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Chinese cars trail foreign rivals in customer satisfaction

Chinese buyers' satisfaction with domestic vehicles continues to deteriorate as the local industry lags behind its foreign rivals in terms of dealership facilities and sales offers. The satisfaction rating for local cars scored only 599 points on average out of a scale of 1,000, ranking it last in comparison to other brands, according to an annual sales satisfaction survey by global auto firm JD Power, which polled 14,462 people who bought a car in the six months to February 2013. The gap in ratings between domestic and international carmakers widened, from 33 points in 2011 to 67 points last year and 70 points this year. Korean car brands led the survey in terms of customer satisfaction with an average score of 708, followed by European brands (671), Japanese brands (669) and U.S. brands (638). Tony Zhou, Director of Automotive Research at JD Power Asia-Pacific, said customers' biggest issue was with dealers' attitude and facilities. “Dealers can deliver a better experience when they focus more on communicating one-on-one with customers to understand their individual needs and preferences and create an emotional bond with them at different touch points,” Zhou said. Dongfeng Nissan ranked highest among the mass market brands with a score of 732, while Audi topped the rating in the luxury car sector. Chery, First Automotive Works (FAW) and Geely's Gleagle and Emgrand were the only domestic brands with ratings above average. Great Wall Motor Spokesman Shang Yugui said the company has injected more money in the past two years to improve branding, advertising and after-sales service, but admitted it still trailed overseas rivals. “It's simple maths, you pay a CNY100 warranty on a domestic car and CNY1,000 for a foreign brand. Of course the latter offers you better service, it's all part of the deal,” Shang said. “Domestic carmakers started late in the market, but we are quickly catching up and striving to move up the medium-priced sector.” A number of indigenous carmakers including Shanghai Automotive, Beijing Automotive and Huachen Auto have launched or are building medium- to high-end models that cost between CNY200,000 and CNY300,000. Private carmakers such as Great Wall and Geely saw sales jump 34% and 22% in the first five months of this year, the South China Morning Post reports.

Peugeot opens third plant in China

PSA Peugeot Citroen opened a third assembly plant in China, even as a slump in European demand prompts it to cut jobs at home. Chief Executive Philippe Varin, who flew in for the opening ceremony in Wuhan, Hubei province, in July, said the plant would help the firm capture 5% of the Chinese market by 2015. The Citroen C-Elysee and Peugeot 301 would be among four models produced at the factory – opened with Wuhan-based Dongfeng Motor – which would increase Peugeot's annual capacity by two-thirds to 750,000 units by the end of 2015. The Paris-based carmaker, which produced 40% of its vehicles in France last year, reported a €576 million operating loss for the period and has started implementing a restructuring plan that includes closing a factory on the outskirts of Paris and eliminating 11,200 jobs in the country. “China is probably the only way for PSA to get out of its difficulties in Europe,” said Klaus Paur at industry researcher Ipsos in Shanghai. Peugeot's reliance on Europe had “amplified” its problems, he said. Dongfeng Peugeot Citroen's sales in China surged 33% to 276,896 units in the first half of the year, and the joint venture planned to introduce 11 models in the country by 2015, General Manager Qiu Xiandong said. Peugeot raised its sales target in China this year to 557,000 units from 500,000 units, Grégoire Olivier, Chief Executive of Asian Operations, said in April. China might overtake France as its biggest market by 2015, he said in February. The company also planned to raise the number of its dealerships in China to 1,200 by 2015 from 878 at the end of this year. Peugeot will produce cars for its premium DS line in Shenzhen with Changan Automobile.

PSA Peugeot Citroen is considering selling a stake to Chinese carmaker Dongfeng Motor to raise cash for expansion. The talks were at a preliminary stage and nothing had been decided yet, but the sale of a stake could lead to the Peugeot family, who owns 25.5% of the French carmaker's shares, losing control of the company.

Faurecia opens tech center in Shanghai

Faurecia, the world's sixth largest auto parts maker from France, opened its new tech center and China headquarters in Shanghai as it expects strong growth in the Chinese auto market to double its revenue by 2016. Yann Delabrière, Chairman and CEO of Faurecia, said the company is fully confident that China's car market will keep growing at 10% annually over the next five years. He added that Faurecia expects to double its China revenue to €3.3 billion by 2016 after tripling it to €1.5 billion between 2009 and 2012. "The future growth phase of Faurecia in China will be increasingly oriented to developing technologies, solutions and products adapted to local needs and regulatory requirements, and to build our business with Chinese automakers," Delabriére said. The new facility will serve as the research and development (R&D) hub for three of Faurecia's four key business units – automotive seating, interior systems and exterior systems. The number of technicians and engineers for these three units in China will rise to 800 from 500. The tech center for the fourth unit, emissions control, is also located in Shanghai. The company expects domestic brands under joint ventures to account for 12% of its sales in China by 2016. Faurecia has formed ventures with Geely, Chang'an and Great Wall, the Shanghai Daily reports.

Toyota considering switching focus to South China

Toyota and its dealers are quietly maneuvering to allay risks from periodic eruptions of anti-Japan sentiment in China, even as recent sales data suggest a slow but steady recovery for Japanese automakers since the latest flare-up last year. China sales for Toyota and other Japanese car makers tumbled after a territorial dispute between Beijing and Tokyo sparked an outbreak of anti-Japanese protests in September last year. Some executives at Toyota's China unit are considering the merit of focusing its sales effort, at least in the shorter term, on southern China, where anti-Japanese sentiment is historically weaker. In the south, sales of Japanese cars have all but recovered to pre-September levels "as if nothing happened", a senior Toyota Executive in Beijing said. "Our feeling is why spend money to overcome the bias against Japanese products in northern China?" the Executive said. "We could get more bang out of that same money by focusing on southern China where we already have goodwill towards Toyota and Lexus." Toyota's Beijing-based Spokesman Takanori Yokoi said the company was focussing on improving the quality of its cars. Yale Zhang, Director of Shanghai-based consulting firm Automotive Foresight, said a possible shift by Toyota and other Japanese brands to focus their sales and marketing resources on southern China was a "natural strategy" given their manufacturing presence in Guangdong. Still, "longer term they still have to be a player in northern markets, as provinces such as Shandong and Sichuan are poised to displace Guangdong as China's biggest auto-purchasing provinces", Zhang added.

Honda Motor sold 55,553 cars with its China joint-venture partners in August, down 2.5% from a year ago. The firm posted a 1.7% decline in China sales in July and a 5.6% drop in June. Nissan Motor and its China joint venture sold 86,000 units, an increase of 1% year-on-year in August, compared with a 1.8% year-on-year expansion in July. Toyota said its China sales dropped 4.2% year-on-year to 72,100 units last month, after they fell 3.5% in July. It sold 654,600 vehicles in the first eight months of the year, down 5.3% from a year earlier. Toyota operates joint ventures with FAW Group and Guangzhou Automobile Group. Sales of Japanese-branded cars were unlikely to recover much from the islands dispute in the medium-to long-term, said John Zeng, Director at consultancy LMC Automotive. Mazda Motor and its local joint-ventures sold 12,637 automobiles in China in August, down 23.6% from a year earlier, following an 18.5% decline in July and a 31.2% fall in June. In the first eight months of this year, Mazda sold a total of 106,846 vehicles, down 20.8% from a year earlier. Mazda makes cars in China in partnership with Chongqing Changan Automobile Co. It also has a sales venture with FAW Group.

Car dealer cutting reliance on Japanese cars

Dalian-based Zhongsheng Group, one of China's biggest retail-distributors of Toyota and Lexus brand cars, has been trying to cut its reliance on Japanese brands by focusing more on European brands such as Mercedes-Benz and Audi. Since last September it has opened two Jaguar Land Rover outlets, and Chairman Huang Yi said two more Jaguar Land Rover stores were under construction. Since last year, Hong Kong-listed Zhongsheng has also opened two new Audi outlets and another two dealers selling Volvo cars. Zhongsheng operates a total of 162 stores and is one of China's biggest retail auto distributors. It currently has 48 Toyota and 12 Lexus stores across China and runs Nissan and Honda stores, among other Japanese brands. Roughly half of its profit comes from selling cars from Toyota and Lexus, with the bulk of the rest coming from Mercedes-Benz and other European brands.

China Auto Rental rapidly expanding

China Auto Rental, China's largest car rental company, is rapidly expanding its fleet as it prepares for a price war. With the signing of an endorsement deal with the recently retired soccer player David Beckham, the company kicked off a five-year strategic plan. “It's a new beginning for us,” said Chairman and Chief Executive Lu Zhengyao. “We see very rapid growth in the car rental industry in the coming five to 10 years.” In the next 10 to 15 years there would be 700 million Chinese with driving licenses who could not buy a car. “It's impossible for everyone to buy a car,” he said, referring to traffic congestion and other social problems. “Some of them will therefore turn to renting a car or taking a taxi.” Renting popular models, such as the Honda Fit, costs less than CNY200 a day. Recent increases in taxi fares in Beijing, government efforts to limit car purchases in big cities to curb traffic congestion and rising driving costs would help spur growth in the car rental industry, Lu said. The company, founded at the end of 2007, had been adding an average of 2,000 to 3,000 vehicles to its fleet every month, Lu said, growing faster than its peers. China Auto Rental, which operates more than 600 outlets in 66 cities, now operates a 55,000-vehicle fleet, which is likely to exceed 100,000 vehicles at the current pace of expansion. Last year, it posted a 120% gain in revenue to CNY1.7 billion, with 45,000 vehicles in operation. “Through economies of scale, we can reduce costs and offer lower prices for customers,” Lu said, adding that the price cuts would vary, depending on car models.

The revenue of China's car rental market was expected to reach CNY39 billion in 2015, up from CNY17 billion in 2010 and representing a compound annual growth rate of 18%, according to global strategy consultancy Roland Berger. The rosy outlook for the industry has lured foreign players, with Hertz from the United States buying a nearly 20% stake in China Auto Rental in April and the American firm Enterprise Holdings forming a strategic partnership with eHi Car Services, China's No 2 car rental company by fleet size. Corporate clients account for 20% of China Auto Rental's customer base, with the rest being individuals renting cars mainly for business and leisure purposes, the South China Morning Post reports. Though the industry was only about seven years old, car rental was becoming increasingly popular, especially among young people. A research report last year by global strategy consulting company Roland Berger said the car rental market would reach CNY39 billion in 2015 from CNY17 billion in 2010 – an annual growth rate of 18%. The car rental penetration rate was about 0.4% in 2010, far lower than in mature markets such as the United States and Japan. In the U.S., the top three agencies accounted for 95% of market share, but in China there were more than 10,000 car rental companies.

Porsche car designer moves to China

Pinky Lai, the first Chinese car designer to make a name internationally, is retiring soon from Porsche, where he has been a designer for 24 years and is currently General Manager of Design for global customers and special projects. He is expected to join a large Chinese car company as Chief Designer early next year. The 62-year-old Hongkonger has had a highly successful career in Europe, working as a designer for Ford and BMW before joining Porsche in 1989, where he was responsible for the exterior design of the Porsche 911's 996 model – first produced in 1996. Lai also designed the exteriors for the Boxster and the Cayman. He is the first, by a margin of some 20 years, of three Hong Kong-born designers who have gone on to make an impact with Western carmakers. Anthony Lo is now Vice President of exterior design with Renault, while Chelsia Lau is Chief Designer at Ford's strategic design concepts group in Shanghai. Lai’s intention is to stay at the Chinese car manufacturer for “two life cycles”, which in car industry parlance is about 10 years. During this time, Lai says, he wants to launch a range of cars that will look very different and distinctive. His ultimate goal is to develop a global Chinese car brand. “I have watched for many years as the Chinese car industry has thrown buckets of money out of the window. Although they have hired foreign engineers and designers, they still haven't been able to develop their own successful brands,” he said. Several designers from Western car companies have already joined the Chinese car industry. James Hope was appointed Corporate Director of Design at Chery Automobile in March last year, and Turkish Designer Hakan Saracoglu, who spent 14 years with Porsche, was appointed Director of Chery's Shanghai design facility.

Chinese commercial vehicle makers target Hong Kong

Chinese commercial vehicle makers are keen to tap the Hong Kong market as domestic sales decline and fuel economy standards get tougher in their home market. In recent years, commercial vehicles such as Yutong buses and Changhe trucks have become more widespread in Hong Kong. Buyers have more confidence in these brands, as the vehicles use parts from European manufacturers. Sime Darby Motor Services, a subsidiary of the Malaysian multinational, announced that it will be the exclusive distributor in Hong Kong and Macao for commercial vehicles made by Jianghuai Automobile Co (JAC), a company based in Hefei, Anhui province, which produces both trucks and passenger cars. Sime Darby started selling nine-ton trucks, a market long dominated by Japanese and U.S. brands, in Hong Kong in July. “Trucks produced on the mainland are of good quality, and our retail price will be about 25% lower than those of Japanese brands”, Assistant Marketing Manager Kinson Tang said. On the mainland, sales of domestic brands of commercial vehicles are falling in terms of volume and market share, largely because of slowing economic growth and efforts to curb air pollution by limiting vehicle ownership in cities. Annual sales of commercial vehicles in China fell to 3.81 million units last year from 4.04 million in 2011, according to Bloomberg. Chiang Chi-wai, Chairman of the Lok Ma Chau China-Hong Kong Freight Association, said the production quality of mainland trucks had yet to catch up with that of their Japanese counterparts. Mainland-produced vehicles make up about 2% of the fleets of the group's members. “Compared with the Japanese, mainland vehicles have more minor defects. There should be at least a 30% price difference in order for them to be appealing”, he said. A recent report by Business Monitor International projected growth of 6.1% in commercial vehicle sales in Hong Kong this year to 4,728 units.

More cities to limit number of vehicles

More Chinese cities may impose measures to curb vehicle numbers to ease worsening congestion and air pollution, which could slow the double-digit growth in car sales this year, the China Association of Automobile Manufacturers (CAAM) said. Following Shanghai, Beijing and Guangzhou, eight more cities – Chengdu, Chongqing, Hangzhou, Qingdao, Shenzhen, Shijiazhuang, Tianjin and Wuhan – plan to curb vehicle purchases. The curbs will cut local deliveries by 25%, or 400,000 units, accounting for 2% of national sales, CAAM Deputy Secretary General Shi Jianhua said. The Association strongly opposes extending purchase limits because it is against the central government’s intention of encouraging consumption and they have not been very helpful in solving traffic problems and cutting vehicle exhaust emissions. The CAAM proposes that local governments should ensure more convenient public transport and increase the scrapping of old cars with high emission levels. The Association is keeping its 7% growth forecast for sales this year because of economic uncertainties, although combined sales in the first half of the year hit a better-than-expected 10.78 million units, up 12.3% from a year earlier.

Ford aims to double market share by 2015

Ford wants to double its Chinese market share to 6% by 2015. To make that happen, the company is launching six new vehicles in China this year, including two small SUVs called the Kuga and the EcoSport, the Mondeo midsize sedan and the Explorer SUV, which is exported from Chicago. The Lincoln luxury brand will arrive next year. Ford is spending USD5 billion to build five plants – including three assembly plants, an engine plant and a transmission plant – that will more than double its Chinese production capacity to 1.7 million vehicles by 2015. Chongqing is now Ford’s largest manufacturing base outside Michigan. Chongqing’s government was the first in China to offer subsidies to residents who buy locally-made vehicles, which has boosted Ford’s sales in the region. Ford sold a record 407,721 vehicles in China in the first six months of this year, but that was only a quarter of the vehicles GM sold, so Ford still has some catching up to do. One obstacle is that Ford cars are expensive. In a market where 70% of vehicles sold cost less than USD14,500, Ford’s cheapest car is the Fiesta, which starts at USD13,300. The Explorer starts at around USD80,000 due to a 25% import duty and other taxes. Ford is still doing much of the research and design for Chinese vehicles at its headquarters in Dearborn, Michigan, where costs are relatively high, but the company hopes to double its technical workforce in Nanjing to 1,500 people by 2015. Ford’s Asian operations lost USD77 million last year because of big investments in new plants and vehicles.

Nissan's China-designed cars to go global

Nissan Motor plans to start selling more China-inspired cars around the world. Staff at the Japanese carmaker's new design center in Beijing will attempt to export homegrown concepts like "daqi" – the hard-to-define sense of style and road "presence" that Chinese buyers look for in a vehicle. It is quite a shift from the days when the focus of global auto companies in China was solely on producing vehicles aimed at the domestic market, while Chinese car makers were often accused of simply copying foreign designs. "Nissan Design China isn't for China," Nissan's global design chief Shiro Nakamura, showing off a newly completed studio opened in Beijing earlier this year. Its task, Nakamura said, is to become an incubator of styling ideas that help expand the "bandwidth" of Nissan's design expressions and "come up with China-inspired products that have a global appeal". Nakamura said Nissan is two years away from launching a global car, styled primarily by the mostly Chinese staff at its Beijing studio, that will be sold in North America and Europe as well as Asia. "If you do all the design in Japan, the depth and width of expressions tends to become narrow," he added.

Chery co-founder to start new car company

Chery's co-founder Lu Jianhui has brought some 200 staff members to start a new auto company in Chery's home city Wuhu, Anhui province. The new company will have a designed annual production capacity of up to 700,000 cars and is expected to begin production in 2015. The first model will be a subcompact car developed by Chery. The news came after Chery announced in April it will drop its multi-brand strategy. At its most ambitious, the carmaker had four brands and more than 20 models as well as 130 ongoing R&D projects. The company plans to retain only its namesake brand, reduce its lineup by half to 11 or 12 models, streamline operations and cut costs. Once the sixth-largest domestic carmaker, Chery fell from the top 10 list in terms of sales in the first half of this year, surpassed by former followers Brilliance Auto, Great Wall Motors, JAC Motors and Geely Automobile, according to the China Association of Automobile Manufacturers (CAAM). Analysts generally believe that the automaker is on the right path with its "One-Chery" strategy, but they are doubtful about the prospects for the new spin-off car company. They note that the central government has been calling for consolidation in the auto industry and is not likely to approve the new project. Independent Auto Analyst Zhong Shi agreed that it is more challenging today for a new company to enter the car manufacturing business as the golden age of market opportunity has passed. The government of Wuhu has invested CNY2 billion in the new company, which is now called the Jiangbei project because it would be produced in the city's Jiangbei Industrial Park.

Workers strike over Indian takeover of U.S. tire firm

Nearly 5,000 Chinese workers at a Sino-U.S. joint venture tire manufacturer went on strike on July 13 protesting the American parent company's USD2.5 billion take-over by an Indian firm. Cooper Tire and Rubber announced it would be taken over by Apollo Tires of India, making the combined group the seventh-largest such firm in the world. But thousands of staff at Cooper Chengshan, a joint venture in Shandong province, have walked out in protest. They say the take-over cost could endanger their jobs, and they expressed concern about cultural problems with future Indian bosses. "At least we can express our unease and demands and we hope we can draw the support of the media to successfully block this deal," Yue Chunxue, Cooper Chengshan Labor Union Director said. "We oppose this purchase, first of all because Apollo does not have sufficient strength," he said, adding the USD2.5 billion cost was mostly being funded through bank loans with annual interest of USD100 million-USD200 million. As a result worker wages and benefits could not be guaranteed after the purchase, Yue said. The dispute comes as China and India have vowed to increase trade. Cooper holds 65% of the joint venture while China's Chengshan Group has the remainder. In a July 29 lawsuit, Chengshan Group sought the dissolution of its venture with Cooper, saying the U.S. partner's proposed USD2.5 billion buyout by India's Apollo Tires would undermine the Chinese venture's operations, but the Weihai Intermediate People's Court pushed back the September 24 hearing to an undetermined date. The Chinese joint venture operates Cooper's biggest manufacturing facility worldwide, but workers at the factory have stopped producing Cooper tires since July 13 in protest of the Apollo deal. Cooper Chengshan (Shandong) Tire, founded in 2006 in Rongcheng, has more than 5,000 workers and has the capacity to produce 15 million tires a year.

Yongtai acquires British firm Covpress

Shandong Yongtai Chemical Group bought the British firm Covpress in July in one of China's biggest investments in Britain, helped by TIA Treadsetters, a firm that first started buying tires from Yongtai in 2003 to supply its European customers. During the 14 months of negotiations, TIA's team played a significant role, drawing on its knowledge of the industry and the legal framework in Britain. The deal was valued at USD45.3 million, with Yongtai taking a 70% stake and TIA the rest. Covpress was founded in 1890 as the Coventry Radiator and Presswork Co in the English Midlands, famous for its automotive industry. The firm traded under the Coventry Presswork banner following a management buyout in 1987 and was bought by the French group Lebranchu in 1991. The French sold it following a management buy-in with GIL Investments, a British investment company primarily targeting manufacturing businesses, in 2004. But early last year, GIL Investments said it wanted to sell Covpress because of internal changes at the company. Covpress had grown into a globally renowned supplier of car body parts, with customers ranging from Jaguar Land Rover Automotive to Nissan Motor Co and Renault and employing more than 450 staff in Britain. Its connections with big carmakers was particularly attractive to Yongtai because it could help Covpress sell its tires in Europe and continue to supply them when they start to manufacture in China. Yongtai, founded in 1996, quickly grew to have annual sales of about USD4.15 billion and is considered to be the “equivalent of Michelin in China”. Also fast growing is TIA, which was founded in 1999 and has annual sales of about USD131 million. Its focus is now on the after-sales tire market.

Chang'an Auto to buy joint venture stake from parent

Chang'an Automobile Co, a Shenzhen-listed company under the Chang'an Automobile Group, will become the new partner of Chang'an PSA in the fourth quarter this year. Previously, the Sino-French joint venture Chang'an PSA was a 50-50 venture between Chang'an Automobile Group and PSA Peugeot Citroen. According to a statement released by Chang'an Automobile Co on December 27 last year, the company will purchase the 50% stake in the joint venture currently held by the parent group at a price of more than CNY2 billion. For Chang'an Automobile Co, which only had a profit of CNY1.4 billion in 2012, such an expensive purchase is a huge risk, analysts say. The company predicts that the joint venture will start to be profitable by 2015. Chang'an PSA was established in November 2011 with a registered capital of CNY4 billion. At first, the joint venture just sold imported DS models – Citroen's high-end portfolio. The first locally-made DS5 model will begin production this month. Currently, the DS has 19 dealers and nine show rooms in China. However, the brand has only sold 20 of the imported DS models monthly on average since it entered the country in the middle of 2012. Industry insiders say the main reason for the sluggish sales of the DS series in China is mainly that French companies still lack enough understanding of Chinese culture and the driving habits of local customers. Insiders also voiced concerns that the merger will threaten Chang'an Automobile Co's prospects in the next few years, especially by competing with sedans released under its wholly-owned nameplate.

Geely first-half profit rises 37% as sales and exports improve

Geely Automobile posted stronger-than-expected growth of 37% in first-half profit to CNY1.4 billion as car sales recovered at home and exports picked up, but the company said it expected a challenging second half. Revenue jumped 33% to CNY14.85 billion as Geely sold 263,544 units in the first half, an increase of 19% from the same period last year thanks to strong demand for the EC7 model and a recovery in sales of models such as Geely Panda, Vision and GC7. Domestic sales grew 17% year-on-year to 213,106 units, compared with a 9% decline in the first half of last year. Exports continued to grow too, rising 26%, to 50,438 units, boosted partly by an increase in market share in countries such as Russia and Ukraine. The company said the operating environment would be challenging for the remainder of the year. The economic environment in its major markets would be “more difficult” and the weakening of emerging-market currencies against the U.S. dollar and yuan could dampen exports, it said. Chief Executive Gui Sengyue said sales in the first half accounted for 47% of the full-year target of 560,000 units. The company would seek to set up assembly plants in emerging markets in South America and Eastern Europe, Gui said. Data from the China Association of Automobile Manufacturers (CAAM) showed that Geely exported a record 12,420 vehicles in July, overtaking Chery Automobile Co, which exported 10,800 units and has dominated the sector for over six years. Geely's total exports in the first seven months also represented a 27% year-on-year increase, against a 2.2% drop in China's overall vehicle exports. Geely was the only company among the four major Chinese exporters that reported an increase in exports in the first seven months of the year. The four major exporters also include Chery, Great Wall Motors and Lifan Group, which in total dominate 75% of the sector.

Volvo Car gets approval to start manufacturing

Chinese-owned automaker Volvo Car Group has received the long-awaited approval to begin manufacturing in China at its plants in Daqing and Zhangjiakou. The Sweden-based company is banking on strong sales of locally-produced Volvos in China to help it reach ambitious sales targets and secure its future in the highly competitive car industry. Volvo, which expects to sell 200,000 cars in China by 2018 compared with just under 42,000 last year, was granted a manufacturing license for its Chengdu plant in June but was still waiting for a green light regarding its other plants. “Volvo Cars’ full Chinese industrial footprint, including Chengdu, has been approved,” the company, owned by Zhejiang Geely Holding Group, said in a statement. The company said it expected serial production to begin in the fourth quarter at its Chengdu plant while the assembly plant in Daqing would become fully operational next year. The engine plant in Zhangjiakou would begin operating in the coming months and will supply both Chengdu and Daqing.

Sales up at SAIC’s GM and VW joint ventures

First-half net profit at SAIC Motor rose 6% to CNY11.5 billion on strong sales at its joint ventures with General Motors and Volkswagen. SAIC sold 2.6 million vehicles in the first half – a year-on-year jump of 15%, beating the industry's average growth rate of 12%. In the first half, GM beat Volkswagen by selling 1.57 million new vehicles in China – 30,000 units more than VW. Buick continued to lead its sales in July, with the volume climbing 11.1% to 221,580 units, while Cadillac sales rose 83% to 3,688 cars but Chevrolet sales fell 3.4% to 43,343. Deliveries of Wuling – the brand jointly developed with SAIC that accounts for nearly half of GM's China sales – rose 4.5% to 98,380 units last month, while sales of the low-end Baojun brand tripled to 6,302 units. Audi also saw strong growth of 17.7% over the period, with 228,139 customers taking delivery in the first six months – the first time its sales topped 200,000 at the mid-year mark. SAIC's prospects look positive, with both GM and VW continuing to pledge heavy investment despite a slowdown in the growth of the Chinese vehicle market. VW is investing USD12.8 billion to increase its production to the end of 2015, while GM will add five more assembly plants, costing a total of USD11 billion.

Shanghai car plate prices keep dropping

Shanghai car plate prices fell to CNY76,465 in July, down CNY1,358 from June, while the lowest price dropped CNY1,300 to CNY76,300, said the Shanghai International Commodity Auction Co. Starting in August bidding for the 9,000 new license plates was condensed from one and a half hours to an hour, and from October, a price ceiling introduced for first round bidding in April will only be triggered by steep price hikes. Car plate prices fell for the fifth consecutive month at August’s auction. The average price dropped to CNY74,939, down CNY1,526 from July, while the lowest winning bid was down CNY1,600 to CNY74,700. At the September auction, the average price fell further to CNY73,492. The lowest winning bid dropped CNY1,300 to CNY73,400. Both prices were the lowest recorded this year. Prices have dropped from the record high of more than CNY90,000 in March. This month’s price ceiling was set at CNY72,600, down CNY1,500 from last month, and was based on average prices from March through August. This month, 35,154 individuals – the biggest number in five years – bid for the 9,000 car plates available.

China-made tires quieter but less safe than European ones

China-made tires are quieter compared to tires from Europe but lag behind their counterparts in safety-related tests, according to the latest tire test conducted by German magazine Auto Bild. The test examined 10 locally-made tires in a professional testing field near Hanover, Germany. The Goodyear tire made by the U.S. brand's Chinese joint venture performed best in the noise test on a dry road, emitting 63.2 decibels when running at 50 kilometers per hour, and 69.9 decibels at 80 km/h. Placing second was the Linglong tire by a domestic brand in Shandong province. Its noise level was measured at 63.4 decibels at 50 km/h and 70.2 decibels at 80 km/h. The European tires tested lagged behind all the China-made tires in the noise test, with 65.3 decibels at 50 km/h and 72.4 decibels at 80 km/h. “Our German experts said they have to admit that tires made in China do have the best performance in noise control,” noted Wang Yin, Executive Publisher and Chief Editor of the Chinese version of Auto

Bild magazine, at the news conference for the test results on July 30. He added that this is to cater to Chinese customers, who traditionally have higher demands for comfort and quietness. On the other hand, China-made tires still fall short in terms of safety, the test showed. An important measure of tire safety is braking distance. On a wet road, the European tire's braking distance was 45.8 meters at a speed of 100 km/h. The next six rankings were occupied by China-made international brands, including Goodyear, with a breaking distance of 53.3 m; Bridgestone, 53.4 m; Yokohama, 53.9 m; Pirelli, 54.4 m; Giti, 56.1 m, and Michelin, 56.3 m. Domestic brand Linglong was among the bottom three, with a braking distance of 57.4 m. On a dry road, the results for locally made tires were not optimistic, either. The European tire again had the shortest braking distance – 36.1 m at a speed of 100 km/h. Bridgestone's breaking distance was 38.5 m; for Goodyear, it was 38.5 m; Yokohama, 39.5 m; Pirelli, 39.6 m; Giti, 39.7 m; and Michelin, 39.9 m. Linglong was also among the last three in this category, with 40.3 m, and another domestic brand, Chaoyang, was tested at 40.6 m. By the time the car equipped with European tires stopped, the cars with China-made tires were still moving at speeds ranging from 24.9 km/h to 38.1 km/h on dry roads, and from 37.5 km/h to 58.4 km/h on wet surfaces. Because of China's complicated road situations, all the tires made in the country are modified. Thus, they are normally 0.5 to 1 kilograms heavier than the same rated tires made in other countries, the South China Morning Post reports.

Short news

- Car horns are used 40 times more often in China than in Europe. That was one of the lessons French carmaker PSA Peugeot Citroen learned when it expanded in China. “In Europe, a car horn is used 10,000 times on average,” Pierre-Frédéric Lebelle, head of the company's Shanghai-based China Tech Center, told Le Monde. “In China, it's 400,000 times.” Peugeot is not the only carmaker adapting its horns to Chinese tastes. Ford also came up with an electronic horn for its Chinese customers.
- A man in Shenzhen has been making a living by crashing cars for nearly three years, averaging to one crash every three days. The man, surnamed Li, filed 334 insurance claims between the end of 2010 and May 2013, costing insurers millions of yuan and pocketing some CNY357,000. Li took advantage of slow traffic during the morning and evening rush hours, when he needed to accelerate only a little to bump the car ahead, thereby avoiding major injury. He then bribed mechanics to increase the damage estimate on the invoice, pocketing the difference.
- Shanghai opened China’s first electric car rental outlet. The store in Jiading district, where the Electric Vehicle International Demonstration Zone is located, was launched by Shanghai-based eHi Auto Services Co which aims to deploy 200 electric cars in the city this year. Customers can rent 20 Roewe E50 electric cars made by SAIC Motor for CNY149 each daily, cheaper than renting gasoline models of the same size. The company will provide free recharging services at the electric car rental outlet. Another two outlets will open this year in Jiading with more planned for other districts in the city.
- In 2012, Mercedes-Benz sold 196,000 vehicles in China, its third-largest market. Though sales increased 1.5% from the previous year, it was only a fraction of the growth of its main competitors. “That was a lesson for us that if you want to be successful in China, you have to focus on China – China's needs and China's customers. So we need a change,” Nicholas Speeks, the new President and CEO of the company's China operations said. A new integrated sales company established in March is expected to boost sales. Mercedes-Benz is opening 75 new dealerships this year in 36 new cities, 45% of which will be third-or fourth-tier cities. By the end of 2013, there will be 337 dealer outlets covering 151 cities.
- The increasing number of vehicles on China’s roads also requires growth in road assistance services, according to Yukio Ito, CEO of Allianz Global Assistance China. The company is developing a one-stop service that integrates roadside assistance with car insurance and warranties.
- Honda Motor is planning to produce Acura cars in China with Guangzhou Automobile starting in 2016 in an effort to tap growing demand for upscale vehicles. Because of high tariffs on imported luxury cars, it is difficult to generate volume unless a carmaker produces the cars in China. Audi, Mercedes-Benz and BMW all produce models in China with local partners. Demand for premium cars in China is likely to reach 2.7 million a year by 2020, a level that would allow China to displace the United States as the world's biggest market for upscale cars.

- Local dealer Fortune Dragon has introduced the Italian Tazzari Zero electric vehicle to Hong Kong. With a top speed of 95 km/h and a range of 145 kilometers on one charge the two-seat vehicle can be registered only as a quadricycle, which is not allowed on highways. A upgraded model is classified as a passenger car, but is priced at a hefty HKD350,000. Electric-powered vehicles remain a niche market in Hong Kong, despite various incentive programs. As of the end of April, only 443 of the 700,000 registered vehicles in the city were run purely on electricity.
- Vehicle imports slumped 10.7% in the first half, to 526,000 units, as the domestic demand slowdown of the past two years drove up inventories of foreign cars. It was the first half-year contraction since 2006, when China implemented its World Trade Organization (WTO) commitment to lower the import tariff for vehicles to 25%. As imported vehicle sales are still increasing this year, this shows that dealers are reducing their high inventories, according to Wang Cun, Senior Manager of China Automobile Trading Co, the country's largest vehicle importer. By segment, sport utility vehicles (SUVs) continued to dominate imports, with 61% of overall sales.
- Auto production and sales reached new highs in the first half, hitting 10.75 million and 10.78 million units, respectively, data from the China Association of Automobile Manufacturers (CAAM) showed. But domestic brands have seen their market share shrink due to rising competition from foreign brands and tightened vehicle ownership regulations. Chinese passenger vehicles accounted for 41.2% of total passenger vehicle sales in the same period.
- Foreign carmakers are reaping exorbitant profits selling imported luxury cars in China and should face an anti-trust investigation, Xinhua news agency said as some imported cars were twice as expensive in China than in overseas markets. But Volkswagen’s luxury division Audi said vehicle prices in China were comparable to other countries once taxes and other factors were taken into account. China has become a key market for the makers of luxury cars, with 2.7 million expected to be sold each year by 2020, overtaking the United States as the world’s largest market. The Xinhua report said tariffs on cars brought into China from abroad are 25% for any type of car. There is also an additional VAT of 17% and a consumption tax based on engine size.
- BMW Brilliance Automotive is recalling 143,215 5-series cars made in the three years from August 2009 over power steering defects. The planned recall comes after BMW in late July failed to get Chinese government approval for a CNY9.2 billion plant expansion in Shenyang, Liaoning province. China’s Environmental Protection Ministry said it had rejected the proposal as it failed to pass environmental tests.
- Privately-owned automaker Chery will open its new plant in Brazil this year. In 2011, Chery Auto started to build the plant in the city of Jacarei in Sao Paulo state with an investment of CNY2.45 billion. The company has introduced several models to Brazil including the QQ, Cielo and Tiggo, which won the country’s title “SUV of the Year” in 2010. In July, police in Sao Paulo started using Celer models, the first time that Chery cars have been used for public service in Brazil. Chery has 80 dealers in the country.
- Brilliance China Automotive, the Chinese partner of BMW, posted a 52% rise in first-half profit from a year ago to CNY2.03 billion, driven by a 60% increased profit contribution from its joint venture BMW Brilliance. Revenue for the period fell 8.5% to CNY2.57 billion, dragged down by a 12.1% drop in minibus sales. The joint venture sold 105,692 units in the six months, an increase of 30.8% from the same period last year. A total of 63,536 5-series cars were sold, a rise of 28.6%, while the BMW 3-series posted a 57.8% growth in sales to 32,126 cars.
- Luo Lei, Deputy Secretary General of the China Automobile Dealers Association (CADA), said the Association has been collecting data for the National Development and Reform Commission (NDRC) to check whether carmakers were making excess profits and setting minimum retail prices for dealers. “However, there is no clear sign that the government will soon be making it the next target of its ongoing anti-trust campaign,” he said. “The auto industry is just one of many under close watch.”
- Great Wall Motor’s first-half net profit rose 73.7% year-on-year to CNY4.09 billion as revenue increased 44.5% to CNY26.4 billion, with car sales growing 41.3% to 370,301 units. Domestic sales rose 51.6% to 328,387 units, of which 169,706 units were SUVs. Its overseas sales came under pressure as a result of competition, with exports dropping 7.8% to 41,914 units. The company said it expected domestic car sales to continue to grow despite concerns over an economic slowdown. In the next two years,

the company plans to launch three new SUV models.

- Tesla Motors plans to enter the Chinese market have stalled after a businessman in China claimed trademark rights to the name. Its first shop-front in China, at the Parkview Green Fangcaodi mall in Beijing, remains boarded up. Tesla has still to complete product registration with Chinese authorities enabling the sale of the battery-powered Model S. Zhan Baosheng, a businessman in Guangdong province, owns the "Tesla" trademark in China, according to his agent Jinda Trademark, and runs a website using the Tesla China domain (www.teslamotors.com.cn). China has rules that protect globally-renowned brands, but that might not apply in the case of relatively new companies such as Tesla.
- Shanghai is considering introducing a congestion charge on motorists at peak times, in a bid to reduce traffic in downtown, but traffic experts believe that it would be difficult for the city to enforce the policy. The city has about 1.77 million registered private cars, and the number is increasing by 200,000 annually.
- BYD's first half net profit surged to CNY426.9 million, 26 times higher than the CNY16.3 million a year earlier. Revenue climbed 13% to CNY24.2 billion. Sales of the company's mostly gasoline-powered cars jumped 24.7% in the first six months to about 250,000 units, outpacing the 12.3% overall growth of China's auto industry. Still, BYD expects profits to fall to between CNY3 million and CNY50 million in the third quarter, affected by a seasonal downturn in car sales, a drop in mobile-phone orders in an increasingly competitive smartphone market, and continued losses from the new-energy arm of the business.
- Mercedes-Benz will launch around 20 new or upgraded car models in China over the next two years. Daimler's new China General Manager Hubertus Troska said the company will spend €2 billion over the next two years as it seeks to boost sales of Mercedes-Benz cars in China by a third to more than 300,000 cars a year by 2015. Last year, Mercedes-Benz sold slightly more than 200,000 cars in China, currently its No 3 market behind Germany and the U.S. The company also launched its redesigned E-class sedan in China.
- The 16th Chengdu Motor Show was held in August in the New International Convention & Exposition Center in Chengdu Century City with more than 400 carmakers, parts makers and dealerships participating in a record showroom space of 140,000 square meters.
- Beijing will reduce car registrations from next year in a bid to clean up its air and ease traffic congestion. The new limit will be announced in late November and be effective in 2014. The total number of vehicles in the city will be restricted to around 6 million by the end of 2017. The city had 5.35 million vehicles at the end of July. Beijing started to cap the number of new cars that could be registered annually in 2011 to 240,000 – one-third of the number registered in 2010. Would-be car buyers must participate in a license plate lottery. In August, the Municipal Transport Commission received 1.6 million new car license applications. One out of 80 applicants got car purchase permits as only 20,000 new license plates are now issued each month. Vehicle exhaust fumes are contributing 22.2% of PM2.5 particles in the city, exceeding the figure for industrial emissions.
- While high-end car sales will remain an important driver of China's car market, after-sales services are expected to lead the sector's growth over the next decade, a study by global consulting firm McKinsey said. China will see local car-sales growth slow to about 6% annually between now and 2020, compared to an average of 18% in the period since 2006, according to the study. However, high-end vehicles will outperform the overall market with growth of 8% to 10% a year. After-sales services, which includes car financing, spare parts and used-car sales, is an even more promising sector, with expected revenue growth as high as 20% a year by 2020.
- Sales of passenger cars and commercial vehicles rose 10.3% in August from a year earlier to 1.65 million units. On a monthly basis, sales grew 8.7% as the extremely hot weather dampened sales in July, according to the China Association of Automobile Manufacturers (CAAM). Combined sales so far this year have hit 13.95 million units by August, up 11.8% from a year earlier. Sales of sport utility vehicles (SUVs) surged 46.1% last month and were the key driver in the passenger car market. Sales of sedans rose 4%. Chinese brands achieved a 15.8% year-on-year rise in passenger car sales last month and captured a 38% share of the market, up 2.8 percentage points from July.

- The London Taxi Co (LTC) restarted production of the famous black cab, six months after the business was rescued by the Geely Group. Since Geely Group acquired the company from the administrators in February 2013, the company has cleared the inventory of vehicles that remained following the closure of the production facilities in 2012.
- The Trumpchi E-jet, a sleek, plug-in electric hybrid developed by state-owned Guangzhou Automobile Group (GAC), is set to make its international movie debut in the fourth Transformers film next year. The E-jet, which GAC showed off at the Detroit auto show in January, is a concept car, which the company currently has no plans to commercialize. Last year, GAC earned a profit of CNY1.1 billion on sales of around CNY13 billion.
- The Chinese government unveiled a much awaited new subsidy policy for energy-saving cars. A private buyer of electric passenger cars will continue to enjoy a maximum subsidy of CNY60,000, the Ministry of Industry and Information Technology (MIIT) said. A buyer of electric plug-in hybrids will enjoy a maximum subsidy of CNY35,000. The government will cut the subsidy at all levels by 10% in 2014 and 20% in 2015 to send a message that the industry cannot rely on subsidies indefinitely and should build its own strengths. Non-locally manufactured new-energy cars must account for at least 30% of local governments' green car promotion targets.
- Sales of recreational vehicles (RVs) and caravans are booming in China, to the surprise of even car dealers. Last month, a four-day exhibition in Beijing ended with sellers pocketing CNY550 million in revenue. About 40,000 people visited the show, and more than 500 vehicles were sold. "A few years ago, there were only a few thousand RVs in China. But now the total number might reach tens of thousands, though no official figure has been given", Li Mengsha, Sales Consultant with Beijing Camper RV, the largest distributor for RVs and caravans in China, said. When the first RV and caravan show was held in 2010, there were only about 40 vehicles on display, bringing a few million yuan in sales, but last year's show already generated about CNY500 million in revenue. "The boom surprised everyone in the industry," Li said. After placing an order, consumers must often wait more than a year, if not two, for delivery.

METALS

China struggles to secure uranium supplies after Jiangmen plant halted

The abrupt cancellation of a USD6.5 billion uranium processing project in southern China left it with insufficient capacity to enrich and process the ore it gets from uranium mines abroad in which Chinese companies have a stake. The project, set to be built in Jiangmen in Guangdong province, was called off in July following protests. The two biggest state-owned reactor builders, the China General Nuclear Power Corp (CGNPC) and the China National Nuclear Corp (CNNC), are now scouting for new sites. The two firms have acquired stakes in deposits in Namibia, Niger and Kazakhstan, but without the processing capacity they would still have to buy enriched fuel from suppliers such as France's Areva and U.S.-based Westinghouse, owned by Japan's Toshiba. "China's processing capacity is undersized compared to the plants under construction, and so is its uranium and fuel supply, and that's why the companies are busy revving things up," said Li Ning, Dean of the School of Energy Research at Xiamen University. China currently has 15 reactors with an aggregate installed capacity of 12.57 gigawatt (GW), but another 30 plants are under construction and due to go into operation between now and 2016, adding another 29 GW to the total. Gaining more control over the global fuel supply chain is crucial to China's plans to increase total nuclear capacity to 58 GW by 2020, and will require not only overseas acquisitions but also more enrichment capacity. The plant in Guangdong was expected to cost CNY40 billion and would have provided a "one-stop shop" for uranium enrichment and the fabrication of fuel rods for Chinese reactors. It was expected to begin manufacturing nuclear fuel by 2020, with annual capacity eventually set to reach 1,000 tons. It would have provided half of the country's total nuclear fuel by the time it was completed.

Steel firm grapples with toughest times in five years

Hebei Iron & Steel Group Co, China's largest iron and steel group, is determined to cut output and upgrade production as it copes with the toughest market conditions since 2008, said Vice President Kong Ping. The iron and steel industry is in much worse shape than it was a year ago, with more excess capacity and bleaker financial conditions, he said. A high debt ratio is also a threat for state-owned Hebei Iron and Steel, because the central bank may keep liquidity tight in the short term, according to Kong. “In order to maintain normal production, we will try any method to control costs”, he added. Kong said there will soon be a new round of mergers and acquisitions (M&As) in the iron and steel industry. Iron and steel supplies far outweigh demand. The industry's capacity utilization ratio is only 72%. Ding Yue, Analyst at China International Capital Corp (CICC), said losses will widen further in the third quarter, because the supply-demand gap is expanding. Moreover, several companies have raised import tariffs or launched anti-dumping and anti-subsidy investigations into China's steel exports. “We will focus on the domestic market in the near future, and promote profitability that depends on improved quality. Blind pursuit of size will put more pressure on profits,” Kong said. The group plans to double annual revenue by the end of 2015 without adding any production capacity. Hebei Iron and Steel's new product range includes vehicle steel plates, steel for nuclear power plants and large items for marine equipment. National crude steel production rose 7.4% from a year ago to 389.87 million tons, and output increased 1.8% in the first half in 2012.

Aluminum oversupply to escalate

The oversupply of aluminum in China is expected to escalate in the second half of the year as more new capacity is set to come on stream, further reducing the need for imports. Imports dropped 67% in the first half from a year earlier. Beijing has tried unsuccessfully to limit aluminum capacity and further tightened regulations in July for new and existing smelters. China has more than 27 million tons of annual capacity and about 10 million tons of capacity was being built. Analysts expect China to add more than 3 million tons of new smelting capacity this year, the bulk of it in Xinjiang. At least 1.3 million tons of capacity would start up in the second half in Xinjiang, compared with about 1 million tons of new capacity across the country in the first half, said Zhang. State-backed research firms Antaike and Aladdiny estimated the country's aluminum production at 12 million tons in the first half, higher than official data, which showed 10.58 million tons. Consumption in the first half had risen about 10% from a year earlier to 12 million tons as demand from the construction, home appliance and transport sectors grew. Total demand for the whole year might climb to 24.5 million tons.

China's overcapacity-afflicted aluminum smelting industry could soon see a widespread shutdown of uncompetitive plants partly because of more cost-competitive imports, according to Zhang Bo, Chief Executive of China Hongqiao, which posted a 1.1% year-on-year drop in net profit to CNY2.81 billion for the first six months of the year. China Hongqiao plans to raise its annual smelting capacity to 2.9 million tons by the end of the year from 2.46 million tons in June at a cost of CNY2.64 billion. Since 2003, Beijing has issued at least three policy circulars ordering the aluminum industry to correct its overcapacity problem, caused by local governments' pursuit of their own interests. Ten years on, the situation has not improved and is expected to worsen for at least a few more years. The China Nonferrous Metals Industry Association reported China had 27 million tons of annual aluminum production capacity last year. With output of 20 million tons, implied capacity utilization was 74%. 93% of the smelters made losses last year. The Association forecast that existing and newly-build capacity could exceed 33 million tons by 2015 when projects under construction come on stream. If projects being planned were realized, the capacity could even surpass 40 million tons. Fixed-asset investment in aluminum smelters rose 24.9% last year, in contrast with a 5% fall in other non-ferrous metals smelting.

Chaoyue acquires metal firms for HKD10 billion

Chaoyue Group agreed to buy two Chinese makers of stainless steel and copper products for HKD10 billion after selling its main water purification businesses last year. Chaoyue would pay Chung Ming Metal Resources HKD3 billion in cash, with the balance in shares and convertible bonds. Buying Chung Ming Metal gave Chaoyue control of one of the top 10 producers of scrap-based stainless steel and one of the top five makers of scrap-based copper in China. The target operations have the capacity to make 750,000 tons of stainless steel and 140,000 tons of copper products a year. China's scrap copper imports dropped 9% to 2.41 million tons in the first seven months of this year from a year ago. The implied import price for scrap copper in China has risen 5.9% this year to USD3,126.61 a ton by June 30 because of supply tightness. Refined copper production in China might fall 500,000 tons this year, or about 9% of last year's output, on a scrap shortage and delayed commissioning of new facilities, said Chen Jie, the head of sales and marketing of Jinchuan Group, the nation's third-largest producer of the metal. Stainless-steel production grew 9.6% to 8.82 million tons in the first six months, the Stainless Steel Council of China Special Steel Enterprises Association said.

Short news

- Zhu Hongren, Chief Engineer of the Ministry of Industry and Information Technology (MIIT), said the steel industry faced severe overcapacity. Output of crude steel reached 390 million tons at the end of June, up 7.4% year-on-year, with an average daily production of 2.15 million tons. However, steel prices kept declining so that the price index compiled by the China Iron and Steel Association (CISA) dropped 14.7% from a year ago. The price of iron ore dropped much slower than the price of steel. In June, the iron ore price dipped slightly, by 0.3%, from the beginning of 2013, equating to a drop of about CNY30 per ton, while the average steel price declined about CNY280 per ton, Zhu said.
- China Molybdenum, the nation's second-biggest producer of the steelmaking material, has agreed to pay USD820 million for Rio Tinto's Northparkes copper mine in Australia. The sale is expected to be completed by the end of the year. London-based Rio owns 80% of the mine with the balance held by Sumitomo, which has the right to match the offer, but decided not to. It is valued at about USD800 million, Citigroup said in a February report. Buying the stake gives China Molybdenum control of an operation that provided 43,100 tons of mined copper for Rio in 2012 as well as an underground training center. Australia's Foreign Investment Board has approved China Molybdenum's purchase of the majority stake.
- Investor Mark Mobius said Aluminum Corp of China (Chalco) is a “good long-term bet” as one of the few producers of the metal set to benefit from the government's plans to reduce overcapacity. Units of Mobius' Franklin Resources have a combined stake of about 31% in Chalco. The Ministry of Industry and Information Technology (MIIT) raised the minimum output requirement on alumina projects using imported bauxite to 800,000 tons from 600,000 tons in new industry guidelines. Producers must use their own money to fund at least 40% of their projects.
- China Metal Recycling, now under provisional liquidation, has filed a writ to the Hong Kong High Court to sue founding Chairman Jacky Chun, his wife and 10 companies for damages through “false transactions” and “false trading schemes”. China Metal, the largest scrap metal recycling company in China, suffered losses from sales and purchases related to “purported payments for fictitious transactions” and mounting debt.
- The liquidators of Pioneer Iron and Steel Group have sued Diana Chen, the granddaughter of Lu Dong, former Metallurgy Minister, her mother and other parties for CNY4.12 billion, which they allege was stolen from the bankrupt company Pioneer Metals that Chen previously owned. Chen and her mother Lu Hui are jointly ranked 72nd on the 2010 Hurun China Rich List with an estimated fortune of USD1.7 billion. In 2010, Pioneer Iron and Steel, which traded iron ore, went into provisional liquidation owing more than USD516 million to creditors.
- Zijin Mining has cut its gold output target for the year from 33 tons to 31 tons and warned that prices of its mainstay products, gold and copper, may fall further after it posted a worse-than-expected interim profit, down 54% year-on-year to CNY1.1 billion. Turnover climbed 24% to CNY26 billion on the back of a 32% rise in bullion sales to 56 tons and a 51% jump in copper sales to 157,586 tons. Such growth was partially offset by an 11.5% drop in the gold selling price to CNY292.40 per gram, while the copper selling price fell 0.6%.
- China Aluminum International Engineering Corp (Chalieco) said it is seeking to expand outside its core sector and overseas as it posted a 47% fall in interim profit to CNY281.6 million. The firm attributed the decline to a “structural change” of its operation as orders of the more lucrative plant design business fell while those of less profitable engineering and construction contracting grew. Gross profit margin slid to 14.2% from 18.5% due to higher material and staff costs. Chalieco eked out a 2.6% rise in revenue to CNY7.05 billion as it worked on projects outside the core non-ferrous metals sector, such as municipal facilities, roads and public housing.
- Fortescue Metals Group, Australia's third-biggest iron-ore exporter, said Formosa Plastics agreed to invest USD1.15 billion in a planned project in Western Australia that includes Baosteel Group. Formosa would acquire a 31% interest in the FMG Iron

Bridge joint venture for USD123 million. FMG Iron Bridge, jointly-owned by Fortescue and a unit of China's Baosteel, owns the North Star and Glacier Valley iron-ore deposits, which have a combined iron-ore resource of 5.2 billion tons. Taiwan's Formosa agreed to buy as much as 3 million tons a year of iron ore at market prices to supply a steel mill being built at Ha Tinh in Vietnam.

- A consortium of China Metallurgical Group and Jiangxi Copper has demanded a review of a landmark USD3 billion deal to produce copper in Afghanistan. It wants new terms that would cut royalties to the government, release it from building a power plant and copper smelter, and postpone the laying of a railway. An independent anti-corruption monitor, Integrity Watch Afghanistan, said the Chinese venture also wanted to delay the start of production by five years to 2019. The copper deposit is among the world's largest but is situated in a dangerous province and the site has often come under attack by insurgents.
- China's steel prices are expected to weaken in the second half of the year as supply continues to outstrip demand, Baoshan Iron & Steel General Manager Dai Zhihao said. The company reported a 61% drop in first-half earnings. With about 300 million tons of surplus steel capacity – equivalent to nearly twice the output of the European Union last year – Beijing is implementing measures to end the glut including curbing the sector's access to credit.
- CEF Holdings, a venture between Li Ka-shing's flagship company Cheung Kong (Holdings) and Canadian Imperial Bank of Commerce (CIBC), is looking to invest in gold mining companies after a slump in prices created buying opportunities.
- Jiangxi Copper, China's largest copper smelter, warns copper faces more downside price pressure, as it posted a 52% year-on-year fall in interim profit to CNY1.28 billion due to lower prices of the metal. Gross profit margin fell to 4% from 6.3%. Apart from a squeeze on profit margin, lower copper prices also saw the company book a CNY572.8 million inventory valuation loss in the first half, up from CNY86.4 million in the year-earlier period. Refined copper output grew 11.7% to 558,800 tons, while that of copper wires surged 75% to 353,000 tons.
- Aluminum Corp of China (Chalco) warned of more tough times for the industry as it said its interim net loss narrowed to CNY596.5 million, largely on the back of one-off gains and government subsidies. First-half turnover grew 6.5% to CNY71.11 billion, due to a rise in external trading sales, and the booking of sales from a newly acquired coal and power business in Ningxia. First-half aluminum output fell 0.49% to 2.03 million tons, while that of the intermediate product alumina grew 1.8% to 6.08 million tons.
- Gold shipments to the mainland from Hong Kong increased in July as importers took advantage of local prices that were an average 2.1% higher than global markets and as mainland investors bought jewelry and coins. Net imports, after deducting flows from the mainland into Hong Kong, were 113 tons, up from 101 tons a month earlier.
- Chongqing Iron and Steel Co and South Korean partner POSCO plan to build a 3-million-ton-a- year plant in Chongqing. The 50-50 venture will use POSCO-developed FINEX technology. The Chinese steel firm said the new plant will mainly supply automakers and home appliance companies. Currently all cars produced in Chongqing, where companies such as Ford and Volvo have plants, use steel sheets made from outside the city. Shanghai's Baoshan Iron and Steel Co supplies about half of China's auto sheet market.

MINERALS

Yanzhou bids to buy out Australian mining unit

Yanzhou Coal Mining has proposed taking its Australian unit private for about AUD180 million, a deal that would give it more control over a key coal asset but which is expected to face stiff opposition from regulators. The proposal for Yanzhou to buy the 22% of Yancoal Australia it does not own appears to run counter to previous requirements it be run as an Australian company. It also comes at a time when sensitivity over Chinese firms buying foreign assets is high. Yanzhou, China's third-biggest coal firm by market value, is talking to Australia's Foreign Investment Review Board and is making the case that the deal is in Australia's national interest. The board approved Yanzhou's AUD3.5 billion bid for coal miner Felix Resources in 2009 with strict conditions, including that it operate its mines through an Australian company, list the unit by the end of last year and reduce its ownership to less than 70% by the end of this year. Given the U-turns that the board would have to make in order to approve the deal, analysts doubt that it will proceed. China has stepped up its investments in Australia. Chinese investors last year bought Australia's biggest cotton farm Cubbie Station and Shanghai Zhongfu Group has approval to invest about AUD700 million in a sugar farm project. Yanzhou's AUD3.5 billion purchase of Felix represents China's biggest coal investment in Australia to date. Yancoal Australia warned it expected coal markets to remain weak as it slid into the red due to plunging coal prices, write downs on mining tenements and a weaker Australian dollar having an impact on its U.S. dollar debt. Yancoal also named a new Chief Executive, Reinhold Schmidt, a former Senior Executive at Xstrata Coal and Glencore. Yancoal reported a net loss of AUD749 million for the six months to June, down from a net profit of AUD410 million a year earlier.

Yanzhou Coal Mining has slashed its spending on future production capacity expansion by half amid weak coal market conditions, and floated a plan for its Canadian unit to fund its CAD3.5 billion potash mining project development via a Canadian stock market listing. Wu Yuxiang, Chief Financial Officer of Yankuang Group, expects the company's full-year capital expenditure to be CNY6.1 billion, down from CNY12 billion budgeted earlier this year. Half of the cutback will be from its Australian operations, which will see their full-year budget slashed by 70%.

Chinalco mulls buying copper mines in Peru

Chinalco Mining is considering acquiring Glencore Xstrata's copper mines in Peru, said Chief Executive Peng Huaisheng. The potential deal involves three mines worth USD5 billion. Chinalco and MMG, the Hong Kong-listed mining unit of state-run China Minmetals – the nation's largest metals trader – are among potential bidders. Swiss-based Glencore was forced by Beijing to sell Xstrata's Las Bambas copper project in Peru as a condition for Chinese anti-monopoly officials to approve the two companies' USD76 billion merger earlier this year. According to Xstrata, the Las Bambas project would have an initial annual output of 400,000 tons of copper when completed in the middle of next year, with production costs among the lowest 25% of producers globally. The mine has more than 10.5 million tons of copper resources. Chinalco Mining's sole venture is the Toromocho copper mine in Peru, which it expects to commission by December. Peng said USD3 billion had been spent and total expenditure was expected to be within its budget of USD3.5 billion. Chinalco Mining's board in June approved spending USD1.32 billion to expand Toromocho's annual ore processing capacity by 45%, which Peng said would raise annual output of copper to 300,000 tons from 220,000 by mid-2016. Glencore Xstrata expects as many as four Chinese bidders for the Peruvian copper mine that may be valued at more than USD5 billion.

Coal output and sales on the decline

China’s coal output and sales both declined in the first seven months of 2013, statistics from the China National Coal Association (CNCA) showed. The country produced 2.13 billion tons of coal in the January-July period, down 3.5% from the same period last year, while sales shed 3.9% to 2.07 billion tons, the Association said. Meanwhile, fixed asset investment in the coal mining industry fell 1.6% to CNY258.9 billion, said CNCA Vice President Jiang Zhimin. In the first seven months, China imported 187 million tons of coal, up 14.1% while exports fell 22% to 4.9 million tons. In the January-June period, the net profit of the country’s large- and medium-sized coal producers shed 43.3% from a year ago. China is the world’s largest producer and consumer of coal, with official data showing its coal production at 3.66 billion tons in 2012. The first-half net profit of mid-sized and large coal producers fell 43.3% year-on-year, the CNCA said. Miners' fixed-asset investment fell 1.6% to CNY258.9 billion. Pressures on the industry led coal-producing regions such as Shanxi, Inner Mongolia, Shandong and Henan, to roll out measures to help companies that had to cut or suspend production. Shanxi is waiving environmental protection fees and industrial transformation development fees for coal mines. It has also cut coal trading service fees by 50%. The measures run from August to December.

Sinopec coal-to-natural gas project gets green light

China Petroleum & Chemical (Sinopec) has received Beijing's approval for a mega project to turn coal into natural gas. “Since this project involves over a dozen provinces, the overall investment can be known only after a detailed feasibility study is completed”, Chairman Fu Chengyu said. The project involves the construction of an 8,000-kilometer main gas pipeline from Xinjiang to Zhejiang province through Guangdong. Five branch pipelines will also be built.

China is 90% coal self-sufficient but imports almost 60% of its oil and a quarter of its gas. Coal gasification subjects coal to high heat and pressure to turn it into gases, which are processed into natural gas and other by-products. The total cost of the pipeline would exceed CNY100 billion, Fu said, adding Sinopec would lead the project and be responsible for investing in 8 billion cubic meters of annual gas production and transmission capacity. Total capacity will be 30 billion to 36 billion cubic meters (BCM). He said by converting coal to gas to fuel power plants, the energy efficiency in coal consumption would double to 60%, implying less coal would be consumed and less pollution would be emitted, to generate the same amount of energy. A research report by UBS estimated coal-to-gas projects to earn “internal rate of returns” of 10% to 13% given recent drops in coal and steel prices, but warned of risks that higher carbon-dioxide emission costs in the future would cut returns, the South China Morning Post reports.

Short news

- The Philippines in August detained 18 Chinese men on suspicion of illegal magnetite mining in the northern coastal town of Aparri. Investigators raided two mine sites run by Chinese firm Hua Xia Mining and Trading Corp. The company had a permit to dredge magnetite from a nearby river but not from the coast. It is illegal to extract any minerals within 200 meters of a beach under Philippine law.
- Authorities have launched a three-month campaign from August 15 till November 15 to reduce illegal exploration, production and distribution of rare earth metals and regulate rare earth recycling enterprises, the Ministry of Industry and Information Technology (MIIT) said. During previous crackdowns conducted in 2011 and 2012, respectively, 14 unauthorized mines were closed and 14 smuggling cases were investigated.
- The Baotou Rare Earth Products Exchange, China’s first national trading platform of its kind, is expected to go into use on a trial basis in October. The exchange will handle spot trading for rare earth products and will not engage in any business related to futures at present. The exchange is also expected to introduce a rare earth product price index in the future.
- Steel-to-property conglomerate Citic Pacific has warned of the possibility of further delays in commissioning the second production line of its over-budget iron-ore project in Australia, after posting a lower interim profit, which dropped 18.6% year-on-year to HKD4.46 billion. Turnover dropped 14.3% to HKD41.29 billion. The net loss of its Australian iron-ore project widened to HKD1.05 billion from HKD110 million in the year earlier period because it began to book interest expenses when mine production began. The iron-ore project, delayed three years and over budget at least three times its original estimate, has been hobbled by technical problems since it was commissioned late last year.
- Sinopec Engineering, the plant construction arm oft China Petrochemical, says orders for coal-to-chemical projects – its fastest-growing sales driver – are backed by the government despite carbon emissions and water scarcity concerns. “Our CNY101 billion of outstanding orders are backed by real contracts, and the projects have received various government approvals,” said President Yan Shaochun. The company's net profit for the first half rose 10.8% to CNY2.21 billion. Sales from the coal-to-chemicals segment jumped 65% to CNY3.7 billion.
- China Coal Energy, the listed unit of China’s second largest coal producer China National Coal Group, posted a 38% drop in interim profit, hurt by lower coal prices. Net profit for the year’s first six months was CNY3.2 billion, down from CNY5.2 billion in the year-earlier period. Turnover fell 11.6% to CNY40.4 billion, on the back of a 12% decline in the self-produced commercial coal selling price to CNY436 per ton despite a 3.3% increase in coal sales to 7.5 million tons during the reported period.
- IRC, a developer of iron-ore mines in Russia's Far East serving the northeast China market, is in talks with potential financiers to fund two projects involving an investment of USD540 million. The firm led by British entrepreneur Jay Hambro aimed to raise 20% to 30% of the funds by issuing shares and the rest by other means such as bank loans.
- China Shenhua Energy expects coal demand to remain lackluster in the second half of the year and supply to fall. The company’s interim profit fell 7% to CNY24.9 billion. Power demand, the main factor driving coal use, grew 4.4% year-on-year in the first half, compared with 4.8% last year and 11.7% in 2011. Turnover grew 4.7% to

CNY127.2 billion, on the back of a 9.3% rise in coal sales to 242.7 million tons and a 3% rise in electricity sales to CNY37.1 billion.

- Mongolia will have a better chance of regaining its position as the top exporter of coal used to smelt steel in China after a railway is completed in late 2015, according to Battsengel Gotov, Chief Executive of Mongolian Mining. Mongolia lost its leading export position to Australia in the first half of the year with its coking coal exports to China falling 36% to 6 million tons. Australia's exports to China doubled to 13.3 million tons. Despite the shorter distance to China's steel mills, a lack of efficient transport by rail meant that Mongolian coal trucked to the Chinese border lost market share to seaborne Australian coal.
- Sinoma International Engineering, a subsidiary of Hong Kong-listed China National Materials (Sinoma), is acquiring a 59.09% majority stake in German mining equipment firm Hazemag & EPR for HKD1.06 billion. Hazemag makes, trades and services components and facilities used in minerals processing and preparation, process technologies, and machines used in drilling, loading and transport in underground coal mines. Hazemag's post-tax profit for last year was €7.67 million.
- China has become the only nation authorized by the 165-member International Seabed Authority to explore seabeds for as many as three major types of minerals. In 2001 China first secured the rights to explore for polymetallic nodules in the northeast Pacific in 2001, and for polymetallic sulphide deposits in the southwest Indian Ocean two years ago. China Ocean Mineral Resources Research and Development Association (Comra) clinched the latest contract, along with the earlier contracts in 2001 and 2011. The goal is to mine cobalt crusts, which are rich in iron, and hydroxide deposits containing significant concentrations of cobalt, titanium, nickel, platinum, molybdenum, tellurium, cerium and other metals and rare earth elements.

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