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A. Shokhin:

We will be discussing challenges and opportunities of cooperating with Russia. We have invited to this panel the heads of foreign business associations active in Russia. I would like to give the floor to Reiner Hartmann, who used to be the Chairman of the Association of European Businesses for many years.

R. Hartmann:

Thank you very much, Alexander, and dear ladies and gentlemen. Welcome to our session.

First of all, I would like to introduce to you the panellists who are here. To my left is Roger Munnings, Chairman of the Board of Directors of the Russo-British Chamber of Commerce, and also an Independent Director of Sistema. Lou Naumovski, Chairman of the National Board of Directors of the Canada-Eurasia-Russia Business Association. Next to him is Michael Harms, Chairman of the very powerful Russian-German Chamber of Commerce, and next to him is Sammy Kotwani from the Indian Business Alliance.

The other panel members will be introduced as they come on stage, as we proceed.

I am pleased to welcome you to the third session of our Global Business Leaders' Summit. It is well known that the successful development of a country largely depends on business conditions created by the state. At this Summit, we are preparing proposals to the President of the Russian Federation, aimed at accelerating economic growth and increasing the level of the country's prosperity.

During this particular session, we shall discuss issues related to increasing the competitiveness of the national economy and the development of entrepreneurship in Russia. This session will be held within the framework of the International Council for Cooperation and Investment – an instrument that was

created between the RSPP (Russian Union of Industrialists and Entrepreneurs) and foreign business representatives in 2008.

The International Council for Cooperation and Investment is the host, and I am the Co-Chairman of this Council and moderator of this session.

The topic of today's session is Challenges and Opportunities of Cooperating with Russia, and, I must add, within Russia: The View From Business. I am pleased to introduce our speakers, and would like to now hand the microphone over to Roger Munnings, our first presenter.

R. Munnings:

Thank you, Reiner; thank you, Alexander. I am just going to mention one issue which I think is fundamentally important to doing business in Russia. As I go around the Forum this morning so far, it constantly recurs, and that is proper communication.

It is absolutely possible, in my own experience, having lived in Russia for 12 years, to have a conversation with a Russian person, either using an interpreter or using one of your mutual languages, and to think you understand each other, when you do not.

Now, when nothing serious is at stake, either in business or, indeed, in politics, I think that it is not so important that you do not understand each other completely. But if you are looking to establish trust over the long term, trust that gives you a residual pool of goodwill towards each other, then I think you have to go much, much further, and you have to explore motivations and have transparency of intention.

I think this is a mistake that is made by all parties to this. I was part of a discussion, just before lunch, where the point was made very strongly that in the time of the Cold War, when there was much at stake, it seemed that Western countries understood Russia and the Soviet Union much better than they do now, the reason being that there was so much at stake. Nowadays we may take too

much for granted. We may really have to put more effort into understanding motivations and intentions; into building that trust between us which is fundamental to the business environment, and trust within the business environment.

R. Hartmann:

Thank you very much, Roger. Before we proceed with the other presentations, I would like to make a short intervention about the resolutions. The work that has been done allowed us to develop measures the state should take to increase the investment attractiveness of Russia and accelerate its economic growth. Certain statements have been prepared which you were able to review prior to the meeting, which will later be presented to the President of the Russian Federation. Let me outline briefly the key areas of developing entrepreneurship in Russia. Firstly, stimulation of companies' investment activities to update production capacities and mitigate new technology.

Second, reduction of administrative barriers and withdrawal from excessive government regulation, and an orientation towards best practices in providing public services to business.

Third, increase the participation of business in expert analysis, to draft regulations and strategic documents. Any legal act that is drafted which affects the interests of business should, in our opinion, go through a public evaluation.

Fourth, providing for common Rules of the Game, and increasing the level of mutual trust between government authorities and business.

Fifth, improvement of the quality of business infrastructure, and activation of public-private partnership mechanisms in these areas.

Sixth, the development of the banking sector and increasing the availability of debt financing for investment projects on favourable terms and pricing. The stimulation of small and medium-sized enterprise development is the foundation of economic growth and job creation.

The improvement of the tax system's competitiveness to ensure a sufficient level of return on investments.

Ensuring the stability of the business climate in general.

The participants of the summit have selected the following areas of national economic competitiveness improvement priorities. These are: A decrease in the level of regulatory control; infrastructure development; investment stimulation; improvement of the banking system, and ensuring the availability of financing for small and medium-sized business.

I encourage Summit participants to comment on the questions mentioned in this resolution.

Since we have already started with Roger, prior to what I just read out, I would like now to hand the microphone over to the next presenter and speaker, Lou Naumovski.

L. Naumovski:

Thank you. I am Lou Naumovski, the Chairman of the Canada-Eurasia-Russia Business Association. I am very pleased to be here today.

Those companies who have been active in the Russian market, in whatever industry sector, do not need reminding of the great opportunities that are offered in trade and investment in this country. Canadian companies, 170 of which our Association represents, are no exception to this fact.

But at the same time, these companies are also intimately familiar with the administrative barriers that confront them every day in Russia. Those who succeed do so because they have found how to deal with and overcome these barriers.

Our two countries, Canada and Russia, have many similarities, many complementarities: social, demographic, and particularly in the natural resource sector, in the mining industry, in which I work. My comments today are about the administrative and regulatory barriers confronting both Russian and foreign

investors in mining. These are of particular relevance to many Canadian mining companies and junior geological exploration companies who have tried, but failed, to invest in Russia. And, of course, a few of us who managed to succeed.

The second statement, developed by the ICCI, that our presenter read out, about reducing administrative barriers and avoiding excessive government regulation, is something that those of us in the mining industry understand very well. The statement is, in fact, music to our ears, particularly for those companies involved in geological exploration.

In 2011, the Kinross Gold Corporation produced a study on Fostering Foreign Investment in Russian Mineral Exploration and Development. This study made recommendations that we believe can help boost investment in Russian mining and spur additional economic growth in regions such as the Far East of Russia, which are rich in hard rock metals and minerals.

Our recommendations were very well received by the government. They also complemented proposals that Russian mining companies have made over the years, on how to reduce administrative barriers, how to remove duplication of supervisory powers, how to increase transparency of inspection results, and also – a very important point – how to apply, as appropriate, best practices from other resource-rich countries, including Canada.

Although it has been slow, we are pleased to note that there has been some progress in the last three or four years. In the initial version of this scenario for today, Arkady Ivapovitch was supposed to join us, in his formal responsibility for the sub-soil. I would like to note that in the seven years that I have been representing Kinross in Russia, in contact with agencies such as the Ministry of Natural Resources and Environment, and the Federal Agency for Subsoil Use, Rosnedra, it has been amazing how the attitude of regulators has changed in favour of lowering regulatory barriers, and in favour of reducing regulatory oversight.

However, there is a lot more to be done, and the pace of change must be accelerated.

In particular, we believe that the Russian Government has an excellent opportunity in its overall approach to improving the socio-economic development of the Russian Far East by enhancing and speeding up reforms in the subsoil sector. We have two mines in Chukotka and we are very familiar with the challenges of developing that part of Russia.

The government's serious attention to the Far East of recent years is indeed welcome. But I would submit that even greater emphasis should be placed on the special role that geological exploration and mining, especially for precious metals, can play in the development of the Far East. I stress here that this can be done without requiring huge government subsidies or infrastructure investments. Most mining companies are quite self-sufficient. When it comes to smelting, that is a different story, but mining is rather self-sufficient.

In conclusion, I would like to say, and reiterate, our pledge that Canadian companies, led by Kinross, are ready to continue to share our experience and knowledge of best practices around the world with our friends and colleagues from the various government agencies. In fact, we have been doing so for many years, and will continue to do so in the hope that we will see more progress. Thank you.

R. Hartmann:

Thank you very much. I am sorry I was a little bit confused with my documents. I was supposed to ask the government representative to comment after every presenter, but as we can see, the chair to my right is still vacant. However, we just learned that Mr. Shuvalov has landed at the airport and will join us shortly.

My apologies. I skipped the introduction for Roger Munnings, concerning infrastructure; I shall put it at the end and continue for now.

Allow me to mention that one of the most effective options for reducing excessive regulatory burdens, without compromising national interests, is the replacement, where possible, of the mechanism of state control with alternative market mechanisms, including self-regulation systems and reliability. I would like to ask Michael Harms, Chairman of the Management Board of the Russian-German Chamber of Commerce, to comment on this subject.

M. Harms:

Thank you very much, Reiner, ladies and gentlemen. Thank you for the invitation and the welcoming introduction. I very much liked the statement by the Minister for Economic Development in the Russian Federation, Mr. Uljukaev, this morning, when he said that the only way for Russia to secure future growth is through investment. I fully agree with such a statement.

I think the most interesting question throughout this Forum, and throughout these discussions, will be what we need to do in order to stimulate further investment here in Russia.

We need two quite simple things. We need first and foremost a comfortable investment climate. I would say, and it is also the assessment of the whole German business community, that the Russian Government has done a lot in recent years to improve its business climate. The business framework has been clearly improving over recent years. We are currently also in close cooperation with RSPP. With the Agency for Strategic Initiatives, we are still working on that, through the National Entrepreneurship Initiative or the National Investment Rating, for example.

The second, and perhaps even more important thing, is market potential. Here we clearly have room for improvement. As you know, the room for improvement is the biggest room in the world! Let's look, for example, at the Russian automotive market. In our estimation it will shrink in the passenger car segment by something around 10 per cent this year; the Russian car market will not

achieve the sales target of 4 million passenger cars predicted for the Russian market. So we definitely have some problems with market potential.

Bearing these problems in mind, perhaps the problem of trust is currently the main problem in the Russian market. On the one hand, we should admit that the current political crisis is clearly having a negative effect on trust towards Russia; on the other hand, I think that the Russian Government is doing absolutely the right thing, by following a clear and stable economic strategy and further improving the business framework. This is, in my view, also the best signal for foreign investment and for guaranteeing trust in Russian economic policy.

So what are the main challenges from the point of view of German business, besides the current political problems? It may be the challenge of import substitution. The Minister, Mr Alexey Uljukaev, was also talking about that. It is a challenge, as well as an opportunity. German business, especially small and medium-sized enterprises – the so-called *Mittelstand* in business – has been successfully localizing complete supply chains here in the Russian Federation and in the Customs Union. That is a unique chance to improve our business here.

And what do we need for that? These are only quite simple things, but nevertheless I would like to mention them once again. It is, in the first instance, a problem of infrastructure for the supply of energy and power and gas. This is still a problem in a lot of regions in the Russian Federation.

The second thing is improvement and a de-bureaucratization in procedures and institutions. We should further speed up the procedures here in Russia. One example is still – I am sorry to mention – customs procedures.

The third thing is better education. Here we are also closely working, for example, with the RSPP. By this I mean mainly vocational training, mainly the model of the German dual education system, and to try to implement such a system here in Russia.

These are maybe the main points from the point of view of German business here in Russia. Thank you.

R. Hartmann:

Thank you very much, Michael, and no need to apologize for constantly reminding us of our shortcomings in the customs area. We have been hearing this, by the way, for many years, since I first attended this Forum some 12 years ago.

However what you said is true, definitely, that trust has to be restored. I was also very happy to learn this morning, that the Russian Government is definitely concentrating on these issues you just mentioned.

Let me emphasize: I would like to perhaps later ask our government representative here about the high potential of developing a system of regular law enforcement monitoring, together with the business community, aimed at identifying redundant and/or inefficient administrative state control mechanisms; allowing us to formally propose their elimination or replacement with alternative market mechanisms.

If we could achieve this, we would certainly be one step further, and the issues raised by Michael Harm would certainly also improve.

Now, let me continue with the presenters. This is Manoj Dhalumal (Sammy) Kotwani. We would like to ask him to comment on small and medium-sized business development in Russia. It is a topic which is close to the heart of the government, and industry that is supposed to be the backbone for generating employment and jobs. The floor is yours.

D. Kotwani:

Thank you. My dear friends, as the President of the Indian Business Alliance in Russia, which also represents small and medium-sized enterprises (SME), I would like to emphasize my support of SMEs in Russia.

We all know the share of the SMEs in economic growth in Russia is very insignificant. Due to bureaucratic hurdles, initiatives to start new businesses are delayed or even dropped.

Firstly, we need to clarify the definition of SME and which business sectors should fall under SME. An optimal and friendly climate for SMEs can be achieved through the support of regional government and government financial institutions. SMEs should not be taxed according to corporate tax structures. Large government business holdings should be decentralized to pass a part of allied services to SMEs and increase efficiency.

SMEs starting businesses in interior regions should be given tax holidays and subsidized interest rates on borrowings. Sector-specific economic zones should cater for SMEs, to increase the manufacturing base of the country.

Overseas SME investors interested in setting up local manufacturing facilities in Russia, should be attracted by setting up sector-specific special economic zones (SEZs) with preferential taxation subsidies, as well as customs duties to boost manufacturing and exports, making Russia a manufacturing hub. The same model is being followed by India and China to improve their business climate.

Fair and transparent immigration policies have to be drafted to attract investment. An effective organization to lobby and support SMEs, like RSPP, which supports large corporations, has to be created.

Dear friends, in addition to the Indian Business Alliance, I have also been appointed President of the OFBJP for Russia, the ruling party which has taken power in India recently. It is my duty and interest to develop and deepen the business relationship between Russia and India. I hope that an organization such as RSPP will support me in achieving the business relationships between the countries. Thank you.

R. Hartmann:

Thank you very much, Mr. Kotwani, and heartfelt congratulations on your new appointment.

D. Kotwani:

Thank you.

R. Hartmann:

And rest assured that RSPP, and especially the ICCI, will work closely with you in supporting this.

Now I have to come back to Roger, in closing this first panel session, with comments on infrastructure development.

R. Munnings:

Thank you, Reiner. After my comments on communication, let me see if I can communicate this effectively.

My role here, on behalf of the global CEO Summit, is to encourage government to keep up the pressure on infrastructure development. By infrastructure we do not just mean business infrastructure, we do not just mean transport and logistics, energy, information, communication, engineering and social infrastructure, we also mean the key parts of social infrastructure that affect people's feelings about working and living in their country: the education system, the health system, the housing stock.

It is probably well known that infrastructure is a significant part of competitive advantage, and there is a real opportunity here for Russia, provided it keeps its pressure on development.

It was extraordinary for me to fly into the new Pulkovo 1 terminal last night and, not having done it for a couple of years, coming in from the airport, to see the change. It makes you feel very positive about how Russia is investing in developing. I am sure that everybody who lives here feels the same way.

The difficulty with infrastructure development is not just keeping the pressure on, of course, it is financing it. Infrastructure is essentially a part of everybody else in the economy's cost base. To get a decent return on infrastructure financing, you naturally affect the competitiveness of the economy. The key is getting that balance right, between the return on investment and the overall cost to the economy. Private and public partnerships are seen as a very important way of doing this for the future.

Again, at the moment, one of Russia's major issues, I think, is liquidity and access to stable, long-term funding. This is not helped, of course, by the recent ups and downs of the rouble. Getting that fine balance right is going to be difficult but necessary, if public and private partnership is going to work. This is a key method elsewhere, of funding infrastructure development; the right balance is going to have to be found.

Key is also recognizing areas of obsolescence that are upcoming, so you can see the areas you have to work on, in preparing your infrastructure for the future. Proper recognition of growing obsolescence, in the time it is taking to come at you, and building replacement, is critical within that.

The final point I would mention are natural monopolies. A lot of investment is necessary in the natural monopoly area. What is critical is that this investment is not carried out at the expense of other areas of infrastructure which need investment. Getting that balance right is critical.

Again, because the infrastructure is part of the cost base of the rest of the economy, making sure that the return is adequate for the investor but not draining on the overall economy, is of critical importance.

R. Hartmann:

Thank you very much, Roger. That was very interesting. We have a few examples where infrastructure projects were actually draining the economy. For example, spectacular projects like the recent Winter Olympics in Sochi, or also

perhaps the development in the Far East, at the APEC meeting three years ago, where certainly a region like Vladivostok benefited tremendously from the investment in infrastructure.

R. Munnings:

I would excuse the Olympics, I think that was a great showcase for Russia. But it was, as you say, draining.

R. Hartmann:

Thank you, Roger, for these comments. Now I would like to ask the present panel to go please return to their seats in the audience. And I ask Daniel Russell, the CEO of the US-Russia Business Council; Rizanur Meral, from the Confederation of Businessmen and Industrialists in Turkey; Mirja Tiri, CEO of the Finnish-Russian Chamber of Commerce, and Bernardo Sanchez Incera, Co-Chairman of the Russia-France Business Cooperation Council, to please join me here on stage as panellists.

А. Шохин:

Уважаемые коллеги, я хотел бы попросить наш executive staff вывести на экран основные направления нашей дискуссии, чтобы аудитория могла ознакомиться с ними перед голосованием. Из пяти основных направлений, которые уже начали обсуждаться здесь, мы выберем приоритетные и потом, внутри этих приоритетных тем, выберем уже внутренние приоритеты. Посмотрите пока на экран и определите свою позицию.

Коллеги, я должен проинформировать вас, что господин Шувалов и господин Белоусов сейчас находятся на заседании Наблюдательного совета Российского фонда прямых инвестиций. Как только оно закончится, они присоединятся к нам.

R. Hartmann:

Thank you very much for this information. I will continue. We mentioned before that with the global crisis, the main focus in economic growth has been on attracting foreign investment. Although in today's increasingly complex environmental situation, domestic investors can be a key growth point for various regions.

I would like to ask Daniel Russell to take the floor first.

D. Russell:

Thank you very much and thanks very much for hosting this.

I was asked to speak about stimulating investment. I had the pleasure of looking at an excellent document, that RSPD distributed as the basis for discussion. There are certainly a lot of good points in here that bear repeating.

However, it would be remiss of me if we did not start by saying that I do not want to minimize the very real challenges to business that are posed by the Ukraine crisis and the sanctions. Certainly, the resulting tensions among governments are having an effect on the business community, most noticeably affecting new financial and investment decisions. Of course this all takes place against the backdrop of the Russian economy's downturn, which began last year.

Having said all of that, and despite these short-term challenges, when I speak to experienced business people from North America, it is clear that they remain committed to the Russian market in the long term. I think it is worth spending a couple of minutes to remind ourselves of why that is true.

The simple answer is not that hard to explain. It is because the strategic factors underlying trade and investment decisions that have been made, regarding Russia, have not changed. Russia continues to have abundant natural resources, superior human capital, a large under-developed market – particularly in areas like e-commerce and high technology – and untapped potential as part of a global supply chain.

Certainly, the United States and Russia's other international partners continue to be able to offer the technology and the know-how, as well as the investment and the venture capital, to help Russia achieve its modernization goals. This is all pretty straightforward.

The other thing I would add is that we should not lose sight of some of the very real progress that has been made over the past several years. I would like to start with a couple of examples made at the beginning of this discussion. These are: Russia's accession to the WTO, the United States' extension of permanent normal trade relations to Russia, Russia's current 20 point position improvement on the World Bank's Ease of Doing Business index, and many other things that we are all aware of here.

When we take this whole picture into account, and try to look at how to go forward, the question is: how do you begin to try to reduce the risk premium for investment in Russia, which has clearly increased during this political crisis period? It requires a good look at the trade and investment strategy toward Russia and that of Russia.

Let me offer five outcomes as 'food for thought' for further discussion, We certainly do not have the time to get into any of them in detail today, however, I think we certainly would be willing to work with our partners to try to stimulate investment. A lot of these have been touched on by some of the other panels, but it is probably important to see where the convergences are.

The first outcome is obvious. We want a more predictable and transparent legal and regulatory regime. We all know what that should look like. However, the important thing is to talk a little bit about how you get there. Part of this should be private-public partnership. Certainly there are already instruments in place to do this. The Foreign Investment Advisory Council as an excellent example, of where government and foreign business have sat down and looked at very practical and detailed issues, and come out with real, practical outcomes. That is a mechanism that should continue to be used.

Some of the areas that need to be addressed, again, are pretty obvious. One that has not been mentioned today is streamlining government procurement and helping to reduce the time required to bring new and innovative products to market here.

The second area that I would like to mention, in talking about trade and investment promotion and trade and investment initiatives, is that there are two large areas that deserve some attention. One is the regions, and the second is functional areas for investment. When we look at Tatarstan and other regions, and I think the Governor of Tula is going to be here today, you can see that there are a lot of best practices already taking place inside Russia.

My point is that you do not only need to look abroad to international partners to see some of the way forward: certainly, some of Russia's own regions are leading the way. They should certainly be involved in this discussion.

When I talk about functional areas, I am really talking about innovation. I will just give one specific example. We like to see tax credits and state guarantees encourage the use of advanced technologies for issues like energy efficiency in industry, where international partners can really help Russia achieve its goals.

Coming back to my theme, there are already tools in place that we can use to do this. One is certainly the Russian Direct Investment Fund. It has the resources for, and the interest in, projects in this and other areas. There is the Agency for Strategic Initiatives as well. These are groups that we, in the international community, should try to work with more, to try to advance some of these.

The last two areas I will mention, that I think the business community wants to help and support, are the development of human capital and small business development. Regarding small business, Sammy Kotwani made a very good case for this already. However, beyond the importance of the contribution of small businesses to their country's GDP, a lot of innovation comes from small businesses.

People are looking a lot right now at the shale oil and gas revolution taking place in the United States. They look at the big companies, the oil majors that are doing this now, but they tend to forget that a lot of the technologies that are used, came from the small, so-called 'wildcat' operators in the United States. Small business can be a real engine for innovation.

Certainly part and parcel of human capital has to be an emphasis on education. That is a place where the international business community can play a role. We have all of these instruments: exchanges, internships, ways to promote the development of a world-class business school or schools inside Russia. I would posit that the business community should focus on this area and try to work with Russian partners to make this happen.

The last area I want to highlight is property rights protection and privatization and it is actually mentioned in the RSPP statement. These are real signals that investors are looking for and paying attention to, particularly at a difficult time. Intellectual property rights is an area that is well known here. It is one area where there has been really significant progress over the past several years. Of course there is certainly more that can be done, particularly on enforcement, in a lot of intellectual property rights areas, and in many countries, including Russia and the United States. I think that would send a good signal to investors.

The other part is Russia's privatization programme. A lot of people are watching the privatization programme and hoping that it goes forward. Now, anybody who invests knows, this is not exactly the best time to put things on the market, but nonetheless, in terms of signals, people are going to be looking to see if the government remains committed to this.

In conclusion, I would like to thank Alexander Shokhin and RSPP for their emphasis on business-to-business dialogue. At a time when we have political tensions, we are going to need to fall back on other mechanisms to keep a dialogue going. And certainly, the business communities working together can do a lot on the issues before us.

I would urge them to accelerate their work; we are happy to work with RSPP, the American Chamber of Commerce, and other organizations represented here to try to move that process forward. Thank you.

R. Hartmann:

Daniel, thank you very much indeed.

А. Шохин:

Достаточно изучили то, что находится на экране? Предлагаю во время выступления следующего докладчика проголосовать. Во-первых, нажмите зеленую кнопку, а во-вторых, нажмите цифру, соответствующую вашим представлениям о приоритетах, обозначенных на экране.

R. Hartmann:

I will continue, thank you.

Let me mention that access to financing is essential, not only for large business. It can, however also be a constraint, as we know, particular to small and medium-sized business, in the impending economic development of a country. I would like to ask the representative and President of the Confederation of Businessmen and Industrialists of Turkey (TUSKON), Mr. Rizanur Meral, to take the floor.

R. Meral:

Thank you very much. Good afternoon. I would like to start by thanking and congratulating Mr. Alexander Shokhin and the organizing committee for organizing such a vibrant and successful Economic Forum. It is a great pleasure for us to be here, one year after the G20 meetings last year, in the beautiful and historical city of St. Petersburg.

Turkey is quite a developed country. In terms of SMEs, they are the growth engines of our economy, and considered to be the backbone of our economy. To

give some examples: 99.9 per cent of entrepreneurships are SMEs, 76 per cent of employment in Turkey is in SMEs, 63 per cent of Turkey's total exports are done by SMEs, and 93 per cent of those are industrial products. However, only 39 per cent of Turkey's exports are done by SMEs. Sixty-two per cent of the revenues generated are, again, by SMEs, and 53 per cent of investments are by SMEs.

TUSKON represents about 140,000 companies, and most of them are SMEs. We all know that Russia is very strong in aerospace and the defence industry, in gas and chemicals industries, metal and machinery, as well as advanced technology industries. However, Russia needs to focus on its SMEs in order to increase employment, to develop entrepreneurship, increase non-commodity exports, to substitute imports and to provide a continuous and more even distribution of wealth.

As TUSKON, we believe that Turkey and Russia are complementary economies; we share our experiences together. Every year, we arrange dozens of delegations to Russia, and from Russia to Turkey. These are business-targeted events, and they bring people together to exchange experiences. We are fortunate to have factory and facility visits in Turkey, and we help to increase the appetite for production and international trade with Russian SMEs.

We have found that this is really helping a lot. The two countries have now reached USD 32 billion of trade. Turkish investments in Russia are currently USD 13 billion. Now that the first companies have started, more and more SMEs are investing there.

We appreciate the continuing support of foreign investors by His Excellency President Putin, and his progressive and pioneering policies which have modernized and developed the Russian economy. These policies have generated a favourable investment environment in Russia. That is why we are working with Russia more and more.

However, we observe that investing in SMEs makes some more demands on the Russian administration. These are, very simply, more flexibility and speed in customs procedures, because SMEs do not have a lot of capital to spend. SMEs need quick turnaround; any delay in getting their raw materials, or semi-finished materials, can cause very high costs and interruption to their production.

Financing is also very important for developing SMEs, lowering costs in the long term and making access to financing easier. The tax mechanisms are generally made for large corporations. It is very difficult to follow them and apply them to SMEs. Easing tax mechanisms and providing for a faster collection of export VAT will motivate SMEs to export.

We observe that bringing key personnel into Russia is a little bit difficult. The system was established for large investments. Any top manager, who has an income of more than USD 60,000 per annum, can easily come to Russia. SMEs, however, cannot hire and do not need these expensive kinds of people: they have to bring in more skilled and experienced middle managers, like foremen or producers. So the system could be flexed for easing their work and living permits here, and also providing quick and easy infrastructure for SMEs is very important. I think this will help. Thank you very much.

R. Hartmann:

Thank you very much, Rizanur. I can only emphasize that SME companies in the countries we have just heard from now, have, for example, in a highly industrialized country like the United States, revolutionized the whole energy industry there, which has already had an impact on the global energy environment. So that is where small and medium-sized companies are at, in the United States.

In Turkey, the backbone of the Turkish economy today are SMEs. In Germany, 80 per cent of innovation does not come, as you would expect, from Siemens or DaimlerChrysler, but it comes from small and medium-sized companies. So, I

think it is high time that Russia promoted SMEs in a way that gives them a much stronger voice, and gives them more of a platform on which to build trust with the banking and financial system as well.

So far, so good. I would now like to further discuss the topic of financing. I would like to ask Mirja Tiri, the Chief Executive Officer of the Finnish-Russian Chamber of Commerce, to take the floor.

A. Shokhin:

Reinhard, please take a look at the screen and the very interesting results of our vote. Perhaps our next speakers and participants from the audience will comment on the results of this voting, especially the zero!

M. Tiri:

Thank you very much. I was actually hoping to share with you some of the results of the recent Finnish Trade Barometer that we carried out a couple of weeks ago. I wonder if it is possible to show you that: I did send the slides in advance. If not, then I will have to improvise.

Anyway, twice a year for the past 16 years, we have been carrying out a trade survey in Finland, among Finnish business people who do business with Russia and in Russia. We ask about 300 business people about their expectations and results, intentions and so on. The most recent Trade Barometer survey was carried out in late March of this year, so the results are quite fresh.

In terms of expectations about the Russian economy, Finnish business people have always been very positive, very expectant in terms of the growth of the Russian economy: 80 per cent to 90 per cent of respondents expect growth.

This time round, however, the figure is only 26 per cent, so obviously the atmosphere among Finnish business people in terms of expectations of the Russian economy and its growth, is not so great. I think this result reflects very well the results obtained from the survey of the Association of European

Businesses, which came out just a few days ago, that expectations have been lowered. That is not very good, because where is the motivation in that case?

Secondly, in terms of business from Finland to Russia and in Russia, there are close to 800 Finnish companies working in Russia, with quite a few of them, about 400 or 500, in north-western Russia, St. Petersburg and Leningrad Province. In terms of exports from Finland to Russia, expectations for the next six months are still optimistic: around 28 per cent of respondents expect their exports to Russia to grow, while 37 per cent expect it to stay at the same level as before.

Even though the numbers for growth expectations have decreased, compared to results from earlier barometer surveys, I would say that the 37 per cent who expect their exports to stay at the same level as before, are sending a positive signal, because only 27 per cent say that they expect a reduction.

In terms of business in Russia, among the Finnish companies who have localized their business in Russia, growth expectation is 34 per cent, one third of the respondents; 25 per cent expect it to decrease, and 36 per cent, another third, expect it to stay the same. So the majority of the Finnish business people, whether they are exporting or are trading in Russia, in production or in trade, have a quite positive mindset, in terms of growth or at least staying on the same levels as today.

We have been talking about investments. I cannot refrain from saying at this point, where investment in Russia is concerned, every fifth investment in Russia comes from Finland. In north-western Russia, it is almost every fourth. Finland is a small country of 5.5 million people, the same as the population of St. Petersburg. So in terms of the GDP and population, Finnish investments in Russia are quite substantial, up to EUR 12 billion so far, one the largest investors, of course, being Fortum.

During the next 12 months, out of these 300 respondents, 28 per cent, almost one third, plan to invest. They plan to invest more, to open up new offices, open

up new stores, open up new manufacturing facilities. Even joint ventures are of interest. This 28 per cent for investment potential is very good in terms of today's situation.

If we look further on, the next two or three years, the great majority of these respondents, 87 per cent, expect the Russian market to potentially pay off for them. It may be a small potential, but the potential is there; over a third expect it to be quite a high potential.

What does this mean in terms of future expectations, in terms of Finnish input into the Russian economy? It means that if everything goes as planned, if the business environment is as planned, then the Finns will continue to invest on a large scale, they will continue to employ Russian personnel. At the moment, Finnish companies employ over 50,000 people in their companies in Russia.

There are some obstacles. There has always been the obstacle of customs. Customs is always number one in terms of problems and hindrances. Now, it has dropped to third place, which is historic in a way, because this is the first time that the rouble currency and political situation have risen to be in the number one and number two position.

For Finnish investments to continue in Russia, the present situation needs to be cleared: problems need to be solved. I would also include here 'uncertainty' among the Finnish business people as to what is coming, what is around the corner. Stability and predictability are prerequisites for investments from Finnish business. Customs, financing difficulties and bureaucracy have already been mentioned in other speeches, but these also affect Finnish business people. This means that a transparent and well-working business environment is a prerequisite.

Regarding Finnish business therefore: please return to 'business as usual' ASAP. Thank you.

R. Hartmann:

We can only sign this one, return to normal. Do you want to comment on the results before the next speaker comes on?

A. Shokhin:

Reiner, it seems to me that we have to have a better situation, and not a return to the previous situation.

I am going to ask our audience to watch for the next talk. Priority number one is supporting small and medium-sized enterprises. Please choose the main measure of how to support SMEs.

R. Hartmann:

The previous results were quite interesting as far as improving the banking sector was concerned: there were zero votes for it, right?

A. Shokhin:

Yes, that is a good question for Mr. Incera.

R. Hartmann:

Yes, because now our next presenter is speaking on the creation of a favourable investment climate. A better investment climate is not possible without efficient banking regulation. This is a real challenge now for you. Mr. Incera, please.

B.S. Incera:

Thank you. I acknowledge what we have just said before: I understand that from the previous poll, none of you think that the banking system needs to be improved.

That is interesting in the sense that it means the recent revolution in the banking system was very positive. As you know, as the main shareholder of a Russian bank, Rosbank, the Société Générale Group, which I represent, is and has been

a long-term partner in the banking system in Russia. Russia remains at the heart of the strategy of the Société Générale Group.

What we have seen over the last 15 to 20 years, in which we have been active in this market, is that the regulation and the structure of the market has been progressively modernizing. We think that to reach stability, further improvement is needed. We strongly support the country's projects that implement a form of regulation that is the modern view of banking regulation. Not because it is perfect, but because in order to promote investment in a country, you need to create a stable environment. Having a stable set of regulations, a predictable set of regulations, is very important.

The second point is that I have to acknowledge and give credit to the Central Bank of Russia for the extremely positive actions they are implementing. The banking sector needs to work properly. What the Central Bank of Russia is doing, by making sure that every bank in the country becomes more disciplined, is that everyone plays by the rules; that accounting practices become clear and transparent. This is also an extremely important step in creating transparency and stability and, ultimately, predictability.

An additional step, which is improving – and there is probably still some room for improvement – is that the judiciary system needs to become much more predictable and transparent. To attract foreign investment and to attract long-term investors, we also need further improvement in a system which has already made significant progress, but in which there is still room for more.

For the banking system to play the main role that it does, which is to collect the savings of the population and use those savings to finance the economy, medium-sized companies, small companies and big companies, we need to create a more stable savings system. Stability, and creating the habit of long-term saving, in the market, is one guarantee of stability of investment. The compounding factor of stable savings stabilizing the sector, and making sure that

you can invest with a long-term view, is a guarantee for the promotion of business.

These are the three parts that we promote, and that we have been experiencing. If you look back over the last 20 years: we are now in a totally different and much more stable and predictable environment. The reason why we continue to invest in Russia, and the Russian banking sector is at the heart of the strategy of the Group, is because we believe this stability will continue. All the factors that have been positive up until today will continue, in spite of the current situation. All the factors are there for the country and for the stability of the banking sector.

We think that we can continue to promote the evolution and the development of business and enterprise and the entrepreneurial spirit in Russia. Thank you very much.

R. Hartmann:

Thank you very much for the presentations. We would now like to have some comments from the audience. I would like to call on Sven Magnus Brannstrom, Chief Executive Officer and President of Oriflame Cosmetics. Is there a microphone for him?

С.М. Брэннстром:

Я генеральный директор компании Oriflame, и мы присутствуем в России с 1992 года. Сейчас вместе с компанией Oriflame в прямых продажах, работает где-то миллион независимых предпринимателей. И я бы хотел, конечно, поддержать все те хорошие слова, которые здесь говорили о малом бизнесе. Я считаю, что очень важно, что мы продолжаем его здесь развивать. И, конечно, нужно говорить не только о законах и процедурах, но также о предпринимательском духе. Встречаясь с представителями государственных органов, наши независимые предприниматели чувствуют, что их не принимают всерьез, что они какой-то «черный» бизнес. Важно

также, чтобы мы сейчас все сделали так, чтобы быть предпринимателем в этой стране было предметом гордости. Эти предприниматели сейчас создают малые бизнесы, которые потом станут средними и большими бизнесами. Очень важно говорить о том, что они гордятся тем, что они независимые предприниматели в России. Это, конечно, не снижает важность того, что законы, процедуры вокруг нашего малого бизнеса должны быть более простыми, чем сейчас. Это мои комментарии.

R. Hartmann:

Thank you very much. Yes, what we really must do is take pride in independent entrepreneurs. That is excellent, one could not say it better. I think this pride has been developing, and is also becoming more and more visible from representatives such as yourself in this industry. Thank you very much.

The next is Yaroslav Lissovlik, Member of the Management Board, Chief Economist and Head of the Analytical Department of Deutsche Bank.

Y. Lissovlik:

Thank you very much, Mr. Hartmann. I think one area of difficulty that has not been mentioned so far during today's discussion is corporate governance. I think one of the problems with economic growth, that Russia is currently experiencing, is precisely this increasing disconnect between macro and micro factors.

We have seen a lot of improvements on the macroeconomic front, in terms of policies. There has been significantly less corporate governance at the micro level. In that regard, it is very gratifying to see, in the document that has been presented to us, a specific mention of corporate governance and the need to improve standards in this area. This reference to international best practice is very important. One of the specific suggestions may be to mention the OECD Corporate Governance Code as an example of one of the international norms,

which a lot of investors are now accustomed to. This code has been in operation for more than ten years; this could be a reference point for all of us here.

Secondly, we see tremendous opportunities in Russia in the regional sphere. We see change in the paradigm, in terms of economic growth. Moscow is starting to be a laggard, in terms of economic growth rates over the past several years, and it is the regions that are driving Russia's growth. We see new growth poles emerging, including in southern Russia. I think this issue of supporting regional growth, which was mentioned by Mr. Russell today, is a very important paradigm that we need to look at. Thanks.

R. Hartmann:

Thank you very much, Mr. Lissovolik. I fully agree that it is a good idea to look into the OECD Corporate Governance Code. I appreciate this recommendation. Thank you.

The next speaker from the audience is my dear friend, David Gray. He is Managing Partner at PwC in Russia.

D. Gray:

Thank you, Reiner. I would echo many of the points already made. The point about regions is very important. PwC has been in Russia for 25 years. We now have ten offices around the Russian regions, and actually I am extremely positive about the opportunities. Most of that opportunity is in the Russian regions. That is where we see the power of the small and medium-sized enterprises. Going back to the challenges and opportunities and some of the results of your survey, I do think there is a fundamental question. I have been coming to the St. Petersburg International Economic Forum for a number of years now, and every year I think I have heard the same thing about reducing the role of the state, reducing regulation, etcetera. I think it now comes to the point where I know I will be very

disappointed if I come another year and still hear the same thing, without real conviction that that is going to happen.

This is critical to the next stage of growth for Russia. Realistically, we have stopped growing, and we need to find new sources of growth. Those sources of growth are in the small and medium-sized enterprises, whether they be German *Mittelstand* companies, Finnish *Mittelstand* companies, or, most importantly, Russian *Mittelstand* companies – we need to do everything we can to support that growth. A key part of that is dealing with the overhang that is the Russian state, which is far too big and which creates all sorts of imbalances in the Russian economy, and which stifles a lot of the potential that is there.

We had a session this morning talking about talent. There are great, talented people who could develop new, innovative businesses in Russia, but they face an enormous amount of competition from the state sector, which stifles that potential. We must deal with that challenge.

R. Hartmann:

Thank you very much, David. Nobody could have said this more clearly and better than you. The regions are certainly in the focus of many potential investors, and it is always interesting to see the apprehension of the business environment from those who are already in the country and those who are still deciding whether to enter or not.

The survey results presented by Mirja Tiri, our Finnish colleague, were also interesting. Trust has dropped completely. Those who are investing additionally, almost one third of the Finnish investors, are those who are already here, they are not newcomers.

I would now like to give the floor to Emmanuel Quidet, President of the French-Russian Chamber of Commerce and Industry.

E. Quidet:

Thank you, Reiner; thank you, Alexander. This is the eighth Forum I have come to, and I agree: we have been hearing a lot of things over and over. We have been hearing it for eight years now. But I agree, everything now needs to come from SMEs. There are 1,200 French companies who invest in Russia, and if you do not take into account the 'tax paradise', the French are the second biggest investors in Russia. All the investment now is new SMEs; French SMEs coming to Russia.

So there is one thing which is extremely important: everything we said about bureaucracy, everything we said about facilitating the entry of new SMEs. Another thing, which is also key, is the banking, the financing for SMEs, which is still very difficult in Russia. We can clearly see some very good projects coming in, but with a lack of financing and many difficulties finding a bank in Russia ready and willing to finance their investment.

So my comment is that we need to ease the financing to be able to have more SMEs coming in. Thank you.

R. Hartmann:

Thank you very much, Emmanuel. I would now like to give the floor to an old friend of mine, Mr. Alexis Rodzianko, the President of the American Chamber of Commerce in Russia.

A. Rodzianko:

Thank you, Reiner. A fascinating discussion. The only addition I would make is that there was a point made by the World Bank recently in their study on Russian growth, that a big constraint on growth was very low unemployment. That low unemployment is driven by crowding out, by the public sector, which is a very attractive place to work.

That brings me back to the second point in the voting. The attractiveness of working in the public sector is that you do very little and you are accountable for

very little and you get paid very well; so it is a very comfortable position. Making bureaucrats more accountable for their actions – or their lack of action – would be a great result. It might force a few people to work in the private sector and maybe balance out the attractiveness of those two. That is all.

R. Hartmann:

Thank you very much. Interesting remarks. I would like ask Alexander to make some closing remarks, and also comment on our voting results.

А. Шохин:

Прежде всего я хотел бы поблагодарить всех участников нашей сессии, нашей дискуссии.

Я считаю, взгляд почти изнутри на ситуацию в России, на инвестиционный климат, на возможности улучшения деловой среды в России — очень важен, и жаль, что до нас еще не дошли господин Шувалов и господин Белоусов. Мы доведем до их сведения результаты нашей дискуссии. К сожалению, на Петербургском саммите очень много параллельных мероприятий, проходят подписания соглашений, советы директоров, наблюдательные советы. Поэтому у нас на предыдущей сессии был перебор официальных лиц, на этой сессии недобор, но в среднем по два высокопоставленных представителя Правительства и Администрации президента на сессию у нас пришлось. Давайте будем оперировать в пределах этой арифметики.

Я хотел бы доложить о результатах голосования на первой сессии. Вы все их видели, я просто просуммирую.

По теме международной торговли на первое место вышла активизация борьбы с протекционизмом. Я напомню, что на каждом саммите «Большой двадцатки» ставится цель борьбы с протекционизмом. Через год после

громких заявлений, как правило, приходится констатировать, что бороться с протекционизмом нужно еще активнее. И бизнес это подтвердил.

Вторая тема — финансовое регулирование. На первом месте здесь — шестьдесят один процент — такой приоритет, как недопущение отрицательного влияния финансовых реформ на финансирование долгосрочных инвестиций. Финансовая стабильность не должна вести к снижению экономического роста и снижению инвестиционной активности.

Третье направление — энергетическая безопасность. Здесь на первое место вышла такая мера, как регулирование энергетической отрасли на основе оценки рисков и экономического эффекта инвестиций. Речь идет о том, чтобы регулировать отрасль не исходя из данных тех или иных исследований, не всегда подтвержденных, а реально оценивать риски и исходя из них осуществлять инвестиции в эту отрасль. Этот приоритет выбрали также около 60% голосовавших.

Занятость и мобильность на рынке труда. На первое место, как и год назад, в рамках бизнес-саммита «Двадцатки», вышла макроэкономическая политика, направленная на стимулирование занятости и создание высокопроизводительных рабочих мест.

Тема открытости и противодействия коррупции и повышения качества управления. С большим отрывом на первое место вышло обеспечение равного доступа к государственным и муниципальным закупкам, особенно для малых и средних предприятий — две трети участников выбрали это направление. Замечу, что и год назад перед подобным голосованием у нас доступ к государственным и муниципальным закупкам был на первом месте — и для российских, и для зарубежных компаний.

Наконец, инвестиции и инфраструктура. Практически половина участников опроса отдали предпочтение развитию государственно-частного партнерства в сфере инфраструктуры. По всей видимости, мы исходим из того, что государственные инвестиции лишь тогда действенны, когда они

сопровождаются частной инициативой и оснащены эффективными инструментами.

Итоги голосования, которое только что завершилось. Я напомним, что среди пяти направлений повышения конкурентоспособности российской экономики на первое место вышла поддержка малого и среднего бизнеса, почти 42%; на втором месте — 37% — снижение бремени регулирующего воздействия.

В рамках снижения бремени регулирующего воздействия на первое место вышла ликвидация дублирования контрольных полномочий органов власти и обеспечение прозрачности их деятельности. Кстати сказать, все мы здесь несколько удивились нулевым оценкам улучшения ситуации в банковской сфере. То ли здесь уже все хорошо, работа по стандартам «Базеля III» уже никого не пугает, да и банкам развиваться уже некуда, то ли проблемы развития реального сектора экономики — инфраструктуры, инвестиций, малого бизнеса — волнуют предпринимателей в большей мере.

Тот факт, что дублирование контрольных полномочий органов власти беспокоит бизнес в большей степени, на мой взгляд, предъявляет жесткие требования нашим властям. Мы действительно сталкиваемся с тем, что очень многие надзорные органы пытаются расширить свои полномочия. С одной стороны, у нас часть функций переходит на саморегулирование, разрешительный порядок меняется на уведомительный. Тем не менее количество проверок, количество функций контрольно-надзорных органов не снижается, поскольку появляются новые ведомства и новые полномочия. И мы наблюдаем такую картину, когда, чтобы сохраниться, чтобы не отдать свои надзорные полномочия, например, саморегулированию, чтобы не исчезнуть с публичной площадки — существующие надзорно-контрольные органы придумывают все новые функции.

Я думаю, что мы еще внимательно проанализируем результаты наших трех сессий, результаты голосований и завтра донесем их до Президента Российской Федерации.

Однако наша задача заключается не только в том, чтобы поставить в известность российское руководство — и Президента, и Правительство, и законодателей, — но и в том, чтобы нашу работу использовать на всех площадках. В частности, в июле состоится бизнес-саммит «Большой двадцатки» в Брисбене, в Австралии; через год Россия будет председательствовать в двух международных организациях — в БРИКС и Шанхайской организации сотрудничества. Есть постоянно действующие площадки, такие как АТЭС. И мне кажется, что мы должны использовать все наработки, в особенности — те, что касаются глобальной проблематики и видения лидеров глобальных компаний относительно того, как улучшить ситуацию в мире, как обеспечить тот экономический рост, который должен, по мнению «двадцатки», увеличиться в ближайшие годы на два процентных пункта. Наши предложения и решения — это не только достояние Санкт-Петербургского экономического форума, не только достояние участников наших дискуссий, компаний, принявших участие в саммите. Они должны стать предметом рассмотрения на тех площадках, о которых я говорил.

Еще раз хотел бы подчеркнуть: — мы хотим, чтобы Global CEO Summit был постоянно действующей площадкой Санкт-Петербургского международного экономического форума. На Петербургском форуме даже в этом году, в достаточно сложной геополитической ситуации, присутствует много компаний. Практически ни одна компания не отказалась от участия. Другое дело, что некоторые компании не сумели делегировать первых лиц, но количество руководителей, принявших участие в саммите, на мой взгляд, позволяет говорить о том, что титул нашего Форума, а именно Global CEO Summit, оказался оправданным. Это действительно Форум chief executives глобальных компаний — как российских с глобальными амбициями, даже

реализованными в виде индустриальных подразделений за пределами России, так и глобальных международных компаний, которые активно работают в России. Поэтому мы будем встречаться ежегодно и ждем вас через год в Санкт-Петербурге.

Спасибо.

R. Hartmann:

Thanks to the panel and thanks to the audience for sharing this afternoon with us. Thank you very much indeed.