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AUTOMOTIVE METALS & MINERALS NEWSLETTER | 14

JUNE 2012

AUTOMOTIVE

Ferrari opens three-year exhibition in Shanghai

Ferrari opened a three-year exhibition in Shanghai, enabling Ferrari owners and car enthusiasts in China to experience the passion and dreams the legendary brand represents. Piero Ferrari, Deputy Chairman of Ferrari and son of Ferrari founder Enzo Ferrari, and Edwin Fenech, Ferrari Greater China President and CEO, unveiled the Ferrari Myth exhibition at the Italian Center, the former Italian pavilion of the Shanghai Expo. It is the first time Ferrari is holding a long-term exhibition outside its headquarters in Italy. In the first 12 months the exhibit will be divided into five major areas: Ferrari in China, green technology, products, design and racing. Texts, images and video — as well as a large number of priceless items from the Ferrari Museum in Maranello, Italy — will be on display to showcase Ferrari's history. At the center of the exhibit are five eye-catching cars including the first Ferrari to enter the Chinese mainland, a 348 TS sold in Beijing in 1992. At the end of the first 12-month run, further exhibitions will be mounted annually in the same space. China is the key market of Ferrari worldwide. The sports car has now established a sales and service network in 15 cities that will grow to encompass 20 by the end of the year. Visitors to the exhibition learn that all Ferraris are built in Maranello, a little town near Modena in Italy. There are also stories about the two protagonists of this long-term success: Enzo Ferrari who founded a unique car marque, and Luca di Montezemolo, who took over its reins after the death of the founder and has steered the company for more than 20 years, the China Daily reports.

Renault, Infiniti and Land Rover hope to produce in China

Renault, Infiniti, and Jaguar Land Rover, are making plans to manufacture cars in China. Sales of imported Renault cars rose 65% last year, while Infiniti and Jaguar Land Rover each chalked up gains of about three-fifths, but each sold less than 50,000 units in China. "Localization is the road that will take their performance in China to the next level," said Zeng Zhilin, Research Director of LMC Automotive. But earlier this year, the National Development and Reform Commission (NDRC) and the Ministry of Commerce (MOFCOM) removed vehicle manufacturing from the list of industries where foreign investment is "encouraged" and downgraded it to "allowed" status. Infiniti, the luxury division of the Renault-Nissan Alliance, will start its Chinese production lines in 2014, and has identified two models to be manufactured on the mainland. Chen Guozhang, CEO of Renault in China, said the French automaker has signed a letter of intent with China's Dongfeng Automobile to form a manufacturing joint venture. Ralf Speth, CEO of Jaguar Land Rover, said his company is still waiting for the regulatory green light for a vehicle manufacturing project with Chinese partner Chery Automobile and will introduce its best products to the country once the deal is finalized. Honda said production of the Acura luxury brand will be localized in China "at an appropriate time," and Toyota didn't rule out suggestions that a Made-in-China Lexus might be considered some day if sales reach 100,000 units a year.

According to industry insiders, foreign carmakers will still get projects approved that involve the development of cleaner-energy cars and joint venture projects where a domestic carmaker stands to benefit from the research and development (R&D) expertise of a foreign partner. According to KPMG, there are about 100 automakers in China, but the top 10 represent roughly two-thirds of all cars sold. It estimates there are more than 6 million units of excess manufacturing capacity in the Chinese market — which is twice the size of the entire German car market — and that figure is set to grow to 9 million units by 2016. Still, China's premium car market — the target of Infiniti, Jaguar Land Rover, Acura, and Lexus — has consistently bucked the downward trend in car sales. In the first quarter, that segment delivered a 36.7% growth in sales, according to Morgan Stanley. All automakers geared up for localization have their sights set on SUVs, which reportedly account for more than 70% of China's imported cars, the Shanghai Daily reports.

U.S. school bus manufacturers eyeing China

Annual school bus sales in China in the next three to five years will probably reach 35,000 to 50,000 units, said Lu Xin, General Manager at the China operation of U.S. commercial vehicle maker Navistar, whose wholly owned affiliate IC Bus is the biggest school bus manufacturer in North America. The market might later grow to between 70,000 and 100,000 units a year. The company expects to launch its first product jointly developed with domestic automaker JAC Motors "as soon as possible" and is considering the import of school buses to meet market demand. The second-biggest U.S. school bus maker Blue Bird Corp also has an eye on the market and is in the process of selecting a local partner, a prerequisite for foreign companies to produce vehicles in China. According to a survey last year, China has about 280,000 vehicles on the roads for student transportation, yet only one-tenth are actual school buses and many are often overloaded. In April a new regulation on school bus safety came into force stipulating that buses carrying students should be given priority in traffic, while companies and drivers need licenses to offer school transport services. With the government and society paying more attention to safety, the demand for purposed-built school buses will increase rapidly, analysts said. According to market data, more than 8,000 school buses were sold in China in the first fourth months of this year. Zhengzhou Yutong Bus Co, the biggest school bus manufacturer in China, aims to sell 10,000 vehicles in 2012. It sold about 1,850 school buses in the first two months this year, more than its full-year delivery last year. A report by Dongfang Securities said that the potential demand for school buses in China is around 1 million vehicles, with the total market valued at about CNY400 billion. China could be the world's biggest school bus market when it is fully developed, Navistar's Lu said, as reported by the China Daily.

Car sales up for third month

China's car industry may have turned the corner with an increase in sales for the third straight month in May that could offset the slowdown in January and February, but analysts, said a new round of tax cuts for energy-saving vehicles was unlikely to boost growth any further. Preliminary sales figures for the three best-selling car types – sedans, sports utility vehicles and multi-purpose vehicles – jumped 13% year on year to 970,000 units last month, after seeing growth in March and April, the China Passenger Car Association (CPCA) said. Retail car sales dropped 1.33% year on year in the first four months, but May's performance could well reverse the trend. The government halved vehicle taxes on 65 energy-saving models from 24 brands and announced a tax waiver for those buying seven electric models from three carmakers. This followed a similar announcement in April that covered 49 models. Most of these were vehicles with engines under 1.6 liters made by domestic firms. The tax cut would be effective retroactively from January 1, meaning those who have bought these vehicles would get a refund, according to a document jointly released by the Ministry of Finance, the Ministry of Industry and Information Technology (MIIT) and the State Administration of Taxation (SAT).

HK to be new HQ for luxury carmaker Infiniti

Infiniti, the luxury division of Nissan, is moving its global head office to Hong Kong, the first time the city has been selected for the headquarters of a car manufacturer. Carmakers usually set up their head offices in their country of origin or near to their biggest markets, but Hong Kong, where less than 4,000 new cars are sold a month, was chosen for its proximity to the fast-expanding Asian market and also its high percentage of luxury car sales. “China is the largest prospect for us, and Hong Kong is not only a door open to China, but the rest of Asia,” said Carlos Ghosn, Chief Executive for both Nissan and its long-term partner Renault. Infiniti sold only 150,000 units last year worldwide, just 3% of the 4.85 million sales by Nissan group. But by moving its production base to China and the head office to Hong Kong, Ghosn hopes Infiniti can sell 500,000 cars globally by 2016. Infiniti expected to triple its sales in China from a projected 27,000 units this year to about 81,000 in 2016. Its annual sales have jumped more than five times over the past three years to 19,000 in 2011. “I have worked in China since 2002 and not one year while I was there has there been no growth. We had the banking bubble, real estate crash and the slowdown, but after this, you always discover, oh my god, China is growing more than we thought,” said Ghosn. Despite the optimism, Ghosn did not set a strict time frame for its targeted sales. “Infiniti made up not even 3% of our sales and an even smaller percentage of profits, so we can afford more time to turn it into a big engine for our growth,” he said. The company is planning to hire 100 staff for the brand's new office at Central's Citibank tower.

Three die as electric taxi explodes

A fatal road accident in Shenzhen on May 26 has raised concerns about the safety of electric cars developed in China. A speeding sports car rear-ended a BYD E6 electric taxi, causing the cab to catch fire, killing the driver and two passengers. A member of the rescue team said that, based on the wreckage, it was possible that an explosion occurred in the electric car. Lo Kok-keung, Engineer with the Department of Mechanical Engineering at Hong Kong Polytechnic University, said that a fully charged lithium battery could explode in a serious crash. “The crash could result in a short circuit, which, in turn, could make the battery hot and eventually explode within a matter of seconds," Lo said. "This is the major hidden danger of electric cars that doesn't exist in vehicles that consume petrol." Guangdong propaganda authorities have urged local media not to report anything critical about electric cars when reporting about the accident. Media were ordered to stop discussing whether a design flaw could have caused the fire. "We are sorry for the accident and will cooperate with authorities to investigate the cause," BYD Spokesman Jiang Yinjie said. BYD's shares fell following the accident. Experts have questioned whether China's safety tests for electric cars were rigorous enough. They said tests used to measure the cars' ability to survive collisions were not conducted at a speed high enough to simulate the most severe real-life crashes. Wang Zidong, who is in charge of car-battery testing at the China North Vehicle Research Institute, said that collision tests for China-made electric car batteries were only conducted at speeds between 40 km/h and 70 km/h and that manufacturers had not considered crashes at speeds in excess of 100 km/h. Wang said collision tests in excess of 100km/h could take one to two years to complete and required the destruction of many more cars than at present. BYD said that in more than two years there had been 18 rear-end collisions involving its electric taxis, with no injuries or fatalities reported, nor had any car caught fire. Professor Sun Zechang of Tongji University's School of Automotive Studies, said collision tests were conducted using too small a sample to reflect the hundreds of battery modules installed in electric cars. A battery industry insider said that many collision tests for electric cars' batteries were conducted when the batteries were only half charged, so fewer problems would be exposed during laboratory tests.

With support from the central government, BYD has poured billions of yuan into developing its electric vehicles, offering tens of thousands of yuan in rebates for buyers. The Shenzhen government has also spared no effort in building new charging stations. Still, sales of BYD's electric vehicles are poor. About 300 BYD E6 taxis and 200 buses, all of which run solely on electricity, are operating on the streets of Shenzhen. In a move to become China's electric vehicle capital, Shenzhen in March set a goal to replace more than 50% of the city's internal combustion engine buses with electric or hybrid models by 2015. Shenzhen Mayor Xu Qin said in March that within three years the city would ban all vehicles that failed to meet the country's advanced emission standards. Xu said 3,000 electric or hybrid vehicles were put into use in Shenzhen last year, and 2,000 were planned for this year. In Shenzhen, every electric bus put on the road has received a CNY1 million subsidy since 2010, half from the central government and half from Shenzhen's, the South China Morning Post reports.

Nissan and BYD vying for Hong Kong's taxi market

Nissan is hoping to become a major supplier of Hong Kong taxis: it aims to compete with BYD to turn the city's 18,150 liquefied petroleum taxis into electrically-powered cars – a market worth HKD7.26 billion. Considering only about 2,000 electric cars and plug-in hybrid cars were sold on the mainland during the first quarter, the conversion of 18,130 electric vehicles is a huge opportunity for any player in the sector. When the government decided to replace all diesel taxis with the cleaner LPG cars back in 2001, it took only three years for the conversion of 99% of the city's 18,150 taxis. Nissan, once the dominant supplier in the city, was squeezed out of the market when Toyota offered cheaper repair costs. Now BYD is committed to paying a total of HKD13.5 million to cover the construction costs of 45 quick-charging points in 15 public car parks across the city, and another HKD9 million in provisional subsidies to help taxi operators buy 45 of its e6 electric vehicle models by August. "We do not wish to see any further delays in the trial and will do whatever we can to ensure the 45 EVs appear in Hong Kong in August," said Korby Chen, BYD's Marketing Representative for Hong Kong. Under the agreement to convert the taxi fleet, the Hong Kong Taxi and Public Light Bus Association agreed to purchase 45 e6 models from BYD, and was supposed to shoulder half of the costs, or around HKD200,000 per vehicle, while applying to the government to fund the other half. Association Chairman Brandon Tong said officials told him the request would not be processed until around September. BYD then stepped in to help out with the subsidy. Meanwhile, Crown Motors – the sole distributor for Hong Kong's dominant taxi supplier, Toyota – said while new players were welcome in the market, they did not believe electric taxis would pose a threat in the near future given the lack of charging facilities and long charging times.

Mixed May results for car makers

General Motors reported that it sold 231,183 vehicles in China in May, up 21.3% from the same month last year. Shanghai GM, its biggest Chinese joint venture, sold 99,113 units, a 7.1% year-on-year increase. GM Wuling sold 118,721 units in the period, 34% more than last

May. FAW GM sold only 3,756 units in the month, a 0.7% drop from a year ago. Toyota sold 78,700 vehicles in May, a 105% increase over the same month last year. In the first five months of the year, the company sold 372,000 vehicles in China, a rise of 26.1% from the same period last year. Toyota set its sales target at 1 million units in China this year. Mazda sold 88,000 vehicles in China in the first five months of 2012, up 2% from the same period last year. But its May sales fell 16% from a year ago to 16,000 units. Its joint venture FAW Mazda sold 51,000 units in the five months, a 9% drop from the same period last year. Sales by its other joint venture Chang'an Mazda surpassed 36,000 units, a year-on-year increase of 21%. Chinese total vehicle sales shed 1.3% in the January to April period, the worst showing since 1998 when deliveries fell 1.6%, according to data compiled by the China Association of Automobile Manufacturers (CAAM). Passenger car sales in China rose faster than expected in May. Sales of sedans, sport-utility vehicles, multi-purpose vehicles and minivans soared 16.6% year on year to 1.18 million units in May, the China Passenger Car Association (CPCA) said. The growth far outpaced April's 6.1% rise. A total of 5.86 million units were sold in the first five months of this year, up an annual 4.4%. "The sales will remain on an upward track in June, but its growth may far lag that of May's," said Rao Da, Secretary General of the Association. The production of passenger vehicles rose 21.5% in May to 1.26 million units, bringing the supply surplus for the past five months to 447,440 units from 364,958 units in April.

Retail prices falling as dealerships experience stock pile-ups

Prices of passenger vehicles fell the most in about two years because of a worsening glut at car dealerships. Average retail prices fell 1.1% in May from April, the steepest sequential drop since June 2010, and 1.7% from a year earlier, Cheng Xiaodong, Director of car price monitoring at the National Development and Reform Commission (NDRC), said. Carmakers were overstocking vehicles at a time when dealers were pessimistic about their sales prospects, he said. The deepening price drops add to signs that consumer demand is lagging behind the rising wholesale deliveries that carmakers are reporting. The biggest dealer association said sales targets needed to be scaled back and incentives rolled out because the glut in showrooms was unsustainable. "The market is deteriorating quickly," said Vivien Chan, Analyst with SinoPac Securities (Asia) in Hong Kong. "Price declines are no doubt adding more pressure on auto dealer stocks." Average inventory carried at showrooms exceeded two months of sales by the end of May, compared with more than 45 days at the end of April, Luo Lei, Deputy Secretary General of the China Automobile Dealers Association, warned. "Dealers can't shoulder the burden anymore," said Luo, whose association is authorized by the central government and represents 2,100 dealership groups. "Their backs are broken." There were about 21,000 dealership outlets in China as of the end of 2011, compared with 16,000 the year before.The China Association of Automobile Manufacturers (CAAM) said wholesale deliveries of passenger cars rose 23% last month from a year earlier to 1.28 million, defying the economic slowdown. Dealers carrying Japanese brands were hit the hardest among the foreign joint ventures, said Feng Han, Secretary General of the China Auto Dealers Chamber of Commerce. Volkswagen and General Motors cars were the least affected by rising inventory at dealerships.

Ford Motor is looking into China-only brands

Ford Motor is in talks with local partners to introduce indigenous brands in China as it plays catch-up in the market with General Motors and Volkswagen. "All I can tell you is we are studying indigenous brands, but our total focus in terms of brand enhancement is really on the Ford brand," said David Schoch, Chairman and CEO of Ford's China operations. China's vehicle market will likely expand by around 5% this year and that pace of growth is likely to be sustained over the next few years, Schoch added. China's 2011 vehicles sales stood at 18.5 million. Ford, which makes its Fiesta, Focus, Mondeo and other sedans in a three-way tie-up with Chongqing Changan Automobile and Japan's Mazda Motor, is a relative latecomer in China, where General Motors and Volkswagen have the lead. Ford also holds 30% of Jiangling Motors, which makes Ford's Transit vans.

Xiezhong to push through HKD264 million IPO

Xiezhong International, an automotive heating and cooling system supplier, is going ahead with its planned initial public offering (IPO) despite the fact that others have withdrawn theirs recently. Xiezhong's valuation is about 60% lower than its Chinese peers, says Guotai Junan Securities. "Xiezhong is valued at between seven and 10 times projected earnings, while most mainland companies of the same nature are trading at between 15 and 20 times," said Donny Wong, Guotai Junan's Corporate Finance Director. The firm is seeking to raise as much as HKD264 million to double its production capacity over the next three years. In 2010, Xiezhong's net profit more than doubled to CNY79.4 million from 2009. It posted net earnings of CNY86.1 million last year. Although truck sales in China fell 7.71% in the first four months of this year, Ge Hongbing, Xiezhong's Executive Deputy General Manager, said there remained ample room for business growth, as the nation's growing affluence would boost demand for heavy trucks with air conditioning. Such trucks presently comprise roughly 50% of the market. Xiezhong plans to use most of the IPO proceeds to expand its existing plants and build two more factories in Beijing and Nanjing, which will cost about CNY225 million.

Sino-Japanese group agrees to buy Saab

A Sino-Japanese investment group has agreed to buy Saab Automobile and convert the bankrupt Swedish manufacturer into a maker of electric cars. The first vehicle under the plan would be based on the company's 9-3 car, and the model would go on sale early in 2014, buyer National Electric Vehicle Sweden and Saab's bankruptcy administrators said. The parties agreed not to disclose the transaction price. The purchasing group is led by Japanese investment firm Sun Investment and Hong Kong-based builder of renewable-energy power plants, National Modern Energy. Saab has not built cars since last year and filed for bankruptcy in December. It has been unprofitable for most of two decades. General Motors, which acquired full control of the firm in 2000, sold it in February 2010 to Dutch car maker Spyker. Sales peaked at 133,000 deliveries in 2006, but Saab sold just 31,700 vehicles in 2010. No sales figures have been released for 2011. Eric Geers, a former Saab Spokesman who now works for start-up Chinese carmaker Qoros Auto, estimated in February that the Swedish brand sold 10,000 to 15,000 vehicles last year. Saab Auto's roots date back to the 1937 establishment of aircraft manufacturer Svenska Aeroplan, which began making cars in 1947. The car business was split from the aerospace operations, now called Saab, in the 1990s. About 3,600 people worked at Saab Auto before its bankruptcy.

Short news

- Chinese car dealer Zhongsheng will buy a 70% stake in German car tuning manufacturer Carlsson. The company did not disclose the size of the deal, but it was the second purchase it had made in the past three months after paying CNY1.13 billion for Loong Wah Motors – a dealer with 16 outlets and brands including Toyota and Infiniti.
- Strong demand drove car plate prices in Shanghai to a record high for the fifth consecutive month in May to CNY64,367 — up CNY2,741 on April. The lowest successful bid increased CNY3,000 to CNY64,000, while the total number of bidders was 24,230, up 1,524 from a month earlier. The average price has increased by about CNY10,000 this year. The local government offered 9,300 plates for auction in May — the most this year and up 800 on the previous month's quota. The city will auction off 9,500 license plates on June 16, the most this year and up 200 from last month.
- Sino-German joint venture Shanghai Volkswagen Automotive Co held a contract signing ceremony and laid the foundation stone for a plant in Xinjiang on May 28. The plant will have an initial annual production capacity of 50,000 vehicles when it starts operation in 2014 and will be the first passenger vehicle factory in Xinjiang. Volkswagen Group and SAIC Motor Corp will together invest €170 million in the plant. It is the company's 7th JV plant in China. The group plans to increase combined annual capacity at its joint ventures to 3 million vehicles next year or in 2014, up from the current 2 million units.
- In the mobile car navigation market in China, AutNavi occupies the No 1 position with 38.9%, followed by Careland's 30.5% and Nokia's 10.7%, according to Beijing-based Analysys. At present, AutoNavi has about 58 million mobile users, and the number is expected to hit 100 million by the end of this year. But portable navigation device firms like AutoNavi and Garmin that dominated the market for years are now facing competition from internet firms. Garmin, which provides one-third of automotive navigation devices globally, opened a new Chinese headquarters in Shanghai last month.
- BMW opened a design studio and a technical configuration center in Shanghai to provide solutions to product, transportation, automotive, environmental and interaction

design. The center will develop BMW's ConnectedDrive functions aimed specifically at BMW's Chinese customers.

- Toyota Motor Corp opened its seventh Chinese vehicle plant in Changchun, Jilin province. The Japanese carmaker's joint venture in China, Sichuan-FAW-Toyota, invested CNY4 billion in the project, which covers an area of 970,000 square meters. With an initial production capacity of 100,000 units each year, the plant will make Toyota's Corolla.
- Italian brake producer Brembo launched its new production center in Nanjing, Jiangsu province. With an investment of €70 million, the center will serve the plants of Brembo's European customers, which produce cars and commercial vehicles in Asia. Covering an area of 95,000 sq m, it includes a foundry and production lines for brake discs and braking systems, as well as a research and development center. The plant will employ 850 people and has an annual production capacity of 6 million brake discs.
- Chery Automobile Co will soon start assembling vehicles in northern Vietnam. The new plant would be its 17th overseas production site. Chery exported 17,412 vehicles in April, up 39% from a year earlier. Full-year exports might reach a new high of 200,000 units, the company said. Chery also plans to invest about half a billion dollars in Turkey over five years on a new engine factory and assembly plant. As pressure at home builds, many Chinese carmakers are reaching abroad for new growth opportunities.
- The International Organization of Auto Vehicle Manufacturers said the top five Chinese auto brands measured by production are Changan Automobile, Beijing Automotive Group, Dongfeng Motor Corp, FAW Group Corp and Chery Automobile Co. The biggest one, Changan, plans to be able to produce 4 million automobiles annually under its independent brands by 2020. Changan now has six factories in Mexico, Egypt and other countries. Last year, its overseas operations generated CNY474.92 million in revenues, down 9.59% year-on-year.
- South Korean automaker Kia Motor began recalling 1,624 Borrego models in China from June 6. The recalled vehicles were made between June 17, 2008 and July 28, 2009. According to the company, defects in the brake pedal were found in the U.S. market, but no incidents have been reported in China.
- Chery announced that its May exports surpassed the 20,000-unit benchmark for the first time. The record high monthly export figure of 20,093 units is 42.4% more than the same period of last year, and 15.4% up from April. By the end of 2011, Chery had 16 production facilities, 1,153 dealerships and 1,188 service operations abroad.
- Beijing Hyundai's bestselling sedan, the 2008 Elantra, is the subject of safety recall due to airbag defects, involving 97,452 cars made between March 16, 2008, and January 25, 2010. The recall will start from July 10 to upgrade the faulty airbag control unit, which can trigger the airbag by mistake when the car is parked or running at slow speed. Unexpected airbag self-explosions have caused some injuries.
- China has agreed to revive financial incentives for consumers to trade in their passenger cars to help increase demand. Relevant ministries are working out the details, such as the types of vehicles covered and amount of state funding. China in 2009 rolled out a cash-for-clunkers program to counter the global financial crisis, spurring CNY49.6 billion in new car purchases the following year.
- China Yongda Automobiles Services Holdings aborted its initial public offering (IPO) in Hong Kong due to market volatility. The deal, in which the car dealer planned to raise USD433 million, is the biggest IPO to exit in Asia this year. Yongda is the second Chinese auto service firm to delay its IPO this year.
- Dongfeng Motor, a joint venture with Nissan, announced it would invest CNY2 billion to expand the capacity of its plant in Xiangyang, Hubei, and add two Infiniti models to its production line.
- China will allocate an annual fund of up to CNY2 billion from this year to help develop and mass produce new-energy vehicles to cut fuel consumption and carbon emissions, Vice Minister of Finance Zhang Shaochun said. Government departments, logistics operators and car rental firms in 25 pilot cities will be encouraged to use environmentally-friendly cars while buses with hybrid engines will run in major cities. Zhang also called on participating cities to lift traffic curbs on green cars and introduce preferential policies to help with parking, electricity fees and highway tolls to boost their use.

- Two of BYD's biggest dealers have stopped paying an advance subsidy of CNY120,000 to buyers of electric cars. They said buyers would have to pay the full price and then claim the subsidy themselves. The BYD e6 model costs CNY369,700. The decision was taken after it took some dealers nearly a year to get the subsidies back from the government, and some dealers had even stopped selling electric cars to avoid the delay in recovering their money. BYD sold 129 e6 models in April and 113 in March, which was short of the carmaker's sales projection of about 300 units a month.
- Volkswagen’s supervisory board approved the creation of a new position on its Board of Directors managing all business related to China, reflecting China’s importance as the world’s largest car market. The company sold 2.3 million cars in China last year, resulting in a €2.6 billion operating profit. Volkswagen's new China Department will be run by Jochem Heizmann, who leaves his position as the head of the group’s truck business.
- Chongqing will finance purchases of small-engine vehicles in its rural areas to counter the downturn in auto sales in China's first local incentive program for the auto market. The city’s rural buyers of mini buses with engines of 1.6 liters or less and mini trucks and light trucks under 7.5 tons will receive a 6% subsidy on the sales price, with a maximum of CNY3,000 for each vehicle. The program will cover vehicles that are made by Chongqing-based automakers and bought in the city. Each qualified consumer can make only one subsidized purchase.
- BMW is expecting a 25% to 30% increase in China sales this year to between 291,000 and 302,000 units, Friedrich Eichiner, CFO of BMW Group, said. China surpassed the U.S. in the first quarter of the year to become BMW’s biggest market. In the first four months, the brand sold 100,300 cars, 35% more than in the same period last year. In April the carmaker sold 27,191 vehicles in China, including its MINI and Rolls-Royce marques, a 31% year-on-year increase.
- The new M4 SUV model from Great Wall Motors went on sale on May 25 with three variants priced between CNY63,900 and CNY71,000. The automaker plans to launch more than 20 new models in the next five years. It aims to sell 1.3 million vehicles and reach an annual production capacity of 1.5 million units in 2015.
- China’s Ministry of Transport and Sweden’s Ministry of Enterprise, Energy and Communications signed a memorandum to set up a transportation safety research center that focuses on road safety and intelligent transportation systems. The center will be headquartered at the Ministry of Transport in Beijing, and branches will be set up at Shanghai’s Tongji University and Sweden’s Chalmers University of Technology. Volvo Car Corp, now owned by Zhejiang Geely Holding Group, will also be a part of the project.
- General Motors and its joint ventures sold 231,183 vehicles in May, 21.3% more than in the same month a year earlier. Shanghai GM sold 99,113 units, up 7.1% from a year earlier, while SAIC-GM-Wuling delivered 127,749 units, an annual surge of 35.9%. But sales of FAW-GM dipped 0.7% year on year to 3,756 units. Sales of GM’s Buick brand fell 1.2% on an annual basis in May to 51,360 units, but sales of Buick Excelle jumped 19% to 23,085 units last month. Sales of GM’s Chevrolet in May hit the highest level when they rose 13.1% year on year to 48,563 units, with orders for the Chevrolet Cruze soaring 34% to 18,977 units. Cadillac posted a 2.2% fall in sales to 2,205 units in May.
- On August 1, Mercedes-Benz will offer leasing options to private and commercial customers, making it easier to own a Mercedes-Benz. The company has won government approval to establish the Mercedes-Benz Leasing Co. Mercedes-Benz has begun to train financial consultants at its dealerships so they can provide expert advice and consultation. In China, though, only 10% of vehicle buyers used financing to obtain a vehicle in 2011, a proportion that has held steady for years. Analyst said financing is likely to become a much more popular means of buying automobiles in China in the coming years.
- Leonardo Fioravanti, 74, the designer of the Ferrari Daytona and 288 GTO, was hired by Beijing Automotive as Chief Design Officer in April. The carmaker unveiled a prototype luxury sedan at the Beijing motor show and has said it wants to make “world-class” cars by 2025. Beijing Auto is among several Chinese carmakers betting that hiring a star designer will help burnish their brands and reverse a widening gap in market share behind General Motors and Volkswagen. None of the top 10 passenger vehicle models by sales this year belonged to homegrown brands.

METALS

Zijin agrees deal to buy Australia's Norton Gold

Fujian-based Zijin Mining Group unveiled an agreement to buy the shares in Australia's Norton Gold Fields it did not already own for about AUD180.3 million. Zijin, which currently owns 16.98% of Norton, made a general offer to all shareholders of Norton. Zijin has been expanding its global investments, and last year paid a combined USD95 million for the stake in Norton and a 60% holding in Altynken, a Kazakhstan-based firm which has access to a Kyrgyzstan gold mine. Buying Norton gives Zijin 1 million ounces of gold reserves at the Paddington development project in Western Australia. Norton reported AUD20.5 million in income last year, against a AUD25.4 million loss a year earlier. Helen Lau, Analyst at UOB Kay Hian, said the acquisition could only contribute limited earnings to Zijin and the offer price was “a bit higher than expected”. Zijin plans to spend as much as CNY10 billion a year on acquisitions as global growth concerns drive down valuations, targeting gold, copper and other metals.

LME in talks to set up shop in China

The London Metal Exchange (LME) has reopened talks with Chinese authorities to expand its warehouse network in China. The British bourse is hopeful of setting up an efficient arbitrage system with the Shanghai Futures Exchange, which plans to extend the reach of its contracts into the global market. LME, which handles more than 80% of industrial metals futures worldwide, is optimistic about establishing delivery points in China because the China Securities Regulatory Commission (CSRC) is now showing a “much more open attitude” towards market liberalizations, said Liz Milan, Managing Director for LME Asia. LME attempted to set up warehouses in Shanghai several years ago but the plan was canceled in 2008 when the Chinese securities regulator made it clear that foreign exchanges' delivery points would not be allowed in the country. The London exchange is now more bullish about its prospects after Guo Shuqing took the helm of the CSRC in late October last year, backing drastic liberalization of the futures market to bolster the economy. Milan added that it would take some time before LME could officially set up its warehouses in China because various technical issues such as tax and logistics still needed to be addressed. Establishing offshore warehouses by both the Chinese and London exchanges paves the way for the creation of an arbitrage mechanism, which is expected to increase trade volumes on both exchanges.

China National Gold profits from Tibet copper mine

China National Gold Group Corp, the only central state-owned enterprise in the gold industry, is reporting CNY142 million in 2011 profit from its copper mining operation in Tibet. The Jiama copper mine in Metrogonga county produced about 10,000 tons of copper in 2011. Chairman Sun Zhaoxue said China Gold will accelerate development of the second phase of the Jiama project by investing CNY5 billion during the 12th Five Year Plan period (2011-2015). By 2014, the company will have an annual production capacity of 63,000 tons of copper valued at CNY4 billion. Plans also aims to make Jiama one of the top non-ferrous metal production sites in the world in five years. The company has invested CNY280 million in exploration and estimates the area holds 8 million tons of proven copper ore reserves, 20 times more than in 2007 when the company began mining in the region. The company also spent CNY47 million on road and bridge construction, environmental protection and water management. As the largest gold producer in China with its annual output of 89 tons, China Gold has doubled its gold reserves, sales volume and profits from 2007 to 2011. Its gold reserves increased from 275 tons in 2006 to 1,380 tons in 2011, while its copper reserves increased from 1.25 million tons to 9.9 million tons in the period.

Two major steel projects approved

Baosteel Group Corp has won final approval to build a USD11 billion steel plant in Zhanjiang, Guangdong province, which will have an annual capacity of 10 million tons. The National Development and Reform Commission (NDRC) had delayed approving such major projects at a time China’s steel industry is struggling with overcapacity. The NDRC has also approved a plan by Wuhan Iron and Steel Group to build a steel mill in Fangchenggang in Guangxi, which will have an annual capacity of 9.2 million tons and require CNY64 billion in investment. The two new modern steel projects were approved as local governments agreed to ditch some old capacity. The Guangdong government will close 16.14 million tons of obsolete crude steel annual capacity elsewhere in the province as part of its deal with Baosteel for the Zhanjiang project. Baosteel is China's third-largest steel firm, producing 43.3 million tons of crude steel last year, after the Hebei Iron and Steel Group and the Anshan Iron and Steel Group. Baosteel Chairman Xu Lejiang said the company plans to reduce capacity in Shanghai by 3 million tons within the decade.

Mittal to reduce China steel ambitions

Lakshmi Mittal has signaled a dramatic scaling back of ArcelorMittal's ambitions to expand in China's steel industry through an agreement to cut the company's stake in one of the country's top metals producers. The Chairman, Chief Executive and main owner of the world's biggest steelmaker had hoped to build up ArcelorMittal's 30% stake in Hunan Valin into a controlling shareholding but has been frustrated by Beijing's refusal to loosen constraints over foreign ownership in the steel business. Through an outline deal to reduce the Hunan Valin stake to 10% over the next two years, ArcelorMittal is likely to gain about USD300 million, about USD200 million of which will be reinvested in increasing its operations in China in the more specialized segment of making high-value steel for the automotive industry. Sudhir Maheshwari, head of ArcelorMittal's China operations, said it would be wrong to depict the new outline deal as part of a "reining back" of the company's overall activity in China. "Instead, we are refocusing on an area [automotive steel] with a lot of potential." Mittal has always regarded his company's investment in Hunan Valin – agreed in 2005 – as part of a long-term investment in China that he hoped could be turned into a foothold for controlling a big part of the country's steel sector. He has now settled on trying to increase ArcelorMittal's position in the relatively narrow field of making steel for cars – an area in which it has a strong global position, particularly in the area of specially treated flat steel for vehicle exteriors. ArcelorMittal will push up its capabilities in this sector by increasing from 33% to 49% its stake in a joint venture with Hunan Valin in making steel for cars. As part of this new activity, the Luxembourg-based company is contributing about a quarter of an USD800 million investment in increasing the output of this joint venture from 1.2 million tons a year to 1.5 million tons, the Financial Times reports.

Short news

- Baoshan Iron and Steel Co cut prices as demand from makers of appliances and cars slowed. Prices were cut by CNY400 a ton for July delivery. Most hot-rolled and cold-rolled products were cut by CNY200 a ton. Baoshan had raised prices by CNY100 in January and CNY200 in March and kept most grades little changed in the other months this year. Steel prices in China have fallen for eight straight weeks.
- Gold investment demand in China may gain more than 10% this year. "Investors here want to hold part of their assets in gold to hedge against risks, especially now that the financial crisis has evolved into a sovereign crisis," Zheng Zhiguang, General Manager of the Precious Metals Department at Industrial and Commercial Bank of China (ICBC) said in Shanghai. China will surpass India this year as the largest bullion market as rising incomes bolster demand, the World Gold Council forecasts. Investment demand in China was a record 98.6 metric tons in the first quarter, 13% higher than in the same period in 2011.
- Shandong Gold Group agreed to pay CNY3.75 billion for a 98.5% stake in both Shandong Shengda Mining Co and Shandong Tiancheng Mining Co.
- Gold imports by China's mainland from Hong Kong rose 65% to a record in April, up for a third straight month. Shipments totaled 103,644.5 kg in April from 62,913 kg in March. In the first four months, imports were 239,174 kilograms from 27,114 kilograms a year earlier, on rising demand. China's central bank may also be boosting holdings, said Wang Xinyou, Senior Analyst at the Agricultural Bank of China (ABC).
- Song Wendai, former Chairman of the Qiankun Gold & Silver Refinery Share Co in Inner Mongolia, has been detained for embezzling nearly 60 kilograms of gold and 1.4 tons of silver, and selling them in his jewelry stores. He is also accused of having siphoned off CNY21 million of state assets since 2003 to set up three companies of his own. Officials said the corruption greatly damaged Qiankun, once the top gold and silver refinery company in China.
- The China Steel and Iron Association (CISA) said the steel inventory in 26 major markets in the country reached 15.61 million tons by June 1, an indication of ongoing

oversupply in the market. In April, China produced 60.57 million tons of crude steel, a 2.6% increase compared with the same period last year. China exported 4.67 million tons of steel in April, 361,000 tons less than the previous month, a 7.2% drop month-by-month. Steel demand is expected to rise as the government is speeding up the approval of major infrastructure projects. Up to 80% of suspended railway projects have been restarted, while urban rail projects are becoming a new investment point.

MINERALS

Citic Pacific wins HKD6 billion loan for Australian ore project

Citic Pacific, the steel-to-property conglomerate controlled by state-owned Citic Group, said it had secured a HKD6 billion syndicated loan to fund its Sino Iron Ore project in the Pilbara region of West Australia, which is expected to start production by August. As the largest iron ore facility in the world it could process about 100 million tons of iron ore a year, Chairman Chang Zhenming said on the sidelines of the firm's shareholders' meeting. The first two production lines would come on stream first, followed by the third to sixth lines, which were still under construction, he said. “We are working together with China Metallurgical Corp and pressing hard to meet the schedule,” Chang said. Citic Pacific needed to increase its investment in the mammoth project by USD822 million owing to big cost overruns. The budget for the mine project doubled to USD3.41 billion, inflated by a surge in material costs, labor and management fees as well as the appreciation of the Australian dollar. Miscalculations by the contractor also contributed to the overrun. A dozen banks reportedly took part in the syndicated loan.

Weak demand for iron ore and coal reported

China’s economic slowdown has led to weak demand for iron ore and coal in the domestic and overseas markets. Some Chinese steel mills may have deferred shipments agreed to under long-term contracts with foreign traders, but not those under short-time contracts, said Zhang Lin, Senior Researcher at the Lange Steel Information Research Center. “For long-term iron ore purchasing contracts, Chinese steel producers may reduce import volumes because of lower demand in the country, which will lead to lower prices,” Zhang said. Shougang Group, one of the largest steelmakers in China, said the company didn’t defer any iron ore or coking coal cargos, but it added that steel prices are “really weak”. The majority of steel mills in Shanxi, Hebei and Shandong provinces have halted production, said Dai Bing, Senior Analyst at coal.com.cn, a coal-trading website. He said falling demand for steel led to the reduction of iron ore and coking-coal purchases. “The central government carried out a series of policies to control the real estate market … which resulted in a huge drop in steel for construction,” he said. “Thus, the demand for iron ore and coking-coal fell and prices have been going down.” Coal-fired power plants are also generating less electricity, meaning less demand for thermal coal and rising inventories at power producers.

China to rationalize coal industry

China will rationalize the coal industry and develop cleaner, more advanced technology for the sector by spending more than CNY500 billion a year during its 12th Five Year Plan (2011-15), Fang Junshi, Director of the Coal Department of the National Energy Administration (NEA) said. The industry will experience more mergers and acquisitions and become increasingly internationalized. During the plan period, China will build 60 coal mines with an annual production capacity of 5 million metric tons each and 10 mines with more than 10 million tons. China’s coal output in 2010 was 3.24 billion tons, accounting for 43.4% of the global output. Consumption has risen by about 200 million tons annually in the past few years and the country’s total coal consumption accounts for about 44% of global consumption. To reduce carbon emissions, China aims to hold coal output below 3.9 billion tons by the end of 2015. Wu Yin, Deputy Director of the NEA, estimated that China will consume 5.5 billion tons of standard coal by 2020 and 7.5 billion tons by 2030. The State Administration of Coal Mine Safety, the China National Coal Association and the NEA will jointly hold the 2012 China International Forum on Coal Industry from October 10 to 12.

Hanlong Mining pushes back take-over of Sundance

China's Hanlong Mining has moved the target date to seal a AUD1.34 billion take-over of Australian iron ore group Sundance Resources until November after Hanlong struggled to line up funding from China. Hanlong is targeting Sundance for its USD4.7 billion Mbalam iron ore project on the border of Congo and Cameroon, seen as a major new source of iron ore that could diversify China's dependence on Australia and Brazil. The project, which includes building a 510 km rail line and a deep water port, has yet to secure key approvals from the two governments and backing from the Chinese Development Bank (CDB). Chinese takeovers of Australian metals and mining assets have shrunken to less than a tenth of last year's figure. Hanlong owns 18.6% of Sundance. Mbalam is expected to produce 35 million tons a year of iron ore, compared with a forecast 55 million tons this year from Australia's Fortescue Metals Group, the world's number four iron producer. Hanlong Mining has meanwhile agreed on the key terms with Cameroon, opening the way for it to proceed with he take-over. The agreement will give the Cameroon government a 15% stake in the project.

Yitai Coal eyes mining assets of parent

Inner Mongolia Yitai Coal plans to acquire the bulk of the remaining mining assets of its parent, Yitai Group, after listing its shares. The deal is expected to be worth CNY8.4 billion. Yitai Group owns 60% of Yitai Coal, which has seven operating coal mines with total proved and probable marketable reserves of 580.4 million tons at the end of last year. Their combined annual output was 35.2 million tons. It also has two mines under development, with total marketable reserves of 567 million tons. They will start production next year, with a projected combined output of 7.6 million tons in 2014. Yitai Coal has budgeted capital expenditure of CNY3.24 billion for this year, of which CNY1.64 billion is earmarked for expanding coal logistics facilities, CNY1.07 billion for coal mine development and CNY540 million for coal-to-chemicals projects. It forecast net profit of at least CNY3.24 billion in this year's first half. Profit grew 8.9% last year to CNY5.75 billion on higher coal prices as output fell 2.5%. The firm said it planned to acquire five mines from its parent to reduce potential competition. The timing of the acquisition is uncertain, pending approval from the Inner Mongolia Department of Land and Resources. If the acquisition had been completed at the start of last year, it would have increased Yitai Coal's marketable reserves by 7.7% to 1.24 billion tons, output by 36% to 47.8 million tons and profit by 43.1% to CNY 8.23 billion last year. But its profit margin would have been cut to 30.5% from 34.8%, since the operations to be acquired include a greater contribution from the low-margin coal-trading business.

Short news

- Peabody Energy, the largest American coal producer, is in talks with companies including China Chengtong Holdings Group and China Datang about selling an Australian coal mine for more than AUD500 million. Other parties involved in the discussions to buy the Wilkie's Creek thermal coal mine include Korea's LG International.
- Mongolian iron ore miner Altain Khuder plans to raise about USD300 million through a Hong Kong IPO. The company owns the Tayan Nuur iron ore mine in southwestern Mongolia. The IPO is expected to be launched in the fourth quarter. Altain Khuder has been exporting iron ore to China from its Tayan Nuur mine since 2009 under a 15-year supply agreement with a unit of China's Baoshan Iron & Steel (Baosteel).
- Three Chinese companies — Baosteel, Hunan Valin and Minmetals — have subscribed to become founder shareholders of globalORE, a Singapore-based electronic platform for physical iron ore trade. The platform is considered by some as a rival to a similar one just launched by the China Beijing International Mining Exchange. A Baosteel representative said the two platforms could complement each other. It also backs the Beijing platform.
- Commercial deep-sea mining by China of polymetallic nodules that contain copper, nickel and cobalt among other key minerals, can begin as early as 2030, according to the former Director of the State Oceanic Administration Sun Zhihui. Last year, China was among the first group of countries approved by the International Seabed Authority to look for polymetallic sulphide deposits in the Southwest Indian Ridge, and the country is now applying to explore for cobalt in a new area in the Pacific Ocean. China has explored more than 80,000 square kilometers of the floor of the Pacific and Indian oceans.

- Iron ore prices will fall 19% to around USD110 a ton before finding a "long-term, sustainable" level as China's economy slows, according to Fortescue Metals Group CEO Neville Power. Iron ore in May posted the biggest monthly drop since October on concern that slower growth in China is curbing demand from mills.
- Fortescue Metals Group (FMG) and Baosteel will merge their interests in two magnetite projects into a Hong Kong-based vehicle. FMG will then own 88% of the new venture, FMG Iron Bridge, and Baosteel 12%. The joint venture will include the Glacier Valley and Northstar mining areas in Western Australia, which have a total of 3.2 billion tons of resources. The deal needs approval from Australia's Foreign Investment Board and China's State-owned Assets Supervision and Administration Commission (SASAC). FMG and Baosteel are already partners in the Glacier Valley project under a 65-35 venture.
- The Association of China Rare Earth Industry is offering whistleblowers a reward of CNY50,000 for verified reports of illegal exploration, smelting, processing and smuggling of rare earths. China has started to curb production and exports of the rare earths to protect the environment and conserve resources after years of rampant exploration.
- "Iron ore inventories at major ports have been building up since the Lunar New Year, which is quite unusual," said Wei Hongbing, President of Tianjin Harvest International Shipping Co. These ports are almost out of space for storage, Wei added.

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This newsletter is realized with the support of the Federal Government of Belgium, the Flemish Government, the Walloon Government and the Government of the Brussels-Capital Region.

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