

## «What One Can Do in Russia but Innovations?»



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### What are the latest changes in world politics in terms of innovation?

The mechanism for innovation is exactly the same worldwide. The “rigid” infrastructure comprises buildings, physical structures, research parks, technology incubators, institutions; the “soft” infrastructure includes regulatory preferences, the system of private-public partnership and the like. We have embarked on this course, and I am excited about the Kremlin for the first time in the recent fifteen years. What is going on under our eyes is a kind of revolution. In my opinion it’s a miracle. Even more so wonderful is that it

these things work together is not very high. To make this happen one needs either a competitive environment or administrative measures to encourage it. The manufacturing industry is reluctant to innovate in any country. That is, it is not a typically Russian problem. The state establishes a certain system and calls it innovative to sustain high rates of economic growth. It is exactly such a system which increases the probability of these trends coming together.

### What are the ways to stimulate innovation and their key points?

The key point is that state support of the risky part, mostly connected with the prototype stage and the pilot run. At this stage the production sector is not yet ready to purchase, but financial needs are substantial. It is not science in its pure form anymore. That is why the state employs various support systems. Such support systems are rapidly evolving. Every country demonstrates some good examples. For instance, last year firms received the opportunity to include R&D costs adjusted by 1.5 into the production price, which seemed absolutely unbelievable 3 years ago. Such practices already existed in the world as exceptions, and now we have this in Russia. It is a very good example. Earlier R&D costs could be only covered by profit. What does it mean? If you need to spend, for instance, 100 units, you should take these 100 units from the current year’s profit, which is subject to taxes. And this profit should also be correlated with the profit for the prior period. Of course, this practice was detrimental to innovation. Why did the state do this? To prevent various corrupt practices.

### What kind of corrupt practices?

There is the practice of writing off costs, as if they are R&D costs, which are not really so. But now we have a system of expert judgments to define what can be written off as R&D expenses.

This is an effective leverage to stimulate companies to spend money for research and development. Innovations are always connected with the development of a new technology, a new product, and this process requires R&D costs.

Now the money spent for R&D is included into the production price. At that, the expenses incurred are adjusted by 1.5. That is, if you have spent 100 units you can make a 150 unit write-off against the production cost. Can you imagine that? Ten years ago I saw how it worked globally and thought it was a very bright idea. Putin announced the same policy last year.

### What are the characteristics of the Russian innovation system? What are its strengths and weaknesses?

All the weaknesses are of mental origin. We are unable to sell technologies. More than that, we consider selling technologies as betraying the motherland. It is a survival of the times past. We believe we should do everything all by ourselves. If we do not operate on an independent basis then our security is questionable. This belief

is deeply rooted in public mentality and in the heads of our public leaders. It is deep down in our minds and souls. In fact, there is hardly anything that we can produce in large numbers for the international market. It is caused by our severe climate, high prices and transportation costs. We can earn far more by transportation schemes and selling of innovative technologies. I mean technologies that are

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happens in Russia, because I simply have no idea what else one can do here.

The fusion of innovative research and technology, inventions and scientific solutions with business needs and the potential to thrive on their coming together existed long ago and will always be there. The chance to make all

developed to the prototype stage and certified. As for mass production, many countries transfer it to Southeast Asia.

At the moment a very good idea for venture capital funding is being promoted by the state. It is a miracle. The institution for development is the Russian Venture Company. The state is investing into this company 49% of its capital, and business invests 51%. At that, the state guarantees that it will have no claims to the profit made by the fund. It means 49% of risks are mitigated by the state. The entity which has invested 51% of the capital is entitled to 100% of the profit. It is awesome! In investing the money the state creates the infrastructure for business to raise money. In this case all the risks are justified. Business will find venture funds on its own, when the state gives it an example. According to the new law, adopted by the state, venture capital funds do not necessarily have to form legal entities. This is an investment

### **into the production sector. How can we accomplish that?**

The state has already announced such a project. Moreover, it gave 30 billions to the Russian Venture Company, and adopted the law, but the public is still anxious about it. Will it happen or not? First of all, it is necessary to make positive examples widely known.

### **And what about fighting corruption?**

You see, innovations are hardly ever connected with corruption. If you need to pay all those “kickbacks”, you can hardly expect any results from innovation. Innovations are too risky to add any corruption component into them. When a new business model is in the process of development, no one knows the final result. When you have a road construction contract you know for sure how much you will have to spend on it and how big a kickback can be. And here you have just a prototype technology, which should

money into our venture yet, but it has introduced a lot of technology into our business. We are still learning how to operate this kind of business. And is there any corruption? I doubt it. There is less corruption in innovation than anywhere else.

### **What is your opinion of research and technology parks in general and of the project Skolkovo in particular?**

Skolkovo is an unprecedented project. I have nothing to say yet. I have been a member of the Board of Directors of the technology park “Idea” in Kazan for 9 years already. In my opinion, it is the best techno-park in Russia. It provides an excellent infrastructure for the innovative development of the Republic of Tatarstan. It is great that we have a single place where so many issues can be solved: how to help gifted children find their way in life, where an inventor can find investment and administrative support, where a growing business can find a supportive environment, where a big research-and-technology business can locate in a convenient location, where a large firm can resolve its technological problems with the help of a regional infrastructure. Here we have everything we need. That's why it is one story. Skolkovo is a brand new, powerful and globally unknown element. It will surely not become the second Silicon Valley. There is no chance to build another Silicon Valley anywhere. None of the attempts to create one in America, Ireland or Finland have been successful. Silicon Valley is unique. And Skolkovo will be unique too.

You see, the problem is that there is a kind of a receiver of scientific and engineering achievements in a specific area of expertise. Scientific and technological achievements are in great demand in rapidly evolving industry sectors. We call them innovative industry sectors. They are somehow interconnected; they have a kind of a pipeline between them. And if one of the pipes is transferred to Skolkovo by means of the state budget or some other administrative resource, I am not confident that this scientific and technology receiver will involve Russian institutions. Some development teams will definitely be there. But in my opinion, the industry sector that incorporates all these technologies will not be located on Russian territory. But some Russian participants will definitely be present in this industry sector.

**Is Russian industry ready to manufacture products using the results of scientific research carried out in Skolkovo and other techno-parks? Is the production sector able to manage this?**

Your question reveals that

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fund, into which shareholders place money. And if the fund is a legal entity it has to pay income taxes and pay shareholders' dividends, which are also tax-deductible. This double taxation destroyed the very idea of innovation development. But the state has adopted new laws. Thus we witness these amazing events happening in the Russian economy.

### **What are the characteristics of the Russian innovation system?**

I think that the Russian innovation system is quite complete; we just do not have enough people who believe that when it has evolved their business will not be taken away from them, who believe they are able to succeed and that the system offered by the state is not totally bureaucratized. In general, the state is the ultimate rescuer to which anyone dashes for help. However, there is no obeisance towards and respect for the state in the society.

**People should have belief in the state to make more investments**

be finalized. That is why an innovation economy is less corrupt, because it is hard to predict the final outcome.

### **The main deterrent of innovation development is people's anxiety that they can be stripped of their successful and established business. How can we manage this?**

This is a very good question. You see, we are not mature enough for this. A successful business is a business fully functional on the international market and involving foreign partners. And it is rather complicated to subvert such a business. It is not like the case when someone is entitled to develop a certain oil deposit and then stripped of it. It is completely different. A business of this kind frequently changes hands. It should be extremely transparent to attract foreign investment. I need to say I am not only the dean of the department; I am also the head of a venture capital fund. So, one of our partners is an Israeli venture capital fund. To be precise, it has not placed any

problem of mental origin that I've mentioned. Who has told you that our innovations should be used in Russian industry only? It is not necessarily so. Innovative industry is oriented to the global market in 99 cases out of 100. The reason is that if you invest one million of risk capital, you need to have a market capacity of not less than one hundred million. In many cases the market size of Russia does not allow it. But there are some exceptions, for instance the 1C project. Currently I am also leading the project, which is purely Russian but very ambitious. However, these are exceptions. As a rule, when people invest into development of a product with a global competitive ability, the product is intended for the global market. And it will be produced where it is cheaper. That is why we should speak about our products and our manufacturing industry from the innovation viewpoint. And the Kremlin is using an administrative tool to stimulate this. This is absolutely correct, because they are interested to trade for economic reasons. However, even in Soviet times we sold very little of our engineering products.

#### **Then, why has the state politics turned to innovation?**

There are people with a strategic way of thinking in the government. The state realizes that its good to export hydrocarbons, but it can not last forever. On the other hand, lots of enterprises are literally dying out from not knowing what path to take. There are many people who need a goal in life. They are currently engaged in the Skolkovo project and it is going to be a great example. Another innovative project – "Seliger" – is the best initiative of the Kremlin in the innovation area. The involvement of the young generation is the key success factor for innovation.

#### **Once we have touched the topic of young people, it is worth mentioning that universities all around the world offer special courses and programmes that teach students how to set up a business, make a business-plan, etc. Young people are trained to become businessmen. Do we have anything similar in Russia?**

At our department we have students with higher education. They come to us to learn how solve new challenging tasks; they want to become more valuable on the labour market. We usually tell them; "If you come with a definite purpose, you will graduate with the expertise required. If you do not have the objective of your own, then we shall identify it for you. But you can not learn anything in theory, without any specific, relevant and significant objective". That is why our aim is to teach people how to resolve new challenges. Generally

these challenges are innovative. We teach how to create new products and to introduce them to the market. We are doing this on the regular basis since 1995. Our department is a unique educational structure. No other university in Russia specializes in the same knowledge area for so many years. No other educational establishment in Russia has the same staffing and methodological capacities as we do.

On September 22nd-25th, 2010, the II International Youth Innovation Forum "Interra 2010" will take place in Novosibirsk.

To this day the Forum is one of the biggest behind the Urals ground for interaction of administration and business representatives and expert community on elaborating solutions and introducing new innovative practices into economy, administration and social sphere.

[www.interra-forum.ru](http://www.interra-forum.ru)

Russian Corporation of Nanotechnologies, RUSNANO, and the Russian Academy of Sciences (RAS) have jointly established Center for Technology Transfer (CTT). The project is implemented under a cooperation agreement between RUSNANO and RAS. The mission of the Centre is to commercialize knowledge and technology developed by the research institutes of RAS. Projects developed in the Center can apply for RUSNANO's co-financing, as well as to seed and venture capital funds.

[www.rusnano.com](http://www.rusnano.com)

The Swedish-Russian Conference on Business Solutions covering practical aspects of preparing for and conducting business in Russia will take place Stockholm September 15. Russia is currently Sweden's thirteenth largest market for exports and fourth largest market for imports. We see an increasing number of Swedish companies operating in Russia and the interest in new business opportunities in the East is growing. International cooperation is sometimes complicated, with different laws, rules and business practices, and at times it can be difficult to understand. That is why it is important for those who are venturing into the Russian market to stay informed about matters within the field and take the right first steps.

[www.barentsnova.com](http://www.barentsnova.com)

Nanotechnology International Prize has been established by Russian Corporation of Nanotechnologies (RUSNANO). Starting from 2009 it is awarded on a yearly basis to researchers whose nanotechnology discoveries and innovations have been applied to production as well as to companies that practically implemented them. The Prize is awarded in one of the following fields: Nano-Electronics, NanoMaterials, NanoBiotechnology and NanoDiagnostics. Each year the field of the Prize is being defined and announced before the nomination circle.

In 2010 the Prize will be awarded in the field of "NanoDiagnostics". The Prize monetary part will make 3.000.000 roubles (approximately 100.000 USD).

[www.rusnanoprize.ru](http://www.rusnanoprize.ru)