DEPARTMENT OF COMMERCE

International Trade Administration

U.S. Automotive Parts and Components Business Development Mission to Russia

AGENCY: International Trade Administration, Department of Commerce

ACTION: Notice

MISSION DESCRIPTION

The U.S. Department of Commerce, International Trade Administration, U.S. and Foreign Commercial Service (CS), is organizing an Automotive Parts and Components Business Development Mission to Russia on April 23 – 28, 2012. Led by a senior Department of Commerce official, this mission is designed to provide an opportunity to explore Russia’s rapidly expanding car and truck assembly market to a diverse cross section of companies selling goods and services into the automotive sector, including but not limited to: components for vehicle manufacture, replacement parts, aftermarket products, repair equipment, capital equipment used for vehicle manufacture, testing equipment, and software and engineering services.

Mission participants will benefit from expert briefings on the Russian market as well as on current developments in Russia’s emerging auto sector. The mission program will include opportunities to meet key Russian Government officials and decision-makers, one-on-one meetings with potential business partners and site visits to automotive assembly plants and component manufacturers. The U.S. and Foreign Commercial Service is targeting a minimum of 15 and a maximum of 20 U.S. companies.
COMMERCIAL SETTING

During Soviet times, average citizens spent years on waiting lists for the 4 or 5 models of available cars, most based on 1960s technology. Quality control was minimal.

In 2010, automobile ownership in Russia – a country of 140 million consumers – grew to more than 244 vehicles per 1,000 inhabitants, 70% higher than the 2001 rate of 140 vehicles per 1,000 inhabitants. This compares to around 850 cars for every 1,000 Americans. Sales of cars and trucks in Russia are currently growing at an annual rate of 30 percent. Approximately 34 million cars are on Russian roads today, of which 14 million are foreign brands.

While sales of Russian automobiles declined in 2008, due to the world-wide financial crisis and recession, car sales have picked up again as the Russian economy recovers. In 2010, Russian customers purchased 1.9 million cars. This figure includes 646,000 new Russian cars and 1.25 million foreign cars, both imported and produced in Russia. Importers forecast continued rapid growth of approximately 20 percent in 2011. If these trends continue, most experts project Russia will be the largest automotive market in Europe in the next few years.

Prior to the global financial crisis that started in 2008, Russia’s economy was growing at a healthy pace. Annual GDP growth averaged 7.5 percent from 2001 – 2007. In 2008 and 2009, Russia experienced negative GDP growth. However, Russia’s economy began to grow again in late 2010, experiencing GDP growth of 3.8% in the last two quarters of 2010. Economists now forecast Russia’s economy, supported by higher prices for oil, gas and raw materials, to continue growing at around 4% annually in the near term.
Russia’s giant auto plants remained largely unaffected by the economic turmoil that followed the collapse of the Soviet Union. During the inflationary 1990s, auto parts became a valuable barter commodity. As the Russian market opened to imports, the few wealthy Russians able to afford imported vehicles opted for new foreign cars. At the same time, imported used cars began to compete with new Russian cars in the rapidly expanding mass market. The financial crisis of 1998 and the significant devaluation of the Russian ruble made imports more expensive and thus provided a stimulus to Russian manufacturers.

Russia's auto industry has largely been centered in the city of Togliatti in the Samara region and in Nizhny Novgorod. The giant AvtoVaz factory, one of Russia’s largest industrial enterprises, is located in the city of Togliatti. The plant reported output of 517,000 cars in 2010 and accounted for 30 percent of Russia’s automotive output. AvtoVaz produces cars in the $5,000 to $15,000 range for the Russian market and exports about 8% of its output to the former Soviet republics.

The GAZ plant in Nizhny Novgorod has ceased production of passenger vehicles. The last Volga Sibir – a modified version of the Chrysler Sebring sedan – rolled off the assembly line October 31, 2010. The factory continues to produce the popular Gazelle line of light trucks and minivans, and the company also produces general purpose heavy trucks that are used in a variety of industries.

UAZ in Ulyanovsk produces light utility and military vehicles. The UAZ-469 all terrain vehicle was the standard off-road vehicle for the Soviet armed forces and was used by armies around the world due to its reputation for reliability and ease of maintenance. Today, the company’s UAZ Hunter is a successor vehicle to the 469 made for the consumer market, and it has also
introduced the UAZ Patriot – a mid-size SUV with an economical price. UAZ produced 49,000 vehicles in 2010.

Russia’s largest automotive corporation KAMAZ is ranked 13th among the world’s heavy truck producers and is number 8 in the production of diesel engines. Its trucks have won the Dakar Rally a record 10 times. It is the largest manufacturer of heavy trucks in the former Soviet Union. Its massive factory in Naberezhny Chelny, Tatarstan has production capacity for over 100,000 vehicles. The company’s diesel engine plants include wholly-owned subsidiary Kamaz-Diesel and Cummins- Kama, a joint venture with the U.S. company Cummins.

Foreign automakers have taken notice of the Russian automotive market’s potential for significant growth and are building assembly plants to meet the increasing Russian demand for high quality automobiles. General Motors has a $335 million plant in Togliatti, a joint venture with Russian auto giant AvtoVaz that produces an inexpensive SUV, under the Chevrolet – Niva brand, which is based on an AvtoVaz-designed platform. The GM/AvtoVaz joint venture manufactures 60,000 vehicles for the Russian market and for export through AvtoVaz’s dealerships throughout the former Soviet Union and GM’s distribution network. GM’s newest plant was built in St. Petersburg in 2008. It has a production capacity of 50,000 cars, and currently produces four models: two SUVs – Chevrolet Captiva and Opel Antara – and two sedans – Chevrolet Cruze and Opel Astra.

Both GM and AvtoVaz have an interest in working with the more than 200 automotive component manufacturer suppliers in the Samara region to improve the quality of their products and upgrade their technology.
Ford opened its first assembly plant in Russia in 2002 near St. Petersburg. The plant has a capacity of 125,000 vehicles and currently produces two models – Ford Focus and Ford Mondeo. In 2010, the Ford Focus was Russia’s most popular foreign car, and its 5th top seller overall. Assembled in Russia from foreign-made parts and with a sticker price of $16,000 - $25,000, the Russian-made Ford Focus is significantly less expensive than the price of similar imports. Consequently, Ford is working with local components manufacturers to develop their capabilities as suppliers, and is encouraging Western manufacturers to consider establishing facilities in Russia. In February 2011, Ford announced its intention to form a joint venture with Sollers OJSC to produce cars in Russia under the Ford nameplate. This proposed joint venture will produce cars under the Ford brand at the Ford plant outside St. Petersburg and at Sollers’s plant in Tartarstan. It will also produce engines; operate a stamping facility that will provide a higher level of local parts content for Ford vehicles built in Russia; and establish research and development activities.

In addition to Ford and GM, major international OEMs have made significant investments in St. Petersburg and surrounding Leningrad Oblast, turning it into a new automotive assembly “cluster.” Nissan, Toyota and Hyundai opened new plants in St. Petersburg or in Leningrad oblast between 2007 and 2009. Toyota’s facility, located near the GM plant in Shushary, was built in 2009, and has a capacity of 50,000 vehicles. It currently produces the Toyota Camry. Nissan opened its 50,000 vehicle plant to produce the Nissan X-Trail and the Nissan Teanna in St. Petersburg’s Kamenka district in 2009. Hyundai is the latest arrival. It opened its 100,000 car plant also in the Kamenka district in 2010 to produce the Solaris, a sub-compact car designed specifically for the Russian market. Significantly, Hyundai has also brought with it a number of
Korean automotive suppliers that will help it to meet Russian government demands for increased localization of foreign automotive assembly in Russia.

Investments by European manufacturers have also created another automotive “cluster” in Kaluga. Volkswagen Group has invested more than 500 million Euro in its 150,000 capacity plant where it produces the Volkswagen Passat and the Skoda Octavia. Volvo’s truck assembly plant, which opened in 2009, has an annual capacity of 10,000 Volvo and 5,000 Renault trucks. PSA Peugeot Citroen opened its plant in March 2010 to build Peugeot 308s for the Russian market, as well as Citroen and Mitsubishi brand cars.

There are also a number of smaller international automotive ventures in Russia. In the Russian “exclave” of Kaliningrad, the Autotor joint venture with KIA and BMW assembled 170,211 cars in 2010 and plans to assemble 240,000 in 2011. In Taganrog, Tagas is assembling several Hyundai models: the Accent and Sonata sedans, the Porter LCV and Aerotown and County buses. Tagas produced 31,000 vehicles in 2010, and plans to double production to 60,000 in 2011. Scania's plant in St. Petersburg has capacity to produce 1,500 trucks per year.

Western tire makers are also operating in Russia. The French Michelin built a plant outside Moscow in 2004 that makes 2 million tires per year. Finland’s Nokian Tyres is expanding its plant near St. Petersburg to produce 10 million tires per year by the end of 2011. Goodyear has a joint venture with a Russian tire maker in Yaroslavl and has explored building a tire factory there. Michelin’s plant was built with the help of a $20 million investment from the EBRD, which has targeted the Russian automotive sector for strategic investment.

Bosch, with its Russian joint venture partner, supplies 82 percent of the Russian ignition plug market from its 30 million – unit capacity plant in Saratov. Lear manufactures car seats in a
facility within GAZ’s plant in Nizhny Novgorod. Outside of that town, Ingersoll Rand makes power tools and steering columns. Delphi produces wire harnesses at its plant in Samara, while in St. Petersburg Johnson Controls and Tenneco make, respectively, car seats and exhaust systems.

Given the current dynamics in this automotive sector, the U.S. Commercial Service strongly believes that significant opportunities for growth and expansion exist in Russia for U.S. manufacturers of automotive parts and components. Russians are prepared to pay for quality vehicles, while at the same time the Russian automotive manufacturers and the Russian government are seeking technology and business partnerships to meet this demand.

Industry experts have indicated that there are especially good prospects for manufacturers of engines, electric and electronic components, trim, exhaust systems, plastic parts and instrumentation. In addition, there are increasing opportunities for export of air conditioners, ABSs, airbags, power steering and automatic transmissions, that are currently not manufactured in Russia.

MISSION GOALS

The U.S. Automotive Parts and Components Business Development Mission to Russia will provide U.S. original equipment parts manufacturers a timely, efficient and cost effective opportunity to explore current business prospects in Russia.

MISSION SCENARIO

The Mission program will begin in Moscow and include site visits and consultations in St. Petersburg and in Samara and Togliatti. In addition to market briefings by industry experts, mission members will have the opportunity to meet key Russian Government officials
responsible for formulating and implementing the government’s automotive industry policies and plans and for one-on-one meetings with potential business partners that match their market interests.

TIMETABLE

Sunday, April 22    Arrive Moscow
Moscow, Russia      Evening: welcome event

Monday, April 23    Briefings/Presentations/Meetings with key Russian and American
Moscow, Russia      automotive industry executives, consultants and officials followed by an
                   evening VIP Reception.

Tuesday, April 24   Presentations by major automotive companies, followed by one-
Moscow, Russia      on-one meetings. Depart for St. Petersburg.

Wednesday, April 25  Meetings with auto industry representatives and regional government.
St. Petersburg, Russia  officials and plant visits in St. Petersburg and Leningrad Oblast. Evening
                       networking event and/or cultural program.

Thursday, April 26  Depart for Samara/Togliatti. Meetings with auto industry representatives
Samara, Russia      and regional government officials and plant visits in Samara followed by
                   evening networking event.
Friday, April 27       Meetings with auto industry representatives and regional government
Moscow, Russia        officials and plant visits in Togliatti, followed by return to Moscow.

Saturday, April 28    Depart Moscow for U.S.

**PARTICIPATION REQUIREMENTS**

All parties interested in participating in this mission to Russia must complete and timely submit an application package for consideration by the Department of Commerce. All applicants will be evaluated on their ability to meet certain conditions and best satisfy the selection criteria as outlined below. A minimum of 15 companies and a maximum of 20 companies will be selected to participate in the mission from the applicant pool.

**Fees and Expenses:**

After a company has been selected to participate in the mission, a participation fee paid to the U.S. Department of Commerce is required. The participation fee for one company representative will be $4,952 for small or medium-sized enterprises (SME)\(^1\) and $5,701 for large companies, which will cover one representative.\(^2\) The fee for each additional firm representative (large firm or SME) is $1,220. The participation fee covers all in-country travel – airport transfers and bus transportation to/from group meetings and site visits, train fare from Moscow to St. Petersburg, airfare from St. Petersburg to Samara and from Samara back to Moscow, as well as one-on-one meetings with potential Russian business partners. The Commercial Service will assist in

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\(^1\) An SME is defined as a firm with 500 or fewer employees or that otherwise qualifies as a small business under SBA regulations.

\(^2\) Parent companies, affiliates, and subsidiaries will be considered when determining business size. The dual pricing reflects the Commercial Service’s user fee schedule that became effective May 1, 2008.
booking hotels at favorable rates, but lodging costs, meals and incidental expenses will be the responsibility of each mission participant.

**Conditions for Participation:**

An applicant must submit a completed and signed mission Application and a completed Market Interest Questionnaire, which must include adequate information on the company’s products and/or services, primary market objectives, and goals for participation. If the Department of Commerce receives an incomplete application, the Department may reject the application, request additional information, or take the lack of information into account when evaluating the applications.

Each applicant must also certify that the products and services to be promoted through the mission are either produced in the United States or marketed under the name of a U.S. firm and have at least 51 percent U.S. content of the value of the finished product or service.

**Selection Criteria for Participation:** Selection will be based on the following criteria:

- Suitability of the company’s products or services to the market;

- Applicant’s potential for business in Russia and in the region, including likelihood of exports resulting from the mission; or investments that will lead to exports.

- Consistency of the applicant’s goals and objectives with the stated scope of the mission.
Referrals from political organizations and any documents containing references to partisan political activities (including political contributions) will be removed from an applicant's submission and will not be considered during the selection process.

**TIMEFRAME FOR RECRUITMENT AND APPLICATIONS**

Mission recruitment will be conducted in an open and public manner, including publication in the Federal Register, posting on the Commerce Department trade mission calendar (http://www.trade.gov/trade-missions) and other internet web sites, press releases to general and trade media, email, direct mail, broadcast fax, notices by industry trade associations and other multiplier groups, and publicity at industry meetings, symposia, conferences, and trade shows. CS St. Petersburg will conduct a webinar on automotive opportunities in the Russian market in November 2011; the mission will be promoted during the webinar as well.

Recruitment for the mission will begin immediately and will close on January 6, 2012. The U.S. Department of Commerce will review all applications immediately after the deadline. We will inform applicants of selection decisions as soon as possible. Applications received after the deadline will be considered only if space and scheduling constraints permit.

CS is amending this notice to allow for vetting and selection decisions on a rolling basis beginning November 15, 2011, until the maximum of 20 participants is selected. Although applications will be accepted through January 6, 2012 (and after that date if space remains and scheduling constraints permit), interested U.S. firms and trade organizations which have not already submitted an application are encouraged to do so as soon as possible. We will inform applicants of selection decisions as soon as possible after they are internally reviewed. Applications received after January 6, 2012 will be considered only if space and scheduling
contracts permit.

CS is amending this notice to extend the date applications will be accepted to January 20, 2012.

**CONTACTS**

Eduard Roytberg
Senior International Trade Specialist, CS Ontario, CA
Tel: 1 (909) 466-4138
FAX: 1 (909) 466-4140
Eduard.Roytberg@trade.gov

Alexander Kansky
Commercial Specialist, CS St. Petersburg
Tel: 7 (812) 331-2881
FAX: 7 (812) 331-2861
Alexander.Kansky@trade.gov

Vladislav Borodulin
Commercial Specialist
Tel: 7 (495) 728-5235
Fax: 7 (495) 728-5585
Vladislav.Borodulin@trade.gov
Kenneth C. Duckworth
Principal Commercial Officer, CS St. Petersburg
Tel: 7 (812) 326-2560
Tel: 7 (812) 326-2561
Kenneth.Duckworth@trade.gov

Elnora Moye
Trade Program Assistant

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