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Continental Invests $320M in Plant

By Irina Filatova

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KALUGA — Tire and auto parts maker Continental will invest an additional 226 million euros in Russia as it seeks to expand its supplies to the domestic car-manufacturing sector, the company said Tuesday.

Continental will spend 220 million euros ($318 million) to build a tire plant in Kaluga, where it already has an automotive electronics factory that will receive an additional 6 million euros of investment to support expansion.

The tire plant, whose construction will start later this year, is expected to manufacture 4 million tires annually, Continental said in a statement. Production at the facility will begin in late 2013.

"This move represents a very important milestone for our local activities ... as well as for our global growth plans," said Nikolai Setzer, head of the company's passenger car and light truck tires division.

The company hopes to increase output at the plant to 8 million tires per year "when the time comes," he said in the statement.

Continental will produce summer and winter tires under the brands Continental, Gislaved, Barum and Matador, the statement said.

The company's decision to invest in tire production in Russia looks "strategically right," said Anastasia Sosnova, an analyst with Investcafe, a market research agency.

"Launching the plant will allow to decrease logistics costs and create a competitive environment," she said by telephone, adding that the local tire manufacturing industry is lead by Sibur Russian Tyres, a unit of Sibur Holding.

Sibur was considering creating a joint venture with tire manufacturer Nizhnekamskshina last year, but the holding signed a memorandum of understanding with Russian Technologies and Italian tire maker Pirelli on creating two joint ventures — one producing premium-class tires and the other focusing on middle-class tires.

The deal, which was supposed to be closed last month, didn't go through, and Sibur said last week that it was "discussing various options of withdrawal from the tire business," Vedomosti reported.

Continental is likely to produce premium-class tires in Russia — this niche is almost unoccupied because most tires of that category are imported, said Sosnova of Investcafe.

"So the company has an opportunity to strengthen its position in this segment," she said.

Finnish tire maker Nokian Renkaat said earlier this year that it plans to install new production lines in its factory in Russia and build a new plant next to it to increase its annual car tire capacity by up to 6 million in 2012-14, Reuters reported.

According to Discovery Research Group, passenger car tire production in Russia increased from 19.2 million in 2009 to 25 million last year — almost on par with pre-crisis levels.

Continental, headquartered in Germany, also signed an agreement with the Kaluga region government to expand manufacturing at its current facility by launching an additional production line that will produce engine control units and components for fuel supply and injection systems.

The additional line will boost output of the engine control units from the current 200,000 to 1 million per year, said Christian Koegl, head of Continental Powertrain Russia, the company's local unit producing engine systems and other auto parts.

Increasing output locally is part of the company's global expansion strategy, as the domestic market is expected to demonstrate stable growth in the next 10 years, Koegl said.

Continental expects the number of vehicles per 1,000 people in Russia to reach 375 by 2020, compared with the current figure of 233. Local car sales are expected to reach 3.5 million in 2015 and 3.75 million in 2020, Koegl said.

"This is a huge indication for us to believe in this market," he told reporters in Kaluga. "With annual growth rates of 12 to 16 percent, the Russian market is one of the strongest in the world."

Continental's current local customers are primarily domestic carmakers, with AvtoVAZ accounting for 66 percent of the sales. Other Russian companies buying Continental products include UAZ, GAZ and Vologda Machinery Construction Plant.

The company plans to start supplies to foreign carmakers with local manufacturing facilities in the next four years.

To qualify for benefits, a number of foreign carmakers like Ford, Volkswagen and Fiat signed agreements with the government earlier this year in which they committed to make at least 300,000 vehicles per year domestically, with 60 percent of auto parts being sourced locally.

"This brought a new dynamic to the supply market here, and ... we are going to follow our international customers," Koegl said.

Among the company's potential customers are Peugeot Citroen and Volkswagen, which have production facilities in the Kaluga region — one of the leaders in attracting foreign investment due to its generous tax breaks.

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