

Australia – Mexico Free Trade Agreement

- 6.1 As the preceding chapters have shown, one of the most significant impediments to trade involves tariffs. As DAFF representatives pointed out:

Mexico has an economy which is growing, a rising middle class and higher incomes, so we would expect there to be increased demand for food products that Australia could export to Mexico in the future. However, one of the constraints on Australian exports to Mexico is the high transport costs; that is one aspect. *The second aspect is the tariff advantage which countries like the United States and Latin America have against Australian products because they have got FTAs with Mexico (emphasis added).*¹

- 6.2 Mexico has embarked on more Free Trade Agreements than any other nation with a network of agreements spanning 43 nations.² As the evidence the Committee has received shows it is an FTA between Mexico and Australia that would have the biggest positive impact on trade and investment between the two countries. This chapter examines this issue.

¹ Mr Bruce Bowen, General Manager, Bilateral Trade Branch, International Division, Department of Agriculture, Fisheries and Forestry, *Evidence*, 22/06/2007, p. 18.

² Embassy of Mexico, *Submission No. 3, Vol 1*, p. 34.

The possibility of a Free Trade Agreement (FTA) between Australia and Mexico

- 6.3 When the Australia-Mexico Joint Experts Group (JEG) meets, one of the first items it will consider will be studies by both countries on ways to strengthen the economic relationship. DFAT's study found that both countries stand to benefit from an ambitious, comprehensive FTA that would complement programs in both countries to promote increased economic efficiency and greater competitiveness on world markets.³
- 6.4 During the Committee's visit to Mexico some reference was made to a potential free trade agreement between Mexico and Australia. It appeared that key Mexican Ministers and officials are cautious about this possibility.
- 6.5 The reality according to Mexican Government Ministers and politicians is that the intention is to deepen and broaden Mexico's existing FTA's rather than begin negotiating new agreements.
- 6.6 Notwithstanding this view senior Mexican officials encouraged the Committee to persuade Mexican business leaders of the value of an FTA with Australia.
- 6.7 The Committee was also encouraged in by evidence given to the Committee by the Mexican Ambassador to Australia:
- Mexico is the first trading partner for Australia in Latin America. My government would like to continue working with Australia in opening new avenues that maintain the momentum of our bilateral relations. Let me assure you that the Mexican government is completely committed to working towards stronger cooperation with Australia in all areas, and the Embassy of Mexico will be working every day to achieve those goals.⁴
- 6.8 In meetings with a Parliamentary Delegation from Mexico the Committee received strong assurances that an FTA would be welcomed in Mexico.

3 DFAT, *Submission No. 10, Vol 1*, p. 142.

4 Ambassador Martha Ortiz De Rosas, Ambassador, Embassy of Mexico in Australia *Evidence*, 28/02/2007, p. 2.

Strategic benefits to both countries:

- 6.9 Both countries could benefit strategically from an FTA that complemented and reinforced existing trade agreements with the US and various East Asian countries, and Mexico's FTAs and people-to-people links with Central and South America.⁵
- 6.10 For Australia, Mexico's close proximity to the US and its dense cross border supply networks could amplify access advantages conferred through the Australia-US FTA.
- 6.11 For Mexico, an FTA with Australia could form part of its long term strategy to diversify trade and investment networks, and expand commercial and economic relations with the Asia-Pacific region.⁶
- 6.12 There could be strategic benefits from accessing Australian skills and knowledge on a fully commercial basis to increase Mexico's competitiveness in the key US market.⁷

Specific benefits to Australia

- 6.13 Australia would benefit from closer economic relations with one of the world's most important developing countries whose middle class population – estimated at around 20 million – enjoys large and increasing disposable incomes.
- 6.14 An FTA between Australia and Mexico would boost trade in the following Australian products:
- agricultural commodities;
 - processed foods, wine, and mining technology that are restricted by tariffs and non-tariff measures;
 - energy-related services that are restricted by rules on government procurement;
 - education and training services that are hindered by recognition of academic qualifications and professional experience;

5 DFAT, *Submission No. 10, Vol 1*, p. 142.

6 DFAT, *Submission No. 10, Vol 1*, p. 142.

7 DFAT, *Submission No. 10, Vol 1*, p. 142.

- activities ranging from franchising to property management to business services to agri-business that are limited essentially by lack of awareness; and,
- investment flows that are limited by sectoral regulations and caps on foreign investment.⁸

Specific benefits to Mexico

6.15 Mexico would benefit from closer economic relations with Australia which is the third largest economy in the Asia Pacific region. Australia enjoys a complex network of political and economic linkages with East Asia and beyond.⁹

6.16 An FTA could:

- advance Mexico's interests in manufacturing (for example, in automobile parts, food and beverages, and textiles, clothing and footwear) and horticulture.
- lead to more foreign investment in Mexico – a key Mexican objective in all its FTAs;
- lead to up-grading the priority attached to commercially-based and possible government-to-government cooperation in:
 - ⇒ agri-business (farm management, abattoir management, farm logistics, dry land farming, water management, tropical agriculture), quarantine (diseases in poultry and pigs, fruit fly problems),
 - ⇒ processed food (food standards, food safety); and
 - ⇒ mining services (mine construction, minerals processing, mine safety, transport and logistics), and education and training (English language, technical and vocational training, and post-graduate training in agriculture, engineering and information technology);¹⁰ and
 - ⇒ long distance education.

8 DFAT, *Submission No. 10, Vol 1*, p. 142.

9 DFAT, *Submission No. 10, Vol 1*, p. 142.

10 DFAT, *Submission No. 10, Vol 1*, p. 142.

Sensitive issues in possible FTA negotiations

- 6.17 As a global manufacturing giant, Mexico could be expected to press for increased access to the Australian market for manufactures across-the-board. ¹¹
- 6.18 Australia is a largely open market for most categories of manufacturers, but tariffs above 5 per cent will continue to apply over the medium term particularly in automobiles and textiles, clothing and footwear (TCF). Evidence suggests that Mexico would seek preferential concessions in sensitive areas such as automobile parts that are at least equivalent to concessions made in Australia's existing bilateral FTAs. It also is likely that Australian industry would be critical of market liberalisation that went beyond existing industry plans for the auto and TCF sectors. ¹²
- 6.19 Mexico is competitive as an exporter of horticultural products, and may want to use an FTA with Australia to increase access for these products, as it did most recently in FTA negotiations with Japan. Access for avocados, citrus and table grapes could be key objectives. ¹³
- 6.20 On the Mexican side, access for Australian meat, dairy and wine could be contentious. Agriculture has consistently been the most sensitive issue in Mexico's FTAs. ¹⁴
- 6.21 It should be noted that, under the North America Free Trade Agreement (NAFTA), Mexico took on comprehensive access commitments, but insisted on long phase-ins – 10 years or more – for eliminating tariffs on commodities like cereals, dairy, sugar, oil crops, and intensive meats. ¹⁵

Other views on FTA negotiations

- 6.22 The Committee received submissions, from the Australian Manufacturing Workers' Union (AMWU) ¹⁶ and the Australian Free

11 DFAT, *Submission No. 10, Vol 1*, p. 143.

12 DFAT, *Submission No. 10, Vol 1*, p. 143.

13 DFAT, *Submission No. 10, Vol 1*, p. 143.

14 DFAT, *Submission No. 10, Vol 1*, p. 143.

15 DFAT, *Submission No. 10, Vol 1*, p. 143.

16 AMWU, *Submission No. 4, Vol 1*, p. 47.

Trade Investment Network (AFTINET) ¹⁷ that urged caution in the pursuit of a bilateral free trade agreement with Mexico.

6.23 The AMWU were concerned that an FTA with Mexico could affect manufacturing jobs in Australia, ¹⁸ and would;

... strongly oppose Australia entering a free trade agreement with Mexico that was based on the type of models used in the Australia – Singapore; Australia – Thailand; or Australia – United States of America Free Trade Agreements.) ¹⁹

6.24 AFTINET suggested the following four principles as a guide to Australia's approach to trade relations with Mexico:

- Any trade negotiations should be undertaken through open, democratic and transparent processes that allow effective public consultation to take place about whether negotiations should proceed and the content of negotiations.
- Comprehensive studies of the likely economic, social and environmental impacts of trade agreements should be undertaken and made public for debate and consultation.
- Trade agreements should not undermine human rights, labour rights and environmental protection, based on United Nations and International Labour Organisation instruments.
- Trade agreements should not undermine the ability of governments to regulate in the public interest. ²⁰

Australia's approach to FTA negotiations

6.25 Australia's general approach to FTA's 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.²¹

17 AFTINET, *Submission No. 12, Vol 1*, p. 167.

18 AMWU, *Submission No. 4, Vol 1*, p. 49.

19 AMWU, *Submission No. 4, Vol 1*, p. 59.

20 AFTINET, *Submission No. 12, Vol 1*, p. 169 - 170.

21 Mr John Owens, Assistant Secretary, Canada and Latin America Branch, Americas Division, DFAT, *Evidence, 7/02/2007*, p. 12.

6.26 DFAT explained that:

The benchmark for an FTA with Mexico should be our FTA with the US and Mexico's FTA with its NAFTA partners. Australia seeks a high quality, comprehensive FTA that is consistent with our key criteria for selecting potential FTA partners and with Mexico's demonstrated capacity in NAFTA to commit to negotiating and implementing a genuinely comprehensive FTA. We judge that a lesser agreement would not deliver significant benefits to either country.²²

The Committee's view

- 6.27 It is clear that an FTA with Mexico is a highly desirable outcome for the Australian and Mexican governments.
- 6.28 With regard to the views expressed by the AMWU and AFTINET submissions the Committee is of the view that Parliamentary scrutiny and public accountability such as that provided by the Joint Standing Committee on Treaties, is sufficient to achieve the right balance in social, economic and environmental interests when the Australian Government negotiates trade agreements.
- 6.29 Given the evidence to the Committee of the high level of engagement between Mexican and Australian Government officials (particularly the Joint Experts Group) it is the view of the Committee that the relationship between Australia and Mexico is on a strong footing and is progressing in a manner that is beneficial to both countries.
- 6.30 Although the Committee acknowledges some divergence in the views expressed by Mexican officials regarding an FTA the Committee emphasises that discussions on the concept of the FTA between Australia and Mexico with Mexican Parliamentarians were encouraging.
- 6.31 The Committee notes the following evidence given to it by DFAT:
- 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

22 DFAT, *Submission No. 10, Vol 1*, p. 144.

with Mexico at this stage.²³

- 6.32 The Committee also notes that this year is the final year of NAFTA implementation and ‘ . . . 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.’²⁴
- 6.33 The Committee considers there is a good argument for an FTA with Mexico and is encouraged by the benefits this would bring. What is needed is a strong signal to the Mexican Government along these lines.
- 6.34 The Committee therefore recommends that the Australian Government continue negotiations with a view to developing an FTA with Mexico.
- 6.35 This will serve to send the strong signal that is needed and will offer support to those Mexican Ministers, parliamentarians, officials and business people who are supportive of an FTA between the two countries. The Committee notes that, for both countries, agriculture is a sensitive area and recommends that issues relating to agriculture should be determined at an early stage of the negotiations.

Recommendation 5

- 6.36 **The Committee recommends that the Australian Government move forward with a high quality comprehensive FTA with Mexico. In any negotiations, issues relating to agriculture should be determined at an early stage.**

23 Mr John Woods, Director, Canada and Latin America Branch, Americas Division, DFAT, *Evidence*, 7/02/2007, p. 12.

24 Dr Michael Adams, Assistant Secretary, Regional Trade Policy, Trade Development Division, DFAT, *Evidence*, 7/02/2007, p. 12.