VEDP | International Trade
ExportVirginia.org

Sector Opportunities in Mexico:

Defense + Public Security

1. Market Landscape + Trends

2. Market Players

3. Market Entry

Market landscape + trends

en.wikipedia.org/wiki/List_of_countries_and_dependencies_by_population
en.wikipedia.org/wiki/List_of_countries_by_GDP_(PPP)
Image: Marine Corps Gen. Joe Dunford at Mexican military academy Heroico Colegio Militar, 2018
media.defense.gov/2018/Sep/14/2002040862/-1/-1/0/180913-D-SW162-3019.JPG
cvc.cervantes.es/lengua/espanol_lengua_viva/pdf/espanol_lengua_viva_2019.pdf

Mexico has urgent demand, but low budgets + a complicated gov't purchasing landscape. What can Virginia companies offer that helps their mission?

Mexico in relative terms

- 10th largest country globally
  - 125 million people (40% the population of USA)
- 11th largest economy
  - Between France + Korea in total market size (PPP)
- Shares with the USA:
  - Federal democratic republic structure of government
  - Integrated economic region (USMCA) + supply chains
  - Connected airspace, highways, power grid, pipelines, telecom
  - Intense border cooperation for trade + travel
  - Intense cooperation on regional security
  - Interconnected political + family histories
  - Mexico has 50 consulates in the United States
  - Language: including non-native speakers, US has more Spanish-speakers than every country in the world except Mexico

Market size: MX military

- Mexico's military budget hovers around 2% of total government budget, comparable to Switzerland's relative budget
- In absolute terms, Mexico ranked between Sweden + Oman for expenditure in 2019, spending about 6.5 billion USD
- Mexico's total military capex planned for 2020 is equivalent to about 10 billion USD
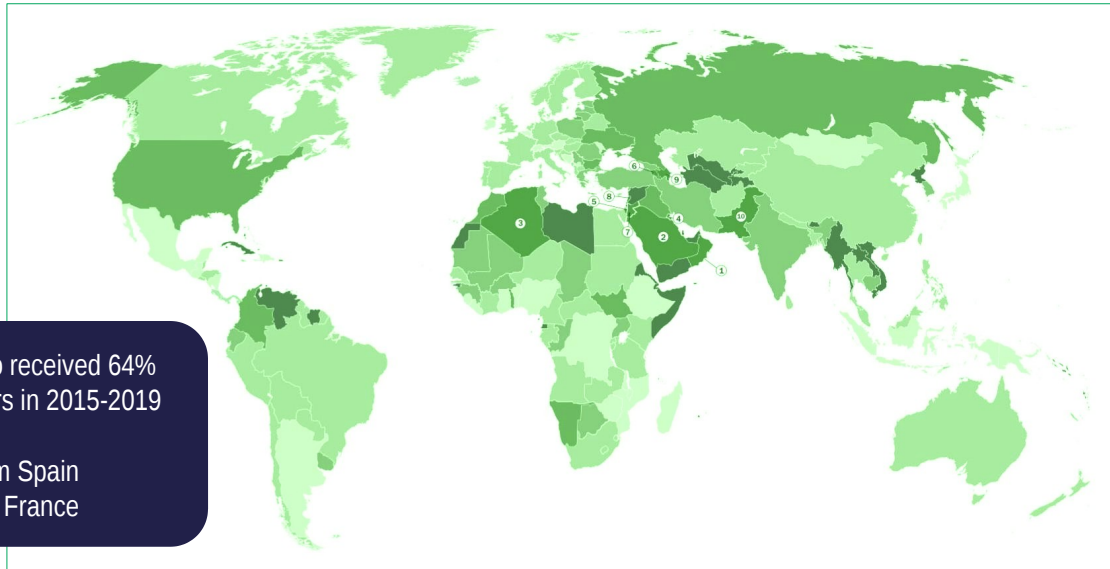
FMS: Mexico received 64% of its transfers in 2015-2019 from the US
- 10% from Spain
- 9% from France

Graphic: military spending as a percentage of GDP, 2019 (from Sipri-- color intensity denotes greater relative spending)

Mexico's Defense Cabinet
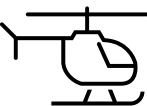
SEDENA
SECRETARÍA DE LA DEFENSA NACIONAL

The Army + Air Force

SEMAR
SECRETARÍA DE MARINA

The Navy + Marine Armada

Market size: MX law enforcement

Federal-level policing and investigation (Guardia Nacional) is currently part of the military budget

- The federal government provides annual subsidies to states and municipalities throughout the country, in 2020 equivalent to about 1.4 billion USD (28.8 billion MXN). The share of police organizations who rely on federal subsidies for all or most of their budgets is unknown.

- Some state entities, notably Nuevo Leon and Mexico City, have comparatively robust subnational investment in policing capabilities, ranging from new hiring, training and equipment to data fusion systems.
  - Nuevo Leon: 2020 budget destines about 300 million USD (5.9 billion MXN) to policing
  - Mexico City for policing 2020: about 2 billion USD (39 billion MXN)

>50% of municipalities in Mexico employ 10 or fewer police. 30% of police in surveyed districts aren't paid a living wage.

SESNSP administers federal subsidies to municipal police, under 2 funds:
FASP
FORTASEG

SEGURIDAD
SECRETARÍA DE SEGURIDAD
Y PROTECCIÓN CIUDADANA

Sample Data
(millions of pesos)

- 350
- 300
- 250
- 200
- 150

Graphic: Mexico's 32 states and how federal public security subsidies were distributed among them in 2019

www.animalpolitico.com/el-blog-de-causa-en-comun/policias-estatales-y-municipales-fuera-del-presupuesto-de-egresos-para-2020/
www.animalpolitico.com/el-blog-de-causa-en-comun/estados-y-municipios-abandonados-en-el-presupuesto-para-seguridad/mapa-1-9/
seguridad.nexos.com.mx/?p=1857
www.eleconomista.com.mx/politica/Presencia-criminal-falta-de-policias-sin-equipo...-20200721-0142.html
www.nl.gob.mx/publicaciones/presupuesto-ciudadano-2020
heraldodemexico.com.mx/cdmx/seguridad-prioridad-en-presupuesto-de-la-cdmx/

Military or law enforcement?

SSPC cabinet ministry is in charge of
- Public safety / disaster protection
- Government intelligence
- Public security
- National security
- Combating organized crime
- National police coordination
- Security support to states
- Federal penitentiary systems

2006: MX military tasked with law enforcement role in "war" on drugs

While it may have been necessary for military to step in, this role is unconstitutional

For most of **20th century**, MX military focused on disaster relief

2018: Public Security + Citizen Protection (SSPC) cabinet seat created, essentially revamping federal police

2019: National Guard created

Belongs legally to SSPC with federal police + military personnel, funded + operated by military

250 coordinating units nationwide

- **National Strategy for Peace + Security 2018-2024**
  - Implements previous administration's creation of SSPC + National Guard: SIGNIFICANT area of continuity in an administration that has sought to eschew many other programs of its predecessors
  - Focuses on social, structural changes + development as a means to precluding violence, criminal activities
  - Rethinks drug policy with emphasis on supply side: cannabis in process of legalization, if successful may be a stepping stone to legalized poppy cultivation. Permits amnesty of individuals + groups in certain circumstances.
- President AMLO's austerity plan for government is a political + operational backdrop
  - Austerity plan technically hasn't lowered military peacekeeping budget
  - Focus for military austerity is via reducing waste related to inefficiency + corruption
  - Allocation of Sta Lucia airport to the military's budget effectively does reduce money available for security programming

Military priorities through 2024

SEDENA

- Continue staffing + dev of National Guard
- Leadership + culture of the organization
- Reducing corruption
- Control + protection of National Airspace
- Air Force + Special Forces intelligence
- AF training: pilots, crews, maintenance
- Aircraft maintenance process + automation

- International + regional cooperation, e.g. FAMEX, training exchanges
- Economic + sustainable dev goals
- Intelligence: doctrine, training, purpose, R+D
- Improvements to Cyberspace Operations Center
- Drug + weapons interdiction
- Drug crop eradication
- UN CECOPAM in Mexico, for military, police, civilian training

SEMAR

- National Maritime Authority: UNICAPAM units at maritime ports
- Naval construction to help drive economic development
- Improve well-being of personnel (health, education, human rights initiatives)
- Regional security through multinational cooperation
- See linked plan for detailed objectives related to digital information + intelligence

- Return Armada focus from inland to coastal areas
- Naval Police support inland in coordination with National Guard
- Rule of law in maritime zones + coasts: expanded search, rescue, patrol stations
- Apply naval industries + acquisition of air assets to better patrol coasts; interdiction
- R+D through public, private + academic cooperation: see several projects here

Both organizations publish their strategies for the current presidential administration (linked on their names).
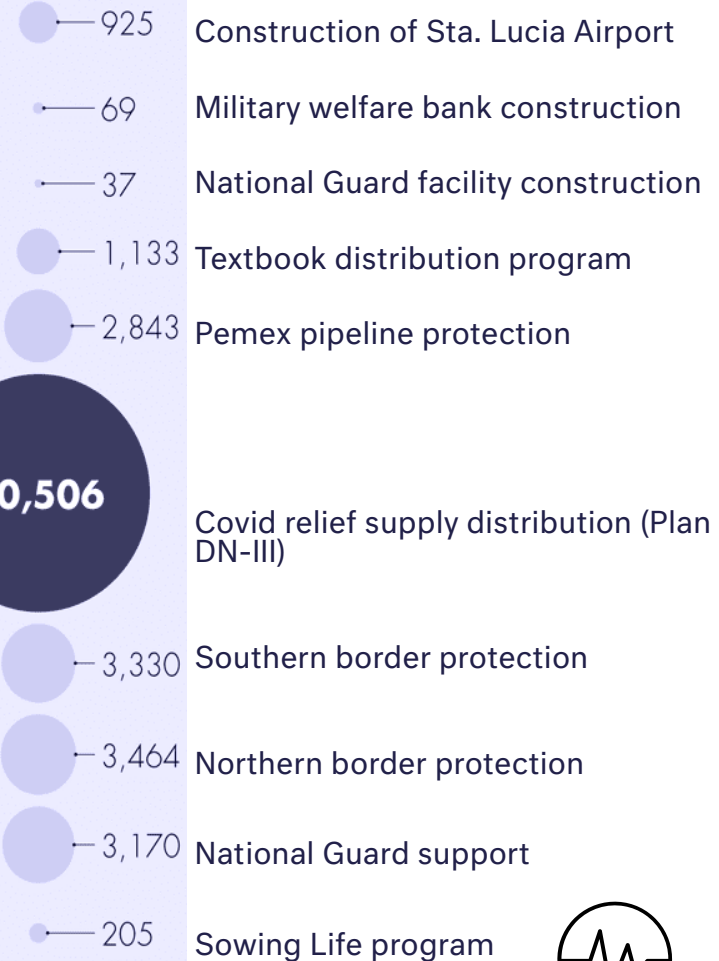
6

Recent SEDENA deployments + personnel assignation

DN-III is SEDENA's disaster relief program.
Pictured: DN-III, and SEMAR, helped residents
of New Orleans after Hurricane Katrina in 2005.

Personnel assigned

Personnel	Assignment
925	Construction of Sta. Lucia Airport
69	Military welfare bank construction
37	National Guard facility construction
1,133	Textbook distribution program
2,843	Pemex pipeline protection
30,506	Covid relief supply distribution (Plan DN-III)
3,330	Southern border protection
3,464	Northern border protection
3,170	National Guard support
205	Sowing Life program

www.eleconomista.com.mx/politica/Para-tareas-encargadas-por-AMLO-45682-militares-20200712-0077.html with data from SEDENA

SEDENA CapEx 2020

As approved by the Mexican legislature (link)

1) $160 billion MXN (about 8 billion USD) total for calendar year 2020

2) Half is for a new airport at airbase Santa Lucia, which will be Mexico City's new major commercial airport

3) Examples of other investments approved for 2020 cycle:

   1) Long-range three-dimensional radars. Airspace management system (about 180 million USD)

   2) Transformation + upgrades of military industrial production infrastructure (about 1 billion USD)

   3) Aircraft: a C-295 outfitted for military transport, 6 EC-725 helicopters (about 900 million USD)
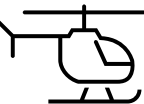
SEDENA CapEx planned

- Items requested but not approved in 2020:

  - Communication + telecommunication equipment

  - Technologies to implement phase 2 of the National Cyber Operations Center

  - Technological platform + equipment for data exchange
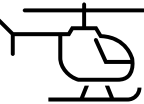
SEMAR CapEx 2020

As approved by the Mexican legislature (link)

1) $46 billion MXN (2.3 billion USD) total for Jan-Dec 2020

2) Example approved investments:

   1) Aircraft for interception operations, "assets for surveillance operations," naval hospital remodeling

3) Example items requested but not approved:

   1) Construction of naval search + rescue stations, counterintelligence collection optimization equipment, technology to strengthen Armada intelligence's data network, information platform for automating + monitoring maritime signaling
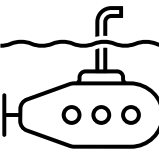
Significant military OpEx 2020

SEMAR + SEDENA both publish their detailed budgets (linked) as of the AMLO administration

- Medicines, vaccines (human + vet)
- Canine training
- Ground + marine vehicle operation + maintenance, fuels
- Maintenance of inspection equipment
- Tactical equipment
- Harris radio parts
- IT licenses + services
- Mobile satellite, Bicentennial satellite + public network communications
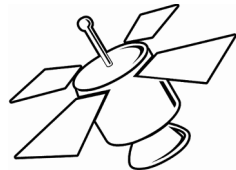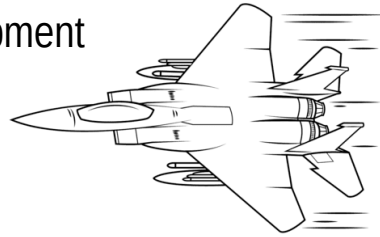
- Weather event prediction technology consulting
- Information services for air traffic control simulator
- Electronic flight instrument / navigation systems subscriptions + updates
- Support + logistics for 44 T-6 planes, Gulfstream G550, multiple Casa C-295s, Grob G120TP-A, 11 EC-725s + their engines, aircraft engine + other components / overhaul + parts, avionics courses, maintenance courses, pilot courses
- Information interpretation + analysis services
- Maintenance of manufacturing equipment

Characterizing policing demand

- Federally subsidized spending for municipal, state police aims to enforce accountability + professionalism
  - Both FASP + FORTASEG publish approved line items for which subnational police can use funds
- Strategic objectives of both funds:
  - Local institution capability building in public policy to prevent violence + crime, with a focus on community involvement
  - Development, professionalization + certification of police
  - Technology, equipment + infrastructure to support police operation
  - Penal justice reform implementation (national reform adopted 2006-2016)
  - Improving the penitentiary system including adolescent reform programs
  - Forensics development
  - National information coordination for security
  - National system for emergency + crime reporting
  - Improving ability to prevent + respond to "high impact" crimes
  - Specialized units for missing persons search

Mexico City Investigations: Case Study

With several challenges surrounding fragmentation of investigative data + intel, Mexico City in 2015 began internally building an information system that's accessible to both preventative (police) + investigative (prosecutor) bodies. The system has met myriad architectural + input problems, and is being improved currently. InSight Crime recently published an excellent, detailed article analyzing the situation. VEDP brought companies to meet with Mexico City police as they began the project originally, but budgetary + systemic constraints at the time did not favor hiring a contractor.
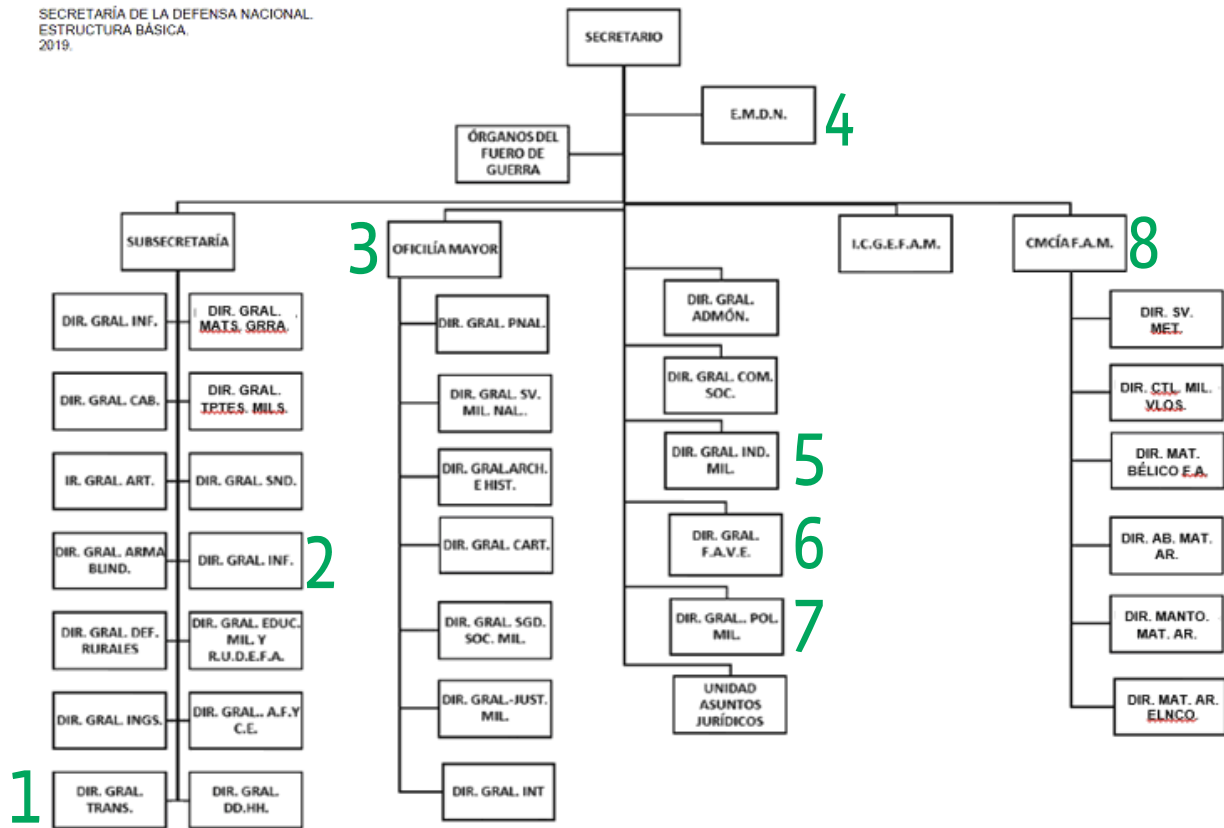
Important players

- SEDENA
- SEMAR
- SSPC + State Police
- Suppliers
- Associations + networking

SEDENA

SECRETARÍA DE LA DEFENSA NACIONAL.
ESTRUCTURA BÁSICA.
2019.

Units of common interaction for Virginia companies

1) Transmisiones = Signals
2) Informática = IT (enterprise)
3) Oficialía Mayor = Purchasing
4) Estado Mayor = Mission-Centered Capabilities

   e.g. intelligence, logistics, doctrine, counternarco, probably the Cyber Operations Center

5) Industrias Militares = Military production
6) FAVE = Uniforms + Equipment production
7) Policía Militar = Military Police (Guardia Nacional)
8) FAM = Air Force

   Meteorology, Flight Control, Air Materials (munitions, supply, maintenance, avionics)

   SIVA =Air Surveillance System

consultapublicamx.inai.org.mx

SEDENA Military Industries

- 18 factories
  - Weapons, paints, cartridges, plastics, tools, clothing + equipment, heat treatment processes, freight, etc.

- After Pemex, organization with highest number of patents in Mexico
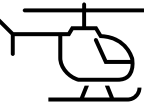
Example Air Force capabilities

SIVA Air Surveillance System

- Satellite detection of un-permitted aircraft

- 3 Embraer platforms, 2 King Air, plus Elbit Hermes drones

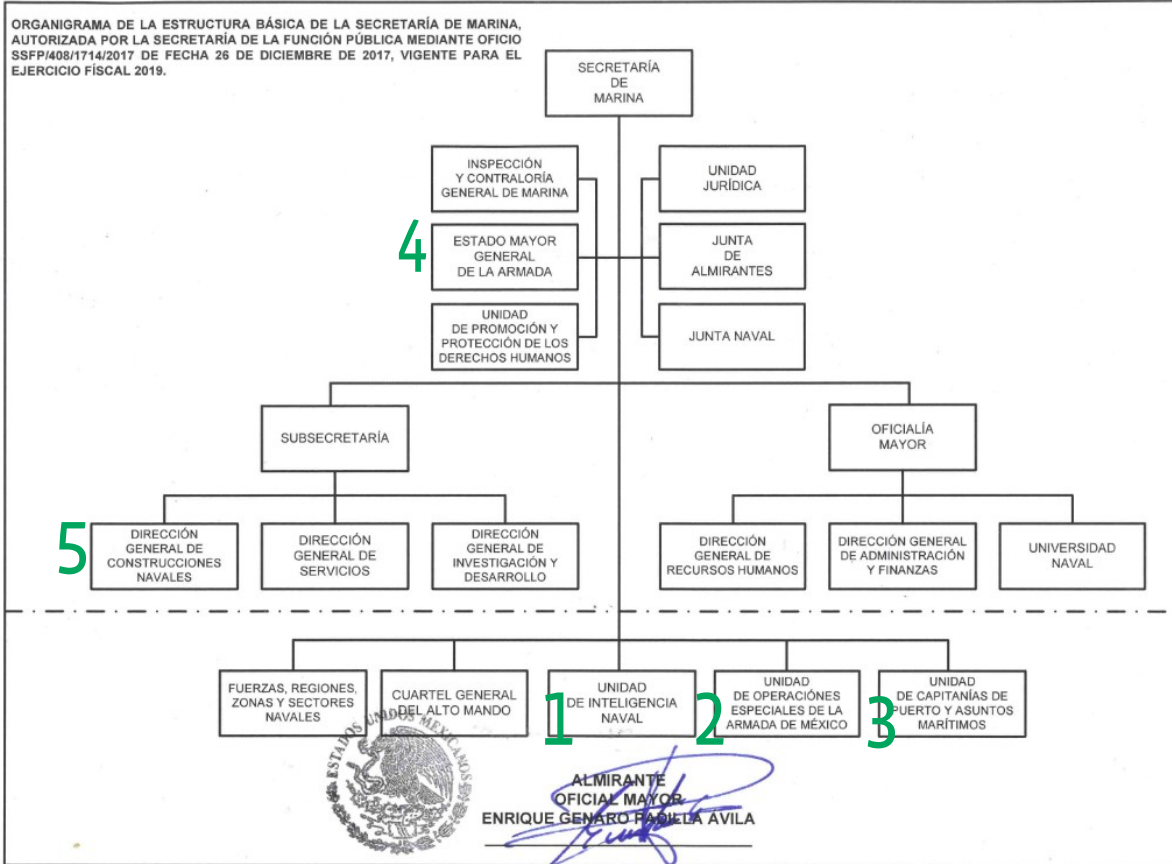- 30 million USD investment over 3 years (2015-2018)

3 radares en la frontera norte.

Aeronaves no tripuladas

Aeronaves Embraer

3 radares en la frontera sur.

Feb. 2020, Infobae.

A list of the FAM's air assets can be found here.

SEMAR

ORGANIGRAMA DE LA ESTRUCTURA BÁSICA DE LA SECRETARÍA DE MARINA, AUTORIZADA POR LA SECRETARÍA DE LA FUNCIÓN PÚBLICA MEDIANTE OFICIO SSFP/408/1714/2017 DE FECHA 26 DE DICIEMBRE DE 2017, VIGENTE PARA EL EJERCICIO FÍSCAL 2019.

consultapublicamx.inai.org.mx

Areas of interest for Virginia Companies

1) UIN = Naval Intelligence
   CEREGINAs + CERFIs are regional intelligence centers
1) Operaciones Especiales = Special Operations
2) UNICAPAM = Maritime Port Security
3) Estado Mayor = Mission-Centered Capabilities (includes information security)
4) Construcciones Navales = Shipyards

Other units not on the chart that can be reached directly:

Naval Aeronautics, Oceanography + Meteorology

Communications + Information, UNIPLACE = Strategic Coordination + Planning Unit

SSCP

COORDINACIÓN OPERATIVA INSTITUCIONAL (3)

COMANDANTE DE LA GUARDIA NACIONAL

JEFATURA GENERAL DE COORDINACIÓN POLICIAL

COORDINACIÓN TERRITORIAL (12)

COORDINACIÓN DE ADMINISTRACIÓN Y FINANZAS

UNIDAD DE ÓRGANOS ESPECIALIZADOS POR COMPETENCIA

1

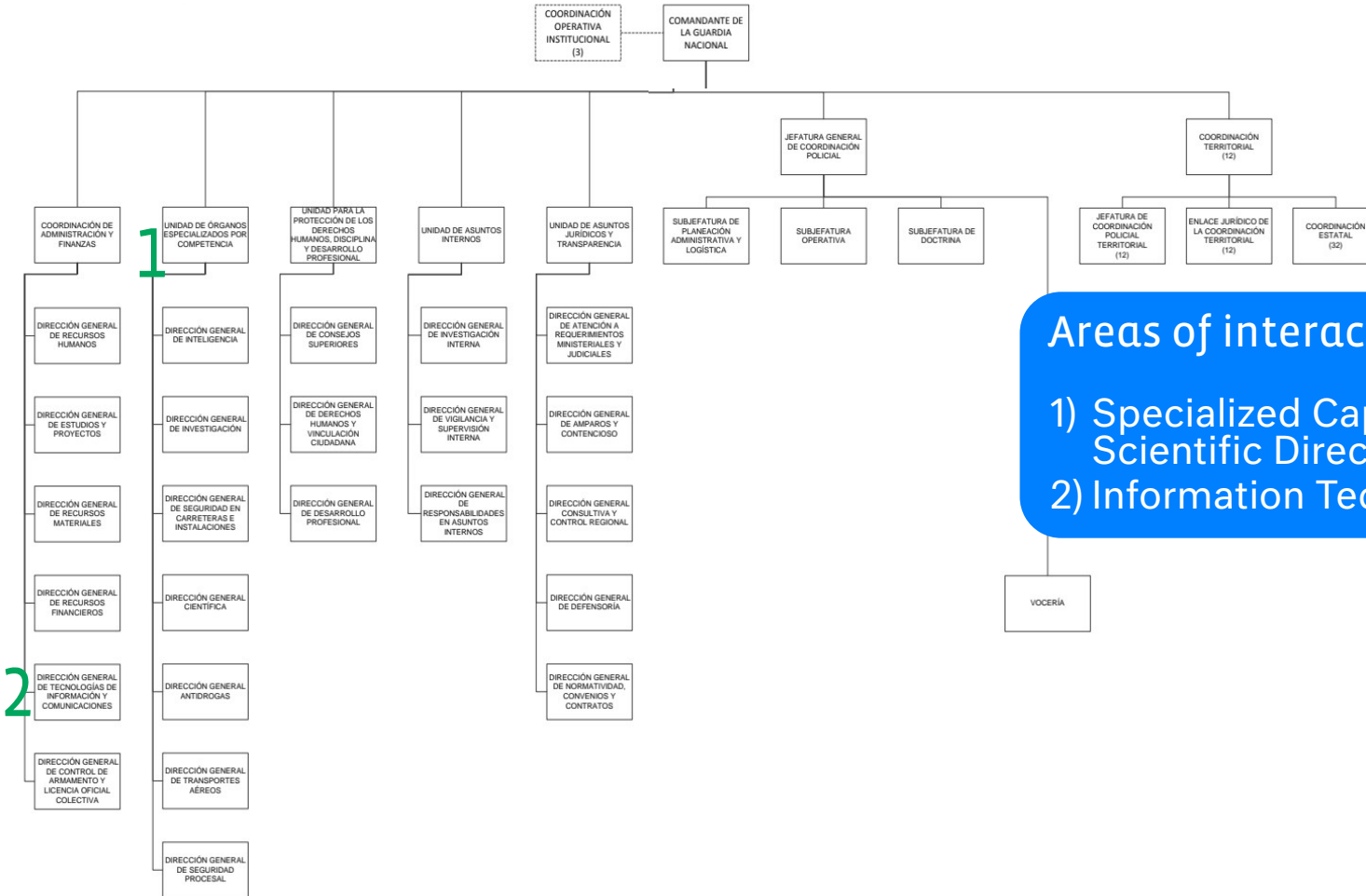UNIDAD PARA LA PROTECCIÓN DE LOS DERECHOS HUMANOS, DISCIPLINA Y DESARROLLO PROFESIONAL

UNIDAD DE ASUNTOS INTERNOS

UNIDAD DE ASUNTOS JURÍDICOS Y TRANSPARENCIA

SUBJEFATURA DE PLANEACIÓN ADMINISTRATIVA Y LOGÍSTICA

SUBJEFATURA OPERATIVA

SUBJEFATURA DE DOCTRINA

JEFATURA DE COORDINACIÓN POLICIAL TERRITORIAL (12)

ENLACE JURÍDICO DE LA COORDINACIÓN TERRITORIAL (12)

COORDINACIÓN ESTATAL (32)

DIRECCIÓN GENERAL DE RECURSOS HUMANOS

DIRECCIÓN GENERAL DE INTELIGENCIA

DIRECCIÓN GENERAL DE CONSEJOS SUPERIORES

DIRECCIÓN GENERAL DE INVESTIGACIÓN INTERNA

DIRECCIÓN GENERAL DE ATENCIÓN A REQUERIMIENTOS MINISTERIALES Y JUDICIALES

DIRECCIÓN GENERAL DE ESTUDIOS Y PROYECTOS

DIRECCIÓN GENERAL DE INVESTIGACIÓN

DIRECCIÓN GENERAL DE DERECHOS HUMANOS Y VINCULACIÓN CIUDADANA

DIRECCIÓN GENERAL DE VIGILANCIA Y SUPERVISIÓN INTERNA

DIRECCIÓN GENERAL DE AMPAROS Y CONTENCIOSO

DIRECCIÓN GENERAL DE RECURSOS MATERIALES

DIRECCIÓN GENERAL DE SEGURIDAD EN CARRETERAS E INSTALACIONES

DIRECCIÓN GENERAL DE DESARROLLO PROFESIONAL

DIRECCIÓN GENERAL DE RESPONSABILIDADES EN ASUNTOS INTERNOS

DIRECCIÓN GENERAL CONSULTIVA Y CONTROL REGIONAL

DIRECCIÓN GENERAL DE RECURSOS FINANCIEROS

DIRECCIÓN GENERAL CIENTÍFICA

DIRECCIÓN GENERAL DE DEFENSORÍA

2

DIRECCIÓN GENERAL DE TECNOLOGÍAS DE INFORMACIÓN Y COMUNICACIONES

DIRECCIÓN GENERAL ANTIDROGAS

DIRECCIÓN GENERAL DE NORMATIVIDAD, CONVENIOS Y CONTRATOS

DIRECCIÓN GENERAL DE CONTROL DE ARMAMENTO Y LICENCIA OFICIAL COLECTIVA

DIRECCIÓN GENERAL DE TRANSPORTES AÉREOS

DIRECCIÓN GENERAL DE SEGURIDAD PROCESAL

VOCERÍA

Areas of interaction for Virginia Companies

1) Specialized Capabilities Units, especially the Scientific Directorate, Air Transport
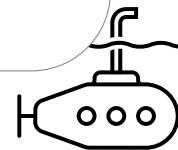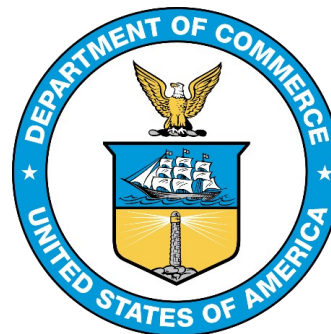2) Information Technology + Communications

Suppliers (per Compranet)

19

Foreign competitors in Mexico

Drone producers + services

← Drone producers

MEXICAN

Drone operators+ services→

→ INT'L

Drone companies with Mexico presence →

Company websites linked to logos

US Collaboration (via D.C.)

Networking opportunities

FAMEX

First major defense + aerospace show in the world since pandemic

Largest aerospace and defense trade show in Latin America

Organized by the Mexican Secretariat of Defense

4th Edition 2021: USA is Honored Country Partner

US Pavilion (Kallman Worldwide) works with US Embassy on networking

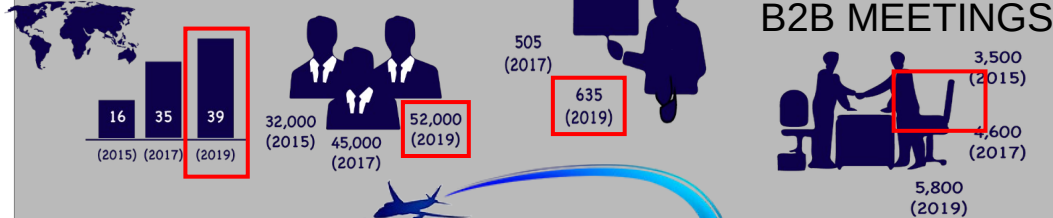Takes place at the Queretaro Airport

April 20-23 dates align with the VEDP Mexico trade mission

COUNTRIES

VISITORS

EXHIBITORS

B2B MEETINGS

COUNTRIES	VISITORS	EXHIBITORS	B2B MEETINGS
16 (2015)	32,000 (2015)	505 (2017)	3,500 (2015)
35 (2017)	45,000 (2017)	635 (2019)	4,600 (2017)
39 (2019)	52,000 (2019)		5,800 (2019)

EXPO SEGURIDAD

April 13-15 (also aligned with VEDP 2021 trade mission)

Strong US presence, with Embassy-supported networking

Good for distro/integration partner recruitment

Centro Citibanamex, Mexico City

Reed Exhibitions

Currently hosting interesting pre-show virtual events

Mexico market entry

Validate the market

- Confirm that demand exists for what you offer

Measure + project the market

- How much return on investment should you expect from Mexico market entry?

Every exporter will find its own way to blend direct support from home with local support in Mexico.

Mexico market SWOT

Strengths

- Proximity, bilateral + multilateral cooperation with US + UN
- National Development Plan 2019-2024 seeks to enhance the response capacity of the Armed Forces in matters of security

Weaknesses

- Mexico police + defense spending very low, has not developed internal management infrastructure to work efficiently with complex supply capabilities (ie services)
- Military often dependent on ODC / FMS for training + more complex comms like those Virginia is good at

Opportunities

- Aircraft replacement and purchases of the SEDENA and SEMAR.
- Diverse functions of SEDENA
- Increasing openness to work with contractors at SEDENA + SEMAR
- National Guard a new policing body, ongoing subnational police reform

Threats

- Foreign defense companies have better established presence than US companies
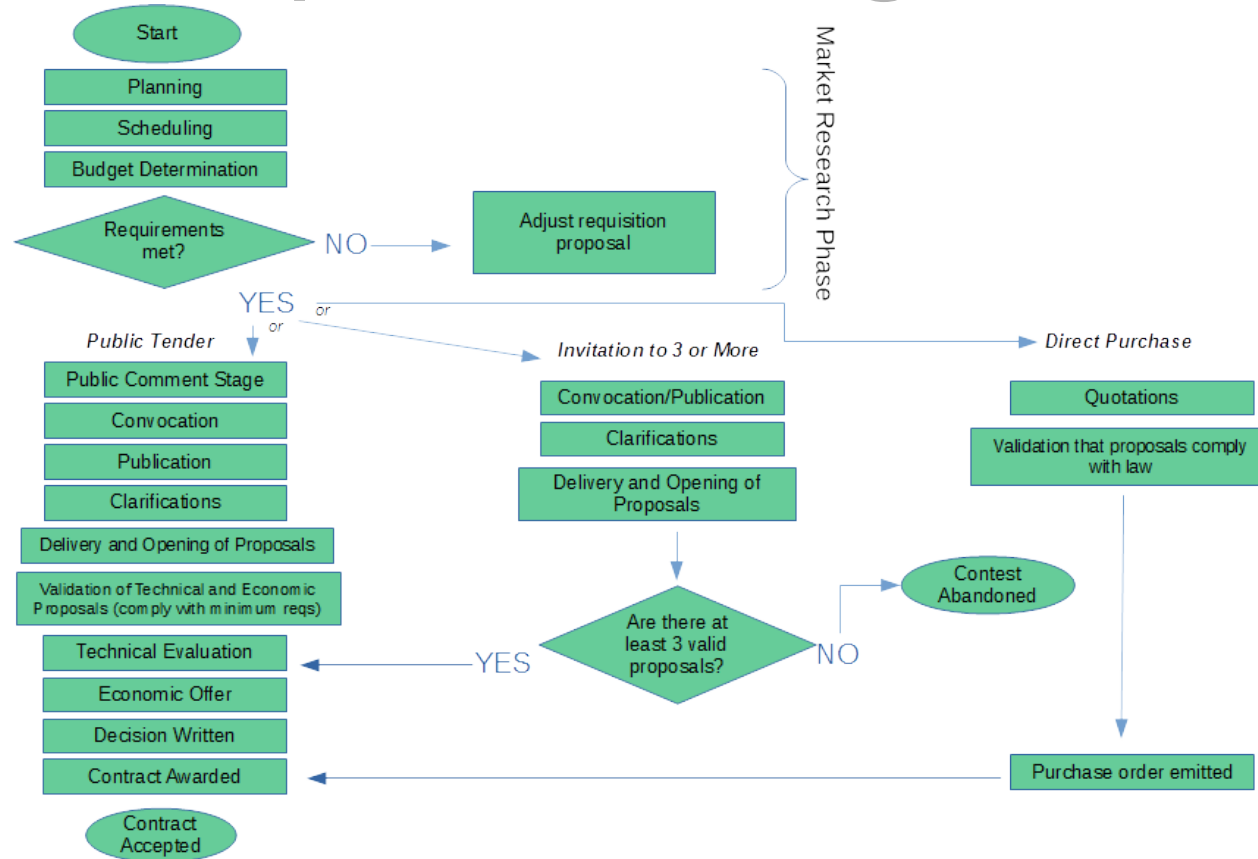- Weak administrative culture / processes at SEDENA often lends itself to corruption

Don't be deceived by Mexico's proximity:

US companies commonly try to run Mexico sales development from home or, assuming they can play a major role from home, through tenuous local alliances. We also see many hoping to turn the US Embassy's market access services into BD proxies, which for Mexico is against US policy. We have conferred with the State Department, Department of Commerce, and DOD on this matter repeatedly. We all agree the competition from locally established foreign companies is normally too stiff for US co's to sell to Mexico customers without at least a well-vested local partner relationship.
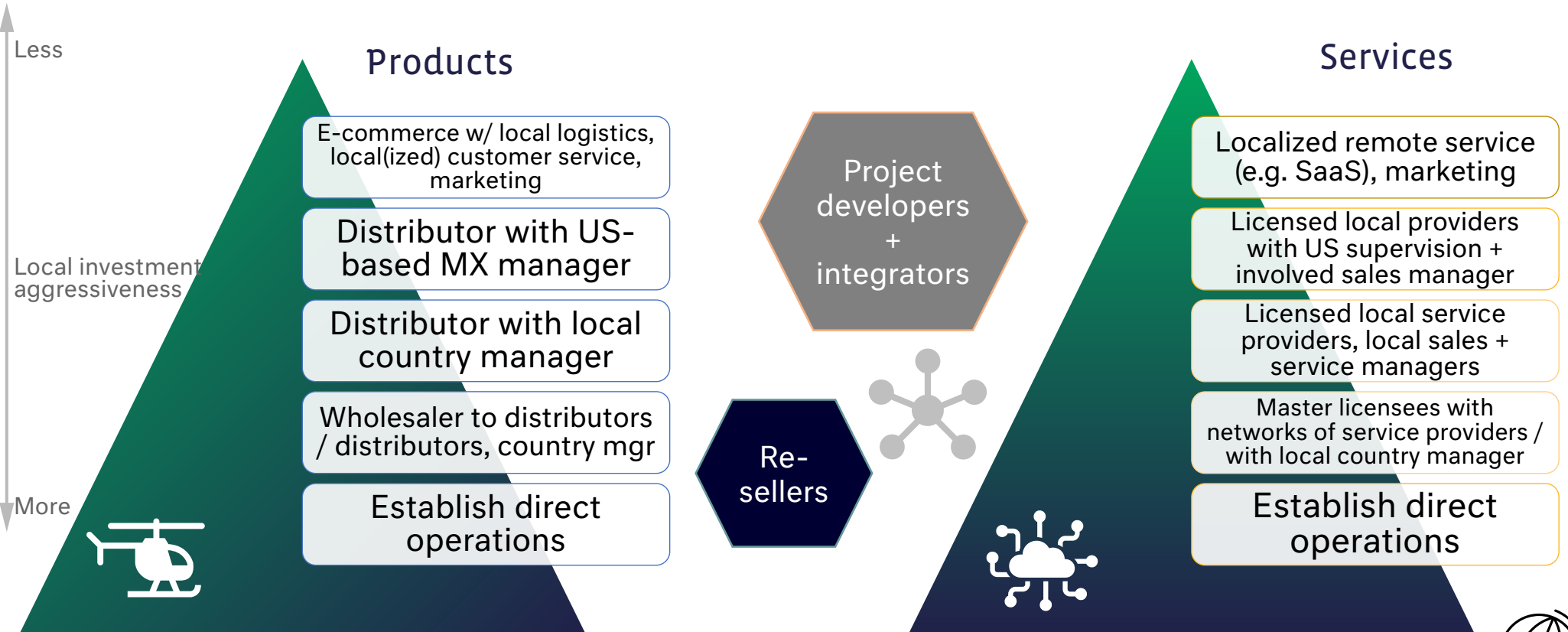
Government purchasing

- Budget planning typically August-October; FY = calendar year

- Long payment terms; local partner often responsible for financing

- High-touch sales processes

- compranet.gob.mx = MX government purchasing database

- Spanish documentation

Market entry investment spectrum

Less

Local investment aggressiveness

More

Products

- E-commerce w/ local logistics, local(ized) customer service, marketing
- Distributor with US-based MX manager
- Distributor with local country manager
- Wholesaler to distributors / distributors, country mgr
- Establish direct operations

Project developers + integrators

Re-sellers

Services

- Localized remote service (e.g. SaaS), marketing
- Licensed local providers with US supervision + involved sales manager
- Licensed local service providers, local sales + service managers
- Master licensees with networks of service providers / with local country manager
- Establish direct operations

Contributions in a partnership

Your partners take care of customers

1. Financing customer payment terms
2. Local fiscal processes
3. Logistics across border + within Mexico
4. Market intelligence
5. Existing relationships
6. Sales initiation + closure
7. Adding value to deliverable
8. Customer feedback
9. Pricing elasticity judgment
10. Making good on product + service guarantees

You take care of the product /service

1. Marketing
2. Know-how on your value proposition
3. Best practices on delivery + integration
4. Direction + incentive
5. Support on sales + business case aligment
6. Ownership of, responsibility for permissions + IP
7. Logistics to border
8. Financing anything that remains yours absent a sale
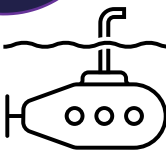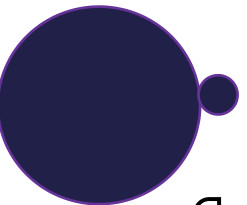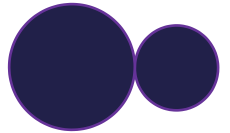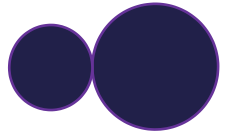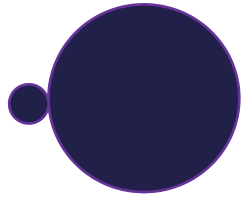
Final thoughts

- It takes a concerted sales + marketing plan to successfully enter in Mexico
  - Well-informed: really digest + try to get to know Mexico, or hire someone in charge of knowing it
  - Funded by company resources, NOT an advance on anticipated Mexico sales
  - Flexible
  - With metrics
  - Follow + continually update the plan
- Mexico sales, like all international sales, are an investment
  - Have expectations for ROI: source, timing + amount
  - Look for how to eliminate, decrease or mitigate against risk + volitality

- Good relationships are fundamentally necessary
  - What do you offer that locals don't?
  - What do locals offer that you don't?
  - Create "win-win-wins" for partners + customers
  - Communicate well + often
- VEDP's next Mexico Trade Mission is well timed with 2021 FAMEX + ExpoSeguridad events
  - Companies may take advantage of VEDP mission virtual meetings surrounding in-country events, exhibiting independently in those events
  - Register for the mission here

Sales to MX government are expensive: build cost into pricing (or let your local partner do so)

NEIGHBORS

Global Network Consultant for Mexico

VEDP | International Trade
ExportVirginia.org

Thank you

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