HOW TO DO BUSINESS IN MEXICO:

A Manufacturer's Guide

2025

PRODENSA

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The objective of the **“Doing Business in Mexico”** E-Book is to inform a professional in the discovery or research stage of a project initiative in Mexico.

Our goal is to provide value and generalized knowledge that will empower the strategic decisions of manufacturing operations in North America.

Disclaimer: it is not a lawful guide to be used for any purpose other than generalized research and understanding the Mexican laws and provision necessary to give context to operational conditions in Mexico. It is aimed to support the understanding of a semi-professional in generalized and easy-to-understand terms. It is not legally binding nor complete in all legal contexts and shall not be used as reference to any arbitration. The reader at all times is solely responsible for the application of the information shared herein.

Purpose of the Guide

The purpose of this guide is to equip manufacturers with the knowledge and insights required to navigate the Mexican business landscape successfully. By the end of this e-book, you will have a comprehensive understanding of what it is like doing business in Mexico as a manufacturer and be more prepared to seize the opportunities available.

Three big phenomena are happening today that are creating historic opportunities and challenges for manufacturers in North America.

First, as part of "the nearshoring effect", production lines located in Asia are coming closer to the North American market in order to meet customer demands, and to minimize operating costs or avoid import duties.

Second, the North American vehicle footprint is undergoing a transformation from ICE (internal combustion engine) to EV (electric vehicles), representing an enormous challenge for the region. This path, already defined by the U.S. government and endorsed by consumers, implies a huge transformation of the manufacturing capabilities of OEM's and their suppliers of the industry.

Third, manufacturers in the United States are seeing a great challenge in staffing their operations in the era of flex time, flex space, gaming and influencing.

This complex environment full of opportunities and challenges is demanding new strategies and perspectives from business leaders. Manufacturing in Mexico holds great potential for those looking to expand their horizons and capitalize on this transformation.



Emilio Cadena-Rubio

CEO

CHAPTER 1

Introduction

OVERVIEW OF MEXICO'S MANUFACTURING SECTOR

Mexico has emerged as a prominent player in the global manufacturing industry. With its strategic location, skilled labor force, and favorable trade agreements, Mexico has attracted numerous manufacturers from around the world. The country boasts a diverse range of manufacturing sectors, including automotive, aerospace, electronics, textiles, and more. Understanding the scope and potential of Mexico's manufacturing sector is essential for any business looking to establish operations in the country.

Mexico's manufacturing sector is a major contributor to the country's economy, accounting for around 18% of GDP. The sector is highly diversified, with a wide range of products produced, including automobiles, appliances and medical devices.



Source: Secretarìa de Economía

Mexico is a major exporter of manufactured goods, with exports of manufactured goods accounting for **nearly 90% of total exports** (2024). The United States is the largest export market for Mexican manufactured goods, followed by Canada and China. Mexico exported $617B in 2024, with **about 82% of it destined for the United States**. Mexico is also a major importer of manufactured goods, with imports of manufactured goods accounting for about 90% of total imports (2024), with **intermediate goods making up about 75% of total imports**.

Due to years of foreign direct investment inflows into Mexico as well as the increased collaboration between Canada, the United States, and Mexico, the manufacturing skill level in Mexico is world class.

STEM GRADUATES IN MEXICO

Science, Technology, Engineering, Math (STEM) graduates in 2021-2022 of more than 169,000 graduate and undergraduate students. In 2021, more than 83,000 engineers graduated with a focus on electronics, industrial, mechanical, construction, and chemical processes.





Emmanuel Saucedo

HR MARKET INTELLIGENCE MANAGER

WHY CHOOSE MEXICO FOR MANUFACTURING?

"There are several compelling reasons why Mexico is an attractive destination for manufacturers, including:

Location: The proximity to the lucrative market of the United States provides easy access to customers and clients

Trade Agreements: In total, Mexico celebrates 13 Free Trade Agreements with 50 countries, including the U.S.-Mexico-Canada-Agreement which facilitates cross-border trade and reduces tariff burden

Workforce: About 25% of Mexican workers are employed in the manufacturing industry (2024), with experience in a variety of manufacturing trades

Cost: Mexico competes on a global stage for operative labor wages and availability of a semi-skilled workforce

Overall, Mexico is a very attractive location for manufacturing. The country has a number of advantages that can help businesses save money, increase productivity and reach new markets."



Alejandro Mendoza

PARTNER & RESIDENT REAL ESTATE

"At Prodensa, we support investments in Mexico with a goal of augmenting regional competitiveness in North America. We take immense pride in our role of contributing to our communities, creating employment opportunities by bringing world-class companies to Mexico and supporting their growth.

Our team passionately promotes The Prodensa Way® in their methodologies to solve some of the toughest challenges, and also in the values and ethics that foster trust and respect within our partnerships.

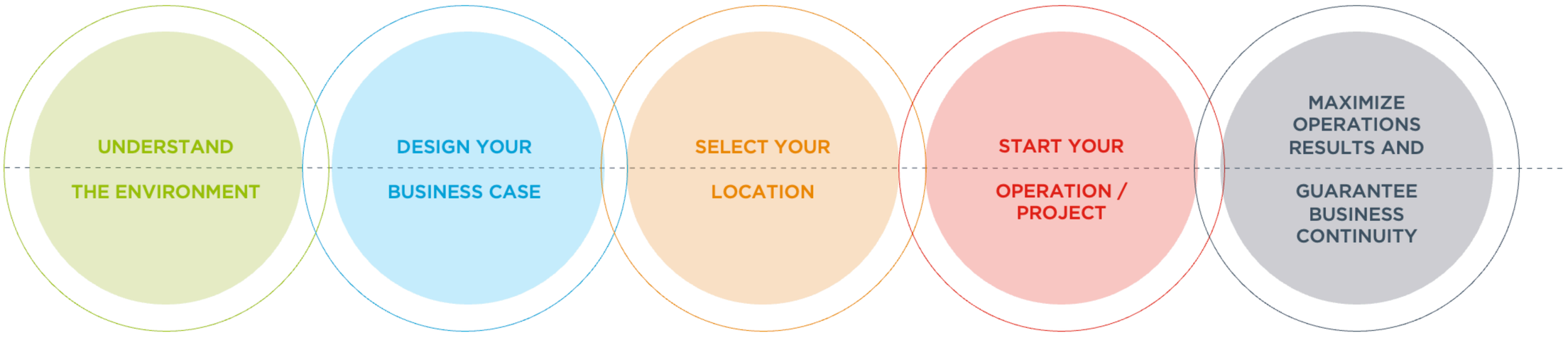
Our mission is not just to support our clients, but to infuse valuable insights and apply our expertise in operational compliance and the navigation of complex sociopolitical environments. This focused approach allows us to drive productivity for our clients, ensuring their success while also fulfilling our commitment to the communities we serve."



Marco Kuljacha

PRESIDENT

OUR MISSION IS TO HELP YOU SUCCESFULLY EXECUTE YOUR STRATEGY



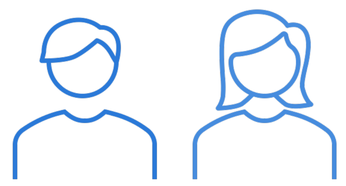
CHAPTER 2

Understanding the Mexican Business Environment

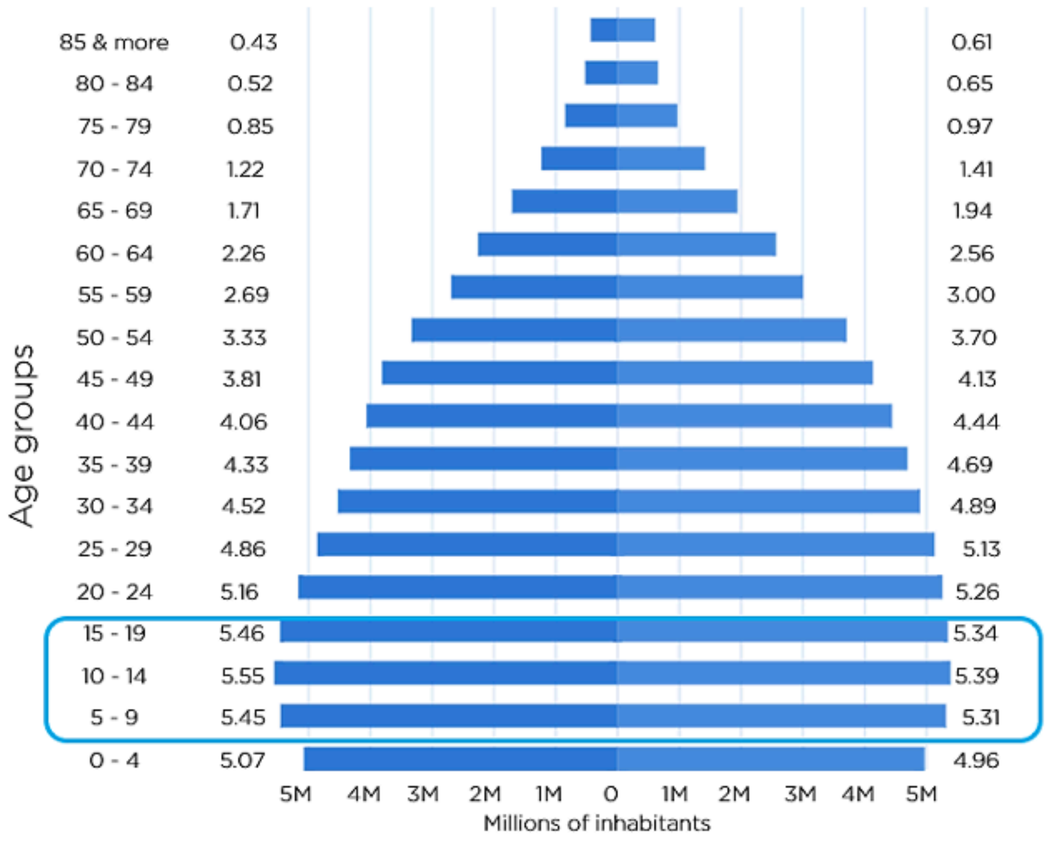
GENERAL INDICATORS 2024

POPULATION	130,861,007
ECONOMICALLY ACTIVE POPULATION	61,000,000
OCCUPIED POPULATION	59,500,000
INFORMALITY RATE	55.06%
UNEMPLOYMENT RATE	3.22%
AVERAGE SCHOLARITY GRADE	9.86
GINI COEFFICIENT	45.4

48% MEN



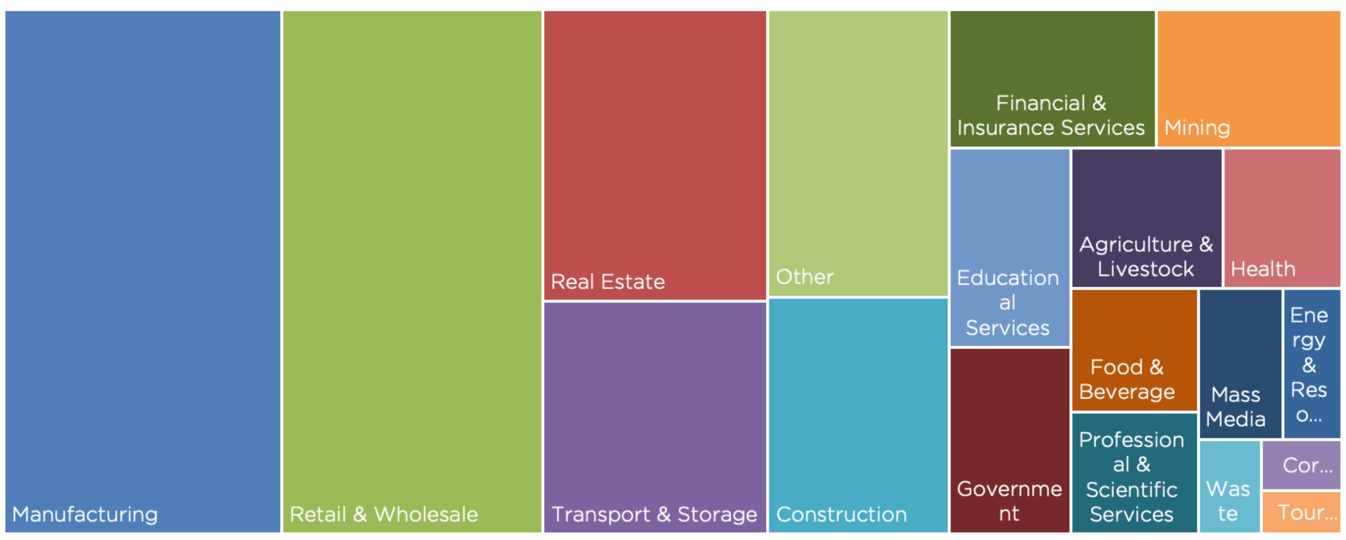
52% WOMEN



MAIN CITIES		
1st Mexico Valley	2nd Guadalajara	3rd Monterrey
22.5M	5.5M	5.3M

ECONOMY & TRADE

GDP DISTRIBUTION BY SECTOR (Q3 Dec 2024)



13TH LARGEST ECONOMY IN THE WORLD

EXPORTS (2023):
1st Light Vehicles ($58B)
2nd Automotive Parts ($40B)
3rd Heavy Vehicles ($38B)

IMPORTS (2023):
1st Automotive Parts ($32B)
2nd Oil ($31B)
3rd Electronic Circuits ($24B)

MANUFACTURING-FOR-EXPORT

2024

IMMEX EXPORTS	IMMEX COMPANIES	IMMEX WORKFORCE
$236 B*	5,200	2.913 M

IMMEX STANDS FOR "MANUFACTURING INDUSTRY, MAQUILADORA & EXPORT SERVICES" PROGRAM. *EXPORTS SPECIFICALLY REFER TO "INCOME DERIVED FROM THE FOREIGN MARKET" AMONG IMMEX COMPANIES, OBTAINED FROM: HTTPS://EN.WWW.INEGI.ORG.MX/APP/TABULADOS/INTERACTIVOS/?PX=IMMEX_1&BD=IMMEX

POLITICAL OVERVIEW

Mexico's political and economic landscape in 2025 reflects a blend of ambitious government initiatives and significant external and internal challenges. Politically, while Mexico remains a competitive and multi-party democracy, recent political shifts have solidified MORENA's dominance (a left-wing party founded 2014) under the administration of President Claudia Sheinbaum, Mexico's first female president, who took office in 2024. Her leadership represents a continuation of Andrés Manuel López Obrador's (AMLO) policies, who served as president from 2018-2024.

Sheinbaum's government builds on these foundations focusing on social progress, industrialization, sustainability, and regional development alongside labor, energy and the judicial reforms. However, geopolitical tensions, trade war threats, security concerns, and structural challenges create a complex environment for governance and business. Mexico's relationship with the U.S. and ongoing institutional changes remains central to the country's political and economic trajectory.

KEY POLITICAL INSTITUTIONS

- **President**: elected for a single six-year term (sexenio) with no-reelection. Holds strong executive powers.
- **Congress**: bicameral, with a Senate (128 members) and Chamber of Deputies (500 members). Elections are both direct voting and proportional representation.
- **Judiciary**: the Supreme Court of Justice is the highest court but has historically had limited independence.

CURRENT POLITICAL TRENDS

- **Morena's Legislative Dominance**: while Mexico remains a multi-party democracy, MORENA and its allies (PT, PVEM) hold significant legislative power, often clashing with opposition parties (PRI, PAN, MC) over key policies.
- **Plan Mexico**: the main policy driving Sheinbaum's economic agenda, this plan aims to position Mexico as a leader in industrialization, innovation and sustainability through a mix of nearshoring incentives, infrastructure incentives, and regulatory efficiency.
- **Digital Transformation**: the recently created Agency for Digital Transformation and Telecommunications is modernizing government processes, streamlining bureaucracy, and lowering compliance costs for business.

- **Industrial Growth**: Mexico is experiencing rapid industrial expansion, attracting foreign direct investment (FDI) into key sectors. The government is driving industrial growth through infrastructure projects, investment incentives, and workforce development.
- **Institutional Reforms**: proposed judicial, electoral, and energy reforms are raising concerns over checks and balances, legal certainty, infrastructure development, investor confidence, and adherence to USMCA commitments.
- **Security Challenges**: public security remains a key issue, as organized crime poses a persistent threat, especially in industrial regions, while U.S. pressure on Mexico's security policies has increased after Trump's threats to classify cartels as terrorist organizations.
- **U.S.-Mexico Relations & Trade Dynamics**: with everyday threats of tariffs from the Trump administration and the 2026 USMCA revision approaching, Sheinbaum must navigate a complex relationship with the U.S. under Donald Trump's administration, balancing trade integration with potential protectionist policies. Key issues include migration, escalating trade tensions, and security concerns, all of which could reshape bilateral dynamics and impact Mexico's economic strategy.
- **Expansion of Social Programs**: increased funding for cash transfers, education, healthcare and job-training programs aim to reduce inequality and promote economic inclusion.



Isabel Clavijo

VP INSTITUTIONAL RELATIONS

LEGAL CONSIDERATIONS

The legal frameworks in Mexico are complex and constantly evolving. The Mexican Constitution is the supreme law of the land and holds the highest authority. All laws, regulations, and actions of the government much comply with the provisions of the Constitution. The Mexican Constitution establishes basic principles of government. The Constitution is supplemented by more than 2,600 federal, state and local laws and regulations, including the Federal Civil Code, the Federal Criminal Code, the General Law of Commercial Companies and the Federal and the Commercial Code.

If any law contradicts the Constitution, it can be declared unconstitutional and invalid. Additionally, the Mexican legal system incorporates principles of international law and international treaties that Mexico has ratified. In certain cases, international treaties may have precedence over national laws.

Mexico has a legal system known as Civil Law (also known as the Roman-Germanic system), and is very formal and bureaucratic. The notary public office in Mexico holds a lot of weight and responsibility. Many legal acts must be conducted in front of them. For foreign companies, this will most likely require a power of attorney and a local partner to facilitate.

Foreigners from applicable countries that wish to visit Mexico may enter on a Tourist Visa that is good for 180 days. This visa allows you to enjoy tourism or business meetings, for example. You cannot work in Mexico with a Tourist Visa.

Labor Laws: The Mexican Federal Labor Law was reformed in 2019, with most notable changes to labor laws that protect workers' rights. These laws govern everything from minimum wage and overtime payments to freedom of association and labor conciliation requirements.

Tax Laws: Mexico has a complex tax system that includes a variety of taxes, such as income tax, value-added tax (VAT), and property tax. Manufacturers must register with the Mexican tax authorities and file tax returns on a regular basis.

Intellectual Property Laws: Mexico has strong IP Laws that protect patents, trademarks, and copyrights. Manufacturers must register their IP in Mexico to protect them from infringement.

Data Protection Laws: This applies to government, individuals and entities that obtain, use disclose and store personal data.

Trade Laws: Mexico has a complex system of trade laws that govern imports, exports and investment. Manufacturers have access to a network of trade programs designed to promote trade and investment, under strict compliance standards.

Environmental Laws: Mexico has a number of environmental laws. These laws include governance on air pollution, water pollution, and waste management. There are fines and penalties associated with non-compliance by manufacturers.

Corporate Laws: Mexican corporate law are primarily governed by the General Law of Mercantile Societies. This legal framework is based on civil law principles and establishes the rights and obligations of shareholders, directors and officers within corporations operating in Mexico. There are two main types of corporations in Mexico: (1) sociedades anónimas (SAs) which are similar to U.S. corporations, and (2) sociedades de responsabilidad limitada (SRLs) which are similar to LLC's in the U.S.

Foreign investors can own 100% of a Mexican corporation, although certain industries may have restrictions on foreign ownership. The LGSM provides a solid legal foundation for corporate governance and promotes transparency and accountability in business operations. It is crucial for investors and entrepreneurs to adhere to the LGSM's regulations and seek professional advice when establishing and operating businesses in Mexico.



Alejandra Hernandez

CORPORATE ATTORNEY

Below are some of the most important regulatory organisms in Mexico and their equivalent in the United States, for reference:

Human Resources

U.S. AGENCY	MEXICAN AGENCY
DOL U.S. Department of Labor	STPS Secretaría de Trabajo y Previsión Social
BLS U.S. Bureau of Labor Statistics	INEGI Instituto Nacional de Estadística, Geografía e Informatica
NLRB National Labor Relations Board	CFCRL Centro Federal de Conciliación y Registro Laboral
SSA / HUD / DOL Social Security Administration U.S. Dept. of Housing & Urban Development U.S. Department of Labor	IMSS / INFONAVIT Instituto Mexicano de Seguridad Social Instituto de Fondo Nacional de Vivencia para los Trabajadores
USDT U.S. Department of Treasury	SHCP Secretaría de Hacienda y Crédito Público
ED U.S. Department of Education	SEP Secretaría de Educación Pública

Environmental, Health & Safety

U.S. AGENCY	MEXICAN AGENCY
OSHA Occupational Safety & Health Administration	STPS Secretaría de Trabajo y Previsión Social
EPA Environmental Protection Agency	SEMARNAT Secretaría de Medio Ambiente y Recursos Naturales (Federal)
DOT Department of Transportation (for Hazardous Waste Transportation)	SCT Secretaría de Comunicaciones y Transporte (Federal)
HHSA Health & Human Services Administration	SALUD Secretaría de Salud (Federal)
UL, CE, ANSI and other US/International Technical & Trade Standards	NOM Norma Oficial Mexicana: Mexico's National Standards applied to products/parts

International Commerce

U.S. AGENCY	MEXICAN AGENCY
DOC U.S. Department of Commerce	SE Secretaría de Economía
USTR U.S. Trade Representative	SE Secretaría de Economía
USDT U.S. Department of Treasury	SHCP Secretaría de Hacienda y Crédito Público
HHSA Health & Human Services Administration	SALUD Secretará de Salud (Federal)
DOT Department of Transportation	SCT Secretaría de Comunicaciones y Transporte
State Department	SRE Secretaría de Relaciones Exteriores
CBP Customs & Border Patrol	ANAM Agencia Nacional de Aduanas
FDA Food & Drug Administration	COFEPRIS Comisión Federal para la Protección contra Riesgos Sanitarios

Financial

U.S. AGENCY	MEXICAN AGENCY
USDT U.S. Department of Treasury	SHCP Secretaría de Hacienda y Crédito Público
FED Federal Reserve System	BANXICO Banco de Mexico
SEC Securities & Exchange Commission	CNBV Comisión Nacional Bancaria de Valores
IRS Internal Revenue Service	SAT Servicio de Administración Tributaria
FDIC Federal Deposit Insurance Corporation	IPAB Instituto para la Protección de Ahorro Bancario

CULTURAL FACTORS AND ETIQUETTE

Culture plays a significant role in business interactions. Mexico has a rich cultural heritage, and understanding Mexican cultural norms, values, and etiquette is vital for successful business relationships. Respecting and adapting to the local culture will help build trust and foster long-term partnerships.

"Mexico is a country with traditional Latin American roots and culture, and an emerging corporate culture collaborating on the global business stage. These are tips for conducting business in Mexico, based on nearly 10 years of experience living in Monterrey, Mexico as a Midwestern native.

- Mexicans are social, inviting and warm. The standard greeting is a handshake although a cheek-to-cheek greeting may be extended with women. A small attempt at a greeting in Spanish will be appreciated and is a good ice breaker.

- Mexicans use two surnames: the first from their father and the second from their mother. A formal greeting would include their profession (License, Engineer, Architect, etc) or the formal "Usted" (or "Sir") before being invited to address them in a different way.

- Business is a formal affair in Mexico, with attire very similar to what you would see in the United States. Meetings typically start with exchanging business cards and informal chat. It is customary to ask about the flight or their family, depending on the level of familiarity you have with your counterparts. Mention their beautiful city and culture to get a foot in the door.

- Depending on your counterpart, it may be wise to conduct business negotiations with a translator. Make sure all terms are in writing and detailed to consider differences in the system of measurement and the monetary exchange rate. In terms of price, some traditional industries may rely on price negotiations, and having an executive step in and finalize the deal is a good showing of faith.

- Business meetings over meal times can extend for a few hours, and are geared toward developing the vital personal relationships that facilitate business dealings in Mexico. There will most certainly be an argument over paying the check. Mexicans are accommodating and friendly. Alcohol consumption can vary, so it's best to follow the lead of the host.

- Arrive on time to the meeting or event, but also realize that your Mexican counterpart may be up to 30 minutes late for the occasion. Traffic in most major cities in Mexico can be complicated, and to many Mexicans, the preciseness of time can have less importance than the completion of the act.

- Mexicans do not like to say "no" so it is important to monitor their body language and read between the lines. In an effort to avoid confrontation, a "yes" may be extended at the time, but may change to a "no" when a more polite email can be sent. It can be advantageous to have a Spanish-speaker on the team to monitor and distinguish any apprehension.

Due to the heavy influence from and engagement with its North American counterparts, Mexico has quickly adapted and aligned its business etiquette and practices in the U.S. and Canada."

Robin Conklen

MANAGING DIRECTOR USA



CHAPTER 3

Setting up your Manufacturing Operation in Mexico

MARKET RESEARCH AND OPPORTUNITY ASSESSMENT

Before establishing a manufacturing operation in Mexico, conducting thorough market research and opportunity assessment is essential. By understanding the market dynamics, you can align your manufacturing capabilities with the needs of the Mexican market.

Define the Project: Have a Powerpoint presentation ready with your company background, products and the drivers for the project. Make sure that any counterpart you send it to has a signed NDA with your company.

Analyze the Market: It's important to identify the major players in your industry and try to understand the dynamics of their business in Mexico. Identifying possible suppliers can also influence the feasibility assessment.

Analyze the Costs: Begin organizing your major buckets of cost considering operational costs, labor, and professional services.

Identify the Risks: A risk mitigation exercise will identify political instability, economic volatility, security, natural disasters and other types of risk that could affect business continuity. A strategic plan should include ways to reduce or eliminate these risks.

Define your Musts/Wants: Make sure you have a matrix of musts and wants, considering as many project stakeholders as possible.

With these inputs, you can conduct a feasibility analysis as well as validate your business case.

Jose Lee, Consulting Manager at Prodensa provides his tips for getting the most out of the assessments and planning of a manufacturing facility in Mexico:

- **Consult with experts.** Utilize the support of an expert that has a good amount of experience with manufacturing in Mexico. These experts can provide valuable insights and advice that can align your expectations and make a sound decision.

- **Use reliable data.** In the age of internet data, it's important to be picky about the quality of the data. Make sure your data sources are official and updated, and consult with an expert to understand the implications. In most cases, the manufacturing industry is above market average cost, and well above minimum mandates.

- **Be realistic.** This means considering all of the potential risks and challenges and accounting for them in the feasibility assessment. It's most important to validate your business case based on the resources you have available for the project.



Jose Lee

CONSULTING MANAGER

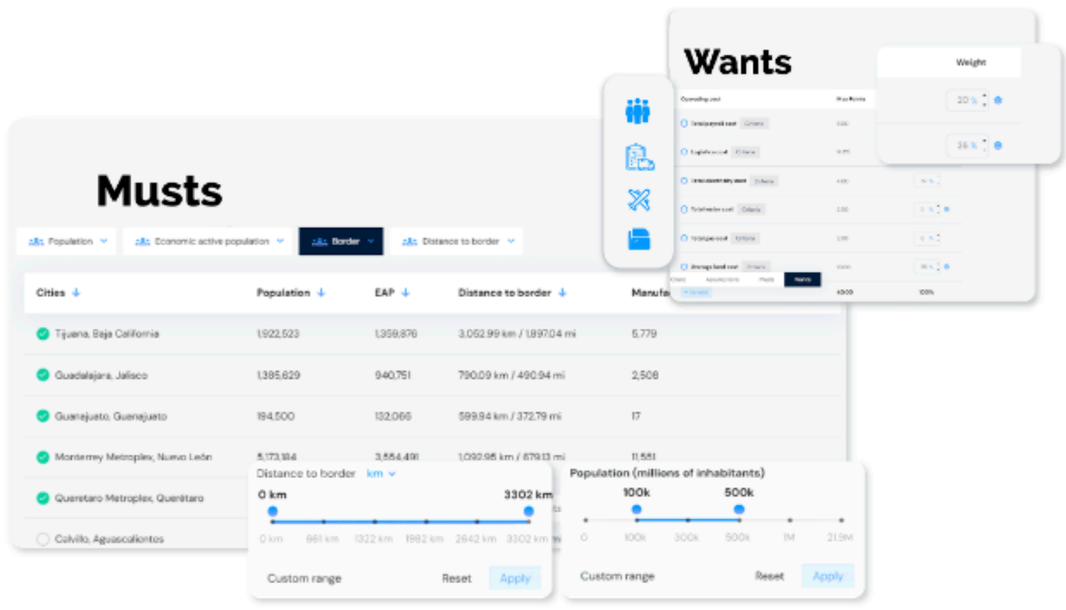
1 Project Definition & Requirement Analysis

2 Geographic Screening

3 Detailed Location Analysis

4 Final Site Selection & Acquisition

CUSTOM FEASIBILITY & SITE SELECTION ANALYSIS



Start Free Trial

CHOOSING THE RIGHT LOCATION

Selecting the appropriate location for your manufacturing facility is crucial. Factors to consider include proximity to raw materials, transportation infrastructure, availability of skilled labor, proximity to target markets, and the cost of doing business.

First, the project 'musts' need to be defined and will provide all necessary input to compare options and eliminate locations that are not representative, based on data. Some common "musts" include: distance to the border, minimum population size, international connectivity, access to a major university, etc.

Second, the project 'wants' need to be defined. These characteristics will provide additional clarity for the decision of the site. Some common 'wants' include: availability of skilled staff, quality of life, industry composition, incentives, labor environment, etc.

Lastly, define the rating system with weights on those variables that represent certain impacts to cost and risk. Compare the pugh matrix with the finalists and choose the site that completes the business case.

Prodensa has been supporting clients with their Mexican site selection strategies for nearly 40 years. Our guidance aims to maximize the utilization of the property and identify the best business scenario and value proposition. It's not enough to look at a list of real estate options and pick out the best one. In today's market, there will be adaptation and compromise, and that affects all areas of the project.

From the manufacturing perspective, Prodensa includes boots-on-the-ground intelligence from our 18+ industrial hubs throughout Mexico to provide qualitative data stemming from our 80+ facilities. These crucial insights include: direct labor local dynamics, translate site location to key benefits for talent retention, evaluate logistics and customs activity at site, public transportation, etc. Getting as close to Total Cost of Ownership as possible is the goal, so that a sound decision can be made.

Finally, in alignment with the cultural factors, the approach to Mexican institutions and business associates in reference to properties, incentives and pricing is fundamental to the success of the negotiation.

Kurt Schmidt

VP OPERATIONS



The real estate strategy for a foreign manufacturer in Mexico can be one of the most strategic decisions to make for the project start up or expansion. The industrial real estate market in Mexico is dynamic and fast-growing. The increase in e-commerce and nearshoring from foreign investment in Mexico is driving demand.

Carlos Alvarado, Partner & Sr. Advisor at Prodensa, gives tips on ensuring a successful real estate transaction in Mexico.

"It's important to establish a formal process to compare the different regions and cities in Mexico, as well as the real estate options. Real estate should influence the site selection, but not drive it solely.

Local support is going to be crucial. There are a lot of players in a real estate transaction, and defining strategic roles on the buying side of the negotiation can ensure a result that is in the best interest of the project.

Bring different areas of your expertise and disciplines into the site selection process. A need can be framed very differently from different operational perspectives: technical, talent development, finance, etc."



Carlos Alvarado

PARTNER & SR. ADVISOR

Prodensa is the only firm in the market that combines Consulting, Real Estate and Start up Services.

The Mexico JOURNEY

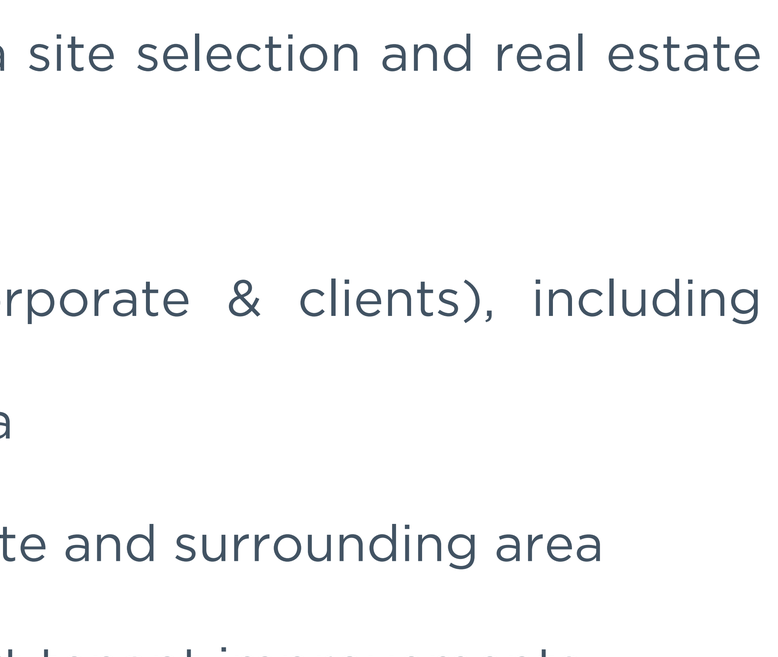
The civil code and other local laws of the jurisdiction generally govern a real estate transaction where the property is located. Civil law is within the jurisdiction of each state, but there is substantial uniformity among the different civil codes and related statutes of the states. The Mexican Foreign Investment Law regulates real estate ownership by foreigners. Most of the provisions governing lease agreements are included by statute in Mexican civil codes.

Land cost greatly depends on the location and whether it is inside an industrial park or a greenfield. Developed land will typically include the basic infrastructure to allow for the utilities to connect at the foot of the property. Depending on the market, inventory buildings are commonly available for lease. Companies that prefer purchasing might need to consider going through the process of acquiring land and building their facility to their specific needs.

Historically in the primary markets in Mexico, there have been a high range and variety of industrial buildings for lease: new & used, manufacturing and non-manufacturing use. However, in the past 24 months, due to the increased demand and activity, most markets show very low vacancy rates. Leases are available anywhere from 5 to 10 years. Most of the lease structures are dollar dominated, and are triple net, meaning that the tenant will be responsible to pay the real estate tax, insurance and common area maintenance. Most landlords/developers require a guarantee document from a credit-worthy company, and/or a letter of credit, which they use as a financing instrument with their lending institutions.

Ismael Villa defines the factors that should influence a site selection and real estate decision.

- Availability of industrial space
- Proximity, attractiveness and ease for arrival (corporate & clients), including visibility, security and climate
- Presence of other well-known competitors in the area
- Proximity of supplier base, and logistics in-between
- Direct access and communications structure of the site and surrounding area
- Well infrastructure park
- Experienced landlord that has the capacity to support tenant improvements
- Legal and institutional factors, including licensing and registration
- Availability of a stable workforce
- Costs, taxes or incentives like credit



Ismael Villa

SR INDUSTRIAL ADVISOR

KEY MILESTONES FOR OPERATIONS START UP

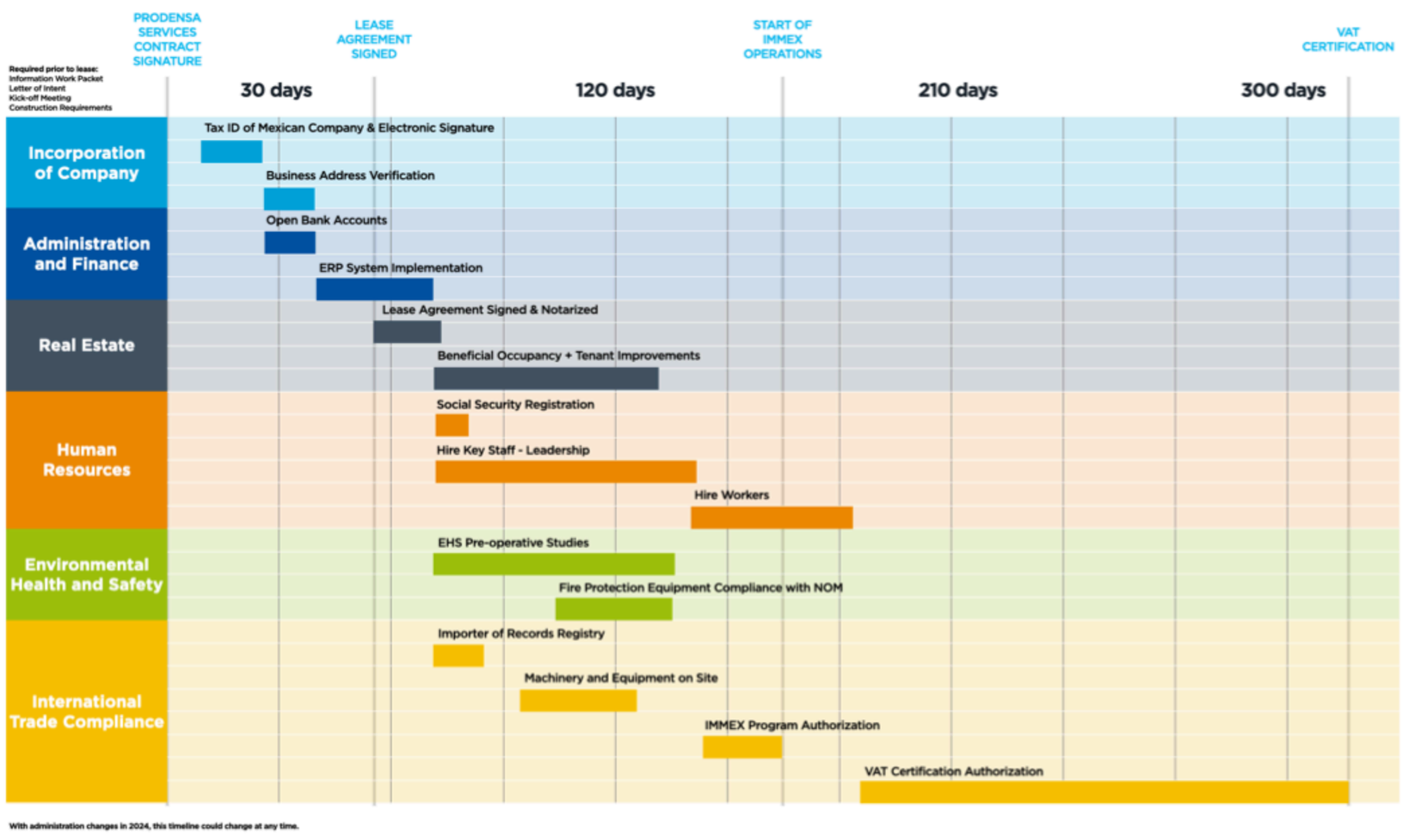
Setting up a manufacturing operation in Mexico involves complying with various legal and regulatory requirements. Understanding and fulfilling these obligations will ensure a smooth and compliant start to your manufacturing venture.

There are several milestones to setting up a new manufacturing business in Mexico. Here are some key pre-operative milestones to consider:

Operating Structure: depending on the business case, there are a number of ways to structure the manufacturing operation, from a wholly-owned maquiladora or a profit center, to a contract manufacturing or logistics relationship with a service provider. If you sell your product to the Mexican market or need to invoice in Mexico, you will most likely have a profit center operation. If you plan to have a "maquila" operation where the revenue of the finished export product will be paid by the parent company, you will most likely have a cost center.

Entity Incorporation: if the operating structure requires the incorporation of an entity, consider up to 3 months in your timeline for the process. You will require the (1) Articles of Incorporation, (2) Bylaws, (3) Power of Attorney, (4) Proof of Citizenship, (5) Proof of Residency, (6) Proof of Capital. Additionally, you may need to obtain a tax ID number and an electronic signature required by the tax authority in Mexico (SAT).

Timeline of Key Milestones for a Maquila Startup in Mexico



Ricardo Martinez, Business Intelligence Director at Prodensa, discusses the start up process in Mexico.

"The start up timeline for new manufacturing operations depends on many factors. First, the type of operational structure will determine the time required in the incorporation process. Next, different permits are required for construction or land use, international commerce programs and special industries. Last, you will need to adhere to local and federal compliance in labor, trade operations, health & safety, and day-to-day finance functions.

In a good scenario, a standalone operation can be up and running in 6-8 months, although nowadays certain certifications and programs are taking up to a year. You may consider an inshoring operation where speed to operation can be greatly reduced.

Despite the operational model, it's a great idea to use a Project Management tool for the different phases and milestones of the start up. Upfront, there will be a lot of data gathering from different areas of the company, and the accuracy and timeliness of that information is crucial to the timeline execution. Having someone that has the experience to detect any anomalies in the process can be a great value-add.

A company like Prodensa generates a Gantt Chart as guidance for the project management, and effective communication for the alignment of milestones to the project goal. Additionally, a Task Responsibility Matrix is provided in order to clearly identify all the activities in the pre-operative phase and the operative phase of the start up."



Ricardo Martinez

BUSINESS INTELLIGENCE DIRECTOR

TAXATION AND INCENTIVES

Mexico has a comprehensive tax system, and understanding the tax implications for your manufacturing business is vital. Proper tax planning and compliance will contribute to the financial success of your business.

Arturo Quintero, Finance Director at Prodensa, highlights the primary tax requirements a foreign manufacturing company has in Mexico.

- **Income Tax:** Income tax in Mexico is a federal tax payable at a flat 30% rate for corporations, like a direct tax on the profit obtained. Residents in Mexico, residents abroad with a permanent establishment in Mexico or sources of wealth in Mexico, are compelled to do monthly prepayments under certain business conditions to the Mexican SAT authority. Transfer pricing regulations in Mexico are ruled by the Income Tax Law and control transactions between related companies at local and international level. Maquila operations are specifically ruled by the Safe Harbor methodology which is to determine the taxable profit out of the higher amount between 6.9% of the total value of assets and inventories or 6.5% of the total amount of cost and expenses of the operations must be considered.

- **Value-Added** tax is payable at a general rate of 16% on sales of goods and services, import of goods and lease payments. Some exemptions apply. Declarations must be done monthly, and taxpayers can apply for a credit on the VAT paid on purchases and expenses versus VAT collected from clients on sales. Refunds of VAT are available for companies showing higher credits than collections.

- **Payroll Tax** is a state fee that is paid when carrying out transactions in the company's labor relations. It is declared monthly to the Finance Secretary of the corresponding state, and ranges from 2-3%.

- **Profit-Sharing:** Employers in Mexico are obligated to pay workers a share of the profits based on their annual tax declaration. The amount to be distributed among the workforce is 10% of the profits before income tax. It must be paid within 60 days of the annual declaration of taxes to the authorities.

- **Interests, Royalties and Technical Assistance Fees:** interests paid to a resident abroad with permanent establishment in Mexico are subject to a withholding tax rate of 4.9% to 35%. Royalties paid to a resident abroad are subject to a withholding tax of 35% and the rate may be reduced with a tax treaty. Technical Assistance paid fees are subject to a 25% withholding tax, unless the tax is reduced with a treaty.

- **Property / Real Estate Tax:** in Mexico, the acquisition is between 2-4% of assessed value of the property at the moment of the purchase. Then it will be paid annually and is calculated at a fraction of the value of the property.

TAX INCENTIVES:

- VAT payments on temporary imports can only be exempted if the taxpayer has the IMMEX Program and the VAT Certification. It works as a temporary VAT credit granted by the SAT to the taxpayer for a specified period that the raw materials and machinery will be in Mexico.

- Mexico's Northern and Southern borders receive a benefit that consists of a tax credit equivalent to 50% of VAT, thus an 8% tax. The taxpayer must reside in said regions. These regions also enjoy an Income Tax credit, allowing these companies to be subject to only 2/3 of the tax caused by the income carried out from activity in these regions.



Arturo Quintero

FINANCE DIRECTOR

Additional incentives may be available from the government to support new investment projects in the manufacturing industry. Nallely Garza from Prodensa's Institutional Relations team discusses incentives.

"Incentives vary according to the level of government, and also the region. Some possibilities we have seen in the past:

Federal: Decree for the Promotion and Operation of the Export Maquiladora Industry (IMMEX), Sector Promotion Programs (PROSEC)

State: Payroll Tax deductions, infrastructure support, cash, land, training scholarships, municipal lobbying

Municipal/City: real estate acquisition tax discount, real estate ownership tax discount, construction permit discount, reduction of municipal services payment fees

It is important to define the right moment to approach the government and to understand what is feasible. Express interest for your company to be a part of the community, and once established, plan to be part of social programs and events. Having a strong institutional affairs strategy that reflects this will be important to get a meeting and show the intention of building a competitive and sustainable manufacturing operation in Mexico."



Nallely Garza

BUSINESS DEVELOPMENT MANAGER

CHAPTER 4

Labor and Employment Considerations

MEXICAN LABOR LAWS AND REGULATIONS

Understanding Mexican labor laws and regulations is essential for managing your workforce effectively. Complying with labor regulations will help maintain a harmonious and productive work environment.

A legal full-time work week in Mexico consists of 48 hours worked, usually divided over 6 labor days, 8 hours each day. A work week consists of 7 paid days, up to 6 of them working days plus 1 rest day per week, with full pay and benefits. There is also a Sunday bonus if required to work on this day. In manufacturing operations, it is common for the plant to run 24/7, or at least have multiple production shifts.

Overtime payment is required in Mexico after mutual agreement employer-employee to work additional hours. For the first 9 hours of overtime, employees are entitled to their normal payment plus a 100% premium. For the 10th hour and above, employees are entitled to their normal payment plus 200% premium. If an employee works for more than 3 hours of overtime in one day or on 3 separate occasions in one week, the employee earns their normal pay plus 200% premium. There is also a 25% premium for employees who work on Sunday.

Ricardo Franco, HR Business Development Director, discusses compensation in the manufacturing industry in Mexico.

"Employees are paid weekly for the operative workforce, or biweekly for professional employees. The minimum wage is set annually, but it is more of a benchmark for fiscal calculations than a market wage. Benefits are an important aspect of an employee compensation plan, with most foreign manufacturers paying above minimum mandates. All employees on a payroll are enrolled in Social Security, a strong social welfare system that provides medical care, home loans, childcare, disability and retirement benefits.

Below is a benchmark of the manufacturing industry in Monterrey. It's important to get as detailed of data as you can: industry, city and even industrial park. Being able to attract and retain your workforce is key in today's fast-paced market.

POSITION	TOTAL – GUANAJUATO MXP/DAILY 25-PERC	MEDIAN	75-PERC
General Operator	$262	$321	$362
Specialized Operator	$294	$387	$448
CNC Technician	$353	$437	$542
Maintenance Technician	$437	$503	$572
Forklift Operator	$311	$362	$393

*DAILY SALARY COMPARISONS DO NOT INCLUDE BONUSES, BENEFITS AND/OR PERKS

POSITION	TOTAL – GUANAJUATO MXP/MONTHLY 25-PERC	MEDIAN	75-PERC
Product / Design Engineer	$27,300	$31,200	$37,900
Process Engineer	$25,500	$31,600	$38,800
Production Planner	$20,400	$24,200	$27,800
Maintenance Jr. Engineer	$19,300	$21,000	$25,000
Quality Jr. Engineer	$19,400	$21,000	$24,500

*MONTHLY SALARY COMPARISONS DO NOT INCLUDE BONUSES, BENEFITS AND/OR PERKS

Minimum benefit mandates include 15 days of base salary for Christmas bonus, 12 days of paid time off plus 25% of paid vacation bonus for time used. Profit-sharing is also a requirement.

Manufacturers have to increase the amounts of these benefits to be market competitive, as well as add other benefits to attract and retain their workforce, including: cafeteria services, transportation, daycare, private healthcare insurance, savings fund, food coupons, car allowance, scholarship, etc

Mexican employees enjoy 7 statutory holidays in Mexico, plus Election Day, if applicable. Although some holidays may differ, employees share the common holidays of Christmas, New Year, and Easter with the United States."



Ricardo Franco

HR BUSINESS DEVELOPMENT DIRECTOR

In January 2021, the federal government defined a new labor concept in response to the increased work-from-home occurrences. Teleworking is the performance of paid activities in a place other than the employers workplace on a regular basis, with at least 40% of the work taking place in a location of the employee's choosing. This requires an economic support for the home-office infrastructure.

Employees enjoy paid maternity/paternity leave in Mexico: 12 weeks for mothers and 5 days for fathers. Employers must respect the PTO and offer their former positions back after completion of the leave. These provisions also apply for adoption, but for 6 weeks only for the mother.

There are two types of employment agreements in Mexico. There is no "employment at will" in Mexico. An employer must have just cause to terminate an employment relationship, or otherwise compensate the unjust termination of the contract.

Definite (or temporary) contract stipulates a specific time period and objective for the labor contract and may be agreed upon only when required by the nature of the work provided.

Indefinite (or permanent) contract is one without an end date. It is considered continuous work without a pre-conceived term or specific activity with conclusion.

An employer may decide to terminate an employment contract. In certain cases a severance payment is not required by law (sexual harassment, insubordination, incarceration, alcohol/drug use on premises, etc). In all other circumstances, the employee is entitled to the following payment upon termination of their employment contract by their employer: (1) 3 months of base salary, plus (2) 12 days of salary for each year of service, plus (3) seniority bonus of 20 days of base salary for each year of service, plus (4) due benefits and all other earned payments.

HIRING AND MANAGING EMPLOYEES

Recruiting and managing employees in Mexico requires knowledge of local practices. This section will cover topics such as recruitment strategies, onboarding processes, training and development, performance evaluation, and employee engagement. Building a skilled and motivated workforce is key to the success of your manufacturing operation.

There are no specific laws or rules applicable to recruitment, but the Mexican Federal Labor Law as well as the USMCA Trade Agreement stipulate certain standards such as non-discrimination.

There are two main ways that employees are recruited for manufacturing vacancies.

Digital job boards: these job boards are very common among white collar and skilled technical staff. OCC Mundial is the most commonly used job board, and LinkedIn is a close second.

Network: semi-skilled and unskilled operational staff rely on word-of-mouth and recommendations from friends and family. Job openings are often posted in public locations, advertising open shifts, weekly pay and benefits, transportation and training programs.

When hiring for a startup or expansion, it is recommended to organize a massive event in a centralized, public location to promote brand awareness and invite a multitude of candidates to register for employment opportunities. Local governments may provide basic support, but it would be wise to ensure you have shade, chairs, and water if the wait times are expected to be long, and information about the company and the vacancies.

There are a variety of pre-employment screening options that are common in the manufacturing industry, including medical exam, psychometric or skills evaluation, background check, employment references and socioeconomic screenings for high-risk positions. Even if the law is more ambiguous than anything, it is important to have clear justification for obtaining candidate information, to obtain it from legal channels, have signed waivers, and protect the confidentiality of applicant data.

Gabriela Velarde, HR Operations Director at Prodensa, shares tips for hiring a managerial team for a manufacturing operation in Mexico.

- Be clear, concise and transparent in the company's short and long-term goals in Mexico, as well as the real expectations of the managerial team
- Invest in some local training at your corporate so your company culture can fully be appreciated and absorbed, and your managers will become your brand ambassadors in Mexico
- Provide some ownership to your managerial team to take the liberty to "Mexicanize" some parts of the company culture and/or policies to local market needs
- Visit the Mexican worksite and build a relationship and communication channel with the team while showing interest to learn their culture
- Invite them to give your corporate team a cultural sensitivity training, marking the keys to success in the relationship from their point of view
- Give them the tools to build and maintain a local network to facilitate business operations



Gabriela Velarde

HR OPERATIONS DIRECTOR

Although there is no specific requirements in the Mexican Federal Labor Law for the types of promotion systems, there are several associated comments. The promotion system must be summarized in the Collective Bargaining Agreement with the union or in the internal work rules. Promotions must also take into consideration internal employees first.

Promotion systems should be transparent, published, and based on evaluations. Salary increases are based on the following criteria: absenteeism, safety, training metrics, quality certifications, seniority, production knowledge, and technical abilities. A performance evaluation is typically applied once or twice per year, with an adjustment in salary being applied annually according to the results of the evaluation, and consideration of the cost-of-living in Mexico.

All employers in Mexico are required to provide training and instruction for their employees, have a program available at the workplace, and register it before the Ministry of Labor, if required. Companies with more than 50 employees must establish a Joint Committee for Training, Instruction and Productivity, comprised of equal representatives from company and employees.

Outsourcing services or execution of specialized works are allowed in Mexico, only when the core business of the company is not being contracted from a 3rd party. The outsourcing entity must have a registry issued by the Ministry of Labor.

Rogelio Soto, General Director of Prodensa HR Services, gives his insights into employment motivation in Mexico and the importance of employer brand.

"The top priorities among Mexican employees tend to be family, religion and money. Although there are numerous differences to culture in Mexico and other countries, the main differences tend to be highlighted in how employees are motivated and managed.

- A management style that respects and acknowledges the central position of the family within the Mexican culture is more likely to succeed in promoting productivity

- The term "family" goes beyond blood relation. Supervisors promote care over their employees in a more personal level to foster relationships

- Leaders are encouraged to establish boundaries and seek mutual trust and respect in expressing appreciation and expecting loyalty

- Due to a higher collectivism, the labor culture requires managers to be more "hands-on" in the management of employees

- The management of time tends to differ greatly with other cultures. Creating additional levels of prioritization can help to bridge the gap and clarify expectations"

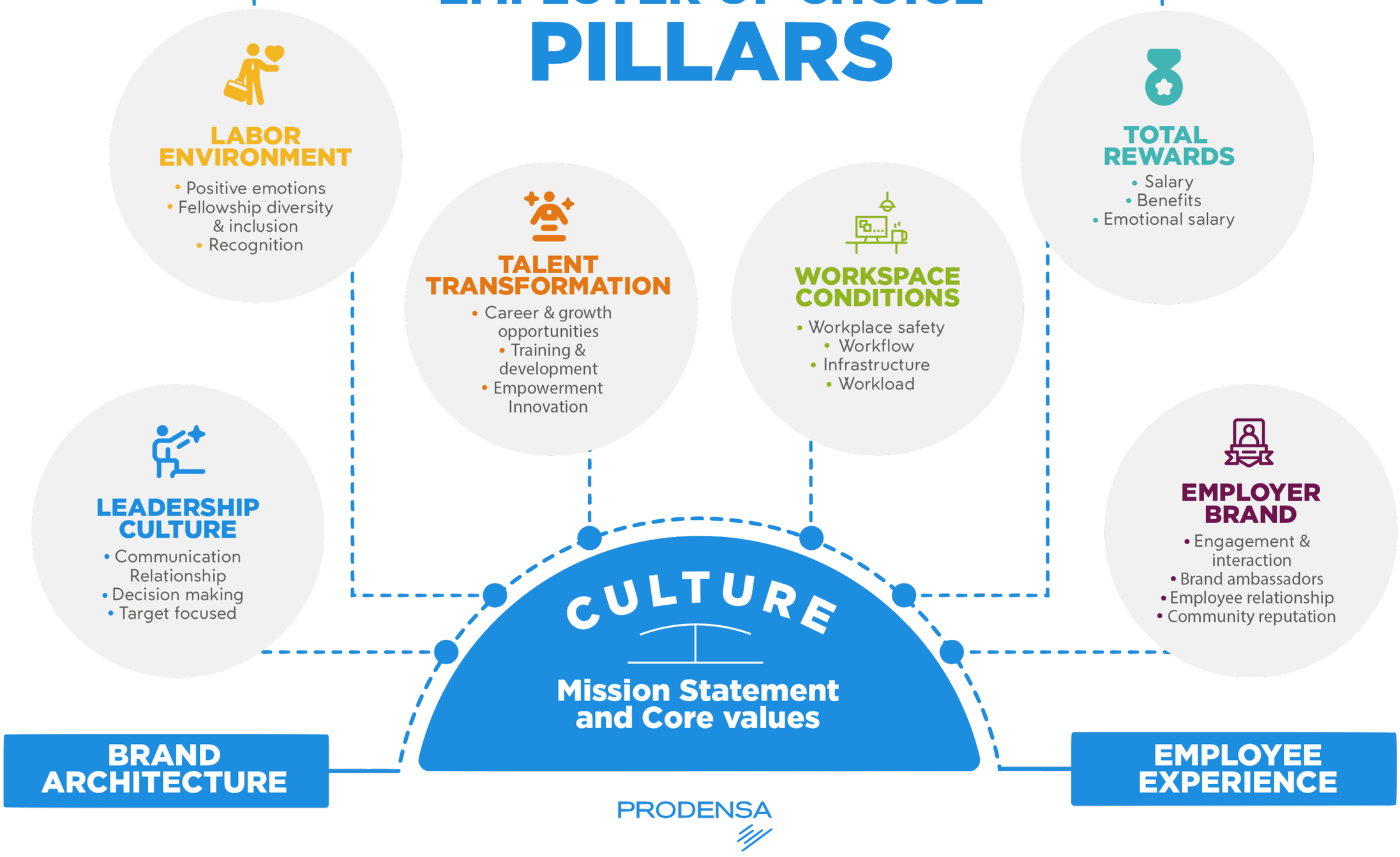


Rogelio Soto

GENERAL DIRECTOR PRODENSA HR SERVICES

Prodensa defines a system of best practices called Employer of Choice, aimed at increasing employment competitiveness in the labor market.

EMPLOYER OF CHOICE PILLARS



Companies in Mexico, whether national or foreign capital, are taking more seriously their employer brand due to the talent dynamics and competition in the labor market. Increasingly, companies are developing work teams, committees, or external support to learn about their brand: to understand how it is perceived in the marketplace. They use market surveys, labor environment indicators, social listening, focus groups, etc to understand the internal and external perceptions of the brand and workplace. There is also greater interaction with the community on social media, creating direct channels of communication with candidates, employees and the overall community.

LABOR UNIONS AND COLLECTIVE BARGAINING

Labor unions play a significant role in Mexico. Understanding the dynamics of labor relations will help you maintain positive relationships with unions and ensure fair and productive working conditions.

In Mexico, unions typically represent hourly employees. Strictly speaking, no one is forced to join a union, but if workers wish to do so, the company would be required to sign a collective bargaining agreement following the labor procedure.

There are multiple types of unions in Mexico, including corporate, industrial and national trade unions. Unions may initiate a collective dispute on economic issues, communicate to employees, oversee operations of the training system, negotiate annual salary increases, participate in drafting work rules, deal with occupational safety and health issues, among other things.

The unions in Mexico are governed by their own statutes, and the Federal Labor Law only states that neither unions nor companies can be part of the administration of the other.

In 2019, the Federal Labor Law underwent an overhaul on freedom of association. Employees are free to affiliate to the union of their choice. The employer will be required to sign a Collective Bargaining agreement with the union that represents the choice of the majority of the works, as long as a minimum 30% of workers support it. Additionally, the government rolled out a new labor justice system, creating new pre-judicial conciliation proceedings.

Typically union agreements include some combination of an annual fee or deposit from the company plus employee quotas which are usually deducted from their salary. Generally this deduction amounts to 2-5% of employee salary. No fee structure is established by law.

Alvaro Garcia, VP of Human Resources discussion the importance of union compliance in Mexico:

"It is absolutely imperative to maintain the freedom of association among your workforce. Employees decide if they want to have a union or not, and what kind of representation they choose to have. There are multiple disputes stemming from the USMCA Rapid Response Mechanism that are related to freedom of association complaints. It is a very important compliance standard.

In fact, with the incorporation of Annex 23-A into the USMCA, the Mexican government assumes various obligations, and commits them to law in the Mexican legislation. Among the series of measures and principles related to the effective recognition of collective bargaining and other aspects, the following stand out:

- The right of workers to participate in collective bargaining without interference by their employers in union activities
- Creation of an independent body responsible for the conciliation and registration of collective agreements
- Election of union leaders by personal, free and secret vote of workers
- Verification by the authority that the majority of the workers support their leaders, as well as the agreement contents, by personal, free and secret vote
- Review within four years of all collective bargaining agreements and publication on a centralized website

The expectation of our northern neighbors is that in Mexico, we comply with the new labor regulations. In doing so, not only does it allow us to comply with local legislation, but also with the labor aspects of the USMCA. It shields us from possible labor dispute resolution mechanisms or even trade sanctions also included in the new agreement."

Alvaro Garcia

VP HUMAN RESOURCES



HEALTH AND SAFETY STANDARDS

Promoting a safe and healthy work environment is essential. Prioritizing the well-being of your employees will contribute to their productivity and overall success of your manufacturing business.

Currently there are 41 official Mexican NOMs in health and safety material in the workplace, outlined by the federal STPS in Mexico. Some of the most important and applicable operational requirements for manufacturers include:

EHS Personnel and Safety Procedures: there are several Mexican NOMs with the objectives to establish functions, activities and preventions services for health and safety in the workplace to prevent accidents and illnesses. This may include having a dedicated EHS personnel on-site for facilities over 100 employees, or commissions for health and safety and emergency brigades with designed and trained procedures. Employees must be informed of their workplace risks and trained, if required. The NOMs also outline the accident reporting requirements and follow-up procedures.

Workplace Health Studies: there are multiple Mexican NOMs that outline requirements of lighting, noise, temperature, and ergonomics in the workplace.

Emergency Response Systems: all facilities should be adequately equipped with emergency response systems including fire combat (detection, alarms, combat), evacuation routes, exits, first aid, and response plans.

Hygiene in Food Systems: applicable to all areas where food is prepared, it outlines cleaning procedures and training requirements.

Psychosocial Risk Factors: One of the newest Mexican NOMs creates a responsibility for the employer in Mexico to detect and manage risk factors like excessive workloads, lack of control over work days, work that upsets work/life balance, and negative or toxic relationships, to name a few.

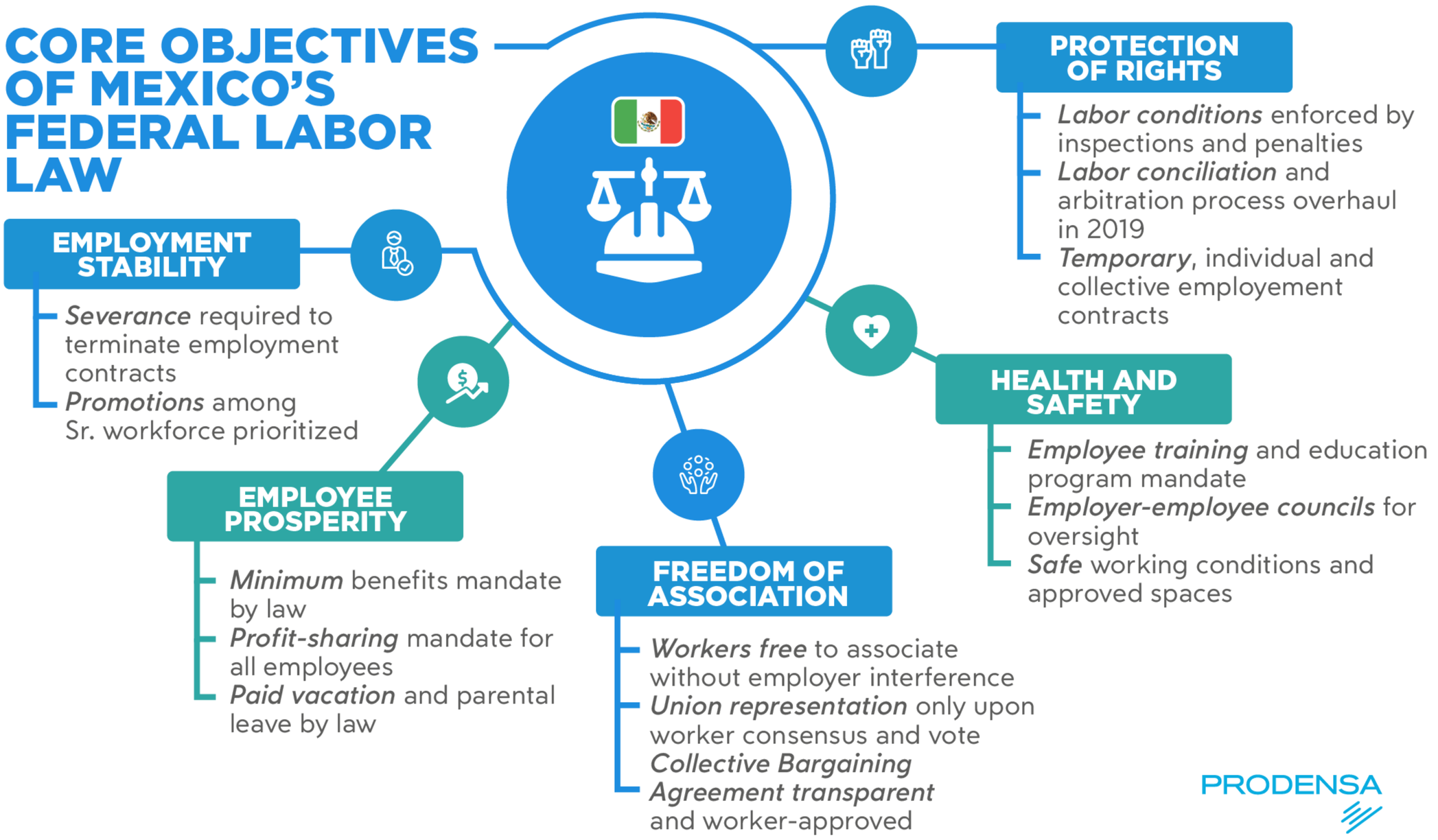
Safety Conditions in the Workplace: there are additional requirements for the safety conditions in the workplace in relation to working at heights or confined spaces, as well as vulnerable populations.

There are other governmental agencies with specific requirements for manufacturers in Mexico, including COFEPRIS. The Federal Commission for the Prevention of Health Risks (COFEPRIS) regulates food/beverage products as well as supplements, cosmetics, medical devices, cleaning products, medicines, and more. It also regulates commercial establishments that offer services related to the physical and mental health of persons.

Each employer in Mexico must create a Health and Safety Commission to investigate the causes of illness and accidents, and to propose resources to avoid them.

Employers have the obligation to protect the wellbeing of employees, and to generally pursue safety and health, substance controls, training, communication and reporting. The health and safety material is based on the various regulatory bodies. The Office of Labor Inspection, part of the Federal STPS, is responsible for the enforcement of health and safety regulations in Mexico. Employers found in non-compliance are subject to fines up to 5,000 UMAs per person or incident, with eventual shut-down of the facility if violations persist.

The UMA (Unit and Measure Update) is updated annually and is the official economic reference to determine the amount of payment from obligations and alleged assumptions. As of February 1, 2025 the UMA rate in Mexico was $113.14 pesos.

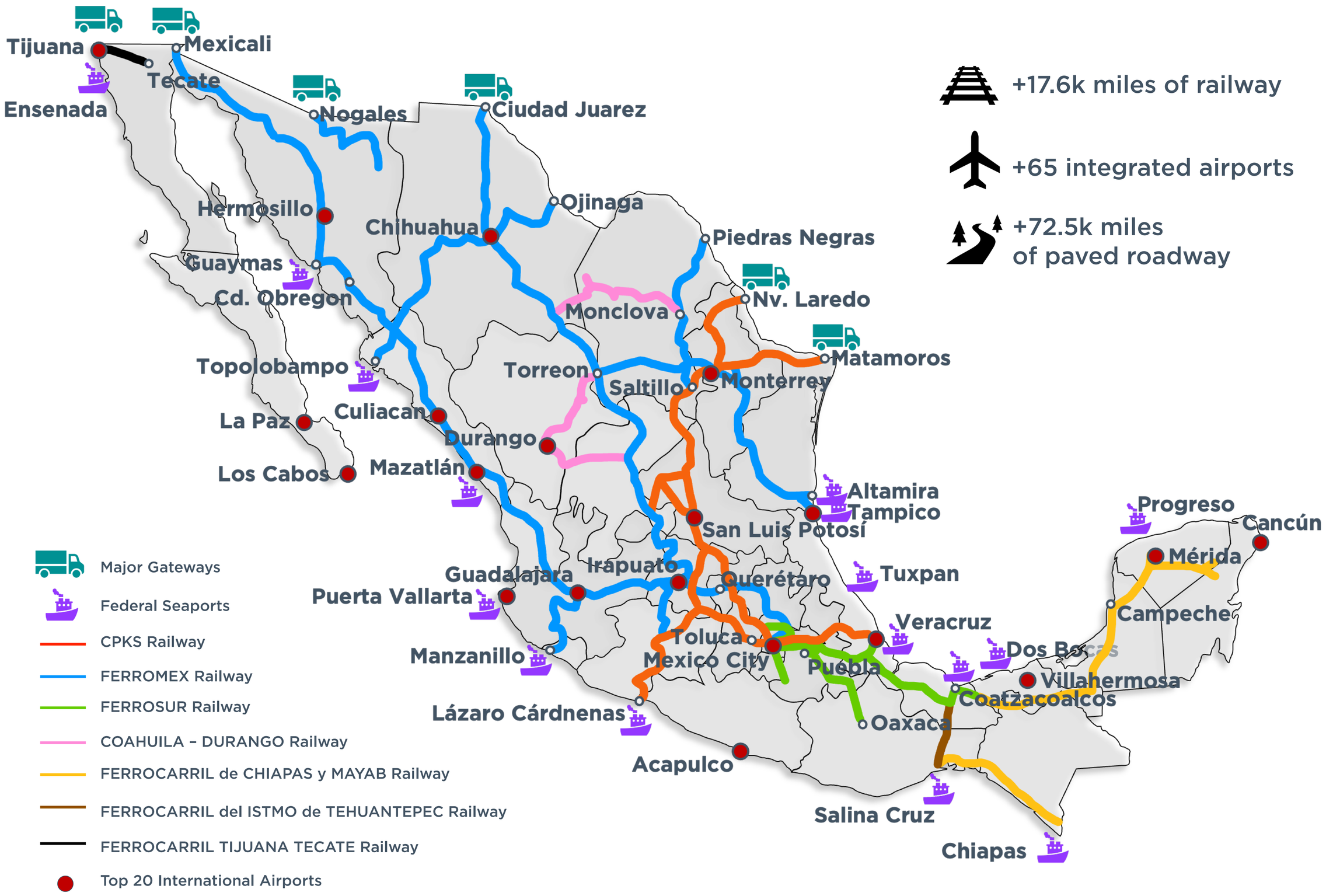


CHAPTER 5

Logistics and Supply Chain Management

TRANSPORTATION INFRASTRUCTURE

Efficient transportation is critical for successful manufacturing operations.



GENERALIZED AND ELABORATED BY PRODENSA, REFERENCING SOURCES FROM THE MEXICAN GOVERNMENT AND CENSUS, 2023.

"Infrastructure can significantly impact the implementation of manufacturing operations in Mexico. From the costs to the timeline, it's always important to consider infrastructure and have as much visibility as possible. Outside of transportation infrastructure, its also important to consider the following:

Industrial Parks: Mexico has the presence of large and professional development groups, from international firms to local players. These groups play a pivotal role in the industrial development of the different regions. Options range from new "green" buildings to ones a bit older and basic

Electricity: Mexico's state-owned company, CFE (Comisión Federal de Electricidad), is the largest generator and distributor of electricity in Mexico. There are international firms that support the generation of electricity through solar, geothermal, thermoelectric and other technologies, but CFE is the only party allowed to distribute. Electricity rates vary by Mexican state and are adjusted on a monthly basis

Natural Gas: Mexico has natural gas infrastructure in most industrial cities, with presence of national and international firms that support the generation and distribution of natural gas

Water: water and sewer systems in Mexico are managed by state-owned companies. The rates vary by state and are adjusted on an annual basis

Communications: voice/data infrastructure in Mexico is one major competitive advantage as most of the country has very good connectivity. There is a large presence of national and international firms that support voice and data services nationwide at competitive costs, with special focus in industrial areas for high-speed, satellite and fiber optic options

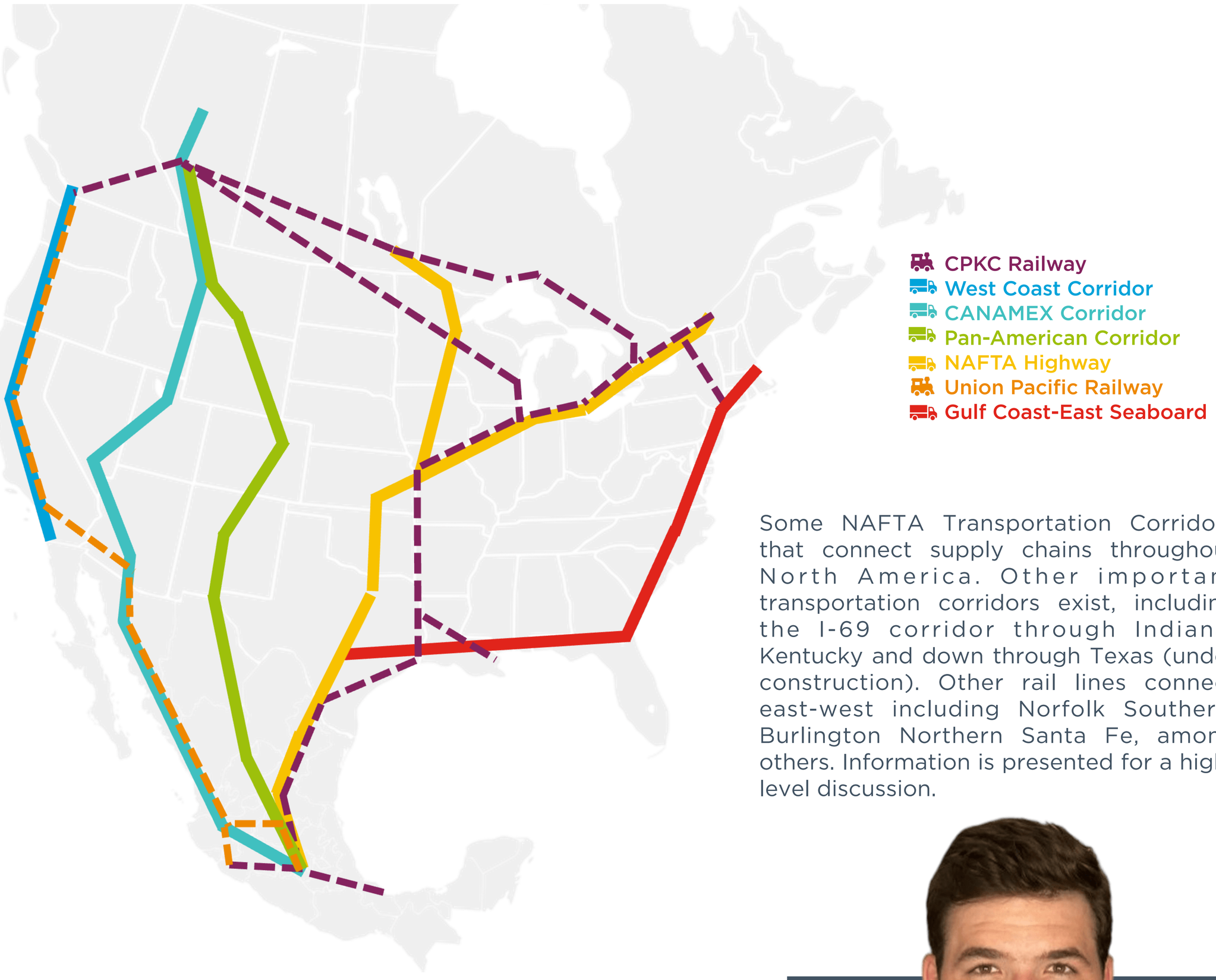


Carlos Loyola

BUSINESS DEVELOPMENT DIRECTOR

"Over half of the trade between the North American countries happens in intermediary goods, which are integral elements for North America's supply chain, destined to become part of a finished product within the region. An automotive component can cross the borders of Canada, the United States, and Mexico up to eight times before reaching its place in the final assembly.

The interlinked supply chains across North America fundamentally rely on effective infrastructure connectivity. As of 2024, Laredo, Texas sees a daily transit of goods worth around $928 million, with the majority transported by semi-trailers. Further, Canadian Pacific Kansas City has successfully achieved access to an impressive 90% of automotive Original Equipment Manufacturers (OEM) plants in Mexico via their 'NAFTA Super Railway'. In addition to this, CPKC effectively connects to facilitating comprehensive and efficient supply chains across the region."



Some NAFTA Transportation Corridors that connect supply chains throughout North America. Other important transportation corridors exist, including the I-69 corridor through Indiana, Kentucky and down through Texas (under construction). Other rail lines connect east-west including Norfolk Southern, Burlington Northern Santa Fe, among others. Information is presented for a high-level discussion.



Humberto Elias

EXECUTIVE DIRECTOR USA

CUSTOMS AND TRADE REGULATIONS

The National Customs Agency (ANAM) under Mexico's Secretariat of Finance and Public Credit (SHCP) is responsible for inspecting goods entering and leaving Mexico. The ANAM has 50 offices throughout the country and collects duties and taxes on imported goods, depending on the type, value and country of origin. In addition to duties and taxes, other regulations may include import permits, quotas or special licenses.

Import duty rates depend on the HTS Classification Code of goods to be imported. For correct calculation, the import agent must present the import declaration, a commercial invoice, a bill of lading, proof of exemption, and a certificate establishing the origins of the goods. In some cases it is also required to provide documents that demonstrate the compliance with Mexican product safety and performance regulations. Additionally, higher customs duties are applied to sugars and confectionary, beverages and tobacco, dairy products and clothing.

Companies may also apply for benefits under a wide range of free trade agreements with 50 countries to get a duty reduction either on importations of raw materials or when exporting finished goods to destination markets. Rules of origin and certification procedures for goods shall be met to obtain these competitive advantages. In the case of the renegotiated agreement between the United States, Canada and Mexico (USMCA), special rules apply to automotive goods, such as regional content calculations, labor content and use of steel and aluminum for producers within North America.

In 2022, the Bill of Lading Supplement became mandatory. This document contains information of the merchandise, locations (origin and destination), as well as the vehicle or the different means of transport. This information is incorporated into an electronic invoice of transfer type or entry with the Bill of Lading Supplement. It is issued by the transportation company and transmitted to the corresponding customs system.

The IMMEX Program (Manufacturing, Maquila and Export Service Industry) is an instrument granted by the Secretariat of Economy (SE) which allows companies to operate under a preferential tax and customs program. This incentive program is available for foreign companies that bring goods or services into Mexico temporarily, to be transformed, and then shipped out again.

The IMMEX Program aims to enable foreign companies to produce goods or provide services from Mexico, in a way that is cost-effective while still focusing on quality. You may have heard of "maquiladoras", and these are factories that import raw material into Mexico, use it in a production or transformation process, and then export it to their home country.

IMMEX companies may secure special registration from Mexican customs authorities to operate as a Certified Company, which grants access to certain benefits. The certified companies framework includes VAT/IEPS Certification, Authorized Economic Operator, Certified Commercial Partner, guarantee of interest payment and the Reliable Importer Program. Individual criteria apply for different program access.

With VAT Certification granted by the Tax Administration Service, these organizations can obtain a credit for not paying value-added tax on these temporary imports that are destined for subsequent export. They can also temporarily import the raw materials and equipment used in the transformation process without the payment of value-added tax.

There are some requirements, of course. Companies in the IMMEX Program in Mexico have to export at least US$500,000 annually, or at least 10% of their total sales. They must also adopt an inventory control system different from the ERP, comply with time frames for the import and export of their goods, and operate in registered locations in Mexico, among others.

As a general rule, IMMEX companies in Mexico are prohibited from transferring temporary imports to other companies in Mexico, except when they are also a maquila company, automobile manufacturers, or applicable bonded warehouses. These transfers would be considered virtually exported and then virtually imported, subject to a change of custom regime.

Currently the IMMEX Program currently employs about 3 million workers in more than 12,000 manufacturing sites throughout the country.

Prodensa's VP of Operations, María Elena Sierra, accredited by the World Customs Organization as an AEO expert, gives her insights about Mexico's Authorized Economic Operator Program.

Launched on January 2, 2012, the AEO program has been pivotal in fostering secure and efficient trade operations. The program enables participation from importers, exporters, customs brokers, warehouse keepers, and other stakeholders. Operating under the Customs Law, specifically Article 100-A and 100-B, and supported by the General Rules for Foreign Trade, Title 7, the AEO program has certified 1,056 operators to date, which represent more than 50% of National Foreign Trade.

The certification process entails a comprehensive evaluation of applicants' tax and customs compliance. This includes analyzing security profiles and conducting validation visits to facilities engaged in foreign trade operation. Upon successful completion, the AEO authorization is issued, valid for two years. Mexico's AEO program success reflects the commitment of Mexican businesses to comply, gaining access to streamlined trade processes and improved competitiveness. If a company has already been certified by the USA Customs and Border Protection Program, CTPAT, Mexican Customs recognizes the certification by simplifying the certification process.

Participating in Mexico's AEO program yields substantial benefits, simplifying administrative processes, reducing customs inspections, providing priority in inspection lines, and granting access to exclusive lanes. Operators also benefit from extended timeframes for temporary import goods and increased flexibility for amendments and corrections after customs clearance.

- In July 2020 some VAT/IEPS Certification benefits were transferred to the AEO certification, such as the possibility to perform Virtual Exports with non-IMMEX Mexican companies

- Other benefits for AEO companies are:
  - Minimum percentage of customs inspections and priority in case of inspection
  - Access to preferential lanes in border crossing, such as FAST lanes
  - Dedicated AEO specialist at the SAT
  - A recognized trademark worldwide, AEO exists in many countries
  - Use of the AEO logo

- If the Company is already CTPAT certified:
  - Expedited AEO process
  - Joint Inspection between CBP and the SAT (US-MX).

With ongoing efforts to optimize existing mutual recognition agreements (MRAs), Mexico's Customs is currently working on a harmonization of its AEO program with CTPAT; it is also seeking to establish new ones, considering those countries were Mexican companies' export.

The United States-Mexico-Canada Agreement (USMCA) includes a chapter on facilitation that addresses various aspects of trade facilitation between the three member countries. Within this chapter, there is a specific article (Article 7.12) that focuses on Authorized Economic Operator (AEO) Programs.

The USMCA's provisions on AEO programs reflect the commitment of the member countries to enhance trade facilitation and promote secure supply chains. By recognizing the value of AEO programs and encouraging cooperation, the agreement seeks to streamline customs procedures and create a more efficient and secure trading environment amount the United States, Mexico and Canada.



María Elena Sierra

VP OF INTERNATIONAL TRADE COMPLIANCE

MANAGING TRADE AND LOGISTICS

Effectively managing imports and exports is essential for maintaining a smooth supply chain. Efficient warehousing and distribution are vital for timely delivery of products. Optimizing trade and distribution processes will contribute to customer satisfaction and cost-effectiveness.

Prodensa's Xu Yu, Executive Director Asia Market explains how the import/export process works for manufacturing operations in Mexico:

"For manufacturing companies, it is important to coordinate between a Mexican and U.S. customs broker. The customs broker is the licensed professional authorized for "clearing" goods through customs for importers and exporters. They prepare documents and/or electronic submissions, calculate and pay taxes and duties.

The customs broker needs to communicate and correctly declare the imported or exported goods to the customs authorities on both sides of the border. It is crucial to have the correct information of the goods that will cross in order to avoid discrepancies between the paperwork and the physical goods.

Importers with products qualifying for preferential treatment under the USMCA Certificate of Origin must ensure compliance of their presented documentation. Other documentation that may be required include: packing list, proforma invoice, AES filing, customs declaration and an insurance policy."

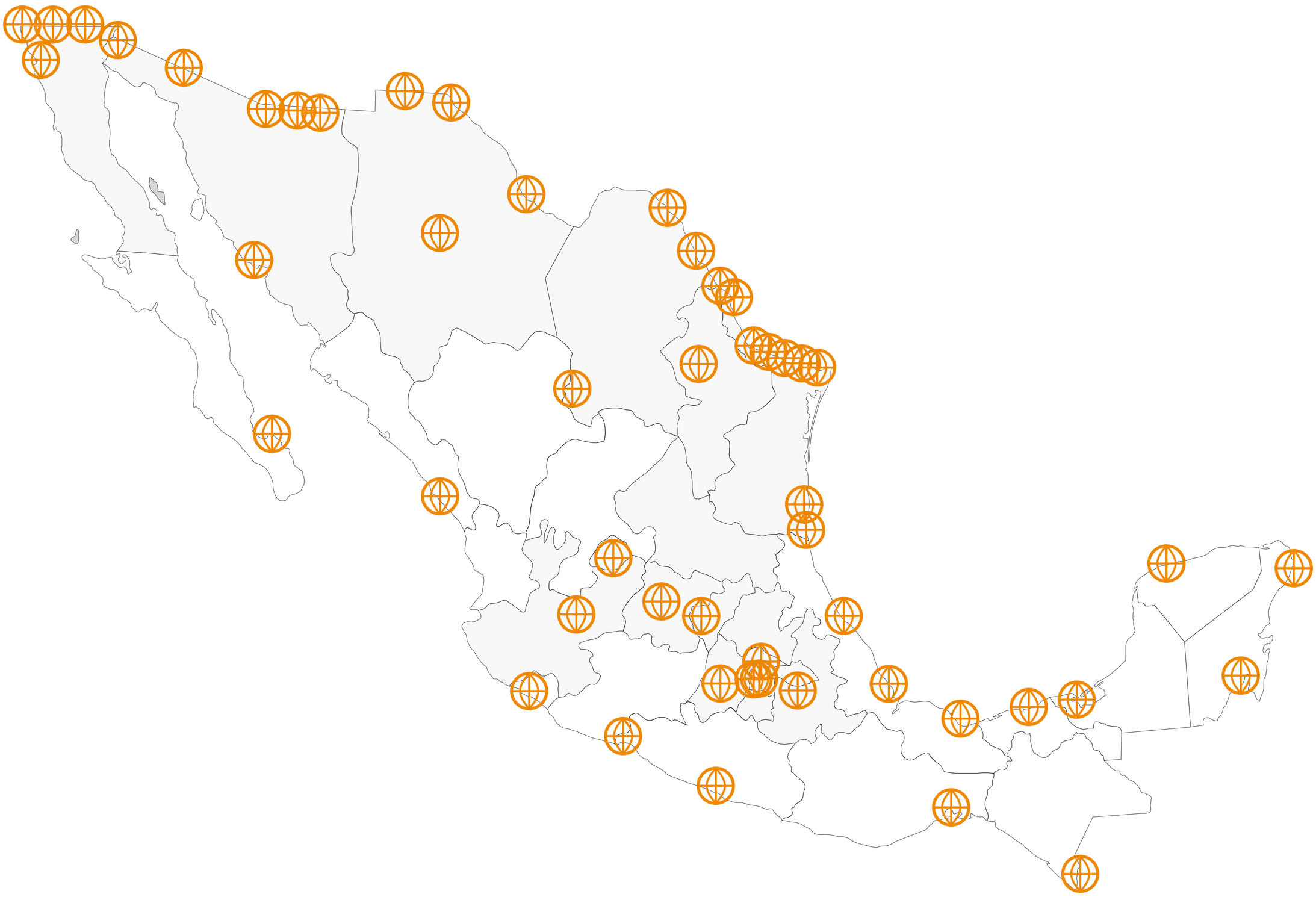


Xu Yu

EXECUTIVE DIRECTOR

Mexico has over 50 customs offices throughout the country.

MAP OF THE CUSTOMS OFFICES IN MEXICO, 2024.



In Mexico, the road network is the most important mode of transportation in Mexico, accounting for over 90% of all freight movements. The Laredo Border Crossing in Texas accounts for over half of the U.S.-Mexican trade in merchandise. The largest cargo ports of land-entry are: Laredo, TX; Otay Mesa, CA; Hidalgo, TX; Ysleta, TX; Calexico East, CA. The top rail ports of entry are: Laredo, TX; Eagle Pass, TX; El Paso, TX; Brownsville, TX; Nogales, AZ.

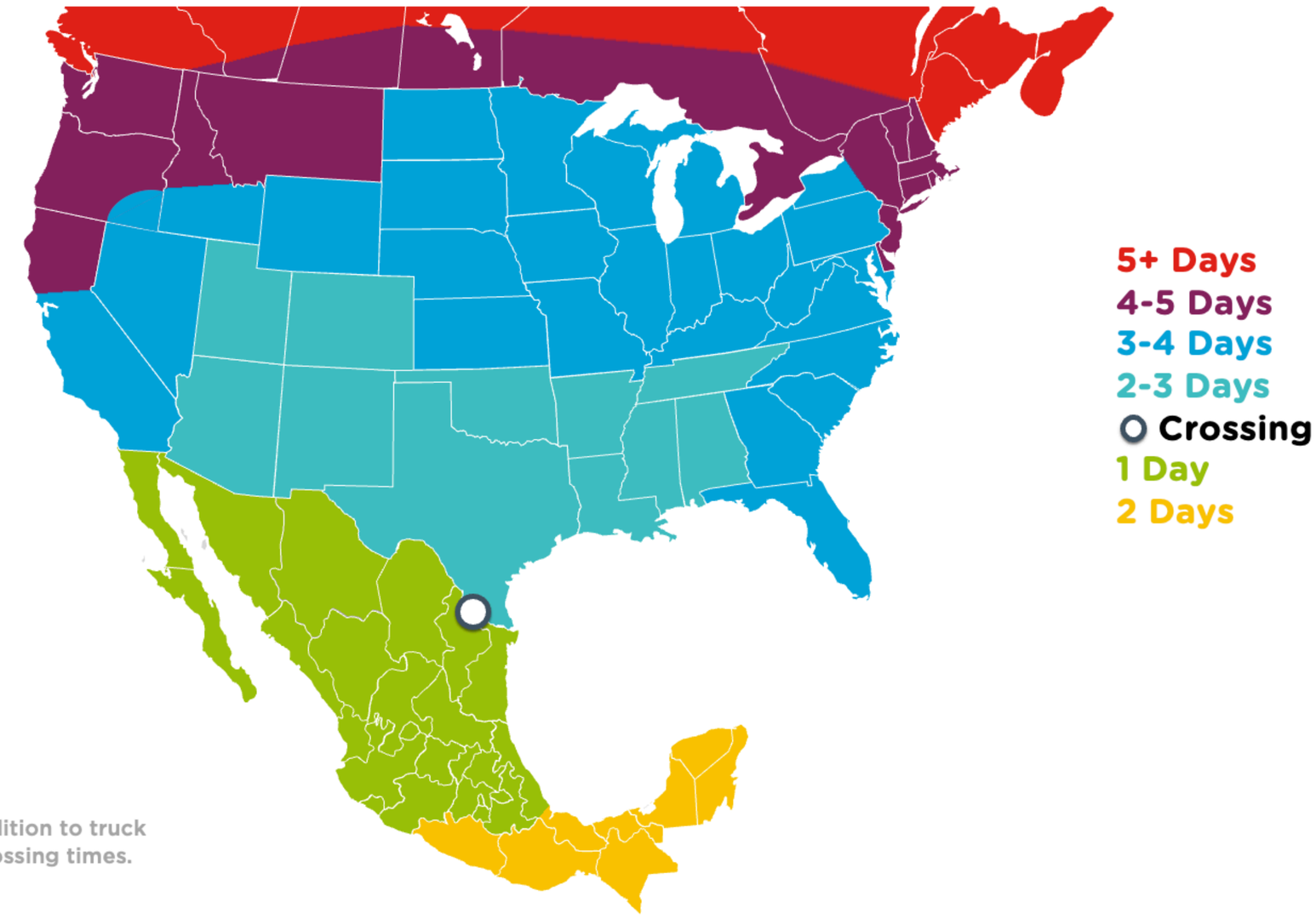
TRANSIT TIMES

Recent years of nearshoring to Mexico is transferring to a boom of real estate developments, especially concentrated along the U.S.-Mexico border. There have been 4 primary logistics hubs developed over decades: Tijuana, Ciudad Juarez, Guanajuato and Queretaro. A more recent logistics corridor has grown in the central Valley of Mexico called the Cuautitlan-Tultitlan-Tepotzotlan (CTT), and is now the largest and most important in the country.

Mexico has a strategic location in Latin America and North America, and is expected to grow in importance to the logistics and e-commerce sectors, linked to multiple markets.

LOGISTICS PROXIMITY

AVERAGE FTL GROUND TRANSIT TIMES – FROM LAREDO, TX



Truck drive time is in addition to truck sourcing and border crossing times.

CHAPTER 6

Environmental Compliance for Manufacturers

REGULATORY AUTHORITIES

Backed by the USMCA, Mexico has agreed to reduce its carbon footprint and the government is taking steps to regulate emissions and wastes, as well as protect and conserve the wild flora and fauna. The Federal Congress provides authority to the federal, state and municipal governments which regulate their own jurisdictions.

The environmental material is based on the following statutes:

General Ecological Balance and Environmental Protection Law: it contains specific chapters dealing with the most important topics of environmental law. It also sets out enforcement procedures.

General Waste Prevention and Integral Management Law: establishes guidelines for preventing soil pollution and waste handling, disposal and management plans.

The Secretariat of the Environment and Natural Resources (SEMARNAT in Spanish) is the main governmental agency in charge of enacting and enforcing environmental regulation at the federal level, the Mexican Official Standards (NOMs). They oversee various agencies associated with political or law enforcement, including: National Water Commission, Office of the Federal Prosecutor for Environmental Protection (PROFEPA), National Commission for Natural Protected Areas (CONANP), and the Security Energy and Environmental Agency (ASEA). ASEA has a dual function because it is a regulatory agency that issues environmental authorizations and licenses, and also an enforcement agency that may impose penalties and fines.

The consequences of non-compliance of environmental laws in Mexico depend on a number of factors. General sanctions include fines, partial or definite closure of the work activity in question, administrative arrest, personnel dismissal, among other more specific sanctions.

Environmental Liability Law: establishes routes for bringing environmental lawsuits and civil action before federal courts in order to seek repair or compensation.

Climate Change Law: as a signatory to the Paris Climate Agreement, Mexico has agreed to contribute to fighting climate change and reducing greenhouse gases.

ENVIRONMENTAL PERMITS

The Environmental License is one of the most important things to consider when starting a manufacturing operation in Mexico. The submitted study will basically define the environmental impact your operation will have on the air, water, land, etc based on your process residues, and will determine your obligations with the different authorities.

Construction Permits & Licenses: it is necessary to obtain a construction license when it is required to modify, repair, remodel, expand or construct a building, plot, warehouse, house or premise as well as for works such as sidewalks or construction materials (cement, gravel, sand, etc.) in a public space. Previous to any construction it is important to have a Construction Environmental Impact Assessment. The main studies required for the evaluation include the topography land survey, soil mechanics study and hydrologic study.

Environmental Due Diligence: an Environmental Impact & Risk Study requires the presentation of a Preventative Report and/or Environmental Impact Manifestation, including technical studies that describe the environmental conditions before realizing the project. Additionally, a license is required in Mexico for the land use or change, providing proof of proper ownership, fiscal compliance, among other specific requirements. For companies that generate waste, they will require a special permit to comply with federal and local laws.

The aim of the Environmental Impact Assessment is to regulate activities and works both in certain sectors that imply more environmental risk and environmentally sensitive areas. The due diligence for an acquisition or a start up of a manufacturing facility is an important pre-operative step to the overall compliance of the operation.

Service Contracts: when seeking to set up utility service contracts in Mexico, it will be required to submit a feasibility process, including the location, type of service requirement, characteristics, etc. If infrastructure improvements are required, the proceedings may elongate the timeline.

Fire Risk Assessment: In compliance with NOM-002-STPS-2010 a study must be performed to determine the risk of fire. It aims to classify the fire risk of the workplace, including inventories of combustible solids or liquids. It allows the determination of the most effective extinction method for the existing type of fire risk.

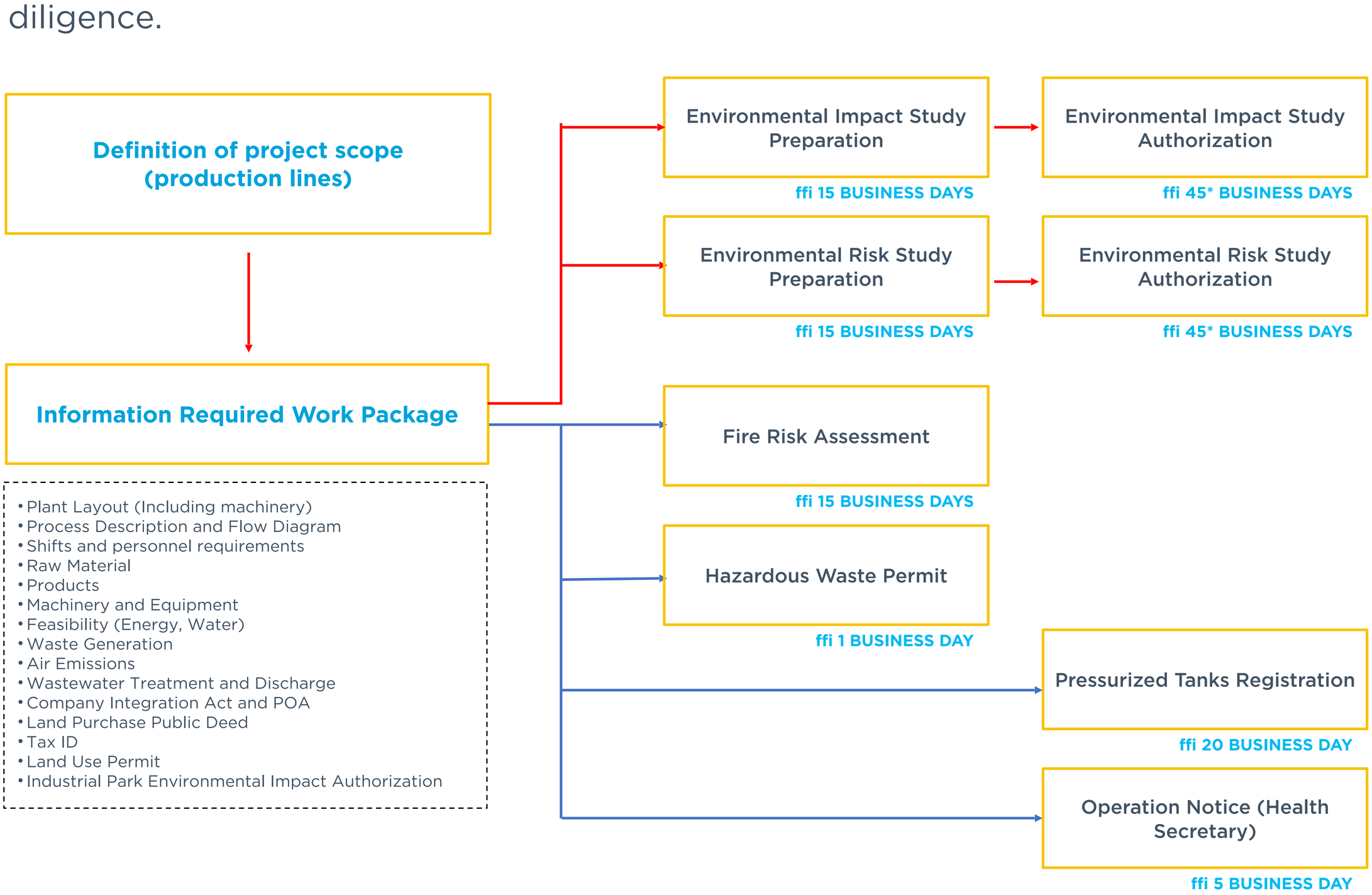
Other documentation that will be required for due diligence: official identification, proof of tax payments, project description & Gantt, blueprints, property deed/title, site photos, building layout including process areas, structural calculations, Land Use Permit, EIS of the Industrial Park, flora/fauna reconciliation, traffic and parking study, electricity/gas contract or feasibility, materials list, machinery & equipment list, emissions summary, waste materials generation, safety plan, sign-off from Civil Protection, and other specific requirements depending on the case.

Luis Rodriguez

CONSTRUCTION SERVICES DIRECTOR



It's important to be aware of the timeline and succession of environmental due diligence.



* BUSINESS DAYS DEFINED BY LAW, CAN BE EXTENDED ACCORDING TO THE ENVIRONMENTAL AGENCY´S REQUIREMENTS

ENVIRONMENTAL MONITORING

During the manufacturing operation, there are various reporting requirements, policies and procedures, deviation detection, correction actions development, implementation, mandatory periodic inspections and audits. It is important to design an Environmental Health & Safety Management System according to the quality systems of ISO 14001 & 45001, providing systemic compliance with the applicable legal requirements on the EHS matter.

David Antuñez, EHS Director at Prodensa, highlights what most manufacturers must monitor in the manufacturing facility in Mexico:

- Establish a Safety & Hygiene Mixed Commission
- Training and materials handling procedures
- Monthly inspection/audit visit report
- Detect areas of potential risk to the environment and plant personnel
- Monthly compliance reports to authorities
- Execute reporting requirements based on pre-operations permits
- Deploy corrective actions

The operative compliance of the manufacturing facility in Mexico is dictated by the Mexican NOMs, outlined in the federal STPS. Some of the most important and applicable operational requirements for manufacturers include:

Waste, Materials & Management: there are several Mexican NOMs that dictate the type of materials and waste and their special handling including labeling, transportation, usage and disposal. There are requirements for management plans, reporting, inspection and followup.

Monitoring of Emissions: the Mexican NOMs outline various areas in which emissions (water, air quality, noise, etc) must be tested, monitored and reported to the appropriate authorities. They also include the requirements for annual reports and record keeping.

Maintenance and Operational Safety: Multiple Mexican NOMs outline the safety of installations and processes as well as maintenance requirements. They also include specific requirements for Personal Protection Equipment, their usage, stock and replacement.

Safety Conditions in the Workplace: there are additional requirements for the safety conditions in the workplace in relation to working at heights or confined spaces, as well as vulnerable populations.



David Antuñez

EHS DIRECTOR

Purpose of the Guide

Our hope is that you now have a comprehensive understanding of what it is like doing business in Mexico as a manufacturer and be more prepared to seize the opportunities available. Please get in touch with us, and allow us to clarify any doubts you may still have.

PRODENSA

www.prodensa.com
contact@prodensa.com