

ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM

JUNE 20–22, 2013

Russia's New Horizons

**THE WTO IMPACT AND ENHANCING RUSSIA'S INDUSTRIAL
COMPETITIVENESS**

Panel

JUNE 21, 2013

11:45–13:00, Pavilion 4, Conference Hall 4.1

St. Petersburg, Russia

2013

Moderator:

Kirill Androsov, Chairman of the Board of Directors, Aeroflot JSC; Managing Partner, Altera Capital

Panellists:

Andrey Belousov, Minister of Economic Development of the Russian Federation

Oleg Deripaska, Chairman of the Management Board, Chief Executive Officer, UC RUSAL

Aranca Gonzalez, Chief of Staff, WTO

Lord Mandelson, Chairman, Global Counsel LLP; European Commissioner for Trade (2004–2008)

Alexei Mordashov, Chief Executive Officer, Severstal; Head of the Commission on Integration, Trade and Customs Policy and the WTO, Russian Union of Industrialists and Entrepreneurs

Jorgen Rasmussen, President, Chief Executive Officer, Carlsberg Group

Andrei Slepnev, Member of the Board on Trade, Eurasian Economic Commission

Front row participant:

Siegfried Wolf, Chairman, Russian Machines

Video presentation:

The anniversary of Russia's accession this August prompted reviews of its performance. Year 1 passed without major disruptions, but like analyses of sporting events, judgements will be subjective.

Until accession to the World Trade Organization (WTO), many players in Russian industry were competing in a national league, never truly testing themselves against other nations. Now, every player is competing on a global stage. As well as being champions at home, Russian companies have the opportunity to win internationally. But increased competition may send some players to the bench. Commentators are being harsh on automotive, aviation, and construction, and there are areas where Russian players will initially find themselves challenged: energy efficiency, production systems, and labour productivity under half that of the United States of America.

At the same time, the Russian Federation's inherent strengths will help sectors to stand out. Machinery building is considered a star player to watch. The agricultural sector has the fundamentals of a world champion. The Russian Federation's well-educated and increasingly affluent middle class, along with its resource richness, gives it major advantages. Its natural resource potential is very large, holding more than 20% of the world's reserves.

Pro-WTO commentators say it is a good thing that inefficiency is the biggest flaw in the Russian Federation's game plan, because it is something that can be fixed. The Russian Federation's industry players can turn international competitiveness into an advantage that will make them world leaders. How should businesses best secure and manage investment for what needs to be done? How long will the shift from short-term pain to long-term gain take to make? We invite the debate.

K. Androsov:

Good afternoon, ladies and gentlemen. We will begin our session by talking about the competitive advantages of the Russian Federation and the accession of the Russian Federation to the World Trade Organization (WTO) as one of the most important tools for improving the competitiveness of our economy. I do not

know how many people paid attention to the video that was on the screen, but in my opinion, it has given us a very good angle from which to approach the subject, and I will try to build on this in our discussion.

Before the discussion begins, let me introduce my distinguished colleagues who will help me lead this discussion. With your permission, I will not list the biographies and titles of everyone here, because if I list just the titles of Lord Mandelson, we will be here until the end of the session. I will name only the most recent title of each of our guests: Oleg Deripaska, Chairman of the Management Board and CEO of RUSAL; Lord Peter Mandelson, currently Chairman of Global Counsel LLP (we should recall that between 1997 and 2010, Lord Mandelson held several senior positions in the British Government), I am very glad that you have the opportunity to join our discussion today; Alexey Mordashov – CEO of Severstal; Mr. Jorgen Rasmussen, President and Chief Executive Officer of Carlsberg Group; Andrei Slepnev, Minister of Trade of the Eurasian Economic Commission; and Ms. Arancha Gonzalez, Chief of Staff to Pascal Lamy, Director-General of the WTO.

A little later, Andrey Belousov will join us – he is currently the Minister of Economic Development of the Russian Federation.

Mr. Siegfried Wolf will also join us later; he will be in the audience, and I would also like for us to ask him for comments. Siegfried Wolf is the Chairman of the Board of Directors of Russian Machines.

I am glad that Mr. Francisco Sanchez, Under Secretary for International Trade at the US Department of Commerce will also join us – we will also have an opportunity to ask him questions. Thank you.

Colleagues, I want to arrange our discussion today into two rounds of questions, so that it is structured in an interesting way for the audience. I propose calling the first round of questions: 'The WTO – challenges and threats for Russia.' It is less than a year since our country joined the WTO, so I believe that it is not yet time to take stock and assess any results; however, discussion of the opportunities and threats resulting from our accession to the WTO continues to be relevant. It started over 10 years ago, and it has continued through to 2013 – there are certain sectors of the economy that believe that they have been hit the hardest,

and then there are those sectors which feel that they have benefited. That is what I propose to discuss. Since such an interesting football theme has been proposed, in order to make our session more fun, I will take the liberty of continuing with the football theme in our questions today. I hope that you will all respond to this with a sense of humour.

I propose calling the second round 'Competitive advantages of Russia's economy and industry'. This is the question that I will ask all participants of the session. There is a question, to which our government and the business community have been looking for an answer for three decades now, and unfortunately or, perhaps fortunately, every time the answers are different. I believe that the status of the St. Petersburg International Economic Forum allows us to once again ask ourselves what Russia's competitive advantages in the global trading system are.

Finally, since we are still here in order not only to discuss the most important issues, but also to provide the opportunity for all those present to form their own opinion, I will give the audience the opportunity to ask questions. I will ask each speaker to be brief: three or four minutes is all that is necessary to present your ideas about what we are discussing today.

Let us start our discussion. I want to pose the first question to Alexey Mordashov. Alexey, you have won the Russian championship several times, and you are a player in the Champions League. Tell me, do you think, as champion of Russia, it is possible to win the Champions League? If so, what needs to be done in order for this to happen?

A. Mordashov:

Of course, that was an unexpected interpretation and a surprising use of words for me – for a man that has nothing to do with sports – but the answer, I think, is clear: yes. First, it is important to understand one thing: at the beginning of the video that we saw earlier, it said that Russia had been playing on its own fields, and that only now will Russia be playing in the world championship. In my opinion, this is not the case. Russia has long been a very open country, and at any rate, we have all been playing on international football fields for many, many

years. Russia has a very liberal trade regime, and the rise in competition has led to certain changes in the structure of the national economy. If someone has lost everything, then that would have happened a long time ago. In other words, following Russia's accession to the WTO nothing has really changed in the Russian economic system. Those companies that are successful in Russia today can also be successful on a global scale – simply because many of our markets are global: the aluminium market, the steel market, and the car market, in principle, are also global. So the answer is definitely yes, and it is also necessary to be competitive. This does not mean that everything is fine and that all the problems have been solved, but it means that we have a chance. Perhaps this subject is already touching on that of the next round that you mentioned, about the basis of our competitiveness. But the answer to the question you posed is unequivocally positive. We can definitely be competitive on the world stage, and we can even win this championship.

K. Androsov:

Thank you, a very optimistic start. Oleg, I want to ask you the second question. RUSAL is a player in the Champions League, and you are the largest aluminium company in the world. But the national championship is always important to any team; it matters what is happening in our own country, in Russia. The question for you, as a long-time player in the Champions League, is: what do you think we need to fix in our national championship, what is wrong with the market environment in the Russian Federation?

O. Deripaska:

If we take the aluminium market, we see that Russia has potential – the market is currently just over 860,000 tonnes. This is a substantial domestic market. This potential is shared with key members of the Customs Union – Belarus and Kazakhstan: this market will reach 2.5–2.7 million tonnes by 2020. But we must understand that opening up the market immediately led to significant problems for our customers. China has developed fairly high-quality processing, and Europe's capacity allows China to practice dumping. This is a situation in which

we look at our cable products, at the industry, and at how we can sell our products at the level of flat processing, for rolled product. Thus, we want our customers to be stronger and, therefore, to understand that they can increase their volumes. This is important for the overall development of the country, because aluminium is the most practical material in modern industry: in transport engineering, construction, and engineering for the production of consumer goods. Aluminium is used everywhere. We must understand that our consumers were not ready for this competition. The sudden removal of barriers, plus the lack of adequate customs control and less-than-fair competition, due to the lack of honest declarations, has led to a situation where the situation has worsened for them over the past nine months. In general, we are still not well prepared for accession to the WTO. What should we do? Much has been said here about the fact that it is necessary to create the conditions for the growth of industry in Russia, and we must understand that we now have to do this openly.

K. Androsov:

Well, I think that in the second round we will concentrate on exactly those terms. Because I know that you have well-developed arguments which you have publicly articulated many times, I think that the second round of this discussion will turn out to be very interesting for the audience. Thank you.

Mr. Rasmussen, my next question is for you. We continue our analogy: you are a football player in the Russian market. As a football player, how do you like our climate? Do you like the rules of the championship games? To what degree do we play by the rules?

J. Rasmussen:

A quick question, and luckily I am a football fan, because at Carlsberg, football is very much part of our way of doing business. It is part of our DNA.

We have been in this market for a long time and really look at ourselves as being very much a local player as well, not only an international player. Everything we do, basically, is produced in the Russian Federation. All of our business is based on employing people here and producing locally. Consequently, we do not have

issues about import tariffs and barriers. I think we are playing very much in the local league, as an international team, but with a lot of local players. Our management is local.

I have been in this market for a long time; before Carlsberg I worked for Gillette, and Proctor and Gamble. I think this market offers a lot of opportunities for any team that wants to play here, but certainly also has a lot of challenges as a marketplace. I am sure we will come back to that later. To me it is a lot about longer-planning horizons, fewer surprises, and more dialogue between businesses and government.

K. Androsov:

Thank you. I want to pose the next question to Ms. Arancha Gonzalez. Arancha, I suggest you speak in the role of an invited foreign referee or judge. Is there fair play in our league?

A. Gonzalez:

That is a big question. I would start by saying that fairness is in the eyes of the beholder. Maybe what is fair for you would be unfair for me, and vice versa. I think I would say – and this is the big thing about the Russian Federation becoming a member of the World Trade Organization (WTO) – that the WTO will provide opportunities for the Russian Federation. It will not guarantee results; it will provide opportunities, provided that the Russian Federation wants to use these opportunities.

Now, I come from a football-loving country, Spain, and if I had to give a piece of advice, it would be: if you are given an opportunity, go and play offensive. Do not just play defensive. What do I mean by playing offensive today? Let us look at trade today. Trade today, exports today, are 40% imported input. Playing offensive today is knowing how to add value domestically. This domestic value addition can be done by companies that come from another country, but they can also be done by companies that are established here. The question is: how do you add value here? That has a lot to do with many domestic policies that I am sure you would want to talk about a little bit later. I would, however, say that the

biggest recommendation for adding value at home is not to hide yourself behind a huge protectionist wall thinking that you can do it all yourself. Forty per cent of your exports are imported inputs.

K. Androsov:

Thank you. Andrei, I want to ask you the next question. In Russia and around the world, there is now an active debate about the possibility of combining the championships of the CIS countries. You are the Minister of Trade of an already 'unified championship' – our Customs Union. What do you see as the benefits of this association? What main threats do you foresee from the WTO? What tools are you currently working on that you think are necessary for the development of trade relations between the CIS countries – most notably, Belarus, Russia, and Kazakhstan – and the members of the WTO?

A. Slepnev:

Thank you for your question. Just yesterday we all sat together around this very table with Mr. Mandelson and discussed similar topics. First, I want to say that the Customs Union has shown in practice that a reduction of barriers to trade helps to develop national production, increase competitiveness, and enables all participants to achieve certain advantages. Of course, our union is quite localized, but it is based on a substantial shared history, dating back to the Soviet period, and a very similar industry. However, the effects that we see show that the removal of tariff barriers and, most importantly, the harmonization of regulatory standards and finishing procedures, produce a very significant impact. Frankly, I would agree with the assessments that the EU and the United States have made, supporting their idea about creating a transatlantic free trade area – the discrepancies between technical standards and all the procedures are equivalent to about 10–15% of the duty.

Just yesterday, we published the statistics for the first quarter of 2013. If we remove energy resources from our trade, we will see that there has been significant growth throughout the processing industry. Moreover, this growth in some areas has increased by several times for Kazakhstan, that is, they are

beginning to work in the common market. Russia has continued to see growth in supplies of high value added products to Belarus and Kazakhstan for three years now. At the same time, trade with other CIS countries is stagnating. It is clear that trade flows have switched towards intra-union trade – especially from Ukraine. We believe that this is bad and that it is necessary to deepen integration across the CIS. But it is quite a serious effect, and it is twofold: on the one hand, members of the association benefit, on the other hand, those who fall behind begin to lose, and lose relative competitiveness. In this sense, Russia's accession to the WTO is a step in the direction of maintaining relative competitiveness. But at the same time, this step is of course associated with greater challenges that need to be met.

I would conditionally call them the three C's: climate, credit, and competence, which we still need to gain.

Climate: of course, playing in the world league, constantly in winter conditions, with a field that has not been cleared of snow, it will be very difficult; and development of the investment and business climate in Russia – this is probably the key condition for us to be able to effectively compete abroad. I will not develop this point further, as many people spoke about this yesterday.

Credit. We play on this field, but we have lending interest rates up to dozens of percent. Yesterday my friend called me from an average region in Russia to share his feelings with me: Russian Agricultural Bank had offered him a three-month loan at a rate of 38%!

K. Androsov:

That is business.

A. Slepnev:

Yes. But my question is: 38% on the one hand, and on the other hand, we see the issue of world reserve currencies. At its core, this issue represents inflation and a decline in global demand. In fact, instead of developing trade, we are being offered the opportunity to buy money. It is, in fact, support for producers in the countries that issue these currencies. Here, too, the G20 has much to do to put

things in order and actually arrange for a fair game. We go out on the field, where there are global problems that will pummel us.

Finally, competence. The third point, which representatives of the WTO have already spoken about today: we must be able to play offence, and we must be able to play defence. As for the defensive game, our Eurasian Commission has already done a lot. We are conducting investigations on anti-dumping measures, as well as compensatory arrangements. We are adopting these decisions. This is not easy, and it requires a lot of effort and competence, but we are already playing here. As for the offensive game, we have not seen tremendous results on the removal of barriers to foreign markets for Russian goods. That is, Russia certainly must realize the advantages of membership in the WTO, eliminating such barriers, including very sensitive barriers. And here, of course, we must learn to train professionals and know how to play – or, we might say, how to control the ball.

K. Androsov:

Thank you. Lord Peter Mandelson, I apologize in advance, but I came up with an analogy between you and Michel Platini, head of the Union of European Football Associations (UEFA). You were the European Commissioner for Trade for many years, and you have played the role of regulator and a major partner for Russia, helping us through the difficult path of accession to the WTO. From the perspective of those years of experience, and those talks, what do you think about our Russian championship now?

P. Mandelson:

You are right in saying that I have been a Russian Federation partner for a long time. Indeed, I think two of the most important things I did when I was European Commissioner for Trade were: (1) spend many days, nights, weekends, months, and years negotiating the Russian Federation's entry to the World Trade Organization (WTO) on what I regarded as fair and reasonable terms; and (2) during this period with my counterpart, Herman Gref, we were also mandated by the European Union – Russian Federation Summit that took place twice a year,

to scope out a potential major economic trade and investment agreement between the two. We drew this up in seven or eight pages, we presented it at a later summit, it was endorsed and rubber-stamped by both sides, but, of course, required the Russian Federation's entry to the WTO as the platform on which we could build this privileged relationship between the EU and the Russian Federation. I still feel very strongly committed to realizing the objectives and potential gains from that agreement, and I hope that it is revisited.

I think that Arancha, in her earlier remarks, put her finger on it when she said that WTO entry for the Russian Federation provides opportunities; it does not guarantee results, not in itself. To extend this to what you yourself said in your analogy with the Champions' League, that is what being a member of the WTO enables you to do is to, face other tough teams. If you are playing football, and you are facing a team that is as tough, if not tougher, than you, what you have to do to win is to raise your game. You acquire skills and strength, you organize yourselves properly, and you play to win. To continue with the analogy, that is the difference for the Russian Federation between playing in the Champions' League and simply taking a ball and kicking it around among yourselves in a sort of friendly but aimless way, where you are not playing to win, you are simply playing to have a good time. As a result, you are not going to acquire either skills or strength; you are simply going to basically stay where you are, kicking your ball around.

That is the choice, in my view, for the Russian Federation. The business of which I am Chairman, Global Counsel, has today published an assessment report and analysis of the Russian Federation's experience one year in to the WTO. I am not going to repeat the contents of that assessment, because people can go and get it for themselves by going on to the Global Counsel website, and I hope they do so. The report highlights both the opportunities and the tensions that have existed during the course of the last year. It also points out that, in our view, the Russian Federation's approach to WTO membership, frankly, has been a bit defensive. Rather than seeing it as an opportunity to seize and to help drive economic modernization in the Russian Federation, instead too many people, including too many people in the government, let alone in the private sector, have

seen WTO membership conversely, not as an opportunity, but as a threat, as something that Russian industry and its economy should be protected from, rather than an opportunity to seize.

I think that defensive mentality has certain consequences. First of all, you are not preparing your economy to take advantage of the new competitive pressures that, over time, are going to come to the Russian economy. The pressures will not come overnight, and not in a big bang way, and probably not even over two or three years, but will more likely be faced for the remainder of the decade. These pressures should be welcomed as such, because that is a way of sharpening your skills and your productivity, and raising your game. WTO membership should not be seen – as I think the Russian Government has done overly to date – as something that must be suffered, as a club that the Russian Federation has entered but now does not have to do anything about or with.

I think it is unfortunate that only 10 of the 30 planks – one third – that were originally identified by the Russian Government as necessary to put in place to prepare for entry to the WTO have really been focused on. There is a long way further to go. I also think it is unfortunate that the Russian Federation is not taking its place in the WTO in Geneva, where it should be deploying a strong, seasoned, qualified representation, both to defend Russian interests against those making claims, or taking cases in disputes against the Russian Federation, but much more importantly, to go on the offensive. If I could just pick up something that Mr. Deripaska has said, I think that it is important that the Russian Federation joins with others in going on to the offensive, in focusing on the issue of unfair and unreasonable subsidies given by the State in certain other economies in, for example, China among others, where State subsidies are driving huge overproduction in certain sectors, such as aluminium – although there are indeed others – all designed to create or to secure jobs in China. As a former politician, I can understand that is a good thing or an attractive thing to do, but which is having the effect of depressing world prices for those commodities, creating unfair competition, driving perfectly competitive other businesses in other countries in the same sector out of operation, at the expense of jobs in those other countries.

This is indeed a very big issue that the WTO must address. It is very complicated, it is not easy to analyse or assess, but this is an example where, in my view, the Russian Federation should be going on the front foot, on the offensive, using the machinery of the WTO in order to focus on the real interests of Russian industry and its economy, not to protect it against competition but to go onto the front foot and lead a fight against unfair competition posed by others.

K. Androsov:

Thank you, Mr Mandelson. We have been joined by Andrey Belousov, Minister of Economic Development. Andrey, we are conducting our first round of discussion based on the theme of football.

A. Belousov:

This is not a game with only one set of goalposts, I hope?

K. Androsov:

Yes, we have talked about this. We have entered the Champions League and now we are assessing why we did this and when we will win it.

A. Belousov:

That is a very offensive way to state the problem. Normal people think before they act. Are you trying to say that we did the opposite?

K. Androsov:

We played ourselves out in the national championship. However, each participant had a role in our discussion, and we are coming to the end. I assigned you the role of coach, who will say something to the team in the locker room during halftime. So, if I may, I will finish the first round of the discussion, and you will be able to understand everything that is happening and that has happened on the field. I want to ask Mr. Sanchez the next question. You know that there are important matches between teams, and there are very important matches between countries: Russia versus Ukraine and Russia versus Canada in ice

hockey, for example. How do you assess the current level of trade and economic relations between Russia and the United States, and what would you like to draw our attention to?

F. Sanchez:

Thank you for letting me participate in this discussion. I have to say, as I listened to this, I struggled to come up with my own football analogy, and I am falling short, so my apologies.

Let me say at the outset that the United States of America is firmly committed to strengthening the trade and investment relationship between our two countries. We proudly worked very hard to support the Russian Federation's accession to the World Trade Organization (WTO). With the Russian Federation having achieved this, I think they sent a very important message to the world, and they also sent an important message to their own industry.

Lord Mandelson used the analogy that the choice is to kick the ball within your territorial boundaries, or to play on a world stage, and while I do not have a football analogy, let me attach some numbers to what that means. More than 97% of the world's consumers live outside the Russian Federation. Why should Russian businesses not compete in the best way possible for 97% of the world's consumers? Why should they limit themselves to 3% of the world's consumers? And that is exactly what you do when you do not promote yourselves to be as competitive as you possibly can.

The WTO was a good first step. We have continued to work with our friends here in the Russian Federation to help them become even more competitive. About three weeks ago, we held a joint workshop on standards, and, as we work on standards, it will make it even easier for Russian companies to compete on the world stage.

I would just like to say that I think that the Russian Federation took a very important step to be able to compete for those 97% of consumers, and we will stand by the Russian Federation to work with them as they move forward in our relationship and as they compete through their work with other member nations of the WTO. Thank you.

K. Androsov:

I would like to pose the last question of the first round to one of our participants, Mr. Siegfried Wolf. Please pass the microphone to Mr. Wolf. Siegfried, continuing with the football theme, let me compare you with Samuel Eto'o. He is a very valuable player, who was invited to the Russian national championship, but he is the best in his class. How would you rate our championship? How do you find playing here?

S. Wolf:

Thank you for raising this question. The first point is that soccer is a team game. That means that you have to train your other ten colleagues to be competitive. That means, in my mind, that we have to strengthen our competitiveness, and we have to very clearly create the processes and products we will put on the global market; we have to be very good at home with our own products, and then we can win outside.

We have a lot to do. Simply, I see productivity in our processes. We still have about half of the productivity here compared with elsewhere. Indeed, we have a lot of positive progress; but here in the Russian Federation, we need a lot of help to fertilize one thing or another.

We have enormous pressure with our bank rates and, Mr. Belousov, I think this is something that we have to do: we have to clean our own house. To be competitive, you need to have to have the same rules as everyone else. I cannot compete with some of the figures you mentioned. What we need this is simply this fertilizer.

However, we also have to be very careful as well. Otherwise we will have a social problem with people who are not on the team. That means we have to think very carefully about what we are doing with those people, bearing in mind that the young generation is very well-educated, and in need of experience. I am quite sure that we can do it, but we have to clearly understand that the World Trade Organization (WTO) is a global game. We should have global and equal

rules. At present, I see that we are not quite playing on an level playing field, and you will lose the game very easily if it is sloped too much the other way.

K. Androsov:

Thank you, Mr. Wolf. Colleagues, I suggest we proceed to the second round of our discussion, and talk about the competitive advantages of the Russian economy and Russian industry. If any of the panellists have comments, I invite you to make them now, otherwise we will move on.

A. Mordashov:

Excuse me, can I make one comment? I think this is very important. In many ways, I agree with what has been said. But it seems to me that the opinion has been expressed that WTO accession has had a negative impact on industry. Let us have a look at the statistics. Russia became an active member of the WTO in September 2012, but it has been an actual member of the WTO since August 2012. Since that time, between September 2012 and March 2013, imports from non-CIS countries increased by 5.4%. So in reality, there is no need to talk about a surge in imports that could arise in connection with the opening of borders and could cause damage to national production. The largest numbers for separate categories are in the region of 8–9%. That is, to say that the Russia's accession to the WTO has changed the situation seems unreasonable to me. However, I do not believe that we have an ideal situation in all sectors. There really are a lot of problems, but they are not related to the WTO, but with, as you say, our lack of competitiveness. Another significant point that I think is important to keep in mind is that we are always discussing the advantages and disadvantages of the WTO for manufacturers. But it is important to remember that the WTO is in many ways not about producers, but about consumers, and access to the market for goods and services. Accession to the WTO is an additional factor that compels producers to be price competitive. It is no secret that many goods are more expensive in Russia than they are abroad, because of these trade or non-trade barriers, and that their removal leads to an increase in quality of life. This is a very, very important point.

K. Androsov:

Thank you, Alexey. Yes, Oleg.

O. Deripaska:

Here we must also look at what kind of imports there are. When we joined the WTO, we were hoping that we would begin importing components and materials that we do not manufacture ourselves. Unfortunately, what we saw was the import of finished products. We must understand that we are still only juicing part of the fruit. As soon as conditions associated with the transition period change, we will see completely different data. Very often over these past 10 years I have heard talk about opportunities and about the fact that once we open up, everything will begin to flow like a river. Now other conversations are starting: "We told you that the opportunities are there, but you need to be able to use them, you need to be better prepared." Of course, we must understand that it is now our problem, not the problem of those who pressed us to join. We now need to 'pick up the pieces', using all the resources that we have in the country. But there are not a lot of resources. In fact, the government should reconsider its whole approach to industrial policy, competition law, customs policy, tax policy, and the financial system. This is the only way to remain competitive. We must understand that the WTO is not a club of friendly, smiling people. It is shark tank, and, if we are not competitive, we will realize this very quickly – I think within three or four years.

K. Androsov:

Thank you, Oleg. You have provided a very nice bridge to the second part of our discussion. During the process of the Russian Federation's accession to the WTO, there were many publications on the topic of what exactly the WTO would provide. As I prepared for our session today, I once again reviewed these publications. The main conclusion is that, yes, indeed, it is a shark tank; yes, some will be 'devoured' in it; but for the most part, accession to the WTO is a good incentive for emerging markets to change their national environment, create

national institutions, and develop institutions which will support the economy and without which there cannot be a favourable investment climate. That is, continuing our analogy, you need to learn how to swim in this tank: some will get eaten and some will learn to swim. Therefore, I suggest starting the second round of today's conversation with an analysis of our competitive advantages. Any economic analysis of any business plan begins with the premise of what makes us different from the others and what we have that is good.

On the one hand, it was good that Andrei mentioned the fact that we are a northern country. This means that the specific fuel consumption for heating and lighting our buildings is much higher from the outset – and this is a cost factor, it is not a competitive advantage. Our sales markets are a significant distance from the markets where raw materials and finished products are produced. Haulage distance and transport costs are the second most important factor in our lack of competitiveness.

We are fantastically energy inefficient, and our labour productivity is extremely low according to all indicators, which also has its own causes and legacy. Only a few of our enterprises have production and technological management processes that make it possible to optimize these factors. These are all negative aspects.

Now I would ask everyone to answer the question: what is our competitive advantage, on what will we build our future success in the Champions League – the success of our industry and our economy? This is the question I want to address to all of the panellists. Andrei if you do not mind, I would like to ask you (at the end or at the beginning, as you prefer) to wrap up the discussion.

A. Belousov:

I understand that the first round, which I missed due to reasons beyond my control, was about what we expected and what we received?

K. Androsov:

Yes, about the risks and threats.

A. Belousov:

I will try to comment on this balance somehow. When I became a minister (it happened very shortly before we formally became a member of the WTO, just a month before the event, a decree was signed for my appointment), it fell to my lot to present the results of the negotiation process in different venues, including within the government. Getting ready to speak at a government meeting, I discovered that the process of accession to the WTO in the broad sense (I mean that before the WTO, which was formed in 1996, there were a number of other international organizations) actually did not last for 18 years, as we used to think, but for several decades. The first attempts to enter as a full or associate member in international trade organizations were made by the Soviet Union immediately after the war, beginning in the late 1940s and continuing into the 1960s. So the question arises: why was this done? The Soviet Union had a command-and-control economy, but the competition in the international market, the 'shark tank', was no smaller, perhaps even bigger: the sharks were fatter and had more teeth. Let us not forget about the opposition of the blocs.

I think the answer is very simple. The Soviet leaders were well aware that it is impossible to develop a range of industries within the format of a national economy. This applies, above all, to the high-tech industries, but not only to them. For example, we said that the Soviet Union was unable to solve the problem of large-diameter pipes. Why? Because it is impossible to develop an industry that produces large-diameter pipes, if you are focused only on the needs of Gazprom and the gas industry of the USSR. The scales are quite different and the scaling must be different.

Strictly speaking, the first principal motive to join the WTO means that a country (Russia, in this case) has undertaken to play by the generally accepted rules of international trade, observing certain standards, and fulfilling these obligations. But at the same time, the result, or the main effect, is that investors – both Russian and foreign – understand that we play according to these rules, that we are becoming part of the international system: we have the opportunity, investing in certain segments, to potentially be a player everywhere, in the whole global

market. Of course, Oleg is right: these markets are busy. But that is another matter, and it does not need to be addressed to the WTO.

There are a few 'buts.' The first qualification is that we are one of the last countries to join the WTO. The negotiation process is designed so that those who come in early get more than those who join at the end. This, if you will, is an inverted pyramid. The negotiation process is designed so that from each new country, sorry for the slang word, they 'squeeze out' more than they did from those who came before.

A classic example is Brazil. This country, if I remember correctly, joined the WTO in 1996, and it was one of the first countries to do so. In Brazil, if I am not mistaken, the level of the binding tariff is about 30%, and our final binding tariff level is 6%. Brazilians are now completely at ease: they have increased duties in several tranches on a whole range of tariff lines – and no one in the WTO considers this protectionism, it is simply that the Brazilians are fulfilling the commitments they made in 1996, which they have not yet completed implementing. In Brazil, for example, the requirement for localization is 95%. That is, they may require an investor who comes to Brazil to have 95% of parts produced in Brazil itself. And no one calls this protectionism; no one calls it an infringement of national treatment or most-favoured nation treatment. These are the benefits that they received by being one of the first to enter this organization, and we, unfortunately, are one of the last. That is the first thing.

The second thing is that we are joining the WTO, counting on the fact that the WTO will develop. We believed that the Doha Round would be a success. The agenda of the Doha Round includes a few issues that are fairly important for us, including issues related to agricultural subsidies. It is no secret that developed countries, such as those in the European Union, having a much greater opportunity to subsidize (including agricultural production), gain competitive advantage. The agenda of the Doha Round includes the question of how to even out these conditions. I cannot say today that the Doha Round has failed, but I will be able to say that, like all the others, if the meeting in Bali proves to be unsuccessful. For now, we are not saying that. Moreover, we are consistent advocates for the Doha Round to be successful, including with regard to the

circumstances that I have just talked about. But the fact remains that the opportunities that we counted on have not yet been realized. And this devalues the effect to some degree.

However, now we have received a number of very specific benefits. More precisely, not benefits, but opportunities. I will mention one of them. The European Union, for example, invented – it seems to me, especially for Russia – a special anti-dumping procedure based on notorious energy corrective measures. This procedure is absolutely contrary to what is written in the GATT-94 – this is visible to the naked eye. We are told that because we have gas prices lower than anywhere else (such as in Europe), even three times lower, when calculating the dumping margin these prices will be adjusted for us. And Mr. Mordashov, with his seamless tubing...

A. Mordashov:

Welded.

A. Belousov:

...Yes, welded, is one of the victims, along with our chemists. Such is the barrier. In becoming a member of the WTO, we now have a formal opportunity – and I think we will use this opportunity –in the Dispute Settlement Body (DSB) to seek the abolition of this regime. I asked my colleague, Mr. De Gucht, the European Commissioner, when they will apply energy corrective measures to American goods, and whether they plan to do this in the near future. Gas prices in our market – they are now just over USD 100 per 1,000 cubic meters for industrial consumers – at the end of the day, have almost caught up with the wholesale prices in the US market. Mr. De Gucht did not say anything about this to me. But I think that our membership in the WTO provides this kind of opportunity. However, I would say that it would be strange to expect the automatic realization of some advantages: it is not the WTO that joined Russia, but Russia which joined the WTO. This is how the process works: the WTO did not change its rules, and we had to take on certain responsibilities as we joined, resulting in

clarity and understanding for investors – especially in those industries that operate in the global market.

The last thing I wanted to say is that I fully agree with what Alexey said: our level of tariff protection has decreased over the last period from approximately 10% or a bit higher, to about 7%. This is quite a significant reduction – and nothing happened, even in the finished product sector. Import growth is about 4%, and it remains at this level. Yes, imports in agriculture have increased a little, but our agricultural markets are sufficiently protected. That is, we have a number of markets that we have left sufficiently protected as a result of the negotiation process: the agricultural products market is significantly protected. We have a number of specific problems, and if there is such a need, I will speak about that. But for now we are figuring out where we have ended up, because the process of accession to the WTO really was not as straightforward as it seemed to us three or four years ago.

Secondly – of course we have to work out how our producers and our regions will react to our accession. We have definitely worked out the second: we already know how they reacted and what is happening, but we do not yet understand the first ourselves. But I think many others also do not understand this.

K. Androsov:

Let us continue trying to work this out over the course of our discussion. I know that Mr. Slepnev has to leave now. Andrei, your view of our competitive advantages.

A. Slepnev:

You know, I will probably continue with what Andrey just said. I believe that our main competitive advantage is scale. The scale of the territory, especially now as part of an integration organization, the scale of the market, and our scale as a player in world affairs. We understand that politics, economy, and trade are all connected. Probably the main goal, and our accession to the WTO in many ways helps to pursue this goal, is to not lose this competitive advantage and to realize

this potential, which is largely due to Russia's magnitude as a player in the global economy.

The train is not stalled, it is moving forward rapidly. We have now boarded the train called the WTO, and we are already talking about this extensively. But, as Mr. Lamy told us yesterday, 80% of the players in world trade are already travelling on a different train called the 'free trade agreement'. If all the plans between the EU and the US, EU and Japan, ASEAN + 6, and so on, are realized we will see that everyone is already flying on an aeroplane, when we have just got on a train. This all costs a substantial amount of money and represents substantial losses to our businesses. The fact that we are not a part of the trend or are late to the trend costs the country as a whole in terms of investment attractiveness and developing the mentality of manufacturers. Therefore, I believe that the main task is, of course, to be effective in this new club, to play by these new rules and to understand where the world is going, how it will emerge from the crisis, what the world trading system will be like in five, seven, and ten years (and it will be very different), and what we will get out of it.

K. Androsov:

Thank you, Andrei. Oleg, how can we transform our shortcomings into advantages?

O. Deripaska:

I, of course, am against fantastic plans. We need to learn to produce. You correctly mentioned the outdated production capacity and the lack of new developments. Yes, we have a lot of ideas, we have the best people, and they understand the equipment and know the technological processes. But making this into a productive process, so that it will serve as the basis for a competitive and affordable product will, of course, be very hard without a fundamental change in the country. I have always had a question: would it not be easier to prepare ourselves first, study everything, and then begin? What did we lose when we changed our approach? Perhaps, on the contrary, we could have maintained it? But if we do nothing, as we have for the past nine months now,

our level of employment will fall, unemployment will rise from 4.2% to 12%, and so on. You have to understand that in many sectors we find shortcomings in marketing, compared with Western companies, as well as a lack of service. They are developing this, and we are seeing how successful Volkswagen, Toyota, and Renault are. Maybe someone will tell us whether Russia will be able to produce its own passenger car in the next 10 years? I can confirm that it will not.

A. Belousov:

And what is produced on industrial assembly lines, is this not Russian?

O. Deripaska:

Look, what kind...

A. Belousov:

Localization is 50–60%, if the engine is made here and everything else?

O. Deripaska:

This engine is not ours, as far as I know they have not got as far as the engine just yet.

A. Belousov:

They have.

O. Deripaska:

I do not know, we will probably...

K. Androsov:

It seems to me, if only in Yaroslavl...

O. Deripaska:

Yes, they have this there. Again, what is done is done, I am just...

A. Belousov:

You do not think what you are making is an engine?

O. Deripaska:

I just think that volumes always motivate us, we now compete on volumes, and with small volumes it is impossible to recoup the investment. Companies go to countries based on the fact that they can earn money there. If they see that they can sell an additional 10–20 million units of the products they produce, only partly localizing, they too will go, but this is not what we expected to do here at home. Yes, we have competitive advantages, but only a few. We have pent-up demand: we still are in a phase where people need cars, consumer products, better conditions, and some additional resources that we do not produce – yes, all of this is our advantage. Raw material resources – these are not materials, and we have to understand that. To make gas, oil, and ore into materials, they must still be processed. This capital element, the cost of capital is a serious disadvantage for us. The cost of borrowing, the lack of a bond market are serious disadvantages for us. And, when we (I think Mr. Wolf will talk about this) are reviewing component manufacturing to create a new product: a new lorry, a new bus – we compare what we have to do in order to make this component in Germany and in Korea. And it turns out that it is much better for us to locate production there and to deliver components rather than do this somewhere in the Urals or in Nizhny Novgorod – this is the situation that is developing. There is better productivity there and conditions have been established which help to encourage exports and stimulate the creation of this manufacturing capacity. I certainly do not absolve business from any responsibility, we will try. But I want to say that we need fundamental change. This is often talked about, but rarely is anything ever done: reforms of the financial market and reforms of customs procedures and legislation. Whatever the conditions, if our most sophisticated products are illegal, this must come to an end. I would be careful with protecting the sectors. So far, we do not understand what rules we will be using, and not a single agricultural business in the south of the country has ever received these subsidies under the new rules, and this is a fact to date.

Andrei has left, but I want to give you one example of unfair competition within the country. An investigation was conducted. I will not name anyone in particular. As Andrei said, it is awkward to begin with this: we have just joined, why should we turn this investigation into a set of procedures? It is also necessary to recognize that we still do not understand what our competitive advantages really are and that we should use them within the country in pursuit of unfair competition.

Regarding China, Lord Mandelson I heard your remarks, but they do not care whether or not we are able to start the process. They have subsidized the cement, steel, aluminium, and chemical industries, and they will continue to do so, and they will resolve their own problems themselves; I do not believe that our procedures can push them in any direction.

But human capital is our resource. There is still a possibility to transfer elements of production and localization to Russia – those that are not effective in Europe. We are also trying to do this. But this raises a serious question about protecting investments in these joint ventures, and these are issues that we must address together with the government.

We have one more resource, our nuclear weapon: our national unity. We have not yet learned how to exploit this. We hear about different ideas, but we do have certain resources in this area, which I think sooner or later the government will be forced to tap into.

K. Androsov:

Thank you, Oleg.

O. Deripaska:

With regard to the Customs Union – only Kazakhstan is benefitting, because they were better prepared.

K. Androsov:

Let me step back a bit from the rules (questions to everyone), with one purpose: to make the debate edgier and more interesting. We will still definitely return to

the questions. But now I would like to ask Andrey to comment on what Oleg said: I think you have something to say.

A. Belousov:

Yes, I think I have a lot to say, even though I fully agree with the basic message: without specific efforts and concrete results in the area of customs regulation, financial regulation, a rapid transition to IFRS, and the establishment of a system of arbitration courts and so on, we just will not be able to get anything done, as there will be no opportunities. But there are a few aspects. Oleg, I believe that you in fact produce aluminium! Can you tell me, if this is not a trade secret (though what kind of secret would that be?), what proportion of your aluminium output is exported – probably 60–70%?

O. Deripaska:

Seventy-six per cent.

A. Belousov:

Now, please tell me honestly: will accession to the WTO help you or be able to help you solve your problems with China, and with other countries to which you supply aluminium and where they are creating clear, specific barriers against you? Tell me – is this true?

O. Deripaska:

No, I cannot say this is true, as this would be dishonest; for commodities, for the WTO resources – this is not the right tool at all.

A. Belousov:

How so? It was specifically created for commodities! It is not the right tool for services, but it is precisely the right tool for commodities. In fact, this is exactly what the WTO tools were designed for. Furthermore, your colleagues are actively using them, including in the domestic market. You condemn the Customs Union and Slepnev for responding weakly. But even for the short time that Andrei has

been in the Eurasian Commission, they have implemented a number of anti-dumping procedures and specialized measures. In fact, we have already closed the market for agricultural machinery. Our partners say that is not right – let us see. More recently, they also closed the market for light goods vehicles, and the corresponding investigation has been completed. So work is going on here.

As for production subsidies, everyone is implementing this subsidy. With regard to the fact that we need customs regulation: just look at the agenda of the meeting in Bali, on trade facilitation – the main issue there is precisely the issue of customs regulation, which will be addressed at the WTO level. Therefore, what you say is all correct, but we can say that the WTO provides certain opportunities everywhere – the question is whether we take advantage of them or not.

The final issue. Imports have not increased or they have increased slightly, by 4% a year. But as for foreign direct investment – despite the fact that the overall trend is towards an outflow of foreign direct investment from emerging markets, this has not happened in our case. I do not know if this is a coincidence, but since the moment of our accession to the WTO – in the third and fourth quarters of last year and the first quarter of this year – we have been receiving a steady flow of foreign direct investment in the amount of USD 16–17 billion without taking into account the TNK-BP transaction for the quarter. This is a very high figure for Russia. Maybe it is a coincidence, maybe not.

K. Androsov:

Thank you, Andrey. Now our discussion, taking place around the table, is surprisingly reminiscent of the discussion we had in 2006–2007, when we discussed all the possible risks and consequences in exactly the same way. Oleg, do you want to say something?

O. Deripaska:

I noticed that there was a somewhat incorrect translation: according to the results of the investigation that was carried out, these incidents of unfair competition have been remedied through the introduction of temporary customs protection measures.

K. Androsov:

Thank you, colleagues. Unfortunately, we have very little time left, so I suggest that each of us at the table answer the question about Russia's competitive advantages very briefly, literally in just a few sentences, or say what you think is important that has not been spoken about today. Let us go around in a circle, Mr. Rasmussen.

J. Rasmussen:

I will try to be short; I know time is running out. I think we can discuss here some of the many issues relating to the WTO and if perhaps the Russian Federation should have been better prepared. In the end, I think it has been very positive. The Russian Federation is now a member of the WTO. I do believe, however, it is time to take down some of the barriers that we have today. I also hope and believe that it will align more regulations across more markets. Certainly, when you are doing business, having regulations vary by country is really a nightmare and makes your business very inefficient. I think it is important to remember that this is good news, but that we all must also work – businesses and politicians – together, to take the opportunity and really benefit from this.

For the second point about the advantages that the Russian Federation has as a marketplace or as an economy, I think, as Andrei said, scale is clearly a very important advantage. I do believe that the European Union (EU) and the Russian Federation need each other. We have some strong growing economies in Asia and eventually will have them in Africa and in Latin America too. We have to get together and make this work, then it can be to the benefit of the Russian Federation and to the benefit of the EU. Yes, we are different; many countries, many markets are slightly different, but at the same time, there are a lot of similarities between the Russian Federation and many European markets.

Let us make this work. Let us look at this as being an opportunity. Let us make sure that we do not put up barriers and start being protective of our own markets. If we do that, then it will not be a success. Thank you.

A. Gonzalez:

I think competitiveness is 20% WTO accession and 80% whatever you would want to do at home. The WTO, by the way, is the sum of all its members. There is no such thing as a WTO beyond its 170 members. The WTO will give you the 20%, but you will have to work for the 80% remaining.

Now, what are the pluses? You have a number of considerable pluses. First, the Russian Federation is not a country, it is a continent. You have one leg in the East; you have one leg in the West. If you think in terms of swimming with sharks, frankly, you have the great experience of swimming with sharks in the Pacific, in the Atlantic, and in the Arctic.

P. Mandelson:

In Australia?

A. Gonzalez:

If you stretch it. I do not think the mere fact of being a continent is the most important asset. Agreeing with Oleg, the important asset is its people. It has a huge asset in its people. It also has a huge amount of raw materials, so, go and work to add value.

Now, on the negative side, or rather on the 'to do' list: (1) work on skills. You have the people, you invest in their skills. Today's economy is not just about producing goods, it is about services. More and more of our economies are about services. Invest in skills. (2) Invest in innovation. Again, no need to explain that a lot of the services are about innovation. You have great people in this country, so I have no doubt that this will work. (3) Infrastructure. You cannot be very competitive if you do not invest in your infrastructure. (4) As mentioned by Jørgen, a regulatory framework that is understood by foreign and domestic investors is key.

With all of that, I am sure that Russian sharks – if this is about sharks as we have been moving from football to trains, to planes, and now sharks – would have no trouble fighting their game out there.

K. Androsov:

Thank you Arancha. Lord Mandelson, please.

P. Mandelson:

A few points in conclusion. My first point is that I think we are in danger in this panel of talking down Team Russia excessively. In my experience of having come here over very many years, I see some very strong companies, some very strong players, well-managed, well-equipped, and driven by good leaders and, in the main, operating strong corporate governance. Indeed, my belief in the strength of Russian companies is such that I decided to put my beliefs where my mouth is and to accept nomination as an independent director of a Russian company, and I underline the word 'independent'.

However, I think that we must also recognize – and this is the second point that I would make – that the government, while it has an essential role to play in many respects of the country's economy, does not always make the best owner of a business. We must also recognize that there are some industries and sectors that would be better off in the hands of the private sector rather than remaining in the hands of the government. We must also recognize that, in all honesty, one of the reasons why perfectly good, decent Russian companies are marked down and undervalued is not a result of what those companies are doing themselves, but because of the politics surrounding those companies in the country as a whole.

I would also say that not only is the government not necessarily the best-qualified owner of a company, it is not necessarily the best coach either. In some cases, you could say that this particular coach is not even able to put proper kit on the team that is playing for the Russian Federation. Instead of spending large amounts of resources on prestige projects, which are then put up in the spectators' stand, such as the Skolkovo Innovation Centre, among others – which may have some validity and, in the long term, some potential – it might be better to spend available resources on the basics for Team Russia, which is their kit, rather than devoting those resources to a sort of spectator project like the one that I have mentioned.

The next point that I would make is that a lot of this is to do with raising the productivity of the Russian Federation's businesses. Now, partly that is to do with labour productivity, and people have mentioned the need to invest in human capital. I accept that as an obvious and very important point to make. However, rising productivity also needs to draw on applied technology as well as more basic and sophisticated human skills. We must face the fact that, while the Russian Federation has an important legacy of a quite sound science base and a quite sound set technology sources, which date back many decades, much of which could be replenished, or overhauled, or reorganized, the essentials, the basics, are there in the Russian economy, too often lying dormant or insufficiently developed. Applied technology must also come from abroad, from foreign businesses investing in the Russian economy or partnering with Russian businesses. That, again, begs a question about the terms on which foreign companies can invest in the Russian Federation, with what confidence, what predictability, what certainty they have when they do so, and the national treatment that they expect as foreign businesses, on an equal footing, and on a level playing field with domestic Russian businesses.

All these things are important, but I think the controversial point I would just emphasize and end on is that politics matter, the quality, and the nature of competitive politics matter in the Russian Federation, just as competition in the economy matters. The quality of your politics and government can have either a benign or a malign effect on the performance of your team. I think it is very important for Russia's government to keep identifying ways in which it can add support and skill and take real basic measures to support the performance of its team, including – as Oleg and others have said – the cost of capital, the cost of credit. If it is too expensive even to clothe your team in good kit, because you cannot afford the interest rates on the credit that you are obtaining, then in the most basic way, you are not doing something right.

K. Androsov:

Thank you, Lord Mandelson.

Unfortunately, we have already gone over time – I hope they do not turn the lights out on us. Two minutes, Alexey, please.

A. Mordashov:

I will try. You know, it seems to me that this has turned out to be a very good discussion – we need to speak in such formats more often. And this discussion seems to have not been completely about the WTO, but about who we are and what we want. The last question that we are now discussing is: how do we compensate for our shortcomings? But why we are discussing our weaknesses? Kirill said at the beginning that we have a large territory. But Canada and the United States also have large territories, and this does not prevent them from having a high level of GDP per capita. We also love to talk about our northern territories. But in the Scandinavian countries – our neighbours Finland, Sweden, Denmark, and Norway – the climate is no less harsh than our own, and at the same time they have a much better quality of life. Whatever area you look at, our traditional plea is: why do we live poorly? Something is not working right: there is always someone who is doing no better than us. Why are we all crying and debating? The situation is similar with the WTO: the WTO will not cause anyone any damage, because we have an open country, we were open before the WTO, and we still are. At the same time, we do indeed have many problems. But they are not related to the WTO at all, they are connected with what we want to do and what we see as our competitive advantage.

Russia is a vast country, and (I do not know, maybe this is a banality) it is a country with enormous potential. Our main potential lies in our people. We greatly underestimate our capabilities: we have universal education. Even in the United States, I was amazed to find that the illiteracy rate is somewhere around 0.5%–1%, whereas we still have a rate of 0.1%. However much we criticize our system of education, our citizens can read and write! That is not the case in all countries. We all criticize our higher education, criticize the quality of universities, and quite rightly, but the number of people who enrol in higher education has for several years exceeded the number of high school graduates: we want to learn. There is a mountain of questions and problems, but our people represent our

greatest wealth; and Lord Mandelson, whom I got to know before he became a lord, when he was just a European Commissioner, and participated in the negotiations (many thanks to him for his significant contribution to the negotiations), brilliantly said that we have tremendous potential and that our people are our best hope.

Another very important issue: we have a lot of natural resources.

K. Androsov:

Materials.

A. Mordashov:

In the opinion of many experts, in addition to demographics, one of the factors that will hinder the development of China is a lack of resources. We have a lot of resources – and that is a huge plus.

K. Androsov:

Thank you, Alexey.

A. Mordashov:

By the way, we have a very large southern territory, but we all love to talk about the north. Excuse me, can I make one short remark?

K. Androsov:

Of course.

A. Mordashov:

So what do we need to do in order to take advantage of this potential? First, we need to change the legislation. I fully agree with what Oleg said about this. There are two sets of factors, one relates to law enforcement, the work of courts, the protection of property, and the work of the supervisory bodies. We have created this ourselves, not someone else, and we ourselves can change it.

The second set of factors consists of macroeconomic factors: the exchange rate and inflation. We need to have discussions about how well we understand all these things, and what needs to be done with the money supply in the Russian market, and so on, to make credit cheaper.

Lastly. In the end, it is sink or swim. Our fate depends on all of us together and on each person individually. If we want to be competitive, we need to pose a very important question to ourselves: how can we make our company competitive?

One final thought. However much we complain about the lives we live, in my opinion, it is a very simple choice: do we want to live like the best, richest countries or like the poorest? Probably, like the richest, which means we have to learn to work the way they work, to be competitive; and the WTO is one of the tools that can help us achieve this.

K. Androsov:

Thank you, Alexey. Let us finish our session on a positive note. Alexey sent us a very good message. Andrey, what are the good things about our economy?

A. Belousov:

If I were to list everything, they would definitely turn the lights out on us.

K. Androsov:

The most important.

A. Belousov:

Returning the ball, I want to say the most important thing is the resources which will increase our competitiveness. I want to note here that we have a huge 'advantage of backwardness' and there is nothing derogatory here. This is exactly the model that China is implementing – it is the opportunity for very rapid technological development and labour productivity growth. This is the first point.

The second point is that it is possible to realize this advantage only by bringing companies into the international market. A classic example is the steel industry. How many years and decades did we fight in the Soviet Union in order to

increase our share of continuous cast steel, to reduce the proportion of open-hearth steel production, and to increase the share of thin rolled sheet and coated sheets? In the 1990s, when we did not have any investment climate at all in our country, we solved these problems. We did not even notice how this happened. We just entered the market, and all the problems resolved themselves, not because there was a private initiative (in the Soviet Union, directors and ministers had more initiative), but because we seriously entered the world market and started to compete there.

The second example. We say that we have a problem concerning quality machinery and equipment. We are now exporting more than USD 20 billion worth of engineering products. China is exporting USD 1 trillion worth of engineering products. Is China's engineering output really so much more competitive than Russian goods? Such is the scale of our capabilities, and this scale is associated with entering world markets. Our companies have already done that, and we have serious players in the global steel markets, not only the oil companies, not only Gazprom and the steel industry, but also KAMAZ, and Power Machines, and Rosatom, as well as a number of engineering companies. We now need to maintain this drive and to strengthen it. I think this is one of the main ways forward. Here, our membership in the WTO serves as a great support for us.

K. Androsov:

Thank you, Andrey. Siegfried, you literally have the last word: what do we have that is good in the economy and in industry?

S. Wolf:

Thanks, Kirill. First of all, we are part of the WTO, which means there are rules that we have to fulfil. Coming back to our soccer analogy, we need to find our niches where we are strong. Based on these exports, which Mr. Belousov referred to, 90% of this is the advantage of raw materials. Now we have to go back and find a way to grow industrial jobs. They are measured around the world in a unified system, and we need to adopt these rules. We have to have a very strong lobby within the WTO, to sell our strengths. We have to organize

ourselves in Russia, otherwise we really will have the social issues which Oleg referred to, with less people employed than necessary. I think that Russia can be very well prepared, but we need strong support.

Just one point regarding China. We produce front loaders. They made a calculation, and took it to the anti-monopoly committee; we cannot even buy the materials, despite the fact that we are sitting on these resources, at the price that they are importing these products. That means that we have to protect our market with clear and transparent rules. That is where we need the help of the government, because at the moment I see the WTO as a chance and not as a stretch. But, as I said at the beginning, we need to bring this to an even playing field, because at the moment, based on the disadvantages that I see, we are facing some stress.

K. Androsov:

Colleagues, we have, in my opinion, come to some interesting conclusions: the global economy and global trade is just like football, as it is a team game. It is a game of offence, it is a game where you have to be confident in your defensive players, where you have to be confident in your goalkeeper, not hound your coach, and not forget to train. Perhaps this is the key to victory and the answer to the first question I asked Alexey: how to win in the Champions League? I apologize to the audience, we do not have time to ask questions, we have gone 15 minutes over time. Thank you very much for an interesting discussion.