

**ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM**  
**JUNE 20–22, 2013**

**Russia's New Horizons**  
**THE LOGISTICS IMPACT: PORT, RAIL, AND ROAD DEVELOPMENT TO SPUR**  
**GROWTH**  
**Panel**

**JUNE 20, 2013**  
**18:00–19:15, Pavilion 5, Conference Hall 5.1**

**St. Petersburg, Russia**  
**2013**

**Moderator:**

**Simon Nixon**, Chief European Commentator, The Wall Street Journal

**Panellists:**

**Oleg Belozеров**, Deputy Minister of Ministry of Transport of the Russian Federation

**Louis-Roch Burgard**, Chief Executive Officer, Vinci Concessions SA

**Kairat Kelimbetov**, Deputy Prime Minister of the Republic of Kazakhstan

**Mauro Moretti**, Chief Executive Officer, Ferrovie dello Stato Italiane; Chairman,  
Community of European Railway and Infrastructure Companies (CER)

**Mikhail Poluboyarinov**, Director of Infrastructure Department, Bank for  
Development and Foreign Economic Affairs (Vnesheconombank) State Corporation

**Edoardo Reviglio Della**, Head of Economic and Statistic Research Group, Cassa  
Depositi e Prestiti Spa

**Damian Ronald Secen**, Chairman, Macquarie Renaissance Infrastructure Fund

**Vladimir Yakunin**, President, Russian Railways

**Front row participants:**

**Sergei Naryshkin**, Chairman of the State Duma of the Russian Federation

**Tagir Sitdekov**, Director, Russian Direct Investment Fund (RDIF)

**Yermolai Solzhenitsyn**, Director, McKinsey & Company, Russia

**S. Nixon:**

Good evening. Welcome to this session entitled 'The Logistics Impact: Port, Rail, and Road Development to Spur Growth'. This is a very important topic, clearly, for the Russian Federation given the dependence of its commodity and industrial sectors on high-quality logistics. The panel has changed substantively since the programme, as you can see. I apologize to those of you who are expecting to see the Deputy Prime Minister, as he is not here. However, Mr. Yakunin, the President of Russian Railways will be joining us shortly; he is presently signing a deal. I will not introduce all the panellists individually because we will lose valuable time. Instead, I will go straight to Damian Ronald Secen, of Macquarie, one of the world's biggest infrastructure investors, to give an overview, from an investor's point of view, of what infrastructure investors are looking for in terms of projects. Thank you.

**D.R. Secen:**

Thank you very much. It is wonderful to see such a great audience. I hope we can entertain you enough. I think that, in terms of an investment perspective, we are running a USD 600 million fund in the Russian Federation at the moment, which is focused purely on finding infrastructure investments. We are scouring the country in search of these. We have currently made four investments, but that is really quite modest compared to what our expectations were. There are many things we look for as investors, but probably one of the biggest hurdles that we have to overcome in the Russian Federation today is actually finding that capital to come into this market. At the moment, there is quite a lot of debt finance, but there is not very much equity finance. To give you a comparable example, we have just closed a European infrastructure fund where we raised over USD 3.5 billion. Over half of that money came from pension funds whereas, when we came to the Russian Federation, we raised USD 630 million and not a single cent of that money was from pension funds. I think that if we look to reform the system here, the pension funds and the insurance companies, and enable them to invest in infrastructure, then that would obviously be a fantastic start.

The second thing we look at is transport logistics. There are many statistics at the moment about how much China is doing, how many ports and roads they are building, how many railways. But I think the focus of today's discussion, the efficient spending of capital, is really incredibly important. To give you an idea, in France, we manage over 2,300 kilometres of a road called the Autoroutes Paris-Rhin-Rhône (APRR). That road network started in 1977 with 500 kilometres and since then has grown incrementally to 2,300 kilometres. Now, why has that happened? Because over time, France realized that it had to evolve and to develop its network to meet the changing needs of the logistics and transport market. Just to give you one data point, that road now carries over 3.2 billion kilometres per annum of heavy transport vehicles. That has happened because that piece of road network has evolved with changing needs. If you look at the Russian Federation today, what is fascinating is that we do have the second largest rail network in the world here, but that rail network has not changed much in the last 30 years. If we consider Russia's place and how much is it rapidly changing, going back 30 years, it was a more closed economy as part of the Soviet Union, while today it is a more globally integrated economy. We are looking at transport flows and exports, and we are also looking at a dramatically growing middle class. Real income levels have doubled in the last 10 years. All of that is spurring massive consumer demand. I think the real challenge in the Russian Federation is that so many of those goods come into the country via containers. If you look at who ships the most containers in the world, the United States of America and China hold first and second positions. The Russian Federation today is not even in the top 20. Those containerization rights, which enable all of these goods, products, and services to come to consumers in the Russian Federation or to leave the Russian Federation bound for other destinations is something that can only be done with fully integrated transport and logistics networks. I think the integration role that needs to happen between roads, ports, and railways is something that is fundamental from the investment perspective and something that we are currently watching.

I think there are also some framing challenges concerning efficiency, but probably the last thing that can really help this market evolve is listed capital markets. At the moment, they are still developing relatively slowly in the Russian Federation, but if we look at other parts of the world, that creates another investment pool for infrastructure assets. If we look at Australia alone, a country of only 22 million people, we have six toll roads owned by a single listed company. If we look at the Macquarie-managed portfolio, we have a specific road toll fund which owns six roads, itself, but there are also listed investors investing into roads. If we have that combination of pension fund reforms and insurance company reforms, and we get all that capital through managed funds available for infrastructure, and if we create the debt in the listed capital markets so that we have more companies like Globaltrans, for example, which are listed and raising capital from a different class of investors, and then if we spend all of that money wisely and integrate all the railways, ports, and roads, I think there is massive potential here in the Russian Federation. It is really incredibly exciting.

**S. Nixon:**

Thank you very much, Damien. Moving from a financial investor to a company that has already invested in a number of concessions in the Russian Federation, Louis-Roch Burgard is the chief executive officer of VINCI Concessions. Please give us, from your perspective, your thoughts on the logistics side.

**L. Burgard:**

We have been active in the market here in the Russian Federation since 2006, beginning discussions and project negotiations. In 2008, together with our partners, we were awarded the first section of the Moscow–Saint Petersburg motorway. It is with some hindsight that we look at the Russian market, thus enabling me to draw some conclusions and make some remarks. I have advocated for public–private partnerships (PPP) on a number of occasions in the past. What we are really looking for with this type of contract is benefits in terms of costs, and benefits in

terms of timetable delays. With regard to cost, I think one of the first aspects that should probably be improved is design when compared to what we have seen up to now. That would probably also deliver some of the benefits that we are looking for when we think of PPPs. What we have seen – and this is not specific to the Russian Federation, but we have seen it here also – is that in a number of cases, design is very strictly fixed from the onset. That really creates difficulties with regard to one of the key aspects of what PPPs should be delivering, which is design optimization and, eventually, cost optimization of projects. Optimization is something that we have not seen up to now or at least not to the extent that we would like. Typically, design is quite fixed and constrained. If you want to change the design in any way, it will take you one year to do so. I would recommend that that optimization should be facilitated if one is to get the main benefits of PPPs.

The second thing also has to do with design. Service levels should probably be the main objective rather than the means provided by companies to deliver those services. Obviously, if you are doing the same service with 10 fewer people, it is more cost-effective for everyone, and the public also benefits therefrom as well. We therefore strongly advocate that. Another thing we have also seen, and this is again not just specific to projects in the Russian Federation, is the time it takes to deliver these projects. When you talk about PPPs, normally you have projects that are 75% on time and on budget. When you talk about time, the only thing that can really delay the process is the time it takes to get the land delivered to the company that is building the project. We have found it to be extremely difficult here – although not only here – to get the land delivered on time and, therefore, to maintain the initially forecast timeline. That is really something we strongly advocate. In that connection, there is probably some contradiction between the budgetary rules – which normally deliver subsidies to projects as building progresses – and the principle of the PPP, which is based on a lump-sum contract, meaning that normally you do not exactly follow the physical quantities being spent on a project. I will not go into more detail; there are obviously some complexities and technicalities.

Lastly, something I would also like to mention is the possibility of PPPs inferring some advantages to local authorities, again not only for Russian projects. I refer in this particular regard to the car parks project. We have seen and we have all been impressed by the way and the speed at which Moscow has changed part of its parking policy in a very limited period of time. Personally, I am very impressed. However, at the same time, only on-street parking is being addressed at the moment. In order to gain the full benefits of the improvement that can be obtained, you need to use PPPs, and you need to use them on off-street parking, meaning infrastructure parking. There is still a lack of available spaces in Moscow. Typically, around 20–30% of traffic in Moscow is linked to people looking for parking spaces. Obviously, you can dramatically reduce congestion in the city – and this probably applies to Saint Petersburg as well – if you build off-street car parks. Those are the type of recommendations that we would make. We are extremely happy and honoured to be a part of that growth and that drive in the Russian Federation in recent years. We hope there is more to come. VINCI Concessions is an operator operating more than 5,000 kilometres of toll roads around the world, more than 1.5 million parking spaces and a number of airports. We are currently in the process of finalizing the acquisition of all the airports of Portugal, and we expect to be a part of the dynamic trend that we see in the Russian Federation. Thank you.

**S. Nixon:**

Thank you very much, Louis. Moving from the road sector to the rail sector, I will turn now to Mauro Moretti, who is Chairman of the Italian State Railways. Perhaps you can talk about some of the challenges that you have come across in the Russian Federation.

**M. Moretti:**

Thank you. I think that we have to consider the impressive growth that the future will bring. In next two decades alone, it is forecast that container flows will increase threefold. We have to prepare the Eurasia region from a logistics point of view,

otherwise it will be impossible to manage the effects of this growth. You know that, at the moment, the most important traffic is managed by maritime services, particularly from the Pacific area, through the Mediterranean Sea, to the Mediterranean harbours and particularly the North Sea harbours. In the future, I think we can see two different developments. The new role of the rail, particularly of the Russian Railways, is as a sort of bridge between Asia and Europe. We must absolutely increase this kind of traffic because it is an opportunity to address the imbalance with maritime shipping. I think current innovations in maritime shipping can prove important for the future of that business. In this case, the important thing is to redefine the terminals towards Europe and towards Asia. This definition has to be integrated with the European view and particularly based on the updated Trans-European Transport Network (TEN-T) programme. As for rail, you know that Europe must better define European corridors and, in particular, the core network to respond in the immediate future to the impressive growth I mentioned earlier.

In this case, we have to face the question of inter-operability and integration – integration between harbours and rail networks and interoperability among different rail networks in particular across Asian, the Russian Federation, and European one. We have many difficulties. I would like to focus the discussion on two main questions. First, there are obviously technical barriers we have at the moment with regard to tracks, electricity, the signal system, and so on. The second point, however, is no less important – the political barriers. If we cannot diminish the political barriers, particularly evident in customs, it will be impossible to give traffic the flow that is necessary. In this regard, I think these are the two main questions that we are going to face. Otherwise, it will be impossible to define the project that can support integration. If you think, for example, of the northern route from China to Europe through the Russian Federation, and the southern route from China to Europe through countries in the South, we must identify the best way to smoothly connect and integrate the two. In Italy, we are preparing the corridors that the European Parliament has newly added to the Baltic–Adriatic corridor from the north of Italy towards the Baltic countries, which can go directly into northern Russia.



These are very important corridors because they serve one of the most interesting regions in Europe with high population density and high economic output. Northern Italy, Austria, Czech Republic, Slovakia, Poland, this is a very interesting region whose economy and trade is increasing. Giving the right shape to this corridor and creating the right connections is absolutely essential for developing trade relationships in the area. We are paying particular attention to the preparation of corridor terminals. We have two important harbours, with Trieste of particular note, as it has a natural harbour depth of 22 meters able to accommodate new, 18,000 twenty-foot equivalent unit (TEU) ships. There are also two dry ports, Padua and Verona, which rank in the top 10 dry ports in Europe. Naturally, we are advocating Italian State Railways to be involved in this new relationship. Italian State Railways is currently the third-largest railway operator in Europe. We are, as I mentioned, preparing to develop our relationship with north-eastern Europe, with Poland, the Czech Republic, and the Russian Federation in particular. Thank you.

**S. Nixon:**

Thank you very much. I am going to ask Mikhail Poluboyarinov, who is the First Deputy of Vnesheconombank, the bank for development and foreign economic affairs of the Russian Federation, to talk about his experience with investing in projects and the issues he has had.

**M. Poluboyarinov:**

Thank you. Good evening, esteemed guests and colleagues. I would like to say just a couple of words about Vnesheconombank's experience. Over six years, Vnesheconombank has brought the financing percentage in its loan portfolio up to 32%. That is infrastructure projects. We have already invested on the order of RUB 400 billion in projects connected with infrastructure. Mainly these are large projects organized according to Public Private Partnership (PPP) principles: building the Moscow–St. Petersburg road, building the Western High-Speed Diameter in St. Petersburg, Pulkovo Airport, and so on. The bank certainly has a great deal of

experience, and in terms of drafting legislation (we participate ourselves in drafting legislation, including for PPPs and concessions), we consider it a priority to increase investment in this area.

What would I like to say about this that is new? Currently, the state is trying to increase the volume of investment in infrastructure as much as possible; in particular, it is trying to free resources that are long-term and convenient – such as pension funds – for investment. Vnesheconombank has, among other things, a state management company that invests pensioner resources and an expanded portfolio in infrastructure. Literally one week ago an unprecedented event took place: Vnesheconombank's state management company invested in the first tranche of bonds issued by the Federal Grid Company (FGC). The bonds were issued for 35-year terms, and we invested around RUB 30 billion in them. A bit earlier, our management company invested RUB 25 billion as a first tranche in 30-year bonds for Russian Railways. These are unprecedented time frames for investment, and it was specifically thanks to the fact that the state removed certain legislative barriers that the opportunity arose to invest so many resources in extremely long-term instruments. I would remind you that all we had before were the 30-year bonds that the state had issued in 2006 – that was the only issuance of its kind.

Vnesheconombank's supervisory board decided to make an additional investment on the order of RUB 75 billion in Russian Railways and FGC bonds (an additional 75 for each), so the total investment is over RUB 100 billion both in Russian Railways and in FGC. It seems to me that this is a fairly interesting juncture for the whole company, and we are also anticipating investment in Vnesheconombank, which will consequently go into the economy, making use of the National Welfare Fund. We are truly anticipating that Vnesheconombank can play the role of a serious financial expert here, in order to help invest money in the National Welfare Fund and in big infrastructure targets, such as, for example, building high-speed railway lines. Basically that is all for now.

**S. Nixon:**

Thank you very much, Mikhail. I would like to welcome two new guests to the panel: Vladimir Yakunin, President of Russian Railways, and Kairat Kelimbetov, Deputy Prime Minister of the Republic of Kazakhstan. I will come back to you after we hear from Edoardo Reviglio, who is the Head of Economic and Statistics Research at Cassa Depositi e Prestiti. Edoardo, would you like to comment on some of the points that have already been made?

**E. Reviglio:**

Thank you very much. There is a huge need for investment in transport in coming decades, and we need to find the right financing. This needs to be long-term financing. Something has to change; something is changing in the global financial market, which is looking more to channel investments and savings into long-term financing. I represent Cassa Depositi e Prestiti, which is Italy's largest development bank. We are a long-term investor, and in 2009 we met with other European investment banks – KfW from Germany, Caisse des Dépôts from France – and we founded a club of long-term investors. We have since been trying to encourage financing long-term investments. In 2008, with the European Council, we created the first greenfield equity long-term fund, 'Marguerite', which is trying to help markets by giving longer-duration and non-speculative internal rates of return (IRR) to help projects develop because, as you know, in 2008 the project-financing market stopped working completely. Three months ago, the European Union came out with a green paper on long-term investments. There is a change in the model of development and of growth of the European Union and we are very glad that the Russian Presidency of the Group of 20 (G20) made long-term financing a priority issue. I think this is very important, both for Europe and, generally, for the world because G20 countries produce about 80% of world gross domestic product (GDP). How are we going to increase competition on financing transport all over the world so that regions with the best rules are going to be able to attract capital and savings? The problem is that 80% of the projects financed in the world have been

financed by European banks, and European banks are now deleveraging and will be deleveraging for another 10 years. Moreover, only 30% of European bank activity today is providing financing to the real economy, 70% is engaging in other financial activities. This has recently been revealed in a European Commission economic report. We therefore need a new model. We need pension funds, insurance companies, and sovereign wealth funds, which are long-term investors that can match the liabilities with these investments. The Organisation for Economic Co-operation and Development (OECD), in their principles for the G20, has calculated the global assets of long-term investments in pensions, insurance, and sovereign wealth funds at around EUR 90 trillion. Today, they are investing about 3% in infrastructure. If they could invest up to 5–8%, that would be more than enough to get the right financing. To do that, of course, you need to change policy, you need the right accounting rules, you have to make it attractive, and you have to create the right financing structures, because a 30-year investment is not an easy one. As a bank, we are very interested in Europe, but we are naturally also interested in looking at the global picture and going east. We have been in discussions for a few years with the Russian Railways on new forms of long-term financing for transport and also for technology, logistics, and energy, because infrastructure is a system that goes together with other sectors. I think the idea of long-term financing can change the paradigm of the global economy's development model. If we go in that direction, we will go in the right direction for our future generations. In the last 30 years, there has been too much short-termism, too much financing, too much speculation, and not enough real economy. Thank you.

**S. Nixon:**

Thank you very much, Edoardo. I want to turn to Vladimir Yakunin who, despite Internet gossip, I understand is still very much President of the Russian Railways, which is very good news because we can hear his thoughts on how to attract investment to the Russian railway system. Before you came in, Mr. Yakunin, there was some discussion about the Russian railway system, the need for an efficient

logistics system and the fact that the railway system in the Russian Federation is still essentially based on a model that is 30 years old and that is inward-looking when it needs to be connected with the rest of Eurasia in order to facilitate trade. We have also heard about the need for long-term finance and pension funds and how to attract pension-fund money into the system. With that introduction, we would be interested to hear your thoughts on how to bring more money into the Russian railway system.

**V. Yakunin:**

Thank you. With your permission, I will continue in Russian.

**V. Yakunin:**

First of all I wanted to note that currently there is no objective basis for speculation about whether we need to invest in infrastructure or whether we need to develop infrastructure. All these conclusions have been made in European Union documents, in a special report that was prepared on the orders of the European Railway Agency and the Railway Association. Mr. Moretti, who is here with us, is the Vice President of the International Union of Railways. As you can see, for a long time now we have already been working in the format of global cooperation between railroads. The difference between standards 1520 and 1435 is not a defining barrier to the development of this cooperation. That is the first thing.

Second, I want to repeat what was already said this morning at a panel discussion devoted to the development of new economies and new markets. One of the biggest American banks just reported that in the United States of America a trend is arising to reduce loan periods. We in Russia have already been undergoing this for an extended period now: it was impossible to get long-term borrowed funds, and that, without a doubt, slowed down development not just of infrastructure projects but also of any sort of industrial facilities. This is a reflection of a particular trend: the differentiation of financial capital from material capital. This took place probably 30 years ago, when the financial sector became a self-sufficient form of business which

earned enormous profits, without being especially worried about what it was financing. From that came speculative derivatives, and you know the rest.

Today we have a unique opportunity to unite the efforts of the various railroad systems in Eurasian territory. We have just signed an agreement with our Kazakhstani and Belarusian colleagues on the creation of a unified transportation logistics company that is supposed to serve this new type of transport service that we have named a new transport corridor. But infrastructure development, as we well know from history, stimulates development of the entire territory around that infrastructure. It used to be, in tsarist Russia, that everywhere the railroad went new factories, new businesses, and new settlements appeared, and people moved there. The same thing is going to be happening today. Taking advantage of transportation cooperation in Eurasia for delivering goods produced in the Asia-Pacific region (China first and foremost) to Europe and, conversely, delivering goods produced in Europe to China will create enormous potential for development. That is precisely why last year at the Milan conference, in the course of examining questions of cooperation – economic, political, and social – the conference participants signed a concluding statement about the need to use this new transportation corridor to create a belt of development, to which investors from all interested institutions and all interested countries could be invited. Moreover, American entrepreneurs today already have a business plan – I have seen it myself; I have a copy – to build a tunnel under the Bering Strait, to unite North American railroads with the Russian railroads in Kamchatka, although there are not any there yet, thereby connecting to China through the Russian railroads. This is a grandiose project, and it seems to me that, in order to overcome the differentiation that exists and which I just mentioned (financial capital in the real sector of the economy), this is just the sort of project that needs to be built. Here we do not simply need projects with steep interest rates because nobody here drinks interest rates and eats profit margins. We all drink water and eat bread. So we must handle the development of international cooperation very precisely, and this international cooperation, absolutely, will stimulate development of cooperation not just between railroad

companies, but also in the banking sector and the industrial sector, something we are genuinely and openly counting on. Thank you.

**S. Nixon:**

Thank you very much. Our next speaker is Kairat Kelimbetov, who is the Deputy Prime Minister of Kazakhstan. Thank you.

**M. Kelimbetov:**

Thank you very much for allowing me to speak. I also wanted to touch on the points that Mr. Yakunin focused on. Today we are talking about the influence of logistics on economic growth. It seems to me that today's stereotypes about logistics are conceptions of it as a sector which more likely serves industrial development, rather than being a driver of economic growth on its own. In fact, creating a new type of infrastructure or, as some experts are calling it, infrastructure 2.0, is a big challenge, one facing the entire world. Developing the transportation logistics potential of the Russian Federation, Kazakhstan, and Belarus is implicit in these processes. But, as Mr. Yakunin already said, we have literally only just witnessed the signing of documents creating a unified transportation logistics company.

If you will recall, during previous decades, the coordination of transportation logistics activities, even between our countries, was treated more as an element of competition than as an element of cooperation with a possibility for a win-win situation. Today, we have exactly this type of situation. Moreover, the processes that are underway in the economic world and specifically the shifting of economic gravity to the Asian countries (you know that, according to McKinsey Global Institute research, by 2050 China and India will be among at least the top three world economies), indicate that, since we are located at the intersection of trade routes between Europe and China, we must make use of this potential. That is to say, on the one hand, there is the traditional sea route, but, on the other hand, both the central and western parts of China are already beginning to form transportation flows that could serve as a foundation for attracting corresponding investment.

Today, a lot has already been said about long-term investors. Without a doubt, such high-powered development and creating a development corridor, as Mr. Yakunin was saying, requires major investment. On the one hand, today we are doing that ourselves: the Russian Federation is seeking out its own resources, the resources of the National Welfare Fund or government budget money, or development institution resources. Kazakhstan is also doing this, independently, so far. But if we are talking about serious investment and about a serious transportation bridge between the European Union and China, then I think that, of course, we need to talk about a whole pool of investors, including sovereign wealth funds, and the Long Term Investors' Club, as well as pension funds that could assign themselves the task of developing this area.

Recently, there has been major work in infrastructure development carried out in Kazakhstan. You know that literally in a very short period we connected Almaty's railroads with the Chinese border, the Aktau sea port with the border of Turkmenistan, and opened up completely new possibilities in the Central Asia region. And these are not just possibilities for Kazakhstan; these are now our mutual possibilities, since we have created a unified company and are again opening up this region both for ourselves and for third countries. I think that we still have major work ahead of us in bringing in countries like Tajikistan and Kyrgyzstan. All of this is the first demonstration of the integration potential that we have. When we speak about the potential of the Customs Union, of the Unified Economic Space, about the creation of a Eurasian Economic Space, then probably the first portents in the integration process are how we are cooperating in the area of operating and coordinating our railroad administrations.

I repeat, today transportation and logistics are not just a means of delivery but also drivers of growth. Along the route of the new railroad lines and new transportation corridors, whole industrial clusters should be appearing, which, on the one hand, can serve the very creation and development of those corridors and, on the other hand, can make use of the opportunities arising in that area. In that sense, the



modernization that Mr. Yakunin mentioned is probably the imperative of our time. The railroad will become a powerful locomotive for our countries' economic growth.

**S. Nixon:**

Thank you very much. Finally on the panel, to respond to the various points we have heard from the other speakers, we have Oleg Belozerov, the Deputy Minister of Transport of the Russian Federation. I shall hand over to you.

**O. Belozerov:**

Good evening, respected colleagues.

My view is that we are at one of the most important events of the Forum here in St. Petersburg. Can transportation survive without the economy? I think that it can. But can the economy survive without transportation? I am certain that it cannot.

What is transportation? Transportation is 7% of jobs, and transportation is close to 20% of fixed assets – more in some countries, less in others. They say that transportation is the circulatory system of any country, and accordingly, the economy as a whole depends on how it is functioning.

What does transportation in the Russian Federation tell us at the moment? The World Economic Forum has a Global Competitiveness Index, and Russia, in terms of transportation infrastructure overall, is in 101st place. Russian roads are in 136th place. More indicative is air transportation: 104th place. Much thanks to the railroads, which are in 30th place: this sector raises our overall infrastructure higher in comparison with the others.

Our colleagues have spoken about what we need to do to change this picture. Truly, without investment, transportation is not going to go anywhere. Accordingly, an understanding of the fact that this must be done is there. An understanding of how to do it is also there. The Russian Federation has adopted a government programme to develop the transportation system through the year 2020, which lays out enormous figures for capital and ongoing investment in transportation development in all areas, for all types of transport: Over RUB 12 trillion, of which we

plan to attract over RUB 5 trillion from resources outside the government budget. Those are exactly the resources we need, investor resources. Seven trillion is the amount from the federal budget. But since the programme was written some time ago, it is now being modernized. We can see the potential, and most importantly, our partners in the Ministry of Economic Development and Ministry of Finance can see it, too. They take a very scrupulous attitude towards the effective use of money, and they are telling us, “You invested this money – you will have to attract major non-governmental resources.” And we agree with them in this regard, since the format of direct capital investment is not always beneficial.

Our colleagues said, absolutely correctly, that we need long-term money, but long-term money must be guaranteed and facilitated. We have travelled a long road of crafting the legislation for public-private partnerships. Now our colleagues are saying that the roads sector has problems, but we are learning, moving forward, and if you analyse it, our legislation is shifting fairly quickly to meet the necessary format of relationships with investors. We want to be better. We are inviting investors in, we are listening to them, and we are creating the conditions to work together. We believe that public-private partnership in the near term means uniting the state’s potential for stability with genuine mobility and searching for the best solutions from private capital. Therefore, our programmes for all types of transportation have been put together within a framework of definite projects.

Each type of transportation offers its own projects. Grandiose solutions are being discussed and applied in the railroad transportation sector. Those include the development of the Far East, high-speed traffic, and other projects as well. Aviation is proposing mechanisms now for supporting both intraregional and interregional cargo transportation, as well as building new airports. Roads are in a separate category. Concessions are being granted, but not at the scale we would like to see. We are proposing and will be proposing this year (and tomorrow morning at this Forum we will be discussing) an array of very important projects, including road building – a high-speed exit route from St. Petersburg, the introduction of fees for trucks over 12 tonnes, as well as the construction of other highway facilities. Sea

transportation is actively developing, and we are proposing building new ports. The Northern Sea Route is also developing.

Therefore, practically everyone involved should be able to find an interesting sector for themselves, an interesting area. This was the government's condition: The question was posed about improving the legislative mechanism for our cooperation in the near future.

Our colleagues said that there is a crisis going on and that we need to think about how to invest our money and where. I think that transportation, as it has done before, will rescue the world and the economy. Thank you.

**S. Nixon:**

Thank you very much, indeed. Now, let us come back to Damien. There were quite a few issues raised regarding long-term providers of finance. I am interested in getting your comments on what you have heard.

**D.R. Secen:**

Thank you very much. I think the need has been recognized and very well-stated. Now, the next step is how to finance it. Louis talked about public-private partnerships (PPP) and concessions, and I think the Russian Federation has made great strides forward on establishing a legal and a project framework. We have addressed the fact that you need long-term financing. I actually think that the Russian Federation is very well-placed because we are seeing – Mikhail has spoken about Vnesheconombank's role – that the Russian Federation has a unique position having such a large State development bank. On top of that, it also has the capabilities of Sberbank and VTB. Between those banks, there is a huge amount of domestic capital, which is a very unique position relative to other parts of Europe. That is extremely positive. I do think, however, that we have to do a lot more work on equity. From a financing perspective, that goes back to making the Russian Federation more attractive as an investment destination. At the moment, a huge amount of interest is refocusing on central Europe and there is also a lot of interest

in the United States of America as people try to predict a strong economic rebound. However, the economic credentials of the Russian Federation are still exceeding strong. I think there is a big education process for the market on that. We are certainly doing our best to try to educate the market. I think, however, it needs more of the people on this panel to travel around the world more often and tell the Russian story to really galvanize interest in this country's potential and the great steps that have been taken and the great work that has been done, particularly over the last 10 years, to put the Russian Federation in a position where it can quite quickly address the issues it has.

**S. Nixon:**

Thank you. Edoardo, you raised the issue of long-term finance. This is not an issue that is limited to the Russian Federation. It is a problem that the European Union (EU) is thinking about as well. Wrapped up in the issue of long-term financing is also the issue of how you regulate these sorts of assets, the stability of the regime, and the ability of investors to know they can rely thereon. After all, we are talking about 35-year bonds. Can you talk about this from your perspective? How do you see best practices in some of those areas? How can one give the kind of reassurance that long-term investors require for projects?

**E. Reviglio:**

Of course, the regulatory framework is made of different parts and, as you know, the devil is in the details. Accounting rules can help make infrastructure, as an asset class, attractive to long-term investors such as pension funds, insurance companies, and sovereign wealth funds. Tax incentives can help a lot, especially for countries with budgetary problems. Corporate governance rules can also help a lot, because if you are an asset manager or a banker and you need incentives to invest long-term rather than short-term, if your compensation is long-term compensation and not paid every three months, then, of course you have an incentive to invest long-term. Then there is also the problem of non-financial risk, which is not very

easy to solve because policy and regulatory risk on a 30-year investment can be a bit of a problem. But here, again, you can get refinancing; you can get a credit advancement mechanism; there are all kinds of financial instruments. You can also get the power of the national development banks that can help support the financial instrument in the long term. We are talking about investment that will produce cash flows and uprooting cash flows in countries with very high growth. The problems we have in Europe are much less pronounced in growing, emerging countries. Traffic is probably not going to grow, so cash flows are going to be good. Pensioners are going to be happy to have in their portfolios some infrastructure financial instruments as well.

**S. Nixon:**

Thank you. Mr. Yakunin, you wanted to come back on that.

**V. Yakunin:**

Yes, I will. Just to be clearly understandable, I will use my humble knowledge of English, so as not to let interpreters change my intended meaning. For those sitting here with Mario, we are representing the so-called 'real' sector of the economy. Tell me, please, with all the scandals about dirty derivatives, with the Libor scandal, with the increased vigilance against financial institution operations in the West and in the Russian Federation, why are those institutions investigating our good or bad corporate governance? Why on earth should the banking system decide whether I am a good manager when my major shareholder, the State, has the results of my work? With all the scandals, I think we need to invert the pyramid. It is, in my opinion, upside-down at the moment. It is some kind of real economy institution that should check the corporate governance of the other members of this club. That is, the financial sector is a service sector for the real economy, not vice-versa. That is why I cannot understand the fact that the attractiveness of the Russian economy is ranked less than, for example, that of Gabon. Who is delivering these reports? Who is placing the real sector of the economy in such a position? We need to use the

right terminology and name things as they are. An investment banker should not be a judge or a prosecutor for the real economy sector; not a friend, but a corporate friend, if you wish. The banking system can exist only if there is a real economy sector, because virtual money cannot feed society, it cannot deliver machinery, it cannot do anything without the real sector of the economy. I think we need a change of perspective when talking about collaboration between the real sector of economy and the financial sector of economy. Thank you.

**S. Nixon:**

There is a challenge for you, Mauro. I am going to put you on the spot here. Do you feel the same way about banks and providers of finance? Do you feel that their governance is the wrong way around? What is your response to that?

**M. Moretti:**

I follow Vladimir's ideas. I only have to show the reputation of my company in the financial market. At the moment, to cover our investment plan of EUR 10 billion, we are issuing a EUR 4.5 billion multistep bond based on our reputation. Put simply, the equal to earnings before interest, tax, depreciation and amortization (EBITDA) ratio is 23.5% – perhaps the best in Europe at the moment – the earnings before interest and taxes (EBIT) ratio is 8.7%. The point is that it is impossible to consider every part of the infrastructure system as a basis to fund public-private partnerships (PPP) and so on. We have to select a project. Obviously, we have to share the risk. The liability of the projects must be shared, that is the risk of running this business in this kind of political environment. Another part where PPP could have an important role is in terminals. Terminalization is a very important question in our discussion today. The efficiency and effectiveness of terminals is essential. Here we see that a good relationship between the financial sector and the 'real economy', to use the same terminology, is absolutely important for the future. I would like to also underline another matter. It is impossible to define what we need today to support the growth of trade and the flow of freight among the different countries of Eurasia.

We have to define the concrete corridors to avoid barriers and bottlenecks. Otherwise, it is impossible to give any guarantees to the financial sector because it is impossible to forecast the opportunity for them to produce profitability in the future.

**S. Nixon:**

Mikhail, let me come to you. You straddle the State and the financial world. What is your perspective on what Mr. Yakunin says about the priorities of the financial world?

**M. Poluboyarinov:**

Thank you. The first thing I wanted to say is that infrastructure is not at all limited to roads. It is a broader concept, and there is a very broad set of financing tools for the various sectors. If projects based on PPPs or concessions fit well with the transportation aspect or, for example, with the housing and utilities sector, then for financing communications, energy, and other sectors, we will need to look for other instruments – the ones I was talking about, for example. These might be instruments for investing in pension fund bonds – wherein the money is issued not to one specific project but to the balance sheet of a company that either has a sovereign rating or is supported by state guarantees. This instrument also guarantees to private investors that they will get a return on their money.

Also important is the legislative aspect, which Mr. Belozerov was talking about. The fundamental conditions are the creation of precise, understandable legislation that does not change over a long period of time, so that the rules of the game do not change. Build these rules now and not touching them later will become an attractive aspect for many investors, including foreign ones. From our point of view, that is, from Vnesheconombank's point of view, what needs to be said is this: we have enormous potential to attract funding from our partners, in particular from international financial institutions. We have an enormous number of projects that we have handed over to them for financing, and that proves that we have good

knowledge of how to package projects. I think this is one of the most important points: infrastructure projects demand proficiency, specifically on the part of banks and the financial sector. That is what I wanted to say.

**S. Nixon:**

Thank you very much. Louis, I will come back to you for your perspective on some of the issues that were raised here.

**L. Burgard:**

Yes, I would like to make some comments. First, the financial sector does not act in all places and in all institutions in exactly the same way. That is definitely the case with the VEB, with whom we work on the latest Saint Petersburg project. I can certainly guarantee that they have been extremely helpful and not judgemental in any way. The second thing I should mention, which I did not mention before when I talked about VINCI Concession's activities, is that we are also in the process of delivering, under a PPP scheme, 300 kilometres of high-speed lines for the French railway authority. It has enabled the French railway authority to do several high-speed projects concurrently: 300 kilometres in the east of France, 300 kilometres in the south of France, plus our 300 kilometres. I think that in the current economic environment and with the huge complexities associated with this project, that is definitely a benefit of the PPP model. I know that I will be welcoming Mr. Yakunin very soon to our project in France. I will very much enjoy that and will be happy to talk more about this. I have one last comment about a major event that the Russian Federation is going to host in the coming years, namely the Fédération Internationale de Football Association (FIFA) World Cup. I have to mention that we also build, operate, and deliver PPPs for stadiums. We operate the largest stadium in France, with 80,000 seats, under a PPP model. This is definitely something for which PPPs can be used, and for which they are very efficient.

**S. Nixon:**



And you may make money from that. Mikhail, I am not sure if you used a PPP structure for the Sochi 2014 Winter Olympic Games. Is that going to make money for your bank?

**M. Poluboyarinov:**

Thank you for the question. We at Vnesheconombank have around 20 projects which we are financing for the Olympics. Some of them are infrastructure projects; some, I do not mind saying, are losing money, but some are profitable. When we talk about using the PPP principle, I would propose we employ a broader understanding. This is not simply some sort of concrete type of public-private partnership, but the use of a partnership between the state and private interests. All our projects are financed in a certain proportion by a private investor and a government bank. And in cases in which that project is not 'resized' by certain additional requirements, specifically concerning the Olympics, then it is profitable, and the investor can count on a return for his money. But the public-private partnership will fail in cases wherein the project was poorly calculated in advance and in which planning documentation was not completed. Overall, I think that our Olympic projects will be carried out with a fairly high degree of quality. As for those things that probably nobody could have calculated correctly – that an enormous, colossal amount of real estate, which will be impossible to sell, is going to be tossed onto the market immediately after the Olympics in Sochi – we will be searching for ways to extend the time frame for paying off those loans, so that no losses will be inflicted on the state.

**S. Nixon:**

Allow me now to turn to Kairat Kelimbetov. Would you like to make any final comments?

**M. Kelimbetov:**

I would like to add just two points. First: the development of public-private partnerships. On one hand, we talked a lot about this today; on the other hand, it seems to me, recent events demonstrate that public-private partnerships in their pure form, in the form of concessions, are not always the sole possible solution to financing one investment project or another. We can see that where public-private partnership amounted to a deferred payment to the state, in many countries this model is under a great deal of stress. It is one thing when you put aside these funds today for 30 years, but it is another thing when these already deferred payments have come up and are becoming a part of budgetary issues. In my view, the state needs to very accurately reckon with the fact that the financial model itself needs to be stable. Sometimes it is easier for the governmental or quasi-governmental sector to borrow than to enter into such an unstable financial model. In connection to this, I would like to say a kind word about investment bankers. Although Mr. Yakunin has been casting doubt on their expertise since 2008, nevertheless, there must be someone independent to assess projects and understand what kind of streams are being generated and whether they are able to cover the further functioning of the project. Here, probably, one possible approach would be to issue long-term infrastructure bonds to attract precisely that long-term money from the pension funds; although, again, there are both successful and unsuccessful examples. In any case, we need to use our whole collection of tools.

**S. Nixon:**

Let me now come back to Oleg Belozarov, Deputy Minister of Transport. Would you like to repeat that gratitude to the investment banks, or do you share Mr. Yakunin's view that the financial pyramid should be turned upside down?

**O. Belozarov:**

First, I consider long-term investment in transportation to be the most reliable type. Yes, there are a great deal of questions regarding terms, but that is our job, including industry people and investment bankers: to work out and strengthen the

appropriate mechanisms so that we will all be confident that the horizon 30 years or more from now will be absolutely clear and guaranteed for us, and we need to work on that. I think that the truth, as always, will be found in the middle. I have always thought that investment bankers and industry figures need to work together, and the closer they come together – not with suspicion, but with cooperation – the better it will be for both groups. And as for public-private partnerships, I think that is the format of the future, because precisely, strictly regulated legislation within the framework of traditional procedures will not provide us a way to move ahead rapidly, and that is exactly what we need now: to move ahead rapidly. Special, bright, creative, enthusiastic people are now coming into PPP projects, and I believe that they hold the key to the future. Thank you.

**S. Nixon:**

Thank you very much. We have run slightly over time, but allow me to thank the entire panel for a very interesting session. Enjoy the rest of the conference. Thank you.