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New industrial policy for the automotive sector will have a five-year duration due to the country's Fiscal Responsibility Law

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New industrial policy for the automotive sector will have a five-year duration due to the country's Fiscal Responsibility Law

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João Mantovani

The new industrial policy for the automotive sector that will be implemented next year should be focused on 2030, but will be structured to last for five years. According to Margarete Gandini, director of the department of logistics and mobility industries at the Ministry of Industry and Trade, MDIC, the duration of the industrial policy is made according to the Fiscal Responsibility Law, LRF, which controls the government spending. However, according to her, after the five years, the policy should be readjusted for the next cycle.

"The new policy will last from 2018 to 2022, but it will be reassessed every five. The important thing is that we will meet with representatives from the chain starting next week to define the five or six pillars that should contain the new rules for the automotive sector. These meetings will be weekly and the prospect is that the new policy should be announced in July. We need the rules to be set before deployment of the new rules," she said, during AutoData's New Challenges of the Brazilian Automotive Industry Seminar.

The issue of improving the competitiveness of Brazilian manufacturers should be one of the pillars in the new rules. This issue was one of the demands made by the president of Anfavea, Antonio Megale, during his presentation at the seminar. "The backdrop for the new rules is competitiveness. Not only do we want to assemble vehicles here, but develop them and participate in the discussions of the future of the industry in the world," stated Margarete.

Gandini added that the new policies should offer a gradual market opening. The Inovar-Auto protected the market through the adoption of the increase in the tax on industrialized products, IPI, by 30 percentage points, for vehicles imported outside the quota established for each company. This rule ends with the termination of the industrial policy. In 2011, one year before the Inovar-Auto program, vehicle imports reached almost 200,000 units. The following year, under the new rules, 129,450 vehicles were imported. Since then, sales have been dropping year after year. "What I always say is that what's in the decree should be fulfilled. It is important to look at the context to define the rules. In 2012 there was a high exchange rate imbalance, with the dollar valued at R$ 1.60, it was not possible."

Another issue that should be included in the new industrial policy for the Brazilian automotive sector is a major concern with the automotive chain, including autoparts, the weak link in the chain. According to Gandini, there will be a specific project for the supply chain. The local content increase policy "did not reach the goals outlined at the time the Inovar-Auto program was released." According to the rules, manufacturers should have increased the local content of automotive parts in vehicles produced in Brazil.

Gandini added that the new industrial policy for the sector "reflects the lessons from previous policies. (It should also) contain energy efficiency goals should match the targets of the major markets of the world." She noted that the new policies should also contemplate more efficient engine designs, such as hybrids, where ethanol fits. WE

Truck market recovery requires predictability

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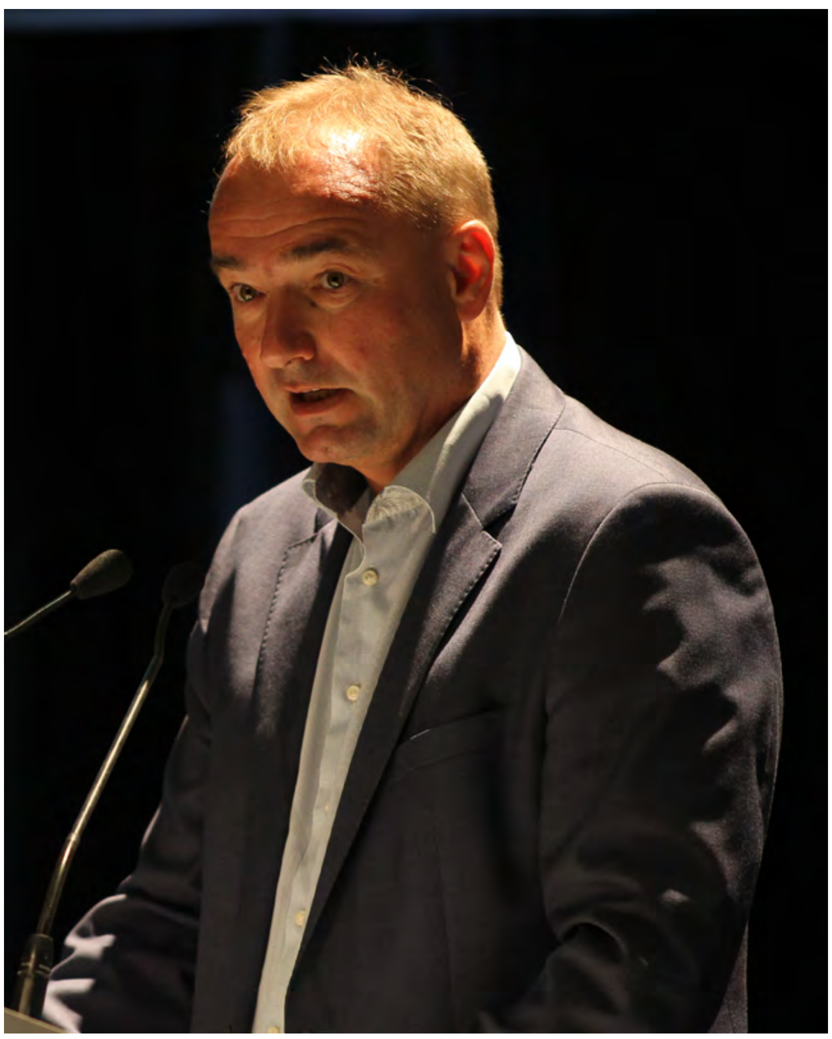

João Mantovani

Despite the economic downturn that caused sales performance declines over the past two years, the truck market has potential to grow again and reach 140,000 units/year in the medium or long-term. This vision was shared by Philipp Schiemer, president of Mercedes-Benz Brazil, during his presentation at AutoData's New Challenges of the Brazilian Automotive Industry Seminar held on Monday, the 13th, in São Paulo.

However, for this to happen, a long and sustainable path must be undergone. According to Schiemer, the performance of the truck market is linked directly to the country's economic performance. To grow again requires an economy with strong bases. "Brazil needs to be more competitive. It is necessary to reduce uncertainties and have more predictable public policies."

Schiemer added that incentives generated in the past to enable truck sales, through financing with very low interest rates, only camouflaged the market's performance. "The consequence of this is that the crisis exploded with greater impact" In addition, during this period, according to the executive, Brazil created a fiscal distortion and spent more than its revenues. "Adding corruption to this, the country also lost credibility". He also confided that it is increasingly difficult to convince the German headquarters of Mercedes-Benz to invest in Brazil.

According to Schiemer, more predictable and less complex legislation would help Brazil, and the truck market. “The government is committed to improve. An example is the intention to implement the labor reform, which would help in hiring labor. The rules that exist today do not benefit the industry or the employee.”

The recovery of the truck industry, however, should come through investments, not consumption. According to the president of Mercedes-Benz, unemployment today affects 12 million people and the indebtedness of Brazilian families endorse the fact that the government will need to put in place infrastructure works in ports, airports, roads and railways. “This will encourage the sale of trucks and even solve infrastructure problems that only hinder the flow of the economy.”

Investment in road improvements would increase the country’s competitiveness in the agri-business sector and would decrease the cost of doing business in Brazil. “Today, we have a country where it is easier to plant and harvest than to distribute. Roads that are not conserved and huge lines to unload the cargo only hinder the business of the transporters. “Another way for the truck market - and the achievement of a more efficient transport operation - would be a fleet renewal program to take the nearly 230,000 trucks averaging more than 20 years of age from circulation.

The president of Mercedes-Benz also drew attention to the importance of reducing the cost of doing business in Brazil so the country can be more competitive in the race for foreign markets. “Inside of its factories, Brazilian companies are competitive companies. However, they lose competitiveness from the door out because of logistics costs.” WE

Toyota wants to expand exports in Latin America

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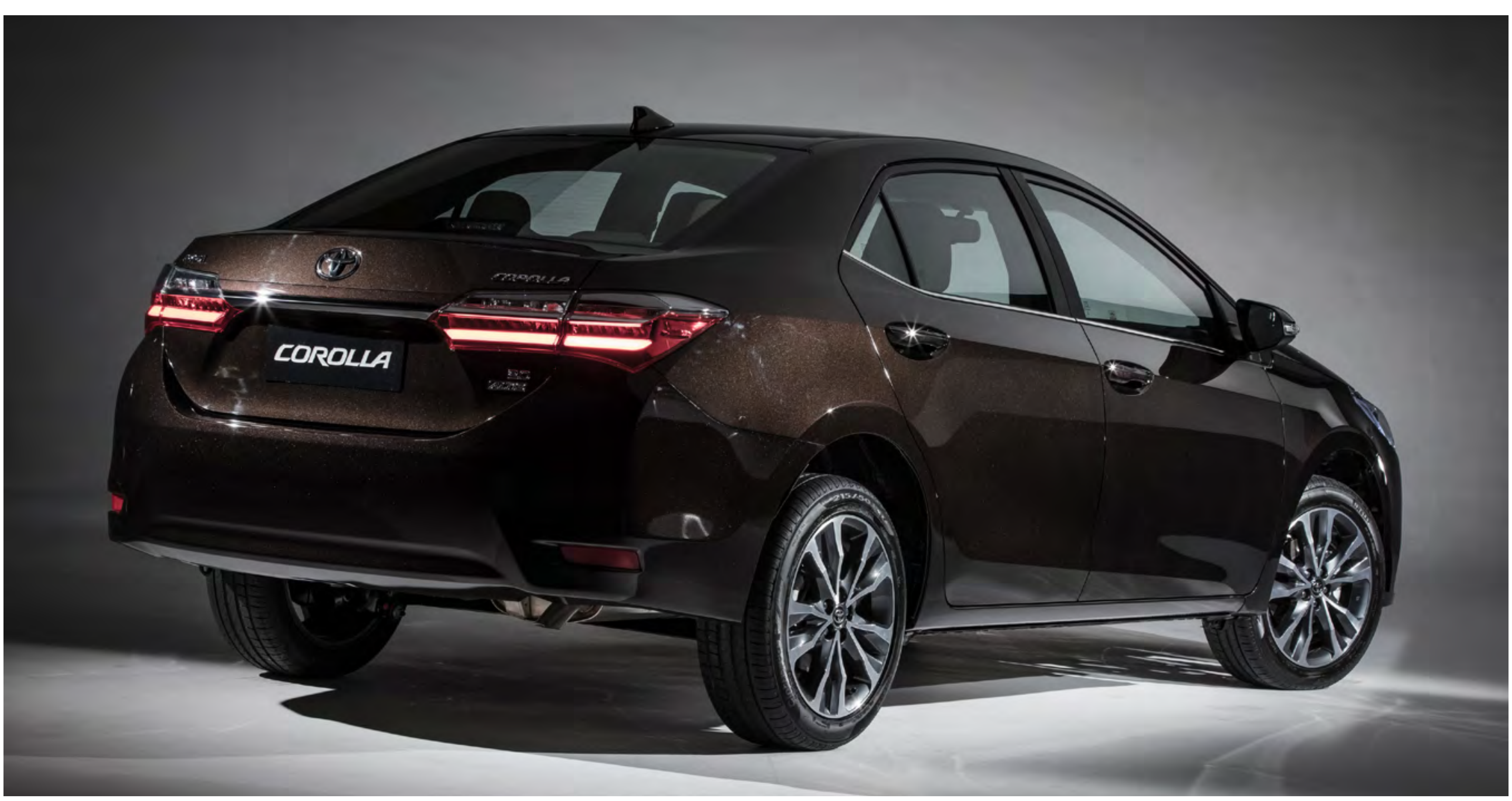
Toyota Brazil wants to increase its exports to Latin American countries that today are supplied by the plants in Europe and the United States, such as Peru and Chile, open markets that are experiencing an invasion of Chinese vehicles. According to the company, altogether, these countries represent potential sales of 3,000 units per year, which would make the company's exports jump from 43,500 in 2016, to 46,500 units.

With Brazil's geographic proximity to these markets, shipments of the Corolla and the Etios from the country can happen a lot sooner. Rafael Chang, who became the president of the company in Brazil in January of this year, expects first shipments should take place in April, adding that the exports to the region are expected to grow 6.4%.



Toyota

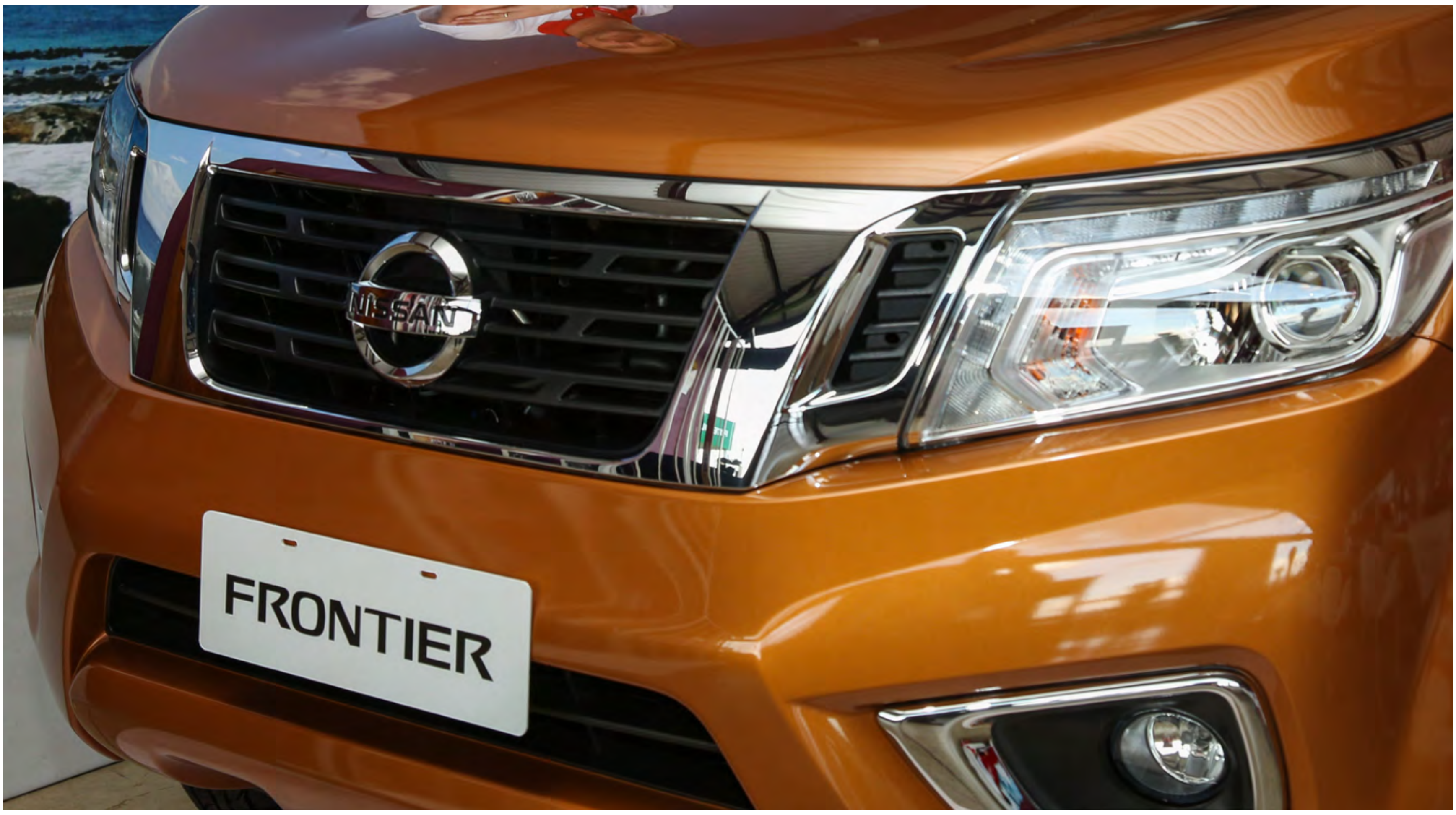
"This year's goal is to maintain this base. We plan to ship the Etios to Peru starting in April. We're conducting feasibility studies for the Corolla in Peru, Colombia and Chile, which receive the model from the United States," he said.

In 2016, both models were shipped from the plants in Indaiatuba and Sorocaba, in the state of São Paulo, to Argentina, Uruguay and Paraguay, totaling 43,500 units when compared to 39,800 units in 2015. Of this total, the Etios, the company's entry-level car in Latin America, represented the largest volume, 25,000 units.

The Corolla, however, should leverage the company's sales in the continent this year. The 2018 model, launched in Brazil on Thursday, 16, is equipped with adaptations for the Latin American market and carries the reputation of being among the five best-selling cars in Brazil, as well as being the leader in the category over the past 10 years, according to Anfavea.

The belief within the company is that these factors, combined with a strategy to market it to younger consumers through changes in design, for example, could enable it to target customers in niches where other automakers have been active for a longer time, such as Honda's Civic, stated a company dealer in Latin America who preferred to remain anonymous.

"We are trying to diversify our Brazilian operations in order to be less dependent here. We perceived market changes that led us to rejuvenate the model and bring it closer to new customers here and abroad," said Steve St. Angelo, Toyota's Senior Executive in the region. WE



Nissan

Nissan launches the Frontier, but awaits for a Brazil-Mexico agreement

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Nissan expects the definition of the bilateral import agreement between Brazil and Mexico to draft its sales strategy for the Frontier pickup. The 12th generation of the vehicle, now imported from the Aguascalientes plant in Mexico, was presented on Thursday, 16, to the press and is already on sale at the dealers, in a single version, priced at R$ 166,700 version. The revision of the agreement should be implemented until the end of April.

The Frontier was produced in São José dos Pinhais, in the state of Paraná, from 2002 until the end of last year. According to Alan Ponce, product manager at Nissan, the agreement calls for sales of 3,000 units per year of the Mexican pickup in Brazil. "However, we can go beyond that number if we can import more from Mexico," he said. "We are expecting that definition."

Room in this quota, which allows sales without import tax, should open in April or May, when the Kicks will no longer come from Mexico, making room for local production. Nissan also imports the Sentra sedan from Mexico. Another bet is the toughening of Mexico's trade relations with the United States, because of the protectionist policy of Donald Trump, which should also make the Central American country start looking to Brazil with increased attention.

The current agreement between Brazil and Mexico was signed in 2015 and provided for a quota of $1.56 billion per year by 2016, exempt of import tax. The value exceeding this amount is levied a 35% import tax rate. In March of last year, the quota increased 3.0% each year. The current agreement would be in place up to 2019. Nissan is the assembler that uses this quota the most, through imports of the Sentra, Kicks and now the Frontier.

Sales - Among the six pickups in the segment, the Frontier occupies the sixth position in sales. "Last year, we took some versions of production in São José dos Pinhais due to the arrival of the Mexican model," explained Ponce. This position should not change throughout the year, since Nissan will bring only a top-of-the-line version of the Mexican Frontier. "To grow, (we would need to) bring less expensive versions," says the manager. "This will happen when the car starts being produced in Brazil in the second half of 2018."

According to the manufacturer, the Frontier pickup will be produced at Renault's plant in Cordoba, Argentina, starting on the first half of next year. Nissan's strategy is to share the production lines in the neighboring country, similar to what happened until last year at the Paraná facility. WE

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