

THE ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM – 2010
JUNE 17–19, 2010

Business Roundtable:

RUSSIA – US BUSINESS DIALOGUE

JUNE 17, 2010 — 17:00-18:30, Pavilion 4, Conference Hall 4.1

St. Petersburg, Russia
2010

Description:

Large-sale investment projects in such sectors as high tech, energy, agriculture, infrastructure and construction can provide the basis for and a guarantee of further expansion of US-Russian economic ties. Panelists will discuss what is needed for a decisive acceleration of trade and economic cooperation and how the implementation of joint “break-through” projects can be promoted, the importance of updating of contract law as it pertains to bilateral commercial relations and the potential role of development institutions spurring investment cooperation.

Moderator:

Alexander Shokhin, President of the Russian Union of Industrialists and Entrepreneurs

Panelists:

Elvira Nabiullina, Minister of Economic Development, Russian Federation

Andrey Denisov, First Deputy Minister of Foreign Affairs of the Russian Federation

Robert D. Hormats, Under Secretary of State for Economic, Energy and Agricultural Affairs

Andrew Somers, President, American Chamber of Commerce in Russia

Viktor Vekselberg, Chairman of the Supervisory Committee, Renova Group

Discussants:

Samuel R. Allen, Chairman and CEO, Deere & Company

John Beyrle, Ambassador of the United States of America in the Russian Federation

Sergei Borisov, President, "OPORA Rossii"

Andrei Bugrov, Managing Director, Interros JSC

Thomas M. Connelly, Executive Vice President and Chief Innovation Officer, DuPont

John V. Faraci, Chairman and CEO, International Paper

Timothy Flynn, Chairman, KPMG International

Andrei Fursenko, Minister of Education and Science of the Russian Federation

Peter T. Grauer, Chairman, Bloomberg

Alexei Isaikin, President, Volga-Dnepr Group

Anatoly Karachinsky, President, IBS Group Holding

Jacques Der Megreditchian, Chief Business Officer, Troyka Dialog

Alexey Mordashov, CEO, Severstal JSC

Dennis Nally, Chairman, PricewaterhouseCoopers International Limited

Vikram Pandit, CEO, Citigroup

Dmitry Pumpyansky, Chairman of the Board of Directors, OJSC TMK

James Quigley, CEO, Deloitte Touche Tohmatsu

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

Boris Titov, Chairman, Delovaya Rossia

James Turley, Chairman and CEO, Ernst & Young

Edward Verona, President & CEO, USRBC

Transcript:

A. Shokhin:

Respected colleagues, for the third year in a row now, here at the St. Petersburg International Economic Forum, we have been conducting a Russian-American business dialogue. You will recall that two years ago, we signed an agreement to create such a dialogue with Russian participants from the Russian Union of Industrialists and Entrepreneurs, the Chamber of Commerce, organizations for small and medium-sized business, like *Delovaya Rossiya*, Opora, and the Russian-American Business Cooperation Council. American participants included the US Chamber of Commerce, the US-Russia Business Council, and the American Chamber of Commerce in Moscow. Nearly all of the Russian and American business organizations interested in the development of business relations have been participating in our dialogue. As a rule, exchanges of opinion have been conducted at our meetings here in St. Petersburg on more than just the B2B level. Representatives of the authorities of both countries have been actively taking part in our discussion. Two years ago, these representatives included the US Secretary of Commerce and Russian Minister of Economic Development Elvira Nabiullina; last year, the Russian representatives were Minister Nabiullina and Minister of Education and Science Andrei Fursenko, while the American side was represented by the chair of USTR, Ambassador Kirk. This year, the American authorities are represented by US Under Secretary of State for Economic, Energy, and Agricultural Affairs, Robert Hormats, who is a frequent guest here of Russia and our Russian Union of Industrialists and Entrepreneurs. In addition, we traditionally enjoy the support of the Ministry of Foreign Affairs of the Russian Federation. First Deputy Minister Andrei Denisov not only participates in our sessions, but is also a patron of our business council's activities. Our meeting today is exactly one week before the president of the Russian Federation's official visit to the USA. We would like to inform you that a meeting between Russian and American business leaders has been planned for the president's visit. We hope that both President Medvedev and President Obama will be able to attend this meeting. In connection with this, I would like to propose that we discuss the problems that stand in the way of resetting our economic relations, since we all recognize that the reset of the military and political relations between our countries is progressing fairly dynamically, but the economy, while not standing still, is seriously lagging behind. We truly feel that this aspect of our bilateral relations has been neglected. I am talking, for example, about larger issues, revisiting, for example, the infamous topic of Russia's WTO membership. Our session participants will recall that a year ago, Ambassador Kirk promised that Russia would join the WTO by the end of the year. We hope that Mr. Hormats will tell us the same thing today. There are undoubtedly other "earth shattering" topics of conversation connected with

the WTO that have been going on even longer than talks about accession. For example, the Jackson-Vanik amendment as it applies to Russia, and other issues. We would like to discuss not only these systemic issues, but also issues related to specific sectors, as well as the projects of companies interested in participating in each other's markets and interested not only in trade, but also in manufacturing. There are a large number of Russian businesspeople here today who do serious business in the USA and have their own manufacturing capabilities in the USA. This applies equally to our American colleagues. There are topics we can't avoid, specifically topics connected with innovation and modernization. We would very much like for Russian-American business cooperation to tackle these issues head on, to provide an example to others. Our colleagues from the USA have things to show us: not just California's Silicon Valley, but also hi-tech business founded on proprietary innovations and on Russian-American cooperation. I'm referring to Boeing and the Boeing engineering centre in Moscow. I would therefore like for us to cover the entire spectrum today, from systemic issues to issues of cooperation in specific industries and the advancement of particular projects. Our procedure is as follows: we will be giving our main presenters up to seven minutes – five to seven minutes, as they used to say at Communist Party meetings – and speakers during the course of the discussion will have two to three minutes. The organizers are telling me two minutes, so that everyone has time to talk. If a speech is especially interesting, we'll extend it by one minute. When Elvira Nabiullina arrives, we'll yield the floor to her, and then she'll be off to prepare for the reception she's giving today in honor of the opening of the St. Petersburg Forum. Last year was the same: we all let the Minister go when she needed to, so that she could be where she was needed to welcome the forum's guests at the reception. I think we'll be doing the same thing this time. I would now like to yield the floor to Mr. Hormats, US Under Secretary of State.

R. Hormats:

Thank you very much, Alexander, and I would also like to tell you how honored I am to be able to participate in this very important forum with you and my friend Andrey. We have worked very closely on a wide range of issues between our two countries and I very much value the personal and the professional dialogue we have together. I also would like to say how eagerly we and the United States anticipate the coming visit of your president to California and to Washington. I think this illustrates an important point, that we have made a great deal of progress on a number of issues that relate to security cooperation and political cooperation and, naturally, this visit will focus on political and security issues, but very importantly, it is also going to focus on economic issues, on issues of innovation, on issues of greater cooperation on trade and investment as part

of ensuring that the reset that you talked about is extending to those broader areas of cooperation between us on the economic and innovation side and the trade and investment side.

You have correctly pointed out, Alexander, that for two big economies like Russia and the United States, there is relatively less trade and less investment than there should be, and one of our goals is to demonstrate between our two governments and between our two business sectors that we can work together very effectively to increase trade, increase business relations and to increase investment because those areas demonstrate and will demonstrate to the people of Russia and the United States that there are real economic benefits in terms of jobs, in terms of opportunity that can come out of a stronger economic relationship between our two countries.

We work together very closely on a wide range of economic issues, the United States and Russia. We work together and closely in the G20, we work very closely in the G8. We have worked together particularly closely in dealing with this global financial crisis. We have worked together in the IMF and the World Bank. So we see working with Russia as a very important part of our economic policy in this new, 21st century global economy. It has been said that the global economy is multi-polar but we also want to make sure it is a multi-partner economy, and one of the most important partners for the United States in this new economic geography is Russia and we think there are a number of areas where further cooperation is desirable.

One area you mentioned is the World Trade Organization. The United States strongly supports Russian accession to the WTO. Our officials are working very closely together toward this in both of our capitals and in Geneva. There is still a great deal of work that needs to be done, but there is also a great deal of importance attached to this in Moscow and in Washington. We believe that there is a very important political priority to have Russia be part of the World Trade Organization, but we also realize that there are some very tough issues that still have to be resolved in order to get to that very desirable political objective and we are working very hard at the ministerial level and the sub-ministerial level to make progress to ensure that that can come about and can come about relatively quickly. This will provide benefits to Russians, to Americans and also to the global trading system. Work needs to be done but we are committed and I believe the Russian government is also committed to working very hard and very closely and will place high priority on this.

Another area that relates to closer cooperation is Russian accession to the OECD, the Organization for Economic Cooperation and Development. This has been a very valuable institution. A wide range of countries are members, and it is an opportunity to exchange views, to exchange ideas. Russia has already participated in this first investment committee review and that will help to improve cooperation and consultation in the area of investment. We look forward to

other exchanges with Russia within the context of the OECD and in time, as things progress, we look forward to Russia also being part of that very important organization.

We also look forward to a very close dialogue on technological cooperation, on innovation, and on entrepreneurship. I had the opportunity, along with our ambassador, to discuss this question of entrepreneurship and innovation with a number of young Russian entrepreneurs just a few hours ago and one thing that I came away with, and I believe our ambassador did as well, is how vibrant and how dynamic the entrepreneur community is in Russia, particularly among younger people, who want to start new companies, who are innovative, who have new ideas. Working with Russia on a wide range of areas to strengthen cooperation amongst our innovative communities and various parts of this country, Silicon Valley, MIT, the various intellectual and innovative centers of the United States, we think can provide very important benefits and also we think opportunities for mutual investment are very important.

We have a very open investment environment in the United States, we do have an investment review process known as CFIUS, but that really only addresses a relatively small portion of the overall amount of investment that takes place in our country, and we have a very welcoming environment for investment. We have historically had that, our railways in the United States were originally built with capital from Britain, and we are a country that looks forward to foreign investment. We have a lot of Russian foreign investment now for instance in the steel sector, which is a very important sector for the United States, but it is relatively small investment compared to what could take place and we also think there are greater opportunities for American companies to invest here. We have already had examples of a number of very important American investments made here just very recently, and we look forward to more opportunities for American companies to invest here, because we think this is good for American companies and we think it also contributes to growth and to the creation of high quality jobs in Russia.

Let me just identify a few American institutions that are supporting this overall initiative of closer economic and investment cooperation. One is the US Export-Import Bank, its assistance in financing could be key to supporting the efforts of American companies to export to Russia, with various kinds of transactions. The Export-Import Bank is very eager to expand opportunities here and we hope to make some progress even in the relatively near-term in expanding those opportunities. The second is what is known as the US Trade and Development Agency. One of its major objectives is to help countries to establish modern infrastructure that promotes sustainable economic development, the US Trade and Development Agency has programs in many countries. In this country the agency is particularly interested in working in areas such as energy efficiency, information and communication technology, and transportation. A third agency that is going to play a very important role and is already very eagerly working in Russia is the Overseas Private

Investment Cooperation. OPIC assists US companies looking to invest abroad, by providing financing, political risk insurance and investment funds. It has been working in Russia for a very long time and has provided support for nearly USD 5 billion in investment.

There is another group that is important, that perhaps many of you, in fact, virtually all of you around this room are involved in and that is the Business Development and Economic Relations Working Group of the Bilateral Commission that our two presidents established last year. This working group is a very important part of strengthening the economic ties between our two countries and we see it as a group that not only provides greater contact between the business communities of Russia and the United States, but a group that can provide constructive advice to our governments, so that we can further improve economic and investment and trade relationships between our two countries.

On that note, let me conclude my prepared remarks. I look forward to the opportunity to hear comments from those of you around this room, and I am particularly pleased at how American companies have been taking advantage of opportunities that they see, the very positive opportunities for American companies to make investments in Russia. As I noted earlier, investments have increased substantially in a number of key areas. We feel that both sides have great investment opportunities and trade opportunities, and opportunities for technical and innovative cooperation between our two nations and I look forward to working with the Russian government and with the business community to strengthen the economic ties between our two countries. The potential is enormous and we have the opportunity in the next six months, year or two years to take advantage of this opportunity, both at the government-to-government level, at the business-to-business level and at the government-to-business level. So I thank you very much.

A. Shokhin:

I would like to yield the floor to Andrei Denisov, First Deputy Minister of Foreign Affairs and co-chair of our group.

A. Denisov:

Thank you, Mr. Shokhin, respected colleagues, honored participants, and guests of the forum. I am glad to see all of you in St. Petersburg, and I would like to wish our guests an interesting and fruitful stay, extending beyond your participation in the forum. I would also like to thank the organizers of today's event. You know, after three years in a row, it's starting to look like we've established a good tradition. The founders of this round table, the heads of the Russian Union of Industrialists and Entrepreneurs, the US Chamber of Commerce, and the American Chamber of Commerce in Russia, therefore deserve all kinds of praise and support. The forum is a good arena

for the discussion of the broadest possible spectrum of issues in Russian-American economic cooperation. The fact that we have a full house is an excellent reflection of the interest in this topic, not only in the business community and within government agencies, but also in society at large. This year, the unifying theme of the St. Petersburg Economic Forum is modernization. The modernization of the world economy, the modernization of national economies, while taking into account the lessons learned as well as the opportunities that have emerged during the world economic crisis. As historical materialism teaches — I hope the Russian-speaking part of the audience hasn't yet forgotten what that is — any crisis is also a means for resolving contradictions. We have to take advantage of that, first of all to get rid of dead weight, but also to prolong the period of growth as long as we can. It is well-known that growth has a cyclical nature, and objectively speaking, there is an opportunity to set up a longer period of growth during crisis recovery. But that will require a great deal of effort, especially in light of the fact that the world is changing, becoming more complex — and these changes are not only due to the fact that there was a crisis. Concepts and ideas that were taken for granted in the past are now being reevaluated; many people are beginning to understand the multi-polar nature of the world and the complexities of globalization. We recall that, not long ago, it was fashionable to observe and evaluate the beneficial, positive sides of the process of globalization. But there is a flip side.

Leaving behind general observations and returning to more pressing issues, I would like to say that, in light of what is happening in the modern world and the world economy and finances, for our country integration into the world economic system is becoming ever more important, ever more urgent, although to some extent ever more difficult. It is apparent that there have been attempts to speed up the process of WTO accession and to set a solid foundation for the process of negotiations for joining the OECD, the Organization for Economic Cooperation and Development. These negotiations began this year. Speaking as First Deputy Minister of Foreign Affairs, I would like to reaffirm that the goal of joining the WTO has been and continues to be one of the priorities of Russia's economic foreign policy, although this goal is also becoming more difficult. You are aware of the decision made by Russia, Kazakhstan, and Belarus to form a customs union. Essentially, this has been in place since January 2010. It was not a spontaneous decision; rather, it was based on the results of many years of negotiations to put the customs union on a contractual basis, including setting a common customs tariff. This process is ongoing. Incidentally, that is the topic of discussion in the next auditorium over, and I think it's rather intense over there. We can state here and now that the creation of this customs union is not and can in no way be an alternative to Russia's joining the World Trade Organization. And in this context, I would like to continue the topic indicated by the Under Secretary and express the hope that we can soon conclude these negotiations with the United States of America, our key partner in this process.

Speaking generally about Russian-American trade, economic partnerships and cooperative innovation projects, there are many reserves and resources that remain untapped. Clearly, our speakers today will further address this topic. However, it is completely obvious to all of us that, whatever reserves or potential that might exist, they need to be utilized; the mere fact of their existence signifies nothing. Orderly, determined, coordinated efforts are needed on the part of government agencies and in the corporate sector of both countries. In general, we need to be self-critical and note that, at the moment, we — and here I mean both the American and the Russian partners — are not succeeding in taking advantage of all available opportunities to expand our bilateral cooperation. The crisis has fully demonstrated the vulnerability of our bilateral trade situation; its lack of diversity and its dependence on the conjuncture of specific markets, particularly the raw materials markets. I'm not going to read you the numbers; they're widely known. But last year's 33% fall in both our trade volume and import/export numbers was a serious decline. Unfortunately, the United States is no longer one of the top ten investors in the Russian economy. It is true that Russian investments in the US economy last year increased, coming to six and a half billion dollars. I looked at other countries' figures for the sake of comparison. For example, Great Britain has a USD 454 billion investment in the American economy; Japan has a USD 260 billion investment. I won't continue down the list. Our figure, unfortunately, looks less than modest, but it's significant for us, and, more importantly, it's a step in the right direction. Let's hope that it continues to develop. Our cooperation did not cease when the crisis began; we have a short list of projects that were developed in 2009 and the beginning of 2010. This, of course, commands a certain optimism, although we understand very well that numeric indicators are not as important as the number of more or less successful projects. The pressing issue for the Russian economy is a transition into innovation and implementation of new technology. This is part of our national strategy, and it dovetails nicely with the course the government of the Russian Federation is taking in its economic and trade relations with the United States of America. As far as encouraging modernization, we believe the American administration has set similar goals. An objective basis for our mutual cooperation in this area has thus been created. We are making new contacts. For example, members of the Russian government, headed by First Deputy Prime Minister Shuvalov, made a trip to Boston, and then there was a dialogue in Moscow with representatives from American investment funds specializing in investment in modern technology. This is a good beginning; some momentum has been established. Incidentally, new opportunities have appeared for us that represent interests for our American partners as well: of the 113 applications submitted to provide Rosnano with a line of financing for nanotechnology projects, about 40--more than a third--were American. My colleague, Mr. Hormats, has already mentioned the importance of the commission founded by our countries' presidents, the considerable size of

our economic bloc and, most of all, the significance of having a working group for business cooperation. We hope that this group, in conjunction with the ongoing Russian-American business dialogue, to which we also attribute great importance, will be productive in resolving some of the issues we have before us. I am sure that our president's visit next week to the United States — to Silicon Valley, among other places — will also further the development of cooperation in the high-tech sector. This will be an extremely important event during the visit. All of us, the Russian participants in this dialogue, share our president's optimism. The question is not whether or not modernization will happen here. Of course it will. It's just that, as President Medvedev said, it has to be done quickly and well.

A. Shokhin:

Thank you, Mr. Denisov. We have two more government representatives with us today: US Ambassador to Russia John Beyrle, and Minister of Science and Education and, by virtue of his position in the Russian government, our national "innovator", Andrei Fursenko. I would like to note that, regarding his position, he is, of course, not actually our national innovator, since the division of labor in the government does not allow for such a title. However, he is indeed a natural innovator. This is why he became Minister of Education and Science: because he was our leading innovator and modernizer. I would like to invite my colleagues to enter the discussion whenever they feel it necessary. I would now like to propose beginning our dialogue, not only in the G2G format, but also in the B2B format, and I will yield the floor to the chair of the International Relations Committee of the RSPP, the CEO of the "NoNovus Group". Sorry, I mean the Renova Group. [laughter] That was a Freudian slip. I said that because he's always the first to speak at our meetings. Viktor Vekselberg.

V. Vekselberg:

In the spirit of innovation and modernization, you should have changed the usual order of things and not let me speak. I'm truly very glad to see such a wide cross-section of people here. It's already been mentioned that this is the third Russian-American dialogue that has gone on at the St. Petersburg Economic Forum. The makeup of the attendees here is the best indicator of how the level and quality of our relationship with our American partners is changing. It seems that the organizers made a mistake: this room is clearly too small for everyone who wants to take part in our discussion of the day's agenda. Our earlier dialogues took place in chamber format and did not arouse such a storm of interest, neither among members of the forum, nor among members of the business community from either side. This is great to see, and it says that all the talk about a "reset" has come to fruition, at least in the quantitative indicators of our meetings, which, I hope, in

accordance with the law of dialectics, should increase the qualitative indicators as well. As the head of a company, I am pleased to note that we are truly developing a relationship. In March of last year, the RSPP visited America. We had a series of interesting meetings with the US Chamber of Commerce, and we met with Vice-President Biden. These meetings served as an impetus for a reexamination of possible approaches for the improvement of our relations. I would just like to quickly note a few things, because there are a lot of people who want to speak. First. You all know that the Russia-EU forum has just ended. One of the key topics there was WTO membership. EU representatives were actively telling us that they support Russia's membership, but that there are other forces which are in play. Here we have come to the Russia-America forum and heard right here that America is in favor of Russia's membership, but that there are still some questions. It's been this way for seventeen years: everyone is in favor, but nothing happens. I think that, at any rate, we will join the WTO this year. If not, we'll find the strength to continue lobbying for accession. However, if we do join, we'll lose the central topic of conversation here, which we will have to replace with something else — I hope something more stimulating and inspiring. These negotiations should become history; there's no doubt about it.

The second issue I would like to note is the fact that today's forum's motto is "modernization and innovation". This isn't even a motto, but rather the actual content of all the meetings, which reflects the same qualitative changes that are occurring in our country. It seems to me that we are even seeing changes in the makeup of the audience and participants in our dialogue. Whereas earlier, the main participants in this type of meeting were companies from the raw-materials sector, today it's nice to note that a significant number of representatives of machine-building, programming, and so on are present in the auditorium. That is to say that these are all things that indicate the qualitative leaps forward in business relations between our two countries. And, of course, I would like to take this moment to advertise the Skolkovo project, which is essentially the founding of an innovation centre. We very much hope that American companies will participate as actively as possible in the implementation of this project. It's with good reason that Skolkovo is popularly known as the "Russian Silicon Valley," given the widespread acknowledgement of the leadership, knowledge and experience of American companies that went into the creation of this project. We are interested in working closely with leading American companies. I would like to inform the participants straight away that as of today, without even waiting for any kind of final legal documentation of the project structure, we have already conducted many very effective negotiations with companies like Google, Microsoft, Boeing, and Cisco. We are very actively attempting to create relationships with MIT and Stanford, as well as a variety of companies. This indicates that this project is very necessary and that the path to recovery from the crisis may come via meeting inherently new needs, which will bring at least the Russian economy — perhaps with

the participation of the American economy — to a whole new level. And I would like to address all those present, as well as the representatives of social organizations and the authorities, with my hope that this project will enjoy attention and support from both sides. At the same time, I would like to stipulate here and now that the prevailing opinion that Skolkovo may turn out to be an oasis of special treatment, that it will have preference, that it will become a foreign country on Russian soil — this is not so. Skolkovo is not an oasis, but rather the beginning of a long road. There should be many projects like Skolkovo. This is only a pilot project in order to develop as quickly as possible those practical steps and solutions that will generally influence our entire approach to innovation and spur the development of a new culture of invention and modernization. In conclusion, I would like to agree with what has already been said, that a very important element of our relations is the creation of a bilateral presidential commission. This commission has created an economic group that has been called upon to resolve issues of coordination, and I will restrain myself from negative comment regarding the group's rather sparse meeting schedule. We have made certain preparations for these meetings. The group should continue to meet in the time between presidential meetings, and it should produce certain constructive solutions, whether the initiation of a new centre, the providing of support, or the stimulation of close, productive contacts. That's all I have.

A. Shokhin:

We are pleased to welcome Elvira Nabiullina, Minister of Economic Development.

E. Nabiullina:

It gives me great pleasure to welcome you all.

A. Shokhin:

But I will try to maintain some balance and for now, turn the floor over to a discussion of the business side of things: from America, Andrew Somers, president of the American Chamber of Commerce in Russia. Andrew.

A. Somers:

Thank you, Alexander, Madam Minister. First, I would like to endorse what Mr. Vekselberg said about Skolkovo, and I would like to add to the list of the American companies that he mentioned, also Honeywell, Intel, HP are here and have expressed strong interest in the Skolkovo project.

I'd like to make three points in terms of investment in Russia, because we are looking for deals, transactions, which is also the ultimate objective of the US-Russia Presidential Bilateral Commission. First, I would like to commend the Ministry of Economic Development and Trade for taking the initiative about a week ago to establish a category of key sectors where definition of local content of new manufacturing ventures would be defined in a more precise way. One of the difficulties right now for foreign investors is a rather vague definition of what is the local content required for foreign investment manufacturing enterprises. And the Ministry asked AmCham to solicit opinions from its member companies in these twelve categories and twelve sectors, we sent these opinions on to the Ministry, and in about a week we will be beginning with the Ministry separate meetings per sector on this extremely important issue of definition of local content. Secondly, we would urge the government to essentially eliminate tariffs for the import of components of equipment. Particularly where the completed product is brought in at a very low rate. We know there are a number of investors who are ready to invest significant sums in Russia, such as investors in the electronics industry, but there are still high tariffs on the components and it makes no sense to import a component and pay tariffs and then build a factory when the completed product can be brought in at almost no tariff. There has been some temporary relief in some sectors, but temporary relief is temporary. We are looking for solidity in terms of prospects in the future. We would urge the government to look at the third issue, and the third issue is indemnification for discovering that the plot of land that you bought and built a factory on has environmentally hazardous materials. There is no protection for investors right now, basically, the rule is that when you buy a property, you buy the land—you buy everything on the land. It could be gold that you discover, which probably won't happen, but it also could be environmental damage. And companies spend a lot of money to make sure that there are no environmental hazards in the land that they acquired and the lazy investment will cost more money, so we would encourage the Russian government to look at some way to either indemnify investors or in the future, perhaps, work on some kind of 50-50 arrangement where each party would bear some of the costs. This would eliminate another uncertainty in terms of investments coming into Russia. Thank you very much.

A. Shokhin:

I would like to salute Andrew Somers's approach to enumerating these problems, because if I start holding you to two minutes, you won't have time for anything else. I would like to request that speakers not give any thanks to the authorities or share political commentary, but rather get right down to business. We'll leave all the politics to the government representatives. I would like to yield the floor to Elvira Nabiullina, Minister of Economic Development and constant participant in

our dialogue since its inception three years ago. Incidentally, at the meeting of the Locke-Nabiullina Working Group at the end of April, the business world was also represented and had, among other things, the opportunity to hear firsthand how events are progressing on the intergovernmental level and to present their views. I think that this kind of constant exchange is very productive. Elvira.

E. Nabiullina:

Thank you very much, both for your words and for the opportunity to participate in this discussion. I am very glad to welcome everyone, and I am very impressed by what I have just heard. Specific projects truly are important, but nevertheless, in my speech I would like to talk generally about our economic relations and outlook, both how we see them and what we discuss with our American colleagues. Without a doubt, we see the United States of America as our main partner in the sphere of foreign economic relations. This is due to the role that country plays in the world economy and its scientific, technical, and investment potential. Certainly, the US market and combined investment projects are of interest to our companies. However, at this time, actual trade and economic relations clearly do not correspond to the scale of our countries' economies. The USA occupies just eighth place in the rating of the Russian Federation's largest trade partners. Our commodity trade turnover last year, according to Russia's estimate, came to just USD 18.4 billion. Obviously, it decreased as a result of the crisis: it declined by a third in 2009. These figures, of course, are small for the sizes of our economies. A certain recovery is occurring now in trade, and over the first four months of this year, we are seeing positive trends: an increase in Russia's exports by 17%, as well as a renewal of imports, with a growth rate of about 3%. Clearly, we have also not made full use of opportunities for investment partnerships. The total amount of aggregated American investments in Russia came to USD 7 billion in 2009. Before the beginning of the crisis, it was about USD 9.4 billion. Russian investment in the US even increased, coming to USD 6.5 billion in 2009. We nearly have investment parity. We are interested in building our investment partnership, in attracting direct American investments for the purposes of modernization and diversification of our economy. For this to occur, our government is taking specific measures to improve the investment climate. We have chosen a few key fields of activity. We have specific plans for 2010 to attain tangible results in the upcoming months. These fields of activity involve, first and foremost, improvements to migration regulations. As you know, a law has already been adopted and signed by the president that simplifies the migration procedures for bringing in highly qualified specialists. This will go into force on July first, and we hope that it will make things easier for many of the companies that bring in foreign specialists. The second item is the shortening of time frames for the approval process for the initiation of investment projects. This

relates to both allocation of land and links to various services: energy, transport, and utilities. It is also connected to the granting of all permissions and approvals. We will adopt a group of measures to shorten the length of these procedures. In addition, we are paying a great deal of attention to the simplification of tax and customs administration. Here we are working in cooperation with the business community, including the Russian Union of Industrialists and Entrepreneurs. I would like to note that we are being assisted in the preparation of our legislative initiatives not only by Russian business, but also by a consulting council on foreign investments, the American-Russian Chamber of Commerce, in order to take investors' real needs into account. I want to say as well that this consulting council for foreign investments has been in operation here for fifteen years already, and that our American partners and colleagues are widely represented there. We set two major goals before the council in 2009. The first was finding prompt solutions for specific companies' specific problems. We solve them together, calling on all of the government's agencies. The second goal is also high-priority--we would like to see the creation of an attractive investment environment for foreign investment in Russia. I'm talking here about energy efficiency, administrative hurdles, and tax and customs legislation. For 2009, we chose three high-priority items to concentrate on with the participation of foreign investors, both for the creation of the proper legal environment and in proposals for specific projects in these fields. Mr. Somers said that we need to make a list of key sectors and projects. We have determined those sectors — the list is, of course, not secret — but we chose those sectors in which we are going to focus our support of innovation and modernization. These are the President's five priorities. A special commission is operating, there is work underway on specific projects, and we propose taking full advantage of this opportunity. Naturally, we also need to determine those Russian-American cooperative efforts that would be of mutual interest and that we could say are truly innovative and modernizing. We have made good contact on an inter-governmental level, and a working group has been created in the Russian-American presidential committee for the development of business connections and trade and economic relations. We want this working group to be a generator of new ideas and approaches that take the interests of business fully into account. We have made good contacts with US Secretary of Commerce Gary Locke and his colleagues. Over the year since the last forum, we have succeeded in improving the dialogue, in my opinion. I remember that at the last forum, the refrain at the round table was that the intensity of the official dialogue on trade and economic issues significantly lagged behind the business dialogue. It seems to me that today we have caught up, to a large extent. We have a work plan for the group that takes into account nearly all the recommendations from business in the two countries, both by priority area and by project. The important thing now is to channel this into practice and advance these projects. I would also like to note that the networking among small- and medium-sized business —

this is an area with great potential for developing strategies for cooperation in anti-monopoly efforts and the promotion of investment. Among other things, we have agreed that the Ministry of Economic Development of Russia and the US Department of Commerce will act as contacts and will be interchanges for current and potential investors from both countries. Therefore, if the investors in an American company encounter any kind of problem, they should contact the Ministry of Economic Development, and correspondingly, if Russian investors run into problems when entering American markets, they should get in touch with the US Department of Commerce. We believe that this mechanism will be beneficial for potential investors. Clearly, the working group also discusses the most difficult problems relating to market access, issues related to restrictive and discriminatory measures. These issues do exist. For our part, we hope that these restrictions will be lifted in relation to Russian companies. Naturally, we are also listening to the concerns of American companies: among other things, regarding the level of tariffs. We have already heard that at the meeting today. One of the fields of activity is the creation of a legal basis for our cooperation. We are hearing from business representatives about the need to improve this framework, because our contractual relations were, on the whole, formed several years ago, or even a decade ago. We would like to be guided by business interests, and we could be talking about providing basic standards of protection for capital investments and additional measures for the presence and free implementation of professional activities and law-enforcement practices. Of course, the lack of a legal framework for the regulation of capital investment security between the two countries is quite unusual. Our typical models for investment agreements do not coincide, but in our opinion, that cannot be why this issue is not being solved on a practical basis. For our part, we are prepared to create this framework in order to create a mechanism for the mutual protection of investments. Clearly, we also cooperate in multi-party economic formats like the G8 and the G20. We will also be cooperating with the US with the goal of ensuring the fulfillment of our agenda in APEC. The participation of business in this enterprise would be equally welcome. I cannot avoid the topic of the WTO, probably our traditional topic. I am prepared to repeat here once again that this is a priority of our foreign economic policy. During the search for a new format for negotiations on the Customs Union, we experienced delays in the negotiations process itself. We were able to find that format, thanks to efforts from all parties, and the negotiations were fully revived. I would like to tell you in no uncertain terms that the creation of the Customs Union should not be viewed as either an obstacle or an alternative to the accession of Russia into the world trade system. In our view, the Customs Union creates an additional advantage for foreign participants and for American companies; it means access to higher-volume markets under more liberal conditions. There should therefore be no concern about this matter, and we should make use of all the advantages provided to the expansion of this market. I've already exceeded my time

limit. I could probably say other things, but it would be better for me to listen to what the representatives of our companies have to say so that I can provide more effective government support for the business projects — both trade and investment — that are emerging. Thank you.

A. Shokhin:

Thank you, Minister. I think that the representatives of business will know to make good use of this situation and ask you specific questions. I would like to yield the floor to Vikram Pandit, Executive Director of Citigroup, who knows best of all how to recover from the crisis.

V. Pandit:

I appreciate that introduction and it's good to be here with all of you. The topic of cooperation between US and Russia is timely and important, as is witnessed by those here around the table. I have to share a story with you. This morning I was at the Nissan auto factory about an hour to the north of St. Petersburg. And on the way back I was thinking that here's an Indian-born CEO of an American Bank, visiting a Japanese automaker in St. Petersburg, Russia. I guess there is a message in there somewhere, and I'm just happy that we at Citi have been lucky enough to be part of this globalization for a long time. We were first in Russia in 1917 and we've been in Russia continuously since 1994. Our main business is to bring foreign companies and foreign capital into Russia and to bring Russian capital abroad. As of today, we've brought 1300 foreign companies to Russia, providing them with financing and the infrastructure to run their businesses. Two hundred of these are American companies. And the last couple of years we've been lucky to take about 30 or so of the larger Russian companies outside of Russia, to have them export more as well. And we have the capacity to do a lot more, and we can do a lot more, and there's no shortage of interest on either side, whether it is companies or, for that matter, investors and capital, wanting to be part of this bilateral trade and capital flow. We should think about catalyzing this more. In the environment that we're in, an environment where cooperation is more important than it ever was, and may be itself a catalyst, and we may start seeing recognition on the part of many more companies, many more investors, of the need for each other to grow. We are going to grow more with each other than working separately. A lot has been already talked about and I know many of my partners will talk about the details of what needs to be done. Let me share with you a couple of thoughts. One – I think the financial center project that's been talked about is important because it involves a number of CIS countries, Eastern European economies, and it's an opportunity to set common standards, improve access and infrastructure efficiencies, and we believe that that has a real opportunity to turn Russia into a hub, and that in itself will attract activity and capital as well. I'd encourage work on that, as it's an important project, and we're happy to support it. The second

part I'd say is a streamlining of rules and regulations. I think it's an important concept — simplification. Again, going to capital flows, things like central depositories are important. Things like a credit bureau would be really interesting, because part of what can grow Russia could be a consumer coming onto the market, and if they are going to come on to the market, I think we should have some common standards. Credit bureaux are really quite efficient in helping people decide what exactly, which consumer should have what access to capital. Finally, in that realm, legislation that is clear on collateral and ownership collateral contracts is a very important part of just good, solid, financial infrastructure. All of these are meant to provide some ideas by which we can invite more capital. When we talk to our clients, it's about WTO. That's what they'd like to get resolved. I won't say anything more about that topic. Let me end by saying that I think the message we hear from President Medvedev is quite motivating. It's about co-operation, it's about the diversification of the Russian economy, it's about integration into the world economy. We saw some of this in the context of the improved visa process for foreign talent coming to Russia. These are all important steps and the concepts are right, the framework is right, and we're just happy to take this message to our clients around the world and see if we can stand by to help them come into the US. I look forward to our dialogue. Thank you.

A. Shokhin:

Thank you for sharing the perspective of the leading financial and banking structure of the world on these issues. Our businesses face the same problems. In confirmation of this, I would like to yield the floor to Alexei Mordashov, general director of Severstal and chair of the RSPP's customs and trade policy committee.

A. Mordashov:

Thank you, Mr. Shokhin. I'll try to keep this short. Dialectical materialism and the transition from quantity to quality have already been mentioned today. We talk so much about Russia's membership in the WTO that it's time for us to turn quantity into quality and join the WTO already, especially as we have everything we need in order to do it. It is very gratifying that today Russian-American economic and political relations are such that we can count on a certain qualitative leap forward. Both sides have come a long way. Russia, of course, has changed drastically over recent years, and this allows us to move forward, taking advantage of this positive attitude and the resetting of Russian-American relations. There are very specific things that could be addressed before Russia joins the WTO, only minimal issues for negotiation, and they need to be taken up and resolved. We are very much looking forward to President Medvedev's visit to Washington next week, which, as we see it, may give serious impetus to the process of accession. It has been said

today that once we're in the WTO, we'll need to come up with another topic for conversation. I venture to assure you that we won't have that problem, as joining the WTO is only the beginning of trade negotiations. We know that there are many contradictions within the WTO, many topics for discussion, and Russia can and should participate in these conversations, just as the US will have things to talk to us about in regard to specific economic issues that we all need to address in order to make our countries' economies more effective. For example, in my experience with German-Russian relations, there are several mechanisms of special committees, which I think could help in supporting specific projects between the US and Russia, between American and Russian business. It is very gratifying that today these mechanisms are beginning to come together on the level of the Nabiullina-Locke Commission, a bi-lateral presidential commission. And it seems to me that it would be wonderful to take advantage of this moment as an opportunity to reorganize these commissions. For example, this is an opportunity to bring business representatives into the commission: those who could immediately make connections between tasks, goals, structural issues discussed by the commission, and specific projects, specific business requirements. There are formats for such discussion already in place, like the Russian-American Dialogue and so on and so forth. The representatives of these organizations, it seems to me, could help give these commissions a more concrete, a more pragmatic, a more beneficial character. In conclusion, I would like to say that in my opinion, there is much that is complementary between our countries. I'm in the USA quite often, and I work a lot with our American colleagues. Unlike many other countries, we have very few cultural barriers to cooperation. America continues to remain an extremely attractive country for investment in general and Russian investment in particular, which is basically indicated by the numbers: there is near-parity in investment between Russia and the US. We can help each other in many ways, and full advantage of our economic potential is currently not being taken. Of course, Russia has to do its homework by way of improving legislation, which is going on in dialogue with business. It doesn't always go smoothly, but on the whole, we can say that it does happen. Although Mr. Shokhin asked us not to thank anyone, I think that I might dare to thank our government, in part for its willingness to dialogue, something we see all the time. Without a doubt, we need to remove the remaining obstacles to Russia's membership in the WTO. I am referring here to the Jackson-Vanik amendment. We talk about this so much that it's starting to get unseemly. The Jackson-Vanik amendment was put into effect at a time that has long since passed, and the reasons for its passage have long since passed as well. It's less of an actual obstacle than a symbol, and a symbol that needs to be removed. We're experiencing a very interesting moment in our relations: it seems to me this is an opportunity for mutual benefit, so that together we can make more money and improve our lives. Thank you.

A. Shokhin:

Thank you, Mr. Mordashov. I would like to yield the floor to the CEO of Deere & Company, Samuel Allen.

S. Allen:

Thank you. I'll proceed by giving an example. It was in July of last year that I had the distinct pleasure to address a similar group at the Medvedev-Obama Forum. I talked about John Deere's willingness to invest in Russia, given a favorable economic climate, as well as favorable practices, and just two months ago I was in Domodedovo for the opening of our facility there, a facility that took only eight months to get from approval to being in production, producing combines. It's something that you can't do almost anywhere in the world. And I would suggest to you that that's the case that needs to happen more and more in Russia. That's how we'll accelerate growth in this country. Likewise, in two weeks we will be having fifty of our largest suppliers, we've invited those companies in to Domodedovo with the support of both of the Ministry of Economic Development and the American Chamber of Commerce to make the business case — why they need to be with us over here as we continue to expand our operations. I think John Deere has the opportunity to help Russia in a number of ways, but in particular, the first is technology. Advanced technology is the key to meeting the world's rapidly growing demand for renewable resources such as agricultural commodities. We can have a major impact on that. The combine we're producing today in Domodedovo can in one day harvest enough wheat to produce one million half-kilo loaves of bread. And that's the type of technology that Russia needs for Russian farmers to become very competitive on the world market. Second, John Deere has the will and the resources to make a significant commitment in the market. Last year, we announced we were going to invest over USD 500 million in the next 6-7 years. We're well on our way, with investments in the 47 thousand square meters that we put in place in Domodedovo. Finally, as you can imagine, this commitment could produce a number of important economic benefits, not least of which includes the creation of many well-paying jobs across the Russian Federation. But probably the biggest economic impact of all will come from the profitable farming and forestry sectors as they become more efficient and productive. And it can have a very large impact on lives and livelihoods of many Russians and they need the best equipment to do that. So, what do we need to be a part of that? Certainly, favorable economic and market conditions are a must, but we are willing to gamble on that part, we know that the world is going to continue to grow. Russia has 9 percent of the world's arable land mass, has 20 percent of the world's wood supply. So, we're willing to gamble on the global economic environment. But what we also need is a constructive set of government policies with respect to infrastructure development, tariffs, customs and overall competitiveness. We do applaud those in the Russian Government who have committed to long-term investments in the

nation's highways, bridges, ports and railways. As infrastructure is upgraded and expanded, the opportunities increase dramatically for business expansion, investments, and new jobs. Secondly, we understand that the issue of customs and tariffs is being debated, and we know, too, that the potential for WTO accession and the formation of regional customs unions will have an impact on the direction of future tariff structures. We cannot emphasize enough the importance of having a competitive and consistent set of tariffs to help encourage business growth and investment. History proves that short-term advantages for certain domestic producers simply make them less competitive and retard outside investment. Our third priority is government policies that stimulate the markets and encourage consumption of equipment and other products. If markets are vibrant, if customers can purchase whatever type of tractor or equipment they need to be profitable, it will create long-term stability in the markets. And this will lead to greater investor confidence and a willingness to consider further growth and expansion. On the other hand, incentives that favor one group of suppliers over another are a concern and possible impediment to making substantial long-range investments. Finally, many companies such as John Deere are committed to expanding their presence in Russia. This expansion and these related investments include not only manufacturing but also sales, service, product support, marketing and product development. To encourage broad investments in the total business we need sensible policies with respect to localization. We therefore favor policies that encourage all types of investments, ones that go beyond just vertical integration and manufacturing. Ultimately, we believe the amount of localization should be driven by market forces, not dictated by a percent, and also by the availability of a supply base which we are committed to developing. In closing, large-scale agriculture, forestry, and infrastructure development have an exciting future throughout the world but particularly in Russia, because of those statistics I mentioned: 9 percent of the world's arable land mass, 8 percent of the world's fresh water, 20 percent of the world's forest that can be harvested. John Deere looks forward to being a part of helping Russia reach its full potential in all of those areas. Thank you.

A. Shokhin:

Thank you. Now we'll hear from Dmitry Pumpyansky, CEO of the TMK Group and chair of the RSPP Committee for Technical Regulation.

D. Pumpyansky:

Thank you, Mr. Shokhin. Today, TMK is one of the world's largest manufacturers of steel pipes. Our company's main production sites are located in Russia and the USA. In Russia, we are the largest supplier of steel pipes for fuel and energy; in the US, where we have eleven factories in

eight states, we are one of the three largest suppliers of steel pipes for oil and natural gas production. I would like to say that our company's two years of experience on the US market have convinced us that we have made a good investment, regardless of the fact that the majority of that period, that experience, took place during the economic crisis. Our total investment in the US comes to approximately USD 2 billion today. At the same time, we have made some significant gains: for our company, emergence onto the American market was a significant step, not only toward the expansion of the geographical sales market, but also, first and foremost, toward understanding the opportunities for the quick implementation of new, advanced methods of production organization at home in Russia. I'm talking about improving labor productivity, implementing new types of production, including oil and natural gas production in tar oil sands, and other means of production that are quickly advancing in the US and Canada today and will most likely be in high demand worldwide. At the same time, we all agree that integration with TMK was beneficial for our American colleagues, as well. For example, the opportunity has come up to sell our now-American products on third-party markets in other countries. Before we arrived, TMK IPSKO sold its products only in Canada and the US, whereas now it does trade in more than fifteen countries around the world, in South America, Asia, and Africa. This is clearly a good thing. It was an eye-opener for our American colleagues to see the high technical and technological level of the equipment in our Russian factories, where we had finished a fundamental modernization effort, and now we are working together to develop plans to further modernize our American assets, to upgrade these factories. It is a very positive thing, in my opinion, that in two years we have been able to combine the efforts of our technical specialists, engineers, and researchers to surmount almost all of technical issues that have arisen at various stages in the manufacturing process, which is spread out over four countries. We have groups of engineers and sales teams working systemically on releasing new products onto world markets, and the synergy is obvious.

I would like to say just two words about issues where I think we could achieve tangible results fairly quickly as regards the development of an innovative economy, the task which the president set before us today. Here in Russia, there is real reform going on in higher education, addressing two basic issues: one, the transition to a two-tiered Bologna system, having baccalaureate and master's degrees, a system that enjoys acceptance worldwide, and the second, the development of the sciences in institutions of higher education, innovation, technological parks, and their integration with the various institutes of the Academy of Sciences. Here, in my view, America's experience is invaluable, as its educational system and model for research universities is one of the best in the world today. And it is very important, in my opinion, not to count on any fundamental solutions to come from the top, but rather to establish work contracts, joint research agreements, and mutual internships between various regions and specific universities, ultimately

bringing about an exchange of diplomas and other things. For example, the recently-founded Ural Federal University in the city of Yekaterinburg, where I serve as a member of the supervisory council, is already working in this field with several American universities, such as MIT and Chicago's Northwestern University, and I believe there is a perceptible benefit coming out of this. Mr. Shokhin, could I speak for one minute about my beloved technical regulation?

A. Shokhin:

Forty-five seconds for technical regulation.

D. Pumpyansky:

All right. I can't leave out technical regulation, because at the Russia-European Union session that took place next door, Mr. Anatoly Chubais brought up that issue. He said, completely fairly in my opinion, that the system of technical regulation in Russia is unsatisfactory in many ways. Nevertheless, due to the drastic amendments to the law in 2007 and 2009, adopted at the initiative of business, among other groups, legislation on technical regulation in Russia has taken a huge step forward in bringing its technical regulation system into harmony with the European system, and this needs to be taken advantage of to increase and expand mutual economic cooperation. In the case of the US, we have hardly addressed the issue of coordinating our technical regulations. But for many obvious reasons, that fact is clear. And I would like to say that if we want to talk about increasing our mutual trade turnover in earnest, we need to discuss removing the technical barriers to trade and market access, and we need to address them today. And here I would like to say that the RSPB, as the largest business union in Russia, is prepared to address this issue with our American partners and, of course, with the governments of our respective countries. Thank you.

A. Shokhin:

Thank you. Honored colleagues, we need to let Elvira Nabiullina go; she needs to meet our guests in a few minutes. I hope that those of us here will have time to at least catch part of the reception. Alexei Mordashov, as they say, failed to obey my orders, but moving on, I would also like to thank Elvira for her participation and, most importantly, for her steadfast communication and her efforts to advance many of the ideas that business puts on the table. Thank you.

E. Nabiullina:

Thank you. I wish everyone an interesting and productive time at the forum. Thank you.

A. Shokhin:

Mr. Fursenko, are you ready to comment? Minister of Education and Science of the Russian Federation Andrei Fursenko.

A. Fursenko:

I would like to say that if we need an example of stability, an example of continuity and even conservatism, I think our round tables could serve as an example. This is very important: a stable foundation allows for stable progress, and I think that around the twentieth anniversary of the beginning of our negotiations on WTO membership, we will be closer to joining than we are today. That is to say, generally, we are moving forward. In connection with this, I remembered an old story of how an American billionaire was asked how he earned his money. He said it all started when he arrived in New York with one dollar in his pocket. He didn't spend that dollar on food; he bought some kind of pies, sold them, and earned three dollars. And out of those three dollars, he only spent fifty cents on himself and invested the rest in business again. And at the end of three months, he already had about thirty dollars. And he said he would have kept at that nonsense all his life, but then his uncle died and left him a million-dollar inheritance. I would like to say that in our business, it's very important to sell pies, but in principle, I'd put my money on the people who are in a position to receive something like that inheritance.

I think that the very ambitious goals for the implementation of American manufacturing and American business and its associated standards in the innovative development of Russia are unlikely to be extremely attractive, as far as our cooperation is concerned, because there has to be a reciprocal movement, there have to be reciprocal proposals, reciprocal interests. Otherwise, I think that the stability of our relations at large, beyond the round table, will be subject to doubt. Therefore, I would like to propose several topics that, in my opinion, might turn out to be ambitious, mutually interesting projects that we could address as partners. The first task is the economic crisis, as it has provided us with common problems. And Mr. Pandit has said that, in general, one of the responses to this is to create a financial centre. The creation of a financial centre in Russia is an unorthodox response. This is interesting because it will certainly increase the stability of the financial system the world over. I would like to propose two more fields that I think might be of interest and that are related to my mandate. First, and this is a general problem the world over: the low quality of human capital. All the world's economies have run into this; Mr. Pumpyansky just discussed this. In other words, I'm talking about the problem of education... I can say that recently, just a month and a half ago, I was at the Argonne National Laboratories. One of the biggest problems my colleagues told me about there was the complete lack of Americans among the specialists in the field of electrochemistry, where they are developing new energy-saving technology. There are representatives of Korea and of China, but no Americans. This is one of the

key technical problems in today's world. I repeat, these problems are growing the world over. I think we have a common problem related to the fact that we need to change the system for preparing professionals in order to train specialists. We could do this together.

The second problem is the problem of global natural disasters and the battle against these disasters, because both our science programs are oriented toward addressing global issues. These global issues were mostly connected with weapons and security, but these topics, too, are global in nature. Today we have encountered tragedy in the Gulf of Mexico. I think the scale of this tragedy is comparable to that of Chernobyl, if it doesn't exceed it. And I think that we can address problems of those dimensions together after setting it as a task to eliminate natural disasters. Unfortunately, we are touching on these only now, when these disasters are occurring. I think that we can discuss and address these issues, however much of a fantasy they may seem today. Yesterday, the problem of an oil spill in America also seemed like a fantasy. We would have only shown it in a movie. Today, it's a reality. We can name any problem: an asteroid hitting the Earth or anything else, but these are all problems we can solve together. In connection with this, I would like to propose at the very least a few fields in which we can practically address these issues. Mr. Pumpyanky mentioned one of them. That is the establishment of horizontal partnerships between Russian and American research universities. I think that these are the very structures that could build the right bridges. The second project, which has also been mentioned already, is the Skolkovo project as a pilot project with an absolutely new structure, a structure that is not simply an analogue of Silicon Valley, but the basis for the creation of an innovation network for Russia as a whole. This is an interesting task. This is a task that is interesting both for Russia and for the whole world, because this will without a doubt be an international network. And the third task is the creation of joint mega-science centers. Today, not one country in the world can unfold and expand large-scale mega-scientific projects on its own. I mean projects such as ITER, for example — the thermonuclear project. There is also the Large Hadron Collider at CERN. I can tell you that projects like this don't arise often, just from time to time. Today one more interesting project has emerged, a joint proposal between Russia and Italy to create a new thermonuclear reactor. And we are very interested in having the US take part in this project. I know that negotiations are being carried out on this topic. I think that these are three fields that will allow us to add a new dimension to our relations, a dimension that will be of interest not only to science and education, but also to business, because all these projects will require a good deal of science and resources. They will doubtless attract the attention of businesses in both countries. Thank you.

A. Shokhin:

Thank you. However, Mr. Fursenko, I believe that those electrochemists you mentioned are already citizens of the United States; therefore, they are already Americans. It's just that they were born in Russia, so they can't be president. We have very little time left. I would like to ask everyone to adhere to the schedule I gave you. Two minutes. The only exception is for the Ambassador, if he wants it. Now I would like to yield the floor to two of our forum participants at once. Those are Zakhar Smushkin and John Faraci. They are, respectively, chair of the Board of Directors of Ilim Pulp and chair of the Board of Directors of International Paper. I'll let them decide for themselves who will continue. You understand that I'm giving them the floor at the same time.

Z. Smushkin:

We have a good synergistic effect, so it's a good idea to increase our time by 50%. In the first place, I would like to join many of the speakers, especially Andrew Somers, who have made proposals for changes to internal Russian regulations. I think that he and I are in complete agreement on the things he discussed. No comments whatsoever; I agree with every word he said. Nevertheless, we have already been working for two years with International Paper, and we believe we have been able to attain certain results only because we long ago began what is practically the first serious project over the past thirty years, the modernization of a very large Russian cellulose and paper combine. We are planning to build a fairly large combine in Siberia. The financing is about USD 700 million. Another large project we are planning to implement in the European part of Russia is also connected with the production of office paper. Therefore, we believe that, looking at a cross-section of our company, it is apparent that we are very soberly and pragmatically looking things over and we believe we are progressing rather quickly. But to continue the tone that you set in your opening remarks, Mr. Shokhin, I would share the following: if we are talking about the Russian side, we are fighting for investment, competing with other areas that would gladly take these investments. In business, this is clearly evident: we want to give discounts, we want to provide service. So the Russian side, the Russian government should do something like that. I believe that, first and foremost, we should talk about compensation for expenditure on infrastructure: that is, full compensation for expenditure. This is key for the creation of plants, because naturally, after the crisis, we are basically working on so-called brownfield projects; that is, we're trying to build something on a ready-made base. But if we're talking about creating new factories, this is an important moment, not to mention other issues, like the regulation that previous speakers brought up. Thank you.

J. Faraci:

I will be very brief. For context, International Paper has been doing business with Russia since 1999. Zakhar mentioned the commitments we have made for the joint venture. But in addition, we have invested USD 1.5 billion since we have been in Russia, and the comments I am going to make relate to that capital investment, because I think it is an important issue for Russian manufacturing to be competitive in what is increasingly a global world for manufactured goods.

When we talk about productivity, we talk about labor productivity. The point I want to make, and I will be brief, is capital productivity. We have lots of opportunities around the world to invest because there are lots of growth markets, especially in the BRIC countries. And we have done a lot of benchmarking around capital productivity and there are really four factors I want to touch on. One of which Russia is very good at, three of which I think need a lot of attention and some of the solutions have already have been mentioned.

The four factors are cost, time to complete, complexity and execution, performance. I have to say, that with our experience in Russia over the past 10 years, we know how to execute and perform very well. On the first three — cost, time to complete, compared to other countries around the world, particularly China, Brazil and North America, I think there is both a challenge and an opportunity. Just to give you some metrics here — it costs about twice as much to build the same capacity in Russia as it costs in China. It takes about 70% more time to complete that same project in Russia than it does in China, and Russia has about the highest complexity. Now, Russia is less expensive than North America, but in terms of aiming for the best, and I think as we look at in spending capital around the world, Russia has an opportunity and a challenge. So what can be done?

Some of the solutions I think have already been mentioned. One thing that has not been mentioned I think, transparency, best practice in terms of how business is done is a big, big factor, there's been a lot of talk about it, but I think there is a lot of progress to be made in terms of actually making changes, and clear, consistent regulation, infrastructure, as Zakhar mentioned and as others have mentioned, and in education, training and workforce development. I think those four things will go a long way to bringing the capital productivity of Russia up to the best in the world and then it will be easier for Russia to attract more foreign direct investment in an important sector, which is manufacturing.

A. Shokhin:

In the Soviet Union, there was a joke that the result of an election didn't depend on who the electorate voted for but on who counted the votes. Incidentally, we saw a few years ago that that scheme worked in the US as well. I would like to present a hypothesis, that recovery from the crisis doesn't depend on how the real or financial sector is, but rather on what happens on the

ticker at Bloomberg. I would therefore like to yield the floor to the chair of the Board of Directors of Bloomberg Peter Grauer. When can we expect to hear nothing but good news?

P. Grauer:

We would like to see good news all the time too. Thank you very much for the opportunity. The message that I would like to deliver is that we have been citizens in this country performing our jobs now since 1993. In fact, we just announced on Tuesday evening and Wednesday morning our new Russian language news service on the Bloomberg terminal, as well as additional functionality with regard to what's going on in the local capital markets. We are firm believers that this market, in terms of not only the local economy, but also the role that Russia plays in the global economy, is obviously becoming much more relevant to the way the world operates today. In fact, our business in Russia today is growing at 4 times the rate of our business elsewhere in the world. I'm happy to say our business overall is growing very positively. I think the one message that I would like to leave this group with is that the issue of transparency and fair disclosure is critically important in attracting foreign investment. It is something that we have built our company on for the last 28 years and we will continue to do so going forward. We are very much an ambassador in some respects for what happens in Russia. We have over 340 thousand subscribers around the world that use our service every single day, that rely on our news content. We have a growing news capability here in Russia. It goes out over our service on the real-time basis and impacts the value of currencies and securities. It is certainly very important to have good economic data so that the outside world can see the successes that are occurring in this country. So I would share my comments with some of our colleagues around the table and say that as Russia and the United States become closer together and as Russia becomes an increasingly important player in the global economy, the necessity to have transparency, good financial reporting, good disclosure is critically important to the overall confidence that is required to attract the kind of capital investment that John and others have talked about. Thank you for this opportunity.

A. Shokhin:

Thank you. I want to yield the floor to Boris Titov, chair of the social organization Delovaya Rossiya.

B. Titov:

Thank you very much. We are an organization that basically works with businesses and represents businesses that do not work in raw materials. Nevertheless, we support a combined program — which we don't always do — and entered the Russian-American business dialogue

and began to actively work within it in conjunction with RSPP and other business organizations. And we already have some specific projects underway. Everything needs to be put into context, because it's very important for us to concentrate on developing a sector of business which is currently not developing very well, the collaboration between small and medium-sized business, particularly in terms of innovation. Therefore we developed a program and conducted a large-scale competition to gather innovative proposals for small and medium-sized business. Out of more than eight hundred participants we chose one hundred winners; from those, we chose the 50 best works and, in conjunction with the Russian-American Business Council, we are organizing the presentation of these projects in Silicon Valley; we're going to San Francisco. We believe this is a very important element of our business dialogue, and in this way we can build relationships in areas where they are truly lacking. First and foremost, the issue is with small and medium-sized business, that do process manufacturing. Large companies, like those represented by most of those here today, who are members of the Russian Union of Industrialists and Entrepreneurs, are capable of addressing such issues on their own. We are helping establish relations between separate sectors of the economy, to develop small and medium-sized business and partnerships between Russian and American companies, to create a system of cooperation, and form a stimulus package that will make joint investment of more interest to them. I agree that today there are not enough institutions working to develop these business relationships; we do not offer financial stimuli for joint investments, although in other countries, either unilaterally or bilaterally — for example, for us within the EurAsEC — institutions are being created to support businesses in joint investments. Therefore, credit bureaus or guarantee bureaus or even insurance companies that insure joint risk, or a joint bank--these are the institutions that can facilitate joint investments, and they are of great interest to us. Medium-sized businesses in Russia today are in dire need of financial resources. You know that financial resources are very expensive in Russia; today only one percent of credit is issued for a period of more than five years, and interest rates--we can't even count on anything lower than 11-12%, although in reality it's 15-16%. Therefore American investment resources are very necessary to our economy. In addition, we need more than just cutting-edge innovations, but we also lack some basic technology: farming technology like John Deere's, although these days Selmarsh's growth is not bad; they have advanced very well. Like the members of Delovaya Rossiya, we are in need of technology for light industry, for innovation. In general, we are very interested in encouraging investment, but that requires the creation of the appropriate institutions. The last word goes to Mr. Shokhin.

A. Shokhin:

I'll have the last word, and I'd like to talk about the WTO.

B. Titov:

The topic of the WTO, it seems to me, is good for discussion; it's very important politically, so we're prepared to talk about it for a long time. I just think that politically, it's a very important topic: for us, for actual process manufacturers, rather than those that work with raw materials, we won't lose anything from joining the WTO, but what we can gain, of course, needs to be formulated more precisely. Thank you.

A. Shokhin:

I would like to present RSPP's position on this issue. They have said many times that the issue is not the pluses and minuses of tariffs for exporters and importers. The issue is that we are beginning to operate according to international standards, WTO international law, and in that sense it is easier for us to overcome administrative barriers and the imperfections of our domestic legislation. Simultaneously, we are beginning to participate in the creation of investment and trade legislation in conjunction with other WTO members; this is much more important. Colleagues, I remind you — one minute each.

I would like to turn the floor over to Dennis Nally, CEO of PricewaterhouseCoopers.

D. Nally:

Thank you Alexander, I'll try to be very brief here. I'd like to get the agenda maybe back to this whole issue of innovation and modernization, which is the theme of the summit. Today PricewaterhouseCoopers, together with the Russian Venture Company and the New Economic School, released a survey on the status of innovation and modernization here in Russia. It really has some pretty interesting findings, which I think are worth noting here for the whole group. First, some good news. The good news is that a significant majority of the respondents themselves are actually very positive with regard to where innovation modernization is going in this country over the next 5 to 10 years. I think that's very positive. Some of the critical issues that were raised or I think are worth noting and some have been talked about here this afternoon. Number one on the list is the whole issue with regard to the question of red tape — how to really resolve issues in a timely effective way, to get things done and be responsive to the global economic environment. Two — the issue around insufficient protection of investor rights, and then third — I think a topic that may not have been covered today, the financing of start-ups and how they can be dealt with much more effectively. It seems to me that we now have the basis to have a very good benchmark for how many of the larger companies are really assessing and dealing with these types of issues on a go-forward basis as some of the suggestions I think that were put forward this afternoon

together with others, may be a way to really demonstrate the progress and the commitment that really could be made a way to deal with these top 3 or 4 issues. I would just encourage the collaboration and effort to really put forward, to really deal with that on a go-forward basis. Thank you.

A. Shokhin:

Thank you for your brevity and restraint. Anatoly Karachinsky, president of the Informational Business Systems Group, and chair of the RSPP's commission on professional education.

A. Karachinsky:

Thank you very much. I'm the representative of that technical business everyone's talking about, but they always have me talk last; it's a tradition.

We represent precisely that sector that is generally enjoying strong growth; we are doing well. I represent a sector with about 50,000 employees, people developing software programmers, and we are in the midst of a fairly large breakthrough with the American market. Many analysts are writing now that the attitude toward Russia and Russian programmers has changed, that there has been a certain change in the model, and that Russian programmers are working on increasingly complex projects and systems. Other countries are moving in a slightly different direction. We have very good means of collaboration. We've already discussed Boeing, which invented an excellent model in which, on the one hand, it seems to me that it receives a colossal advantage from working with a highly-educated company and, on the other hand, it provides fairly substantial aid to Russian companies. I think this is just a wonderful model. There are many American companies that have now come to Russia. Our business last year — the crisis year — increased by nearly 25%. It seems to me that the moment has come in which Russia stands securely in second place after India in ratings from the point of view of creativity and is the sure leader in technological adaptability. Many of our unique technology companies have made quite big leaps forward: in issues connected with cloud computing we have a unique company; in issues connected with image and text recognition, Russian companies dominate. I could name ten more areas like this which are dominated by Russian companies. It seems to me that it is very beneficial for us to work in America, because there's a truly good environment there. Thank you very much.

A. Shokhin:

And thank you. I'd like to yield the floor to Tim Flynn, president of KPMG International.

T. Flynn:

Thank you very much. In light of the time, I will make my remarks very brief. We are actually celebrating our 20th year here in Russia this year and are very proud of being associated with all the great business here in Russia.

Over that period of time, we have seen tremendous progress in a number of areas. One in particular is corporate governance. And while we have talked about many things, the one thing I just want to stress for a moment is the importance of strong corporate governance, transparency in financial reporting, and strong risk management.

We recently formed an Audit Committee Institute here in Russia to help companies understand the role of the audit committee and strengthen corporate governance and we look forward to working with companies here in Russia in that process.

The other thing I would point out and close with is the word communication. There is a great story happening in Russia. And I think it is a story that does not get as much play as China or India, or the other BRIC countries, and I will encourage all of us here, if we go back to our constituencies, our stakeholders, to tell the story of Russia and broaden the great story here and look forward to come back next year. Thank you very, very much.

A. Shokhin:

Thank you. Colleagues, we're very quickly going to hear one or two sentences from those participants who wanted to say something. Alexei Isaikin, president of the Volga-Dnepr Group. Go ahead.

A. Isaikin:

I have a specific proposal on the topic of what Mr. Vekselberg touched on, the presidential commission working between presidential visits. The proposal is the following: a program of projects should be formed that I would call a series of projects leading up what I call a "Ladder of Trust". For example, in the 90s there was a project called *Sea Start*, which is still active, although it started a long time ago and is not related to the project at hand. This stage would be considerably more effective if these kinds of delicate hi-tech projects in the dual-technology sphere followed one after the other, so that each project built on the trust of the participants on both sides. Here I would like to provide a story from our work providing heavy cargo aircraft services to US government agencies. Eight years of cooperation began with a question from the head of R-Mobility Command: "Do your personnel work for the communist ideal or for money?" He got the answer he wanted, and we have been working together successfully for the last eight years. In the following stage we will be able to rely on the trust that we have already established and we'll be able to discuss joint projects for the creation of this kind of product, heavy cargo aircraft. Thank you.

A. Shokhin:

Thank you. James Quigley, chief executive director of Deloitte.

J. Quigley:

We have been here long enough, so let me keep my comments very brief. I certainly second the comments around removing red tape, removing barriers to the movement of materials and people and knowledge. But I would like to come back to Mr. Pumpyansky's comments with regard to universities, the role of universities and institutions and broadening that mission to include technology transfer, collaborative research and pre-competitive research.

Human capital is the currency of innovation and you find it around universities and that is going to be a key to developing the knowledge of society.

J. Megreditchian:

In the spirit of brevity, I'll be very brief. We have between the regulators and market participants and I will just give one example that is very popular these days, a lot of people in Russia are speaking about the central depository and that is a decision that we will all have to make, for the most part at the same time. I have to mention the article 17.7 that obliges the US investors to deal with countries only where there is essential depository. We are speaking essentially about the centralized system and I think that with the current organization of the Russian market into the National Depository Center (NDTs) and the Depository Clearing Company (DKK), there is already a possibility to consider this market as a market that has complied with 17.7. So just the idea of regulators and market participants working together, because the flows between these two countries can be much bigger.

A. Shokhin:

Thank you so much everybody!