The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Investors Asked for Talent And Tech

By Olga Razumovskaya

October 18, 2010

Prime Minister Vladimir Putin promised foreign investors on Monday that the government was ready to privatize "interesting" stakes in state companies but asked that they contribute "smart investments" of technology and know-how to improve the Russian economy.

"Russia is changing, perhaps not as quickly as we all might have wanted, but there are changes nonetheless," Putin told the 22nd meeting of the Foreign Investment Advisory Council, a public-private group chaired by the prime minister.

In May 2008, one of Putin's last acts as president was signing off on heavy restrictions on foreign investment into 42 strategic sectors of the economy, as well as on Russian companies that the state considers strategic.

But the ensuing economic crisis — and the resulting budget shortfall as energy revenues dried up — have forced Putin's government to welcome back foreign investment. His top economic ministers have stressed that privatizations will be key to that program, both to raise funds and to decrease the state's dominant role in the economy.

"Russia needs direct, private foreign investment. Not just capital, but also so-called 'smart investments,' or input accompanied by the transfer of technology with the creation of new high-tech and well-paying jobs," Putin said.

"The Russian government is trying to create a really open and attractive investment environment with maximally liberal regulation, with appropriate taxes, and high-quality work by the state," he told senior managers from 20 foreign companies participating in the Moscow meeting.

Putin has made several public appearances lately, including at an investment forum sponsored by VTB Capital earlier this month, to court foreign investment and promise stability, transparency and less bureaucracy.

Last week, he told members of the business lobby group Delovaya Rossia that they needed to assume equal responsibility for improving the country's investment climate by following the law and paying taxes.

The prime minister was more conciliatory Monday, boasting of a recovering economy and stable ruble this year. His biggest selling point, however, appeared to be the privatizations, which Finance Minister Alexei Kudrin has said could be worth $10 billion a year for the next five years.

"The privatization program will be discussed at one of the government's next meetings. I won't disclose the details yet, but I will say that there'll be some very interesting stakes," Putin said.

He also goaded the executives to push their governments on backing visa-free travel for Russians to the European Union, citing Moscow's own decision to ease immigration rules for highly qualified specialists.

"Politics should not hamper economic development. ... I don't see anything unusual and discriminating about granting such a regime gradually to certain post-Soviet countries as they get ready for the introduction of such procedures," Putin said.

Many countries in the EU feel that members of their Eastern Partnership, a group of six states including Ukraine and Belarus, should be allowed visa-free travel ahead of Russia.

A number of deals were announced in connection with the meeting, including the opening of a new PepsiCo plant. The company signed a memorandum of understanding promising to invest $140 million into its 10th Russian plant, to be built in the Rostov region.

Lafarge, the world’s biggest cement maker, also promised to invest 2 billion euros ($2.8 billion) over the next few years, including construction of a plant in the Kaluga region, Interfax reported.

But not all companies were happy with how their business was going.

Procter & Gamble said it might have to halt production in Russia over problems with new customs procedures.

“We’re concerned that a forced transition into the new electronic customs system without fixing all the gaps may lead to very serious consequences, up to and including a halt in production,” CEO Bob McDonald said, Bloomberg reported.

Although foreign companies say Russia has made progress, there is definitely room for improvement.

“In general the investment climate is much better than most foreign investors think,” said Liam Halligan, chief economist at Prosperity Capital Management. “But it's not all black and white.”

He cited the strategic investment law, which fails to clearly define what constitutes a foreign company.

Last week's rejection of an appeal by TGK-2 minority shareholders — led by Prosperity — demonstrated a major contradiction in the interpretation of the law by the Supreme Commercial Court and the Federal Anti-Monopoly Service, he said. Putin recognized the shareholder fight during the VTB forum, but nothing has been done since to resolve the situation.

These sorts of disputes will make privatization less attractive for investors, even if it makes sense fiscally, Halligan added.

Headhunters also say Russia may want to work on its image and transparency before putting major companies up for sale, although easing the visa regime was definitely a positive step.

“Highly qualified specialists are ready to come to Russia. And not only for the big bucks," said Irina Kondratova, executive director at Kelly Services CIS, an HR consulting firm. "Where else, on what world market, can you show a business growth dynamic of 30 to 70 percent? Besides, taxes are some of the lowest in the world,” she said.

“The state should focus on working to improve the country's image, increase the country's safety ranking, develop services," she said. "Then professionals will surely flock to us."

A story titled “Investors Asked for Talent And Tech” by Olga Razumovskaya on the front page of Tuesday's issue should have said Bob McDonald, chief executive of Procter & Gamble, said companies may have to halt production in Russia because of problems with new customs procedures, not with the new customs union. McDonald also said cooperation between business and government has allowed P&G to overcome initial obstacles. He did not accuse the Russian government of red tape.

The Moscow Times had relied on reporting by Bloomberg for this information.

Original url: https://www.themoscowtimes.com/2010/10/18/investors-asked-for-talent-and-tech-a2298