

ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM
JUNE 16–18, 2011

Business round table
RUSSIA – INDIA BUSINESS DIALOGUE

JUNE 16, 2011 — 15:00–16:30, Pavilion 5, Conference Hall 5.2

St. Petersburg, Russia

2011

Russia and India have long-standing and fruitful strategic commercial relations, encompassing a wide range of economic, scientific and technical matters, and has been an important element to fostering the development of high tech and innovation in both countries. The objectives laid out in India's long-term development strategy 'India: Vision 2020' and Russia's 'Strategy 2020', combined with the economic modernization goals set by Russia, provide an important framework on which to expand joint R&D and technology development. This roundtable discussion will address a range of policy measures aimed at strengthening existing trade and economic collaboration, particularly in support of fostering innovation.

Moderators:

Sergei Cheremin, Chairman of the Board of the Business Council for Cooperation with India

Balasubramanian Muthuraman, President, CII; Vice Chairman, TATA STEEL

Key panelists:

Sergei Ivanov, Deputy Prime Minister of the Russian Federation

Anand Sharma, Minister of Commerce and Industry of India

S. Cheremin:

Mr. Ivanov.

Mr. Sharma.

Mr. Malhotra.

Esteemed members of the Business Council for Cooperation with India.

Esteemed members of the Indian delegation.

Allow me to open this latest meeting of the Business Council for Cooperation with India. These meetings are traditionally held in the run-up to economic forums. The last meeting of the Council took place during President of the Russian Federation Dmitry Medvedev's visit to Delhi at the end of last year. It has already become a good tradition to hold a meeting of the Business Council just before the very opening of the St. Petersburg International Economic Forum. I am happy to note that we have more and more participants for the discussion. Not only that, I would point out that the growth has been qualitative. Major Russian corporations have joined us, including those outside the areas of high technology, telecommunications, manufacturing, and metalworking. The Council now includes corporations that work in the fields of aircraft construction, instrumentation and pharmaceuticals. We hope this trend will continue, and we, as a Business Council, shall make a dynamic contribution to the development of Russian-Indian business cooperation, and toward the fulfilment of that ambitious goal established by the leaders of our governments: to double the amount of trade between India and Russia and to bring the total amount up to USD 20 billion. I would like to hand over to my partner, Mr. Balasubramanian Muthuraman, president of the Confederation of Indian Industry, for a brief greeting. Mr. Muthuraman is also Vice President of the Tata Steel corporation.

B. Muthuraman:

Thank you very much your Excellency Mr. Ivanov, Deputy Prime Minister of Russia and co-chair of the India-Russia Inter-Governmental Commission; Mr.

Anand Sharma, India's Minister for Commerce and Industry; Mr. Cheremin, Chairman of the Business Council for Cooperation with India and Minister of the Moscow City Government; Mr. Ajai Malhotra, India's Ambassador to the Russian Federation; officials from the Government of India and Russia; my colleagues from India and my friends from Russia, ladies and gentlemen.

It is my privilege and honour to co-moderate the second India-Russia Business Dialogue at the XV St. Petersburg International Economic Forum in this beautiful and historic city of St. Petersburg.

On behalf of CII, my colleagues from India and me personally, I would like to express my gratitude for the hospitality extended to us.

India has always been one of Russia's closest and most reliable friends and partners. The year of Russia in India in 2008, and the year of India in Russia in 2009, have demonstrated the growing strategic partnership between our countries.

According to Russian customs services, the bilateral trade in the year 2010 witnessed an increase of about 15% over the last year and amounted to USD 8.5 billion. Russian exports to India increased by 7.7%, whereas Russian imports increased by over 40%.

With bilateral trade in 2010 amounting to USD 8.5 billion, the target of 20 billion set by the two countries by 2015 is definitely possible. Though we will need to do a lot of hard work through forums like this and through regular exchange of business delegations, and increase friendship.

Trade is heavily in favour of Russia. India needs to move up the value ladder and export to Russia, possibly products like automotives, pharmaceuticals, machineries and equipment, chemicals and petrochemicals, textiles, apparel, clothing, leather products, etc., not to mention services. Bilateral investments are growing and we hope that this trend will continue in the coming years.

I would like to share some very quick thoughts to accelerate the economic and business cooperation between India and Russia, so that some of our members on this round table could comment on some of these points during their remarks. One is to rapidly proceed on the CICA, to include trade and investment, as well as services cooperation, and mutual recognition agreements on standards. CII will consider having a website in Russian just like we have the Russian website for the India Brand Equity Foundation.

Cooperation between small and medium enterprises—India has some 13 million small and medium enterprises producing 40% of manufacturing output, 6% of the GDP, and half of exports—is now very dynamic, and entering into advanced technology spheres, and I believe that we should focus more on this sector.

Fourth, involve the private-sector and defence contracts through offsets, a set of special offset committees to work with Ministries of Defence. India's defence requirements are estimated at USD 100 billion over the next 10 years. With 30% mandatory offsets in the form of local manufacturing of services including skill development, the offset potential is some USD 30 billion. India and Russia can build excellent collaboration in this sector.

Fifth, participation of Russian businesses in CII trade fairs and special events—and I would particularly like to welcome Russian business to participate more and more in the Indian trade fairs that we conduct in India.

CII hosts a number of sectorial and regional product exhibitions showcasing the best of Indian goods and services. Russian business chambers could leverage these to develop linkages with Indian businesses and source products. CII would encourage our member companies to also look at participation in Russian fairs, conferences and exhibitions.

And once again, it is my pleasure as the President of the Confederation of Indian Industry to express my happiness and gratitude to all of you for hosting us here and to begin this conversation with business leaders. Thank you very much.

S. Cheremin:

Thank you very much, Mr. Muthuraman. Esteemed colleagues, next to speak will be Mr. Sergei Ivanov, Deputy Prime Minister of the Russian Federation and chairman of the Russian side of the Inter-Governmental Commission on Trade, Economic, Scientific, Technological, and Cultural Cooperation.

S. Ivanov:

Mr. Sharma, esteemed Indian and Russian colleagues, first of all, allow me to sincerely and with all my heart welcome you to the northern capital of Russia, to my home town, and even to the very neighbourhood where I was born. As was already said, the first Russia-India business dialogue took place one year ago at the St. Petersburg International Economic Forum. Today we have gathered for a second meeting, and thus a fine tradition is being born. That is, it can already be said that the Forum is becoming yet another traditional place for Russian and Indian businesspeople to interact, an event at which they can and should openly discuss any issues related to bilateral cooperation. And, in my opinion, we do indeed have topics for discussion. On the whole, in evaluating the state of our economic and commercial relations, there are solid grounds for saying that they are developing rather successfully. A raft of projects is in full swing, including projects in the fields of information and communications technologies, heavy engineering industry, atomic energy, and pharmaceuticals. Trade between the countries is on the rise. However, I must note that a worrying slowdown in the growth of bilateral trade was observed at the end of last year. Of course, this can largely be explained by objective economic factors, the basis of which was simply changes in world prices. But this must not be used as an excuse, of course, and the situation must be changed.

Here much, if not everything, depends completely on you—representatives of Indian and Russian business circles. The government, in my view, on the whole is fulfilling its function in the sphere of bilateral economic cooperation; but

to develop commercial and economic relations strictly through the efforts of governments, including that of Mr. Sharma, is very, very difficult without the support of the business world and, first and foremost, of the private sector. Of course, governmental structures do not exclude themselves from the process, do not want to stand on the side, especially given that India is a strategic partner to Russia, and we have excellent, long-standing traditions of economic and commercial cooperation with India. Nonetheless, the governments of both India and the Russian Federation are currently engaged in efforts to ensure that there is stable post-crisis growth in both India and in the Russian Federation. We can achieve that only by diversifying our cooperation, given the complementary nature of the two economies, and by initiating joint activities directed toward their technological modernization.

Here, of course, there must be special emphasis on the innovation component. By the way, something that is quite telling: why is India, in my opinion, currently one of our most valued economic partners? For the simple reason that half of Russian exports to India are high-tech products with high value-added, engineering products. We do not have so many trading partners to whom we export mainly technical and engineering products. At the same time, oil and gas make up only 5% of our trade with India. This is a rare case. India is one of Russia's largest suppliers of pharmaceutical products, which enjoy the deserved trust of Russian citizens, due both to their price and to their quality. I can say to our Indian partners that currently more than 800 Indian-produced medicines are officially registered in Russia. In this field, you are one of the leaders on the Russian market.

I believe that there are also real opportunities for expanding our cooperation in this area—in fact, this is something we discussed at the last meeting in Moscow with Indian pharmaceutical producers, I remember. And not just by way of increasing the import of medicines, but also by having Indian investors participate in the creation of joint production facilities, scientific research projects, and even

joint personnel training. If we speak about concrete projects, I should mention the planned activity of large Russian companies on the Indian market. One of the brightest examples is Sistema. Everyone probably knows this example well. Our companies also operate successfully in constructing nuclear power and thermal power stations, in the production of large trucks, and in the construction of pipelines, motorways and even metro systems.

Our Indian partners in turn express serious interest in participating in oil and gas projects in Russia and in third-party countries. The internationally known Indian company ONGC is, as you know, already participating in the Sakhalin-1 project on the basis of a joint venture agreement, and has a 20% stake in the project. Another promising area for cooperation between our countries that I have to mention as Chairman of the Board of Directors of the United Aircraft Corporation is, of course, aircraft construction. We have been working together successfully and for many years now in the sphere of military aviation. I propose that we go further and extend that cooperation to regular civilian aviation, because we are left with a paradoxical situation: in such a sensitive sphere as military aviation, we have cooperated closely, but in the construction of civilian aircraft we have, essentially, nothing. In this area, Russia has something to offer our Indian partners. First and foremost, we have modern, reliable, comfortable regional aircraft for short- and medium-haul flights. I am referring to the Superjet-100, the An-148, and the Tu-204SM. Although, speaking about the Superjet-100, it is probably difficult to propose collaboration, since its first scheduled flight, operated by Aeroflot, was made from Moscow to St. Petersburg today, meaning we have already moved from theory into practice, and I can only mundanely take advantage of my administrative privileges to propose that our Indian partners buy this plane, since it has already been launched and entered service. But we can think also about the medium-haul MS-21 and, in the future, wide body long-haul aircraft. The appropriate groundwork for this has been laid. A few words about GLONASS. I believe there is great potential in the creation of a joint venture for

the production of a consumer device for use on the ground. We are creating the facility in India and in the near future we will begin putting this system into practical use on a wide scale. Ladies and gentlemen, in summing up, I would note that Russia and India of course have a rich history of bilateral cooperation. However, we must not rest on our laurels. The future lies in new initiatives, new projects, and new achievements. So I really hope that today's meeting of the Business Council will bring to the agenda new, interesting proposals directed toward the expansion of the economic and commercial cooperation between our countries. Thank you very much.

S. Cheremin:

Allow me to present our next speaker, Mr. Anand Sharma, Head of the Indian delegation and Minister of Commerce and Industry of India.

A. Sharma:

Your Excellency, the Deputy Prime Minister of Russia, Mr. Sergei Ivanov, the President of the Business Council, Sergey Cheremin, the President of CII, Mr. Muthuraman, Ambassador of India to Russia, Ajai Malhotra, captains of industry from Russia and India, ladies and gentlemen.

Allow me at the outset to congratulate the deputy prime minister and through him, the team of technologists and scientists who were working to develop this Sukhoi Superjet 100.

Congratulations on the first flight today, and best wishes for many more such achievements in the future. It is yet another demonstration of Russia's great strengths in engineering, in technology development, and showing leadership in this field.

India and Russia have been engaged in a special relationship and I deeply appreciate the warm words which Deputy Prime Minister Ivanov has mentioned about our partnership, which is special, which is strategic, which is very

important, not only from the bilateral perspective from the regional aspect, but also in the global context with the changes that are taking place in the world, and the challenges that confront us.

It makes it imperative for Russia and India to continue enjoying a relationship which is so well documented in history, but based on trust and mutual respect, to consolidate these relations so that together we can make our own contribution in helping the world meet with such challenges ranging from food security, to energy security, the economic slowdown, global security, and terrorism.

There are many fields in which our two countries have worked very closely together. India has benefited over the years from Russian technology, Russian support and building, soon after independence, of our own industrial infrastructure, especially in the field of engineering and heavy industry, which was made possible because of the cooperation that India received in the early 1950s to set up those mega industrial units, whether it is the steel plants or the Bharat Heavy Electricals and oil and gas exploration, ONGC and others.

Today, we are providing more depth and more width to this relationship. There are no other two countries engaged in such diverse sectors, from nuclear sciences to space sciences, developing, working together, again as strategic partners for the GLONASS system where India has achieved success in its own space launches.

And today, we can say with humility, but with a sense of pride, that India is one of the global leaders. Much we owe to our special friend, Russia, and your scientists; also in the field of ICT and pharmaceuticals, and the entire field of life sciences which we have discussed in the past. I am not going to go into details, but even today we have revisited this issue to set up six joint working groups in the identified private sectors of engagement.

And these sectors do include ICT, pharmaceuticals, energy, finance and banking, infrastructure, and also nanotechnologies and material sciences. So we need to

put these groups together for a focused input for the next India-Russia Summit that will take place in Moscow.

Both the governments and the business leaders need to work closely together for us to realize what our larger objectives are. Defence is also a very important area of our engagement.

There are many achievements in the past, but today the two countries have developed the BrahMos missile, which is a leader and which has no parallel in the world, so I am told. We are also working together on multi-role transport aircraft, fifth-generation fighters and much more. I refer to all this to give everyone a sense of comprehension as to why we called this relationship "very special".

And I am sure that the leaders of industry who have developed their own strengths, who have the technologies, and also a will and a commitment to be global leaders, will take this relationship forward, looking at the pathways of cooperation that have been created between Russia and India.

The numbers are known to each one of us as to what the strengths are, but together India and Russia, our two economies are more than USD 3 trillion with the potential to triple, if not quadruple, within the next 10 years, thereby creating limitless opportunities for our young men and women, and also empowering people through the fruits of economic development and inclusive growth.

I would like to assure that India has an abiding commitment to continue working steadfastly with the leadership, with Sergey Ivanov and my other friends, ministers of industry and commerce, but also our captains of industry, share that commitment to work with the leaders of Russian industry.

We have set targets. Those are achievable, of USD 20 billion by 2015. Please help us to achieve that and next time when Deputy Prime Minister Sergey Ivanov and I meet all of you, you should give us some good news, of more investments, of more trade, more technology collaborations, and our very best wishes to your deliberations. Thank you.

S. Cheremin:

Thank you, Mr. Sharma. Allow me to hand over to Mr. Ajai Malhotra, the Ambassador of India to the Russian Federation, for a brief greeting. He has been in Russia for a short time and, I think, can already give us his fresh impressions. I would also like to express gratitude to the Indian Embassy, which has provided us invaluable assistance in organizing the work of the Business Council.

A. Malhotra:

Mr. Sergey Cheremin, Your Excellency, Deputy Prime Minister Sergei Ivanov, Your Excellency Minister Anand Sharma, distinguished captains and representatives of Russian and Indian business.

I am delighted to participate in the second India-Russia Business Dialogue, which has become an important feature of this prestigious forum and provides a useful platform for interaction among our business representatives. Our leadership has placed special emphasis on direct business-to-business linkages as an important instrument to develop bilateral economic cooperation.

This is reaffirmed by the presence today of senior ministers of our governments. I also acknowledged the efforts of CII and the Business Council for Cooperation with India in mobilizing a high-level business presence in this dialogue, and especially thank Mr. Muthuraman for his kind words addressed to the embassy. As the Honourable Minister from India, Mr. Anand Sharma, pointed out, India and Russia enjoy a very special and privileged strategic partnership.

Our rock-solid ties extend beyond close and regular summit-level political interaction to deep-seated, long-term cooperation in key areas, such as space, defence, energy, science and technology, and others. Our partnership in these sectors is developing extremely well and we will continue to promote them as a matter of high importance.

At the annual summit in December last year, the Prime Minister of India and the President of Russia underscored the need for concerted efforts to further develop our economic ties as an additional pillar of our strategic partnership. It is this objective that we seek to promote through today's event. As you well know, India and Russia are both large, rapidly-growing economies.

India is undergoing a very fast pace of development. There is a fresh dynamism amongst our people and a collective sense of optimism in our future. India represents an economy of well over a billion consumers. It has a young and skilled workforce, a rapidly transforming economy that, as the minister pointed out, requires major investments in many sectors, including infrastructure.

Russia, in turn, is an economy richly endowed with natural resources and possessing a highly-trained, talented workforce capable of generating some of the most advanced technologies in a variety of sectors. Both have dynamic and innovative entrepreneurs. And I think our complementary areas are evident for all to see. India can certainly be a long-term partner and a reliable partner in Russia's modernization. Our companies have the capacity to invest and the technological edge in many sectors.

We can be a technology source for Russia in IT, pharmaceuticals, hydrocarbon processing, and so on. We can also be a dependable partner in long-term arrangements concerning diamond processing, fertilizers, and hydrocarbons. We also need to more intensively explore business opportunities in areas such as biotechnology, nanotechnology, and others.

And certainly move beyond a mere buyer-seller relationship into joint production and joint development, as has been done over the years in many instances. An example of which was given by the minister, that of BrahMos. Greater exposure is required to each other's latest achievements. I do believe that we need to see that we are not bound by old mindsets and stereotypes about each other.

We both have much to offer and both our countries are evolving in the right direction. And I do hope that such issues of changing mindsets and spreading

information about each other's latest achievements are a focus of today's business dialogue. While our business communities have to lead in charting the course of future collaboration, governments have to provide a supportive framework.

First of all, we need to liberalize the issue of business visas and work permits. This has been a request from industry on both sides that I have repeatedly heard in the three-odd weeks that I have been here. Well, I am delighted to inform you that effective June 12, the Indian Embassy has implemented several practical steps towards this end, which I am sure would be welcomed by our Russian friends.

Specifically, we have liberalized our business and tourist visa regime for Russians travelling to India. Instead of taking a minimum of 10 working days, we are, since June 12, taking three working days to issue a business visa for Russians travelling to India. Moreover, while we were earlier issuing a 3- to 6-month visa with a single or double entry, we are now routinely granting a one-year multiple-entry business visa.

As for tourist visas, we now grant a 6-month visa with triple or multiple entry, rather than the earlier short-duration ones we were giving with a restricted number of entries. I do hope that these changes will facilitate business and other travel from Russia to India. And I certainly look forward to it being reciprocated both in terms of business visas and work permits by our dear Russian friends.

I do hope that this in a small way would contribute to better interaction amongst our two countries as we look ahead to achieving the goals that we have set and the noble aims which are guiding us in the work that we are doing together. I thank you and I wish you successful deliberations. Thank you.

S. Cheremin:

Thank you, Mr. Ambassador. I think that for the business representatives here today, it is delightful news that the approval period for visa applications has been

cut from 10 days down to 3. In the past, I felt the squeeze of the administrative processes on me when getting visas, especially multi-entry ones. Of course, that is very pleasant development, thank you very much. Please allow me to move straight to the discussion...

S. Ivanov:

Excuse me, but it will be a pleasant development when visas are eliminated altogether.

S. Cheremin:

Let us get straight to the discussion by sector. It has been proposed that we begin with industry and high-tech. Please allow me to turn things over to Aleksei Mordashov, General Director of Severstal, one of the Russian Federation's industrial leaders.

A. Mordashov:

Thank you for this opportunity. Mr. Sharma, Mr. Ivanov, ladies and gentlemen. For us, India is becoming a more and more important country, and not only as a trade partner but also as a place with great potential for doing business. India is demonstrating more serious economic progress all the time, which creates a platform for foreign, including Russian, investors. It has an enormous and growing population that, in all likelihood, will overtake that of China, by all estimates, around 2030–2035. That is very important—a young population, high rates of economic growth. In the recent crisis, India demonstrated a high level of stability and an ability to withstand the crisis, with the country's GDP rising by 10.4% in 2010, which is the highest rate among the BRIC countries. That being said, India does, of course, have its specific difficulties when it comes to doing business, difficulties inherited from the past.

We—Russian companies, including Severstal—I think we are well prepared, by respecting the interests of our stakeholders, to properly build a business in India to achieve economic benefits—profits for investors and the satisfaction of India's interests and of the Indian population. We—specifically Severstal—are currently active in two different spheres: ferrous metallurgy and power plant engineering. We have not done much so far in India, but we plan on doing quite a lot. We are currently working out the details of a serious joint venture with a major, dependable Indian partner—the National Mining Development Corporation (NMDC)—with whom we want to build a steel mill together in the state of Karnataka with a capacity of around 2.5 million tonnes in the first stage, and with a possible expansion to 5 million tonnes, with total investment in the first stage of around USD 2 billion. It should be a plant with low production costs, using local Indian iron ore and competitively priced coal that we will import from Russia. Of course, production from that plant will be targeted at the growing Indian market. Today India consumes 52kg of steel per capita, which means it is an already substantial market given the current size of India's population. Given that the average per capita steel consumption in the world is 186kg, and in many countries 200–300–400kg, we see gigantic potential for growth in the steel market in India, and believe that we can be excellent participants in this market, benefiting both India and ourselves. So right now that it is an extremely important project for us.

We also have a few ideas about things that could be done and built in India. But we believe that India, out of all the countries in the world outside Russia, is the one with the most potential for us currently, in terms of growth potential and the return on our investments in the near mid-term and in the long-term. And, by the way, in the recent crisis India showed its best side. The Indian market was the most stable and reliable among all the commodity markets where steel is sold. There is also a whole other set of projects that we are developing as another company, Power Machines, the largest Russian producer of turbine

generators, which has already established a good reputation for itself in India. Power Machines has built a whole array of electric power stations, hydroelectric stations, thermal power stations, participated in the construction of nuclear power stations, and we have also seriously considered the possibility of investing in India, in the creation, possibly, of a joint venture with a local Indian player in order to establish local production in India. That too is still in the preliminary stages of consideration, but, all the same, we are seriously thinking about it, understanding the potential the Indian market has.

In conclusion, I would like to say that our Indian colleagues and the Indian governmental authorities on various levels have been very supportive to us. And that even given the fact that, of course, it is not so simple, and a lot of effort is required. But you have to expend a lot of effort everywhere, while India has the kind of potential that is difficult to find elsewhere. So we are very grateful to our Indian partners, grateful to the Indian authorities, and we have high hopes for the future. Thank you.

S. Cheremin:

Thank you very much. It is gratifying to note that leaders of heavy industry and especially of the metallurgical industry have begun to turn their attention to the—in our view, undervalued—potential of the Indian market. Everyone remembers the glorious triumphs of the Soviet Union, when enormous metal works were built in India and the foundation for the metallurgical industry was laid. Let us hope that these nice traditions will be continued through your efforts. Allow me to present our next speaker, General Director of Aviapriborostroenie, Andrei Tyulin.

A. Tyulin:

Mr. Ivanov, Mr. Sharma. Allow me to thank you for the invitation to participate in this event. We are new members of this club, but I think that we are here to stay. In the modern global world, competition is also becoming global. The competition

is not individual national companies, or even a government as a whole. It is transnational consortia. Our company works in the sphere of aviation instrument engineering, and we have felt that trend fully even on the domestic Russian market. The reason is that the uncoordinated efforts of a large number of enterprises, research institutes, construction companies, and factories, could not withstand the global onslaught of European and American mega-companies such as Thales and Rockwell Collins. As a result, Russian Technologies united the efforts of three independent sub-holdings and more than 40 different enterprises. The reason is that the size of the economic players is becoming the most important factor for success in the market. The bigger they are, the better chance they have of achieving success in global competition. But these alliances can be formed not only on the basis of intensive political cooperation among governments and an accord of countries' national interests, but also if there is approximately equal overall technological potential.

In our view, Russia and India are ideally suited for a privileged partnership in the sphere of high-tech. This is facilitated by the unique history of cooperation and, no less important, by the willingness of Russian developers and enterprises to share their high technologies with India. Our bureaucratic and business practices are highly compatible, if not similar, though these practices are, unfortunately, beginning to stand in the way of the innovative and high-tech component of our relations. One example of high-tech development in the field of aviation instrument engineering is a Russian-Indian project to develop and produce under licence on-board equipment for the SU-30 MKI in India. Our side—a sub-holding of the Aircraft Engineering Corporation—exports technical documentation, technological equipment and components for technical cooperation and licensed production of on-board equipment for aircraft. We cannot boast the same volumes as our partners, but the trade volume of this partnership specifically in the sphere of high-tech has already reached a level of more than USD 200 million.

For this project, the Indian side is developing main units for this aircraft's radar system and is successfully integrating them into the Russian-made product in India. But that, unfortunately, is the extent of our technological cooperation. It seems to us that large finishing projects currently dominate in the areas of engineering and aircraft construction, and that is mainly delivery, licenced assembly, and after-sales service. There are not many examples of joint development projects and still fewer examples of joint innovation ventures. Our enterprise has at its disposal the kind of technologies that are currently in demand on the market and competitive, but it is becoming more and more difficult for us to develop them on our own. I would like to point out that these technologies define the government position in the instrumentation sector, which is a significant segment in the government's market economic policies. These technologies are never transferred to third parties. We have attempted to work with our overseas partners, and with the United States (with the companies Rockwell Collins and Thales), but, unfortunately, we have become convinced that technologies are not sold or transferred within the context of joint projects. Without spending a lot of time on this issue, I will just say that we are prepared to transfer to Indian partners such technologies and such significant technologies as radar-production design technologies with active phased array (we have such technologies; we have tested and refined them), non-platform inertial navigation systems, intelligent transducers, cockpit control panels, and an array of other aviation-engineering technologies, and not only for military aircraft but also for civilian.

That said, we understand that the era of vertical cooperation, when Russia was the source and India just the customer of high-tech products, has likely come to an end. A time of horizontal cooperation has begun, when we act as completely equal partners, carrying out projects as risk sharing partnerships. The trade paradigm is replaced by one of collaboration, in which the economic interests of both sides begin to prevail, as in the areas of joint development, refinement of

technologies, and production. The forms of cooperation can be diverse—either a joint project, or a joint venture—everything will depend on the business plan of the projects themselves. In preparing for this event, we discussed these formats with various Russian innovation companies—medium-sized, large, and small—and their positions on the subject coincide. In that context, the desired future of Russian-Indian relations is a future with a common market for high technology products and instrumentation. We want that, and are ready for it. I hope that the proposed projects and technologies are interesting for India, but in order to carry out joint work, Mr. Ivanov, Mr. Sharma, we must introduce a few changes and adjustments to the makeup of the working groups divided by area of focus so that those areas that we talked about do not just acquire status, but so that specific partners are found on the Indian side. And we are prepared to work together towards these goals. Thank you.

S. Cheremin:

Thank you very much. It is probably of particular importance that cooperation is not only at a high level at the stage of finishing the products, but also on a middle level. That would create a serious platform for a higher level of cooperation. Allow me to present our next speaker, Victor Mazhukin, president of the Transport Engineering Corporation. The corporation is set to participate in the design and construction of a factory in India that will produce special tankers and rail cars. This seems to us also to be a very interesting and very promising project.

V. Mazhukin:

Mr. Ivanov, Mr. Sharma, esteemed colleagues. Mr. Cheremin already said practically everything about what we wish for. Our countries' governments have been set the task of increasing the volume of trade. The railway engineering sector is one of the most capital intensive and undeservedly forgotten ones,

although the traditions of the Soviet Union and of Soviet-Indian friendship brought us good results. But I would like to draw particular attention to this: we want to bring trade up to USD 20 billion, and every 10,000 railcars is about USD 1 billion in trade. Transport engineering is undeservedly forgotten, and I would like to draw my esteemed colleagues' attention to that. There is a consortium of railcar builders in the Russian Federation that includes 10 leading factories that deliver 70% of their production domestically, 4 leading institutes, and research and design bureaus. The factories in the railcar construction consortium are prepared to return to the Indian market and, together with Indian railcar producers, increase trade volumes. The largest of the leading enterprises in our consortium is Uralvagonzavod (unfortunately, the General Director is running late due to a flight delay), which has a large amount, I would say, one of the largest amounts of experience in collaboration and cooperation with India. We would consider it wise to return to the way things were done under the Soviet-Indian relationship.

And despite the fact that we know that Indian industry refines new kinds of manufactured goods rather well, even very well, guided by American and Australian technologies, we also have a variety of technologies, a variety of products, that we would be interested in developing together with you both here and there. So in the working groups and within the context of the Russia-India Business Council, we would like to return to this issue and, beginning at the end of this year, finally to choose ourselves a partner (we have not been able to find one to this point), with whom we would create a Russian-Indian venture for specialized railcars and new trollies, so-called 'track-friendly' bogies, which we have and which Mr. Ivanov knows well. I would like the support of the Business Council and of our esteemed Indian colleagues on that point. Thank you very much.

S. Cheremin:

Thank you very much, ladies and gentlemen.

B. Muthuraman:

Three comments. In fact when my good friend Alexey Mordashov was speaking in praise of India, first for a few minutes I thought I was speaking, and not Alexey. So thank you very much for all the remarks. Let me call upon Mr. Deep Kapuria, who is the chairman of Hi-Tech Gears, to speak on the subject.

D. Kapuria:

Honourable ministers on the dais, the two leaders of the business delegations, friends from both sides. We are in automotives and also spin-off technologies. Today India is known for not only IT technology but is also fast becoming a hub for mobility. We all know that India is now a hub for the compact car. And within the car, now even in the small Nano, there are 32 patents, which means a lot of technology is going into a compact car. We are into this as well and we are spinning this off as, first, starting from the high-engineering software which does FES, which does motion analysis, and packaging.

Besides this, we are also getting into robotics. Robotics, not only industrial, which are like robots working on the shop floor and AGVs, but service robots which are servicing their defence, both in terms of homeland security and external threats.

We are the first company to have prototyped the Indian tank for being autonomous through our own software and through our own system integration.

We are also into robot recharge and we have supplied to the Indian defence army certain robots which can take proactive actions and, thrown in a hostile environment, can be very, very productive in terms of securing the environment and also taking autonomous actions.

We employ nearly 15 people with PhDs also doing field research and then transferring them into proactive processes for other applications of SI. We are

buying sensors from outside of various kinds. We are also buying today technologies like cameras, etc. from outside.

I think this calls for, not only a wide range of cooperation, because as it was just said, that USD 30 billion in terms of the defence localization is about the same amount in terms of outer space technologies, which is going to be a local content within space.

And the focus of India, I would say that the author of this is the person that is sitting right here, Honourable Minister Sharma, who has made manufacturing a focus. So along with manufacturing, the ICT contributing to the productivity of manufacturing, there is a major opportunity to cooperate.

We are ready to invest today. I think the Indian industry is already mature enough to invest here and take back the technology. So we are ready to invest. We have certain expertise in managing the shop floor. We know how we can deploy the lean systems to the integration of Japanese systems, the local systems, and also to really efficiently manage the shop floor.

So this synergy can actually be a lot, in terms of bringing the innovation and traditional technologies and bringing its value base, which can contribute value to both sides. So here is an opportunity. We are looking for cooperation and also both in terms of automobile transmissions, the sensors to man those transmissions, and on the defence side. So it is a great opportunity.

B. Muthuraman:

Thank you, thank you very much. May I now request Mr. Jayadev Galla, the managing director of Amara Raja Batteries, one of the largest manufacturers of batteries in India, to speak

J. Galla:

Good afternoon, everyone. Thank you for giving me this opportunity. I represent the battery industry in India, mainly we are involved both in industrial applications

as well as automotive applications. We currently are not involved in consumer applications yet, but we are planning on getting into that as well. Industrial applications include things like telecom infrastructure, railways, power, oil and gas. I think if we look at battery consumption in the country, I consider it as a key economic indicator. Everything from infrastructure to data centres to transportation to consumer electronics are the industries that we supply. So the health of a battery industry in a country is a very good key economic indicator, in my opinion, as far as how the sectors are doing. And these are very important sectors in any economy.

We know, and everyone must have heard of the telecom story in India, that telecom is growing and continues to grow. We have nearly 100% penetration in cities and about 40% penetration in rural areas today. And we are still adding about 20 million subscribers every month into the network. Investments from all over the world have come in to the telecom sector. And the telecom sector has shown its innovativeness in terms of business model innovation to bring the cost of telecom to probably what used to be the highest in the world and within several years brought it down to almost the lowest in the world. Today, you can call anywhere in India for one paisa per minute, which is unbelievable if you think about what the rates were about 10 years ago. I believe that that is something that the Russian industry could probably learn from India as well.

We also supply to railways, which is a very steady requirement, and we also supply to UPS, which is a very high-growth sector right now because of the data centre expansion that is taking place in India.

If we look at the industrial growth rate, our company has been growing at about 30% CAGR, compound annual growth rate, for almost 10 years now in both industrial and automotive applications. In automotive, Mr. Kapuria has already detailed quite a bit, but I would just like to share a couple of things. One is that we are looking at automotive growth that is a bit cyclic, I guess, but we are looking at a high growth rate sometimes of 25% to 30% in a year, maybe going

as low as 10%. But it is steady and expected to be that way for the next at least 10 to 20 years, I would say.

India is a net importer of lead. Lead is a raw material that is used for most of the batteries manufactured in the world for lead-acid batteries, for these applications. There would be quite a good scope to look at whether there is a supply capability from Russia. From what I understand, the best-quality lead today in the world is coming from Kazakhstan.

On the technology front, we have been working with partners and with global OEMs. We have come a long way as far as product development, and I would say that in the product development area, today the industry is world-class in India. But we have a long way to go in basic research, especially in material research, material sciences.

If you look at the market in India, for the aftermarket for batteries, whether it is industrial or automotive, the retail segment is very underdeveloped. Your primary customer is still a shopkeeper. There are millions of shopkeepers in India that make up what we consider the primary market. And just to give you an idea, we distribute about three million batteries a year in the automotive aftermarket through almost 25,000 retailers. So that is the type of customer base that you have to deal with even before you get to the consumer.

From a manufacturing perspective, India has gone through the quality revolution to a large extent. Most of the companies that are supplying always especially have all the certifications, whether it is ISO or TS or any of the other requirements that OEMs require.

And I would say that many industries have also reached a point of cost leadership as well. So from a quality and cost perspective, India has definitely reached global standards. Employee cost tends to be about 6% to 12% depending on the industry, and we have a very high cost of power, a very high cost of finance in India.

Where do we think the weaknesses in the manufacturing sector in India are? One is components, especially electronic components. There is not a very large component industry in India today. Capital equipment for assembly requirements is also a great need that we continue to import from various parts of the world. Machine tools and instrumentation and controls, these are areas that we still feel that are very underdeveloped in India and we depend on countries outside and we could probably look for support from Russia as well. Thank you.

B. Muthuraman:

Thank you. May I now request Mr. Loomba, who is from the semiconductor industry from India, to speak, and if I may request Mr. Loomba to—and everyone else for that matter—to restrict their comments to about three minutes, that would help the process.

D. Loomba:

Sure enough, Mr. Chairman. Thanks for giving me the opportunity. To all the audience here I would really want to remind that India is today probably producing the largest number of engineers and graduates in the world. Education in India has gone private. We have a huge number of private universities. The second-most important development that has happened in India is that for the last three to four years, India has been constantly increasing the number of patents filed by about 20% to 25% annually. Our total investment in R&D as a total of the nation's GDP has, I think, gone to almost about 1%. We are of course far from countries like Israel, where their total investment in R&D is I think over 10%, or even in Finland. But we have come from 0.2% of GDP to 1% of GDP in just about five years, which is very remarkable.

India, since I represent the semiconductor industry, has today got a clear target of producing 30 gigawatts of solar power under the Indian Solar Mission, which is a huge opportunity for the entire semiconductor industry, especially in Russia. I

see a very clear synergy because Russia has a fabulous school of thought, a school in material science.

We as a company, we are ourselves a semiconductor company. We are investing money in Russia, as we are probably by 2012 going to commence production of gallium nitride crystals, hopefully in St. Petersburg, and maybe if possible close to the region of Honourable Deputy Prime Minister, somewhere close by.

So in the end, I would really want to emphasize one very important issue that I suppose a lot of people, especially those representing nations... I am talking about the Honourable Minister and Honourable Deputy Prime Minister... have made apparent, which is that inflation is happening, resources are reducing, and the contribution of science and technology, in which I would request everybody to invest in, is that we can raise the efficiency of utilization of resources. If a gas composite cylinder... and believe me, more than half of Delhi today is travelling on natural gas. If all composites, all cylinders, which are today made of steel, would be changed over to composite cylinders, can you imagine the amount of steel we would be saving?

A simple calculation—we produce LED lamps in India—and a back-of-the-paper calculation showed that if all lamps that are sold in India, which is about one and half billion every year, were converted to LED-based lamps, we would be saving almost about 6% of electricity totally produced in India.

We would be saving almost about 50 tons of mercury that is contaminating the Indian land and underground water table, and we would be saving about four million tons of glass and metal. This is what is going to, according to me, bring down the pressure on resources that an extraordinary growth in population has brought about.

And just to conclude, sir, I had made a request, which is my request to the Russian authorities as well, that if we really want to create a common future, we need to invest in science and technology. I think India and Russia should come

up with a common fund for which both the nations could contribute finance and resources. And also, sir, I think since we are investing in St. Petersburg, it would be very interesting in case the government in Russia allows companies with a specific floor investment to get in a specific amount of people along without going through the bureaucratic procedures of work permits. That is it. Thank you.

S. Cheremin:

Thank you. Thank you very much.

S. Ivanov:

You mentioned solar panels. Do you use polycrystalline silicon?

D. Loomba:

Yes, we use polycrystalline silicon.

S. Ivanov:

Do you have enough polycrystalline silicon, or do you import it?

D. Loomba:

Well, we have none. We import all polycrystalline silicon that is being used in India. And I think in the last one and a half years, India has seen one of the highest investments in the world in the manufacture of solar portable-type power. I think the only other country is China.

S. Ivanov:

That was the question I was interested in, because a month ago, we opened a brand-new polycrystalline silicon factory in the area of Irkutsk. It is in Siberia, near Lake Baikal. It is not on the lake, for environmental reasons, of course, but it is 100 miles from the lake. And in fact, it is closer to India than my native St.

Petersburg, I have to admit it. Of course, we understand that you have much more sun than we do, because your country is much closer to the sun than we are. Anyway, if you are interested in cooperation in producing polycrystalline silicon, that might also be a good idea for cooperation.

D. Loomba:

Sure, sir. There is certainly something to talk about there.

S. Ivanov:

In Russia, we have a special state corporation called RUSNANO.

D. Loomba:

Yes, sir, thank you for telling me about that.

S. Ivanov:

It is financing this plant, which I mentioned.

S. Cheremin:

Sistema will continue the discussion on the topic of high technologies. Sistema is known for being one of the leading investors in India, putting enormous resources into the country. It is gratifying to point out that the Russian Federation recently became a shareholder in one of the companies in which Sistema is investing, not only financial resources but also all its intellectual capital in order to develop the Indian telecommunications market, cultivate it and act as a worthy representative of Russian business interests. I would like to give the floor to the President of Sistema, Mikhail Shamolin.

M. Shamolin:

Thank you. Mr. Ivanov, Mr. Sharma, ladies and gentlemen. Thank you very much for the invitation to participate and speak at this Forum, an event that is gaining momentum with every year. Sistema is probably the largest private investor in the Indian economy today. We operate first and foremost in the communications sector, in which a new company with coverage over all of India, called MTS India, has been built from scratch over the last two-plus years. The company's focus is, first and foremost, on data transmission using CDMA technology. The business is developing well. I must say that the Indian market is currently not only the largest market in terms of potential growth. We estimate the growth potential of the Indian economy to be around 10% GDP growth in the next 20 years, so in terms of potential and in terms of the number of people, the number of consumers, it is truly an enormous market. We currently count around 400 million people among the middle class in our marketing calculations. Together with the fact that the market has enormous potential, it is also extremely competitive.

Based on our personal experience, I can say that those companies that can successfully compete in India can successfully compete in any other part of the world. In addition to the telecommunications business, we are successfully developing our business implementing GLONASS technologies and navigation and transportation control technologies; we are working with a range of companies in Delhi on the implementation of intelligent transportation systems and are considering deploying these systems in other cities. We are also holding an active dialogue with Indian oil companies, including one with the company ONGC regarding the sale of a 25% stake in our oil business, Bashneft. We are also discussing the possibility of jointly developing oil fields and other new projects. We are currently very carefully studying a project to build an oil refinery complex on the southern coast of India, since we have a great deal of experience with oil refining in Russia. We also work in the field of pharmaceuticals—we have a company we are developing in Russia called Binafarm and are in dialogue with a range of Indian companies about the development of joint production in Russia

and, accordingly, investment of Indian companies in Russia and filling the Russian pharmaceutical market with medicines that would be considerably cheaper than what is currently available for sale on the market. So our cooperative efforts are diverse. We view India as a market with high potential, and for Sistema, after Russia, which is, naturally, the home market and our top priority, India is our main priority on the global market.

S. Cheremin:

Thank you very much. Mr. Shamolin mentioned the shining example of collaboration between Bashneft and ONGC. With regard to that, allow me to present our next speaker, the Chairman of the Board of Directors of Bashneft, Alexander Goncharuk.

Just before my speech, there has been a change in the line-up of participants, but I do not think that that will have an impact on the character of the speech itself.

Esteemed colleagues, ladies and gentlemen. Allow me, first of all, to thank the organizers of this round table for the invitation to take part in its work once again. I do so with great pleasure. You know, we can compare all those present to a crew of astronauts. A crew of astronauts is divided into those who have already flown in space and those who have not yet flown. I represent the group that has already flown into space once and is now preparing for a second flight. That is a very significant difference. As the President of the company, Mikhail Shamolin said, Sistema's first sortie into India was in the field of telecommunications. We have acquired an enormous amount of experience working in the country. Without that experience, looking back I think that only very bold and courageous people can enter such a complex market. At the end of 2009, our main shareholder—Sistema—signed a memorandum of understanding with the Indian company ONGC Videsh that made provisions for an exchange of assets with Bashneft. In an expansion of that arrangement, in December 2010 a framework

agreement was signed. The companies agreed to consider the possibility of merging some of their assets in the sphere of oil extraction and refining. From the Sistema side, assets under consideration included a block of shares in Bashneft itself as well as a block of shares in the oil company Russneft, 49% of which is also currently owned by Sistema. From the side of ONGC Videsh, provision was made for investment in the joint venture Imperial Energy, which owns oil assets in Russia. In addition, the two sides agreed that other potential assets acquired by the companies before the signing of the binding agreement could also be used in the deal.

One of the latest good pieces of news: we have worked a lot and very hard, but, it seems to me, productively. Working groups were formed, and our Indian partners took a trip to the—for them hitherto unknown—Republic of Bashkortostan and had the opportunity to familiarize themselves with all our assets. A special system was created that provides practically unlimited access to information about our companies. I think that that was a facilitating factor to some extent for this deal. Today we know that ONGC Videsh is discussing the possibility of creating a consortium of Indian companies in order to acquire share capital in Bashneft. We are very pleased that despite all the difficulties encountered en route to implementing this contract, we are moving forward another millimetre every day. Negotiations are not yet concluded, so it would be premature to talk about results and details. But it is utterly clear that we are currently on the brink of completing the largest private deal in the history of Russian-Indian trade. At the moment, it is necessary for us and our partners, considering the exceedingly complex structure of the devised transformation of companies, its scale, and the possibilities it opens up, to show, above all, resolution and will.

Today I would like to wish our Indian colleagues luck in accomplishing the tasks that they have set out for themselves and that their shareholders have set out for them. Naturally, we fully carry out the instructions of our shareholders. I think that

in the near future, or at least in the medium term, the deal will be completed. I will be happy when that happens. In closing I would like to recommend that companies entering the Indian market abide by a few rules that I developed for myself through my own experience. First of all, I think that the only companies that will be successful in India are those that get to know India. It is incredibly difficult, because India is an enormous country with different states and a complex political, social, and economic structure. All of that has to be seen and learned about. Secondly, you absolutely must come to love India. If you do not love the country whose enormous market you are entering, then it is all futile. Thirdly, you have to find a good Indian partner. And fourthly, you have to arm yourself with tremendous patience. That, in my opinion, is the most important thing that a company must do before entering the Indian market, and if it does the company can expect success. Thank you.

S. Cheremin:

Thank you very much. Collaboration in the financial industry is growing very actively. Several very large Russian financial institutions have a presence in India today—first and foremost, Sberbank, Gazprombank, and Vneshtorgbank. Allow me to give the floor to our next speaker, Denis Bugrov, Senior Vice President of Sberbank Russia.

D. Brugov:

Thank you very much. I would also like to thank the organizers of the dialogue for the opportunity to speak here today. This is very important for us, as India is one of Sberbank's priority markets for development. Looking at what is happening in the sphere of Russian-Indian economic cooperation, we have noticed that even as collaboration in the spheres of industry and international business is growing at a good pace, in the economic and banking spheres we are lagging far behind, both in terms of the activity of Indian financial institutions in the Russian market

and in terms of the presence of Russian banks in Indian markets. We believe that at the present time, further development of this presence and a strengthening of the financial infrastructure that would support mutually profitable relations is the important step that we need to take to make the goals discussed at the beginning of our session achievable.

Sberbank for its part is very satisfied with the fact that we have been able to open a representative office in Delhi. That will enable us to conduct direct operations in the Indian market in the national currency and use the bank's very broad capabilities to finance various kinds of projects of both our clients in India and of our clients in Russia and the CIS countries for their projects in India, from the funds of the bank's head office. That opens up truly boundless possibilities for the development of interesting projects and their financing. At the same time, we would like to note that the potential we estimate to be very large (I agree with many speakers here) is strongly suppressed by a whole range of legislative and administrative restrictions and by an insufficient exchange of information. With regard to that, I would like with particular gratitude to make a note of the steps and actions that were recently taken in the area of simplifying the requirements for foreign banks to maintain a presence in India, and especially that resolution published in January of this year by the director of the bank of India regarding the various forms of presence by foreign banks and about the ability to convert branches into independent subsidiary banks. As a bank interested in the expansion of our presence in the market, we submitted our comments to that consultation document together with other participants, and we are really counting on those comments being reflected in the development of the regulatory regime. We believe that if small but very important changes are made and it is simplified, it will be favourable for foreign investors and we will see a very strong rise in the reciprocal penetration of financial services in the Russian market. Thank you very much. We thank the Indian regulatory authorities once again for such a constructive and effective dialogue.

S. Cheremin:

Ladies and gentlemen, there has been a slip-up: I apologize, but another event is planned here for 17:00. As a result, though we still have many people who have yet to speak, we would like to turn things over to the last speaker from Indian financial circles. Go ahead.

S. Cheremin:

I apologize that we must cut short such an interesting discussion. A reception on behalf of Mr. Ananda Sharma is planned for 19:00 at the Grand Hotel Europe. If you would allow me, I would like to invite all the participants to attend, and there we could continue our discussion in a more convivial atmosphere. Thank you very much.