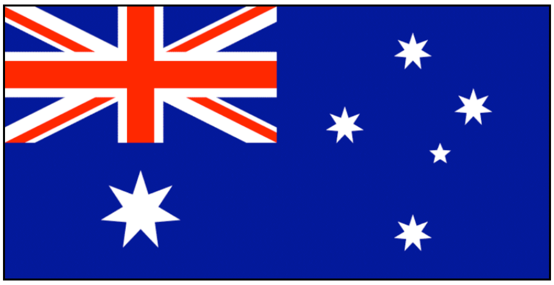 

AUSTRALIA – MEXICO
JOINT EXPERTS GROUP ON STRENGTHENING BILATERAL ECONOMIC RELATIONS

JOINT REPORT

This study was prepared by the Department of Foreign Affairs and Trade, Australia and the Ministry of the Economy, Mexico.

Australian Government
Department of Foreign Affairs and Trade

SE
MINISTRY
OF THE ECONOMY

Contents

Executive Summary

Australia and Mexico signed a Trade and Investment Agreement in 1994. This provided for the establishment of the Australia-Mexico Commission on Trade and Investment (also known as the Joint Trade and Investment Commission or JTIC). The JTIC has met on six occasions, most recently in Mexico City in March 2006. At that meeting Australia agreed to a proposal from Mexico to establish an Australia-Mexico **Joint Experts Group (JEG)** to examine the bilateral economic relationship and means for enhancing it.

This Report comprises the work of the JEG. The JEG met in April and June 2007, with the meetings involving government officials, private sector representatives and academics. The Report contains a detailed review of the state of the economic and commercial relationship between Australia and Mexico in 2007. The Report predates the impact of the global financial crisis which is continuing to have significant effects on growth rates and economic policies in both countries in 2009.

The Report finds that Australia and Mexico, while very different countries in many respects, have much in common as middle powers and medium sized economies with strategic positions close to major markets – Asia in the case of Australia and the United States and Latin America in the case of Mexico.

The Report notes that the **Australian-Mexican economic relationship is in good shape**, with trade and investment increasing, but that **there are potential synergies and advantages in closer economic relations that have not yet been fully exploited**. Mexico was Australia's largest merchandise trading partner in Latin America in 2006 and 2007 with total two-way trade in merchandise goods worth approximately US$2 billion in 2006 and US$1.7 billion in 2007. The Report also draws attention to Australia's emerging importance as a trading partner for Mexico in the East Asian region.

While exports of Australian coal (the largest component of **Australia's exports** to Mexico) have expanded significantly in recent years, there is a more modest trade in various agricultural goods and in services (mostly education and other personal travel services). There is substantial potential for further growth in agricultural trade, including in the export of Mexican agricultural products to Australia. There is also **significant potential for Mexico to expand its exports** of industrial goods to Australia, building on current exports such as automotive products, telecommunications equipment and computers.

The Report notes, in this context, that the true size of the Australia-Mexico economic relationship, however, has been difficult to gauge, as much of the trade passes through third countries (particularly the US). The JEG's work in reconciling trade statistics has been of particular value and suggests that merchandise trade flows may be as much as 50 per cent greater than the two countries' export statistics indicate.

The Report details **significant limitations holding back stronger economic relations**. These include a lack of awareness (particularly in Mexico) of the Australian market and the value Australia offers as a base for dealing with East Asia. Lack of good transport links also serves as an impediment in developing trade. There is a perception in Australia that Mexico's applied tariff on industrials (the average applied tariff in 2007 was 9.66 per cent) and its applied tariffs on agricultural imports are significant trade barriers, although Mexico noted that nearly 80 per cent of Australian goods which entered the Mexican market in 2007 entered free of duty. The JEG noted a range of non-tariff barriers, including in services trade, standards setting and customs procedures impeding trade. Mexico also drew attention to its long-standing requests for Australia to make import risk assessments for possible exports of agricultural products such as avocadoes.

The JEG identified **options to enhance the bilateral economic relationship.** These range from more joint promotion to increase awareness of commercial opportunities in respective economies, to strengthening and expanding the operation of the 1994 Trade and Investment Agreement and finally to the negotiation of a comprehensive high quality bilateral Free Trade Agreement (FTA).

A high quality comprehensive FTA has the potential to deliver the greatest economic benefit. The Report notes, however, there is still a measure of opposition in both countries to moving immediately to negotiations. Accordingly, it would be prudent to wait until circumstances develop in both countries, including greater support from key stakeholders, to enable the political decisions necessary for the negotiation of such a comprehensive FTA.

The JEG recommends that, pending the development of more support for an ambitious FTA, Ministers agree to **revitalise and refurbish the Commission on Trade and Investment** to stimulate increased economic cooperation in all relevant areas and to enhance the trade policy dialogue between the two countries. The JEG is confident this would provide an immediate means of strengthening bilateral trade and investment.

Chapter One – Introduction

Australia and Mexico are two countries which – despite important differences – share many features and interests in common. Mexico, along with Brazil, is one of Australia's largest trading partners in Latin America, while Australia is emerging as a significant trading partner for Mexico in East Asia.

This Report comprises the work of the Australia-Mexico Joint Experts Group (JEG) which was convened in April and June 2007 to find ways and means to enhance the bilateral economic relationship. It has been prepared to provide a sound basis for further discussions and to establish a work plan ahead, including possible future negotiations between the two countries.

Background

Geographically, Australia is the only country which is a continent and it is the world's 6th largest country in area. Measured in US dollar terms, Australia is the world's 15th largest economy, ranking 10th among industrialised nations. Australia is rich in natural, mineral and agricultural resources and has highly developed industrial and services sectors. Australia's population of 21 million is one of the most multicultural in the world. Mexico is the world's 15th largest country in area (about one quarter the size of Australia) but ranks as its 13th largest economy.[1] Mexico's population, in excess of 100 million, is five times larger than that of Australia.

Both countries extend through a wide range of climatic zones and have diverse eco-systems. Yet both face the constant threat of desertification, and water shortages are a way of life. Australia is in fact the world's driest continent. Despite this, both countries have highly productive areas of arable land. In the case of Mexico these areas constitute about 11 per cent of its land area and in Australia about 6.5 per cent.

Both countries were the cradles of highly distinctive indigenous cultures which underwent unprecedented transformation with the arrival of Europeans. In both countries European immigration resulted in the development of European legal and governmental institutions, albeit with local flavour, and provided the impetus for economic growth.

A breakdown of both countries' Gross Domestic Product (GDP) into sectors reveals some similarities: in both countries the services sector dominates, constituting 70.5 per cent of GDP in the case of Australia and 69.6 per cent in the case of Mexico.[2] The agricultural sector, while of major importance as an export earner for both countries, represents just 2.3 per cent of Australia's GDP and 3.5 per cent of Mexico's. On the other hand, manufacturing comprises around 10 per cent of Australian GDP compared with 18 per cent in Mexico.

Politically, both countries are federal democracies, with robust political cultures. In recent years, both countries have undergone significant change. In Mexico, the ending of the dominance of the Institutional Revolutionary Party (PRI) in 2000 has transformed the political scene, with complex political balances and alliances becoming more common, necessitating more consensus-building and compromise. In Australia, the transformation from an Anglo-centric culture with a heavily-protected economy to a cosmopolitan society with an open economy has resulted in high economic growth and greater global integration.

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[1] Source: *International Monetary Fund, World Economic Outlook Database, October 2008.*

[2] Based on the definition for services plus construction used by the Organisation for Economic Cooperation and Development (OECD).

Australia in 2007

Australia is a country with 21 million people, with a per capita GDP that is fourteenth in the OECD in US dollar terms. Features of Australia's economic performance up to 2007 have included six years of budget surpluses, reducing public debt (at zero), low inflation, low unemployment and high and rising labour productivity. Australia averaged 3.7 per cent per annum real GDP growth between 1991 and 2006. The economy grew by 4.4 per cent in 2007.

Australia has 0.3 per cent of the global population, but around 1.4 per cent of global GDP (in terms of purchasing power parity (PPP)). Agriculture comprises around 2 per cent of the Australian economy and around 12 per cent of total exports. Minerals and energy account for around 9 per cent of the economy and around one third of total exports. Manufacturing makes up 10 per cent of the economy, and over 20 per cent of exports. The bulk of Australia's GDP is generated by the services sector, and services exports comprise over 20 per cent of total exports.

Australia is a free and open market economy with limited government interference, and participates fully in the global trading system. Globalisation has presented some challenges, but Australia's integration into the world economy has been a major factor in 16 successive years of economic growth. For the six years to 2007, the IMD World Competitiveness Yearbook ranked the Australian economy among the most resilient in the world

Economic reforms

Major reforms in financial and labour markets, business taxation, and competition and consumer protection policy, along with a freely floating Australian dollar since 1983, have delivered an economy well-equipped to respond swiftly to global trends and pressures.

Australia was once a heavily protected economy, but since the 1980s it has unilaterally reduced trade and investment barriers and undertaken widespread economic reforms. Its openness to trade and investment and pro-market reforms have created real, tangible opportunities and benefits for all Australians. The Australian experience shows that trade liberalisation creates jobs, lifts living standards, encourages innovation and provides more choice, at affordable prices, for consumers.

Trade policy

Australia is committed to a strong and effective World Trade Organization (WTO) as a key element in maintaining a rules-based multilateral trading system, promoting economic growth and managing trade disputes. The successful conclusion of the current Doha round of WTO negotiations is Australia's highest trade policy objective. In addition, Australia has bilateral free trade agreements with New Zealand, Singapore, Thailand, the United States and Chile.[3] These agreements provide for comprehensive tariff elimination and the liberalisation of services trade and investment, and include a range of other measures aimed at expanding trade and investment links. Australia is also engaged in negotiations for free trade agreements or studies into the feasibility of such agreements with a number of countries.

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[3] Australia signed (with New Zealand) its sixth Free Trade Agreement with the members of the Association of South East Asian Nations (ASEAN) on 27 February 2009.

Mexico in 2007

Mexico offers a very attractive business environment.

In terms of economic growth, Mexico's GDP increased steadily in the six years to 2007. GDP amounted to US$893.4 billion in 2007 and GDP per capita reached US$8,478. Unemployment stood at 3.9 per cent.

Mexico's fiscal discipline reached equilibrium, reducing public debt to zero in 2007. While the current account deficit increased, inflation fell to 3.7 per cent in 2007. Interest rates also reached historic minimum levels, 7.2 per cent (CETES 28 days), and sudden variations were avoided in terms of the exchange rate. International reserves stood at US$77.9 billion.

Mexico's accumulated inflows of Foreign Direct Investment from 1999 to 2007 amounted to US$181.7 billion. The main recipients were the manufacturing sector (47.0%), financial services (25.5%), commerce (8.2%), and transport and communications (6.1%). Major investors have been the USA (56.9%), the European Union (33.5%), and Japan (0.8%). Mexico has become the fourth largest recipient of FDI among developing countries, and the second largest in Latin America.

Trade Performance and Policy

In 2007, Mexico's foreign trade reached more than US$550 billion. Exports grew 423 per cent and imports 333 per cent from 1993 to 2007. Mexican exports have been growing and diversifying worldwide, although Mexico's main trade partner is the United States. By the same token, the origin of Mexican imports has diversified with the most significant growth from the Asia-Pacific: imports increased sharply, in excess of 900 per cent, comparatively, from 1993 to 2007.

Mexico has established a network of free trade agreements that provide guaranteed market access to Mexican exports. This network offers preferential access to one billion consumers in 44 countries (75 per cent of the world's GDP).

An additional key instrument of trade policy that Mexico employs is unilateral liberalisation. From 2002 to 2007, Mexico unilaterally reduced its tariffs on more than half the lines in its tariff schedule.

Under these schemes Mexico promotes foreign trade with both FTA partners, and other countries that have commercial ties with Mexico. This has enabled Mexico to actively participate in the multilateral trading system, and reinforced the rules and objectives of the World Trade Organization (WTO). Mexico offers the possibility to act as a bridge for trade between three continents, namely America, Europe and Asia.

Mexico has key comparative advantages that make it an ideal partner: an abundant and increasingly skilled workforce, capable of complying with world quality standards; privileged geography; and a solid position as a trade and investment hub.

Australia-Mexico Relations

Australia and Mexico have a long history of friendly relations. The first honorary consular representation of Mexico in Australia started in Sydney in the late 1930s, but it lapsed during the Second World War. In 1960, an official Mexican consular office was established in Sydney and that opened the way for the formal establishment of diplomatic relations, on 14 March 1966. Notwithstanding this friendliness – and the similarities between and common interests of both countries – the foreign policy priorities of both Australia and Mexico have historically rarely overlapped.

For Australia, closeness to the United Kingdom in the period up to the end of the Second World War led to an emphasis on the British Empire (and later the Commonwealth). After 1945, Australia's foreign policy priorities tended to focus on the Asia-Pacific region, in addition to the strong security relationship with the United States. For Mexico, it too has an important relationship with the United States, while the countries of Latin America are also significant in foreign policy terms. These factors – along with distance and cultural differences – historically tended to militate against the development of strong affinities in the bilateral relationship between Australia and Mexico.

In the contemporary world, however, globalisation is changing perceptions of distance, affecting countries like Australia and Mexico. Globalisation represents both challenges and opportunities for Australia and Mexico. Globalisation has an emphasis on seamless trading and information environments. Global supply chains that utilise comparative advantages across the world – with component parts and assemblies being produced in the most efficient and cost-effective locations – have reduced the 'tyranny of distance' and put a premium on innovation and agility. Cheap air travel – coupled with the leap in the power of telecommunications – has boosted people-to-people links, and reduced the extent to which cultural differences divide people. These factors have contributed to a recent significant growth in the Australia-Mexico relationship.

Contemporary Australia-Mexico relations are based on our shared political and economic interests, growing bilateral trade and investment, and people-to-people links. At the political level, our relationship is stronger than it has ever been with recent high-level – including ministerial – visits on both sides. President Calderon visited Australia for the APEC Leaders Meeting in 2007. In May 2007 a delegation of the Joint Standing Committee on Foreign Affairs, Defence and Trade of the Australian Parliament visited Mexico as part of a Parliamentary Inquiry into Australia's Trade Relations with Mexico and the Region, while in June a delegation from the Mexican Congress visited Australia as guests of the Australian Parliament.[4]

Australia and Mexico signed a Trade and Investment Agreement in 1994, which provided for the establishment of the Australia-Mexico Commission on Trade and Investment (also known as the Joint Trade and Investment Commission – JTIC). The JTIC has met on six occasions, most recently in Mexico City in March 2006. Other bilateral cooperation has resulted in some other important commercially-focused outcomes, including: a Double Taxation Agreement; a Memorandum of Understanding (MoU) on Mining; a MoU on Energy Cooperation; a MoU on Education and Training; and, in August 2005, an Investment Protection and Promotion Agreement (which came into effect in 2007).[5] Negotiations on a bilateral Air Services Agreement were finalised in March 2005, resulting in code-share flights between Qantas and Mexicana Airlines.

Australia and Mexico share many common interests at the multilateral level, working closely together in the United Nations, in APEC (Asia-Pacific Economic Cooperation), the OECD, and in the WTO. There are growing people-to-people links, evidenced by the growth in tourism and educational services, and Australia and Australians are viewed very positively in Mexico.

Despite this recent growth, there is still much scope for further expansion of the relationship. As the Australian Parliament's Joint Standing Committee on Foreign Affairs, Defence and Trade notes in its 2007 report *Australia's Trade with Mexico and the Region:*

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[4] A high level Mexican business delegation visited Australia in August 2008 and Australia's Foreign Minister, Mr Stephen Smith, visited Mexico in November 2008.

[5] The MoU on Mining expired in 2007 but the new Australian Department of Resources, Energy and Tourism has indicated it would be pleased to continue informal engagement with Mexico.

> … 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.[6]

In particular, Australia and Mexico can do more to take advantage of each other's strategic and trade positions – proximity to, and integration with, the US and Latin American markets in the case of Mexico, and to East and South-East Asian markets in the case of Australia. Increased cooperation between the two nations could help to create certainty for traders and investors. Along with the strong financial frameworks and investment rules already shared by Australia and Mexico, further integration could allow businesses to take advantage of improved economies of scale to target third country markets where in-country links are strongest. Given the size of our two economies and their complementary trade profiles the signs for further significant growth in bilateral trade are very promising indeed.

The Joint Experts Group Process

Even though the architecture of the bilateral economic relationship has been strengthened in recent years, there has been recognition at times that more could be achieved. The negotiation of a bilateral Free Trade Agreement (FTA) between Australia and Mexico was raised at the highest levels of Government in 2002, but competing priorities on both sides delayed progress towards this goal. In 2005, Mexico proposed that a "Joint Experts Group" be established with Australia to examine the bilateral economic relationship and means of enhancing it. Australia responded favourably to this proposal and agreed at the JTIC meeting in March 2006 to form a JEG that would incorporate government officials (from a range of portfolios), together with representatives from the private sector and academia. It was also agreed at that meeting that the JTIC would be suspended until the JEG process was complete. As a first step in the JEG process, both countries reviewed preliminary studies of the economic relationship and potential means of enhancing it.

Mexican Study

The Mexican study, written in 2003, outlined the potential benefits of a bilateral FTA, while noting that the Mexican agriculture sector would be an area of special sensitivity in any negotiations and likely to oppose negotiation of an FTA with Australia. The Mexican study found opportunities to increase Mexican exports of strawberries, sesame oil, sugar products, frozen vegetables, liquors, coffee, fruits and orange juice; and that Australia is a net importer of products like processed fruit, nuts, vegetables, oil and fat, bread, cakes and pastry, biscuits, soft drink, syrup and spirits.

In the agricultural and industrial sectors, the study noted the potential for Mexican exporters to establish joint-ventures and to take advantage of the expertise of Australian small and medium enterprises (SMEs). The study also noted that Australia had strict quarantine and inspection regimes, which affect trade. Finally, the Mexican study also contended that Australia was more interested in increasing its market share overseas than allowing more participation in its internal services market.

Australian Study

The main conclusion of the Australian study (completed in September 2006) was 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 in world markets". It concluded that Australian exporters would

[6] *Australia's Trade with Mexico and the Region,* Joint Standing Committee of Foreign Affairs, Defence and Trade, Parliament of Australia, August 2007. pp. vii-viii.

become more competitive in the Mexican market against imports from Mexico's preferential trading partners in areas such as agricultural commodities, processed foods, wine and mining technology products and services. An FTA would also facilitate better integration in manufactures and services for both countries as well as in two-way investment flows.

Formation of the JEG

Australia and Mexico signed a Memorandum of Understanding to establish the JEG in November 2006, and it met on two occasions – in April 2007 in Adelaide and in June 2007 in Mexico City. The two meetings of the JEG were held in an atmosphere of good will, marked by a genuine desire to identify ways of bringing the two countries closer together.

One of the most significant outcomes of the JEG meetings was a clearer understanding of the true state of the bilateral trade relationship. A joint examination of each country's trade statistics revealed that the Australia-Mexico merchandise trade flows are perhaps more than 50 per cent greater than the two countries' export statistics would indicate. The true state of the trade relationship is obscured by the fact that much of it passes through the US, and hence its true origin or destination is not immediately apparent to Australian and Mexican statisticians. This is especially true in relation to the volume of Mexican exports to Australia, which were revealed to be far higher than the Mexican side believed, indicating that Australia was a far more important export market for Mexico than it appeared at first glance.

The JEG meetings also examined a range of alternatives for enhancing the bilateral economic relationship, which will be discussed in detail in Chapter 3.

Structure of this Report

This Report covers:

- the bilateral trade and investment relationship (Chapter Two);
- options to enhance the relationship (Chapter Three);
- private sector perspectives, obtained from peak industry representative bodies (Chapter Four);
- academic perspectives, from the academic representatives on the JEG (Chapter Five);
- conclusions and recommendations (Chapter Six); and
- trade and investment statistical issues and statistics (Annexes A and B).

Chapter Two – The Trade and Investment Relationship

Overview

The Australia-Mexico bilateral economic and trade relationship is doing well, although one of the key revelations from the JEG process has been that the exact size and nature of the trade relationship is difficult to determine (see Annex A "*Australia/Mexico trade and investment statistical issues"*). **Nevertheless, the JEG delegations agreed that the value of trade in 2006 and 2007 was about US$2 billion,** and that trade was reasonably balanced. This trade figure made Mexico Australia's largest merchandise trading partner in Latin America in 2006 and 2007 (just ahead of Brazil). Australia is a mid-ranking trading partner for Mexico and has increased in significance over the last decade, growing from 38th position in 1997 to 27th in 2007. That year the value of Mexico's exports to Australia exceeded its sales to Latin-American countries such as Nicaragua, El Salvador and Peru, which enjoy preferential treatment.[7]

Australia's major merchandise export to Mexico is coal. Meat, leather, live animals, dairy and a growing range of services are also exported. The trade in Australian education and training services has been especially strong. Australian food and wine brands are increasingly on sale in Mexico. Tourist numbers have been trending upwards and more growth is expected as a result of the inclusion of Mexico in the 'Aussie Specialists' visa program and the recently introduced Qantas-Mexicana code-share arrangement.

Mexican merchandise exports to Australia were valued at US$948 million in 2007 (Australian statistics) and have increased significantly over the last decade. The major imports from Mexico were internal combustion piston engines, motor vehicle parts, telecommunications equipment, computers and beer. Mexican investment in Australia has been concentrated in private real estate and manufacturing, as well as in the construction industry, with the 2007 acquisition of Rinker by CEMEX a landmark deal in the bilateral economic relationship.

Summaries by Sector

Energy

Mexico is a major oil producer and exporter (with crude oil production currently running at around 3.161 million barrels per day and exports running at around 1.718 million barrels per day). In January 2006, however, Petróleos Mexicanos (Pemex) announced proven oil and gas reserves of only 16.5 billion barrels which would last 10 years at current production rates, underlining the potential longer-term demand in Mexico for hydrocarbons. Mexico already imports around 336 million cubic feet of natural gas per day, or around 10 billion cubic metres each year.[8]

In 2002, Australia and Mexico announced a partnership to explore opportunities for the exchange of information and transfer of energy technology between the two countries. On 17 January 2005, Australia and Mexico signed the *Memorandum of Understanding on Cooperation in the Field of Energy* (MoU). The MoU provides for the establishment of a Joint Working Group to implement the MoU's provisions. An Addendum to the MoU was signed on 2 October 2006, setting out responsibilities for the Joint Working Group's Coordinators. The Joint Working Group has not met at this stage.

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[7] Based on Australia's imports from Mexico, using the methodology agreed by the JEG (see Annex A).

[8] **Petróleos Mexicanos.** *Anuario Estadístico 2007.* México, Distrito Federal : PEMEX, 2007. *Indicadores Petroleros*. México, Distrito Federal : PEMEX, 2007. *Reservas de hidrocarburos al 31 de diciembre de 2005.* México, Distrito Federal: PEMEX, 2006.

A Ministerial level Australia-Mexico Energy Roundtable was held in 2005 to further bilateral cooperation in energy. There have been several recent high level visits from both countries to discuss mutual opportunities in the energy sector. The close nexus between climate and energy policy also creates new opportunities to explore cooperation in areas like carbon capture and storage technology.

Australia and Mexico cooperate closely on regional energy issues through the APEC Energy Working Group. Key areas of interest include energy security and energy for sustainable development.

Coal is Australia's largest single export to Mexico, having doubled from 2.1 million tonnes in 2004 to 4.4 million tonnes in the 2007 calendar year (worth US$234 million). In 2007 Mexico was Australia's fifth largest export market for thermal coal (after Japan, Taiwan, Korea and Thailand). Coal trade with Mexico was enhanced by the Mexican Government's decision in 2002 to remove a 3 per cent tariff from most primary and intermediate goods (including coal) imported from all non-NAFTA sources, which had previously favoured US and Canadian coal exporters.

Further growth in exports may occur with the expanding use of coal-fired power on the Pacific Coast. Australian companies have recently won new contracts for coal supply to the Federal Electricity Commission of Mexico. The Federal Electricity Commission (CFE) converted the Petacalco power station to run on imported coal and is considering conversion of other petrol power stations. This will support larger coal imports into the future. Within Australia, coal export supply chains have been operating at maximum capacity and in some cases infrastructure bottlenecks have occurred. Investment is underway to raise Australia's coal export capacity from 265 million tonnes per annum (mtpa) in 2006 to over 425 mtpa in 2012.

Mexico is currently developing terminals to enable the import of Australian **Liquefied Natural Gas (LNG)** and has expressed an interest in importing Australian LNG**.** Australia has large identified gas resources and planned new projects could expand LNG production capacity to over 60 million tonnes by 2015. So, although production from current Australian LNG projects is contracted, there is significant uncommitted capacity over the longer-term from new projects giving scope for LNG to become a major Australian export to Mexico.

A key issue in the energy field from the Australian perspective – which impacts on the bilateral economic relationship – is Mexico's constitutional restriction on investment in the hydrocarbon sector by foreign entities. And although the Mexican delegation to the JEG noted that there are several areas where there are no restrictions on private investment, such as transportation, import, distribution and storage of natural gas, as well as secondary petrochemicals; the Australian delegation indicated that these restrictions nevertheless serve to deter investment in Mexico's petroleum sector.

That said, the energy relationship between Australia and Mexico is in a healthy state, with Australia seen as a reliable supplier, and Mexico as an important customer.

Mining

Australia and Mexico signed a MoU on cooperation in the **mining industry** on 24 July 2002, providing for bilateral cooperation on a range of mining issues, including:

- resource management, based on Australian mining expertise in remote and arid locations;

- technical assistance and technology transfer for resources assessment and mine development;

- establishment and maintenance of accurate geological information; effective mining industry policies and legislation; and

- exchanges of personnel for specific projects and training.

Under the Mining Cooperation MoU, Australia translated four handbooks on Mine Closure, Mine Rehabilitation, Community Engagement and Development and Stewardship into Spanish as part of its *Leading Practice Sustainable Development Program for the Mining Industry*. These handbooks have been provided to Mexico.

During a bilateral meeting with his Australian counterpart at the APEC 2007 Mining Minister's Meeting, Mexico's Mining Vice-Minister noted the value of the 2002 MoU in improving resources and mining cooperation, and expressed his interest in further promoting this cooperation, including through:

- increased investment by Australian mining companies in Mexico;

- collaboration on mining technology, including the potential for Australian companies to outsource research and technology development to Mexico based their significant capacity in this area; and

- improved communication between mining research institutions and universities, for example through inviting Vice Chancellors and Professors to Mexico for site visits.

The MoU lapsed in July 2007. However, Australia's new Department of Resources, Energy and Tourism has indicated it would be pleased to continue informal engagement on mining with Mexico.

There are currently no large Australian or Mexican investments in the other country's mining sector. Mexico is not a common destination for Australian mining companies, but there is certainly scope for further investment in Mexico by Australian mining businesses. (By way of contrast, there are around 200 North American publicly listed explorers and producers operating in Mexico). Australian companies that are operating in Mexico include Azure Minerals, Bolnisi Gold and Kings Minerals. Zinifex has recently acquired the Corazonada zinc project just south of Mexico City.

Industrial Goods

Australian exports of industrial goods to Mexico grew by nearly 27 per cent a year to US$812 million over the five years to 2007. Exports of coal make up over 40 per cent of these. Over the same period, imports of industrial goods from Mexico increased by an average of nearly 16 per cent a year to US$756 million in 2007. This included strong growth in 2007 of computers, telecommunications equipment and pumps for gas.

Automotive trade between Australia and Mexico is dominated by Mexican exports to Australia, which accounted for 97 per cent of total bilateral automotive trade in 2007. Mexico is the world's second most export-oriented car manufacturer with a large number of models directed solely at export markets. In 2007, Mexico exported 1.6 million vehicles, or nearly 80 per cent of production, mainly to the United States, the European Union and Brazil. Around 63 per cent of vehicles sold in Mexico were imported, of which 75 per cent came from the United States. Australian imports of automotive vehicles and parts from Mexico grew by an annual average of 46 per cent over the 10 years to 2007 to reach US$274.4 million, including US$86.8 million of automotive vehicles, surging 208 per cent from 2005. Mexico was Australia's 15th largest source of automotive vehicles and parts imports in 2007.

In 2007, Australia imported around US$188 million of automotive parts from Mexico, representing an annual average growth of 54 per cent over ten years. Major imports from Mexico included engines, gearboxes, chassis and parts, and electrical switches and apparatus.

Australian manufacturers exporting to Mexico must contend with relatively high import tariffs, including passenger vehicle tariffs of 8-30 per cent and truck and parts tariffs of 3-23 per cent and 3-30 per cent respectively. These tariffs place them at a significant disadvantage against imports from NAFTA countries, the EU and a number of Latin American countries that have preferential access. In addition, passenger motor vehicle tariffs in Australia will fall from 10 per cent to 5 per cent in 2010.

The Textiles Clothing and Footwear (TCF) industry is a sensitive sector in Australia, and accordingly is where Mexican exporters currently face tariff peaks.[9]

Agriculture (including food and beverages)

Trade in agricultural products between Australia and Mexico is modest.

In 2007, Mexico's agricultural exports to Australia amounted to US$74.75 million and were dominated by alcoholic beverages (US$55.5 million). There was also a minor trade in horticultural products, with Australian imports of fresh, frozen and dried fruit and vegetables totalling US$8.2 million.

In the early 1990s, Australia enjoyed rapidly rising exports of agricultural products to Mexico, dominated by dairy and meat products. The effects of Mexico's accession to NAFTA in 1994 were felt particularly hard by these industries when Australia's bilateral trade contracted markedly. In 2007, total Australian agricultural exports to Mexico were USD$78 million, principally sheep and goat meat (USD$31.8 million), live animals (USD$24.6 million), dairy products (USD$10.5 million) and bovine meat (USD$10.1 million).[10] Australian processed food exports to Mexico were minimal.

Mexico's NAFTA partners (the US and Canada) have a significant competitive advantage over the Australian beef and dairy industries in exports to Mexico through the application of lower tariffs under NAFTA. The US and Canada also have significant competitive advantages afforded to them through geographic proximity. As a result, and despite regaining, through increased demand, some of the trade lost to NAFTA, it is unlikely to recover to previous levels.

Closer bilateral relations would open up the prospect of greater cooperation between Australia and Mexico in dryland farming, tropical agriculture, agricultural support services, wine making services, technology exchange and education. This would also assist trade as Mexico's farming sector responds to changes in the volume and composition of domestic demand.

Services

The service industry is the largest sector in both the Mexican and Australian economies. There is substantial scope for future growth in bilateral trade in this sector. Technological advances are increasing the types of services which are tradeable across borders, leading to the development of a global services industry in which comparative advantages are still evolving.

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[9] The Australian Government has completed a review of the TCF industry, including future tariff arrangements for the sector, announcing in the 2009-10 Budget, that it would proceed with tariff reductions and provide assistance for TCF industries to drive innovation and renewal in those industries.

[10] Source: Ministry of Economy of Mexico.

There is further potential for strong complementarities between Australia and Mexico in cross-border trade in services. Australia is progressively more able to provide high skilled services such as education and consultancy services through cross-border supply. Mexico has an advantage in some information technology and business process services.

Australia

Australia's services trade with Mexico is modest, with most trade being in education and personal travel services. In 2007, Australia's exports of services to Mexico were valued at US$61 million (with *Education related travel services* valued at US$30 million, *other business services* US$14 million and *other personal travel* US$9 million). Mexico's exports of services to Australia were US$26 million (with travel services of US$22 million).

It might be noted, however, that services statistics do not capture activities of affiliate companies in the partner country or in third countries. The pilot survey of Australia's outward foreign affiliates' trade, conducted by the ABS in 2002-03, showed that Australian subsidiary companies located in Mexico supplied US$120 million in services to Mexico and purchased US$113 million in services from Mexico. Given Australia's significant direct investment in the United States, it is very likely that some services to Mexico are also being provided by Australian subsidiary companies located in the United States.

The Australian services sector is among the more open by international standards. This includes the Australian professional services sectors, which are largely self regulating, regulated on a state-by-state basis, or regulated by a combination of different bodies. In order to facilitate cross-border trade, Australia encourages regulatory bodies in these industries or professions to develop mutually acceptable standards and criteria for the licensing and certification of service suppliers. This can include measures regarding education, examination procedures, experience requirements, conduct and ethics standards, local knowledge requirements, scope of practice, consumer protection, and ongoing certification. In some cases, professional services bodies have already pursued mutual recognition and other arrangements at the request of their members. However, these links are less developed with Mexico than with countries with which Australian professional bodies have traditional links (such as Commonwealth countries and the United States).

Australia's financial sector was broadly de-regulated in the 1980s and the 1990s to encourage competition and allow greater foreign participation. The restrictions that remain are primarily to ensure financial system integrity. These include restrictions on banking, foreign exchange transactions, insurance, securities and superannuation, which generally do not impede or prevent international trade. Australia's FTAs with other trading partners have found areas for financial services cooperation in regard to acquisitions, cross-border supply, insurance, and financial advisory and portfolio management services. An essential goal is the national treatment of FTA partner country financial services providers.

Another sector showing considerable potential for increase is Australia's multi-billion dollar mining technology services (MTS) sector, which is a world leader in providing innovative and highly technical products and services to the global minerals industry. MTS is an area of significant potential for cooperation and increased trade to Mexico, and has the potential to improve the efficiency and safety of Mexico's mining sector. Many of the world's mines now use mining technologies developed by Australian companies. MTS business covers 6 different categories: exploration and other mining services, machinery and equipment manufacturing, construction services, scientific research services, technical services and computer services.

Mexico

In Mexico, the services sector represents more than 60 per cent of GDP and about 60 per cent of employment. The Mexican services sector comprises 757 activities. Foreign participation is allowed in 582, representing almost 80 per cent of the sector. In this sector, there are more than 118,000 enterprises, representing around 22 per cent of the total in Mexico. The most prominent services sectors are: transport, tourism, telecommunications and financial services.

In all the FTAs signed by Mexico, with the exception of Israel, a chapter on services has been negotiated, and the FTAs comply with the general principles of the international system of trade: most favoured nation and national treatment.

Mexican trade policy on services has been characterised by a progressive liberalisation process, as shown by the Mexican commitments in several free trade agreements, setting specific rules for services liberalisation, and in its schedule of commitments in the GATS.

The major benefits for Mexico stemming from its FTAs are:

- certainty in the market of more than 40 countries in 3 continents;
- access to components and new technologies at international prices and quality;
- access to better services and reduction of costs; and
- provision of an attractive framework of investment and strategic alliances to export.

Mexico's banking sector is already relatively open and highly competitive. Around 80 per cent of the banking activity in Mexico is carried out by foreign groups. The two biggest banks in Mexico are BBVA Bancomer and Santander, the subsidiaries of Spain's BBVA and Banco Santander Central Hispano. Together they account for 45 per cent of the banking sector. Other foreign banks are Banamex, a subsidiary of the United States' Citigroup, HSBC Mexico, a subsidiary of the United Kingdom's Hong Kong and Shanghai Banking Corporation (HSBC), and Scotiabank Inverlat, the subsidiary of Canada's Scotiabank.

In the insurance market, Mexico is quickly emerging as a key market largely due to the opportunities for foreign investors and improving regulatory oversight. Mexico is the second-largest insurance market in Latin America, behind Brazil. The insurance market is dominated by three foreign and two Mexican insurance companies, comprising almost 60 per cent of the market. Yet insurance has experienced low penetration in Mexico, representing only 2 per cent of the total GDP of Mexico, much smaller than the insurance market in the United States and other Latin American countries such as Brazil, Chile and even Colombia. Nevertheless, the market is now growing quickly with substantive opportunities for Australian firms offering niche educational, transportation and natural hazard insurance products.

Mexico stressed in the JEG its interest in further cooperation on services with Australia in areas such as statistical information, transparency (publication of legislation), and the exchange of information.

Education and Training

Australia and Mexico signed a Memorandum of Understanding (MoU) for cooperation in the field of education and training in March 2003. The MoU encourages and facilitates the development of contacts and cooperation between government agencies and education institutions, including the exchange of academic staff and students between recognised schools and institutions of vocational and higher education. It also facilitates the organisation of exhibitions and seminars and supports the development of collaborative training, joint research and technology transfer, including the use of the internet to advance education cooperation.

Mexico continues to be Australia's third largest education market in Latin America (after Brazil and Colombia). The majority of students are in the higher education and non-award (study abroad and exchange) sectors, with smaller numbers in ELICOS (English language) and vocational education and training (VET). Numbers continue to grow at a strong and steady rate, albeit from a relatively low base. The tables below show the number of student enrolments from Mexico for major sectors of education from 2003 to 2007. The "Other" category is predominantly higher education study or exchange programs of one or two semesters, coded as non-award courses.

Table 1: Mexican student enrolments in Australia

	Annual enrolments								
						% change			
	2003	2004	2005	2006	2007	2003-04	2004-05	2005-06	2006-07
Higher Education	333	402	391	384	414	20.7	-2.7	-1.8	7.8
VET	70	83	104	107	178	18.6	25.3	2.9	66.4
Schools	14	11	51	39	41	-21.4	363.6	-23.5	5.1
ELICOS	189	191	232	340	415	1.1	21.5	46.6	22.1
Other	260	331	345	369	395	27.3	4.2	7.0	7.0
Total	**866**	**1,018**	**1,123**	**1,239**	**1,443**	**17.6**	**10.3**	**10.3**	**16.5**
	Annual commencements								
						% change			
	2003	2004	2005	2006	2007	2003-04	2004-05	2005-06	2006-07
Higher Education	197	189	141	180	197	-4.1	-25.4	27.7	9.4
VET	50	55	59	59	122	10.0	7.3	0.0	106.8
Schools	5	3	48	38	38	-40.0	1,500.0	-20.8	0.0
ELICOS	142	151	194	270	330	6.3	28.5	39.2	22.2
Other	229	261	284	320	345	14.0	8.8	12.7	7.8
Total	**623**	**659**	**726**	**867**	**1,032**	**5.8**	**10.2**	**19.4**	**19.0**

Source: Australian Education International.

Government to government relationship

Following the signing of the MoU, the Australian Department of Education, Employment and Workplace Relations (DEEWR), formerly the Department of Education, Science and Training (DEST), established an Australian Education International (AEI) office in Mexico City, based at the Australian Embassy.

Since the signing of the MoU and the opening of that office, Australia and Mexico have quickly developed a positive relationship in the education sector. Mexico's Ministry of Public Education (Secretaria Educacion Publica – SEP) noted that this was the first time a relationship has developed so quickly between Mexico and another country.

Student mobility and encouraging Australians to study abroad is a priority for Australia's international education agenda. Mexico has indicated that it would like to see greater numbers of Australian students studying in Mexico and has requested Australian assistance in developing a "Study in Mexico" website that is similar to the "Study in Australia" website. DEEWR is also interested in exploring opportunities to encourage greater numbers of Australians to study in Mexico and vice versa.

VET reform is a major issue in Latin America, with countries considering how best to provide the vocational and technical skills required to support economic growth. A one-day symposium jointly hosted by the then DEST and SEP, with a senior delegation of representatives from the Australian public and private VET sectors, was held in Mexico City on 31 October 2005. Australia and Mexico will continue to examine ways in which they can cooperate in the field of VET.

The higher education sector has highlighted the importance of the government to government relationship as providing genuine momentum to the overall mobility of students and in opening doors for academic exchange and research collaboration. It cited the development of a highly productive relationship with SEP, through the combined efforts of DFAT, the Council on Australia Latin America Relations (COALAR), AEI and Austrade, as a pivotal foundation for the development of education and training cooperation with Mexico. Also noted was Mexico's interest in Australia as an important bilateral partner, as evidenced through the willingness of Mexico to contribute significant funding to the IDP Peace Scholarship program.

For instance, the University of Queensland's Institute of Continuing & TESOL Education (ICTE-UQ) enjoyed a particularly proactive relationship with SEP as their preferred partner in the annual SEP Vanguardia (leadership) program for three years (2004-2006). The programs included English, a leadership and work placement program, and a Building Business Links in Asia program involving a combination course in Australia and China.

Given the increasing number of Mexican students undertaking studies in Australia, the lack of a formal agreement between Australia and Mexico on the mutual recognition of higher education qualifications could become an increasingly important issue. DEEWR and SEP have agreed to continue discussions about policy frameworks for qualifications recognition. The Australian Government, through the Education Counsellor in Latin America and in cooperation with SEP, maintains the Country Education Profile (CEP) for Mexico. The CEP provides guidelines for assessing Mexican qualifications in terms of Australian qualifications and is used by Australian institutions in the recognition of Mexican academic qualifications.

In the longer-term, DEEWR also views mutual professional recognition as an important issue in the trade in education services. While neither government has authority over professional associations, a possible longer-term objective is for Mexico and Australia to facilitate, perhaps under the auspices of a possible bilateral FTA, the recognition of professional credentials.

Study in Australia Exhibition Participation

The level of participation by Australian education and training institutions in AEI promotional activities in Mexico, most notably the Study in Australia Exhibition, provides an indication of the commitment of the sector to developing a presence in the Mexican market.

In September 2007, for the third consecutive year, the Study in Australia Exhibition included a series of promotional events and activities in Brazil, Chile, Colombia and, for the first time, in Peru and Mexico. In Mexico, the event, held in Mexico City, attracted 1,500 local visitors, with participation by 23 Australian education and training institutions. In Monterrey it attracted 600 local visitors and 19 Australian institutions. The participating Australian education and training institutions represented the higher education, vocational education and training, English language and schools sectors.[11]

Barriers

Australian education and training institutions actively engaged with Mexico have indicated that there have been no real barriers to engaging successfully with Mexico to date, including across the full spectrum of research collaboration, student exchange, semester abroad, English language training, teacher training professional development and degree programs.

Tourism services Mexico-Australia

The JEG agreed that tourism between Australia and Mexico is an area with potential for growth, given that current tourist numbers are relatively small. According to Australian Bureau of Statistics (ABS) arrivals statistics, 6,200 Mexican nationals visited Australia in 2006 and 7,100 in 2007. Mexican records indicate that Australians made around 25,000 visits to Mexico, even though only 7,100 Australians in 2006 and 8,400 in 2007 indicated that Mexico was their primary destination, according to ABS outbound passenger information. This figure compared with 440,300 Australian visits to the US in 2006 and 479,100 in 2007.

Air services between Australia and Mexico are provided for under a Memorandum of Understanding, signed on 1 March 2005. The aviation arrangements include unrestricted capacity, frequency and aircraft type in relation to operations to regional gateways in each country, and four frequencies per week for own aircraft operations to the major four gateways in the other country. For Mexican carriers the main gateways are Sydney, Melbourne, Brisbane and Perth. For Australian carriers they are Mexico City, Guadalajara, Monterrey and Cancun. An Air Services Agreement is in the process of being finalised.

The existing MoU allows for code sharing between the airlines of the two countries. Code-share services between Qantas and Mexicana commenced on 1 August 2006. Currently, services are operating to Mexico via the United States (San Francisco or Los Angeles), which imposes delays and inconvenience to travellers bound for the other country. The lack of direct flights between Australia and Mexico is obviously a commercial decision for the airlines concerned, but it would certainly be holding back growth in the market.

On 1 November 2006, the Australian Government announced new visa arrangements for Mexicans travelling to Australia, including the introduction of 'Approved Aussie Specialist' Travel Agents in Mexico. The Agents have been provided with specific training to assist potential visitors with preparing their visa applications, and are working in partnership with the Australian Department of Immigration and Citizenship toward faster visa processing.

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[11] Austrade and Australian Education International (AEI) held a further exhibition in Mexico in 2008 under the Expo Australia 2008 banner. There was once again a high level of interest in educational opportunities in Australia.

The Australian Government has invited Mexico to consider entering into a reciprocal Work and Holiday agreement with Australia. The agreement would allow a limited number of Mexican students to take a year out from their studies to work and travel in Australia. Mexican students would need to be aged between 18 and 30 years and either have completed, or be studying toward, a tertiary qualification. They would also need to demonstrate some English language ability and have the support of their Government. There would also be opportunities for young Australians to work and travel in Mexico under similar conditions. The Mexican Government is currently considering the agreement.

Information and Communications Technology

Mexico has a significant electronics component assembly industry, based near the US border, taking advantage of lower Mexican labour costs and using components sourced from Taiwan, Japan, South Korea and the US.

The Mexican telecommunications market is restricted, with foreigners not able to have a controlling interest in a Mexican telecommunications provider. The Mexican JEG delegation indicated that regulatory reforms were in progress or had already been made, such as telephone number portability, which was implemented on 5 July 2008. The Database Administrator started receiving requests for portability immediately and on 12 July the migration to the new signalling scheme was completed. As of 11 August 2008, 24,117 portable numbers were registered, representing a daily average of one thousand numbers. The mobile market is the most dynamic with almost 85 per cent of total numbers.

Interconnection rates with Mexican suppliers are above cost rates. In IT, Mexico is becoming a preferred IT outsourcing destination for the US market, including in the provision of contact centres and digital content for the Hispanic market. Its software sub-sector is fully liberalised, with no tariffs, no caps on foreign investment, and no duties on digitally transmitted goods and services. Mexico has good commitments in the GATS for computer and related services, which provides an important demonstration effect for other WTO members.

ICT is a key driver of Australia's economic development. ICT has contributed between 50 and 80 per cent of productivity growth in the services and manufacturing sectors over the last two decades. This investment has been underpinned and supported by a growing domestic ICT capability. Australia's ICT industry is a key contributor to Australia's economy, accounting for about 4.2 per cent of gross domestic product. The industry has strong capabilities in high value-added services and products and has enjoyed steady growth in recent years. In 2006-07, ICT industries in Australia earned a total income of US$96.6 billion, while employing about 300,000 people at the end of June 2007. Australia's ICT services industry has a strong export focus and Australia has had a small trade surplus in higher value-add computer and information services since 2001. Total exports of computer and information services to all countries have grown rapidly to exceed US$1 billion for the first time in 2006 and were US$1.3 billion in 2007.

Australia has a liberal and open telecommunications regime for the entry of foreign-owned operators. In accordance with the standard notification requirements of Australia's foreign investment policy, prior approval is required for foreign involvement in the establishment of new entrants to the telecommunications sector or investment in existing business in the telecommunications sector. There are now no restrictions on the number of providers or installers of network infrastructure. In addition, access rights for carriers and service providers are assured, there are competitive safeguards, and regulatory and operational functions are separated.

In terms of the potential for Australia-Mexico ICT trade and investment, Australia and Mexico have good relationships in the APEC Telecommunications Working Group and in OECD discussions on telecommunications and e-commerce issues, with SPAM, spyware, Internet charging and the future management of the Internet, all issues of mutual interest. Computers and computer equipment are a significant component of exports from Mexico to Australia.

There is currently limited interest in Mexico from Australian telecommunications and ICT industries, with the priority for Australian companies currently in Asian markets. However, Australian companies may become more aware of the opportunities available in the open Mexican market as our trading links develop.

In the broader communications field, Mexico is the single biggest producer of Spanish language television programming and film, and supports the minority of WTO members who want to open up audio-visual services (Mexico has a more liberal regulatory regime than Australia for audio-visual services).

Investment

Mexico and Australia signed an Investment Protection and Promotion Agreement (IPPA) on 23 August 2005, and the IPPA entered into force in July 2007. The IPPA covers treatment of foreign investment, undertakings on expropriation and compensation, and resolution of disputes, and provides a framework to boost investment between Australia and Mexico. The Australia-Mexico IPPA contains similar provisions to an investment chapter of an FTA, so the investment chapter of any FTA between Australia and Mexico would likely reinforce existing arrangements.

Although investment figures can be hard to quantify (including because of subsidiary investments from third countries), Mexico has not been a significant bilateral investment partner for Australia, with total Mexican investment in Australia only US$10 million at the end of 2007, down from US$25 million at the end of 2006 (according to ABS figures). Total Australian investment stock in Mexico was valued at US$462 million in 2007, up US$372 million from the level in 2001.

However, in 2006 one of Mexico's largest companies, Grupo Gruma, bought two Australian companies, Rosita's and Oz-Mex Foods. In June 2007, the Mexican giant Cemex, the world's third largest cement producer, purchased Rinker Group Ltd, a company listed on the Australian Stock Exchange and with significant interests in Australia. The US$14.2 billion deal represented the largest takeover in the history of the global building-materials industry.[12]

On the other side, Mexico attracts significant direct investment due to NAFTA membership and its generally liberal investment laws. Australian companies with interests in Mexico include Bolnisi Gold, Orica, Howe Leather, Mincom (now US-owned but still headquartered in Australia), Baja Aqua Farms and TNA Packaging Systems. Australia's polymer substrate technology company, Securency, has built with Banco de Mexico a new polymer substrate security plant in Mexico to produce polymer banknotes.[13] There is good potential for further increases in the bilateral investment relationship.

[12] It should be noted that Australia-Mexico investment statistics may be affected by investment through third-party countries (in particular the United States). Such investment may be recorded as originating in the third country (i.e. the United States) rather than as investment originating from either Australia or Mexico. Therefore, as is clear from this and the preceding paragraph, not all investment between Australia-Mexico will be captured **as such** in official investment statistics.

[13] The Plant was officially opened on 9 December 2008.

Issues in the Bilateral Economic Relationship

The JEG has noted that, despite some successes, Australian and Mexican businesses have been slow to exploit strategic advantages offered by the other, especially with respect to the US market (in the case of Mexico), and the East Asian market (in the case of Australia). Issues hindering the development of greater levels of economic interdependence between Australia and Mexico identified by the JEG are outlined below.

Awareness and Distance

A significant impediment to further growth in the bilateral trade relationship between Australia and Mexico is a simple lack of awareness of the opportunities available in the other country, coupled to the difficulties of distance and inadequate and costly transport links, including expensive shipping services and the lack of direct flights. In addition, cultural and linguistic differences – even when these are more perceived than real – also tend to reduce the extent to which exporters in both countries perceive the other as a market. In the case of Mexican exporters, the importance of the US as a market tends to crowd out others, and they also tend to be unaware of the proximity of Australia to important East Asian markets, and the potential advantages of Australia as a base for East Asian business operations. Similarly, Australian businesses probably underestimate the extent to which the Mexican and US economies are interdependent, and consequently do not take into account potential strategic benefits of partnering with Mexico to access the US market. Australians also tend to hold outdated ideas of Mexico, such as the perception that it lacks political stability.

Tariff Differentials

Probably the most significant issue in the bilateral trade relationship from Australia's perspective is the substantial tariff advantage Mexico's FTA partners have over Australia.

Tariffs on most agricultural products imported to Australia are already set at between zero and five per cent, while tariffs on products exported by Australia to Mexico generally range from 0 – 125 per cent (see Table 2). Mexico also applies tariff quotas on several agricultural products, including poultry meat, animal fats, milk, cheese, beans, potatoes, coffee, wheat, barley and maize, as well as on products with high sugar content, with most quotas reserved for specific countries.[14] The short lead times for announcements of available quota and long shipping times, mean that Australia is rarely able to supply at the more attractive tariffs applying within the quotas.

Australia's beef trade with Mexico provides a text book example of trade diversion following entry into force of NAFTA. Tariffs on US and Canadian beef were phased down to zero and trade expanded rapidly; Australian beef remained subject to 20-25 per cent tariffs and trade collapsed, from US$35 million in 1993 (a 15 per cent market share), prior to Mexico joining NAFTA, to only US$9 million in 1994. Mexico's preferential agreements have not affected other areas of agricultural and food trade as seriously as in the case of beef, but preferential tariff arrangements (Table 2) place serious limits on the potential to expand trade. For example, most Australian dairy products are subject to 10-20 per cent tariffs, and powdered milk and some cheeses face tariffs of up to 125 per cent. This compares to tariff free entry for US and Canadian product.

The story is much the same for Australian wine: it is subject to a 20 per cent tariff while EU, US and Chilean wines have duty free entry. According to the Australian wine industry, the tariff lifts the retail price of Australian wine beyond what most Mexican middle class consumers are prepared to pay, and is one of a mix of factors – including

[14] The tariff quota for all these products is 50 per cent except for powdered milk which is 0 per cent.

fashion, brand loyalty and awareness – that explains why Australia supplied less than 25,000 cases out of the 1.9 million cases of wine imported by Mexico in 2005. Eliminating the tariff would enable Australian wine makers to compete more effectively against wines from the US, Chile, and the EU in the Mexican market.

While NAFTA and other FTAs concluded by Mexico have clearly presented market access advantages to the participating countries, it is also acknowledged that Mexico has continued to develop trade with countries not engaged with it in bilateral FTA. As the JEG noted the most significant growth in Mexican imports has come from Asia; from 1993 to 2007 these imports increased by more than 900 per cent.

During the JEG's discussions, Australia identified increased trade opportunities through the reduction of the relatively high tariffs currently protecting Mexico's dairy, beef and wine industries. Mexico identified particular domestic sensitivities in these industries and indicated that any proposals for tariff reduction would be very difficult. Mexico noted that land fragmentation, with 75 per cent of crop producers working units of less than 5 hectares of land, has held back progress on agricultural reform and makes it difficult for Mexico to further open up its markets.

Table 2: Key tariff barriers to Australian agricultural exports to Mexico

Item	Applied Tariff %	WTO Bound tariff %	NAFTA %
Meat and Livestock			
Live bovine	0 - 15	9 - 37.5	0
Live sheep	0 - 10	9 - 18	0
Live goats	0 - 10	9 - 37.5	0
Meat of bovine	20 - 25	45	0
Meat of sheep, goat	10	22.5	0
Edible offal	10 - 20	20 - 45	0
Dairy			
Milk and cream	10 – 63 (powdered milk has a tariff quota of 0% for 80,000 tons)	18 – 125.1	0
Cheese and curd	20 – 125	37.5 – 125.1	0
Other			
Avocados	20	36	0
Wheat	0 - 67	67	0
Processed foods			
Wine	20	20	0
Spirits	10-20	10-20	0

Mexican tariffs are also the biggest impediment to expanding trade in industrial goods. The average applied tariff on industrial goods is 9.66 per cent, but is substantially higher for some industry categories like footwear and headgear (32.5 per cent) and prepared foods (26.5 per cent), and is prohibitive for some specific products. Some companies reported tariffs on some cheese products were around 125 per cent.

Even at substantially lower levels, tariffs can significantly affect trade. In particular, Mexico's large number of FTAs has reduced or eliminated tariffs for Australia's competitors on many manufactured goods and has, in effect, closed off opportunities for Australian exporters. For example,

- Australia has a strong competitive advantage in mining technology and equipment but supplies minimal product to Mexico. This probably can be attributed in part to the 15-20 per cent applied tariff and the zero tariff on competing US products; and

- some Australian auto components manufacturers may be keen to access the Mexican market, but trade is held back, for example in the case of engine bearings, by a 16 per cent tariff. This makes it very difficult to compete against US product, which enters Mexico duty free, or Israeli product that enters with a 3 per cent duty.

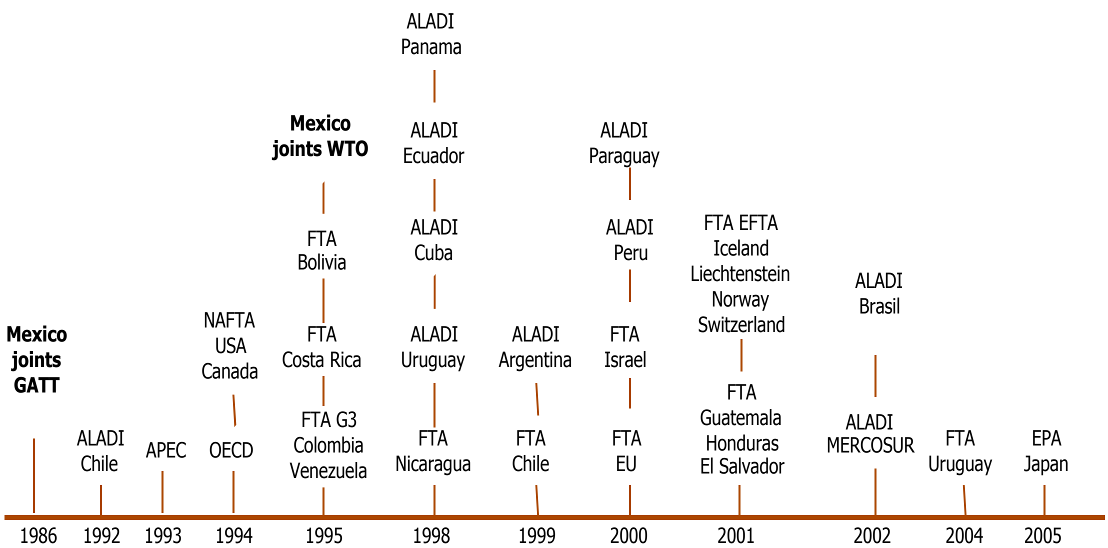
Without a level playing field on tariffs, Mexican importers tend, almost instinctively, to assume that Australia will be a more expensive source of supply than countries that have FTAs with Mexico, and that the importing process will involve more red tape. This is a key factor limiting Australian exports to Mexico. It also appears to be a factor discouraging Australian investment in areas as diverse as manufacturing packaging equipment, high-end furniture, auto parts, meat processing, and water treatment if rival US or Japanese firms can source key components more cheaply.

That said, there are also misperceptions about the tariffs Mexico applies to imports coming from Australia. In 2007, the weighted average tariff was 1.31 per cent and nearly 80 per cent of Australian goods entering to Mexico did not pay duties. This included a wide range of products: live animals, meat, milk, minerals, chemicals, medicines, fabric, steel, tools, data processors, electric and electronic apparatus, and auto-parts.

The products attracting the highest actual tariff in 2007 were cheese (50 per cent) and coffee (72 per cent).

Analysis of Mexico's Trade and Investment Liberalisation Process

The opening up of the Mexican market began in the 1980s, as indicated in the time line below. After decades of being one of the most protected economies, Mexico now has a very open trade regime. In 1983, foreign trade represented 24 per cent of Mexico's GDP. By 2007 this figure had risen to 62 per cent. The trade hub that Mexico has built has allowed the country to become the main exporter and the second largest recipient of investment in Latin America.



FTA	Year FTA entered into force	Total trade 2007 (US$'000)	Growth* (per cent)	Foreign Direct Investment 1999-2007
NAFTA	1994	375,423	320.5	113,028
G3**	1995	3,708	768.3	132
Costa Rica	1995	1,428	1,068.0	56.6
Bolivia	1995	107	229.2	0.15
Nicaragua	1998	822	721.1	0.4
Chile	1999	3,764	192.3	259
EU 25 members	2000	48,152	161.7	64,655
Israel	2000	571	165.9	14.1
Guatemala, Honduras, El Salvador	2001	2,753	138.7	30.7
EFTA	2001	1,808	82.9	2,899.9
Uruguay	2004	423	211.4	63.5
Japan	2005	19,512	52.9	1,392.07

Source: Ministry of Economy with figures from BANXICO.
* The growth rate in total trade is from the year before the FTA went into effect up until 2007.
** Now it only includes Colombia.

On the other side, Australia's market is generally quite open. Applied tariffs for manufactures are low: most tariff lines are zero or 5 per cent, and the simple average applied tariff is 4.3 per cent. An FTA that eliminated tariffs on all, or the great bulk of, Mexican manufactures exported to Australia would have a positive impact on trade but, in general, could not be expected to have a dramatic impact given low existing access barriers.

Notwithstanding Australia's generally open economy, it retains some tariff peaks that affect trade with Mexico. Autos and textiles, clothing and footwear (TCF) are the main sectors in Australia where tariffs exceed 5 per cent. However, applied tariffs on autos will fall from 10 per cent to 5 per cent in 2010. A range of tariffs apply in the TCF sector: for example, tariffs on clothing and certain finished textiles are currently 17.5 per cent, and tariffs on cotton sheeting, woven fabrics, carpet, and footwear are 10 per cent. Tariffs are currently scheduled to fall to 10 per cent in 2010 for apparel and certain finished textile goods, then to 5 per cent in 2015. Tariffs on other TCF products will fall to 5 per cent in 2010. As from 2015 tariffs on all TCF products will be 5 per cent. Following the Australian government's review of all issues affecting TCF industries, including the levels of tariffs which will apply to imports in these sectors, the Government announced that it would proceed with tariff reductions and provide assistance for TCF industries to drive innovation and renewal in those industries.

An FTA could potentially enhance trade in auto parts. Some Australian car manufacturers already import components from Mexico, and removal or reduction of tariffs could increase Mexico's competitiveness in this market and reduce costs for Australian car manufacturers, though cuts in Mexico's tariffs could open up opportunities for the Australian industry. It would also increase competitive pressures on Australian auto component manufacturers.

In relation to TCF, Australian domestic industries are under continued pressure from cheap imports, particularly from ASEAN economies and China. As a large-scale exporter of TCF products, Mexican goods should be very competitive with locally produced ones. That said, Mexican products do not have a significant market presence and adjustment pressures from an FTA would be much less than those flowing from FTAs with China and ASEAN.

So reduction of tariffs would be a key objective for Australia in any bilateral FTA, and would also benefit Mexico, even though there would be some sectors in Australia that would be affected. The Mexican industry areas protected by tariffs are perhaps unsurprisingly the most opposed to substantial trade liberalisation with Australia. The best way to address the tariff differential would be through unilateral tariff reductions or negotiated tariff reductions through the WTO. Australia would welcome any tariff reductions implemented by Mexico. But in the absence of significant progress in the current WTO negotiations, bilateral FTA negotiations would provide the next best avenue to address the tariff differential.

Non-tariff measures

Non-tariff barriers cover a broad range of measures that inhibit trade. In Australia, these are generally focused around particular administrative requirements or policy goals such as protecting endangered species or preventing the importation of dangerous weapons. Non-tariff barriers may include standards, import licensing and customs formalities, and fees and charges. During the JEG Mexico expressed concerns about Australia's sanitary and phytosanitary measures, arguing that these could also be regarded in this manner.

Australia aims to maximise the conformity of Australian standards with international standards where this does not diminish the required outcome of the standard. Australia's approach to technical regulations and standards is consistent with the requirements of the WTO Agreement on Technical Barriers to Trade (TBT Agreement), which Australia applies as a WTO Member. There are also arrangements through APEC and bilateral agreements (including FTAs) to further remove impediments to trade from inconsistent standards.

Mexico's approach to standard setting is similar to Australia's. Mexico's principal objective is also to support the WTO TBT agreement by encouraging the elaboration and adoption of international standards and international conformity assessment procedures. To this end, technical regulations and standards must take into account international standards in their elaboration and reviewing processes, or else justify the decision with Secretaría de Economía (Ministry of Economy). Mexico has achieved 60 per cent of total/partial concordance with international standards. However, the Mexican delegation to the JEG recognised that currently Mexico has low conformity with international standards due to infrastructure and regional differences and a lack of staff in government standardisation units.

All barriers to trade in services are, by definition, 'non-tariff barriers'. As trade in services becomes an ever larger driver of world trade and economic growth, companies around the world report that their activities are often restricted or complicated by a range of non-tariff measures. Problems typically cited include difficulties in obtaining visas and work permits, lengthy processes for recognising educational qualifications and professional experience, difficulties with company registration and operating licences, restrictive foreign ownership laws, and problems protecting intellectual property.

Other non-tariff measures that impact on trade (especially in textiles and clothing) noted by the JEG include what many Australian businesses see as cumbersome Mexican documentation requirements and onerous labelling requirements.

Recently, to reduce the abovementioned problems, there have been actions taken to facilitate trade. Mexico announced a set of measures to address cumbersome procedures at the border such as the elimination of:

- certificates of origin related to countervailing measures;
- the obligation to be incorporated in the sectoral registry for importers;
- the obligation to grant a warranty to import goods, known as "Precios Estimados" (it is now maintained only for used cars); and

- a commitment to establish a “single window” for customs procedures.[15]

Sanitary and Phytosanitary Measures

Both Australia and Mexico apply sanitary and phytosanitary (SPS) measures on imported plants, animals and their products to the extent necessary to protect human, animal or plant life or health from risks associated with pests and diseases, as provided for under the SPS Agreement of the World Trade Organisation (WTO) to which both countries are party. Both countries also apply SPS measures necessary to protect human or animal health from adverse effects arising from the presence of additives, contaminants, toxins or disease-causing organisms in food, beverages or feedstuffs.

Australia is fortunate to be free from many of the serious pests and diseases that exist in many other countries. Australia’s quarantine system and biosecurity policy are essential to maintain its highly favourable plant and animal health status and environment. Australia bases its SPS measures on international standards where they exist and where they achieve Australia’s appropriate level of protection (ALOP). However, where such standards do not achieve Australia's ALOP, or relevant standards do not exist, Australia exercises its right under the SPS Agreement to apply measures based on a scientific assessment of the risks. Accordingly, the Australian Government has set Australia’s appropriate level of protection as providing a high level of sanitary or phytosanitary protection aimed at reducing the quarantine risks to a very low level, but not to zero.

The integrity of this regime is managed by Biosecurity Australia (BA) and the Australian Quarantine and Inspection Service (AQIS). BA develops Sanitary and Phytosanitary (SPS) policy, usually through an Import Risk Analysis (IRA), and also reviews existing quarantine policies for the import of animal and plant products. AQIS undertakes import and export inspection and certification to maintain access to export markets and minimise the risk of importing exotic pests and diseases.

Mexico’s Servicio Nacional de Sanidad, Inocuidad y Calidad Agroalimentaria (SENASICA) is an autonomous entity under the umbrella of the Ministry of Agriculture. It is responsible for protecting agricultural resources from pests and diseases. It also regulates and promotes the application and certification of systems of risk reduction of pollution of food and quality of food, in order to facilitate national and international trade of goods of plant and animal origin.

SENASICA works jointly with other entities of the Mexican Government and producers of this kind of good.

Mexico’s current market access requests to Australia, in order of priority, are: avocados, melons, table grapes and watermelon.

Australia’s current market access requests for Mexico are: seed of foxtail palm and papaya seed. In 2003, Australia granted improved market access provisions for mangoes from Mexico, with recognition of fruit fly area freedom for several regions. BA is currently assessing an amendment to the protocol, although this has not impeded the trade, which is continuing smoothly from Mexico.

In JEG discussions, Mexico noted its concern at the time taken for consideration of its market access request for avocados and other products. Mexico also felt that the main impediment for increased agricultural trade was Australia’s rigorous SPS regime. Mexico argued that the time that it took and the high standards demanded to meet Australian requirements made it very difficult to export agricultural products to Australia.

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[15] These measures were announced in March 2008.

During the JEG, Australia foreshadowed the improvements to its IRA process, introduced in September 2007, to enhance the scientific scrutiny and the overall transparency of its quarantine import risk analysis process. These changes have made the process more timely without compromising opportunities for thorough consultation with stakeholders.

Mexico welcomed these changes and commented that they should expand opportunities for the export of Mexican agricultural goods to Australia.

Australia noted that generally, its science-based quarantine risk assessments are conducted in response to specific access requests from trading partners or importers. The newly introduced IRA process would not, of itself, increase the level of trade. Rather it provides improved transparency to the consideration of market access requests and applies firm timeframes for the completion of IRA once they have commenced.

Government Procurement

Mexico

Mexico's government procurement market is separated into federal and sub-federal levels. At the federal level it consists of entities and government owned enterprises and at the sub-federal level it comprises states and municipalities. The sub-federal level is autonomous by Constitutional law and, therefore, enabled to set out its own legislation.

Some federal government entities have representative offices in different states, for example the federal delegation of the Ministry of Economy in Jalisco. Procurement by these offices is subject to the federal law on acquisitions, but procurement by state governments is based on their own state legal framework.

The GP legal framework for the federal government consists of article 134 of the Constitution - which sets forth the basic rules of efficiency and honesty in public procurement; the GP chapters contained in FTAs concluded by Mexico (9 FTAs with 39 countries include GP provisions); the Law on Acquisitions, Leases and Services of the Public Sector (LAASSP); and the Law on Public Works (LOPSRM).

As a general rule, tendering procedures are addressed to national suppliers only, and the goods to be contracted must be produced in Mexico with at least 50 per cent of national value content. Notwithstanding this, international tenders can take place under Article 28 of the LAASSP, which sets out the rules for determining procurement modalities. The law establishes that public tenders shall be either:

1. Domestic, when only domestic suppliers providing domestic goods will be allowed to participate;
2. International, when under the coverage of Mexico's FTAs and subject to the commitments in government procurement chapters of these FTAs; or
3. Open International, in which local and foreign suppliers and goods shall be allowed to participate, regardless of the country of origin, when:
    a. market research carried out by the procuring entity reveals that there is no supply from domestic suppliers or from FTA partners, in terms of quantity or quality of the goods or services in request, or that it is convenient in terms of price.
    b. having carried out a domestic tender or an international under coverage of FTAs, the entity did not receive any proposal or those received did not meet the requirements referred to in the Law for paragraphs 1 and 2 above.

c. procurement is financed specifically by external credits granted to the federal government or with its endorsement.

The obligation to carry out international procurement under the coverage of FTAs occurs when the procuring entity is included in the positive list of entities and government owned enterprises; the estimated amount is above the accorded thresholds (NAFTA values); the procurement object (goods, services or public works) is covered by the GP chapters, according to the corresponding lists; and no transitional or permanent set asides apply or the entity decides not to use it.

Table 3: Value of GP thresholds applying to FTA partners (US$)[16]

	Goods and Services	Public Works
State entities (Ministries etc)	67,826	8,817,449
State-owned enterprises	339,132	10,852,752

Table 4: Transitional set-aside percentages for PEMEX, CFE and public works

FTA	94	95	96	97	98	99	00	01	02	03	04	05	06	07	08	09	10	11
NAFTA	50	45	45	40	40	35	35	30	30	0	0	0	0	0	0	0	0	0
EU								45	40	35	35	35	30	30	0	0	0	0
Japan												45	40	35	35	35	30	30

The Compranet website –www.compranet.gob.mx- publishes information related to government procurement, including the complete GP legal framework as well as invitations to participate in tendering procedures, tender documentation, follow up of procedures stage by stage, contracts awarded, procedure outcomes including bid challenges when they occur, and yearly procurement schedules.

Contracts have been awarded through open international bidding to companies from Brazil, Korea and other countries with which Mexico has not concluded an FTA.

Australia

The Australian Government, and each of the Australian state and territory governments, is independently responsible for the implementation, operation and management of its procurement system and for ensuring that the procurement system it operates complies with applicable rules, laws, policies and international obligations. State and territory governments are responsible for the governance arrangements for activities undertaken by local governments, including procurement, within their jurisdictions.

The Australian Government operates an open, non-discriminatory, procurement regime. All potential suppliers are afforded equal opportunity to compete for Australian Government business and must, subject to the *Commonwealth Procurement Guidelines 2005* (CPGs), be treated equitably based on their legal, commercial, technical and financial abilities, and not on their degree of foreign affiliation or ownership, location or size. Property or services on offer are considered on the basis of their suitability for their intended purpose, and not on the basis or their origin.

[16] Based on data for 2007.

Australia has concluded four international agreements covering government procurement. Australia is an Observer to the World Trade Organization – Agreement on Government Procurement and, like Mexico, is a member of the Asia-Pacific Economic Cooperation – Government Procurement Experts' Group.

Implementing the Government Procurement Chapter of AUSFTA required significant, but not fundamental, change to the Australian Government's procurement framework as it previously existed. In December 2004 the Australian Government issued revised CPGs – effective from 1 January 2005. These CPGs included new Mandatory Procurement Procedures which incorporated the tender process requirements of the AUSFTA, including a presumption of open tendering as the default procurement method.

Chapter Three – Enhancing the Relationship

As this Report has indicated, the Australia-Mexico economic relationship is in good shape, and has been developing strongly in recent years. But there is still much unrealised potential. As two middle powers, with strong economic complementarities and favourable strategic positioning, there is much to be gained by enhancing the bilateral economic relationship. This chapter examines the ways in which the economic relationship might be enhanced, ranging from increased joint promotion to revitalising the existing Trade and Investment Agreement to a comprehensive bilateral FTA.

Encouraging Commercial Promotion Collaboration

One of the most salient issues constraining the growth of the Australia-Mexico bilateral economic relationship is a simple lack of awareness of the inherent potential of the other. This lack of awareness extends both to the potential of each other as a market in itself, as well as the potential of the other as a partner for breaking into third country markets. One way to address this lack of awareness is to encourage suitable joint ventures for major projects and collaboration on accessing global supply chains. This would involve identification of synergies between sectoral strengths of each country and promotion of collaborative opportunities for major projects and accessing global supply chains in third countries. Initially this could focus on the following areas where comparative geographic advantages and sectoral synergies are strongest:

- Energy and mining;
- Agribusiness;
- Infrastructure development;
- Advanced manufacturing;
- Food processing; and
- Information & Communications Technology.

Priority third markets for commercial collaboration would include the USA and Canada, Latin America and North, South and South East Asia. Strongly enhanced commercial outcomes may be achieved through combining the synergies in the above industry sectors with existing strong trading relationships each country enjoys through its geographic proximity and economic linkages to major economies in its respective region.

This activity might also encompass more lobbying or support for enhanced levels of air services, including direct flights.

Such joint commercial activities would require close cooperation between respective trade and investment promotion agencies. These arrangements could be supported by a separate formal agreement, which might be able to be wrapped under existing agreements (such as the extant Trade and Investment Agreement), or form part of a wider and more ambitious agreement such as an FTA.

There have been calls for more resources to support commercial collaboration, including through promotional activities to raise awareness of the opportunities that Mexico and Australia offer each other. After its visit to Mexico in 2007, the Trade Sub Committee of the Australian Parliament's Joint Standing Committee on Foreign Affairs, Defence and Trade recommended 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."

Likewise, a Mexican Congressional delegation which visited Australia the same year highlighted the potential of complementarities that exist in various sectors and concluded that parliamentary diplomacy could be very helpful to build consensus on the advantages of a closer economic relationship between Mexico and Australia.

In terms of joint education promotion, Australia's education and training sector has suggested enhancing the bilateral relationship through the establishment of a young ambassadors or leaders' scholarship program involving the exchange of one or two students from Mexico and Australia for an academic semester of study. The young leaders would agree in return to represent Australia/Mexico in various events and functions both during their study and on return. For example Mexican students could play an active role in Australian alumni chapters on return.

Technical cooperation and collaboration

Technical and other cooperation would also be a practical way to boost the bilateral relationship. As a highly developed country with an impressive scientific and technical base, Australia is well-placed to assist Mexico's further development, especially in the exchange of technology and know-how in areas such as agriculture (including in dryland farming), economic restructuring and public policy, as well as in education and training more generally. In addition, Australia's knowledge of and familiarity with the Asia-Pacific markets might also be an attractive area for cooperation from a Mexican point of view. Similarly, Mexico's expertise in manufactures and ICT, and its proximity to, and knowledge of, the US market might be attractive for Australian businesses and institutions.

Government to government

As noted above, Australia and Mexico already formal instruments of bilateral cooperation, including a MoU on Energy Cooperation; and a MoU on Education and Training. The MoU on Education and Training provides a framework within which the two governments can jointly consider programmes of cooperation in education and training based on reciprocity and mutual benefit. [17] Some examples include:

- mutual assistance and exchange of information in areas of interest in schools, vocational and higher education;
- facilitation of the organisation of relevant specialised exhibitions and seminars;
- support for the development of collaborative training, joint research, technology transfer, and joint ventures between appropriate authorities and institutions; and
- promotion of the development of joint activities leading to the use of information technology, especially the Internet, in the field of education.

Similarly, the MoU on Energy Cooperation provides for cooperation on energy activities including:

- the exchange of research, technical and expert personnel;
- joint research on exploration and development of energy resources;
- technological R&D on energy conservation/efficiency methods; and
- use of renewable energy sources.

[17] A revised MoU, extending the initial Memorandum, was signed on 18 November 2008 during the visit By Australia's Minister for Foreign Affairs, the Hon Stephen Smith, MP, to Mexico City.

Both governments are committed to science and technology cooperation, including through the Joint Science and Technology Commission. There is modest Australia-Mexico research collaboration, particularly involving the Commonwealth Scientific and Industrial Research Organisation (CSIRO), on entomology, agriculture and plant science. Five Australian cooperative research centres also have links to Mexico on tropical pest management, wool production, wheat products, forestry, and plant breeding.

The Mexican delegation to the JEG noted at the meeting in Mexico City the strong interest in enhancing cooperation in the agricultural sector, including in livestock, soil management, fisheries management, rural financing, sanitary and phytosanitary arrangements, agribusiness (including through Joint Ventures) and investment. The representatives from Mexico's National Agriculture Council (Consejo Nacional Agropecuario, CNA) at the meeting also expressed interest in increased agricultural technical cooperation with Australia.

Private sector

Most Australia-Mexico private sector interaction is linked to trade in energy. Australian LNG/coal companies have built strong relationships supplying energy and some energy-related services to Mexico's state-run oil company, Pemex, and electricity authority, CFE. Strong and growing partnerships have been developed among education and training providers, good links have been established in agriculture and food processing, and there is a growing and very diverse network of relationships from the production of polymer notes to wine to franchising to agricultural support services to consumer electronics.

The Mexican Business Council for Foreign Trade, Investment and Technology (COMCE) and the Commercial Association of Australia, New Zealand and Mexico (ACANZMEX) are working to increase awareness of the opportunities that Australia and New Zealand offer to Mexican entrepreneurs.

The Council on Australia Latin America Relations (COALAR), which was established in 2001 to strengthen Australia's commercial relationship with Latin America, has been active in Mexico promoting tourism, education, cultural exchanges, and Australia's food and beverage exports. COALAR has sponsored several trade fairs and seminars on business opportunities in Australia and Mexico. The Australia-Latin America Business Council (ALABC) also works to promote closer commercial links with the region, although the formation of a more specialised Australia-Mexico Chamber of Commerce would also assist ALABC in improving understanding in Australia of the business opportunities Mexico offers.

Education institutions

Several Australian and Mexican universities and institutions are cooperating on student exchanges, language teaching and Asian business programs. For example:

- 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 programs in Mexico for UNSW students studying Spanish;

- 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 launched its Centre for Mexican Studies on 15 September 2006, financed partly by Mexico's Ministry of Education (SEP); and

- Macquarie University has student exchange programs with several Mexican universities. It is partnering Tec de Monterrey in a double degree program, and is involved in research projects with the National Autonomous University of Mexico, a SEP-funded doctoral program in linguistics at Benemerita Universidad Autonoma de Puebla, and various short-term staff exchange programs.

Options for improved cooperation

There is good scope to increase cooperation between Australia and Mexico, and formal government to government links providing a framework of cooperation are important in this respect. The fields in which cooperation are most likely to accelerate include education and training, and between research institutes where both countries have genuinely similar levels of expertise and resources, and where cooperation is seen to be mutually beneficial.

One option for enhancing the relationship would be to upgrade and expand cooperation through the existing 1994 Trade and Investment Agreement. A renewed commitment could be made on the part of both Governments to promoting both public and private cooperation through the Ministerial level Commission on Trade and Investment established by the 1994 Agreement.

One of the most important results of the JEG process to date has been the increased understanding of the bilateral relationship achieved through the exchange of import and other data. This data exchange should continue, for two main purposes, to have more accurate information on the size of the bilateral trade, and also to find further opportunities to increase trade by examining and analysing trade figures. The JTIC would be an appropriate forum for this. Other potential avenues for increased government to government cooperation include policy exchanges and seminars, especially with regard to Australia's economic reform process. Australia's experience in market reform (including adjustment packages), tariff reduction, competition policy and taxation policy would likely be of significant interest to Mexico. On the other side, Mexico's experience of integration with the US market would likely be of interest to Australia. Finally, government to government cooperation in trade and investment facilitation and promotion might also pay significant dividends – in this context, Austrade was described favourably by the Mexican JEG delegation as a model to imitate.

But for extensive cooperation to occur, real incentives would be required, especially with respect to the private sector. Many private sector enterprises would be reluctant to expend resources on cooperative activities with Mexico unless there is a clear benefit to them in the form of increased sales potential. Even from a government perspective, bureaucratic resources are limited, and bureaucratic attention is generally related to the size of the economic relationship. To put this another way, notwithstanding the existence of formal cooperation agreements, while the trade and economic relationship remains limited by tariffs and other barriers, technical cooperation between Australia and Mexico will probably also remain limited. In short, the more important the trade and economic relationship, the more incentives there are for cooperation, and the key to making the trade and economic relationship more important is through tariff reduction and other measures that lift trade flows.

The FTA Option

The issue of a bilateral FTA has been part of the discussion on improving economic relations between Australia and Mexico for several years, since it was first seriously proposed in 2002. The period since that suggestion has seen both countries expand their lists of actual and potential FTA partners, with Australia's FTA with the US – comparable in ambition and comprehensiveness to NAFTA – a key development.

This expansion has occurred against a backdrop of evolving public attitudes to FTAs, especially in Mexico. Presentations at the second JEG meeting in Mexico City in 2007 revealed opposition on the part of some Mexican agricultural and industrial representatives to an FTA with Australia, and to advancing the FTA negotiations policy agenda on a broader basis, at least until domestic structural concerns are resolved. The reduction to zero for all tariffs on agricultural products under NAFTA as from 1 January 2008 also revealed considerable popular concern in Mexico about the impact of FTAs.

In Australia, the Government commissioned a wide-ranging review of its trade policies, including an assessment of its FTA negotiating priorities and strategies.[18]

Consequently, it may be some time before circumstances arise in both countries to support decisions on new FTA negotiations. Against this background, this section provides a brief examination of a potential FTA between Australia and Mexico.

Australia's and Mexico's most important trade policy priority is achieving a successful outcome of the World Trade Organization (WTO) Doha round of negotiations, as the most significant trade gains will come through progress in multilateral agreements. Regional and bilateral trade agreements are important, but they must be consistent with, and enhance, multilateral outcomes.

In general terms, the economic costs and benefits of free trade are well known. FTAs can provide important market access gains beyond those which can be achieved through multilateral negotiations in the World Trade Organization (WTO). By creating a larger market, they can lead to economies of scale and stronger competition, which reduce the costs of production in both economies. They can also encourage foreign direct investment, which can similarly lead to productivity gains.

In 2006 and 2007, Mexico was Australia's largest trading partner in Latin America. Mexico has, however, preferential trade agreements with 44 countries covering 93.5 per cent of Mexico's total trade, compared with Australia which has five FTAs covering around 24 per cent of its trade.[19]

It would seem that a comprehensive, high quality WTO-plus FTA between Australia and Mexico would have the potential to deliver substantial economic and strategic benefits to both economies. The two economies have different competitive strengths, with Australia a mining and resources giant and Mexico stronger in manufacturing. In agriculture, Australia's large farms and efficient farming practices could help meet Mexico's food requirements and be able to compete effectively with Mexico's other FTA partners, while Mexico's horticultural industry could be competitive in the Australian market.

For an FTA to deliver these benefits, it would have to be ambitious and comprehensive, seeking to reduce or remove tariffs across the widest possible range of goods, including agriculture. It would also need to include provisions in simplifying and removing any technical barriers to trade. There are some substantial tariff and non-tariff barriers to trade, outlined elsewhere in this Report, the removal of which could substantially improve trade between the two countries. Although the overall trade weighted tariff faced by each

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[18] The global financial crisis in 2008-09 has since had a major impact on the trading environment. The Government is responding to these changes, including in light of the review.

[19] Australia's most recent FTA, with Chile, entered into force on 6 March 2009. The Australia/New Zealand-ASEAN FTA was concluded in August 2008 and was signed on 27 February 2009. When it enters into force, Australia will have six FTAs covering around 32 per cent of total trade.

nation in each other's markets is relatively small, there are still substantial benefits to be gained from reducing the peaks in the tariff schedules.

For example, the MFN trade-weighted average tariff faced by Mexican exports to Australia in 2007 was 3.9 per cent, compared with the MFN trade-weighted average tariff of 3.3 per cent for Australia's imports from all partners. While 48 per cent of Mexican exports to Australia in 2007 faced zero duties, 24.8 per cent faced duties of 10 per cent or more. In the reverse case, the MFN trade-weighted average tariff faced by Australian exports to Mexico in 2007 was 1.31 per cent and Mexico's weighted average tariff to the world was 0.96. Almost 80 per cent of Australian exports to Mexico do not pay duties.

Australia and Mexico also have complementary manufacturing industries. Mexico manufactures mainly mid-range technologies and products; Australia produces both simple manufactures, such as metals and pigments, as well as high technology manufactures, such as machinery and engineering equipment. An Australia-Mexico FTA could eliminate tariffs on manufactures, benefiting Australia in certain specific sectors like mining technology and processed food; Mexico in automotive parts, electronics, machinery and equipment, and textiles, clothing and footwear (TCF); and both countries potentially if an FTA were used strategically to complement existing FTAs and expand trade and investment with third countries, including through shared supply chains (as already occurs in the case of the motor vehicle industry, for example, where Mexican components, including engines, are assembled into vehicles in Australia for sale in the Middle East).

On the other hand, the agricultural sector will be more delicate to deal with, considering the sensitivities expressed above by both the public and private Mexican sectors.

In services, a comprehensive FTA could facilitate mutual recognition of qualifications and, by extending national treatment to service providers, help smooth any difficulties that hinder the growth of services trade.

In short, Mexico would stand to benefit from an FTA that would advance Mexico's interests in manufacturing (for example, in automobile parts, food and beverages, and textiles, clothing and footwear) and horticulture, as well as encouraging more foreign investment in Mexico. Australia would benefit from an FTA that gave improved market access to agricultural products such as wheat, dairy, beef and wine as well as its high-tech niche manufactures, allowing them to compete on an equal footing with North American, European and Latin American competitors. An FTA might also increase access to the large Mexican government procurement sector, and improve awareness in Mexico of Australia as a potential partner and market and an additional source of investment. In addition, an FTA that benefited Australian services exports, particularly those closely related to areas in which Australia has a competitive advantage such as broad-scale agriculture and mining-related services, would also help to increase Mexico's international competitiveness in these fields through the transfer of knowledge.

Both countries could benefit strategically, both commercially and politically, 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. 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. 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. Mexican officials also see strategic benefits from accessing Australian skills and knowledge on a fully commercial basis to increase Mexico's competitiveness in the key US market. An FTA between Australia and Mexico could well have a "head-turning" effect, raising awareness of the potential of the other as a market and a partner throughout the business community.

Politically, both countries would benefit from the stronger strategic links that an FTA would bring – assisting Australia's broader interests in Latin America and Mexico's desire to integrate more closely with Asia.

An FTA as an incentive for cooperation

As noted above in the discussion on cooperation, an FTA that delivered real gains in market access and increased the value of the bilateral economic relationship would also expand the scope for bilateral cooperation for both the private and the public sector. Areas where further cooperation might occur include agribusiness quarantine, processed food, mining services, and education and training. Australian and Mexican industries and enterprises that established genuine partnerships and enmeshed themselves deeply into each other's markets and supply chains would have every incentive to cooperate more with each other, and to lobby governments on both sides to do the same. Increased trade flows would increase the importance of the bilateral relationship and provide the incentive to invest more in the relationship.

Issues and obstacles

Mexico's agricultural peak body, the National Council of Agriculture (CNA), was explicit and forthright in its opposition to an FTA with Australia, fearing that Australia's efficient farming practices would reduce consumption of Mexican agricultural produce. The Australian side, however, contended that lower tariffs on Australian imports would enable more effective competition with imports that Mexico is currently sourcing from Canada and the United States, rather than eroding Mexico's domestic market share.

Similarly, some members of Mexico's Confederation of Industrial Chambers (CONCAMIN) are reluctant to make any tariff concessions to Australia. It might be noted in this context that Mexican domestic opposition to further trade liberalisation is across the board and not focused specifically on Australia. Mexico's private sector has repeatedly expressed the view that structural reforms to the domestic economy to improve competitiveness should precede any further trade liberalisation. The reluctance of the private sector to continue the liberalisation of Mexico's trade and investment regime has proven to be an important impediment for the Mexican government to further negotiate FTAs.

Within Australia, of particular sensitivity to the Australian agriculture sector is the horticulture industry, which is one of Mexico's most internationally competitive agricultural industries. Even though Australia's tariff rates on horticultural products are low, the horticultural industry fears that increased agricultural trade between Australia and Mexico – or the completion of a bilateral FTA – might lead to pressure to increase the priority allocated to Mexico's technical market access requests, in turn resulting in an increase in imports of Mexican horticultural products to Australia, without much prospect of increased horticultural exports to Mexico.

In addition, some unions in Australia's manufacturing industry also fear the prospect of further imports of manufactures to Australia. The report of the Trade Sub Committee of the Australian Parliament's Joint Standing Committee on Foreign Affairs, Defence and Trade, '*Australia's Trade with Mexico and the Region*', noted that the Australian Manufacturing Workers Union (AMWU) was:

> concerned that an FTA with Mexico could affect manufacturing jobs in Australia, and [the AMWU] 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.[20]

In summary, a comprehensive liberalising bilateral FTA between Australia and Mexico in theory ought to boost trade for both countries, and provide synergies and efficiencies across a range of industries. It may also boost investment flows, and provide encouragement for a range of economic cooperation activities. It should also reduce the costs of inputs to industry, and provide further spurs for reform and modernisation. But an FTA would also face opposition from certain sectors within both countries, and the JEG noted that their concerns would have to be addressed sensitively. Such an FTA may be difficult to negotiate but the high quality FTAs both Mexico and Australia have with the United States would help this process and provide an important benchmark for negotiators.

[20] *Australia's Trade with Mexico and the Region,* Joint Standing Committee of Foreign Affairs, Defence and Trade, Parliament of Australia, August 2007, p.50.

Chapter Four – Private Sector Perspectives

This chapter consists of contributions from peak industry bodies in both Mexico and Australia, which were invited to provide submissions giving their views on the current state of the Australia-Mexico trade relationship, including the successes, challenges and issues, and ways to heighten awareness and maximise the commercial opportunities for investors and exporters in both countries.

On the Australian side, submissions were invited from the Australian Chamber of Commerce and Industry, the Business Council of Australia, the National Farmers' Federation, the Minerals Council of Australia, the Australian Services Roundtable, and the Australian Industry Group. In the event, only the Minerals Council of Australia and the National Farmers' Federation provided a contribution. They are reproduced – edited for length where necessary – below.

On the Mexican side, contributions were invited from the National Council of Agriculture (CNA), the Mexican Business Council for Foreign Trade, Investment and Technology (COMCE), the Mexican Confederation of Industrial Chambers (Concamin) and the Australia New Zealand Mexico Business Association (ACANZMEX).

The Mexican private sector foresees both challenges and opportunities in a closer economic relationship between Mexico and Australia.

National Council of Agriculture (CNA)

In 2005, the agricultural sector comprised 9.8 per cent of Mexico's GDP and employed 9.74 million people. Agricultural produce was 5.3 per cent of total Mexican exports. This sector has received 10.8 per cent of the foreign direct investment that has entered into Mexico from 1994 to 2006, and the main investor is the United States, contributing with more than 80 per cent of the total.

The main crop in Mexico is corn which comprises 37.9 per cent of the total cultivated area. Three out of every four basic crop producers have land units of less than 5 hectares.

The opening up of the Mexican market has changed the structure of its international trade. In the 1980s, 45 per cent of total Mexican exports were non-oil goods, this figure climbed sharply to 84 per cent in 2007.

At present, 85 per cent of Mexican imports comprise intermediate and capital goods that are not produced in Mexico. For sectors like manufacturing, the opening up of the economy has been beneficial. Notwithstanding, other sectors have experienced a different impact. Despite the fact that Mexican agricultural exports have been dynamic, overall, Mexico's balance of trade in this sector is negative; the deficit reached US$2,160 million in 2006.

In 2006, agricultural trade between Mexico and Australia totaled US$152.7 million; Mexican exports to Australia reached US$46.2 million and Mexican imports coming from Australia were US$106.5 million. From 2003 to 2006, Mexico registered a deficit in this sector of US$60 million.

In 2006, the main product that Australia sold to Mexico was meat (bovine/sheep) (25 per cent), dairy cows (16 per cent), and milk in powder (14 per cent). Other products included wines, whey, etc.

In contrast, Mexico sold to Australia beer, tequila, liquors, and prepared potato products, among others. The agricultural trade between both countries could increase through the cooperation of the authorities responsible for sanitary and phytosanitary matters. The Government of Mexico has reaffirmed the commitment to work with the Australian Quarantine and Inspection Service (AQIS) to comply with the requirements that the Australian market demands from importers to enter its market. In this sense, the Government of Mexico has reiterated to the Department of Agriculture of Australia that the risk analysis of avocado, lemon and grapes are the highest priority on the sanitary and phytosanitary bilateral agenda.

Members of the CNA, producers of meat, dairy products, wines, and sugar are reluctant to be included in a possible negotiation with Australia. Nonetheless, there is scope to develop an agenda of cooperation in research, education, science, technology and sanitary and phytosanitary regulations; and to explore the possibility to increase Mexican exports to complement Australia's demand.

Confederation of Industrial Chambers (CONCAMIN)

The Mexican economy and its industry are facing a serious competitiveness problem, as several international studies have indicated. The first generation of economic reform has run its course. There is an urgent need for structural reforms in fields like labor and energy.

In this context, the Mexican manufacturing industry position regarding trade negotiations (in general, not only with regard to Australia) is that Mexico must advance in solving the economic reforms before signing new free trade agreements.

Once progress has been made in this direction, CONCAMIN will be able to take advantage of the current FTAs that Mexico has; and second, CONCAMIN will be in a much better position to negotiate new FTAs.

However, CONCAMIN recognises that some manufacturing activities might have commercial interest regarding the Australian market, and offers to work in identifying these manufacturing activities and inform the Ministry of Economy.

Mexican Business Council for Foreign Trade, Investment and Technology (COMCE) and the Commercial Association of Australia, New Zealand and Mexico (ACANZMEX)

The main weakness for Mexican private industry, in raising awareness of the importance of the Australian market, is that there is not an agency in Australia focusing in the bilateral relationship that can identify opportunities for Mexican companies to trade with Australia or to find opportunities to invest.

Mexico needs a counterpart of Austrade located in Australia. The potential for access to Australian and third markets could be highlighted by this agency. Likewise, misperceptions that might exist to enter into these markets can be eliminated.

COMCE and ACANZMEX are working together on the establishment of the Mexico-Australia/New Zealand Chamber of Commerce and Industry, whose objectives will be:

- to increase awareness of the opportunities that the Mexican and Australian markets offer to each other;
- to develop the presence of Mexican goods in the Australian market. Some sectors that have been identified with the most immediate potential are:

Automotive, Mining, Agriculture, Biotechnology, Energy, Electronic, Information and Telecommunications Technology, and Pharmaceuticals;

- export directly from Mexico to Australia products that so far have been triangulated through the United States; and
- follow up procedures with AQIS to speed up the entrance of Mexican agricultural products into the Australian market.[21]

Based on the JEG findings, the relationship between Australia and Mexico can be a lot more successful, even if it is compared to other countries that already have an FTA in force with Mexico.

To resolve the problem about the lack of knowledge of the market and of the investment opportunities between Australia and Mexico, ProMexico will open, as soon as possible, an office in Sydney in order to identify the niches and give Mexico an equal knowledge against its counterpart in Mexico –Austrade.

The activities of ProMexico's office will be oriented towards studying and favorably resolving the potential opportunities which have not been materialised between both countries, such as:

- study of impediments to trade, including tariff on specific sectors;
- study and solution for sanitation, phytosanitary and quarantine measures which are affecting commerce;
- cooperation to bring the relation of energy requirements between both countries up to date;
- study the possibilities in the mining sector in order to invite Australian investment into Mexico, and avoid its tendency to go to South America; and
- further development of business/trade links, among others through the possibility of avoiding the indirect trade of Australian and Mexican products through the United States of America.

In sum, the more knowledge and relations of Mexico within the Australian economy, *in situ,* through the office that will be opened in Sydney, the more economic, technical and investment growth will be given. This will solve the differences amongst Mexican and Australian sectors and bring solutions to the market barriers that both private sectors face.

Regarding private sector cooperation, COMCE is concerned with establishing relations between Mexican and foreign business organisations so as to establish valuable networks that will generate business between Mexico and the world. Before 2008, COMCE did not have institutional counterparts in Australia, since the only agreement that had been signed – in 1987 – was with a predecessor organisation of the Australian Confederation of Commerce and Industry (ACCI). During the last mission to Australia, agreements were signed with ACCI and the Australian Industry Group (AIG). One of the main activities provided by these cooperation agreements is the organisation of business delegations from Mexico to Australia and vice versa. Relationships between businessmen may be increased through the organisation of business missions.

21 COMCE, ProMexico and SAGARPA led a visit to Australia with Mexican industrials and government officials, during the last week of August 2008. The purpose of the visit was to increase the commerce, investment and flow of technologies between both countries.

The Minerals Council of Australia (MCA) – Submission

Overview of Australian Mineral and Metals Exports to Mexico

With a combined export value of approximately US$380 million, Australia's mineral and metals exports to Mexico in 2006 (mainly coal and aluminium) accounted for approximately 0.5 per cent of Australia's total minerals exports (US$80.2 billion).

A summary of these exports is at Table One.

Table One: Main Australian Mineral and Metals Exports to Mexico in 2006[22]

Commodity	Value	Status
Coal	US$338 million	Australia is Mexico's largest supplier – supplying approximately 83 per cent of Mexico's total requirements
Aluminium	US$10 million	Tenth largest supplier - supplying approximately 1 per cent of Mexico's total requirements

Companies such as Xstrata and Rio Tinto (Coal & Allied) have recently secured large forward contracts with the Mexican Federal Electricity Commission and have indicated to the MCA that negotiations and contracting have been efficient and seamless. The bituminous coal that is exported currently attracts a zero per cent MFN tariff.

Continued strong macro-economic fundamentals in the short-term, coupled to an ongoing reliance on coal fired power on the Pacific Coast, will see Mexico's energy consumption increase.[23] Coalportal estimate that Mexican coal imports are forecast to grow to 8.3 million tonnes/year in 2006/07, growing to 11.5 mt in 2007/08. Australia is well positioned to capitalise on this expected growth in coal demand. Australia is currently the world's fourth largest producer of black coal, and is currently ranked sixth globally in terms of economic demonstrated resources.[24]

Australian coal producers and government enterprises with economic interests in associated infrastructure provision (ports and rail especially) are responding positively to the sustained increase in global coal demand. The MCA estimates that in excess of A$50 billion in new investment will have incurred in green and brownfield coal expansions as well as in essential supporting transport infrastructure between 2002 and 2009.

Consequently, Queensland's coal port capacity is expected to increase from 205 Mtpa in 2007 to 240 Mtpa in 2009, with the coal port capacity of New South Wales expected to increase from 115 Mtpa in 2007 to 132 Mtpa in 2009. Further, a number of government supported reviews are occurring in QLD and NSW to identify the regulatory barriers impeding effective and efficient infrastructure provision, investment and development.

Mining Investment into Mexico – Strong Opportunities Exist

[22] United Nations Statistics Division - Commodity Trade Statistics Database (COMTRADE) http://comtrade.un.org/db/dqQuickQuery.aspx

[23] The International Monetary Fund estimate that Mexico's GDP will increase 4.8, 2.9 and 3 per cent in 2006, 2007 and 2008, with inflation estimated to stay relatively low at 3.6, 3.9 and 4.2 during the same periods.

[24] Dr Ian Lambert, CEO GeoScience Australia, presentation 25 October 2007.

MCA member companies with the capacity to become more globally integrated have publicly stated that given the nature and anticipated strength of the global supply/demand commodities business cycle (i.e. large socio-economic development in the major economies of China and India et al), acquisition-led growth that enhances the quality, scale and growth of a company's portfolio is the preferred strategy into the future.[25]

Mexico accounts for a moderate share of certain world mineral reserves. But this potential is largely untapped, with mining constituting only 1.6 per cent of Mexico's total economy.[26] Mexico's mineral reserves include 4.3 per cent of the world's known reserves of copper (sixth globally), 1.4 per cent of known reserves of lead (eighth), more than 7 per cent of known reserves of silver (fourth), and more than 5 per cent of the world's known zinc reserves (sixth).[27]

MCA member companies are active in Mexico, including Rio Tinto's copper exploration activity, BHP Billiton's interest in Mexican coal mines and Zinifex's joint venture exploration activity in Corazonada and San Jose seeking zinc and polymetallic deposits.

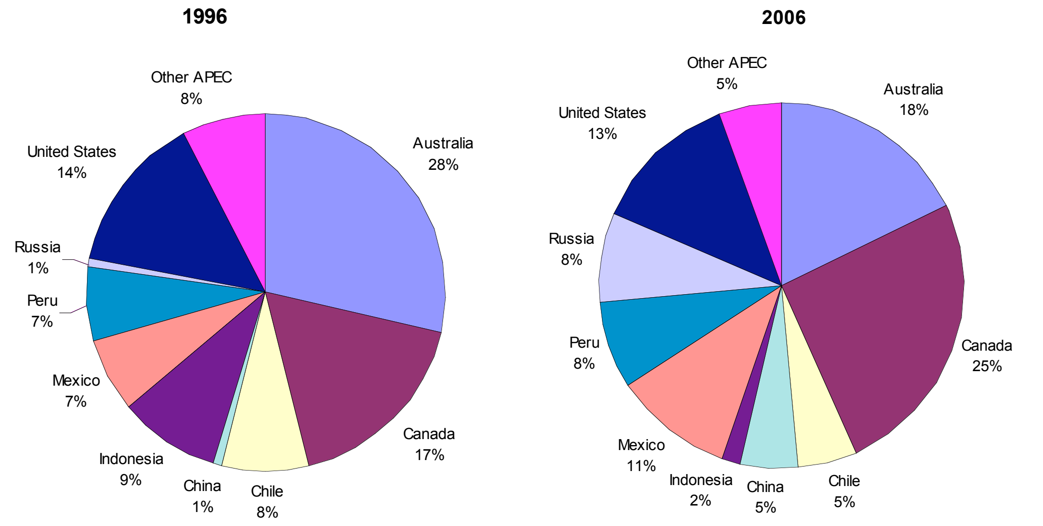
MCA member companies with interests in Mexico have indicated that mining laws and regulations for both the exploration and development processes are clear, transparent and fairly efficient, with one company noting that certain project drilling permits were issued within 5 days. Mexico's good infrastructure – on both the Atlantic and Pacific coasts – has also been the subject of favourable comment, as has the exploration and development support group. MCA companies have also noted, however, that certain areas of Mexico are more complicated than others to work in, with issues including safety and security, the environment and local community attitudes to mining adding to complexity. The MCA can identify few tariff and non-tariff barriers, or any 'profound' beyond-the-border barriers serving as direct and significant disincentives to invest in Mexico.

'Major' and 'Junior' mining companies (domestic and multi-national) continue to explore Mexico actively and there is anecdotal evidence to suggest that it remains a relatively attractive place to explore for both base and precious metals – notwithstanding that globalisation presents many opportunities for mining companies. This is reflected in the latest available exploration statistics.

Developing APEC economies (including Mexico) are assuming a greater proportion of overall exploration expenditure (Figure 1).

[25] Fuelled by the continued expansion of the metals intensive construction and manufacturing sectors, the development of energy and transport infrastructure, rising household incomes and an associated rise in demand for consumer durables.
[26] APEC (2006) and data provided by individual APEC economies.
[27] USGS (U.S Geological Survey) 2005, Mineral Commodity Summaries http://minerals.usgs.gov.

Figure 1: Share of exploration expenditure of APEC economies, 1996 and 2006



Of note are the findings of the Fraser Institute, which has conducted an annual survey of metal mining and exploration countries since 1997.[28] In 2007, the survey summarised the responses of 333 exploration, development and mining consulting companies (out of about 3,000 to which the survey was sent) around the world, which gave their views on 65 jurisdictions, on every continent except Antarctica, including sub-national jurisdictions in Canada, Australia, and the United States. Survey results illustrate the opinions of executives and exploration managers from these companies. The Fraser Institute's Policy Potential Index (PPI) is a composite index that measures the effects on exploration of government policies including uncertainty concerning the administration, interpretation, and enforcement of existing regulations; environmental regulations; regulatory duplication and inconsistencies; taxation; uncertainty concerning native land claims and protected areas; infrastructure; socioeconomic agreements; political stability; labour issues; geological database; and security.

Against the PPI, Mexico ranked 28th out of 65 jurisdictions surveyed in 2006-07 (28/65) with a PPI score of 64, compared to a 2005-06 rank of 6th of 64 jurisdictions with a PPI score of 84. Mexico was rated well by the mining company executives in terms of the impact of environmental regulations, taxation regime, lack of uncertainty regarding promulgation of new national parks and regulatory impacts. It rated less well in "socio-economic agreements", infrastructure, political stability, labour regulations and geological database. The mining companies also expressed concern about the security situation.

General Benefits of strengthened Australia-Mexico economic relations

The Australian minerals industry enjoys a small but significant trading relationship with Mexico. Australian metal and minerals companies believe Mexico is geologically prospective and inwards investment is occurring.

The general benefits of stronger, more formalised economic ties between Australia and Mexico could include:

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28 http://www.fraserinstitute.ca/commerce.web/product_files/Mining06rv2.pdf.

- the removal of restrictions on goods, services and capital and an expansion of two-way trade and investment will broaden and strengthen the bilateral relationship with Mexico. Whilst there are few tariff and non-tariff barriers to the export of minerals products to Mexico, a formal agreement could serve as a platform to clear away remaining barriers in a number of other and related sectors (e.g. mining technology services), and build a stronger and broader economic relationship;

- better access to knowledge, technology and intellectual capital;

- provide a stimulus to further ‘beyond-the-border’ economic reform that may enhance and reinvigorate both Australia’s and Mexico’s attractiveness as a preferred FDI destination, as well as maximise opportunities for those companies already operating. Internal reforms (especially in Mexico) may also stimulate greater domestic investment which is critical if the industry is to develop scale and scope that encourages the provision of world class infrastructure. Against the background of expected continued strong international demand for metals and minerals, further expansion via greater domestic and foreign direct investment in brown and greenfield sites will intuitively boost economic growth and social outcomes; and

- improve the potential for Australian mining technology and service industries to enter the Mexican mining market and/or build partnerships with Mexican technology firms.

MINERALS COUNCIL OF AUSTRALIA
8 November 2007

The National Farmers' Federation – Submission

12 December 2007

Mr John Owens
Assistant Secretary
Canada and Latin American Branch
Department of Foreign Affairs and Trade
R G Casey Building
BARTON ACT 0221

Dear Mr Owens

Thank you for your letter of 17 August, 2007 inviting the National Farmers' Federation (NFF) to provide input for the Australia and Mexico Joint Expert's Group (JEG) joint Report. NFF is also very appreciative of being given the opportunity to participate in the Adelaide and Mexico City JEG meetings.

The majority of Australian agricultural groups strongly support strengthening trade and economic linkages with Mexico including through the negotiation of a comprehensive Free Trade Agreement (FTA) between our Australia and Mexico. We believe this would significantly benefit both of our economies particularly as a consequence of Mexico's need for reliable suppliers of high-quality food, backed up by world leading food safety systems, quality assurance mechanisms and value added products.

Australian agriculture has a particularly strong interest in increasing agricultural exports to Mexico in the future, specifically from the dairy, red meat and wine industries.

Mexico will remain either a major existing market or a market of significant potential for Australian agricultural exporters but because of favourable tariff conditions extended to our competitors under existing preferential trade agreements, such as the North American Free Trade Agreement (NAFTA) involving the United States and Canada, Australian agricultural exporters face a significant impediment to expanding exports.

NFF believes a comprehensive FTA, which we place a high priority on achieving, that includes the elimination of (tariff and non-tariff) barriers in-step with liberalisation in the non-agricultural and services sectors as well as in areas such as investment could eliminate these impediments and provide for additional commercial access to Mexico for Australian farmers to compete with other imported product. It should also be acknowledge that Australia is an important agricultural export market for Mexico.

Additionally, any FTA must build on and support negotiations at the World Trade Organization.

NFF notes that there are some sensitivities to negotiating an FTA in Mexico and Australia. NFF and our stakeholders look forward to working constructively in both countries at addressing any of these potential sensitivities.

I trust that you find these comments helpful. Additionally, if there is any additional specific information you require, representatives from all industries remain available to provide additional information on issues relevant to their specific sectors at any time.

Yours faithfully

SCOTT MITCHELL
Manager, Trade Policy

Chapter Five – Academic Perspectives

This chapter consists of submissions prepared by the academic representatives on the JEG, Professor Andrew Stoler (Australia) and Professor Alejandro Elizondo (Mexico) and submitted to the JEG in November 2007.

How Closer Economic Relations with Mexico would fit into the Wider Pattern of Regional Integration

Professor Andrew Stoler, University of Adelaide

Mexico's network of free trade agreements (FTAs) with 44 countries, spread across three different continents, earns it the position as the country with the largest network of FTAs in the world. In the relatively short period since Mexico joined the GATT, and especially since the country joined with Canada and the United States to form the North American Free Trade Agreement (NAFTA), the country's economy and the philosophy of its government economic policy-makers have been radically transformed from an earlier period when policies of import substitution and government control of key sectors were pursued with an autarkical objective. Today, Mexican authorities embrace trade liberalisation on a multilateral, regional and bilateral basis and the government's avowed strategy is to continue to expand the FTA network with a view to encouraging foreign and Mexican enterprises to invest in the country and reap the benefits of a strategic location that enjoys diversified export markets.

As a location from which to do business in today's international economy, Mexico does indeed offer important strategic benefits - both regionally and globally. In the Western Hemisphere, in addition to NAFTA (1994) Mexico has negotiated and implemented FTAs with nearly all of the countries that are significant players in regional trade including: Chile (1992); Venezuela & Colombia (1995); Costa Rica (1995); Bolivia (1995); Nicaragua (1998); El Salvador, Guatemala & Honduras (2001); and, Uruguay (2004). Globally, Mexico has sought to guarantee its access to the world's most important markets through FTAs with the European Union (2000), European Free Trade Association (2001), and Japan (2005). An outward-looking, trade liberal position characterises Mexico's participation in regional fora such as APEC and the Latin American Integration Association.

With a population of 104 million people and a GDP (PPP basis) of US$1,237 billion, Mexico is a significant market in its own right. More significantly, given the high degree of Mexican economic integration with countries in the Western Hemisphere, an eventual Australia-Mexico FTA holds the promise of potentially important benefits for Australian exporters and investors. Australian exports of industrial and agricultural goods exported to Mexico and later incorporated into products enjoying Mexican country of origin status would enjoy duty-free or liberal access to a regional market with a population of 567 million people and a combined GDP of US$17,193 billion.[29] Mexico's access to the European Union, EFTA and Japan adds another 604 million people and US$19,373 billion in GDP to the calculation of potential benefits for Australia from access to the Mexican market through an FTA.

The fact that Mexico has concluded such a large number of trade agreements with key countries of the Western Hemisphere also means that today, in the absence of an FTA,

[29] These figures include the United States, where Australia already enjoys an FTA. Subtracting the USA market from the total would give revised - and still very significant figures of 267 million people and a regional GDP of US$3,518 billion.

Australian exporters of industrial and agricultural goods that compete directly with these countries' exports to Mexico often face significant competitive disadvantages in the Mexican market. To cite one significant example, Australian beef exporters enjoyed a fifteen per cent market share in Mexico prior to the implementation of NAFTA and reckon that the volume of beef exports to Mexico in 2006 could have been around 40,000 tonnes - their fourth largest export market - if American and Canadian producers did not have preferential access to the market.[30]

Mexico's high level of integration with countries in the Western hemisphere also offers some very important strategic opportunities for Australian exporters of services. The shared Spanish language and cultural traditions make Mexico a natural gateway to the wider Latin American market. These same factors also give Mexican-based operators an advantage in the large - and rapidly growing - Hispanic American market in the United States. As an example, the Mexican delegation to the April 2007 Joint Expert Group meetings in Adelaide noted that Indian providers of back office and call centre services were investing heavily in the Mexican market as a gateway to serving Spanish language markets in the United States and Latin American countries. Other services providers would very likely also benefit from these advantages.

In recent years, Australia has pursued an active policy of seeking closer economic relations with those countries in the Asia-Pacific region that have demonstrated a liberal attitude toward trade policy in the WTO, regionally and bilaterally and a willingness to enter into high quality trade and investment liberalising arrangements. Mexico clearly fits this profile and the significant regional integration it has already helped to realise means that the benefits of an FTA to Australian exporters and investors would likely be multiplied importantly beyond those apparent.

Professor Alejandro Elizondo, Universidad Anáhuac

Over the last decades, Mexico has undergone a constant process of economic opening up, which has generated a greater exposure of Mexico to global market forces. To successfully face this new situation, Mexico has strengthened its trade and investment ties with various regions of the world (North America, Europe, Latin America and Asia). Notwithstanding these, it is crucial to better insert Mexico in Asia-Pacific markets.

Australia’s strengths in many fields like mining, energy, food and beverages, agriculture, textiles, tourism and education, could complement Mexico’s domestic agenda in such fields, which also are strategic for Mexico, and thus increase the competitiveness of both countries.

Mexico and Australia could take advantage of their strategic locations to exploit Asia-Pacific markets in the short, medium and long-term.

Greater promotion of this aspect of Australia-Mexico bilateral relations would be desirable in academic forums.

[30] Report of the Joint Standing Committee on Foreign Affairs, Defence and Trade, Paragraph 3.15 (referring to MLA Submission No. 1, Vol 1, p.5).

Chapter Six – Conclusions and Observations

This Report has examined the current state of the Australia-Mexico bilateral economic relationship, identified the key issues inherent in it, and identified specific means for enhancing it. In summary, its main conclusions are:

Current shape of the bilateral relationship

Globalisation is changing the international economic situation, reducing the importance of geography and boosting people to people links, which in turn is reducing the extent to which cultural differences divide people.

Australia and Mexico have much in common, despite superficial differences, as middle powers and medium sized economies with strategic positions close to major markets

- this includes proximity to the US and Latin America in the case of Mexico and to East Asia for Australia.

The Australian-Mexican economic relationship is in good shape and there are potential synergies and advantages in closer economic relations that have not yet been fully exploited.

Mexico was Australia's largest trading partner in Latin America in both 2006 and 2007 with total two-way trade in merchandise goods worth approximately US$2 billion in 2007. Mexico's trade is dominated by its relationship with the United States, but Australia is emerging as a more significant market for Mexico in the Asia Pacific region.

The true size of the Australia-Mexico economic relationship, however, has been difficult to gauge, as much of the trade passes through third countries (particularly the US)

- on this point, the work of the JEG in reconciling trade statistics has been of particular value, suggesting, for example, that merchandise trade flows are perhaps more than 50 per cent greater than the two countries' export statistics would indicate.

While coal is Australia's largest export to Mexico there is more modest trade in services (mostly education and other personal travel services) and in agricultural goods. Trade in these areas has substantial potential for further growth.

There is similarly significant potential for Mexico to expand its exports of industrial goods to Australia, building on current exports such as automotive products, telecommunications equipment and computers.

In investment, CEMEX's purchase in 2007 of Rinker, which had significant assets in Australia, significantly increased direct Mexican investment in Australia. Both countries are parties to an Investment Protection and Promotion Agreement and, with few impediments to investment flows, there is scope to expand further the investment relationship.

Limitations in the bilateral relationship

Key issues in the relationship include:

- **Lack of awareness** - Mexican exporters tend to be unaware of the value of Australia as a base for dealing with East Asia, and vice-versa with respect to Mexico and the US;

- **Difficult transport links** - the lack of direct air services is a significant impediment to developing the commercial relationship;

- **Tariff barriers** - these are most significant for Australia's exports to Mexico, with Mexico's 9.66 per cent average applied tariff on industrial goods and tariffs on Australia's agricultural exports to Mexico generally ranging from 10 to 125 per cent;

- **Non-tariff barriers** - the Joint Experts Group noted a range of barriers, including a variety of barriers to services trade. Mexico also draws attention to the length of time taken by Australia to conduct import risk assessments for agricultural products Mexico is interested in exporting to Australia; and

- **Differences in approach to Government procurement** - there is a clear preference for national suppliers in Mexico, while Australia's approach is generally non-discriminatory.

Australia and Mexico have the basis for a stronger economic partnership, particularly as both countries have FTAs with the United States. Closer economic relations would build an important bridge between two major economies across the Pacific Ocean.

Options for the future

The JEG found that the options to enhance the bilateral economic relationship range from:

- more joint promotion to increase awareness of commercial opportunities in respective economies and to enhance cooperation; to

- strengthening and expanding the operation of the 1994 Trade and Investment Agreement, signed in Jakarta, which established the Trade and Investment Commission; to

- the negotiation of a comprehensive bilateral FTA.

There is currently, however, a measure of opposition in both countries to moving to the negotiation of an FTA between Mexico and Australia and this may well complicate achieving a high quality FTA.

So while an FTA has the potential to deliver the most economic benefit, the JEG suggests it would be prudent to wait until circumstances develop in both countries, including greater support from key stakeholders, to enable the political decisions necessary concerning the negotiation of a comprehensive FTA.

Pending the emergence of such support, the JEG recommends that Ministers agree to revitalise the Commission on Trade and Investment to stimulate increased economic cooperation in all relevant areas and to enhance the trade policy dialogue between the two countries:

- the JTIC should meet as early as possible in 2009, preferably at Ministerial level and if possible with representatives from peak private sector bodies, and should address, in a comprehensive manner, new opportunities to expand commercial relations along with the range of issues limiting bilateral links, including tariff and non-tariff barriers

- this would provide an immediate means of strengthening bilateral trade and investment between Australia and Mexico.

Annex A - Australia/Mexico trade and investment statistical issues

Introduction

A key Issue for the Joint Experts Group was the reconciliation of each country's trade and investment statistics. Both countries produce their own merchandise trade statistics. Bilateral trade in services can only be measured using Australian data as Mexico does not compile services trade statistics at the country level. Australia compiles comprehensive statistics on international investment position, while Mexico compiles data only on inward net capital transactions of direct investment.

Merchandise trade statistics

Australian merchandise trade statistics are sourced from the Australian Bureau of Statistics (ABS), while Mexican statistics are sourced from the Bank of Mexico. There are substantial differences between the two sets of data (Table A1).

Table A1: Summary of Australia/Mexico Merchandise Trade

	2004 US$m	**2005 US$m**	**2006 US$m**	**2007 US$m**
Australia's merchandise exports to Mexico				
Exports (Australian data)	315	637	638	558
Imports (Mexican data)	405	802	897	793
Difference	**-89**	**-165**	**-259**	**-236**
Australia's merchandise imports from Mexico				
Exports (Mexican data)	275	341	439	561
Imports (Australian data)	502	645	791	948
Difference	**-227**	**-305**	**-352**	**-387**

The Australian Department of Foreign Affairs and Trade (DFAT) attempted a bilateral reconciliation of the merchandise trade data with the aim of developing a reasonably consistent set of merchandise trade data for use in the JEG process.

Bilateral reconciliation of merchandise trade data

The investigation found that the major reason for the differences in the merchandise trade statistics was due to the trade through the United States, whereby the United States acts as a transportation hub for Australian/Mexican trade. Since no transformation of merchandise occurs while these goods are shipped through the United States, such trade should be recorded as being directly between Australia and Mexico.

The ABS *merchandise trade statistics by foreign port of loading* were able to shed some light on the extent of Australian/Mexican trade through the United States. In ABS statistics, *Port of loading* is the foreign sea/air port where goods are loaded onto the international carrier prior to its uninterrupted voyage to Australia.[31] The ABS port data can be used to split Australian imports from Mexico by their foreign port of loading.

Table A2 shows that in 2007, 46 per cent of Australian imports from Mexico were shipped through United States ports.

Table A2: Australian Imports from Mexico by Foreign Port of Loading

Foreign port of loading	2004 US$m	2005 US$m	2006 US$m	2007 US$m
Mexican ports	226	233	323	403
United States ports	222	353	389	433
Other	54	59	80	112
Total imports from Mexico	**502**	**645**	**791**	**948**

Table A3 compares Australian imports from Mexico which were shipped directly from Mexican ports (i.e. excludes Australian imports shipped through the United States and other foreign ports) with total merchandise exports from Mexico to Australia according to Mexican data. The difference between these two sets of statistics, which ranges from US$49 million to US$158 million over the period 2004-2007, is substantially lower than the difference of US$227 to US$387 million over the same period identified earlier in Table A1.

Table A3: Australia's Imports from Mexican Ports Only

Australia's imports from Mexico	2004 US$m	2005 US$m	2006 US$m	2007 US$m
Exports (Mexican data)	275	341	439	561
Imports (ABS - Mexican port data only)	226	233	323	403
Difference	**49**	**108**	**116**	**158**

Further analyses, both at the broad level and at the lower commodity level, showed that Mexican exports to Australia shipped through the United States ports are not fully reported in Mexico's statistics or are being reported as exports to the United States. These observations were confirmed by Mexican private sector business representatives at the JEG meeting in Mexico in June. They pointed out that it was difficult to report the country of final destination of exports that were shipped via the United States as the exporter or customs agent did not always know the country of final destination.

It was not possible to conduct a similar exercise for Australian exports to Mexico via the United States using Mexican imports data. The ABS indicated that the country of final destination for Australian exports is not always accurately recorded in its export data.

31 *Port of loading* can therefore be used to estimate the percentage of Australian imports from Mexico which are sent through the United States. Note that the data only measures the last uninterrupted voyage to Australia. 'Other ports' may also include some goods transhipped through the United States and transported to Australia via another country such as New Zealand.

Some customs agents use the initial port of discharge as the country of final destination when completing customs documentation. Therefore, Australian exports statistics could well under-report Australia's exports to Mexico via the United States ports, though the extent to which this might occur cannot be measured. Nonetheless, this is likely to be a lesser issue than for Mexican export statistics as Australia's exports to Mexico are mainly bulk goods (such as resources and agricultural products) which are less likely to be shipped via the United States.

Findings from this investigation indicate that Mexico's export data (and to a lesser extent ABS exports data) do not always accurately record the 'country of final destination'. The analysis also indicated that Mexico's export statistics (with some exceptions), are more likely comprised of exports loaded in Mexican ports.

On the import side, the 'country of origin' for imports seemed to be more correctly reported in both countries' import statistics. In general, import statistics generally tend to be more accurate than export statistics. Tariff duties are collected using these data and customs usually expend more resources to ensure these data are accurate. Imports data are therefore likely to be less affected by the problem of trade via the United States because of the need for accurate imports data (especially since imports from the United States are generally exempt from customs duties). Customs agencies would need accurate country of origin data to effectively determine eligibility for rates of duty to be charged.

Other differences in the Australian and Mexican merchandise trade statistics were also identified, in particular those attributable to the time of recording of transactions. This is a significant issue for Australia and Mexico statistics given the distances between the two countries, which result in substantial intervals from when merchandise exports leave Australia to when they arrive in Mexico (and vice versa).[32] Differences also arise from exchange rate fluctuations.[33] [34]

Outcome of the bilateral reconciliation analysis

For the purposes of the JEG process, both sides agreed the most practical solution available was to use each other's merchandise import data to get around the inherent differences in both Mexico's and Australia's exports data. Table A4 summarises the results.

[32] The impact of timing differences in merchandise trade statistics can be measured by comparing trade flows over a number of periods.

[33] Differences in valuation methods are also often cited as a source of difference. However both Mexico and Australia exports and imports trade data are on a free on board (f.o.b.) basis, so there were no valuation differences in the data.

[34] The bilateral reconciliation exercise also identified some classification issues, mainly due to some merchandise goods being classified under different tariff codes in each country's trade statistics.

Table A4: Mexico/Australia Merchandise Trade Using Import Statistics from Both Countries				
	2004 **US$m**	2005 **US$m**	2006 **US$m**	2007 **US$m**
Australia's exports to Mexico				
Mexican import data	405	802	897	793
Australia's imports from Mexico				
Australian import data	502	645	791	948
Balance of trade	-97	157	106	-155

For Mexico's exports to Australia (i.e. Australia's imports from Mexico) the JEG would source import statistics from the ABS, while for Australia's exports to Mexico (i.e. Mexico's imports from Australia) import statistics will be sourced from the Bank of Mexico. The JEG also noted that using import statistics for each country would suggest that merchandise trade flows would be perhaps more than 50 per cent greater than the two countries export statistics would indicate.

The advantages of this include:

- the likelihood of greater accuracy of imports data relative to export data, arising largely from the needs of accurate import data for tariff revenue assessment;
- a more complete picture of the bilateral trade between Australia and Mexico, with the identification of imports from all ports (particularly the United States); and
- identification of Australian confidential items exported to Mexico, such as titanium ores, semi-finish bars of steel, oats and wool tops which are identified separately in Mexico's import data.[35]

Services trade statistics

For the JEG process, the Australian ABS data have been used to measure trade in services between Australia/Mexico as Mexico does not compile trade in services statistics at the country level.

Australian trade in services statistics are compiled to Balance of Payments international standards.[36] They do not cover services provided by Australian branches and subsidiaries located in Mexico (i.e. foreign affiliate's trade or services provided under General Agreement for Trade in Services (GATS) mode 3). Australian statistics also do not measure any services provided to Mexico from Australian branches and subsidiaries located in the United States. The value of these services may be significant given the considerable level of Australian direct investment in the United States (US$133 billion in 2007).[37]

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[35] ABS imports data from Mexico are not affected by confidential restrictions to the same extent as ABS exports data (only US$627,000 worth of imports was classified as confidential imports for 2007).

[36] International Monetary Funds Balance of Payments Manual version 5.

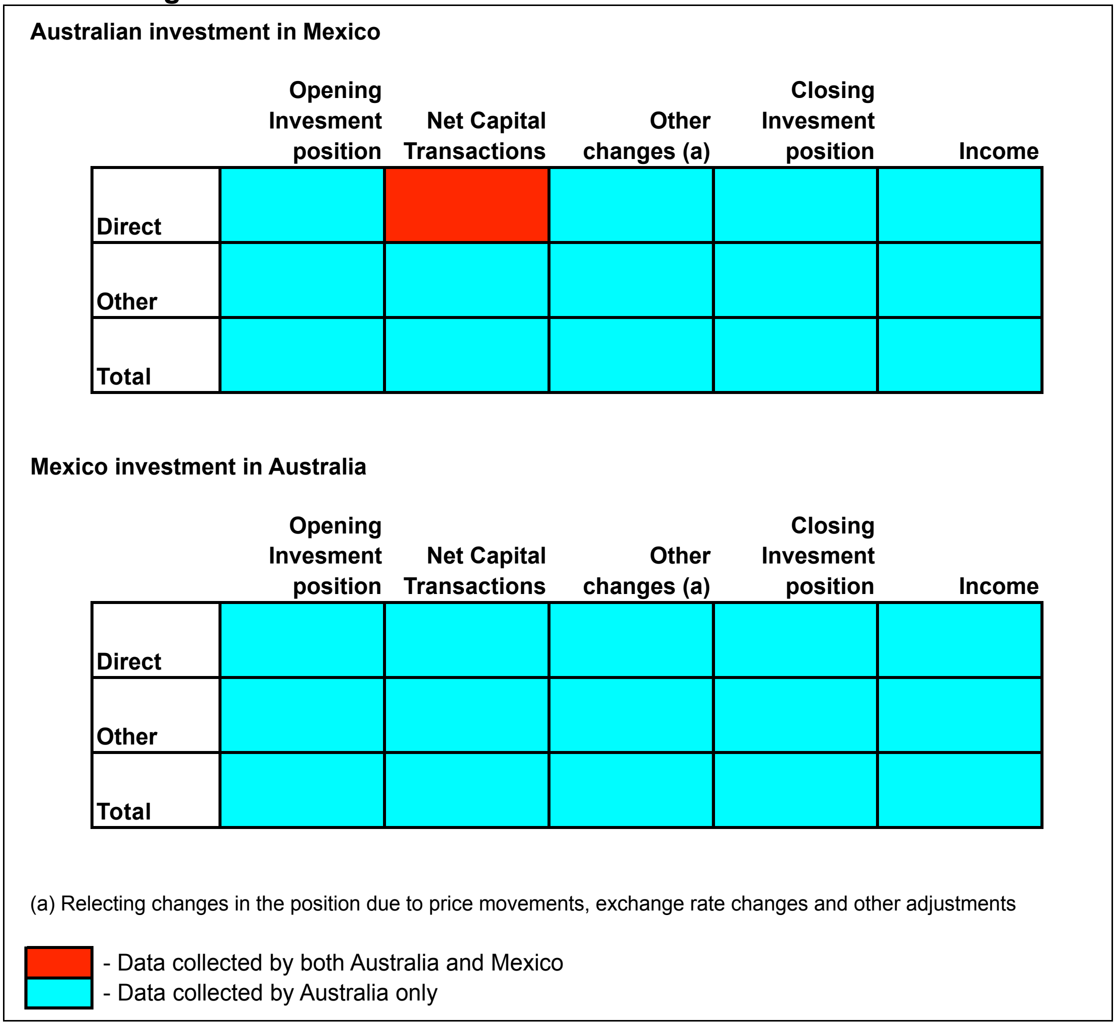
[37] Source: ABS catalogue number 5352.0.

International investment statistics

Australia and Mexico both compile international investment statistics using the same standards, as set out by the International Monetary Fund.[38] However, Mexico only compiles data on inward net capital transactions of direct investment, while Australia compiles comprehensive statistics on international investment position. The following diagram compares the coverage of Australian and Mexican international investment statistics.

It should be noted that Australia-Mexico investment statistics may be affected by investment through third-party countries (in particular the United States). Such investment may be recorded as originating in the third country (i.e. the United States) rather than as investment originating from either Australia or Mexico.

Coverage of Australian and Mexican international investment statistics



[38] International Monetary Funds Balance of Payments Manual version 5.

Annex B – Summary statistics on Australia/Mexico trade and investment based on agreed JEG methodology

Table B1: Summary of Australia/Mexico Trade Based on Agreed Methodology[39]

	2003 US$m	2004 US$m	2005 US$m	2006 US$m	2007 US$m
Exports					
Goods (a)	429	405	802	897	793
Services (c)	19	26	31	33	61
Total	**448**	**431**	**833**	**929**	**855**
Imports					
Goods (b)	384	502	645	791	948
Services (c)	11	17	18	20	26
Total	**394**	**519**	**664**	**811**	**975**
Total Trade	**843**	**950**	**1,496**	**1,741**	**1,829**
Balance on Trade	**54**	**-87**	**169**	**118**	**-120**

(a) Sourced from Mexican merchandise import statistics. (b) Sourced from Australian merchandise import statistics. (c) Sourced from Australian trade in services data.

Source: ABS trade data on DFAT STARS database, ABS Catalogue 5368.0 & Bank of Mexico

Table B2: Australia's Top 20 Merchandise Exports to Mexico

HS code	Commodity	2005 US$m	2006 US$m	2007 US$m	Rank (a)
2701	Coal	468	449	323	1
8409	Parts for engines	3	44	110	2
2602	Manganese ores and concentrates	18	11	27	3
0102	Live bovine animals	24	17	26	4
0204	Meat of sheep or goats, f.c.f	33	27	26	5
7601	Unwrought aluminium	9	13	23	6
3004	Medicaments	2	25	20	7
2614	Titanium ores and concentrates	17	22	17	8
4114	Chamois leather	22	14	15	9
8480	Molding boxes for metal foundry	17	15	10	10
0405	Butter	17	12	9	11
3501	Casein, caseinates and other casein	8	9	9	12
9504	Articles for funfair table or parlour games	7	8	7	13
8543	Electrical machinery	0	0	7	14
3920	Plates, sheets, film, foil and strip, of plastics	7	5	7	15
0202	Meat of bovine animals, frozen	8	6	7	16
8542	Electronic integrated circuits	2	5	5	17
8518	Sound equipment	0	0	5	18
8422	Dishwashers	3	2	4	19
1109	Wheat gluten	5	3	4	20

(a) Rank based on 2007.

Sourced from Mexican merchandise import statistics - Bank of Mexico

[39] Refer to Annex A - Australia/Mexico trade and investment statistical issues.

Table B3: Australia's Top 20 Merchandise Imports from Mexico

HS code	Commodity	2005 US$m	2006 US$m	2007 US$m	Rank (a)
8471	Computers	50	76	110	1
8703	Passenger motor vehicles	28	87	86	2
8517	Telecommunication equipment	40	43	76	3
8407	Motor vehicle engines	2	70	72	4
8708	Parts and accessories of motor vehicles	69	50	48	5
2203	Beer made from malt	23	32	45	6
7616	Articles of aluminium	61	32	44	7
9018	Medical instruments and appliances	43	34	41	8
8409	Parts for motor vehicle engines	28	25	27	9
3004	Medicaments	36	36	27	10
8518	Sound equipment	14	13	19	11
8473	Computer parts	22	23	18	12
8414	Pumps, compressors and fans	1	6	16	13
8527	Reception apparatus for radio-broadcasting	12	6	13	14
8467	Eletrical hand tools	7	9	12	15
9001	Optical fibre cables	7	10	11	16
2208	Alcoholic spirits	7	8	10	17
9021	Orthopaedic appliances	5	7	10	18
8481	Taps, cocks, valves and similar appliances	7	7	8	19
8707	Bodies for motor vehicles	2	7	8	20

(a) Rank based on 2007

Sourced from Australian merchandise import statistics - DFAT STARS database

Table B4: Australia's Exports of Services to Mexico

	2005 US$m	2006 US$m	2007 US$m
Services exports	**31**	**33**	**61**
Transportation services	np	np	5
Travel services	27	30	42
Business	*1*	*2*	*3*
Personal	*25*	*28*	*39*
Education related	*20*	*22*	*30*
Other	*6*	*6*	*9*
Communication services	0	0	0
Construction services	0	0	0
Insurance services	0	0	0
Financial services	0	0	0
Computer & information services	0	0	0
Royalties & license fees	0	np	0
Other business services	np	0	14
Personal, cultural & recreational services	0	np	0
Government services	0	0	0

np - not published

Source: ABS Catalogue 5368.0 International Trade in Goods and Services, Australia.

Table B5: Australia's Imports of Services from Mexico

	2005 US$m	2006 US$m	2007 US$m
Service Imports	**18**	**20**	**26**
Transportation services	0	0	0
Travel services	17	19	22
Business	*2*	*2*	*2*
Personal	*15*	*16*	*20*
Education related	*1*	*3*	*2*
Other	*14*	*14*	*18*
Communication services	0	0	0
Construction services	0	0	0
Insurance services	0	0	0
Financial services	0	0	0
Computer & information services	0	0	0
Royalties & license fees	0	0	0
Other business services	0	0	2
Personal, cultural & recreational services	0	0	0
Government services	1	1	2

np - not published

Source: ABS Catalogue 5368.0 International Trade in Goods and Services, Australia.

Table B6: Australia's Investment Relationship with Mexico

	Opening Invesment position US$m	Net Capital Transactions US$m	Other changes (b) US$m	Closing Invesment position US$m	Income US$m
Australian investment in Mexico					
2005	222	56	20	298	9
2006	298	-41	137	393	np
2007	393	86	-18	462	18
Mexico investment in Australia					
2005	8	2	-1	9	0
2006	9	14	3	25	0
2007	25	-19	4	10	0

(a) Direct investment statistics are compiled by the ABS, but not published. (b) Reflecting changes in the position due to price movements, exchange rate changes and other adjustments.
np - not published

Source: ABS Catalogue 5352.0 International Investment Position, Australia: Supplementary Statistics