



**Orica CEO Alberto Calderon
Keynote speech at ProMéxico industry event
PwC Melbourne**

4 April 2016

Introduction

Good morning. It's a pleasure to be here today.

I think it's a fantastic initiative of the Mexican government to not only have established ProMéxico as an organisation, but to be affording it the opportunities to really promote Mexico internationally as a place to do business and invest in.

At Orica, we already have a strong presence in Mexico, where we work with a range of mining companies, so I'm pleased to be here to talk about a topic of significant relevance to us.

Today I principally want to address three areas:

1. In general, some of the attributes Mexico has that sets it apart from both North and Latin America;
2. Orica's experience in Mexico; and
3. The opportunity that I believe Mexico represents for Australian companies, including those benefits afforded by the Trans Pacific Partnership.

But first, by way of introduction for those who don't know me, I'm Latin American, born and raised in Colombia. My executive career includes leadership roles at, most recently, BHP Billiton, where I held a number of roles including Group Executive and Chief Executive Aluminium, Nickel and Corporate Development, Chief Commercial Officer. Before BHP Billiton, I was Chief Executive Officer at Cerrejón Coal Company, an integrated thermal coal mine in Colombia, and prior to that I ran the Colombian oil company, Ecopetrol. Earlier on, I held senior leadership positions in the Colombian government. I undertook my doctorate in Economics at Yale in the US, and worked there also with the International Monetary Fund.

Attributes

So, it is in that context of my personal and professional experiences across multiple geographies and industries that I have considered what attributes Mexico has that sets it apart and provides advantages and opportunities.

First and foremost, it has a reformist federal Government, led by President Enrique Peña Nieto, that is actively pursuing reforms to improve and embed Mexico's long-term competitiveness and economic growth. In particular by encouraging private investment in the oil, gas and electricity sectors¹, introducing reforms to increase competition in financial institutions to make access to credit easier and more affordable, and investing in core infrastructure such as roads, ports and rail².

For those of us in the Southern Hemisphere with business interests in Mexico, it's pleasing to note that of all the goals that President Peña Nieto identified for his government on taking office in 2012, a key goal was to focus on enhancing Mexico's ties with the Asia-Pacific region³.

Geographically, Mexico has two very important attributes. Firstly, I agree with its President who has said that Mexico's physical location is advantageous. It serves as the meeting point between North America and South America⁴. Mexico is in a unique position, geographically and economically, to facilitate integration mechanisms across the Americas, to not only strengthen and grow its own economy, but to help strengthen its' neighbors' economies also. This, of course, is the stated objective of the Mexican government⁵ and is reflected in Mexico's participation in the Trans Pacific Partnership, the NAFTA, the Pacific Alliance, and a host of other bilateral and multinational economic agreements.

Essentially, Mexico's open economy, its size, geographic proximity to the US – Mexico's NAFTA partner – its strong links to Latin American markets, its stated desire to build its economic ties with the Asia-Pacific region, all make it an attractive market for Australian industry.

In addition to these factors, Mexico also has a wonderful endowment of minerals. It is the number one producer globally of silver, and also produces gold, copper, fluorite, and a host of other minerals. Mexico also has a natural abundance of petroleum. Importantly, it has an attractive regulatory regime and business environment for foreign investment and participation in the sector, as well as a long history in mining and exploration.⁶ For Orica – the world's leading and largest supplier of commercial explosives to the mining industry – this means Mexico is attractive for us.

¹ The World Fact Book: <https://www.cia.gov/library/publications/resources/the-world-factbook/geos/mx.html>

² Mexico President Enrique Peña Nieto speech to the Council on Foreign Relations, 23 September 2014: <http://www.cfr.org/mexico/mexican-president-enrique-pena-nieto-implementing-reforms-mexico/p35720>

³ Department of Foreign Affairs and Trade Mexico Country Brief: <http://dfat.gov.au/geo/mexico/Pages/mexico-country-brief.aspx>

⁴ Mexico President Enrique Peña Nieto speech to the Council on Foreign Relations, 23 September 2014: <http://www.cfr.org/mexico/mexican-president-enrique-pena-nieto-implementing-reforms-mexico/p35720>

⁵ Mexico President Enrique Peña Nieto speech to the Council on Foreign Relations, 23 September 2014: <http://www.cfr.org/mexico/mexican-president-enrique-pena-nieto-implementing-reforms-mexico/p35720>

⁶ Department of Foreign Affairs and Trade Mexico Country Brief: <http://dfat.gov.au/geo/mexico/Pages/mexico-country-brief.aspx>



Orica in Mexico

Orica has a significant Mexican presence. We are the number one supplier in Mexico of commercial explosives. We supply around 200,000 tonnes of bulk explosives to commercial customers and conduct around 50 blasts every day on our customers' sites and through our distributors.

We also export sodium cyanide from Australia to Mexican gold mining customers.

We employ approximately 450 people across more than 10 operations and locations throughout Mexico servicing customers in the mining, quarrying and construction industries.

In addition, Orica has participated in the development of key infrastructure in Mexico as a supplier either directly or through distributor arrangements in the construction of main civil works, like the major hydroelectric projects, and main road and tunnel projects.

Finally, Orica has been participating with Pemex in their exploration efforts over the last 10 years.

Opportunity

For those of us operating in Mexico, we know that it represents an attractive investment environment.

Mexico's open investment regime, relatively low labour costs, and a developed manufacturing sector help to maintain a positive environment for foreign direct investment.

For the resources sector, Mexico consistently ranks among the top countries for mining investment. One of the oldest, continuously operating mining industry advisory firms in the world, Behre Dolbear, has been assessing countries on their mining investment attractiveness since 1999, measured against a range of criteria including political system, currency stability, permitting, economic system, social license issues, competitive taxation and corruption. Mexico consistently ranks highly as a place to invest, and was ranked top five in 2015⁷, after Canada, Australia, the US and Chile.

⁷ Behre Dolbear: http://www.mining.com/wp-content/uploads/2015/08/WHERE_TO_INVEST_2015_08.pdf

The strong link between all those in the top five is that mining has been fundamentally important to their economies. In Australia, for example, which ranked second in the 2015 Behre Dolbear research, minerals exports account for about 9 percent of Australia's GDP⁸, and I don't think anyone here today would dispute how significant mining is to Australia's economy. For Mexico, mining represents a robust 5 percent of Mexico's GDP⁹.

So, given both Mexico's endowment of minerals resources and the significance this plays in the economy, Mexico has a long mining history and leading expertise within both the private and government sectors that represent important opportunities for mining investors. It has a significant range of mining projects in operation today but is also one of the top 10 destinations for minerals exploration, a strong sign of potential future projects.

Even in the current downturn in commodity prices, opportunities exist. In fact, counterintuitively, the lower commodity prices create opportunities for a range of businesses, including mining services. Like elsewhere, the Mexican mining industry is undergoing a period of significant restructuring and optimisation to improve productivity in the face of lower prices and margins. To achieve productivity outcomes, the Mexican industry will look to innovative industries and solutions to enhance the sector's resilience, efficiency and profitability throughout the cycle.

The characteristics of the long term commodity cycle are also favourable to Mexico – and this is a key point. As we know, the previous boom was led by China's industrialisation, which fuelled significant growth as it transitioned from a lower income country to a middle income one. In this initial growth stage it was the so called "lower income" commodities that benefited most, mainly steel related commodities like iron ore and metallurgical coal, and thermal coal and manganese too. In the next stage of China's development it will be the "middle income" commodities, like copper, that will mostly benefit. Silver and gold also belong to this category. In other words, the long term prospects of mining in Mexico are very good from a demand perspective.

⁸ The Whole Story: Mining's contribution to the Australian community, Minerals Council of Australia, November 2015, p6: http://www.minerals.org.au/news/the_whole_story_new_publication_details_minings_contribution_to_the_australian_community

⁹ Trading Economics: <http://www.tradingeconomics.com/mexico/gdp-growth>

Likewise, there is strong demand for engineers with specialist knowledge and experience in the most efficient extraction of resources, and Mexico is not producing enough specialists to satisfy this demand¹⁰. These are the sorts of opportunities that companies like Orica can capture – for the benefit of us and our Mexican customers. For example, Orica is increasingly focused on working with our customers to develop better outcomes in productivity, costs and safety, and in minimising environmental impacts through advanced blasting. The real positive here for mining companies seeking to improve their productivity, is that the cost of explosives as a percentage of ore value is low, but an improvement in blasting out comes can be leveraged into significant productivity benefits through improved mill throughput, maximising recovery, reduced energy usage, among other benefits.

In order to be able to capture all the potential business opportunities across borders, like this, Mexico recognised early on that it needed to make it relatively easy to trade across borders. Efforts here have had significant success. On the ease of doing business, the World Bank's 'Doing Business 2016' report ranked Mexico higher than Chile, Colombia, Brazil, Argentina and higher than the regional average for all of Latin America and the Caribbean¹¹, and ranked 38 out of 189 economies¹².

Mexico has also been prolific in its pursuit of free trade agreements, with multiple FTAs in place across and outside of its immediate region that give it access to more than one billion consumers globally¹³.

Trans-Pacific Partnership

More recently, the Trans-Pacific Partnership was signed by the 12 Pacific Rim signatory countries, including Mexico and Australia, in February this year. When it comes into force, it will promote cross-border economic growth, jobs creation and further integrate the economies across the region.

While Orica already operates on the ground in Mexico with a local team, we import cyanide into Mexico from Australia and ammonium nitrate from the United States, so elimination of trade tariffs and barriers creates opportunities for us.

¹⁰ Mining to Mexico, Austrade, 2015 <http://www.austrade.gov.au/Australian/Export/Export-markets/Countries/Mexico/Industries/mining>

¹¹ Doing Business 2016: Mexico Economy Profile 2016, page 8, figure 1.2, The International Bank for Reconstruction and Development / The World Bank: <http://www.doingbusiness.org/data/exploreeconomies/~media/giawb/doing%20business/documents/profiles/country/MEX.pdf?ver=3>

¹² Doing Business 2016: <http://www.doingbusiness.org/rankings>

¹³ Austrade: <http://www.austrade.gov.au/Australian/Export/Export-markets/Countries/Mexico/Doing-business>

Across other sectors, the TPP will provide Australian organisations with greater access and opportunities in Mexico across education, health, hospitality and tourism services, among others¹⁴. These are all industries in which I believe Australia has unique skills that it can bring to Mexico, for both countries' benefit.

In the resources and energy space, the most significant outcome has been the liberalisation of Mexico's oil, gas and electricity sectors. For the first time, foreign companies will be able to actively participate in these industries in Mexico, which is expected to attract up to \$30 billion of additional foreign investment each year. In another first, Australian companies will also be able to bid to participate in the exploration, production, processing and distribution of Mexican oil and gas resources. This will naturally extend the opportunities for foreign service providers to these sectors.¹⁵

Australia's Mining Equipment, Technologies and Services firms are world leaders in innovative products and services across every part of the resources supply chain. The TPP will facilitate the expansion of Australian mining services exports through duty-free access to TPP countries, including eliminating tariffs of up to 15 percent on Australian exports of mining equipment to Mexico. New rules will also enable Australian suppliers to bid for Mexican government procurement opportunities.¹⁶ This not only aids Australian companies' international competitiveness, but gives Mexican industry broader choice and flexibility.

The TPP represents significant mutual benefits for Mexico and Australia, along with the 10 other signatory nations. Opening access to broader markets will result in increased competition and therefore greater innovation across a range of industries, including those of mutual interest to Australia and Mexico, such as resources. It opens up new opportunities for two-way trade between the countries, as well as the sharing of skills and services.

Economists at the Peterson Institute for International Economics and Johns Hopkins University estimated that by 2025, the TPP would produce extra income in the world trade of US\$295 billion. In the particular case of Mexico and Australia, economists have pointed out that by 2025, Mexico could gain US\$21 billion in additional income, and Australia an additional US\$8.6 billion. By the same time, Australia could have increased exports by US\$14.9 billion, and Mexico by US\$31.5 billion.¹⁷

¹⁴ Trans-Pacific Partnership Agreement Outcomes at a Glance: <http://dfat.gov.au/trade/agreements/tpp/outcomes-documents/Pages/outcomes-at-a-glance.aspx>

¹⁵ Trans-Pacific Partnership Agreement Outcomes: Resources and Energy: <http://dfat.gov.au/trade/agreements/tpp/outcomes-documents/Pages/outcomes-resources-and-energy.aspx>

¹⁶ Trans-Pacific Partnership Agreement Outcomes: Resources and Energy

¹⁷ The Trans-Pacific Partnership and Asia-Pacific Integration: Policy Implications, Peter A. Petri and Michael G. Plummer, 2012, Peterson Institute for International Economics: <http://www.iie.com/publications/pb/pb12-16.pdf>

When eventually ratified, the TPP will strengthen the ties between the participating Asian nations and the Americas. It will substantially liberalise the economic barriers that exist between the regions today, and potentially lead to a free trade area in the Asia Pacific. In essence, the opportunities it creates for Mexico and for Australia, will be substantial and long-lasting.

Conclusion

In summary, Mexico offers substantial opportunities for business investment:

- It is part of the most significant economic bloc in the world – NAFTA – while also being the leading exporter of advanced high-technology manufacturing in Latin America¹⁸. It truly is the gateway between both Americas.
- It is endowed with an abundance of natural resources and minerals, with world class mining operations. It is the world's leading silver producer, the third largest copper producer in Latin America and second in the world in fluorite production¹⁹.
- It has a young skilled workforce, with a workforce of more than 52 million making up the 'economically active population' in 2014²⁰.
- Mexico is a relatively low cost operating environment.
- It has developed specialist, advanced skills to maximise its international competitiveness. This includes in aerospace, automotive manufacturing, information technology services, agriculture, food and beverages and electronics²¹

Finally, I started my speech today acknowledging the wisdom of the Mexican government for putting so much effort into actively reforming and growing its national economy, both through ProMéxico and other mechanisms and institutions. Outside of the TPP it should be acknowledged that Mexico's network of free trade agreements span 45 countries and more than 1.1 billion people.²² So, perhaps most importantly of all, Mexico is clearly 'open for business', with the backing of a reformist government actively seeking to lift the economic prospects and living standards for future generations.

Thank you.

¹⁸ ProMéxico: http://www.promexico.gob.mx/documentos/pdf/Mexico_PMX_2015_WEB.pdf

¹⁹ ProMéxico: http://www.promexico.gob.mx/documentos/pdf/Mexico_PMX_2015_WEB.pdf

²⁰ ProMéxico: http://www.promexico.gob.mx/documentos/pdf/Mexico_PMX_2015_WEB.pdf

²¹ As above, and Austrade Mexico country profile: <http://www.austrade.gov.au/Australian/Export/Export-markets/Countries/Mexico/Doing-business>

²² ProMéxico: http://www.promexico.gob.mx/documentos/pdf/Mexico_PMX_2015_WEB.pdf