



Submission No 8

Australia's trade with Mexico and the Region

Organisation: Queensland Government

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**Queensland
Government**

For reply please quot :PREM MN=120512/DSDT MN=80865

Premier of Queensland

1 DEC 2006

The Secretary
Trade Sub-Committee
Joint Standing Committee on Foreign Affairs, Defence and Trade
Parliament House
CANBERRA ACT 2600

Dear Secretary

The Honourable Warren Snowdon MP, Deputy Chair, Trade Sub-Committee, recently invited the Queensland Government to make a submission to the Inquiry into Australia's Trade with Mexico and the Region.

The Queensland Government wishes to submit the attached response, addressing the Inquiry's terms of reference, specifically in relation to the nature of Queensland's existing trade relations with Mexico and the region, and to emphasise the importance of that trading relationship to Queensland.

Yours sincerely

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PREMIER AND MINISTER FOR TRADE**

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Queensland Government Submission to the Joint Standing Committee on Foreign Affairs, Defence and Trade Inquiry into Australia's Trade with Mexico and the Region

The nature of Australia's existing trade and investment relations

Mexico, as the world's 14th largest economy, similar in size to Australia¹, and with a well-established mining industry and a successful manufacturing sector, is a market of growing interest for Queensland.

Apart from direct commercial interest in the Mexican market, Mexico's membership of the North American Free Trade Agreement (NAFTA) makes it a strategic base from which Queensland firms can access the neighbouring US market, and for accessing markets of interest in Central and South America.

Australian/Queensland involvement in the Mexican mining industry has, to date, been limited and whilst Mexico does not attract large levels of Australian investment, as does other Latin America countries such as Peru and Chile, there are still a number of potential projects that may offer small and medium sized Queensland companies opportunities to do business in Mexico.

Queensland goods exports to Mexico were \$115M in 2005-06, while exports to the rest of the region were \$13M, with Cuba and Costa Rica the largest destinations. Queensland contributed 14.2 percent of Australia's goods exports to Mexico and the region in 2005-06 - 13.8 percent for Mexico and 18.5 percent for other countries in the region. However, Queensland was the major source of Australian goods exports to Costa Rica (72.1 percent) and Cuba (47.5 percent), highlighting the strong trading relationship that Queensland enjoys with some of the smaller countries in the region.

Queensland Overseas Goods Exports to Mexico and the Region, 2005-06p (\$m)

	Queensland	Australia	Qld % of Aust
Belize	0.03	0.24	11.4
Costa Rica	4.84	10.19	47.5
Cuba	5.94	8.23	72.1
El Salvadore	1.36	17.01	8.0
Guatemala	0.60	18.89	3.2
Honduras	-	7.00	-
Mexico	115.36	833.72	13.8
Nicaragua	0.01	1.06	1.4
Panama	0.28	8.10	3.5
Total	128.42	904.44	14.2

p = preliminary

Queensland's overseas goods exports to Mexico are dominated by coal, coke and briquettes, and a significant market for meat and meat preparations.

¹ Based on IMF estimates for 2006, World Economic Outlook database, September 2006

Queensland Top 10 Overseas Goods Exports to Mexico, 2005-06p (\$m)

	Queensland	Australia	Qld % of Aust
Coal, coke and briquettes	75.00	503.20	14.9
Combined confidential items of trade	25.94	34.65	74.9
Meat and meat preparations	9.99	49.42	20.2
Electrical machinery, apparatus, appliances, parts	2.16	9.77	22.1
Machinery specialised for particular industries	0.76	3.77	20.2
Chemical materials and products	0.43	24.36	1.7
Office machines and automatic data processing machines	0.37	3.52	10.4
Crude animal and vegetable materials	0.35	0.74	47.7
General industrial machinery and equipment	0.16	16.08	1.0
Special transactions and commodities	0.07	0.32	20.6
Total Top 10 commodities	115.21	645.83	17.8
Other commodities	0.15	187.89	0.1
Total	115.36	833.72	13.8

p = preliminary

In 2005-06, Queensland imported \$54M worth of goods from Mexico and the region, representing 5.3 percent of Australian imports from Mexico and the region, and dominated by imports from Mexico.

Queensland Overseas Goods Imports from Mexico and the Region, 2005-06p (\$m)

	Queensland	Australia	Qld % of Aust
Belize	0.03	1.39	1.9
Costa Rica	0.82	38.64	2.1
Cuba	0.89	5.78	15.3
El Salvadore	0.52	1.83	28.2
Guatemala	0.34	4.51	7.5
Honduras	2.15	10.11	21.3
Mexico	48.17	940.24	5.1
Nicaragua	0.38	3.21	11.9
Panama	0.48	3.40	14.2
Total	53.76	1,009.12	5.3

p = preliminary

Queensland's major imports from Mexico are road vehicles (automotive components) and beverages.

Queensland Top 10 Overseas Goods Imports from Mexico, 2005-06p (\$m)

	Queensland	Australia	Qld % of Aust
Road vehicles (automotive components)	13.44	149.74	9.0
Beverages	10.31	50.88	20.3
Chemical materials and products	6.39	9.12	70.1
Power generating machinery and equipment	3.44	90.68	3.8
General industrial machinery and equipment	1.97	41.89	4.7
Vegetables and fruit	1.82	9.14	19.9
Electrical machinery, apparatus, appliances, parts	1.44	50.05	2.9
Office machines and automatic data processing machines	1.36	107.63	1.3
Combined confidential items of trade	1.25	3.13	39.8
Telecommunications and sound recording and reproducing apparatus and equipment	1.06	104.23	1.0
Total Top 10 commodities	42.47	616.49	6.9
Other commodities	5.70	323.75	1.8
Total	48.17	940.24	5.1

p = preliminary

Queensland's total trade (exports plus imports) with Mexico and the region was \$182M in 2005-06, up from \$34M in 1995-96, reflecting a positive and strengthening trading relationship.

Queensland Overseas Goods Trade with Mexico and the Region, 2005-06p (\$m)

	Queensland	Australia	Qld % of Aust
Belize	0.05	1.63	3.3
Costa Rica	5.66	48.83	11.6
Cuba	6.82	14.02	48.7
El Salvadore	1.88	18.84	10.0
Guatemala	0.93	23.39	4.0
Honduras	2.15	17.11	12.6
Mexico	163.53	1,773.96	9.2
Nicaragua	0.40	4.27	9.3
Panama	0.76	11.50	6.6
Total	182.19	1,913.56	9.5

p = preliminary

Likely future trends in these relations

New mine expansions, new mining projects, exploration and infrastructure developments in Mexico are expected to fuel import demand over the next five years, providing potential opportunities for Queensland companies.

Awareness of Australian and Queensland mining expertise is also increasing and opportunities exist to capitalise on a growing interest for, and need to promote specific mining equipment, services and technologies.

A small but growing number of Queensland companies are starting to show interest in Mexico and the region. Increased access to intelligence on emerging export opportunities and broader economic developments in Mexico (and other Central American countries) would be of benefit to Queensland firms. In relation to Mexico, Austrade has identified strong export potential in the energy and education sectors and scope to expand food and wine, agriculture and mining exports. Queensland has strengths in most of these sectors and could build on its exports to Mexico and the region.

A key challenge to expanding Queensland exports to Mexico and the region is the existing extensive network of Free Trade Agreements (FTAs) operating in Latin America. More than 90 percent of Mexico's trade is covered by FTAs, including FTAs with the United States and Canada, the European Union, Israel, Columbia and Venezuela, Bolivia, Guatemala, El Salvador, Honduras, Uruguay, the European Free Trade Area (Norway, Iceland, Switzerland and Liechtenstein), Japan and South Korea. The trade diverting impacts of these FTAs make it difficult for Queensland and Australia to diversify and grow exports to Mexico and the region.

Queensland and Australia face relatively high tariffs and other barriers in a number of sectors in Mexico, for example, high tariffs for agricultural products, and a number of different tariff quota schemes are also in operation, some applying to certain imports from preferential partners.

Overcoming the preferential access of the United States exporters, combined with their natural size (economy of scale) and proximity advantages, is particularly problematic for Queensland exporters. More than half of Mexico's imports are currently sourced from the United States.


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

The enormous growth in the mining sector, the complexity of the market, lack of industry awareness and industry requests for government support suggests a clear need for Government assistance and Government intervention, to maximise opportunities in Mexico and the region.

The Queensland Government has built a reputation as one of the most proactive Australian State Government's in its support for capturing export opportunities in Latin America. The Queensland Government's Latin America Mining Initiative has been developed to further promote the State's reputation and supply capacity in Latin America, particularly Mexico, Chile, Peru and Brazil.

The Initiative supports a broad range of Queensland mining equipment and services companies, and the industry in general, as well as providing intensive support to innovative, targeted and market-ready Queensland companies with a clear commitment to the Mexican market.

In implementing this Initiative, the Queensland Government aims to broaden the base of Queensland mining suppliers winning contracts in the market and improve awareness of the market potential amongst Queensland exporters.



Under the Latin American Mining initiative, Queensland companies are supported to explore what these markets have to offer, benefiting from the network of Government contacts and knowledge which can often open doors that individual companies may not be able to easily unlock.

A key ally for the Queensland Government in this process has been Austrade, with the Queensland Government contracting Austrade to undertake a range of in-market services for Queensland companies. The Department of Foreign Affairs and Trade, through its embassies in Latin America, have similarly provided good support to the Queensland Government (and the briefings for business and government in Brisbane provided by Australian Heads of Mission during their mid term consultations are valued). There is considerable advantage for Queensland businesses in having strong in-market representation by the Federal Government, and retaining or even increasing the level of representation is supported.

Queensland stands ready to develop further export initiatives for Mexico, focused on market access improvements for Queensland goods and services exports arising from any Free Trade Agreement negotiated between Australia and Mexico.