

## IZHAUTO ALMOST A BANKRUPT

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The Izhevsk Automobile Plant, a manufacturer of Izh and KIA's Sorento and Spectra models, is facing big financial problems. In November-December 2008, the plant's average monthly incomes fell almost ten times. In the wake of this downturn, banks reduced their lending to IzhAuto. In December, the plant had a 2 billion rubles technical default against its funded debt.

AutoVAZ, that has long pondered buying the plant, is coming to the rescue of the company from bankruptcy. IzhAuto not having any other choice, the merger deal is likely to take place. However, there were no official statements about the deal before the New Year holidays.

A merger of AutoVAZ and IzhAuto is a good decision. For one thing, this will allow IzhAuto to avert bankruptcy and idling of its production lines as well as to prevent its qualified personnel from losing their jobs. This will help to avert social unrest and a production crisis. For another, AutoVAZ doesn't have any other choice, either. Although it signed a joint venture contract with Renault, it is still unknown where the assembly plant will be based. AutoVAZ will free part of its facilities, but with far-reaching plans of the French-Russian joint venture, this will not be enough.

At the same time, both opponents and proponents of the deal must have forgotten about the plant's agreement with KIA Motors. It is still unclear how it will settle that issue.

Most likely, the Korean carmaker will be ousted from Izhevsk, but it will not want to drop production in Russia. Perhaps, sale of IzhAuto will force KIA to consider construction of a new plant in Russia. Of course, it is not the best time for building a car-making plant, as the automotive market is depressed. But KIA can expect privileges because it has been operating in Russia for a long time and is forced to close production in Izhevsk contrary to its will.