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Mexican Government Announces New Guidelines to Reduce Imports of Junk Cars from U.S. and Canada

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In an effort to boost domestic automobile sales, President Felipe Calderón has enacted new guidelines to regulate the importation of used vehicles from the US. The new rule intends to prevent importation of "junk cars" by requiring a certificate of origin for all vehicles entering the country. Any car that is newer than eight years and that was assembled in the US or Canada will be allowed to enter without paying duties. Vehicles that are eight or nine years old will pay a 10% duty, plus a value-added tax (impuesto al valor agregado, IVA). Cars 10 years old or older will pay a 50% duty.

The new rules, which went into effect on July 1, replace and strengthen a decree enacted by Calderón in 2008 that limited imports of used cars. That decree reversed a directive enacted by former President Vicente Fox in 2005 that allowed the unrestricted entry of used cars from the US, including those older than 10 years (SourceMex, Aug. 31, 2005).

Eduardo Javier Solís Sánchez, director of the Asociación Mexicana de la Industria Automotriz (AMIA), described Fox's decree as "disastrous" for the Mexican auto industry, because imports of 1.3 million cars during a single year greatly surpassed sales of new vehicles in the domestic market.

Calderón imposed restrictions on used-vehicle imports in 2008 (SourceMex, March 26, 2008), but the move left too many loopholes that allowed wholesalers to bring junk cars, also known as autos chocolates, into Mexico. "The 2008 decree was good, but the exceptions left a huge hole and we saw a significant increase in imports," said Solís Sánchez. "The changes seek to impose order, to prevent the entry of junk into the country, and to prevent Mexico from becoming the trash dump for old US cars."

Government also eliminates property tax on domestic cars

The move to tighten regulations for used-car imports is one of several steps by the government to assist the Mexican auto industry in increasing domestic sales of vehicles assembled in Mexican plants. In early July, the administration also announced that it would phase out property taxes (Impuesto Sobre Tenencia) on cars produced in the domestic market. Calderón offered assurances that the revenues portion of the 2012 budget that he will present to Congress later this year will not contain this tax. The president, however, left open the option for states to impose their own property tax on automobiles after 2012.

"We promised in 2007 during discussions on tax reform that this particular tax would be eliminated, and we are keeping that promise," said Calderón.

The auto industry welcomed the changes in taxation and import restrictions but pointed out that the domestic market has remained depressed during the past two years because of the global economic crisis. The AMIA said the domestic auto industry's economic woes continued into the first five months of this year, when sales were down by more than 20% below the 2008 levels. The association

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estimates that domestic auto sales this year will amount to about 880,000 units, on par with the total recorded in 2001.

Still, the AMIA believes that the changes, if effective, could result in the sale of an additional 1 million vehicles. This, in turn, would result in the creation of 400,000 direct jobs and another 700,000 indirect jobs. "If we do everything properly with the new norms, the internal market would grow at the same rate as those in Argentina and Brazil," said Solís Sánchez.

Even though domestic sales have stagnated, Mexico's auto exports remain vigorous, increasing in four of the first five months of the year. Exports in May, the latest month for which figures are available, were up by more than 21% from a year ago. In fact, exports of almost 177,000 units in May represented a record for that month, the AMIA said.

Mexico remains an attractive place for foreign vehicle manufacturers to locate assembly plants. In early July, the Japanese auto company Mazda announced plans to invest about US$500 million in 2013 to construct a new plant in Salamanca, Guanajuato state. The facility, which will have the capacity to produce 140,000 vehicles, will produce the Mazda2 subcompact and Mazda3 compact models, primarily for export to the Central and South American markets. Auto-industry analysts suggested that the plant could eventually export some of its production to the US market.

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