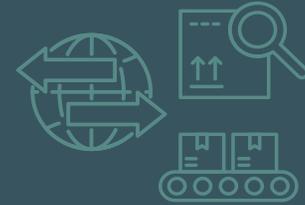


Entrada Group



Mexican Customs: Unlike Anywhere Else in the World



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Introduction

Every country in the world handles Customs compliance differently. In China and Brazil, for example, free trade zones are highly regulated by the government, depending on which particular geographic or sectorial areas it seeks to promote. In Mexico, the approach to Customs compliance is unique, contributing to the country's reputation as one of the world's most open trading partners.

Foreign companies operating in Mexico have the freedom to set up operations anywhere they see fit in the country, without being restricted only to designated free trade or enterprise zones. If a company needs to be next door to a client or near a specialized service provider, it's not a problem in Mexico. In China, companies don't have that same level of freedom.

In addition, foreign-owned companies operating in Mexico (as well as Mexican companies that want to export abroad) can qualify for a special license, known as IMMEX, that provides an additional, game-changing advantage. IMMEX-licensed companies are able to import components and raw materials into Mexico with zero or minimal duties

being imposed, so long as the finished product is exported out of the country within a certain timeframe.

In exchange for these advantages, the Mexican government has implemented a detailed, fluid and multi-layered set of compliance regulations, designed to protect domestic producers in Mexico. Foreign companies that play by these rules and keep up with regular Customs changes are rewarded with the many benefits Mexico offers (including free trade with over 40 nations globally). But companies running afoul of Mexico's compliance rules will find themselves facing large penalties, fines and even potential shutdowns.

This paper will explore in depth Mexico's risk/reward Customs regime, including an overview of why Customs in Mexico is unique and how beneficial an IMMEX license can be for foreign manufacturers producing for the export market, provided they play by the rules and are diligent about staying abreast of ever-present changes. Basically: Mexican Customs are time- and resource-intensive to comply by; but if you are able to, you'll realize big rewards.

The Risk and Reward of Mexican Customs



As long as you know how to operate within Mexico's rules, an IMMEX license (see "IMMEX Program," on [page 6](#) and again in the Glossary, on [page 8](#)), is the best way to manufacture for the export market.

The success of Mexican manufacturing, which grew from \$4 billion in output in 1965 to over \$380 billion in 2021, has led to significant changes from a Customs perspective over the years, as the government does all it can to prevent leakage of imports (whether components or raw materials) into Mexico's domestic market. Manufacturers can take advantage of numerous free trade agreements, duty exemptions, tax advantages and incentive programs provided they understand and abide by the regulations, which are constantly in flux, often overlap across jurisdictions and can take years to understand – followed by the greater challenge of managing Customs requirements for every single import and export thereafter.

IMMEX is a fantastic route to new topline growth. That's true whether you're a foreign manufacturer that wants to setup and operate an entity in Mexico and obtain your own manufacturing IMMEX license, or if you choose to partner with a proven, experienced partner like Entrada Group under our Shelter IMMEX license. Domestic manufacturers in Mexico that don't produce for export aren't part of the IMMEX program.

Many manufacturers lack the in-house staff and Mexico-specific expertise to ensure that Customs works in their favor. Fortunately, handling Customs in-house isn't the only option. Entrada Group works hand-in-hand in with clients to manage the end-to-end Customs process, minimizing headaches and risks of compliance while maximizing the possible advantages.



An Overview of Mexican Customs and IMMEX

Mexican imports are subject to tariffs, with exceptions for imports emanating from free-trade partners like the US and Canada under USMCA (more on that later). The Mexican government has also recently reduced Most Favored Nation (MFN) tariffs to 0 or 5% for imports used in 20 different industry sectors across 16,000 different Harmonized Tariff System (HTS) codes.

Mexico's compliance ecosystem is multilayered and complex, requiring companies to have a detailed understanding of the obligations at the state and federal level for reporting, transparency and trade compliance, as well as tight collaboration between the Trade & Compliance and Finance departments to ensure all records are accessible and coordinated.

One area that illustrates this important interplay between the Trade & Compliance and Finance functions pertains to the processing of Value-Added-Tax (VAT) returns. Imports to Mexico are subject to a 16% VAT payment on the assessed value of the goods. The amount must be paid before the imported components or raw materials are released from Customs' control. There are sectorial exemptions to these taxes, but in all cases the correct taxes must be paid upfront and the Mexican government issues refunds later. Those refunds can take several months to be processed for non-VAT-certified companies.

By contrast, IMMEX-licensed companies that are fully compliant, know the rules in and out and have established lockstep coordination between their Trade & Compliance and Finance teams will have minimal VAT withheld. They will also receive a refund of the remaining balance quickly if they are in possession of the highest certification level, AAA.

Tariffs, exemptions and VAT refund tracking are reported to not just one but three different entities in Mexico. So coordination, impeccable record-keeping and updated reporting are essential. Companies doing this on their own need to dedicate extensive resources and expertise to these efforts. Entrada Group handles all of these requirements for its clients, with a fully dedicated team of over 20 people.



Customs Tip

AAA-certified companies like Entrada Group typically receive VAT refunds within 5-6 weeks, versus three months or more for non-AAA-certified companies. See "[Mexican Customs Glossary](#)" on [page 8](#) for more on AAA certification.



Free Trade Agreements and Mexican Customs



Mexico has 14 free trade agreements with 50 countries, giving manufacturers inroads to 60% of the world's GDP. Any manufacturer should account for these agreements – including both the advantages and the obligations – when planning their Customs strategy. Here's a quick primer:

- **IMMEX Program** – The IMMEX program (also known informally as the “maquiladora” program), exempts foreign manufacturers from paying taxes and duties on raw material imports provided that 100% of finished goods produced with those materials get exported from Mexico within mandated timeframes. Manufacturers can participate in the IMMEX program by getting certified themselves, though that involves extensive red tape and lengthy waiting periods (12-18 months), as Mexico's government assumes companies are guilty until proven innocent. Alternatively, manufacturers can immediately receive IMMEX certification by operating under a shelter company like Entrada Group that has already been IMMEX-certified.
- **USMCA** – The United States Mexico-Canada Agreement (USMCA), which replaced NAFTA in July 2020, standardizes trade relations between the three countries and allows many imports and exports to travel duty-free throughout North America. However, that's on the condition that manufacturers meet exhaustive requirements applicable to the rule of origin for supplies, labor and environmental standards, technology and digital issues and more. Plus, manufacturers must document those requirements thoroughly.
- **Other Trade Agreements** – Mexico also has significant trade agreements with the EU, Japan, the Pacific Alliance (Colombia, Venezuela, Chile, and Peru), and Central America. Essentially all these agreements exempt imports from partner countries to Mexico from tariffs provided they meet rule of origin and reporting requirements.

Thanks to agreements like these, manufacturers can avoid most tariffs and many taxes too, helping to explain Mexico's impressive cost advantages compared to other countries. But, as we explore next, reaping these benefits takes experience, diligence and a dedicated team.



What Makes Mexican Customs Challenging?

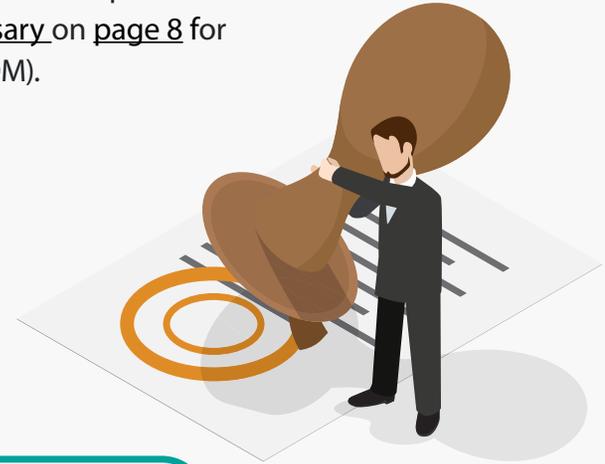
Unfortunately, “getting it right” rarely lasts for long since Customs requirements change frequently. Every time a manufacturer ships a new product or replaces a component or modifies raw material, it must go through the entire qualification process again.

The passage of USMCA, for example, changed unionization requirements in ways that forced manufacturers to scramble. Mexico has such complicated global trade entanglements that Customs requirements change with little warning and will continue to, as trade increasingly becomes a political weapon between countries. For example, President Andres Manuel Lopez Obrador (better known by his acronym, AMLO) is considered more nationalist and protectionist than past presidents. He kept his campaign promise to introduce extensive new import restrictions to provide more protection for Mexican companies.

Keeping up to date about all applicable changes is one challenge. Updating compliance, logistics and accounting around those changes is another.

In practice, Mexican Customs can feel like a fast-moving target. A good example is NOM (Normas Oficiales Mexicanas) Certification: An official stamp designating that around 2,000 different products have met required standards for safety and environmental impact. Obtaining NOM certification takes time (during which production is on hold).

Keeping up with the paperwork and properly applying the stamp is cumbersome, especially since the details and processes change regularly. Yet if there are any problems with NOM certification it can leave supplies in limbo and production on pause (see [Glossary on page 8](#) for more details on NOM).



Customs Tip

Make sure you are confident of your IMMEX license provider. Issues with IMMEX license (expiration, issues with renewal, etc.) are among the most common we hear from global manufacturers in Mexico. Remember, you are guilty until innocent; even if your joint venture partner setup the IMMEX license before you engaged with them.



Mexican Customs Glossary

Customs in Mexico can get confusing. If you don't have full-time dedicated experts handling it (at Entrada Group our team of more than 20 people oversees Customs compliance for our clients) you will make mistakes. Consider starting with this list of definitions.

AAA Certification:

A desired classification that provides foreign-owned companies operating in Mexico with two key advantages: 1) they avoid paying VAT for machinery, parts and components temporarily imported, and 2) they are entitled to faster refund of VAT money paid for imports and operational expenses. Without full AAA certification, refunds may take months to be processed, hurting cashflow. Certification ranges from A to AA to AAA, determining the amount of time a company must theoretically wait for its VAT fees to be refunded (20, 15 or 10 days). In practice, actual refund waiting times for companies with AAA certification are closer to five to six weeks, based on Entrada's experience. But for a company with only A-level certification, that wait time could be up to three months. Again, manufacturers can self-certify or obtain an immediate AAA certification from a provider like Entrada Group.

Anexo-24:

Mexico takes IMMEX compliance so seriously that manufacturers must have an automated inventory control system in place (known as Anexo-24) that tracks specific shipment details and generates reports in a required format.

Bill of Materials (BOM) Analysis:

Since the advantages of the IMMEX program are contingent on turning 100% of imports into exports, manufacturers must perform BOM analyses and keep careful records to prove compliance.

CTPAT:

The Customs Trade Partnership Against Terrorism (CTPAT) expedites Customs requirements on shipments from manufacturers that meet certain standards for supply chain security.

IMMEX License:

A special designation for foreign-owned companies in Mexico to operate and produce in Mexico with tax and duty exemptions, provided that 100% of finished goods are exported from Mexico during a certain timeframe.

NOM (Normas Oficiales Mexicanas) Certification:

An official stamp designating that around 2,000 different products have met required standards for safety and environmental impact.

OEA Certification:

Cross-border shipments are subject to less stringent Customs inspections when they are associated with a manufacturer that has authorized economic operator status (called OEA in Mexico).

Pedimento:

The Customs declaration form that signifies that the good or goods have entered the country legally and also serves as a receipt for importation and taxes paid.

Additional Certification Requirements

AAA:

Company must have: IMMEX license; 12-month track record correctly importing/exporting prior to submitting VAT certification (or) machinery and equipment valued above \$5 million; its own inventory control system (Anexo 24).

CTPAT:

Company must be an active importer from US for one year; foreign manufacturers must also have a Manufacturer ID (3-month approval period) in addition to being an active importer from the US.

OEA:

Company must have imported and exported for at least two years prior to submitting OEA application, plus approximately six months for application approval.

Key Customs Certifications Take Time and Effort to Earn

Entrada Group shortens that time and effort considerably



Risks With Mexican Customs



As Mexico has evolved into a world manufacturing power, the regulatory and enforcement apparatus around Mexican Customs has evolved accordingly. Customs officials are dedicated, well-resourced and effective at finding compliance violations. And with so many agreements and alliances affecting import and export, getting on the wrong side of Mexican Customs happens easily and frequently for manufacturers that aren't properly prepared.

Consequences for compliance violations range from fines and penalties to restrictions on what can enter the country. These unexpected costs can be significant on their own, but the cost of lost production is usually even greater. Even when Customs issues don't result in direct penalties, they can hurt financial forecasts and cause cash flow issues, due to delayed VAT refunds, for example.

Customs issues can – immediately or over time – cancel out the economic advantages of manufacturing in Mexico. The risk is great. That's why manufacturers need to think strategically about Customs from the outset, taking advantage of whatever tax and duty advantages they can. Companies must also think realistically, however, about Customs compliance expertise, and consider which elements they have the means to accomplish in-house.

At Entrada Group, for instance, we have over 20 experts on our Trade & Compliance team. Recruiting a comparable team isn't feasible for any except the largest manufacturers – yet without a similar roster, compliance risks are more likely and more severe too.



A New Regime for Mexican Customs

In 2022, Mexico disbanded its previous Customs authority, the General Customs Administration, which operated under the tax service, and replaced it with a new one called the National Customs Agency of Mexico that operates in conjunction with the Mexican armed forces. With that switch has come many rule changes, implementation breakdowns and enforcement inconsistencies, making Mexican Customs challenging, risky and unpredictable in entirely new ways.



Full Compliance – Just Part of Entrada’s Overall Guidance in Mexico

Broadly speaking, Entrada Group resides under the broad category of shelter companies, so named because they shelter overseas manufacturers from the risks of compliance and import/export regulations in Mexico. But the types of services shelter companies provide vary tremendously. Entrada Group helps manufacturers operate not just compliantly in Mexico, but more quickly, easily and cost-effectively than they could on their own.

That’s because Entrada’s model offers additional benefits that other shelter operators are unable to match. Entrada’s approach offers the best of all worlds, with a fully integrated manufacturing campus, comprised of a fully licensed and certified community of manufacturers. Entrada’s clients don’t need to develop their own workforce, because Entrada handles that too, providing direct and indirect labor for clients on demand, drawing on Entrada’s reputation as a desirable employer in the community. Entrada’s approach generates economies of scale for our clients that they would be unable to realize on their own.

Less-than-load (LTL) trucking is just one such economy-of-scale benefit Entrada clients enjoy, enabling trucking of finished product across the US/Mexico border daily. For a single company on its own, LTL would typically be prohibitively expensive. But our clients enjoy this competitive advantage as part of Entrada’s integrated manufacturing campus.

In 2022, we sent over 900 trucks across the US/Mexico border, received 700 shipping containers at east and west coast ports in Mexico and processed more than 6,000 Customs declarations (Pedimentos) across the border.

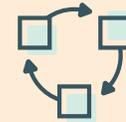


Entrada's Import-Export Team: Saving Dollars and Days

Based on 2022 Data



900 trucks
annually, north/southbound
to/from the US border



6,000
customs
transactions



\$22 million
cash outlay
savings

VAT clients didn't have to pay
thanks to Entrada's licenses
and certifications



\$2.5 million
client savings
from tariff mitigation
by Entrada's Import-Export team

\$5.05 million
in recovered
client VAT funds



20 years

Entrada Group has been guiding manufacturers to grow their global footprint

Key point: Without Entrada Group's experienced Trade & Compliance team, it would be impossible for most individual companies to process this volume of import/export on its own.



Entrada Group – Handling Customs for Our Clients

It takes a lot to get Mexican Customs right, and Entrada Group provides all that and more. Our deep and diverse team of support specialists helps manufacturers meet all startup requirements, get fully compliant and start producing in as little as 90 days after arrival. That same team handles all ongoing compliance so that manufacturers are neither overwhelmed by the paperwork nor responsible for compliance on their own. More than just doing the heavy lifting, however, Entrada Group offers clients benefits they can't get from most other shelter providers.

Entrada forms a strategic partnership with each of our clients throughout the end-to-end Customs compliance process. Entrada works closely with clients to ensure all documentation (including import/export compliance) is completed in accordance with client instructions. It's essential to perform this joint responsibility correctly, as Entrada is legally responsible to Mexico's federal government for compliance.

Entrada is among only 10% of maquiladoras in Mexico with OEA certification to speed up the Customs clearance process. Entrada Group also has fast-track lanes into the US that get shipments from our facilities across the border faster than they would coming from 90% of facilities without this privilege. Imports and exports move through Mexico quicker with our help. And often at lower cost, too, since we are part of the Prosec program, which offers tariff and tax reductions outside the scope of IMMEX.

On behalf of our clients, Entrada Group manages every form, every detail and every shipment right. Eager to get started? The best first step is to sign up for a no-cost, no-obligation BOM analysis to understand every element of your production process, to determine whether or not Mexico makes sense. The BOM analysis helps manufacturers understand what their potential inbound tariff costs into Mexico might be, as well as how much labor and transformation goes into the product, which is necessary to ensure USMCA compliance.

Mexico Customs can seem overwhelming if you're new to it. But with a long-term strategic partner in Entrada Group, it can be manageable. An alliance with Entrada Group allows manufacturers to focus on production while being able to rest easy with the knowledge that our expert team with 20 years of experience are handling trade and compliance.

Entrada is among only 10% of IMMEX license-holders with OEA certification, to speed up the Customs clearance process.



Entrada Group

Entrada Group is the leading strategic manufacturing support partner in Mexico. We guide international companies in establishing and running their own Mexico production to support longterm growth.

Our team of Mexico experts and 20-year track record give our clients a production facility in their backyard, turnkey access to all certifications and licenses required for Mexico production and export, as well as a proven labor force.

Entrada handles all Mexican general and administrative services, giving our clients greater global operational agility while reducing risk.



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