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## **Automobile Organizations Protest Increase in Sales Tax for New Motor Vehicles**

by LADB Staff

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The three major automobile-industry organizations are protesting the government's proposed increase in the automobile sales tax (Impuesto Sobre Automoviles Nuevos, ISAN). The hike in the ISAN which almost doubled to 6.5% was approved by the Chamber of Deputies as part of the 1998 budget. Representatives of the Asociacion Mexicana de Distribuidores de Automoviles (AMDA), the Asociacion Mexicana de la Industria Automotriz (AMIA), and the Asociacion Nacional de Productores de Autobuses, Camiones, y Tractocamiones (ANPACT) said the ISAN increase will cause a sharp downturn in sales and force the motor-vehicle industry to reduce production by the equivalent of 6 billion pesos (US\$736 million) in 1998.

Mexico produced 255,633 motor vehicles in 1997, an increase of more than 22% from 1996. Statistics published by the AMDA in early January show almost 417,000 motor vehicles were sold in the domestic market during 1997, an increase of more than 49% relative to 1996. The AMDA report said sales of passenger automobiles last year increased by 55% relative to 1996. Similarly, sales of trucks and commercial vehicles in 1997 increased by almost 40% from the previous year. The AMDA said the motor-vehicle industry must increase sales by more than 112,000 units in 1998 to recover the levels reached before the 1995 economic recession.

### ***Trade secretary says higher tax will not affect production***

Nevertheless, Trade Secretary Herminio Blanco disputed the assertion that the ISAN will significantly affect the motor-vehicle industry. "In 1997, the ISAN had no bearing whatsoever on motor-vehicle production," Blanco said at a recent industry meeting in Detroit. At least one manufacturer, Volkswagen de Mexico, has announced plans for a major expansion in 1998. Volkswagen officials said the company will invest US\$500 million to develop a new version of its "Beetle" model at the company's manufacturing complex in Puebla. The company expects to produce 60,000 units of the vehicle in its first year of production.

Company officials said about 10,000 units will be sold on the domestic market and 50,000 shipped to the US and Canadian. The company expects eventually to double annual production to 120,000 units, with much of the increased output intended for European markets. Volkswagen officials said the new Beetle, which is larger than the traditional model, will compete primarily with models of similar size such as Neon and Cavalier. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Jan 14, reported at 8.15 pesos per US\$1.00] (Sources: Novedades, 12/26/97, 01/06/98; El Economista, Excelsior, El Universal, The News, 01/06/98; El Universal, 01/05/98, 01/07/98; El Financiero International, 12/29/97, 01/12/98)

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