



## **Importance of the U.S. – Mexico Trade Relationship**

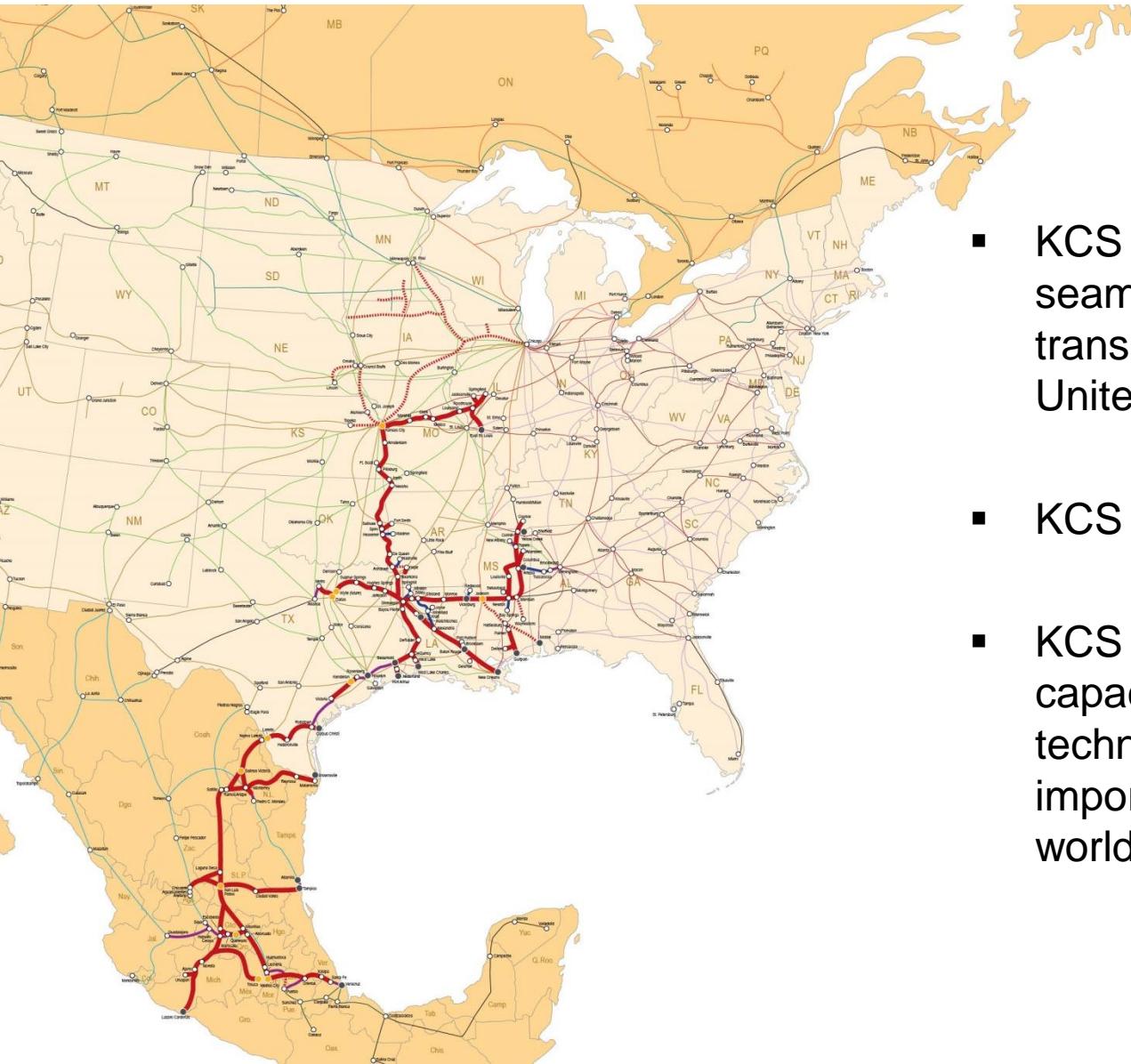
**Pat Ottensmeyer, President and Chief Executive Officer**

**The Kansas City Southern**

**TEGMA Fall Symposium**

**September 15, 2017**

# 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**

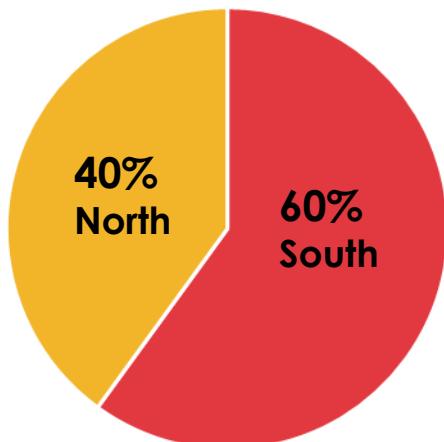
# KCS Cross-Border Traffic

## 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

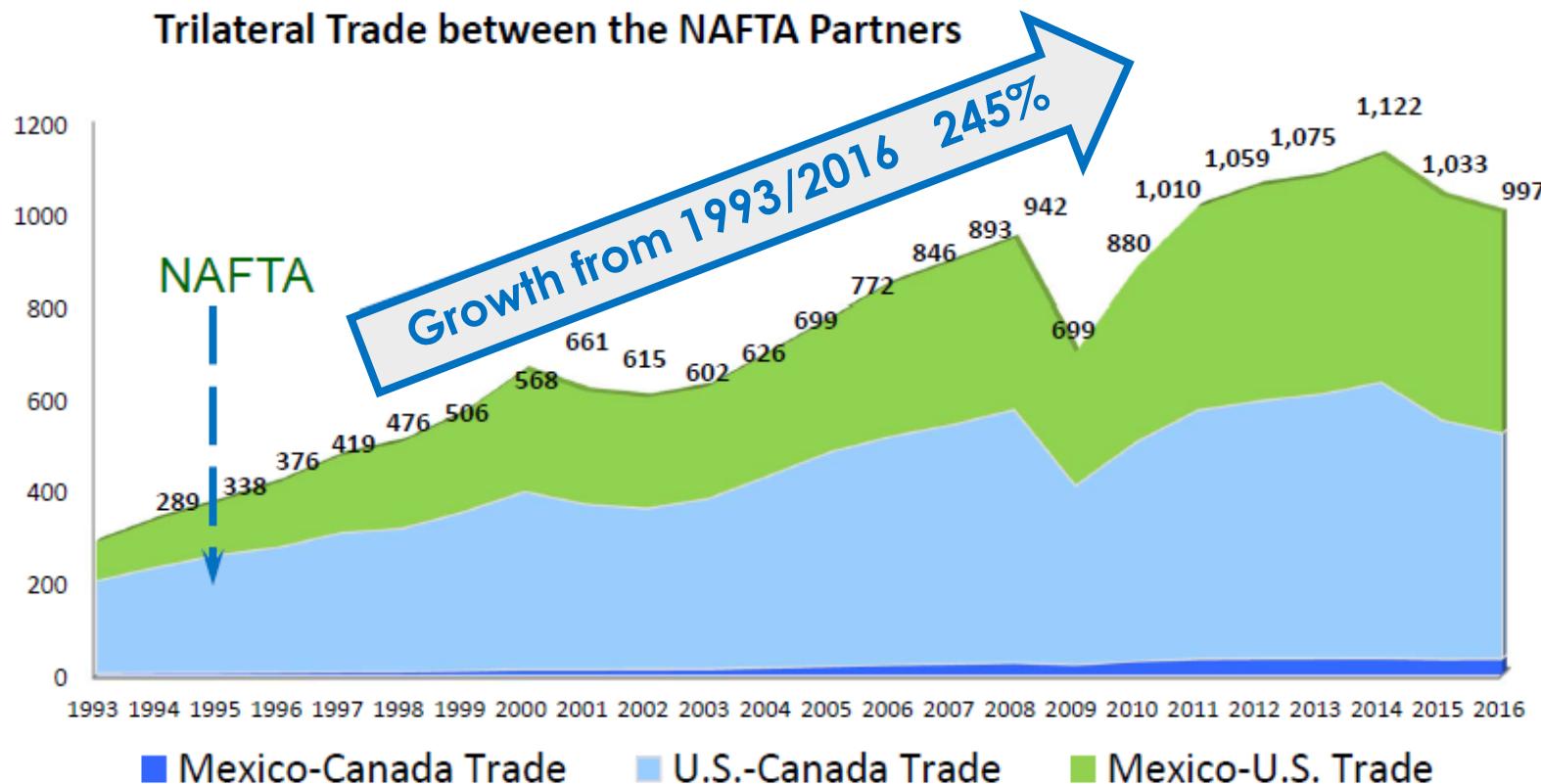
# Modernization of NAFTA is a worthwhile goal, but should not come at the expense of disrupted Trade Flows

Impact benefits the agreement currently provides including:

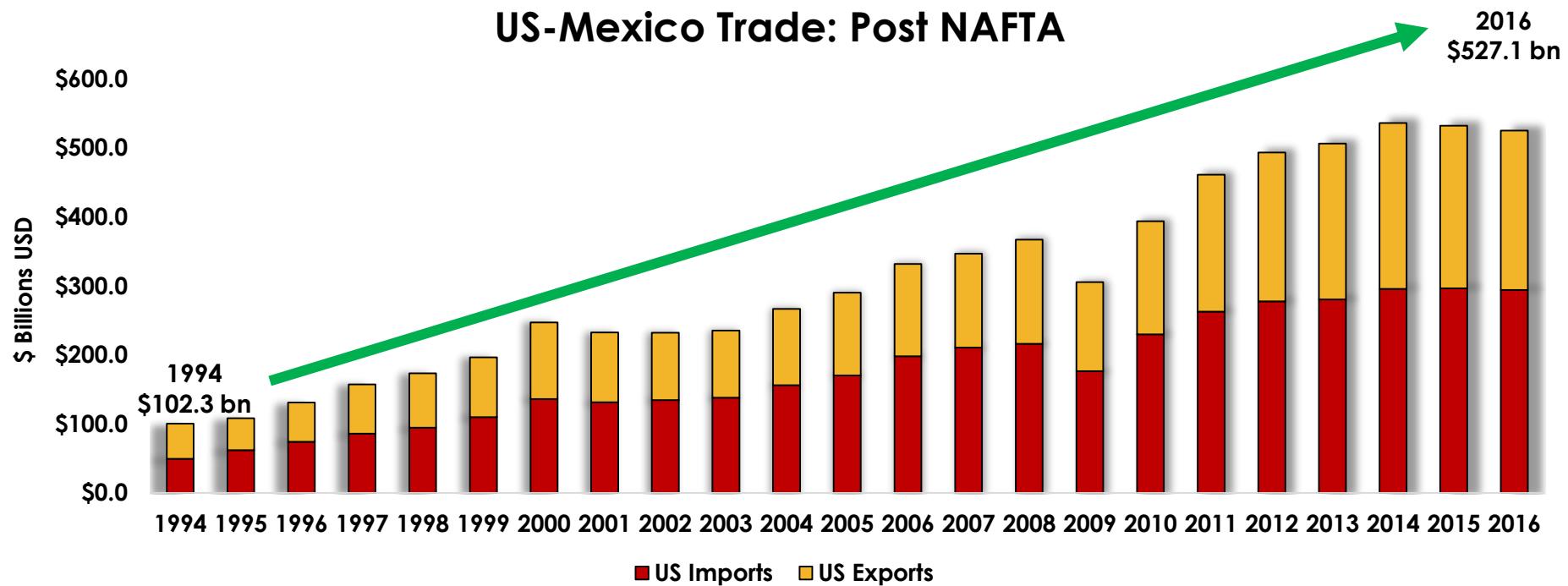
- **Over \$1trillion in annual trade**
- Trade between the U.S./Mex. has **nearly quadrupled** since NAFTA was implemented; critical to U.S. economy
- **14 million U.S. jobs are supported by NAFTA**
- NAFTA has been a bonanza for U.S. farmers and ranchers, helping U.S. agricultural exports to Canada 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



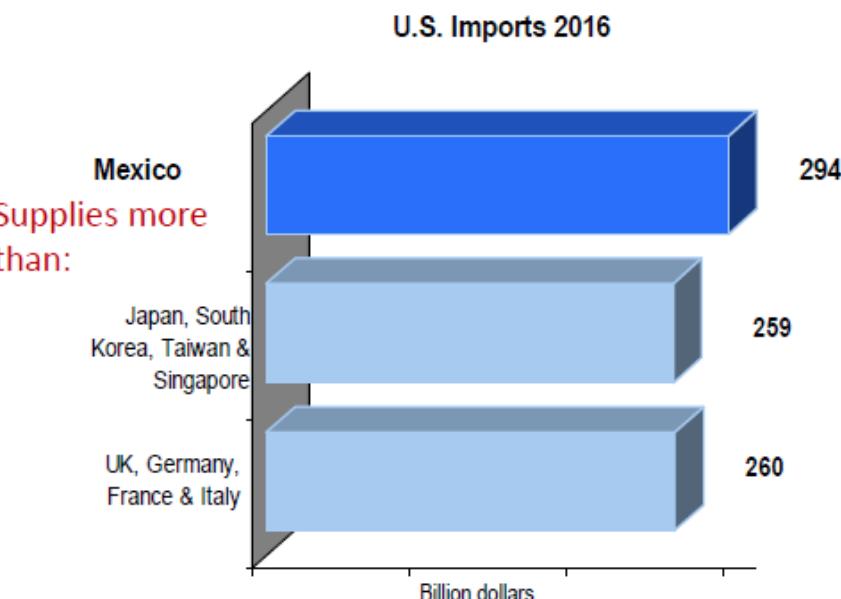
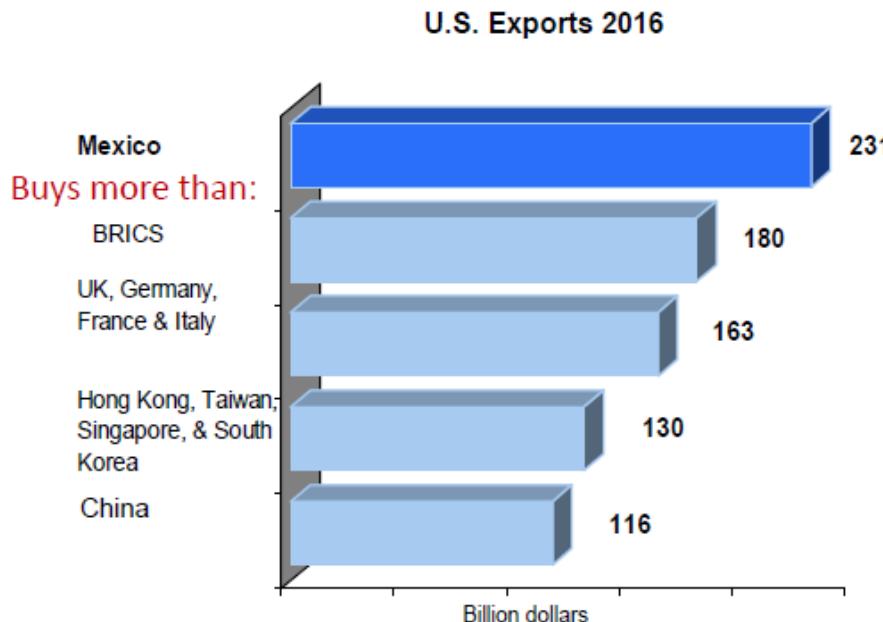
### Trade expansion promotes prosperity by:

- 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

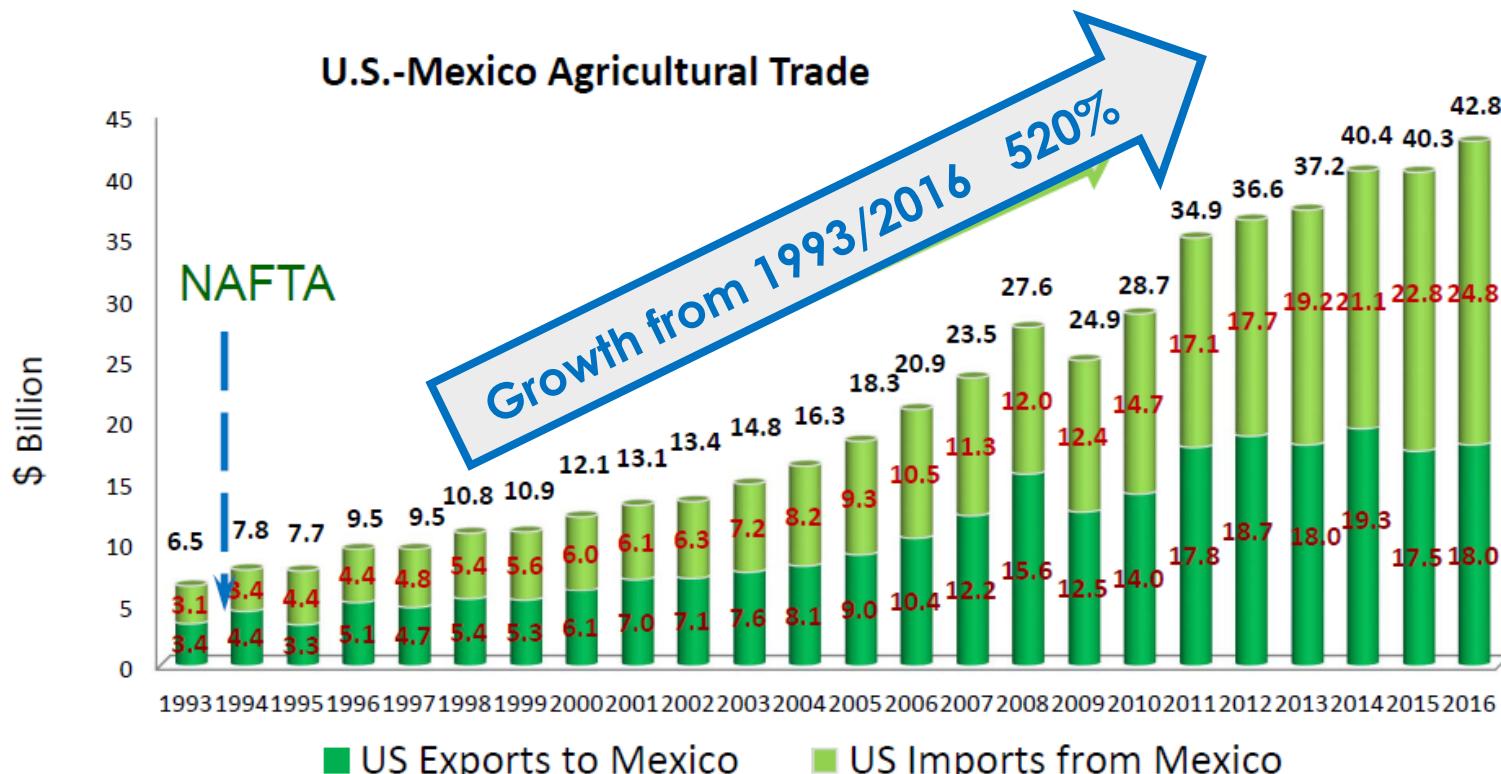
U.S. exports to Mexico reached \$231 Billion last year, which represents more than 16% of its sales worldwide.

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



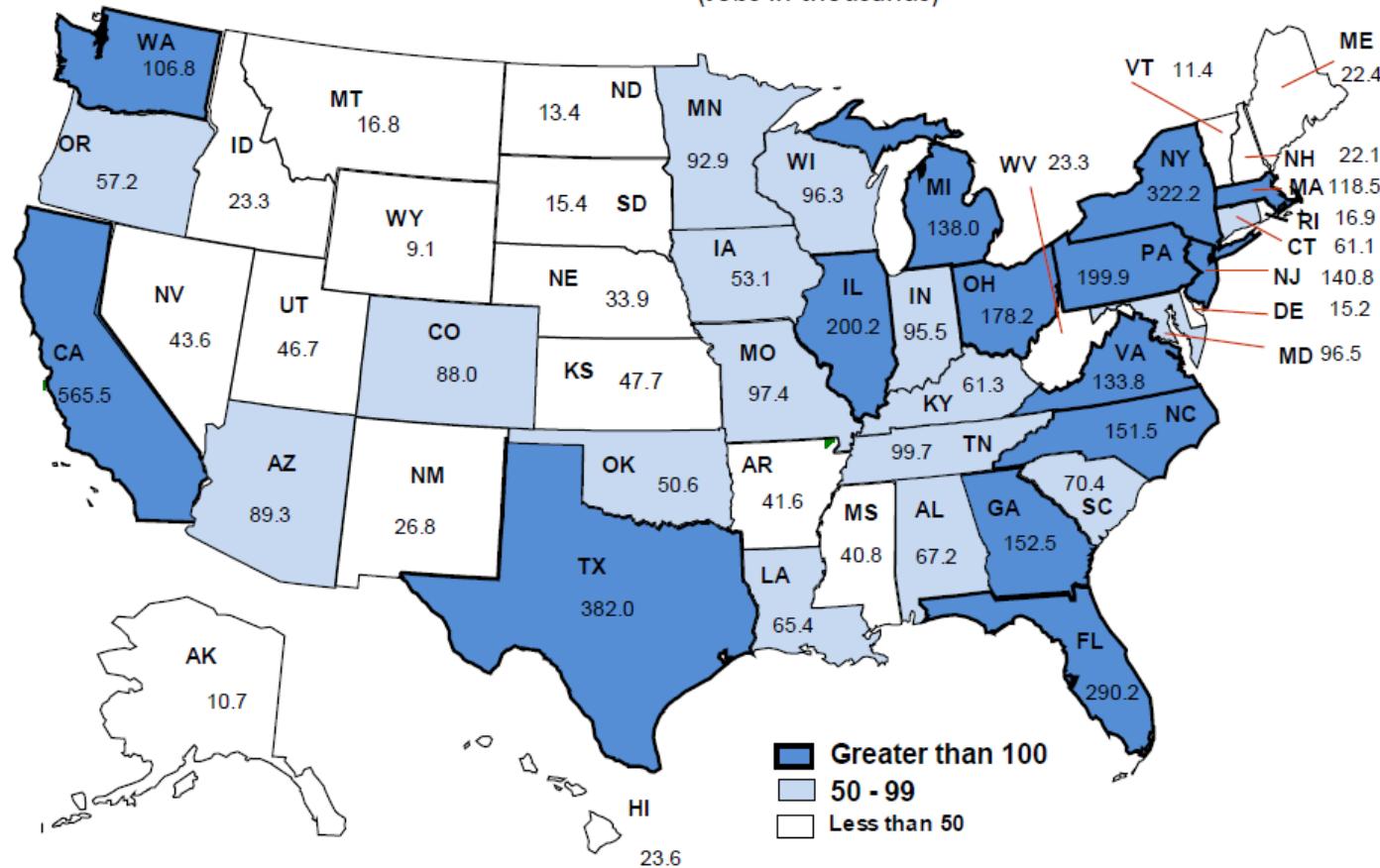
# U.S. – Mexico Agricultural Trade has multiplied by five since NAFTA

***Mexico is the 3<sup>rd</sup> destination for U.S. agricultural products and its 2<sup>nd</sup> 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.

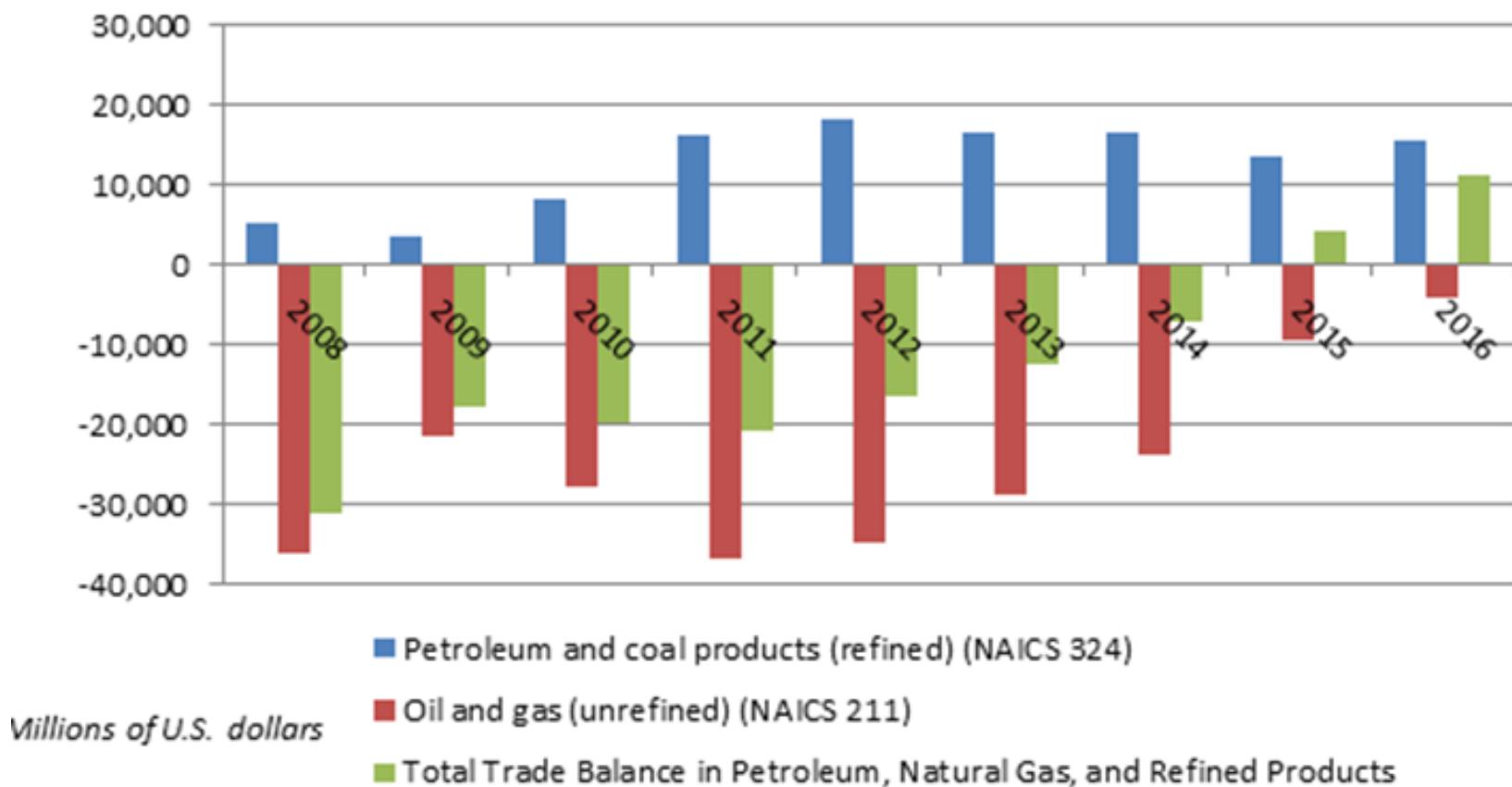
## Services

- 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**



