

Tengzhong faces tough sell at home on why it wants Hummer

Yang Jian, Managing Editor

Automotive News China

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SHANGHAI -- China's media have heaped derision on General Motors' tentative agreement to sell Hummer to an obscure Chinese machinery manufacturer.

GM is eager to offload the troubled brand onto Sichuan Tengzhong Heavy Industrial Machinery Co. But the Chinese media, along auto executives and industry analysts are questioning Tengzhong's sincerity. Even if the company's proposal is serious, they say, the Chinese government is unlikely to endorse the deal.

"Is it an international acquisition or an international joke?" asked a recent editorial in the People's Daily, mouthpiece of the Chinese Communist Party. China's official Xinhua News Agency chimed in with a remark that the deal was like "a snake attempting to swallow an elephant."

The news agency's conclusion: Tengzhong may be doing it for publicity. "It couldn't achieve this result [of raising its profile] even if it spent \$100 million on advertising," Xinhua said. The Shanghai-based China Business News went one step further, speculating that Tengzhong's bid was staged to help an associated company raise capital in Hong Kong.

On June 4, three days after GM disclosed its talks with Tengzhong, Lumena Resources Co., a chemical company, filed an application with the Stock Exchange of Hong Kong to raise up to \$193.5 million through an initial public offering. Tengzhong and Lumena Resources are controlled by the same person, a Chinese national named Li Yan, according to Chinese media.

At a press briefing last week, the spokesman of China's Ministry of Commerce said Tengzhong has yet to file its plan for government approval.

Yet even at this early stage, there are indications that approval will not be given. At the same press conference, the government spokesman acknowledged that it is normal for Chinese firms to go global. But he then cautioned: "We hope Chinese companies learn more about international market rules and development trends in their industries and make prudent investments."

At an economic forum also this month, Lu Zhongyuan, vice director of the State Council's Development Research Center, a government think tank, said the deal runs afoul of the government's environment protection policies. Lu said he would ask the government to take a hard look at the deal.

Tengzhong's answer to this skepticism has been to open a section on its Web site explaining why it wants to buy Hummer and how it plans to revive the brand.

But its explanation has been vague and lacking in specifics. It has not said how it proposes to finance the deal.

The skeptics remain unconvinced.

GM JV Sells Two Millionth Buick in China

China Daily

June 22, 2009

SHANGHAI: Struggling US auto giant General Motors said its joint venture in Shanghai sold its two millionth Buick in China, as sales have rapidly picked up in recent years with the country's economic boom.

"It took eight years for Shanghai GM to sell its first one million Buicks, but only three years to sell its second one million units," said Kevin Wale, President of GM China, in a statement.

"This demonstrates the ongoing popularity of Shanghai GM's leading mainstream brand in what is now Buick's largest market."

The two millionth unit, a red New Regal sedan built by a joint venture with China's largest automaker Shanghai Automotive Industry Group, was delivered to its owner in the southern city of Guangzhou, the statement said.

GM's first Shanghai sales office opened in 1929 and Buick customers included Pu Yi, the last emperor and revolutionary leader Sun Yat-sen.

Despite its US parent filing for bankruptcy, GM China has seen sales hit new highs on strong demand from the nation's increasingly affluent middle class and incentives to stimulate domestic consumption.

China overtook the United States to become the world's largest car market for the first time in January.

And GM chief executive Fritz Henderson has said GM car sales in China are set to surpass those in the United States this year in a landmark shift.

GM China is still aiming to double sales to more than two million units annually and will "probably need to build another plant in the next five years", Wale said.

GM sales in China jumped 75 percent in May from a year earlier to a record monthly high of 156,000. In the first five months, sales grew 33.8 percent from the same period a year ago to more than 670,000.

Geely to Buy Volvo from Ford: reports

Shanghai Daily

June 18, 2009

Geely Automobile Holdings has reached a preliminary agreement with Ford Motor Co to purchase its Volvo unit and plans to produce a new Volvo model in Guangzhou Province, according to media reports Wednesday.

The Geely acquisition, following that of another firm's earlier bid to purchase a foreign brand, is yet another opportunity for domestic car makers to expand into the global market.

China's Sichuan Tengzhong Heavy Industrial Machinery Co announced recently it was to acquire General Motors Corp's Hummer brand.

Zhejiang Province-based Geely aims to purchase Volvo and build a production line for the Volvo

XC90 in Guangzhou Province's Dongguan City, the National Business Daily reported yesterday.

"It's the right time for Chinese firms to make overseas acquisition during the slowdown in the economy," said Jia Xinguang, chief analyst with the Chinese National Automotive Industry Consulting and Development Corp.

The value of the deal is not known but Volvo, which was bought by Ford for US\$6.49 billion, won't be sold for less than US\$3 billion, according to Jia. Geely couldn't be contacted for comment Wednesday.

Representatives of Geely, one of China's biggest private auto makers, have already visited Volvo's headquarters, industry sources told Shanghai Daily.

The purchase will help Geely expand into the medium and high-level markets, Jia said.

Compared to American brands, European brands are better known by Chinese consumers, he said.

Geely sold 101,171 units between January and May, a jump of 57.8 percent year on year, because it had tapped into the second and third-tier cities after the government handed out subsidies to encourage people in rural areas to buy cars.

The China Passenger Car Association predicted this week that vehicle sales in the country would grow 17 percent this year from 2008, outpacing the 6.7 percent rise last year.

An adverse side effect to the government's stimulus of the auto industry

Yang Jian

Automotive News China

June 17, 2009

SHANGHAI -- Although it has succeeded in reversing the sales slump of late 2008, China's stimulus of its car industry has also hindered much needed consolidation in a highly fragmented domestic sector.

That is a side effect the government did not intend when it enacted its policies earlier this year. In the corporate world, mergers and acquisitions do not take place until targeted companies face grave threats to their survival.

A case in point is Shanghai Automotive Industry Corp.'s acquisition of Nanjing Automobile (Group) Corp. in late 2007.

In 2005 Nanjing Auto borrowed heavily from domestic banks to fund its purchase of the British brand MG. But it then had a tough time marketing the brand inside China.

The best option for Nanjing Auto was to let itself be merged into SAIC as the latter had also bought assets from MG Rover.

Nanjing Auto dodged the option initially. But it was later forced to accept because of a mounting debt burden resulting from its acquisition of MG.

Another example has been the alliance struck this month between Fiat S.p.A. and Chrysler LLC. Had it not been for the unbearable financial pressure Chrysler was under, such a deal would never have happened.

In late 2008, the steep downturn of the auto market in and outside China posed grave threats for quite a number of domestic Chinese automakers and thereby paved the way for a wave of consolidation in the industry.

Chery Automobile Co., for one, was last year facing cash flow disruption. Another company from Anhui province, Jianghuai Automobile Co. (JAC), also had difficulty financing its newly started passenger vehicle business.

Market forces were pushing the two companies towards a merger. But now that opportunity is gone.

Thanks to January's halving of purchase tax cut on cars with small engines, almost all automakers in China, whether strong or weak, have reported robust sales growth in the past few months.

Chery is back in expansion mode. It raised 2.9 billion yuan (\$424.6 million) earlier this month for a new energy vehicle program, heavy duty projects and also a new car plant.

Meanwhile, amid market speculations about its sale to Chery, JAC stated last week it has no plan to merge with Chery.

In March, the central government drafted a blueprint for the restructuring of the domestic auto industry. According to the plan, the government envisaged a domestic auto industry consolidated into seven passenger vehicle makers by 2011, down from 13 today.

But stimulus policies have now given a second wind to once-beleaguered domestic automakers. The chances of realizing this target are therefore looking slim.

GM builds new car in China for emerging markets

Yang Jian

June 17, 2009

SHANGHAI -- Pan Asia Technical Automotive Center (PATAC), an r&d center jointly run by General Motors and Shanghai Automotive Industry Corp., plans to launch an inexpensive car targeting China and other emerging markets.

The new car is due out sometime in the second half of this year and will target the mass market, Shanghai GM said in a press release on June 2.

At a media briefing held on the same day after GM filed for bankruptcy protection in the United States, Kevin Wale, president of GM China, declined to give further details of the new car.

But supplier sources say the car, codenamed NGS, will be sold in China and other emerging markets including the Middle East at cheaper price than the Chevrolet Lova.

In China, the Lova has a starting price of 71,900 yuan (\$10,527).

The new car will offer 1.2- and 1.4-liter engine options. It will carry the Chevrolet brand, supplier sources say.

GM exported around 20,000 units of its China-made Lova and Aveo to Eastern Europe and

South America in 2008, according to Global Insight, a consultancy.

Tengzhong bid for Hummer rational

Automotive News China

BEIJING, June 15 (Reuters) - Sichuan Tengzhong's bid for General Motor Corp's Hummer brand is normal behaviour for a company seeking to take advantage of the global downturn to broaden its horizons, a Ministry of Commerce spokesman said on Monday.

Media reports have said little-known Sichuan Tengzhong Heavy Industrial Machinery could struggle to win official approval to buy the the maker of the gas-guzzling sports utility vehicle from bankrupt GM.

The Ministry of Commerce had not yet received any application related to the deal, spokesman Yao Jian said.

"Against the backdrop of the global financial crisis, it is rational and normal for Chinese companies to adopt an international outlook," he told reporters at a monthly news conference.

Sceptics wonder whether Chengdu-based Tengzhong, which makes special-use vehicles and bridge and highway components, has the experience and resources to turn the Hummer business around.

Yao said the government expected Chinese companies in general to encounter frustrations as they ventured abroad because they lacked managerial skills and track records in mergers and acquisitions.

"We hope Chinese companies can learn more about international rules and make prudent investments," Yao said.

China's Beijing Auto interested in Volvo

Automotive News China

SHANGHAI/STOCKHOLM, June 11 (Reuters) - Beijing Automotive Industry Holding Corp (BAIC) is interested in buying Ford Motor Co's Volvo car unit, the Wall Street Journal reported, adding a new name to a list of potential Chinese bidders for the Swedish luxury car brand.

A team of BAIC executives is likely to visit Volvo's Gothenburg, Sweden headquarters as early as Thursday to meet with its executives and tour its research-and-development and manufacturing facilities, the paper said, citing three people familiar with the situation.

A spokesman for state-run BAIC, China's fifth-largest automaker, said he was not briefed on the company's interest in any foreign auto brands. BAIC expressed an initial interest in General Motors' European brand, Opel, earlier this month but did not follow through.

Other potential Chinese buyers for Volvo that have cropped up in news reports include Geely Automobile Holdings, Ford's China partner Chongqing Changan Automobile Co, and Chery Automobile.

Stefan Elfstrom, spokesman for Volvo Cars, declined to comment.

"Ford has said it is a process ongoing, but they haven't disclosed any names," Elfstrom said.

Ford Europe could not be reached immediately.

The worst industry downturn in decades has hammered major global automakers in the past year, forcing Ford's U.S. rivals, GM and Chrysler, into bankruptcy and leading to sales of a number of auto brands and assets.

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But analysts said Chinese firms, burned by past acquisitions that backfired, lack skill and stomach to take over the entire operations of their foreign counterparts, and are more likely bargain hunters for technologies and assets being sold in secondary sales.

"Don't take the reports seriously. Lots of so called Chinese interest are leaked by investment bankers and lawyers trying to drum up deals," said Zhang Xin, an analyst with Guotai Junan Securities.

An industry source told Reuters BAIC was interested in technology and designs which could then be used in its first self-developed car which it hopes to roll out in 2010.

BAIC currently only makes Mercedes-Benz and Accent cars at joint ventures with Daimler AG and South Korea's Hyundai Motor.

"BAIC doesn't even have a in-house design car brand so far. How can anyone realistically expect it to take over and turn around Opel or Volvo?" asked the source, who was not authorised to speak publicly on the matter.

One of the people told Wall Street Journal that BAIC's interest was "preliminary" and "nascent."

Geely Automobile, which has also been talked about as a potential bidder for Volvo and GM's Swedish unit Saab, said last month that it has no intention of making a takeover offer for either Volvo or Saab.

Earlier this month, little known Chinese machinery maker Tengzhong Heavy Industrial Machinery agreed a tentative deal with GM on its Hummer unit, but faces challenges completing the purchase.

Chinese state media has run lengthy commentaries predicting the deal could be vetoed by the Chinese government as it runs against Beijing's policies to promote small and clean cars.

China's auto import volume down 30% in first 5 months

Xinhua

June 11, 2009

BEIJING - The combined volume of Chinese imported vehicles stood at US\$4.38 billion from January to May, a decrease of 30.3 percent from a year earlier, the General Administration of Customs (GAC) said Thursday.

China imported a total number of 116,000 units of vehicles in the first five months this year, down 31.9 percent year on year.

For May alone, China imported less than 24,000 vehicles, about 2,000 units less from April.

The GAC attributed the trend partly to the purchase tax cut policy for Chinese consumers who buy small-capacity cars and the global economic slowdown.

China in January halved the purchase tax on passenger cars to 5 percent for models with engine displacements of less than 1.6 liters.

GAC figures showed that more than 60 percent of Chinese imported vehicles belonged to those with engine displacements of more than 2.5 liters.

China's exports and imports shrank for the seventh month in a row in May as economic downturn continued to dampen global trade. Exports fell 26.4 percent in May from a year earlier to US\$88.758 billion. Imports were down 25.2 percent to US\$75.37 billion.

GM mulls adding new plant in China

Yang Jian

June 10, 2009

SHANGHAI -- While drastically downsizing its operations in the United States, General Motors is considering a new plant in China to meet strong demand here.

"As our sales in China grow, we'll probably have to add a new plant within the next five-year period," said Kevin Wale, president of GM China last week at a media briefing in Shanghai.



Kevin Wale, President of GM China

But details on the new plant are not available at this stage. "We haven't decided yet," he added. Shanghai GM, which is a joint venture between GM and Shanghai Automotive Industry Corp., now has three plants with a total capacity of 600,000 vehicles a year.

Shanghai GM's sales in China have reached record highs in the past two months. In May, it sold 56,011 vehicles, a new record monthly high after 55,000 vehicles in April.

Wale said GM's filing for bankruptcy protection in the United States won't affect its operations in China. "It's absolutely business as usual here," he said.

He also noted no outside money is needed for GM's projects in China. "They are all self-funded," he said.

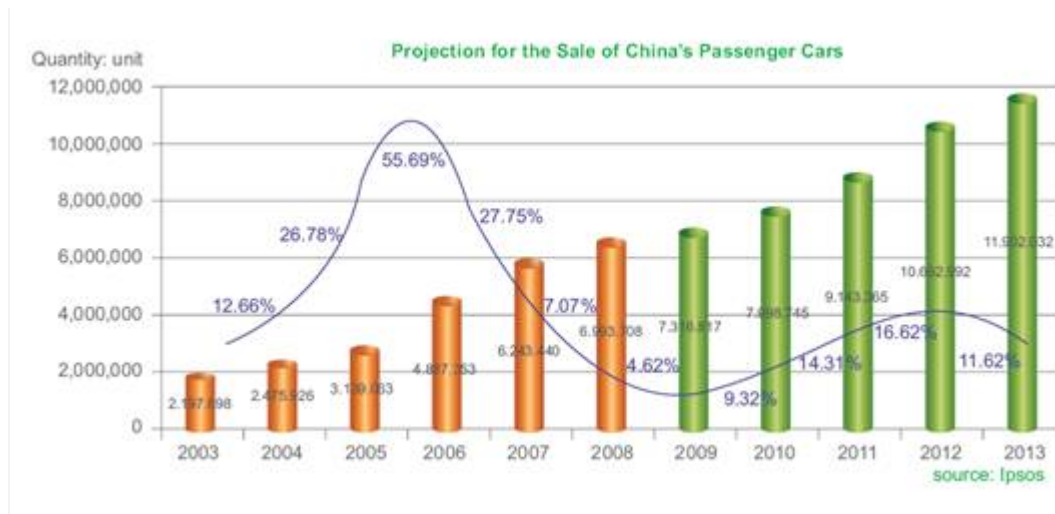
According to a planning document that GM circulated among U.S. lawmakers in May, GM expects to sell about 17,300 China-made vehicles in the United States in 2011 and to triple that to about 51,500 in 2014.

But Kevin Wale said GM's primary focus in China is to build vehicles for the domestic market.

Said Wale: "At some point there is no doubt we'll expand our exports, but I don't see that happening in the foreseeable future."

China Auto Industry Races Toward Spring

Sun Dajun
China Daily
June 4, 2009



A mid- and long-term projection and analysis of the 2009 Chinese passenger car market

China's auto industry, after several years of rapid growth, faced a turning point in 2008, sliding into a bleak winter.

Just as Liu Chuanzhi, one of the founders of Lenovo, said, it is unclear whether it is the winter of Harbin, Beijing or even the Arctic.

Much to the surprise of most people, the winter didn't last long. As 2009 continues, China's auto industry may race towards a promising springtime. The research of Ipsos, a survey-based market research company, shows that although hit by the global economic crisis, China's passenger car market will maintain steady growth, predictably at a rate of 11.12 percent. According to Ipsos, due to the recovery of the global economy, the incentive policies introduced by the government, and the buildup of consumer's confidence, starting in 2010, China's passenger car market will witness a new round of growth, and reach a peak in 2012.

The year 2011 will see a new wave of rapid growth

Using a plethora of resources, Ipsos builds a demand model of China's auto market to predict car sales and give auto enterprises an insight into the future market. The above graph is concluded based on this model. The potential variables of this model include four factors that affect the auto market, namely, the macroeconomic performance, purchasing power, energy and raw materials, and transportation infrastructure. Varying amounts of observed variables are assigned to each potential variable as indexes.

The fluctuation and decline of the auto industry in 2008 was largely due to the macro regulation and the international economic volatility, which resulted in the capital shortage of auto enterprises. Potential car buyers' concerns about the future and the expected rapid income decline persuaded them to put off or even give up their car purchasing plan.

Ipsos believes these adverse impacts are being gradually eliminated. First, the impact of the

ongoing financial crisis on China's real economy is limited, leaving the export industry hardest hit. Since the export business of China's auto industry started relatively late and accounts for a small part the auto industry's profit, the auto industry is affected very little by the global crisis.

Second, the plan for revitalizing the auto industry, launched by the Chinese government, covers more than ten areas, including policy incentives for new energy cars, subsidized car purchasing in the rural areas, "old-car-for-new-car" scheme, government car procurement, merger and restructuring as well as car loans. The attention paid to the auto industry, shown by the government's rational policy guidance, will effectively stimulate auto consumption.

Taking all these factors into account, starting in 2010, China's passenger car market will see a new round of rapid growth, although it is unlikely to reach the same levels witnessed from 2005 to 2007. As the global economy slowly recovers, China's GDP is expected grow at an average annual rate of 8 to 9 percent. The increase in peoples' income will naturally increase demand for cars.

Independent innovation, a recipe for staging a comeback

In retrospect, great changes were born out of great difficulties. Some people are eliminated in adversity, while others emerge out of it successful and even stronger. The difference between the two groups of people is whether they could find opportunities for survival in times of crisis and create optimal conditions on which to grow out of it. What are the opportunities for auto enterprises?

Ipsos believes that in the short term, policies of the auto industry will focus on independent research and development as well as independent branding. Currently, China lacks independent branding in the auto industry, particularly, passenger cars. If there is no independent branding, there will be no core competitiveness. It is predicted that during the eleventh five-year plan China will encourage auto enterprises to forge a development strategy around independent branding, strengthening research and development, and increasing the market share of independent brands. To this end, specific measures are expected to be introduced, for example, favorable taxation policies and fiscal subsidies, which will benefit companies engaged in independent R&D and branding.

In the meantime, this policy will also be conducive to independent R&D of auto parts as well as the integration of auto parts enterprises. One of the major reasons for the finished car industry's lack of independent brands is the lack of independent brands in the auto parts industry. Without research and innovation, it is difficult for the latter to achieve synchronized development with the former. The major auto parts of some joint-ventured finished car factories are imported or made by foreign-funded enterprises in China. Ipsos believes that while encouraging the independent innovation of finished car enterprises during the eleventh five-year plan, China will also give policy support to auto parts enterprises that boast an independent brand, R&D advantage, and scale advantage.

The cost of car use becomes the deciding factor in car purchasing

After identifying the orientation towards independent R&D and independent branding, the next question facing China's auto industry is on what products to focus its R&D. During the eleventh five-year plan, China will encourage the development of energy-saving products. Auto industry-related consumption policies are expected to be introduced. Safety, oil saving, and environmental friendliness will guide the R&D of auto enterprises and the consumption of car users.

On the supply side, car manufacturers should shift their strategy during the eleventh five-year plan towards R&D in low-emission and energy saving automobiles. For example, Shanghai Automotive Industry Corporation Group says it will develop microcars and do R&D in hybrid power cars. On the demand side, policies like the consumption tax and fuel tax will be adopted to encourage the purchase of low-emission cars. With the maturing of consumption psychology,

car consumption will be more rational, and the cost of car use will become one of the deciding factors in car purchases. Fuel tax is only one of the major costs of car use. Parking fees, traffic conditions and other factors will also have direct and noticeable impacts.

At the same time, to save energy, China will phase in the use of diesel in automobiles. For instance, Dongfeng Cummins specializes in middle and heavy-duty truck engines. The Quanshun light buses of Jiangling Motors are equipped with diesel engines. These companies will benefit from the campaign to phase in the use of diesel.

The author is research director of Ipsos Auto

What Can China's Auto Industry Learn from GM's Bankruptcy?

People's Daily
June 4, 2009

There are many reasons for the decline of General Motors Corporation (GM), which led them down the path from being the world's top automaker for 77 consecutive years to filing for bankruptcy protection. The revelation brought to China's automobile industry can also give multiple lessons.

Firstly, it is about the relations between becoming big and becoming refined and strong.

Following numerous mergers and acquisitions, GM now has over 10 brands, including Buick, Cadillac, Chevrolet, GMC, Hummer, Opel, Pontiac, Saab, Saturn, Vauxhall, GM Daewoo and Holden. Its annual sales once reached 10 million units, making it the "giant" in the auto industry.

However, merely focusing on the size gives rise to some ailments commonly found in large companies, including low efficiency in resource coordination, rising costs and sluggish market response, as well as the difficulty in operating numerous brands.

Now, the trend of getting bigger has also caught on in China's auto industry. Nearly all the auto companies plan to develop a complete series of products. A lot of enterprises have implemented multi-brand strategies and some have announced high profile goals of producing and selling one million and even two million units a year. The impulse of corporate acquisitions and reorganization is also running high. GM's filing for bankruptcy undoubtedly sounds a warning to these companies' pipe dream of growing bigger.

Secondly, another major reason why the GM kingdom collapsed is its paramount worship for the profit-driven factor.

Against the major backdrop of long-term low oil prices in the US, the global auto industry has developed along a major trend of saving energy and reducing emissions by producing small engines and light-weight cars since the 1990s. However GM ignored the trend, still placing its long-term development focus on the super profitable high-emissions SUVs and pickups. It could only watch when Japanese automakers, such as Toyota and Honda, triumphantly seized the North American auto market, eventually forcing itself into an embarrassing dead-end.

China's auto companies should learn a lesson from GM. Not only should they have an extended long-term vision, they must establish a scientific outlook on development. They must turn their pursuit of "profit-driven" into "value-driven," and only judge their success by whether they can create value for their shareholders, customers, the industry chain and even the entire society.

Although bankrupt at home, GM is set to gain strength in China

Yang Jian

Automotive News China

June 3, 2009



SHANGHAI -- Is General Motors doing well these days? Well, the answer really depends on which market you are talking about.

Ending up in a bankruptcy court in New York this week, General Motors has cut a sorry figure in its home market.

But in China, the company is better positioned than ever before thanks to sustained efforts in upgrading its product line, tapping the lower-end of the market and cultivating local r&d capacity.

Mainly because of a lack of new models, GM lost market share in China's passenger vehicle market last year and the year before; from 8.7 percent in 2006 to 7.5 percent in 2008.

But the decline has been halted. In the first four months of this year, GM pushed its market share in China back to 8.3 percent.

The Buick Excelle, a compact model refreshed in early 2008, was the chief motor of GM's strong sales growth in China.

Other new or redesigned models have also played their part—sales of the redesigned Buick Regal mid-sized car have increased four fold since it debuted in China in December 2008. The all new Chevrolet Cruze compact car, meanwhile, has made a strong start with 3,739 sold in April, its first month on the market.

GM is planning a slew of new models for China to boost its market share here. In February, GM China's president Kevin Wale told Automotive News China the Buick and Chevrolet brands will each have five new or redesigned models launched in China over the next two to three years.

As well as rebuilding its market share in China through new model launches, GM is also pursuing an aggressive strategy to move downscale with inexpensive Chevrolet models.

Leveraging its strong brand recognition, GM has made quick inroads into the lower-end of the market, which has long been the exclusive territory of domestic Chinese OEMs.

The Spark micro car and the Lova subcompact car are now among the top selling cars in their respective segments, contributing more than a quarter of GM's total sales in China.

Presentations



The key to making money out of low-priced models is keeping costs low. On that front, GM is also doing well—virtually all the engines and transmissions of Chevrolet cars are built by its plants in China and many other parts are also sourced from within China.

Through its two joint ventures, GM has built a huge production capacity in China since the late 1990s.

Shanghai General Motors Co. is capable of making 760,000 vehicles, 870,000 engines and 380,000 automatic transmissions a year. Meanwhile, SAIC-GM-Wuling Automobile Co. where the Spark is built has annual capacity of 900,000 micro cars.

Just as important as its large production capacity is the strong r&d capacity GM has built in China.

To date, all the cars GM sells in China are developed outside the country. But that will soon change.

Employing 1,500 people, its Pan Asia Technical Automotive Center (PATAC) in Shanghai is the largest r&d center an international automaker has ever built in China.

While reengineering products for China that GM has developed elsewhere, PATAC has also started developing new cars, tailor-made for the Chinese market, to help GM capture more market share.

To be sure, what GM has done in China is far from ensured the future success of its operations here.

GM is now facing fierce competition in China from other international brands, especially German and Japanese.

It also has one tremendous challenge to tackle. That is; how to minimize the impact of its bankruptcy in the United States on its China operations.

Nonetheless, GM's 2009 sales rebound together with its long-term strategy for China, prove it is still one of the country's top-tier automakers.

Global Insight: Chinese OEMs unlikely to sell to Western markets until 2013

Yang Jian

Automotive News China

June 3, 2009

SHANGHAI – Chinese automakers will export more passenger vehicles over the next five years than they do now, but none will be able to sell to the European or U.S. market, according to Global Insight, a market research company.

"Although we will see more Chinese OEMs setting up plants overseas, market entry into the West will not be possible until 2013," says Lin Huaibin, a senior market analyst with Global Insight in Shanghai.

Lin made the remarks when speaking at an annual auto industry conference organized by his company in Shanghai.

Global Insight predicts that passenger vehicle exports by Chinese OEMs will exceed half a million units by 2013, up from less than 250,000 units in 2008.

But the export destinations for their products will remain emerging markets, Lin adds.

Although the models Chinese OEMs sell abroad will have improved design and better quality, they will continue to have difficulty meeting stringent emission and safety requirements of Western countries, he says.

Another major challenge for Chinese OEMs seeking to enter the Western markets is their inability to provide various warranties that are mandatory in these markets.

"They include the anti-corrosion warranty, powertrain warranty and emission warranty that Chinese OEMs now don't have to provide on the domestic market," he adds.

To date, two Chinese OEMs, Chongqing Changan Automobile Co. and China FAW Group Corp., plan to assemble their cars in Mexico in 2010 with the aim of shipping cars to the United States from Mexico.

"Such plans are not feasible as their products can't even meet the safety and emission standards of the Mexican market, let alone the standards of the U.S. market," he says.

Magna says can't sell Opel cars in U.S., China

Automotive News China

OTTAWA, June 2 (Reuters) -- Magna International Inc. is prevented by an agreement with General Motors Corp. from selling Opel cars in the United States and, for now, in China, the chairman of the Canadian auto parts company said on Tuesday.

"The agreement with General Motors does prevent us from selling Opel in the United States," Frank Stronach told reporters at a news conference in Ottawa. A Magna-led consortium has agreed to buy European automaker Opel from GM.

Asked if the agreement applies to China too, he said, "Yes, for the moment, but keep in mind that General Motors -- we've been working together for 50 years, we've been great partners, and they still own 35 percent (of Opel)."

He suggested the prohibition on Opel sales in China might be flexible. "If it makes economic sense you might persuade people to change something."

Stronach also said he expects Opel to break even in three years, and to turn a profit in four.

Now that Magna has agreed to take on Opel, Stronach displayed little appetite for buying aturn and Saab from GM, which is trying to unload those brands.

"We have to digest Opel now, and we have got a mouthful, so we'll see how quickly that will take place," he said.

Stronach was in the Canadian capital to seek government funding for a project to produce electrical systems for electric cars and, eventually, electric cars themselves.

"I'm very confident that Magna will be amongst the leaders in selling and building electric cars," he said, after demonstrating a Ford <F.N> prototype with a Magna electrical system.

He said it would cost about C\$300 million (\$280 million) to build a plant, and he would like to build it in Canada, but he is being courted by U.S. states and European countries.

Magna is seeking a federal loan for half that amount under Canada's Automotive Innovation Fund, designed to support research and development projects to build greener vehicles

"If we get a loan we know we could speed it up. We could make sure it's going to be in Canada," he said, adding that mass production could begin within three years.

Stronach said that if the company did produce electric cars, it would make sure it set up walls between the car manufacturing and parts manufacturing divisions, so as to assure fair treatment for major automakers that buy Magna parts.

GM strikes Hummer deal with China machinery maker

Automotive News China

DETROIT/NEW YORK, June 2 (Reuters) -- General Motors Corp said on Tuesday it reached a tentative deal to sell its Hummer brand to a privately held Chinese heavy machinery maker, part of an effort to drop four unprofitable vehicle lines and leave bankruptcy as a leaner company.

GM, a day after filing for bankruptcy, said in a statement that it reached a memorandum of understanding with Sichuan Tengzhong Heavy Industrial Machinery Co for the sale. Tengzhong said it will retain Hummer's senior management and operational team.

GM said Tengzhong will also enter into a long-term contract assembly and key component and material supply agreement with GM.

Under the deal, which is subject to regulatory review and is expected to close in the third quarter, Tengzhong will assume Hummer's existing dealer agreements.

Financial terms were still under discussion and will not be disclosed, GM said. Bankers have said Hummer could fetch about \$100 million in cash in addition to other commitments.

The deal marks the first time that a Chinese buyer has acquired a brand from one of the struggling U.S. automakers.

Chinese parts suppliers and automakers have shopped for U.S. automotive assets, including those at also-bankrupt Chrysler LLC, but no deals have been completed despite the enormous pressure on U.S. automakers in recent years to cut costs.

Based in the Chinese province of Sichuan, Tengzhong makes special-use vehicles, highway and bridge structural components, construction machinery and energy equipment.

Tengzhong was formed in 2005 through a series of mergers and, according to its website has 4,800 employees, compared with GM's 243,000. The Chinese firm said in a joint statement with

GM that it would expand into the premium off-road vehicle segment.

"We will be investing in the Hummer brand and its research and development capabilities, which will allow Hummer to better meet demands for new products such as more fuel-efficient vehicles in the U.S.," Tengzhong CEO Yang Yi said.

Tengzhong's website(www.sctengzhong.com:8080/tengzhong/weben/gytz.jsp) did not

indicate whether the company has experience running plants overseas or of producing passenger vehicles of any kind.

GM said earlier on Tuesday that the buyer of Hummer, who it did not initially identify, would contract to build the H3 model SUV and the H3T pickup truck at GM's plant in Shreveport, Louisiana, through at least 2010.

In addition, GM said the investor would fund future vehicles for Hummer and invest in alternatives to the heavy gas-guzzling engines that are the hallmark of the brand.

In Shreveport, where 800 workers work on a single shift building Hummer H3 and H3T models, there was relief that a new buyer would keep the line running for at least a while longer.

"We're just excited that Hummer may live on," said Morgan Johnson, president of UAW Local 2166, which represents workers at the GM plant.

DIMINISHED EXPECTATIONS

GM had expected Hummer to fetch more than \$500 million when it went on sale a year ago.

The automaker said in a court filing on Monday that the sale could not proceed on "reasonable terms" due to tight credit and concerns about GM's financial condition.

Part of the problem has been that the military-derived Hummer has become an emblem of excess, turning consumer tastes against the brand's macho styling and prices that can top \$71,000. U.S. sales fell by more than two-thirds in January-April.

First seen as multipurpose, off-road military vehicles, Hummers were originally built by AM General. Its first model was the Humvee, built for the military. GM bought the Hummer brand from AM General in 1999. AM General still makes the Humvee for the U.S. military.

After losing \$88 billion since 2005, GM is in the process of cutting debt, workers and brands in bankruptcy. It is seeking to sell its Saab and Saturn brands this year and plans to discontinue Pontiac by the end of 2010.

That would leave a smaller GM to be rebuilt around the Chevrolet, Cadillac, GMC and Buick brands. Together those account for more than 80 percent of current sales.

Credit Suisse is acting as exclusive financial adviser and Shearman & Sterling is international legal counsel to Tengzhong on the transaction. Citi is financial adviser to GM.

Magna talks Mexico with Chinese OEM

Stephen Downer

Automotive News China

MEXICO CITY, June 1 -- Magna International Inc. is in talks with an unidentified Chinese automaker that wants to build cars in Mexico, a senior executive for the Canadian supplier says.

Magna would run the plant and build the vehicles. The arrangement would be similar to Magna's setup in Graz, Austria, where the Aurora, Ontario, supplier's Magna Steyr unit has built cars for Chrysler, Porsche, Mini, Peugeot, BMW, Saab and Aston Martin.

"I'm heavily involved in it," Willi Ewers, Magna Cosma International's vice president for Latin America, told Automotive News in a phone interview.

But the Mexico-based Ewers declined to identify the Chinese company. "We are not so far advanced that we can make a press announcement," he said. "These are only preliminary discussions."

There was no "concrete date" for completing the talks, but a deal might be done this year, Ewers said.

A leading Mexican automotive industry official who confirmed the negotiations also declined to identify the Chinese company.

China FAW Group Corp. is supposed to start assembling cars at a plant to be built in Michoacan state, Mexico, in 2010. But a source at Grupo Salinas, FAW's joint venture partner in the GS Motors project, said this week: "Things are behind schedule, and we are weighing a lot of alternatives."

GS Motors named former Ford Motor Co. and Tower Automotive Inc. executive Kathleen Ligocki its CEO last August. In January, she told the Automotive News World Congress that China-designed cars assembled in Mexico could be on sale in the United States within five years and in Canada before that.

Since 2007, GS Motors has been selling FAW cars imported from China in Mexico.

Magna has announced plans to add three plants to its 21 in Mexico by late 2010.