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

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# Russian Automotive Sector – Important Industry and Market



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- 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



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## **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

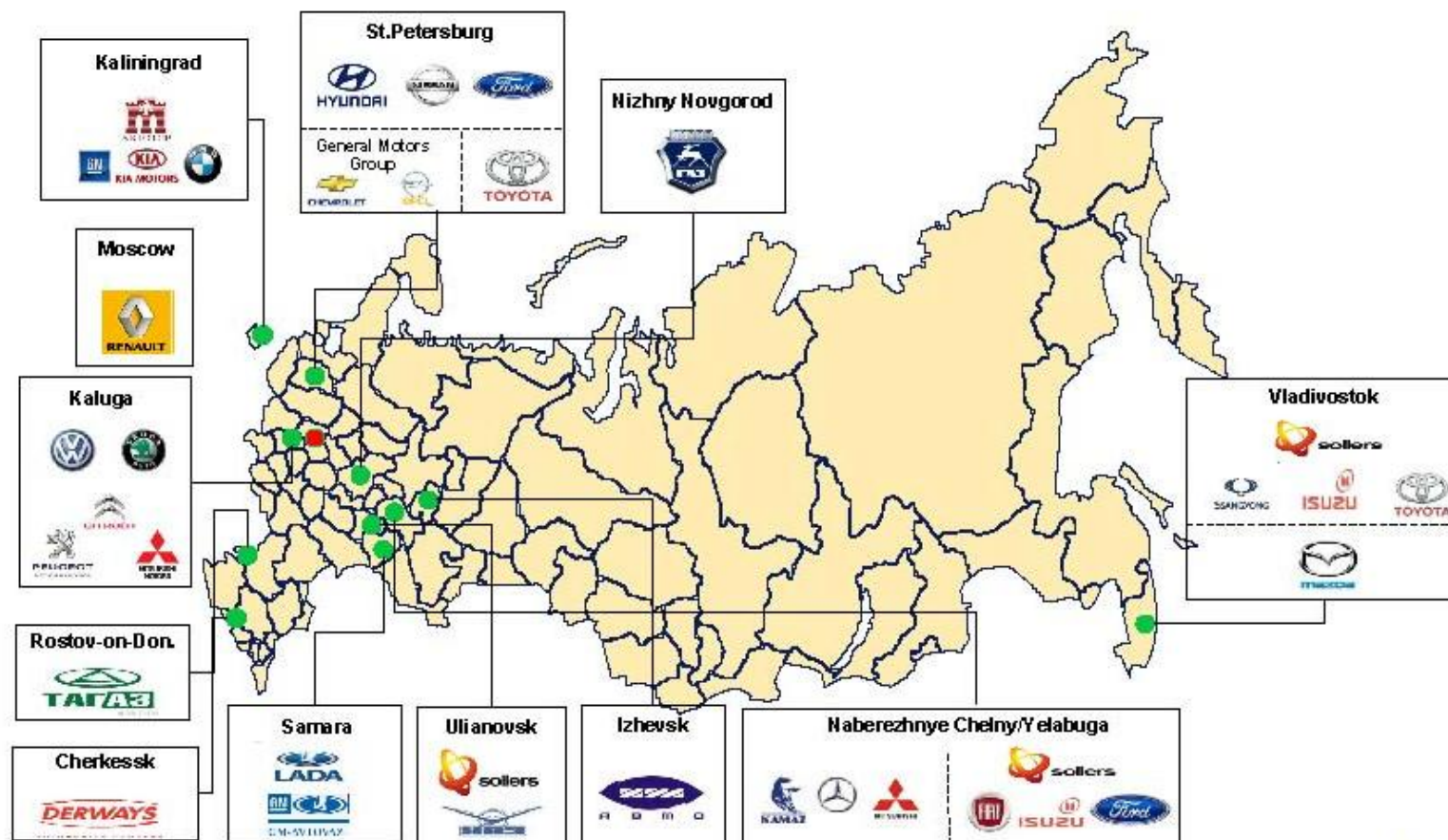
## **Issues**

- local value added is still low (e.g. steel is imported by all foreign OEMs!)

# Major Vehicle Manufacturers in Russia



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- **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



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- **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

# EBRD Support to the Russian Government Efforts in the Automotive Industry



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- **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.



## **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



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## 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...**

- 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



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**Thank you!**