

## **Used Vehicles Are an Important Component of U.S. Passenger-Vehicle Exports**

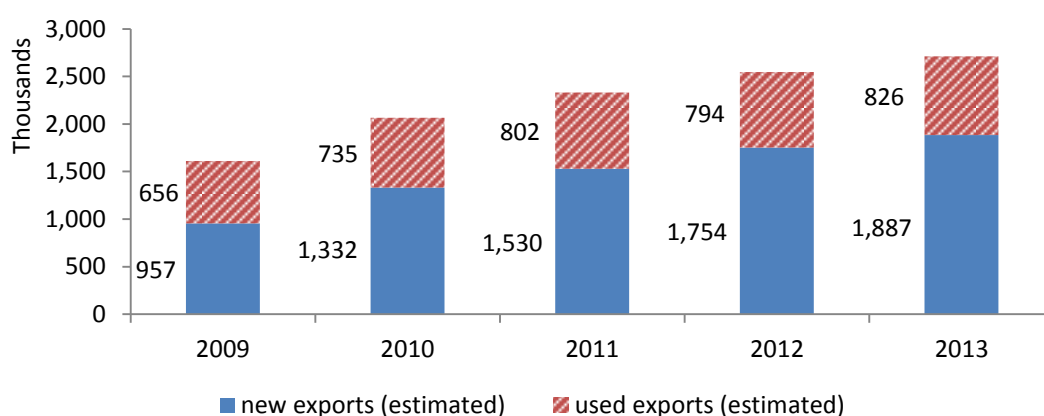
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*U.S. exports of used passenger vehicles averaged 762,000 per year from 2009 to 2013, with many destined for lower-income markets. The large foreign market for these exports appears to have propped up U.S. passenger vehicle sales and may have lessened the price premium for new vehicles to U.S. consumers. This suggests that the current level of U.S. new-vehicle purchases can be at least partly attributed to foreign demand for U.S. used vehicles. Estimated data are used because precise data on some U.S. exports of used vehicles are not available.<sup>1</sup>*

Used vehicles made up 34 percent of U.S. passenger vehicle exports by volume during 2009–13 (21 percent by value). Major markets for U.S. used vehicle exports differ from markets for new vehicle exports, particularly in terms of volume. Used passenger vehicles are often exported to developing countries because they offer luxury options at lower prices, are not available new in those countries, or match or exceed the quality of locally available new vehicles.

Estimated U.S. exports of used passenger vehicles rose 26 percent from 2009 to 2013, from 656,000 units to nearly 826,000 (figure 1). At the same time, U.S. exports of new vehicles doubled to nearly 1.9 million in 2013, causing the share of used vehicles among all U.S. exports of passenger vehicles to fall from 41 percent in 2009 to 30 percent in 2013. The growing global economy drove a jump in demand for more expensive new vehicles as well as used vehicles.

**Figure 1** Used vehicles' share of total U.S. passenger vehicle exports is declining



Source: Author calculations based on USITC DataWeb/USDOC data (accessed August 14, 2014).

### ***The Middle East and Africa are the leading export destinations for used passenger vehicles***

The markets for used vehicles differ significantly from those for new vehicles. Major markets for U.S. used-vehicle exports are primarily developing countries, led by Mexico, Nigeria, and Benin

<sup>1</sup> For tariff purposes, tradable goods are classified using the global Harmonized System (HS). The HS has nine 6-digit categories for passenger vehicles. Among those nine, only four (870323, 870324, 870332, and 870333) have export codes specific to used vehicles. The other five (870322, 870331, 870390, 870421, and 870431) do not. For the first four categories listed we can calculate the share of exported vehicles that are used ones, but not for the other five. The estimates shown here take the used-vehicle share calculated for the first four categories and apply it to the other five, whose new-to-used mix is unknown. These estimates were calculated separately for each country the U.S. exported passenger vehicles to from 2009 to 2014, and results were summed together to form the estimate.

(table 1); the average unit value of exports to these countries was \$7,238. By contrast, the top five markets for U.S. exports of new passenger vehicles were Canada, China, Mexico, Germany, and Saudi Arabia, and the average unit value of new-vehicle exports to those countries was \$27,303. Nearly 28 percent of U.S. used-vehicle exports went to low- or lower-middle-income countries in 2013, while only 1.5 percent of U.S. new-vehicle exports went to these countries.

**Table 1** U.S. exports of used passenger vehicles, 2009–13, thousands of units

Country	2009	2010	2011	2012	2013	Increase (2009–13)
Mexico	58.1	58.0	54.5	64.4	115.6	99.1%
Nigeria	50.0	60.9	84.1	97.4	107.7	115.2%
United Arab Emirates	52.1	65.0	79.8	96.3	85.4	64.0%
Benin	32.6	59.4	77.7	67.6	61.4	88.6%
Jordan	28.5	29.6	21.4	27.8	36.2	27.1%
Other	434.8	461.8	484.4	440.8	419.5	-3.5%
Total	656.1	734.7	801.9	794.4	825.9	25.9%

Source: Author calculations based on USITC DataWeb/USDOC data (accessed August 14, 2014).

While geographic proximity is probably the primary reason Mexico is the top destination for U.S. used-vehicle exports, the North American Free Trade Agreement likely contributes. Under this agreement, Mexico agreed to remove its barriers to the import of used passenger vehicles. Benin's imports are likely primarily destined for Nigeria, a much larger market. Nigeria has high tariffs on used vehicles and bans imports of vehicles older than 10 years, while Benin does not. Reports suggest this has led to significant transshipment through Benin to Nigeria.

Demand for used-vehicle imports is likely higher in developing countries because of the quality, variety, and low initial cost of U.S. used vehicles compared with the limited availability and costliness of new vehicles in those markets. Developing countries' lower labor costs also mean that repairs are less expensive in those markets, placing the cost of maintaining an older used vehicle well below that in the United States.

Many countries fully or partially bar the import of used vehicles. This likely occurs for three reasons: (1) to protect the domestic market for new vehicles, (2) to protect the environment from the (usually) higher emissions of older vehicles, and (3) to prevent the import of what they see as "junk" from developed countries. As of 2011, at least 23 countries had a full or partial ban on the import of used vehicles.

### ***Exports of used vehicles influence purchases in the U.S. new-vehicle market***

Used-vehicle exports appear to have a small effect on the U.S. market for new passenger vehicles. Demand for used vehicles outside the U.S. border puts upward pressure on the U.S. price of used vehicles, and thereby squeezes price premiums associated with new vehicles. This narrowing of price premiums makes it less attractive for U.S. consumers to purchase used vehicles relative to new vehicles. Anecdotal evidence suggests that this has led to higher new-vehicle sales in the United States.

Sources: Davis, Lucas W., and Matthew E. Khan, "International Trade in Used Vehicles: The Environmental Consequences of NAFTA," NBER, January 2010, 2, 5–6; Golub, Stephen S., "Entrepot Trade and Smuggling in West Africa: Benin, Togo and Nigeria," *The World Economy*, 2012; Sawyers, Ariana, "Price Watch: A Big Dip in Used-Vehicle Values Could Screw Up Everything," *Automotive News*, August 18, 2014, 1; U.S. Department of Commerce, International Trade Administration, "Compilation of Foreign Motor Vehicle Requirements," December 2011; USITC DataWeb/USDOC (accessed August 14, 2014).