

Since Mexico became a member of the GATT in 1986, import tariffs have tumbled. The maximum tariff rate, which stood at 100 percent in the mid 1980s, is now 20 percent. The tariffs range from 5 to 20 percent and increase at 5 percent intervals. Very few tariffs fall into the 5 percent category and on a weighted basis Mexican tariffs average around 10 percent.

With the negotiation of the NAFTA agreement by Canada, Mexico and the United States, tariffs will decrease according to a specific and negotiated timetable. The new rules of origin provisions in the Agreement will be the determining factors as to whether a given Canadian export to Mexico will qualify for eventual free trade treatment. Special treatment for sensitive national interests in each country is recognized in the Agreement.

Mexican tariffs are calculated on an *ad valorem* basis, that is they are assessed on the value of merchandise when it appears in Mexico. That means that the tariff is usually calculated on the basis of the original cost of the merchandise plus the cost of insurance and freight to the Mexican border. That is why it is important to itemize these costs in the invoice presented to customs officials.

In addition, specific duties are charged on certain commodity items and are calculated by weight, volume, length, or other unit. If they are charged by weight, it is important to establish whether the charge includes the weight of the packaging. Some products are subject to compound duties that include both *ad valorem* and specific duties charged on the same product. In other cases, the customs officials calculate both types of duties and then apply the higher one.

Mexico collects a value-added tax of 10 percent similar to our GST whenever the ownership of goods changes. There is also a customs processing fee of 0.8 percent calculated on the same *ad valorem* basis as tariffs. Some goods produced in Mexico are subject to excise taxes. When the same products are imported, a similar excise is charged over and above other duties. In such cases, the taxable values used in calculating the excise are the sum of the price plus the import duties. Finally, there is a statutory 0.2 percent broker's fee that is payable with the customs declaration.

As noted, the valuation of merchandise for the sake of collecting duties is usually based on the price cited in the commercial invoice. If there is a financial, commercial or other type of relationship between the foreign supplier and

the Mexican importer, it will be presumed that free competitive conditions are not present and a preferred price has been charged. At that point, the importer is required to determine the normal price level by increasing the sales price to eliminate any preferential or uncompetitive discounts.

The Director of Customs is empowered to review import declarations, to carry out physical inspections of merchandise, and to request additional information or documentary support to confirm the legal status of any foreign merchandise. Non-compliance with customs regulations is severely punished in Mexico. This can lead to additional duties, fines reaching 50 percent of the value of the merchandise or even the confiscation of merchandise without possibility of recovery. In extreme cases, criminal prosecution may also apply.

As of 1988, Mexico's customs handling system has been completely updated with the introduction of a computerized tracing system. Since then, traffic control and warehousing have improved dramatically and customs and storage facilities are adequate and secure. Customs clearances should be made by the importer within two months of the arrival of the goods, extendible by one additional month. If merchandise is still unclaimed after this maximum period, the goods are listed in the Official Newspaper and a 15 working-day grace period is given for their customs clearance. Once this period ends, the property is automatically transferred to the government.

In 1988, Mexico converted to the Harmonized System for Merchandise Classification and Codification, the same system used in Canada. With the change to the Harmonized System came a general simplification of bureaucratic procedures and the elimination of the previously required import permit system. As a result, customs clearance in Mexico is now quite expeditious, especially for imports that are destined to be integrated into goods assembled in Mexico for subsequent re-export.

The tariff system described above will continue to operate until the NAFTA is ratified and implemented. After that time, tariffs on goods originating anywhere in North America will be phased out gradually. Potential exporters are advised to consult the NAFTA provisions to determine the timing for phasing out tariffs in their particular industry.