




Submission No 5

Australia's trade with Mexico and the Region

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**SUBMISSION AND COMMENTS ON ISSUES RELEVANT
TO THE INQUIRY INTO AUSTRALIA'S TRADE RELATIONS
WITH MEXICO AND THE REGION**

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WESTERN AUSTRALIA**

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KEY POINT SUMMARY:

Trade with Mexico

- Total Western Australian agribusiness exports to Mexico is relatively small (\$25 million) but reflecting a 32% growth over the last three years.
- Mexico is one of the key markets for the Australian sheep meat industry (lamb and mutton).
- Oats, mutton, lamb, cattle, beef, sheep and degreased wool have comprised the major exports to Mexico.
- The Mexican market presents opportunities for dairy and cheese products. However, the Western Australian dairy sector is yet to build sufficient critical mass to enable such exports to Mexico.
- Mexico is a price sensitive and conservative market.
- Liquidity of importers is also an issue; payment risks are high and possibilities of non-payment need careful consideration.¹
- Infra-structure constraints within Mexico are costly and time-consuming. Goods shipped direct to Mexico City via a Mexican port can load up to 24.5 mt of product weight in a container. However, inconsistent road weight restrictions across different districts/provinces in Mexico cause problems.

Strengths and weaknesses

Australia is seen as a safe and reliable source of agrifood exports. However, major challenges to increasing market share in Mexico relate to a limited supply for many primary products (live animals, meat) and the fact that for beef exporters especially, Mexico is often seen as a spot market to be addressed when opportunities in other markets appear less attractive. Lamb, sheep and goat meat exporters, however, have potential to expand market share but this is contingent on finding importers who are not a major credit risk (see comments below).

While language barriers pose a constraint to new exporters in particular, the real constraint to market expansion is the high degree of credit risk involved when dealing directly into the market. Such credit risk results in some buyers having restricted or no credit insurance cover.

Opportunities for growth are also threatened by:

- increased value of the Australian dollar;
- increased costs in insurance (sea freight), freight costs;
- limited cool chain facilities.

¹ Credit rating agencies have recently been upgrading Mexico in recognition of fiscal consolidation, debt restructuring and improved external liquidity. The economy entered an upswing last year after three years of stagnancy. Real GDP grew by around 4.4% in 2004 and is expected to grow between 3.5% and 4.25% in 2005, *Australia's Export Finance & Insurance Corporation (EFIC)*.





BACKGROUND

This submission has been prepared by the Department of Agriculture and Food Western Australia (DAFWA) in response to a request from the Western Australian agribusiness sector, for submissions and comments on an Inquiry into Australia's trade with Mexico and the Regions by the Joint Standing Committee on Foreign Affairs, Defence and Trade. Issues to be covered by this Inquiry relate to the nature of Australia's existing trade and investment relations; likely future trends in these relations; and the role of government in identifying and assisting Australian companies to maximise opportunities in Mexico and the region.

This submission is based on feedback received from exporters and agribusiness export trade statistics (2003-2006) to Mexico (Source: ABS/DAFWA statistics).

METHODOLOGY

In seeking to provide a Submission with meaningful feedback from exporters to Mexico, DAFWA contacted each of the nine exporters currently trading with Mexico. A third of the respondents provided comments while the remaining two thirds preferred not to comment. Issues relating to the need to screen buyers, payments and credit risk were of major concern. There was also interest in expanding the market for lamb but this was contingent on finding a reliable importer who did not pose a major credit risk.

Current issues in trade with Mexico

Feedback received from WA exporters of agricultural products reflect that the Mexican market is price sensitive and any profit to be gained through trade with Mexico must of necessity, be viewed over a long term period. Infra-structure constraints within Mexico are costly and time-consuming. Goods shipped direct to Mexico City via a Mexican port can load up to 24.5 mt of product weight in a container. However, inconsistent road weight restrictions across different districts/provinces in Mexico cause problems.

Liquidity of importers is also an issue; payment risks are high and possibilities of non payment need careful consideration.

The Mexican Ministry of Agriculture changed Health Certification requirements without prior notice being provided to either AQIS in Australia or importers in Mexico about two years ago and this in turn, led to added costs and short term product clearance delays. Concern by WA exporters is that the political unrest in Mexico makes a recurrence of such changes very likely in the future.

Western Australian agrifood exports

Western Australia's (WA) agricultural and fisheries industry exports, valued at A\$4.8 billion, strongly rely on exports to Asia, the Middle East, Europe and the USA. The value of WA's exports is currently very much based on commodity production. However, DAFWA is now totally responsible for the food industry in Western Australia and plans are in place to address where appropriate, the need for value-adding especially at the high end of the food market in specialty dairy products, functional food and other emerging food development opportunities.

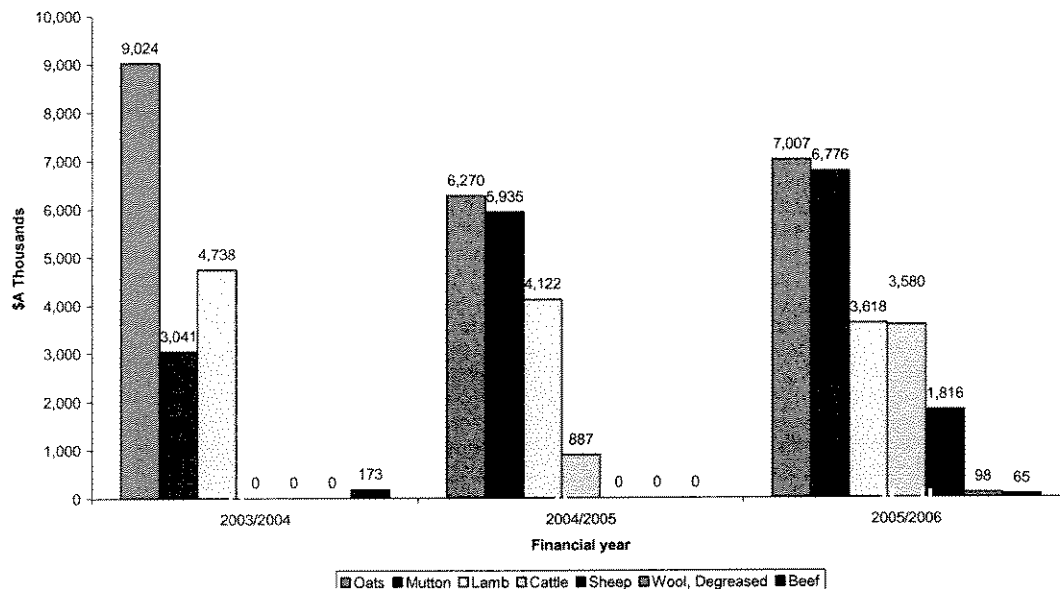


Western Australian exports to Mexico – existing trade and investment relations

In 2005-06 Western Australian agri-food exports to Mexico was \$25 million. This is a 32% increase on trade for 2003-04 which was valued at just over \$17 million. Mexico is one of the key markets for the Australian sheep meat industry (lamb and mutton). Major exports from Western Australia to Mexico comprise oats, mutton, lamb, cattle, beef, sheep and degreased wool.

Exports are mainly commodities and apart from meat and skin/hides, there is no trade occurring in processed goods.

Western Australian Agrifood Exports to Mexico



The Mexican market also presents opportunities for dairy and cheese products. However, the WA dairy sector is yet to build sufficient critical mass to enable such exports to Mexico. Mexico is a price sensitive and conservative market. With WA wines representing the high end of the wine industry in Australia, the Mexico market does not present significant opportunities for the WA wine industry.

Likely future trends in these relations and the role of government in identifying and assisting Australian companies to maximise opportunities in Mexico and the Region.

The Mexican Government's commitment to an economic reform agenda which includes liberalisation in its trade and investment policies and its potential as a gateway to Central American markets, makes it a potentially important market for the Western Australian agri-food sector.

The possibilities of a Free Trade Agreement with Mexico would provide longer term options for WA exporters wishing to trade with Mexico and Central America while also providing further opportunities to tap into the terms of the North American Free Trade Agreement (NAFTA) thereby adding to trade options currently in existence under the Australia-US Free Trade Agreement (AUSFTA).



The role of government in identifying and assisting Australian companies to maximise opportunities in Mexico and the region

Western Australian (WA) State Government initiatives

While there are currently no WA State government initiatives in Mexico, the Department of Agriculture and Food Western Australia is very interested in working with the Mexican government and private sector agencies in Mexico to facilitate the current expressed interest in improving processing and slaughtering facilities and technologies particularly in the sheep and goat industries in Mexico and would welcome enquiries in this regard.

Inwards investments

There are currently no inwards or outwards agribusiness investments between Mexico and Western Australia's agrifood sector.

However, the strong demand for sheep meat, particularly mutton used for the traditional Mexican dish (barbacoa), coupled with the Mexican government's interest in improving processing and slaughtering facilities and technology, provides favourable conditions for Mexican inwards investment into the Australian sheep industry to supply the Mexican market.

The Western Australian government would be interested in Mexican investment initiatives which seek to invest in the WA sheep industry and to draw on technical advances in the sheep and lamb industry in Western Australia.

Collaborative research as a means to maximising trade opportunities

Under the auspices and sponsorship of the Grain Research & Development Corporation (GRDC) and the Centro Internacional de Mejoramiento de Maiz y Trigo (CIMMYT), DAFWA is involved in a large international breeding program in Mexico.²

Recommended Federal Government initiatives in identifying and assisting Australian companies to maximise opportunities in Mexico and the region

It is recommended that the Australian Government negotiate with the Ministry of Agriculture in Mexico to consider developing a standard set of procedures relating to changes in Health Certification and provide early advice to the Australian Quarantine Inspection Service (AQIS) and Mexican importers of any planned changes to health and other regulatory requirements, to prepare Australian exporters for future changes.

CONCLUSION

WA exporters currently see the Mexican market as having potential for agribusiness exports but one which must be approached with caution. Freight rates are prohibitive and the added risk(s) of non-payment by Mexican importers have to be evaluated against the likely rate of return for investments made into creating and expanding market share in preference to focussing on market expansion into existing more lucrative markets.

² Centro Internacional de Mejoramiento de Maiz y Trigo (CIMMYT) which translates as International Maize and Wheat Improvement Center. CIMMYT is a large international breeding program (wheat, durum and maize) with its headquarters based in Mexico with a mandate to breed the above varieties of grain for the developing world.

