The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Big Foreign Business Turns Blind Eye to Ukraine Sanctions

By Peter Hobson

April 27, 2014



The view of Alabuga, Tatarstan

ALABUGA, Tatarstan — As Western politicians huffed and puffed about slapping additional sanctions on Russia, captains of big global business in the country showed no jitters as they met with top Russian officials Friday.

Moreover, the only person to mention Russia's clash with the West over Ukraine at a meeting of the Foreign Investment Advisory Council in Tatarstan was the host — Deputy Prime Minister Igor Shuvalov — to the surprise of the businesspeople present, who didn't want to hear about it.

Shuvalov broached the sanctions issue only in his closing statement. "You are hearing a lot about Russia and about the possibility of sanctions," he said, but "you have to understand that for us you are our most desirable investors. We will do nothing to make your lives here less comfortable."

Miroslaw Gryszka, regional head in Russia and the ex-Soviet countries at Swiss electrical engineering company ABB was “astonished to hear [Shuvalov's] closing remarks. Sitting in the chairman's position, I would not have done that.”

The Foreign Investment Advisory Council, or FIAC, aims to improve Russia's business climate by allowing major foreign investors to air their concerns to the government at regular meetings. For three hours, the 40 or so business leaders present — representing large international companies already active in Russia — critiqued legislation, customs regulations and tax law, and heard government ministries address their worries. They were indifferent to talk of sanctions.

If anyone is spooked by the crisis, it is businesses that have not yet opened shop in Russia, several of them told an MT reporter on the sidelines of the conference. The many multinationals already active in the country are resolutely ignoring the conflict.

For them, a sharp economic slowdown and a weak ruble are more pressing concerns, but even there the attitude is philosophical — they have lived through recessions before, the businessmen said.

For Gryszka of ABB the threat of sanctions is remote. The U.S. may be willing to give up $40 billion of bilateral trade with Russia, he said, but the European Union has trade worth $370 billion with Russia and is unlikely to want to jeopardize it.

So far, the sanctions imposed on Russia are not game-changers for foreign companies. Targeting individual Russians, they do not impinge on mainstream business.

Indeed, the U.S. government promised from the start that sanctions would bypass business, according to one FIAC member. Even as the Group of Seven leading industrial nations pledged new sanctions on Saturday, they were quick to clarify that they would be aimed at individual cronies of President Vladimir Putin, though the U.S. also hinted at sanctioning specific companies in the banking and energy sectors.

“The plan marches on,” said Ted Cannis, CEO of Ford Sollers, the U.S. carmaker's local venture. “The people here [in FIAC] are already committed. The guys who are going to be more nervous are the guys thinking 'should I invest in Russia?' Then you are going to get everything second hand. You have no knowledge. You do not understand how it works on the ground. You do not know whether the sanctions affect you or not.”

That view was echoed by another FIAC member — many companies with plans to invest in Russia have frozen them, he said, but those companies already rolling out their plans are soldiering on regardless of any perceived hazards.

Unlike most of the meeting's attendees, Cannis had been in Alabuga, the town in Tatarstan where the conference was held, for a day or two already, inspecting one of his company's factories.

Alabuga is home to one of the largest industrial special economic zones in the world. At the entrance stands a huge, refurbished Ford Sollers plant. Behind it are 20 square kilometers dotted with new and half-built factories — U.S., European, Turkish and Russian companies

are all represented — a reminder of the scale of international companies' integration into Russia.

As well as being the first to mention sanctions, Shuvalov was also the only participant at the conference to mention the economic downturn.

Russia's economy grew by 1.3 percent last year. Forecasts for 2014 oscillate around 0 percent. Downgrading Russia's credit rating on Friday to BBB-, one notch above junk status, Standard and Poor's said $51 billion of capital had fled the country in the first quarter, almost as much as the $57 billion average annual outflow over the last five years. Investment in the economy has fallen and the ruble has weakened sharply since last summer, raising the cost of imports and fueling inflation.

Shuvalov bluntly acknowledged the fact of "extremely low" growth, and said the government was working to make the slowdown a brief one.

But while this is damaging in the economy at large, large international companies are insulated.

ABB's Gryszka gave the subject short shrift — "Being multinational, you are never affected by recession like local companies are. It is like a wave. When it happens in one place, in another place it happens six months later. If you are dependent on one market then you are sunk. If you have a diversified portfolio then you are less dependent."

But the downturn, like the hullaballoo over sanctions, is likely to give new investors pause. "If you are scoping out the market, GDP is down and revenues are weak," Cannis said.

This will not help Russia to speedily emerge from the slump, but Russia offers huge growth prospects, and is still in need of technology and expertise that will be sourced from the West, one FIAC member said.

ABB's Gryszka was especially confident. If Russia invades eastern Ukraine, he said, "We will not have World War III. Even if business stops for one, or two, or three years, for big multinationals it does not matter."

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