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**RUSSIAN-ARAB ECONOMIC RELATIONS: DEVELOPMENT PROSPECTS
Building Russia's Creative Capital**

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The volume of Russian-Arab trade reached USD 10 billion at the end of 2010. However, Arab investment in Russia is still underdeveloped, and offers a promising opportunity for Arab businesses. Panelists will discuss what is needed for a decisive acceleration of bilateral trade and economic cooperation, how the implementation of joint 'breakthrough' projects can be promoted, and the promise of enhanced investment opportunities with the newly created Russian Direct Investment Fund.

Moderator:

Artyom Kapshuk, Anchor, Rusiya al-Yaum

Panelists:

Mustafa Abdel-Wadood, Chief Executive Officer, Abraaj Capital Limited

Ali al-Dabbagh, Minister of State and Spokesman, Government of Iraq

Kirill Dmitriev, General Director, Russian Direct Investment Fund

Arkady Dvorkovich, Aide to the President of the Russian Federation

Vladimir Evtushenkov, Chairman of the Board of Directors, Sistema JSFC

Tarek Fawaz, Managing Partner, Rayan Capital Advisors SA

Petr Fradkov, Member of the Management Board, Deputy Chairman, State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)"

Dr. Jafar Hassan, Minister of Planning and International Cooperation, Jordan

Badr Jafar, President, Crescent Petroleum Group of Companies

Yevgeny Primakov, President, Chairman, Mercury Club

Hassan Sentissi, President, Moroccan-Russian Business Council

A. Kapshuk:

Dear friends, we are beginning. I would ask our guests to please take their seats. I hope that everyone has a device for simultaneous interpretation. Honoured participants and guests of the Forum, your Excellencies, heads of delegations, honoured colleagues, ladies and gentlemen, I am happy to open today's session of the St. Petersburg International Economic Forum. This session is devoted to the discussion of problems in Russian-Arab economic relations.

There are a lot of questions we would like to touch upon. To begin with, we will give some figures, which characterize relations between the Russian Federation and the Middle East. The volume of trade volume is close to USD 10 billion. If we trace the development of this trade volume, then in 2009, for example, right here in St. Petersburg, at the International Economic Forum, there was a similar session, and the figure was 8 billion. There has been a small amount of growth, as we can see. We cannot, of course, be content with this. Interestingly, a participant in the previous session, expressing, naturally, very optimistic expectations, mentioned the figure USD 700 billion—this is roughly the volume of trade between the Arab world and China. You, of course, understand that we will not be talking about these kinds of figures, but why not take USD 16, or 20, or 25 billion as a reference point?

Over the past few years the situation in the Middle East, and globally, has seriously changed due to the global economic and financial crisis. All of you understand very well the state of political turbulence in which the Arab world finds itself. Both Russia and the Arab countries experienced the effects of the crisis, but it is possible here to pick out some positive points. For Russia this crisis means the possibility for growth in the development of collaboration, and diversifying our efforts. For the Arab world, the crisis is an excellent reason to diversify its economic interests, look for new investment partners, new opportunities for cooperation, and so on.

The main problem we are coming up against in our collaboration is a certain imbalance of mutual interests. Russian capital is more actively penetrating Arab markets, while Arab capital is more inert. Here there are a few positive examples, and I think we will pause to look at these, But today, let us try to understand what the reason is for this situation, what could stimulate Arab capital into more aggressive activity on the Russian market? Arab economists, Arab capital, and investors have a fundamental interest in Russia. The question lies in understanding how to continue institutional work. Do previous mechanisms of establishing this collaboration still work, and are they needed as before? This means, for example, that creating a Russian-Arab bank, joint funds, investment funds, the Arabia-EXPO exhibition, is working. Shall we, with regard to improving the investment climate, strengthen the structure of this process? One example of the work being done by Russia in this direction is the recent creation of the Russian Direct Investment Fund. This is an important structural link in this work.

I think we will have the opportunity to discuss this point. Before I introduce today's guests, our participants, I would like to remind you briefly of the regulations and procedures for today's session. Each speaker has five to seven minutes, no more. I think this will be enough for an introductory speech, after that we will see how the discussion develops. I expect the discussion to be as informal as possible, so that the most critical questions are raised. It would be good if both questions and answers could be as relevant as possible. If possible, I would like to leave time for questions from the floor, perhaps we will manage to take one or two, maybe three questions from our guests at today's session. And at the end, so that all we say is not left hanging in the air, I would like to try to draw some conclusions, and note what each participant finds important for the development of economic, financial, and investment relations between Russia and the Arab world.

And now, please allow me to introduce the participants in today's discussion. I am very pleased to see our guests in Moscow, who are representatives of the

Russian business community and the Arab entrepreneurial community. We have with us today Petr Fradkov, member of the Management Board, Deputy Chairman of the State Corporation, the Bank for Development and Foreign Economic Affairs (Vnesheconombank); Jafar Hassan, Minister for Planning and International Cooperation of the Jordanian Hashemite Kingdom; Doctor Ali al-Dabbagh, Minister of State and Official Representative of the Government of Iraq; Hassan Sentissi, President of the Moroccan-Russian Business Council; Badr Jafar, President of the Crescent Petroleum Group of Companies and General Director of Crescent Investments; Mustafa Abdel-Wadood, Managing Director and Chief Executive Officer of Abraaj Capital Limited; Tarek Fawaz, Managing Partner at Rayan Capital Advisers. As you can see from your schedules, we are also expecting the aide to the President of the Russian Federation, and we have a few questions for him. We expect that Vladimir Evtushenkov, Chairman of the Board of Directors at Sistema and Chairman of the Russian-Arab Business Council will be joining us.

To prevent my introduction from becoming too long, I would like ask Doctor Ali al-Dabbagh, Minister of State and Official Government Spokesman of the Iraqi Republic begin our discussion today.

A. al-Dabbagh:

Thank you very much, honoured chairman. Hello, ladies and gentlemen. We are happy to be taking part in today's meeting. We are certain that this is a very good opportunity for exchanging opinions. The collaboration between the Russian Federation and the Arab world is a very important matter. Mr Kapshuk has already said that the trade volume between the Arab world and China amounts to around USD 700 billion; with Europe it amounts to over USD 350 billion. Of course the volume of trade between the Russian Federation and the Arab world is rather modest, and we must work to increase it, to include Russian products

which do not relate to arms, because Russia also has great experience in aircraft building and other areas.

If I may, I would like to say a few words about Iraq. Iraq is a very promising market in this region, and offers favourable opportunities for investment. Unfortunately, services are not very good in Iraq; communications, transport, all this was destroyed, as you know. Infrastructure, industry, all this needs rebuilding. We of course want to rebuild everything that has been destroyed in past years. In Iraq there is huge financial potential, we are capable of financing all projects in infrastructure and the development of modern technologies, and we, of course, believe that Russia can play a significant role here, just like China. We think the development of our relations with Russia will be very fruitful.

A few Russian energy and oil companies are already coming to the Iraqi market now, and are developing megaprojects in the power industry. But it is necessary to point out that Russian companies are hesitant, worried about the complicated situation with regards to security. It must be said that the security situation in Iraq is, of course, not ideal, but not to the extent that it would prevent Russian or other companies from working in our country. Gazprom and other Russian companies have worked with us for over a year, and there have been no particular problems. There is another problem. Many Russian companies look at Iraq from the standpoint of previous experience. They look at Iraq through the eyes of the Soviet Union. They are not ready for competition, they are used to working with government companies. This means, Russian companies must learn to compete with others in order to successfully enter the market. The situation is changing, and it is imperative to take market conditions into account. It is, of course, necessary for Russian companies to know about the conditions of the Iraqi market; each of them must have an Iraqi partner. In this way they will be able to penetrate the private sector of our economy. Aside from this, we do not want our country to become just a market trading in foreign goods. Representatives of all Russia's branches of industry, I think, could create business partnerships with

Iraqi companies, and these partnerships could be of a strategic nature. We want to gain technologies, we do not want to our market to be flooded with imports of consumer or other goods.

I would like to say something about the most promising areas for investment. Mr Kapshuk mentioned the Russian Direct Investment Fund. It must be said that the Iraqi market needs funding for megaprojects. We need railway construction, to ensure the transport of goods to Basra port. We need good power generation and distribution. We need investment in many fields of industry, and these are not short term projects, but projects that will still be running in five years. We are now discussing the possibility for apportioning investment in the region of USD 31 billion, which could develop our market. The government of Iraq can protect the activities of foreign banks in Iraq, through collaboration with the Russian government. Now, for example, the Korean government has taken the guarantee offered by Iraq and is developing its banking business with us. These banks are funding both projects in the field of power supply and the construction of a new port. I am talking only about the potential for investment, so that you have an idea of the new political situation in Iraq.

A. Kapshuk:

Thank you very much. I would like to ask one question for clarification: Iraq, as a result of certain circumstances, stands a little apart from other Arab countries working with Russia. A number of major projects in oil and gas extraction have been restarted, in collaboration with Russian companies. But to what extent do the dramatic events which have occurred in Iraq, the shift, if you will, in the political mentality, the mindset of economic and political elites, allow for the creation of a setting and an atmosphere for real, honest competition? Because Russian companies will be competing fiercely on the Iraqi market with their Western colleagues, or rather competitors.

A. al-Dabbagh:

In the field of oil extraction, for example, there is transparency. Chinese companies have come to us, as has an Angolan company. There has been competition. If we turn to other projects, then, for example, in the field of construction there is no particular competition. If someone wishes to invest, it is possible to do so in the field of rail transport, for example. There is no competition there, we are open to all. Competition exists in the oil sector; yes, it exists. We think that Russian companies have a very good chance, and they will not meet with serious competition. Our relations with the Russian Federation have economic origins.

A. Kapshuk:

Thank you very much, Mr al-Dabbagh. We have been joined by Kirill Dmitriev. We welcome this participant in the Forum, he is the General Director of the newly created Russian Direct Investment Fund. Ali al-Dabbagh has suggested that you might participate in financing projects in Iraq. But the fund you direct is oriented more towards work with incoming investments, on structural assistance with these investments. This is precisely what is urgently needed, and has been in demand from our Arab partners for a long time already. Kirill, you have five or six minutes, please give an account of the main tasks of the fund. How can it help to attract investment from Arab partners?

K. Dmitriev:

Thank you. I actually thought I would only have three or four minutes. So, first of all, we really can allot 20% of the fund outside of Russia. We can, as a result, speak separately about how much we can invest our resources in Iraq and other countries. But, of course, the main aim of the fund is to attract money into Russia. Over the past three to nine months we have consulted with Petr Fradkov, with Vladimir Dmitriev, with leading Arab investors, and with the most major

sovereign funds. We asked them a very simple question: what can we do so that you invest in Russia?

They responded with two points. The first is that they firmly believe that Russia can achieve very good profitability. They understand that Russia is the sixth largest economy in the world; they understand that Russia has the eighth largest market in the world, that the middle class in Russia's population has risen from 11% in 2005 to over 30% in 2010, so it has practically tripled over the last five years.

But the second point is as follows: we need a partner. In exactly the same way, Russia probably would not invest without partners in Iraq or in other Arab countries. Investors have said to us that they need a strong partner in Russia, who they can count on, and who will enable them to feel secure. The Russian Direct Investment Fund is precisely such a partner for an investor in Russia, allowing them to feel secure, and to understand that there are many interesting opportunities here. The Fund will risk its money along with foreign investors, share the risk with them and will be very profitable. Profit is the main prerequisite of the fund. In a meeting between the directors of global funds, whose total capital is USD 2 trillion, and the Prime Minister, Vladimir Putin, on May 18, the latter also expressed his understanding that the Fund should be oriented towards profit.

However, profitability depends on good investments, and good investments depend on economic growth, available jobs, innovation, modernization, and new technologies. For this reason, the basic parameters of the fund are as follows: we can invest between 50 and 500 million in one transaction. In order to invest, we must have foreign co-investments of at least an equal amount. This is very important, because there are always a second pair of eyes, so to speak, which are following the investment, which raises the quality of our investment decisions. I have said the basics. We are opening our website today, and there will be information on it not only about the Fund, but also positive statistics about

Russia. Sometimes in criticising ourselves we forget those positive changes and positive figures which reflect the dynamics of investment in Russia. These figures are on our website. This morning, we had an excellent breakfast. Mustafa was there, as was Badr, and we discussed the Fund; they said we have very positive reviews from leading investors, including the Kuwait Investment Corporation, from investors who are thinking of Russia but need a partner.

A. Kapshuk:

Kirill Dmitriev, the declared Russian stake in this fund still varies at around USD 10 billion. Do you not think it would be a good idea to raise this stake? And a second question: which sectors of the economy could be used for co-investment, sharing risks together with Arab partners? Do you have an idea of this yet, or will it become clear as work progresses?

K. Dmitriev:

Yes, the size of the fund is 10 billion USD, of which two billion will be assigned every year. In comparison with the Chinese Sovereign Wealth Fund, which amounts to USD 300 billion, it is not very much. But I think it is enough to attract additional investments into the economy, up to USD 50 billion, and higher. We asked Abu Dhabi, Kuwait, and Qatar what would interest them. And our Arab partners said that from the perspective of investment they were most interested in the agricultural sector, life insurance, and energy innovations. There is a clear and understandable list of the sectors they are interested in.

For the Fund it is important that we see two basic types of transaction. Firstly, infrastructural projects, where profit will be a little less, 10-15% per year, but that is a stable, clear profit. Secondly, investment in growing companies, where profit could be 25-30%—typical transactions for a direct investment fund. Arab partners have told us that a profit of 10-15%, which is more secure, would be more interesting for them.

And lastly: we do not have limitations when it comes to branches of the economy. This is a very important principle for the Fund's activity. As we are oriented towards profit, we do not have limitations, we can invest resources into any Russian sector. And as I have already noted, we can invest 20% outside of Russia.

A. Kapshuk:

Thank you. Since we are continuing the theme of investment support through the Fund, perhaps we could hear from Petr Fradkov?

Also briefly, if possible. As far as I understand, Vnesheconombank has a similar interest in co-investment activity. Please tell us about the problem of imbalance in trade, a theme which is both interesting and known to you: how can it be eliminated? The mission of the Arabia-EXPO exhibition is to do so, but does Vnesheconombank have any ideas of its own?

P. Fradkov:

Thank you very much. I agree, we are noting the imbalance not only in collaborative investment, but also in trade volume. For example, with Dmitry, trade volume now totals around USD 10 billion, and it is actively growing; it has multiplied by 6 times over the past 5-7 years. But unfortunately, the product mix of this trade leaves much to be desired. It would be completely fair to say that Russia has the potential for high-technology export, but this potential is not being used at all.

We have individual contracts with countries that were already our trade partners during the Soviet era. I am talking about countries in North Africa, some countries in the Persian Gulf, but all the same, our export to these countries is really only in natural resources. This includes some agricultural production, sulphur, metals, timber; all of this is difficult to relate to high-technology production. Why is this

the case? We have at least one answer, which is entirely connected to the imbalance in investment collaboration, which I will come to later.

My primary explanation for this is the fact of a lack of information, however banal that sounds. We know very little about each other. I am talking, first of all, about those markets in which the Soviet Union was probably not as widely represented as it was in the countries of North Africa. The individual transactions which are made are an exception to the rule. I think Russia should stimulate its export in this respect. There are instruments for this, which I would like to say something about. First of all, providing state guarantees on some types of goods, because the government must stimulate its export. Another instrument is now being created, a daughter institution of Vnesheconombank. This is the National Export Agency, which will act completely in accordance with the principles of the OECD, and will provide insurance not only for entrepreneurial, but also for political risks, which is important. We think this will be an effective step from the perspective of export. There is objective potential, which includes, of course, energy, vehicle construction, and a few other spheres.

Where investment collaboration is concerned, I will not repeat myself: there is an imbalance. Here are a few statistics. Russian investors are not at all badly represented in such countries as Saudi Arabia and the United Arab Emirates. Around 40 representatives of Russian companies are working in the UAE alone, and there are 350 joint ventures. That is in a single country. Unfortunately, the countries of the Persian Gulf, while investment potential is massive, have only small contracts in Russia, in the region of USD 200 to 300 million, no more.

We act on the premise that the instrument which we are now talking about, the Investment Fund, will not only be an instrument of collaborative funding, but will become a kind of gateway into Russia, and will supply convenient conditions for investment in Russia for our Arab partners. We met with the representatives of leading investment funds; these are serious structures, but again, all the same, there is the banal problem of a lack of information, however tragic that sounds.

And the last thing which must be discussed is the plans for the creation of a Russian-Arab bank. This is not an investment fund in the purest sense, but more a settlement mechanism. Such an instrument has its pluses and its minuses, and this can be discussed in more detail, but we think that on a global level this would be a step forwards.

A. Kapshuk:

Thank you, Petr Fradkov. If possible could you briefly say something about the project of a Russian-Arab bank, which was initiated by Bahrain. It is over five years old, and frozen. Is it possible to bring it back to life? Perhaps you see certain destimulating factors which are preventing work in this direction, or factors to the contrary?

P. Fradkov:

I will be honest here. We have been in contact with our Bahraini partners for a rather long time. The Chairman of Vnesheconombank, Mr Dmitriev, is the Co-chairman of the Russian-Bahraini Business Council, and we are working relatively actively with our colleagues in various directions. From the perspective of different events, our council is one of the most active. Here there are two nuances, the first of which is more political, the other more commercial.

On a political level, while Russia is entirely prepared to participate in such a collaborative enterprise, there is no certainty from the Arab side. How should Arab partners be presented, who should represent the bank? This is an administrative and a political question. On the commercial level, it is imperative to understand the structure: where should headquarters be, what principles should the bank be founded on, what will the relative shares of capital be? But this is a more simple question, which we are always prepared to look at when it is working.

A. Kapshuk:

Thank you Petr Fradkov. I would like to add, if I may, that we will return to the question of the creation of a Russian-Arab bank. We have recently begun to overcome the information vacuum, which many complain of, and the presence of representatives of the largest private companies from the Persian Gulf is another confirmation of this. Allow me to hand you over to Mr Jafar Hassan, Minister for Planning and International Cooperation of the Jordanian Hashemite Kingdom.

I have a small question for the Minister. King Abdullah II probably visits Russia more often than other Arab leaders. If I am not mistaken, he has made around ten visits over the past few years, and has an excellent relationship with the leadership of the Russian Federation. How does this impact on the stimulation of Russian-Jordanian economic relations? In what areas does this occur, apart from nuclear energy, which is now the main orientation for collaboration between Russia and the Jordanian Kingdom? What is new here? What prospects are there?

J. Hassan:

Thank you. In fact, His Majesty has had many meetings at the leadership level in Russia over the past four or five years. That is very important, because it builds that framework for cooperation, but I think the real challenge, of course, is in having officials in the business sectors come together, and that is one of the reasons I am here today. I think it is very important from the outset—and very important for Russia too—to know that the region is changing fast. And I am not only talking about transformations that are happening today. I am talking about the geo-economic map of this region. Today the region is coming together in many ways.

If you look at the infrastructure networks that are basically shaping the region, if we are talking about the regional electricity grid that connects several Arab countries and is basically opening up the electricity market in the region and

offering the possibility of connecting the region to Europe in terms of a renewable energy grid, that is something that is extremely crucial. We can look at the railway networks that are now being planned and being executed across the region. Jordan will be a hub because it will have the opportunity of linking the Arab Gulf to the Mediterranean, the Red Sea to Iraq and the Black Sea, and will offer a lot of possibilities in terms of the transportation of goods across the region. Gas networks are also extremely important. I think what we are seeing in terms of the gas networks that are being planned are new possibilities for export, and it could also offer new possibilities for diversification in terms of energy in the region.

I do not think the only problem is investment. I think the region is rich in oil, it is rich with regards to youth and skilled youth, and it is rich in resources. But I think there is a lot of potential to come together in terms of how we structure these investments and business operations in the region. I will talk about this in a moment. What is very important is how this infrastructure, this geo-economic map of the region shapes up today, because we will be experiencing its impact in five to ten years. That will determine how the interests of various members of the region and the relationships with others around them—whether it is Russia, the US, China or Europe—will basically be anchored for the next two or three decades. And it is very important to look at the region's dynamics from this perspective now. Do not be obscured by political changes, by the instabilities that exist in the short term, you should really focus on the medium term and the long-term potential. You have to invest in today. Look at Jordan specifically, with its free trade agreements with the US, Europe, Turkey, Canada, and the strong relationship that will hopefully be further strengthened and institutionalized with the Gulf Cooperation Council that welcomed Jordan's membership the last month. Look at the very special, important, and strong relationship with Iraq, being one of the few countries with a peace agreement with Israel. The peace,

stability and security that Jordan offers in the region are of real value and are very important to us.

This is where we talk about joint military ventures with Russia which are currently on-going—in the field of rocket launchers, for example—between our private sectors. We are looking at having Russia as a partner in the national rail project that I just mentioned. Russia is among the top three worldwide in this area, along with the US and China. We are looking at nuclear power plants and possibilities for Russian orders. The bids for the double-unit power plants will be submitted by June 30. So, the next half of this year will be an important time for discussions in these areas. I think the idea of having a regional wheat terminal in the port of Aqaba is very important because, at the end of the day, the global economic crisis did highlight the importance of fuel, food, and productivity for sustaining regional economies. And when we talk of food, Jordan imports 98% of its wheat, almost all of it from Russia. And of course that would be something that Russia could be a major partner in.

When we look at LNG facilities, we are looking at diversification, we are looking at possibilities in terms of connecting reserves around the region to LNG facilities, in the Red Sea in the port of Aqaba specifically, and having alternative outlets for that.

When we look at tourism, I am happy to say that the first Russian pilgrim site was inaugurated a few weeks ago, and President Medvedev visited it. And even when we talk about ICT and gaming, Jordan is one of the first countries. Jordanian companies are localizing Internet content for Arabic Maktoob. Then they sell it off to Yahoo for a significant amount, providing for Yahoo's Arabic content. So, there is an emerging ICT sector that is very strong. We are working now on gaming industry. With the youth that is in the region, and rising demand for gaming that has been localized for the Arab market that has the kind of cultural content that we need for the youth in this region, this is an area that is important for cooperation. I think having tens of thousands of Jordanian students who studied

in Russia over the past years is something that is also very important. But when we look at all these areas, the potential is there, these are not dreams, these are very concrete projects and ideas that we are looking at.

The issue at stake is that you have to do them within the private sector. I do not think governments are interested in investing in these areas from their budgets. You have to do them via the private sector to public-private partnerships. The government's role is really to provide that. We are talking about projects that are regional in their dimension, that are multibillion projects and projects that are definitely developmental in many aspects.

So, in this respect, the partnerships are based on the government providing some developmental assistance or developmental funding to make the return on revenues higher for the private sector, and to attract more of the private sector funding for these projects. We have to look at it in a mixed way. There has to be some risk sharing, because the issue of sovereign guarantees should no longer be the issue, it should be the guarantees of the feasibility, the profitability of such projects, and their financial flows. With the G8 supporting the region with billions of dollars, with sovereign funds in the region, with the billions of dollars there, and the way they can cooperate with the IFC, with the World Bank, with the IBRD in the future, with investment funds such as the ones that are now being established here, I think there is a lot of work and a lot of potential that we can build on.

A. Kapshuk:

Work is being carried out, and there is, likewise, potential here for the status of a multisectoral hub, regional or even international, as you said. During one of the last meetings between the Jordanian monarch and the Prime Minister of Russia, a particular emphasis was made on investment collaboration, and the themes you elucidated are directly connected with this, especially the attraction and exchange of private capital. Your stated positions appear very large-scale and

extremely positive, but are these not still today at the level of good intentions? What concrete steps are being taken in order to attract Russia to concrete work in this direction?

K. Dmitriev:

The majority of the areas, and all those issues that I mentioned are subjects that have been discussed at the top level. We talk about dreams or reality: well, the nuclear bid is due by June 30. That is a reality. The railway project plans have been finalized, and we are looking at tendering this sometime towards the end of the year, or early next year. That is a reality.

The LNG requests for proposals are being prepared now, and will be basically presented sometime in the second half of this year. This is a reality. We are now preparing a USD-100-million venture capital programme just for the ICT sector in Jordan in order to help the startups that are there. So these are very practical projects.

We are talking with the World Bank, with the EIB, the European Investment Bank, with the US Administration, and with the Arab Development Funds about financing schemes that could help lower the cost of finance for many of these projects, therefore making them more attractive for the private sector and for private investments.

But at the end of the day, yes, there is a lot of potential there. I think the security and stability in Jordan today does offer us a significant advantage in terms of lowering the political risk and cost for investors, especially in interregional projects, and that is something that adds value.

A. Kapshuk:

Thank you very much. I think one of the most active supporters of the development of relations between Russia and the Arab world, and in particular, between Russia and Morocco, is Mr Hassan Sentissi. It is not by chance that the

anniversary tenth session of the Russian-Arab Business Council took place in Casablanca. Therefore, it is with pleasure that I hand you over to him, and thank him in advance, taking into account the remaining time, for respecting the regulations of our session. Mr Sentissi, please go ahead.

H. Sentissi:

In the name of Allah, most gracious and most merciful! Honoured Ali al-Dabbagh, honoured Jafar Hassan, ladies and gentlemen, it is a great honour for me to speak at this Forum. Speaking for the Russian-Moroccan Business Council, and for Moroccan businessmen, I thank everyone who participated in preparing for the Forum. I wish all of us and all of you success in all affairs, so that we can return to our countries having achieved significant success as businessmen and as government figures, having fulfilled to the best of our abilities the task facing us.

In Morocco we are striving to maintain peace across the whole world; we support real globalization, not the kind which increases the poverty of poor countries and the wealth of rich countries. Ladies and gentlemen, I feel honoured to say that I come from Morocco: it is a country at the crossroads of international trade routes, in particular between Russia and the USA, and alongside Europe. Our country is a kind of bridge, which allows for the strengthening of security and peace in the world, which creates the necessary foundation for successful investment. We all understand that the world of economics, the world of finance needs guaranteed peace, and our country, without a doubt, is a little island of peace.

In 2010 investment growth reached over 30% in Morocco. This included investment in the most varied of fields, both in industry and in tourism, and this fills us with confidence and optimism, and the hope that this growth will remain high this year. One of the events which recently surprised us and the whole world was that the countries making up the Cooperation Council for the Arab States of the Gulf invited us to become a full member of the Council, alongside Saudi

Arabia, Bahrain, Qatar, Kuwait, and Jordan. And this was a high mark of our successes.

Ladies and gentlemen, I do not wish to speak for long, although I could give many other examples. I shall say only what is most important. Firstly, we have economic and political stability in our country. We are implementing democratic reforms, and guarantee civil rights and freedoms. Secondly, we strictly fulfil all international treaties and agreements. These and other factors have led to companies from many different states investing in Morocco: American, European, aerospace companies, companies producing strategic electronic equipment, and, similarly, many offshore banks.

A whole number of other sectors, important for the economy, also exist: a textiles industry, traditional crafts, tourism, food production, and energy. It is sunny 300 days of the year. Investors come to us from Europe, America, China, and other countries. Our friends in Russia have also begun to realise the importance of investing in Morocco. And we will strive to help them in this as much as is in our power. Speaking in this wonderful historic city, in the city of St. Petersburg, I would like to say with absolute certainty, that your capital, and your investment will be welcomed in Morocco with open arms. You will be received with the friendliest of relations, respect and cordiality, you will be supplied with all the necessary opportunities, and conditions created for the stimulation of production. I must be a realist, and I would like to offer a practical suggestion. I suggest the creation of a joint Russian-Moroccan, or Russian-Arab bank in Casablanca. I have over 40 years' experience in the banking industry, and I am prepared to personally participate in financing the work of this bank. I think we must overcome the language and material obstacles which are preventing us from realizing this initiative. In presenting this practical suggestion, I hope for your understanding. I am sure, that the path leading Russia into our country will become better and better developed. I thank you, and wish you success.

A. Kapshuk:

I am grateful to you for the initiative to create a Russian-Arab or a Russian-Moroccan bank with its headquarters in Casablanca. And I have an immediate question for you, which is most practical. Where are the guarantees that this is a good idea; if, God willing, it is realized, brought to life, what guarantees that the same tragic fate as the Russian-Bahraini bank does not await it? This undertaking turned out to be contradictory, and was pretty much launched with the brakes on, for objective reasons. Is there potential for this project, which you so kindly suggested?

H. Sentissi:

I am sure that this project will be successful. Here there is the best possible guarantee: the presence of businessmen from Morocco, who have gathered today in this room.

A. Kapshuk:

Thank you very much. I think that this is a breakthrough initiative. I have high hopes that it will be realized. In any case, the spirit of our economic, financial, and investment collaboration implies precisely this. Now it is with great pleasure that I hand you over to Mr Badr Jafar, President of Crescent Petroleum, and General Director of Crescent Investments—a man who has undertaken real financial and investment projects together with Russia. We are very curious to hear your evaluation of their prospects.

And as you have become one of the first major financiers of the Arab world to begin working with Russia, please explain the principles which you have formulated for yourself, the principles which have allowed you, amidst an atmosphere of unsolved problems, to actively penetrate our market and cooperate with Russian partners.

B. Jafar:

Thank you, Artyom. There is a very well-known Arab proverb which says that 'actions speak louder than words'. And although it is words that I bring you today, I sincerely hope that those words will encourage actions. Really, actions that will cause us to tap into, in my opinion, the huge economic potential that exists for trade between Russia and the Middle East, and North Africa, of course.

And I am here today because I believe that unlocking that potential will really be of immense value and benefit for both of these great regions of the world. There are really vast unexplored territories and substantial prospects. And as an Arab businessman already doing business in Russia, I take a keen interest in identifying and overcoming some of the challenges that exist today for this investment, and I would like to play a substantial role in improving trade relations between Russia and the Middle East. Very few countries, in my opinion, can match Russia for its scale of opportunity.

I believe that the estimates are that the Russian government will spend close to USD 500 billion on infrastructure alone in the next three years, and 60% to 70% of this amount needs to come from the private sector.

Yet despite the potential for economic activity, the existing economic activity between the two regions is very, very small. I just want to paint that picture, if I may, to put things into perspective. The current trade turnover as mentioned by Ali al-Dabbagh between the European Union and Russia is around USD 300 billion. But Russia's trade with the whole of the Middle East and North Africa is less than USD 10 billion per year, and that is less than 4% of the trade between Russia and Europe. In 2010, the mutual foreign direct investment between Russia and Europe was approximately USD 30 billion. But the same figures between Russia in the MENA region were less than USD 1 billion.

For me, in the United Arab Emirates, where I am from, Russia's share of our trade with other countries is less than 1%, compared to 16% for the EU. Now together, as two regions in the world, we hold over 60% of the world's reserves in

oil and gas. So historically, there might have been little interaction between businesses in both regions, maybe due to a feeling of not needing each other combined with maybe a form of ambivalence towards one another.

But I do believe strongly that maybe we have been working in parallel rather than in concert, at least for the time being. My group, the Crescent Group, is really extremely proud to be amongst those who are generating growth between our two regions of the world. One of our subsidiaries, Crescent Petroleum, has been playing its part in developing Russian-Arab relations. We have set up a successful partnership with Rosneft Oil Company for the exploration of oil and gas in the Middle East and North Africa, starting with gas fields in the United Arab Emirates.

The Crescent Group also views Russia as a key investment location for operations. Among other industries, we view the logistics sector as a particularly attractive one. And to this end, again, I am pleased to say that one of Crescent Group's other subsidiaries, Gulftainer, which happens to be the largest private-sector and fastest-growing port management company in the Middle East today, has established a joint venture with Prominvest, which is the financial and investment arm of Russian Technologies.

This joint venture is also setting up a USD-500-million fund to invest in opportunities in Russian ports and the logistics sector. Another example is the strategic cooperation agreement and joint venture which was signed between Crescent Investments and Inter RAO of Russia to focus on the Middle East and North Africa power market, which is growing at 8% per annum.

Now of course there are challenges to investing in Russia and these have been well documented. When seeking to invest in any developing country, investors really need to feel comfortable with the security and the transparency of a strong legal framework. They need to see evidence of a streamlined bureaucracy, and they need, of course, a liquid financial market to trade investments. And, of course, they need to be assured that well-developed corporate government

standards are in place. From my discussions with leading Russian decision-makers, I believe that the political will is definitely there to further develop these standards, as we heard today from Mr Medvedev. Now we need standards that will create a more comfortable environment for investors, of course, to enter confidently and securely.

Now, the importance of good partners is, of course, paramount. That said who would be the right party? There are, of course, large Russian industrial corporations—some of which I have mentioned—which need no additional advertising. But there are also a lot of smaller players and medium-sized players. We have come across hundreds of small and medium-sized honest businesses, which are the backbone of any economy, and which perhaps do not have access to the international investor base. And external investors may also not possess reasonable knowledge of them here.

So what I would like to do is also respectfully call on the Russian government to create some sort of body that connects the smaller businesses to prospective investors from our region, from the region of the Middle East and North Africa. It is also crucial to familiarize oneself with the Russian investment climate, and to this end, I am extremely heartened by the Russian Direct Investment Fund, which has been set up by the government to streamline the process for attracting direct investment to Russia.

In conclusion, as active participants, I really do passionately believe in the future of the dialogue between Russia and the Middle East. As Henry Ford once said, "Coming together is a beginning, keeping together is a process, and working together is success". And we are really coming together at this important conference at an important time with a huge opportunity in front of us. It is an opportunity to become pioneers, really, to bring our two mega-regions together in a way that has not been done before, an opportunity to build on our countries' impressive foundations in global energy, and an opportunity to initiate dialogue

that will forge deep and lasting commitments to work together. And these economic benefits will be massive for both of us. Thank you.

A. Kapshuk:

I would like to add, for those who do not know, that Crescent Petroleum is the largest of the leading private oil and gas companies in the Middle East, with its headquarters in the Emirate Sharjah, in the UAE. Thank you very much for your speech. It could, as you can imagine, inspire your other Arab partners, your colleagues. Your example fully deserves this.

Now, if Vladimir Evtushenkov, who has just joined us, will allow it, I would like to hand you over—not for long, of course—to Mr Mustafa Abdel-Wadood, in order to understand how major Arab capital is getting the measure of Russia, of the Russian market; and whether he is worried about those structural problems, which, naturally, interfere—even though there have been attempts to solve them. Mustafa Abdel-Wadood, Managing Director, Member of the Board of Directors, and Chief Executive Officer of Abraaj Capital. Abraaj Capital is the largest direct investment company by capitalization in the Middle East. It manages several regional investment funds, with total capital reaching over USD 6 billion. Mr Abdel-Wadood, please go ahead.

M. Abdel-Wadood:

Thank you very much. Because of the time constraints we have, I will get straight to the point. I think the panel has come to the conclusion that perhaps both capital flows and trade flows are nowhere near at the potential they should be, and I think that at the end of the day there is a context for that. And the reality is that it is only recently that both regions have started to have the private sector lead actively in both areas, whether it is Russia or the Arab world. And if we look at private capital participation in either of those markets, it is ultimately going to be led by the opportunity. I think, historically, the domestic opportunities are the

ones that are easier understood, and there are a lot of corporations trying to expand and look at ways to figuring out contiguous markets that are also attractive. They start seeing that the capital flow increases.

I think earlier today in the plenary session, it was mentioned how the private sector in Russia has gone from literally zero percent to playing the role of about 60% of the economy today. The Arab world historically has also had government dominance in its economy, and increasingly, the private sector has started to play a more prominent role. We are starting to see that manifest itself in many ways. When somebody like Badr Jafar from Crescent Petroleum looks for expansion opportunities, I think he identifies the opportunity in Russia and how to capitalize on it. I think you also see in Russia that companies like Vimpelcom, which is expanding over its borders, acquires an Egyptian telecom operator that keeps its foothold in the Arab world. I think the private sector generally tends to invest capital in a very efficient way, and, as a result, will always be driven primarily by opportunity.

Now, let me take a step back and maybe paint a little picture around what the actual opportunity is. If we look at Russia, it is a USD-2-trillion-plus economy in terms of GDP, and has a population of 150 million. If we look at the Arab world, it is actually almost identical in terms of the size of the economy. Another USD 2.2 trillion there, and it has a population of around 352 to 400 million people. So independently, these are very sizable parts of emerging markets. Add them together, and there is an even more obvious opportunity we are talking about: combined economies amounting to USD 4 trillion plus. We are talking about a population of well over half a billion. So as markets, these are very sizable ones. I think we are increasingly recognizing that emerging markets are leading the growth in this world. Two thirds of the global economy is now coming out of emerging markets.

However, our two regions unfortunately have not seen their fair share of investment flows. I think the goal for both of us is to actually promote the

investment opportunity in both these regions. I think working collectively and collaboratively can be a very positive step in that direction. I think, for both regions, the diversification away from natural resources is critical. Natural resources are something we are blessed with. They give us liquidity, but at the same time, they create volatility for these economies. So, we are increasingly looking at the non-natural-resource-based opportunities, something that is interesting.

I think of the statistic on how the middle class is growing in Russia: the spending power and the consumer market that provides for it is a very important opportunity for private capital: to somebody like us, who operates in the private equity space, that is always a very attractive prospect, as it is for us in our core markets of the Middle East, where you are seeing the demographics of young, upcoming populations with an increasing amount of wealth and purchasing power, which creates an opportunity. So ultimately, I am not making an excuse for the lack of sufficient cooperation, but I think we need to recognize the stage of evolution each of these markets has been through. I think we also need to recognize the issue we indicated earlier on. We had to be inward-looking the past three years in light of the global financial crisis, but going back to your closing remarks, Badr, I think we should align on that pattern and look at how we can increase those trade flows.

A. Kapshuk:

Thank you very much, Mustafa Abdel-Wadood.

Vladimir Evtushenkov, Chairman of the Board of Directors at Sistema and Chairman of the Russian-Arab Business Council. We unfortunately have very little time left. In your opinion, are there any significant details or problems or, on the contrary, are there any positive improvements which you have noticed over the 9 years you have presided over the Russian-Arab Business Council? Is there hope for correcting the imbalances in trade, or in investment? Go ahead please.

V. Evtushenkov:

I will keep this very short, for the simple reason that we really spent a lot of time in previous years building trust and mutual understanding between our country and the countries of the Arab world. We have spent a long time on this, and today we know every player in every country. We have developed human, trusting relations with them, and with some we have developed business relations. And I do not yet know of anyone who would come to Russia and lose money. This is very important, because the picture we have today did not exist either three years ago, or five years ago, still less eight years ago. Today the time has come to undertake relatively large-scale investment.

I have recommended, and recommend to all my Russian colleagues to invest in the countries of the Arab world, which we are also trying to do, and not without success. It is especially important to collaborate in the energy sector: as I understand it, all of us here have some connection with this. I would set the question more broadly: not only in the energy sector, but in the field of security, of high-technologies, there is much to be done. I understand that we are not making any contracts here, we are not launching any projects. But, most importantly, we have found each other, and it is imperative that we continue working after the Forum has ended, more intensively than before. Thank you very much.

A. Kapshuk:

Thank you Vladimir Evtushenko. We have literally one minute left. I would all the same like to hear the viewpoint of Mr Tarek Fawaz. He is Managing Partner at Rayan Capital Advisers, and his presence also gives rise to great optimism. He has great potential for attracting Arab partners in the investment sphere, in the financial sector. Mr Fawaz, please go ahead.

T. Fawaz:

Thank you, Artyom. I will try to be very brief. Your Excellencies, ladies and gentlemen, trying to look at the Arab world as one entity, versus Russia, is quite complicated, due to varying economic, political, and geopolitical realities among the different Arab world countries. Also, there is a variation in the history of mutual relationships between different individual Arab countries and Russia.

At a time when a good part of the Arab world has been developing, especially since the 1990s, and the shift in political relationships that has affected economic relations between the two parties, Russia and the Arab world, which has been through dynamic and sometimes turbulent times—such as the early 1990s, the 1998 crisis, and the recent years in the Arab world since September 11 and beyond—if we try to look at the future instead of simply evaluating the past and present, we need to address the main hurdles to openness and collaboration among the two regions. In that sense, there are lists of factors which I would like to go through, some of which have been addressed by the different panellists.

One of the main issues is the investment climate and management of different risks affecting investments. In that, the issue of the rule of law in Russia is often applicable to the Arab world as an experience: the tax system and transparency reputation in terms of the risk and how risks are addressed in those markets.

Besides that, economic diversification, I think, was addressed: the issue of the resource curse that our two regions tend to suffer from in addition to the government policy in dealing with this type of crisis.

The second major point is the assertiveness and the process of converting Russia into a real financial centre where collaboration with the main institutions, banks, and investment community from the Arab world can help in achieving that goal and those targets. Mutual investments and collaboration in banks, industry, and infrastructure, in addition to the agricultural sector and fertilizers, can be a high priority, as well as real estate, and sometimes oil and gas.

I would also say that there is the fact that both regions enjoy significant hydrocarbon reserves, with the difference being that most of the hydrocarbon assets in the Arab world are government-controlled, as opposed to in Russia, which is more often in the hands of the private sector.

Therefore, there is a need to shift from focusing on natural resources, to having a pure focus on financial investments in industrial collaboration and an exchange of know-how between the two regions. I am sure the minute is already over. I am going to try to say one last thing. Trying to tackle those issues in a one-hour session is quite difficult.

This is a long process. The relationships between Russia and the Arab world, I would hope, are going through an evolutionary process with the participation of the government and the help of the government, but with the leadership of the private sector, which tends to take its decisions based on efficiency and effectiveness rather than on general aspects of politics and relationships. Thank you.

A. Kapshuk:

Thank you very much. I would like to present Mr Mikhail Shamolin, President of Sistema. If you have something to add, to increase our optimism, or perhaps our pessimism, please go ahead.

M. Shamolin:

I think that one of the tendencies in today's world is that whereas so-called 'Western countries' had invested earlier in developing countries, invested their technologies and earned money accordingly, then in the last couple of years we can observe more and more a process in which these developing countries, the so-called BRIC countries, and countries of the Arab world are investing in each other. They already possess technologies and major companies which are

becoming global. And they are becoming global through coming to developing markets, because that is where prospects for growth are most obvious.

We, for example, are developing a relatively large telecommunications business in India. We have an oil company which we set up in Russia two years ago, we are developing it, and are interested in its development on an international level. On this level we work very closely with a number of companies in the Arab world, look at joint projects, oil fields, potential mergers and take-overs. High-technologies are also extremely important. We are very actively developing a project in satellite navigation in Russia, GLONASS, and it seems to us that this could be used in most developing countries. It is an alternative to GPS and offers the same set of services, and in combination with GPS it is very accurate. We are working on the creation of individual transport systems, on a number of transport applications, and so on. And this technology, it seems to us, can be introduced into the Arab world, and is potentially interesting to them. We really see a number of routes for collaboration, and are actively moving along them.

A. Kapshuk:

Thank you very much. In the remaining few minutes—we have already exceeded the allotted time—I would like to apologise to our guests at this session, since we, obviously, do not have time to take questions. But, as we agreed at the beginning, I would like to hand over the floor once more to each of our speakers. Theoretically speaking, giving one or two points, what, in your opinion, needs to be done? What, from your point of view, are the problems, and, on the contrary, reasons for optimism? This is necessary so that we can draw some conclusions and present them to Russian managers, to the Arab and Russian entrepreneurial communities. Vladimir Evtushenko, if you would be so kind.

V. Evtushenko:

We need to work, I think, and nothing more.

A. Kapshuk:

Ali al-Dabbagh, please go ahead.

A. al-Dabbagh:

I think that we must create a Russian-Arab Business Council. It would be a good means of activating collaboration.

P. Fradkov:

The main thing, I think, is the exchange of information, and the opportunity to get to know each other. From a strategic perspective, it is collaboration in the field of natural resources.

H. Sentissi:

We need to begin work, that is all.

M. Shamolin:

Everything we are doing now, this communication; it is precisely with communication that ideas and business collaboration begins. The more ideas and business contacts we have, the more practical projects will appear.

T. Fawaz:

I think the process of collaboration and business between the Arab world and Russia has already started. We just need to push that process and make it more efficient with the participation of the governments. Besides that, there is a once-in-a-lifetime opportunity, due to some of the shifts in geopolitics, where Russia and the Arab world can multiply and magnify their business relationships.

M. Abdel-Wadood:

I think we need to promote what is already happening—like today, at the plenary session, the issue around commitment to governance, the issue around commitment to anti-corruption, issues of that sort—I do not think there is sufficiently widespread recognition in the world of what is happening on both fronts.

So I think all of that needs to be promoted, to remove some of the perceptions and some of the reality issues on both sides. And I think, ultimately, part of that promotional activity is also highlighting the success stories. A few success stories, if highlighted, will lead others to follow in both directions.

A. Kapshuk:

Badr Jafar.

B. Jafar:

You know, I am a true believer in the phrase, 'you need to go to know'. So really visit each other, talk to each other, absorb each other's cultures, and the opportunities will flow. In the UAE, we are particularly blessed, because we have such an active ambassador, Ambassador Omar Ghobash, who has really been helpful at bolstering some of these relationships, but all you need is to visit, to meet, and to speak, and the opportunities will pop up.

A. Kapshuk:

Jafar Hassan.

D. Hassan:

I think that we must create a joint investment fund, which would facilitate multilateral, or bilateral investment. This is very important, we have already spoken about it, and I think that it would be a good start for the cooperation of the private sectors on both sides.

A. Kapshuk:

Dear friends, our session has come to an end. I would like to thank our guest speakers, and our audience. All the best, thank you.