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Russia's New Horizons

THE RUSSIAN INVESTMENT AGENDA – RISKS AND OPPORTUNITIES ON THE HORIZON

Panel

JUNE 21, 2013

09:45–11:00, Pavilion 4, Conference Hall 4.3

St. Petersburg, Russia

2013

Moderator:

Josh Lerner, Professor, Harvard Business School

Panellists:

Bruno Ancelin, Senior Vice-President, Renault

Vladimir Dmitriev, Chairman, Bank for Development and Foreign Economic Affairs (Vnesheconombank) State Corporation

Kirill Dmitriev, Chief Executive Officer, Russian Direct Investment Fund (RDIF)

Tadashi Maeda, Managing Executive Officer, Japan Bank for International Cooperation

Stanislav Voskresensky, Deputy Presidential Plenipotentiary Envoy to the Northwestern Federal District; Russian G20 Sherpa (2012)

Gao Xiqing, Vice Chairman, President, China Investment Corporation

Front row participants:

Richard Goyder, Chief Executive Officer, Managing Director, Wesfarmers Limited

Artem Kudryavtsev, President, TransTeleCom Company CJSC

Alexander Pirozhenko, Director, Priority Programs Department, Agency for Strategic Initiatives

Anton Rop, Vice President for Business Development and Information Technology, European Investment Bank

Joseph Schull, Managing Director, Head of Europe, Warburg Pincus

Martin Stanley, Global Head, Macquarie Infrastructure and Real Assets

Daniel Truell, Chief Investment Officer, Wellcome Trust

Dimitris Tsitsiragos, Vice President for Europe, Central Asia, Middle East and North Africa, International Finance Corporation

J. Lerner:

Good morning. My name is Josh Lerner. I am the Jacob H. Schiff Professor at Harvard Business School, and I am pleased to be here to host the panel discussion entitled 'The Russian Investment Agenda – Risks and Opportunities on the Horizon'. I think, in a lot of ways, one can argue that now is a very favourable time for investing in the Russian Federation and for the Russian investment climate. We have seen some very substantial changes, such as the accession of the Russian Federation to the World Trade Organization (WTO). We have seen changes within the Russian Federation in terms of, for instance, the kind of growth that has taken place in the economy and that is projected to continue over the next decade. Perhaps most important are changes in terms of demographics, the growth of the middle class, and, in particular, the increase – by many estimates, the tripling – of the middle class over the last five years, and the growth in disposable income here. It is also clearly a highly educated population, and all these factors, you might argue, create a great deal of favourable dynamics for investment in the Russian Federation in a variety of dimensions. However, as the title of this session suggests, there are some real risks associated with investing in the Russian Federation, and perhaps more importantly, or more significantly, also the perception of risks, whether justified or not. That territory we will be exploring today. We will be looking at things from a public policy perspective, and we will be hearing from a number of policymakers who are most critical in terms of shaping the Russian investment climate. We will be looking at the attitudes of private investors, and we will be talking to a number of people who are some of the most thoughtful and important investors around the world in terms of making investment decisions. We will also briefly explore where the specific opportunities are in terms of investing in the Russian Federation. That is the exciting territory we will be dealing with today, and I think it should make for what will be an important and very interesting discussion around these issues. We indeed have an all-star panel here at the front of the room, and we also have some extremely thoughtful and interesting voices in the front row. We will seek to draw on both of them, but we will begin with hearing from each of the panellists on the front row.

Given that we are running a little late, what I will do is just introduce each of the front-row panellists as I call on them. If you do not mind, I will begin with Mr. Vladimir Dmitriev, who is Chairman of Vnesheconombank (VEB), the Bank for Development and Foreign Economic Affairs. In particular, Mr. Dmitriev, I would very much be interested in your giving us a little bit of a perspective about what the bank does, giving us a bit of a sense of how the Russian Direct Investment Fund (RDIF) fits into this, and a little bit more about the broader economic development strategies in the Russian Federation, particularly how it relates to encouraging foreign investment.

V. Dmitriev:

Thank you, Josh. Good morning ladies and gentlemen, colleagues, and partners.

In introducing me, Josh mentioned the Bank for Development and Foreign Economic Affairs, Vnesheconombank, of which I am Chairman. But I think he purposefully left it for me to describe Vnesheconombank Group. The Group was designed as an entity to promote economic growth and attract investment into the Russian economy; the mission of any financial development institution is to overcome the restrictions that infrastructure imposes on growth, increase Russian competitiveness, and make sure that the Russian regions are developed equally. So it is important to keep in mind that Vnesheconombank and Vnesheconombank Group represent a collection of organizations designed to achieve the main goals of development institutions in their respective purviews or niches. Vnesheconombank has been around for just over five years, evolving from the USSR Bank for Foreign Economic Activity to become an umbrella organization for the Russian Direct Investment Fund (RDIF), the Export Insurance Agency of Russia, the North Caucasus Development Corporation, the Far East and the Baikal Region Development Foundation, and a number of other organizations that each play a key or at least a very substantial role in developing our country’s economy and making sure that investments are made in the sectors that need them most. Sometimes lazy assumptions are made: that Russia is not an attractive place to invest (these doubts, cautions, and threats are heard more often from Russian representatives than from foreign partners); that there are administrative barriers; and that corruption is crushing business, the legislation just is not there yet, and so on and so forth. You know full well the ominous warnings I am talking about. But these opinions aside, what our organizations are doing – especially the Russian Direct Investment Fund and other organizations specializing in this area – offers vivid proof that Russia is quite attractive even for the most conservative investors. Attractive not as measured just by memorandums of understanding, but by the specific deals that have been concluded by the Fund. I am not going to steal all of Kirill Dmitriev's thunder, since I think he can tell you all about the Fund and its latest accomplishments.

You surely know of the agreements that were reached yesterday and today we are expecting several documents to be signed that clearly demonstrate the desire on the part of foreign partners, direct investment funds, and sovereign wealth funds. These investors hail from all around the world: from the Persian Gulf to Southeast Asia, the United States, and elsewhere. These funds have not had a presence in Russia to date. The RDIF offers a real opportunity for synergy and makes good on that potential. With or without an agreement from the RDIF, the opportunities offered by the Russian economy encourage funds to come to Russia independently and make strategic investments in specific sectors of the country's economy.

I would also like to note that the activities of the organizations within Vnesheconombank's orbit are mutually reinforcing. Take the Far East and the Baikal Region Development Foundation, for instance. It was formed just a year ago but it is enormously important in making the region attractive to investors. The Government has already supplied it with RUB 15 billion of charter capital. The Foundation's primary mission is to develop infrastructure in the region. At the same time, the Russian Direct Investment Fund received RUB 60 billion of funding last year and is to put RUB 25 billion of this into the economy and economic development of the Far East region. In some deals, our funds act to attract investments, while Vnesheconombank manages the financing to make projects attractive to both Russian and foreign investors. By completing specific investment projects, we create the potential to increase export opportunities for Russian companies in both the Far East and European parts of the country. To help Russian companies that are trying to strengthen their positions on traditional markets – in developing countries, primarily – the Export Insurance Agency of Russia is another relative newcomer that has already made a name for itself with a number of deals to support the export of Russian industrial products to countries such as China, India, Latin America, and the CIS.

So we can say that the Government is deliberately and consciously pursuing the establishment and strengthening of development institutes. A large role here is played by our legislation on co-investment agreements, on creating and developing special economic zones, and on public–private partnerships. All of these initiatives present an opportunity to enter the Russian economy together with foreign investors and develop particular sectors. I think my colleagues will say more about the other ways in which our Government is actively promoting inflows of investment from Russian and foreign investors. But as for the role and place of development institutes, we can confidently state that we have serious, durable mechanisms that fortunately have proven to be attractive and reliable partners for foreign investors who are looking at opportunities in the Russian Federation. Thank you.

J. Lerner:

Thank you very much, Mr. Dmitriev. Next we will hear from Kirill Dmitriev, who is the Chief Executive Officer of the Russian Direct Investment Fund (RDIF), which in many senses is the institution most directly involved with the encouragement of foreign investment in the Russian Federation, particularly on the equity side. Kirill, can you give us a bit of a sense of what the RDIF is doing and what its accomplishments have been in terms of addressing some of these issues?

K. Dmitriev:

Thank you, Josh. I am glad to see so many familiar faces here – many of you were at a similar panel session here two years ago, when the Russian Direct Investment Fund was still just on the drawing board. Vladimir Dmitriev, who is in charge of Vnesheconombank Group and has worked very actively to help the RDIF get off the ground, sat in this room with me two years ago as we discussed the Fund as nothing more than an idea. Now we say that the RDIF serves as a good example of how to build a successful institute. While we still need to prove our ultimate success, at least we are quickly moving towards this goal under the auspices of Vnesheconombank Group. Our experience shows that it truly is possible to move in a short time from an idea to results and, with laser-like focus and clarity, meet the goals assigned by the country's leadership and Mr. Dmitriev.

So what have we got done? We needed six months just to get the paperwork together and create the Fund. And then, in literally just another year and a half, we have invested USD 600 million of our own funds, raised USD 2 billion from co-investors for specific projects, and raised another USD 3 billion from investors for projects that had our support but in which we did not directly participate as the RDIF per se. We have also raised USD 4 billion for our joint investment platforms. So for the first year and a half, we do not think that is too bad.

We are actively focusing on lucrative deals. I wanted to share a bit about our thinking on where, why, and how we invest. The Russian Direct Investment Fund has two core principles: we should focus on highly profitable investments and invest only when we have a lead co-investor. We use several investment approaches and concepts. The first is Russia's growing middle class. Josh has already mentioned that the size of the middle class has tripled over the last five years. So based on this investment strategy, we are investing in the medical sector and in cinemas. We see a lot of other opportunities for further investment in the growing middle class. Our second focus is growth outside of Russia's urban core. We know that many businesses first concentrate their development in Moscow, but then shift into other cities and towns. More and more good regional businesses are appearing. We think that there are big opportunities here. For example, we have just invested in a company that makes tyres in the regions and will be increasing our regional presence. The third idea is increased business efficiency. The Russian economy needs to become more competitive and the efficiency of many businesses could be improved. So we are looking at a large number of these opportunities. The last big concept is investing in infrastructure: this is very much a key sector for Russia. There are not enough investment vehicles today for investing in infrastructure. Vnesheconombank has enormous expertise in infrastructure and without a doubt, we attract co-investors who are leaders in infrastructure investment in their own right. It is no accident that we see here Martin Stanley, Global Head of Macquarie Infrastructure and Real Assets, a leading infrastructure investment fund. Of course Mr. Rop, here from the European Investment Bank, is also active in infrastructure investment. We regard this partnership between Vnesheconombank, the RDIF, and leading international co-investors in the infrastructure sector as both fruitful and promising.

We are also creating platforms with leading investors. Here today we have Mr. Gao, President of the China Investment Corporation (CIC), and Tadashi Maeda from the Japan Bank for International Corporation (JBIC). These are examples of the partnerships we are establishing with other countries. Our organization was not even four months old when the China Investment Corporation created a fund with us. This demonstrates, first, that diverse types of investors have faith in our investment processes and, second, as shown with Japan, there is the opportunity here to draw large amounts from strategic investors. When a strategic Japanese investor looks at the market and sees that he can invest together with the JBIC, RDIF, and possibly Vnesheconombank, he will of course feel more comfortable investing in Russia with them than without them. So partnerships with other countries are critical.

There was a very successful, very important dinner yesterday with President Vladimir Putin, at which almost all the main global sovereign wealth funds were represented. These funds confirmed a few things: first, that Russia is still extremely attractive to them. Second, that they like the predictability of Russia's policies. Thirdly, they see that even as growth in other countries is slowing down, Russia has major potential for more growth, but this growth needs to happen in tandem with gains in competitiveness. We also announced a very important partnership: with Mubadala, a sovereign wealth fund from the United Arab Emirates. This is effectively the first Russian–Arab investment fund. Mubadala is important to us as an investor with strong expertise in infrastructure projects and the IT industry, among others.

To sum up, we have built a system that allows any investor, based on its interests, to partner with the RDIF under the aegis of Vnesheconombank Group. If an investor is more passive and wants to delegate decision-making to us, as happened with the Kuwait Investment Authority (KIA), investments can be made automatically as well: the KIA invested USD 500 million this way and automatically puts 5% into all our deals. Part of the money announced yesterday by Mubadala will be invested automatically as well. For players such as the CIC and JBIC who want to be more active, we can invest jointly in specific projects. So I am quite thankful to everyone gathered here, since many of you have been a part of this process and the path that we have travelled over the last two years. What this journey has shown us is that, with Vnesheconombank Group as the foundation, Russia has been able to create successful development institutes that can accomplish significant goals and are attracting leading partners to invest in the country. Thank you.

J. Lerner:

Thank you very much, Mr. Dmitriev. We are now going to shift to the investors' perspective. In particular, we are going to turn to two of the most important global investors, both of whom have relationships with the RDIF. The hope will be that they will share a little bit about the perspectives of what they are doing with the RDIF, but also a little bit more generally about how they perceive investment opportunities in the Russian Federation. We are very pleased to start with Gao Xiqing, who is the

Vice Chairman and President of the China Investment Corporation. Mr. Gao, do you have any thoughts you would like to share here?

X. Gao:

First of all, I would like to say that we are very happy to be here, and to share with our friends here about the opportunities and the risks associated with investment in the Russian Federation, and specifically of the interaction between the China Investment Corporation (CIC) and the Russian Direct Investment Fund (RDIF). The opportunities and the advantages of doing this are obvious for us, but of course there are often questions asked of me by my friends from, typically, Western investment companies. They very often ask me, “Why are you guys so gung-ho about Russia?” I say, “Is it not obvious?” To which people respond, “Well, we are not sure. Tell us why it is obvious.” I have been saying this for many years, but still, you hear people saying such things and talking about the risks associated with the Russian Federation. I will share with you the typical perceived investment risks in the Russian Federation, and my response thereto.

First, when you talk about investment and ask, “Is the currency stable enough?” I say, “Well, you know, all currency levels are relative, every one of them, even gold, as we can see.” With regard to China’s own currency, you know that people have been thinking for quite some time that the Chinese yuan (RMB) can only go up. Suddenly, within the past month, some people have been saying, “Oh, maybe it is going down!” The same is true with a lot of currencies, and the Russian Federation, to me, is much more predictable than most of the currencies we deal with. Why? Because the advantages of the Russian rouble are associated with the advantages of all the potential associated with the Russian economy. For a long time, people have equated the Russian rouble with what we would call ‘commodities-based’ currencies. In our portfolio of currencies, we deal with a lot of this type of currency, such as Australian dollars and Canadian dollars. Then people say, “Well, Russian roubles may or may not fall under that category, not only because of the commodity-related nature of the currency, but because of a lot of other things”. For us, the work is truly long-term. The CIC, as a sovereign wealth fund, has to be longer term. We cannot play the way most of the shorter-term hedge funds or even regular asset management firms operate because we do not look at our performance within a year or two years or even five years. The State Council tries to give us a 10-year timeframe to look at our performance. In fact, if you actually look at the overall dynamics of the Chinese economy now, I think 10 years is very short. We know there is a much longer view, and our friends in the Middle East tell us the same. They say, “We are looking at 25 or even 50 years.” Taking that into consideration and then looking at that with all qualities of the Russian economy, then you believe it is true. Consequently, I do not care about short-term currency fluctuation. I view it as a much longer run, thereby also addressing the second issue, where people ask, “Is the system stable enough? Are the legal systems, the court systems, and the administration solid?” People see all the barriers to investment there in terms of delays and corruption. These things you see in every country. I am not talking only about emerging-market countries. CIC has a much higher allocation of its investment in emerging markets than most of its counterparts. So from day one we knew that, since we operate in the longer-term, we would have to look at overall respective contributions of the countries and emerging markets that were underrepresented in the capital market.

Every year I sign the regulatory forms of over 120 countries, and, out of that, people will typically say, “Oh, these are the market-oriented countries, not the countries that have all these problems.” You have problems everywhere, and in that regard, I will say that we are quite comfortable with the so-called perceived problems with stability. Compared to most countries, the Russian Federation has a very stable political system, and the government here has very solid control of the situation and the legal system. I am comparing the legal system with many other emerging-market countries. The legal system is stable enough that we feel comfortable. People talk about accords, about the possible enforcement of the law, about the administrative side of things. Very often, you find problems. When we deal with a certain issue, on a certain investment, you feel that you deal with not only the central government, but also with local governments across various levels. You have people who would unnecessarily prolong the process. We run into that in most countries. Without naming names, we run into that from time to time in some countries that are perceived to have a very stable system and a very market-oriented government but that we, as a sovereign wealth fund, have to deal with based on political agenda. In that, we feel quite comfortable with the Russian Federation. One major advantage of our investment here is that both our government and the Russian Government – are very supportive of our investment and very supportive of foreign investment on the whole. Whenever we have problems, we deal with the government and we talk to the people who have control over the situation. We find it much easier to address than in many, or even most, other countries. In some countries we typically perceive as being market-oriented, you deal with the higher echelon of the political mechanism, and they say, “Sorry, we have checks and balances. Our country is just set up this way; we cannot deal with it. You deal with your particular government agency.” This happens in countries all over the world. Here in the Russian Federation, we feel comfortable about the situation.

People also talk about a potential labour shortage. Even China now is experiencing that, particularly in the eastern coastal areas. For many years, we thought that China had a huge labour surplus with all these people going to the eastern coastal areas, resulting in very cheap and well-educated labour. Within the past few years, however, things have changed. You see that the labour cost in China has been increasing several-fold in the past 10 years. That is happening in many countries, and we just heard from the President of the Russian Federation that labour in this country now is reaching equilibrium after some years of going down. We think this is actually a great trend. Of course, in some parts of the country you have a problem, in the Far East for example, and in certain industries. I believe the country, especially the federal government, has been making a lot of efforts to address the issue. We think that is indeed an issue, but it is not an insurmountable one.

Then people talk about infrastructure. I have been to the Russian Federation several times over the past 14 years, and I can see the difference between 1999 and today. The last time I was in Moscow, it took me about three hours to travel from the airport to the city centre; in 1999 it was only half an hour. This is a huge problem, of course, for a lot of people whose work is very time-sensitive, who worry about the efficiency of time and the time that it takes. By the same token however, if you look at it, I think that entails another huge opportunity. We as a long-term investor believe in infrastructure investment, we believe in real estate, we believe in these things. One need only look at the Russian Federation to see the opportunity. In China, even in remote areas, you have all these roads. Recently I went to western China, and we drove on this great highway with very few cars. And I am worried because do not have enough cars to have all these roads? Just wait for another two or three years; you will have that. Today, in the Russian Federation, you do not have as many roads. But that is indeed an opportunity that we should embrace. Once you invest in them, then you know that very soon investment inflows will come. All these things we call challenges, the potential risks, will turn into great opportunities. That is how I look at it. Thank you.

J. Lerner:

Thank you very much. We will now hear from a sort of complementary perspective, in particular from Tadashi Maeda, who is the Managing Executive Officer at the Japan Bank for International Cooperation (JBIC).

T. Maeda:

It is my great pleasure to be here. I am Managing Executive Officer at the Japan Bank for International Cooperation (JBIC). Allow me to tell you a little bit about JBIC’s role. Japan has been a long-term partner to the Russian Federation, since the Soviet era, and JBIC was the largest provider of debt to the Russian Federation, mainly in the oil and gas sectors. For instance, we most recently provided massive debt financing to the Sakhalin II project for natural gas production and liquefaction.

Following the accident at the Fukushima nuclear power plant, we have imported roughly 80 million tonnes of liquefied natural gas (LNG), roughly equivalent to 40% of the world trade volume in LNG. Therefore, natural gas and other fossil fuels from the Russian Federation are still very critical and vitally important to Japan. However, we are now shifting and diversifying focus from the conventional oil and gas sector coming from the Russian Far East and Sakhalin Island. With regard to infrastructure, there are more opportunities in a number of sectors. I have served as Special Adviser to the Cabinet of Japan for almost three years, and during that time I had my first meeting with Kirill Dmitriev a year ago in the summer of 2012. I was very excited to then be seeking opportunities with the Russian Direct Investment Fund (RDIF) to invest in a broader range of sectors in the Russian Federation, not just the oil and gas sectors. Following my first meeting with Kirill, I started negotiations to create a new concept, a joint investment platform. Unlike the Russia–China Investment Fund, this is not a fund, but rather a JBIC function, not only as an equity investor but also as a massive provider of debt financing with a long-term track record of providing export credit and investment credit to support Japanese business activities here in the Russian Federation. Most recently, we have been strengthening our equity investment function. Our annual commitment, by the way, the total equity and debt in 2012, was roughly USD 40 billion. It is at a record high, and the average annual JBIC commitment is roughly USD 30 billion. We are now strengthening our equity investment capability. We are not a sovereign wealth fund, because Japan does not have sovereign wealth funds. We do, however, have some functions similar to sovereign wealth funds in terms of providing equity investment. As a result, we signed a memorandum of understanding (MOU) for the joint investment platform with RDIF, taking the advantage of the opportunity afforded by Prime Minister Shinzo Abe’s visit to Moscow on April 29, 2013. The MOU laid out certain mechanisms for joint investments. We also signed an agreement with Vnesheconombank (VEB) as a debt provider to potential projects supported by the joint investment platform.

There are two key points of the joint investment platform. First, we agreed on priority sectors for investment, such as, for instance, urban development including smart city development, investment in advanced medical treatment, and investment in mineral resources and related sectors, which are both quite big. With regard to smart cities, Japanese industry has certain technology that is critical for developing smart cities. In terms of advanced medical treatment, we are looking at radiation therapy, which is a spinoff of the nuclear industry. This type of new radiation therapy is very useful and effective against certain types of tumour. The technology is very advanced in Japan with so-called carbon ion therapies. There are a number of hospitals in Japan that can serve as examples for the Russian Federation. But mobilization is needed from companies in terms of direct investment and technology deployment. Technology transfer is crucial.

The second feature of this joint investment platform is the role of both parties in making a new, proactive engagement from scratch, not just in making reactive, responsive, equity investments. Both parties agreed to be involved and engaged in the initial stages of the project to make the project more financially viable. This is a new approach. This is therefore a very ambitious and aggressive approach that both parties have signed and agreed for the joint investment platform. That is why we called it a joint investment platform. There is huge potential in the future. We are going to also play a matchmaking role between potential investors from Japanese industry and partners in the Russian Federation, mainly in the private sector. And VEB is also going to contribute and share some of their information on potential defaults. That is very critical. There is, through this, a new approach to collaboration among the three parties. I am truly confident that this will bring about a new and very fruitful outcome in equity investment in the Russian Federation.

J. Lerner:

Thank you very much. We appreciate it. We are now going to hear a little bit of perspective from the corporate side, and I think this will be quite interesting and a quite interesting complement to what has been said. I must take this opportunity to point out my dual role here. One is to ask interesting questions, the other is to make sure we end precisely at 11:00. I am afraid I am going to have to be terribly strict and limit our last two speakers to four and a half or five minutes so that we can give the other panellists a little time to talk as well. We are very privileged in having Bruno Ancelin, who is Senior Vice President of Renault. Could you share a little bit about your perspectives about investing in the Russian Federation?

B. Ancelin:

Thank you, Josh. I would like first of all to thank you very much for inviting me. I am French, and the French presence here is scant. I am, let us say, the representative of a very small French company, which is only the fourth-largest car manufacturer in the world in partnership with Nissan, and which hopes to partner with our friends here from AvtoVAZ Lada to become the third-largest. I understand from your nervous smile that we have to be brief, so I permit me to just tell a joke. Because the panel is deeply serious here. The joke is very simple, just to illustrate my opinion, and the opinion of Renault, about the climate of investment there, the potential of the Russian market, the level of our friendship with Russian friends and companies. The joke is as follows: At the beginning of each year – and it is probably the same in your big companies – you have an appraisal with your boss. The boss asks you, “Did you deliver good results?” In my case, I answered “Yes” across the board. We increased our market share dramatically; we increased our profit dramatically; we increased our volumes dramatically; we increased the partnership we have with AvtoVAZ Lada in favour of reinvigorate this company, which is our next large goal. Naturally, he was happy with everything. Then he asked, “Are you happy with the climate? Are you happy to be in the Russian Federation for three years? Given that you are French, you must come back to France at some point.” To which I answered, “Yes.” “When do you want to come back to France?” he asked. And my answer was, “Never.”

This small joke serves just to illustrate what I think about the Russian Federation. Frankly speaking, when I first came here three years ago, I knew very little about the Russian Federation. I came here twice. At the time I was responsible for Renault's global supply chain. I came to establish Renault and to set up the supply chain for the parts that we were delivering to our new plant in Moscow. At that time, Renault's market share was less than 1%. By the beginning of this year, it was roughly 8%. Renault today is the second-largest car manufacturer and car seller in the Russian market, behind Lada. Lada is set to become our partner, totally integrated in the Renault–Nissan Alliance, not as a subsidiary but as a brand. We are willing to develop it as a brand – as the first Russian brand in fact – at a future date. Although it is not the top priority today, we plan to revive Lada as a Russian export brand. This gives you a sense of the feeling I have about the country's potential. Of course, many people are talking about foreign exchange stability, but I will reiterate exactly what my Chinese colleague said here. If you compare the fluctuation of the Russian rouble to other currencies, it is probably the most stable currency in Renault's books. Everybody is criticizing the bureaucracy. Of course you have to fill out tons of documents, tons of papers, sign them hundreds of times every day, put hundreds of stamps on things, but the bureaucracy here is very reliable and predictable, which is not the case in France. I have the opportunity to compare them both, and, frankly, the French bureaucracy is lighter but sometimes much less predictable than the one in the Russian Federation. If you look to all the key performance indicators (KPI) that are promoting the development of the automotive industry here, everything is green. The people's welfare is improving; the availability of revenues is there. They could pay for cars that they could not pay for before. What we call the motorization ratio, meaning the number of cars you can find in the market per 1,000 inhabitants, is less than half compared to Europe, Japan, or the United States of America. The potential is huge here, and the investment climate is, I would say, stable. Of course, there are crises. Of course, many companies are upset and saying that they want to start a revolution because of the taxes and things like that. But if you have a very good and very long-term relationship with the people, I think there is no doubt for us of the huge potential here. Just to finish, I would like to say that Renault sold its first car here in 1912. We delivered a car to the tsar, Nicholas II, at that time. Afterwards, we stopped, for reasons that you will understand. We restarted operations here in 1998. Four years ago, before I arrived here, the Russian Federation was Renault's fourteenth-largest market in the world. It then moved up to ninth, then to fourth, and finally to second position. Today, it is Renault's second-largest market in the world. The message is thus very clear. If you are stable, if you have a strategy here, there is absolutely no doubt that development will be there. You must be very consistent and stable, but the potential is here. Thank you.

J. Lerner:
Thank you very much. Before we turn to some rapid-fire questioning from the front row, I think the last of our main panellists, Stanislav Voskresensky, will have an interesting perspective. He is Deputy Presidential Envoy to the Northwestern Federal District, and I think, as he will explain, this is a very innovative place, and he can give a bit of a perspective. We have been talking about things from a national policy level. It would be very interesting to gather sort of a perspective from the regional level, particularly given your past in the federal government. Can you spend a few of minutes just sharing some of your perspectives?

S. Voskresensky:
When I worked in the Government of the Russian Federation, investors told us that there were three things we had to do if we wanted investment: develop infrastructure, remove barriers, and invest in human capital. Based on the geographic area I am currently responsible for, I want to talk about nationwide – truly nationwide – approaches to these problems. I am talking about Kaliningrad Region, the westernmost region of Russia, which is a Russian exclave and a special economic zone. What are we doing there?
Infrastructure. On April 15, we started the modernization of the airport. All the permits have been received from the Government and we have begun designing the

runway to accommodate all aircraft types. Two years from now, the airport will be able to handle all types of aeroplane.

Energy: we have received a lot of criticism at the federal level for the quality of the electrical grid. For Kaliningrad Region, a special decision was made to recapitalize the local power company. Last week, the Russian Energy Minister signed a five-year investment programme for the company. The programme will, first, halt disproportionate growth in tariffs. Secondly, it will increase the quality and reliability of the grid and improve supply. Third, Kaliningrad will host several World Cup football games in 2018, which will require investment at the federal level.

What barriers are still standing? A while back, two years ago, the World Bank compared 30 different regions of Russia under its Doing Business rating. Kaliningrad ranked 19 out of 30. Not a great start, but as our colleague here today said, this is both a challenge and an opportunity. Among the business community in Kaliningrad, we see a great deal of vitality and strong pressure on the Government to improve the investment climate. So our goal for Kaliningrad is quite ambitious: within ten years, we want to be ranked as one of the top ten areas in the world for doing business. A difficult, but realistic, goal. Many economists in Russia and internationally think that Kaliningrad Region has the capacity to double its gross regional product (GRP) in ten years and, even more importantly, double salaries. A difficult goal that is ambitious, yes. Clearly it will require improved performance by the regional government, and federal and regional governments will need to combine forces to improve the investment climate.

Investment in human capital: our Baltic Federal University has developed a strategy that has received overall approval from President Putin. We are betting on medicine and biotechnology, with other natural sciences to follow behind. We are already beginning to implement this strategy.

I used to work in the Putin Government. I remember that investors criticized us for our quality of governance in general. I have a few thoughts here as well. In the early 1900s, one European philosopher wrote that people can think not only with their brains. I know that Russians think with their hearts as well. This is the source of our strength, our conservatism, and the talents of the Russian people. The success of any economic or social policy is contingent on creating the conditions that allow talent to flourish. The great Russian writer Dostoevsky wrote that a Russian needs three things: miracle, mystery, and authority. It has been a long time since he wrote that. I think that these high demands have been transformed into some rather specific requirements that the people have of the state. I see them in my work with people. These requirements are very simple: honesty, efficiency, and fairness. All levels of government should observe these principles, I think. I will also point out to our foreign guests that, no matter how you want to spin it, Russia has spent the last 20 years learning the lessons and passing the tests that it took Western Europe 200–300 years to complete. By tests, I mean the development of our economic and political systems. But Russia has to ace all of these tests going forward because the world is becoming more open and more globalized. Our citizens can compare the country with its neighbours and other countries. They will not forgive us if we get marks that are good but not great. So if you remember President Putin's 2012 address, he laid out his goals and values and put the creation of 25 million jobs – new and better jobs – on the agenda. Now the President is requiring that all levels of the Government function in a qualitatively better way, otherwise we will not attain the ambitious rates of economic growth that we need. Believe me, I feel this every day when I sit in my office chair. This requirement is a tough one and I am confident that we will rise to the challenge. So my advice is: invest in Russia now while it is still cheap. Thank you.

J. Lerner:

Thank you. That frames what I would like to pose as my first question. Daniel Truell, you are chief investment officer of Wellcome Trust, and certainly have a well-deserved reputation as one of the more thoughtful global investors. What do you think about the Russian Federation in the context of all the opportunities you have around the globe in terms of investing?

D. Truell:

I invest USD 30 billion. What do I care about? Global asset returns and then what risk is in the liquidity premium I am given for individual assets. I think, at the moment, the risks are that, unlike what the previous speaker said, the Russian Federation is going to become a lot cheaper. We like that, because we like crises as opportunities to invest. What has not been mentioned is a small matter of the United States Federal Reserve, which is exiting quantitative easing (QE) over the next 18 months. We are going to see the European Central Bank (ECB) move back to normal monetary policies. We have Maeda-san's friends engaging in a radical monetary experiment, and hence with a bubble that has emerged and is only starting to be unwound in emerging market debt. I think that the risk is that assets are going to continue going down rather than up. Then you have the local macro risks. I had a very good conversation with your excellent new central bank governor yesterday. I said to her that not many central bank governors get accused of being too conservative. You have a situation where you still have 6.5% inflation in the Russian Federation. At the moment, interest rates are barely real, but I understand that people are calling for them to be cut, which I think would be very dangerous while you are a running a current account deficit on a commodity-based currency. We have seen it before, and I think it would be bad for the Russian Federation to see it again if this was the moment taken to relax over monetary or fiscal policy. I think one has to be very careful to manage the macro risk in the Russian Federation over the next couple of years, as the big global banks are unwinding the QE zero-interest rate policies. The other thing that I think is very important for international investors is really to create debt in Russian capital markets. I chaired the Global Agenda Council on Long-Term Investing at the World Economic Forum. Our members have USD 6 trillion in assets. I suspect, for the moment, that for some of the individual multinationals that invest in the Russian Federation, there is more foreign investment than there is direct investment in Russian markets. I think the debt to capital markets has got to be an absolutely key priority here in terms of actually encouraging big international money to move from what they are doing at the moment, which is investing through multinationals into the Russian Federation, to actually investing directly. Thank you.

J. Lerner:

Thank you for those remarks. Now one of the themes that we have heard running throughout the commentary has been an interest in infrastructure as an investment area. I think it would be worth digging a little bit deeper into what are some of the issues and trade-offs with doing investment in this area. We now have Dimitris Tsitsiragos, who is Vice President of the International Finance Corporation of the World Bank Group. Dimitris, could you give us a little bit of a sense of how you view infrastructure, particularly in the Russian Federation, as a potential asset class, and what the issues and opportunities are there?

D. Tsitsiragos:

Thank you, Josh, and thank you, Vladimir and Kirill, for inviting me to this event. I think, when I look at representing the International Finance Corporation (IFC) and the World Bank here under President Kim, our goal is to end poverty and boost shared prosperity. The way we see it, infrastructure is a key part of this effort. I will give two statistics. Based on the analysis we have done at the Bank, we see a link between improving infrastructure and gross domestic product (GDP) growth. We see that a 20% increase in infrastructure stock is linked to a 1% increase in GDP growth. I also have some statistics with regard to the work we are doing in the Middle East and North Africa region. There is a clear link between infrastructure and job creation. In the Middle East region, we see that, if you invest about USD 1 billion in infrastructure, you can create up to 140,000 direct, indirect, and induced jobs. Therefore, when you look at infrastructure, it is key to enhancing competitiveness. It is key to job growth. It is key to attracting investment. It is key to improving trade terms. When I look at infrastructure, I think the key is to look at it in this way: it is not only for hard infrastructure, which is very important, but also a lot of emphasis needs to be put on soft infrastructure, especially now in education and health. We see the Russian Federation as a very attractive area for infrastructure. We see that the Russian Federation's infrastructure needs could cost as much as USD 1 trillion. Key areas of opportunity for us are transport, where we see opportunities in railways, in airports, in ports, and in urban transport. I think Mr. Gao made an interesting comment contrasting how long it took to get from the airports to the Moscow city in 1999 and in 2013. At the same time, I think we see opportunities in the municipal area, in the social infrastructure space here in the Russian Federation. Throughout this, and I think around the world, we see the role of the private sector as a key player in infrastructure. We see the opportunities here in the Russian Federation to do more between the private and public sectors. We see that there is a key role for government in infrastructure, but there is also a key role for the private sector to come in as an investor as well.

J. Lerner:

Thank you. I think that segues to the next issue I would like to raise, which is how the private sector views these issues. Martin Stanley, you are wearing the global hat of Macquarie Infrastructure and Real Assets. How do you view investing in the Russian Federation relative to all of the other opportunities that you see around the globe?

M. Stanley:

Thank you, Josh. Yes, we manage around USD 100 billion in assets in the infrastructure space around the world, and over the course of last year we raised about USD 10 billion for infrastructure for products around the world, including the European Union and Asian product offerings. What is really important for people to remember is that capital is actually finite. It is flexible and it is fundable, and it is also competitive. It is a bit like a living being; it migrates to opportunity and is very sensitive to risk and reward. If we lose sight of that, then we will miss a trick here. When we think about the Russian Federation as an investment, when our investors think about the Russian Federation, they look at it and they see the opportunity. The opportunity is high, and investors are attracted to opportunity, but it is not enough for it to simply be a high-opportunity market. It needs to be investable. We need to have an investable pipeline of opportunities to be able to attract capital. When I talked about those numbers earlier, we manage here an infrastructure firm of about USD 630 million. That money comes mostly through sovereign wealth funds and multilaterals. We have just raised a European Infrastructure Fund of EUR 2.75 billion, and most of that money comes from institutional pension funds. That money should be available to invest in the Russian Federation, and there are a number of reasons why it is not available currently. Some of the reasons are those that Danny presented earlier. But the really important thing for the Russian Federation, I think, is to make sure that this space gets credentialized here, that we credentialize the space so that we can attract that sort of pool of capital that is out there in the big pension plans, in North America, in Europe, and in Asia. Currently, I do not believe that is available to invest in the Russian Federation. There are a number of things that will require. Firstly, we need an investable pipeline; that is very important. We do not just need a pipeline; it needs to be investable. Secondly, we need clear and understandable risk parameters. What are the risk parameters that people are taking on board when they are investing in this space? Currently in the infrastructure market, some of those risk parameters are not clearly understood. Thirdly, is appropriate governance, and this is very important, both in our space but also in the private equity space, of course. Appropriate governance is not always available in some of these investments that we are making. The rule of law, of course, is very important, and the free movement of capital, both in and out of the market, is very critical. I will leave you with a final point. Infrastructure is a special asset class, and it is a special asset class because it touches people’s lives. It touches people’s lives in a very profound way. It has the ability to both improve lives and also to create misery if it is delivered poorly. The result and effect thereof is that governments take a very strong interest in it. Governments take a strong interest in it; politicians take a strong interest in it. Wherever you are in the world, the key risk that investors and infrastructure take is sovereign risk and regulatory risk. Consequently, what we definitely need is support from government. We need support from government, but we need support from government within clear parameters. We do not want overweening government support – otherwise, that will squeeze out private capital – but we need it within clear parameters. And we need a clear, sustainable, consistent, predictable regulatory system to allow us to invest over the longer-term.

J. Lerner:

Great. Thank you so much. The last question I would like to pose to the front row before I turn to Kirill for a few final thoughts is to Anton Rop, Vice-President of the European Investment Bank (EIB). Helicoptering up from beyond just infrastructure, from the perspective of EIB, what sectors do you see as really the most attractive ones? We only have a couple of minutes, but if you could share a few thoughts, I would very much welcome it. I know it is a very big question for two minutes, but that is the nature of these events.

A. Rop:

Thank you very much, Josh. It is a special pleasure to be here, and I will try to be succinct. There is no doubt, from our discussion, that we all agree the Russian Federation has been facing quite amazing economic growth in the last 10 or 15 years, and we are all happy with that. We also believe that there are huge potentials in the Russian economy. But still, we must be aware that gross domestic product (GDP) per-capita is still in the range of EUR 11,000, which means that there are huge potentials for future development. The basic question would also be: what has changed? I think the Russian Federation has changed substantially, and we should understand from that perspective, from that criterion, I would separate two kinds of investors in Russia: the old-fashioned investor, who talk about infrastructure, energy, and so on, wanting to go the quite simple, old way of financing, and then there are modern investors, who understand that the Russian Federation has changed and, consequently, investors also must invest in the private sector, in research and development, in education, and so on. I am not saying that there are not potentials in infrastructure. In that light, the EIB has substantially changed strategy with regard to the Russian Federation. I am very happy to say today that the year 2013 is extraordinary for the EIB. In the year 2012, the EIB invested EUR 500 million in the Russian Federation. This year, we are going to invest EUR 1 billion. Tremendous change has indeed happened. We have succeeded in developing relations with Russia's largest banks, and especially with the Vnesheconombank (VEB). I am very happy to say that yesterday we signed a very interesting loan to support investment into entrepreneurship, together with the VEB and KfW, so this is something new. I would just like to tell you that we are going to continue investing this year in small- and medium-sized enterprises (SME) in the private sector, to the tune of about EUR 500 million. What we are doing right now with the VEB is something very interesting, something totally new. We are preparing a so-called framework loan. Inside of that loan, we are going to support research and development, energy efficiency, and education. There are totally new challenges we have to face and that we have to respond to, and I believe that we can succeed together.

J. Lerner:

Great. Thank you very much. There is one additional question I will throw out. This is a 30-second or maybe a 40-second question at the most. We would love to get a little private-sector perspective on this. Artem Kudryavtsev, who is President of TransTeleCom, could you perhaps take 30 seconds and share your thoughts?

A. Kudryavtsev:

Thank you very much. I will try to limit myself to 30 seconds.

My company is in the telecoms business. Telecommunications have changed our lives beyond recognition and become a basic, non-negotiable public necessity. Our main business is expanding the Internet and access to communications in remote regions. There is both an economic rationale – a business case – for this and a social and economic mission. Communications offer huge opportunities for the development of small and medium-sized business, access to professional services, distance learning, and telemedicine. Telecommunications provide a means of investing in human capital in places that do not have proper educational and medical infrastructure.

Generally speaking, of course, the Internet also offers entertainment and a means of social contact. It makes people scattered over enormous distances happier with their lives and brings them together. As shown in Europe, a 10% increase in Internet penetration causes a 1.5% increase in national GDP. Our sector is highly profitable and offers a high return on investment.

J. Lerner:

Thank you very much. There has certainly been a lot of provocative issues raised here. And certainly both questions and opportunities are not very much highlighted. Kirill, would you like to end up with a few final thoughts about the perspectives of what we have heard here? And we will bring the session to the close. Thanks.

K. Dmitriev:

Thank you to everyone for coming. A lot of different perspectives, that is for sure. We have the perspective of sovereign wealth funds, banks, and strategic investors; and the regional perspective for infrastructure investors... A lot of interesting ideas. So I think we can draw a very simple conclusion: Russia remains an interesting market for a lot of investors. There are certainly issues that still need to be ironed out, since capital is a competitive tool and you need to create comfortable conditions for it to find its way to where you want it to go. At the RDIF and Vnesheconombank Group, we are doing everything we can to make that happen. Thank you once again for being at today’s session.

J. Lerner:

Thanks again. Goodbye.