

AutoData

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Weekly Brazilian automotive industry news | 3.20 to 3.25.2017 Year XII

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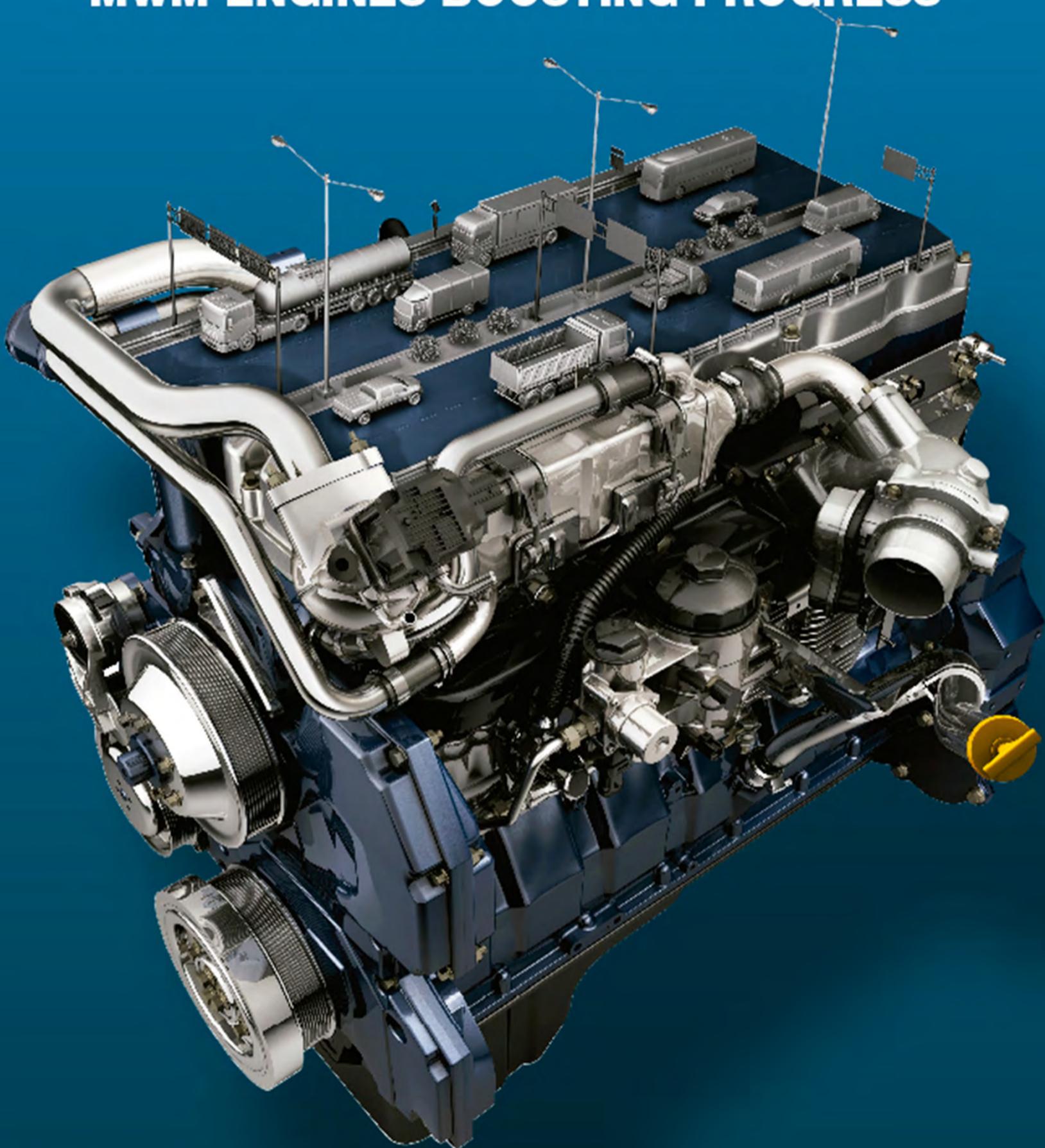


The impact of outsourcing on industry: know them.

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The impact of outsourcing on industry: know them.

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The bill approved by the lower house enabling the unrestricted outsourcing of labor generates discussions about the positive and negative impacts on industry in the short and medium terms. If sanctioned by the President of the Republic, the rule will allow the outsourcing of any company activities – core or secondary. It also increases the maximum period of duration of employment contracts from three to six months, with the possible extension for a further 90 days.

AutoData exclusively interviewed experts about the bill's reflections. Nélson Marconi, Coordinator of FGV Economy Forum, believes that, provided with more freedom to outsource, companies will obtain short term cost reductions because they will have more conditions to negotiate and carry out lower wage contracts.



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However, he warns that in the medium and long term there could be a number of factors that will lead these companies to incur bigger expenses. One of them is related to lost productivity:

"Outsourced staff has no identification with the values of the company and, consequently, less commitment to the results, which reflects on the loss of quality of the final product."

Another reason that may cause losses is that the law does not specify an issue regarding the hiring of temporary labor: "It is not known what kinds of admission can be performed and this may open up precedent for future legal labor disputes."

Wolnei Ferreira, Legal Director of ABRH, the Brazilian Association of Human Resources, said that, if sanctioned by the President, the law will provide companies with additional legal security to define their business strategies.

"This will give freedom to analyze with clarity when it is more feasible to get specialized services or hiring an employee."

He said that currently 50% of labor complaints in court involve outsourcing.

According to Ferreira, in this new scenario, when the company notes there is an opportunity to reduce costs, especially in the hiring of specialized activities, it will implement it. "The company that today has an employee only to perform maintenance of machines may hire a company to provide services without having to pay all of the labor charges," he stated.

Another advantage, according to him, is the creation of a more harmonious work environment. That's because the new law will require that the receiver of the service, i.e., the company that will hire workers from other companies, has direct responsibility regarding labor conditions: "This will allow stricter supervision."

Two weeks ago, AutoData published a report on the discussion of the theme and heard lawyers and union representatives about the consequences of outsourcing to the worker.

WE

Truck market recovery requires predictability

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A light is already appearing at the end of the tunnel for the heavy vehicles segment in Brazil. The BNDES, National Bank for Economic and Social Development, announced on Tuesday, 21, the volume of contracts approved through the Finame credit line. According to the institution, in January and February, there was a 35% increase in the number of contracts approved, representing R\$ 2.46 billion, against R\$ 1.82 billion in the same period of last year.

Approvals in February totaled R\$ 1.25 billion, a growth of 32% in comparison to February 2016, when R\$ 945 million were approved. According to the BNDES, the credit approval usually takes less than 30 days to reach the market.

This may be an indication that the expected recovery in sales of commercial vehicles is next. In the first two months of the year, according to Anfavea, 6,491 units were sold. Truck sales reached 5,559 vehicles, down 32.8% in comparison to the same period last year. In the bus segment, the drop was greater: the number of buses licensed totaled 932 units, 46.2% lower than the 1,733 sold during the same period last year.

Philipp Schiemer, President of Mercedes-Benz of Brazil and CEO for Latin America, said there's a more conducive environment for sales of trucks driven especially by lower interest rates and by the heating up of some sectors of the economy, such as agribusiness, which is expected to have a harvest of 222 million tons this year: "We noticed that there is an increased number of consultations from customers interested in doing new business."

Schiemer stated that the performance of commercial vehicle sales in the first semester will not be one of the best. According to him, the recovery should begin in June: "We see a modest market recovery next year, with truck sales registering growth ranging between 6% and 10%."

Bernardo Fedalto, Director of Trucks at Volvo, also sees the increase in Finame approvals as positive. According to him, it is a trend of improvement in the segment:

"The phone is ringing again. We are providing quotes and this is a sign that the recovery is on its way."

Fedalto believes, however, that the results should appear only in the second half of the year.

He added that it takes around 45 days from the time of the sale to the vehicle's license registration: "The volume of vehicle licensed in March will still be lower than the previous year. But this additional funding approval indicates a change in the commercial vehicle sales curve."

Volvo expects the heavy and semi-heavy market this year to grow 10% in comparison to 2016: "The signs are positive, especially the macroeconomic signs. The next meetings of the Copom should continue to lower the Selic interest rate, and this can boost the market."

Disbursement - BNDES disbursed R\$ 5.3 billion in February, totaling R \$10 billion in credit released during the first two months of the year. Compared to the same period of last year, total disbursements in the first two months of this year fell 16%, still reflecting the economic framework of low investment.

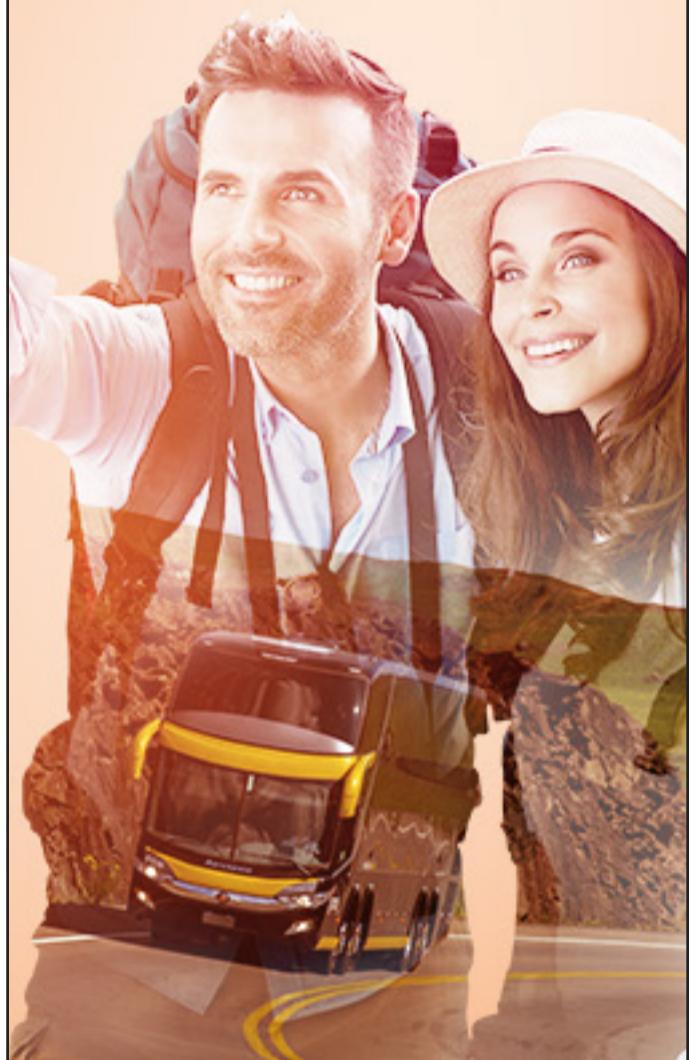
Despite the continued shrinkage in BNDES disbursements, statistics show a reduction in the pace of decline since the second half of 2016. In the first half of last year, the disbursements fell 42% in relation to same period of 2015. In the second half, it dropped 28%. In 2017, the retraction of 16% in the first quarter continued the trend, always with respect to the same period of the previous year.

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Brazilian company ZEN sees export as way to stay in the market

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Gilberto Heinzelmann

Metalúrgica ZEN, from Brusque, in the state of Santa Catarina, saw its share of exports increase from 50% to 64% during the past four years. With revenues of R\$ 180 million in 2016, and production of 14.3 million products, the company has relied on foreign revenues to help offset the performance in the domestic market. Exports accounted for the 8% increase in overall revenues in 2016.

Gilberto Heinzelmann, president of the company, said that the outlook for this year is to keep shipments of 9.2 million parts, similar to last year, and the same ratio for export sales.

According to him, a contract signed last year with Mexico represents much of this stability: "It is a partnership with Bosch, which uses our boosters with the start/stop system in starter engines."

These products equip Audi, Volkswagen and Ford vehicles in the United States. In the last two years, ZEN also expanded its activities in India and in the European market.

ZEN manufactures boosters for starter motors, belt tensioners and pulleys that equip alternators.

Investments - To remain strong in the 60 countries where it ships its products to, the company invested R\$ 60 million in the last five years. The resources were used to modernize the plant, develop new products and improve productivity:

"We compete with China and South Korea, which are extremely competitive because of the cost, and we need to always improve our processes."

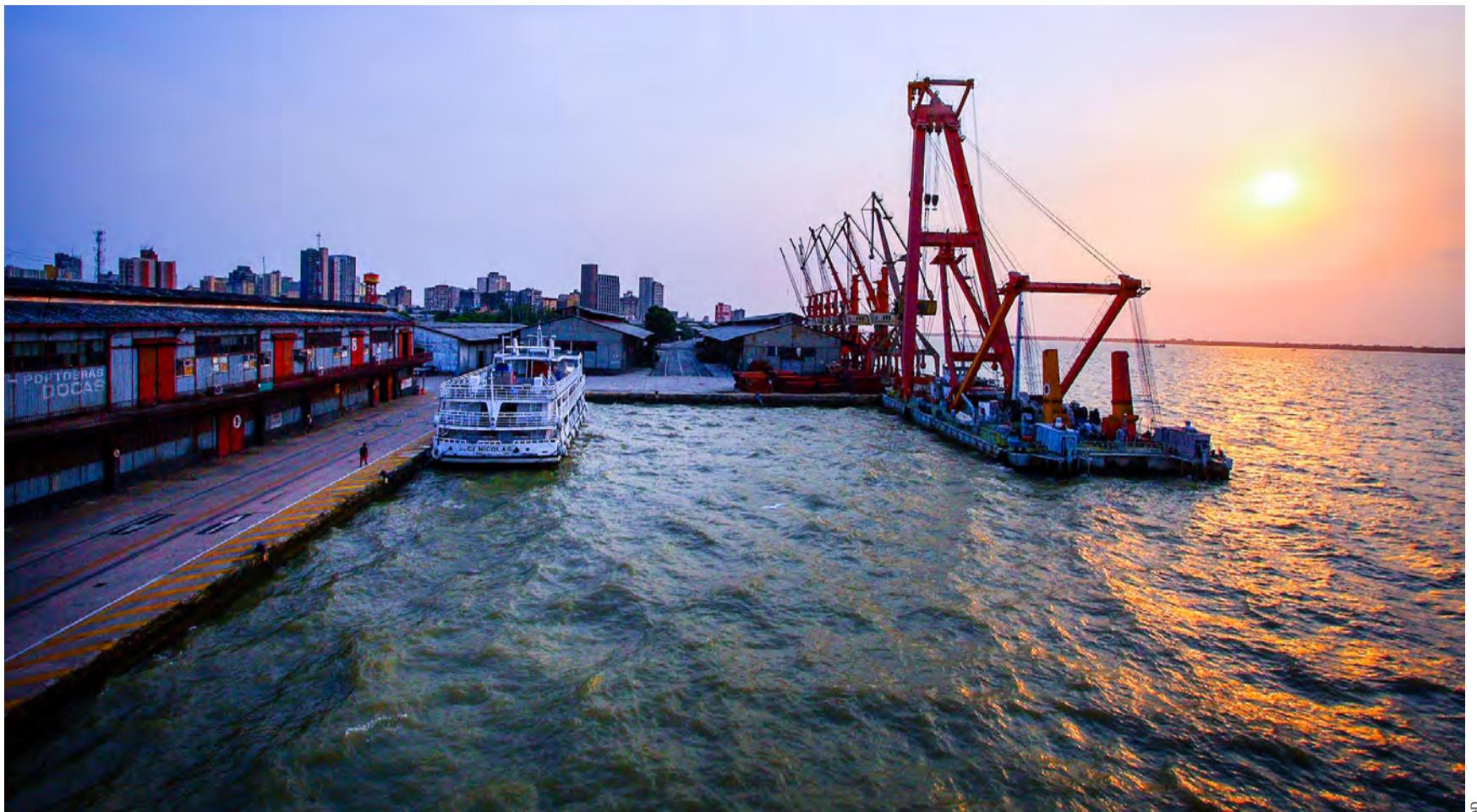
The company also implements the lean manufacturing system, a management philosophy that derived from the Toyota production standard, which focuses on process efficiency and continuous improvement. Its main goal is to deliver the most value with the least amount of resources. Heinzelmann says that this is a very important tool to increase productivity within the company: "This way of working lowers 24% of waste per employee."

Brazil Cost - Despite all these actions within the walls of the factory the executive admits it's getting harder and harder to face the Brazil Cast and to maintain a prominent position abroad. Labor costs, the value of raw materials, logistics and taxes impact the final cost of the product the most: "Overhead costs with the employees impact our business the most, and are higher than China, for example."

According to him, the value of the raw material is also a source of concern. To circumvent this problem, the company adopted some strategies. Last year, it imported steel from China instead of purchasing the raw material in Brazil: "Importing turned out to be 30% cheaper, but this year we're buying here too."

With regard to logistics, which increases costs, high sea shipping costs today are caused by the lower availability of vessels, which, in turn, "is driven by lower imports."

Sales of tensioners to the domestic market have also helped ZEN mitigate somewhat the drop in sales to the OEM and systems suppliers. According to Heinzelmann, sales volume of these products went from 700,000 units in 2012 to 1.4 million units last year: "We are always looking to develop products to the aftermarket market with over 2000 items available." WE



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Santarém terminals awarded to R\$ 68.2 million bidder

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The Port of Santarém, the main fuel distribution hub in the northern part of the country, located in the state of Pará, had two of its terminals auctioned on Thursday, 23, for R\$ 68.2 million. The Santarém Port Consortium, formed by Sabbá Petroleum, controlled by Raízen, and Petrobras Distribuidora, won the auction and should invest R\$ 29.8 million in coming years for the expansion of the storage capacity of the terminals, which receive trans-shipments of gasoline, diesel and ethanol that are produced in Manaus, in the state of Amazonas.

In addition to the opportunity to collect revenues of R\$ 281.7 million over the next 25 years from the terminal lease agreements, the federal government expects investments will increase storage capacity. The bid project includes a 1600 m³ expansion capacity to meet the demand for fuels until 2041. Currently, the terminal capacity is 6,723 m³.

While projection for the operating period represents an increased demand expectation, fuel distribution in the region actually fell in the last two years. Diesel movement through the port terminals also decreased. In 2016, it dropped to 61,000 thousand tons, a 30% decline when compared to the 87,000 tones stored in 2015. Gasoline dropped 16.7%, with a volume of 45,200 tons in 2016, compared to 54,300 tons in 2015.

The decrease in fuel handling reflected directly in the port's revenues, despite its handling of other types of materials, such as soybeans and aluminum. In 2016, the port generated revenues of R\$ 121.7 million, 5.17% lower than the R\$ 128 million registered in 2016.

According to Vicente Sales, Administrator of the port of Santarém, the drop in the last two years is attributed to logistical problems prior to reaching the terminals, that is, rivers of the region and roads. According to him, "in 2016, we had many problems connected with shipments arriving from Manaus, through the Trans-Amazon highway. Raízen, as well as Cargill, the largest leaseholder of the port, suffered from delays and losses because of trucks. In addition, the current capacity does not include a possible increase in production, which can cause delay in loading."

The announced investments in the terminals will be focused on building new tanks. Terminal ST04, the smallest, which now has eight tanks, will receive R\$ 18.8 million in investments. Terminal ST05, which has twelve tanks, and will receive investments valued at R\$ 11 million.

The Santarém Port Consortium consists of a partnership between Sabbá Petroleum and Petrobras Distribuidora, with shares of 60% and 40%, respectively. Sabbá Petroleum is a joint-venture between Raízen, 80%, and Sabbá IB, with 20%. For the STM04 terminal, the Consortium offered a bid of R\$ 18.2 million, competing against two other companies: AB Infrastructure and Logistics, which offered R\$ 18 million, and Equador, which bid R\$ 15.4 billion. Equador is the current administrator of the area.

For the STM05 Terminal, the Santarém Port Consortium was the sole bidder, R\$ 50 million. The asset is already managed by Sabbá Petroleum.

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