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Mexico, the best choice for the Mining Industry

Excerpts from the magazine “Negocios” published by ProMéxico

Mining is a strategic sector for the Mexican economy and is one of the country’s assets when it comes to attracting foreign direct investment. Despite the international financial crisis, in 2009 Mexico remained as one of the most attractive and safe destination for mining companies worldwide, reason why investors are taking increasing interest on Mexican mines.

Mexico possesses significant mineral deposits that are widely sought after around the world. The country is among the twelve largest producers of 17 minerals. It is the world’s second largest producer of silver, bismuth and fluorite; the third of celestite; the fourth of wollastonite and diatomite; the fifth of lead; the sixth of cadmium and molybdenum; the seventh of zinc, salt and graphite; the eighth of manganese and barite; and the twelfth of feldspar, gold and copper.

These rankings reflect Mexico’s competitive advantages, and also express other essential aspects of mining; the country’s infrastructure to ease foreign trade transactions, using road, highway, railway or shipping networks, and the straightforward mechanisms for companies to avoid double-taxation and to exchange information on supply and demand.

The Behre Dolbear report, published in 2010, placed Mexico as the world’s fourth-best investment destination for mining among a 25-country-list and in first place regarding the fiscal regime. In terms of mining exploration, the country ranked as the top investment destination in Latin America and fourth in the world.

Businessmen find a number of advantages when investing in Mexico. According to Xavier García de Quevedo, CEO of Minera México and COO of Southern Copper Corp., “the first advantage is the quality of the deposits. There is enormous unexplored mining potential and current found deposits have been of high quality. Two years ago Mexico ranked as the best location for exploration in terms of the country’s investment risk for mining”.

García de Quevedo, former chairman of the Mining Chamber of Mexico, draws attention to the competitive advantages of a country “with a very strong mining tradition. Over the years, Mexico has developed genuine expertise in mining, with great technical and growth potential”.

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But there are other factors too, such as Mexico's "total openness to foreign investment, that encourages any company from around the world to come and explore Mexico," adds García de Quevedo.

Indeed, Mexican legislation encourages investments in the sector. The 1992 Mining Law (Ley Minera) replaced the 1961 legislation and opened up new areas to foreign investment previously limited to Mexican financing. It also removed the requirement for foreign investments to be associated with Mexican capital in a proportion of 49-51 per cent respectively. This new legislation heralded another important change: the duration of concessions, which are awarded for 50 years and may be extended.

The Foreign Investment Law further liberalized the mining industry, in a process consolidated by NAFTA, combined with the removing of many burdensome requirements and a reduction on import tariffs for equipment and machinery. Altogether opened up unprecedented opportunities for private investors interested in the mining sector.

Furthermore, it is far quicker for a company to obtain an operating license in Mexico than in other countries. The US company Hecla referred to the "comparative advantages" offered by Mexico in relation to its other commercial partners, confirming that it had taken only eight months to be granted the license concession for the project at La Choya in Sonora. In the US or Canada the process would have taken between five and ten years.

Labour costs are another incentive to invest. In Mexico, the average monthly wage in the mining sector is 482 usd, compared to 1,137 usd in Brazil and 1,472 usd in Turkey. In South Korea, the US and Germany the figure rises to 2,611, 3,384 and 3,696 usd respectively, showing that labour costs in the sector in Mexico are between 60% and 80% lower than in those countries.

In the future, mining will be not just a strategic sector for the Mexican economy but also for investors, which are looking ever more closely at the opportunities, potential and advantages Mexico offers in this sector, given its reserves of strategic minerals, some of which are significant to industries such as aerospace, military and electronics.

In this context, the Mexican government is reactivating those mining regions with high potential. Exploration schemes are taking place in those areas and sixteen mining districts are expected to be reactivated between 2009 and 2012, in part with the help of the 15 billion usd of new investments foreseen for this period.

For this purpose, the government assists investors providing information on suppliers in the sector, on land ownership and the requirements for handling concessions, to guarantee legal certainty.

Also the Mexican Geological Service (www.sgm.gob.mx) has improved Internet access to its geological maps, as well as to inventories of minerals in the states and geochemical and geophysical research. The Ministry of the Economy provides a follow up right from the promotion phase until the extraction or exploration phase, and even afterwards, to review its performance and a successful conclusion.

The Ministry of the Economy's Mining Promotion Trust (FIFOMI) is another key player. In 2009 it helped capitalize small and medium-sized mining companies as well as the sector's production chain with loans worth 510 million usd, 20% higher than in 2008, in addition to offering training and technical assistance to more than 8,000 companies.

Mexico still has much mineral wealth to offer throughout its huge territory, enough to ensure it remains a favorite destination for investors with its top-quality deposits and its reliable and profitable business environment.

For more information visit: http://www.promexico.gob.mx

Mexico's Total Trade in January (billion US$)

	2009	2010	%
Total	32.0	38.9	21.6
Exports	15.2	19.3	26.7
Exports (excluding oil)	13.3	16.1	20.7
Imports	16.8	19.6	16.9

Source: Banco de México

Mexico's Trade with EU and EFTA (million US$)

January	2009	2010	%
Exports to the EU	774.7	924.3	19.3
Imports from the EU	2,231.1	2,270.1	1.7
Exports to the EFTA	68.2	70.3	3.1
Imports from the EFTA	94.5	131.6	39.2

Source: Banco de México

More investments in Mexico

Safran opened two new plants in Mexico

On March 17, 2010, the French aircraft engine and parts manufacturer Safran inaugurated two factories in the Mexican state of Queretaro to make parts for Boeing and Airbus aircraft. Safran is investing 150 million USD in these plants, in part to reduce costs and curb a dependence on the strong euro.

Safran has a large presence in Mexico with four facilities opened in previous years. These two new plants will make parts for jet engines built by Safran subsidiary Snecma and undercarriages built by sister division Messier-Dowty and will contribute to around 500 jobs.

The French company is already the largest aerospace employer in Mexico with 3,000 employees of 30,000 of the overall aerospace industry, and is part of a growing list of the 200 aerospace companies looking to Mexico for lower costs along with the marketing benefits of close access to the United States, the world's largest aviation market.

Beckton Dickinson opens new plant in Mexico

On March 1, 2010, the American company Beckton Dickinson, leader in medical technology, opened a new facility in San Luis Potosí, Mexico, for the manufacturing of syringes, catheters and hypodermic needles.

The 16.6 million USD production facility is part of the 200 million USD investment currently underway, aiming to supply the demand on the United States, Europe, Latin America and Asia .

With this investment, Mexico becomes the company's biggest world manufacturing center, contributing as well to consolidate the country's position as an international production center for the medical industry.

Chrysler and Fiat will produce the Fiat 500 in Mexico

The global strategic alliance between Chrysler and Fiat announced an investment of 550 million USD in Mexico to build a retro-version of an Italian icon, the Fiat 500. The production will be carried out at the Chrysler's Toluca plant and will provide more than 1,200 jobs.

The quality of the Mexican labor and the strategic geographical location of the country were key factors for the decision to manufacture the Fiat 500 in Mexico, which will have a high regional content since the production of the engine and many of the parts will be carried out in Mexico and the US.

In the last two years, Chrysler has invested around 1.2 billion USD in modernizing and adapting its assembling plant in Toluca in order to strengthen its capacity and face the challenge of assembling more than 100,000 units per year of Fiat 500. The 95% of this production will be oriented to the export market, particularly to the North American and South American markets.

Mitsubishi continues investing in Mexico

On January 14, 2010, the Japanese Mitsubishi Electric Corporation inaugurated a plant in the city of San Juan del Rio, Queretaro, to produce traction and control system equipments used in the electric transport like subway and suburban train.

This new industrial facility, which signifies an investment worth to 10 million USD and a creation of around 300 direct and 900 indirect jobs, will supply the domestic and the export market, mainly the USA, the United Arab Emirates and Chile, among others.

Mitsubishi Corporation has operations in Mexico since 1978 especially as a supplier of traction control system equipment, LCD TVs, and elevators and escalators targeting the domestic market as well as the USA and Latin American markets.

Mexico's Economic Indicators

Inflation rate: 0.58% (February, 2010);
4.8 % (2010, annual)
Industrial Production: 1.6% (Jan. 2010 / Jan. 2009)
Manufacturing: 4.3%; **Construction:** -5.6%, **Mining:** 1.3%
Global Index of Economic Activity: 0.49% (Dec. 2009 /Dec. 2008)
Consumer Confidence Index: 80.6 pts. (February 2010)
1.7 percentage points (February 2010 / February 2009)
Open unemployment rate: 5.90% (Jan. 2010)

Source: INEGI

Mexico's Financial Indicators

Foreign exchange rate: 12.54 peso/dollar (March 24,2010)

International reserves: $94,918 million dollars (Mar. 19, 2010)

Mexican stock market index (IPC): 33,161 (Mar. 24, 2010)

Interest rate treasury bonds CETES 28 days:
4.46% (March 25, 2010)

Source: Banco de Mexico

Mexico Official Journal

- **09/02/2010** Decree modifying certain tariff-rates of the Mexican Customs-Tariff Schedule, and the Decree establishing several Sectoral Promotion Programs.
- **11/02/2010** Decree which approves the Strategic Association Agreement between Mexico and Uruguay, signed in Montevideo, Uruguay on August 14, 2008.
- **11/02/2010** Decree which approves the Modifying Protocol to the Free Trade Agreement between Mexico and Israel, signed in Mexico City on November 18, 2008.
- **15/02/2010** Agreement notifying the 2010 import quota applying the established tariff-rate quota for preparation of milk products with a content of solid milk greater than 50% by weight, except those classified under tariff item 1901.90.04. The tariff classification of this merchandise, according to the Mexican Custom Tariff Schedule is 1901.90.05.
- **15/02/2010** Agreement notifying the 2010 import quota applying zero tariff-rate for powder milk originating from the World Trade Organization's country-members. The tariff classification of this merchandise, according to the Mexican Custom Tariff Schedule is 1901.90.05.
- **25/02/2010** Eighteenth Modification of the Agreement through which the Ministry of the Economy has issued general rules and practices on foreign trade.

EU Official Journal

- **03/02/2010 L031** Commission Regulation (EU) No 92/2010 of 2 February 2010 implementing Regulation (EC) No 471/2009 of the European Parliament and of the Council on Community statistics relating to external trade with non-member countries, as regards data exchange between customs authorities and national statistical authorities, compilation of statistics and quality assessment
- **11/02/2010 L038** Decision of the European Council of 9 February 2010 appointing the European Commission
- **13/02/2010 L040** Implementing Regulation of the Council (EU) No 126/2010 of 11 February 2010 extending the suspension of the definitive anti-dumping duty imposed by Regulation (EC) No 1683/2004 on imports of glyphosate originating in the People's Republic of China
- **20/02/2010 L045** Implementing Regulation (EU) No 143/2010 of the Council of 15 February 2010 temporarily withdrawing the special incentive arrangement for sustainable development and good governance provided for under Regulation (EC) No 732/2008 with respect to the Democratic Socialist Republic of Sri Lanka
- **25/02/2010 L048** Implementing Regulation of the Council (EU) No 151/2010 of 22 February 2010 terminating the partial interim review of the anti-dumping measures applicable to imports of certain tungsten electrodes originating in the People's Republic of China
- **25/02/2010 L048** Commission Decision of 24 February 2010 terminating the anti-dumping proceeding concerning imports of certain ring binder mechanisms originating in Thailand

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