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LADB Staff

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The move by US automaker General Motors to file for bankruptcy has increased stress on the already beleaguered Mexican motor-vehicle industry, even though the action will have little direct impact on GM's four plants in Mexico. The Mexican auto industry, which relies heavily on US consumer demand, reports a sharp decline in production, in large measure because of slow shipments north of the border. There has been no fallback market to absorb the excess from slow sales to the US, with shipments also down significantly to Asia and Europe. Moreover, domestic sales are lagging because the Mexican economy has also fallen on hard times.

On June 1, when GM announced it had filed for bankruptcy protection, the decision surprised no one. By taking the action, the US automaker put itself in a better position to negotiate with its debtors and define the actions that will help it emerge from bankruptcy. The move also gives GM the opportunity to try to eliminate about US$27 billion in debt held by bondholders. GM officials said they would present details of the restructured company within 60 to 90 days, or by the beginning of September. The GM decision comes on the heels of a similar move by Chrysler on April 30 to seek bankruptcy protection. The actions by the two US automakers created very strong concerns in Mexico because together they operate seven assembly plants in the country.

GM operates plants in Ramos Arizpe, Coahuila state; Silao, Guanajuato state; San Luis Potosi; and Toluca in Mexico state. Chrysler's assembly plants are in Ramos Arizpe, Toluca, and in Saltillo, Coahuila state. Ford Motor Co., the third US motor-vehicle manufacturer with a presence in Mexico, did not file for bankruptcy protection in the US, but the company is undergoing a restructuring. Ford de Mexico operates facilities in Cuautitlan, Mexico state, and Hermosillo, Sonora state. In addition, the company operates an engine-manufacturing facility in Chihuahua.

The company recently said it increased total production in North America during the second quarter of the year and expects the trend to continue in the third quarter. GM is largest motor-vehicle company in Mexico In announcing its bankruptcy move, GM said it expects to shut down a dozen plants in the US, eliminate four of its US brands, and close as many as 40% of its 6,000 dealerships. But none of these changes is expected to have a direct impact on GM's facilities in Mexico. "GM's operations outside the US are not included in the petition to the [bankruptcy] court," a spokesperson for General Motors de Mexico told reporters. Despite the reassurances from the parent company, there was palpable concern because GM de Mexico is the largest motor-vehicle company in Mexico, producing about 500,000 vehicles in 2008. The company employs about 13,000 workers in Mexico. Regardless of the bankruptcy moves in the US, GM de Mexico had been planning to proceed with its scheduled two- to four-week work stoppages at its plants in Ramos Arizpe and San Luis Potosi during May and June.

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Chrysler de Mexico had scheduled similar temporary work suspensions at its facilities this summer. Chrysler officials said the company's plants in Mexico had been operating below capacity because of the US parent's bankruptcy filing at the end of April. The companies and the unions negotiated these work stoppages to allow the automakers to reduce costs without eliminating any jobs. During the stoppages, workers are paid only 50% to 55% of their salary, but 100% of their benefits. Manuel Duarte, communications director at Chrysler de Mexico, said the company's assembly plants in Mexico have been unable to move forward with production because the parent company's bankruptcy procedure has halted production of key components like engines and transmissions, which are needed in the Mexican assembly operations.

GM's decision to halt production of four brands Saturn, Pontiac, Hummer, and Saab could affect at least one of the company's product lines assembled in Mexico. The Saturn Vue model is assembled in Ramos Arizpe. Other GM models assembled in Mexico include the Chevy, HHR, Captiva Sport, Avalanche, Silverado, GMC Sierra Crew Cab, the Aveo, and the Pontiac G3 hatchback and sedan. Some analysts and union leaders suggested that the Mexican plants could benefit from closures of GM and Chrysler plants in the US. "There is a certain expertise already there in Mexico's labor force, and there are many cost advantages," said Luis Miranda, an analyst at Grupo Financiero Santander. He pointed to GM's own statistics, which indicate that Mexican auto workers receive the equivalent of about US$10 per hour, compared with US$54 in the US and US$22 in South Korea.

Chinese auto workers receive an average of US$3 per hour. "The plants in Mexico are newer, the workers are well-trained, and labor and logistical costs are lower," said analyst Lucia Martin Rivero of the financial services company Grupo Ixe. But other industry observers dismissed that notion. "If Chrysler or GM decides to move some production to Mexico, our industry could absorb only about 10% of extra capacity," said Armando Bravo, director of the Centro de Desarrollo de la Industria Automotriz en Mexico (CEDIAM). He said the industry would have a cushion of another 20% in case of emergency. Even if Mexico had the capacity to absorb more production, there could be another obstacle. "Many analysts have noted that the agreements signed between the company and its US union, the United Auto Workers (UAW), might be able to reduce costs for the company in the long run, but it could contain other conditions that would limit the movement of production to other countries," said the Mexico City daily newspaper El Universal.

Mexican auto industry in crisis

The fact that GM and Chrysler are merely in a survival mode in Mexico is a symptom of a larger problem afflicting the country's auto industry. In a report published in mid-May, the Asociacion Mexicana de la Industria Automotriz (AMIA) reported total sales, both domestic and exports, were down significantly during April, following a pattern prevalent for several months. Exports, which account for the lion's share of Mexican production, were down sharply during April relative to a year ago. GM, Honda, and Nissan experienced the greatest declines. By region, exports to Asia were down 60%, to Europe by 56%, and to the US by almost 40%. The decline in sales was reflected in the lower production, which was down 47% in April relative to a year ago. AMIA said the first quarter of the year was not kind to US automakers, with total sales, including export and domestic markets, down by almost 37% for GM, 36% for Chrysler, and 27% for Ford relative to a year ago.

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The three US companies sold about 77,550 units in January-March, compared with 117,360 in the same period in 2008. But domestic sales are also lagging because of the economic crisis in Mexico. According to the automobile industry, sales of new cars were down 38% in the domestic market in April, bringing the total down to levels not seen since 1998. The lack of sales of new automobiles has greatly reduced the tax revenues received by the Mexican government. The Secretaria de Hacienda y Credito Publico (SHCP) reports revenues from the Impuesto Sobre Autos Nuevos (ISAN) in January-April were down 22% from the same period in 2008.

In April alone, ISAN collections were down about 20% from the same month last year, said the SHCP. Even the most successful companies have experienced a downturn. "Nissan, which had been selling an average of 18,000 units per month, sold only 8,600 units in April," said Jose Gomez Baez, president of the Asociacion Mexicana de Distribuidores de Automotores (AMDA), an organization that represents the country's dealerships. And the outlook is not promising for the rest of the year. US-based economic forecaster Global Insight (GI) expects domestic sales of motor vehicles in Mexico to reach only about 705,000 units, compared with 1.23 million units in 2008. GI said the projections are linked very closely to forecasts that Mexico's GDP is going to go deeply into negative territory this year. Finance Secretary Agustin Carstens recently projected Mexico's GDP to contract by 5.5% (SourceMex, May 20, 2005). Some analysts believe the decline could be even deeper than that. "In the worst case scenario, if Mexico's GDP declines by 5.8%, then we project that domestic sales would only total 615,000 units," said GI analyst Pascual Francisco.

Industry looks to government for help

The crisis facing the Mexican motor-vehicle industry has prompted AMIA and the AMDA to urge President Felipe Calderon to implement emergency measures, given the eight consecutive months of decline in the domestic market. Domestic sales have dropped by an average of 30% in the past four months, while exports have declined by 40% in that period. "We ask the government to take the necessary steps to reactivate our domestic market," said AMIA president Eduardo Solis, who added that the industry crisis is caused not only by a slump in demand but also by a lack of liquidity. Solis said cumbersome rules have also prevented automobile manufacturers from gaining access to a special government fund to help export-related industries affected by the crisis. AMDA also urged action by the federal government, warning that several dealerships were likely to go out of business in coming weeks. "The Secretaria de Economia has no policy [to help the industry emerge from the crisis], nor has it shown any inclination to help us reactivate our sales," said AMDA president Jose Gomez Baez. Others suggest that the current problems are an extension of the difficulties the motor-vehicle industry had been facing for some years, even before the recent global economic crisis. "Several factors have been at play since 2006," said El Universal, pointing to the lack of controls on imports of used motor vehicles from the US and changes to the tax code that imposed taxes on new vehicles.

For some European and Japanese companies, the outlook seems brighter than for US manufacturers. For example, Volkswagen de Mexico moved to the top of the domestic market by selling 42,000 units in the first four months of the year. In gaining 27% of domestic share, the German company surpassed GM and Nissan de Mexico. Other smaller companies are carving out a market share in Mexico. For example, Japanese manufacturer Mazda expects to open new distributorships in

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Tijuana, San Luis Potosi, Cancun, and Oaxaca this year. The four new sites would give the company 28 dealerships in Mexico. Similarly, Japan-based Subaru expects to expand sales in Mexico this year despite a decline of 4% in the first quarter of the year. "We could sell more than 1,000 vehicles this year," said the company, which entered the Mexican market in 2006.

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