3-21-2012

Mexico Agrees to Limit Motor-Vehicle Exports to Brazil for Three years

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LADB Article Id: 78537
ISSN: 1054-8890

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Category/Department: Mexico
Published: 2012-03-21

Rather than risk the loss of a major market for its motor-vehicle exports, the Mexican government reached an agreement with Brazil to limit the number of Mexican cars and light trucks sold to the South American country during the next three years. But Mexico made it known that it was not happy that it was forced to make this move. On the day that the agreement was announced, Foreign Relations Secretary Patricia Espinosa went out of her way to criticize Brazil and Argentina for their protectionist policies.

Brazil and Mexico reached the agreement after weeks of difficult negotiations (SourceMex, Feb. 15, 2012) to modify the Acuerdo de Complementación Económica en el sector Automotriz (ACE 55). Mexico accepted ceilings on vehicle exports that would reduce the value of total sales of cars and light trucks by about 30%. While Mexico exported about US$2.4 billion in motor vehicles in 2011, a ceiling has been set for the three subsequent years: US$1.45 billion in 2012, US$1.56 billion in 2013, and US$1.64 billion in 2014.

"We achieved an agreement that is incremental and an agreement that is temporary," said Economy Secretary Bruno Ferrari. "In other words, I think it’s something very beneficial for the industry."

The Asociación Mexicana de la Industria Automotriz (AMIA) said the quotas would be divided in negotiations among the Mexican automobile companies, all subsidiaries of multinational corporations. As it stands now, the restrictions would have the greatest impact on Nissan México, which accounts for almost one-third of the motor vehicles shipped to the Brazilian market, followed by Ford México, which exports about one-fifth of the vehicles shipped to the South American country. The Mexican affiliates of Volkswagen, Honda, Chrysler, and General Motors account for the rest of the vehicles shipped to Brazil.

In addition to forcing Mexico to reduce the total value of cars and light trucks shipped to Brazil, the agreement mandates that vehicles produced in both countries use a certain percentage of "regional" parts. The ratio was set at 35% in the first year and 40% by the fifth year.

Limits preferable to tariffs

Without the agreement, Brazil could have imposed tariffs as high as 65% on imports of Mexican motor vehicles, which could have essentially shut off exports to the South American country. "There would have been no exports of Mexican vehicles to Brazil," said Ferrari.

"The risk was very real," wrote columnist Luis Miguel González in the Mexico City business daily El Financiero. "Brasilia was ready to break ACE 55 in case Mexico did not accept the terms proposed by the South American giant."

Brazil has become an important market for the Mexican auto industry, and the cancellation of ACE 55 could have gutted Mexico’s recent gains in the South American country.

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In 2011, Brazil accounted for 5.6% of Mexico's total auto exports, compared with a mere 1.5% in 2007, according to the Secretaría de Economía (SE). In the same period, the percentage of vehicles exported to the US market declined to about 65% from just over 74%.

Ferrari expressed confidence that the status quo would return after 2014 and that "free trade" in motor vehicles would return after the three-year period.

AMIA president Eduardo Solís offered a similar opinion. "[This accord] offers reassurances to those who are interested in investing in our country and creating jobs that we will continue to have access to major markets after this time frame is concluded," Solís said in an interview with Milenio.com.

Notwithstanding Ferrari's diplomatic stance, other Mexican officials hinted that they were not happy with Brazil's trade policies. "Protectionist measures contribute to an environment of economic uncertainty," Foreign Relations Secretary Espinosa told reporters at a meeting of the Asociación Latinoamericana de Integración (ALADI) in Montevideo, Uruguay, in mid-March, criticizing recent actions by Brazil and Argentina to restrict imports. "Free trade should be a fundamental principle to promote regional prosperity."

Brazil's decision to limit trade with Mexico raised some questions on whether there would be any movement at any time in the near future for the two countries to negotiate a full free-trade agreement. The two countries had discussed such an agreement as recently as 2010 (SourceMex, March 3, 2010).

"There are no guarantees that the Brazilians will refrain from pressuring [Mexico] to offer concessions on other products," González wrote in El Financiero.

But the columnist also pointed out that the conflict with Brazil gives Mexico an opportunity to examine its trade policies, and a bilateral agreement should remain on the table. "To depend on the US for 79% of our trade is not very healthy," said González, who pointed out that Mexico continues to suffer from the economic turmoil caused by the mortgage crisis north of the border in 2008.

"Brazil is a hard nut to crack but a partner that we should consider," said González. "That country has a strong domestic market and good growth prospects in the near future."

González suggested two areas of close cooperation for the two countries: petroleum and environmental technology.

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