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Argentina Withdraws from Agreement with Mexico, Raising Tariffs on Mexican Motor Vehicles

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For the second time in less than six months, Mexico's trade agreement with a South American economic power came under threat because of a decision by a national government to protect its auto industry. In late June, Argentina decided to opt out of a an agreement that Mexico had negotiated with the Southern Cone Common Market (MERCOSUR) in 2002, which established a framework to trade motor vehicles without paying tariffs (SourceMex, June 19, 2002) uder the agreement, known as the Acuerdo de Complementación Económica (ACE 55), Mexico could make specific arrangements with each of the four MERCOSUR countries.

Mexico already had to deal with a controversy related to ACE 55 early this year, when Brazil threatened to impose tariffs on imports of Mexican motor vehicles unless President Felipe Calderón's administration agreed to renegotiate the terms established with Brazil (SourceMex, Feb. 15, 2012). After much acrimony, the two countries reached an agreement whereby Brazil would not impose tariffs if Mexico agreed to set temporary limits on exports to Brazil (SourceMex, March 21, 2012).

The conflict with Argentina ended with a less cordial outcome. In June of this year, Argentina tried to force Mexico's hand by unilaterally withdrawing from the agreement negotiated with Mexico under ACE 55. To justify the decision, Argentine President Cristina Fernández's administration argued that Mexico's settlement with Brazil was a serious violation of the original ACE 55 accord. Argentina argued that Brazil and Mexico failed to inform the other parties to the agreement about the modifications.

Trade deficit, declining foreign reserves behind Argentina's move

The reality is that the agreement with Brazil left Argentina vulnerable, since Mexico would be looking to place its motor vehicles in the three other MERCOSUR countries. And, like Brazil, Argentina made the decision regarding ACE 55 to address its trade deficit with Mexico, along with the sharp decline in its international reserves. Argentina's trade deficit with Mexico nearly tripled in 2011, reaching US$1.6 billion, compared with US$590 million in 2010. According to the Argentine government, the automotive sector accounted for US$995 million of last year's trade deficit.

Argentina's action is seen as drastic, but experts point out that the South American country had no other recourse because of a decision it made regarding its international debt payments in 2002 (NotiSur, Nov. 22, 2002, and Dec. 20, 2002). "The country does not have access to international credit because of the suspension on its debt payments" said the international trade consulting company IQOM, which has offices in Mexico, Uruguay, and Chile.

By suspending its participation in ACE, Argentina immediately announced that imports of motor vehicles from Mexico would be subject to a 35% tariff.

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Before Argentina made the decision to withdraw from ACE, officials had reached out to Mexican counterparts in an attempt to negotiate a settlement. But the Argentine proposal was much less favorable than the arrangement that Mexico negotiated with Brazil and was, therefore, rejected.

Argentina's proposal included demands that Mexico limit the value of motor-vehicle exports to the South American country to about US$400 million from the current US$1 billion annually and that Mexico include auto parts in that total. "If you normally sell one peso worth of goods and are asked to renegotiate that amount to 40 centavos, would you do it?" asked financial columnist Alicia Salgado in the Mexico City daily newspaper Excélsior.

Salgado pointed out that the arrangement that Mexico negotiated with Brazil would reduce exports by 20% over three years, compared with the 60% rate demanded by Argentina.

Mexico retaliates, plans to bring dispute to WTO

Mexico announced that it was raising tariffs on automobile imports from Argentina in response to that country's decision to unilaterally suspend the auto accord between the two countries. Deputy economy secretary Francisco Rosenzweig said imports of motor vehicles assembled in Argentina would now be subject to a 20% tariff, while those for auto parts and machinery would vary between zero and 20%.

Mexico also announced that it would file a complaint against the Argentine action with the World Trade Organization (WTO). "Mexico will do everything in its power to make sure the agreements it signs with other countries are respected," said Economy Secretary Bruno Ferrari. "We consider [the Argentine action] an act of protectionism. We are very concerned by it."

Mexico's motor-vehicle industry was solidly behind the Calderón government's decision and urged the administration to stand firm against further pressures from the Argentine government. "What Mexico needs is a more vigorous exchange of automotive products, not measures that will inhibit trade," said Guillermo Rosales, executive director of institutional relations for the Asociación Mexicana de Distribuidores de Automotores (AMDA). "We have set records for production and exports in the last few months, thanks to the global confidence on our assembly plants."

Argentina's decision primarily affects the Mexican subsidiaries of multinational motor-vehicle manufacturers General Motors, Ford, Nissan, Honda, and Volkswagen.

The Mexican auto industry also criticized the Argentine government for not allowing a transition period, as the decision to withdraw from ACE 55 became effective immediately. "The concern is real because there were vehicles in transit or at the port but that had not yet cleared customs," said Salgado.

For now, the Calderón government expects to make up for the reduction in exports to Argentina by increasing sales to Uruguay and Paraguay under ACE 55 and also by boosting shipments to Central American countries that have a trade agreement with Mexico.

And there is less chance that the two other MERCOSUR members will react in the same manner as Brazil and Argentina. The opposite is true, at least in with Paraguay. Víctor Servín, a member of Paraguay's Cámara de Distribuidores de Automotores y Maquinarias (Cadam), confirmed that his country would import more motor vehicles from Mexico, beginning in October of this year.

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Importing cars from Mexico is more economically beneficial to Paraguayan dealers than acquiring vehicles from neighboring Brazil.

To make up for the loss of the Argentine market, the Mexican government will also seek changes to tax policies to allow the cars that would have gone to Argentina to be sold in the Mexican domestic market, Ferrari said in an address to the Consejo Coordinador Empresarial (CCE).

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