



THE RESTARTING AUTOMOTIVE INDUSTRY

GLOBAL MEASURES, TRENDS AND OUTLOOK

The automotive industry has been hard hit by Covid-19, as lockdown measures closed dealership doors and shuttered factories and production lines around the world. As the industry cautiously gets back to work, we asked Mazars experts in seven countries about what's happening where they are, how production and sales are affected by the virus and the government support that is available.

What we discover is a challenging outlook for the industry as it restarts production amidst unprecedented local and global conditions and navigates varying levels of government support and intervention.

HOW IS COVID-19 AFFECTING THE AUTOMOTIVE INDUSTRY WHERE YOU ARE – IN PARTICULAR THE IMPACT ON SALES AND FACTORY AND DEALERSHIP CLOSURES?



US Plants reopening since 18 May

There was a complete shutdown of the US auto industry. The first plant closures started in late March, with all production facilities closed by the first week of April. Plants only began to reopen from 18 May. The closure of the OEM production plants caused the shutdown of the entire supply chain during this period: production in March fell 25% from the previous year. Given the shutdowns that remain in place in various US states, and the scheduled phased re-openings, production volumes will likely remain low as consumer demand takes time to recover.

On the sales side, many dealerships across the US have been closed during the month of April, as shelter in place orders kept people at home. These orders, in many states, stayed in place in May, so sales will remain low: the annual sales forecast is down 26.6% for the US, down to 12.5 million units,

compared to an original 2020 forecast of 17 million units. The 'rebound to normal' sales volume will take a few months, as the re-opening of the economy uses a phased approach, so many activities, including retail, still have restrictions in place that will reduce consumer demand.

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BRAZIL Unprecedented production low

March started strong for domestic production, according to Brazil's National Association of Motor Vehicle Manufacturers (Anfavea), but the closing of factories in the second half of the month resulted in a production fall of almost 90%. It was the same case for sales:

prior to lockdown, sales were up 9% compared to 2019 but the consequent disruption resulted in an 8% drop.

April 2020 was an unprecedented low: there has never been a month with such low production since

automotive industry records began in 1957. According to Anfavea, just 1,847 vehicles were produced, including automobiles, light commercial vehicles, trucks and buses. That's a fall of 99% over the previous month and 99.4% compared to April last year.

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Here's a rundown of re-opening plans for factories in Brazil:

BMW: the car factory in Araquari (SC) restarted operations on 4 May, the unit had been out of action since 30 March due to collective vacation. The motorcycle factory in Manaus (AM), which also stopped at the end of March, started operating again on 18 May - its production had been interrupted since 30 March.

BOSCH: some 14 of its units restarted activities gradually on 4 May. At the Campinas (SP) plant, workers approved a reduction in working hours and wages.

FCA FIAT CHRYSLER: restarted vehicle production on 11 May, reopening factories in Betim (MG), Goiana (PE). At the engine factory in Campo Largo (PR), activities resumed a week earlier, on 4 May - all had been closed since 23 March. Administrative workers will stay at home indefinitely.

FORD: the company plans to reopen operations at all of its factories in South America in early June. The Camaçari (BA), Taubaté (SP) and Troller units in Horizonte (CE) stopped production on 23 March. The exact reopening date is constantly being reevaluated by the automaker.

GENERAL MOTORS: the São Caetano do Sul factory in São Paulo resumed its operations from 18 May, with only one shift. The unit, where the new SUV Tracker is being produced, has been shut down since 23 March.

HYUNDAI: the company has extended the suspension of employment contracts for most employees of the Piracicaba plant (SP) and offices in São Paulo for another month, until 25 June without reducing wages.

HPE MITSUBISHI / SUZUKI: the HPE plant (Mitsubishi and Suzuki), in Catalão (GO), will be stopped initially during all of April and May. The exact reopening date is constantly being reevaluated by the automaker.

HONDA: extended the suspension period of its operations at two factories in Brazil, in Sumaré and Itirapina (SP) until 25 June.

MERCEDES-BENZ: the company gradually resumed operations at its São Bernardo do Campo (SP) plant on 11 May, with a 50% reduction in capacity. The unit had been closed since 23 March.

NISSAN: the company postponed (for the second time) the resumption of operations at the Resende plant (RJ), where it produces Kicks, March and Versa. The unit, which has been closed since 25 March, had expected to resume production on 21 May, but this date has been pushed back until 22 June.

PSA PEUGEOT CITROËN: the resumption for the Porto Real (RJ) plant is scheduled for 31 May, which could change. The unit stopped production on 23 March.

FRANCE *Slowly opening up*

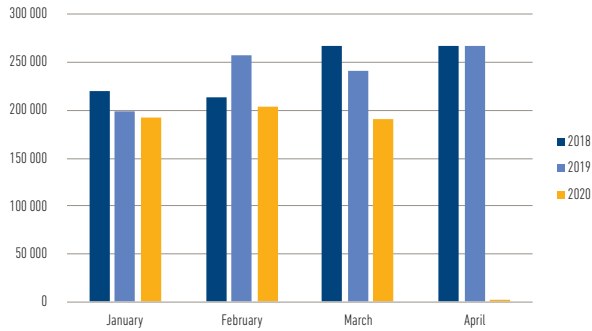
Most automotive factories in France have been closed since the third week of March. Below is a short update on reopening plans:

- Business has restarted at **Toyota** in Valenciennes since 20 April.
- **Renault** re-opened assembly plants at Cléon, Choisy-le-Roi and Le Mans on 23 April – and plants in Flins and Sandouville are following suit.
- Some of **Valeo's** export-orientated plants did not close but have been running at a slower level of productivity.
- **Plastic Omnium** has been gradually reopening its plants since 27 April.
- **PSA** reopened in late May, running a reduced shift operation.

COMPARISON: NUMBER OF CARS PRODUCED IN JAN - APRIL 2018, 2019 AND 2020

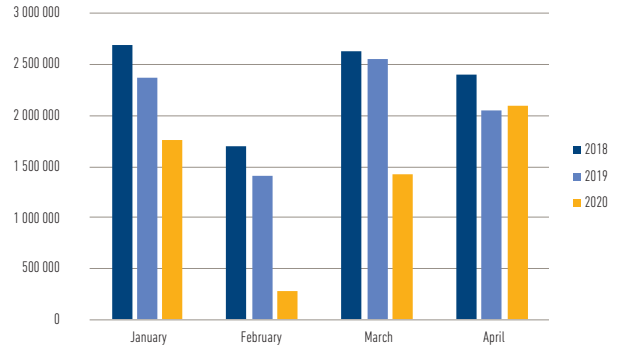
Some data will include estimates. April 2020 data not universally available.

Brazil



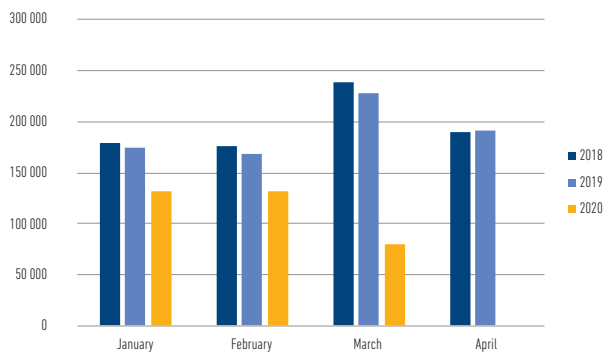
Source: ANFAVEA (National Association of Motor Vehicle Manufacturers)

China



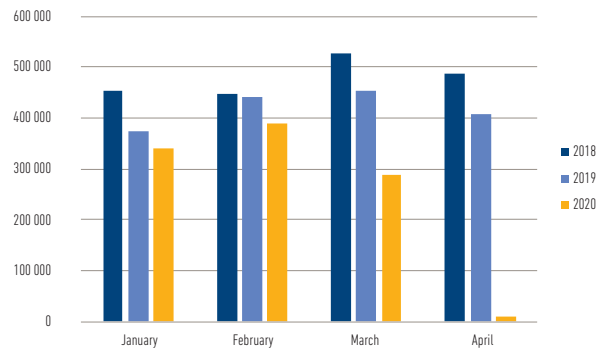
Source: China Association of Automobile Manufacturers

France



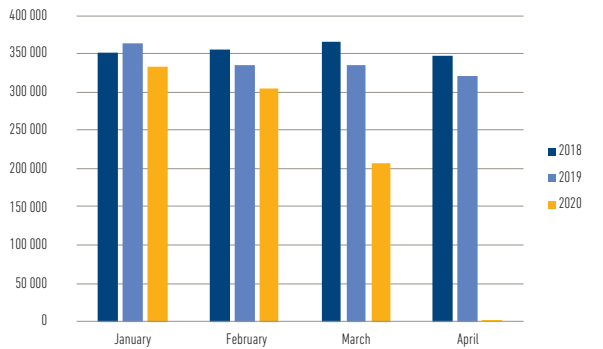
Source: Comité des constructeurs français d'automobiles

Germany



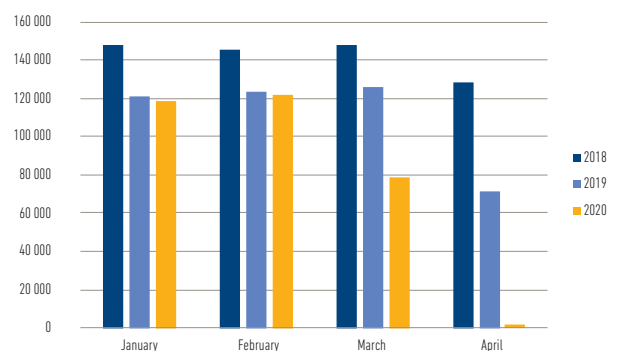
Source: The German Association of the Automotive Industry, German Federal Motor Transport Authority

India



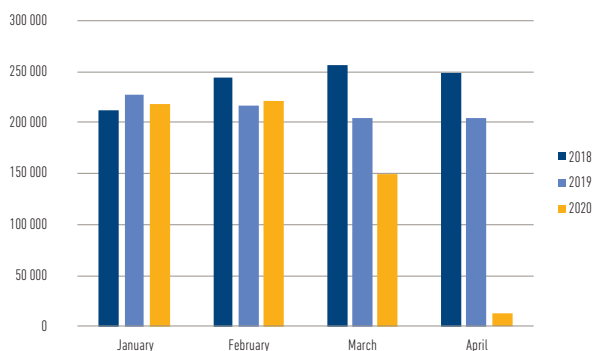
Source: Society of Indian Automobile Manufacturers (SIAM)

UK



Source: The Society of Motor Manufacturers & Traders (SMMT)

USA



Source: U.S. Bureau of Economic Analysis.

Car production in all countries has been impacted by Covid-19; this impact has followed the virus's progress in different territories, with Germany and Brazil being affected later than China for example. Not all April 2020 data is available but it is interesting to see how quickly China rebounded in April 2020, even surpassing 2019 levels for the same month.



INDIA Vulnerable to the global supply chain

Factories were closed from 24 March until 3 May and have been allowed to reopen from 4 May. All dealerships were closed on 24 March. However, certain dealerships based on the risk assessment have been allowed to reopen from 4 May.

2020 was already shaping up to be a year of low demand in India – and production shutdown has made things worse for the sector. At home, consumers have postponed vehicle

purchasing because of economic uncertainty and an inability to shop at dealerships, while abroad, exports have slowed due to the global shutdown and slowdown in key markets. Plant closures of OEMs in the US and Europe will also impact the export of Indian auto-components.

In this scenario, inventory build-up for export-oriented entities is expected to continue, which will

lead to increased working capital cycles. What's more, the deferral in payments announced by some OEMs, coupled with fixed overheads, will lead to an increase in working capital requirements of auto-ancillaries, posing risks for smaller players which have limited liquidity and financial flexibility.



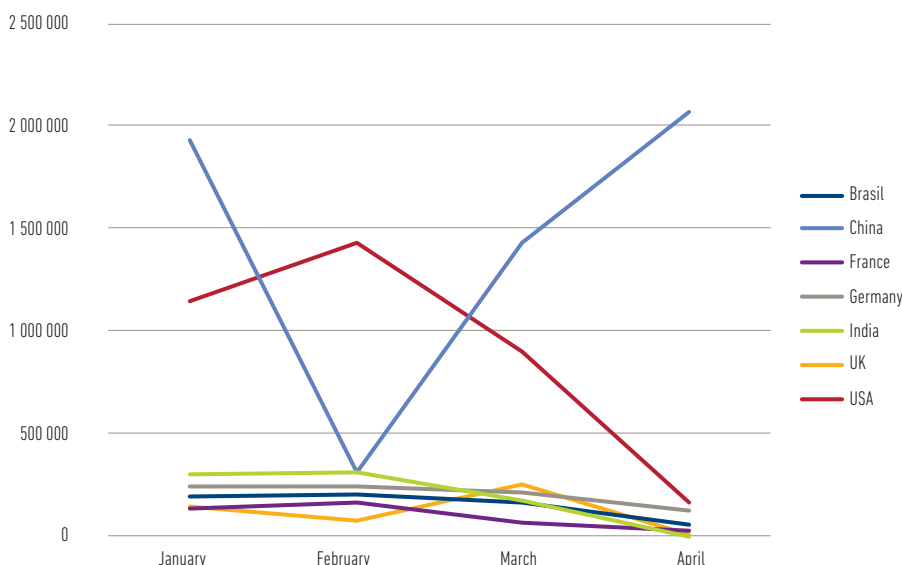
UK Factories closed, registrations falling

- **JLR** began reduced manufacturing in mid-May
- **Geely** to commence manufacturing at the end of May
- Most UK OEMs aiming to return to production in late or early June but with reduced activity levels reflecting the need to respect social distancing measures and the reduced customer demand

- Virtually all UK car dealerships have been closed throughout April and will continue to be closed during May. The focus is on re-opening and operating in a way that gives customers the confidence that visiting dealerships can be done safely
- The extraordinarily low registrations in April meant that for the first time ever the top

two best selling vehicles were electric, namely the **Tesla Model 3** and the **Jaguar I-Pace**. This is probably due to the waiting lists for these vehicles, so their volumes remained steady.

NUMBER OF NEWLY REGISTERED CARS JAN-APRIL 2020



Europe, Brazil and India follow a similar path while the US and China show dramatic fluctuations in number of cars registered this year. Reflecting its production achievements, China demonstrates strong registration resilience, which the US will be hoping to match over the next few months.

2020 data. Source: U.S. Bureau of Economic Analysis.; Comité des constructeurs français d'automobiles, The German Association of the Automotive Industry, The Society of Motor Manufacturers & Traders (SMMT), Society of Indian Automobile Manufacturers (SIAM), China Association of Automobile Manufacturers - estimates; Brazil National Association of Motor Vehicle Manufacturers

HOW HAS THE GOVERNMENT HELPED AUTOMOTIVE BUSINESSES TO DEAL WITH THE CRISIS?



GERMANY *Green incentives chosen over purchase grants*

The German government discussed numerous measures to limit the damage including purchase grants - where the state steps in to reduce the price of a new car. The potential move, however, was met with concern the incentives would favour private over public transport and would fail to encourage environmentally friendly purchases.

Instead, in early June, the government announced it would promote green vehicle ownership over purchase grants: for vehicles

priced up to €40,000, buyers will now receive a bonus of €6,000, compared to the previously available €3,000. The future is clearly green and initial discussions are underway about increasing and decreasing vehicle tax depending on the car's environmental credentials, starting in 2021. The existing ten-year exemption fully electric cars enjoy from vehicle tax has also been extended until 2030.

Tax exemptions have been introduced alongside an additional

€2.5 billion of investment in charging infrastructure, electromobility R&D and battery production. The industry will also receive a €1 billion bonus programme available in both 2020 and 2021 to boost investment in new technologies, processes and equipment for vehicle manufacturers and suppliers. As well as backing research and development, the bonus will help develop new regional innovation clusters, mainly aimed at suppliers.



US *Protection programmes for big and small*

There are a variety of programmes offered to aid companies during the crisis, but the benefits are limited to large automakers and parts suppliers. Unlike the 2008/2009 recession, there is not likely to be a bailout of automakers. One of the main programmes for small businesses is the payroll protection act, which provides forgivable loans to companies with 500 or less employees, if those loan proceeds are spent on payroll, rent, and utilities during the eight weeks after the loan is provided.

For larger companies, there is some relief offered through reduced and deferred payroll taxes for wages paid during the crisis. While helpful, it is often not enough to make up for the losses being incurred. In addition, there was money put towards the unemployment program which provides more money and for a longer period of time to those who lose their jobs or are furloughed during the crisis.

Currently, the auto industry is lobbying the government to provide additional incentives to consumers to jumpstart demand, but nothing has been formally announced so far.



Unlike the 2008/2009 recession, there is not likely to be a bailout of automakers.





CHINA Cost exemptions and reductions for businesses

As factories reopen, the government has introduced the following tax incentives to help with the recovery:

- Imported materials donated for the epidemic prevention and control shall be exempted from import duties, VAT and excise tax.
- Cash and goods donated by enterprises and individuals for the epidemic prevention and control can be deducted in full amount before CIT/IIT.
- The maximum carryover period for the losses incurred shall be extended from five to eight years in 2020.

Other policies vary by region but, if we take Shanghai as an example, businesses can access:

- Extended social security contributions payment to three months after the epidemic is over (date not yet defined and postpone the adjustment of social security contribution base from 1 April to 1 July.
- The premium rate of employees' medical insurance (including maternity insurance) paid by enterprises is temporarily reduced (from 10.5% to 5.25% for February-June and then increased to 10% from July to December.)

- Exemption and reduction of pension, unemployment, work-related injury insurance. For large scale enterprises, there is a 50% reduction (currently 17%-18%, after reduction, 8% to 9%) from February to April 2020. Meanwhile, for medium, small and micro enterprises, total exemption from February to June 2020.

As for financial credit support, **loan interest rate discounts can be granted up to 50% of the current market rate** to support enterprises in the sectors hard hit by the epidemic.

“ Loan interest rate discounts can be granted up to 50% of the current market rate. ”



BRAZIL Payments suspended

The Brazilian government launched the following emergency measures to help mitigate the effects of Covid-19:

- Transfer of funds from the PIS-PASEP Fund to Workers Fund (FGTS), to the amount of €3.4 billion;

- Temporary suspension of instalments of payments of direct financing to companies to the amount of €3.2 billion;
- Temporary suspension of instalments of payments of indirect financing to companies to the amount of €1.9 billion;

- Expansion of credit for micro, small and medium-sized companies, through partner banks, to the amount of €853 million.



INDIA Industry-recommended incentives and reductions

The auto industry is engaged in a dialogue with the government on policy measures which could minimise the impact of Covid-19. Key recommendations are:

- Temporary reduction in standard Goods and Service Tax (“GST”) rate

by 10% across all vehicle categories and auto components.

- Introducing an incentive-based vehicle scrappage scheme to generate demand. The incentives can be in the form of 50% rebate in GST, road tax and registration charges.

- Reduction in basic custom duty by 5% for three months for auto components – this will help to partially cover the impact of airlifting and costs of alternate source development.

HAS THE GOVERNMENT IMPLEMENTED ANY WIDER ECONOMIC MEASURES TO HELP THE AUTOMOTIVE INDUSTRY?



UK Government-backed loans

The UK government has deferred VAT payment until end of June 2020; businesses will then have until the end of the 2020-21 tax year (likely the end of the company's VAT year, in March, April or May 2021) to settle any liabilities that have accumulated during the deferral period. The deferral applies automatically, and businesses do not need to apply for it. VAT refunds and reclaims will be paid by the government as normal. Other relevant measures include:

- Time to pay arrangements for all taxes e.g. corporate tax, PAYE, NI and VAT can be agreed if companies in temporary financial distress due to Covid-19

- Coronavirus Job Retention Scheme, which will pay up to 80% of employees' salaries who might otherwise be made redundant, up to €2,800 a month. Furloughed workers are not be able to do any work for the company during the period of furlough.

As for the funding available:

- The Coronavirus Businesses Interruption loan for those with up to £45 million (€50 million) turnover 80% government guarantee, government pay arrangement fees and interest for a year

- The same loan is available for businesses up to £500 million (€557 million) turnover - with 80% government guarantee and commercial interest rates
- The coronavirus corporate finance scheme available for the largest businesses.



The Coronavirus Job Retention Scheme pays up to 80% of employees' salaries, who might otherwise be made redundant



FRANCE Billion-euro plan announced

After weeks of anticipation, the French government announced an €8bn rescue plan for the country's car industry in late May, including €1bn to cover grants of up to €7,000 to encourage the purchase of green

vehicles. "We need a motivational goal - make France Europe's top producer of clean vehicles by bringing output to more than one million electric and hybrid cars per year over the next five years," said President Macron. The

government will also give a €3,000 bonus to people who update to a less polluting car, part of scheme that is open to 75% of French households.



GERMANY *Tax support and loan assistance*

Special tax support measures for the automotive industry are not currently in force and are not even the subject of political discussion, but general tax relief measures are available for all taxpayers. VAT, for instance, has been reduced from 19% to 16% for the rest of the year.

If certain conditions are met, companies can use a simplified procedure to defer tax payments which are due, or which will shortly be due - until 31 December 2020 on an interest-free basis. For (over) due tax payments, enforcement measures usually taken by the tax authorities should not be applied.

Tax prepayments for 2020 can also be reduced.

As for further liquidity assistance, taxpayers affected by the corona pandemic can now apply for a retroactive reduction of advance payments for income or corporate income tax for 2019 based on a lump-sum loss carryback.

The KfW, a government-owned promotional bank, has improved the existing loan programs. The various promotional loans are passed on by private credit institutions to the companies. For these loans KfW provides a guarantee of up to 100%

of the loan amount in favor of the private credit institutions. The loans are provided with reduced interest rates and do not need to be repaid within the first two years.

The German government is also establishing an 'Economic Stabilisation Fund' that is targeted towards large companies. The fund supplements the loan assistance programmes that have already been adopted by the KfW and includes: €400 billion for guarantees; €100 billion for equity measures; and up to €100 billion to refinance existing KfW loan programmes.



CHINA *Exemptions for green energy*

The new energy vehicle purchase subsidy policy will be extended to the end of 2022, and the preferential policy of new energy vehicle exemption from vehicle purchase tax will also be extended to the end of 2022. Furthermore, from 1 May 2020 to the end of 2023, VAT on second-hand cars will be reduced by 0.5%.



INDIA *National stimulus package*

The Indian government has taken several regulatory steps to deal with crisis and provide financial relief. These include:

- A stimulus package announced that reduces the policy repo rate by 75 points (5.15% to 4.4%) and the reverse repo rate by 90 premise points - the rationale is to increase

liquidity in financial markets and help ease capital crunch and restore public confidence.

- Cutting down the cash reserve ratio by 100 basis points to 3% of net demand and time liabilities. This will release primary liquidity of about INR 1.37 lakh crore (~€16 billion) into the banking system,

which shall be available for one year ending 26 March 2021.

- On logistics: the government is allowing movement of trucks carrying non-essential goods and is waiving 50% of demurrage charges by airports operator/cargo terminal operator.

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