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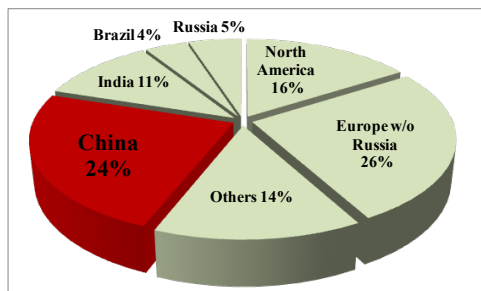
CHINA BUSINESS UPDATE

Heavy-Duty

Monthly Intelligence and Insights on China's Heavy-Duty Market

AlixPartners: China to account for 24 percent of global commercial truck growth by 2014

– by *Lei Xing*



AlixPartners predicts that China is to contribute 24 percent of global truck production growth by 2012.

SHANGHAI - China is on track to account for 24 percent of some 1.8 million commercial trucks (heavy-duty and medium trucks) produced globally by 2014, according to a new study released on September 8 by AlixPartners, a global business advisory firm.

“Heavily influenced by its expanding economy and government policies, China has been a lone star in the global

(cont'd on p. 2)

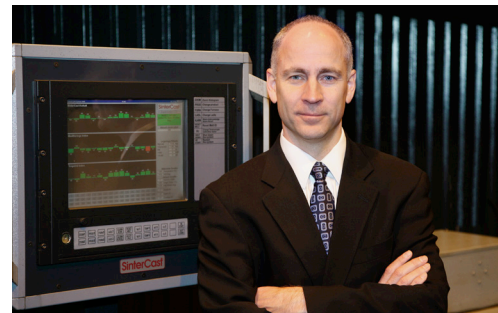
FAW develops CGI technology

– by *William Diem*

First Auto Works (FAW) is developing world class foundry technology that could give its commercial vehicles a fuel economy advantage in the future.

In May, FAW took delivery of a small prototyping foundry control system at its Changchun research and development center that will allow it to cast engine blocks using compacted graphite iron (CGI) technology.

“China wants state-of-the-art technology and performance,” said Steve Dawson,

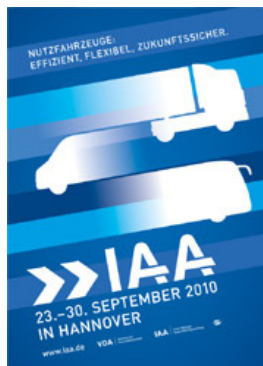


Steve Dawson: China wants state-of-the-art technology and performance.

(cont'd on p. 3)

Six Chinese OEMs to showcase in Hannover

– by *Toni Li*



A total of 85 exhibitors from China will showcase their vehicles and products in the 63rd International Motor Show, or IAA Commercial Vehicles, including four domestic busmakers

(Xiamen King Long United, Youngman Automobile, Yutong Bus and Zonda Automobile), a truckmaker (Anhui Hualing Automobile) and China’s leading diesel engine provider Weichai Power, together with other manufacturers.

The event, organized every two years, will feature 1,731 exhibitors from 41 countries during September 23-30 this year, exhibiting their numerous innovations and technological highlights in the commercial *(cont'd on p. 4)*

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EDITOR'S NOTE

Growing inventory amidst expanding capacity



(China Automotive News), quite a number of dealers had increased inventory before the summer as they were buoyed by the booming sales in the first half that almost equaled to those of the entire last year. Their actions seemed to make sense because for some time many of them were hardly able to get enough trucks from manufacturers to sell.

While a few conservative dealers made sure not to bring in excessive inventory, most dealers who have been bullish are now hit hard by the sharp decline in demand. Some of them now feel the pinch of cash flow due to their overstocking.

Heavy-duty OEMs are also facing problems due to the sudden change in market demand. The explosive growth in sales since last year helped boost the confidence of not only mainstream OEMs

The sudden dry-up of demand as of July has caught both OEMs and dealers unprepared.

As is revealed by a recent national survey of heavy-duty truck dealers by a reporter from *Zhongguo Qiche Bao*

in new capacity expansion but also new investors in moving into heavy-duty manufacturing. Dongfeng Commercial Vehicle and Foton Motor have both launched new assembly projects. Sinotruk has acquired Wangpai in Chengdu in an effort to expand into western China. Shaanxi Auto headed south by investing in a facility in Changsha. Passenger vehicle manufacturers Chang'an and Chery are optimistic enough to have launched their heavy-duty projects.

Although the market should stabilize in the next few months, excessive dealer inventory and expanding OEM capacity will combine to drive up heavy-duty competition in the near future. The one lesson that both manufacturers and dealers should have learned through the recent market upheavals is how to correctly assess the impact of government macro policies. While such policies may very well work wonders in driving up demand, such demand is often short-lived and unsustainable.

AlixPartners: China to account for 24 percent of global commercial truck growth by 2014, cont'd from p. 1:

commercial truck market, with production growth increasing 22 percent in 2009 compared with a 29 percent volume decline around the world," said Ivo Naumann, managing partner of AlixPartners and head of the firm's Shanghai office, citing the AlixPartners 2010 Global Commercial Vehicle Outlook. The Outlook is based on an in-depth examination of commercial vehicle manufacturers and suppliers globally and in China.

According to the study, China's production of nearly 910,000 commercial trucks last year took up almost half of the global production volume of 1.86 million units. In the first half of this year, the sector grew even faster, at a 76 percent clip, driven by China's strength in producing lower-cost products to meet the demand from

burgeoning emerging markets in places like Africa, Southeast Asia and the Middle East.

"By improving quality while maintaining acceptable cost levels, China has successfully entered the middle-market for trucks which are in huge demand in the fastest growing economies of the emerging markets, including China itself," said Naumann. "This growth will continue and allow Chinese players to invest in R&D and upgrade their technology to meet a certain level of emission standards at home and in emerging markets around the world."

Naumann believes that two to three Chinese commercial truck manufacturers are expected to challenge the global leaders as far as volume is concerned. Two of the top three major global commercial truck makers by volume are Chinese and a

total of five Chinese companies are in the top 15. These five companies are Dongfeng, FAW, Sinotruk, Beiqi-Foton and Shaanxi Auto.

As for foreign commercial truck manufacturers like Daimler Truck, MAN and Volvo Truck, while their share of the Chinese commercial truck market will remain only around 5 percent for some time to come, they have been picking up steam recently, forming alliances with Chinese partners one by one, according to Naumann.

“The western truckmakers have

woken up, realizing that the market is important,” said Naumann, citing the recent alliances formed between MAN and Sinotruk, Daimler Trucks and Beiqi-Foton, and Navistar and JAC. “China will officially move to Euro IV in 2010 and Euro V in 2012. This and other factors such as regulations, rising energy prices, improved infrastructure, and demand in high-load capacity are pushing some markets toward higher-end products. This presents an opportunity for the western truckmakers in China.”

Asked whether these new alliances

are likely to succeed or not given that historically, foreign truck manufacturers have not fared well in China, Naumann told **CBU/CAR** that there is “high chance that they will succeed.”

“These western companies have realized that the partnership with Chinese companies is the best chance for them to acquire market share quickly in China. Cooperation nowadays is different than before and the deals are structured differently and much more intelligently,” said Naumann. **CBU/CAR**

FAW develops CGI technology, cont'd from p. 1:

CEO of Sintercast AB, the Swedish company that supplied the equipment in a recent interview with **CBU/CAR**. “FAW design people are contemplating CGI designs, and no doubt the initial prototypes will come from the R&D foundry. When it’s launched for production, then we would hope to install the full system in the production plant.”

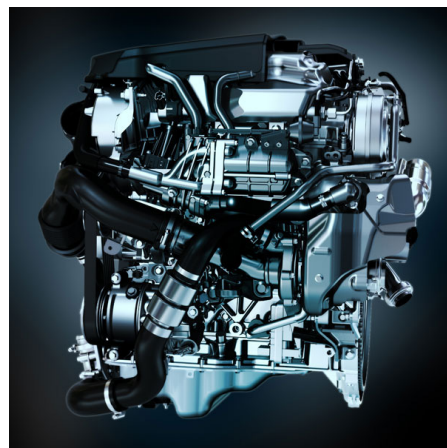
CGI makes cast iron stronger, so that parts can be thinner, and fuel economy in trucks can be improved by 20-40 percent, said Dawson.

However, license fees make it a more expensive process than casting ductile gray iron. While the theory has been known since 1948, it didn’t enter automotive production until 1999, when computer process controls matured.

In 1999 Audi began the low-volume production of a V-8 diesel in the Audi A8. Ford began high volume production in 2003 for its large American pickups, and since then, said Dawson, it has become the standard for V-6 and V-8 diesels in which compression pressures are high and load paths within the metal block are complex.

Because the material is stronger, engines can be made smaller yet allow higher compression. The result is both higher performance and less mass, which adds to fuel efficiency. The iron blocks can be smaller than an aluminum block, which allows the whole engine to have less mass, said Dawson.

Audi says that the new 3.0-liter V-6 CGI diesel it is launching now improves fuel economy by 22-29 percent, in part because the cylinder block weighs 6.5 kg less, and the total engine at 193 kg is 15 kg lighter. The Audi engine block is cast in Tupy, Brazil, which also this year began



With CGI technology, engine parts can be made thinner but stronger.

casting the block for Ford’s new 6.7-liter V-8. Ford uses the process for its medium-duty diesels of 6.7-, 7.3- and 9.0-liters and is Sintercast’s largest customer.

FAW is the first Chinese automaker to invest in CGI, although Dawson said Sintercast is in discussions with other automakers.

“It’s a tough sell in China,” he said. “China doesn’t like to pay running fees, and we are a running fees business model. But like anything you can make your break-even calculation. Let’s

say that our fees cost something like 3 percent of selling price, something on that order, so if they have 3 percent scrap, its cheaper to work with us.”

The extra expense means CGI is not cost effective in Europe for four-cylinder diesel engine blocks, because the added strength has not yet been necessary. But medium- and heavy-duty truck engines in Europe use it both for blocks and cylinder heads, because of the higher compression involved.

Because luxury cars in China are oriented to gasoline instead of diesel, “the opportunity is on the truck side, and the opportunity in China for trucks is immense,” said Dawson.

“China’s heavy-duty truck market is bigger than Europe and the U.S. combined. China has adopted Europe style legislations, so all of those challenges that the European truck companies have solved with CGI, the Chinese are going to have the same problems and are likely going to have the same results.”

Austria’s AVL List “is far and away the leader for supporting heavy-duty diesel in India and China,” said Dawson, “and AVL is a pro-CGI company. They have more than 10, maybe more than 20 CGI projects.”

The process is already being used in China to make exhaust manifolds and turbocharger housings for international suppliers Honeywell and BorgWarner.

FAW has made the first castings at its R&D center in Changchun, and the company plans to present the process to Chinese journalists in September. **CBU/CAR**

Six Chinese OEMs to showcase in Hannover, cont'd from p. 1:



The XMQ6800 model is designed for short-distance passenger transportation.

vehicle industry. **CBU/CAR** has contacted mainstream Chinese participants for a preview of their exhibits at the event.

Xiamen King Long United (King Long) will launch three bus models at IAA Commercial Vehicles this year, the XMQ6127J, XMQ6800 and XMQ6130Y.

The XMQ6127J is an 12-meter city bus with 63 seats, targeting public transportation. The XMQ6800 model, equipped with Cummins ISB4.5E5 207 engine, is a medium passenger bus with a length of 8 meters and 31 seats. The XMQ6130Y model, a 13-meter passenger bus, is designed for inter-provincial or trans-national long-distance transport. All of the three models are specifically designed for

the European market and have obtained approvals to sell in the EU.

Meanwhile, representative from King Long also told **CBU/CAR** that, the company will unveil its cooperation with one of the largest transport groups in Europe at a signing ceremony

for the export of over 200 vehicles at its press conference on September 22 in Hall 16.

Youngman Automobile, based in Jinhua, Zhejiang Province, revealed

Zonda Automobile will display its Euro V bus model A9 on the exhibition ground. The vehicle, with a length of 12 meters and designed with 49 seats, is powered by a diesel engine from Fiat Powertrain. As revealed, Zonda Automobile expects to sell 3,000 buses this year, 40 percent of which will be sold outside China.

Anhui Hualing Auto (Hualing) told **CBU/CAR** through a telephone interview that the company will be presenting two heavy-duty truck products under the automaker's CAMC brand. As introduced, there will be a dumping truck and a tractor from the company's H08 series. Hualing was the first Chinese heavy-duty truck builder to attend IAA



The 49 seater bus from Zonda is equipped with ZF transmission and axles.

that it is bringing two vehicle models to the show, a luxury bus and a low-entry public transportation bus.

Yutong Bus, China's largest busmaker, is to exhibit three 12-meter buses (ZK6121HQ, ZK6125EGAA and ZK6126HGA) and one 14-meter bus (ZK6146HQKA) at IAA Commercial Vehicles. The company, headquartered in Henan Province, has just won Coach Builder of the Year, issued by BAAV in Shanghai this past May. Among the vehicles to be showcased at Yutong's booth, the ZK6125EGAA model is the hardest to miss. It is China's first fuel cell electric bus and has been awarded the BAAV Environment Award Bus at BAAV Bus World ASIA this year.

Commercial Vehicles in 2006, and this is the third time for the company to showcase its products at the event. A marketing staff noted that the Anhui-based truckmaker is not hoping for big sales by participating in the fair, but aims to build up international reputations for their brand and products.

Weichai Power, one of China's largest engine suppliers, will showcase three Euro V engine models at the exhibition, WP12.460E50, WP5.200E50 and WP7.300E50. The WP5 diesel engine was jointly developed by Weichai together with AVL and BOSCH, with power range at 117-147 kW (160-200PS), ideal for medium-duty trucks and buses. The

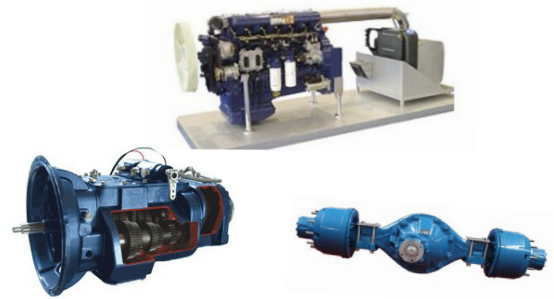


Yutong's ZK6125EGAA bus has been China's first fuel cell electric vehicle.

WP7 diesel engine was independently developed by Weichai, with power output at 155-220 kW (210-300PS). The company's 12L WP12 engine model, a cooperation result with AVL and BOSCH, will be presented together with a transmission from Shaanxi Fast Gear and axles from Hande Axle, as a complete powertrain system. Weichai Power is the controlling shareholder of both companies, and has formed a "Golden Supply Chain" in China's

heavy-duty truck industry. All engines from Weichai are designed under Euro V emission standards and have received TUV and GOST certificates.

CBU/CAR will be joining the 63rd IAA Commercial Vehicles at its media booth in Hall 13 F03. **CBU/CAR**



Weichai will be showcasing a powertrain system containing a diesel engine, a transmission and axles.

OEM NEWS

Sinotruk cooperates with Wangpai for wider product lines

CHENGDU, Sichuan – China National Heavy-Duty Truck Group Corp. (Sinotruk) and Chengdu Wangpai Motor Group Co., Ltd. (Wangpai) signed an agreement on August 23 to set up a new commercial vehicle company, Sinotruk Chengdu Wangpai Commercial Vehicle Co., Ltd. (tentative name), in Chengdu. Ma Chunji, chairman of Sinotruk, Cai Dong, president of Sinotruk, and Yuan Chengjun, chairman of Wangpai, attended the signing ceremony together with local government officials.

Enhance product portfolio

Based on the agreement, Sinotruk will provide funds for 80 percent share of the new company while Wangpai holds the rest of the stake. The Shandong-based truck builder will first inject ¥1 billion (\$147 million) for near-term projects and ¥3 billion later for long-term development.

Once established, the new company will allow Sinotruk, which currently only produces heavy-duty trucks and special-purpose vehicles, to expand its product portfolio to a full range of commercial vehicles, from heavy-duty to mini vehicles, as well as Wangpai's original product lines.

The marriage between the two companies is expected to have an annual production at 100,000 medium and heavy-duty trucks and 300,000 light and mini trucks by 2015. Next year, the 100,000-unit medium and heavy-duty truck project will be launched first. Future heavy-duty

trucks from the new company will be labeled under Sinotruk, and the rest of the product lines will continue to use the Wangpai nameplate.

According to **CBU-Autostats**, Sinotruk, headquartered in Jinan, Shandong Province, sold 107,754 heavy-duty trucks in the first seven months of 2010, up 59 percent over the same period last year. The company ranked third in the heavy-duty truck market and topped all other players when it comes to sales of heavy-duty trucks over 15 tons. However, comparing with its competitors, such as FAW, Dongfeng and Beiqi-Foton, the truckmaker finds a constrained development perspective, due to a single product line with only heavy-duty trucks on board.

Established in 1987, Wangpai has developed mature sales and aftersales networks, including 16 agencies, over 400 dealers and 300 aftersales service providers across 29 provinces, for its light and medium trucks. By cooperating with Wangpai, not only will Sinotruk be able to reform itself into a full-ranged commercial vehicle builder with light truck products, it will also enjoy an expanded sales network.

Enlarge market share in West China

In addition to Wangpai's different product lines, the geographic advantages from the Sichuan-based automaker have been another driving factor for Sinotruk's investment decision.

In 1999, the central government launched its "West China Development Strategy" in order to help and promote regional economic development in this vast area. A number of 12 less developed provinces in West China, taking up 71 percent of China's total area, were listed in the project. Trillions of money has been funneled into local infrastructure construction projects since then, and demand for heavy-duty trucks has increased steadily as a result.

On July 4, the central government held a national congress to re-emphasize its determination on the West China development, with a 10-year plan published. Right on the congress, 23 key projects, scheduled to launch before the end of this year with total financial support at ¥682.2 billion, were announced. It is believed that enormous government construction projects will significantly boost the local heavy-duty truck and construction machinery market.

Moreover, China has carried out a series of reconstruction projects after the Sichuan earthquake in 2008, which already boomed the local demand for dumping trucks. As reported, Sinotruk, with product advantages in heavy-duty dumpers, saw sharp annual sales growth from originally 1,000 units to around 7,000 units in 2009. Therefore, by working with Wangpai, Sinotruk will be able to set up a production base in Sichuan quickly and seize the remaining sales opportunities from the reconstruction projects in the province. Furthermore, through Wangpai's sales channels, Sinotruk will be able to

take more market shares in West China by providing more heavy-duty trucks and other commercial vehicles timely to meet the increasing demand in the region.

Invest in local industry through win-win cooperation

The central government promulgated the *Automotive Industry Readjustment and Revitalization Plan* on March 20, 2009. Sinotruk, as one of the eight leading homegrown automakers listed in the *Plan*, has been encouraged to engage in cross-province mergers and acquisitions. The heavy-duty truck builder, which already acquired Guangxi Liuzhou Yunli Special-Purpose Vehicle, Hubei Huawin

Special Vehicle, and Datong Gear in 2008, established Sinotruk Mianyang Fulin Special-Purpose Vehicle in April of last year. The Wangpai project is the truckmaker's latest move as it tries to expand its presence nationally.

Wangpai, located in Chengdu, the provincial capital of Sichuan, currently manufactures light and medium trucks, special-purpose vehicles and low-speed trucks. Facing to the increasingly fierce market competition, the company has found it difficult to grow independently in the recent years, as revealed by executives from Wangpai. Also the company suffers from lack of output capacity. The automaker prefers to be supported by a national-scale automotive group with more funds injected. Therefore,

when Sinotruk approached Wangpai, the two sides found the cooperation a win-win deal, and a quick agreement was reached.

According to an insider from Wangpai, Sinotruk initiated a local investment proposal with Sichuan government about half a year ago with original plan to acquire another local automaker, Sichuan Nanjun Automotive (Nanjun). The Shandong-based truckmaker turned to Wangpai only two months ago, when the negotiation with Nanjun ended fruitlessly.

A source close to the project said apart from Wangpai's original plant, another manufacturing shop, covering 1.33 square kilometers, has been planned for the new company. *Toni Li*

JOINT VENTURE UPDATE

Sinotruk and MAN review one year partnership in Beijing

On August 26, Dr. Georg Pachta-Reyhofen, newly appointed CEO of MAN SE, visited Beijing for a common meeting with Ma Chunji, chairman of Sinotruk. At a press conference held by the two companies on the day, Pachta-Reyhofen, who took the CEO position on January 1 this year, reviewed the first year of cooperation between the two.

During the press conference, Ma said that Sinotruk and MAN's cooperation over the past year is successful. Trust has been the base and both parties believe that with joint efforts, the collaboration will continue to be a win-win partnership and a successful achievement. "MAN and Sinotruk have been partnering for more than a year and our project is going smoothly. Credibility is the cornerstone of our cooperation. This partnership will play a crucial role not only in promoting the development of Sinotruk, but also in expanding MAN's global market, especially in the BRIC countries," said Pachta-Reyhofen.

Cai Dong, president of Sinotruk, introduced the current progress of the Sino-German cooperation.



Ma Chunji (second from left) and Dr. Georg Pachta-Reyhofen (second from right) attend the press conference in Beijing.

According to his speech, since the two heavy-duty vehicle builders signed a strategic partnership in July 2009, both sides have worked together and the cooperation is going smoothly. Sinotruk will be launching a completely new product series in 2011. State-of-the-art machinery has been ordered and technical training is taking place. Both companies have achieved a common understanding and made initial progress in quality management, purchasing processes, sales and aftersales activities in order to realize the significant potential and further synergies.

According to their primary agreement, the collaboration between Sinotruk and MAN are carried out in two aspects, one capital-related and the other regarding technology and management matters.

Financial-wise, MAN invested €560 million into Sinotruk to hold 25 percent plus one share of the company, while China National Heavy-Duty Truck Group Corp. (CNTHC) keeps 51 percent vote. Although the German commercial vehicle manufacturer is not the dominant shareholder in Sinotruk, it still gets decision-making responsibilities in product strategy and veto rights in the company, by having three non-executive directors and one executive director on the board. When being asked why the cooperation hasn't been a 50:50 joint venture, Lars Wrebo, one of Sinotruk's board members from MAN, explained that the "25 percent plus one share" cooperation has been a result of careful research and investigation to benefit the perspective of Sinotruk. He believes that an equally invested company can encounter more interest conflict, since both parents are

looking for more influence within the joint venture. Wrebo also noted that the Sinotruk-MAN deal has been a novel form of cooperation compared with other Chinese-foreign marriages. Industry analysts pointed out that MAN has been concentrating on European development in the past decades with less influence on rising markets such as China, which also explains its minor vote in Sinotruk.

The technology- and management-related part in the cooperation is based on a technology licensing agreement

signed by both sides. Under this agreement, MAN has licensed its TGA truck, engine and axle technologies to the Chinese partner. Therefore, Sinotruk has exclusive rights to produce the licensed truck in China. Both partners will leverage on the strength of their existing worldwide sales network to promote the new truck series.

At the press conference when asked whether the Munich-based truck builder would invest to increase its shares in Sinotruk, Pachta-Reyhofen

said that if the cooperation pattern receives expected results, MAN would consider injecting additional investments. As long as CNHTC's controlling 51 percent share stays untouched, whether to increase company shares or the investment scale can be the German's independent decision, said Pachta-Reyhofen. Meanwhile, he also noted that the collaboration with Sinotruk can be expanded to medium trucks in the future if the current business goes smoothly. *Toni Li*

IMPORT & EXPORT

XIAMEN, Fujian – On September 2, Xiamen King Long United Automobile Industry (Xiamen King Long) loaded 55 luxury buses onto the ship bound for Saudi Arabia from Dongdu Port of Xiamen. The vehicles will be consigned to local clients at the destination port.

Since 2004, the Fujian-based busmaker has continued receiving orders from Saudi Arabian passenger transportation operators. As introduced, Xiamen King Long has taken the leading market share in Saudi Arabia, with over 1,200 buses exported to the country.

Xu Xiangdong, vice president of the automaker, revealed that by the end of August, Xiamen King Long exported a total of 4,096 buses this year, up 155 percent year-on-year, already surpassing the total number last year. In 2009, the company sold 3,554 buses in the oversea market, with export revenue of ¥1.23 billion (\$180.8 million).



ZHENGZHOU, Henan – Zhengzhou Yutong Bus (Yutong) announced recently that it held a consignment ceremony in Ghana for a batch of 490 buses exported to the country. John Dramani Mahama, vice president of Ghana, attended the event with local government officials.

The order, including ZK6608DM urban and rural buses and ZK6129HVIP luxury buses, was a

follow-up of the company's 250-unit bus export to the country in November 2008. The order this time, composed of 19- and 21-seaters, was placed by Ghana Private Road Transport Union (GPRTU). Yutong buses will be serving local intra-city routes in 10 provinces and regions of the country.

In order to provide adequate aftersales service in the country, Yutong had pre-assigned local component

supplies and service network. As introduced, eight aftersales engineers from the West African country took a 20-day in-house training at the busmaker's head office in Henan Province.

On August 29, Yutong, China's largest bus manufacturer, also shipped 78 buses to the Philippines from the port of Lianyungang, Jiangsu Province.

ALTERNATIVE FUEL & NEW ENERGY

Shaanxi Auto's pure electric heavy-duty trucks already in service

TIANJIN – Shaanxi Automobile Group Corp. (Shaanxi Auto), China's 4th largest heavy-duty truckmaker by sales volume, already has pure electric

heavy-duty trucks operating at ports of several large cities, says company chairman Fang Hongwei.

Fang revealed this news at the

2010 International Forum on Chinese Automotive Industry Development in Tianjin on September 4.

"Pollution is a big problem at

ports since vehicles there operate at slow speeds and thus emit large amounts of pollutants,” said Fang. “That’s why we have worked together with relevant departments and developed pure electric heavy-duty trucks specifically for port operation.”

According to Fang, the company is also active in the field of CNG and LNG heavy-duty trucks, several thousand of which are expected to go into operation later this year in natural-gas-abundant areas.

Fang believes that as the passenger vehicle sector, it is equally important, if not more so, for the heavy-duty truck industry to make an effort to reduce carbon emissions, since it is such a high-pollution and high-energy consuming industry. Having a low-carbon footprint, Fang said, is one of four trends he sees the industry facing. The other three are: 1) the transformation and upgrading of the

industry; 2) customers expecting higher-end products; and 3) production of special-purpose vehicles.

As stated by Fang, his industry has grown at an annual clip of 25 percent over the past decade, thanks to the growth of China’s economy as well as investment in infrastructure. However, this has led to many problems, one of which is overcapacity.

Fang said that currently there are 40 manufacturers of heavy-duty trucks in China with combined production capacities of more than two million units, in a market with a demand for less than half of that capacity.

“The threshold to get into the heavy-duty truck industry is

way too low. It’s relatively easy for anybody to get into the industry. This has led to additional problems such as poor brand influence, overemphasis on manufacturing rather than service, poor utilization of resources, disorderly export and weak R&D capabilities,” said Fang. *Lei Xing*



Shaanxi Auto has been actively promoting its CNG and LNG heavy-duty trucks.

RUBBER & TIRE

Higher price and declining exports hurt profitability of Chinese tire makers

Chinese tire manufacturers are marking up their prices, responding to price increases over the past few months for both raw materials and U.S.-made tires. However, higher prices, along with over-production and declining exports are hurting the profitability of tire makers in China, according to local media reports.

International tire manufacturers, such as Michelin, Bridgestone, Goodyear and Kumho, have recently announced upcoming price increases of 5-10 percent in China. According to industry analysts, these hikes could just be a prelude for even greater markups that are needed as the price of raw materials has already shot up by 40 percent year-on-year.

According to Alex Koi, general manager of Cooper Tire China, “the price advance of rubber futures was the direct cause of the price mark-up, for the 20 percent price increase of rubber in the international market placed great pressure on tire manufacturers.”

Punitive tariffs levied by the U.S. have also contributed to the price increase. But Koi also believes that greater demand for truck and bus tires,

attributable to China’s ¥4,000 billion (\$588 billion) economic stimulus package last year, was the main catalyst for the massive price hike.

“Many tire manufacturers have planned to increase capacity this year, stimulated by great sales increase last year,” Koi was quoted as saying by a *Huaxia Shibao* (*China Times*) reporter.

Competition and declining exports

Market competition is getting fiercer among the 300 tire manufacturers in China. At the same time, the top 11 tire manufacturers like Bridgestone and Goodyear have all built tire plants in the country, forming a total tire production capacity of 150 million units. Plants under construction or pending development promise 50-60 million additional units of capacity.

China’s RMB appreciation also affects export profitability. According to analysis, an appreciation of 2-5 percent would reduce profits of tire makers to zero. The 43 main tire manufacturers actually saw their profits

decrease 9.4 percent in the first half of this year, with a big slump of 22.7 percent in May month-on-month.

China exported 15.14 million passenger car tires to the U.S. in the first half of 2010, a decrease of 24 percent year-on-year. The export value totaled \$477 million, a slip of 24.6 percent compared to the previous year. Exports surged in May and June, with a respective 9.9 and 13.9 percent increase month-on-month, indicating comparatively larger demand. According to Zou Yongzhi, general manager of Wanli Tire, the sustainability of this demand is unpredictable, as U.S. dealers are now destocking and they took a wait-and-see attitude on tire sourcing in July and August, which led to a big drop in tire demand in these two months. Profits have thus been going down.

The U.S. remains the primary export market for China’s heavy-duty tires, with a steady increase of 31.6 and 44.2 percent respectively in export volume and export value in the January-June period.

Now Europe has become a new
(cont’d on p. 10)

main export destination for Chinese passenger tires. In the first half of the year, China exported 21 million tires to Europe, a 57.1 percent increase year-on-year. The export value was \$538 million, a 64 percent growth compared to the previous year. Because of the depreciation of the Euro and the grim economic environment, tire exports went down 2.2 percent month-on-month in June, despite a 41.2 percent year-on-year growth. Heavy-duty tire exports saw an increase of 0.9 percent in June month-on-month, but a 3.9 percent drop in value.



President Obama announced a punitive tariff on Chinese-made tires imported to the U.S. last year.

New opportunities

As more and more vehicles dot the landscape in China, the market prospect of replacement tires is very promising, according to Koi. The current vehicle population in China is about 15-20 million units. Assuming one car has 1.5 tires changed per year, total market demand for the replacements would be 35-40 million annually.

Cooper Tire, for example, has concentrated exclusively on the replacement tire market in China, and has kept a much higher retail sales growth than the industry average.

Developing tires designed exclusively for the Chinese market can also help tire manufacturers improve their market shares. In June this year, Cooper Tire released its Discover ATS tire, an off-road tire specially designed for Chinese road conditions. Goodyear's Eagle EfficientGrip, claimed the quietest tire model developed using a breakthrough tread design technology for China's luxury cars, has also entered the market this year since July. *Jennifer Chen*

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UPCOMING EVENTS

- September 23-30, 2010:** The 63rd IAA Commercial Vehicles 2010, Hanover, Germany
- September 25-27, 2010:** China International Auto Parts Expo, China International Exhibition Center, Beijing, China
- September 29-October 4, 2010:** The 10th Guangdong International Auto Exhibition & Trade Fair, Guangdong Modern International Exhibition Center, Dongguan, Guangdong, China
- September 30-October 6, 2010:** Tianjin International Automobile Show, Tianjin Binhai International Convention & Exhibition Center
- October 15-17, 2010:** Truckworld 2010, Jinan International Convention & Exhibition Center, Jinan, Shandong, China
- October 26-28, 2010:** China International Automobile Manufacturing Exposition 2010, China International Exhibition Center, Beijing, China
- November 25-27, 2010:** The 4th Asian Essen Tire Show, Shanghai New International Expo Center, Shanghai, China
- December 8-11, 2010:** Automechanika Shanghai 2010, Shanghai New International Expo Center, Shanghai, China
- December 13, 2010:** **CBU 2010 Seminar: Joint Venturing in China's Heavy-Duty Market: Past Experience and Future Opportunities**, Westin Beijing Chaoyang Hotel, Beijing, China
- March 16-19, 2011:** Auto Maintenance & Repair 2011, China New International Exhibition Center, Beijing, China
- April 20-21, 2011:** **2011 Global Automotive Symposium™ & CBU 16th Annual International Conference – Commercialization and Industrialization of Hybrid and Electric Vehicles: Global Development & China's Experience**, Crowne Plaza Century Park Hotel, Shanghai, China
- April 21-28, 2011:** The 14th Shanghai International Automobile Industry Exhibition, Shanghai New International Expo Center, Shanghai, China

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