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Ford Russia Venture Says Car Industry Needs Support to Avoid Downturn

By The Moscow Times

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A 2015 Ford Mustang is on display during the Moscow International Automobile Salon in Krasnogorsk outside Moscow.

Russia's auto market shows no signs of improving in the next two years having been hit by an economic slowdown and weak ruble, the head of Ford Motor Co's Russian venture has said.

Sanctions over Ukraine have hurt the Russian economy, hitting car sales to a growing middle class while imported car parts have become more expensive.

"There is no sign that things will rapidly improve in the next two years," said Ted Cannis, CEO of Ford Sollers, a 50-50 joint venture between Ford and Russian carmaker Sollers.

"To improve the car business, we need interest rates to come down, we would need more certainty in the business climate and the customer climate," Cannis said in an interview at the Reuters Russia Investment Summit.

Russia had been expected to overtake Germany as Europe's biggest auto market earlier this decade, but its progress has been delayed. Car sales have fallen rapidly this year to be down 26 percent year-on-year in August.

There were 1.58 million new passenger cars sold in Russia between January and August 2014, according to the Automobile Manufacturers Committee of the Association of the European Businesses. In the same period 2.02 million passenger cars were registered in Germany, according to the European Automobile Manufacturers Association.

The Russian government said late last month it would earmark 10 billion rubles ($260 million) to fund incentives for new vehicle purchases until the end of the year — a measure Cannis said was certainly helpful but short-lived.

"Clearly the budgeting process is a challenging one for the government, trying to integrate different demands. But if there isn't additional action [to support the car industry] after 2014, there will be an immediate and very significant downturn in the first six months of next year," Cannis said.

"In our business the key is a horizon — I need policies with at least 12 months — and that's for production. For investments in the car business — three to five years. It's horizon that is important, something fixed so I know what to tell my shareholders and my investors," Cannis said.

On top of that, Western sanctions mean a lot of downward pressure and huge amounts of uncertainty, he said at the summit, held at the Reuters office in Moscow.

"Uncertainty in a car business is a big problem — people don't make big purchases when they are uncertain about the future ... The car business is a long business with long pipelines and long investment decisions where continuity and visibility are key," Cannis added.

Adjusting Supply

Ford Sollers, formed in late 2011, announced in April the layoff of 700 staff — about 13 percent of total headcount — and reduced working hours at all three Russia plants.

In August, Ford's sales in Russia were down 57 percent year-on-year, one of the deepest falls among all brands, which Cannis attributed to its focus on the C segment, small family cars, where demand has shrunk more than other types of vehicles.

"A person who was going to buy a premium vehicle in the C segment is now going to buy a cheaper vehicle of the same size. We are definitely seeing a lot of that. And an exchange rate impact — we do import a lot of materials from Europe for Focus and the cost of materials has been difficult for us," he said.

Cannis said the company had shifted some of its sourcing of steel and plastics to local producers to offset the impact of the weaker ruble and would localize more production next year, both on the raw materials and components side.

It is also adjusting its range of models for the market, launching production of a small SUV, or sport utility vehicle, Ford EcoSport this year and a small hatchback Ford Fiesta next year "to

address some of this demand for more affordable vehicles."

"We think we have the right set of vehicles now and we are not changing our plans, which we have just reconfirmed again with the shareholders. We think we have exactly the right plan and will be increasing production, assuming the industry does not deteriorate more," he said.

He added the company had no plans to lay off any more staff.

Winners and Survivors

Cannis said he did not expect Russia to take any retaliatory measures against the West that would hurt foreign carmakers who made cars locally — such as an import ban on car parts.

"It would be odd to me that they would want at this point to disadvantage local production with no other source of vehicles other than imports and a lot of those coming from the West. And I am not sure that would fit with the overall philosophy, which seems to be develop Russian capability and support the Russian companies in the face of the geopolitical crisis," he said.

At the same time, a possible ban on car imports would have no impact on Ford as 95 percent of its sales in Russia were locally-built cars.

He said the carmakers with the deepest localization rate, such as the Renault-Nissan -controlled Avtovaz, were the main winners in the current conditions.

"It moved ahead of us in localization but I think we are going to catch the gap very quickly. Last year 37 percent of our [car parts] was locally sourced and we will grow to 40 percent over this year," Cannis said.

Japanese car makers have also been benefiting from a weak yen. "We are seeing a big increase in Japanese imports and aggressive actions in the marketplace," he said.

Cannis said overall the Russian market potential was determined by the relatively small number of cars per capita.

"I think we need enough time for things to get quiet and people to start investing again across the country and feel — yep, that's behind us. I would say that's one to two years."

"But long-term, from the Ford-Sollers view and the partners we have, Russia still has the potential to be the largest market in Europe. The opportunity is there for those who survive."

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