

INDUSTRIAL COMMITTEES

AUTOMOTIVE SUPPLIER COMMITTEE

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SUPPLY CHAINS

2020 and 2021 turned out to be the most difficult years for the automotive industry since the financial crisis of 2008–2009.

Despite the explosive recovery of demand for cars since the second half of 2020, car manufacturers and their suppliers have faced huge problems in supply chains related to:

- › significant increases in prices for raw materials;



- › increases in logistics costs;
- › disruption of supply chains due to anti-coronavirus restrictions and natural disasters.

It is also worth mentioning the shortage of electronic sub-components.

The main reasons for this crisis were:

- › the rapid growth of demand for computer equipment, electronic devices, and consumer electronics during the pandemic;
- › semiconductor manufacturers had no additional capacities and were unable to quickly increase them;
- › disinterest in the production of automotive chips due to the small market size (8% of the global market) and high costs for their development, validation, and production;
- › permanent force majeure production stoppages due to anti-coronavirus restrictions and natural disasters;
- › the “just in time” system that existed in the automotive industry does not assume an agreed volume of deliveries over a long (annual) period or significant inventory.

We hope that the supply of automotive electronic components will be stabler, but at the same time, the capacities for increasing the production of automotive chips remain minimal in 2022. We can also expect a further increase in prices for raw materials, materials, and logistics.

RECOMMENDATIONS

- › Temporarily abandon the “just-in-time” system and switch to the annual planning of supply volumes agreed between car manufacturers and suppliers, and the creation of stock reserves. Foresee a possible increase in prices for auto parts and provide for corresponding mechanisms to control price changes.

STATE REGULATION OF THE INDUSTRY: DECREE OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 719

Access of car manufacturers and other industry participants to most of the support measures depends on a certain number of localization points provided for by Decree of the Government of the Russian Federation No. 719 dated July 17, 2015 “On Approval of Industrial Production in the Territory of the Russian Federation” (“Decree 719”). The government encourages manufacturers to gradually increase the level of localization to gain access to specific measures of state support.

An updated system for calculating R&D points has been introduced, which enables proportionate receipt of points for

actual R&D at the rate of 400 points for 1% of R&D costs from revenue.

In accordance with Decree 719, car manufacturers can include the works performed by suppliers of auto parts in R&D costs; as such, car manufacturers have begun to actively involve suppliers in collecting R&D costs to obtain points.

The risks associated with uncertainties in the interpretation of the current concept of R&D can be significantly reduced through the development and approval by the supervising state bodies of guidelines for collecting R&D costs to meet the requirements of Decree 719 specifying the types of costs and the list of necessary supporting documents.

The approach to the distribution of points for specific components under Decree 719 remains non-transparent, and there is a potential risk that manufacturers of auto parts already operating on the Russian market will be displaced by imports because their products bring too few points that are insufficient to interest car manufacturers.

The Committee generally supports the trend towards the development and support of the domestic automotive industry and hopes for further development of both the entire automotive industry in Russia and the auto part production sub-sector in particular, including from the point of view of state incentives.

Due to the significant impact of Decree 719 on the industry and car manufacturers in general, the Committee is extremely interested in participating in working groups to discuss potential amendments to Decree 719.

RECOMMENDATIONS

- › Companies are advised to monitor the published draft amendments and possible changes in legislative regulation of localization and state support measures.

MEASURES OF STATE SUPPORT FOR MANUFACTURERS OF AUTO PARTS

Currently, there are a number of state support measures for which manufacturers of auto parts can apply. Such measures include subsidizing up to 80% of the actual costs incurred for transporting products to foreign markets, subsidizing R&D costs for modern technologies included in the list of the Ministry of Industry and Trade, as well as support measures under Special Investment Contracts (SPIC 2.0) (for example, tax incentives, conditions on which the localization of industrial products are predicated, special conditions for land lease and infrastructural support), and Special Investment Contracts (guarantees of non-deterioration of certain business conditions in the implementation of an investment project, and reimbursement of certain types of costs in established amounts).

In addition, a new support program for manufacturers of auto parts is expected to be adopted in the near future. Within this program, it is planned to provide low-interest loans at the rate of 1% per annum from the Industrial Development Fund of the Russian Federation, with the possibility of further receiving a subsidy for repayment of this loan from the Ministry for Industry and Trade of the Russian Federation.

However, for each of these support measures, a number of issues can be identified that may restrict access to these support mechanisms, including for investors (for example, excessive requirements for subsidized products and expected results, exclusion of certain types of costs for the purposes of calculating investments, limitation of the amount and types of reimbursable costs, etc. — issues vary depending on the state support measure). To achieve the goals of these support measures and to ensure their more effective application, it is extremely important to work out the existing issues.

ENVIRONMENTALLY FRIENDLY TRANSPORT AND ADVANCED TECHNOLOGIES

EMISSION LEGISLATION (EURO 6)

The AEB Automotive Supplier Committee supports the introduction of emission class 6 in the EAEU to improve the environmental situation, develop appropriate technologies and technical competencies for other developed markets, better integrate Russian industry with the global automotive industry, and thereby achieve the goals set in the automotive industry's development strategy up to 2025.

The determination of specific deadlines for the introduction of the new emission class 6 and exhaustive technical

requirements have been repeatedly postponed. Their lack creates uncertainty for business, prevents proper planning of investments, relevant developments, and preproduction.

ADVANCED TECHNOLOGIES

At the moment, the most developed alternative to vehicles with an internal combustion engine is vehicles with an electric motor powered by batteries (electric vehicles). Another actively developing area is vehicles with an electric motor powered by hydrogen fuel cells (hydrogen vehicles).

Another alternative using hydrocarbon fuel is gas-powered vehicles. This technology is quite developed, but its wide application has historically been limited by infrastructure. The development of the market and technologies for gas-powered vehicles retains a high potential, considering the significant reserves of natural gas in the Russian Federation.

RECOMMENDATIONS

- › The Committee and the AEB will continue close cooperation with the Ministry of Industry and Trade, the Central Scientific Research Automobile and Automotive Engines Institute (NAMI), and the Eurasian Economic Commission on issues related to the introduction of emission class 6 and the development and implementation of advanced technologies in the automotive industry.



[More information on the Committee page](#)