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AUSTRALIAN GOVERNMENT RESPONSE TO

REPORT NO 138

***INQUIRY INTO AUSTRALIA'S TRADE WITH MEXICO AND THE
REGION***

BY THE

**JOINT STANDING COMMITTEE ON FOREIGN AFFAIRS, DEFENCE AND
TRADE**

SEPTEMBER 2007

Australian Government Response to
Report No 138
Inquiry into Australia's Trade with Mexico and the Region

by the
Joint Standing Committee on Foreign Affairs, Defence and Trade
September 2007

Recommendation 1

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

The Department of Innovation, Industry, Science and Research (DIISR), formerly the Department of Education, Science and Training (DEST) proposes to make some funding available for an initial activity with Mexico to test the level of interest from Australian science stakeholders in bringing the science and technology relationship to a more active level and will work with the Embassy of Mexico and the Australian Embassy in Mexico City to progress this as a first step. CSIRO's ongoing work on weed biocontrol at its field station in Veracruz on the Gulf of Mexico is also relevant in this context.

By way of background, the former Department of Education, Science and Training recently undertook a review of its strategy for supporting Australia's engagement with the global science community to consider which countries and research areas would be expected to make the greatest contributions to a high quality science system and present broader social, environmental and economic benefits to Australia.

The review, which involved extensive consultation with the Australian science community, found benefit in concentrating our efforts on two groups of countries: the current science leaders, who are making substantial investment in science and have well established research strengths in fields of particular benefit to Australia; and countries that are emerging as the scientific leaders of tomorrow.

From 2008, funding support for international collaborative projects through the *Competitive Grants* element of the Department of Innovation, Industry, Science and Research (DIISR) *International Science Linkages programme* will focus on a number of countries from these two groups, in specified areas of research, but Mexico currently does not fit into either of these categories.

While collaborations with Mexico are not able to access funding support under *Competitive Grants* in 2008, DIISR values its S&T relationship with Mexico and will continue to support the relationship at the intergovernmental level. In addition the Australian Embassy in Mexico will continue to encourage further ad hoc scientific cooperation at the individual and institutional levels. Scientific cooperation in the multilateral context on issues ranging from whaling to climate change is also set to increase with Mexico.

Recommendation 2

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

The Forum for East Asia-Latin America Cooperation (FEALAC) was formed in 1998. Singapore and Chile were the architects of the proposal to form this group. FEALAC held its first Foreign Ministers' meeting in Santiago in March 2001. The third meeting of Foreign Ministers was held in Brasilia in August 2007. Australia, for the purposes of this regional group, is an East Asian member of FEALAC. All the East Asian members of FEALAC (ASEAN member states, China, Japan, Korea, Australia and New Zealand) are APEC members, but only three Latin American countries (Mexico, Peru and Chile) are members of APEC. APEC is a more established regional forum. FEALAC, however, currently provides a forum in which Australia has the opportunity to engage a wider range of Latin American countries, including the countries of Central America, complementing the bilateral linkages Australia has with those countries.

FEALAC has been slow to develop momentum as a regional group, reflecting in part the higher importance many members give to other established forums such as APEC, and the diverse interests and disparate membership evident in the Forum.

Nevertheless it was clear from the discussion and outcomes of the Third FEALAC Foreign Ministers' meeting in Brazil that the Forum's members see potential in this regional grouping and will continue to support it. Japan and Argentina have taken over as the new regional co-ordinators of the Forum and Japan will host the next meeting of FEALAC Foreign Ministers at a date to be determined. Korea and Ecuador are the new co-chairs of FEALAC's Working Group on Economy and Society, Indonesia and Colombia are the co-chairs of the Political, Cultural and Education Working Group and New Zealand and Panama are the new co-chairs of the Working Group on Science and Technology.

In a welcome development, Brazil, in hosting the August 2007 Foreign Ministers' meeting, encouraged FEALAC members to give greater priority to strengthening business and commercial links between East Asia and Latin America. Business and academic seminars were held in conjunction with the Ministerial meetings. Australia was represented at the business seminar by a senior executive from Pacific Hydro.

FEALAC's future and its ongoing viability will depend to a significant extent on the priority and resources member states give to the Forum. The Australian Government will continue to engage with the Forum as resources and opportunities permit. Since the August 2007 Ministerial meeting, Australia has hosted a visit by two Latin American journalists under a FEALAC media visitors program, and has co-sponsored a seminar for FEALAC members in Indonesia on the counter-terrorism lessons learned following the establishment of the Jakarta Centre for Law Enforcement Cooperation (JCLEC).

Recommendation 3

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

The Australian Government will continue to work with Mexico and other Central American countries to reduce technical market access barriers affecting Australian agricultural exports, and will take the opportunity, as circumstances permit, to continue such representations at Ministerial level.

At officials' level, the main focus of the work in the region by the Australian Quarantine and Inspection Service (AQIS) has been on negotiating arrangements with countries such as Costa Rica, Panama and El Salvador on dairy export plant inspections.

Currently, most Central American countries require on-site visits by their inspectors to list export establishments for export of animal products, including dairy products, to their market. The listing is usually valid only for a period of 2 to 3 years. Inspections by foreign officials are expensive and time consuming and the costs of such inspections have to be met by the participating Australian dairy export registered establishments.

AQIS has made representations to the competent authorities of Panama, Costa Rica and El Salvador seeking a system recognition or equivalence arrangement to remove the need for on-site inspections by providing relevant assurances about the safety of Australia's products through Australia's export inspection and certification systems.

Costa Rican authorities recently agreed to extend the validity of listings without conducting an on-site inspection after the previous approval expired in June 2007. The extension was granted after AQIS completed a submission on Australia's export inspection and certification system. Costa Rican authorities have undertaken to carry out an equivalency assessment of Australia's export inspection and certification system and will use the AQIS submission to form the basis of their assessment.

In terms of ministerial representations, the Australian Government considers any ministerial representations on these issues would be more appropriately directed to ministerial counterparts rather than officials.

Recommendation 4

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

Austrade Mexico City covers Mexico, Central America and the Caribbean. The post's primary focus has traditionally been on Mexico, with a population of over 104 million. Mexico is Australia's largest trading partner in Latin America with two-way merchandise trade worth \$1.8 billion in 2007. Austrade's post in Mexico City currently manages this market with six permanent staff, which comprises one Australian Trade Commissioner and five local staff. Key events facilitated by the post include Expomin in Veracruz and the Australia Festival (which will be known as ExpoAustralia from 2008) in Mexico City. These promotional activities are critical in raising awareness of Australian capability, particularly in niche areas such as mining,

food and beverage and services (including franchising). The allocation and location of resources in Mexico is reviewed regularly by Austrade and options exist for quickly increasing capacity to manage growth in opportunities at the point this becomes necessary. These options include the appointment of trade consultants and/or out posted representatives.

The Department of Education, Employment and Workplace Relations (DEEWR), through Australian Education International (AEI), undertakes a number of key promotional and marketing activities in Mexico, most notably the Latin America Study in Australia Exhibition. 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 events were held in Monterrey and Mexico City, attracting over 2000 local visitors and participation by 24 Australian education and training institutions from the higher education, vocational education and training, English language and schools sectors. AEI will participate in ExpoAustralia in 2008. To manage its promotional and marketing activities in Mexico, AEI employs a locally-engaged manager based in the Australian Embassy in Mexico City, on an ongoing, full-time basis. Based on the current level of engagement, AEI has adequate resources to support its promotional activities in Mexico.

Recommendation 5

The Committee recommends that the Australian Government move forward with a high quality comprehensive FTA with Mexico. In any negotiations, issues relating to agriculture should be determined at an early stage.

The Government's focus in trade negotiations is to bring the Doha round of multilateral trade negotiations to a successful conclusion. The Government sees a role for FTAs provided they are consistent with the goal of strengthening the WTO multilateral trade system.

The Minister for Trade has commissioned an assessment of Australia's approach to FTAs as part of the current Review of Export Policies and Programs that was launched on 21 February 2008. This FTA research will also include recommendations to the Minister on ways in which future FTAs can strengthen the WTO system and on benchmarks and/or criteria that the Government might apply when considering possible FTAs in the future. The Review is expected to report to the Minister by 31 August 2008 and the Minister will make a determination at that time on implementation of the recommendations in the review report.

As the Committee noted in its report, Australia and Mexico have formed a Joint Experts Group (JEG) to examine all aspects of the Australia-Mexico bilateral economic relationship. The JEG met twice in 2007, and is well advanced in preparing a report for consideration by both governments. The report will identify a range of activities to enhance the bilateral economic and trade relationship, including the possibility of negotiating an FTA with Mexico in the future.

A high quality, comprehensive and WTO-plus FTA with Mexico has the potential to expand trade and investment and deliver economic benefits to both countries. Mexico would seem to be a good prospective partner for a bilateral FTA, especially given that

it maintains relatively high tariffs for those countries with which it does not have an FTA. The fact that both Australia and Mexico have FTAs with the United States suggests that there should be significant common ground. But the Australian Government is aware of sensitivities surrounding FTAs in Mexico, especially in the agriculture sector. Australia's horticulture industry has also expressed concern about the possible negotiation of an FTA with Mexico.

Improved market access to Mexico for Australian agricultural and related products would not necessarily be at the expense of Mexican producers – an FTA would potentially increase Australia's share of the import market in particular, not necessarily the market as a whole. Australia's share of the Mexican market in a range of products has declined, as other exporters enjoying preferential tariff and other treatment have improved their share of the market for imported products in Mexico. In other words, improved market conditions through a comprehensive bilateral FTA could be expected to allow Australian exporters to compete in the market on the same basis as most of their competitors.

As part of its broader efforts to build support for enhanced bilateral economic and trade links between the two countries, the Government will continue to examine the details of a potential FTA with Mexico through the JEG. However, any move to commence negotiations with Mexico would require further analysis and consultation with interested parties in both countries. Any decision on future negotiations would also need to take account of the fact that Australia's negotiating resources are currently heavily occupied with five concurrent FTA negotiations, specifically with ASEAN (jointly with NZ), China, Japan, Malaysia, and the countries of the Gulf Cooperation Council (GCC).

