



Submission No 13

Australia's trade with Mexico and the Region

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Australian Government
**Department of Agriculture,
Fisheries and Forestry**

Submission

**Inquiry into Australia's Trade and Investment Relations with
Mexico and the Region**

Trade Sub-Committee
Joint Standing Committee on Foreign Affairs, Defence and Trade

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Executive Summary

Key Agricultural Trade Statistics At a Glance

Australia's agricultural exports to Central America are primarily composed of live animals, meat and dairy products and leather.

- Total portfolio exports to Central America were valued at \$A156 million in 2006
 - Exports to Mexico were \$A125.8 million.

Portfolio imports from Central America are modest and mainly comprise coffee and alcoholic beverages.

- Total portfolio imports from Central America were valued at \$A81.9 million in 2006
 - Imports from Mexico were \$A68.6 million.

The agricultural trading relationship between Australia and Central America is positive, supported by constructive bilateral working relationships between government officials. Ministerial engagement on bilateral portfolio issues and cooperation is also active, with a number of successful visits by both Australian and Mexican portfolio Ministers over recent years that have further strengthened growing ties between the two countries. In November 2006, Australia and Mexico established a Joint Experts Group to further strengthen the bilateral relationship, including the possible consideration of negotiating a Free Trade Agreement (FTA) at some time in the future. The red meat, dairy and wine industries have indicated their support for a FTA with Mexico.

At officials' level, there is a range of mechanisms which facilitate improved understanding and cooperation between Australia and Mexico, including a Memorandum of Understanding (MoU) which was signed in 2003 between the Australian Government and the State of Hidalgo, Mexico, on cooperation and friendship in agriculture and livestock.

While Australia has an overall trade deficit with Central America, there is a significant trade surplus in agriculture and food, with agricultural exports comprising 14 per cent of Australia's total exports to Central America in 2006. The major agricultural commodities exported are live animals, meat (sheep and beef) and dairy produce (butter products, milk concentrates and casein). Central American agricultural and food exports to Australia in 2006 comprised 10 per cent of all Central American exports to Australia and were dominated by coffee and alcoholic beverages. In 2006, the two way agricultural trade between Australia and Central America was \$A238m.

Within the Central American Region, Mexico is by far Australia's largest agricultural trading partner, representing 80 per cent of Australia's exports to Central America and 83.7 per cent of Australia's imports from the Region.

Whilst Mexican demand for agricultural products is increasing rapidly in response to population growth, higher personal income levels and changing diets of the growing middle class, to date this has not translated into the expansion of Australian exports to Mexico, for several reasons.

In most sectors, Mexico's FTA partners have a substantial tariff advantage over Australia. This, along with inadequate infrastructure and transport networks, appears to be the main impediment to establishing sustained future growth in Australia's

agricultural exports to Mexico. Additionally the United States (US) and Canada have advantages including proximity, the Northern American Free Trade Agreement (NAFTA) and numerous cross-border supply links, in being able to meet the majority of Mexico's growing requirements for agricultural and food imports. Australia and Mexico also produce many of the same products, preventing the expansion of trade in agricultural products. Logistics options for Australian products, such as lack of direct flights, transport distance, unsatisfactory sea links and a lack of infrastructure for product handling and storage are also factors complicating significant expansion of trade in agricultural commodities in the foreseeable future.

However, much of Central America has a strong agricultural base and there is high demand for agricultural inputs, including farm technologies and animal genetic material. Mexico's agriculture sector is only partially transformed, with much of the sector characterised by small farms, low productivity, limited irrigation, poor supporting infrastructure, inefficient markets, high levels of under-employment and endemic poverty. Mexico's agricultural imports increased by more than 180 per cent between 1990 and 2004 and rapid import growth seems set to continue (Table 5). This growth is likely to be driven by the continued inability of Mexican agriculture to respond quickly enough to changes in the volume and composition of domestic demand. Growth in domestic supply of agricultural products to Mexico is likely to be constrained by the challenges of agricultural reform and by the physical, social and economic constraints of the Mexican farm sector.

In the short to medium term, these factors may provide an opportunity for Australian producers to meet increasing demand in Mexico, if some of the main constraints to trade can be overcome.

As Mexico comprises 81 per cent of Australia's modest agricultural trade to Central America, this submission primarily focuses on Australia's trade relationship with Mexico. Where there is notable trade with other countries, this has been outlined.

1. Trade Overview

1) Existing Australian Trade

Australia's exports to Mexico primarily comprise live animals, red meat, dairy produce, wool, leather and wine. Whilst Australia's exports of live animals, red meat and dairy products to the region are reasonable, the levels of trade for the majority of our agricultural products are modest.

In the wider Central American Region, comprising Belize, Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama (but not Cuba), dairy produce is the predominant Australian import.

Table 1: Principal Agricultural Exports to Mexico and the Region between 2001 and 2006 (\$A'000).

YEAR	2001	2002	2003	2004	2005	2006
PRINCIPAL EXPORTS						
<i>Live animals</i>						
Mexico	30 563	24 653	3 063	6 353	22 997	21,824
Other Central American countries	0	0	0	0	0	
Total	30 563	24 653	3 063	6 353	22 997	21,824
%of value to Mexico	100%	100%	100%	100%	100%	100%
<i>Bovine meat</i>						
Mexico	30 822	26 907	19 253	6 954	10 137	6,687
Other Central American countries	364	510	73	271	369	1,052
Total	31 186	27 417	19 326	7 225	10 506	7,739
%of value to Mexico	99%	98%	100%	96%	96%	86%
<i>Meat (excluding bovine)</i>						
Mexico	68 810	72 410	52 728	41 932	48 875	48,862
Other Central American countries	28	0	0	114	58	0
Total	68 838	72 410	52 728	42 046	48 933	48,862
%of value to Mexico	100%	100%	100%	99.7%	99.9%	100%
<i>Milk and cream</i>						
Mexico	17 191	32 938	11 300	6 289	12 322	10,620
Other Central American countries	13 096	12 175	9 355	8 351	15 718	22,724
Total	30 287	45 113	20 655	14 640	28 040	33,344
%of value to Mexico	57%	73%	55%	43%	44%	32%
<i>Butter</i>						
Mexico	15898	12149	8038	13141	22445	8,728
Other Central American countries	2620	1898	797	1061	2407	2,087
Total	18518	14047	8835	14202	24852	10,815
%of value to Mexico	86%	86%	91%	93%	90%	80%
<i>Cheese and curd</i>						
Mexico	17092	10170	9564	6513	1214	0
Other Central American countries	2502	3045	1769	5029	4393	4,977
Total	19594	13215	11333	11542	5607	4,977
%of value to Mexico	87%	77%	84%	56%	22%	0%
<i>Wool</i>						
Mexico	32682	11934	14553	3332	4430	2,355
Other Central American countries	0	0	0	0	0	2,355
Total	32682	11934	14553	3332	4430	2,355
%of value to Mexico	100%	100%	100%	100%	100%	0%
Total Ag Exports	231 668	208 789	130 493	99 340	145 365	129 916

Source: DFAT (2007), Composition of Trade Australia 2006, p88, 218, excludes confidential agricultural exports.

Table 2: Principal Agricultural Imports from Mexico and the Region between 2001 and 2006 (\$A'000).

YEAR	2001	2002	2003	2004	2005	2006
PRINCIPAL IMPORTS						
<i>Vegetables and fruit</i>						
Mexico	8135	8946	6578	7977	8435	9357
Other Central American countries	75	243	263	320	304	1167
Total	8210	9189	6841	8297	8739	10 524
<i>%of value from Mexico</i>	99%	97%	96%	96%	97%	89%
<i>Alcoholic Beverages</i>						
Mexico		20,230	25,400	33,107	40,374	53 810
Other Central American countries		1	0	31	361	751
Total		20,231	25,400	33,138	40,735	54 561
<i>%of value from Mexico</i>						
Total Ag Import	8 210	29 420	32 241	41 435	49 474	65 085

Source: DFAT (2007), Composition of Trade Australia 2005, p88, 218-219, excludes confidential agricultural exports.

It is not possible to obtain complete details of agricultural trade with Mexico and the Region as a number of items are not specified in Australian Bureau of Statistics (ABS) statistics for confidentiality reasons (ABS makes certain foreign trade statistics confidential to ensure that details of any single firm's operations are not divulged).

Australian agricultural trade with Mexico and the Region has been limited by a number of factors including the lack of direct shipping between Australia and the Region, high shipping and storage costs, high tariffs, poor infrastructure and devaluation of Mexico's currency. A consistent theme seen in Australia's long term export figures to Mexico is that there have been few items that have been consistently exported to Mexico.

The geographical advantage that exists for many of Mexico's trading partners is a key challenge in terms of the development of Australian trade with the Region. Other Latin American countries provide strongly competitive alternative supplies of agricultural products and the US and Canada have a tariff advantage through NAFTA in addition to the advantage of their close proximity.

Increasing affluence in Mexico and general population growth have seen improving consumer demand for meat and dairy products, with beef and sheep meat and dairy product consumption continuing to increase. Whilst Australian industries have been able to capitalise on some of these opportunities, export gains in these areas will remain limited by transport and infrastructure costs and future growth will be conditional upon competitive entry opportunities.

In 2006 Australia imported small amounts of agricultural commodities from Mexico and the Region. Total imports of non-food agricultural goods from Mexico and the Region to Australia during 2006 were around \$A71.4m. Alcoholic beverages and coffee accounted for non-food agricultural imports.

II) Agriculture and Food Commodity Overviews

a) Agriculture Fibres

In 2006, \$A2.3m of Australian wool and \$A26.8m of Australian leather were exported to Mexico, while only a small quantity of brush fibres (9,289 kg, valued at \$A62,000) were imported from Mexico to Australia.

b) Dairy

Mexico is the largest importer of Australian dairy products in the Central American Region and in 2006, was rated as the twentieth largest importer of Australian dairy products worldwide. Guatemala also imports significant quantities of Australian dairy produce (see Table 3). In 2006 trade in Australian dairy products to Mexico was dominated by milk powder and concentrated milk valued at \$A10.6m and casein valued at \$A10.4m. Mexico has also become Australia's largest market for live dairy cattle exports.

Exports of dairy products to Mexico and the Region have risen gradually during the period 2001 to 2005, with the exception of cheese and yoghurt exports. The drop in cheese and yoghurt products is largely due to benefits NAFTA has provided to Australia's Northern American dairy export competitors.

Table 3: Dairy Exports to Central America 2006 Volume (tonnes or litres) and Value (\$A,000)

Country:	Milk powders and concentrated milk		Butter		Cheese		Yoghurt and Buttermilk		Whey		Milk and Cream, not concentrated or sweetened		Casein		Total
	T	\$A,000	T	\$A,000	T	\$A,000	T	\$A,000	T	\$A,000	L	\$A,000	T	\$A,000	
Mexico	3673	10,619	3374	8,728	0	0	0	0	0	0	0	0	1,011	10,406	29,753
Costa Rica	229	582	50	142	0	0	0	0	121	144	0	0	5	45	913
El Salvador	2692	7,717	0	0	560	1,969	0	0	0	0	0	0	0	0	9,686
Guatemala	4247	12,146	448	1,018	669	2,747	0	0	440	475	113	135	0	0	16,521
Honduras	499	1,379	300	761	0	0	0	0	0	0	0	0	0	0	2,140
Belize	15	41	0	0	0	0	0	0	0	0	0	0	0	0	41
Nicaragua	34	91	0	0	0	0	0	0	0	0	0	0	0	0	91
Panama	0	0	69	166	80	260	0	0	13	15	0	0	5	38	480
Total:	11,389	32,575	4,421	10,815	1,309	4,976	0	0	174	634	113	135	1,021	10,489	59,625

Source: Australian Bureau of Statistics Trade Data, 2006

c) Fisheries

In 2005 Australia exported non-edible fisheries products (for example, pearls) of less than \$A5,000 to Mexico and the Region.

d) Forestry

There is no recorded trade in forest products with Mexico and the Region. Mexico has a significant domestic forest and plantation estate and therefore requires negligible imports.

e) Grains

Negligible trade in grains occurs between Australia and Mexico and the Region.

f) Horticulture (Fruit and Vegetables)

Australia has a minor export trade in horticulture with Mexico (at its peak in 2002, Australia exported \$A159,000 of horticultural products to Mexico). The US and Chile dominate Mexico's imports of horticultural products. Mexico is also a competitive exporter of horticultural products and was Australia's 20th largest import source by value for horticultural products in 2006 with imports valued at \$A14.4m. Principal horticultural imports from Mexico to Australia include frozen fruit, frozen strawberries, pickles, dried dates, dried tropical fruits, garlic and lime juice.

g) Meat and Livestock

In 2006, Mexico was the only Central American country to import Australian meat and livestock products. Exports of sheep meat to Mexico remained steady from 2005, however Mexico's sheep meat industry continues to be unable to meet growing consumer demand and there are few signs of the domestic industry reducing the supply-demand gap in the next few years.

In 2006 beef comprised close to 13 per cent by value of Australian red meat exported to Central America, valued at \$A\$6.7m. The US and Canada currently supply over 90 per cent of Mexico's beef import requirements. Australian beef exports to Mexico could substantially increase as Mexican demand increases, however due to the tariff advantages afforded to the US and Canada they are unlikely to reach the 15 per cent market share that existed prior to Mexico joining NAFTA (applied tariffs for beef exports from Australia to Mexico range from 20 to 25 per cent).

Mexico is the only country in the Central American Region to import Australian live animals. Live cattle made up 98.82 per cent and live sheep the remaining 0.18 per cent of live animal exports valued at \$A22.9m in 2005. Demand for Australian cattle, particularly heifers and cows for dairy production, should expand due to current regional bovine spongiform encephalopathy (BSE) restrictions which prevent live Canadian cattle from entering US territory for sale in Mexico (certain boneless cuts of meat from animals aged 30 months or under are allowed from Canada into the US). The valuable live animal export market (predominantly dairy cattle) is returning to its former levels after a drop in 2003 (see Table 1) - Australia ranks 24th of countries exporting to Mexico (0.4% of all imports). However, an end to the BSE ban could put Australian suppliers at a competitive disadvantage, due to the differences in the current tariff applied to Australian exports (applied tariffs for live animal exports from Australia to Mexico range from 10 to 15 per cent, with bound tariffs at 9 to 37.5 per cent).

Table 4: Meat and Livestock Exports to Central America 2006 Volume (tonnes) and Value (\$A,000)

	Sheepmeat		Beef		Edible offal		Live Cattle		Live Sheep		Total value
	<i>T</i>	<i>\$A,000</i>	<i>T</i>	<i>\$A,000</i>	<i>T</i>	<i>\$A,000</i>	<i>,000 head</i>	<i>\$A,000</i>	<i>,000 head</i>	<i>\$A,000</i>	<i>\$A,000</i>
Mexico	16,704	44,927	1,525	6,687	1,835	3,224	1.4	18,482	2,056	3,341	86,445
Total by product	16,704	44,927	1,525	6,687	1,835	3,224	1.4	18,482	2,056	3,341	86,872

Source: Australian Bureau of Statistics Trade Data, 2006

Note: Belize, Costa Rica, El Salvador, Honduras, Guatemala, Panama and Nicaragua recorded a nil value.

h) Wine

Australia has little trade in wine with Central America. Exports totalled \$3.9 million in 2006. In 2006, Nicaragua accounted for half of the regions imports of Australian wine (1.98 million L, valued at \$A1.67 million), while Mexico remained a significant export destination for Australian wine, accounting for 35.5 per cent of exports to the region (valued at \$A1.4 million). Mexico, however, is importing wine of considerably higher value than Nicaragua.

Exports to Central America, however, equated to only 0.14 per cent of Australia's global wine exports by value.

Whilst Mexico and other Central and South American countries (e.g. Chile) already boast high wine production levels the Australian wine industry has indicated there is potential for some expansion of Australia's wine trade to the Central American Region at the low to medium price point of the market, as indicated by the recent sharp increase in low-value wine exports to Nicaragua..

2. Trade Impediments and Possible Future Opportunities

I) Trade Impediments

Long distances, high shipping and storage costs, high tariffs and poor infrastructure are the major impediments to trade in agricultural products between Australia and Central America.

Physical infrastructure is under-developed and of poor quality. Government expenditure is limited by a small revenue base and public spending is forbidden in sectors such as electricity, oil and ports. Efficiency in freight transport is impaired by industrial relations disputes and ports are inefficient.¹

The over quota tariff rate for most agricultural products is generally applied at 50 per cent and NAFTA partners account for almost all in-quota imports. The substantial tariff advantage Mexico's FTA partners have over Australia is the major impediment to establishing a strong, predictable basis for sustained growth in Australia's agricultural exports to Mexico. There is also uncertainty in industries such as dairy, where tariff rate quotas for milk powder are distributed on a quarterly basis but announcements are not usually made until the end of the quarter. This leaves limited delivery time, which can be a major problem for Australian exporters, but not for Mexico's NAFTA partners who have a significantly shorter supply chain.

As the population of Central America continues to increase rapidly, consumption of agricultural products is likely to increase. This increased demand is likely to be satisfied by regional suppliers such as the US, Canada and Southern America.

Mexico also has moderately high levels of protection for its agricultural industries. Total farm subsidies were equivalent to 21 per cent of total farm receipts in 2002-04, rising from 3 per cent in 1986-88. In comparison, Australia's producer subsidy equivalent is now around 5 per cent.

Agriculture sector sensitivities in Mexico are driven by two key features of the Mexican farm sector. Firstly, the farm sector is only partially transformed: there are some internationally competitive industries, like horticulture and some parts of livestock production, however most of the sector is characterised by small farms, low productivity, poor supporting infrastructure, inefficient markets and endemic poverty.

Secondly, large agricultural interests have been effective in the past in maximising support and protection from government. It is likely that the possibility of preferential access for Australian agricultural products will meet considerable opposition, particularly in areas such as beef and dairy, where Australia is known to be highly competitive and where local interests are easily mobilised.

II) Future Opportunities

As is the case with many markets, prospects for Australian exporters in Mexico and the Central American Region will be determined by the level of demand that can be met at reasonable costs. This may derive from the inability of local producers to meet increasing consumer demand or the reduced impact of impediments such as tariffs, non-trade barriers and infrastructure costs.

¹ DFAT Scoping study for a possible free trade agreement

There are opportunities at two broad levels: first, and most importantly, to increase export volumes out of Australia, and secondly, to invest in Mexico's food processing industry, with the aim of supplying high value-added products to local and regional (the US, the Caribbean and South America) markets.

There may also be opportunities for Australian investment in areas such as dry land farming, tropical agriculture, agricultural support services and wine making services. Australia has a comparative advantage in these areas and closer Australia-Mexico cooperation might complement Mexico's economic reform program and increase its competitiveness in key markets, for example, the US wine market.

Table 5 provides data on the total value of all agricultural products imported by Mexico and the Region over the period since 1990. All countries in the Region have shown steady growth in imported agricultural goods over the period. Total imports by Mexico and the Region rose by 180 per cent from \$US5.8 billion² in 1990 to \$US16.3 billion in 2004, with imports to Guatemala, El Salvador and Honduras increasing by more than 400 per cent. Cuba and Belize were the only countries where imports remained low and relatively unchanged. Mexico remained the most significant importer in the Region throughout this period.

Table 5: Total Imports of Agricultural Products by Mexico and the Region, Specified Years Since 1990 (million \$US)

Country	1990	1995	2000	2004	% increase since 1990
Mexico	4099.4	4479.4	7145.7	11657.2	184%
Belize	42.8	39.9	67.9	56.8	33%
Costa Rica	156.4	194.4	414.6	533.3	241%
Cuba	887.0	692.1	696.5	955.0	8%
El Salvador	153.5	383.4	660.8	817.3	433%
Guatemala	134.6	290.6	568.8	919.7	583%
Honduras	92.3	184.4	353.9	486.6	427%
Nicaragua	87.7	153.6	243.5	268.5	206%
Panama	154.7	224.7	352.7	574.1	271%
Total Mexico and the Region	5808.4	6642.5	10504.4	16268.5	180%
Total Mexico and the Region – Adjusted for Inflation (a)	5808.4	5630.8	7927.9	11191.1	93%

Source: FAOSTAT data (see: <http://faostat.fao.org>)

(a) Adjusted by the US CPI.

Even adjusting for inflation, the "real" expenditure by Mexico and the Region on imports increased significantly over the period, with the exception of pulses (including dry beans), meat (camel, horse and game meat), allium vegetables, pistachios, sugar cane and sunflowers.

² Data is available for this period in US dollars only. Whilst a simple conversion could be undertaken, the relative currency variations over the 14 year period would not provide an accurate view of import activity.

a) Mexico

Transport and infrastructure constraints continue to impede competitive trade in Australian agricultural products in the Central American Region and there will be only limited opportunities for significant expansion of existing market activity. Reduction or withdrawal of trade barriers will go some way to improving conditions of trade. However, due to the existing infrastructure limitations for handling and storage of product the major avenues for increasing agricultural trade exist predominantly for those commodities which are already established in this market.

The Department of Agriculture, Fisheries and Forestry and the Department of Foreign Affairs and Trade in consultation with industry have identified a number of areas where possible future opportunities may exist to expand Australia's exports to Mexico.

Dairy

Mexico is one of the world's largest importers of dairy products. Around 8 per cent of total Mexican cheese market is imported, (up to 30 per cent for some cheese varieties,) and 20 to 30 per cent of the butter market is imported. Most dairy imports come from the European Union, New Zealand, other South American countries and to a small degree, the US. There are opportunities for Australian dairy produce exports to Mexico, particularly for technology transfer, bulk product such as powdered milk and in-country investment in the dairy sector, as well as live dairy cattle and animal genetics.

Beef

Beef consumption in Mexico continues to increase, due to growing consumer demand for meat protein and general population growth. Mexico has a total cattle stock of around 30 million head and more than 90 per cent of this stock is beef cattle. Cattle inventories are declining as production costs continue to rise. Competitively priced and rising imports of beef and low production profitability have discouraged investment in the cattle and beef industries. Most demand for beef in Mexico is met either domestically or from the US, which is the largest beef exporter to Mexico.

The Mexican Government and meat industry have indicated a keenness to improve processing and slaughtering facilities and technology, specifically modernisation of cold rooms, meat cutting and commercialisation systems and meat cut classifications. Mexico has high import duties (20-25 per cent) on beef, making Australian exporters reluctant to test the market.

Mexico's beef farming sector will require substantial reform before domestic production comes close to meeting demand, particularly as the composition of demand changes. Rapid population growth and the changing diets of the growing middle class are fuelling demand. Mexico's FTA partners are likely to benefit the most from this increasing reliance on imports, primarily due to their proximity and existing supply chain links.

Live Animals

Demand for Australian live animals, particularly dairy heifers and cows for dairy production, should expand rapidly but much will depend on the existing BSE restrictions remaining in place for our Northern American competitors.

Sheep Meat

Exports of Australian lamb and mutton have the potential to continue to rise, as Mexico's sheepmeat industry has been unable to meet growing demand for local delicacies such as barbacoa (a slow-cooked whole lamb, both smoked and steamed,

usually cooked by wrapping in leaves and burying in a pit with hot coals). There are no signs of a narrowing of the domestic supply-demand gap over the next few years.

Wine

There are opportunities for Australian wines in the low-to-medium price market, provided Australian wines are able to enter the market at a competitive price point.

b) Central America, General

The Central American Region is a very small market for Australian agricultural exporters. Dairy produce remains Australia's principal agricultural export to Central America and this is likely to be the sector where any advances in the trade might be made. Niche products in the gourmet processed meats market, such as certain sausages and hams, roast beef, pastrami, corned beef, salami and prosciutto are becoming more popular, providing further opportunities for Australian suppliers.

3. Role of DAFF in the Australia – Mexico and Regional Relationship

I) Current Portfolio Activities

a) Market Access

Australia

Australia currently has no market access requests for Mexico.

Mexico

Mexico was granted improved market access for mangoes 2003, with recognition of fruit fly area freedom for several regions. Mexico and Australia are discussing amendments to the protocol, although trade is progressing smoothly.

Mexico has a number of current market access requests with Australia, including citrus products, avocados and table grapes. Biosecurity Australia's (BA) Import Risk Analysis (IRA) for these products will be commenced as resources become available.

Like Australia, Mexico has a rigorous, scientific-based approach to sanitary and phytosanitary (SPS) measures. Australia currently has no SPS disputes with Mexico or other countries in the Region.

Central America

There are currently no market access requests from Central America.

b) Formal and Informal Mechanisms

Formal Mechanisms

In November 2006, Australia and Mexico established a Joint Experts Group (JEG) to strengthen the bilateral relationship, including by holding preliminary discussion on the possibility of commencing negotiations for a Free Trade Agreement at some time in the future. DAFF participated in these discussions on agriculture, fisheries and forestry issues. The first meeting of the JEG was held in April 2007, in Adelaide. The second and final meeting was held in Mexico City from 4 to 6 June.

An MoU was signed in 2003 between the Australian Government and the State of Hidalgo, Mexico, on cooperation and friendship in agriculture and livestock, committing to facilitate and stimulate cooperation in livestock and agriculture among the institutions of both countries in the private, public and social sectors and among their research and senior education institutions. The primary outcome of this MoU has been the resumption of live sheep exports to Mexico in early 2006, following the rapid decline in exports in 2002. (Exports of live sheep to Mexico stopped following a proposal by Mexico to test Australian imported sheep for *B. ovis* and *Chlamydia* infection, despite these diseases occurring in Mexico. Australia was concerned that measures were being applied to imported sheep that were not applied equally to domestic sheep, in contradiction to Mexico's WTO obligations, and providing unnecessary barriers and costs to trade. Trade did not recommence, despite this requirement being dropped, until the signing of the MoU on cooperation and friendship with the state of Hidalgo rekindled Australian sheep exporters' interest in the Mexican market.)

The Australian Quarantine and Inspection Service (AQIS) and the Mexican Agriculture Ministry (SAGARPA) signed a Term of Reference (ToR) in June 2005 enabling the trial of Australia's electronic certification ("E-cert") system. The trial was for SAGARPA to investigate the options available as legislation did not allow the implementation of electronic certification at the time. Since then, Mexico has changed a regulation to enable implementation of electronic certification, therefore allowing the commencement of an operational trial. A ToR is currently being drafted to allow an operational trial of the E-cert system to proceed with a view to moving towards adoption of E-cert as soon as possible. Adoption of the system (whether for verification purposes or full adoption) should avoid irregularities experienced in trade with paper certificates.

Through the Council on Australia Latin America Relations (COALAR), DAFF, in conjunction with DFAT, is seeking to advance Australia's relationship with the Region at economic, social and political levels, delivering initiatives that will build the relationship and raise awareness among Australians of the opportunities that the Region presents. The Council has been active in promoting Australia's food and beverage exports in Mexico and has sponsored several trade fairs and seminars on business opportunities in Australia and Mexico. COALAR does not have any specific agricultural activities for Central America in the 2006-07 business plan. However, DAFF provides support on an ongoing basis for Australian activities in Latin America.

Informal Mechanisms

Outside of the formal mechanisms outlined above, officials from Australia and Mexico liaise on an as-needs basis to progress trade and market access issues. These links are strengthened further by the work of officials from the Australian Embassy in Washington, US. The Minister (Agriculture) and Counsellor (Agriculture) to the US are responsible for agricultural policy and animal, plant and public health issues respectively. This includes the trade in animals and plants and animal and plant products from Australia to the United States of America, Canada and Mexico.

DAFF maintains close contact with CIMMYT (Centro Internacional de Mejoramiento de Maíz y Trigo – International Centre for the Improvement of Maize and Wheat), the grain research and breeding organisation based in Mexico City. Plant genetic material for breeding research is imported to Australia from CIMMYT.

c) Multilateral Engagement

Australia's engagement in multilateral fora with Mexico and the Region is positive but has been complicated by a number of factors including cultural and language barriers. Whilst we share similar values with regard to multilateral reform with Costa Rica and Guatemala, who are both members of the Cairns Group, our cooperative relationship with Mexico in multilateral fora has not been as predominant.

World Trade Organisation and Cairns Group

Mexico, Costa Rica and Guatemala are strong proponents of the World Trade Organisation (WTO) rules-based system. Australia also cooperates with Costa Rica and Guatemala as members of the Cairns Group to promote our common commitment to agricultural trade reform.

Australia, Costa Rica and Guatemala share the view that the greatest prospects for agricultural trade liberalisation will come from an ambitious outcome from the WTO Doha

Round of Negotiations. All three countries place a high importance on the resumption of the currently suspended round.

United Nations Food and Agriculture Organisation

In addition to common interests in the WTO, Australia and Mexico also actively participate in other international fora on primary industry issues, including the Food and Agriculture Organisation (FAO) of the United Nations. This includes participation through the international standard setting bodies of the FAO, such as the Codex Alimentarius Commission (Codex) whose standard setting in relation to food safety impacts on global trade.

ID) Future Activities and Priorities

Much of DAFF's contact with corresponding Central American agencies arises from bilateral negotiations undertaken to resolve or progress specific bilateral market access issues, although there is some engagement on whole-of government Joint Ministerial Commission (JMC) meetings, which are coordinated by DFAT. An MoU agreeing to establish a Joint Experts Group to explore ways of strengthening bilateral trade and investment between Mexico and Australia was signed on 6 November 2006, and the first meeting was held in Adelaide on 17-18 April 2007. The second and final meeting of the JEG was held in Mexico City on 2-4 June 2007.

a) Commodity-specific Issues

AQIS is in the early stage of investigating alternative listing inspection options for Australian establishments exporting dairy products to our Central American counterparts. The potential benefit of a new approach would be to streamline the existing inspection arrangements. This could be achieved by negotiating with countries to accept full recognition of the AQIS export dairy inspection and certification system. Consequently, all Australian export-registered dairy establishments would be eligible to export to these countries, and minimise the existing requirements for the relevant authorities from these countries to undertake annual in-person audits.

4. Conclusion

The agricultural trade and investment relationship between Australia and Central America is modest but largely positive, with \$A195 million in two-way agricultural trade in 2006. Mexico is a significant market for Australian dairy products, particularly milk powders and concentrated milk, casein and butter. Australian meat and livestock exports to Mexico are also noteworthy.

Moderate trade in other agricultural products takes place between Australia and Central America. Some opportunities exist to improve this trade if the existing barriers to increased trade, such as transport distance, inadequate transport links, lack of infrastructure and the substantial tariff benefits afforded to Mexico's FTA partners can be improved.

If Australia entered into a FTA with Mexico, the resulting reductions in tariffs could provide a stimulus for DAFF portfolio industries, particularly the meat and dairy industries, to commit to further investment in developing the trading relationship. However, Mexico has insisted on long phase-ins (eg. 10 years or more in the case of some products under NAFTA) for eliminating tariffs on many key agricultural products in their existing FTAs. It is anticipated that portfolio industries would seek shorter phase-in periods in any FTA negotiations.

Mexico currently has FTAs with: NAFTA (Canada and the US), Japan, G3 (Colombia, Venezuela) Bolivia, Brazil, Costa Rica, El Salvador, Guatemala, Honduras, Israel, Nicaragua, Panama and the Mercosur trade union.