

# AutoData

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### Future industrial policy to maintain the pillars of Inovar-Auto

What will come after Inovar-Auto? That question, which has been upsetting automotive sector leaders and executives for months, started receiving a response on Wednesday, 4, provided by Antônio Megale, president of Anfavea. During the monthly meeting with the press to divulge July's sector performance, Megale stated that despite discussions still being at the early stages the government should have a long-term industrial policy beginning in 2018....

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# Future industrial policy to maintain the pillars of Inovar-Auto

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What will come after Inovar-Auto? That question, which has been upsetting automotive sector leaders and executives for months, started receiving a response on Wednesday, 4, provided by Antônio Megale, president of Anfavea. During the monthly meeting with the press to divulge July's sector performance, Megale stated that despite discussions still being at the early stages the government should have a long-term industrial policy beginning in 2018.

"It should not be an Inovar-Auto 2. Instead, it should be an industrial policy that goes well beyond, and should, at least, guarantee the achievements of the current program," stated the executive, adding that the association defends that the future policy establish rules for a period of at least 10 years, with eventual adjustments after the first five years. "This would prevent companies from deciding to invest, later postpone or cancel the investments, and, after that, implement them once again, as it occurs nowadays."



Megale says he is convinced the government will maintain two of the pillars of Inovar-Auto in the new policy: energy efficiency and support for research, development, and local engineering. However, a third issue was further emphasized by the president of Anfavea: "There should be a third pillar which relates to the recovery of the automotive parts suppliers' chain. The new policy will contain measures that should strengthen these companies."

While the sector awaits a definition of the new rules that will govern the future of the automotive industry, assembly lines continue to keep up with the domestic market. In July, 189.9 thousand vehicles were produced, the second best monthly result in 2016, behind only the 196.5 thousand units registered in March. The volume represented an increase of 4.7% when compared to production output in June, but also represented a drop of 15.3% when compared to the same month last year.

During the first seven months of the year, Brazilian vehicle production surpassed 1,205,000 units, representing a drop of 20.4% when compared to production output between January and July 2015. As a result, the association is maintaining its production estimate for the sector this year at 2,296,000 vehicles, representing a drop of only 5.5% when compared to last year.

During the month of July, some vehicle manufacturers halted production due to lack of components. The second semester is usually better in terms of domestic sales and increasing exports should sustain the association's forecast of less idle lines from now until the end of the year.

Nevertheless, in order to reach the level of almost 2.3 million vehicles, average monthly sales between August and December would have to be close to 218,000 units. The last time this volume was reached was in August of last year, when production totaled 217.8 thousand vehicles.

With an average idle capacity around 50% - 70% in the case of truck and bus manufacturers - the industry continues to reduce its workforce. Last month, 1.2 thousand jobs were eliminated, representing 0.9% of the total workforce. The sector closed the month with 126.8 workers, with 26,000 in layoff or PPE-Employment Protection Program.

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# Best month of the year in terms of domestic sales

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Despite a 5% growth in domestic sales in July when compared to June, the president of Anfavea, Antônio Megale, stated on Wednesday, 4, the sector is still waiting to see what happens with the economy. A portion of the growth, according to the executive, could be attributed to the problems experienced in June when various license registration authorities in the state of São Paulo halted their activities.



In any event, the sale of 181.4 thousand vehicles last month represented the best monthly performance this year, and the fourth consecutive monthly increase. When compared to 2015, however, the results are negative. When compared to July of last year, there was a 20.3% drop, and a 24.7% drop when compared to the first seven months of last year. "It is the worst July since 2006," stated Megale.

During the first seven months, 1,165,000 vehicles were licensed, against 1,546,000 vehicles license during the same period last year. Megale mentioned a positive performance of 22% in sales of semi-new vehicles during the first seven months of this year:

"The desire to acquire a new car is still alive. The market, however, is adjusting, replacing the brand-new for the semi-new units." According to the president of Anfavea, consumers still fear unemployment and, as a result, many have been postponing the purchase of a new car. "But the desire to have one, continues."

According to the president of Anfavea, the traditional ratio of vehicles sold on credit in the country is between 60% and 65%. The 51.8% registered in July represented the lowest ratio in the sector's history.

Regarding inventories, Megale stated there is still an effort by vehicle manufacturers to reduce the number of vehicles at the dealers and the plants. According to Anfavea, July closed with an inventory of 222.2 thousand units, representing a drop of 3.4 thousand units when compared to June, but equivalent to the same 37 days of sales registered during the previous month, which indicates stability. In May, inventory stood at 39 days of sales.

Anfavea is holding on to its sales projection of a 19% drop for the domestic market this year, representing 2.08 million vehicles licensed, against 2,569,000 vehicles licensed in 2015. In order to achieve this forecast, the sector would need to sell an average monthly volume of 183,000 vehicles during the next five months of this year.





# Exports up 20% until July

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**T**he Brazilian automotive industry registered exports of 272.2 thousand vehicles this year, representing a growth of 20% when compared to the 226.7 thousand units shipped abroad during the first seven months of 2015. Last month, 45.5 thousand units were shipped abroad, representing an increase of 5% when compared to June, and an increase of 61% when compared to July of last year.

As he divulged the figures on Wednesday, 4, the president of Anfavea, Antônio Megale, stated the numbers registered up to now support the association's projection of closing 2016 with more than 500,000 vehicles shipped abroad, representing a growth of 21.5% when compared to 2015.

Despite the positive performance in terms of volume, revenues from export are still registering a drop this year. Between January and July, foreign sales revenues totaled R\$ 5.75 billion, representing an 8.1% drop when compared to the US\$ 6.29 billion shipped abroad during the first seven months of last year.

The problem, according to Megale, is the mix of products exported. While exports of automobiles registered an increase of 21.5% this year, truck exports registered a drop of 5.9%, and road and agricultural machinery, which totaled 5.1 thousand units shipped abroad during the first seven months of the year, registered a drop of 16.2%.

Projection maintained - The association, however, still maintains its forecast of export revenues of around US\$ 10.4 billion for this year, which is close to the performance registered in 2015. "We are moving ahead in various markets and there are two bilateral trade agreements that have already been concluded, with Colombia and Peru, which are only waiting to be internalized," commented Megale. "In addition, the renewal of the agreement with Argentina, our major partner that is currently experiencing increased domestic sales, is another positive issue in this area."

The president of Anfavea added that there are negotiations underway with other countries in South America and Africa. The intention of Iran to acquire vehicles from Brazil, which was announced earlier this year and generated negotiations with Brazilian vehicle manufacturers, still underway, was also considered positive. "We know that some negotiations are advanced."

In the case of road and agricultural machinery, the vice president of Anfavea, Ana Helena de Andrade, commented that in order to leverage exports in this area the Brazilian government should offer credit:

"The space Brazilian vehicle manufacturers held in South America ended up being occupied by plants from abroad, including by some of the brands that have production here. We have quality machinery that is adequate to the markets in our region. We are negotiating with the BNDES financing lines to attract foreign buyers, which we consider essential in order to increase our exports."

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# Ghosn places heavy bet on SUVs

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Carlos Ghosn, CEO of the Renault-Nissan Alliance, announced on Tuesday, 2, in São José dos Pinhais, state of Paraná, what the market has already known for some time: Renault will produce the Kwid compact SUV and the medium-sized Captur at the industrial complex in the state, starting at the end of this year.

Both cars, however, will arrive at the dealers only in 2017, along with a third SUV, the Koleos, a large model that will be imported from Korea.

In a visit to Brazil, also in order to participate at the opening ceremony of the Rio de Janeiro Olympic games, which has the sponsorship of Nissan, the other arm of the conglomerate led by him, the executive did not speak about new investments for the production of both models in São José dos Pinhais - the current investment cycle, valued at R\$ 500 million, began in 2014 and should continue up to 2019.

However, Ghosn stated the plant in the state of Paraná, which has a production capacity of 380,000 vehicles - and reached 240,000 units

in 2013 - "will grow" to produce the Kwid and the Captur. He also admitted that workers may be hired, but did not provide any further details regarding how this would take place. "An important portion is missing: the market parameters, how it will grow."

In any event, Renault in Brazil, stated Ghosn, should concentrate production of automobiles in the Mercosul, while the Santa Isabel plant in Argentina will be responsible mainly for the production of one-ton pickups, a joint Renault, Nissan, and Mercedes-Benz project that should arrive in the streets during 2017 and 2018.

Ghosn, however, announced recent investments for the production of the Sandero in the neighboring country. "This is not a change of strategy, but one of adaptation. A way of defending ourselves against the variations of both markets and the instability of trade between them, the volatility of the rules of the games in the region," he said, assuring that automobile production in Argentina would be limited, only to complement the local portfolio.



**Potential** - The bet on the SUVs in the Brazilian plant is justified by the CEO of the Alliance given the potential of the domestic market for this type of vehicle, which, according to the vehicle manufacturer's calculations, doubled its market share during the past years and already stands at 15%. "In Europe, this ratio is 25%. In Brazil, it should exceed 20%-25% very soon."

Concerning the Kwid entry-level model, Ghosn said that he is not working with the objective of making it become the cheapest car in Brazil, as commented by the market. The model will have a high degree of safety with four airbags from factory, for example. "What we want is for it to achieve the best cost-benefit ratio. There are already many expensive compact cars in Brazil."

The Kwid will have a new generation of 1.0-liter engine - the company is also developing a new 1.6-liter -, but now, with three cylinders, also produced in Paraná. However, the CEO of Renault says it is the same engine already used by Nissan.

The production of the Duster should not be impacted by the arrival of the Captur, says Ghosn, who admits the new model will share

a platform of the old SUV, while the platform of the Kwid is completely new, the CMFA, and should also equip Nissan compact models throughout the world. "Both models already coexist in Europe without any problem. They are destined to very distinct publics," justified the executive. In Renault's view, the Captur will have the Honda HRV and Nissan's Kicks, which should arrive at the dealers next week, as rivals, among others.

With the Kwid, Captur, and the Koleos, the current line of locally-produced and imported vehicles, plus the future Alaskan pickup, which should arrive in Brazil only in 2018, Ghosn says that Renault will have the credentials to reach the desired 10% domestic market share in the passenger and light commercial vehicles segment. Today, it stands at around 7.4%. "And we can reach 8% rapidly."

The executive believes the Brazilian market has stopped dropping and has a potential to reach the volumes of the past. The argument is known: the country continues to have a low ratio of vehicles per inhabitants - "lower than Portugal" - and has already exceeded 3.6 million units, which indicates that, yes, there is room for consumption above the expected volume of 2 million vehicles this year. **WE**