

## Hispanic Latino Team Blog

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### [Aerospace Opportunities in Mexico](#)

By [Jerry Gumpel](#) & [Larissa Calva-Ruiz](#)

A few years ago, the Mexican government set its sights expanding its manufacturing capabilities in the aerospace industry. The preliminary results from this effort are in and the Mexican story is a story of success. Due to government's efforts, Mexico has become an "emerging cluster" with more than 190 aerospace companies employing more than 20,000 workers and exported goods in excess \$3,400,000,000 in 2008.<sup>[1]</sup> Indeed, in a survey of major manufacturing investments in the aerospace industry from 1990-2009 conducted by AeroStrategy Mexico emerged as the country with the most manufacturing investments of any country. (Exhibit 1). This article will explore some of the reasons why "setting up shop" in Mexico is so attractive.

#### Geographical Location

The most obvious competitive advantage that Mexico offers is the close proximity to the United States and Canada. Most of Mexico is on the Central Time Zone and this facilitates communications between a U.S. company and its Mexican plant. NAFTA provides even more advantages, as many of the import/export duties were significantly lowered or eliminated by this trade agreement. In addition to that, Mexico has one of the world's largest free trade agreements network.

#### Low Manufacturing Costs and Skilled Labor Force

Mexico currently provides one of the most price competitive labor forces in the world<sup>[2]</sup>. This labor force is highly skilled as a result of Mexico's experience in the auto and consumer electronic industries. In addition, Mexico has increased funding of university programs focused on the training of engineers and technicians in the aerospace field. The Ministry of Economy and the National Council on Science and Technology (*Consejo Nacional de Ciencia y Tecnología, CONACYT*) have developed various programs in the education sector in order to assist in the education of aerospace engineers. As a result, many universities throughout Mexico (Instituto

Tecnológico y de Estudios Superiores de Monterrey, Instituto Politécnico Nacional, Universidad Autónoma de Chihuahua and Universidad Autónoma de Nuevo León, for example) have now included specialized aeronautics degrees in their curricula. The State of Querétaro has gone as far as to open a university specifically dedicated to the aeronautic industry- the Universidad Nacional Aeronáutica de Querétaro. Between 12,000 and 14,000 engineers graduate each year from Mexican universities; the vast majority of them speak English as a second language.

### Bilateral Aviation Safety Agreement

A Bilateral Aviation Safety Agreement (BASA) was signed by Mexico and the United States on September 18, 2007. The BASA allows Mexico to manufacture, certify and then ship directly from its factories in Mexico to the US without the burden of additional inspections or certification in the US. Mexico, through the Mexican General Directorate of Civil Aeronautics (*Dirección General de Aeronáutica Civil, DGAC*), and the United States, through the Federal Aviation Administration (FAA), work together to ensure that every product or component manufactured in Mexico complies with applicable standards of safety.

### Protection of Intellectual Property

Unlike other emerging countries, Mexico has shown a commitment to protecting intellectual property rights. Indeed, both through its internal laws and the many treaties it has signed, Mexico has developed the proper legal infrastructure to assure foreign investors that it takes intellectual property rights seriously. Mexico is a party to the following international treaties:

- World Intellectual Property Organization
- Paris Convention for the Protection of Industrial Property
- Nice Agreement Concerning the International Classification of Goods and Services for the Purposes of the Registration of Marks
- Lisbon Agreement for the Protection of Appellations of Origin and their International Registration
- Patent Cooperation Treaty
- Singapore Treaty on the Law of Trademarks
- Trademark Law Treaty
- Vienna Agreement Establishing an International Classification of the Figurative Elements of Marks
- Strasbourg Agreement Concerning the International Patent Classification

- Locarno Agreement Establishing an International Classification for Industrial Designs

Internally, the Mexican Institute of Industrial Property (*Instituto Mexicano de la Propiedad Industrial, IMPI*) is charged with enforcing all industrial and intellectual/industrial property laws in Mexico. The IMPI is an effective enforcer of SP Rights.

### Governmental Incentives

Mexico's government on both the federal and local level have played a key role in the development of the local aeronautics industry. The federal government continues to provide incentives and as much help as possible by allocating to the industry a significant part of funds through its National Exterior Commerce Bank (*Banco Nacional de Comercio Exterior, BANCOMEXT*). Incentive programs are developed on a case-by-case basis, and are negotiated with federal, state and municipal governments. At the federal level, in addition to the ability to import raw materials without paying duties under the Immex program a foreign investor may receive grants for research and development or to train its future workforce. State incentives can include a temporary exemption from payroll tax, subsidized real estate facilities, reduction of certain fees (i.e., water connection fees), and funding for workforce training. Lastly, municipalities can grant an exemption from property taxes and reduced fees for local permits.

### Legal Structures

As often is the case in other emerging countries, investments in Mexico are either through joint ventures or wholly owned subsidiaries. While maintenance repairing overhaul facilities ("ROM") can easily be set up as joint ventures, original equipment manufacturers ("OEM") most frequently are wholly owned subsidiaries, particularly for defense contractors who must deal with ITAR considerations. There are no restrictions on foreign ownership of an ROM or OEM. In regard to joint ventures, Mexico has developed different legal vehicles that provide a foreign investor with safeguards with respect to company governance similar to what they would have if they were partnering with a company in the United States. Most importantly, the combination of the US-Mexico tax treaty and the availability of tax transparent entities create opportunities for tax efficient structures for either type of structure.

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[1]Source, Aerostrategy; CNN Expansion

[2]A study done by KPMG in 2008 mentioned that companies established in Mexico can save up to 30% in operating costs.