Exploring Market Opportunities

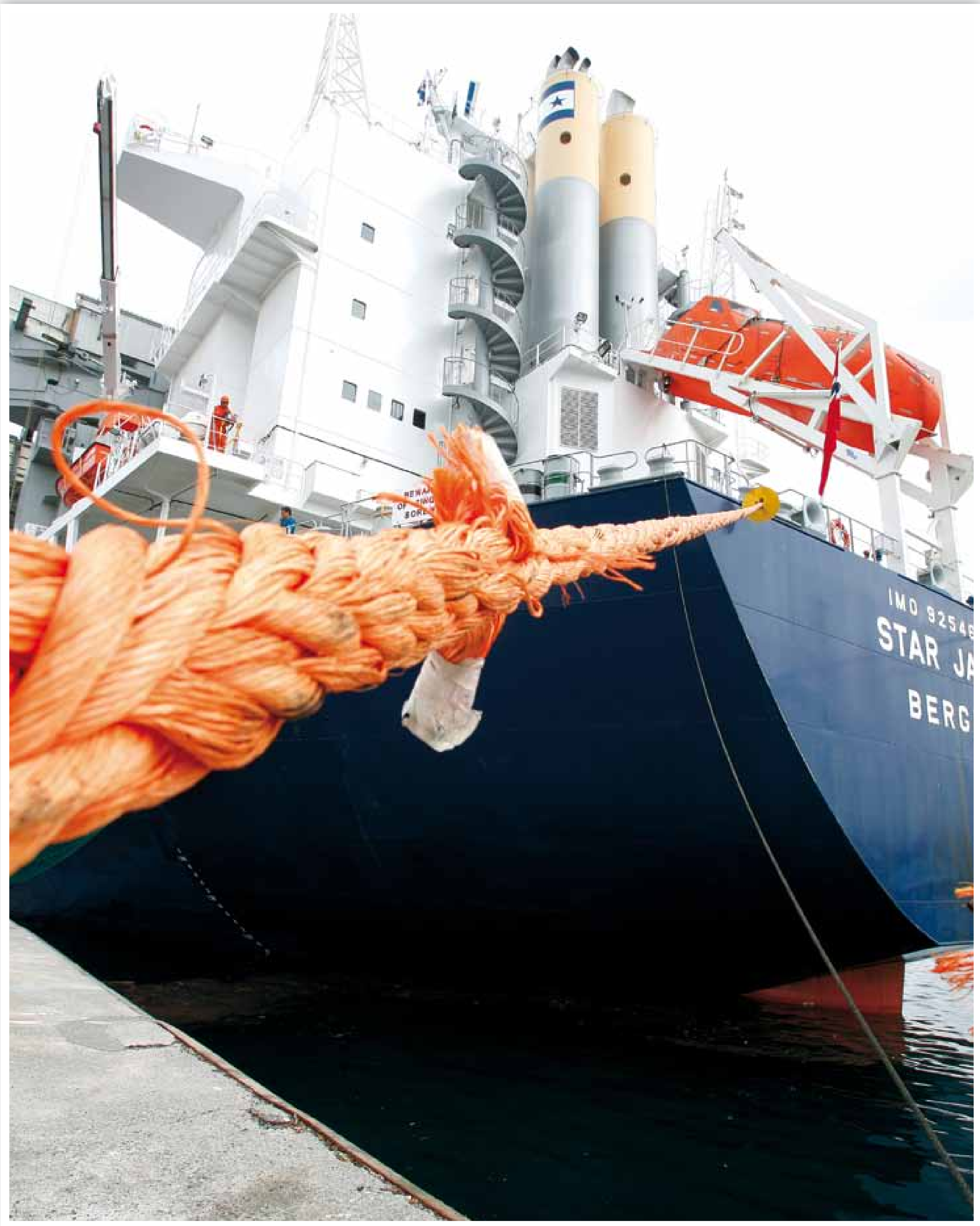
International Business Mexico

Market Report 2010

International Business

Joachim Grieg & Co is an international ship broking company working out of the Grieg Group's main office in Bergen, Norway. The company was established in 1884 and is today serving ship owners and charterer's from around the world. In 2009 the company worked in two units - a dry cargo department and a sale and purchase department. Since January 2010 a gas department has been added.

JOACHIM **GRIEG** & CO



INTERNATIONAL BUSINESS - A UNIQUE STUDENT PROJECT

International Business (IB) is an annual non-profit project carried out by a group of twelve students from the Norwegian University of Science and Technology (NTNU), the Norwegian School of Economics and Business Administration (NHH) and the Norwegian School of Management (BI).

The IB project was initiated in 1984 by Innovation Norway with the purpose of exploring international market opportunities for Norwegian companies. This year, IB publishes its 26th report and focuses on Mexico. Two sectors of the Mexican market are examined in more depth: oil&gas and shipping.

The information in this report is based on IB's field research in Mexico in January 2010 and on additional research conducted from Norway. The research in Mexico involved interviews and meetings with Mexican and Norwegian companies, governmental institutions and the Norwegian embassy.

International Business is financed with the help of sponsorship from the Norwegian business world. In addition to the paper copy, the report is also available on our website www.ib.no.

NHH

NTNU
Norwegian University of Science and Technology

BI NORWEGIAN SCHOOL OF MANAGEMENT

EXECUTIVE SUMMARY

Mexico is considered to be a middle-income country with a free market economy. It has a mixture of modern and outmoded industry and agriculture, increasingly dominated by the private sector. The economy is heavily dependent on fluctuations in the US economy and the financial crisis in 2008 had a great impact on Mexico. Exports to the US represent around one fourth of the Mexican GDP. The Mexican economy is today the world's 12th largest measured in GDP. The main sectors in Mexico are service and industry. The government has made an effort to revitalize the economy, open up to international competition and increase involvement in international affairs. As much as 90 % of Mexican trade is made under free trade agreements.

The business culture in Mexico is quite different from the Norwegian. Companies wanting to business in Mexico will have an advantage if they are aware of and respect these differences.

Mexico has been an oil exporting country for close to 100 years. Proven oil reserves are dwindling, while deep water fields remain untouched due to lack of technological capability. Today, the national oil company Pemex, which has monopoly on most of the value chain, provides 40 % of the state income. New reforms were recently passed to attract foreign companies. Even though oil has great symbolic value to Mexicans, the new reforms are not expected to be reversed after the next election. The country is likely to open up even more in the comming years. Local presence is almost mandatory to do business with Pemex, unless one is selling standardized goods. In the latter case, it is possible to do business with Pemex from e.g. Houston.

The government has acknowledged the need for import of capital goods in order to increase internal growth and productivity, and in 2008 Mexico's imports were over US$ 300 billion. In recent years, the Mexican government has initiated export friendly policies to increase the total volume of export. Foreign firms heavily dominate International shipping from Mexico.

The global recession has significantly reduced the volume of Mexican trade. The Port of Manzanillo is considered the main link between the Pacific Ocean and the country's most important commercial and industrial areas. The port of Veracruz is the most important port on the Atlantic coast. Great expansion projects have been planned and initiated in several of the big ports, but they are short of investors and therefore put on hold. After the government granted private companies concessions, infrastructure, both rail and road, has improved some, but is still hampering business and competition.

PREFACE

This report is divided into three parts covering various aspects important to Norwegian companies interested in establishing business in Mexico.

Part 1 of the report provides an introduction to the country of Mexico, including general aspects of the Mexican economy and society.

Part 2 considers aspects related to establishing and doing business in Mexico for a Norwegian company. It provides useful information about things such as legal issues and regulations, taxes and incentives, business culture, corporate social responsibility, and corruption.

Part 3 of the report provides in-depth information on two sectors that are considered to be particularly interesting to Norwegian companies: oil&gas and shipping. It provides an overview of the market for each of the two sectors, potential opportunities for Norwegian companies and important things to be aware of.

COMMENDATION

Arne Aasheim

Ambassador at the Royal Norwegian Embassy in Mexico City
Norwegian-Mexican business, although still somewhat limited in volume, is built on good relationships. Norwegian actors operating in Mexico enjoy a good reputation as trustworthy, efficient and serious business partners. Bilateral trade, notably the Norwegian export to Mexico, has expanded steadily in recent years. Most of this trade is supply-related and concentrated in the sectors of petroleum and shipping; areas that both hold a great potential for further Norwegian market influence. The Mexican oil industry has traditionally been under firm government control. However, this may well be about to change, as politicians are now on the threshold of opening up the market for international oil concessions. There is furthermore an urgent Mexican need for foreign investment as well as technology and competence in deep-water exploration and extraction. Thus, I am sure that the petroleum sector, in times ahead, will present highly interesting business opportunities for Norwegian companies willing to invest in Mexico.

Personally, I believe that we in coming years probably will see a strengthening of business ties between the two nations, and in this context I am very pleased to welcome the annual Norwegian student project *International Business* (IB) to Mexico. The analyses that this study will provide, of both markets and cultural discrepancies, will not only be of utmost value to Norwegian companies interested in Mexico, but they will hopefully also contribute to promoting further commercial interest in Mexico and establishing new bilateral ties. Norwegians must seize this opportunity, take advantage of our good name and reputation and engage in what will surely become prosperous Mexican endeavors.

Gunn Ovesen

CEO Innovation Norway
Since 1984, International Business has encouraged Norwegian companies to look abroad for new opportuni¬ties. Experience has revealed that the project's sources open up more to students than to professional consul¬tants, and that students with a youthful curiosity are more likely to question established industry assumptions.

With the recent outbreak of swine flu in Mexico and the ensuing threat of a downturn in global trade, it be¬comes obvious how vulnerable we all are to a decline in international trade. It is in times like these that projects like International Business increase in value, by leading the way to business opportunities companies might not have cared to look into.

The project will contribute with valuable information about the Mexican market to Norwegian exporters and investors. We are confident that International Business will make an important contribution to the bilateral industrial cooperation and trade for the years to come.
International Business is also a fantastic opportunity for ambitious top students to get work-related international experience, in combination with honing skills like leadership, cooperation and time management. It is because of all these things that we are proud of the fact that International Business' final report displays the Innova¬tion Norway-brand.

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Mexico	
Capital	Mexico City
Areal	1,964,375 km2 (5 times bigger than Norway)
Establishment	Independence from Spain 16. September 1810, (declared), 27. September 1821 (recognized by Spain).
Politics	
Government	Federal republic
Head of State	President Felipe de Jesus Calderon Hinojosa. The president is both the chief of state and head of government
Society	
Population	111 million
Language	Spanish and indigenous languages.
Ethnic groups	Mestizo (Amerindian-Spanish) 60%, Amerindian or predominantly Amerindian 30%, white 9%, other 1%
Religion	Predominantly Roman Catholic
Economy	
GDP	$1.473 trillion (2009 est.)
GDP per capita	$13,200 (2009 est.)
GDP growth	-7.1% (2009 est.)
GDP per sector	Services: 61.3%, industry: 34.5%, agriculture: 4.1%, (2009 est.)
Currency	Mexican pesos
Exports	$223.6 billion (2009 est.)
Imports	$234.6 billion (2009 est.)

Table 1: Key statistics

PART 1: INTRODUCTION TO MEXICO

1.0 ECONOMY

1.1 OVERVIEW OF THE MEXICAN ECONOMY

Since the 1950's the Mexican economy has become less dependent on agriculture and the service industry has grown more and more important. Since 1983 Mexico has initiated measures to improve the economic growth. This involved deregulation and implementation of international open trade agreements. The government has opened up for more privatization and reduced inflation rates. Severe fiscal reforms and implementation of monetary and financial policies have also strengthened the economy. In 1994 the governments in Mexico, Canada and the United States signed the North American Free Trade Agreement, NAFTA, creating a trilateral trade block in North America. After the implementation of NAFTA trade with the two other countries almost tripled. The same year the country experienced a financial crisis that resulted in the government initiating measures to improve the macroeconomic fundamentals.
Today, Mexico is considered a middle-income country with a free market economy. It contains a mixture of modern and outmoded industry and agriculture, increasingly dominated by the private sector.

Economic Indicator	2003-07 avg.	2008	2009
GDP (% growth, real)	3.3%	1.4%	-7.1%
Inflation (%chg, pa avg.)	4.2%	5.1%	5.3%
Fiscal Balance (% of GDP)	-0.2%	-0.1	-4%
Exports (%, comp. annual growth)	11 %	7.2%	21.9%
Imports (%, comp. annual growth)	10.8%	9.5%	-22.6%
Current Account (% of GDP)	-0.7%	-1.5%	-1.2%
Reserves (months of curr. debits)	3.3	3.2	3.7
External Debt (% of GDP)	20.2%	16.9%	20.3%
Debt Service Ratio (due)	17.9	0.1	17.3
Exchange Rate (to USD; eoy)	11	13.5	13

Table 2: Economic Indicators
Source: EIU and EDC Economics

Mexico's main trading partner is the United States. Mexico has been able to avoid the housing speculations that started the financial crisis in the United States because of its stringent financial system and heavy bureaucracy. However the Mexican economy is heavily dependent on the United States because of its close connection through NAFTA; therefore the crisis in 2009 had a hard impact on Mexico. Exports to the United States represent around 25% of GDP.

An important part of the Mexican economy is the remittances that Mexicans who work in the United States send back home. Millions of Mexicans contribute to the economy this way, and it is an important source of revenue. The central bank estimates that 1 in 5 Mexican families receive such transfers from aboard. The electronic cash payments are vital not only to families that receive them, but also to the regional and national economies. In the year 2008 migrants sent home US$25 billion. That year the remittances fell for the first time with 3.6%. In April 2009, migrants sent $1.8 billion back home to Mexico, a drop of almost 19% compared with April 2008.

GDP size and growth

In 2009 the Mexican economy was the world's 12th largest economy with a gross domestic product of US$1.473 trillion. Since 1994, the economic growth has been positive except for a plunge of more than 7% in 2009 because of the drop in world trade. The economy is expected to recover and show growth in GDP by the end of 2010.

In 2007 Mexico had the second highest Gross National Income per capita in Latin America in nominal terms, at $9,716 in 2007, and the highest in purchasing power parity (PPP), at $14,119 in 2007

Main Economic Sectors

The service sector is Mexico's biggest contributor, as 61% of GDP comes from tourism, financial and banking services, hotel operations, health, telecommunications, and transportation. The industry contributes with 35.2% of the GDP and employs about 27% of the working population. Agriculture represents 3.8% of GDP and employs 27% of the working force. About 50% of the country's area is grazing land.

Governmental Development in Tourism

The National Fund for Tourism Development, Fonatur, has initiated three tourism development programs for the state of Puebla. Fonatur's director Miguel Gomez Mont stated that these programs aim to increase the country's tourism competitiveness and to promote not only "sun and beaches" destinations. The Mexican Tourism Board (MTB), the Mexican government and business partners have plans for investments of more than US$2.7 million in national and international promotion of the main tourist destinations.

1.2 BUSINESS AREAS

Petrochemicals

The Mexican petrochemical industry stretches south from Tampico around the Bay of Campeche, with many facilities concentrated at Veracruz. The port of Altamira is considered the main Latin American maritime port for deep draft ships, from which 30% of Mexico's petrochemicals are shipped. Mexico has the prerequisites for a successful petrochemical industry: a large and rapidly growing internal market, access to the United States and other Latin American markets and a rich supply of ethane feedstocks from oil and gas production.

Car manufacturing

Mexico is the largest North American auto-producing nation. In 2005 the automotive industry generated US$ 42 billion, second only to the food industry in percentage of GDP. Declining sales in the United States have had a negative impact on the industry.

According to the Mexican Automotive Industry Association, vehicle production dropped 28.3% from 2.12 million units in 2008 to 1.5 million units in 2009. Around 80% of the vehicles made in Mexico are exported to the United States.

Tourism

Mexico is the preferred tourist destination among foreign tourists within Latin America, although most of Mexico's tourists are from the United States and Canada. In recent years an increasing number of tourists came from Europe and Japan. Worldwide Mexico is ranked number ten in terms of foreign tourist arrivals with 22.6 million visitors in 2008. US tourists account for 13.2% of Mexico's GDP which amount to US$ 13.3 billion. The tourism is concentrated in the seaside resorts along the coastline, such as Acapulco, Ixtapa, Huatulco on the Pacific shore, and Cancùn on the Caribbean side.

Electronics

Mexico has recently emerged as a major producer of communications technology. The main manufacturing sub-sectors are information technologies (33%) and audio&video (30%). In 2008 Mexico manufactured over 130 million mobile phones making it the world's sixth largest producer of mobile phones. Mexico has two main centers of electronic industry: Tijuana, Baja California and Guadalajara, Jalisco. In 2006, electronics exports amounted to US$ 54.7 billion.

Aerospace

Recently Mexico has developed considerable engineering and design capabilities for military and civil applications. There are 14 Mexican and foreign companies located in the States of Baja California, Jalisco, Nuevo León and Querétaro. Technology and competence are being created in the aerospace industry, involving engineering electronics, testing, systems integration, prototype development and design, and software development services. The Mexican Federation of the Aerospace Industry is the most important aerospace association in Mexico.

Maquiladoras

Maquiladoras are Mexican factories that produce goods for export from imported raw materials. It has become the landmark of trade in Mexico, and since 1994 it has increased in size by 15.5% in real income. After the NAFTA implementation, the non-maquiladora sector has grown much faster however. Maquiladora products could already enter the US duty free since the 1960s industry agreement. Other sectors have benefited much more from the NAFTA, and the share of exports from non-border states has increased in the last 5 years while the share of exports from maquiladora-border states has decreased.

1.3 GLOBAL RELATIONS AND TRADE

In its efforts to revitalize the economy and open up to international competition, Mexico has developed closer relations with the United States, Western Europe, and the Pacific Basin. Presidents Fox and Calderon have more actively promoted international human rights and democracy and sought to increase Mexico's participation in international affairs.

Organization	Member since
General Agreement on Tariffs and Trade	1986
North American Free Trade Agreement	1994
World Trade Organization	1995
European Free Trade Agreement	1999

Table 3: Global relations

North American Free Trade Agreement - NAFTA

The most influential free trade agreement is the NAFTA, which was signed in 1992 and implemented in 1994 by the governments of the United States, Canada and Mexico. In 2006, trade with Mexico's two northern partners accounted for almost 50% of its exports and 45% of its imports. When Mexico signed the NAFTA it gave Canadian and US companies the opportunity to open offices or branches in Mexico, which brought new jobs to the country.

The majority of trades in Mexico are under free trade agreements of which NAFTA continues to contribute extensively. According to the Forbes Global 2000 list of the world's largest companies in 2008, Mexico had 16 companies in the list.

European Free Trade Agreement – EFTA
Mexico signed a free trade agreement with the European Union on 24th of November 1999, creating free trade opportunities with one of the world's largest consumer markets. Using the EU agreement as a springboard, Mexico also reached a free trade accord with the European Free Trade Area (EFTA). The EFTA is comprised of four non-EU nations: Iceland, Liechtenstein, Norway, and Switzerland.

World Trade Organization – WTO

In Mexico, public opinion on trade policy matters tends to go in tandem with trade flows. Accordingly, the most salient concern by far are the economic relations with the United States. Other developments, such as multilateral trade relations and even hemispheric ones, are usually regarded as being of relatively little consequence. Nonetheless, there are growing concerns around the effects of Chinese exports into the Mexican market, and competition with Chinese exports in other markets.

Import

Mexico's main import partners are the United States, China and Japan. In 2008 Mexico's imports totaled US$ 308.6 billion. The main imported goods are electronics and electrical equipment, motor vehicle parts, aircrafts, steel, grain, manufactured consumer goods and chemicals. The government has acknowledged the need for import of capital goods in order to increase internal growth and productivity.

Export

As an export-oriented economy, more than 90% of Mexican trade is under free trade agreements (FTAs). Mexico's major export income comes from the United States, Canada and Spain. The United States and Canada alone receive around 80% of the export that includes petroleum, cars, paper, mining metallurgy, foods and beverages, tobacco, textiles and electronic equipment. In 2006 the export of merchandise to the United States was worth $198.3 billion. 15.3% of the export was crude oil, 11% car parts, 7.4% video equipment and 7.2% was passenger cars. Mexico is Latin America's largest exporter. In recent years the Mexican government has initiated export-friendly policies, resulting in increased export. After NAFTA, the access to North American markets has further increased due to reductions in trade barriers and tariffs, new export and import opportunities, and facilitation of cross border movement of manufactured goods and services.

Governmental Globalization Goals

The Mexican government established an economic policy to develop higher value added products and capabilities. It started in 2003 under the name "Economic Policy for Competitiveness". During the rule of the present government, programs have been initiated for various industries with the intention of improving export conditions and fiscal incentives, incurring a better educated workforce and a better infrastructure.

2.0 SOCIETY

2.1 POPULATION AND CULTURE

Population and Demography

The population of Mexico is approximately 111 million and the country ranks 11th in the world. Mexico City and its surroundings has more than 20 million inhabitants, which makes the city one of the most populated areas in the world. The population growth rate has been estimated at 1.13 % in 2009 and the median age is 26.3 years.

Language

Spanish is the language spoken by the vast majority. English is used in international business and in cities bordering the US.

Religion

Mexico has no official religion, but most of the population is catholic. Religion has little influence on business life in Mexico.

Labor and labor unions

In 2010 the daily minimum wage is approximately US$4.25 depending on the economic region. Employees have fair rights when it comes to working hours, holidays and annual Christmas bonuses. The 2008 economic crisis led to the official unemployment reaching 5.7% in 2009, the highest level in 15 years.

Mexico has many labor unions, which are very powerful in the Mexican society. The unions aim to protect the interests of the employees, particularly the workers with more seniority. Every company has a labor union and establishing good relationships with them is essential for companies. The unions are influential, highly politicized and are particularly strong within the public and industrial sectors. Labor contracts are difficult to alter once established.

Educational System

The Mexican education system is organized in four levels: preschool, compulsory basic education, upper secondary education, and higher education. Educational attainment and achievement levels in Mexico are generally low, although they have improved greatly over the past decade. In Latin America, Mexican student performance low, the education system lacks transparency and only few Mexican graduate programs are considered to be of high quality.

Universidad Nacional Autónoma de México (UNAM) is the biggest public university in Mexico and one of the most recognized universities in Latin America. In 2009, it ranked 190th in the Top 200 World University Ranking issued by The Times Higher Education Supplement.

Key issues in Mexican education concern low enrollment numbers and high dropout rates beyond the primary level, insufficient numbers of upper secondary schools (particularly in rural areas), and low student achievement levels. At the national and state levels, main challenges include teacher training and a lack of research and evaluation.

2.2 POLITICS

Political Structure

Mexico is a republic where the President is both head of state and the head of government. The constitution establishes three branches of government: executive, legislative and judicial. The Chamber of Representatives is elected for a three-year term and The Chamber of Senators is elected for six years. The Executive branch is headed by the President, who is elected together with his cabinet for a six-year period.

Mexico is a multi-party democracy that consists of 31 states headed by governors, and a Federal District, which is Mexico City. Each state is divided into several municipalities.

The political scene in Mexico is dominated by three major political parties: the Institutional Revolutionary Party (PRI), the National Action Party (PAN) and the Party of the Democratic Revolution (PRD).

Political history and current situation

PRI is a centre-left party founded in 1929 that held political power in Mexico until the turn of the century. PRD is Mexico's youngest political party of the three, formed in 1989. The party was founded by a merger of several smaller left-wing parties. The PRD has a strong electoral presence in central and southern Mexico. PAN was founded in 1939 and is a center-right, Christian Democratic Party. In July 2000, PAN won the elections with Vicente Fox as their presidential candidate. In 2006 PAN won the election again, now with Felipe Calderon as their candidate. He is the current President until the next Presidential election in 2012. Since the 2009 mid-term elections, PRI has been the biggest force in the Chamber of Representatives, which has been difficult for the President from PAN.

When Calderon took office on December 1, 2006 he announced a presidential decree limiting the president's salary. He also announced plans for an anti-poverty drive, targeting Mexico's 100 poorest towns. He promised to tackle violent crime, tax evasion and to raise salaries in the army for supporting the fight against crime. Calderon launched the drug war shortly after he took office and deployed thousands of soldiers and federal police to the worst areas of drug related crime. He also promised to create jobs in an effort to reduce the migration to the US, and to pursue major infrastructure projects as roads, airports, bridges and dams.

Stability

According to President Calderon, Mexico is an attractive country for investors due to low manufacturing costs. Mexico is a growing economy and has a relatively young population. The growing number of Mexican engineers have become increasingly qualified and gained valuable experience because of better education programs.

Many foreign companies hesitate to invest in Mexico because of potential political instability. The politics around the oil and gas industry are however quite stable because there is a consensus between the parties on the current reform. The 2012 election is not expected to result in any significant retroactive change.

Felipe Calderon

Challenges

One of the main challenges for the government is crime. Mexico has one of the highest kidnapping rates in the world. Felipe Calderón declared war on the drug cartels in December 2006, reversing earlier government passiveness. The government has made some gains, but many Mexicans have been killed since this war on drugs started. Gun battles, assassinations, kidnappings, fights between rival cartels and reprisals have resulted in 14,000 deaths. This conflict is one of the reasons why many Mexicans are expected to vote for PRI in the next election.

Officials on both sides of the border between Mexico and United States are committed to stop the violence and the flow of drugs, guns and cash. Calderón argues that the drug violence in Mexico reflects the demand for narcotics and easy access to weapons in the US.

PART 2: BUSINESS IN MEXICO

3.0 ESTABLISHING BUSINESS IN MEXICO

3.1 SETTING UP A BUSINESS IN MEXICO

When considering establishing a business in a region it is wise compare the procedures for establishing in one country as opposed to another. The most accurate systematization of this sort of comparison is the Ease of Doing Business report made by the World Bank, and updated every year. This report compares most countries in the world across a set of criteria related to setting up and running a business. As with most Latin American countries it is somewhat harder to do business in Mexico than in western countries like the United States or Norway.

In general however, Mexico ranks close to or higher than most of the other popular foreign direct investment candidates in Latin America. Compared to Brazil, a country that many view as a strong alternative for FDI, Mexico ranks significantly higher. The ranking of the subcategories show that Mexico is among the best in the region when it comes to areas like Starting a business, Dealing with construction permits, getting credit, Investor protection, trading across borders, enforcing contracts and closing a business. It ranks however poorer in when it comes to employing workers.

Economy	Rank in the world (183)	Rank in South America (32)
United States	4	-
Norway	10	-
Colombia	37	3
Chile	49	4
Mexico	51	6
Guatemala	110	20
Brazil	129	26
Venezuela, R.B.	177	32

Table 4: Ease of Doing Business Rank 2010

Category	Rank World (183)	Rank in South America (32)
Ease of Doing Business	51	6
Starting a Business	90	14
Dealing with Construction Permits	37	9
Employing Workers	136	25
Registering Property	99	14
Getting Credit	61	9
Protecting Investors	41	11
Paying Taxes	106	16
Trading Across Borders	74	11
Enforcing Contracts	81	8
Closing a Business	24	2

Table 5: Mexico's ranking in Doing Business 2010

Establishing a business in Mexico is easy compared to other countries in the region, but it also stands a comparison to OECD countries. However, it is recommend to sollicit the services of a Mexican attorney and/or an accountant before initiating operations in Mexico. This will help in determining the best corporate, accounting and tax structure for a company.

Starting a Business			
Indicator	Mexico & Caribbean	Latin America Average	OECD
Procedures (number)	8	9.5	5.7
Time (days)	13	61.7	13.0
Cost (% of income per capita)	11.7	36.6	4.7
Min. capital (% of income per capita)	8.9	2.9	15.5

Table 6: Starting a Business

When attempting to invest in Mexico there are two main institutions that can support Norwegians wishing to enter the Mexican market.

The Royal Norwegian Embassy in Mexico has an office in Mexico City. The embassy maintains official contacts between the Norwegian and Mexican authorities and also facilitates economic and cultural cooperation between both countries. The Embassy is an institution that should be contacted early in the process of establishing a company in Mexico. It can provide an overview of which Norwegian firms are already established in Mexico and provide contact information. The Embassy can also recommend local experts and agents that have successfully worked with Norwegians in the past.

The Embassy of Mexico in Copenhagen is also accredited to Norway and can provide a wealth of important information to Norwegian businesses wishing to establish operations in Mexico.

3.2 LEGAL ISSUES AND REGULATIONS

The origin of the Mexican legal system is derived from civil law and is similar to legal systems in continental Europe as well as in Latin America. The country's legal system thus should be familiar to Norwegian companies interested in establishing themselves in Mexico. However, it should be noted that rulings can be issued by regulatory agencies in administrative law, such as taxation, banking and financial service law. These dynamic rulings and regulations are binding and are slowly overtaking the traditional civil law system as a result of their dramatic growth.

Foreign Investment Law

Mexico has an extensive foreign investment law framework that seeks to eliminate legal restrictions on equity investments by foreigners and establish simple criteria and procedures for foreign investments that provides certitude, permanency and security to such investments. During the 1990s, many restrictions on foreign investment were eliminated to promote foreign investment and to stimulate development, but the following areas are still reserved exclusively for the State:

- Petroleum and other hydrocarbons and petrochemicals
- Generation of electricity and nuclear energy
- A number of infrastructure services such as telecommunications, post, control of airports, ports etc.

Furthermore, a number of economic activities are reserved exclusively for Mexican individuals and corporate entities:

- Domestic land transportation of passengers, tourism and cargo
- Broadcasting services
- Credit unions and development banks

However, foreign investment law allows foreigners to make 'neutral investments' in these activities, meaning that foreigners cannot vote or exercise control over a Mexican company or activity. In some cases, foreigners can hold more than 49% in such activities if granted authorization from the National Foreign Investment Commission. Examples of such activities are construction of petroleum pipelines, drilling of oil and gas wells, port services for ships and shipping exclusively for traffic on the high seas. Foreign nationals and companies are not allowed to purchase real estate in a 100 km zone from the Mexican borderlines, and 50 km from Mexican shores.

Intellectual Property Rights

Mexico is obligated to implement certain standards for protection of intellectual property and procedures to address infringement under NAFTA and the WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS). These agreements ensure that Mexico has a comprehensive and well-developed set of IPR laws, but despite this, the country still struggles with enforcing their IPR laws. The Mexican Intellectual Property Institute (MIPI) is granted search, seizure and closure powers, but the laws are often weakly applied. The government prioritizes other types of crime as they are considered more urgent. This is despite the fact that losses due to trademark counterfeiting, copyright piracy and patent infringements account for several hundred million dollars annually.

Labor Law

The Mexican Federal Labor Law (LFT) regulates employer-employee relationships in Mexico. Employers should be aware of several employee benefits, such as profit sharing schemes, paid holidays, pension funds and employer housing contributions. Furthermore, Mexican labor law restricts the workweek to 48 hours excluding overtime and also has strict regulations on how overtime is compensated.

Government legislation allows any firm with more than 20 employees to unionize. Unions are given the right to strike during negotiations, but despite of this, strikes and other conflicts are relatively uncommon. It should be noted that unions have the right to strike in sympathy with other unions, which can lead to general strikes.

3.3 TAX AND INCENTIVES

General Tax System

The Mexican tax system is divided into federal and state taxes, where most of the direct taxes are federal. The relevant federal taxes are income tax (ISR) and sales tax (VAT). Though Mexico has tried to reduce ISR while increasing VAT, the income tax is still one of the most important sources of income for the federal government.

There are two main criteria for determining a tax liability to Mexico: residence and income source. Resident status does not depend on the number of days an individual remains in Mexico during a calendar year, but if their centre of vital interests is located there. The centre of vital interest is considered to be in Mexico if more than half of the persons income in a calendar year is derived from Mexican sources, or if the centre of the individual's professional activities is located in Mexico. Firms (legal entities) are considered to be residents when headquarters are located in Mexico.

Non-residents with permanent establishment in Mexico are taxed for all income derived from such establishment. Non-residents without permanent establishment in Mexico are taxed for all income generated from a Mexican source.

Corporate Tax

The income tax is 28%, calculated upon income of the previous fiscal year, less deductions and losses. However, the corporate tax is complex and consists of different rules for specific situations. It is filed and paid on a yearly basis, but monthly provisional payments also have to be made. The law allows for consolidations of losses and earnings of Mexican companies in the same group.

Flat Rate Business Tax

In 2008, a flat rate business tax, IETU (Impuesto Empresarial a Tasa Única), came into effect. The tax rate is at 17.5% from 2010. What characterizes the IETU is that it provides a fixed rate of taxable profits from business activities. To determine the tax base, there are a limited set of deductions.

Sales Tax

Value-added tax is 15%, with the exception of border zones where it is 10%. VAT is paid monthly with payments for income tax purposes, and the tax is payable when the taxpayer effectively receives the payment for the goods or services.

Personal Income Tax

Mexicans may exclude indemnities for accidents and illnesses; public retirement benefits and pensions; medical, dental, hospital and funeral expenses; social security benefits paid by public institutions; savings fund; travel expenses; and social welfare payments or fringe benefits. Some of the exemptions are subject to limitations and specific requirements.

Tax Incentives

Corporations engaged in agriculture, stockbreeding, forestry or fishing activities are entitled to tax reductions. Certain capital investments, such as machinery and equipment, can get accelerated depreciations. A tax incentive is granted on Research and Development expenses and investments meeting certain requirements. It is also possible to negotiate local tax incentives directly with the local tax authorities.

Double Tax Relief

Mexico as entered into double tax treaties with a number of countries, including Norway. This allows for a direct tax credit for foreign tax paid on foreign income to the extent that that does not exceed the individual's Mexican tax liability. This tax credit is also subject to ceilings and appointment rules.

4.0 DOING BUSINESS IN MEXICO

4.1 BUSINESS CULTURE

Cultural Differences

Companies seeking to establish business abroad have often done extensive research on the market, the economy and different regulations. However, they fail to take into account cultural differences between countries. These cultural differences are often what makes or breaks a potential deal. The most important areas of cross-cultural misunderstanding are values, communication patters and the concept of time.

Focus on Relationships

An important difference between the Mexican and the Norwegian culture is the focus on relationships. A typical negotiation process in Mexico is far more time-consuming than in Norway. Mexicans are more people-oriented and they would like to get to know the person they are doing business with. Mexicans make friends before they do business - not the other way around. This is quite different from the Norwegian way of strictly differentiating between business and pleasure. Demonstrating trustworthiness, sincerity, and integrity is crucial to building relationships. Questions about personal background, family and interests should be expected. When relationships are finally established, they tend to last and will definitely give you an advantage in doing business.

Concept of Time

The Mexican concept of time is quite different from the Norwegian one. In Mexico to be 15 minutes late for a meeting is considered to be "just in time". Furthermore, you should not expect the Mexican side to take the initiative to end or summarize a meeting, because that is considered impolite.

Lack of Planning

Agendas and schedules are not common in Mexico and if they exist, they are not always followed. Mexicans don't like the constraints that European-style meeting formats tend to have: they feel it breaks down the creative process that leads to new ideas and better concepts.

Comparing Mexico to Norway

Professor Geert Hofstede has created four dimensions that assists in differentiating cultures and gives an understanding of what distinguishes the members of one group from another.

Power Distance is the extent to which the less powerful members of organizations and institutions (like the family) accept and expect that power is distributed unequally. It is defined from below and this suggests that a society's level of inequality is endorsed by the followers as much as by the leaders. Mexico's high score on this dimension indicates a high level of inequality of power and wealth within society. Status and position is important and businesses tend to be very hierarchical. If

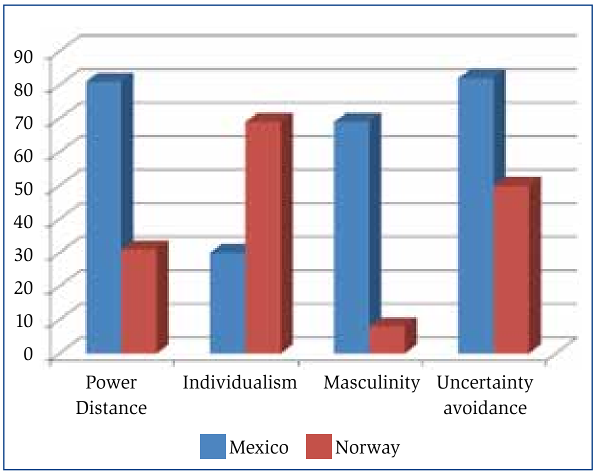


Figure 1: Comparison Mexico-Norway

a Mexican firm's top managers are present at a meeting, they will expect the same from your company. They will feel insulted if subordinates are sent to meet with them. Equally, if a firm sends lower level managers to deal with high-level people in your company, then you will be wasting your time. Make sure that you are meeting and negotiating with people at the right level who have the authority to commit.

Individualism is the degree to which individuals are integrated into groups. Mexico has a low score on Individualism. This indicates that for Mexicans, the long-term commitment to their family, extended family or extended relationships are more important than in Norway. Loyalty overrides most other societal rules and regulations.

Masculinity refers to the value placed on traditionally male or female values. Mexico's high score relative to Norway indicates that the country has a high degree of gender differentiation of roles. Values such as competitiveness, wealth and material possessions are more important than in Norway. There are not many women in the Mexican business world but the women you do meet come across as both assertive and competitive.

Uncertainty Avoidance deals with a society's tolerance for uncertainty and ambiguity. Uncertainty avoiding cultures minimize uncertainty by strict laws and rules, and on the philosophical and religious level by a belief in absolute truth. Mexico's high score on the uncertainty avoidance dimension indicates the society's low level of tolerance for uncertainty. In an effort to minimize the level of uncertainty, strict rules, laws, policies, and regulations are adopted and implemented. The ultimate goal of a typical Mexican businessman is to control everything in order to avoid the unexpected. As a result, society does not readily accept change and is very risk adverse. This could explain their reluctance to political change and foreign influence.

Business etiquette and customs

Initial meetings are formal and both men and women are expected to dress accordingly. Men should wear a conservative dark suit and tie. Women should wear a dress or skirt and blouse.

Business cards are exchanged during the introduction with everyone at a meeting. It is also advisable to have one side of the business card in Spanish. Although many Mexicans speak English, it is advisable to speak clearly and slowly in order to be fully understood.

Mexicans are warm and friendly and more physical in communicating than Norwegians. Conversation is made at a close physical distance and stepping back may be regarded as unfriendly. However, Mexicans may not make eye contact. This is only a sign of respect.

Business lunches are very common and usually last up to three or four hours. Most of the time will be devoted to topics other than business. The purpose is to establish close relationships.

VITAL

4.2 CORPORATE SOCIAL RESPONSIBILITY AND CORRUPTION

Corporate Social Responsibility in Mexico

In Mexico, international standards such as the OECD Guidelines for Multinational Enterprises are broadly supported. In 2005 it was also decided by the Mexican government that all departments must follow the rules and guidelines made by the United Nations Global Compact initiative. Many of the largest companies have adopted the same standards, but smaller companies in general lack the resources and priority to do this. The national CSR agenda is also largely driven by the private sector and not by civil society.

Although Mexico has been a driving force for several international conventions and treaties regarding Human Rights, the country still does not enforce the Human Rights protection. The US State Department 2008 Human Rights Report for Mexico confirms several breaches of these rights, especially discrimination of the aborigines has raised concerns.

Mexico has also been one of the key players in establishing environmental laws and multilateral initiatives to reduce greenhouse gasses. However, Mexico has shown lack of enforcement of international laws and rules signed by the government. Deforestation, air-pollution and water-pollution are the main challenges the country is facing with regards to the environment.

For Norwegian companies wanting to establish business in Mexico, the Mexican Institute for Standardization and Certification (IMNC) can assist in implementing national rules and regulations.

Rank of 180 countries	Country
3	Singapore
11	Norway
19	United States
75	Brazil
79	China
89	Mexico
106	Argentina
162	Venezuela

Table 7: Corruption Ranking

Corruption in Mexico

The Corruption Perceptions Index (CPI) measures the perceived level of public-sector corruption in 180 countries and territories around the world. The CPI is a "survey of surveys", based on 13 different expert and business leaders evaluating their own country. The ranking shows the relative relation of corruption between countries. For the CPI (2009) Mexico was ranked as number 89 out of 180 countries. The CPI (2009) Regional Highlights show that among the 31 countries included in the Americas region, Mexico is ranked as number 20.

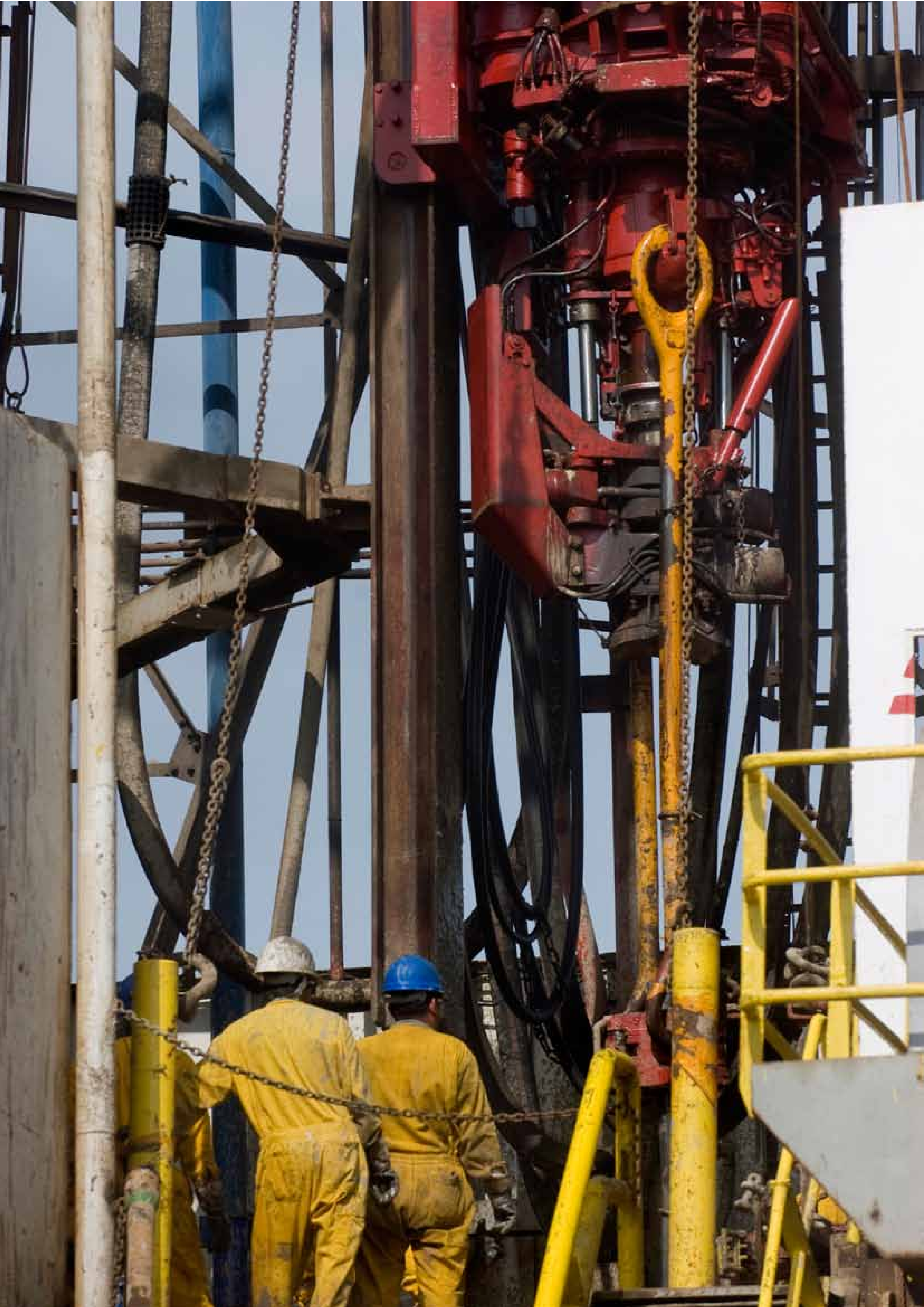
The low score of Mexico indicates a serious corruption problem. According to World Economic Forum's Global Competitiveness Report (2009/2010) business leaders rank corruption as the second most problematic factor for doing business in Mexico, after inefficient governmental bureaucracy. The same report concludes that Mexico's level of corruption is higher than expected as by GDP per capita.

Mexico has signed several anticorruption agreements to OECD, FN and OAS. According to Transparencia Mexicana, the level of corruption has been quite steady from 2005. It seems that the problem is the lack of enforcement of anti-corruption laws, rather than the legislative framework.

Norwegian companies should especially be aware of the corruption risk involved with the use of agents. According to several companies that were interviewed by IB, it is possible to have great success in Mexico without being corrupt. By clearly indicating that one finds corruption unacceptable, most Mexicans will respect that and act accordingly if they want to do business with you.


TACUBA

PART 3: BUSINESS SECTORS



5.0 OIL AND GAS

5.1 MEXICO AS AN OIL NATION - HISTORY

In 1976, a fisherman named Rudesindo Cantarell complained to the government that oil was destroying his nets at sea. As a consequence, one of the world's largest oil fields was discovered. The Cantarell field became the basis of the modern Mexican oil nation.
Mexico began commercial crude oil production in 1901 and started exporting oil ten years later. During the 1920s Mexico was, together with the US, one of the biggest oil producers in the world. After a significant decline in the early 1930s, Mexican oil production began to recover. Between 1938 and 1971, Mexico increased its oil output by six percent annually on average. Large oil field discoveries in the 1970s led to a further increase in Mexico's export of oil.

Up until 1938, American and British interests largely controlled oil production in Mexico. In 1938 the oil industry was nationalized and PEMEX was created as a national monopoly. This was the result of a long-lasting conflict between the oil workers' union and the companies. The reason for this drastic measure was that the foreign-owned companies showed little interest in exploring new reserves and that they had a record of using unfair labor practices. The Mexican national pride has always been strong and this resulted in profound feelings of distrust towards foreign involvement and influence.

After the expropriation of foreign oil companies and the creation of PEMEX, foreign governments instigated an economic boycott of Mexico. This included an economic blockade to prevent PEMEX from selling its oil on the world market, a ban on selling raw materials, critical spare parts and equipment to PEMEX, pressure on shipping companies to refuse transportation of Mexican oil, legal action to embargo the oil that PEMEX did manage to export and a massive withdrawal of bank deposits held in Mexico by foreign companies. After long and difficult negotiations, the Mexican government finally agreed to indemnify the foreign oil companies.

The Mexican government's aim when creating PEMEX was to supply the Mexican market with oil, gas and petrochemical products at the lowest price possible. The mandate was not motivated by profit, and there was a strong desire to improve the standard of living of the Mexican population.

Until 1971, Mexico was self-sufficient with crude oil and natural gas, in addition to being a net exporter of refined products. However, PEMEX became a net importer in order to meet the rapidly increasing domestic consumer demand in the early 1970s. As a result, there was a radical adjustment of PEMEX' role, which until then had been to provide energy to the ever-increasing domestic market at a reasonable price. When the country's balance of payments was adversely affected in 1974, PEMEX was forced to double the prices of its products to reduce demand, and a decision was made to allow the company to increase investment in exploration and development, in order to reestablish itself as a major oil exporter.

PEMEX

PEMEX is Mexico's state-owned oil company. It is Mexico's largest enterprise measured in total sales, total assets, employment and tax payments. The constitution holds that petroleum resources belong to Mexico and its inhabitants, effectively creating a monopoly. Numerous sub-suppliers serve PEMEX, but only PEMEX is allowed to produce oil in Mexican territory.

5.2 CURRENT SITUATION

After the discovery of the enormous Cantarell field, investment in exploration for new reserves seemed almost unnecessary. The nitrogen injection production at Cantarell peaked in 2003 at 2.1 million barrels per day, but in April 2009 the production had dropped to a third of this. Other newer production sites have compensated for some of this decline, but as the table below shows, both the overall oil production and the amount of proven reserves in Mexico are rapidly declining. This is a result of PEMEX' intensive focus on exploitation - rather than investing in exploration of new fields.

A lack of domestic refining capacity forces Mexico to import rapidly increasing amounts of gasoline. Imports have almost doubled since 2004, when Mexico's oil production peaked. Together with declining oil production, Mexican crude oil exports are down 25 % from 2004.

The composition of Mexican crude oil is also changing, becoming heavier and therefore more difficult to process.

PEMEX's Challenges

About 40 % of the state-income is provided by PEMEX and the heavy taxation of PEMEX has limited the company's ability to invest for the future. Unless significant new reserves are discovered, analysts say that Mexico again will become a net importer of oil by 2020.

PEMEX has major administrative challenges that foreign investors and potential partners need to be aware of. An inflexible and powerful labor union is very influential and increases the technical difficulty of modernizing PEMEX. However, the transformation of PEMEX is hampered not only by the way in which the union is structured but also by the manner in which the company is run. During the last decade, three of the union's general directors have been forced to resign after facing criminal charges.
In 1992 PEMEX was divided into four divisions. This made PEMEX's daily operation even more complex. The inflexible rules PEMEX has operated by to prevent the misuse of public resources has made the company extremely difficult to manage. Another factor that has hampered the running of the company is the absence of a strong regulator with the authority and resources to demand greater transparency.

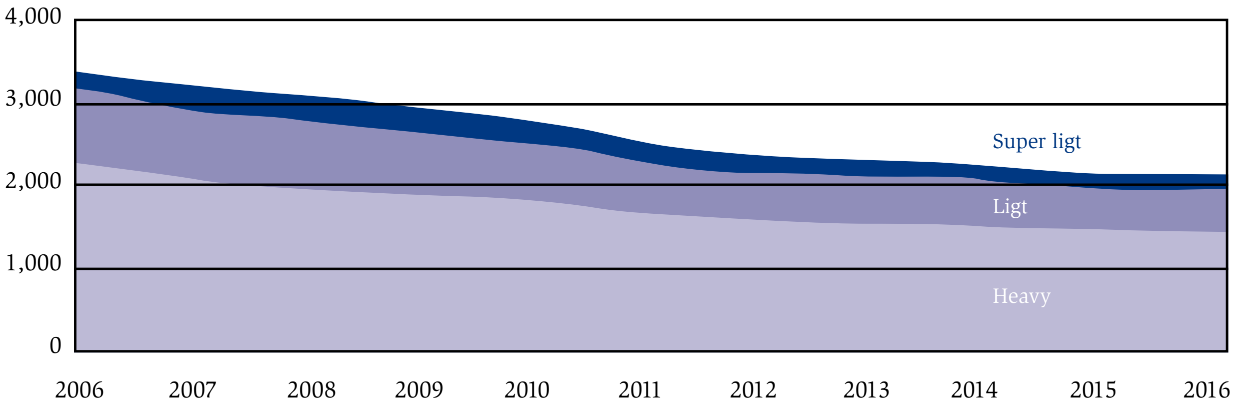


Figure 2: Mexican oil production by quality.

	Oil production		Proven oil reserves	
	World ranking	Quantity (Million BBL)	World ranking	Proven reserves (Million BBL)
Mexico	7th	3.2 (3.8)	17th	10,500 (15,674)
Norway	12th	2.5 (3.2)	20th	6,680 (10,447)
USA	3rd	8.5 (8.7)	12th	21,320 (21,891)
Saudi Arabia	1st	10.8 (10.5)	1st	266,700 (261,900)

Table 8: World Ranking Oil Production
Source: CIA – The World Fact Book and U. S. Energy Information Administration
Figures reported are from 2008-2009; 2004 figures are in brackets.

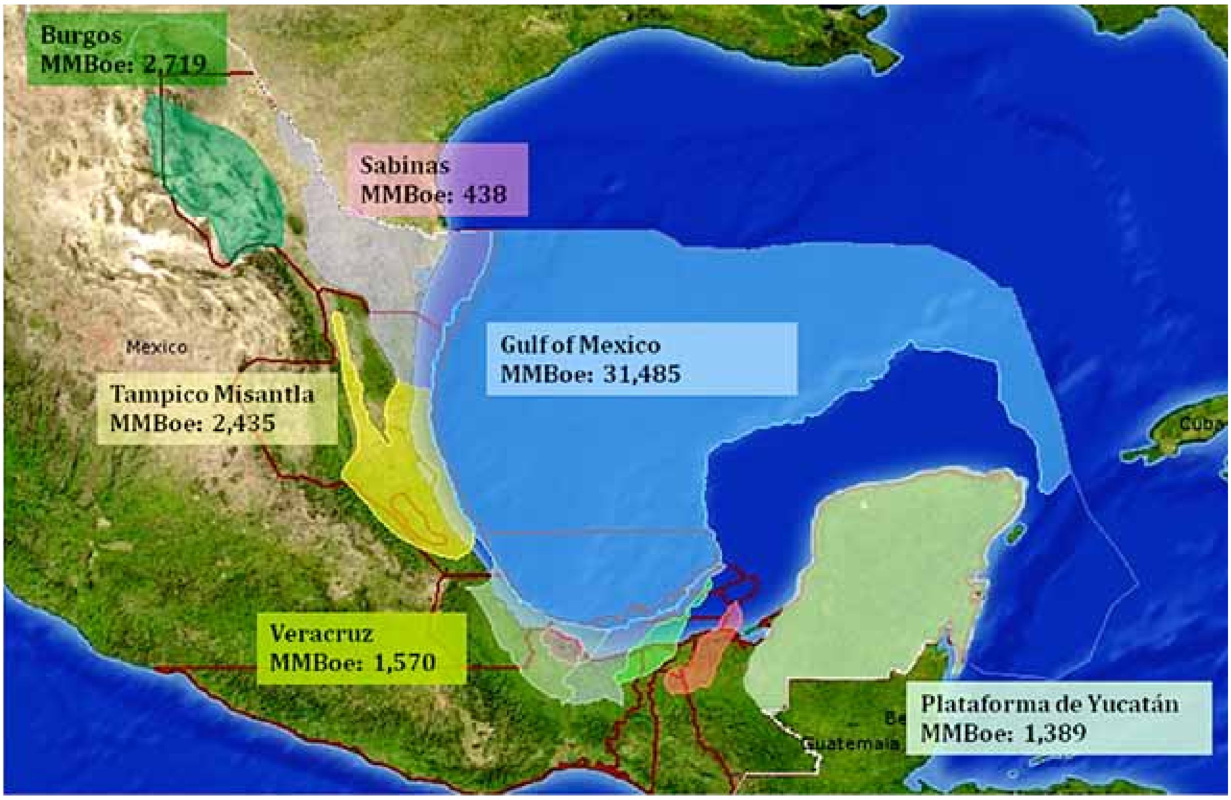


Figure 3: Mexican Oil Fields
[Source: Estrada, Javier H. October 27th, 2009. Regulating Mexico's Upstream Oil And Gas Activities.]

5.3 ENERGY REFORMS

A Need for Change

After the Mexican oil production peaked in 2003, the need for a reform became more evident than ever. In 2008 Mexico's Senate and Chamber of Deputies approved a package of administrative and operational reforms to PEMEX. Although the final reform was less ambitious than President Calderon's original proposal, it gave the company more autonomy and will hopefully help overcome some of PEMEX' financial problems. The intent of the law was to make PEMEX more profitable by increasing the use of private sector service partners. It allows PEMEX to increase yearly investments to US$16 billion, doubling it from 2005.

Implications of the Energy Reforms

The new laws were passed in November 2008 and in September 2009, creating a new legal framework with regulations governing the activities of PEMEX. They provide PEMEX with more freedom, a new financial setup, a new board of directors and a new set of procurement rules. The reforms also ensured a more modern corporate structure, enabling corporate self-governance. Because of the issuing of public bonds, another effect of the new laws was increased transparency and accountability. In addition, the reform established certain independent regulatory bodies like the National Hydrocarbons Commission. The reforms removed old constraints with respect to hiring, procurement and performance bonuses, and opened up downstream activities (storage, distribution, transportation and certain refining activities) to private parties.

For foreign companies, the relevant regulatory changes are:

- Mexican companies are, to some extent, to be favored in auctions
- Auction partners can be preselected, or the auction process can be skipped altogether
- The introduction of negotiation stages in public bids
- Clauses for price adjustments can be added to contracts when unexpected opportunities arise
- Contractors can get additional compensation, tied to performance, however compensation can still not be linked to the oil price

Although a change of direction in Mexican politics made this reform happen, a return to old ways is not expected in any outcome of the next election. Nevertheless, the Mexican Supreme Court is currently investigating whether the new law is unconstitutional. The results are expected by June 2010, and are expected to be in favor of the new laws on most important parts. However, for political reasons, a rejection of some parts is not unlikely.

5.4 CHALLENGES

PEMEX’ Investment Plans

As reserves of easily accessible oil in Mexico are decreasing, a big effort is needed in the E&P sector in order to keep production rates leveled. In recent years, PEMEX’ expenditure has increased drastically, most of which is being spent on upstream activities. When the oil reforms were approved, an eight-year plan was initiated with a yearly average expenditure of US$15.4 billion. Most of the investment will be in upstream activities, but Mexican refining capacity will also get a boost. PEMEX plans to build a new refinery to help reduce Mexico’s dependence on gasoline imports. The proposed refinery will be built in Tula in Hidalgo, a state in central Mexico. It will process heavy crude oil and will be Mexico’s first refinery built in three decades. The new refinery is expected to begin operations in 2015.
Coupled with the reforms, this represents a potential business opportunity for Norwegian companies within the oil and gas sector.

Between 2009 and 2012 PEMEX is planning to gather 3D seismic data covering 47000km2 of the Gulf of Mexico, a project that is likely to require foreign participation.

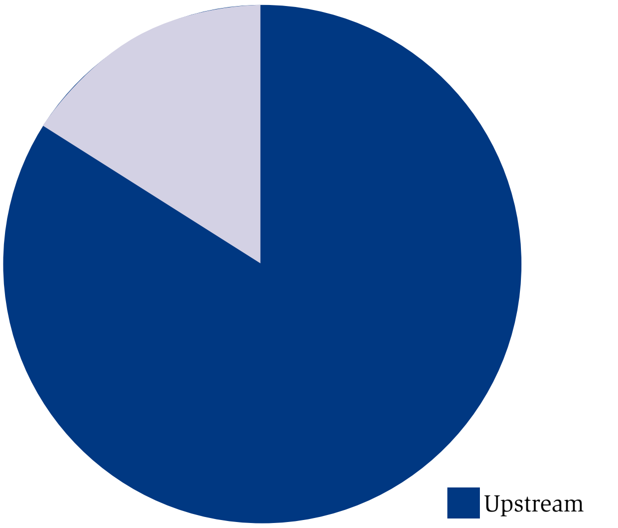


Figure 4: Investment by line of business

Deep Water

Potentially, there are vast undiscovered reserves, particularly in the deep waters of the Mexican Gulf. PEMEX currently has very ambitious plans with respect to deep-water oil exploration and production in the near future. However, the company still lacks the financial resources, the technological capabilities and the experience required to start exploration and production on its own, within the presented time schedule.

The official PEMEX estimates, however, are deemed by experts to be overly positive and it is expected to take PEMEX another ten years to start actual production from deep-water fields. The company currently only has experience with one small moderately deep (1000m) water gas field. In order to utilize the potential in their reservoirs, PEMEX will have to partner up in strategic alliances. This is how the high level of competence was built in Norway in the 70’s, as foreign companies developed the majority of the early fields.

The answer to PEMEX’ challenges may seem obvious, but it is important to be aware that oil is of highly symbolic value in Mexico. It stirs up both a strong national pride and feelings of profound distrust of foreign intrusion.

Big Foreign E&P Contracts

Optimistic estimates by government officials say that PEMEX will sign the first big foreign E&P contract before the end of 2010. Statoil and Petrobras are the major candidates, both being non-US, national oil-companies experienced in deep-water operations. Statoil has been present in Mexico since 2001 and is in dialog with senators and other high officials while waiting for the market to open. Statoil’s objective is to enter into alliances for deep-water projects. In such an event, Statoil will be able to choose its own sub-contractors, thus creating an opportunity for Norwegian sub-suppliers.

Currently, Mexico is concentrating more on further developing known fields, rather than rushing towards deep-water exploration. PEMEX is about to start extensive drilling of onshore wells, using the technology used in Venezuela 20 years ago. This should represent a potential market opportunity for both Norwegian drilling companies as well as suppliers.

Growing a Mexican Sub-supply Industry

Mexico’s economy is losing out on major advantages of being an oil producing nation, because they practically don’t have a sub-supplier industry, An important objective of the reforms is therefore establishing such an industry. PEMEX success will not only be measured by profit alone, but also on their percentage of Mexican suppliers. With only one customer in Mexico, aspiring suppliers are facing sub-optimal business conditions, as they need a constant workflow in order to grow. PEMEX officials therefore expect the average contract size to decrease, while the number of contracts is expected to increase. It is still unknown which parts of the value chain PEMEX will focus on developing on Mexican soil.

Political Outlook

While Mexicans are open to foreign investment in general, oil and gas is a sensitive subject. The current reforms therefore have had to work its way around severe limitations set by the constitution. There is widespread agreement in the oil and gas industry that the current reform is a step in the right direction, but nothing more than that. Further reforms are unlikely to be a political topic until after the 2012 presidential election, as the parties are wary of becoming targets for political attacks from each other. However, since the need for further reforms will only increase, it is expected that constitutional changes will become a hot topic after the election.

5.5 HOW TO DO BUSINESS WITH PEMEX

Bidding and Procurement Process

Public bids can be national or international. National bids allow only Mexican bidders and require the goods to be produced in Mexico. International bids can be under the provision of international treaties, or open to any bidder. In some exceptional cases, bidding procedures can be restricted, or awards can be made directly. These exceptions are defined by law and include copyrighted products, danger of additional costs to PEMEX or to society, and inability to determine the exact outline of the work. If any unexpected opportunities surface due to developments in technology, political changes or otherwise, PEMEX may also after the new reform renegotiate the price of a contract. It is possible to link contract price to performance (i.e. per barrel), but not to oil price (i.e. price per barrel).

All bids are made official in the official PEMEX publication, The National Gazette. Before bidding, an interested party must buy a bid package containing all technical, financial and legal information necessary to make a qualified bid. In practice, it is necessary to influence the decisions leading up to the bidding process itself. In one source's words: when the auction is officially announced, it is already too late to investigate it. The actual bidding procedure involves two stages, with the first focusing on determining whether a bidder is technologically qualified and experienced. The second stage determines which bidder has the lowest bid. As a general rule, that bid wins. However, there may be cases where the bid package specifies certain other rules for allocating contracts, taking into account other benefits or qualifications like previous experience.

Overall, the procedures of public bids are often perceived as very complicated, and procedures can be obscured, due to corruption. PEMEX officials are also known to be inflexible and formalistic, disqualifying bids due to minor procedural mistakes. Other big oil companies are perceived as being much more flexible and willing to cooperate in order to reach the best deal for all parties. The attitude of PEMEX in bidding procedures makes PEMEX a demanding customer. Its monopoly position gives PEMEX the bargaining power to be a dominant party in the procurement process.

In January 2010, new guidelines were published, which PEMEX claims will provide them with more flexibility to negotiate clauses. It will also enable them to prequalify certain players, not entering into talks with all potential bidders in situations where PEMEX has specific needs. This should also smoothen some of the formalistic procedures, but the practical consequence of these guidelines are not yet clear.

National Content

Judged by the current criterion for being considered a Mexican company, Mexican content in PEMEX' capital expenditure is estimated to be 35%. Parliament aims to increase this to 42% over the next ten years. The desired level of national content will vary in different parts of the industry value chain. However, limiting foreign participation is difficult, as Mexico has signed free trade agreements with a large number of developed countries. In practice, national companies will be awarded points in negotiations in comparison to foreign companies.

However, the "pure Mexican" content today is probably lower than 35%, as all companies with a Mexican subsidiary in Mexico are considered Mexican. Since registration isn't a very valid measure towards the goal of establishing a truly Mexican industry, PEMEX officials expect the measuring of nationality to become more elaborate as the oil reform is implemented. One might speculate that the nationality or residency of shareholders, management or staff might become relevant.

Houston based business

Integrated Trade Systems Inc. (ITS) is a Houston (US) based subsidiary of PEMEX which negotiates international procurement contracts on their behalf. According to interviewed companies who have tried selling to both PEMEX and ITS, the latter is perceived as more professional and easier to deal with. ITS frequently work with frame contracts where Pemex buys a specific brand product from the brand's holder of rights.

Many companies would prefer to enter the Mexican market without relocating. Since Houston is the oil capital of the world, many companies are established there and do business in Mexico from Houston. Companies not present in Mexico, however, will be at a disadvantage, due to reasons mentioned above. In general, Norwegian companies should have a permanent office in Mexico in order to do business there. For small service contracts and standardized machinery, having an office in Houston and doing business through ITS can be sufficient. For more complex products, it might be necessary to customize products to the end user's needs, as the four geographical regions of PEMEX behave as separate business entities. This can be the case even with a national frame contract negotiated through ITS, and will thus require local presence from the vendor.

6.0 SHIPPING

6.1 OVERVIEW OF THE MARKET

International and Domestic Shipping
International shipping from Mexico is heavily dominated by foreign firms, which do almost all of the international shipping. Mexico is linked to ports throughout the world, and is an important connection point for the car industry and the assembling industry for products such as electronics, furniture and toys. A number of domestic shipping companies handle containerized and non-containerized cargo, including manufactured goods and commodities. The largest players in this market are A.P. MØLLER-MAERSK, Hanjin Shipping, NYK, APL, K-Line, MSC, CMA CGM, HAPAG-LLOYD, Hamburg Süd, Evergreen Line and COSCO.

Recent Developments
Recent numbers from the IMF and WTO show that global trade is reduced by 57% as a result of the global recession. The recession has also made its impact on the volumes going through the ports of Mexico. According to the Ministry of Communication and Transport (SCT), container cargo throughput at Mexico's international ports fell by 16.2% year-on-year during January-October 2009. A total of 2.33 million Twenty foot Equivalent Units (TEUs) were handled during the period, compared to 2.77 million during the same period in 2008. This drop was a result of the recession in the Mexican economy, which sapped demand for important containerized goods.

Grupo TMM
TMM (Transportacion Maritima Mexicana) is the biggest player in the Mexican shipping and logistics industry with more than 50 years of experience in maritime transportation. TMM is the principal shipping company used for bulk transport of chemicals, molasses, fats and oils between Mexican and US ports in the Gulf of Mexico. The company is also a port operator in the ports of Acapulco and Tuxpan. TMM provides full intermodal logistics and door-to-door services to its customers by being a source of trucking, port and shipping services for clients transporting goods across land and water in the North American Free Trade Area (NAFTA) corridor.

TMM has a strong connection with PEMEX, the state-owned petroleum company. TMM has built up a long-term contract portfolio with PEMEX, effectively securing future business. In the years to come, TMM may nonetheless be negatively affected by the slump in Mexico's oil sector and the resulting decrease in liquid bulk exports.

6.2 PORTS OF MEXICO

Integral Port Administrations (APIs)
In 1993, the Mexican Congress passed the General Ports Act. This was done to regulate the country's ports and to administer them through a system of concessions from the federal government. Out of the 97 ports, 16 are administered by the Ministry of Communication through the Integrated Port Administrations (APIs). Nine of these ports are located on the east coast, and seven on the west coast.

Port of Veracruz
The port of Veracruz (POV) is the second largest container facility in Mexico and the most important Mexican port on the Atlantic coast. The POV is one of the key hubs for traffic between the US east coast and the ports in the Gulf. It is also an important port for the handling of merchandise to the domestic market in and around Mexico City. The port is managed both by the API in Veracruz and through third parties who operate terminals and port facilities.

POV is able to handle Panamax sized vessels and vessels up to 5,000 dwt. The port has 19 docking stations and nine specialized cargo terminals for containers, automobiles, fluids, petroleum, minerals, agricultural products and multiple uses. The designated container terminal is operated by Hutchison Port Holdings (HPH), and this terminal handles about 80 % of all containers at the POV. The Container Pier is over 507 meters long with a depth of 12.8 meters.
In 2008 the port handled 1,671 vessels with a total of 17.2 million tons of cargo. The Port of Veracruz exported over 414 thousand vehicles in 2008 through the designated vehicles terminal. This terminal is the largest ro-ro (roll on/roll off) terminal available in Mexico and it also offers storage space to accommodate 4.200 TEU at any time.

Port Data	2007	2008	2009e	2010f
POV throughput, tonnes '000	18 084	17 223	15 085	15 254
POV throughput, tonnes, % y-o-y	-2,61	-4,76	-12,42	1,12
POV container throughput, TEU	727 717	716 046	528 590	536 421
POV container throughput, TEU, %y-o-y	8,13	-1,87	-26,18	1,48

Table 9: Port Data, Veracruz
Source: Mexico Shipping Report Q1 2010, Business Monitor International / API Veracruz

POV has experienced a great rise in the volume of cargo handled during the last decade. This great rise has created some congestion problems. However, due to last years' economic downturn, the port no longer runs at full capacity. In 2007 the port authorities also started an expansion project. This will increase the capacity from the current 35.6 million tons to over 100 million tons, and also add 34 docking stations. The expansion is scheduled to be completed in 2019 and according to our interviews with API Veracruz, the financial crisis has not affected either the plan or the progress of this project.

Some of the interviewees indicated that Veracruz had quite high docking costs and a bad administration. Due to cheaper related services and more efficient handling, the total cost was about the same. The links to Veracruz and the infrastructure around is considered to be decent. It takes about eight hours by truck to reach Mexico City. *The roads and railways will also be improved in connection with the expansion.*

Port of Manzanillo

The Port of Manzanillo (POM) is considered the main link between the Pacific Ocean and the country's most important commercial and industrial areas. It has the country's largest container facility, handling 46 % of the container traffic and 68 % of the box throughput in the Pacific Coast. The POM is also regarded to be the main port for imports from Asian markets and the main handler of exports from the industrial states of Jalisco, Quertaro and Guanajuato. The POM has seventeen docking positions and can accommodate vessels up to 30,000 dwt. There are fourteen privately operated terminals for containers for oil, cement, liquid bulk and multipurpose. The POM is able to handle Panamax and Post-Panamax vessels.

The POM has experienced a tremendous growth in container throughput after the year 2000, mostly because of the development of trade links with Chinese and East Asian markets. The growth slowed significantly in 2008 because of the economic downturn. In 2008 the POM served 1,871 vessels and 22.3 million tons of cargo. During 2009 the total tonnage fell by almost 30 % and the container throughput fell by 42 %. The API of Manzanillo is also planning an expansion of several container terminals. This work is expected to be completed in 2016. There are however some concerns that this expansion would lead to overcapacity.

Port Data	2007	2008	2009e	2010f
POM throughput, tonnes '000	21097	22295	15939	16624
POM throughput, tonnes, % y-o-y	3,64	5,68	-28,51	4,30
POM container throughput, TEU	1409614	1409782	817654	881779
POM container throughput, TEU, %y-o-y	12,80	0,01	-42,00	7,84

Table 10: Port Data, Manzanillo
Source: Mexico Shipping Report Q1 2010, Business Monitor International/API Manzanillo

6.3 SWOT ANALYSIS OF THE MEXICAN SHIPPING INDUSTRY

STRENGTHS	WEAKNESSES
Rise in trade volumes and port throughput Expansion plan at major ports Growth in transpacific routes	Economic downturn led to overcapacity and delays in investment plans Weak infrastructure and Intermodal links Thefts and vandalism
OPPORTUNITIES	**THREATS**
Strengthened relationship with Brazil New trades with Asian markets Deep sea oil opportunities for oil support services	Dependence to the US economy Rise in Asia-US trade Overcapacity can lead to delayed expansion plans Political changes and decision making

Figure 5: SWOT-analyses

Strengths

Trade volumes and port throughput are expected to rise again after the global economic downturn. Great expansions are planned at several major ports. This includes a new container terminal at the Port of Manzanillo and a major area expansion in the Port of Veracruz. The ports on the Pacific coast seeing increased use as hubs on transpacific routes.

Weaknesses

Infrastructure has improved since government granted concessions to private companies, but the infrastructure and intermodal links still create problems for transportation. There are also many cases of vandalism and theft from trucks and rail cargo to and from the ports. The thefts are organized and aim for specific types of cargo. This represent a major problem, and some companies have opted to transport by trucks even though it is a more expensive alternative. The economic downturn has led to severe overcapacity in many ports. The Port of Manzanillo is expected to reach the pre-downturn container volumes in 2014.

Opportunities

Mexico has recognized their vulnerable position caused by the heavy dependence on exports to the US. They have worked to strengthen trade relations with other countries. They are particularly focusing on Brazil, as a free trade agreement with Brazil would lead to an increase in trade and new opportunities for shipping companies. Mexico is also developing relationships with Asian markets. At the moment, most of Mexico's oil activities are run out of Houston. However, Mexico's plan to explore deep-sea oil could provide opportunities for oil support services.

Threats

With over 80 % of export out of Mexico going to the US, they are very dependent on and effected by the US economy and the US dollar. Mexico's status as a low-cost supplier of goods to the US has been under severe pressure from the rise in the Asia-US trade. Labor costs in Mexico are facing steep competition from cheap labor in Asia. Another concern is that the quality of the Mexican education is not good enough to fully take advantage of the opportunities as a value-added provider.

The decline in the Mexican oil production has led to a decrease in liquid bulk throughput from the ports. The decline in the oil extraction is also a concern for the Mexican economy as a whole. Port expansion plans and infrastructure improvements could be put on hold due to risk of overcapacity. Political changes and slow decision-making processes also have a negative impact on development projects.

6.4 ENTRY STRATEGY

The foreign shipping companies we visited in Mexico all presented and employed different entry strategies. While many chose to establish themselves through an agent in Mexico, our feedback in general was that in hindsight, most would have established themselves directly in Mexico without the help of agents. Most of the interview subjects using agents in the beginning had realized the need and the cost-efficiency of having an office in Mexico, and as a result would set up an office in Mexico after a few years. Most companies agreed that it would be only slightly more time-consuming and difficult to establish themselves directly rather than using agents, and that it would be both more cost-efficient and fit better with their corporate structure.

Legal Requirements

Establishing a company in Mexico is a rather straightforward process and is similar to the company registration process in Norway. However, it should be noted that a company that has any percentage of foreign investment participation must be registered with the Foreign Investment Registry. A new company must also gain the approval of the Ministry of Foreign Affairs.

Restrictions on Shipping Companies

The maximum foreign ownership of a Mexican shipping company engaged in cabotage trade is 49 percent. However, if there are no Mexican-flagged vessels available, foreign flagged vessels may engage in cabotage trade under temporary navigation permits granted by the Ministry of Communications and Transportation. Foreigners may hold more than 49 percent in shipping companies engaged exclusively for traffic on the high seas, if they obtain prior authorization from the National Foreign Investment Commission.

Obtaining Mexican Flag

Vessels under Mexican ownership are eligible for flagging. A Mexican shipowner must:

- Be a Mexican citizen or a company formed as per Mexican law
- Have domicile in Mexico
- Be registered in the Mexican Shipping Registry
- Own or possess one or more vessels of at least 500 gross register tonnage

6.5 CASE: GRIEG STAR SHIPPING

Star Concepts
Grieg Star Shipping is providing high quality transportation and logistic services for a number of industries. Star was founded in 1961, and is owned by the Grieg Shipping Group. Our vision is to be a world-class industrial shipping company and the preferred carrier in our chosen business segments. Long term commitment, specialized vessels and efficient and damage free cargo handling are essential to fulfill the high quality demands of our customers. The Grieg Star organization is highly skilled and experienced. Our offices worldwide provide our customers with excellent service when and where required.

Star Open Hatch Concept
We have a unique position in the transportation of forestry products worldwide. With highly specialized Open Hatch vessels that are tailor made for the carriage of wood pulp, rolled paper and other forestry products. In addition we carry a wide range of other unitized cargoes, project cargoes and containers. Punctuality, efficiency, quality and flexibility are Star's primary competitive advantages to ensure our customers satisfaction in the long run. We are continuously working to improve every aspect of the cargo handling and transportation process. Our vessels have box shaped holds, gantry cranes with rain protection, tweendecks, dehumidification systems and state-of-the-art cargo handling equipment. This enables us to load and discharge the cargo with a minimum of handling, ensuring safe stowage and minimum delays. Our Open Hatch business is based on long term contracts and strong relationships.

Conventional Pool
We also operate a modern fleet of geared Handysize/ Handymax bulk carriers, equipped with grabs. This fleet operates worldwide carrying a large variety of cargoes, such as coal, coke, alumina, fertilizers, cement, concentrates, steel products, grain, sugar, salt, scrap and logs.

Container Services
Grieg Star Shipping operates regular container services between North Europe and the US East Coast. The combination of containers, break bulk and project cargoes makes this service unique and competitive. Our Swedish subsidiary, Atlantic Cargo Services (ACS) AB, manages our container activities. The office in Gothenburg, together with our staff in North America and our agency network in Europe are dedicated to providing our container shippers with fully integrated door-to-door transportation solutions. We also frequently transport containers in other trades, either as empty positioning moves or full containers on behalf of other operators.

Star Terminals
Grieg Star owns Squamish Terminals, a purpose-built break-bulk terminal located at the north end of Howe Sound – just 32 nautical miles north of the Port of Vancouver in Squamish, British Columbia, Canada. Squamish Terminals is a public terminal offering efficient handling of forest products, steel products and special project cargo for loading to or from ocean vessels and barges. With two berths, three warehouses, specialized handling equipment, an experienced work force and an intermodal transportation infrastructure (including rail, ocean and truck), Squamish Terminals efficiently imports and exports cargo to major markets worldwide.


STAR HARMONIA
Grieg Star Shipping
Open Hatch Concept
Grieg Star Shipping enjoys a very special position in the transport of forest products. Our open-hatch ships are specifically designed for safe and fast handling of pulp and paper. The large gantry cranes and removable tween decks give us substantial flexibility for mixed stowage.
Project shippers like our ships and service as well, and windmills, turbines and machinery is a fast growing segment of our cargoes. The large and flat decks are perfectly suited for containers, and for items too large to fit in a ship's hold.
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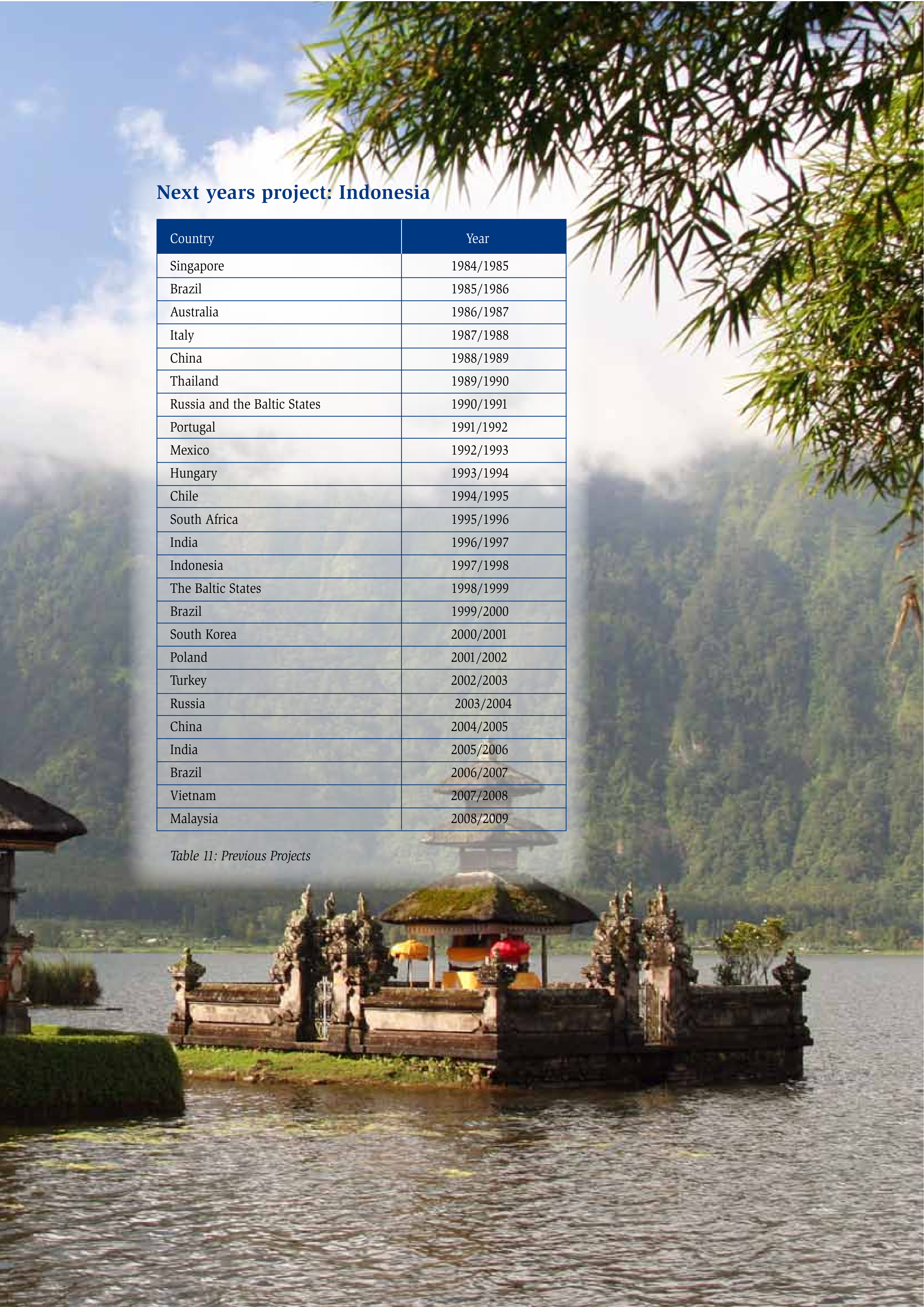

Next years project: Indonesia

Country	Year
Singapore	1984/1985
Brazil	1985/1986
Australia	1986/1987
Italy	1987/1988
China	1988/1989
Thailand	1989/1990
Russia and the Baltic States	1990/1991
Portugal	1991/1992
Mexico	1992/1993
Hungary	1993/1994
Chile	1994/1995
South Africa	1995/1996
India	1996/1997
Indonesia	1997/1998
The Baltic States	1998/1999
Brazil	1999/2000
South Korea	2000/2001
Poland	2001/2002
Turkey	2002/2003
Russia	2003/2004
China	2004/2005
India	2005/2006
Brazil	2006/2007
Vietnam	2007/2008
Malaysia	2008/2009

Table 11: Previous Projects

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