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AUTOMOTIVE

Electric car owners to get charging subsidies

Shanghai's Jiading District plans to provide subsidies for electric car charging for private buyers already subsidized by the municipal government. Until 2014, a total of 350 green car owners living or working in the district will each receive a subsidy of CNY15,000 for their electricity fees and expenses for charging. They already receive incentives of CNY40,000 to buy purely electric vehicles and CNY30,000 for plug-in hybrids offered by the city government. In order to get the subsidies, electric car owners need to plug their cars into a system that collects data on green car usage which will be used to study user habits. The latest data compiled by the district showed up to 80% of electric car owners drive under 60 kilometers a day, within the car's maximum mileage on a single charge. By the end of March, there were 39,800 electric cars running on roads in China, a significant rise from 27,400 units last year, following continued efforts to make the cars more reliable and affordable. Over the past three years, the capacity of vehicle batteries and the lifespan of electric cars have doubled at the global level while their prices plunged 50%, Wan Gang, China's Minister of Technology said at the 2013 International Forum on Electric Vehicle Pilot Cities and Industrial Development held on May 30. Wan said a new policy offering the same amount of central-level subsidies for electric cars will be implemented soon, the Shanghai Daily reports.

China is to shift the direction of its financial backing of the new-energy vehicle sector, by supporting research and development efforts, rather than simply offering consumer discounts on vehicle purchases, Minister Wan Gang said. Direct government incentives for consumers are likely to be phased out by 2020, if operational expenses can be lowered and the market expanded. "The government is unwaveringly committed to the industry, but EV makers should never count on subsidies to survive," Wan said. "It is imperative for companies to enhance their core competence with research and innovation," he added. China holds just 1% of total patent registrations for lithium-ion batteries, a critical component of EVs, while Japan owns 52% and the U.S. 22%. The Shanghai New Energy Vehicle Data Collection and Monitoring Center was set up in May, capable of the real-time monitoring of 2,000 electric vehicles in the city during the first phase of the CNY5 million project. The center will record vehicle mileage, battery use, performance of recharging stations and other systems-management information.

Traffic congestion could affect car sales

China's automobile sales could slow considerably within the next two years, choked mainly by the inability of roads and highways to cope with the growing volume of traffic, particularly in the major cities, according to Hou Yankun, Director of China Equity Research and head of Asia Autos at UBS Securities. He predicted that 2013 will witness the "last wave" of sales surges in China's auto industry. He estimated total sales to grow by 8.4% year-on-year in 2013, with sales of passenger vehicles up by 8.1% from 2012. Bottlenecks in infrastructure development are likely to lead to more vehicle purchase restrictions in the near future. China's auto sales increased at compound annual growth rates above 20% between 2005 and 2010, but that level has already dropped significantly since 2011, mainly as a result of a slowing economy and the phasing out of stimulus policies. Many analysts still hold the view that the Chinese market is promising due to its low penetration rate, which is around 8%, compared with 50% in developed economies. In theory, if car affordability continues to follow the examples of Japan and South Korea, sales could maintain rapid growth for at least 10 years in China. But Hou said the ability of the country's roads to cope with that level of growth is already being stretched.

Data show that there are about 550 cars for every kilometer in Beijing, compared to 300 even in congested Hong Kong. The average annual mileage of cars in the mainland is five times that of Hong Kong, added Hou. "It will be a challenge for the government to raise the speed of road construction, to keep pace with the acceleration of auto ownership," he said. Mega-cities including Beijing and Guangzhou have already introduced car-purchasing restrictions, and people in Shanghai have to enter an auction for car license plates because of massive demand. Statistics show cities such as Fuzhou, Tianjin, and Nanjing are all suffering from low average driving speeds caused by chronic traffic congestion, which may force the local governments to consider purchasing restrictions. China's auto industry is also facing an oversupply of vehicles. Several of the country's major automakers have raised their capacity targets over the next few years, which could push vehicle production past government projections, listed as 37 million units in the 12th Five Year Plan (2011-15), to as much as 40 million by 2015. KPMG warned in a report that vehicle "manufacturing overcapacity is apparent", the China Daily reports.

Toyota to make batteries in China for petrol-electric hybrid cars

Toyota Motor is to set up a joint venture with a local firm to produce batteries for the petrol-electric hybrid car market. Toyota Spokesman Takanori Yokoi said the Japanese carmaker is in discussions with Hunan Corun New Energy of Hunan province to jointly produce nickel metal hydride batteries for hybrid models Toyota plans to start selling in 2015. Toyota previously said it was working to design key hybrid components in China to make hybrid models more affordable. The move comes as Toyota and other carmakers gear up to try to kick-start sales of hybrid cars in anticipation of changes in the country's policy aimed at nurturing demand for “new energy” cars to include conventional hybrids. Under the existing policy, Beijing provides generous subsidies for private purchases of all-electric battery vehicles and heavily electrified “near all-electric” plug-in hybrids, but only limited support for conventional petrol-electric hybrids. A number of industry insiders and experts believe the government will boost purchase subsidies significantly for conventional hybrids as early as this year. Yokoi said Toyota – which has bet big on petrol-electric hybrid technology since the late 1990s, when it began selling the Prius hybrid – plans to launch two relatively affordable hybrid models. One model will be marketed by Toyota's joint venture with Guangzhou Automobile, while the other would be for its joint venture with FAW.

Guangzhou Auto focuses on own brand

Guangzhou Automobile Group is stepping up the development of its own brand as over-reliance on its Japanese partners for growth has proven dangerous, especially last year, when Japanese cars lost their attraction to Chinese consumers due to the Diaoyu islands dispute. After sales doubled for the group's domestic brand, Trumpchi, in the first quarter, the state-owned carmaker said it would inject CNY2.85 billion over the next few years to double plant capacity. It would also introduce a new model every year, including a hybrid crossover that might hit the market later this year. The new hybrid car is the group's first charge into the new-energy vehicle sector. Although its fuel efficiency is about 10% lower than that of Toyota's Camry hybrid, the Trumpchi hybrid will save up to 70% of the fuel required by its petrol-driven rivals. Guangzhou Auto's executives hope its retail price will be much more competitive than the model from Toyota, which has yet to localize production of its hybrid line. While Guangzhou Auto has already sold about 100 of the hybrid cars to government departments and kept another 100 for internal use, the firm's engineers said the model still could not be priced competitively enough for retail sale. While the government offers subsidies of up to CNY120,000 for electric cars and CNY100,000 for plug-in hybrids, a buyer of a conventional hybrid car gets only a CNY3,000 subsidy – a fraction of the price of the Camry Hybrid, which costs CNY259,000 excluding tax. New incentives could bring the prices of hybrid cars below CNY200,000. Guangzhou Auto’s net profit plunged 73.5% last year to CNY1.13 billion, but sales rebounded 19% to 269,799 units in the first quarter of this year. Executive Director Lu Sa expects sales to rise 26% to 950,000 units this year. Although the Trumpchi brand remains a minor contributor to group revenue, sales of its models – including the popular GS5 SUV and GA5 car – more than doubled in the first quarter. The group is set to launch the GA3, a new compact car based on the Alfa Romeo 166 platform, next month. Guangzhou Auto will double the capacity of the Trumpchi plant to 200,000 units next year, although part of the new capacity would be leased to a U.S. carmaker, the South China Morning Post reports.

Toyota’s sales recovering

Toyota posted a sales turnaround, but may miss its target of selling 900,000 units this year in China. China sales edged up 0.3% year-on-year to 79,000 units in May. As one of the car makers most affected by China’s anti-Japanese boycott over the Diaoyu islands dispute, the increase marked the first time the sales rose since January when they surged 23.5% from a year earlier. Toyota then suffered a relapse in the following three months and its sales fell 11% in the January-April period. This doesn’t bode well for its target of selling 900,000 units in China this year, which represents a 7.1% increase. The company plans to roll out new models in autumn, including the revamped Yaris and Vios, counting on them to gain back lost ground in China’s entry-level car market. Its Japanese rival Mazda, whose sales fell 11.6% last month, also pins its hopes on new product releases to woo back Chinese drivers. From this month it will start localization of the CX-5, CX-7 and Atenza models.

With new China plants, Volvo hopes to hit 2020 sales goal early

Chinese-owned Swedish Volvo Car expects to be selling 200,000 cars a year in China by 2018, a senior executive said, two years ahead of its latest target and as a new assembly plant gears up for full production later this year. The company plans to more than double its annual global sales to 800,000 cars by 2020, from 373,000 sold in 2010. Volvo originally said demand in China would account for nearly half the additional volume it plans to generate around the world, but momentum fizzled last year as Volvo was forced to implement discipline at its independent dealer-operators. While Volvo has failed to boost its China sales as much as it had hoped since 2011, the executive – who spoke on condition he wasn't named as the sales projection is an internal target – said the renewed confidence was due to expectations for local car production and to changes in how it manages its network of retail showrooms. Those changes, he said, have resulted in "lots of good returns, and sales are now growing as planned." A new Volvo plant in Chengdu is "more or less completed", said Volvo Spokesman Per-Ake Froberg, and is producing a limited number of cars to test the facility's manufacturing processes and the quality of the cars it plans to make there. Full production should begin in the fourth quarter. The plant will be able to produce 125,000 cars a year. A second assembly plant is being built in the northeastern city of Daqing, with production not expected to start until the end of next year, Froberg said. With the Chengdu plant running, Volvo could hit its 200,000 cars a year goal in five years. Volvo's 's global sales fell 6.4% in January-April to 132,519 cars, but in China Volvo increased its sales by 27.6% to 18,490 cars. Neither Volvo nor Geely has said which models they plan to produce in Chengdu and Daqing, but company insiders have said Chengdu is likely to make a long-wheelbase version of the S60 sedan that Volvo has developed especially for Chinese drivers. The Daqing plant is expected to produce sport utility vehicles (SUVs) such as the XC90, which one insider said would soon undergo a full re-design. The Daqing plant will likely make the current XC90 model, with the re-designed model shipped to China from Sweden, the South China Morning Post reports.

Volvo Car will begin production this month at its first factory in China, allowing it to avoid the mainland's 25% import tariffs. "If they fail in China, I don't really see where they can gain volume significantly," said Lin Huaibin, Shanghai-based Analyst at IHS Automotive. "If they can do China right, they will gain strong momentum." Volvo posted a loss last year as global sales fell 6.1% to 421,951 units, with the biggest decline in Sweden. In China, sales dropped 11%, while deliveries at competitors Audi and BMW climbed 40% and 30%, respectively. Volvo's share of China's luxury vehicle market fell to 3.4% last year from 5.3% in 2009, the year before the Geely takeover, according to estimates at IHS Automotive. One reason for Volvo's underperformance is price. For example, its XC60 sport utility vehicle starts from CNY389,900, 8.8% higher than a mainland-produced Audi Q5, according to price comparison website Autohome.com.cn. Volvo's reputation for safety, Scandinavian design and environmental care and performance will help it attract the growing number of Chinese consumers seeking to embrace a "more understated luxury", a Spokesman said.

Sinotruk to maintain export growth

China's largest heavy-duty truck maker, Sinotruk, is poised to maintain growth in exports this year despite shrinking overseas demand due to the eurozone debt crisis. The Jinan-based truck manufacturer has clinched export orders for more than 14,000 heavy-duty trucks so far this year. The company said South-east Asian countries have become a major export destination for its vehicles, while other overseas markets like Central Asia and Africa have all witnessed steady growth. The company has just delivered the first batch of 300 HOWO-A7 type heavy-duty trucks to Hong Kong. Ma Chunji, Chairman of the board of Sinotruk, also said the firm has broken through in Hong Kong, a market long dominated by European and Japanese truck makers. The company owns the complete intellectual property right for the HOWO-A7 truck, which entered markets in Brazil, Africa and West Asian countries in 2012. Its export revenue rose 82% year-on-year to USD610 million last year.

GM boosts exports to emerging markets

General Motors aims to boost its exports from China by nearly 70% this year because of strong demand for its China-developed low-cost cars, Bob Socia, Chairman of GM in China, said. The U.S. automaker plans to export as many as 130,000 China-made vehicles this year, up from 77,000 vehicles last year, driven by demand for its Chevrolet Sail in other emerging markets. "While GM's primary philosophy is to manufacture where it sells, we find that product exports are necessary to meet global market demands when GM does not have local manufacturing capabilities for a particular vehicle," he said. The Sail, which was co-developed with partner SAIC Motor, became an instant hit when it was launched in January 2010. It is the first foreign brand in China with a price tag below CNY60,000. The Sail, which accounted for 80% of GM's exports from China last year, is also helping the firm compete with Japanese, South Korean and other brands in South America and other emerging markets, said Socia, who is also Chief Country Operations Officer for GM's China, India and Asean operations. To meet increasing demand from abroad, GM is now assembling the Sail in Colombia, Ecuador and India, using components supplied by its Shanghai car venture with SAIC. In the first four months of the year, GM shipped 33,623 vehicles overseas, surpassing Geely Automobile to become China's second-largest auto exporter after Chery, which shipped 46,234 during the period, according to Namrita Chow, Senior Analyst at IHS Automotive. With a few exceptions, exports of China-made cars by foreign automakers have been limited. Volkswagen, GM's closest rival in the country, has no plans to boost exports from China in the near future, a local Spokesman said. Foreign automakers that have exported small volumes from China include PSA Peugeot Citroen's car venture Dongfeng Automobile Group Co (DPCA) and BMW. DPCA and BMW shipped 1,152 and 102 China-build cars during the first four months of this year, respectively. Honda shipped 7,972 cars overseas during the period, the South China Morning Post reports.

More taxis to run on natural gas

Beijing plans to increase the number of taxis that run on natural gas from the current 99 to 2,000 by the end of July in a trial project to promote the use of clean energy in public transportation. Beijing now has 2,000 vehicles powered by natural gas, and that number is expected to rise to 10,000 by 2013, which will include 2,000 taxis, 3,143 city buses, and vehicles for some driving schools, the Beijing Environmental Protection Bureau said. The city plans to add more than 30,000 additional natural gas vehicles by the end of 2017 if the trial project is successful. A total of 7,000 natural gas powered public buses will be put into service by the end of 2015, the Bureau said. By using natural gas, the number of PM2.5 particles can be cut by 93%; nitrogen monoxide by 20% to 40%; carbon dioxide by 25%; and carbon monoxide by 50% to 70%. Natural gas will also cost 30% to 40% less than diesel fuel. Still, natural gas vehicles are not yet widely accepted, and construction of supporting facilities, like refueling stations, is lagging. The capital has set up seven compressed natural gas stations and nine liquefied natural gas stations to support the additional natural gas taxis. Some 100 stations will be set up by the end of the year, and at least 70 more will be built every year from 2014 to 2017 to meet the increasing demand. Natural gas accounted for 14% of the capital's energy consumption in 2012, an increase from 6% in 2010.

Passenger car sales continue to rise

China's passenger car sales continued to grow at a double-digit pace in May, thanks to new models unveiled at the country's largest auto show in Shanghai in April. Deliveries of sedans, sport-utility vehicles (SUVs), multi-purpose vehicles (MPVs) and minivans last month rose 13.4% from a year earlier to 1.34 million units, the China Passenger Car Association (CPCA) said. "A large part of the orders lodged during the Shanghai Auto Show were fulfilled in May," said Rao Da, Secretary General of the Association. Though May's year-on-year rise in car sales slowed from the 16.6% growth in April, it was a confidence booster for an industry beset by many problems, including policies in large urban areas to limit the number of new license plates to ease congestion and reduce pollution. "It seems unlikely that the government will intervene this year," Rao said. "The wholesale car industry may add 2 million units this year to 21.3 million units." However, summer is traditionally a slack season for auto sales. By the end of this month, the inventory pressure at dealerships may mount again if they fail to attain their half-year sales targets, he added.

Continental Tires Hefei to help improve safety

A Hefei-based branch of Continental Corp, the leading German tire manufacturer aiming to become one of China's top three tire makers and suppliers over the next few years, has vowed to enhance driving safety for Chinese customers. Michael Egner, General Manager of Continental Tires Hefei Co, which was set up with an investment of €185 million to manufacture premium tires, said that as Chinese people become more conscious of driving safety, Continental will take care of them. He said Continental Tires Hefei plans this year to produce 20-inch tires, self supporting runflat (SSR) tires and winter tires locally as part of its aim to produce 4 million passenger light truck (PLT) tires in the first phase of the Hefei plant. Statistics show total production in China, the world's largest tire consumer, reached more than

483 million tires in 2012, accounting for about one third of global output. Yuan Zhou, Finance Manager of Continental Tires Hefei, said that last year Continental increased its investment in Hefei to €339 million, aiming for an annual production of 8 million PLT tires. The plant is designed to reach a capacity of 16 million tires and would eventually provide some 2,000 jobs to locals after extension work is completed. “Driving safety has lots to do with tires,” said Egner, stressing that Continental is renowned for contributing to enhanced driving safety and protection of the global climate. Located in the Hefei State Hi-Tech Industry Development Zone, Continental Tires Hefei is the largest foreign direct investment project to date in Anhui province. “Although the market share of Continental in China was less than 3% last year, we foresee huge potential in the future,” added Egner. “When the market becomes mature, people will be more conscious about the role of tires in driving. It is a matter of time, and I am confident in our products,” Egner said, as reported by the China Daily.

Changan to sell its China-branded cars at home and abroad

Changan Automobile Co is poised to make a historic breakthrough by having one of its joint ventures both producing and selling Chinese-branded cars at home and abroad. The Chongqing-based carmaker and the French automaker PSA Peugeot Citroen established their joint venture Changan PSA Automobiles Co in 2011 in Shenzhen. “Within the next three years, Changan cars produced by our joint venture with PSA will be sold in China and overseas,” said Ren Qiang, Changan’s Vice President. Changan has also set up joint ventures with Mazda, Ford and Suzuki. In 2011, 95% of total profits generated by all auto enterprises in China were from joint enterprises, and independent firms accounted for just 5%, according to a report released by the Chinese Academy of Social Sciences (CASS) last month. “Until now, none of the automobile joint ventures in China had ever introduced independent Chinese brands onto the market,” said Jiang Aiqun, Spokesman at Changan. Chinese automakers are seeking various opportunities to increase market share for their own brands in their fight against foreign counterparts. Companies including SAIC, FAW Group and Changan all plan to introduce middle- and high-end vehicles, a sector of the market now dominated by foreign brands. “By 2020, we plan to increase overseas sales of Changan cars to 25% of the brand’s total sales volume,” said Ren. In 2012, more than 1 million Chinese-branded cars were exported mainly by five leading companies: Chery Automobile, Geely Automobile, Great Wall Motors, GMAC-SAIC Automotive Finance, and Lifan Group, according to data from China Association of Automobile Manufacturers (CAAM). From January to April, Changan sold 710,000 units in total, a 23% year-on-year increase, and 10% higher than the industry average. Its independent brand sales reached 321,000, ranking it top among China’s brands, the China Daily reports.

German carmakers lose Hong Kong market share after tax break ends

German car brands are losing market share in Hong Kong as a weaker yen and a new emissions rule have made their Japanese rivals more competitive. The market shares held by BMW, Mercedes-Benz and Audi fell to 11.2%, 11.5%, and 7.1%, respectively, last month from 16%, 14.4% and 8.3% in December last year, internal sales data compiled by the Motor Traders Association shows. Toyota, which topped the city's sales last year, gained a larger slice of the cake in May, 18.7%, up from 17.5% at the end of last year. Traders and dealers said the fall in the share of the European brands was expected, since most buyers purchased their cars before April 1 – the day when all but one of the 74 European “green” vehicles lost their entitlement to a tax break of up to HKD75,000, as the government raised the bar on what qualified as a “green” vehicle. Although many Japanese models also failed to make the revised “green” car list, many Toyota, Honda and Nissan models continued to qualify for the break. “European cars performed really well in the first quarter, as buyers wanted to catch the 'last train' of the tax waiver scheme. But Japanese cars are quickly catching up now,” said Johnny Ng, Managing Director of car dealer Inchcape. “The removal of the tax break did not put the price of European cars up by much, as the carmakers and dealers absorbed some of the increase.” Volkswagen's Hong Kong Managing Director, Thorsten Jaede, said launching new models was the best solution to the change. The Golf 7, launched in March, helped boost local sales to 401 cars last month – up 21% from the average 331 of sales each month in the first quarter. Sales at BMW, Mercedes and Audi fell between 13.35% and 37% last month, compared with the average between January and March. The European Chamber of Commerce is pressing the government to review its tax incentive scheme, which it said is not entirely fair to European players. From April 1, the Environmental Protection Department considers cars “green” if their emissions are at least 75% below the maximum allowable level. Before then, cars that emitted less than 50% of the level would qualify.

General Motors says luxury-car demand growth in China will ease

General Motors, which broke ground on a new Cadillac assembly plant in China this month, forecast demand for luxury cars will grow at a slower pace in China than the total vehicle market this year. Sales of premium cars will probably increase about 4% this year, or about half the pace that the carmaker had expected at the start of the year, Bob Socia, GM China Chairman, said in Shanghai. The carmaker has said it expects total industry sales to increase about 7% to 8% this year. “Luxury car demand should hold at around 10% growth. GM's estimate of 4% growth means they expect the segment will be pretty sluggish,” said Han Weiqi, Industry Analyst with CSC International Holdings in Shanghai. GM aims to more than triple Cadillac sales in China to 100,000 by 2015 as it brings out a new model every year until 2016. Chief Executive Dan Akerson, in Shanghai for the factory ceremony, has said the luxury brand is a priority in the firm's plan to invest USD11 billion in China until 2016. The carmaker aims to win 10% of China's luxury market by 2020. Luxury-vehicle sales rose at more than twice the pace of the total passenger-vehicle market last year, research firm LMC Automotive said. It will take some time for GM to catch up with Audi and BMW in luxury sales, Akerson said. Rising consumer incomes and growth in manufacturing capacity will help GM achieve its target of selling five million vehicles in China by 2015, Akerson added.

Short news

- Partnering with the event’s organizing committee, Volvo was the exclusive provider of VIP transportation for the Fortune Global Forum in Chengdu in May. The company also co-hosted a roundtable discussion titled “the Future of Transportation”. Volvo Chairman Li Shufu represented the company at major activities of the forum. Volvo’s factory in Chengdu will become operational later this year. Hakan Samuelsson, President and CEO of Volvo Car Group, said now is a time of rapid development for Volvo in the domestic market.
- In the first five months of this year, Volvo’s sales in China totaled 22,905 units, up 26.9% annually, despite the sluggish market. In May alone, it sold 4,415 units, up 24.4% annually, making China its largest market worldwide. Volvo plans to introduce six new models to China to further enrich its portfolio. On June 5, Volvo unveiled the 2014 S80L, an executive luxury sedan.
- Great Wall Motors defied the industry slowdown last year, as it sold 620,000 vehicles in 2012, up 28% year-on-year, higher than the industry average increase of 4.3%. Its share price jumped 103% on the Shanghai bourse in 2012, marking the largest increase among China’s publicly held car makers.
- Volkswagen and its Chinese partner SAIC Group signed an agreement to enhance their strategic cooperation, expand capacity at their Foshan factory in Guangdong province, which will start production this year, and set up a new plant in Changsha, Hunan province. The deal was signed during Premier Li Keqiang’s three-day official visit to Germany. The agreement is part of the German automaker’s plan to invest €9.8 billion in China by 2015. Volkswagen plans to establish seven new plants in China in the coming years to boost its local annual production capacity by more than 60% to 4 million units by 2018.
- China tops the list of countries where automotive CEOs expect their business to grow this year. In addition, nearly two-thirds of 90 automotive CEOs from 32 countries who are looking to China as a growth market intend to build or further expand their manufacturing capacity in the next 12 months, according to PricewaterhouseCoopers’ 16th Annual Global CEO Survey Automotive Summary. 32% of automotive CEOs said China is one of their top markets. Consulting firm McKinsey & Co said China’s passenger vehicle market will maintain an average year-on-year growth of 8% over the next decade.
- Honda Motor Co is boosting the localization of its research and development (R&D) in China. By the end of 2015, Honda plans to introduce 12 new models to China, including the mid-size sedan Crider, developed mainly by Chinese staff for China, and the multipurpose vehicle Jade. Honda plans to produce hybrid models in China within three years, which it says will result in cheaper prices. The company is targeting sales of 1.3 million units annually in the Chinese market before the end of 2015, said Seiji Kuraishi, President of Honda Motor (China) Investment Co.
- The listing of car parts-supplier Nexteer Automotive will offer investors an opportunity to get involved in the Chinese passenger-vehicle market, but the company is facing

downward pressure on selling prices of its products as car markets in the U.S. and Europe slow down. Nexteer's net profit fell three basis points to 2.7% last year, while its gross margin stayed at 12.3%. Sales fell 3.6% to USD2.2 billion. The company will launch three new electric power steering programs in the second half. Nexteer has 20 manufacturing plants, 10 customer services centers, and five regional engineering centers. Nexteer seeks to raise up to HKD2.5 billion through an initial public offering (IPO). Trading is due to begin on July 3.

- Wu Xiao'an, Chief Executive of both Xinchen Power and Brilliance Auto – a joint venture between Xinchen's parent company Huachen and the luxury German marque that produces BMW cars in China – said Xinchen could emerge as a top-tier engine supplier to BMW. Wu was speaking on the sidelines of the company's inauguration of a plant in Mianyang, Sichuan, which will produce the first batch of 25,000 BMW N20 engines next June. Brilliance Auto is doubling its engine capacity to 400,000 units with a new plant in Tiexi, Shenyang province, that will begin production in 2015. But that may still fall short of BMW's long-term goal to sell 600,000 cars a year in China, nearly double its sales last year.
- Shanghai car plate prices fell for the third consecutive month at the June auction as speculation cooled. The average successful bid dropped to CNY77,823, down CNY2,980 from last month, while the lowest price shed CNY3,100 to CNY77,600, according to the Shanghai International Commodity Auction Co. These falls saw Shanghai car plate prices dip below the CNY80,000 psychological benchmark, which was first surpassed in February. In March, prices reached a record high of more than CNY90,000, after soaring 32.5% in the first three months of this year – more than for all of last year.
- Beijing Automotive Group Co, which manufactures vehicles with Daimler and Hyundai Motor Co in China, has set up a unit to spearhead acquisitions abroad, starting with Europe. BAIC International Development Co will be in charge of overseas acquisitions and investment as well as boosting international vehicle and parts sales. The carmaker plans to have CNY2.5 billion of profit from abroad with a sales target of 400,000 units by 2020.
- Cheng Guozhang, Executive President of Renault China, said the company will introduce 10 new models in the next four years and raise the number of its dealers by 60% to 185 in two years. Renault’s proposal of building a manufacturing base together with its Chinese partner Dongfeng Motor in Wuhan, Hubei province, has got the approval from China’s Ministry of Environmental Protection (MEP), but still needs the nod from the National Development and Reform Commission (NDRC) and the Ministry of Industry and Information Technology (MIIT). The production facilities are designed with capacities to produce 150,000 passenger vehicles and 150,000 engines per year.
- Up to 500 E150 electric cars produced by Beijing Auto will be given a CNY140,000 purchase subsidy along with a free car plate for their promotion in the capital. The money includes CNY20,000 promised by the carmaker, with the rest to come from the central Beijing governments. That means a customer only needs to pay CNY109,800 for the car, which carries a price tag CNY249,800.

METALS

Most steel mills to make losses or barely break even

Most steel Chinese mills will make losses or struggle to break even in the next five to 10 years, according to experts. Driven by nationwide infrastructure construction, the capacity of China’s steel industry surged by 400 million tons from 2004 to 2012. But as the nation’s economy enters a steady growth stage, there are between 200 and 300 million tons of excess capacity at the moment, said Xu Kuangdi, President of the Chinese Society for Metals. “Some observers said it is winter in the Chinese steel industry, but I don’t see that spring will follow,” said Xu at the Baosteel biennial academic conference, suggesting steel mills may have to suffer a longer period of hardship than expected. “An industry reshuffle will take place and the consolidation period for the steel industry may last as long as 10 years,” he said. According to Xu, China produced 191.75 million tons of steel in the first quarter, with a record high growth rate of 9.1% year-on-year. Xu Lejiang, Chairman of Baosteel Group Corp, said the steel growth rate will slow down in the following two quarters. He said China’s steel production grew 20% year-on-year from 2000 to 2006 but this declined to about 10% from 2006 to 2011, then dropped below 5% afterwards. Some 716.54 million tons of crude steel were produced in

2012, a year-on-year growth of 3.1%, the National Bureau of Statistics (NBS) said. Xu Kuangdi suggested that steelmakers streamline production capacity through mergers and restructurings, optimize production structure, pay attention to management, and improve customer service. Baoshan Iron and Steel Co (Baosteel) launched an e-commerce platform on May 31 as part of efforts to diversify its business structure and to provide an all-round service, including steel trades, settlements, storage and logistics to steel enterprises, traders and downstream clients. Major listed steelmakers posted worse than expected earnings in the first quarter due to surpluses, but Baosteel remained upbeat, with its net profit surging 33.3% to CNY1.6 billion. The country's 80 major steel companies posted CNY1.58 billion in profits in 2012, tumbling 98.2% year-on-year, according to data from the Ministry of Industry and Information Technology (MIIT). Their sales margin was a mere 0.04% in 2012, down from 8% in 2004, the China Daily reports.

China's Chalco to close 380,000 tons of aluminum capacity

Aluminum Corp of China (Chalco), China's top producer of aluminum, joined other companies in cutting capacity to help trim a market surplus after it suffered losses due to weak prices. The company said it would temporarily close 380,000 tons of annual capacity due to market conditions. The shutdown represents 9% of its annual output of primary aluminum products of 4.22 million tons last year. In March, Chalco posted a worse than expected net annual loss of CNY8.2 billion, hit by low aluminum prices and rising costs. U.S. producer Alcoa and Russia's Rusal, the world's largest producer of aluminum, are also cutting capacity. Analyst Leon Westgate at Standard Bank in London said: "The key remains how temporary the cuts may be, and to what extent new production capacity in China steps in to fill any gap." The global market surplus is expected to be 782,250 tons this year, and will widen further to 896,000 tons next year, according to analysts polled by Reuters in April. The surplus has weighed on prices, sending benchmark three-month aluminum on the London Metal Exchange (LME) down about 30% since touching a high of USD2,803 per ton in May 2011. In recent weeks prices have rebounded.

Short news

- The Shanghai Iron and Steel Trade Center was launched with the aim of using e-commerce to enhance the Chinese steel industry's global influence, especially at a time of overcapacity and tiny margins. The electronic trading platform, initially funded by Baosteel Group and the Baoshan district government, will also provide supply chain financing, warehousing and logistics, as well as consulting services. The idea is to provide a one-stop service for companies along the steel supply chain. The center also hopes to create a "Shanghai price" and "Shanghai standard" for the industry.
- China's steel industry made CNY153 million in profits in April, which marked a fourth monthly decline, according to the China Iron and Steel Association (CISA). There was a 2.3% rise in the number of steel makers reporting a loss, or 39.5% in total. Steel sales in the first quarter increased by 0.8% year-on-year to CNY1.2 trillion, delivering a profit of CNY2.7 billion, 2.7 times the profit for the same period in 2012. Pig iron output stood at 239 million tons in April, up 7% year-on-year.
- The Shanghai Futures Exchange will introduce after-hours trading for its gold and silver contracts, starting from July 5. Night trading will commence at 9 pm from Monday to Friday and end at 2:30 am the next day. Price volatility in precious metals on global markets in recent months has exposed Chinese investors on the local exchange to risks. After-hours trading here would enable Chinese investors to close positions late in the day if prices swing sharply when Western markets open. The Shanghai exchange would lower margin requirements, or the minimum amount of cash an investor must keep as deposit, for gold and silver contracts to 4% from 7%, in a bid to boost trading volumes.

MINERALS

China's Ansteel to take control of Australia iron ore mine

China's state-owned Anshan Iron and Steel Group Corp has agreed to take a majority stake in the Karara iron ore project in Western Australia, shoring up joint-venture partner Gindalbie Metals after setbacks at the project. The deal will eliminate the need for Gindalbie to raise equity and allow it to hold on to AUD35 million in cash at a time when mining companies are struggling to retain capital. The Karara project has experienced delays in the ramp-up of mining activity and seen shipment rates fall below internal forecasts. “The advantage of this arrangement is that it avoids the need for us to call on shareholders or the market for more funding for Karara’s ramp-up and effectively marks the beginning of a new chapter for Gindalbie,” Gindalbie Managing Director Tim Netscher said in a statement. Under the agreement, Ansteel will receive an option to lift its stake in the project’s 50-50 operator, Karara Mining, to as much as 52.16%, after providing bridging loans over the next 12 months until new longer-term loans can be secured with the China Development Bank (CDB) or other lenders, Gindalbie said. Gindalbie’s stake would fall to 47.84%. The deal requires approvals from foreign investment regulators in Australia and China. Australian iron ore mining firms Rio Tinto, Fortescue Metals Group and Atlas Iron each have Chinese partners, though none own controlling stakes. Gindalbie said that the delays at the project were now behind it and that it was on track to reach maximum production rates of 8 million tons a year in July. Magnetite ore predominately found at the Karara mine costs more to process than other ores, but once transformed into a useable form for steelmaking, it contains larger amounts of pure iron, enabling the material to be sold at a higher price. Gindalbie expects its ore to fetch a 15% to 20% premium over benchmark 62%-grade iron ore. Ansteel holds the rights to purchase the full output from the Karara project, which also includes 2 million tons a year of ore that requires no processing before shipping. So far, Ansteel has not exercised its rights to all the iron ore produced at the Karara project, allowing material to be sold to other buyers, the South China Morning Post reports.

Iron ore import licensing system to be scrapped

China plans to scrap its decade-old iron ore import licensing system this year, a move that may further lift imports in a market that takes two-thirds of the world’s international iron ore trade. The move could cut costs for domestic steel mills by eliminating licensed middlemen charging commissions for imports. It could also mark the end of years of efforts by China to strictly regulate the trade due to worries over its growing dependence on imports and in an effort to wrest pricing power away from big miners such as Rio Tinto and Vale. “China will open up its iron ore trade from the second half of the year,” a source who was not authorized to speak to the media said. China imported a record 743 million tons of iron ore in 2012, up 8% from a year earlier. Iron ore traders will need only the same routine licenses that are issued to other importers and will no longer need approval by government-backed industry bodies such as the China Iron and Steel Association (CISA). The licensing system was meant to let the iron and steel industry speak with “one voice” when dealing with major foreign suppliers and exclude unlicensed traders who were blamed for raising prices via speculative buying. But the system proved counterproductive as it created a grey market for middlemen to rent out permits. Scrapping of the system is expected to lower costs for steel mills.

Rare earth prices up 10% in past two weeks

Rare earth prices in China have surged about 10% in the past two weeks, helped by a crackdown on illegal mining, the Shanghai Securities Journal reported. Prices of praseodymium-neodymium oxide stood at around CNY270,000 per ton on June 25, about CNY20,000 higher than the price recorded two weeks ago. Prices of dysprosium oxide and terbium oxide were CNY1.35 million and CNY2.6 million per ton respectively, each up about CNY200,000 compared with a fortnight ago. Rare earth prices reached their peak in July 2011 in China before they slumped over weak market demand and overcapacity in production. According to the report, police in Jiangxi province, the country’s major rare earth production base, have recently stepped up inspections in the sector. The campaign is part of nationwide efforts to clean up the sector. The Ministry of Industry and Information Technology (MIIT) said tougher measures will be launched this year to curb illegal mining and processing. Gao Yuxin, Analyst with ruidow.com, a Chinese website which provides metal information, said the clampdown is effective.

China-Africa Development Fund to invest in potash project

China-Africa Development Fund, a wholly-owned subsidiary of the China Development Bank (CDB), has agreed to invest about USD100 million in Hong Kong-listed Dingyi Group to jointly develop a giant potash project in the Republic of the Congo. Dingyi is in the last stage of acquiring Australia's Elemental Minerals, which owns 93% of the Sintoukola potash project in the Republic of the Congo, also known as Congo-Brazzaville. Su expected its annual output to reach about two million tons once Dingyi starts to develop the project. The early-stage cost for the potash project, including investments in local infrastructures and logistics, may be about USD2 billion. The Beijing-based investment fund Hopu Investment, led by Fang Fenglei, would also become an investor in Dingyi. The potash market is mainly dominated by Canada, Russia and Germany, and China relies heavily on imports of potash, which account for about 50% of annual demand.

Short news

- China’s state-owned Shenhua Group Corp and India’s Aditya Birla Group are among the companies considering bids for Rio Tinto’s Australian coal assets, which have an estimated value of USD3.2 billion. Rio is offloading the assets as its new Chief Executive, Sam Walsh, seeks to raise funds to help cut the company’s USD26 billion in debt and protect its single-A credit rating. Rio Tinto is selling a 29% stake in its Coal & Allied business and its majority stake in the Clermont mine in Queensland state. Rio Tinto's Australian coal assets are valued at an estimated USD3.2 billion.

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