

“DOING BUSINESS IN MEXICO”

THE LEGAL FRAMEWORK & GUIDELINES
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ERNESTO VELARDE-DANACHE, MEXICAN NOTARY PUBLIC AND ATTORNEY LICENSED ONLY IN MEXICO, WAS ADMITTED TO PRACTICE IN 1982. HE HOLDS AN LL.M FROM THE UNIVERSITY OF CAMBRIDGE, OF CAMBRIDGE, ENGLAND.

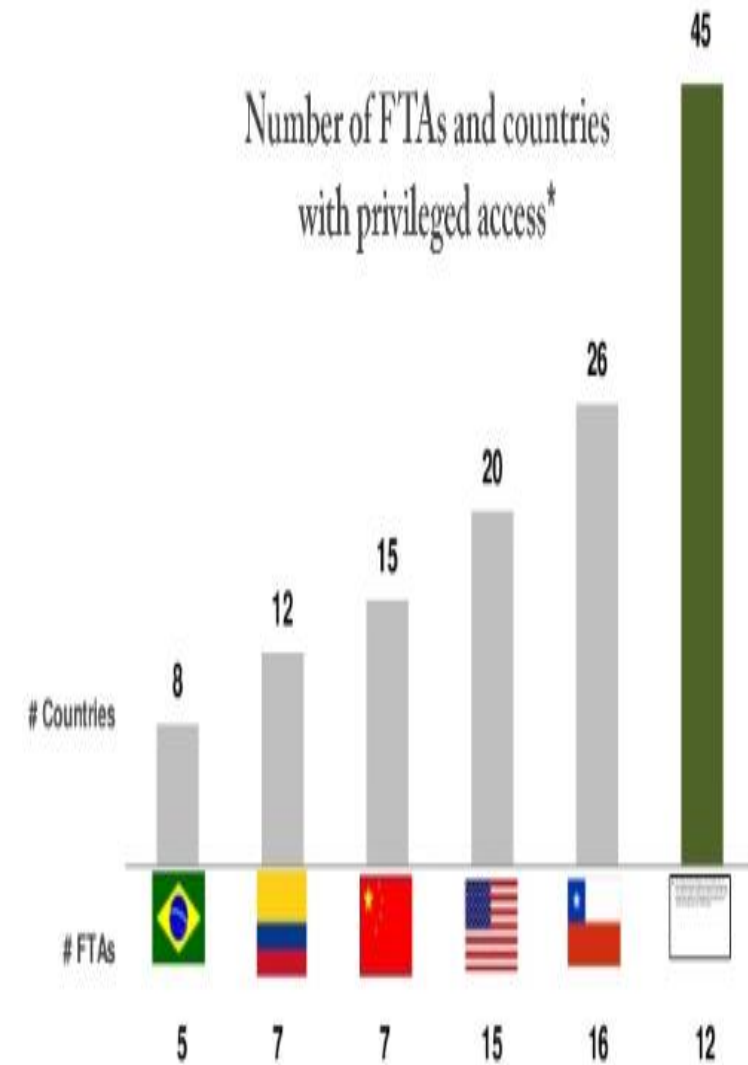
ERNESTO HAS SPOKEN ABOUT DOING BUSINESS IN MEXICO IN MANY DIFFERENT COUNTRIES SUCH AS THE UNITED STATES, CANADA, ITALY, FRANCE, PORTUGAL, ENGLAND, SPAIN, INDIA, MEXICO, THE REPUBLIC OF IRELAND, SWITZERLAND, NETHERLANDS, CHINA, SINGAPORE AND KOREA.

HE HAS HELPED MORE THAN 300 COMPANIES START BUSINESS IN MEXICO.



WHY INVEST IN MEXICO?

- 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 STRENGTH OF ITS DOMESTIC MARKET, ECONOMIC GROWTH RATE AND CAPACITY TO PRODUCE ADVANCED MANUFACTURING (HIGH-TECH PRODUCTS).
- MEXICO IS ALSO AN OPEN ECONOMY THAT GUARANTEES ACCESS TO INTERNATIONAL MARKETS THROUGH A NETWORK OF FREE TRADE AGREEMENTS.
- STRATEGIC GEOGRAPHIC LOCATION AND COMPETITIVE COSTS TO SERVICE GLOBAL MARKETS.



Our FTAs give privileged access to 61% of the world's GDP.

FREE TRADE AGREEMENTS



- HAS EXECUTED FREE TRADE AGREEMENTS WITH MORE THAN 45 COUNTRIES, IT IS NOW THE FREE TRADE LEADER IN THE WORLD.
- THE ONE WITH THE EUROPEAN UNION. WITH JAPAN, ISRAEL, SOUTH AMERICA AND OTHER COUNTRIES.

NAFTA

- THIS TREATY HAS BEEN INSTRUMENTAL IN INCREASING MEXICO'S EXPORTS BY 80% TO THE WORLD .
- > 50 BORDER CROSSING WITH THE USA.
- NAFTA MARKET = 18 TRILLION USD
- AVERAGE NUMBER OF IMMEX COMPANIES = 5,087



WE ARE LEADERS IN KEY SECTORS

AEROSPACE

- Mexico is the 6th supplier to the American aerospace industry.



MEDICAL DEVICES

- We are the largest exporter in Latin America and main supplier to the US.



AUTOMOTIVE AND AUTOPARTS

- 8th producer and 4th exporter globally of new light vehicles in the world.

370 billions in exports
50% medium and high tech
manufactures



ELECTRIC-ELECTRONIC

- Leading flat television screen exporter in the world.



MAP OF MEXICO'S ADVANCED MANUFACTURING



LEGAL FRAMEWORK WHEN INVESTING IN MEXICO

MEXICO: MORE FREE TRADE AGREEMENTS THAN ANY OTHER COUNTRY IN THE WORLD.

FOREIGN INVESTMENT LAW.

EXCEPT FOR SOME LIMITED ACTIVITIES UP TO 100% FOREIGN OWNED.

TRUE IN COMMERCIAL AND SERVICE SECTORS.

LAND OWNERSHIP BY FOREIGN NATIONALS.

BASIC STEPS TO STARTING A BUSINESS IN MEXICO

1) INCORPORATION OF A MEXICAN COMPANY

1.1 OBTAIN A PERMIT TO INCORPORATE FROM THE MINISTRY OF ECONOMY (SE).

RECOMMENDED TO PROVIDE THREE (3) OPTIONS FOR THE CORPORATE NAME OF THE COMPANY.

1.2 DRAFT THE BY-LAWS OF THE COMPANY.

CORPORATION (S.A. DE C.V.)

NO MINIMUM CAPITAL

BOARD OF DIRECTORS/ SOLE ADMINISTRATOR

LIMITED LIABILITY (S. DE R.L. DE C.V.)

NO MINIMUM CAPITAL:

BOARD OF MANAGERS/SOLE MANAGER

1.3 FORMALIZATION BEFORE A MEXICAN NOTARY. RECORD BEFORE THE LOCAL PUBLIC REGISTRY OF COMMERCE.

1.4 PREPARATION AND ISSUANCE OF STOCK CERTIFICATES OR SOCIAL PARTS CERTIFICATES.

1.5 PREPARE THE CORPORATE LEDGERS OF THE COMPANY.

***NOTE: ONCE THE ABOVE IS ACCOMPLISHED, THE COMPANY MUST BE REGISTERED WITH SOME MUNICIPAL, STATE AND FEDERAL AGENCIES.**



2) TAX MATTERS (MINISTRY OF FINANCE AND PUBLIC CREDIT)

2.1 OBTAIN THE FEDERAL TAXPAYER REGISTRY NUMBER.
TAX REGISTRY (“RFC”).

2.2 PROCESS AND OBTAIN THE ADVANCED ELECTRONIC SIGNATURE FOR THE
COMPANY.



3) ENVIRONMENTAL ISSUES

3.1 IT IS NECESSARY TO OBTAIN APPROVAL FROM THE
ENVIRONMENTAL AUTHORITIES.

3.2 TO SUBMIT AN ENVIRONMENTAL PREVENTIVE
REPORT (DETAILED REPORT ABOUT THE OPERATION).

3.3 THE AUTHORITIES WILL VERIFY THAT THERE IS NO
NEGATIVE IMPACT TO THE ENVIRONMENT AS A RESULT
OF SUCH ACTIVITIES.



4) INTER-COMPANY AGREEMENTS

4.1 BAILMENT AGREEMENT OR COMMODATUM AGREEMENT FOR THE MACHINERY AND EQUIPMENT BROUGHT INTO MEXICO.

4.2 THIS AGREEMENT WILL PROVIDE PROTECTION TO THE EQUIPMENT OWNED BY THE PARENT COMPANY THAT IS SHIPPED TO BE USED IN THE MEXICAN OPERATIONS.

4.3 A MAQUILADORA AGREEMENT IS TO BE DRAFTED AND EXECUTED BETWEEN THE U.S. OR FOREIGN PARENT COMPANY AND THE MEXICAN MAQUILADORA.



5) REAL ESTATE

5.1 NECESSARY TO DEMONSTRATE TO THE MEXICAN AUTHORITIES THAT THE COMPANY IS COMMITTED TO A PIECE OF REAL ESTATE THROUGH A PURCHASE AGREEMENT OR A LEASE

NOTE: AGREEMENT WHICH MUST BE EXECUTED IN SPANISH.

5.2 DUE DILIGENCE RECOMMENDED. CHECK TITLE.

- LIENS
- ENCUMBRANCES
- LITIGATIONS
- EASEMENTS
- ENSURE THAT THE PROPERTY IS IN GOOD STANDING.
- ALL REAL ESTATE TAXES PAID.

5.3 CORRESPONDING AGREEMENTS (LAND PURCHASE AND SALE, CONSTRUCTION AND SO ON) WILL HAVE TO BE PREPARED, NEGOTIATED AND EXECUTED.



6) LABOR MATTERS.

6.1 A COLLECTIVE LABOR AGREEMENT IS TO BE EXECUTED WITH ANY ONE OF THE LOCAL UNIONS WHEN EMPLOYING MORE THAN 20 WORKERS.

6.2 INTERNAL SHOP RULES.

6.3 INDIVIDUAL LABOR AGREEMENTS
(CONFIDENTIALS)



6.4 MEXICAN LAW DISTINGUISHES TWO DIFFERENT CATEGORIES OF WORKERS :



A) CONFIDENTIAL WORKERS

ADMINISTRATIVE AND MANAGERIAL TASKS

B) UNIONIZED WORKERS

PERFORMING MANUAL LABOR

NOTE: COLLECTIVE LABOR AGREEMENT IS REVIEWED EVERY TWO YEARS.

6.5 THE PAYROLL, BY LAW, IS REVISED (INCREASED) EVERY YEAR.

* MINIMUM SALARY(AVERAGE): APROXIMATELY \$ 5.50 USD PER DAY PLUS BENEFITS.

6.6 WORK HOURS.

* 48 HOURS PER WEEK.

* NOT TO EXCEED OVERTIME OF 9 HOURS.

6.7 VACATION PREMIUM.

6. 8 SUNDAY PREMIUM.

6.9 CHRISTMAS BONUS.

6.10 NO DISCRIMINATION.

6.11 PROFIT SHARING (10%).

6.12 TRAINING (BY LAW).

7) WORKING VISAS

ALL FOREIGNERS WHO WISH TO CONDUCT BUSINESS ACTIVITIES WITHIN THE MEXICAN TERRITORY MUST HAVE A TEMPORARY BUSINESS VISA.

- a) **Visitor / FMM (Multiple Immigration Form)** .- If the foreigner's stay in Mexico will be less than 180 days and is for business related matters. When the foreigner obtains the FMM and intends to leave Mexico he/she must cancel the FMM and request a new one when he/she intends to reenter Mexico, even if the foreigner leaves Mexico for only one day;
- b) **“Temporary Resident”**.- Immigration category granted to foreigners that desire to remain in Mexico for stays greater than 6 months but not greater than 4 years; and
- c) **“Permanent Resident”**.- Immigration category granted to foreigners that desire to remain in Mexico indefinitely.



8.1 FEDERAL TAXES THE INCOME TAX TO BE PAID IS BASED ON THE GREATER OF EITHER:

- A) 6.9% ON THE TOTAL VALUE OF THE MAQUILADORA'S ASSETS USED IN ITS OPERATIONS.
- B) 6.5% OF THE TOTAL AMOUNT OF ITS COSTS AND EXPENSES RELATED TO ITS OPERATIONS, WITHOUT THE RIGHT TO CHANGE FROM ONE TO THE OTHER.
- C) APPLY FOR AND OBTAIN A DECISION FROM THE MINISTRY OF FINANCE AND PUBLIC CREDIT APPROVING A TRANSFER PRICING STUDY OR AN ADVANCED PRICE AGREEMENT (APA), TAKING INTO CONSIDERATION THE ASSETS USED IN THE MAQUILADORA OPERATION.

•NOTE: IMPORTANT TO REVIEW THE ALTERNATIVES SINCE ONCE CHOSEN, THE CHOICE CANNOT BE ALTERED.

8.2 STATE TAXES

- A) SOME STATES TAX KNOWN AS A TAX ON THE PAYROLL (WHICH MUST BE PAID ONCE EVERY MONTH, AND THE COST GENERATED DEPENDS ON THE COST OF THE TOTAL PAYROLL PER MONTH).

8) Federal & State Taxes

9) REGISTRATION BEFORE THE MEXICAN GOVERNMENTAL AGENCIES

9.1 THE MEXICAN INSTITUTE OF THE SOCIAL SECURITY (IMSS).

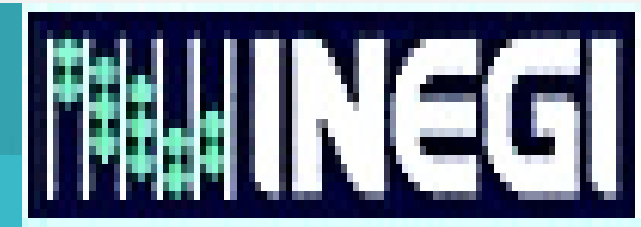
9.2 NATIONAL INSTITUTE FOR THE WORKERS HOUSING FUND.

9.3 IMPORTERS REGISTRATION.

9.4 THE SYSTEM FOR THE WORKERS SAVINGS FUND ON RETIREMENT.

9.5 NATIONAL REGISTRY OF THE FOREIGN INVESTMENT.

9.6 MUNICIPAL LAND USE LICENSE.



10) IMMEX (MAQUILADORA) APPLICATION (IN CASE OF MAQUILADORA)

10.1 THE APLICANT MUST PROVIDE THE FEDERAL GOVERNMENT WITH A LIST OF ALL THE RAW MATERIALS AND EQUIPMENT, SPARE PARTS, TOOLS AND COMPONENTS AS WELL AS THEIR CUSTOM TARIFF CLASSIFICATIONS.

10.2 THE CUSTOM TARIFF CLASSIFICATIONS SHOULD BE OBTAINED BY THE CUSTOM BROKER. NEED USA AND MEXICAN CUSTOM BROKER.

10.3 THE ESTIMATED NUMBER OF EMPLOYEES.

10.4 THE NAME OF THE PARENT COMPANY.



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