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**CCN GUIDE TO
NEARSHORING IN MEXICO**

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The integration of trade, investment and manufacturing in North America continues to move forward, with companies seeking to take advantage of the benefits that Mexico has to offer. Given the rise in labor and transportation costs in China, ongoing trade disputes, the war in Ukraine, and growing concerns over resiliency, many supply chains have been disrupted. Consequently, nearshoring has emerged as a preferred alternative, and Mexico has become a focal point for global companies based on its strategic location, cost-effectiveness, skilled and young workforce, advanced infrastructure, extensive network of free trade agreements and international tax treaties, and promising economic outlook. International businesses can stay competitive in the global economy by understanding the legal environment and taking advantage of the benefits that Mexico has to offer.

The purpose of this Guide is to provide foreign investors with an executive summary of Mexico's legal system, as well as a general and practical overview of key items to be taken into consideration when conducting business operations in Mexico and the different options to conduct such. This Guide is intended to provide general information and should not be construed as legal advice. It is highly recommended to consult with qualified legal professionals to address specific legal concerns and ensure full compliance with the prevailing laws and regulations in Mexico.

1 | GEOGRAPHY

Mexico is in the southern part of North America and is the world's 13th largest country by total surface area. The country shares a 1,952-mile land border and a 737-mile maritime border with the United States, which is a key market for many international businesses. Furthermore, Mexico's strategic geographic position encompasses both land and maritime borders with Guatemala and Belize, which act as pivotal entry points to Central America. Additionally, it boasts maritime borders with Honduras and Cuba within the Caribbean region.

Mexico has an extensive and well-developed transportation and logistics infrastructure. The country has more than 108,603 miles of paved roadways, making it the largest paved-roadway network in Latin America. Furthermore, Mexico has numerous seaports on both the Pacific and Atlantic coasts, as well as a well-established railway system, with approximately 14,533 miles of railroad tracks, making it an ideal transit point for the import and export of goods within the region.

Moreover, Mexico serves as a regional hub for international trade and investment. It has a total of 50 customs offices, 19 of which are located along its northern border, 2 on the southern border, 12 inland, and 17 at its ports.

The country is comprised of 32 states and may be divided into four main commercial regions:

A. Northern Mexico

This region borders the United States and includes the states of Baja California, Chihuahua, Coahuila, Durango, Nuevo Leon, Sonora, and Tamaulipas. It is a hub for maquiladoras, manufacturing centers, mining and livestock industries.

B. Central Mexico

This is the most populous region in the country and encompasses the states of Aguascalientes, Guanajuato, Hidalgo, Jalisco, Mexico, Mexico City, Michoacan, Queretaro, and San Luis Potosi. This highly industrialized region is home to diverse manufacturing centers and is also known for its agricultural sector. Notably, Mexico City and Guadalajara serve as major domestic and international corporate service hubs.

C. Gulf of Mexico

This region includes the states of Tabasco, Tamaulipas and Veracruz, and is recognized for its oil and natural gas production, as well as its agricultural and fishing industries.

D. Southern Mexico

This region encompasses the states of Guerrero, Oaxaca, Chiapas, Tabasco and Campeche. It is rich in natural resources but has limited industrialization compared to the more developed central and northern regions.



2 | DEMOGRAPHICS

Mexico is the third most populous country in the Americas, after the United States and Brazil, and has an estimated population of approximately 126 million, according to Mexico's National Institute of Statistics and Geography (*Instituto Nacional de Estadística y Geografía* or "INEGI"). With a median age of around 29 years, Mexico has a young population, with approximately 34% of the population under the age of 18. The life expectancy in Mexico is about 75 years for men and 80 years for women.

Mexico has a highly educated and motivated workforce that possesses a wide range of industry-specific knowledge, from manufacturing and engineering to accounting and finance. The country has a significant working population, with an estimated labor force of 60.2 million individuals aged 15 and above as of 2023. Moreover, there are an additional 5.4 million potential participants in the labor market, according to data from INEGI.

3 | ECONOMIC OVERVIEW

Mexico is among the 15 largest economies in the world and is the second-largest economy in Latin America. Mexico's economy is primarily driven by the service sector, which accounts for around 63% of the country's gross domestic product (GDP). The industrial sector, which includes manufacturing, construction, and mining, accounts for approximately 30% of the GDP, while the agricultural sector accounts for about 3%.

According to figures from the World Bank, the Mexican economy grew by 3.1% in 2022, after a bounce back of 4.7% in 2021, and an 8.0% decline in 2020 due to the COVID-19 pandemic. The economy has recovered its pre-pandemic employment and GDP levels. Mexico's other macroeconomic indicators are stable. The country has a low unemployment rate, at around 3.7% as of 2022, and despite the disruptions caused by the COVID-19 pandemic, the country has been able to maintain a moderate inflation rate, with an average annual rate of 7.82%.

In the first six months of 2023, Mexico consolidated its position as the largest trading partner and supplier of the United States. The exchange between the two countries reached \$396,600,000,000 USD in the first half of the year, which is an increase of 5.41% as compared to the same period in 2022, according to data released by the U.S. Census Bureau. United States trade with Mexico represented a 15.7% share of total trade, while the shares with Canada and China were 15.4% and 10.9%, respectively.

4 | POLITICAL AND LEGAL SYSTEMS

Mexico is a Federal Republic comprised of 32 states. Mexico's legal and political system is designed to ensure the separation of powers and uphold the rule of law. The Mexican Constitution outlines the division of power among the federal executive, legislative and judicial branches of government. The president oversees the executive branch and is elected for a single six-year term. The legislative branch is composed of two independent chambers (deputies and senate), and the judicial branch is composed of the Supreme Court of Justice, as well as lower courts and tribunals.

Unlike the United States and other common law jurisdictions, Mexico's legal system is based on civil law principles; however, its legal framework is also divided into federal and state laws and regulations.

Mexico is a member of the World Trade Organization (WTO), the Asia-Pacific Economic Cooperation (APEC), the Organization for Economic Cooperation and Development (OECD), and the Latin American Integration Association (ALADI). The country boasts one of the most extensive networks of free trade agreements and treaties in the world. It has a network of 14 Free Trade Agreements spanning 50 countries, with the United States, Mexico, Canada Agreement (USMCA) being the most important. Mexico has the world's highest number of bilateral investment treaties in effect, with a total of 32 currently in force, as well as multiple tax treaties, including agreements to prevent double taxation with numerous countries in different regions of the world, including the Americas, Europe, Asia, the Middle East and Oceania.

5 | ESG (Environmental, Social, and Governance)

Despite the dynamic growth of global investment based on ESG criteria, Mexico lags somewhat in terms of the number of companies with elevated levels of ESG indicators; however, in recent years, Mexico's legal and commercial landscape has undergone a transformative shift, aiming to nurture sustainable and responsible growth.

The adoption of ESG principles in Mexico has gained remarkable momentum in response to both global trends and local necessities. Following international trends, most Mexican companies' voluntary disclosure initiatives are grounded in the Global Reporting Initiative ("GRI") standards issued by the Global Reporting Initiative (*Iniciativa de Reporte Global*).

Mexico has multiple laws and regulations that include mandatory provisions related to ESG matters. Furthermore, the private sector in Mexico has actively participated in the development and implementation of non-governmental ESG frameworks, with voluntary applicability, including:

- Sustainability Guide (*Guía de Sostenibilidad*) issued by the Mexican Stock Exchange (*Bolsa Mexicana de Valores* or "BMV");
- Code of Best Corporate Governance Practices (*Código de Mejores Prácticas de Gobierno Corporativo*) issued by the Mexican Business Coordinating Council (*Consejo Coordinador Empresarial* or "CCE"); and
- The Manual of ESG Indicators (*Manual de Indicadores ASG*) issued by the Mexican Association of Real Estate FIBRAs (*Asociación Mexicana de FIBRAs Inmobiliarias* or "AMEFIBRA").



CORPORATE GOVERNANCE

If a foreign company or resident intends to undertake business activities in Mexico on a regular basis, it could form a Mexican subsidiary/legal entity or register a Mexican branch or representative office. However, any presence in Mexico should be carefully assessed considering the particular business model to be implemented.

1 | TYPES OF BUSINESS ENTITIES

The most relevant and commonly used types of closely held business entities in Mexico are the limited liability company (*sociedad de responsabilidad limitada de capital variable* or "S. de R.L. de C.V.") and the corporation (*sociedad anónima de capital variable* or "S.A. de C.V."), as well as the investment promotion corporation (*sociedad anónima promotora de inversión de capital variable* or "SAPI de C.V."), which is an offshoot of the SA that was introduced in 2016 to promote and facilitate the formation of publicly traded companies in Mexico.

2 | SIMILARITIES AND DIFFERENCES - SRL vs SA/SAPI

The three types of business entities above are remarkably similar. All of them provide limited liability protection to their members/shareholders and piercing the corporate veil of these entities in Mexico is only permitted in limited circumstances. Also, all of them have the same tax treatment in Mexico and are required to have at least two distinct members/shareholders.

Notwithstanding such similarities, the SRL differs from the SA and SAPI in the following key aspects:

SRL

The SRL is formed by members (*socios*), and its management is handled by either a sole manager or a board of managers (*gerentes*).

This type of entity does not require the appointment of a statutory examiner (*comisario*).

This type of entity is less regulated than the SA and the SAPI and has fewer requirements in terms of corporate compliance.

The equity ownership of its members is represented by "membership interests" (*partes sociales*).

The sale of membership interests and the admission of new members in an SRL are subject to stringent restrictions and requirements. Additionally, SRL members possess a preferential right of first refusal to acquire membership interests from a fellow member intending to sell them to a non-member third party.

May be considered a "pass-through" entity for U.S. tax purposes.

SA / SAPI

The SA and SAPI are formed by shareholders (*accionistas*) and are managed by either a sole administrator or a board of directors (*consejeros*).

Also, shareholders need to appoint one or more statutory examiners (*comisarios*), who, at least on paper, are responsible for reviewing the financial statements of the corporation and ensuring compliance with its legal and corporate regulatory requirements.

Corporations (SA and SAPI) have stricter and more detailed requirements for their establishment, operation and corporate compliance, as compared to other business forms. However, unlike other entities, Mexican law allows SA and SAPI corporations greater freedom to regulate corporate governance matters, including the execution of shareholder agreements.

The equity ownership of its shareholders is represented by "shares" (*acciones*) reflected in stock certificates (*títulos de acciones*), which, unlike membership interests of an SRL, are considered negotiable instruments under Mexican law.

Unless otherwise agreed to in the bylaws or in a shareholders' agreement, the shareholders of these types of corporations can transfer their shares without requiring the prior authorization of the board or of the other shareholders.

May not be considered "pass-through" entities for U.S. tax purposes.

3 | FORMATION PROCESS

In general terms, to create any of the business entities mentioned above ("NewCo"), the initial members/shareholders of such NewCo need to:



A. Process and obtain the name authorization for the NewCo. Such authorization is granted by Mexico's Department of Economy (*Secretaría de Economía*), and the filing to process such authorization is made online. The entity or individual in charge of processing such authorization must sign the application using a Mexican tax electronic signature (e. *firma* or e. signature).



B. Prepare the articles of formation and bylaws of the NewCo, formalize such charter documents before a notary public in Mexico, and register such formalized charter documents before a Public Registry of Commerce (*Registro Público de Comercio* or "RPC").



C. Process and obtain the tax identification number certificate (*cédula de identificación fiscal*) and the e. signature of the NewCo.

Both the tax identification number certificate and the e. signature are issued by Mexico's Tax Administration Service (*Servicio de Administración Tributaria* or "SAT"), which oversees the Mexican Federal Taxpayers' Registry. For these purposes, the most commonly followed practice is for the NewCo to appoint an attorney-in-fact (often the NewCo's accountant) with a valid e. signature in Mexico to process the tax identification number certificate and the e. signature on its behalf.

4 | MANAGEMENT

In Mexico, the rights, obligations and fiduciary duties of the directors or managers of closely held companies are governed by the Mexican General Law of Business Entities (*Ley General de Sociedades Mercantiles* or "LGSM") and by the company's bylaws, and in the case of public companies, by the Mexican Securities Exchange Act (*Ley del Mercado de Valores* or "LMV").

Directors/managers owe fiduciary duties to the company but not to the shareholders/members. Their statutory responsibilities include, among others, to act diligently and in the company's best interest, to oversee the existence and maintenance of the company's accounting and information systems, to comply with the resolutions of the company's members/shareholder and to avoid conflicts of interest.

The Mexican Insolvency Law (*Ley de Concursos Mercantiles* or "LCM") provides protection to managers and directors against liability when decisions are made in accordance with the business judgement rule. As a result, directors are shielded from personal liability for losses that arise from decisions made in good faith, under the conditions that: (i) such actions have written approval from the company's members or shareholders; (ii) the decision relies on input from senior management or a trusted advisor; or (iii) the losses were unforeseeable.

Moreover, the managers/directors of a company may hold any nationality; it is not necessary for them to be Mexican citizens or be Mexican residents.

FOREIGN INVESTMENT

Mexico's regulatory framework for foreign investment is outlined in its Foreign Investment Law (*Ley de Inversión Extranjera* or "LIE"), and the main governmental authority in Mexico in charge of overseeing and enforcing such is the National Commission of Foreign Investments (*Comisión Nacional de Inversiones Extranjeras* or "CNIE").

1 | PERMITTED AND RESTRICTED ACTIVITIES

In general terms, except for certain restricted activities listed in the LIE, Mexican laws allow foreign investors and Mexican companies controlled by foreign investors to own up to 100% of the equity of Mexican entities, to acquire/own all types of fixed assets and personal property, and to engage in any type of commercial activity.

The majority of industrial, manufacturing, maquila, assembly, and distribution companies operating in Mexico, which are owned by foreign entities or individuals, are not subject to ownership restrictions and are not legally required to include a Mexican national as a partner, shareholder, or board member.

The LIE lists certain economic activities that restrict foreign investment, which may be categorized as follows:



Strategic activities reserved to the Mexican Government, including the exploration and extraction of petroleum and other hydrocarbons, the rendering of public electric utility services, the issuance of paper currency and coins, and the control, supervision, and security of ports and airports.



Activities reserved to Mexican nationals and to Mexican companies without foreign investment include, among others, the domestic land transportation of passengers and cargo.



Activities subject to limitations on foreign investment include the following activities which, unless an international treaty provides otherwise, may be performed only by Mexican companies with foreign equity participation not exceeding 49%: the production and sale of explosives, firearms, cartridges, and munitions; the printing and publication of newspapers for exclusive distribution within Mexico; freshwater and coastal fishing, and fishing in Mexico's exclusive economic zone; shipping companies that operate commercial vessels for navigation in interior waterways and between domestic ports; certain telecommunication services, depending on the reciprocity that exists in the country of the ultimate parent of the potential investor; and domestic (regular and non-regular) and specialized air transport and air-taxi transport services.

Pursuant to the LIE, foreign investors are not permitted to engage in any of the activities listed in items 2 and 3 above, either directly/indirectly or through any agreement or corporate structure, unless such is done through specially approved “neutral” shares, which have limited corporate rights.



Activities where foreign investors require prior approval from the CNIE, if the foreign investor wishes to own more than 49% of a company engaged in those activities, include, among others, the rendering of port services to vessels engaged in interior navigation (e.g., towing and mooring); operating public airports; providing private education services at preschool, elementary, secondary, high school and higher education levels; rendering legal services; and the construction, operation and exploitation of railways, as well as the rendering of public railroad transportation services.



The acquisition of more than 49% of the equity of an existing Mexican company whose assets exceed the monetary threshold established by the CNIE (as of August 2023, this threshold stands at MXN \$22,647,201,250.50, approximately US\$1.25 billion) requires prior approval from the CNIE.

2 | REGISTRATION REQUIREMENTS

Pursuant to the LIE, all foreign investments, whether subject to prior approval or not, must be registered before Mexico’s Foreign Investment Registry (*Registro Nacional de Inversiones Extranjeras* or “RNIE”) within 40 business days from the date of the respective entity formation or acquisition.

Moreover, in certain circumstances, Mexican entities with foreign equity need to file quarterly and annual notices before the RNIE. Annual notices must be filed if a company has more than MXN \$110 million in assets, liabilities, income, costs or expenses in a calendar year. Quarterly notices are filed when a company changes its name, its tax domicile or its business activities. Also, quarterly notices are filed in case of capital increases or reductions that affect the equity ownership of foreign investors in excess of MXN \$20 million pesos, as well as in the case of variations exceeding MXN \$20 million pesos, in accounts payable and/or accounts receivable that the Mexican company has with its foreign subsidiaries, affiliates and/or members.



TAXES

The Mexican tax system is complex and includes numerous types of taxes and fees, which could be imposed at the federal, state or municipal level. The most important taxes and fees in Mexico are the following:

1 | FEDERAL TAXES

A. INCOME TAX

The general income tax rate for companies is 30%, which should be applied to the yearly taxable income (composed by gross income minus allowed deductions, employee profit sharing and tax losses). Income tax must be paid annually by submitting an annual tax return within three months after the conclusion of the fiscal year, specifically by March 31. However, monthly provisional returns must be submitted and taxes must be paid. The fiscal year in Mexico runs from January 1 to December 31, although certain circumstances, such as the creation of new entities, mergers, or liquidations, may alter the applicable dates.

B. VALUE ADDED TAX

Mexico, like other countries, employs the value added tax (*Impuesto al Valor Agregado* or "VAT") system to levy a sales tax at a general rate of 16% on final consumers. There is also an incentive for a special VAT rate of 8% for activities performed in the border region.

VAT is paid for the following activities: i) sale of goods; ii) rendering of independent services; iii) lease of goods; and iv) the import of goods and services.

While the ultimate burden of the tax falls on the end consumer, all entities involved in the production and distribution chain are required to pay the tax and seek reimbursement from the Mexican government. Alternatively, they may obtain a credit by offsetting the value added tax that is payable against the value added tax that is collected on sales conducted within Mexico.

There are limited activities taxed at a 0% rate, but these are always specified by law.

The taxable base for value added tax purposes is determined by the price paid for the good or service, and for importations, the taxable base is the value used to calculate the general import tax.

C. EXCISE TAX

The Excise Tax (*Impuesto Especial Sobre Producción y Servicios* or "IEPS") is a tax applicable to the sale and import of fossil fuels, beer, spirits, tobacco and cigarettes, sodas, sugary drinks and non-basic foods. As in the case of VAT, this is an indirect tax where the payment obligation falls on the buyer or importer. The tax rate will depend on the type of product sold or imported.

2 | STATE TAXES

A. PAYROLL TAX

This tax is levied on salaries and wages earned through employment. The tax rate varies between 0.5% and 3.0%, depending on the specific Mexican state, and it encompasses both the salary and all the fringe benefits granted by the employer.

B. PROPERTY TAX

This tax is paid by the owners of real estate and is calculated based on the assessed value of the property. Property taxes are typically paid every two months, but many property owners choose to pay the full year in advance to obtain a percentage discount, which varies by state and year.

3 | OTHER TAX OBLIGATIONS

A. EMPLOYEE PROFIT SHARING

Employers in Mexico are required to share 10% of their net income with their employees, which is known as "PTU" (*Participación de los Trabajadores en las Utilidades*). Half of the PTU should be determined considering the days worked by the employee and the other half in accordance with the employee's salary. There are some cases in which companies are not obligated to pay PTU, including newly formed companies during their first year of operations, non-profit organizations and companies that did not generate any revenue during the fiscal year.

B. SOCIAL SECURITY

Employers are required to pay social security dues for each one of their employees. These dues are divided and paid part by the employer, part by the employee, and part by the Mexican government. These dues guarantee access to social security and health services for the employee. The amount to be paid will vary depending on factors such as: i) the base salary of the employee; ii) the value that the Unit of Measurement and Update (*Unidad de Medida y Actualización*) has at the time; iii) the rates established in the Social Security Law (*Ley del Seguro Social - "LSS"*); and iv) the insurance and social benefits granted by the employer, among others.

C. HOUSING

The National Employees' Housing Fund (INFONAVIT) is a Mexican institution with the primary goal of enabling employees in Mexico to obtain suitable housing. Employers are required to pay a fee of 5% of the employee's salary to the INFONAVIT. These contributions are intended exclusively for purchasing, constructing, renovating or repairing new or existing homes, as well as for mortgage payments.

D. RETIREMENT

The Retirement Savings System (*Sistema de Ahorro para el Retiro* or "SAR") is a government-mandated retirement savings program, which helps employees save for retirement. The contributions made to the SAR are managed by private pension fund administrators called AFORES (*Administradoras de Fondos para el Retiro*). These contributions are collectively funded by the employer, the employee, and the Mexican government. In total, the employer contributes about 5.15% of the employee's base salary to the SAR.

LABOR AND SOCIAL SECURITY

Mexican labor regulations are very protective of employees' rights, and they protect anyone who renders services to a company or individual in Mexico, regardless of whether the employee is Mexican or foreign. The rights of employees may not be waived. The employer has the burden of proving all the terms and conditions of employment.

1 | SOCIAL SECURITY

Mexican companies are obligated to register as employers, to register their national and foreign employees with the Mexican Social Security Institute (*Instituto Mexicano del Seguro Social* or "IMSS") and pay the corresponding fees to such authorities. Employees have the following benefits: (i) maternity and illness insurance; (ii) occupational hazard insurance; (iii) life and disability insurance; and (iv) early retirement and retirement insurance.

2 | MINIMUM MANDATORY BENEFITS

1

Employees are entitled to a year-end bonus (aguinaldo) of at least 15 days of wages.

2

Employees with more than one year of service are entitled to an annual period of paid vacation, which shall not be fewer than 12 business days after the first year of service. This entitlement will increase by 2 business days each year for the first 5 years of service, then it will increase by 2 business days for every 5 years of service. Employees are entitled to a vacation bonus of at least 25% of their pay during the allotted vacation days.

3

Current official holidays in Mexico are January 1, the first Monday of February; the third Monday of March; May 1; September 16; the third Monday of November; December 25; and December 1 (every six years, for the presidential inauguration, although this date will change to October 1 for the first time in 2024).

4

Employees are entitled to receive the already mentioned profit sharing or PTU.

5

Employers may also grant additional fringe benefits such as: (i) food coupons; (ii) bonuses; (iii) savings funds; and (iv) private medical and life insurance, among others.

6

Work schedules are determined through mutual agreement of the employer and employee, provided they adhere to the following legal limit on work hours: (i) for the daily shift, 48 hours per week; (ii) for the night shift, 42 hours per week, and (iii) for the mixed shift, which includes parts of the day and night shifts (the night shift portion should be less than 3.5 hours), with a weekly limit of 45 hours.

Employees must have a minimum of 30 minutes for rest and meal breaks, though this time will be considered part of their work shift. A 60-minute rest break will not count toward the work shift. Employees are entitled to 1 day off with full pay for every 6 days of work. If an employee normally works on Sunday, the employer is required to provide a 25% bonus in addition to the normal wages.

7

Companies are obligated to offer training and education to their employees in accordance with the written plans and programs that employers develop for such purposes.

3 | WAGES, CONTRACTS, AND OTHER LABOR OBLIGATIONS

The Mexican Federal Labor Law (*Ley Federal del Trabajo* or "LFT") does not formally recognize job offers. Instead, such offers could potentially be seen as contracts. To establish the terms of employment, employers and employees should execute an individual employment agreement, which must be in writing and signed with wet ink signatures.

The execution of a Collective Bargaining Agreement depends on the activities of the company. It is executed between the company and its labor union and is filed before the Federal Center for Conciliation and Labor Registry (*Centro Federal de Conciliación y Registro Laboral*).

Employee wages must meet or exceed the minimum wage established by the National Minimum Wage Commission. For most of the employees located in Mexico, in 2023, the minimum wage is set at MXN \$207.44 per day, which is roughly equivalent to US\$12.00; however, in border zones, the minimum wage is higher, at MXN \$313.42 MXN (in 2023), or approximately US\$18.50.

Moreover, companies in Mexico are required to establish protocols and policies aimed at promoting equal opportunity, guaranteeing a workplace environment free from discrimination, harassment and violence, and preventing psychosocial risks.

4 | EMPLOYMENT TERMINATION

The concept of “employment at will” is not recognized in Mexico. Instead, employment terminations must be handled in accordance with the LFT, as follows:

1

Employers have the right to terminate the employment relationship with or without cause:

- I. Termination without cause: In this case, a severance payment is required, consisting of 3 months of the fully integrated salary (salary and benefits) and 20 days of the fully integrated salary for each year worked; and
- II. Termination with cause (rescission): Only applies in limited cases outlined in the LFT. No severance needs to be paid.

2

Employees have the right to resign from the employment relationship at any time, without prior notice.

Moreover, employees have the right to terminate (rescind) their employment if the employer unilaterally changes the work conditions. In such case, the severance payment is the same as that for the termination without cause.

5 | OUTSOURCING

The outsourcing of personnel is prohibited under labor, social security and tax laws, except for cases involving specialized services or work that falls outside the primary purpose or economic activity of the entity receiving and benefitting from these services. However, such outsourcing is permissible only if the following conditions are met: (i) the provision of such specialized services or activities is not included within the corporate purpose of the entity receiving and benefitting from the services; (ii) the contractor is registered in the Registry of Specialized Service Providers or Specialized Works (*Registro de Prestadores de Servicios Especializados u Obras Especializadas* or “REPSE”); and (iii) a legally binding written contract between the contractor and client is signed.

It is important to note that shared services provided among companies within the same corporate group may potentially be regarded as specialized services under certain circumstances.

Individuals or companies that utilize outsourcing for specialized services or work will share joint and several liability with the outsourcing contractor if the contractor fails to meet its labor, social security, and tax obligations. Further, non-compliance with the rules governing outsourcing could result in fines and the possibility of the non-deductibility of the payments for the services.



INTERNATIONAL TRADE AND CUSTOMS

International trade plays a pivotal role within the Mexican economy, representing one of its most crucial sectors. Over time, the country has emerged as a strategic trading partner and a key global player in international trade.

Currently, Mexico proudly touts the world's largest network of Free Trade Agreements (*Tratados de Libre Comercio* - "FTAs" or "TLCs"), encompassing 14 agreements that grant preferential tariff benefits to more than 50 countries. This extensive network offers a unique platform and advantage for companies and investors.

As a member of the World Customs Organization ("WCO") and the World Trade Organization ("WTO"), Mexico has benefited from its active involvement in such organizations, which has led to the opening of markets, the establishment of clear and transparent regulations, and the development of principles that provide certainty to investors and other companies engaged in international trade.

1 | IMPORTERS' AND EXPORTERS' REGISTRIES

In Mexico, importers must register before the Official Importers' Registry (*Padrón de Importadores*), which is overseen by the Mexican Tax Administration Service (*Servicio de Administración Tributaria* or "SAT"). Additionally, importers of specific goods and in certain sectors (and in some cases, exporters) must obtain additional licenses, through what is known as Specific Sectors Importers' Registry (*Padrón de Importadores de Sectores Específicos*) and Specific Exporters' Registry (*Padrón de Exportadores Sectorial*). Such licenses are mandatory for the import of specific items, including textiles and apparel, footwear, steel products, certain automotive industry items, nuclear and radioactive products, chemicals, firearms and ammunition, explosives and cigarettes, among others. Moreover, they are also required to export goods such as beer, tequila, wines, spirits, cigarettes, gold, silver, copper, plastics, wood, paper, glass, aluminum, iron and steel, among others.

2 | FOREIGN TRADE PROGRAMS AND CERTIFICATIONS

The Mexican government has instituted numerous programs aimed at promoting the manufacturing and production of goods within the country. The two most important programs are known as the IMMEX and the PROSEC.



IMMEX Program

The IMMEX Program has a longstanding presence in Mexico, preceding even NAFTA, and serves as a mechanism to promote and boost investment and employment. This program is administered by the Mexican Department of Economy (*Secretaría de Economía* or “SE”) and allows companies to temporarily import raw materials, components and fixed assets for manufacturing purposes, or the rendering of other services. Raw materials may be imported for a duration of up to 18 months (or up to 36 months if the IMMEX company also holds an OEA certification), without paying import duties, while fixed assets may remain in Mexico indefinitely if the IMMEX Program continues to be valid. Moreover, an exemption as to payment of the Value Added Tax (*Impuesto al Valor Agregado* or “VAT”) on importation is available if the IMMEX company has an additional certification known as VAT Certification, which is further discussed below.

The IMMEX Program has different “modalities”, such as: i) Industrial; ii) Services; iii) Shelter; iv) Controller; and v) Outsourcing (not to be confused with labor outsourcing).

IMMEX companies, also known as maquiladoras, may be wholly owned by foreign entities and are eligible to operate in two main ways:

Pure Maquila: In this model, all raw materials and a minimum of 30% of the fixed assets used for production are owned by foreign entities, and all finished goods are exported outside of Mexico. This arrangement allows companies to apply to operate under the special maquila regime for income tax purposes. This regime has multiple benefits, including helping companies to avoid creating a permanent establishment in Mexico and determining income tax liability based on either 6.9% of the value of fixed assets or 6.5% of a company’s ordinary costs and operational expenses.

Contract Manufacturing: In this model, IMMEX companies sell their products (instead of rendering a maquila service) for export or in the domestic market, adhering to specific regulations.

To maintain their eligibility for the IMMEX Program, companies are required to have export sales of at least US\$500,000.00 annually or ensure that export sales account for at least 10% of their total sales of products or services.



PROSEC Program

The PROSEC Program is also administered by the SE and is designed to promote the domestic production of goods in Mexico. This program allows for the import of goods with preferential import duties for the purpose of manufacturing products within specific industries, such as electrical, electronics, furniture, toys, footwear, minerals and metallurgical, steel, automotive and auto parts, textiles and apparel, among others. Finished products manufactured under this program may be sold both in Mexico and abroad.

Furthermore, the Mexican government has established a certification program known as Company Certification Structure (Esquema de Certificación de Empresas), aimed at businesses involved in foreign trade operations, which confers additional benefits, further incentivizing and facilitating international trade activity and investment in Mexico.



VAT Program

Prior to 2013, temporary imports were exempted from Mexico's VAT. Starting that year, temporary imports became subject to VAT, with a few exceptions. Currently, importers may still practically circumvent the VAT payment by either obtaining a VAT Certification or filing a bond to secure the payment of such tax.

The VAT Certification grants importers a tax exemption equivalent to 100% of the VAT incurred on temporary imports. This mechanism allows importers to offset the VAT liability by utilizing the exemption, which results in the VAT not needing to be physically paid. This unique arrangement contributes to facilitating trade operations and minimizing the fiscal impact of the VAT on temporary imports.



OEA Certification

The Certified Economic Operator (*Operador Económico Autorizado* or "OEA") certification is the Mexican equivalent to the U.S. C-TPAT, and it seeks to promote secure practices throughout the supply chain. Companies seeking OEA certification must prove that they comply with minimum security standards established by the WTO and adopted by Mexico.

This certification grants several administrative advantages, including the use of express lanes for importing goods, extended duration for temporary imports (e.g., up to 36 months for raw materials), the possibility to submit V5 import declarations (*pedimentos*) for the transfer of temporarily imported goods to be imported on a permanent basis by a Mexican entity, an exemption from issuing value declarations, entitlement to prior notification of an impending suspension in the importers' registry, and additional opportunities to amend import declarations without requiring authorization.



Free Trade Agreements

As previously mentioned, Mexico has the largest network of FTAs in the world, covering North, Central and South America, Europe and Asia. Mexico's most important FTA is the USMCA, which commenced on July 1, 2020, and succeeded the NAFTA.

One of the most important aspects to consider when carrying out operations under FTAs revolves around complying with the rules of origin of the goods that will be subject to preferential tariff treatment under such treaties.

In general, a good will be considered as originating from a treaty involved country if it satisfies any of the following rules of origin, which are applicable across nearly all FTAs:

1. When the good is entirely obtained or manufactured within the territory of one or more participant countries;
2. When the good is entirely produced within the territory of one or more treaty parties using only materials that originate from these same parties;

3. When the good is fully manufactured within the territory of one or more treaty parties, using non-originating materials, and these materials undergo a transformative process that changes their tariff classification; or
4. When the goods are entirely manufactured within the territory of one or more treaty parties using some non-originating materials, while adhering to a minimum regional value content requirement.

Given these conditions, companies aspiring to operate under the scope of any FTA must ensure that products comply with the applicable rules of origin. It is advisable to conduct an origin analysis and study. This will be helpful in the future in case the tax authorities of the country of import initiate a verification of origin procedure involving the producer or exporter of the goods.

3 | DUTIES AND TAXES

When importing goods into Mexico, as a general rule, importers are liable for multiple charges, including the following:

- A. Import duties:** Depending on the tariff classification of the goods, importers will usually need to pay import duties. The specific amount varies based on the goods' tariff classification.
- B. VAT:** Importers are required to pay VAT, which is calculated based on the customs value of the goods.
- C. Customs processing fee:** Importers must pay a customs processing fee (*derecho de trámite aduanero* or "DTA"). This fee, generally calculated at a rate of 0.008% over the customs value of the goods, covers the administrative costs associated with customs processing.

It is important to note that the above charges may vary depending on multiple factors, including the customs regime applicable to importers and the existence of free trade agreements.

Additionally, specific goods such as beer, spirits, fossil fuels and others may be subject to the payment of Excise Tax (*Impuesto Especial Sobre Producción y Servicios* or "IEPS"). Furthermore, new automobiles could be subject to a tax for new vehicles known as ISAN (*Impuesto Sobre Automóviles Nuevos* or "ISAN").



REAL ESTATE

Real estate transactions in Mexico, including the purchase, sale and lease of real property, are subject primarily to the local Civil Code and other local laws of the respective state in which the property is located. While there may be variations, there is substantial uniformity among the different Civil Codes of the states, and except for those provisions that by law may not be waived, parties are free to determine the terms and conditions of their transactions.

1 | OWNERSHIP RESTRICTIONS FOR FOREIGN INVESTORS

A. RESTRICTED ZONE

Mexico's restricted zone is composed of the land lying within 50 kilometers of Mexico's coastline and 100 kilometers of its land borders (the "Restricted Zone"). Foreign investors may acquire full ownership (fee simple title) of real property within the restricted zone for non-residential purposes, such as commercial, industrial, or hotel-related activities, through a Mexican company. To do so, the company must include a waiver provision, known as the "Calvo Clause," in its bylaws. Such provision includes a declaration from the foreign investors acknowledging they will be treated as Mexican nationals and waive any protection provided by their home countries' laws for real property acquired in Mexico. Additionally, the company must file an acquisition notice with Mexico's Department of Foreign Affairs (*Secretaría de Relaciones Exteriores* – "SRE") within sixty (60) business days after acquiring the property.

For acquisitions of residential purpose property within the Restricted Zone, foreign investors must acquire such properties through a Mexican trust, with a Mexican bank authorized to act as trustee, and the foreign investor as the trust beneficiary. This trust has a maximum duration of 50 years, renewable by the foreign investor, and must be registered with the RNIE and the Public Registry of Property. Moreover, to establish the trust, investors need to obtain a permit from Mexico's Department of Foreign Affairs and pay the trustee its annual maintenance fees.

B. NON-RESTRICTED ZONE

Outside the restricted zone, foreign investors may directly acquire fee simple title to land, as well as water and non-hydrocarbon mining concessions. This can be done either directly or through a foreign company. Similarly, a "Calvo Clause" waiver agreement needs to be filed before the SRE before the purchase of the property, and the SRE will issue a certificate that will be referenced in the public deed that memorializes the transaction. If the purchase is through a Mexican company owned by a foreign investor, there is no need to provide any notice of such a waiver agreement.

2 | MAIN TYPES OF REAL ESTATE TRANSACTIONS

A. Purchase and Sale of Real Property: The initial stage of a potential real estate purchase often involves a non-binding letter of intent, which serves as the foundation for negotiating either a purchase and sale agreement or a binding promissory purchase and sale agreement. The promissory agreement typically includes provisions for a due diligence period, allowing the buyer to thoroughly investigate all aspects related to the property. It also covers standard terms and conditions for the sale, including, among others, price, property description, seller's representations and warranties, and closing conditions.

Due Diligence: During the due diligence process, it is crucial for potential buyers (and sometimes tenants) to investigate various aspects related to the property to mitigate potential risks. These include: (i) reviewing the seller's title to the target property, including examining the seller's deed; (ii) verifying that the property is not subject to ejido interests (communal land laws protecting certain rural areas in Mexico) or other land use and zoning restrictions; (iii) ensuring that the property is free from any liens, encumbrances, rights of way or claims, including labor claims; (iv) conducting an environmental assessment, such as a Phase I, and, if necessary, a Phase II, performed by an experienced environmental assessment company; (v) confirming that the seller possesses all the necessary permits, licenses and concessions pertaining to the property, including construction and work completion or occupancy licenses; (vi) reviewing and analyzing the applicable construction and operating restrictions in the area where the property is located; and (vii) verifying the feasibility, availability and cost of utilities for the property.

Conveyance Formalities: To transfer title to real property in Mexico, the buyer and seller must execute a purchase and sale agreement before a notary public in Mexico. Typically, the buyer selects the notary public, who is responsible for formalizing the agreement through a public deed (*escritura pública*) and registering it with the corresponding Public Registry of Property. This ensures the validity and effectiveness of the title transfer against third parties. The notary public usually requires multiple documents and information, including a copy of the property's deed, an official appraisal for tax calculations, a certificate of freedom of liens and encumbrances, a certificate of no property taxes due, no debt utility consumption certificates and documents demonstrating the parties' capacity and authority.

Closing Costs and Taxes: The buyer is typically responsible for various closing costs, including: (i) a real estate acquisition tax, which ranges from approximately 2% to 3% of the property value, varying by state; (ii) a 16% value-added tax on any buildings, construction and improvements on the land (land sales are not subject to value added tax); (iii) recording fees, which vary by state, from a fixed fee to a percentage of the transaction value. In some states, such recording fees are capped and can be as low as approximately US\$1,000, while in other states such costs may range from 1% to 2% of the property value; and (iv) the notary public fees and expenses.

The seller is responsible for the payment of its own income tax. However, if the seller is an individual, the notary public is required to withhold the corresponding income tax. The notary public calculates the amount to be withheld and pays the tax on behalf of the seller.

Property taxes are typically paid every two months, but many property owners choose to pay the full year in advance to obtain a percentage discount, which varies by state and year. Property tax is calculated based on the tax value of the property, commonly ranging from 0.3% to 1%, depending on the state where the property is located.

B. Lease of Real Property: The leasing of real property in Mexico incorporates commonly used commercial terms found in other countries. These terms include build-to-suit provisions, options to purchase the facility, rights of first refusal, early termination options and liquidated damages, among others.

To ensure clarity and alignment with the intended outcomes, it is crucial that all customary terms and conditions are explicitly stated in the lease agreement. This is important, as the application of state landlord/tenant laws may yield results different from the parties' intentions, particularly concerning the maintenance costs and obligations of each party.

Additional considerations for leasing real property in Mexico include:

- (i) **Net-Net and Triple-Net Leases:** Industrial and commercial facilities commonly adopt Net-Net and Triple-Net leases as standard practice.
- (ii) **Security Deposit:** A security deposit equivalent to one- or two-months' rent is typically required for commercial and industrial leases, although the landlord and tenant have ample flexibility to negotiate this requirement.
- (iii) **Withholding Tax:** Subject to certain exceptions, lease payments made to foreign property owners are subject to an income tax withholding at a rate of 21%.
- (iv) **Eviction Process:** While property owners possess the legal right to evict a tenant in the event of default, it is important to note that eviction procedures in Mexico can be lengthy and complex. Tenants often benefit from procedural advantages that can significantly delay the eviction process.

ENVIRONMENTAL

Mexico boasts a comprehensive legal framework dedicated to safeguarding its environment. This framework encompasses a spectrum of federal and state-level laws and regulations that hinge on the geographical location and scope of a company's planned operations in Mexico.

The variability of these regulations underscores the importance of meticulous research into the specific prerequisites within the chosen industry and operational area.

1 | LEGAL FRAMEWORK

Some of the most important federal environmental laws include:

- General Law of Ecological Balance and Environmental Protection (Ley General del Equilibrio Ecológico y la Protección al Ambiente);
- National Waters Law (Ley de Aguas Nacionales);
- General Law of Sustainable Forest Development (Ley General de Desarrollo Forestal Sustentable);
- General Law for the Prevention and Integral Management of Waste (Ley General para la Prevención y Gestión Integral de Residuos); and
- Federal Law of Environmental Responsibility (Ley Federal de Responsabilidad Ambiental).

2 | KEY ENVIRONMENTAL MATTERS

Prior to commencing operations in the country, it is essential to consider the following key environmental matters and potential considerations from a Mexican environmental law perspective:

A. Environmental Impact Assessments (EIAs): Certain types of activities require the completion of an EIA prior to starting operations. These assessments evaluate the potential environmental impacts of a project and ensure the implementation of measures to mitigate any adverse environmental effects. The permitting process and requirements may vary depending on the project's nature, magnitude, and the specific regulatory provisions applicable.

B. Hazardous Waste Management: Manufacturers operating in Mexico are obligated to adhere to federal regulations regarding the management of hazardous waste, categorizing and handling such materials in accordance with their classification. This entails the proper storage, labeling, and disposal of hazardous materials. Waste materials are classified based on several factors, including their hazardous properties and toxicity levels, into three categories:

- Hazardous waste;
- Waste requiring special handling; and
- Urban solid waste.

C. Air and Water Quality: Mexico has in place rigorous regulations for the monitoring and control of air and water quality, including the discharge of pollutants. Companies operating within the country must adhere to such regulations to ensure environmental compliance and avert potential penalties and fines.

3 | FOREST LAND USE CHANGE

Whenever the need arises to clear and remove forestry vegetation, it is imperative to apply for and obtain proper authorization. The act of vegetation removal constitutes a change in land use, requiring prior approval before any interventions that may impact the vegetation may be made. It is noteworthy that the alteration of land use requires the processing and acquisition of both an Environmental Impact Authorization and a Forest Land Use Change Authorization; however, in specific cases, both authorizations may be procured through a streamlined and simplified combined procedure. Both authorizations impose a series of obligations on their holder, including actions such as fauna relocation on the property, rescue of flora under certain protection levels, or reforestation on other parcels of land.

4 | WATER RIGHTS

Water rights in Mexico are regulated by the National Waters Law (*Ley de Aguas Nacionales*) and other related laws and regulations. In specific instances, individuals, businesses, and organizations must secure water permits, which may be in the form of concessions or assignments, from Mexico's National Water Commission (*Comisión Nacional del Agua* – “CONAGUA”) for specific water usage.

The CONAGUA also has the authority to issue permits for the discharge of treated wastewater into water bodies under federal jurisdiction. Pollution control is regulated through a set of Mexican Official Standards, with NOM-001-SEMARNAT serving as the primary standard for this purpose.

5 | ENVIRONMENTAL LIABILITY

In cases of environmental damages, the responsible party must take appropriate and suitable measures for remediation and restoration. These actions may involve restoring the affected environment to its original condition or providing compensation for the damages caused.

Moreover, failure to fulfill environmental obligations and responsibilities could result in administrative, civil and/or criminal liability. Therefore, it is imperative to ensure environmental compliance when conducting operations in Mexico.

6 | SOIL CONTAMINATION

Regarding soil contamination, note that there is an administrative liability to remediate. The general rule is that the persons who were responsible for causing the contamination are also responsible for its remediation. However, the General Law of Ecological Balance and Environmental Protection (*Ley General del Equilibrio Ecológico y la Protección al Ambiente*) and General Law for the Prevention and Integral Management of Waste (*Ley General para la Prevención y Gestión Integral de Residuos*) also establish that both the possessors (e.g., tenants) and owners of contaminated land are jointly responsible for its remediation.



ENERGY

Mexico's energy law landscape revolves around the following key legislation: the Mexican Constitution, the Hydrocarbons Law (*Ley de Hidrocarburos* or "LH"), and the Electricity Industry Law (*Ley de la Industria Eléctrica* or "LIE"). These statutes establish the legal basis for energy operations in Mexico, delineating the rights, duties, and protocols governing energy enterprises. It is important to understand this framework to navigate the country's energy market and to comply with the applicable regulations.

1 | AUTHORITIES

The Energy Regulatory Commission (*Comisión Reguladora de Energía* or "CRE") and the National Hydrocarbons Commission (*Comisión Nacional de Hidrocarburos* or "CNH") serve as the primary regulatory bodies responsible for overseeing and enforcing the energy laws in Mexico. The CRE's primary focus lies in regulating activities within the electricity sector, as well as the transportation, distribution, storage, and sale of hydrocarbons. The CNH oversees the exploration and production of hydrocarbons. These regulatory bodies play a crucial role in granting permits, setting tariffs, and ensuring compliance with technical and international standards.

In addition to the regulatory bodies above, the Department of Energy (*Secretaría de Energía* or "SENER") regulates the import and export of hydrocarbons, and two system operators, the National Energy Control Center (*Centro Nacional de Control de Energía* or "CENACE") and the Natural Gas National Control Center (*Centro Nacional de Control de Gas Natural* or "CENAGAS"), play significant roles in the Mexican energy sector. The CENACE operates and manages the national electricity grid and oversees the Wholesale Electricity Market. The CENAGAS is tasked with the operation of the national natural gas pipeline network, ensuring the safe and efficient transportation and distribution of natural gas.

Lastly, the Agency for Safety, Energy and Environment (*Agencia de Seguridad, Energía y Ambiente* or "ASEA") maintains oversight over compliance with safety and environmental standards within the hydrocarbons sector.

2 | HYDROCARBONS

The LH allows a range of activities associated with oil, natural gas, oil refined products, and petrochemicals. These activities include the exploration, production, import, export, transportation, distribution, storage, and both wholesale and retail sale of hydrocarbons. The LH provides clear guidelines for obtaining the necessary permits, licenses, and authorizations for each of these activities. Additionally, it also establishes the rights, responsibilities, and obligations of participants in the hydrocarbons sector, including operators, contractors, and service providers.

3 | ELECTRICITY

The LIE governs the entire electricity landscape in Mexico, including the generation, transmission, distribution, and supply of electricity. It aims to promote competition, private investment, and the efficient use of energy resources in the electricity sector. The law allows private participation in the generation and commercialization of electricity through permits, registrations, and government contracts. It also establishes the framework for the operation of the wholesale electricity market, where generators and suppliers can buy and sell electricity. The LIE provides guidelines for the planning and expansion of the transmission and distribution networks to ensure widespread and reliable access to electricity throughout the country. These activities are reserved to the Mexican government.

In Mexico, end users enjoy multiple options for procuring electricity, encompassing five different alternatives, which depend on multiple factors, including, among others, the load center demand and the operation start date. Albeit with a few exceptions, these alternatives are not mutually exclusive and include:



1

Basic Supply. - Under this option, the electricity is provided by a Basic Supply Provider. Apart from the Mexican Federal Electricity Commission (*Comisión Federal de Electricidad* - "CFE"), which serves as Mexico's national utility service provider, only a limited number of entities authorized by the CRE are permitted to act as Basic Supply Providers.

2

Qualified Supply. - Under this option, the electricity is provided by a Qualified Supplier chosen by the end user, who acquires energy from the Wholesale Electricity Market.

3

Distributed Generation. - With this choice, end users have the option to generate a limited amount of electricity on-site, up to 500 kilowatts, interconnected with the distribution grid.

4

Isolated Supply. - This option allows end users to fulfill their electricity requirements, either partially or entirely, by operating an on-site power plant, generally exceeding 500 kilowatts in capacity.

INTELLECTUAL PROPERTY

Mexico's regulatory framework for intellectual property is set forth in two key laws: the Federal Law for the Protection of Industrial Property (*Ley Federal de Protección a la Propiedad Industrial* or "LFPI"), governing trademarks, patents, industrial designs, utility models, slogans, industrial secrets and designations of origin, among others, and the Federal Copyright Law (*Ley Federal de Derechos de Autor* or "LFDA"), which regulates copyright matters. The main governmental authorities in charge of overseeing and enforcing such statutes are the Mexican Institute of Industrial Property (*Instituto Mexicano de la Propiedad Industrial* or "IMPI") and the National Copyright Institute (*Instituto Nacional del Derecho de Autor* or "INDAUTOR").

Mexico is an active participant in multiple international treaties that seek to safeguard intellectual property rights, including the Madrid Protocol, the Paris Convention for the Protection of Industrial Property, and the Agreement on Trade-Related Aspects of Intellectual Property ("TRIPS").

1 | INDUSTRIAL PROPERTY

A. TRADEMARKS

A trademark registration is obtained by submitting the corresponding trademark registration application before the IMPI, based on its classification according to the International Classification of Goods and Services, for the registration of trademarks under the Nice Agreement. The estimated time for registration is currently nine months. Once a trademark is registered, its owner has the exclusive right to use it commercially in Mexico.

Trademark registrations are valid for ten years from the date they are granted and may be renewed for unlimited successive ten-year terms.

B. TRADE SECRETS

In general terms, trade secrets consist of any information of an industrial or commercial nature kept confidential by the person exercising legal control over such information, which involves obtaining or maintaining a competitive or economic advantage over third parties. Trade secrets may be contained in various formats, such as documents, electronic records, magnetic media, optical discs, films, microfilms or in any other medium. Moreover, trade secrets obligations may also be protected through the execution of non-disclosure agreements subject to Mexican law.

C. INVENTIONS, UTILITY MODELS, AND INDUSTRIAL DESIGNS

1. **Inventions.** In Mexico, a patent is an exclusive right granted by the IMPI that allows the patent holder to be the only party authorized to produce, use, sell or distribute a specific invention for a determined period. This exclusivity provides the holder with the legal right to protect the invention from being used by others without authorization. Patents are valid for a term of 20 years from their filing date. In order for an invention to be eligible for a patent, it must be novel, the result of inventive activity and have an industrial application.
2. **Utility Models.** Utility models refer to objects, utensils, devices or tools that, as a result of a change in their arrangement, configuration, structure or form, exhibit a distinct function compared to their constituent parts or offer advantages in terms of their utility. The registration is valid for a term of 15 years from the filing date.
3. **Industrial Designs.** Industrial designs in Mexico are divided into two subcategories: i) traditional industrial designs, which focus on an object's appearance; and ii) industrial models, which center on structural or functional improvements. Both industrial designs and models are subject to registration with the IMPI, and registrations are valid for a term of 5 years from the filing date.

2 | COPYRIGHT

A copyright is a legal acknowledgment granted by the Mexican government to creators of literary and artistic works, offering protection that enables authors to hold exclusive personal and financial rights. Literary and artistic works can be protected through copyright registrations, and infringement of such copyright registrations may result in commercial and/or criminal penalties.

COMPLIANCE

The term "compliance" refers to the set of policies, procedures and practices adopted by a company to ensure that it operates in accordance with the laws, regulations and standards applicable to its industry.

Compliance in Mexico encompasses a wide range of aspects and regulations, which vary depending on the specific industry in which a company operates. However, some of the key compliance topics to consider for most businesses are:

1 | PRIVACY AND PERSONAL DATA PROTECTION

The right to the protection of personal data is a fundamental right enshrined in the Mexican Constitution and recognized internationally. Personal data protection in Mexico is primarily regulated by the Mexican Federal Law on Protection of Personal Data Held by Private Parties (*Ley Federal de Protección de Datos Personales en Posesión de los Particulares* or "Privacy Law") and its Regulations, which establish the principles, requirements and obligations for the proper handling and processing of personal data in Mexico.

To comply with the Privacy Law and its Regulations, companies must implement technical, organizational and legal measures to provide clear information to data subjects about the collection, use, disclosure, transfer and/or storage of their data, and protect such personal data and ensure the exercise of the rights of access, rectification, cancellation and opposition (known as "ARCO Rights") of the data subjects.

2 | ANTI-MONEY LAUNDERING

Companies must implement policies and controls to prevent the use of their services for illicit activities, such as money laundering and terrorist financing.

The Mexican Federal Law for the Prevention and Identification of Operations with Illicit Resources (*Ley Federal para la Prevención e Identificación de Operaciones con Recursos de Procedencia Ilícita*) establishes the obligations and responsibilities of individuals and legal entities to prevent and identify operations with illicit resources, as well as to report suspicious transactions to Mexico's Financial Intelligence Unit (*Unidad de Inteligencia Financiera* or "UIF").

3 | IDENTIFICATION OF ULTIMATE BENEFICIAL OWNER

As of January 1, 2022, a new tax obligation related to the figure of the ultimate beneficial owner came into effect. This new regulation, established in the Mexican Federal Tax Code, requires the identification of the ultimate beneficial owner of companies and trusts, as well as obtaining various information from them that the Mexican tax authorities may require as part of their accounting records.

4 | ANTITRUST COMPLIANCE

Companies must comply with the Federal Antitrust Law (*Ley Federal de Competencia Económica* or "LFCE"), which aims to protect the competitive process and free competition by preventing and eliminating monopolies, monopolistic practices, and other restrictions on the efficient functioning of markets.

In addition, economic concentration operations, such as mergers and acquisitions that have effects in Mexico and exceed certain monetary thresholds provided for in the LFCE, must be authorized by Mexico's Federal Economic Competition Commission (*Comisión Federal de Competencia Económica* or "COFECE").



DISPUTE RESOLUTION

Dispute resolution in Mexico involves a range of legal mechanisms to address conflicts among individuals, companies or authorities. These mechanisms encompass litigation, along with alternative dispute resolution methods such as arbitration, mediation and conciliation.

1 | ARBITRATION

Mexico's regulatory framework is comprised of both domestic and international norms, which acknowledge arbitration as a legitimate alternative dispute resolution mechanism. Mexico is a signatory of multiple key international treaties on arbitration, including the New York, Panama and Montevideo Conventions, and the USMCA, all of which recognize and endorse the use of arbitration. Furthermore, Mexico has enshrined arbitration in its domestic legislation, most notably within the Mexican Constitution, the Code of Commerce and the Federal Code of Civil Procedures. This legal framework solidifies arbitration's role as an effective dispute resolution mechanism in Mexico.

2 | LITIGATION

CIVIL AND COMMERCIAL LITIGATION

Civil cases are processed through local civil courts in each state, in accordance with the specific jurisdictional rules applicable to each case.

In **commercial** litigation, it is possible to choose between local or federal courts.

ADMINISTRATIVE, CUSTOMS AND TAX LITIGATION

Administrative disputes are resolved through the local administrative courts of each state or at the Federal Court of Administrative Justice (*Tribunal Federal de Justicia Administrativa* or "TFJA"), in accordance with the specific jurisdictional rules applicable to each case.

Tax litigation is conducted at the TFJA, and customs litigation is handled by the TFJA's Specialized Courts on International Trade Matters (*Salas Especializadas en Materia de Comercio Exterior*).

CONSTITUTIONAL LITIGATION

Mexican law incorporates a legal mechanism called "amparo" designed to review the constitutionality of laws or actions conducted by authorities that infringe upon the individual rights enshrined in the Mexican Constitution. The amparo serves as the means to address and settle constitutional disputes.

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Guide for Nearshoring Committee

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