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SPIEF 2012: Putin Gives Investors an Ombudsman

By Howard Amos

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President Vladimir Putin making his first pitch to foreign investors at the St. Petersburg International Economic Forum since his return to the job. **Alexei Nikolsky**

ST. PETERSBURG — Apart from when he arrived and left, President Vladimir Putin got just one round of applause Tuesday during his keynote speech to investors at the St. Petersburg International Economic Forum.

The spontaneous clapping broke out when Putin announced that a former associate of Mikhail Prokhorov, business lobbyist and sparkling wine producer Boris Titov, would be appointed ombudsman for entrepreneurs.

The new position, which received a cautious welcome from forum participants, will represent both foreign and domestic companies and enjoy a special relationship with the Prosecutor General's Office, Putin said.

In a 52-minute speech that identified corruption as the biggest threat to Russia and conceded that the country's oil price dependence was its Achilles' heel, Putin also lambasted European democracies for an inability to make effective political decisions and said Russia was leading the world in responsible economic stewardship.

And he fired a warning shot across the bows of Russia's increasingly active opposition, asserting that just because people consider themselves politicians doesn't mean they are above the law. In recent weeks, investigators have searched the homes of prominent opposition leaders and their families, and called them in for questioning.

Putin promised to lead a reform-minded Kremlin and ticked off a list of areas where he said improvements would take place, including the law enforcement system, the judicial system, education, healthcare and housing.

Amid repetitions of previously made promises to improve Russia's business climate, concrete commitments included an undertaking to create a special entrepreneurial commission and revise anti-monopoly legislation.

Putin said the ombudsman would be able to represent foreign and Russian investors in court and go to court to block officials whose actions were harming their interests. He said the necessary decree to create the post would be signed soon and Titov would start working within weeks.

Titov was a high-profile member of the Right Cause party briefly headed by Prokhorov, who quit in disgust, complaining of Kremlin interference. Titov, a member of Putin's All-Russia People's Front, also heads the business lobbying group Delovaya Rossiya and runs several companies, including the sparkling wine maker Abrau-Durso.

Putin re-affirmed the government's long-awaited privatization program and said foreign investors would also have the opportunity to take part.

"State capitalism is not our goal," Putin said. "But at the same time privatization should not lead to the emergence of private monopolies in place of state monopolies."

He said successful participants in privatization should invest in their new assets, not sell them on to third parties. Putin's Kremlin drew criticism in 2004 when state-owned Rosneft became the country's second-largest oil company by engineering a deal similar to the one condemned by Putin on Thursday. Rosneft acquired prime Yukos assets by purchasing a murky company that had bought them three days earlier at an auction.

Putin appeared tired during his address to the annual forum, for which he was 40 minutes late, and barely cracked a smile.

Audience members told The Moscow Times that they welcomed the sentiments expressed, but that everything depended on implementation.

The speech showed a "clear path to reform," said KPMG global chairman Michael Andrew, adding that investors would be watching with interest to see if it was carried out.

"Very good points," said Christian Angermayer, partner and co-CEO of Angermayer, Brumm

& Lange, a Frankfurt-based financial services group, and a first-time forum participant. "Now it's all about execution."

Putin, recently returned from meetings with world leaders at the G20 gathering in Mexico, lauded Russia's national strengths. He boasted that Russia was doing better than many major economies. The official unemployment rate has dropped to 5.4 percent, to a level lower than before the 2008 crisis, he said, adding that in Europe it is 11 percent — "the highest in 16 years."

He also emphasized the level of debt shouldered by developed economies. "The state debt of Russia — the minimum among the G8 and G20 and the BRICS — is 9.2 percent as of May 1," he said.

"He was signalling further reforms," former European Union Trade Commissioner Peter Mandelson said. "With the right commitment, this will further change Russia for the better."

Russia is aiming to become part of the Organization for Security and Cooperation in Europe by 2014, said Putin, and added that the country looked forward to its imminent accession to the World Trade Organization. But he lambasted European states that have struggled to cope with the continent's fiscal problems.

"Unrestrained financial speculation and the populism of politicians are equally dangerous," Putin told an audience that included many diplomats and ambassadors.

Dropping in on a discussion between former U.S. Secretary of State Henry Kissinger and former Prime Minister Yevgeny Primakov later in the day, Putin said that a meeting with U.S. President Barack Obama during the G20 summit was "thorough and positive," Interfax reported.

Russia will lead the G20 next year, and Putin invited its members to gather in St. Petersburg in 2013. He said one of his priorities during Russia's leadership year would be instituting "real reform" at the International Monetary Fund.

But most participants at the forum, a showcase for Russia in the international business world, concentrated on promises of improvements to the domestic business environment.

"I think Putin is very focused on the necessary reforms," said Philipp Missfelder, a German lawmaker who so attentively follows German-Russian issues that he passes out business cards with English on one side and Russian on the other. "He knows exactly that it's important for him to implement these reforms, because otherwise he will not convince investors to be active in Russia."

While Putin did not mention the major street protests staged by the opposition after disputed December parliamentary elections, he acknowledged that the authorities should protect the interests of minorities.

"The state is obliged to take steps to meet society halfway and be open for dialogue," he said.

He noted that a law on easing party registration was signed in April and reiterated an earlier promise that public initiatives that garner 100,000 authorized signatures will be reviewed

by the State Duma. The government plans to create a special website to facilitate this, though it's not clear when.

Putin warned, however, that Russia's political stability would not be affected by dissent and stressed that no one was above the law. "A thirst for change is an undisputable driver of progress, but it becomes counterproductive and even dangerous if it leads to the destruction of civil society or the state itself," he said.

The Kremlin has "listened to the streets," said Jochen Wermuth, chief investment officer and partner at Wermuth Asset Management.

He said Putin is clearly taking personal responsibility for "leading the country through difficult external and internal situations."

There were particularly warm words for the choice of Titov for entrepreneur ombudsman.

"As a foreign investor, you feel quite helpless here at times," said Andrew, of KPMG. "To have a central point where you clearly have judicial authority to intervene is a very strong message to investors that things have changed."

He added that Titov, who is a KPMG client, "knows small and medium-sized business very, very well."

The ombudsman will be "a very powerful mechanism," said Todd Berman, head of investment banking at Troika Dialog.

This was not the first time that Putin has mentioned ombudsmen for investors.

The idea was first announced by him during a pre-election speech, also to an audience of investors, during the annual Troika Dialog Forum in February.

First Deputy Prime Minister Igor Shuvalov has long been considered the point man for foreign investors.

Some business leaders questioned just how effective the ombudsman could be in actually effecting change. An ombudsman is not designed to address systemic or structural problems, said Frank Schauff, head of the Association of European Businesses. This purpose is fulfilled by national business organizations and bodies such as the Foreign Investment Advisory Council.

In contrast, ombudsmen are a specific mechanism used to resolve specific problems. They fulfil more of a "fire brigade" role, he said.

Staff writers Irina Filatova, Andrew McChesney and Alexandra Odynova contributed to this report.

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