The international strategy of the Russian automotive industry – consequences for manufacturers and suppliers

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Developments & Perspectives

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Russian Automotive Sector – Important Industry and Market

• Russian Passenger Cars Market is **2nd largest in Europe** after Germany with 2.7 mn vehicles sold in 2011, more than 40% growth after the 2009-2010 decline

• **Local production** has exceeded 1.7 mn passenger cars or **63% of all cars sold** (up from only 40% in 2008)

• Russian brands gradually losing market share to the locally assembled foreign brands but **localisation and R&D are still low**

• **Light Commercial Vehicles market is growing fast** with Russian brands maintaining 2/3 of the market

• **Trucks market more than doubled in 2011** with Russian brands losing their market share to 1/2 of the market, imports of new trucks are growing

• **Buses** market remains **dominated by locally produced** Russian brands

• Automotive Industry is estimated to secure **employment for more than 10% of the Russian population**
Good long term car market growth prospects:

- Car penetration still low
- Fleet of existing cars is old

Good prospects in trucks, buses and light commercial vehicles segment:

- General economic growth
- Need for the infrastructure development
Recent Russian Automotive Industry Development

Timing:
- New Assembly Regime from 2009/2010 onwards, agreed in final form with WTO in 2011

Key features:
- Volume requirement increased to 300/350 thousand units per year
- Localisation required to reach 60% over several years
- Limitation of Semi-Knock Down (SKD) assembly
- Localization requirements extended to engines or transmissions and R&D
- Establishment of alliances to meet the requirements allowed

Expected Results:
- Several key OEMs with diversified product portfolios and large local supplier base
- Strategic alliances between foreign and Russian OEMs established and running (Renault-Nissan-Avtovaz, Daimler-Kamaz etc)
- Critical assembly mass achieved – Tier 1 suppliers in all 3 assembly hubs

Issues:
- Local value added is still low (e.g. steel is imported by all foreign OEMs!)
Major Vehicle Manufacturers in Russia
Key strategic challenge for the industry

- Create a competitive automotive industry with fully localised value chain from OEMs to Tier 1,2 and 3 suppliers and R&D

- Localisation of the supply chain needs to be taken a step further:
  - critical mass of Tier 1/2 FDIs to be attracted
  - local companies need to qualify to supply foreign OEMs and Tier 1/2 suppliers—investment in upgrade is needed

- Russian OEMs need to restructure their supplies – more FDIs in JV with OEMs / alliances are required
Barriers to more investments need to be addressed by the Government

- **Lack of infrastructure**
  - connection to utilities
  - roads
  - logistics

- **Labour issues**
  - shortage of qualified labour
  - need to rebuild professional education
  - social infrastructure

- **Bureaucracy**
  - customs clearance procedures
  - construction permits
Fosters large-scale technology and skills transfer by supporting OEMs coming to Russia

Supports expansion of the auto supply sector in the vicinity of assembly clusters in order to:

- Deepen the economic impact of auto industry development
- Provide opportunities for business growth, innovation and job creation all the way through to the level of SMEs.
EBRD Financing for the Automotive Sector

Long term corporate and project finance to the core automotive and special equipment sectors:

- OEMs
- Companies in the supply chain

Instruments available:

- Corporate loans
- Project finance debt with limited recourse to the sponsor
- Project finance debt fully guaranteed by the sponsor
- Equity instruments – from “portage” to “pure equity” including mezzanine

Indirect support to related sectors:

- Infrastructure Projects:
  - Real Estate (warehouses, supplier parks in “automotive clusters”)
  - Transport infrastructure (subject to local authorities interest)
- Leasing for commercial vehicles
- Banks (consumer loans)
EBRD support for the Automotive and Related Sectors

Infrastructure
Kaluga A-Park

OEM JV’s
Kamaz-Daimler
GM-AvtoVaz

Foreign OEM’s
Toyota, VW, GM,
PSA-Mitsubishi

Foreign Tier 1 Suppliers
Takata, Antolin

Local with potential to develop into Tier 2 and 3
Severstal, NLMK, Eurobearings…
EBRD Strategy

• Provide further support to OEMs’ localisation plans

• Promote sale of the remaining State ownership

• Support suppliers (FDIs, JVs and local companies) across the entire value chain

• Encourage relevant investments by local companies in various sectors (metal processing, chemicals etc) with a potential to become Tier 2 and 3 suppliers to the automotive industry

• Address various issues through engaging in a policy dialogue with the Russian Government when appropriate
Thank you!