Mexico-Japan Economic Partnership Agreement
Ministry of Economy
Embassy of Mexico in Japan
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SECRETARÍA DE ECONOMÍA

Modified Protocol in the ACE 55 on trade in automotive products between Mexico and Brazil

Background

- In January 2003, Mexico and Brazil implemented a preferential agreement on automotive products under an Economic Complementary Agreement or ACE 55.
- During the first 8 years of the ACE, Brazil ran a trade surplus with Mexico on automotive products, including automobiles.
- In January 2012, Brazil announced its intention to denounce (terminate) the ACE with Mexico citing as main reason the rapid increase of imports of Mexican-made automobiles.
- In 2011, Mexico's exports of automobiles to Brazil, in value, totaled US$ 2.26 billion.
- At the insistence of Mexico, the Government of Brazil agreed to hold discussions to reach a solution and avoid the termination of the ACE.

Results of the consultation process

- Mexico and Brazil have agreed to a temporary cap limit or quota in the value amount of vehicles that could be exported to each other's markets. The period covers three years starting March 19th, 2012.
- The agreement calls for a modified protocol to the ACE, in which exports to Brazil will be capped to a limit, in monetary value, to US$ 1.55 billion a year on average.
- The monetary value caps in the three-year period are: US$ 1.45 billion in 2012, US$ 1.56 billion in 2013, and US$ 1.64 billion in 2014.
- After cap limits expire in March 2015, duty free trade in automobiles will resume without restrictions or limits.
- Exports of cars under the quota limit during the three-year period of the modified protocol will be duty free.
- Trade in auto parts products continue without modifications. The quota system applies to finished vehicles only.

Changes in local content

- Mexico and Brazil have also agreed to increase regional content requirements for their trade in automobiles raising the local content from 30 to 35 percent during the first year -that is in 2012, and to 40 percent by 2016.

Mexico's commitment to open trade and fair rules

- Mexico agreed on the quota proposal to avoid the termination of the ACE after extensive consultations with its industry, including Japanese OEM's which manufacture in the country.
- Mexico and Brazil have preserved the main contents of the ACE allowing trade in automobile products to be maintained, and jobs and investments in the sector to be kept growing.
- In the quest for market liberalization, Mexico agreed to a temporary cap in exports, rather than terminate the ACE which would have had negative implications for the industry.
- Temporary modifications to the ACE with Brazil should not impact nor change investment plans of assemblers and part makers in Mexico.
- Mexico is the world's eighth largest car manufacturer and ranks fifth in exports of vehicles. One of every nine vehicles sold in the U.S. is produced in Mexico.
- Among emerging economies and thanks to its network of free trade agreements, Mexico is the most cost competitive base for automotive manufacturers and main export platform to markets in North America, Europe, South America and Japan.

For additional information, please contact: coordinaciontokio@economia.gob.mx