

AUTOVAZ BENEFITS FROM CRISIS

BY KIRILL LEBEDEV, IFS SENIOR ANALYST, January 15, 2009

The decree 'On Changes in the Customs Tariffs in Respect of Certain Motor Vehicles' as of December 5, 2008 came into force in January.

The import duty for used foreign motor vehicles 3 to 7 years old has increased 20 to 25%, from 1-3 euros to 1.2-5.8 euros per engine capacity unit (cubic centimeter).

European Union officials argued that this unpopular measure was not in line with Russia's intention to join the WTO. However, Europe never explained why Russia was not admitted to the WTO before the decree took effect.

Irrespective of what European Union thinks of it, the import duty increase will benefit Russia's automotive industry amid the crisis. The Russian carmakers enjoy a number of advantages:

- foreign carmakers cut their output;
- people's purchasing capacity is going down;
- competitors raise their prices;
- car loan interest rate is subsidized.

The global financial crisis affected the US, Japanese and European carmakers who find themselves on the verge of bankruptcy. All the largest auto concerns cut production by extending the holiday shutdowns, shortening day shifts and canceling night shifts.

Shutting of production operations, people's uncertainty about their future and reduction of their earnings in 2009 all will cause a re-distribution of the Russian market. With the continued lack of auto loans and toughened requirements to borrowers, people will not afford expensive and economy class models starting from this year. As customers' needs do not always directly depend on the size of their funds, low-cost cars (including Lada models among others) are growing increasingly attractive. The state subsidizes the interest rate of car loans for purchasing Russian vehicles, which is a huge support to the Russian automotive industry.

So it appears that the growth in Russian car sales is caused by the sluggish market, heightened import duties and the state bailouts.

These advantages that emerged owing to the crisis will be operating in the short term. To ensure the industry's long-term development and technological upgrading (these will be impossible after Russia enters the WTO), Russian carmakers should apply foreign technology. Technology can be received through a localization mechanism based on cooperation with foreign carmakers, such as Ford, Renault, Fiat and Hyundai. Toyota and GM will join the 'donor' list in the near future.

Hence, however paradoxical it may appear, the longer the crisis will last, the more benefits the Russian automotive industry will have from it.

