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AGREEMENT WITH JAPAN

Date: May 5, 2005
To: Clients, Lawyers and Friends
From: Francisco L. Gómez Víquez

On March 31, 2005 the Federal Official Gazette published an EXECUTIVE ORDER ruling the Agreement to Strengthen the Economic Partnerships between the United Mexican States and Japan and its Implementation Agreement, effective April.1, 2005.

Among the various Issues Negotiated by the Parties, stand out those related to the Trade of Goods, the Access to the Products Market, provided by the Attachment 1 of Chapter 3, Article 5 Elimination of the Import Duties in the Executive Order (AFAE Mexico-Japan) or the Free Trade Agreement with Japan.

The Elimination of Import Duties is divided into the following three stages:

- A. Immediate
- B. Mid-term – 2010
- C. Long-term – 2014

In the Industrial Sector the elimination of duties shall operate in the following manner:

- Elimination of the import duties in Japan from goods imported from Mexico:
 - 1) 91% of the tariff classifications – IMMEDIATE
 - 2) 4% of the tariff classifications – IN 5 YEARS
 - 3) 5% of the tariff classifications– IN 10 YEARS

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ARGENTINA, BOLIVIA, BRASIL, CHILE, COLOMBIA, COSTA RICA, ECUADOR, EL SALVADOR, GUATEMALA, HONDURAS, NICARAGUA, PANAMA, PARAGUAY, PERU, PUERTO RICO, REPUBLICA DOMINICANA, URUGUAY, VENEZUELA

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- Elimination of the import duties in Mexico from goods imported from Japan:
- 4) 44% of the tariff classifications – IMMEDIATE
 - 5) 9% of the tariff classifications – IN 5 YEARS
 - 6) 47% of the tariff classifications– IN 10 YEARS

Following, please find some examples of how the aforementioned elimination of duties is applied for types of products:

1) Leather Footwear

- Japan imposes an import duty of 40% on leather footwear, notwithstanding the country of origin, the duty applicable to the imports of such goods originating in Mexico will enjoy an immediate exemption.

2) Apparel

- The imports of apparel goods originating in Japan shall be exempt immediately.

3) Automotive

- Through the Quota Certificate mechanism, which exempts original goods from customs duties, motor vehicles original from Japan imported into Mexico enjoy an immediate exemption of the import duty with a limit in the number of vehicles imported equivalent to 5% of the automobile domestic market.

The quota shall be assigned to producers who have motor vehicle manufacturing operations in Mexico or in Japan.

Beyond the agreed limits regarding the imports of automobiles through a Quota Certificate, the imports shall be free of duties beginning the seventh year of Agreement duration.

4) Steel

- The imports of special Steel into Mexico, not produced in Mexico, and which is used in the manufacture of automotive products, auto parts, electronics, shall be exempt immediately.

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- On the other hand, ordinary Japanese Steel, competing with the Mexican domestic production, shall be subject to the current import duty over the first five years of the Agreement, and shall be gradually freed of duties over the next five years, that is, beginning 2011.

Elimination of Duties in the Agricultural, Food and Fishing Sector

- Mexico negotiated the possibility of exporting the goods corresponding to 796 tariff classifications, which account for 99.8% of the Mexican exports to Japan, subject to the application of preferential import duties in Japan, beginning the effective date of the Agreement.

Among the products original from Mexico and which shall be subject to a tariff-quota to the imports in Japan, through the mechanism of Quota Certificate, are pork, beef, and chicken meats, orange juice, fresh banana and fresh orange.

After the Agreement becomes effective, zucchini, tequila and asparagus, shall be exempt of import duties in Japan, while grapes and cantaloupes, shall be subject to an annual elimination of duties of 3%, and sauces and nuts to an annual elimination of duties of 5%.

In Japan, the imports of pure breed stud boars, original from Mexico, included in the six digit tariff classification 0103.10, are exempt from import duties.

Hogs not included in the above mentioned tariff classification, shall not enjoy of the application of preferential import duties.

The import into Japan of the striped, or bonito tuna fish varieties, fresh, refrigerated or frozen, original from Mexico, is exempt of import duties.

The import into Japan of yellow fin tuna fish variety (*Thunus albacares*), although this product is included in the "A" Rate of Elimination of Import Duties, meaning the product shall free of duties immediately, is conditioned to consultation between the Parties, in order to deal with issues such as the access conditions to the market for original products.

Last, the import into Japan of processed and canned fish products, caviar and its substitutes made from the eggs of other fish varieties, such as striped, or bonito tuna fish

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(Sard spp.), of the “Thunus” kind, and fillets (loins) of tuna fish (of the “Thunus” kind), original from Mexico are exempt of import duties.

The following issues should be also taken into consideration:

The Quota Certificate requires, for products original from Mexico, of the previous registration of such before the Secretariat of Economy. Subsequently, this Secretariat will issue a Certificate of Origin, with a 1-year effectiveness.

English is the official language of the Agreement.

The publication of the Applicable Rates of the General Import Duties for products original from Mexico imported into Japan, or for products original from Japan imported into Mexico shall be annual, covering from April 1 of one year through March 31 of the following year.

We will be pleased to assist you in any specific consultation you may have on the provisions of this Agreement.

Sincerely,

Francisco L. Gómez

cc: Mr. Raúl Moreyra / GRA