



**Report of the visit of the Rt. Hon The Lord Mayor
(Alderman Roger Gifford)
to the Russian Federation**

27th – 29th May 2013



Mansion House

Tim Rolph
Senior Programme Manager
to the Rt. Hon. The Lord Mayor



See Distribution

Email

tim.rolph@cityoflondon.gov.uk

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I enclose the report of the visit by Alderman Roger Gifford, The Rt. Hon The Lord Mayor of the City of London (2012-13) to the Russian Federation. Please could you make the necessary arrangements to distribute it further within your own departments or organisations, as appropriate.

The Lord Mayor has asked me to convey his warmest thanks to all those who helped on this visit for their assistance and hospitality, in particular Ambassador Tim Barrow, along with all his staff for the smooth running of the visit.

Sincere thanks go also to colleagues at the Foreign and Commonwealth Office, UK Trade & Investment, TheCityUK and The City of London for their contribution to this successful visit.

Any comments or questions can be sent to me at the email address above.

TIM ROLPH
Senior Programme Manager

Distribution:

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Mr Dionis Ardzinba	British Embassy, Moscow
Mr Jeff Sinclair	UKTI
Mr Hugh Jerome	FCO (Russia)
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Lord Mayor
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Day File
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EXECUTIVE SUMMARY

- The Lord Mayor, accompanied by Alderman Fiona Woolf and a 16-strong business delegation, visited Moscow from 27th to 29th May, the latest in the series of regular engagement with, the Russian Federation.
- The 5th Meeting of the Joint Liaison Group of the Moscow International Financial Centre (MIFC) project.co chaired by the Lord Mayor and Alexander Voloshin, continued the close collaboration between the City of London and Moscow.
- The Lord Mayor made calls on the Deputy Mayor of Moscow Andrei Sharonov, outgoing Governor of the Central Bank Sergei Ignatiev and Deputy Minister of Finance Alexei Moiseev. The MIFC project, economic diversification, away from an energy-dominated economy, development of long-term finance, with a particular focus on pensions strategy, and capital flight will feature as themes when Russia takes up the Presidency of the G20 later this year.
- The Lord Mayor spoke at two further events: a seminar for local SMEs on the financing of e-commerce/digital firms, arranged by the London Stock Exchange; and a conference organised by CISI, and sponsored by Deloitte, at the Financial University, where he announced the launch of a new Russian-British qualification in corporate finance.
- The Lord Mayor visited the Bolshoi Theatre, with representatives of the British Council in Moscow - the first stage of greater Corporation involvement in the planned UK-Russian Year of Culture in 2014.

FOLLOW UP ACTIONS

1	Date of the 6 th MIFC JLG meeting in London to be fixed for December 2013. [Under discussion]	Mansion House / TCUK
2.	Letter of invitation to be sent from Lord Mayor (FW) to Mr. Voloshin to Co-Chair the December meeting. [To action in November].	Mansion House
3.	Minutes of the 5 th JLG meeting to be circulated [Completed]	TCUK
4.	Printed report from the 5 th JLG meeting to be made available to Deputy Minister of Finance.	Mansion House / TCUK
5.	Chair for the new Long Term Finance workstream of the MIFC to be identified and engaged. [Under discussion]	TCUK
6.	Investigate potential City of London involvement in the International Urban Forum in Moscow.	EDO / TCUK
7.	Investigate with the British Council potential City of London involvement in the UK Russia Year of Culture in 2014. [Ongoing]	Mansion House / EDO

BACKGROUND

1. The Lord Mayor's visit came in the wake of the visit by the Prime Minister, David Cameron, to Sochi on 10th May, in which he held substantive talks with President Putin on the situation in Syria, on UK-Russia trade and other bi-lateral issues. Those talks followed meeting between the UK Foreign and Defence Secretaries with their Russian counterparts in March. As a result of this engagement the UK-Russia relationship, which has been on a gradual upward trajectory since the Prime Minister earlier visit in September 2011, has been strengthened further. Russia will chair the G20 later in 2013, and the G8 in 2014.
2. Russia remained one of Britain's fastest growing major export markets in 2012. Exports in 2012 totalled £5.51 billion. The value of British good exported to Russia increased by over 80% 2010-2012 and exports are expected to grow further as the Federation opens up its economy to more trade and investment. Around 600 UK companies are currently operating in Russia, and there is scope for this presence to grow – there are ten times more German firms in Russia than British. Russia has improved its ranking in the 2013 World Business Ease of Doing Business Survey, rising to 112th place, ahead of Brazil and India.
3. UKTI has identified two significant High Value Opportunities with a total value of £65 billion and an accessible value to the UK in excess of £3 billion. These are the Sochi Winter Olympics in 2014 and the World Cup in 2018.

LONDON – MOSCOW JOINT LIAISON GROUP

4. The close collaboration between the City of London and Moscow continued with the 5th Meeting of the Joint Liaison Group of the Moscow as an International Financial Centre (MIFC) project, held at Vnesheconombank. The meeting was co-chaired by the current Lord Mayor, with his Russian counterpart Alexander Voloshin. The Deputy Governor of the Central Bank Sergey Shvetsov attended and spoke about regulatory reform.
5. Opening the 5th Plenary Meeting of the Liaison Group, Co-Chairman Alexander Voloshin noted that the project to develop Moscow as an international financial centre had been a priority of the Russian government since 2010. The significant step forward of the merger of MICEX and RTS and the listing of the Moscow Exchange was a case-study for future IPOs, with almost a quarter of the Moscow Exchange issue being purchased by UK investors. Mr Voloshin also anticipated that in April 2013 the Minister for Economic Development will support visa applications from major foreign companies in order to create a more comfortable climate for investors.
6. Sergey Shvetsov, Deputy Governor of the Central Bank, foresaw the MIFC as a path for foreign investors, though the creation of a large *domestic* investor base was key to Moscow's success. The creation of a mega regulator under the Central Bank of Russia was imminent, with the final legal changes expected to take effect in the late summer and early autumn of this year. The Ministry of finance will play an important role in regulation, and legal changes affecting the insurance industry will follow. The British Embassy reported that a useful exchange on financial regulatory reform had taken place between the Central Bank and UK regulators on 20th May, with a team from the Bank of England visiting Moscow in June 2013 to discuss issues of financial stability.
7. The meeting enabled the Russian and British leaders of the various supporting workstreams to report back on their progress over the last six months. It was agreed to merge the Securities and Derivatives workstreams into a new Markets workstream and to establish an additional workstream looking at Long-term Finance. The success of the ETQ workstream was enhanced by the subsequent CISI conference on accreditation (see below). A new workstream established for IT infrastructure as part of

the ongoing collaboration was welcomed by UK representatives, though the response from the Russian side was cautious, due to satisfaction on their side with existing systems and providers.

8. Finally, the Liaison Group gave a warm welcome to Deputy Co-Chairman Alderman Fiona Woolf and looked forward to her hosting of the 6th meeting of the Joint Liaison Group in London in December 2013.
9. The MIFC meeting provided a context for other business meetings. At a breakfast event, hosted by the British Ambassador, in collaboration with the Association of European Business, the Lord Mayor led a useful high-level discussion with senior business figures, including CEOs of European banks and financial services companies represented in Moscow and elsewhere in Russia. A similarly constructive conversation on the Russian economy was had at the small private dinner with the several Chairmen of major Russian banks the evening before. The Ambassador's Reception gave the Lord Mayor the chance to meet the wider business and political community in Moscow.

POLITICAL AND POLICY CALLS

Deputy Mayor of Moscow

10. The Lord Mayor met with the Deputy Mayor of Moscow, Andrei Sharonov, for a useful bilateral with the Moscow city government. Addressing questions around the physical infrastructure which will support the development of an international finance centre, Mr. Sharonov said that Moscow was increasingly looking at long term development outside the city centre as well as within it. One area being looked at was the Rublevo-Arkhangelskoye region between Vnukovo and Sheremetyevo airports, where Sberbank was considering locating its new headquarters. This could become a Canary Wharf-style district with infrastructure designed for the modern financial services industry. This would be an important project, as creating a "pearl" area that was cleaner and closer to the airports could help to attract more international companies to Moscow. Mr Sharonov emphasised that any new physical infrastructure would not be built by government but would have to be a private enterprise. However, the development of such infrastructure was not a critical step.
11. Mr Sharonov touched on the wider London-Moscow relationship. Moscow's Deputy Mayor for Transport and the Deputy Mayor for Infrastructure had both also made recent visits to London. Some joint education projects had already been initiated to link in with 2014's UK-Russia Year of Culture. The Lord Mayor was also keen to use this opportunity to set up more cultural collaboration around arts and heritage.
12. Mr. Sharonov raised the International Urban Forum which Moscow was hosting later this year, focussing on the relationship between city centres and their outskirt districts. Moscow was particularly interested in how to revitalise its suburbs and outer districts, and noted that construction and architecture were only part of the solution. Alderman Fiona Woolf said that the Corporation was looking at ways to fund long-term projects, particularly infrastructure, and planned to host an international conference on this in July 2014. It was agreed that the City of London would keep in contact with Moscow about these plans, including how they might link to Moscow's conference at the end of this year.

Governor of the Central Bank of Russia

13. The Lord Mayor called on the Governor of the Central Bank of Russia, Sergei Ignatiev, for a discussion on the Russian economy, Russia's monetary policy and banking regulation. Mr. Ignatiev described Russia's current economic situation and expected the growth rate this year to be 2.5-3%. There were several factors behind the slowdown, including the poor performance of the EU and global economies. But while Russia was concerned about external factors, Mr. Ignatiev did not believe that their impact would be as significant as in 2008. However, he was more concerned about the expected deterioration in Russian demographic figures over the next ten years.

14. Mr Ignatiev reported that inflation was still high, at about 7.2% - above the CBR's target of 5-6%. But there were objective reasons for the high rate: particularly the high rise in food prices as a result of the poor harvest last year. If the harvest was better this year, Mr. Ignatiev believed that there was "a 90% chance" that inflation would fall within the target band. The Lord Mayor asked for Ignatiev's views on Abe's policies in Japan; Mr. Ignatiev said that he had suggested the policy to a previous Governor of the Central Bank of Japan, but noted that it was risky given Japan's high levels of government debt.
15. In their discussion on banking regulation, Mr Ignatiev said that laws had already come into effect which required banks to start reporting under Basel III, so the Central Bank was already receiving feedback on levels of compliance with the new requirements. The current deadline for compliance was 1 October. Ignatiev noted that bank officials often complained that Russia was moving too quickly, particularly as the EU was lagging behind and the US had postponed implementation. But the Central Bank saw no grounds for changing its plans, although would continue to analyse the results from banks.
16. Mr Ignatiev said that a that a key problem for the MIFC project was the urban environment in Moscow, particularly traffic jams, which had to be tackled if Russia wanted more foreign firms to choose to locate in Moscow.
17. Alderman Fiona Woolf raised the proposed reforms to the Civil Code. Mr Ignatiev explained that the Code was one of Russia's most complicated pieces of legislation, difficult to amend and huge in scale. He agreed that Russia had "peculiar" regulations regarding collateral requirements in contracts, although it was important to prevent misuse and protect those without collateral.
18. Following his departure from the Central Bank in June, Mr Ignatiev will remain at the Bank as an advisor to the incoming Governor, Elvira Nabiullina, who is currently President Putin's senior economic aide.

Deputy Minister of Finance

19. The Lord Mayor and the business delegation attended a meeting with Deputy Minister of Finance, Alexei Moiseev, and his advisors. The MIFC project and its progress were discussed at length, as well as plans for the creation of a physical financial district, which would be an entirely private-led initiative (though there would be some state investment in the development of supporting infrastructure).
20. The Deputy Minister also outlined Russia's plans for economic diversification, away from an energy-dominated economy, to which the development of long-term finance will be key. Mr Moiseev felt that Russia had already completed the easy part of economic growth, with the economy operating at full capacity and low unemployment. More challenging, but the key to further economic growth, was structural reform, in particular improving access and infrastructure for long-term investments, looking to the example of the UK model. Legislation is pending to regulate transfers between pension funds, and to limit such transfers to one every five years. This diversification and re-focusing on long term investment will be a key theme of the G20 summit, which Russia will chair in autumn 2013.
21. Concerns over capital flight remain a core pre-occupation, although Mr Moiseev suggested that offshore investment of this kind had helped to avoid further domestic asset bubbles.

CULTURE & MEDIA, ETQ & SMEs

22. The Lord Mayor visited the Bolshoi Theatre, with representatives of the British Council in Moscow - potentially the first stage of greater Corporation involvement in the British Council's planned UK-Russian Year of Culture in 2014.

23. The Lord Mayor spoke at the seminar arranged by the London Stock Exchange for local SMEs. The event focused on the financing of e-commerce/digital start-ups, in particular the support and expertise that could be sourced in and through London.
24. The Lord Mayor was the keynote speaker at the conference organised by CISI, and sponsored by Deloitte, at the Financial University, where he announced the launch of a new Russian-British qualification in corporate finance.
25. The Lord Mayor was interviewed by a number of broadcast and print media about his visit, the City of London, and what the UK can offer, as the world's pre-eminent centre for financial services, to Russia in support of Moscow's ambitions to become a global financial centre itself.

ACKNOWLEDGEMENTS

26. The Lord Mayor would like to thank HE Tim Barrow (HM Ambassador Moscow) and all the staff of the FCO and UKTI who made the visit a success. Additionally, the Lord Mayor wishes to record his thanks to Chris Cummings (TheCityUK) and colleagues for their contribution to the success of this visit, in particular the co-ordination of the MIFC Joint Liaison Group meeting.

Tim Rolph
Senior Programme Manager
tim.rolph@cityoflondon.gov.uk

Appendices

- (i) Programme
- (ii) Business Delegation

Monday 27th May

19:00	Dinner with Chairmen/CEOs of Russian banks
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Tuesday 28th May

08:00	Breakfast Briefing for the business delegation and representatives of the Association of European Businesses at the British Ambassador's Residence
09:30	Meeting with Deputy Mayor of Moscow, Mr. Andrei Sharonov
11:30	Fifth meeting of the UK-Russia MIFC JLG, followed by brief joint media interviews, followed by lunch.
15:00	Meeting with Central Bank Governor, Mr. Sergei Ignatiev.
16:30	Tour of the Bolshoi Theatre by the Director of the Bolshoi Museum.
17:30	Media Interviews at Residence
18:30	HM Ambassador's Official Reception at Residence
21:00	Dinner with business delegation

Wednesday 29th May

08:00	LSE E-Commerce event at the Residence
10:00	Meeting with the Deputy Minister of Finance, Mr. Alexi Moiseev
12:00	Deloitte/CISI seminar and lunch at Financial University
14:00	Depart for Helsinki.

APPENDIX 2
BUSINESS DELEGATION

Name	Company
Axel van Nederveen	European Bank for Reconstruction & Development
Lisette Mermod	Risk Reward Limited
Andrei Baev	Berwin Leighton Paisner
Simeon Radcliff	Clifford Chance
David W B Burnside	New Century Media
Oleg Khomenko	Allen & Overy Legal Services
Danny Corrigan	CME Group
Chris Weir	Tullett Prebon Information
Abigail Lee	Tullett Prebon Information
Stuart Lawson	Ernst & Young
Hamish Rowan Hamilton	TheCityUK
John Cooke	TheCityUK
Chris Cummings	TheCityUK
Yuri Andreev	Scottish Development International
Erik Jewell	Scottish Development International
Veronica Poole	Deloitte LLP
Andrew Spooner	Deloitte LLP
James Ferguson	Deloitte LLP
Robert Barnes	Anopolis
Howard Snell	Otkritie Securities Limited
Nikolay Ocheretin	Otkritie Securities Limited
George Littlejohn	CISI
Simon Culhane	CISI
Steven Palstermans	SWIFT