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## **SELECTED FASTENER USERS**

### **Automotive Market**

#### **Market Trends and Forecast**

“There is expectation of considerable growth in the Russian automotive market, which already claims to be the second largest in Europe. The Russian government has imposed import measures on a broad range of fasteners (bolts, nuts, washers) coming into the country with the aim of promoting more internal production. Automotive appears to be the most significant area for growth expectations,” the Confederation of British Metalforming confirmed.

The first ten months of 2011 saw sales of new cars and light commercial vehicles in Russia increase by 43% compared with the same period in 2010 or by 645,051 more sold units, according to the AEB AEC Automobile Manufacturers Committee in Russia. Growth for October 2011 amounted to 27% or 51,349 units compared with the same period in 2010.

Among the top ten bestselling models of passenger cars so far, nine are produced in Russia (strongly influenced by protective tariffs and production localisation requirements).

David Thomas, Chairman of the AEB Automobile Manufacturers Committee, commented:

"The 27% increase for the month of October shows the stabilising trend for the final quarter of 2011. The very strong start to 2011 means that our full year forecast increases to 2.55m cars and light commercial vehicles as we do not expect a significant slowdown in the last two months of the year. This will mean that for the full year the total industry volume will increase by more than 30%. Based on a 2.55m market this year our initial forecast for 2012 is 2.8m, growth of 12% compared to 2011 and very close to the highest ever year for the Russian cars and light commercial market in 2008 of 2.9m."

Manufacturers of cars and auto components that apply 'industrial assembly' technological processes in Russia are eligible for privileges. To encourage production and attract investment in the automotive industry, the Russian government has introduced amendments to the Customs Tariff of the Russian Federation regarding auto components imported for industrial assembly.

Governmental support for the implementation of the industrial assembly mechanism means that a company is entitled to import auto components with a reduced customs duty. Customs duties are to decrease to 0-5% of the cost of auto components. Thus, customs duty will average 12% under the general regime of auto component import and 3% for auto components imported under an industrial assembly agreement.

Last year, Russia implemented a series of initiatives to support the automotive industry, including government purchase orders and subsidised car loans. The Russian automotive market is back on the road to recovery and will become one of the key global growth engines of the industry in the coming decade, making it one of the top six by 2020. The Boston Consulting Group's third annual study of the Russian car market, *Winning the Localization Game in Russia: The Second Wave of Globalization in the Automotive Industry*, shows that Russia could achieve this status by significantly upgrading its supplier and manufacturing bases, making it more competitive on a global scale,

creating a stimulating regulatory environment, encouraging technology development and R&D formation, and, thus, enabling localization to succeed.

Although the Russian automotive market all but melted down in 2009, when annual sales fell by 50 per cent, the country continues to be an important growth market for foreign original equipment manufacturers (OEMs) and original equipment suppliers (OES) businesses, according to the study. BCG expects Russian auto sales (including the passenger car and light-commercial-vehicle segments) to reach the pre-crisis volume of about 3 million units in 2013 and to grow over the next five years at a compound annual growth rate (CAGR) of 8 to 14 per cent, peaking at about 4 million units in 2020.

“The Russian automobile industry has been the roller coaster of the BRICs (Brazil, Russia, India, and China) for the past 18 months, but now it is firmly back on track. The new regulatory environment is leading to a new wave of localization and partnerships of global and Russian companies in the automotive sector, and it is critically important to manage partnerships in a way that fosters modernization and technology transfer,” said Ewald Kreid, a partner and the head of the Industrial Goods practice and the Automotive topic in the firm’s Moscow office.