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**ПЕРСПЕКТИВЫ КУЛЬТУРНОГО И ЭКОНОМИЧЕСКОГО
СОТРУДНИЧЕСТВА РОССИИ И ВЕЛИКОБРИТАНИИ**

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L. Halligan:

"That the Cold War ended in our lifetime without a general war, and a nuclear exchange is the greatest shared boon, a true miracle – nothing beats that – it is the thing that trumps it all." These were the words of Peter Hennessey, a very distinguished British historian. He mentioned those words, almost in passing, in discussion about something else on BBC Radio Four a couple of years ago. Sitting at my kitchen table, I scribbled those words down, because they struck me not only as extremely true and profound, but also made me wonder why we so rarely make that observation, that the end of the Cold War, without a nuclear exchange, without a general war, was of course a huge boon, a true miracle, that we all benefit from.

We are here today, ladies and gentlemen, for the next hour or so, to discuss and to take your questions on the cultural and trading relationship between Russia and the UK, two countries close to all our hearts. When I first went to live in Russia in the mid-1990s, it was really cool to be British. There was huge affection for our sport, for our music, for our literature, and for our culture. There was huge admiration for British innovation and British industry. It has been my observation, sadly, that the Brits in Russia have not fulfilled that early promise.

Yes, exports to Russia are up, about 75% between 2009 and 2012, but from an extremely low base. There is a more general point here: Britain, despite its supreme trading heritage, its entrepreneurial spirit, its cultural and historic ties, almost unparalleled around the world, its command of the English language – British exports to the big four emerging markets, Brazil, Russia, India, and China, remain less, ladies and gentlemen, than our exports to Belgium. I think that is a shame. I think that is a tragedy for our children and our grandchildren, and I think many people in this room, if they put their mind to it, could do something about that.

We have a fantastic panel here. I will introduce them as we go, to discuss both culture and trade, and the relationships between those two. I will start with Roger

Munnings, who of course is the head of the Russian-British Chamber of Commerce, and who is also on the board of Sistema. Roger, do you think we dropped the ball? Do you agree with my analysis?

R. Munnings:

I do not know that we dropped the ball. Let me say that this session was conceived six or eight months ago when the UK and Russia were on a different vector, a positive vector, and becoming thankfully much closer.

I do not think, to go to that period, that we dropped the ball. I think that there is something of an inherent caution in British boardrooms in business which causes the issue which you mentioned. It is easier not to take the risk of going into adventurous remunerative territories. I really do think it is a challenge for British boards today. It is not a matter of government, because we need good, strong oversight of board performance, of course, but it is more just an issue of there being other opportunities, so they are not willing to look in this direction. There was, at that stage, and there is still something of a Cold War hangover, as you said.

There is one point I would make about increasing economic relations, and in particular, increasing cultural relations, since this year is the British-Russian Year of Culture. The one thing I would say is that the more time that you spend with people from another environment, the more you understand the drivers behind attitudes. I think one of the great dangers of doing business in Russia is not taking the time to understand the position of your interlocutor. I am not going to comment on the politics, but I am sure that is part of it as well. I think you need to have transparency of intention, you need to spend time building trust, sharing what sort of person you are and what your values are. It is not necessary in day-to-day interaction, but when something comes under pressure, when there is a really difficult issue to deal with, then it is too easy to make the kind of quick, fast,

actually inappropriate response, because you have not spent time understanding the hinterland and the motivations of the person you are dealing with.

L. Halligan:

Marina Loshak is the Director General of the Pushkin Museum. How do you think the Year of Culture is going between our two great countries?

М. Лошак:

Вы знаете, если бы я не смотрела телевизор и не была женой журналиста, может быть, я бы ничего и не почувствовала, потому что наши отношения с партнерами и коллегами в Британии по-прежнему развиваются прекрасно. Это касается и сотрудничества между музеями, и дружеских связей между людьми. Здесь ничто не изменилось и, я уверена, не изменится, что бы ни случилось, потому что это люди, с которыми мы живем на одной площадке и играем в одни и те же игры. Мы отлично понимаем друг друга, и я не знаю, что должно произойти, чтобы мы изменили мнение друг о друге или утратили желание работать вместе. Трудно себе представить, что может заставить обыкновенного русского интеллигента забыть, как в детстве, лежа с больным горлом, он читал Диккенса, или как он любовался пейзажами Тернера. Я убеждена, что именно этот сложно устроенный мир, который мы называем культурным, или сентиментальным, или человеческим, абсолютно устойчив, и именно в нем спасение от тех слабостей, которые ведут к недопониманию и проявляются в политике. Всего лишь недопонимание или недоразумение.

Этот год у нас напряженный, мы проводим много замечательных совместных выставок. Например, в сентябре мы открываем очень тонкую, очень английскую выставку, посвященную Оскару Уайльду, Бердслею и художникам Серебряного века. Мы рассказываем о Хогарте на примере нашего собрания и о том, что люди со времен Хогарта не изменились:

ирония и насмешки, которыми он был полон, актуальны и сейчас, мир остался прежним. Скоро к нам приезжает директор галереи Тейт Николас Серота, с ним мы планируем на 2015 год выставку английского пейзажа, на 2016-й — «лондонской школы», а потом Люсьена Фрейда и многое другое. План расписан до 2018 года. Я уверена: ничто не помешает его осуществить.

Очень важно, что программа сотрудничества есть и на уровне маленьких музеев обеих стран. Ее уже реализуют музей Уотса и музей Поленова. Мы ищем активных единомышленников с обеих сторон, поэтому я абсолютно верю в неизменность настоящего.

L. Halligan:

Peter Mandelson, Lord Mandelson, has been EU Trade Commissioner and the Secretary of State for Trade and Industry in the UK. Peter, I know you spent a lot of time in recent years coming to Russia, building relationships in Russia, and forming an expertise in this part of the world. Does it make you sad that relationships have deteriorated to such an extent in the last six months? This is the worst situation we have been in since the end of the Cold War, is it not?

Lord Mandelson:

In a sense, it is worse than any time during the Cold War, certainly worse than at any time since the 1960s. I think what is worth observing, though, is that, during the entire period of the Cold War, up until the collapse of the Soviet Union, the West and East always maintained different channels of communication and dialogue. That was never ended. It was never as if either side wanted to boycott the other. In that context, the political tensions and frictions were perhaps better managed, more easily smoothed out, even though we were going through a period when, Heaven knows, we actually had nuclear missiles pointing at each

other – and a lot of them, pointing at each other's cities and able to create mutually assured destruction.

We do not have that anymore, yet what has emerged in the recent period is a loss of trust. There is a sense that the Russian government has become rather more unpredictable in its actions, certainly in its behaviour in its immediate neighbourhood. Certainly, these issues coming to a head in Ukraine, and the illegal annexation of Crimea, as we see it, has produced quite a sizable crisis in Russia's relations with Europe, the United States, and the rest of the West.

Now, you have to see this in the context of something else which is happening in Russia, which, in a sense, may have more fundamental and longer-term implications for the commercial and trade relationship between Russia and the West, and that is that we are not seeing the same economic boom times in Russia now that we saw in that decade after Mr. Putin came to office as President of Russia. We are seeing a marked slowing down of growth, and the prospects for Russia's economy are stalling. That is going to have the most profound effect on how people view the Russian economy as somewhere where people must be, must trade, and must invest. If you put that together with the overhanging political cloud that has been created over the relationship between Russia and Europe, and the West more widely, I think that you have to accept that the implications for Russia are very serious. We are already seeing very considerable year-on-year loss of foreign direct investment in Russia. We are seeing a very sharply increased flow of capital out of Russia. You are seeing Russia's foreign exchange reserves under really serious pressure, certainly since the beginning of this year.

My view is that Russia needs to focus on why its economy is stalling. Primarily, it has to look at the model of economic growth, the conditions in which that capital flow could be reversed so that it starts coming back into Russia, how it can create conditions in which foreign direct investment resumes its growth and reverses that falling away. It needs to look at the structural reforms, the

conditions for doing business, and the business environment that exists in Russia, but it also needs to address the negative sentiment towards Russia that is building up in the West and outside, beyond its borders. The great risk is that the politics go sour, the trust falls, and governments do not make it easier for business-to-business relations to grow. You then see the risk of negative market sentiment setting like concrete around Russia. When that happens, it makes it really difficult to unpick and reverse the negative sentiment that sets in, if it does so in that way.

L. Halligan:

But it has always been pretty negative, has it not?

Lord Mandelson:

Well, I do not entirely agree with you on that.

L. Halligan:

Outside of oil and gas, where are there British companies in Russia, outside of BP?

Lord Mandelson:

There are chemicals, there are financial services, there are business and professional services, there are retail services. British and European interest in the Russian economy is certainly not restricted to oil and gas. We have seen over time how companies, like BP, but many others, despite the ups and downs they may experience, have shown how British and other European companies can thrive in Russia. I believe it is possible to restore those kinds of conditions and that more positive business environment. In order to do so, it really is important that Russia looks at the domestic economic conditions and climate prevailing in its own economy, but also deals with the political risk premium which

is now attaching to Russia as a result of the loss of trust and great uncertainty that is growing from recent events in Russia's neighbourhood.

L. Halligan:

Herbert Moos is the Chairman of the Management Board of VTB Bank and also a German national. How would you characterize the German business lobby's view of Russia compared to the British business lobby's view of Russia? Please be frank.

H. Moos:

Yes, I will try to be controversial. Obviously, I represent VTB first and foremost, and so the Russian perspective on this, but if I were to compare and contrast the British versus the German or European interest, then clearly Britain created an amazing financial infrastructure. Many analysts agree it has overtaken New York as the most convenient place to do business in the financial industry.

At the same time, if you look at Germany, it has created many industrial capabilities, such as car production factories and technology, and they have made many significant inroads in localizing those investments in Russia. You will find a significant number of German small and medium-sized enterprises operating there. The UK followed its own existing model by exporting financial services primarily. Whilst Frankfurt is not said to be an important financial centre, London has played on that strength, and perhaps maybe at the expense of industry and other enterprises. If one looks at finance, certainly, as a Russian bank, we have been a major beneficiary of that trend. The UK has built a very important infrastructure in London to enlist and to attract new capital, both for the banks and for Russian corporates. Valuations were also very favourable because the UK was bringing in the investment flows. For a number of years, that was a significant competitive advantage. If you remember, the first listings of Russian

companies actually occurred in New York. Then London recognized that niche and its advantage.

L. Halligan:

In the late 1990s. It was a long time ago.

H. Moos:

Exactly, and then the UK modernized its listing rules, infrastructure, and accessibility, and it has positioned itself as a primary centre. This was a huge boon to Russians.

L. Halligan:

If you travel around Russian regions, you see numerous posters, be it Siemens, be it VW, be it Liebherr, be it Knauf making plasterboard with numerous production facilities. Do you think there is something cultural happening here, with Germany looking both West and East by dint of its history and geography?

H. Moos:

I think that it is something to do with the risk appetite. As Roger mentioned, it also has something to do with British boards being somewhat more considerate and thoughtful and deliberate before they enter into this. Some of it was definitely politics. If you look at the political environment, there is still a distinction between how Europe and the UK handled the situation. Even if you look at the financial industry itself, I do see a significant challenge building now. This boon, the emergence of London as the primary vehicle for investments into Russia, was driven primarily by Russia's need to build the economy. After the collapse of the Soviet Union, there was a need for short-term funds to build the consumer-driven economy. Now Russian industry itself and the companies involved, for example Rosneft, is probably as large as the largest UK companies. Yet the offering from

the UK markets continue to be focused on emerging market funds, relatively short-term, relatively narrow and shallow, yet Russia, as Ms. Malson said, needs longer-term investments. It needs to restructure the type of economic growth. It can no longer be consumer-led; it should be investment-led economic growth. That will require longer-term investment pools. Here there is a big challenge right now for the City of London: can they open up those pools?

L. Halligan:

And can Russia itself use its pension funds, its huge stock of savings, and channel that?

H. Moos:

Exactly. That is the big challenge. Otherwise, Russia will start looking inwards, or it will start looking towards the East. London has a risk of losing its historical competitiveness.

L. Halligan:

I want to bring in Makram Azar from Barclays, but before I do, I want to ask Mikhail Shvydkoy, who is from the President's Office on International Cultural Cooperation. Mr. Shvydkoy, do you think that the difference in engagement on the trade side that we have seen so far between Russia and the UK, on the one hand, and Russia and Germany, on the other hand, is partially explained by cultural factors? If you add up all of Germany's imports and exports to Russia's imports and exports, they are each other's biggest trading partners. Even with this Chinese gas deal, Germany's trade with Russia is still bigger than with China, even after yesterday's announcement. Is this partly a cultural thing between these two countries? Germany has really managed to leave every other country behind when it comes to trading with post-Communist Russia, at least so far.

М. Швыдкой:

Прежде всего я хотел бы возразить лорду Мандельсону; было бы странно, если бы я этого не сделал. Я не стал бы упрекать российское руководство в непредсказуемости позиции. Как мне представляется, коллизия, которая сложилась на Украине, была связана с неразумностью и нерасчетливостью представлений Запада о том, что происходит в этой стране. В результате России оставили очень узкое поле для маневра. Положение Крыма — это не следствие нашей стратегии, восходящей к 1954 году. Причины событий во многом ситуативны. Избранный нами выход был наименьшим из возможных зол. Поэтому я бы говорил не о непредсказуемости поведения России, а о том, что инициаторы тех процессов, которые происходили в Киеве с октября прошлого года, очень многое не рассчитали: предложенная ими модель в Киеве заработала таким образом, что хвост начал вилять собакой, а не наоборот. Ситуация довольно сложная, я говорю со знанием дела, потому что мою фамилию пишут на всех машинах скорой помощи Украины. Моя фамилия Швыдкой, а по-украински «скорая помощь» — «швидка медична допомога», поэтому я Украину знаю, как говорится, от рождений до смертей, там практически все могилы близких.

Впрочем, не будем на этом останавливаться. Вы задали вопрос, и я отвечу. Суть в том, что с немцами мы имеем дело последнюю тысячу лет, а с британцами — последние 500 лет: первая торговая компания была создана, если не ошибаюсь, в 1555 году в Москве. Кроме того, существует представление о том, что англичане — наши главные противники. Я думаю, оно сложилось после того, как в 1801 году мы объединились с французами и решили пойти на Индию. Всякое бывало в нашей истории, к тому же в 1800 году британцы захватили Мальту, а Павел I, как известно, был великим магистром Мальтийского ордена.

Для меня представление «англичане — враги» ложно. Начнем с того, что Иван Грозный собирался, если в России будет смута, убежать в Англию. Это была его идея фикс, и даже когда Елизавета I отказалась вступить с ним в брак, он мечтал, что сбежит в Англию, и тогда все будет хорошо. Вообще письма Ивана Грозного и Елизаветы — это выдающийся образец любовной переписки. Поэтому я бы не сказал, что у нас с англичанами исторически отношения хуже, чем с немцами, или что у нас нет культурного родства.

Другое дело, что Германия в последние 25–30 лет была очень серьезным посредником между Западом и Востоком. Без Советского Союза Германия бы не объединилась. Немцы это помнят, особенно поколение старше 40 лет. С британцами такой истории не было, а ведь это сентиментальная история. С британцами мы не воевали в 20 веке, британцы всегда были нашими союзниками. Черчилль в письмах к Сталину писал: «моему военному товарищу и другу» — я думаю, даже Ельцин так не обращался к Колю. Но факт остается фактом: сентиментальные отношения с немцами очень важны. Никто уже не помнит, но Григорий Распутин, которого убили здесь неподалеку, в Первую мировую войну говорил: не надо связываться ни с французами, ни с британцами — надо как всегда дружить с немцами, и все будет хорошо. Его не послушали, и известно, чем всё закончилось. И все же, повторю еще раз: Германия на сегодняшний день — очень важный партнер для России.

Приведу простой протокольный пример, очень показательный. Как известно, идет год культуры России в Великобритании и год культуры Великобритании в России. Открывался год необычайно торжественно, в здании парламента, с участием лорда-спикера Палаты лордов баронессы Д'Союза, Ольги Голодец, председателей комитетов по культуре, министров. Был концерт в Королевском фестивальном зале, овации, речи. Год британской культуры открылся в Москве в Манеже, присутствовал мой

товарищ Пол де Куинси, представитель Британского совета в России, который предупредил, что придет, но говорить не будет — нельзя. Мой другой товарищ, сэр Мартин Дэвидсон, генеральный директор Британского совета, просто не смог приехать.

А 6 июня открывается год русского языка и литературы в Берлине. Я веду постоянные переговоры с заместителем министра иностранных дел Германии, с директором департамента культуры германского МИДа, и это постоянный диалог, он не прерывался никогда. В русском языке есть очень важное понятие: «я слышу». Оказалось, самая тяжелая проблема при общении с англичанами — это то, что мы говорим и не слышим. Это очень опасный знак.

В этом году отмечается 450-летие со дня рождения Шекспира, а Шекспир, как известно, русский автор, не английский, потому что в России его ставят, по-моему, больше, чем в Англии, а сейчас в Москве с огромным успехом гастролирует театр «Глобус». По закону драмы, когда я на сцене, я должен работать на партнера. Так вот, между Англией и Россией диалог на политическом уровне прекратился, и это плохо. А с Германией и даже с Францией он никогда не прекращался.

L. Halligan:

I must say that I often find that taxi drivers in Moscow know more about Shakespeare than my educated friends in the West. I want to bring out Makram Azar, who is the Vice-Chairman of Investment Banking for Barclays here in Russia. We have heard about some of the cultural issues, and notwithstanding the economic difficulties that Russia is going through at the moment, which Lord Mandelson rightly pointed to, 1-1.5% growth, at best, this is still the sixth biggest economy in the world in purchasing power parity. This is still, as we speak, Europe's largest retail market, not by people but by value now, even though per

capita income remains USD 15,000, relatively low compared to the rest of Europe.

Barclays seems to get that. Without giving away too much, is this a source of constant dialogue within the bank, or do you think the bank is committed for the long-term? Do the folks who are interested in Russia within the bank, like yourself, have to constantly make their case, particularly in situations like now, where there are obviously big political storm clouds?

M. Azar:

Thanks Liam. No, actually it is not a subject of debate at all. We are committed to working in Russia, and have been for a long time. But we are focusing on what we do best, and for this market, it is primarily the investment banking products and services.

In the areas of wealth management, private banking and investment banking are areas of focus and core areas for the bank for going forward. We are committed. We are here to stay, and my presence here today with a big delegation from Barclays is a testament to that.

If I may just go back to a few things that were covered by Lord Mandelson and Herbert: obviously, one of the strengths of the UK economy is the service industry and the financial sector, in particular. I would like to note that cumulatively, in terms of foreign direct investment, the UK is still number one out of the G7 countries as an investor in Russia. BP is leading the way, although there are other areas outside natural resources; companies such as Unilever, for example, have invested in Russia.

Primarily, I think the UK is one of the largest sources of capital for the Russian economy. If you look at the amount of capital raised by Russia over the last 10 years, it is around USD 1 trillion, and that obviously consists of equity capital as well as bonds and loans, etc. If you look at the equity capital aspect of that, which

is really a vote of confidence in Russian companies, then, after New York, the UK has been by far the leader in terms of funding the Russian economy.

L. Halligan:

That is a city thing, is it not? If you talk to our Mittelstand compared to Germany's, if you go to the West Midlands, the northeast of the UK, and ask people about investing in Russia and exporting to Russia, they look at you as if they'd like to call Security. I can say this from personal experience, and also from a previous life as an asset manager, that German pension funds and insurance companies, even American pension funds and insurance companies, have invested quite heavily in Russian equities and bonds. While a lot of business in the Russian capital markets originates from the UK and has got a UK stamp, it is not always British money. It is British-packaged money, British-managed money, but it is not always our long-term capital, our pension funds, or our insurance companies. I have been to some of the leading institutional investors in the UK and talked to them intensely about the idea of investing in Russia. Once you get to know people, they admit that there is a big cultural lacuna here. We just cannot get over the mindset. There is a bunch of guys sitting on the board and saying, "over my dead body." We literally have to wait for a demographic change here; is that not something that you have seen?

M. Azar:

I do not think that is entirely true. First of all, one of the major export sectors for the UK economy is services; that is what we do best. That applies to other parts of the world. It is not only in Russia that we are not as good as the Germans from the industrial standpoint, I suppose. Going back to funding the Russian economy, out of USD 270 billion of bonds raised over the last 10 years for the Russian economy, Barclays has had 26% of that: 70 billion.

L. Halligan:

That's not to be sniffed at.

M. Azar:

That money is not coming from elsewhere, so we have really led the way, but not just at Barclays; in general, this has been the City of London. Going back to the equity capital markets, over 90% of the equity capital market transactions that were raised over the last 10 years were done on the London Stock Exchange. For the Russian economy, until things change and the local pension fund system evolves and becomes deep enough to replace foreign capital, I think the Western markets will continue to be the main source of capital for the Russian economy, whether it is the US or UK, and the UK is leading the way. I think that has implications for what happens in this unstable political environment. I am sure that it is a consideration that is being taken into account. Even this year, we are mandated on a number of transactions to raise capital for major companies here in Russia, including the largest potential equity transaction. That is going to be done outside Russia, so I do not think that the Russian system is yet ready to replace the Western pools of capital. Progressively, it might, but it is not going to happen overnight.

L. Halligan:

Where do you think Russian capital markets are going to be in say, 20 years? Do you think Russian equities, Russian corporates, will be a mainstream investment? Of course, there is much less of a discount on Russian bonds than there is on Russian equities, in general. Do you think regular British retail investors and institutional investors will feel that Russia is, in all respects, 'normal?'

M. Azar:

I think the elephant is in the room. That will of course depend on the behaviour of the Russian politicians in the foreseeable future. Twenty years is a very long period of time to predict anything, certainly in economic terms. Nobody has a crystal ball. In the end it all comes down to confidence, trust, and predictability. When you invest as a retail investor, or even as an institutional investor, in an equity product, it is a long-term play. You need to feel comfortable that nothing terrible could happen overnight, no black swan that comes out of nowhere, for political reasons or otherwise. The first condition is one of stability and predictability. That needs to happen first for retail investors outside Russia to be attracted to investing in Russia.

L. Halligan:

Roger, to put you on the spot, how do you feel about the fact that quite a few business leaders in the West, in our country and in the United States, have not turned up here in St. Petersburg, having said previously that they would?

R. Munnings:

I think it is just an environment where they just do not want to be at the moment. My own position is quite a difficult one, really. I was born in the UK, my parents are English and Welsh, I am a UK citizen, and I took part in the process that elected this UK government. If you do that, you are part of supporting your country. Having said that, I lived in Russia for 12 years. I enjoyed my time in Russia immensely. We built a very successful business here. I have had a good time here and to some extent, not fully, I got to know how people think and their attitude. It is difficult for me. I think it is much easier if you do not have that second side of it; then you just do not come. I think that is unfortunate, actually. I can understand it, but I was struck by Lord Mandelson's comment. In what was called the Cold War times, there were much bigger stakes in understanding the position of the other country, so we worked much harder at it. I think we've all

relaxed around that. Certainly in business you do this day-to-day, because you have to; you have to understand that you can trust your partners. That takes time. It builds up over time and you do it by observation. You see if what they do is what they say. Running an audit business here, you can imagine that, in the 1990s, it was quite important to do that. I just wonder whether we have moved away from that intensity of understanding that was needed in Cold War times at the administrative and political level, on both sides.

L. Halligan:

Peter, you are here. Did you hesitate before you came here? It has obviously been a subject of debate in the UK that you are here. Did you ever consider not coming?

Lord Mandelson:

Yes, I did consider not coming. There is a case for making a political statement by staying away. Equally, there is a case and an opportunity to make a political statement by coming and engaging in a debate, which I started to do this morning already. I am in this rather curious position, a political no man's land. I hope it is only temporary.

I know we are all speaking off the record here. My feeling is this: people attending this Forum need to understand that where government to government disagreements arise, they will impact market sentiment, and they will have economic consequences. To be honest, I have felt in recent weeks and months that the Russian government was rather indifferent to the economic and financial consequences of their political actions in their neighbourhood. I think it is good to bring home those with whom you can have a dialogue in Russia. Please notice, nobody has been silencing me since I have arrived in Russia. Nobody has been saying that I am not allowed to say what I want to say. The article that I have written in the *Financial Times* today (which people who want to can go to their

website and read) makes the point that, until relatively recently, many people in business and investors really regarded the Russian economy, the Russian market as a must-go, must-be place to be present. What I have been pointing out is that that is capable of changing. Market sentiment can change. The appetite for political risk in Russia can fall. Capital marches with its feet in pursuit of that rather more negative sentiment. That is what the Russian government needs to weigh more in the balance as they consider their actions and policies going forward. That is the point I am making.

I think that Mikhail made a rather good point in response to my opening remarks. He said that the Russian government was not acting in an unpredictable way in relation to Ukraine. I think that Russia's response to events following the installation of the new government in Ukraine indeed was rather impulsive. I think it was driven more by tactics than by strategy, which is precisely why I think it was harder to predict.

What some people in the West are arguing is that the Russian government does seem to be laying down and pursuing a strong ideological dividing line based on the idea of a Russian population and a Russian community stretching well beyond Russia's borders, which the Russian government and the Russian people at home have every right to reach out to, in whichever sovereign country they may now be located. If the impulsiveness that we saw in Ukraine starts developing a pattern, and that pattern starts to be reflected in some sort of consistent, and – from a Russian point of view – more coherent policymaking in relation to Russians 'near abroad,' and those Russian communities and that Russian population which is located in the former Republics of the Soviet Union which are now sovereign countries, then people around the world will start to get very worried indeed. They will think that it will stimulate further and further instability.

L. Halligan:

Really? China is not worried. India is not worried.

Lord Mandelson:

No, I do not agree with you for one moment that China is not worried. I have been in China recently, and yes, it is true that, in a sense, China will make some common cause with Russia, because both share a scepticism about US adventurism and behaviour or actions in various international settings. But please do not assume that therefore China and Russia see eye to eye on everything. I think that if that sort of impulsive move that I ascribed to the Russian government starts developing into a pattern of intervention or interference in other sovereign countries, you will see China running very, very hard in the opposite direction. Believe me, the last thing China wants to see is some sort of established pattern or acceptance of countries intervening in the internal affairs and compromising the sovereign independence and integrity of other countries.

L. Halligan:

Marina, we've obviously got some pretty high politics going on here. I do want to bring the discussion back to culture here. What do you think that shared culture can do, the admiration that British artists and British musicians have for their Russian counterparts and vice versa? Let me tell you that I was at a wonderful production of Uncle Vanya at the Windham's Theatre in Leicester Square just a few weeks ago – the all-seeing Chekhov. I got to talking to the producer of the play afterwards, a young man called Oliver King, who has set up a production company called Belka Productions. Oliver was telling me that his production company is devoted to bringing Russian productions to the British stage in the original Russian with subtitles. An awful lot of his sponsorship has dried up in the last few months as a result of Ukraine. Leading Russian actors cannot get visas to come and perform in Western shows, for which tickets have already been sold. The man has had a lot of problems, and yet he has battled through and the

productions which Belka has put on have been brilliantly reviewed and have been triumphs. The production I was at got a standing ovation.

Cultural ties seem to battle through, despite the politics. Even during the Cold War, there was huge collaboration between British and Russian artists. Does that give you hope? Can culture play a specific role now to defuse the really escalating situation that we have?

М. Лошак:

Повторюсь, я верю в человеческое, в неизменное, в то, что не влияет, как бывает в политике и в бизнесе, на чувство юмора, потому что я уверена: чувство юмора — спасительный крючок, который вытащит из любого болота.

Безусловно, культура дает возможность отнестись друг к другу с большим пониманием, быть менее категоричными, тем более что британцы — люди бесконечно толерантные и способные слышать, это часть их исторической культуры, их ментальности. В России слышат не сразу, но уж если услышат, то превращаются в два открытых уха. Мир неоднозначен, он не черно-белый: люди бывают мотивированы разными вещами, они эмоциональны, и политики в том числе. У них тоже есть больные точки, и если нажать на эти точки слишком сильно, то мощное эмоциональное начало может перекрыть все остальное. Поэтому понимание друг друга, умение слышать, в более широком, философском ключе, безусловно, спасительно, и культура занимается именно этими проблемами — проблемами человеческого.

Любые подтверждения общности, например, что Чехов — любимый драматург не только в России, а Шекспир — не только в Британии, говорят о том, что мир неизменен и все пойдет в правильном ключе. Каждый из нас должен понимать, что существует мера ответственности: невозможно отказаться от любви к тем людям, по отношению к которым чувствуешь себя ответственным. Это тоже понятная эмоция.

L. Halligan:

Roger wants to say something briefly about visas.

R. Munnings:

Yes, I am sure if I let this slip, then my friends in the Embassy and the British Consular Service would not be very pleased with me. I understand that visas have been difficult at the moment. It is connected with a changeover in the supplier. It has nothing to do with the specific sanction position. I think it is just valuable to point out to the audience that this is the case.

L. Halligan:

Herbert, it strikes me that we have a huge number of Russian people in the UK, not living in the UK, but who are sending their kids to be educated in the UK. Do you think that is something that can help us?

Lord Mandelson:

Liam, they are not just the children of oligarchs. There are many ordinary Russian people who want the best for their children. They are not just rich people's kids.

L. Halligan:

Absolutely; I was going to make that point. Does that give you hope for the future for better collaboration between these two countries that you know so well, the UK and Russia?

H. Moos:

I think it certainly adds to the complexity of the relationship, so it is not just purely cultural or purely economic; it has acquired the necessary complexity. Here

again, the UK certainly has a very clear competitive advantage. I think it is great. We talked about generational change. It is also great for that new generation to acquire what it means to be British, and hopefully retain that which is good about Russia, and hopefully to sit at this table 50 years later and discuss how great a relationship is building.

I would agree with Peter that there is a risk that Russian corporates and Russian investors will not find opportunity in London anymore because investors will turn away. Also there is a risk that London will lose the attractiveness of being that platform for issuing capital, and increasingly Russia is looking East, if you will. If I look at the history of my bank, VTB, the initial public offering on the London Stock Exchange was an enormous success; the book was ten times oversubscribed. The latest offering that we had to do was done in a format which was all listed in Moscow, and it was all sold to a pool of non-UK investors. We had huge interest in Norway, Qatar, new investors.

L. Halligan:

These sovereigns have a huge interest in Russia, of course.

H. Moos:

One investor is Azerbaijan, and China; new pools of capital are emerging.

L. Halligan:

Just while we are here, because this really is in your area, if I may: how is the Voloshin Committee going? How are the efforts to build a world-class financial centre in Moscow going? Do you see as much progress as you would like?

H. Moos:

I think there certainly needs to be more. As with everything, you can finesse this. Here you can draw on the fact that London created this unique infrastructure that

is very favourable. Now the regulatory pendulum in London is swinging to the point where it is very difficult to do business, and not just for Russian banks. We are the only Russian bank in the City of London, and we are facing tremendous pressure there, but also for the local banks.

L. Halligan:

What sort of pressure?

H. Moos:

As I said, we are the only Russian bank. We have existed in UK for about a hundred years, so it is one of the oldest financial institutions with the Moscow Narodny Bank. We hope to exist for another hundred years, and yet, of course, we are not systemically important. We are a relatively small bank, we do not take any retail deposits, and we do not use any funding from the Bank of England. The amount of regulatory scrutiny which was imposed on us in the last few months was clearly disproportional. It was consistent with the systemically important institutions.

L. Halligan:

When you are not systemically important.

H. Moos:

Yes. We were asked to run tests and we were asked to inject more liquidity and capital, which we complied with. Fortunately, whilst Russia will be criticized for the state of the legal system, or infrastructure, what Russia cannot be criticized for is the state of general public finances. It runs one of the lowest public debts; it is about 9% of GDP. The UK runs close to 100%. Russia runs a surplus budget; most of the Western countries run deficit budgets. It has reduced, but it still has the fourth largest foreign exchange reserves in the world.

L. Halligan:

I am interested in getting some questions from the audience, ladies and gentlemen.

М. Швыдкой:

Лорд Мандельсон сказал, что мы на нейтральной территории, а я хотел бы напомнить, что это не по man's land.

Я бы хотел упомянуть об одной статье, которая вышла 16 мая во *Frankfurter Allgemeine Zeitung*. Это большая беседа с канцлером Меркель. Там была такая фраза: мы исходим из того, что в среднесрочной и долгосрочной перспективе Россия является стратегическим партнером Германии. Она единственный, пожалуй, западный политик, сделала сейчас такое замечание, и это очень важный знак. Спасибо.

L. Halligan:

There is a question there from the young lady.

К. Тайманова:

Добрый день, меня зовут Кира Тайманова, я из Санкт-Петербурга, являюсь основателем культурно-образовательного центра «Дом Бенуа». Мой вопрос связан с относительно новым, но очень важным и активно развивающимся в мире экономическим сектором — так называемой креативной, или творческой, индустрией. Сегодня уместно об этом поговорить, поскольку в Британии она является драйвером экономики последних лет, неким антикризисным решением в период постиндустриальной экономики. Насколько, на ваш взгляд, реально развитие этого сектора в современной России?

L. Halligan:

There is a superb article now by Peter Bazalgette, who is one of our top television producers and who is the Chairman of the Arts Council, on Britain's prowess in the creative industries. As the young lady says, it struck me as I read it that there is huge, huge scope for collaboration between Russia and the UK, and massive ingrained respect in Russia, in my experience, for this aspect of the British economy and the British psyche.

R. Munnings:

Let me comment, if I may. I think you need to look at British history from maybe the 1970s forward. What we saw during that period was a move away from old, redundant industries into new areas, and it was quite painful. My guess is that because of single-city enterprises in Russia, there has to be that period of pain in Russia as well, because many of those industries are redundant.

The question is, what happens to meaningful lives of the people who are in those cities? The way the UK has dealt with it, and it has only really come through over quite a long period of time, in my view, is for people to take responsibility for their own lives and their own businesses, and for building their own businesses. Quite a lot of those are in the creative industries, as you say. It involves personal responsibility, it involves creating the frameworks at the government level for small businesses to start and to prosper, to remove bureaucracy and all the hindrances that are inherent in a large business environment to help small businesses. It also requires a degree of funding. I think what we see in the UK more now is that small businesses tend to not use the banking sector as much as they did, but I think that it relates to an issue for the banking sector.

If we look at Russia's future and the diversification that was talked about earlier, what is critically important is that it has worked out how to help people move away from big, old-fashioned redundant areas into new, constructive areas which give them a decent life in the future. For me, that is why Russia cannot be solely

a natural resources economy. Of course it will be a natural resources economy, because it has so much of it.

L. Halligan:

It has come down a lot. Forty percent of the GDP was oil and gas in 2003. Now it is 16%.

R. Munnings:

Yes, but how many people are employed is the question. The worst thing for a country, and I know that is not the case in Russia, is to have significant levels of unemployed people for long periods of time. That ruins the future of the country.

L. Halligan:

Peter, when you were Secretary of State for Trade and Industry, you were noted for being a champion of small business. We have a very vibrant small business sector in the UK, not just engaged in the creative industries, though increasingly so. Over 50% of British people are employed in companies with less than 100 workers. Russia does not yet have that, despite having more entrepreneurial talent than you can shake a stick at. What can Russia do to harness its entrepreneurial talent, which I know you believe in, and create something in this country that can rival the British SME sector and even Germany's Mittelstand?

Lord Mandelson:

I passionately believe that Russia has got to do at least three things. First of all, it must progressively withdraw the state from economic and commercial activities which are best done and driven by private enterprise and individual entrepreneurship. Secondly, where the state is a procurer, it should progressively introduce a bias in favour of smaller and more medium-sized enterprises in supplying that state procurement. For the moment, as I saw in my own country

over many decades, but I still see it with a vengeance here in Russia, there is still too great a prejudice in favour of, or presumption in favour of incumbents in the market: businesses that you are familiar with, people that you know very well, people who have been supplying you for a very long time. All manner of different types of vested interests are creating barriers that are preventing new, smaller, more dynamic companies from coming into the Russian marketplace and supplying those markets, including the state sector or public procurement.

The last thing I would say is that banks and financial institutions in Russia have a huge responsibility for supplying their own services and capital much more and better to small and medium-sized businesses than the established, larger incumbents. At the moment, it is not that easy to get credit out of the Russian banking system if you are an SME, and more often than not, when you do get that credit, it costs you more than would be the case for a larger, more established business. I think one of the main structural forms that I would like to see open up in the Russian economy is a tackling of those barriers and obstacles that stand in the way of the growth of the SME sector. I would like to see a much less state-dominated banking system, adopting a much fresher, newer approach and attitude to extending credit to SMEs, and I would like to see the state, where it remains present in the economy through public procurement, doing very much more to harness the creative and innovative powers and dynamism of the SME sector in Russia.

L. Halligan:

Mikhail, now, briefly, because I'd like to get the question from the gentleman.

R. Munnings:

Just a quick comment here. I think the UK does have experience here which is valuable to Russia. There was a lot of pain in the UK in the 1970s and early 80s.

The point I wanted to make is that people who work in large enterprises, particularly in a Russian corporate, government type of structure, are not ideally suited to take responsibility, in my experience. I think there is a whole area which needs exploration there, in terms of how you take people out of huge structures and give them the capabilities to work on their own or in much smaller structures, so that they are willing to be accountable and willing to take responsibility. It is an intangible area, but it is my observation that there would be great gain there.

L. Halligan:

Briefly, Herbert on SMEs.

H. Moss:

I am just trying to link that to what I said in my other remarks about the role of Russian banks. I think that is something where Russian banks and financial institutions understand the risks of those investments, and they can present the products and the package solutions to the UK market. In that respect, there is an opportunity, if there is a regulatory motivation and regulatory inducement to that, that Russian banks could come to the London market to present those opportunities and package them in a way that investors are willing to take the risk, and that is an opportunity for London.

G. Rozhkov:

Grigory Rozhkov, Director General of the St. Petersburg-London 2003 Association. I worked as a city representative in London 10 years ago, but I still continue to cooperate with UK and other international companies. My question is for our British colleagues. What do you expect the Russian side to do to continue the dialogue so that cooperation is not interrupted? In St. Petersburg, we have special ties with Manchester companies, and we hope to continue to develop them in the future. My question is, what steps do you expect from a British SME

to continue in spite of the current situation? Not to stop the dialogue, but to continue it. Will they be affected by the top-level relations?

L. Halligan:

Makram, you see no real impact on your institution, do you?

M. Azar:

No, I do not see an impact on my institution for the time being, but we are bigger than an SME. We have been here for a long time. For SMEs, I do not know. I suppose they will follow the direction that the politicians and the government will set.

L. Halligan:

It is partly a media thing, is it not? Let me put this to you: do you think that the British media covers Russia fairly?

M. Azar:

For me, it does not even cover even Barclays fairly, let alone Russia.

Lord Mandelson:

British media does not even cover Britain fairly.

M. Azar:

It is just the nature of the tabloid industry in the UK.

R. Munnings:

Of course it will affect small and medium-sized enterprises' appetite for Russia. The key question that needs to be addressed eventually is how do we rebuild trust to take it a stage further than it has been.

L. Halligan:

Mikhail, what do you think the British side can do to maintain this dialogue?

М. Швыдкой:

Жаловаться на медиа вообще бессмысленно. Это как дождь, как снег: в лучшем случае можно взять зонтик или одеться потеплее. Надо сказать, что в последние примерно полгода в Германии, во Франции, в меньшей степени в Великобритании наблюдается разница во взглядах медиа и общества. Общество занимает более сдержанную позицию по отношению к России, чем медиа. Если я не ошибаюсь, в газете *Zeite* была большая статья по этому поводу, где приводили письма читателей, возмущенных оценками медиа. Я думаю, это началось с Олимпиады: картинка из Сочи не соответствовала тем ужасам, которые описывали журналисты.

Чего мы ждем от англичан? Лично я жду, когда возобновится нормальный диалог. Я слышу, что говорит уважаемый лорд Мандельсон, и соглашаюсь с тем, что импульсивность не может быть системой. Но и британцы должны услышать нас, услышать в частности, что нельзя садиться за один стол с антисемитами и людьми, которые хотят сжигать других людей. Это вопрос диалога: мои взгляды и позиция сэра Мартина Дэвидсона несхожи, но мы дружим, и я не хочу терять эту дружбу. Не стоит забывать, что люди могут дружить, даже если их взгляды не совпадают.

L. Halligan:

I'd like to give the last word to Marina, but before I do: Peter, you are an extremely sophisticated observer of the British media, as we all know. Just briefly, what is your view of how Russia is covered from a business point of view? Do you think Russia gets a fair crack of the whip in the leading British

newspapers, not the tabloids, but the ones that business leaders and aspirant SME exporters read?

Lord Mandelson:

I am not sure that I am not more a sophisticated victim of the British media than an observer of the British media. I've learned through experience.

To be honest, I think that there is a tendency in some parts of the British media to make assumptions about Russia, to ascribe particular views held in Russia to the population as a whole, to generalize from the particular in a much more cavalier way than they would do in the case of other countries' leaders and communities as a whole. I think there is a sort of default position which is very easily and quickly gone to in the media, which is to find fault, to exaggerate, to generalize and to point an accusing finger. That is the sort of default position that many in the media have in relation to Russia.

But then I would have to say that Russia therefore has to be all the more careful, and its political leaders and its government needs to be all the more careful not to conform to other peoples' stereotypes. If you know what is coming toward you down the track is a sense that you are a rather expansionist country or a rather controlling set of political leaders, or that you have the tendency to help yourself by reaching into other people's lands or populations or economies or whatever: be careful what you wish for. Behave counterintuitively, or more reassuringly, or, if you think that something you are going to do is capable of misrepresentation or misinterpretation, then get your communications in at the beginning, rather than bolted on at the end, to try and explain what you are doing and why.

In other words, where there is the potential for misunderstanding and disagreement, there is a huge premium on more dialogue, more diplomacy, the greater use of political context, rather than less. I think that is something which is overlooked or ignored on both sides, but I have noticed it, I have to say, in Russia. There is a sense that "We are not going to be patronized any longer by

the West, we are not going to be humiliated, we are not going to be treated like second-class international citizens. We are on par with these people, and until they realize it, we are not going to bother talking with them in the way that they expect us to do.” When you get into that sort of downward spiral, you know that you are heading towards the very lowest common denominator of contact and of communication of relationship.

R. Munnings:

I think Peter makes a big point about communication and over-communication when you are likely to be suspected of other things. My observation would be, having lived here for 12 years, it is not the strong point of leadership of business or politics to explain intention. I think transparency of intention is fundamentally important when you are in a really complex, difficult area. The point I wanted to make was that the problem of SMEs in the UK right now is that UK TI and our Foreign Office...

L. Halligan:

Our trade body that helps SMEs to export has recently been revamped and refinanced.

R. Munnings:

Yes, and they are completely focused on the political issue, so there is no help available there, and if anything, the messages coming out of there will be understandably negative. The Russian-British Chamber of Commerce is obviously there to help in such circumstances, but the bigger point is that negativity is really a bad thing.

L. Halligan:

Now the final word to Marina. Very briefly, we are out of time.

M. Лошак:

Вы уже почувствовали, что я самый упрямый оптимист из всех собравшихся. Закончу я тоже оптимистически. Хочу пожелать, чтобы мы, как старый Джемс Форсайт, узнавали плохие новости последними и были так же философски настроены, как его брат Джолион Форсайт. Еще хочу сказать: ходите в музеи.

L. Halligan:

Thank you, Marina. Thank you, Makram, Herbert, Mikhail, Roger, and Peter as well. I have really enjoyed the session, and, ladies and gentlemen, please give our fantastic panel another round of applause.

M. Shvydkoy:

And special thanks to our moderator.