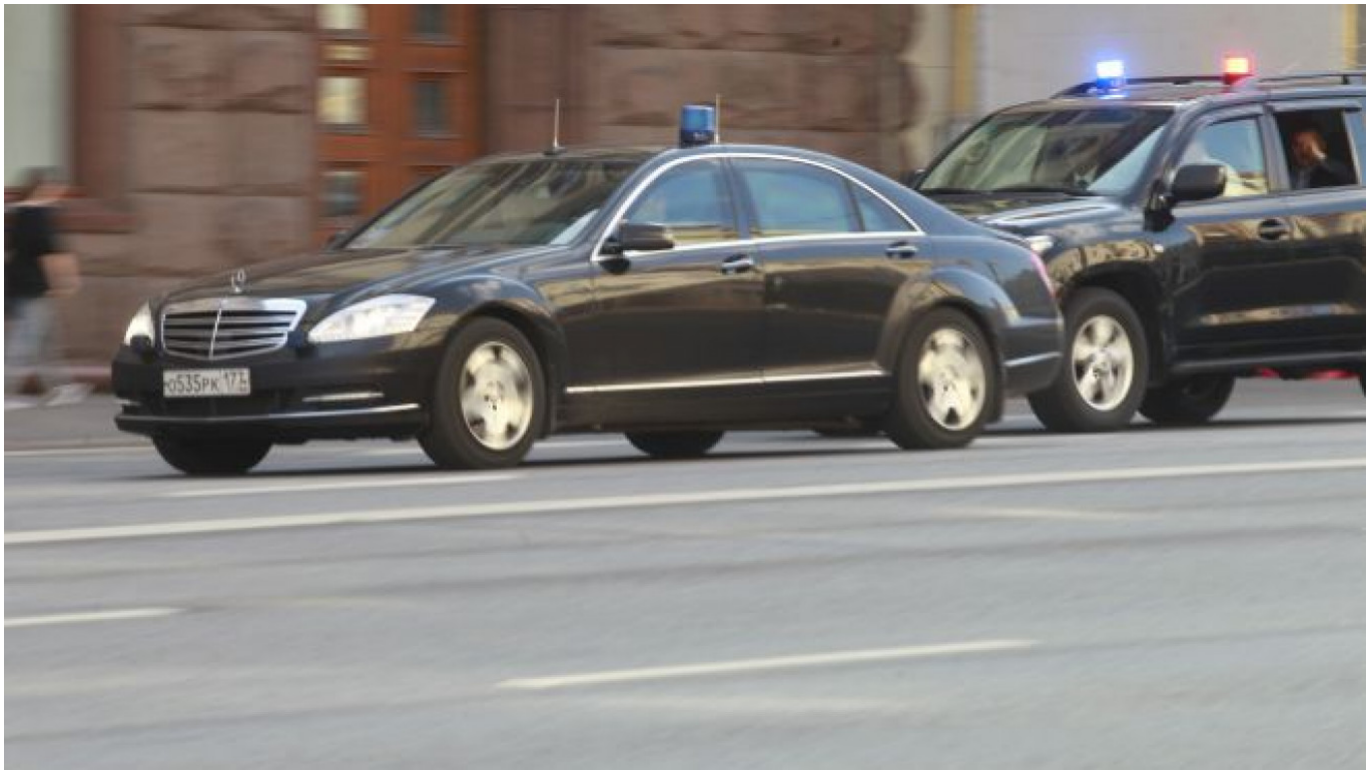
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Russia Bans Purchases of Foreign-Made Cars By Government

By Peter Hobson

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A black Mercedes speeding down Tverskaya Ulitsa with a state official on board.

Federal and municipal governments were prohibited from buying foreign-made cars by Russian Prime Minister Dmitry Medvedev, who said he hoped the decision would "help preserve necessary balance on the market."

The state spends huge sums buying equipment, and "of course it is better if they go to domestic companies, not foreign producers," Interfax quoted Medvedev as saying at a meeting with deputy prime ministers on Monday.

The order signed by Medvedev will hit not only the sleek black cars of high-ranking federal officials, but public transport and vehicles for emergency services and utilities companies.

However, the aim is not to exclude foreign companies from the Russian market altogether, but to "develop manufacturing cooperation with Russian producers ... in the form

of localization of production," Medvedev said.

Foreign firms will have to localize production to qualify as "domestic" and avoid the ban. Depending on the industry, the threshold will start at 30-40 percent, Interfax quoted Deputy Prime Minister Arkady Dvorkovich as saying, but will rise to 60-70 percent by 2018.

Similar actions are being prepared for textiles and medical equipment, Dvorkovich added, though Medvedev softened the line on medical equipment, acknowledging that Russian production in the sector could not yet compete with foreign equipment.

The localization loophole means that not all car makers will be struck. Audi, BMW and Ford are among the brands with assembly lines in Russia. Mercedes, however, does not produce its vehicles domestically.

But the law will be circumventable — the final stages of assembly can easily be set up in Russia to guarantee the all-important "made-in-Russia" badge, industry insiders assured Vedomosti.

The initiative comes at a bad time for car makers: car sales in June were down 17.3 percent year-on-year, according to the Association of European Businesses, and the market is expected to shrink 12 percent this year.

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Ruble Devaluation May Save Russian Car Production

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