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ECONOMIC  
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**SUSTAINING CONFIDENCE  
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PHOTO: ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM

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## DAY 1



**Frans van Houten, Chief Executive Officer and Chairman of the Board of Management and Executive Committee, Royal Philips Electronics NV:** “Investing in health is an investment in the economy, and stability in providing healthcare systems is key to future prosperity.”



**Jean-François Cirelli, President and Vice-Chairman of the Board of Directors, GDF SUEZ:** “We need Russian gas. We need it now, in the medium term and in the long term.”





**Lord Mandelson, Chairman, Global Counsel; European Commissioner for Trade (2004–2008):** “Russia, in my view, needs a new economic model if income levels are to keep rising. Less state, more private enterprise, less hydrocarbon dependency, more diverse production.”



**Alexey Mordashov, Chief Executive Officer, Severstal:** “Any kind of restriction on free trade is extremely dangerous.”



**Andrei Belousov, Aide to the President of the Russian Federation:** “The next one-and-a-half to two years will determine whether or not the national entrepreneurial initiative has proved successful. Every legal entity and natural person must have the opportunity to provide feedback.”



**Herman Gref, Chief Executive Officer and Chairman of the Board, Sberbank of Russia:** “One of the key challenges for the Russian economy is to diversify the innovation economy.”



**J. Paul Rollinson, Chief Executive Officer, Kinross Gold Corporation:** “Russia has vast potential in mining.”



**Dmitry Kozak, Deputy Prime Minister of the Russian Federation:** “The first two months after the Olympic Games convinced us that the infrastructure (sports, municipal, social and tourist infrastructure) would serve the Russian citizens for years to come.”



**Olaf Koch, Chairman of the Management Board, METRO:** “SMEs are not only the backbone of an economy, but most often a driver for growth.”





**Kirill Androsov, Managing Partner, Altera Capital: “Increasing financial literacy is an issue for the state.”**



**Alexander Shokhin, President of the Russian Union of Industrialists and Entrepreneurs: “Financial stability should not lead to a slowdown in economic growth or decreased investment activity.”**



**Peter Vesterbacka, Director of Marketing, Rovio Entertainment: “We’re not trying to create another Silicon Valley. We’re trying to create something better.”**

PHOTO: ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM, RIA NOVOSTI, GETTY IMAGES \ FOTOBANK.RU



**Mark Spelman, Managing Director, Accenture: “The relationship between engineering skills and digital skills will change over time, and it will increase business efficiency.”**





# THE ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM SEEKS TO ATTRACT MORE PARTICIPANTS FROM THE ASIA-PACIFIC REGION

**MINISTER OF ECONOMIC DEVELOPMENT OF THE RUSSIAN FEDERATION ALEXEI ULYUKAYEV BELIEVES THAT IMPORT SUBSTITUTION INDUSTRIALIZATION WILL LEAD TO A GREATER ROLE FOR THE INNOVATION SECTOR IN THE COUNTRY'S ECONOMY.**

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***Mr. Ulyukayev, judging by what has been written in business publications about this year's SPIEF, the Forum is now one of the most prominent international congress events. How significant, in your opinion, was SPIEF 2014 for the global business community? Have the attitudes of regular participants in the Forum changed in light of the strained relations between Russia and the West? Have new participants appeared?***

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The Forum was indeed very well received by experts and participants alike in terms of its content and the opportunities it provided in developing business contacts with potential partners. The fact that the

XVII St. Petersburg International Economic Forum took place against the background of the foreign policy crisis served only to generate even more interest in the event and its outcomes among participants, the media and the general public.

This is understandable, however, as the objective of the Forum is to be a practical instrument for business, helping to facilitate constructive dialogue towards cooperation and resolve issues facing the global economy. The number and diversity of people who took part in the Forum proves this, with more than 7,500 participants, including the heads of 248 major foreign companies and 445 major Russian companies in attendance. Some of the biggest companies present at the Forum included Telenor Group, Royal Dutch Shell, Royal Philips Electronics N.V., Glencore, BP, Total, Eni, Schlumberger, Alstom, Fortum Corporation,

Danone, Kinross Gold, ABB Group and many more. While it is true that the heads of a few US and European companies did refuse to take part in the Forum, their absence did not have a negative impact on the atmosphere of the event, which remains highly conducive to business.

The St. Petersburg International Economic Forum continues to attract new participants. The places left by those 30 major companies that cancelled their attendance were filled by 104 companies from 38 countries, including General Electric, Danone and Coca-Cola, who also acted as partners of the Forum.

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**The Forum has developed a specific format in terms of how it operates. Does it need shaking up a little? This could mean introducing new ways for participants**



**to discuss their ideas, or changing the setup of the Forum's events.**

We hold sessions in a variety of convenient formats, taking into account the experiences of the world's largest congress events. We analyse major international platforms, conduct surveys of SPIEF participants, and study the latest trends and technological solutions. We take what we find to be the most interesting formats and implement them at SPIEF. These include panel discussions, briefings, televised debates, business breakfasts and much more besides.

2014 saw the introduction of an entirely new type of workshop for SPIEF, whereby participants get

WE INTEND TO CONTINUE TO IMPROVE THE INVESTMENT CLIMATE AND CREATE THE BEST POSSIBLE CONDITIONS FOR BUSINESS

together in small groups of eight for a round table discussion and come up with a solution to a given issue. They then present their results to the floor and a vote is taken to decide the winner.

We also added a discussion platform called Arena, which proved to be very popular among participants. We have decided to include more events of this type in future forums.

Guests of the Forum appreciate the opportunity to take part in informal closed discussions, including those held with government representatives. Our Business Networking Platform which provides a platform for business negotiations has proved extremely popular, with 410 meetings taking place over the course of three days at SPIEF.

Overall, the SPIEF agenda was more focused and geared towards getting the best results out of session discussions.

**Much was said at the Forum about new markets and increasing cooperation with Southeast Asian countries, yet big business was primarily represented at SPIEF by major Western and American companies. Do you intend to attract more members of the business communities of developing countries in the future?**

The Asia-Pacific Region is a major consumer and financial market, and there is great potential for increased cooperation. The St. Petersburg Forum will without doubt continue to attract more and more participants from the region.

Over the past few years, we have held events under the SPIEF banner all over the world to promote the Forum and attract



new participants; in Istanbul, Hong Kong, Seoul, Abu Dhabi, Jakarta and Tokyo. We are working closely with the business associations of these respective countries. As a result, we have seen the proportion of participants from Southeast Asia, India, China, Japan and South Korea jump from 4% to 9% over the past four years. During the same period, the share of people attending the Forum from the Middle East and Africa has risen from 1% to 5%.

Of course, the core of our attendee base is made up of

**IT IS CERTAIN THAT THE VOLATILE GEOPOLITICAL SITUATION WILL LEAD TO REDUCED FOREIGN CAPITAL BEING INJECTED INTO THE RUSSIAN ECONOMY. CAPITAL OUTFLOWS IN THE FIRST HALF OF 2014 AMOUNTED TO USD 74.6 BILLION.**

representatives of those major European and American companies that work closely with Russia and invest in the Russian economy. With the strengthening of trade and economic ties between Russia and the Asia-Pacific countries, however, the number of participants from these countries will also rise.

In the run-up to the next SPIEF Forum, which will take place on 18–20 June 2015, we will, as always, hold various events around the world, including in the Asia-Pacific Region.





**At the Forum much was made of the economic situation in the country. In the spring issue of the SPIEF Review, you said that the outlook was not great, but could hardly be called stagnation. Has your opinion changed in the six or so months after that conversation in light of all the changes that are happening on the foreign policy front?**

The situation certainly is bleak and close to stagnation. And it has only been worsened by geopolitical factors. GDP rose 0.8%

SANCTIONS OF ANY KIND ARE COUNTER-PRODUCTIVE. RUSSIA WOULD PREFER NOT TO IMPOSE RETALIATORY SANCTIONS, BUT IT IS A VERY REAL POSSIBILITY. SANCTIONS DO NOT RESOLVE PROBLEMS, AND RUSSIA WOULD LIKE TO SAFEGUARD ITSELF AGAINST THEM.

in the first half of this year. But the gradual recovery of fuel and energy exports can create more favourable conditions for economic growth. Having said that, now seems to be the perfect time to invest in the country's development. With the introductions of retaliatory sanctions that place restrictions on imports, entrepreneurs have a unique opportunity to develop agriculture and the food processing industry. What is more, the role of the innovation sector (mechanical engineering, communications, research and development, education and healthcare) is growing in connection with import-substituting industries. By July, industrial production once again showed an upward trend, while capital outflow had levelled somewhat. Granted, we have increased the inflation target from 7.2% to 7.5%. Based on this figure, we expect tariffs for natural monopoly services to be indexed next year.

**Is Russia still as attractive as the other BRICS countries at this point in time? Are they not the benchmark by which the Russian economy is traditionally assessed?**

The sanctions have a negative impact on Russia's investment image. Despite this, we are not fencing ourselves off from the rest of the world and we are not severing ties with



our foreign partners. We intend to continue to work towards improving the investment climate in Russia and create the most favourable conditions for doing business.

Russia attracted more foreign investments in 2013 than all but one of the BRICS countries. I think this shows how attractive Russia is for investors.

It is clear that the volatile geopolitical situation will lead to less foreign capital being injected into the Russian economy. Capital outflows in the first half of 2014 amounted to USD 74.6 billion. We have adjusted our capital outflow predictions from USD 90 billion to USD 100 billion for the year.

This year has seen a reduction in direct foreign investment into Russia, with the total for the first half of 2014 amounting to USD 19.8 billion, compared with USD 56.6 billion for the same period in 2013.

Nevertheless, we continue to make it easier to do business in the country. Last year, Russia was ranked 92nd in the World Bank's rating in this area, up 20 places from the previous year. What is more, Russia was ranked first amongst all BRICS countries in terms of the effectiveness of reforms. This suggests that we will continue to improve our position in 2014.

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**In spring, we talked about the impact that the Ukrainian crisis might have on the Russian economy. What comments could**

**you make about the situation now? How have the attitudes of investors towards Russian projects changed in the long and short term?**

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The sanctions are doing nothing to help resolve the problems in Ukraine. Clearly it creates a negative backdrop against which decisions are made. There is no doubt that it affects the pace of investment activity in Russia. However, despite the current restrictions and the possibility of sanctions being levied back and forth, we have no intention of adjusting our forecasts for fixed capital investments in 2014. The positive investment trends that we can see are enough to show that they do not need altering. Investments grew 1.5% during the second quarter of 2014 compared with the first quarter.

One of the key factors driving investment activity is the renewed growth in the construction industry, up 0.9% in June from the previous month. The general slump in the sector slowed to 0.8% in the second quarter.

We are actively developing ties with partners from countries that are not involved in the sanctions war and furthering relations with Asia-Pacific countries, particularly China.

What is more, we truly have the potential to become not only fully self-sufficient in terms of food provision, but also a major exporter. It is in fact a vital national task, any movement towards

import substitution, including in the investment sphere. I believe that this is the correct course of action.

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**The problems in Russia-Ukraine relations are taking place against the backdrop of a general global economic downturn. How, in your opinion, could the newly strained relations with Russia affect those economically developed countries that are currently experiencing hard times?**

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By imposing sanctions, European countries will see reduced foreign trade activity. Activity in certain sectors, including agriculture, will fall as a result. Increased unemployment and lower wages are a possibility, as is a decline in production and investment activity. In addition to this, these countries are likely to lose significant amounts from missing out on the promising Russian market and being forced to look elsewhere for the required goods.

Sanctions of any kind are counter-productive. Russia would prefer not to impose retaliatory sanctions, but it is a very real possibility. Sanctions do not help solve problems, and Russia would like to safeguard itself from them. We have conveyed this to our foreign colleagues and partners.

**This interview was conducted in August 2014**

# INVESTMENT: CHANGING THE RISK PARADIGM

**SOVEREIGN WEALTH FUNDS HAVE PROVEN TO BE VERY EFFECTIVE IN RECENT YEARS, DESPITE THE OFTEN CONTRADICTIONARY ATTITUDES TOWARDS THEM. HOWEVER, GOVERNMENT REPRESENTATIVES SEEM TO HARBOUR FEARS ABOUT THEIR INCREASING VOLUMES, AS WELL AS THEIR FUNDS BEING USED AS SUBSTITUTES FOR BUDGETARY ASSETS. MEANWHILE, THOSE IN CONTROL OF FUNDS CLAIM THAT THEY HAVE NO DESIRE TO INFLUENCE INDUSTRIES RELATED TO STATE INFRASTRUCTURAL PROJECTS.**

**Kirill Dmitriev, CEO, Russian Direct Investment Fund:** “Sovereign wealth funds have tens of trillions of dollars, and increasing investments in infrastructure even slightly can dramatically boost infrastructure growth worldwide”.

**Alexei Kudrin, Dean of the School of Liberal Arts and Sciences, St. Petersburg State University (right):** “Sovereign wealth funds are still not fully understood”.





However, as the Dean of the School of Liberal Arts and Sciences at St. Petersburg State University Alexei Kudrin noted, sovereign wealth funds are still not fully understood. The former Minister of Finance of the Russian Federation moderated one of the panel sessions at SPIEF on changing investment strategy.

According to Kudrin, those who took part in the meeting manage assets worth more than USD 1.5 trillion, which they are ready to invest.

Russia is generally regarded as an attractive territory for foreign investments. But those holding the money point to a number of obstacles which need to be eliminated before financial flows into Russian projects can be increased significantly. The newfound interest in investing in Russia among countries of the Persian Gulf and Asia led to dialogue between the heads of the wealth funds of Korea, China, Kuwait, Japan and the European Union in terms of outlining a strategy for necessary changes in this area.

“We are splitting our investments down the middle, with half of the money going to developed countries and the other half going to developing markets. It became clear after the financial crisis that sectors which were profitable in the past now had reduced liquidity. Risk-free sectors suddenly became fraught with risk. Now it is necessary to alter the level of investments

into a company’s capital stock. This alters the risk paradigm”, explains Hendrik du Toit, Chief Executive Officer of Investec Asset Management.

“In the context of globalization, capital has to move around the world, and it is necessary to strengthen economic cooperation between countries”, notes Ding Xuedong, Chairman of China Investment Corporation, who took part in the panel discussion. “For example, our current global investment portfolio stands at USD 200 billion, and our money is welcome around the globe”.

According to Ding Xuedong, sovereign wealth funds should be subject to the exact same regulations as the private sector. That is, there should be no differences between the two when investing.

The Chief Representative in Moscow Office of the Japan Bank for International Cooperation Manabu Kato believes that investing would strengthen infrastructure. “At this stage it is important to ensure the integration of regions, especially neighbouring regions. This requires a transport infrastructure. And we are prepared to invest in this,” he explained.

Progress has been made in this area in the six months since SPIEF. For example, financing for two major transport infrastructure projects was approved in the autumn. This first of these is a RUB 500 billion package for the modernization of the Baikal-Amur

Mainline and the Trans-Siberian Railway.

The corresponding document was signed by Russian Prime Minister Dmitry Medvedev. The project aims to increase the carrying capacity of these lines to the sea ports and border crossings of the Far East by 66 million tonnes per year. The second major transport infrastructure project involves the construction of a dry port on the Taman Peninsula.

According to analysts, the next 10 to 20 years will be the perfect time to invest in infrastructure around the world.

“Developing countries, like those in Africa, do not have very well developed infrastructures. This means that there is great demand for investment in this area. And so-called rapidly developing countries like China and India are also lagging behind in terms of infrastructure and are in need of major investments. Infrastructure in Europe and North America is showing signs of wear and requires upgrading. This is why the next 10 to 20 years promise to be a golden age for investing in infrastructure. Experts at various international organizations believe that as much as USD 40 trillion will be required,” explained Ding Xuedong.

Xuedong went on to say that if Russia wants to create conditions for the development of society and the economy, then a serious upgrade of



ic space. Goods and capital should be able to move around freely. In addition to this, reforms are needed in the labour market in order to guarantee success," Vigier said, adding that free economic zones where investors can operate safely need to be created.

One such zone was created in Crimea six months after SPIEF, with a term of 25 years. The relevant package of regulatory documents passed its third reading in the State Duma on 21 November 2014. It provides for a special legal regime in the Republic, as well as in the federal city of Sevastopol. In addition to tax incentives for investors, there will also be a simplified visa regime. In this way the authorities hope to attract labour from abroad, whether it be in the form of representatives of investment companies or simply foreign workers with skills that are in demand.

The panellists agreed that around USD 30–40 trillion would be needed just for infrastructure alone over the next 20 years. McKinsey & Company estimates that USD 1 trillion is lost every year to poorly managed infrastructure projects. For this reason, experts believe that many countries should scale back state funding for infrastructure projects and start attracting private investors or sovereign wealth funds.

"We believe that involving sovereign wealth funds and foreign companies in the process of attracting

the country's infrastructure is needed. However, the government doesn't have the funds to achieve this. The difference can be made up with the involvement of public-private partnerships. It is a method of capital investment whereby governments find co-investors and together they attract domestic and foreign partners to invest in infrastructure.

"The issue is the need to properly assess the infrastructural assets. For example, if you overcharge on road construction, then you will not reach profitability. We need to use transparent methods. The government should sell some of its assets to private companies and foreign investors and use the proceeds for new, larger scale infrastructure projects", the China Investment Corporation Chairman added.

**Ding Xuedong, Chairman, China Investment Corporation: "In the context of globalization, capital has to move around the world, and it is necessary to strengthen economic cooperation between countries".**

Laurent Vigier, Chairman and CEO of CDC International Capital, believes that it is necessary to change the proportion of industrial exports. He noted that 20% of industrial trade in Russia is tied to OPEC.

"We need to concentrate our efforts on infrastructure and the innovation sector, as well as on long-term financing, which at the present moment is simply not satisfactory. Russia can benefit from integration and inclusion in the common econom-



money and expertise and reducing the costs of infrastructure projects will give major impetus to infrastructure development in Russia”, Russian Direct Investment Fund CEO Kirill Dmitriev said.

The factors which attract investors are not limited to high-quality logistics and infrastructure. Heung-Sik Choo, Chief Investment Officer at Korea Investment Corporation notes that so-called geographic and civilizational distance between partners are also important.

“Russia is relatively close to South Korea, so we are interested in the Russian market”, he explains.

Manabu Kato names promising regional development projects as one of Russia’s advantages.

“The Russian government is implementing a number of programmes to attract financial resources into the regions. We are interested not only in the oil and gas sector here, but also in the hi-tech industry”, Kato added.

Foreign investment funds invest in the Russian economy stressing the growing confidence around the world in this kind of investment.

Bader Mohammad Al-Sa’ad, Managing Director of Kuwait Investment Authority (KIA), said that he had faced criticism when KIA purchased a Chinese energy company due to the fact that there were suspicions of political affiliation.

“Now there is demand for stable capital, so attitudes towards sovereign wealth funds are changing”, Bader Mohammad Al-Sa’ad said.

Sovereign wealth funds are often viewed with suspicion because of their focus on earning profits and the influence they have over the portfolio companies in which they invest heavily. But it is important to note the positive role that these unions play.

“They create the conditions for economic growth, job creation and investments in such vital sectors as infrastructure. Sovereign wealth funds have tens of trillions of dollars, and increasing investments in infrastructure even slightly can dramatically boost infrastructure growth worldwide”, explains Kirill Dmitriev.

Russia’s sovereign wealth fund, the Russian Direct Investment Fund (RDIF), invests in sectors such as IT, finance and the electrical energy industry. 80% of its funds are invested in Russia, while the remaining 20% are available for projects in other countries, provided that Russia can benefit from the arrangement. For example, RDIF has invested in China’s leading logistics business operator with the expectation that at some point it will be reciprocated.

“Together with our partners, we have already invested USD 3.8 billion in various companies. Importantly, we have also set up joint platforms and investment funds worth USD 10

billion: the Russian–French Fund, the Russian–Italian Investment Platform and the Russian–Korean Investment Platform. Mr. Ding from CIC was pretty much the first person to support us. We set up the Russia-China Investment Fund four months after the RDIF. We then set up joint platforms with Kuwait and Japan,” Mr. Dmitriev noted.

As a result of the SPIEF discussion, the panellists marked out a new direction of development for the Russian Federation which now, six months after the Forum took place, continues to determine the development of a number of infrastructure investment projects, particularly in the energy field.

“We have been talking in recent years about Russia turning towards the East. I’d like to add that paying greater attention to the East is a necessity. This region offers the possibility to attract further investments and foster interest in tackling and finding solutions to key issues facing the Russian economy. But this doesn’t mean that we intend to turn our backs on, and stop working with, the West. That is impossible. Cooperation should be more balanced and take into account the growing Asian market”, Mr. Kudrin summed up.

Kirill Dmitriev underlined this, pointing out that 90% of the funds under RDIF management come from investors in the Middle East and Asia.

# ALEXEY MILLER: "THERE'S NO SUCH THING AS THE GLOBAL GAS MARKET"



Panel session:  
"The Changing Map  
for Global Gas"

**THE "STRENGTH OF SIBERIA" AND "ALTAI" COULD RENDER US LNG SALES UNPROFITABLE. THIS WAS THE CONCLUSION THAT EXPERTS CAME TO FOLLOWING THE AGREEMENTS MADE BETWEEN RUSSIA AND CHINA OVER THE PAST FEW MONTHS ON THE SUPPLY OF PIPELINE GAS ALONG THE EASTERN AND WESTERN ROUTES.**



The structural changes taking place in this market were discussed in depth in May 2014 during a panel session at the St. Petersburg International Economic Forum. The session, entitled “The Changing Map for Global Gas”, offered a platform for the top managers of Gazprom, Novatek, E.ON and IHS Energy to make their predictions on the basis of the contract signed between Russia and China on the supply of 38 billion cubic metres of gas per year on the eve of the Forum.

As Michael Stoppard, Chief Strategist for Global Gas at IHS Energy and moderator of the discussion said, the gas industry will increase by approximately 30% by 2030 to 5 trillion cubic metres per year.

“It will grow faster than the energy business as a whole. Natural gas will increase its share in the energy market from 21% today to almost a quarter of the world’s energy – just under 25% by 2030. The LNG business will grow even more quickly. It will double within this period, and Russia will play an important role in making that happen,” Mr. Stoppard stressed.

The current volume of gas production in Russia (according to last year’s figures) is 668 billion cubic metres per year. Plans are to increase this total to 900 billion cubic metres by 2035. In addition, under to the contract signed with China, Russia plans to gradually increase supplies towards the East alone to 100 billion cubic metres per year.



**Leonid Mikhelson,  
Chairman of the Board,  
Novatek: “The possibility  
of transporting hydrocarbons  
in Arctic waters safely and  
efficiently has been proven  
in practice.”**

“Within one day China achieved the same level of Russian gas supplies as that of Germany, our largest consumer and most trusted partner. It took Germany more than 40 years to reach that level of consumption (and they purchased slightly more than 40 billion cubic metres from us last year). China did it in one day. If I were to predict the amount of gas that China will be buying from Russia in 40 years’ time, then I imagine it will not only be more than Germany, but also significantly larger than the volume of gas that we will supply to the entire European Union,” said Deputy Chair-

#### RUSSIAN PIPELINE

#### GAS SUPPLIES MAY

#### ALSO REDUCE

#### THE COST OF LNG ON THE ASIAN MARKET TO USD 350 – 390 PER 1000 CUBIC METRES

man of the Gazprom Board of Directors Alexey Miller.

According to Fitch, higher volumes of gas delivered via pipeline to China will help to keep prices within the country to less than 3 yuan per cubic metre. However, China will become the largest and most profitable market for LNG exporters. Russian pipeline gas supplies may also reduce the cost of LNG on the Asian market to USD 350–390 per 1000 cubic metres which, according to some experts, will render the export of American gas unprofitable.

As Alexey Miller pointed out at SPIEF, both the United States and Europe have been unable to compete on the LNG market in the Asia-Pacific region.

“The United States put a lot of energy into the building of regasification terminals for LNG during the first decade of this century. The total capacity of terminals in the United States is



**Michael Stoppard, Chief Strategist for Global Gas, IHS Energy: “Natural gas will increase its share in the energy market from 21% today to just under 25% by 2030.”**

and in particular the complications in Russian-Ukrainian relations that we are experiencing today.”

According to Russian Minister of Energy Alexander Novak, the liberalization of LNG exports in Russia will also have an effect on the gas industry.

“We have several projects in the pipeline: Yamal LNG, the Gazprom project to build a factory in Vladivostok, and projects in Sakhalin and the Leningrad Region. At the present time, Russia produces around 11 million tonnes of LNG per year, or just 4% of the global market. According to our strategy, we will be producing at least 60 million tonnes per year by 2025, thus increasing our market share to 13%,” Mr. Novak explained.

**THE ASIA-PACIFIC REGION WILL CONTINUE TO INCREASE ITS PRESENCE ON AND DOMINATE THE MARKET. NOT ONLY IS IT THE LARGEST AND FASTEST GROWING MARKET, IT ALSO HAS AN INFLUENCE ON THE EUROPEAN, NORTH AMERICAN AND MAJOR REGIONAL MARKETS.**

Experts point out that Arctic projects such as Yamal LNG have always been hampered by problems related to sea transportation. But the situation has changed dramatically in recent years.

“In particular, the volume of traffic on the Northern Sea Route increased by more than 12 times in 2010–2013, totalling around 1.4 million tonnes last year. Since 2010, Novatek has been transporting condensate and naphtha to Asia along the Northern Sea Route. Several large shipments of LNG have been delivered from Norway along the same route. The possibility of transporting hydrocarbons in Arctic waters safely and efficiently has been proven in practice,” said Leonid Mikhelson, Chairman of the Board at Novatek.

Jean-François Cirelli agrees that Russia will continue to be the main supplier of gas, particularly to Europe.

“We believe that natural gas will play an important role in the energy future of Europe, even if the situation is difficult right now. So we will continue to defend European gas interests. It is in our interests to defend our long-term partnership with Russia, in particular with Gazprom, which has existed for 40 years now,” Mr. Cirelli said.

Deputy Chairman of the Gazprom Board of Directors Alexey Miller felt that the name of the panel session – “The Changing Map for Global Gas” – was somewhat misleading, as there is no such thing as a global gas market.

“There can only be one global market. And in the case of gas, there

around 100 million cubic metres. The emergence of shale gas is, in fact, a necessary measure for the US market. There are a number of reasons for this, most notably its resource base: both natural gas reserves and volume are declining. There is no market for liquefied natural gas in the United States because the prices are not competitive. The only alternative is to look for non-traditional means of gas extraction, namely shale gas. And shale gas extraction is like ‘getting blood from a stone’,” Mr. Miller added.

Europe also has difficulties on the LNG market. Jean-François Cirelli, President and Vice-Chairman of the Board of Directors at GDF Suez, explained the two major problems facing the continent.

“The first is the competitiveness of gas, particularly in the power sector. The second is the image of gas, which is due to political uncertainties,



are three mega-markets and a number of major markets. The three mega-markets are, of course, Europe, North America and the Asia-Pacific region. These markets have different resource bases and their own specific economic situation. What is more, prices on these markets have started to diverge in recent decades. So we have three different markets with different price trends and an increased spread of prices. Up until 2008, the spread between the mega-markets was around USD 100. Now, in the post-crisis world, it is USD 500," Mr. Miller said.

He added that, until recently, there has been much speculation that LNG would integrate the gas market globally, though this has not been the case.

"The proportion of pipeline gas delivered as LNG has remained stable at around 30% for quite some time now. I don't think it would be a mistake to suggest that this structural balance will continue in the medium term," he noted.

New evidence was provided at the discussion supporting claims that the Asia-Pacific region is the most promising gas market today, with gas consumption in the region remaining very high. This tendency is in a large part supported by specific factors of growth in China.

"We are talking primarily about economic factors, followed by environmental factors. The appearance of megalopolises with more than 20

million inhabitants in the Asia-Pacific region has led to the very serious problem of coal-based energy generation. These cities boast magnificent skyscrapers and ultramodern transportation infrastructures. But you can't even see them on most days because of the smog. The main consumers of gas are, first and foremost, these megacities in the Asia-Pacific," Mr. Miller explained.

Forecasts suggest that the Asia-Pacific region will continue to increase its presence on and dominate the market. Not only is it the largest and fastest growing market, it also has an influence on the European, North American and major regional markets.

"As for European price trends, the continent simply cannot afford high gas prices. And this has only had a positive effect on Russian gas supplies. 2013 was a record year in the history of the Russian and Soviet gas industries, as well as for Gazprom, in terms of foreign exports," Mr. Miller added.

Alexey Ulyukayev, Minister of Economic Development of the Russian Federation: "Starting in 2017, indexation of tariffs for businesses and industrial consumers will be lower than for other categories. This means that cross subsidization will be reduced gradually and market pricing will emerge in our investment activity."



**Alexander Novak, Minister of Energy:** "At the present time, Russia produces around 11 million tonnes of LNG per year, or just 4% of the global market. According to our strategy, we will be producing at least 60 million tonnes per year by 2025, thus increasing our market share to 13%."





# WE ARE NOT ALONE IN THE UNIVERSE

**RUSSIA IS TIGHTLY INTEGRATED INTO THE WORLD ECONOMY. GLOBAL TRADE AND THE EXCHANGE OF LABOUR, FINANCIAL RESOURCES AND TECHNOLOGY ARE UNTHINKABLE WITHOUT RUSSIA'S PARTICIPATION. FOR THIS REASON, GLOBAL PLAYERS CANNOT IGNORE THE PROBLEMS FACING RUSSIAN COMPANIES. THE SPIEF PANEL SESSION "TRANSLATING CHALLENGES INTO OPPORTUNITIES: ACTING TOGETHER" DEALT WITH HOW TO OPERATE IN THE NEW ECONOMIC CONDITIONS AND WHAT RUSSIA CAN DO TO MAINTAIN ITS INVESTMENT ATTRACTIVENESS.**

"Obviously, uncertainty worries investors. Right now, the main priority for Russia is to maintain the economic stability it has demonstrated in recent years. Under no circumstances should we weaken our fiscal or monetary policy; the Russian economy must not be thrown into uncertainty. On the contrary, we will continue to follow the fiscal and monetary policies set out by the Central Bank," said Anton Siluanov, Minister of Finance of the Russian Federation, setting the tone for the discussion.

It should be acknowledged that the economic path described by Mr. Siluanov is the correct one. In May, when the Forum took place, the problems facing the Russian economy were not as pronounced as they are now. There is every reason to be proud of the 2013 indicators to which the panellists alluded. According to Andrei Belousov,

Aide to the President of the Russian Federation, over the past year for example, Russia received record inflows of direct foreign investment – almost USD 80 billion. It is worth noting that the most optimistic forecast at the moment (from the Ministry of Economic Development of the Russian Federation) forecasts GDP growth of 0.5% for the year. The European Bank for Reconstruction and Development predicts zero growth.

One of the people who contributed to that USD 80 billion total last year was Frans van Houten, Chief Executive Officer and Chairman of the Board Of Management and Executive Committee, Royal Philips Electronics NV. He explained what attracted him as an investor to the Russian market: "Public-private partnerships can provide a breakthrough in the provision of healthcare.

And the technology of Philips can contribute to this too. In this context, we are very happy to have formed a partnership with Medsi Group in Russia – a partnership which I believe is unique."

However, the panellists acknowledged that the stability of the Russian market had already been disrupted and the inflow of investments into the country had started to decline. Investments in non-financial companies in the first quarter of 2014 totalled USD 12 billion, down from USD 21 billion for the same period in 2013. It must be said, however, that the figure for the first quarter of 2012 – a relatively stable year – was only USD 11.2 billion. The outflow of investments from non-financial Russian companies for the first quarter of 2014 was USD 28 billion, the same as last year.

"In the first quarter of this year, we have seen more roubles convert-



ed into foreign currency than ever before. We are talking about almost USD 20 billion for the first three months of 2014. There has been a significant decline in people saving in roubles,” Andrei Belousov said. Despite the fact that foreign investors remain confident in the Russian market, there are a number of external challenges, primarily in the form of restrictions on trade, investments and credit in Russia. The outflow of capital, which involves people converting their roubles into dollars, is an additional challenge on the domestic front. “We need to give the green light to companies that wish to invest in Russia. We must do everything we can to ensure that

**Eckhard Cordes, President, Committee on Eastern European Economic Relations, Germany: “Projects are being postponed or even cancelled completely. Capital is being withdrawn from Russia. The exchange rate of the rouble is deteriorating, bilateral trade is decreasing.”**

businesses are interested in investing in Russia, which means creating the most favourable conditions for them to conduct business here,” Mr. Belousov said.

During his speech, Minister of Economic Development of the Russian Federation Alexey Ulyukayev noted that investors are interested in two things: return on investment and low risks.

Ensuring a reasonable return on investment allows for the refinancing of investments. “We are about to adopt a framework law ‘On Public-Private Partnerships’, which will allow investors a degree of comfort and to feel safe in the knowledge that the government both encourages and guarantees the security of investing in public infrastructure, housing and communal services, education and healthcare. There is a long-term plan for these sectors, with guarantees from the government to improve their condition,” Mr. Ulyukayev noted. The Minister also touched upon issues faced by representatives of small and medium-sized businesses. According to him, the measures taken to fi-



nance loan guarantees, secure state procurement quotas and adapt social security systems to the needs of businesses will lead to a serious breakthrough in the field of diversification.

A discussion not only of the opportunities, but also of concrete measures to counter these economic challenges made for an optimistic panel session, with speakers express-

ing the belief that Russia will without doubt continue to be a fully fledged part of the global economy in the future. Eckhard Cordes, Chairman of the Committee on Eastern European Economic Relations, Germany added to this optimism. Speaking on behalf of the world's leading economies, he said: "German business has spoken out against economic sanctions as a

political tool. It's the same for business leaders in Russia, in the EU and also in the USA, even if this results in considerable public pressure. We are firmly convinced that mutual investment and trade between Russia and the EU will be strengthened in years to come."

**Ilya Arzumanov**

**Tapio Kuula, President and Chief Executive Officer, Fortum Corporation:**  
**'Certainly Russia is a very essential part of our market, and we are here to stay during the more difficult times as well.'**



PHOTO: ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM

## LESS IS MORE

**Hans-Paul Bürkner, Chairman, The Boston Consulting Group: “Oil and gas companies need to focus on efficiency in production.”**



**ENERGY EFFICIENCY IS A GLOBAL TREND. IN RUSSIA, THE ECONOMIC USE OF ENERGY RESOURCES IS TAKING THE PLACE OF INCREASED PRODUCTION.**



Today, Russia ranks fourth in the world in terms of energy consumption. In energy efficiency, however, the country is seriously lagging behind. According to the Ministry of Energy of the Russian Federation, energy consumption in the country is equal to around one billion tonnes of oil equivalent per year. There are plans to reduce this figure by 20% in the coming years, and by 40% in the public sector.

However, Russia has made great strides in improving its energy efficiency in recent years. Speaking at the St. Petersburg International Economic Forum, Deputy Minister of Energy of the Russian Federation Anton Inyutsyn said that from 2000 to 2013 energy intensity in the Russian economy fell by 34%, compared with 16% in the United States and 12% in both Germany and China for the same period. Energy intensity in Russian industry, however, is still three times higher than in leading European economies.

The Ministry of Energy is currently examining in detail the experiences of introducing innovative and energy efficient technologies in the European Union, Japan and the United States. It is expected that emphasis will be placed on possible cooperation with Western partners to introduce the best available technologies in Russia. For example, the Ministry of Energy has suggested researching the widespread introduction around the world of combined cycle technology in power generating units, which has led to a 30% reduction in energy expendi-

**Henri Proglio, Chairman of the Board of Directors and CEO, Électricité de France:**  
**“Russia needs incentive mechanisms that are aimed at improving energy efficiency.”**



ture. “It is clear that the gap in technology affects the energy intensity of the Russian economy. Our European partners and colleagues operate a comprehensive system of incentives that determine the investment attractiveness of projects with high energy efficiency parameters,” Mr. Inyutsyn noted. In Western countries, state policy in this area is carried out by subsidizing available funding for introducing the best technologies, and adding surcharges to market prices for energy resources (the

**ADOPTING  
 LONG-TERM METHODS  
 OF TARIFF REGULATION  
 IN RUSSIA COULD BECOME  
 ONE OF THE MAJOR INCENTIVES  
 FOR IMPROVING  
 THE ENERGY EFFICIENCY OF  
 MUNICIPAL SERVICES**

so-called tariff decision – special taxes and excise duties for projects that are energy efficient, and fines for excess emissions of greenhouse gases).

So what can foreign partners offer their Russian colleagues? Chairman of the Board of Directors and CEO of state-run Électricité de France Henri Proglio spoke at SPIEF about the need for incentive mechanisms and to create economic conditions that will allow Russia to adopt measures aimed at improving energy efficiency. Furthermore, the government needs to establish energy efficiency standards in every sector of the Russian economy. Chairman of The Boston Consulting Group Hans-Paul Bürkner recommended starting at the very beginning of the production chain and improving energy efficiency primarily during the oil and gas production phase in Russia. It would then be possible to make effective use of the existing energy transportation system, eliminate power

**Sergey Stepashin, Supervisory Council Chairman of the State Corporation Housing and Utility Complex Reform Foundation: “In terms of energy efficiency, the most problematic sector in Russia is the outdated housing stock.”**



transmission losses and finally concentrate on consumers.

As a leading provider of energy efficient technologies, Schneider Electric sees the Russian market as one of the most important in terms of its potential for applying innovative solutions to managing energy supplies. The company's Chairman and Chief Executive Officer Jean-Pascal Tricoire believes that there has been a revolution in the field of energy efficiency over the past five years. "Energy efficiency has become a huge trend around the world. Europe is aiming for 20% energy savings by 2020, China is aiming for around 18% every five years, and Russia has decided to decrease energy consumption by 40% by 2020. So we can see that Russia is participating in the worldwide movement towards energy efficiency," Mr. Tricoire noted in

his speech at SPIEF. The head of Schneider Electric also drew attention to newly introduced automation technologies for supplying energy in the residential sector, which have very short payback periods, as well as to innovations in energy saving processes.

According to Sergey Stepashin, Supervisory Council Chairman of the State Corporation Housing and Utility Complex Reform Foundation, the most problematic sector for Russia is its outdated housing stock, where

**THE MINISTRY  
OF ENERGY CONSIDERS  
IT A PRIORITY  
TO INTRODUCE TECHNICAL  
ENVIRONMENTAL REGULATION  
MEASURES**

there is huge potential for finding more cost-effective methods of using resources. At present, 52% of all resources produced in Russia go towards meeting the energy needs of apartment buildings, which house around 70% of the population. This is why modernizing the housing stock by improving energy efficiency is a key task for the Russian government. According to State Corporation Housing and Utility Complex Reform Foundation estimates, modernizing apartment buildings across the country could lead to potential energy savings of 45% on heat and 20% on electricity.

The Foundation has built around 100 energy efficient residential buildings since 2000, according to Mr. Stepashin a miserly figure for such a large country as Russia. The funds currently allocated by the Russian government for these purposes are not comparable with those of the leading energy efficient countries in Europe (Germany, for example, spent EUR 1.5 billion). Mr. Stepashin noted the importance of getting private companies involved in tackling these problems by offering concessions and other forms of public-private partnership that will guarantee a return on investment. Additionally, adopting long-term methods of tariff regulation in Russia could become one of the major incentives for improving the energy efficiency of municipal ser-

vices. The practice of changing tariffs on a yearly basis is redundant at this stage," Mr. Stepashin said.

The Republic of Tatarstan is one of the leading Russian regions in terms of energy efficiency, having passed its own bill "On Energy Conservation" in 1998. Since then it has implemented three target programmes that have allowed the region to decrease its energy intensity by 47%. "Our competitiveness will depend on our ability to meet international standards," said President of the Republic of Tatarstan Rustam Minnikhanov in his speech at SPIEF. At the present time, capital repairs are being carried out on 11,000 apartment buildings in Tatarstan in conjunction with the State Corporation Housing and Utility Complex Reform Foundation. The regional authorities carried out an energy audit of all large and medium-sized enterprises, including public enterprises. The programme being implemented in the Republic of Tatarstan to install double-pressure boilers can reduce heating and hot water costs for consumers by 1.5–2 times. In addition to this, every single apartment building in the region is already equipped with a special meter. These significant achievements have been made possible by large-scale investments. The Republic of Tatarstan has received RUB 1.4 billion in subsidies as part of the state programme for energy efficiency and conservation over the

**THE REPUBLIC OF TATARSTAN  
IS ONE OF THE LEADING  
RUSSIAN REGIONS  
IN TERMS OF ENERGY  
EFFICIENCY**

past three years. It has invested RUB 3.8 billion over the same period, with private companies contributing a further RUB 11 billion.

Russian Ministry of Energy estimates state that the country has huge potential for reducing the energy intensity in its GDP. In accordance with the state programme "Energy Efficiency and Development", identifying targets for every sector of the economy and creating integrated systems for managing energy efficiency with a single point of accountability and control are the primary instruments for achieving this goal. The Ministry of Energy considers it a priority to introduce measures of technical environmental regulation – new standards in the construction industry (for small residential buildings, factories, power generation units etc.) – and is prepared to bring in restrictions and even outright bans on

**Jean-Pascal Tricoire,  
Chairman and Chief Executive Officer,  
Schneider Electric:**  
**"Energy efficiency has become  
a huge trend around the world."**

the use of several outdated technologies. Russian companies are currently obliged to follow the tried and tested system of implementing energy efficiency programmes, measuring their performance against similar foreign companies and providing the necessary level of funding for these programmes through internal and external sources.

**Irina Shkarnikova**





**Viktor Vekselberg,**  
President, Skolkovo  
Foundation: “Russia today  
has huge human resource  
potential – people who are  
capable of solving highly  
advanced and complex  
technological problems.”



# SOVEREIGN INNOVATION

**CREATING THE CONDITIONS FOR THE INNOVATIVE DEVELOPMENT OF THE ECONOMY IS ONE OF THE MOST SIGNIFICANT TASKS FACING RUSSIA. ITS CRITICAL IMPORTANCE FOR SUSTAINABLE ECONOMIC DEVELOPMENT HAS BEEN DISCUSSED FREQUENTLY BOTH AT HIGH-LEVEL GOVERNMENT MEETINGS AND AMONG THE BUSINESS COMMUNITY WHEN ASSESSING THE COUNTRY'S ECONOMIC PROSPECTS. THESE ISSUES COULD NOT BE IGNORED AT THE ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM.**

Successful innovation and the transformation of new technological production methods into major drivers of the economy are tasks that depend in equal amount on the efforts of the state and the initiatives of the business community. However, cooperation also means that there will inevitably be different views as regards solving the problem as well as sharp criticism of the existing situation from the varying positions. During the panel session "Private Sector Solutions to Regional Development", Deputy Minister of Economic Development of the Russian Federation Sergey Belyakov (now Chairman of the Board of the St. Petersburg International Economic Forum Foundation) outlined key issues holding back economic modernization: "Unfortunately, the Russian economy remains in an awkward position in terms of its investment attractiveness." One of the main issues

in this case is the over-abundance of red tape and regulations: no matter how efficient government officials may be, no matter how intelligently and responsibly they go about their jobs, they simply cannot perform the amount of work that is expected of them effectively. "Legislation changes at such a speed and to such an extent that the obligations placed on entrepreneurs often contradict one another and are thus impossible to carry out," Mr. Belyakov stressed. This bureaucratic paralysis is fertile ground for corruption to blossom. Another problem is the absence of competition in key sectors of the economy. However, identifying the problems, Mr. Belyakov also indicated that he believes improving the innovation environment is possible and he sees this as one of the major challenges facing regional leaders: "For businesses, innovation is a way of improving competitive-



**Sergey Belyakov, Deputy Minister of Economic Development of the Russian Federation: "One of the main issues in this case is the over-abundance of red tape and economic regulations."**





ness. For government bodies it can be a way of creating a quality environment for people. This is a more ambitious form of governance, and a way of holding on to a mandate: if you offer the people a quality environment and a higher quality of life, then they will, of course, support you," he said. President of the Republic of Tatarstan Rustam Minnikhanov endorsed the approach proposed by Sergey Belyakov: "There is a lot of talk today about what will happen to us in 10 or 15 years, and things will be difficult if we don't have a clear idea of where we are going. For this reason, our consultants have recommended that we work out a strategy until 2030, which I think is reasonable. If we miss op-

portunities now, we could be left behind in the future."

Discussion of potential measures to support innovation reflected the ambiguous role of the state, which could act both as a hindrance to, or main driver of, innovative development. In particular, Ruben Aganbegyan, Chairman of the Board of Directors at Otkritie Financial Corporation, singled out the lack of free access to "long money" for entrepreneurs as one of the main barriers to development. At the present time, only state-run banks are able to issue long-term loans, and the chances of getting one are extremely thin. Although Mr. Aganbegyan was reproached by State Duma Speaker Sergei Naryshkin for a

lack of impartiality and for defending the interests of his own company, the issues he raised were considered legitimate.

In any case, one of the components of all innovative environments is the availability of advanced level knowledge and the capability to put it into practice. Skolkovo Foundation President Viktor Vekselberg touched on this side of the problem: "You get the impression that we have exhausted our human resource potential. But, believe me, this is not the case. The three years that our Foundation has been operating prove that, in spite of everything, Russia today has huge human resource potential, people who are capable of solving highly advanced



and complex technological problems.” He added: “If you want people who are able to earn money by using their knowledge, you need to offer them appropriate education [...] The Skolkovo Institute of Science and Technology was set up to address this issue according to its own model, which combines three inseparable parts of the education process – basic education, research, and the commercialization of this research. Only by combining these three elements do we get specialists – experts in a particular field of knowledge, who may eventually be able to bring their final product to the market and into the economy.” According to Mr. Vekselberg, Russia’s leading technical institutes are beginning to understand the necessity of modernizing their approaches to education which, all things considered, is important both for the future of these educational establishments and for the country’s development.

The strained interaction between the state and business in the innovation sector and more generally in restructuring the Russian economy has highlighted the need to find answers to some rather difficult questions and analyse the complicated political and economic situation. However, as Rector of the Russian Presidential Academy of National Economy and Public Administra-



**Vladimir Mau, Rector of the Russian Presidential Academy of National Economy and Public Administration: “Everything that we do in the field of innovative development must be understandable for business.”**

tion Vladimir Mau stressed, “If we are talking about the longer term, then the problem of perspicuity arises – everything that is done must be understandable.” So, perhaps raising

the rationality and simplicity of the actions of all actors, especially of the state, is one of the most important factors for success.

**Stanislav Kivaldin**

# PHOTO DIARY. MAY 23

## DAY 2



**Vladimir Putin, President of the Russian Federation, at the plenary session “Sustaining Confidence in a World Undergoing Transformation.”**



**Patrick Kron, Chairman and Chief Executive Officer, Alstom:**  
“I think open markets are a must for the way we do business.”



**Jon Fredrik Baksaas, President and Chief Executive Officer, Telenor Group:** “We made our first investment here in 1992, and today we hold roughly a third – a little bit more – of the shares in VimpelCom. And there has been tremendous development in the economy over those 20 years or more.”





**Khaldoon Khalifa Al Mubarak, Chief Executive Officer, Mubadala Development Company:** “The Silk Road, historically, has always been a route that kept us close to countries like China and India.”



**Shiv Vikram Khemka, Vice-Chairman, Chief Executive Officer, SUN Group:** “Unfortunately, any financing that was going to come in from the West or from global investment sources has taken a much more cautious approach, not because of sanctions, but because, I think, of the threat of further sanctions.”



**Dmitry Konov, Chairman of the Management Board, General Director, SIBUR:** “I truly believe that those who eschew energy efficiency through modernization will ultimately be driven out of the market.”



**Elvira Nabiullina, Governor, Central Bank of the Russian Federation:** “The number of people employed in small and medium-sized businesses is very low; we must correct this.”





In the photo: **Vladimir Dmitriev** (left), Chairman, State Corporation Bank for Development and Foreign Economic Affairs (Vnesheconombank): “Italian business invests heavily in the Russian economy. More than 500 Italian firms are currently operating in Russia.” **Sergei Ivanov** (right), Chief of Staff of the Presidential Executive Office of the Russian Federation: “The debt load of the Russian regions is a very serious problem, one that we noticed over a year ago.”



**Hans-Paul Bürkner**, Chairman, The Boston Consulting Group (centre): “I believe that for Russian companies, the key to being more competitive is for the Russian economy and society to be more open.”



**Sergei Naryshkin**, Speaker, State Duma of the Russian Federation: “Innovative approaches should be taken in all sectors of the economy and in all spheres of life. But most of all, innovative approaches should be adopted by those who directly affect the quality of life of the people, of the voters. This should include providing state and municipal electronic services.”



**Oleg Deripaska, Chief Executive Officer, Chairman of the Management Board, UC RUSAL: “We have the resources and, more importantly, we have the people who can take decisive action to increase competitiveness.”**



**Igor Shuvalov, First Deputy Prime Minister of the Russian Federation: “One of the principles on which the development of the European Union is predicated is the continual search for new goals for integration.”**



**Alexey Miller, Deputy Chairman of the Board of Directors, Chairman of the Management Committee, Gazprom: “The EU policy to contain gas – a policy that is aimed at increasing energy production from renewable sources – has led to some serious structural changes in the European gas and energy market.”**



**Andrey Kostin, President and Chairman of the Management Board, Member of the Supervisory Council, VTB Bank: “We are taking a fresh look at certain things that we didn’t notice before.”**

PHOTO: ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM, RIA NOVOSTI, PRESIDENTIAL PRESS AND INFORMATION OFFICE



# CENTRES OF GLOBAL DEVELOPMENT

**Alison Smale, Bureau Chief, The New York Times, Berlin:** “Cities propel their inhabitants beyond a mere sense of comfort and connectivity and encourage them to strive for a greater sense of change, to alter their context, so that the city really becomes a platform for something new. That is what distinguishes the city from the village or the small town.”



**MEGA CITIES ARE UNDERGOING RAPID DEVELOPMENT. THEY ARE BECOMING REAL GROWTH ENGINES OF THE ECONOMY – 60% OF GROSS WORLD PRODUCT IS ACCOUNTED FOR BY THE WORLD’S TOP 600 URBAN AGGLOMERATIONS, 65% OF WHICH ARE IN DEVELOPED COUNTRIES. HOWEVER, BY 2025, ONE-THIRD OF ALL MEGA CITIES WILL BE LOCATED IN DEVELOPING COUNTRIES, AND THE CENTRE OF URBAN DEVELOPMENT WILL SHIFT TOWARDS THE EAST. THE PANEL SESSION “THE SHIFTING FORTUNES OF THE MEGA CITY GROWTH ENGINES” DEALT WITH THE ISSUE OF HOW CITIES BECOME GROWTH ENGINES OF THE ECONOMY.**





Modern cities are changing focus and are becoming the centre of economic and cultural development. These days, metropolises are inconceivable without an up-to-date transport infrastructure, parks and public spaces that feed the imagination and inspire creativity. They are also inconceivable without educated and skilled people who are constantly developing the urban environment. According to Alison Smale, Bureau Chief of The New York Times in Berlin and moderator of the panel session “The Shifting Fortunes of the Mega City Growth Engines”, “Cities propel their inhabitants beyond a mere sense of comfort and connectivity and encourage them to strive for a greater sense of change, to alter their context, so that the city really becomes a plat-

**Enric Massip-Bosch, Founder, EMBA ARCHITECTS; Architecture and Urban Planning Advisor to the Vice-Mayor of Barcelona (left): “I think that one of the most exciting situations in Russia in general and in St. Petersburg in particular is that we are moving from centralized planning towards decentralized planning.”**

form for something new. That is what distinguishes the city from the village or the small town.”

The modern city is developing in every way imaginable. Rio de Janeiro has even established an operating control centre for the comprehensive development of the city, where specialists in various fields work together. “[The centre] takes 32 of the ser-

vices that the city provides and integrates them. This could mean integrating weather forecasting with the emergency services, so they can have a look at what’s happening with the weather such as problems that could potentially occur and therefore provide early indicators to the emergency services, which obviously offers a higher level of safety and comfort to individuals. Traffic congestion services are now connected with public safety [...] so traffic can be redirected and adjusted – this is now being integrated into the public transport system,” explains David La Rose, General Manager of Central and Eastern Europe at IBM. Social networking sites are used to ensure that the latest information reaches the public. Residents of the



**Jan Gehl, Founding Partner,  
Gehl Architects: “Cities with light  
rails, bicycles, wide sidewalks,  
trees – this is the urban dream!”**

icantly improve the quality of life for people living in cities.

Occasionally it takes a single brilliant idea for a city to start developing at a rapid pace.

“We as EY owned a 17-story building in downtown Johannesburg,” explains Mark Otty, Member of the Global Executive Committee and EMEA (Europe, Middle East, India and Africa) Area Managing Partner at EY.

“By the mid-90s, we took the decision that we needed to move out of the city of Johannesburg [...] At that time, we were unable to find a buyer for the building, even for USD 1 million. A few years later, you were unable to buy an apartment in the same building for USD 1 million – and that would be a one-bedroom apartment.”

What was it that made Johannesburg turn into such an attractive place to live practically overnight? The city authorities simply decided to draw business back to the city – trendy shops, bars, restaurants and clubs. After a while, Johannesburg became one of the most fashionable cities in South Africa.

One of the most important development factors for a modern mega city is a comfortable transport infrastructure. Even the largest of cities cannot seem to find a solution to the problem of traffic. In London, for example, it can take a good few hours simply to get from the airport to the city centre. This is why many major firms, whose offices are located in London, prefer to schedule meetings in other cities, such

city can go online and find out, in real time, the best way to get to work, what cultural events are taking place and what the weather is like outside. In Singapore there is a special transportation card that allows citizens to pay for parking, public transport and toll roads. On the basis of the information received about these pay-

**TODAY, OPEN URBAN SPACES  
ACT AS THE INFRASTRUCTURE  
OF PUBLIC LIFE**

ments, the city authorities can adjust train schedules and traffic information. All of these technologies signif-



as Amsterdam, where the city centre can be reached in less than 20 minutes. Everybody is aware of the transport problem in Moscow, but it is gradually being solved.

“We are implementing the best global practices to eliminate traffic jams in Moscow,” notes Maxim Reshetnikov, Head of the Department of Economic Policy and Development of the Moscow Government. “We introduced paid parking in the city centre last year, and the underground system will expand by one-and-a-half times by 2025. We are also carrying out tighter and more judicious traffic regulation.”

Citizens also play a large role in the management of a city. And if the authorities are interested in the development of the city, then they will seek feedback from the citizens. According to Joe Macri, Vice President of EMEA Public Sector at Microsoft, high-technology can be used to help solve urban problems.

“There’s an initiative called ‘Love Clean Streets,’” he explains. “It’s a very basic idea: citizens are walking across the road and they see a pothole, some obstruction, or something going wrong in their experience of the city. They can take out their mobile phone, take a photo and then, with the GPS on their phone, pass that information on to the local council. They are then given a registration number, and they can track the progress of that specific problem online.”

Some problems, however, remain unsolved. Real estate prices, for

**Joe Macri, Vice President of EMEA Public Sector, Microsoft: “There’s an initiative called ‘Love Clean Streets’. It’s a very basic idea: citizens are walking across the road and they see a pothole, some obstruction, or something going wrong in their experience of the city. They can take out their mobile phone, take a photo and then, with the GPS on their phone, pass that information on to the local council. They are then given a registration number, and they can track the progress of that specific problem online.”**

#### URBAN PLANNING IN THE POSTWAR PERIOD WAS DOMINATED BY THE SO-CALLED MODERNIST APPROACH

example. The more advanced the city, the more expensive real estate seems to be.

The most eye-opening phenomenon of the 21st century, according to experts, is the rapid development of mega cities in the Asia-Pacific region, which have grown to enormous proportions before our eyes.

They are not yet as developed as their Western counterparts, but that does not deter people from those developed nations from moving to the Asia-Pacific region to live and work.

“[It is] chaos [in] Shanghai, which has significant equality issues,

congestion and it’s all about ‘how do I get ahead of the next person?’ [...] Air quality is an issue [...] but 30% of the population of Shanghai were not born there. People are coming to Shanghai for prosperity. They are coming to get ahead.”

#### **The city of the future is a city for the people**

Today, approaches to urban planning are changing dramatically. The time of the mass and infill construction of housing and shopping centres has passed. Modernistic methods have been replaced by the “city for the people” paradigm, which involves the creative and comprehensive development of existing urban areas. Some of the most comfortable cities in the world – Stockholm, Copenhagen, Melbourne, New York and Helsinki – have completely reinvented the idea of urban





**Maxim Reshetnikov, Head of the Department of Economic Policy and Development of the Moscow Government: “We are implementing the best global practices to eliminate traffic jams in Moscow. We introduced paid parking in the city centre last year, and the underground system will expand by one-and-a-half times by 2025.”**

The process of transforming cities started 25 years ago in some of the world’s most forward-thinking cities. Today, hundreds of cities across the globe are implementing initiatives in this direction.

“In the modern world cities are becoming the locomotives for economic development, and the prosperity of national economies largely depends on the economic prosperity of individual cities,” comments Oleg Panchenkov, Director of the Center for Applied Research at the European University at St. Petersburg and moderator of the panel session “Urbanization Trends: Creating Cities for People”.

Russian cities are also getting in on the act of this complex, long-term and systemic process. Efforts are being made to improve the urban environment in Moscow. City centre streets are being turned into pedestrian zones completely free of transport; urban spaces that can rival the most beautiful public areas in the world are being created on embankments and in parks. European experts are being recruited to help with the development of St. Petersburg.

space. Copenhagen was the first city in the world to replace cars with public transportation. Thirty-seven per cent of residents of the Danish capital use bicycles on a regular basis, and there are cycle and pedestrian paths scattered across the city. In Melbourne, there are broad, tree-lined avenues for pedestrians, cyclists and joggers. New York was one of the first cities to develop its urban spaces. The success of Broadway and Times Square is living proof that it was worth it!

“The idea of liveable cities is spreading very fast to all regions in the world,” notes Jan Gehl, Founding Part-

**THE CREATION OF PUBLIC SPACES, MODERN TRANSPORTATION SYSTEMS AND A CONVENIENT INFRASTRUCTURE REQUIRES EXPERTS TO BE RECRUITED AND NEW SEGMENTS OF THE ECONOMY TO BE DEVELOPED**

ner of Copenhagen-based Gehl Architects. “Cities with light rails, bicycles, wide sidewalks, trees – this is the urban dream!”

“St. Petersburg has a chance to skip the period of trial and error and move directly to models that have proven to work,” believes Nina Od- ing, Head of the Research Department at the Leontief Centre. “Today, the city can implement the best examples of urban environments from other cities, not by directly copying them, but rather by adapting them to St. Petersburg’s own strengths.”

Naturally, the creation of public spaces, modern transportation systems and a convenient infrastructure requires experts to be recruited and new sectors of the economy to be developed.

“Developing the urban environment calls for unconventional approaches,” believes Daniyar Yusupov, architect and Member of the Town Planning Council of St. Petersburg. “That is why we need to hold on to and help nurture a new generation of the creative class of our city. Creating a new environment increases the proportion and variety of local economies in the city management system. Today, open urban spaces act as the infrastructure of public life, and that means that they should be designed as infrastructure and we should invest in them the same way we invest in infrastructure.”

Paradoxically, rapid urban development can actually lower the quality of life within cities. The demands of city dwellers have become a real threat to the quality of life – the number of green areas has de-



creased, yards between residential buildings have become cluttered with car parks, and city streets are overrun with traffic. This is why radical transformation of the urban environment has become vital.

**Mika Boedeker,**  
**Manager,**  
**Nordic Council of Ministers’**  
**Information Office**  
**in St. Petersburg:**  
**“Modern cities often**  
**make cars,**  
**rather than people, happy.”**

**Irina Shkarnikova**

PHOTO: ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM, RIA NOVOSTI

# TRANSPORT INTO THE FUTURE

Panel session “Pushing the Technology Frontiers in Transport and Logistics”



**RUSSIA IS HEADING FOR A TECHNOLOGICAL REVOLUTION. PARTICIPANTS OF THE ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM 2014 BELIEVE THAT RUSSIA MAY SOON LEAP INTO THE FUTURE THANKS TO NEW TECHNOLOGIES AND LARGE INFRASTRUCTURAL PROJECTS.**



**Dmitry Strashnov, General Director, Russian Post:** “As part of our strategy we plan to invest some RUB 20 billion into logistics infrastructure by 2018.”



ered by drones as early as 2015,” David Schlesinger, Managing Director of Tripod Advisors, said at the panel session on new technologies in transport and logistics.

“Meanwhile, eBay offers same-day delivery in some US cities. In a world of Big Data, logistics is now bursting with information that can lead to real changes – who shops for what using which methods, which browsing and searching actions lead to purchases.” Analysing this flow of data, companies are trying to get rid of the weak links in their supply chains.

Russia is planning several mega projects in the sphere of transport and logistics, including the development of the railway infrastructure in Siberia (the Baikal–Amur Mainline and the Trans-Siberian Railway), the building of motorways in the Central Federal District, the construction of an icebreak-

Russia’s existing transport and logistics infrastructure remains at 1990s levels. Direct investments in Russian transport infrastructure have reached 2.2% of GDP, compared to 3% in China. By expert estimates, logistics costs in Russia currently account for about 20% of GDP. In China, the figure is 15% and in Europe, it is 7–8% on average. If Russia manages to bring its logistics costs down to 11% of GDP, which is the world average, it could save up to USD 180 billion annually, according to The Boston Consulting Group.

Meanwhile, it is the transport and logistics infrastructure that could grow to become a real engine of economic growth. Recently implemented large-scale projects in this sphere confirm the industry’s potential. The high-speed train service between Russia and Finland that was launched in 2010 has boosted passenger services by 30% – customs and border control checks are performed while the train is in motion. And polar routes across Russia launched in 2000 have built an entire-

ly new aviation infrastructure uniting Canada, the United States, Latin America and Asia, while also greatly increasing the trading volumes among these countries.

The world of transport and logistics has changed completely thanks to new technologies.

“The American company Amazon captured the public imagination this year by promising packages deliv-

**David Schlesinger, Managing Director, Tripod Advisors:** “Amazon captured the public imagination this year by promising packages delivered by drones as early as 2015.”



er fleet for the Northern Sea Route, the overall upgrade of Russia's postal system and the creation of a modern logistics infrastructure.

According to Russian Railways CEO Vladimir Yakunin, the modernization of the Baikal–Amur Mainline and the Trans-Siberian Railway will increase the carrying capacity of the transport corridor from 55 to 130 million tonnes. The implementation of this project is closely linked to the socioeconomic development of the adjacent regions.

“We plan to spend tens of billions of roubles on these projects,” stressed Mikhail Abyzov, Minister for Open Government Affairs of the Russian Federation, “together with private investments to create new businesses, jobs and accommodation for specialists, and alongside funding from the Far Eastern regions we ex-



**Bishar Hussein, Director General, the Universal Postal Union: “Today we have the biggest distribution and logistics network in the world.”**

pect the overall investment in related infrastructure to reach several hundred billion roubles.”

A separate panel session at SPIEF 2014 was devoted to the modernization of Russian Post. According to the Forum's experts, if Russian Post becomes a market-based corporation, this will also enhance the efficiency of global logistics, given that Russia owns the world's largest territory. Postal services are being upgraded worldwide. The best postal services, such as Germany's, successfully compete with commercial logistics operators, delivering orders within one or two days.

“The Universal Postal Union constitutes 192 different networks, different countries with varying social, economic and political backgrounds, different levels of economic develop-

**Mikael Aro, President and CEO, VR Group: “There will simply be no modernization and economic growth without the modernization of transport and post.”**

ment, diverse languages and different systems,” said Bishar Hussein, Director General of the Universal Postal Union. “Today we have the biggest distribution and logistics network in the world. The challenge is how to bring efficiency [...] how to make all these different organizations work as a seamless single entity. These are technological challenges, managerial challenges and human resource capacity building challenges.”

These infrastructural projects will be financed by the government, while other projects are attracting private investments. For example, Russia's icebreaker fleet for the Northern Sea Route is being co-financed by Finnish companies. Foreign investors are also ploughing their money into Russian healthcare, the energy sector and manufacturing. In the first quarter of 2014, direct investment in the Russian economy reached USD 12 billion, down from a record USD 80 billion last year. According to Minister of Economic Development of the Russian Federation Alex-



ei Ulyukayev, the key measure for attracting foreign investment is to eliminate infrastructure-related costs. For example, this year the government has taken extraordinary measures to attract investment by freezing prices for industrial consumers in the area of gas supply, the power supply network and railway transportation. In addition, the "On Public-Private Partnership" law was passed this year, allowing investors to feel at home in Russia.

**Irina Shkarnikova**

**Sergey Kravchenko, President in Russia and CIS, Boeing: "Russia lacks a contemporary air traffic control system. At Sheremetyevo, there are on average 40 take-offs and landings per hour, while at similar airports worldwide, two efficiently operated runways may allow for 100 take-offs and landings per hour."**



**Mikhail Abyzov, Minister for Open Government Affairs of the Russian Federation: "Together with private investments, we estimate the overall investment in Russia's large infrastructure projects to reach several hundred billion roubles."**

PHOTO: ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM, RIA NOVOSTI

# THE FOOD MAP

**PARTICIPANTS IN THE SPIEF 2014 PANEL SESSION ON THE DEVELOPMENT OF AGRICULTURE DISCUSSED THE SCIENTIFIC AND TECHNICAL ACHIEVEMENTS OF THE PAST ONE HUNDRED YEARS THAT HAVE ALLOWED US TO BE ABLE TO FEED SEVEN BILLION PEOPLE TODAY. THEY ALSO SHARED THEIR FEARS THAT THESE TECHNOLOGIES MAY NOT BE ENOUGH FOR THE NEXT HUNDRED YEARS, WARNING THAT MEASURES MUST BE TAKEN NOW TO AVOID A GLOBAL FOOD CATASTROPHE.**





In the 19th century, scientists predicted that the world's population would exceed one billion people. British demographer Thomas Malthus at the time anticipated that there would come a point when agricultural production would no longer be able to keep up with exponential population growth, leading to widespread famine and the outbreak of wars. Almost seven billion people live on planet Earth, all of whom are fed as the result of five main agricultural technologies that were developed in the last century. The first of these was the invention of ammonia synthesis, which gave rise to nitrogen fertilizer. The second was seed selection technology, later followed by crop protection methods. The fourth technology was the development of genetically engineered products. In 1996, two million hectares of land were used to farm genetically modified seeds; by 2013, this number had increased to 175 million hectares, or 11% of all land used for agriculture in the world. And finally, over the past century, humankind has progressed from using cleavers to operating sophisticated machinery to cultivate the land. Food shortages on a global scale have all but disappeared over the past 50 years. But how long will this last? One of the long term challenges to food security is global climate change. Research conducted by the World Resources Institute predicts the negative consequences that climate change will have on major food exporters,



**Sunny George Verghese, Co-Founder, Group Managing Director and Chief Executive Officer, Olam International: "It takes 160 litres of water to produce one egg. One kilogram of beef takes 16 tonnes of water to produce. One kilogram of pork meat requires about 10 tonnes of water."**

such as the Latin American countries. However, a number of countries, Russia included, stand to benefit from climate change, with the possibility of significantly increasing food production. As a whole, we can thus assume that global food production will not suffer. However, experts point to other causes for concern which, unlike climate trends, can be calculated more precisely. "For the 30-year period between 1960 and 1990,

**FROM 1960 TO 1990,  
THE SIZE OF CULTIVATED LAND  
ROSE BY JUST 0.15%.**

though the agricultural productivity growth rate was 2.3%, the growth rate for the area of cultivation was just 0.15%. Between 1990 and 2000, the agricultural productivity growth rate halved to 1.1% per annum. For the last five years, the agricultural productivity growth rate is 0.4%. Land under cultivation is increasing in size at a rate of less than 0.15%. It follows that there is going to be a major imbalance between supply and demand for food production ten years from now," stated Sunny George Verghese, Co-Founder, Group Managing Director and Chief Executive Officer of Olam International. Food consumption will rise sharply in a large part due to countries like India and China, which experts believe will be hard-pressed to provide enough food for their people without outside help. In 1998, China was responsible for 14% of the world's rice exports. By 2012, the country had turned into the world's largest importer of rice, bringing 2.3 million tonnes into the country. There is a similar situation with water, with consumption growing at an even more rapid rate. Estimates suggest that every person in the world drinks between one and two litres of water per day, while an additional 55 litres is used for personal hygiene and household purposes. This greatly depends, however, on how water consumption is calculated. "For breakfast today, I would have consumed roughly 1300–1600 litres of water. It takes 160 litres of

water to produce one egg. One kilogram of beef takes 16 tonnes of water to produce. One kilogram of pork meat requires about 10 tonnes of water," Mr. Verghese continued. By his estimates, humans consume 4.5 trillion cubic metres of water per day, 71% of which is used in agriculture. By 2025, this figure will reach 7 trillion cubic metres.

A food catastrophe can be avoided first and foremost by imple-

**THE TOTAL AMOUNT OF MONEY THAT IS BEING SPENT ON AGRICULTURAL RESEARCH IS LESS THAN USD 4.5 BILLION ANNUALLY**

menting a rational policy of resource expenditure on production. In addition to the obvious benefits in the long term, this approach would also be more economically efficient. "In Russia alone, depending on the factory, we

had up to a 20% reduction in water utilization, and up to 18% in energy utilization [...] For one, I think we have a moral obligation [to do this]. Another [reason] is self-interest, because the less you put in, the less it costs. So it makes you move forward," noted Enderson Guimaraes, Member of the Executive Board, PepsiCo Inc. and Chief Executive Officer of PepsiCo Europe.

Another factor that will allow us to avoid widespread fam-



**Enderson Guimaraes, Member of the Executive Board, PepsiCo Inc. and Chief Executive Officer, PepsiCo Europe (right):**  
**"In Russia alone, depending on the factory, we had up to a 20% reduction in water utilization, and up to 18% in energy utilization."**



ine in the next 20 years or so is the achievement of new technological breakthroughs that increase production rates. The total amount of money that is being spent on agricultural research is less than USD 4.5 billion annually. In order to make these breakthroughs, experts believe that this figure should be at least USD 50 billion. "All the low-hanging fruits have already been picked. We spend USD 1.6 trillion globally on defence budgets, but we are not able to find USD 40 or 50 billion to invest in improving productivity on a sustainable basis," Mr. Vergheze lamented.

In addition to carrying out research and implementing money-saving initiatives, it is an imperative for governments to provide incentives for the food industry. According to Arkadiy Zlochevsky, President of the Russian Grain Union, agriculture is one of the most neglected industries in Russia today. By way of example, Mr. Zlochevsky compared state subsidies for farmers in Germany and France, which equal EUR 300 per hectare, to those in Russia, which are EUR 5–10 per hectare. "As an economist, I can talk about the effect of having a low base and about the fact that we are apparently waiting for colossal growth to come out of such a programme. But we have to come together and each make a contribution – the government, fertilizer producers, farmers – towards the establishment of a proper scientific base, financial infrastructure, low-cost loans, and guaran-



**Arkadiy Zlochevsky,  
President, Russian Grain Union:  
"Agriculture  
is one of the most neglected  
industries in Russia  
today."**

tees that farmers' produce will be sold, hedging their risks. This is a complex issue that must be solved in the near future," Mr. Zlochevsky believes.

**Ilya Arzumanov**

PHOTO: ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM



**Ruben Aganbegyan, Chairman of the Board, Otkritie Financial Corporation proposes calling the transformation of the corporate governance system “Reform 3.0”.**



# CORPORATE GOVERNANCE 3.0

## **REFORMING CORPORATE GOVERNANCE IN RUSSIA IS LARGELY A MATTER OF RAISING INVESTMENTS, INCLUDING FROM FOREIGN SOURCES. WHILE THIS IS OBVIOUS TO EVERYONE, EXACTLY HOW REFORM IS TO BE IMPLEMENTED IS STILL UP FOR DEBATE: SHOULD IT BE DONE VIA LEGISLATION, THROUGH MEGA REGULATORS, OR USING EXCHANGE TRADING RULES?**

Russia has implemented a high standard of corporate governance to attract foreign investors, Barclays Russia President Bob Foresman told the “Corporate Governance: National Standards in the Age of Global Companies” panel session that took place on May 23, 2014 at the St. Petersburg International Economic Forum.

However, the Ukrainian crisis has spooked many investors and will continue to affect the markets even if the situation calms down as soon as tomorrow. For investors to be able to return, corporate governance rules need to be followed more strictly, according to the head of Barclays’s Russian operation.

“We in Russia have to go above and beyond even normal expectations of corporate governance to give investors a very good excuse to come back to this market,” Mr. Foresman said.

The implementation of corporate governance principles in Russia started 20 years ago and has since reached a fairly high level. However, according to Alan Kartashkin, a partner with Debev-

oise & Plimpton LLP, “almost every investor coming to this market feels that the level of corporate governance here is insufficient.”

“In part they are right, and in part it’s a myth,” says Mr. Kartashkin. “When I tell Western investors

about the rights they acquire by purchasing just one share of stock in a Russian company, they become very surprised. For instance, they are shocked when they realize that they can appoint a director with only 5% of equity. As far as I know, there’s no

**David Gray, Managing Partner, PwC Russia: ‘For us, it is very important that the quality of executive and non-executive board members is improving [in Russia].’**



such requirement anywhere else in the world.”

Ruben Aganbegyan, Chairman of the Board at Otrkirite Financial Corporation, likes to call the current transformation of corporate governance “Corporate Governance Reform 3.0”. “Why 3.0? That’s because since corporate governance principles, codes, etc., first emerged in Russia, we’ve already lived through one wave of changes.”

Mr. Kartashkin believes that there is no need for revolutionary changes to be made to Russian law: “What has been done in terms of listing rules or independent director requirements alone is a truly revolutionary change. What we need today is a certain build-up of practices and a solution to the problem of implementation.”

The drastic changes in how corporate governance is now approached are further witnessed by the fact that not only large companies listed on major exchanges, but also privately held companies are starting to contemplate corporate governance in Russia today. There is a growing understanding that it is needed, and the role of international institutions and development banks participating in the process of drafting corporate governance standards is rising, according to Tomasz Telma, IFC Director for Europe and Central Asia. “The level of language [of company owners and executives] of what makes a difference and what doesn’t has really changed a lot,” said Mr. Telma.

Ruben Aganbegyan agreed, citing the example of Alfa Group, which includes companies managed by boards staffed with independent directors, and it is through the boards that actual decisions are being made.

Alexander Afanasiev, Chairman of the Executive Board of Moscow Exchange, also said that in principle Russia has everything in place for across-the-board implementation of modern corporate governance systems: “This past winter, the government prepared and approved a very

good document – the new Corporate Governance Code, where the exchange plays one of the leading roles; we sponsored it. Both leading Russian specialists and international OECD experts were involved in this work.” There exist exchange listing rules (in effect on Moscow Exchange since June 9, 2014) and there are laws and regulations, Mr. Afanasiev said. The Code is the ultimate reference in terms of standards and the strictness of requirements, because it describes best practices and sets goals



**Olga Dergunova, Head of the Federal Agency for State Property Management, says that over the past year her agency created a mechanism for the large-scale implementation of new governance standards.**



**“The role of international institutions and development banks participating in the process of drafting corporate governance standards is rising in Russia,” says Tomasz Telma, IFC Director for Europe and Central Asia (right).**

to be achieved. It is followed by a listing, which sets the requirements and standards that are already within the reach of the market today. Legislation comes third. The legislative process never stops, as all sorts of new aspects need to be taken into account all the time. According to Mr. Afanasiev, the exchange acts not only as an enforcer, but also as one of the main beneficiaries of improvements in corporate governance, because the more open and transparent companies become, the more investors come to the market and the more active and interesting the market becomes for players and the exchange alike.

Minority rights in both privately held and state owned companies are one of the hottest topics as far as corporate governance is concerned. Independent directors, who are totally invested in making correct and unbiased decisions (because their main capital – their reputation – is at stake), have a huge role to play in this area.

A PwC poll of directors shows that they believe around 25% of board members must be non-executive (i.e. independent) directors, ac-



ording to David Gray, PwC Managing Partner for Russia.

Bob Foresman recalls how the institution of independent directors looked ten years ago: “I remember some cases where [board] meetings would last for literally 15 minutes, and then they would have a big reception. At TNK, we have six- or seven-hour board meetings, the day after having a five- or six-hour strategy and audit committee meeting.” He also recalls cases from his experience where independent directors disagreed with the recommendations of the most senior managers of the company, derailing decisions; he is all for making such cases commonplace rather than an oddity in Russia.

The panellists noted that the role of independent directors must be elevated in companies that are substantially state-owned too, even if they are part of the military industrial complex.

Olga Dergunova, Head of the Federal Agency for State Proper-

ty Management, said: “Over the past year, we have created a mechanism for transitioning to a large-scale implementation of our standards... and now, when preparing for annual shareholders’ meetings of state-owned companies, there are no longer any questions as to why the audit committee should have a look at financial statements in advance, why dividends are important to shareholders, or why shareholders should by all means receive dividends.” Ms. Dergunova admitted that out of 2500 companies, her agency can only have a real impact on corporate practices in sixty or so: “We have to work hard to impose those standards on all of the rest of the companies... The objective that we have set for ourselves for this year and have already started to achieve is to create tools to supervise remotely how and in which ways companies apply their corporate policies.”

**Olga Kucherova**

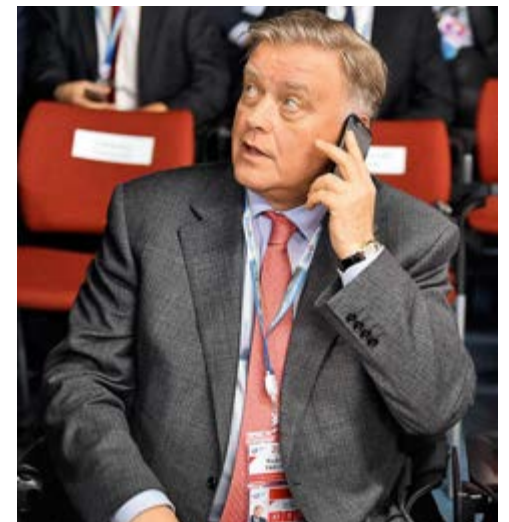
PHOTO: ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM

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## DAY 3



**Kim Chan Re**, Chief Operating Officer, Hyundai Heavy Industries, Co Ltd: “We are delighted to be working with such a reliable and stable partner as Federal Grid Company.”



**Vladimir Yakunin**, President, Russian Railways: “It is very important to create a real system of dichotomies: the state and society; business and society; business and the state.”





**Stanislav Voskresensky, Deputy Presidential Plenipotentiary Envoy to the Northwestern Federal District:** “Qualitative improvement of the business environment and protecting the interests of domestic producers of goods and services on international markets are vital for the economy’s recovery.”



**Arkady Dvorkovich, Deputy Prime Minister of the Russian Federation:** “We are interested in attracting Chinese investments in Russian agriculture, and in exporting Russian produce to China.”



**Georgy Poltavchenko, Governor of St. Petersburg:** “The St. Petersburg International Economic Forum is, was, and will continue to be the main platform for the development of business contacts between Russian and international partners.”



**Valentina Matviyenko, Chairwoman of the Council of Federation (left):** “The Forum is a place where questions can be addressed with a view to finding practical solutions.”



**Vagit Alekperov, President, OAO LUKOIL:** “The tangible results achieved during the long-term cooperation between LUKOIL and Gazprom is proof that it is effective for the business of both companies. The strategic partnership agreement for 2014–2015 opens up new opportunities for us.”



**Andrey Nikitin, Chief Executive Officer, Agency of Strategic Initiatives to Promote New Projects:** “Small business is not a source of revenue, it is a source of employment.”





**Michael Harms, Executive Director, German-Russian Chamber of Commerce:** “We believe that sanctions ruin the business environment, both for Russians and for Germans. We call for a resolution of the crisis through political means. I think that business in this situation is a great stabilizing factor.”



**Pieter Boone, Chief Executive Officer, METRO Cash & Carry Russia:** “I firmly believe that small and medium-sized business is vital to the Russian economy. We cannot continue to depend on oil and gas.”



**Marco Tronchetti Provera, Chairman and Chief Executive Officer, Pirelli & C. S.p.A. (left) and Igor Sechin, President, Chairman of the Management Board, Vice-chairman of Board of Directors, Rosneft:** “The majority of market players agree that oil and gas will retain their value in the long term, with the share of gas increasing slightly.”

PHOTO: ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM, RIA NOVOSTI, DMITRY AZAROV, INTERPRESS/ TASS

# BEYOND THE HEAVENS



Panel Session  
 “Early Days in the Next Generation Space Race”

**THE APPEARANCE OF PRIVATE COMPANIES IN THE SPACE INDUSTRY HAS BEEN WELCOMED BY GOVERNMENT AGENCIES AND CORPORATIONS. IS THE DELEGATION OF CERTAIN ASPECTS OF THE ROLE OF DEVELOPING THE SPACE INDUSTRY TO THE PRIVATE MARKET A STEP TOWARDS SPEEDING UP OUR EXPLORATION OF THE COSMOS? OR IS IT A RETREAT AWAY FROM LONG-TERM SCIENTIFIC PROGRAMMES IN FAVOUR OF COMMERCIALIZED SPACE FLIGHT? THE FUTURE DEVELOPMENT OF THE SPACE INDUSTRY WAS DISCUSSED AT A SPIEF 2014 PANEL SESSION DEDICATED TO THE NEXT GENERATION OF THE SPACE RACE.**



Since their inception, space programmes have always been financed and carried out exclusively by governments. That is until recent years, which have seen a definite shift in the paradigm: private companies have flooded the market, successfully carving out a niche for themselves and, according to experts, starting to play an increasingly important role in the development of the entire space industry. "We should not be misled. Funding by governments is still dominant [and it has] a very strong political component. I think this will remain, but I also believe that governments are giving more and more responsibility out within this industry. A good example is Space X – the money is coming from NASA, but the responsibility lies with a private company," noted Francois Auque, Executive Vice-President of Space Systems at Airbus Group. In September 2014 it was announced that NASA would be fronting USD 2.6 billion for private company Space X to build a new ship by 2017 that will deliver US astronauts to the International Space Station (ISS). At least six flights are expected. Space X is building the manned capsule as part of its Dragon cargo ship project, which has been delivering freight to the ISS since 2012 in a USD 1.6 billion agreement with NASA.

Space X has given fresh impetus to the development of the space industry. It is thanks to this company that the possibility of involving private investors in a sector that requires

**Vitaly Lopota, President, S.P. Korolev Rocket and Space Corporation Energia:**  
**"The demand for tourist space flights is too small."**





**Jean-Loïc Galle, Executive Vice-President of Space, Thales Alenia Space:**  
 “We will see the emergence of very small satellites.”

will be another technology race. We will have different types of satellite competing to provide the same service. There will be a constellation of satellites at lower altitude orbits [...] that will fly at an altitude of 20km. I think that there will be a race for different technological solutions introduced onto the market by different companies – big companies, but also startups. Obviously, the competitiveness of different technologies will be key. We will see the emergence of very small satellites. And we shouldn't forget that there will be a race between space technologies and other technologies. I am thinking about optical fibre technology here,” said Jean-Loïc Galle, Executive Vice-President of Space at Thales Alenia Space.

More and more private companies are emerging in the small satellites sector. In 2012, Russia's first private space company, Dauria Aerospace, won a state contract for the production of two micro-satellites and docking mechanisms for CubeSat-standard satellites on rocket launchers for the Russian Federal Space Agency. In addition to this, Dauria developed its own miniaturized satellite, the DX-1, for navigating and identifying ships in oceans and rivers, which was successfully launched in July 2014. “I hope that the number of companies like this one continues to increase and, of course, that we

extremely specialised scientific knowledge and large investments, and which has a long development cycle, is being re-examined. “Today, everyone has started to look at the space industry from the point of view of the possibility and effectiveness of capital investments. New investors are appearing all the time. For Russia, it is important that we don't let new approaches to the organization of the sector pass us by – new businesses that could help us implement change in terms of technology, an area in which we are currently lagging behind our potential partners,” said Igor Komarov, General Director of United Rocket and Space Corporation.

According to experts, most private firms will operate in areas of the space industry that are associated with large-scale services, such as communications, navigation and

**IN 2012, RUSSIA'S FIRST PRIVATE SPACE COMPANY, DAURIA AEROSPACE, WON A STATE CONTRACT FOR THE PRODUCTION OF TWO MICRO-SATELLITES AND DOCKING MECHANISMS FOR CUBESAT-STANDARD SATELLITES ON ROCKET LAUNCHERS FOR THE RUSSIAN FEDERAL SPACE AGENCY.**

imaging of the earth's surface. All this can be done with so-called small satellites – space modules that weigh anything from a few kilograms to half a tonne – which carry out their functions by locking themselves into the Earth's orbit in groups. “There





**Igor Komarov, General Director, United Rocket and Space Corporation:** “For Russia, it is important that we don’t let new approaches to the organization of the sector pass us by.”

will be able to work with them. After all, it is important that we don’t miss any changes in the industry, so that we can continue to respond to the challenges we are now facing,” Igor Komarov stressed.

As for space tourism, the outlook is not great. Demand is

simply too small to warrant any kind of meaningful development in the sector. “We’ve got a few tourists, but in general the demand just isn’t there. It costs USD 50 million to send one tourist to the ISS for two weeks. And you’ve got to understand that going for more than one month is

something best left to professionals. Not everyone can handle it from a medical standpoint,” said Vitaly Lopota, President, S.P. Korolev Rocket and Space Corporation Energia.

**Ilya Arzumanov**

PHOTO: ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM, RIA NOVOSTI, ARTEM KKHOROTAEV / TASS



**Christian Morales, Vice President, Intel** sees the future in the “Internet of Things”.



# A MARKET WITHOUT BORDERS

**THE INTERNET IS A NEW UNIVERSE FOR BUSINESS DEVELOPMENT. ITS RESOURCES ARE INEXHAUSTIBLE, AND IT CONTINUES TO GROW EXPONENTIALLY. THIS IS THE CONCLUSION THAT THE PANELLISTS AT THE SPIEF 2014 PANEL SESSION ENTITLED “MOBILITY MEETS BIG DATA: EMPOWERING INDIVIDUAL CHOICE ON THE MOVE” CAME TO.**

Mobile technologies are tearing down many of our traditional boundaries – the boundaries between work and leisure, home and the office, friends and workmates, and between productivity and down time. Big Data is destroying the distinction between public and private information, opening up our lives, hobbies and activities to friends, advertisers, the government and even to ourselves. Everything we do is being observed, analysed and interpreted as soon as we do it. The sheer volume of data that we create every second – photos, tweets, updates, check-ins, search queries – is both shocking and fascinating. We are entering a golden age for companies who want to understand their customers, as well as for consumers who want their purchasing needs to be understood. “Ten years ago, we thought that by 2015 there would be 10–15 billion devices connected [to the internet]. Now we are talking about 15–20 billion [devices], and by 2020, we are talking 40–50 billion devices. Now cars are becoming an Internet of Things that

**Michael Kleinemeier,**  
President, Middle & Eastern  
Europe, SAP used the Pirelli  
company as an example of the  
commercial use of the Internet  
of Things.



are connected to the cloud and to the internet,” predicts Intel Vice President Christian Morales. We are talking about the Internet of Things, which might seem like a utopia if it were not

for modern communication channels and the phenomenon of Big Data.

The Internet of Things refers to property – a car, for example, that is connected to a network and whose

data is analysed in real time. The idea is that using things will become more comfortable and safe, and their maintenance trouble free. At the same time, sales of all kinds of car-related

**Joe Macri, Vice President of EMEA Public Sector, Microsoft, believes that using Big Data is essential for megacities.**





services will rise. We pretty much already have this with cars. “We are going in the next century into the Internet of Things, where everything is connected with everything [else], which gives a lot of new business models. I [mentioned] the example of Pirelli, where we had a project to build sensors into tyres. Now we can measure [their] temperature, pressure, vibration and so on. We can now analyse this Big Data in real time and give the driver advice: ‘go to the next parking lot and change your wheel, otherwise you will run into serious issues,’” explained Michael Kleinemeier, President of Middle & Eastern Europe at SAP. This technology from Pirelli, called Cyber Tyre, is currently used on trucks and will be installed in winter tyres for cars in 2014. It has already helped logistics and shipping companies save money on fuel costs. In the future, Cyber Tyre will be able to monitor the situation on the roads and warn drivers about wet or slippery roads.

The potential of Big Data is not restricted to your car and the local car service centre’s sales, however. “Big Data will allow us to use the limited amount of resources that we have on this planet [in the context of] a growing population [...] in the most efficient way. There are very interesting solutions already in energy saving, like the company Opower in the United States. There are interest-

ing solutions in transport infrastructure. I think this is the future and this is what data can really do for society,” said Alla Morrison, Program Officer of Open Finances at the World Bank. Opower provides cloud-based solutions for public utilities that allow them to collect information on energy consumption and calculate individualized methods for saving energy and resources. The company works with almost one hundred different public utility providers, calculating energy consumption in more than 50 million homes in nine countries.

It is not just private business that will soon be changing our world with the aid of the Big Data that we provide in the connected world. “I’d like to give an example of a very progressive city that really thinks about this data culture and turning data into insight. [I’m talking about] the city of Barcelona, [where] the mayor has a dashboard that is updated in real time using open data [...] from structured data feeds [and also] from unstructured and streaming data – from traffic management systems, energy systems, etc. He’s able to view what’s going on in his city and how he and his leadership can really take action in a very mobile way and in a very data, cloud-driven way,” explained Joe Macri, Vice President of EMEA Public Sector at Microsoft. The use of Big Data is becoming vital for all megacities, firstly, because of the

very high analysis speed compared to more traditional technologies such as opinion polls. Secondly, Big Data does not simply provide facts, it also allows predictions to be made on the basis of those facts. Thirdly, Big Data allows analysis to be performed not only on regions of cities, but also on territories and even individual objects within those regions. The Russian authorities realize this – judging from the level of awareness of government officials, Russia can be seen as being on a par with developed countries in this area. “Big Data has acquired great significance for Moscow. The possibilities of using Big Data for municipal needs are endless. We are talking about commuting, urban planning – both in terms of the transportation system and the positioning of housing, offices and places where jobs are created. What’s more, Big Data allows us to evaluate city government projects; not only the movement of residents and guests of the city, which are tracked via mobile phones, but also, for example, the popularity of photos of city sights that have been uploaded onto the internet. As far as urban planning is concerned, that is just the tip of the iceberg of how we can use Big Data. The future looks bright,” said Moscow Government Minister, Alexei Komissarov.

**Ilya Arzumanov**

# MEDICINE OF THE FUTURE



**ORGANIZING THE MOBILE MONITORING OF DISEASES AND CREATING A PLATFORM FOR REMOTELY PROVIDING TREATMENT HAVE BEEN SINGLED OUT AS THE MOST PROMISING AREAS OF DEVELOPMENT IN RUSSIAN HEALTHCARE.**

**EXPERTS BELIEVE THAT THE USE OF TELEMEDICINE IN THE NEAR FUTURE WILL ALLOW THE HEALTHCARE SYSTEM TO TURN ITS FOCUS TOWARDS PREVENTATIVE MEDICINE TO STOP MANY ILLNESSES FROM OCCURRING AT ALL.**



Changing attitudes towards the treatment of illnesses was the major topic of conversation at the St. Petersburg International Economic Forum panel session entitled “How are Technological Advances Changing the Economic Incentives for the Development of Global Healthcare Systems?” According to Simon Matskeplishvili, Senior Scientific and Clinical Researcher at the Bakulev Scientific Center for Cardiovascular Surgery of the Russian Academy of Medical Sciences and moderator of the session, preventative medicine is starting to replace more traditional forms of treatment, and this is one of the few areas where business and government interests intersect. “We are not just talking about extracting the benefits here,” he noted, “we are talking about helping people get better, about preventing serious illnesses and prolonging people’s lives.”

One of the areas of this cooperation could be to work on projects developing mobile devices capable of monitoring wearers’ vital functions. Microsoft is currently working on a number of similar projects as part of its Devices and Services division. “Everybody knows about those health bracelets that measure your heart rate and blood pressure,” says

**Olga Golodets,  
Deputy Prime Minister  
of the Government of the Russian  
Federation noted the demand  
for remote healthcare systems  
in hard-to-reach regions.**



Nikolay Pryanishnikov, President of Microsoft in Russia. "But tomorrow they will be able to follow the physical and emotional wellbeing of the wearer, and a little further down the line they will be able to perform ultrasound scans of their internal organs." Modern smartphones are already

THE MINISTRY OF HEALTHCARE OF THE RUSSIAN FEDERATION IS DEVELOPING A PRACTICAL COURSE AIMED AT TEACHING YOUNG CHILDREN HOW TO LOOK AFTER THEIR HEALTH

powerful enough to take ECG and EEG readings, but they would also require sensory equipment which is comfortable for the patient. Mr. Pryanishnikov believes that an invisible, non-harmful tattoo made from metallic paint could serve this purpose. All the data collected could be deliv-

**According to Medicina CEO Grigory Roytberg, doctor call outs have dropped 30% thanks to the use of telemedicine.**





ered to the HealthVault cloud service, which is already live, allowing trained medical staff to quickly access the patient's medical history. Similar projects are underway at Industrial Internet, a subdivision of General Electric. According to Olivier Bosc, President and Chief Executive Officer for Russia and CIS at GE Healthcare, it is important to create a system that is capable of dealing with large numbers of health indicators, as well as the communication channels through which these indicators will be transferred over long distances. Peter Vullings, Chief Executive Officer of Royal Philips Electronics N.V. in Russia and the CIS believes that there is a strong need to introduce such innovations in Russia, where the sheer size of the country means that many people simply do not have access to quality medical care. "Innovation in healthcare and healthcare IT is crucial to take healthcare in Russia to the next level. There is some misunderstanding, because when you talk about innovation and healthcare, as well as progression in IT systems, a lot of people think it [healthcare] will become more expensive. Just to be clear [...] with IT solutions, we will bring down personal costs and make healthcare more efficient and more cost effective," Mr. Vullings stated.

A number of Moscow clinics have already had the chance to assess the effectiveness of such technologies. For example, Medicina CEO Grigory Roytberg says that doctor call outs have dropped 30% thanks to the use

**INNOVATION  
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of basic diagnostic tests and Skype. "In Russia, many house calls are unnecessary because the patient does not really require the service – only in Russia can you find people calling the doctor because they want their blood pressure checked, or because they have a high temperature," Mr. Roytberg noted. "The rise in the cost of medical care as a result of the sharp increase in life expectancy is one of the challenges of our time, and the active use of preventative telemedicine can help us address this issue," he continued.

Sistema is also planning to set up IT systems in its MEDSI Moscow clinics, according to the company's Senior Vice President and Member of the Management Board Vsevolod Rozanov. Sistema is working with mobile operator MTS on the mHealth project. Rozanov warns that much still needs to be done to increase the availability of such services – while just about everybody in Russia has some kind of mobile communication device, the concept of an ecosystem as a whole, which would combine medical facilities, manufacturers of mobile devices, systems integrators,

operators and patients, is lacking. "I think that the state should take it upon itself to create a unified data processing system," he said.

"As a regulator, the state should bring all operators in the medical services market together, including pharmaceutical companies, and introduce a single format," stated Kirill Kaem, Vice-President and Executive Director of the Biomedical Technologies Cluster at the Skolkovo Foundation. Government officials realize this. According to Olga Golodets, Deputy Prime Minister of the Government of the Russian Federation, remote healthcare platforms are already in place. She noted Chukotka as an example, where telemedicine is the only way of delivering quality healthcare to people. "If you live in a small village where there is only a paramedic, and a doctor appears only infrequently, you need some kind of connection to the outside world, a way of receiving medical consultation. We have all this today," Ms. Golodets noted. She also commented on the importance of awareness-building among the public as a prerequisite for the development of a system of personal prophylaxis. This is why the Ministry of Healthcare of the Russian Federation is developing a practical course aimed at teaching young children how to look after their health, including teaching them how to check blood pressure and know what normal blood pressure levels should be.

**Anastasia Manuilova**

## WORKING THE INFORMATION FIELD

“The audience is overfed with information yet it always expects something new,” says **Sergei Mikhailov**, General Director, ITAR-TASS.



**ONE OF THE SPIEF SESSIONS WAS DEDICATED TO THE GLOBAL TRANSFORMATION OF MODERN MASS MEDIA AMID THE ECONOMIC CRISIS AND THE RISE OF SOCIAL MEDIA.**



Competition from resources available on the web, including social media, is the most urgent problem facing traditional media today. "Information published online is increasingly influencing a whole range of decisions, including investment and political decisions. We are in a situation where the audience is overfed with information, yet always expects something new," said Sergei Mikhailov, General Director of ITAR-TASS.

However, in a world oversaturated with information, where the mass media quite literally reports too much, the issue of trust becomes one of paramount importance. According to Mr. Mikhailov, "social networks have turned into a platform where individuals tell millions what is going on because they've witnessed it." The lack of control over such sources results in a situation where readers often find it hard to distinguish fact from fiction, or even outright fabrication. For instance, reports that Michael Schumacher emerged from a coma or that Kate Middleton and Prince William had a still-born child made rounds on the web before they were refuted by reputable sources.

In this kind of environment, the role of traditional media has become increasingly important; according to many panellists, this role can be summed up as verifying what is happening – it is serious news outlets with reputations built over years of hard work that find out what really happened.



**The best content is still generated by traditional media, according to Hiroki Sugita, Executive Director, Kyodo News.**

MANAGING  
MEDIA WILL BECOME  
INCREASINGLY  
DIFFICULT IN THE FUTURE,  
REQUIRING MORE  
RESPONSIBILITY  
ON THE PART  
OF JOURNALISTS  
AND EDITORS

Hiroki Sugita, Executive Director of Kyodo News, believes that traditional media still generates the best content, because "they [people] don't trust bloggers, they only trust traditional media reporters." Yet to be successful, journalists must combine the experience and principles of traditional journalism with the mastering of digital technology. Juan Maria Calvo, International Relations Director of the EFE News Agency, al-

so spoke of the need to pay more attention to online media. "We try to present different content on the websites from what we are producing and transmitting on traditional platforms," said Mr. Calvo.

According to Mr. Calvo, credible information and trusted newsmakers constitute a competitive advantage that will help old media survive.

That's exactly the advantage that state-owned or public media often enjoy, and that's why its role is rising in Russia and elsewhere in the



**"The internet ... has made total censorship all but impossible," believes Ilgar Huseynov, Director General, Trend News Agency.**

world. According to Sergei Mikhailov, "the attention the state is paying to this issue today is helping quality journalism survive in the modern environment." A state-owned news agency can set standards for information accuracy and quality, because it doesn't have to be sensationalist to sell more.

However, Maxim Minchev, Director General of the Bulgarian News Agency BTA, noted that state-owned and public mass media is still strongly dependent on the state, especially in the "young democracies", where the system of financing such media has not yet been perfected – unlike in the

**Juan Maria Calvo, International Relations Director, EFE News Agency, believes that credible information and trusted newsmakers constitute a competitive advantage that will help old media survive.**





European Union, where approved financing doesn't come directly from the government itself.

In terms of financial stability, state-owned or public media is at an advantage too: the origin of their capital is transparent and their ultimate boss is well-known. Yet they are not always successful in standing up to political pressures. Mr. Minchev quoted an example where the Bulgarian state last year cut the subsidy to the Bulgarian National TV by 5 million leva (USD 3.5 million) citing the economic crisis. Yet BTA doesn't rule out that the cuts resulted from the government's dissatisfaction with the agency's reporting policy.

Many panellists raised the issue of objectivity of various media, both state and privately owned. For instance, Ilgar Huseynov, Director General of Trend News Agency, noted that ways in which opposition opinions are reported by the media vary widely in different countries: "In a democracy, where the media see themselves as guardians of the democratic system, this really works, as demonstrated by many countries. However, in countries with an emerging democracy... the media is often perceived as a government tool, as an arm of the government, as a PR outlet that is reluctant to report any bad news." According to Mr. Huseynov, "the internet... has largely changed the idea of how news is reported and distributed... It has made total censorship

IN A WORLD OVERSATURATED WITH INFORMATION, WHERE THE MASS MEDIA QUITE LITERALLY REPORTS TOO MUCH, THE ISSUE OF TRUST BECOMES ONE OF PARAMOUNT IMPORTANCE

all but impossible." Managing media will become increasingly difficult in the future, requiring more responsibility on the part of journalists and editors.

Giuseppe Cerbone, CEO and Director General of the ANSA News Agency, believes that the model under which his privately owned agency is financed is the most efficient. ANSA generates 75% of its revenue in the open market and another 25% under government contracts. This adds up to EUR 84–85 million a year. Notably, around 85% of traditional media in Japan operate at a loss. According to Mr. Cerbone, ANSA's secret is to produce quality and reliable content as fast as possible.

Most participants of the discussion on modern media agreed that using the advantages that traditional media enjoy over what online resources can offer can be the only answer to the challenges posed to media by modern life.

**Olga Kucherova**



**Maxim Minchev, Director General of the Bulgarian News Agency BTA, noted that state owned and public mass media are still strongly dependent on the state.**

# PHILANTHROPY, THE CORPORATE WAY

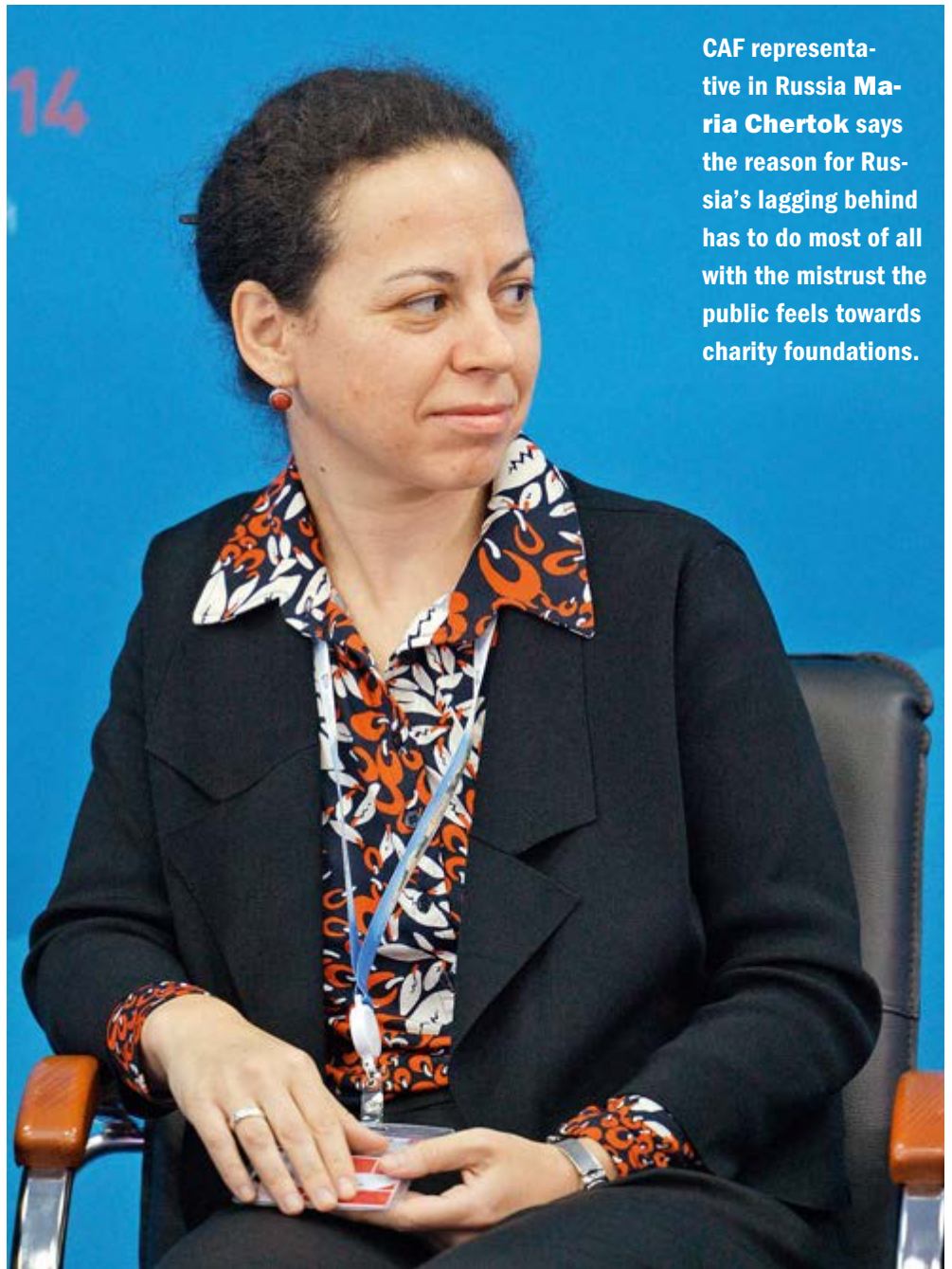


**ETHICS IS ONE OF THE KEY ASPECTS OF ECONOMIC RELATIONS. PHILANTHROPY IS A VISIBLE MANIFESTATION OF THIS ASPECT. THE OBJECTIVES OF PRIVATE CHARITIES IN RUSSIA, THE EVOLUTION OF THE CHARITABLE ACTIVITY AND THE APPROACHES OF PRIVATE-SECTOR COMPANIES TO THEIR OWN CHARITY PROGRAMMES WERE DISCUSSED AT THE SPIEF PANEL SESSION ENTITLED “THE BROADENING IMPACT OF EMERGING MARKET CORPORATE PHILANTHROPY”.**



Unfortunately, Russia is not a leader when it comes to private charity contributions. According to the World Giving Index compiled by the respected NGO Charities Aid Foundation (CAF), Russia ranks 123rd out of the 158 countries included in the index. However, according to Maria Chertok, CAF Director in Russia, the reason for Russia's lagging behind has mostly to do with the mistrust the public feels towards private charity foundations (no more than 7% of the population contribute to them, even as the level of Russian people's participation in the volunteer movement, or their readiness to give to charity in the street, is more or less in line with those in other countries). Ms. Chertok also noted that the share of corporations in the nation's overall philanthropic budget is high. Russian private-sector companies now provide a bigger share of financing to charity programmes than contributions made by individuals.

The reasons why corporate philanthropy prevails over private charity in Russia are many. One of them is lack of trust. According to Natalia Poppel, Head of Severstal's Corporate Social Responsibility Department, the negative experiences of the 1990s, when people often fell prey to fraudsters, plays a negative role. "The prevailing way of thinking is, 'I don't trust and I won't participate,'" explained Ms. Poppel, whose division performs the difficult task of changing the social environment in the town of Cherepovets.



**CAF representative in Russia Maria Chertok says the reason for Russia's lagging behind has to do most of all with the mistrust the public feels towards charity foundations.**

THE DEVELOPMENT OF  
CORPORATE  
AND PRIVATE CHARITY  
DOES NOT REPLACE,  
LET ALONE CONTRADICT,  
THE PROVISION  
OF SOCIAL SERVICES  
BY THE STATE

One of the opportunities a corporation can provide is guaranteeing the efficient implementation of charity programmes by channelling resources to where they are most needed. A trusted brand name means, among other things, an opportunity to raise money for charity and the responsibility for any programmes carried out under that brand to keep up the trust. That's what MTS President Andrei

**Mikhail Piotrovsky, General Director of the Hermitage Museum: “You can’t help everyone – all aid has to have some sort of meaning... For this, there needs to be a totally clear understanding of what we want to achieve and whom we want to help”.**



ble.” Telecom companies with millions of customers can play a role similar to that of private charity foundations in many Western countries by raising relatively small contributions from ordinary citizens while spreading the culture of philanthropy.

An important mission of corporate philanthropy involves strategic goal setting. Ivan Tavrin, Chief Executive Officer of MegaFon, stressed the importance of this approach: “The word ‘systemically’ here is key, because you can certainly help in a targeted manner, you can look for projects that can be successful locally. All that is very good. But we at MegaFon have decided to look for systemic stories that will last for years.” MegaFon is supporting children’s sports programmes that are expected to take decades to complete. According to Mr. Dubovskov, it’s the evolution towards a more profound understanding of its mission that sets the course for the development of corporate philanthropy in modern Russia; this is the main difference between the current situation and what was going on five or ten years ago, when “business was approaching this in a non-systemic, ad-hoc, subjective way.” The importance of the emergence of this approach is recognized not only by charity givers but also by large recipients of such aid. As Mikhail Piotrovsky, General Director of the Hermitage Museum, pointed out: “You can’t help everyone – all aid has to have

Dubovskov spoke about: “We guarantee to our subscribers that every contribution they make will reach its intended recipient. Our security services vet the applicants, while together with insurance companies we try to find the best way to provide – let’s say – medical treatment to a child. In other words, we guarantee that people make targeted contributions, in the best way possi-

**RUSSIAN PRIVATE-SECTOR COMPANIES NOW PROVIDE A BIGGER SHARE OF FINANCING FOR CHARITY PROGRAMMES THAN CONTRIBUTIONS MADE BY INDIVIDUALS**





**Andrei Dubovskov, President, MTS, guarantees to his company's subscribers that every contribution they make will reach its intended recipient.**

some sort of meaning... For this, there needs to be a totally clear understanding of what we want to achieve and whom we want to help. There's nothing to be ashamed of. We have lots of friends who help us in certain specific ways. Some want to develop modern art and don't want to hear about anything else. That's OK. Others want to restore something. Still others simply want to help the museum's employees." The increased sophistication and structuring of the philanthropy environment will eventually ensure its dependability and predictability. At the

PHOTO: ST. PETERSBURG INTERNATIONAL ECONOMIC FORUM, RIA NOVOSTI



**Ivan Tavrín, Chief Executive Officer, MegaFon: "MegaFon is supporting children's sports programmes that are expected to take decades to complete."**

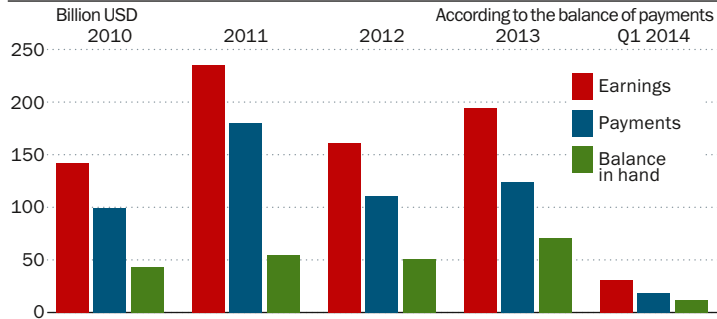
same time, the development of corporate and private charity does not replace, let alone contradict, the provision of social services by the state (although in cases where the state finds itself temporarily unable to perform its functions, business can take over some of them, which is something that happened a lot in the 1990s). Rather, they complement each other: "It also seems to me that business still has enormous potential to take a more strategic position on social development and play a role in R&D, i.e. do certain pilot things that the state will

never do," Maria Chertok said. "The state might find it to be too risky, because it doesn't fall within the nearest electoral cycle, or for some other reason, while business can do it because it's their money and they can afford to take chances." According to Mikhail Piotrovsky, "the economy and business are part of culture," and corporate philanthropy emerges as an important cohesive bond of this common culture, which ultimately determines the social and economic face of a nation.

**Stanislav Kuváldin**

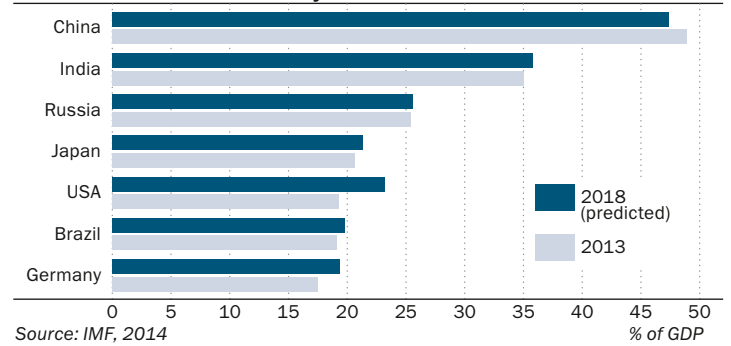
## The Russian Economy in Figures

### Direct Investments into Russia in 2010–2013



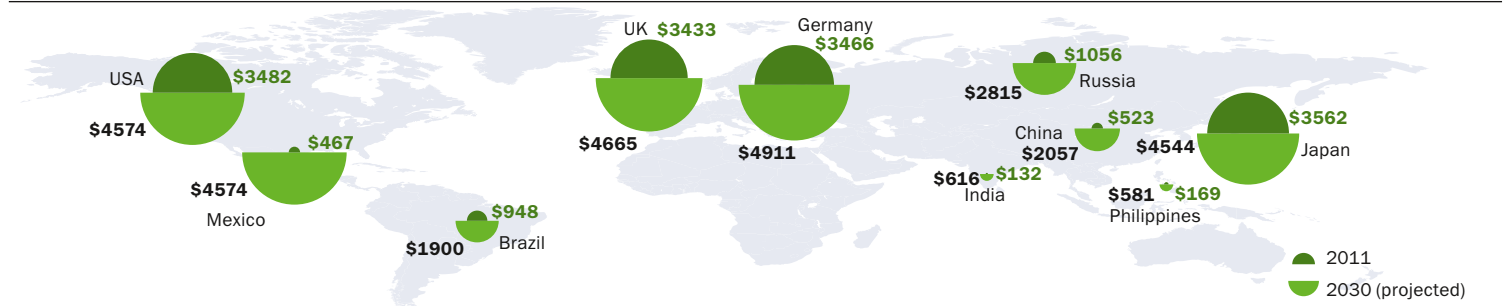
Source: Central Bank of the Russian Federation

### Total Investments in other Major Countries



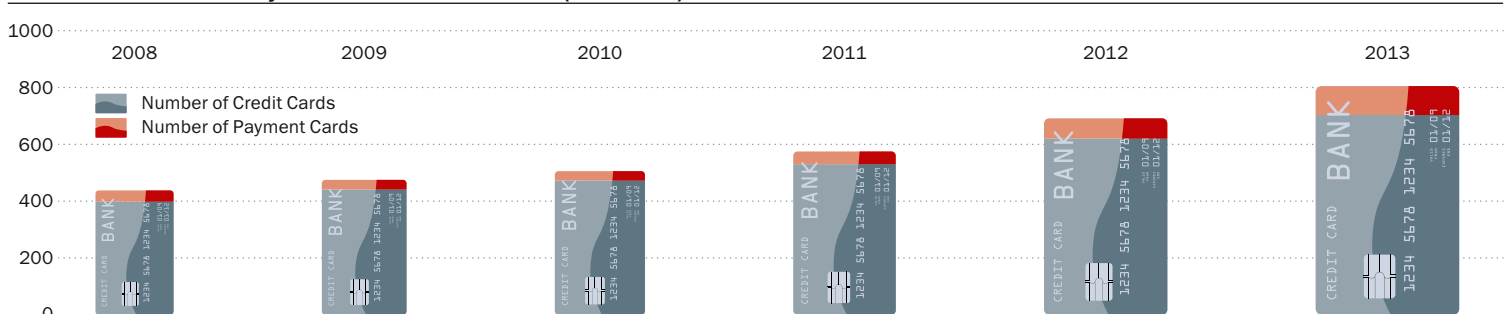
Source: IMF, 2014

### Real Wages around the World, 2030 (predicted in USD)



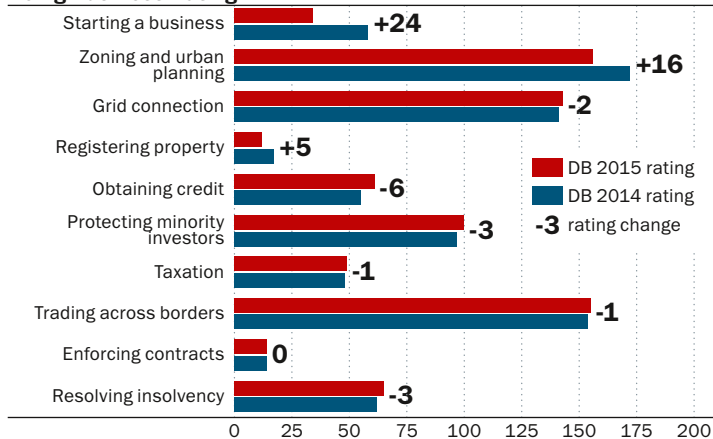
Source: Global wage projections to 2030, PwC, 2013.

### Number of Cards Issued by Russian Credit Institutions (thousands)



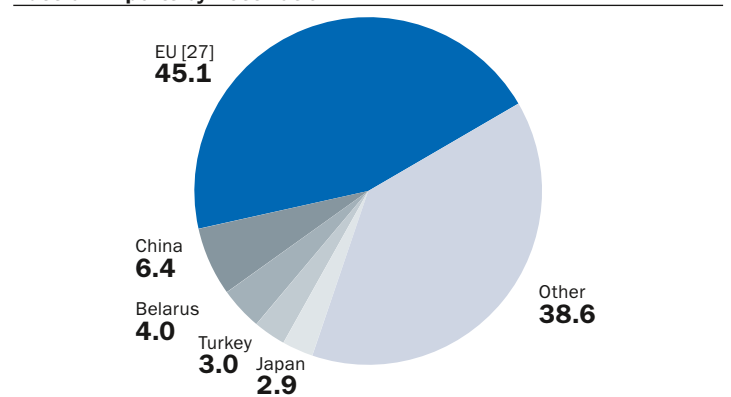
Source: Central Bank of the Russian Federation

### Doing Business Rating



Source: doingbusiness.org

### Russian Exports by Destination

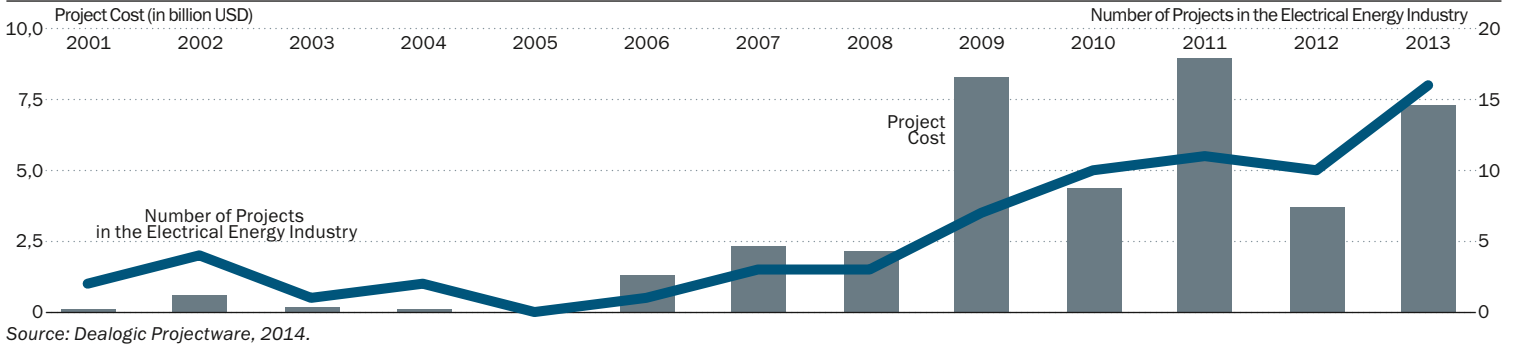


Source: WTO, 2013

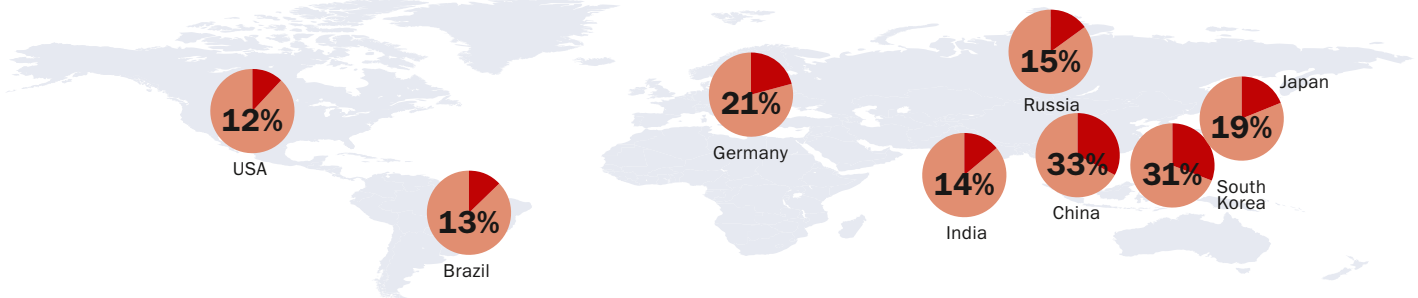
Note: Figures reflect the export trade of products in key areas. EU [27]: The European Union, excluding Croatia.



**Investing in PPP Projects in the Electrical Energy Industry**

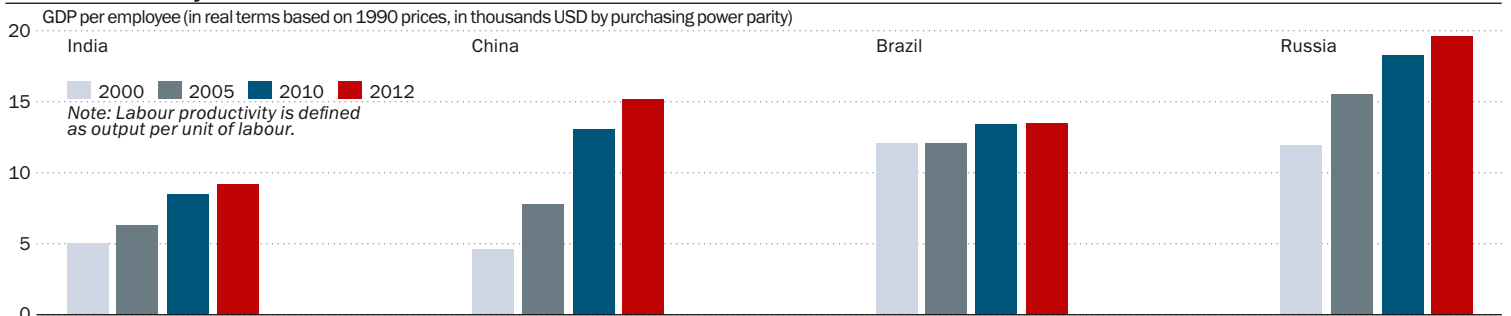


**Share of the Economy of the Manufacturing Industry (% of GDP)**



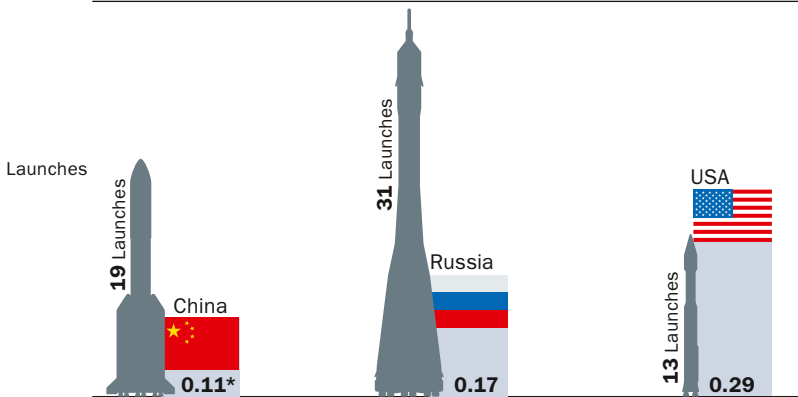
Source: World Bank, 2014.

**Labour Productivity in the BRIC Countries**



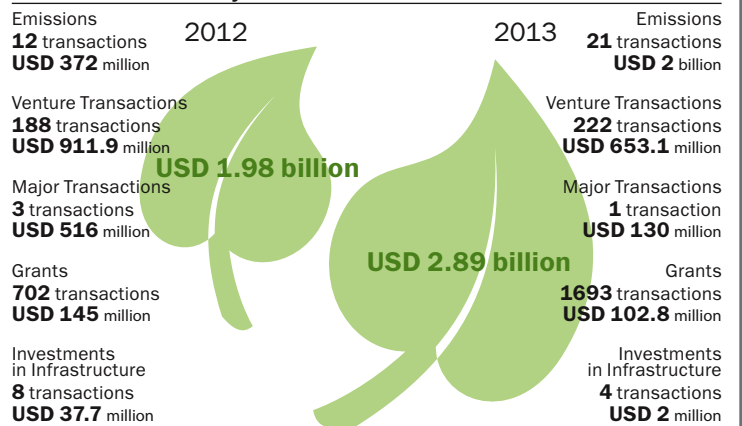
Source: ILO Key Indicators of the Labour Market 8th Edition (Conference Board estimates), 2013.

**Space Launches (2011) and Space Industry Budgets**



\* Space Industry Budget (as % of GDP)  
Source: The Space Report, Space Foundation, 2013 and The Space Economy at a Glance OECD, IMF

**Russian Venture Ecosystem**



Source: RBC, PwC, Venture Database, RusBase

# SPIEF 2014 IN FIGURES

**SPEAKERS**

**527**

**COUNTRIES**

**REPRESENTED**

**73**

**OFFICIAL  
FOREIGN  
DELEGATIONS**

**PARTICIPANTS**

**JOURNALISTS**

**1439**

**7590**

**82**

**EVENTS**

**AGREEMENTS  
SIGNED**

**175**

**401 400 000 000 ₪**

**THE TOTAL VALUE OF AGREEMENTS CONCLUDED AT SPIEF 2014**





St. Petersburg

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- **Banking on good fortune. How to find it – and not lose it?**
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- **Promoting financial inclusion: development challenges and possibilities**
- **The Bank of Russia Museum. Financial education**
- **Parallel roundtables with representatives of the Bank of Russia**

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