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agenda item 6)

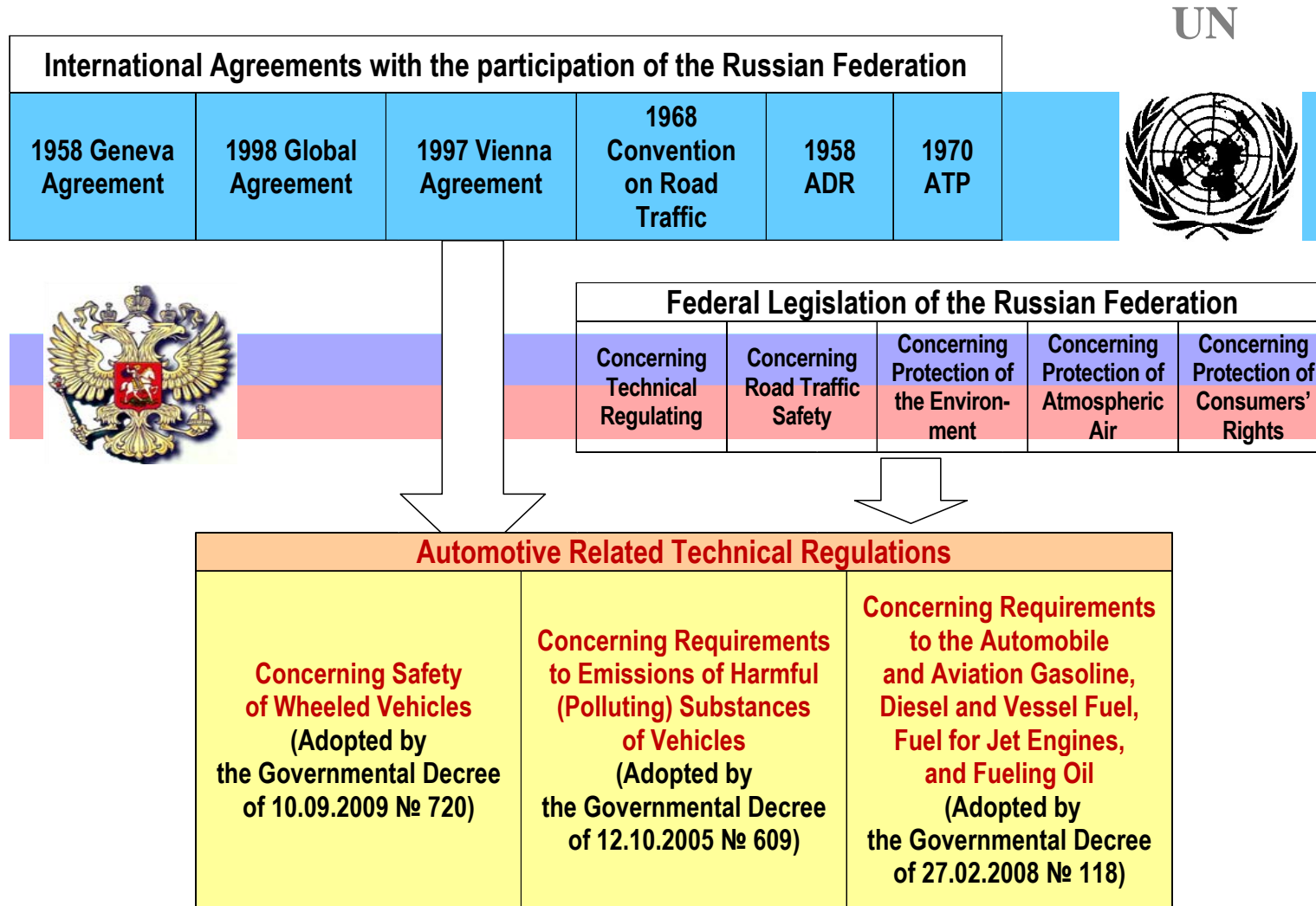
Russian Automotive Industry: Governmental Policies and Priorities

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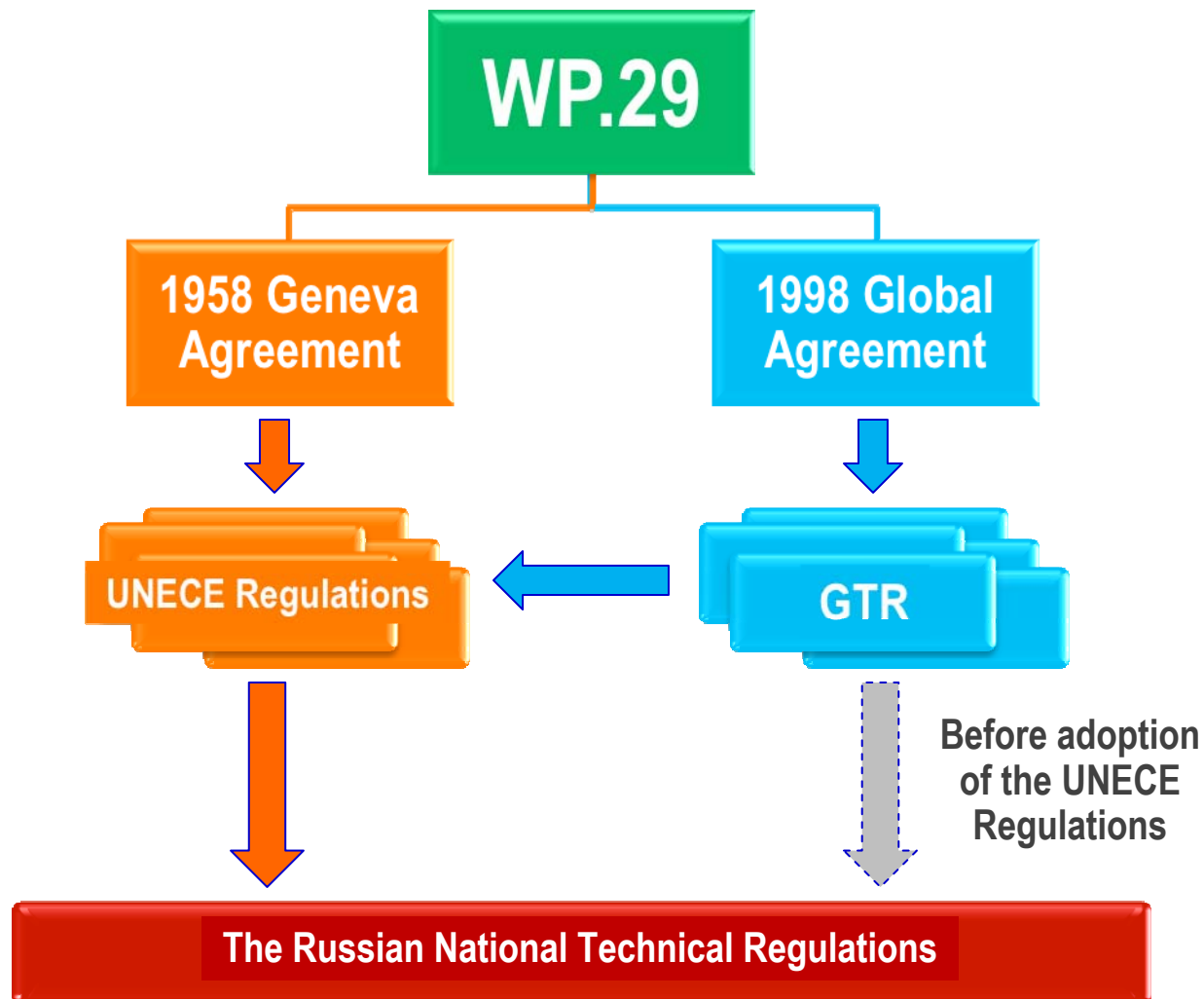
November 2011

- Assurance of vehicle safety at all stages of the life cycle: from design and production to recycling
- Equal requirements to domestic and imported vehicles
- Direct application of the international regulations (UNECE Regulations, GTRs)
- Establishment of the limited number of the national requirements considering specifics of vehicle operation in Russia
- Consideration of the national economy priorities and development

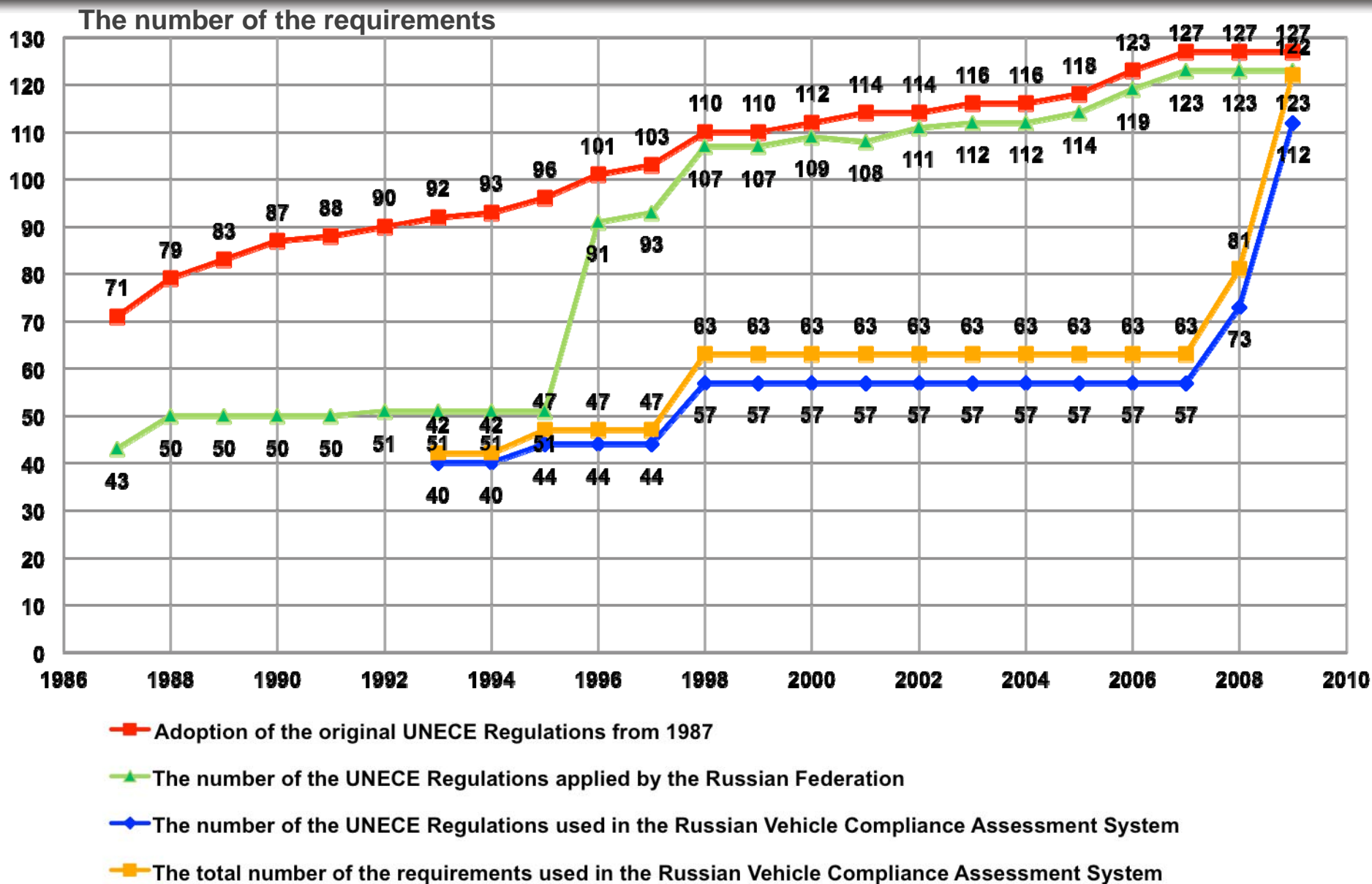
The Hierarchy of Technical Regulation



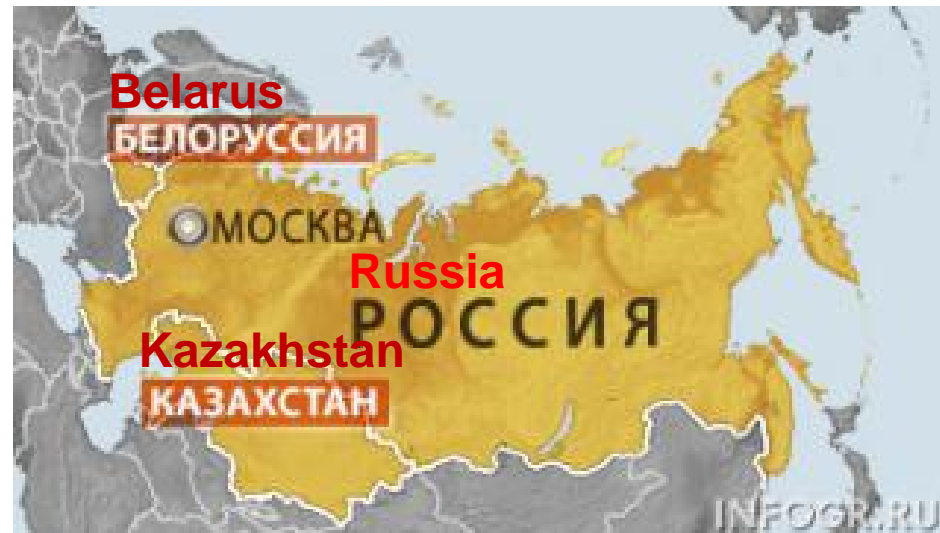
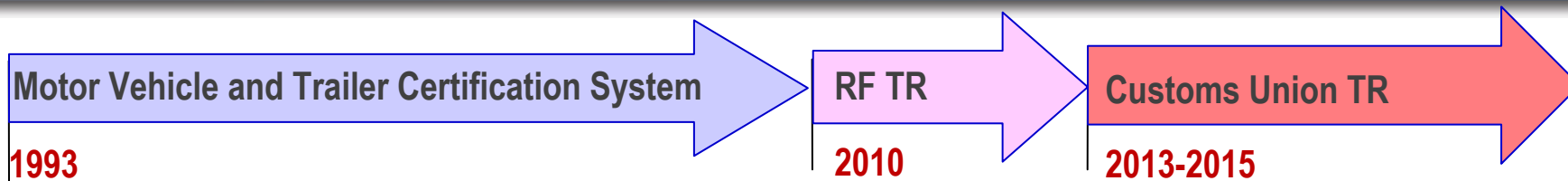
Introduction of the International Requirements into the National Legislation



The Application of the Vehicle Safety Requirements



Continuity of a Technical Regulation Policy in Russia



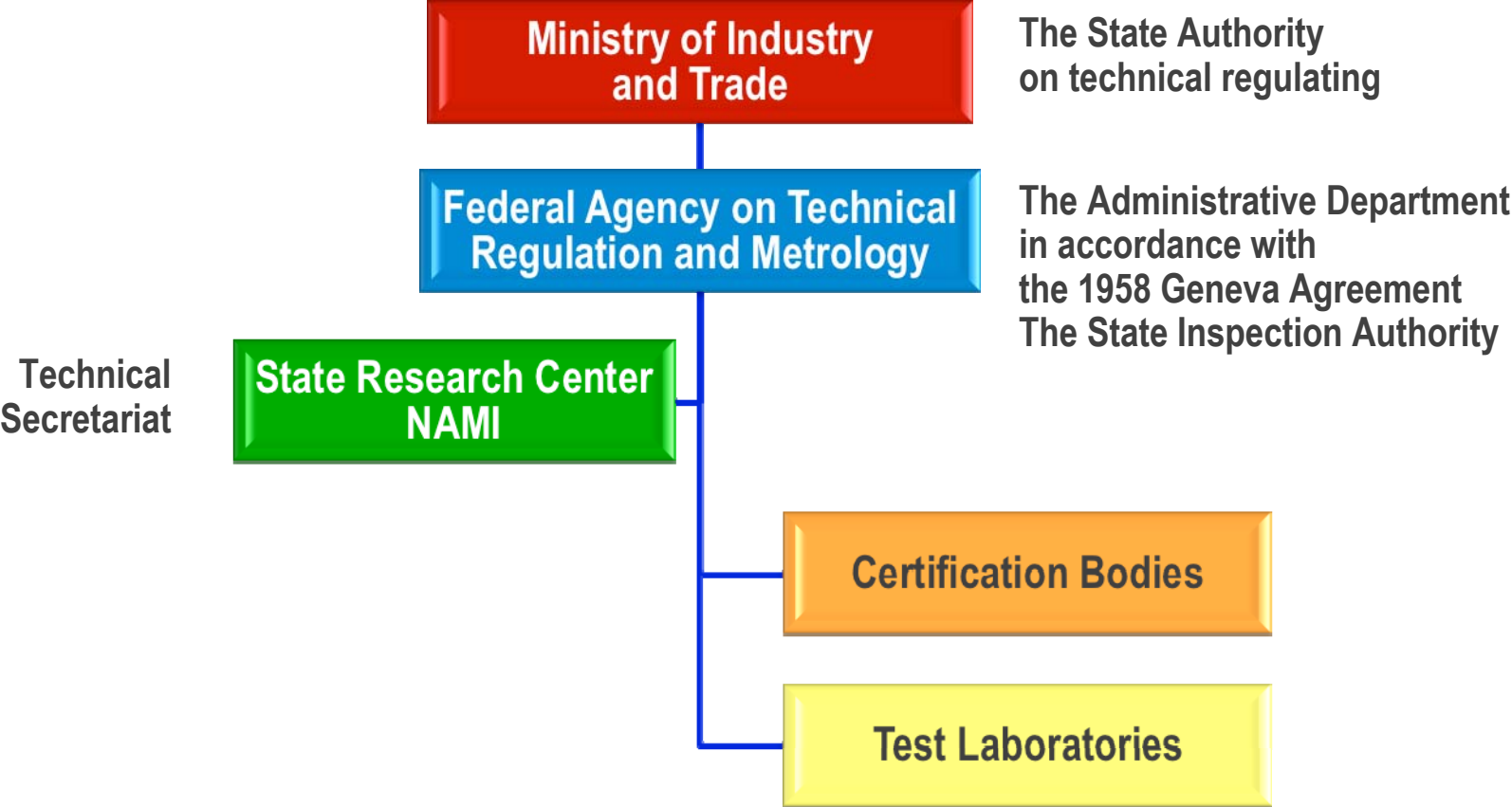
The development of the technical regulations of the Customs Union started in 2009:

Concerning Safety of Motor Vehicle (*including vehicle emissions requirements*) (TR)

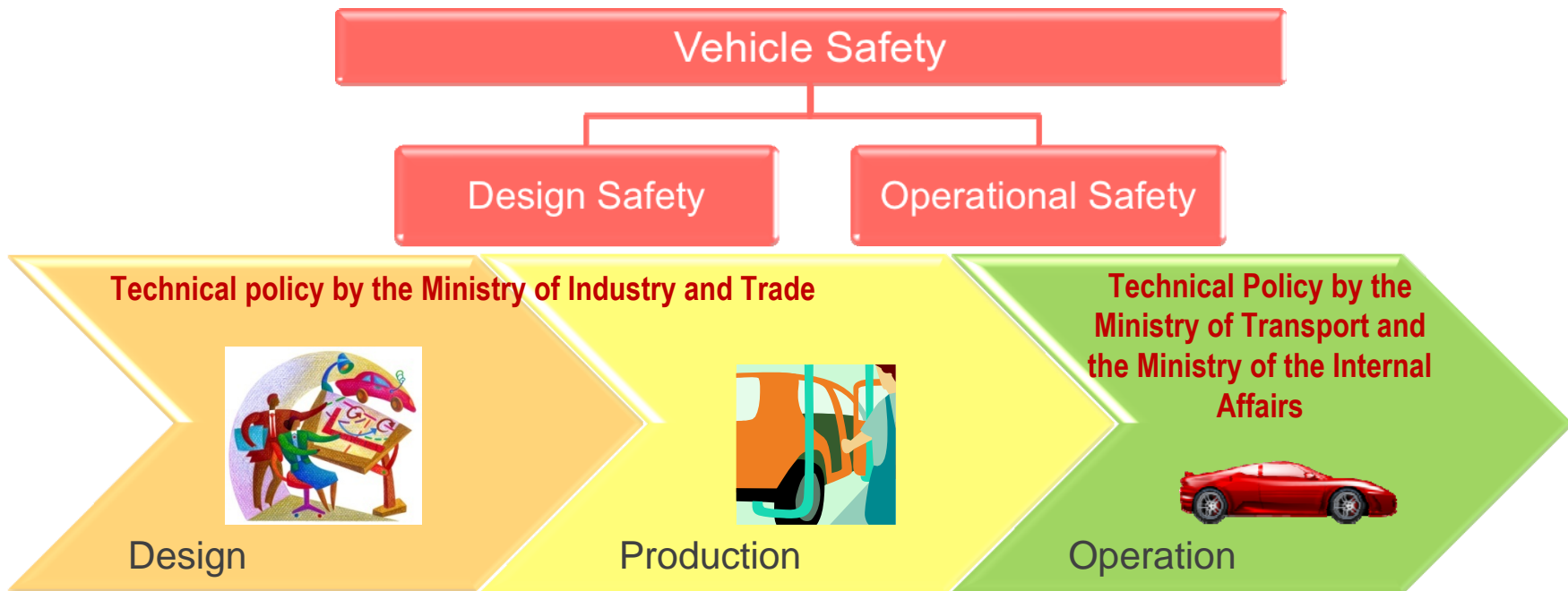
Concerning Requirements to the Automobile and Aviation Gasoline, Diesel and Ship Fuel ...

Concerning Requirements to Safe Recycling of Motor Vehicles

The Organizational Structure of the Vehicle Compliance Assessment System in Russia



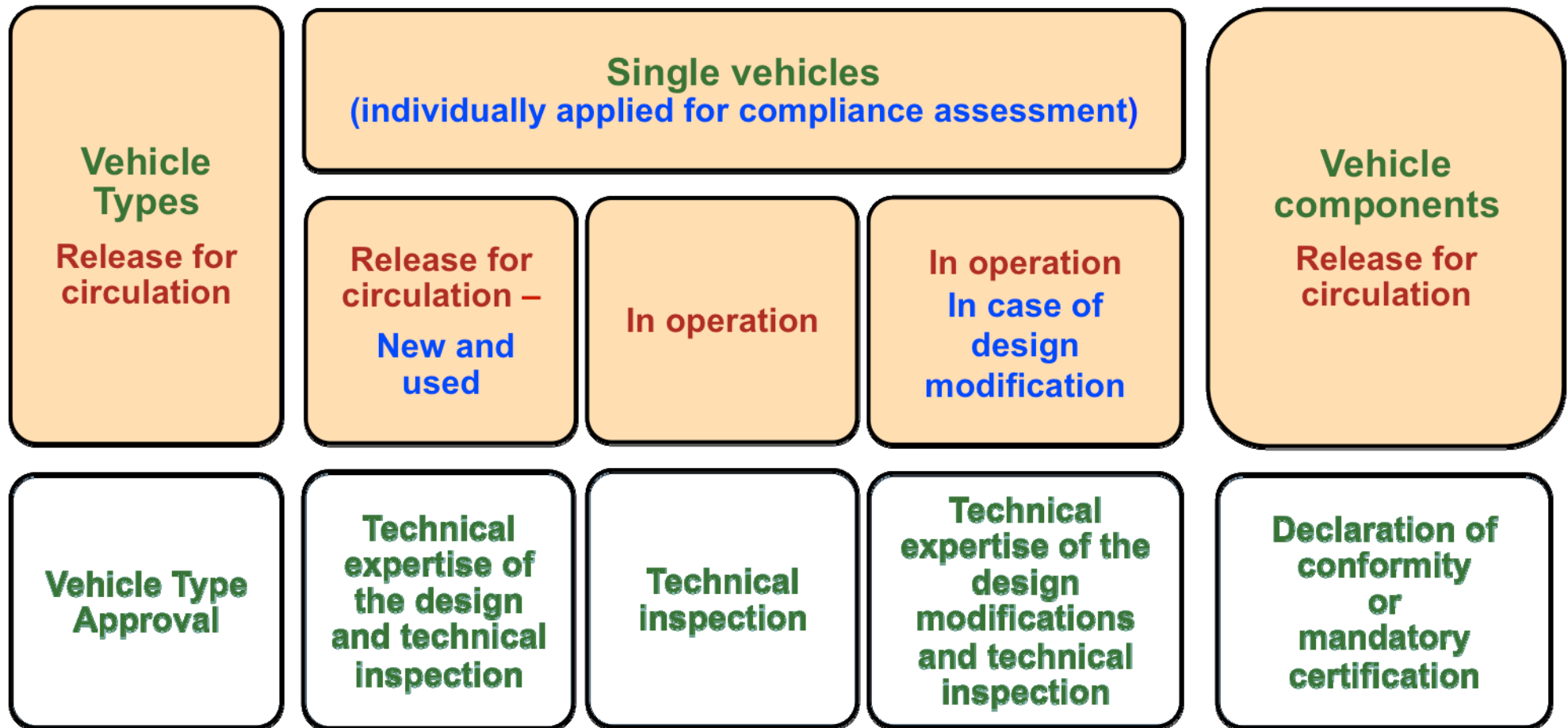
The Principle of Safety Verification at the Different Stages of the Life Cycle



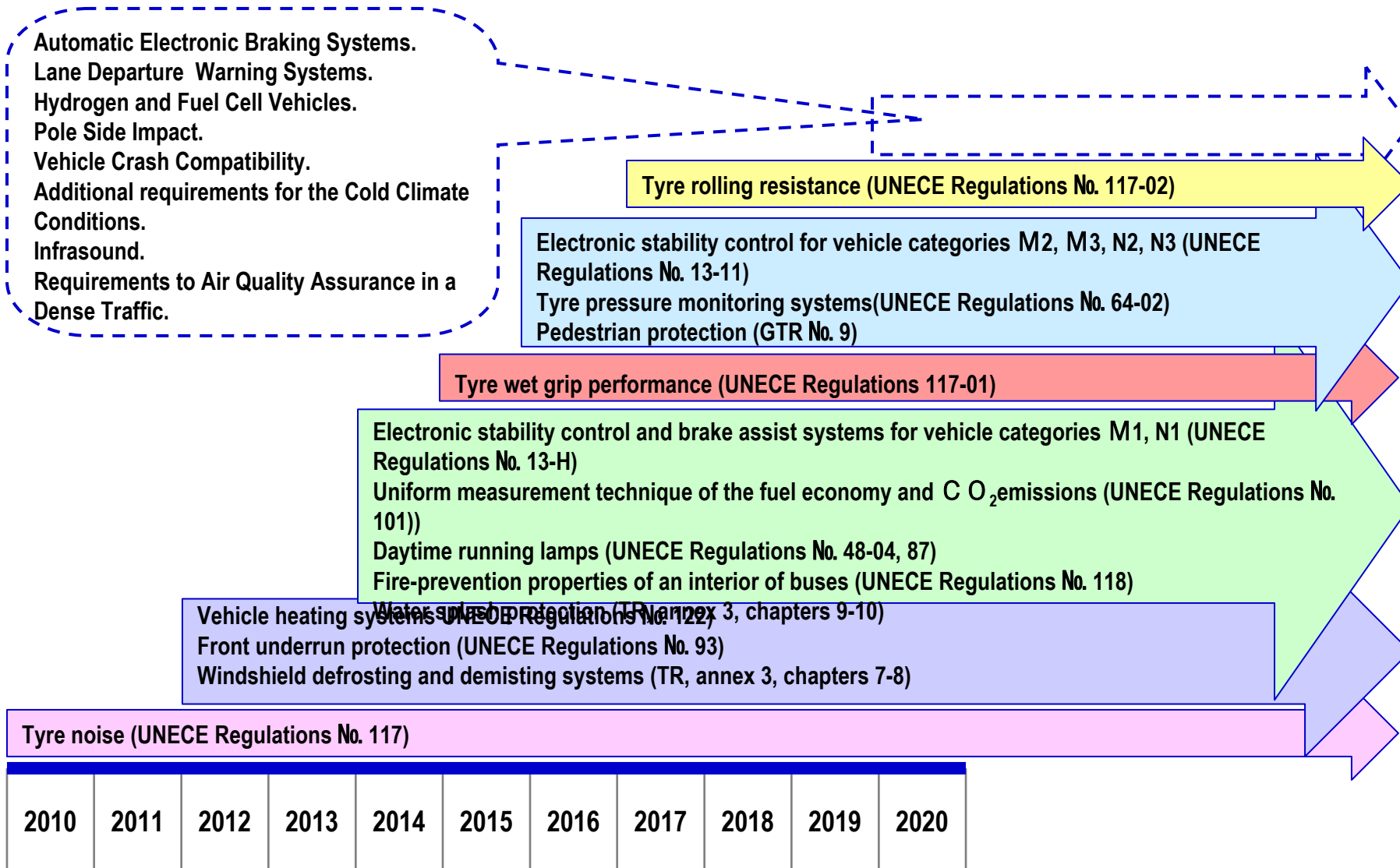
- **Most of vehicle safety** parameters are set at the design stage and...
- ...Implemented during manufacturing process
- **Such safety parameters are verified at the moment of release for free circulation**

- **Safety** parameters of vehicles in operation are also laid down at the design stage and maintained through regular servicing and monitoring of operational conditions
- **Safety parameters are verified regularly through periodic vehicle technical inspections**

The Objects of Regulating and Compliance Assessment Forms



Introduction of the Perspective Requirements in the Russian Federation and the Customs Union



- **Initial Industrial Assembly (IA1) regime was introduced in 2004 and changed the landscape of the Russian Automotive Industry:**
 - new factories were built, new cars introduced to the market
 - new manufacturing process and approaches were widely spread even at the domestic plants
 - new component manufacturers were investing in Russia
- However, IA1 regime with the required 25 000 capacity although universal for various brands and price categories was not serving the strategic goal
- **Strategy of the Russian Automotive Industry development was prepared in 2009-2010 and was approved by the Government in April 2010**
- **Main purpose of the Industrial Assembly Regime modification (IA2) was to ensure the key strategy tasks achievement through deeper foreign car components localization and development of the component industry in Russia**
- **Key OEMs with diversified product portfolios who intends to view Russian plant as part of the global manufacturing footprint can be key beneficiaries of the new regime**

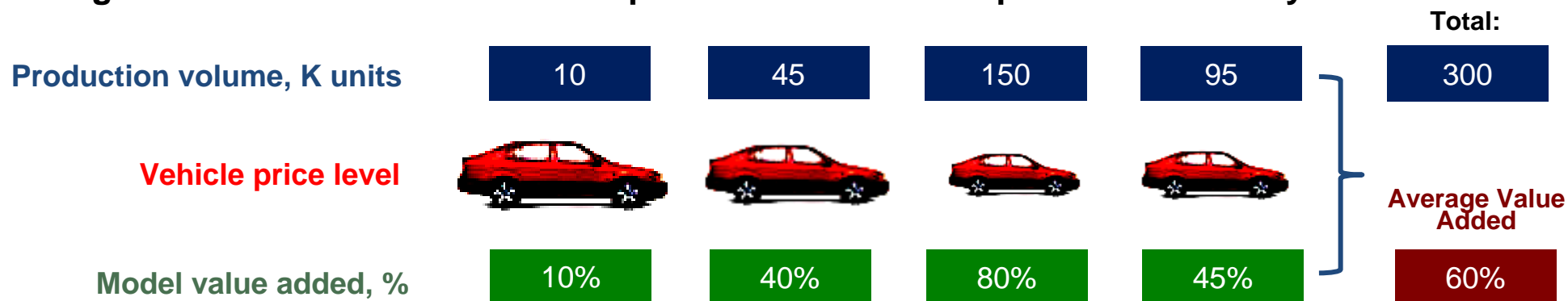
Key Principles of the Modified Industrial Assembly Regime



- **Legal Basis** – signature of the amendments to the existing “industrial assembly” agreements for the term of 8 years (but not later than until 31 December 2020) for the companies that are in full compliance with the terms and conditions of the current agreements
 - **Volume Requirements** – new or modernized capacity of 300/350 thousand units (including available full scale production capacity) shall be built within 36 – 48 months after the entry into force of the amendment
 - **Engines and Transmissions** - production in Russia (no volume threshold) provided that 30% of the vehicles produced in Russia are equipped with engines manufactured locally in 36-48 months after the date of amendment
 - **Local Content Formula** - $L=(1-V/P)*100%$, where
 - **L** – average value added for the model range
 - **V** - total customs value of all imported parts
 - **P** – total value of cars sold (net of VAT, excise tax, dealer bonuses/rebates and internal revenues)
- | | Y1 | Y2 | Y3 | Y4 | Y5 | Y6 |
|---|-----|-----|-----|-----|-----|-----|
| • Localization schedule for new capacity builders | 0% | 0% | 0% | 30% | 40% | 60% |
| • Localization schedule for companies modernizing capacity | 35% | 40% | 45% | 50% | 55% | 60% |
- **Limitation of SKD** – Duty free importation of SKD kit is allowed for first 36 months in amount not exceeding 5% of available full production cycle capacity in any given year. The quota is defined and confirmed annually.
 - **Alliances establishment** - new obligations can be implemented by a group of cross-owned affiliated entities producing vehicles on common platforms with clear joint responsibility of all entities. One reporting entity can be appointed for this purpose
 - **R&D center with certain capabilities shall be established in Russia**

New Industrial Assembly Features

1. Average value added calculation example for the model lineup manufactured by a candidate:



- The target is to reach an average value added of 60% within 6 years after the date of the amended agreement.
- OEMs will be held accountable for localization of powertrain, axles and stampings
- Component localization requirements and schedules are set in a separate annex to the Decree covering all major groups of parts: in general OESs will have a target localization rate of 45% within 6 years calculated the same way as for OEMs

Local content requirement for components suppliers is split into three phases:

First stage: 2011-2014	Second stage: 2015-2017	Third stage: 2018-2020
the level of production localization is not less than 15%	the level of production localization is not less than 30%	the level of production localization is not less than 45%

Three Tiers of OEMs in Russia

Strategic Alliances and Partnerships

Renault-Nissan-АвТoVAZ (2) JV K A M A Z-Mercedes-Fuso (2) JV Sollers-Ford (2)



OEM Projects

Volkswagen Group (2)



PSA PEUGEOT CITROËN



General Motors Group (2)



License Production and Contract Assembly



Free Economic Zone Regime



Duty Paid Production



To be reconsidered as OEM Project



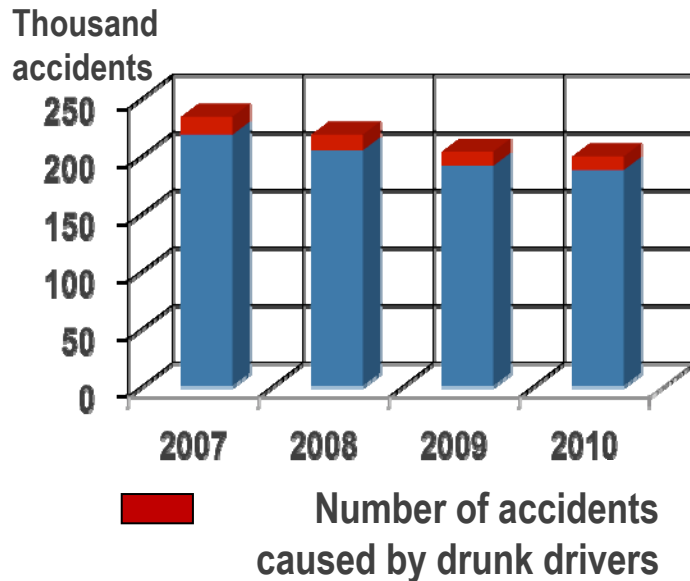
What is it?

- On-board communication terminal for automatic emergency calls/messages, deceleration transducer unit, data recording, communication through networks GSM 900/1800 and UMTS; automatic data transmission and ability of voice communication

Open Issues

- Necessity of adaptation to a vehicle design and compatibility with the original on-board electronic control units and signaling systems
- Infrastructure for responding to emergency calls shall be established and verified
- Alignment and harmonization with the EU system 'e-Call'
- Timing of enforcement of the requirements should be agreed by the stakeholders

The Means of Detection of Ethanol in the Exhaled Air (Alcolocks)



- The Legislator's decision is pending
- Potential installation of “alcolocks” initially in the commercial passenger and dangerous goods transportation vehicles
- Installation of alcolocks in the vehicles of the persons, who incurred liability for drunk driving
- Alignment and harmonization with the EU requirements
- Enforcement of the requirements should be agreed by the stakeholders

Draft Technical Regulation of the Customs Union concerning the requirements to motor vehicles in regards to the provision for their safe recycling is now being discussed by three parties: Russia, Belarus and Kazakstan



Vehicle Types

- Category M
- Category N
- Category O

Components

- New types delivered as replacement (spare) parts
- Re-used vehicle components

Recycling Processes

- Collecting, storage
- Disassembling and recycling
- Restoration of components

- The provisions of the Draft Technical Regulation have been harmonized with the legislation of the EU and the ISO International Standards
- The Vehicle of categories M_1 and N_1 shall have the recyclability rate of at least 80% and the disposal rate of at least 85%; for the other vehicle categories the recyclability rate shall be at least 85% and the disposal rate of at least 90%
- The requirements to the marking of the parts and providing information concerning the vehicle disassembling order for the disposal enterprises
- The expected enforcement of the Technical Regulation for vehicles of categories M_1 and N_1 in 2014; for the rest vehicle categories in 2020
- Arrangement for financing and administrative matters to be agreed between different models: fund (Netherlands), individual schemes, collective schemes

Thank you for your attention!

**Ministry of Industry and Trade Website:
<http://minpromtorg.gov.ru>**