

“It is the real intention of the president to improve relations between the state and business community”



Alexander Shokhin, Chairman of the Supervisory Board, Renaissance Capital, describes how at the recent meeting, President Putin proposed ways of improving the entrepreneurial investment climate in Russia and providing additional support to Russian companies in their external activities

You were at the recent meeting between President Putin and business leaders. Is the business community now more confident and optimistic about the governments' attitude toward economic development?

Of course, after the meeting, relations between the state and business community are more positive. The main problem before was related not only with the Yukos deal but with some claims from tax authorities against the biggest taxpayers – not only Yukos but also Vimpelcom, for example.

Predictability was lacking in the taxation sphere and also the investment climate sphere. That is why the issues related to tax administration were main points during our meeting with the President. I was the speaker on the behalf of business community on this topic. President Putin agreed the first priority now the normalisation of business administration and that only after this normalisation of tax regulations and tax control will it be possible to begin to cut value-added tax and other taxes.

This is connected to the recent dispute between the finance minister and economic minister, on one hand, and the prime minister on the other. The two ministers proposed to begin the next step of tax reform from normalisation of relations between taxpayers and tax administration. The prime minister proposed to make the first in the next year by cutting the VAT from the current 18% to 13%. Decreasing tax rates is very important for the business community, especially VAT and unified social tax. It's very important – but the final decision to normalise tax administration and auditing in this field is also very important. The president asked the government to facilitate the process of preparing additional tax proposals, including the stimulation of investments

including facilitation of the VAT refund after investment and some additional measures.

The President mentioned the idea of cutting the so-called period of review of privatisations from the last ten years to the previous three years. For many companies, however, this is not actually the real problem, because only a few companies participated in so-called collateralised auctions in the middle of the '90s.

Finally, the third point of the meeting with the President, focused on the export of Russian capital abroad. There were many rumours that meeting with the Russian president was partially the result of similar events in Kiev, when Yushenko met Russian business leaders. That is why many analysts described the situation in the following terms: 'the Mr Putin and the government are afraid that Russian capital will flow to Ukraine and that the investment climate in Ukraine is now better than in Russia.'

However, Mr Putin stressed very strongly that he is ready to support Russian businessmen who wish to invest in Ukraine, Kazakhstan, Georgia and so on. He even added that the Russian government, and he personally, are willing to support companies if they met with problems abroad – for example with the reprivatisation processes.

Simultaneously, Mr Putin, proposed two approaches: to improve the entrepreneurial investment climate in Russia and at the same time to provided additional support to Russian companies in their external activities. It seems to me, that by combining these two directions, the Russian government will have to improve the situation in relations between the state and the business community very rapidly and I believe that it is the real intention of our president. In the coming months we will see more steps – not only realisation of steps that were an-

nounced already, relating to re-privatisation and taxation but we may see additional steps related to positive changes in the investment climate.

There is no hiding the fact that economic developments in Russia took a negative turn over the last 12 months. When Putin met with big business leaders, was he 'descending as the good tsar' to sort out the turmoil?

It seems to me that in the last two years, we have suffered from the Dutch Disease, and many bureaucrats and members of the administration found it impossible to realise any relations with business because the oil price has been very high, the stabilisation fund has been increasing and the surplus of the budget is huge. Many bureaucrats made many mistakes. They began many acts to distribute ownership, because they thought that these measures would be compensated for by the good situation in external markets.

But we saw a very strange picture: oil prices have continued to rise but rates of economic growth are slowing. In the beginning of this year we saw some negative signs: Low levels of investment, low growth in the different industries and other branches of the economy. Now, the president and some members of the government at least, see that it is necessary to work very hard to realise all advantages which are presented and to make the most of the positive situation in the world market. For this, it would be necessary have good relations with business: predictable and stable relations, to keep sustainable economic growth and a good investment dynamic.

It is very important for Mr Putin to improve the situation this year, because in two years there will be parliamentary and presi-

dential elections. He will have to show that after two presidential terms, that there have been positive events in the economic sphere.

On many previous occasions President Putin announced "I am against the reprivatisation of property". In light of what happened with Yukos, why, when business leaders met Putin, did no one say "we have heard this before"?

Formally and officially Mr Putin stressed that he is against redistribution of ownership. But, concrete steps with Yukos have shown that we have had redistribution of ownership already. For Mr Putin it was necessary to stress that Yukos was the only case – and that it related not to privatisation but to tax evasion. Igor Shuvalov, aide to the president, has stressed

that Yukos must show to other companies that they must pay taxes. The proposal of the president and comments by Mr Shuvalov are two sides of the same coin and, of course, for businessmen taxation is more important than privatisation. Now we have to concentrate our discussions with the government and the president on taxation changes. **rir**



"2005 will be a very busy year"

Sergei Vasiliev, chairman of the Committee on Financial Markets of the Federation Council of Russia, outlines his committee's programme for they year, and reflects on the privatisation processes of the '90s, in which he was intimately involved

What work are you doing in the Federation Council at the moment?

The upper chamber only gives approval to laws; we don't work on the technical side – rather only on the political side. Last year we had a lot of work on the banking issues – not least because of the mini-banking crisis in the summer. Also there was the launch of the system of deposit insurance. Today, reform on banking legislation is more or less in place, therefore this year we will spend more time on the stock market. There is a new leadership at the Federal Securities and Exchange Commission, who have proposed legislation to improve the stock market. The major issues are the law on derivatives and the law on insider information. 2005 will be a very busy year.

There seemed to be a great deal of questionable trading around the Yukos Affair. Is it correct to say that insider trading is a real problem?

It is – but it is not easy to design a law because it is not easy to check: you have to be very careful and it will require great effort to be constructive.

What truth is there behind the perception that when Russian companies have business to do they go to London or New York?

That is a problem – the major problem is that the Russian stock market is expensive – in terms of the financial cost and regulatory cost is quite high. That has to be resolved.

Did Russia's history in the '90 create difficult issues for minority shareholders?

It is not just a question of the '90s, but the short history of capitalism in Russia. The problem is that the notion of minority shareholders in the western context took a long time to develop. It is not a natural notion in Russia and there have been a lot of problems with minority shareholders. In my opinion, there is a problem when copying legislation which has not been rooted in Russian customs because it means that the laws are not successfully implemented. That has been the problem. However, things are changing – we are seeing much less abuse of the minority shareholders

Do you believe that Russia's political leadership appreciates these problems?

Yes – it is a well-know problem. There were a lot of conflicts in this area but it is now perceived as a problem by the entire leadership. They now have the necessary understanding how to deal with the problem and what should be done. I think that there are more problems in technical areas, such as derivatives and insider trading, because they are much more difficult from a technical viewpoint.

You are famous for being one of the 'Young Reformers' in the '90s – when you look back now, what lessons do you think should be drawn from that period in Russia's history?

Perhaps we didn't do enough to make the Russian economy properly liberal. Some problems were overlooked from the beginning, for example the problem of natural monopolies which was not addressed in the first years of reforms. In fact, there were not many real problems in this sphere – which is maybe why the larger problem wasn't addressed. However, it is better to pursue reforms at the beginning of a process. Work on the national monopolies only began in 95 which was too late.

Was one of the flaws of the privatisation process that the economy did not have an established concept of the rule of law and private property?

If we talk about privatisation, I would say that there were two mistakes. First, the so called 'voucher investment' funds which were created in the initial stage of privatisation. The problem was that there was not enough supervision of these funds and many people lost their vouchers. The second mistake was the loans-for-shares scheme because it was obviously unjust and was never accepted by the Russian population as legitimate, and thus we have problems now which are still being dealt with. I also think it was a mistake that foreign investors were not allowed to participate in the privatisation process. This was an implicit and maybe political position. **rir**