

B20 Summit Interventions

1. Should business be involved in shaping public policy?

The answer is obvious, yes, definitely, business is and should be a stakeholder in shaping public policy. Hence, what we need is an effective system of transparent and open institutions and instruments. We do have established and emerging institutions at the national, regional and global levels.

Business associations such as MEDEF, BUSINESSEUROPE, Business Council of Australia, Confederation of Indian Industry, National Confederation of Industry Brazil, Mexican Business Council for Foreign Trade, Investment and Technology, to name a few, engage with the respective governments.

We also come together to forge common positions and address our governments jointly through B20, APEC Business Advisory Council, ASEAN Business Advisory Council, BRICS Business Council, BIAC.

These institutions have become important reference points for the governments.

We have some success stories. During Russia's G20 Presidency the B20 and L20 came up with a shared vision on employment priorities, including a joint understanding of key elements of quality apprenticeships. It helped to consolidate our common position at the Joint G20 Finance and Labour Ministers Meeting. For the first time the issues of macro and finance policies were considered in conjunction with the tasks of supporting growth and employment.

Acting on B20-L20 recommendations the G20 Leaders in Saint Petersburg committed to develop "quality apprenticeship and vocational training programmes", mandating Labour and Employment Ministers to "share best practices and review progress on the key elements identified on quality apprenticeships". The commitment is being implemented at both international and national levels. For example, in Russia the Presidential National Council for Professional Qualifications was created. The Council will coordinate the work of

state authorities, organizations of employers, trade unions, civil society organizations, educational and scientific organizations in the sphere of professional education and training.

We also had a productive engagement with the Civil 20. Civil 20 and B20 recommendations on fighting corruption were complementary and mutually reinforcing, hence in the Saint Petersburg declaration G20 committed to maintain and build on the enhanced dialogue between the G20 Anti-Corruption Working Group and the B20 and C20. This interaction with civil society, I believe, should be continued and reinforced by the future presidencies.

But more needs to be achieved.

Regulatory impact assessment should be part and parcel of the international rules-making process, to ensure the new regulation does not put extra burden on businesses and constrain growth.

A case in point is our work on the G20/OECD BEPS project. We agree that the international tax framework should be reviewed. However, any changes “must foster and not limit trade and investment, boost competitiveness and not inhibit growth”. Thus we should continue bilateral and multilateral consultations with our governments with the BIAC as the focal point.

There is also quite a wide range of institutions and unformalized mechanisms, for interaction between business and government at the national level as well.

Membership of RSPP representatives in the working and advisory bodies under the Russian President and the Government belong to the first type of mechanisms. In some cases, business representatives head such bodies, as for example, the National Council for Professional Qualifications.

Expert platforms launched recently, including the Open Government and the Government Expert Council, are also an effective type of mechanism. Being neutral both to business and to the authorities, such platforms help in forging a trade-off even in situations when discussions reach a “critical point”.

Another interesting platform which has been established recently is the Agency for Strategic Initiatives. On the one hand, the Agency supports entrepreneurial projects, on the other hand, it works to improve business climate together with business associations.

Business community has used this platform to develop the “road maps” of the National Business Initiative aimed at improving business climate (in terms of electric grid connection, customs administration, increasing competitiveness, tax administration, etc.).

The “road maps” were approved by the Russian Government which ensured their legal status. All the draft legislative acts prepared within the framework of the “road maps” are assessed by the business community, and their enforcement is regularly monitored.

I propose that we translate B20 recommendations into sort of “road maps”, at least on the key issues of our engagement with G20. Such “road maps” can help consolidate and enhance consistency of our work across presidencies.

As an employers’ organization RSPP gets wider opportunities for involvement in shaping public policy due to the formalized mechanisms of engagement with authorities through the Russian Trilateral Commission for the Regulation of Social and Labour Relations. This is a platform where the government, employers and labor unions seek a compromise on social, labor and related economic issues, which would ensure the protection of the interests of society, including employees, without harming the business.

One of the most effective ways to promote the business interests in shaping government policies is regulatory impact assessment procedure. In the last three years the RSPP received 1677 requests for regulatory impact assessment. About a third of the draft regulations have been rejected following the assessment. Since 2014 the regulatory impact assessment procedure has been launched in Russian regions.

Not all draft documents are subject to the regulatory impact assessment even at the federal level. The mechanism for assessing the existing regulations is also used insufficiently. So the RSPP insists on the need to maximize the use of this procedure.

As for the less formal ways of interaction between business and government, they include regular meetings of the RSPP Bureau and the Board with the Russian President and Prime Minister. The last meeting of the RSPP Bureau members with the Russian Prime Minister was focused on deoffshorization issues.

3. Some of the recommendations made by the B20 will inevitably require short-term pain for long-term gain. How can business work with governments that lack the political will for tough choices?

Governments' short-termism is often the reason why businesses come together to engage, debate and persuade the authorities at different levels and policy areas nationally.

Growing interdependencies and mutual vulnerabilities of our economies and nations demand that our governments act collectively. However, acting in a concerted way internationally takes a lot of coordination, balancing of often diverse interests, a long-term vision and sustained political commitment. Such combination is a challenge for any international institution. It is a challenge for G20. G20 agenda contains a proliferation of uncertainties with regard to the situation assessment and decisions consequences, which are easier to deal with in a short term perspective. Thus, despite inherent welfare gains of long-term actions, the leaders may be compelled to act within short-term horizons.

B20 has worked with the G20 elaborating "guideposts" for raising potential gains from coordination and pushing for long-term solutions. We have established a sophisticated engagement framework and an impressive track-record. Our success has been uneven across policy areas. Of the total of 403 recommendations, 145 (or 36 percent) were reflected in the G20 documents between 2010 and 2013 as commitments or mandates. [*The number and percentage of B20*

recommendations that were translated into G20 decisions reached 16 in Seoul (28 percent), 45 in Cannes (38 percent), 25 in Los Cabos (33 percent), and 52 in St. Petersburg (37 percent). Thus the results across presidencies were mixed, although a positive trend is emerging.]

The B20 recommendations consistently call for structural reforms and ensuring favorable conditions for the developing entrepreneurship. G20 members do pledge to proceed with structural reforms to ensure business-led growth. Despite an obvious consensus on the issue progress is slow, as structural reforms are needed across a wide range of markets and policy areas. Hence it is important that structural reforms lie at the heart of the B20 recommendations within the Australian presidency, [and remain at the core of the Turkish next G20 year presidency].

We all look forward to member-specific comprehensive growth strategies to be presented by the Brisbane Summit in line with the St. Petersburg Summit commitment we fully supported.

We hope the Strategies will reflect our view that the level of taxation has reached the limit. Fiscal strategies on revenue side should be aimed at a more even distribution of tax burden and improving of tax administration, while on expenditure side, it is crucial to reassess the effectiveness of budget spending and to rebalance the structure of expenditures to support economic development in the long-term. Corporate tax, social contribution and personal income tax hikes should be avoided, as well as cuts in public infrastructure spending which helps boost private investment. If governments decide to introduce additional taxes business should convince them to follow the “recommendation that an efficient tax is a low rate on a large base”.

There are seemingly obvious situations. However, it is difficult for the Government to “move” national business away from infrastructure projects and create real competition, regardless of the company’s country of origin, although the elimination of all barriers – regulatory established and non-formalized barriers to

foreign companies access in infrastructure projects participation is not only in line with the G20 recommendations, but also yields economic gains for the country through new technologies and improving efficiency of government spending. In any case, the situation in the area of transport infrastructure in Russia is still not very good.

There is an opposite case, when anticipating long-term gains for the economy as the result of deoffshorization policies and return of companies into the national jurisdiction the Government act too fast and pressing for adoption of extremely strict measures, thus creating serious risks for bona fide companies working abroad. The specificity of Russia is in the reasons of resorting to other jurisdictions: it is not so much the reduction of tax burden as the possibility to apply common law.

4. When business gets involved in shaping public policy, their interests can often align with the ‘public interest’. How should business manage situations where their interests divulge from the perceived ‘public interest’?

The situations when the interests of business community and public interests in formulating national policy diverge are not common. They may sometimes be perceived as such. A case in point is B20 recommendation that G20 governments review financial regulation consequences, monitoring may seem like an additional burden, but it will aim to ensure greater financial inclusion and increase finance for SMEs, remove barriers inhibiting entrepreneurs from starting and growing their business and creating jobs.

Another example is B20 call to remove restrictions on free flow of capital to reinforce cross-border investment activity. Government may have concerns of foreign companies’ expansion into national economies, however, in the longer-term, these measures will help promote investment, particularly in infrastructure, which is of critical importance for stimulating business-led growth and employment and thus, meets the public and business public interest.

The situations when the interests of business community and public interests in formulating national policy do diverge ought to be resolved in a compromise.

Traditionally contentious issues, which often spark debate in society, are social-labor relations. However, labour unions and employers often align to oppose the government's initiatives. A case in point is the proposed pension savings reform, which increased the burden for the businesses without improving the long-term outlook for retirement benefits.

The traditional "field" of disagreement is taxation. Businesses want to pay less taxes, government and society – to have enough funds in the budget to fulfill the basic functions of the state. The state wins so far - the fiscal burden has increased in the post-crisis period.

Another example is also related to tax. The government decided to introduce a new type of compulsory insurance – dangerous facilities' owners' liability to compensate the citizens for the damage to life, health and property caused by accidents.

The business community does not argue against the need to protect the citizens' interests. Other options to guarantee adequate compensations to indemnities have been proposed, but as of now the point of debate is primarily the need to readjust insurance tariffs.

6. How do you engage with governments that vehemently disagree with you? Confrontation, compromise or capitulation?

Traditionally, the most effective way to achieve the formulated goal is finding a compromise. It is closely related to the fourth "C", which can be added to the three previously listed, namely, "calculation". Objective assessment of the benefits of implementing business proposals or valid estimates of negative consequences of the Government's decision allow to achieve a compromise even in a situation when it comes to increasing the fiscal burden.

Thus, the Russian Ministry of Finance has launched several initiatives to introduce a new regional sales tax in addition to the existing value-added tax,

simultaneously the VAT is proposed to be increased from 18 to 20%. The Ministry has also put forward an idea to raise the tax on dividends. This proposal is clearly contrary to the objective of encouraging return of business to the Russian jurisdiction. We have prepared an assessment of the impact of these initiatives both at the macro level and at the level of individual companies, which shows that economic losses would be unreasonably high. For example, preliminary estimates suggest that levying of insurance payments to the Federal Mandatory Medical Insurance Fund on the total sums of wages, not within the current specified threshold, will increase the burden on employers by about 130 billion roubles, or 2.8 billion euros in 2015.

The discussion on the main directions of deoffshorization policy in Russia, including the implementation of the G20 decisions in BEPS, can be considered as an interesting example of finding a compromise not only between business and government, but also between the authorities themselves. The Ministry of Finance intends to introduce the most stringent standards, which will increase fiscal and administrative burden, on all businesses operating abroad, including conscientious businesses not practicing BEPS. The Russian Ministry of Economic Development, as an agency responsible for economic growth and investment attractiveness of the country, supports entrepreneurs in their efforts to fight “offshore wallets” (companies used for tax evasion and avoidance), rather than bona fide businesses, worldwide. We hope that an acceptable compromise will be worked out.

Confrontation can rarely be effective for achieving the stated goals. Recently RSPP has repeatedly defended the position of business, while discussing the improvement of antimonopoly policies, the Civil Code, the environmental legislation, the application of best available technologies, etc. Debates on increasing the fiscal burden on business are also traditionally conducted in the confrontational format.

There is always a risk that pushing through the decision in the interests of business community one may face an attempt of authorities to compensate for the

loss in other ways. However, when it comes to the business community disagreements with one governmental agency, and support by another one, tough confrontation may yield a good result. To achieve the results in this case it is necessary to represent the business position at least to the Deputy Prime Minister, or even to the President of Russia.

As for capitulation, it can be only a temporary solution. We were unable to prove to the Government the unreasonableness of increasing tariffs of mandatory social insurance. Decisions on their increase had been made twice – the first one related to all businesses, and the second one – to the most vulnerable category of entrepreneurs, self-employed. Both times the decisions were amended after the all the risks the business community had warned of were reaped in practice. Moreover, the government now may step on the same rake again, this time increasing the burden of the compulsory health insurance. We may be more successful in finding a compromise this time. As the Russian saying goes: God loves the trinity.