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**JOINT STANDING COMMITTEE ON
FOREIGN AFFAIRS, DEFENCE AND TRADE**

Trade Subcommittee

Wednesday, 7 February 2007

Members: Senator Ferguson (*Chair*), Mr Edwards (*Deputy Chair*), Senators Bartlett, Crossin, Eggleston, Hutchins, Johnston, Kirk, Moore, Payne, Scullion, Stott Despoja and Webber and Mr Baird, Mr Barresi, Mr Danby, Mrs Draper, Mrs Gash, Mr Gibbons, Mr Haase, Mr Hatton, Mr Jull, Mrs Moylan, Mr Prosser, Mr Bruce Scott, Mr Sercombe, Mr Snowden, Dr Southcott, Mr Cameron Thompson, Mr Turnbull, Ms Vamvakinou, Mr Wakelin and Mr Wilkie

Trade Subcommittee members: Mr Baird (*Chair*), Mr Snowden (*Deputy Chair*), Senators Bartlett, Eggleston, Ferguson (*ex officio*), Johnston, Payne and Scullion and Mr Barresi, Mrs Draper, Mr Edwards (*ex officio*), Mr Haase, Mr Hatton, Mr Jull, Mrs Moylan, Mr Prosser, Mr Bruce Scott, Mr Sercombe, Dr Southcott, Mr Cameron Thompson, Ms Vamvakinou, Mr Wakelin and Mr Wilkie

Members in attendance: Senators Eggleston and Ferguson and Mr Baird, Mrs Draper, Mr Edwards, Mr Haase, Mr Hatton, Mr Jull, Mrs Moylan, Mr Prosser, Mr Sercombe, Mr Cameron Thompson and Mr Wakelin

Terms of reference for the inquiry:

To inquire into and report on:

Expanding Australia's trade and investment relations with Mexico and the region with particular reference to:

- the nature of Australia's existing trade and investment relations;
- likely future trends in these relations; and
- the role of the government in identifying and assisting Australian companies to maximise opportunities in Mexico and the region.

WITNESSES

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Subcommittee met at 11.14 am

CHAIR (Mr Baird)—I declare open this first public hearing on the inquiry into Australia's trade with Mexico and the region by the Trade Subcommittee of the Joint Standing Committee on Foreign Affairs, Defence and Trade. In 2005 trade with Mexico was worth \$1.6 billion and trade in services another \$59 million. The countries of the region comprise Belize, Costa Rica, Cuba, El Salvador, Guatemala, Honduras, Nicaragua and Panama. Australia's exports to the region include dairy products, agricultural inputs, steel and other intermediate products.

There are indications that commercial opportunities are starting to grow and diversify into the services sector. Today the committee will hear evidence from and the views of representatives of the Department of Foreign Affairs and Trade. From the committee's point of view it is important that representatives from DFAT are the first to give evidence. This will enable the committee to get a broad understanding of Australia's opportunities in this region and look at the work that the Australian government is doing to facilitate trade in a part of the world that is rapidly growing.

[11.15 am]

ADAMS, Dr Michael Graham, Director, Regional Trade Policy, Trade Development Division, Department of Foreign Affairs and Trade

OWENS, Mr John Gerard, Assistant Secretary, Canada and Latin America Branch, Americas Division, Department of Foreign Affairs and Trade

WINNETT, Dr Francine Jane, Executive Officer, Canada and Latin America Branch, Americas Division, Department of Foreign Affairs and Trade

WOODS, Mr John Magnus Lamond, Director, Canada and Latin America Branch, Americas Division, Department of Foreign Affairs and Trade

CHAIR—Welcome. The committee has received your submission, No. 10. The committee prefers that all evidence be given in public, but should you wish to give evidence in private then I am sure you know the procedure. As you know, the committee does not require you to give evidence under oath, but this hearing has the same standing as proceedings before the parliament. Would you like to make a short opening statement before we proceed to questions?

Mr Owens—I will make a short opening statement. As you have noted, you have our submission, which covers the department's views in some detail. Since we submitted our paper to you, there have been some developments in the relationship with Mexico particularly. Newly elected President Calderon has been sworn in, has taken office and has appointed his ministers. We have already seen a period of quite intense activity by the Calderon administration, particularly in the areas of cracking down on crime and drug traders.

On the bilateral economic front, we have signed a memorandum of understanding with Mexico on the formation of a joint experts group which will examine ways of enhancing the bilateral economic relationship between Mexico and Australia, and we have had a short meeting with the Mexican chair of that group here in Australia, on the margins of the APEC senior officials meeting. We will have another preliminary meeting with that official in Mexico in a couple of weeks, where we will work out in detail the plan of the joint experts group, and the sorts of timing and activity and report which it will present, prior to the formation of the group later on this year for its first formal meeting. We think that will be in about April, but obviously that is yet to be confirmed. That is really the sum of our opening statement, just to bring you up to date on developments in that joint experts group.

CHAIR—Let us go to the nub of what we are about, the opportunities for Australian trade and your views on the potential of the region for Australian trade. Is it worth the effort of putting investment into trade promotion? Do we need more resources? What is the potential for a significant gas deal with Mexico, perhaps feeding up into the United States? Where do you see the best opportunities lying?

Dr Adams—The best opportunities with Mexico, I think, are at two or three different levels. You mentioned gas. Mexico has got a strong deficit in terms of its energy requirements and, for

political and constitutional reasons, it will be very difficult to deal with the looming energy crisis in Mexico.

CHAIR—Do they have their own oil reserves there?

Dr Adams—Yes, they do. They have huge oil reserves, and their state oil company, PEMEX, is very much involved in developing those resources. However, PEMEX is very indebted. It has about \$100 billion of debt and it just does not have the resources to invest in the further development of those resources. So what you find is that proven oil reserves are going down very substantially. For constitutional reasons, it is very difficult for PEMEX—in fact, I think it is impossible at the moment—to form alliances with other oil majors around the world to put in the investment that is needed to develop its oil and gas reserves.

Given that background, projections produced by the Mexican government suggest that the energy deficit will increase over time and therefore they will be dependent increasingly on imports of coal, and particularly from 2010-11 you can expect that there will be significant increases in imports of LNG. There are reasonable prospects that Australia will be able to supply LNG through some of their Pacific ports. There are very good potential opportunities in LNG and also in coal, and we have won a number of big contracts recently for coal.

In terms of other things, possibly the biggest long-term development in our trade relations with Mexico will involve services. I would imagine that growth in services trade will cluster around services linked to agriculture, energy and mining and perhaps also services linked to the requirements of 20 million middle-class people. This will be things like education, training, insurance services and financial services generally. There will also be opportunities in agriculture for processed foods. But a lot of these opportunities in agriculture are heavily dependent on getting an FTA which removes tariff disadvantages.

CHAIR—What is the potential? What is the likelihood of us cracking the gas export deal?

Dr Adams—In discussions that have taken place over the last few months, there seems to be a prospect that by about 2010-11 Australia will be able to supply LNG through some of the Pacific ports, but I do not think that anything has been set in concrete. It is a reasonable prospect.

Senator FERGUSON—I have a question that is not about Mexico. With the possible demise of Castro in Cuba and not knowing what might follow, is DFAT anticipating a change of attitude towards possible trading arrangements with other countries? Are there any opportunities for Australia? I know that they had a loan that they defaulted on 20 years ago, or something like that, which has never been paid. Is anything happening to try to get that loan repaid? Did we put a stopper on things because they defaulted? Cuba is the one country in the area with a significant population which looks like it may undergo some changes after the death of Castro. We do not know whether that is imminent or whether it has already happened or whether it is around the corner. I would not change places with him.

Mr Owens—Obviously, there has been a transition of power on a so-called temporary basis between President Castro and his brother Raul. In terms of likely changes in Cuban policy, I would note that while ever Fidel Castro remains on the scene his own personal commitment to the principles of his socialist revolution remain strong and we would expect that Raul would

maintain a similar commitment. Were the President to die, those things might change. It has been the historical experience of many of these places that the passing of the original revolutionary paves the way for changes. In this case, that might be mitigated to some extent if Raul remains on the scene. We could see some period of uncertainty and perhaps instability in Cuba. But we would note that Raul seems to have assumed control of all the levers of power. His own military background as head of the armed forces would indicate that he has strong institutional power bases. Speaking about the future, I would not be hopeful of significant policy changes in Cuba in the short term. In the medium term, however, there might be scope for changes along the lines of the so-called Chinese model.

Senator FERGUSON—What about trading opportunities? Are they likely to change at all?

Mr Owens—The most significant impediment to trade for Australian companies and, indeed, for most international companies is the United States embargo with at least the implicit threat of action against companies that trade with Cuba in contravention of that embargo. I would note that the United States selectively enforces that legislation. But, if you are a businessman looking at ways to do things, it might be a risk that you might not want to take—again, speaking fairly speculatively.

It is difficult to imagine significant changes in US policy without significant reforms in Cuban society and politics. The passing of Fidel might provide an opportunity for that, but my sense of it is that we would need to see significant changes in Cuban politics and society before the United States will change its position. Unless the United States does change its position, the calculus for businessmen wanting to do business there will not change. There are no restrictions from an Australian point of view on working with Cuba, but there are significant disincentives in terms of the United States sanctions.

Senator FERGUSON—Do you think there is a chance that Raul Castro will remain a strong influence? He is almost as well known for making short speeches as his brother is for making long speeches.

Mr Owens—I think it is difficult to say. Of course, we are firmly in the realms of speculation here.

Senator FERGUSON—It is speculation—I understand that.

Mr Owens—My personal opinion is that it is difficult to say how Raul will react. He has been in the past known for his adherence to communist principles and the party line, as it were. But he has also been seen to have done some limited reforms. So it is a difficult decision to say how he would go. We would not say that he has the personal cachet and charisma of his brother, therefore he might need to act within a more collective leadership group. It would be difficult to see how he would go at this stage. There is evidence on both sides of the sheet, as it were. If there was a collective leadership emerging then there could be more prospects for a reforming group to emerge in due course.

Mr HAASE—I want to take you back to gas and petroleum, but specifically the gas issue. Do we know the volume or value of reserves? You say they are diminishing, but what is the potential there?

Dr Adams—The potential is enormous if there is new investment, but it is the proven reserves that are going down quite rapidly. The definition of ‘proven reserves’ could in fact change quite dramatically if there is new investment and more investment in scientific exploration. The problem the Mexicans have is that most of the oil potential is in the Gulf of Mexico. Therefore, they need deepwater technology to develop those reserves. The problem is that PEMEX has the technology that is relevant for shallow water development and also for land development but not for deepwater development. In order to firstly quantify what the reserves are in terms of deepwater reserves in the Gulf of Mexico and then to exploit them, PEMEX would have to form some kind of joint venture arrangement with one of the majors. At the moment the constitution of Mexico makes this impossible.

Mr HAASE—This is the point I am getting at. Surely the majors in petroleum are clamouring for a joint venture.

Dr Adams—Absolutely.

Mr HAASE—The dollar value over time of creation of deficit by importing that energy is going to be substantial, especially in a swiftly developing environment. Surely that is going to be very strong motivation for constitutional change.

Dr Adams—I think you are absolutely right, but it is also one of those issues where most people think it would be very difficult to make that constitutional change. When people start talking about microeconomic reform in Mexico, there are a number of areas that need to be dealt with. Labour reform is critical, along with taxation reform. They need to reform the electricity sector and so on. Agricultural reform is critical. When people start looking at the various areas of reform, basically there is a consensus that perhaps the most difficult piece of reform, and the one that will fit into the jigsaw puzzle last, might be energy reform, even though perhaps it is absolutely critical and there is a crisis that is looming within the next 12 months or 24 months.

Mr HAASE—2010 to 2012 is an international window of opportunity. Western Australian producers are very conscious of gearing up to address that need worldwide. I wonder if that is a coincidence in the Mexican situation or not. My final question is: are there joint ventures with international corporations in other fields existing in Mexico?

Dr Adams—Beyond energy, yes. Australia is very well represented in mining, for example. In Australia there are joint ventures in education and lots of things.

Mr JULL—You might have partly answered this question already, but in your submission you talked about niche opportunities for Australian companies. Is that what you have just been talking about or are there other examples?

Mr Owens—A good example of the niche opportunities is Securrency, which makes polymer currency and now prints the 20 peso and 50 peso notes on its substrata. They are printed in Mexico but on substrata plastic polymer material provided by Securrency. That is, again, an example of a niche capability where an Australian company has made good inroads into the Mexican market. That is true more broadly of the region. There are a range of niche opportunities where Australian companies with quite specialised machinery and other equipment have made good sales in the region.

Mr JULL—You talked about Austrade pushing through the doors. Can you give us a bit of a rundown on just how Austrade operates in Mexico and those other countries.

Dr Adams—In very general terms, there is a senior trade commissioner based in Mexico City. There are various Austrade representatives in some of the other places, such as Monterey. My understanding is that Austrade has quite a large client base particularly involved in exploring some of these niche products. John mentioned Securrency, but there are also ways in which Austrade is helping in areas as diverse as looking at some aspects of high-quality processed foods for five-star restaurants, ways to add value to dairy exports and ways in which to sell more mining technology. Mining technology is one of those areas where there is potentially a huge market in Mexico. The problem is that, under NAFTA, American technology comes in with zero tariffs; ours has a tariff of 25 per cent or more. Austrade is very active in trying to develop certain niche markets in both merchandise trade and in services, but there are key impediments that it has to battle against. In merchandise trade the key impediment is tariffs, but then there is a whole range of regulatory and other burdens linked to services.

Mr JULL—Why have we done so well with dairy?

Dr Adams—We have done well with dairy, unlike with beef where our trade has certainly gone down over the last few years, because we have not tried to compete with bulk products. We are never going to be able to compete with bulk products given the distance and cost factors, the efficiency of certain sectors of the Mexican dairy industry and, particularly, the efficiency of the American dairy industry. We are competitive at getting into some of the high value added products such as yoghurts. Also, some of those very specialist areas like that dairy product type covering to pills and potions are very niche opportunities, but high value added, where a number of our Australian dairy companies are looking to add value and to grow trade in the medium term.

Mr JULL—The other thing I am interested in is that you seem to have a lot of hope in relation to Panama and some of the things going on there, particularly in engineering. Can you update us on what you see for Panama.

Mr Woods—Essentially, the opportunity with Panama is in the expansion of the canal.

CHAIR—Is that widening or deepening? Or both?

Mr Woods—We have gone into that a little in the submission. That opportunity is emerging, but it is also going to require a strategy to maximise our interests in developing what we can get out of that. But I think Austrade in particular is already giving some attention to that, and no doubt you will hear more about that during your visit to Mexico.

Mr EDWARDS—In your submission you note that about half of Mexico's population lives below the poverty line. You also say that the country is divided politically, economically and socially and that they must advance an ambitious economic and social reform package in the face of an opposition controlled congress. This is at a time when last year their economy grew by about three per cent, I think, and you were saying it had to grow by about six per cent. I just wonder: what is the social and political stability of Mexico? How is it likely to evolve over the next couple of years, which are obviously going to be fairly difficult?

Mr Owens—I might start off and then seek my colleagues' views. Mexico is in a period of transition which has been going on since the previous Fox administration. Prior to that, with the long rule of the PRI, the Institutional Revolutionary Party, it was a very centrist form of government. The congress was little more than a rubber stamp. The presidential powers were virtually unchallenged. The federation was very weak and Mexican states had very little power. I think since the rise of the PAN—the third party—which has produced both President Fox and President Calderon, we have seen congress become much more assertive in its role of seeking to exert more influence on government policy. We also have seen the states rise in their power relative to the centre. In part, this was a deliberate policy of the PAN government to try and redistribute power away from the traditionally PRI dominated presidency. So in Mexico in the last seven or eight years we have seen a diffusion of power away from the previously very strong centre towards a more diffuse power structure more like the American system, with a strongish congress, a strongish presidency and also more assertive states.

This is occurring at a time when Mexico's economic competitiveness has been subject to severe challenge, especially from China. This has caused a degree of economic and, indeed, social dislocation. So Mexico is in something of a period of transition. I do not necessarily think there will be instability, however, although I would note here the longish period of instability of some months in Oaxaca state until the early part of this year. Nevertheless, it is undergoing a transition and there are some signs of strain. But I think that certainly Mexican democracy is very resilient. The Mexican people and government seem to be aware of these issues. It is a question of transition but I do not think necessarily instability. But they are under significant challenges. Perhaps John or Francine might like to add to that.

Dr Winnett—Mexico has a problem with a very unequal distribution of wealth. Because the election result was so close—the left-wing opposition only lost by a very small margin—the government has recognised that it is going to need to do something about poverty alleviation. So social programs are going to be incredibly important and, of course, they are not always consistent with moves towards a more open economy, which may very well have some effect on our interests in Mexico.

The other problem is the growing law and order problem, which the government is currently addressing. The problems with the drug gangs increased during the previous administration. President Fox certainly recognised those issues as problems and did try to address them but he did not do that terribly effectively. But President Calderon, even though he has not been there for very long, is starting to make some inroads there. It is looking like, hopefully, the drug gangs might be pulled back a bit. That will help, obviously, assist the law and order situation and stability in general.

Dr Adams—The government is certainly trying to pursue a poverty reduction program. At the same time it is trying to push ahead with micro-economic reform. How these two are balanced will be very difficult. If they are to be balanced correctly and well and if Mexico is going to move forward and achieve the rates of growth that it needs—around five or six per cent a year—to absorb a strongly increasing labour force then I think that PAN and the presidency will have to form coalitions with the PRI. There are indications that that might happen, but that will be the art form. There needs to be a political basis for and political support for not only poverty reduction but also comprehensive micro-economic reform. If you do not get that sort of coalition building between the PAN and the PRI then I think it will be very difficult indeed to get the sort of

increased economic efficiency that you need to get the five, six or seven per cent growth rates that they really do need to reduce unemployment and reduce poverty.

Mr CAMERON THOMPSON—I was reading your comments about the takeover bid for Rinker by CEMEX and the value of that. You made a comment that it might indicate increased Mexican interest in investing in Australia. Can you talk some more about that and what is happening, if there is any sign of this interest?

Mr Woods—Obviously Rinker has rejected the CEMEX bid. I do not think there has been a second bid from CEMEX, but anecdotally there is some increasing interest in investment both ways. From memory, I think QBE might have just invested in an insurance company in Mexico, but I would need to confirm that with you. What this reflects is just a growing awareness of the opportunities that are there. One of the very important roles that you as a trade subcommittee can play is to increase the awareness and understanding of those opportunities. In relation to niche opportunities, for example, I think it is fair to say that there still is not a huge amount of information and understanding in Australia about opportunities in Mexico, and, very distinctly, the other way around—there is much less understanding in Mexico about opportunities for a greater economic relationship with Australia. To address that issue is a challenge for us all and I think this trade subcommittee will play an important role in doing that.

Mr CAMERON THOMPSON—What was the motivation for that particular takeover? Do you have more as to the reason or what CEMEX was hoping to achieve by doing that?

Mr Woods—I think it was a straight commercial decision on their part. They saw Rinker as a major building and construction company with very significant assets in the United States. They saw a commercial fit. In fact, they have done another takeover with a UK company. I think they saw it as part of their commercial strategy to aggregate and to become a stronger multinational operation as a result.

Mr CAMERON THOMPSON—So you are saying that subsequently they have moved on and they have invested with a UK firm?

Mr Woods—No, this happened before. I am not sure about the time lines in this, but my understanding is that, as I said, Rinker had rejected the bid. There may be some scope for CEMEX to come back and look at that again, but my understanding is that they have not made a second bid for Rinker.

Mr CAMERON THOMPSON—Is CEMEX a government type operation or—

Mr Woods—No, my understanding is that it is a private sector company in Mexico. Its major interest is, as the name suggests, cement building construction and so forth. They saw Rinker as being a very good fit for their corporate objectives.

Senator EGGLESTON—You mentioned in your submission that negotiations on a bilateral air services agreement were finalised in March 2005 and that Qantas and Mexicana signed a code-share agreement in July 2006. Have there been any developments that you can report about air services being instituted between the two countries?

Mr Woods—We could say firstly that those code-share arrangements are operational and working satisfactorily as far as we are aware. As to the actual ratification of the agreement, there is still some discussion between our authorities and the Mexican authorities on the final wording of the agreement and there are exchanges going on on that issue right now. But certainly the code share is operating.

Mr SERCOMBE—We have been talking, appropriately I guess, more on the bilateral Mexico-Australia connection, but within a multilateral context—APEC is the obvious example—there is a network of links as well. I am wondering if you could give us a bit of an insight as to how Mexico views its network of multilateral relationships that Australia is part of and how importantly it would regard APEC as one example of that compared with other relationships in the context of NAFTA, for example.

Mr Owens—I will start on this and invite colleagues to come in. As I said, we met with the Mexican delegation to the first APEC SOM a few weeks ago. I can certainly respond from that that the Mexicans place a great deal of importance on APEC as a way of binding them with emerging large economies of the Asia-Pacific area. They place a great deal of importance on APEC. Mexico is also a member of the OECD. It is really the only developing country member of the OECD. Of course, as you mentioned, Mr Sercombe, it is also part of NAFTA.

Mexico is a very vibrant multilateral player in the world. It seeks to lead on a number of issues. It seeks to be in some ways a bit of a bridge between the developing world and the developed world, given its proximity to the United States and its own status within the developing world. Certainly from the point of view of APEC, it is an enthusiastic and important member of APEC and adds much to the organisation.

Dr Adams—I think one point about Mexico and the WTO is that we do work with Mexico reasonably closely on issues like agriculture reform. But one could add the caveat that over recent years, whilst Mexico has been reasonably active in a WTO context, most of its trade policy focus has been bilateral.

Mr HATTON—On a similar line but from another angle, I heard the other day that Mexico has just passed Colombia as the biggest exporter of illegal drugs to the United States. That must change the way in which it is perceived. Colombia's reputation is significantly poor. How would that run into the mix? The key question, though, is this: with the next presidential election coming—

Mr Owens—In the United States?

Mr HATTON—Yes. There are strong campaigns from both the Republicans and the Democrats. There is a very significant Hispanic population in the United States, and there are continuing and significant enforcement problems on the border. There are the Democrat initiated NAFTA arrangements, the border problems and the distribution of the Hispanics in the southern areas. Would you see any significant differences should the Democrats come to power, whether the dynamics of the relationship would change much? Will what happens between now and then have an impact on that election?

Mr Owens—It is a little outside our area of expertise.

Mr HATTON—I understand.

Mr Owens—Mexico obviously has a very broad and dynamic relationship with the United States but certainly within the United States it tends to be viewed through the prism of illegal immigration. Mexico is trying to broaden that. I think part of the reason behind Mr Calderon extraditing to the United States the drug suspects earlier this year was to signal to the United States that Mexico is an important partner in a range of things, and that certainly hits on the drug question that you raised, and trying to broaden the perception of Mexico in the United States away from the illegal immigration issue. I would not call myself even remotely qualified to comment on how United States policy will vary between Democrats and Republicans, but I would note that Mexico's view is that it wants to be taken more seriously across a broader range of issues by the United States than to be singularly viewed through the prism of illegal immigration. I would say that officials of the United States government understand this. It is more a popular perception of how Mexico is viewed within the United States—where illegal immigration looms largest—rather than an official perception.

Mr Woods—I think we might need to qualify a little your initial comment about Mexico taking over from Colombia as a major source of drugs. It is a question of whether the drugs originate in Mexico or come through Mexico, and I think it is probably the latter. But I do not know the source, so it might just be worth verifying that information. I certainly would agree with John's comments. I think it is too early at this stage to really predict how the Republicans or the Democrats might come down in terms of the relationship with Mexico, but it is a very important relationship for the United States in any case. Both will have to identify and respond to those challenges.

From the Mexican point of view, they are obviously very conscious of the issue of illegal immigration. I think they want to try to work out means with the United States of minimising this as a problem between the two countries. But we also have to bear in mind that the number of Mexicans in particular in the United States provides a financial return back to Mexico and supports and addresses some of those issues of poverty in that country. It is a complex issue and one that is not going to be resolved quickly.

Mr HATTON—The other question I have is on the car industry in Mexico and the relationship between theirs and the Brazilian car industry. Some years ago when I was in Brazil there was the start of a movement of manufacture to Mexico and strong competition from Mexico as a manufacturing base. I know the member for Corio has gone there and looked at that. It is very high-tech. The US does not have as many problems with cars coming in from Mexico as they have from other places. Do you know whether that balance has changed, because it is a very important driver in terms of the Mexican economy?

Dr Adams—My understanding is that once NAFTA was implemented—and indeed even before NAFTA—the Mexican car industry was increasingly integrated with the US and the Canadian industries. Post NAFTA, I believe you are talking about one North American market and, basically, one North American centre of production. My understanding is that this is quite different from, let us say, the sort of industry that has grown up in Brazil.

The point you make about the importance of the car industry in Mexico is a very important one. If we were at some stage in the future to start considering an FTA with Mexico, I think you

would inevitably see some interest on the part of Mexico in trying to get duty-free access to our car market. One of the things that has happened over the last few years is that there has been an increase in imports of Mexican pistons and various car parts. In fact, there was quite strong growth in the last couple of years. There has also been a modest increase in the import of fully built vehicles, particularly pick-up trucks, farm vehicles. So your point about the importance of the car industry in Mexico is important. It could potentially have all sorts of implications for us over the medium term.

Mr PROSSER—I note from your submission the loan default rate in Cuba, but I also note that we export dairy products to Cuba. Given the American ban on Cuba, do credit cards operate in Cuba?

Mr Owens—I will have to take that on notice, but my sense is that, yes, they do. Cuba is quite a significant tourist economy.

Mr PROSSER—The reason I mention that is that when we went to Tehran, credit cards did not operate there because the Americans will not allow them into their system. The irony is that the only money you can take to Tehran and Isfahan is US dollars.

Mr Woods—We will give you a precise answer on that.

Mrs MOYLAN—I was there in 1999. As I recall it, only the American Express card did not work. I think there was a ban on American dollars but everybody wanted to be tipped in US dollars. A lot of the taxi drivers were engineers, doctors, professionals. They earned more money from tips in US dollars than they earned from their professions. So a lot of the taxi drivers were highly educated and interesting characters.

Mr PROSSER—The reason I ask that question is that, in my view, when Castro dies Cuba will open up very substantially and whoever is on the ground first will gain some advantage.

Mr EDWARDS—You might only be there for three days, though!

Mr Woods—My understanding is that if you have a credit card or travellers cheques that have any link with the United States then that becomes very difficult. But if you have travellers cheques in euros, written on a European bank, there is not a problem. And you can certainly take cash. But we will get the precise information for you, because it is useful to know.

CHAIR—Where are we at in terms of the progress of the free trade agreement with Mexico?

Mr Owens—As I said, we have now agreed to establish the joint experts group. It is envisaged that, as well as government officials, this group will bring together experts from business and, indeed, academia to discuss ways to enhance the bilateral economic relationship in trade and investment between Australia and Mexico. From an Australian point of view, our focus is for an FTA to be the centrepiece of any recommendations that this group comes up with. It is hard to put a time line on it but the group will begin its formal meetings probably in April this year—that is our plan at the moment, subject to the Mexican agreement—with a view to producing a report for both governments. As I said, we would like an FTA to figure significantly in that report. We note that recent Mexico FTAs have come some way back from the very

comprehensive model they pioneered with NAFTA. Mexico's more recent FTAs have had more carve-outs to protect sensitive industries and products.

Australia's approach to FTAs is for them to be comprehensive WTO-plus that cover market access and liberalisation across a very broad range of products and services as well as providing for secure investment regimes and the like. That would be the ambition that we would take to the joint experts group in Mexico. In terms of the process, I think we are at the beginning of what is, in effect, a study on it. We have done our own study, which I understand the committee has. It indicates that we believe a comprehensive FTA would be of significant benefit to both economies. That is certainly the sort of approach we will be taking into the joint experts group process.

Mr Woods—I would just emphasise, though, that the government has taken no decision to move forward with an FTA with Mexico. That will be months, if not years, away and will basically be informed by the outcome of the work of the joint experts group. There is no decision to go ahead and negotiate an FTA with Mexico at this stage.

Dr Adams—Also, perhaps the Mexicans themselves might not really want a high-quality comprehensive FTA. Their priorities at the moment are poverty reduction and as much micro-economic reform as they can get. I think that for them the idea of a high-quality comprehensive FTA like we would be wanting might be a bridge too far at the moment, simply because they would say that their economic efficiency levels are fairly low. They need time to increase their own efficiency and productivity, otherwise their business sector would argue that if they have a high-quality FTA with Australia then what happens is that they do not export very much to us and we export a lot to them. So I think the political and the business conditions in Mexico at the moment are not right for an FTA. It will take time to develop those sorts of conditions.

CHAIR—As there are no further questions, thank you very much.

Resolved (on motion by **Mr Jull**):

That this subcommittee authorises publication, including publication on the parliamentary database, of the transcript of the evidence given before it at public hearing this day.

Subcommittee adjourned at 12.02 pm