

A sudden awakening



International transport today represents 40% of demand in Russia.



*Sergei A. Kogogin, Director General of Kamaz Inc.:
"Strong sales in Russia have given us the means
to invest in new ranges".*

For a long time the Russian market has been the private domain of local manufacturers and their antiquated models. For a few years now though, it has been one of the principal outlets for second hand European models. But in just two years, the Russian market has nevertheless become the largest European market for new vehicles.

Up to 2003, the Russian market was one of the weakest in Europe. With a population of 141 million, the country bought 70,000 trucks of over 6 tonnes in that year, which is less than 0.5 per 1000 head of population. In Western Europe the average is more like one vehicle per 1000.

From second hand to new

Five years later, and Russia is experiencing enormous economic growth (with a forecast of 8% per year for the next five years), and sales should reach 174,000 in 2008, a ratio of 1.23 per 1000. Some 63% of these vehicles are of over

But these imports are a mere shadow of their former selves. The Russian market, which had first evolved from the ancient models of the Soviet era to used European trucks, now often has the money to buy new European models. And the Russian government has recently imposed new import taxes which heavily affect old vehicles. The result is that internal demand is stronger than local production capacity.

This policy was necessary to bring emission levels authorised in Russia closer to those practised in Europe. In 2005, when the European Union was preparing the Euro-4 norm, Russia was still at Euro-1, which means it was eleven years behind Europe. For Euro-5, this lag will be no more than 4 years. The growth in the Russian market varies greatly according to type of vehicle. In 2007, the market for tipper and multi-axle vehicle quite simply doubled, whereas the tractor unit market only increased by 10%.

So who is benefiting from this expansion? At the moment, every-

body. European manufacturers had sold 22,000 new HGV's in 2007, but they will pass the 35,000 mark in 2008. Some brands no longer hesitate to proclaim that Russia will be their principal European market over the next five years. The Chinese manufacturers arrived in Russia in 2006. At the current time, the CNHTC group has managed to carve out a market share of 3,3%.

Kamaz waking up...

There still remain the local manufacturers, who today number 4 and who still control the market, even if their market share has dropped over recent years: Kamaz, GAZ, Sollers and Zil. The last two of these are only present on the HGV market via their partnerships with Isuzu (Sollers) and CNHTC (Zil). GAZ only produces all-terrain vehicles, but Kamaz is no less than the 13th largest HGV manufacturer worldwide. Its production has grown by 24% a year for 5 years, and its sales are now higher than those of brands such as Iveco and Renault across all of Europe.

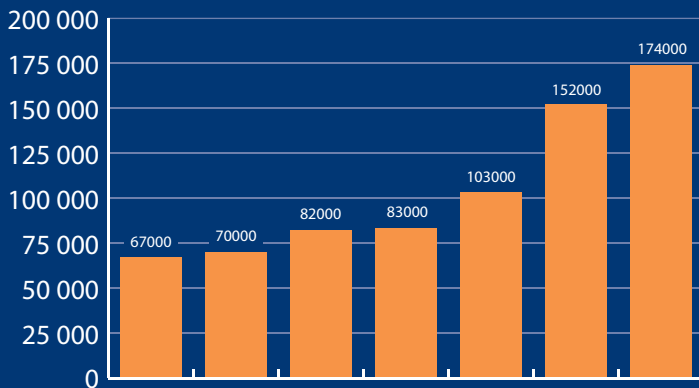
"Prime Minister Putin has set a level of 80% of HGV's sold in Russia which must be locally produced."

16 tonnes (103,000 units), to which can be added 25,000 imported used vehicles.



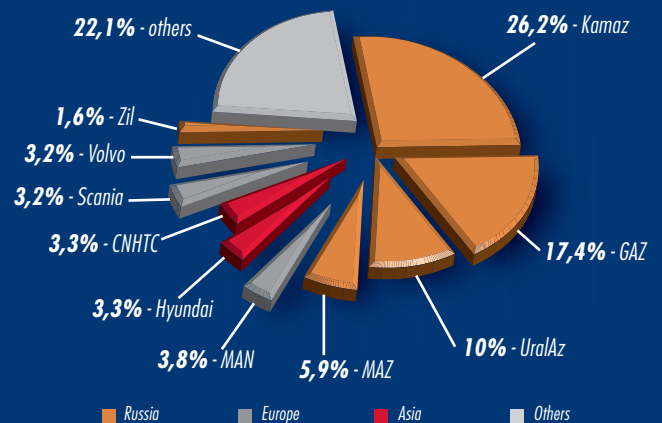
EVOLUTION OF THE RUSSIAN MARKET

Sales of more than 6 tons



Source : VDA, Global Insight

Market share



According to Sergei A. Kogogin, Director General of Kamaz Inc.: “Kamaz is currently maintaining its exports to the markets of the CIS, but it is concentrating above all on the Russian market. The high level of sales has enabled us to find the money to invest in the production of new ranges which are closer to European standards. Russian clients, by contrast with Chinese clients, want to buy a quality product and can pay for it”.

Quality standards are not yet the same, however. The question of anti-pollution norms has already been mentioned, but European manufacturers are now dedicating special models to emerging markets such as Russia: the MAN TGA WorldWide and Scania Griffin are good examples of this, and the products to come out of the future Volvo group factory in Kaluga will probably also be adapted to the local market, which means a bit more rugged and a bit less luxurious.

Faced with this competition, Kamaz can only defend itself in its historic

market of tipper trucks and multi-axle vehicles. In the former USSR, the tractor unit segment was confined to MAZ, which today finds itself in Belorussia. “International transport is a sector from which we cannot be absent, however,” explains Kogogin. “Today, we only have a 2% market share, but we want to reinvest in this segment”. To achieve this, Kamaz is looking to partnerships, such as those it already has with well-known brands such as Knorr-Bremse, Cummins, ZF and Bosch. The critical area is of course the cab, and it is therefore probable that the brand will call upon an exterior partner to develop this. In parallel with this, investments are now underway to modernise the manufacturing equipment, which dates back to 1976, but the greatest challenge will be to achieve all of these developments without losing the company’s competitive advantages on price...

Meanwhile, Daimler Trucks is currently looking at the possibility of taking a 42% share in Kamaz.

UKRAINE AND BELORUSSIA : MORE MODERATE GROWTH

The Ukraine and Belorussia are the two other ex-Soviet markets in Europe. The HGV market here has remained more stable (10,500 vehicles in the Ukraine and 8,000 in Belorussia per year), and has even levelled out since 2006. MAZ and Kamaz are the two principal suppliers on the Ukrainian market, but the third is none other than Indian company Tata.

Networks and services

There remains of course the question of networks. The seven European manufacturers have all developed a presence along some of the major international routes, and certain of them, including MAN, Mercedes, Scania and Volvo, have also set up in the major cities of Asian Russia. As for Kamaz, which has around 135 distributors across the country: “...our service network is ready,” Sergei Kogogin is happy to announce. The group also has its own finance company and its own leasing company.

Sergei Kogogin is therefore convinced: the role of the Russian manufacturers on the global markets is going to grow, following a period

which will have seen them first of all respond to the strong growth of their local market. It remains to be seen whether the Chinese and European manufacturers will allow them the time...

Claude Yvens ■