

Renault Reverses Itself in AvtoVAZ Relations

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As the financial crisis began to bite in 2009 and AvtoVAZ lurched toward bankruptcy, French auto giant Renault must have rued the day it heard of the Soviet behemoth.

In alliance with Nissan, Renault bought into Russia's biggest car manufacturer in late 2008 for the tidy sum of nearly \$1 billion, but almost immediately became involved in a spat with the Kremlin.

While car sales fell off a cliff and AvtoVAZ reported heavy losses and huge debts, the government faced the prospect of layoffs at the company's Tolyatti plant, precipitating social unrest — so it began to pressure Renault to save the struggling national flagship.

After a state injection of \$1 billion did little to avert the crisis, Prime Minister Vladimir Putin warned Renault that they must either help with funding or see their 25 percent stake reduced.

The French company eventually agreed to contribute financially and promised to jointly produce cars at Tolyatti. But they stubbornly resisted pressure to increase their holding.

"The government is ready to consider Renault offers regarding increasing its stake in the company," Deputy Prime Minister Igor Shuvalov said pointedly in late 2009. "But there is no such offer as yet."

Today Renault has come full circle. After a Thursday meeting in Paris between shareholders in AvtoVAZ that include Renault-Nissan, Moscow brokerage Troika Dialog and state-owned Russian Technologies, a deal was announced that will give Renault-Nissan a 50.01 percent indirect stake by 2014.

Renault and Japanese-based Nissan have committed to investing upward of \$750 million.

The shift into foreign hands — Renault and Nissan will also control three-quarters of the seats on the board of the carmaker — is a landmark moment for AvtoVAZ that started out life as a poster boy for Soviet manufacturing.

Set up in 1967 on the banks of the Volga River as a collaboration between the Kremlin and Italy's Fiat, the company even spawned its own city. Tolyatti is now home to almost three-quarters of a million people.

In 1980, after 10 years of production, more than 7 million Ladas had rolled off Tolyatti's production lines.

But the enormous scale of production and the level of consumer demand for the famous box-like Lada cars made AvtoVAZ a magnet for corruption and an albatross around the neck of the state.

Criminality reached an apogee in the 1990s after the Soviet Union collapsed, with cars being stolen the moment they left the factory. Mafia distribution networks sold them on for huge profits.

Murders connected to the nexus of corrupt managers, city officials and mafia bosses at AvtoVAZ continued until after Renault first bought into the company in 2008. Vyacheslav Shirshov, a purchasing manager for the firm, was killed in February of that year.

The company's business model is riddled with problems even today. "AvtoVAZ is a complicated asset for the Russian government," said Andrei Rozhkov, a transportation analyst at Metropol. "[It has] bloated staff numbers, a lack of effectiveness and a low labor efficiency."

One option looked at by the Kremlin was buying out a foreign car company as a way of trying to rejuvenate the company. But a Sberbank-led consortium to take over General Motors' European unit, Opel, collapsed at the last minute in 2009.

The 2008-09 financial crisis was the catalyst that made the government finally decide to exit AvtoVAZ, Rozhkov said.

Eyeing the huge potential in domestic car sales, it was Renault's head Carlos Ghosn who won

the right to gamble on the Russian auto industry, beating other contenders including U.S. General Motors, Germany's Volkswagen, Italy's Fiat and Canadian car-parts manufacturer Magna.

Despite the strained relationship and the slow appearance of the joint Renault-AvtoVAZ model, Renault's boosting of their stake to a controlling one Thursday is a firm gesture of confidence in Russia's car market, which is due to overtake Germany's as the biggest in Europe by 2014. AvtoVAZ can produce almost 1 million cars annually.

The government has also apparently succeeded in ridding itself of the cumbersome enterprise and throwing the industry much-needed foreign support as it contemplates increased foreign competition in the aftermath of Russia's upcoming accession to the World Trade Organization.

Experts speculate that the state-managed tie-up model — that has foreign expertise on the one hand and lucrative Russian assets on the other — could be the beginning of a period of bounty for foreign companies.

Two international oil majors, ExxonMobil and Eni, have recently won unprecedented access to Arctic reserves in deals with state-owned Rosneft.

But, just as with the large oil agreements, analysts warn that Renault's investment is not yet secure. "The deal itself is very raw," Metropol's Rozhkov said. "It's perfectly possible that in the future some conditions of the agreement could be changed."

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