

Business to the fore

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David Cameron's visit to Russia this month is the first by a British Prime Minister since 2006; during the intervening five years, political and diplomatic relations fell to a post-Cold War low over the Litvinenko affair. And while the two countries will continue to disagree about the 2006 murder of the former Russian agent in London, behind the scenes there have been several important business-related initiatives since then, and these have gained momentum since Mr Cameron took office last year.

The Prime Minister has put a high priority on strengthening trade and business ties with emerging market economies, and the visit to Russia follows a trip to China last year when he was accompanied by a large delegation of senior figures from British industry. Speaking after President Medvedev's invitation to visit Moscow, given at the G20 meeting in Seoul last year, Mr Cameron said: "We have both agreed we want to strengthen the bilateral relationship. I'm very pleased to take up the invitation of a visit to Russia next year."

Mr Cameron's trip will build on two high-level UK government visits to Russia last autumn: that of Foreign Secretary William Hague in October, and November's three-day trip by Business Secretary Vince

Cable, when he was accompanied by the largest-ever British business delegation. The group was composed of 37 companies, including BP, which has a 50 per cent stake in Russia's third-largest oil producer TNK-BP, Royal Dutch Shell, and Rolls Royce, the world's second-largest aircraft-engine maker.

In turn, Mr Cable's visit came about after the governments of the two countries resumed high-level bilateral economic contacts in 2009 through the Intergovernmental Steering Committee on Trade and Investment. Among the promising areas identified were financial services, high technology, energy and energy-efficiency, and pharmaceuticals. At the same time, the need was recognised for strategies to improve the business climate in Russia, including access to markets and to help with the promotion of small and medium-sized businesses and the expansion of regional co-operation.

Despite the political chill UK companies including Thomas Cook, BP, Shell, AstraZeneca, Cadbury and Kingfisher have invested more than £11 billion in Russia, about 15 per cent of total foreign investment in the country, according to UK Trade and Investment. UK exports to Russia in 2010 increased by 51 per cent year on year, reaching £3.45 billion. Since 2001 UK-Russia trade has been growing by an average of 21 per cent a year.

Photo: RIA Novosti



The lion's share of trade between the two countries is in the oil and gas sector. TNK-BP is a key stakeholder in this sector in Russia. Shell also has a major investment in the Sakhalin-2 project. In fact, remove oil and gas from the equation, and the UK drops a long way down the list of foreign investors in Russia, something that Mr Cameron's trip aims to rectify.

There are around 600 British companies with a presence in Russia. Aside from oil and gas, British companies lead the way in financial professional and legal services.

Another high-profile visit that strengthened UK-Russian trade ties took place in June this year by Michael Bear, the Lord Mayor of the City of London, who held a range of meetings with senior Russian political and business leaders, including Finance Minister Alexei Kudrin, the Mayor of Moscow Sergei Sobyanin, and Central Bank Chairman Sergei Ignatiev. The Lord Mayor discussed how best the UK could work with Russia to develop both countries' economies, and promoted what the UK's financial, legal and professional services firms could offer Russia.

The visit was aimed at helping the Kremlin in its bid to transform Moscow into one of the world's top-ten global financial centres. The Lord Mayor opened the inaugural meeting of the UK-Russia Liaison group on Moscow as an International Financial Centre (MIFC), which the Mayor co-chaired with Alexander Voloshin, the Presidential Envoy on MIFC. The meeting saw a strong business delegation from both Russia and UK agree to take forward joint work on Alternative Dispute Resolution, Derivatives, Securities, Regulation, Marketing and Branding, and Public Private Partnerships.

President Medvedev has reiterated that Russia will refrain from imposing a special tax on banks and the financial sector in an effort to attract additional capital into the country. First Vice-Premier Igor Shuvalov said last year that the government had no plans to introduce a special tax on banks, as it contradicts the strategy of creating an international financial centre in Russia. The move could give Russia some competitive advantages over other countries that are planning to impose regulatory restrictions on banks in the wake of the global financial crisis.

Britain's role in Russia's reform agenda

The question remains as to how Russia is to wean itself off oil dependence and create a more productive, diversified, and above all, knowledge-based economy.

For example, since the collapse of the Soviet Union, Russia has fallen behind the West in high technology. A major step forward was taken in March 2006, when the government approved a programme to create technoparks to incorporate high-tech enterprises in such sectors as nano-, bio-, information and other

kinds of technology, as well as scientific research organisations, educational institutions providing staff for such enterprises, and other related ventures. Two years later, when he became President, Mr Medvedev took further steps to modernise Russia.

The flagship project for these efforts will be Skolkovo, a high-tech research, development, and production hub being built 12 miles outside the Russian capital, and which will focus on research in five priority spheres: energy; information technology; communication; biomedical research; and nuclear technology.

"The Skolkovo project to establish a hi-tech research hub near Moscow is essential for Russia. We're creating an innovation economy. We are to be entrepreneurial not just at a company level, but at a country level." says Anatoly Chubais, CEO of Rosnano, and a leading architect of Russia's post-Soviet privatisation. He has outlined an ambitious plan to create Russia's Nanotechnology Centre — a US\$10 billion, entrepreneurial ecosystem that incorporates education, research and business incubation, and that will be located at Skolkovo.

During Vince Cable's trip last November, Mr Chubais announced that Rusnano would take part in an innovative pharmaceutical project worth US\$900 million with as-yet unnamed British partners.

"This will be the largest project in Russia's pharmaceutical business," Mr Chubais said at the time.

Russian billionaire oligarch Viktor Vekselberg, tasked with coordinating Skolkovo, believes the new research centre will become self-sufficient within a decade.

"I believe it's extremely important this project starts on the right track from the very beginning and breaks

The UK and Russia have a Knowledge Partnership to encourage cooperation in science, innovation and technology

The lion's share of trade between the UK and Russia is in the oil and gas sector



Photo: Gazprom

The common strategic aim is to encourage economic growth through modernisation and innovation

Rusnano CEO Anatoly Chubais addresses a FIRST Executive Briefing



even on its own. I think this task will take us five to seven years,” he said earlier this year.

Vekselberg is positive about the new high-tech hub, but emphasises that the Skolkovo research center will succeed only if international companies participate in it.

Vince Cable expressed the UK’s interest in Skolkovo during his trip last year: “Skolkovo presents a perfect opportunity for UK companies and universities to work with their Russian counterparts and develop truly world-class technology. The UK and Russia have a Knowledge Partnership to encourage cooperation in science, innovation and technology. The UK has the largest ICT industry in Europe and we can help Russia as it develops in this area.”

Russia continues to invest heavily in its human resources, including trying to educate the next generation of business and political leaders abroad. But the Kremlin also wants foreign experts to feel comfortable in Russia. “Our task is to make Russia more attractive for foreign experts to work in,” President Medvedev told world leaders at Davos this year. “The inflow of foreign experts is needed to learn the best practices and create a good environment for the work of our experts.”

President Medvedev has announced the creation of a US\$10 billion investment fund. The fund, which will see the state commit US\$2 billion annually over five years, and co finance up to 20 per cent of the cost of development projects, will be headed by former Icon Private Equity president Kirill Dmitriev who says the fund plans to attract up to US\$90 billion of international funding to Russia on a long term basis.

President Medvedev has criticized Russia’s slow

progress in scrapping administrative barriers to foreign investment, pressing his fight to stem growing capital outflows.

“We have been fighting on and on against administrative barriers, but new ones keep cropping up again and again,” Mr Medvedev told a meeting of government officials tasked with aiding businesses at his Black Sea residence in Sochi this summer.

“If we don’t improve the investment climate, we will not be able to move forward,” he said.

President Medvedev appointed investment ombudsmen for each of Russia’s 83 regions last year to try to keep regional officials in check.

“Practice shows that two thirds of these barriers exist in Russia’s regions, not in Moscow,” he said.

The newly appointed ombudsmen have so far received 76 complaints from investors, over half of them dealing with administrative barriers and discrimination experienced by foreign companies, according to a government website.

Among those companies that have resolved disputes with regional authorities thanks to the mediation of government ombudsmen are Nestlé, Metro, and Ikea.

This year should also see the government raise a total of \$32 billion from selling shares in 10 state assets by 2013, says Economic Development Minister Elvira Nabiullina, among them a 10 per cent stake in Rosnano.

Ms Nabiullina, an energetic supporter of moving away from oil dependence and diversifying the economy, also plans to create a public database that would provide information on privatisation of state assets to make the process more transparent.

Looking to the future, both sides know that they need to concentrate more on their traditional strengths. For the UK this is in technology and design. Similarly, science and innovation was one of the strengths of the Soviet Union. On the 50th anniversary of the Yuri Gagarin space flight it is worth remembering that the Russians were innovators in the field, and continued to make important breakthroughs into the 1970s. Given the similarity of these sectors, there should be a lot of scope for the UK and Russia to collaborate for mutual benefit.

The task facing Mr Cameron and his delegation during their stay in Moscow is to build on the level of co-operation that has been achieved through dialogue based on mutual respect behind the scenes over the last five years, and to expand significantly the scope of collaboration.

Russia and the UK are at a stage where their paths are converging. Their common strategic aim is to encourage economic growth through modernisation and innovation, to expand foreign trade, and attract capital from abroad. Both countries need to find sources of growth and new ways of increasing their competitiveness, and it is hoped that this visit will set the seal on what from now on will be closer trade ties.