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**Business Lunch
RUSSIA – XX YEARS OF CHANGE
Building Russia’s Creative Capital**

JUNE 17, 2011 — 13:00–14:00, Restaurant, Breakfast Area No. 2

**St. Petersburg, Russia
2011**

Moderator:

Leonid Parfyonov, Independent journalist and TV presenter

Panelist:

Anton Rakhmanov, Managing Director, Troika Dialog Investment Company
CJSC

L. Parfyonov:

Anton Rakhmanov and I have been entrusted to conduct today's business lunch. We have an hour to try to talk about 20 years of Russia's second age of capitalism, and to try to estimate what the coming decade may be like. For convenience, we decided to divide the discussion—in which we hope you will take an active part—into three thematic sections; but more on that later. First, a brief introduction from Anton Rakhmanov, the Managing Director of Troika Dialog.

A. Rakhmanov:

Good afternoon, ladies and gentlemen. Let us try to keep this event informal, but also as informative as possible. So, of course, Leonid was absolutely right to urge you to participate fully in the discussion. The idea is to try to generate some interesting ideas on how to get out of the situation in which we find ourselves.

Anyone who listened to our President's speech knows that he more or less sketched out where we are now, since the time of liberalization. Yes, of course, there has been a quite strong emergence of private capital, reduction of the debt and all the other positive points benefiting the Russian economy; but I want to understand and look more closely at where we are now, and what lies ahead.

I regret to have to admit that Russia, unfortunately, is losing its influence on the world markets—both the financial and commodity markets—and that our negotiating position with major powers has unfortunately been quite seriously weakened. This happened because of fully objective macroeconomic events, which I shall now enumerate. The first, of course, is the dependence of the Russian budget on prices for basic commodities, raw materials. Unfortunately, we have not yet managed to get away from our dependency on the export of raw materials, and when about 70% of our GDP depends on exports of those

raw materials, of course, there is no point in talking about building a diversified and free economy.

Of course, this greatly increases the country's sensitivity to the global challenges, global events that are now taking place. It cannot be said that Russia is the only country in such a disadvantageous position. If we look around us, we see that the situation is, definitely, far from perfect. It is also far from perfect in both the developed markets and the emerging markets. It is more or less well understood that current progress and the current engine of macroeconomic growth have shifted very greatly. They have shifted from the developed to the developing markets, and in this sense Russia was just lucky for a while, because among the so-called BRIC countries, China and India are consumers of basic raw materials, while Russia is their direct supplier. But looking where we were at the time of the collapse of the Soviet Union, and where we have come, we have to sadly note some fairly simple facts: unfortunately, due to the extended development of the economy, we absolutely did not increase our clout as a leading world power. I mean, if both ourselves and China accounted for around 4% of world GDP in 1994, China now stands at about 13%, while Russia's GDP has slipped to 3% of the total. Russia is also losing its position in gas extraction: While we were producing about 28–29% of the world's natural gas in 1994, that figure has now already fallen to 18%. How can this be understood? The fact is that Russia is losing its competitive advantages on the world markets, and its negotiating position as a major economic power has weakened substantially.

The President had very correct words to say about the innovation economy and about the changes that must occur in the economy, but of course one would like as much specificity as possible, and, above all, I would like to ask: What are the changes that need to occur? What exactly needs to be changed to make an innovation economy possible? And here again, perhaps it makes sense to look at

China, at the changes in that economy. The phenomenal growth that has occurred since 2004 was mainly because of innovations, which China was able to introduce into its economy and to implement extremely successfully.

Of course, before this lunch Leonid and I discussed how we would try to divide up the so-called 'problem areas', and we agreed to have three main sections. The first section is the economic: how we can get away from our dependence on raw material exports. The second is the natural investment climate: that it is impossible to radically change the current situation all on our own. To do this, of course, we need help; we need new sources of capital. And, most certainly, we need to improve the investment climate, to reform institutions and, of course, to attract investment, and for this, quite specific preconditions have to be established. And the third is also a quite serious and comprehensive area: what is happening to the nation, what is going on with the Russian people right now? Where are we, what is our sense of identity – are we closer to the West or to the East, to Asia? All of these problems and questions are very much interrelated, but, in our view, require extremely serious and detailed study. So let us try to discuss them.

L. Parfyonov:

So, our first thematic area concerns Russia's dependence on raw materials and how to get away from it. As a specific example, I would like to cite a very simple number that is known to all. As you know, our appetites are so great that we calculate a deficit-free budget on the basis of USD 120 per barrel. Everyone says that is not healthy, but nobody can say what that number should be. In order to have a healthy, deficit-free budget, what should the price per barrel be so as not to have a harmful effect on the economy? Are there any observations about this matter, especially from representatives of the banking sector? Mr. Vyugin, there

you are: What do you think, for example? (Sorry, you are just sitting the closest!) And I repeat: Please ask yourself, colleagues, what do you think is a reasonable price per barrel for a deficit-free budget?

O. Vyugin:

There should probably be some flexibility, because no one can tell what a stable, correct price for oil will be in the long run. I think it should be handled step by step. Set yourself a target – currently, of course, it should not be USD 100, but less, even though the price of oil could be more than USD 100 for quite a long time. But we have to set a target, let us say USD 70, which seems solid enough, and be guided by that for a three-year period, for example, monitoring what happens closely. And then decide on how it should be corrected. That is probably the only correct tactic, because we are dealing with the market, and the market does not take orders from us. I would start like this: set a target of USD 70, and try to endure even a deficit budget. But the deficit, as we know, can be financed in a civilized way. Then, after a period of time, I would look into how to change this level: to increase it, or maybe to lower it.

L. Parfyonov:

This raises the question, though, how to deal with the current price? With the Kudrin Stabilization Fund, or what?

O. Vyugin:

Today I realized that we spend more than USD 70. So perhaps we should slow down the growth of our expenditures for a while. But it seems we must inevitably have the Stabilization Fund; there is simply no other way out. Otherwise we will get a very volatile situation and dependence on oil prices. As

unpleasant as it is—and it is very unpleasant—it looks very strange indeed from the outside. Let us project this picture to the household. How does a reasonable man manage his household budget? If he knows that his income is volatile and is not at all guaranteed in the future, he tries to have a certain reserve, otherwise known as savings. Perhaps such common sense should be applied here as well.

A. Rakhmanov:

Thank you very much. So we have already got the first toast: to USD 70 per barrel! I see that Mr. Drozdov is sitting here, and so I will ask him the question. What do you think? I understand that for the pension fund to predict any particular price per barrel is a bit difficult, and perhaps makes no sense at all. But in view of the current deficit in both the state budget and especially the pension fund budget, and with the focus on getting away from dependence on raw materials, the budget deficit will inevitably increase during the transition period. How are we going to finance it?

A. Drozdov:

We certainly do have a deficit, but it is a managed one, with a three-year perspective, and balanced, of course, with the help of subsidies from the federal budget. As for the price of oil, the rules say that the budget is formed from two variants—an optimistic and a pessimistic one—and certainly the conservative, or pessimistic, option should be based on a very conservative estimate of the oil price, which the federal budget and the pension fund budget have to rely on to determine their expenditure commitments. And if this threshold is equal to USD 70, well then, USD 70 it is. It will be necessary (I agree with Mr. Vyugin) to look at the trends in oil price rises over the past 5–10 years. That will ensure a certain stability in the funding of expenditures. Our overall strategy is to limit the

expenditures that we incur by limiting our obligations, and we are actively working on this now and preparing a new strategy for the pension system.

L. Parfyonov:

I have a follow-up question for you, because this is not the first time that I have heard it strongly argued that USD 70, 80—or the particularly daring say USD 90—is quite enough. What do you think is the reason for this? Lack of political will? Or is the political situation such that more is spent in an election year and so on? Why is there such a gap between words about how bad it is to count on USD 120, and deeds that would reduce the calculation to at least USD 90 or even USD 70, as suggested by Mr. Vyugin?

A. Drozdov:

First of all, I do not see any contradictions here. As in the past, we calculate two versions of the budget, and use the pessimistic version for our expenditure commitments. The only question is whether this bar is too high or whether it is at the optimal level. Some say USD 70, others USD 97. There are undoubtedly already obligations piling up, and these cannot be reduced. It seems to me that the bar that exists is, generally speaking, justified by the commitments that have already been made. As for not making too many new ones, that is the general policy, and the ministries and departments should pay attention to it. Therefore, if we assume new obligations, it may be that this bar will be raised higher. We simply cannot fall below the level that is actually achieved.

L. Parfyonov:

In other words, what we have already worked up an appetite for cannot be cut?

A. Drozdov:

It can be cut, but through reforms. And not in one year. For example, by reducing the number of officials employed in the public sector. This programme exists, and it is intended to last three years; it was announced that this number will be reduced by 100,000. Or, for example, reducing the army by increasing efficiency. All these reforms, unfortunately, require a lot of time and do not reduce obligations all that simply. Thank you.

A. Rakhmanov:

There is an interesting topic that was just touched upon: the number of officials in the public sector. Recently we have seen quite a significant shift to state ownership of the economy. Since the beginning of the 1990s, the number of public sector officials has increased from 700,000 to nearly 2 million. This is clearly an additional burden on the taxpayer, an additional burden on the budget. But we also see a trend in somewhat the reverse direction: there was deprivatization, to a certain extent. And the state's influence and the role of the state in private business have also increased quite a bit. Thus, if in the early 1990s, the state controlled somewhere in the order of 5% of oil production, now it is well over 30%, which probably also does not result in much greater openness of the economy. Partly, of course, this is the result of the 2008 crisis, when, in fact, the state was forced to take some assets onto its own balance sheet; but this was partly due to the formation of rather large holding companies, among them the ones we all know: Rosoborona, Rosavia, RUSNANO, etc. And that is probably also not the greatest trend; it does not exactly improve the investment climate.

L. Parfyonov:

And so we arrive at the second thematic section, associated with investment opportunities and the business climate in the country. Would you like to say something first, by way of an introduction?

A. Rakhmanov:

Something introductory – that is quite simple: the reforms and changes that need to be made in the country are impossible without further opening and integrating the Russian markets and without further attracting serious investments. And we are talking about absolutely serious investments. To some extent, I was pleased by Comrade Hu Jintao's speech today: he said that some specific goals have already been worked out between Russia and China: to increase trade turnover to USD 100 billion by 2015 and then to USD 200 billion in 2020. But of course we need to do this not only with China, but also with all our other trading partners, including by attracting investment. Clearly, to a certain extent everything depends on the state, because if you look, for example, at the raw materials sector, all the world's oil companies are simply standing in line to gain access to Russia's reserves. That is because the situation has occurred here in a rather unique way. If we look at the average amounts of reserves being tapped by the world's leading companies, levels will be close to critical in 10 years. What does that mean? Very simply, in 10 years, companies like British Petroleum or Exxon Mobil simply will not be able to sustain production of hydrocarbons at the level they do now. That is, they need to either radically increase the CAPEX, or they need to reduce production. Of course, countries that still have, to some extent, substantial amounts of untapped oil reserves—such as Russia—are in a very advantageous position. But for these investments to come, certain changes are of course required. And so, the question: would anyone else like to say something about the investment climate? Leonid?

L. Parfyonov:

We are talking about the 20th anniversary of Russia's second age of capitalism. And now the topic of this thematic section is the change in the investment climate, the business climate in the country. What do you think, during these 20 years, or at least the last 10 years, during the 2000s, did all this get better or worse? Or was there no real change? If you read the business press, it seems as though everything is getting worse and worse.

S. Dubinin:

Things have got better during these years. I recently opened up a children's book that I was reading to my sons, a Soviet publication, and there was a description of some sort of fantasy capitalism, absolutely terrifying, with people shooting each other, with some kinds of spies who served private companies rather than the state, and so forth. Suddenly I realized that sometime in the middle of the 1990s, we built something like that ourselves: it seemed as though we had been reading these children's books so much that we built something very similar. I then had to read it to my grandchildren, but I threw the book away. I prefer to read, maybe, fairy tales, but with something in them about corporate governance, about compliance on the part of our companies. And I must say, with great astonishment, that all these words have ceased to be incomprehensible to the Russian businessman, and, in fact, we are really moving towards all that. In this sense, business is absolutely surpassing our state institutions—even with all the constant jabs at the 'swashbuckling' 1990s. Unfortunately, just as the state institutions have slowly evolved out of the same reality; in my view, they still live in the previous fantasy world, expecting all sorts of horrors from business, from one another, and so on. And so now, it is clear

that the time has come for them to be reconfigured somewhat. In the speech today by our President, Dmitry Medvedev, I heard words exactly about that—so it seemed to me—and I was very pleased.

L. Parfyonov:

Thank you. Anna Nemtsova has been writing for all these years in various British publications about the Russian business climate, and I would like to ask her, since British publications are especially critical of the Russian business climate and of the kind of capitalism built here: how do think this reflects the real situation? Does it reflect this image of Russia as a bad country in which to do business?

A. Nemtsova:

As a matter of fact, it was paradoxical to listen just now, because nothing that my old colleague Leonid Parfyonov said was true. I have not been writing in British publications: I have been writing for the American publication *Newsweek*, and that alone, for the entire past five years. And I have been writing mostly about politics, about social problems in Russia; I have almost never written about the investment climate and business. But I can tell you the impressions I have formed over the years. Most disturbing of all is non-transparency. In other words, I do not know what the climate is. For me, the climate—whether economic or political—is, after all, when I want to understand what is going on (maybe after a few years in America). That is, we—reporters working here, in this country—want to ask the main question to all our interlocutors who are present here: do you know what is going on in Russia? What is going on now? Has a real election battle begun? What did the President's speech really mean?

Was it an election speech? Well, since I am here asking questions, I would like some answers to these questions.

L. Parfyonov:

And what questions have you not received answers to for these past five years, apart from today's questions? I only remember that you asked Potanin about how he and Prokhorov were going to split their assets: that was also, quite obviously, a misunderstanding. Anything else?

A. Nemtsova:

Very often I go to the North Caucasus now: I go to Chechnya, Dagestan and Ingushetia. There is a war going on there, some kind of secret war in Ingushetia and Dagestan, and I have been talking about it with Mr. Khloponin, with bureaucrats, officials, and all I hear about is investment in the Caucasus, and tourism. There is some discrepancy between what we see when we work there, and the view from here, and from Moscow, about what is happening there. That is probably the main question: guys, do we understand what we are doing?

L. Parfyonov:

Did you ask Khloponin that? And what was his answer? That he is setting up a tourist area?

A. Nemtsova:

Yes, I told him my impressions; I wrote about the reform of Islam in the Islamic universities. There is a huge gap between, let us say, Sufi Muslims, with their education, and a completely underground Sufi education. Mr. Khloponin replied,

"Anya, do not fall for that story, let the law enforcement agencies deal with it, and we will invest in tourism."

L. Parfyonov:

And then, after yet another bombing, *Kommersant* comes out with the headline, 'Terrorist area'.

A. Rakhmanov:

Yes, but of course, when it comes to the investment climate, we have to ask the investment bankers what, in fact, do they think about it? I see Mr. Yanovsky sitting over there. I think he must have a point of view on this particular subject. Yan, what have you observed recently among clients, especially Western clients? What is the predominant view?

Y. Yanovsky:

You know, I have to disagree with Anna. It seems to me that on the question of what is going on in Russia, one might just as well ask, 'what is going on in some other country?' Do you understand precisely what is going on in America? Who will be elected there, etc.? It seems to me that in Russia, we are ourselves a bit closer to those in power, and probably that is why more questions arise. As for Russia's investment climate, of course, there are a lot of questions. They ask what will happen next, what will happen to the rouble, what will happen to oil? They ask whether it is worth going into Russia. They ask how to work with the authorities. I mean, foreign investors have little understanding of how to go about building relations with the Russian authorities. It is easier for big companies: The authorities pay more attention to them, whereas medium-sized companies find that very difficult to achieve. Let us suppose that investment

bankers are making deals in Russia – that's '100% plus'. But if a small business wants to come to Russia, where do they go? I think it would be useful to create a single window to facilitate communication between western investors and the government. A single window.

L. Parfyonov:

To continue along the same lines: Did the Yukos affair—which was a critical event during the 2000s—in your opinion, shift out of the sphere of pure economics, when it was said to be a negative factor for investors and such? Was there a shift? When you look at the press, it seems that this is a matter of human rights, independence of the judiciary, the personal fate of two people. Is it still influential, is it still a 'Yukos affair', or is it just a matter of Khodorkovsky and Lebedev?

Y. Yanovsky:

I would say that it is an aggravating factor for investors. And if this factor disappeared, it would be a plus for Russia.

L. Parfyonov:

And what would be the way of circumnavigating this factor?

Y. Yanovsky:

Well, by somehow releasing these people.

L. Parfyonov:

Understood. There we have the second toast, which evolved here at the table. Thank you. So now, we obviously move on to the third section. We decided to

devote the third section to the topic of values – the choice of a main direction, the strategic development of the country, and the self-determination of the country.

Once there was an excellent corporate report from Severstal, whose title sounds very appropriate here at the St. Petersburg Forum: 'Why is Russia not Finland?' One might now ask why Russia is not Estonia, since the other neighbouring country of the Leningrad Region has been, as we all know, in the Eurozone since January 15. It is clear that in these former fragments of the Russian Empire, capitalism was built at completely different tempos. Perhaps this involved a consensus of the population and the elites about what kind of country it was, that it would return to Europe, what it wants to achieve, what its ideals are? In Russia, judging by how regularly we start slapping our pockets and asking ourselves where our national idea is, obviously, there is no such ideal. Here is Alexander Rahr, the most prominent German expert on Russia, who has written so much over these years, including the book *The German in the Kremlin*. What do you think: Has Russia become a Western country during these 20 years? Has it chosen the road to Europe?

A. Rahr:

Lenya, it has become a normal country. Even boringly so. You see, in the West it was always believed that new ideas came from Russia—whether positive or negative—so the whole world shook after Russia thought up something. And now Russia has not invented anything new; it is following the path of capitalism, albeit a wild kind of capitalism. But that is normal. I think the fact that an institution of private property was established in Russia was a revolution. And secondly, we have the younger generation. People below the age of 40 now feel like citizens of the world. There was never anything like that in Russia before. In

10 years, Russia will be ruled by people who received education abroad, who feel themselves to be as European as the Germans, and that is very important for the development of the country. I would really be pleased if, two months from now, when we remember the 50th anniversary of the construction of that dreadful Berlin Wall—which the current generation mostly does not remember—we also remember at that moment that some barriers do still exist, and that we must, of course, as soon as possible, create a visa-free regime, so that Europe would be built on these general principles. That is, I think, the most important idea that still has to be achieved. As for Russian companies, I want them to open more offices in the West—this has not been done, except by Gazprom—and to be introduced to western life. They would advertise themselves there, thus correcting Russia's image. I think it is extremely necessary to pay attention to this, because Russia would then be known, not only from the lips of Medvedev and Putin, but also from entrepreneurs and enterprises that would be appearing on the market. And then we would have jointly created the civil society of which you spoke.

L. Parfyonov:

I have not yet said anything about civil society. I just asked about which way things are going. In your book *The German in the Kremlin*, it is not very clear whether that German who lived there then, but who has now gone not far away, is a European. Does there exist a choice of returning to Europe as an ideal, as a strategy, as a kind of national idea?

A. Rahr:

I think Russia is a European country. The only thing is that Europe stands for certain other conceptions, it has a kind of liberal economic model, which now

predominates throughout the world. But Russia is not making progress in this area. I think that Russia will build its own Europe, also a liberal Europe, on the eastern part of the European continent – maybe not so democratic, but we will be living together within Europe, we will be living in one Europe. I simply do not think Russia has any alternative.

L. Parfyonov:

Thank you.

A. Rakhmanov:

I also have a question for you, Alexander. If the borders were opened and the visa regime was immediately and substantially liberalized, would the already rather difficult demographic situation in this country not get worse? A quite serious brain drain is already underway. And quite successful brains are the ones that are 'draining away'. Of course, these are people who have achieved a great deal here, often very young people, and the replacements come only through migration from Middle Eastern countries. As a result, we see that the population's IQ is being watered down.

A. Rahr:

I think this was rather a problem of the 1990s. Back then, if someone left, he left; but now people are returning to Russia. I will tell you something else: a visa-free regime will open the road to Russia for us in Europe, which is still quite closed. You need to put forward a mega-idea, a joint mega-European idea, namely the joint development and modernization of Siberia. Under Russian control, of course, under Russian leadership; but to attract not only to Skolkovo, but also to these European lands, the minds of the West, who will definitely

come to open up Eastern Europe, if they can earn enough there. This is an idea that I think could be very attractive to the world, and Russia could promote it as a really strong economic idea, a magnet for a very large number of people, and you will see that it will work.

L. Parfyonov:

A mega-idea, I agree.

Mr. Stankevich, who is present at our lunch, is one of those who took the name of 'first wave democrats'. When Russian capitalism began, I remember how the interregional group of deputies did not dare to utter the word 'capitalism' and even 'private property', it was as though there was a lump in their throats. But even then, there were ideas and ideals about what to strive for, at least among the elites. Do you think that those ideals have come true, at least to some degree, or were they later reconsidered?

S. Stankevich

They have come true to some extent, no doubt. And thank God for that. The very fact of this Forum being held in the new Russia is evidence of that. Of course, over 20 years we have also had quite a few setbacks. I will mention just two major setbacks we have recently come up against. We are gradually losing economic competitiveness because of the increased role of the state sector in politics and social life. And further loss of competitiveness, and even stagnation—as the President said today—is a very serious threat, including to the investment climate. And finally, another very serious destabilizing threat is the flagrant social inequality. Here we really have to do something urgently, otherwise this mine is going to explode in Russia, sooner or later. And as for positive things that are undeservedly forgotten: Stalin's industrialization in the Soviet Union, which we

justly condemned, did generate hundreds of concessions with the participation of foreign capital. Unfortunately, there are no concessions in today's new Russia. Even though we have what I think is an excellent law, one of our best laws in the economic domain, the law on concessions. But the number of concessions can be counted on one's fingers. Meanwhile, a great many of our raw material resources, along with infrastructure and the housing sector, should be given as concessions for 25–30–40 years. Then, the horizon for foreign investors' planning would be much wider. Then we would get rid of the situation in which almost all investment projects are short-term and speculative, with few exceptions. And then we could talk about some kind of stable development. I would like to hear more about concessions at this Forum and, maybe from some of the experienced investors who are here today. Thank you.

L. Parfyonov:

When, in 1989, the first group was founded—not an opposition group, but at least a faction, called the Interregional Group of Deputies—there was a film, *Russia That We've Lost*, and it seemed that this new Russia would be a return to October 26, 1917, where we would be able to restore that wonderful country. What do you think happened? Is this a third country? This is not the Russia that existed before the Revolution, this is not the Soviet Union, but what is it? Post-Soviet Russia: What kind of civilization is this?

S. Stankevich

This is a very important question, which at first glance is far removed from the economy. It has to be distinctly understood what sort of country surrounds us and in what direction it is developing. We really are the successors of historical Russia, and this should in no way be repudiated. But Russia has never existed

within such borders as ours. Russia never tried to build a state based on law, a democratic social state; this is the first time, this grandiose experiment. This is the first attempt in the history of Russia. And, of course, with such borders, for such purposes, it is essentially a new type of state. And our leaders should renounce the reactionary myth of the swashbuckling 1990s, that the state supposedly arose as a result of a catastrophe; that the first decades of the new state were complete losses. That is not true: yes, there was rejection, there were losses, but what was rejected was the obsolete, including in the economy. Yes, what arose was weak, but these were the weak, young shoots of a new society and a new economy. And this reactionary state mythology is one of the brakes that adversely affect investments, among other things. A society that is forward-looking attracts investment. It attracts an investment community that wants to achieve a better future, rather than one that is continually wallowing in discussions about the past and trying to outdo it retroactively. Therefore, of course, today when I listened to the President's speech, when he said, "It is not my choice, state capitalism, but my choice is ..." and so on... one wants to hear more of such speeches. When they say what we reject, they should also say, conversely, what our goal is and what we are striving for. This speech was an intelligible explanation of what the authorities want to do with the country, thereby taking responsibility for the goal that has been proclaimed. It is an extremely essential element, and it was great to hear it today at the Forum.

A. Rakhmanov:

A very interesting topic has been raised, so let us try to develop it a bit. Essentially, this topic involves long-term investment, in most of these concessions, and I think it is worth saying that, precisely about the formation of domestic investment potential and domestic investors. Because it is impossible to

change and build an economy by, for example, long-term foreign investments alone. Without a doubt, it is necessary to form domestic investment potential and domestic investors, to make sure that the money that has accumulated inside the country works as efficiently as possible, including within the domestic economy. And here, I believe it is necessary to look at what has already been accumulated. Of course, I mean the pension funds. How can the pension funds work most effectively in the economy? How can they be invested in those very infrastructure projects that are now the most urgent and necessary? Mr. Drozdov, go ahead please, I come back to you.

A. Drozdov:

In 2009, a resolution was already adopted on expanding the list of assets into which pension funds may be invested, and as you know, it now includes bonds, corporate bonds, not necessarily guaranteed by the state, and also mortgage securities of companies with certain ratings. So last year, everyone was invited to come up with projects to launch these instruments, and then capital assets—particularly those that are in Vnesheconombank—could be directed to these purposes. But in the past year, there were no such projects, and these funds were used only for the placement of RUSNANO bonds. We are waiting, and I think there will be projects this year. In particular, everyone is interested in toll roads and other primarily infrastructure projects. In addition, last year the limit in the mortgage market was about 250 billion, but, unfortunately, only 125 billion of it was used. I would like to say that pension funds are long-term, and they are growing. At present, the funded portion of our pensions is already half a trillion. And by the end of 2012 it will be 2 trillion. I think this has very good potential. In all countries, pension funds are invested in conservative and long-term projects. Simply put, I think what is needed is the will of the state and the confidence of

business to create long-term, non-speculative projects. For example, infrastructure such as housing, energy, etc. So we do have proposals. But not the demand yet.

L. Parfyonov:

Go ahead please.

A. Serov:

Thank you. I would like to expand upon the discussion of several topics that were raised here. These topics are the price of oil, the investment climate, openness, the value of Russia's future in general and the brain drain. Now let me introduce myself. I am Andrei Serov, a professor at Oxford University. I work in accelerator physics – a field that would seem to be a quite distant from the majority of the topics presented here. But I believe that these themes are strongly connected, because the innovation that we are all talking about comes from scientific ideas. And science is concerned with many things that need to be developed and improved in Russia, especially education, as we all know, but not just education. For example, in order to have good education in Russia, fundamental science also has to be developed. Because good professors, good teachers come right out of fundamental science. Here is another example: what is missing in Russia's innovation infrastructure, is the relationship between science and production. Because it is precisely this relationship that involves an element of great risk for companies, which cannot invest their hard-earned money in risky scientific projects. There has to be a structure—a state structure, a scientific structure—which shares the risk with the companies. In other words, scientific investment centres. This is an element which is very well developed in the West and which is now evolving, fortunately, in Russia, with Skolkovo being

a prime example. Next is the topic of values. Today we were discussing the price of oil. Why not discuss, along with the oil price, what percentage of the income from oil sales goes towards investment in science? In my opinion, this is highly relevant. Suppose the price of oil is USD 70. Then why not discuss the salary of a postgraduate student, for example, at some university? It should be very much correlated. This is the thing that really should be discussed and changed; it will change the future of Russia. Again, this topic of values: Why did I become a physicist? I read some book that was interesting, on the discovery of the 104th element in Dubna—that is what inspired me to become a physicist. The value of science and knowledge should be exalted in the Russia of the future. Thank you.

L. Parfyonov:

But Mr. Rahr said that there is no longer any brain drain, that that was the picture in the 1990s. On several occasions recently, when visiting the UK, I found that there are Russian societies at all of the British universities. I had an impression: who else is studying here, generally speaking? Both at Oxbridge, and the Business School. What is your feeling, what percentage of people today who are getting an education abroad are not going to return to Russia? Is it less than or greater than in the 1990s?

A. Serov:

On the problem of the brain drain, unfortunately, I must say that although it was correctly noted that now there is some reversal of the trend, that people are returning, still not so many of them are returning, and not only because the climate has changed and so forth. They are returning because they feel responsible for Russia's future. For example, I am a man of science, and we are trying to propose a project for Skolkovo in the nuclear sector, I hope it happens.

That is, I am not saying that the system is ideally ready for people who will return. We still require a great deal of effort on the part of those who might return, so that they really do return. And if there are no major changes, the brain drain will unfortunately continue. Because (returning to the theme of the openness of the economy) science is, generally speaking, a universal, open global community. There are no borders there; visas do not restrict movement.

For example, why will the brain drain continue? If there are not some kind of scientific projects here that attract postgraduate and undergraduate students to stay, then they will go back to where the science that interests them is being done. So what do we need? We need various scientific projects in Russia, large and small, new projects. Moreover, the projects do not necessarily have to be home-grown, because although there may now be good home-grown projects, unfortunately, part of Russia's science has already fallen behind. That means we need international projects, which are currently being developed throughout the world; we need to fight to have them on the territory of Russia. About the same way as it was done in order to hold the World Cup in Russia. That is the goal. For example, to have the Olympics in Russia. It is a noble goal, everybody understands it. To locate a large international project in Russia will be a very big strategic objective. What project? There are many; it could be some type of laser fusion; many international projects are now being considered at the planning stage, and the question of where they will be located is being discussed. For example, we all know about the Large Hadron Collider at CERN in Geneva. Statistics show that every dollar or pound sterling invested in this Large Hadron Collider—for example, by England—returns three dollars or three pounds; that is, one to three. Imagine, if this Large Hadron Collider had been in Russia? Then these technological investments and the brain-flow would have been to Russia. Something like this is necessary, and it certainly pertains to the system of values.

L. Parfyonov:

Well, so we return to the idea that while oil is flowing and gas is pouring, do we need a collider that gives back three roubles for each one invested? When you can now invest 1 rouble and get 12 back?

We have exhausted the agenda. Most importantly, your time, because we have been told to fit 20 years of Russian capitalism into 55 minutes. Thank you. If there are no further observations and no one insists on making a speech, as was said at previous forums, then again, enjoy your meal and enjoy the rest of the Congress. Thank you.

A. Rakhmanov:

Thank you.