Mexico: Investment and business opportunities

Second edition
October 2014
Acknowledgements

This publication compiles information published by PwC and other organisations that dedicated time and effort to promote Foreign Direct Investment (FDI) in Mexico.

The Mexican Government setup a series of significant and challenging reforms to transform the country and help it become an even more attractive economy to investors that are seeking to expand their presence in Mexico, also for newcomers to the Mexican market to produce and sell their goods or products within Mexico, and at the same time take the Mexican competitive advantage of Nafta, Pacific Alliance and the more than 40 commercial agreements that distinguish the Mexican Economy to expand to other markets.

We hope this publication helps you on your path to success.

Special thanks to my colleagues that invested their time and dedication to put together this publication:

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Introduction to the Mexican economy
United Mexican States

Mexico is one of the most competitive countries in the world for productive investment due to its macroeconomic and political stability, low inflation, size and the strength of its domestic market, economic growth rate, and capacity to produce advanced manufacturing (high-tech products).

Mexico is an open economy that guarantees access to international markets through a network of free trade agreements. The country boasts a strategic geographic location and competitive costs to service global markets. It also has a large pool of young and highly skilled human capital.

Moreover, Mexico’s commercial openness has benefited Mexicans by creating jobs and promoting their products and services in international markets. Mexico’s industrial sector has also benefited from the free trade and economic cooperation agreements the country has signed in recent years.

Mexico offers countless opportunities thanks to the commitment of President Enrique Peña Nieto’s government to promoting reforms that foster the country’s economic outlook. The government has set five major goals for the country: a peaceful, inclusive, well-educated, prosperous and globally-responsible Mexico.

This is Mexico’s moment. The country has an historic opportunity to undertake a profound national transformation to help trigger its integral development in the coming decades. Within this context, the conditions are in place to transform and move Mexico forward towards a future that is ripe with opportunities.

Source: ProMexico.
Country profile

Capital: Mexico City

Country Area: 1.96 million sq km (758,449 sq miles)

Population: 116 million (UN, 2012)

Major languages: Spanish

Major religions: Christianity, Roman Catholicism

Life expectancy: 75 years (men), 80 years (women) (UN)

Monetary unit: 1 peso = 100 Cents

GNI per capita: US $9,420 (World Bank, 2011)

Internet domain: .mx

International dialing code: +52

Main exports: Machinery and transport equipment, mineral fuels and lubricants, food and live animals

Source: BBC News
Market information

Mexico is the gateway to the world’s most important market

- It is part of the largest economic block in the world (NAFTA).
- NAFTA Market = almost 18.7 trillion dollars (IMF).
- Mexico has a network of free trade agreements which grants preferential access to 45 countries (almost 1.2 billion people).
- It is an ideal export platform to reach two thirds of global Gross Domestic Product (GDP).

Source: Promexico

Mexico is one of the seven most attractive countries to invest in (UNCTAD)

- Mexico climbed 5 positions to rank 7th, after occupying the 12th spot in the previous survey.
- In 2012, Mexico ranked 23rd among the main receiving countries on a global scale.

Mexico has a favorable business environment

- Mexico is one of the best places for doing business in Latin America.
  - Investors only need nine days and six procedures to start up a business.
  - The country climbed five positions, from 58th to 53rd place.
- Mexico climbed five positions in the 2013 World Competitiveness Yearbook done by IMD.
  - It ranks above countries like India, Brazil and Russia.

Source: http://alianzapacifico.net/

Mexico ranks 9th among the 25 most attractive countries for investors worldwide, according to a consulting firm

- Mexico outdid Japan, Russia, France, Switzerland and Poland, among others, in this Index.

Pacific Alliance is today the eight’s largest economy in the world

- Is a regional integration initiative whose member states are Chile, Colombia, Mexico and Peru.
- It seeks to integrate services, capital, investment and movement of people.
- It is a dynamic initiative with high business potential. The combination of the member state economies is the eighth largest in the world.
**Foreign direct investment**

_Accumulated FDI in Mexico by state from 2000 - 2014 (until June, 30) in million of USD_

<table>
<thead>
<tr>
<th>State</th>
<th>Accumulated FDI (USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Baja California</td>
<td>$13,032.3</td>
</tr>
<tr>
<td>Baja California Sur</td>
<td>$5,043.1</td>
</tr>
<tr>
<td>Sinaloa</td>
<td>$1,161.4</td>
</tr>
<tr>
<td>Zacatecas</td>
<td>$3,797.6</td>
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<tr>
<td>Nayarit</td>
<td>$1,292.4</td>
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<tr>
<td>Aguascalientes</td>
<td>$3,502.4</td>
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<tr>
<td>Jalisco</td>
<td>$11,399.7</td>
</tr>
<tr>
<td>Colima</td>
<td>$316.8</td>
</tr>
<tr>
<td>Michoacan</td>
<td>$1,952.9</td>
</tr>
<tr>
<td>Guerrero</td>
<td>$723.6</td>
</tr>
<tr>
<td>Guanajuato</td>
<td>$4,271.1</td>
</tr>
<tr>
<td>Estado de México</td>
<td>$17,709.0</td>
</tr>
<tr>
<td>Morelos</td>
<td>$1,466.6</td>
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<tr>
<td>Chihuahua</td>
<td>$17,352.2</td>
</tr>
<tr>
<td>Coahuila</td>
<td>$4,921.9</td>
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<tr>
<td>Durango</td>
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<td>Sonora</td>
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<td>Nuevo León</td>
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<td>Tamaulipas</td>
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</tr>
<tr>
<td>Quintana Roo</td>
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<td>Campeche</td>
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<tr>
<td>Yucatán</td>
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<tr>
<td>Oaxaca</td>
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</tr>
<tr>
<td>Quintana Roo</td>
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</tr>
<tr>
<td>Morelos</td>
<td>$1,466.6</td>
</tr>
</tbody>
</table>

_Total accumulated FDI in Mexico in million of USD

$354,265.9

_Source: Ministry of Economy._
The Social security system

The Mexican Social Security Institute (IMSS) was established in 1942, and is in effect across all of Mexico’s industrial areas and agricultural zones. In these areas, the employers statutory obligations related to occupational risks are covered by social security premium payments. The Institute provides for employees and their dependents’ medical care, including hospitalisation and limited unemployment compensation in the event of illness and maternity, occupational disease and accidents, in addition to disability and old-age pensions. A separate social security system operates for employees of the government and its agencies.

Benefits

Sickness and disability
The IMSS provides medical and hospital services throughout the country alongside private hospitals and many physicians in private practice. It maintains modern hospitals and clinics providing medical attention to covered employees and provides free medicines prescribed by its doctors. If employees are absent from work for more than three days as a result of a non-occupational illness, job-related accident or illness or maternity, the institute pays 60 to 100 percent of their regular salary during their absence. The employer is relieved of the obligation to pay the salary, although in some cases, employers pay the difference. A guaranteed minimum salary is payable in of the event of a permanent disability, and benefits to heirs are provided in the event of death.

Pensions
Old-age and disability pensions have increased in recent years. The pensions are normally payable from age 65 if the person has paid social security premiums for the required minimum of 1,250 weeks. Early retirement at reduced rates of pension can be taken from the age of 60.

There are minimum guaranty pensions equal to monthly minimum salaries. Employees currently qualify for one of two different pensions. Employees who began working after July 1, 1997 receive their pension through an AFORE; employees who started working before that date can receive their pensions through the AFORE or through the traditional system.

Retirement Savings System (SAR) and old age
In order to supplement retirement pensions under the regular social security system, which has been deemed inadequate in providing retirement benefits, the SAR has been established. The employer’s contribution per employee is 2 percent of salary, with a wage ceiling of 25 times the minimum wage for Mexico City. The Old Age system includes an additional contribution per employee of 3.15 percent of salary. These employer contributions are credited to individual employees’ restricted interest-bearing bank accounts established specifically for that purpose. The funds accumulated over the years may be withdrawn, as per certain rules, only upon retirement or unemployment due to disability, and are partially or totally tax-exempt upon withdrawal, together with any other retirement payments received from the employer, in accordance with the general rule for taxation of pension payments (i.e., pensions are taxable only to the extent that they exceed nine times the minimum wage).

Employees may elect a company authorised to manage the fund (individual account) for the SAR (Sistema de Ahorro para el Retiro—SAR).

Housing
On May 1, 1972, the National Workers’ Housing Fund Institute (INFONAVIT) was inaugurated under the terms of amendments to the Federal Labour Law and a law establishing the Institute.

Employer obligations
The Mexican Constitution provides that all agricultural, industrial, mining, and other enterprises are required to provide adequate housing for their employees; this obligation must be met by means of contributions on behalf of the individual employee. In accordance with the law, employers are required to contribute five percent of their employees’ earnings to the institute, calculated on the same basis as for social security purposes. Foreign employees of Mexican companies working in Mexico are also entitled to the housing benefit.
Wages and salaries
Minimum daily wages are established for separate regions of the country by a National Minimum Wage Committee which works through local committees made up of representatives of government, organised labour and private industry. Recently, new minimum wages have been approved every year, but in the past, as a result of the relatively high rate of inflation, minimum wages were sometimes adjusted more than once a year. In recent years, annual increases have not exceeded the inflation rates as measured by the National Consumer Price Index. The variation in wage rates in the different regions has been considerably reduced, and only three different minimum rates are now in effect, varying from a low of 54.47 pesos per day in some regions to 57.46 pesos per day in Mexico City and in some regions near the U.S. border.

Fringe benefits
Collective labour contracts often provide for benefits beyond those stipulated by the Federal Labour Law and other legislation with regard to early retirement, number of holidays, length of vacations, and a wide range of benefits on which employees pay no tax, such as contributions to general savings funds. Many taxpayers provide coupons for meals and groceries, which under certain conditions, are not taxable for employees.

Paid holidays and vacations
The present law requires that a vacation of six working days be granted after the first year of service, with an additional two days for each of the next three subsequent years, and an additional two days for every five years of service after the fourth year. A premium of 25 percent of the regular salary must also be paid during vacations. Non-union employees are commonly granted a two-week vacation period.

Termination of employment
An employer in Mexico may dismiss an employee without liability other than the seniority premium only if there is a cause for the dismissal. The Federal Labour Law lists specific kinds of conduct that are a cause for dismissal: use of false documentation to secure employment; dishonest or violent behaviour on the job; dishonest or violent behaviour against co-workers that disrupts work discipline; threatening, insulting, or abusing the employer or his or her family, unless provoked or acting in self-defence; intentionally damaging the employer’s property; negligently causing serious damage to the employer’s property; carelessly affecting workplace safety; immoral behaviour in the workplace; disclosure of trade secrets or confidential information; and committing of other acts of similar severity.

An employee may appeal his or her dismissal within two months at the Conciliation and Arbitration Board, an administrative agency charged with resolving labour disputes.

The employer bears the burden of demonstrating that the employee has engaged in the conduct described above. If the employer fails to meet this burden, the employee can request either reinstatement to his or her position, or a constitutional indemnification equivalent to three months’ full salary, including premiums, bonuses, commissions, etc., and any fringe benefits. In order to prevent such reinstatement, employers usually pay the severance compensation. The employee also has the right to receive back pay with no offset for interim earnings.

The Labour Law specifies that at the date of termination of employment, the reasons for dismissal must be presented to the employee in writing. It also provides that employees with more than 20 years’ service can be dismissed only for very serious reasons.

“Three different minimum rates are now in effect, varying from a low of 54.47 pesos per day in some regions to 57.46 pesos per day in Mexico City and in some regions near the U.S. border.”
**Legal framework**

**Forms of business enterprise**
The different forms of organisation of business entities in Mexico are regulated by the General Law of Mercantile Companies (Ley General de Sociedades Mercantiles), the Commercial Code (Código de Comercio) and the Civil Code (Código Civil). Some of these forms are summarised in the following table:

<table>
<thead>
<tr>
<th>Principal forms of business enterprise</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock corporation, stock corporation for the promotion of investment and stock corporation with variable capital (these are the forms most commonly used by domestic and foreign investors)</td>
</tr>
<tr>
<td>Limited liability company (used frequently)</td>
</tr>
<tr>
<td>General partnership (rarely used by foreign investors because of unlimited liability, unless they want to qualify as a foreign partnership in the home country)</td>
</tr>
<tr>
<td>Partnership with limited and unlimited liability partners</td>
</tr>
<tr>
<td>Civil partnership, i.e., of a non-commercial nature (used for non-profit entities and by professional practitioners)</td>
</tr>
<tr>
<td>Joint venture contract. This is not a legal entity but is treated as a separate entity for income tax purposes</td>
</tr>
<tr>
<td>Branch of a foreign corporation</td>
</tr>
<tr>
<td>Sole proprietorship (a foreigner must qualify as a permanent resident [inmigrado] to be able to do business in this way)</td>
</tr>
</tbody>
</table>

Corporate law is federal in nature and applies throughout the country. Although civil law is a matter of state law, the different state civil codes are practically identical as to the formation of entities of a civil nature.

**Stock corporation**
One of the most common way for domestic and foreign investors to operate in Mexico is through a stock corporation (Sociedad Anónima—S.A.) formed under the General Law of Mercantile Companies (Ley General de Sociedades Mercantiles). In this case, the corporate name selected is followed by the initials S.A., which indicates that it is a stock corporation. A foreign-owned Mexican corporation is subject to the laws relating to all local as well as to the Foreign Investment Law.

**Limited liability company**
In most ways, the limited liability company (Sociedad de Responsabilidad Limitada—S. de R.L.) is similar to an up and running corporation.

However, as an organisation of individuals, its by-laws can be drafted in such a way as to give it most of the characteristics of a partnership under the tax laws of foreign countries, except for unlimited liability.

**Partnership**
The General Law of Mercantile Companies also provides for partnerships (Sociedades en Nombre Colectivo), as well as for partnerships with limited and unlimited liability partners (Sociedades en Comandita), but as a result of the unlimited liability for all or the general partners, as the case may be, these forms are not common.

These forms of business organisation have most of the attributes associated with the US concept of a partnership because of the unlimited liability of the partners so designated.

Partnerships require at least two partners.
**Civil partnership**

Professional practitioners are usually organised as a civil partnership (Sociedad Civil—S.C.), which resembles in many ways the limited liability partnership (S. de R.L.) mentioned above. The managing partners have unlimited liability, while other partners’ liability is limited to the value of their contributions (2704 Civil Code).

This form is also used by some non-profit entities such as educational establishments. By definition, these entities should not engage in commercial operations (any activities involving commercial speculation). The transferability of rights, as well as the admission of new partners, is subject to approval of all the partners.

**Joint venture contract**

Under a joint venture contract (Asociación en Participación—A. en P.), a person grants an interest in the profits and losses of a specific venture or business to others who provide property or services. Such a contract has no legal personality, i.e., no separate legal entity is created, and operations are conducted in the name of the active managing joint venturer (asociante). The asociante is the only party with any direct liability to third parties. The silent partner (asociado) has no direct relationship with third parties.

The tax treatment applicable to the A. en P. is essentially the same treatment as for regular corporations solely for tax purposes.

**Branch of a foreign corporation**

A foreign corporation can be registered to operate in Mexico, with full access to the local courts, through a branch office (sucursal de sociedad extranjera) after complying with certain formalities and obtaining the approval of the Mexican government through the Department of the Economy.

**Sole proprietorship**

As in many Western countries, sole proprietorship (comerciante/pessoa física) is a very popular form of organisation for small businesses. However, the element of unlimited liability generally inhibits the use of this form of organisation for large operations, particularly because of the substantial amount of severance pay that may accrue in favour of employees. Moreover, resident aliens may engage in business activities only if their immigration status is that of a permanent resident (inmigrado).

However, in some instances, it has been concluded that non/resident individuals with a taxable permanent establishment might operate under the same principles as branches of foreign entities.

**Non-profit organisations**

Charitable and other non-profit organisations take the form of a civil association (Asociación Civil—A.C.), whose charter prohibits the distribution of profits to its members.
The Tax System

In Mexico, corporate taxes are levied by the federal government. No corporate income taxes are levied by local governments and the main federal taxes payable in Mexico are:

• Income tax.
• Flat tax (repealed as of January 1st, 2014).
• Value added tax.
• Social security and federal housing dues (employment taxes and dues).

Local taxes include:

• Payroll taxes.
• Tax on transfer of real estate (paid by the purchaser).

Corporate income tax

• Rate: 30%.
• Certain deductions are allowed (returns and discounts on sales, cost of sales, net expenses, investments, i.e. depreciation or amortisation of fixed assets/deferred expenses).
• Deductible expenses must comply with several requirements, such as being “strictly indispensable” for the business activities of the taxpayer.
• Corporate advance tax payments are calculated on the current year’s revenues multiplied by a “profit factor” determined on the basis of the prior year’s figures (taxable income/total revenues).
• Tax Losses (NOLs) are deductible over a ten year carry-forward period.
• Transfer pricing – arm’s length/OECD compliant.

Value added tax (VAT)

Calculated on a monthly basis, at 16%, on a cash flow basis

• Taxable activities:
  • Sale of goods.
  • Rendering of services.
  • Leasing of goods.
  • Import of goods and services.
• Output VAT on cash receipts for goods or services, can be credited with input VAT paid to suppliers of goods and services.
• Credits or refunds for excess payments are available.

Local taxes

• The most relevant state and local taxes in Mexico:
  • Payroll tax, with no limit.
  • Annual property tax on the cadastral value of property.
  • Real estate transfer tax on appraised or fair market value.
• Deductible for Mexican income tax purposes.
• Tax rates depend on the state in which the employees or property are located.

Social security dues

Employers and employees are required to make contributions to the system, based on daily salary caps, depending on the area in which the work is performed. The maximum Social Security contribution is approximately US$ 9,000, yearly, once the maximum salary cap is reached.

Employees statutory profit sharing (PTU)

• Every entity with employees is required to distribute a portion of its annual profits amongst all of its employees.
• 10% of the entity’s taxable income, adjusted for inflation, applying straight line depreciation, eliminating NOL’s and adding dividend income.
• All employees are entitled (except directors, administrators and general managers).
• Not payable during the first year of operations and limited to one month’s remuneration in certain activities such as real estate rentals and professional service firms.
• Tax year end matches calendar year (i.e. from January 1st to December 31st).
• In the following cases there is an irregular tax year:
  • Incorporation: from the date of incorporation to December 31st.
  • Merger: from January 1st to the date of merger.
  • Split (spin-off): from January 1st to the date of split, applicable to the entity created in the spin-off or when the original entity disappears.
  • Liquidation: from January 1st to the date on which the liquidation process begins.
• The period from the beginning to the end of the liquidation is deemed to be a single fiscal period.
**Annual tax opinion**

Certain taxpayers are required to obtain an annual tax compliance opinion issued by a certified public accountant (CPA), known as the “dictamen fiscal”, which must be filed together with audited financial statements and detailed schedules, no later than June 15th of the following year. The dictamen fiscal is signed by the CPA and normally states that no irregularities were observed or remain in respect with the taxpayer’s compliance with its federal tax obligations in the prior fiscal year. Any unresolved omissions or situations must be disclosed. This certification process became elective for most other companies, but is widely chosen because it provides shareholders and management with a greater level of comfort with respect to the entity’s tax compliance.

**Tax audits**

- Tax authorities reviewing a taxpayer who has filed a dictamen fiscal (sipred system) for the year under review must first review the working papers of the CPA issuing the tax opinion (currently is optional).
- If the authorities are satisfied with the information provided by the CPA, the procedure stops there; otherwise, they will request the information directly from the company.

- The tax authorities may carry out tax inspections both at the taxpayer’s facilities and at the authority's offices. Tax audits should be concluded within the following 12 months after the audit is initiated. This term may be suspended in some specific cases such as a strike.

**Statute of limitations**

The statute of limitations is five years as of the date the last annual tax return was filed. In some cases, the statute of limitations is extended to ten years when the taxpayer is not registered at the Taxpayer Registry, has no accounting books, or has not filed an annual tax return when one is required.

**Federal tax incentives**

Mexico has opened its doors to foreign investment, providing the following federal incentives up until to 2014 when most incentives were suspended, with only the following still available:

- Research and development (R&D).
  Taxpayers involved in certain R&D projects are granted a cash subsidy to be determined yearly by the tax authorities based on a budget approved by the Mexican Congress.

- A 100% deduction is allowed for investments in assets intended for the production of renewable energy.
- Employment incentives
  These consist of a credit equivalent to 100% of the income tax corresponding to the salary paid to employees with certain disabilities and an additional 25% deduction for salaries paid to employees over 65 years of age.
- Mexican Institute of Cinematography (Fidecine)
  Taxpayers may apply a tax credit against income tax for the amount contributed to investments in Mexican motion picture productions as well as Mexican theatre productions.

**Other incentives**

- Zero rated VAT on exports.
- VAT and import duties are waived on temporary import programmes for the production of goods for exports (IMMEX – Maquiladora Regime) – 2014
  The Tax Reform has restricted eligibility for these incentives.
- Sectorial Relief Programme.
  The Sectorial Relief Programme provides a preferential import tariff on goods intended for production, regardless of the country of origin.
**State and local incentives**

Some state governments are willing to grant incentives to attract new industries, often in the form of:

- Reduced prices or grants for land for industrial use.
- Reductions in property and payroll taxes for agreed periods of time.
- Development of infrastructure (roads, electrical power, water and sewage).
- Training centres or special programmes at state universities.

To maximise the local incentive investments as well as to obtain legal certainty on the delivery of those incentives, beyond any change in the government structure, an agreement or formal ruling should be obtained from the local authorities and the review of certain legal documents is recommended.

**Taxable income**

- Sale of goods.
- Independent services.
- Leasing of goods.
- Royalties to related parties and the most interest are excluded.
- Excess expenses over income (multiplied by the flat tax rate) produce a credit that may be carried forward for 10 years.

**Tax amendments affecting Nordic companies doing business in Mexico**

1. Within the new Income Tax Law:
   - Introduction of a 10% dividend tax (reduced by the tax treaty).
   - Elimination of most tax incentives.
   - New restrictions on deductibility of related party payments.
   - Restriction on deductibility of exempt salaries or benefits.
   - Increases in tax rates for individuals and certain foreign tax payers from 30% to 35%.
3. Government Mining Royalties of 7.5% in general, plus 0.5% for precious metals, apply from 2014.

**“The dictamen fiscal is signed by the CPA and normally states that no irregularities were observed or remain in respect to the taxpayer’s compliance with its federal tax obligations in the prior fiscal year.”**
Main industry summaries
Aerospace Trends

In recent years the Mexican aerospace industry has become one of the country’s strengths. Testifying to confidence in the industry, in 2010 and 2011 numerous plants were opened by leading North American and European aerospace component companies.

Competitive salaries, along with its proximity to the world’s largest aviation market, enabled the Mexican aviation industry to weather the worst of the economic downturn. Industry statistics continue to show a positive trend, despite the slowdown in the specific sector globally.

Over the past seven years, Mexico’s aerospace sector has established itself as one of the most important in the world, registering growth of almost 20% per year, and establishing itself as a centre of manufacturing, design and development of high strategic value. In 2012 there were about 270 companies and organisations operating in the aerospace sector in Mexico, employing more than 31,000 high-level professionals who have in most cases been certified by NADCAP and AS9100. Eight out of ten aerospace companies present in Mexico are involved in production and assembly, while the remainder is divided between firms specialising in design and engineering and other maintenance, repair and overhaul services.

In 2013 the sector reached US $7.1 billion, with a growth of 9.7%.

Source: Aerospace and Defence in Mexico, Marketline, April 2014.
### Opportunities

Among the opportunities are a strong presence in manufacturing and assembly that offers real opportunities for small and medium-sized enterprises (SMEs).

In terms of original equipment manufacturers (OEM), in addition to the implementation of Bombardier (five plants) and the recent Eurocopter there are US manufacturers of business aircraft Cessna, Gulfstream, Hawker Beechcraft and Bell helicopters. It is important to note that the Safran Group is the leading aerospace employer in Mexico. According to FEMIA (Mexican Association of the Aviation Industry) the number of OEM suppliers per company in Mexico is Airbus 36, Boeing 26, Bombardier 13 and Embraer 17. Furthermore, international companies are also present in engineering; such as Honeywell (300 engineers in Mexicali), GE IQ (1,300 engineers in Querétaro) and Tata Technologies. Given the number of aircraft fleets and helicopters in Mexico (second private aircraft park in the world: +7 000), there are numerous MRO (Maintenance, Repair, and Operations) companies for helicopters (Eurocopter will also have its own maintenance centre for Central America) and business aviation.

Aside from these locations, the aircraft industrial base in Mexico is mainly represented by:

- International Tier 1 and Tier 2 (respectively direct and indirect suppliers OEM), including: Aernnova, Bodycote, Daher, Delphi, Eaton, Honeywell, GKN, Goodrich, ITP, Labinal Latécoère, Manoir Industries, Messier Dowty, Senior Aerospace, Snecma and Radiall.

- Tier 1-2 Mexico: Frisa and Alexia (formerly) Kuo.

The small number of specialised SMEs currently operating in Mexico has created substantial growth potential for companies in the following areas: metallurgy, machining (5-axis machine tools and complex parts), surface treatment, structures and materials (composites, particularly titanium).

#### Analysis of the national trend in aerospace and defense

<table>
<thead>
<tr>
<th>Year</th>
<th>Social</th>
<th>Economic</th>
<th>Technologic</th>
<th>Environmental</th>
<th>Politic and legal</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>Growth of the active population</td>
<td>Integration of a Hub for Aeronautical Service (MRQ)</td>
<td>COMAC presents the C919</td>
<td>Alternative fuel research</td>
<td>Flight agreements with Canada</td>
</tr>
<tr>
<td>2014</td>
<td></td>
<td>Use of nanocomposites in military and civil aviation</td>
<td>Using components off-the-shelf for the defense system</td>
<td>Quieter engines research</td>
<td>Agreement for the control of exports</td>
</tr>
<tr>
<td>2015</td>
<td></td>
<td>Conversion from the hydraulic system to electric</td>
<td>KPO development of emerging economies</td>
<td>Cleaner component research</td>
<td>More competitive legal frame</td>
</tr>
<tr>
<td>2016</td>
<td></td>
<td>Domestic investment in developing new materials</td>
<td>Integration of the NAFTA and LATAM agreements</td>
<td>Manufacture and assembly of 100% environmental materials</td>
<td>Mexico joins the Wassenaar agreement (exports control)</td>
</tr>
<tr>
<td>2017</td>
<td></td>
<td>Aircraft design is affected by the feedback of the passengers</td>
<td>Combat UAVs will replace military troops around the world</td>
<td>Environmental standards and taxes on emissions</td>
<td>More competitive legal frame</td>
</tr>
<tr>
<td>2018</td>
<td></td>
<td>Confidence in Mexico as a partner in the use of technology and engineering</td>
<td></td>
<td>CO2 emissions from aircraft</td>
<td>Flight agreements with NAFTA countries</td>
</tr>
<tr>
<td>2019</td>
<td></td>
<td></td>
<td></td>
<td>Global agreements on CO2 emissions</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td></td>
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<td></td>
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<td>2021</td>
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<tr>
<td>2022</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Source: Promexico
A regional strategy

The industry is concentrated in certain states. Indeed, 74% of businesses are located in five large states forming regional clusters. Each state has a specialisation that aerospace manufacturing companies wishing to produce in Mexico must take into account:

- Baja California: electrical and electronic components.
- Chihuahua: engine parts, electrical and electronic components.
- Querétaro: engine components, heat subassembly and surface treatment.
- Nuevo León: overhaul and maintenance.
- Sonora: Manufacturing of engines and turbines, composites and fuselages.

<table>
<thead>
<tr>
<th>State/City</th>
<th>Specialty</th>
<th>Players</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Baja California</strong></td>
<td>Manufacture of electric and electronic equipment</td>
<td>59 companies including: Honeywell, Zodiac, Hutchinson (Stillman Seal)</td>
</tr>
<tr>
<td>Mexicali</td>
<td></td>
<td></td>
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<tr>
<td>Tecate</td>
<td></td>
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<tr>
<td>Tijuana</td>
<td></td>
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<tr>
<td>Ensenada</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Sonora</strong></td>
<td>Manufacture of engines, turbines, airframes and composites</td>
<td>42 companies including: Latécoère, Goodrich, Esco</td>
</tr>
<tr>
<td>Hermosillo</td>
<td></td>
<td></td>
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<tr>
<td>Guaymas</td>
<td></td>
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<tr>
<td>Obrégón</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Chihuahua</strong></td>
<td>Airframe equipment, electrical and electronic, interior and mechanical manufacturing</td>
<td>36 companies including: Cessna, Textron/Bell, Safran (Labinal)</td>
</tr>
<tr>
<td>Chihuahua</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Querétaro</strong></td>
<td>Engine parts, assembly, MRO and landing gear manufacturing</td>
<td>36 companies including: Bombardier, Eurocopter, Safran (Messier Dowty, Messier Services, Sncema, Sames)</td>
</tr>
<tr>
<td>Querétaro</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Nuevo León</strong></td>
<td>Forges, component manufacturing, mechanical</td>
<td>26 companies including: Frisa Aerospace, M.D Helicopters</td>
</tr>
<tr>
<td>Monterrey</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Ubifrance

Private aviation and cargo

Mexico has the second largest fleet of private aircraft in the world. It amounted to 7,552 registered aircraft, implying imports worth US $600 million per year in aircraft parts and US $1.8 billion per year of raw materials and inputs. There are business opportunities in the markets of commercial aviation, private aviation and cargo. With a large private aircraft fleet and 85 airports that are handling 500 million tons of cargo per year. These three segments are in particular need of replacement parts, preventive and corrective maintenance service, training of pilots and technicians and peripheral equipment for the operation of airports.
Challenges

Certification of companies based in Mexico to become world-class suppliers
Mexico still has a shortage of many highly-qualified industrial processes in the aerospace industry, putting industry providers in a quandary. They must choose between:

• Increasing costs of transporting parts for certification or specialised manufacturing (mainly the United States).
• The construction of a production facility in Mexico, which implies significant costs (capital, technology risks, among others).

For these suppliers, the strategic business decision as to whether to make an investment in Mexico is hampered by:

• Significant investment in machinery to improve operational efficiency and a lack of suppliers and distributors of specialty alloys for Tier 2 companies.
• Scant savings on the cost of labour for machine processes that are not labour intensive.

This is compounded by the difficulty of trade agreements with OEMs for ensuring minimum purchase volumes. The Mexican aviation sector is thus engaged in a complicated spiral:

• OEM growth is hampered by the lack of an established local supply chain in the field.
• Tier 1 companies are reluctant to invest in Mexico because of the lack of Tier 2 companies.
• Tier 2 reluctance to invest in a market they consider inadequate.

Training of specialists and high-level technicians
The development of local and international suppliers seems to be the target of many state governments, including the most dynamic states (Querétaro, Nuevo Leon, Chihuahua, Sonora and Baja California) and major clients, such as Bombardier and the Safran Group. This growth is hampered by two factors: (1) the lack of qualified, skilled technicians including labour and (2) the fact that Mexico does not yet have all the necessary international certifications. For these reasons, knowledge transfer in vocational training becomes controversial and strategic.

Stimulation of further activities in research and development and implement of new technologies
Even today, the Mexican government invests only 0.5% of its GDP in research and development. Private companies are also investing small amounts.

Like most businesses, Mexican aerospace companies are subsidiaries of transnational corporations. The transfer of technological development to Mexican subsidiaries depends on the business strategy and the feasible benefits.

Companies transfer technology only to their Mexican subsidiaries with efficient operation of the facilities on site. Advanced research is largely done at companies’ headquarters.

Complementing and strengthening the supply chain sector
Mexican companies in the sector are still few and generally small or medium sized. Developing their technologies depends on their own resources. Federal and local, as well as national research centres and state governments are trying to help companies develop and strengthen the sector’s supply chain.
### Agribusiness & food Trends

Agri-food exports (including agricultural and agro industrial) increased 7%, in 2013, according to the Ministry of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA).

The main agricultural goods exported in 2013 were: malt beer, worth 2,211 million USD; tequila, 996 million; bakery products, 754 million; sugar, 726 million; chocolate, 598 million; beef, 523 million; malt extract, 397 million; pork, 393 million; prepared food, 335 million; and canned fruit, 323 million, among others.\(^1\)

According to the National Institute of Statistics and Geography (INEGI) agricultural activities (agriculture, livestock and fishing) grew 5.1% between January and March 2014. During that period a surplus of 72.1 million USD was registered in contrast to the previous trend, as the balance has registered an average deficit of 500 million USD over the last five years.\(^2\)

**Meat**

Mexico consumes a limited amount of meat products. A Mexican consumes an average of 55 kg of meat per year; mainly chicken 24 kg, pork 16 kg and beef 15 kg. However, Mexico is one of the largest consumers of eggs in the world at 22.8 kg per year per capita. Consumption of seafood is minimal (7 Kg/year/inhabitant).

**Dairy Industry**

Milk production represents one fifth of the total value of domestic livestock output, ranking third after pork and eggs.

While growth in primary production is solid, when taking in to account the rate of population growth it is not enough to supply industry demands.

### National Production 2010-2014 (million litres)

\[\text{2014} \quad 2013 \quad 2012 \quad 2011 \quad 2010\]

*January-March
Source: National Chamber of the Milk Industry (Canilec)

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\(^1\)Ministry of Agriculture, Livestock, Rural Development, Fisheries and Food (SAGARPA), www.sagarpa.gob.mx

\(^2\)IBID
Milk consumption has increased more than domestic production translating into a milk production deficit.

**Production and consumption 2005 - 2013 (million litres)**

- **National consumption**
- **Milk production**

Source: National Chamber of the Milk Industry (Canilec)
Agricultural products

Mexico exports more than 290 food products (including coffee, chocolate, tequila, tomato and avocado), which are sent to more than 160 countries and territories.

The main agricultural products Mexico sells abroad are: red tomatoes, which grew 8.7% reaching 1.856 billion USD; avocado, an increase of 24.5% and a value of 1.228 billion USD; and bell pepper, with an increase of 12.3% and a contribution to exports of $ 876 million USD. In the last 3 years Mexico has opened the market to other countries other than the US such as Japan, Venezuela, Russia, and China.

Wine

In 2000, Mexico’s annual wine consumption was 27 million litres, compared to 70 million litres in 2013. The outlook for 2020 is 200 million litres per year.

The industry has grown significantly in recent years. According to Marketline, total revenue for the Mexican wine industry was 748.3 million USD in 2012. Its compound annual growth rate (CAGR) for the period between 2008 and 2012 was 9.9%. In comparison, the US wine market grew 3.6% and the Canadian market 3.3%. The biggest player in the Americas wine market is the United States representing 65.5% of total market value.

Mexico accounts for 1.4% of this market value.

Food consumption

Mexico produces about 4% of the world’s food with 28 million tons produced per year and a production capacity of 35 million tons. It is the 4th largest producer in the Americas after the US (146 million tons), Brazil (61 million tons) and Canada (30 million tons), and ranks 6th worldwide.

According to Business Monitor International, per capita food consumption in Mexico is expected to grow by 24.3% (in nominal, local currency terms), while total food consumption is expected to grow by 31.2% (in local currency terms) reaching MXN2,091bn by 2017. This will be driven in part by a growing population and the increasing prevalence of mass grocery retail.

Fertilizers and pesticides

America remains a key region for the usage of fertilizers. Although Canada is a major exporter, the US continues to maintain a production surplus, while other Latin American countries are importers of three types of nutrients. North America is the largest regional producer and exporter of fertilizers, and the second largest consumer. Asia is the largest fertilizer market, but Latin America has the highest growth rate. According to the United Nations Food and Agriculture Organization (FAO), fertilizer demand in Latin America is set to increase by 17.6% between 2011 and 2015.
Opportunities

Given the evolution of Mexican agriculture and government goals (modernisation, improvement of infrastructure, structuring of industries, higher yields), foreign companies should be able to gain a foothold in Mexico by leveraging their technical expertise in areas such as the farming machinery sector (complementary machines and wear parts), or the modernisation of the irrigation systems.

• In coordination with the Ministry of Communications and Transport, Telecom Mexico (TELECOM) will install 30 satellite antennas to provide connectivity and internet to Rural Development Support Centres (CADERs) benefiting half a million producers.

• Mexico’s demographic situation (consisting of a growing young labour population, rising incomes and the consolidation of the middle class) is ensuring greater domestic demand for agricultural products.

• The Pacific Alliance constitutes a benefit for the agricultural sector.

• There is an opportunity to consolidate and increase Mexican farming production without having to expand the cultivated area because of current low yields and the fragmented state of Mexican farming.

• Foreign investment rules are relatively relaxed in some sectors, with majority ownership allowed in certain circumstances.

• Mexico’s varied landscape allows for large-scale agriculture involving a diverse range of products.

• NAFTA allows Mexico to export products with tariff-free access to the North American region. In 2013 one of the most benefited sectors was livestock. One of the benefits of the agreement for Mexico is the technology that has supported domestic producers in becoming more competitive.

• The objective of the government Infrastructure Plan is to improve Mexico’s infrastructure in order to attract more foreign investment and increase productivity, i.e. lowering transportation costs.

• The government appears to be committed to free trade and has been slowly diversifying its export base away from dependence on the US among these is the Asian markets, in particular Japan and China.

Challenges

• The technological gap between Mexico and its competitors.

• Although Mexico’s demographics can benefit the consumption of agricultural goods, it is also a challenge for the rural population. At the beginning of the 20th century the rural population accounted for more than 70% of the total population, while urban population was less than 30%. Now these numbers have been reversed, according to the 2010 general population and housing census.

• Environmental changes are a big challenge for this industry because of their direct impact on production.

• Compared to US farms, Mexican farms are often very small and performance is low.

• Health risk suits can sometimes occur in Mexican agriculture due to poor hygiene and quality.

• Due to a high rate of diabetes and obesity among the Mexican population, the government has developed programmes to combat unhealthy eating habits, including a sugar tax that affects non-alcoholic beverages.

• Education is an issue, with Mexico having one of the lowest levels of educational achievement of all OECD countries.

• A more focused regional policy is required to help distribute resources more fairly.

• Heavily regulated labour markets and powerful trade unions make hiring and firing difficult for employers.

“NAFTA allows Mexico to export products with a tariff-free access to the North American region. In 2013 one of the most benefited sectors was livestock.”
Automotive Trends and Developments

In 2013, sales of light vehicles (passenger cars and commercial vehicles) in Mexico grew by 7.7% year over year to 1,063,363 units. Light vehicle production in Mexico declined 9.1% in December, to 164,221 units. However, in 2013 output in this segment increased 1.7% to 2,769,244 units. A number of factors, such as the low production capacity of regional competitors, the revival of the US vehicle market, positive developments in the domestic supply chain and competitive wages in Mexico are driving this growth.

The first few months of 2014 saw growth in Mexican exports, which amounted to 124,944 billion USD. According to INEGI (National Institute of statistics and geography), this number represents the highest level of sales outside Mexico.\(^6\)

**Vehicle sales**

In 2013, sales of new vehicles increased 10% in 13 of the country’s states (Zacatecas, Colima, Yucatán, Aguascalientes, Oaxaca, Durango, Guanajuato, Tlaxcala, Querétaro, Puebla, San Luis Potosí, Coahuila and Tabasco).

The business is highly concentrated in the Federal District and the State of Mexico. In 2013, 4 of every 10 vehicles sold were sold in these two federal entities.

In 2013, 9.8% of vehicle sales corresponded to the higher purchasing power segment, namely luxury and sports cars with price tags of more than 30,000 USD. Domestic sales of such vehicles rose 1.2%

From January to April 2014, 327,989 light vehicles were sold in the domestic market, while production reached 1,022,762 units manufactured in Mexico in the first 4 months of the year.\(^7\)

### Sales

**Mexico’s Car Sales by Segment – Historical Data and Forecasts (2013-2018)**

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</tr>
</thead>
<tbody>
<tr>
<td>Total Vehicle Units</td>
<td>927,207</td>
<td>1,004,450</td>
<td>1,079,461</td>
<td>1,144,120</td>
<td>1,229,137</td>
<td>1,331,423</td>
<td>1,459,109</td>
<td>1,615,383</td>
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<td>Vehciles, % chg</td>
<td>10.4</td>
<td>8.3</td>
<td>7.5</td>
<td>6.0</td>
<td>7.4</td>
<td>8.3</td>
<td>9.6</td>
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<tr>
<td>Passenger cars, Units</td>
<td>591,598</td>
<td>649,333</td>
<td>698,217</td>
<td>735,921</td>
<td>784,001</td>
<td>848,930</td>
<td>935,971</td>
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<td>Passenger cars, % chg</td>
<td>17.4</td>
<td>9.8</td>
<td>7.5</td>
<td>5.4</td>
<td>6.5</td>
<td>8.3</td>
<td>10.3</td>
<td>12.1</td>
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<tr>
<td>Commercial vehicles, units</td>
<td>335,609</td>
<td>355,117</td>
<td>381,244</td>
<td>408,200</td>
<td>445,136</td>
<td>482,493</td>
<td>523,127</td>
<td>566,111</td>
</tr>
<tr>
<td>Commercial vehicles, % chg</td>
<td>-0.3</td>
<td>5.8</td>
<td>7.4</td>
<td>7.1</td>
<td>9.0</td>
<td>8.4</td>
<td>8.4</td>
<td>8.2</td>
</tr>
<tr>
<td>Motorbikes, units</td>
<td>109,838</td>
<td>150,392</td>
<td>135,327</td>
<td>140,494</td>
<td>146,410</td>
<td>152,467</td>
<td>159,121</td>
<td>166,222</td>
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<tr>
<td>Motorbikes, % chg</td>
<td>65.6</td>
<td>36.9</td>
<td>-10.0</td>
<td>3.8</td>
<td>4.2</td>
<td>4.1</td>
<td>4.4</td>
<td>4.5</td>
</tr>
</tbody>
</table>

Source: Mexico autos report, Business Monitor International, Q2 2014

e= estimated
f= forecast

\(^7\)AMIA (Mexican association of the automotive sector), http://www.amia.com.mx/
Production

Mexico’s Car Production by Segment – Historical Data and Forecasts

<table>
<thead>
<tr>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Total Vehicle Units</td>
<td>2,681,050</td>
<td>3,001,974</td>
<td>3,082,570</td>
<td>3,254,704</td>
<td>3,442,178</td>
<td>3,648,312</td>
<td>3,891,900</td>
<td>4,179,978</td>
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<tr>
<td>Vehicles, %chg</td>
<td>14.5</td>
<td>12.0</td>
<td>2.7</td>
<td>5.6</td>
<td>5.8</td>
<td>6.0</td>
<td>6.7</td>
<td>7.4</td>
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<tr>
<td>Passenger cars, Units</td>
<td>1,657,080</td>
<td>1,810,007</td>
<td>1,771,016</td>
<td>1,873,735</td>
<td>1,969,511</td>
<td>2,074,562</td>
<td>2,194,222</td>
<td>2,327,790</td>
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<tr>
<td>Passenger cars, %chg</td>
<td>19.5</td>
<td>9.2</td>
<td>-2.2</td>
<td>5.8</td>
<td>5.1</td>
<td>5.3</td>
<td>5.8</td>
<td>6.1</td>
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<tr>
<td>Commercial vehicles, units</td>
<td>1,023,970</td>
<td>1,191,967</td>
<td>1,311,554</td>
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<td>1,472,667</td>
<td>1,573,751</td>
<td>1,697,679</td>
<td>1,852,188</td>
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<tr>
<td>Commercial vehicles, %chg</td>
<td>7.2</td>
<td>16.4</td>
<td>10.0</td>
<td>5.3</td>
<td>6.6</td>
<td>6.9</td>
<td>7.9</td>
<td>9.1</td>
</tr>
</tbody>
</table>

Source: AMIA (Mexican association of the automotive sector), http://www.amia.com.mx/

The short-term outlook for the Mexican automotive industry is promising if the domestic and international economies manage to maintain the current pace of growth.

Medium and long-term growth prospects are good, but still depend on the performance of the US economy (which ranked second in the world in car engine production in 2012).

Over the next five years growth rate of the Mexican automotive industry could easily reach the 5% to 9% range.

The US Market

Many manufacturers of vehicles and vehicle parts outsource their production to Mexico to benefit from easier and less costly production than in the US. Indeed, Mexico’s advantageous geographic location promotes exports to the US market, offering significant savings in terms of time, cost of production and transport. This proximity to the United States and membership of NAFTA offers significant advantages in negotiations between Mexico and the US market.

The strength of the US automotive market is a key factor behind the growth in Mexican vehicle exports. Total light vehicle sales are on the rise in the US, putting the country in a strong position to recover pre-crisis sales levels. This growth should continue to drive Mexican vehicle production and exports. Indeed, from January to April 2014, exports to the US grew 18.2% compared to the same period in 2013.

The Mexican government seems to be committed to the principles of free trade, and is diversifying its export base to lower dependence on the United States. The Mexican Association of Automotive Suppliers (INA) has identified Brazil, Argentina, Uruguay and Colombia as Mexico’s main export markets in Latin America, while exports to the European and Asian markets are also on the rise.

Source: AMIA (Mexican association of the automotive sector), http://www.amia.com.mx/
Opportunities

- Mexico has access to 45 countries through its 10 free trade agreements.
- One of these agreements is the Pacific Alliance, which is currently the world's eighth largest economy.
- Significant investments have been announced by major manufacturers throughout the supply chain.
- Export diversification will likely reduce dependence on the US in the long run.
- Local suppliers are increasingly being exposed to non-traditional markets and are developing their relationships with foreign suppliers, thus fostering the emergence of a strong local supply base.
- Mexico’s strategic geographic position next to North American markets facilitates trade with this region.
- The labour force is less expensive in Mexico than in developed countries.
- There is ample installed production capacity, which continues to grow as a result of annual investment programmes by large multinational manufacturers operating in Mexico.
- In central and northern Mexico there are 13 clusters of automotive industry suppliers with a long tradition of manufacturing auto parts.
- High-tech production lines.
- Manufacturing systems operating with quality standards surpassing those of competitors in Latin America and Asian countries, such as China and India.
- An exporting tradition and the advantages of the commercial treaties signed with the US and Canada, the European Union, Japan and other countries in Central and South America.

Challenges

- Although Mexico’s geographic location is an advantage for trade with North America, it also creates dependence on this region, which is why Mexico must diversify its exports.
- Mexico controls environmental damage by regulating the entry of old cars that pollute relatively more. This is a measure for combating one of the biggest problems in the sector: used car imports. In 2013, 644,209 used vehicles entered the country, up 40.6% from 2012.
- The searching for alliances that can bring about an improvement (knowledge, techniques, production, distribution, technology, etc.) in the sector.
- Detecting of new market niches throughout the sector value chain, from auto part companies to automotive and transportation equipment insurers.
- Increasing local and regional integration and value added percentages.
- Searching for improvements or benefits through strategic alliances or mergers.
- Attracting more high-level specialised professionals to the automotive industry.
- Eradicating or significantly reducing all types of vehicle theft.
- Risks related to companies that are part of the automotive industry supply chain as a result of their transnational operations and search to lower costs.
- The constant pressure assemblers place on their suppliers to reduce costs.

“Mexico has access to 45 countries through its 10 free trade agreements. One of these agreements is the Pacific Alliance, which is now the world’s eighth largest economy.”
Consumer products
Trends

Greater wealth, population growth, and the strong development of retail infrastructure are key factors behind the forecasted growth of retail in Mexico. Other factors, such as the large number of women active in the country, the increase in jobs and wages also explain this growth, in addition to the consolidation of the middle class in the region. At the same time, more affluent Mexicans enjoy a more comfortable lifestyle facilitated by easier access to consumer credit. In recent years, foreign banks have significantly expanded their debt portfolios of Mexican credit cards.

The formalisation of the economy is a positive aspect for companies in this industry. Consumers are increasingly placing value on the idea and consistency of brands.

Another trend that will probably transform sector companies is technological progress. The value of the trade retail segment is expected to increase 17.8% between 2013 and 2017 to 264.61 billion USD. Similarly, Mexico’s GDP is expected to grow by 3.7% per year between 2013 and 2017, according to the World Trade Organisation (WTO). The population forecast is 122,500,000 in 2017 vs. 112,336,538 in 2010, according to the census conducted by INEGI. GDP per capita is expected to increase by 28.1%, reaching 14,576 USD in 2017. Unemployment, which is historically low, reached 5.1% in March 2014. In addition, the urbanisation trend is expected to continue, growing to a rate of 80.8% in 2020. From February to May 2014, consumer confidence increased 0.69% according to INEGI data.

Household spending by category, % of total

Source: Mexico retail report, Business Monitor International, Q2 2014

*Fabian Gosselin Castro, General Director of Alsea in interview with PwC Mexico for the 5th CEO Survey
*INEGI
### 2013 Global Retail Development Index

<table>
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<tr>
<th>2013 Rank</th>
<th>Country</th>
<th>Region</th>
<th>Market attractiveness (25%)</th>
<th>Country risk (25%)</th>
<th>Market Saturation (25%)</th>
<th>Time pressure (25%)</th>
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Sources: The 2013 Global Retail Development Index, Global Retailers: Cautiously Aggressive or Aggressively Cautious?, AT Kearney Inc. 2013
Food and transport account for the biggest share with a total of 40% between the categories, followed by personal, insurance and other spending with 14%.

Even amid a complex international environment and significant local challenges, Mexico continues to offer a big opportunity for retail development. The Convention Coalition for Continuous Improvement of Competitive Business Practices was signed in 2009. The objective is to promote the identification, development and implementation of best business practices by respecting competition that leads to healthy coexistence among producers, distributors, retailers, department stores and other entities involved in the production and distribution of goods and services for the benefit of productivity and competitiveness.

Mexico currently ranks 21st in the Global Retail Development Index (GRDI), up seven places from 2012 due to renewed optimism concerning the economic and political environment. Per-capita consumer spending grew 5.3% in 2013, driven by a stronger peso, lower interest rates that led to more credit availability, and moderate inflation.
Opportunities

• Mexico has a large middle class with higher incomes. With young people in the country not getting married until later, there is a large pool of well-travelled young professionals that have more disposable income to spend, not only on the basic necessities but also on a variety of products such as fashionable clothes, electronic equipment, and household appliances.

• Proximity to the US market and Mexico’s NAFTA memberships provide significant advantages.

• The Pacific Alliance fosters international trade and investment.

• The value of the retail trade sector is expected to grow 17.8% by 2017, from 217.35 billion USD in 2013 to 264.61 billion USD.

• There is an opportunity outside Mexico’s urban areas. MGR (Modern Mass Grocery retailing) operators in Colombia had positive experiences following their decision to do business in small towns or cities.

• Mexico currently has a broad free-trade agreement network that includes North America, the European Union, Japan and some South American countries. These agreements have substantially reduced tariff and nontariff barriers. Exchange rates are determined by supply and demand and foreign currency is freely available.

Food & beverage opportunities

• The performance of the industry is forecasted to accelerate with anticipated projected CAGR of 2.8% for the five-year period from 2011 to 2016. This is expected to take the industry’s value to 163.83 billion USD (2,129.8 billion MXP) by the end of 2016.

• The modern distribution formats are proving popular with consumers; hypermarkets and discount stores are expected to experience growth.

• Despite the growth in the retail sector, food retailing is fragmented with traditional outlets still representing about 50% of sales.

• In small towns, villages, and some suburbs of large cities, less than 50% of grocery purchases are made in supermarkets.

• Consolidation of the food retailing area is a fact in the consumer products industry, and large mergers, alliances and acquisitions have taken place.

• Consumers are being attracted by a greater variety of convenience products at competitive prices.

• Private label products, and more specifically under brands, should experience strong growth, particularly in low-income households.

Mexico food retail industry value and forecast (2007-2016)

![Mexico food retail industry value and forecast (2007-2016)](chart)

Source: Data Monitor
**Apparel opportunities**

The retail industry is forecasted to reach a value of $6.7 billion, an increase of 17.5% from 2012. The annual growth rate of the industry for the period 2012–17 is expected to be 3.4%.

The industry has short product life cycles and is characterised by demand fluctuation. Due to the growing middle class and increasing disposable incomes, Mexico is being targeted by international apparel chains.

![Mexico's apparel retail industry value forecast: $ billion USD, 2012-17](image)

Source: Apparel Retail in Mexico, Marketline, February 2013

**Challenges**

- Fight against piracy and smuggling in Mexico. Piracy chalks up losses of nearly 75 billion USD annually.
- According to the Economic Commission of the United Nations on Poverty in America, the number of poor people in Mexico has increased 1.5% over the past 20 years, despite the overall poverty rate dropping from 48.4% to 31.4% in Latin America.
- The policy of President Enrique Peña Nieto on income inequality and wealth distribution in the country will be a determining factor for the retail sector.
- Domestic chains are being side-lined by larger regional and international players.
- Government health campaigns of the government and Mexico's sugar tax could reduce growth opportunities in the non-alcoholic beverages segment.
Energy
Oil & gas

The 2013 energy reform goes a long way towards addressing weaknesses in Mexico’s oil and gas sector. The bill does not dispute the dominant national narrative that hydrocarbons belong to the State. Indeed, Article 27 restates that fact. The reform does, however, take major steps to not only permit, but actively attract foreign investment. It creates a system in which the State is empowered to grant a number of different contracts based on the level of risk involved in developing the resources. These include:

1. Service Contracts:
   • Oil Company carries out Energy & Petroleum (E&P) activities on behalf of the State. Financial Risk borne by the State.

2. Profit-sharing Contracts
   • Oil Company carries out E&P activities and shares a % of the profit from the project. Financial Risk borne by the Oil Company.

3. Production-Sharing Contracts
   • Oil Company carries out E&P activities and shares a % of the oil production from the project. Financial Risk borne by the Oil Company.

4. License Contracts
   • Oil Company acquires title of hydrocarbons at wellhead after paying taxes. These contracts are expected to operate similarly to concessions.

5. Combinations of Various Contracts
   • Hybrid Contracts.

6. Others.
   • The constitutional amendment opens up the possibility for other types of contracts in the secondary laws.
Trends

In 2012, Mexico’s average daily oil production was about 2.5 million barrels, 75% of which came from oil rigs in the Gulf of Mexico and 25% from land deposits.

Pemex estimates that 1P oil reserves (proven reserves) will be used up over the next decade and 3P (potential reserves) will be consumed over the next thirty years, provided production levels are consistent.

Production declined to 2,550 million barrels per day in 2012 compared to 3,382 million barrels per day in 2004.

Petroleos Mexicanos (Pemex) has launched a series of investments in exploration activities in order to return to a production level of 3 million barrels per day over the next 5 years.

In 2013 production increased from 43,837.3 million barrels in 2012 to 44,530.0 million barrels.

**Reserves**

As for dry gas, the trend also decreased from 2002 to 2010, but since 2011 has resumed an upward path.

The main crude oil extraction site is Ku-Maloob-Zaap with 33% of total production amounting to an average of 841,818 barrels per day. Pemex, however, placed its bet on Chicontepec, and its production has already increased from 45,000 barrels per day in 2010 to 64,000 barrels per day in 2011, and is expected to reach from 550,000 to 600,000 barrels per day by 2021.

In recent years, Pemex has invested about 15 billion pesos (1.18 billion USD) in research activities in the deep-water areas of the Gulf of Mexico. The oil fields were discovered in 2011 at a depth of 5431 meters and a seabed of 1,928 meters. Pemex has used data on seismic performance to begin the drilling of five new wells.

The results of Pemex’s deep-water research were inconclusive until the discovery of the Supremus, Trion, and Maximus sites.
Opportunities

Opportunities for the private sector are not limited only to oil. There are also opportunities in bioenergy. Article 11 of the Law for the Promotion and Development of Bioenergy, came into force on February 2, 2008. It provides that licenses for the production of biofuels from corn may be granted to individuals when surplus stocks of maize production are likely to exceed domestic consumption.

The energy reforms represent a major breakthrough because for the first time in history the national energy company Petróleos Mexicanos (Pemex) has opened its doors to collaboration with private companies. The reform will facilitate the entry of international companies into Mexico’s energy sector by offering incentives.

- O&G companies and service providers are expected to profit from the Mexican O&G sector openings by working with Pemex, and/or focusing on business opportunities in the brand new private sector.
- Short-term opportunities in Mexico for contractors will thus be centred around onshore and shallow water E&P services for Pemex. Mid-term opportunities will arise for new IOCs/NOCs with oil field contracts in Round One and Onwards and for the oil contractors focused on the exploration of those oil fields.
- The base of Mexico’s oil resources is one of the largest in the entire American hemisphere.

- The petroleum tradition has made the energy sector in Mexico a well-developed high-skills sector.
- Pemex has authorised the construction of four new refineries
- In 2014, Pemex plans to invest $27 million in areas with a manufacturing presence.
- The reform aimed at energy sector liberalisation is expected to revitalise the sector’s potential and attract foreign investment.
- The deep waters of the Gulf of Mexico remain a widely unexplored territory. Recent discoveries have highlighted the enormous potential of these sites.
- Insecure hot spots in the country that could affect investments have been reduced.
- Financing is available for entrepreneurs who want to actively participate in the sector’s supply chain.
- Technical and specialised personnel are needed by productive and transformative processes at all stages of preparation.
- One key point that will transform the industry is the matter of technological advances.

Challenges

- The complexity of energy reforms and difficulties in identifying opportunities for foreign companies that want to come to Mexico.
- Oil production has been declining for several years and will continue to decline until 2021.
- Despite large domestic oil production, Mexico is still dependent on other countries for oil derivative refining.
- The laws imposed by Pemex remain very strict for private companies in terms of profit sharing, tax systems and projects.
- There is social unrest which promotes immobilisation at the expense of reforms aimed at halting production.
- Finding talented human resources is one of the sector’s biggest challenges.
- Climate change is one of the key trends that will transform the industry in the coming years.

“The energy reforms represent a major breakthrough because for the first time in history the national energy company, Pemex, has opened its doors to collaboration with private companies.”
Renewable energy Trends

According to the latest data from the Secretary of Energy (SENER), in 2012 total electricity production amounted to 260,498 GWh. Total national capacity of electric power production was equal to 53,845 MW, 24.9% of which consisted of clean technologies: 4.2% renewable (excluding large hydro), 18.4% large hydro and 2.24% nuclear.

The Energy Regulatory Commission (ERC) has approved the implementation of many projects for autonomous turbines with a total capacity of 2727 MW of power, 488.7 MW of which are already in operation, 1928 MW of which are under construction and 310 MW of which are inactive.

Forecast net demand by sector for 2011-2016, including energy saving plans

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Sources: SENER, PwC

Electricity demand in Mexico is expected to grow at an average annual rate of 4.1% between 2011 and 2016. This growth in demand implies the need to install new electricity capacity amounting to around 50,000 MW, equivalent to about 80% of installed capacity to date.

Clean energy production is expected to increase by 2024. The target set by the Law on Renewable Energy Sources is for renewable energy sources to represent up to 35% of the total energy production in the country. In 2012, renewable energy sources accounted for 24.9% of total electricity generated in Mexico. The need to comply with the objective of 35% represents a significant opportunity for the development of renewable energy projects.

Private actors have the opportunity to invest in renewable energy by signing a PPA (power purchase agreement) with the Federal Electricity Commission (Comisión Federal de Electricidad, CFE), and are also allowed to participate in the tendering or the construction of plants for domestic consumption in the country.
Opportunities

• The General Law on Climate Change (adopted in June 2012) has set stringent targets for renewable energy and carbon dioxide emissions. This focus on a green energy agenda will no doubt encourage the development of the renewable energy sector.

• Mexico’s oilfields are aging and production is in decline. Considering that oil currently contributes nearly 17% to the total electricity mix, Mexico is in search of alternatives.

• President Enrique Peña Nieto’s reform drive will attract significant investment over the coming years.

Electricity production: the potential of renewable energy

Wind energy

Estimated wind power potential exceeds 71,000 MW, according to data provided by the Research Institute for Electricity (Instituto de Investigaciones Electricas, IIE) and the Ministry of Energy (Secretaría de Energía, SENER).11 22 out of 30 states in Mexico could install wind farms. Investments calculated for these projects are expected to reach $5.5 billion and create more than 10,000 direct and indirect jobs. Based on the cost of wind energy and the Cost Projections Combined Cycle (CCGT), the proposal is to introduce a national plan to achieve 12 GW of wind power by 2020.

Development of wind power (2010-2020)

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**Solar energy**

Almost 90% of Mexican territory has an average level of solar radiation that is among the highest in the world: between 5 and 6 KW/h per square metre. It is therefore estimated that a total capacity of 25.11 MW of photovoltaic energy which will require a total investment of 125.5 million USD. The federal government has developed numerous incentive initiatives to install solar energy systems, including the Programme for the Promotion of Solar Collectors for Water (Programa para la Promoción de Calentadores Solares de Agua, PROCASOL).

The graph shows the evolution of the residential use of solar photovoltaic systems in various states of Mexico according to the tariff segment up to 2020. Forecasts prepared by PwC for the Department of Energy show how PV becomes competitive from 2017 to 2020. This growth could attract potential customers to the domestic market for low-supply power.

**Hydropower**

According to data published by CFE and the Energy Regulatory Commission (Comisión de Energía Reguladora, CRE), Mexico has small hydropower plants with a capacity of 392 MW. It is estimated, however, that there is potential for a much higher capacity of about 3,250 MW, which means that the amount generated today is only 12% of the potential capacity.

**Geothermal energy**

In terms of production capacity of geothermal energy, Mexico is among the top countries in the world. According to data released by SENER, Mexico has geothermal reserves of 10,644 MW, 1,144 MW of which classify as proven reserves, 2,077 MW as probable reserves and 7,423 MW as possible reserves. At the end of 2011, production was 6,507 GWh corresponding to 2.5% of total domestic production capacity.

**Cogeneration**

Cogeneration capacity installed in Mexico has developed over the last ten years at an annual growth rate of 10%. However, only 28% of the potential has been realised. The development of the gas network in Mexico is necessary to promote growth in the field of cogeneration.

The national energy strategy provides for an increase of 38% between 2010 and 2026. Private operators began participating in natural gas distribution for the first time in 1995. Since then, increased demand from new and existing customers and new customers has highlighted the urgent need to invest in the expansion of the transportation network.

Transportation and infrastructure in Mexico have improved greatly in recent decades. While there is still much to be done, infrastructure should take a great leap forward in the next five to 10 years. In transportation, several initiatives have been taken by the new government to improve infrastructure.
Challenges

• High distribution costs and logistics issues. This is a challenge that needs to be resolved with the private and public sector so the industry can prevent or minimise its losses.

• Although the energy reform contributes to the development of the sector, there is still no clear regulatory structure for encouraging investment. Resolution is required to attract the investment.

• Mexico needs to achieve its goals in the renewable energy sector.

• According to the OECD Mexico is amongst the 34 members of the organisation with the highest electricity prices.
Health
Pharmaceutical market
Trends

Over the last decade, the Mexican government has acknowledged the importance of investing in scientific and technological know-how and establishing science and technology development as a state policy for the Federal Government’s National Development Plan for the 2007-2012 period. Some of the key points are the support of scientific, technological and innovation activities designed to improve Mexican competitiveness. This has been a relevant factor in Mexico’s emergence as one of the main pharmaceutical and medical equipment markets in Latin America.

Since 2001, through the National Council for Science and Technology (CONACYT in Spanish), the Federal Government has supported scientific and technological research through tax, financial, foreign-trade and training incentives. CONACYT provides financial support to individuals and companies with technological development and innovation projects. Furthermore, it gives priority to projects linked to universities and research centres.

In 2013 the Federal Commission for the Protection Against Sanitary Risks (COFEPRIS) signed an agreement, as part of the Pacific Alliance with Colombia, Peru and Chile, that facilitates the trade of pharmaceutical products in the region.

Market access for medicines

Historically, the rules for medicines entering the Mexican healthcare sector have been more severe than for other industries. The explanation given by the authorities is, in general terms, that they have the right and the obligation to protect the health of the Mexican population, regardless of the provisions of foreign legislation.

Since Mexico began its foreign trade regime (it has now signed a significant number of free-trade agreements), any healthcare regulations that could reflect a certain level of protectionism are subject to great scrutiny.

COFEPRIS is the body that authorises clinical trials in the country. Most patients who take part in clinical trials are recruited through public healthcare institutions. Mexico has the opportunity to increase its participation in the clinical trial process based on the fact that diabetes mellitus, high blood pressure, obesity and cancer are the main causes of death in the country. Since 2012, COFEPRIS has sped up the marketing authorisation process for generic medicines.

Medicine market in Mexico (Thousands of millions of USD)

Source: Megashifts, Impulso al sector salud, Doing Business in Mexico, PwC México 2013
Opportunities

- The second largest pharmaceutical market in Latin America after Brazil.
- One of the most developed Latin American markets with regulatory standards above those of most neighbouring countries.
- The pharmaceutical industry is competitive and well developed, comprising 200 national and a significant number of multinational enterprises.
- A major effort by the Mexican government to tackle counterfeit drugs while continuing to support patents and pharmaceutical companies.
- New legislation on bioequivalence was approved and offers growth potential for the generic drug market.
- The reform of the health sector and expansion of programmes such as the “Seguro Popular” should encourage health spending.
- Public procurement through IMSS is placing more and more emphasis on generic drugs, indicating good potential for the expansion of that market.
- Access to the public market is now open to all pharmaceutical companies operating in Mexico (not just Mexican companies), making the market more competitive.
- Pressure on the government to extend the Over-the-Counter classification (OTC) may encourage the unrestricted sale of more types of drugs.
- Good opportunities for medical tourism for U.S. patients, especially in Tijuana.
- Mexico is facing a major challenge, non-transmissible diseases like diabetes and obesity being at the top of the list. This is a significant opportunity for pharmaceutical companies to develop more sophisticated and effective medicines with which to treat these diseases.
- With the implementation of the National Strategy for the Prevention and Control of Overweight, Obesity and Diabetes, the government is working to guarantee the supply of medicines and laboratory tests, and monitor the supply chain.
- The entry of the principal self-service chains into the pharmaceutical business and the consolidation of independent pharmacies into commercial chains has gradually changing their business model and decreasing the use of specialised distributors without having problems as concerns the supply of products to the end consumer.
- Despite recent reforms, application of the patent law is still problematic.
- Copied and imitated medicines are still widespread.
- With approximately 10% of the population lacking health insurance, the drug market in Mexico is sensitive to economic swings.
- Ineffective coordination of regulatory policies in the health sector has contributed to higher prices for pharmaceuticals.
- Persistent failure to comply with the national patent law may continue to limit investment and product launches by multinationals.

These challenges can be understood more clearly in the following chart that shows key features of the health sector:

<table>
<thead>
<tr>
<th>Consumer</th>
<th>Competition</th>
<th>Regulations</th>
<th>Social responsibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>More demanding</td>
<td>Erosion of margins</td>
<td>More government intervention</td>
<td>Development</td>
</tr>
<tr>
<td>Less fidelity</td>
<td>More rivalry</td>
<td>Anti-monopoly</td>
<td>Society</td>
</tr>
<tr>
<td>Diversity of needs</td>
<td>New distribution channels</td>
<td>More tax regulations</td>
<td>Environment</td>
</tr>
<tr>
<td>Changes in decision criteria</td>
<td>Technological development</td>
<td>Environment regulations</td>
<td>Workers</td>
</tr>
</tbody>
</table>

Source: PwC analysis
Medical devices
Trends

For health record purposes, medical devices are classified according to the risk involved in their use:

Class 1: Devices whose safety and efficiency are verified, and do not generally interfere with the organism.

Class 2: Devices that can vary as concerns the material they are made of, and generally remain in the organism for less than 30 days.

Class 3: Devices recently accepted into the medical practice or those that remain in the organism for more than 30 days.

Medical device imports grew by 8.7% in the second quarter of 2013, reaching 873.8 million USD. Growth was led by diagnostic imaging, consumables and other medical devices.

According to the study “Mexican Market of Medical Devices: Adapting Solutions for the New Supply Chain”, conducted by DHL Supply Chain, demand for medical devices in Mexico will grow 5% annually from 2013 to 2020, every year, making the country attractive for international producers of medical devices.

The organisation that authorises the sanitary certificate for medical devices is COFEPRIS.

Regulations

To enter the Mexican market a product must be registered with the sanitary authorities:

• To sell a product in the public sector, a company must have the document “Cuadro Básico Interinstitucional”, and in order to be included in the respective basic charts.

“Medical device imports grew by 8.7% in the second quarter of 2013, reaching 873.8 million USD.”
Opportunities

• The cost of manufacturing in Mexico is 23% cheaper than in the United States.

• Increase of specific health issues in the population such as obesity, diabetes, and diet-related diseases.

• While in 2000 the active population (15-64 years) increased to almost 60 million, in 2015 it will be 80.5, and 75.5 by 2050. By 2050 Mexico must take measures to transform and strengthen the health system.

Challenges

• In 2012, the annual cost of treating diabetes was 3,872 million USD, considering that the cost per person is 707 USD. Compared to 2011, that number increased 13%.

• Obesity represents a threat to the Mexican population. Among men over 20, 42.6% are overweight and 26.8% obese. 35.5% of women are overweight and 37.5% are obese. 19.8% of children (5-11 years old) are overweight and 14.6% are obese.

• The annual cost of government healthcare for 14 health complications, arising from four groups of diseases linked to obesity, was estimated at 42 billion pesos in 2008; equal to 13% of total health expenditure in that year.

• Given a rising urban population and decreasing rural population, healthcare in rural areas is insufficient.

• According to the 2012 National Survey of Health and Nutrition, 21.3% of the population stills reports a lack of any form of financial protection.\(^\text{13}\)

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\(^{13}\)Secretary of Health (2013), National Survey of Health and Nutrition 2012.
Infrastructure Trends

The priority of the federal government

During his initial days as president-elect, Enrique Peña Nieto was able to establish an agreement with the main political forces, an initiative called Pact for Mexico (Pacto por México). This document contains a set of ninety-five specific agreements, ten of which are directly related to infrastructure. Although there is no linear relationship between the commitments of Pact for Mexico and the federal budget, focus on infrastructure in the government programme is an encouraging sign for new investment in the sector.

Infrastructure commitments for the 2013-2018 presidential term (number of projects)

National Infrastructure Plan (NIP)

On the basis of strategic guidelines laid down in the PND, the Secretary of Transport and Communications (SCT) has created the National Infrastructure Plan (NIP: Programa Nacional de Infraestructura), which outlines the projects to be executed over the next six years. The 2014-2018 National Infrastructure Programme accounts for a total investment of ~596 billion USD for 743 projects.

Legal framework: The PPP law and regulation

The legal framework in Mexico is considered by some investors to be complex and uncertain with regard to major infrastructure projects. To change this perception, the new Law of Public-Private Partnerships was approved in 2012.

This reform should provide a more robust regulation for public-private projects. One of the most attractive features of this law is the recognition of unsolicited proposals for new infrastructure proposals ("Propuestas No Solicitadas"). These allow private companies to offer new projects that are considered relevant. On the basis of these proposals (and feasibility studies), the government could then decide to implement a process of public-private partnership, granting certain benefits to the submitting company.
Opportunities

Transport and communications
The objective of the NIP is to build up modern infrastructure and a transportation and communications platform that will boost competitiveness, productivity and social and economic development. It is estimated that the sector will require an overall investment of 101,547 million USD for 223 projects, of which 103 are government commitments and 120 are strategic.

### Subsector | Million USD (2014) | Number of projects
--- | --- | ---
| | Strategic projects | Government commitments | Total |
| Telecom | 51,826 | 5 | 5 |
| Road Infrastructure | 30,383 | 78 | 73 | 151 |
| Railways | 10,989 | 4 | 8 | 12 |
| Ports | 5,240 | 15 | 6 | 21 |
| Mass urban transit | 2,219 | 1 | 6 | 7 |
| Logistics infrastructure | 347 | 2 | 2 |
| Airports | 279 | 14 | 6 | 20 |
| Others | 263 | 1 | 4 | 5 |
| **Total** | **101,547** | **120** | **103** | **223** |

**Transport**
The following commitments and strategic projects are planned:

**Road infrastructure**
- 34 highways
- 49 routes
- 33 secondary roads
- 22 intersections
- 9 rural roads
- 1 road maintenance programme
- 1 programme of rural road

**Mass transit and rail**
- 3 passenger trains
- 6 mass transport
- 1 bus terminal
- 8 cargo paths
- 1 reporting system for railway

**Ports**
- 3 new ports
- 5 extensions
- 12 specialised terminals
- 1 ferry

**Airports**
- 19 modernisations
- 1 building improving connectivity
- Completion of the construction of an airport
**Railways**

Rail projects represent one of the major opportunities. Below are the three main projects to be implemented during the current administration:

- Mexico - Queretaro: $4 million granted for feasibility studies
- Mexico - Toluca: $6 million granted for feasibility studies
- Merida - Quintana Roo: $2.4 million granted for feasibility studies

**Roads**

Roads remain the most used transport infrastructure in Mexico. Many roads are in need of expansions or upgrades by the new government. In addition, public-private projects for road maintenance could represent an interesting opportunity for business. On the basis of presidential engagements, several road projects throughout Mexico should be completed:

### Road Projects of the Federal State

<table>
<thead>
<tr>
<th>Baja California</th>
<th>Campeche</th>
<th>Chiapas</th>
<th>Coahuila</th>
<th>Oaxaca</th>
<th>Puebla</th>
<th>Querétaro</th>
<th>Quintana Roo</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>7</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>2</td>
<td>1</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Colima</th>
<th>Durango</th>
<th>Estado de México</th>
<th>Guanajuato</th>
<th>San Luis Potosí</th>
<th>Sonora</th>
<th>Tabasco</th>
<th>Tamaulipas</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>1</td>
<td>6</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Hidalgo</th>
<th>Jalisco</th>
<th>Michoacán</th>
<th>Morelos</th>
<th>Tlaxcala</th>
<th>Veracruz</th>
<th>Yucatán</th>
<th>Zacatecas</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>4</td>
<td>5</td>
<td>2</td>
<td>1</td>
<td>6</td>
<td>1</td>
<td>1</td>
</tr>
</tbody>
</table>

Source: PwC Analysis based on the Presidential Commitments
**Ports**
The expansion of the port of Veracruz could be the largest project of this presidential term. In addition, investments are expected in the ports of Manzanillo, Tuxpan, Campeche, Chiapas and Guaymas.

**Airports**
The largest airport project is the new Mexico City airport. So far no date or location have been set for this new infrastructure project. However, an alternative to this is to promote the Toluca airport, which attracts air traffic from the Mexico City airport. Other Mexican states wishing to develop their airport infrastructure are Chihuahua, Jalisco and Nuevo León.

**Energy**
Pemex will seek to extend and develop existing infrastructure, increase hydrocarbon processing capacity and promote and develop the Mexican petrochemical industry. On the other hand, CFE will promote the creation of infrastructure for the generation, transmission and distribution of electricity.

- **Pemex**: Overall projected investment is 253.8 billion USD covering 124 strategic projects.
- **CFE**: The estimated investment for development of electricity infrastructure is 46 billion USD assigned to 138 strategic projects.

There are also opportunities in social infrastructure. On several occasions the president has stressed the need to increase the quality of public services, and improving well-being is a priority.

**Water**
Investment in the water sector is intended to promote green growth that will preserve the environment and generate wealth, competitiveness and jobs.

The programme contemplates 84 projects for the water sector, with an investment of 32 billion USD, 34 of which are government commitments and 50 of which are strategic projects.

**Health**
The investment in hospital infrastructure is designed to ensure access to health services in Mexico. There will be 87 projects in this sector requiring an investment of 5 billion USD, 27 of which are government commitments, and 60 of which are strategic projects.

**Education**
At least nine major science education projects are expected including the construction of new universities, schools and technical institutions in nine different states.

**Security**
The former government promoted the construction and operation of new prisons under a public-private plan, and modernisation efforts should continue. The new administration plans to build at least 10 new prisons through a public-private partnership.

**Urban development and housing**
For the 4 projects planned for the urban development and housing sector, the 2014–2018 NIP contemplates an investment of 143 billion USD.

**Challenges**
- Fraud and corruption cases.
- Several large-scale tenders have been postponed numerous times, eroding confidence in the private sector.
- Institutional delays continue to affect the implementation of construction projects in 2014.
- The construction sector was in recession since 2013.
- The housing market was hit hard by the new National Housing Plan with many companies facing bankruptcy.
- Security risks and high levels of violence.
Mining sector
Trends

While the drop in prices for some metals has not been as severe as during the 2008-09 global recession, the fall from record or near-record levels in 2011 has created some setbacks. A drop in commodity prices has led to lower revenues for mining companies, causing most to cut back on operations and spending. In some extreme cases, companies have taken billions of US dollars worth of write downs to account for the lower value of their assets compared to only a couple years earlier. Few commodities in the mining sector have escaped the downturn caused by global economic uncertainty and volatile markets. Gold, silver and copper are among the most closely watched metals; and among the hardest hit in 2013.14

Mexican mining, digging its way in the world

Thanks to large reserves of important minerals, and due to an investment friendly business environment, Mexico is one of the major players in the global mining industry.

Mexico has a long history in mining that dates back to the colonial period. Diverse geography, rich geology, and a skilled workforce fostering a strong, sustainable and dynamic mining industry. Mexico is an important global player for mining investment and production.15

14PwC “Gold, silver and cooper Price report 2014”
15Promexico (http://negocios.promexico.gob.mx/20.2.2014)
Variation of Mexican mining production of industrial non-metallic minerals as an annual % change, 2007-2012

Source: Statistical Yearbook of the Mexican Mining, SE, January 2014

Copper production by state, 2012
- Sonora: 77.8%
- Zacatecas: 10.2%
- San Luis Potosí: 4.6%
- Chihuahua: 4.2%
- Others: 3.2%
Source: SE, January 2014

Lead production by state, 2012
- Zacatecas: 53.2%
- Chihuahua: 22.3%
- Others: 12.1%
- Durango: 8.4%
- Aguascalientes: 4%
Source: SE, January 2014

Variation of Mexican mining production of metallic minerals as an annual % change, 2007-2012

Source: Statistical Yearbook of the Mexican Mining, SE, January 2014

Iron production by state, 2012
- Michoacán: 27.2%
- Coahuila: 21.3%
- Colima: 19%
- Others: 14.5%
- Jalisco: 9.2%
- Sonora: 8.8%
Source: SE, January 2014
Opportunities

• The Latin American region continues to be one of the most attractive for mining investment due to its large resource base, especially non-renewable resources. Latin America spent about 25% of the global total (18.2 billion USD) on mineral exploration in 2011. Over the last two decades, the Mexican government has removed several investment requirements and created a legal framework (the North American Free Trade Agreement), that encourages investment in the mining industry.

• There is growing demand for robotics and underground excavators among mining companies in Mexico.

• Digitalisation and satellite images are widely used by companies in Mexico to spot ore deposits. The biotic-bioleaching process is now used in Mexico to extract specific metals i.e. gold and copper from ore.

• Technological developments in the mining industry have facilitated exploration with a low level of environmental issues and made the exploitation of previously inaccessible mineral reserves economically feasible.

Challenges

• Mexican President Enrique Peña Nieto has announced the National Infrastructure Programme (NIP), which is expected to steer the nation’s development plans for the next six years. According to the programme, the government of Mexico will invest several billion USD in the country’s infrastructure and seek private funding to finance the new plan.

• A notable increase is forecasted in investment in railways, while roads & bridges, airports and ports will see only a marginal decrease. Although public investment is expected to slow, private investment should pick up. As a result, growth is expected to decline to 4.1% per year from 2013 to 2016. In 2011, the predominant mode of transport for Mexican mining exports and imports was charter transport, with 55.25% of total export value and 50.84% of total import value, respectively. Therefore, due to the mining industry’s high dependence on infrastructure, mining companies should invest in road construction and improvement of utilities.

• Compared to other industries, the mining industry is becoming more sustainable and decreasing its energy consumption. Major energy sources used in mining include natural (dry and liquefied gas), electricity, and petroleum (fuel oil). Electricity consumption accounted for 29.8% of total energy demand of the Mexican mining industry, natural gas 46.1%, petroleum fuels 22.3%, and derivatives with carbon, 1.8%. Major energy requirements include electricity for ventilation systems in the underground mining and processing of minerals, water pumping, and crushing and grinding operations. The fuels are used for hauling and other transportation needs, use of dredging machinery, casting materials and more. Energy requirements vary between every mineral commodity and type of mine, whether underground or surface, whether it must be beneficiated or processed, and the extent to which it is must be beneficiated or processed.

• Metal and non-metal mines, smelters, and refineries consuming a substantial amount of energy release a significant volume of greenhouse gases (GHG).

• Carbon Monoxide (CO), Nitrogen Oxides (NO), Volatile Organic Compounds (VOC), and Nitrogen Gases [i.e. Ammonia (NH3)] are indirect greenhouse gases. Also, pollution varies depending on the type of commodity being extracted. Atmospheric issues are attracting interest from mining companies as well as governmental organisations resulting in procedures and technologies that minimize emissions.

“Mexican President Enrique Peña Nieto has announced the National Infrastructure Programme (NIP), which is expected to steer the nation’s development plans for the next six years.”
Telecommunications
Trends

The telecommunications sector represented $4.1 billion in 2013 and grew 7% compared to 2012. Smartphones were the growth driver for the sector. Sales of mobile phones in Mexico were estimated at about 16.4 million units in 2013, vs. 15.7 million in 2012. Sales are expected to rise to 20 million units by 2017. Mobile phone market penetration reached 88% in 2013 and is expected to reach 92% by 2017. However, according to the data controller COFETEL (Federal Commission of Telecommunication) nearly 40% of Mexican households have no landline connection, making this segment a target for sales of mobile phones.

The mobile market
Mexico has a relatively lower mobile phone market penetration rate compared to the rest of Latin America due to a lack of competition. Approximately 70% of the market is controlled by Telcel America Movil. and despite efforts by regulators and competitors, growth has only decreased by 6% since 2005. The Mexican telecommunications market has one of the highest ARPU (Average Revenue Per User) levels in the region, again indicating a lack of competition. 3G services and packages are still uncommon because they are too expensive for a large part of the population. The Mexican market is 79.6% dominated by pre-paid services.

<table>
<thead>
<tr>
<th>Operator</th>
<th>Subscribers (’000)</th>
<th>Market share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telcel</td>
<td>73,505</td>
<td>70.9</td>
</tr>
<tr>
<td>TMM (Movistar)</td>
<td>20,333</td>
<td>19.6</td>
</tr>
<tr>
<td>Lusacell (e)</td>
<td>6,500</td>
<td>6.3</td>
</tr>
<tr>
<td>Nextel</td>
<td>3,265</td>
<td>3.2</td>
</tr>
<tr>
<td>Total</td>
<td>103,602</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Mexico Telecommunications report, Business Monitor International, Q3 2014
**Fixed telephones**

According to the latest estimates issued by COFETEL, there were 20.5 million lines in service in 2013. In the last decade, annual fixed telephony subscriptions have increased every year except for 2009.

![Fixed telephony annual subscriptions graph](source: Cofetel)

**Pay TV**

According to COFETEL, there were 14.7 million subscribers to pay for TV in 2013. Of these, the largest proportion, 53.4%, had satellite connections; 45.6% cable and 1% microwave, which has been in sharp decline in recent years. Satellite TV surpassed cable TV in 2011 and has grown at a much faster pace.

![Pay TV annual subscriptions graph](source: Cofetel)

**Pay TV Market by Operators**

<table>
<thead>
<tr>
<th>Pay TV Market by Operators</th>
<th>Pay TV subscribers ('000)</th>
<th>Market share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>SKY México (Televisa)</td>
<td>6000</td>
<td>40.6</td>
</tr>
<tr>
<td>TV Azteca</td>
<td>4600</td>
<td>31.1</td>
</tr>
<tr>
<td>Dish Mexico</td>
<td>2500</td>
<td>16.9</td>
</tr>
<tr>
<td>Others</td>
<td>1690</td>
<td>11.4</td>
</tr>
<tr>
<td>Total</td>
<td>12,950</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Mexico Telecommunications report, Business Monitor International, Q3 2014
**Broadband**

According COFETEL there were more than 45.1 million internet users in Mexico, increasing the availability of services. COFETEL also says that most users access internet services outside the home, such as, in the workplace, universities and cafes. The number of broadband subscribers in 2011 was 12.8 million, an increase of 8% over the previous year.

### Internet subscriptions by technology type; annual series.

<table>
<thead>
<tr>
<th>Year</th>
<th>Dial-up</th>
<th>XDSL</th>
<th>Coaxial Cable</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>702,391.00</td>
<td>5,670,890.00</td>
<td>1,615,688.00</td>
<td>246,346.00</td>
<td>8,235,315.00</td>
</tr>
<tr>
<td>2009</td>
<td>395,588.00</td>
<td>7,328,785.00</td>
<td>1,876,848.00</td>
<td>523,076.00</td>
<td>10,124,297.00</td>
</tr>
<tr>
<td>2010</td>
<td>305,279.00</td>
<td>8,825,569.00</td>
<td>2,133,548.00</td>
<td>610,549.00</td>
<td>11,874,945.00</td>
</tr>
<tr>
<td>2011</td>
<td>260,399.00</td>
<td>9,340,035.00</td>
<td>2,366,206.00</td>
<td>781,591.00</td>
<td>12,748,231.00</td>
</tr>
<tr>
<td>2012</td>
<td>220,276.00</td>
<td>9,430,945.00</td>
<td>2,757,386.00</td>
<td>1,115,561.00</td>
<td>13,524,168.00</td>
</tr>
</tbody>
</table>

Source: Cofetel

### Broadband market share 2012

- **Telmex**: 59%
- **Others**: 11%
- **TVI**: 4%
- **Megacable**: 4%
- **Cablemas**: 11%
- **Cablevisión**: 11%
- **Maxcom**: 4%
- **Axtel**: 2%

Source: Mexico Telecommunications report, Business Monitor International, Q3 2014
Opportunities

The optical fiber
In September 2011, Teléfonica, Televisa and Megacable announced the formation of a consortium to develop a fiber optic network in Mexico that is to compete with the giant Telmex. Three companies recently won the tenders for a total of 884 million pesos from the CFE (Comisión Federal de Electricidad) to operate 18,000 km of fiber optic wire across the country. The consortium, called GTAC, won the tender in June 2010. In May 2011, Telmex revealed that it had selected Alcatel-Lucent to build the Mexico FTTH (Fiber To The Home) cabling. Telmex’s optical fiber network has helped to bring internete acces to an additional one million Mexican households. In addition, Telmex intends to expand the new network to 40 more Mexican cities.

In Mexico City, the “Metropolitan Converged Network” will help boost access points for users on an optical fiber network to be deployed through the city’s metro network.

The deployment will use a lot more fiber than is required by current demand. This will allow the system to meet future increased demand, especially for heavy bandwidth applications, such as connecting other city services (i.e. emergency services, intranets government, CCTV, traffic lights and vehicle registration services). The new network aims at more effective management of the metropolitan area. Projects such as the converged metro network should promote the ongoing development of services.

Governmental actions
In June 2013, President Enrique Peña Nieto approved a new law of telecommunications (telephone, internet and television) to create greater competition in the telecom industry. This will reduce the power of the dominant companies in the broadband sector, and help Mexico achieve its goal of universal internet access. During the presentation of the text of the reform, Peña Nieto identified six key points in which the success of the reform will depend:

- Support human rights, freedom of expression and access to information.
- Modernise existing legislation in order to follow the evolution of technology that characterises the telecommunications sector.
- Strengthen government institutions through the creation of a new regulating body (Federal Institute of Telecommunications, Ifetel) with an increased ability to fight against monopolistic practices.
- Promote competition by eliminating the 49% ceiling on foreign investments in fixed telecommunications (foreign investment is already authorized at 100% in mobile communications).
- Adopt policies that access universal and digital inclusion.
- Use the switchover to release a 700MHz spectrum used to be for a public telecommunications network which will extend service coverage.

- There is competition in the area of fixed telephony, as alternative operators continue to expand their market share.
- Some operators have reported growth in demand for fixed telephone services.
- The bundled services (Triple Play + or Internet telephony) helped encourage fixed telephony and caused an increase in the market share of small operators.
- Portability should allow alternative operators to continue to nibble at Telmex’s market share.
- Operators continue to reduce the cost of broadband, while increasing speed.
- Cable TV operators will offer cheaper bundled services (telephony, internet and TV).
- A new fiber optic network will be operated by an alliance: Teléfonica, Televisa and Megacable.
- Cofetel is committed to reducing costs and has taken a stronger stance on competition in the mobile market.
- Mobile number portability has been introduced.
- New legislation aimed at opening up the mobile market should stimulate competition and lead to lower prices.
- Nextel has built a 3G network in collaboration with Huawei. This means that Nextel will significantly expand its coverage.
- With a relatively low market penetration rate, there are still many opportunities for growth in the mobile market; especially in rural regions.
- The government’s proposal to raise the ceiling on foreign investment in fixed telephony from its current 49% limit should encourage investment.
Challenges

**Telephony**

- New business model for delivery and billing services – VoIP.
- Precision and accuracy in billing through the implementation of complex new tariff plans and billing elements – VoIP, content, etc.
- Correspondence between billed revenues and costs associated with the generation of income – interconnection costs.
- Emergence of new players in the traditional telephony market.
- Although there are four operators in the mobile market, America Movil Telcel hinders competition with relatively high rates.
- Mobile substitution will eventually reduce demand for fixed services.

**Data**

- Ability to reconcile clients and details of physical and virtual links of the network elements to billing, including control systems and provisioning workflows.
- Inventory accuracy and circuit links, differentiating network “core” circuitry and billable links.
- Maximising existing network elements.
- Minimisation of the cost for the rental links to other carriers.

**Cable/Satellite**

- Accuracy in the payment of fees for transmitted signals.
- Reliability of the subscriber base.
- Billing of elements based on the use of pay-per-view.

**Broadband**

- Telmex’s dominance has limited the growth of the broadband sector.
- Mexico’s size makes it difficult to deploy the infrastructure for landlines.
- Alternative operators are much smaller than Telmex and generally concentrated in large cities.
- Mobile broadband is becoming one of the key drivers of market growth, which limits opportunities for fixed operators.
Our clients share their challenges

In our past publications we have interviewed several CEOs in different industries such as food, mining, construction, toys, logistics, pharmaceutical, energy, paper, automotive, telecommunications, health and aerospace, as well as in different countries such as France, Italy, Sweden, Norway, Finland and Denmark.

When conducting those interviews, we identified some challenges for entering the Mexican market which we have compiled in this segment.

• Issues with accounting and tax.
• Understanding the Mexican systems and laws and complying with them.
• Compliance.
• Tax system.
• Significant competition.
• Norms the public sector uses to buy equipment are very old. Knowing how to reach the operators and users, besides the administrative staff, is also a challenge.
• Finding talent to maintain growth.
• Trying to convince people of more efficient ways to do their jobs.
• Expanding to other sectors.
• The cultural difference, and accepting that you will not necessarily get the business merely at the best price.

• The way Pemex is forced to run their contracts. (Oil & Gas sector)
• Merging is a big challenge. Managing the people and the merged company; at the same time be concerned about the customers and keep all the stakeholders happy.
• Bureaucracy.
• Generating a high-performing work team.
• Keeping the talent in the organisation with motivated people.
• Talent management. Grow the business with new people.
• Understanding the market dynamic.
• Learning in terms of knowing the local context, the management culture and the organisation of work teams.
• Adaptation.
• Access to credit.
• Complying with tax obligations.

“IT IS EXTREMELY IMPORTANT TO FIND PEOPLE YOU CAN TRUST HERE AND THE RIGHT PARTNERS TO ASSIST YOU”
Soren Ustrup, CEO Arla Foods Ingredients, Denmark

Most CEOs mention Mexico as a place of opportunity, although companies entering the Mexican market continue to face many challenges.

At PwC we understand the challenges a company entering the Mexican market faces. We understand their questions regarding the Mexican market, the legal system, logistics, the culture, opportunities, financing and processes.
Tools for successful entry into the Mexican market

Let us succeed in new initiatives together

Save money and time and take advantage of...

- PwC as a full service provider with solutions for any challenge and question you may have regarding entering the Mexican market.
- Efficient communication with one PwC contact person who guides you through the whole life cycle of your market entry.
- The turnkey set up of a foreign entity according to our proven company-in-the-box model.
- Our extensive local network of potential suppliers and clients.

Minimize possible risk and rely on...

- PwC Mexico staff from your home country that help you understand and overcome cultural and business differences with governmental institutions, regulators, industry networks and other key organizations.
- Our team of experts have ample experience with the critical success factors of operating in Mexico.

Stay flexible in the realisation and make use of...

- Our modular service portfolio from which you can choose the elements required for your specific market entry initiative.
- Sophisticated databases, tools & methods adapted to the specifics of your initiative.
- Our outsourcing capacities that can be utilized as part of your operations within Mexico for a wide range of functional expertise.

Our detailed, comprehensive approach lays the foundation for a successful international expansion

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<td>• Financing modeling.</td>
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| Strategy, organisation, processes & systems |
|---------------------------------------------|---------------------------------------------|
| • Internationalisation strategy. | • Corporate design. |
| • Market research. | • Product and service design. |
| • Availability of resources. | • Analysis and contracting of suppliers & clients, HR-Planning and Selection. |
| • Partner search. | • Site selection. |
| • Feasibility Studies and localisation requirements. | • Corporate design. |
| • Business model. | • Product and service design. |
| • HR-Strategy. | • Analysis and contracting of suppliers & clients, HR-Planning and Selection. |

| Taxes, legalisation & customs |
|------------------------------|---------------------------------------------|
| • Tax strategy. | • Location choice & legal filings. |
| • Legal structuring. | • Tax Planning. |
| • Regulation. | • Import/Export duty rates and other barriers to market entry. |
| • Government incentives. | • Contact negotiations. |

| Compliance, sustainability & accounting |
|-----------------------------------------|-----------------------------------------|
| • Compliance & CSR strategy. | • Compliance with all general and industry specific regulatory standards (organisation, processes, methods, guidelines, T-systems, etc). |
| • Consideration of specific Mexican requirements & regulations. | • Establishment of financial departments. |

Overall project, change & risk management for your market entry

- Continuous improvement.
- Investor relations & stakeholder communication.
- Management of standards to comply with.
Acronyms

- A. en P.: Joint-Venture Contract
- A.C.: Civil Association
- AFORE: Fund Administrator for Retirement
- ARPU: Average Revenue per User
- CADER’S: Rural Development Support Centres
- CAGR: Compound Annual Growth
- CANILEC: National Chamber of the Milk Industry
- CCGT: Combined Cycle Gas Turbine
- CCTV: Closed Circuit Television
- CFE: Federal Electricity Commission
- CHG: Change
- COFEPRIS: Commission for the Protection against Sanitary Risks
- COFETEL: Federal Commission of Telecommunications
- CONACYT: National Council for the Science and Technology
- CPA: Certified Public Account
- CRE: Energy Regulatory Commission
- E&P: Energy and Petroleum
- ERC: Energy Regulatory Commission
- FAO: Food and Agriculture Organisation of the United Nations
- FEMIA: Mexican Association of Aviation Industry
- FIDECLINE: Mexican Institute of Cinematography
- FTTH: Fibre to the Home
- GDP: Gross Domestic Product
- GHG: Greenhouse Gases
- GNI: Gross National Income
- GRDI: Global Retail Development Index
- GW: Gigawatt
- IFETEL: Federal Institute of Telecommunications
- IIE: Research Institute of Electricity
- IMMEX: Programme for the Manufacturing, Maquiladora and Export Services
- IMPI: Mexican Institute of Industrial Property
- IMSS: Mexican Social Security System
- INA: Mexican Association of Automotive Suppliers
- INEGI: National Institute of Statistics and Geography
- INFONAVIT: Institute of the National Housing Fund for Workers
- ISSSTE: Institute of Security and Social Services for State Workers
- IT: Information Technology
- MGR: Modern Mass Grocery Retailing
- MRO: Maintenance, Repair and Operation
- MW: Megawatt
• MXN: Mexican Peso
• NADCAP: The National Aerospace and Defense Contractors Accreditation Programme
• NAFTA: North American Free Trade Agreement
• NIP: National Infrastructure Plan
• NOL’s: Tax Losses
• O&G: Oil and Gas
• OECD: Organisation for Economic Cooperation and Development
• OEM: Original Equipment Manufacturers
• OTC: Over the Counter
• PROCASOL: Programme for the Promotion of Solar Collectors for Water
• PTU: Employee Participation in Profits
• R&D: Research and Development
• S.A: Stock Corporation
• S.C: Civil Partnership
• S.de R.L.: Limited Liability Company
• SAR: Retirement Savings System
• SCT: Secretary of Transport
• SENER: Secretary of Energy
• SMEs: Small and Medium-Sized Enterprises
• U.S.: United States
• UAV: Unmanned Aerial Vehicle
• UNCTAD: United Nations Conference on Trade and Development
• USD: United States Dollar
• VAT: Value Added Tax
• VOIP: Voice Over IP
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We offer solutions in the native language of our clients, with an understanding of their business culture.

The International Business Centre is the only business group in the market that is fully dedicated to supporting the success of foreign businesses and investors in Mexico.
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