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MDIC: Bilateral agreement with Colombia is effective.

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The ACE, the Economic Complementation Agreement between MERCOSUL and Colombia, which is already in place, should increase Brazil's access availability to the Colombian market conditions mainly for automotive products. The agreement clears the tax to Brazilian vehicles in the neighboring market.

Other than that, the deal projects a grant of 100%, preferably for vehicles in both countries, with

increasing annual quotas. In the first year there will be 12 thousand units, and in the second, 25 thousand, and from the third on, 50 thousand units.

The distribution of quotas among the manufacturers follows proportional criteria for participation in the total exports of vehicles and also reserves space for new exporters. Vehicles that are in transit and are dispatched for consumption until December the 31st 2017 may be included in the 2017 quota.

The minister of the MDIC, who delivered his resignation on Wednesday the 3rd, said in December that the agreement will improve the performance of exports of vehicles to Colombia: “We understand that this will be a big boost to the Brazilian vehicle market, which has been improving their performance and will have in Colombia a great market, due to the geographical proximity.”

Scenario - Brazilian companies will have a challenge ahead with the term of the agreement, a novel that has dragged on since 2015. This is because the Colombian vehicle market faces declines in domestic sales because of the devaluation of the local currency against the US dollar and other economic factors.

According to data from Andemos, the association of manufacturers of that country, considered promising by the companies located here, ended the year with a sales volume 6% less than the total sold in the accumulated 2016. There were 238 thousand and 238 units sold from January to December of last year. In December, the best month of the period, registrations reached 25 thousand 424 units.

Oliverio García Basurto, president of Andemos, projected higher sales to 250 thousand units in 2018 due to improvements that were being applied in the country: “We believe that the stability of macroeconomic variables will strengthen the domestic demand. Other positive factors, such as better rates of imported vehicles, will allow the whipped segment by corruption to regain its confidence”.

General Motors was the company’s biggest selling vehicles in the country, a total 51 thousand 253 units, down 14.7%. Renault, second position, sold 46 thousand 863 vehicles, falling 8%. Nissan, Kia and Mazda close the group of the five largest companies in the neighboring market. **WE**

Rota 2030 only after the pension reform

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Without an agreement between Departments of Industry, Trade and Finance, Rota 2030, the new automotive regime, follows undated to take effect and should not be re-discussed by the government in February, after the pension reform. Rota 2030 should succeed InovarAuto, which lasted until December 31st. Since then, the country follows no plan for the automotive sector.

The main obstacle for the entry into effect of the new automotive regime is in tax breaks for the sector, estimated at R\$ 1.5 billion a year. With the decline in revenue in recent years due to the financial crisis, the Treasury did not want to give up this amount.

Moreover, with the argument that it is necessary to balance the books, the government tries to pass in Congress a Social Security reform and release any kind of incentive or tax exemption prior to this approval could interfere with the negotiation with lawmakers.

For the professor of the MBAs from FGV and coordinator of the Executive MBA in Management: Management of the Automotive Chain Companies, Antonio Jorge Martins, the decision to leave the Rota 2030 discussion until after the pension reform is strategic:

“First the government must minimize the impact of the crisis, with the pension reform, then talk about waivers and incentives. I think it was a strategic and fiscal decision. “

Sought out Anfavea reported that President Antonio Megale will only talk about it on Friday the 5th, at the press conference to present the industry's balance of 2017. He reported, however, that the entity's position is that the industry will have to wait until February to approve the pension reform; only then the government can approve Rota 2030.


He said that, out of the nine main pillars that were defended by Anfavea over the eight months of meetings to the program's definition, some are already certain, such as support for suppliers, technical inspection of vehicles and labor reform. Others must be defined in the coming days, as the investment in P&D and energy efficiency targets for the up coming years. **WE**

Vehicle sales grow 9% in 2017

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New vehicle sales closed 2017 with an increase of 9.2% compared to the volume sold in 2016, the best result in the last four years. According to Fenabrave's data released on Thursday the 4th, the number of registrations reached 2 million 239 thousand 403 units, a result which, according to the association, was possible because of factors such as increased income, employment maintenance in some sectors of the economy and falling of interest rates that has facilitated financing.



The figures relating to car sales, in particular, show an increase of 9.9% in registrations made from January to December. There were 1 million 855 thousand 874 vehicles registered in the period. Sales made by dealer networks reached the highest mark in August, when 180 thousand 888 vehicles were sold. In December, second best month of that year, there were 171 thousand 988 units.

Alarico Assumpção Junior, president of the organization, said the growth, although occurred over the small base representing the 2016 performance is representative due to the economic scenario that focused on the sector last year: “The network had to resume sales while adjusted itself to meet demands after the crisis which changed its structure. It was difficult but we managed to finish the year with a positive balance.”

The balance sheet presented by Fenabrave showed that from 2014 to 2017 the number of dealers operating in the country fell from 7 thousand 330 stores to 6 thousand 56, which resulted in a reduction of 169 thousand 514 jobs. On this, the president said that a provision of the network redesign process, aside from the sluggish demand in recent years has contributed to the layoffs: “The large groups had to reduce the number of stores and this resulted greatly in the staffing cut.”

The direct sales, type of business that has increased its share in recent years in the sector, represented according to Fenabrave, 40% of all registrations done last year. For the president of the entity, recorded growth was due to the reduction of the market as a whole: “Direct sales have not grown. What happened was the reduction of sales by dealers, which increased the share of their participation in the final balance of the industry.”

Projection -The year 2018 designed by the entity shows a larger market 10.3% higher than 2017, with sales reaching 3 million 437 thousand 444 units, including cars, trucks and motorcycles, a segment that goes in the balance sheet of the entity, unlike what happens in figures released by Anfavea, the association of manufacturers. The percentage projected is seen as cautious due to the election year, explained the president of Fenabrave: "The industry does not know who will govern the country and this causes uncertainty when planning sales this year."

Separating by segment, the projections by Fenabrave grew by 12.6% in car registrations before the 2017 volume, which should represent 2 million 88 thousand 792 cars in December; Trucks, with a high of 9.5% over last year, with registrations reaching 57 thousand 25 units; Buses, 5.4% more, with 15 thousand 914 units. "The route overview takes into account the adoption of pension reform, expected in February, and PIB growth."

According to MB consultancy numbers, a partner of Fenabrave, the domestic product is expected to grow this year by 3.1% driven by the performance of the mining sector, and this may influence the sales of heavy vehicles. The demands of agribusiness, which last year boosted sales of agricultural machinery primarily, will be lower than 2017 because of the less tons that the grain harvest this year should present, according to MB.

Heavy - Sales of heavy vehicles in 2017 rose by 5% compared with 2016 registrations, reaching 67 thousand 168 units. Truck sales reached 52 thousand 69 vehicles last year, an increase of 3.5% compared to the volume sold in 2016. High also in bus sales: 15 thousand 99 units, 10.6% more than in 2016.

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Used market in 2017 increases 6.5%

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The market of semi-new and used vehicles was an option for the Brazilian during the crisis, because the consumer did not fail to change cars, but migrated to this segment, which grew 6.5% in 2017 compared to the previous year, according to the data released by Fenauto, an organization that brings together multi-brand retailers throughout Brazil.

14 million 212 thousand 673 vehicles were sold last year, against 13 million 348 thousand 992 units in 2016. Considering only the month of December, the growth was 15.1% compared to November, with 1 million 332 thousand 605 vehicles sold.

Ilídio dos Santos, president of Fenauto, expects the growth to continue: "We expect a gradual resumption of sales, which can translate a normalization of the market this year. We expect the country's economy to strengthen and regain their momentum for this positive result to be maintained in 2018."

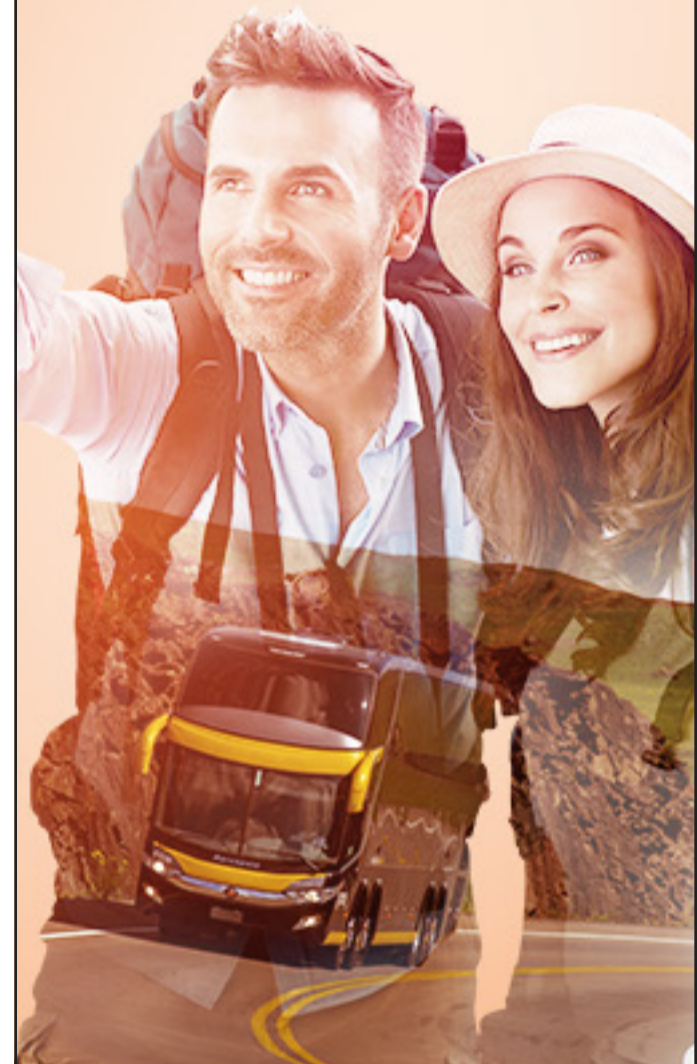
Regarding the year, out of more than 14 million units sold, 5.05 million vehicles are semi-new, with 0 to 3 years of use, 4.53 million vehicles with the use of 4 to 8 years, and 1.87 million units are from 9 to 12 years of use, while 2.74 million are older vehicles with more than 13 years of circulation.

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Vehicle production rises 25.2% in 2017

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Vehicle production closed 2017 with an increase of 25.2% compared to 2016, reaching 2 million 699 thousand 672 units of cars, light commercial vehicles, trucks and buses. Compared to November, there was an increase of 6.9%. The data was released on Friday the 5th, by Anfavea.

The sector of agricultural and highway machinery, on the other hand, remained virtually unchanged last year compared to the previous year, an increase of 1.8%, with the production of 54 thousand 988 units in 2017.

For the president of Anfavea, Antonio Megale, the last year's figures bring reason to celebrate: "But we cannot forget that the idle capacity of the industry is still high, with 47% of the industry average and reaching 75% in the segment trucks."

There are 219 thousand 100 units in stock, which, in the opinion of Megale, is a good number that corresponds to 31 days of sales: "Ideally the stock should be thirty days."

Employment - Another important aspect of last year's closure is in relation to employment. The sector ended the year with 126 thousand 696 employees, up 4.6% higher in the number of workers in the automotive industry in 2016. "There are 5500 more jobs in the year."

Also noteworthy is the reduction in the number of workers who are part of any employment protection program, such as lay off or PSE, Insurance-Employment Program.

In December 1 thousand 885 workers were in some employment protection program. In November, the sector accounted for 3 thousand 332 professionals.

"At the height of the program in March 2016, we reached 38 thousand 792 people."

Projections - For 2018, the organization forecasts growth of 13.2% in production and should reach 3 million 55 thousand units in the year.

The domestic sales are expected to grow 11.7% to 2 million 502 thousand units.

And the entity's expectation is that exportation rises in 5%, with 800,000 units in the year.

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Export: record breaker with more than 762,000 units sold

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As expected, exports of vehicles reached a record last year, with 762,000 units sold to 33 other countries, against 520 thousand 137 vehicles in 2016, an increase of 46.5% and surpassing the expectations of Anfavea which was 745 thousand vehicles, according to data released by Anfavea, on Friday the 5th during the first conference of the year. Considering only the month of December 62 thousand 792 units were sold to other markets, generating a drop of 16.3% compared to November and 2.6% compared to the same month of 2016.



The fact is with the financial crisis of recent years, manufacturers saw in the foreign market, the possibility of compensating, even in part, the losses in the domestic market.

For Antonio Megale, president of the organization, automakers will not give up the good export volume, “The companies saw the need to continue to grow in other markets, as exports strengthen production and help generating jobs.” In 2018 the sector plans to export 800 thousand units and grow 5%.

The exchange rate stability also contributes to the good scenario of exports.

To achieve the 800 thousand units exported, the industry focus will be in Latin America: “We are growing in the region but there is still plenty of space to be explored. Markets such as Middle East and Asia have great potential, but we will continue focused on growing and consolidating in the Latin American market, and then change the focus of growth. “

Another factor that will help in the expected increase in exports is the bilateral trade agreement with Colombia, that took awhile, but was approved in the last days of December and provides an exchange of 25 thousand vehicles between countries, but Megale believes that this number will be easily overcome, reaching 30 thousand units.

Regarding the dream of exporting 1 million units, which was revealed by the former president of Anfavea, Luiz Moan, the current president, Megale, believes that Brazil has the capacity to achieve this goal, but it will be necessary to consolidate the markets that Brazil already exports to, only to conquer new regions. “I think that in two years it will not be possible to achieve this goal, but soon after we will be reaching 1 million units exported.” **WE**

Announcement of Rota 2030 is for later. And that's not a problem.

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Considered the most important milestone for the automotive industry to have a future perspective in the country, thus defining the long-term strategies of companies, Rota 2030 ended up not leaving the initially projected time in August, even in the last days of 2017. The decision to not endorse a new automotive policy for the country came solely from the federal government, which currently gives priority to the political negotiations on the pension reform to then think of other projects.

Initially the entire automotive industry has been engaged in meetings and complex negotiations involving several departments in order to build a robust framework and that would give the much-desired predictability for business. However, after months of exhaustive meetings in Brasilia, DF, emerged the first statements of the Finance Ministry representatives refuting a proposal for tax breaks and an alleged clash of that folder with the Departments of Industry, Trade and Services, who led all negotiations of Rota 2030. At that time the automotive industry stopped, gradually, to emphasize the importance of the entry into force of the new program on January 1st of 2018.

In fact, according to Antonio Megale, president of Anfavea and the main interlocutor with the government, there is a sense of frustration in the air for not having been fulfilled on schedule. But this is not the end of the world. "It would be important to adopt a regulatory framework pointing out the priorities for the industry in the long run. However, the postponement does not make unenforceable the business strategy or compromise the future of the industry in the short term."

In practice it will not be a problem for the industry to be without a direction regarding automotive policy in Brazil in those early days / months of 2018. The IPI aliquots are back to 2011 levels - no penalties as the additional 30 percentage points of Inovar- Auto - at least at

this point, and also lower the main protection market to imported: the quota import volumes. So all companies can work sales without any restriction or counterparts.

When? - Megale believes Rota 2030 will be approved after the vote on pension reform, the major concern of the federal government, which is expected for February 19th. "The priority is to adjust the accounts in the long run, therefore, in their view [government] pension reform has to come first."

However, executives consulted by Autodata - who asked not to be identified - raise questions about the entry into effectiveness of Rota 2030 even in 2018. The argument is simple: even with the economic stability this is a government with low popularity and clearly focused on topics of political interest. The assessment is that there are no [political] advantages to approve an exclusive industrial policy for an industry that has been closely linked to previous administrations. This could generate more rejection. Thus, it would be absurd to leave the definition of new industrial policy for the next agent.

Interestingly, the President said before the presidents of the vehicle manufacturers, according to Antonio Megale, that Rota 2030 would still be in effect in 2017 at the latest, before the non-agreement of ministers who will compete in the next elections.

Some presidents of companies in the sector - especially foreigners - are baffled by the lack of commitment of the Brazilian government. Antonio Megale, already schooled, however, minimizes the incident: "Importantly, the technical staff of the ministries who worked on the preparation of Rota 2030 pillars will still be in their posts this year. Thus, the risk of substantial changes is small. Just a signature of the new ministers for the program comes into force."

With the stampede already confirmed in recent days and the likely shutdown of the Minister of Finance until April, there will not be more leaders in the current government who participated in the negotiations of Rota 2030. And symptomatic lack of continuity of programs created by former managers in the public sector puts another question in the hopes that Rota still avenges this year.

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