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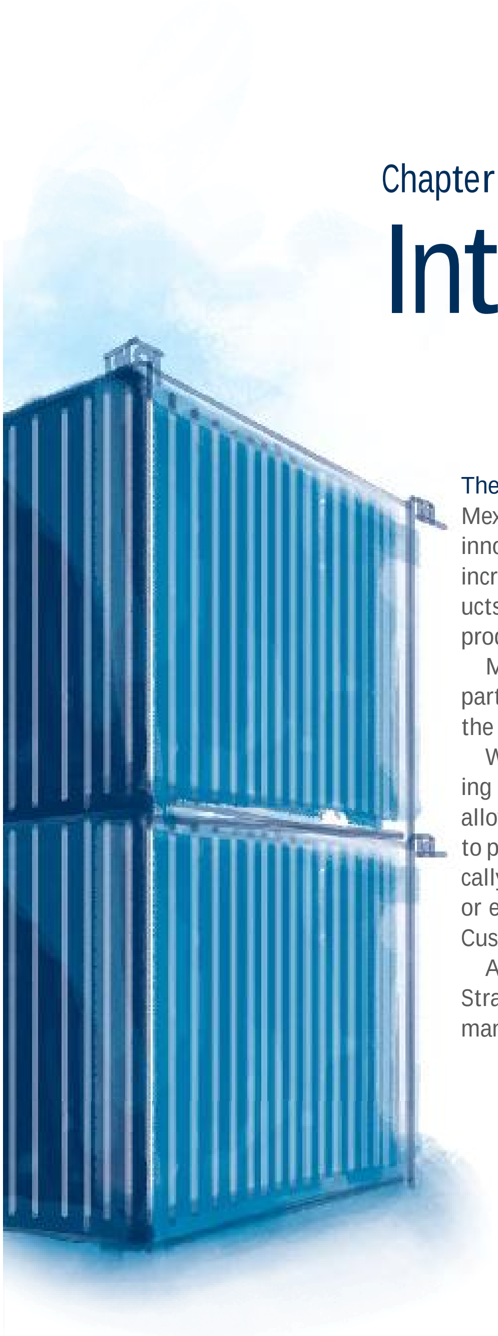


Chapter 1

International Trade

Introduction

The import and export industry is a key sector for economic development in Mexico because it has an impact on generating currency exchange, technological innovation, attracting foreign investment, and job creation. Globalization has increased interaction with international suppliers of raw materials and products, which helps decrease costs associated with marketing goods, developing products, and providing services.

Mexico has signed various free trade agreements with its major trading partners, which encourages the importation of goods, which are exempt from the General Import Tax, making Mexico a more competitive country.

With the goal of encouraging foreign investment, raising capital, and creating jobs, Mexico has created export promotion programs. These programs allow for the temporary or permanent importation of supplies and machinery to produce finished consumer goods, which can be exported or sold domestically. Through the implementation of these programs, Mexico seeks to reduce or exempt the payment of the General Import Tax, Value Added Tax, and Customs Operation Tax.

Another mechanism for promoting foreign trade with other countries is the Strategic Tax Zone Regime, which allows for the entry of goods to be stored, manufactured, or repaired without the payment of taxes.

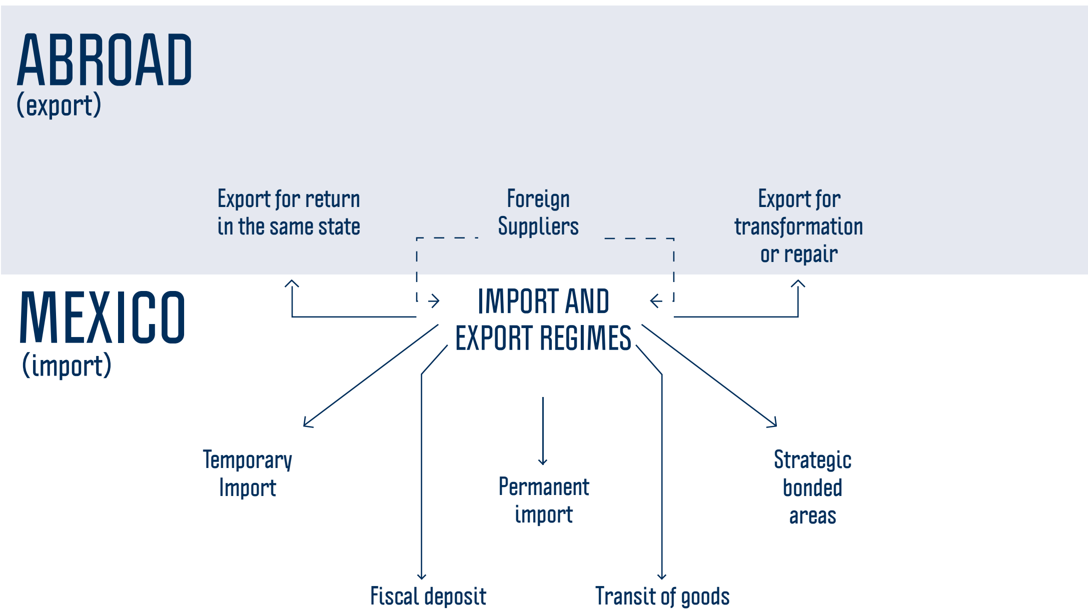
KEY POINTS

- For imports, there are customs and tax benefits for companies importing goods originating from countries with which Mexico has concluded a free trade agreement (FTA), provided that they comply with the rules of origin. Among the benefits included are: (i) exemption from paying the Customs Operation Tax (DTA) or making payment under a fixed rate; and (ii) exemption from paying the General Import Tax (IGI).

- A certificate of origin is a declaration produced by an exporter, producer, or member state to an FTA in order to enjoy preferential tariff treatment for the import of their goods.

- The import and export promotion programs are promulgated by the Ministry of Economy to promote the importation to Mexico of supplies and machinery under competitive conditions in order to create jobs and promote foreign investment. Some of these promotion programs include: IMMEX, PROSEC, DRAW BACK, and the Eighth Rule Permit (*Permiso de Regla Octava*).

- The customs regime specifies the status under which goods are imported or domestically produced. There are 6 custom regime statuses: (i) permanent import/export; (ii) temporary import/export; (iii) strategic bonded areas; (iv) fiscal deposit (warehousing); (v) transit of goods; and (vi) manufacture or repair in bonded warehouses.



QUESTIONS AND ANSWERS

1. **Can you avoid the payment of the IGI and DTA for the permanent importation of goods?**
   In principle, all goods must pay the IGI and DTA. One mechanism to avoid payment of the IGI and DTA is to show proof that the goods originated from a country with which Mexico has signed an FTA.

2. **Do you have to pay VAT on the temporary importation of goods under the IMMEX program?**
   No. The promotion program IMMEX is a program for producing goods through the temporary importation of supplies and machinery that will eventually be returned abroad.

3. **Do you have to pay VAT on the importation and sale of goods which are subject to the strategic tax zone regime?**
   No. Strategic tax zones are federal zones, i.e. they are treated as if the goods are located abroad. However, once the goods are removed from within the tax zone the corresponding taxes must be paid.

4. **Is the importation of clothing manufactured in China still subject to antidumping duties?**
   Prior to October 14, 2008, most goods manufactured in China were subject to countervailing duties (imposed to offset the unfair subsidies for goods entering the country). Currently, these antidumping duties have been eliminated. Instead, the Mexican government has implemented a temporary transitional measure that imposes an additional fee to be paid on Chinese goods being imported into the country. This temporary transitional measure will expire in December 2011.

5. **Are taxes paid by the importer of goods when the goods are in bonded storage?**
   No. While goods are being warehoused, taxes are only provisionally calculated. When goods are removed from warehousing, taxes on the goods are paid according to the applicable tax regime. This is an attractive tax regime for foreign companies that wish to ship goods into the country but who do not have a subsidiary or affiliate located in the country since the storage and delivery of the goods is not considered permanent for foreign residents.

CASE STUDY

“Company A” is a foreign company that intends to send machinery, equipment, and supplies to Mexico in order to produce, manufacture and repair automotive parts. These parts will be sold by “Company B,” which is also a foreign company, to “Company C” which is a Mexican automobile manufacturer.

Can “Company A” send assets and raw materials for the production, manufacture, and repair of said automotive parts and subsequently sell them to “Company B” and “Company C”?

Yes. “Company A” can do this by establishing a subsidiary or affiliate in Mexico or through a third-party, provided that the subsidiary or affiliate is registered with the Import Registry and participates in an IMMEX Industrial Program.

The temporary import of goods which is carried out through an IMMEX industrial program will not be subject to the payment of IGI, DTA, and VAT, with the exception of machinery, which will be subject to the IGI. The subsidiary company or third-party can transfer the temporarily imported goods to “Company C,” without having to pay taxes provided that the latter participates in an IMMEX program.

It is important to note that the goods must eventually be returned to their country of origin because their import is temporary.

Finally, “Company A” may sell the finished product directly to “Company B,” however, this would require an export license.