Photo: FCA



"The country needs major reforms"

Cledorvino Belini

President of Fiat Chrysler Automobiles (FCA) for Latin America
(as of November 1st, President for Latin America Development,
with responsibility to represent FCA in all institutional relations)

Solange Monteiro

THE automobile market is expected to end 2015 30% smaller than in 2013, when production of cars, commercial vehicles, trucks, and buses reached 3.6 million units. Cledorvino Belini, president of Fiat Chrysler Automobiles for Latin America says that despite the ups and downs of the economy, the industry previously has always ended each cycle with higher sales. "The worrying factor of the current economic crisis is that recovery should be slow, and average growth is hardly likely to be as high as in past decades," he said. Belini, who has been with Fiat for 42 years, said the sector would be positioned to be competitive in large export markets, but the problem is with the country's competitiveness in terms of, e.g., indexation—the automatic adjustment of wages, taxes, pension benefits, interest rates, etc.—depending on economic indicators such as the cost of living . He adds, "The country needs major reforms… if these do not happen now, it will be hard to grow."

In the second quarter of 2015, the net revenue of Fiat Chrysler Automobiles (FCA) fell only in Latin America, where it was 15% down from the same period in 2014. How much did Brazil account for this result?

Our company operates in four regions. In NAFTA (United States, Canada, and Mexico), we are doing well. It is a vigorous market with prices improving. Europe is emerging from crisis, also improving. Asia and Pacific is suffering a bit, but our participation

there is still small; we are investing now for the future. In Latin America … we had expected there would be a slowdown, but we never imagined it would be so large. When Brazil does not do well, you can expect all of South America to follow, with the possible exception of Colombia and Peru, which have been a little more active. In Argentina, demand has fallen by almost half. In Brazil, two years ago we sold 3.6 million units and we estimate that this year will end close to 2.5 million—a loss of 1.1 million units.

The public deficit has increased pressure to raise taxes. Do you think a heavier tax burden is inevitable?

No entrepreneur wants tax increases. What we want is more turnover to lead to more revenue and thus more income on which to pay taxes. High interest rates are a serious issue. We understand that we need to break inflation, which is a very high tax on society. But we pay an exorbitant rate of interest on public debt—close to R$500 billion. That cost is being passed on to society. … And the money ends up being invested not in production, but in financial speculation. We understand that money has to be tightened to curb inflation. But do we need to do it overnight, or can we do it more gradually so that the crisis in Brazilian society does not worsen?

Do you think we can achieve a consensus on structural reforms to reduce public spending?

Brazil needs to do that today. Starting with social security, which is the biggest hurdle. … Brazilian society cannot afford it; it is a very heavy burden that demands urgent reform. Also, public spending mandated by the constitution should be reviewed. The government says it cannot afford to cut public spending, because most of it is mandated, but we must find a solution, and that makes it a political issue.

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A few months ago you argued for dialogue and cooperation between the private sector and government to find solutions, and you met with the president. Has anything come of those meetings?

In a way, yes. But there are always difficulties in execution—that is natural in any democracy. We think there is some consensus, except for the issue of interest rates.

What about the tax issues?

We did not discuss that in detail, though there has been an exchange of ideas.

Growth of the automotive industry in recent years has benefited from tax exemptions, which are estimated to have cost R$56 billion in tax revenues from 2009 to 2013. How will ending the exemptions affect the auto industry?

In Brazil the automotive industry has a tax burden of 32%, the world average is about 12–13%, and in the U.S. it is 6%. … In order for the majority of Brazilians to have vehicles, as in other countries, we must have lower taxes, more credit, and lower interest rates.

Brazil has the highest tax burden in the world: What the industry needs is tax cuts to sell more, so the government can collect more taxes. When one reduces taxes on cars, the increase in demand goes beyond the tax cut. In the past when the popular car program was created and taxes on cars were reduced, demand for cars went up from 600,000 in 1992 to 1,130,000 in 1998... . But in Brazil the automotive industry has a tax burden of 32%, the world average is about 12–13%, and in the U.S. it is 6%. … In order for the majority of Brazilians to have vehicles, as in other countries, we must have lower taxes, more credit, and lower interest rates. … In Brazil, we have a car for every 5 people, in Europe there is one for every 1.7 people and in NAFTA one for every 1.5 people.

The tax exemptions stimulated expansion of production capacity which, according to Anfavea [the National Association of Vehicle Manufacturers], is currently 4.5 million units. Since the Brazilian car market has never approached that number, is the expansion sustainable?

The expectation was that the market would be 4.5 million. This market did not materialize, but … what we have now is great production capacity for export. There are two factors here: the exchange rate is favorable to export, but costs have also risen, and productivity is low. Our factories are competitive, but when the product leaves the factory, we have problems with the roads; we have no railways, no coastal shipping for distribution, but we do have bureaucracy, high interest rates—all this pushes up costs and makes it harder to export. It is not about creating incentives. It is about making the productive sector competitive. For example, we export 10% of taxes, taxes embedded in the production chain, of which exporters are reimbursed only 1%.

What are the prospects for exporting Brazil's excess vehicle production?

I am cautious. We have to be competitive in major markets: The U.S. market is 17 million vehicles a year and in Europe 15 million—these two alone add up to 32 million vehicles. Mexico is great, and we are already there. The Colombian market is 400,000. … We have excess capacity of 2 million vehicles. To export 2 million vehicles, we need to focus on major markets; Latin America is not enough.

Do we have export-quality products for major markets?

The idea that we are lagging behind is an old concept. Of course some products are not

adequate for large markets, but we also have global products, technologically compatible for export. Fiat has the Jeep Renegade, which is manufactured in Pernambuco state. Today it is being exported from Italy to the United States. Now that we have started production in Brazil, we expect to manufacture 120,000 vehicles a year, and we have the capacity to expand for export.

What about the exchange rate?

The exchange rate is good where it is. The big problem is its volatility. We have to have stability to understand at what level the exchange rate will stay. This volatility means it is necessary to hedge foreign exchange transactions, and that is expensive.

You participate in the Business Movement for Innovation (MEI). What initiatives does MEI think are necessary to drive innovation in Brazil?

MEI is a movement to stimulate innovation in the country. Today Brazil has favorable conditions in every way. In Minas Gerais there are mountains of iron, which is basically what an automobile is made of. We have the basic conditions that should allow us to compete. But the producers of steel and other basic materials for cars do not produce at a large-enough scale and therefore cannot be globally competitive. Furthermore, capital costs in Brazil are exorbitant—in no other country in the world is the cost of capital as high as here.

To what extent has the government's Innovate-Auto program helped to make the industry more competitive?

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The Innovate-Auto is a program of incentives for engineering to create better technological conditions for Brazilian industry and bring it forward into the world market. New products manufactured here are all aligned in terms of technology with the world market. Innovate-Auto brought engineering expertise to Brazil. Here at Fiat, before we had 800 engineers and today we have almost 2,000 … developing national engineering capacity. We have drawn on technology centers, Brazil's Technological Institute of Aeronautics (ITA), foreign companies, and universities. We are organizing a seminar in November with scientific panels of projects developed with partners, with 80 different presentations already scheduled.

So today, if you ask "do we have vehicles for export?" the answer is yes. Thus we created a global product, the most technologically advanced in the world … In my opinion, we really took a leap. On the personal side, I am very happy to have worked hard for this project. [When Innovate-Auto was established in 2012, Belini was the Anfavea president.]

Do you see an improvement in the government's infrastructure program?

Brazil is a country with great possibilities, and cycles of growth. Every time there is a new up cycle, the car market reaches higher sales. What we do not know is where we are in the business cycle—if there is still more downside to come.

I see good design, but no results. Look, for example, at the railways concession program. It is wonderful in theory, but slow in practice. The ports program is going slowly; it lacks regulations, such as for coastal shipping. Roads are still going through big cities. Here in Belo Horizonte city, for example, there are delays in completing the beltway. The design is good, but between design and results there is a big gap.

How has Fiat managed its employees during the current slowdown? What do you think of the Employment Protection Program (EPP)?

We have been making adjustments in production for some time, such as collective vacations. We are not hiring workers to fill natural turnover, which is one way to adjust. This is not ideal, but it is one alternative. ... With regard to EPP, each region has its own characteristics, each company has its own characteristics; one policy cannot be effective for all. Each must choose the best alternative. What is necessary is to ease the program conditions so that in the future companies will not be confronted with labor litigation. Regulation is necessary, but so is free bargaining and an end to indexation. … For contracts, for example, indexation is nonsense. Rigid contracts indexed to the future economy are terrible, they increase costs. .... The economy should be allowed to adjust freely. Otherwise, competitiveness is lost.

Does the current economic outlook affect Fiat's investment plans?

The auto industry always looks 10 years ahead. Once an investment starts, we are not able to stop. However, we are being very cautious. … We have excess production capacity, but investments in products continue; upgrading products is necessary, especially considering what the competition and markets are doing in product technology, process technology, and final product design. This is inevitable. But it all this requires a positive and predictable cash flow. This is the great challenge: How to generate cash to make investments. On the one hand we have our internal programs; on the other, we need to be aware of the economy's outlook. What is causing great distress in Brazil is the lack of structural reforms.

The investments of R$16 billion we planned for 2013 to 2016 are already almost done. As to production of the Jeep Renegade, we have to wait and see what direction the country will take before deciding on new investments.

How does Fiat headquarters see the Brazilian situation?

Our CEO Sergio Marchionne was in Brazil in early September and met with President Dilma Rous-

seff, Vice President Michel Temer, and Ministers Joaquim Levy and Armando Monteiro. He sees the Brazilian situation as temporary. Investors do not look at short-term issues of inflation, unemployment, and interest rates; they look at the long term. Brazil is a country with great possibilities, and cycles of growth. Every time there is a new up cycle, the car market reaches higher sales. What we do not know is where we are in the business cycle—if there is still more downside to come.

Do you think the current crisis will worsen because recession is combined with political crisis?

I have seen many crises ... I have been with the Fiat Group for 42 years, and in the industry for 52. Recently I gave a presentation in which I recalled the Brazilian crises since President Getulio Vargas in 1954: The crisis of President João Goulart in 1964 was serious; the President Collor crisis in 1992 left everyone baffled. Of course we feel the latest crisis is the worst. … My concern now is that the previous crises were followed by rapid growth and after the current one it seems that the economy will recover slowly and not grow as fast as in recent decades. The country needs to be rebuilt. It needs major reforms that were not made in due course as we were learning to deal with the democracy. If the reforms do not happen now, Brazil will have a hard time growing. We need a shock to rebuild. But to rebuild, political will is necessary. I do not think that is yet emerging.

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