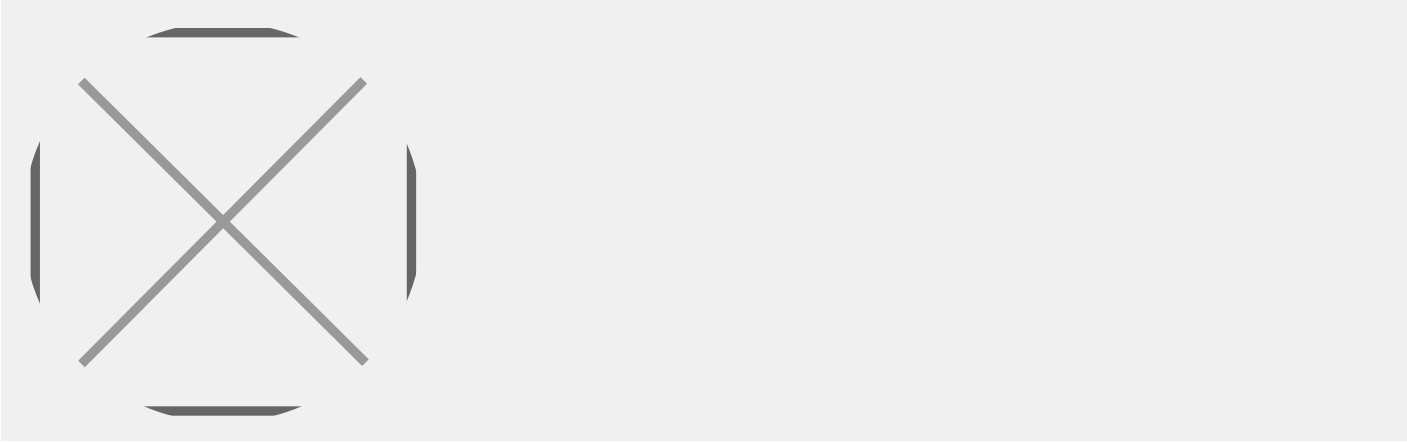
Interview with Chris Gilbert, Russia Director Russo-British Chamber of Commerce, Russo-British Chamber of Commerce (RBCC)



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There is a long history of trade between Russia and Britain. The Chamber of Commerce started in 1916. Can you outline how the organisation has evolved and its current role today?

As you point out, the Chamber was founded in 1916 – an interesting decision considering that we were in the middle of the First World War. The decision was taken at the highest level and approved by the ruling families in each country. They decided that it would be a good idea, considering the historical events of the time, to set up an independent trade body between the Russian Empire and Great Britain. Obviously in 1917 Russia then ceased to exist and was replaced by the Soviet Union. This had a severe effect on trade between the two countries and for several years, starting with the Russian civil war, this trade was suspended. During the Russian civil war, Britain was one of the interventionalist nations attempting to help the white Russians against the Bolsheviks who eventually won.

The Russo-British Chamber of Commerce then became the British-Soviet Chamber of Commerce (BSCC). It therefore continued to exist as an organisation, although its outlook had obviously changed. It was no longer simply a chamber of commerce but one of the few conduits of trade between the two countries. It is little known, but the Soviet Union continued to trade with other countries throughout its existence. However it did so in a different manner, working alongside the Bank of Foreign Trade (now better known as VTB) as a means through which organisations and

bodies could still work together.

In 1991 the Chamber returned to its original function, although throughout the 1960s, 1970s and 1980s there continued to be trade delegations moving between the two countries. Similarly there had been political events allowing the political elites to converse with one another.

Post-1991 we became more business oriented, and today the RBCC is headquartered in London and has two Russian offices. The Moscow office was in operation from the early 1980s, with a brief cessation of activities between 1995 and 1998, and in 2004 the Chamber established its St Petersburg office. Membership of the RBCC now consists of 550 companies in all sectors. Currently, the split between Russian and international companies is around 50:50.

How would you characterise British investment in Russia and what are the key issues in Russo-British trade which define the agenda today?

Interestingly, Russo-British trade has always been fairly healthy with political issues remaining separate. From 2006 to 2008, political relations between the two countries were fairly strained due of a series of diplomatic problems, although trade continued to flow well throughout this period.

The lion's share of trade between the two countries is in the oil and gas sector. TNK-BP, which is a 50:50 joint-venture between a Russian oil company and British Petroleum, is a key stakeholder in this sector in Russia. Shell also has a major investment in the Sakhalin-2 project. In fact, if we remove oil and gas from the equation, then the UK drops a long way down the list of foreign investors in Russia.

There are around 600 British companies with a presence in Russia. Aside from oil and gas, British companies lead the way in financial professional and legal services. On the retail side there are relatively few British companies investing. However, there are British retailers who are present on a franchise basis from Marks and Spenser's to Next.

Other industries include the automotive side with Jaguar and Land Rover present as major brands in Russia. Rolls Royce is also present – that is, the gas-turbine manufacturer, not the car-maker. Also, Pilkington Glass has a factory a Ramenskoye in the Moscow region, which I believe is their biggest investment in manufacturing outside of the UK.

As for the agenda, coming out of the financial crisis, both countries have taken the view that they have relied too heavily on certain sectors of their economy. For the UK this was financial services and for Russia this was oil and gas. The British realised that financial services should not remain the engine driving the entire economy. Russia realised that if it relied too heavily on commodity prices then, in the case of a global crash, they would lose most of their foreign revenues. In fact, this was one of the contributory factors to the end of the Soviet Union – a recent historical memory for Russian politicians.

Going forward, both sides have reached the conclusion that they need to concentrate more on their traditional strengths. For the UK this is in technology and design. Similarly, science and innovation was one of the strengths of the Soviet Union. Indeed this year marks the 50th anniversary of the Yuri Gagarin space flight. The Russians were impressive innovators in this field being the first in practically every element of the space race aside from actually putting a man on the moon. Given the similarity of these innovative sectors, there should be a lot of scope for the UK and Russia to collaborate for mutual benefit.

What do you see as the chamber of commerce's role in promoting companies within these new areas of focus?

The chamber needs to play to its own strengths. The chamber has always functioned as a central meeting place for dialogue between the two sides. Although it might sound a little tongue in cheek, I sometimes refer to the chamber as a type of corporate dating service with Russian and British companies approaching from one country and interested in the other's market but not sure who they can trust and with whom to establish a long-term relationship. The chamber therefore functions as a bridge and companies can successfully find their matching counterpart through us.

The chamber tends to work more in the background and provides a virtual market where companies can conduct their preliminary research through the material that we provide. When companies have identified opportunities, the chamber can provide them with a series of options for the people they should talk to. The chamber understands the various requirements of these businesses well. For examples, for Russian businessmen it is important for them to establish a personal and trusting relationship in order to conduct business.

Considering the diversification away from relying on oil and gas, what opportunities and challenges are there in the Russian market for pharmaceutical companies?

Pharma companies are always worried about their intellectual property rights and whether or not they will remain safe if they cooperate with Russian company. However, this is by no means isolated to operating in Russia. Most pharma companies are huge and have robust ways of defending their intellectual property but it might be a factor in their decision-making.

If a Western pharma company wants to establish manufacturing facilities the question is why they would do this in Russia? For example, why not India or China where labour is cheaper? My belief is that in the pharma sector, you do not just need cheap labour but skilled labour. I have many friends from my student days in Russia who are now qualified doctors. However, for a long time the national health system was so impoverished in Russia that they could not afford to work as doctors. Instead they worked as sales agents for western pharmaceutical companies. There is therefore a lot of excess expertise in Russia to draw on and this is a key advantage for Russia. Another consideration would be the proximity of manufacturing in Russia as opposed to doing the same in

China which makes the process easier to control.

On the negative side, there is Russia's near-legendary bureaucratic burden. The issue of bureaucracy is being slowly addressed and it is certainly a lot better now than it was before. However, by way of illustration that bureaucracy is still a problem, if I need to travel to the RBCC's other office in Russia, I have to sign a decree to send myself to St Petersburg to my own office. I must then take a form with me that must be countersigned by my accountants in both offices stating that I have left Moscow and that I have arrived in Saint Petersburg.

The RBCC is involved in fighting these bureaucratic anachronisms. The chamber is engaged in talks with a couple of government agencies about establishing work permits for foreigners. There is the 'highly qualified specialist scheme', which is a very welcome step and Russia has shown a commitment to making life easier for foreign workers. They have recognised the need for foreign expertise. Although the system is not perfect and curiously under the new criteria neither Steve Jobs nor Bill Gates would qualify as a specialist because neither finished college.

How might accession to the World Trade Organisation change Russian business culture?

I am not certain that Russia would change in terms of mentality. If you look at the Russian flag, aside from the red, white and blue there is a two headed eagle. To me this is indicative of the fact that Russians tend to have competing instincts. On the one hand Russians are very international in their outlook. Indeed for years, they knew an awful lot more about the West than the West knew about them. They are very aware of the achievements of the West and automatically assume Western products to be of superior quality. Although it sounds patronising there is a type of inferiority complex or at least a conviction that anything they do will not be up to quality. As a result, this creates a certain defensiveness regarding their products and strong sensitivity about their place in the world. This dichotomy of pride and shame is seemingly intransigent in the Russian outlook.

This mentality also affects business. Going back to pharmaceuticals, one of my friends from the student days, now a qualified doctor, is convinced that although the formulas of Russian generics following the loss of patents will be exactly the same, treatment will necessarily be worse. This is a type of psychological barrier to overcome in the Russian market.

Will this be true even if the products are manufactured under names such as GSK?

With time attitudes should start to shift. It took a long time for Russians to come to accept that a Russian-made Toyota or Ford will be of the same quality as one manufactured in Japan or America. Some of the forward looking companies have been able to break down this psychological barrier. Although, they must have received concessions from the state to come to Russia they have done the country a service. Steps like this have done a lot to build national pride.

In terms of home-grown products one of the major success stories of the last few years has been the Kaspersky lab anti-virus software. This was entirely Russian-made and following the financial crisis came in at half the price of a Norton or MacAfee product. Stereotypes are therefore also slowly breaking down with western consumers about Russian products.

Given that Russian and British businesses are able to work together, why are politicians unable to see eye to eye?

Politicians have a more difficult task. There is a clear common interest for Russian and British businessmen. They both want to make money. On the political side there are a lot more factors to consider such as geopolitical factors including spheres of influence. There is a saying that Russia and Britain were both Empire countries and the only difference was that Russia was an empire, while Britain had an empire. Both countries had expansionist ideas and in the post-Imperial world there is a residual rivalry between the two.

Just as Russia has been unsure of its place after 1991, the UK has been increasingly unsure of its position after the end of empire. Although the country wants to be important in the international arena, there is a small voice saying that the UK is just a small island off the coast of mainland Europe. This defensiveness does inform the relationship.

What attracted you to Russia and why have you stayed here so long?

It was the result of a lucky accident. At the age of 14 we were encouraged to learn a second foreign language alongside French, which is the most widely taught foreign language in the UK. At my school we were given a choice of Ancient Greek, German and Russian. This was in 1985, when Mikhail Gorbachev had just come to power and with glasnost and perestroika Russia was beginning to relate to the West again. Given this political shift and the simple attraction of learning a new alphabet, I picked Russian.

Throughout my education, I simply carried on with the language. I first came to Russia as a student in 1991 just as the Soviet Union collapsed. Then for around 10 years I did not do anything involving Russia and missed out the 1990s completely. When I came back in 2000 my fascination was reawakened. You find that when you have a certain period of ‘Russian time’ behind you it is hard to leave the country. We used to say that there were two types of people in England: those who had been to India and those who had not. I think the same is true for Russia. Once it gets under your skin you become a Russia nut and you have to work and live here!

What would you like your final message on behalf of the chamber to be?

The chamber is a good example of triumph through adversity. It has been a rollercoaster ride up till now and demonstrates that what you need in Russia is commitment and confidence in the future of the country. There ought to be a respect for the country and some companies make the mistake in

coming to Russia with certain misleading preconceptions. If you want to be successful in Russia you need to understand and respect it.

Russia is one of the few countries with the history and the right to have more than one face to it. The country is always worried about the direction it should be facing: West or East? Only a few other countries in the world, such as Turkey and Iran many years ago, are in a similar position to bridge the gap between East and West.

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