



Public Affairs in Russia

Public Affairs Council webinar

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Russia's challenges at glance

Economic

- Decreasing oil prices
- Budget deficit
- Natural recourses based and rent-seeking economic model
- Devaluation of the ruble
- Decreasing attractiveness for foreign investors
- Deteriorated trade relations

Political

- Uncertainty about power transfer and succession
- Uncertainty about change of government and prime-minister
- Intensification of inter-elite feuds
- Weak formal political institutions
- Personification of political power
- Securitization of the political agenda
- “Besieged fortress” mentality

Foreign policy

- Sanctions
- International isolation
- Severe deterioration of US-Russia relations (risks for strategic stability)
- Damaged relations with the EU partners
- Prospects of strategic overstretch (Syria)

Social

- Threats to social cohesion in light of the recession
- Prospects of social unrest
- Degradation of social infrastructure (healthcare, social security system, education)
- Inability to raise living standards of loyal social groups (civil servants, teachers, doctors, etc.)

State Duma elections 2016: implications for business

Elections' results

- **Tight control** of the executive branch
- Dominated by the **United Russia legislators** (the Putin-led party)
- Deputies from single-member constituencies
- 25% of Non-United Russia members within faction (All-Russian People National Front)
- **Strict party discipline** (the Kremlin's grandee as the State Duma speaker)

Legislative Agenda

- **“Political” bills**
 - Designed to ensure stability of the political environment
 - Would affect business (e.g. the Yarovaya package)
 - Business would not be able to influence such bills
- **“Macroeconomic” bills**
 - Taxation
 - Control & supervision reform
- **“Purely” economic bills**
 - Pharma, agribusiness, IT
 - Import substitution

Tips for public affairs

- Allocation of **public affairs resources** for the Duma and legislative work
- New committees - new chairmen - new **dynamics**
- Introduction of **regulatory impact assessment** - **0 reading** (80% probability)
- Track and analyze interest groups' agenda, inter-elite feuds, policy making process, etc.
- PA strategies should be supplemented with **political analysis**

Presidential elections: 2017 or 2018

Uncertainty surrounds the next presidential elections

WHEN? Snap election in 2017

WHY? To reelect Putin before the economic situation further deteriorates

HOW? Amending the Federal legislation (law “On elections of the President”)

Possible implications for business

Before the election Putin may introduce a profound overhaul of the government apparatus, which may affect certain regulators relevant for business

Top government officials and regulatory bodies may stay paralyzed until the situation gets clearer

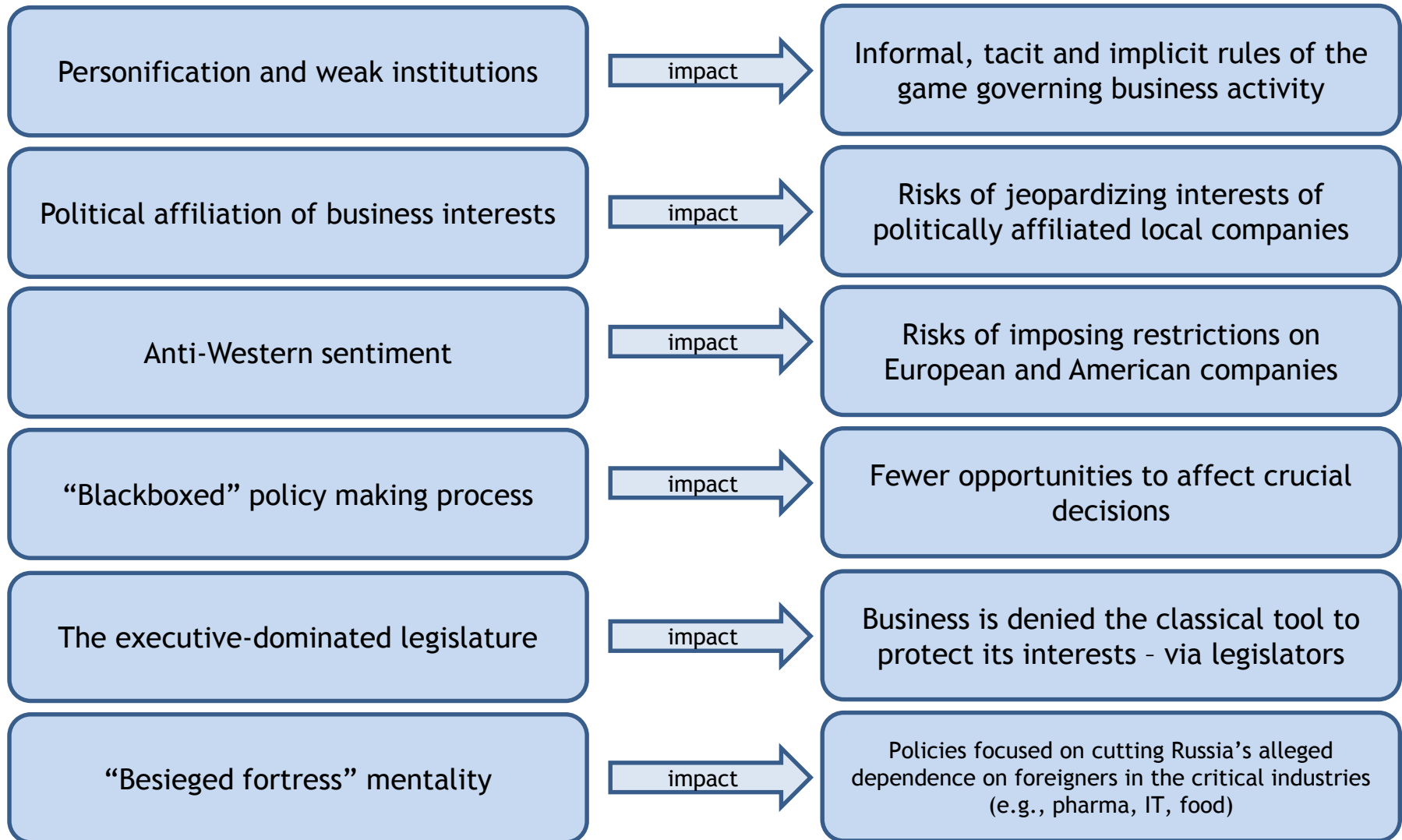
It is very unlikely that the authorities would introduce any significant reforms before the presidential election

Prior to the election, Putin may make additional foreign policy steps antagonizing the West to appeal to his core electorate, thus creating additional risks for foreign business operating in Russia (e.g., additional sanctions and countersanctions)

If rigged, the election may trigger social unrest and protests, thus menacing general political stability and increasing country risks for business

Russia's politics and its impact on business

The macro-characteristics of Russian political environment affecting business



Key regulatory and public affairs trends

- **Import substitution** policies in the strategic industries (especially in pharma, machine production, IT, agribusiness)
- In light of the budget deficit and falling government revenues the authorities are getting increasingly focused on **raising the existing taxes or introducing new ones**
- Given the current geopolitical situation, foreign business and its trade associations have **fewer opportunities to affect the regulators and make their case before policy makers**
- **Politization** of economic decision making process
- **National security considerations** prod policy makers into adopting **economically futile legislation and regulations**
- Local market players are actively **playing the import substitution card** to get advantage over their foreign competitors



Case study: Pharma

Public affairs support for the global pharma company in applying for the SPIC and structuring advocacy efforts on expanding list of incentives and measures of state support for the client within SPIC (2016)

The client's objective was not only to retain its share on the public procurement of drugs but also to expand the list of existing incentives and measures of state support and align its localization plans with them to make the new investments within newly established mechanism of Special investment contract (SPIC) economically beneficial for the company.

Within existing scope of work Kesarev has been providing the following services:

- Analyzing opportunities for launching a new investment project
- Developing a road map and an action plan for the project team
- Developing a business case and preparing the documentation required for SPIC signing
- Stakeholder mapping
- Drafting documents, covering letters and communicating with the relevant government bodies
- Drafting an advocacy program to expand the list of potential incentives and measures of state support within SPIC
- Advocating and promoting the client's interests

Currently Kesarev is finalizing the SPIC documentation package. The next step is to implement advocacy program starting August and holding consultations with regional authorities, the Industry Development Fund, and the Ministry of Industry and Trade. The SPIC application is due to be submitted to the Ministry of Industry and Trade in September - October 2016. The project is ongoing.

Case study: Digital

Ongoing public affairs monitoring and consulting services in Russia for a global VOD services provider (2016)

Kesarev started to provide regulatory monitoring and consulting services to a global VoD company after its entry to the Russian market. Then, the stakeholders and market players elaborated a draft law imposing restrictions on Internet streaming services, mainly in connection with the company's launch in Russia.

The services provided by Kesarev include ongoing regulatory monitoring on Internet streaming draft law and other relevant issues (personal data, VAT on e-services, state support for Russian content, and others), as well as ad hoc consulting on more specific matters (issues related to regulatory and other implications of licensing Russian movies by the client, etc.).

Kesarev also drafted the stakeholder map along the key issues for the company in Russia & Eurasian Economic Union.

Kesarev expects that after the parliamentary elections in September 2016 the discussion on the draft law on Internet streaming regulation will resume and client will expand the scope of work to direct stakeholder engagement.

Case study: FMCG

Removing dietary supplements from the sanctions list banning their import for a global company leader in the FMCG sector (2014)

On August 6, 2014 the president signed a decree "On the application of certain special economic measures to ensure the security of the Russian Federation."

On August 7, 2014 Government issued decree № 778 banning import of a certain list of agricultural products, raw materials and foodstuffs including ban of dietary supplements.

Kesarev was tasked to lift the ban on the importation of dietary supplements and implemented the following steps:

1. Prepared analysis and evaluation of the reasons for the ban on dietary supplements, the position of the key stakeholders.
2. Drafting letters from 3rd parties to key stakeholders, informal negotiations with stakeholders before sending out the letters
3. Sending out letters, tracking their status, interaction with stakeholders
4. Lifting of the ban

August 20, 2014 the Government adopted a decree № 830 "On Amending Resolution of the Russian Government dated 7.08.2014 № 778" adjusting the list of food prohibited for import into Russia with dietary supplements excluded.

Public affairs tips for foreign businesses

Despite the volatility, uncertainty, complexity and ambiguity of Russia's political and regulatory environment, foreign companies may, nonetheless, successfully navigate its public affairs to get a competitive advantage in Russia.

Here are some tips how to achieve that:

Track and analyze

Over the last few years Russia's regulators have significantly refined their websites thus making it easier to track issues, spotting emerging ones and analyzing them properly

Do not get involved in politics

Foreign companies are recommended to make it clear to external audiences that they stay out of politics and are driven by purely business considerations

Strategize

Given complexity of Russia's regulatory environment, business should view PA not merely as a back-office function but rather as a front requiring a strategic approach and close attention from top executives

Find allies among local players

Foreign business should actively work on finding partners among Russia's domestic companies, which are more likely to win support from government officials

Learn the informal rules of the game

Foreign companies should be aware that the key influencers may not hold any official government and political offices and be more influential than those holding them

Thank you for your attention!

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About Kesarev

Kesarev is among few reputable local consultants to provide professional and compliant services in CIS region on government relations, public affairs, regulatory/policy and issues management.

We promote our clients' business case at all public and governmental levels and institutions, minimize political risks, address crisis issues and ensure business continuity through establishing clear and effective regulatory environment.

We work closely with "best friends" in other jurisdictions, leading law firms and industry associations to bring our clients through policy/regulatory issues and disputes of strategic importance and to extend them with our own specialized expertise.

Our team is fluent in languages spoken at governmental level and essential stakeholders.

Our background and experience allows us to specialize in agribusiness/food sector, health care, financial services, infrastructure, energy/utility, mining/natural resources, mechanical engineering, defense, customs tariff and non-tariff regulations/international trade, and some other areas.

Kesarev: compliance and ethics

Compliance

- Longtime history of serving multinational corporations according to high professional standards and internationally recognized compliance requirements.
- Kesarev acts in compliance with the US Foreign Corrupt Practices Act (FCPA) and UK Bribery Act (UKBA).
- Our experts and management attend continued educational programs and trainings in compliance awareness, anti bribery compliance, anti money laundering and etc. Our internal policies include annual continuing education (both external and internal) in those areas of compliance and legislation.
- Our executive partners are the members of International Compliance Association.

Ethics

- Kesarev team members act under commitment to abide the Codes of Ethics of Society of European Affairs Professional, Association of Public Relations Consultancies (AKOS) and currently are working with the industry colleagues on local (Russia and Ukraine) professional ethics code.
- Kesarev and its employees also are the member of International Bar Association, International Compliance Association and Public Affairs Council, where they are obliged to professional ethics and compliance restrictions.
- We encourage our clients to sign confidentiality agreement.

Kesarev: recognitions and membership

Recognitions



Kesarev was ranked by Best Lawyers 2014, 2015 and 2016 among top within Regulatory Practice.

Kesarev is ranked by Top-1000 Russian Managers Rating 2014, 2015

Government relations Directors voted for Pavel Melnikov, Partner in the Public affairs Directors' listing while top-managers voted for Eugeny Roshkov, Managing Partner in the respective section of professional services management listing.

Membership

