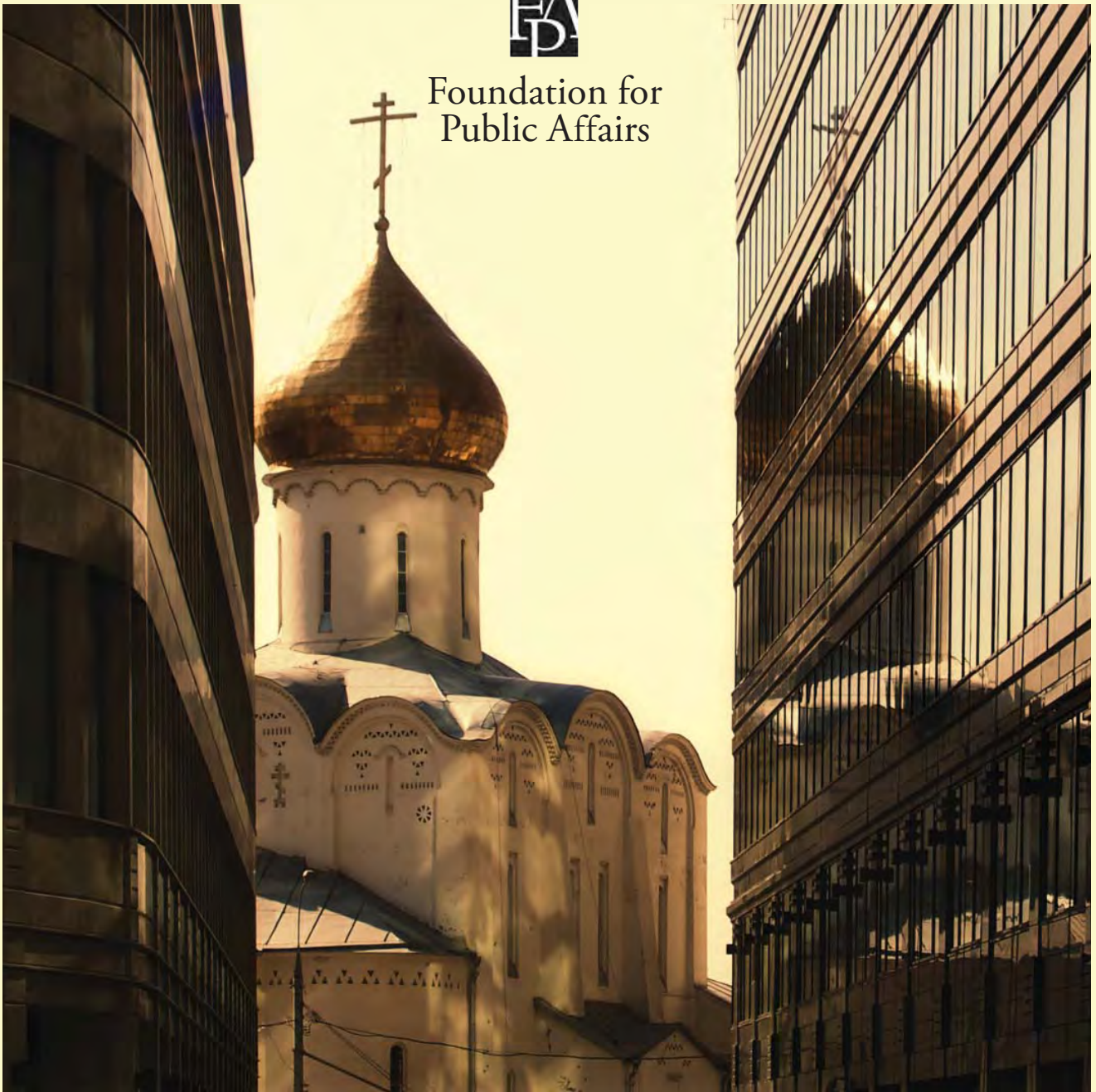




Foundation for
Public Affairs



Russian Renaissance?

Managing Public Affairs in Today's Russia

By Elizabeth Judd

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Introduction

Like many developments in its rich history, Russia's road to WTO membership has not simply been long; it's been epic.

When the country joined the organization in 2012, becoming the 156th nation to do so, it marked the culmination of an effort nearly two decades in the making. And it served as a vivid symbol of Russia's unrelenting efforts to turn an economic corner.

Gary Litman, vice president for international strategic initiatives at the U.S. Chamber of Commerce, predicts that WTO accession will make the Russian environment "much more predictable but also much more competitive, [as] many more major producers will be competing for their share of the Russian market."

Companies that have long harbored a desire to trade with Russia without opening manufacturing facilities there will almost certainly take a second look, Litman says. And yet some of the astronomic growth potential that multinationals dream about might be capped because so many companies will be entering the market around the same time.

Matthew Murray, deputy assistant secretary for Europe and Eurasia at the Department of Commerce's International Trade Administration, remains optimistic about the prospects for U.S.-Russia trade relations.

"As Russia cuts tariffs and opens up its services sector, American companies will be able to sell Russians a

greater number of cars, machines, medical devices and much more," he says.

Yet even prior to WTO accession, Litman notes, American companies existed "literally everywhere" in Russia and are a part of its economic fabric today. Moscow's American Chamber of Commerce (AmCham) is one of the largest globally, with nearly 500 corporate members. And American companies no longer operate exclusively in Moscow. Of Russia's 15 cities with populations exceeding 1 million, "the U.S. presence is visible in each and every one of them," he says.

"Over the last 10 years, Russian consumers' purchasing power has been growing across the country," adds Litman.

He notes that franchising and direct selling are robust, with companies like Alticor, Amway's parent company, making their presence felt in all corners of Russia. What's more, he says that U.S. energy service companies are working on every major oil and gas field in Russia, and American investment banks are underwriting securities issued by major Russian corporations.

And yet, in 2011, Russia imported \$300 billion in goods, with the U.S. responsible for a mere 5 percent of those imports.

"We still don't have a large share of the market, but our presence is significant," says Litman.



The EU is currently Russia's largest trading partner, but experts are hopeful that Russia's WTO accession will open more doors to trade.

"U.S. business may ship to Russia directly, but European and Asian affiliates of U.S. companies deliver U.S.-branded goods in ever-growing volumes. These Russian imports may not appear on U.S. trade statistics, but they contribute a great deal to U.S. companies' bottom lines," he says.

Caterpillar, for one, is rebuilding its business in Russia because, government relations director William C. Lane notes, the market simply has too much potential to ignore. Yet there is concern that political differences could once again arise and jeopardize these efforts.

Aided in large part by their geographic proximity, Asian- and European-based companies are far ahead in reaping the benefits of growth in the Russian market.

In July 2012, China edged out all other countries in bilateral trade with Russia, with trade volume reaching \$49.8 billion for the first seven months of the year, according to the Russian Federal Customs Service.

And as a combined trading bloc of all its member states, the European Union will continue to be Russia's leading trade partner, with a turnover of \$410 billion in goods in 2011. In addition, according to the EU Trade Commission, an estimated 75 percent of foreign direct investment in Russia comes from EU member states.

Conversely, Russia is the EU's third-largest trade partner and an important part of its economy. European companies have also kept fairly optimistic about their future growth in the Russian market.

In a 2011 survey of European companies by the Association of European Businesses in Russia, 72 percent of European companies polled commented that they have increased their investments.

Association of European Businesses head Frank Schauff once remarked that his member companies are "successful in practically all sectors of the economy. They are now interested in different opportunities — not only in energy markets, as at the end of 1990s, but in a wide range of industries."

In all sectors, it seems, Russia is taking a more central role on the world stage. As the country prepares to host the 2014 winter Olympics in Sochi and the 2018 FIFA World Cup, it's been widely reported that Russia will spend \$10.1 billion on the World Cup and will build or expand five stadiums: two in Moscow and one each in St. Petersburg, Sochi and Kazan.



A BRIC Wall

Long known as the best and worst of the BRICs, Russia owns prime real estate, positioned between the long-established economies of Europe and the developing markets of Asia. It's also rich in oil and other natural resources, with a \$1.8 trillion economy. And it has a large and successful science and engineering sector.

Russia is also slated to join the 34-nation Organization for Economic Co-operation and Development (OECD) within the next two years. Litman emphasizes that as part of its negotiations to join the OECD, Russia signed the required anti-bribery convention and is now subject to international scrutiny in this area.

Meanwhile, President Vladimir Putin and other officials are committing considerable time, energy and capital to making Moscow an international financial



Russia seems poised to unlock its tremendous economic potential, but corruption and unwieldy bureaucracy are key sticking points.

center. And as the country tries to find new business opportunities, the government is increasingly encouraging technological innovation. Skolkovo, the government-sponsored technology park outside Moscow, is emblematic of this commitment.

Yet even as trade relations with Russia are growing and Russia seems poised to unlock its tremendous economic potential, the picture remains far from rosy.

As the world's number-one producer of oil, Russia knows it must find alternatives to its dependence on natural resource revenues. And its deeply entrenched problems with corruption show little signs of abating, causing frustration for multinationals there.

Russia also continues to be plagued by infrastructure problems and an unwieldy bureaucracy. Business faces disruptions in the form of bilateral diplomatic challenges, such as the now-resolved trade issue between the U.S. and Russia. But more often, challenges arise from excessive red tape, abrupt turnarounds within the Russian government, laws being selectively applied and what's often termed a lack of rule of law.

Asked the greatest challenge for government affairs professionals in Russia, John Lough, associate fellow of the Russia and Eurasia program at Chatham House

and vice president with BGR Gabara in London, cites the very high level of unpredictability stemming from a system based not on laws but on informal rules.

"There's an excessive amount of regulation that's selectively enforced," he says. "If you're running a business, you want to try and understand the priorities of the decision-makers in government, what sort of orders are going down the chain. One complication is that there are different centers of influence within the system that are overseen by one individual but not entirely controlled by that individual. It can make life unpredictable and, as a result, very uncomfortable."

Ed Verona, president and CEO of the U.S.-Russia Business Council, agrees, saying that even multinationals with top-notch government affairs teams can be caught off-guard by a piece of legislation no one anticipates. "Fairly basic organic legislation can come out of nowhere," he says.

Russia seems to be making only the scantest of efforts to improve its image problems. Despite its many strengths, the country has not always put its best foot forward internationally.

Many experts note that unlike other rapidly developing nations, Russia has been somewhat indifferent to its image on the world stage. China, which shares some of Russia's challenges, has invested heavily in lobbying to improve its international reputation, while Russia hardly lobbies at all for favorable regard.

"Russia has always had a strong 'exceptionalism' streak in its national character — a sense that it has a very distinct path in the world. This tendency can make Russia rather isolated in some respects," notes Jason Jarrell, a former public affairs consultant and specialist at the U.S. Embassy in Moscow and the current head of international programs at the Public Affairs Council.

"At the same time, Russia can be very insecure," he says. "Whereas China and Brazil are on the rise as economic powers, Russia still suffers from the phantom pains of having been a Cold War superpower, making it defensive and, at times, unpredictable."

For all of these reasons, many experts seem to feel that for the foreseeable future, Russia will maintain its reputation as both the best and the worst of the BRICs.



Jackson-Vanik and U.S.-Russia Trade Relations

Even as Russia made a significant step forward in acceding to the WTO, it was not completely clear until recently what the practical implications of this step would be for U.S.-Russia trade.

For the U.S. to benefit from Russia's WTO accession, Congress needed to grant Russia permanent normal trade relations (PNTR) status, effectively lifting the Cold War-era Jackson-Vanik Amendment of 1974, which placed restrictions on normalized trade relations between the U.S. and the then-Soviet Union.

The American business community overwhelmingly supported PNTR status for Russia, a move that Senate Finance Committee Chairman Max Baucus had called "a slam dunk."

In a June 2012 speech before the U.S. House of Representatives' Ways and Means Committee, Caterpillar CEO Doug Oberhelman emphasized that PNTR for Russia did not require the U.S. to make any trade concessions whatsoever. However, failing to grant Russia PNTR meant that only the U.S.'s competitors would reap the rewards of Russia's WTO membership, including lower tariffs and the ability to appeal to the WTO's enforcement

mechanisms "to force Russia to keep its promises," he says.

The economic projections certainly supported the position of PNTR advocates.

Anders Aslund, a Swedish economist and senior fellow at the Peterson Institute, suggests that normalized trade relations could increase U.S. exports to Russia from \$11 billion in 2011 to \$22 billion by 2017 in terms of both services and merchandise.

After robust advocacy efforts by U.S. businesses, the House and the Senate voted overwhelmingly to approve PNTR status at the end of 2012.

At the same time, the decision was tied to the Sergei Magnitsky Rule of Law Accountability Act of 2012, which reprimands Russia for human rights abuses while seeking to penalize Russian officials responsible for the death of Sergei Magnitsky, a Russian lawyer who died in police custody in 2009 after alleging large-scale fraud and theft by Russian officials.

The law triggered a new rift in U.S.-Russia relations, which threatens to dampen the excitement around Russia's newly granted PNTR status and WTO membership.



Part One: Business, Government And Everything in Between

The Russian government operates with many of the same executive and legislative powers as the world's democracies; and yet, with one primary ruling party, the system is fundamentally authoritarian.

“The Russian government likes to call its political system a ‘managed democracy,’ which is a bit of a euphemism,” the Council’s Jason Jarrell says. “While elections are held for the presidency and the legislature, there are often widespread allegations of fraud in the electoral process, and the political playing field has never been level to begin with.” In addition, the checks and balances that define the political systems in the U.S. and most EU countries don’t exist in Russia.

“It’s quite clear that President Putin runs everything he can,” says Stephen Hanson, government professor and vice provost for international affairs at the College of William & Mary.

Some even question the use of the word “government” to describe the country’s political process.

“There is no government as we know it, as a body of reliable laws. It’s all relationships. And a company going to Russia has got to step in one foot at a time and understand this,” says Frederick Andresen, author of *Walking on Ice: An American Businessman in Russia*.

The Putin Presidency

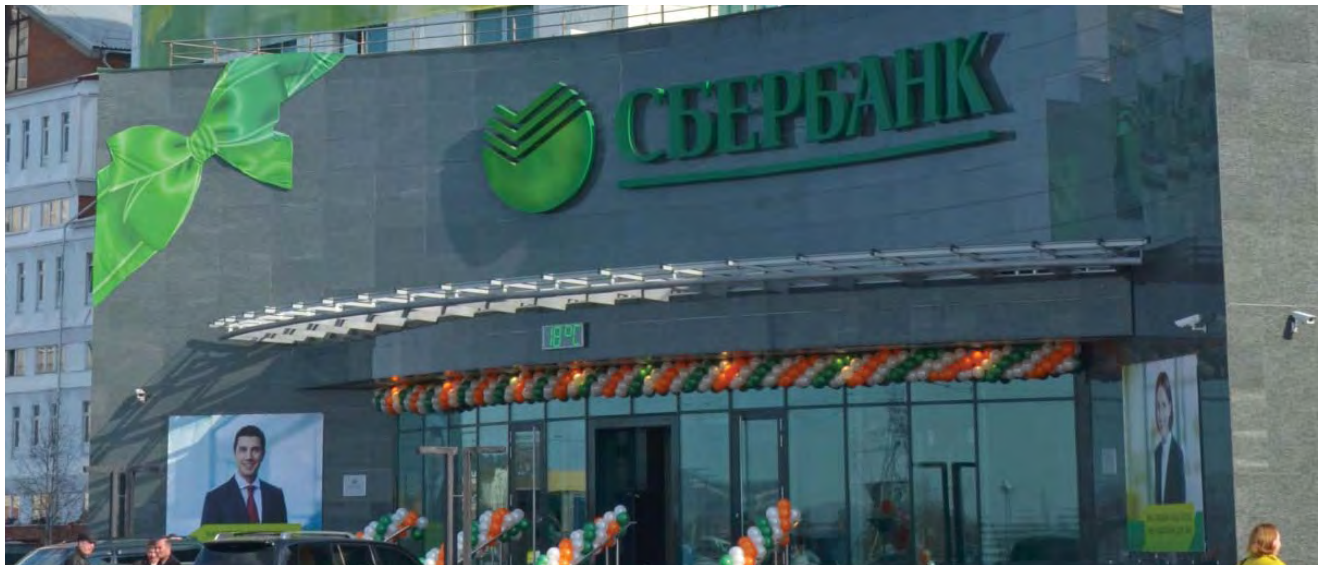
When Putin returned to the presidency, it sparked intense speculation about what it would mean for multinationals operating in Russia. “This created a little more certainty



Vladimir Putin

around where the buck stops,” says Henry Hale, associate professor of political science and international affairs at George Washington University. “When you had [Dmitry] Medvedev as president and Putin as prime minister, there were a lot of questions about who was calling the shots. But now, with Putin back, it seems that there’s some stability within the top levels of the government and the decision-making hierarchy is clear-cut: Putin is in charge.”

Peter Necarsulmer, CEO and vice chairman of PBN Hill+Knowlton Strategies in Moscow, notes that the most significant difference between government relations in the U.S. and in Russia is the amount of power the Russian executive branch wields. “In Russia,” he says, “your primary focus and radar are almost always on the presidential administration and key government bodies.”



As Russia tries to be more hospitable toward foreign business, its interest in state-owned companies like Sberbank (above) presents challenges.

For businesses, understanding the power structure makes the landscape less ambiguous, but it's not necessarily positive in other respects, contends Hale. Although he cites the government-supported and highly touted innovation center of Skolkovo as a clear indicator that the government wants to promote more favorable conditions for foreign business, he doubts Putin will do more to encourage a "business-friendly" Russia. In short, he says, "It doesn't seem like you'll get a significant liberalization of the system anytime soon."

Not everyone paints quite so bleak a picture. Andrey Kolosovskiy, who heads Microsoft's legal and corporate affairs in Russia, notes that Russia's government is "very organized and much more institutional than many think." So while outcomes may sometimes be unpredictable, there are structures in place for decisions to proceed smoothly — if, in fact, they proceed according to plan.

The Peterson Institute's Anders Aslund agrees: "The Russian government is pretty well-organized, with very strict protocols."

In addition, to help promote a better business climate and hold relevant government institutions accountable, Putin created the role of an official ombudsman for the business community, along with the Commission for Entrepreneurs.

Speaking at a meeting of international businesspeople

in Moscow in September, Boris Titov, the newly appointed ombudsman and former leader of the business lobby *Delovaya Rossiya*, stated that his goal is to protect "the safety of doing business in Russia" and defend against illegal prosecution and biased court rulings.

Still, an important factor not to be overlooked in Putin's Russia is the government's interest in its own state-owned companies. Whether it's Sberbank and VTB Bank in the financial arena or Gazprom and Rosneft in the oil and gas sector, the Russian government is not a disinterested party, Necarsulmer says, "and there's definitely not a level playing field."

Government Structure

In Russia, the government structure for Parliament, or the Federal Assembly of Russia, is bicameral. The State Duma is the lower house of the Federal Assembly, and the Federation Council is the upper chamber. Although the Duma participates in the passage of all legislation, its actual influence is small. "The Duma is not very relevant," says Aslund. "It is a rubber stamp."

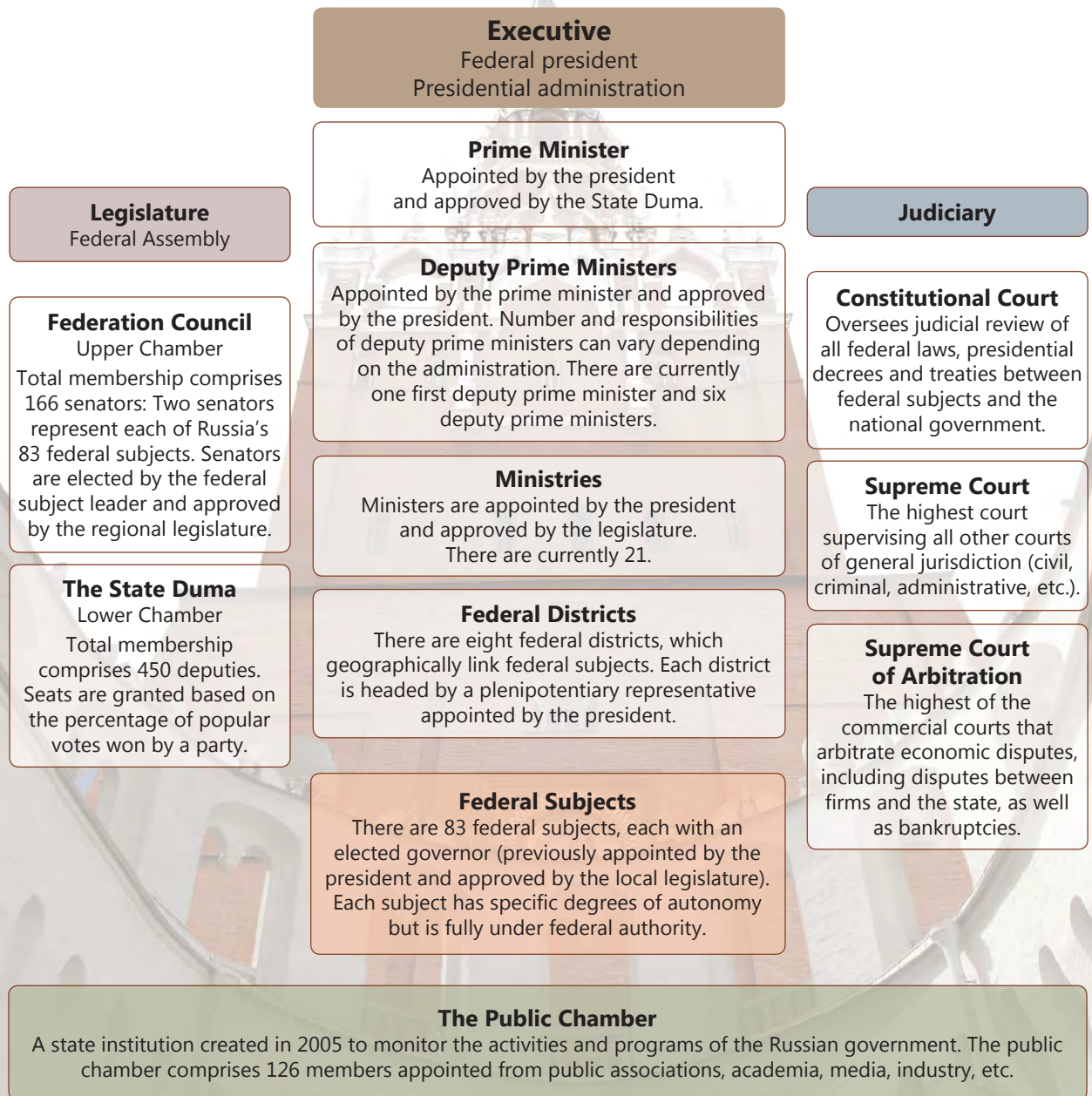
Typically, all pieces of Russian legislation originate within a single ministry, which researches and prepares the first draft of any proposal before it is circulated. The proposal then makes its way to other ministries that might have a stake in the issue so they can add amendments when necessary.

Russia's Vertical Power Structure

The Russian Federation is composed of three branches of government with unequal power and strong executive control — referred to colloquially as the “vertical of power.”

The president has considerable influence over both the legislative branch, by virtue of the overwhelming majority of the United Russia political party, and the judicial branch, via presidential appointments.

Russia's regional federal subjects, each of which maintains an agreement or treaty with the national government allowing varying degrees of autonomy, are overseen closely by the executive branch and grouped into eight geographic federal districts headed by a presidentially appointed representative.



Companies and Associations Launch Integrated Campaign on Recycling Tax

After years of paying scant attention to waste management and recycling, the Russian government is finally taking these issues to heart.

Its proposed law on waste management would require businesses to pay a special tax, a solution many multinationals and Russian businesses do not necessarily support, says Alexey Popovichev, executive director of RusBrand, an association of goods manufacturers including Coca-Cola, Diageo, Kimberly-Clark, Mars, Procter & Gamble and Pfizer.

As of fall 2012, the bill had passed the first reading in the State Duma. Yana Guskova, Kraft's director of corporate affairs in Russia, believes not enough industry input went into this draft, and even amendments didn't "satisfy business needs." She hopes that in later readings, the government will take a business perspective into account.

It was a key moment for industry to make proposals for waste management and recycling, says Popovichev. He says the first reading signals the State Duma's belief that legislation is important but notes that the language at this stage can be quite vague. When the Duma votes in favor of a first reading, "they're voting for the bill in general," he says.

As Parliament prepares the bill for the second reading, more specifics can be added as amendments. So far, amendments have been sponsored both by members of Parliament and by the Ministry of Natural Resources and Environment. The Ministry introduced the idea that businesses that generate waste would contribute a tax — perhaps as high as 2 percent on revenues and 3 percent on imports to Russia — so government can build recycling facilities and take other steps to manage waste.

RusBrand and others in the business community believe it would be best for companies to enter the waste management and recycling business themselves.

"That was why we started our dialogue with the government and members of Parliament. We think that the idea behind Mr. Medvedev's order was to stimulate business, not introduce a new tax," says Popovichev. Looking to the way the EU has tackled this issue, RusBrand suggests that businesses be encouraged to establish their own recycling or waste management systems. And Popovichev says that if beverage companies want to collect and recycle their own bottles, the government should let them.

Looking to Other Countries

In its search for alternatives, RusBrand has assembled a working group to study other countries' systems. (In recent years, Russian officials have looked to the EU, in particular, for ideas on how to run certain programs.)

Popovichev says RusBrand will present more data and ideas. "We hope we can get a signed-off response from the government about our proposals," he says.

Because waste management is of general concern to Russian citizens, Popovichev says, the issue has gotten good media coverage, including in the business newspaper *Kommersant*. But he's not convinced the public knows much about the bill before the Duma.

Nonetheless, Popovichev is optimistic that Parliament will make positive changes. "We hope that the government understands what we want and why we want it," he says. "It's not just to avoid any regulation but to make regulation more effective and flexible."

He continues: "We want big companies to have the opportunity to work with recycling and packaging themselves. We think there should be a stimulus for the business to be part of the waste management process, as well as to introduce new, innovative, environmentally friendly packaging technologies. That's more effective than taxation."

Social and Political Risk Worry GR Practitioners

When Vladimir Putin was reelected president in March 2012, underscoring the fact that Russia is essentially a one-party nation, mass protests erupted throughout the country.

The Putin government shut down numerous political parties in the years prior to his reelection and also prevented the registration of new independent parties.

Many of the protesters believe that Putin's reelection was illegitimate because it resulted from widespread fraud. Periodic protests in large numbers have continued, with one of the most recent in December 2012 on Lubyanka Square, the headquarters of the Russian Federal Security Services (known as the KGB in the Soviet era).

The unsanctioned protest resulted in the arrest of leading opposition leaders including Alexey Navalny, a prominent critic of Putin and Russian corruption, who was named "Person of the Year" in 2009 by the Russian business daily *Vedomosti*.

Other public protests dominated headlines when a feminist band called Pussy Riot burst into a Moscow cathedral on February 21, 2012, and performed a song calling on the Virgin Mary to rid Russia of Putin. A Moscow court slapped three members of the band with two-year prison sentences, inciting a global outcry.

Putin Victory Seen as 'Re-Coronation'

Multinationals doing business in Russia today are concerned about what appears to be growing political and social unrest. Matthew Rojansky, deputy director of the Russia and Eurasia program at the Carnegie Endowment for International Peace, believes the only difference made by Putin's return is "the atmospheric. ... The election was perceived negatively in the U.S. because it was Putin orchestrating his own re-coronation."



The young and the old alike took to the streets of Moscow in 2012 to protest Putin's rule.

Rojansky also believes the U.S. began paying renewed attention to Russia because of Putin's image: "Putin is a Hollywood-friendly Darth Vader personality that you can attach your political rhetoric to. Nothing's really changed. Medvedev was always executing a Putin-approved vision anyway."

Yet an argument might be made that the political risk from doing business in Russia has become far more manageable, says the U.S. Chamber's Gary Litman.

Litman points out that U.S. President Barack Obama's direct involvement in the reset with Russia early in his first term is now reaping tangible benefits.

"Almost every major department and agency has had some kind of dialogue with their Russian counterparts, from FDA to DHS to NOAA. Everyone has a Russian partner, and these partners are beginning to help American companies understand and do business in Russia," he says.

Government Relations In Russia: A Reading List

- Frederick Andresen, *Walking on Ice: An American Businessman in Russia*
- Andrew Kuchins, Anders Aslund, et al., *Russia After the Global Economic Crisis*
- Lennart Dahlgren, *Despite Absurdity: How I Conquered Russia While It Conquered Me*
- Thane Gustafson, *Wheel of Fortune: The Battle for Oil and Power in Russia*
- Maria Lipman and Nikolay Petrov, *Russia in 2020: Scenarios for the Future*
- John Pepper, *Russian Tide: Building a Leadership Business in the Midst of Unprecedented Change*
- Daniel Treisman, *The Return*

Government Structure (continued)

Next, legislation is introduced to the State Duma. There, a piece of legislation faces a hearing before whichever committee has jurisdiction over the issue. If approved, the legislation undergoes a first, second and third reading. Substantial changes can be made at the first and second readings, while the third reading is intended only to correct errors.

After the three readings, the legislation goes to the Federation Council (the upper chamber of Parliament). Upon approval by the Federation Council, legislation is sent to the president, who can then sign it into law. The process appears collaborative, but the president has nearly complete say over the fate of all legislation.

The Russian Economy

In 2011, Russia ranked ninth among the world's largest economies in terms of GDP, at \$1.85 trillion. Yet Russia ranks 31st among all the countries to which the U.S. exports.

“The great potential of the Russian market is no secret to U.S. businesses,” says the Commerce Department’s Matthew Murray. He points out that in 2011 alone, exports to Russia grew by 40 percent. “Russia’s desire for American-made products and services is one of the reasons we’ve seen export-supported jobs increase by 1.2 million from 2009 to 2011,” says Murray.

One positive development is the establishment of the Business Development and Economic Relations Working Group of the Bilateral Presidential Commission in 2009. This working group has provided a platform for both nations’ governments and business communities to work constructively toward removing longstanding impediments to trade and investment. Murray points out that while the group is a government-to-government forum, “it has welcomed input from both the U.S. and Russian business communities.”

When Putin was inaugurated president on May 7, 2012, his primary challenges were economic, according to Andrew Kuchins, senior fellow and director of the Russia and Eurasia program for the Center for Strategic and International Studies (CSIS).

Kuchins notes that the success of Russian presidents has closely correlated with the perceived economic performance of the country. He characterizes the macroeconomic situation as fairly positive — with roughly 4 percent growth predicted for 2012 and 2013. Russia’s budget is nearly balanced, and unemployment and inflation are close to record lows.

Kuchins points out that the best way to return to the 7 percent annual growth of “the golden decade” of 1999 to 2008, when oil prices were rising and monetary conditions were loose, would be for Russians to instate an economic reform agenda by “reducing red tape and corruption.”

Hanson considers Russia’s current economic situation to be mixed. Besides monetary policy, economic forecasts must also consider demographics. In Russia today, the population is aging very rapidly and births have remained low for quite some time.

“Russians are having more children than they were in the late ’90s or early 2000s, but they went through a

trough of births from Gorbachev all the way through Putin; and so for the foreseeable future, it's going to be a shrinking population and an aging population," says Hanson. What's more, he notes that once demographic cycles are set, they take a long time to reverse.

The problem is exacerbated by another trend: a tendency for young, educated professionals to emigrate. Hanson notes that in contrast with India, where 20-somethings leave but then leverage connections to help their homeland, "that has not happened in Russia to the same degree."

One giant question mark hovering over the Russian economy is whether it can diversify beyond its dependence on its own energy resources. Thane Gustafson, a Georgetown University professor, senior director at IHS CERA and author of *Wheel of Fortune: The Battle for Oil and Power in Russia*, notes that oil and gas revenues currently contribute 52 percent of the federal budget.

"The official policy is to regard this dependence as undesirable, and the Russian government says it is making an effort to move away from this," says Gustafson.

At the same time, he notes, government spending is ballooning: "The budget is growing rapidly, and that's defeating government efforts to diversify. The government is relying on oil and gas revenues more than ever before."

Gustafson notes that the Russian government has been extremely wary of outside energy companies because it takes enormous pride in its homegrown oil industry.

That said, the developed reserves inherited from Soviet times will inevitably decline, so Russia is exploring other options, including moving into Arctic offshore exploration. To do this, though, the expertise of foreign companies could prove extremely useful.

Thus, says Gustafson, the Russian government's fierce self-reliance in all things relating to oil could be considered Chapter One of the country's post-Soviet history.

"As the government rethinks its policies," he adds, "we're now at the very beginning of Chapter Two."



A Growing Consumer Market

Consumerism, meanwhile, is becoming an increasingly powerful driver in the Russian economy, marked by a growing interest in luxury items.

Russia today has a population of 140 million, roughly one-quarter of whom belong to the middle class. "Their per capita incomes are middle class or they aspire to be middle class," says the U.S.-Russia Business Council's Ed Verona. He notes that this percentage has grown very quickly and is fast approaching levels in OECD countries, where the percentage of middle-class citizens hovers at around 40 percent to 50 percent.

Russian consumers have a significant amount of disposable income, says Verona, and they tend to own their own homes and carry relatively modest levels of consumer debt.

All of this together makes it an enticing market for high-tech products, fast-moving consumer goods and automobiles, among other goods and services. He also notes that Russia enjoys high rates of Internet penetration, which may also prove to be a boon for



Russians like to shop, but they are discerning about brand names and company reputation. In 2012, Russia was on course to become the biggest European market for clothes, footwear, accessories and advertising, with \$76.8 billion in sales.

online commerce.

Hanson points out that consumer goods companies are venturing into Russia simply because “the Russian market was starved of any kind of products to buy for so long.”

Jarrell adds that this is a major public relations area for consumer companies to focus on. “Russian consumers are big spenders, but they are also quite discerning about brand names and company reputation,” he says. “To really penetrate the rapidly growing Russian consumer market, companies need to be quite sophisticated about their communications and customer relations, and not just rely on advertising. Social media is important in this regard.”

Russia became the largest market in continental Europe for milk and children’s toys in 2011. In 2012, Russia was on course to become the biggest European market for clothes, footwear, accessories and advertising, with \$76.8 billion in sales.

Coping With Russian Corruption

Andrew Kramer, a *New York Times* reporter based in Moscow, views various forms of corruption as an unfortunate reality of doing business in Russia. That said, he sees hope for multinationals with the resources and fortitude to refuse to accept questionable deals. “Western companies that get very lawyered up and do everything precisely by the book are able to

avoid these problems,” says Kramer. “Unfortunately, though, there’s a high cost of entry for that method of doing business.”

Alex Kravtsov, senior counselor for Russia and the Commonwealth of Independent States (CIS) for APCO Worldwide, says corruption exacts the greatest toll on smaller companies because small businesses may lack the resources to withstand major disruptions. “Big companies have more staying power in the face of corruption,” he says. Say a local official refuses to allow a truck to pass a bridge, demanding additional paperwork, with a payoff implied. A large company can argue through legal means and absorb the costs of waiting a week until the official realizes the futility of the demand and lets the truck pass; for smaller companies, these disruptions could cause their business to fail.

Kravtsov also notes that, in a way, American and British companies enjoy a better position vis-à-vis corruption than their counterparts from Russia and some other countries because the Foreign Corrupt Practices Act (FCPA) and the U.K. Bribery Act absolutely prohibit shady behavior. “Bad guys know that U.S. and U.K. companies can’t engage in funny business. They know businesspeople go to jail, and so sometimes they won’t even try,” he says.

The degree of difficulty corruption poses varies by industry, says Arkady Murashev, chairman of European Public Policy Advisors in Moscow and former member of the Russian Duma. “It’s difficult to com-

The Tax of Corruption

William & Mary's Stephen Hanson maintains that corruption exists at almost all levels of the government in Russia today.

"It's not just corruption of the petty sort, like traffic police, or fire inspectors coming to your building and claiming you must pay because you're in violation of some code. More important than that are the high-level deals that expropriate entire companies when someone well connected decides to pull the plug on a foreign investor," he says.

As a result of corruption, many multinationals are shying away from the Russian market, says Hanson. The exception, he notes, are companies in sectors like consumer goods or energy, where the profits to be reaped are too attractive to ignore.

The crucial difference between government relations in Russia and government relations in most other countries is the issue of corruption, says CSIS's Andrew Kuchins. "Russia's corruption rates are far higher than what you'd expect from a country with its levels of per-capita GDP," he says. "There's no question that the level of corruption is high, the frequency of corruption is high, and that it's gotten worse over the last 10 years."

An 'Outlier' Among the BRICs

Kuchins says Russia has been described as an "outlier" among the BRICs because its corruption problems seem to be intensifying. Russia ranks 120th of 183 countries on the World Bank's "Doing Business" index, a rating of economies based on 10 essential criteria, from enforcing contracts to dealing with construction permits.

Russian President Vladimir Putin has publicly stated his intent to boost the country's standing on the Bank's ease of doing business index to 20th place in six years, but observers remain skeptical.



Andrew Kramer of *The New York Times* says: "Government officials often make comments like that, but nothing's actually done."

The Commerce Department's Matthew Murray underscores that progress has been made on some fronts.

In recent years, the Russian government has joined international conventions and adopted specific legislative reforms aimed at reducing official corruption. Specifically, he notes, Russia has ratified the U.N. Convention Against Corruption and the OECD Anti-Bribery Convention.

Murray adds that as Russia takes up leadership of the G-20 in 2013, "we intend to work closely with them on implementing the G-20 Anti-Corruption action plan, including advancing global principles for asset and financial disclosure by government officials and protection of whistleblowers."

pete in many industries because of protectionism and corruption,” he says. “It’s worst when the Russian government has an interest in its own companies, such as in the oil and gas or pharmaceuticals sector. The competition is not fair.”

He adds: “American pharmaceutical companies are not really welcome in Russia.”

Rojansky notes that in Russia, “Corruption is not a problem with the system; it is the system.” To that end, he says companies need to develop strategies for coping within an intrinsically erratic framework.

For companies that don’t feel capable of coping with possible corruption but still want to do business in Russia, he suggests working in the innovation business park Skolkovo or one of the government-created spaces that are supposed to operate more transparently. Even there, though, he suggests, corruption might still exist.

Litman emphasizes that coping with corruption is an important issue for large multinationals, which must “keep their integrity after they enter the Russian market.”

He continues: “You cannot compromise a multinational corporation because you haven’t done your homework in a market like Russia.”

Litman says groups like the American Chamber of Commerce can help. He also points to the Russian Business Ethics Center, an NGO set up by American companies, which can advise on compliance issues.

“Due diligence is really key when doing business in Russia,” Jarrell says. “But don’t forget about your own internal anti-corruption compliance efforts, which must be ongoing. Make sure your staff and consultants clearly understand the FCPA and U.K. Bribery Act requirements — explicitly what can and cannot be done.”

Litman believes that over the long haul, Russia’s corruption problem will ease. “As competition heats up and as margins shrink, companies facing corruption will basically fail in the marketplace,” he says. “The invisible hand of the market will not be distributing bribes. It will be selecting those companies that are operating more efficiently.”

Murray says businesses can also contact the Trade Compliance Center (trade.gov/tcc) for information.

The Courts

“The quality of the Russian judiciary has declined since the Yeltsin era,” says Hanson. The suggestion that the judiciary is politicized is not controversial, he says, because it’s so widely acknowledged to be true.

Hanson points out that the recent Russian judicial record is highly inconsistent.

“The courts work reasonably well if the disputes are low-level, and there have been court judgments that have been effectively enforced and businesses have had their interests protected,” he says. Far more problematic are instances in which a court case is brought to the attention of people with close ties to the Kremlin and the rule of law takes a back seat.



Citi Advises on Central Depository Bank

When Nataly Nikolaeva, managing director and head of government affairs for Citibank in Russia, read that Alexander Voloshin, chairman of Norilsk Nickel, would be heading the working group tasked with helping Moscow become an international financial center, she took the direct approach. She called Voloshin and offered Citi's help.

"We said we would be very willing to support him in this project," she recalls. "Happily, he accepted our offer."

Rick Johnston, director and senior vice president for international government affairs at Citi, believes public-private partnerships like this are golden opportunities for multinationals doing business in Russia. "You want the government to see you as an ally in the overall economic and financial plans and programs that they are developing, and not as undermining their efforts or taking advantage," he says. "They want to see you as a team player."

Nikolaeva says the financial infrastructure group played an active role in developing the law on the central depository — and notes that the working group's diversity helped. "We had very interesting discussions because we had people there from the regulators, from the international banks, experts from the local participants [broker dealers], from the Federal Service on Financial Markets, from the Ministry of Finance and the Ministry of Economic Development," she says. "It was a very constructive interaction between all the various groups."

Among the issues to be resolved was whether there should be only one or multiple depositories. Nikolaeva says some feared a single central depository would function as a monopoly. But by examining other markets and soliciting input from the Association of Global Custodians, the group struck a compromise and a single central depository was formed.

Citi was the first multinational to be a part of the financial infrastructure subgroup, says Nikolaeva, but

over time the group expanded to include Deutsche Bank, UniCredit, ING and others.

After the group drafted legislation, it was sent to the Federal Service on Financial Markets and the Ministry of Finance, which made amendments. From there, the Ministry of Finance introduced the legislation to the State Duma for three readings before sending it to the Federation Council and the president.

Nikolaeva was optimistic that the central depository would be up and running soon, but she points out that additional legislation needs to be introduced so everything runs smoothly.

Transparency in Regulation

What Nikolaeva observed about the legislative process pleased her. She praises regulators for placing the draft documents on unrestricted areas of the websites of both the central bank and the Federal Service on Financial Markets. And she notes that site visitors are getting crucial pieces of information they once lacked, such as clear deadlines for commenting.

Beyond helping create a central depository, the working group advised on the Law on Settlements and the Law on Insider Trading. Currently, she says, the working group is examining amendments to securities laws to help companies list more easily in Russia and to develop legislation for escrow accounts, which didn't exist before.

In the end, says Nikolaeva, "the law [for the central depository] was pretty much adopted in the way it was prepared and discussed by the working group.

"Many of the market participants are claiming this is not a perfect law. That's true," she says, "but you first need to adopt this law and see how it's working, and then later you can make changes. I believe that creating a central depository in Russia is very positive for market development and will make the processes of the securities markets more transparent and clear."



Moscow aspires to join the ranks of New York, London and Tokyo.

Tax law, on the other hand, is often considered a bright spot in modern Russia.

“The taxation system was streamlined quite a lot in the early 2000s. It’s one of the things that Putin did that won him a lot of plaudits from the West,” says Hanson. “Compared to everything else, the tax system is a relative plus.”

Where U.S. companies have complained is in situations where the government wants to punish a company and uses tax compliance as an excuse to do so.

“You could find your taxes suddenly change,” says Hanson. “All taxation laws are not necessarily applied fairly and transparently across the board.”

Some observers also note that for the past decade, the Russian government has used aggressive tax inspections and police raids as a means of applying pressure on companies or individuals. There are numerous sto-

ries of companies being subjected to onerous audits simply because they’ve fallen out of favor with their Russian partners or the authorities.

A New International Financial Center?

Russia’s financial infrastructure has been in the spotlight for the past few years, especially as the government pours resources and energy into developing Moscow as an international financial center, says Citi’s Rick Johnston.

“The Russian market is an infant market in many ways and still state-dominated, but they’re starting to loosen up,” he says. “Russia is looking for ways to leapfrog into the 21st century in terms of financial markets and regulation.”

Johnston notes that Citi has been “trying to help the government understand the most effective ways to liberalize their markets and deepen the amount of funding that can be available to those markets.”

And he points out that Moscow is not alone in its aspirations but, rather, is joined by Istanbul, Singapore, Hong Kong and Sao Paulo, among others.

Many experts deem Moscow something of a long shot in its desire to become an international financial center on the scale of New York, London or Tokyo.

Russia’s physical infrastructure, traffic congestion and fairly low livability ratings are considered distinct negatives. Moscow ranked 199 out of 221 cities in Mercer’s 2011 Quality of Living worldwide city rankings.

Therefore, Johnston says now is an ideal moment for change.

“Since the financial crisis, Moscow has seen that New York and London are becoming very restrictive,” he says. “The intensified regulatory conditions in which we must operate by virtue of the financial crisis and the need to reduce system risk have caused other governments to say there might be some real opportunities here if they can make some hard decisions about liberalizing their own legal and business environments.”



Part Two: Building a Government Relations Program in Russia

When it comes to government relations, CSIS's Andrew Kuchins notes that large multinationals enjoy a huge advantage over smaller counterparts simply because they have the experience and resources to do the job well.

Typically, smaller or mid-sized companies outsource government relations in Russia, turning to consultants.

Larger companies, in contrast, tend to have at least one full-time government relations expert based in Moscow or another major Russian city, says Kuchins.

BGR Gabara's John Lough stresses that a government relations professional's attitude can make a profound difference.

"A bit of respect takes you a long way in Russia," he says. "The kind of knee-jerk reaction among many Russians in political and business life is that foreigners don't understand us — they don't want to understand us — and they don't pay sufficient attention to learning just how this place works."

All Americans doing business in Russia should do their homework, urges Lough. "Russia is a very difficult country to operate in," he says. "If you're dealing with successful businesspeople in Russia, they're probably very clever."

Where Should a Government Affairs Team Be Based?

AGCO Corp. first entered Russia in the 1990s, after the collapse of the Soviet Union. Its main focus, says Eric Raby, vice president, global marketing and commercial development, and Michael Cully, vice president, government affairs, was developing effective distribution partners for this market, a focus that "continues to this day." AGCO decided to locate its headquarters in Moscow, they say, because of "the continued dominance of the Russian central government in controlling the development of the country."

"Moscow operates according to its own rules," says Evgeny Roshkov, executive partner at Kesarev Consulting. He notes that for bureaucrats in many ministries, the day begins at 10 a.m. and it's common to still be working at 10 or 11 o'clock in the evening.

Unlike Washington, Moscow has no equivalent of K Street where government relations practitioners are based. He notes that ministries and business offices are spread throughout the city, and traffic is notoriously bad (Moscow has more cars than Manhattan). "Government relations means meeting with people, and when people are driving, you can't predict what time they'll arrive," he says. For those



While St. Petersburg (above) and Moscow are its key metro areas, Russia has 15 cities known as *millionki*, whose population exceeds 1 million.

attending numerous meetings, it's usually expedient to rely upon subways.

Even though Moscow and St. Petersburg are Russia's two pre-eminent cities, Russia is dotted with 15 major cities known as *millionki*, where the urban population exceeds 1 million residents.

"The regions beyond Moscow are where both well-established foreign companies in Russia and those new to the market are tapping real growth potential. This is the new wave," the Council's Jason Jarrell notes, "and often the Russian government is very receptive to foreign investment in the regions as it fits their regional growth policy. Small and medium enterprises, in particular, can benefit."

For businesspeople scouting a location for their GR team, another concern is that life in Moscow can prove expensive for foreigners. In Mercer's 2012 Cost of Living Survey, Moscow ranked 4th and St. Petersburg 28th of 214 international cities. Moscow is often regarded as a difficult place to live because of its epic traffic jams, air pollution and strict immigration rules.

Identifying and Hiring Talent

Locating experienced professionals to manage the government affairs function in Russia is no easy feat. In this relatively new discipline, few have the requisite

experience, and those who do are in keen demand.

The U.S. Chamber's Gary Litman characterizes human resources as "the major dimension of being successful in Russia."

When hiring a GR team, companies often fall into the trap of seeking seasoned former government officials or other well-networked individuals with big black books of contacts. This doesn't always work out so well, though, as it's hard to get such individuals to understand your business. "Companies looking to build a public affairs team shouldn't be shy about bringing on fresh, hard-working talent and investing heavily in them — and making sure they keep them," Jarrell says, adding: "There's a generational shift going on now."

Most experts agree, however, that hiring a Russian national for a government relations role is the best approach. Michel Manon, currently in the global and corporate policy department at Bristol-Myers Squibb and the company's former general manager for Russia, makes the case this way: "It's really an added value to have a Russian citizen in this position. Most of the discussions will be in the Russian language; understanding Russian culture and behavior is critical; and last but not least, generating confidence with Russians would probably take longer for a foreigner to do."

Lough has a different take, arguing that foreigners

who speak Russian can be quite effective in government relations. “One of the advantages you have as a foreign government relations practitioner in these places is that you are listened to in a slightly different way because you’re a foreigner,” he says. “If you’re a global company, you can quite easily compare Russia with other places, and you may find some positives and negatives as part of that comparison. But you can only do that as a foreigner. I don’t think you get very far doing that as a Russian.”

Lough notes that even if Russian officials or businesspeople don’t like what a foreigner is saying, they’ll be curious and will listen. “I’ve always thought it’s a very good thing for foreign companies to have their own non-Russian representatives who can hold that kind of dialogue,” he says.

A Wish List of Credentials

Trevor Gunn, managing director, international relations, at Medtronic, emphasizes that a candidate’s personal connections are critical, but technical expertise runs a close second. “Russia is a very tech-savvy country. They like engineering, and they like to know how things are done, and so a government affairs person can’t just talk political speak. If you’re representing a biomedical company or an engineering company, you almost need to be an engineer to be effective in that role.”

Timur Gafurov, who joined Medtronic in early 2011 as government affairs manager based in Moscow, exemplifies the broad experience of many who find themselves in government affairs roles in Russia today. Gafurov served 12 years in the military, followed by stints at an immigration organization, at an international financial corporation and at the American Chamber of Commerce.

In many ways, hiring a skilled government affairs professional to work in Russia is similar to hiring one to work in the U.S., says Citi’s Rick Johnston. “You want someone conversant in banking, someone who understands the necessary tension and dynamic between the legislators, the regulators, the policy decision-makers and the business.”

When hiring, says Johnston, “nine times out of 10,

you’re going to want a national and someone who understands the Russian political system — and not just in a textbook context.” That said, too long or too close an association with the government can be a negative.

“I personally don’t like the idea of hiring someone who’s been in the government for more than five years,” he says. “With too much involvement in the government process and deep personal friendships,

Visas

One problem that falls under the heading “red tape” is securing visas for foreign businesspeople to work in Russia. Fortunately for U.S. and EU businesspeople, the longstanding visa problem is showing signs of abating.

In September 2012, a new U.S. and Russian visa facilitation agreement went into effect. The U.S.-Russia Business Council’s Ed Verona points out that the recent U.S.-Russia agreement is an example of cooperation in an area that is of great importance to the business community. Business visas are now issued with a validity of 36 months and do not require state-approved invitation letters, as were required by Russia in the past, but simply letters from the host business or partner.

The process for business visas for most EU citizens was simplified in a 2007 agreement with Russia, and there has been increasing talk in high-level bilateral discussions between the EU and Russia of a potential visa-free regime to expand economic ties.

There are, nevertheless, still some challenges for multinationals seeking to obtain work permits for their expatriate employees. Medical tests for AIDS and other diseases are required and must be performed at Russian laboratories. “The unintended message this sends is that high-level managers are a greater potential threat to public health than tourists and travelers on business visas, who do not have to undergo such testing,” says Verona.



The Federation Council (above). Citi's Rick Johnston says that when hiring a government affairs professional in Russia, "nine times out of 10, you're going to want a national and someone who understands the Russian political system — and not just in a textbook context."

the ability to think outside the box and objectively can become more difficult."

Johnston also emphasizes that a good government affairs professional will have ineffable personal qualities that let him or her negotiate contentious situations without alienating anyone. "‘Maturity’ is a good word to describe what you need in that job. You've got to deal with people who know that they have to get it right and, particularly when you are advocating change, will be open-minded to your message — the elements of credibility and trust are fundamental," he says. "In government relations, if you stub your toe in a relationship, particularly in Russia, that can have long-lasting effects."

Finally, salary can be another sticking point when hiring a government relations professional in Russia.

"The small population of people who fit our requirements know they're in demand, and they have very high compensation requirements," says an executive at a major American industrial company operating in Russia.

Nor do the difficulties end once a formal job offer has been accepted. With a booming economy, he notes that talented employees "regularly jump jobs" if they're not promoted or given frequent pay raises.

Challenges for Operating Successfully

Among the BRICs, the Russian government is hardly alone in subjecting companies to excessive red tape, yet the bureaucratic demands are onerous enough that it's an oft-mentioned fact. Kuchins, who ran the office of the Carnegie Endowment for International Peace in Russia for 2½ years, was surprised by "the amount of painstaking paperwork required to comply with all the various Russian tax, legal and social policy standards. It was just enormous."

Everyone agrees that securing permits is difficult and time-consuming. The Peterson Institute's Anders Aslund points out that even something as simple as getting electricity and gas connections to new factories can be a real headache. There have been numerous examples of foreign companies facing these very challenges.

"When building a new facility, your first question wouldn't normally be how you are going to turn the lights on. But this is frequently among the first questions asked in Russia," Jarrell says, adding: "It's critical not to overlook local stakeholders."

When IKEA built its first outlet in St. Petersburg, the company had to run the store on diesel generators for a while because of disputes with the local power company.

In Limbo Under New Regime, Temp Firms Find Their Voice

Multinationals doing business in Russia bring with them a host of unfamiliar practices, many of which go unregulated simply because they're so poorly understood. Contract work or temporary staffing is one example.

"Large multinationals that use temporary staffing in their home countries have a tendency to use it in Russia, too," says Ekaterina Gorokhova, general manager for Kelly Services. In any given month, there are roughly 70,000 temporary or contract workers employed in Russia.

"In Russia, you can use temporary staffing in our labor code, but there's no special legislation for it. The government really has not said 'yes' or 'no' [to this practice]," Gorokhova explains. A few years ago, trade unions began complaining of abuses among contract workers. In addition, it was charged that some companies use contract labor to pay employees less or even sidestep tax obligations.

When the Duma responded by releasing a draft law banning temporary staffing in November 2010, the law made it through a first reading in May 2011. Companies like Kelly Services and multinationals that rely on temporary staffing were perturbed by this blanket rule; they argued that temporary staffing should be regulated rather than prohibited.

"The logic was that instead of banning something that already exists and that helps the economy be flexible, it would be better to legalize and control it," says Gorokhova. She notes that the government understood the argument. However, when Putin returned to the presidency, the heads of the ministries changed. Now the staffing agencies must make their case again to a whole new set of regulators.

The four major temporary staffing firms in Russia — Kelly, Manpower, Ancor and Adecco Group — came together and created an association to address the proposed ban on temporary staffing. Gorokhova



serves as general manager for the association, APEA, or the Association of Private Employment Agencies.

Speaking With One Voice

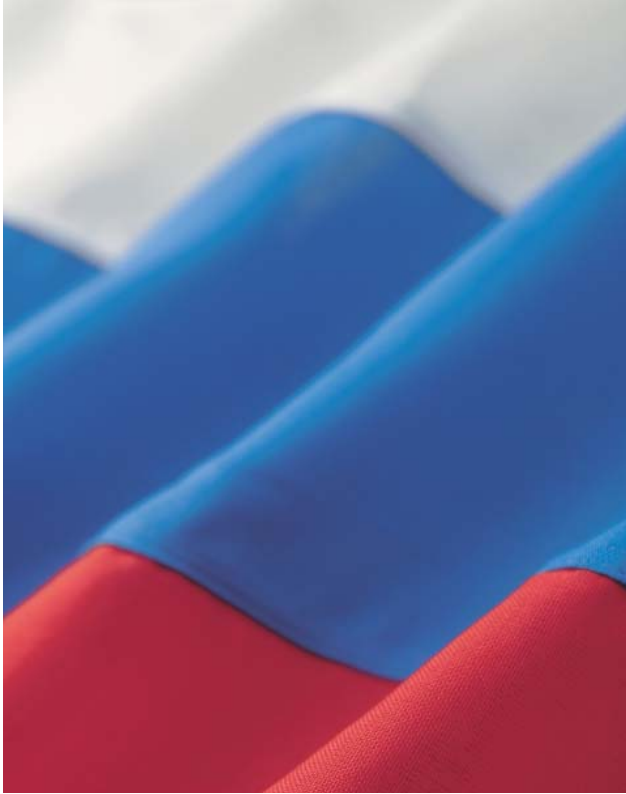
"The association really helped," says Gorokhova. "It's so much easier to go to the government with one voice rather than several voices."

As a company that employs seasonal contract workers in Russia, Kraft Foods was concerned about the draft legislation. Kraft's Yana Guskova supports the idea that the temporary staffing business should be regulated, but she does not favor the proposal.

"The voice of business was heard and the draft law amended, but it's still not what business would like to happen," she says. Therefore, Guskova will continue to research temporary staffing models in other countries and lay out arguments in favor of regulation.

Gorokhova notes that in the European Union, there's both a directive on temporary staffing and Convention No. 181, which addresses related issues, but none of the EU countries has banned temporary staffing. As a member of CIETT, an international confederation of private employment agencies, APEA used CIETT's expertise as a guide in making its case before the Russian government.

Yet Gorokhova says employers also have an important responsibility. "Companies that use temporary workers should carry some manner of responsibility in terms of security and employee safety," she says. "There's a joint responsibility between the temporary staffing agency and the company that invites the temps to work on their premises."



When it comes to government procurement, “sometimes preferences are given to national providers,” says Microsoft’s Andrey Kolosovskiy.

Many multinationals believe the hurdles they must clear are higher than those for domestic companies. Microsoft keeps close watch on government procurement processes, making sure that homegrown technology isn’t favored.

“As in many countries, there’s an issue around government procurement and how technologically neutral the government is,” says Microsoft’s Andrey Kolosovskiy. “Sometimes preferences are given to national providers.”

When there is a problem, Microsoft approaches the government either individually or through industry associations, says Kolosovskiy. Microsoft then makes the case that it is in the best interests of both private business and the government to have the “most efficient, modern, secure and economically reasonable software.” Kolosovskiy says this is why technological neutrality is so important.

Gunn also points out that local-buyer preferences are something government relations professionals must closely monitor. “A company that can say they’re producing in the local market can get as much as a 15 percent point difference on how tenders are scored,” he notes.



Part Three: Government Relations In a Land Without Lobbying

Lobbying doesn't exist in Russia as it does in the U.S., but there's a new and growing sense that the Russian ministries are open to dialogue with business. Nowadays, for instance, speaking to ministries is a fairly simple and straightforward affair.

Ekaterina Gorokhova, general manager of Kelly Services and APEA, has found approaching government ministers easier than expected.

"Things take time, but I really thought it would be much worse," she says. "We were able to meet people in the government, talk, express our ideas and get people on the phone. This all came as a nice surprise."

In Russia, informal lobbying is a way of life. Knowing someone personally carries a lot of clout, says Daria Ulantseva, an independent consultant based in France, who managed government relations at Lafarge.

"Russian society still fundamentally operates on an economy of favors, which is in part an outgrowth of the Soviet period, when monetary payments didn't have any real intrinsic value," the Public Affairs Council's Jason Jarrell says. "This makes having a meaningful network of contacts all the more important. It's in Russia's cultural DNA. There's even a common slang word for it: *blat*."

"Connections matter a lot," agrees William & Mary's Stephen Hanson. "But companies have to be careful about politics and stay on the right side of the Kremlin. You could call that lobbying, but it's definitely not the same as going to the Duma, or Congress, and promoting legislation that would be business-friendly."

As multinationals operating in Russia establish deeper ties, they've brought along a more Western concept of government relations. Although the profession is undeniably in its early years, there are signs that Western-style government relations practices are more common than ever.

"Calling Russian government relations 'a civilized and fully developed function' in the Western sense of these words is a stretch of the imagination, but it has shifted in that direction," says APCO's Alex Kravtsov.

He notes that in the early days, Russian GR firms dealt almost exclusively with Russian companies, and Western GR firms worked with American or European companies simply because the two approaches to government relations were so different. More recently, he says, Russian companies have started hiring Western government relations consultants, and vice versa — a sign that a more Westernized version of government relations is becoming dominant.

Nowadays, Kravtsov continues, “American companies and multinationals have pretty well-developed government relations functions in Russia through a combination of in-house resources and external consultants.” In general, he says, the more heavily regulated the industry or the more it relies on public-sector procurement, the more sophisticated the government relations function.

Leading Issues for Government

Helping the Russian government achieve its aspirations is a terrific way for multinationals to advance their own agenda.

“The public sector in Russia began to consider health a priority in the last 10 to 15 years,” says Bristol-Myers Squibb’s Michel Manon. “Before that, Russia was rather a free market, with limited constraints in terms of price, in particular, and limited involvement of the health authorities. The Russia

2020 Plan maps the vision and strategy that the authorities want to follow to establish a sustainable health coverage system in Russia.”

Manon attributes this change in attitude to a productive collaboration between Russia and the World Health Organization, which highlighted the mortality issue.

“People in Russia are dying much earlier than people in other European countries,” he says. “The country has to do something about tobacco, alcohol, diet and lifestyle.” In 2011, Russia hosted a WHO Global Forum on non-communicable diseases to address this public health and economic issue, a move Manon applauds.

“Forward-thinking companies will create opportunities to publicly signal they are reliable partners on government priorities,” Jarrell says.

Getting involved in or organizing expert roundtables that gather key opinion influencers, or supporting



Infrastructure in this country of 142.5 million people has made great strides in the Putin era, yet traffic congestion in Moscow (above) and elsewhere remains a headache. The power grid, energy infrastructure, roads and ports are also ripe for modernization.

large forums attracting both government and public support around a particular issue, can be an effective way to show the Russian government that a company is invested in the society, understands its challenges and is a potential partner.

A Need to Improve Infrastructure

Russian infrastructure has made noticeable strides under Putin, but there is still more to accomplish. Hanson notes that Russia is a huge country and yet there are not enough roads or ports, and traffic congestion remains a headache. What's more, the power grid and energy infrastructure also need to be updated. "The future of Russian energy production — and one might say economic development — will depend on finding funds to bring the infrastructure into the 21st century," says Hanson.

For some companies, these infrastructure challenges represent potential new business. "We clearly see Russia as a growth opportunity," says Lisa Schroeter, global director of trade and investment policy for Dow Chemical. "In Russia, there are significant infrastructure opportunities, especially for environmental infrastructure, such as energy-efficient insulation materials, protective coatings and reliable water filtration."

Dow, which entered the Soviet Union in 1974 and has 260 employees working there today, finds that in addition to meeting directly with the government, it's worthwhile to participate in conferences where government officials are present. Schroeter notes that in September 2012, Dow spoke on a panel at the Asia-Pacific Economic Cooperation (APEC) Summit, hosted and chaired by Russia in Vladivostok.

Negotiating with government officials about infrastructure improvements can be a hassle, but those companies that persist believe their patience pays off. IKEA is a case in point. The Swedish furniture giant managed to launch stores in Russia after several failed attempts. Earlier tries were interrupted by the collapse of the Soviet Union and the ruble.

In Despite Absurdity: How I Conquered Russia While It Conquered Me, Lennart Dahlgren, former head of IKEA in Russia, describes a protracted tug-of-war be-

tween the local authorities in the Moscow region and the Swedish furniture company. IKEA wanted to build a bridge over the Leningrad Highway so customers could get there more easily and received official permission only to have that permission later rescinded.

After many ups and downs, IKEA built 13 malls in 10 cities, plus a distribution center and three manufacturing complexes. IKEA tested its new business model in Russia, building shopping and entertainment complexes rather than just furniture stores. "Their success exceeded all expectations," Svetlana Smetanina says in *Russia Now*. "The first mega-complex became the most visited in the world, with 50 million visitors."

Direct Lobbying: Best Practices For Engaging

One sign that the Russian government had become increasingly willing to listen to the voices of businesspeople outside its own country was the 2004 creation of the Foreign Investment Advisory Council (FIAC). FIAC's primary task is helping Russia forge and promote a favorable investment climate based on the expertise of international companies operating there. The Russian prime minister chairs the council, and the council includes CEOs from 42 international companies and banks, including 3M, BASF, Exxon-Mobil, Ford, Intel, Kraft Foods, Mars, Nestlé, Novartis, PepsiCo, Procter & Gamble and Unilever.

RusBrand's Alexey Popovichev points out that in Russia, there is at least the concept of open government. "The idea of so-called open government is to unite people and government officials for more deep discussion of documents and laws which have real importance for business," he says. "We hope that when we ask the government to prepare special readings because of this open government, they will collect more views and look at additional proposals."

Bernard Sucher, an American entrepreneur in Russia who acts as a non-executive director for Aton, Russia's oldest independent investment bank, believes that it's never been particularly difficult "for large corporations to engage with the relevant government actors." In his experience, the fact that the Russian government is chronically understaffed and battling for

Microsoft Surveys IP Legislation

When Microsoft, which has 1,000 employees in Russia, considers its business outlook in the region, a number of new and emerging issues — from cloud computing to the future of Russia’s technology startups — are of critical importance. Undergirding them all, however, is the question of the Russian government’s commitment to protecting intellectual property rights and how IP laws are enforced.

In 2012, the Russian government revisited the parts of the Civil Code pertaining to intellectual property and the parts of the criminal code pertaining to copyright infringement, says Andrey Kolosovskiy, who heads Microsoft’s legal and corporate affairs for Russia. “There are a lot of discussions which were pushed by the former president, Prime Minister Dmitry Medvedev, to what extent the traditional regime of intellectual property corresponds to the level of development of technology, especially the Internet.”

That said, it’s often difficult to predict where legislation protecting intellectual property will come from. For this reason, monitoring issues that matter to Microsoft, such as IP protection, depends upon nurturing relationships, says Kolosovskiy. “If you’re systematic, if you know people and know what platforms they have, you can pretty much know what’s going on,” he says.

Monitoring Emerging Technologies

For Microsoft, determining precisely what legislation is needed for a new technology to flourish can be an open-ended question. “We’re looking at what’s helping us develop the cloud computing business, and what’s impeding the business,” says Kolosovskiy. Although Microsoft is actively involved in the dialogue, “we’re not specifically lobbying for anything comprehensive at this stage,” he says.

“In Russia, we don’t have any kind of unified legislation on cloud computing per se,” he says. “Cloud computing has been around for just a couple of years, and the discussion is still in the early stages.” He emphasizes that the current system poses no



The new Windows 8 display (above). For firms like Microsoft, determining what legislation is needed for a new technology to flourish can be an open-ended question.

obvious problems: “We’re doing business within existing regulations pretty successfully — but it pays to keep a careful eye on how future legislation is shaping up.”

Complicating legislative matters is the fact that no single ministry has clear jurisdiction over cloud computing. The Ministry of Communication and Media in Russia oversees most IT regulations, but not all. “There are a lot of other agencies that get involved in the discussions of cloud computing,” says Kolosovskiy.

Fortunately, though, the Russian government possesses plenty of technical expertise. “The people we talk with are sophisticated and knowledgeable. They want us to share information about our views and, in many cases, about our experiences with the EU and the U.S. on these issues,” he says. “The problems come from the fact that it’s a big government and there are a large number of agencies, often with different views within the same agency.”

Skolkovo: Moscow's Answer to Silicon Valley

A key tenet of government relations abroad is helping officials make their own plans a reality.

Two years ago, Microsoft signed a memorandum of understanding with the Skolkovo Foundation to participate in the development of a government-supported project to create an area outside Moscow that is particularly friendly to innovation and start-ups. Microsoft has a clear role to play in helping the Foundation draft a roadmap for Skolkovo, says Microsoft's Andrey Kolosovskiy.

"Russia is trying to change its economy from being completely reliant on energy to more modern innovations," he says. "So we're trying actively to understand how Microsoft can be useful."

The Russian government likes to compare Skolkovo with Silicon Valley, but Kolosovskiy likens it to Bangalore, India. "This is a pretty ambitious program," he says, adding that its success will hinge on strong government protection for intellectual property rights.



Kolosovskiy is optimistic about the future for IP protection and other IT-friendly legislation because he's found that the Medvedev and Putin governments rarely make decisions in a vacuum. "In the State Duma, on important legislation, they have formal parliamentary expert hearings," he says. "And in the case of IP issues, we're usually invited to be there, but there are pushes in different directions."

Does this mean that a company is never blindsided by new legislation? Of course not. "There are always changes, and sometimes there are surprises," Kolosovskiy says. "At times, what happens is even a surprise for the ministers themselves."

resources means that officials want and need insights from companies. "Individuals within the government are interested in engaging the private sector to educate themselves on global standards and get a sense of best practices around the world," he observes.

Sucher underscores that the Russian government is formal and so suggests that "it pays to dot your 'i's and cross your 't's," but he also notes that Americans can and do rapidly establish relationships. "For American actors, dialogue with the government can become informal and relaxed pretty quickly as long as you're bringing something serious to the table and engaging on issues in a constructive way," he says.

Getting Meetings

PBN Hill+Knowlton's Peter Necarsulmer points out

that accessing information in a timely fashion remains a real challenge in Russia.

"In the U.S., we practice a pretty open circulation of drafts of legislation, regulations, trade agreements and the like so that any interested party, whether it's somebody in the policymaking process or the news media, is able to get their hands on proposed amendments or changes to legislation."

Russia, he notes, lacks the same types of sunshine laws and practices: "In Russia, it's a lot more work to get your hands on timely decision-making and data for your clients."

Although the problem persists, the Internet seems to be making life a little easier for government relations practitioners. Kraft's Yana Guskova observes a greater willingness for ministries to use Internet sites. Knowing when



a new initiative is happening gives government relations professionals a better chance of taking action.

Even though the situation is improving, it's not always possible to secure information in time to effect change.

Lough recalls having been approached by a Russian company and asked to draft a lobbying strategy to counteract a piece of legislation that would adversely affect the company.

“The client was too late. While I was submitting a proposal to them, the new law went onto the statute book,” says Lough.

He continues: “It's another reason why it's important for companies to have as many sources of information as they can about their sector and how it's being regulated by the government. That means having friendly people in different places who can keep you up to date.”

Most government affairs practitioners say that the ministries are open to taking meetings with foreign companies. “The ministries do talk with [American] companies,” says Kolosovskiy. “We've had quite a lot of executive-level briefings during the year.”

Kesarev's Evgeny Roshkov maintains that the belief that only the Russian president and his close advisors matter in decision-making is exaggerated. He says Russia has a large bureaucracy, and it's extremely worthwhile

to make contacts with the relevant ministries. “While there needs to be approval at the top, the bureaucratic process is where everything starts,” he says.

Building Relationships

To successfully secure meetings, companies need well-established and healthy relationships. “In Russia, you need to be monitoring all the usual online and other sources,” says Lough. “But nothing replaces personal relationships that have been built in a quite sustained and methodical way to the point where you have a real level of trust. People need to take you seriously before they give you information. And they won't give you information for purely altruistic reasons — they need to see that the relationship is helpful to both you and them.”

Ulantseva points out that the agenda of any meeting with a Russian government official needs to be very well thought through.

“French companies sometimes try to meet with [government officials] just to make their acquaintance,” she says. “But for Russian locals, this is not something they understand. ‘What is the reason for this meeting?’ they'd ask me. And if I said, ‘Just to get to know you or for you to know us,’ they would consider that a waste of time.”

Mary Kay Opposes Flat Pension Contributions

Although Mary Kay is a large multinational, its success hinges on the fortunes of small businesswomen. In Russia, the company sells its cosmetics through a network of 400,000 independent beauty consultants, most of whom are women, says Tamara Shokareva, executive director of government relations and corporate affairs in Moscow.

Shokareva is concerned about a proposal that would require small businesses to increase contributions to pension and medical insurance funds twofold in 2013 and threefold by 2015. Instead of basing contributions on a percentage of earnings, this legislation asks for a flat contribution, which is particularly hard for small and part-time entrepreneurs.

“Our independent beauty consultants will be hurt by such decisions. The problem is that for those who have small incomes, this [bigger] contribution to the pension fund would be unbearable. They might terminate their businesses,” she says.

The Russian Federation Pension Fund and the Ministry of Labor are the key decision-makers, notes Shokareva. Unfortunately, she says, they have not been particularly receptive to the arguments of small businesses and direct-sales firms. She says some government bodies cling to a Soviet management style that’s notably “unfriendly to small businesses.”

Getting Ministers on Board

In continuing to make her case, Shokareva has approached other ministries for support. So far, she’s had audiences with the Ministry of Economic Development and the Ministry of Finance, and they’ve been encouraging. Often, she says, the ministers don’t understand how a larger pension and insurance contribution would affect individual entrepreneurs who do not yet have large revenues. Nor have they considered that if small and large businesses both make the same pension and insurance contributions, “this is unfair for people just starting

businesses,” she says.

Shokareva is arranging to have “some grassroots letters” sent to the president, the prime minister and the State Duma.

Clearly, longstanding relationships are a big plus. “I started my career at the Academy of Sciences. Afterward, I worked for a year and a half in the Ministry of Science, and then I worked at Mary Kay for 20 years, half of that time in government relations. If someone in the government knows you for several years and has attended conferences or roundtables that were organized by the Russian DSA (Direct Selling Association), or knows you as a member of a working group or the expert counsel in the State Duma or some other government body, then it’s much easier to arrange meetings,” she says. “If they don’t know you, I think sometimes it’s a problem.”

She emphasizes that the DSA is an important tool for successfully building long-term relationships with the government and lawmakers.

Before meeting with associations and government officials, Shokareva recommends doing your homework. She prepares detailed reports on how the new legislation would affect people in different income brackets. What’s more, she makes the case that the current proposal might push people to join “the shadow economy” or give up working altogether. Should that happen, government would see less tax revenues, and unemployment subsidies could rise.

She’s also looked at the pension and insurance contributions in neighboring countries. These, she’s found, hover around the same levels Russians now pay.

Many Russian DSA member companies are seriously concerned with this issue. Presenting a similar case, Amway representatives have publicized this issue with the Russian Chamber of Commerce and Industry and the AmCham. “We’re all working together because this issue is so urgent,” Shokareva says. “We’re really trying to fight this.”



Like this traditional home in the town of Irkutsk (above), government relations in the regions outside Moscow can be quite different.

Ulantseva continues: “If you reserve time with someone in a ministry or local government, there really should be a serious issue to discuss.”

Roshkov also points out that Americans, in particular, need to temper their desire to impart wisdom and instead adopt a softer approach. “It’s a big mistake to go to the regulator or the ministry and tell them you know how to do something better. They think it’s arrogant and unprofessional,” he says. “It’s more useful to go to the regulator and offer help in terms of educating. Offer statistics and relevant information, but don’t say, ‘We know how to do this better than you do.’”

Finally, many cultural changes are afoot that make Russia a more inviting destination for international business. The U.S.-Russia Business Council’s Ed Verona points out that in the 1990s, Russians were baffled by Western business practices and Americans found the Russian environment equally alien. “Twenty years ago, a Western businessman in Russia might find the hospitality at times overwhelming, particularly with respect to alcohol consumption,” he says.

More recently, Russians have become better accustomed to Western business practices, and business meetings tend to revolve less around lavish entertainment. “Today,” says Verona, “most Russian businessmen understand why their partners put so much emphasis on legal compliance, and why law firms play such an important role in concluding business deals. The Russians themselves now have to have their own lawyers sign off, too.”

Government Relations Outside Moscow

Generalizing about local government in Russia is virtually impossible; governors and other officials in some regions are competent and sophisticated, while in other regions, that is not the case. AGCO’s Eric Raby and Michael Cully point out that the amount of autonomy the various oblasts — or administrative divisions — exercise in relation to Moscow varies “wildly.”

In general, Raby and Cully note that government relations in Moscow tends to be more professional and “typically Western.” In contrast, in the regions, they

say, “there is more of a tendency toward the old Soviet way of doing things and more potential corruption.”

As an example of the greater unpredictability outside Moscow, they note that AGCO met with the government of Bashkortostan to begin assembling combine harvesters in Ufa. Although the project encountered delays, it finally got moving only to be derailed completely when the Kremlin replaced the local governor. “We were told that our agreements had no further merit and the operation closed,” according to Raby and Cully. Although AGCO was fairly well protected, they regretted the missed opportunity.

Increasingly, the Russian regions are home to business growth, and the Russian government has a dedicated Ministry of Regional Development to help guide investments and support business developments across Russia’s nine time zones. Companies will also be pleased to find investment-friendly tax incentives in the regions, as well. One such example is Kaluga, a city 150 kilometers southwest of Moscow and connected to the capital by rail. In recent years, Kaluga has become a center of the automotive industry, with Volkswagen, Volvo and Peugeot Citroen having all recently built operations there. Another is Krasnodar, which is often described as the economic center of southern Russia. *Forbes* magazine has named Krasnodar the best city for business in Russia, and it leads the nation in terms of the number of shopping malls per capita. Krasnodar is also the region that will host the Olympics.

The U.S. Chamber’s Gary Litman believes that government relations outside Moscow is an increasingly important issue because so many American companies are venturing beyond the main cities. In the past, he says, American companies vied for contracts from the Russian government, but they’ve now widened the scope of their ambitions to include more direct sales and franchising. “You follow the money,” he says. “In the past, the government had a lot of money and the consumer had very little. That’s changed.”

Developing your regional government relations outreach doesn’t mean lessening your engagement with Moscow, though. “To do government relations in the regions well and confidently, you need to apply a multi-tier approach, hitting the federal, regional and often

municipal levels in a coordinated fashion,” notes Jarrell. “There can be a lot of moving parts, so you’ll want to plan for different scenarios and be ready to deploy resources at each level as needed.”

A Different Set of Rules

Often, local governments outside Moscow operate according to a completely different set of priorities and rules. Even understanding the process for attempting to identify and meet the proper government official in the regions can be a challenge.

Ulantseva notes that when she managed government relations for Lafarge, the world’s largest manufacturer of cement, she always tapped local specialists living or working in a particular place for help.



While communications via phone and email are perfectly acceptable in Moscow and St. Petersburg, in-person meetings are of paramount importance in the regions.

“I wanted someone who would have exactly the right names and some relationships with people on the local level,” she says. “It might not be a high-level person like a governor — even a secretary can be useful.” Ulantseva emphasizes that local experts are paramount because personal relationships count far more in the regions than they do in Moscow or St. Petersburg. “If you work with government authorities, sometimes you can communicate via email, phone or letters. You don’t have to meet them in person,” she says. “But in the regions, you absolutely have to meet in person.”

When, for instance, Lafarge set out to build a new production facility in the Kaluga region, obtaining permission from the central government — in this



The port of Sochi (above). The idyllic resort town — which hosted the Sochi Investment Forum in 2012 and will host the winter Olympics in 2014 — has a reputation for being relatively closed off to business and therefore susceptible to corruption.

The Economic Forums in St. Petersburg and Sochi



Prime Minister
Dmitry Medvedev

The list of speakers and attendees at the St. Petersburg International Economic Forum and the Sochi Investment Forum reads like a who's who of government luminaries and business titans.

At the Sochi Forum in September 2012, the 11th in the history of this conference, one of the speakers was

Prime Minister Dmitry Medvedev.

Daria Ulantseva says her then-company's president always attended the forums at both Sochi and St. Petersburg. In her opinion, the conference at St. Petersburg was the more impressive of the two simply because government functions more smoothly there than in Sochi, a region that remains relatively closed off to business and therefore susceptible to corruption.

Ulantseva believes that the prime value of Russia's economic forums is meeting important officials.

"You can meet a minister just in the corridor, but there isn't that much opportunity to talk in a small circle. Really, you can just say, 'Hello, I am the president of this company.' You can make a first acquaintance," she says.

PBN Hill+Knowlton's Peter Necarsulmer describes these annual events as "the government's premier forum for connecting government and ministries with foreign investors, particularly at the CEO level." He maintains that for newbies to Russia or government relations, these events are especially useful.

For companies considering attending these forums, the Council's Jason Jarrell advises having a plan.

"You'll want to be sure to have a strategy and plan ahead to make the most of these meetings," he says. "Have a good sense of your stakeholder map for Russia and consider whom you might want to introduce yourself to — or, if you are established in Russia, which break-out session you might want your company to speak at for greater visibility."

Medtronic: Education Is Key to Government Affairs Success

In 2011, when the Law on Fundamental Healthcare Principles in the Russian Federation was adopted, some of the rules troubled Medtronic and other medical device manufacturers. Because the Russian medical and pharmaceutical industries are still relatively young, the rules often don't capture the full range of complexities that arise.

"Russia has a well-publicized mortality problem," says Trevor Gunn, managing director, international relations, at Medtronic Inc., so health care has moved front and center on the public stage. That said, there's often confusion about the differences between the medical technology industry and the pharmaceutical industry. "You don't have a lot of medical device companies in Russia, so there's not much precedent," Gunn says.

For instance, the new law prohibits company reps from being present in operating rooms as doctors perform procedures. Although the law was intended to remove potential conflicts of interest, Gunn argues that medical device companies should be present in hospitals because they're best positioned to understand the complicated devices they make.

Different Operating Procedures

"When operations occur and you're putting in a cardiac device, technology companies usually know more about the technology itself than do the doctors. In the U.S., they require us to be in the operating theater," Gunn says. "In Russia, there's a perception that doctors could be corrupted by the technology reps being with them in the operating theater."

By educating the Ministry of Health and key opinion leaders on this issue, Medtronic has gotten the law softened, says Timur Gafurov, Medtronic's government affairs manager based in Moscow. "There's still



A Medtronic pacemaker (above). While the company's technology reps are required to be in the operating room when its cardiac devices are implanted in the U.S., Russia banned the practice.

an issue of general access to physicians, but it's not as painful for us because government understood our problems and reacted positively to our pleas."

For Medtronic, education was front and center. "Our devices are so advanced and complicated that education is a natural part of all our products," Gafurov says.

Yet as much as Medtronic would like to educate regulators and other authorities on the industry, this often isn't feasible, Gafurov says. Instead, he says, the company focuses on educating physicians and opinion leaders, including doctors who serve in positions similar to the U.S.'s surgeon general. Russian doctors in these roles, he says, are communicating directly with politicians and government authorities.

Medtronic also sent the Russian Ministry of Health numerous letters via the industry's professional association, IMEDA, as well as letters signed by Medtronic and some key competitors. "Sending letters to the Ministry of Health with different logos on them" is often more effective than sending letters from a single organization, he says.

Some of the lobbying was initiated in the U.S., Gafurov says. "We used every possible channel to send our message to the [Russian] government. It took some time, but they reacted positively to our plea," he says. "It really has to be a multi-channel effort. You have to use all options, because you never know which will work."

case, the Ministry of Economic Development and Growth and the Ministry of Industry — was relatively straightforward. The true GR challenge arose when Lafarge had to garner a simple majority approval at a public hearing of local citizens.

Ulantseva recalls that some local businesses opposed the entry of a large multinational. “Some of the local public feared cement production, and we had to explain that Lafarge took a lot of care with safety and the environment. We had to show that there would be more pluses than minuses,” she says. Before the public hearing, Lafarge executives traveled from France to explain the environmental and health safeguards that the company would put in place.

Even the task of inviting people to attend the public hearing was time-consuming. For three months, Ulantseva put up posters, met with local authorities, and traveled by foot to small villages to encourage participation in the local hearing. Lafarge eventually won the vote with 10 percent more support than was necessary.

In other locations, Ulantseva points out, improving relations with local government also rests on helping ameliorate the lives of local citizens. In Voskresensk, a town roughly 70 kilometers from Moscow, Lafarge has been managing a plant for more than the past decade.

In order to strengthen relations, Lafarge helped with city beautification, support of veterans and orphans, and a special program for young professionals.

Ulantseva also identified the “most painful issue for the locals”: the condition of the town itself. In an attempt to help address this problem, Lafarge told a governor in the process of a reelection campaign that the company would build a new playground because the existing playground was in disrepair. With the playground, she says, the company had found a “project that would please nearly everyone.” The mayor of Voskresensk was given a special award from the local governor for having the best playground in the Moscow region.

For Ulantseva, the moral of the story is that government relations in the regions must be almost completely fixated on local concerns. “In Moscow,” she



An office building in Ufa, Russia (above).

concludes, “government officials think more globally; but in the regions, it’s the local issues that matter.”

Joining Forces: Associations and Business Groups

Whenever possible, government affairs professionals operating in Russia try to make their case to government by allying themselves with industry associations or business groups, such as the U.S.-Russia Business Council, AmCham or the Russian Union of Industrialists and Entrepreneurs.

Manon urges anyone serious about a government-relations agenda in Russia to “approach the major associations.” His company, for instance, belongs to both the major pharmaceutical industry association in Russia and an association that’s oriented to foreign companies in the industry — AIPM, or the Association of International Pharmaceutical Manufacturers.

Roshkov notes that in the 10 years since his agency was founded, trade associations have grown in professionalism and influence. “There are three or four times as many as there were 10 years ago,” he says. And while he singles out AmCham for its advocacy, he says the Association of European Businesses is extremely effective, as well.

Arkady Murashev, chairman of European Public Policy Advisors, also applauds AmCham, noting that “the voice of AmCham is heard by the Russian government.” He believes that associations are particularly effective in Russia because the government appreciates having an industry express issues with “one voice.”



Part Four: Media and Public Relations

“The Russian media is a lot more open than the Chinese media,” says CSIS’s Andrew Kuchins. Even so, journalists are at risk simply for doing their jobs, especially in Chechnya and the Northern Caucasus.

“Russia has been a fairly consistent leader in the number of journalists killed,” he notes, adding: “Being an investigative journalist in the Russian environment is a bold career choice.”

William & Mary’s Stephen Hanson agrees: “The space for criticism of the Kremlin has narrowed quite considerably. If you’re investigating government officials, Putin and his entourage, it’s not an easy thing.”

Official reports bear out their observations. Reporters Without Borders ranked Russia 142nd out of 179 countries surveyed in its 2011-2012 Press Freedom Index; this represents a downturn from the previous survey. “In a country where respect for human rights is far from given, state control of the broadcast media, arbitrary use of an anti-extremism law and, above all, impunity for acts of violence against journalists, especially in the Northern Caucasus, are the main media freedom violations,” the organization writes.

The Major Outlets

Vera Surzhenko, media relations manager for Shell in Russia, notes that the media landscape there is fragmented, with no national newspaper that would

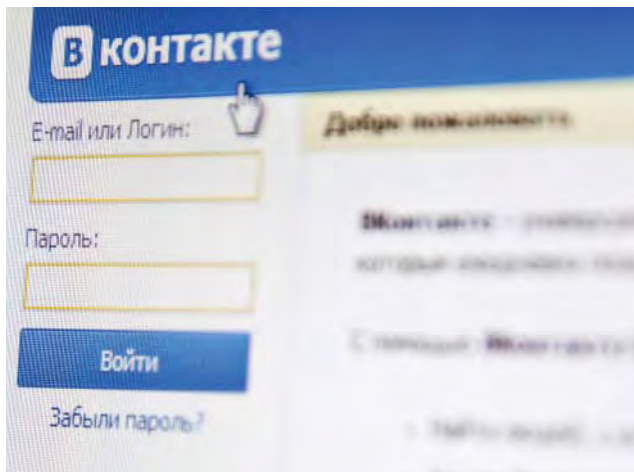
be considered the equivalent of *The Times* in the U.K., for example.

“TV has the most impact in terms of the whole nation,” she says.

Nonetheless, Russia has a number of newspapers that are important to the business community. The most prominent financial newspapers are *Vedomosti*, which is co-owned by *The Wall Street Journal* and *Financial Times*, and *Kommersant*. Bernard Sucher also points out that the Russian edition of *Forbes* is very influential. *Rossiskaya Gazeta*, the Russian equivalent of *CQ Roll Call*, is useful for tracking legislation and policy discussions.

For an American crowd, *The Moscow Times* is widely read, says Sucher, who notes that it “functions as a cheat sheet for people who don’t speak Russian very well, including the foreign press corps.” He continues: “Getting your point across in *The Moscow Times* will start a process of attention-getting that could be useful to you.”

Increasingly, the Web and social media are forces to be reckoned with. According to TNS Media Research Co., Russia has the most Internet users of European countries and ranks sixth in the world. In 2011, the number of daily Internet users in Russia grew to 22 percent of the population, or 44.3 million people. According to *Gazeta.ru* and a Public Opin-



VKontakte (above) and Odnoklassniki are Russia's top social networking sites, with tens of millions of users.

ion Fund poll, 38 percent of Russians over 18 years of age use the Internet daily.

New media in Russia has grown exponentially in recent years, with booming online commerce (\$11 billion in 2011) and numerous social networking platforms sprouting up to rival Facebook.

“Russia is a very social society, and that translates to the Internet,” says the Council’s Jason Jarrell. Tens of millions actively use Odnoklassniki and vKontakte, the top Russian social networking sites. Even the Kremlin has a Twitter account, and Medvedev quickly embraced the iPad when it first came out, while he was president.

Surzhenko points out that as people read more online, she is increasingly interested in how the Internet is shaping public opinion. One clear change is the schedule for corporate spokespeople. “Being press secretary means I need to give journalists 24/7 access. I’m always on my mobile,” she says.

Crafting a PR Strategy

Corporate communications specialists inside companies work with journalists “just as you would in the U.S.,” says Surzhenko. “We invite them to press briefings, and we sponsor international media trips.” In 2012, for instance, Shell took five journalists on a four-day trip to Norway to see Shell’s facilities there.

Depending on one’s industry, companies operating in Russia may find that trade publications are more influential than broader print media. For Surzhenko, for instance, publications such as *Oil and Gas Vertical*, *Oil of Russia* and *Oil and Capital* are extremely influential.

The Russian media landscape is full of pitfalls, says BGR Gabara’s John Lough. He warns that when an issue becomes controversial, Russian businesspeople or interested parties often “will use the tools of black PR against you.” In other words, it’s not uncommon for Russians to pay for pieces expressing their own views, or to mislead journalists into publishing stories that unfairly discredit a company or person.

“Black PR is a pretty well-developed tool in Russia and is often used to support expropriations and hostile takeovers,” he says. “My advice to anyone in a dispute with a Russian business partner or trying to influence the Russian government is: Be careful how you go about it.”

Lough urges transparency at all times. He also suggests using Western media to make your case and exert pressure on the Russian government. Once, he says, he was representing a company that had a disagreement with the Russian government concerning cross-border infrastructure development related to China. “We weren’t making a huge amount of headway in dealing with the Russian government in Moscow and the regions,” he recalls. Therefore, he decided to speak with European and American journalists to pique interest in the story.

Lough encouraged a Russian analyst to write a commentary that was then published in a leading Western business newspaper.

“We know that the article was read in the Kremlin. The article really showed that Westerners were watching and were judging the Russian government’s actions. I think it undoubtedly brought the issue to the fore,” says Lough. “Using the Western media doesn’t mean you’ll get the decision you want, but it raises the consciousness level.”

Lough says the Russian system is essentially a vertical power structure, with Putin at the apex and many layers of bureaucracy below, so everyone is wary about making a decision without knowing Putin’s position.

Corporate Social Responsibility

Multinationals in Russia are showing increasing interest in corporate social responsibility, or CSR. “The companies with significant business in Russia have been encouraged to and have found it in their interests to be involved in corporate social responsibility, as have Russian companies,” says Kuchins.

“Philanthropy in general is not a clearly understood concept in Russia,” says Medtronic’s Trevor Gunn. “However, most large Russian companies take care of their employees, and take care of their employees really well. This comes out of the Soviet tradition. Doing this is embedded in society, but it’s not spelled out as CSR.”

Looking forward, Gunn believes CSR will be increasingly important for multinationals. “It’s very important in terms of your showing to Russia that you have friendly intentions,” he says. “You’re standing with Russia on the side of the Russian people.” He says American and European companies need to tell compelling stories of their CSR work in Russia, or their efforts won’t be properly understood. It’s also important for companies not to simply localize CSR programs that have worked elsewhere.

“Russia can be very specific when it comes to CSR, and I’ve seen attempts at importing CSR programs that resulted in no net benefit, or maybe even risked reputation damage,” says Jarrell.

APCO’s Alex Kravtsov notes that CSR in Russia is full of pitfalls. “For multinationals, CSR is a very delicate thing. In the Russian context, CSR can be something public officials see as a partnership with the private sector.” The risk here, he says, is that companies may be asked to support programs they don’t necessarily endorse. “Government officials may make it clear that there are certain causes and projects that they would like the private sector to support,” he says. Often, saying “no” is uncomfortable, and yet companies need to ensure that the projects don’t run afoul of FCPA rules.

Hanson says multinationals need to choose their CSR projects very carefully. He notes that it wouldn’t be in a company’s best interest to undertake a CSR project that wasn’t closely aligned with the government’s own agenda.



When it comes to CSR in Russia, it’s a safer bet to take on a project that aligns with the government’s own agenda, including efforts to protect wildlife such as the Siberian tiger (above).

“Often,” he says, “the line between approved activities for advocacy and those that aren’t is hard to discover. If you’re doing environmental work about protecting some kind of wildlife — say, Siberian tigers — you may find a lot of support from the Russian authorities. But if you start inquiring about illegal logging or poaching and a local politician is involved, then that same advocacy could be seen as political and not a very good idea.”

Hanson notes that Russian NGOs operating in country face similar obstacles. “Many young people in Russia are active in NGOs, working on everything from youth issues to protection of monuments, but they have to be careful not to get on the wrong side of the authorities, be they local or national, or else they may find themselves facing tax inquiries or other obstacles that make operating very difficult.”

Savvy government affairs professionals seem to sense

Kraft Promotes Healthy Diet for Schoolkids

Through Health 4 Schools, a program that originated in the U.K., Kraft Foods is helping fund nutritious breakfasts for schoolchildren in three Russian regions where the company's plants are based: Velikiy Novgorod, St. Petersburg and Vladimir.

Because of our business, says Yana Guskova, Kraft's director of corporate affairs in Russia, "our agenda covers healthy lifestyles and health and wellness." She continues: "We do CSR in the communities where we reside and where we have plants."

To promote healthy eating habits for children, Health 4 Schools focuses on preparing and consuming a nutritious breakfast, says Guskova. The program assists schools in buying kitchen equipment, such as juicers and mixers, so the staff can prepare better meals. The targets of most Health 4 Schools efforts are schoolchildren in the second to fourth grades, and the program also helps schools buy gym equipment to promote physical activity.

"Often, the kids participate in cooking," says Guskova. "When the kids come home from school, they demand fresh juice, for example. And so the program is moving the culture toward healthy eating."

So far, Kraft has helped fund the program in 33 schools and has reached 11,000 children.

Although government relations is not the primary motivation behind Kraft's CSR program, Guskova



acknowledges that its philanthropic and social efforts have proven a distinct advantage in conversations with officials. A few years back, former President Medvedev scheduled a visit to one of Kraft's plants. Although the trip was canceled, she recalls that Kraft's CSR initiatives were of keen interest. "When he was preparing to visit, the president's administration requested information on corporate social responsibility, what programs we do and how much we invest," she says. "So you can see this is important."

this, and stick close to their expertise. Says Citi's Rick Johnston: "We try to emphasize CSR efforts in financial education or financial inclusion." Citi is working with five regional universities and has helped educate more than 3,000 Russian schoolchildren on financial literacy.

Similarly, Johnson & Johnson collaborated with USAID, the United Nations Foundation, mHealth Alliance and BabyCenter, a Johnson & Johnson company, to launch the Mobile Alliance for Maternal Action (MAMA). MAMA provides health information to

new and expectant mothers via cellphone.

"In programs like MAMA, government is always involved," says Pat Molino, vice president of public affairs at Johnson & Johnson. "We need the input of government officials to understand local health priorities and to implement programs in the most effective ways."

MAMA also provides resources and expertise to organizations in other countries that are creating apps for pregnant women who lack full access to health care.



Conclusion

For multinationals doing business in Russia today, there are many encouraging signs.

Almost everyone agrees that the multinationals that laid the groundwork for their business relationships in the 1990s or earlier are best positioned within the Russian marketplace today. Those companies that have been in Russia for the long haul and have invested countless hours of senior management's time developing strong ties are beginning to reap the rewards. For these businesses, the opportunities now seem promising indeed.

And as the U.S. has finally repealed the Jackson-Vanik Amendment and granted Russia PNTR status, positioning itself to take full advantage of Russia's WTO accession, experts are cautiously optimistic that it will open up even more opportunities.

Still, there's no substitute for investing time and energy engaging in the market.

"Government affairs requires a great deal of effort," says BGR Gabara's John Lough. The key to government affairs in Russia — as almost everywhere in the world — is developing and nurturing relationships.

"I believe foreign businesses are perfectly capable of building decent relationships with those in the elite in Russia and the Russian business community," Lough says. "And that can serve them well.

"That doesn't imply you have to do anything nefarious. At the end of the day, if you're a serious interlocutor and you have a good product or service and you're doing things the right way in Russia, people will talk to you," he says.

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