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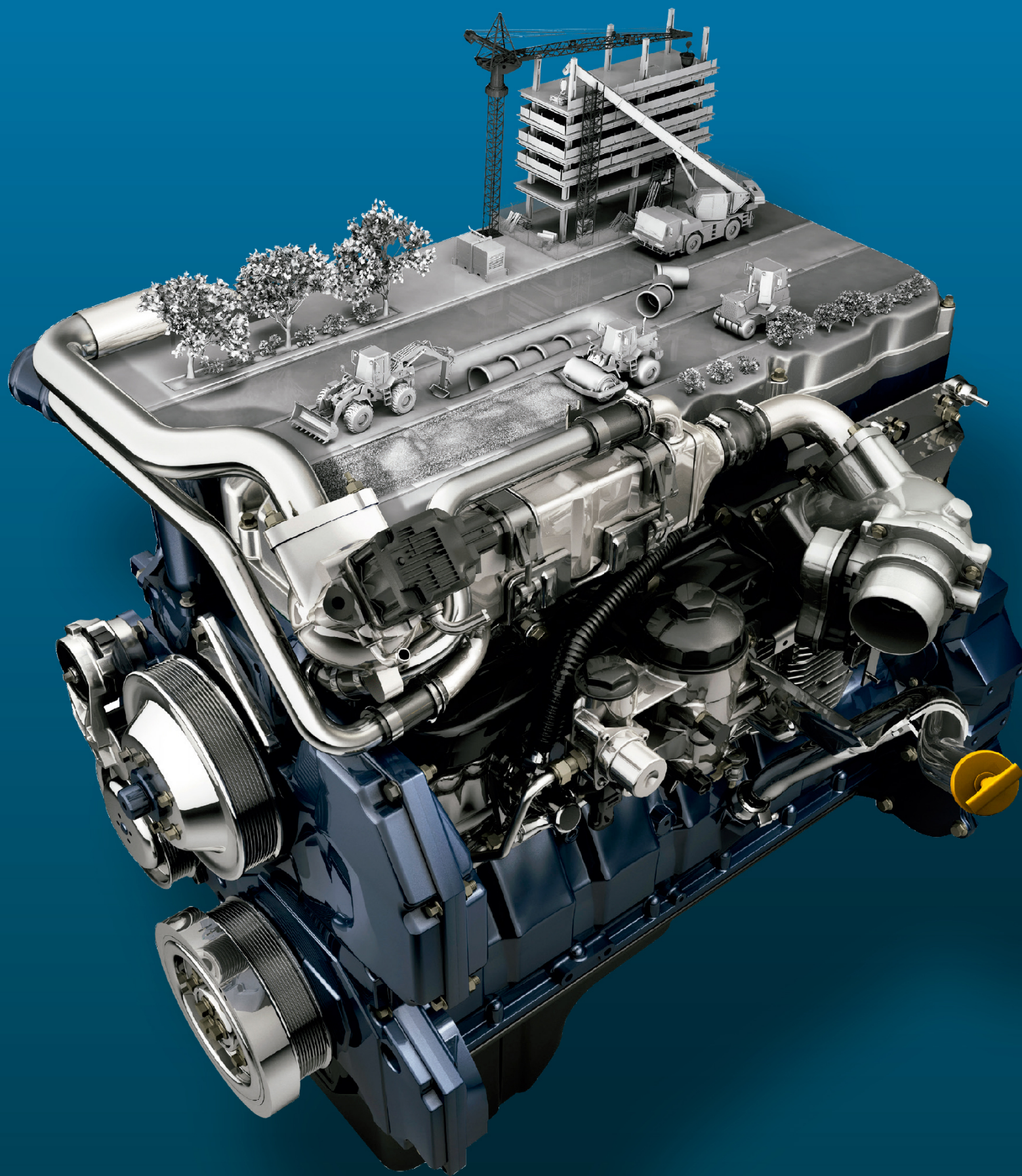
Rota 2030 will replace Inovar-Auto program

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Rota 2030 will replace Inovar-Auto program

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The Brazilian government announced on Tuesday, 18, the first guidelines for the construction of a new industrial policy for the automotive sector. The name of this ambitious plan is already set. The norm has been named Rota 2030, and will cover a period of fifteen years, with three cycles of development. The goal is to establish a long-term vision, with clear and predictable rules, to secure investments and encourage the competitiveness of the domestic industry at a global level.

AutoData had access to some of themes that are on the negotiating table. Every entity related to automotive production in the country is conducting dialogues with the representatives of various ministries of the federal government. Behind the scenes information indicates there is a certain consensus on the main points that are under discussion.

One such topic relates to vehicle safety, with the obligatory for side-impact tests on light vehicles – today only frontal impact tests are required. Other issues involve the inclusion of stability control, automatic braking system, AEB, and tire pressure control system, TPS, from series, on the new generation of locally-produced vehicles.

Regarding energy efficiency, industry and government are evaluating maintaining ethanol and biodiesel as solutions to meet the increasingly stringent demands of vehicle emissions. Preliminary studies show that vegetable-based fuels and waste – in the case of biodiesel – are able to provide better emissions results when compared to electric vehicles. In addition to being expensive, and without incentive policies to gain volume in Brazil, electric cars tend not to be the alternative to solve one of the biggest challenges in the world: the emission of CO2.

Marcos Pereira, Minister of Industry, Foreign Trade and Services, said during a meeting on Tuesday, 18, a working group will be created to define the norms for Rota 2030: “Based on the

analysis of the trends in the global automotive industry and mobility, we will define what type of insertion the Brazilian industry must seek in 2030.”

According to the Ministry, the backdrop to this discussion is the convergence of technological innovations with changes in users’ behaviors, which are transforming the way automakers develop and build the vehicles. To do this, according to Pereira, GAN 203 – the High-level Group on Mobility and Logistics -which will discuss the main challenges for the automotive industry in the next 15 years and make recommendations to strengthen the competitiveness of the industry’s value chain in Brazil.

Igor Calvet, Secretary of development and competitiveness at the Ministry, said that the idea of the government with Rota 2030 is to plan the industrial policy beyond the usual 4-year political cycles. According to him, industrial policy can’t be planned based on very small cycles because business decisions are usually taken in longer cycles.

Therefore, that is the spirit with which we are starting the automotive industry’s discussions between the government and the private sector. It is a very important sector for our economy. It represents about 22% of our GDP.”

This stance of the government is an old demand from the automotive sector. During the launch of the new up!, David Powels, President of Volkswagen Brazil, showed his concern with the supply chain because, according to him, “without a specific policy for this chain, we may lose competitiveness since we will not have a local base that meets the needs of the new generation of vehicles.”

“When he became the president of Anfavea, Antônio Megale spoke about the sector requiring predictability to enable the companies to plan their initiatives in the Brazilian market. The President of Mercedes-Benz, Philipp Schiemer, also said during AutoData’s New Challenges for the Brazilian Automotive Industry seminar, held in March, that public policy needs to be more stable in order to elaborate business plans:

“Brazil needs to be more competitive. It is necessary to reduce the uncertainties and have more predictability in public policies.”

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up! Inaugurates new phase for VW in Brazil

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The 2018 version of the up! Was presented on Monday, 17, in São Paulo. It represents a new phase for the company in Brazil. Not that the model will prevent the unprecedented drop in market share by one of the most traditional automakers in the country. However, the re-styling of the entry-level compact is the first of a series of launches that, according to David Powels, the president of the company, will redefine the VW portfolio and place it “back in the game,” as he defined the near future.

Nine product presentations are scheduled for 2017, including two brand new launches: the Polo and its sedan, the Virtus, which should be produced at the São Bernardo do Campo plant in the state of São Paulo.

“We conducted one of the biggest restructuring efforts in the history of Volkswagen in Brazil. We have an agreement for the next five years with the unions: this is the first company in the industry to make a deal for this period in the country. We are leaner, more productive, and we will be more competitive in the domestic market from now on.”

However, despite a new crop of vehicles, VW is still uncomfortable with the future of the domestic market. The concern is that the supply chain, according to Powels, will not be able to invest in the production of items that will equip the next generation of cars: “We have to talk with the government, with the BNDES – the country’s Social and Economic development Bank -, about an

alternative form of financing that can enable suppliers to invest.”

Without the necessary attention and priority to the lack of competitiveness of this chain, VW’s president believes it will be very difficult for the country’s auto industry to become a big global competitor:

“With declining parts local content ratios, the competitiveness of locally-produced products is obviously lower.”

New up! – Initially launched to be a large-volume model, the up! Did not achieve its objective, become the first car of many Brazilians. Last year, 38 thousand units were sold, far from the expected result. Powels believes the previous model’s market positioning was not the most appropriate. As a result, the new four-door version’s entry-level price has remained the same: R\$ 37,990. However, the other versions have new prices: the sporty cross, for example, is priced at R\$ 55.6 thousand, an increase of R\$ 1.5 thousand.

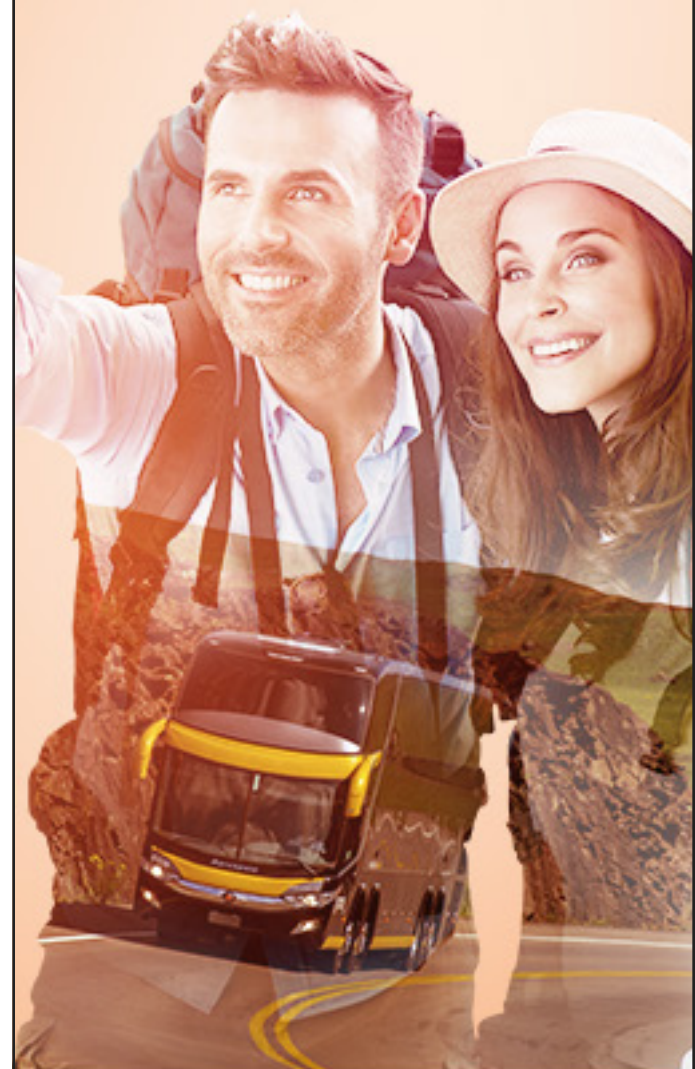
The compact car has gained front and rear aesthetic changes, a new panel, and technologies for improved connectivity. Without setting a sales objective for the new compact, which goes on sale later this month, VW believes it is in the correct direction to get back in the game in much better conditions than in the past. But this should happen only in 2018.

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Paraguay targeted by Brazilian autoparts

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Paraguay wants to become a pole of autoparts in South America. The country's production costs are lower than Brazil, and this has attracted many companies from the automotive sector. Labor and energy costs alone are up to 40% lower than in Brazil for production of autoparts.

According to Wagner Weber, partner at Braspar, Brazil-Paraguay Business Center, five of the ten largest autoparts companies that operate in Brazil have plants in Paraguay. This list includes wire harnesses companies such as Leoni, Fujikura, Yazaki and, more recently, Sumidenso, which opened its facility a year and a half ago:

"Sumidenso announced investments of US\$ 30 million to improve its local operation. It began its activities with 200 employees and today has 1.5 thousand." THN is also established in the country. The company makes interior systems and door covers for Hyundai.

Advantages such as lower labor costs, less complex and reduced costs and taxes makes Paraguay an increasingly attractive location: "Although the minimum wage is higher, R\$ 1200, the labor-related costs are lower. While there is a 30% additional cost in Paraguay, in Brazil, this ratio is 110%."

Another advantage is the reduced cost of energy, which is up to 60% cheaper than ours.

In addition, many of the taxes that are common in Brazil don't exist in Paraguay.

According to Fernando Zilveti, partner at Zilveti Lawyers and specialist in tax law, the Paraguay system is completely different. There's only a tax on consumption, the IVA, which does not suffer changes like the ICMS here, for example, whose value changes according to the state, and this generates increased legal certainty because the rules are clear."

Companies in Brazil need to also pay the PIS, IPI, and Cofins.

Roberto Vasconcellos, a specialist in international tax law at FGV Direito in São Paulo, says the complexity of Brazilian taxes contributes to making companies increasingly interested in countries that adopt simplified and lower taxes, «which impacts on the final price of the products and makes them more competitive.»

Autoparts companies account for 85 of 120 companies installed in Paraguay that operate under the Maquila Regime, created in 2000 to develop the local industry. This system allows the company to export goods to other countries by paying 1% in taxes. It also ensures that all raw materials, capital goods and imported inputs are tax-free as long as the finished or semi-finished product is exported within a two-year period. The import tax is also suspended for companies that acquire with Mercosul certificate of origin.

These benefits made these companies become competitive in the export market, says Wagner Weber, from Braspar:

“Given the country’s lower level of bureaucracy, companies that establish in Paraguay also have additional facility to export to Europe. Companies established here have more difficulties.”

According to him, autoparts exports have grown considerably: «There has been a 60% increase when compared to the first two months of last year. In the first two months of 2017, these companies exported R\$ 27.3 million, when compared to R\$ 17 million during the same period last year.»

According to Sara Saldanha, manager of internationalization services at CNI, the National Confederation of Industries, production integration operations are a trend in international trade: «More and more companies seek strategic alliances with countries that allow their products to reach more markets at competitive prices.»

Still according to her, this is not a temporary situation, and Paraguay is increasingly consolidating itself as a strategic partner of Brazil, as well as others in the region.

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Chinese giant grows in Brazil

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After one year of CKD assembling, Chinese giant BYD announced the second phase of the production of bus chassis at the plant in Campinas, SP. Last year, the company imported electrical chassis from China for testing and approvals. Adalberto Maluf, Marketing and New Business director, revealed that the second phase consists of the local production of components and an assembly line, which now has 80 employees.

BYD is the biggest manufacturer of electric buses in the world, and plans to produce 250 chassis in Brazil, in 2017:

“The plant’s capacity is 720 units/year, which should be reached in 2019, with the hiring of 80 additional workers.”

The following year, the company plans to increase production to 3000 chassis, which should drive a change in the plant’s location.

Beside the chassis factory, BYD established a unit to produce solar panels. With an investment valued at R\$ 150 million, it has 360 employees and a production capacity of 200 megawatts.

The company has also imported, since the end of 2016, two models of cars – the E5 and the E6 – both electric. The models, used mainly in urban mobility fleets, arrive complete in Brazil – only the battery system is placed here. For the meantime, there are no plans to produce them at the plant: «If the market grows, we can consider this hypothesis,” stated Maluf.

The ratio of local technology used in the production of BYD here is 20%, but this should increase to 70% by 2022.

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