



# DOING BUSINESS *IN MEXICO*

2020

**VTZ**

VAZQUEZ TERCERO & ZEPEDA  
ABOGADOS



# INTERNATIONAL TRADE POLICY INTRODUCTION

As a result of Mexico's Trade and Investment Promotion Agency -PROMEXICO– extinguishment, **Vázquez Tercero & Zepeda (VTZ)** seeks to fill that void and promote Mexico as a business destination.

This is why **VTZ** has developed the guide **Doing Business in Mexico 2020**, which is divided into the following seven chapters:

1. *Why Invest in Mexico?*
2. *Foreign Investment.*
3. *International Trade Policy.*
4. *Trade Policy for the Manufacturing Industry.*
5. *Creating a Company in Mexico.*
6. *Taxation.*
7. *Labor & Migration.*

In line with our values, our chapters seek to provide relevant business and legal information in an honest, practical, and concise manner. This chapter, *International Trade Policy*, will provide a general overview of Mexican Trade Policy considering international context, as well as customs aspects.

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# INTERNATIONAL TRADE POLICY

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## 3. Mexican Trade Policy and Customs

As a member of international organizations and Free Trade Agreements, Mexico has, to a certain extent, a predictable trade and customs policy. Mexican laws on customs and trade are normally compatible with international rules. The President and his ministers are not only in charge to apply these laws, but they also have powers to regulate international trade and customs, including emergency actions.

Since the inception of the [World Trade Organization](#) and the North American Free Trade Agreement, Mexico's trade and customs legal framework has not been subject to a substantial overhaul; seldom reforms particularly to the customs law have occurred from time to time.

However, Mexico is currently embracing modern free trade agreements, such as the Comprehensive and Progressive Transpacific Partnership (CPTPP) or USMCA, that have and will bring certain legal changes in intellectual property, de minimis, e-commerce, etc.

Needless to say, trade and customs programs or regulations are subject to frequent changes that seek to adapt to new trends, risks, or policy objectives. Mexico has in place, for instance, duty deferral and tariff reduction programs that allow manufacturing or export-oriented industries to be more competitive. However, such programs are subject to strict government controls.

### 3.1 Tariff Policy

Mexico is a party to the [World Customs Organization](#) and to the International Convention on the Harmonized Commodity Description and Coding System (HS Convention).

As a result of the sixth amendment to the HS, Mexican congress discussed a new law that replaced its General Import and Export Tariff Act (LIGIE, acronym in Spanish), i.e. Mexico's Harmonized Tariff Schedule. The Ministry of Economy conducted an exhaustive review and proposed to compact or unfold tariff items for statistical purposes into 10 digits that will be called Commercial Identification Number, instead of an 8 digit tariff item (known as *fracción arancelaria*). The new General Import and Export Tariff Act was published on July 1, 2020.

#### 3.1.1 MFN Tariffs or Duties

Mexico's average WTO bound tariff is 35%, and duties rates vary from 0% to 100%. According to Mexico's most recent Trade Policy Review (2017), the average MFN tariff on agricultural and non-agricultural products was 14.3% and 4.6%, respectively. The General Import and Export Tariff Act establishes the import tariff or "General Import Tax" (*Impuesto General de Importación, or IGI*) as well as the export tariff "General Export Tax" (*Impuesto General de Exportación, or IGE*).

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If the goods are categorized, Mexico's MFN tariff (or *IGI*) profile may look as follows:

Product Groups	MFN applied duties			Imports	
	AVG	Duty-free in %	Max	Share in %	Duty free in %
Animal	16.7	13.3	75	1.1	2.1
Dairy	23.3	3.1	45	0.4	12.6
Fruit, vegetables, plants	16.0	5.2	75	0.6	5.2
Coffee, tea	20.4	20.8	45	0.2	34.2
Cereals & preparations	9.5	28.8	45	1.8	61.4
Oilseeds, fats & Oils	7.2	41.9	45	1.2	68.7
Sugars and confectionery	31.0	0	75	0.2	0
Beverages & tobacco	27.8	2.6	67	0.3	15.4
Cotton	0.0	100.0	0	0.1	100.0
Other agricultural products	6.6	48.9	36	0.6	68.4
Fish & Fish products	14.0	9.6	20	0.2	23.1
Minerals & metals	3.6	70.7	15	12.7	75.1
Petroleum	0.0	98.5	3	6.1	98.0
Chemicals	2.3	72.0	26	11.9	51.9
Wood, paper, etc.	4.5	50.6	20	2.9	63.3
Textiles	9.8	11.3	25	2.3	24.5
Clothing	21.3	0	25	0.8	0
Leather, footwear, etc.	6.1	62.2	50	2.3	61.0
Non-electrical machinery	2.8	77.7	20	17.6	89.5
Electrical machinery	3.5	69.4	20	20.6	81.2
Transport equipment	8.5	45.7	50	10.6	43.6
Manufactures	5.1	57.4	20	5.5	72.6

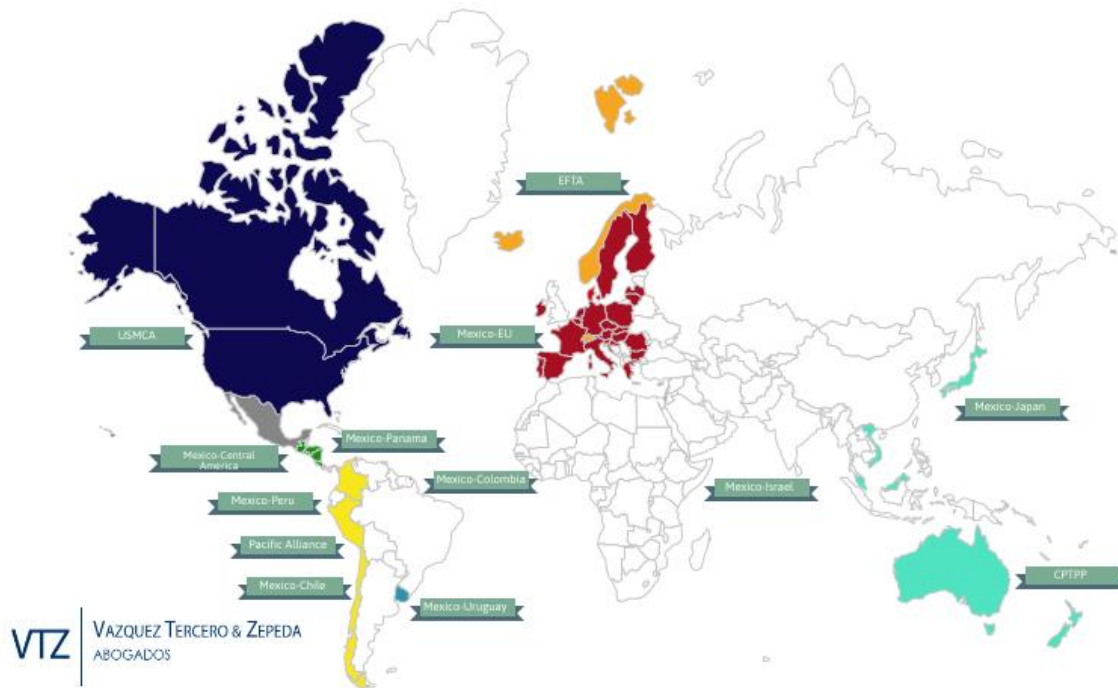
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## 3.1.2 Preferential tariffs in Free Trade Agreements

Mexico has an extensive network of Free Trade Agreements (FTAs) with 50 countries and is also a party to regional agreements within the framework of the Latin American Integration Association (ALADI).



The **main FTAs** and **trade agreements** to which Mexico is currently a party are as follows:

- United States–Mexico–Canada Agreement (USMCA).
- European Union-Mexico Free Trade Agreement, which is in the process of being modernized.
- Comprehensive and Progressive Transpacific Partnership (CPTPP) in force between Australia, Canada, Japan, Mexico, New Zealand, Singapore and Vietnam; Brunei, Chile, Malaysia, and Peru have not yet ratified the FTA.
- Pacific Alliance with Colombia, Chile, and Peru.
- FTA with Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua.
- FTA with the European Free Trade Association (Iceland, Liechtenstein, Norway, and Switzerland).
- FTA with Israel.
- FTA with Uruguay.
- FTA with Japan.

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## 3.1.2.1 CPTPP

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP), which represents 15% of global trade, entered into force

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## 3.1.2.2 USMCA

The USMCA entered into force in July 1st, 2020, replacing NAFTA. USMCA introduces new rules that will affect trade in areas, such as

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**Thank you for your interest and reading our guide!**

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## 3.1.2.3 New EU-Mexico Agreement

After two years of having reached an agreement in principle, Mexico and the European Union have .....

### 3.1.3 Duty Deferral, Drawback and Preferential Tariffs in Trade Instruments

Long before NAFTA came into existence, Mexico had into effect duty deferral policies that allowed manufacturing companies, known as *maquiladoras*, to import goods, such as raw materials, parts, containers, etc., without paying import duties. The maquiladoras had to use said imported goods in the production of exported manufactured goods and, in turn, they could temporarily import said goods and defer customs duties.

Eventually, NAFTA introduced drawback provisions to promote the use of regional goods and "to reduce the incentive for third countries to use a NAFTA country as an 'export platform.'" Article 303 NAFTA, replicated in article 2.5



USMCA, introduced a general prohibition on refunding or exempting customs duties owed on non-originating goods imported into the territory of a party.

In essence, these provisions have as a purpose to avoid *double 'taxation'* on non-originating materials that are used as an input in the production of a finished good subsequently exported to another NAFTA or USMCA party.

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