

OPPORTUNITIES FOR SRI LANKAN PRODUCED AUTOMOBILE COMPONENTS IN BRAZIL



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01 SUMMARY

Brazil is the largest automobile market in South America with over 2 million units in vehicle sales annually. It is also the largest producer of automobiles in the continent and the 9th largest in the world with over 40 manufacturing facilities. Currently, Fiat, Volkswagen General Motors and Ford dominate the market with nearly 70 percent of sales. However, recent developments reveal that Korean and Japanese brands have been making steady gains in the market.

With an estimated GDP per capita of US\$15,390 (PPP-2015), Brazil has a significantly large market base for automobiles. Today, the Brazilian automotive industry is capable of assembling and making Formula-1 racing cars.

Brazil has a very strong automobile component industry also which support the continuous expansion of the automobile industry. Most of the parts for automobiles are being produced within Brazil itself. Brazil was ranked the 19th best market for original equipment parts and the 29th for aftermarket products in 2015.

02 MARKET DESCRIPTION

CURRENT & PROJECTED PRODUCTION AND LOCAL SUPPLY & IMPORT TRENDS

The total automobile sales in 2015 were 2.57 million units out of which 2.43 million units were produced domestically (Table-1). Market protection in the form of tariffs and quotas on imports has prompted companies to open or expand automotive production facilities within Brazil¹.

The current economic recession in Brazil has badly affected the automobile industry and it was predicted that sales would go down to 2.014 million vehicles in 2016. Predictions seem to be correct since only 1.952 units were sold until November 2016.

Brazil's vehicle market is expected to recover gradually from the beginning of 2017. As per the projections, vehicle sales would increase to 2.14 million units in 2017 and 2.22 million units in 2018.

¹ The import tax on automobiles is 35 percent, on top of which is the 55 percent industrial product tax, then the state tax of 18 percent (Sao Paulo rate) and the Social Contribution Tax of 11.6 percent. Together these taxes can increase the price of imported cars by over 100 percent. Some of the most recent protection measures went into effect in 2012, including applying a quota on imports from Mexico, from where auto manufacturers had previously been able to export easily to Brazil due to a tariff exemption for Mexico under a regional trade agreement.

CONSUMER PREFERENCE

There are now roughly 180 vehicles per 1000 Brazilians, which put vehicle ownership rates at less than half of developed market levels. Thus, there is still significant room for growth. Brazilians prefer to have smaller and mid-size models. At the end of 2015 Hyundai HB-20 was the highest selling car with 163674 units sales followed by Chevrolet Onix with 125931 units and new Ford Ka with 124247 units. Fiat Palio ranked in 4th place with 122634 units followed by Fiat Strada (commercial) with 98631 units. All these are small and mid-size vehicle models.



Consumers also prefer to have flex-fuel vehicles (capable of running on either gasoline or ethanol in any proportion). Over 90 percent of vehicles sold in the market are currently flex-fuel capable. The Brazilian automotive production is geared towards the domestic market and local models usually feature low embedded technology, and market innovations are limited with flex-fueled vehicles.

TABLE 1: AUTOMOBILE PRODUCTION AND SALES IN BRAZIL (2015)

Automobile Type	No. of Units Produced in 2015	No. of Units Sold in 2015 with imports
Passenger cars	2,020,000	2,123,980
Commercial vehicles	410,509	446,020
Total	2,430,509	2,570,000

Brazil has imposed very high tariffs on imported automobile parts. In order to avoid high import duties, auto manufacturers produce many automobile parts within Brazil. Over 85% of automobile parts are currently being produced locally (Table 2).

However, a significant number of automobile parts are still being imported to Brazil. The Brazilian automotive parts market was sized at around US\$ 44 billion in 2014 out of which US\$ 7.14 billion represented imported components. The size of the parts market went down to US\$ 37 billion in 2015 due to the current economic recession. The value of imported components also decreased to US\$ 5.1 billion in 2015 and further down to US\$ 4.48 billion in 2016.

It is expected that the automobile parts market would recover slightly by the end of 2017. As per projections, the size of the auto mobile parts would be around US\$ 39 billion by the end of 2017. It is expected that the value of imported components will also increase by 9.2% to reach US\$ 4.9 billion in 2017.

TABLE 2: AUTOMOBILE PARTS MARKET IN BRAZIL (VALUE IN US\$ Billion)

Year	2014	2015	2016	2017
Value of the Automobile Parts Market	44.0	37.0	NA	39.0
Value of imported Automobile Components (based on FOB value)	7.14	5.11	4.48	4.90

03 OPPORTUNITIES FOR SRI LANKAN EXPORTERS

There has been a growing market for automobiles in Brazil until 2014. Though the industry is at present facing a setback due to the current economic recession, it is anticipated that the automobile industry will come swiftly recover in the years ahead.

In the meantime, the Brazilian Government is encouraging entire production within the country². In this context, it is expected that more and more parts would be produced within Brazil.

Sri Lankan exporters can enter into the market by supplying basic parts for the industry (especially to Tier-3 producers). Sri Lankan exporters who are engaged in exporting finished products such as automotive seats could explore the possibility of supplying directly to the auto manufacturers. However, it is important to note that apart from the quality of the product, the capability of continuous supply in volumes is also very important in supplying to auto manufacturers directly. Finished products exporters can also enter into the aftermarket through individual auto parts importers.

²The Brazilian government has formulated favorable trade and investment policies to encourage private investments, and it has also made provisions to give the investors exemption from custom duties and other taxes on purchase of certain capital goods and infrastructure. To attract more foreign investment into the sector, the Brazilian government has made several reforms at macroeconomic levels. The government has completely restructured its investment policies through revision of policy barriers obstructing the growth of the industry.

It is observed that, in spite of the stringent protective measures, some vehicle manufacturers in Brazil still rely heavily on imported auto parts largely because of the difficulties and high costs of doing business in the country. For instance, Toyota imports lot of parts from its other plants abroad and international suppliers. This could be an opportunity for Sri Lankan exporters who are already supplying to such companies based in other countries.

04 IMPORT TARIFFS ON AUTOMOBILE PARTS IN BRAZIL

Brazil has one of the most protected automotive parts markets in the world. Taxes are calculated in a cascading manner based on the CIF value. The import tax for most of the parts ranges from 14 to 18 percent and the sales tax is levied up to 18%. Apart from that, state tax of 18 percent (Sao Paulo rate), Social Contribution Tax of 7.6 percent and Contribution to social integration programme of 1.65% are also levied. Specific Import tariffs for identified automobile component products to Brazil are given in Annex-I.

Members of MERCOSUR and its associate members (Argentina, Brazil, Paraguay, Uruguay, and Venezuela, Bolivia, Chile, Colombia, Ecuador and Peru) enjoy tariff concessions for auto parts exports to Brazil. However, these countries are not significant suppliers of auto parts to Brazil.

Israel also enjoys tariff concessions for auto parts under the free trade Agreement between Israel and MERCOSUR. However, Israel has still not exported auto parts identified by Sri Lankan exporters. India has also been granted tariff concessions for automobile parts under the MERCOSUR and India free trade Agreement. However, India does not enjoy any tariff concessions for the products identified by Sri Lanka.

Mexico also enjoys tariff concessions for automobiles and auto parts under the Economic Complementation Agreement (ACE) No.55 between Mexico and MERCOSUR³. Mexico exported US\$ 22 million worth of auto parts from the list of identified products by Sri Lanka.

05 SRI LANKA'S EXPORT PERFORMANCE TO BRAZIL

The total value of imports by Brazil for the six potential products identified was US\$ 948.33 million in 2015.

Out of the six automobile parts identified, Sri Lanka has exported only two products i.e. **Gaskets, washers and other seals** and **Parts and accessories of motor vehicles**. Export values of these two products in 2015 were US\$ 0.184 million and US\$ 0.01 million respectively.

³The Economic Complementation Agreement (ACE) No 55 regarding the automotive sector between Mexico and the member countries of the MERCOSUR (Argentina, Brazil, Paraguay and Uruguay) was signed in July 2002 as part of the ongoing negotiations anticipated under Economic Complementation Agreement (ACE) No 54. Under the automotive agreement, countries negotiate annual bilateral import quotas for tariff-free entry of automobiles. Such annual quotas have been established between Mexico and Argentina; Mexico and Brazil; and Mexico and Uruguay.

Brazil imported US\$ 478 million worth of 'Gaskets, washers and other seals' in 2015. The main suppliers included USA, China, Germany, Italy, Japan, Korea and France. Brazil imported US\$ 163 million worth of 'Parts and accessories of motor vehicles'. The main suppliers included China, Mexico, Korea, Turkey and Germany. Details of Sri Lanka's exports to Brazil and main supplying countries for the identified products are given in Annex II.



It is observed that international auto manufacturers based in Brazil are sourcing many parts from their home countries. This has been a main barrier for automobile parts suppliers in other countries to get into the market.

However, China exports a significant volume of auto parts to Brazil mainly due to its low cost of production. Most of these Chinese auto parts are being imported for aftermarket where prices are very competitive. China's

exports to Brazil for the six products identified were US\$ 123.2 million in 2015.

06. CONCLUSION AND RECOMMENDATIONS

Brazil is the largest producer of automobiles in Latin America and the 9th largest in the world with over 2.5 million units in vehicle sales. Brazil's auto parts industry is estimated to be US\$ 37 billion. Most of the automobile parts are currently being produced in Brazil itself. The value of imported auto parts is US\$ 5.11 billion.

Brazil is a promising market for identified Sri Lankan automobile parts. However, most of these identified auto parts have been imported by international auto makers based in Brazil from their home countries.

China has a special advantage in exporting automobile parts to Brazil mainly due to its low cost of production. Tariff concessions granted under free trade Agreements do not have significant impact over imports of auto parts to Brazil. Only Mexico is exporting automobile parts to Brazil utilizing preferential tariffs.

The following activities would be helpful for Sri Lankan auto parts exporters to get into the Brazilian market.

- Participating in leading Automotive Parts and Accessories Trade Shows in Brazil. There are three such leading trade shows i.e. **Automec, Autoparts and Autopar**. The details of these trade shows are given in Annex III.
- Organizing country specific promotional programmes in Brazil. Such an event should be organized in association with industry organizations such as National Association of Manufacturers of Motor Vehicles (ANFAVEA).

07. REFERENCES AND STATISTICS SOURCES:

National Association of Manufacturers of Motor Vehicles of Brazil:

<http://www.anfavea.com.br/>

Ministry of Industry, Foreign Trade and Services: <http://www.mdic.gov.br>

The Statistical Portal: <https://www.statista.com>

International Trade Centre: <http://www.trademap.org/>

The Brazil Business: <http://thebrazilbusiness.com>

Central Intelligence Agency-USA: <https://www.cia.gov>

World Bank Statistics: <http://data.worldbank.org>

Globo.Com: <http://g1.globo.com/>

Brazilian Agency for the Promotion of Exports and Investments: <http://arq.apexbrasil.com.br>

08. ANNEXES

ANNEX I: Tariff Applied by Brazil for the identified Automobile Parts

HS Code	Product details	Tariff	
		MFN %	Preferential %
4016.10.10	Articles of cellular rubber, n.e.s. (Parts of motor vehicles, tractors and machines or appliances other than those for household use of Chapter 84, 85 or 90)	Import duty - 16 IPI-18 ICMS-18 PIS-1.65 COFINS-7.60	Argentina - 0 Uruguay - 0 Chili - 0 Bolivia - 0 Peru - 0 Colombia - 0 Ecuador - 0 Venezuela - 0 Israel - 6.4 Mexico 12.8
4016.93.00	Gaskets, washers and other seals	Import duty - 16 IPI-8 ICMS-18 PIS-1.65 COFINS-7.60	Argentina - 0 Uruguay - 0 Chili - 0 Bolivia - 0 Peru - 0 Colombia - 0 Ecuador - 0 Venezuela - 0 Israel - 6.4 Mexico - 12.8
8410	Hydraulic components and accessories for automobile (Hydraulic pumps, Valves)	Import duty - 14 IPI-00 CMS-18 PIS-1.65 COFINS-7.60	Argentina - 0 Chili - 0 Bolivia - 0 Peru - 0 Colombia - 0 Ecuador - 0 Venezuela - 0 Israel - 3.5

HS Code	Product details	Tariff	
		MFN %	Preferential %
			Uruguay - 10.8 Mexico - 11.20
842199	Automobile electric wires – DC wires	Import duty - 14 IPI – 8 ICMS-18 PIS-1.65 COFINS-7.60	Argentina - 0 Chili - 0 Uruguay - 0 Bolivia - 0 Mexico - 0 Peru - 0 Colombia - 2.66 Ecuador - 8.10 Venezuela - 2.66 Israel - 7.2
870870.10	Road wheels and parts and accessories thereof for driving axles of the vehicles of subheading 8701.10, 8701.30, 8701.90 or 8704.10	Import duty - 14 IPI - 5 ICMS - 18 PIS - 1.65 COFINS - 7.60	Argentina - 0 Chili - 0 Uruguay - 0 Bolivia - 0 Mexico - 0 Peru - 0 Colombia - 2.66 to 3.42 Venezuela - 0 Israel - 3.5-7.2
870870.90	Road wheels and parts and accessories thereof for other vehicles categories	Import duty - 18 IPI - 5 ICMS - 18 PIS - 1.65 COFINS - 7.60	Argentina - 0 Chili - 0 Uruguay - 0 Bolivia - 0 Mexico - 0 Peru - 0 Colombia - 2.66 to 3.42 Venezuela - 0 Israel - 3.5-7.2
940120	Automotive seats	Import duty - 18 IPI - 15 ICMS - 18 PIS - 1.65 COFINS - 7.60	Argentina - 0 Chili - 0 Uruguay - 0 Bolivia - 0 Mexico - 0 Peru - 0 Colombia - 0 Ecuador - 2.66 Venezuela - 0 Israel - 3.5

ABBREVIATIONS:

- IPI – is one of the basic sales taxes in Brazil. It applies to industrial products that are produced in Brazil or imported. The IPI tax is calculated based on Sales price For Brazilian goods and on (Sales price + Shipping Cost + Import Duty) for imported goods.
- ICMS - is a State tax, and varies depending on the industry and State. ICMS in Sao Paulo is the highest 7%-25% (generally it averages 18%).

- PIS - is shortened form for "Programa de Integração Social". It's a social contribution tax, payable by corporations, identified to finance the payment of unemployment insurance and allowance for low paid workers. The current PIS rate is 1.65%.
- COFINS - is shortened form for "Contribuição para o Financiamento da Seguridade Social". It's a federal contribution tax, based on gross revenues of business sales. The current COFINS rate is 7.6%.

ANNEX II: Brazil's Imports Statistics for identified Sri Lankan Automobile Components in 2015 (Value in US\$ million)

HS Code	Product details	Sri Lanka' Export to Brazil	Brazil's Total Imports And Main Suppliers	
			County	Value
4016.10.10	Articles of cellular rubber, n.e.s. (Parts of motor vehicles, tractors and machines or appliances other than those for household use of Chapter 84, 85 or 90)	0	Korea	5.92
			Japan	2.94
			France	1.93
			Thailand	1.54
			USA	1.51
			Italy	1.45
			China	0.9
			México	0.45
			Total	18.93
4016.93	Gaskets, washers and other seals	0.184	USA	88.89
			China	48.48
			Germany	41.31
			Italy	37.83
			Japan	37.16
			Korea	32.01
			France	26.61
			Thailand	20.28
			Mexico	18.95
			UK	14.52
			Sweden	12.3
			Spain	11.24
			Total	477.76
8410	Hydraulic components and accessories for automobile (Hydraulic pumps, Valves)	0	China	16.1
			Germany	6.05
			Italy	5.13
			Paraguay	2.86
			India	2.69
			Czech Republic	1.96
			Total	36.17
842199	Automobile electric wires – DC wires	0	USA	71.53
			Germany	30.92
			China	16.22
			Italy	12.27
			Japan	7.82
			UK	7.63
			Thailand	6.75
			France	5.37
			Korea	4.36
			Argentina	4.3
			Total	203.77

870870	Parts and accessories of motor vehicles (Road wheels and parts and accessories thereof for driving axles of the vehicles of subheading 8701.10, 8701.30, 8701.90 or 8704.10 AND Road wheels and parts and accessories thereof for other vehicles categories)	0.01	China	41.5
			Mexico	32.8
			Korea	24.4
			Turkey	15.4
			Germany	11.1
			USA	6.4
			Hungary	3.7
			Argentina	3.3
			India	3.1
			Total	163.37
			940120	Automotive seats
Italy	8.82			
USA	5.19			
Japan	2.91			
Germany	2.75			
UK	1.34			
México	1.22			
Sweden	1.16			
Total	48.33			

ANNEX III: AUTOMOTIVE PARTS AND ACCESSORIES TRADE SHOWS IN BRAZIL

01. AUTOMECC

Automecc in Sao Paulo is a trade fair for automotive parts, accessories and services. It is a meeting place for the spare parts industry and one of the leading fairs of its kind in Latin America. Many exhibitors from the industry will be showcasing innovations and solutions in the areas of spare parts, tuning, rebuilding, maintenance, IT and management. It is an ideal platform to introduce new products and services, to watch the latest trends in the market, and to make business contacts with potential customers.

The Automecc will take place on 5 days from 25-29 April 2017 in Sao Paulo.

Fair organizer:

Reed Exhibitions Ltd. UK
 Gateway House 28 The Quadrant
 TW91DN Richmond, United Kingdom of Great Britain and Northern Ireland
 Tel: +44 (0)20 82712134
 Fax: +44 (0)20 89107823
 Email: rxinfo@reedexpo.co.uk
 Web: www.reedexpo.com
Trade Show Contact:
 Email: enquiry@reedexpo.co.uk
 Web: www.automeccfeira.com.br

02. Autopar:

Autopar is a trade fair for automotive parts and accessories with the participation of many international exhibitors. This exhibition offers innovative new features and shows trends in the industry. The fair is one of the most important dates in the motor spares sectors in Brazil. Autopar takes place biennially.

The next trade fair is expected to be held in June 2018 in Curitiba.

Fair organizer:

Diretriz Empreendimentos
Grã Nicco, 113, 4º andar, bloco 4
81200200 Curitiba, Brazil
Tel: +55 (0)41 30751100
Email: diretriz@diretriz.com.br
www.diretriz.com.br

Trade Show Contacts:

Email: diretriz@diretriz.com.br
Web: www.feiraautopar.com.br

03. Autoparts:

Autoparts is a trade fair for automotive parts and accessories with the participation of many international exhibitors; this exhibition offers innovative new features and shows trends in the industry. The fair is one of the most important dates in the sector in Brazil.

The Autoparts in Porto Alegre took place from Wednesday, 16 October to Saturday, 19 October 2013.

The next fair is expected in October 2017.

Fair organizer:

Diretriz Empreendimentos
Grã Nicco, 113, 4º andar, bloco 4
81200200 Curitiba, Brazil
Tel: +55 (0)41 30751100
Email: diretriz@diretriz.com.br
Web: www.diretriz.com.br

Trade Show Contacts:

Email: diretriz@diretriz.com.br
Web: www.feiraautopar.com.br

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