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St. Petersburg Economic Forum Kicks Off in Troubled Times

By Alexey Eremenko

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Guests of the 2012 St. Petersburg Economic Forum arriving for the event.

The 18th annual St. Petersburg International Economic Forum launches Thursday with enthusiasm about Russia's economy running low — the country is ambling into a recession, and Russia's squabble with the West has prompted a mass pullout of foreign forum participants.

This year's edition of the forum, titled "Sustaining Confidence in a World Undergoing Transformation," runs from May 22 to 24 at the Lenexpo Exhibition Complex.

President Vladimir Putin will, as usual, deliver a keynote speech, set for Friday.

Also attending are a handful of ministers — mostly from ministries responsible for the economy, but also the education and emergency situations ministers.

Other high-profile participants include BP chief executive Robert Dudley, Statoil president

Helge Lund, Hyundai Heavy Industries head Kim Jung-rae, Russian tycoons Oleg Deripaska, Vladimir Lisin and Alisher Usmanov and Russian Railroads president Vladimir Yakunin.

The forum will see 6,500 participants from 62 countries, St. Petersburg Governor Gennady Poltavchenko said.

White House Frowns

But the lineup was severely depleted after a handful of top U.S. businessmen pulled out of the forum.

U.S. executives found themselves subject to fierce lobbying in the run up to the forum by the U.S. government, which is keen to punish Russia for its actions in strife-torn Ukraine. Russia and the West are in the middle of the biggest stand-off in decades over Moscow's annexation of Crimea from Ukraine in March and its endorsement of pro-Russian separatists in Ukraine's unstable east.

Earlier this month, White House spokeswoman Laura Lucas Magnuson staked out the U.S. administration's position: "We believe that the most senior business executives traveling to Russia to make high-profile appearances with Russian government officials at events such as this would send an inappropriate message." Senior U.S. officials began to call executives to hammer the message home.

Among those to pull out of the forum are the chiefs of banks Goldman Sachs, Morgan Stanley, Citigroup and the European Bank for Reconstruction and Development, energy giant ConocoPhillips, aluminum producer Alcoa and PepsiCo, though some cited scheduling conflicts as the reason.

"Many U.S. companies faced unprecedented pressure ... We recognize that," Kremlin spokesman Dmitry Peskov said earlier this month, RIA Novosti reported.

The U.S., European Union, and other developed economies have slapped sanctions on a number of Russian companies and top officials over Ukraine, and threatened broader sanctions against whole sectors of the economy, including the oil and gas industry.

Moscow has retaliated, including by targeting international payment systems, which invited Russian presidential ire by unilaterally stopping services to several blacklisted Russian banks to comply with U.S. regulations.

Visa and MasterCard said they may leave Russia altogether if the government follows through with its plan to make them start on July 1 putting down a security deposit worth, according to Morgan Stanley, $2.9 billion, that the government hopes will keep the payment systems reliable.

But in a nod to the real price of forfeiting Russia-Western integration, Finance Minister Anton Siluanov seemed to suggest room for compromise on Tuesday, telling Interfax: "We cannot lose these payment systems because they are used by 90 percent of our payment system users."

Ironically, the forum, which usually takes place in June, was pushed to May to make room

for this year's Group of Eight meeting in Sochi, a summit that was cancelled when Russia was kicked out of the group after its annexation of Crimea.

The high-profile falling out with the West has seen Russia's investment image take a dive — only 8 percent of top executives worldwide have a positive view of Russia's business climate, while 70 percent are pessimistic, according to the latest quarterly Global Business Barometer survey cited by Vedomosti last week. Most named political risks as the main concern.

Slumping Economy

But investors had cause for concern even before the Ukrainian spat. The Russian economy is edging closer to recession. Growth plunged from 4.3 percent in 2011 to 1.3 percent last year.

Even the Economic Development Ministry predicted only 0.5 percent growth this year. The International Monetary Fund spoke of 0.2 percent and has not ruled out slashing its forecast further.

Meanwhile, the global economy is on the upturn. Even Putin admitted in his state of the nation address in December that Russia's economic crisis has domestic causes.

Most analysts have blamed the downturn on a poor investment climate. Capital outflow from Russia stood at $63.7 billion in the first three months of 2014, compared to $62.7 billion over the entire of 2013, according to the Central Bank.

The situation has been blamed on corruption, red tape and aggressive taxation. The government has been hiking taxes on small businesses and the petroleum industry to pay for the lavish social obligations assumed by Putin during his presidential campaign in 2012.

Russia rose 19 spots in the latest "Doing Business" table by the World Bank this year, but still only ranked 92nd of 189 countries.

Policy Advice, Not Brand Promotion

The St. Petersburg Forum is meant to be a platform to address investor complaints. The real centerpiece of this year's forum will be restoring the competitiveness of the economy, said Yulia Tseplyayeva, head of macroeconomic research at Sberbank, which is holding a session on the matter in St. Petersburg.

"Previous forums were promoting the Russia brand," she told the Moscow Times by telephone. "But now we have got to go beyond the 'hello, we are here!' message."

The forum is likely to produce strategic policy recommendations for the government, Tseplyayeva said, though she declined to offer her own proposals on the matter.

But no amount of goodwill from participants, including Putin, is likely to salvage the forum, on track to be "more unenthusiastic than ever," said Vyacheslav Smolyaninov, chief strategist at UralSib Capital.

Lost in China's Shadow

The already troubled event will be further diminished by this week's other events, including presidential elections in Ukraine on Sunday and Putin's trip to China on Tuesday and Wednesday, Smolyaninov said.

During the trip, Russia's state gas firm Gazprom on Wednesday inked a "historical" deal to supply natural gas to China that has been stuck in negotiating limbo for a decade as Moscow and Beijing argued over prices. The final price was not made public, but Gazprom chief Alexei Miller said the deal to supply 38 billion cubic meters of gas a year for 30 years has a total price tag of $400 billion. That puts the price at $350 per 1,000 cubic meters, toward the bottom of the price range that Russia gets from European buyers.

The gas deal is to be the keystone of Russia's new "go east" policy, which is not aimed at appeasing Western investors.

Russian officials will be making soothing noises at the forum, but what business needs is real action from the government, Smolyaninov said: "What portfolio investors want is measures to improve investment climate and spur consumer demand."

"Otherwise," he quipped, "it is an increasingly insurmountable task for hapless asset managers to look for Russia's selling points."

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