



## Kansas City Southern and the U.S. – Mexico Trade Relationship

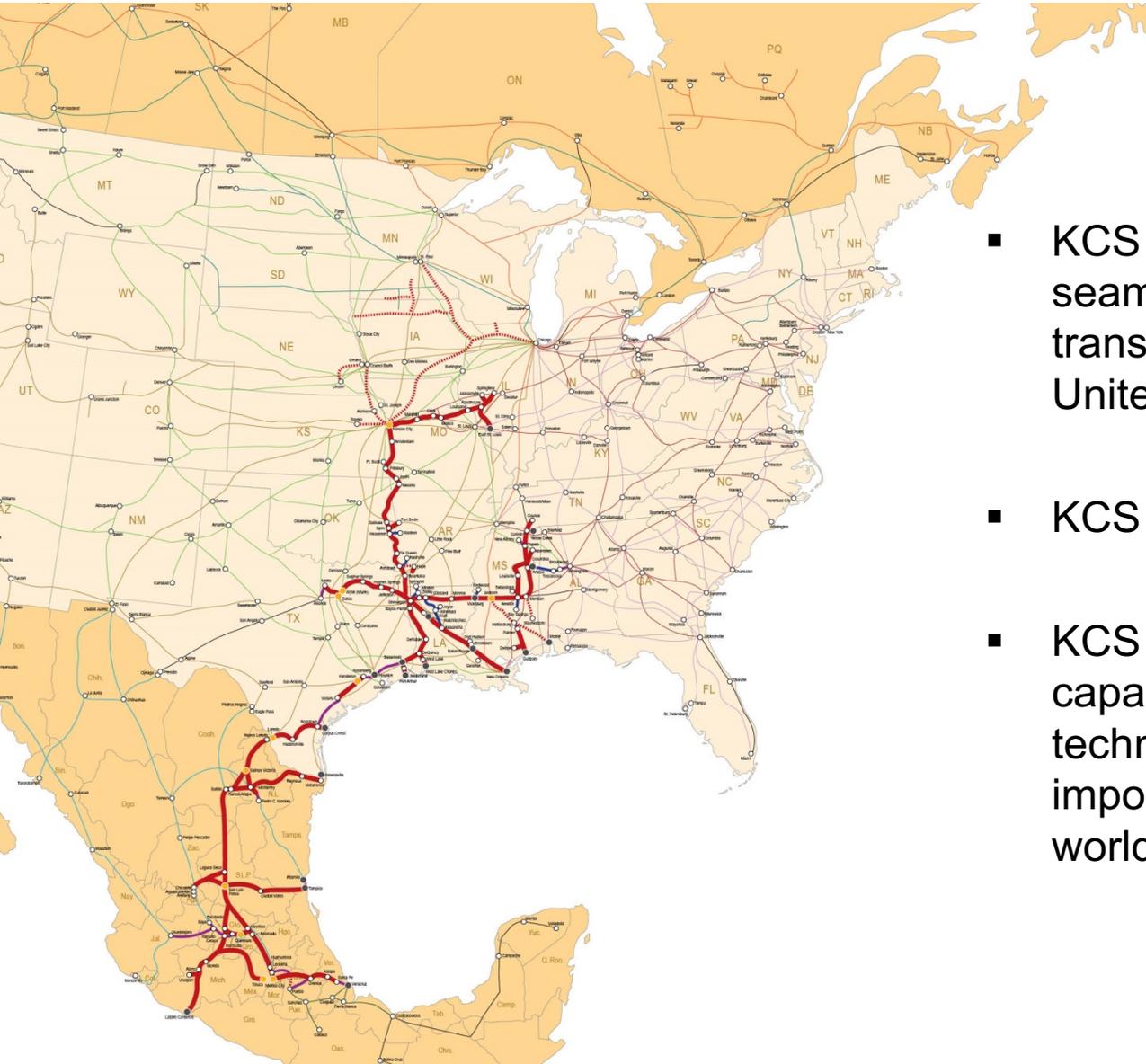
**Pat Ottensmeyer, President and Chief Executive Officer**

**The Kansas City Southern**

---

**May 25, 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

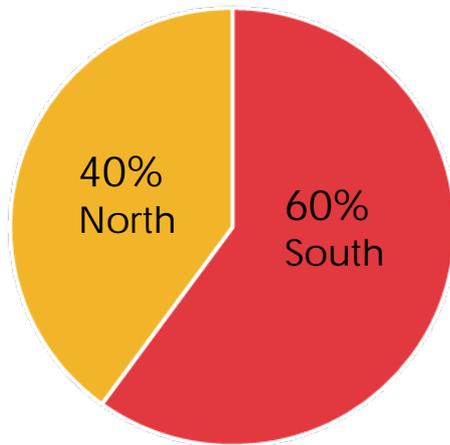
# KCS Cross-Border Traffic

## Total KCS Cross-Border Traffic

*Includes both:*

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

## Volume Breakdown:



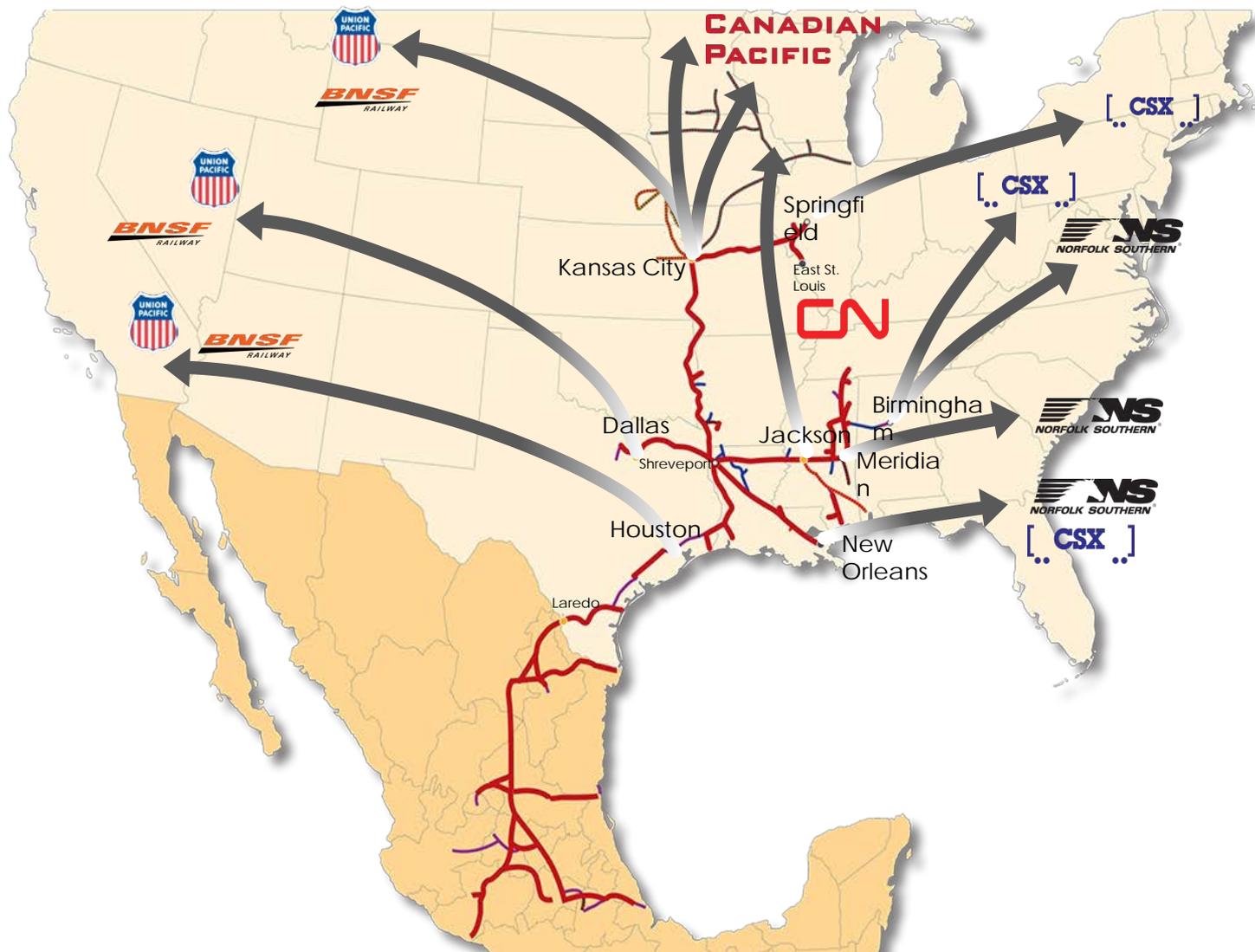
### Southbound Movements (60%)

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

### Northbound Movements (40%)

- Intermodal
- Finished Vehicles

# KCS's Network is the center of the North American rail system



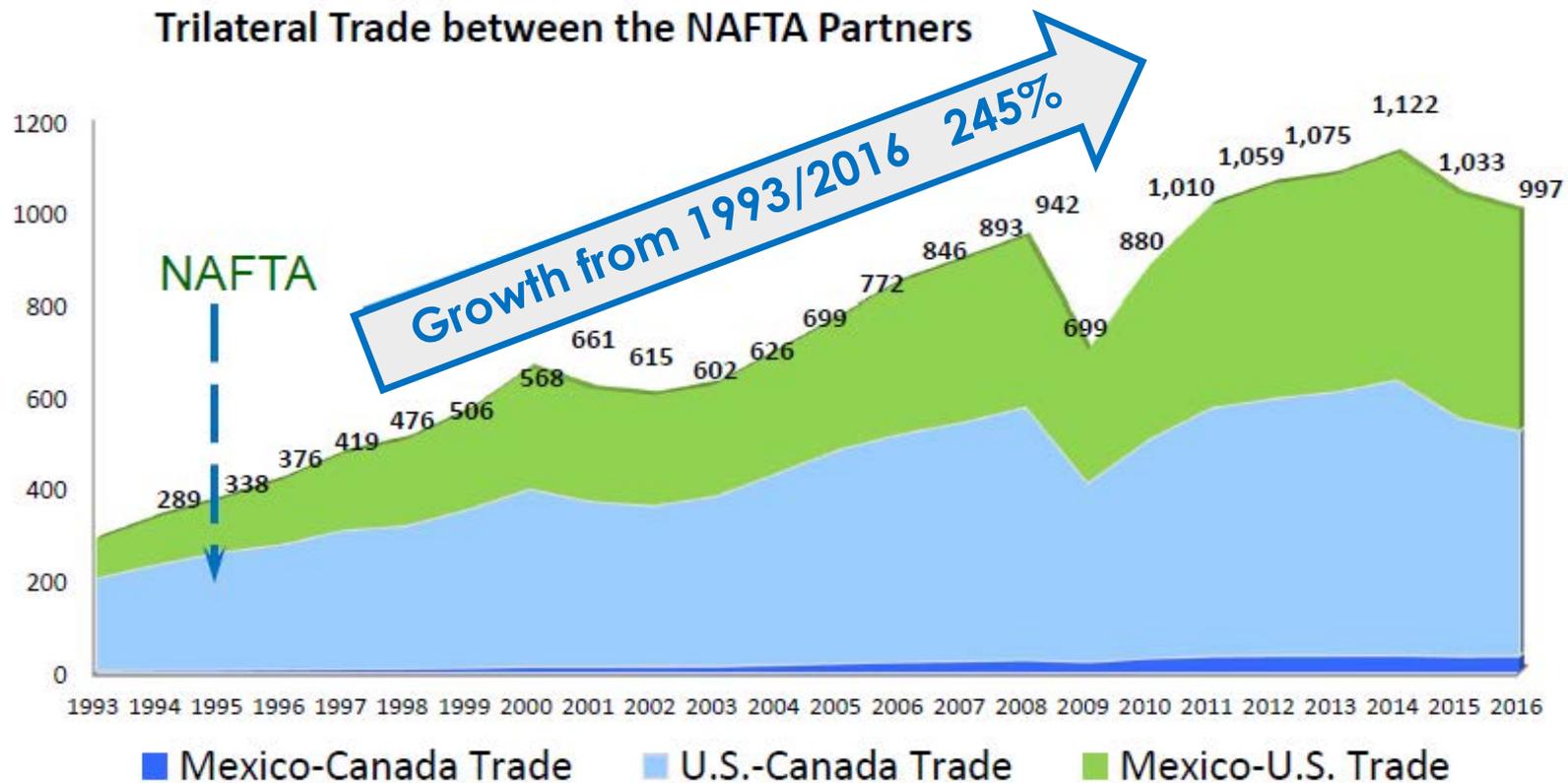
# Modernization of NAFTA is a worthwhile goal, but should not come at the expense of disrupted Trade Flows

Impact benefits the agreement currently provides including:

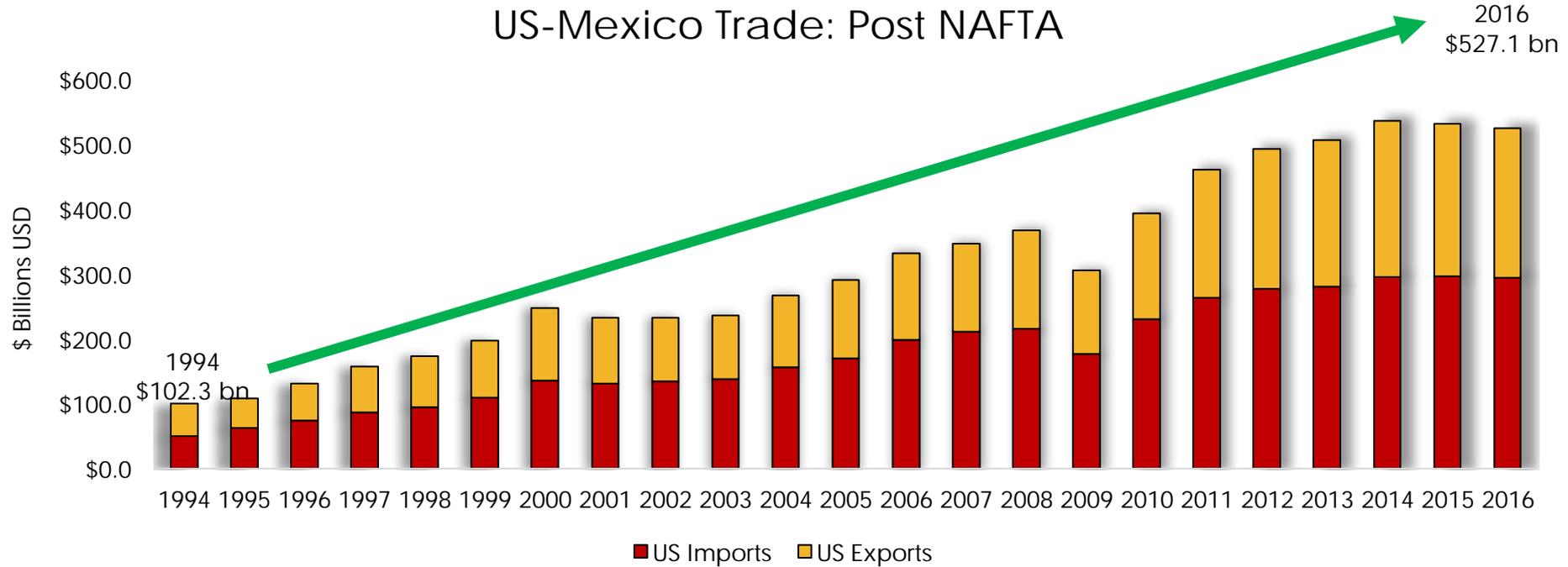
- Over \$1trillion in annual trade
- Trade between the U.S./Mex. has nearly quadrupled since NAFTA was implemented; critical to U.S. economy
- 14 million U.S. jobs are supported by NAFTA
- NAFTA has been a bonanza for U.S. farmers and ranchers, helping U.S. agricultural exports to Canada and Mexico to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

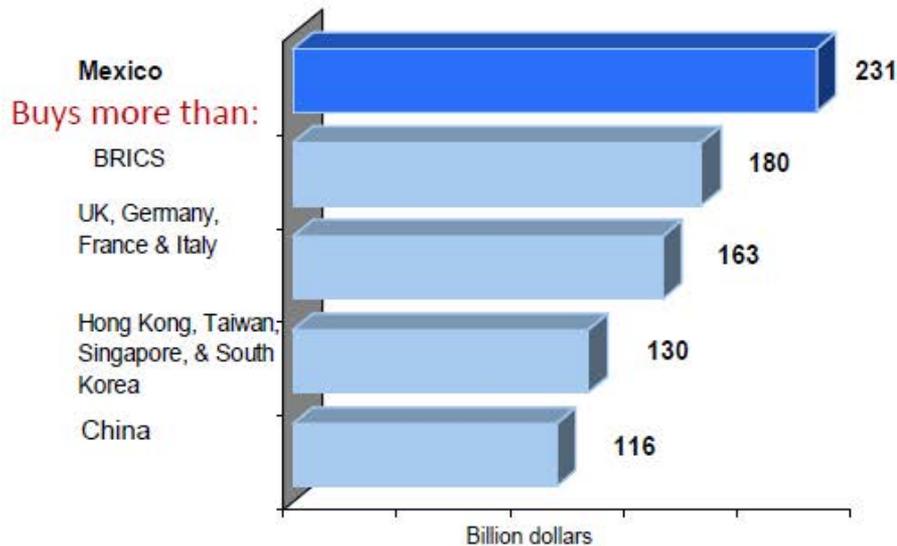
- Supporting more productive, higher paying jobs in our export sectors
- Expanding the variety of products for purchase by consumers and business
- Encouraging investment and more rapid economic growth

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

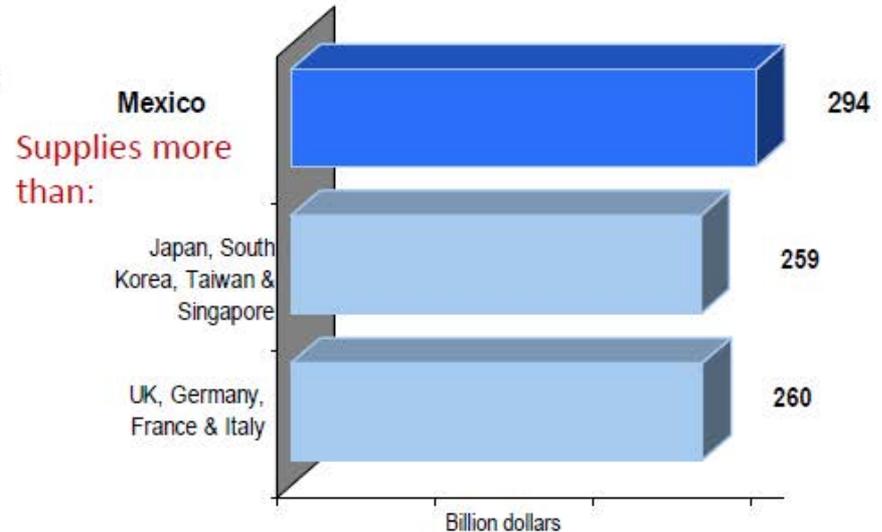
U.S. exports to Mexico reached \$231 Billion last year, which represents more than 16% of its sales worldwide.

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

U.S. Exports 2016

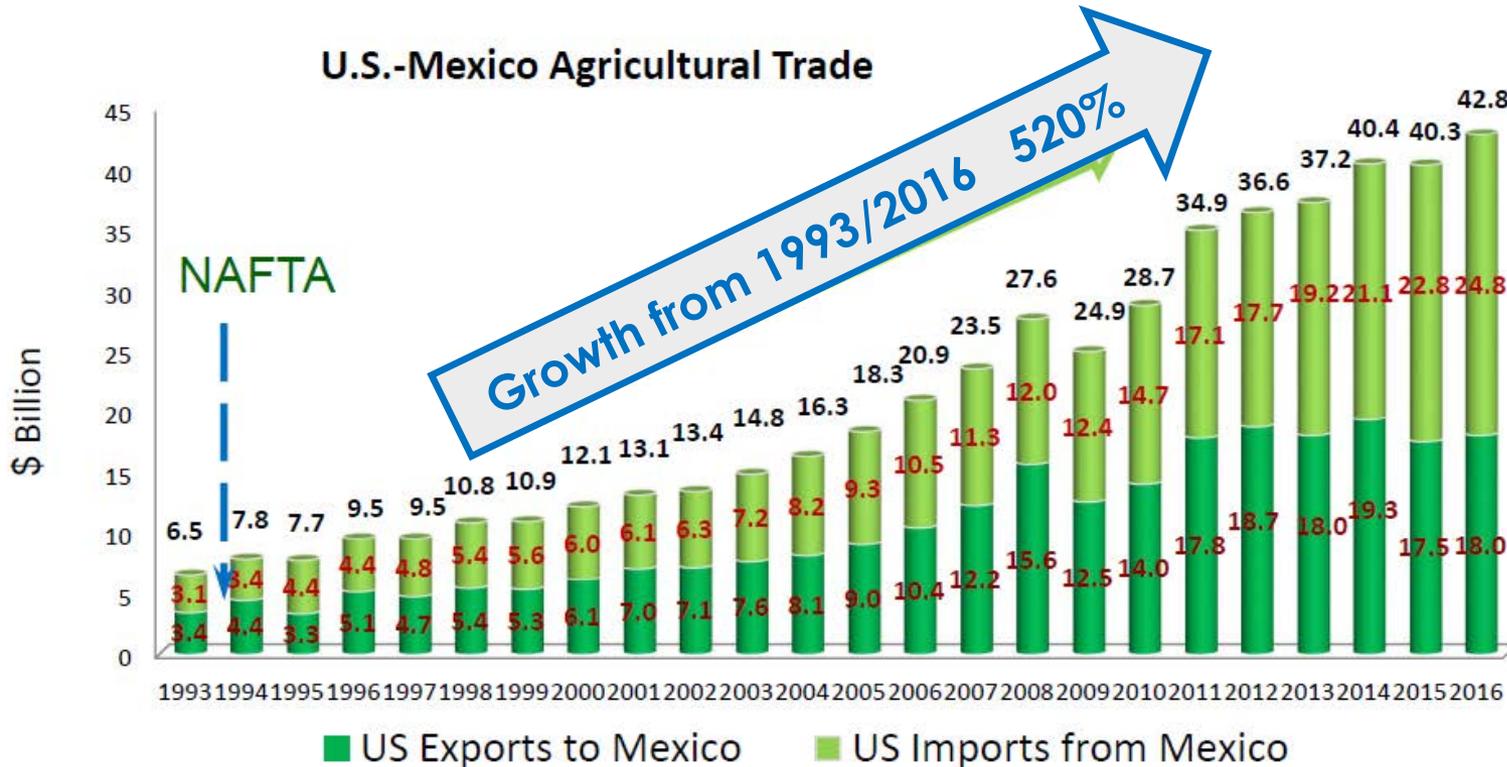


U.S. Imports 2016



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

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



Growth from 1993/2016 520%

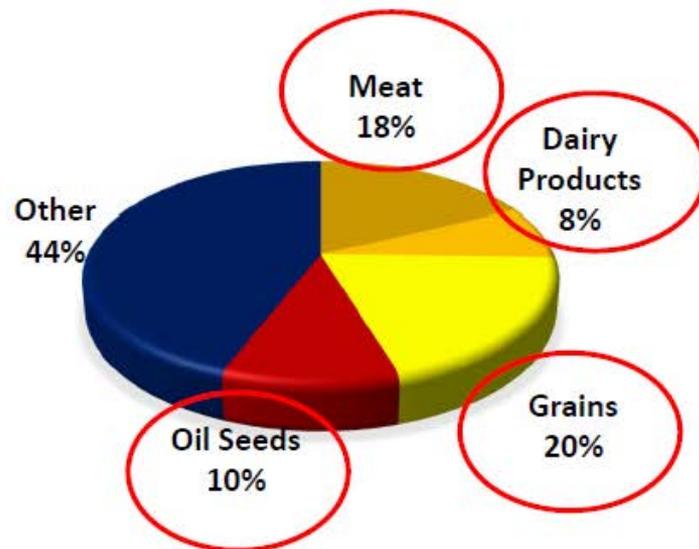
1993 1994 1995 1996 1997 1998 1999 2000 2001 2002 2003 2004 2005 2006 2007 2008 2009 2010 2011 2012 2013 2014 2015 2016

Source: Ken Smith Ramos presentation, Secretaria de Economia Mexico, May 2017 (USDOC. Agricultural products include chapters 1-24 HS

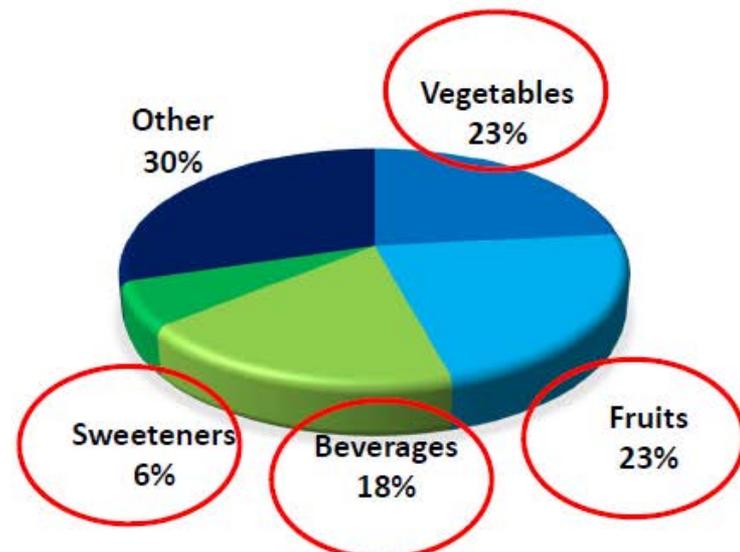
# NAFTA promoted Trade Specialization

- U.S. exports are concentrated in grains, meat and oilseeds, accounting for 50% of agricultural exports to Mexico
- Nearly 50% of Mexico's agricultural exports to the U.S. are fruits and vegetables

US agricultural exports to Mexico 2016  
\$18 billion

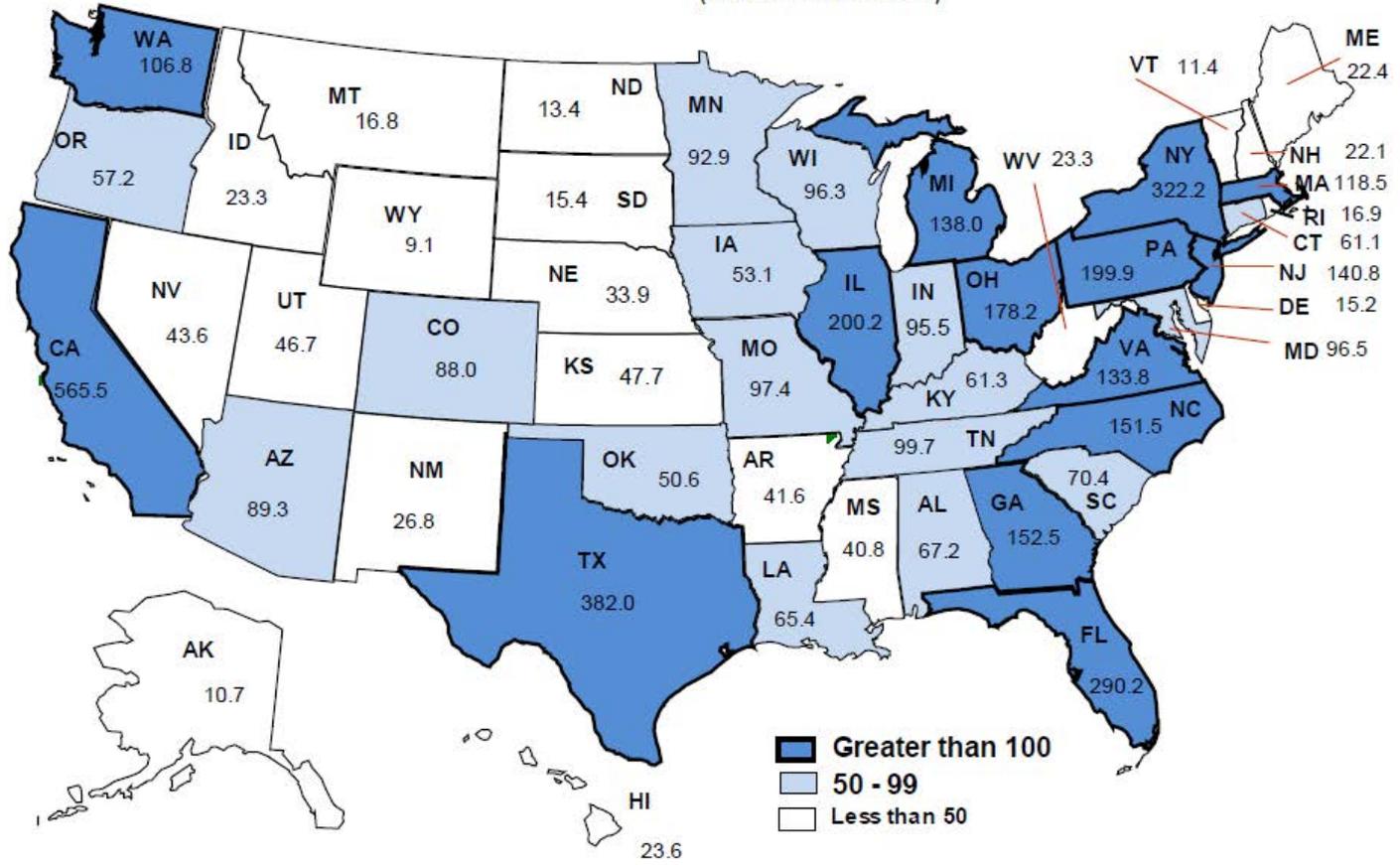


US agricultural imports from Mexico 2016  
\$24.8 billion



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

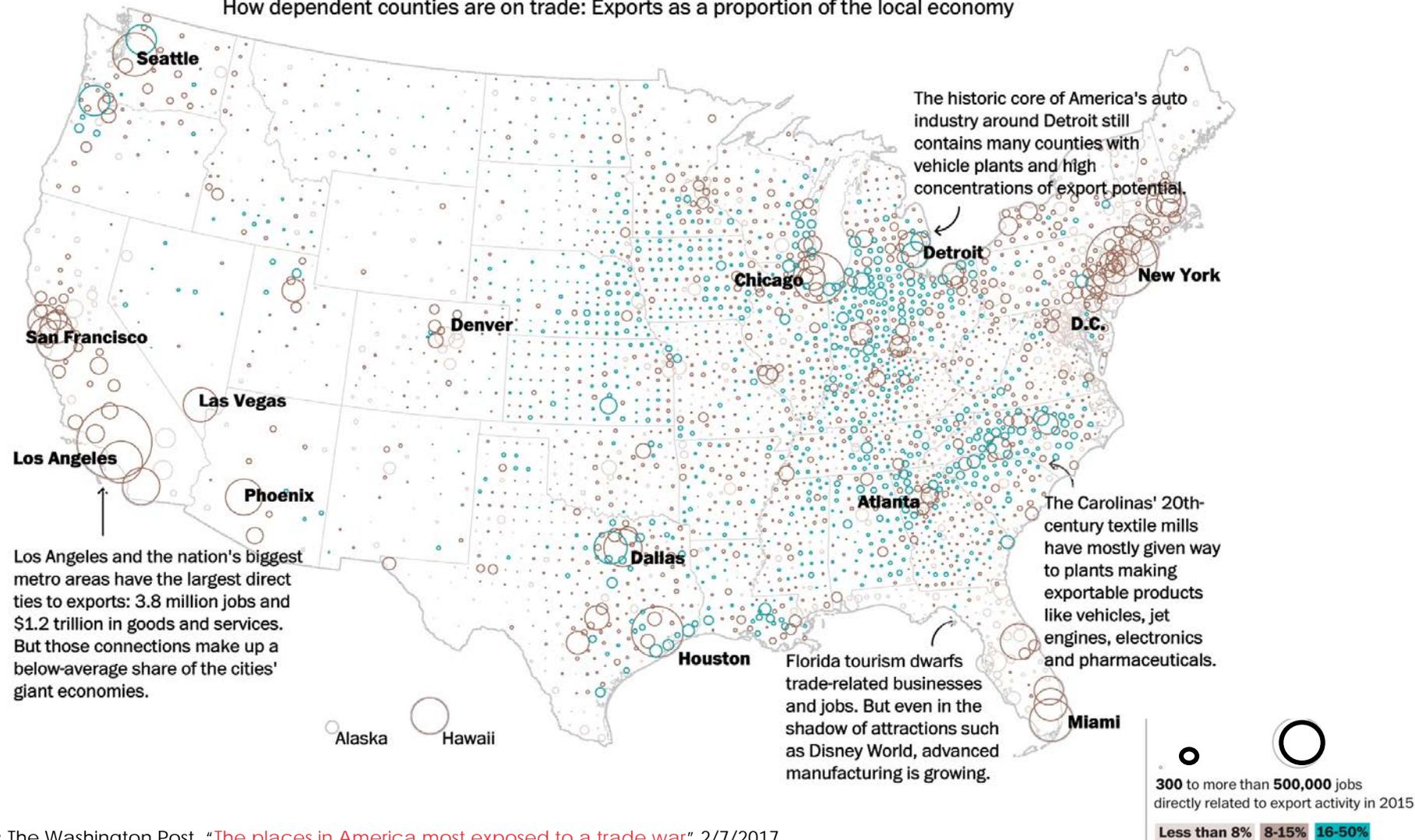
U.S. Employment Related to Trade in Goods and Services with Mexico  
(Jobs in thousands)



Source: Ken Smith Ramos presentation, Secretaria de Economia Mexico, May 2017 (Job figures are from 2014, according to Growing Together: Economic Ties between the US and Mexico, Mexico Institute, Woodrow Wilson International Center for Scholars, 2016)

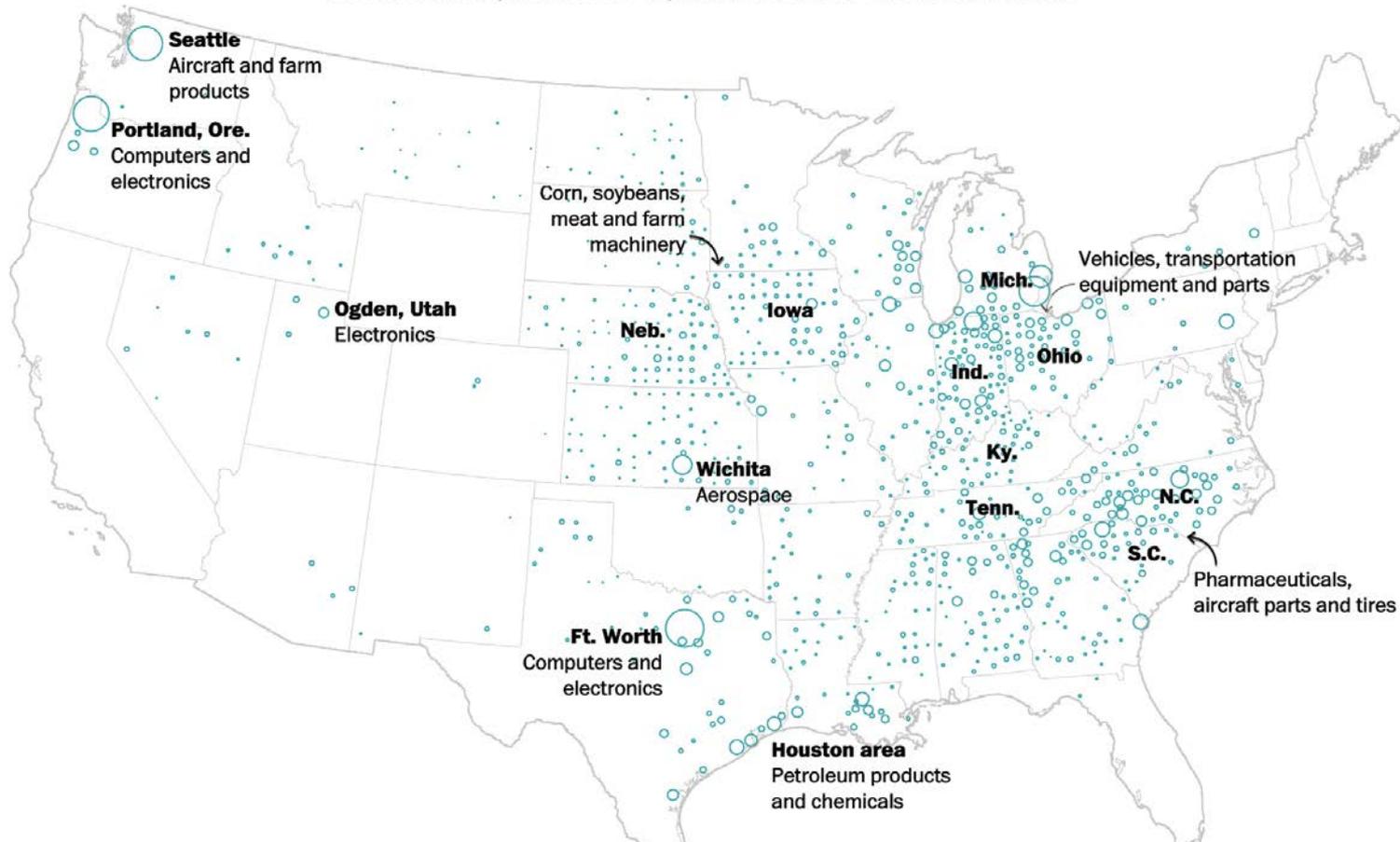
# How Dependent U.S. Counties are on Trade: Exports as a Proportion of the Local Economy

How dependent counties are on trade: Exports as a proportion of the local economy



# Top Products shipped from the areas that are **Most Dependent** on Exports

Here are the top products shipped from the areas that are **most dependent** on exports.  
 Most American products are exported to Mexico, Canada and China.



# 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.

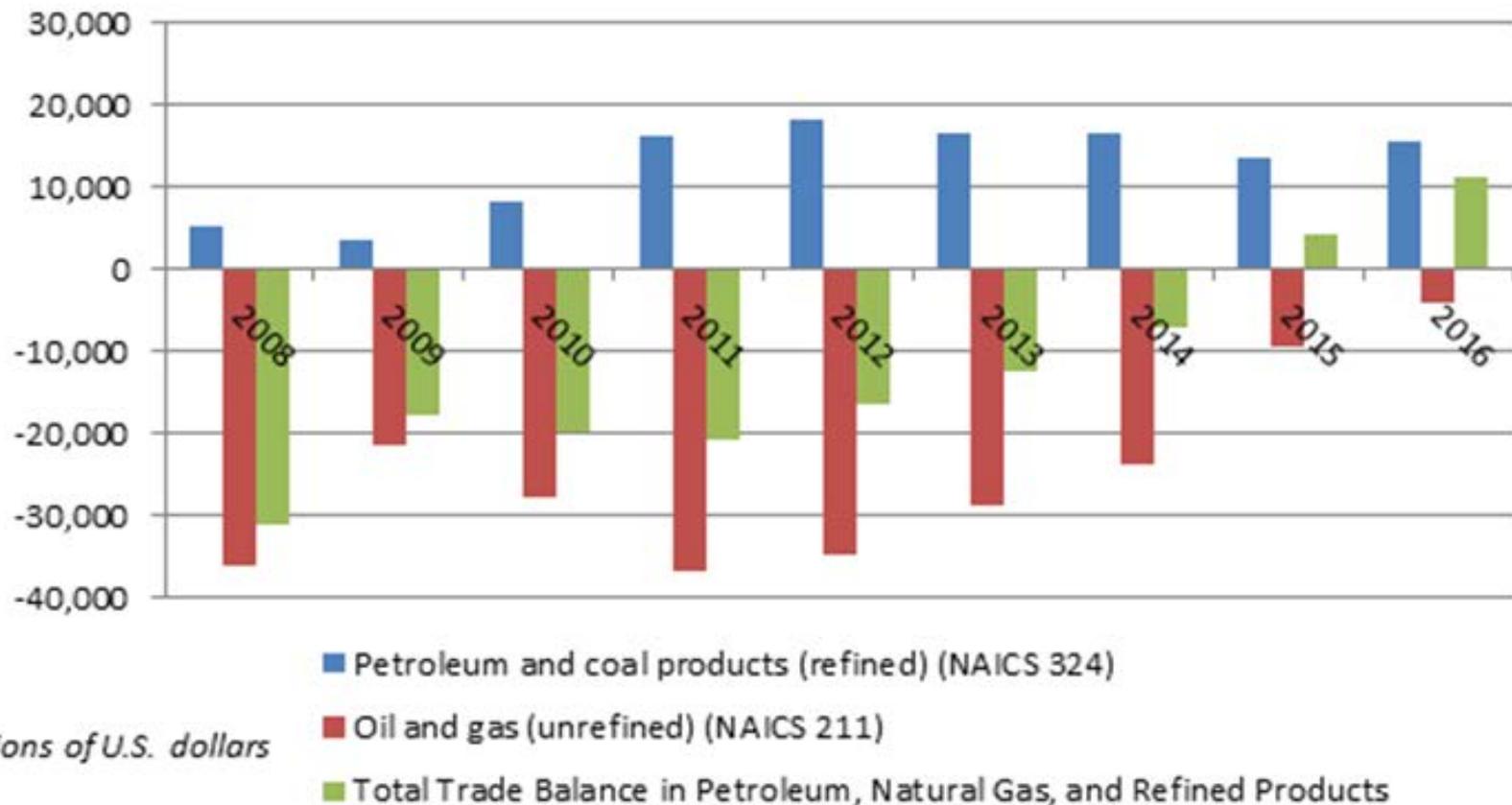
## Services

- 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

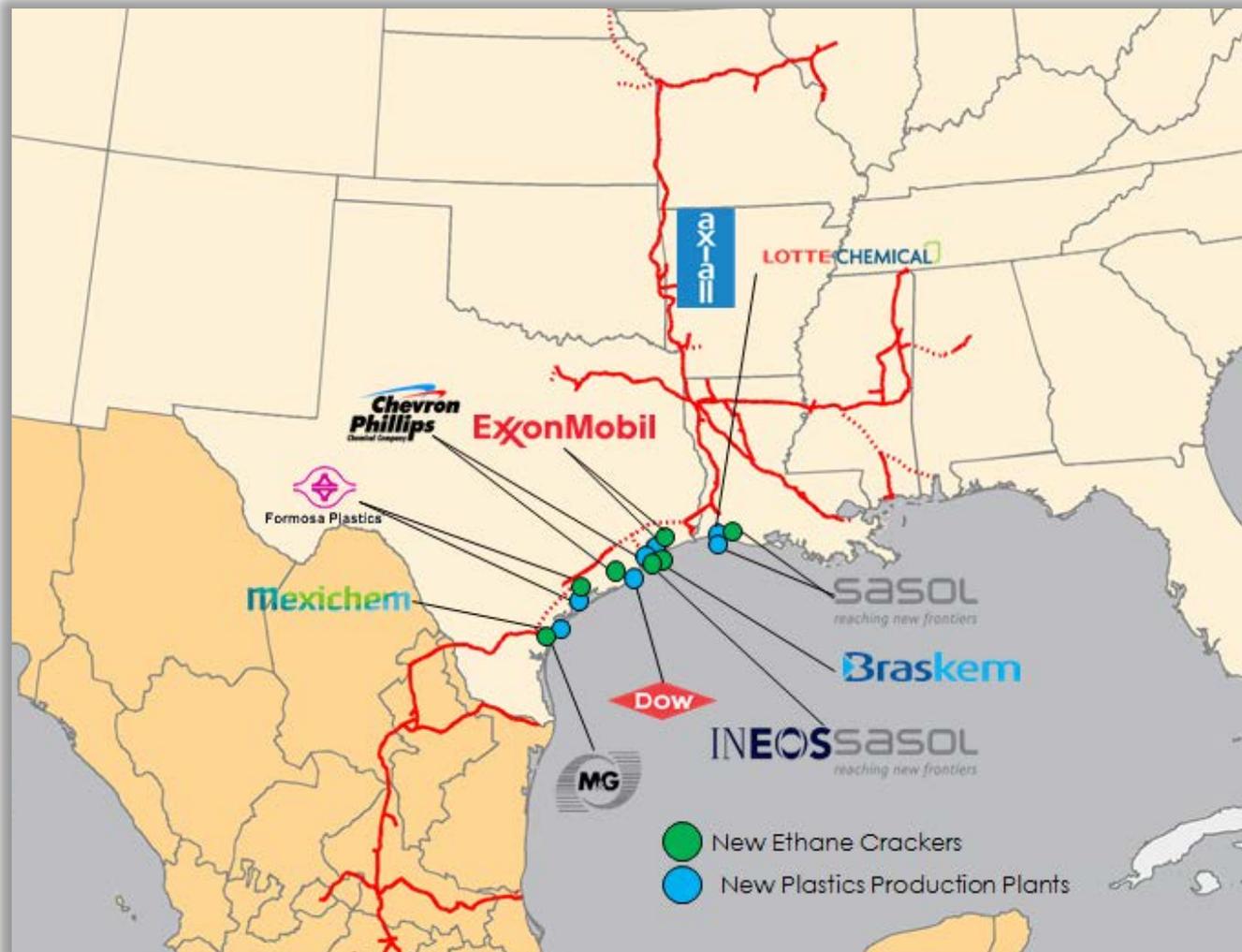
- Increasing demand
- Ability to exports from U.S. refineries
- Destination terminals in place on KCS network



## Importation of LPGs

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

# New Gulf Region Ethylene and Plastics Plants



- Investment of \$169 Billion
- Global plastics production reached 322 million tons in 2015

# Diversify Plastics Export Channels



