

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

Russia's Car Boom Means Big Business for U.S. Automakers

After the breakup of the Soviet Union, the growth of Russia's consumer market has transformed car ownership from a luxury to an expression of the Russian consumer's newfound freedom – and cars are much in demand.

- Russia is the fastest growing car market for new car sales in Europe.¹ In the past 5 years, the Russian car market has grown more than three-fold,² with research suggesting that the market still has robust growth potential.³
- In two years, new car imports have practically doubled, jumping from 500,000 units in 2004 to an estimated 950,000 units in 2006.⁴ In value terms, these imports accounted for 71% of the total Russian car market last year.⁵
- Under the terms of Russia's WTO accession, tariffs on foreign autos will fall from 25% to 15%, which represents a big plus for U.S. auto exporters and their suppliers.⁶

U.S. Car Makers are Thriving in Russia

In 2006, Russia imported over US\$400 million worth of U.S. motor vehicles. Furthermore, these exports grew over 100% by value in the first half of 2007.⁷

- Ford's sales in Russia doubled last year to almost 120,000 vehicles,⁸ and sales grew another 120% on the year in the first half of 2007.⁹ The Ford Focus is the top selling foreign car model in the Russian market.¹⁰ Ford's plant near St. Petersburg is the first auto production facility in Russia wholly owned by a foreign company.¹¹
- GM Chevrolets claimed the #1 spot among foreign makes sold in Russia in the first half of this year,¹² and Russia is GM's largest market in Europe for the Chevrolet brand.¹³ Furthermore, GM will invest about US\$300 million in a Russian plant in 2007.¹⁴
- DaimlerChrysler exported over 2,200 vehicles from the U.S. to Russia in 2005, and recorded revenues from Russia of US\$52.1 million.¹⁵

Opportunities Abound for U.S. Investment – But Not at the Expense of U.S. Exports

- Experts predict that foreign car companies will boost production of their brands sufficiently to capture close to 50% (by volume) of the Russian car market by 2010.¹⁶
- Of that 50% market share, experts expect that only half of those foreign cars will be made in Russia – the rest will be imported,¹⁷ thus continuing to provide market opportunities to U.S. carmakers and their suppliers.
- For example, Ford's U.S. exports to Russia tripled in value terms over 2003-2005.¹⁸

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

- U.S. exports to Russia of motor vehicle parts and accessories rose more than 60% in 2006.¹⁹
- U.S. garage equipment exports to Russia for 2006 are estimated at US\$60 million.²⁰

¹ "Russian Automotive Update – Industry Newsletter," BISNIS, (March 2006).

² *RIA Novosti*, (January 12, 2007).

³ Russia's cars per inhabitant ratio (estimated at 157 per 1,000 inhabitants) remains well below that of neighboring Poland (250 per 1,000 inhabitants). See: <http://www.ebrd.com/new/pressrel/2005/36apr26.htm>.

⁴ Heli Simola, "Russia getting closer to WTO membership," *BOFIT Online* (March 2007).

⁵ *Russia & CIS Business & Investment Weekly*, (January 22, 2007).

⁶ *RIA Novosti*, (January 12, 2007).

⁷ ITC Dataweb, Total U.S. Exports to Russia (HTS-8703) 2006, and YTD Jan-June 06/07, by FAS Value.

⁸ *The Moscow Times*, (August 31, 2006); *The Moscow Times*, (January 22, 2007);

⁹ AEB Press Release, (July 6, 2007).

¹⁰ *Ibid*;

¹¹ *The New York Times*, (July 17, 2007).

¹² *Business Week Online*, (February 8, 2007).

¹³ *EIU ViewsWire*, (April 12, 2007).

¹⁴ *The Moscow Times*, (April 2, 2007).

¹⁵ DaimlerChrysler.

¹⁶ *Financial Times* (September 27, 2006).

¹⁷ *The Independent* (London), (May 2, 2006).

¹⁸ Ford Motor Company.

¹⁹ ITC Dataweb, Total U.S. Exports to Russia, (HTS-8708998075) 2005-2006 by FAS Value.

²⁰ Alexander Kansky, "Russia: Garage Equipment Market Overview," BISNIS (June 2006).