

## RUSSIAN MADE OPEL TO FIND ITS FANS

BY KIRILL LEBEDEV, IFS SENIOR ANALYST, MAY 14, 2009

GAZ Group might get a stake in Germany's Opel that is now owned by auto giant General Motors. Despite that it launched production of Antara crossovers at the St. Petersburg plant, the company is ready to sell Opel at a very competitive price. In exchange, GM wants to be sure that it will receive a \$500 million investment in the enterprise. Most likely, GAZ does not have these funds (the concern reported a dead loss in 2008), but the company does have something to offer.

In 2008, the assembly of the Chrysler Sebring platform has been completed in Nizhny Novgorod; the platform is designed for making the new Volga Siber model. The financial crisis had almost ruined the \$200 million project to put out 120,000 cars annually. The lean market shows no demand for the new model. It is not yet clear whether there will be demand after the crisis is over because Chrysler cars are not very popular in Russia. The domestically produced Chrysler model might run into skepticism. If the deal with GM is signed, the Siber production line could be used for manufacturing Opel vehicles. Remarkably, Russia's AutoVAZ and France's Renault are cooperating using a scheme like this. Under their strategic agreement, cars are produced under the Lada brand with French parts including transmissions and engines. In exchange, AutoVAZ provides its production facilities. To fulfill its obligations under the agreement, the plant considers purchasing IzhAuto.

GAZ can use the experience of another Russian carmaker, TaGAZ. The Taganrog Automobile Plant is launching production of C-100 vehicles that have been designed based on South Korean models. The project has been started after eight years of cooperation with Hyundai.

The range of Russian produced models based on Korean and French technologies might be joined with vehicles manufactured using German technology, should GAZ become a partner of Opel.

Cooperation with foreign automakers will enable Russia to upgrade its automotive industry and partly bridge the technological gap.

The GAZ-Opel project might prove commercially successful. Opel Corsa and Astra models are extremely popular in Russia. Poor sales of Vectra (the 'oldest' model in the family) have been partially compensated by good sales of Astra sedan cars. The price for these models is a key factor of poor sales, but mass production of Opel cars in Nizhny Novgorod could push the prices down.

The \$500 million investment is not critical given the state supports the industry. One of the state-owned banks – Sberbank, Vneshtorgbank or the Bank of Development – could give preferential loans to GAZ.