

Auto makers flock to Russia in search of growth

* VW, GM announce billion-dollar-plus investments * Auto show highlights Russia growth * Car sales seen topping 3 million this year

By Megan Davies MOSCOW, Aug 29 (Reuters) – Luxury cars to pamper your inner oligarch caught the eye as the Moscow motor show opened on Wednesday, but it is the Russian of more modest means who has the attention of the world's carmakers, keen to profit from one of Europe's few growing markets. Bullish forecasts were the order of the day at the Moscow International Automobile Salon, with Volkswagen forecasting 30 percent sales growth in Russia this year and announcing 1 billion euros (\$1.3 billion) in new investments. General Motors, back to health after a spell in bankruptcy, will also spend \$1 billion over the next five years to ramp up output in Russia, while Renault sees Russia challenging Brazil to become its No.2 market. "The situation is very different from Europe and the U.S., because you have a lot of people that have very old cars – or no car – (who) are entering the market for new cars," Renault's regional head Bruno Ancelin told Reuters. "It is a tank of potential customers that is still full and we have years and years in front of us to address this kind of customer." Organisers expect more than 1 million people to visit the annual show at an exhibition centre on Moscow's traffic clogged orbital motorway when it opens to the public on Friday. The event features 24 world premieres of new models, the first showing in Europe of 21 models and 86 Russian roll-outs. Speed freaks will get a chance to ogle a Maserati GranCabrio Sport, with a top speed of 285 km/h and a local sticker price of 210,000 euros (\$264,000) in the Russian market. More than 40 Maseratis – controlled by Fiat – have been sold in Russia so far this year, a representative said. But while Russia remains a tempting market for manufacturers of machines for conspicuous indulgence, automotive depression in western Europe and the steady, oil-fueled growth of the Russian economy have made the continent's second-biggest car market an object of urgent desire for those offering more everyday rides. These range from the sub-\$10,000 compacts which Renault and Nissan are pushing out under the rejuvenated, Soviet-era Lada brand of their Russian unit AvtoVaz to well-appointed, mid-range sedans and passenger vans aimed at the burgeoning middle class. Fiat, under its own mass-market badge, is looking to the modern, well-to-do family to pitch its new seven-seater Freemont, on display in Moscow with the obligatory troupe of glamour models clad in black dresses and silver suits. "It's a dynamic market and one of the few showing growth," said John Stech, who is head of Fiat's Chrysler unit in Russia and manages sales and distribution of Fiat, Jeep and Chrysler. "There's great potential as incomes develop." A profusion of vehicles "fully loaded" with optional extras delivering comfort and convenience, like satellite navigation, seems to overshadow examples of the musclebound bling that was once the trademark of Russia auto displays. Said Chrysler's Stech: "There are many stereotypes of the Russian market: "At one point it was a macho vehicle market – less so now. "We have customers who appreciate value but are not looking at showing off – they are more modest."

BOUNCING BACK Car sales in Russia grew by 40 percent last year in volume terms to over 2.6 million vehicles, recovering most of the

ground lost after they halved in the slump of 2009. Insiders expect that figure to reach or beat 3 million this year. In money terms, sales grew by 70 percent last year to nearly \$60 billion, estimates consultancy PwC, buoyed by a state-backed scrappage scheme – now phased out – that encouraged drivers to dump their clapped-out Ladas and buy new models. Sales of foreign brands made in Russia topped one million for the first time in 2011, reflecting President Vladimir Putin's drive to diversify the industrial base of the world's ninth-largest economy away from oil and gas. Growth has slowed this year to 14 percent, but the industry will continue to enjoy support from government incentives to localise production put in before Russia joined the World Trade Organization this month. Stiff import taxes had pushed several big foreign manufacturers to set up production inside Russia. Although Putin is typically chauffeured around in a bulletproof German Mercedes, his industrial policy has sought to promote the development of a domestic auto industry in Russia, a country of 140 million people. Foreign car makers, while officially welcome, have faced the difficult choice between partnering with struggling local manufacturers like state-controlled AvtoVAZ, and building their own factories from scratch.

GREENFIELD VS BROWNFIELD Volkswagen, Europe's largest car maker, has opted for the 'greenfield' route, building out its production base in the Kaluga region to the south of Moscow. It has announced plans to double its investment in Russia to 2 billion euros by 2018, expanding its Kaluga operations to meet growing demand and hit a mid-term sales target of half a million vehicles in its most important European growth market. "There's high demand for luxury cars, especially in regions like Moscow and St Petersburg (but) if you travel over the countryside it's a bit different," said Michael Macht, VW's management board member for production and logistics. GM has shifted towards its own production after first partnering with AvtoVAZ to build the budget Chevrolet Niva sport utility vehicle, designed to cope with the rutted and ice-ravaged roads that constitute most of Russia's national network. Now, GM wants to more than double production to 230,000 vehicles per year at its St Petersburg plant – of Chevrolet Cruze sedans, Opel Astra hatchbacks and adding an Astra sedan – while raising Niva output to 120,000 per year from 70,000. "We will grow organically with the market and intend to grow our market share as well so that the production capacity will be fully utilized," said Tim Lee, GM's vice president of global manufacturing. Lee forecast that total Russian car sales would rise to 4 million by 2016-17, by which time GM hopes to have expanded its 10-percent market share. "With that kind of volume it clearly makes economic sense for us to produce in the country," he said.

Renault, which has a global alliance with Japan's Nissan, is working on a strategic partnership with AvtoVAZ, which is best known for its boxy Lada sedans and only survived the 2009 slump with the help of a state bailout. The French firm and Nissan signed a deal in May to take effective control of AvtoVAZ. Regional manager Ancelin said he expected the deal to be completed by the end of this year. Reviving the Lada brand – still Russia's market leader with nearly 600,000 sales last year – is a top priority. "Many people thought we bought Lada to kill it, but it is exactly the opposite," said Ancelin. "It has value – it is a Russian brand appreciated by customers." The latest, curvy Lada Kalina

supermini was shown off by young women in sporty minidresses. But the big selling point will be prices starting around 300,000 roubles – under \$10,000. (\$1 = 0.7958 euros) (\$1 = 32.0150 Russian roubles) (Additional reporting by Gleb Stolyarov; Writing by Douglas Busvine; Editing by Alastair Macdonald)