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**РАСТУЩАЯ РОЛЬ ГЕОПОЛИТИКИ ПРИ ОПРЕДЕЛЕНИИ
КОРПОРАТИВНЫХ СТРАТЕГИЙ**

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P. Lavelle:

Good morning. Welcome to our panel on The Growing Role of Geopolitics in Corporate Strategy. I am trying to understand “growing role”, because I think it has always been there, but we will find out from our panellists here. I think the best way to start off is for our panellists to introduce themselves quickly with their affiliation. I will go to the first row and introduce them, and then we will get our discussion started. So, at the very end there, go ahead, introduce yourself.

P. Smith:

Thank you. My name is Paul Smith. I am the President and CEO of the CFA Institute, which is a professional membership organization for people in the investment management industry. My direction today is how geopolitics affects investment in general. We have about 140,000 members worldwide, including 500 here in Russia, who we believe are the most highly credentialed professionals in the investment space. Our mission is to try to connect finance with its true purpose in life, which is not to line our own pockets, but to provide a benefit to society, to create a financial system that actually works towards helping countries fulfil their economic potential.

P. Lavelle:

Mr. Thomas.

J-P. Thomas:

I am Jean-Pierre Thomas. I am President of my own company, Thomas Vendome Investment and Advisory. For 15 years I was a partner of Lazar Bank and before that a politician, a Member of Parliament. A few years ago, I was the Special Representative of the French President, Nicolas Sarkozy, for economic cooperation between Russia and Europe. I made a report about the building of a European–Russian Economic Zone, and I think I am a good friend of Russia.

A. Volynets:

My name is Artem Volynets. I am the Chairman of SAPINDA Eurasia, which is a Luxembourg-based investment vehicle that I am in the middle of fundraising for. I hope to get to 500 million by the end of this year, with a view of investing this money in Russia and the CIS, where geopolitics combined with the commodity cycle present us with a great number of opportunities.

B. Wegg-Prosser:

Good morning, I am Ben Wegg-Prosser. I am the founder and Managing Partner of a business called Global Counsel. We are a political and regulatory risk consultancy based in London, with offices in Brussels and Singapore. Previously, I worked in public office in a number of different government departments in the United Kingdom, along with working alongside Prime Minister Tony Blair for his last two years in government. I have also spent time living and working in Russia. As a business, we had spent some time supporting Russian companies to understand geopolitical events outside of Russia. In the last few years, that has obviously reversed, and we spend more time helping international businesses understand geopolitical risks associated with Russia.

P. Lavelle:

I forgot to introduce myself. I am Peter Lavelle from RT. I am the host of the programme *CrossTalk*. Sorry about that. And we have the front row here. Xavier, why don't you introduce yourself and then Mr. Mercouris.

Xavier:

My name is Xavier, I am a businessman, and my clients are French investors, so I know about geopolitical catastrophes today, and I would be happy if we could talk about that.

P. Lavelle:

Mr. Mercouris.

A. Mercouris:

I am Alexander Mercouris. I am the Chief Editor of the *Duran*. I write about international affairs and, indeed, a lot about geopolitical questions and economics, mainly focused on Russia.

P. Lavelle:

Mr. Smith, if I can start off with you. There is this perception in the media, or even in the public at large, that so many policies are driven by the 1%, big corporations, big money. Maybe that is the case in some situations, but when it comes to Russia, it seems to be counter-intuitive. Now, because of the very strained relations businesses on both sides have been hit, and I would say the Europeans far more so than the Russians. We can discuss why they are strained, but it is obvious to me. The perception is in the Western media that Russia is being crippled by sanctions: well, the only real sanctions that really hurt are hurting rich people, and not the average person here, so it has had a negative effect here. Speak to that, because usually people have the perception that business drives politics, but now it is politics forcing corporations to change their strategies. Go ahead.

P. Smith:

Yes, I think that is right. Wherever you look, where there is geopolitical tension in the world, it tends to be more of a political issue than a business issue. In my own firm, we were talking about that the other day within a very parochial context of Brexit. We were discussing that and wondering whether as an institute we should come out and make a comment about whether Britain should be in or out of Europe. The way that we rationalized that to ourselves is that actually that is a political issue with economic overtones, rather than an economic issue with political overtones.

P. Lavelle:

But presumably there is a reason why you think you should come out and talk about it. Does it affect your bottom line?

P. Smith:

We decided not to. What we did was to poll our members with a very anodyne question: what do you think this will do for financial markets? We published that as a survey, rather than publishing an opinion piece that said whether we think it is politically disastrous or good. You could argue that a similar sort of thinking goes on behind the American political process at the moment. It is going to have very significant negative impacts on our industry if the Americans make that decision incorrectly, but it is not our purpose in life to opine on it.

So I agree with you. I think the challenges of most of these geopolitical things are political, as the name sounds, rather than business-inspired. When you look at the way that conflicts in the world resolve themselves, normally conflicts resolve themselves through economics changing and benefitting the countries or the populations that are involved.

P. Lavelle:

There are carrots and sticks. But what if the stick does not work? Mr. Thomas, what if the stick does not work? You empty the toolbox too quickly, and then you get a standoff.

J-P. Thomas:

Yes, my opinion is that before having an interesting intellectual construction, we have to think about the rules of the game. The rules of the game are completely twisted, and we have the economic community and the political community defining a new deal and the new rules of the game. In the global world, we cannot mix everything.

In my point of view, to be conceptual for a second, we are in the time of the contract. The contract is a long-term, secure, steady world. You cannot stop Mistral because of politics. It was the signature of the country and the signature of companies. If you touch this, you break everything, because we are in a global world. Nothing is trustworthy. We can talk all we want, but that is the construction of the world and the rules of the game.

Second, we have the perennity and the long term. The contract is long-term. We have a contract on one side and diplomacy on the other. It is a negotiation. It is short-term and is completely different logic. I used to belong to both of them, so I can tell you. It is a completely different spirit with a different culture, different targets, and different ingredients in this cooking of diplomacy. It is a time of agendas, negotiations, meetings, Minsk I, Minsk II, etc. It is another logic.

If we lack diplomacy, we have war. If we break the economy, we have recession around the world. It is very interesting that all these high intellectuals tell you that we have to apply economic sanctions through human rights and democracy. But with economic sanctions, who are the main people who are exposed? It is not the CEO or guys like us. We can take a plane ticket or a private plane and leave comfortably, to have a candid conversation. But the population and the workers are the first people exposed to these silly sanctions.

If we look at history once again, when Napoleon decided in 1806 to impose the embargo on Great Britain, the reason was that Britain was progressing very quickly because it was expanding its commerce with China and Russia. It was a wooden weapon of the weak, a useless weapon. Look at the United States embargo and sanctions on Cuba. What was the result? Nothing. The solution was political; only diplomacy, the recent decision of the United States, and internal changes in Cuba changed things.

It is amazing to see that all over history, the results of these economic sanctions are zero. We have a system which is not fair. First, if we accept the idea of sanctions, they should be made inside the United Nations, as a

security concern under Article 41. That is never done. It is one country, the United States or Europe, who decides. But when our friends from the United States invaded Iraq without advice and without the authorization of the United Nations, did we have sanctions? Never. We have multiple examples. What is this game with no rules? It is not fair. And if we continue like this, we will break all the economic systems.

We spoke about all these topics with former President Sarkozy yesterday. France was the initiator of the G20, so we are inside the framework of the G20, but instead of speaking of conflict more than economy and regulation, we should have a new deal to define the rules.

P. Lavelle:

We will come back to that. Mr. Thomas is right: what is the impact of sanctions? I would say it is not negative; it is actually positive. Again, it is counter-intuitive. Because smart people I know in Russia want the sanctions for at least 18 more months. Because then the Europeans are just screwed. The Americans never take any pain at all for the sanctions that they force on their allies vis-à-vis Russia. The US loses nothing, and the Europeans will lose everything when it comes to markets here.

So import substitution is moving apace, maybe not the highest quality goods, but over two years, it is making progress and looking for different sources of finance around the world. Yes, the banking sector got hit. Yes, borrowing money, the cost of capital, is higher. But there are a lot of resources in Russia itself. You do not have to get cheap credit from the West.

What I am saying here is that not only does it have no effect; it actually has a positive effect, and certainly an effect that the people that are sanctioning Russia did not expect. They did not think it through, as usual. Mr. Volynets.

A. Volynets:

Yes, I agree with you: I think 18 months would actually help; otherwise, I will not be able to put all the money that I am raising to work in the time required.

The effect of the sanctions so far is pretty positive in terms of the opportunities being created. You can buy a gold company in Russia for four times versus eight times in Canada or twelve times in Hong Kong.

I am not a politician, so optimism is my occupation. As one great investor once said, to be an investor, one has to be an optimist. So I do believe that this is a time of opportunity. Crises come and go, but this particular one is magnified not only by the decline in commodities, to which Russia is massively exposed, but by this artificial sanctions regime, which makes competition for capital even higher.

P. Lavelle:

If the aim was to inflict pain, then that has not happened. If we look at sanctions and other economic tools to change the behaviour of a country, condescendingly, what do you do next? As I mentioned, you have emptied out the toolbox. And then you do not have much room to negotiate any more. How do you re-assess this? When do you say it has not worked, and then you have to try a different strategy?

B. Wegg-Prosser:

I am not sure that sanctions are not effective. I think there are many good examples across the world in history where behaviour has been changed as a function of the introduction of sanctions, most obviously perhaps in South Africa in the 1980s, and clearly in Iran over the course of the last few years. I think that what this discussion reflects is really a combination of different political spheres being at different phases of their own development.

We heard a very clear statement yesterday from Mr. Juncker about the European Union's position on sanctions. He is reflecting the European ideal, established after the Second World War, that territorial integrity was fundamental to a European approach. Whether you agree with what the Europeans have done subsequently is a matter for them.

I hear what people say about the Americans, and I think that the Americans are clearly less exposed to the Russian economy. The Europeans are much more so, and you can see that now in the debate in Brussels about whether and how sanctions should be lifted. Clearly some people in France, Italy, and others particularly in Southern Europe are making the case for them to be lifted sooner rather than later. But I think the consensus in Brussels is absolutely clear: sanctions will be rolled over again this summer, and I think that is probably good news for Mr. Volynets's fund, certainly.

I think we are talking about different phases of development, and I think that you have seen with the counter-sanctions that people clearly believe that they are tools that are worth deploying. There was some interesting research done by the Valdai Club a couple of months ago that looked at the proliferation of sanctions and how, as we move out of an era where hot wars are more likely, you are now seeing sanctions being a tool of diplomacy and public policy much more than you saw in a previous era.

P. Lavelle:

This is very interesting. I am a child of the Cold War; I remember it very, very well. And one of the strategies of détente was the Republicans that supported Pepsi and the Democrats that supported Coca-Cola. They would go to Communist Eastern Europe and the Soviet Union, and depending on if they were a Republican or a Democrat, they pushed certain companies because they had fundraising. This was a strategy to build bridges here.

But what we see now, at least in terms of Russia, is that business is the first victim of these tensions, and at least coming out of Washington, they hardly ever think of the consequences of that. I know that Under-Secretary of State Victoria Nuland wanted Russia to be thrown out of the SWIFT banking system. They explained to her that if you do that, you will wreck the global economy. You are not going to damage one country; you are really going to damage the economy.

They do not think that way, and this is really damaging, because I do believe that businesses can build bridges. There is obviously the goal of enriching yourself, and normally speaking, there is nothing wrong with that. And that is a tool that is taken out of the box. Who would have thought that sanctions go under public policy and diplomacy? No one thought that even a decade ago.

Xavier:

Actually, you have the French government playing against our national interest. Look at how many French businesspeople, how many bosses of bigger French companies, want to go back or to stay in the Russian market. In my opinion, we are ruled by people who simply do not know what it is to negotiate a contract. I was very surprised when listening to one of the candidates for the French election, Bruno Le Maire. He thought that we could go back into the Russian market, concerning weapons, concerning chicken, just as it used to be. But that would be impossible. We will not be back in the Russian market as it was before.

One example: two years ago, Russia used to import chicken. Now they have just signed an export contract with China. So we have already lost this market. The problem in France, in my opinion, is that we are ruled by people who do not know what business is or how difficult it is to negotiate to enter a market.

P. Smith:

Can I chip something in against that, just to be a little bit controversial to get the debate going? I live in Hong Kong, in the Far East, and I travel around that region very extensively. I was in Vietnam a couple of weeks ago, just after Obama was there. It always astonishes me that after having fought a brutal war for 20 years, the Vietnamese want to be American. Obama is a god in Vietnam. That is not an exaggeration: he draws more crowds than the President of Vietnam draws. I find that interesting, because people's memories are actually shorter than you think. That is my comment to that. You

would think that American goods and services in Vietnam would be a challenge for them, but it is not in the least.

P. Lavelle:

Yes, Mr. Smith, this affects me personally. My brother married a Chinese woman from Vietnam; she was called a “boat person”. After that war, so many people went to Southern California and other places. It seems to me that the cross-fertilization of going to America from Indo-China is kind of like Poles thinking of Chicago. Every Pole has an aunty in Chicago, and that has happened with Vietnam, because there are so many people in Vietnam now that are interconnected with the United States. I agree, I remember how the war ended in Vietnam.

P. Smith:

It is true for Russia, as well. I have a home in Central London that is more Russian than English, so I wouldn't necessarily say that Russians do not have that as well. I was in Marseille for the England–Russia game, and there are so many Russians living in the South of France. Russia's connectivity with the rest of the world is quite high, and certainly as high, if not higher, than Vietnam's.

P. Lavelle:

Going back to what Mr. Thomas said, I think it is very interesting. I would like to ask Mr. Mercouris here: you have to have legal contracts in business, and that builds confidence, because with a contract that is enforceable, you can see and act into the future. Again, the political environment we live in now creates only uncertainty, and it is paralyzing people that actually can do some good. Politicians come and go, and they can change their minds. How the West is going to change its mind about Russia is a mystery to me. Mr. Mercouris, you know me quite well, and we are thinking about this quite a lot. Go ahead.

A. Mercouris:

The important point about sanctions, which I think was brought up by Mr. Thomas, is that they have affected individual people. Businesses have been hurt, in a very severe way in some cases. One has to ask: what exactly was the purpose of the sanctions? Was it to hurt those people? And what was the higher intention of hurting those people? Was it going to somehow change government policy?

It seems to me that it makes businesses into political pawns in a larger chess game, and that strikes me as so philosophically strange. If one looks back at the liberal ideas of the past, free trade was something that people believed would bring countries together and would create consistency and predictability. Businesspeople look for predictability and consistency in their contracts, and they want to see a stable environment. Why should they be held hostage to the conflicts between great powers, which will always happen? There will always be political conflicts between powers. Why should that be used as a reason to interfere in what businesspeople do, which is to do business?

B. Wegg-Prosser:

Can I just chip in there? I understand the point you are making. I think we now see the ripples of the 2008 financial crisis all across the world, and one of the interesting aspects of that is that the bailouts in Europe and in the US fundamentally changed the way that government and business interact. I think in 2008, whether it was bailing out car manufacturers in the US or taking over banks in Europe, the relationship between business and government changed perhaps even in an unspoken way. There became a much clearer understanding, particularly in the eyes of the politicians, that it was now much more legitimate to use businesses as a tool of public policy, compared to the past.

As a function of globalization and the way in which the world has become more interconnected, businesses and governments have also become much

closer, moving away from a kind of mercantile era of the 19th and early 20th centuries to a more integrated trading system. Governments now seek to use their own political might and policy levers to have an impact way beyond traditional diplomacy, and that is what we are seeing now. This is also a function of governments being more comfortable using economic levers rather than firing missiles, and this is obviously a good thing.

P. Lavelle:

But if you are a shareholder or you are running your own business, it is cold comfort. I agree, you want to save us from conflict, but at the same time, politics is here and now.

B. Wegg-Prosser:

I am just explaining. I am not seeking to justify it.

P. Lavelle:

So you do not think it is necessarily wise, what has happened?

B. Wegg-Prosser:

That is a longer conversation.

P. Smith:

But haven't business and politics always been intertwined? I find it curious that we should think that the two do not go hand in hand. Our history books talk about the Dutch East India Company.

P. Lavelle:

Exactly, and that is how I started this.

P. Smith:

Businesses always followed the gun, and as the gentleman on the end there said, thank God we are no longer fighting our wars with weapons. But business has always been led by politics or vice versa. The two are intertwined, and we have forgotten that, post-1989, because we lived in a multipolar world, where America was able to dominate. And now that is no longer the case. We are in a transitional phase, and what is occurring is a re-establishment of business and political links that have become somewhat dislocated over the last 20 or 25 years. I think it is the last 25 years that are the aberration, not what is happening now. What is happening now is historically of a piece.

P. Lavelle:

Mr. Thomas.

J-P. Thomas:

This is very interesting and very funny at the same time. I agree with you, but things change. We are in a global world, and in fact, you can see these days that effectively sanctions do not work. Last week in a shop in Moscow, I took beautiful pictures of typical French cheese. At the same time, I bought some excellent cheese from South America. So we lost the market share. Nothing works, because the global world, the power of the markets and the big multinational companies, grows in the unprofessional legal and political mess that we have created in these markets.

And the reason is counter-performance. The effect of the sanctions is the story of the guy who went to water the other way but he watered himself. The target was obviously to destabilize Russian power. We have to speak frankly. But it did not work. President Putin is more popular in this patriotic country, with a bigger capacity for resilience than before. The United States and Europe have completely missed the target.

On the other hand, we are in a mess, because our agricultural sector is dying. France has lost 0.5 points of GDP growth, which means a lot of unemployed

people. Second, there was a very interesting article in the newspaper in Russia yesterday which said that during the same period, our good friends from the United States increased their business in Russia at the same time that we decreased our business in Europe. The United States' commerce with Russia is 4:1; the ratio between Russia and Europe is 1:10. Who loses, who wins? It is a bad joke. If we continue like this, where will it go? It makes no sense at all.

It is very funny, because we used this weapon, and now we are seeing that we have only a negative effect. And not just an economic effect, which is interesting for Russia. In fact, everybody says that Russia has a big problem with its economy, because it has not transformed enough, and their only income is from raw materials, oil, and gas. We studied this in school, but it is not true now because it is changing. Through the sanctions, the economy of Russia is changing more quickly, because you are obliged to create an agricultural sector, an agro-alimentary sector, and transformation capacity. That is a positive effect, instead of importing.

Another positive effect, which means that all these sanctions are completely useless, is that action has changed for the boards of big companies in terms of anticipating and trying to understand what these politicians will do in business. I tried for many years. To be frank, I know what we are thinking completely in the short term. You cannot imagine how short term we can be at the top of the state, in Europe or anywhere: next election, one year, six months, one and a half years. I was a politician. I did my best to think in the long term, but I had one eye on my personal public opinion polls to be re-elected.

We think in the short term. We do not like each other. Contracts and business cannot be short-term. If we think in the short term, everything will collapse and you will have misery on the planet. We have to be very serious about what we are doing, because the system is more fragile and weak than we think. We see it, but we continue to do these silly things.

It is amazing, because now the effect of this is that the terms of actions have changed for the boards of companies. Before, the idea was that as a European or an American company, we will come to Russia to sell and market our product. This is finished. Now, we have to transfer the technology, because this country knows that we can stop everything at any time. They want to transfer technology inside their country, to use the labour of this country and afterwards go into the market to cover the market of this country. That is the new system of doing business here and in the old country. It has changed the rules of the game. That is positive, too. The global economy has the means to completely overcome and to go through these sanctions. It is really a wooden weapon, completely out of date, with no rules, and it is completely unfair.

P. Lavelle:

I have lived in Russia for 18 years, and over the last 16 years, from the advent of President Putin's presidency, through Medvedev and now with Putin again, I have heard that they must diversify away from the petro economy. Well, with the crisis in 2008 and the drop in oil prices, finally it was not just something they wanted to do, it was something they had to do. Regarding the energy relationship, from Moscow's perspective, Washington has overtly declared an energy war against Russia. Again, that connection is cut.

Xavier:

I would like to add something. There are not sanctions because there is a war; there is a war in Ukraine to implement sanctions against Russia. If the European Union cancelled the sanctions tomorrow, the war would stop, because there would be no interest. There is a war to implement sanctions to build a new iron wall in Europe between Russia and the rest of Europe; that is the point.

Just to highlight that there is a very positive effect of sanctions: today, there are some Russian companies with a monopoly, for instance in agriculture.

Thanks to sanctions, they know it will not be an everlasting monopoly. So they have to be efficient and invest cleverly. As a French person, I am against sanctions, but as a Russian, because I have joint citizenship, I am for sanctions.

A. Volynets:

I could not agree more. Just two comments. First, I align with Mr. Thomas on the short-term thinking in Europe and a much more stable political system in this part of the world, as well as China and some other Eastern countries. This allows us to think a bit longer-term. Nothing is going to change here in the next election or the election after that, which means we can plan for longer-term business prospects.

Two, regarding the growing role of geopolitics and geopolitical risks, I was taught in business school in America many years ago that risk and return are two sides of the same coin. As they say in Russia, if it is not European or North American institutional capital, there is plenty of other capital in other parts of the world. My investors are from the Middle East and Hong Kong, who do not care about the sanctions. They see the opportunities and potential for abnormal returns. Capital will flow and investments will be made, perhaps not in such big amounts, but that will lead to rewards in the meantime.

It feels like the sanctions issue is not a Russian problem; it is primarily a European problem. Russia will grow; it is pretty stable. The rouble depreciation led to some industries including agriculture, mining, and metals being very competitive on a global scale, which means that we will attract investment, not from Europe, unfortunately for our European friends, but from the Middle East, Asia, and Hong Kong.

P. Lavelle:

Mr. Wegg-Prosser, let me ask you, in light of what we just heard: a great part of the world really does not care about sanctions whatsoever, because they are not part of that, and Russia can get financing and trade elsewhere. But

before all this happened, there was a considerable European presence in the Russian economy that was happy to be here, working through difficult issues like corporate governance, the legal situation, and corruption in Russia. There was a lot of movement made there. What do they do now?

I think your analysis about the balance may be out of whack with politics driving these things. What do European and, to some degree, American companies do? Do they just give up on Russia and say “we cannot go there”? They are the ones that are the ultimate parties to sanction.

B. Wegg-Prosser:

Absolutely. In our own business, we did a big piece of work on this at the end of last year, where we wanted to try and go beyond the media and political discourse and try to understand in much more detail what companies were actually doing, given the changing geopolitical situation in Russia. We took as our sample the largest foreign investors in Russia, about 50 companies. We wanted to understand in their own words exactly how their businesses in Russia were affected. We went through all of their SEC filings and all of their company reports for the last 12 months, and we mapped that against a series of criteria. We had a good cross-section of the Russian economy.

What came out from that work was a handful of things. The first was that, most obviously, sectors which are either flexible, like financial services, or heavily reliant on commodity prices, like oil and gas, were the businesses that were least positive about Russia. And both sectors are sanctioned to some extent. Many of them have pulled out. You saw that with the big banks in Moscow over the course of the last few years, as well as with the energy companies that scaled back their investments here or put them all on hold. That was in the kind of bottom quartile of markets moving against them and their own commitment weakening.

But what was interesting was that we also found that in a number of sectors, the market was broadly moving in their favour, and their own commitment was increasing. The best example of that is in pharma, where there are a series of

interesting characteristics. International brands are more trusted than local brands when it comes to pharma and healthcare products. And the pharma businesses were encouraged to localize long before the sanctions, which meant that they were embedded in the system much more, whether in plants opened by AstraZeneca in Kaluga, or by plants by GSK and others in other parts of Russia, and also in FMCGs, where there remains a demand and, again, international brands are more popular than local brands.

What we concluded from this was that other than financial services and energy, companies were certainly not pulling out, and some were actually increasing their commitment. What is interesting about this is that in the areas where they are most positive, they are responding to Russian consumers, and they still see that there is a demand here.

It is obviously a mixed picture, but the idea that international businesses are withdrawing from Russia simply is not the case. They are still investing, to some extent. But I was talking to a chief executive of a global American-based business only yesterday, and I said, "How is the Forum going?" He said, "I am not at the Forum". I said, "Really?" He said, "Yes, it was clear from the State Department that we should not be attending the Forum, but we are still here, and we are still meeting people". This was at a party last night. That is an interesting reflection on how these sorts of events have now taken on much more status than they had in the past.

P. Lavelle:

That is very interesting.

Xavier:

The evening programme of the Forum clearly takes precedence over the day programme!

P. Lavelle:

I found what Mr. Wegg-Prosser had to say really interesting, because I do know that there is a temporary office in the White House, and they have someone assigned there, and they make international calls to American executives. They check the website, and they actually call and tell them not to go. They put pressure on them here. Some of them do not come.

But what is interesting to me is that it is almost like a little echo chamber: “Keep the sanctions, keep the sanctions”. And this has less and less of a rhetorical effect on people, because as we have found out on this panel here, everybody just goes around it. Again, what is the purpose? What is the endgame? I cannot imagine. Which politician, particularly if you think of the two that are the front-runners, is going to end sanctions with Russia? I do not see either.

Xavier:

Concerning France, I think and hope that the endgame will be in one year, after the election. I can give you another example. I was at a weapons exhibition in Paris at the beginning of this week, and the Russian Vice-Minister of Defence wanted to meet with some French companies. This was prohibited by our own Minister of Defence. So, we continue playing against our own interests. There is no other word for it. But I hope it will change next year.

J-P. Thomas:

For the time being, we have to understand that the United States are absent for a few months, because of their election. As for the politicians of the United States, we do not know. The population of the United States has to decide that. I do not like to interfere in these things. But if it is Mrs. Clinton, the sanctions will continue or will be reinforced. If it is Mr. Trump, they will stop immediately. He said very clearly that he wanted a re-set, especially with Russia, to invest money inside the United States healthcare system and infrastructure, and not to spend it with no result, like in Iraq.

So the positions are clear, and the population of the United States will democratically choose regarding their position. But Europe does not have to follow what the United States does. Europe has to have its own position. Regarding European countries, I have little more optimism than my colleague, because in Europe, you need unanimity to decide. Today, unanimity is very fragile, because one of the small countries of Europe, such as Italy, Bulgaria, or Greece, can block everything and you will have sanctions. That is the first idea.

The second idea is that you will have elections in Europe. In France, obviously the President will change, and the probability is that their behaviour on sanctions will change, too. This could also take place in Germany. The power is actually weak for many reasons. In Europe, we will see what happens with England, if we have Brexit or not. It is 50/50. We are just before a big shift. We just have to be attentive that things can change very quickly.

B. Wegg-Prosser:

Can I just briefly jump in there? First, I think that we have to be realistic and understand the attitudes of Europe to Russia, and if we look at the elections next year in France, Germany, and elsewhere, I hear all of what Mr. Thomas says. There are not many votes in Europe for doing President Putin a favour. If you are expecting the European political class and the European political debate to focus on whether sanctions should or should not be lifted, whether we should or should not be closer to Russia, I think at the moment European public opinion is pretty settled, and the answer would be that that is not something that they would favour. So we should understand and acknowledge that.

Secondly, I think we also have to understand that in Europe and the US, we are simply at a different phase of our economic, political and, most importantly, democratic development. People should understand and accept that. I completely understand the way that the system works in Russia, in the Gulf, in China, and in other places, but I do not think there is much merit in

criticizing each other for the fact that we are or are not doing the things that we should or should not be doing. We simply have to understand that our systems have evolved in a different time and at a different pace, and I think we should probably be trying to find ways of working within those systems rather than railing against them.

P. Lavelle:

Well, that is assuming that Russia should play by the rules set by the West, and that does not always work out for them.

B. Wegg-Prosser:

Hold on, I did not say that.

P. Lavelle:

I strongly disagree with you, okay? Russia is reacting to Western foreign policy behaviour. It is reacting to it. Ukraine is the best example. It was not Russia that overturned the government there.

B. Wegg-Prosser:

Sure, but it was not Europe that annexed Crimea.

P. Lavelle:

It was Europe that signed an agreement for a transition of power, and Europe abrogated its responsibility. That was a grossly irresponsible act. What they should have done was to sanction the coup regime, not Russia. Let us be clear about that.

B. Wegg-Prosser:

I understand the argument.

P. Smith:

I do not think Mr. Wegg-Prosser was arguing that Russia should play by Western rules. What he was arguing was that we should understand that we both play the same game by two different sets of rules, and we need to reconcile those things. I absolutely agree with him that the Europeans are not going to change their view, no matter who gets elected. God knows what Donald Trump's view is, because he changes his opinion. I know he says that he can negotiate with Putin, but no one knows quite what his final stance is going to be if he gets elected. I think the whole point of this forum is to discuss how you navigate through that, as a businessperson. Our governments around the world are not talking to each other in a way that enables solutions.

P. Lavelle:

Then how do you break that deadlock?

P. Smith:

I think it is extremely difficult. The one thing that I do not think works is the adversarial content that is in our press and, because of the short-term nature of politics, the way that people hold themselves out in this debate. That is where we have got to try to bridge the gap, by having a healthier conversation rather than this adversarial conversation. I assume that is happening behind the scenes, and people are trying to find a way out of this.

P. Lavelle:

Because of the recent crisis with Ukraine, I think there is a really strong misperception in the West. Ever since the end of the Cold War, Russia reached out for some kind of accommodation. I was trained as a historian, and the Cold War ended without a legal or even an understood political end. But the perception is that there was a winner and there was a loser. Now, one can have that, but Russia certainly does not see that it was the loser. And with the crisis in Ukraine, that reaching out has come to an end. That is what is really sad. Because of the crisis in Ukraine, public opinion in this country has now

rallied around the political authorities here, whether you like them or not. They have rallied around them, and I do not see that changing or going back to the status quo ante.

Xavier:

There is no European rule. The US rules. I would like to remind people here that our main bank, the BNP, got a USD 9 billion penalty because it used dollars to trade with Iran and Cuba. Everybody knows that if we do not follow the orders of Washington, it will be very expensive for us. If we deliver Mistral, one of our bankers might have to pay USD 20 billion. So there are no rules. On the other hand, there are US rules, and they can use everything to make extortions against our economy. I am talking about the BNP, but it also happened with Credit Lyonnais, and it could continue.

What did Washington do? They took not the stronger one, because in Europe that is Germany, but the second strongest, and said USD 9 billion. What do we want to do with Bulgaria? How can Bulgaria resist the United States if France cannot? That is the point: there are just the US rules. There are not even Western rules, just US rules, and we have to submit or we have to pay. That is the point.

B. Wegg-Prosser:

Then we should start putting more money into NATO, because that is the reality. You talk about if there was to be a President Trump, whether there would be a different relationship with Russia. I have heard what he said. He has also said in the same sentence that the US will be less committed to NATO, and I think that you will very quickly see a very different attitude from the European political elite if it turns out that there is a combination of the US re-engaging with Russia at the same time as it is pulling out of its commitment to NATO. You will see astonishing shockwaves through the European political elite if that happens.

P. Lavelle:

Would that be good or bad?

Xavier:

I would like to answer. I wish we would leave NATO. I do not understand why we still have a permanent military alliance. It is the last of that kind of alliance in the world. We do not need that anymore. The fifth statement in NATO that we are automatically at war is crazy. It was the cause of the First World War, and yet we continue with such an institution. I wish we would leave NATO and do what General de Gaulle did 70 years ago. But, of course, that is my opinion.

J-P. Thomas:

To try to bring a solution and be constructive, first, I think we have to have an agreement, starting from the G20. Second, we need a new deal to set international rules. Third, we have to suppress, step by step, this idea of economic sanctions, for all the reasons we have mentioned in this debate. Fourth, all economic sanctions, if they have to be in place, have to be through a world organization, the UN. That is the only way. Fifth, we have to have the consultancy of the WTO regarding the consequences of this. Little by little, we will see that the sanctions are decided inside the United Nations first, by the Secretarial Council, of which Russia is a member. And sixth, if the WTO is consulted at any time, because of the interaction of economics and policy, you will see that they will decrease very quickly. And I think step by step, perhaps except for the military sector in extreme cases, we will go to zero. That is the only way. If we do not do that, we will continue to have this situation which puts world growth in danger.

P. Lavelle:

On my programme I have guests all the time that have great, wonderful ideas, and I completely agree with you, but there is no reason in the world that

Washington would walk away from its hegemonic position. It is not compelled to.

We are almost out of time. Is there anyone that would like to ask a question? It has been wonderful to have such a wonderful panel that has so much to say here, but I want to see if we can get anyone to ask a question.

J-P. Thomas:

Just one thing: there is something which is changing very quickly. Twenty years ago, the United States and a lot of countries were thinking that Russia would disappear. It was weak. But now Russia has come back. And who is one of the strongest leaders in the world? Sarkozy said it yesterday: Mr. Vladimir Putin. We see on the diplomatic scene; it is obvious every day, and now Russia is a big, powerful country, completely present in the centre of the debate around the world.

Everything changes, and when you are strong, you can take the initiative. If Russia, plus the big countries of Europe, such as Germany and France, take the initiative to change things, believe me, the United States cannot resist. We have to ask General de Gaulle how he did it. In our world, we respect the strong. If Russia and Europe are strong, we will be respected. If we continue to be weak, we will be completely in default on everything, and of course we will support what we support now. The world is multilateral, not unilateral any more.

B. Wegg-Prosser:

Just one brief point to Mr. Thomas. If there is one thing more complicated than improving the relationship between Europe and Russia, it is reform of the United Nations. So I think that if we are trying to find solutions, reforming the UN is probably not the place to start.

From the audience:

This has been a lively discussion about the effects of the sanctions on different industries and production industries. Some have suffered, and some have benefitted. But the target of the sanctions, not only Russia but other countries under sanctions, was not just to be detrimental to industry, but also to make their professional communities and society as a whole feel more detached, more isolated. This is a question to all speakers: in the cases of Russia, Iran, Cuba, and Libya under sanctions, how do societies in general do? Do they feel more crippled in some way because of the sanctions, or is there more interest in the prohibited bigger world as a result?

P. Lavelle:

If you look at Iran and Cuba, what forced political change came about? It did not come about. As a matter of fact, the sanctions regime made sure that the Iranian Revolution succeeded, because you had the great Satan as an enemy. Sanctions against Iran saved their revolution. And that is why it is still the Islamic Republic of Iran today. In Cuba, who got on their knees first? It was the Americans, not the Cubans.

From the audience:

I represent the education sector. I see that there is more interest in international education in Russia, probably in the past two years. So what about other social-related industries?

P. Smith:

I was in Cuba a few months ago, and no, the government has not changed. Obviously the Castro brothers, or Raoul at least, are still there. But I do think your point is a good one. Because the Internet is not available and you have Wi-Fi in your hotel, there are about a thousand Cubans around leveraging off your free Wi-Fi. They are surfing the Net that they would not otherwise have access to.

I think the problem with the social effects of sanctions is that they take 60 or 70 years to work their way through. But they do have an effect eventually. The issue with sanctions is not so much whether they work or not; it is the damage that you do and the length of time that it takes for it to work, and all of the unintended consequences that occur around that.

I think that eventually what happens is that society changes. What is happening in Cuba, although it is still under the Castro Brothers, is that they realize they have to change, because they are going to get thrown out if they do not. I think very much the same process is happening in Iran at the moment. So those social issues do take effect, it just takes a couple of generations.

A. Volynets:

Let us be realistic. In terms of the overall impact on the broader population here, the price of oil had a much bigger impact on the well-being of the general population. The privileged few still get their foie gras from Kazakhstan and oysters from Morocco. So it does not really matter.

P. Smith:

Different countries have different things. We talked about South Africa earlier on. It sounds like a bizarre thing to say, but the thing that really changed South Africa more than anything was the sporting boycott. That is what really changed the South Africans.

P. Lavelle:

It was a consciousness change, not economics.

P. Smith:

The point is that society reacts in different ways in different countries, and in South Africa, sporting isolation meant almost as much to them as economic isolation.

P. Lavelle:

And music isolation: people would not go there to play.

J. Valero Galarreta:

Good morning, my name is Jorge Valero Galarreta. I am the EU editor of *El Economista*, a Spanish national daily. Given the title of this panel, I expected a bit more geopolitics in general from a global perspective and a bit less on sanctions in particular. So in that spirit, I would like to ask Mr. Smith and Mr. Wegg-Prosser in particular if the uncertainty and volatility which are in the air from earlier this year, for example, with the Brexit debate, security threats, the refugee crisis, and the tension in South-East China, are justified. Or are investors looking at the bright side of the situation, for example, the political safety in Latin America, the continuous expansion of the US economy, and the expansionary stance of the ECB?

B. Wegg-Prosser:

Thank you for your question. That gives me an opportunity to promote our latest piece of Global Counsel research, available on the Global Counsel website. This was a piece of work that we put out last week, done by our Chief Economist. We took the whole of the FTSE as a proxy for how companies were responding to political risk in their own markets. We split the risk into three different sorts of blocs: hard risks, which are obviously terrorism, geopolitics, and security; soft risks, which are taxes, regulation, and legal uncertainty; and then specifically at the moment, European risk, which is a combination of both Brexit and the Eurozone crisis.

What was interesting from that was that like the other piece of work that we did, we took it all in their own words. It was those soft risks of taxes, legal uncertainty, and regulation that were more prominent and more important, if you looked the weighting, than the perhaps more obvious risks that we might traditionally talk about, such as terror and security. I think that is for two reasons. One is because companies can make conscious decisions about

where to avoid hard risks. You can decide not to operate in a particular market. There are also financial instruments, insurance most obviously, to protect yourself against hard risks.

I think soft risks are harder to understand, first because they can be the function of very specific political trends that can move against you. The best example of this has been the debate about sugar. Who would have thought only ten years ago that sugar would have had the same prominence in public policy as tobacco and alcohol? These kind of softer policy trends can have a really fundamental on a business. If you take sugar, if you look at the big American drink manufacturers in the UK, you are talking about anything between GBP 100 million and GBP 150 million off their bottom line simply as a result of the tax. That is the kind of thing that shareholders are going to be more concerned about in the end than whether this particular market or that particular market is worth investing in in the future.

P. Smith:

That is absolutely correct. When you look at the CNN risks, putting it another way, you can see through the end of this year that you can actually put quite a positive set of constructs on those hard risks. Britain stays in Europe, the EU continues to kick the can down the road in terms of its economic reconstruction, Hillary gets elected, and China does not fall apart and continues to grow, albeit at a slower rate. All of the big headlined things that currently create volatility and news headlines as far as CNN is concerned, including the situation in the Middle East, are things that are arguably going to resolve themselves to some extent over the next few months, one way or the other, and will not actually have a very dramatic effect upon markets.

So there is short-term noise, but long-term, most of the smart money has looked through those already. I absolutely agree that it is these other things, such as the consistency of government policy and taxation and the other changes that are happening. For instance, technology, which we have not talked about, is one of the biggest geopolitical issues, because governments

no longer control a lot of the levers of what happens in the world today. Technology is outside of their control, through social media and other forms of supranational technology. So, I think those are the things that worry business that are very difficult for people to hedge against. As I say, I think the CNN risks have been dealt with a long time ago by most smart international investors.

P. Lavelle:

One last question.

From the audience:

My name is Heinz, and I am from Germany. I was the CEO of a big family-owned company for more than 25 years, and I still own this company. I would like to ask a question which covers the title of geopolitics even better than just talking about sanctions. That question is: why did NATO, with the European Union and the Americans, decide a couple of weeks ago to deploy troops to the borderline of the Baltic States with Russia and the borderline of Poland with Russia? I think it is a battalion or something which is deployed there. My question, first of all, is are there really any justified fears that Europe will be attacked by the Russian military soon, and second, if not, why have they put a battalion there? Is it doing nothing? Can you give me an answer to that question, please?

P. Lavelle:

Obviously, the Western media has just been grossly irresponsible in this kind of reporting of Russian aggression. It is just ridiculous. Does anybody ever hear about the over a million refugees from Ukraine that came to Russia? Do you ever read articles about that? You do not. It is not written about very much.

A battalion? A conflict with NATO and Russia is mutual destruction. I think people have forgotten the Cold War. I lived through it. I was a child, but I

remember it. A battalion would be vaporized in a few seconds. Was that overt war? No. It is a political move right now. The Anti-Missile Defence, all through the Bush administration and at beginning of the Obama administration, is directed against Iran. Then they make a deal with Iran, and they say that it is against Russia.

If you look at it from the Russian point of view, it is not Russia moving its borders to NATO bases; it is NATO moving to Russia's borders. Think of the geography right there.

Again, who is being proactive? Who is making the initial moves? And who is reacting? I would say that the Russian people demand a robust response. Over the last six to eight weeks in Russia, there has been a debate among Russians which is not reported in the Western media at all. The debate in Russia right now is whether Putin is too soft. That is what a lot of smart people are saying. In the Western media, they are talking about the dictator, the aggressor, and the isolated man. The debate in this country is so interesting compared to what is said about it outside of this country.

Xavier:

It is clear to me that the militarization of the European space is a method of political domination. Of course Washington knows that there is no risk of a Russian invasion against NATO countries. We all know that Russia has submarines that can shoot nuclear weapons against the United States with no problem. This means that this Anti-Missile Shield will not work against Russian nuclear weapons. It is only a question of political domination of Europe, to militarize our space, to dominate us. That is my opinion.

P. Lavelle:

We have run out of time here. I really appreciate everyone coming here, and if you wanted to discuss more than sanctions, I take personal responsibility for it, but I think it was a good discussion. Thank you very much, and I thank our wonderful panel here.