



Importance of the U.S. – Mexico Trade Relationship

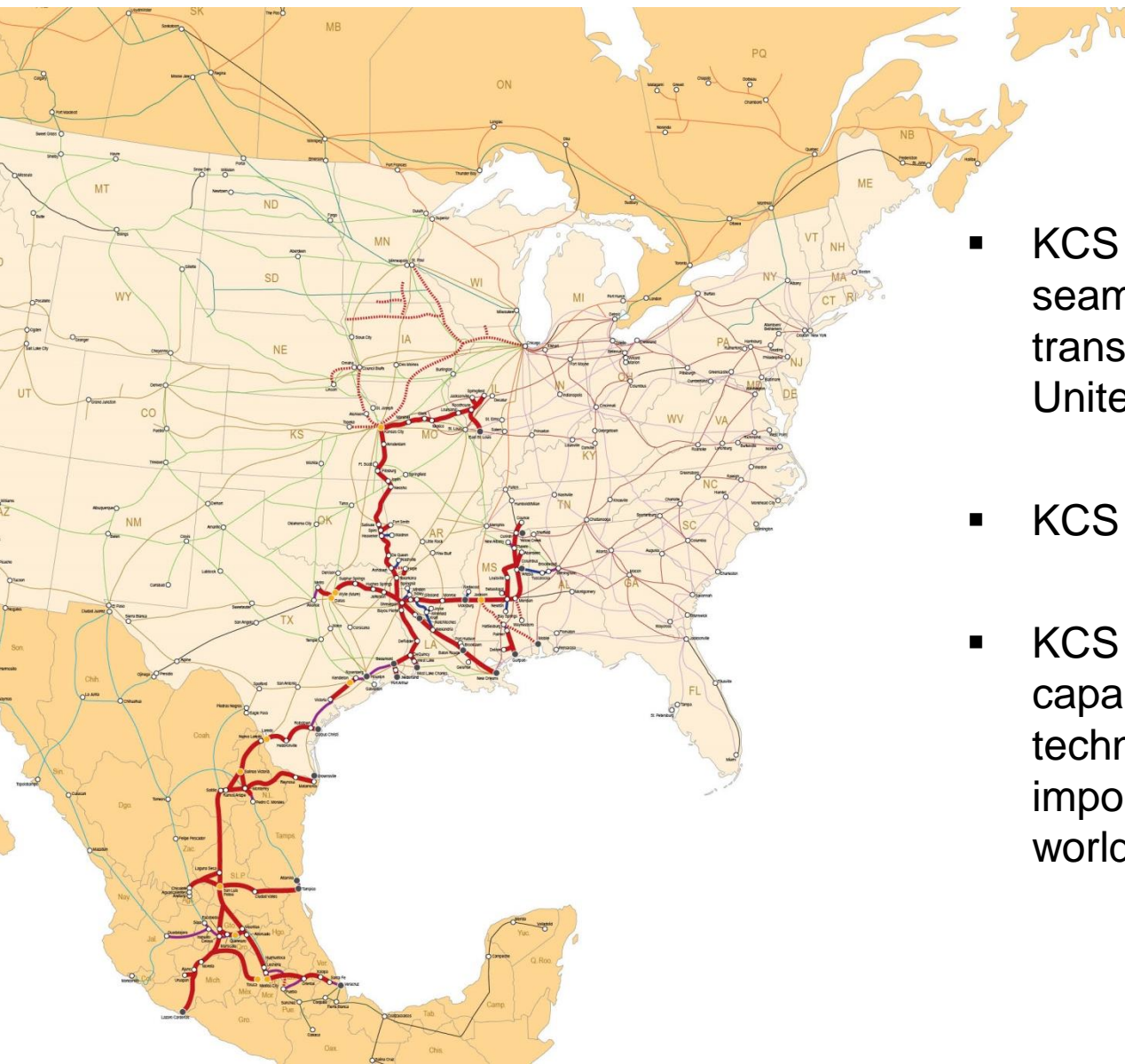
Pat Ottensmeyer, President and Chief Executive Officer

The Kansas City Southern

TEGMA Fall Symposium

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KCS Rail Network: Seamless Trade Route



- KCS creates vital arteries and a seamless mode of transportation between the United States and Mexico
- KCS is committed to Mexico
- KCS consistently invests in capacity, rolling stock, security, technology, and most importantly people to create a world class rail road in Mexico.

Investment in Mexico

*Over the life of the twenty-year concession KCS has invested over **\$4.5 billion** in Mexico's transportation system.*



KCS provides vital capacity for North American production sharing

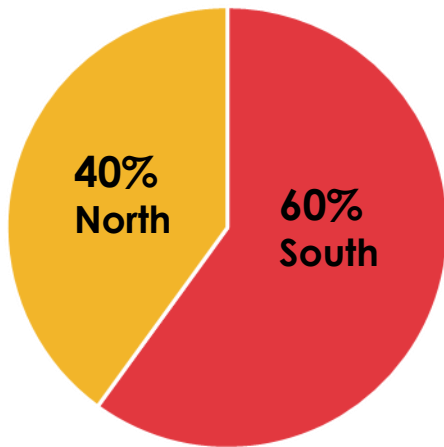
KCS Cross-Border Traffic

Total KCS Cross-Border Traffic

Includes both:

- *KCS Cross-Border*
- *KCS Cross-Border, Interchange*

Volume Breakdown:



Southbound Movements (60%)

- Car Parts (for use in finished vehicles)
- Grain & Food Products
- Intermodal
- Industrial Materials

Northbound Movements (40%)

- Intermodal
- Finished Vehicles

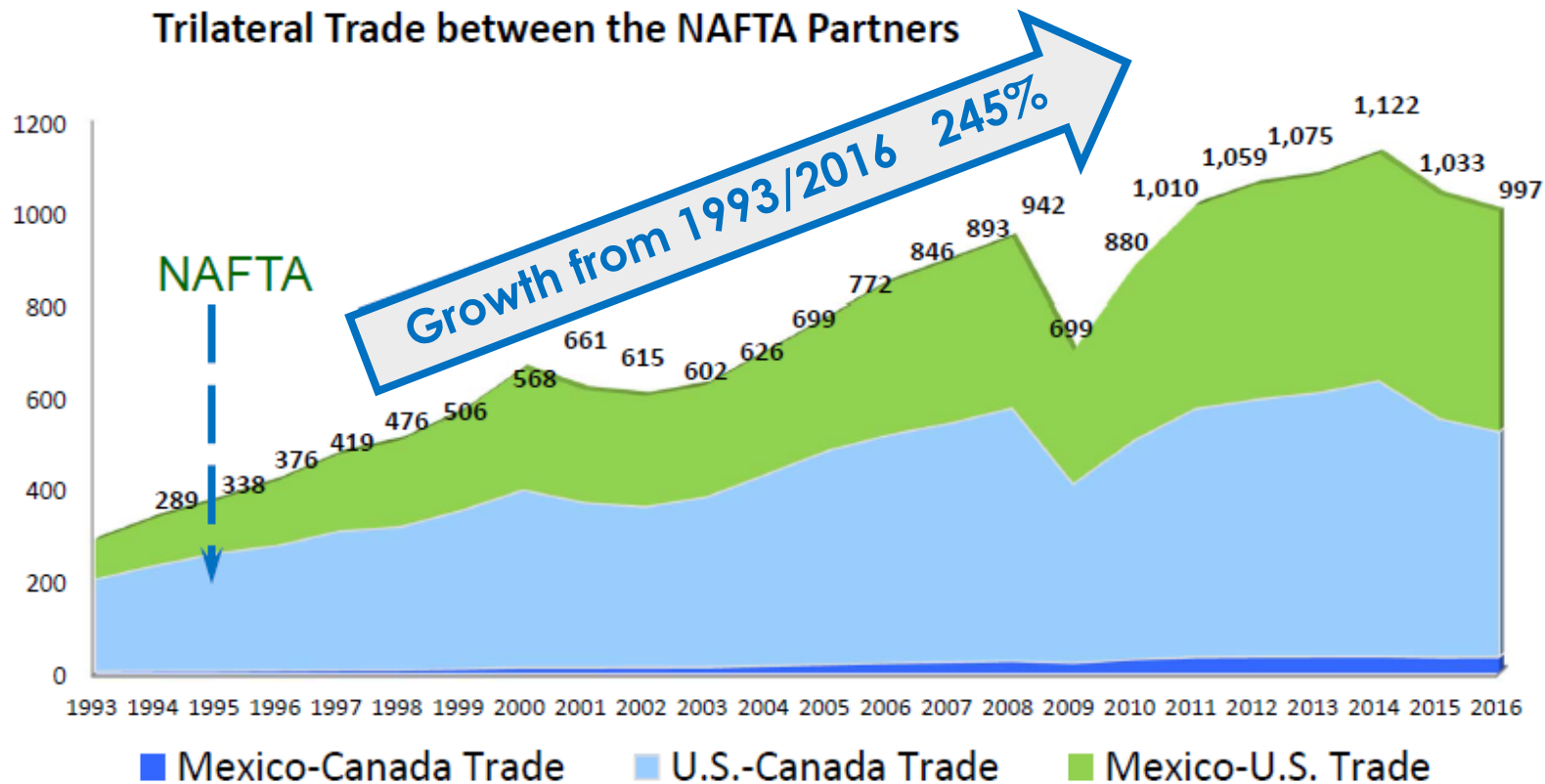
Modernization of NAFTA is a worthwhile goal, but should not come at the expense of disrupted Trade Flows

Impact benefits the agreement currently provides including:

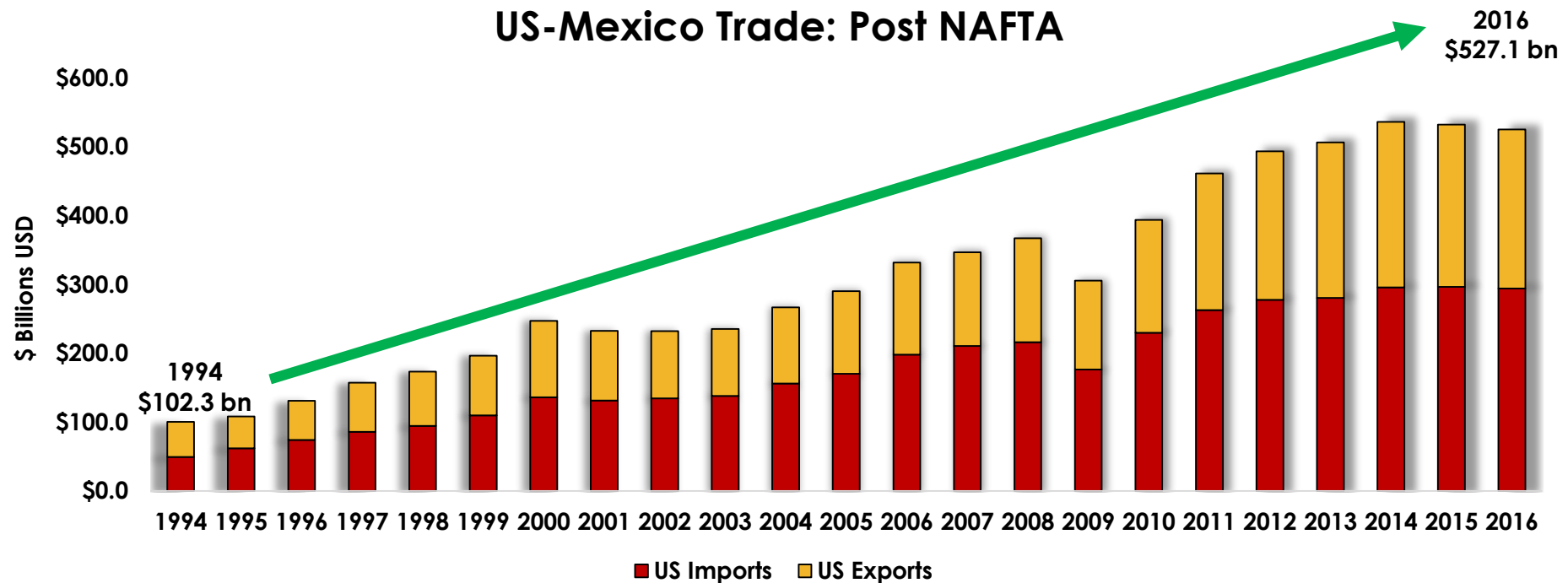
- **Over \$1trillion in annual trade**
- Trade between the U.S./Mex. has **nearly quadrupled** since NAFTA was implemented; critical to U.S. economy
- **14 million U.S. jobs are supported by NAFTA**
- NAFTA has been a bonanza for U.S. farmers and ranchers, helping U.S. agricultural exports to Canada and Mexico to increase by **350%**.
- Canada and Mexico are the top two export destinations for U.S. small and medium-size enterprises, **more than 125,000** of which sold their goods and services in Canada and Mexico in 2016.

Trade Under NAFTA - \$1 Trillion

Trilateral trade has more than tripled, reaching nearly \$1 Trillion in 2016



US-Mexico Trade Growth



Trade expansion promotes prosperity by:

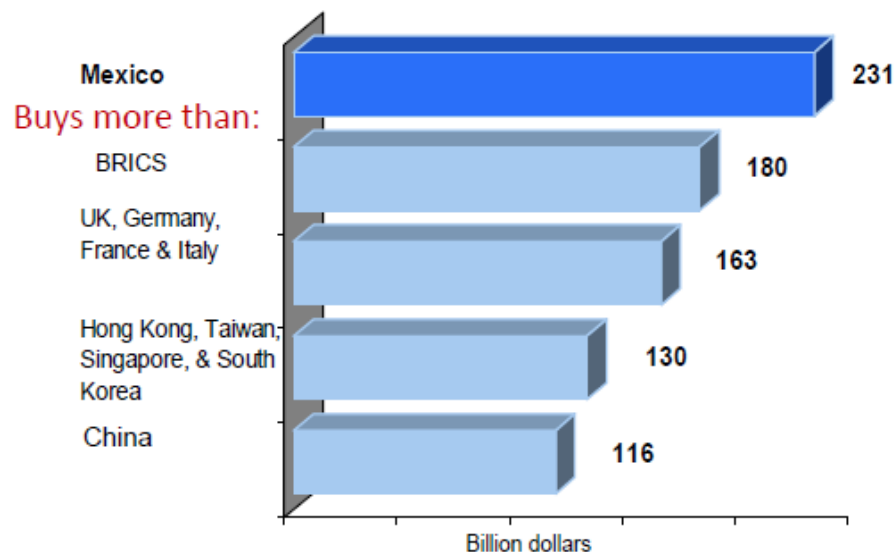
- Supporting more productive, higher paying jobs in our export sectors
- Expanding the variety of products for purchase by consumers and business
- Encouraging investment and more rapid economic growth

Mexico is the U.S.'s second-largest Export Market and second-largest Supplier of Goods

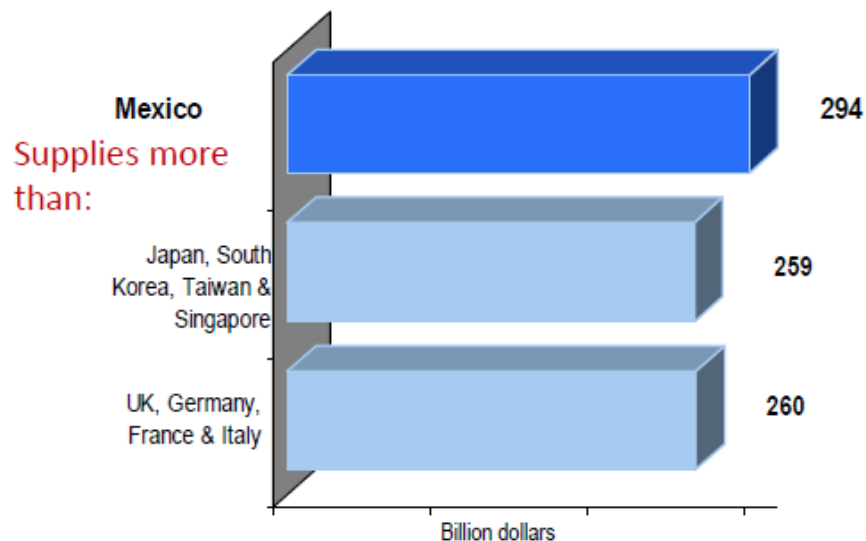
U.S. exports to Mexico reached \$231 Billion last year, which represents more than 16% of its sales worldwide.

U.S. imports from Mexico reached \$294 Billion. Mexico has a market share of 13% of U.S. total imports.

U.S. Exports 2016

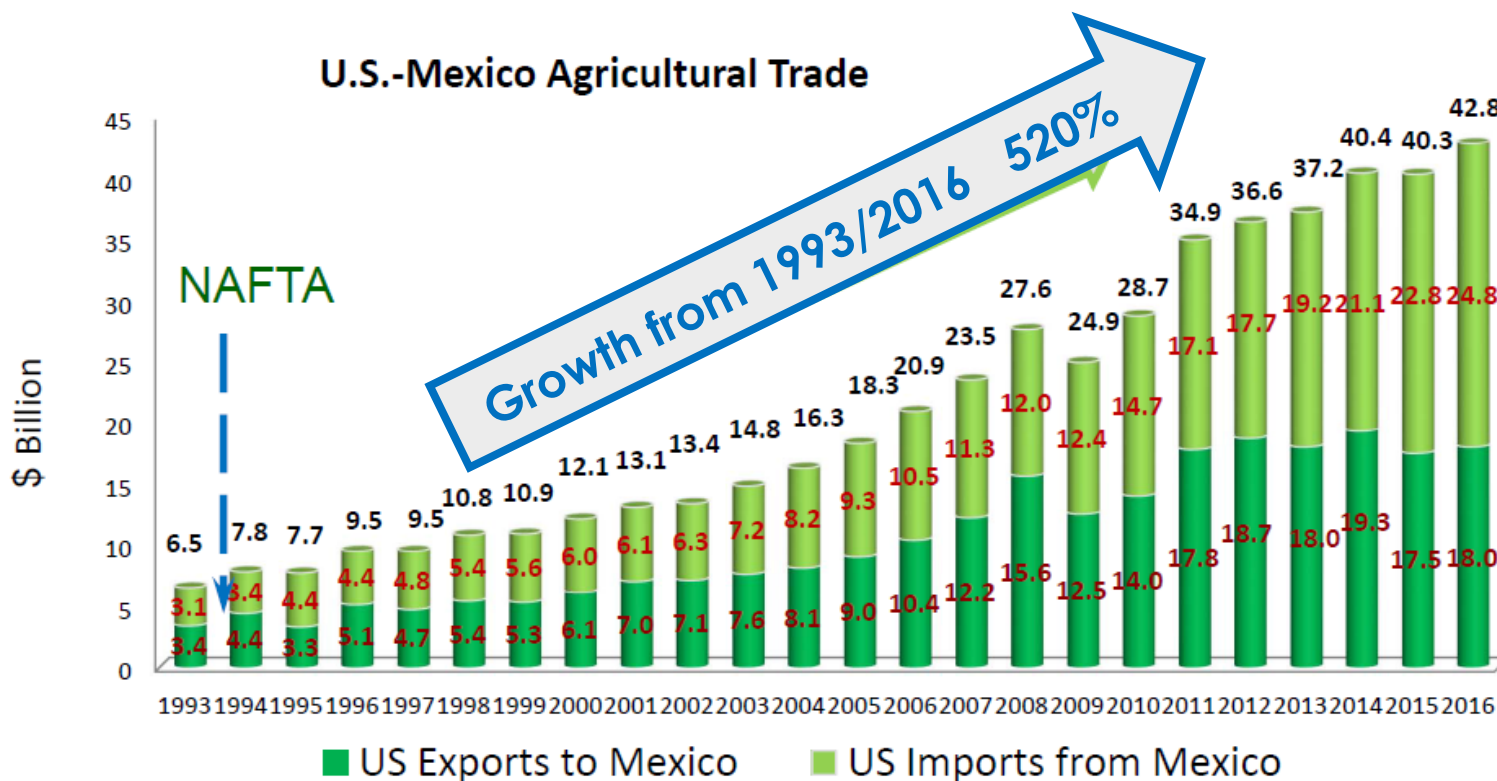


U.S. Imports 2016



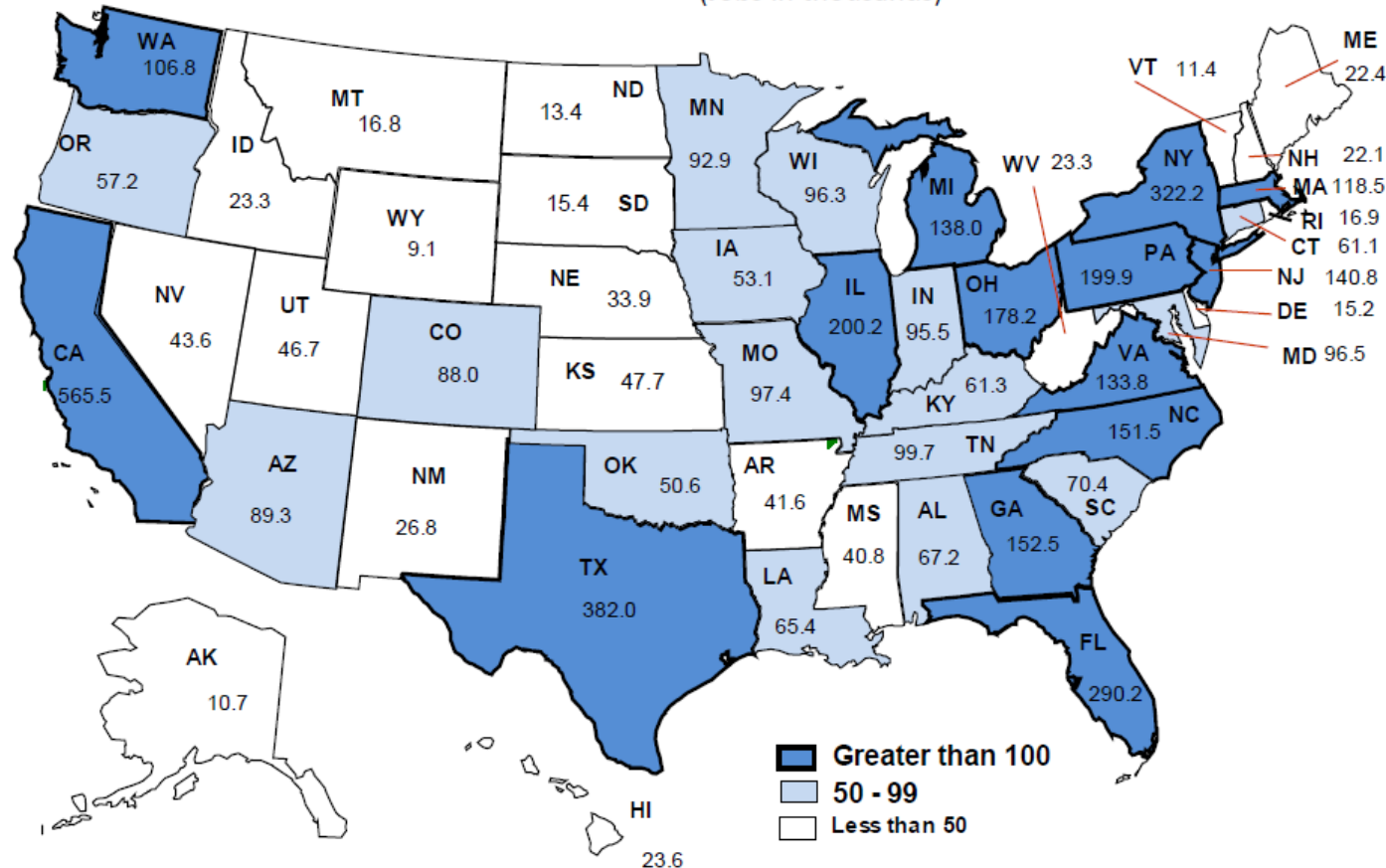
U.S. – Mexico Agricultural Trade has multiplied by five since NAFTA

Mexico is the 3rd destination for U.S. agricultural products and its 2nd largest source of imports



Nearly 5 million U.S. jobs depend on Trade in Good and Services with Mexico

U.S. Employment Related to Trade in Goods and Services with Mexico
(Jobs in thousands)



How Dependent U.S. Counties are on Trade: Exports as a Proportion of the Local Economy



Key Objectives for NAFTA modernization

First, we must do no harm

- Interrupting the \$1.3 trillion in annual trade across our borders or reverting to the high tariffs and other trade barriers that preceded NAFTA would be devastating for workers, farmers, and companies in the United States and the 14 million U.S. jobs supported by NAFTA.

Second, we must move quickly

- Uncertainty about the future of America's terms of trade with Canada and Mexico would suppress economic growth and create political reactions that undermine U.S. exporters.

Third, keep the agreement trilateral

- Maintaining NAFTA's three-party framework is critical as transitioning to entirely new bilateral agreements presents real risks. Such a transition could disrupt the flow of commerce and cost jobs.

Fourth, use NAFTA's amendment procedures.

- Use NAFTA's amendment process (Article 2202) to improve the agreement in an expedited fashion that minimizes risk of disruption to trade

Fifth, continue to follow TPA (Trade Promotion Authority) process

Opportunities for Future US Export Growth

Agriculture

- Mexico is an incredibly important export market for U.S. agriculture.
- U.S. has consistently run a surplus in agricultural trade with Mexico.
- KCS acts as a link between the two markets, transporting agricultural products from the American heartland to Mexico.

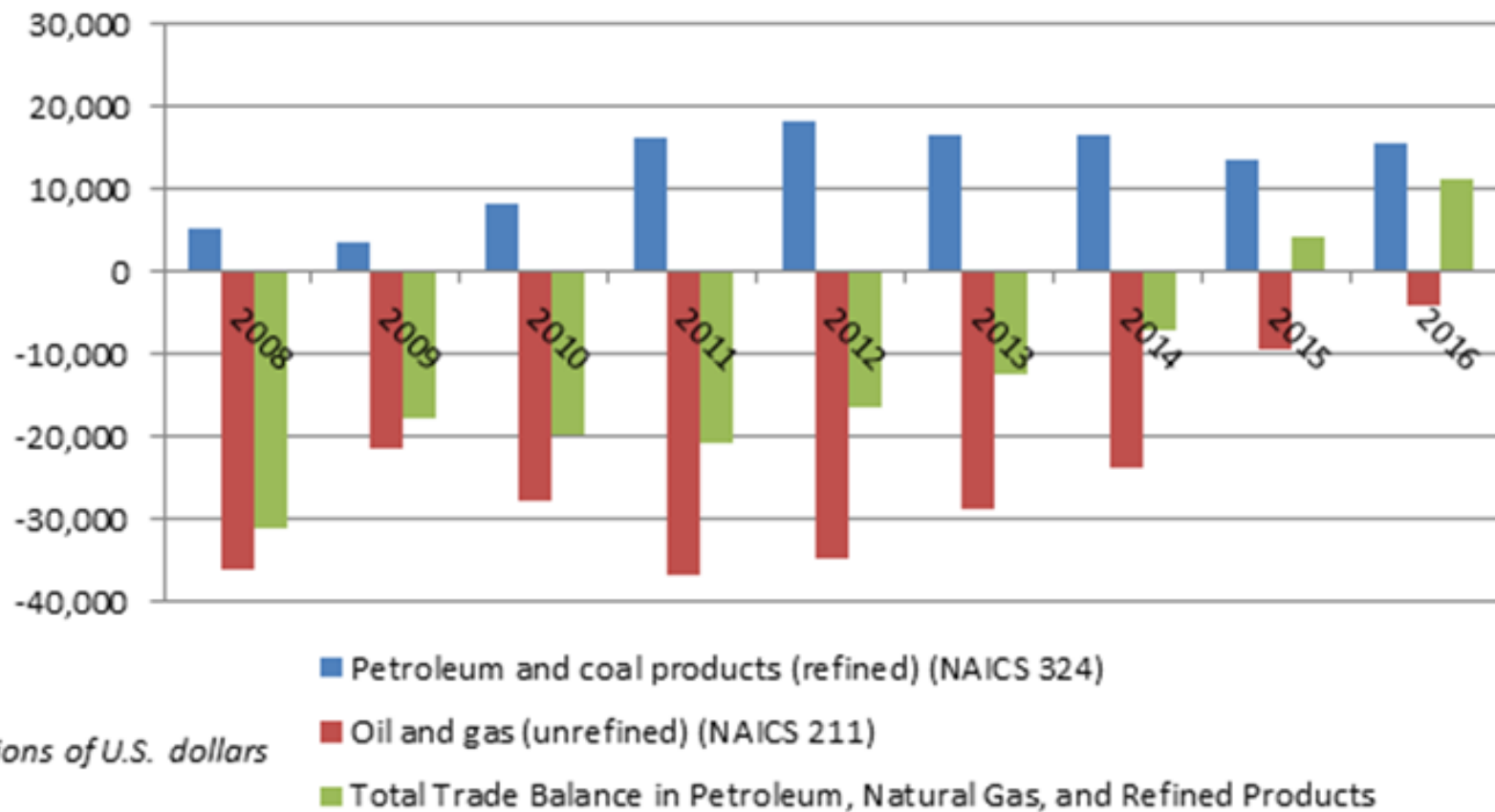
Services

- The U.S. trade surplus in services was \$37 billion in 2015 not currently included in NAFTA.
- Modernization of NAFTA will grow our services exports even further, particularly in terms of modernized data flows and their impact on financial services and other sectors, in addition to modernized express delivery standards.

Energy, Petrochemicals, Plastics

- Surging petroleum, refined petroleum products and natural gas exports from the U.S. to Mexico have turned a deficit in annual U.S. sectorial trade into a surplus.
- Combination of Mexico's ambitious reforms to liberalize its energy sector and the Trump administration's efforts to do the same through policy action in the U.S. portend even greater growth in U.S. energy exports to Mexico

From Deficit to Surplus: U.S. Trade Balance with Mexico in Petroleum, Gas, and Refined Products



Refined Products and LPG Exports from the US to Mexico



Importation of Refined Products

- Increasing demand
- Ability to exports from U.S. refineries
- Destination terminals in place on KCS network



Importation of LPGs

- LPG shortages exist
- 8 out of 10 Mexico homes use LPG for heat, cooking, etc.
- Some terminals to have LPG storage

KCS NAFTA Negotiation

June, 2017

- Testified before the **U.S. Trade Representative (USTR)** Hearing on NAFTA Modernization
- Testified on behalf of the **U.S.-Mexico CEO Dialogue Strategic Trade Initiative Working Group**
- Testified before the **U.S. House Ways & Means Trade Subcommittee** Hearing on NAFTA Modernization



KCS NAFTA Negotiation

- **Arranged over 25 meetings/contacts with senior U.S. officials and multiple CEO Dialogue and public official briefings**
 - U.S. Secretary of Commerce Wilbur Ross and Mexican Secretary of the Economy Ildefonso Guajardo spoke to the 8th semi-annual Dialogue on need to modernize NAFTA but to “do no harm” to the tremendous current benefits of the agreement.
 - KCS joined 31 other CEOs in a May 25 letter to President Trump, offering support to modernize NAFTA without disrupting current trade flows.
- **Trilaterally negotiations underway with stated hope of concluding by end of year**



