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GM Retreats From Russian Market, Closes Plant and Winds Down Opel Brand

By The Moscow Times

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A violinist plays near an Opel car at the Moscow International Auto Salon.

General Motors Co will shut a Russian factory and wind down its Opel brand in the country, taking a $600 million charge as it restructures to cope with a prolonged slump in the once-promising market, the U.S. carmaker said on Wednesday.

After several years of growth in excess of 10 percent, car sales in Russia shrank in 2014 as the economy weakened, battered by Western sanctions over the Ukraine crisis and sliding oil prices. The tumbling value of the ruble has caused consumers to pull back on large purchases, and raised the cost to GM and other manufacturers of importing parts.

GM's retrenchment in Russia is the latest in a series of moves by global automakers to scale back money-losing bets on emerging markets that have failed to live up to the bullish

expectations industry executives subscribed to earlier in the decade.

Last month, GM said it would close a factory in Indonesia and scale back operations in Thailand. Ford Motor Co took an $800 million charge earlier this year to restructure troubled operations in Venezuela.

GM said it would stop production by the middle of 2015 at its St. Petersburg plant which makes the Chevrolet Cruze, Opel Astra and Chevrolet Trailblazer models. The idling of the plant will mean the loss of 1,000 jobs.

GM also will wind down the Opel brand in Russia by December, and stop assembling mass-market Chevrolet cars at GAZ, a Russian vehicle factory, to concentrate on premium car sales. GM said it would continue to assemble the current generation of Chevrolet Niva sport utility vehicles at a joint venture with Russian automaker Avtovaz OAO.

"This decision avoids significant investment into a market that has very challenging long-term prospects," GM President Dan Ammann said in a statement.

Just four years ago, GM said its Russian operations were gearing up to expand production capacity to 350,000 vehicles a year, and called Russia "an important strategic market."

Focus on Premium Segment

Going forward, GM said it will focus on the premium segment in Russia, which has held up better than the mass market, with Cadillac and some U.S.-built Chevrolet cars. Russia accounted for 1.9 percent of GM's global sales in 2014, down from 2.6 percent in 2013. The automaker does not break out financial results for the country, but consolidates Russian operations with its GM Europe unit.

GM Chief Executive Mary Barra has said Opel would regain profitability by 2016, and the company reaffirmed that forecast on Wednesday. The charge will primarily hit results for this year's first quarter, GM said.

Volatility in Russia has hit other automakers. Ford has cut jobs at its joint venture factory in Russia, and Nissan Motor Co Ltd earlier this week said it would halt production at its St. Petersburg plant for 16 days.

Russia's Economy Ministry said late on Wednesday that no other foreign car company that operates an assembly line in Russia has said it would leave the market, according to RIA news agency.

"The Ministry of Economic Development of Russia cannot agree with the assessment of the market by one individual company," RIA cited the ministry's spokeswoman as saying.

Russian industry and trade ministry officials, quoted by RIA, said GM suffered because it imported more than half of the parts for its cars. Renault-Nissan and Volkswagen AG source about two-thirds of car parts within Russia for the cars they assemble there.

Russian Market Shrinks

The Russian car market is forecast to shrink by up to 35 percent in 2015 according to PricewaterhouseCoopers. The Russian Economy Ministry said it expects the domestic car market to return to growth in 2016.

But analysts say Russia is in for tough times.

"At least 70 percent of cars currently sold in Russia are sold at a loss. Auto groups only stay in this market to protect their share in anticipation of growth," said Oleg Datskiv, general director of online automobile portal Auto-dealer.ru.

Opel sold 912 vehicles in Russia in February, an 86 percent plunge from year-ago levels, said a spokesman at Opel's base in the German town of Ruesselsheim.

The Opel Astra has a starting price of about 800,000 rubles ($13,000) in Russia.

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