



2016 Top Markets Report **Automotive Parts** Country Case Study

Brazil

Type: Large, Growing Market; Medium Share

In this analysis, Brazil is ranked the 19th best market for original equipment parts and the 29th for aftermarket products. The U.S. shipped \$1 billion in auto parts exports to Brazil in 2015. While Brazil has a very large market with many positive advantages and the U.S. industry exports a considerable volume of parts to the country, the nation's highly protected economy offers limited opportunities for significantly increased auto parts exports. In addition, the Brazilian economy is in the throes of a prolonged recession, and the automotive sector has experienced three consecutive years of contraction. The most reliable avenue for most firms seeking access to the Brazilian market is through the supply chains of vehicle assemblers or larger parts firms already producing in the Brazilian market. The U.S. Government should continue engaging with the Brazilian government to convince them that open trade is in the best interest for Brazil's economic growth, which would simultaneously increase opportunities for U.S. exporters.

Original
Equipment
Rank

19

Aftermarket
Rank

29

Overview of the Automotive Parts Market in Brazil

Brazil is the largest automotive market in South America with over 2 million units in vehicle sales in 2015. It is also the largest producer of automobiles on the continent with over 40 facilities. Korean, Japanese and Chinese brands have been making steady gains in the market, but despite the recent gains, Fiat, Ford, GM and VW maintain nearly 70 percent of sales.

The country had an estimated GDP per capita of \$15,800 in 2015. The economy, however, is experiencing a period of decline and hopes that the pending Summer Olympics would offer a reprieve. This may be tempered by news of the Zika virus and

its expected negative impact on tourism. The automotive market has been particularly impacted with production down by over 20 percent in 2015.

Brazil saw significant increases in vehicle ownership levels prior to the current downturn. There are now roughly 180 vehicles per 1,000 people, which put vehicle ownership rates at less than half of developed market levels. Thus, there is significant room for growth. Unlike the U.S. market, which skews toward larger luxury vehicles and light trucks, Brazilian market vehicles tend to be mostly smaller and mid-size models. According to Brazil's automobile vehicle association, ANFAVEA, the vehicle brands with the most registrations in 2015

Figure 1: 2015 Brazil Automotive Market

Sales (units)	2,568,976
U.S. Auto Parts Exports to Brazil	\$1,039,076,701
Total Brazilian Auto Parts Imports	\$14,343,134,389
Total Domestic Vehicle Production	2,544,458
Vehicles in Operation	51,129,875
U.S. Auto Parts Export Growth 2009-2015	+88%

were Fiat Chrysler, GM, Volkswagen, Ford, Renault and Hyundai.

Brazilian automotive production is geared toward the domestic market and local models usually feature low embedded technology, and market innovations are limited with flex-fueled vehicles (capable of running off either gasoline or ethanol in any proportion) being a rare exception. Over 90 percent of vehicles sold in the market are currently flex-fuel capable. U.S.-based auto parts companies have a large manufacturing presence in Brazil.

Challenges and Barriers to Automotive Parts Exports

Brazil has one of the most protected automotive markets in the world. Taxes are calculated in a cascading fashion based on the CIF value (free for board price, freight, insurance and other port expenses). The import tax is 35 percent, on top of which is the 55 percent industrial product tax, then the state tax of 18 percent in Sao Paulo and the Social Contribution Tax of 11.6 percent. Together these taxes can increase the price of imported cars by over 100 percent.

In spite of the stringent protection, vehicle manufacturers rely heavily on imported auto parts. They do so largely because of the difficulties and high costs of doing business in the country.

The country's high labor costs, generally low automation levels, poor logistics infrastructure, high

taxes and bureaucratic issues result in significantly higher production costs. For example, less than 2 percent of automotive parts and virtually no finished vehicles are sent by rail in Brazil. Likewise, there is little shipboard movement of goods despite extensive coastlines and accessible waterways.

Brazil does not allow the import of used vehicle parts except for antiques. Imports of remanufactured parts are only authorized for the original manufacturer on the conditions of having the same guarantee as new parts and a letter from the appropriate association (generally the Brazilian automotive association, ANFAVEA) that the imported parts are not made in Brazil. The import license, commercial invoice and the packaging must indicate that it is a remanufactured product. There is already extensive remanufacturing within Brazil.

Opportunities for U.S. Companies

Selling original equipment parts to vehicle assemblers operating in Brazil is the most reliable opportunity for exporting into the Brazilian market.

Brazil will host the 2016 Summer Olympics and thus, is continuing to invest in building the necessary facilities, which provides opportunities for construction-related road vehicle parts and accessories.

The Brazilian Government started the Inovar Auto program (Decree 7819) in late 2012 to spur greater investment and counter growing imports from Asia. The program offers tax reduction incentives for OEMs that invest in Brazil and localize production. The program continues until December 2017. Companies in the program must commit to having their production achieve a 12 percent reduction in fuel consumption and an 18.84 percent reduction in carbon emissions. Suppliers with products that can help firms attain these thresholds cost effectively can potentially have their products become part of the imported supply chain of Brazilian market OEMs.

In addition, there are early opportunities for adapting flex-fueled engines for hybrid systems, and there is currently exploratory work underway for plug-in vehicle technologies.