



“Who are the biggest investors into Russia? Many of them are in this room”

Photos: Alexei Kudikov

177 speakers on 28 plenary and breakout sessions, a strong list of corporates, over 2000 Russian and international CEOs and industry chiefs, investment bankers and fund managers, journalists and political insiders – as the juggernaut that is the Russian Economic Forum rolled out of town on 12 April, the reflection that the 2005 event was a busy few days is no understatement.

In fact, the Russian Economic Forum on 10 –12 April 2005 was the largest yet, as its year-on-year growth trend continued unabated. What follows are a few select highlights of an at times tempestuous event.

Delegates heard from an eclectic line-up of speakers, from business and industry, politics and the press, from long-time Forum Lead Partner KPMG’s Roger Munnings and UFG’s Charles Ryan to newcomers in the shape of London Mayor Ken Livingstone and one-time PM turned political maverick Mikhail Kasyanov.

The first plenary session of the Forum, once again with standing-room only, gave the stage to a big-name panel, moderated by Roger Munnings, President & CEO of KPMG’s operations in Russia and the CIS.

First up, Andrei Illarionov, Chief Economic Advisor to – and occasional thorn in the side of – the President of the Russian Federation, stressed the importance of entrepreneurship, ongoing reforms and the integration of Russia into the world economy. Picking up on one of his recurrent themes – the threat of the ‘Venezuelan disease’ of 1957, when the denationalisation of various assets of the commanding heights of the economy led to unprecedented stagnation – he warned that he saw “a powerful temptation among political forces in Russia” to, accidentally or otherwise, follow this route.

What to do? Mr Illarionov argued that the “Russian entrepreneurial project will depend on the extent to which the Russian government and society can cope with the challenge of finding a natural formula of an economic nature”. Only through debate would the country evolve for the better and produce a modern and thriving society.

A principal theme in Mr Illarionov’s address was the importance of ideas – that they should be imported from the west and implemented immediately in Russia, but warned that erroneous and dangerous ideas have been adopted all too often in the past. He advocated a real debate to select the best ideas for Russia, warning that over the centuries there had been an influx of different and sometimes dangerous ideas which Russia has taken

on “partially” – dryly listing “Marxism, Communism, Socialism, Kyotoism...”

Russia had to find the optimum formula for government and business, he argued. In the ‘90s, big business dominated. This was followed by the “extreme dominance of government”. Therefore, the need to find a “formula of development in a long term perspective” remains a pressing necessity.

James J. Mulva, Chairman and CEO, ConocoPhillips, basking in the glow of his \$1b investment in Lukoil, described the tie-up as “a strategic alliance... a real partnership based on complementary strengths”. The alliance will succeed, he argued, through sharing ideas and best practice. Despite his declaration that, since 1991, Russia has faced many challenges, he claimed that it remains “a place we want to be”.

Highlighting Russia’s growing role in meeting global demand for oil, he cited statistics that in the last four years, Russia has provided over 70% of growth in supply outside of OPEC. However, demands for fresh investment, the application of new technologies and project management expertise meant that there remains much ground to be covered.

He emphasised that, to meet the estimated \$25b of investment needed by 2025, “external capital will be essential”.

After a recent assassination attempt, Anatoly Chubais, Chairman and CEO, RAO UES of Russia, was in characteristically bullish mood, and began his speech asserting that his reforms were still on track after “overcoming fierce opposition, not least from oligarchs” and after “a very rough passage through parliament”. He assured the audience that the reforms were about to be completed – “the final stage has arrived”, qualifying this, however, by commenting that reforms are not yet on the “home stretch, because there are some serious problems still to be faced, but they can be overcome”. He ended by giving a clarion call to doubters, chiding the audience: “Don’t be late jumping on the power reform bandwagon!”

In his first address to the Russian Economic Forum, Ken Livingstone, Mayor of London told delegates that they should consider “London as the natural base for Russian business in Europe” and envisaged a long-term vision of Russia becoming a key player in European-wide decision-making, asserting that “Russia’s economy would perfectly complement the EU”.

Russia has “turned the corner”, he claimed, and



is locked into sustained growth – growth which is not just reliant on oil. Advocating the strengths of London as a full business partner for Russia, he stressed that “Russians are welcome as individuals and for the business they bring”. In a nod to his Muscovite counterpart, he praised Mayor Luzhkov for transforming Moscow in recent years.

Charles Ryan, Chairman and CEO, United Financial Group outlined the economic challenges facing Russia, including demographic worries, an aging capital stock and flattening productivity – all of which raise doubts as to whether the goal of doubling GDP by 2010 will be met.

On the flip side, Mr Ryan described the opening up of the Russian equity markets. In the previous eight months, he said, there had been more IPOs than in the previous eight years. He also described as “extremely positive steps” the promised “privatisation amnesty” and attempts to make the tax laws more understandable, whilst remarking that a deal with the Paris Club is in everyone’s interests and WTO an “unbelievably important step”.

Mr Ryan concluded by saying that we “shouldn’t let the best be the enemy of the good” and that foreign governments should be constructive.

Another Forum veteran, Peter Aven, President, Alfa Bank announced that economically (and physically) “we are where we were a year ago”. Quality of life in Russia has fundamentally improved over the last ten years and the Russian economy, in terms of assets and particularly the stabilisation fund, means that the economic position is “remote” from 1998. However, he highlighted concerns that two thirds of growth has been due to the bonanza of inflated oil prices. Despite this, Mr Aven saw encouraging signs in the potential of consumer finance, in the simplified fiscal and tax situation and in the fact that the Ministry of Finance, despite great pressure to spend, has resisted.

Less encouraging was inflation as high as 15%, a situation which, if the root causes are not solved, will “explode” and economic growth will be threatened. Reflecting on the economic clout of Forum delegates, and surveying the packed Flemming auditorium, he pondered that Cyprus is the biggest investor into Russia. Who are they? “Many of them are in this room”.

Introduced by Roger Munnings as a “former Prime Minister of the Russian Federation, but for the time being a businessman”, Mikhail Kasyanov, Founder, MK Analytica, claimed that he would speak “not only of the successes, but the truth”. Mr Kasyanov proceeded to run quickly through the external economic indicators which appear positive, citing rapid growth and a clear consumer boom. Why then, were the former optimists now cautious? Mr Kasyanov was in no doubt - because of uncertainty, which he blamed as the principal cause for the worsening investment climate, dramatically increased capital flight and the crisis in the banking sector. And “the list of delayed change continues to grow”, he commented.

He went on to lambast the authorities’ record on administrative, pension and power reforms, and noted the trend towards Government banks’ domination of the banking sector. Social protests were a strong indicator of a growing dissatisfaction, he felt.

Still on the offensive, Mr Kasyanov claimed that the “government sector is undermining entrepreneurship”, which he described as not a new problem but increasingly serious. He accused the government and central bank of having “lost control of inflation”, and predicted that there may be a budget deficit in 2006 and that Russia may have to give up on its newly acquired sovereign investment rating. For Mr Kasyanov, the pessimistic scenario is if “threats are ignored and Russia continues to rely on oil”. Russia must never attempt

to draw a "rosy picture, but should be honest and frank with investors".

During the morning coffee break, with Mr Kasyanov's pronouncements ringing in their ears, delegates began to buzz with rumours – confirmed by news reports - that TNK-BP had been hit with a massive back tax claim. However, an unruffled shareholder and Executive Director of TNK-BP, Viktor Vekselberg had an opportunity to respond to the news as soon as the plenary session resumed, claiming "this is just a normal process of our (TNK-BP's) investigations with the tax authorities. In half a year, I will let you know about the results of it and I can promise the sum of claims will be lower. I think that the investment future of Russia is still bright, especially in the longer term."

The full panel of plenary speakers in the second session also included prominent St. Petersburg Governor, Valentina Matvienko, extolling the investment benefits of Russia's second city, as well as Ilya Yurov, Chairman of Trust Investment Bank, Malcolm Brinded, E&P Director of Royal Dutch Shell and Sir Digby Jones, Director General of the CBI.

The vast array of sessions in the afternoon included further discussions on power reform, the oil and gas sector, Russia's regions as well as more abstract analyses of philanthropy, corporate social responsibility and the idiosyncrasies of 'Russian Capitalism'. For the first time, the Forum went beyond its remit to include a spotlight on Ukraine, and other popular sessions focused on Russia's rising young entrepreneurs and women business leaders.

One of the liveliest afternoon sessions was a debate on Political Risk. A strong panel included Igor Bunin, General Director, Centre Political Technologies, who claimed that "there is no counterbalance to the state's centralised power."

Boris Nemtsov surveyed the recent revolutions in the Former Soviet Union and argued that the regimes

collapsed because of irregularities in elections. "While there are some similar circumstances in Russia, why is there not the same revolutionary situation in Russia?" His answer: "because Putin is popular. For many of us here Ukraine is a dream ... but maybe everything will start with Ukraine, just as it did a thousand years ago".

On the same panel, Viktor Pleskachevsky, Chairman, Property Committee, Russian Duma, began wryly by apologising for being a member of the ruling party, United Russia, and continued with a contribution full of rhetorical flourishes. He asserted that "the degree of democracy is not related to investment ... Russia is pursuing liberal reforms: don't compare Russia with Europe. What is closer to Russia? Chile or China?", and "we must not get rid of the state – we must remove it gradually"

He also attacked Mayor Luzkhov – "he is bad because he treats Moscow like his own fiefdom".

A barnstorming speech from Victor Makushin, President of MAIR Group, concluded the panel, in which he warned that the risks to the Russian economy are growing fast, especially corruption and what he branded the "clan phenomenon" where it is one and the same set of people who dominate. He went on to claim that Russia is living on natural resources and a "feudal system of business community" where "corrupt, clan based leaders have a great life". But since the Orange Revolution, the government "doesn't know what to do". He suggested an alternative to Russia's current development with the rallying call: "let's have a revolution and give them a surprise".

Such a highly charged atmosphere at the Russian Economic Forum kept sessions packed right to the end of the second (and final) afternoon.

Dates for the arrival, once again, of the Russian Economic Forum juggernaut have been set for next year: 23 - 25 April 2006. 

