

# RUSSIAN MARKET STILL HAS GREAT POTENTIAL DESPITE CRISIS

**When automotive recovery in Russia comes, it will stimulate rapid growth in the PU market, Dow expert says**  
Report by *Liz White, editor*

Although Russia is one of the favoured BRIC (Brazil, Russia, India, China) economies for foreign investment, Eugenio Toccalino, marketing manager for plastics with Dow Automotive, noted that the country is currently in recession, with a sharp decline in GDP this year of about 6 percent.

GDP growth of around 8 percent for 2006/7 was followed by 5.6 percent growth in 2008, he noted, in a presentation at the FSK meeting, held 10-11 Nov 2009, in Würzburg, Germany.

As elsewhere, government measures have been taken to stabilise the economy, Toccalino said. But for sustained recovery, Russia needs global growth, especially for its oil/gas sectors, he added.

Before the downturn, Russia had high annual growth in automotive sales – 18.4 percent combined annual growth rate (CAGR) from 2002 to 2008 to a level of 3 million – and was expected to overtake Germany as the top market in Europe in 2009. But the market fell 50 percent in the first half of 2009, with all OEMs affected, he added. Sales dropped from 1.455 million in H1 2008 to 735 000 in H1 2009, Toccalino said.

The top three best-selling brands are currently Ladas from Avtovaz, which has a 24-percent share of the market, followed by Hyundai with 13.7 percent, General Motors with 10 percent and Volkswagen with 9 percent.

In five years time, the top-ten best-selling brands are likely to be completely different, Toccalino said. What is certain, he stressed, is that there is still huge potential for growth, with Russian per-capita car ownership now at just above 0.2, way below that in Western Europe, which averages about 0.6.

Russia's vehicle market will see growth again in 2010 and by 2015 it is expected to catch up with or surpass the levels of 2008, he added.



**'Huge potential' – Dow's Eugenio Toccalino**

He also noted that currently, international car makers have invested heavily in the Russian market – but that "they have built plants that so far have been standing still."

## PU uses set to grow rapidly

In the PU market, volumes will also develop rapidly in Russia, with 2008's volumes reached again by 2012, Toccalino said.

Looking at Russia's auto components sector, Toccalino said production of instrument panels, seats and carpets, will become more localised, with increased PU content driven by both foreign and domestic brands, Toccalino said. Local production will rise, using the worldwide model of the Tier 1s partnering with local module manufacturers, he added.

PU-intense uses will be among the first to localise, he added, and this means that the PU market will grow faster than car production.

In seating, headliners and steering wheels, growth will be at the rate of the market, but in instrument panels, acoustics and components

for NVH (noise, vibration, harshness) reduction, PU growth will be rapid because there is low use in these parts currently, he said.

In seating there will be a focus on

## Russian automotive trends:

- Production will localise. In 2008 locally made models formed 40% of the market, but by 2015 this will rise to 70%.
- Value of locally made cars will rise through a shift from lower content domestic brands to higher content western or Asian brands; and
- Domestic brands will close the gap with foreign brands in terms of perceived quality (acoustic, comfort, aesthetics, harmony, odour), increasing the PU content of vehicles.

emission reduction to meet the specifications of the Japanese and German OEMs, and an emphasis on better comfort (see box above).

In commercial vehicles growth will not only be in the typical PU uses in cars: major growth potential lies in innovations such as in-mould painted LFI (long-fibre injected) parts for large exterior body panels, and low-density RRIM (reinforced-reaction-injection moulded) parts for high-quality interior trim, at low capital investment, Toccalino said.

Dow is active in the PU sector in Russia through its NPP Izolan joint venture in Vladimir, 180 km from Moscow, whose PU solutions can support all uses. For example, a large part of Izolan's production is devoted to rigid foam systems for insulation/construction uses, Toccalino said. Izolan is currently building a second, state-of-the-art plant, due to start production by the end of this year, he added.

Discussing security in intellectual property and in ownership rights for foreign companies investing in Russia, Toccalino said it is possible to minimise risk in a JV, pointing out that "any investment involves a certain risk level."

In a separate interview, Toccalino noted that Russia has to import isocyanates, but that some polyols are made locally.

And discussing recovery, the Dow Automotive representative pointed out that, "with 2009 as a baseline, then it is not difficult to improve on that."

## MORE FROM WÜRZBURG

Extracted from a longer report on the seventh international polyurethanes meeting of the FSK eV (Germany's Specialist Association for Foamed Plastics/Polyurethanes).

More than 160 participants attended the 10-11 Nov meeting in Würzburg, Germany.

See the complete report in Urethanes Technology International Volume 26 No 6, Dec 2009 Jan 2010, p 18-22.

## Trends in automotive foam in Russia

### Trend

- Low VOC/ low emissions
- Improved comfort<sup>c</sup>
- improved NVH/Acoustics<sup>c</sup>
- low applied density/fast demoulding

a. German, Japanese OEMS. b. German OEMs. c. Domestic brands

NVH - heavy layers, acoustic foams. IPIT - instrument panels and interior trim.

### parts affected

Seat, head/armrest,<sup>a</sup> NVH<sup>b</sup>. St wheels<sup>c</sup>

Seat, head/armrest

NVH, IPIT foam

NVH, IPIT foam, St wheels