Interview with Andrew Somers, President & CEO, American Chamber of Commerce in Russia

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If U.S. and Russia have a long history of trade, and you have personally been with the American Chamber of Commerce in Russia since 2001. Can you give a brief overview of the history of the Chamber?

As the U.S.S.R. unraveled in 1991, a group of American businessmen informally created the American Business Club (ABC) to unite the American business community in Russia and to aid each other in working towards common goals. In the summer of 1993, the ABC submitted an application to the U.S. Chamber of Commerce in Washington, D.C., to formally open a chamber in Russia. On Jan. 13, 1994, U.S. Secretary of the Treasury Lloyd Bentsen, and U.S. Secretary of State Warren Christopher, were present at the official launch, in Moscow, of the American Chamber of Commerce in Russia.

Fundamental decisions made in that first year still guide the Chamber today—such as the choice to position AmCham as a resource to the Russian Federation government in designing business legislation. To establish its credibility, AmCham identified key individuals in both the Russian and American governments and focused on creating close working relationships with them. Since then, the Chamber has continued to develop its reputation as a reliable business advocacy organization, and its membership has grown over 600 percent since 1994—currently exceeding 800 corporate member companies.

Today, the AmCham is the leading and most influential foreign business organization in Russia. It has and will continue to play an import role in facilitating trade and investment

between the two countries. What do you believe are the key issues and themes that will shape your present agenda?

The environment is changing so quickly in Russia that we must keep our agenda flexible, and remain adaptable to circumstances. However, some important issues for the American Chamber of Commerce in Russia in the year ahead will include: Russia's modernization drive; the Skolkovo project; business development in Russia's various regions through AmCham's specialized regional programs; clarification regarding the laws and procedures of the new Customs Union; the establishment of a new customs court regime; localization issues; as well as working with the U.S. government to better leverage the U.S.-Russia Presidential Bilateral Commission to promote substantial business transactions between the two countries.

The Chamber is committed to creating a more business-friendly environment in the Russian Federation and the only way to do this is to bring together the different stakeholders in a way where all parties feel comfortable engaging in proactive dialogue. In order to facilitate this dialogue, the AmCham acts as a link between members, policy-makers, and international business leaders. Of course, sometimes there are disagreements between parties, but our objective is to mediate the conversation so that the outcome is beneficial to all.

A good example of where such mediation is necessary in the pharmaceutical industry centers on localization requirements. Essentially, the government says to the industry: "Invest in manufacturing and facilities in Russia." Then the government tells the industry that within X number of years, a certain percentage of the factory must be made with Russian components. Companies would be happy to localize such facilities, but they are not confident that Russia offers sufficient quality at a reasonable price. In this sense, localization is being forced on the business community, and that is not what we want to see.

This is being done because the government does not want to be dominated by foreign companies. Understandably, some protectionism is necessary for each country— but our objective is to find constructive solutions that protect and promote the legitimate common economic interests of all our member companies. In this regard, the Ministry of Economic Development has been very pro-business, and working within the same line as the industry as a whole; however, the Minister of Industry and Trade has been pushing to develop only local industry.

A similar discussion continues in many sectors, which is why a major priority for the American Chamber of Commerce is to mediate between industry, customers and government. The Chamber works to identify common problems for normal business operations and achieve mutually beneficial solutions. Fortunately—or unfortunately, depending on how you look at it—the political season is starting, and governments are starting to play an increasingly active role. They are focusing on localization and joining the WTO.

IP has been a major item of dispute between the USA and Russia. However, over the past 12 to 18 months significant progress was made by Russia on this issue, and I am reasonably confident this will not be a hindrance to joining the WTO.

How would Russia's entry into the WTO increase commercial opportunities for American companies?

Generally, tariffs on US exports to Russia will decrease. President Barack Obama declared last year that he and President Dmitry Medvedev have 'succeeded in resetting' the relationship and Mr. Obama looks to improve trade with Russia. So as far as Russia joining the WTO, the issue is just about solved.

However, one of the remaining details to be worked out is the Jackson-Vanik amendment. This is a provision in United States federal law that was adopted in the 70s with the purpose of pressuring the Soviet Union to allow emigration. It was especially focused on the emigration of religious minorities. Basically the amendment states that countries which restrict emigration—which is considered a human right—cannot have Permanent Normal Trade Relations (PNTR) with the U.S. However, normal trade relations can be temporarily extended to a country on a one year basis if the President determines that this country complies with the freedom of emigration requirements of the amendment—and this is the case with Russia. So every year, the President has the authority to grant a yearly waiver to Russia.

Here is where the problem arises. Under WTO rules, every member country must grant every other member country permanent normal trade relations, but, in theory, American legislators could decline the waiver on any given year. So the American congress must abolish the Jackson-Vanik amendment as it applies to Russia. Although the current administration has made it clear that they would like to see Russia join the WTO, President Obama does not want to move forward without the official support of the congress.

The American Chamber of Commerce in Russia is working to arrange a series of delegations, with 2-3 heads of key companies, to meet with congressmen in the U.S. to educate them about the effects of the Jackson-Vanik amendment and the trade potential available to American companies once Russia joins the WTO. It is important for people in the United States to realize that when American companies invest in Russia, it does not take away American jobs. In fact, it maintains or upgrades those jobs. It also facilitates US exports to Russia. Equally important, it helps American companies maintain or increase their global competitiveness. AmCham delegations will visit Congress to share information on the success of American business in Russia and the benefits to American companies from Russia's accession to WTO and abrogation of Jackson-Vanik.

The United States is the world's largest consumer of energy, while Russia is its largest producer¬—so the synergies there are obvious. But going beyond the geopolitics of

petroleum, where are the opportunities for increased commercial activity?

Russia is on the verge of breaking away from its past and entering the global economy with full sail, but the country needs to focus on its intellectual capital. Russia is recognized by leading American companies as having some of the best educated and most productive software engineers in the world. Therefore the country should focus on its highly skilled and highly trained computer and software engineers.

Russia is the largest market not yet in the WTO, which can intensify certain trends towards 'over-nationalism' and isolation. Moving forward, the country needs to diversify its economy and one of the priorities needs to be the pharmaceutical and healthcare sector.

Prime Minister Putin is strongly behind this. Healthcare was neglected under Yeltsin, and during Putin's early years. As president, Putin focused on building a strong financial base, and therefore cut spending. The result, as a health expert once told me, is that in terms of healthcare today, "Russia is where the U.S. was in the 50s." Life expectancy for males is extremely low and the country is suffering from diseases like TB. What the U.S. did in the 1950s was put money into prevention. The States declared a huge financial increase in healthcare and disease prevention and disease dropped.

As Prime Minister, Putin is heavily involved in the healthcare industry, but he is pushing some bills that companies do not like. One example of a bill that passed forbids pharmaceutical companies from marketing to doctors during working hours. It appears the government does not fully understand what it takes to be competitive in this industry.

One relevant success AmCham has recently had in working with pharma, is to modify legislation to create a sustainable healthcare for Russia within a business-friendly environment was to get a 'Data Exclusivity' clause into the federal law on Circulation of Medicines. Intellectual Property Rights (IPR) play an essential role for any company looking to do R&D in a country and before this legislation was passed Russia had no data exclusivity rules. So, this should greatly enhance the attractiveness of Russia for the pharmaceutical industry. While the details of the clause need to be improved, the concept has been approved. This will be a major step forward for companies looking to do biotech/biopharma research in Russia.

How can the AmCham help companies looking to work in Russia to take advantage of the opportunities here?

At AmCham, we have an ROI business model, where all members pay a fee based on global annual revenues. This income provides us the capital we need to work to advocate regulatory improvements in the U.S. and Russia, offers concrete assistance to individual company members in resolving problems, and provides business development opportunities through networking

events. With almost 800 members it is clear that across a wide spectrum of business activities and including even non-American companies, businesses see the value in the work that we do, and they gather support for our initiatives from their company headquarters.

At the AmCham, we have created 18 committees composed of company executives. My staff here helps to coordinate the meetings and prioritize agendas of these committees but the most valuable asset we have are our members. Our committees are not made up of analysts from outside; they are composed of the most knowledgeable experts in the markets relevant to AmCham members.

For example, we have a Healthcare Committee within the Chamber that works toward the development of a transparent, efficient, and non-discriminatory market for pharmaceuticals, medical devices, and healthcare services in Russia. The committee acts as a unified voice in developing advocacy positions that meet the interests and concerns of its members—offering input on Russian healthcare legislation, certification regulations, IPR protections, customs codes, taxation issues, and WTO accession. The committee works to create a mechanism for dialogue with officials from the Russian Ministry of Health and other interested government agencies, in order to influence healthcare reform.

What the AmCham does is provide an umbrella for companies. We are the face of 18 industry segments. Companies like this because they know to whom to turn if there are problems; and politicians like this because it does not appear that they are favoring certain companies over others.

We work on sector issues. So we ask, for example, for a committee to write a draft proposing an amendment to a law, or a research paper to support our advocacy to the government. Then we advocate for the sector. We help individual companies if and when they hit any bureaucratic setbacks—for example, either due to legislation or corruption. I ask them to clearly outline the issue in writing, (both in Russian and English), in order to explain and quantify the issue to authorities. Once we have a full understanding of the facts and issues, AmCham sends a letter to the appropriate officials to address the concern. We ask all parties to give full disclosure on what is going on. The AmCham has a reputation of being pragmatic, honest, and independent.

When working in Russia, we acknowledge that corruption is an issue, but emphasize to our members that the best way to protect their companies is to resist it—and follow US legislation, such as the Foreign Corrupt Policies Act.

Riding on Russia's overall market success, what are the major opportunities for growth within the pharmaceutical sector?

We are starting to see more and more investment from American companies. There was an announcement just recently about Pfizer, and Abbot as well, investing in this market. There is huge

potential here, especially for advanced drugs. Russia does have a few manufacturers of advanced drugs, but they have a very small percentage of the market. So there is great opportunity here, and that is why we work hard with legislature to make sure that it remains an open market.

Speaking generically, if men are dying at 56, then there have to be some drugs to help here. Russia is still over-focused on the response to a disease and is only just now beginning to look seriously at the prevention. Certainly the Pharma industry can play a big role here.

Of course production is not the only thing that makes a country an attractive investment destination. What do authorities and the AmCham have planned to optimize market potential?

Russia is trying to correct some problems in the healthcare sector; however, the solutions can be overly harsh. For example, to counter the so-called “abusive marketing” by some pharmaceutical companies, government has enforced a prohibition against doctors travelling on the expense of a pharmaceutical company to go to a conference. What is intended is to prevent the doctor from succumbing to temptation to recommend drugs because he got a free trip. On the other hand, it isolates Russia from medical advances because the conferences by the major pharmaceutical companies are one of the leading ways of brining medical advances to the medical community. What’s particularly important about it is the penetration of the internet and websites by the medical community is low here – this is because the common language is not English. Doctors in the regions do not speak English. So if you do not let them go on a trip, and you do not provide them with access to information on internet, in Russian, then the country risks falling behind.

The language of business on the internet is English. Of course there are segments in different languages, but to disseminate information quickly, the language is English.

So this is one of the roles of the AmCham – to improve legislation that is well intended but could have negative impacts.

What would you like your final message to be to the international business community, on behalf of the AmCham in Russia?

Health in a nation is everything, and Russia needs universal high quality healthcare. Raising healthcare standards will come not only through political will, but also through commercial activities and through the business community. This becomes clear when we look back to a time before antibiotics or vaccines. The contributions of the pharmaceutical industry have improved peoples’ health and longevity. Not only is the outlook for finding new cures and the opportunities for developing new, more effective drugs better than ever, but we are able to produce existing drugs more efficiently and at lower prices every day.

American companies have the knowhow and can provide what is needed to improve healthcare in Russia. Over the last ten years, the structure of the Russian economy has changed tremendously—but, again, Russia remains the largest economy in the world not yet operating within the World Trade Organization. Therefore the opportunities, moving forward, are endless. This is a huge market, but you have to be prepared for risk and decide that risk is acceptable. For those that do, I encourage them to work through barriers—because it will pay off.

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