



2016 Top Markets Report **Building Products and Sustainable Construction** Country Case Study

Mexico

Mexico ranks second among top markets for U.S. building product exporters. U.S. building products enter Mexico duty-free under NAFTA, and the construction market is highly receptive to U.S. products. Interest in green building continues to grow in Mexico. Near-term, leveraging subsector-specific trade promotion events, market intelligence and export financing may help expand the strong existing U.S. competitive position in Mexico. Increased transparency and a more aligned regulatory environment may expand longer-term U.S. market access to both traditional and green building opportunities.

Overall Rank 2	HVACR 2	Lighting 2	Plumbing Products 1
Wood Products 3	Insulation 1	Windows & Doors 2	Glass 3

U.S. manufacturers of HVACR, lighting, plumbing products, wood products, windows and doors and glass are highly competitive in Mexico, holding the leading import market share positions across the sector. U.S. building products enjoy a strong reputation for quality and reliability in Mexico, and traditionally have been well received by construction industry actors seeking to offer projects featuring higher quality materials and equipment.

Mexico Construction Market

Mexico’s overall construction industry is projected to expand at a rate of 4.8 percent annually through 2018,¹ just slightly higher than the growth rate from 2009 to 2014 driven by implementation of Mexico’s National Infrastructure Plan and other policies. Looking forward, expansion of the leisure and hospitality building category is expected as Mexico works to expand its tourism sector. Government-led

affordable housing projects also are expected to see continuing expansion through 2018. In terms of green building activity, the new commercial building segment is expected to see growth, together with existing building retrofits.

The Green Building Market in Mexico

The construction industry in Mexico has established a Green Building Council and has embraced green building in part as a means of establishing project differentiation based on higher quality materials and equipment.

A recent industry survey conducted on construction industry stakeholders in Mexico suggested strong potential for green building product and service providers in the market.² Respondents indicated that market demands, client demands, lower operating costs and higher return on investment (ROI) are key

drivers of interest. Other survey findings of note include:

- The construction industry in Mexico is increasingly committed to green building. Within the coming three years, 44 percent of respondents indicated over 60 percent of their projects are expected to be green. This is more than double the current level of Mexican respondents currently at that level.
- Sixty-five percent of respondents indicated they will be doing work on new commercial buildings (office, retail, hotel) in the next three years.
- Forty-six percent of respondents reported they expect to do green retrofits of existing buildings within the next three years.
- One-third of respondents indicated they expect to work on green interior projects within the next three years.

Policies Supporting Green Building

Mexico recognizes buildings as the country's largest consumers of electricity and necessarily a key focal area in working to reduce greenhouse gas emissions. As such, Mexico is taking steps toward more environmentally friendly practices in the built environment and has shown interest in learning from the experiences of U.S., Canadian and other international best practices. Public policies aimed at increasing sustainable construction in Mexico have been concentrated in the housing sector. Such policies include incentives and subsidies for incorporating green technologies and establishment of voluntary and mandatory domestic standards for products and processes.

Standards

In Mexico, standards for products, systems and services include (i) Mexican Official Standards (NOM), which are *mandatory* federal government technical regulations that relate to health, safety and protection of the environment and consumer and (ii) Mexican Standards (NMX), *voluntary* standards for quality specifications of products, processes, systems and services.

In Mexico, only standards developed by the International Organization for Standardization (ISO), the International Electrotechnical Committee (IEC) and the International Telecommunications Union

(ITU) are recognized as international standards, while those from other standards development organizations are considered foreign standards even if they meet the criteria of the World Trade Organization (WTO) Technical Barriers to Trade (TBT) Decision on Principles for the Development of International Standards. In addition to NOM and NMX, the Technical Suitability Report (DIT) is a commonly used set of process rules created on a product-specific basis.

Specific to buildings, multiple Mandatory Mexican Standards (NOM) exist for energy efficiency in the residential and commercial building envelope and for specific equipment and systems for lighting, appliances, HVACR, insulation and other building products. There is also a Mexican Voluntary Standard (NMX) for Sustainable Buildings, among other voluntary performance guidelines. In the realm of DITs in Mexico, there are product-specific guidelines for windows, glazing systems, thermal resistance elements, roofs, tiles, water heaters and other building components.

Challenges & Barriers to Sector Exports

Highly competitive market environment

While U.S. building product manufacturers enjoy strong brand recognition and a reputation for reliability and quality in Mexico, they must be prepared to compete on price and product performance with leading global players. Growth of sales requires direct engagement with buyers in settings that permit detailed presentations of product technical specifications and performance attributes.

Traditional trade promotion activities (e.g., trade shows, trade missions, reverse trade missions, technical dialogues and exchanges) are effective, particularly for SME exporters. These events should be undertaken on a subsector-specific basis to ensure that U.S. exporters have focused engagement with Mexican buyers, allowing technical discussions on product performance capabilities and requirements.

Standards and conformity assessment

U.S. industry reports standards and conformity assessment issues (certification, inspection, sampling and testing, accreditation) as the largest non-tariff barriers to trade in the sector. These types of barriers, with inherent cost impacts, are

burdensome for all exporters and have disproportionate impact on SMEs. The full suite of USG tools that can assist exporters with standards and conformance issues is detailed in the Executive Summary and Findings section of this report.

Mexico is conducting an overhaul of its standardization system, including consolidating standards development under a unified entity. The exact timetable and funding source for this consolidation remain unclear, and it is questionable whether Mexican authorities are realistic in their goal of this entity developing thousands of new standards within a short timeframe. Outside of the standards system restructuring, U.S. stakeholders report a general lack of transparency in engaging with the Mexican Bureau of Standards.

As mentioned above, Mexico currently recognizes only ISO, IEC, and ITU standards as “international standards” for mandatory requirements.

Capacity to expand green building

Mexico has shown strong interest in gaining policymaking and technical expertise from the international community.

Trans-Pacific Partnership

Mexico is a party to the Trans-Pacific Partnership (TPP) Agreement, a free trade agreement among the United States and 11 other countries that, after the agreement enters into force, will provide important market access benefits to U.S. exporters. Information about TPP benefits to U.S. building product exporters and other information on how TPP will make it easier to sell made-in-America products can be found at <http://trade.gov/fta/tpp/industries/building.asp>.

Know Your Buyer

For building product exports, the importance of specific sales channels and buyer categories varies depending on the target export market. In Mexico, ITA experience supporting U.S. building products exporters indicates the following assignment of priority among relevant sales channels:

Figure 1:

<u>Sales Channels</u>	<u>Priority</u>		
	Low	Medium	High
Government entities	X		
Architects		X	
Design and build companies		X	
Trade contractors		X	
Building facility managers			X
Distributors			X
Showroom dealers		X	
Retailers	X		
Other	X		

Opportunities for U.S. Companies

Mexico imported \$12 billion in building products in 2014, reflecting an 11 percent compound annual growth rate over the preceding five years. For the sector as a whole and for every subsector within the group, the United States is currently the leading source of Mexico’s imports, claiming 53 percent of the Mexican import market. A look at each of the subsectors provides a more informed perspective on the U.S. competitive position.

Figure 2: Mexico's Import Market

<i>Sector</i>	<i>Imports (2014, USD)</i>	<i>U.S. Rank as Import Source</i>	<i>U.S. Import Market Share</i>
HVACR	\$7.4 billion	1	55.3%
Lighting	\$1.6 billion	1	43.7%
Plumbing	\$805 million	1	54.9%
Wood products	\$1.6 billion	1	42.6%
Insulation	\$346 million	1	72.7%
Windows & Doors	\$108 million	1	65.8%
Glass	\$109 million	1	71.7%

HVACR

Mexico's imports of HVACR products from the world grew at a compound annual growth rate of 13.1 percent during 2009 through 2014, and its imports of these products from the United States grew at 12.6 percent during the same period. The United States' share of Mexico's HVACR import market fell slightly to 55.3 percent in 2014 from 56.5 percent in 2009. The import market share of HVACR products from China grew nearly 4 percent during the same period.

Top Import Sources and Market Share:

1. United States (55.3%)
2. China (17.2%)
3. Korea (4.3%)
4. Germany (4.1%)
5. Japan (3.8%)

Lighting

Mexico's imports of lighting from the world grew at a 10.5 percent compound annual growth rate during 2009 through 2014. Its imports of lighting from the United States grew at 9.5 percent annually during the same period. The United States' share of Mexico's lighting import market decreased slightly to 43.7 percent in 2014 from 45.6 percent in 2009. Imports of lighting from China grew substantially during these five years as did its product import market share.

Top Import Sources and Market Share:

1. United States (43.7%)
2. China (32.1%)
3. Germany (6.7%)
4. Japan (3.6%)
5. Korea (2.1%)

Plumbing

Mexico's imports of plumbing products from the world grew at a compound annual growth rate of 4.6 percent during 2009 through 2014, and its imports of these products from the United States grew at a modest 0.7 percent annually during the same period. The United States' share of Mexico's plumbing product import market fell from 66.4 percent in 2009 to 54.9 percent in 2014.

Top Import Sources and Market Share:

1. United States (54.9%)

2. China (19.5%)
3. Malaysia (4.7%)
4. Germany (3.2%)
5. Japan (3.1%)

Wood

Mexico's imports of wood products from the world grew at a compound annual growth rate of 8 percent during 2009 through 2014, and its imports of wood products from the United States grew at 9.7 percent annually during the same period. The United States' share of Mexico's wood product import market grew to 42.6 percent in 2014 from 39.4 percent in 2009.

Top Import Sources and Market Share:

1. United States (42.6%)
2. Chile (15.2%)
3. China (9.4%)
4. Brazil (5.7%)
5. Canada (3.6%)

Insulation

Mexico's imports of insulation from the world grew at a compound annual growth rate of 16.7 percent during 2009 through 2014, and its imports of these products from the United States grew at 15.9 percent annually during the same period. The United States' share of Mexico's insulation import market fell slightly to 72.7 percent in 2014 from 75.2 percent in 2009. China increased its product market share from 3 percent to 11 percent during the same period.

Top Import Sources and Market Share:

1. United States (72.7%)
2. China (11.0%)
3. Japan (3.1%)
4. Canada (2.3%)
5. United Kingdom (2.0%)

Windows and Doors

Mexico's imports of windows and doors from the world grew at a compound annual growth rate of 5.7 percent during 2009 through 2014, and its imports of these products from the United States grew on par at 5.7 percent annually during the same period. The United States' share of Mexico's window and door import market held firm at just over 65 percent between 2009 and 2014.

Top Import Sources and Market Share:

1. United States (65.8%)
2. China (12.3%)
3. Canada (6.0%)
4. Italy (4.6%)
5. Spain (4.4%)

Glass

Mexico's imports of glass from the world grew at a compound annual growth rate of 10.3 percent during 2009 through 2014. Its imports of these glass

from the United States grew at 7.8 percent annually during the same period. The United States' share of Mexico's glass import market to fell to 71.7 percent in 2014 from 80.1 percent in 2009.

Top Import Sources and Market Share:

1. United States (71.7%)
2. China (12.2%)
3. Germany (4.1%)
4. France (2.6%)
5. Romania (1.9%)

Resources for U.S. Exporters

Please visit www.export.gov/mexico for information from U.S. Commercial Service (CS) Mexico, including

- Market research
- Trade events
- Trade leads
- Services available to U.S. companies
- Contact information for CS offices in Mexico City, Monterrey, and Guadalajara
- Info on subscribing to regular updates or connecting on social media
- Other information to assist U.S. exporters with Mexico export market development

Upcoming Building Sector Trade Events for U.S. Exporters Interested in Mexico

- Expo Cihac
October 11-15, 2016
Centro Banamex, Mexico City, Mexico
<http://www.expocihac.com/en>
- Expo Nacional Ferretera
September 8-10, 2016
Expo Guadalajara, Guadalajara, Mexico
<http://www.expoferretera.com.mx/en/>
- SAIE Mexico
February 20-23, 2017
Centro Bancomer, Mexico City, Mexico
<http://www.saiemexico.com.mx/>

¹ *Construction In Mexico – Key Trends and Opportunities to 2018*, Timetric (2016)

² Dodge Data and Analytics, *World Green Building Trends 2016, Developing Markets Accelerate Global Green Growth*, February 2016