

THE BROOKINGS INSTITUTION

THE OBAMA-PEÑA NIETO MEETING:  
CRITICAL ISSUES IN THE UPCOMING U.S.-MEXICO TALKS

Washington, D.C.  
Thursday, April 11, 2013

**PARTICIPANTS:**

**Introductory Remarks:**

ARTURO SARUKHAN  
Former Ambassador of Mexico to the United States

**Moderator:**

DIANA VILLIERS NEGROPONTE  
Nonresident Senior Fellow  
The Brookings Institution

**Featured Speakers:**

DUNCAN WOOD  
Director, Mexico Institute  
Woodrow Wilson International Center for Scholars

CHRISTOPHER WILSON  
Associate, Mexico Institute  
Woodrow Wilson International Center for Scholars

CATALINA PÉREZ CORREA  
Scholar  
Centro de Investigación y Docencia Económicas

\* \* \* \* \*

## P R O C E E D I N G S

MR. INDYK: Good afternoon, everybody. I'm Martin Indyk, the Director of the Foreign Policy Program at Brookings. Welcome to Brookings this afternoon. It's great to see you all here. I'm delighted to have the opportunity to introduce this event today which is to look at the upcoming visit of President Obama to Mexico and his meeting with President Peña Nieto.

In order to have that discussion of course we need to put it into perspective of the US-Mexican relationship. The President, this is his second trip abroad in his second term. The first, of course, was the long awaited and long overdue visit to Israel but he's been to Mexico in his first term. But going there so early in his second term is a manifestation of the importance of the US-Mexican relationship.

And its importance really lies in four areas, the contributed that trade between the US and Mexico makes to US exports and creation of new jobs in this country, the role that Mexico plays in the whole issue of immigration which is front and center today on Capitol Hill when it comes to immigration reform legislation with a potential for a historic breakthrough there. Thirdly, in terms of the Trans-Pacific Partnership, the new trade agreement that is critical to President Obama's whole pivot strategy towards Asia. We often forge that the Trans-Pacific Partnership is a partnership with all of our Pacific neighbors and that, of course, includes very importantly Mexico and Canada and their involvement in the TPP is something that I think is critically important to its success and obviously the US-Mexican relationship plays a crucial role there.

And finally, of course, there is the concern that we have about the violence and public insecurity in Mexico. In which the United States has an important role to play in terms of making it a shared responsibility in which cooperation between the United States and Mexico is absolutely essential to helping to deal with this very real

challenge.

All of these issues are addressed in a book that is about to be published by Brookings. I wish that we'd been able to bring it to you today but the President is going to Mexico sooner than we predicted in that regard. But it will be out in late May. It's called "End of Nostalgia: Mexico Confronts the Challenges of Global Competition." And the panel discussion that we're going to have today includes three of the authors of that book.

So, in some ways, this is not just a preview of President Obama's trip to Mexico. It is also a preview of this excellent Brookings publication. But before we get into that panel discussion we are very honored and I'd say personally delighted to welcome Ambassador Arturo Sarukhan. And he is probably known to you all as the former Mexican Ambassador to the United States where he played an incredibly important role in the strengthening of the US-Mexican relationship in so many creative and innovative and important ways. And we're very proud that Ambassador Sarukhan, now that he's left his government employment, has joined the Brookings Institution as a Distinguished Affiliate both in the Foreign Policy Program where he's working with us on our Latin American initiative and in the Metropolitan Program which has a big project on global cities. And one of the global cities of the Metropolitan Program is going to be focusing on is Mexico City and Ambassador Sarukhan is going to be working with us on that as well.

He is now also Chairman of Global Solutions which is a strategic consulting and risk assessment firm here in Washington. He's served as Mexican Ambassador to the United States from January of 2007 to January of this year. He was educated at El Colegio de México and across the road at Johns Hopkins SAIS. He is clearly the expert on the US-Mexican relationship. And we're delighted to have him here

on his kind of debut at Brookings as a Distinguished Affiliate but I'm really looking forward to welcoming you to the podium many times. So, Arturo, thank you very much. Welcome.

AMBASSADOR SARUKHAN: What an honor to not only come out as on my first public event at Brookings as a new Distinguished Associate but to have the Vice-President of the Foreign Policy at Brookings keynote and kick off this panel which I think is extremely timely. And as Martin has said in his remarks it is the second trip that President Obama does after having been re-elected, the first one being Israel. The second one is now to Latin America, Mexico, Costa Rica; Costa Rica, where he will meet with hopefully all of the Central American Presidents.

I think it is a very timely moment to sit down with them because of some of the unique challenges that we're seeing in the Central American region. Some of them that have a direct connection to some of the challenges in Mexico and the United States have faced in previous years especially as it comes to organized crime or what I colorfully call the drugs and thugs portfolio.

But I think, you know, I'm no longer the Mexican Ambassador but still as a diplomat and a Mexican, I do want to highlight what has been a consistent trend of this administration. President Calderón was the only President that met with then President-elect Obama in Washington. President Obama did his first trip in Latin America to Mexico. President-elect Peña Nieto was the first future head of state that met with President Obama after President Obama's reelection in November. And now the first trip that President Obama does to the region is to Mexico.

I think it's a very telling tale of the very important investment that this administration that the White House is involved in in its relationship with Mexico and it builds upon the very positive and synergistic relationships that existed between Mexico

and the Bush 43 Administration. So, I think this is a very important pattern that we have to recognize.

I think the visit to Mexico comes at a unique moment. A unique moment because of what is happening in the US. A unique moment because of what is happening in Mexico and at a unique moment because of what has happened in the US-Mexico relations over the past six, seven years. Because of what's happening in the US, you don't have to be rocket scientists with some of the debates taking place here on the Hill as to the importance of this trip happening early May when we have an immigration bill that is slower than some of us would like to see but is making its way into the daylight in the Senate. The massive demonstration that we had yesterday on Capitol Hill in favor of comprehensive immigration reform, the debate over gun control and gun safety which again all of you in this room know has a fundamental bearing on security and wellbeing in Mexico and Central America.

This is, I think, a propitious moment for the President to go down because these two issues which have been the drivers of how most Latin American and certainly Central American and Mexican nations have looked at US foreign policy towards the region are finally moving forward. We don't know the outcomes. We don't know what will happen with immigration reform in the Bill that hits the Senate and then eventually goes to the House. We're still waiting to see what will happen with the whole gun control, gun safety debate whether it's just going to be background, universal background checks, a critically important piece for Mexico but whether another important piece which is an assault weapons ban is to have any oxygen or not.

But I think in terms of what is happening on these two fronts in the United States, the visit couldn't be timelier. The role of the Latino voters in the Presidential elections of 2008, this is the true political coming of age of the Latino community in the

United States. There is no doubt today in anyone's mind that the Latino vote did give the Party in power today the victory.

And this is also very relevant simply because we've got 35 million Mexican-Americans living in the United States. And we've got increasingly a trans-national, trans-border community that plays a very significant role in the domestic politics of both nations.

And then finally, the US economy seems to be picking up. Indicators are improving and as this happens, you again have the opportunity of building upon the success story that this two-way trade and economic relationship with Mexico since NAFTA can deliver. I've said it before. I said it in my previous incarnation as Ambassador. I will continue to say it as a private citizen. President Obama was absolutely right to parade the ability to prevent Detroit, the automotive industry in the United States, from going over the cliff after 2009.

And it was, in part, the stimuli programs that were put in place by the Bush Administration, the follow-up to those stimuli programs that were put in place by the Obama Administration. But the fact is that after 2009 when everyone thought that the automotive industry in the United States was going to completely collapse, we have a very robust and healthy industry. In part because of these integrated supply and production chains that have been developed in North America, in Canada, Mexico and the United States. And which Chris, in his book and report has talked about extensively.

And so, as the US economy starts to come out of the doldrums, the discussion of how do these two neighbors and these two complimentary economies continue to build upon the success of NAFTA is going to be very important. So, the timeliness of what is happening in the US, of what is happening in Mexico, a new administration, new administrations always provide an opportunity to rethink, the revisit

issues with a fresh look but on top of this, the fact that you have a Mexican President that is moving the agenda forward. He is moving the hands of the clock forward.

There are a number of reforms that are being pushed forward. The pipeline of potential additional reforms, there had been teed up for the second part of this year critically energy reform which is one piece that everyone is watching carefully. The decision by the President to take on some of the factic powers in Mexico whether in the private sector of they're in the public sphere of life I think has captured the imagination of many of us around the world. The cumulative effect of economic policies that were put in place by Presidents Zedillo, Fox, Calderón and now Peña Nieto that have turned the headlines and turned the narrative on Mexico as to the potential economic prowess and growing economic strength of Mexico in the global economy.

So, in terms of, and of course, the ability to cobble a political coalition together in Mexico which is underpinning some of these reforms that are being put on the table. And then also, the timing is exquisite because of what we've done in the US-Mexico relationship over these past years. I think this relationship has seen a seismic shift in its direction, in its muscle tone, in its traction and the ability of these two Presidents to use for the second administration, four more years in the US and six full years of the Mexican President to really build upon this tectonic sea change that has occurred in the US-Mexico relationship over these past years make, I think, the visit unique.

In many ways I would read it, if I was a political pundit, or I was writing political columns in US or Mexican press, I think this is an acknowledgement by the US President by going down to Mexico of the importance of Mexico but also of the decisiveness with which Mexican political parties and the President are starting to address some of the structural challenges that Mexico needs to address to really become

an economic powerhouse in the world and in the region.

The visit will also, I think, help to dispel misperceptions and correct narratives. And I will continue to say this again. While security had and has been at the center of the Mexico-US agenda over the past six years, the agenda and the bilateral relationship was much more than just security. And all of the things that have been achieved these past six years whether it's in starting to revamp a completely outdated and outmoded border infrastructure, whether it's setting the template for what could happen if Mexico does go forward with energy reform by having negotiated Mexico and the United States in a record 11 months a trans boundary resources agreement in the Gulf of Mexico to jointly exploit and tap into oil in the Gulf of Mexico is a critical part of this.

Water is heating up again in the Rio Grande Basin but in the Colorado River Basin we achieved a historic five year agreement that has prevented us from having the types of challenges and disputes that are now starting to come to the fore in the Rio Grande Valley by having signed with the United States and with the Colorado River Basin States in the US a holistic water management agreement that allows us to store water, to invest in infrastructure, to be able to share water when one -- there's scarcity on one side of the border. To be able to have Mexican water because of the Mexicali earthquake that damaged a lot of the water infrastructure, to have Mexico deposit its surplus water in Lake Mead which is the US water bank that will allow both countries to intelligently focus on water and scarce water resources in the region.

I'm getting the time signal from Diana, so I will very, very quickly go down the list. The huge opportunity of debunking the myth that trade is bad and NAFTA has been bad. Look at the numbers. I'm not going to go into them. Chris has written splendidly about this. Duncan has written about this and spoken about this, how we



ensure the people stop treating NAFTA with a ten foot pole. Fully embracing what this trade relationship has done and what TPP, the Trans-Pacific Partnership and the TTIP, the European Union-US agreement can do to enhance competitiveness in North America.

It will certainly allow us also to underscore the relevance of Mexico to US grand strategy. And I will continue to say what I've said for six years. There's no country more important for the future security, prosperity and wellbeing of the United States on any given day than the relationship with Mexico. And so, I think that this visit will allow both Presidents to build successfully on this issue. I have a list of seven or eight items which I think both Presidents should be looking at as they think of their meeting in Mexico City; trade facilitation and border infrastructure, how do Mexico and the United States engage first on the TPP but then how does Mexico make the case as to why we need to be involved in the EU-US trans-Atlantic negotiations, Mexico being the only country that already has a free trade agreement with the European Union. So, this is another important issue.

Energy, renewable, North American security in energy, North American independence in energy and then hopefully having the US Government submit the trans-boundary agreement to Senate ratification or agreement depending on what tool they use before going down to Mexico. It would be a spectacular deliverable if the Administration could have this wrapped up or at least teed up before they go down to Mexico.

Educational exchange is the Mexican government President Peña Nieto, Jose Antonio Meade the Foreign Minister are absolutely right to focus on the importance of detonating educational exchanges. I find it, as a former Fulbright Scholar in the United States; I find it absolutely stunning that Mexico today has fallen to fourth place in the number of Fulbright Scholars that it sends to the United States and Latin America behind Brazil, Chile and Columbia. We need to revamp and we need to revisit our educational

exchanges programs, Fulbright or non-Fulbright. Evidently, the 800 pound gorilla in the room, how do we continue to provide for human security, for the enhancement of the rule of law and the buildup of institutional capabilities which I think are now at a point where we, what we've achieved at the Federal level needs to start trickling down to the State and Municipal level. This will be surely an importance piece of the conversation that both Presidents will have.

How does Mexico, once we have hopefully an immigration reform in the United States, work with the United States on one of those critical components of the comprehensive immigration reform bill which will be how we jointly manage a temporary worker program or the future flow of workers that will provide labor mobility to the North American economy. A big issue, portability of health insurance, this is one of the biggest issues that can have a profound impact on the public finances and the wellbeing of both countries allowing US ex-pats or US citizens who live in Mexico with insurance to be able to instead of coming up to the United States, through certified hospitals and doctors in Mexico receive treatment at a fraction of the cost of what it is in the United States.

To continue the strategic and global and regional dialogue that Mexico developed as a result of our discussion on security related issues. That is we should be and we should continue to talk about other global regional security issues whether it's Iran or North Korea or potential terrorists in the hemisphere, this is a dialogue that has to remain at the core of the foreign policy discussions between Mexico and the United States.

And finally an issue which is dear and near to me which is how these two countries, which are two of the most important cultural superpowers on the face of the earth, use cultural diplomacy to win the hearts and minds of citizens on both sides of the border and to ensure that our two societies continue to remain co-state holders. I will

throw out my pipe dream which is that both Presidents will endorse my brilliant idea of having Mexico and United States cohost the 2026 World Cup. Imagine the message that would send to the world about the US-Mexico relationship and the sense of co-state holdership that it would create between Mexicans and Americans on both sides of the border.

Thank you very much.

MS. NEGROPONTE: Arturo, thank you very much. We are indeed very lucky as an institution to have you as a Distinguished Affiliate. You are a prince. So, you have got a place here and we are very lucky. And of course, you've set us off with an agenda for work which will keep several of us very busy for the next two years.

I want to invite the panelists please to come forward and join me up here. We're very lucky. Over the last year we have been developing the chapters of this book and two of the authors are here. And a special person has also joined us, Catalina Pérez from CIDE who is going to talk about the reforms of the criminal justice system. She does not have a chapter in this book. She will have a chapter in the next.

I'm going to ask Duncan please if you would start us off on the energy sector, energy reforms, what's at stake. Will they occur? How radical or is this merely an incremental change? We've got a PowerPoint presentation so we'll lower the lights. Duncan Wood, the floor is yours.

MR. WOOD: Thank you very much. Really appreciate the invitation. This is, I've been in Washington now for about four months and I feel like I speak at a new institution it's like a coming out party which is kind of fun. And I have to say that it was a great pleasure to be part of this project, Diana, with yourself. Diana of course is a great friend of the Wilson Center's Mexico Institute as is Arturo Sarukhan. Many of you here in the room know our work so it's wonderful to be here and thank you for inviting two

of us to be here. We're a small team but we seem to get around a lot which is great to see.

Now, I have a presentation here which is focused on the bilateral relationship and questions of energy. But Diana has just sort of given me a new task which is to focus, put more of the weight of my presentation on the factor of energy reform in Mexico. So, what I'm going to do is I'm going to sort of shoot into the presentation like this because I've only got about 12 minutes to talk about it.

And I'm going to talk very, very briefly about what the three, sorry, what the five major energy challenges are for Mexico as I see it. And then I will narrow it down to focus almost exclusively on the question of energy reform and what happens to the hydrocarbons industry.

So, beginning I think that we can see that the issue that most people know something about with regards to Mexican energy is the decline in oil production, oil reserves that has been underway essentially for the last nine to ten years. We've seen a dramatic decline in Mexican oil production from a high point in 2004 of around 3.4 million barrels a day to a situation where today we have 2.555 million barrels a day. That loss of production is considerable but it's even more dramatic when you think about the amount of revenue that's been lost there.

If we consider the Mexican government makes somewhere between 30 percent and 35 percent of its fiscal from the national oil company Pemex, the loss of around 900,000 barrels a day at \$100 a barrel is a lot of money to be losing for your national accounts. And the drop in production, the drop in reserves as well in Mexico is basically down to the fact that if we look at the figures on investment in exploration of production we see that over time there has been very little growth in that investment. If you actually look at the charts that are issued by Pemex you see that in fact there's been

a steady sort of rise in spending in pesos but it goes almost exactly in line with the depreciation of the peso versus the dollar over the past few years.

And since the peso has stabilized, we've seen actual spending on infrastructure in peso terms come down again. So, it's holding steady and what is desperately needed is for a massive new injection of money into investment and exploration production and in the invention or rather in the securing of new technologies that are needed to meet those energy challenges particularly in deep water where most of Mexico's considerable oil reserves are still to be found.

On the natural gas front, you know the issue du jour around the world is of course, shale gas, the shale gas revolution. Most people in this room will know that Mexico has the world's fourth largest reserves of shale gas but we don't really have the way of getting that out of the ground in an efficient way. It's not that it's particularly difficult. It's the fact that we have a monopoly in Mexico that's held by Pemex. Pemex is a big oil company. It's not particularly good gas company. It's a very big oil company and the gas and oil industries, for those of you who know, are actually quite different. Pemex is also a very big and slow moving oil company. It's very, very good at some things. It's good at getting oil out of shallow waters. It's good at finding a mega field as they did with Cantarell. That wasn't them that found it. It was of course Rudesindo Cantarell who was out there in his fishing boat but anyway, once they have it they're good at sitting on it and they're good at exploiting it.

I would like to say that Pemex is really good at hunting elephants but when it comes to hunting rabbits it's not particularly good. And when you're looking at the shale gas industry you're looking at small reserves of gas and associated liquids, condensates and oil that are down there. And you need to be small; you need to be agile to be able to make this work effectively. And that's not what Pemex is. It's a big slow

moving organization. It's not that it's a bad oil company. It's that it's good at certain things and not so good at others.

You don't see many of the big oil companies going into small projects. They leave that to the smaller operators. To mom and pop operations, for example, in the United States, who have led the shale gas revolution. And that's something that needs to be resolved in Mexico.

The National Oil Company itself, seeing as we're talking about Pemex, Pemex of course has serious problems and challenges in terms of reorganization, in terms of its debt structure, in terms of its liabilities, in terms of pensions and its obligations to its workers. It also has the major challenge of the Union and what to do with that. I'll talk about that a little bit more in a second when we talk about the reform process.

The fourth issue that I would like to focus on is the carbon challenge in Mexico. As many of you may know, over the past few years Mexico has become a leader in the emerging world in the area of climate change policy. Not just in terms of bringing together the most important players at the level of the international system, remembering especially the climate change summit in Cancun a couple of years ago but also in terms of domestic legislation. Mexico has a world leading climate change legislation that's in place. There are questions about how well that can be implemented. There are questions about how it's going to be financed but they really have led the way on that level.

And lastly, in terms of a major challenge that I see for the energy sector in Mexico is the question of pricing. To what extent do we need to subsidize energy in Mexico? It may seem ridiculous that for a country with that much oil that there are heavy subsidies, for example, on gasoline. There are heavy subsidies on certain aspects of

electricity as well. For example, farms who use electricity for pumping water pay almost no money for that service. And this is something which is really unsustainable. Whereas upper middle class clients of the National Electricity Company, the CFE, pay an exceedingly high rate. Businesses pay an even higher rate. When you compare the rate the businesses in Mexico pay for electricity compared to their counterparts in the United States, this becomes a serious limiting factor on competitiveness.

So, just to move forward, just to show you the decline in oil production in Mexico over the past few years, you can see I've got the figures here from 2007 but if you actually were to go back to 2004, as I say, the number are up around 3.4 million barrels a day and you've dropped down to 2.53 is the estimate averaged out over the year. At the present, as I say we're around 2.55.

If you look at the natural gas element here, these are the major challenges that Pemex and Mexico faces. Now one thing that the main will be clear here is up in the upper right-hand corner I have the term perverse incentives. As most of you will know because of the shale gas revolution that's taken over North America over the past few years, gas prices have dropped significantly from around \$14, \$15 per million BTUs only four or five years ago, we're now down to around \$2, \$2.50, maybe \$3. So, you're seeing you know at 20 percent of the price they were a few years ago. That has been a boom factor for American industry. If you look at your utilities bill, it's the reason why you're paying so little for your electricity and for your gas at the present time.

Mexico fixes its natural gas prices to the American Standard to Henry Hub. That should be a benefit for the Mexican economy. The problem is is that because gas prices have fallen so low, Pemex in recent years has started to produce less gas because they say why would we produce gas that we're selling at a loss which means that there's been less gas going onto the market in Mexico, which means there have

been shortages of gas, particularly for industrial consumers of gas and that means that their competitiveness has once again been limited. And there has been an ongoing raging debate in Mexico over the last 12-15 months. The private sector continually pressuring the government trying to get them to increase imports of gas across the United States and Mexico border. But the simple fact is the pipeline structure needed to bring in that gas doesn't yet exist. It's being built. It's underway but it's not there.

And here I think we see a perfect example of where there is an urgent need for integrated energy markets in North America. It's not just gas. It's not just oil. It's electricity, oil, gas, renewables, everything. There should be no reason why we don't have the infrastructure in place in order to make that happen.

Pemex's challenges. As you can see I have put them up here as being fourfold. It's about reorganizing the company. It's about gaining operational freedom in terms of how Pemex spends its money. When Pemex wants to make a major investment, it has to go to the Ministry of Finance to get that approved. Which other oil company in the world has to do that? This does not operate like a company and I've been reprimanded on many occasions. Say, well, Pemex isn't a company. It's an agency of the state and that's why it's that way. And you think well, is that how you want to organize your hydrocarbon sector? That's the big question here.

I was actually reprimanded recently at American University by a Mexican scholar when I said that Pemex was a monopoly. And I was told it's not a monopoly, it's an agency of the state. And I said, but isn't it a monopolistic agency of the state? Well, maybe.

Now to have freedom (inaudible) investment issue decisions would be the key issue and the ability to enter into joint ventures. That's really what most people see as being the way out of this conundrum for Pemex. But in order to allow Pemex to



enter into joint ventures with private companies, we need to have a constitutional reform, company finances, the debt and pensions liabilities and of course, the question of the union.

Now, the question of the union has always been seen as being the block that you couldn't move, the obstacle that no one can overcome because the Pemex union is so powerful. Beginning last year we began to see this in a different way because the head of the Pemex union Carlos Romero Deschamps was made a Senator in Mexico's National Congress. And many people saw this as being well he's being brought in on the inside. Is this just a reflection of his power or is it that he's being coopted and brought into the fold.

Well, it went beyond that of course. The arrest of the Teachers Union leader La Maestra Elba Esther Gordillo was not just an attack on the Teachers Union, on her personal finances but it was a signal as being sent out to all of the poderes facticos, the vested interest in Mexico, to say that nobody is safe at this time. That in fact, everybody needs to watch out.

And then a couple of days later of course, after the arrest the fuero, the political immunity [sic], the legal immunity that's given to many politicians and government officials in Mexico was taken away. And all of a sudden Carlos Romero's role as being a Senator in Mexico was seen as being not such a safe place to be. All of a sudden you began to see changes. A few weeks, a few months ago, his daughter's Facebook page, well, we all followed her voyages around the world on her father's minimal salary as leader of the Pemex union. Well, that Facebook page disappeared. I must say I miss it because it was wonderful to see all the places that she was visiting and the Louis Vuitton handbags that she was buying. And I thought, you know, this is a young woman I really want to get to know. Never had the chance sadly. But anyway,

now I can't stalk her anymore on Facebook.

But anyway, we began to see that there's more and more in the Mexican press about how much abuse there has been of the Pemex union's funds in recent years. And all of this is clearly an attempt to reign in the Pemex union.

The carbon challenge that we need to talk about. Well, there's the renewable sector. Mexico is a leading country in terms of building up its wind energy sector. And of course, thinking long term there's no country better placed than Mexico particularly up on its northwest sector for developing solar power. That is quite a long way off still I would say. You know, we're thinking five to ten years before that really gets going just simply because of the cost of developing solar. But the resource is there. It's an extraordinary resource and we've published a number of things at the Wilson Center about this.

In terms of the climate change bill that I mentioned earlier on, it's incredibly ambitious. We have a 30 percent reduction in emission growth by 2020, 50 percent by 2050. That goes in line with a requirement that 35 percent of electrical energy must come from renewable sources by 2024. This is something that for most developing countries would be seen as being a dream to do but Mexico is pushing ahead. A lot of it depends upon getting the financing as I said. A lot of it depends upon keeping the political will going. But there are early signs from the Peña Nieto Administration that this is considered to be an important issue.

The point that I made on subsidies and energy pricing earlier on, I won't spend any more time on that. But I would say that the natural gas revolution is a real opportunity here for Mexico to lower its fuel prices.

And let's get to what Diana really wants me to talk about which is reform. Given all of these challenges, given the problems that Mexico faces, what is the real

outlook for reform? For the past, gosh what is it now? Now it's the past 15 months, Enrique Peña Nieto, first of all as a precandidato, then as a candidato, now as President has been making regular statements about the importance of energy reform. It is the prominent issue in the reform agenda. The only that sort of matches it is the importance of fiscal reform at least from an economic competitiveness point of view.

But energy as the prominent issue is prominent not just because of its importance but because it's so controversial. As most of you know, there is a traditional connection between the question of oil sovereignty in Mexico and that makes it controversial. And that's one of the issues that has prevented it from being changed from being altered in the past.

In 2008 the abortive attempt to really change and shake up the energy sector was stopped because, in part, as a pretext or as an excuse but in part because of real feeling. It was stopped because people said, you know what? We're not ready to privatize. We're not ready to open up to private participation and that gets us into linguistics and semantics.

What is the difference for costs between increasing private participation in the hydrocarbon sector versus privatizing the hydrocarbon sector? It's a big difference. But when you put those messages out to the Mexican public they get mixed up. Private participation, privatization, it's not enough of a separation. And clearly, one of the major challenges and goals for the Mexican government has to be to try to make sure that that message is very clear. And the President, I have to say, at the moment isn't doing a particularly good job and his staff isn't doing a particularly good way of actually getting that message out there. Because you mix together, we're not going to privatize but we want to increase private participation. We need to find new language that actually separates those two things out.

The reform agenda in Mexico. As you know, there is a very active, as Arturo mentioned earlier on, there are six or seven issues that are going through the legislative bodies in Mexico. We begin, of course, back in the fall of last year with labor reform. A stunning victory, I would say, for moving the agenda forward. Then moving on to education reform that passed very, very quickly. We're now in Telecom's reform and sort of shaking up that industry.

The next big issue is going to be energy and it's scheduled for the fall. After that will come fiscal reform. And after that there's the possibility of actually getting a financial sector reform as well. All of these issues come together in the context of, first of all, productivity and second of all, in terms of competitiveness of the Mexican economy and boosting Mexican GDP growth. Many of you may know that the government has set a target of six percent GDP growth per year.

Considering that over the past 20 years or so, we've had an average of less than three percent, that's incredibly ambitious. But these are the reforms that if they're successful might be able to bring that about.

How does all of this happen? Everything happens in the Mexican Congress through a political agreement, a negotiating mechanism known as the pacto por Mexico. Where the three major parties have got together and they meet behind closed doors with their party leaders and they hash everything out. And nothing comes out of the pacto por Mexico and goes to the Congress until a consensus of some sort has been agreed. It doesn't mean that that's the final version of the legislation that will be passed. But the major powers within the parties have reached a consensus which they can then present to the Congress.

And the pacto por Mexico, if you need to study one thing right now in Mexican politics it's that because that is where everything happens. It's the sausage

maker if you like. You know, we don't want to know what goes into it but we might like what comes out of it. That's actually what's happening in Mexico. And it's the pacto por Mexico that will determine the fate of the energy reform as it comes through.

Now, what kind of energy reform are we looking at? Well, I'll give you an image, a mental image. At its most restricted we're looking at a reform of Pemex, the National Oil Company. We're talking about a reorganization, sorting out its finances and giving it greater operational and investment freedom. At the next level up we're talking about reforming Pemex and opening up the shale gas sector and shale oil sector in Mexico to private participation joint ventures. The next level out would be those two factors, plus the possibility of Pemex to enter into joint ventures in deep waters.

And the furthest that it could possibly go but I think is incredibly unlikely is an overall opening of the sector. You know, not a privatization of the National Oil Company but an overall opening of the sector, concessions, et cetera. That's not going to happen. I'm pretty much 100 percent sure that's not going to happen but I'm very optimistic on this issue and I tend to say that what we're looking at, what we're most likely to get in Mexico in the fall of this year is an ambitious proposal that includes shaking up the oil company, that includes the shale gas sector being opened up to private participation and thirdly, the possibility of joint ventures in the deep waters of the Gulf of Mexico.

And why just leave it there? Because Pemex is very good at doing certain things. If I came back to the hunting elephants analogy, they're actually very good at shallow water exploration and production. They're very, very good at doing stuff on land in Mexico but they don't have the ability to go out and produce in deep waters. And that's where you need the cooperation. And all of the signals that we've had from the government thus far and before they were in power was that that is in fact what

they're going for. Joint ventures is what the goal is. Whether they can get it remains to be seen and we're still all kind of shooting in the dark about this because the message we get from Mexico changes almost on a daily basis. But I feel a sense, a building tide of optimism on this issue.

Just lastly, before I finish, I'm sure I've gone way over my time but anyway the opportunities of cooperation, I'll leave that up there on the screen and I will say, you know, that as the two Presidents meet there's a number of issues that they could talk about. But the one that I think we have a good chance of seeing some movement on would be the fourth issue down which is cross border transmission. It's an urgent issue. It's a pressing issue. It's one that's been there on the table for the last three years and nothing has moved on it.

I hope that there is the ratification or approval of the trans-boundary hydrocarbons before the President goes down there. I don't think it's going happen. I don't think there's enough time. But at least if there was movement on that and already today there are three hearings on the Hill about energy issues. And the trans-boundary is being discussed again. They're convening another one in a couple of weeks. There is movement and that is a positive sign. And that may be enough to get things moving. Thank you very much.

MS. NEGROPONTE: Duncan, thank you very much. You went on far too long but it was impossible to stop you for the content of your words. I want to ask you as we now go into the next presentation and the next series of slides whether you would like your lights to be dimmed so that you can see the two frames up here clearer? How is visibility for you? Okay? Fine? All right.

I'm very pleased to invite Catalina Pérez Correa to come and to discuss not a chapter of our book but an issue which pervades throughout the book. And that is

the reform of the criminal justice system in Mexico, the end of impunity and what have our US efforts or programs, how have they impacted the Mexican criminal system. Catalina.

MS. CORREA: Well, I'd like to begin by thanking Diana for this invitation. It's a great opportunity for me to be speaking here with you today. And I'm going to talk to you about the challenges of the Mexican criminal justice system in the face of what has been the criminal justice system these past two administrations.

So, I'd like to begin by giving you the context of where we are and where we come from. In 2008 we had a very important constitutional reform in terms of the criminal justice system which oddly enough had two contradictory logics in the same reform. And the first part of the reform was one that was trying to achieve more transparency in the ordinary procedures. It was trying to bring in an adversarial system and oral trials which you've probably heard about. These have not come into effect in all of Mexico but in some states it's already in effect. But it's supposed to be implemented and enforced by 2016.

Part of this reform was also to bring victims into the process. It's a fundamental part of the procedure. There was also, maybe this may surprise some of you that don't know about this, but we didn't have the presumption of innocence as part of our constitution. It was brought into the constitution. And basically, it was a reform to strengthen due process throughout the constitution.

And parallel to this there were also another part, another set of constitutional amendments which made an exceptional procedure to deal with organized crime. Now, what was a problem with this other part of the reform? Basically, the definition of organized crime that we included in the constitution is extremely broad. It's basically says that two or more people with the intent one of the crimes that are listed as

serious crimes, which is incredibly broad. We can have somebody, you know, three teenagers smoking a joint with a bag of pot on them could be deemed this organized crime or since Duncan brought it up that was what was Elba Esther Gordillo, she was charged with organized crime. And so, anything can fit into the bag of organized crime.

Also the arriago, which was already in the constitution, was fit into this new set of constitutional amendments. Arriago in Mexico is basically house arrest. But this new definition of arriago is basically that somebody can be detained without suspicion, without being charged of any crime and can basically be subtracted from the real world into house -- well it's supposed to be house arrest, now it's basically safe houses for up to 80 days. So, that's the definition of arriago today.

There's no pretrial access to the prosecution's evidence if you're accused of organized crime. So, basically the judges can include in their -- when they're taking into account the culpability of a person, they can use information that wasn't given in and that wasn't brought up during pretrial investigation. There is the possibility of not having cross-examination by Defendants because they don't know who the person who is accusing them. This is to protect witnesses. There's no right to intimacy within prisons for being who are accused of organized crime. And there's a mandatory pretrial detention. This means that if you are accused and there's a pretrial investigation begun against somebody that's accused of organized crime, then they are put in pretrial detention immediately without the possibility of obtaining bail.

And this put into force immediately after the reform begun. So, this is 2008 and we've had this exceptional regime in practice since 2008 whereas we're still working on getting this other part, the one that's strengthening due process since 2008. But we still haven't it fully enforced.

Okay so, I'm going to tell you a little bit about how this arriago, for



example, just to use some of the examples of what the reform has been, has played. We can see here the yellow bars are the times that arriago has been used in the Federal process. In 2008 there was something like 176 arriagos used. For 2010, we see almost 1700 cases of arriago.

On the other bars, the red bars, are the sentences for organized crime. So, what does is this graph telling us? What it's telling us is that although the constitutional reform was made on the basis of making it more easy to capture the people who are committing organized crime; in fact, it isn't helping to do that because the sentences, the number of sentences for organized crime haven't gone up at all.

So, the amount of times that the arriago is being used has gone up where the people accused and sentenced for organized crime hasn't. We did a survey from CIDE last year in Federal prisons. It's a comprehensive survey which is representative of the whole Federal system. There we asked Defendants about many things. One of them was their procedure. In the survey 30 percent of the Defendants that we interviewed said that they had been arrested in arriago but only 15 percent had been sentenced for organized crime.

So, how is this possible? Well, there's also an amendment and at one of the transitory articles of the amendments, there was a sentence that said that public prosecutors could use arriago in other crimes that were thought of as serious until the full reform came into effect in 2016. So, after 2016 we might see the number of arriagos go down but in the meantime what we're seeing is use of something that's supposed to be exceptional, something that isn't exceptional.

The other thing that we're seeing in the Federal justice system in Mexico is that most Federal efforts go to drug crimes. We ask people what their main crime, what they had been sentenced for, we see here that 60 percent of people were

sentenced for drug crimes. In the case of women it's 80 percent. Unlawful possession of weapons was 25 percent. And I'd like to bring your attention to the 12.2 percent which is there. What we've seen in the past 10 years in Mexico is the rate of homicides going up dramatically. They've gone up in places like Ciudad Juarez to over 2,050 homicides per 100,000 inhabitants which was in 2011 the most violent city in the world.

Yet we see that only 12.2 percent of the people who are sentenced in the Federal justice system are being sentenced for homicide. And so, it's basically drug crimes that we're putting all these Federal efforts into.

We also asked people what the specific drug related crime was. The main ones were transportation and the questions were said so that inmates could understand. So, we asked having with me, traigo conmigo, which is possession. And we see that about 80 percent of people were in these two categories which are not really considered violent crimes. Why actually, if we look at the Federal criminal code in Mexico there isn't really a distinction between possession and transportation. So, somebody that has a lot of marijuana in his backpack could be accused of transportation whereas somebody that has exactly the same amount could be accused of possession with the intent to sell.

So, we don't really know who these people, what the intent, the difference between transportation and possession doesn't really tell us what the intent of these people were. But we do know that it's 80 percent of the people who are imprisoned for drug crimes in the Federal system.

We also asked the people what substances they were sentenced for. As you can see almost 60 percent of Defendants were sentenced for marijuana which of course, is very impressive because most drug crimes, almost 30 percent were for cocaine. And these are drugs that are now legal in some form or another in many parts

of the United States. So, what we're seeing is all the Federal efforts are being put into the war on drugs for crimes that are being now legalized in many parts of the United States.

What does a criminal investigation look like in Mexico? We were talking about strengthening due process through the 2008 reform. Half of the prisoners interviewed during the survey were arrested en flagrancia, so just for those of you who are not criminal law experts, there's two ways that you can be arrested. One of them is if you're actually seen committing a crime then somebody can say he's the one that's doing it and the policeman can come and arrest you and put you in prison. The other is the product of an investigation. There's a crime that's committed. Police come to the scene. Public prosecutors come to the scene and there's an investigation and through the investigation a likely suspect is found and an arrest warrant is issued against the likely suspect.

So, what we see is that half of the people are being arrested in this idea that they were found, they were seen whilst doing the -- committing the crime. This has to do with the fact that en flagrancia, the definition of en flagrancia in Mexico has also been broadened to include a 48 hour period now. So you can actually be en flagrancia although it has been almost two days after the crime was committed.

But of those people that were not arrested in this fashion 91.7 percent said that they were not shown an arrest warrant. So, they were basically arrested without the basic rights of having a judge knowing that they are being arrested. 37 percent were detained by the Federal police and 25 percent by the military. Just to go back on one idea of the en flagrancia. What the State is telling us is that there is basically no investigation going on. There's no investigation of crime and they're basically police and are basically arresting people on the street by chance almost.

And then who's making these detentions? Well, it's basically the Federal police and the military. Why the military? There's a lot of blockages made in roads in Mexico. So, sometimes what happens is you're on your car, somebody's going down their car and they stop, they search the car and that's when they find somebody that's trying to smuggle arms, maybe drugs or whatever.

Another really dramatic data is that 57.2 percent of the people that we interviewed said that they were beaten during the arrest or during the transport to prisons. How can this number be so high? Well, if we take into account the numbers of people who are being in arriago which is basically they're taken someplace else before taken to the Public Prosecutor, so they're not protected. And what happens? Well, then they can be beaten and there's not going to be any evidence of this violence once they get to a judge because it's been maybe 80 days.

And what does the process or what does criminal procedure look like in Mexico? 50 percent of the people that we interviewed in federal prison said that they were taken someplace else before being taken to the Public Prosecutor's office which our constitution mandates that when somebody is arrested they either have to be taken to the Public Prosecutor's office or before a judge. It's usually a Public Prosecutor's office because that way, that's where policemen take them and the criminal procedure is initiated in that sense. They said that they were taken to military cartels, state agency, clandestine houses and other such places.

43 percent said that they did not have a lawyer present when they gave their first declaration before the Public Prosecutor's office which again is a constitutional violation. And this is another very shocking data that we found, 75 percent said that they had never spoken with a judge. And these are people that have been sentenced. So how can they not have spoken to a judge if they have been sentenced? Well, it has to do

with our written procedure.

So, we don't have this oral procedure yet. There's no publicity. The transparency that the 2008 reform was trying to achieve has not come and we see that in the data where only last year 75 percent of prisoners said that they didn't have the opportunity to speak before a judge.

Okay, so, what would be one idea that I would like you take with you? And of course, this in the context of bilateral agenda. Well, these are the institutions that we talk about and that we need to keep in mind when we talk about prioritizing security within our nations. These are the security institutions that are operating in Mexico and we can't ignore the fact that these are the institutions that are operating in Mexico.

Changing the rules as we did in 2008 is very risky if we don't address the problems that these institutions have. They have a tendency to be opaque. They had a tradition to be opaque. So, simply changing the rules will not change the way that they operate. Also, the drug war goals that we've had to the cartel decapitations and the interception of shipments have overloaded the system. As you can see 80 percent of women, you know, 60 percent of prisoners are there for drug crimes. This is overburdening the system and what it means is that we don't have the resources to go after more important crimes like kidnappings or homicides or other more violent crimes that are worrisome to Mexican society.

And I write there, whose drug wars should we fight? I think what we also need to keep in mind is that Mexico's priority is to reduce violence not to fight the war on drugs. And those are two different goals that we have to address and that I think must be kept in mind during the definition of this agenda.

Instead of exacerbating the system prior to reform, we should have made it leaner. That was the idea of the reform that the two systems would be operating

simultaneously. But they didn't. So, what happens? The one that was the exceptional regime started operating before this other part of the reform which was to give Defendants and victims more opportunity to protect themselves and protect their interest during criminal procedures. And what we see now is actually an exacerbation of the bad parts of security institutions. We see much more arbitrary behaviors and a more opaque system which is going to be even more difficult to correct by 2016.

Of course, the exception this idea that the system for organized crime was going to be exceptional hasn't proven to be exceptional. It seems more like the rule. And this is also very worrisome because it's going to make it harder for the public to accept that due processes and the rule of law is important. I wrote there the case of Chihuahua but we've seen these type of cases all over Mexico where just in Chihuahua there was a man that was arrested for murdering his girlfriend. He was taken to a safe house, beaten, tortured, taken before a judge and this is one of the first public trials in Chihuahua. And of course, when the file came to the judge, the judge said, okay, well this man may be guilty but I cannot convict him and I cannot do anything with the evidence that the prosecution is bringing forward. And they let him go.

Of course, everybody knew he was guilty and he even confessed to being guilty in some videos that were circulated through YouTube afterwards. And what was the public reaction and the media reaction? That was judges are not doing their work. Judges are corrupt. This is a problem with adjudication. And because it's easier to say that than to say there is a problem with prosecution and with the security institutions in our country.

So, I would just like to end, I know I'm running a bit over time, by encouraging everybody to keep in mind that when we talk about security we need to think about what the institutions at least in the Mexican side, what they are and what we can

do with them and what we need to do with them before we actually think about moving forward in the agenda. Thank you.

MS. NEGROPONTE: Catalina, thank you so much for that. We will have missed that information and the contradiction within the reforms in our book but we hope we'll have other opportunities to discuss this further.

Now, I'm going to again Ashley have to close down this one and then you're going to give me Chris Wilson who is going to address trade and investment which we anticipate to be the front and the take priority in the bilateral summit. Chris. I am not giving you the bio on individuals because you have it in your programs.

MR. WILSON: Thanks so much, Diana. Thanks for the invitation and for the opportunity to collaborate on the book project. We're excited that it's coming out now.

I mean I guess to reiterate a little bit of what Ambassador Sarukhan said at the beginning, this trip is taking place in the context of a lot of optimism in the bilateral relationship. And that's largely because of the domestic legislative process in each country. It's both about the reform agenda for immigration in this country, about the possibility that weapons control, that gun control may see some advances and also in Mexico, the reform agenda that Duncan outlined that includes things like labor reform, education reform, Telecom reform and the potential for things like fiscal reform and energy reform.

It's interesting and I think telling a little bit, it says something about the bilateral relationship that some of the most exciting things that are happening in the bilateral relationship are not really foreign policy issues or at least not in the traditional sense. These are domestic policy issues that are being decided and articulated and passed as domestic issues not through a bilateral negotiation but through single domestic processes. But they have tremendous impact on one another and that says something

about the way in which our two countries are related. It's an intermestic relationship. It's an international yet domestic relationship at the same time which is why the agenda is so complicated of course also cause you have to get through the domestic political hurdles to make progress in the bilateral agenda. But that's a bit of the context of the trip.

You know, what will be focused on in large part is economics and one of the reasons that that will be a big focus of the trip and of the conversations that are had is because of the robust economic growth that Mexico's had in recent years. It isn't spectacular. It isn't China kind of growth but this just shows, you know, Mexico being the green lines for economic growth each year and the US being the blue lines. That Mexico's been growing faster than the United States.

And that puts Mexico in the position of being a good news story when we're talking about the economic relationship. They have something to bring to the table, something to offer the United States in a conversation about trade and investment and partnership on economic issues. And I think that, you know, Mexico feels it has this opportunity to also change its international image a little bit with this trip. This is part of the agenda as a whole of the bilateral agenda focusing on economic issues for this reason. But I think specifically this trip by President Obama down to Mexico will be taken advantage of by the Mexicans as a chance to show off some this optimism, some of the new investments that we're hearing about, the growth that Mexico's been able to achieve.

Here this just shows the stock market in Mexico, total domestic market capitalization and I'm just trying to reiterate this sort of the pieces of the positive news story that there are investors both domestic and foreign have seen opportunities for growth in Mexico, have invested in Mexico and this is especially the case because bond yields are so low in places like the United States it's driving more investment even to emerging markets and places like Mexico and their stock market.



To sort of look back now, the recent focus of bilateral relations during the Calderón years before Enrique Peña Nieto took office was on what Ambassador Sarukhan likes to call drugs and thugs. The crime and violence, right? That was with the creation of the Mérida Initiative and just a series of dialogues and they were really transformative. It transformative the nature of the US-Mexico relationship to a certain extent and certainly was the focus domestically of President Calderón's Administration.

Also, there were major advances but Mexico was a result partially of the agenda obviously of the situation itself. But partially as a result of bilateral agenda that focused so heavily on security, Mexico was primarily seen through the lens of security. It was primarily seen from a United States perspective as a problem that needed to be solved rather than as an opportunity that needed to be seized. And that's the shift that the new administration is trying to make. It's trying to make a shift to talk about economic issues in order to place Mexico in the position of being an opportunity to be seized rather than a problem to be solved.

So, the United States and Mexico are trying to figure out how to work together to strengthen the economic competitiveness of North America so it can sort of stand up to the rise of China and the challenges of other emerging markets. But so that it can do even more than that. So, that it can actually take advantage of the rise of these other economies by having a level of competitiveness that makes it possible to boost exports not only between the United States and Mexico but to the rest of the world. That's sort of the challenge on the economic front.

Just one piece of the agenda that is economic related although not quite as exactly as the trade investment parts that I think we will probably hear about it is educational exchange between the two countries, another sort of good news story in that it's something that everyone wants to foment especially in the context of STEM, science,

technology, engineering and math students. There's a huge need for this type of exchange. The numbers right now are fairly bad between the two countries. They're not nearly what we would expect given the fact that we're neighbors and have so much in common. But it's a place of opportunity for that exact same reason.

But on the broader economic issues, you know, I think we can articulate and I'll name some of the pieces of the agenda in just a moment. But I'm not sure that we have a real clear picture of how all these issues will fit together to make up a coherent, compelling narrative and story that really can be told to the American people in a way that says to them this is a part, North America is a part of our response to the rising challenge of China, to the rising challenges of the emerging markets. It's part of our response to the challenges of the great recession and its part of our recovery from that. That's a story that I think we need to be able to articulate to have a bilateral economic agenda that can really be sold and therefore implemented. That's a piece of the challenge.

So, as we're, in order to go into that agenda a little bit more I'd like to just set the stage very quickly by talking a bit about what the nature of the bilateral economic relationship is. So, this just shows trade and investment over time since right before the implementation of NAFTA. And I guess the real easy conclusion that I want people to come to here is that it's grown quite a bit.

It's right now; the trade is really massive between the two countries. It's at about a half trillion dollars per year. That means well over a billion dollars of trade each day between the two countries. So, it's very big. Mexico is the United States' third largest trading partner, its second largest export market. We export more to Mexico than we do to all of the bricks combined. So, if you take Brazil, Russia, India and China, add up our exports to all of them, it's not as much as we export to Mexico. So, it's a big

relationship. Six million US jobs depend on trade with Mexico. It's important to the US economy.

Just to keep underscoring it, this is bilateral foreign direct investment positions and there are different ways of looking at investments, sort of flows and stocks. These are stocks so it grows over time as each year one investment is put on top of another, on top of another and what we see is that we're increasingly invested in one another's countries. We're increasingly relying on the growth happening in each country to feed the growth happening in the other side. And the US investment in Mexico hasn't grown as much recently in the foreign direct category but Mexican investment in the US really has and I think that's an interesting story that I don't think people quite have their heads wrapped around yet.

I don't necessarily know that CEMEX, the biggest cement company in Mexico is also the biggest cement company in the United States. They don't necessarily know that Sara Lee is owned by Bimbo. That a number of the other baked good products that you probably eat on a regular basis are owned by a Mexican company. That Grupo Lala, a Mexican dairy, owns a lot of the dairies, the Borden's and you know yogurt companies in the United States. That Univision is partially owned by Mexican investment, that the NY Times is partially owned by Mexican investment, that Saks Fifth Avenue is partially owned by Mexican investment. We're very intimately related to one another.

But not only is the bilateral economic relationship big, and it is, it's also a very deep and this is a really crucial piece of understanding why we need to be working together in the way that we do. Basically we don't just sell finished products to one another. We don't just build a product in the US and sell it to Mexico or vice versa, build a product in Mexico and sell it to the United States. What we do is we build products

together. The manufacturing of North America, of Canada, Mexico and the United States are linked together.

So, we're trading not just goods but we're trading parts, materials, whether the ore that's extracted to make steel or if it's the widget in a car or the chassis that that widget went into or the whole car itself, these are all being traded back and forth. Really we have things, you know, cars made in North America are said to have crossed the borders of Canada or Mexico eight times as a car's being produced. It gives you a sense of the nature of producing goods together.

And another way to sort of wrap your mind around what that looks like is with this chart right here which just shows the percent content that was made in the United States of products that we import from other parts of the world. If we import a product from Mexico, 40 percent of that product on average was actually made here in the United States already. So, parts or materials that are incorporated into it, 40 percent in the United States. That means 40 cents of every dollar that we spend on imports from Mexico actually supports jobs and industry in the United States.

The same can only be said with Canada to a slightly lesser extent but cannot be said about any major economy outside of North America. The major point of comparison that I would look at is China in which it's four percent. That means when we buy a product from China, four cents of that dollar stays in the United States.

It's a very different nature of a trading relationship. And if we're talking about the possibility of having production located in Mexico or China, the answer of what's more in the US interest is a pretty obvious one. It's having it located in Mexico because that's going to draw 40 percent of that value coming from the United States supporting jobs in the United States.

There's two important consequences, I think, of this type of trading

system of this joint manufacturing. The first is that our economies are linked. We know that we experience growth and recession together. Mexico didn't make any mistakes but was nailed by the economic recession that the US recently fell into. Had GDP loss greater than the United States and then recovered from it. But it's also long term competitiveness in which we're linked. If productivity is improved in Mexico that means that that product that's finally being sold in the United States is cheaper. Or maybe that final product isn't being sold in the United States; it's actually being sold somewhere else in the world as an export to the rest of the world. But it would mean if Mexico can improve its side of the production that it will be produced at a cheaper cost. Thank you.

The second importance consequence has to do with border management. If we have products that are crossing the border multiple times as a product is being created there's a transaction cost every time you cross a border. There's time weighted in line that you have to pay truckers to do. There are customs forms that need to be filled out. There are several other sort of costs associated with getting across, getting a product across an international border.

Each of those add up to a total transaction cost to get across the border. And that is multiplied by the number of times that you have to cross the border. So, in places where we have production sharing it's that many more times important to have a border that functions really well than it would be in the case of a relationship between the United States and China for example where that product's only going to cross the border one time.

So, that's the nature of the relationship in which we need to develop strategies so that not only is one country gaining competitiveness but the whole region is gaining competitiveness. And that's really the way in which we need to be thinking about things as we're talking about what should the economic agenda between the two

countries look like.

And I'll just point out a few pieces of what I think need to be and will be a piece of the agenda in one way, shape or form. The first being the Trans-Pacific Partnership which was talked about a little bit by Ambassador Sarukhan, clearly this is an opportunity for the region to work together since Canada and Mexico are now a part of the negotiating block involved in this to work together and negotiate as a unit a trade agreement with the rest of the world.

So, if we're producing goods as a unit, we need to be thinking about getting those goods to their markets as a unit. And this is a chance to one, do that, to open up new markets for exports from North America. But also even more; it can be a way to fix some of the issues the NAFTA had without reopening what is still a divisive topic in the United States politically. So, there's a big opportunity there.

I think we're moving forward on it but the negotiations will be difficult. The sort of brand new piece of the puzzle which is now going to be on the agenda since the State of the Union address in which Obama announced that there would be talks between the United States and the European Union of creating a trade investment agreement, there's a big question what does Mexico do about that? What role do they play in that? Mexico already has a trade agreement with the EU. Canada has been in the process of negotiating a trade agreement with the EU. It's pretty close to concluded but not concluded.

And this represents a tremendous opportunity either to go big and actually join together and as a unit, as North America negotiate a trade agreement with the European Union which would make sense based on the way that we produce goods. Or at least to make sure that whatever agreement is negotiated takes very much into consideration the trans-national nature of our supply chains in this region. And make

sure to include the content that's produced in Mexico, the content that's produced in Canada as content that counts towards the rules to qualify for preferential access to Europe.

And you know, that's just sort of the surface level. There are lots of other ways within the context of an agreement like that that we can deepen cooperation. We can improve regulatory harmonization and some of the other challenges that you see are already on the bilateral agenda.

The border, I already said it. It's clearly important because of the nature of our economic relationship. I think this will be a place that we hear that there will be continued work on it. It's a place that we've developed sort of a strategy and that strategy really is making sure that we do security and competitiveness and efficiency at the same time. So, there are number of strategies that have been sort of articulated of how can you build a border that's both safer and more efficient at the same time? The one that I really like to highlight always are trusted traveler programs.

These are programs like Global Entry at the airport. Some of you may be familiar with that where you give the government your life story and in return they give you preferential access through the lines because they determine that you're not presenting a big risk to them. Well, you can do the same thing at the land borders if you're a trucker or if you're an individual. But right now only 18 percent of border crossings of individuals are going through those programs.

And maybe, I don't have good statistics on the commercial side, but maybe a little bit more but still when you take into consideration that the majority of crossers do so on a regular basis whether they're going to school or work or visiting their family or whether they're driving a truck back and forth across the border every day, the potential for these programs is much more. And what they do is they not only help

people move across the border faster but they get rid of the safe traffic and put it in one pile so that officials don't have to spend too much time looking for the bad guys there. So, that they can just focus on a smaller batch of people that you don't know as much about and try to identify the problematic areas.

You know, I'm not even going to go into the details of regulatory standards and customs, simplification and convergence just to say that they're pieces of the agenda we've been working on for a while. They're not particularly interesting to talk about. And if I'm worried about talking about them and boring you all it might be interesting to note that, you know, President Obama was forced to talk about these things in the Rose Garden during press conferences after meetings with the President of Mexico a couple of years ago.

You know, this isn't an exciting piece of the agenda. So, if we're going to have an agenda between the two countries let's make sure we have a story to tell that goes along with that agenda. There's not a single thing like NAFTA anymore. There's not any one thing that can grab the business community's interest from both sides that everyone can rally around, develop a lobbying strategy and support to try to pass through Congress, pass through both Congresses. There's nothing similar to that right now.

We have a list of things and this is not the complete list that make up the bilateral agenda. But what I really think we need to do and I don't think is clear yet is to develop a strategy of how we're going to talk about all this stuff in a coherent fashion so that we can have something that we can say business community in Mexico, you need to talk to the business community in the United States because there's this agenda that has value to all of you that will in the end make it easier for you to do business and make it possible for you to export more goods to the rest of the world. So, that's the challenge. I think we'll hear bits and pieces of the agenda but we'll probably hear them after the



meetings between Peña Nieto and Obama still as pieces, still as a list.

And we'll hear the word competitiveness but I'm not sure there will be a narrative that translates the three, the two levels together. But that's the area where we can push forward. Thanks a lot.

MS. NEGROPONTE: Thank you very much. Thank you to all three speakers. I let each of you run over because you were so interesting but what we have done is that we have removed time for questions. We now close down. And this wonderful gentleman is here but his labor union is going to tell me that at 5:30 the lights go out.

So, what I'm going to ask that those who would like to have, to come and address and talk with individuals, would you mind staying just for 10 minutes informally down here. But otherwise, I want you to join me in thanking Arturo Sarukhan and our three experts for joining us and informing us this afternoon.

\* \* \* \* \*

CERTIFICATE OF NOTARY PUBLIC

I, Carleton J. Anderson, III do hereby certify that the forgoing electronic file when originally transmitted was reduced to text at my direction; that said transcript is a true record of the proceedings therein referenced; that I am neither counsel for, related to, nor employed by any of the parties to the action in which these proceedings were taken; and, furthermore, that I am neither a relative or employee of any attorney or counsel employed by the parties hereto, nor financially or otherwise interested in the outcome of this action.

Carleton J. Anderson, III

(Signature and Seal on File)

Notary Public in and for the Commonwealth of Virginia

Commission No. 351998

Expires: November 30, 2016