

June 29, 2023

Ambassador Katherine Tai: United States Trade Representative 600 17th Street NW Washington, D.C. 20006

Dear Ambassador Tai:

The Alliance for Trade Enforcement (AFTE) is a coalition of trade associations and business groups dedicated to ending foreign unfair trade practices that harm American businesses and workers and to ensuring that our trading partners are held accountable for the commitments that they have made to treat American goods and services fairly. Our members represent companies – both large and small – from across the economy, including the creative, energy, manufacturing, services, and technology sectors.

We wrote to you in March 2021 shortly following your confirmation hearing to thank you for your attention to the growing concerns across a variety of American industries about Mexico's compliance with its obligations under the United States-Mexico-Canada Agreement (USMCA). At the time, we noted troubling signs of non-compliance across multiple issues and sectors like telecommunications, biotechnology, medical devices, food labeling, energy, customs and trade facilitation, and electronic payment services, among others. Unfortunately, over two years later and upon the third anniversary of entry into force of USMCA, we write again to report that the list of issues where Mexico is in non-compliance with its USMCA obligations continues to grow – in some cases despite enforcement action taken by the Office of the United States Trade Representative.

USMCA can improve the environment for doing business in Mexico, growing a significant export market for made-in-the-U.S.A. goods and services. However, the agreement can only fulfill that potential if all of its commitments, including the commercial provisions, are fully implemented and enforced. This will take a long-term commitment and willingness by the U.S. government to use all of the enforcement tools at its disposal. We urge you to prioritize bringing Mexico into compliance with the USMCA and resolving the critical issues detailed below.

Further, we recognize that the ability of the United States to press for full compliance will depend in part on the example we set. Our efforts to take advantage of the USMCA's dispute settlement procedures to ensure full implementation by Canada and Mexico will be to no avail if the procedures lose credibility because the outcomes of those procedures are themselves not fully implemented by all parties. We therefore urge you both to be aggressive in pursuing enforcement efforts and in setting an example in implementing enforcement outcomes.

Telecommunications, Broadcasting, and Audiovisual Services

Mexico's 2013-2014 Constitutional Reforms established a telecommunications regulatory framework that encouraged competition, foreign direct investment, and the creation of an independent and specialized regulatory regime. The USMCA, recognizing the importance of these reforms, incorporated Mexico's commitments to foster a competitive telecommunications market and maintain an independent and autonomous regulator for telecommunications and broadcasting. These commitments are vital for ensuring a thriving telecommunications market in Mexico, bolstering U.S. exports, including e-commerce.

Regulatory Independence

We are deeply troubled by President Andrés Manuel López Obrador's overt efforts to undermine independent regulators, such as the telecommunications and broadcasting regulator (IFT) and the antitrust regulator COFECE. President López Obrador has employed a strategic approach of withholding appointments for the agencies' leadership positions, rendering the IFT unable to make vital decisions. The IFT has resorted to suing the President at the Supreme Court to compel him to make the appointments, and although the Secretary of Economy publicly acknowledges the IFT's autonomy, President López Obrador has, on multiple occasions, questioned the relevance of these regulators during his press conferences. We are gravely concerned about the potential introduction of a bill in the Mexican Congress targeting autonomous regulators, which could undermine the IFT's independence, diminish its budget, or erode its technical expertise. Such proposals flagrantly contravene Articles 18.6 and 18.17 of the USMCA, as well as the fundamental principles enshrined in Mexico's Constitutional reforms.

Protectionist Policies

Mexico is a significant and growing market for U.S. film and television creators. However, on a regular basis, Mexican lawmakers and policymakers propose protectionist policies, such as the imposition of local content quotas on theatrical, television, and streaming platforms, limits to the number of screens on which a given movie can be exhibited, or regulating the dubbing of the features regardless of the market preferences. If adopted, such measures would severely limit the distribution of U.S. content in Mexico and would potentially contravene Mexico's USMCA commitments. Instead, Mexican policymakers should encourage open markets, investments, and collaborations that would result in job creation, knowledge transfer, and the internationalization of Mexican content through the adoption of international best practices, such as audiovisual production incentives, for the benefit of both Mexican and U.S. industries.

IP Protection

Constitutional challenges are threatening key copyright reforms enacted in 2020. In its effort to implement the USMCA, the Mexican Congress amended its Copyright Law to incorporate technological protection measures (TPM), rights management information (RMI), carefully defined "safe harbor" (including notice and takedown), and other obligations contained in USMCA's Chapter 20 (Sections H (Copyrights) and J (Enforcement). While these measures remain in force, specific provisions on the protection of TPMs and the notice and takedown procedures are currently the subject of constitutional challenges, which if successful would seriously undermine Mexico's USMCA obligations. AFTE hopes the Mexican Government will

actively defend against these challenges so that Mexico can finally and properly implement the WIPO Internet Treaties.

Competition

Despite the Mexican government's commitments, the competitive landscape in Mexico's telecommunications sector has actually become more concentrated, as the sector's preponderant economic agent, America Movil, has seen its market share by revenue increase, from 70.8% in 2019 to 73.0% in 2021 with its profit margins also increasing. The market concentration is exacerbated by spectrum fees that distort the market in favor America Movil. It is crucial that the Mexican government take steps, including spectrum fee reform, to promote competition in the telecommunications market for the benefit of U.S. exporters, Mexican consumers as well as to fulfill its obligations under USMCA.

Government Procurement

Mexico's Comission Federal d'Electricidad (CFE) is the government agency responsible for building and operating many of Mexico's government-owned communications networks. CFE is a covered entity under Mexico's Government Procurement Chapter obligations, and yet, CFE is abrogating its USMCA commitments by not giving adequate notice of public tenders, not providing enough time for suppliers to respond, and not using technology-neutral specifications. We urge USTR to reengage Mexico on its government procurement practices so that US exporters of secure Internet technologies can compete on a level playing field in the Mexican government procurement market.

Biopharmaceuticals and Agriculture Biotechnology

Three years after the USMCA's entry into force, Mexico continues to adopt and maintain policies that unfairly delay market access for U.S. biopharmaceutical products, including delays in the regulatory approval process, barriers to accessing public formularies and new public procurement processes. Moreover, Mexico has yet to fully implement key intellectual property (IP) reforms that support biopharmaceutical innovation, despite committing to do so under the USMCA. More broadly, growing legal uncertainty and a lack of transparency around government decision-making processes in Mexico are creating a challenging business environment for U.S. biopharmaceutical innovators. With the USMCA now in effect for three years, it is critical that Mexico implement and maintain systems that are consistent with its trade commitments.

Pharmaceutical Marketing Authorization Delays

In Annex 12-F of the USMCA, Mexico committed to issue determinations regarding marketing authorizations for pharmaceutical products within a reasonable period of time. Nevertheless, since early 2019, Mexico's Federal Commission for Protection against Health Risks (COFEPRIS) has severely delayed the marketing authorization process for pharmaceutical products. In addition, significant existing market access barriers remain due to lengthy, non-transparent and unpredictable procurement processes. A lack of transparency around the implementation of a National Medicines Compendium ("Compendium") and disease-specific treatment guidelines, as well as challenges and uncertainty in accessing the formularies of public health institutions, create additional delays that restrict patient access to innovative medicines.

Medical Device Regulatory Issues

In Annex 12-E of the USMCA, Mexico committed to administer its marketing authorizations for medical devices, avoiding requests for duplicative or unnecessary information and to provide marketing authorizations within a reasonable period of time. COFEPRIS has not complied with these commitments and the current time for COFEPRIS to review, or in some cases even respond to, medical device applications is two years - even for medical devices already reviewed by the U.S. Food and Drug Administration or Health Canada. Additionally, in Annex 12-E, Mexico has committed to recognizing audits of device manufacturers' quality management systems that are in accordance with the requirements established by the Medical Device Single Audit Program (MDSAP). COFEPRIS recently published NOM 241 which went into effect June 21, 2023, which creates a conflicting Mexico-unique good manufacturing practice regulation that does not allow COFEPRIS to accept MDSAP audits of medical device facilities based in Mexico, even those facilities operating under the IMMEX export-only program. COFEPRIS also routinely does not comply with the provisions of USMCA Chapter 28 on Good Regulatory Practices, demonstrated by a lack of internal operating procedures for compliance with trade obligations including the USMCA and WTO TBT Agreement and by issuing unofficial regulatory "circulars" that do not follow GRP commitments.

Public procurement

Since 2018, Mexico has made frequent and nontransparent changes to its public procurement system, some of which appear to conflict with its USMCA commitments. For example, in November 2022, the General Council for Health (CSG) amended the regulations governing the Compendium to require applicants to obtain and submit a letter of necessity from at least one CSG institution member to participate in government tenders. These new requirements and the lack of clear procedures for fulfilling them present new access barriers and were made without the public consultation process required by USMCA. In addition, recent modifications to Mexico's procurement regulations permit governmental entities to circumvent the tendering process by procuring products through a direct award, potentially leading to increased use of procurements with limited tenders in violation of Mexico's procurement policies have created significant market access barriers, resulting in supply chain challenges and product shortages for Mexico market access for Mexico and raising concerns about product traceability and patient safety.

Intellectual property protections

Mexico, in response to its commitments under the USMCA's IP chapter, promulgated the Federal Law for Protection of Industrial Property which entered into force on November 5, 2020. While this is a welcome step, implementing regulations have not yet been issued, and a number of Mexico's IP commitments pursuant to the USMCA remain outstanding.

For example, despite Mexico's recent steps to implement patent enforcement mechanisms (i.e., advance a system to resolve outstanding patent disputes prior to marketing approval and launch of follow-on products), significant concerns remain with the system. Further, obtaining effective preliminary injunctions or final decisions on cases regarding IP infringement within a reasonable time (as well as collecting adequate damages when appropriate) remains the exception rather than the norm. Additionally, Mexico still lacks measures to restore a portion of the patent term lost during the regulatory approval process and consolidation of substantive regulatory data

protection (RDP) in a federal law is still pending. Also, the new Federal Law for Protection of Industrial Property does not provide appropriate RDP for biologics, only for chemical compounds and combinations thereof, contrary to Mexico's USMCA commitments.

Biotechnology corn

AFTE was pleased to see USTR recently request dispute settlement consultations with Mexico under the USMCA regarding measures taken by the Mexican government to ban the use of biotechnology corn in tortillas or dough and gradually ban the use of such products for all human consumption or animal feed in Mexico. This decree was not based in scientific evidence and violates the Sanitary and Phytosanitary Measures and Market Access chapters of the USMCA, among others. Any conclusion to this dispute must result in the elimination of this policy and return Mexico to a science-based, transparent, and predictable regulatory pathway for innovative agricultural products. American biotech innovation supports U.S. farmers and workers, and when reviewed on a scientific basis can support affordable access to food and efforts to address climate change. We urge USTR to resolve this dispute satisfactorily in an expeditious manner.

Food and Food Labeling Regulations

We are concerned with the Mexican Government's use of regulatory actions that are not grounded in science and are not aligned with work underway at the Codex Alimentarius Commission (Codex) to develop clear global guidelines. These actions range from food labeling regulations based on non-evidence based science to direct bans on certain foods.

These actions do not align with Mexican commitments under Chapter 11 (Technical Barriers to Trade), nor with the broader WTO-TBT principle under Article 2.2 of the WTO TBT Agreement that good regulation can simultaneously protect public health without being more trade-restrictive than necessary. They demonstrate arbitrary changes to regulations, tariffs and legal frameworks without due process or warning, creating harm to industries. In order to attract investment, ensure market stability and take advantage of nearshoring, it is important for Mexico to maintain a regular and transparent legal framework.

We continue to have concerns regarding Mexico's front-of-package nutritional labeling standards (NOM-051 and NOM-086) that do not align with Mexico's USMCA commitment through USMCA consultation and other channels. As previously shared, these regulations which require warning labels on foods that do not meet government criteria make it difficult for American manufacturers to export U.S.-made food and beverages to Mexico and insufficient time for food reformulation was granted. Mexico has also recently implemented marketing restrictions for foods that carry the required warning labels, including restrictions on adult platforms and during adult content, which further negatively impact U.S.-made food and companies' ability to sell products in Mexico. We request USTR raise continued concerns with these and other regulations related to food labeling and food advertising.

Energy and Power Generation

We commend the Biden administration's decision last year to request consultations under the USMCA regarding Mexico's energy policies. However, we are concerned by the Mexican Government's failure to fix the issues raised by the United States. Mexico continues to hinder the operations of private companies in its energy sector, contrary to its own laws. These measures

include, but are not limited to, delaying, denying, or failing to act on applications for permits submitted by the private sector at every step of the value chain to import fuels, storage, transport and opening new or rebranding private retail service stations, including intimidation by Mexico's National Guard. While Mexico has resumed permits for new service stations, data from the Energy Regulatory Commission's (CRE) public register shows that from 2021 until May 2023, more than 95% of said permits had been granted to Pemex-branded service stations. On the other hand, import permits, which are key to backing long-term investments, continue to be denied without legal grounds, while some storage facilities could not start construction or operations due to the lack of timely permitting.

After USMCA energy consultations started, the Mexican Government has taken actions such as: (1) proposing several regulations with additional requirements for new and existing permits, including a ban on fuel marketer-to-marketer transactions (while paused at the moment, said regulations could be passed at any time); (2) since April 2023, limiting the number of new applications for the whole hydrocarbons market to 50 per month; and (3) reducing from 30 to 20-years the term for new service station permits on top of last year's reduction of import new import permits terms from a 20-year to 5-year term. Each of these measures hinders the free flow of energy goods and investments across borders, which is the core of any trade agreement like the USMCA.

The private energy sector does not need new laws to operate; it only needs the corresponding government regulators and policymakers to: (1) fully abide by the existing legal and regulatory framework; (2) provide timely permitting for import, storage, and service stations for all the applicants that comply with the requirements; and (3) keep a predictable regulatory framework by avoiding the enactment of new secondary regulations or administrative resolutions that hinder private companies' operations and/or impose excessive regulatory burdens, including restoring the practice of granting 20-year import permits.

Despite the request for consultations made in July 2022, Mexico has made little progress. We ask that USTR proceed under USMCA Article 31 and request the establishment of a panel (Article 31.6.1). Absent additional action, Mexico will continue to violate its obligations under USMCA.

Technical Barriers to Trade

Developments in Mexico related to energy efficiency and product safety of IT products likely violate the technical barriers to trade (TBT) provisions of the USMCA (Art. 11.6) in which Mexico committed to accept foreign conformity assessment results:

• Mexico is regulating the energy efficiency of products through a variety of duplicative and in some instances conflicting regulations, including the Energy Transition Law (ETL), the subsequent Regulation of the ETL, official standards for specific products, and country-specific tests and labels that impose additional costs and burdens on manufacturers. Mexican Metrology law, in concert with specific Mexican standards (NOMs), mandates unique and excessive annual testing requirements. For most countries, industry tests external power supplies once and only re-tests a product if it has been modified. Mexico's proposed NOM-029 deviates from this regionally and internationally accepted practice and imposes significant burdens on industry.

Industry eagerly awaits publication of the final product safety standard NOM-019-SE-2020 (Information technology equipment and related apparatus, and office equipment) in 2023. Meanwhile, the Mexican Standards Agency (DGN) will not update an equivalency arrangement under which it recognized test reports to U.S. and Canadian product safety standards. As a result of equivalency becoming invalid (once the updated NOM 019 is published and already the case for NOM 001), numerous products require in-country testing and certification to Mexico's own product safety standards. Acceptance of international certifications and test reports under international certification schemes in lieu of local testing and certification would mitigate expected bottlenecks and increased costs and delays at Mexico's local labs. Mexico's refusal to accept international accredited test lab reports means that the transition time for NOM 019 is even more important. It is expected that DGN will allow only six months of transition time, which is, in effect, only three months for industry to test and certify products because labs typically take at least three months to adapt to a new standard. Acceptance of international test reports that meet the standard's requirements and a one-year transition time for new products would address these concerns.

Customs and Trade Facilitation

The Mexican Government has still not fully complied with the letter or spirit of its USMCA customs obligations, and instead is moving to erect new customs barriers that harm the ability of American small businesses to benefit from the agreement. Mexico has yet to implement fully key USMCA commitments such as:

- Allowing periodic assessment and payment of duties (Article 7.8.1);
- Simplifying and making the SAT Customs process transparent so as not to impact the operation of the plant, especially in light of the continued confusion caused by Mexico's reorganization of the roles and responsibilities between Tax Administration Service (SAT), National Customs Agency (ANAM), Foreign Trade Auditing (AGACE) and the Armed Forces at the ports of entry;
- Permitting the ability to self-file without a broker and removing the "local" broker rule (Article 7.20) by amending or providing guidance on Reglas de Comercio Exterior (Section 1.4 Agentes y Apoderados Aduanales); and
- Publishing or otherwise communicating customs regulations that it proposes to adopt, violating the spirit of Article 7.3, as well as the USMCA chapter on good regulatory practices.

De Minimis

We remain concerned with Mexico's June 2020 increase to 17 percent of its "Tasa Global," a combination of duty and tax on all express shipments entering under simplified clearance (de minimis and informal entry) methods, including on shipments from the United States and Canada. The 17 percent flat tax rate applies to shipments under the de minimis thresholds set in USMCA at US\$117 for custom duties and US\$50 for taxes. Given that the Tasa Global includes a component for customs duties, the new 17 percent flat rate on imports valued between US\$50

and US\$117 appear to violate the USMCA. We urge USTR to request that Mexico reverse this increase.

Forced Labor

We welcome Mexico's implementation of its prohibition on the importation of goods made with forced labor, in conformity with USMCA. We appreciate that the competency to assess potential forced labor violations rests with the Ministry of Labor and Social Welfare. We, furthermore, encourage USTR, other relevant U.S. agencies, and competent international organizations to support Mexico in 1) assessing objective and verifiable allegations of forced labor and 2) advancing the implementation of sourcing countries' own domestic forced labor laws to prevent and address such issues before export.

Public – Private Dialogue

In addition to Mexico's formal good regulatory practices (GRP) commitments, we recommend the creation by the Mexican Government of forums for regular and meaningful dialogue between SAT, ANAM, other border authorities, and private stakeholders involved in the trading community in Mexico. We believe that such consultations may be helpful in addressing the concerns raised here.

Chemical Substances

So far, Mexico has not developed or implemented a risk-based chemical management system as encouraged by the USMCA Annex of Chemical Substances. This has made it more difficult to coordinate on regulatory issues that impact North American supply chains, including the use of chemicals as essential inputs to many industrial and agricultural products, including semiconductors, high-capacity batteries (HCBs), pesticides, fertilizers, and automotive goods. We should encourage Mexico to support enforcement of specific USMCA provisions to enhance regulatory compatibility such as those found in the Annex of Chemical Substances.

In addition, we would strongly encourage including Mexico in ongoing regulatory cooperation work between the United States and Canada including by establishing a new trilateral committee under the auspices of the USMCA to support the principles and commitments to risk management and assessment under this Annex. Such a committee should also discuss how best to implement the Chemical Sectoral's provisions on Data and Information Exchange (Article 12.A(5)). Sharing available data or assessments on specific chemical substances, such as full data studies or robust data summaries, would demonstrate the value of the Sectoral Annex and build trust among regulators, especially Mexican regulators, with respect to sharing data and information. As with other provisions in the Annex, the Chemicals Committee could coordinate such work with the North American Leaders Summit goals and share data on particular chemical substances that are key to mapping supply chains for semiconductors on other products and product sectors that are vital to North American competitiveness.

Small- & Medium-Sized Enterprise Growth

The USMCA recognizes the fundamental role of small and medium-sized enterprises (SMEs) as engines of the North American economy. In fact, Mexico and Canada are the top two export destinations for U.S. SME goods. For the first time in a U.S. trade agreement, the USMCA includes a dedicated chapter on SMEs, as well as other key provisions supporting these

businesses, including in the digital trade and customs administration and trade facilitation chapters.

However, the Mexican Tax Authority (SAT) has made it increasingly challenging and costly for US SME's to sell to Mexican customers. Specifically, the SAT has created barriers to US and Canadian companies to secure a Mexican Tax ID (RFC). The registration process, slow and bureaucratic compared with other countries, involves unique requirements such as a Local Mexican Legal Representative who shares 50% of the company's tax liability in the case of Foreign Entity registration, with all steps being offline and in-person. While the Mexican Fiscal Regulation outlines the possibility to register via Consulates, no specific mechanisms have been detailed to do so. We urge USTR to encourage the Mexican government to streamline its tax registration process and ease the ability for American and global SMEs to participate in the Mexican market.

Cloud Services Regulation

The advance approval process from Comisión Nacional Bancaria y de Valores (CNBV) required for IT outsourcing is extremely slow and is likely inconsistent with USMCA's Digital Chapter, which prohibits data localization requirements and requires national treatment. The IT regulations applicable to the largest types of financial institutions in Mexico require full prior authorization to use cloud services for each workload, if those services are provided from abroad or by a foreign entity (e.g., an American cloud company). In contrast, only a notification process, which is 20% faster is required if using a domestic cloud service provider (CSP) with a data center in Mexico (this includes Huawei, which has domestic data center infrastructure). While the approval process has moved faster in the past three years, going from multiple years to multiple months, it is still much slower and more cumbersome for financial services companies than other countries in the region, such as Brazil or Colombia, where only a notification (not a full approval) is required, and where financial services firms have been able to more successfully leverage cloud services (e.g. Itau in Brazil, and BanColombia in Colombia).

In fact, since April 2021, electronic payment fintechs require 1) a business continuity plan in Mexico that includes at least two cloud service providers (CSPs) from two different jurisdictions or, 2) alternatively, owned on-premise infrastructure that does not depend on the primary CSP (e.g., on premise data center and CSP). The fintech regulation ("Provisions Applicable to Electronic Payment Fund Institutions", Article 50) increases costs significantly on fintech customers and undermines their competitiveness in Mexico. Mexico's banking regulators have shared that this regulation is based on concerns about the U.S. being an unreliable partner and potentially "cutting off" cloud services to Mexico.

Electronic Payment Services

Under USMCA Chapter 17 (Annex 17-A), Mexico committed to provide market access and national treatment to foreign suppliers of electronic payments services (EPS). These obligations are consistent with Mexico's own policy goals to create competitive conditions in the financial sector through reforms since 2014. However, U.S. EPS firms face significant barriers to entry and discrimination in the domestic processing of card payments. First, the current regulatory framework in Mexico requires new suppliers to be certified by domestic incumbent suppliers—that is, their direct competitors—in order to be able to operate in the market, effectively giving

the local incumbents a veto over whether, and which, foreign companies can enter the market. Second, Mexico requires that services suppliers process all domestic transactions under a single set of technical standards and rules that are set by direct domestic competitors, instead of those suppliers' own standards and rules, that are in turn based on internationally accepted standards.

Allowing a new EPS supplier to apply its own standards and rules is critical for that supplier to be able to differentiate its business offerings, including by using its own intellectual property, and thereby demonstrate its competitive advantage vis-à-vis local firms. These elements of Mexico's domestic payments regime, individually and collectively, impede fair competition among EPS services suppliers and do so in a manner that favors domestic players. Indeed, the Mexican competition authority (COFECE) released on December 16, 2020, preliminary results of an investigation confirming that the existing market conditions do not provide effective competition in the Mexican payments industry and provides recommendations to COFECE's Board of Governors on actions to correct them and foster competition. This issue directly affects the bottom line of SMEs and households that are under-banked and part of the informal economy.

We encourage Mexico to publish relevant draft regulations for public consultation and then enact final regulations that provide the conditions for competition on a level-playing field for new entrants. These actions would not only fulfill Mexico's USMCA commitments but will also facilitate digital financial inclusion through payments innovation and fraud prevention.

Thank you for your attention to these and other important trade enforcement issues. We look forward to working with you to ensure that American businesses can compete on a level playing field not just in Mexico, but in other major trading partners the world over.

Sincerely,

- Alliance for Trade Enforcement (AFTE)
- ACT | The App Association
- Advanced Medical Technology Association (AdvaMed)
- American Petroleum Institute (API)
- Biotechnology Innovation Organization (BIO)
- Coalition of Services Industries (CSI)
- Motion Pictures Association (MPA)
- National Association of Manufacturers (NAM)
- National Foreign Trade Council (NFTC)

- Pharmaceutical Research and Manufacturers of America (PhRMA)
- Small Business & Entrepreneurship Council
- Software and Information Industry Association (SIIA)
- Telecommunications Industries Association (TIA)
- Television Association of Programmers Latin America (TAPLAT)
- United States Council for International Business (USCIB)
- U.S. Chamber of Commerce



Cc: The Honorable Ron Wyden, Chairman, Senate Finance Committee The Honorable Mike Crapo, Ranking Member, Senate Finance Committee The Honorable Jason Smith, Chairman, House Ways & Means Committee The Honorable Richard Neal, Ranking Member, House Ways & Means Committee