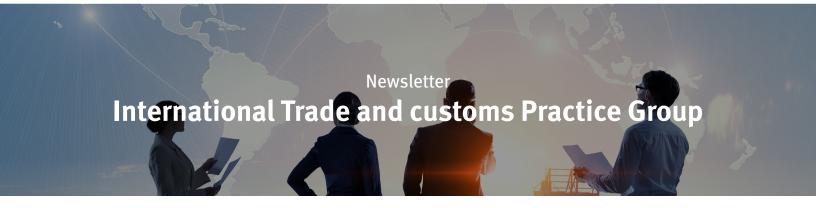


August 17, 2023



Import duty rates increase for definitive imports into Mexico

On August 15, 2023, the Mexican government published in the Federal Official Gazette diverse amendments to the General Import and Export Duties Law, which may be consulted here.

Through these amendments, almost 400 different goods based on their tariff classification were subject to increased import duties.

This increase in the applicable import duties for such products ranges between 5 and 25% percent, which clearly will provoke relevant cost increases in the importation of goods into Mexico, whether these are raw materials, parts, components, or finished products.

From an industry perspective, in our view, those goods subject to the greater increase and cost-related effects are:

- Steel, iron, and aluminum products.
- Textiles, apparel, and shoes.
- Chemical products.
- Oil.
- Soap.
- Paper and cardboard products.
- Electric and electronic products; and furniture.

The federal government argues that this increase in import duties is necessary to protect the domestic industry due to the current market situation and particularly derived from the current international market situation.

Special focus is given to textiles, apparel, and shoes, which in addition to the above, have been argued that require special protection due to the adverse effects they were subject to during the COVID-19 Pandemic.

In addition to these specific duties increase, it is noteworthy that the proposed decrease in duties established in the Decree published in the Federal Official Gazette on November 18, 2022, is suspended. This Decree contemplated a continuous decrease of diverse import duties of a variety of products, the same which will cease to be in effect and thus the proposed decrease contemplated therein should not be considered applicable anymore.

Most of these amendments and thus, increase of import duties upon such goods, enter into force today, August 16, 2023, and shall be in force until July 31, 2025, however in some specific cases, among which are steel and aluminum products, the applicable duties will be increased in specific percentages (10%) until the final total percentage is in full force and effect as of the latter date.

This Decree also establishes specific changes to diverse duties reduction programs currently in force and also provides the inclusion of specific tariff item numbers in the Sector Promotion Programs, particularly those of the electric and electronic industries in order to, attempt to minimize the adverse effects on industries considered of a primordial nature as well as the inclusion of specific goods to the automotive industry programs in force.

It should be noted that this Decree will not have an effect on the importation of goods that are subject to preferential import duties based on Free Trade Agreements Executed by Mexico, however, in some cases, these agreements may not be subject to this protection.

Likewise, it is extremely important to clearly verify if goods imported into Mexico due comply with the applicable rules of origin that are set forth in the Free Trade Agreements that could be deemed applicable since the potential effect and tax contingency could be greatly increased if no such specific analysis is done prior to the issuance of the certificates of origin.

In this same connection, in principle, the temporary importation of these goods under a foreign trade program, as could be the IMMEX program should not be directly affected, however, particular attention to the proper and timely return abroad must be taken into consideration to avoid potential contingencies arising from these duties increase.

The Federal Government has also established that some of the products which were subject to import duties increase, particularly in the electric, electronic, and automobile sectors, will be included in the list of products subject to preferential import duties under the Sector Promotion Programs.

In this connection, importers who could be affected by such duties increase should verify if they may be subject to their participation in this program and /or the inclusion of such goods within their programs in force.

In our view, a drastic change to the applicable import duties as was established in this Decree, may be challenged by the affected importers through an Amparo Petition or Constitutional claim, due to that, although legally valid for the Head of the Executive Power to amend the applicable duty rates for imported goods without the participation of the legislative branch certain specific requirements must be met for this exception to be applicable.

Likewise, these amendments could be seen as contravening various international obligations of the Mexican government towards other nations or international organizations, even in cases where no specific free trade agreement has been established.

This could involve provisions like the most favored nation clause or its equivalent.

Importers of goods should prepare for very relevant changes in their cost calculations for the importation of these goods, as well as the indirect effect on Value Added Tax which could in the short term affect their operation and projected costs and income.

Likewise, companies operating under diverse specific programs (border zone program, IMMEX, PROSEC, Automotive Industry) should review the specific effects that these amendments will have in their operation and determine whether to challenge this or to re-structure their costs and operational costs calculation.

We will be glad to help you with the analysis of possible direct effects on your operation as well as the availability and feasibility of potential legal remedies.

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