

## Exports to Mexico and the region

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

### Mexico

- 3.2 Mexico was Australia's largest merchandise trading partner in Latin America in 2005-06 and our twenty ninth largest merchandise trading partner overall, with two-way trade worth A\$1.8 billion. Australian exports of goods and services to Mexico were approximately A\$874 million in 2005-06, consisting of coal, meat, livestock, dairy, leather and an increasing range of services. The trend growth in Australia's exports to Mexico in the last five years has been 15 per cent<sup>1</sup>.
- 3.3 In 2006 the major Australian exports to Mexico were:
- Coal valued at A\$418 million
  - Medicaments (incl. veterinary) valued at A\$135 million

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

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

## Agriculture

- 3.5 Agricultural trade with Mexico and the region has been limited by a number of factors including the lack of direct shipping between Australia and the region, high storage costs, high tariffs, poor infrastructure and devaluation of Mexico's currency.<sup>2</sup>
- 3.6 The devaluation in the Mexican currency coupled with the appreciation in the Australian dollar has meant that Australian products are more expensive.
- 3.7 With tariff rates for most Australian products at 50 per cent<sup>3</sup> they suffer a competitive disadvantage when compared with products from countries such as the United States with much lower or zero tariffs.

## Dairy

- 3.8 Mexico ranks as the fourteenth largest importer of Australian dairy products worldwide. In 2005 trade in the export of Australian dairy products to Mexico was dominated by butter valued at A\$22.4million, casein valued at \$A13.6million and milk powder and concentrated milk valued at \$A10.2 million. Mexico is Australia's largest market for the export of live dairy cattle.<sup>4</sup>
- 3.9 Exports of dairy products to Mexico have risen gradually during the period 2001-2005, with the exception of cheese and yoghurt exports<sup>5</sup>. These products are directly affected by the advantage provided by NAFTA to Australia's North American dairy competitors.

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

3 DAFF, *Submission No. 13, Vol 1*, p. 187. "The over quota tariff rate for most agricultural products is generally applied at 50 per cent and NAFTA partners account for almost all in-quota imports."

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

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

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

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

## Meat

### Beef

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

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

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

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

- 3.13 In 2006 beef comprised close to 13 per cent by value of Australian red meat exported to Central America, valued at \$A\$6.7m. The US and Canada currently supply over 90 per cent of Mexico's beef import requirements. Australian beef exports to Mexico could substantially increase as Mexican demand increases. Due to the tariff advantages afforded to the US and Canada they are unlikely to reach the 15 per cent market share that existed prior to Mexico joining NAFTA (applied tariffs for beef exports from Australia to Mexico range from 20 to 25 per cent).<sup>9</sup> This would be changed by development of an FTA between Australia and Mexico.
- 3.14 Coupled with strong offer prices in alternative markets, Australian beef exports to Mexico totalled just 2,540 tonnes in 2005 - all of which was frozen product (mostly knuckle and flank meat) which incurred the higher 25 per cent tariff. While this volume was worth A\$10 million, it only represented 0.3 per cent of Australia's global beef trade and only 1 per cent of Mexico's total beef import requirements.<sup>10</sup>
- 3.15 If Australia had been able to retain the 15 per cent market share it enjoyed prior to the implementation of NAFTA, Australia's export volume to Mexico in 2006 could have been around 40,000 tonnes and Mexico would be our fourth largest beef export market.<sup>11</sup>
- 3.16 The removal of the 20-25 per cent discriminatory beef tariff is critical to normalizing the Australian beef trade with Mexico and will facilitate the exploration of new market opportunities. While Australian Embassy officials have previously canvassed unilateral options in this regard (via formal approaches to the Mexican Economy and Agriculture Ministers), Mexican officials have resisted this option and responded that a bilateral or global (WTO) approach is the preferred course of action.<sup>12</sup>
- 3.17 In its submission the MLA has advocated the liberalisation of the tariff regime in Mexico under the WTO negotiation framework.<sup>13</sup>

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

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

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

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

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

## Sheepmeat

- 3.18 Australia supplies about one third of all lamb and mutton consumed in Mexico – making sheepmeat (lamb and mutton) exports the mainstay of the bilateral meat trade. Volumes have grown by 73 per cent from 4,608 tonnes in 1995 to 16,989 tonnes in 2005, although the trade peaked at 28,709 tonnes in 2000.<sup>14</sup>
- 3.19 For 2006, Australian lamb and mutton exports to Mexico are anticipated to decline slightly (exports for the 10 months ending October total 11,625 tonnes) compared to those achieved in 2005, with the trade being based on a frozen product offering.<sup>15</sup>

## Offal

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

## Livestock

### Live cattle

- 3.22 Mexico is the only country in the Central American region to import Australian live animals. Live cattle made up 98.82 per cent and live sheep the remaining 0.18 per cent of live animal exports valued at \$A22.9 million in 2005.<sup>18</sup>
- 3.23 The highest value sector in Australian live animal exports to Mexico in recent years has been cattle (dairy heifers and cows) for dairy production. This trade peaked in 2001 and demand has remained reasonably strong following the BSE incidents in Canada and the

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

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

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

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

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

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

- 3.24 An end to the BSE ban could put Australian suppliers at a competitive disadvantage, due to the differences in the current tariff applied to Australian exports (applied tariffs for live animal exports from Australia to Mexico range from 10 to 15 per cent, with bound tariffs at 9 to 37.5 per cent).<sup>20</sup>

## Wine

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

## Technology

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

A good example of the niche opportunities is Securrency, which makes polymer currency and now prints the 20 peso and 50 peso notes on its substrata. They are printed in Mexico but on substrata plastic polymer material provided by Securrency. That is, again, an example of a niche capability where an Australian company has made good inroads into the Mexican market. That is true more broadly of the region. There are a range of niche opportunities where Australian companies with quite specialised machinery and other equipment have made good sales in the region.<sup>22</sup>

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

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

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

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

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

## Trade opportunities in Mexico

### Mining

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

Mining technology is one of those areas where there is potentially a huge market in Mexico. The problem is that, under NAFTA, American technology comes in with zero tariffs; ours has a tariff of 25 per cent or more. Austrade is very active in trying to develop certain niche markets in both merchandise trade and in services, but there are key impediments that it has to battle against. In merchandise trade the key impediment is tariffs, but then there is a whole range of regulatory and other burdens linked to services.<sup>23</sup>

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

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

### Energy

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

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

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

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

they will be dependent increasingly on imports of coal, and particularly from 2010-11 you can expect that there will be significant increases in imports of LNG. There are reasonable prospects that Australia will be able to supply LNG through some of their Pacific ports. There are very good potential opportunities in LNG and also in coal, and we have won a number of big contracts recently for coal.<sup>25</sup>

3.31 DFAT, in its submission, stated that:

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

## Wine

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

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

## Infrastructure

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

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

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

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

end building products, water treatment technology and a range of services.<sup>28</sup>

## Impediments to trade

### Tariffs

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

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

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

improve access for Australian exports only) can only be granted in an FTA.<sup>30</sup>

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

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

Overcoming the preferential access of the United States exporters, combined with their natural size (economy of scale) and proximity advantages, is particularly problematic for Queensland exporters. More than half of Mexico's imports are currently sourced from the United States.<sup>31</sup>

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

## Payment risk

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

## The region

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

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

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

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

33 [http://www.dfat.gov.au/geo/central\\_america/index.html](http://www.dfat.gov.au/geo/central_america/index.html)

## Dairy

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

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

## Wine

- 3.42 Whilst Mexico and other Central and South American countries (e.g. Chile) already boast high wine production levels the Australian wine industry has indicated there is potential for some expansion of Australia's wine trade to the Central American region at the low to medium price point of the market, as indicated by the recent sharp increase in low-value wine exports to Nicaragua.<sup>35</sup>

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

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

## Impediments to trade

### Biosecurity

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

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

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

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

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

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

## The Committee's view

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

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

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

3.47 The Committee understands the difficulties Australian Government Departments face in this area and is aware of current efforts to address them<sup>39</sup> and believes that significant impact with regard to these issues could be made at a ministerial level.

### Recommendation 3

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

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

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

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

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

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

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

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**Recommendation 4**

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