

DISPOSAL OF OLD VEHICLES UNDER RUSSIA'S NEW AUTOMOTIVE INDUSTRY SUPPORT DIRECTIVE

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Russia may launch a new measure to boost car sales next year. The government are considering payment of a RUR 50,000 premium to buyers of new Russian-made vehicles for the disposal of old vehicles.

For one thing, this scheme can stimulate demand for domestically produced cars, for another, it will help scrap old cars thus reducing CO2 emissions (new models of domestic vehicles are made in compliance with Euro 3 standard, and Euro 4 will be put into operation in 2010).

The plan is expected to drive up sales in Russia that where there is a multitude of old cars on roads (of more than 26 million vehicles, Zhiguli and Lada account for a half, another 6% are of GAZ brand, and other Russian brands account for 5%). The quantity of foreign made vehicles in Russia's car fleet is constantly on the rise, yet the share of old Russian made vehicles, whose owners are the plan's target audience, will remain big for a long time. The proposed premium totals around 20% of the price of a new Lada Kalina vehicle, so the program is expected to have a positive effect on AutoVAZ sales.

Putting this scheme into operation will be a challenge, however, as there is no business environment to carry out the directive. One of the priority tasks is setting up a group of Russian enterprises that will be made responsible for the scrapping of old vehicles and working up measures to facilitate the disposal process.

Russia has already undertaken several measures to boost car sales, including gifts, discounts and new car loan and insurance services. Although customers still have to take loans from particular banks and buy insurance from particular companies that usually set higher rates, the car-buying conditions keep improving.

The state supports the automotive industry subsidizing the interest rate by two-thirds (around 7%) of Russia's Central Bank refinancing rate effective on the car loan issuance date.

The government's plan to finance the disposal of old vehicles is expected to enhance measures that are operational already. In the crisis conditions, however, measures like this should be worked out and realized quicker.