Export Council of Australia
The Voice for Australia's Exporters

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Foreign Affairs, Defence and Trade Committee
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Export Council of Australia
Submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade Inquiry into Australia's trade with Mexico and the Region

1.0 Introduction

1. About the Export Council of Australia

A not-for-profit, membership based organisation, the ECA is the peak industry body representing Australia's exporters and importers, particularly SMEs. With a membership base of 1,000 and a reach of 15,000, the ECA represents companies of all sizes and across a wide range of industry sectors, including services exporters. The ECA' core activities include research, advocacy, skills development and events. Some details on the ECA's work are provided below.

1.1. The ECA works collaboratively with a number of Federal and State Government Departments to advance the interests of its members and the broader business community. These include Efic, the Department of Foreign Affairs and Trade (DFAT), Austrade, the Department of Immigration and Border Protection (DIBP), the Department of Industry and Science, the Office of Transport Security, and the Department of Agriculture. The ECA is represented on many of the advisory groups administered by the above listed agencies.

1.2. The ECA regularly provides submissions to government and its agencies on various reviews, as well as to parliamentary inquiries. These have included submissions relating to:

- the Korea-Australia Free Trade Agreement (KAFTA) and the KAFTA Customs Bills
- the Japan-Australia Economic Partnership Agreement (JAEPA) and the JAPEA Customs Bills
- the China-Australia Free Trade Agreement (ChAFTA)
- the EMDG Review
- the Inquiry into Australia's Treaty Making Process
- the Inquiry into the Business Experience in Utilising Australia's Free Trade Agreements
- the Productivity Commission review into barriers to growth in Australian services exports

1.3. The ECA also releases annual Trade Policy Recommendations (TPR), and the latest document, TPR 2014/15, includes commentary and recommendations regarding the Government's Free Trade Agreement (FTA) agenda and ways in which Government should work with industry to raise the level of understanding of FTAs.

1.4. In 2014 the ECA launched a longitudinal survey, Australia’s International Business Survey (AIBS), with Austrade, Efic and the University of Sydney, designed to capture data on the international business activity of Australian companies. The first survey captured data from over 1,600 Australian exporters, making it the most comprehensive investigation into Australia’s international business activity in more than 15 years.

1.5. AIBS 2015 (which was released on 30 July 2015) resulted from the collection of fully completed and validated responses from 1,237 companies involved in international business. The findings of this report are distinctive and significant because they provide key insights into the nature, needs, concerns and future plans of the overall Australian international business community from the company perspective.

1.6. The ECA recently also released its *Advancing Trade Development* report, which examines the trade promotion activities offered by 10 of Australia's key export competitors including the United States, United Kingdom, New Zealand, and Singapore in a bid to encourage government to take a long-term, strategic approach to developing Australia’s international trade.

2. Overview

2.1. The ECA welcomes the opportunity to respond to the Joint Standing Committee on Foreign Affairs, Defence and Trade Inquiry into Australia's trade with Mexico and the Region.

2.2. Mexico is the second largest and most interconnected economy in Latin America. Reforms by the current Mexican administration are opening new sectors and new opportunities to Australian businesses, while Mexico’s network of FTAs with North and South America make the country an useful gateway to the Americas.

2.3. Aware of the increasing importance of Mexico as a regional power and its attractiveness as a trading partner for Australia, the ECA—with the support of Austrade and the International Trade Development Fund—is finalising a research report focusing on Mexico. The report provides a practical and timely examination of the opportunities for greater engagement by Australian businesses in a reforming Mexico and is likely to be officially launched in December 2015. It examines the current business environment and Australian experience in the country, discusses the ongoing economic reforms and clarifies what they mean for Australian businesses on sector-by-sector basis.

2.4. The ECA encourages greater Australian commercial engagement with Latin America, and this report sheds some light on opportunities in one of the region’s most promising markets, which is well positioned to be a base for expanding further in the Americas. A copy of the draft report can be sent to the Committee if so desired.

2.5. At the outset, the ECA would also like to acknowledge the findings and recommendations from the 2007 Inquiry into Australia’s trade with Mexico and the Region by the Joint Standing Committee on Foreign Affairs, Defence and Trade.

2.6. The Committee at that time concluded that despite the challenges of distance, poor transport links, language and cultural differences and unfamiliar business environments, there was significant and unbridled potential within the Australia-Mexico trade relationship. The Committee stated that an FTA with Mexico was a highly desirable outcome to the Australian and Mexican governments' quest to progress and strengthen this relationship. However, at the time the Committee acknowledged that the political and business conditions in Mexico were not ideal for an FTA and sometime would be needed to develop such conditions.

2.7. While eight years ago, when the last inquiry took place, the focus for the Mexican Government was deepening and broadening its existing FTA's and implementing the final stages of the North America Free Trade Agreement (NAFTA) , Mexico is now looking to strengthen ties beyond its immediate neighbourhood, including to the Asia-Pacific.

2.8. The ECA believes that, especially given the recent conclusion of the Trans-Pacific Partnership Agreement (TPP), now is the right time to focus on enhancing the relationship between Australia and Mexico. While small in comparison to Australia's other trading partners, the commercial relationship has plenty of potential to grow. Indeed, there has increased interest in Mexico shown by Australian companies such as Macquarie Group, BHP Billiton, WorleyParsons, Ausenco, Boart Longyear, Lend Lease, Orica, Incitec Pivot, IFM, Arrium, Amcor, Futuris, Seek and Flight Centre.

2.9. Mexico is Australia's largest merchandise trading partner in Latin America and in 2014 total two-way trade between the two countries was worth $2.5 billion. Coal dominates exports to Mexico and imports are fairly evenly spread between telecom equipment, alcoholic beverages, medical instruments and passenger vehicles.

2.10. A platform for engagement already exists in the number of bilateral agreements in place between Australia and Mexico. These include MOUs on agriculture, mining, education and training, energy and political consultations, as well as a 2007 investment promotion agreement, and a 2004 double taxation agreement. Opportunities for further engagement exist in the energy, agriculture and agri-tech, telecommunications, manufacturing and mining sectors.

2.11. In response to a survey on current or prospective Mexican engagement conducted by the ECA, the majority of survey respondents were optimistic about future market opportunities in Mexico, primarily because of strong growth prospects in Mexico and the wider region. Over 40 per cent of respondents were also optimistic on basis of the potential of trade agreements such as the TPP and Pacific Alliance.

2.12. The ECA hopes this inquiry will result in meaningful outcomes for Australia and address the need for stronger commercial and socio-cultural literacy between our two countries. In response to the terms of reference, the ECA has provided a series of recommendations, which are summarised in the following section of this submission.

Summary of Recommendations

1. Create a National Strategy that sets Australia's medium to long-term framework for advancing trade development, including identifying priority markets beyond Asia. A National Plan for trade should then be developed, as recommended in the ECA's *Advancing Trade Development* report, and involve a broad consultative group consisting of representatives from government, peak industry bodies and the business community in setting the priorities and policies for trade, including trade in services.
2. Provide funding to conduct significant trade and investment events, such as an annual Australia Week in Mexico.
3. Allocate sufficient funding for the promotion of the outcomes from the TPP for Mexico, including the tariff and non-tariff benefits that will be available once the agreement enters into force.
4. Provide support for the development of practical, user-friendly tools to assist SMEs, especially services companies, understand and utilise the TPP, as well as leverage opportunities in Mexico.
5. The Australian Government and Mexican Government should consider jointly funding exchanges and secondments of key organisations the resources sector to share knowledge and improve systems and processes.
6. Elevate or expand the position of the Trade Commissioner in Mexico to better reflect the growing nature of the bilateral relationship, including investment responsibilities and the broad regional responsibilities of the role.
7. Austrade be provided with at least three additional locally based staff in order to facilitate inward investment and promote trade, particularly in key growth sectors.
8. The Department of Foreign Affairs and Trade undertake further enquiries to investigate constraints to the establishment of a direct air-link between Australia and Mexico.

Responses to the Terms of Reference

Mexico's continued elevation in the global geo-political and economic order and its implications for Australia

The Reform Agenda

Despite its potential and solid fundamentals, Mexico's economic growth has long been held back by weak competition, underinvestment in a number of sectors, an inflexible labour market and capital access issues.

In 2012, newly-elected President Enrique Peña Nieto ushered in the "Pact for Mexico", a bipartisan national policy agreement that introduced 95 public policy proposals to help Mexico overcome some of these issues.

These proposals broadly encompassed the further democratisation of Mexico's economy and politics, expanding social rights and citizens' participation in public policy and increasing Mexico's attractiveness to foreign investment in all sectors. The reforms are aimed at breaking monopolies, increasing energy production and reforming taxation and education.

Significant areas of Mexico's economy are dominated by state ownership, monopolies and duopolies, such as energy, transportation and telecommunications. This lack of private involvement has also led to investment shortfalls across the board, particularly in infrastructure.

These reforms are aimed at disrupting this anti-competitive climate by targeting monopolies to break their market dominance, as well as reform ineffectual or onerous regulation and regulatory bodies.

The hope is that this will attract needed foreign investment and expertise, and promote increased competition to the benefit of Mexican consumers and the economy as a whole.

Reforms have so far been introduced in the education, energy, fiscal policy, internal security, telecommunications and political spheres.

Most of these reforms passed through Congress in late 2014 and are expected to boost Mexico’s potential output growth by 0.75 per cent to 3.5 per cent to 4 per cent per year.

Infrastructure improvements are also coming, through the National Infrastructure Plan, which includes USD 590 billion in port, water, road, air and rail investments by 2018.

The Economy

Though sitting in the shadow of a superpower, Mexico is an economic powerhouse in its own right. It is the fifteenth largest economy in the world and is predicted to become the world’s eighth largest economy by 2050. The Mexican economy is fairly broad-based. The largest sectors by contribution to GDP are manufacturing, commerce, construction and mining. At nearly 121 million people, Mexico is the also most populous Spanish-speaking country in the world.

The country was hit harder by the GFC than its Latin American neighbours, as growth declined nearly 5 per cent in 2009, potentially owing to Mexico’s larger reliance on international markets for manufacturing exports. Brazil and Chile experienced only slight dips into negative territory, while growth remained positive in Colombia and Peru. These countries are more reliant on commodities exports, which remained buoyant on the back of sustained Chinese demand.

However, growth quickly recovered to pre-crisis levels the following year, as the Calderón administration undertook a unilateral trade liberalisation program beginning in 2009, making Mexico one of the few countries to respond to the crisis in such a pragmatic fashion. This lowered tariffs on a wide range of manufactured goods, simplified Mexico’s tariff structure and customs procedures and reduced import costs.

In 2014, estimated GDP was around USD 1.3 trillion and Mexico’s central bank expects growth of 2.5-3.5 per cent in 2015 and then 2.9-3.9 per cent growth in 2016.

Mexico employs a liberal foreign investment regime overall and there is a growing trend toward re-privatising state-owned enterprises. Only a handful of strategic sectors are not yet open to private investment.

Mexico’s stock market – the Bolsa Mexicana de Valores – is promising. While not as robust as others in Latin America, this may change now that it has been integrated together with the bourses of Chile, Colombia and Peru, into the Latin American Integrated Market (MILA). MILA is the Pacific Alliance’s largest economic integration initiative to-date.

Mexico shows discipline in its fiscal and monetary policy, so as to promote an attractive and stable environment for foreign investment. Most Mexican states also offer certain types of investment incentives. The country received a record USD 35.2 billion in FDI in 2013, signalling investors’ confidence in the country and its future prospects. Mexico became only the second country in Latin America, after Chile, to receive an ‘A’ credit rating by Moody’s in 2014.

Mexico as a Gateway

Mexico's network of 12 Free Trade Agreements (FTAs) with 45 countries—more than those of the US and China combined—allows it to benefit from both strong domestic demand and preferential access to many of the country's key export markets and over 1.1 billion consumers. This will expand further when the TPP enters into force.

Its network of trade agreements makes it one of the most connected economies in the world, and an excellent gateway to the Americas for foreign companies. Trade statistics reinforce this, with exports of goods and services constituting 32 per cent of Mexico's GDP, compared to 22 per cent in China, 20 per cent in Australia, 13 per cent in the US and 11.5 per cent in Brazil, according to the World Bank.

Mexican firms enjoy tariff-free access to the United States (US) and Canada through NAFTA, which entered into force in 1994. Thanks to this agreement, Mexico now exports around USD 1 billion in goods per day to Canada and the US, up tenfold from when NAFTA was implemented. In 2013, Mexico's exports to the US were valued at USD 244 billion.

The US is Mexico's largest trading partner by far, typically receiving approximately 70-85 per cent of Mexico's exports and sourcing around the same percentage of Mexico's imports. Total US imports increased 603 per cent between 1993 and 2003.

While countries like Brazil may have a larger economic profile internationally, Mexico's trade profile is uniquely globalised compared to its Latin American neighbours. In Brazil's case, just 17 per cent of its total exports were destined to its largest trading partner, China, in 2013, totalling just USD 41.3 million.

Mexican firms also enjoy tariff-free access on virtually all traded goods with Chile, Colombia and Peru—and potentially soon Panama and Costa Rica—as a founding member of the Pacific Alliance.

Mexico is also party to several multilateral and bilateral trade agreements with Central America, Chile, Colombia, the EU, the European Free Trade Association, Israel and Japan. Economic cooperation agreements are in place with Argentina, Brazil and Paraguay under the MERCOSUR framework. Mexico can be especially beneficial as a continental gateway for Australian businesses active in Pacific Alliance countries.

Mexico as a gateway to North America

Goods that meet NAFTA's rules of origin requirements may enter the US and Canada from Mexico tariff-free. Products qualifying as North American must use the NAFTA Certificate of Origin to receive preferential treatment under the agreement.

Mexico classifies as a Category 1 country under US export control regulations, meaning it is grouped amongst the least restrictive countries and is therefore eligible to receive US high technology products. This is essential for companies in Mexico that require US high-tech imports in their production or operation processes.

Specific import requirements do, however, still apply in a number of sectors and can be very specific. A detailed review, potentially with professional assistance, is needed to determine the exact nature of import processes in Canada and the US from Mexico.

Mexico as a Gateway to Latin America

Mexico is a founding member of the Pacific Alliance, a trade bloc that also includes Colombia, Chile and Peru, and soon Costa Rica and potentially Panama. It is aimed at boosting the growth, competitiveness and development of member economies with an ultimate goal of free movement of goods, services, capital and people between member states. It is also aimed at boosting trade between the Alliance and the Asia-Pacific region.

All members are some of the freest trading nations in Latin America, having embraced unilateral trade liberalisation initiatives or entered into FTAs beginning in the 1980s and 1990s.

The Alliance currently constitutes a market of around 214 million people, with an average GDP per capita of USD 16,500 (in PPP terms).[1] Together, the four member countries account for 37 per cent of Latin America's population, 37 per cent of GDP, 47 per cent of exports and 46 per cent of imports.

Australia is one of 30 observer states to the Alliance. Being an observer helps understand the issues being negotiated and facilitates participation in activities such as educational seminars and trade forums.

Mexico as a gateway for Australia

Both NAFTA and the Pacific Alliance offer accessible tariff benefits to Australian companies in Mexico, provided rules of origin requirements to satisfy the respective FTAs that underpin this connectivity are met.

This opportunity does not necessarily open new sectors of opportunity for Australia, but rather increases the size of the potential market to be served from Mexico – extending it beyond the country's borders – as well as create the potential for Mexico as a regional base for business activity.

NAFTA is long-standing and the existing business ties, experience and infrastructure are in place to support Australian firms establishing themselves in Mexico to serve markets to the north.

The Pacific Alliance is a much more recent initiative than NAFTA, though it has long term potential considering the Alliance's mandate to extend liberalisation to the free movement of labour and capital, in addition to goods and services.

Once fully implemented, this will allow a more efficient allocation of people and financial resources across the region to suit individual business needs. Australian companies may, for example, be able to allocate production and management personnel anywhere across the Alliance member countries.

Implications for Australia

While the rise of Mexico is well documented, one of the clear challenges is addressing the general lack of understanding and awareness about Mexico and its significance to Australia. The ECA believes high profile events can play a role in raising the profile of Australia in Mexico, increasing Australian companies' awareness of the opportunities in Mexico, and further developing the bilateral trade relationship. Providing funding for an annual *Australia Week* event in Mexico could be an effective model to bolster the commercial and diplomatic relationship.

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[1] "Business and Investment." Pacific Alliance, accessed July 15, 2015. http://alianzapacifico.net/en/#home.

The Australian Government only needs to be looking at the level of interest being displayed by the Governments of other advanced economies, such as the UK, to get a grasp of the significance of the market. Mexico is one of UK Trade and Investment's top 10 priority markets and they have invested in placing a team of roughly 30 business development staff on the ground in a business development capacity, while Australia has less than five.

While the ECA understands the Australian Government is operating in a fiscally constrained environment and needs to focus its limited resources where they will have the most impact, it can be argued that Mexico deserves greater attention.

The ECA Recommendations:

1. Create a National Strategy that sets Australia's medium to long-term framework for advancing trade development, including identifying priority markets beyond Asia. A National Plan for trade should then be developed, as recommended in the ECA's *Advancing Trade Development* report, and involve a broad consultative group consisting of representatives from government, peak industry bodies and the business community in setting the priorities and policies for trade, including trade in services.
2. Provide funding to conduct significant trade and investment events, such as an annual Australia Week in Mexico.

Potential opportunities for enhanced trade and investment ties, in particular those emanating from the proposed Trans Pacific Partnership (TPP)

The opportunities for Australian companies exist across a wide range of industry sectors including but not limited telecommunications, energy, infrastructure, manufacturing, agriculture, mining, food and beverage, health, tourism and services sectors. Here, the ECA will only highlight areas of opportunity identified through its research into agriculture, telecommunications and manufacturing. Opportunities in other sectors, namely energy and mining, will be provided in the following section of this submission.

Agriculture: Opportunities for Australia

Improving productivity and standards of living in many agricultural areas is a challenge for Mexico as it lacks the equipment and know-how. This presents opportunity for Australian agri-business and agri-tech firms.

One of the largest unsatisfied markets in Mexico is for agricultural equipment.

Both Mexico and Australia face similar challenges in agricultural production, given our comparable climates, and both countries aim to improve production in the space. Mexico is thus keen to strengthen ties with Australia in agriculture, especially in sub-tropical and tropical climates.

Likewise, Australia is keen to enhance its agricultural relationship with Mexico, especially in niche sectors and in preparation for the entry into force of the TPP.

There is potential for research and commercial collaboration in a number of areas, including:

- Tropical livestock health and welfare
- High-value horticultural products
- Nanotechnology vaccines

- Biomedical production from sugar cane
- Plant protection

This would build on Australia’s existing and long-standing research commitments in wheat with Mexico, which can be also be extended to other crops such as avocados, mangoes, macadamias, and sugar cane, and areas such as beef production.

Perth headquartered company Austar, is successfully selling its Plant Growth Regulator products throughout Mexico and in a number of other countries throughout Latin America. The products are helping producers of a range of agricultural goods, including mangoes, avocados and tomatoes, improve productivity and yields.

In August 2015, the Australian Government negotiated new health protocols with Mexico, as well as Chile and Colombia, to allow Australian companies to export a wider range of animal genetic material to these countries. New market access has been secured for bovine semen to Mexico, and the Australian government is continuing its negotiations with the Mexican government to secure greater access for other ruminant genetics. This is a growing market and there is increasing demand for Australian ruminant genetics in Mexico and in Latin America more generally. Australian producers have identified Latin American markets as high priority, so it is expected that exports will continue to increase to Mexico and across the region.

In the livestock sector, research and technology exchange is the most likely area of collaboration, as both countries seek to increase productivity while serving geographically closer markets.

Austrade notes that bodies such as Meat & Livestock Australia and the Sheepmeat Council of Australia have a strong interest in Mexico, evidenced by technical collaboration agreements signed with their Mexican counterparts.

An example is the trilateral MoU on sheepmeat cooperation signed by the Sheepmeat Council of Australia, Beef+Lamb New Zealand and the National Mexican Sheep Producers’ Organisation. The agreement covers cooperation in research and development in animal production, information sharing on industry systems, marketing and promotion experiences in building demand, and information sharing on global sheepmeat market developments.

Exports of Australian meat, processed food and beverage products to Mexico is currently relatively low. In part this is due to the competitive advantage enjoyed by Canada, the US and Europe through their FTAs with Mexico, which afford them a significant price advantage over Australian products. It is hoped the recently concluded TPP will help level the playing field between Australian and North American producers in Mexico.

Australian wine also suffers from a lack of a trade agreement with Mexico. As stated in the Winemakers Federation of Australia’s submission to this Inquiry, Mexico imposes a tariff of 20 per cent on all wine tariff lines. However, the rate is zero for countries with an FTA with Mexico (including the US, Chile and the EU), which clearly places Australia at a disadvantage in relation to Chile and EU who are Australia’s major competitors. Only a few Australian wine producers have successfully established an export market for themselves in Mexico, though lower barriers to entry are sure to encourage others to test the market.

Telecommunications reform: Opportunities for Australia

The Mexican Government's reforms have created a number of opportunities for international companies by allowing increased competition in the telecommunications sector. According to the OECD, Mexico is far behind comparative countries in terms of penetration rates, high tariffs for voice data, poor quality of service and weak consumer purchasing power.

There are several large international telecommunications companies, such as Spain's Telefonica, already active in Mexico that are either partnering with Mexican firms or holding minority shares in them.

Telecommunications concessions will no longer be issued for individual telecom services – instead, single concessions that allow operators to provide any and all telecom services will be undertaken.

This allows Australian and foreign providers to compete in every sector of the industry – open and pay TV, radio, internet, cellular and fixed-line telephony.

Manufacturing: Opportunities for Australia

Mexico is a world-leading manufacturer and the sector is one of the most promising areas of the Mexican economy. Manufacturing accounts for 80 per cent of Mexican exports and the country now exports more manufactured goods than the rest of Latin America combined.

Led by auto manufacturing's double-digit growth rates, the country's manufacturing output increased by a healthy 3.2 per cent year-on-year during quarter one 2015.

A skilled workforce, stable currency, sector-friendly government policies and advantageous geographic position all contribute to this success. As does a friendly macro environment, considering Mexico's network of liberalising and framework-setting trade agreements.

Mexico's access to North America through NAFTA is the most important of these agreements from a manufacturing point of view, considering the size of the combined US and Canadian consumer market, proximity and Mexico's lower labour costs.

Relatively low labour costs are a key ingredient in Mexico's manufacturing success. In Boston Consulting Group's (BGG) most recent Global Manufacturing Cost-Competitiveness Index, only India and Indonesia offered lower labour costs among the world's 25 biggest manufacturing exporting economies, neither of which offer Mexico's geographic advantages for the Americas.

Lower energy costs in recent times have increased Mexico's attractiveness as a manufacturing base, considering subsequent lower transportation costs when accessing the North or South American markets, especially compared with overseas alternatives.

Rising labour costs in markets like China are also a positive gain for Mexico, whose average labour costs are now lower than China's.

Automobiles and auto parts are a big component of Mexican manufacturing, though the sector also includes steel manufacturers, textiles, glass, food and beverage processing, chemicals and petrochemicals, cement and the production of other materials for the construction industry.

The automotive sector is of great importance to Mexico's economy considering it's the second most significant contributor to GDP after the oil and gas sector. Mexico's is the second largest producer of cars in Latin America and fourth largest worldwide.

Mexico serves as an attractive base for Australian manufacturing firms seeking a lower cost platform to serve markets across the Americas.

For Australian auto manufacturing, Mexico may present an opportunity to offset declining opportunity domestically and tap into existing continent-wide supply chains for auto components and manufacturing in general. It is particularly important for Australian tier 2 and tier 3 suppliers seeking to relocate and/or access global value chains.

Australian companies can establish their own manufacturing facilities in Mexico and then take advantage of tariff-free access to the US and Canadian markets through NAFTA, or look south to the markets of the Pacific Alliance, not to mention the opportunity to service the 120-million-strong domestic Mexican market.

A number of Australian manufacturers already operate sites in Mexico. Amcor, a multinational Australian-based packaging firm, for example, operates five manufacturing sites across Mexico, producing rigid plastics and tobacco packaging from Nuevo Leon in the north to Veracruz in the east.

Incitec Pivot, an Australian multinational fertiliser manufacturer, operates manufacturing sites in Guadalajara and Durango.

The Trans-Pacific Partnership Agreement

Mexico is party to the TPP negotiations, which were successfully concluded on 5 October 2015. Once the agreement enters into force it will create new opportunities for Australian companies, including in countries with which we do not currently have a trade agreement, such as Mexico. The TPP will reduce entry barriers for foreign companies in Mexico and key benefits will include:

- **Manufacturing**: Elimination of tariffs on pharmaceutical, machinery, mechanical and electrical appliances, and automotive parts to Mexico within 10 years;
- **Wine:** Tariffs will be eliminated into Mexico (between 3 to 10 years)
- **Cereals:** Tariffs will be eliminated on wheat and barley exports into Mexico (within 10 years)
- **Rice:** Rice tariffs into Mexico will be eliminated;
- **Seafood:** Tariffs eliminated to Mexico within 15 years.

Mining Equipment Services and Technologies (METS) and oilfield service providers: There will be major new commercial opportunities for our world class service providers, including through Mexico's historic liberalisation of its energy sector;

Government procurement: New opportunities for Australian businesses to bid for government procurement services contracts in Mexico in areas such as:

- Accounting, auditing and taxation services
- Management consulting services
- Computer and related services offer by all TPP Parties, along with maintenance of office machinery
- Architectural engineering and other technical services
- Environmental protection services
- Education services

There is no doubt that Australian companies are currently disadvantaged by the lack of a trade agreement with Mexico. Indeed, for Australian METS companies the impending entry into force of the TPP is expected to greatly benefit those doing business (or looking to do business) in Mexico with some commentators calling the agreement “absolutely critical” for the sector.

Australia’s competitive advantage in METS can be eroded by market access issues and regulatory barriers, owing in part to a lack of a bilateral FTA. The TPP is likely to reduce some of these barriers and at least put Australian METS providers on an even playing field with our North American and European competitors.

One Australian METS provider that runs mineral processing plants in Mexico notes they operate at a 10-15 per cent price disadvantage compared to Canadian competitors who enjoy tariff-access to Mexico under NAFTA.

Key competitors in the US, Canada and the EU have all benefited for many years from their existing preferential arrangements with Mexico. It is vital that tariff barriers are reduced so Australian companies can complete on a more level playing field. TPP can play an important role in delivering those benefits. The focus then needs to be on informing business of the opportunities and educating them on how to best take advantage of them.

The ECA agrees with the ANZMEX Business Council’s statement in their submission to this Inquiry that the same energy that has been applied to selling the Korea, Japan and China FTAs needs to be applied to the TPP, especially with regard to the new markets with which Australia will have a trade agreement, namely Canada, Mexico and Peru. The ECA believe it is crucial that sufficient funding will be allocated towards promoting TPP and its associated benefits.

It is useful to keep in mind that three Pacific Alliance members – Chile, Mexico and Peru – are also party to the TPP negotiations. The successful entry into force of the TPP could boost complementary opportunities between Alliance members and this newfound network of agreements with TPP members, including Australia.

Recommendations:

3. Allocate sufficient funding for the promotion of the outcomes from TPP for Mexico, including the tariff and non-tariff benefits that will be created once the agreement enters into force.

4. Provide support for the development of practical, user-friendly information to assist SMEs, especially services companies, understand and utilise TPP, as well as leverage opportunities in Mexico.

Scope for increased trade and commercial exchange in the resources sectors with particular reference to hard rock mining and the Oil & Gas sector in the Gulf of Mexico

Energy

The reform of the energy industry has created unprecedented opportunities, particularly in the oil and gas sectors.

Mexico is the world's eighth largest producer of crude oil, just behind Iraq and Iran. Oil not only provides export earnings, but taxes on the energy sector also contribute to a substantial proportion of government revenue.

The sector has been closed to foreign investment for nearly 80 years, leaving a state monopoly through national oil company Pemex to dominate the space. Inefficiency, accusations of corruption, insufficient capital and a lack of technical expertise to explore offshore deposits and onshore gas fields that require hydraulic fracturing to exploit are some of the factors that have driven the President Peña Nieto to reform the sector.

Ending Pemex's monopoly is expected to add 1.5 per cent to GDP from 2018, while USD 50 billion in investment is expected from foreign firms in the exploration blocks they win.

Mexico's energy reform bill was passed in December 2014, opening the sector to private participation. It also converted Pemex into a "Public Productive Company", making the firm independent and restructuring it to meet international standards. Pemex reportedly welcomes international competitors, considering it has its own plate full with internal reform and reversing declining output.

The sector has plenty of growth potential, though significant foreign investment will be needed to exploit recently discovered deep water offshore fields. Private sector participation is also expected to increase production levels and investment in both up-stream and down-stream sectors which will generate employment and economic growth.

These include a total of 670 exploration areas and 244 fields already in production, which will be auctioned off in four rounds between 2015 and 2019. Bidding on the first deep water blocks is planned for early 2016.

Energy: Opportunities for Australia

The energy sector is a beachhead for Australian trade and investment in Mexico, and opens investment opportunities throughout the sector's value chains.

Australian firms BHP Billiton and WorleyParsons have both entered the Mexican market and are eyeing both onshore and offshore opportunities. BHP was one of seven international majors authorised to pay for access to data and information about 14 exploratory areas in the Gulf of Mexico prior to their auction. Some larger Australian companies, including BHP, have a stronger interest in the deep water rounds.

BHP petroleum and potash president, Tim Cutt, called Mexico's energy reforms unprecedented and said the firm is "excited" to be part of the process.

More widely in Latin America, Woodside holds exploration permits in Peru and Karoon Energy undertakes exploration activities in Peru and Brazil.

Significant investments by these top-tier resource and engineering firms may pique the interest of suppliers across the value chain in Australia.

Australia is recognised as having the capacity and knowledge to support long-term investment and manage critical safety and environmental concerns – all of which will help build the country's profile in the Mexican market. Australians also have a strong track record when it comes to engagement with local communities and corporate social responsibility, which can be leveraged.

There are opportunities for Australian universities to partner with Mexican institutions to collaborate on research and update existing programs to help build capacity and human capability to meet the growing demand of this sector.

Pemex acknowledges the need for foreign investment in the sector, and is seeking partners for pipelines, storage terminals and industrial facilities such as power plants or fertilizer production sites, according to CEO, Emilio Lozoya.

The significant drop in the price of oil since the beginning of the reform program has led to concern over foreign interest in the sector, though Mr Lozoya does not believe this will have a major impact on international investors considering, Mexico's low production costs.

On the electricity side, Australian firms with electricity generation knowledge and expertise could see opportunity in power generation, transmission and distribution through contracts with the CFE, in the context of a more competitive electric power sector in Mexico under these reforms.

PPP projects may be implemented by the CFE to develop new transmission lines and simplify the interconnection of renewable energy projects, as well as potentially reducing network losses.

Increasing the use of combined-cycle equipment, and modernising outdated electricity plants by installing clean and efficient technologies, also presents opportunities for Australian investors.

Domestic capacity is likely to fall short of demand, increasing opportunity for foreign operators and investors to help bridge this gap. Electricity demand is projected to grow 75 per cent by 2026, though CFE only plans to increase transmission capacity by around 17 per cent during this period.

Mining and METS

Mexico is endowed with mineral resources and is one of the world's largest producers of silver and is abundant in copper, lead, zinc, gold, sulphur, fluoride, coal, iron ore and manganese. It is a top-ten producer of 17 minerals, including gold, graphite, lead, salt and zinc.

Mexico's mining sector is one of the most attractive in the world, according to consulting firm Behre Dolbear, ranking just behind mining powerhouses Australia, Canada, Chile and the US.

Mining accounts for 8.5 per cent of Mexico's industrial GDP, 2.9 per cent of national GDP and in some states over 20 per cent of the state's GDP.

The country has been riding a mining boom since reform-minded polices were launched in the early 2000s under the Fox and Calderón administrations, lowering regulatory barriers and challenging powerful mining unions.

Sonora and Zacatecas are two of Mexico's most important mining states. Sonora is the largest copper mining state (open pit) and Zacatecas is the largest silver mining state (underground).

Investment-friendly reforms have continued under the Peña Nieto administration, opening the Mexican mining sector to FDI through a process largely regarded by foreign investors as fair, transparent and free of corruption.

Mexico's mining strengths include not just abundant resources, but also a long history of mining that has developed a skilled workforce and regulatory competence in the sector, as well as strong mining infrastructure.

A number of foreign players operate in the sector, dominated by Canada, which is responsible for 70 per cent of all mining operations in Mexico. Some have termed the 2003-2013 boom an "incandescent lamp" attracting foreign miners to Mexico. Overall mining investment increased from USD 348 million in 2003 to USD 6.5 billion in 2013.

Mexico's mining sector is not just dominated by one or two minerals like other regional competitors, and includes a number of base metals and industrial minerals. The majority of production is focused on gold (26 per cent in 2013), silver (22 per cent) and copper (17 per cent).

Mining and METS: Opportunities for Australia

Mexico's potential in the mining space is exemplified by the fact that 70 per cent of its territory is still unexplored, making it a relatively young jurisdiction. Australia is well positioned to leverage this opportunity, considering our strengths in mining and exploration.

The country's untapped precious metal reserves present one of the largest areas of opportunity, and competition is expected across the board, from large global miners to smaller mid-tier and junior firms. The state of Guerrero in particular holds a lot of potential, particularly in gold mining, yet there are a relatively small number of mining companies operating there.

Australia's current mining presence in Mexico lags behind that in other Latin American markets.

Australia's presence in Mexico is led by Rio Tinto, which took a stake in the Promontorio Copper Project in September 2014, though BHP Billiton said it plans to develop copper assets in Mexico in the future.

Australian mining equipment, technology and services (METS) companies enjoy particular opportunity in Mexico, especially in the following areas:

- **Productivity**: Companies are being pushed to become low-cost producers through operational efficiencies, productivity optimisation and overall cost reduction.
- **Innovation**: This is seen as key to making the industry more cost-effective and resilient to downturns.
- **Education**: Mexico does not produce enough capital to satisfy the strong demand for engineers with specialised knowledge and experience in extraction-related areas.

- **Environment**: Mining is under great public pressure to comply with international practices around mine planning and operation, waste treatment and management and energy efficiency, as general awareness of these issues increases.
- **Community**: New approaches to community engagement are being sought to ensure mining operations help improve the provision of jobs, infrastructure, community services and fair play in the use of land – while at the same time ensuring this does not impact on the industry's competitiveness.

Mexican mining companies are becoming more technologically-savvy and are keen to bring in international partners to improve efficiencies.

They are aware of the high level of expertise and innovative nature of Australian firms, however, there is sometimes a perception that Australian technology is geared more towards coal mining. Engaging with Mexican mining companies offers an opportunity to dispel this misconception.

Mexican mining companies typically buy from North America and Europe, hence these countries tend to be top-of-mind. Utilising the services of Austrade, or participating in trade missions and mining conferences, can help with initial introductions and get companies in front of the right people.

As mentioned, community-related issues are of increasing importance in the Mexican mining space. Australia has a good reputation in Mexico for management of community issues and corporate social responsibility.

Recommendations:

5. The Australian Government and Mexican Government consider jointly funding exchanges and secondments of key organisations the resources sector to share knowledge and improve systems and processes.

Any other related matters

Austrade Resources:

The Committee responsible for the 2007 Inquiry recommended that more resources be provided to Australian Government representatives in Mexico for promotional activities such as trade fairs and exhibitions to capitalise on the strong interest in Australian products.

At the time of the inquiry, Austrade's Mexico City post was comprised of one Australian Trade Commissioner and five local staff. The Australian Government at the time felt that there were adequate resources and did not adopt this recommendation.

Austrade's Mexico City post covers Mexico, Central America and the Caribbean but the post's primary focus has traditionally been on Mexico given the size of the population and the strength of the trade relationship relative to other countries in the jurisdiction.

In the time between the 2007 review and now, two-way trade between Mexico and Australia has increased by AUD 700 million and Mexico's population has increased by 16 million.

The current Austrade office has a Trade Commissioner and three business development staff, including the education manager. This means it has less business development staff than Austrade's Peru office, a country of potential but of significantly less value to Australia's efforts in the region. Given the size and significance of the economy there is a compelling argument that there is a significant under investment. The Austrade resourcing is dwarfed by our major competitors. For example, Canada has more than 40 staff across multiple regions. The UK has roughly 30 staff. It would be appropriate to elevate the existing trade commissioner position and to add several additional positions in order to extend into additional sectors of activity, undertake investment work and better resource work in existing sectors. Indeed, it would be appropriate to add a further Australian-based position to the team. Current resourcing significantly underestimates and devalues the current and future prospects of the market. If left untended it signals a lack of ambition on Australia's part to build the relationship.

Direct Flight

The ECA support ANZMEX Business Council's submission which highlights that the lack of a direct flight between Australia and Mexico as significant constraint to building a stronger relationship between the two countries. Indeed their submission states that, "given that current Australian visitor numbers are approximately 70,000 annually and Mexico City's plan to build a USD 10 billion airport, there is reason to believe that there will be sufficient traffic to underwrite a new route connecting our two countries."

In Latin America, building strong relationships and forming trust requires a significant amount of time spent communicating face-to-face. While the distance between Australia and Mexico is not insurmountable, introducing a direct flight would help Australian and Mexican business people more easily build these relationships and generate more bi-lateral trade.

Recommendations:

6. Elevate or expand the position of the Trade Commissioner in Mexico to better reflect the growing nature of the bilateral relationship, including investment responsibilities and the broad regional responsibilities of the role.
7. Austrade be provided with at least three additional locally based staff in order to facilitate inward investment and promote trade, particularly in key growth sectors.
8. The Department of Foreign Affairs & Trade undertake further enquiries to investigate constraints to the establishment of a direct air-link between Australia and Mexico.