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Steeringless Auto Industry: How Sanctions Have Thrown the Sector Back Decades

Vakhtang Partsvania on the sanctions-induced exhaustion of Russia's automotive industry and how the sector mirrors deeper structural problems in the economy



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As Russia approaches the fourth anniversary of its full-scale invasion of Ukraine, the country's automotive industry presents an image of superficial stability. Factories are running, components are arriving, cars roll off assembly lines and reach dealerships where, alongside domestic brands, one can still find certain Western marques brought in through parallel imports. Yet beneath this veneer of calm lies a far bleaker reality: the hallmarks of a deep structural crisis

that will shape the trajectory of Russian car making for at least the next decade and offer unambiguous evidence that sanctions are working, and working painfully.

Production and Localization

Before the war, Russia's automotive sector was on a rapid path of internationalization. The state actively encouraged factory construction, deeper localization and integration into global value chains. That period saw the emergence of genuine automotive clusters, a broad supplier base for components, and multi-tier production alliances with the world's leading manufacturers, from passenger cars to commercial vehicles.

The system delivered results. Throughout the 2010s the share of imported cars on the market fell fourfold, full-cycle modern plants appeared, and domestic component production grew sharply. Platforms operated by AvtoVAZ, KamAZ, GAZ Group, Sollers and Avtotor produced not only Russian models but also Renault, Nissan, Volkswagen, Hyundai, Ford, Mazda, Mercedes-Benz, BMW and others. The industry directly employed around 300,000 people and supported more than 2.8 million jobs in related sectors. Peak output came in 2012–2013, when Russian plants produced over two million vehicles a year.

Global tier-one suppliers followed the carmakers into Russia: Magna, Faurecia, Asahi Glass, Delphi Automotive, Johnson Controls, Bosal, BASF and many others localized production of critical assemblies, from plastic body panels, glass and headlights to engine-management systems and climate-control units. A sophisticated multi-level supply chain took shape, engineering expertise strengthened, and product quality improved noticeably. By 2022 the passenger-car components market was worth more than $ 27 billion, with average localization across the sector reaching 50–55 per cent.

Western manufacturers treated Russia as an integral part of their global production architecture. Renault planned to merge Lada and Dacia into a single business unit and shift to a common modular platform with potential output exceeding one million vehicles annually by 2025. Hyundai was preparing to open an R&D center and an engine plant. Volkswagen intended to invest in new models, expand its Kaluga facility and localize premium-line commercial vehicles at GAZ's Nizhny Novgorod site. Most other players had comparable strategies.

The war and subsequent sanctions destroyed that trajectory. Western carmakers and component suppliers exited the market, while Russia's own largest manufacturers were themselves placed under sanctions. The impact on production was immediate. Instead of the anticipated 1.8 million passenger cars in 2022, only around 450,000 were built, the lowest figure since the early 1990s. Almost four years on, the picture has barely improved: in the first ten months of 2025 output stood at roughly 537,000 vehicles. AvtoVAZ accounted for more than half; production at the sites of departed foreign companies has fallen to roughly one-seventh of pre-war levels. Even AvtoVAZ expects full-year 2025 output to drop to 274,000 vehicles, down 40 per cent year-on-year.

Model ranges have also suffered. Supply disruptions forced AvtoVAZ to discontinue the Lada X-Ray for good, halt assembly of the Lada X-Cross 5 and repeatedly postpone the launch of the Lada Iskra. KamAZ stopped producing trucks with Mercedes-Benz cabs and temporarily reverted to Euro-2 models originally designed in the 1970s. To keep lines running, Russian plants have had to scramble for substitute components or find suppliers willing to risk secondary sanctions. The result is often vehicles of visibly lower quality, riddled with defects and prone to frequent breakdowns.

Localization rates have fallen in parallel. Even the most «Russian» model, the Lada Granta, now

achieves only about 45 per cent local content, while the industry average has slipped to 33 per cent. Against the backdrop of massive Chinese car imports (over one million in 2024) and parallel imports claiming roughly 15 per cent of the market, domestic plants have seen capacity utilization plummet.

Hopes pinned on Chinese partners have largely been disappointed. Beijing's manufacturers helped restart production and stabilize the sector, but they have no intention of investing in deep localization. Their approach deliberately minimizes risk: exporting finished vehicles, supplying knock-down kits and components, engaging mainly in large-node assembly under Russian badges, and avoiding long-term commitments. Moreover, many of the Chinese models used as «donor» platforms for localized versions are themselves far from competitive, regularly featuring in recall campaigns over safety issues, software bugs or electronic failures. For consumers this translates into higher running costs and rapid depreciation, with some models losing 40–50 per cent of their value in the first year. Vehicles such as the revived Moskvich, essentially rebadged JAC models, have met with weak demand; some dealers have already stopped stocking certain Chinese brands and are closing showrooms because of supply and quality problems.

Nevertheless, in the absence of Western competition, Chinese marques have seized the market, raising their share from 9 per cent in 2021 to around 60 per cent in 2023–2025. Yet even including Chinese imports, the overall Russian market remains smaller than before the war: new passenger-car sales in January-November 2025 were 21 per cent below the same period in 2021. There is little reason to expect growth in 2026, especially after the recent introduction of sharply higher «draconian» recycling-fee rates.

Employment and Finances

Since mid-2024 Russian carmakers have increasingly moved staff onto shortened working weeks. By 2025 the practice had become systemic: plants switched to four-day schedules, announced downtime or sent workers on compulsory short-term leave. At some sites it has become routine to find employees «alternative employment», often menial tasks, cleaning, warehouse work, auxiliary duties, anything to avoid formal redundancies. These measures are a direct consequence of falling demand, chronic component shortages and technological regression, all of which have slashed capacity utilization. Suppliers and dealer networks have been hit similarly: reduced orders have triggered layoffs among component makers, and hundreds of dealerships have closed since early 2025.

Industry estimates suggest that actual employment in the automotive sector and related industries fell 15–20 per cent in 2023–2025 compared with pre-war levels, though much of the decline is masked by part-time regimes and temporary leave. Official statistics show formal stability, but real labor utilization, measured in hours worked, capacity loading and paid workloads, continues to slide. The result is steady erosion of human capital: skills disappear, engineers leave, and competencies that once underpinned localization, modernization and technological progress are lost.

Shortened schedules and downtime have translated into sharp income drops. On a four-day week with forced leave, effective wages have fallen 15–30 per cent depending on the plant and employee category. In 2024 the average pay at Kaliningrad's Avtotor dipped below the regional manufacturing average, with most bonuses and top-ups cut or eliminated entirely. For the mono-industrial cities that host «system-forming» enterprises, Tolyatti, Naberezhnye Chelny, Kaluga, Nizhny Novgorod, the social vulnerability is acute: local labor markets cannot absorb released specialists, and alternative jobs pay far less.

The financial health of manufacturers tells the same story. Companies increasingly report declining revenue, shrinking margins and rising debt burdens, while access to credit has tightened as banks raise requirements and borrowing costs amid high risks and elevated key rates. The government is discussing expanded support packages and has already begun waving certain taxes, moves that are already reducing budget receipts. KamAZ's net loss in January-September 2025 ballooned nearly eightfold to 29 billion rubles, with accounts payable reaching 178 billion rubles (+35 per cent since the start of the year). AvtoVAZ does not expect to return to net profit before 2028 at the earliest. Sollers posted a 1.2-billion-ruble net loss in the first half of 2025, while its accounts payable surged to 40 billion rubles (from 14 billion at the beginning of the year). Avtotor recorded a 4.3-billion-ruble loss on several Chinese models assembled at its plant.

Vehicle Fleet and Prices

As the new car market contracts, consumers are shifting en masse to the used-car segment. In October 2025, 653,000 used vehicles changed hands (+7.9 per cent year-on-year), pushing the ten-month total above five million (+1.7 per cent). Many buyers now choose used cars simply because new ones have become unaffordable.

This shift reflects a deeper trend: Russia is turning into a country with an ageing vehicle fleet. The average age of passenger cars has risen from 14 years at the start of 2022 to 16 years by mid-2025; more than 70 per cent of cars are now over nine years old, and roughly 35 million of the country's 46 million vehicles are older than fifteen. Fleet renewal has virtually ground to a halt.

Meanwhile new car prices have soared. Even before the latest recycling-fee hike, the weighted average price of a new passenger car reached a record 3.54 million rubles in November 2025 (+16 per cent year-on-year), the highest figure on record. Against that backdrop, a four- or five-year-old Japanese, Korean or European model looks far more rational and predictable than a new Chinese-built crossover, whether imported or locally assembled, costing four million rubles or more.

This reallocation of demand carries long-term economic costs. The used-car market creates almost no added domestic value, unlike new-vehicle production. It generates negligible tax revenue, does nothing to encourage localization, and fails to sustain employment in related industries. An ageing fleet drives up repair costs, increases road-safety risks and environmental damage while accelerating the loss of technical competencies. Taken together, these dynamics are turning Russia's car market into a stagnant, second hand-dominated arena devoid of innovation or modernization, with the automotive industry itself ceasing to act as an engine of broader industrial growth.

Outlook

Faced with mounting problems, the Russian authorities are resorting to ever more radical administrative and financial measures aimed at propping up domestic producers, squeezing out imports and pushing the share of Russian-made vehicles to 80 per cent of the market. These goals lie behind the repeated hikes in recycling fees, outright bans on certain Chinese models or on right-hand-drive and hybrid vehicles, the inclusion of Renault and Daimler Truck on Russia's own sanctions list, tighter rules for state procurement, expanded subsidized loan and leasing programs, and other initiatives.

Yet this package, however inevitable it may appear, effectively amplifies the impact of Western

sanctions. It further isolates Russia's car industry from global automotive development, destroys any remaining prospect of foreign investment and technology returning, and locks the sector into a purely domestic orientation. The result is technological preservation, more akin to the Iranian model and, in some respects, even to the prolonged Soviet-era lag, where the industry neither collapses nor progresses but stabilizes at a lower technological level and loses any incentive to advance.

At the same time, as imports are progressively restricted, consumer choice will shrink dramatically. The market will be left with a narrow range of low- and mid-price localized models offering stripped-down specifications, low-power engines, minimal technology and questionable build quality. Russian buyers will effectively lose access to the global model range and be forced to make do with whatever the domestic industry can supply, turning to the ageing used-car park to fill the gap.

The plight of the automotive sector is not an isolated episode; it is a concentrated reflection of the systemic constraints now facing the Russian economy under sanctions. The industry illustrates how external restrictions lead to the depletion of economic potential, the erosion of competencies and the entrenchment of a development model that dispenses with modernization altogether. There is no prospect of outright collapse, but neither is there any prospect of growth. For the foreseeable future the sector's path is defined by inertia, no technological breakthroughs, no realistic chance of closing the gap with global leaders. That, in the end, is the central outcome of the sanctions era: Russia's car industry survives, but it has stopped developing.

