

SOLLERS AND FIAT VERSUS GAZ GROUP, DUCATO VERSUS GAZEL

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In February 2010 Sollers and FIAT formed a joint venture to manufacture nine new car models at Naberezhnye Chelny-based facility that is expected to reach a capacity of 500 units a year by 2016.

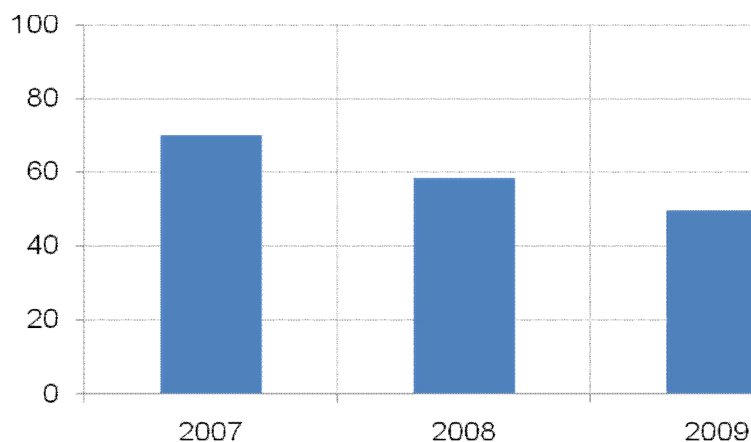
80% of the car parts are to be locally produced – creating conditions for competitive pricing of the models. Large output volumes will also contribute in achieving a large scope effect.

Along with positive results for the joint venture, the initiative is expected to have a good effect on the economy. First, in the framework of cooperation in the Far East, an engineering center will be set up¹. Second, the real sector of Tatarstan's economy will see new jobs. Third, this project will provide conditions for creating up-to-date infrastructure jointly with the state. This will result in improvement of personnel skills, a rise in demand for highly qualified staff and creating of conditions for R&D enhancement.

The joint venture's product range includes Fiat Ducato, a model competing with Gazel that is popular across Russia. Gaz Group light commercial vehicles sales (mainly Gazel cars) fell 53% last year. The Gazel is losing its share in the light commercial vehicles market (see the graph), while the Ducato is taking an increasingly robust position there. Gazel has already lost two bids – for the supply of emergency vehicles based on Fiat Ducato models (in May 2009) and for the delivery of minibuses to Mosgortrans (in December 2009).

¹ In 2009 Sollers launched a plant in Vladivostok with the capacity to make 40 vehicles per annum. Along with Ssang Young, ISUZU and special UAZ version, the plant will manufacture special versions of Fiat Ducato (ambulance cars, cash collection vehicles and school buses). As long as Fiat cars are manufactured at this facility we consider the newly launched joint venture and the Far East plant related projects.

Gaz Group share in the LCV market, %



Source: Association of European Businesses, Gaz Group

Gaz Group needs to work up measures to raise the Gazel competitiveness. First of all, an efficient diesel power unit should be designed as fuel efficiency is paramount for commercial vehicles (Fiat Ducato is powered by a diesel engine that is twice as fuel efficient as the engine that powers Gazel²). Gaz Group has already made the first step towards making fuel efficient cars by unveiling a renewed Gazel Business model powered by an efficient gasoline engine (see the table).

Basic characteristics of Gaz models

	Gazel	Gazel Business
Engine type	gasoline	gasoline
Engine capacity, liters	2464	2890
Capacity, horse power	125	106.8
Top speed, km/h	120	115
Average fuel consumption, liters per 100 km	21	15
Price, thousand rubles	380	425

Source: the manufacturer's information

At the same time Gazel has a number of characteristics that make it attractive. First, it is competitively priced³. Second, despite absence of an efficient diesel engine, the fuel consumption problem can be solved by installing gas equipment to run the car on methane.

² Fiat Ducato consumes 8.4 liters per 100 km

³ The base version of Fiat Ducato is sold at 640 thousand rubles.

Thus Fiat has made an important step that could intensify competition in Russia's light commercial vehicle market.