

A PLAN FOR DISPOSAL OF USED CARS AND NEW CAR PURCHASE INCENTIVE NOT READY YET

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Many countries have automobile purchase stimulus plans that include disposal of old cars and cash bounties for new ones. These measures back up car makers during crises and support ecology (junk cars produce large carbon dioxide emissions).

Following the US, Japan and Western European countries, Russia might also introduce a plan for the disposal of used cars (more than 10 years old) and 50 thousand ruble government vouchers for new vehicles of Russian manufacture, either of a domestic or foreign brand. The Ministry of Industry and Trade has unveiled a list of car models to which this scheme is applicable.

To make this mechanism work, the project managers – be it the government or businesses – should solve several problems that hamper the project.

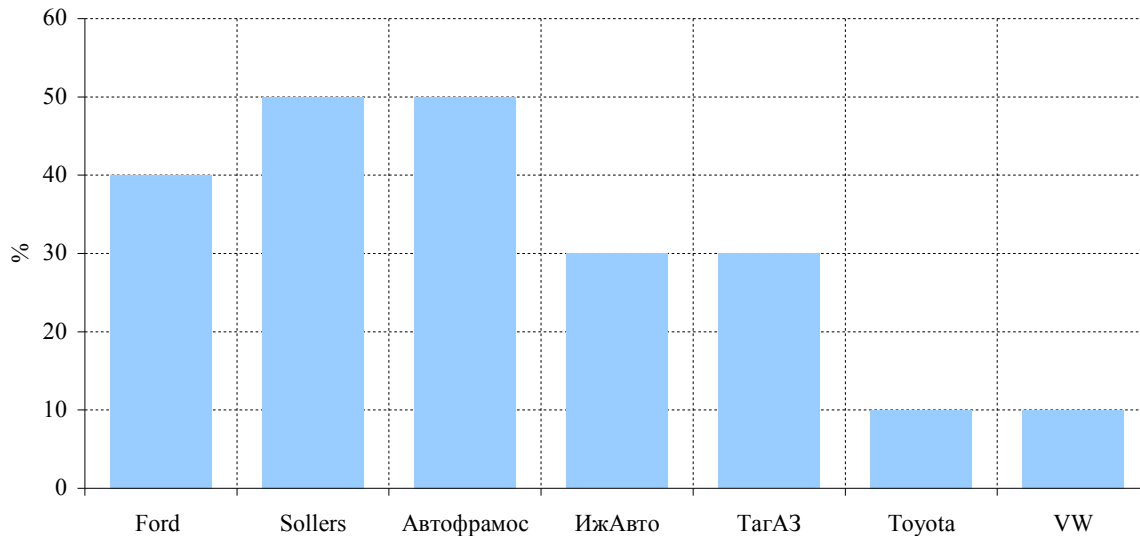
The lack of disposal facilities (only fifteen operate in the country) is the main reason why the program – scheduled to start in nineteen regions of the Russian Federation in early 2010 – was put off until 8 March. As far as it is impossible to expand the disposal infrastructure in such a short time, the launch of the program might be postponed again. Alternatively, car owners who want to hand in their old cars and receive a voucher for buying a new vehicle will have to wait because disposal facilities are still absent from many regions. This is an example of how a poorly organized process can ruin a good idea at the onset.

The list of car models manufactured in Russia that have been approved for the plan is somewhat ambiguous.

The Industry and Trade Ministry listed all AutoVAZ (including the GM- AutoVAZ joint venture), UAZ and GAZ models, cars manufactured by IzhAuto (Kia Spectra and Sorento), TagAZ (Hyundai Sonata, Accent, Santa Fe), Sollers Far East (Ssang Yong Actyon, Kyron, Rexton and Actyon Sports), Sollers Naberezhnye Chelny (Fiat Dolbo Panorama, Ducato and Albea), and Renault Logan, Ford Focus and Ford Mondeo. Nissan Teana, X-Trail, Toyota Camry, Volkswagen Tiguan, Isuzu NLR85, Chevrolet Captiva, Chevrolet Cruze, Opel Antara and Astra, Skoda Fabia and Octavia are also on the list, but these do not match the criteria.

All the models mentioned above are of Russian manufacture. However, Ford and Renault launched their productions a long time ago, while Toyota, Nissan, VW and GM are newcomers and use few locally made components in their cars. It means that the real economy will not benefit much if these models are included in the plan. For instance, Ford and Sollers use 35-50% of domestically made parts for the manufacture of their vehicles while TagAZ designed its own model, Vega, based on Korean technology.

Use of locally manufactured parts by car makers in Russia (in 2008)



Before the plan starts working, the whole mechanism must be tuned up through enhancing facilities in big cities with heavy traffic (like Moscow and St. Petersburg) and in the cities where car making facilities are based (including Nizhny Novgorod, Toliatti, Samara, Naberezhnye Chelny). The Ministry of Industry and Trade should revise the model list and exclude some models until carmakers start using more local parts for their production. This measure will help raise the cash incentives given for the purchase of domestically manufactured cars (VAZ, GAZ, UAZ, or Vega).

Being thrown out of this list, manufacturers of expensive cars will be hardly stimulated to expand the use of locally made parts in their productions. For Lada cars, the bounties can reach 30% of the price, while in case of Toyota Camry, a voucher worth 50 thousand rubles covers just 5% of the price. Those who can afford cars such as Toyota Camry, Nissan Teana, VW Tiguan and the like will hardly consider saving 5% a big deal.