trade liberalizing policies that the new president will not be able to go back on. There is a sort of a ratchet there that will be very useful, particularly in the area of investor protection.

QUESTION, PROFESSOR KING: Are there any proposed changes in NAFTA that Mexico feels are necessary in light of the experience to date?

ANSWER, MR. ALVAREZ: I am sure if you ask that question to the politicians, they will say no, do not fix it; it has worked so far. If you ask the private sector, you will get a mixed response: Sugar producers will say that they want more access to the U.S. market; Auto parts producers will say that they need protection from U.S. imports. You know, you have the usual suspects. Of course if you have an export interest, you want more access. If you are being hit by imports, you want protection. But I would say, in

general, the attitude in Mexico is, if it works, do not fix it. It is not perfect, but it has worked thus far so let us not tinker with it.

The other thing is, if we go into a review process of the NAFTA, there is fear that a protectionist wave or environmentalists in the United States may have an impact. The executive branch in the United States does not have Fast Track authority, and we do not know what impact that would have on a potential review of the NAFTA. So I think we would be very, very reluctant to sit down and negotiate any modifications to the agreement.

QUESTION, MR. WOODS: I think you answered my question already, but with respect to the NAFTA being an issue in the upcoming election, what about popular opinion? The second question would be, where would Mexico stand vis-à-vis the appetite for more in the context of post-free trade with the Americans?

ANSWER, MR. ALVAREZ: In general, there is a fair amount of support for the agreement by the general populace. It is difficult to argue against these numbers. They really speak for themselves.

As to the second question, there is the cynical answer, and I suspect it is the right one. Mexico, and these figures may be explained by that factor alone, has privileged access to the U.S. and Canadian markets today and these figures would probably be somewhat less impressive if they were competing with free trade access by countries such as Brazil or Korea or some of the Asian countries in the textile sector. So Mexico is very happy that it benefited from the window that appears to have been closed and that will take some time to be opened, even in the context of FTA discussions.

That does not mean Mexico has not sought to diversify its own markets. It has entered into agreements with Columbia, Venezuela, Bolivia, Costa Rica, Chile, and very recently Israel and the European Union. So Mexico favors free trade, but at the same time I think it is benefiting from the fact that there is a protection, of sorts, with the MFN protection in access to the U.S. market.

QUESTION, MR. von FINCKENSTEIN: Guill, if you compare the NAFTA to the Free Trade Agreement (FTA), one thing that becomes very clear is that the procedural safeguards are outlined in great detail in the NAFTA, while the FTA assumed they were there because the legal systems between Canada and the United States are quite similar. So, besides the dispute settlement there is a lot more description on transparency and in every Chapter the procedural safeguards are spelled out. The whole idea, of course, was to bring the Mexican system of government, which was more closed and more egalitarian to the North American way of doing business. I know we have done it in terms of law, but in terms of affect, in terms of day-to-day government, has it taken root or not?

ANSWER, MR. ALVAREZ: I think it has happened at the federal level, has not happened at the sub-federal level. For instance, every Chapter 11 case brought against Mexico is for a state, a sub-federal measure. So Chapter 11 has been very effective in disciplining the federal government. It has not been affected, has not permeated to the sub-federal level.

QUESTION, MR. PETRY: Would you talk a little bit about the interrelationship between the Maquiladora method and NAFTA? What do you think will be the next generations of the Maquila, if any?

ANSWER, MR. ALVAREZ: For one thing, the Maquiladora scheme will have to be dismantled in 2001 under the NAFTA. We will not be able to waive duties. We will have to eliminate the duty drawback. So Mexican producers, under the Maquila system will not be able to import materials from Europe, for example, without paying a tariff and then exporting them into the United States. That will change the production model in the Maquiladora industry. The way it has worked is that U.S. textile companies that had Maquiladoras in Mexico, or that hired Maquiladoras in Mexico, would buy the fabric. They would give them the patterns then they would have quality control. What the Mexican manufacturers are saying now is that they want to give you a sketch and a check, and you take care of everything else. That will have an impact on the way they source their materials.

This is where I feel that there is a huge opportunity for people who are involved with the Internet. With the market-making capabilities of the Internet, these Mexican producers who now rely on the U.S. purchaser of the finished goods to get the fabric at a competitive price, even to get the design, to have quality control, the labeling, et cetera, will have to do it all by themselves. The Internet is a tool that will be very, very useful for them in achieving competitive prices.

QUESTION, MR. TUTTLE: What kind of system do you think will be put in place of the Maquila, if any, going forward after 2001? Will there be a similar sort of benefits package?

ANSWER, MR. ALVAREZ: Any substitute for the Maquila would be inconsistent with the NAFTA. It would be a violation of the NAFTA for Mexico to subsidize the Maquila producers in any way. So what I am saying is, the benefit that they are getting today by not having to pay the tariff on materials will have to get in the pricing of those materials. This is why I say, if you have an auction system in the Internet whereby they can have producers of fabric compete to submit bids for a lower price, then they will be able to compensate that tariff advantage with a price advantage in the future.

QUESTION, MR. BAILEY: You are making a comment on Canada, Mexico, and the United States having to deal with competition policy in, I think you said, the near future. Could you elaborate on that a little bit?

ANSWER, MR. ALVAREZ: As you know, there is no provision in the NAFTA on regional competition policy. All that NAFTA says is, you have to have competition laws. There are still some competition practices that are disruptive of regional trade that I think have to be looked at, not only in the trading goods sector, but also in the trading services sector.

I will give you an example. Under the Webb Pomerene Act in the United States, there are certain practices by U.S. producers that would be actionable under U.S. antitrust laws that are not punished when the producers get together, for example, to export.¹ There is an issue there of how that practice can be captured and punished or made actionable in Mexico, how to gain cooperation between antitrust authorities, and then the more general debate of the relationship between antitrust and trade remedies.

QUESTION, MR. URLICH: I was intrigued by your reference to possible interest in liberalization of the Energy Sector. I remember during the NAFTA negotiations, of course, issues related to the oil company Pemex were really taboo.² It seems to have been a traditional sector in Mexican politics and economics. I was wondering if you could describe any changes that have been occurring with regard to attitudes toward that sector.

ANSWER, MR. ALVAREZ: None. I premised my comment with the observation that I may cease to be a Mexican after today. I can say this in the comfort of Cleveland, but I am sure I would be a political refugee if I raised this issue in Mexico.

No, my point is really quite simple. Mexico has a natural competitive advantage in the Energy Sector. There is no reason why Mexico should not have one of the leading oil industries in the world if it were privately owned and privately run. It will be very difficult for me to explain to my son that the resources are his, but that there is this huge state oil company that is very inefficient and corrupt and that it is his, but there is no practical benefit for him. There have been no changes whatsoever. There has been some liberalization in the natural gas sector, but not in ownership. There has also been some liberalization in transportation and in the first-hand sales of natural gas, it has been but very, very limited. It is a pity.

QUESTION, MS. LESSENBURG: Just following up on Bill's question, actually – you identified energy, telecom, and finance, or the financial services sector, as potential sectors for opening up. I think the general

¹ Webb Pomerene Act, 15 U.S.C. §§ 61-65 (1994).

² Pemex Oil Company or *Petróleos Mexicanas* Oil Company is the state-owned oil company in Mexico.

consensus is that we are not going to see another round of NAFTA negotiations. Donald Macdonald's prognosis for WTO was pretty bleak yesterday, as well. So if there is a liberalization, will that be through sectoral negotiations on a bilateral basis, or do you hold any hope out for that at all? Are these just things that when you look at where there is room and opportunity to liberalize in Canada, but not a great political movement afoot to open up certain sectors without trade-offs? I suspect Mexico is exactly the same way. So why these sectors, and is there any chance this will actually go ahead?

ANSWER, MR. ALVAREZ: Well, why these sectors? Because for some reason, they ended up being protected.

COMMENT, MS. LESSENBURG: Some of that was quid pro quo. Canada did not want to open up, so Mexico was not going to open up either. Canada was not going to open telecom, so Mexico was not going to open up either.

COMMENT, MR. ALVAREZ: I think both Canada and Mexico are shooting themselves in the foot by not opening up. There is a ratchet provision in the NAFTA. If Mexico opens up unilaterally that immediately is captured by the NAFTA. You cannot back slide. The banking sector is a good example. It was very closed under the NAFTA. Immediately after entry into force, we had the financial crisis, and the foreign investment rules in the banking sector were relaxed, not entirely, but they were relaxed unilaterally.

What I am saying is that this will happen unilaterally. Mexico will unilaterally open up its banking and financial services sector. It will not do so in the context of negotiations with the United States or Canada.

QUESTION, MR. TENNANT: Could you comment on the significance of Mexico's agreement with the European Union for the future? It certainly could be seen as something that positions Mexico as being in a hub position vis-à-vis Canada, the United States, and other countries. How much impact will it really have in a five to ten-year period?

ANSWER, MR. ALVAREZ: It really depends on the agreement and what the agreement says. I have not been able to look at the text of the agreement itself. But certainly that is the idea. One is to diversify markets, and two is to become a platform for trade in the North American region for some of the European firms that have been left out.

COMMENT, MR. DeROMA: Okay, will you please give our guest speaker a round of applause? Henry, I will turn it back over to you.

