

Renault Tackles Assembly, Culture in Expansion Bid

By [The Moscow Times](#)

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Renault chief Carlos Ghosn gesturing at a June news conference in Tokyo. **Yuriko Nakao**

TOLYATTI, Samara Region — Renault and AvtoVAZ are still seven months from their first joint-manufactured vehicle after a near three-year alliance, a pace that may restrict plans to dominate the domestic market.

Carmakers Fight for Growing Market

Main Russian Carmakers

AvtoVAZ

- Owned by: France's Renault (25 percent), Moscow bank Troika Dialog (20 percent), State-owned Russian Technologies (36.5 percent), Other shareholders (18.5 percent)
- Chief model: Lada
- Capacity: 900,000 units a year

- H1 2011 sales: 291,540 (up 31 percent on H1 2010)

Sollers

- Owned by Vadim Shvetsov (controlling stake)
- Chief model: UAZ
- H1 2011 sales: 47,987 (up 48 percent on H1 2010)

GAZ Group

- Owned by: Oleg Deripaska (controlling stake)
- Chief model: GAZ LCV vans
- H1 2011 sales: 39,992 units (up 33 percent on H1 2010)

Leading Foreign Carmakers + Partnerships

Renault

Owns 25 percent of AvtoVAZ and has agreed to build its own models at the Russian firm's plant in Tolyatti, Samara region. Alongside partner Nissan, the company has a green light from the Russian government to increase its ownership to more than 50 percent over time via purchases from fellow shareholders Russian Technologies and Troika Dialog. Renault-Nissan CEO Carlos Ghosn has said he wants talks to complete in 2011, with Renault raising its individual holding to 35 percent.

Nissan

The Japanese firm is close to taking a stake in AvtoVAZ via its long-term cross-shareholding alliance with France's Renault. Ghosn has said Nissan could take 15 percent if a deal with the Russian government can be struck. It has also agreed to build Nissan models in Tolyatti, with the first to be launched in late summer 2012. It has its own plant in St. Petersburg with a 50,000 capacity.

Ford

The U.S. automaker signed a deal with Sollers in June to create a 50-50 joint venture to produce 350,000 cars a year, triple the previous production from its St. Petersburg plant. The plans include adding the Ford Transit van to its Russian production portfolio, the first in a line of new products.

Fiat

The Italian group said in June it would invest \$1.1 billion and build 120,000 cars a year here, despite being the wallflower of Western carmakers when it came to picking partners. It signed a joint-venture plan with Sollers in February 2010 but this fell apart as the Russian group instead opted for the deal with Ford.

General Motors

The U.S. giant, rescued by its government during the financial crisis that battered the car industry, will expand capacity at existing plants and launch a string of joint ventures to comply with government plans. It will assemble 30,000 of its Chevrolet cars at GAZ's plant to establish a local presence, and has agreements with Avtotor and AvtoVAZ.

Volkswagen

The German manufacturer is also in talks with GAZ Group about a joint venture, discussions GAZ has said will not be affected by any deal with General Motors. Two sources told Reuters in February that the potential tie-up could produce the crucial 300,000 cars a year.

Toyota

The Japanese company is planning a joint venture with Sollers to build Toyota-branded cars in Vladivostok, Japan's Nikkei newspaper reported in February.

Mazda

The Japanese firm has plans to build an \$80 million automobile plant in the Far East, producing 25,000 to 50,000 cars a year.

— *Compiled by Reuters*

The carmakers are building a 400 million euro (\$577 million) joint-assembly platform at AvtoVAZ's 900,000 cars-a-year Tolyatti plant that will be able to produce Renault, Nissan and Lada models.

The first Lada will not be ready until at least February.

Renault models are unlikely to be produced until 2013, company officials said, meaning that the French firm cannot produce more than its Moscow plant's annual 160,000 vehicles for about two years — potentially missing out on a fast-improving market.

"The biggest challenge about investing in Russia is speed," said Francois Provost, deputy managing director for Renault in Russia.

"There is huge potential, a low level of cars per head, and a willingness from the government to modernize the car industry. But speed versus competitors" is the challenge, he said.

Renault, led by chairman and chief executive Carlos Ghosn, is in a fight with Western rivals including General Motors, Ford and Volkswagen to grab a share of the domestic market, which is expected to double sales to about 4 million units by mid-decade.

All have signed up to the Russian government's "Decree 166," a plan to encourage carmakers to increase local production in return for a waiving of customs tariffs on parts.

This does not help AvtoVAZ because it negates the benefits of a substantial local supply chain built during its 45-year history.

"We have a lot of problems with 166. It is to create capacity that didn't exist. The competition will come and fight for every car and will not pay a penny of custom duty," AvtoVAZ CEO Igor Komarov told guests at a dinner in Tolyatti.

Renault bought a 25 percent stake in state-owned AvtoVAZ for \$1 billion in 2008, a decision that looked woefully misjudged when the subsequent year's industry crisis meant that the Russian firm had to be bailed out by the government.

Renault agreed to support the group with technology and expertise, and the market has

recovered spectacularly: 30 percent sales growth last year is expected to be followed by more than 40 percent in 2011.

The Renault-Nissan alliance now has a target of 40 percent market share, or 1.6 million annual units, a year alongside AvtoVAZ, up from 34.4 percent last year.

But months-long talks between Renault and AvtoVAZ shareholders about taking a controlling stake show no sign of ending, while the challenges of integrating the two firms will serve as a warning for other Western companies looking to take over Russian state groups.

“Progress has been painfully slow despite a series of announcements about new model and investment plans,” said IHS automotive analyst Tim Urquhart.

“A deal has yet to be agreed for Renault to take a controlling stake in AvtoVAZ, there is increasing competition from foreign OEMs [Overseas Equipment Manufacturers] in Russia, and the long-term macroeconomic situation is somewhat unsure,” he added.

Meanwhile, Renault’s integration with AvtoVAZ — based in the one-industry Volga town of Tolyatti — has required new production capacity and the assimilation of cultures and languages.

About 160 translators are employed by the company, according to one local manager.

Patrick Hemmer, project leader for the new body shop on the joint platform, said the site was being put together by 50 percent Renault and 50 percent AvtoVAZ workers, but the Renault employees were focused on the higher-skilled work.

“They are working on different activities,” he said in an interview, adding that AvtoVAZ staff was being sent in groups to Paris for training to match the standards of their counterparts.

Renault’s Russia chief, Bruno Ancelin, remained confident that the partnership with AvtoVAZ would be seen as a smart business move in the long term, based on the success of the group’s 1999 tie-up with Nissan. “It was said at the time about Renault-Nissan that it would be better to put 5 billion euros (\$7.2 billion) in a casket and sink it to the bottom of the sea. ... Lada has value in the Russian market,” he said.

Top 10 Carmakers, Ranked by 2010 Sales

Carmakers	Units sold (year-on-year increase)	% of Russian total
1. AvtoVAZ, Renault, Nissan	697,901 (up 42%)	(34.4%)
2. GM Group	159,376 (up 12%)	(8.3%)
3. VW Group	131,312 (up 40%)	(6.8%)
4. KIA Motors	104,235 (up 49%)	(5.4%)
5. Toyota Group	90,296 (up 20%)	(4.7%)
6. Ford	90,166 (up 10%)	(4.7%)
7. Hyundai	87,081 (up 17%)	(4.5%)
8. GAZ Group	76,646 (up 32%)	(4%)
9. Daewoo	74,419 (up 45%)	(3.9%)

10. PSA Peugeot Citroen 53,153 (up 26%) (2.8%)

Source: The Association of European Businesses

— *Reuters*

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