Clock ticking for auto 'shells'

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A recent announcement from China's Ministry of Industry and Information Technology finally ended the life-tenure validity of production certificates in the auto industry, which is expected to accelerate consolidation in the sector.

According to the notice on the ministry's official website, manufacturers of automobiles and motorcycles that have gone bankrupt will have their production certificate repealed.

And for those companies that have "failed to maintain normal operations" — that is producing and selling only a few or even zero vehicles in the past two years — the ministry will give them two years to fix their business, otherwise it will suspend their certificates.

Previously, the certificate used to be a once-and-for-all offer, so that even when some auto companies struggled or failed to make a living, they didn't really die because they still owned their certificates and the affiliated product licenses.

To prevent overcapacity in the auto sector, the Chinese government has been cautious in approving new automakers and about letting existing manufacturers add new plants, therefore, some little-known, ailing companies, known as "shells", could make a fortune by selling their production certificate and product license.

Mei Songlin, vice-president and managing director of the China operations of consultancy JD Power, told China Daily that the long-awaited policy will have a big impact by eliminating ailing companies.

A clear signal

"It is a clear signal that the government has decided to reduce the number of automakers in China and increase industry consolidation," Mei said.

China now has more than 1,300 companies that manufacture all kinds of vehicles, among which there are 171 automobile companies, 120 motorcycle companies, more than 900 special-purpose vehicle makers and 135 low-speed truck and tricycle makers, according to statistics from the ministry.

And "some of the more than 1,300 companies have suspended production or been close to halting for years", according to the Ministry of Industry and Information Technology.

A list from the China Association of Automobile Manufacturers containing the production and sales performance of 71 domestic companies showed that 11 companies produced no vehicles in the first half this year.

Yet according to industry insiders, the number of companies with no production is far more than that.

Mei noted that the new policy is likely to accelerate acquisition of these "zero-production companies" by automakers seeking to expand.

Good time to buy

"It's a good time to buy these companies at a reasonable price," Mei said, explaining that it's because the "shells" know they have to be sold as soon as possible, otherwise they will be worth nothing once their certificates are withdrawn.

Some "shell" companies have been sold in the past at very high prices as the buyers urgently wanted to expand their capacity.

Ford Motor Co's joint venture with Chang'an Automobile Group in China recently announced a new investment plan in the eastern city of Hangzhou to build high-end vehicles.

Without official confirmation from both partners, domestic media reports quoted insiders who said that a subsidy of Chang'an had acquired little-known Chahua (Camellia) Auto in order to gain a production certificate for the new Hangzhou plant.

The cost of this "shell" was 450 million yuan ($70.5 million), paid by both partners and the local government, the report said.

Similarly, when Volkswagen, Nissan and BAIC Group sought to expand their capacities in new territories, they all acquired local "shells" in order to gain production certificates.

However, Zhong Shi, an independent analyst, said that the elimination of zero-production companies might make it easier for the government to approve applications for new production capacity.

"With someone out, it's easier to let a new one in," Zhong said.

"The new policy is good news," he added, "companies going out and coming into the industry should follow the rules of the market."

Analysts also noted that another important purpose of the new measure is to stop some companies from selling their product licenses to some unqualified manufacturers to make money.

The behavior, mostly by small manufactures of commercial vehicles, is harmful to the society since the product quality can't be guaranteed, they said.

Local brands feel squeeze

R&D collaboration needed if domestic companies are to raise their game and compete with foreign brands

By GONG ZHENGZHENG
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>
> DONG YANG
> VICE-PRESIDENT OF THE CHINA ASSOCIATION OF AUTOMOBILE MANUFACTURERS

A number of domestic automobile brands in China, the world's largest market, might not be able to survive in the coming years, according to a senior industry official.

Dong Yang, vice-president of the China Association of Automobile Manufacturers, recently warned that increasingly fierce market competition will put about half of the indigenous brands out of business over the next three to five years.

"Market competition will turn red-hot with foreign carmakers expanding production in China and more cities limiting car purchases," Dong said.

"Indigenous brands are much weaker than foreign carmakers in terms of their research and development capabilities and brand image. Therefore, their market share will inevitably slump further."

Dong's warning comes after homegrown passenger car manufacturers registered poor performance in the first half of this year.

Sales of Chinese branded sedans tumbled by 6.8 percent year-on-year to 1.42 million units in the first half of this year, reducing their market share by 3.6 percentage points, according to data from the China Association of Automobile Manufacturers.

Many major domestic brands, such as Geely, Chery, BYD and Great Wall, failed to meet their first-half sales targets. In contrast, the market share of German, Japanese and South Korean brands increased.

"The hardships homegrown brands are facing are unlikely to change in the next two or three years," Dong said.

A fragmented market

The Chinese passenger vehicle sector is very fragmented with too many weak players. They mainly produce cheap models retailing for less than 100,000 yuan ($15,674).

There were 211 passenger vehicle brands owned by some 100 domestic carmakers by the end of 2010, an increase of 200 percent from 2005, according to the association.

Foreign automakers' aggressive expansion in China, with more production capacity, new models and price cuts, will further squeeze the space for indigenous brands.

Germany's Volkswagen Group, the top passenger car provider in China, plans to invest 14 billion euros ($17 billion) to add facilities and new models in China between 2012 and 2016.

The carmaker that runs two joint ventures in China plans to raise its annual production capacity here to 3 million units by 2014.

Local governments' restrictions on car purchases through license plate lotteries and auctions are expected to put extra pressure on homegrown brands.

At present, there are four cities — Beijing, Shanghai, Guangzhou and Guiyang — implementing such policies. And it is expected that more cities will follow suit to ease increasingly serious traffic congestion.

"I will of course choose a locally made foreign brand model, instead of an domestic one, if I'm lucky enough to get a license plate. Foreign brands have a better image," said a lawyer in Beijing surnamed Liu.

The 28-year-old woman has participated in lucky draws for a license plate in Beijing for seven months. The city started limiting car purchases through monthly plate lotteries at the beginning of last year.

Dong from the auto association suggested domestic brands should join forces in research and development and other areas to survive, learning from foreign companies.

"R&D is so expensive, unless they pool resources indigenous brands will not be able to compete," he said.

To deal with rising costs, lots of global carmakers are already collaborating in R&D.

In the latest move, last month, German carmaker BMW and Japan's Toyota agreed to team up in a range of projects, including lightweight construction, fuel cell batteries, electric drivetrains and development of a new sports car.

LIU HUAIYU / FOR CHINA DAILY

Market competition is becoming red-hot with foreign carmakers expanding production in China.

JOINT VENTURE KEEPS ON ROLLING

Sino-German joint venture Shanghai Volkswagen last week opened a new plant in Yizheng, Jiangsu province, and the first vehicle — a Volkswagen Polo — rolled off the production line.

The Yizheng plant has a designed capacity of 300,000 vehicles a year and will produce both Volkswagen and Skoda branded automobiles. It is the fifth plant of the joint venture — the largest car manufacturer in China — which also has existing facilities in Shanghai and Nanjing.

The automaker is also preparing new production lines in Ningbo, Zhejiang province and Urumqi in the Xinjiang Uygur autonomous region.

SHORT TORQUE

Citroen puts DS on fast track

Citroen's DS4 and DS5 models made a strong impression during last week's media test drive in Sichuan's Jiuzhaigou, a mountainous area that reaches an altitude of 3,500 meters.

The DS is the high-end brand by the French automaker Citroen. The imported DS4 and DS5 just went on sale in Beijing in June, priced from 242,800 to 348,800 yuan ($38,100-54,700).

Citroen DS dealerships have been set up in cities including Beijing, Nanjing, Shenzhen, Hefei and Shanghai. By August, more DS dealerships will be built in at least six more cities.

Arnaud Ribault, general manager of Chang'an PSA — Citroen's joint venture in China — said the DS5 will be locally made in 2013. The venture aims to sell 200,000 DS cars in the country by 2015. To help reach that goal, they aim to establish 200 DS dealerships by that time.

Toyota gears up for components

Toyota Motor Corp last week laid the foundations for a component plant of 140,000 square meters in Changshu, Jiangsu province — where the automaker's Chinese R&D center is also located.

The company has made an initial investment of around $285 million in the plant, which will mainly produce continuously variable transmissions, known as CVT.

With planned annual CVT production capacity of 240,000 units, it is expected to begin production from September 2014.

Currently Toyota's Chinese joint ventures are in Guangzhou in the south, Changchun in the northeast, Tianjin in the north and Chengdu in the southwest.

Sales of 20m units predicted

According to an analysis report released by the China Association of Automobile Manufacturers last week, China's auto sales this year will reach some 20 million units, an increase of 8 percent year-on-year.

Statistics show that in the first half year of the year, 9.6 million units were sold in China, up 3 percent on the same period last year. However, passenger vehicle sales accounted for the rise as sales of commercial vehicles were down.

Uruguay wants BYD buses

Domestic automaker BYD will begin delivering GreenCity electric buses to Uruguay from the end of this year. Total exports are expected to reach over 500 units by 2015, local media Mercopress reported recently.

The GreenCity electric bus can travel 250 kilometers on a single charge and it consumes less than 130 kilowatt hours of electricity in every 100 km.

An earlier deal between BYD and the city government of Windsor in Canada said the Chinese company will produce 500 electric buses annually in the city.

Hafei plant in Brazil

Hafei Automobile, a subsidy of the State-owned Chang'an Automobile Group, signed a joint venture contract on July 24 with Brazilian dealer CN Auto to assemble vehicles in the South American country, according to the website of the Ministry of Commerce.

With an investment of 250 million Brazilian real ($124 million), construction on the plant is expected to begin next year, with production starting in 2014. It will be Hafei's first production facility in South America.

Currently Hafei exports two mini models to Brazil through the CN Auto.