

CREATING AUTOVAZ AND KAMAZ HOLDING IS A BAD IDEA

BY KIRILL LEBEDEV, IFS SENIOR ANALYST, 10 SEPTEMBER, 2009

Rostekhnologii (Russian Technologies) state-owned corporation is launching a new holding to tie together VAZ (motor vehicle manufacturer), KAMAZ (truck manufacturer) and Yaroslavl-based power unit producer Autodiesel, currently part of the GAZ Group.

There has been a trend in recent years towards consolidation of Russia's poorly performing industries, such as aircraft and ship building. However, setting up an automobile holding could be not so good for the industry.

AutoVAZ and KAMAZ manufacture absolutely different vehicles by purpose, so they target different markets both in Russia and abroad.

Different technologies and components are used in passenger car and truck production. Vehicle units are operated in different conditions and at different loads, which makes unification impossible and requires handling of different production cycles.

To crown it all, products of the both plants are not competitive internationally, so it means that the United Aircraft Corporation scheme will not work in this case.

The United Aircraft Corporation was established to unite civil and combat aviation sectors because the combat aviation industry was much more competitive. As military aircraft orders are surging, manufacturers can be sure that their production facilities will not stay idle. Russian-produced fighters occupy 25% of the global fighter market. Injection of combat aircraft sector's funds into civil aviation will help the latter to keep afloat, at least for some time.

Civil aircraft and lease companies are expected to commercialize their new developments (including SSJ, An-148 and An-70).

Alongside technical problems, the creation of a holding might pose another challenge. As participants of the proposed holding never voiced any intentions to consolidate, there is a possibility of stockholder conflict. Probably anticipating a conflict, Rostekhnologii are attempting to buy 13% of KAMAZ shares, currently owned by Troika Dialog. Already holding a 37.8% stake in KAMAZ, Rostekhnologii intends to acquire a controlling interest in the company.

The government should reconsider its decision to unite the mentioned companies, and one of the reasons is that AutoVAZ already has a development strategy based on cooperation with Renault and the use of its technology.

This is the best recovery scheme for AutoVAZ. Renault vehicle assembly as well as local production of spare auto parts will also be helpful for the plant. With foreign technology, Russian-

produced car parts might be competitive internationally. If these plans are successfully realized at AutoVAZ, similar plans could be used to improve KAMAZ performance. To fulfill this, KAMAZ needs to find strategic partner and master foreign car assembly technologies (a Volvo truck plant is being built in the Kaluga region). Experienced AutoVAZ managers could supervise and manage the process.

Consolidating the industry when AutoVAZ has just started realizing the anti-crisis plan could bring unsatisfactory results, and the whole measure might turn out just time wasting.