



## Venezuela's Car Industry Moving In Reverse: Manufacturing Down 83% In One Year

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Caracas – The showroom of Holly Import, a Toyota authorized dealer in east Caracas, is packed. The image is astonishing in a country where, according to the latest data available from the Venezuelan Central Bank, the shortage of new vehicles amounts to 100 percent – i.e., there are no new cars for sale in the whole country.

Like the inscription at the entrance of Dante's hell – “Abandon all hope, you who enter here” – a sign attached to the windshield of every car brings the customer back to reality: “This vehicle is undergoing maintenance. Not for sale.”

“We are on the verge of a catastrophe,” said Oscar González, president of Castellana Motors, a General Motors dealership that sold 180 cars monthly during 2007 – the best year ever for Venezuelan auto-makers – but has only sold 12 vehicles so far this year. “The government is trying to change the local production scheme to an import-only system controlled by the state,” he warned.

Since 2009, the authorities here have been reducing import licenses for traditional American and European companies like G.M., Ford, Chrysler, Renault and Fiat and have signed agreements with car manufacturers from countries that are political allies of Venezuelan President Nicolás Maduro, such as Ecuador, Russia and, especially, China. Chery, a Chinese manufacturer, was just approved to bring in 13,000 new cars during 2014.

Local production numbers are not promising. In 2007 auto-makers in Venezuela assembled 172,218 vehicles; in the first half of 2014, only 6,161 have been manufactured, according to the Venezuelan Automobile Chamber, Cavenez.

To put that another way, car production in the country fell by 83 percent compared to the first half of 2013.

With the cheapest gasoline on earth (5 U.S. cents per gallon), it's a terrific business to have a car in Venezuela even if it's an old fuel squanderer. As a result, epic traffic jams have become routine in Caracas.

The steady plunge in the automotive sector got much worse last October, when increased currency restrictions kicked in. The government virtually stopped the authorization for foreign currency to local manufacturers, which were then prevented from paying their parent companies.

According to published reports, the amount past due now stands at about \$1.8 billion.

The scarcity of new vehicles has triggered an upsurge in the value of used cars, which now cost two to six times more than the official cost of new ones. As long as new models are nowhere to be found, a well-maintained used vehicle is worth its weight in gold.

A brand new Chevrolet Aveo, a bestseller in Venezuela, has an official sticker price of \$40,818, but a used one is worth up to \$100,603.

Similarly, a 2014 Jeep Cherokee has a fixed price of \$51,272, while its current market value can reach \$300,000. (Dollar equivalents are calculated at the official exchange rate of 11 bolivars per dollar, but the unofficial exchange rate is more than 75 bolivars per dollar.)

The drop in the production of new cars has also affected related industries, with auto parts topping the list. In the first two quarters of 2014, the number of auto parts produced fell 83 percent.

“The spare parts market has been hit too, because most products require imported raw materials and currently we have a \$200

million debt with our foreign suppliers, which we cannot pay due to currency exchange restrictions," said Omar Bautista, president of the Chamber of Venezuelan Manufacturers of Automotive Products (Favenpa).

Having exhausted their credit and unable to import parts and components required to assemble new vehicles, car manufacturers have spent the year restricting production in order to slow down the depletion of their stock, trying to manage the scarcity in order to avoid the permanent closure of their plants.

Ford, General Motors and MMC (which represents Mitsubishi and Hyundai) kept their factories closed in January; Toyota halted its production from March to June; Chrysler didn't operate in January, May and June.

The consequences have been widely felt. If in previous years buyers had to wait several months to get a hold of a new car, in 2014 they lost all hope.

"We had to close our waiting list because it made no sense at all: There were 7,000 people," explained Castellana Motor's González. "In 2007, G.M. was offering 40 models in Venezuela now there are 15 in the sales brochure, but only six are being assembled."

As if all this wasn't enough, auto-makers are stuck with labor they can hardly afford. Since 2002, there have existed regulations that prevent companies from firing employees.

Four weeks ago, G.M. submitted a request to the Labor Ministry asking for authorization to lay off 500 workers due to the decline in production. Chrysler made a similar request in order to cut 119 jobs.

Venezuela's car industry seems to need a jump-start.

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