

Car Recycling Levy Shreds Free-Trade Hopes

By [The Moscow Times](#)

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A giant mechanical claw reaches down, grabs a small brown car and swings it into the maw of a huge shredder. Within minutes, the Soviet-era Moskvich sedan is spat out as a pile of twisted metal.

Scrap dealer Yury Vorontsov hopes business at his Vtormet yard, outside Moscow, will pick up soon thanks to a new recycling fee on car imports. But he is still waiting to hear how the levy will help him compete with fly-by-night operators who buy up cars, strip them for parts and dump the hulks illegally.

As it is, the plant, which can process up to 10,000 cars per month, is lucky to chew through 40.

"You can sell your car in any condition. If you look on the Internet, it says 'We will buy any car, working or broken'" Vorontsev said. "So what is going to happen? Is it going to be properly scrapped? No way."

Russia's trading partners say the new levy is a purely protectionist ploy under the guise of recycling. The European Union Trade Commissioner, Karel de Gucht, has threatened to invoke the disputes procedure of the World Trade Organization, which Russia joined in August.

Fredrik Erixon, a director at the European Center for International Political Economy think tank in Brussels, called the import fee "blatantly discriminatory" and said Russia was using "highly protectionist" policies.

"Russia is going to find itself being sued by a lot of different countries on a lot of issues," Erixon said.

It was a disagreement over Russia's automobile market that almost scuttled its marathon talks on joining the WTO, when President Vladimir Putin in late 2010 granted subsidies to encourage localization of auto production.

The dispute was resolved after Moscow signed up for a series of tariff cuts, lowering import duties on cars from 30 percent to 25 percent starting in September, on the way to a final rate of 15 percent by 2016.

The new charge effectively takes import charges back up to 30 percent.

Moscow has shown no sign of changing behavior deeply rooted in an autarkic Soviet-era mindset, its critics say. Tensions with the United States have escalated over a Russian ban imposed this week on meat products containing the additive ractopamine.

Mounting Car Problem

Russian car sales reached 2.9 million last year and were worth \$77 billion, and the country is on course to overtake Germany as Europe's biggest auto market in a few years. More new cars will eventually mean more castoffs.

Moscow's central streets are jammed with premium models like the Mercedes favored by top apparatchiks, but Russians typically still keep their cars on the road far longer than drivers elsewhere.

As recently as 2011, a third of the 35 million cars on the road were at least 15 years old, market researcher AutoStat estimated.

Annual scrappage rates run at 1 to 3 percent, less than half the 6 percent average in Europe, data from PricewaterhouseCoopers indicate.

Vorontsov's yard scrapped 12,000 cars in 2010 under a state-sponsored "cash for clunkers" program created to fight the recession. Vehicle owners got a voucher toward a new car when they scrapped the old. But that program expired last year.

Now when Russians get rid of their cars, they have no incentive to go to regulated yards because of the red tape and extra cost involved, said Stanley Root, automotive industry leader at PwC in Moscow.

Scrapping is "becoming an urgent question," both to support the car industry's growth and to deal with the expected increase in unwanted old cars as rising incomes encourage middle-class Russians to trade up at a faster rate, Root said.

"If you want to secure the long-term sustainable growth of the car industry here, it is high time that attention was focused on implementing a scrap system," he said.

Words But No Action

The government says the fee on imported cars, which ranges from 430 euros for a small car to 150,000 euros (\$200,000) on a heavy construction vehicle, is one of the measures it is taking to address the issue.

But while the Industry and Trade Ministry has said the money will be used to set up state-sponsored automobile-scrapping infrastructure, it has not given details of when and how this will be done.

Cars manufactured in Russia will not be hit with the fee as long as producers set up drop-off points, at their own expense, to collect old vehicles for recycling.

Homegrown firms — such as AvtoVAZ, maker of the iconic Lada, which is now majority owned by a Renault Nissan joint venture — stand to benefit the most.

Importers will have to pay upfront fees worth about 5 percent of a car's sticker price.

"This levy is offsetting, clearly, the reduction of customs tariffs that has started since the accession to the WTO," said Frank Schauff, head of the Association of European Businesses in Russia, a lobbying group.

It backs the development of a regulated, but not state-controlled, scrappage industry.

Foreign automakers say Russian consumers will ultimately bear the cost.

"Across the entire industry, the end consumer will suffer from this policy," said John Steck, president of Volvo Russia, which imports every car it sells in Russia.

Denis Manturov, the minister of industry and trade, said in a speech last month that the government would not drop the fee.

He added: "We are ready to consider the possibility of creating conditions for establishing recycling centers for foreign producers, but it will certainly take time."

Vorontsov, a stocky man in his 50s with a matching white crew cut and stubble, is eager to see the dispute resolved one way or the other.

"The faster clarity comes, the faster it will become clear how an auto recycling system will work in Russia," he said.

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