

Politics test Silicon Valley's Russian ties

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Dmitry Akhanov, president of the U.S. subsidiary of Russia's state-owned venture fund RUSNANO, works in his office on Wednesday, April 9, 2014, in Menlo Park, Calif. Entrepreneurs and investors say Silicon Valley's fast growing ties with Russia's tech sector are being slowed down by current political tensions between the White House and the Kremlin. (AP Photo/Marcio Jose Sanchez)

Entrepreneurs and investors say Silicon Valley's fast-growing financial ties with Russia's tech sector are being slowed down by current political tensions between the White House and the Kremlin.

"It's safe to say a lot of investors here are taking a step back to see how the situation will unfold," said Alexandra Johnson, who manages a \$100 million venture fund called DFJ VTP Aurora, a Menlo Park, California, branch of Russian bank VTB.

For decades, Russia's sophisticated scientists and engineers remained at arm's length from Silicon Valley's venture capitalists and marketing mavens. That has changed in recent years with a flurry of investment, largely sparked in 2010 when then-Russian President Dmitry Medvedev visited the region and met with high-tech leaders.

Russian investors, including billionaire Yuri Milner, who has large stakes in Facebook and Twitter, poured an estimated \$2 billion into U.S. tech firms over the past three years, according to Johnson, who organized a technology symposium with venture capitalists and entrepreneurs last month in San Mateo, south of San Francisco.

But Silicon Valley entrepreneurs and investors fear negative economic fallout from Russia's takeover of Crimea, its troop buildup near Ukraine's border and its attempts to compel constitutional changes in that country, markedly raising political tensions with the West.

Secretary of State John Kerry has charged Russia with "creating a climate of fear and intimidation" and the Obama administration has frozen assets and revoked visas of some Russian officials and their associates.

Among the concerns in this technology center are whether visa limits will make it hard for business travel or for scientists to relocate. In addition, economic sanctions could tighten the flow of dollars between tech sectors in both countries. And for those U.S. and Russian firms with ties to Ukraine, rumors of a draft are fanning fears that young entrepreneurs and engineers will have to close up shop and fight.

Experts say an investment slowdown will be temporary and will not untrack rapidly growing, lucrative U.S.- Russia business relationships in the long run.

Axel Tillmann, who invests Russian venture capital on behalf of government-sponsored RVC-USA, said the tensions are definitely going to "slow things down for a while," describing a two- to three-month suspension of additional investment by Russian government funds in tech firms.



Oleg Slepov, head of the San Francisco trade representation office for the Russian Federation, poses for a portrait in his office on Thursday, April 10, 2014 in San Francisco. Entrepreneurs and investors say Silicon Valley's fast growing ties with Russia's tech sector are being slowed down by current political tensions between the White House and the Kremlin.(AP Photo/Marcio Jose Sanchez)

However, Tillmann said the flow of investments is certain to resume because Russian companies thrive on Silicon Valley's entrepreneurship.

"Russian technologists have been at the leading forefront of technology for many years, even going back to the Soviet Union, but they had the problem they called 'The lonely ideas,'" he said. "The ideas just sat there."

Tillmann said the one thing Russian companies are not very good at today is commercializing their technology—something that Silicon Valley firms are masters at doing. "When we combine, we get the best of both," he said.

In Russia, entrepreneurs and investors now tap Silicon Valley experts to try to replicate their success.

A planned technology hub outside Moscow, the Skolkovo Innovation Center, includes Google executive chairman Eric Schmidt, Cisco CEO John Chambers and retired Intel CEO Craig Barrett on its 17-member board.

Russian entrepreneurs have also launched their own firms in the Silicon Valley, and tech giants are buying stakes in Russian startups. Last year, for example, Cisco acquired a stake in Russian software developer Parallels and got a seat on its board.

The Russian Innovation Center, which opened two years ago on Silicon Valley's Sand Hill Road amid a cluster of venture capital firms, combines three firms investing in California companies committed to the Russian market.

And today more than 100 Russian high-tech firms have representative offices in the northern California region, including Russian search

engine Yandex, which employs former Yahoo and Google engineers at its Palo Alto laboratory.



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On April 3, San Jose-based Cisco, a valley leader in building ties to Russia, announced that it had won a contract to supply the video conferencing network for Moscow's water and sanitation supplier. Cisco has also reported that it is currently reviewing its Russian business practices for any possibility of corruption.

Spokesman John Earnhardt said they are watching events closely, but that Russia remains an important market.

Silicon Valley-based Dmitry Akhanov, president of the U.S. subsidiary of Russia's state-owned venture fund RUSNANO, said it has taken years to shape those East-West tech sector relationships.

"Political turmoil can happen, but business ties are much more sustainable because those are people-to-people, and those build trust," he said. "The diplomats need to calm down and think about the immediate consequences of their decisions. It's very easy to hurt an economy and much harder to rebuild."



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Oleg Slepov, who heads the Russian Trade Representation's office in San Francisco, said he's spoken with many U.S. business leaders lately who tell him they have no plans to close or scale down their business in Russia.

Slepov said he's even optimistic that business ties may help ease the conflict.

"The interests of Russian and American companies are so intertwined today that, on itself, it becomes a factor that is contributing to easing of tensions between Russia and the U.S.," he said.

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