



# WEEKLY Edition



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# Honda opens plant in Itirapina

Itirapina, SP – Two years and a few months after completion of its new car factory, Honda celebrated Wednesday 27 the startup of production in its second plant, in Itirapina, SP – one month after starting the shipment of the first Fit models assembled there to the dealer network. The investment topped the R\$ 1 billion previously announced in 2013, when the decision to put up the new plant was made.

With this amount, Honda would be entitled to participate in the IncentivAuto, the program created by the São Paulo State Administration to stimulate car production. This program allows rebates on the ICMS owed. The capital injection, however, preceded the creation of the incentive program, a fact not lost on the president of Honda South America, Issao Mizoguchi, who jokingly said: “If I could, I would build a time machine”.

Governor João Dória, who was present at the opening, then suggested that Honda invest an additional billion in the factory. The president deadpanned: “First I will have to pay for the original billion”.

Mizoguchi's time machine would come in handy, also, to take us back to 2013, when the company, buoyant with the good volumes of a domestic market of 3.8 million units, announced the new plant, which would complement the production in Sumaré. Two years later, with the plant ready to go, the market fell down to 2 million units.



Photo: Publicity.

The decision made by top management was unusual: they kept the plant, ready but idle. For two years, the production lines would be turned on in order to keep the machinery and equipment in working condition. It was only last year, with the market presenting clearer signs of an upswing in volumes that the decision to transfer production from Sumaré to Itirapina was made.

## After being shut down for two years, the unit produces models formerly manufactured in Sumaré, about 100 km away

That changeover will be incremental: the first one to go was the Fit model, still not entirely – for the sake of the expiration date in the paint, models being currently produced are gray, white and black, to the tune of 90 units per day. In the second half of the year, it will be the WR-V turn, followed next year by the HR-V.

The City model will be the only model with the compact platform to be left in Sumaré, but its transfer will take place later – as well as that of the Civic, which is assembled atop a different platform. Production capacity is the same as the other plant: 120 thousand cars per year in two shifts. Last year, with overtime, Sumaré produced 138 thousand cars.

Otávio Mizikami, industrial director for Honda Automóveis, stated that the production line in Sumaré will not be taken down: it will remain there, idle. Therefore, production of one or two models in this unit is not ruled out, as a complement to the volumes in Itirapina: “Right now, our plan is to transfer all of the models”.

The unit, inaugurated in 1997, which remains the Head Office of Honda South America, will continue to house production of engines and plastic parts, as well as the tool shop. Likewise, engineering and purchasing. Out of the three thousand workers in Sumaré, two thousand will be transferred to Itirapina. According to Honda, acceptance among workers hovers around 90% - they all will receive a benefits package plus cost of transfer expenses. About 450 workers have already been transferred and consequently, no new jobs have been created because of the new factory. In 2021, when it should be operating at full speed, it will mean two thousand workers.

**Expansion in the South** – In order to keep on generating clean energy for all of its production, Honda announced an investment of R\$ 30 million in a new tower to generate wind energy in the Xangri-Lá park, in Rio Grande do Sul. In all, Honda Energy will feature 10 wind turbines, which will increase its generation of energy from 27.7 to 30 MW.

Still on the issue of clean energy Mizoguchi announced that three hybrid models, yet to be defined, will be brought to the region until 2023: “They will probably be imported. I still cannot project a return for investment in local production”.

# ZARLENGA SUGGESTS A PROGRAM FOR VEHICLE EXPORTS



Photo: Rafael Cusato

**S**ão Bernardo do Campo – Federal government has been handed recommendations for a policy aimed at attracting investments for the production of vehicles directed towards exports. The project, which was presented by the president of GM South America Carlos Zarlenga, in the Latin American Congress for the Automotive Industry, Tuesday 26 in São Bernardo do Campo, SP, has the objective of eliminating the distortions that hurt Brazilian competitiveness when facing up to other countries.

## The idea conceived by the president of GM is to reduce the tax burden on projects that go beyond Latin America

Zarlenga suggested that those projects with at least 50% of its volume destined to markets beyond Mercosul be eligible for this program. "They would have a special tax treatment. The Reintegra program could be raised to 8% or 9%, which would be a good start, for it addresses about half of the lack of competitiveness (which the president estimated to be at 20%, out of which a full 80% due to taxes). The government would not lose revenue, for these investments are not coming. But they could come".

The intentions of the president of GM is to bring to Brazil export projects that currently end up being directed to other markets, due to the lack of competitiveness of the Brazilian industry.

"How can a country with 4.5 million installed capacity, and a market of 3 million, not be able to have profitable companies and export vehicles? Today we lose these investments to South Korea and Mexico, who have far smaller markets. We do not get to export to Colombia, who is our neighbor and with whom we have a commercial agreement, because other markets are more competitive".

The lack of profitability was another issue brought up by the executive, who recently announced R\$ 10 billion in investments in the São Caetano and São José dos Campos, SP plants. According to him, in order for a project to yield an adequate return on the investments and to eliminate the issue of exposure to the currency fluctuation vis-à-vis stronger currencies, it is necessary that at least 40% of its output be exported.

"To export is essential. We need to tear down some myths, such as the one that says that companies will be here forever because the domestic market is so large. It is not. Brazil represents 3.6% of world production".

The exec says now is the time to address these deficiencies. Zarlenga showed optimism with the initiatives in improvement of infrastructure appointed by the government, which addresses one of the roadblocks to external sales. Nevertheless, this is just one of many items: "We don't agree with each other, not even within the region. Discussions related to common norms within the Mercosur region do not progress; we keep on incurring on redundant costs." ■

# VW seeks exports beyond Latin America

**T-Cross and other new SUVs are the main bet to open new world markets**

**S**ão Bernardo do Campo, SP – Volkswagen has one objective for the year, which is to seek higher profitability and accordingly the company's operation in South America is being structured so that by yearend they achieve a positive result – modest as it might be. The information comes from Pablo Di Si, president of Volkswagen for the region, during a presentation on the second day of the Latin American Congress for the Automotive Industry, organized by AutoData in partnership with São Bernardo do Campo City Hall on Tuesday 26.



Photo: Rafael Cusato

The company expects to obtain good results in identifying new markets beyond South America for vehicles produced here and in Argentina. "In this context, the SUVs represent an attractive opportunity as they are appreciated in all world markets".

Di Si highlighted the T-Cross, which is produced in São José, PR, and another SUV that will be produced in Argentina, the Tarek, as main players within this plan. The Brazilian SUV will be aimed at new countries beyond the region, countries in Asia and Africa, and the model produced in Argentina will follow suit.

Volume and profitability of these shipments will be low in the first moment, conceded Di Si, but "they will be important within the larger context of the operation, by balancing import and export".

In its presentation, the exec also showed projections for production this year in the country, 403 thousand vehicles, lower than last year's 467 thousand. The reduction, says Pablo Di Si, is a result of the decrease in exports for Argentina.

He also addressed in his presentation projections concerning the increase in market share of vehicles equipped with automatic transmission in the domestic market: until 2020 it will get to 60% of total production, as per VW's calculations, but within the VW group of brands the number should be even higher, at 78%. This scenario, according to Di Si, could stimulate the local production of automatic gearboxes by VW itself. "We are analyzing this possibility".

The executive also addressed the automotive free trade agreement of Brazil and Mexico, recently made public. To him, "when the market is opened suddenly, particularly with an industry more competitive than ours, as is the case, there are always consequences. However, I do not believe in an invasion of Mexican cars in Brazil".



Photo: Rafael Cusato

# Production in South America needs more integration

Participants in the Latin American Congress for the Automotive Industry emphasized new trade agreements

**S**ão Bernardo do Campo, SP – Commercial integration between Argentina, Brazil and other countries in the region was the subject of discussions in the Latin American Congress for the Automotive Industry, which was organized by AutoData Editora on Monday 25, in São Bernardo, SP, in conjunction with City Hall. Aurélio Santana, executive director of Anfavea, proposed a better integration of the countries in the region and highlighted the progress that Brazil has made in some commercial agreements:

“This year we started free trade with Peru and with Mexico, and last year we improved the existing agreement with Colombia, expanding the export volume. These contracts of free trade and commercial collaboration are very important for the region's economic strengthening and increased competitiveness.

Brazil also has free trade agreements with Uruguay and is in negotiations with Paraguay, Santana went on.

Cristiano Ratazzi, of Adefa, the entity representing the Argentinian car industry, also stood behind the concept of trade integration in the region. In the case of Argentina and Brazil, he pointed out that the technical norms must be unified – but he mentioned that the countries have been working towards this end for years:

“With the free trade agreement with Mexico we need to be more competitive and one way to accomplish that goal is convergence, producing under the same norms, which would help to bring costs down”.

Ratazzi also stood behind the termination of some taxes, like the one on exports, so as to enable local manufacturers to be as competitive as Mexico, which already has an industry geared to produce and sell vehicles to other markets.

Dan Lochpe, president of Sindipeças, the entity representing local manufacturers of auto parts, and Raul Amil, president of Afac, the counterpart association in Argentina, also took part in the panel; they agree on the need for a better economic integration of the countries and with the convergence of the automotive industry in Argentina and Brazil. To Lochpe it is necessary to also increase the competitiveness of the manufacturers of auto parts, but in general terms:

“Competitiveness is a problem in all areas in Brazil and the change process must be horizontal, instead of picking sectors to change the tax issues. It is also necessary that the process be gradual and progressive, taking into account the current degree of competitiveness of the industry in the country”.

The exec also believes that the automotive industry needs to accede to new markets, thereby decreasing its dependence on the Argentinian market: “At a point in time, we exported as much as 28% of the total production of the country. For the current year, the estimate is 19%, on account of the crisis affecting the neighboring country”.

Amil said that if both countries are to increase competitiveness, governments need to strive to reduce the tax burden and at the same time companies have to concern themselves with productivity increase and cost reduction: “If these changes were to take place and new trade agreements were signed we could be an exporting industry”.

Integration of the car parts industries in both countries was also supported by the executives, and, according to Amil, there are many possibilities for doing business together: “In gearboxes we have a good example of complementarity”.

# BorgWarner to nationalize production of the start-stop

**S**ão Paulo – BorgWarner is finalizing investment plans for its plant in Brazil after signing new contracts for supplying to the OEM market. This very year it will expand its turbochargers production in Itatiba, SP, and will start to produce locally the start-stop system in Brusque, SC. The company's board, which is based in Detroit, MI, has met directors of the Brazilian branch last week to finalize the decision on the amount of the investment, still being debated. The car manufacturers who have already signed contracts are silent too.

**The company will also invest in the expansion of turbochargers factory in order to serve the new OEM contracts**

The final number will be announced next week, when Vitor Maierello, director general for the Brazilian operation, will travel to the US to define details with the head office: “After we decide the amount to be invested we will be in a position to discuss how many additional turbo units we will produce in Brazil”.

The flex turbo that will be supplied for the new contracts is quite similar to what the company already makes available for the Volkswagen cars. Last year BorgWagner produced 100 thousand units in the São Paulo plant to serve VW demand, which has gone up with the introduction of the T-Cross compact SUV.

Local production of the start-stop system, in turn, became viable to serve a local client, said Maiellaro. The localization of components, the exec went on, comes at a time when the car manufacturers are deciding on the technologies to be used in the product launches so as to attain the goals of efficiency determined by Rota 2030, the new industrial policy in the automotive sector: “What we have seen with clients is a trend towards a mix of technologies based on three-cylinder engines. Nobody should offer one option only”.

In the Brusque plant, a result of the acquisition of Remy International in 2015, they produce starter motors for Hyundai and General Motors and also for trucks. According to BorgWagner, installed capacity in the



Photo: Publicity.

Santa Catarina unit is 1.2 million starter motors per year. There is also a component distribution center on the premises.

The company's expectations are that the new contracts will bring in this year growth in billings of up to 15% as compared to revenues of 2018, which is a figure the company will not disclose as a whole, just regionally. Besides the extra volume brought in by new business, the company sees an upward trend in the use of start-stop and turbochargers in combustion engines for both Brazil and the world as a whole.

A study put forward by the company shows that until 2027 turbos will be present in 59% of cars sold worldwide. In 2017, this share was 43%. In the case of the start-stop system, the projection in the BorgWagner study shows a substantial increase, from 42% in 2017 to 65% in 2027. Basis this scenario, the company expects an impact on worldwide sales, which could reach US\$ 14 billion in 2023.

Top management sees in the domestic market the opportunity to support global sales for components applied to internal combustion engines. According to Scott Gallet, global vice president of marketing, there is the expectation that the start-stop, for instance, be a mass-market component in vehicles of the next generation, rather than just an optional feature in the high-end range of the car manufacturers: "It is a cheap technology. We expect that Brazil will put in place the relevant regulations so that car manufacturers will bet on the system". ■