German carmakers withdraw from Russia

By Jan Peters
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A year ago, Russia was still regarded by German car manufacturers as a market with a great future. Speaking on behalf of all companies at the end of November 2013, Volkswagen CEO Martin Winterkorn said, “For the Volkswagen Group, Russia is the number one strategic growth market in Europe.” He wanted to invest a further €1.2 billion in Russia by the end of 2018.

The opposite is now happening. The value of the Russian currency, the rouble, has plummeted due to the economic sanctions against Russia imposed in the wake of the Ukraine conflict. The cost of imports has increased massively, which has also hit the Russian auto industry. The combination of wage cuts and price increases has sharply reduced the sales of new cars. This was already apparent last year.

According to the Association of European Businesses (AEB), sales in Russia plummeted by nearly 38 percent in February. The German Association of the Automotive Industry (VDA) estimates that less than 1.5 million cars were sold in the entire year in Russia. The year before, it had been just under 2.5 million.

Sales of the Volkswagen Group in Russia fell by 12 percent last year. The carmaker now intends to limit production at its plant in Kaluga, Russia, and reduce staffing there, reported the broadcaster *Norddeutsche Rundfunk*. The contracts of around 150 temporary workers at the VW plant in Kaluga will not be extended when they expire.

GM-Opel recently announced its complete withdrawal from Russia. The General Motors subsidiary will cease production in St. Petersburg in the middle of this year. Some 1,000 employees still working there will receive severance packages. The closure will also affect 300 employees at its headquarters in Moscow. Furthermore, the contract for manufacturing Chevrolet vehicles by Russian car manufacturer GAZ will be ended. Opel expects its withdrawal to bring additional costs of around €550 million.

In September last year, production was already reduced as a result of the sanctions. Of the then almost 2,000 employees in St. Petersburg, only a quarter of the workers received a redundancy payment when they lost their jobs.

GM-Opel planned to sell about 80,000 cars in Russia this year. However, in February the brand sold just 912 cars, a monthly decrease of almost 90 percent.

Opel CEO Karl-Thomas Neumann told the business daily *Handelsblatt*, “We have come to the conclusion that the prospects for the Russian market were not good, not only in the short term, but in the medium and long term.” He cited the massive collapse in sales, the decline of the Russian rouble and the low degree of localization of the brand as the reasons.

Although Opel produces almost all the cars sold in Russia, this is of little use if two-thirds of the parts have to be imported; the decline in the rouble has increased production costs. This means Opel has experienced a loss on each car sold in the last months.

Experts believe that the withdrawal of Opel from Russia could be the start of a veritable exodus by international car manufacturers. They do not think the Russian car market will recover in the near future, given the Ukraine crisis, the decline in the rouble and low order books in the factories. For example, Spanish VW subsidiary SEAT announced last November it would stop selling in Russia at the beginning of this year.

Bernd Hones of the state-owned economic development corporation Germany Trade & Invest said, “The Russian car market is in free fall. The car companies must be prepared; it won’t be any better here for the next two years.”

The head of the Centre of Automotive Management, Stefan Bratzel, estimates that other carmakers, such as

Peugeot and Ford, will soon follow Opel. “I can imagine that Ford will take a very close look at how long to continue”, he said.

In a study on the impact of Russian sanctions, Ferdinand Dudenhöfer, director of the CAR Institute at the University of Duisburg-Essen, writes that the sanctions mean the drop in sales in Russia up to 2017 will lead to a loss of more than €15 billion and a fall in profits of over €600 million. According to Dudenhöfer, this is a conservative estimate. Furthermore, one can assume that each job that goes due to the policy of sanctions against Russia will never return to Germany, he said.

With the sanctions also increasingly hitting the German economy, Eckhard Cordes, chairman of the Committee on Eastern European Economic Relations, has warned of the consequences. “If it is assumed that around 300,000 jobs in Germany depend upon the export trade with Russian partners alone, a lasting 20 percent decline could lead to the loss of 60,000 jobs in the worst case.” This would especially hit the mechanical engineering and auto industries.

According to the latest data from the Federal Statistical Office, exports to Russia collapsed in January, compared to the previous year, by more than 35 percent. In January this year, exports totalled nearly €1.44 billion; the previous month it had been nearly a billion euros more. A larger fall in exports last occurred in October 2009, when the global financial crisis slowed exports, writes the *Frankfurter Allgemeine Zeitung*. Imports also fell in January by one third, to nearly €2.5 billion.

According to Swedish economist Anders Åslund, the entire economy of Russia is “in free fall”. He considers the forecasts of the Russian Ministry of Economic Affairs and the Central Bank, for a contraction of the economy of between three and six percent, to be too optimistic.

Åslund’s forecast assumes that the gross domestic product will contract this year by 10 percent, according to an analysis of the economic situation in Russia by the Ostinstitut Wismar. It is now clear that it is the working class that is paying in Russia and in Europe for the Western sanctions policy.