

MOTOR-DIGEST. WEEKLY SURVEY OF RUSSIAN MARKET

September 17, 2004

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OFFICIAL ITEMS

N. Sorokin, Deputy Director of Industrial Department of the Ministry of Industry and Energy of Russia, announced that the Japanese Nissan company is considering possibility of setting up joint enterprise assembling motorcars

According to him, capacity of the assembly enterprise can be about 300 thousand cars a year. At the same time Sorokin noted that exact production project was not discussed yet, "We offered to set up a joint venture on the base of Elabuga car plant in Tatarstan, as today this site is in the center of prospective directions if car industry."

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RUSSIAN CAR PRODUCERS

AutoVAZ company has announced transferring all its models to one single brand Lada

VAZ-2105, VAZ-2107, VAZ-2110, VAZ-2111 and VAZ-2112 will now be called Lada (for example, Lada 2105). VAZ-2108, 2109, 21099, 2113, 2114 and 2115 are now called Lada Samara, Niva is now called Lada Niva, long VAZ-2110 is called Lada Premier. According to international standards, all new AutoVAZ models will get their own names - Lada Kalina, Lada Priora etc. Brand name will be spelled only in Latin letters, the print and logotype should be of one style. AutoVAZ will make some

changes to certificates and service documents.

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JOINT VENTURES AND ASSEMBLY ENTERPRISES

On September 9 Khiroshi Okuda, the Chairman of the Board of the Japanese Toyota Motor, announced their intention to build assembly plant in Russia

"Russia is the only large country in the world where we have no plant, so we have to come there sooner or later," Okuda says. The words of Toyota Chairman of the Board are the first official reaction to information about the Japanese producer coming to Russia. The Japanese concern has been negotiating setting up assembly plant in 2008 in Nizhniy Novgorod for a long time, it is planned to invest \$100 million into it. The plant will produce 15 thousand small Corolla cars popular in Russia and middle

class Camry cars annually. Also N. Sorokin, Deputy Director of Department of Industry of the Ministry of Industry and Energy, talked about negotiations with Toyota. According to him, the base for setting up a joint venture could be the territory of Elabuga motorcars plant.

Khiroshi Okuda's statement was done at the same time as a delegation of Russian officials and businessmen headed by S. Kirienko, the President's plenipotentiary in Privolzhsky district, visited Japan. From the very beginning

of this visit experts expected some moves in negotiations with Toyota concerning setting up assembly production in Nizhniy Novgorod region. In Russian representation of Toyota Motor they confirmed these plans, "We consider Russian market as potential, but so far the concern has made no definite decisions."

Meanwhile, Toyota's reserved position concerning Russian market is easy to explain. According to D. Nushtaev, an analyst from Metropol company, the Japanese are still more interested in importing their products to Russia, "IN our country we still have no well developed system under which it would be profitable to assemble cars here. Still there are no acceptable duties on components, privileges for investors like for example immunity from taxation for some time. That's why even those concerns which built their plants in Russia prefer to wait after they have set up not very large assembly and they are going to increase it only when the situation is favorable."

Apart from that, according to A. Yazykov, and analyst from Aton company, "any investments into long term assets on developing markets, as Russia is now, are always difficult to predict." However high risk also means high profitability on investments, the expert believes. "Macro economic indexes show that the demand keeps growing on Russian car market. Combined with cheaper labor it will provide high profitability for Toyota," Yazykov says.

Vedomosti remind that Toyota Motor Corporation is the world second largest car producer after GM. Last year the corporation produced 6.78 million cars. In 2003/04 fiscal year, which finished on March 31, the company profit made \$152.2 billion, net profit - \$10.2 billion. In Russia the company sold 25,600 cars last year.

Even competitors think that it is good time for Toyota coming to Russia. "Russian market develops fast. Over 1 million cars are sold here annually. There are only six countries in the world with such indexes," says P. Leshakov, Press-secretary of Autotor company, which assemble a number of Kia, BMW, Land Rover and GM cars. "If the Japanese don't hurry they can be late." AutoVAZ representative thinks that setting up Toyota plant in

Russia would be good news for the whole car industry, because many foreign producers of car components will follow. And only in Volkswagen, which made official statement last week about its intention to build a plant in Russia, they think that Toyota doesn't have to hurry. "It is not the question of how fast. We don't want our production in Russia to be limited to primitive assembly. For more effective production we need to work in every direction," notes A. Gordasevich, a representative of Volkswagen Group Rus, he believes that Toyota could choose the same strategy.

And experts believe that Toyota could assemble Corolla or Camry models in Russia. "These are the best sold cars from the model range (in the first half of 2004 there were 5,390 Corolla and 4,545 Camry sold in Russia - Vedomosti), and there is a point in starting with at least 10 thousand cars a year," says D. Nushtaev, and analyst from Metropol company. Vyzcheslav Smolyaninov from UralSib, agrees, though he notes that Russian market is growing so fast now that "in the nearest at least three years there will be enough room for everybody on it." Nushtaev believes that Toyota investments into Russia project could be compared to Ford investments into building a plant in Vsevolzhsk - \$150 million.

In another article Vedomosti admit that in spite of fast growth the market of new foreign cars is not large enough to consume all investment projects in car industry. During the first half of 2004 there were a little more than 200 thousand new foreign cars sold in Russia. But if the market keeps growing at such pace, by the moment Toyota and Volkswagen produce their first cars in Russia, there will be good demand for them. And the new players will be able to assemble dozens of thousands of cars and cover all their expenses faster.

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Renault plans to increase its share in Autoframos to control stock and buy a part of shares from Moscow Meyer's office by the end of the year

Jean-Michel Jaligne, General Director of this company, who represents the French company interests in Russia, announced that. At the moment Moscow Meyer's office and Renault own 50% of Autoframos shares. Now Autoframos produces Symbol motorcars, and from the middle of 2005 they plan to start production of Logan model.

Izvestiya remind that Autoframos is the joint venture of Renault and the Government of Moscow, the company sells the French concern products in Russia. In the joint venture Articles of Association it was stated that Moscow can sell its share to the French partner. The parties

planned that after additional emission of Autoframos shares Renault will buy most of them and participation of the Moscow Government in the joint venture will be minimal. The Meyer's office tried to sell their shares more than once, but each time the decision of Autoframos shareholders meeting was blocked by Federal Commission of Central Bank. They insisted in the Commission that the Federal law about shareholders' companies doesn't allow decreasing 50% state share.

In press service of Renault representation in Russia they told Izvestiya that they would buy the joint venture shares as soon as Moscow Meyer's office is ready for that.

Earlier Moscow Government announced that they were ready to give at least 26% of Autoframos shares to their French partner and close the deal within the third quarter of 2004.

Full control of the French party over Autoframos is profitable for both parties. Moscow being a large joint venture shareholder will be no longer responsible for the future project development. And the French will have more freedom in making decisions. According to the law after Autoframos share in the joint venture increases up to 75% + 1 share, the company can increase its authorized capital stock.

Already now Renault makes most investments into Autoframos. During the last year the company invested up

to \$250 million into setting up new assembly production in Autoframos, which will produce from 60 to 120 thousand Renault Logan cars from next year. Moscow government limited its activities by giving Renault a part of AZLK Moskvich production capacities and promised to give some privileges - for earth rent and advertising placing in the city, and also to free the company from tax on property.

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The Japanese Suzuki Motor Corporation is considering possibility to build a plant producing small cars in Elabuga, Tatarstan

Press service of Nizhniy Novgorod Association of Manufacturers and Entrepreneurs announced that this project was discussed in Japan on the meeting of Suzuki management with Privolzhsky Federal District representatives. But in Elabuga they were surprised at this announcement, though they really have a car plant with staying capacities, EIAZ. Its representatives announce that they are negotiating with Koreans, not the Japanese.

"Our representatives didn't go to Japan, and they took no part in negotiations with Suzuki Management, even if such negotiations did take place," a representative of Elabuga plant direction told Izvestiya correspondent. "It is like in a saying - they married me without my own presence."

Meanwhile only a month ago N. Sorokin, Deputy Director of Industrial Department of the Ministry of Industry and Energy, said that a new enterprise could be set up on EIAZ site. "This site seems to be the most probable for setting up production by specialists from South Korea," Mr. Sorokin noted. According to him, this site contains all necessary engineering communications and branch lines. And according to Nikolay Sorokin, car business representatives from South Korea show interest in Elabuga. R. Talipov, Director of EIAZ External Relations Department, says, "during the last several years we have been looking for investor, for strategic foreign partner who would set up assembly of its motorcars on our industrial site, either as a joint venture, or by a license, and we maintain contacts with different car companies. So, in February representatives of South Korean Hyundai visited us, but no agreements followed."

It is curious that it is planned to make EIAZ a joint-stock company next year. In the Ministry of Earth and Property Relations of Tatarstan they announced that the plant will first be transferred into joint-stock company with 100% state property. It is planned that a share in the new joint-stock company will be offered to strategic investor. EIAZ history is rather short, it was built in July 1985, but it has already made several serious turns, though the no cars of its own have been produced on the plant. 9 years ago EIAZ-GM Corporation was set up there; a joint venture with GM. Chevrolet Blazer assembled in Elabuga from imported components was immediately called Churale Blazer. For some reason this off-roader reminded of Churale, forest ghost from fairy tales with his arm stuck in a log. EIAZ-GM Corporation tried also to assemble 2-liter Opel Vectra sedans from German components. But assembly of these cars was stopped late in 2000. The reason for it was simple: sales market for foreign cars in Russia was rather limited.

As a result EIAZ has to specialize in producing tools, machine-tool elements, car components, it performs orders of city and other organizations. In 2002 the plant started assembly of Belarus wheel tractors by the license of Minsk Tractor Plant.

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FOREIGN COMPANIES IN RUSSIA

South Korean car building company Hyundai Motor Co. won tender for supplying busses

for the President's administration

Hyundai press service announce that the company will import 50 Aero Express HSX busses, which will be used for driving officials to the airport and guest residences of the President Vladimir Putin. Apart from that busses will be used by the President's administration, Parliament members, representatives of the Ministry of Foreign Affairs and Federal Security Service. These busses will be also used during annual meetings of CIS presidents in Moscow. First busses will be delivered to Moscow early

this October. All busses are equipped with diesel 340 hp engines.



In October renewed model of Hyundai Santa Fe car popular on the Russian market will appear n official dealers' showrooms

This car wasn't renewed for 4 years, from the moment it was born; now it got more modern radiator facing, rear lights and rear bumper. 2-color design is now used in interior. Also the dashboard is much more modernized...

cost \$33.4 thousand.



New modification of Santa Fe in Russia will be a little bit more expensive than the previous one - by \$400: 2.4-litervariant with manual transmission will cost \$28.4 thousand, variant with 2.7-liter engine and automatic will

Sales of renewed model of Porsche 911 Carrera, one of the world most popular sportcars, started in Russia

The new car got even more dynamic and aggressive design. It is equipped with super powerful 3.6-liter engine, which makes the car accelerate with great dynamics (to 100 km/h for 5 seconds) allows it reaching maximum speed of 285 km/h. Specifications of one more new modification, Carrera S, are even more impressive: it is equipped with the new 3.8-liter engine, which allows the car literally taking off the road (acceleration to 100 km/h for 4.8 seconds, maximum speed 293 km/h).

version is 97 thousand Euros, Porsche 911 Carrera S - 109.9 thousand Euros.



The price for the new Porsche 911 Carrera in basic

Sales of the new Renault Modus will start in Russia in spring, its production started recently on the largest Renault plant in Spain

The novelty belongs to B class (compact cars class) and though its sizes are rather small (it's only 3.7-meter long) it has spacious saloon, which can comfortably seat four people.

Fashionable ideas of transforming car details are brightly embodied in Modus construction. So, the back seat can be easily transformed from seat meant for two to seat meant for three, if it is needed its can be moved

forward and give more space to the baggage compartment.

Some decisions were taken from a higher class, for example, it is the first time when compact car got adapted system of side lights, which includes additional lighting at turns. Expected price for the new transformer baby in Russia is \$12-14 thousand.

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Russia has been included into the list of 25 most dynamic Audi cars markets

Ralf Weiler, Sales and Marketing Director of Audi, Audi Board member, visited Moscow not long ago, he announced that Russia has reached the second place in selling Audi A8 model with 12-cylinder engine, only Germany is ahead of Russia in this models sales. Total sales growth in Russia made 27% - 1,718 cars instead 1,351 cars in 2003. Great Britain has become the largest export market in Europe for Audi, 41,805 cars were sold there (9.2% growth compared to last year). The situation on the USA market is a little bit worse: there were 37,970 cars sold, which is 7.6% less than for the same period last year. According to Ralf Weiler, Audi company, which is a part of Volkswagen group, intends to place stakes on premium class cars also in future. In the end of September

new Audi A3 Sportback model will appear on the markets. This car together with A6. model is to create optimal start conditions for further sales growth. One more fact could be interesting to Russian Audi admirers: Ralf Weiler promised that soon board computers of the cars imported to our country will speak Russian.

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New Maserati Quattroporte was first represented to the public a year ago - on September 9, 2003. From the beginning of 2004 this one of the most remarkable premieres of Frankfurt Motor Show is sold in Russia

The author thinks, "the new car from Ferrari Maserati group is a good competitor to Mercedes S-Klasse and BMW 7 Series."

Kommersant reminds that Karlo Adselio Champi, the president of Italia, and Silvio Berlusconi, Prime Minister of Italy, drive Quattroporte now. Their bullet proof cars are estimated at almost 500 thousand Euros each now. Without bullet proof protection and in Moscow they are a little bit cheaper - about 160 thousand Euros with

maximum set of options.

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Volkswagen action on the Russian market will last till October 31, within its guidelines one can buy any version of Transporter T5 commercial vehicle of the new generation under special conditions

For example, Kasten, Kombi and Shuttle modifications can be bought with up to \$2,000 discount and one can get special presents worth up to \$1,000 with each dealer.

Besides, exclusive conditions are offered when concluding leasing deals with Europlan company (earlier - DeltaLeasing). Rise in price rate in this case is 8.63%, which is considerably lower than the average rate on the market. Downpayment is 30%. All applications are considered within not more than 5 days. One more advantage of this leasing offer is minimum set of

documents needed for concluding the deal. Most Moscow dealers of the brand take part in the action.

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On September 15 Rolf will open another dealer's center, in Khimki town near Moscow. It will be one of the largest in Europe. For the first time the company will offer Mazda cars to their clients. Tatiana Lukovetskaya, Director of the new Rolf-Khimki center, speaks about it

T. Lukovetskaya stresses, "All our dealers' centers are full cycle, they provide trade and service and combine all kinds of car business: car sales, components sales, maintenance. Some centers deal with only one brand, others are multi brand ones. The center, which will be opened this week, will deal with four brands, Mitsubishi, Hyundai, Ford and Mazda cars will be sold and maintained here... I personally think that such centers are profitable for clients. Buyers are offered a wide range of services: trade-in, crediting, insurance. If the client gives its car to the service shop for maintenance, he can rent a car also here or use a taxi, which our employees will call. In our new center clients can submit a car for maintenance at

any time of day or night.

T. Lukovetskaya noted, "experience of Rolf multi brand centers shows that selling cars of several brands in one outlet is possible. This is the issue of standards and ethics... In 2005 we plan to sell over 10 thousand cars, and we will sell even more in future."

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International car concerns started building components warehouses in Russia in order to decrease long waiting lists for maintenance. So, American Ford Motor announced their intention to invest \$25 million into their complex near Moscow

According to AD Russia company information (the company represents interests of ADI international service network), capacity of Russian market of components for foreign cars without taking into account oils, car chemical goods, tires, batteries and accessories, is 600 million Euros.

H. Nenzen, the President of Ford Motor company in Russia and CIS, announced on September 15 that his company will open centralized warehouse of components in Moscow region in March 2005, which is estimated at \$25 million. Ford representatives don't reveal the site for the warehouse and its area. But experts say that taking into consideration investments amount it will be one of largest logistics complexes in Russia set up for the needs of one company. "Now building modern warehouse facilities costs \$500 for 1 square meter," notes R. Alchudzhyan, the Head of Department of Warehouse and Production Capacities of Collies International consulting company. And so the area of the new complex will be about 50 thousand square meters.

Now Ford imports components from Germany. E. Kulinenko, Ford press secretary, explained that setting up a warehouse will decrease the period of delivering components to dealers from the present 2-3 weeks to one day within Moscow and 3 days within Russia. M. Naumov, Marketing Manager of Major-auto company (Ford official dealer) hopes that setting up a new warehouse will make life easier both for dealers who won't have any linger to keep not often used components on their warehouses, and for consumers who won't have to wait for deliveries from Europe.

Most foreign car producers are already increasing or are going to increase their warehouse facilities. "The reason for it is fast growth of new foreign cars fleet in the country," says V. Tarakanov, the Head of Marketing Department of Rolf Company, Exclusive Distributor of the Japanese Mitsubishi. According to FST information, import of new foreign cars into Russia has almost trebled in the first half of 2004, up to 266 thousand cars. Rolf itself has invested 7 million Euros into increasing their own components warehouse on Altufyevskoe highway, which maintains Mitsubishi and Hyundai cars. Now the warehouse takes 1,200 sq m, and in the beginning of 2005 building on a plot of 5,000 sq m will start, according to Tarakanov. Turnover of the complex after reconstruction will more than double, it will increase up to \$150 million.

Toyota will open its components warehouse new Moscow in early 2005, according to A. Kokoreva, PR Manager of Russian representation of the Japanese company. Though, the company official dealers already receive components from this warehouse, and it decreased delivery period within Moscow to 1-2 days. Already in spring clients of Toyota official service shops complained that they have to wait for components for several weeks.

GM representation in Russia transfers its warehouse from a town near Moscow to Moscow circular road, and its area will be "several times" increased. T. Khalyavskaya, the Head of Marketing Department of Volkswagen company, says that the German producer's warehouse was transferred from Sergiev Posad to Sheremetyevo-1 district this July and its area was doubled up to 11 thousand sq m.



MISCELLANIOUS

All experts interviewed by AI are sure that positive trend of Russian car market will preserve, they are at variance only concerning inconsiderable details. Naturally proved that "war doesn't happen"

Before talking about bright prospects we should fulfill the promise we gave our readers in last issue and sum up final results of market activity of Russian and foreign car producers in Russia during the first six months of this year.

According to ASM-Holding information, during this time Russian enterprises produced 535,823 motorcars or 16.7% more than for the same period 2003. All Russian plants (Excluding SeAZ, RosLada and Autoframos) finished the first half of 2004 with considerable increase.

It looks like producers of "Russian foreign cars" gained most success. For example, Autotor increased production of Motorcars (Kia and BMW) by 86.5% and GM-AutoVAZ increased production of Chevrolet Niva by 5.1 times. On the whole during the first half of 2004 they produced 56,335 cars or 10.5% of the total motorcars production volume in Russia.

Based on the results of the first half of the year ASM-Holding experts made optimistic forecast, according to which motorcars production in Russia in 2004 will make 1.05-1.07 and can even increase to 1.1 million units. Other observers agree on the whole. Particularly, according to I. Lozhkina, an analyst from Prospect investment company, production volume by the results of 2004 in Russia will make about 1.05-1.07 million units, which is 4-6% more than in 2003. In monetary equivalent production will increase by 8-10%. Foreign models really play more and more prominent role in the branch statistics. However ASM-Holding forecast concerning the share of "Russian foreign cars" seems to be too optimistic. In fact their total production can be rather more modest. For example, GM-AutoVAZ has already corrected its plans towards decrease and we can hardly believe that it is possible to assemble 14 thousand Kia Spectra this year. Autotor and TagAZ announcements of 24 thousand and 21 thousand cars correspondingly seem just as dubious. According to Federal Customs Service information, in the first half of the year there were 215.2 thousand foreign motorcars imported totally estimated at \$2,182,900,000. There were 200.5 thousand cars imported from foreign countries and 14.7 thousand cars imported from CIS countries.

It is quite obvious that it is too early to give up on used foreign cars. So, according to forecast of RAND American analytical company, this segment will keep

definite market share up till 2015. This year we should expect further gradual decrease of second hand. According to AI estimates, down to 40% of the total amount of imported cars.

Estimating import prospects on the whole, we hardly should mention considerable increase compared to last year. Probably, the number of cars imported has even decreased a little bit. Based on official importers' plans and on forecast decrease of used cars import and foreign models production increase in Russia we can suppose that this year about 420-430 thousand foreign cars will come to our country (we should remind that according to State Customs Committee information, there were 491,440 cars imported to Russia in 2003). Though in monetary expression the market will grow, of course. According to most cautious forecasts based on customs officials' information who estimate an average car at \$10,144, import will make \$4.3 billion. Some experts also agree to these positions. Particularly, I. Lozhkina thinks that import of motorcars can be more than \$4 billion by the end of the year.

Though being sure that an average foreign car is somewhat more expensive AI analysts rather estimate imported cars segment at \$6 billion at least.

As to new foreign cars, according to different estimates, their sales volume this year will make 300-400 thousand units. The market will grow by 80-100%. Particularly, ASM-Holding experts note that their forecast of new foreign cars sales volume growth up to 300 thousand cars by the end of the year "is proved by mid year results and can even be higher."

Market operators themselves are more optimistic. For example, S. Bogdanov, Sales and Marketing Director of Ford Motor Company, thinks that this year there will be up to 360 thousand new foreign cars sold in Russia. In his turn Yu. Samoilenko, Marketing Director of Nissan Motor Rus, is sure that market volume this year will make about 400 thousand cars, about 40% of which will be assembled in Russia. Though, unlike other experts he includes GM-AutoVAZ products.

It is notable that when they talk about growth market participants not that nevertheless it goes slower. According to Yu. Samoilenko's estimates, it will be most likely not very considerable (the market itself will grow by about 90% compared to last year)/ This trend will be more

noticeable already in 2005. One of the reasons is market saturation (solvent population will have bought cars), besides if the market itself does grow, the growth rate will decrease year after year. "Small developing markets grow fast, and Russia gradually gets out of this segment," Yu. Samoilenko asserts. "Market growth will decrease already this year," notes S. Bogdanov, "At least there will be no 100% increase as we had during some months early this year." He thinks that market growth decrease is connected not with market saturation, "it is still too far for us." It is rather the matter of its restructuring. Because in some segments the supply is still limited.

It is curious that producers explain car deficit by record market growth rate. They say that market researches always make mistakes in estimations and state lower demand. This way or another even if decision is made to increase import based on results of the first quarter, the companies can realize it only in the third quarter..."

All experts agree that is no cataclysms happen and if prices for oil are maintained at the level favorable for Russia, nothing will be on the way of further market increase. So far their optimism seems to be proved. Even the recent bank crisis was good for car producers: frightened bank clients took their money and bought long term goods. Companies working with foreign banks were in the most favorable situations - they managed to increase not only sales for cash, but also sales on credit. For example, Ford (it cooperates with Raiffeisenbank and Moscow International Bank) showed record growth of credit sales in June. According to S. Bogdanov, due to "right partner choice" the company could sell about 500 cars. Producers who work with other banks are less lucky: as a result of bank trust crisis their sales on credit decreased considerably. Though, car deficit and long waiting lists in this case were rather convenient. So, before crisis started many clients had already got positive credit decisions. Anyway, results of spring-summer bank crisis can be felt for quite a long time yet and we can only hope that they will be no fatal for crediting formation, which plays more and more noticeable role in car market development. Especially in foreign cars segment. Though, judging by the latest statements of government officials, authorities are going to help it in every way. At least, in one segment of imported cars. If we trust G. Gref, the Minister of Economic Development, the Government has finally given up the idea to increase import duties on foreign cars up to 35%. "From consumers' point of view we can only welcome the decision of the Ministry of Economic Development," says V. Skoptsov, Senior Consultant of BKG company. "One of its consequences will be car market saturation, car market is overheated today. But it will not good for Russian car industry."

Really, the Government gave up the plans to increase import duties on cars, but offered no incentives for foreigners to invest into car production in Russia. However paradox it might sound, even when there is no exact policy in attracting investments foreigners will still want to come to Russia, they will be attracted by prospects of the growing market.

"No one has come to Russia due to high duties," says Yu. Samoilenko, "Moreover, China example, which is already classics, is unsound, as producers came there not because of high duties, but only when home market volume made setting up quite big local productions possible." We should note that so far Nissan has said nothing about production plans in Russia. However, it is not excluded that the Japanese can try also with the enterprise of its strategic partner Renault...

In fact practically all largest world car producers could work in Russia independent on the government tariff policy: actually it is not a barrier to them. Many world famous producers have already come to Russian car industry and appearance of others is only an issue of time. It seems that the best proof of it is S. Bogdanov's words; he said that "the market will still develop and even our most conservative forecast of growth rate looks optimistic."



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