

Press Release

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Statement by VDA Managing Director Klaus Bräunig

Exports and local production clearly growing – many premieres at the Moscow Motor Show

Bräunig: In Russia German manufacturers expand faster than the market

Moscow/Berlin, 29 August 2012. The German automotive industry is enhancing its activities in Russia and gaining market shares on this dynamic market. Already one passenger car in five that is newly registered in Russia is built by a German group. The market share going to German companies rose by nearly three percentage points from January to July 2012, to reach 20.7 per cent. In 2011 the German OEMs pushed up their exports to Russia by over 61 per cent, to more than 150,200 passenger cars. There was even greater growth in passenger car production by the German manufacturers in Russia: at 135,000 units, almost 73 per cent more vehicles were produced locally in 2011. In the first half-year of 2012 the German makers increased their production within the country by another 63 per cent, to nearly 90,000 units. This means that at present one passenger car in ten made in Russia is a new car from a German group brand. Furthermore, the export volume is of a similar size: in the first half-year the German manufacturers exported 81,000 passenger cars to Russia.

The German car-makers are pursuing their “two-pillar strategy” (which is also successful on the US market, for example): exports from German plants coupled with establishing and expanding local assembly.

The German manufacturers and suppliers have numerous premieres at the Moscow International Automobile Salon (MIAS) and the suppliers’ trade fair Interauto. The German Association of the Automotive Industry (VDA) is represented at the Interauto at a joint pavilion in co-operation with the German Federal Ministry of Economics and Technology, where 16 German supply companies are presenting.

Russia remains a growth market

Russia remains a growth market. In the coming year we expect to see stable growth overall in the Russian national economy. Russia’s gross domestic product, which had already increased by 4.3% in 2011, will most probably show a similar rise both this year and the next (+4% in each year).

This growth is driven by very keen investment activity, which is estimated to come to around 24% of the gross domestic product in the current year. The 5% rate of inflation (with fluctuations of +/-1%) remains within expectations.

Share of passenger car market going to the German manufacturers exceeds one fifth

German manufacturers and suppliers also have a two-pronged strategy for serving the Russian market. First, they supply vehicles from German assembly plants, and second, they have a tangibly greater volume of local production. And this is successful: one new car in five sold in Russia bears a German group badge.

The global financial and economic crisis of 2008/2009 led to a dramatic collapse of the Russian automotive market. In the year 2008 experts were still assuming that the Russian passenger car market would catch up with the German market by 2009 at the latest. But the Lehman Brothers crisis hit Russia hardest of all. From a level of 2.9 million units in 2008, the market shrank by half in only one year. This was also felt keenly by the German manufacturers. In 2008, 178,000 passenger cars were exported from Germany to Russia, but in 2009 the figure was only 41,000 – a slump of more than three quarters. The value of exports fell by 60 per cent in 2009, from 5.9 billion euro to just under 2.4 billion euro.

So the rapid recovery of the Russian market is all the more impressive. In 2010 once again over 1.9 million passenger cars were already sold – a rise of almost 31%. The value of vehicles and parts exported from Germany to Russia actually jumped by 85 per cent.

In 2011 the Russian passenger car market received an additional boost from a state scrapping bonus – new registrations soared by 39 per cent to 2.7 million units. Yet the German manufacturers were able to expand even faster, as shown by the 61 per cent increase in exports.

Rapid growth in local passenger car production

However, German manufacturers and suppliers serve the growth markets around the world both through exports from their plants at home, and by maintaining a strong local presence. Assembly in Russia has also developed impressively. After starting in 2008 with 62,300 units assembled in Russia from kits by German manufacturers, in 2011 full local production (ongoing since 2010) had already climbed to 135,000 units.

For the first half of 2012 we also note that the number of passenger cars produced locally, close to 90,000, already exceeds the number of cars exported from Germany (81,000).

This means that passenger car production by German group brands in Russia is increasing faster than total car production in this country. While total passenger car production in Russia in 2011 expanded by 44% to 1.74 million units, the German group brands increased their assembly in the country by 73% to 135,000 units.

This trend will continue during the current year. Overall passenger car production in Russia has risen by 18% in the year to date, and by contrast passenger car production by German brands has climbed by 63 per cent, which is three times as fast.

The German group brands thus not only take a market share of 20.7% of new passenger car registrations, but now one in ten new cars built in Russia bears a German badge.

In the coming years local content will continue to increase. Expansion of local production is therefore to be expected.

So the crisis of 2008/2009, with its severe shrinkage, was overcome in Russia much faster and above all more powerfully than in Western Europe, for instance. The potential of the Russian automotive market is nowhere near exhausted, and a large number of vehicles is required in order to catch up: while Germany has just over 500 cars for every 1,000 inhabitants, the figure is only half this in Russia.

The potential harboured by the Russian market is also emphasised by the fact that the passenger car market itself is continuing to grow even after the end of the bonus schemes. In

the first seven months of the current year, new registrations climbed by 14% to 1.7 million passenger cars.

This positive development is also manifested in the value of exports by the German vehicle industry. Automotive exports from Germany to Russia increased in the first five months of 2012 by a good 26 per cent to almost 3.7 billion euro.

Value of exports from German suppliers reaches new record

It is remarkable that our suppliers have a large share in this development. In 2011 the value of parts and accessories exported had once again markedly exceeded the previous record dating from 2008 (1.45 billion euro), at nearly 2.3 billion euro. In the last two years German suppliers have already achieved huge leaps in the value of their exports to Russia – of around 40 per cent (in 2011) and 70 per cent (in 2010).

In the first five months of this year, the suppliers pushed up their exports to Russia by nearly one third (+31 per cent) to 1.1 billion euro. They thus accounted for 30 per cent of the total value of exports by our industry to Russia.

The automotive trade balance roughly follows trends in exports – owing to the still low value of goods imported from Russia. In 2011 it rose by 69 per cent to 7.4 billion euro, a good 30 per cent of which was generated by parts and accessories. The previous highest level from the year 2008 (almost 5.9 billion euro) was thus already exceeded by a good quarter (+26 per cent) in the year 2011, and in the first five months of 2012 an increase of 26 per cent was recorded, pushing the figure up to nearly 3.7 billion euro.

Imports from Russia have been rising continuously for six years

However varied the starting positions may be, automotive trade between Germany and Russia is not a one-way street. In fact opening up the markets benefits both sides. And the value of motor vehicles, parts and accessories imported to Germany which are produced in Russia has been increasing steadily for six years now – which includes the crisis years of 2008/2009! Last year alone the value of imports rose by 39 per cent; naturally the level was still very low (42 million euro). Yet what is decisive is the trend – and the trend is upwards: since January of this year the value of imports has increased again by more than one quarter. It is remarkable that parts, accessories and engine components – that is, the products from the suppliers – make up around two thirds of the value of imports.

Russia's accession to the WTO is an important signal for further integration into the global economy

The opportunities are juxtaposed with considerable challenges. Russia's accession to the WTO is a clear signal for further integration of Russia into the world economy and offers many opportunities for deepening economic co-operation. The German automotive industry welcomes this step.

However, we associate with it the expectation that Russia will recognise the rules of international trade and pursue an industry and trade policy that is oriented on WTO requirements and generally treats domestic and foreign companies as equal. Such a policy forms the basis for long-term corporate planning and creates security for investors, whom Russia is trying to attract. When Russia joins the WTO the import duties on passenger cars will be reduced, but simultaneously the Government has approved a new recycling fee that will represent a burden on importers and thus have a discriminatory effect. Russian automotive policy therefore remains a challenge overall for many companies that would like to become more active in Russia. The two-pillar strategy of the German manufacturers shows that the keen demand on the Russian passenger car market should be met both with local production and with imports.

VDA Quality Management Center in Moscow already training 60 companies

Increasing the quality of both products and processes at suppliers is of key importance on the Russian growth market in particular. The VDA therefore set up a Quality Management Center (VDA-QMC) in Moscow as early as four years ago, which commenced its work at the beginning of 2009. Under Russian law, all foreign manufacturers and suppliers must increase the proportion of local suppliers, as otherwise import tariff concessions will not be granted. Since our OEMs and makers of parts also need suppliers on the Russian market who satisfy the world-wide high quality standards of our brands, at the VDA-QMC in Moscow employees are accordingly being trained in line with the standards and guidelines elaborated jointly by OEMs and suppliers at the VDA-QMC in Germany. Our slogan is: "Premium quality not only in the premium segment." Just in the first half of 2012 a total of 600 participants have been given the relevant training by Russian-speaking quality management trainers. The contents of these programmes include quality management systems, quality management methods and knowledge about practical quality assurance tools. The VDA-QMC also compiles corresponding publications. The VDA-QMC has over 60 companies as customers, including German suppliers such as Benteler, Bosch, Brose and Knorr-Bremse, along with many Russian firms and of course manufacturers such as Volkswagen.

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