



SPN NEWS

JAPAN AUTOMOBILE RECYCLE NETWORK NEWS

Vol.60 FEBRUARY 2013 <http://www.spn-partner.com>

Published by SPN Co., Ltd.

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SPECIAL

REPORT

Shinichi Aoyama,
Daily Automotive News

AAEF in Gold Coast

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Negative campaign taken by carmakers and dealers in U.S.A.

Conflicts develop between used parts industry and carmakers, dealers

One of the most impressive country reports was the one presented by the U.S.'s Automotive Recyclers Association C.E.O., Michael Wilson.

After an explanation on auto recycling in the U.S. and ARA's activities, he pointed out that carmakers and dealers are launching negative campaigns against used parts. It was thought that the move was caused by extending service life of vehicles and dealers' losing share in the aftermarket business. In the U.S., the average service life of vehicles stood at 11.5 years in 1990, but it extended to 15.5 years in 2011. On the other hand, car dealers' stake in the aftermarket business fell to 26.1 percent in 2011, compared to 33.3 percent in 2000. Sales of replacement parts for repair are one of the pillar businesses of car dealers. If the used parts sell well, car dealers lose sales opportunities of their genuine parts or new

parts. Therefore, dealers began to stir up concerns of the quality of used parts saying, "We do not respond to used parts if the vehicle is recalled," "Used parts, which are apparently equal to new parts as they are taken from vehicles made by carmakers but it is unknown how they are used before."

To respond to the negative campaigns, ARA asked the National Highway Traffic Safety Administration (NHTSA) to disclose data of original equipment numbers of parts as well as parts ID, which are necessary for countermeasures for recalls.

Wilson concluded his presentation by appealing the difference of repair costs between used parts and genuine parts. A repair will cost 530 dollars (300 dollars for parts price plus 230 dollars for repair fee) at a car dealer. But it would be reduced to 60-75 dollars for used parts plus beer as thanks at a parts installation site.

The used parts industry goes against the wind of government policy in emerging economies

In emerging economies, used parts industries are facing tough hurdles set by government policy to protect the domestic parts industries.

The Malaysian government announced a ban on the import of used parts in order to help develop domestic parts makers. The Malaysian lawmakers pointed out concerns of the quality of used parts. They said that bad quality used parts might be sold in the market and repaired cars using used parts might cause accidents.

Although the proposed ban was lifted, issues for the safety of used parts still remained. According to Mr. Gwee Bok Wee, Chairman of the Malaysia Automotive Recyclers Association

(MAARA), the used parts importers were asked to establish quality standards of used parts by 2015, through which quality levels will be raised.

Network, a key to survive for recyclers

In Japan, genuine parts enjoy an overwhelming market share compared with used parts. So there is not a big conflict between genuine parts and used parts. But small conflicts are seen in the industry. For example, makers of automatic transmissions (ATs) recently stopped delivery of replacement parts to rebuilt parts makers.

"Genuine parts will be used for repair of newer cars, while used parts or reuse parts will be used for the repair of older cars." It is common sense for Japanese recyclers. But the counterparts will not agree to that so easily. Japan's auto industry achieved more than a 95 percent of recycling rate. And now carmakers are going forward to a network making of more effective ways to resource recycling, and precious metal collection. Not a few recyclers think that their future business depends on how to join that networking move.

Major recyclers are also stepping up their operations to include overseas markets. Relationships and talks with overseas recyclers will be an essential part of their future business. Great attention will be paid to how they organize industry-wide activities. <Daily Automotive News December 27, 2012 issue>

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YEAR 2012 OVERVIEW

Hard times for recycling industry

Rising transport costs bother recyclers

The year 2012 started with an announcement of a tie up of Big Wave Co. and Seino Transportation Co. and the industry has been troubled by rising transport costs throughout the year. The trouble has now eased somewhat but almost all recyclers saw a cost hike in transportation for their parts. Industry-wide efforts are expected.

The trouble was triggered by a cost hike taken by a major transport firm, Sagawa Express Co. In September 2012, the firm officially changed the upper limit of a cargo size and weight from the previous 450cm and 60kg to 260cm and 50kg. Prior to the change, Sagawa already asked recyclers to agree with a revised price system for transport. As a result, the transport cost of a used door, which had been around 8,000 yen from Hokkaido to the Kanto region, increased to nearly 30,000 yen as an over-sized item. The transport firm can accommodate small items like used headlamps as a regular service system, but it no longer provides a relatively low cost of its regular service for doors, bonnets, and bumpers, which are mainstay products of recyclers.

Big Wave first responded to the change. The group formed a partnership with Seino Transportation to set up a specific price range for used parts, which is exclusively used by group member recyclers. Big Wave then invited EcoLine and SPN to the agreed price system.

NGP Group also formed an alliance with Seino Transportation as the group already teamed up with Seino's subsidiary in building a new logistics system for recycled parts. Moreover, JAPRA System, in which Buyukai, System Auto Parts joined, and Broadleaf Co. went to Seino.

Since 1990, the recycled parts industry has formed computer networks among recycler groups to expand their sales across the country. Major transporting firms using trucks have supported real-world delivery from recy-

clers to customers. Seino, Fukuyama Transporting and other truck operators had handled various types of recycled parts. But they left the field when Sagawa launched an aggressively campaign for new transport services for such parts with discount prices. The business of recycled parts for Seino and Fukuyama were limited to only heavy-duty cargos like used engines and transmissions.

Recycled parts are one of the difficult goods for transporters because they have a variety of size and weight, ranging from engines, transmissions and mufflers, to small parts. Today, recyclers blame Sagawa for its price hike and also blame themselves for their easy decision to simply take a cheap way of transport with Sagawa. In contrast, recyclers which have long been using Seino's services enjoy relatively low cost of transport compared with those who recently began to use transporter-recycler groups' agreed price system.

On the other hand, recyclers still benefit from Sagawa's services for small cargo. Many recyclers use Sagawa for such goods and other firms for large cargo. NGP Chairman Hasegawa said, "It is not the time for us to one-sidedly ask for a price reduction from transporters. We need to join forces to find a way to save logistics costs." He added that NGP asked its members to use Seino's services even for small cargo to help Seino. <Daily Automotive News December 27 issue>

Recyclers eye measures for stable management

The recycled auto parts industry is plagued by weakening profitability. This is caused by high costs of ELV procurement as well as selling price drops of reuse parts and rising transport costs. Although steel scrap prices began to go upward recently, many recyclers already took action to secure stable management, including sales expansion of reuse parts made in-house.

Amid the service life of vehicles is extending, older vehicles are increasingly going to recyclers' sites. Recycled parts taken from old vehicles may have a negative impact on inventory turnover and cause prices to fall. But they help total inventory widen, by which

selling opportunities increase.

Some recyclers are increasing inventory by reform or expansion of operation sites in order to increase sales of highly profitable reuse parts made in their own facilities. Major recyclers also strengthen the management of total processing of ELV recycling, or so-called "Marusha Kanri." They aim to raise the values of ELVs which they purchase at high prices.

So far, recycled parts have been uploaded on inventory sharing systems on a parts group basis, such as doors, bonnets, bumpers, etc. On the other hand, stay inside the bumper and washer tanks have been treated as scraps. These steps and parts group-based sales method are wholly reviewed under total management. Every item of reuse parts taken from an ELV will be monitored to achieve supply of all reuse parts of an ELV to customers. This approach is only available with good-condition old vehicles. The move is also supported by the development of the image viewing system, which makes it easy to check the parts by customers.

There is no big change in the conditions of ELV delivery to recyclers in Japan. A major recycler in a rural area said, "We constantly receive ELVs these days," at the end of 2012. Another recycler, who gets fewer ELVs from new car dealers, commented that it accelerate sales activities from used car dealers and repair stations to get more ELVs.

In the long-term, however, every recycler will face tougher conditions of ELV procurement. Group-wide efforts are becoming obvious in the industry.

Recyclers should also pay attention to the steel scrap market and currency movement. In general, the auto recycling business consists of three pillar businesses: recycled parts sales in Japan, export business, and scrap business (or resource recycling business). Recyclers found poor performance in all three businesses in the second half of 2012, and since then they are forced to look for business improvements for their companies.

This year, recyclers were confronted with the recovery of scrap prices and the merits of a weakening yen. It is advised that they do not lose their efforts while seeing immediate merits. Preparations for the future will be delayed. <Daily Automotive News January 17 issue>

Govt. to set up safety rules even for car dismantling machines?

The Ministry of Health, Labour and Welfare will amend the Industrial Safety and Health Law (latest amended in 2006) to cover construction vehicles for automobile dismantling. The amended law is schedule to go into effect in July 2013.

With the amendment, construction vehicles for automobile dismantling, or so-called "nibblers," will be newly covered by the law.

So far, the law only applied to self-propelled and specifically-designed machines for civil engineering and construction work. The law thus did not apply to such construction vehicles for automobile dismantling, forest machinery, and cargo-handling

machines. It also did not cover self-propelled construction machines which use multiple attachments such as iron-cutters, concrete crushers, and graspers case by case. However, construction machines using multiple attachments have greatly spread over construction sites and many accidents were caused by such machines.

The Ministry thus formed a committee for safety measures for construction machines for dismantling in October 2012 and compiled a report in December to include such machines. During the discussions, the committee members found that such attachments are used by operations other than construction. So they included automobile dismantling vehicles which use attachments.

Once it is covered by the law, manufacturers of such machines are required to add a warning device for a roll over, and a safety hood for the operator to the machine. The roll over alert is already employed in

Europe and it would not be a trade barrier in the Japanese market. On the other hand, operators of such machines are required to participate in a training course, while companies need to submit work plans to the authorities. Recyclers would see increased costs and extra efforts.

For automobile dismantling work, some recyclers insist as follows: "Unlike construction work, the site of automobile dismantling work is fixed and fitted with well-proven safety equipment. There is no need to be included in the law." <Daily Automotive News December 20 issue>

