

MOTOR COACH INDUSTRIES

Mr. Pierre S. Pettigrew
Minister for International Trade
Government of Canada
Ottawa, Canada K1A 0G2

January 17, 2001

Re: Trade and Investment initiatives for Central America



Dear Mr. Pettigrew:

Thank you for your letter of January 5, 2001 and your invitation to express our views, on priorities, objectives and concerns about a free trade agreement with Central America.

Over the years MCI has expended considerable effort trying to develop sustainable off shore market opportunities for our products. We have had success in countries such as Australia, Saudi Arabia, South Africa, Taiwan and Saipan.

In our business, we are confronted all over the world with a myriad of regulatory obstacles and technical differences. Without major modifications to our designs and manufacturing processes, these obstacles and differences prevent us from selling our products in many countries around the world. North American customer requirements, regulatory requirements and dimensions are quite unique compared to the rest of the world.

Although there are over 270 body on chassis and integral bus and coach manufactures in the world only a few manufacture their own chassis. Because the majority of the body on chassis builders do not manufacture their own chassis they must rely on mostly European or Japanese chassis suppliers for chassis on which to mount their bus and coach bodies to complete their vehicles. The major markets for these chassis manufactures are the EU countries and the body builders in other countries are forced to follow the dictates of the EU market if they expect to receive chassis for their production.

Most of the buses and coaches sold into the Central American countries are manufactured in Mexico, Brazil or Argentina. Here again the majority of chassis used is of European design and are either imported from Europe or manufactured under license in one of these three countries.

MCI and our chief North American competitors build integral type coaches that do not use a separate chassis. Although integral designs are much stronger and robust they require considerably more engineering effort to change our designs to meet regulatory and design differences. In plant tooling, jigs and fixtures and process are much more complex and involved. As a result most small orders are not economically viable when major design changes are required.

Many countries have local content requirements that are as high as 35 to 50%. It is much easier and cheaper to assemble a locally made body on an imported chassis than it is to set a plant to manufacture an integral design.

In addition to the above factors, many countries including those in Central America impose a whole series of import duties, taxes, special levies, consumption taxes and VAT on fully built imported coaches. These additional charges are typically added to the C.I.F value, which results in added costs of up to 95 % or more over the ex works price of a coach.