EDC'S GUIDE

DOING BUSINESS IN MEXICO

March 2023

Canada

TAKE ON THE WORLD

CONTENTS

CANADA IN MEXICO: TIES THAT BIND

Canada and Mexico are strategic, North American partners with strong economic, political, and social ties. For more than 75 years, Canada and Mexico's relationship has been characterized by development of cultural connections, growing trade and investment.

Since the signing of the North American Free Trade Agreement (NAFTA) in 1994, bilateral trade between our two countries has grown almost tenfold, reaching approximately C$44 billion in 2019.

In 2013, Mexico introduced major reforms with the goal of increasing competitiveness and economic growth under the administration of Enrique Peña Nieto (2012-2018). Today, Mexico is one of the largest global economies (15th), based on the size of its gross domestic product (GDP). In addition, Mexico's favourable labour demographics, growing consumer class of about 130 million people and well-educated, skilled labour force, offers Canadian businesses a wealth of opportunities. Considered to have one of the most open economies worldwide, Canadian investors and exporters can gain immediate access to 50 markets given the 14 free trade agreements (FTAs) Mexico has signed.

On July 1, 2020, the new Canada-United States-Mexico Agreement (CUSMA) came into force, the world's largest trade bloc with a combined population of 495 million and total GDP of nearly US$25.1 trillion. The successor to NAFTA, the new trade deal seeks to further strengthen the already strong trilateral trading relationship and to increase support to Canadian firms that are looking to diversify their international sales.

Mexico is Canada's sixth-largest trading partner globally and in 2021 bilateral trade reached an impressive C$32.5 billion (Mexican exports to Canada) and C$7.8 billion (Canadian exports to Mexico). Meanwhile, Canadian direct investment in Mexico reached C$25 billion in 2021, making it Canada's ninth-largest direct investment destination globally. Although smaller, Mexican investment into Canada was C$2.7 billion in the same year.

But doing business in Mexico isn't without its challenges, including the issues of security and corruption. On the former, you need to understand that the dynamics are considerably different than in Canada. Security costs, in terms of your premises and personnel, will be higher and require a deeper level of due diligence. Corruption is one of the top challenges for businesses. But on a more positive note, there have been marked improvements since the inception of NAFTA, and they're expected to continuing under CUSMA. Regardless, be vigilant—as you should be when brokering deals anywhere, including Canada because no jurisdiction is immune to business threats.

PRIORITY SECTORS FOR CANADIAN EXPORTERS AND INVESTORS

Thanks to Export Development Canada's (EDC) Business Connection Program, we maintain close relationships with leading Mexican companies in various industries interested in working with Canadian expertise and innovation. As such, the most relevant sectors of opportunity for Canadian exporters and service providers in Mexico are: energy, advanced technology and advanced manufacturing, automotive, mining, aerospace, forestry, infrastructure and retail.

2.1 ENERGY

Mexico has been recognized as one of the largest oil producers in the world and is trying to ramp up production of natural gas by incenting further participation of the private sector after the 2013 Energy Reform. However, under the present administration of President Andres Manuel López Obrador (AMLO), elected in December 2018, Mexico has adopted a more statist approach to the energy sector, increasing the budget of *Petroleos Mexicanos* (PEMEX), Mexico's state-owned oil company, with the goal of bringing crude production to 2.6 mn bl/d (millions of barrels per day) by 2024.

The energy sector is considered one of the most relevant drivers of economic growth for the Mexican economy. In early 2020, the Mexican government announced an ambitious five-year C$99-billion investment plan (2020-2024) for the energy sector encompassing 275 energy projects in power generation, storage and transportation, as well as exploration and production (E&P) of natural gas.

Consequently, EDC considers that the key opportunities for Canadian companies in the oil and gas (O&G) sector can be found with private E&P companies, which have won contracts with PEMEX and that require innovative technologies focusing on cost reduction, service equipment and training for environmentally-friendly production and safety aiming to improve efficiencies and minimize the environmental footprint of their operations.

In terms of electricity, although the energy reform enabled private energy companies to compete in power generation, the state power utility Federal Electricity Commission (CFE) is expected to play a more significant role in the years to come, as the AMLO administration seeks to consolidate power generation in the hands of the Mexican state.

2.2 ADVANCED TECHNOLOGIES AND ADVANCED MANUFACTURING

Over the past decade, Mexico's appetite for advanced technologies in different fields and applications has seen a significant growth. There's a strong potential in communication (telecom) services, information and technology services and enterprise software, semiconductors and electro mobility. Furthermore, applications for the digitalization of businesses, blockchain, Internet of Things (IoT), artificial intelligence (AI), cybersecurity, and fintech (financial technologies) have also seen a significant market uptake and offer interesting opportunities for Canadian exporters.

The development of Mexico's information and communication technology (ICT) industry is being driven by the mobile telephony, broadband and broadcasting sectors, mostly pushed by the government and private companies' interest in developing and expanding their use of cloud-based solutions, ICT services and enterprise software.

As a regional power and home to some of the most important ICT firms, such as America Movil, AT&T Mexico and Axtel-Alestra, Mexico is also a gateway to other key markets in Latin America. As such, Mexico can provide a base for Canadian ICT firms that want to open new markets in the Caribbean and Central and South America.

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Light manufacturing

The Mexican market is ideal for assembly operations due to its competitive cost savings, existing industry clusters, strategic geographical location, quality of its workforce and ease of entry. Mexico's light manufacturing industry plays a crucial role for its contribution to the country's economic development, as well as the production of consumer goods and the extensive capital value chains. Consequently, the light manufacturing (LTM) sector has been looking to improve the use of technologies aiming to keep its appeal for international investors.

Some of the products and services that have seen the biggest demand in recent years:

- medical devices
- biotechnology
- quality control suppliers
- testing and related secondary services
- plastics
- environmental technologies such as water resources equipment
- solid waste management
- recycling
- soil remediation
- air monitoring
- medical waste management
- environmental engineering
- security and safety devices like closed-circuit television (CCTV) systems
- semiconductors

Automotive

The automotive sector in Mexico is globally recognized for its outstanding capacity to manufacture passenger vehicles, heavy and specialized vehicles and automotive parts. Mexico ranks as the seventh-largest country in vehicle production and, is the fifth-largest country in vehicle exports. The automotive industry contributes 21% of the country's manufacturing GDP.

This sector has become a net receiver of Foreign Direct Investment (FDI), comprising 13% of the total foreign capital received in Mexico, due to its strategic location in the so-called Bajio *(bah-hee-oh)* region comprised by four central states: Guanajuato, Aguascalientes, Querétaro and Jalisco. As a result of its strategic location, as well as the concentration of more than 600 Original Equipment Manufacturers (OEMs) and key Tier 1 and Tier 2 suppliers, the sector benefits from competitive production costs, efficient logistics and skilled labour. This clearly maximizes the business potential for Canadian investors and for Canadian suppliers.

The players that are present in the Mexican market have appetite for parts manufacturers of:

- engine
- electrical components
- gearboxes
- drive axles
- steering wheels
- precision assembly devices
- machined parts
- hybrid vehicle parts
- suspension systems
- semiconductors

Plastic parts, electronics and technologies for emission reduction are also in high demand.

With CUSMA in place, the more robust rules of origin for automotive are expected to incentivize production within Canada, the U.S. and Mexico, maintain the competitiveness of the North American auto industry and ensure well-paying jobs.

In 2019, the Government of Mexico identified 234 international mining companies operating in Mexico, 75% of which are listed in the Toronto Stock Exchange (TSX).

Mining

According to the Mexican Ministry of Economy, Mexico leads the world's production of silver and is also among the Top 10 producers of 16 different minerals: silver, bismuth, fluorite, celestite, wollastonite, cadmium, molybdenum, lead, zinc, diatomite, salt, barite, graphite, gypsum, gold and copper. Mexico is also the world's fifth-largest recipient of FDI for mining and the first recipient of mining investment in Latin America. In 2019, the Government of Mexico identified 234 international mining companies operating in Mexico, 75% of which are listed in the Toronto Stock Exchange (TSX). This shows the complementarity of the two countries.

Canada is a global leader in the provision of mining services and the development of innovative technologies for the global mining industry. More than 3,000 companies provide technical, legal, financial, accounting, environmental, and other expertise to the industry. Many of these companies have a global presence, including in Mexico. Prior to 2017, many of our existing and prospective clients in Mexico focused on increasing mine efficiencies and reducing operating costs. While they continue to focus on these trends, they have also begun to embrace innovation and to implement cutting-edge technologies such as clean technologies aiming to reduce carbon emissions, improve water management and energy storage.

Aerospace

According to the Mexican Aerospace Industry Federation (FEMIA), the aerospace industry in Mexico has had a steady annual growth since 2004, when the sector accounted for only 100 companies. Today, there are more than 350 aerospace companies, mainly focused in design and engineering, manufacturing with an 80% of concentration, maintenance-repair-overhaul facilities (MROs) and ancillary services (airline test, training centres, etc.) for commercial and military aircrafts. Mexico is a global leader in the aerospace industry and ranks as the sixth-largest exporter to the U.S.

Many international aerospace firms have established their secondary-components supply chains in Mexico to benefit from its competitive operating costs, high levels of education of the local workforce, well-developed aerospace infrastructure and strong regulatory framework. A large number of these companies is concentrated in the northern region. In this area, the aerospace industry is focused on the generation of new technologies and the promotion of clusters, in joint collaboration among companies, universities, R&D centres and local government offices.

Mexico's four principal states for the aerospace industry are:

- **Querétaro:** Specialized in complex fuselage parts, landing gear, turbine design, manufacturing, assembly and maintenance.
- **Baja California:** Develops the fuselage systems, power plants and main outsourcing for the aerospace and defence industry.
- **Sonora:** Focused on the development of supply chains and innovation, and in the manufacturing of turbines and blades. The strength of this state is focused on R&D activities, in which the Sonora Institute for Advanced Manufacturing and Aerospace collaborates with private sector companies.
- **Chihuahua:** Strong on the development of high-technologies, including precision machined products certification, repair and maintenance services.

In 2019, the AMLO administration announced an ambitious infrastructure plan worth C$48 billion (about 20.5% of Mexico's GDP), which includes highways, railways, ports, and investments in water, tourism and telecommunications.

Forestry

The main goal of Mexico's forestry sector is to transform itself into a more sustainable segment, enhancing the way their natural resources have been historically exploited, and transforming it into an industry that can be fully tapped without endangering the country's ecosystems. Through this transformation, the sector appears well-positioned to participate in a stronger way in the national economy, providing a new generation of employment that utilizes best practices, a broader supply of wood and non-wood products, and a full integration of the entire forest production chain.

For Canadian providers, the forestry sector in Mexico offers potential in a variety of wood alternative products such as:

- viscose cellulose (which could be used as a substitute for cotton)
- other specialty cellulose with application in construction materials (used in mortar and adhesives)
- food (used to modify ice crystals)
- paints (used as a thickener)
- and pharmaceutical (used as a tablet coating)

However, it's important to mention that the insertion of these products into supply chains is price sensitive. The retail home-improvement segment may also bring new opportunities for lumber producers.

Mexico is home to some of the most important multinational firms in the sector that produce a number of consumable goods, such as diapers, wipes and hygiene products. This could provide opportunities both for forestry equipment and service providers, but also in other sectors, like light manufacturing and cleantech (recycling, power, water management).

2.3 INFRASTRUCTURE

In 2019, the AMLO administration announced an ambitious infrastructure plan worth C$48 billion (about 20.5% of Mexico's GDP), which includes highways, railways, ports, and investments in water, tourism and telecommunications. The Mexican government expects that most of the investment will come from the private sector, which is expected to attract more than C$3 billion in investment from pension funds and private investment funds. Recognizing that lack of transparency has been one of the country's Achilles heel to attract reputable international investors in the past, the government highlighted that the 147 projects that are part of the announcement will comply with standards set out by the Mexico's *Consejo Coordinador Empresarial* (CCE).

The current Mexican administration launched a platform called Mexico Projects Hub to provide information on investment opportunities in infrastructure and an assortment of other projects.

Changing lifestyles of the young demographics have created a trend and increased the demand for high-quality and healthier products, ready-to-eat foods, premium products, meat and deli, wellness, specialty and gourmet.

2.4 RETAIL

The retail sector is recognized for exhibiting a stable and continuous growth as a result of its high consumer confidence index, backed by a growing middle class and a robust upper class. Mexico offers opportunities for brands across all categories and segments, and this isn't limited to the presence of products on store shelves but also via e-commerce.

Changing lifestyles of the young demographics have created a trend and increased the demand for high-quality and healthier products, ready-to-eat foods, premium products, meat and deli, wellness, specialty and gourmet. In EDC's view, this could lead to strong opportunities for Canadian companies in Mexico.

Despite its outstanding performance, this is a price-sensitive sector where retailers are measured on the profitability of their categories and, as a result, more expensive products can be less appealing to consumers.

Mexican retailers have expressed an appetite to explore different categories from various countries with the potential to be integrated into their private labels offering for premium and innovative products as well as some low-cost products, including commodities such as rice, beans, soy, etc. The proximity of Canada to Mexico brings a competitive advantage compared to other markets.

In 2020, Mexico passed a law that requires food manufacturers to comply with the Official Mexican Standards (NOM), mandatory technical regulations.

All products intended for retail sale in the country, whether for human or animal consumption, must comply with the applicable commercial and sanitary technical regulations stated in the NOMs. Some of these requirements include adding warnings to front-of-package (FOP) labelling for foods that are declared to be high in sugar, sodium, or saturated fat.

2.5 SELLING TO 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's 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.

Additionally, information on open tenders (in Spanish) is available on Compranet, the Mexican federal e-procurement system: compranet.hacienda.gob.mx/web/login.html

Specific guide (in Spanish) of the registration, procedures and proposal can be found at compranetinfo.hacienda.gob.mx/descargas/Licitantes.pdf

INVESTING IN MEXICO

Mexico is one of the countries most open to Foreign Direct Investment (FDI), and is the 10th-largest FDI recipient in the world. As such, our trade and investment relationship has seen strong growth since the NAFTA came into force in 1994.

DID YOU KNOW?

Canadian trade and investment with Mexico is steadily growing, with

MORE THAN **$41.7 BILLION**

in two-way merchandise trade in 2021.

Mexico remains Canada's

SIXTH-LARGEST MERCHANDISE TRADING PARTNER.

Mexico is Canada's third-largest source of merchandise imports

$32.5 BILLION in 2021,

...and its fourth-most important merchandise export destination

$7.8 BILLION in 2021.

3.1 MEXICO'S INVESTMENT CLIMATE

Canadian direct investment in Mexico was $25 billion in 2021, which is Canada's ninth-largest direct investment destination. Mexico's stability, growing consumer class and competitive labour continue to make it an attractive market for Canadian exports and investments, and as a result Mexico has been identified as a priority market.

The FDI rules for Canadian investors is governed by the provisions of the foreign investment chapter within CUSMA. 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 CUSMA membership also guarantees the open conversion and transfer of funds to Canadian investors.

Foreign investment protection

CUSMA provides Mexican investors transparent and predictable access to Canadian markets through reciprocal, legally binding rights and obligations. One of 12 in the new agreement, the investment chapter contains a comprehensive set of protections to international and Canadian investors similar to those found in other free trade agreements (FTAs), including the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP).

3.2 CHANGES TO INVESTMENT RESTRICTIONS

During the 2012-2018 administration, Mexico embarked on an ambitious program of legal and structural reforms directed to encourage an increase in the flow of international investment into the country. Given the outcome of the 2018 elections, the current administration led by Andrés Manuel López Obrador took office and is known for its desire to revisit many of the legal developments of the past. The main thrust of change is the fight against corruption and impunity.

As part of the high-level analysis to be undertaken before expanding into Mexico, investors should consider the well-known social and economic circumstances and ongoing challenges with corruption and crime.

Although most investors shouldn't expect to face overly cumbersome regulatory hurdles when investing in the more traditional aspects of the Mexican economy, Canadian companies should exercise additional caution (e.g., strict compliance with their domestic anti-corruption laws, and strict local compliance and anti-money laundering standards).

While maintaining good relationships with government officials is important, there are strict guidelines prohibiting gifts or "privileges" to an official.

Finally, it's important for international investors to be careful when choosing local counsel for any and all business undertakings.

Various PROSEC programs (sectorial 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.

3.3 RESERVED SECTORS

Some sectors are unaffected by the 2014 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's a further restricted category, which reserves certain sectors for Mexican nationals.

These include:

- 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 international 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. IMMEX is a program applied to foreign goods, which are temporarily imported for export, such as manufacturing, transformation or repairing processes or for the provision of export services.
- Among these was a provision that exempted maquiladora companies from paying the value-added tax (VAT) on goods they imported temporarily in order to manufacture, transform or repair products that would then be re-exported.
- The IMMEX program allows companies to temporarily import the necessary goods (machinery or supplies) to be used in these processes without paying:
  - General import tax (IGI).
  - Value-added tax (IVA)
  - Compensatory fees, when applicable.
- Since the 2013 financial reforms, the standard VAT of 16% 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.
- Various PROSEC programs (sectorial promotion programs) eliminate or reduce the most-favoured-nation import duties on certain inputs that are used to produce specific products. PROSEC programs support 24 sectors, including electronics, home appliances, automotive and auto parts, textiles, apparel and footwear. For more information on the 24 sectors, please visit this Spanish-only website.
- 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.

IMMEX and PROSEC procedures are free and should be carried out before the Mexican Ministry of Economy at the Ventanilla Única for Mexican Foreign Trade (VUCEM), a one-stop window in custom offices around the country.

It's worth noting that Mexico's incentive programs are mostly facilitated by local government officials rather than at the federal level. When planning to set up a business in Mexico, Canadian companies should consider speaking with at least three potential Mexican local governments agencies to explore their incentive package and choose the best option.

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.

3.5 FOREIGN TRADE ZONES

Since 2002, Mexico approved the operation of free trade zones (FTZs) that would allow free trade in industrial products, by reducing trade barriers in these regions. In order to encourage investment, creation of jobs, improvement of production and economic stability. Currently, there are two approved FTZs. In the northern border (comprising Baja California, Sonora, Chihuahua, Coahuila, Nuevo Leon, and Tamaulipas) and southern border of Mexico (Quintana Roo, Chiapas, Campeche, and Tabasco). These FTZs provide a tax credit of 50% of the value added tax (VAT), and a tax credit equivalent to one-third of the income tax due in the fiscal year income.

3.6 LABOUR

In 2022, Mexico passed into law a Labour Reform bill, which included the creation of a labour justice institution, new union participation programs and the prohibiting of outsourcing labour except for specialized services—to comply with CUSMA commitments.

The labour chapter in CUSMA aims to improve the labour standards and working conditions in the four regions. CUSMA is expected to enhance the enforcement and protection of labour national laws, policies of fundamental principals and human rights at work. This includes the right to collective bargaining and the prohibition of importation of goods produced through forced labour, among others.

In order to assure this chapter agreements are being respected, there will be a three-member panel of independent labour experts, whose job will be to investigate potential violations.

The labour chapter is subject to dispute settlement.

3.7 SOCIAL UNREST

Traditionally, social unrest hasn't been a major risk for Canadian investors. That said, the violence that has accompanied the government's war on Mexico's drug cartels is still 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.

The Mexican Institute for Competitiveness' (IMCO) annual State Competitiveness Report 2022, for instance, estimates that the states with the highest levels of insecurity are Baja California, Colima, Mexico (Estado de Mexico), Morelos, and Zacatecas. In contrast, the state with the highest security perception is Yucatan.

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's important to keep the threat in perspective. Most Canadian affiliates are based in more secure regions of Mexico and aren't affected

ESTABLISHING YOUR PRESENCE IN MEXICO

Subject to the restrictions mentioned earlier, international 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 in this chapter.

by social unrest.

4.1 OBTAIN THE AUTHORIZATION OF USING THE COMPANY NAME ONLINE

The company name can be reserved directly by the public notary through the following online platform: mua.economia.gob.mx/mua-web/muaHome. On the website, the following information must be included: name, type of company and the notary public with whom the constitution will be formalized. Once all the information is provided, the notary must sign the request with the electronic signature (e.firma).

The Ministry of Economy will first check its availability and then proceed if it complies with the legal framework. The authorization is issued via email within the next two days and it's valid for 180 days.

Once the company's incorporation deed is made, the notary public will notify the Ministry of Economy of the using of the authorized company name.

4.2 OBTAIN A TAX REGISTRY NUMBER (RFC) WITH THE TAX AUTHORITIES (SISTEMA DE ADMINISTRACIÓN TRIBUTARIA - SAT)

The company must obtain a tax identification number (Registro Federal de Contribuyentes—"RFC") from the tax authorities. Notaries can obtain it at www.sat.gob.mx/personas/tramites-del-rfc.

He/she submits the information on the company and retrieves the RFC and the tax identification card in PDF format. The entrepreneur can also obtain the RFC, but needs to go in person to the service centre to provide an electronic signature.

4.3 REGISTER WITH THE LOCAL TAX AUTHORITIES

The company must register with the local tax administration and enrol in the Registry of Taxpayers for payroll tax (*Inscripción de Datos al Padrón de Contribuyentes del Impuesto sobre Nóminas*).

The company can register at the Alcaldia (City Hall) office and the documents required are the following:

- Articles of association and legal representative identification
- Application form for enrolment
- Taxpayer identification number (RFC)
- Notice of enrolment at the IMSS

In addition, this procedure can be completed in Mexico City online at innovacion.finanzas.cdmx.gob.mx/siscon/.

The company will need the electronic signature (e.firma) and the registration of the legal representative.

The company is enrolled immediately, and it will receive a receipt of the application.

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're 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.

Since September 2018, the annual payroll tax declarations should be presented only through the online platform with the company e.firma.

4.4 STANDARDIZED COMPANIES AND ITS LEGAL FORMS

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.).

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

This is a limited-liability partnership. It can be up to 100% 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.).

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.

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.

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.

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're 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.

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.

5.1 FINANCIAL REFORMS

In 2014, the government announced major financial reforms with four key goals:

1. Promoting lending through the country's development banks
2. Expanding credit availability from private financial institutions
3. Increasing competition in the financial sector
4. Ensuring the stability of the financial system

The reforms are still in the implementation phase: aiming to 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*, SNC-(Nafin) and Banco de Comercio Exterior (Bancomext), 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* (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 international competition in the sector, and Canada's Scotiabank Inverlat has become one of the country's largest banks in Mexico.

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

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 can't 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% throughout the country. Since 2014, the corporate tax rate has remained at 30%.

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, they may often 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.

DISPUTE SETTLEMENT

The state-to-state dispute settlement system in CUSMA provides a transparent mechanism for the resolution of disputes for all chapters of the agreement. Almost all of the obligations in the agreement, including those related to labour and the environment, are subject to this dispute settlement system. The bilateral facility-specific rapid response mechanism (RRM) falls under its own regulations and will provide Canada with an enhanced process to ensure the effective implementation of specific labour obligations in covered facilities.

Although CUSMA, by and large, retained certain dispute resolutions mechanisms from NAFTA, it's expected that Canada-Mexico disputes will be governed by the Comprehensive and Progressive Agreement for Trans-Pacific Partnership rather than the CUSMA.

Canada isn't party to the CUSMA's Investor-State Dispute Settlement (ISDS) provisions. Under the CUSMA, investor-state arbitration is limited to America and Mexico. However, the original NAFTA ISDS mechanism will remain available to investors with respect to their existing investments for a period of three years after entry-into-force of CUSMA. Access to ISDS for disputes between Canadian or Mexican investors and Mexico or Canada, respectively, is possible under the CPTPP. Note that intellectual property (IP) protections registered in Canada, such as patents, trademarks, designs and copyrights, don't extend to Mexico. CUSMA has improved IP protections, but you must register for these protections in Mexico and they will be enforced under Mexican law. Always do this with the help of Mexican legal counsel specializing in IP protection.

CUSTOMS AND DOCUMENTATION

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.

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 CUSMA 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, 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 landing. 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 (i.e. certificate of origin, certificate of weight and volume, identification of goods, etc.). 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.

To avoid potential problems, the company should obtain advice from a Mexican customs broker or consultant to help with the certification process.

7.3 IMPORT REGIMES

Mexico has several "import regimes" whose tariff rates are affected by CUSMA 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 CUSMA for duty-free treatment or reduced duties when entering the country. To show that the goods qualify, you must provide a CUSMA certificate of origin for them.

Tariff rates vary according to the merchandise. For CUSMA-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% is also applied according to either the FOB or CIF, depending on the goods' CUSMA status.

Temporary imports

Temporary imports are goods that are to be re-exported within six months and 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%. 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, the company should obtain advice from a Mexican customs broker or consultant to help with the certification process.

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 MANAGING RISKS

EDC Credit Insurance

With EDC Credit Insurance, 90% of your insured losses are covered against the risk of non-payment caused by a variety of events.

Our credit insurance protects you against the risk of non-payment caused by an array of events, including customer bankruptcy or non-payment, contract cancellation, issues with currency conversion or transfer, and more.

Whether you want the security of knowing a few or many of your sales are protected against non-payment, we have the credit insurance solution that's right for you:

- **EDC Select Credit Insurance:** If a customer doesn't pay you, EDC will cover 90% of your insured losses. It is a short-term coverage only when you need it.
- **Portfolio Credit Insurance:** Protect your profits with Portfolio Credit Insurance and, get covered for 90% of your insured losses if a customer doesn't pay. It is an ongoing coverage for active exporters.

Performance Security Insurance

EDC will cover 95% of your insured losses if a customer wrongfully calls a letter of guarantee or if a call is triggered by you not being able to meet your obligations due to specific political risks.

8.2 SECURING FINANCING

Buyer Financing

EDC can help you gain a competitive edge by providing buyer financing to your international customer and taking on the risk of non-payment for you.

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.

Direct Lending

EDC can offer direct financing to your company or your foreign affiliate through a secured loan.

A loan can be made directly to your Canadian company in support of its international investment, or to your foreign affiliate, secured by the foreign assets.

Get financing for the range of loans you need, including bilateral loans, club deals, or syndicated loans:

- various lending structures are possible
- EDC lending support is priced based on the level of risk and the market involved

Structured and Project Finance

Structured and Project Finance is designed specifically for limited recourse financing of long-term, capital intensive projects.

EDC acts as a partner with international project sponsors to advise, arrange and underwrite financing.

Structured and Project Finance support is for you if:

- your project generates revenues of more than $50 million
- you have export activities outside of Canada
- you need structured financing in order to execute a large-scale global project in the extractive, power, utilities, infrastructure or industrial sector
- your project clearly demonstrates economic benefits to Canada

8.3 GROWING WORKING CAPITAL

Export Guarantee Program

EDC's Export Guarantee Program can help your bank provide you with additional access to financing. We share the risk with your bank by providing a guarantee on the money you borrow, encouraging them to increase your access to working capital.

Account Performance Security Guarantee

Issue letters of guarantee without putting up cash or credit to your bank as collateral. EDC will provide a 100% guarantee to your bank for any bonds it posts on your behalf.

Foreign Exchange Facility Guarantee

Protect your margins with the Foreign Exchange Facility Guarantee, avoiding posting collateral as payment assurance for your foreign exchange contract provider and keep your cash free for doing business.

Surety Bonds

Encourage your surety company to provide you with the bonding capacity you need to grow your business. We can reinsure them against losses if a customer demands payment against your surety bond.

Foreign Direct Investment Inbound

International companies with interest in developing greenfield or brownfield investments with or without capital expenditures (capex) in Canada, should contact our federal partners, including the Trade Commissioner Service, Invest in Canada and other relevant provincial partners, to unlock potential investment opportunities and facilitate their international expansion. Greenfield and brownfield investments are two types of foreign direct investment. With greenfield investing, a company will build its own, brand new facilities from the ground up. Brownfield investment happens when a company purchases or leases an existing facility.

Based on the benefits that this investment would bring to Canada, EDC can support up to the full capital costs, the cost of Canadian supply or the purchase price of a company's investment in Canada, offering competitive rates to borrowers based on credit quality, general market conditions, and the length of repayment terms being considered. We typically partner with other financial institutions when providing this type of financing. To find out more information, please contact EDC's regional offices in Mexico.

Global corporate partnership program

When a company is developing its cutting-edge Canadian capabilities, EDC can assist the partnering firm through our export solutions. This offers the company access to diversified and competitive financing, which ultimately benefits their customers, and to social initiatives in Canada. Examples include collaboration on efforts to close the gender gap in tech, working with EDC's Inclusive Trade group to support Indigenous trade and expanding a company's supply chain.

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

Based on your region, please refer to our Contact Us website

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ABOUT EXPORT DEVELOPMENT CANADA

Who are we?

Export Development Canada (EDC) is Canada's export credit agency. Our job is to support and develop Canada's export trade by helping Canadian companies respond to international business opportunities. We're a self-financing Crown Corporation that operates at arm's length from the Government of Canada.

Disclaimer

Canada

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