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# Mexico's Strategic Bonded Warehouse: Regional Manufacturing Hub

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# Mexico's Strategic Bonded Warehouse

- *Recinto Fiscalizado Estratégico – RFE*
- 'Similar' to a Foreign Trade Zone and IMMEX
  - Distribution
  - Manufacture
  - Transformation
  - Repair
- Trade programs offer companies unique opportunities to realize greatest potential
  - Mexico FTA network: 48 countries - NAFTA, EU, EFTA, Japan, Israel, LATAM FTAs
  - Special customs regimes and FTA network provide for duty reduction opportunities (inbound/outbound)



# Mexico's Strategic Bonded Warehouse

- The brainchild of the Mexican Tax Administration Service's *Central Administration of Customs Planning*
- Application requirements
  - Mexican resident
  - Located within or adjacent to a Customs precinct
  - Business purpose – justification
  - Investment (no threshold)
  - Detailed description of productive process and finished goods to be manufactured, assembled or repaired
  - Surveillance and security infrastructure
  - Inventory control system
- Processing time: 3 months
- Authorization granted for 20 years; renewal



# Mexico's Strategic Bonded Warehouse

## US FTZ

- 1934
- Considered outside the US Customs territory
- Objectives
  - Domestic job creation
  - Capital investment
- Operate as public utilities
- Authorized by FTZB
- 500+ (GPZs/Subzones)
- Located in or adjacent to a US port of entry / virtually anywhere in the US

## IMMEX\*

- 1966
- Considered part of the Mexican Territory
- Objectives
  - Domestic job creation
  - Capital investment
  - Transfer of technology to Mexico
- Privately operated
- Authorized by Ministry of Economy
- 7,695 as of August 09
- Located anywhere in Mexico

*\* Formerly Maquila and Pitex*

## RFE

- 2003
- Considered part of the Mexican Territory
- Objectives
  - Increase Mexico's competitiveness
- Operate as private utilities – industrial parks
- Authorized by SAT (Tax Administration Service)
- 1 authorized in 2009; 15 under review
- Located in or adjacent to a Customs precinct



# Mexico's Strategic Bonded Warehouse

## US FTZ

- Tax benefits
- Duty deferral
- Duty waiver upon re-exportation
- Import VAT – **N/A**
  
- Admission into FTZ
  - RM: while zone is operational
  - M&E: while zone is operational
- Inverted tariff
- Inventory control system
- Security requirements

## IMMEX

- Tax benefits
- Duty deferral\*
- Duty waiver upon re-exportation
- Import VAT Deferral
- Not subject to VAT upon re-exportation
- Temporary importation
  - RM: 18 months
  - M&E: while IMMEX program is in place
- No inverted tariff
- Inventory control system
- No security requirements

\* Except M&E

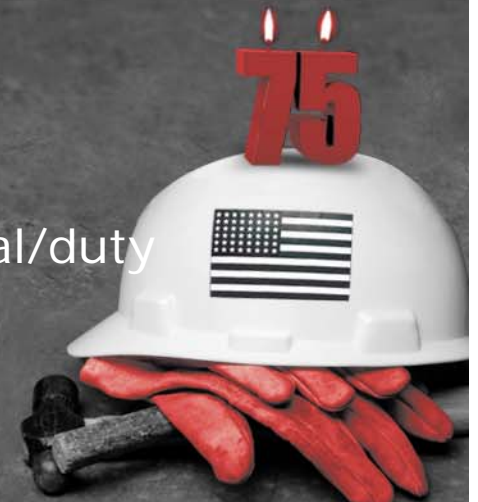
## RFE

- Tax benefits
- Duty deferral
- Duty waiver upon re-exportation
- Import VAT Deferral
- Not subject to VAT upon re-exportation
- Admission into RFE
  - RM: 2 years
  - M&E: until depreciation
- No inverted tariff
- Inventory control system
- Security requirements



# Mexico's Strategic Bonded Warehouse

- SAT's claim: Import/Export under *RFE*
  - Safest
  - Simplest
  - Fastest
- RFE – a promising future; still a bumpy road ahead
  - 2002 amendment to Mexico's Customs Law; in effect since July 2003: it took several years for the Tax Administration Service to set forth the RFE regulations
  - Burdensome/lengthy application process: the '3-month' processing time of the first application took several years
  - It has yet to generate significant interest among companies
  - Mexican Customs acknowledges limited IT infrastructure and resources to make RFE successful, but promises to 'get there'
  - Critics:
    - Sceptic of simplified customs process
    - Cost of real estate
    - Infrastructure capacity/utilities
- For the time being, IMMEX program provides the fiscal/duty benefits available under an RFE



# Mexico's Strategic Bonded Warehouse

## Regional Manufacturing Hub – Strategic Duty Planning

- Special customs regimes and FTAs provide for duty reduction opportunities (inbound/outbound)
- Mexico's:
  - Duty deferral programs (RFE, IMMEX)
    - No payment of customs or antidumping duties
    - No VAT
    - Exemption from non-tariff restrictions
  - FTA network
  - *PROSEC* (Industry Programs) preferential duty rates
  - *Empresa Certificada* (Certified Importer)



# Mexico's Strategic Bonded Warehouse

## Regional Manufacturing Hub – Strategic Duty Planning

- Direct exports
  - FTA qualification
  - Restrictions - NAFTA Article 303
    - Mitigation: Other FTAs, PROSEC
  - Exceptions: none in Mexico (Andean Community, CA-DR FTA)
- Indirect exports
  - Historically duties/VAT owed when entered for consumption into Mexico
  - HTS 9807.00.01 (December 24, 2008): 0% duty rate for qualifying “Mexico originating” goods, under any FTA, manufactured by an IMMEX entity and permanently imported by another entity with an IMMEX or PROSEC program



# Mexico's Strategic Bonded Warehouse

Q&A

