WHITE PAPER

Doing Business in Mexico

Canada

Realize a World of Opportunity

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1 CANADA AND MEXICO

Until about 25 years ago, Mexico's economy was insular, protectionist and subject to extensive state control. Since then, successive national governments have opened many formerly closed sectors to foreign participation. In 2013, a set of major reforms took this process even further.

This evolution has been accelerated by Mexico's numerous free trade agreements (FTAs) with countries around the world, including the North American Free Trade Agreement (NAFTA), which came into force in 1994. Canada, of course, is also a NAFTA member, and the ever-expanding trade relationship between the two nations has made Mexico one of our key emerging markets for both exports and foreign direct investment (FDI).

Mexico's substantial population of 120 million also makes it a rich source of business opportunities. Reflecting this, Statistics Canada's trade figures indicate that Canada made more than USD 4.6 billion in domestic exports to Mexico in 2013. Bilateral trade between Canada and Mexico has seen an upward trend since the advent of NAFTA, and in 2013 exceeded USD 35 billion.

According to the Mexican Ministry of the Economy, Canadian exports to Mexico have been growing at an annual rate of 11.5 per cent since 1993, and Mexico is now Canada's fifth-largest export market. Mexico has also become the third-largest supplier of goods to the Canadian market after the United States and China.

In the area of FDI, again according to Mexican ministry figures, Canada's cumulative investment in Mexico rose to USD 17.6 billion between January 2000 and December 2013. This makes Canada the fourth-largest foreign investor in Mexico, exceeded only by the United States, the Netherlands and Spain. As of the end of 2013, 3,355 firms were registered in Mexico as having Canadian capital.

2 PRIORITY SECTORS FOR CANADIAN EXPORTERS AND INVESTORS

EDC maintains close relationships with numerous strategic partners in Mexico, who can facilitate Canadian exports to specific buyers in several Mexican industries. These International Strategic Accounts include, among others:

- Alfa: multisector
- América Móvil: information and communications technology
- Cinepolis: multisector
- Comisión Federal de Electricidad (CFE): power
- Grupo R: oil and gas
- Metalsa: automotive
- Minera Frisco: mining
- Perforadora México: oil and gas
- Petróleos Mexicanos (PEMEX): oil and gas
- Ternium: mining

2.1 Oil, gas and electricity

Until 2014, Mexico's energy sectors (oil and gas, and electricity) were state-owned and did not permit foreign investment. Since then, however, major reforms have opened up the energy market, which is expected to offer new opportunities to Canadian companies. Essentially, these reforms will end the former monopolies held by PEMEX and CFE in their respective markets.

While the two agencies will still be government owned, they will function as independent, for-profit enterprises that can enter into contracts with private sector entities. PEMEX, for example, is setting up a new centralized Office of Corporate Procurement (Dirección Corporativa de Procura y Abastecimiento, or DCPA) to handle purchases of goods and services. CFE procurement will also be affected by the reforms, although the exact nature of the process is still evolving. These changes should create new competitive markets by sharply increasing the flow of private investment and technology into Mexico's oil, gas and electricity industries.

PEMEX, for its part, relies heavily on imported products and services, and the reforms will allow the private sector to participate more extensively in exploration, drilling, production and refining. The company, which will continue to invest in deepwater development and in improving extraction from onshore fields, has identified 10 projects that it wants to develop with private firms. These projects would be located in the Ayatsil, Tekel and Utsil oil fields, the Lakach gas fields and the deepwater fields in the Perdido region.[1] PEMEX's capital expenditures budget for 2014 is USD 28 billion, which is expected to increase by four per cent annually from 2014 to 2018. It is worth noting that, during the past five years, EDC has provided more than CAD 1.5 billion in support for Canadian companies active in Mexico's oil and gas sector.

CFE intends to diversify power generation by using more combined-cycle equipment, modernizing outdated electricity plants and switching to natural gas for power generation. In 2014, as part of this initiative, CFE announced a bidding process for 16 gas and electricity infrastructure projects worth about USD 4.9 billion. The projects include three new power plants: the 683 MW Guaymas plant in Sonora, the 786 MW Topolobampo plant in Sinaloa, and the 889 MW Noreste plant in Nuevo Leon. Also included are four gas pipelines, three power transmission lines, the updating of a hydroelectric plant and five projects for modernizing the electricity distribution grid.

2.2 Automotive

Mexico's automotive sector has fully recovered from the 2008 downturn. The country has become the world's eighth-largest vehicle producer and is expected to surpass Brazil for the top spot in Latin America. In the automotive parts subsector, Mexico ranks fifth in the world, with local production of over USD 76 billion. The sector has become a net receiver of FDI and is now one of the most promising industries for Canadian investors because of its low costs, skilled labour and strategic location. Several important Canadian firms are already operating there, including Magna International, ABC Group, Woodbridge, MartinRea and Linamar.

[1] **As reported on 14 August 2014 by the Mexico Oil and Gas Forum.**

Opportunities for parts manufacturers include engine and electrical components, gearboxes, drive axles, steering wheels, precision assembly devices, machined parts, hybrid vehicle parts and suspension systems. Also in demand are plastic parts, electronics and technologies for emission reduction. Diagnostic equipment and supplies for vehicle repair are widely needed as well.

Given the importing and production patterns of the Mexican automotive sector, the best opportunities for Canadian companies may lie in the stamping, foundry, forging, die casting and machining subsectors; in plastics; in carpets and trims; and in electronic assemblies and wiring.

2.3 Mining

In 2013, KPMG identified 44 major foreign mining companies operating in Mexico. Of these, the vast majority were Canadian. Many of the larger mines in the country, whether in production or in development, are Canadian-owned operations or are owned by TSX-listed mining companies.

In 2012, the value of Canada's mining assets in Mexico was about USD 21 billion, or around 14 per cent of the industry's total foreign assets of USD 149 billion. Among the opportunity areas for equipment suppliers are drills and breakers; crushing, pulverizing, and screening equipment; analytical services; compressors; geophysical instrumentation, hydraulics; and mineral processing, ore handling and transportation equipment.

Historically, the Mexican mining industry was free of royalties. In 2014, however, as part of its fiscal reforms, the government imposed a 7.5-per cent royalty on companies' EBITDA (a measure of operating income), with a further 0.5 per cent to be levied on gold and silver mining companies. In addition, the new tax regime will increase the effective marginal tax rate on mining companies' income from roughly 30 per cent to about 41 per cent. The effect of these changes on investment and activity in the sector remains to be seen.

2.4 Aerospace

The Mexican government has identified aerospace as a priority sector for development. Its national plan aims to place the country among the world's top 10 aerospace sector providers by 2020, with more than USD 12 billion in annual exports and a 14-per cent average annual growth rate. The plan envisions the industry as covering the complete aerospace life cycle, including design and engineering, component manufacturing and assembly, aircraft maintenance, and the recycling or refurbishment of aircraft that have reached the end of their service lives. Aviation exports have already been rising quickly, having doubled between 2009 and 2012 to reach USD 5.4 billion.

Many aerospace firms have established their secondary-components supply chains in Mexico because of its low operating costs, high levels of education, well-developed aerospace infrastructure and hospitable regulatory framework. As a result, as of 2012, there were 270 aerospace companies and support businesses in the country, employing more than 30,000 people.

One example of these is Canada's Bombardier, which manufactures key components for its Global Express, CRJ and other aircraft at the enormous Queretaro Aerospace Park. Other major aerospace companies in the country as of 2103 were Beechcraft, Cessna, Embraer, Honeywell, Safran, UTC Aerospace, Turbopartes, Cormer Aerospace, Eurocopter, Turbo Propulsores and Aeronova.

According to data from **ProMéxico**, much of the country's aerospace industry is concentrated in four states:

- **Chihuahua** attracts strategic projects from leading companies in high-technology, dual- and restricted-use goods, particularly precision-machined products.
- **Sonora's** strategy is based on the development of aerospace supply chains and innovation, mainly in turbine manufacturing and in meeting specialized needs for the industry.
- **Querétaro** intends to specialize in turbine design, manufacturing, assembly and maintenance, together with repair and overhaul of complex fuselage parts, turbines and landing gear. Also present in Querétaro is the Aerospace Research and Innovation Network, which helps develop the state's research, technological development and innovation capabilities.
- **Baja California** focuses on outsourcing services for the aerospace and defence industry. It also intends to develop fuselage systems and power plants, which will make it an important manufacturing supplier with integrated value chains.

Other regions with aerospace clusters of varying significance include Nuevo León, Tamaulipas, Jalisco, Coahuila and San Luis Potosí.

2.5 Information and communications technology

The development of Mexico's ICT industry is being driven by the mobile telephony, broadband and broadcasting sectors. A major telecommunications reform bill was ratified in 2013, with the secondary laws implementing the reform being passed during 2014. The reforms are intended to increase growth in the sector, open up the market, improve the regulatory environment and increase competition.

The Mexican ICT sector represents CAD 51.6 billion annual worth in market value, which is expected to grow by 5.7 per cent in 2014. Some markets will experience double digit expansion, such as cloud services (50.8 per cent), IT services (16.1 per cent), software (15.5 per cent), cable TV and connectivity (12.5 per cent) and IT equipment (10.8 per cent).

Key drivers in the ICT market growth are software, IT services and mobile solutions. The expected dynamics of the Mexican economy in the next three years, together with the positive impacts of regulatory reforms in telecommunications and energy, provide additional opportunities. Most of the software and hardware technologies sold in Mexico are imported and are valued at CAD 2.6 billion and CAD 12.3 billion, respectively.

Mexico is also a gateway to Latin America, and can consequently provide a base for Canadian ICT firms that want to open up new markets in South and Central America, and the Caribbean. Mexican ICT firms are already doing this: América Móvil, the region's largest telecom operator, is expanding internationally and other Mexican ICT companies are following suit.

2.6 Infrastructure

In early 2014, the Mexican government announced the new National Infrastructure Program (NIP) for 2014–2018. Under this program, a combined public and private investment of close to USD 600 billion will be allocated to six main infrastructure sectors, as follows:

- **Energy infrastructure development** related to CFE and PEMEX includes 262 projects with a total investment of USD 305 billion. Several natural gas pipelines worth USD 2.5 billion will be laid in the border states.
- **Transportation and communications development** includes projects worth USD 105 billion. These include new highways and upgrades to existing ones; new ports and the expansion of older facilities; freight and passenger railways and light rail; and aviation projects such as airport modernization and expansion.
- **Housing and urban development** will receive investments of USD 104 billion, to be spread over a number of projects.
- **Water supply and treatment development** consists of 84 projects with total funding of USD 33 billion.
- **Tourism development** will consist of 83 projects with a total investment of USD 16 billion.
- For **health infrastructure,** there are 87 projects with combined investments of USD 6.1 billion. New hospitals and clinics will be built, including some specialized facilities, and others will be upgraded.

Mexico expects the private sector to play a very substantial role in these projects, with half the investment coming from private investors and the rest from the government.

2.7 Light manufacturing

Mexico has become an ideal location for light manufacturing and assembly operations because of its strategic geographical location, the quality of its workforce and its competitive costs. This sector, consequently, offers a wide range of possibilities. Many are in the automotive sector, but other opportunity areas include the following:

- **Medical devices:** In 2013, Mexico imported USD 4.3 billion worth of medical equipment, dental products and disposable medical goods. In any given year, in fact, imports supply 90 percent of Mexico's medical equipment and instrument needs, and 40 percent of its disposable and dental products requirements. The health care infrastructure expansion under the NIP, noted above, will drive increasing demand in this sector.

- **Plastics:** The plastic industry is driven largely by the automotive sector and by the increasing packaging needs of the food and beverage industries. In 2013, Canada's plastic exports to Mexico totalled CAD 57.5 million, primarily in films and sheets, piping, foam products and laminates. Plastic resins are in short supply, and imports provide about half of Mexico's requirements for these products. On the production side, moulds and moulding machinery are in high demand.
- **Environmental technologies:** Mexico's total environmental technologies market was estimated at about USD 3 billion in 2014, with USD 1.73 billion accounted for by imports. Some of the best prospects for the sector are water resources equipment and services, solid waste management, soil remediation, recycling, air monitoring, hazardous waste transportation, medical waste management and environmental engineering and design services. The numerous water-related infrastructure projects under the NIP will stimulate demand in the water treatment subsector in particular.
- **Safety and security:** This sector has been growing steadily, and imports accounted for about USD 2.4 billion worth of products in 2013. Some of the products needed are perimeter and residential protection systems, digital security systems, access controls, alarms, industrial protection devices and CCTV systems.
- **Packaging:** Mexican companies have been investing extensively in packaging equipment to support modernization and expansion projects. In 2013, Mexico imported an estimated USD 625 million worth of such equipment, with the total Mexican market for that year being about USD 720 million. The main imports have been in the food, beverage, personal care and pharmaceutical sectors.

2.8 Selling to the government

The Mexican government purchases a large variety of services, raw materials, spare parts and finished goods from the private sector every year. Procurement is generally carried out via open tendering through public notices, but it is highly advisable to work with a Mexican partner if you intend to bid on a tender. This will make it much easier to participate in the bidding process and also (if you secure the contract) to provide after-sales support. Information on open tenders (in Spanish) is available on the Sistema Electronico de Compras Gubernamentales **(CompraNet)** website.

3 INVESTING IN MEXICO

Mexico's investment environment is changing rapidly as the government opens a lengthening list of formerly protected sectors to private and foreign participation. This evolution has been brought about by measures such as the sweeping financial and economic reforms of recent years, the guaranteed access that foreign investors now have to international arbitration, and the numerous FTAs Mexico has concluded with other nations. Canadian investors considering a Mexican affiliate should note that these FTAs would provide the affiliate with duty-free access to 44 countries, representing 60 per cent of world GDP.

3.1 Mexico's investment climate

In 2013, Mexico adopted major reforms that will substantially modernize the financial, energy and telecommunications sectors. However, the FDI rules for Canadian investors will continue to be governed by the provisions of the foreign investment chapter of NAFTA. These assure non-discriminatory treatment of most FDI in Mexico, remove performance requirements for FDI projects and liberalize automatic approval procedures for FDI. Expropriation of property is forbidden except for a public purpose, and even then is subject to international law and must include compensation at fair market value. Mexico's NAFTA membership also guarantees the open conversion and transfer of funds to Canadian investors.

3.2 Changes to investment restrictions

Before the recent reforms, the energy sector (oil, gas and electricity) and the telecommunications sector were among Mexico's restricted industries—that is, sectors where participation is reserved to the state. The reforms, however, will ultimately open up these sectors to foreign and private investment, as follows:

- **Oil and gas:** Private sector participation will be allowed in this sector through a contractual framework that includes service, profit sharing, production sharing and licensing contracts. Private investment will also be allowed in oil and natural gas treatment and refining, as well as in the transportation, storage, and distribution of natural gas, gasoline and other oil products.

- **Electricity:** Private power generators will be allowed to install and manage interconnections with the CFE's existing state-owned distribution infrastructure. The reforms also require the government to encourage clean technology and fuel development, and to reduce emissions.

3.3 Reserved sectors

Some sectors are unaffected by the recent reforms and remain reserved to the state. These include:

- Nuclear energy and radioactive materials
- Coinage and printing of money
- Postal services
- Control, supervision and surveillance of ports of entry

There is a further restricted category, which reserves certain sectors for Mexican nationals. These include:

- Retail sales of gasoline and liquid petroleum gas
- Non-cable radio and television services
- Development banks
- Certain professional and technical services
- Domestic transportation for passengers, tourism and freight

Apart from these sectors, FDI in Mexico is essentially free from any requirements for government approval.

3.4 Investment incentives

Mexico provides various incentive programs for foreign investors. The following are the major ones:

- The IMMEX/maquiladora program came into effect in 2006 and provided companies operating under this program with several forms of tax and administrative relief. Among these was a provision that exempted maquiladora companies from paying VAT on goods they imported temporarily in order to manufacture, transform or repair products that would then be re-exported.

  Because of the 2013 financial reforms, however, the standard VAT of 16 per cent now applies to all goods imported temporarily by maquiladora firms. To be exempted from paying the VAT, the company must obtain a certification from the Mexican tax authorities. These developments could have substantial effects on Canadian investors operating maquiladoras or intending to establish them. If you fall into this category, you should consult Mexican legal experts to find out how to deal with the changes.

- Various PROSEC programs (sectoral promotion programs) eliminate or reduce the most-favoured-nation import duties on certain inputs that are used to produce specific products. PROSEC programs support 23 sectors, including electronics, home appliances, automotive and auto parts, textiles, apparel and footwear.

- Several Mexican states have developed their own industrial development policies and provide state-level support to potential investors. This can include reductions in real estate prices as well as cuts to state payroll taxes, transfer taxes and deed registration taxes. Some jurisdictions offer employee training programs and new infrastructure if needed. Among these investor-friendly areas are Nuevo León, Querétaro, San Luis Potosí, Puebla, Guanajuato, Tijuana, Mexicali, Ciudad Juárez, Chihuahua and Guadalajara.

3.5 Foreign trade zones

In 2002, Mexico approved the operation of free trade zones (FTZs) that would allow the manufacturing, repair, distribution and sale of merchandise. Mexico currently has four approved FTZs, located in San Luis Potosí, Mexico City, Monterrey and Guanajuato.

3.6 Labour

In 2012, Mexico passed a major labour reform bill into law. The reform streamlines the hiring and firing of workers, establishes an apprenticeship system, sets up an hourly wage system and regulates outsourcing. It also forbids job discrimination based on sex, health, sexual preference, age and disability. The reform also restructures Mexico's labour courts and incorporates the International Labour Organization's concept of "decent work."

3.7 Social unrest

Social unrest in itself is not a major risk to investors, as Mexican governments are quite stable. That said, the violence that has accompanied the government's war on Mexico's drug cartels is a concern. Certain parts of the country, notably those along the border with the United States, as well as non-border areas where the cartels are active, present greater risks than other regions.

If you are considering an investment in Mexico, you should pay close attention to possible security problems in the area where you intend to do business, and allow for such issues in your planning. Still, it is important to keep the threat in perspective. Most Canadian affiliates are based in more secure regions of Mexico and are not affected by social unrest.

4 ESTABLISHING YOUR PRESENCE IN MEXICO

Subject to the restrictions mentioned earlier, foreign companies may use a range of entry strategies to establish themselves in Mexico. The most common approaches to setting up a Mexican presence are described below.

4.1 Sociedad Anonima (S.A.) and variants

The S.A. is the equivalent of a Canadian corporation. It must have at least two shareholders and a minimum of 50,000 pesos in capital stock. The Sociedad Anonima de Capital Variable (S.A. de C.V.) is a variation of the S.A. that has variable capital, so that the minimum fixed capital can be changed after the corporation is set up. Both these entities are for non-public companies. A publicly traded company is called a Sociedad Anónima Bursátil de Capital Variable (S.A.B. de C.V.).

4.2 Sociedad de Responsabilidad Limitada (S. de R.L.)

This is a limited-liability partnership. It can be up to 100 per cent foreign-owned and must have a minimum of 3,000 pesos in starting capital stock. It must also have at least two partners who manage the company. A common variation, which is the same in most respects except for having variable capital, is the Sociedad de Responsabilidad Limitada de Capital Variable (S.R.L. de C.V.).

4.3 Sociedad Civil (S.C.)

The "civil partnership" or S.C. is the most common organization for professional service providers. It has no minimum capital requirements, no limit on the number of partners and is taxed as a corporation.

4.4 Branches

A foreign company may open a branch instead of incorporating. A branch provides rights and responsibilities that are similar to that of a corporation, including tax liability and access to local courts.

4.5 Joint ventures

A joint venture between a Canadian and a Mexican firm is considered to be independent of its parent companies and must be registered as a separate business.

4.6 Agents and distributors

You can operate in Mexico by using sales representatives, such as agents and distributors, instead of setting up a local presence. In this case, you are considered a non-resident business. Be sure, however, that your representatives don't engage in activities that would require you to establish a Mexican business entity. If they do, the government may decide that your firm is operating an undocumented Mexican subsidiary, which can lead to difficulties.

5 FINANCES, TAXES AND GETTING PAID

Mexican banks have traditionally been very cautious lenders, and small-to medium-sized companies can find it difficult to obtain credit. More recently, however, the banks have been loosening their rules and lending to a broader spectrum of businesses. Lending rates, however, remain high.

Somewhat offsetting the shortage of credit is the relatively low cost of doing business in Mexico. A 2014 KPMG study assessed the competitiveness of more than 100 cities in 10 countries and determined that Mexico had an 18.7 per cent cost advantage over the United States, making it the most competitive of the countries surveyed. For comparison, Canada ranked second in competiveness among the surveyed countries, with business costs 7.2 per cent lower than those in the United States.

5.1 Financial reforms

In 2014, the government announced major financial reforms with four key goals: promoting lending through the country's development banks, expanding credit availability from private financial institutions, increasing competition in the financial sector and ensuring the stability of the financial system.

The reforms will also strengthen protections for users of financial services, expand the role of banking agents, modernize the operation of the country's credit unions, promote the investment funds market and establish a new legal framework for financial entities.

5.2 The banking system

The Banco de México (Banxico) is the country's central bank. Its primary functions are to provide currency to the domestic economy and to ensure the stability of the currency's purchasing power.

Mexico also has several government-owned development banks that service specific economic needs and lend through commercial banks and other financial institutions. One of the two main banks in this category is the Nacional Financiera, S.N.C., which provides loans to companies in priority sectors and acts as the financial agent of the federal government in the negotiation, contracting and management of credits from abroad. The second, the Banco Nacional de Obras y Servicios Públicos, or Banobras, promotes and finances infrastructure projects and public works, primarily through sub-national government lending and project financing.

The commercial banking sector is highly concentrated, with a few large banks controlling most of the market. Regional and niche banks account for the remainder. The government allows foreign competition in the sector, and one of the country's largest non-Mexican banks is Canada's Scotiabank.

5.3 Paying taxes

The federal government is the only Mexican entity that taxes the income of corporations, so there are no state or municipal corporate income taxes. The corporate tax year is the same as the calendar year and cannot be more than 12 months long.

Corporations resident in Mexico are taxed on their worldwide income from all sources, while non-resident corporations are taxed on their Mexican income alone. The 2013 reforms eliminated the former flat rate corporate tax (IETU) and set the value-added tax (VAT) to 16 per cent throughout the country. As of 2014, the corporate tax rate remained at 30 per cent.

Note that Canada and Mexico have a tax treaty that allows Canadian companies to avoid double taxation when operating in Mexico.

5.4 Getting paid

Mexican lending rates are high relative to Canada's, so insisting on secure payment terms that will be expensive for potential customers (such as letters of credit or cash in advance) may cost you sales. Allowing over-lenient terms to secure sales is risky, however, since many Mexican importers find it difficult to finance their foreign purchases. As a result, they not infrequently pay late, which will make your cash flow unpredictable. Worse, if a Mexican customer doesn't pay at all, it can be very difficult to collect on the debt.

The best solution to the payment problem is two-pronged. First, always negotiate your sales contracts and their credit terms very carefully, using qualified local counsel. Second, use receivables insurance to protect yourself against non-payment, as described later in "Solutions from EDC."

6 DISPUTE SETTLEMENT

Because Canada and Mexico are both NAFTA members, disputes involving cross-border investors can be settled under the provisions set out in NAFTA Chapter XI. Either party to a dispute may demand arbitration under the Arbitration Rules of the United Nations Commission on International Trade Law, or the Arbitration (Additional Facility) Rules of the International Centre for Settlement of Investment Disputes. The Mexican government and courts recognize and enforce awards obtained through these mechanisms.

Where NAFTA rules do not apply—for example, in disputes over sales contracts or a customer's refusal to pay for goods—it can take years to resolve a business disagreement. It is almost always better to go to arbitration rather than to court in such situations, so any contract you sign with a Mexican customer should include an arbitration clause that precisely specifies how and where the arbitration will be carried out.

Note that intellectual property (IP) protections registered in Canada, such as patents, trademarks, designs and copyrights, do not extend to Mexico. To protect your rights in the latter country, you must register and enforce them under Mexican law. Always do this with the help of Mexican legal counsel specializing in IP protection.

7 CUSTOMS AND DOCUMENTATION

If you're an exporter, you should expect your Mexican customers to handle the process of clearing your goods through customs (although you'll have to provide a NAFTA Certificate of Origin, if applicable). If you operate an affiliate in Mexico, however, and it brings goods into the country, it will be acting as an importer and will have to comply with all Mexican customs rules and regulations.

7.1 Using customs brokers

Prior to the end of 2014, customs regulations required all Mexican importers (including foreign affiliates) to use licensed Mexican customs brokers to clear goods into the country. As of 2015, however, the importer is allowed to manage all customs paperwork and compliance requirements without going through a broker.

If you have an affiliate that imports goods into Mexico, however, be aware that trying to handle your own customs clearance is *extremely* risky. Mexican customs law is very strict about the submission, preparation and accuracy of import documents, and errors can lead to large fines or even confiscation of the goods. In short, don't try to do it yourself. For this reason as well, Canadian exporters should insist that their Mexican customers use competent, reputable customs brokers to clear their shipments into the country.

7.2 Documentation

The basic customs documents are the import declaration (pedimento de importación), the commercial invoice, a packing list and the bill of lading. These must be submitted to customs by the importer (or by the importer's customs broker, which is much safer), and they should reflect *exactly* what is in the shipment. If they don't match, the shipment will be delayed at best and confiscated at worst. For some products, customs may also require additional documentation to prove compliance with various standards and regulations.

Once the import declaration is validated, the applicable taxes and duties have been paid, and all supporting documentation is deemed acceptable, Mexican customs will release the goods and they can enter Mexico.

7.3 Import regimes

Mexico has several "import regimes" whose tariff rates are affected by NAFTA qualifications. Canadian exporters and Mexican affiliates of Canadian companies most often use the following regimes:

- **Permanent imports**
  These goods are intended to remain in Mexico. If they are made in Canada, they may be eligible under NAFTA for duty-free treatment or reduced duties when entering the country. To show that the goods qualify, you must provide a NAFTA Certificate of Origin for them.

  Tariff rates vary according to the merchandise. For NAFTA-qualified goods, the tariff (if any) is calculated on their FOB value. For unqualified goods, the tariff is calculated on their cost, insurance and freight (CIF) value. In addition to any tariffs, a VAT of 16 per cent is also applied according to either the FOB or CIF, depending on the goods' NAFTA status.

- **Temporary imports**
  Temporary imports—that is, goods that are to be re-exported within six months—attract no duties, taxes or other fees, although they must comply with all other customs provisions.

  As discussed earlier, however, goods that are imported temporarily under the maquiladora program for purposes of manufacture, transformation or repair, are subject to VAT at a rate of 16 per cent. A company in this situation may be able to avoid the VAT by obtaining a certification stating that the imported goods will be used to manufacture products that will then be exported. To avoid potential problems, however, the company should obtain advice from a Mexican customs broker or consultant to help with the certification process.

8 SOLUTIONS FROM EDC

EDC provides many kinds of solutions for Canadian investors and exporters, including several Mexico-specific solutions for Canadian companies with Mexican affiliates.

8.1 Receivables insurance

EDC can help you obtain **receivables insurance** through its agreement with two large credit insurers in Mexico, Atradius Seguros de Crédito and Coface de México S.A. de C.V. This insurance will typically cover up to 90 per cent of your losses resulting from risks such as refusal to pay, refusal to accept goods, bankruptcy or insolvency, or contract cancellation.

8.2 Financing

If you have a Mexican affiliate that requires **financing** for capital goods purchases, or if a Mexican customer needs cash to buy your products, EDC may be able to help by providing direct financing. Alternatively, EDC may be able to guarantee a loan to your Mexican buyer or affiliate through its partnerships with local financial institutions.

8.3 Bonding and guarantees

Before signing a contract, many Mexican buyers—especially large corporations—will require you to post a **performance guarantee** in the form of a surety bond, or *fianza*. EDC now underwrites fianzas issued through its partnership with ACE Fianzas Monterrey, a major Mexican surety institution. This allows you to obtain bonds without having to tie up your working capital in order to post collateral for them.

8.4 Political Risk Insurance

EDC's **Political Risk Insurance** can protect your Mexican assets by insuring up to 90 per cent of losses caused by political events such as government action, civil unrest or the inability to convert or transfer currency.

8.5 Contacting EDC

To find out more about EDC's solutions, and how EDC can help you do business in Mexico, please contact us.

EDC CONTACTS IN CANADA AND MEXICO

Please refer to our **Contact Us** web page.

Canadian Trade Commissioner Service in Mexico

Mexico City
Embassy of Canada
Schiller 529. Col. Polanco
Mexico City, D.F. 11560
Mexico
Tel: (011 52 55) 5724-7900
Fax: (011 52 55) 5724-7982
Email: **mexico.commerce@international.gc.ca**

Monterrey
Consulate General of Canada
Torre Gomez Morin 955
Ave. Gómez Morin 955 Sur, 4th Floor, Suite 404. Col. Montebello
Monterrey, 66279
Mexico
Tel: (011-52-81) 8378-0240
Fax: (011-52-81) 8356-9965
Email: **monterrey@international.gc.ca**

Guadalajara
Consulate of Canada
World Trade Center, Av. Mariano Otero #1249, Piso 8, Torre Pacífico
Col. Rinconada del Bosque, 44530 Guadalajara, Jalisco
Mexico
Tel: 011-52-33-3671-4740
Fax: 011-52-33-3671-4750
Email: **gjara@international.gc.ca**

Embassy of Mexico in Canada
45 O' Connor Street, Suite 1000
Ottawa, ON K1P 1A4
Tel: 613-233-8988
Fax: 613-235-9123

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For more information, please visit **edc.ca**

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