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## Mexican Motor-Vehicle Industry Sets Production, Export Records

by Carlos Navarro

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The Mexican motor-vehicle industry reported good results in 2011, with production, exports, and domestic sales all increasing. But the good news was diminished by reports that Mexico is still struggling with the illegal importation of substandard automobiles from the US despite having implemented some import controls. This, along with a sluggish economy, has tended to limit domestic sales. Ironically, a number of the cars and trucks imported illegally were originally exported to the US from Mexican assembly plants.

The Asociación Mexicana de la Industria Automotriz (AMIA) released a report in mid-January that put the country's total production of automobiles and light trucks at 2.55 million units in 2011, an increase of more than 13% from the previous record of 2.26 million vehicles set in 2010.

The automobile-industry association said the increased production contributed to a growth of 15% in exports to a record 2.14 million units. "The record production, which for the first time surpassed 2.5 million units, helped boost exports," said AMIA president Eduardo Solís. He pointed out that Mexico's ability to diversify its markets, including increased sales to Latin American destinations, contributed to the growth in exports.

Even with rising sales to Latin America, the Mexican motor-vehicle industry continues to rely heavily on exports to the US, its main partner under the North American Free Trade Agreement (NAFTA). Almost two-thirds of the automobiles and trucks assembled in Mexico are intended for the US market. So, with total exports reaching a record last year, shipments north of the border also surpassed previous totals, amounting to about 1.36 million units.

Still, Solís pointed to Mexico's success in finding new markets for Mexican motor vehicles. For example, the percentage of the country's total production that is shipped to the US market declined from 68% in 2010 to about 63.5% in 2011.

Another positive sign for the industry, said the AMIA leader, is that a growing percentage of the parts used in the assembly process originate in Mexico

Others pointed to the adaptability of the Mexican industry to the needs in the US market. "North America loves automobiles, but users cannot continue to pay high prices for fuel," wrote Enrique Campos Suárez in the Mexico City daily newspaper *El Economista*. "Consumers have opted for more compact and economic cars, and those models are manufactured in Mexico."

Still, the marketability of Mexican vehicles to US consumers is not the only factor that could affect sales north of the border in 2012. Solís raised concerns that such sales could slow down if the US economy weakens after a recent short-lived, albeit uneven, recovery.

The increased national production has also translated to small increases in sales of new cars and trucks at home, which rose for the 22nd consecutive month in December. AMIA said sales of new vehicles reached 905,886 units in 2011, an increase of 10% from 2010. And sales of new vehicles

in Mexico could well surpass 1 million units in 2012, Guillermo Rosales, director of institutional relations for the Asociación Mexicana de Distribuidores de Automotores (AMDA), said in an interview. Rosales said Nissan led domestic sales, followed by General Motors, Volkswagen, Ford, Chrysler, Toyota, and Honda.

### *Influx of illegal imports from US remains a concern*

While the domestic market remained fairly strong, the AMDA is concerned about the continuing influx of autos chocolate, which are substandard vehicles brought into the country illegally. These automobiles, which would not pass inspection in the US, are introduced into Mexico without title, license plates, or registration. They can be sold on the black market to any willing buyer.

AMDA president Guillermo Prieto Treviño told participants at an automobile expo in Zacatecas that 6.3 million autos chocolate have been introduced into Mexico in the past five years, including more than 600,000 in 2011. This is despite some controls implemented in recent years ([SourceMex, March 26, 2008](#), and [July 6, 2011](#)). These illegal imports not only compete directly with vehicles manufactured domestically but also have helped drive prices down.

A proposal to require a certificate of origin has been in place since July 2011, but many Mexicans returning from the US have successfully bypassed the regulation, primarily by making arrangements with corrupt inspectors.

Under the plan implemented in 2011, any car that is newer than eight years and that is assembled in the US or Canada is allowed to enter without paying duties. Vehicles that are eight or nine years old pay a 10% duty, plus a value-added tax (impuesto al valor agregado, IVA). Cars 10 years old or older pay a 50% duty.

The problem of contraband vehicles is especially prominent in Mexican states that border the US. The AMDA estimates that more than 300,000 junk vehicles have entered Nuevo León state in recent years, hurting local sales. Almost one in six of the broken-down vehicles that are abandoned around the state are traced back to the US. "We are the United States' junkyard and these vehicles are hurting the economy," said Jesús Horacio González, director of the AMDA chapter in Nuevo León.

The situation is similar in Tamaulipas, where the Unión Campesina Democrática (UCD) estimates that more than 50,000 illegal vehicles are circulating in the state. Local UCD official Jaime Gauna Cervantes said the problem would continue as long as the Secretaría de Hacienda y Crédito Público (SCHP) insists on charging high fees to register a vehicle imported from the US. "In the central area of the state alone, there are 16,000 vehicles that cannot be legalized because of the high fees," said Gauna. "We want the government to reduce the fee to about 5,000 pesos (US\$380) per unit, and not the 20,000 to 30,000 pesos (US\$1,535 to US\$2,300) currently charged."

Some officials urged the government to create a registry of vehicles already in the country and to develop clearer procedures for people to bring used vehicles into Mexico.

Federal Deputy Melchor Sánchez de la Fuente, who chairs the special committee on the automobile industry (Comisión Especial de la Industria Automotriz), said a registration of vehicles already in the country would make it easier to require owners to comply with Mexico's environmental regulations.

Sánchez de la Fuente, a member of the opposition Partido Revolucionario Institucional (PRI), said better enforcement of existing rules would help regulate the flow of these vehicles into Mexico.

"We cannot implement a total ban on imports because we are governed by a free-trade agreement [NAFTA]," said Sánchez de la Fuente. "But we are also allowed to require a certificate of origin for any vehicle entering the country, and many of these cars and trucks lack this document."

The legislator said the Mexican government should do its part to encourage Mexicans to acquire vehicles at home, especially by offering cheaper credit. Even though domestic car sales have inched up gradually in the past several months, they remain far below totals of recent years. For example, the domestic sales of slightly more than 905,000 vehicles for 2011 are still far behind the 1.2 million cars and trucks sold in 2006. "With an interest rate of 8% or 9%, consumers could acquire a Mexican car, which would help our domestic market," said Sánchez de la Fuente, who represents the state of Coahuila in the Chamber of Deputies. Coahuila is home to several automobile assembly plants.

[Peso-dollar conversions in this article are based on the Interbank rate in effect on Jan. 25, 2012, reported at 13.02 pesos per US\$1.00.]

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