

NOTES FROM THE EVENT:

## **Adam Smith Institute 2005 Annual Automotive Forum**

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The annual Adam Smith Institute automotive forum, held March 2005, provided sessions that were unique and informative. The meetings not only offered information on the developments throughout the entire spectrum of the automotive sector activities in Russia but also provided the specific mediums of exchange such as question and answer time with the speakers of the sessions and roundtable discussions. Presentations from representatives of the major automotive producers, highlighting the progress of the companies in Russia and containing assessment of the sector development, provided abundant and valuable food for thought on the market perspectives.

Special attention at the conference this year has received the theme of the automotive producers distribution networks. With Russian market moving towards its saturation, strengthening the sales component of the work for manufacturers becomes increasingly important question. Distribution over modern and wide sales network, provision of the aftersales services, development of the consumer lending schemes, undertaking promo campaigns are all factors that have become increasingly important in working on the market. Experience of establishing one of the largest networks of the distribution centers has been presented by Mr. Rotkin from Rolf Holding. Also, Mr. Hasanshin from Gaz spoke on the approaches, used by the second largest Russian automotive producer, in elevating of work in component distribution to higher levels and progress of the company in this area.

Representing the Ministry for Economic Development and Trade, RF Mr. Kushnirenko announced plans to nullify import duties on automobile components (i.e. - auto components) brought to the country. The government initiative spawned discussion among conference participants. David Herman, GM argued "The government should require carmakers to get their components suppliers to set up operations in Russia, or face a decline". Mr. Kadannikov, speaking during the second day of the conference, also addressed this question. On the options of state policy in the area of auto component production, he stated that a more selective approach is

required when imposing import duties on auto components (e.g. - the text of his speech was posted on the company website of [www.vaz.ru](http://www.vaz.ru)).

In our opinion, nullification of import duties on auto components cannot be seen as a measure that coincides with the policy, aimed at development of domestic production. It does create additional profits for foreign car manufactures and component suppliers, assembling cars in Russia, but it does not create incentives for component producers to establish production in the country. And national interest, on our opinion, is to have scale of the production activities on the territory of the country, being increased. And more than that, downside would negatively impact domestic component manufactures: companies with products, that can be supplemented by imports, would find themselves in the position worse , than before in front of foreign competition.

Mr. Rolin from Michelin highlighted the conference with an informative, inspiring and enlightening presentation. He gave a talk on the company's experiences in establishing a tire production plant in Russia. Michelin achievements in the country had already been impressive - network of it's sales and service centers had a wide coverage and the brand of the company was well recognized and popular on the market. The next step, taken by the company, was opening it's own production. As a green field project, construction of the plant has been started in Davidovo, Moscow oblast. The plant's projected capacity is 2.1 million tires and it will reach this benchmark in 2005, according to production estimates. The plant would employ 730 people. Mr. Rolin has shared about number of the several practical situations, the company had in establishing production - experience of communicating with authorities, approaches used in human resources and other related policy. Accompanied by the slides and photos of the sites, the presentation has drawn attention of many conference participants. Presentation of Mr. Rolin, on our opinion, was an evidence, that taking initiative and equipping yourself with diligence, producing in Russia can become a positive and rewarding experience.