The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Russian-Made Volkswagens to Reach New Mexican Market

Volkswagen to begin shipping Russian-made models outside the CIS as local market demand falls.

By Vladimir Shtanov and Vitaly Petlevoi

July 26, 2016



Andrei Makhonin / Vedomosti

Volkswagen has opened its first export market outside the former-Soviet block for Russian-made cars. A new shipment deal with Mexico will see several hundred Volkswagen Polos transported to Central America from a automobile manufacturing plant in Kaluga, a source close to the factory confirmed.

While the total number of cars due to be exported in 2016 had not been confirmed, Volkswagen usually ships approximately 10,000 automobiles from Russian annually, most of which are Polo sedans, the source said.

The company has not given any official reasons for choosing to export to Mexico, but the country's automobile market is large and growing, with 465,000 units sold between January and April 2016. Some 1.5 million cars are expected to be sold before the end of the year, said Autostat executive director Sergei Udalov. As in Russia, sedans are amongst the most popular cars in Mexico, with the Nissan Versa, Volkswagen Vento (Polo in Russia), and Chevrolet Aveo taking the top three spots for country-wide sales.

Volkswagen's manufacturing facilities in Mexico do not produce the Polo, instead producing the company's Jetta, Beetle, and Golf models.

A Volkswagen Vento (Polo Sedan) is popular with Mexican taxi companies and middle-class buyers, selling for 179,990 pesos ($9,577). The models in Mexico are currently shipped from India, but buyers have no strong preference on where their cars are made, one Volkswagen dealer in Mexico said. It costs just 60,000 rubles ($900) per automobile to ship from Kaluga through St. Petersburg to Mexico, according to calculations by Infoline Analysts CEO Mikhail Burmistrov.

Unlike Mexico, the Russian car market is shrinking. Sales could fall by as much as 10.3 percent, with just 1.44 million passenger cars and light commercial vehicles likely to be sold in 2016, according to the Association of European Businesses.

In addition to the Polo, the Volkswagen Kaluga plant produces the Tiguan and Skoda Rapid models, and assembles Audis. Yet the plant is running far below its annual capacity of 225,000 vehicles. One source close to management at the factory said that the plant had only produced 44,000 automobiles in the first five months of 2016. By expanding exports, the company is helping the Russian plant reach capacity and lowering the cost of each car, said Autostat executive director Sergei Udalov.

A state program starting this year is to support the export of Russian automobiles with some 3.3 billion rubles ($50 million) of government funding, Udalov said. Volkswagen is also likely to be counting strongly on this support- but the firm is hoping for greater government backing.

The company is proposing an export-import scheme where a manufacturer can gain credit for each unit exported to offset import customs duties, excise taxes or other costs, a

Volkswagen representative said.

India employs a similar scheme and the German automaker is proposing that Russia adopt it as well, the representative of one Russian automobile company said. An Economic Development Ministry representative said the Ministry is "studying the question."

Yet providing support for exporters involves more than just compensating companies for logistics, R&D, and certification expenses, said one spokesperson from Russia's GAZ automobile company. The government must create free trade zones and reach special agreements with key partner countries to establish tax incentives and eliminate customs duties for companies with local assembly facilities, the spokesperson said.

Original url:
https://www.themoscowtimes.com/2016/07/26/central-american-market-opens-for-russian-made-volkswagens-a54729