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INDEPENDENT NEWS FROM RUSSIA

Renault-Nissan Plans Second Russian Engine Plant

By The Moscow Times

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Employees work on a Renault Sandero at an assembly line of a Moscow plant, which produces Renault vehicles. **Maxim Shemetov / REUTERS**

BOULOGNE-BILLANCOURT, France — Renault-Nissan will build a second engine with Russian partner AvtoVAZ and aim to overcome a decline in Lada sales in a market set to overtake Germany within two years, Renault's regional boss said.

Production of a long-planned 1.6-liter engine begins this week at the AvtoVAZ plant in Togliatti and will soon expand to a second petrol engine, Bruno Ancelin said in an interview last week at the French carmaker's headquarters outside Paris.

Renault and Japanese alliance partner Nissan are increasing local parts sourcing as they prepare to take control of the maker of Lada cars and defend a combined 30 percent market share against an encroaching Hyundai.

Russian car sales have fallen 7 percent so far this year as the broader economy falters on declining oil and gas revenues that have helped propel the ruble to a four-year low.

But Renault expects the market to return to growth of about 3.5 percent next year after sliding between 6 and 7 percent to 2.8 million cars in 2013.

"This kind of mini-crisis has happened before without going full-blown," Ancelin said.

Underlying demand remains strong, in a country where more than half the cars on the road are at least 10 years old, and will overtake the German market within two years, he predicted.

Renault owns 43.4 percent of Nissan and paid $1 billion for an initial 25 percent AvtoVAZ stake in 2008. Under a deal struck last year, Renault and its Japanese affiliate are to take joint control of the Russian carmaker in 2014.

Renault-Nissan chief executive Carlos Ghosn took over as AvtoVAZ chairman in June and hired former General Motors purchasing boss Bo Andersson from AvtoVAZ rival GAZ. Andersson takes over as CEO at the end of the year.

The new 1.6-liter engines produced in Togliatti will power models including the Renault Logan sedan, Duster SUV and Sandero mini, as well as Nissan's Almera and the Lada Largus.

The engine plant investment, announced in 2011, makes Renault and Nissan the first foreign carmakers to build transmissions inside Russia. Similar plans by Ford and Volkswagen are about two years behind.

Moscow is forcing carmakers to source components locally to stay competitive. Under Russia's Decree 166, manufacturers that buy more than 60 percent of their components from domestic suppliers get a break from import duties on the rest.

Purchasing in rubles also helps to defend margins against the Russian currency's slide. But those lacking the scale to justify investment in local suppliers or parts manufacturing risk falling behind.

Renault models assembled in Russia are about 70 percent locally sourced, according to company data. That compares with about 20 percent for Toyota, which has a market share of 6.2 percent.

But slumping sales of Lada models eroded the combined market share of Renault, Nissan and AvtoVAZ by 0.8 points to 29.6 percent in January to October — further from a 40 percent target set by Ghosn for 2016.

Lada sales have fallen 15 percent this year on a poor reception for new models introduced since 2011: an updated Kalina mini, Granta subcompact and Largus minivan, which is a rebadged version of Renault's low-cost Logan.

Ghosn's 40 percent goal is also under pressure from South Korea's Hyundai and affiliate Kia — whose combined market share advanced to 13.8 percent from 12.4.

Renault and Nissan growth will make up for a likely shortfall in Lada's contribution to the

alliance goal, Ancelin said, before a wave of new models based on shared technology restores the Russian brand's luster.

"Russian consumers are patriotic and will go for a national brand if it has the right offering," the Renault executive said, pointing to a revival of GAZ's GAZelle utility van since a 2010 facelift.

"It was Bo Andersson who did that," Ancelin said. "We're confident he'll do what needs to be done."

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