

Chapter 5

Opportunities for trade and investment

5.1 In 2014, Mexico was Australia's largest merchandise trading partner in Latin America, with two-way trade worth approximately \$2.5 billion. Australia's merchandise exports, worth approximately \$516 million, were dominated by coal but also included meat (excluding beef); plastic plates, sheets and films; and ores and concentrates.¹

5.2 Australian investment in Mexico is significant and growing, with a cumulative value of approximately \$5.3 billion. The stock of Australian investment has increased 66 per cent between 2009 and 2014. Other sectors attracting Australian investment include: mining, consolidated services (linked to finance and leasing arrangements), and manufacturing.² The Export Council of Australia described Mexico as an attractive and stable environment for foreign investment:

Mexico shows discipline in its fiscal and monetary policy, so as to promote an attractive and stable environment for foreign investment. Most Mexican states also offer certain types of investment incentives. The country received a record USD 35.2 billion in FDI [foreign direct investment] in 2013, signalling investors' confidence in the country and its future prospects.³

5.3 Australia's relationship with Mexico has considerable potential for economic, social and strategic expansion, in particular:

- education and training provision, including student mobility; transnational education; vocational education and training (VET); and English language training (discussed in Chapter 4 of this report);
- the energy sector, especially oil, gas, and renewables;
- mining and resources, especially mine exploration and development as well as mining technology and services;
- advanced manufacturing;
- water management;
- infrastructure;
- food;
- agribusiness; and
- tourism (discussed in Chapter 3 of this report).

1 Department of Foreign Affairs and Trade, *Submission 30*, p. 6.

2 Department of Foreign Affairs and Trade, *Submission 30*, p. 7.

3 Export Council of Australia, *Submission 28*, p. 5.

5.4 Trade in services, particularly trade in Australian education and training services (discussed in Chapter 4 of this report), is also growing. The Trans-Pacific Partnership (TPP) has opened up market access for Australian services.

Energy sector

5.5 Mexico is the world's tenth largest producer of petroleum and other liquids products, producing almost 3 million barrels per day in 2014.⁴ Recent reforms of Mexico's energy sector ended the state-owned Pemex's decades of monopoly over oil and gas and liberalised the electricity sector. The reforms enable foreign companies to participate in the exploration, production, processing, and refinement of Mexico's oil and gas fields. These reforms have been 'locked in' by the TPP, which also grants Australian suppliers of mining-related consulting, research and development, engineering, environmental, and technical testing and analysis services guaranteed market access.⁵

5.6 WorleyParsons described the Mexican energy market as 'arguably the most prospective market for oil & gas in the world today'.⁶ The Export Council of Australia similarly asserted that 'the reform of the energy industry has created unprecedented opportunities, particularly in the oil and gas sectors'.⁷ The Department of Foreign Affairs and Trade (DFAT) advised the committee that:

The energy sector perhaps provides the platform for a fundamental shift in the nature of the commercial relationship – significant Australian companies are now weighing up options to make multi-billion dollar investments in the sector, with the potential flow-on effects for other related sectors such as infrastructure and mining.⁸

5.7 The Australia-Latin America Business Council (ALABC) noted that as the Mexican economy and population continue to grow, the demand for energy will generate opportunities for Australian coal exports and energy companies:

As Mexico's population grows and its economy expands, demand for energy will expand. Australia stands to benefit through increased exports of coal, potential exports of LNG [liquefied natural gas], investment in the development of Mexico's oil and gas fields, and the supply of services and other inputs to energy companies operating in Mexico. There is also significant potential for the export of renewable energy technology.⁹

4 U.S. Energy Information Administration, *International Energy Statistics: Total Petroleum and Other Liquids production, 2014*, http://www.eia.gov/beta/international/rankings/#?product=53-1&cy=2014&tl_type=a, (accessed 24 November 2015).

5 Australian Trade Commission, *Submission 39*, p. 8.

6 WorleyParsons, *Submission 40*, p. 2.

7 Export Council of Australia, *Submission 28*, p. 13.

8 Department of Foreign Affairs and Trade, *Submission 30*, Attachment D.

9 Australia-Latin America Business Council, *Submission 17*, p. 6.

5.8 The Export Council of Australia also commented on this, explaining that:

On the electricity side, Australian firms with electricity generation knowledge and expertise could see opportunity in power generation, transmission and distribution through contracts with the CFE [Mexican Federal Electricity Commission]...increasing use of combined-cycle equipment, and modernising outdated electricity plants by installing clean and efficient technologies, also presents opportunities for Australian investors...Domestic capacity is likely to fall short of demand, increasing opportunity for foreign operators and investors to help bridge this gap. Electricity demand is projected to grow 75 per cent by 2026, though CFE only plans to increase transmission capacity by around 17 per cent during this period.¹⁰

Australian engagement with the Mexican market

5.9 BHP Billiton commended the Mexican government, noting that its 'experience with the Mexican authorities thus far has been very positive'. BHP Billiton informed the committee that it is directly engaged with the changes currently underway in the Mexican energy sector and that it has been an 'active participant in Mexican energy reform via oil and gas industry associations':

In August 2015, BHP Billiton was the apparent highest bidder on 26 blocks in the Western Gulf of Mexico Lease Sale with a 100 per cent working interest. Of these leases, nine have been awarded and 17 remain subject to regulatory approval.

In order to support our engagement in Mexico's energy reforms, BHP Billiton recently deployed an in-country representative to Mexico City, and in September 2014 BHP Billiton and Petroleos Mexicanos (Pemex) signed a memorandum of understanding and cooperation (MOU) to exchange technical knowledge, information, experiences and practices in activities related to the oil and gas industry.¹¹

5.10 Woodside Energy praised the Australian Embassy and Austrade for providing 'on-the-ground support including market information, regulatory updates and business matching'. Woodside also noted that 'officials from the Department of Foreign Affairs and Trade and Austrade have also been active in raising awareness of the opportunities in Mexico to businesses in Australia'.¹² These sentiments were shared by WorleyParsons which stated that:

The support provided by the Austrade team, in particular its Trade Commissioner, Mr Chris Rodwell, has been exemplary. It has been absolutely tailored to our often demanding needs, understanding of our commercial challenges, risk aware, respectful of confidentiality and incredibly responsive. Our company is grateful for this ongoing support and appreciates the unique role the Australian government can play in

10 Export Council of Australia, *Submission 28*, p. 14.

11 BHP Billiton, *Submission 38*, p. 2.

12 Woodside Energy, *Submission 26*, p. 1.

supporting Australian companies such as ourselves with the badge of government.¹³

5.11 BHP Billiton similarly commended the Australian Embassy for the support and assistance it provided:

In Mexico, the Australian Embassy has played a key role in assisting companies such as ours in establishing a presence and learning how to do business in Mexico. The Embassy has also been supportive in highlighting industry issues and concerns with key Mexican officials.¹⁴

Mining and mining equipment technology and services

5.12 Mexico is rich in resources and is considered a highly competitive mining investment destination. It is the world's leading silver producer, second in the world for bismuth and fluorite; third for celestite and wollastonite; fifth for cadmium, lead, diatomite and molybdenum; and ranks highly in a range of other mineral resources.¹⁵ The TPP immediately eliminates tariffs (some currently up to 15 per cent) on Australian exports of mining equipment to Mexico. Furthermore, Australian suppliers of mining-related consulting, research and development, engineering, environmental, and technical testing will receive guaranteed access through new TPP commitments from Mexico.¹⁶

5.13 The ALABC commented on the relative underrepresentation of Australian mining and METS companies in Mexico, remarking that 'why this is so is unclear, given that Australian mining companies and mining equipment technology and services (METS) companies are well entrenched in other countries in Latin America, including Brazil, Chile, Colombia and Peru'. It advised the committee that there are large areas of Mexico which remain unexplored or under-explored, providing ample scope for investment in exploration, acquisitions, and development as well as extensive opportunities for Australian METS companies:

The size of Mexico's mining sector and the potential that exists for it to grow also means that there are extensive opportunities for Australia's METS companies to sell their services and products into the market. The success that these companies have had in other markets in the region suggests that they would have strong prospects of succeeding in Mexico. There is no reason why Mexico should not be host to as many Australian companies as Chile.¹⁷

5.14 DFAT agreed:

Mexico has large tracts of highly prospective but under-explored land, which offer good opportunities for Australian exploration and Australian

13 WorleyParsons, *Submission 40*, p. 2.

14 BHP Billiton, *Submission 38*, p. 3.

15 Australian Trade Commission, *Submission 39*, p. 12.

16 Australian Trade Commission, *Submission 39*, pp 7–8.

17 Australia-Latin America Business Council, *Submission 17*, pp 5–6.

mining equipment, technology and services (METS) companies. There have been a number of significant discoveries in recent years including gold, silver and uranium. METS companies are under-represented in the Mexican market, and Austrade works with individual companies and maintains a presence at importance sectoral events such as ExpoMin Mexico in Acapulco, to promote Australian expertise to potential Mexican customers.¹⁸

5.15 The Export Council of Australia highlighted five key areas of opportunity for Australian METS companies:

- productivity: facilitating low-cost production through operational efficiencies, productivity optimisation and overall cost reduction;
- innovation: making the industry more cost-effective and resilient to downturns;
- education: training engineers with specialised knowledge and experience in extraction-related areas;
- environment: making the industry more compliant with international practices around mine planning and operation, waste treatment and management, and energy efficiency, as general awareness of these issues increases;
- community: helping to engage with the community and ensure that mining operations help improve the provisions of jobs, infrastructure, community services, and fair play in the use of land—while at the same time ensuring that this does not impact the industry's competitiveness.¹⁹

Australian engagement with the Mexican market

5.16 The Export Council of Australia recommended that the Australian and Mexican governments consider jointly funding exchanges and secondments of key organisations in the resources sector to facilitate the sharing of knowledge and the improvement of systems and processes.²⁰

5.17 DIIS informed the committee that 80 per cent of firms in the Australian METS sector are Australian-owned and well-supported by Australian government and national industry bodies:

The Australian government and national industry bodies, such as Austmine, are well placed to facilitate collaboration between Mexican METS firms and Australian METS firms where the opportunity exists. This could include facilitating in-bound trade missions for international firms interested in investing in Australia, as well as introducing Teir-1 international companies to world-class Australian suppliers.²¹

18 Department of Foreign Affairs and Trade, *Submission 30*, Attachment D.

19 Export Council of Australia, *Submission 28*, pp 15–16.

20 Export Council of Australia, *Submission 28*, p. 16.

21 Department of Industry, Innovation and Science, *Submission 36*, p. 4.

5.18 The Australian Trade Commission (Austrade) advised the committee that it is focusing on profiling opportunities linked to the major open pit copper miner, Grupo Mexico, in addition to other large domestic players, Grupo Bal and Minera Frisco. Austrade gave examples of its recent work in this sector:

- In April 2015, it managed a mining trade mission, which provided introductions to senior decision makers at Mexico's three largest mining houses – Grupo Mexico, Peñoles, and Minera Frisco. Participants visited significant open-cut copper mines in the State of Sonora and the Port of Guaymas, a bulk commodities port undergoing significant expansion and redevelopment; and
- In October 2015, it managed Australia's presence at Mexico's major mining conference ExpoMineria. The event is held every two years in Acapulco and was attended by approximately 15 Australian companies. Participation in the event has led two companies to investigate setting up a fully-owned office in Mexico. In one case this includes the development of a manufacturing facility to service a contract brokered with one of the major mining companies operating in Mexico.²²

5.19 Intermodal Solutions Group – Pit-to-Ship Solutions praised the efforts of Austrade, and highlighted the value of trade missions:

ISG Pit-to-Ship Solutions has very much relied on Austrade across the region and the globe to support us in developing business opportunities. Most recently, we participated in a trade mission, managed by Austrade, to the Mexican State of Sonora, where we visited a number of Group Mexico mines, as well as the bulk commodities port of Guaymas...our company is currently in the process of finalising some business opportunities that arose from this trade mission.²³

5.20 The Department of Industry, Innovation and Science (DIIS) highlighted opportunities for collaboration through the International Regulators Forum (IRF) and International Offshore Petroleum Environment Regulators Forum (IOPER):

Through the IRF and IOPER, NOPSEMA [Australian National Offshore Petroleum Safety and Environmental Management Authority], engages with the ASEA of Mexico [Mexican Agency for Security, Energy and Environment] to share Australia's experiences in regulating the offshore oil and gas industry through information sharing and to examine emerging trends which may have implications for Mexico...These forums provide an opportunity for regulators to openly discuss best practices and industry trends and to explore the applicability of risk reduction techniques used by other industry sectors to offshore energy development activities.²⁴

22 Australian Trade Commission, *Submission 39*, pp 12–13.

23 Intermodal Solutions Group—Pit-to-Ship Solutions, *Submission 7*, p. 1.

24 Department of Industry, Innovation and Science, *Submission 36*, p. 4.

Advanced manufacturing

5.21 Mexico is a world-leading manufacturer and manufacturing accounts for approximately 80 per cent of Mexican exports. The 2015 A.T. Kearney Foreign Direct Investment Confidence Index placed Mexico as third in the world for investment in light manufacturing (which includes goods such as electronics, furniture, and textiles) and tenth for heavy manufacturing of products such as cars and chemicals.²⁵ Australian Industry Group (Ai Group) discussed Mexico's manufacturing capabilities and its strategic importance as a regional hub for global value chains:

Mexico's advantages lay in its proximity to the United States and the benefits of the North American Free Trade Agreement...It is also a regional hub for Global Value Chains: 57% of the FDI has been in manufacturing and Mexico now supplied one third of the total value of US imports of auto parts. It is this integration with the US Auto Industry that has attracted the attention of many of Ai Group's members, particularly those best positioned to sell into the Tesla program. Other Advanced Manufacturing sectors are experiencing significant growth in Mexico, in particular Aerospace and Defence. There are almost 300 companies and support organisations in this sector in Mexico and they collectively generate exports of over 5.5 billion USD.²⁶

5.22 The Export Council of Australia noted that 'Mexico serves as an attractive base for Australian manufacturing firms seeking a lower cost platform to serve markets across the Americas':

Australian companies can establish their own manufacturing facilities in Mexico and then take advantage of tariff-free access to the US and Canadian markets through NAFTA, or look south to the markets of the Pacific Alliance, not to mention the opportunity to service the 120-million-strong domestic Mexican market.²⁷

Automotive industry

5.23 Mexico is the fourth largest exporter of light vehicles in the world, behind Germany, South Korea, and Japan. Since June 2014, an additional \$11 billion in Original Equipment Manufacturer (OEM) investments have been announced from companies including Ford, General Motors, Mercedes, Kia, BMW, and Nissan. These investments are expected to increase total production to almost 6 million vehicles per annum by 2020.²⁸ The ALABC emphasised the opportunities for Australian automotive component suppliers to benefit from Mexico's well-established and growing automotive industry:

With the decline of motor vehicle production in Australia, Australian automotive component suppliers have an opportunity to benefit from

25 Embassy of Mexico, *Submission 9*, p. 5.

26 Australian Industry Group, *Submission 29*, p. 3.

27 Export Council of Australia, *Submission 28*, p. 11.

28 Australian Trade Commission, *Submission 39*, p. 9.

Mexico's well-established and growing automotive industry...With US\$9 billion in new investment, production has doubled in the past five years to an estimated 3.2 million vehicles in 2014.²⁹

5.24 The Trade Commissioner for Mexico, Counsellor Esaú Gaza de Vega, agreed, asserting that Australian companies can supply and complement the needs of the growing Mexican automotive industry:

...both Mexico and Australia are facing challenges in the automotive industry—unfortunately, in very different directions. Mexico is growing its capacity. We will be manufacturing five million vehicles by 2020 and that means we need parts to assemble these vehicles. Currently we do not have enough capacity to provide parts and assemble the final vehicles. This is where Australian companies can supply and complement the needs of the growing Mexican automotive industry...there are 10 strategic sectors where Australian companies have capacity, have technology and have know-how—such as punching and stamping, foundry, forging, machining, injection moulding, die-casting, other types of components, auto interiors and electronic assembly, as well as cables and wires. In Mexico, these opportunities represent \$61 billion. This is the amount for imports we are currently doing from many parts of the world where Australian companies can easily enter into the supply chain.³⁰

Australian engagement with the Mexican market

5.25 A number of Australian manufacturers currently operate sites in Mexico. For example, Amcor, an Australia-based multinational packaging firm operates five manufacturing sites across Mexico. Incitec Pivot, an Australian multinational fertiliser manufacturer, operates manufacturing sites in Guadalajara and Durango.³¹ In addition, Orica, Ansell, Boart Longyear, NOJA Power and Strategic Marine also manufacture in Mexico.³²

5.26 Austrade advised the committee that it is focusing on developing opportunities for Australian suppliers of OEMs and automotive aftermarket, working closely with key stakeholders such as the Victorian and South Australian state governments as well as the Federation of Automotive Products Manufacturers (FAPM), Ai Group, ProMéxico, and the Mexican Business Council for Foreign Trade, Investment and Technology (COMCE). In October 2015, Austrade co-hosted briefings on the Mexican automotive market in Melbourne and Adelaide 'to highlight significant value chain opportunities in Mexico in the sector and advanced manufacturing more broadly'. Austrade also advised the committee that it is currently investigating opportunities in the Mexican aerospace sector for Australian firms.³³

29 Australia-Latin America Business Council, *Submission 17*, p. 7.

30 Counsellor Esaú Gaza de Vega, Trade Commissioner, ProMéxico, *Committee Hansard*, 29 October 2015, p. 45.

31 Export Council of Australia, *Submission 28*, p. 11.

32 Australian Trade Commission, *Submission 39*, p. 9.

33 Australian Trade Commission, *Submission 39*, pp 9-10.

Water management

5.27 Mexico faces complex water management challenges including floods, droughts, issues with sanitation, and insufficient or outdated infrastructure. The Mexican government is expected to carry out a number of key water infrastructure investment projects in the coming years.³⁴ DFAT advised the committee that 'such projects will offer opportunities to foreign companies able to supply relevant technologies'. Furthermore, DFAT noted that 'in addition to government and utility companies, the agriculture and mining sectors in Mexico are potential customers for Australian water management technologies and services'.³⁵

Australian engagement with the Mexican market

5.28 DFAT advised the committee that the Australian government 'is supporting increased collaboration between Mexican water agencies and Australian water experts, creating institutional links and enhancing Mexican knowledge of Australian water expertise as relevant to Mexico's water challenges'.³⁶

5.29 In November 2014, Austrade and DFAT co-hosted a bilateral water forum with Conagua (Mexico's National Water Commission) to 'highlight Australian expertise in the water sector'. Participants included Deakin University, Sydney University, Queensland Reconstruction Authority, Murray-Darling Freshwater Alliance, and the Australian Bureau of Meteorology.³⁷ Mr Graeme Newton, the former Chief Executive Officer of the Queensland Reconstruction Authority, told the committee of his experiences as a participant. Mr Newton noted that Australia and Mexico face similar challenges in flood management and that there are many opportunities for both countries to work together to enhance flood resilience:

Key common issues confronting both Mexico and Australia include the ability to accurately identify population areas that are at risk of impacts by natural disasters, how to prevent damage and loss of life, assess damage rapidly, and rapidly recover after an event. These common areas of interest represent potential opportunities for further enhancement of the ties between Australia and Mexico, particularly through detailed knowledge sharing. This sharing could include policy, technology and process transfers that would enhance the resilience of both nations.³⁸

5.30 Austrade is also supporting the Bureau of Meteorology in managing a potential commercial opportunity with Conagua to provide capacity development in support of the World Bank-funded National Centre for Hurricanes & Severe Storms.³⁹

34 Department of Foreign Affairs and Trade, *Submission 30*, Attachment D.

35 Department of Foreign Affairs and Trade, *Submission 30*, Attachment D.

36 Department of Foreign Affairs and Trade, *Submission 30*, Attachment D.

37 Australian Trade Commission, *Submission 39*, p. 12.

38 Mr Graeme Newton, *Submission 16*, p. 3.

39 Australian Trade Commission, *Submission 39*, p. 12.

Infrastructure

5.31 The Mexican government has implemented a \$500 billion infrastructure program from 2013 to 2018 to remedy significant infrastructure gaps.⁴⁰ Construction and engineering account for approximately 4 per cent of Mexico's GDP. Consequently, DFAT advised the committee, 'new investment in highways, utilities and reports make Mexico a very attractive potential market for the Australian building, construction and engineering industries'.⁴¹ When asked what the infrastructure priorities in Mexico are, Dr Edmundo Gamas, Director of the Mexican Institute of Infrastructure Development (IMEXDI), told that committee:

I think that the most critical bottlenecks at this point will be the transportation of the oil, gas and minerals and the management of storage facilities et cetera. There are definitely going to be requirements for many new roads. The ports definitely need investment and know-how to increase productivity, and communications are also very important. But I would say that at this point the major initiative that the government has for 2016—and partly this is because the low oil price has impacted PEMEX in its finances—is to allow PEMEX financial mechanisms to transfer the money that it has invested in fixed infrastructure, especially non-exploration and production infrastructure, but transport infrastructure, storage infrastructure and industrial infrastructure, and put those into financial vehicles that can be sold to international investors so that PEMEX can use those funds to invest in exploration and production, where it makes its highest returns. So I would say that that specific move to the market of all of these assets from PEMEX and from the federal electricity commission in the same manner—for transmission and other types of infrastructure related to distribution and even generation—is the big opportunity for 2016.⁴²

Australian engagement with the Mexican market

5.32 Austrade advised the committee that Australian firms such as Macquarie and Industry Funds Management (IFM), 'have stakes in areas as diverse as gas pipelines and cruise vessel terminals' with Land Lease currently building Mexico's largest skyscraper. Austrade noted that Macquarie Group, which holds the largest portfolio of any Australian company in Mexico, has a broad infrastructure portfolio:

Macquarie Group holds the largest portfolio of any Australian company in Mexico, employing approximately 40 staff in Mexico City. It specifically targets infrastructure asset classes that include roads and rail, airports and ports, water and wastewater, energy and utilities and social and communications infrastructure.⁴³

40 Australian Trade Commission, *Submission 39*, p. 11.

41 Department of Foreign Affairs and Trade, *Submission 30*, Attachment D.

42 Dr Edmundo Gamas, Executive Director, Mexican Institute of Infrastructure Development, *Committee Hansard*, 29 October 2015, p. 16.

43 Australian Trade Commission, *Submission 39*, p. 11.

5.33 WorleyParsons discussed its interest in the Mexico National Infrastructure Program and its capacity to advise Australian investors:

We also see great potential in the scale of private investment required to fund the development of Mexico National Infrastructure Program, working alongside international and local investors to assist in the planning, structuring, financing and delivery of infrastructure projects across the pipeline, ports, transport, social, power and tourism sectors. We believe our specialist infrastructure advisory capability in Australia combined with our local knowledge of Mexico is well-positioned to assist Australian superannuation funds and other institutional investors with their entry into the market.⁴⁴

5.34 Austrade gave examples of its recent work in this sector. In July 2015, Austrade and DFAT supported Macquarie Group's engagement with the US\$1.1 billion Marena wind farm project in the state of Oaxaca. Construction of the project is scheduled to commence in the final quarter of 2015. In early 2016, Austrade (in partnership with ANZMEX) will coordinate the inaugural Australia-Mexico Infrastructure Finance Forum (AMIFF). The activity is expected to encourage the development of stronger ties between the Australian and Mexican infrastructure and investment communities. Austrade, with the support of DFAT, is also scoping a project to create an International Centre of Excellence for Indigenous Consultation with the Mexican government to improve the outcomes of consultations related to major project development in Mexico.⁴⁵

Australian food

5.35 The TPP eliminates tariffs and grants favourable market access on a number of key Australian agricultural goods over the next 15 years⁴⁶ including beef, sheep meat, pork, dairy, cereals and grains, sugar, wine, horticulture, and seafood.⁴⁷ Furthermore, Mexico's growing middle class has become a significant destination for luxury goods and provides new opportunities for Australian premium food and beverage.⁴⁸

Australian engagement with the Mexican market

5.36 The ANZMEX Business Council recommended increasing government support for the sector, telling the committee that 'we understand that an Agriculture Officer covers the region from Washington' but noting that 'a Department of Agriculture officer with a remit for Mexico and the whole of Latin America would

44 WorleyParsons, *Submission 40*, p. 2.

45 Australian Trade Commission, *Submission 39*, p. 11.

46 The time periods vary depending on the product. See Chapter 3 of this report for details.

47 Australian Trade Commission, *Submission 39*, p. 7.

48 Department of Foreign Affairs and Trade, *Submission 30*, Attachment D.

help advance Australia's interests substantially'.⁴⁹ The ANZMEX Business Council also recommended that:

The Australian Government increase funding to the Department of Agriculture and the Department of Foreign Affairs & Trade for two additional Australian-based officers to be added to the Mexico City post in order to respond to opportunities in food & agribusiness relating to the implementation of the TPP and the other for executing key economic diplomacy projects.⁵⁰

5.37 Austrade advised the committee that in October 2014 it supported Meat & Livestock Australia and the Sheepmeat Council of Australia who together signed a MoU with their Mexican counterpart, the National Sheep Union (UNO). In January 2015, Austrade also supported Wine Australia in hosting an industry event which exhibited 12 wine producers.⁵¹

Agribusiness technology and equipment services

5.38 Mexico is a major agriculture producer with the agribusiness industry in Mexico growing steadily at a rate of 2 per cent per annum.⁵² However, Ai Group told the committee that the sector 'is hampered by poor land management'.⁵³

5.39 Mexico shares many of the same climatic issues as Australia, working in semi-arid, sub-tropical, and tropical climates and as such there are significant opportunities for Australian agribusiness and agritech firms. The Export Council of Australia noted that 'one of the largest unsatisfied markets in Mexico is for agricultural equipment' and highlighted the potential for research and commercial collaboration in areas such as:

- tropical livestock health and welfare;
- high-value horticultural products;
- nanotechnology vaccines;
- biomedical production from sugar cane; and
- plant production.⁵⁴

5.40 Austrade advised the committee that 'Australia can offer significant expertise across the animal value chain, in feedlots, slaughter, genomics, and embryo transfer', noting that 'through policy and research collaboration, Australia can reduce barriers to entry relating to incumbent firms by establishing research and institutional links with

49 ANZMEX Business Council, *Submission 6*, p. 14.

50 ANZMEX Business Council, *Submission 6*, p. 6.

51 Australian Trade Commission, *Submission 39*, p. 10.

52 Australian Industry Group, *Submission 29*, p. 4.

53 Australian Industry Group, *Submission 29*, p. 4.

54 Export Council of Australia, *Submission 28*, pp 8–9.

Mexico'.⁵⁵ Austrade supported the Queensland Alliance for Agriculture & Food Innovation (QAAFI) to identify research and development partnerships. In October 2014, QAAFI gave a presentation on innovation in tropical agriculture at the Global Agrifood Forum, Latin America's largest agriculture conference. In April 2015, the QAAFI Head of Animal Science visited Mexico to 'progress specific opportunities'.⁵⁶

Australian engagement with the Mexican market

5.41 The ANZMEX Business Council commented that Australia appears to be undervaluing Mexico as a potential source of investment into Australia. It advised that there are already two major investments from Mexico in Australia: Gruma, who own the Mission Foods brand; and the lesser known, but more substantial, Riverina Oils and Bio Energy investment in an oil-seed pressing facility. The ANZMEX Business Council advised that the food and agribusiness sector 'could provide a rich source of two-way investment':

Australia could consider options to share its Northern Australia blueprint as a way of securing stronger investment and R&D links in Mexico. There is already established MOUs between Meat & Livestock Australia and the Sheepmeat Council of Australia and their equivalent representatives, and via longstanding research commitments in organisations such as CIMMYT [International Maize and Wheat Improvement Centre]...to develop this agenda, however, Austrade need to be provided local investment responsibilities and provided appropriate funding in order to prosecute a plan in a meaningful way.⁵⁷

5.42 Austrade stated that it is 'keen to support high-level two-way missions in order to develop networks and collaboration at both an institutional and commercial level' and advising the committee that it is 'working to introduce the Mexican State of Nayarit to Australian expertise with the development of 50,000 hectares of irrigated land, used principally for cattle'.⁵⁸

Awareness of opportunities in Mexico and Australia

5.43 The Trade Commissioner for Mexico, Counsellor Esaú Gaza de Vega, told the committee that Australia and Mexico are at 'a point in history where it could not be better' but that most Australian companies are not aware of the momentous opportunities available:

... we are at a point where the increasing production capacity in Mexico and the diminishing production requirements in Australia are just like having hunger and food on the table at the same place: we need to match them; we need to get them together so that we can keep the Australian business going and we can meet the production requirements in Mexico using the production capacities available in Australia.

55 Australian Trade Commission, *Submission 39*, p. 10.

56 Australian Trade Commission, *Submission 39*, p. 11.

57 ANZMEX Business Council, *Submission 6*, p. 21.

58 Australian Trade Commission, *Submission 39*, pp 10–11.

Unfortunately, since there is very little knowledge about this, the opportunities right now, from what we saw from the previous evidence, is that most of the companies are focusing or aiming towards other nations in the Asia-Pacific region rather than looking at where their capacity is really growing, and that is Mexico. Unfortunately, in some cases, besides not being aware, there is this image of being very far away, language barriers, not having direct flights and so forth so that it is not really in the top list of Australian business's priorities.⁵⁹

5.44 The ANZMEX Business Council stressed the importance of regularly providing clear and up-to-date information to the Australian business community regarding the opportunities attached to the TPP:

With the long awaited signing of the TPP, there is little room for complacency in clearly and constantly informing the Australian business community on how to seize opportunities attached to the TPP. The same energy that has been applied to selling the Korea, Japan and China FTAs need to be applied to the TPP, especially in the new markets of Canada, Mexico and Peru.⁶⁰

5.45 The Export Council of Australia advised the committee that most large-scale firms already have a good understanding of the benefits and opportunities in Mexico but that 'Government can best leverage the opportunities of making that information available to smaller or less export oriented companies and can identify opportunities for them in that part of the world and provide that information to them':

It can help educate them into the opportunities, help support them through agencies, such as Austrade—and in conjunction with us—in providing training and education on trading, in that part of the world, and how to facilitate the benefits under the TPP. Then it can keep an eye on the developments, making sure that the proposed and promised commitments are implemented.⁶¹

5.46 Mr Murray Fern, Manager, Mining Equipment, Technology and Services Section, DIIS advised the committee that the government's focus will be on the SMEs:

The focus will be on the SMEs—the small and medium enterprises. We would want to have the major miners there, for example, or the larger METS firms like Orica or WorleyParsons, because they help in the tier 1 to make the connections with the major miners. SMEs are the focus of the growth centre.⁶²

59 Counsellor Esaú Gaza de Vega, Trade Commissioner, ProMéxico, *Committee Hansard*, 29 October 2015, p. 48.

60 ANZMEX Business Council, *Submission 6*, p. 19.

61 Mr Andrew Hudson, Director, Export Council of Australia, *Committee Hansard*, 29 October 2015, p. 28.

62 Mr Murray Fern, Manager, Mining Equipment, Technology and Services Section, Department of Industry, Innovation and Science, *Committee Hansard*, 29 October 2015, p. 41.

5.47 Dr Brendon Hammer, DFAT, assured the committee that the government has a wide range of programs and activities to highlight the benefits and opportunities in Mexico resulting following the signing of the TPP:

On TPP, there is going to be quite an important program run by the government...there will be activities out of our embassy in Mexico City to promote Mexican awareness of what the opportunities in Australia might be...the opportunity is already being highlighted on DFAT's website. There are fact sheets on market access outcomes for goods and services covering sectors such as resources, energy, education services, finance services and investment opportunities, and as the ratification and implementation of the TPP unfolds DFAT and Austrade are going to roll out a comprehensive outreach strategy highlighting the benefits.

Mexico is going to be a particular focus when we communicate the outcomes because we have not had any kind of an FTA with Mexico before, so there are lots of opportunities opening out. Where possible we will seek to provide bespoke advice to stakeholders—farmers, manufacturers, investors, service providers. So that is all in train.⁶³

5.48 Austrade advised the committee that it is planning a range of activities to promote opportunities arising from the TPP including:

- promotional roadshows in Australia, scheduled to commence in the second quarter of 2016;
- in-market events in Mexico to highlight opportunities in key sectors; and
- customer outreach to major Mexican and international companies (such as Grupo Mexico, ICA, Grupo Bal, Permex, and CFE) highlighting the cost-benefits of working with Australian suppliers.⁶⁴

TPP tools

5.49 The Export Council of Australia suggested that the Australian government provide support 'for the development of practical, user-friendly tools to assist SMEs, especially service companies, understand and utilise the TPP, as well as leverage opportunities in Mexico'. When asked to elaborate on what tools were needed, Mr Andrew Hudson, Director of the Export Council of Australia, told the committee:

We are developing what we call an FTA tool at the moment which is aimed at facilitating access to information through an online device, for want of a better term. It will basically be very much more a summary of the opportunities under trade or trade agreements. In other words, instead of having to go through several hundred pages of a free trade agreement—and they are all schedules, which is the sort of thing that someone like I usually deal with—they can access relevant, immediate information which will direct their interest or direct their inquiry.

63 Dr Brendon Hammer, First Assistant Secretary, Americas' Division, Department of Foreign Affairs and Trade, *Committee Hansard*, 29 October 2015, p. 59.

64 Australian Trade Commission, *Submission 39*, pp 6–7.

We are certainly working on that tool in conjunction with our colleagues in DFAT and our colleagues in other agencies. That is one opportunity, as well as doing a lot of face-to-face education. At the moment government is doing a bit of that with the North Asia FTAs. It is getting on the road and talking to people in different areas. We certainly do that through Australia. I have done a lot of sessions for the Export Council, with the small and medium exporters and big exporters.⁶⁵

Commitment of resources

5.50 Some submissions called for the Australian Embassy and Austrade in Mexico to be provided with additional resources and personnel.⁶⁶ The ANZMEX Business Council asserted that 'there has to be a prioritisation of markets, supported with greater resources, to reflect a changed global economic order. It criticised the Australian government's approach to Mexico and the region, noting that resourcing has stagnated in recent years:

This leads us to our most fundamental criticism of the current approach of Australia to Mexico and the region. That is, while it has been enunciated that it is seeking to extend its activities beyond Asia to the Indo-Pacific, there has been too little consideration of the Americas in that conversation. This is an oversight that must be corrected. Resourcing to these markets has remained more or less stagnant in recent years. (In fact, due to funding pressures Austrade removed a long-standing and industry critical position from the Mexico City post in 2012.)⁶⁷

5.51 Ai Group also called for the government to increase the resources available to promote Australia's interests in Mexico. Ai Group made four recommendations, calling for the Australian government to:

- increase the number of local and Australian-based staff at Austrade Mexico, paying particular attention to recruiting people from a diversity of industries;
- consider a second office in Mexico, located in the north where the aerospace and automotive clusters are situated;
- fund the placement of Mexican Austrade staff into Australian industry associations for short term secondments, to encourage Australian businesses to consider this market; and
- commit to holding Australia Week in Mexico in 2015 to showcase Australian industry and introduce Australian companies to Mexico.⁶⁸

65 Mr Andrew Hudson, Director, Export Council of Australia, *Committee Hansard*, 29 October 2015, p. 29.

66 For example: ANZMEX Business Council, *Submission 6*, p. 14; Export Council of Australia, *Submission 28*, p. 4; and Australian Industry Group, *Submission 29*, p. 4.

67 ANZMEX Business Council, *Submission 6*, p. 14.

68 Ms Louise McGrath, National Manager, Business and International Advisory Services, Australian Industry Group, *Committee Hansard*, 29 October 2015, p. 50.

5.52 Similarly, the Export Council of Australia recommended that 'Austrade be provided with at least three additional locally based staff in order to facilitate inward investment and promote trade, particularly in key growth areas'.⁶⁹

Australia week

5.53 Some submissions recommended that the Australian government conduct an annual 'Australia Week' in Mexico.⁷⁰ The Export Council of Australia advised the committee that such an event would serve to develop bilateral ties and bolster the commercial and diplomatic relationship:

The ECA believes high profile events can play a role in raising the profile of Australia in Mexico, increasing Australian companies' awareness of the opportunities in Mexico, and further developing the bilateral trade relationship. Providing funding for an annual *Australia Week* event in Mexico could be an effective model to bolster the commercial and diplomatic relationship.⁷¹

5.54 The ANZMEX Business Council asserted that 'we need a cornerstone annual event, sponsored by the Trade and Investment Minister, which will highlight the opportunities'. It advised that this could be achieved by 'transposing the successful *Australia Week* model from other markets such as India, China and the Middle East'.⁷²

Committee view

5.55 The committee agrees with Trade Commissioner Counsellor Esaú Gaza de Vega's declaration that we are at 'a point in history where it could not be better' for our two nations. The signing of the TPP agreement will place Australian goods on a level playing field with many of our competitors and guarantee market access for a range of services in Mexico. The committee is excited about the significant opportunities for trade and investment with Mexico.

5.56 The committee commends DFAT and Austrade for its work assisting Australian businesses to enter and thrive in the Mexican market and the excellent feedback, heard by the committee from companies such as WorleyParsons, Woodside, and BHP Billiton, praising the staff of the Australian Embassy in Mexico. However, the committee believes that more must be done to raise awareness of Mexico as a key trade and investment destination for Australian businesses, in particular small to medium enterprises.

5.57 The committee commends Austrade's focus on developing opportunities for Australian suppliers of OEMs and automotive aftermarket in the Mexican automotive market. The committee acknowledges the briefings Austrade co-hosted in Melbourne and Adelaide, highlighting the significant value chain opportunities in Mexico in the

69 Export Council of Australia, *Submission 28*, p. 4.

70 For example: ANZMEX Business Council, *Submission 6*, p. 30; Export Council of Australia, *Submission 28*, p. 7; Australian Industry Group, *Submission 29*, p. 4.

71 Export Council of Australia, *Submission 28*, p. 7.

72 ANZMEX Business Council, *Submission 6*, p. 13.

sector and advanced manufacturing more broadly. However, it is the committee's view that more must be done to assist Australian suppliers of OEMs and automotive aftermarket to engage with the opportunities presented by the Mexican automotive industry.

5.58 The committee notes that in 2007 the 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 strong interest in Australian products'.⁷³ The committee believes that that additional resource should be allocated to the Australian diplomatic and Austrade posts in Mexico, in particular the provision of additional specialised staff to assist Australian businesses wishing to enter the Mexican market in the wake of the TPP. The committee supports the creation of 'TPP tools' to assist Australian SMEs to understand and navigate the TPP.

Recommendation 11

5.59 The committee recommends that additional resources be allocated to Austrade to raise awareness of the significant value chain opportunities in the Mexican automotive sector (and advanced manufacturing more broadly) and assist Australian suppliers of OEMs and automotive aftermarket to quickly and effectively engage with the Mexican automotive market.

Recommendation 12

5.60 The committee recommends that additional resources be allocated to the Australian diplomatic and Austrade posts in Mexico, particularly the provision of additional specialised staff to assist Australian small to medium enterprises wishing to enter the Mexican market in the wake of the Trans-Pacific Partnership.

Recommendation 13

5.61 The committee recommends that the Department of Foreign Affairs and Trade and Austrade work with the Export Council of Australia to develop a suite of practical, user-friendly tools to assist Australian small to medium enterprises, especially service companies, understand and utilise the Trans-Pacific Partnership.

Senator Alex Gallacher
Chair

Senator Chris Back
Deputy Chair

73 Joint Standing Committee on Foreign Affairs, Defence and Trade, *Australia's trade with Mexico and the Region*, 2007, p. 28.