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Russia's St. Petersburg Forum Opens to New Economic Reality

By Peter Hobson

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President Vladimir Putin delivers a speech during a session of the St. Petersburg International Economic Forum 2014 on Friday.

Last year, Russia's flagship economic forum in St. Petersburg, traditionally held in June, was moved forward to May to make room for a meeting of the G8 group of industrial nations in the Russian resort town of Sochi.

The meeting in the host city of the 2014 Winter Olympics was meant to showcase Russia's ascension on the world stage after the successful Games.

But it never happened.

Russia was instead booted from the club, as Western leaders reacted to Moscow's seizure of Crimea from Ukraine in March last year with a set of economic and political broadsides.

The St. Petersburg International Economic Forum, Russia's version of the Davos economic

forum in Switzerland, was caught up in the turmoil.

U.S. President Barack Obama's White House twisted the arms of U.S. business leaders to warn them off attending the forum. With officials in Washington manning the phones and similar actions in some European capitals, major business figures including the heads of financial institutions Goldman Sachs and Citigroup, energy giant ConocoPhillips and beverage manufacturer PepsiCo fell off the forum's guest list.

The 19th annual St. Petersburg forum opens this Thursday not only with Russia still in control of Crimea, but with ongoing violence between separatist fighters and the Ukrainian army in eastern Ukraine — which many blame on Russian backing despite Moscow's denials — and waves of sanctions and counter-sanctions hindering business between Russia and the West.

The U.S. government has again been twisting arms ahead of this year's event, but "less intensely," said Alexis Rodzianko, president and CEO of the American Chamber of Commerce in Russia.

“Last year was closer to the beginning of this crisis, so the campaign from the U.S. administration to keep senior executives out was kind of a surprise. This year it's not a surprise,” he said.

But as in 2014, many international executives will still attend the forum, drawn by the country's long-term economic potential, its massive energy reserves and their companies' existing investments in Russia.

The forum's program shows that among the big-name Western executives attending the conference are the heads of energy multinationals BP, Total and Shell, oil services company Schlumberger, commodity traders Trafigura and Glencore, consultants McKinsey and Boston Consulting Group and miner Kinross Gold Corporation.

“Business has a strategic view of this market,” said Daniel Russell, president and CEO of the U.S.-Russia Business Council, a Washington-based trade association. Long-term investments and partnerships made in Russia over decades cannot be reversed at the flip of a switch, he said.

Russian President Vladimir Putin will give the event's keynote speech on Friday.

Last year the forum, which serves up hundreds of Russian business and government big shots and lavish oligarch parties, gathered more than 7,500 participants with the total value of agreements signed topping 400 billion rubles ($7.5 billion), according to the forum's website.

“My assumption is that participation will not be very different from last year,” said Frank Schauff, head of the Association of European Businesses (AEB), a Moscow-based lobby group.

Economic Doldrums

But if the political situation is still stuck in last year's rut, the economic situation in Russia has changed completely.

Western sanctions over the Ukraine crisis and a more than 40 percent fall in the price of oil,

Russia's main export commodity, since last summer have compounded an economic slowdown that began in 2013.

The Russian economy is forecast to contract by around 3 percent this year. Analysts expect the recovery to be anemic, with no easy return to the near 10 percent annual growth rates of the mid-2000s achieved on the back of an oil price boom.

Analysts say Russia's economy needs root-and-branch structural economic reform to ween it off dependence on oil revenues — but Putin shows no sign of delivering that.

The forum looks unlikely to change matters. Citing unidentified sources close to the matter, news agency Bloomberg reported Wednesday that Putin's keynote speech would not raise the subject of much-needed systemic reforms.

In a sign that the crisis is still deepening, Russia's industrial output fell by 5.5 percent year-on-year in May, accelerating from a 4.5 percent drop in April, according to federal statistics agency Rosstat.

Investment fell by 4.8 percent in April compared to the same month in 2014, Rosstat data show. Real incomes declined by 4 percent year-on-year, and consumer spending, a key driver of economic growth, slumped 9.8 percent.

Almost $33 billion fled the country in the first quarter, according to the Central Bank. This followed capital outflows of $151.5 billion in 2014, the highest level on record and nearly triple the previous year's capital flight.

While sanctions have thrown up barriers for Western businesses, Russia has sought to boost trade and investment from Asia.

Last year's forum saw Asian and Middle Eastern participation rise as government pressure eroded Western attendance. This year, a number of session titles point to Russia's increased focus on ties with the East.

Alongside panels on North America and Europe, the forum will have events dedicated to India, the Middle East, Latin America and Turkey, as well as one titled “The Making of the Asia-Pacific Century: Rebalancing East.”

Russia is due to host a summit of the BRICS emerging nations in July in the Urals city of Ufa.

But any wholesale reorientation of Russia's trade relationship from West to East is still nascent. Few Western businesses with a presence in Russia have left, and many continue to expand. While they bristle at having to work around sanctions, they have adjusted to the new political and economic conditions.

"People are not happy about the framework but they are working with it," said the AEB's Schauff.

“The mood is much more down-to-earth. It's pragmatic. It's cautious with regard to making major announcement about major investments,” Schauff said.

“It's the new normal,” said the American Chamber of Commerce's Rodzianko.

The schedule of the forum, which is meant as an entry point for investment and a sounding board for investor complaints, is also full of the classic Russian problems: government and economic reform, boosting efficiency at state companies, helping small businesses and growing investment.

“Life goes on. I guess that's the motto for this year,” Rodzianko said.

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