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Fox Decree Authorizes Registration of Used Vehicles Imported by Emigrants

by LADB Staff
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President Vicente Fox has issued a decree authorizing Mexicans to register vehicles acquired in the US and Canada, a move that drew strong criticism from the Mexican auto industry and from opposition politicians. Under the decree, Mexicans will be allowed to register vehicles already in the country, either illegally or with temporary permissions. These vehicles, commonly known as "autos chocolates," must be at least 10 and not more than 15 years old.

When in office, former President Ernesto Zedillo (1994-2000) of the Partido Revolucionario Institucional (PRI) also faced a controversy regarding policies involving autos chocolates. Zedillo took the opposite stance as Fox, rejecting the importation of such vehicles, which put him in conflict with members of his own party like ex-Chihuahua Gov. Patricio Martinez (see SourceMex, 1999-04-21 and 1999-11-10).

Fox said his decision to allow the vehicles was intended primarily to help Mexicans who work in the US but was also a measure to assist domestic consumers. "Used automobile prices in the US have traditionally been lower than in our country, so allowing the definitive import of these vehicles should have the effect of slightly lowering the price of vehicles sold in Mexico," the decree said.

Under the decree, an owner of an auto chocolate would be able to register a vehicle by paying the applicable value-added tax (impuesto al valor agregado, IVA) and a 10% duty. Some estimates put the taxes that would be obtained through the registration of vehicles currently in the country illegally at as much as 10 billion pesos (US$930 million).

Fox said the decree contains some safeguards, including a provision that gives the Secretaria de Hacienda y Credito Publico (SHCP) the discretion to limit the number of registrations if it detects any danger to the domestic auto industry.

The president also threw a bone to the Mexican industry through an initiative that eliminates or reduces taxes (impuesto sobre automotores nuevos, ISAN) on compact cars and other vehicles assembled in Mexico. This measure, he said, was intended to boost domestic sales.

Mexican auto industry criticizes decree

Fox's decree angered the Mexican automobile industry, especially the Asociacion Mexicana de Distribuidores de Automotores (AMDA), which represents auto dealers. The organization warned that allowing the importation of used automobiles could reduce domestic sales by about 400,000 units. Furthermore, the AMDA charged that the decree would help organized groups on both sides of the US-Mexico border that smuggle in cars from the US.
The Agencia de noticias Proceso reported that smugglers have set up at least six phantom organizations in Baja California to illegally import about 150,000 used vehicles from the US, earning the equivalent of US$360 million. The operation, said the report, is used as a front by the smugglers to launder illicit profits.

The reduction in the ISAN was not sufficient to appease the Asociacion Mexicana de la Industria Automotriz (AMIA), which represents the motor-vehicle assembly plants. "The government responded to political pressures rather than considering economic factors," AMIA president Cesar Flores Esquivel told the Mexico City daily newspaper El Universal. Flores took issue with Fox's contention that the decree would benefit consumers by reducing prices. The AMIA president said some consumers, those who acquired cars in Mexico, could see their vehicles decline in value because of the overall drop in domestic prices.

The industry organizations pointed out that the decree in effect discarded a timetable established in the North American Free Trade Agreement (NAFTA) by which Mexico would be allowed to retain import duties on used motor vehicles through 2009. Mexico's large business organizations have sided with the AMDA, offering their own criticisms of Fox's decree. "This is not the type of policy we would recommend," said Alberto Nunez Esteva, president of the Confederacion Patronal de la Republica Mexicana (COPARMEX), who warned about the potential for job loss in Mexico's auto-assembly plants.

The Centro de Estudios Economicos del Sector Privado (CEESP) raised concerns that the decree sent a bad signal to potential foreign investors. "To legalize the importations of autos chocolates would have negative economic consequences, which would discourage investment, job creation, and ultimately economic development," the CEESP said in a report. Mexico's largest truck-industry organization, the Camara Nacional del Autotransporte de Carga (CANACAR), warned that Mexico risked becoming a dumping ground for run-down vehicles. "We would be receiving what [US consumers] cannot use any more," said CANACAR president Tirso Martinez Angeheben.

Some US automobile dealers acknowledged that they would benefit from the Fox decree because they are having difficulties moving a huge inventory of older-model vehicles. "When the Mexican public and Mexican dealers start coming up here to buy, it's going to raise used-car prices dramatically," California automobile dealer Louie Quezada told the Los Angeles Times. "Even now, [Mexican] buyers pay my retail price on used trucks, take them down there, and sell them for double."

Some groups say decree does not go far enough

Some organizations that look after the interests of emigrants, such as the Union Campesina Democratica (UCD), welcomed the Fox decree. The UCD, which represents 80% of the owners of autos chocolates in Mexico, said it would like the government to go a step further and legalize all cars, regardless of age.

UCD director Jose Duran Vera said the imported pickup trucks and other vehicles are especially beneficial to agriculture workers in Mexico who cannot obtain a vehicle at affordable prices in the domestic market. He dismissed the concerns of the Mexican auto industry that domestic sales would
be displaced. "With the legalized cars, we are able to better support agricultural activities in our
country."

**Opposition politicians call decree electoral ploy**

Opposition politicians accused Fox of using the measure as an electoral ploy to help candidates of
the governing Partido Accion Nacional (PAN) gain votes among the expatriate community and their
families. In July, the Congress gave final approval to an initiative that would allow many Mexicans
residing overseas to cast absentee ballots by mail in the 2006 presidential election (see SourceMex,

One of the three PAN candidates Santiago Creel Miranda, Felipe Calderon Hinojosa, and Alberto
Cardenas will be elected as the party's nominee in a primary later this year. Creel, who has been
the PAN front-runner since he declared his intention to seek the nomination, has recently lost some
of his lead to Calderon (see SourceMex, 2005-06-29). The former governing PRI has pledged to
overturn the initiative this fall. "This is a cheap, populist, and electorally motivated move," the PRI
congressional delegation said in a statement.

PRI members in the Congress said they would look at options to overturn Fox's decree, including
a challenge before Mexico's highest court (Suprema Corte de Justicia de la Nacion, SCJN). The PRI
members said President Fox's action might have violated the Mexican Constitution. "[President
Fox] has taken actions that violate the Constitution by usurping faculties reserved exclusively to the
Congress," said PRI Deputy Nora Yu Hernandez.

Still, the Mexican Congress could appear hypocritical by opposing the registration of used
automobiles. In 2001, federal legislators overwhelmingly approved a law allowing the registration
of as many as 2 million autos chocolates despite stiff opposition from the auto industry (see
SourceMex, 2001-01-24 and 2001-03-01).

**Critics also raise concerns about air pollution**

The center-left Partido de la Revolucion Mexicana (PRD) fully supports the PRI's stance on the
constitutional aspect, but some prominent party members such as Mexico City Mayor Alejandro
Encinas have also raised questions about the potential environmental damage from vehicles of that
age. Encinas has pledged to ban all such vehicles from circulating in the capital if they do not meet
the appropriate air-pollution standards.

The mayor noted that nearby communities in Mexico state have similar anti-pollution standards,
which would make it difficult for such vehicles to circulate anywhere in the Mexico City
metropolitan area. Environmental and business organizations echoed the environmental concerns
about the autos chocolates. "We cannot support President Fox's decree," said Rolando de la Vega
of the Asociacion Mexicana de Instituciones de Seguros (AMIS). "These are models that are 10 to 15
years old and may not meet our emission standards."

Similar comments came from the nonprofit International Council on Clean Transportation (ICCT),
based in Berkeley, California. "It's a real setback," said Kate Blumberg, a research director at the
organization. "Mexico has been working really hard to improve its air quality. Now allowing a wave
of used, dirty vehicles into the country just seems crazy to me." Even some federal organizations acknowledged the potential air-pollution problems from autos chocolates.

The Instituto Nacional de Ecologia (INE) said used vehicles imported by returning emigrants are a major source of air pollution in cities in northern Mexico. "Even though these cars represent only 30% of the total number of vehicles in some northern cities, they are responsible for 60% of the harmful emissions," said INE director Adrian Fernandez.

The Secretaria de Medio Ambiente y Recursos Naturales (SEMARNAT) pointed out, however, that some safeguards have been built into the decree. One such measure, said SEMARNAT, is that any taxes levied on newly registered autos chocolates be much lower for cleaner vehicles. Environment Secretary Jose Luis Luege Tamargo said the agency is also planning to increase the number of emission-verification centers in the northern states of Nuevo Leon, Baja California, Chihuahua, Tamaulipas, Sonora, and Coahuila. [Note: Peso-dollar conversions in this article are based on the Interbank rate in effect on Aug. 31, reported at 10.75 pesos per US$1.00] (Sources: Associated Press, 08/22/05; Los Angeles Times, The Herald-Mexico City, 08/23/05; El Financiero, 08/23/05, 08/24/05; El Universal, 08/22-24/05, 08/26/05; El Economista, 08/23/05, 08/25/05, 08/26/05; Notimex, 08/22/05, 08/23/05, 08/26/05, 08/28/05; La Crisis, 06/18/05, 08/23/05, 08/24/05, 08/29/05; La Jornada, 07/22/05, 08/22-26/05, 08/29/05; La Cronica de Hoy, 08/22-26/05, 08/29/05; Agencia de noticias Proceso, 08/29/05)

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