The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Local Car Parts Manufacturers, Clustered With Foreign Firms, Face Annihilation

By Lena Smirnova

November 14, 2013



Russian auto parts manufacturers face complete disintegration if the government does not support them inside specialized automobile clusters, industry insiders said at a summit Thursday.

A lack of competitiveness in the industry threatens the future of producers but is even more dire for those working on new innovations in the field.

"Russia is now at a breaking point," said Yury Mikheyev, deputy head of the Center of Innovative Development and Cluster Initiatives in Samara region. "Either we take an innovative path of development ... or we turn into a raw resource country and an assembly line for auto giants."

At the Cluster Summit in Moscow, Mikheyev outlined two scenarios along which Samara

region's automobile sector could develop. In the pessimistic scenario, the value of auto parts production falls from 49 billion rubles ($1.4 billion) in 2012 to 26 billion rubles in 2020. In the optimistic version — where government supports Russian manufacturers in auto cluster initiatives — the value of production rises to 52 billion rubles.

There are several automobile clusters located across Russia, with the main ones found in the Central, Volga and Northwest districts.

Clusters bring together different companies, parts manufacturers and researchers to complement each other and increase their competitive advantage and innovations. Most of the clusters are part of special economic zones where investors can take advantage of tax benefits and ready-made infrastructure.

"We can see in the cluster strategy a complex, diverse system that is ahead of its time," said Valery Draganov, president of the Avtodor holding.

But starting up a cluster is hard work, and once they are established, domestic producers often struggle to achieve and maintain high standards.

Anatoly Sotnikov, chief of the Innovation Development Agency in Kaluga region, southwest of Moscow, recalled how his organization conducted a survey in 2010 among foreign car companies to find out why they don't place orders with Russian auto part manufacturers. Respondents said they were unhappy with the quality and price of the products, but most of all, they are not sure that Russian manufacturers can supply them the quantities they need.

No foreign investors wanted to join the Kaluga region cluster at first, but after Volkswagen made the move, others started pouring in, Sotnikov said.

Now the cluster includes seven car brands, including Volvo, Renault, Mitsubishi and Citroen. This increased interest also brought on challenges. The cluster needed a total of 14,000 workers, which the Kaluga region never had to start with.

As a solution, the regional government built a training center for automotive sector workers. 9,500 students have already graduated from its programs.

A paucity of professional workers is an issue that clusters routinely deal with, the inevitable result of having several large manufacturers clumped tightly together.

The workforce is a general problem, but Russian companies, finding themselves at close quarters with global automobile powerhouses, have a hard time overcoming ineffective and uncompetitive engineering practices, and low production figures, as a result of which they can't invest in their future development, Mikheyev said.

But even if these issues are overcome, Mikheyev said Russian producers were now mostly playing second fiddle.

"The time has passed when we dominated the market and we could sell on our conditions," Mikheyev said, adding that in Samara region it is the foreign Renault concern that now dictates how the sector functions.

Contact the author at e.smirnova@imedia.ru

Original url:
https://www.themoscowtimes.com/2013/11/14/local-car-parts-manufacturers-clustered-with-foreign-firms-face-annihilation-a29602