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# U.S. Companies Doing Business in Mexico

December 9, 2024



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# Presenters



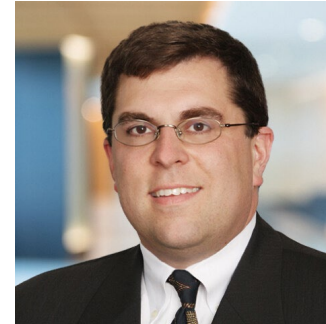
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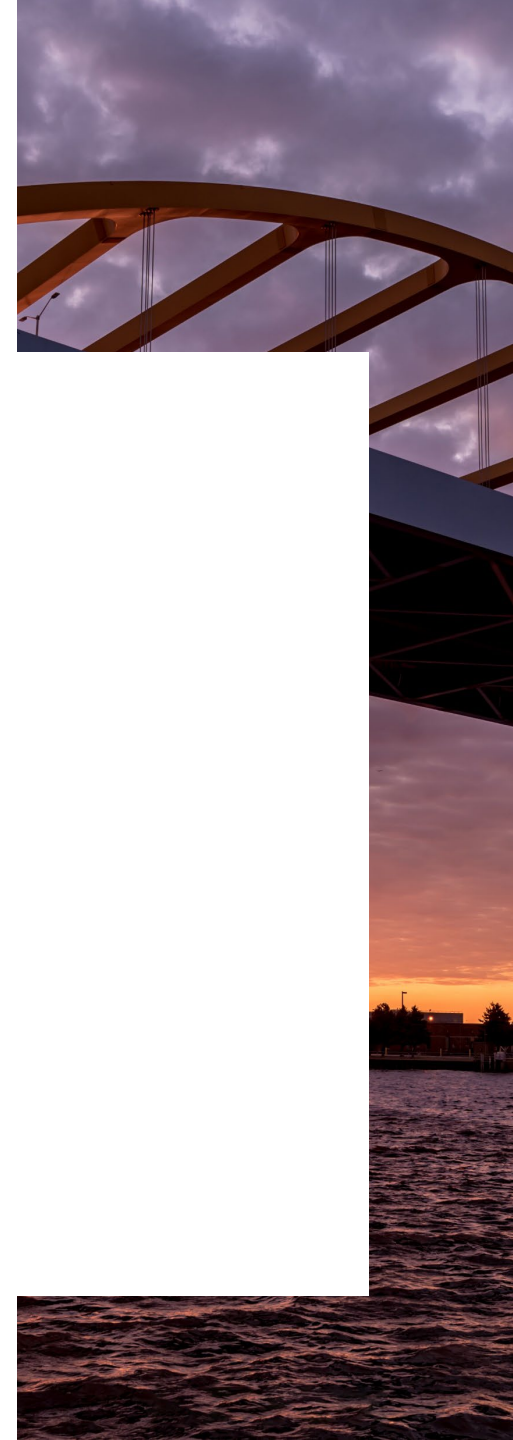
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# Agenda

**The Ongoing Changes to the Mexican Legal Landscape**

**Impacts of the U.S. Presidential Election on Cross-Border Trade**





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## **The Ongoing Changes to the Mexican Legal Landscape**

# Disappearance of Government Agencies



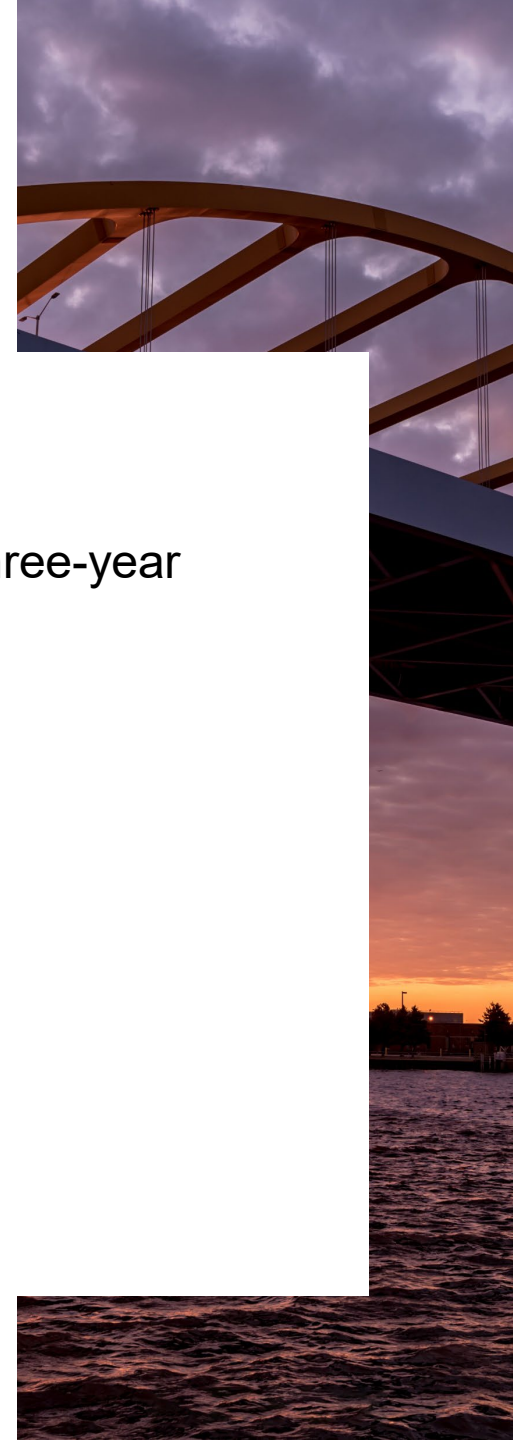


# Potential Changes in Labor Rules

- Recent announcement by the Mexican government that minimum wages will increase 12% as of January 1, 2025 (more than three times the estimated inflation for 2025).
- “Chair Law” – Employers will be required to provide seats in rest areas for employees.
- Increase to “Christmas Bonus” – this bonus could increase from 15 to 30 days of salary.
- Labor inclusion – depending on the number of employees that a company has, employers could be required to hire a percentage of disabled individuals or senior citizens.
- Severance payments – the seniority premium could be increased impacting severance payments for employees.
- Reduction of the “labor week” – the labor week could be reduced from 6 days to 5 days (from 48 hours to 40 hours per week), which could impact cost for employers resulting from incurred overtime or the need to hire additional workers.

# Potential Changes in Labor Rules

- Paternity Leave – this could increase from 5 days to 20 days.
- Profit Sharing – the current limits to the payment of profit sharing (3 months or latest three-year average, whichever is higher) could be eliminated



# IMMEX (Maquila) Regulatory Update

- A recent change to the Mexican IMMEX rules requires that, no later than November 15, 2024, companies with an IMMEX authorization that have a VAT Certification (e.g., companies that from a practical perspective do not pay VAT on importation) must:
  - Make sure their ERP or MRP system feeds their Annex 24 (inventory control system) without exceeding 48 hours; and
  - Provide Mexican customs authorities with online access to their Annex 24 (by providing a username and password).
- Which are the potential implications for companies that are not able to comply with this new requirement?

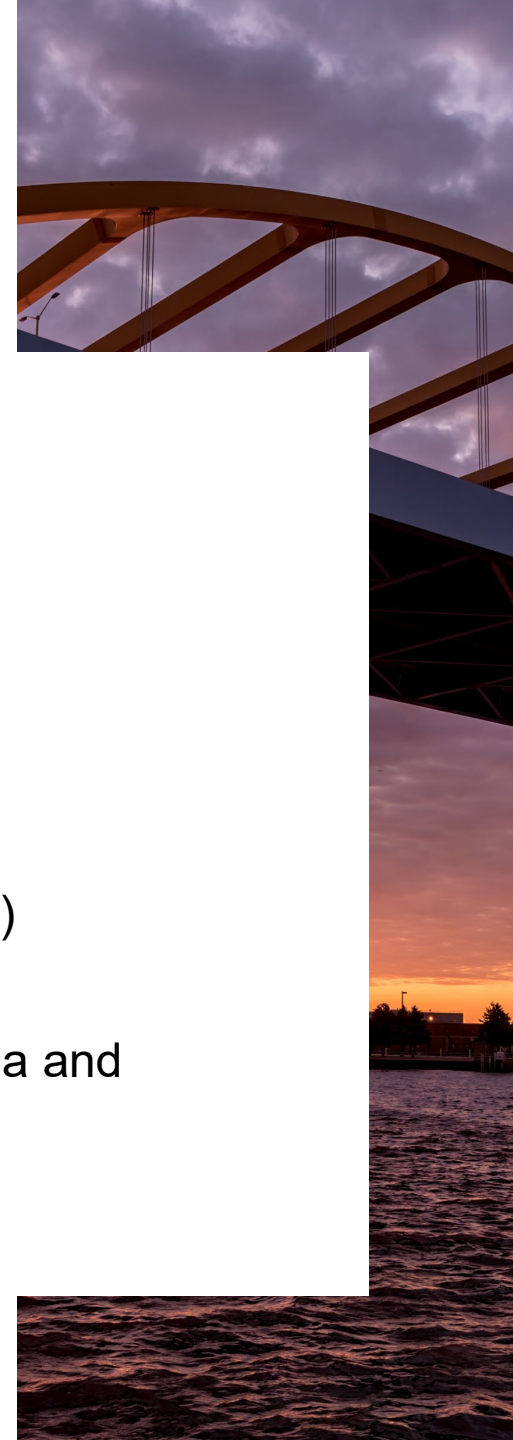


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# Impacts of the U.S. Presidential Election on Cross-Border Trade

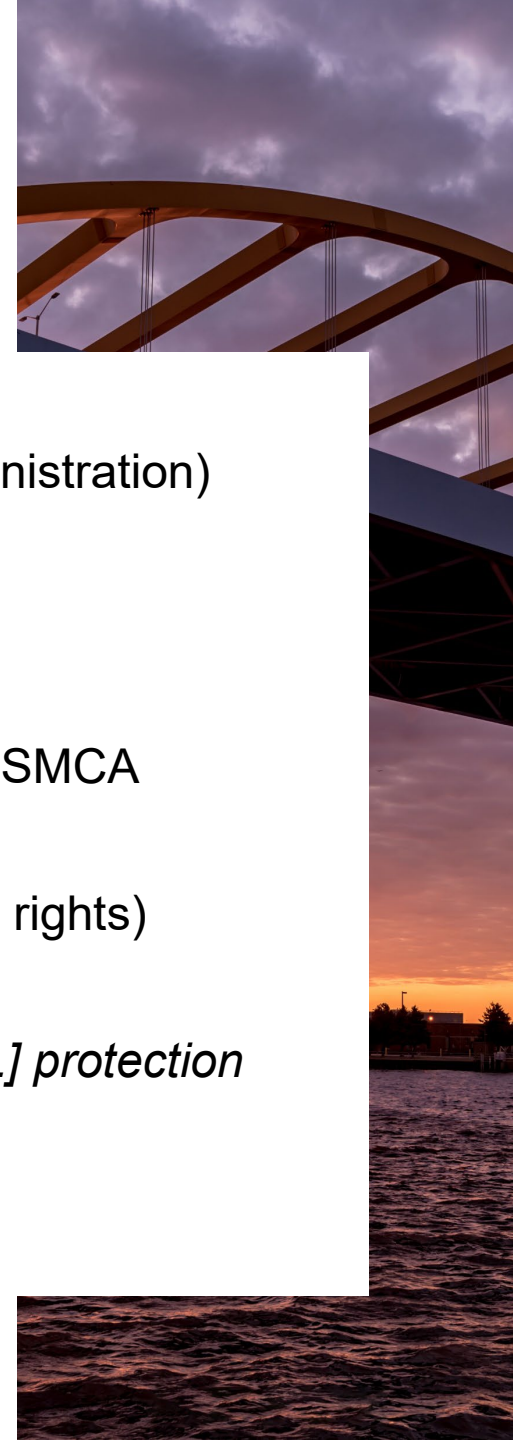
# Overarching Question – What Will Trump Do?

- “Tariff is my favorite word.”
  - Threat of 25% tariffs against Canada and Mexico; additional 10% on China
  - Has proposed worldwide tariffs ranging from 20% to 100%
- Credible threat – leveraging experience from first Trump administration
  - Section 301 tariffs (China); Section 232 tariffs (aluminum and steel)
  - Trump’s USTR nominee implemented tariffs during first administration
- Trump has many levers to pull to justify tariffs (Sections 232, 301, IEEPA, even USMCA)
- Trump priority items:
  - (1) border security; (2) drug trafficking; (3) immigration; (4) trade deficits; and (5) China and Chinese-origin items
- Potential for huge uncertainty and upheaval in international trade on a global scale



# Review of the USMCA

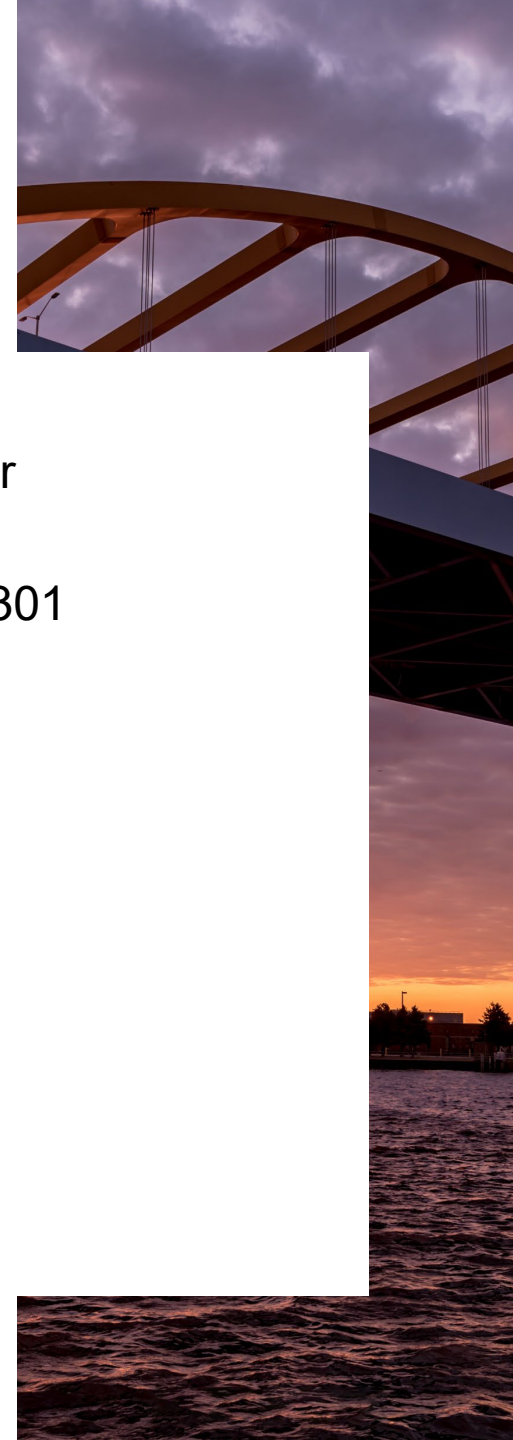
- The United States-Mexico-Canada Agreement implemented July 1, 2020 (*i.e.*, first administration)
  - Popular for business; unpopular politically
  - Review scheduled for July 1, 2026 (will it start earlier?)
- Review (Renegotiation?) designed as an opportunity to extract concessions
  - Canada and Mexico run trade surpluses with the U.S., which have increased under USMCA
  - Canada and Mexico viewed as not doing enough to stop undocumented immigration
  - Technical issues will come into play (*e.g.*, pharma, automotive Rules of Origin, and IP rights)
- USMCA 32.2.1(b) – Essential Security Interests
  - Provision allowing any USMCA country to implement measures “*necessary for the [...] protection of its own essential security interests.*”





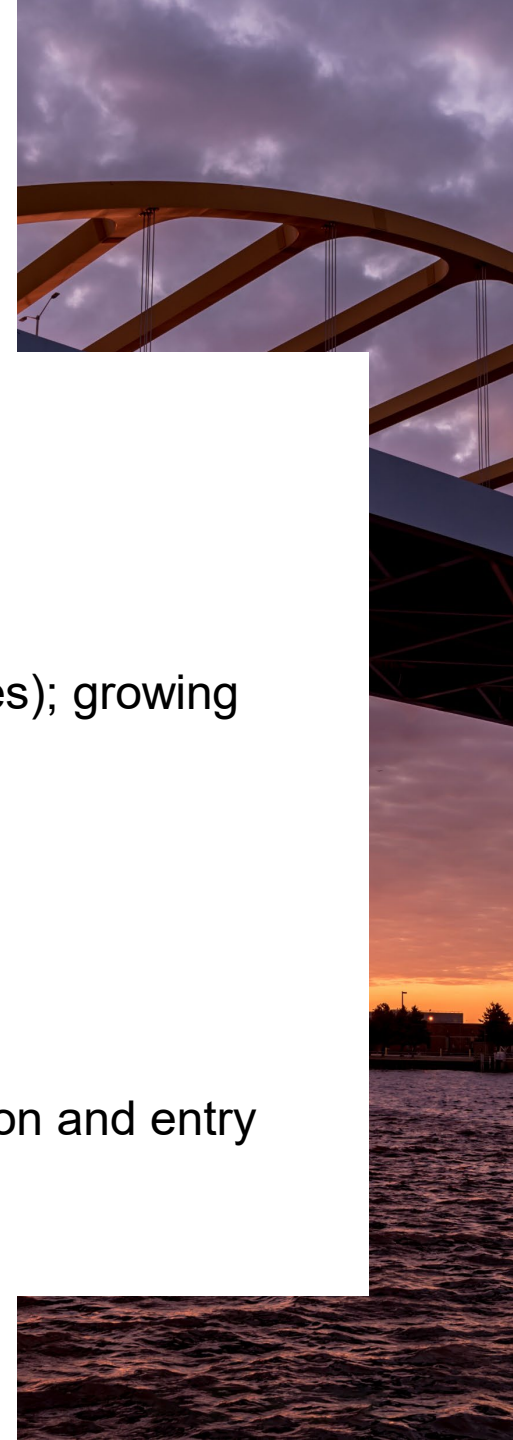
# Mexico-China Relations

- Significant increase in Chinese imports to Mexico; potential transshipment and backdoor circumvention of Section 301 tariffs are concerns
  - Country of origin: tariff shift under USMCA; substantial transformation under Section 301
  - Likelihood of focus on increased originating content, restrictions on Chinese products
  - Proposed revisions to *de minimis* exemption
- Chinese investment being considered in Mexico increases concerns in the region
  - Bigger incentive to import parts and components from China
- Concerns related to Uyghur Forced Labor Prevention Act (UFLPA)
  - UFLPA seizures: 3-year increase from \$3 million to \$3 billion
  - CBP now has dedicated resources for forced labor enforcement



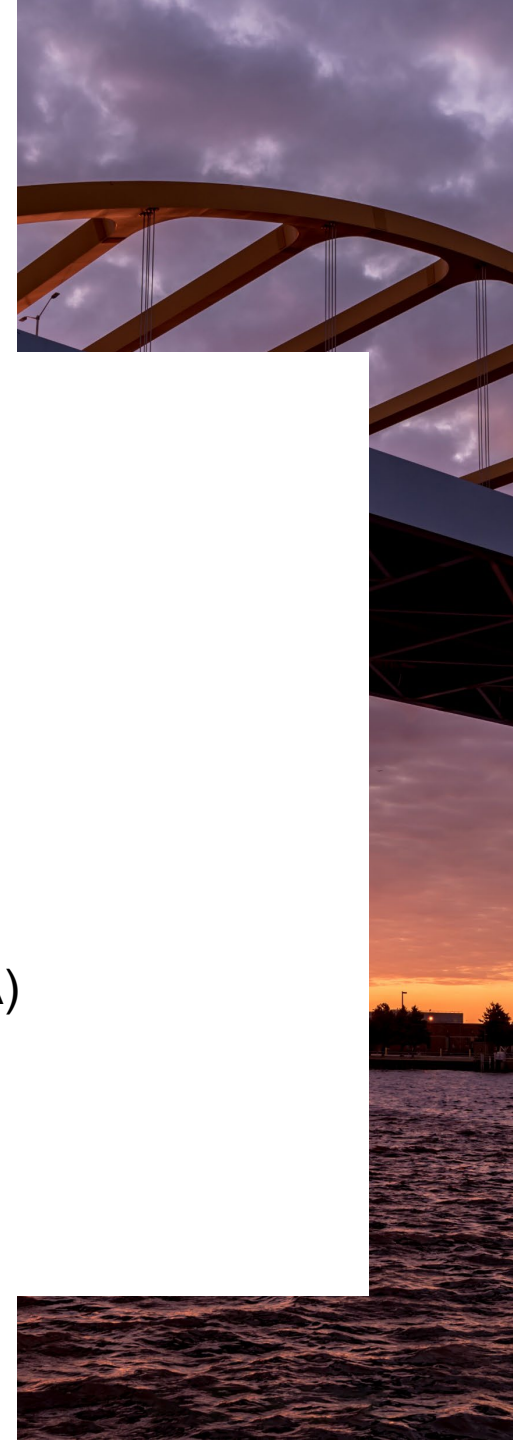
# Predictions

- Automotive industry will see biggest impact
  - Large driver of increasing deficits
  - Concerns about renegotiation of USMCA's Rules of Origin
  - Certainty of greater restrictions on Chinese parts and components (connected vehicles); growing definition of national security interests
- Canada has suggested willingness to negotiate a separate free trade agreement
- Retaliation and temporary measures can become permanent under Section 301
- Increased focus on forced labor issues, with enforcement efforts
- Observation: Increase in CBP inquiries
  - Uptick in use of Form CF-28s; requiring verification of USMCA (and not just certification and entry documents)



# What Should You Be Doing Now?

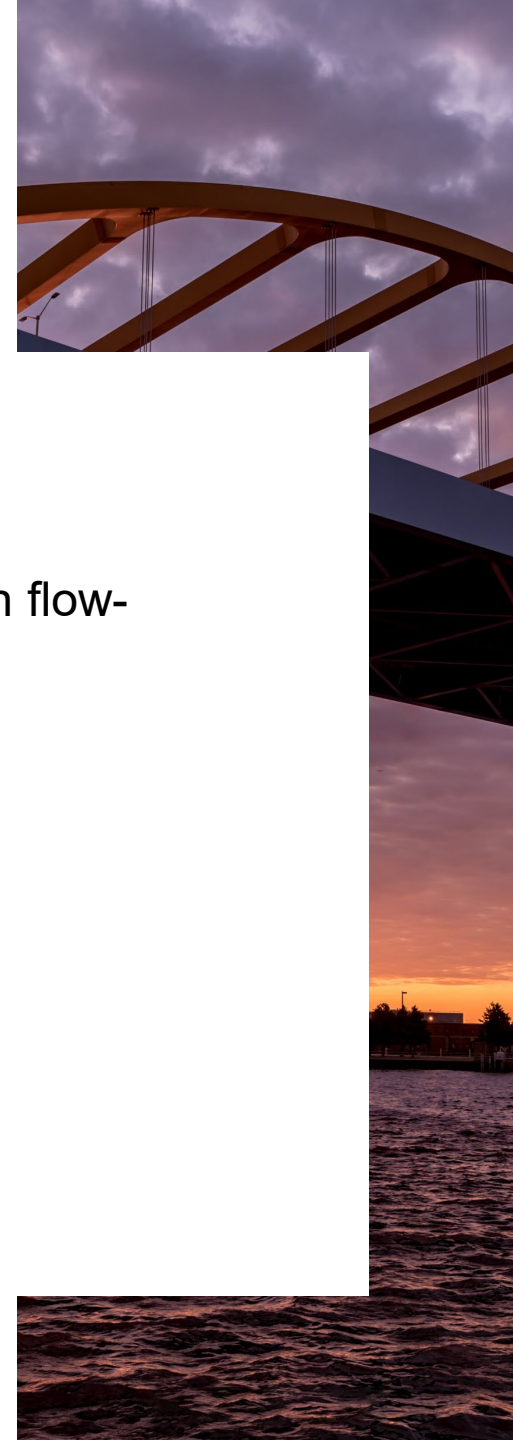
- Understand Your Risk Exposure
  - Pull and analyze ACE data
    - Identify risk points (high-tariff, Chinese inputs, USMCA/other FTAs)
  - Identify all Chinese inputs
    - Review for Section 301, Section 232, and AD/CVD
    - Identify indirect use of Chinese products
  - Consider a Customs audit
    - Risk-adjusted review of high-risk items (high volume, sourcing from China, USMCA)
    - Review of post-entry procedures
    - Review of import compliance measures
    - A “deep-dive” review of USMCA procedures and documentation





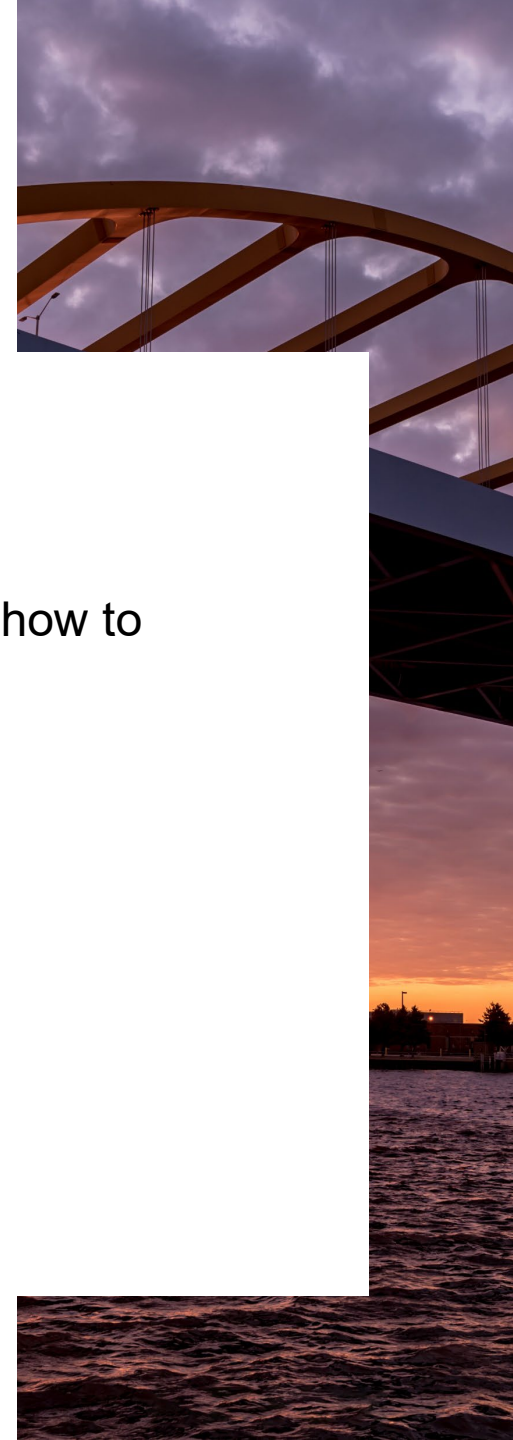
# What Should You Be Doing Now?

- Consider a Supply Chain Integrity Review. Evaluate:
  - Mapping of your supply chain
  - Due diligence efforts on key suppliers & sub-suppliers
  - Strength of legal protections (e.g., vendor code of conduct, contractual provisions with flow-downs)
  - Red flags across supply chain and company response to same
  - Communications and training train on supply chain integrity issues
  - Company's compliance and remediate compliance missteps
- Consider Robustness of Company's Commercial Preparedness to Disruption
  - Evaluate supply chain diversity
  - Consider lining up alternative suppliers
  - Consider tariff engineering
  - Evaluate contractual remedies to large tariff increases



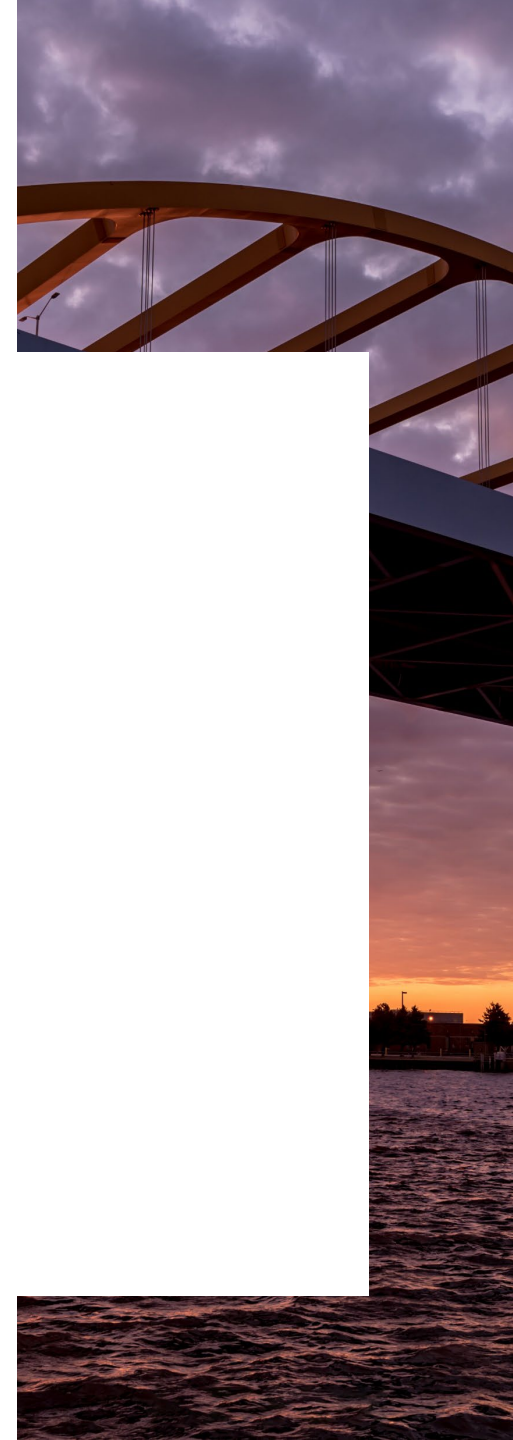
# What Should You Be Doing Now?

- USMCA Preparations
  - Risk plan various tariff scenarios and how to respond
  - Evaluate and plan for potential restrictions on use of Chinese parts and components; how to develop U.S., Canada, and Mexico increased sourcing
  - Consider industry-specific lobbying
    - *Room Next Door* (Mexico)
    - U.S. Congress (U.S.)



# Thank You

- Questions?





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