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# Automotive News

JULY 18, 2016

$159/YEAR; $6/COPY

## MEXICO IS BACK

The standard narrative about Mexico — record auto production, soaring exports and anemic domestic demand for new vehicles — has changed. Last year, Mexicans purchased a record 1.35 million new vehicles, up 19 percent, and the record pace continues this year. What's behind the revival? | PAGES 4, 32 |

# Industry blindsided as CAFE fines jump

## Change could upend compliance strategies

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WASHINGTON — Automakers worried about the cost of meeting fuel economy targets are waking up to a startling new reality: The cost of *not* meeting them is about to get a lot higher.

Next month, the National Highway Traffic Safety Administration will more than double the fine it assesses automakers that fall short of their annual corporate average fuel economy standards. For many automakers, that increase could upend the economics of their fuel economy compliance strategies, laid out years ago, and insiders worry that automakers' exposure to fines for noncompliance will only grow as the CAFE requirements grow tougher each year.

**At risk is the fragile consensus between automakers and regulators over the Obama administration's greenhouse gas and fuel economy rules.**

What's more, NHTSA confirmed to *Automotive News* that the steeper penalties will apply to 2015 model year vehicles for which it has yet to issue compliance reports. That means automakers at risk of missing their targets still don't know how much more the increased fines may have already cost them.

The Alliance of Automobile Manufacturers blasted what it called a "draconian" increase, saying it will make it harder for automakers to make progress toward the Obama administration's call for a fleetwide average of 54.5 mpg by the 2025 model year.

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FIRST IN A 9-PART SERIES | GENERAL MOTORS

## future product pipeline

Having revamped much of its truck, SUV and car lines in the last few years, General Motors is in full-blown crossover mode. Next generations of the GMC Terrain and Chevrolet Equinox and Traverse are on tap for next year, with some new nameplates planned further out. | PAGES 24, 26, 27 |

# GMC's NEXT MOVE

## Big growth targets will require fresh products

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DETROIT — In March 2015 GMC chief Duncan Aldred planted one of the industry's most ambitious stakes in the ground: a goal to grow the General Motors truck brand's market share by two-thirds over a decade, to 5 percent from about 3 percent.

Since then, GMC's U.S. market share hasn't budged, despite the hot market for pickups, SUVs and crossovers — the only stuff GMC makes. The result underscores that GM's growth targets for its profitable truck marque eventually will require new models and nameplates.

One potential avenue: venturing into Jeep's terrain. Industry sources believe GMC is drawing up plans for an SUV based on the same body-on-frame platform that serves as the bones of the GMC Canyon and Chevrolet Colorado midsize pickup. It's in the early stages — it doesn't appear to have been sourced to suppliers yet and the SUV's arrival isn't expected until 2020 or later.

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**Aldred: GMC can be "alternative to Jeep."**

# Pressure mounts on muscle car impresario

## Dealer sues Saleen over custom work

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A large Ford dealership in Texas is suing Saleen Automotive, alleging fraud and breach of contract, and another dealership says it's having similar problems getting Saleen to deliver a supercharged Mustang that was promised and paid for long ago. Financial documents show that Saleen is deeply in debt and low on cash.

**Saleen: "We have been improving."**

But CEO Steve Saleen, a former race car driver who has been customizing performance cars since 1984 and rose to fame with his go-fast Ford Mustangs, says those dealerships' experiences aren't representative. Saleen says it's a "small miracle" his company has gotten to where it is since he was forced to start anew several years ago.

In its lawsuit, Red McCombs Ford in San Antonio says three 2015 Mustangs it paid Saleen Automo-

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Automotive News BEST DEALERSHIPS TO WORK FOR 2016

Which dealerships are the best to work for? See the list of this year's top 100. | PAGES 17-19 |



NEWSPAPER

# NHTSA

## Agency: Makers can meet standards

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The change also risks upsetting the fragile consensus between automakers and regulators as both sides dive into the key midterm evaluation of the administration's "national program" of greenhouse gas and fuel economy rules.

"The most disturbing thing about it is that essentially no notice was given," said one auto executive with responsibility for fuel economy strategy. "You make your regulatory plans based on a certain set of assumptions. To have it change suddenly without notice and without the ability to respond is really troubling."

NHTSA has assessed an average of $20 million in fines industry-wide each model year since 2010. (See box, at right.)

The latest increase, disclosed in a July 5 *Federal Register* notice about the rule, was prompted by a law enacted last year directing all federal agencies to update their civil penalties to maintain their effect as a deterrent and keep up with inflation.

For NHTSA, that meant raising the rate used for calculating CAFE penalties to $14 from $5.50. The $8.50 difference amounts to big bucks because it's applied to each 0.1 mpg that an automaker falls short of its fuel economy target and then multiplied by the number of vehicles from that fleet sold in a given model year.

"This is a badly needed reform," said Roland Hwang, transportation director at the Natural Resources Defense Council, who said the $5.50 rate made it cheaper for automakers to miss the target than to try to achieve it.

The fines are assessed to automakers that don't make up for their shortfalls by buying offsetting credits, which are privately traded among automakers. Those credits could become more expensive now, the alliance warned.

Even before learning of the higher penalties, automakers were unnerved about the potential for increased exposure to fines.

On June 20, the alliance and the Association of Global Automakers petitioned the EPA and NHTSA to iron out discrepancies between the greenhouse gas and fuel economy programs that the auto groups say complicate the goal of creating one set of national standards for automakers.

"Some manufacturers are projecting that, despite being able to comply with the numerically more stringent greenhouse gas standards, they are likely to be in a position to pay CAFE fines," the auto groups said in the petition.

In a statement, a NHTSA spokesman said "automakers are already proving they can meet the administration's fuel efficiency and [greenhouse gas] reduction standards," adding that the multiyear program gives automakers time and "regulatory certainty" to plan for compliance. AN

### The outliers

Penalties paid by auto companies over the 2010-14 model years for missing fuel economy targets

| | TOTAL FINES |
|---|---|
| Jaguar Land Rover | $46.2 million |
| Daimler | $28.2 million |
| Volvo Cars | $17.4 million |
| Porsche | $4.8 million |
| Fiat | $3.6 million |

Source: NHTSA

# FINANCING

## More can be done so more people can get car loans

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loans last year, according to the dealers association.

"If we analyze the volume handled by automaker financing in the auto sector, it's very important," said Francisco Garza, GM's vice president of sales for Mexico, Central America and the Caribbean. "GM Financial is our financing arm, and last year it grew much more than the auto industry as a whole."

Industry officials say there's more that can be done to get financing into the hands of more people.

While Mexican inflation hit a record low of 2.1 percent last year, the average rate for a car loan was about 12 percent, according to the dealers association. Promotional rates do go lower, but there still is a significant spread over inflation.

Garza said the gap is due partially to Mexican laws that make it difficult for lenders to repossess cars from owners who have fallen behind in their payments.

"There are still some changes needed to the legal framework of the financial system," he said. "In the U.S., you can get a 'repo' the day after the buyer has fallen 60 days behind." In Mexico, by contrast, repossession requires a civil suit, usually met with a countersuit and months of legal fees.

Luckily for lenders, nonperforming loans are only 1.5 percent of the total, according to Guillermo Rosales, co-director of the auto dealers association. That is one of several indicators pointing to continued growth in the auto-financing sector, he said.

After Mexico's 1995 economic crisis, local banks were broke, but the U.S. financial system had capital to lend, Rosales said. Thus began a stepped-up presence by automakers' financial arms.

"When the Mexican financial system collapsed in 1995, what saved vehicle sales and allowed them to recover is precisely the participation of specialized financing by the brands," he said.

Over time, those operations have consolidated and matured into the market we see today, with a growing share of auto purchases being financed. And more auto loans are stretching out to 60 months, making car buying more affordable to some segments of the population.

Mayra Gonzalez, the new president of Nissan Mexicana, said Nissan is creating new financing products for underserved segments, since only about half of the population has access to credit.

Nissan's Subete program offers credit to buyers who are self-employed or otherwise cannot present proof of a steady paycheck. The Sin Fronteras program allows Mexican migrants in the U.S. to qualify for credit and purchase a car back home in Mexico for their families. And, Gonzalez said, Nissan is working on a financing product aimed at students.

"We have found new market segments," Gonzalez said. "If you open the possibility of credit to more people, that obviously increases sales." AN

# MEXICO

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compact or subcompact cars, according to the industry association.

"Although the competition is going to multiply, we are going to be skillful enough to maintain our participation and in given time to increase it," GM's Garza said. "We believe that we must take advantage of what the internal market in Mexico offers as well as the opportunity to export to different latitudes."

Nissan doesn't plan on giving up any ground either, Gonzalez said.

And for Mexico, too, it's important to be more than just an export base, since a solid local market tends to draw more investment from automakers looking for growth opportunities, said Eduardo Solis, president of the industry group.

"Having a healthy internal market, a growing internal market for a country that exports 83 percent [of production] is fundamental," he said. "We are sure we can have the same success in the internal market that we have had as a production and export platform."

In the end, consumers may be the big winners.

"The arrival of new brands, new actors, has been fundamental for stronger competition," Rosales said. "No one wants to lose a millimeter of market share as shown by a series of very aggressive promotions by automakers." AN

### Top 5 in 2015

Here are unit sales for the top 5 automakers in Mexico last year.

| | 2015 | 2014 |
|---|---|---|
| **1.** Nissan N.A. | 348,942 | 293,204 |
| **2.** General Motors | 256,150 | 216,958 |
| **3.** Volkswagen Group | 218,633 | 195,352 |
| **4.** Ford Motor Co. | 89,594 | 80,965 |
| **5.** FCA Mexico* | 86,843 | 77,086 |

*Excludes Mitsubishi brand

Source: Automotive News Data Center