

Finnish Business Seminar
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Aleksanterinkatu 15 B
00100 Helsinki, Finland

Romanov pereulok, 4
125009 Moscow, Russia

René Nyberg
CEO, Ambassador

+ 358 50 420 3840
rene.nyberg@eastoffice.fi

Finland – Your Inside Outsider for Business in Russia

It is a great pleasure to be back in Minneapolis. Minnesota's forests always remind me of Finland!

I remember my first visit to Minneapolis thirty years ago in the winter of 1983 and my delight at discovering your novel approach to avoiding the harshness of the elements. I'm talking about your skyway system, which I've heard is the largest contiguous skyway network in the world, even bigger than Toronto's. What a great idea to build a climate-controlled network of passages above street level that makes walking downtown a pleasure even during the worst winter blizzard.

My topic this morning is Finland's unique position as a jumping-off point, your "inside outsider" if you will, for doing business in Russia. Geography plays a decisive role in this story. Despite its vast territory that reaches all the way to the Pacific, Russia is still turned towards Europe. Only about a fourth of the Russian population lives east of the Urals in the five time zones that span Siberia and the Far East.

Russia's number-two city, St. Petersburg, is located just 100 miles from the border with Finland. The Finnish-Russian border is not only a major transshipment point for trade, it is the best equipped and most active of all Russian borders. Last year, 12 million people crossed that border. Finland issues more European entry visas, so-called Schengen visas, than any other EU country. The number of visas issued to Russians last year was itself staggering, 1.3 million, and most of those were multiple entry visas. More than 10 % of all Russian imports that enter Russia by land come across the Finnish border. Most are high-value goods such as machinery, electronics, cars and pharmaceuticals.

When the Soviet Union disintegrated just over two decades ago, the Finnish-Russian border was the deepest fault line in living standards in the world with the probable exception of the DMZ between South and North Korea and of course deeper than the Rio Grande has ever been. It remains a fault line between European/western and Russian values and the differences in the quality of life are considerable. But those differences are becoming much less than earlier.

What we can say is that, while Russia sees itself as a European country, it still lacks the institutions and social structures that characterize European society.

The Russian dilemma can be described as follows:

On one hand, red tape and corruption remain major problems integral to the system. The interests of its unreformed political system are at odds with a growing urban middle class and private business community that would like to see the emergence of civil society with guaranteed property rights. High-profile anti-corruption campaigns that involve dragging prominent figures into court do little to remedy the problem. Actual corruption-fighting requires the rule of law, equality before the law, robust law enforcement and consistency in court decisions.

On the other hand, foreign players know that doing business in Russia, despite the challenges, can be very profitable.

This might sound harsh, but every foreign player, from the oil major to the single entrepreneur, must, no matter what, resist the temptation of taking short-cuts and adhere to the law. The American Foreign Corrupt Practices Act and its European analogues are unequivocal. An American or Finn who resorts to bribes not only forfeits the protections of his or her own government but could well find himself or herself facing prosecution back home.

The key insight here is that Russia has basically become a petro-state, yet its commodities-based model of growth has run its course. It has lost a good deal of its industrial base, which means Russia's federal budget is highly dependent on revenues from oil exports and extremely sensitive to any shift in the price of oil. To paraphrase Bill Clinton: "It's the oil price, stupid." If you take oil and gas earnings out of the equation, Russia has a non-oil budget deficit of over 10 % of GDP. That's a \$20 billion shortfall last year. In other words, it takes a lot of oil and gas earnings to make up for the hole in its budget. Meanwhile, Russia's heavy industry legacy from the Soviet era continues to crumble. Instead of allowing for creative destruction, the government continues to subsidize hundreds of one-company towns built around a single smoke-stack industry. What remains are Russia's notable strengths in mathematics and theoretical sciences and an abundance of arable land, energy and natural resources.

For the foreign manufacturer, this is actually good news. It means that Russia today imports practically everything. There is an insatiable demand for consumer and investment goods, and unlike any other BRIC country, the average incomes of Russians are beginning to approach European levels. Russia even imports basic foods. Finns are always struck by the fact that they can buy fresh milk from Finland in any high-end food store in Moscow.

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An aspect of the Soviet legacy is the decaying infrastructure. Without doubt, the biggest obstacle for the growth and development of the Russian economy remains its lack of modern infrastructure and the inability to build even basic infrastructure such as roads. There is still no motorway between Moscow and St. Petersburg, making them the only two major cities in Europe without a motorway connection. The traffic snarl in Moscow is especially bad. According to the Tom-Tom Congestion Index from the Dutch navigation products firm, Moscow's traffic is the worst in the world with the longest road travel times.

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Russia has only two high-speed train connections. One bullet train, the Sapsan, runs between Moscow and St. Petersburg. The other, the Allegro, connects St. Petersburg with Helsinki. It is remarkable that the heart of St. Petersburg, that strikingly beautiful metropolis at the east end of the Gulf of Finland, is only three and a half hours and soon only three hours away by train from downtown Helsinki. This is something amazing for anyone who has had the opportunity to experience the much more rudimentary travel conditions of our very recent past. The train doesn't even stop at the border; your passport is checked on the moving train.

Russia continues to build new ports and oil export terminals. It is even building a super-modern liquefied natural gas terminal in the Arctic. But it remains dependent on ports in the neighboring countries for bringing in high-value goods.

This is because a port is not just some docks with a few cranes and warehouses. It is a critical point of interface with global supply chains. The value of goods handled rises as those goods are better tailored to client needs, as features are added for end-users, or as precise technical specifications are met. This is exactly what development of Finnish ports and our national infrastructure has been focused on for over two decades now.

Today, about a quarter of goods imported to Russia originate in Asia, especially China. However, they enter Russia via Europe. High-end goods are typically brought in via Finland, which offers geographical proximity, high security and swift handling. The fastest route from the Port of Hamburg to Moscow, for example, is via a Finnish port. According to the World Bank's Logistics Performance Index, Finland ranked third after Singapore and Hong Kong in 2012 in a global comparison of logistics capabilities. A significant share of Russian exports of refined oil products and chemicals also are shipped through Finnish ports.

Finnish ports boast extensive bonded warehouse capacity geared to serving the Russian market. They offer secure floor space in excess of two million m², that's about twenty million square feet.

The Helsinki airport is evolving into a major European hub for flights to Asia. Take out your globe and you'll see that Helsinki is the nearest European capital

to Asian centers. The number of weekly flights from Helsinki to Tokyo, Osaka, Beijing, Shanghai, Chongqing, Hong Kong, Singapore and Bangkok is impressive. Finland's national carrier Finnair alone now operates over 250 direct flights a month to Asia. The flight time from Helsinki to Osaka, for example, is about nine and a half hours, or two hours less than a non-stop flight from Paris to Osaka.

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Why am I telling this to you this morning? What's in it for an American firm that would like to make money in Russia? And more important, why am I talking about it instead of some Russian? If you are a large international corporation, you probably don't need help in opening a business and establishing your presence in Russia. But dig a bit deeper and you'll see that e.g. the oil majors rely on Finnish providers for emergency Medevac services. Finnish ambulance planes are on stand-by and Finnish hospitals are well equipped and well-staffed. Finland is also a top provider of private hospital services for expats working in Russia.

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Top global corporations can afford the luxury of testing the Russian waters and leaving. We saw this a couple years ago with Walmart and its French equivalent Carrefour. Both entered Russia, only to pull out within a few months in order to cut their losses. Small and medium-sized companies may find such toe-dipping out of their price range; they can ill afford bad investment decisions.

At the other end of the scale, we have the American success stories of Boeing and Intel. Both tapped into Russia's forte in mathematics and physics and by opening research facilities in Russia in the 1990s, and not just in Moscow. Boeing's cooperation with Russia's VSMPO Avisma Corporation, the world leader in titanium production, shows how the expertise of a Soviet military factory could be used to provide cutting-edge technology for America's aerospace industry.

Finland is a smart choice as an entry point to Russia for a number of reasons. Finland has a stellar track record in doing business with Russia and its infrastructure for supporting businesses is solid. Russia is obviously an important trading partner for Finland. Russia provides the bulk of Finnish energy imports and is Finland's third-largest export market after Germany and Sweden.

Finland is Russia's only neighbor, overlooking China at the moment, that enjoys a relaxed relationship with Moscow. This is no small achievement considering the history of wars and the arduous decades of the Cold War spent in the shadow of the Soviet bear.

The political stability of Finland is well known. According to Transparency International's Corruption Perception Index, Finland in 2012 tied with Denmark and New Zealand as the least corrupt nation in the world. In

comparison, Russia ranked 133rd and the United States 19th. A telling example of Finnish stability was the decision of Google to establish its second European computing center in Finland, close to the Russian border. The reasons behind Google's decision were obvious: stability and secure energy supplies. The huge demand for energy is backed-up by several sources including hydro power. An intriguing aspect of the Google venture is that it recycles the heat produced from the computing center. Just a month ago, Russia's largest search engine company, Yandex, followed suit and announced it would be building its first computing center outside Russia in Finland.

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Russia's demand for high-end and luxury goods shows no signs of abating. Consumption in Moscow and St. Petersburg is conspicuous and the appetite for new things is insatiable. It is a market not only for majors or international corporations; it is a market for sophisticated and agile players.

Testing the waters or being reticent about directly plunging into Russia are both good reasons for choosing Finland as an interface. Finland offers a platform to promote your goods and services, and can serve as a home base where top-class support services such as legal and accounting are readily available.

Ladies and gentlemen,

There are many reasons why Finland is the smart choice. I was struck by the hard business logic when a Finnish Captain of Industry told me after returning from his regular road-show on Wall Street that American investors are looking for stocks in Finnish companies that are prominent in Russia. Investing in Russia here means investing in a company with a strong Russian presence and Western corporate governance. A very telling example of such a company is Nokian Tyres, a world leader in winter tires. Nokian Tyres has a state-of-the-art plant outside St. Petersburg, right next to the production facilities of the Ford Motor Company. Over the course of recent years, this Finnish company has become the largest exporter of consumer goods bearing the label "Made in Russia."

Let me end my talk with a story from the 1970s when the small and tightly knit Western community in Moscow, which consisted of diplomats, businessmen and correspondents, largely depended on food and other necessities shipped in from Finland. The major source of everything was the famous Stockmann Department Store in Helsinki established in 1862. It was our goods provider and the service provider for almost any imaginable need, even our travel arrangements. The story goes like this. At the American International School in Moscow, the children were asked during a test to name the capital of Finland. They all knew the right answer, of course - Stockmann.