

# MEXICO

## SWEEPING REFORMS ATTRACT NEW INVESTMENT

After a few months of uncertainty at the beginning of 2017, Mexico's currency and investment levels are on the rise again, as government reforms continue to impact, perceived threats from the Trump administration recede, the spread of countries investing widens and opportunities presented by NAFTA's renegotiation become apparent.

President Trump's election caused concern that the increasing business opportunities in Mexico would be halted. Juan Ramón Collado Mocoelo, lawyer and partner of Collado & Asociados, speaks for many when he says, "We can't ignore threats of tariffs on imports from Mexico, the wall and other attacks." But confidence is rising again. Investors are realizing that "the ties that exist between the U.S. and Mexico are bigger, deeper and more widespread than politicians can jeopardize," Collado adds.

Attention is now on the North American Free Trade Agreement (NAFTA) renegotiations. Jaime R. Guerra González, lawyer and partner at Guerra González Abogados, is "optimistic that there will be a satisfactory agreement." But NAFTA needs to change, according to Angel M. Junquera Sepúlveda, lawyer and partner at Junquera y Forcada, as "trade has changed" since the '90s when it was signed.

Since 2013, Mexico has been carrying out institutional reforms



Cotemar's construction platform: lolair, Cantarell field

**"We're not investing in walls between Mexico and the U.S.; we're investing in ducts."**

**FERNANDO CALVILLO ÁLVAREZ**  
PRESIDENT AND CHAIRMAN, FERMACA

to encourage growth covering energy, labor, education, finance, law, telecommunications and more. The paradigm shift has been controversial, particularly in regard to the opening of energy state giant Petróleos Mexicanos (Pemex) to partnerships with

foreign companies. But as the company's CEO, José Antonio González Anaya, says, the move has been critical in attracting much-needed investment to the energy sector. As Fernando Calvillo Álvarez, president and CEO of Fermaca, explains, "The

reforms are turning us into a country that offers certainty to investors."

### Energizing Mexico

Fermaca is one company that has benefited from the reforms, in particular energy reform. The company's main business is natural gas transportation, including projects from pipeline design to operation. Already Mexico's market leader, in 2016 Fermaca won a \$372.6 million natural gas pipeline contract from CFE, the national power company, for a pipeline running through three states.

By 2018 it will operate one of the world's biggest gas transportation systems — which Calvillo puts down to competitiveness and "the advantage of knowing our market and knowing how to move within it."

Fermaca, which transports gas from the U.S. to Mexico, believes the relationship between both countries has been a win-win. "We've invested \$550 million in the U.S.," Calvillo says. The contractor, pipeline and our



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partners are American, and we are transporting gas that has no economic viability in the U.S. to Mexico, so that U.S. gas producers can sell it."

The company wants to grow its U.S. network and has recently set up a gas marketing company, Santa Fe Gas, in Houston. It already has relationships with many gas producers but is looking at the possibility of further joint ventures and alliances. Calvillo believes that Washington's new administration should see Mexico as a great economic partner, saying that, at Fermaca, "we're not investing in walls between Mexico and the U.S.; we're investing in ducts."

Many in Mexico have been looking further afield for investment, due to concerns about the protectionist stance of the Trump administration. Fermaca, with no present plan to enter the stock market, has been extremely successful at attracting a very

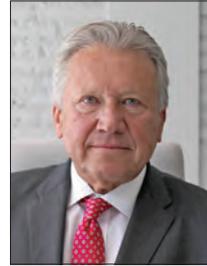
diversified group of investors. This currently includes the fund of Abu Dhabi's royal family, the biggest industrial group in Saudi Arabia, South Korea's teachers pension fund, the pension fund of Santander U.K. employees and the Swiss fund Partners Group.

And this diversity seems likely to grow, for both company and country. From his recent travels, Calvillo reveals that "the Chinese are very aggressive about investing in Mexico, and so is Europe and the Middle East."

As far as Fermaca's own investments are concerned, in addition to expanding its natural gas network, the company wants to extend its involvement in the transportation and storage of liquid petroleum gas and other hydrocarbon fuels. "As soon as we see more activity in crude oil, we will be there with tanks, guiding systems and storage for the refined products. That is where



**José Antonio González Anaya**  
CEO, Pemex



**Oscar Scolari Romero**  
CEO, Rengen



**Fernando Calvillo Álvarez**  
President and CEO, Fermaca

we are betting," says Calvillo.

Another local success betting on energy is Rengen Energy Solutions. It provides planning, engineering and construction, as well as operation and maintenance for a wide range of energy systems. Its experience, certified quality standards and alliances make it the best Mexican company for turnkey power generation and distribution projects.

"By 2025, Mexico needs another 50,000 MW of power

generation capacity. This will come mostly from the private sector and require an investment of about \$50-70 billion. The opportunity is fantastic," enthuses Oscar Scolari Romero, Rengen's CEO. By 2030, about 20-25% of Mexico's energy needs to be renewable, he notes, so "we have the opportunity not just to build new plants, but also to transform existing ones into more efficient units."

Since Mexico reformed its

## Investing in the development and operation of Mexico's energy infrastructure projects



Fermaca is a leading company in the construction, operations and maintenance divisions of the energy midstream sector in Mexico. It is the only private company with an independent system stemming from a natural gas production source in the USA all the way down to the southern part of the country.



**Fermaca**

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energy sector, "Rengen has grown exponentially in oil, gas and especially in electricity," he says. The company is Mexico's leader in waste-to-energy, having developed a process with a U.S. company to generate electricity from municipal garbage. It is now looking for opportunities in Latin America. As Scolari points out, in energy as well as other areas, "there is enormous potential in our domestic market, which is an opportunity for all investors. And Mexico is a platform for entering the Latin American and Caribbean markets."

The wide-ranging reforms approved by the incumbent government are generating a lot of momentum, but it's the reform of the energy sector that is spawning by far the most significant increase in investment opportunities. Guerra González Abogados' Jaime R. Guerra González maintains that "the energy reforms give a lot of confidence

to investors. They give enough guarantees to safeguard investments made."

Previously, Pemex held a monopoly on oil — now, it can form partnerships and give contracts to private companies at all stages of the production cycle.

Pemex is taking full advantage of this, according to CEO José Antonio González Anaya, contracting, for example, Australia's BHP Billiton for a deepwater project and France's Air Liquide to upgrade hydrogen plants.

González Anaya makes clear that the reforms have strengthened Pemex "because they allow us to do business the way every other oil company does. Efficiency gains have been huge, and we have had our first two quarters of profit since 2012."

Interest in investment in Mexican oil is high, says González Anaya. "Firstly, we are the sixth largest gasoline market in the world and secondly, we have

access to both oceans, which at one point of the country are only about 125 miles apart — no other country in the world has that."

He notes that "the next farm-outs are in shallow water and we are also looking for partners in the refining sector, because there is a lot of money to be made in refining." Pemex's job is to provide competitive contracts, González Anaya states, adding, "Chances are that if you are coming to Mexico, you are going to need Pemex."

For more than 30 years, leading integrated E&P offshore solution provider Cotemar successfully delivered some of Pemex's largest and most complex topside projects; but since the energy reforms, it has had to reconfigure itself from a company servicing the state's former oil monopoly into a full-fledged, open-to-business company.

Overall, it offers "one stop to get it done, and done right, from

operational support and maintenance to complex topside engineering, procurement, construction, installation and commissioning (EPCIC) projects," clarifies Executive Director Alejandro Villarreal M., adding that the company intends to consolidate its relationship with Pemex and use the experience to serve other companies entering the region.

Villarreal is "delighted with the results of Pemex's bidding rounds, especially given the level of international participation," but stresses that, to get the most from the new opportunities, firms entering Mexico will need local partners with relevant experience and infrastructure.

He also warns investors, "If you want to participate in Mexico's oil and gas sector, you should do it now, as you may find three years from now the best opportunities will be gone."

Taking an active role in the



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industry's change, which Villarreal says has made the country "the number one global destination for energy investment," Cotemar has invested in new twin flagship semi-submersible construction and accommodation platforms, Atlantis and Neptuno, which are big, versatile and have the highest international capabilities. The company also has its own docks, crew, vessels, helicopters, warehouses and an onshore construction yard.

Next, it is planning to expand along the Gulf Coast, "initially to provide operational support services to the exploration and production projects resulting from the offshore bid rounds, followed by construction and maintenance projects," says Villarreal.

Such has been the success of Cotemar within Mexico, it has worked with Chevron in the U.S. Gulf of Mexico and is actively seeking more alliances, joint ventures, partnerships and

acquisitions in that area.

**Booming Exports**

One business sector on the verge of major change is logistics, according to Mauricio Boy, President and CEO of Cargo Group, as "the whole of Mexican industry is on the cusp of a radical rise in exports to diverse locations." He puts this down to the low cost and high quality of Mexico's goods, and uncertainties about the upcoming NAFTA negotiations.

Eighty percent of Mexico's foreign trade is currently with the U.S., but "we have the highest number of trade treaties in the world, so we have to create competitive advantage from them," he says.

With the Trans-Pacific Partnership in place, China increasingly interested in Latin American investments, a new airport for Mexico City and the expansion of Veracruz port, Boy believes

that Mexico can become the regional logistics hub — with his company, providing services via all forms of transportation, at the center.

He says one of Cargo Group's advantages is "our 40 years of experience, which sets us apart from many of our competitors.

And Mexico's customs are complex — you need experience to help you navigate that." Now looking at expansion, Cargo Group already has a network of offices, including ones in Hong Kong and Europe, and agents in more than 120 countries, all offering state-of-the-art, advanced logistics services.

**Post-Reform Law**

Mexico's legal sector is another area seeing change due to

reforms, many of which have been put in place to give confidence to investors.

Juan Ramón Collado Mocolo, lawyer and partner of Collado & Asociados, cites the new labor law and penal reform as examples, saying, "The judicial reform, which was very complicated to design and implement, will send a message of certainty and stability. It will help change the belief that Mexico's justice is



**Mauricio Boy**  
President and CEO,  
Cargo Group



**Juan Ramón Collado Mocolo**  
Lawyer and Partner,  
Collado & Asociados



**Jaime R. Guerra González, Lawyer and Partner, Guerra González Abogados**



**Angel M. Junquera Sepúlveda, Lawyer and Partner, Junquera y Forcada**

as vital because, as “there is a big necessity for foreign investors to understand the reforms, and our associates in the U.S. are regularly consulting with us about their scope and the amount of certainty that they can provide to investors.”

Around 25% of the firm’s clients are currently international

companies, but Collado says the number is increasing day by day, as interest in investing in Mexico grows.

Guerra González Abogados is another leading law firm that is noticing rising interest from investors abroad. It has over 100 employees, offices in Mexico and San Diego, and New York bar-qualified lawyers. “We have represented many American funds and assisted with

numerous financial restructuring processes,” states Jaime R. Guerra González.

He says that having a San Diego office is important because “California is a very rich state with investments in Mexico, particularly in real estate, tourism and construction — so we have to be present there.”

Guerra González Abogados is a boutique firm exclusively focused on litigation. “We are not corporate lawyers, but we do corporate law within the judicial process — we make the contracts and the agreements to finish the litigation,” says Guerra González, adding, “Our firm is now considered a leader in litigation, civil and commercial.”

In order to adapt to Mexico’s changing business climate, the firm is looking to invest in technology to increase efficiency, open an office in tourism business haven Cancun and expand its number of partners.

Ease of investing is the reason that the most active transnational companies in the world are established in Mexico, according to Angel M. Junquera Sepúlveda, lawyer and partner at Junquera y Forcada, a modern law firm of international renown.

He feels that Mexico should pursue opening free trade opportunities throughout the world and take advantage of the number of trade agreements it has. But he’s emphatic that the U.S. is Mexico’s most important trading partner.

Junquera, who studied in the U.S., reveals that his firm has been fostering commercial, professional and academic links with the U.S. for 33 years.

As a result, over a quarter of the firm’s clients are American. “We have many examples of international entrepreneurs, and the majority have grown and obtained a market they never dreamed of before coming

slow and nebulous.”

His law firm has put a lot of focus on strategic changes, due to the country’s economic reforms. “There is a chasm between pre-reforms lawyers and the ones that came afterward. The system has changed completely. So we had to get our lawyers ready,” he says.

Collado & Asociados has both Mexican and international associates, which Collado sees

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here," he adds.

Junquera y Forcada has 40 lawyers, and Junquera says it is "very selective" about the cases and clients it represents. He sees mediation, arbitration and prevention as being the firm's biggest growth areas, stressing that "it is better to prevent than to have to go into litigation."

**Planting The Future**

The export boom is one of the reasons that Mexico's forestry sector is evolving: "We need more paper, more carton and many other things to export," explains Gaston Mauvezin, CEO of Proteak, the largest forestry company in Mexico and third biggest producer of teak in the world.

Proteak, which is listed on the Mexican Stock Exchange, is a company to watch. Traditionally lacking investment, forestry now offers high growth potential, with Proteak proving it to be a safe

bet. It invested \$200 million in Mexico's first medium-density fiberboard (MDF) plant in 2013.

"We realized that we import around 95% of the MDF boards we consume. Since we announced the plant, our stock value has risen 80%, and in our first year we already have almost 23% of the market," says Mauvezin.

But he sees even bigger opportunities in other forest-derived products besides MDF boards. Mexico imports over 30% of the furniture it uses and "Proteak is looking to cause a revolution in the furniture industry," he admits.

**Healthy Demand**

Regulation, professionalization and rising demand are the factors driving development in Mexico's pharmaceutical industry. And Grupo Bruluart is a shining example of the changes being seen in the sector. Under



**Omar Fayad Meneses**  
Governor,  
State of Hidalgo



**Gaston Mauvezin**  
CEO,  
Proteak



**Juan José Aguirre Salazar**  
Commercial  
Manager,  
Grupo Bruluart

the brand names Bruluart, BruLuagsa and Brudifarma respectively, it manufactures generics, antibiotics and private sector products. It also runs a chain of over 1,100 Farmacias Gi pharmacies, many of them franchises, and that number that should reach 1,500 this year.

This direct contact with consumers and doctors "is very valuable for our R&D department, allows us to react quicker than the competition and is one of our main competitive advantages," says Juan José Aguirre Salazar, commercial manager.

"The increased regulation makes it much easier to get approval from the U.S. Food and Drug Administration," says Aguirre, and Bruluart intends to benefit from this by gaining certification in the short term and expanding exports.

**Hidalgo – The Investment Hub**

If you want to see how all the changes happening in Mexico can come together to create a stimulating climate for investments, the State of Hidalgo is the place to go. Its new governor,

Omar Fayad Meneses, is pursuing a vision of making it "a reference point of development for the entire country."

Standard & Poor's has increased its rating from MXA negative to MXA stable, and about \$750 million in investment funds has poured in, including \$213 million from China's JAC motors, which is building an electric vehicle factory.

Fayad has set up a one-stop window for investors, so that "when you need something, you don't have to knock on 20 doors — because knocking on doors is a waste of time and makes the investor vulnerable to corruption," he explains.

Hidalgo is ideally positioned — it's at the heart of Mexico, with quick access to both oceans, and only 40 minutes from the capital's new airport. Other advantages include 10 industrial parks and two upcoming Canadian gas pipelines. Fayad wants to "assure investors that if they invest in our state they will flourish." He, like Mexico as a whole, is ready to "receive investors with open arms."

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# The Benefits Of Sustainable Banking And Private Healthcare

CIBanco is growing in importance by redefining Mexican financial services and becoming the country's first green bank.

As Mexico's banking sector becomes more dynamic, CIBanco is becoming an increasingly important player, by redefining banking and taking advantage of emerging niches with growth potential — both within financial services and in other sectors, such as healthcare. And it has redefined itself too, by becoming “the first bank in Mexico to adopt sustainability and green finance as a vocation and vision,” according to Jorge Rangel de Alba Brunel, president of CIBanco.

With over 30 years' experience in the financial arena, it was originally set up by Inversiones RAL as a corporate exchange house. It became the full-service CIBanco, Institución de Banca Múltiple in 2008, and it has rapidly grown to become one of the country's top 10 banks, with a countrywide network of about 200 branches and 2,500 employees. It is also “one of the five leading banks for foreign exchange and fiduciary, and in the top eight for auto loans,” says Rangel de Alba.

Above all, he adds, “Our brand is trusted by depositors, who can be certain that their money is correctly invested and our investors get an attractive return.” CIBanco

prides itself on providing better service than other banks and personalized attention, with modern care channels that are available any time and anywhere.

This, plus operational prudence, continually seeking opportunities for new services and being among the first to spot unattended niches, helps explain why it has seen recent growth in income and profitability at significantly higher levels than its competitors. “This year we have grown 30% above our internal budget and 30% more than the same period last year,” says Rangel de Alba.

## The Future Is Green

Becoming a green bank has also brought success. CIBanco is convinced, not only that climate change is vitally important, but also that adopting sustainable practices “can be an engine of growth, innovation and employment,” explains Rangel de Alba. The bank provides preferential credit rates to support the acquisition of solar panels and low-emission cars, and for businesses buying equipment or services that generate environmental benefits.

CIBanco also focuses on sustainability in its day-to-day

operations. For example, its debit cards are made from a recyclable compound obtained from corn starch, it uses solar energy at most of its facilities and it has planted 3,500 trees as part of a Mexico City reforestation campaign.

Rangel de Alba is certain CIBanco's rise up the ranks of Mexican banks will continue: “We are growing in a sustained way.

By 2021, our portfolio will be double.” Some of the ways it intends to achieve this are by expanding green financing, creating alliances with car companies, providing customized financing to small, medium and select large businesses, improving digital and mobile banking, and investing in technology and staff.

CIBanco is also aiming to be an even bigger participant in foreign and domestic trade activities and

in the U.S. and Mexico through 17 shopping outlets; automobiles, where it represents 1.4% of Mexican car sales; and tourism — it owns a hotel that has recently been expanded and is planning to open more.

But the untapped sector offering the most potential is private healthcare, a Mexican market with few players that is seeing robust growth. “Social security doesn't have the financial capacity to attend to the entire population's health, so there is a major opportunity,” points out Rangel de Alba.

The company has already invested in five hospitals and is about to finish a sixth. With others, it is negotiating the development of a 118,000-square-foot medical practice in Ciudad Mítika, a large mixed-use development in Mexico City. “By then,” says Ran-

## “Mexican banks are in a better position to face a crisis than many banks in many countries of the world.”

JORGE RANGEL DE ALBA BRUNEL  
CHAIRMAN OF THE BOARD, CIBANCO

to attract more foreign investment through its brokerage services and investment funds. It also intends to increase depositor numbers. “A large percentage of the population is still unbanked, so there's a huge potential for growth when we start banking that informal economy,” explains Rangel de Alba.”

## Opportunities In Health

Outside of banking, CIBanco's parent group, Inversiones RAL, is active in a number of other industry sectors. For example, retail, where it markets 60 luxury brands

gel de Alba, “we will probably be the third or fourth biggest hospital group in Mexico. And we have ambitious plans for further investment and improvements.”

As a leading participant in both banking and healthcare, two market sectors predicted to see substantial growth, Rangel de Alba is very enthusiastic about his company's prospects. “Mexico has an enviable economic future. We have an experienced, knowledgeable team, which is respected in the market. If we take advantage of this, we will reap great benefits,” he concludes.

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