



Institute for Financial Studies

**Production of foreign auto parts and components
in Russia: the second stage of industrial assembly**

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The industrial assembly mode enters the second stage of its development. Producers of auto parts and components arrive in the market following cars manufacturers.

World's leading companies in automotive industry adhere to the trend -- like any other industrial enterprises -- of setting up a fixed and permanent network of component suppliers. The scheme enables to keep a constant level of quality, to facilitate cooperation and reduce transaction expenses. Changes on suppliers' list may entail irreversible negative effect on the quality of production and increase time for interaction. The above results in goods' withdrawing from the market and entails considerable financial losses. Another possible outcome is manufacturing decline; a smaller output will bring a deficit to the market. In the environment of abound range of goods offered in the same price category the deficit may cost a company decrease in market share. It may take years to catch up. To reduce such risks, component manufacturers try to locate their facilities near the end producer that pursues the same goals -- thus contributing to the localization process.

After world auto makers signed agreements on construction of plants in Russia, the domestic automotive industry expected a swift arrival of component producers. Though only two plants were built at present (Toyota and VW) in Russia auto component manufacturers start searching proper construction areas. Naturally, Leningrad and Kaluga regions are considered to be top priority regions that already host Toyota, GM, Hyundai, Nissan, VW, P&S, Volvo manufacturing facilities. Tatarstan is also of interest with the view that Severstal-Avto produces Fiat and SsangYong cars under license.

Toyota Motor Company

Early last year, following signing the agreement on launching the production of Toyota Camry car seats, Toyota voiced a guarantee that besides end production the company aims at starting up car components manufacturing. During 2008-2010, 20 thousand sets of seats are to put in production. The project envisages a complete technological circle of seats manufacture -- including welding and frame assembly, making of covers and polymer filling, assembly and tests of finished products. The company intends to purchase some components and raw materials from Russian manufacturers under technical specifications, quality and safety guarantee.

Volkswagen



As far as in 2006 the German concern declared the possibility of setting a large enterprise for production of body parts on GAZ facilities. However, to put the project into effect requires considerable money injection for a new construction. According to the assessment of Nizhniy Novgorod region's Governor V. Shantsev founding a joint manufacturing venture may cost about 22 million EUR plus 100 million EUR for a new plant construction. Apart from GAZ, Magnetto (Italy) and Magna (Canada) also plan to participate in the project.

The year 2008 brought positive news from VW intending to launch the construction of a new plant to produce complicated assemblies and units -- including motors and speed boxes. The units are to be mounted in all VW models to be produced in Russia (Polo, Passat, and Tiguan). The decision is reasonable since presently both power units and transmission boxes are supplied from the Czech Republic and Slovakia.

SsangYong and Fiat

Severstal-Avto JSC and the Korean company Daewon Kang Up Co signed an agreement on building up a joint venture. The agreement envisages that SEZ Alabuga will host the manufacturing of cars' seats. The seats are planned to be mounted not only in SsangYong cars but also in the domestically produced off-road UAZ Patriot. Besides, after the enterprise reaches the forecast production capacity of 100 thousand sets, seats will be installed in the whole range of Fiat cars.

Hyundai Motor

Following signing up the agreement with the Ministry for Economic Development, representatives of 11 largest Hyundai suppliers paid a visit to Leningrad region.

Hyundai suppliers

Producer	Components
Donghee Industrial	Axles, fuel tanks, bolsters
Hanil Tube	Fuel system elements
Sejong	Elements of discharge gas exhaust system
Doowon	Heating, ventilation and air-conditioning systems
Dongil Rubber	Gaskets
Dongwon Metal	Doors frames
Hanmin Interior, Shinyoung Metal	Envelope elements, panels
Deawon	Seats
Sewon ECS	Electrical support
Jinhap	Car bodies



It is noteworthy that intermediates have been involved into the manufacturing process practically from the launch of industrial assembly mode. Based on our estimates, expanding manufacturing facilities for production of imported parts and components in Russia is to positively affect the Russian automotive industry.

The main problem of Russian-produced cars, not meeting the standards of quality, reliability, security and comfort, roots in the undeveloped and dilapidated automobile parts' and components' manufacturing facilities. Locally produced parts, assemblies and units show a low technical reliability resource -- turning a potential buyer towards second hand low priced foreign cars.

Attracting foreign producers of automobile parts and components to Russia is the impetus to trigger an intensive and large-scale modernization of the Russian automobile sector of industry and to bring the competitiveness of cars produced in Russia to an adequate level. With the view to increase the assembly of high-quality foreign cars in Russia, raising competitive capacity is the strategy that may save the industry.

Within the frames of effective realization of industrial assembly project, the local authorities should aim at creating the cooperation conditions to facilitate Russian producers' access to foreign technologies. Together with investments growth it will push the Russian automotive industry to a new height of economic and technological development. With no time to work out Russian technologies, the process of 'technology transfer' turns into a necessity.

Moreover, setting quality control systems at Russian assembly enterprises foreign producers promote the conditions of 'implanting' the culture of separate parts and cars assembly.

When realized, these plans will enable native producers to evolve Russian technologies and develop new-generation local automobile components. Reliability and quality of locally manufactured parts and components based on imported technologies are to surge. Domestically produced cars with such parts and components will raise their technical reliability, comfort and safety.