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## **Volkswagen to Assemble Modern Beetle Model Exclusively at Puebla Plant**

*by LADB Staff*

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In early December, Volkswagen de Mexico formally announced a multimillion-dollar investment to begin exclusive production of a modern version of its popular Beetle model at the company's plant in Puebla. According to the Trade Secretariat (SECOFI), Volkswagen and its Mexican-based suppliers will make new investments totaling US\$1 billion over a two-year period to produce the new Beetle. Reports of Volkswagen's huge investment have been circulating since German Chancellor Helmut Kohl's visit to Mexico City in September.

Company spokespersons said Volkswagen is targeting production of 100,000 units of the new model in its first year, with mass assembly operations expected to begin sometime in the third quarter of 1997. A prototype of the vehicle, which will be manufactured partly from recycled material, was introduced during Kohl's September visit to Volkswagen's Puebla plant. According to the spokespersons, the majority of the new Beetles produced at the Puebla plant will be exported to markets where Volkswagen vehicles are in high demand, including Germany.

The new Beetle will have a similar shape to earlier Beetle models, but the vehicle's dimensions have been expanded to allow for a roomier interior. It will also be equipped with contemporary safety devices such as air bags and an anti-lock brake system. As an incentive to encourage Volkswagen to make the large investment in Puebla, SECOFI offered the German company a number of tax breaks. Among them, the government maintained the exemption on sales tax (Impuesto sobre Automobiles Nuevos, ISAN) for Volkswagen Beetles sold in Mexico.

In addition, SECOFI reduced tariffs on Volkswagen vehicles imported into Mexico to 9% from the normal 20%. However, the reduction in the import tax for Volkswagen brought protests from German automobile manufacturers BMW and Mercedes Benz, who demanded a similar tax break for imports of their vehicles. The Mexican government is reviewing their requests. "By offering preferential treatment to one company, the Mexican government is losing credibility," said Federico Korte, director of Mercedes Benz. The Mercedes Benz and BMW plants in Mexico state are much smaller than Volkswagen's huge complex in Puebla.

However, both German companies hope to eventually expand their operations in Mexico. In September of this year, Mercedes Benz announced plans to build a huge parts warehouse in central Mexico. On a related matter, French automobile manufacturer Peugeot is studying the possibility of opening a plant in Mexico sometime in 1998. Peugeot officials said the company will either construct its own facility in Puebla, Aguascalientes, or San Luis Potosi states or enter into a joint venture with Italian manufacturer Fiat, which has a plant in Ciudad Sahagun, Hidalgo state. The Peugeot vehicles produced at the Mexican plant will be intended primarily for export to the US and Canada, although a portion will be sold domestically.

In the meantime, Peugeot plans to begin importing vehicles from Chile for sale on the Mexican domestic market. The company expects to open three distributors in the country next year, two in Mexico City and one in Puebla. (Sources: El Economista, 11/21/96, 11/25/96, 11/26/96; The News, 12/04/96; El Universal, 09/18/96, 12/12/96, 12/13/96)

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