

The Russian Market: Opportunities for the U.S. Automotive Sector

Russia's Car Market Holds Proven Potential for U.S. Automakers

Russia's post-Soviet consumer market has transformed car ownership from a luxury into an expression of the Russian consumer's newfound freedom. In the pre-recession years, the Russian automotive market demonstrated strong growth and was on pace to surpass Germany as the largest car market in Europe.¹ Currently Europe's third-largest², Russia's auto market is resuming growth, creating export opportunities for U.S. automotive manufacturers.

- In 1H 2010, **passenger car sales in Russia grew 9%** compared with the same period in 2009 to a total of \$14 billion. Prior to the full-year 2009 level of \$27 billion, passenger car sales in Russia had grown 29% in 2008 to a total of \$69 billion.³
- Foreign cars hold a commanding share of the Russian auto market. In 1H 2010, **36% of the cars sold in Russia were imported**, and 33% were manufactured in Russia by foreign companies.⁴
- As demand rebounds, **U.S. auto exports to Russia are once again on the rise**. In 1H 2010, U.S. exports to Russia of motor vehicles totaled nearly \$69 million (more than 3,100 vehicles), **growing 126%** in dollar terms over the same period in 2009 and exceeding the full-year 2009 total of \$50 million (nearly 1,700 vehicles).⁵
- **Prior to the recession, Russia was the 9th largest market in the world for U.S. motor vehicle exports**. Russia's imports of U.S. motor vehicles grew 42% in dollar terms in 2008 to reach nearly \$1 billion (more than 48,000 vehicles).⁶
- Under the terms of Russia's WTO accession, tariffs on foreign autos will fall to 15%⁷ from the current 20%-35%⁸, representing major market access gains on the horizon for U.S. auto exporters and their suppliers.

U.S. Car Brands are Leaders in the Russian Automotive Market

Although the economic crisis forced car sales in Russia into decline, U.S. carmakers have continued to hold significant positions in the Russian market.

- **Ford Focus is the best-selling foreign car model on the Russian market**, with Russian drivers buying more than 30,000 Ford Focus cars in 1H 2010.⁹
- With a 7% market share in Russia in 2009, General Motors has four models listed among Russia's top 25 best-selling cars, and **Chevrolet is the top foreign auto brand in Russia**.¹⁰

The Multiplier Effect from Autos Means Opportunities in Russia for Related U.S. Industries

In addition to cars, Russia imports U.S.-made automotive parts for use in domestic automotive production.

- In 1H 2010, U.S. exports to Russia of motor vehicle parts and accessories saw growth of 90% over the same period in 2009 to a total of \$17.5 million, putting these exports on track to exceed their full-year 2009 level of nearly \$19 million. Prior to the crisis, these exports had grown 180% in 2008 to a total of \$151 million.¹¹
- Michigan-based TRW Automotive supplies braking, steering, safety, and climate control systems for cars manufactured by GAZ Group, the second-largest Russian automaker.¹²

U.S. Companies Are Investing in Russia – But Not at the Expense of U.S. Exports

Many major automotive companies have invested in production facilities near the port city of St. Petersburg.

- Ford's \$330 million plant near St. Petersburg is the first auto production facility in Russia wholly owned by a foreign company.¹³ Ford has 120 dealerships in 77 Russian cities and a parts center in Moscow.¹⁴
- GM owns a \$300 million factory in the St. Petersburg suburb of Shushary¹⁵ and has invested more than \$100 million in joint ventures with Russian companies Avtotor and AvtoVAZ.¹⁶

¹ Stanley Root, "Is Russia the Largest Car Market in Europe?" PricewaterhouseCoopers, July 8, 2008.

² Irina Filatova, "July Car Sales Surge 50% on Clunkers," The Moscow Times, August 18, 2010.

³ Stanley Root, "Prospects for the Russian Automotive Market," PricewaterhouseCoopers, July 21, 2010 and January 20, 2010; "Effects of the Crisis on the Russian Automotive Market," PricewaterhouseCoopers, January 20, 2009.

⁴ Ibid.

⁵ U.S. International Trade Commission Interactive Tariff and Trade DataWeb, Total U.S. Exports to Russia and to All Countries (HTS-8703) 2006-2009 and 1H 2010, by FAS Value and Quantity.

⁶ Ibid.

⁷ Mikhail Khmel'nyov, "What Will Russians Drive in 2010," RIA Novosti, January 12, 2007.

⁸ "Единый таможенный тариф," Official Website of the Customs Union, <http://tsouz.ru/db/ettr/toved/Pages/default.aspx>, (accessed August 12, 2010).

⁹ "June for the Fourth Month in a Row Showed Revival on the Market of New Cars and Light Commercial Vehicles in Russia," Association of European Businesses in Russia Press Release, July 8, 2010.

¹⁰ Ibid.; "Record Year in Ten European Markets," General Motors Corporation Website, January 28, 2010, http://media.gm.com/content/media/us/en/news/news_detail.globalnews.html/content/Pages/news/global/Chevrolet/0128_chevy_europe_sales, (accessed July 9, 2010).

¹¹ U.S. International Trade Commission Interactive Tariff and Trade DataWeb, Total U.S. Exports to Russia, (HTS-8708) 2002-2009 and 1H 2010 YTD, by FAS Value.

¹² "GAZ Group Reviews Global Autopart Suppliers' Capabilities," GAZ Group Company News, October 22, 2008.

¹³ "Основные факты," Ford Motor Company Website, <http://www.ford.ru/AboutFord/Plant>, (accessed July 2, 2010); Andrew E. Kramer, "Ford Celebrates Its Growth and Success in Russia," The New York Times, July 17, 2007.

¹⁴ "Хронология деятельности компании Ford в России," Ford Motor Company Website, <http://www.ford.ru/AboutFord/FordCompany>, (accessed July 2, 2010).

¹⁵ Paul Abelsky, "GM Opens \$300 Million Russian Plant to Offset U.S. Auto Slump," Bloomberg, November 7, 2008.

¹⁶ "Группа компаний Автотор :: Автомобили GM," Avtotor Website, <http://www.avtotor.ru/gm/>, (accessed October 29, 2009); "GM to Inject Full \$101 Mln into Russian JV by End-2002," Interfax, October 24, 2001.