

AutoData

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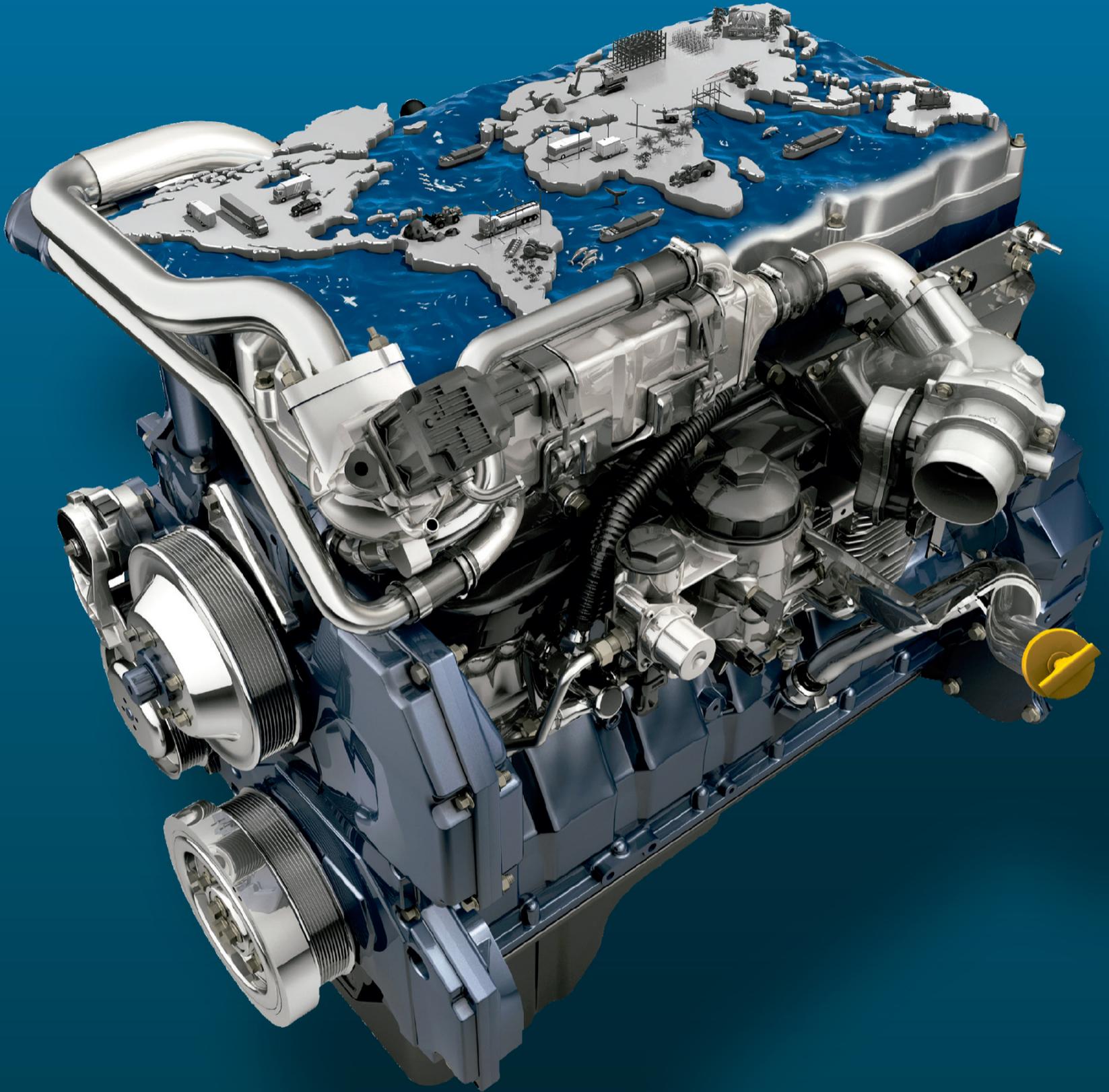
Weekly Brazilian automotive industry news | 6.26 to 7.1.2017 Year XII



MAN operating again on five-day workweek

Ever since 2011, sales of trucks and buses in Brazil dropped 70%, and many manufacturers re-dimensioned themselves to operate more competitively. In 2015, that is what MAN Latin America also did, beginning a reduction in the number of hours worked at its plant in Resende, in the state of Rio de Janeiro, operating from Monday to Thursday. With a dropping domestic market, the solution to maintain the lines functioning was to turn its attention to export processes. This strategy increased the rhythm production at the plant and, starting in July, all 3.5 thousand workers will start working five days per week...

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MAN operating again on five-day workweek	
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[The end of the Palio?](#)

Production of the 1.4 and 1.6-liter versions in Betim were halted in May and its entry-level version price is similar to the Argo 1.0-liter

MAN operating again on five-day workweek

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Roberto Cortes

Ever since 2011, sales of trucks and buses in Brazil dropped 70%, and many manufacturers re-dimensioned themselves to operate more competitively. In 2015, that is what MAN Latin America also did, beginning a reduction in the number of hours worked at its plant in Resende, in the state of Rio de Janeiro, operating from Monday to Thursday. With a dropping domestic market, the solution to maintain the lines functioning was to turn its attention to export processes. This strategy increased the rhythm production at the plant and, starting in July, all 3.5 thousand workers will start working five days per week.

Roberto Cortes, CEO of MAN Latin America, said the decision to return to normal operation also occurred because of the slight improvement in the domestic market. Despite sales not yet being at an adequate level when compared to the potential of the Brazilian market, the rhythm of the decrees has slowed down this year:

The number of heavy vehicles license registrations are improving, but they are still at a very long. This year, in order to match the same volume as in 2016, second semester growth will need to be, at least, in the two-digit range. I don't believe it will be able to increase 5% as predicted in January, because the first quarter was very bad."

From January to May of this year, 17,239 trucks were sold, representing a drop of 19.4% compared to the same period last year. The number of buses licensed exhibited the same

performance, reaching 3642 units, a drop of 22.5% when compared to the same period in 2016. The figures are from Anfavea, the Brazilian association of automotive vehicle manufacturers. Last year, 50,559 trucks and 11,161 buses were sold.

Cortes highlighted that during the first two months of the year, average daily sales of heavy vehicles stood at around 150 units. Between March and May, the rhythm improved, moving up to 230 units per day: “and June remains around that level. However, it is still very low for the potential growth of Brazil. In addition, there is pent-up demand and, now, the renewal must be made. Vehicles acquired in 2011 and 2012 have higher maintenance costs and this is included in the spreadsheets when deciding for the purchase of a newer vehicle.”

Foreign market - The executive said that MAN’s exports have increased at the same rate as the market: “Our internationalization plan has been effective. The results up to June are significant.”

According to him, foreign sales increased between 40% and 45% during the period, with Argentina and Mexico being the company’s major partners:

“During the past years, we focused significantly in the domestic market and we learned that this is not the best strategy. We are now tracing a plan that consists of improving our sheer where we are already active and opening new markets. Our targets are northern Africa and the Middle East.”

The good foreign sales performance and the slight improvement of the domestic market provided room for MAN’s production lines:

“We’re working on one shift and assembling between 80 and 100 vehicles per day. This rhythm could improve the growth of domestic sales and the opening of new export deals. Argentina, Chile, and Mexico are doing fine and, if we are one of the market leaders in Brazil, why not also in Latin America?”

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The government fears drop in tax revenue with Rota 2030

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The Brazilian government fears that there will be a drop in tax revenues with the advance of vehicles equipped with more efficient engines, one of the demands of Rota 2030, a policy that should replace the Inovar-Auto program. One of the major pillars of the program, which is being jointly drafted by Brasília and the automotive sector, relates to the drop in the IPI tariff, tax on industrialized products, for vehicles with this characteristic.

According to Henry Joseph Júnior, Volkswagen manager, and one of the vice presidents of Anfavea, the Brazilian association of automotive vehicle manufacturers, interlocutors from the



government revealed the fear regarding the eventual drop in tax revenues derived from Rota 2030, although they believe offsetting these losses with other taxes is unviable at the moment: “Creating more taxes would make the desired advances unviable, but there is concern regarding this issue.”

The representative of the manufacturers stated, during the second day of the Ethanol Summit, which took place in São Paulo on Tuesday, 27, that alternatives are under study to avoid the scenario feared by the government, but they are being treated internally, without the participation of the automotive sector: “The role of the manufacturers is to promote ways in which the industry could have the same quality and efficiency levels as the more developed markets.”

According to Miguel Fonseca, Toyota’s Executive Vice President, the development of production and ethanol application onto vehicles produced in Brazil could be one of the possible alternatives. He said that it is necessary to think of the raw material as a global fuel, and that the entire chain should consider this factor in the same manner as it considers increasing the level of technology in the vehicles: “Even if Brazil is an important producer of alcohol, we represent 2% of the total global fleet of vehicles. And this shows how much we need to advance together as a productive chain.”

According to Ricardo Bacellar, director of KPMG’s automotive area, Brazil has the vocation to produce alcohol and the country needs to take advantage of the moment, which is considered essential, for two reasons: possibility of a change in the industrial policy and greater proximity to foreign markets during the past three years. In line with Anfavea’s argument, he said the country should establish partnerships with other alcohol producers and gain muscle to develop attractive products in other markets:

“The automotive sector needs to be more proactive regarding the clean fuels not only for Rota 2030, but also to place Brazil as a global producer. We have an enormous legacy. If we had this experience to those of other producing countries, we should enter the global context, where those who gain will be the ones to offer efficient vehicles.”

During the Ethanol Summit, Anfavea and Unica, the sugarcane industry union, signed a memorandum of intention of incentives to the production of alcohol from sugar cane. Both institutions agreed to work jointly to promote the fuel at the public and private spheres.

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More Proconve in 2022

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The next phases of Proconve, the program for control of air pollution by motor vehicles, should be implemented in 2022. The program, which seeks to reduce emissions of pollutants, is conducted in progressive steps. For trucks, P8 will be the new phase, equivalent to Euro 6. For light vehicles, it will be L6, similar to Euro 6A.

The changes made to Proconve will be determined every five years: 2022, 2027, 2032 and so on, according to Francisco Baccaro Nigro, technical advisor of the Secretariat of Energy and Mining of the State of São Paulo:

Francisco Baccaro Nigro



“The automotive industry has struggled to make the vehicles comply with Proconve legislation. In Brazil, all types of vehicles must follow the same objective. In Europe, the objectives are specific to vehicle type, for example, light commercial and utility vehicles. The same applies to trucks, which have numerous differences with respect to sizes and loads.”

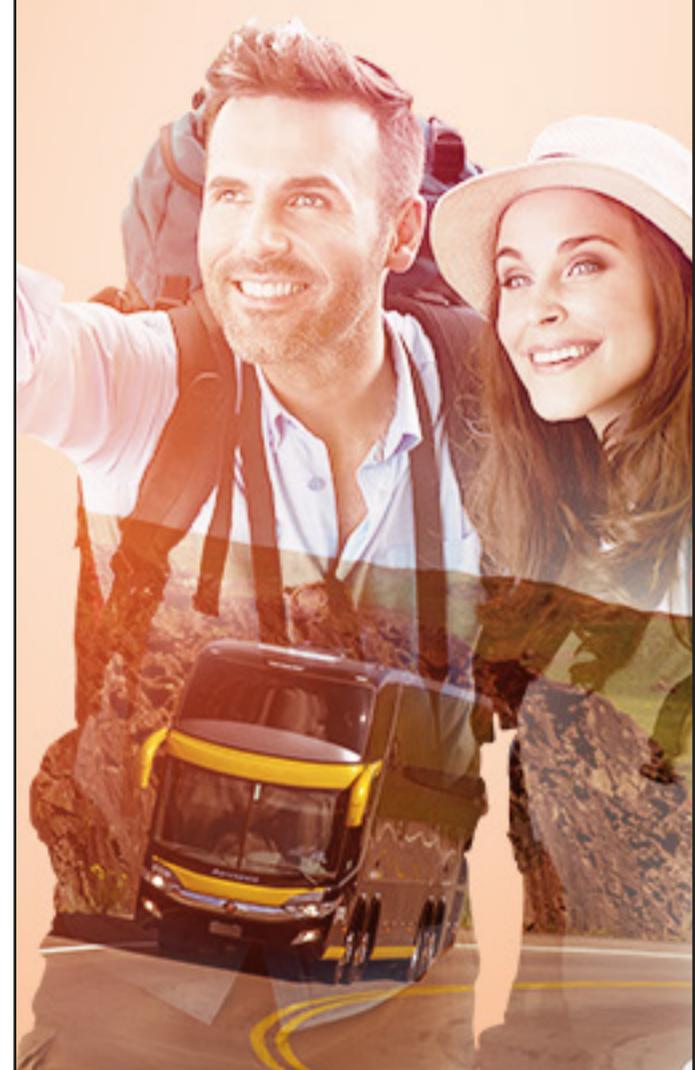
Nigro participated in the first Automotive Techday, an event promoted by IPT, Instituto de Pesquisas Tecnológicas (Technological Research Institute), in conjunction with IAV do Brasil, an engineering company with an automotive area.

To comply with the objectives, Nigro believes the automotive sector must invest in the production of alcohol-fueled vehicles, such as bi-fuel or flex fuel vehicles: “Globally, the cost of electric cars is very high because of

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the battery. In Brazil, it's not worth importing expensive vehicles for a small consumer market. I believe the price will drop only in the future. For now, operationally, they are only viable in car sharing services."

Research – With an eye on the new phases of Proconve, IPT's lab was reactivated after eight years of inactivity. The R\$ 10 million investment included resources from Petrobras, IAV, and the government of the state of São Paulo. One of the current studies relates to the analysis of the sulphur content in diesel, motivated by the high content of chemical element in the fuel and the changes derived from the implementation of the P8 for trucks.

Driven by this issue, IPT signed a partnership with the German engineering company IAV, Ingenieurgesellschaft Auto und Verkehr, in January of this year. IAV is owned by five companies linked to the automotive sector: Continental, Freudenberg, Sabic, Schaeffler and Volkswagen.

The partnership enables the exchange of experience and professionals in various projects, according to Fernando Landgraf, director-president of IPT: "The agreement was only possible thanks to the innovation law, which changed the legislation regarding partnerships with companies. It's a new phase for the IPT."

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The end of the Palio?

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The arrival of the Argo can put an end to Fiat's icon in Brazil. The 1.4 and 1.6-liter versions are no longer being produced in Betim, MG, since May, and its 1.0-liter entry-level version continues being assembled in Argentina, priced at R\$ 44,570. The Argo's 1.0-liter version starts at R\$ 46,800. The company explains that the more powerful versions could compete with the new car.

The entry-level versions, according to Adriano Resende, Fiat's marketing manager, can co-exist in the Brazilian market with the new model: "we have to the different profile of customers for the

purchase of each model. In the case of the Palio, these are more rational, and those of the Argo are more emotional, linked to technological content.”

Resende highlighted that the Palio will be worked through commercial initiatives that will make it more competitive in the market.

Antônio Jorge Martins, the coordinator of the automotive industry MBA at FGV, said the customer of the Palio 1.0 is sensitive to price and this could sustain the model for an additional time.

However, the extension of the version’s life will depend on the sales performance of the Argo 1.0: “Fiat has a strategy to maintain a car that, for a long period of time, has been its sales leader in the country. But, until when?”

Overall, the estimate is of 5000 cars per month. The model is already on sale at the dealers since its launch, earlier this month.

According to the company, the Argo is part of the investment made to upgrade the Betim plant. It represents a new renewal cycle in the company’s portfolio, after a period in which it invested in segments where it was not present, such as bigger pickups, the Toro, and subcompact hatchbacks, such as the Mobi.

Martins added that the cars have three factors that attract the attention of Brazilian consumers. The first, the more connectivity and technological the model is, the bigger the success. Second, design, followed by price, which is taken into account during the decision for a model. “It is very difficult for a model to continue in the market without these three characteristics. A good price, alone, does not sustain its sales.”

The current Palio is equipped with an old Fiat engine and is not possess the same technological appeal as the Argo. The 2017 version did not suffer any aesthetic or mechanical changes. Perhaps, because the company already knows when it will be discontinued. **WE**