

ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM
JUNE 21 – 23, 2012

Realizing Russia's Potential
MADE IN RUSSIA – GROWING DOMESTIC CAPACITY TO EXPORT
Panel Discussion

JUNE 21, 2012 — 11:45 – 13:00, Pavilion 5, Hall 5.3

St. Petersburg, Russia
2012

Moderator:

Petr Fradkov, Director General, Russian Export Credit and Investment Insurance Agency (EXIAR)

Panelists:

Vladimir Dmitriev, Chairman, Bank for Development and Foreign Economic Affairs (Vnesheconombank) state corporation

Fred P. Hochberg, Chairman, President, Export-Import Bank of the United States

Zygmunt Kostkiewicz, President of the Management Board, Export Credit Insurance Corporation JSC

Xavier Laurent, Director of Public Guarantees, COFACE

Denis Manturov, Minister of Industry and Trade of the Russian Federation

Mikhail Pogosyan, President, United Aircraft Corporation JSC

Nikolay Solomon, First Deputy General Director for Corporate Operations, Chief Financial Director, State Atomic Energy Corporation Rosatom

P. Fradkov:

Since we have adopted this format, I would like to invite Denis Manturov, Minister of Industry and Trade, to deliver the opening remarks. What is the current situation with our exports, what problems do we face, and what should we be focusing our attention on?

D. Manturov:

Thank you, Mr. Fradkov. Dear colleagues, we know first-hand what supporting exports means, because our agency actively participates in this endeavour. It could not be any other way, because the Ministry of Industry and Trade is the agency which is responsible for supporting exports and producing competitive products, which should earn a respectable position on the current markets.

What is to be said about the forms and measures of state support of exports? There is financial and non-financial support: this is the basic distinction used by all countries. At the level of political and diplomatic mutual relations, support is provided by our embassies, our diplomats, and the bilateral intergovernmental commissions, where they constantly discuss issues of the support of export-oriented products in the broadest terms. These issues are discussed at meetings of the presidents and the representatives of governments of cooperating countries, and we support exports, including by providing government guarantees.

Financial support is provided through interest-rate subsidies on loans businesses take to produce goods for export. To cite some statistics, for the last five years, we have provided more than RUB 30 billion for this purpose, which has allowed businesses to attract more than RUB 1.4 trillion for supplying goods to foreign markets. Of course, this is beneficial to the state, and, most of all, to the businesses themselves. Because of the subsidies to the interest rate, we increase the competitiveness of Russian exporters in foreign markets, which allows them to use what are, unfortunately, still excessively high interest rates on loans from commercial, and even state, banks.

In our system, support of exports is integrated into the recreated Export Insurance Agency of Russia, which is headed by Petr Fradkov. We actively cooperate with this agency. The agency is new, promising, and has great potential. We were able to form a worthy team, which is developing this area. I think that today's financial instruments are the main supporting factor to be widely used by our businesses when creating the Customs Union of Belarus, Kazakhstan, and Russia, and particularly considering the entry into the World Trade Organization. As we now have a common market, we are coordinating industrial policy and the export of all three countries' products to foreign markets. By using all the available means I have mentioned, we will promote our products for export, and this stimulates the production of modern, high-tech products for domestic consumption. Competition in foreign markets is fiercer than in the domestic market, and we support our fellow industrialists, since they have to compete with foreign manufacturers which are already well-known. That competition will increase the quality of products. We are ready and will continue to support our manufacturers. However, we will not exclusively use the means we currently have available to us. If there are any proposals, either from foreign or Russian financial institutions, or from industrial enterprises, we will closely examine them, take them into account in our work, and, of course, we will improve the existing mechanisms. Thank you. Since I have to go to the next panel discussion, I can only answer 2 or 3 questions.

P. Fradkov:

Colleagues, please take this opportunity and ask the Minister of Industry your questions. There are probably quite a few of them, because Russia uses its own instruments to support exports in accordance with international law. Mr. Manturov noted a new instrument of export credit insurance, which he played an active role in creating. He is also a member of its board of directors. There are also other effective means to subsidize interest rates. Do I understand correctly, Mr. Manturov, that we will not abandon this instrument; we are simply modernising it and anticipate its use in the future?

D. Manturov:

I think that, considering our entry into the WTO, it will be a very popular and effective instrument. Unfortunately, as I already said, interest rates are high, and currently, the general financial and economic situation strongly influences foreign markets. We do not fully understand how it will affect the rise of interest rates, which are already tending to rise. At the beginning of the last year, the interest rate was 8.5% on average, but today interest rates for our heavy industry have reached 12-13%. Of course, we must make every effort to assist and subsidize this rate so that our businesses have distinct advantages on foreign markets compared with other manufacturers. At the moment, I cannot give exact figures concerning government support for the 2013–2014–2015 budget, since the budget is still being drawn up and will be adopted by October this year. But we will definitely invest funds for that type of government support.

P. Fradkov:

Mr. Kravchenko has a short question. Please, go ahead.

S. Kravchenko:

My name is Sergey Kravchenko, and I work for Boeing.

Mr. Manturov, first of all, our congratulations for your government appointment.

I am interested in one issue: the 21st century is the century of outsourcing. In addition to capital-intensive manufacturing, such as aircraft, automobiles, and machine tools, Russia has vast potential to export intellectual products. We have seen what India has accomplished by exporting IT services. Perhaps Russia has a unique chance to become the world leader in the export of engineering services. Does your new team, and do you personally, plan to support young engineering service companies founded in Russia and operating on the world market, just as the past government supported the export of IT services and the creation of Russian IT companies? In the case of capital-intensive manufacturing, export can be supported

by providing inexpensive money and loans. In the case of the export of intellectual products, for example, engineering services, support should be provided in other ways. In particular, the IT industry received tax benefits from the previous government, and engineering service companies, which are currently the best in the world, have yet to receive anything.

D. Manturov:

That is a good question. Intellectual products really are quite different than mechanical engineering products and manufacturing industry products, but they are still products, and of course, they need to be supported. The other question is how. When one signs a contract and has a customs declaration – the goods are loaded, which exact goods or airplane or helicopter you are taking out of the Customs Union – then it is much easier to come to the ministry, show all of the documents, and receive the same subsidy. It is possible to use pre-export financing or insurance contracts against political or economic risks, which, in fact, the agencies should do.

In regard to intellectual products: first, in principle, we support Boeing. It was one of the first companies to create an engineering centre in Russia. At first we were upset, knowing that we could not provide such benefits or create such conditions that Boeing has provided our young specialists who work in that engineering centre. But today one can see a different picture: feedback works, and specialists educated and trained by you, return to our industry. Mikhail Pogosyan is a witness to this process. Those whom he initially educated then began training others at your facility, and today have returned to Sukhoi. At the same time, other specialists, on the contrary, are going to Boeing. This is how the mutual transfer of intellectual products happens.

As for the high-tech sector and IT services, we will explore modern instruments, including all possible tax benefits. We will work together with you to present proposals to the government, since it is necessary to convince not only the Ministry of Industry and Trade, but also other agencies, in particular, the Ministry of Economic Development and the Ministry of Finance. But I think our joint efforts will

convince them and we will find the right tool. Colleagues, thank you very much for the constructive dialogue and for the good questions. I think we will continue our discussion on other panels, not just at the Economic Forum, and we will find opportunities for meetings and in other formats.

P. Fradkov:

Denis Manturov, thank you very much. In my opinion, those were very clear and understandable answers. Today is the first day of the Forum, and the Minister is participating in a number of concurrent events. Now we can discuss the questions raised today.

I apologize; Mr. Gutierrez was not able to ask a question. We will now give him the opportunity to briefly comment. To briefly introduce him: Carlos Gutierrez is a Vice Chairman of Citigroup and the former US Secretary of Commerce. I think he has something to say on the subject of export support. Perhaps with an emphasis on Russia's entry into the WTO. What it will provide, and perhaps, in what ways it detracts.

C. Gutierrez:

Thank you for the invitation and for the participation from the audience. I think that joining the WTO is a major step for Russia. Opportunities to export and open markets are going to be plentiful. There are always going to be disadvantages. You will probably be subjected to rules that you would not have chosen on your own, but the benefit outweighs the cost. One of the things I was going to ask the Ministers is whether there will be a policy of negotiating Free Trade Agreements and using the WTO as a springboard to open up markets and increase exports? That would be an excellent way to promote exports and to have your products all over the world, depending on what partners you choose for the Free Trade Agreements.

P. Fradkov:

Mr. Manturov has left, so I will not be able to answer for him, but only to comment from my point of view. Of course, Russia is holding such negotiations, that is, holding negotiations both as an individual country and as a member of the future Eurasian Single Economic Space. Those negotiations are held in a multilateral format, with the participation of many, many partners. The main point of creating such structures is to ensure access to one's goods on foreign markets.

Thank you very much for your commentary. To develop this postulate: it is obvious that because of the limitations imposed on us by the World Trade Organization, some sectors, and some regions, will suffer. But it is necessary to use those advantages provided by the WTO. By opening the market, we on the other hand open the market for ourselves. And creating joint ventures in Russia is part of the reward. We do not arrogantly assume it will be a success; the process continues. Russia is integrated into the global economy. There is interest in creating such ventures in Russia. Here are some major examples: Daimler and General Electric, Renault-Nissan. France is one of the active players, and French businesses actively participate in joint projects in Russia. I can cite the Peugeot project in Kaluga Region as another example. I would like to ask Mr. Xavier Laurent to briefly comment on how he sees this process and what role export insurance credit agencies play in stimulating this process, and possibly to share the experience of his company.

X. Laurent:

Thank you very much for this invitation. It is a privilege and an honour to be here. COFACE is an ECA which was created in 1946 just after the Second World War to promote French exports. Before it was privatized in the late 1980s, it played the role of a governmental Export Credit Agency for 40 years. Beside this private activity, it has developed as a credit insurer for its own accounts. For the time being, we are running two very separate activities. On one side, private activity as a credit insurer. We continue to act as an Export Credit Agency for the French government. We draw up deals every year, cover between EUR 10–15 billion in deals per annum,

and our total commitment for the time being is around EUR 65 billion. We deliver many kinds of guarantees. The most important are, of course, export credit guarantees and investment guarantees. We have also had great experience in cooperation with other export credit agencies for a long time. There is no competition between export credit agencies, just very deep and interesting cooperation. The OECD rules to which most of the countries with big export credit agencies adhere completely forbid all kinds of competition. We cannot subsidize premiums or interest rates and this makes it a very level playing field for everybody. The competition is not on the support given by the ECA, but on the deal itself, on the quality of the products and the quality of the company. I think that Russia now being a member of the WTO is very important and, in terms of export credit, it will help Russia to face world competition. Everybody always sees the disadvantages and never the advantages, but in this case I think there will be great advantages for Russia. In terms of the financial industry and banking system, cooperation between France and Russia started a long time ago. Petr Fradkov mentioned the Sukhoi Superjet factory and the deliveries of exports that are soon to start. They will soon commence and we will cover ground together with VB and SACE, the Italian ECA to promote that kind of export. This is a typical example of how cooperation between ECAs and EXIAR could be very important in the near future. With regards to France, we have other projects. One is the launching of rockets from bases in Kourou, French Guiana. We are waiting to reach an agreement with EXIAR to enable us to share the burden of the financing of those launchings. We have been discussing things with EXIAR for six months to a year now in order to implement a cooperation arrangement, a coinsurance agreement, and I do hope that they will be a signatory in the very near future.

P. Fradkov:

In general, the forecast is optimistic. I hope that we do not let you down as a partner agency. It was very interesting to hear what you said about the increased demand from French entrepreneurs for instruments to support exports to third world

countries of products produced in Russia. This is one of the instruments that will be truly innovative and directly confirm the necessity and importance of Russia's entry into the World Trade Organization. You briefly mentioned another important project: the development of the Sukhoi Superjet under a joint project, which, I am sure, in the near future, will take its rightful place. I know this project is not the only one. In the aircraft industry, it is becoming good practice to create multinational products.

I would like to ask Mikhail Pogosyan, General Director of the United Aircraft Corporation, to share his vision and plans: how could such a large structure, such as UAC, use this mechanism? Thank you, Mr. Pogosyan.

M. Pogosyan:

I would like to say that we currently envisage UAC's development strategy to be a strategy aimed at creating products that are competitive on the global market. In this regard, development of the civil aviation sector is one of our priorities. The mechanism of export support is not a theoretical question. This is an issue with which we are now extremely closely connected. These are already current programmes which are actively accessible on foreign markets, such as the Superjet 100, which was already mentioned today. This year, we should begin to export aircraft to Laos, Indonesia, and next year, to Mexico. This task requires not only the creation of individual mechanisms, but also formulation of the procedures that would allow efficient use of these mechanisms. We are happy to note that we are concurrently developing these mechanisms as we develop our projects. We rely on agreements between COFACE, SACE, and Vnesheconombank to support the export of our aircraft. We actively use export credit and investment insurance mechanisms against commercial and political risks. This insurance is provided by the Export Insurance Agency of Russia, which is organised by Vnesheconombank. And there are a number of other mechanisms which we currently use.

I believe that the difficulty in our task lies in the fact that we must concurrently export goods while determining the specific procedure for operational use of those mechanisms which currently exist in the world. They have already existed for more

than a decade. We need to move quickly along this path, and we expect to work closely with our European colleagues. From my point of view, in order to maintain the current competitiveness of a producer, we need to develop mechanisms of export support. Previously, with government procurement and government export support, a manufacturing company did not have the responsibility of formulating these mechanisms. We were concentrated on the technical characteristics of aircraft and the post-sale service system. Today, export support is an inseparable, integral part of production activities. Without active development in this direction, we see no possibility of future progress. For us it is a strategic issue. My presence here is one part of our strategic interest in these mechanisms we have mentioned today.

P. Fradkov:

I think that is entirely correct, that today we are discussing not only technological competition, but also competition in financial services, financial packages, the ability of states to support their national exports, to take on a certain amount of obligations, including political obligations. Mr. Pogosyan represents a company which is an export brand that is Russian and Soviet, because for many decades Russia was known for, amongst other things, its aviation technology. Another brand, that is no less important, is our nuclear industry. I will ask Nikolay Solomon, First Deputy Director General of State Corporation Rosatom to share, in addition to Mr. Pogosyan's words, his own views on the subject. How can a large company, known all over the world, one of the monopolists, on one hand, and on the other, a company that is developing at a rapid pace, which successfully retains its old markets and wins new ones, how can it add new instruments to its approaches that have existed for many years?

N. Solomon:

First of all, I would like to follow my colleagues from UAC and say that Rosatom has positioned itself as a global, high-tech company. We are making serious plans to expand our operations abroad. We are large enough to maintain the image of a

high-tech company and invest sufficient funds in research and development. Currently, exports account for 30% of this government-owned corporation's revenue, and we plan to increase that to 50% in the next 15 years. That is a serious amount; that is USD 30-35 billion. Today we hold 40% of the uranium enrichment market and 17% of the global fuel supply market; however, our first priority is to introduce a product called 'Construction of Nuclear Power Plants Abroad'. Now we are building abroad most of all; we are simultaneously building nine reactors, and plan to build up to 30 reactors in the long term. Of course, our own process of attracting financing and working with investors and future investors is a separate task for us. We have a sufficiently well-developed system of cooperation with the Ministry of Finance, and we receive intergovernmental loans for construction. It is very important; it is the condition under which all nuclear engineers in the world work. We have capital-intensive projects, and it is not always easy at the beginning of a project, with uncertainty with licenses, with post-Fukushima syndrome, to receive support from investors. But we are open for investment: projects in Kaliningrad, projects in Turkey are open for investment, and we are waiting for that infusion. We are happy about the creation of the Export Insurance Agency of Russia (EIAR), because we fought for it and have been waiting for this moment for a long time. And we would like to wish it a bright future. We know how COFACE works; they, like us, will be 65 years old this year. Ahead lays a long path which we need to cover quickly, so that we can, amongst other things, receive those services which are so important to us. For example, with the support of export credit on equipment supplied to our construction projects abroad, savings on interest payments alone can range from 0.5% to 1%. At the average cost of building a two-reactor power plant of more than USD 10 billion, the effect is obvious. This is USD 100 million from one construction project. Such obvious benefits are currently needed by our clients around the world. A tender is now being conducted for construction at the Temelin Nuclear Power Plant. One of the obligatory conditions of the tender is a guarantee from an export credit agency on the provision of equipment. This is a very important

competitive factor. Therefore, we are anxiously waiting to use this product in our proposals and hope for support.

P. Fradkov:

It is important to note that the mechanism for export credit insurance which currently exists may be used by large businesses, but we cannot exclude support instruments to support small and medium-sized businesses. I would like to ask Mr. Hochberg for commentary on the experience of the Export-Import Bank of the United States. This huge organisation provides long-term financing and has a special programme for medium-sized businesses. What are the priorities of your approaches? What do you see that is happening today in Russia that is connected with the foundation of the new agency?

F. Hochberg:

Thank you and thank you for including me in this panel at the conference today. This is my third trip to St. Petersburg. My first one was 20 years ago in December and my second one was 10 years ago in April. At last, I came in the right month. I am very happy to have come in June, so thank you for inviting me. We have met before and talked about the Export–Import Bank of the United States, which was established in 1934 and is therefore a little older than COFACE. We recently celebrated our 78th year. President Obama has made a push for exports in the United States and is the first president to ever create a real export strategy. It is called the National Export Initiative and the President has also called for global competition to improve coordination between all of the export agencies. The National Export Initiative was the start and he has actually asked our Congress for authority to merge a number of these agencies together. The President has made our support for small and medium-sized enterprises critical. Of the companies we help, 85–90% are small businesses as defined by our small business administration, which generally means fewer than 500 employees. So, in many cases, these are very small companies. That accounts for close to 90% of the

companies we helped last year. It is about 20% of the dollars. We did about USD 6 billion last year to facilitate export trade from small businesses, but it is still the overwhelming portion of the customers we work with. We are an agency that is focused on jobs, primarily jobs in the United States. But, frankly in thinking about an export credit agency and expanding the base in Russia, one of the things is – let me give you an example: in India we financed a solar project to build a renewable energy project. Not only did that create many good jobs in the United States, it created 600 jobs in India for the construction of the power plant and then another 200 on going jobs in India to run the power plant. In a world where we are trying to create more jobs and there is a shortage of employment in many countries, including my own, the real advantage of these exports is that they play a role in creating jobs on both sides of the equation. And finally, since we are focused on jobs in the United States – President Obama has made that clear – we help both American companies and foreign companies that are located in the United States. One of the companies we have done a lot of work within the past year is Siemens. They make power turbines in Charlotte, North Carolina. I have visited that factory three or four times and we are helping them finance their turbines going to Korea, Nigeria, and Mexico. So, an important thing in looking at this is that the relationship between foreign direct investment and export promotion are somewhat related and the export credit agency can be the link between those two.

P. Fradkov:

If you will allow it, may I ask one small question? It is clear that you have a very broad mandate, under which you conduct your activities. What if you try to compare one of you major partners, Boeing, and the support programme for small and medium-sized businesses? Considering the objective limitations of budgetary issues, which are set by the Senate every year, what are your priorities? Or is that a question for internal evaluation?

F. Hochberg:

As with any government agency that is subject to a legislature, we of course have only conflicting priorities and we have to try and thread the needle. We have a priority to create jobs, to support small businesses, to create more renewable energy exports, and to create more exports in sub-Saharan Africa. We have to do all of those things and not get in the way of the private sector, so we have to try and create a strategy that does that. Since you mentioned Boeing, one of the projects that we have launched in the past two years is something called supply chain finance and Boeing is one of the companies participating in that. Small businesses are sometimes referred to as hidden exporters because they are supplying products to a larger company that is exporting, be it Boeing, Caterpillar, or Case New Holland. Case New Holland was our launch customer when we launched the supply chain finance programme. So, in this case, a small business may supply a larger company. Normally they might wait 30, 45, or 60 days to get paid, which is very hard for small businesses. We have a programme working with the larger exporter and the bank so that that small business can get paid within five days. It helps the cash flow, helps the growth of that small business, and at the same time supports the large company exporting.

P. Fradkov:

Mr. Hochberg, thank you very much for your comments. I have one more question. Mr. Gutierrez, please ask your question.

C. Gutierrez:

Thank you, I just want to build on Mr Fradkov's question. Will the Basel III capital requirements and the risk-weighted cost put more pressure on funding SMEs? Because they probably will not have funding from the private sector or at least as much as they have today?

P. Fradkov:

I understand. Thank you very much for your comments. I think that sooner or later we will decide what will work systematically both with large companies and with small and medium-sized businesses. It comes down to realising that in the value chain, companies which are small in comparison to Boeing, may be as important as large companies. Small companies may be middle-sized when applied to this chain. Thank you.

Export support and Russia's entry into the World Trade Organization raises a number of questions connected with, amongst other things, legislation. There is a lot of controversy, and a lot of pros and cons of joining this organisation. The latest report, which was issued by the New Economic School and Ernst & Young on the consequences of Russia's entry into the WTO, was very interesting. An unequivocal conclusion was made: only two things could somehow neutralise the negative effects of Russia's entry into the WTO. First, that the export-oriented model is applied, and second, that large investments are attracted to the country. These are two completely inseparable things. But we are speaking on a more general level, about the business climate, and about the investment climate in the country.

I would like to give the floor to Andrei Nikitin, General Director of the Strategic Initiatives Agency. The Agency, as you know, was created at the initiative of Vladimir Putin, and develops approaches and models which will allow our business climate to improve. Mr. Nikitin, please go ahead and share your comments on exports and your views on the problems.

A. Nikitin:

We have a clear, systematic plan to improve the investment climate. I think we will be able to implement it. Of course, the opinions of entrepreneurs are important to us. When we do this work, we build a 'road map' to remove barriers. The first four 'maps' which we built are: the removal of customs barriers, the simplification of obtaining building permits, reducing barriers for connection to the electricity network, which matters to investors; and there was a 'map' on export support, work that was led by Petr.

We would like to note that all of the maps were discussed not only in detail with federal agencies, but also in the crowdsourcing arena. Usually in the crowdsourcing arena we invite sufficiently qualified specialists who have passed a specific selection process. For each 'map', there were roughly 1,000 experts. For the Export Support Map there were 20,000 referrals. Notwithstanding that, export support for small and medium-sized businesses in Russia is non-existent, and the demand for this product is enormous. I am very grateful for the work you are doing. For our part, we will fully support you.

P. Fradkov:

Andrei, thank you very much. I would like to say that this work is new and very interesting. I am sure that it is absolutely necessary, because it is the first attempt to combine different approaches to support exports with the maximum involvement of businesses. I would once again like to return to small and medium-sized businesses because it is the cornerstone of this map. Rather specific figures are given. Unfortunately, we must acknowledge that today, government export support at the level of small and middle-sized business is practically not represented. One of the main tasks of this map is to achieve the following indicators by 2015: 15% of all small and medium-sized business must be export oriented. It is clear that this is far from the foreign examples which were reported by our colleagues, but at least this question has been seriously raised for the first time.

In continuing the theme of small and medium-sized businesses, I would like to ask Stanislav Naumov, Vice President of the Skolkovo Innovation Centre, to briefly comment on how he sees this development. The format of the WTO involves the support of small and medium-sized businesses in various ways. We need to understand that small and medium-sized businesses are flexible tools that ensure real diversification of exports, on the one hand, and on the other hand, they ensure a constant flow of exports, because these businesses can adapt to changing realities, and they can move from market to market depending on the situation.

S. Naumov:

We are an agency which specialises in the import of research start-ups in the ecosystem of our country. Today, we have 500 participants at the St. Petersburg Forum. The 500th member is a company which was founded by Russian and Israeli scholars and entrepreneurs. For us, it is very important that successful results of intellectual activities are achieved not only in this country, which is certainly important and a priority for us, but also that there is an external demand. Therefore, we have established a ten-year term of tax benefits. I think this is a good way to attract private investments in our start-ups, since the point of returns on investments comes a bit earlier in them than in other projects.

Tomorrow morning we will hold our first investment session to sell the first 20 companies. We would like to take this opportunity to invite everyone who would like to export talented companies from Russia to come to our session tomorrow. We are interested in working with you, because we understand that it is important to sense the marketing of foreign markets and the risks you evaluate are, for us, a very important guide for decision making.

P. Fradkov:

One small question: did you use some sort of quantitative indicator in your models to determine the number of small and medium-sized companies that need to enter the foreign market? I mean new companies, those that receive new means of support.

S. Naumov:

Yes, the agreements we signed with our technological leaders, that is, nearly 25 multinational companies, which currently work in Skolkovo, stipulate that they will open their own companies. So I think that at least 100 companies with the participation of large international corporations will appear in Skolkovo in the near future. And they will not only receive tax relief. We provide grants, especially when it comes to high-risk research on the border between fundamental and applied

science. And these R&D centres will also receive co-financing from large corporations, which today reaches nearly RUB 19 billion.

P. Fradkov:

Mr. Hochberg, I know that you need to leave us. Thank you very much for taking part in the event.

F. Hochberg:

I've been called to another meeting so I need to conclude, maybe there's one more question that I can answer and then I will go.

P. Fradkov:

Colleagues, please take advantage of this opportunity. It is not every day that one has the opportunity to ask a question of the head of the largest export-import bank in the world. It seems your explanations were sufficiently comprehensive. If there are question, we will pose them to you.

F. Hochberg:

I guess my comments are so clear there are no questions, that's always good.

P. Fradkov:

Then I propose we move on. We have touched on several important topics. We left off at the support of small and medium-sized businesses. It is clear that small and medium-sized businesses which receive limited support are concentrated outside of large cities. It is clear that we all together need to create an infrastructure of export support in the broadest sense. Infrastructure includes a few aspects: it is both financial, which we have already discussed, and organisational, executive support agencies, support of public organisations, consulting support and many other things. But how can we reach companies located outside of cities and explain how they can use these instruments? Of course, you need a defined network, you need time to

work, and you need contacts. I would like to ask the President of Chamber of Commerce and Industry, Sergei Katyrin, to briefly explain how we can organise this work on the basis of the Chamber of Commerce and Industry and other associations.

S. Katyrin:

I think it is known to many of those sitting here that we have a fairly substantial network: we have 174 chambers working in the Russian Federation. Naturally, they are represented by small, medium, and large businesses, represented in all forms and proportions. It is also natural that, here and all over the world, the membership base is comprised of small and medium-sized businesses. And above all else, the Chamber protects precisely their interests, because the small and medium-sized businesses need to be protected most of all. We have had a good start to our cooperation. I would like to tell those that do not know that we have already visited dozens of areas where we set ourselves the following task: to provide potential exporters with the opportunity, before they become exporters, to meet with the Agency to understand how and whom it can support and to organise direct contact to work with them. Through the Chamber or without the Chamber, the main thing is that they understand that there is such an institution and that this institution was created for them and their support. Naturally, we suggest that they actively use this institution.

The task we have set is to include this work in all of our chambers, including municipalities. There will not be dozens of exporters in each chamber. Let there be one or two, and they will be those that the Agency helps enter foreign markets. There are representative offices of the Russian Chamber in eighteen foreign countries, and they are also connected to this work. What do we consider to be the current problem? First, there is a lack of information. I think that Petr and his colleagues, when going from chamber to chamber, felt that many of the entrepreneurs did not sufficiently understand the support institutions which exist in the country. This concerns not only the Agency, but also the other institutions which

have recently been founded and which have already begun actively working. Unfortunately, businesses are not sufficiently informed. I think that the blame lies with the businesses themselves, which do not try to understand everything that has been created in the government, and with the institutions, amongst them the Chamber of Commerce and Industry, that we do not sufficiently provide information to those who could potentially use it. Secondly, but perhaps most importantly, it is a personnel issue. It begins with mechanics and ends with foreign trade, unfortunately.

In our companies, including those which are export oriented, there is a shortage of personnel who are experienced in foreign trade and could sufficiently well manoeuvre our companies in foreign markets, in the institutions that are in our country, and through the opportunities that exist outside of our borders. This is a task that we must work on together. And if we talk about current conditions and what we expect to do next in the WTO, then that is already an exponentially worse problem. In order to protect and advance our businesses, we need people who understand where to move the business forward, in what circumstances, and how they will operate in foreign markets. So we have a lot of work to do.

P. Fradkov:

I would like to acknowledge that I was pleasantly surprised when we immediately found common ground with Mr. Katyrin and with the Chamber of Commerce and Industry. We decided together that we need to bring new logic and instruments to businesses in rural areas. We conducted a series of regional presentations without any organisational fanfare or normal working meetings. At least 100 potential exporters appeared in the region, they are there, and they are interested in the prospects. It was an entirely new level for them, and we all need to support the potential of small and medium-sized businesses together.

I would like to return to the WTO. Zygmunt Kostkiewicz, head of the Export Credit Insurance Corporation KUKI is in attendance. He has very interesting experience which he can share.

The agency was founded nearly 20 years ago, and Mr. Kostkiewicz can correct me if I am wrong, as soon as Poland joined the WTO. We have a similar situation. The Agency was recently founded, and we are in the process of entering the WTO. As we have discussed today, the Agency's instruments are a uniform export insurance instrument, which is adopted by each esteemed organization. What are bumps in the road, what difficulties did you face, and what can you advise to avoid? What are the mistakes which we, regardless, will likely encounter, but at least we will know what to fear?

Z. Kostkiewicz:

Thank you for your invitation; it is a pleasure to be here. I would like to stress that we are a relatively young organization; we are only 21 years old. KUKE was established just after the big changes in Poland of 1989, and we drew on the experiences of our Western friends, mainly from COFACE, so we would like to thank you for that. We relied very extensively on COFACE's expertise during the 1990s and our agency was undoubtedly based on some of this know-how. I would like to stress that it was a long journey from the very, very beginning when we were a small organization and the main obstacle we faced was obtaining the consensus of Polish entrepreneurs. As Mr. Naumov said, it was a question of information, a question of teaching our companies to use the old tools we proposed to support export. At KUKE we are now in a situation where we do not even remember Poland's entry to the WTO; it was no problem. We began building a relatively open economy in Poland straight after 1989. This means that entry to the WTO was completely invisible for the Polish economy. For us at KUKE, a very important measure was membership of the OECD because it is the main regulator of long-term business, of long-term credit insurance, and of entry to the European Union, which from our point of view is the main regulator of short-term business. KUKE is an export agency that has 1,500 customers, a relatively limited number, and acts on behalf of the Polish state to support and provide long-term and short-term export credit insurance to non-marketable countries, i.e. countries where insurance is not

easily obtained. We are a commercial credit insurer that operates domestically and supports short-term business in OECD countries and all over the world. We are still a small company, but we have 1,500 customers, the majority of which are medium and small enterprises. As for the scale of our short-term business in Russia, we have 5,000 credit limits in the country. This means that we cover exports to 5,000 Russian importers of Polish goods and services and our long-term exposure in Russia is just 60% of our overall exposure. An example of our cooperation here in St. Petersburg is the Crowne Plaza Hotel at Pulkovo Airport, which was built by a Polish company and is still one of my largest risks in Russia. Roughly some EUR 50 million credit has to be paid over the next eight years. We are now a member of the Berne Union and we hope that EXIAR will become a member of this special club in coming years. This work with entrepreneurs is extremely crucial, as is an understanding that support instruments are not intended to compensate for a lack of competitiveness in the goods and services supported. It is about creating a level playing field, as my colleague at COFACE explained. We are in favour of that and we are in favour of creating a situation where Polish exporters have the same insurance, financing, and risk mitigation tools as our competitors in China, Germany, and other countries – although we are not able to create competitiveness if it is not already there. Polish export stories are one of the biggest successes of Polish transformation. It was a relatively closed economy and now it is a relatively open economy. By way of example: exports which made up some 20% of our GDP now represent over 70%, and our GDP is three times bigger than it was in 1990. Of course we are not comparing the participation of exports from very small economies like Estonia or even Hungary, but generally, Poland is now one of the bigger exporters. The majority of our exports are to the European Union, which we are now fully integrated into. For this reason, we think of this as internal trade rather than real export. I think that the infrastructure we are creating in Russia now is the best thing that you can do in terms of creating a framework to really develop your exports. I wish you all the best and I believe that if we can help EXIAR with something, we will be open to doing so.

P. Fradkov:

We have noted the issue of entry into the Vienna Union. I think that in time we will request it and be accepted. We will soon join the WTO, and, more importantly, the Organisation for Economic Co-operation and Development, because that is the organisation that regulates export loans. And the WTO accepts a consensus decision of the Organisation for Economic Co-operation and Development as a document for execution. Of course, we must bring our credit policies into compliance. This and the provision of direct government financing, subsidised rates, and many other issues. Of course, your experience here is impossible to replace.

Now I will give the floor to Vladimir Dmitriev, Chairman of the state corporation Bank for Development of Foreign Economic Affairs (Vnesheconombank). Today we have discussed different instruments. Vnesheconombank, as the main institution of development in the financial sphere, accumulates all of these instruments. It acts not only as a development bank, but also as an export-import bank, because it provides export financing. There are Roseksimbank instruments and export credit insurance instruments. Mr. Dmitriev, what are your current views on the further development of the bank in this direction? How can it respond to the demands of an open world?

V. Dmitriev:

I do not know where to further develop the bank because we have already implemented or are implementing everything that is possible. I was just at a session which was organised by the Russian Direct Investment Fund, a wholly owned subsidiary of Vnesheconombank. Now we have the Export Insurance Agency of Russia's session, which is a wholly owned subsidiary of the bank. Nikolai Gavrilov, head of Roseksimbank, which is also a wholly owned subsidiary of Vnesheconombank, is in attendance. We have other 'offspring' in other industries and in the banking sector and in the industrial sector of the economy, including metallurgical enterprises. There are other forms of participation in our country's

economy. That is actually wrong! There is nothing in the world like a comprehensive support system for industrial exports. Everywhere in the world there are government export-import banks or insurance agencies. But there is such a phenomenon, like Russia, where it is deemed appropriate and only possible to implement these functions through Vnesheconombank. It is probably easier and there is less responsibility. One can ask Vnesheconombank for anything, it is responsible for everything, just like a young boy scout. This is what we are trying to do in accordance with the tasks that are set out before us.

It is encouraging that we have created a complete system of support for industrial exports. How it works is a different question. But at least the results of the first months of operation of the Russian agency for credit support, and more importantly, investment, show that there is an undeniable demand for the products the Export Insurance Agency of Russia. Importers have interest in the EIAR's work and activities, as do exporters, and the first transactions, which were finalised by EIAR at the end of last year, demonstrate this interest. Now the pipelines are quite impressive, and they extend to many sectors of the Russian economy.

I must agree with our Polish colleagues on the importance of the question of the growing need to support small and medium-sized businesses' intention to enter foreign markets. Anatoly Karachinsky and I have discussed this issue for a long time. There remains some scepticism in relation to the transparency of EIAR and the system of export support in general. The term 'industrial export' grates the ears even more when it comes to developing a company that works in the IT or mass communication fields. This high-tech, highly-intellectual product has its own specific features and requires a precise approach and a very specific attitude towards it. However, I am convinced that we will find the correct approach here and the correct forms to support such companies. It is critical that Russia participates in foreign markets not only as a country which exports tanks and rail cars, as everyone is used to, but also high-tech, intellectual products. I see no reason why we cannot compete with India, which has developed a large amount group of talented

programmers. Surely we can say that we have the same quality of people, and they must be supported.

In conclusion, I would like to wish the Export Insurance Agency of Russia success, and I hope that the pipeline is already in place to support not only industrial exports, but also investment in Russian companies abroad. The uniqueness of the situation is that this all happening around Vnesheconombank, and that the institutions, created by Vnesheconombank, complement each other. When we speak about industrial exports, we must not forget that business which are export oriented have instruments for their capitalization, instruments to implement modern corporate management and modern technology. That is, the Agency and the Russian Direct Investment Fund, which also began its work very actively and has already attracted about USD 800 million of foreign investment, having invested USD 200 million of its own funds. That is a good ratio. The fund is aimed at dynamically developing companies which have a good potential for growth. Its interests include export oriented companies. So let us work together.

P. Fradkov:

We will proceed from this, understanding that our Agency and the Direct investment Fund are complementary organisations. Today, we have come to the conclusion that the only way to counteract the possible negative consequences of joining the WTO in a number of industries is to improve the investment climate and develop the export oriented economic model. Our session was opened by Denis Manturov, the Minister of Industry and Trade. And I would now like to ask a representative of another ministry, Alexey Likhachev, Deputy Minister of Economic Development, to sum up this discussion and say a few words about our Agency and the work it does.

A. Likhachev:

Good afternoon, ladies and gentlemen, colleagues, and panellists.

First of all, welcome to the St. Petersburg Forum, and secondly, this roundtable, which we are now attending, is one of the keys. And not only because it is taking

place during the first hour of the Forum. Export support in its modern understanding, this ambitious task that is facing Russia, is perhaps the main task of the foreign economic unit of our Ministry. We work together with Vnesheconombank and the Export Insurance Agency of Russia not only every day, but every hour.

I would like to focus on three key points. First, this work that goes on and will continue in Russia in terms of bringing instruments of export support into conformity with the norms of the WTO, and the basic methods and recommendations of the Organisation for Economic Co-operation and Development. This is serious work, which is supported on an inter-agency level and the blessing of politicians. And in regards to financial instruments – specifically, subsidising interest rates, insurance, warranties, export credit – and specifically work in the rural areas, should, in the near future, be redesigned and constructed in full accordance with basic documents which we have discussed today. One important aspect is that we would very much like to work with you so that these adjustments lead to increased government efforts in this direction. And not only through formal strengthening of financing of other areas, but also through increasing the number of existing and new instruments. We are seriously considering a more active role at the interagency level. Our colleague Mr. Manturov probably spoke about this, and we are holding negotiations with the Ministry of Finance. Another key question is the rural areas and non-governmental business organisations. Mr. Katyrin touched on this subject. Besides the highly-respected Chamber of Commerce and Industry, there is also Opora Russia, an organisation for small businesses. Through its structure and the structure of the Chamber of Commerce and Industry in conjunction with the governors, a lot of money is being spent directly in support of those and other initiatives, on the creation of business centres, in preparing and launching new export projects of small and medium-sized businesses in rural areas. This is an extremely important topic.

Moving on to the second point: analysing the instruments, we specifically emphasize organisational direction. The new effect from intergovernmental commissions, other bilateral contracts to reduce the barriers of access to markets

and to identify new niches and new products into those and other regions. This is new and still unknown to us. And here we specifically distinguish our trade missions. The new head of the government and the new Minister of Economic Development have set an ambitious task for us: to 'sharpen' trade missions for specific projects, to make them client-oriented to the demands of not only corporations, but also small and medium-sized businesses. That means that we will review not only the organisational and substantive structure of trade missions, but also improve KPIs, performance assessments, plans, medium-term national plans for support of specific projects, and the promotion of certain goods in the markets of our partner countries. We are faced with finding, first of all, with Mr. Fradkov, and then with the representatives of businesses, the new role of trade missions to promote specific economic trade and investment interests in available markets. And we would like, Mr. Fradkov, for the Agency and your specialists to approach this problem informally. We have experience working in trade missions of large government-owned companies. We would like for EIAR to have the same representation, and that while working within the structure, the representatives demonstrate their experience, the same client-oriented approach, a new quality of market research, and an analysis of opportunities and barriers, which exist today in the countries in which they operate.

And the third point is our close partner, EIAR. EIAR is a key partner, and we will promote it internationally with all of our strength for international recognition. We will include Mr. Fradkov personally in bilateral visits and meetings, place it on the agenda of intergovernmental commissions, and questions should be included on the agenda of interregional associations, which are connected with EIAR's activities, with its development, and with the execution of bilateral agreements with our trade partners. I would like for us to understand that EIAR is not, for us, just a good partner or a group of nice people, but also a specific direction of work with businesses. We would like to receive information through you from businesses about positive or troubling events in the markets of certain countries, and perhaps, the shift of our vectors of gradual progress. One example: we have 35 requests

from countries to start negotiations on free trade zones. Is this good or bad? Will there be a significant reduction of tariffs after Russia enters the WTO? It is probably a good thing that they are interested in Russia. But we should negotiate with a clear understanding that our businesses will get results from them, from the viewpoint of product promotion, and, perhaps, some investment projects. We understand that we are not alone on this boat: in issues of trade policy, we work with the Republic of Belarus and the Republic of Kazakhstan under the Customs Union of a single economic space. Therefore, we would like, and, taking into consideration the realities of the Customs Union and regional activity, which will grow with the creation of preferential unions, to receive the same signals from EIAR that we currently receive from the Russian Union of Industrialists and Entrepreneurs. According to these signals, we will conduct a joint policy to promote our interests in trade markets and with economic partners. That is all. Thank you very much for your attention and for the highly professional discussion. Please note the two main points of my presentation: the new quality of trade missions, and our potential partner, EIAR.

P. Fradkov:

Mr. Likhachev, thank you for your support. I will add another specific example: in conjunction with the Ministry of Economic Development, which is very important to us, we are working on legislation on the Organisation for Economic Co-operation and Development. In order to join the Organisation for Economic Co-operation and Development, it is necessary to change the laws very significantly, and I hope we will continue this work together. I would like to give the floor to Alexander Filatov, CEO of Russian Machines Corporation.

A. Filatov:

I will not repeat what my colleagues have said. In preparation for this meeting, we developed 10 specific proposals to stimulate the export of heavy machinery products. I will distribute this report. I will also mention something that has not been mentioned. In addition to creating very important strategic initiatives, such as EIAR,

it is important to streamline the existing mechanisms related for the control of foreign currency exchange. Those who are faced with this problem know that it is a serious issue. Our proposals are related to the reimbursement of exports and export control. In regards to the assistance of investments in intangible assets, I fully agree with Sergey Kravchenko. These are niches, but they are important topics in the field of work with offset tools when exporting military technology. In the field of supporting the creation of infrastructure and service centres, how to receive equipment and services is a big problem for Russian exporters. I will now distribute the report.

P. Fradkov:

I would like to note something as we review the proposals. Of course, in and of itself, instruments of export credit insurance are only part of the issue. We are discussing the importance of all that accompanies it. For your information, the legislation regarding reimbursement of foreign currency exchange has already been amended. If an exporter's foreign currency earnings are not received and there is an Agency policy, the exporter will not incur any sanctions. There are a few such examples in tax legislation, and all of these measures are permitted by the WTO, which is very important. I would like to provide the opportunity for your comments to our colleague from the Boston Consulting Group.

From the floor:

Yes, thank you very much. We have talked a lot about formal measures to support exports, financing, and the WTO. What BCG has noticed in the work that we have done with big Russian companies, and also outside Russia, is that there are two more elements that need attention. One is the whole supply chain starting with the infrastructure, the transportation infrastructure in Russia itself, because the unpredictability makes this a source of concern for clients abroad. The second point is a better understanding of the end markets. I believe that Russia can claim more value from the products it exports if it has better customer segmentation, if it

chooses the channels better, and avoids just selling commodities through distributors. I think it would be a big plus if you could help in those two areas.

P. Fradkov:

We see it in terms of promoting access of Russian goods to the market in the broadest sense of the word, based on what is permitted by the WTO and the Organisation for Economic Co-operation and Development. This is our priority. Colleagues, if there are no more comments, I should note that we have already exceeded our time limit.

I hope that today's first session, which was devoted exclusively to exports, was productive. Thank you for your active participation and interest, and I hope there will be even more meaningful and specific subjects that we will discuss. I hope that the topic of exports has become an independent, standalone topic for us all. Thank you to the panellists and everyone else for your interesting contributions.