



ASSOCIATION OF EUROPEAN BUSINESSES IN THE RUSSIAN FEDERATION

European Businesses in Russia: Scenarios of Post-Crisis Development

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May 25, 2010
Swissotel Conference Centre, Moscow



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IN THE RUSSIAN FEDERATION**

**European Businesses in Russia:
Scenarios of Post-Crisis Development**

Opening remarks

Reiner Hartmann, AEB Chairman

May 25, 2010
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EU–Russia in S&T and Innovation

Natalia Ivanova

Institute of World Economy and International
Relations Russian Academy of Sciences
www.imemo.ru

2010 г.

Outlines



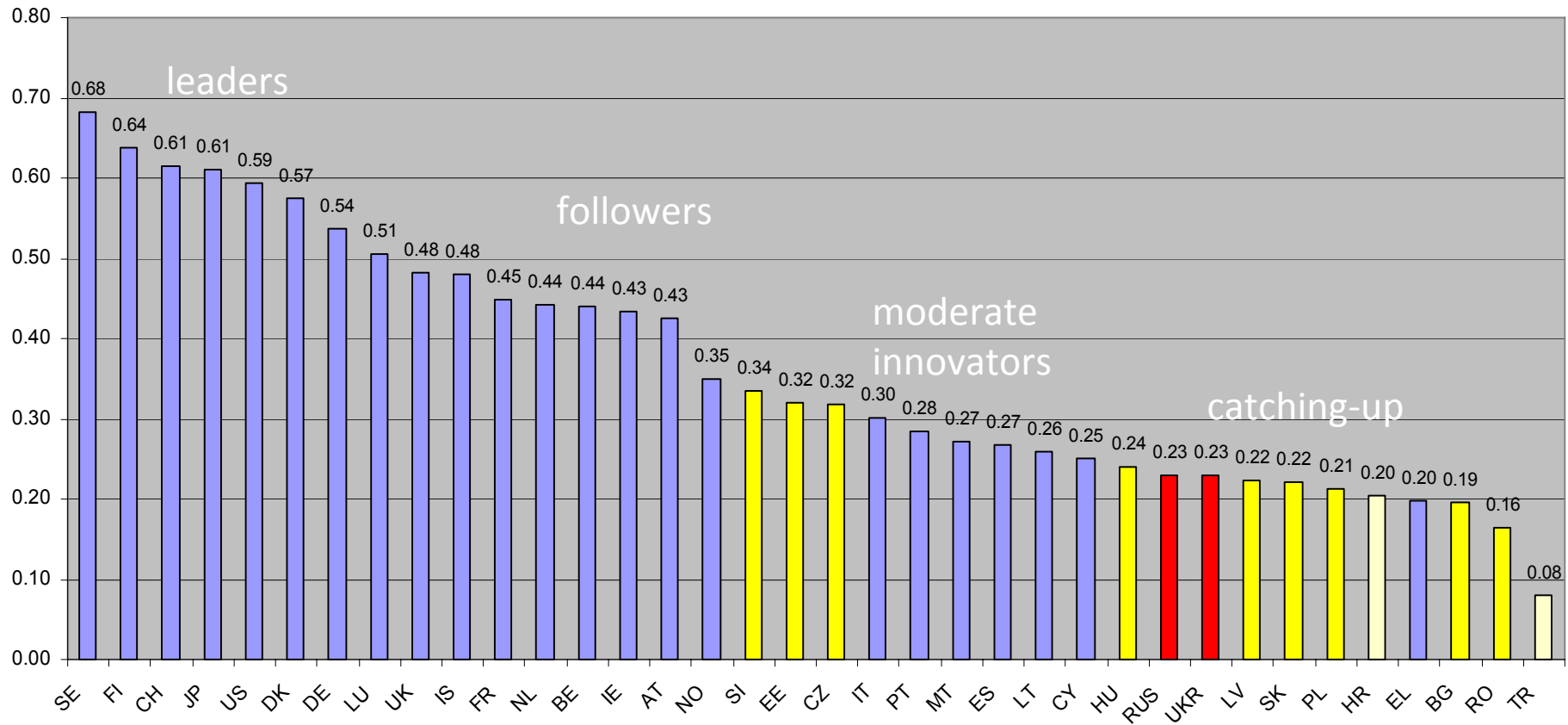
- ◆ Overview of current R&D and innovation in Russia
- ◆ S&T Cooperation
- ◆ Russia's modernization strategy



RF: leading catching up group

EIS: the extent to which growth is based on innovation

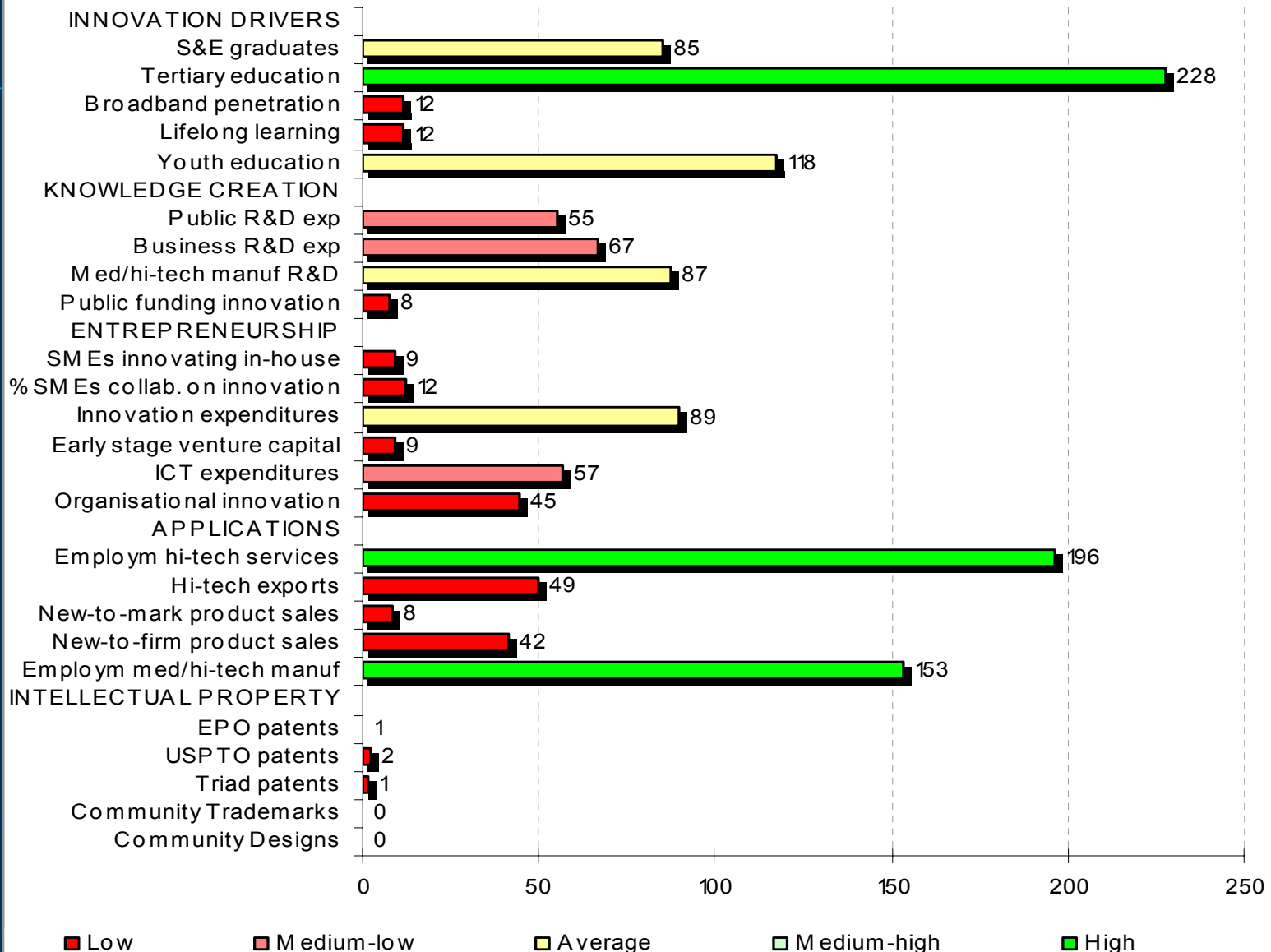
EIS 2006 with Russia and Ukraine



* UA: simple average based on 17 indicators, regression based estimate gives 0.28

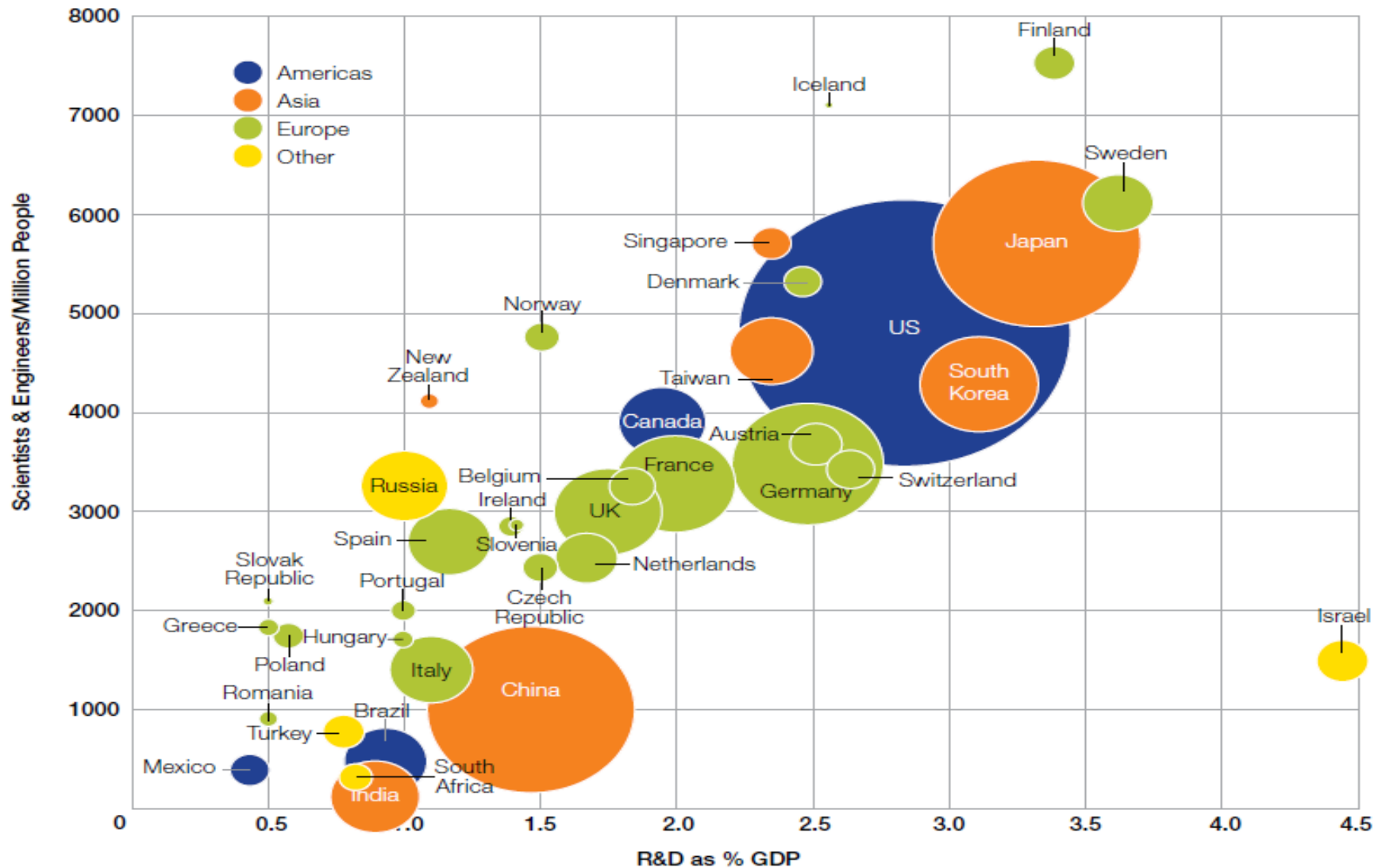
Innovation's Drivers: Russia/EU

EIS 2006 Innovation performance (relative to EU25)



World of R&D 2008

Size of circle reflects the relative amount of annual R&D spending by the country noted.



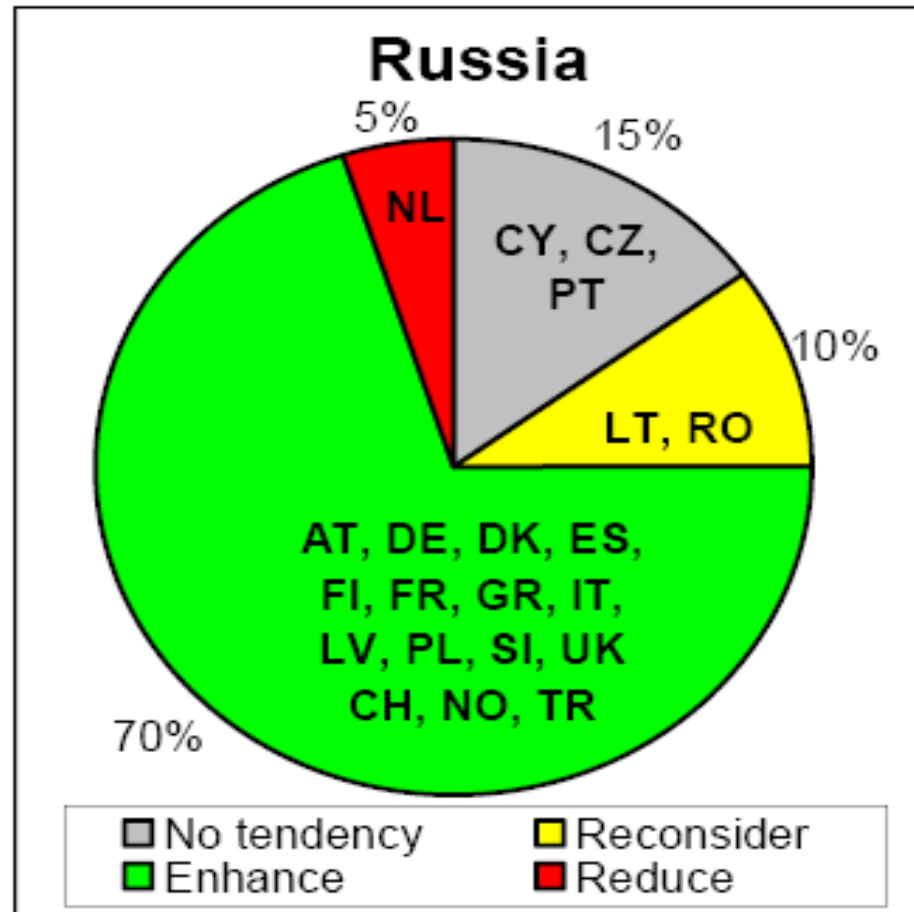
Source: R&D Magazine, Battelle, OECD, IMF, CIA



S&T cooperation

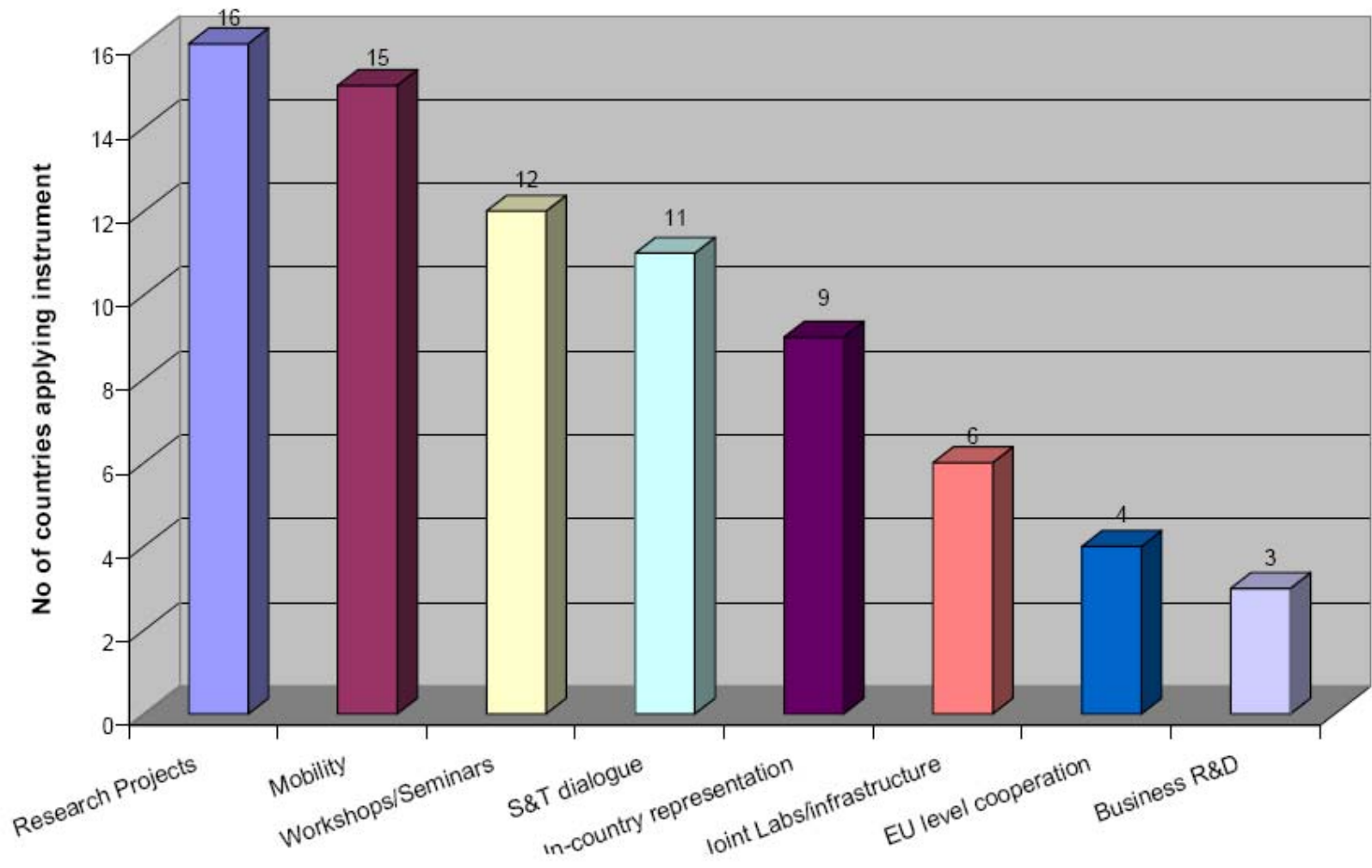
- ◆ Bologne process (in full scale)
- ◆ INTAS – up to 2006
- ◆ FP7 - from 3d party to associated member
- ◆ Eureka, ITER
- ◆ Bilateral – S&T agreements with more than 50% European countries

Future tendency regarding S&T cooperation with Russia



Source: Ales Gnamus, 2008. N=21

Instruments for bilateral S&T cooperation





Modernization Strategy 2009

1. President

Comission on modernization and technology changes in Russian economy

- ◆ Innovation policy Coordination
- ◆ Priority setting (Energy saving, Nuclear technologies, Space, Health, ICT)
- ◆ R&D support (closer cooperation with diaspora, competitive grants for RD, forcing big business to invest in R&D)
- ◆ National research Center "Kurchatov's Institute" established by President's decree (5-7 more planned)



Modernization 2010 initiatives

- ◆ 15.02. Government commission on innovation activity and hightech. V.Putin -chairman
- ◆ Status for State Science Center (ГНЦ) – easier getting for organizations with unique equipment
- ◆ 16 more research Universities competition+ 4 new Federal University
- ◆ Skolkovo



Skolkovo Tax Policy outlines (proposed by President Medvedev)

- ◆ Social security tax credit (14% of normal level) or No VAT
- ◆ No profit tax
- ◆ No Land tax
- ◆ Time frame – 10 years from registration
- ◆ Value limitation – up to Roubles 1 billion annually for shipments, then Roubles 300 mln profit annually



Economic and Innovation development institutions network

Name	Year
Foundation for assistance to hightech SME (Fond sodeystviya or Bortnik)	1994
Russian Bank for development	1999
Venture innovation foundation	2000
Regional Venture Foundations	2005
Russian Venture Company - RVK	2006
Rosinfocominvest	2007
Development Bank (Vnesheconombank)	2007
Rosnano	2007
RVK Seed Investment Foundation	2009



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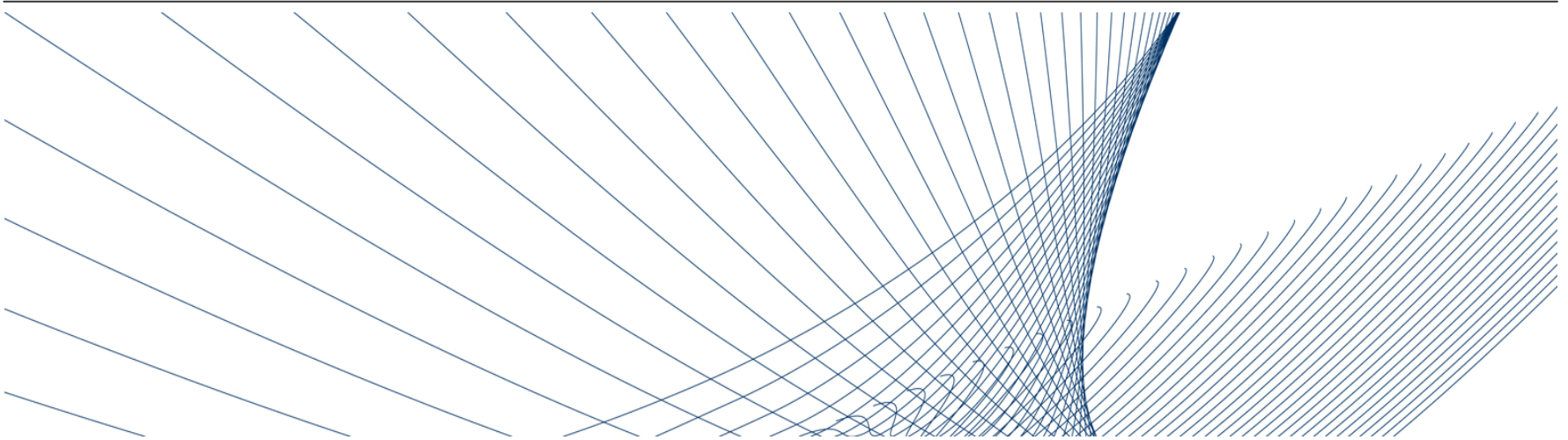
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VOLKSWAGEN

GROUP RUS



Automotive industry as a driving power of economical modernization in Russia

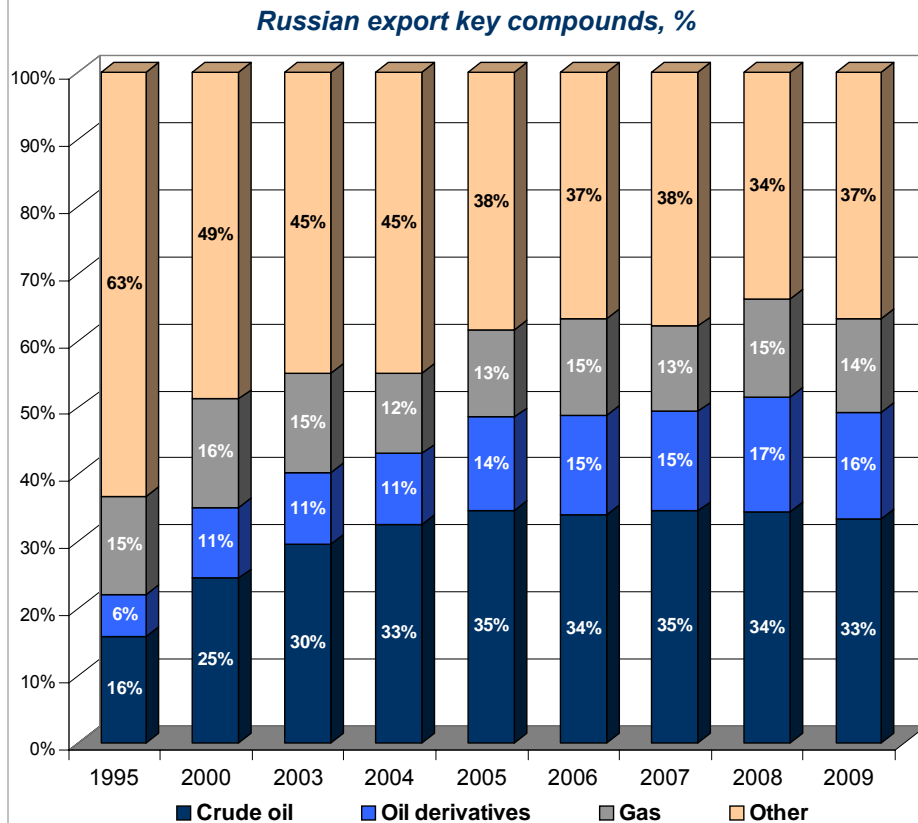
Martin Jahn

Volkswagen Group RUS

Moscow, 25.05.2010

Russia vastly depends on natural resources export – the biggest obstacle for further

Above 60% of Russian export are oil and gas



Russian export is determined by 2/3 through oil, gas and their derivatives – it makes the economy vulnerable to external shocks

Modernization required urgently







- ❑ Crisis unveiled critical dependence of Russian economy on oil and gas segments
- ❑ Oil and abundance of natural resources are good and evil at the same time – they should be used to support modernization and diversification, but not as the key source of economy growth
- ❑ Modernization plan for the nearest future

“We have to start modernization and technological rejuvenation of the whole manufacturing sphere immediately. This is a question of survival for our country in the modern world. Diversification based on innovation is about to change our internal economic and social structure drastically.”

D. Medvedev

Global automotive industry in figures


Automotive industry contributes 10% of the world's GDP and employs one out of ten people globally

2008	Production (Mio. Units)	Employed (Mio. People)	Efficiency (Units\cap.)	Investments in assets (Bln. Euro)	Investments research & development (Bln. Euro)	Export, % (volume)	Import, % (volume)
 China	9,4	2,1	4,5	7,5	3,9	2	3
 USA	8,7	0,9	9,7	11,6	10,9	11	42
 Germany	6,0	0,8	8,0	15,0	12,9	45	55
 Brazil	3,1	0,4	9,6	3,0	1,2	20	14
 India	2,3	0,5	5,1	2,4	0,5	9	5
 Russia	1,8	0,5	3,6	1,6	0,1	2	48

Russian automotive industry: Strategy 2020

Main objective: to maximize added value, created in Russia and to ensure sufficient

choice and quality of locally manufactured products

	Contribution in GDP, %	Added value in Russia, %	Import, % (value)	Export, % (value)
2008	0,98%	21%	60%	2%
2009	0,57%	25%	50%	2%
2020	2,38%	48%	20%	10%

Strategy 2020: Summary

- ❑ to maximize added value in Russia by expansion of market value, increasing export, reduction of import and improvement of localization rate
- ❑ to maximize coverage of domestic demand with local production
- ❑ to maximize localization of vehicles and components of all manufacturers
- ❑ to reach price advantage in production of components for export purposes
- ❑ to create basis for own research & development and to ensure patents & licenses for foreign technologies & know-how

Automobile industry share in GDP (%)

Added value in Russia (%)

2008

2020

0,98%

x2,4

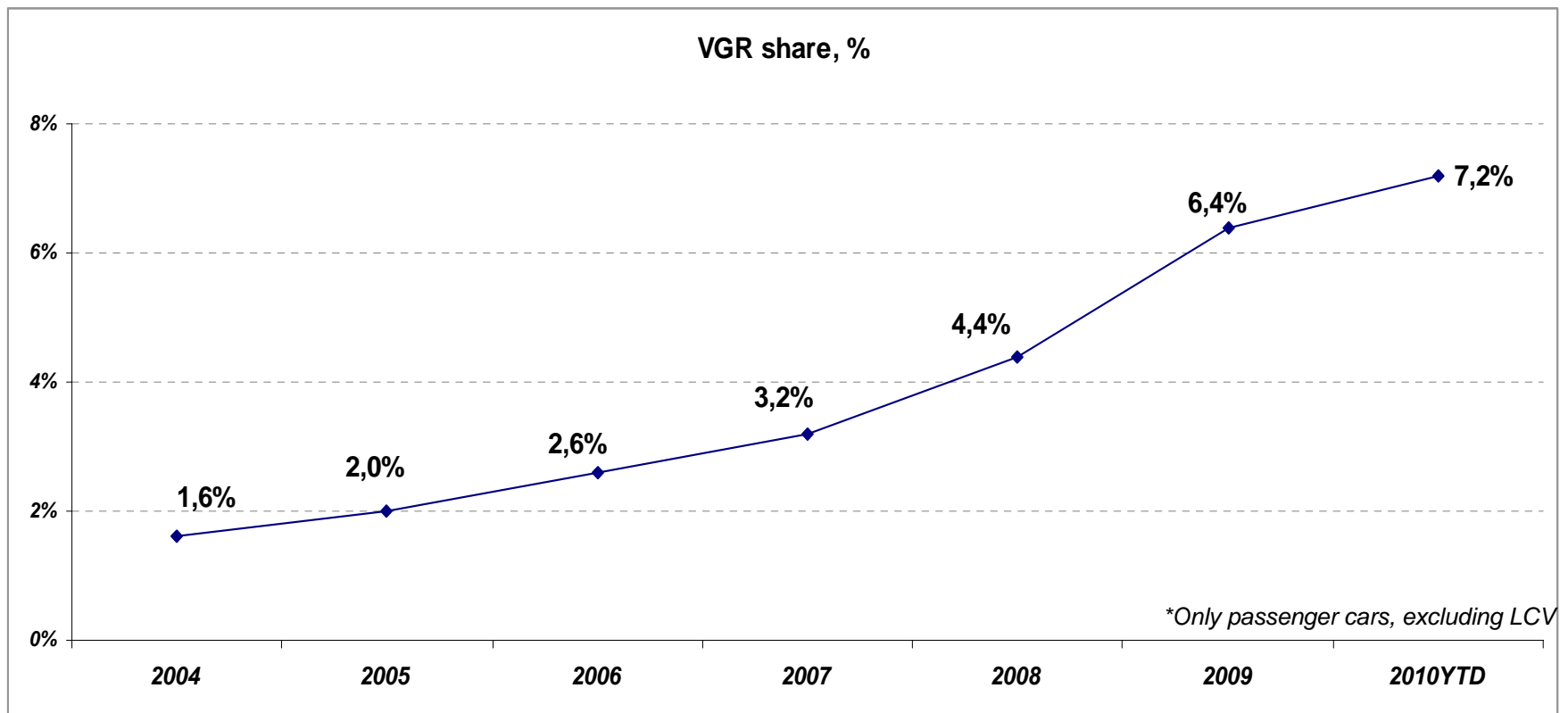
2,38%

21%

x2,5

48%

Volkswagen Group Rus increased market share in Russia by more than 2,5 times since 2006



Audi



Nutzfahrzeuge

Factory in Kaluga – Key success factor of VW business

Official start of CKD production 20.10.2009 with participation of Russian prime-minister V. V. Putin



Audi



Nutzfahrzeuge

Volkswagen Group is the biggest foreign investor in automotive industry in Russia

Investments: 774 Mio. € project, thereof
570 Mio. € into the factory

Capacity: approx. 150.000 units / year
(2010)

Personnel: ~3.000 people (2010)

Production volumes:
- SKD approx. 62.000 units (2008)



CKD production in Kaluga: Models

2009



VW TIGUAN



SKODA OCTAVIA



2010



SKODA FABIA



SMALL SEDAN



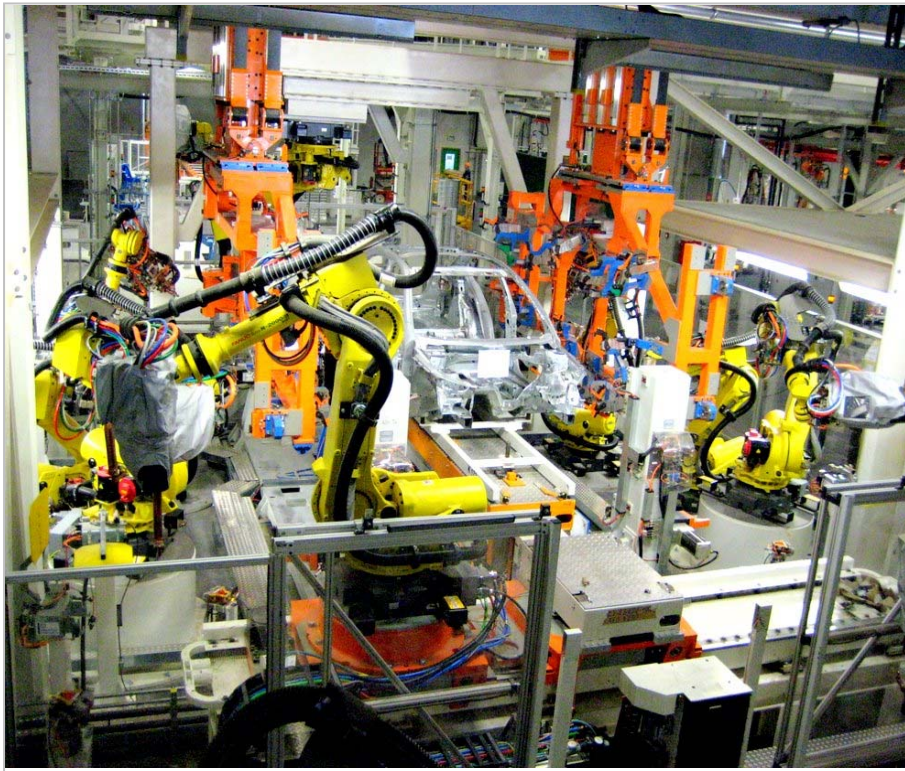
2011

OTHER
MODEL
S



Production in Kaluga organized according to the most up-to-date technical standards of VW

Concern Welding



Painting
g



VW Factory in Kaluga: local supplier base

30 suppliers are nominated for the moment in Russia



Components industry in Russia is

underdeveloped

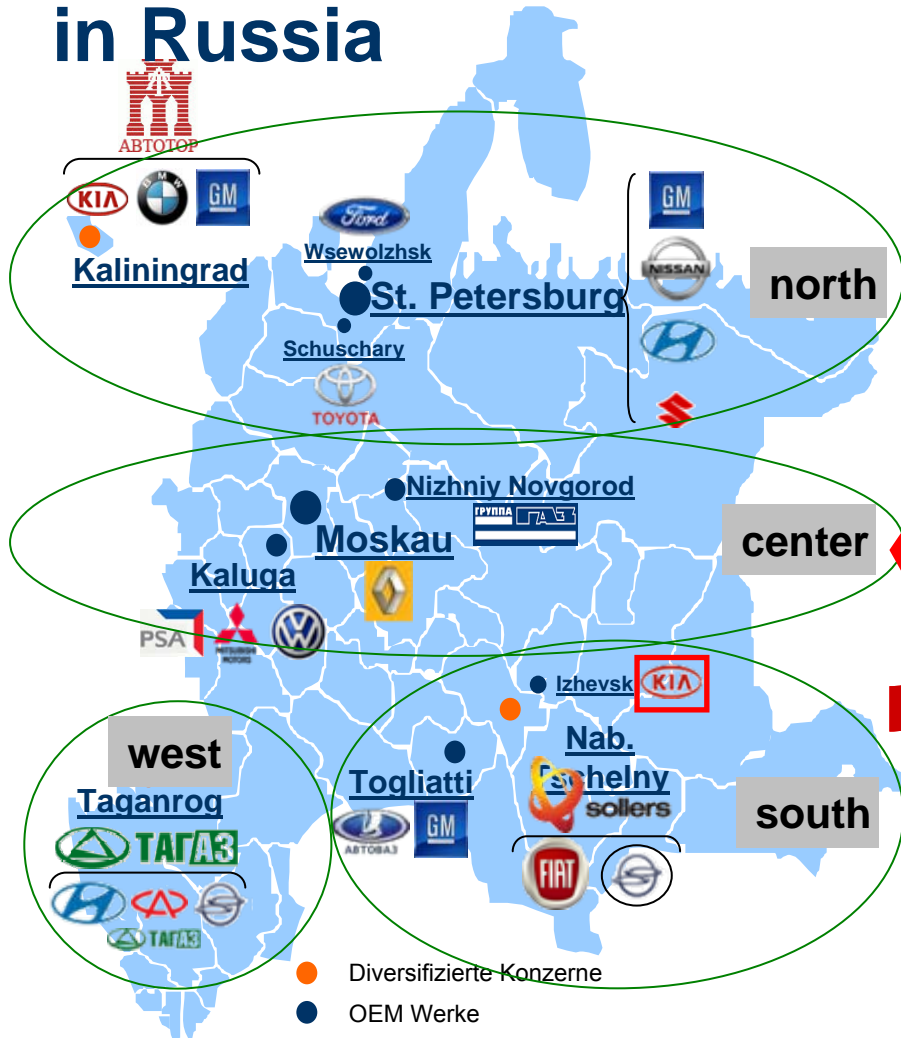
CHALLENGES

- ❑ Lack of modern infrastructure;
- ❑ Weakness of local suppliers quality systems;
- ❑ High entrance cost for new suppliers to the market;
- ❑ Chronic need for local supply base development.

OPPORTUNITIES

- ❑ Encouragement of, and if necessary direct investment into, modern supplier parks with modern infrastructure in the key automotive centers;
- ❑ Incentives to the local producers to introduce modern business practices, manufacturing processes, and quality systems;
- ❑ Financial incentives for investments into the automotive sector also for Tier 1, Tier 2, and Tier 3;
- ❑ Encouragement of automotive export of locally made cars and components. Russia - manufacturing center for CIS countries and Eastern Europe.

Lack of qualified personnel is the biggest challenge for foreign automotive manufacturers in Russia



❑ Despite intensive professional trainings & educational programs, organized by Volkswagen, there is still a desperate deficit of qualified personnel in VW Kaluga factory

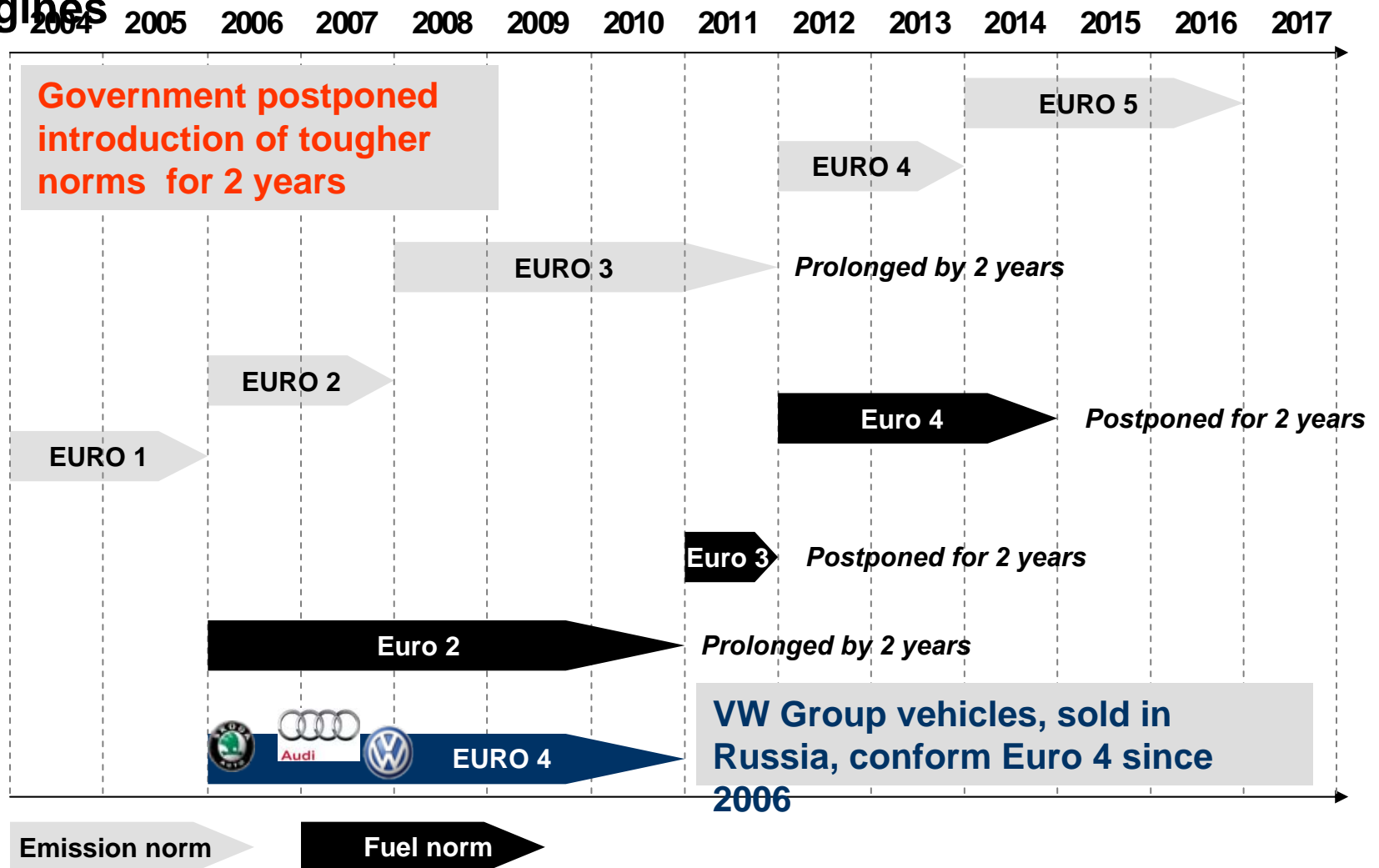
❑ After opening of other OEM's factories in the region the situation is getting worse. **Opportunity** man resources

Government support to transfer qualified, but jobless people from southern regions

Cluster	Capacity IST (Project)	Investments
NORTH	465K (845K)	\$2030m
CENTRAL	410K (810K)	\$2000m
SOUTH	950K (1480K)	\$8340m
WEST	120K	\$320m
TOTAL	465K (3255K)	\$12690m

Toughening ecological norms should be a must

Poor quality of Russian fuel damages environment and modern engines



Conditions for successful automotive business development in Russia

- ☐ Continued Economic Recovery & Sustainable Growth;
- ☐ Focus on Renewal of Outdated Vehicle Fleet & Protection of Environment;
- ☐ Revitalization of Consumer Demand;
- ☐ Stimulus for Local Supply Base Development;
- ☐ Availability of educated and skilled workforce.

Government support of automotive industry

- ☐ Provide equal treatment for all manufacturers, including foreign OEM's, investing into Russian economy;
- ☐ Develop and set proper legislative basis and infrastructure of full scaled Scrappage program based of international experience;
- ☐ Decrease bureaucratic burden in Russia
- ☐ Elaborate clear criteria for government procurement schemes, including for simplified procedures;
- ☐ Introduce further incentives for manufacturers of auto components, investing into Russia
- ☐ Support & investments into technical education
- ☐ Increase flexibility to the Labor Code.

THANK YOU FOR ATTENTION!