

Despite Downturn, GM Investing \$200M in Local Car Parts Plant

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TOLYATTI, Samara Region — A General Motors joint venture began building a \$200 million plant here on Friday to make components for its Chevrolet Niva sports utility vehicle.

“This is a historic event in the journey the joint venture has taken,” Jim Bovenzi, president of GM Russia, said at a ceremony to kick off the construction.

The 50-50 venture, GM-AvtoVAZ, is now sourcing components from the local partner, the biggest Russian automaker AvtoVAZ.

But GM needs to expand its local content in Russia as part of a deal with the government. The deal also reduced import duties on knock-down kits that the company uses to assemble its vehicles in the country.

The Tolyatti plant, whose construction is slated to wrap up in November 2015, will include an

auto-body making facility and a metal press shop. It will make the components for a new generation of Chevrolet Niva, which the joint venture promises to unveil at the Moscow Auto Show next year.

“The current Niva has quite a following — almost a cult following — among customers,” Bovenzi said. “The new Niva will be fantastic.”

He said he was one of the few people in the company to have seen the design.

Described by some as the world’s first crossover vehicle, the original Niva first hit the road in 1976. In addition to its heritage, it is comparatively affordable, selling for \$14,000.

The capacity of the new body shop will measure 120,000 units a year.

GM-AvtoVAZ now can produce 98,000 Chevrolet Niva cars at most. The venture will expand its assembly line output in line with the increased body shop potential.

“We will remove some roadblocks in volumes,” said Jeff Glover, GM-AvtoVAZ’s outgoing general director.

The venture sold 63,000 cars last year, up 9 percent from the previous year, setting a record.

Glover conceded the overall market had been contracting lately, but expressed confidence that it would rebound.

“We would be negligent if we weren’t investing in a market like Russia,” he said.

Sales of cars and light commercial vehicles took a 12 percent dip in May, compared with the same month last year. Analysts blamed the drop, at least partially, on the longer May holidays this year.

Over the first five months of the year, the decline constituted a more modest 4 percent from the same period last year.

Demand should recover in the second part of the year, brokerage firm Uralsib Capital said Thursday. It predicted that economic growth would accelerate.

Under the deal with the Russian government, GM looks to build its local capacity to 350,000 vehicles a year in by 2016. Moving toward the goal, the company is also working to increase its production potential at its plant near St. Petersburg.

The investment in the press and body shops in Tolyatti have another strategic value: The move will provide more independence for the joint venture from an AvtoVAZ that comes under control of the Renault-Nissan alliance later this year and will need more car bodies for itself. The auto giant is looking to increase capacity to 1.4 million vehicles by 2017 from 1.2 million units now, AvtoVAZ chief executive Igor Komarov said.

GM-AvtoVAZ chose a special economic zone just outside the city to build the new plant. The area is almost a complete greenfield at the moment, with black water pipes snaking through open trenches. For the ceremony, the company rolled out green carpeting right over dirt.

The zone has also drawn several producers of auto components from Japan, Germany, Slovenia and Turkey, who committed to make door hinges, exhaust pipes and parts of transmissions, among other things. Federal and regional authorities are spending money to provide utility and other services to future factories at the site, in addition to tax rebates and discounts on customs duties.

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