

International Carmakers Confident of Market Revival

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Ford Focus sedan was the bestseller in its segment in Russia between January and August 2013, but has not sold even half that number during the same period this year.

International carmakers are hopeful that Russia can become Europe's biggest market and vindicate their decision to spend more on localizing production in the country, company executives said on the sidelines of the Moscow International Automobile Salon on Thursday.

If that is to happen, Russia's car market will need to stage a dramatic recovery. Sales in Russia have dropped by almost 10 percent in the first seven months of 2014 compared with the same period last year, according to the Association of European Businesses, a decline widely attributed to Russia's economic slowdown combined with geopolitical tensions over Ukraine.

The forecasts for the next four months are not positive. "By the end of the year we expect Russia's car market to decline by about 12 percent. But considering the negative impact the geopolitical tension has on trade, the decline could be even heavier," said Kay Lindemann,

managing director of the German Association of the Automotive Industry.

But any car manufacturers looking for reasons to be optimistic need only look back a couple of years. The Russian automobile market quickly regenerated after the financial crisis of 2008-09, and by the end of 2012 annual car sales were close to 3 million units, double 2009 levels.

Prior to the current crisis, German carmakers were enjoying overall market growth in Russia, with the share of locally produced and imported German brands rising to 20 percent in 2012.

At the same time, German car producers were ramping up local production not only of car chassis, but of components as well, Lindemann said, adding that exports by Russian auto-part producers to Germany have gone from 27 percent last year to 41 percent this year.

The 3 Big Issues

Ford Sollers, a joint venture that handles production of the U.S. company's vehicles in Russia, has been one of the hardest-hit this year, with sales falling 52 percent in July.

The company has had to cut costs and production, and keep its prices at relatively low levels.

So far this year, the ruble is down about 10 percent against the U.S. dollar, but Ford Sollers CEO Ted Cannis said the firm has increased its prices by only 5 percent.

Cannis puts the market's plight down to three main factors.

"The first was the depreciation of the ruble — most of our parts still come from Europe. Another was the overall economic weakness. And the third was the [mid-sized sedan] segment, represented by our Focus model, sinking in Russia," Cannis said.

Problem No. 3 hit Ford Sollers particularly hard. The joint venture's Ford Focus sedan was the bestseller in its segment in Russia last year. However, the company did not sell even half the number of units between January and August this year as it did during the same period in 2013.

But Cannis is optimistic about future growth prospects. Ford Sollers plans to release six new models produced in Russia over the next 12 months, which is unprecedented for the company.

Falling car sales are all about uncertainty over the level of economic growth, the geopolitical situation, the ruble and loan rates, Cannis said.

"So now car buyers are waiting. Investment decisions are waiting. Board members, new loans — they all have to wait," he said, adding that if this uncertainty is resolved, it will immediately help the entire auto industry.

SUVs in Fashion

Some car producers have fared better than others in the current climate. Japan's Mitsubishi has seen its sales decline by only 4 percent since the beginning of the year and is planning to increase rather than decrease its local production at its plant in Kaluga, about 150

kilometers southwest of Moscow.

The company produced 25,000 cars at the factory last year, and this year it plans to make 36,000, which would put the plant at 90 percent of its load capacity.

Tetsuro Aikawa, president of Mitsubishi Motors, said that although Mitsubishi has a very popular sedan model in Russia, the Lancer, it will follow the global trend and focus on all-purpose sports utility vehicles, or SUVs.

"Potential for growth in the SUV sector is much higher, especially in the developing market. So we will focus Mitsubishi's development on its traditionally strong SUV segment," Aikawa said.

Even in the turbulent first seven months of this year, Mitsubishi has managed to increase its market share in Russia to 11 percent in the SUV sector and to 3.9 percent overall, company executives said.

Mitsubishi executives expect the car market to continue on a downward trend until the end of the year, but they believe that the situation is likely to pick up in the long run.

"Economic situation in Russia is quite difficult, with matters made even worse by the political turmoil ... but we are quite confident that Russia has a great potential for growth," Aikawa said, adding that he expected market recovery already next year.

The calculation is simple. Currently, Russia has only 300 car owners per thousand people, whereas in Japan and Germany it's 600 per thousand, and in the United States — 800 per thousand, a group of Mitsubishi executives said.

Russia's advantage in terms of the number of prospective car owners it has means that its market will be the biggest in Europe within the next three to five years, Aikawa said.

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