

This document contains an EU proposal for a legal text on Competition – section on subsidies in the Trade Part of a possible modernised EU-Mexico Association Agreement. It has been tabled for discussion with Mexico. The actual text in the final agreement will be a result of negotiations between the EU and Mexico. The EU reserves the right to make subsequent modifications to this proposal.

EU-Mexico Free Trade Agreement

EU TEXTUAL PROPOSAL

Chapter on Competition – Section on Subsidies

SECTION B

SUBSIDIES

Article X.6

Principles

The Parties agree that subsidies can be granted by a Party when they are necessary to achieve a public policy objective. The Parties acknowledge, however, that certain subsidies have the potential to distort the proper functioning of markets and undermine the benefits of trade liberalisation. In principle, subsidies granted to enterprises providing goods or services should not be granted by a Party when they negatively affect, or are likely to affect, competition and trade.

Article X.7

Definition and Scope

1. For the purposes of this Chapter, a subsidy is a measure which fulfils the conditions set out in Article 1.1 of the WTO Agreement on Subsidies and Countervailing Measures (hereinafter referred to as “SCM Agreement”) irrespective of whether it is granted to an enterprise supplying goods or services.¹

¹ This Article does not prejudice the outcome of future discussions in the WTO on the definition of subsidies for services. Depending on the progress of those discussions at the WTO level, the Parties may adopt a decision by [relevant committee] to update this Agreement in this respect.

2. A subsidy shall be subject to this Chapter only if this subsidy is determined to be specific in accordance with the provisions of and within the meaning of Article 2 of the SCM Agreement. Any subsidy falling under the provisions of Article X.11 (Subsidies Subject to Conditions) shall be deemed to be specific.
3. Subsidies to all enterprises, including public and private enterprises, shall be subject to this Chapter. The application of the rules in this Section must not obstruct the performance, in law or in fact, of particular services of public interest that may be assigned to the enterprises in question. Exemptions should be limited to tasks of public interest, proportionate to public policy objectives assigned to them and transparent.
4. Article X.10 (Consultations) shall not apply to subsidies related to trade in goods covered by Annex 1 of the WTO Agreement on Agriculture. *[placeholder for a forthcoming proposal on audio-visual services]*

Article X.8

Relationship with the WTO

The provisions in this Chapter shall be applied without prejudice to the rights and obligations of each Party under Article XV GATS, Article VI of GATT 1994, the SCM Agreement and the WTO Agreement on Agriculture.

Article X.9

Transparency

1. Each Party shall notify every two years the legal basis, form, amount or budget and, where possible, the recipient of the subsidy provided within the reporting period.
2. Such notification is deemed to have been fulfilled if the relevant information is made available by the Parties or on their behalf on a publicly accessible website, as from 31 December of the subsequent calendar year. The first notification shall be made available no later than two years after the entry into force of this Agreement.
3. For subsidies notified under the SCM Agreement, such notification shall be deemed to have been fulfilled whenever the Parties comply with their notification obligations under Article 25 of the SCM Agreement, provided that the notification contains all the information required under paragraph 1.

Article X.10

Consultations

1. If a Party considers that a subsidy granted by the other Party, which is not covered by Article X.11 (Subsidies Subject to Conditions), may negatively affect the first Party's

interests, the first Party may express its concern to the other Party and request consultations on the matter. The requested Party shall accord full and sympathetic consideration to such a request.

2. *[placeholder for a forthcoming proposal on process].*
3. To facilitate the consultation, the requested Party shall provide information on the subsidy in question within no more than 60 days from the date of reception of the request.
4. If the requesting Party, after receiving information on the subsidy in question, considers that the subsidy concerned by the consultations negatively affects or may negatively affect in a disproportionate manner, the requesting Party's trade or investment interests, the requested Party will use its best endeavours to eliminate or minimise the negative effects on the requesting Party's trade and investment interests caused by the subsidy in question.

Article X.11

Subsidies Subject to Conditions

The Parties shall apply conditions to the following subsidies, in so far as they negatively affect trade or investment of the other Party or are likely to do so:

- (a) A legal arrangement whereby a government, directly or indirectly, is responsible to cover debts or liabilities of certain enterprises is allowed provided that the coverage of the debts and liabilities is limited as regards the amount of those debts and liabilities or the duration of such responsibility;
- (b) Subsidies to insolvent or ailing enterprises in various forms (such as loans and guarantees, cash grants, capital injections, provision of assets below market prices, tax exemptions) with a duration above one year are allowed provided that a credible restructuring plan has been prepared which is based on realistic assumptions with the view to ensuring the return of the insolvent or ailing enterprises within a reasonable time to long-term viability and with the enterprise contributing itself to the costs of restructuring.^{2, 3}

Article 12

Use of Subsidies

² This does not prevent the Parties from providing temporary liquidity support in the form of loan guarantees or loans limited to the amount needed to merely to keep an ailing firm in business for the time necessary to adopt a restructuring or liquidation plan.

³ Small- and medium-sized enterprises are not required to contribute themselves to the costs of restructuring.

Each Party shall ensure that enterprises use the subsidies provided by a Party only for the public policy objective for which the subsidies have been granted.

Article X.13

Dispute Settlement

Article X.10.4 (Consultations) shall not be subject to the dispute settlement provisions of this Agreement.

SECTION C

GENERAL PROVISIONS

Article X.14

Confidentiality

1. When exchanging information under this Chapter the Parties shall take into account the limitations imposed by their respective legislations concerning professional and business secrecy and shall ensure the protection of business secrets and other confidential information.
2. When a Party communicates information under this Agreement, the receiving Party shall maintain the confidentiality of the communicated information.

Article X.15

Review Clause

The Parties shall keep under constant review the matters to which reference is made in this Chapter. Each Party may refer such matters to the [appropriate body established by the Agreement]. The Parties agree to review progress in implementing this Chapter every five years after the entry into force of this Agreement, unless both Parties agree otherwise.