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Mexican aerospace industry takes off

Mexico is not a stranger for the global aerospace industry. The country's participation in this sector took off almost 40 years ago, but it was in 2004 when it reached supersonic speed, with two-digit export growth figures and a three-fold increase in the number of established aerospace companies.

The aerospace industry in Mexico attracts more and more foreign investment, counting now with more than 190 active companies in this sector, including a growing number of Mexican companies that take part not only in manufacturing but also in complex tasks such as part and software design for aircrafts.

According to the consultant company AeroStrategy, Mexico stand out as the country that has garnered the most manufacturing investments in the aerospace sector, above countries like the United States, China, Russia and Japan. This is the result of an analysis of the publicly announced investments of 121 leading aerospace manufacturers and service companies, considering investments made since 1990 dedicated to increase the productive capacity.

As stated by AeroStrategy, the aerospace industry is moving to an era of "horizontal specialization", that is to say, to a stage of multi-national cooperation where original equipment manufacturers (OEMs) and service suppliers tightly integrate functions such as engineering, manufacturing and customer support across multiple locations on a global basis. In this context, the global aerospace companies appreciated the factors that distinguish Mexico as an investment destination. These factors are:

- Access to dependable and skilled labor force at a competitive cost (as evidenced by Mexico's strong record in the automotive and consumer electronics industries).
- Implementation process of the U.S.-Mexico Bilateral Aviation Safety Agreement (BASA), which lets manufacturers certify and ship components directly from Mexican factories.
- Proximity to U.S. and Canadian aerospace supply chains, facilitating reliable, low-cost ground transportation.

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Mexican Aerospace industry is propelling

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- Confidence in Mexico's willingness to protect intellectual property.
- Mexico's elimination of import duties for aeronautic components.

In this same sense, the study "Competitive Alternatives 2008" of consultant KPMG points out that Mexico has the most competitive operational costs in the world for the aerospace sector, offering up to 30% in savings compared to the current industry leaders.

All these factors has given as a result that, between 2005 and 2006, the number of enterprises that compose the Mexican aerospace sector leaped from 61 to 193. At the same time, employment also took off, increasing from 10,000 to 27,000 workers, according to information provided by ProMéxico and the Mexican Federation of the Aerospace Industry.

This increase in the number of companies has allowed to impel the Mexican exports in the sector, which grew almost 86%, from 1,684 million dollars in 2005 to 3,133 million dollars in 2008. Almost all of the Mexican aerospace sector exports are directed to the US market (81%); followed by France and Germany (2.8% each), and Canada and the UK come in third place (2.6% each).

This astonish take off have progressed hand-in-hand with an intense diversification process. In an initial stage, Mexico manufactured simple parts, autoparts and simple assemblies. Today, the country is in a second stage, which includes manufacturing of turbines, fuselage, harnesses and landing gears, among other products.

To illustrate this diversification, we could observe the Mexican aerospace industry's composition, nowadays almost 80% of the companies carry out manufacturing and assembly activities; 10% perform maintenance, repair and overhaul (MRO) and 10% offer engineering and design services.

For example, in the area of MRO, Mexico is attracting investments for labor intensive activities such as airframe heavy maintenance that complement existing MRO clusters in California, the Central U.S., Florida, and Quebec.

Among the companies that are blooming in Mexico focused on design and technology development, it is worth pointing out Volare Engineering, a 100% Mexican company that designs aircraft interiors. In the same way, Honeywell established its only lab in the world in Baja California, where they perform simulations for airplanes that will come out in the future. It also highlights the design center established since 1999 by General Electric in the State of Querétaro, where GE carry out sophisticated design modifications and tests of airplane turbines and other components.

A key element of this impressive performance of the aerospace industry in Mexico is the development of the career of aerospace engineer, offered by Mexican universities in the states of Baja California, Queretaro and Nuevo Leon where highly skilled engineers are trained.

All these factors have made possible that the Mexican aerospace industry is already moving forward to a third stage, in which complete planes will be designed and assembled. Therefore Mexico is consolidating as a first class innovation center for the global aerospace industry.

For more information, please visit:

www.promexico.gob.mx/wb/Promexico/idiomas/lang/en

www.aerostrategy.com/

www.competitivealternatives.com/industries/default.html

Mexico's Total Trade in August (billion US\$)			
	2008	2009	%
Total	54.0	39.6	-26.6
Exports	25.9	19.4	-25.1
Exports (excluding oil)	20.3	16.7	-17.8
Imports	28.1	20.2	-28.0

Source: Banco de México

Mexico's Trade with EU and EFTA (million US\$)			
January - August	2008	2009	%
Exports to the EU	12,881.5	7,047.1	-45.3
Imports from the EU	26,114.5	17,287.5	-33.8
Exports to the EFTA	452.2	273.4	-39.5
Imports from the EFTA	1,131.2	905.7	-19.9

Source: Banco de México

Mexico in the AL-INVEST IV Program

The AL-INVEST Program is one of the most important regional economic cooperation programs of the European Commission (EC) in Latin America, with a general aim of supporting the process of internationalization of Latin American Small and Medium Sized Enterprises (SMEs), through a number of tools that allow them to strengthen its presence in the European markets.

AL-INVEST began its activities in 1994 with a two year pilot program and, due to its success, it has remarkably evolved through a process of consolidation and appropriation of the Program by the Latin American operators, in three consecutive phases: Phase I (1995-1999), Phase II (1999-2004) and Phase III (2004-2007).

On September 18, *Eurochambres* hosted a Seminar on the main aspects and activities of phase IV of the AL INVEST Program, which will have a duration of four years (2009-2012) and with a total investment amounting €62 million, of which €50 million will be financed by the EC.

The main objective of AL INVEST IV is to support the strengthening and internationalization of Latin American SMEs, as well as the exchange of innovations, knowledge and economic relations with their European counterpart companies. More specifically, this Program intends that Latin American SMEs become the local development engine, and to take advantage of globalization opportunities, regional integration, trade agreements and business cooperation with Europe.

Furthermore, AL INVEST IV offers services such as: technical assistance to SMEs, participation of European and Latin American companies in trade fairs and business and technology meetings, market studies, network contacts with European bodies, information on EU procedures, and exchange of experiences, knowledge and technology.

The execution of the Program activities is responsibility of three Consortia that cover different areas in Latin America: Central America, Mexico and Cuba; the Andean Region; and Mercosur, Chile and Venezuela.

Central American, Mexican and Cuban Consortium

The Consortium for Central America, Mexico and Cuba (CAMC) is led by Nacional Financiera (NAFIN), an important Mexican development bank, and has a budget of €17.5 million, of which €13.9 million will be financed by the EC.

The activities foreseen for this Consortium are, among others: diagnosis of the situation of the SME, business missions, business conferences, specialized agendas, promotion of innovation, technical training and institutional strengthening.

This activities aim to support the following sectors: agribusiness; handicraft, gift and decoration articles; services; infrastructure; information technology; and environment, energy and sustainable development.

The main benefits expected are: the creation of 6,000 direct employments, an increase of 3.6% in the amount of commercial and cooperation business between Latin American and European SMEs, as well as a boost to innovation in benefit of the SMEs.

In order to participate in AL-INVEST IV, the companies have to fulfill most of the following requirements: To be located in the region of Central America, Mexico and Cuba; to employ less than 250 permanent workers; to be operating in the local market for at least one year; to have interest in innovation (in relation with its organization, management, products and services); to be willing to be part of the Program and obtain results; and to fill a form with trustful information about the company.

For more information, please visit:

www.al-invest4.eu/camc

www.nafin.com/portalfn/content/productos-y-servicios/servicios-especializados/eurocentro/eurocentro.html

Mexico's Economic Indicators

Inflation rate: 0.50% (September, 2009); 4.89 % (2009, annual)
Industrial Gross Domestic Product: -7.3% (Aug. 2009 / Aug. 2008) Manufacturing: -10.8%; Construction: -7.8%, Mining: 3.0%
General Index of Economic Activity: -6.9% (July 2009 / July 2008)
Consumer Confidence Index: 81.9 pts. (September 2009) -7.6 percentage points (September 2009 / September 2008)
Open unemployment rate: 6.3 % (August 2009) Source: INEGI

Mexico's Financial Indicators

Foreign exchange rate: 13.10 peso/dollar (October 16, 2009)
International reserves: \$79,240 million dollars (October 9, 2009)
Mexican stock market index (IPC): 30,726 (October 16, 2009)
Interest rate treasury bonds CETES 28 days: 4.51 % (October 15, 2009)

Source: Banco de Mexico

Mexico's Official Gazette Notices

- **03/09/2009** Resolution declaring *ex officio* the beginning of the review of the definitive countervailing duty imposed on imports of Polyvinylchloride from the United States of America, regardless of the shipping country. This product is classified under tariff item 3904.10.03 of the General Imports and Exports Tariff Law.
- **04/09/2009** Resolution accepting the request of interested party and declaring the beginning of the antidumping investigation on imports of line pipes of stainless steel without coating from the People's Republic of China, regardless of the shipping country. This product is classified under tariff items 7304.19.02, 7304.19.99, 7304.39.06 and 7304.39.99 of the General Imports and Exports Tariff Law.
- **08/09/2009** Notice calling for comments regarding a possible adjustment of the specific rules of origin established in several free trade agreements concluded by the United Mexican States.
- **24/09/2009** Resolution publishing the names of the holders and number of programs cancelled of the manufacturing, maquiladora and export services industry.
- **30/09/2009** Resolution concluding the review initiated by the request of Industrias Plásticas Internacionales, S.A. de C.V., regarding the definitive countervailing duties imposed on imports of Polyvinylchloride from the United States of America, regardless of the shipping country. This product is classified under tariff item 3904.10.03 of the General Imports and Exports Tariff Law.

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- **04/09/2009 L233** Council Regulation (EC) No 803/2009 of 27 August 2009 imposing a definitive anti-dumping duty on imports of certain tube and pipe fittings, of iron or steel, originating in the People's Republic of China and Thailand, and those consigned from Taiwan, whether declared as originating in Taiwan, or not, and repealing the exemption granted to Chup Hsin Enterprise Co. Ltd. and Nian Hong Pipe Fittings Co. Ltd.
- **09/09/2009 L237** Commission Decision of 4 September 2009 terminating the anti-dumping proceeding concerning imports of welded tubes, pipes and hollow profiles of square or rectangular cross-section, of iron other than cast iron or steel other than stainless originating in Belarus, Turkey and Ukraine.
- **11/09/2009 L240** Council Regulation (EC) No 825/2009 of 7 September 2009 amending Regulation (EC) No 1659/2005 imposing a definitive anti-dumping duty on imports of certain magnesia bricks originating in the People's Republic of China.
- **18/09/2009 L246** Council Regulation (EC) No 847/2009 of 15 September 2009 amending Regulation (EC) No 682/2007 imposing a definitive anti-dumping duty on imports of certain prepared or preserved sweetcorn in kernels originating in Thailand.
- **22/09/2009 L248** Council Regulation (EC) No 862/2009 of 15 September 2009 terminating the partial interim review of the anti-dumping measures imposed by Regulation (EC) No 1487/2005 on imports of certain finished polyester filament fabrics originating in the People's Republic of China.
- **26/09/2009 L254** Council Regulation (EC) No 880/2009 of 7 September 2009 concerning the implementation of the Agreement in the form of an Exchange of Letters between the European Community and Brazil pursuant to Article XXIV:6 and Article XXVIII of the General Agreement on Tariffs and Trade (GATT) 1994 relating to the modification of concessions in the schedules of the Republic of Bulgaria and Romania in the course of their accession to the European Union, amending and supplementing Annex I to Regulation (EEC) No 2658/87 on the tariff and statistical nomenclature and on the Common Customs Tariff.

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