

Carmaker Renault Confident in Russian Market Despite Sanctions

By [The Moscow Times](#)

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A car salesman in Moscow discussing the virtues of the Renault Duster SUV, which is partly produced in Russia.

Renault is looking closely at Western sanctions on Russia even though its car-making alliance with Nissan appears better positioned than others to ride out the crisis over Ukraine.

The European Union and the U.S. have already imposed economic sanctions on Russia, including some against the deputy chairman of AvtoVAZ, a carmaker in which Renault-Nissan has a controlling majority.

The political turbulence has dented economic confidence and car sales in Russia have fallen this year, but Renault says it is confident in its long-term prospects.

Nevertheless, Western countries have warned of tougher sanctions and Renault and other carmakers are looking to see what impact these could have.

"We are still studying the sanctions regime and exactly what it means for Renault," said the company lawyer, who asked not to be named.

The U.S. last month imposed sanctions against individuals it deemed close to President Vladimir Putin including Sergei Chemezov, who heads sprawling conglomerate Rostec which has a stake in AvtoVAZ. Chemezov is deputy chairman of AvtoVAZ.

The domestic car market could plunge as much as 15 or 20 percent this year in the event of a full-blown crisis over Ukraine, according to LMC Automotive, a far bigger contraction than the 2 to 4 percent previously forecast.

Other foreign automakers and their Russian partners have also been evaluating the sanctions threat to their business.

"There is a lot of scenario planning right now, and the risk profile has taken a step change," said one auto analyst at a Moscow firm, who asked not to be named.

While the sanctions so far are largely symbolic, he said, "they do raise the pressure — and with Rostec involved it has some serious implications for Renault-Nissan."

Executive Targeted

Chemezov holds no stake in Rostec, which is 100 percent government-owned. Lawyers have said that in cases where an individual is sanctioned but not the company they run, international businesses can still deal with the company, although it could impact relations.

Renault has played down the impact of U.S. sanctions.

"We are cautious on the short term in Russia in terms of the economy," Renault-Nissan Chief Executive Carlos Ghosn said while presenting Nissan earnings this week, "but [there is] absolutely no concern for mid- and long-term growth prospects."

The sanctions against high-profile Russian figures could affect other global automakers too.

Lawyers say they can make U.S. companies and nationals reluctant to have dealings such as business meetings with targeted individuals.

GM, whose separate joint venture with AvtoVAZ makes the Chevrolet Niva variant of Lada's identically named off-roader, said it had no contact with its Russian partner's deputy chairman.

"It is our understanding that Mr. Chemezov is on the board of directors of AvtoVAZ," GM spokeswoman Heather Rosenker said.

"GM has no direct dealings with Mr. Chemezov," she added. "It is GM's policy to comply with all U.S. and EU sanctions."

Brand Exposed

Among foreign auto brands, Renault is the most localized, with about 70 percent of parts

sourced from Russian suppliers last year, according to Moscow auto research group Autostat.

Volkswagen and Hyundai are closer to 50 percent, with Ford, General Motors and Toyota trailing at 10 to 30 percent — excluding GM's heavily localized joint venture with AvtoVAZ.

Buying parts locally brings protection against a weaker ruble, while avoiding duties and other barriers to imports.

"The carmakers who are the most localized in Russia are the ones that are growing the most," said Ghosn. "Carmakers who are importing parts to Russia are suffering."

Renault-Nissan's deeper AvtoVAZ alliance also offers a degree of hedging against any patriotic swing away from foreign brands, of which there is no sign yet. A weaker yen is also reducing some input costs for Nissan and other Japanese manufacturers, bolstering them against the ruble's slide.

But the largest investors may also have more to lose if the situation worsens.

"With Lada, Renault is the biggest producer in Russia, so of course they are the most exposed," said Erich Hauser, a London-based analyst with ISI Group.

"If it is a mild crisis, everyone else gets scared and they are still there, it is fine," he said. "The trouble is that you cannot easily assess how far this might go."

Russia's darkening economic outlook has already long postponed the country's expected overtaking of Germany as the region's biggest car market, which some had predicted this year.

Light vehicle registrations fell 4 percent in the first four months after the market decline gathered pace in April, according to data from the Association of European Business.

Combined Renault-Nissan-AvtoVAZ sales have fallen 5 percent so far this year, eroding the alliance's market share to 30.5 percent, far behind Ghosn's long-held 40 percent goal.

VW declined in step, while GM tumbled 8 percent. Toyota rose 12 percent and Hyundai 1 percent.

Renault bought an initial 25 percent of AvtoVAZ for \$1 billion in 2008 and is increasing this to a 67.1 percent stake in the holding company, jointly held with Nissan. The holding, in which Rostec holds the remaining shares, in turn controls AvtoVAZ via a 74.5 percent stake.

The timing of any further flare-up between Russia and the West could also prove awkward, with Ghosn's alliance set to complete the purchase next month, in return for an additional 577 million euro (\$794 million) investment.

"They paid quite a lot, then they paid more for the control," said Moscow-based VTB analyst Vladimir Bepalov. "So whether they regret it or not, there is no way back."

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