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GM Expands in Russia as Western Europe Market Remains Weak

By The Moscow Times

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General Motors' Dan Akerson greeting former Secretary of State Henry Kissinger on Friday in St. Petersburg.

SOUTHFIELD, Michigan — General Motors, facing continued losses in Western Europe, is more than doubling capacity at a factory in St. Petersburg that will make the new Opel Astra sedan as the Russian auto market rebounds, the company said.

“We've got to bring our best game, our best products to this market,” chief executive Dan Akerson said in a telephone interview late last week from St. Petersburg.

GM is introducing 12 new vehicles in Russia this year after increasing combined Chevrolet, Opel and Cadillac sales in the country by 53 percent last year to 244,000.

GM is making the effort as competitors also stake out claims to the fast-growing market as Western Europe struggles with a fifth-straight year of declining vehicle sales. Akerson is trying to fix Opel, which will add five models in Russia, while expanding GM's Chevrolet and Cadillac brands globally.

Akerson spoke on the eve of a planned ground-breaking ceremony for GM's factory expansion in St. Petersburg. The addition, part of a planned $1 billion investment over the next five years in the country, will more than double the facility's annual capacity to 230,000 vehicles by 2015 and increase GM's Russian capacity to 350,000.

GM, which didn't specify its investment at the St. Petersburg plant, will expand employment there by 60 percent to 4,000, the company said. The factory also makes Chevrolet models.

The Russian auto market reached 2.9 million vehicles in 2008 before falling to 1.5 million in 2009, according to PricewaterhouseCoopers. Vehicle sales in the country, which gained 39 percent to 2.65 million last year, will probably increase to more than 3 million this year or next, Akerson said.

"We're going to push north of 10 percent share this year," Tim Lee, president of GM's international operations, which includes Russia, said in April, referring to the company's market share targets in Russia. "We're selling 300,000 units" this year, he said. GM held 9 percent of the market in 2011, according to a filing.

Increasing Opel sales in Russia will be short-term help for GM while it works to implement a long-term fix for its Western European operations, Akerson said.

"Anything we can produce and ship here is going to be an offset," he said of Opel. "We're making money here with Opel."

GM announced last week that it wants to close its Bochum, Germany, assembly plant and delay pay raises to workers as part of its efforts to stem European losses, which have totaled $16.4 billion since 1999. The company is in talks with labor unions about the proposed closure.

"We hope we can exit this uncertainty and negative bias in Western Europe over the next couple of years and have a real good European business," Akerson said.

Part of the strategy calls for Opel's "rapid market share growth" in Russia and increasing annual sales of the brand in China from 5,000 to 20,000.

GM sold about 67,600 Opel vehicles in Russia last year, down from 98,800 in 2008. That 32 percent decline was less than the market's 48 percent plunge.

Opel is "on that kind of trajectory right now" to return to 2008 sales levels in Russia, Lee said late last week. "We should be where we were with Opel volumes."

While GM doesn't have "near term" plans to build Cadillac vehicles in Russia, Akerson said the automaker wants to expand the brand in the country as part of his goal to increase sales globally. Growing Chevrolet in Russia is GM's primary push, he said.

"It's clear that foreign brands are our primary competitors," he said.

GM should be able to capture 10 to 15 percent of the Russian market in upcoming years, Warren Browne, the former managing head of the company's Russian operations, said in a telephone interview.

"It will be one of the highlights of growth for them over the next two or three years," Browne, now a vice president for consultancy AutomotiveCompass, said of Russia. "It will probably end up being the shining star of profitability for the region."

GM faces increasing competition in Russia from other automakers. While Chevrolet was the best-selling foreign brand in Russia last year, with sales gaining 49 percent to 173,484, sales have fallen behind Renault this year through May in what's turning out to be a close race between the U.S. and French brands. The two were separated by 932 deliveries, according the Association of European Business.

The alliance of Renault and Nissan Motor announced plans in May to take majority control of Russia's largest automaker, AvtoVAZ. Separately, Volkswagen and Ford Motor announced deals last year to increase production in Russia to take advantage of tax incentives for attracting foreign investment.

Automakers may import components with 0 or 3 percent duties in return for investment agreements to build at least 300,000 cars locally a year.

PricewaterhouseCoopers estimates that the Russian auto market, driven by improving economic conditions that are fueled by the oil and gas industries, will grow 7 percent this year and reach 3 million units in the near future, Rick Hanna, global auto leader, said in a telephone interview.

"It's now the second-largest market in Europe, behind Germany," he said.

GM's investments in Russia have helped mend hard feelings following the U.S. automaker's decision in 2009 to kill a deal to sell a majority stake of Opel to Magna International and Sberbank. Akerson, then a new board member after GM's U.S.-government-backed bankruptcy reorganization, joined with other directors in opposing the Opel sale.

"There was a lot of turmoil post-bankruptcy," Akerson said. "The decision was made prior to the reconstitution of the board, and we changed directions. Everything I've seen and heard so far, was, 'OK, that's past. Past is not prologue.' They see us investing in plant and equipment and jobs here in Russia. I haven't gotten any pushback."

The Russian government has set clear tax and regulatory policies, the CEO said.

"I was at a breakfast this morning with basically their Cabinet and was impressed with the public expression of civility, continuity and constancy," said Akerson, who participated in the St. Petersburg International Economic Forum. "They talk about taxes. Taxes will be what the taxes are. You don't have this uncertainty that you see even in the United States."