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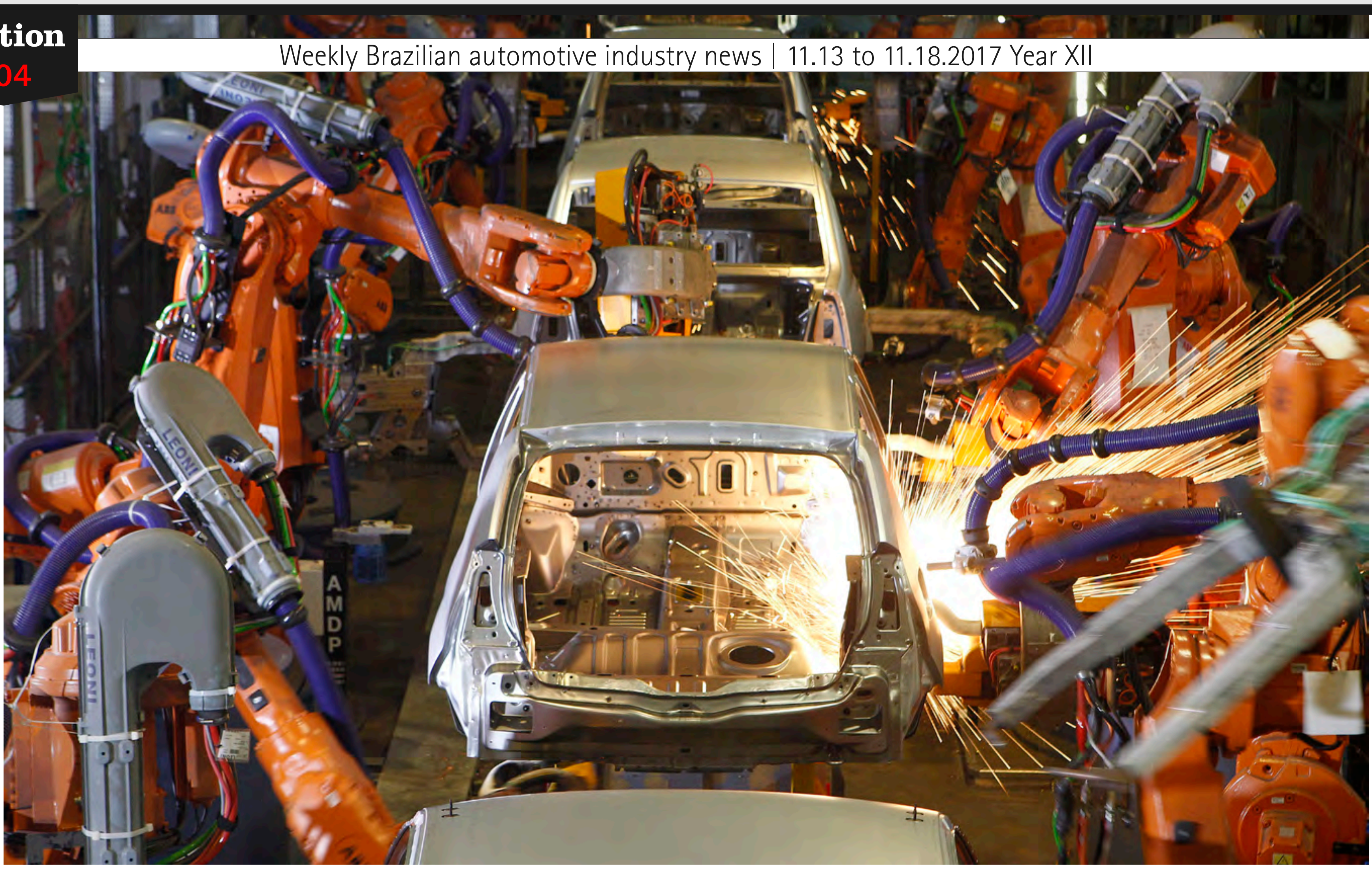

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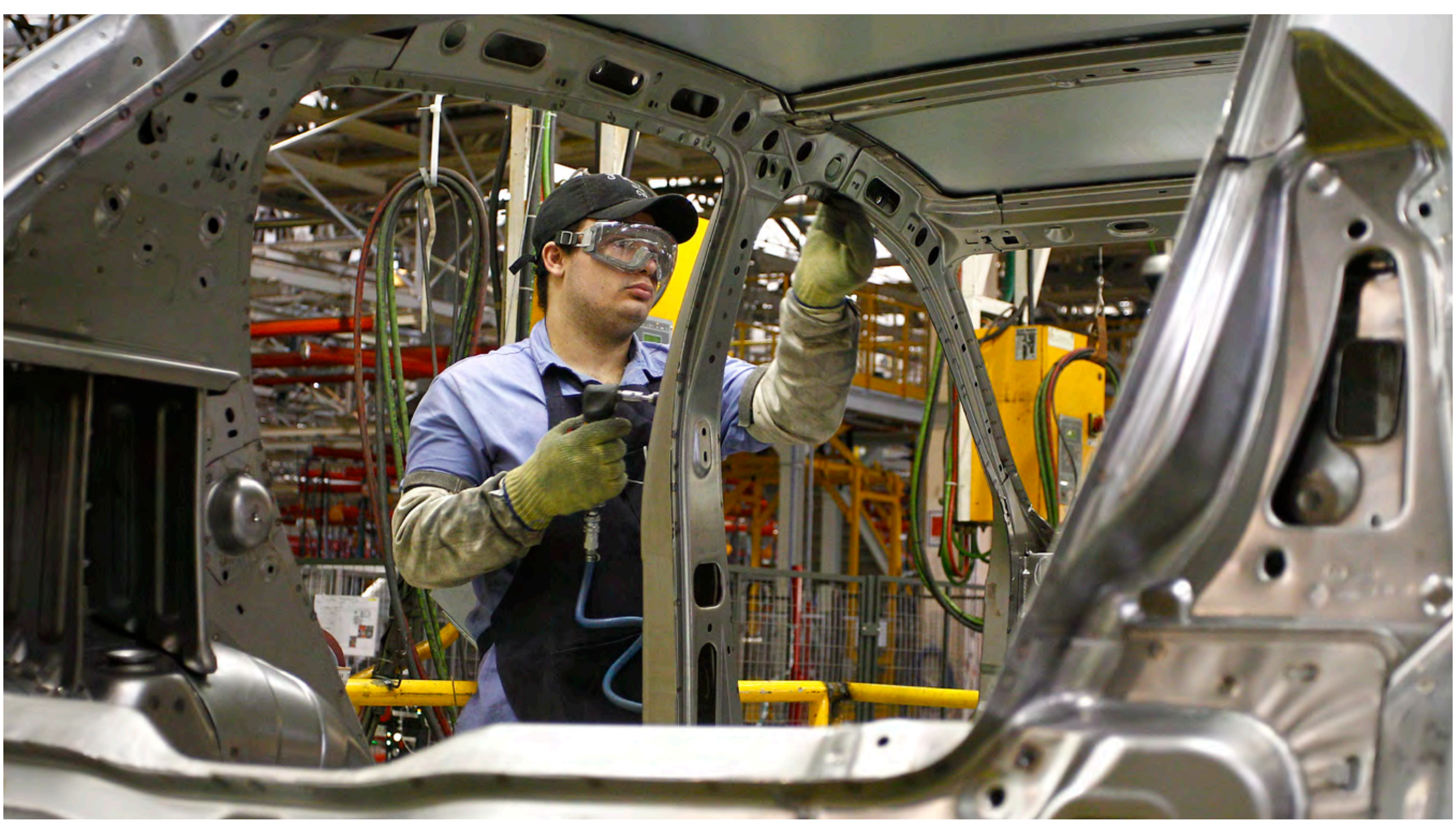
Agreement with EU could make Rota 2030 unfeasible

Gilmara Santos | gilmara@autodata.com.br

The intention of the president Michel Temer to condition the ratification of Rota 2030, that finalizes in December the 31st of 2017, when the closing of the agreement of Mercosul and the European Union, the EU, could make unfeasible the entrance of the new automotive regime. The evaluation is from the vice president of AEB, Associação do Comércio Exterior do Brasil, Mauro Laviola:

"There's no way to understand this conditioning of the agreement between the parties and Rota 2030 because the automotive sector is inside the negotiations with the EU and theoretically should follow the rules of free trade; there's an incoherence in this position."



Renault

Laviola considers that after closing an agreement with the EU the Brazilian government could not create rules, like additional taxes for the sectors that are part of this party of free trade. That, in the evaluation of the AEB representative, violates the rules of WTO, World Trade Organization, itself: "There cannot be an internal program that hurts an agreement with the EU; that sounds unfeasible."

Article published by the newspaper Folha de São Paulo this Friday the 17th, reveals the federal government wants to prioritize the commercial agreement between Mercosul and the EU and according to its content: "Then, it was decided that he will not implement Rota 2030 until the agreement between the two parties is finalized."

The parties involved in the negotiations for the past 18 years have been saying a lot. One of the hypotheses embedded is that just much problematic sectors would be out of the free trade and that would be a schedule, with a deadline of 15 years, for all the measures to be applied integrally especially the ones linked to rate questions:

"The government does not release the path of the negotiations so we still do not have enough to know the details or the schedule of the agreement. But we do know there are several political questions involved."

Tributary – While Rota 2030 stays out of the government's agenda the question to be discussed is how will the IPI rate be, tax over industrialized products.

By Inovar-Auto, that still stands until December the 31st, the automakers need to reach specific goals within P&D investments, engineering spending, industrial technology and manufacturers capacity, not only that but the liability of production of vehicles more economic and safe to have the benefit to cut down 30 points of IPI. In time; the manufacturer keep paying the IPI by cylinder capacity normally that is 7% for vehicles until 1.0, 11% to 1.0 up to 2.0 biofuel, 13% to 1.0 up to 2.0 the gas, 18% over the 2.0 biofuel and 25% over the 2.0 run by gas.

In the case of companies that import vehicles there is a quota of 4,8 thousand units a year over the liability of investments in factories, development and research centers in energetic efficiency not to fall into the increase of the aliquot of IPI of 30 percentage points.

The question of the sector is: knowing, in the absence of a definition on Rota 2030 until December the 31st, how will the IPI question be defined?

To attorney Eduardo Amaral Lucena, from Dorta & Horta Attorneys, in this situation, the government would have to edit a provisional measure to regulate the tax issue:

"Since this is about an aliquot adequacy, I understand the government can edit by the end of December to make it valid by January."

Lucena recognizes, however, that are margins for discussions in this understanding, even judicial ones.

AutoData sought the department of treasury that opted out of commenting on the issue. Mercosul on the other hand, whose party presidency is with Brazil, was also sought out and responded that a request for an interview should have been addressed to the secretary of treasury office. The department of industry, external commerce and affairs did not respond to the request of interview until the closing of this report. WE

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Automotive sector awaits definition on Rota 2030

Caio Bednarski | caio@autodata.com.br

The news published in the newspaper Folha de são Paulo on Friday the 17th, stating that the president decided to delay the announcement of Rota 2030 until the negotiations between Mercosul and the EU are finalized took the automotive sector by storm. AutoData sought the major leaders of the sector and associations but all of them chose not to comment. Some didn't even know that the federal government had made that decision. Others could not believe it. For now there is no official information on the issue. Overall the sector is on a stand still and hoping for the approval of Rota 2030.

According to sources linked to vehicle importers, a probable agreement between the parties will be a great triumph for the Temer administration since the conversations for the free trade have been dragging for long 18 years. With that the president would delay the arrival of Rota 2030 so that possible rules of the vehicle program don't generate obstacles for the bilateral agreement.

What goes around comes around – One of the lines of negotiations that will be in the mix is the free trade agreement for agriculture production of Mercosul to Europe, while the vehicles produced by the EU would not pay taxes to enter the countries in the South-American party. In case the agreement is approved and a future vehicle program can be created, it won't be possible to create taxes for imported vehicles, according to OMC rules.

On the other hand, producers of European grains already expressed worry with the arrival of products coming from South America without taxing, which would interfere with the local market competitiveness. Around here there is still worry since lots of automakers followed the rules of Inovar-Auto and invested in Brazil throughout five years not to pay the extra taxes of 30 percentage points of IPI.

Regardless of the free trade agreement of Rota 2030 and a new vehicle program the companies associated to Abeifa that represents the imported sector, are already prepared to work based on the previous IPI – taxes from 7% up to 25%. They believe the situation of the national market for the importers could improve since the sales expectations in 2018 is for 40 thousand units against 27 thousand projected for this year.

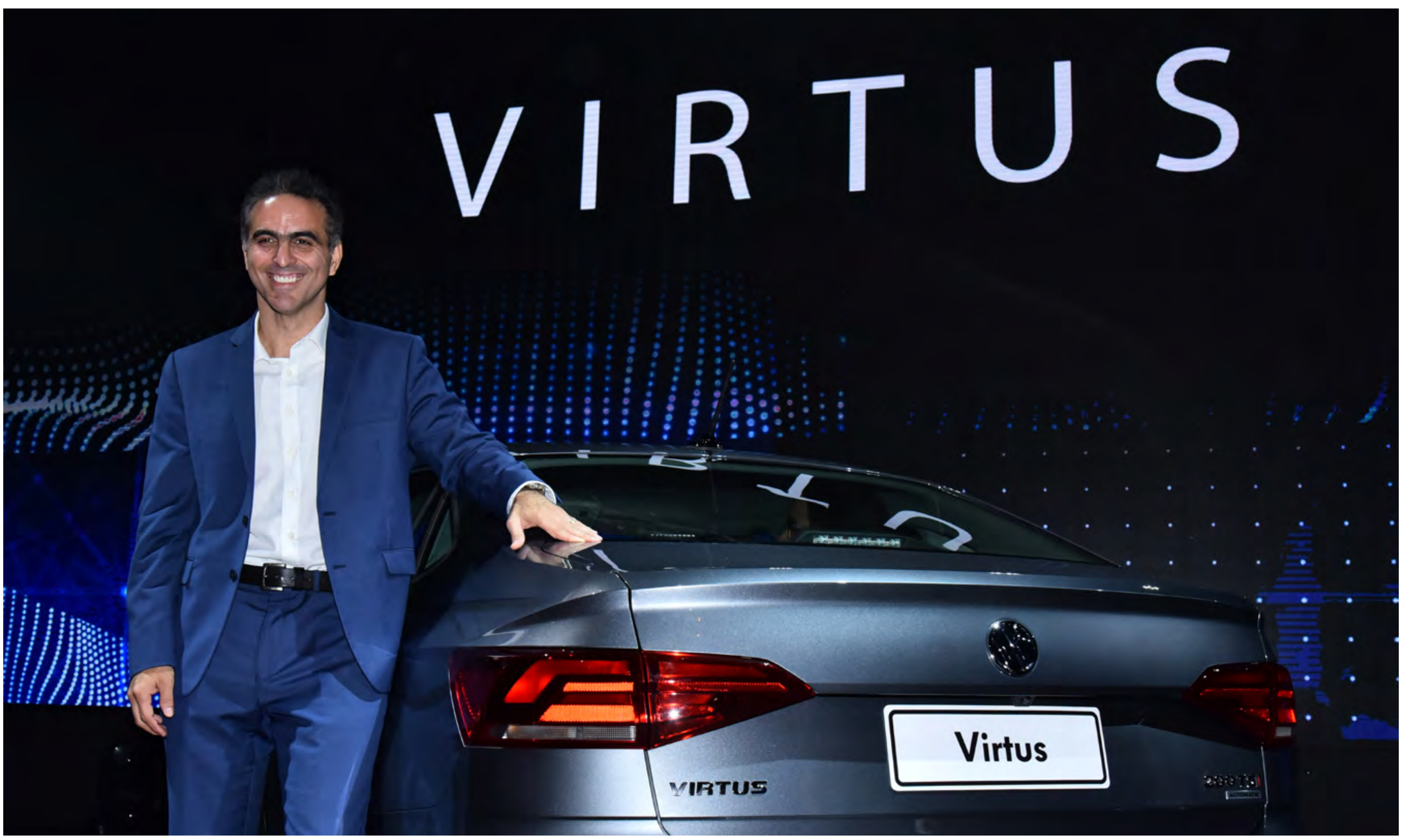
Auto parts – Sources linked to the sector considers the ideal is that Rota 2030 be approved as soon as possible before a new incentive program for the automotive market be created since the sector was not supported by the benefits of Inovar-Auto.

In the editing of September's AutoData magazine that covered the possibilities of Rota 2030, the president of Sindipeças, Dan Ioschpe, spoke about some incentives that would come from the new program and would benefit the sector. "We hope the possibilities of actions that foment the permission to include the segment in current federal programs of research and development that are not yet contemplating the category".

With that, if Rota 2030 is delayed it will be a problem the auto-parts sector was not counting on and could be something that continues on a stand still. WE

Virtus, but you can call it mini Jetta

Leandro Alves | leandroalves@autodata.com.br



VW

The participation of Jürgen Stackmann, responsible for global sales, marketing and post sales and owner of a chair in the board, showed that Latin America is, at this moment, at the top of "New Volkswagen" priorities. He has been in São Paulo in the morning of Thursday the 16th when Virtus appeared for the world revealing a new global language in VW sedans from now on.

With sales starting in January, Virtus will be the first VW really global vehicle first commercialized in Brazil. And the pioneer moment doesn't stop there. Its development prioritized the needs, tastes and behaviors of drivers – and occupants – of 29 countries from the SAM region. Moreover it will be the first vehicle to utilize artificial intelligence to help people know and interact with the product.

“We’re showing the world a car developed here in Brazil that will be produced in Brazil. Makes total sense to think and direct our actions regionally”, said Stackmann.

Virtus is the second vehicle presented in less than 60 days – Polo gave way to the new VW – of a series of 20 products that will be in the market until 2020. An aggressive strategy that has as an objective sells 1 million units in the next three years.

“We have a lot of opportunities to improve the participation in all countries, but Brazil and Argentina are the major markets. Observing the positive numbers in sales in both countries, the sooner we reach our goals, the better”, said Pablo Di Si, president and CEO of VW SAM.
It was the first presentation of the Argentinian in front of the organization in the region. And it is worth to notice the easiness, spontaneity and optimism as a reaction to such relevant announcement. Di Si did stress enough the expectations in rapidly recover the participation with two new products already in 2018: “We want to accelerate to reach 2020 with 16%, 17% of participation in the Brazilian market. Polo and Virtus are just the beginning. We will cover 90% of the vehicle offers in the country entering new segments that are very competitive”.

SUV offensive – The sports utilities are an important part of the growth strategy of VW, since until now the automaker does not have representatives in this segment. But it is scheduled for the second semester of next year the beginning of the first Brazilian SUV production by VW, the T-Cross. A little compact jeep that will be manufactured in Curitiba, PR. The T-Cross launches as candidate for another model made here.

Besides it there is also a schedule of production of another SUV, of a superior sector, at the factory in Pacheco, Argentina. The preparations for this product, that shares the flexible platform MQB with the T-Cross, Polo and Virtus, have already started. Di Si gave away some details on the announced investment in Germany for the factory in Pacheco:

"Besides the introduction of a new platform in the line, we are building a new painting cabin and promoting several improvements in production".

But the first SUV of the offensive VW arrives in the beginning of 2018. It will be imported from Mexico, the Tiguan AllSpace, with capacity for 7 people.

Virtus – The Polo sedan will bring a new esthetic personality, especially in the back that reminds us of Jetta. Its dimensions are generous, resulting in a lot of internal space due to the flexibility of the MQB platform. Likewise it was not difficult to associate Virtus to the brother most produced in Mexico, the same way as VW says in its publicity pieces that the Polo can be called the mini Golf.

They share the same material and construction quality; all the security packages, equipment and finishing standards. Obviously the difference will be in the backlights and trunk capacity of 521 liters of the sedan.

During the revelation of the Virtus the executives highlighted the leadership of VW in the region in utilizing in the project esthetic solutions, mechanicals and of equipment driven to standards and usage preferences from the Latin American consumers; another sign of leadership that the region is assuming at this point.

Even when referring to a global product that will take its major characteristics to other continents, the expectation is that fine adjustments such as ones in suspension and motor will be center stage in the next presentations until January, when sales begin.

What is unique to Virtus is the cognitive manual [that utilizes artificial intelligence] that offers the user more possibilities of interaction with the vehicle. It will be the first national car to offer this technology that promises to respond to questions through pictures sent by the client of voice commands. But the client needs to have the VW application in his smartphone. WE

Ford prepares new cycle of investments

Gilmara Santos | gilmara@autodata.com.br

Ford confirmed that prepares a ne cycle of investment in Brazil. but did not revealed its value. Its last cycle of investment here was of R$4,5 billion in the period of 2010 to 2015.

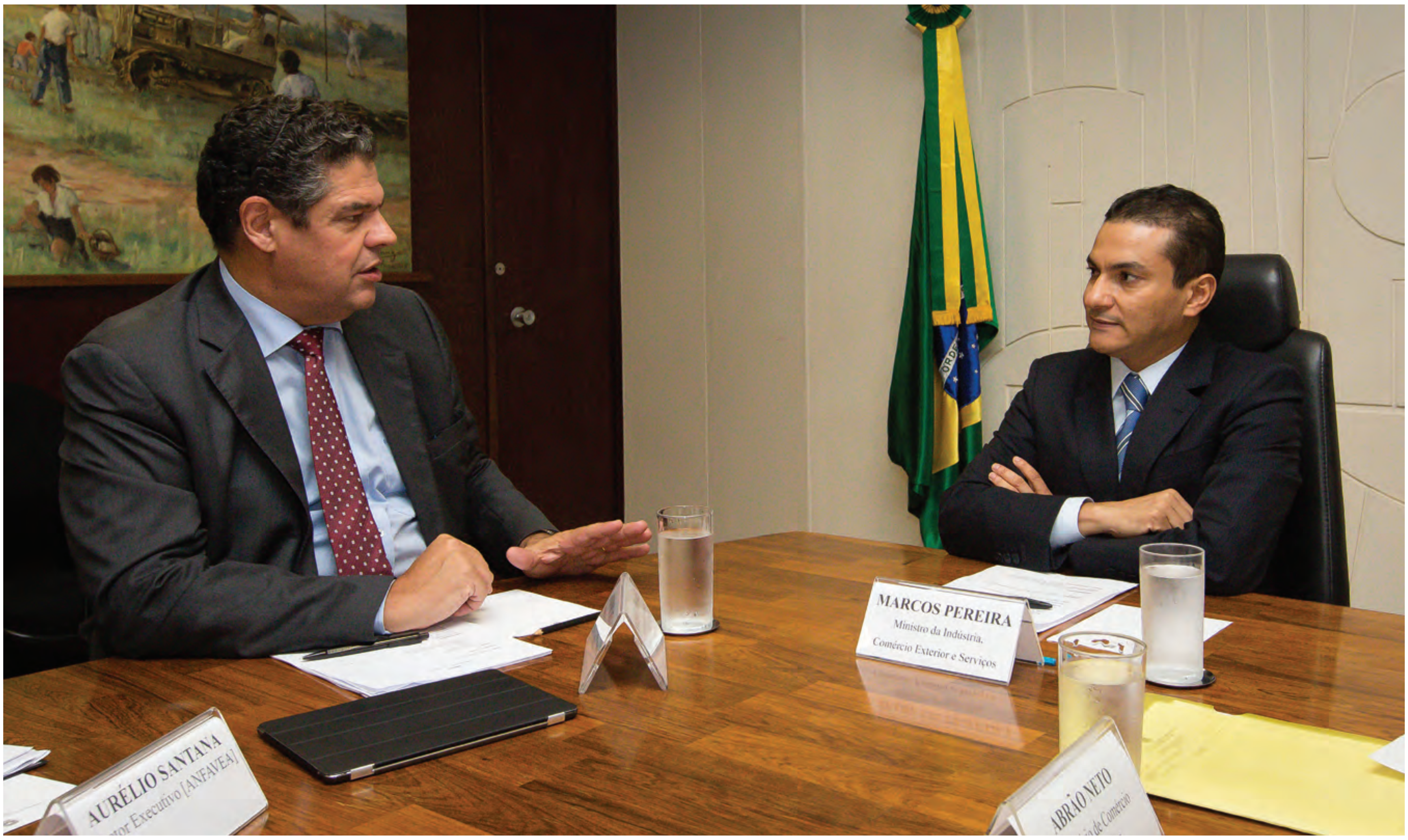
During the presentation of the line of assembly from the factory in Camaçari, BA, the manager of the industrial complex of Ford Nordeste, Silvio Illi. Highlighted that the factory works, today, with its maximum capacity of production, using three shifts of workers: "There are 250 thousand cars manufactured by year."

Inaugurated in 2001 the first automotive factory of the northeast has an area of 4,7 million square meters, generates almost 8 thousand direct jobs and has produced more than 3 million units. There also Ford inaugurated in 2014 the first motor factory in the northeast with total area of 24,5 thousand square meters and capacity to produce 210 thousand motors a year: "We have one of the most modern Ford factories in the world".

The 4.0 industry concept – the set of modern technologies related to data transmission that also seeks to improve production and technical quality – also present at the plant. Camaçari operates with more than six hundred robots that cost around US$100 thousand each: all the welding process, for example, is done electronically.

There the system defect proof was also adopted: the computer identifies if all the items were installed and if the installation was done properly. The plant has available, also the Net Forming and Piercing system, a laser system that provides more precision in the mounting of the front part of the vehicle: based on the drilling of the back part the robots calculate the exact points to drill at the front.

Virtual reality is also part of this process of technological advancements. Example: 3D printer and virtual manufacturing are some of the items that are part of the productive process in the unit: "When we invest in some product we have already done all the evaluation since all the impacts have been tested in a virtual environment". WE



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Treasury and Industry re-discuss Rota 2030

Bruno Oliveira | bruno@autodata.com.br

The president of the country received on Tuesday the 14th at Palácio do Planalto, in Brasília, DF, representatives of the Treasury, Industry, Foreign Commerce and Service – and automotive industry – departments to discuss the regulation of Rota 2030, document that contains the directions of the new industrial policy for the sector. During the meeting Anfavea pointed out the fiscal question included in the plan, triggering a debate with Treasury, reluctant in approving the exemptions of the document and having shown less availability to listen to the industry's leaders.

More than a meeting with the parties the gathering was a way found by the industry to pressure the government's fiscal area to resume the negotiations – the people from Treasury would be irrefutable in not accepting what is established in the fundamentals of Rota 2030 about tax waivers. In this issue the industry wants to maintain the Inovar-Auto profile that offered waivers to automakers that reached goals of energetic efficiency, betted on production and national content among other things. The government backs the document created by the companies from the automotive sector but searches for technical alternatives to avoid drop in tax revenues.

It was the second time the president received the representatives of the industry since the official announcement of Rota 2030 done in April.

Anfavea presented, during the meeting, a balance with signs of recovery by the automotive industry and demonstrated support of the sector in reforms implemented by the government, specially the social security one, to consolidate the predictability and capacity to attract investors and generate new jobs and revenue. That way, having the president leading, the hope of the industry is that the Treasury will make concessions and an agreement can be made meeting everyone's half way.

Leaders of MDIC, departments of industry, foreign commerce and services said that Treasury has been distance from the conversations and, in some cases, refusing to receive its representatives in their offices in Brasilia. At today's meeting were present several manufactures presidents, like Pablo Di Si from Volkswagen, Stéfan Ketter from FCA, Mauro Correia from CAOA, Carlos Gomes from PSA, Helder Boavida from BMW, Marcos Silva from Nissan, William Lee from Hyundai, Christopher Podgorski from Scania and also the heads of Treasury and Civil departments.

The new project should substitute Inovar-Auto, whose validity ends in December, and change the configuration of the IPI aliquot, tax over industrialized product, that is due over products of the sector. About that Antônio Megale, president of Anfavea, said "we do not get into details of the program, but what has been noticed is that 30% falls and that should provoke the creation of a complementary aliquot of 10% to 15% that could be invalidated by the commitment that the companies may make, something like Inovar-Auto standards".

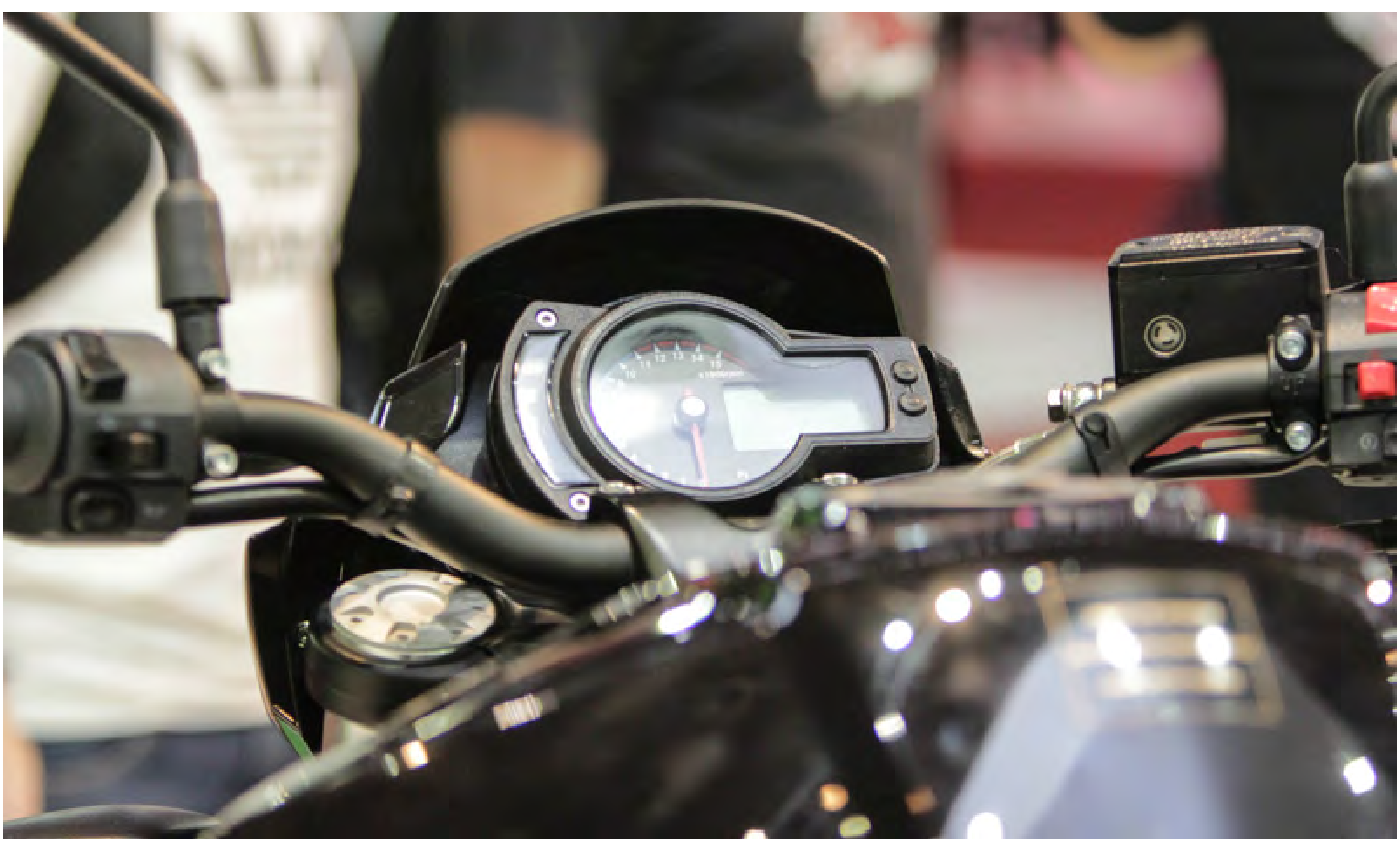
According to him the new program is an evolution of positive points of Inovar-Auto and should not encourage the rise or fall of automobile prices since the companies could be exempt from annual readjustments in aliquot if they invest in research and development in the country. WE

Motorcycles is still a business in fall

Caio Bednarski | caio@autodata.com.br

The national production of motorcycle has reached 729 thousand and 268 units from January to October, a retract of 7% compared to the same period last year when were produced 784 thousand and 519, according to data released by Abraaciclo, association that represents the manufactures on Monday the 13th during the first day of Salão Duas Rodas. In October 77 thousand and 76 units were produced keeping the market stable compared to September with 76 thousand and 668 units. The president Marcos Fermanian affirmed that the "stability of the production volume confirms the tendency to improve the industry's performance starting next year".

Just like it happens in the vehicle sector the exportations have been very important to the automakers: there were 67 thousand



AD

and 5 motorcycles exported in the overall of the year from January to October, against 48 thousand 663 in the same period from 2016, a high of 37,7% being Argentina the primary destination. In October 7 thousand and 761 units were exported against 11 thousand 208 shipped in the previous month, a drop of 30,8%.

The wholesales from manufacturers to dealers also presented a drop in the overall of the year from 9,4% with 672 thousand 971 motorcycles commercialized against 742 thousand 933 in the same period of 2016. In October the sales reached 69 thousand 620 units and increment of 9,8% compared to September – compared to the same month last year there was a high of 17%. With the growth of these sales in October Abraciclo shows optimism for the closing of the year: "This rise will be reflected in retail because the stocks are being well managed and some even lower than normal. With that the rise in purchasing from dealers will be felt in licensing".

The gathered number of licensing in the year was 708 thousand 200 against 749 834 in the same period of 2016, a drop of 5,5%. Abraciclo's expectation is the close the year with a drop of 4,4%: "Even with the noticeable recovery the volume of licensing still feels the impact related to the first semester, with the slowing of the economy and less credit release, based on restrictions or interest by the consumer of acquiring new financing".

Considering just October there were 68 thousand 236 motorcycles sold, a high of 3,1% over the 66 thousand 209 licensing in September.

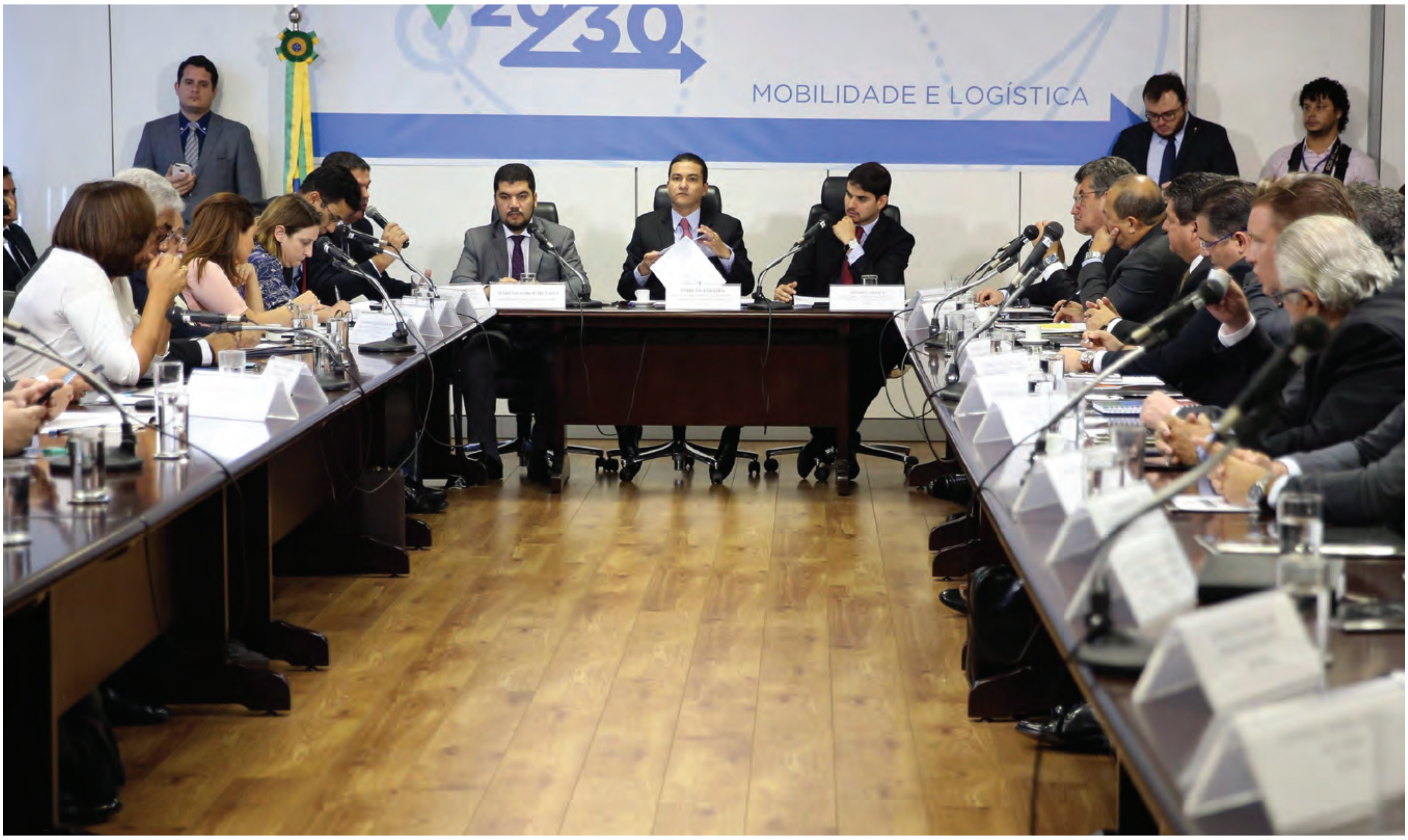
Closing of 2017 – Abraciclo's expectation for total production of the year is 885 thousand units, a drop of 0,3% related to the same period last year. The retail sales should drop 4,4% reaching 860 thousand motorcycles and the wholesales should drop 5,4% in the same base of comparison. The exportation is the only segment that will grow with an expectation of 35,5% to 80 thousand units.

Expectations for 2018 – Marcos Fermanian expects the sales, in retail and wholesales, to grow 5% next year, compared to the volume of this year. To him some factors should help this performance: "The unemployment rate, now dropping, and the heating up of the economy should generate a movement in sales from classes C, D and E that are the credit consumers and volume of motorcycles".

According to Abraciclo the credit was more restrict but not exhausted, and what limited the sales this year was the decision of the consumer to not take in new bills to pay medium-term. WE

Treasury is reluctant to approve Rota 2030

Bruno Oliveira | bruno@autodata.com.br



Fotos Públicas /José Cruz/Agência Brasil

The responsible departments for taking Rota 2030 out of the paper, the new industrial policy for the automotive sector, battles behind closed doors on what could alter the content of the document designed by the industry. The departments of Industry, Foreign Commerce and Services said on Monday the 13th that it's all in the hands of the department of treasury for the document to become reality starting December 31st when Inovar-Auto finalizes. Leaders from Brasília, however, affirm the negotiation will be tougher – the financial department of the government questions guidelines mentions similarities with the current program and is reluctant to approve discharges that could reduce tax collection.

What's expected is that government sectors and companies from the sector unite to pressure the approval of the document in Treasury. It is scheduled for Tuesday the 13th a meeting with the automakers and the president, which the issue will be the articulation of a movement to guarantee the approval of Rota 2030 in December, last deadline for the new policy to be valid by January. The program was officially announced in April and had August as an approval deadline, which did not happen. The new deadline was then November – again not met.

The Minister of Development, Industry and Commerce said, during the economic meeting between Brazil and Germany in 2017, in Porto Alegre, RS, that he does not work with a plan B and in case the involved parties do not reach an agreement. They disagree primarily about taxation. There is a fear that the new policy triggers a drop in tax collection an opposite scenario to the aspirations of the state for 2018, an electoral year – they claim not to have enough budget for incentives. The market claims as certain the choice for a model derived from Inovar-Auto: instead of 30% tax over IPI in 10 percentage points applied over the taxation of all vehicles sold, imported and national, being allowed discounts to companies that met the efficiency goals.

The government does not release a stamen about the issue, but there is also urgency to make Rota 2030 official due to the pressure applied by WTO, World Trade Organization, that condemned Inovar-Auto for applying 30 points to IPI from imported vehicles outside Mercosul or over the quota of importation limited to 4,8 thousand units a year. By the international rules is prohibited the discrimination of imported products and nationals in domestic taxes, scenario that, according to the organization, implies protectionism. To escape the sanctions and over-taxation of Rota 2030 it would be applied over the IPI of all vehicles sold in Brazil, being they imported or national. WE

AutoData News Agency Weekly Edition is produced by AutoData Editora Ltda. Rua Pascal, 1693 Campo Belo - São Paulo SP Brazil CEP 04719-001 Phone +55 11 5189 8900. Translations: Raquel Petersen Gesteira. Graphic Project/Art: Romeu Bassi Neto. Associated Team: Bruno de Oliveira, Henrique Skujis, Leandro Alves, Márcio Stéfani. Responsible Journalist: Vicente Alessi, filho MS SJPESP 4 874. Editorial agreements: Tiempo Motor (Argentina) and Flash de Motor (Venezuela).