
The Parliament of the Commonwealth of Australia

Australia's trade with Mexico and the Region

**Inquiry into Australia's trade with Mexico and the Region
Trade Sub-Committee**

House of Representatives
Joint Standing Committee on Foreign Affairs Defence and Trade

August 2007
Canberra

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ISBN 978-0-642-78992-1 (printed version)

ISBN 978-0-642-78993-8 (HTML version)



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Foreword

Since the commencement of diplomatic relations in 1966, Australia and Mexico have developed a modest yet important economic relationship. Mexico is Australia's largest trading partner in Latin America and our thirty-third largest trading partner. Australia is Mexico's twenty-sixth largest trading partner.

In examining the state of economic relationships between Australia and the other nations of the region, the Committee noted the growth of trade and investment ties, albeit from very small bases. Whilst there was little conclusive data available to the committee, encouraging expansion potential and progress has been identified in areas such as agribusiness, food commodities and the provision of professional services.

Increasing imports and a burgeoning education sector have seen the Australia-Mexico bilateral relationship grow significantly in recent years. The Joint Experts Group established in May 2006 to explore possible directions for economic relations, including the possible negotiation of a Free Trade Agreement, has reinforced the importance of this relationship to both nations.

There are approximately 30-40 million members of the 'middle class' in Mexico which provide a significant potential buying power for Australian products. Australia's main exports to Central America are dairy products, in particular milk, cream, butter and cheese. Whilst still modest, two-way merchandise trade with Central America has increased significantly over recent years.

In summary, the Committee has concluded that despite the challenges of distance, poor transport links, language and cultural differences and unfamiliar business environments, there is significant and unbridled potential within the Australia-


Mexico trade relationship. As such it became clear to the committee that a Free Trade Agreement (FTA) with Mexico is a highly desirable outcome to the Australian and Mexican governments' quest to progress and strengthen this relationship.

For both countries there are challenges involved in pursuing a free trade agreement. Agriculture for example is a sensitive area and the committee recommends that issues relating to agriculture should be determined at an early stage of any negotiations. The Committee also acknowledges that the current political and business conditions in Mexico are not ideal for an FTA and some time maybe needed to develop such conditions.

In conclusion, the committee would like to extend sincere thanks to all the officials of the Australian Embassy in Mexico City that assisted the delegation with the visit by the Trade Committee to Mexico. The visit proved very successful in terms of contacts made, opportunities identified and challenges addressed.

The committee would also like to acknowledge and thank the officials and business people in Mexico for their hospitality and input.

Hon B G Baird, MP
Chair



Membership of the Trade Sub-Committee

Chair Hon B G Baird, MP

Deputy Chair Hon W E Snowdon, MP

Members	Senator A Bartlett	Senator A Eggleston
	Senator A B Ferguson (<i>from 1/12/04 to 14/08/07</i>)	Senator M A Payne (<i>ex officio</i>)
	Mr P A Barresi, MP	Mrs T Draper, MP
	Hon G J Edwards, MP (<i>ex officio</i>)	Mr B W Haase, MP
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	Hon B C Scott, MP	Mr R C G Sercombe, MP
	Dr A J Southcott, MP	Mr C P Thompson, MP
	Mr B Wakelin, MP	Ms M Vamvakinou, MP
	Mr K W Wilkie, MP	

Committee Secretariat

Secretary	Dr Margot Kerley
Inquiry Secretary	Mr Robert Little
Research Officer	Ms Allison Spies
Administrative Officers	Ms Emma Martin
	Ms Sonya Gaspar



Terms of reference

The Joint Standing Committee on Foreign Affairs, Defence and Trade shall examine 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.



List of abbreviations

ADIC	Australian Dairy Industry Council
AEI	Australian Education International
AFTINET	Australian Free Trade Investment Network
AMWU	Australian Manufacturing Workers Union
APEC	Asia Pacific Cooperation
AQUIS	Australian Quarantine and Inspection Service
BSE	Bovine Spongiform Encephalopathy / Mad Cow Disease
COALAR	Council of Australia-Latin American Relations
CONACYT	Mexican Council for Science and Technology
DAFF	Department of Agriculture, Fisheries and Forestry
DEST	Department of Education Science and Technology
DFAT	Department of Foreign Affairs and Trade
DOTARS	Department of Transport and Regional Services
ELICOS	English Language Intensive Courses for Overseas Students
FEALAC	Forum for East Asia - Latin America Cooperation
FTA	Free Trade Agreement

GDP	Gross Domestic Product
JEG	Joint Experts Group
LNG	Liquefied Natural Gas
MLA	Meat and Livestock Australia
MoU	Memorandum of Understanding
NAFTA	North American Free Trade Agreement
SEP	Mexican Ministry of Education
TAFE	Technical And Further Education
TCF	Textiles, Clothing and Footwear
UNSW	University of New South Wales
UQ	University of Queensland
WTO	World Trade Organisation



List of recommendations

2 Engagement with Mexico and the region

Recommendation 1

The Committee recommends that the Australian Government, through the Department of Education, Science and Training, reactivate scientific and technological cooperation with Mexico.

Recommendation 2

The Committee recommends that DFAT review the viability of FEALAC and, if it is determined to be viable, ensure a greater effort is made fulfil its potential.

3 Exports to Mexico and the region

Recommendation 3

The Committee recommends that the Australian Government initiate or continue ministerial discussions with officials of Mexico and the region to address technical market access issues.

Recommendation 4

The Committee recommends that more resources be provided to Australian Government representatives in Mexico for promotional activities such as trade fairs and exhibitions to capitalise on the strong interest in Australian products.

6 Australia – Mexico Free Trade Agreement

Recommendation 5

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.

Inquiry into Australia's trade with Mexico and the region

Australia's relationship with Mexico

- 1.1 Australia has a strong and progressive relationship with Mexico. High level political engagement in recent years has resulted in positive steps towards enhanced economic and trade relations, investment, political and inter-cultural links.
- 1.2 Mexico is one of the world's foremost developing countries and Australia's largest trading partner in Latin America. Its size and geographical proximity to the world's largest economy and North American Free Trade Agreement (NAFTA) partner, the United States, and substantial links to markets in Central and South America, make it an attractive trading partner for Australia.¹
- 1.3 Australian business' awareness of and interest in Mexico has been limited by distance, inadequate transport links, differences in language and culture, trade barriers, and unfamiliar business environments.² These limitations are reciprocated in Mexican business' perceptions of engagement with Australia.

1 http://www.dfat.gov.au/media/releases/department/d007_07.html 17 April 2007

2 DFAT, *Submission No 10*, p 135.

- 1.4 Despite these limitations, Mexico and Australia share complementary economic and trade profiles and there exist strong prospects for expanding trade and investment. Closer economic relations could provide a foundation for Australia and Mexico to become major political and economic partners in the Asia-Pacific region and the Americas.³

Australia's relationship with the region

- 1.5 Australia enjoys good relations with all the countries of Central America but political and trade links are currently modest. The countries cooperate on various multilateral issues and have a good relationship on issues such as trade liberalisation. As members of the Cairns Group, Australia cooperates with Costa Rica and Guatemala to promote our common commitment to agricultural trade reform.
- 1.6 Central American communities within Australia, such as the large El Salvadorean population, help promote links between our two regions. As fellow members of the Commonwealth, we share positive and friendly ties with Belize and work together in various Commonwealth organisations and events.
- 1.7 Australia also cooperates with Central American countries in the United Nations and a range of other international fora on important international issues such as the environment, whaling, fisheries management, human rights and security.

Conduct of the inquiry

- 1.8 In response to the interest of the Committee, on 11 September 2006 the Minister for Trade the Hon. Mark Vaile MP referred to the Committee an inquiry into Australia's Trade with Mexico and the region. The Minister agreed with the Committee that this inquiry would be relevant for Australia's trade interests and felt that this inquiry was particularly relevant as "Mexico is now Australia's largest trading partner in Latin America, growing at a rate of 21 per cent."⁴

3 http://www.dfat.gov.au/media/releases/department/d007_07.html 17 April 2007

4 Hon. Mark Vaile, Minister for Trade, *Letter to Committee*, September 2006.

- 1.9 The Committee advertised the inquiry in *The Australian* on 18 October 2006. Letters inviting submissions were sent to relevant Ministers, Commonwealth agencies and a wide range of organisations with an expected interest in Australia's trade relationship with Mexico and the region. A press release was widely distributed.
- 1.10 The Committee received 14 submissions (listed at Appendix A), 4 exhibits (listed at Appendix B) and took evidence from organisations and Government departments during 4 public hearings held in Canberra (listed at Appendix C).

Visit to Mexico

- 1.11 From 29 April 2007 until 4 May 2007 members of the Committee travelled to Mexico for meetings with Mexican Government Ministers and officials, and industry leaders.
- 1.12 Whilst in Mexico the delegation met with the following:
- Foreign Minister Patricia Espinosa
 - Vice Minister for the Economy (Trade) Beatriz Leycegui
 - Central Bank Deputy Governor Guillermo Gomez Garcid
 - Mexican Council on Foreign Relations
 - Education Department - Director General for International Affairs in the Education Ministry
 - Mexican importers of Australian Cattle

Structure of the report

- 1.13 Chapter 2 examines Australia's engagement with Mexico and the region. It looks at the growing number of meetings and forums in which Australia is able to strengthen its relationship with Mexico and the region.
- 1.14 Chapter 3 looks at the issue of exports to Mexico and the region. Australian companies are exporting many products to Mexico and the region. The chapter looks at export commodities, specialised niche opportunities being accessed by Australian companies and barriers to export trade.

- 1.15 Chapter 4 examines the issue of imports from Mexico and the region. The chapter necessarily focuses on Mexico as imports from the region are relatively small.
- 1.16 Chapter 5 examines the issue of services to Mexico and the region.
- 1.17 Chapter 6 looks at the potential of a Free Trade Agreement between Mexico and Australia. Removal of one of the greatest barriers to increasing Australian exports to Mexico — that of tariffs — would require the negotiation of a free trade agreement. The chapter looks at the benefits such an agreement would bring and the possibility of such an agreement being negotiated.
- 1.18 Chapter 7 provides a report on the Committee's visit to Mexico.
- 1.19 It should be noted that, wherever possible, the report provides sections on Mexico and sections on the region. In some cases this has not been possible — usually because of the way figures have been expressed in submissions.

A focus on Mexico

- 1.20 The Committee did not receive any submission from those countries defined as 'the region' (Belize, Costa Rica, Cuba, El Salvador, Guatemala, Honduras, Nicaragua and Panama) and most of the evidence given to the Committee related to Mexico.
- 1.21 Given the above and the fact that the Committee visited only Mexico it was decided that this report would focus on Mexico.

Engagement with Mexico and the region

- 2.1 This Chapter reviews the various ways in which Australia's relationship with Mexico and the region is developed and maintained. It looks at the growing number of meetings and forums in which Australia is able to strengthen its relationship with Mexico and the region.

Mexico

Joint Experts Group

- 2.2 In March 2006, Australia and Mexico agreed to establish a Joint Experts Group (JEG) to investigate potential ways of strengthening economic relations, including the possible negotiation of a Free Trade Agreement sometime in the future.
- 2.3 The inaugural meeting of the JEG took place in Adelaide from 17-18 April 2007. Officials from the Department of Foreign Affairs and Trade; the Department of Agriculture, Fisheries and Forestry; and the Department of Industry, Tourism and Resources represented Australia.
- 2.4 The JEG will produce a joint report containing recommendations to be considered by the parliamentary members of both Australia and Mexico.

- 2.5 From an Australian point of view the focus of the JEG “is for an FTA to be the centrepiece of any recommendations . . .”¹ The issues surrounding a possible FTA between Australia and Mexico are dealt with more fully in Chapter Six.

Parliamentary cooperation

- 2.6 Since the commencement of diplomatic relations in 1966, Australia and Mexico have been committed to inter-parliamentary cooperation. In the past four decades, more than 100 high-level visits have nurtured political exchanges. There have been three visits by Australian Prime Ministers to Mexico and one visit by the Mexican President to Australia. The two countries have signed more than 15 agreements and Memoranda of Understanding in different areas.²
- 2.7 Reciprocal ministerial visits have re-enforced Mexico and Australia’s commitment to their shared values and interests, including the promotion of democracy, the respect of human rights and an open system of international trade.³

Asia Pacific Economic Cooperation (APEC)

- 2.8 Australia and Mexico are both member states of APEC and work closely and cooperatively through the annual ministerial, business and academic meetings.
- 2.9 Australian Prime Minister John Howard’s visit to the 2002 APEC Leaders Summit in Mexico City was noted as a high point in bilateral relations. ⁴ Further strengthening of Australia-Mexico relations through APEC can be expected later this year with Sydney to host the 2007 Leaders Forum.
- 2.10 From the Mexican point of view the Australian – Mexican relationship is an important one. In evidence to the Committee the Mexican Ambassador to Australia HE Martha Ortiz de Rosas stated:

Our convergence as members of APEC has been pivotal in expanding our bilateral relations. The year 2002, when Mexico chaired the APEC meetings, saw an important growth

1 Mr John Gerard Owens, Assistant Secretary, Canada and Latin America Branch, Americas Division, Department of Foreign Affairs and Trade, *Evidence*, 7/02/2007, p. 11.

2 Embassy of Mexico, *Submission No. 3, Vol 1*, p. 35.

3 Embassy of Mexico, *Submission No. 3, Vol 1*, p. 35.

4 DFAT, *Submission No 10, Vol 1*, p. 122.

in the number of links between our governments and people. I would dare to say that it was then that Mexico and Australia really started to know more about each other.⁵

- 2.11 This view is shared by the Australian Government who regards Mexico as “an enthusiastic and important member of APEC” that “adds much to the organisation.”⁶

World Trade Organisation (WTO) – Doha Round

- 2.12 Both Mexico and Australia are active and constructive participants in WTO matters. In 2003 Trade Minister Mark Vaile attended the 5th WTO Ministerial Meeting in Cancun, Mexico.
- 2.13 Australia and Mexico’s strong agrarian sectors share specific export challenges such as prohibitive market access barriers and high levels of subsidies. Both Australia and Mexico have rigorously engaged the WTO negotiations process for improved results in these areas.
- 2.14 DFAT told the Committee that in relation to the WTO:
- . . . 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.⁷
- 2.15 Although both nations have expressed a desire to further discuss the possibility of a free trade agreement, both parties remained committed to participating in the multilateral processes of the WTO.⁸

Scientific and Technological Cooperation

- 2.16 In 1981 Australia and Mexico signed the Basic Agreement on Scientific and Technological Cooperation in order to strengthen bilateral relations in the science and technology field.⁹ The Australian

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

6 Dr Michael Graham Adams, Director, Regional Trade Policy, Trade Development Division, Department of Foreign Affairs and Trade, *Evidence*, 7/02/2007, p. 9.

7 Dr Michael Graham Adams, Director, Regional Trade Policy, Trade Development Division, Department of Foreign Affairs and Trade, *Evidence*, 7/02/2007, p. 9.

8 DAFF, *Submission No.13, Vol 1 p. 192*.

9 Embassy of Mexico, *Submission No. 3, Vol 1, p. 43*.

Department of Education Science and Technology (DEST), manages this treaty-level Agreement.¹⁰

2.17 The primary mechanism for consultation under this agreement is the Joint Australia-Mexico Commission for Scientific and Technological Cooperation. According to the agreement, a Joint Commission shall meet every two years alternatively in each country to discuss the cooperation in science and technology. DEST's Mexican partner agency in the joint commission is the Mexican National Council for Science and Technology (CONACYT)¹¹. The last meeting of the Joint Commission was held in Mexico City in 2000.

2.18 The length of time since the last meeting reflects the obstacles that face scientific and research endeavours between Mexico and Australia. DEST told the Committee that, in relation to the current state of the Basic Agreement on Scientific and Technological Cooperation:

In January 2006 Mr Downer visited Mexico and, when he met with the Mexican foreign minister, they mutually agreed to try to reinvigorate the science and technology relationship. The intention was to have a joint meeting some time later that year. However, an election in Mexico intervened and, naturally enough, created different priorities for the Mexican government, and so that meeting still has not occurred.¹²

2.19 Australia too, has prioritised the pursuit of science and technology relationships with other countries. DEST stated:

What the Australian science community have been saying to us is that they want to focus on two groups: the first group are those who are already the best performers globally in science and technology, and they are essentially the United States and European countries – the EU; the second group are those countries which are building their capacity now, that are investing heavily in science in their human capability and in their infrastructure. Those are countries like India, China and Brazil. Mexico does not fit into either of those categories. While there are niche areas that CSIRO is exploring, we would not see a high level of mutual benefit in gearing up a

10 DEST, *Submission No.2, Vol 1* p. 18.

11 DEST, *Submission No.2, Vol 1* p. 22.

12 Ms Julie Walding, Director, India and the Americas Section, International Science Branch, Science Group, Department of Education, Science and Training, *Evidence*, 22/02/2007, p.9. (proof)

relationship in science and technology collaboration. The value is not there by comparison with the value of putting a lot more resources into other countries.¹³

- 2.20 Both countries have expressed their interest in reactivating the scientific and technological cooperation through the exchange of scientific and technical information, the reciprocal visits of scientists and the participation in seminars and the implementation of joint projects of research.¹⁴

Cooperation and friendship in agriculture and livestock

- 2.21 A Memorandum of Understanding (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 2002.¹⁵

The Double Taxation Performance Agreement

- 2.22 This agreement was signed on 9 September 2002 and entered into force from 1 January 2004. It gives impetus to bilateral relations by clarifying the taxation rights of the two countries. The agreement also introduces measures to relieve double taxation, and prevent fiscal evasion.¹⁶
- 2.23 The agreement prevents double taxation by allocating taxing rights between Australia and Mexico regarding all forms of income flows between the two countries.

13 Ms Julie Walding, Director, India and the Americas Section, International Science Branch, Science Group, Department of Education, Science and Training, *Evidence*, 22/02/2007, p.9.

14 Embassy of Mexico, *Submission No. 3, Vol 1*, p. 43.

15 DAFF, *Submission No. 13, Vol 1*, p. 191

16 http://www.dfat.gov.au/geo/mexico/mexico_brief.html 14 June 2007

The Australia Festival in Mexico

- 2.24 The Australian Embassy's annual Australia Festival is Australia's largest promotional event in Mexico reaching 10 million Mexicans and in 2006 generated positive media mentions of Australia valued at A\$6million. In 2006 the festival included 30 seminars, wine tastings and a two day exhibition commemorating the 40 years of diplomatic relations between Australia and Mexico.¹⁷
- 2.25 Building on the goodwill and general interest in Australia that the festivals engender, the Embassy utilises the Festival to promote and conduct Australian cultural activities, education, business migration and to increase and improve business linkages.¹⁸

The Committee's view

- 2.26 The Committee is pleased with the level of engagement between Mexican and Australian officials and notes the very friendly and positive relations between the two countries. Scientific cooperation is an important area of the relationship and clearly needs invigorating.
- 2.27 The Committee recommends that DEST reactivate scientific and technical cooperation with Mexico.

Recommendation 1

- 2.28 **The Committee recommends that the Australian Government, through the Department of Education, Science and Training, reactivate scientific and technological cooperation with Mexico.**

The region

- 2.29 Australia has no diplomatic representation in Central America. Australia's embassy in Mexico City covers Australia's relations with
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17 DFAT, *Submission No 10, Vol 1*, p. 139.

18 DFAT, *Submission No 10, Vol 1*, p. 139.

countries in Central America on a non-resident basis. No Central American country has representation in Australia.¹⁹

- 2.30 Trade and investment ties are nevertheless growing consistently from a very small base. Agribusiness, food commodities and the provision of professional services are areas where expansion potential exists.²⁰

Council on Australia-Latin America Relations (COALAR)

- 2.31 In 2001, the Australian government established COALAR in response to the September 2000 report of the Trade Sub-Committee on Building Australia's Trade and Investment Relationship with South America.²¹

- 2.32 The Council, which has a budget for 2006-7 of A\$500,000, aims to enhance commercial, political and social relations between Australia and Latin America. Since its inception, the Council has been active in promoting Latin America as a market for Australian exporters.²²

- 2.33 Currently the priorities of COALAR are:

- to influence corporate Australia and assist in developing government policies so as to enhance Australia's economic, political and social relations with the region, particularly in the areas of tourism, investment, and agribusiness;
- to support Australia's broader diplomatic and economic objectives in the region through cultural promotion and education; and
- to foster a greater awareness of Australia in Latin America and of Latin America in Australia.²³

- 2.34 Each year the Council produces a business plan which sets out its activities for the coming 12 months. The COALAR business plan for 2006-07 identified the following activities:

- continue to encourage visits to Latin America by Australian Cabinet Ministers, Parliamentary Secretaries and Senior Officials;
- support well-targeted business delegations and other high level visits to the region;

19 DFAT, *Submission No 10, Vol 1*, p. 123.

20 DFAT, *Submission No 10, Vol 1*, p. 123.

21 DFAT, *Submission No 10, Vol 1*, p. 123.

22 DFAT, *Submission No 10, Vol 1*, p. 123.

23 DFAT, *Submission No 10, Vol 1*, p. 124.

- implement a funding program that broadens the reach and profile of COALAR and strengthens the Council's four pillars of activity in tourism, education, culture and business;
- work to highlight effectively significant milestones in Australia - Latin America relations, including: 40 years of diplomatic relations between Australia and Chile (in 2006); 40 years of diplomatic relations between Australia and Mexico (in 2006); 20 years of the Cairns Group (in 2006); and other relevant occasions;
- continue the Council's communications strategy to lift the profile of Latin America in Australia and Australia in Latin America, including by encouraging and facilitating two-way visits of journalists, in particular an Australian journalist to visit Latin America;
- strengthen links with Australian academics engaged in the delivery of Spanish language and Latin American studies; and
- consolidate links established by the COALAR funded sports strategy in 2005-06.²⁴

2.35 The Council has developed as a significant additional asset for Australia in pursuing trade and investment opportunities in the region.²⁵

Forum for East Asia – Latin America Cooperation (FEALAC)

2.36 FEALAC provides another avenue for Australia to expand and strengthen relationships with Mexico and the region. The Forum has 30 member nations including Australia, Costa Rica, El Salvador, Panama, Guatemala, Nicaragua and Mexico.²⁶

2.37 The purpose of the Forum is to promote better understanding, political and economic dialogue and cooperation in all areas so as to achieve more effective and fruitful relations and closer cooperation between the two regions. FEALAC engages both the public and private sectors.

2.38 The first Ministerial Meeting for FEALAC was held in Santiago, Chile in March 2001. This meeting produced a 'Framework Document' to

24 http://www.dfat.gov.au/coalar/coalar_business_plan.html 15 June 2007

25 DFAT, *Submission No 10, Vol 1*, p. 124.

26 DFAT, *Submission No 10, Vol 1*, p. 124.

form the basis for FEALAC activities. The Framework Document outlines the following objectives:

- To increase mutual understanding, trust, political dialogue and friendly cooperation among member states with a view to enriching and sharing experiences and developing new partnerships;
- To tap the potential of multidisciplinary cooperation, inter alia, in economics, trade investment, finance, science and technology, environment protection, culture, sport, and people-to-people exchanges; and
- To expand common ground on important international political and economic issues with a view to working together in different international forums in order to safeguard our common interests²⁷

2.39 FEALAC contains three open-ended Working Groups on: Political/Cultural Cooperation, Economic/Social Cooperation and Education/Science and Technology Cooperation.

2.40 Australia and Costa Rica co-chair the Working Group on Education/Science and Technology Cooperation. The first meeting of this Working Group took place in June 2002 at the Australian Academy of Science in Canberra.

Other global organisations

2.41 WTO – Doha Round – 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 round²⁸.

2.42 Cairns Group – Composed of developed and developing countries across five continents, the Cairns Group is committed to achieving free and fair trade in agriculture that provides real and sustainable benefits for the developing world²⁹. Australia cooperates with Costa Rica and Guatemala in the Cairns Group, to promote our common commitment to agricultural trade reform.

27 <http://fealac.mofat.go.kr/eng/document/basis.php> 15 June 2007

28 DAFF, *Submission No. 13, Vol 1*, p. 184.

29 <http://www.cairnsgroup.org/introduction.html> 18 June 2007

- 2.43 Commonwealth Organisations – As fellow members of the Commonwealth of Nations, Australia shares friendly ties with Belize and cooperates in various Commonwealth organisations and events³⁰.

The Committee's view

- 2.44 While the Committee believes the level of engagement between Australian officials and officials of Mexico and the region has been reasonable there is considerable potential for upgrading the relationship.
- 2.45 In its submission DFAT suggested FEALAC had “some way to go to fulfil its potential”.³¹ Unfortunately the Committee did not receive any evidence as to how this might be achieved or in what areas FEALAC could be strengthened or better utilised.
- 2.46 The Committee therefore recommends that DFAT review the viability of FEALAC and, if viable, ensure a greater effort is made to fulfil its potential.

Recommendation 2

- 2.47 **The Committee recommends that DFAT review the viability of FEALAC and, if it is determined to be viable, ensure a greater effort is made fulfil its potential.**

30 DFAT, *Submission No 10, Vol 1*, p 123.

31 DFAT, *Submission No 10, Vol 1*, p 108.

Exports to Mexico and the region

- 3.1 Mexico and the region are not natural destinations for Australian exports. Distances, lack of infrastructure and tariff regimes are significant barriers to companies wishing to export. In spite of these barriers Australian companies are managing to export many products to Mexico and the region. This chapter looks at the major export commodities, some specialised niche opportunities being accessed by Australian companies and barriers to export trade.

Mexico

- 3.2 Mexico was Australia's largest merchandise trading partner in Latin America in 2005-06 and our twenty ninth largest merchandise trading partner overall, with two-way trade worth A\$1.8 billion. Australian exports of goods and services to Mexico were approximately A\$874 million in 2005-06, consisting of coal, meat, livestock, dairy, leather and an increasing range of services. The trend growth in Australia's exports to Mexico in the last five years has been 15 per cent¹.
- 3.3 In 2006 the major Australian exports to Mexico were:
- Coal valued at A\$418 million
 - Medicaments (incl. veterinary) valued at A\$135 million

1 DFAT, *Submission No. 10, Vol 1*, p. 135.

- Meat (excl. bovine) valued at A\$48 million
 - Leather valued at A\$27 million
- 3.4 The Committee compliments the Australian Dairy industry and Meat and Livestock Australia (MLA) for their comprehensive engagement with this inquiry including the preparation of comprehensive submissions.

Agriculture

- 3.5 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 storage costs, high tariffs, poor infrastructure and devaluation of Mexico's currency.²
- 3.6 The devaluation in the Mexican currency coupled with the appreciation in the Australian dollar has meant that Australian products are more expensive.
- 3.7 With tariff rates for most Australian products at 50 per cent³ they suffer a competitive disadvantage when compared with products from countries such as the United States with much lower or zero tariffs.

Dairy

- 3.8 Mexico ranks as the fourteenth largest importer of Australian dairy products worldwide. In 2005 trade in the export of Australian dairy products to Mexico was dominated by butter valued at A\$22.4million, casein valued at \$A13.6million and milk powder and concentrated milk valued at \$A10.2 million. Mexico is Australia's largest market for the export of live dairy cattle.⁴
- 3.9 Exports of dairy products to Mexico have risen gradually during the period 2001-2005, with the exception of cheese and yoghurt exports⁵. These products are directly affected by the advantage provided by NAFTA to Australia's North American dairy competitors.

2 DAFF, *Submission No. 13, Vol 1*, p. 183.

3 DAFF, *Submission No. 13, Vol 1*, p. 187. "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."

4 DAFF, *Submission No. 13, Vol 1*, p. 184.

5 DAFF, *Submission No. 13, Vol 1*, p. 184.

- 3.10 The dairy industry's business, particularly that of Murray Goulburn, with Mexico is a classic example of small Australian companies showing innovation and drive by selling value-added products into niche markets. As Mr Paul Kerr explained:

The company I work for, Murray Goulburn, has been dealing in Mexico for a long time. We are predominantly an ingredient supplier. We see Mexico as an opportunity, as being a gateway to North America and Central and Latin America. We are seeing North American companies, or US companies, moving to Mexico for processing. Already Kraft have a fairly significant presence in that market, exporting back to the US. Hershey's are setting up there. So we see ourselves predominantly as an ingredient supplier. Our sales last year to Mexico were about \$40 million, so in the overall scheme of things it is a pretty small market. We have developed that over a long time. We use Austrade from time to time, not predominantly as to opening up markets, but to deal with local issues when they arise because as an importer issues arise with clearing product from time to time. Austrade is very useful in that area.⁶

Meat

Beef

- 3.11 With domestic beef production only meeting 85 per cent of Mexico's consumption requirements, imported product continues to play a prominent role in overall market dynamics. An inefficient beef processing sector coupled with high feed costs makes imported product strongly price competitive. As a consequence, over the past decade, Mexico has been one of the world's fastest growing beef import markets.⁷
- 3.12 Unfortunately, Australian exporters have been largely excluded from this growth. Aided by preferential access under the North American Free Trade Agreement (NAFTA), the United States and Canada have filled the void and supply over 90 per cent of Mexico's 300,000 tonne annual imported beef requirement.⁸

6 Mr Paul Kerr, Australian Dairy Products Federation, *Evidence*, 21/03/2007, p. 2.

7 Meat and Livestock Australia (MLA), *Submission No. 1, Vol 1*, p. 4.

8 MLA, *Submission No. 1, Vol 1*, p. 4.

- 3.13 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. 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).⁹ This would be changed by development of an FTA between Australia and Mexico.
- 3.14 Coupled with strong offer prices in alternative markets, Australian beef exports to Mexico totalled just 2,540 tonnes in 2005 - all of which was frozen product (mostly knuckle and flank meat) which incurred the higher 25 per cent tariff. While this volume was worth A\$10 million, it only represented 0.3 per cent of Australia's global beef trade and only 1 per cent of Mexico's total beef import requirements.¹⁰
- 3.15 If Australia had been able to retain the 15 per cent market share it enjoyed prior to the implementation of NAFTA, Australia's export volume to Mexico in 2006 could have been around 40,000 tonnes and Mexico would be our fourth largest beef export market.¹¹
- 3.16 The removal of the 20-25 per cent discriminatory beef tariff is critical to normalizing the Australian beef trade with Mexico and will facilitate the exploration of new market opportunities. While Australian Embassy officials have previously canvassed unilateral options in this regard (via formal approaches to the Mexican Economy and Agriculture Ministers), Mexican officials have resisted this option and responded that a bilateral or global (WTO) approach is the preferred course of action.¹²
- 3.17 In its submission the MLA has advocated the liberalisation of the tariff regime in Mexico under the WTO negotiation framework.¹³

9 DAFF, *Submission No 13, Vol 1*, p. 185.

10 MLA, *Submission No. 1, Vol 1*, p. 4.

11 MLA, *Submission No. 1, Vol 1*, p. 5

12 MLA, *Submission No. 1, Vol 1*, p. 5.

13 MLA, *Submission No. 1, Vol 1*, p. 9

Sheepmeat

- 3.18 Australia supplies about one third of all lamb and mutton consumed in Mexico – making sheepmeat (lamb and mutton) exports the mainstay of the bilateral meat trade. Volumes have grown by 73 per cent from 4,608 tonnes in 1995 to 16,989 tonnes in 2005, although the trade peaked at 28,709 tonnes in 2000.¹⁴
- 3.19 For 2006, Australian lamb and mutton exports to Mexico are anticipated to decline slightly (exports for the 10 months ending October total 11,625 tonnes) compared to those achieved in 2005, with the trade being based on a frozen product offering.¹⁵

Offal

- 3.20 Mexico is a major consumer of offal. The varied Mexican diet offers an important market in global terms for a range of lower value and niche products, including beef lips, head/cheek meat, tripe and livers. For the 10 months ended October 2006 Australia exported 1,805 tonnes of offal to Mexico.¹⁶
- 3.21 The recent BSE-related bans on US beef and specified risk material products may open additional longer term opportunities for Australian processors to sell bulk quantities of offal products into the Mexican market.¹⁷

Livestock

Live cattle

- 3.22 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 \$A22.9 million in 2005.¹⁸
- 3.23 The highest value sector in Australian live animal exports to Mexico in recent years has been cattle (dairy heifers and cows) for dairy production. This trade peaked in 2001 and demand has remained reasonably strong following the BSE incidents in Canada and the

14 MLA, *Submission No. 1, Vol 1*, p. 6.

15 MLA, *Submission No. 1, Vol 1*, p. 7.

16 MLA, *Submission No. 1, Vol 1*, p. 7.

17 MLA, *Submission No. 1, Vol 1*, p. 7.

18 DAFF, *Submission No. 13, Vol 1*, p. 185.

United States (which halted supplies from these sources), and despite ongoing competition from New Zealand.¹⁹

- 3.24 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).²⁰

Wine

- 3.25 Mexico is a significant export destination for Australian wine, accounting for 35.5 per cent of exports to the region (valued at \$A1.4 million).²¹

Technology

- 3.26 In March 2002, Mexico became the first nation on the American continent to acquire the Australian technology to produce polymer currency. This is an example of the kind of niche opportunities Australian companies can access in Mexico:

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.²²

- 3.27 Whilst in Mexico the Committee met with Securrency and were impressed with the company's plans to build a bank note printing company in a \$A30 million joint venture with the Bank of Mexico.

19 MLA, *Submission No 1, Vol 1*, p. 7.

20 DAFF, *Submission No. 13, Vol 1*, p. 185.

21 DAFF, *Submission No. 13, Vol 1*, p. 186.

22 Mr John Owens, Assistant Secretary, Canada and Latin America Branch, Americas Division, DFAT, *Evidence*, 7/02/2007, p. 5.

Trade opportunities in Mexico

Mining

- 3.28 Mining technology is one area in which Australian companies have an opportunity to make inroads into the Mexican market. In describing this niche opportunity DFAT also touched on some of the impediments to trade:

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.²³

- 3.29 The level of opportunities in the mining sector are confirmed by these comments from the Mexican Ambassador to Australia:

Mexico has an important mineral industry but only 25 per cent of our territory has been explored in the resources area, so we have a lot of things to offer and expansion of investment in this area would be greatly appreciated by Mexico. In the long term I think you will be selling us technology and different things. Now we have 11 Australian companies investing in the mining industry. They are small companies and probably we could expand our relationship in the mining industry.²⁴

Energy

- 3.30 The Committee was informed that 'Mexico has got a strong deficit in terms of its energy requirements' and that:

. . . projections produced by the Mexican government suggest that the energy deficit will increase over time and therefore

23 Dr Michael Adams, Assistant Secretary, Regional Trade Policy, Trade Development Division, DFAT, *Evidence*, 7/02/2007, p. 6.

24 Ambassador Martha Ortiz de Rosas, Ambassador, Embassy of Mexico in Australia, *Evidence*, 28/02/2007, p. 9.

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.²⁵

3.31 DFAT, in its submission, stated that:

Australia is well placed to benefit from Mexico's fast rising energy requirements: real potential exists to increase Australian energy exports in response to Mexico's tightening energy supply/demand balance. The potential supply of LNG to Mexico presents a promising opportunity for Australia, given the shift towards natural gas usage in Mexico's overall energy mix. As the export figures listed above show, Australia has also emerged as a major supplier of thermal coal to Mexico.²⁶

Wine

3.32 In its submission, the Embassy of Mexico in Australia point to opportunities to increase Australia's share of the growing Mexican wine market:

There is a great potential to increase bilateral trade in the beverages sector. Mexican consumers are diversifying their preferences for wine. The Australian wine industry is steadily gaining a share of the Mexican market and this sector offers good opportunities for further cooperation.²⁷

Infrastructure

3.33 Construction and engineering account for some 4 per cent of Mexican GDP. New investment in highways (US\$5.5 billion), utilities (US\$9.1 billion), resorts (US\$1.2 billion) as well as the need to build over 5.1 million new homes by 2010 make Mexico a very attractive market for the Australian building, construction and engineering industries. Australian companies are already enjoying success in supplying high-

25 Dr Michael Adams, Assistant Secretary, Regional Trade Policy, Trade Development Division, DFAT, *Evidence*, 7/02/2007, p. 3.

26 DFAT, *Submission No. 10, Vol 1*, p. 140.

27 Embassy of Mexico in Australia, *Submission No. 3, Vol 1*, p. 42.

end building products, water treatment technology and a range of services.²⁸

Impediments to trade

Tariffs

- 3.34 With Mexico embarking on NAFTA one of the most significant barriers to trade with Mexico for Australian companies is tariffs.
- 3.35 The impact of tariffs is particularly stark with the dairy industry:
- ... on cheese, the tariff rates are between 20 per cent and 125 per cent, depending on variety. The US industry has already got zero tariff rates on cheese. Milk powders will go to zero on 1 January. They are the last legacy of the NAFTA agreement. Given our freight disadvantage compared to land transport from the United States and given the huge capacity of the United States industry to grow and be a bigger exporter, we are facing a major competitive hurdle there compared with them. Also, Uruguay and Chile have trade agreements with Mexico. They do not cover all dairy products but they do cover cheese, for instance. New Zealand and the European Union are also joining a queue to have trade agreements. To put it in a broader perspective, Mexico is the world's largest importer of dairy products for a developing country – the fourth largest in the world. There is general consensus that Mexico will remain a major importer of dairy products.²⁹
- 3.36 In recent reports the Committee has recommended negotiating lower tariffs on a bilateral basis. Under current WTO rules this can only be done through an FTA:
- Market access commitments, such as the reduction of tariffs, can be made bilaterally through a free trade agreement (FTA) or through negotiation in the World Trade Organisation. However, under WTO rules, preferential access (which would

28 DFAT, *Submission No. 10, Vol 1*, p. 141.

29 Mr Robert Petitt, Manager, Americas and Caribbean Trade and Strategy Group, Dairy Australia, *Evidence*, 21/03/2007, p. 2.

improve access for Australian exports only) can only be granted in an FTA.³⁰

- 3.37 Similarly, Australian States, such as Queensland, identified tariffs as an impediment to trade:

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.³¹

- 3.38 The issues surrounding an FTA are dealt with in Chapter 6.

Payment risk

- 3.39 The Committee received evidence from two State governments that payment risk was a factor for consideration when trading with Mexico.³²

The region

- 3.40 Whilst still modest, two-way merchandise trade with Central America has increased significantly over recent years. Between 2004-05 and 2005-06, two-way merchandise trade grew by more than 25 percent, to around A\$126 million. Australia's main exports to Central America are dairy products, in particular milk, cream, butter and cheese. Other major exports are recreational boats, medicaments and paper and paperboard.³³

30 Government response to 'Expanding Australia's Trade and Investment Relations with North Africa', May 2007, p. 2.
<http://www.aph.gov.au/house/committee/jfadt/northafrica/govtresponse.pdf>

31 Queensland Government, *Submission No. 8, Vol 1*, p. 112.

32 See Department of Agriculture and Food – WA Government, *Submission No. 7, Vol 1*, p. 63 and Hon Paul Lennon MHA – Tasmanian Premier, *Submission No. 7, Vol 1*, p. 164.

33 http://www.dfat.gov.au/geo/central_america/index.html

Dairy

- 3.41 Echoing the experience in Mexico, the Australian dairy industry is becoming a key niche player in some countries of the region. Again Paul Kerr informed the Committee:

Murray Goulburn again – I am going to focus on my company – has formed a joint venture and owns retail brands in Central America in predominantly or primarily Guatemala and El Salvador. They are net importing countries for dairy products. We sell ingredients into those markets, and then we repack them under our own brand. The brand is called Aussie Pride. It is totally, 100 per cent Australian dairy products. Our sales into that region last year were about \$33 million and it is growing. The advantage for Australia and companies like Murray Goulburn is that we are able to be a niche player in a large market. We do not have sufficient product to go into the market and flood the market. We have to compete against a large multinational company such as Nestle, who have a presence in just about every single market throughout Central and Latin America. If you get too big over there, then it is pretty hard to compete. But there is a fairly significant opportunity for us to add value to our ingredients. We formed this joint venture about three or four years ago. We would like to do the same in Mexico – take our ingredients and look for small opportunities to repack them with Australian branding and sell them in the market.³⁴

Wine

- 3.42 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.³⁵

34 Mr Paul Kerr, Australian Dairy Products Federation, *Evidence*, 21/03/2007, p. 2.

35 DAFF, *Submission No 13, Vol 1*, p 186..

Impediments to trade

Biosecurity

- 3.43 The committee took evidence that Australia's strict biosecurity rules are not recognised by all countries and this can have an adverse effect on Australia's exports.

The Government also needs to be proactive in ensuring that imports ex-Australia are not, at the very least, disadvantaged competitively by technical barriers, for example physical inspection of factories. In this regard recognition of AQIS food safety regulations by relevant Government authorities in Central American countries such as El Salvador and Panama would be trade beneficial.³⁶

- 3.44 A particular example of the difficulties encountered because of these inspections was given by Mr Robert Petitt:

Panamanian inspectors recently came to Australia. We would like AQIS's health and safety standards recognised without having these physical inspections. What happens with physical inspections is that we have at least two inspectors who will come to Australia from a veterinary agency in a particular country such as Panama. We have to pay per diem. We have to do a lot of organisation. They will only register for export approval establishments that they actually visit and only identified products. In other words, if a processor changes its product mix between factories and does not have a particular factory recognised for export to Panama then that basically prevents trade. It is a time consuming and expensive process involving AQIS as well as the companies who have to fund it. We would certainly like, given AQIS's very high standards, to move to a mutual recognition process.³⁷

36 Australian Dairy Industry Council Inc., *Submission No. 7, Vol 1*, p. 84.

37 Mr Robert Petitt, Manager, Americas and Caribbean Trade and Strategy Group, Dairy Australia, *Evidence*, 21/03/2007, p. 4.

The Committee's view

3.45 Given the limited amount of information available to the Committee and the fact that, at best, most exports to the region could be described as 'modest' the Committee can only echo comments made in DFAT's submission when it stated:

Opportunities for significant expansion in commercial links with Central America and Cuba are much more limited. Priority in using limited Australian government resources has to be given to Mexico.³⁸

3.46 The Committee has inspected AQIS facilities and is well aware of the fine work AQIS does in protecting Australia from biosecurity threats. It is ironic and a great pity that some countries, such as those referred to by the Australian Dairy Industry Council (ADIC), do not recognise the strict biosecurity protections Australia has.

3.47 The Committee understands the difficulties Australian Government Departments face in this area and is aware of current efforts to address them³⁹ and believes that significant impact with regard to these issues could be made at a ministerial level.

Recommendation 3

3.48 **The Committee recommends that the Australian Government initiate or continue ministerial discussions with officials of Mexico and the region to address technical market access issues.**

3.49 It is clear to the Committee that it is the more enterprising niche players — as exemplified by the dairy industry and Security — that will show the way for Australian exporters in Mexico and the region.

3.50 The Committee received evidence, as it expected it would, of the competent job Austrade does in helping Australian companies in countries such as Mexico. Austrade are able to help companies identify those niche markets in which they might prosper.

3.51 The Committee believes Austrade has been performing well in Mexico. The Committee found that there is strong potential for

38 DFAT, *Submission No. 10, Vol 1*, p. 162.

39 See Mr Bruce Bowen, General Manager, Bilateral Trade Branch, International Division, Department of Agriculture, Fisheries and Forestry, *Evidence*, 22/06/2007, p. 19.

exports to Mexico in the energy, agriculture, frozen meat, wine and mining equipment sectors. The Committee sees a need for more resources to be provided to Australian Government representatives in Mexico for promotional activities such as trade fairs.

Recommendation 4

- 3.52 **The Committee recommends that more resources be provided to Australian Government representatives in Mexico for promotional activities such as trade fairs and exhibitions to capitalise on the strong interest in Australian products.**

Imports from Mexico and the region

- 4.1 This chapter looks at the level of imports from Mexico and the region. Due to the limited information provided to the Committee regarding countries of the region its focus is on Mexico.

Mexico

- 4.2 Australia is Mexico's twenty-sixth largest trading partner. Mexico's exports of goods and services to Australia have increased significantly over the past decade, to total A\$961 million in 2005-06¹
- 4.3 In 2006 the major Australian imports from Mexico were:
- Internal combustion piston engines valued at A\$127 million
 - Passenger motor vehicles valued at A\$116 million
 - Computers valued at A\$100 million
 - Leather valued at A\$27 million
- 4.4 Australia is a promising market for Mexican business. Australia's strong domestic economy and high disposable incomes make it a potentially important market for Mexican manufactures and high value added agricultural products.²

1 Department of Foreign Affairs and Trade, *Submission No. 10, Vol 1*, p 135

2 Department of Foreign Affairs and Trade, *Submission No. 10, Vol 1*, p 140

Engine and automotive imports

- 4.5 Internal combustion piston engines are Australia's chief import from Mexico with a value of A\$127 million. Internal combustion engines are most frequently utilised for mobile propulsion in automobiles, and portable equipment and machinery. According to evidence by DFAT, this is an area of recent and significant growth:

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 vehicles³.

- 4.6 Mexico has outlined a desire to further expand their successful engine and leather exports within the Australian automotive industry. Mexican Ambassador HE Maria Ortiz de Rosas outlined this desire in evidence presented to the Committee; expressing her belief that such expansion might be a collaborative project between the two nations:

You are importing auto parts from Mexico and some big station wagons or something like that. So this is one important part of our exports to you. In the chain of production we would study what kind of expansion we could have. We could have joint ventures from these big manufactures that we have established in Mexico and the small and medium sized enterprises that are here in Australia building different parts of the automotive industry⁴.

In fact, we have one company established in the northern part of Mexico that is building leather seats for the automotive industry. This could expand to other areas of expertise for Australia and they could probably establish in Mexico and export the parts, the components, to the national market. In this way we are complementary, and we can expand our relationship and be more competitive globally if we join forces⁵.

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

4 Ambassador Martha Ortiz De Rosas, Ambassador, Embassy of Mexico in Australia *Evidence*, 28/02/2007, p. 9.

5 Ambassador Martha Ortiz De Rosas, Ambassador, Embassy of Mexico in Australia *Evidence*, 28/02/2007, p. 9.

Agriculture

- 4.7 Within the Central American region, Mexico is by far Australia's largest agricultural trading partner, representing 83.7 per cent of Australia's imports from the region⁶. In 2006, imports from Mexico came to a total of \$A68.6 million.
- 4.8 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 imports⁷

Horticulture (fruit and vegetables)

- 4.9 Mexico is 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.
- 4.10 Principal horticultural imports from Mexico to Australia include frozen fruit, frozen strawberries, pickles, dried dates, dried tropical fruits, garlic and lime juice.⁸
- 4.11 Australia is perceived by Mexico to be an attractive market for Mexican agricultural products. In its submission, the Mexican embassy outlined that,
- Australia is an attractive market for Mexican agricultural products. Mexico already exports a vast range of agricultural products to the United States, the European Union and Japan and can offer Australian consumers high quality products like mango, avocado and limes, in which Mexican producers may have seasonal and weather advantages.⁹
- 4.12 The northern states of Mexico in particular are interested in exploring the Australian market for the exportation of fresh fruits, such as plums, melon, watermelon, grapes and citric products.¹⁰

6 DAFF, *Submission No. 13, Vol 1*, p. 180.

7 DAFF, *Submission No. 13, Vol 1*, p. 180.

8 DAFF, *Submission No. 13, Vol 1*, p. 185.

9 Embassy of Mexico, *Submission No. 3, Vol 1*, p. 39.

10 Embassy of Mexico, *Submission No. 3, Vol 1*, p. 39.

- 4.13 The Mexican Embassy identifies Australia's stringent sanitary controls as a hindrance to the export of Mexican agricultural and horticultural products to Australia. Their submission states that;

. . . it is important to resolve some outstanding issues regarding sanitary controls in agricultural products, and livestock and non-tariff barriers.. (these) need to be addressed in order to facilitate and promote greater bilateral trade flows in these products.¹¹

Alcoholic Beverages

- 4.14 Exports of beer and tequila to Australia have been increasing constantly. This sector now represents 11% of the Mexican exports to Australia.¹²

- 4.15 In identifying areas in which Mexico would like to expand their exports to Australia Mexican Ambassador H.E Maria Ortiz de Rosas states:

Agriculture, food and beverage could be another one. We would like to expand our relationship in the processed food industry.¹³

The Committee's view

- 4.16 In relation to the issues surrounding Mexican imports to Australia the Committee is aware of significant bilateral discussions and progress being made in relation to BSE, fruit fly and classic pig fever.¹⁴

- 4.17 The Committee acknowledges the difficulties faced by Mexico in meeting Australia's stringent agricultural import standards; however it supports these rigorous standards as an essential step in preventing the spread of new agricultural diseases to Australia.

11 Embassy of Mexico, *Submission No. 3, Vol 1*, p. 39.

12 Embassy of Mexico, *Submission No. 3, Vol 1*, p. 41.

13 Ambassador Martha Ortiz De Rosas, Ambassador, Embassy of Mexico in Australia *Evidence*, 28/02/2007, pp. 9.

14 Embassy of Mexico, *Submission No. 3, Vol 1*, p. 41.

The region

- 4.18 In general, submissions concerning imports to Australia from countries within the region classified their information by country. With the exception of some agricultural figures, the report will mirror this structure in its discussion of regional imports.
- 4.19 Agricultural imports from Central America are modest and mainly comprise coffee and alcoholic beverages. Total agricultural imports from Central America were valued at \$A81.9 million in 2006.¹⁵

Cuba

- 4.20 Australia's merchandise exports to Cuba in 2005-06 totalled approximately A\$ 8.2 million, while Australian imports from Cuba were A\$ 5.8 million. Australia's main imports from Cuba are crustaceans, tobacco and fruit juices.¹⁶

Costa Rica

- 4.21 Costa Rica is Australia's major trading partner in Central America (excluding Mexico). In the 2005-06 financial year, two-way merchandise trade between Australia and Costa Rica was A\$49 million (exports A\$10 million, imports A\$39 million), an increase of 41 per cent when compared with 2004-05.¹⁷
- 4.22 Principal imports from Costa Rica included integrated circuits, computer pans, medical instruments and coffee and coffee substitutes.¹⁸

Guatemala

- 4.23 Australia's trade with Guatemala is modest but increasing gradually. In the 2005-2006 financial year, two-way merchandise trade was A\$23 million (exports A\$19 million, imports A\$5 million), an increase of 31.7 per cent up from the 2004-05.¹⁹

15 DAFF, *Submission No. 13, Vol 1*, p. 180.

16 DFAT, *Submission No. 10, Vol 1*, p 124.

17 DFAT, *Submission No. 10, Vol 1*, p 148.

18 DFAT, *Submission No. 10, Vol 1*, p 148.

19 DFAT, *Submission No. 10, Vol 1*, p 149.

- 4.24 Major imports from Guatemala were coffee and coffee substitutes, followed by oil seeds and ethylene polymers. An opportunity to expand the commercial relationship may exist in enhancing cooperation to develop import protocols for agricultural products, particularly genetics and seeds.²⁰

Honduras

- 4.25 The trade relationship between Australia and Honduras is growing but from a very modest base. In the 2005-06 financial year, two way merchandise trade between Australia and Honduras was A\$17.4 million (exports A\$7.3 million, imports A\$10.1 million), an increase of 36 per cent when compared with 2004-05. Principal imports from Honduras included coffee and clothing.²¹

20 DFAT, *Submission No. 10, Vol 1*, p 149.

21 DFAT, *Submission No. 10, Vol 1*, p 154.

Services to Mexico

- 5.1 This chapter focuses exclusively on Mexico because there is minimal services trade with countries of the region.
- 5.2 As DFAT explained, services trade is:

... 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. ¹

Education

- 5.3 The bilateral Australia-Mexico education relationship is well developed at government, institutional and business levels. Its scale and scope should increase over the next few years under current policy settings.²

1 Dr Michael Adams, Assistant Secretary, Regional Trade Policy, Trade Development Division, Department of Foreign Affairs and Trade, *Evidence*, 7/02/2007, p. 3.

2 DFAT, *Exhibit No. 1*, Australia - Mexico Economic Relations, September 2006, p.53

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- 5.4 Mexico is the largest source of international students from the Central American region and the third largest source of international students for Australia from Latin America more generally (after Brazil and Columbia).³
- 5.5 Enrolments of Mexican students have grown steadily in recent years with the most significant increase in the ELICOS (English language) sector where there has been a 54.7% increase in this sector in the year to date August 2006.⁴
- 5.6 The Committee took evidence that ‘education and training services . . . are hindered by recognition of academic qualifications’⁵ but that this should be addressed in any FTA.
- 5.7 Despite DFAT’s concerns the evidence of DEST was as follows:
- We have not noted any barriers at this point in respect of the recognition of qualifications from Australia and from Mexico into Australia, though the volumes are low. When there are just a few involved and there is a skill shortage in both countries, it tends to mask whether there are ultimately going to be any barriers. It is in a downturn when people start pulling out statutes that may limit recognition of qualifications. At this stage we are not aware of any major recognition problems, so we do not see that as a barrier to trade.⁶

Government engagement

- 5.8 Growing the education linkages between Australia and Mexico is a multifaceted exercise that requires engagement between Australia and Mexico’s education and training sectors and Governments.

It is more than just international students coming to Australia that create a sustainable, long term engagement on education,

3 DEST, *Submission No. 2, Vol. 1*, p. 18.

4 DEST, *Submission No. 2, Vol. 1*, p. 18.

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

6 Ms Fiona Buffinton, Group Manager, International Education Group, Department of Education, Science and Training, *Evidence*, 22/06/2007, pp. 2 – 3.

science and training with Mexico; it is also important to have a strong government-to-government relationship in our portfolio.⁷

- 5.9 In 2003, a MoU was signed on Cooperation in Education and Training. This MoU is representative of the constructive education and training engagement occurring between the Governments of Mexico and Australia.
- 5.10 The MoU facilitates the education and training relationship that is being built upon by education providers and both the State and Federal Governments. DEST advised the Committee that:

Mexico has sent two education delegations to Australia since the signing of the MOU to examine best practices in education and training. The first visit in 2003 was organised by IDP Education Australia, a private company owned by Australia's universities to recruit international students. The second visit in 2005 was organised by the Queensland Government.⁸

- 5.11 Mexico's Ministry of Education sent a high profile delegation to Australia in 2005. Led by the then Education Minister Dr Reyes Tamez, the delegation sought to examine how the Mexican and Australian governments could expand bilateral educational opportunities⁹. DEST told the Committee:

It was very interesting to listen to Dr Tamez, the then Mexican education minister, when he was in Australia showcasing things that we could learn from them. In their development, they have had to jump a number of decades of educational development and are now using e-learning modules when it comes to things like the history of Mexico and maths. They could not get their textbooks printed fast enough and so are now using very strong e-learning materials. This is something that Australia could actually look at. We were extremely impressed with their school sector and how they have jumped ahead in e-learning.¹⁰

7 Ms Fiona Buffinton, Group Manager, International Education Group, Department of Education, Science and Training, *Evidence*, 22/06/07, p. 2.

8 DEST, *Submission No. 2, Vol. 1*, p. 18.

9 DFAT, *Exhibit No. 1*, Australia – Mexico Economic Relations, September 2006, p.54

10 Ms Fiona Buffinton, Group Manager, International Education Group, Department of Education, Science and Training, *Evidence*, 22/06/2007, p. 2.

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- 5.12 DEST reports that the Mexican Ministry of Education has:
- ... commented on the speed at which the relationship between Australia and Mexico has progressed, and indicated that this is the first time a relationship has developed as quickly between Mexico and another country.¹¹
- 5.13 The Australia-Mexico vocational education and training symposium, held in Mexico City in October 2005, was one outcome of this cooperation. Another is increased emphasis on student exchange programs. In 2006, the Australian University Mobility in Asia and the Pacific program funded 11 Australian universities to establish student exchange partnerships with Mexican universities¹².

Australian Education International

- 5.14 The responsibility for promoting and supporting the commercial activities of Australia's education community falls to Australian Education International (AEI). As part of DEST, AEI liaises with the education and training industry and government to integrate the promotion of Australia's education sector with the development of international governmental relations¹³.
- 5.15 AEI provides market entry and development strategies for the Australian education sector in Mexico through market intelligence, promotional and marketing activities and the facilitation of strong government to government relationships.¹⁴ Statistics from DFAT suggest that AEI have been successful in their efforts.

In the period since 2000 (Mexican) student numbers have increased markedly – there were only 158 Mexican students enrolled in Australian education institutions in 2000 and there were 1 123 in 2005. The increase in student numbers from Mexico reflects increased promotional activity over the last five years¹⁵.

11 DEST, *Submission No. 2, Vol. 1*, p. 2.

12 DFAT, *Exhibit No. 1, Australia – Mexico Economic Relations*, September 2006, p. 5.

13 AEI, <http://aei.dest.gov.au/AEI/AboutAEI/Default.htm>

14 DEST, *Submission No. 2, Vol. 1*, p. 29.

15 DFAT, *Submission No 10, Vol 1*, p. 123.

- 5.16 AEI also provides a liaison and information role with the network of Mexican agents who promote Australia as a study destination. AEI works with the Department of Immigration and Citizenship to provide regular training and information sessions for Mexican education agents.¹⁶

Tertiary cooperation

- 5.17 There are strong and growing relationships between several Australian and Mexican institutions. Cooperation extends to areas such as student exchanges, language teaching and Asian business programs. Prominent endeavours include:
- The University of New South Wales (UNSW) is working with Mexico's National Council for Science and Technology (CONACYT) to provide scholarships to Mexican engineers. The university is also running short Spanish language programs in Mexico for UNSW students.
 - The University of Queensland (UQ) is a Mexican Government partner in Australia for a non-award short program to help identify and prepare Mexico's future leaders. UQ operates a development program for Mexican teachers of English, mathematics and science to study English and teaching methodologies in Australia. The UQ Centre for Marine Studies also has partnerships and student exchange programs with Mexican institutions to improve coral reef management;
 - La Trobe University launched its Centre for Mexican Studies on 15 September 2006. This Centre is jointly financed by the Mexican Ministry of Education (SEP).
 - Institutions such as Tecnologico de Monterrey and La Universidad Iberoamericano each have at least ten international agreements in place with Australian institutions. Many Mexican institutions in Guadalajara, Monterrey, Puebla and even in Mexico City are looking for partnerships with Australian institutions.¹⁷

16 DEST, *Submission No. 2, Vol. 1*, p. 21.

17 DEST, *Submission No. 2, Vol. 1*, p. 20.

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- 5.18 In its trip to Mexico the Committee found great support for further MOUs in the area of educational exchange with an emphasis on the potential benefits of long distance education.

Future initiatives

- 5.19 With sector growth continuing at a steady rate AEI hopes to enrol around 2000 Mexican students at Australian education institutions by 2008. AEI further intends to broaden marketing promotions outside Mexico City to Monterrey, Guadalajara and other regions¹⁸.

The growth that we have experienced in student enrolments, admittedly from a low base, has been just under 23 per cent in the period 2002 to 2006. We believe this growth is likely to continue and we look likely to achieve a strategic goal of 2,000 Mexican student enrolments at Australian education institutions by next year.¹⁹

- 5.20 This sector growth and its positive forecast bode well for future initiatives and DEST have responded accordingly.

Because of the sheer volume and interest in the education, science and training relationship, we have actually now put a locally engaged staff member – an ongoing employee – in the embassy in Mexico to look after that relationship.²⁰

- 5.21 This is an area in which Mexico hopes to grow its relationship with Australia:

This is one of the areas in our relationship that we want to grow more. We have signed an MOU with Australia and we have received a lot of delegations from the ministry of education in Mexico, including a visit from our minister of education in 2005. We have more than 30 bilateral agreements among universities and we are participating in two programs that are very important: the peace scholarship program, which brings more than 30 students per semester from Mexico to do one or two

18 DFAT, *Exhibit No. 1, Australia - Mexico Economic Relations*, September 2006, p.54

19 Ms Fiona Buffinton, Group Manager, International Education Group, Department of Education, Science and Training, *Evidence*, 22/06/2007, p. 2.

20 Ms Fiona Buffinton, Group Manager, International Education Group, Department of Education, Science and Training, *Evidence*, 22/06/2007, p. 2.

semesters at different universities that are part of this program through the IDP; and the Scholarship Vanguardia, which brings students from Mexico to train in English and leadership. So we have in place those two scholarship programs and the public universities in Mexico participate in those programs. As I mentioned before, in 2001 we had 200 Mexican students in Australia and now we have more than 1,000. So the relationship has been strengthening.²¹

5.22 Indeed it has been noted that mining and agricultural education provided by Australians is something that Mexico could take advantage of.²²

5.23 The Committee notes Chapter 5, 'The international education industry', of the report *Servicing our future: Inquiry into the current and future directions of Australia's services export sector* by the House of Representatives Standing Committee on Economics, Finance and Public Administration²³ that makes the following recommendation:

Recommendation 14

5.87 The committee recommends that the government, through Tourism Australia and Australian Education International, engages in a coordinated effort to promote, target growth in, and understand the importance of, the interplay between international education and tourism.²⁴

5.24 This goes to the heart of much of the evidence the Committee received regarding education and tourism from Mexico and the Committee believes this recommendation, if accepted by the Australian Government, would have a significant positive impact on the trade in services between Australia and Mexico.

21 Ambassador Martha Ortiz De Rosas, Ambassador, Embassy of Mexico in Australia *Evidence*, 28/02/2007, pp. 4 - 5.

22 See Ambassador Martha Ortiz De Rosas, Ambassador, Embassy of Mexico in Australia *Evidence*, 28/02/2007, p. 5.

23 *Servicing our future: Inquiry into the current and future directions of Australia's services export sector* by the House of Representatives Standing Committee on Economics, Finance and Public Administration, Parliament House, Canberra, May 2007, pp. 97 - 120.

24 *Servicing our future: Inquiry into the current and future directions of Australia's services export sector* by the House of Representatives Standing Committee on Economics, Finance and Public Administration, Parliament House, Canberra, May 2007, p. 120.

Tourism and travel

5.25 In 2005 almost 22,000 Australians visited Mexico; an increase of 91% compared to 2004. The tourist flow is expected to expand with the signature of the bilateral agreement on air services²⁵.

5.26 Australia and Mexico share positive views on the future of tourism services. As the Mexican Ambassador stated in evidence before the Committee:

The growth of Mexico's middle-class also presents the chance for expansion in tourism, financial, professional services and franchising.²⁶

Tourism services would be an area that we could develop further in our relationship. Mexico receives more than 22 million tourists and we have a big tourism industry, so I think in that area we could join forces as well and work together to expand our relationship.²⁷

5.27 The recent growth in the number of Mexican students studying in Australia is expected to instigate a responsive growth in the tourism sector. Embassy initiatives such as the Australia festival held in Mexico City, contain a significant tourism focus and are also expected to foster growth in the sector.

5.28 It is believed however that more significant growth is hampered by the long distances separating Australia and Mexico and the absence of direct flights. Currently, both Qantas and Mexicana operate flights to and from Australia and Mexico that travel through the United States of America. DEST outlined a key disincentive of such travel in evidence provided to the committee:

If you are coming from Mexico, at the moment without direct flights, you have to go via LA and there is quite a laborious process to come through the US as you need a transit visa²⁸.

25 Embassy of Mexico, *Submission No. 3, Vol 1*, p. 35.

26 DFAT, *Submission No 10, Vol 1*, p. 141.

27 Ambassador Martha Ortiz De Rosas, Ambassador, Embassy of Mexico in Australia *Evidence*, 28/02/2007, pp. 9.

28 Ms Fiona Buffinton, Group Manager, International Education Group, Department of Education, Science and Training, *Evidence*, 22/06/2007, p. 2.

5.29 Evidence from DOTARS show that it is unlikely that there will be direct flights between Australia and Mexico in the near future:

. . . the size of the Australia-Mexico aviation market means that it is unlikely that carriers of either country will operate own-aircraft services for some years to come. Around 28,400 origin destination passengers – those originating in or destined for either country – travelled between Australia and Mexico in the year to April 2007. This equates to approximately 273 passengers each way each week.²⁹

5.30 Qantas' submission echoed this and suggests that, with development of the market, direct services to Mexico may become viable:

It is envisaged that Qantas will continue to develop our relationship with Mexicana over time. The code share arrangement may assist the development of the market to a point where direct services become a viable option for either carrier in the long term.³⁰

The Committee's view

5.31 The evidence presented to the Committee was unanimous in the view that Mexico can become a lucrative country for Australia's education sector. The Committee was pleased to see the work being carried out by AEI and that DEST is looking at increasing scholarships for Latin America.

5.32 The Committee notes the evidence by the Mexican Embassy in Australia that there is a significant opportunity for Australian companies to provide training/educational services in the mining and agricultural sectors in Mexico.

5.33 The Committee notes the opportunity to develop long distance education and an exchange program for Spanish teachers.

29 Mr Iain Lumsden, Acting General Manager, Bilateral Aviation, Aviation and Airports Business Division, Department of Transport and Regional Services, *Evidence*, 22/06/2007, p. 13.

30 Qanats, *Submission No. 14, Vol 1*, p. 197.

- 5.34 The market for travel (excluding educational travel) and tourism is currently limited and the travel that does occur will, necessarily, transit through the United States. Whilst it is the Committee's view that direct flights to Mexico are desirable the Committee accepts that this is currently not plausible.
- 5.35 The Committee notes that much of the evidence presented to it concerns the *opportunity* for developments in the services sector. Given the positive job currently being done by Austrade the Committee is confident that companies trying to access the Mexican market have an appropriate level of support.
- 5.36 This support is integral to the growth of services sector exports. The services sector is vibrant and dynamic. Things that may not have been seen as a service in the past may form the basis for a new business sector in the future. What exactly these sectors will be hard to predict but it is likely to be related to mining, agricultural and education services as well as tourism. As long as the appropriate governmental support is in place Australian companies – whose ingenuity the Committee has already commented on – can be confident that they have the necessary tools to provide services to the growing Mexican middle class.

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.

Committee's visit report

Figure 7.1 Members of the Committee with Australian Embassy officials Mexico City.



Overview

- 7.1 The visit by the Trade Committee to Mexico proved very successful in terms of contacts made, opportunities identified and challenges addressed.
- 7.2 The Australian Embassy in Mexico City, led by the Ambassador Mr Neil Mules, did an outstanding job in arranging a programme for the visit. The Ambassador used the opportunity of the visit for providing entrée to government ministers, senior government officials and business leaders. The committee was also the focus for a reception hosted by the Ambassador to which senior business executives from key importing and investing Mexican companies.

Key appointments

- Foreign Minister Patricia Espinosa
- Vice Minister for the Economy (Trade) Beatriz Leycegui
- Central Bank Deputy Governor Guillermo Guemez Garcid
- Mexican Council on Foreign Relations
- Education Department – Director General for International Affairs in the Education Ministry
- Mexican importers of Australian Cattle

Key Functions

- Luncheon with Senior Executives of Securrency and the Bank of Mexico regarding Australian/Mexican joint venture in the production of polymer bank notes (20 and 50 peso notes).
- Luncheon hosted by Mexican Senate
- Reception with Australian – Mexican Business Community.

Outlook for Australian Trade - Overview

- 7.3 A survey carried out by the Mexican Council on Foreign Relations highlighted that Australia is highly regarded by Mexicans. In terms of favourability Australia is ranked third behind the US and Canada.

This is of considerable assistance to Australian exporters to this market.

- 7.4 There is no doubt that trade with the USA dominates the Mexican trade scene. The US represents 80% of exports (90% of manufactured exports) and 50% of imports. 60% of the GDP of Mexico depends on the USA. Mexican business is not interested in diversifying when the reality is that when the US has a good year its growth is greater than the Mexican economy. There was a view at the senior levels of the Government that Mexico should diversify its trade so that it is not dependent on the USA.
- 7.5 The opportunities for Australian exports exist predominantly in the energy, agricultural, education and mining equipment areas.
- 7.6 Australia supplies steaming coal to a power station on the West Coast of Mexico. There are also real possibilities of LNG sales in the future.
- 7.7 Agricultural sector exports are predominantly related to live cattle which have been averaging 10,000 – 15,000 impregnated cows each year worth \$40 million. The experience of Mexican dairy producers has been very positive and the Australian importing company Elders is optimistic about the future prospects for Australian exports.
- 7.8 In addition there has been a consistent increase in the number of students from Mexico coming to Australia for tertiary training. In 2005-06 the value of education – related services exports was A\$27 million. Bilateral agreements have been reached with University of Queensland, Macquarie University and Griffith University and Mexican Universities.
- 7.9 It would also appear that opportunities exist for Australian mining equipment in the significant Mexican mining activities. Where five years ago there were 3 producing mines, there are now 55.
- 7.10 The Australian company Orica has also established a significant market for explosives in Mexico. Orica already has an investment of \$100 million in Mexico. The company is currently planning a world conference in Mexico.
- 7.11 Australian wine has performed well in Mexico. In addition Austrade representatives in Mexico are optimistic about the opportunities for gourmet foods and groceries. The joint agreement between the Australian Reserve Bank and the Bank of Mexico is producing significant income through the production of 20 and 50 Mexican peso notes on polymer notes.

- 7.12 There are approximately 30-40 million members of the 'middle class' in Mexico which provide a significant potential buying power for Australian products.
- 7.13 Much attention was given during the visit to the takeover bid by the very large Mexican company of the Australian company Rinker. This is the largest ever takeover offer by any Mexican company.

Potential Free Trade Agreement

- 7.14 Following preliminary feasibility discussions between Mexican and Australian trade officials held in Adelaide two weeks before the committee's visit to Mexico, some reference was made during the visit to a potential free trade agreement between Mexico and Australia. It would appear that key Mexican Ministers and officials are cautious about this possibility.
- 7.15 The reality according to Mexican Government Ministers is that the intention is to deepen and broaden Mexico's existing FTA's rather than begin negotiating new agreements. Mexico already has over 40 FTA's in existence, amongst the highest held by any country. In addition this year the final stages of the NAFTA agreement are being implemented and as a result there is some sensitivity in Mexico to the final cut in tariffs which are part of the agreement.
- 7.16 Senior Mexican officials encouraged the committee to persuade Mexican business leaders of the value of an FTA with Australia.

Appointment Summary

Minister for Foreign Affairs, Patricia Espinosa

Figure 7.2 Minister for Foreign Affairs, Patricia Espinosa and the Chair, Hon Bruce Baird MP



- Outlined that policies used to be determined by the President and rubber stamped by Congress. Today, according to the Minister the approach is more co-operative and is based on consensus building, and the Mexican Senate now has more power in relation to treaties and agreements.
- Macro-economic indicators strong and the economy is solid.
- According to the Minister the challenges to the Mexican economy are:
 - ⇒ Mexico has lost its competitiveness compared with China
 - ⇒ The economy needs to open up and structural reforms are necessary.

- The Minister saw similarities between Australia and Mexico in relation to economic size and the diversity of our economy. And that both countries can complement one another.
- Australia is seen by Mexico as a friendly, open and inclusive society.
- Other structural reforms the Minister believed were important were tax and labour reforms particularly in the mining and energy sector.
- Mexico placed importance on APEC and looked forward to developing its relationship with Australia during the process.
- The challenge for Mexico in developing its trade relationship with the Asia Pacific area is to encourage businesses involved in the region and in joint ventures to educate Mexican society that opportunities exist in areas other than North America.

Vice Minister for the Economy, Beatriz Leycegui

- The Minister commented on the possibility of a FTA with Australia - that there was still a long way to go and that the view had developed in the Mexican business community that they should keep existing FTA's and deepen them, rather than negotiating new agreements.
- The challenge for Mexico according to the Minister is improving its competitiveness. She cited the need for greater flexibility in issues such as rules of origin.
- The Minister outlined her view as to the best opportunities for two-way trade between Australia and Mexico lay in the area of coal, mining, education, wine, tourism, livestock and agriculture.
- The Minister indicted that the moratorium on negotiation of new FTA's was a result of protectionist sentiments predominately in the private sector. The fact that the final stage of tariff protection under NAFTA was being undertaken this year meant there were heightened sensitivities in the Mexican business community. There was strong resistance from the agricultural sector to the full implementation of NAFTA particularly the elimination of tariffs on corn, beans and powdered milk taking effect in 2008.
- The Minister advised that sensitive agricultural producers would need to be convinced of the benefits of an alliance with Australia.

The Congress now has an enhanced role in relation to approving any new FTA's and they would also need to be convinced.

Ministry of Education

Carlos de Alba, Director General for Internal Affairs in the Education Ministry

Figure 7.3 Members of the Committee attend a meeting with Carlos de Alba.



- 7.17 The Director General spoke of the co-operation between Mexico and Australia in expanding its own vocational and technical training. The Director General indicated that the Mexican Government wanted to reduce its over-reliance on U.S. universities and colleges. MOU's had been negotiated with University of Queensland, Griffith University and Macquarie Universities based on a sister city concept.
- 7.18 Opportunities existed for Australian universities in mining training, multiculturalism and tourism, fishing and agriculture as well as TAFE related technical courses.
- 7.19 They were also interested in developing a relationship between Mexico and Australia in long distance education and an exchange program for Spanish and English language teachers.

Bank of Mexico (Central Bank)

Guillermo Guez, Deputy Governor of Bank of Mexico

- 7.20 This briefing provided the delegation with a comprehensive overview of the Mexican economy.
- 7.21 The Mexican economy has become more open as a result of the multiple FTA's negotiated in recent years. NAFTA is the most significant FTA with the U.S. accounting for 90% of manufactured exports. Because of competition with China, Mexican industry has had to restructure. In particular Mexico has shifted from highly labour intensive industry to more sophisticated exports. Imports are now growing in several market segments namely:
- Fashion textiles. Mexico is specialising in high end fashion and has the possibility to respond more quickly to fashion changes compared with China.
 - Any high tech product
 - Products which are difficult and costly to transport to the U.S. from Asia; particularly refrigerators and washing machines. Currently 6,000 refrigerators are being produced every week close to the U.S. border.
- 7.22 The Mexican economy is slowing in response to the slowing of the U.S. economy. As a result the growth of the Mexican economy this year is expected to be 2-3%.
- 7.23 In Summary the Deputy Governor saw several areas that needed structural change:

Political

- 7.24 The Deputy Governor stated that political changes were needed. The current 3 party system means agreement on issues is difficult and the fact that members of parliament are elected for only one term creates problems of accountability.

Fiscal

- 7.25 Currently 29% Corporate tax rate with almost no deductions.
- 7.26 Government intervention in the economy – For 40 years the Mexican economy has been influenced by government intervention. In 1992 60% of the Mexican GDP was government related.

Diversity of Industry

- 7.27 Currently 30% of the Government budget comes from the oil industry.

Labour/IR

- 7.28 Teachers have a salary for life and retirement security.

Energy

- 7.29 Electricity prices are higher than in the U.S. Mexico only has one tariff. When the world oil price goes down, the Mexican price goes up.
- 7.30 The Mexican electricity company has no employment incentive
- 7.31 There is mandatory union membership for companies involved in the mining, sugar and communications sectors.

Drugs

- 7.32 Are a real problem for Mexico. The value of the overall drug market in the US is worth half of Mexico's GDP and most comes through Mexico. This creates a criminal issue but the Mexican political leadership is addressing the issue head on.

Other Issues

- Believed that Mexico needs to diversify as industry is very US centred.
- Next year growth is expected to grow 4% and the year after 4.5%.
- Unemployment is expected to increase by 1% caused by more areas of society trying to come into the workforce particularly women.
- This year 600,000 new jobs are expected to be created, particularly with growth in silver, copper and lead production.

- Inflation this year expected to be 3-4%.
- Inflation in 1995 reached 50%
- Interest rate currently 7% and revenues US \$70 billion.

Mexican Council of Foreign Affairs

- 7.33 Mexican council of Foreign Affairs is made up of experts in Mexican foreign and trade policy, including a number of former Ambassadors to South East Asia.
- 7.34 The group published a commissioned survey on the attitude of Mexican citizens to 30 countries. This survey ranked Australia third, which is a remarkable achievement.
- 7.35 The biggest problem for Australia is the dominance of the USA in terms of Mexico's trade – 80% of exports and 50% imports.
- 7.36 This is a difficult year for Mexico in that this is the last transitional year in reduction of the tariffs as part of NAFTA.
- 7.37 Various challenges for Mexico
- Infrastructure particularly lack of port facilities
 - Political – while Mexico has been a democratic success of young institutions but it is in a period of evolution. Whilst there has been an increasing role for Congress and the executive - Congress are learning how to work together. There is also an increase in executive power.
- 7.38 There is also an important challenge in terms of structural reform particularly in relation to structural reform of labour and taxation.
- There is a need for the reform of the State Pension System.
- 7.39 Mexico is not a Parliamentary majority. No single party has a majority in Congress.
- 7.40 The justice system also needs reform. The Supreme Court has been involved in constitutional conflict.

Mexican Senate

Figure 7.4 Members of the Committee at a working lunch organised by the Mexican Senate.



- 7.41 The Committee met with representatives of the Mexican Senate at a working lunch. The presiding Senator spoke about the opportunities for further dialogue with Australia this year during Australia's hosting of APEC. They also discussed the forthcoming visit to Australia of representatives of the Mexican Congress. Representatives from both Parliaments agreed on the potential for further collaboration in mining agriculture, wine, tourism and education. Discussions were also held on a potential FTA between Mexico and Australia.

Embassy Reception

- 7.42 The Australian Ambassador to Mexico hosted a reception attended by representatives of companies doing business in Australia including CEMEX and GRUPO MODELO (Corona Beer).

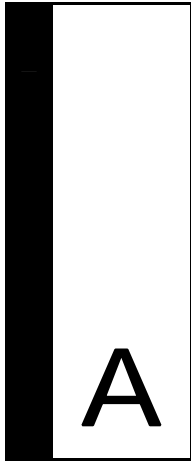
Visit to Queretaro

- 7.43 The delegation visited a dairy farm in Queretaro which has 2000 head of cattle, 80% of which were imported from Australia. One of the key people meeting the delegation in Queretaro was the President of the Livestock Committee of the Mexican Lower House, Mr Francisco Dominguez, to discuss opportunities for co-operation in the agricultural sector.
- 7.44 The Committee also met with representatives of Securrency in Queretaro to discuss the company's plans to build a bank note printing company in a \$30 million joint venture with a Bank of Mexico.

Figure 7.5 Members inspect a dairy farm in Queretaro.

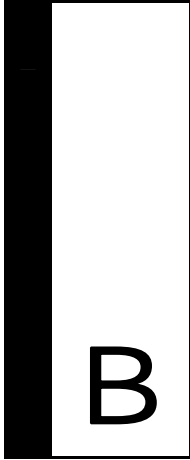


Senator Marise Payne
Chair
September 2007.



Appendix A – List of Submissions

- 1 Meat and Livestock Australia Ltd (MLA)
- 2 Department of Education Science & Training
- 3 Embassy of Mexico
- 4 Australian Manufacturing Workers' Union
- 6 Department of Transport and Regional Services
- 7 Australian Dairy Industry Council Inc
- 8 Queensland Government
- 9 CONFIDENTIAL
- 10 Department of Foreign Affairs and Trade
- 11 Tasmanian Government
- 12 Australian Free Trade & Investment Network
- 13 Department of Agriculture, Fisheries and Forestry
- 14 QANTAS Airways



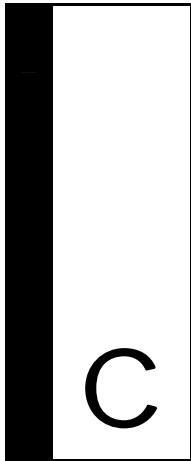
Appendix B – List of Exhibits

- 1 Department of Foreign Affairs and Trade
Australia Mexico Economic Relations

- 2 Embassy of Mexico
Mexico Economic Outlook and Investment Opportunities

- 3 Department of Foreign Affairs and Trade
ALABC Latam News Feb 2007

- 4 Department of Foreign Affairs and Trade
Travel advice - Cuba



Appendix C – Witnesses appearing at public hearings

Wednesday, 7 February 2007 - Canberra

Department of Foreign Affairs and Trade

Dr Michael Adams, Director - Regional Trade Policy, Trade Development Division

Mr John Owens, Assistant Secretary - Canada & Latin America Branch

Dr Francine Winnett, Executive Officer - Canada & Latin America Section

Mr John M L Woods, Director, Canada, Latin America Section

Wednesday, 28 February 2007 - Canberra

Embassy of Mexico in Australia

Ambassador Martha Ortiz De Rosas, Ambassador

Mr Jorge Duhalt, Deputy Head of Mission

Wednesday, 21 March 2007 - Canberra

Australian Dairy Products Federation

Mr Paul Kerr, President

Dairy Australia

Mr Robert Pettit, Manager, Americas and Caribbean Trade and Strategy Group

Friday, 22 June 2007 - Canberra

Department of Agriculture, Fisheries and Forestry

Mr Bruce Bowen, General Manager, Bilateral Trade Branch
International Division

Ms Phoebe Klinkert, Policy Officer

Mr Ian Mortimer, Manager, Americas Section International Division

Department of Education Science & Training

Ms Fiona Buffinton, Group Manager

Mr Graeme Rankin, Director - Americas, Europe & North Asia Section

Ms Julie Walding, Director - India & the Americas Section,
International Science Branch & Science Group

Department of Transport and Regional Services

Mr Stephen Borthwick, General Manager, Aviation Markets, Aviation and Airports Division

Mr Wayne Kelly, Aviation and Airports Division

Mr Iain Lumsden, Section Head, Bilateral Aviation, Aviation and Airports Division