



中国汽车要闻

**CBU-Auto**

**February 11, 2010**

Vol. 16, No. 6

[www.cbuauto.com.cn](http://www.cbuauto.com.cn)

[www.chinaautoreview.com](http://www.chinaautoreview.com)



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**CHINA BUSINESS UPDATE**

# Automotive

*Weekly Intelligence and Insights on the Chinese Automotive Industry*

## Miao Wei: Development of new energy vehicles cannot depend on subsidies



Miao Wei

*Miao Wei, China's vice minister of Industry and Information Technology, spoke about issues of China's auto industry on January 9 at the 11<sup>th</sup> Guanghua New Year Forum jointly sponsored by the Guanghua Business School*

*and MBA Program of Beijing University. Miao worked for seven years in 1997-2005 as president of Dongfeng Motor Corp., one of China's Big Three State-owned automakers before being appointed Party*

*Secretary of the City of Wuhan. He became vice minister of the new MIIT in 2008. Miao was an official with the Department of Automotive Industry under the Ministry of Machinery Industry in 1993-1997. Following are excerpts of Miao Wei's speech and some of his comments are not only insightful but also candid. – Editor*

### Fuel efficient vs. new energy vehicles

It is true that China's auto industry had unrivalled performance last year, selling more than 13 million units and up over 40 percent from the previous year. But, frankly, the performance was due largely to policy support from the government.

We had three key policies. First, we cut sales tax by half for cars with 1.6-liter or smaller *(cont'd on p. 2)*

## China's economic revival warms CV sales in 2009

– by Linda Luo

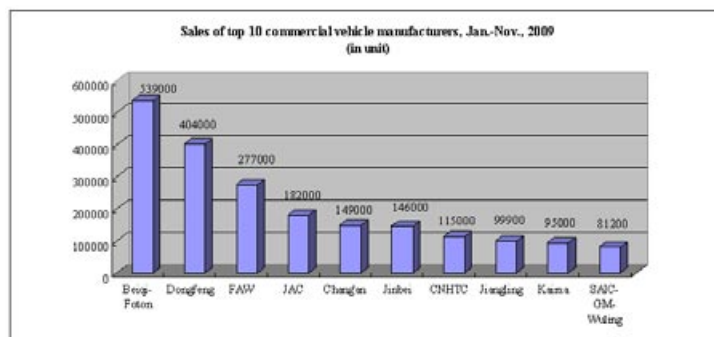
Sales of commercial vehicles in the first 11 months of 2009, which include both light commercial vehicles (light buses, light trucks and mini trucks) and heavy-duty vehicles (medium and large buses, and medium and heavy-duty trucks), reached 2.29 million units, growing 32.08 percent year-on-year. Output was a bit higher, at 2.34 million units, up 35.97 percent from

the same period a year prior. Sales of semi-tractor trailers posted 186,349 units, down 1.73 percent in the January-November period of 2009. Chinese commercial vehicle makers sold 523,733 chassis during the period, a slight increase of 3.72 percent.

Yearly sales of commercial vehicles amounted to 3.31 million units, a growth of 28.39 percent from the previous year.

Analysts attributed the growth to the adoption of fuel taxes and revival of the Chinese economy at large.

Beiqi-Foton, which was China's largest commercial vehicle manufacturer, became the world's largest such manufacturer in 2009, with cumulative *(cont'd on p. 5)*



Source: CBU

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Published weekly by  
Gnix Transpacific Co., Ltd.

**ISSN 1080-4080**

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# From the Year of the Bull to the Year of the Tiger



China has become the world's largest new vehicle manufacturing country with total sales surpassing 13.6 million in 2009. The Year of the Bull has rendered China's automobile market unprecedentedly bullish.

Automobile sales in January 2010 (which still falls into the lunar month of December) hit an all time record of 1.66 million units, up 124 percent from the same month a year ago, according to the latest data released by China Association of Automobile Manufacturers. And passenger vehicle sales totaled close to 1.32 million, almost doubling those of the same month in 2009.

There is no doubt that the growing Chinese economy and the rise of per-capita income are the fundamental driving factor for market growth. But the January numbers are mind-boggling and seem too good to be true. Yes, one can argue that sales in 2009 and January 2010 are the direct result of super effective government stimulus packages of sales tax reduction on small-displacement vehicles, subsidies offered for rural residents and cash-for-clunkers subsidies.

According to Miao Wei, vice minister of Industry and Information Technology, the sales tax reduction on small-displacement vehicles in 2009 "boosted sales by more than 2 million units" and rural subsidies "boosted sales of micro vehicles by over 1 million units."

One can also argue that undoubtedly the growth momentum has been carried over from 2009 into January despite the slight rise in sales tax by 2.5 percent on automobiles of 1.6L engines and smaller.

The high year-on-year growth rate was partially due to the more working days in the past January compared to January of 2009 when the country celebrated the Lunar New Year holidays.

The discrepancy has been revealed by industry insider Rao Da, secretary-general of China Passenger Car Association, who said that January numbers included those sold in December but unreported by a number of leading carmakers. "We had three less working days in January compared to December," Rao wrote in his blog on *auto.sohu.com*, "and it was simply not possible for carmakers to jack up January daily output capacity by 15 percent over that of December when most assembly plants were operating overtime."

Industry analysts believe that as much as 15 percent of January sales, or over 200,000 units, might have been unreported numbers from last December.

China is probably the most difficult market to make any accurate forecasts in terms of output and sales. When we said Happy New Year on the eve of the Year of the Bull, most automakers and analysts were predicting that sales growth in 2009 would be at best 10 percent.

It seems that we need to be more optimistic when the market is down, but alert for possible downturns when the market is up.

The unprecedented Bull's Year is coming to an end. As we wish all of you a Happy Year of the Tiger, let us watch closely how Tigerish China's auto market will be in the New Year!

\*\*\*\*\*  
*Miao Wei: Development of new energy vehicles cannot depend on subsidies, cont'd from p. 1:*

engines, which boosted sales by more than 2 million units. Second, we gave subsidies for vehicles and motorcycles sold in rural areas, which boosted sales of micro vehicles by over 1 million units. Third, we intended to generate replacement sales of 1 million vehicles with a total subsidy of ¥5 billion (\$735 million). Actual replacement sales failed to reach 1 million units, however. But we've achieved a high rate of growth. And

everyone was happy.  
As traditional internal combustion engines are producing increasingly negative results to energy resources and the environment, people have come up with the idea of developing new energy vehicles. Is new energy automobile the direction of future development? It definitely is.  
But, overnight, it seems as if we've reached a stage where new energy



Toyota's Prius hybrid vehicle

## Technology routes

Technology routes for new energy vehicles have given rise to heated debates. I recently heard that Japan has applied to the International Standard Organization for using its hybrid standards as international standards. Developers of conventional hybrid power as represented by Toyota have set up some pitfalls and we should keep away from them.

President Obama announced granting \$2.4 billion for developing the so-called ranged-extended plug-in hybrid vehicle. But the technology is not entirely free from the internal combustion engine. It is just one step closer to the electric vehicle. A plug-in vehicle will cause headaches in China. For example, how would you charge your car if you live on the 10<sup>th</sup> floor, like I do?

Technologically, all existing approaches have problems. It is my belief that we should encourage the "blooming of a hundred flowers," so to speak, be it a light, medium or heavy hybridization or pure EVs. The government should be watchful about the end products, not the specific technology routes.

Passenger cars are only one sector of the auto market. China is a big market for buses and coaches. I believe we should focus on achieving hybrid power for buses on the one hand and for mini-vehicles on the other. We should keep away from the most difficult technological areas where others have taken a lead in the passenger car hybridization and are trying to set up international standards.

## New energy vehicles in China

Currently about 47 enterprises are licensed to produce all kinds of new energy vehicles. The Ministry of Industry and Information Technology, together with the Ministry of Science and Technology, the Finance Ministry and the National Development and Reform Commission, are providing support for 24 eligible enterprises involving 47 product lines that use conventional hybrid power as well as plug-in hybrid power. Vehicle

vehicles can be produced on an industrial scale and as if sales of new energy vehicles could exceed 50 percent of the total. This is by far too optimistic. It is my judgment that, owing to the inadequacies with batteries, electric motors and electronic control technologies, sales of genuine new energy cars will account for a very small proportion of total sales in the foreseeable future, or say before 2020. That is to say, 85-90 percent of cars sold until then will still be conventional cars burning fossil fuels.

Therefore, while paying attention to developing new energy vehicles, we should never neglect boosting the fuel efficiency, or energy saving, of conventional cars. There is much room for progress in this regard, too. There are mature technologies as well as mature products. But, frankly, our CEOs have failed to make much progress in saving energy through conventional means.

Japan in 2001 had a grand plan to cut the car's fuel consumption by 10 percent in 10 years. I dare not say our present average fuel consumption has reached the level of Japan in 2005. We probably still have a 20 percent room for improvement in this regard in order to catch up with Japan.

If you are no good in making conventional cars, it is unrealistic for you to expect to accomplish any breakthrough in new energy cars. The relationship between the conventional

and new energy vehicles is foundation and elevation. The internal combustion engine is indispensable for a hybrid, for example. We have not yet fully mastered the automatic transmission technology for a conventional car. The difficulty of hybridizing two different powertrains in a hybrid can well be

***If you are no good in making conventional cars, it is unrealistic for you to expect to accomplish any breakthrough in new energy cars.***

imagined.

For the pure electric car, many problems need to be solved besides the battery, electric motor and electronic control system. For an EV, for example, using the battery to power the heating wire, which in turn heats the car, remains a major problem. In a conventional car, heat is a by-product of combustion and easily available.

I will cite another example of difficulty. At present, battery packs for electric cars generally have a

voltage of 100V-600V. If by any chance the car falls into a river, how would you make sure that the 100V-600V battery won't kill people inside? This is still difficult to resolve. My point is simple: with regard to the new energy vehicles, we aren't at the same starting line as automobile giants in developed countries, as some people claim.

***The government should be watchful about the end products, not the specific technology routes.***

models include sedans, coaches and street sweeping vehicles.

In addition, the Ministry of Science and Technology, in its State 863 Program spanning the past 15 years, has launched two major groups of research projects, one on battery, electric motor and control systems and the other on hybrid, fuel cell and pure electric vehicles.

Despite remarkable progress, we still lag behind advanced international levels, though the gap is not as big as that in the conventional vehicle area. Our investment in new energy vehicles has been inadequate, only about ¥1.1 billion during 2006-2010.

Adding investment from businesses, the total is less than ¥10 billion. Such little investment can in no way bring about a fast commercialization of new energy vehicles.

We have several major obstacles. The battery poses the biggest problem. And the biggest headache is the diaphragm, which makes up about 30 percent of the battery cost. China is still incapable in producing such diaphragms. Moreover, the most crucial parts of the electric motor and the control systems are their integrated components, for which we entirely rely on imports. And they are extremely expensive. We have also other technical difficulties to overcome, such as production of highly efficient internal combustion engines and highly efficient transmissions, weight reduction for raw materials and the reduction or elimination of vibration and noise.

### Issues to be addressed

First of all, we need to play a role in setting international standards. In recent years we've adopted and applied 30 standards for new energy vehicles. We are not too behind in setting technical standards. The problem lies in their application. We also need to catch up in converting our standards to international standards.

Secondly, driving

distance with full charge. We have read that pure electric vehicles to be launched overseas can drive 100 km per charge. We have read reports that some Chinese-made pure EV can travel 400 km per charge. Is this to be believed? Yes, only if weight is not in the equation. I can give you a vehicle that travels 800 km per charge if you expand the battery size and weight. But then is this feasible?

Let me cite another example. It is reported overseas that recharging a battery pack takes 5-6 hours. If you claim that a fast recharge takes only 10

***The government may give subsidies but such subsidies are limited and should gradually decrease. The way out is to cut costs through volume production and commercialization.***

minutes, would it necessarily be good performance? Not necessarily, because the battery packs valued at ¥70,000-¥80,000 may be able to withstand only 300 charging cycles. Performance and feasibility need to be balanced.

Thirdly, about government subsidy. Some company says: my new energy car does not sell well because the government offers no subsidy. We've been urging the Finance Ministry to subsidize not only new energy vehicles for public transportation but also for private cars. Subsidy rates may be made public soon in January. But ultimately new energy vehicle manufacturers must rely on the market. The government may give subsidies but such subsidies are limited and should gradually decrease. The way out is to cut costs through volume production and commercialization. New energy

vehicle enterprises cannot depend on government subsidies for its livelihood.

### The battery

In terms of control, Toyota has realized an intelligent electric control system in its hybrid cars. Electric control is still an important limiting factor for the commercialization of electric vehicles. But in comparison, the battery is still the biggest bottleneck. The best battery packs today have a life expectancy of 1,000 charges. Normal batteries have only 300-500 charges.

The two crucial parts for a power battery are the positive material and the diaphragm. The positive material is key to battery capacity. Imported lithium-iron phosphate is close to its limit in capacity, about 170 g/ma. Homemade lithium-iron phosphate is not yet as stable in performance. Nor does it have a cost advantage compared to products from Taiwan.

The diaphragm accounts for 20-30 percent of the cost for lithium-iron batteries, and represents the highest technical barrier for us.

One-layer diaphragms made of polypropylene are normally used for mobile phones or laptop computers. The diaphragm is expensive but may cause explosion. An explosion on a cell phone or a portable computer is quite a headache but, should it happen on a car, consequences would be too serious to be contemplated. We now depend entirely on imports of single-layer diaphragms.

For batteries that drive electric vehicles, a multiple-layered diaphragm must be used. The West now imposes an export ban on the technology and the equipment for this kind of diaphragm to China. We can only buy diaphragms of this kind at a high price. We need to pool our resources to solve this problem on our own.

CBUICAR

*Translated by  
Raymond Chen*



BYD assumes its e6 pure electric vehicle can travel 400 km per charge.

China's economic revival warms CV sales in 2009, cont'd from p. 1:

**Table 1. Light commercial vehicles: sales boosted by trade-in policy**

	Output	% Change	Sales	% Change
Mini trucks	442,062	80.86	437,517	79.58
Light trucks	1,361,991	31.64	1,324,029	27.68
Light buses	170,114	7.44	166,237	3.79
Total	1,974,167	37.34	1,927,783	33.80

**Table 2. Sales of Top 5 mini truck makers in January-November of 2009**

	Sales	% Change
Chang'an	118,485	41.23
Beiqi-Foton	89,347	17350.59
SAIC-GM-Wuling	62,939	39.06
Hafei	46,726	34.37
Dongfeng	41,674	71.41

from the previous year. Sales were slightly lower, namely 1.92 million, up 33.80 percent year-on-year.

Both mini trucks and light trucks greatly benefited from the government's policy of subsidies

growing segment, rising 31.64 percent in output and 27.68 percent in sales. Beiqi-Foton remained the largest light truck manufacturer. The rest of the top 10 light truck makers all registered sales growth of over 15 percent.

The light bus segment saw slight growth of 7.44 percent in output and 3.79 percent in sales during the timeframe. Brilliance-Jinbei continued to be China's largest light bus manufacturer, with total sales of 59,580 units from January to November.

China's cabinet has raised the subsidy for trade-in vehicles from a range of ¥3,000-6,000 (\$435-870) to ¥5,000-18,000, effective January 1 to December 31 of 2010. Mini trucks and light trucks are believed to be the vehicle types that benefited most greatly from the policy. If the light bus segment continues its own rise, then the light commercial vehicle market will continue to rise significantly in 2010.

CBU/CAR

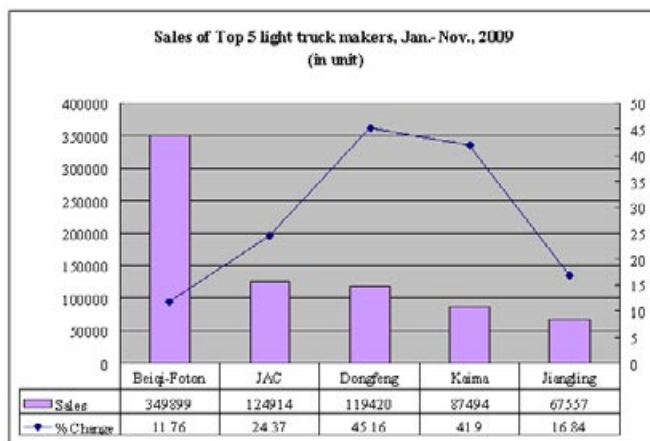
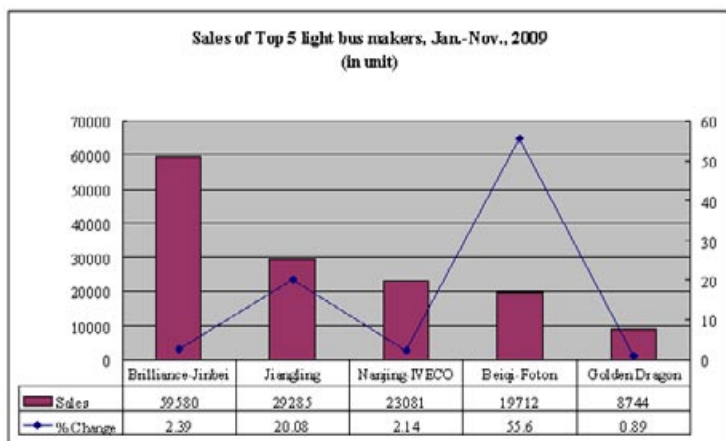
sales of 539,000 units from January to November. It was followed by Dongfeng and FAW, which sold 404,000 and 277,000 commercial vehicles respectively. Total sales of the top 10 commercial vehicle manufacturers were 2.09 million units in the first 11 months of 2009, accounting for 70 percent of the country's total sales in the period.

China made nearly 2 million light commercial vehicles from January to November of 2009, up 37.34 percent

for trade-in vehicles. Across different segments of light commercial vehicles, mini trucks registered the highest growth, up about 80 percent in both output and sales. Among automakers, Chang'an sold the most mini trucks. Noticeably, Beiqi-Foton witnessed an explosive increase in mini truck sales in 2009, greatly contributing to its dominance of the commercial vehicle industry.

Light trucks were the second fastest-

Source: CBU



Source: CBU

## China looks to Japan for development aid

- by Mac Gordon

At least 100 Japanese vehicle engineers are working with Chinese automakers on development of new cars, according to Hiromi Shoji, an economics professor at Kyoto University.

Among the Chinese automakers using Japanese technicians are Chang'an Automobile, a partner with Ford, Isuzu, Mazda and Suzuki. One

of these is a former Isuzu engineer, Kiyoshi Kondo, who has helped his Chinese counterpart strengthen their interior designs and determine how many staffers were needed for each phase in the development process.

"China is like Japan 30 to 40 years ago," says Kondo, 72. "The Chinese need us to bolster their efficiency as vehicle development goes along. Also,

we can be helpful in making sure that new Chinese vehicles meet safety and emissions standards in North America and Europe."

In a phone interview, Professor Shoji noted that several Chinese automakers have taken an additional step in cementing ties with Japanese producers opening research and development centers in Japan.



In 2006, truck maker JAC Motors opened a technical center in Tokyo hiring a number of local technicians to assist in development of cars for the China and Asian markets. The center's chief, Wenjun Wang, says Japanese engineers "have more endurance to pursue a problem until it is solved."

Kondo says that the use of Japanese engineers could speed up development by Chinese producers of cars conforming to western standards. An approach being pursued by the Chinese is reverse engineering of Japanese vehicles, with which Japanese engineers are obviously more familiar.



JAC Japan technical center

"There have been cultural gaps between how the Chinese approach a

vehicle development project and the Japanese methodology," says Kondo, "but I'm reminded of what we learned by coming to the U.S. and adapting Ford systems. I'd go back to China in a flash if they asked me to work on another new vehicle."

One area in which several Chinese brands have sought out aid from the West is styling, notes Kondo. "Italian designers like Giugiaro have worked on several Chinese brands, but for the interiors and powertrains the Chinese look almost invariably to the Japanese for help." CBU/CAR

## NEW ENERGY VEHICLE

### ZAP, Jonway partner to target China EV market

— by Linda Luo

SANTA ROSA, CA – U.S. electric vehicle maker ZAP and China auto manufacturer Zhejiang Jonway Automobile Co., Ltd. signed an agreement to produce electric SUVs, cars and other electric vehicles in China for domestic and global distribution, ZAP announced on January 21.

The two companies will partner on the production of the 5-door Jonway A380 SUV (named UFO in China), integrating the AC propulsion and lithium battery system technologies to produce a mid-range electric vehicle that ZAP intends to offer to the fleet market in China.

ZAP said the agreement is part of a multi-phase business plan it is implementing to target the China electric vehicle market. It chose Jonway in part because last year Jonway produced one of the first

vehicles made in China to meet international standards of quality, according to ZAP statement.

Jonway currently manufactures several thousand units per month of its A380 compact SUV in 3- and 5-door models. The Taizhou-based automaker now has a capacity of 50,000 vehicles and 600 dealerships.

Under the exclusive agreement, ZAP will perform research and development of the core technology in Santa Rosa, California and license the technology for this partnership. ZAP and Jonway will jointly market and sell electric vehicles in China, North America and Europe. ZAP said its China operations aim to capitalize on Chinese government subsidies for plug-in electric

vehicles.

ZAP is one of the world's oldest electric vehicle providers, having delivered over 117,000 of a broad range of vehicles to more than 75 countries since 1994.



Jonway currently manufactures several thousand units per month of its A380 compact SUV.

## STATISTICS

### Record keeps falling as China auto sales surpass 1.66 million in January

— by Lei Xing

BEIJING – China's automobile market kept on rolling last month, as sales hit an all-time record of 1.66 million units, up 124 percent from the same month a year ago,

according to the latest data released by China Association of Automobile Manufacturers. Production jumped 143 percent to 1.61 million units.

Passenger vehicle (car, MPV, SUV

and micro bus) sales accounted for the bulk of auto sales, more than doubling the figure in January 2009 to nearly 1.32 million units, while commercial vehicles nearly tripled year-on-

year to 348,200 units. Automobile export volume doubled year-on-year to 37,700 units, but was down 24 percent from December 2009.

This is the first time in recent history that auto sales in January have exceeded those in December of the previous year (with the exception of January 2008 vs. December 2007 as Chinese New Year was observed in February 2008). Industry analysts attribute the stunning market

performance in January to continued solid consumer demand, effect of last year's stimulus policies carried forward, as well as deferred demand and orders from December carried into January.

Sales of passenger vehicles of 1.6L and below, the main beneficiary of the stimulus policies, almost doubled to 941,000 units,

The high percentage changes in production and sales are biased since

January 2009 was the month in which Chinese New Year was observed, when monthly auto sales are usually at their lowest during the year.

Data also revealed that revenues at 17 key automakers in 2009 increased 30 percent to ¥1.5 trillion (\$217 billion), while profit before tax at these automakers jumped 68 percent to ¥224.1 billion.

## OEM NEWS

### SAIC to bring MG brand back to the UK in 2010

— by Linda Luo

SHANGHAI – SAIC Motor, the passenger car subsidiary of China's biggest automaker SAIC, will start manufacturing its self-developed MG series sedans at its UK plant, with plans to sell them across the European Union by the end of the year, reported *Reuters*, citing SAIC chairman Hu Maoyuan on January 25.

"The idea is to take advantage of the existing MG sales network in the European Union as well as the cost advantage in China," Hu told *Reuters* on the sidelines of Shanghai's annual People's Political Consultative Conference.

SAIC plans to start manufacturing its self-developed MG 6 saloon car, based on acquired technology, in its UK plant at the end of this year, SAIC president Chen Hong said in last November.

SAIC obtained the MG brand and technology in 2008 after it acquired Nanjing Automobile Corp. (NAC). In the bid for the defunct MG-Rover, NAC paid for the MG brand and related technology while SAIC bought certain technologies of the Rover brand, integrating them into its self-developed Roewe brand cars.

NAC launched the MG 7, MG 3 and MG TF based on acquired MG technology in 2007, but saw sluggish sales. Reports said MG's sales volume was only a quarter of that



The MG 6 saloon car

of the Roewe in 2009. Late last year, SAIC released the MG 6, based on the Roewe 550 platform, in order to revitalize MG sales in China.

## GAS 2010 UPDATE

### Hyundai Motor confirmed as exclusive Platinum Cocktail Sponsor at GAS 2010

— by Lei Xing

BEIJING – Hyundai Motor Co. confirmed earlier this week that it will be the exclusive Platinum Cocktail Sponsor for CBU/CAR's inaugural **2010 Global Automotive Symposium (GAS 2010)**.

**GAS 2010**, with a theme of *China and World Automobile Market in the Next Decade: Innovation, Green Vehicles and Global Competition*, will be held on April 22-23 at the Westin Beijing Chaoyang right before Auto

China 2010 (April 23-May 2), the year's largest auto show in China. Hyundai Motor will be sponsoring the Cocktail Reception in the evening of April 22, 2010, immediately after the first full-day session of **GAS 2010**. Other sponsors of **GAS 2010** include **Ernst & Young** (Platinum Dinner), **Total Lubricants** (Gold) and **Gentex Corp.** (Silver).

To date, a total of 23 speakers (listed alphabetically by last name) have

confirmed their participation: **Abulaban, Majdi**, President, Delphi Asia Pacific  
**An, Jin**, President, Jianghuai Automobile Co., Ltd.  
**Baker, Kevin**, Professor, University of New South Wales, Australia  
**Broek, Cees Ten**, Director of Communications, World Steel Corp.  
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For more information and to register for **GAS 2010**, please visit our website at [www.chinaautoreview.com](http://www.chinaautoreview.com).

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## UPCOMING EVENTS

**March 4-6, 2010:** The 7<sup>th</sup> Guangzhou International Automotive Air-conditioning & Cold Chain Technology Exhibition, China Import and Export Fair Pazhou Complex, Guangzhou, Guangdong, China

**March 12-14, 2010:** The 10<sup>th</sup> China International Auto Accessories Commercial Expo, Beijing National Agricultural Exhibition Center, Beijing, China

**April 22-23, 2010:** **CBU/CAR 1<sup>st</sup> Global Automotive Symposium (GAS) and 15<sup>th</sup> Annual International Conference/2010 Presidents' Forum – China and World Auto Market in the Next Decade: Innovation, Green Vehicles & Global Competition**, Westin Beijing Chaoyang, Beijing, China

**April 23-May 2, 2010:** Auto China 2010, China International Exhibition Center, Beijing, China

**April 30-May 4, 2010:** The 3<sup>rd</sup> Nanjing International Auto Exhibition Nanjing International Expo Center, Nanjing, Jiangsu, China

**May 20-24, 2010:** The 9<sup>th</sup> Qingdao International Auto Show, Qingdao International Convention Center, Qingdao, Shandong, China

**June 6-8, 2010:** The 8<sup>th</sup> China Guangzhou International Auto Parts Expo, China Import and Export Fair Pazhou Complex, Guangzhou, Guangdong, China

**June 10-14, 2010:** Auto Chongqing 2010, Nanping Chongqing International Convention and Exhibition Center, Chongqing, China

**June 21-23, 2010:** Auto Components Shanghai 2010, Shanghai International Exhibition Center, Shanghai, China

**July 16-18, 2010:** The 6<sup>th</sup> Beijing International Pure Electric Vehicle, Hybrid Power & Clean Energy Vehicle, Accessories Exhibition, China International Exhibition Center, Beijing, China

**September 25-27, 2010:** China International Auto Parts Expo, China International Exhibition Center, Beijing, China

**September 30-October 6, 2010:** Tianjin International Automobile Show, Tianjin Binhai International Convention & Exhibition Center

## COMING UP IN THE NEXT ISSUES

- \* Interview with Qi Yumin, chairman of Brilliance Group
- \* Introduction of environmental tax on automobiles requires careful consideration and planning

## TO OUR READERS

**CBU-Auto** Vol. 16, No. 7 will be published on February 25, 2010.  
Happy Chinese New Year!