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Russia's New Horizons
RUSSIA – USA
Business Roundtable

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Moderators:

David Iakobachvili, President, Russian–American Business Council; Chairman of the Board of Directors, Bioenergy Corporation

Andrew Somers, President, Chief Executive Officer, American Chamber of Commerce in Russia

Panellists:

John Chambers, Chairman and Chief Executive Officer, Cisco

Aleksey Isaykin, President, Volga-Dnepr Group of Companies

Steven A. Kandarian, Chairman, President, Chief Executive Officer, MetLife Inc.

Anatoly Karachinsky, President, IBS Group Holding

Alexei Likhachev, Deputy Minister of Economic Development of the Russian Federation

Mikhail Margelov, Chairman of the Foreign Affairs Committee, The Council of the Federation of the Federal Assembly of the Russian Federation

Jack Martin, Global Executive Chairman, Chief Executive Officer, Hill+Knowlton Strategies

Barry Salzberg, Chief Executive Officer, Deloitte

Francisco Sanchez, Deputy Secretary of Commerce, USA

Alexander Shokhin, President, Russian Union of Industrialists and Entrepreneurs

Zakhar Smushkin, Chairman of the Board of Directors, Ilim Group JSC

James Turley, Chairman and Chief Executive Officer, Ernst & Young

D. Iakobachvili:

All right, we will start. Ladies and gentlemen, being a host from the Russian side, I would like to just welcome you here today. It is very important that so many people are here supporting this issue, this American–Russian roundtable in this beautiful city of St. Petersburg, during the White Nights. I believe today we will be very, very occupied, but very determined and that we can get some kind of benefit from our discussion. So I would like to give the floor to Mr. Andrew Somers, our President of AmCham, please.

A. Somers:

Thank you, David. It is a pleasure to be joining with David who many of you know is among the very most successful entrepreneurs not only in Russia but globally, and we are here to talk about business today. I can only say that we are very positive at AmCham about the continuing Russian–America investment and trade development and we think that is going to continue because it has such enormous potential. We are going to have two panels: a first one, which will last about 30–35 minutes, and then a second one. We are going to try and make it interactive, so I am going to stop talking right now and encourage everyone else to speak for just two or three minutes and we will try to get into some lively dialogue. I now turn the podium back to David.

D. Iakobachvili:

We are going to continue. I think that we will not lose time, we are going to give the floor to Deputy Minister of Economic Development, Mr. Likhachev.

A. Likhachev:

Thank you very much. If you do not mind, I will speak Russian, of course. Good afternoon, friends, colleagues, guests, and Forum participants. This is not the first year we have held such a session; in fact, every year during the Forum we have a roundtable dedicated to Russian-American relations, and every year, at its core, is

our business dialogue, the work carried out by our entrepreneurs and entrepreneurial associations. Their leaders are here at the table and we welcome them of course.

I am probably unprepared to deliver this basic introductory statement. Every one of us here would be able to give an introduction such as this one. I would like to draw your attention to three extremely important questions. First, what is the formal state of Russian–American relations at present? There is not much good news in this regard. Despite all the intensive bilateral work being carried out by our companies, entrepreneurial associations, and contacts at an intergovernmental level, we have, to say the least, a slow dynamic, or, to put it frankly, an extremely negative dynamic, in terms of both investment volumes and trade volumes.

Our bilateral trade reached its peak in 2011. Since then, unfortunately, the numbers have been moving in the opposite direction. Our numbers differ completely from the American statistics. I am not going to go into the finer details of customs administration to show why that is, but the trend is the same. It is true that we have seen a decline of about 10% in trade volume, both last year and over the first four months of this year. Russian exports are rapidly declining – this is due to falling exports of petroleum products – while American imports into Russia are steadily increasing. That is the extent of the good news.

Neither do the investment statistics paint a rosy picture. We also reached the peak of investment between 2010 and 2011, and were practically on equal footing: the volume of Russian investment in the US and US investment in Russia was USD 8 billion of cumulative investment. Since then, we have seen a trend not of growth, but, in certain sectors, a decline in bilateral investment. While the US played the role of investment leader at the start of the new millennium, this is now more just a memory; today there are new contracts. The United States of America is at the bottom of the list of the top ten most active investors in Russia. However, I would like to point out that the intensity of business relationships and enthusiasm for doing business is not declining. Our colleague Andrew Somers, and those working within the Russian Union of Industrialists and Entrepreneurs and the Advisory Council on

Foreign Investments, are actively cooperating both with the Ministry of Economic Development and with the government. Work is certainly being done, but I could not avoid beginning with a little sad news about the statistical aspect of our cooperation. Now for the good news. This is the second topic. I would like to note that in the last six months, there has been an increase in the level of communication between our governments. There have been great steps forward, both in terms of our cooperation within the WTO and in terms of drafting bilateral documents and roadmaps for projects concerning cooperation in various sectors, the level of activity of business missions, and the regional aspect. Russian governors are visiting the United States more frequently and American businessmen have more contact with the Russian regions (a whole list of regions could be named here). But so far, this new level of activity has not been reflected in a qualitative change in Russian–American trade or economic relations. I think that our colleagues in the US Department of Commerce will give us their point of view.

I was in the US quite recently on a business trip. There we actually launched a roadmap for some projects, and did some brainstorming on a possible search for areas of growth with officials from both the US Department of Commerce and the Presidential Administration. I would like to hear the opinion of our counterparts with regard to these events.

Now for the most important topic, the third topic. What, in your view, should be done next? Of course, the potential that exists today in our economies, in our business communities, has not yet been fully charted out. It has probably not even been half charted out, and in the future we might expect completely different formal indicators for bilateral trade, for investment, and for existing projects. My main question, and one for which I do not have an answer – maybe one will surface as a result of our conversation today – is this: is the business community satisfied with the state of affairs today? Is business waiting for additional signals from our governments to intensify the relationship? Or is it not yet time? Or is there not yet the internal demand to significantly expand cooperation, to advance it to a new level?

For our part, we are prepared to pose the question that way, in terms of both developing and strengthening the relationship. Russia takes a very critical view of itself, both from the point of view of the investment climate and from the point of view of further improvements to administrative procedures, including customs, which today are undoubtedly a factor inhibiting the development of our foreign trade and investment process.

Our colleagues in the entrepreneurial associations know about the roadmaps for improving customs administration, connecting to infrastructure, and reducing trade barriers. All this is being done publicly, it is being done together with business, and I can confidently say that we are now prepared to include both American companies and American business associations in monitoring and fine-tuning these roadmaps. We are prepared to move together with you, and we are already doing so in many sectors, laying the foundations for successful business. The potential for government involvement and the potential for the government to stimulate investment and stimulate business activity have not been charted out in full.

Today we also need to listen to the opinion of the business community about which areas we should play a more active role in, where we may be taking too formal an approach, and what ought to be constructed in a better way. It is, of course, important for us to know to what extent our counterparts in the US Department of Commerce, in the American government agencies, are prepared to help us with this task.

I will bring my speech to a close. This is thought number one: we have reached a ceiling, so to speak, in the development of our trade and economic relations. There is no growth, and in some areas we are seeing a decline. We are taking some steps at an intergovernmental level, but they are not giving us the additional leverage needed to bring about the qualitative renewal of this cooperation. The question is this: are we prepared, in terms of the trade and economic agenda, to make additional efforts, and does business need this to happen in order to bring these relations to a qualitatively new level and identify a greater number of projects that should be offered support from government agencies? This is especially important

in the Russian regions. Are we prepared to talk about new bilateral documents, for example, declarations about international investment, about the principles of protecting international investment, about creating and supporting a joint governors' forum in order to send additional projects to the regions and additional efforts to leverage support? The Ministry of Economic Development and our colleagues from other agencies are prepared to undertake this work. The response of the business community, and of our partners, most of all the US Department of Commerce, is important to us.

I will also ask a provocative question: could it be that business is satisfied with this state of affairs? I would like to emphasize in the presence of my own counterpart, the US Under Secretary of Commerce, that we have made certain steps towards further strengthening these relationships. Thank you.

D. Iakobachvili:

Thank you, Mr. Likhachev.

May I now introduce the Under Secretary of Commerce for International Trade for the United States, Mr. Francisco Sanchez, and I would like to maybe put a question: do you think our relationship is enough—that we are doing enough—and that there is enough stimulation from American and Russian authorities for Russian and American businesses to cooperate and be more involved in our relationship.

F. Sanchez:

Before I had my government job, I was a consultant so I will answer that question from my prior profession. Yes and no.

D. Iakobachvili:

That is the best answer.

F. Sanchez:

But if you would like, I can elaborate on that. First of all, I think that our commercial relationship is absolutely heading in the right direction. If I look at it from my perspective, one of my jobs as Under Secretary for Trade is to increase exports from the United States all over the world. Our exports in 2011 increased by 40% to Russia, and in 2012 they increased by 29%. Our two-way trade has steadily increased. Investment from American companies here in Russia is strong and increasingly we are seeing more Russian investment in the United States. So clearly, the business community is engaged. I think our governments are very well engaged, and you articulated that engagement; earlier this week our two presidents announced a high-level engagement specifically focused on trade and investment. So I think that the ingredients are there, but there is so much more potential. So we have to take what we have been doing and what has been announced this week to another level. I can tell you that we already started doing that. This is my third visit to Russia in 12 months. Just three weeks ago, a group from the Department of Commerce was here working on standards and WTO compliance issues, in an effort to help Russia and the United States work closer together on an area that can facilitate trade standards in particular. So the 'yes' part is that there is a commitment by both government and business from both countries, and the 'no' is that there is still a lot of work for us to do.

D. Iakobachvili:

Thank you so much, Mr. Sanchez. Let me now give the floor to Mr. Margelov. He is the chairman of foreign relations in our senate of the Russian Federation. And just a small question: are we too far away to try to find a common language or are we too close, just 50 miles from each other, that it is a chance to come to be closer and warmer to each other?

M. Margelov:

I am going to take the opportunity to speak in my native language. Lately, I have rarely had the chance to speak in Russian about Russian–American relations and I

would like to take this opportunity to do so. Honestly speaking, I do not really understand why I am participating in this panel. Two years ago, I would have had something to say. But now there is nothing really to talk about. Two years ago, we had active and strong contacts with the US Senate Committee on Foreign Relations, but my good friend John Kerry has moved to another position. The current Chair of the Committee on Foreign Relations, Mr. Menendez, is not answering my letters. We used to have an active US Senate–Council of the Federation working group, led by myself on the Russian side and by Senators Trent Lott and Ben Nelson on the American side. Both of them have now left the US Senate. We no longer have counterparts in this working group. We now have a fairly strange situation in terms of the relationship between our legislators. Over the course of twelve years, we had a fairly active dialogue between the American and Russian senates. It was a fantastic working relationship, professional and honest: we were able to discuss all the complex issues on the agenda without the media, and we were really able to get down to business and call a spade a spade. Now we do not have that dialogue.

We recently received a House of Representatives delegation in Moscow. The House of Representatives is now more active in its relationship with Russian legislators, but, to our great misfortune, today we have practically no dialogue with the US Senate. I do not think that this is right. It is not right because it is important and necessary to have communication between our two political classes. A political dialogue ought to be conducted not just at a ministerial level, but also at a legislative level. Taking advantage of this high-profile platform, I want to issue a challenge to our colleagues on Capitol Hill: to remember the good history we share and to revive our previous relationship. We will then see fewer mutual surprises arising and fewer mutual misunderstandings. I will only say what I said four years ago and eight years ago. Honestly, I am tired of resetting Russian–American relations at every new political cycle. It is time for us to stop spending time on different sorts of resets. We need to have decent, stable, predictable, and institutionalized relations, set on a reliable path. The business relationship, the trade relationship – that is the hope we

have, that we should have, all the more so since, to put it mildly, there is some room for those relationships to develop. The volume of trade and bilateral investment is far from where it should be for two countries with economies like ours. It is entirely true that we are only 57 kilometres apart from each other. That is the width of the Bering Strait. We are neighbours, like it or not. No geopolitical eraser is going to rub us off the face of the planet, and there is probably no point in doing so. We really should have predictable and neighbourly relations. Russian legislators are prepared to put in their best efforts to bring this about. Thank you.

A. Somers:

I think we need a response from the US government, Mr. Sanchez, thank you.

F. Sanchez:

Well let me just say I have long since given up trying to predict or explain why our congress does what it does.

D. Iakobachvili:

Unfortunately I knew the answer.

F. Sanchez:

But two things: one, the administration, particularly in trade and investment, is very clear. It is working closely with the business community and it is committed to high-level engagement and consistent engagement. With regard to Senator Menendez, the new chairman of the Senate Foreign Relations Committee, he is a friend of mine, and I will let him know of our visit here and I will encourage him to call you next week.

A. Somers:

Thank you. I would now like to introduce Steven Kandarian who is chairman and CEO of Metropolitan Life which, as you know, is one of the largest, if not the largest,

insurance companies in the world. And I would like to ask Steven, really, why are you here at this symposium and secondly, where does Russia fit in your global strategy? I think you have had some significant success in your 20 years here and certainly in the last few years. Steven.

S. Kandarian:

So first, let me thank the American Chamber for organizing this panel. I am delighted to represent MetLife, a global and leading life insurer with over USD 500 billion in investable assets in operations in over 45 countries around the world. So next year, as you mentioned, MetLife will celebrate its 20th anniversary in the Russian market. We are proud to serve 1.5 million customers in Russia, although we want that number to get much larger in the near term and over time. In addition we provide benefits to a number of the largest Russian companies. Russia is a very important market for MetLife. Part of our strategy is growing our business in emerging markets. We are quite large in the United States, we are quite large in Japan, but we really need to grow in emerging markets to generate the kind of growth that our shareholders expect of us. So Russia is central to that strategy. And even through the 1998 crisis in Russia, our business remained here in this marketplace and we continued to move on in this market because we thought Russia had tremendous potential and that it had great things to offer companies like MetLife. We also thought, in turn, that we had important things to offer consumers in the Russian market. I would like to make two key points today. First, the life insurance industry is really a cornerstone of a thriving capital markets system that I think it is really central and critical to any emerging market or developing nation to really focus on, because without that, you really do not have the engine for growth. In addition, let me just mention that the life insurance model results in a couple of things that are very beneficial to a nation. First it is a way for individuals in that nation to make long-term savings for their own retirement and other financial needs. Secondly, the money that comes to an insurance company has to be invested; as I mentioned to you earlier, USD 500 billion in investable assets, those are the

premiums we took in from our customers and those must be invested in a prudent way over time, to result in having the funds necessary to make good on those promises we have made to our customers. So having a vibrant life insurance market in Russia would also be a great benefit to the country as a source of long-term capital and for its economic growth. Can I add that at a time when government social safety nets are being frayed, the business model of the life insurance industry does offer consumers a private-sector approach to personal financial protection. The second point I want to make is that constructive public policy and sensible regulation is really central to the development of the life insurance market here in Russia as well as in other nations, including the United States, in terms of our progress in life insurance. And the reforms that have been undertaken over the past decade have really accelerated the development of the Russian life insurance market, but again, more can be done and I am pleased to hear that government officials are discussing things such as allowing private insurers to administer pension funds. That is something that we do in a number of other markets and we think it would be very beneficial to Russia if we were allowed to participate in that marketplace. And finally, the tax incentives for life insurance are somewhat more significant in other markets compared to Russia. In part that is because—and I would applaud what Russia has done in terms of its tax system—they have kept their marginal rates quite low, but some of the incentives that exist in other markets with tax incentives are not as present here in Russia. So that is one area that I think Russia could look at in terms of what kind of encouragement tax incentives may provide people to invest their money through life insurance products. Historically, life insurance has not been a significant part of the economy in Russia and it is only about one tenth of 1% of GDP. Compare that to other emerging markets like Poland where it is 2%, which is to say 20 times as much per capita, or 4% or 5% in some other markets that are developed, so it really is a very insipient marketplace but an important one to develop here in Russia, we believe. So, equally important are the regulatory signals that Russia is sending the international community, that it is open for business, I think that is a very good sign. Russia's ascension to the World Trade

Organization last year; its adoption of international accounting standards; and its willingness to be fair, open, more transparent and have competitive markets is also central to the reasons that we are here, and we are here for the long run, and we look to expand in Russia. So when companies compete on a level playing field and when innovation and efficiency improves, customers are better served and society as a whole really does benefit. So let me just reiterate that MetLife is committed to this market, it is a very important market to us going forward, and we believe that life insurance on many different levels is important for Russia as well. Thank you.

D. Iakobachvili:

Thank you very much, Mr. Kandarian. I would like to give the floor to Alexander Shokhin, President of the Russian Union of Industrialists and Entrepreneurs and ask him a question: Mr. Shokhin, there are many participants here at the Forum and many panels cross over with one another. Our panel has attracted an enormous number of people who are concerned about the situation that has developed, and who have an interest in what the future holds. Are you optimistic or pessimistic?

A. Shokhin:

I think that the best answer to that question is here in this photograph. This is President Putin and President Obama at Lough Erne, giving a press conference after their meeting. They do not look very optimistic. I am inclined to believe that through overcoming difficulties we will reach a good outcome, but each step presents its own problems and, unfortunately, different approaches to foreign policy and domestic policy issues are preventing fruitful economic cooperation. A lot depends on the extent to which business will create the positive agenda that will make it easier for politicians to also come to agreement. Our colleagues Zakhar Smushkin and Anatoly Karachinsky are here. You could say that they take the temperature of the Russian–American business relationship every day. They will undoubtedly have something to say. I would like to focus on two issues.

First, the influence of US legislative initiatives on Russian business, on the entrepreneurial environment. At Lough Erne, the G8 heads agreed to support an initiative regarding the automatic exchange of taxpayer information. The Foreign Account Tax Compliance Act (FATCA) seems to be the model for that sort of activity and that document is going to have a very significant influence. If information is not revealed, many Russian banks and companies will suffer financial losses in connection with contracts and market access; and not just access to the American market.

A second initiative was also discussed at Lough Erne. Russia is involved in this indirectly. It is an initiative to create a transatlantic partnership. This may remind you of the Trans-Pacific Partnership. Creating regional free trade zones cannot help but have an influence on the activities of Russian companies as well. Since both partnerships in that initiative are American, it is important to understand that we would do well to act in cooperation with our American counterparts, with the Department of Commerce, in order to better understand the consequences of that initiative for Russian companies. I think that this topic could also be discussed. The consequences for Russian business are tied up not just with US legislation and international legal agreements, but also with business – the shale revolution and its impact on the Russian economy, for example. I am not going to put forward a hypothesis of when this will strongly impact the position of Gazprom and other leading Russian companies, but it is clear that there will be an impact, and a greater impact the longer it goes on. Two terminals in the Gulf of Mexico have already been retargeted for export, although the original plan was that they would import LNG (liquefied natural gas). They are being reconstructed to export shale gas. Both the European and the Russian economy will certainly feel the effect of American gas exports.

Andrew Somers noted that Russian–American roundtables and dialogues have been taking place at SPIEF for five years now. It was here at SPIEF that we signed a memorandum of cooperation with the US Chamber of Commerce, of which the annual Russian–American roundtables and business dialogues form a part. But

other than the Russian Union of Industrialists and Entrepreneurs and the US Chamber, we also have a great many other organizations responsible for promoting Russian–American business relations. David Iakobachvili is the President of the Russian–American Business Council. There is also the US–Russia Business Council and AmCham. Everyone knows Andrew Somers as a lobbyist for American business interests and for systemic changes in Russian legislation. Not long ago, the Centre for Russia–US Rapprochement was created. There are many organizations, but I would propose building some sort of umbrella organization, under which we could all be grouped. Ideally, all the organizations I have mentioned would be able to identify one common agenda that could be discussed, an agenda that would be common both for American organizations dealing with Russia and for Russian organizations dealing with the US. We might have to limit the list of issues, but we could then promote those issues both to the American administration and to the Russian White House and the Kremlin. That would undoubtedly have an effect. Ideally, a year from now, when we meet here, we will no longer be talking about a reset. In this respect, I am in complete agreement with Mikhail Margelov. If you push the reset button too often, what you end up with is the kind of confusion we had in Geneva, when Mr. Lavrov and Mrs. Clinton pushed the button, but it turned out to be labelled ‘overload’ instead of ‘reset’. To avoid an overload of ideological appeals to cooperate, it is important to formulate an agenda that is common to all our organizations and, forgive me if I speak coarsely, enforce it on our governments. Thank you.

A. Somers:

Thank you, Alexander. I appreciate your kind words about AmCham and we certainly respect your great leadership of all American and Russian businesses here over the years and in improving the situation for business. I would now like to turn to Jim Turley, who is the CEO and chairman of Ernst & Young, who has led Ernst & Young for many years here as well as at FIAC, and Jim, I know Ernst & Young has done a number of reports and surveys of CEOs worldwide that seem to show

improvement in the perspective on Russia, and yet we still hear that investment from the United States is pretty low. I think that is exaggerated, but what do you think in terms of the actual investment potential of American investment in Russia?

J. Turley:

Andy, this has been interesting because the colleagues on either side of me I think posed some very provocative questions in their opening comments, and Alexei asked whether business is happy with the current situation. And I would say on balance, that for those companies, US companies or European companies, that have been strategic investors in Russia for a long period of time, the answer is yes, they are happy. They know how to work in the system, they want to invest more, they understand the complexities of working here, but they are also seeing quite strong returns from their investments here. That is a consistent feeling that we have seen over many, many years. Equally consistent is the feeling among companies who are not today investors in Russia who are frankly afraid. They are scared. And so there is a real brand issue, an image issue that I think people have to wrestle with. Now to be fair, I think the companies that are investing here from the United States and elsewhere, while they are very happy, they see things that they would like to see continuing to improve. Whether that is infrastructure development—be it roads, an airport, power grids, financial markets, or infrastructure—or whether that is entrepreneurship and continuing support on what Dr. Shokhin and others are doing to drive entrepreneurship here and diversify the economy,—very positive efforts—more success is needed. Very importantly, administrative reform. Continuing efforts on the part of the government here to reform the number of permits and the number of steps that one must go through to open a business or to open and build a plant, and those issues are similar whether you are a Russian company or a US investor. I think those kinds of reforms streamline growth and they also help eliminate corruption. So, while the current investors are happy, they would like to see all those things continue to be addressed. The current investors are extremely happy with the WTO ascension and very optimistic on OECD prospects.

The business community, and I do not want to make this into a political commentary, but the business community wishes the politicians would have stayed out, whether it is Magnitsky or other things. That is not something the business community cared about and it sort of gets in the way, so a quick response to your provocative question.

Now, Mikhail talked about calling a spade a spade, and that that is not happening as much today. That is one of the real benefits of the Foreign Investment Advisory Council, where foreign investors here actually get the opportunity to sit down and do exactly that. Call a spade a spade and tell the Prime Minister and his team precisely what reforms need to be taken for Russia to become more attractive and there is a great deal of listening going on and a great deal of progress. So I think the investors feel pretty good about that. Shuvalov, being the ombudsman, has been extremely successful in helping companies resolve issues as they come up on an individual company basis. The United States, I do not see as much of that formalized listening to whether it is Russian investors coming into the United States, or others, I think that it is a really interesting model that perhaps we could look at, and see good ways to replicate going in both directions, because I think when governments listen to the business community in a formalized way, both from within the country and from outside the country, only positive things will happen. So I think these two people hit it great: how is the feeling and can we call a spade a spade?

D. Iakobachvili:

Thank you, Mr. Turley. Now I would like to turn to Mr. Karachinsky. Anatoly created a wonderful company, IBS Group. He has experienced a great deal of the good and the bad, but he has achieved results both in America and in Russia. This is a man who, no matter what fate has thrown at him, remains a 'self-made man' and is a good example for many people. Thank you.

A. Karachinsky:

Thank you very much, David. We are in the technology sector, and actually, in our sector, everything is going well with the Russian–American relationship. There are a great many technology problems in the world, but for us, cooperation between Russian and American companies is going very well. Last year, for the first time, the international company Gartner named Russian programmers the best developers on the market for the most complex systems with the greatest potential.

We do a lot of work with American companies ourselves. We have over 100 partner companies, and we are developing unique products for financial market giants such as Citibank and Bank of America. We partnered with Ford to create the automobile of the future and we are very grateful to them for choosing us. We have been working with Boeing for 12 years and have developed a huge number of systems for them. We very much like Boeing’s operating model. We are pleased that they are working in Russia because they are unique integrators: Boeing brought together the best companies to make the very best product in the world. I am always telling Russian companies about how Boeing operates and I say, “Gather the best people around you and you will be the most competitive.”

We do a lot of work on the technology market: HP, Dell, IBM, Intel, AMD – this list represents maybe 10% of the American companies for which we develop unique systems. We have not had any negative experiences, we keep far away from politics, we have no trouble working in America, and we like it a great deal. We are now preparing an IPO on the New York Stock Exchange. Our work in the venture capital area is developing very nicely. A few notable events that took place in Silicon Valley brought a good number of professional venture capital firms to Russia. The process of building a Russian venture capital industry is underway, and America’s experience is being taken on board very quickly by Russian companies. I hope that at some point we will even be able to ‘leap ahead’ of them. We have no major complaints about Russian–American business relations.

D. Iakobachvili:

That is a very impressive example. I think the politicians will follow your example and obtain the same kind of results.

A. Somers:

We are changing the format a little bit because of time constraints, otherwise Anatoly would be up here with his other CEO colleagues. So we ask your indulgence. I would now like to call on Barry Salzberg who is CEO of Deloitte.

B. Salzberg:

Thank you. I thought that I would take just a little bit of a different tack, and talk about business-to-business investment for a moment, in terms of investing from one business to another in Russia. And so when I and other partners of mine from Deloitte speak with clients and business leaders all around the world, there is no question that they are interested in opportunities in Russia. They are also interested in opportunities in other countries as well and when you ask what are the motivating factors in driving business-to-business investment, a couple of things come out. First, global companies want to know that their investments will be protected, that their profits can be repatriated, that their intellectual property will be protected, and that the playing field will not shift under their feet. So as they think about that, if you apply it here to Russia, I think it means more to promote the rule of law, to fight corruption, to allow independent courts to adjudicate disputes, and clearly, joining the World Trade Organization was a major milestone in this regard, and the efforts and actions being taken by the Russian government to open up the capital markets and address these issues are clearly steps in the right direction. And so, when we talk to these global companies, they talk about good corporate governance, they talk about transparency, they talk about beneficial ownership, and, fundamentally, if a business that they are looking to invest in, in this very complex world of choices, lacks transparency or strong governance, they typically would walk away from those businesses. So while the issues are different today than they were in the past, there

are still a number of issues that businesses can deal with here in Russia, to take advantage of that mindset and encourage investment.

So here are a couple of points that I extract from talking with some of my clients. First, decide on the values that you want to embed into the DNA and culture of your organization, such as transparency and ethical behaviour. It is never too late to change this, even for the oldest and most established companies. Second, we talk about tone at the top of an organization and that really is about culture, it is not enough to just have a policy, staff of a particular company must see leaders and managers leading by example. The third point would be: take a really good look at your business. Perhaps get a fresh pair of eyes to take a look at the risks around the business, to perhaps design an anti-corruption policy, and to create the proper levels of governance and checks that address these. But even more than that, they will want to kick the tyres to make sure it is embedded throughout the organization. And then last, but not least, would be to really seek to resolve issues around beneficial ownership. There are of course historical factors that necessitated that business owners conceal their identities—to ensure security, protection and so forth, in today's environment—however a lack of transparency really is a deal breaker for many investors. So in my view, Andy, to continue that focus, to work, to have a significant and profound impact on making Russia even more attractive for foreign investment, these are some of the ideas that I have.

D. Iakobachvili:

Thank you, Mr. Salzberg.

I want to introduce Mr. Smushkin, the Chairman of the Board of Directors of Ilim, the man who created the biggest Russian company in its sector, which competes not just on the Russian market but on the international market and the American market. This man put together a fantastic team. Mr. Smushkin.

Z. Smushkin:

Thank you, David. The company that I represent is a joint venture, 50% owned by the American company International Paper. We founded it five years ago and yesterday in Bratsk, in the presence of the Prime Minister, we opened the world's largest fibreline. It is the biggest project in our sector for the past 30 years. This year we are also planning to open a new paper machine in the Arkhangelsk Region, so all our investment proposals are being implemented fairly successfully. We do not plan on stopping there. We will be developing further.

As for our discussion about being attractive and the development of Russian–American relations, it seems to me that the key to that is very simple. Relations will develop if Russia becomes an attractive market. That is the main idea. I would say there are two main aspects to creating an attractive market. The first is infrastructure development. Russia's problem comes down to the fact that we are a resource-rich country, but these resources are non-liquid resources because they are not supported by infrastructure. We absolutely must work on this and government policy must be targeted accordingly. For direct investment, liabilities connected with infrastructure are the most burdensome, the most difficult to compensate for. Without state support, without partial and direct compensation of costs, we are going to delay all future greenfield projects. That does not just apply to American funds.

The second part of infrastructure has to do with tax laws. Here there is also a 'change in terrain' at work with respect to foreign investment. Some things have been done in our sector, but it is clearly not enough. We need to look at things realistically. We want to be a developed market, so we must follow the path of those countries that have already done that. I am talking about the complete abolishment of taxes in principle, particularly VAT and taxes on corporate profit, transport, and property. During the recoupment period for a project, the only taxes remaining should be payroll taxes. That is the most important factor and the Ministry of Economic Development should be working on that, initiating those projects. We talk about that everywhere. It is a key question for investment.

Speaking of investment, we also need to talk about financial inputs. Russia's financial market of direct stocks and derivatives is also investment and American investors are among those involved. Certain steps also need to be taken here: we need to return to the issues of full privatization and not shy away from developing our financial market. Investment in the financial sector and direct investment go hand in hand. If we are going to put all this in place, then I see no problems in working with American investors. David spoke about corruption, about transparency and so on. We keep our books according to the Russian accounting system, the National Organization for Financial Accounting and Reporting Standards, and the Generally Accepted Accounting Principles (GAAP). I can tell you, as the head of my company, that we have never come up against issues of corruption and have never paid anyone anything extra. I believe that if natural drivers are built into the economy, they will become the fundamental principle for developing the investment relationship. Everything else is secondary. Thank you.

A. Somers:

Thank you, Mr. Smushkin. I would now like to call on John Chambers, who is the chairman and CEO of Cisco. I would like to ask, John, what is your take on Skolkovo and has it met expectations? There is a lot of debate about where that is going and I know Cisco made a very early and strong commitment to Skolkovo. What is your perspective on that?

J. Chambers:

I am going to answer the Skolkovo question at the end of my comments, but I always believe you frame your comments in terms of why it is in the best interests for all the businesses to work together. I agree with my colleague in high-tech that very often high-tech is neutral: we get along with the Democrats and Republicans equally as well in the US. Russia and the US should be even easier, and I say that not with a sense of humour: it is in both of our country's ability to work together between organizations. High-tech: what I look for is an education system,

broadband build-out of the next generation infrastructure, a country that is open to innovation, education systems working together, public-private partnerships, supportive government, and your ability to work together. The outcome that we see from technology is very simple: economic growth, job creation, inclusion, education, and healthcare. A model would be where I came from just yesterday: Israel. They literally will combine their high-tech capability, all the political parties working together to really drive their next generation of growth, all for the examples I just listed, and regardless of political party, they work across, in terms of what is in the best interests of their country's long-term development. So when we look here in terms of our investment in Russia, we made what we thought was a very logical investment and it has worked out at or above our expectations. We never lose track of the long-term opportunities, our business in Russia is growing in the mid-teens, we have made multiple venture capital investments, those are returning well above 25%, we are going to commit to another major venture capital investment, probably of USD 30-50 million more here in the next six months. Skolkovo has been the example of innovation, but any time you try to do something that others have not done (and we said this the first day that Skolkovo was talked about in this session) there are going to be periods when things went well, there will be challenges and controversy, but never losing track of where you are going to go. We are expanding our R&D resources here, we are doing joint training of government and business leaders, we are honoured to take some of the best Russian graduates and bring them for internships with Cisco in the US (and they have to come back after that occurs) and we found Russian businesses where there is a service provider, a smart grid, are all very open to working together, including the ministries. I do agree with my colleagues that there are some things that we could do that could probably accelerate this, but overall, Jim I think you said it very well. We are committed. We could probably be growing about 10% more if we did it better, but our view has not changed. We are committed for the long run and we fully expect bumps along the way. At Skolkovo, we are going to move to that campus as soon as our building can get built, and we have already put in new innovation centres there. It will be a model

for how high-tech works together, how major universities come to teach the group, and the Russian talent is really, really good. So it is in our best interests to be here and we will continue to be so in the future. Thank you.

D. Iakobachvili:

Thank you so much. I would just like to remind you that we do not have too much time because in a few minutes there is a meeting with the president. Just two more people. I do not see Mr. Isaykin. Is he here? No, he is not here. Mr. Savostyanov, we just put two questions, and as I understood the lady is waiting? And after we are going to ask our key speakers to just say a word.

Y. Savostyanov:

Thank you, Mr. Iakobachvili. As the organizer of the Centre for Russian–US Rapprochement mentioned here, I must note that the distance between Russia and the US is all of four kilometres, that is, much less than the distance between Russia and Moldova or Russia and Kyrgyzstan. I would like to point out that even during the Stalin era, in 1935, the United States was the Soviet Union's number one commercial partner. It is a great pity that today we are so far from that level of economic cooperation. I think that we have very good prospects. We have almost perfectly complementary economies, each strongly enhancing the other's potential. If we can manage to overcome certain internal, sometimes historical, conflicts, then we will be able to make an enormous step forward. I predict an enormous surge at the point when Russia truly begins to focus on development in the Far East. The United States, as our close partner, has a great deal of potential in that regard.

I would like to touch upon my own personal priorities. We do a lot of work trying to develop Russian–American cooperation in the film production sector. I want to pass the ball to the American side. The text of an agreement on Russian–American cooperation in that area has been submitted to the US Consulate for translation and we just cannot seem to get even a generic response, whether it is the response we

want or not. That kind of translation speed could seriously complicate the development of Russia–US relations.

If we take a look at Russian television today, practically every series is a Russian language remake of an American format, and they are having great success in this field. By cooperating in the film production sector, we can achieve truly great success. As the Chair of the Intellectual Property Coordinating Council, I can say that literally over the past week, enormous steps have been taken in Russia to improve the climate surrounding intellectual property protection, in particular in the area of creative production. Thank you.

A. Somers:

No? All right. Jack Martin, CEO of Hill+Knowlton, could you talk about why you are here? One of the most eminent communication firms in the world.

J. Martin:

Thank you. I am here because we have had an office and a presence here since 1990 and we are very proud of our work in the market. We are a global communications firm with 90 offices in about 60 countries. We have traditionally been known as a public relations firm, relevant to the topic today of Russia and the US. As with any countries, this has to do with the fundamental exchange between the countries in both business and cultural and governmental terms. One of the things I think that we try to emphasize in our approach is that there is room for discussion about the future: there is the way we have always done these things in the past, and there is the way they will be done in the future. In the future, increasingly, the platform on which a lot of exchanges will take place will be based on how the public feels. With factors such as disintermediation and democratization, increasingly people are not relying on third parties to form their opinions, and increasingly the public is not allowing others to seek permission on their behalf. And so we believe—and I think in this case—that there is a very strong case to be made in the future, and that there will have to be a fifth seat, in effect, at the table, in terms

of talking about the strategy of anything that goes on between governments, between companies or between peoples. The public is increasingly going to drive these types of decisions. Almost anybody in a decision-making position, no matter what country, at some point is going to raise their finger to the wind and see if it is all right to take a certain position. They may do it defensively after they have already made the decision (we have seen that in Brazil), or they may do that proactively in terms of the future, but increasingly they are going to look at the public.

So just one quick point. If you look at the public opinion in Russia and the US today to the topic, in the US today, 48% of US respondents view Russia unfavourably. That is an increase. Equally significant is that 41% of Russians view the US unfavourably. Those are not statistically that far apart. Any exchange that goes on, whether it is between governments or businesses, has to take into account that the actions you are taking going forward at some point have to be publicly palatable, and that includes business transaction and exchanges between governments.

In terms of the future, I think you will see, increasingly, the internet is going to play a role in this. There have been, traditionally, methods of communicating with the public. Our firm used them in the past, they are newspapers, they are radio, they are television. Well, because of something called the internet, that has changed. We now have almost one billion people around the world entering Facebook. The number of cellular phones, the number of tablets, and the number of wireless devices across the world is exploding. That is going to be, increasingly, the engine that drives what public opinion decides, and it will increasingly be the answer people get when they put their finger to the wind to see if something is all right. I think in terms of business between the US and Russia, that is going to be a key part of anyone's strategy, which is what we try to emphasize: you have to elevate your strategy as it relates to the public to be taken just as seriously as legal issues, accounting, banking, management, or consulting. Any function that you think today is essential to the start of a conversation now has to include a discussion about the public, no matter what sector you are in. The public is really not siloed anymore, so

decision making and strategy at the corporate level cannot be either. That is my contribution to the discussion. Thank you.

D. Iakobachvili:

Thank you. We will be very short now. I would like to give the chair to Mr. Sanchez.

F. Sanchez:

Well thank you very much. First, let me express my gratitude for being invited to participate in this very important business roundtable and to share the panel with this very distinguished group of speakers. I want to begin my closing remarks by referring to the photograph that Dr. Shokhin showed all of you that showed our two leaders looking unhappy. I was not present when that photograph was taken, but I am confident that they were not talking about the trade and investment relationship between the United States and Russia. I am absolutely confident about that, because I know that we are going in the right direction.

I want to respond very briefly to two suggestions that Dr. Shokhin made that we should engage in dialogue with Russia as to what we are doing in the TPP, the Trans-Pacific Partnership, and what we will soon be doing as we commence discussions with the EU, in a US–EU trade agreement. I think that is a great suggestion for us to engage and talk about opportunities for Russia as a result of those agreements.

Let me also thank the gentleman in the front row who talked about his investments in the United States. First of all, thank you for your investment in the United States. And let me also take an opportunity to tell you about something new. I can even educate Jim Turley, who suggested that we were not listening to Russian investment. We actually have an office that is dedicated to helping foreign investors, including Russian investors, who want to invest in the United States and it is called Select USA and we welcome your investment and are there to help you in any way that we can. And let me make a plug for a summit that we are going to be holding on October 31 and November 1. It is going to be the Investment Summit in

Washington DC, and anyone who is interested in investing in the United States should come. There will be economic development representatives from all over the United States, so I encourage you to come. The gentleman who talked about films, I am happy to talk to our industry and see if we can get some business going there. I also want to say that our cooperation is not only limited to the federal level, but we are also going to be working regionally. I had the pleasure of meeting the Governor of Kaluga, who I see is in the front row, and we had a very good meeting. I am very impressed with what is happening in his province and we look forward to cooperating at the regional level as well. So let me just close by saying that I am very optimistic about the trade and investment relationship between our two countries. I, in the Department of Commerce, and the entire Obama Administration are absolutely committed to strengthening our trade and investment relationship, you will see more of us and we look forward to working with you.

D. Iakobachvili:

Thank you so much. After our discussion, I believe Mr. Margelov will be more optimistic. Just a few words, very briefly.

M. Margelov:

Thank you. For me the most important outcome of this discussion is that now Mr. Sanchez has a commitment to inspire Senator Menendez to be more active in rebuilding contacts between the US Senate and the Russian Senate and I think it is a good sign. I was really surprised to learn from my old friend Mr. Savostyanov that American bureaucracy can take longer than Russian bureaucracy. Translating a text for a year is an accomplishment. I should say that if they finally do translate it and we sign that agreement, that will be good. So I think that this example tells us that sometimes if it takes us a long time to reach positive results that is fine, let us take time, but let us deliver.

D. Iakobachvili:

I will ask Mr. Alexei Likhachev, the host and main organizer of today's event, to provide some concluding thoughts.

A. Likhachev:

Thank you, Mr. Iakobachvili. Thank you to Mr. Somers and my other colleagues here today. I want to express two thoughts – two and a half. First, strange as it is, I have a more optimistic view of Russian–American relations after our roundtable than before it. I am telling the truth. We must take away with us from this event just a small amount of homework. By 'we' I mean government authorities. In our practical work with business, we need to think about what new signals the government must send to business in order to reinforce its confidence in the future. The second point. When I was listening to Mr. Turley speak, I had the impression that I was sitting at a Russian Federation ministerial meeting. James spoke about the same challenges that our leadership is currently setting for us: to further develop the investment climate, remove barriers, and fight corruption.

A second positive thought is that our relationship seems to me to be absolutely transparent and mutually beneficial. A small addition, a brief comment on the speech by our colleague from Cisco: knowing how to work equally well in America with the Republicans and the Democrats does not at all mean you are prepared to work in Russia with anyone who might come to power here in an election. I would be very cautious in making such an analogy. Our political systems are just too different. But I will be very glad if the political discussion can be channelled mainly through our parliaments and our senates. However, we, the simple foreign trade and investment workers, will still be left with the pleasant practical matters, the tasks set for us by our business communities, both American and Russian – I stress, our American and our Russian business communities. We are prepared to work on solutions to your problems. Thank you.

D. Iakobachvili:

Thank you all very much. I hope that we have come a little closer and that you now have a better and more profound understanding of each other. Thank you all.