

**AUTOMOTIVE SECTOR : QUESTION #5**

The Mexican Auto industry seems presently quite protective with its 1989 Automobile Decree, is it not incompatible with a NAFTA?

**Background:**

**The 1989 Automotive Decree.**

Three fundamental provisions:

- 1) The total number of imported vehicles into Mexico may not exceed 15% of the total number of vehicles sold in the domestic Mexican Market during the 1991 and 1992 model years. This figure is to increase to 20% for the model years 1993 and 1994. It will enable companies to expand range of offerings to consumers and allow for sourcing where it is most competitive, resulting in price savings for consumers which should increase demand.
- 2) Each manufacturer must maintain a positive trade balance to be eligible for imports. The rate that must be maintained will decrease over time from 2.5 pesos per dollar value in 1991 model year to 1.75 pesos per dollar in the 1994 model year. This will ensure the Mexican growth will keep pace with overall growth in markets. It is designed to help in the rationalization of markets and to increase output per model in Mexico. Since now Mexico demand can be met outside of Mexico, the Mexican production need not be devote to domestic sales. The result is to increase production runs, which makes Mexico therefore more attractive to invest in.
- 3) At least of 36% value added in vehicles must be comprised of components or parts produced by the Mexican autoparts industry. In addition, 36% of cars or parts manufactured in Mexico must be of Mexican origin. Mexican labour will not be included in the qualification for Mexican value added. In addition, the assembler's in plant material will not be considered towards content requirements. This means effectively that one half (1/2) of sourcing must take place in Mexico as parts and components make up 70% of input costs.

**Mexico-**

Mexico will want to protect major features of the 1989 Automotive Decree which promotes foreign investment and to preserve the size of the Mexican parts industry.

**Canada-**

The Automotive decree has a negative impact upon investment in Canada. In addition, it represents a limit on possible exports of parts and components to Mexico.