

MONTHLY NEWS UPDATE FROM RFE July 2004

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RUSSIAN FAR EAST

East Siberia oil pipeline update

* *Japan will contribute \$77.6 million for a feasibility study of East Siberia oil pipeline*
Japan prepares to provide Russia 8.4 billion yen (\$77.6 million) in assistance for a feasibility study of a Siberian oil pipeline project, the Japan Times recently reported. The funds will be used to explore untapped oil reserves in eastern Siberia. Japan hopes the study will prompt Russia to begin building the pipeline. Japan and China have both lobbied for separate routes of the proposed pipeline connecting Tayshet in Eastern Siberia to Perevoznaya near Nakhodka in the Russian Far East. Japan and China both expanding economies are eager to secure stable oil and gas supplies (*Source: Vladnews, July 14th, 2004*).

PRIMORSKY KRAI

Mayoral Elections

* *Vladivostok gets a new Major*
Vladimir Nikolayev, 30-year old deputy of Legislative Assembly of Primorsky Krai won the Vladivostok mayoral elections on July 18, gathering 53% of the vote after his main rival was barred from the elections and other potential candidates withdrew their candidacies. Protest votes 'against all' hit 37 % and Nikolai Markovtsev, another regional lawmaker, garnered 9 % of the vote (*Source: Vladnews, July 20th, 2004*).



www.konkurent.ru

Transportation/Ports/Railway

* *Vladivostok Marine Commercial Port increases cargo turnover*

Vladivostok Marine Commercial Port handled 3.82 mil tons of cargo in January-June 2004, which exceeds the results of the previous year by 8.5%. 70% of the cargo is export metal production. The port exported 3.07 mil. tons of cargo (versus 2.86 mil.tons in 2003). During the same period of time, Vladivostok Container Terminal handled 45,563 containers, which is 10% more than in 2003. The Port handled 24,779 TEUs (+4.8% over 2003) in cabotage lines to Sakhalin, Chukotka and Kamchatka; 9,395 TEUs (+7.8%) in import operations, and 11,389 TEUs (+26.1%) in its export operations (*Source: Vostok Media, July 14th, 2004*).

* *FESCO—the leader of northern navigation in Russia*

Russian authorities admitted that Far Eastern Shipping Company (FESCO) is the leader of northern navigation in Russia both on the basis of the volume of cargo handled by the company and the quality of service. FESCO provides for about 92% of cargo carriage to Petropavlovsk-Kamchatski, over 60% of cargo carriage to Sakhalin and Magadan, and 70%-- to Chukotka. Overall, FESCO plans to transport as much as 200,000 tons of cargo during 2004 northern navigation.

FESCO ships have long been supplying Arctic territories in harsh weather conditions. The major Chukotka supplier of consumer goods-- a state company Chukotsnab--which provides for about 80% of consumer goods in the market, clinched an agreement with FESCO for transportation of cargo to the region, which is a distinct indicator of FESCO superior service (*Source: Vostok Media, July 16, 2004*).



FESCO fleet in Artic navigation
www.fesco.ru

* *FESCO undergoes inspection on ISO Certification*

On June 8 to 11 the experts from Association on Certification “Russkii Registr” and Australian company SAI Global Limited are conducting the first inspection of FESCO on its adherence to ISO 9001:2000 quality management system. The inspection will work with almost all key FESCO departments, such as technical, human resource, marketing, container lines department, and others. Upon results of the inspection, the experts will issue a resolution on the confirmation of MS ISO 9001:2000 certificate, issued earlier by Russkii Registr, SAI Global Limited, and IQNet (The International Certification Network) (*Source: Vostok Media, June 9, 2004*).

* *Russian Railway—FESCO joint venture to become official shortly*

According to the President of Russian Railways, OJSC, a new Russian Railways—FESCO Joint Venture “Russian Troyka” will be officially established by the end of July--beginning of August 2004. The charter capital of “Russian Troyka” will exceed 16 million USD. The company is expected to start operations in the fourth quarter of 2004. Over 10,000 railway platforms and 40,000 40-foot containers will be ordered for the company’s operations by 2010 (*Source: Konkurent, 27, 2004*).

** Vladivostok Marine Commercial Port rejuvenates container fleet*

Vladivostok Marine Commercial Port increased its container fleet by more than 1,500 units. The new containers complying with the highest industry standards will be used mainly on Asia-Pacific and North America shipping lines. Vladivostok port is implementing a container fleet modernization program, which suggests the purchase of 20,000 new container units. Currently, the port's container fleet amounts to 40,000 units (Source: Konkurent, 26, 2004).

Fisheries

** Primorsky Krai Governor holds Vladivostok Fisheries Forum*

Far Eastern Fisheries Forum, initiated by Primorye's Governor Darkin, was held in Vladivostok to bring attention to Russia's fishery industry stagnation. According to Darkin's report, out of 3.3 million tons of marine resources harvested in Russia last year, around 1.4 million tons were exported to international markets, 80% of it being unprocessed. Recommendations and solutions proposed at Forum included the need to modernize fleet and production, build domestic fish processing plants, and gain legislative and investment support from the federal government to the regional development initiatives. The forum attendants developed a final resolution to submit to the federal government (Source: Vladivostok News, July 9^h, 2004).



Governor Darkin at the Forum
www.vladnews.ru

** Darkin meets with Putin to discuss the regional fishing industry*

Primorye's Governor Sergei Darkin met with Russia's President Vladimir Putin during his visit to Vladivostok to discuss the state of the regional fishing industry. According to Darkin, low capitalization of fishing industries, ineffective federal management and poaching make local fishing industries only suppliers of fish resources to the world market. At the meeting, the Governor introduced measures to develop the country's fishing industry, which include construction of coastal fish processing plants, rejuvenation of fishing fleet, and passing of a fisheries law--the latter project scheduled for introduction to government by the committee within the month. Russia's fishing industry has potential and can be revived, emphasized Putin summing up the meeting results (Source: Vladnews, June 24, 2004).

Banking and Finance

** Far Eastern Bank's announces 6 months results*

Vladivostok-based Far Eastern Bank holds 184 place in the ranking of 200 largest Russian banks on assets, published by Expert magazine. In 2003, the bank's assets and amount of accumulated deposits grew by 31,5% and 26,5% over 2002, respectively. The bank's equity increased by 19,2% and amounted to 360 mil roubles. The bank's credit



Far Eastern Bank President
Yadviga Dobryanskaya
www.zrpress.ru

portfolio grew by 35% and reached 1 711 mil roubles. According to the bank's president Yadviga Dobryanskaya, the bank's strategy will focus on financing regional business, expanding international cooperation, developing consumer credit programs, and extensive introduction of IT to banking operations (*Source: Zolotoi Rog, June 1, 2004*).

Investment Climate

** Legislative Committee Proposes a New Law on Investment Activity in the Region*
Delegates of the Legislative Assembly of Primorsky Krai drafted a law, aimed at attracting investment in the region. The law determines the legal and economic framework for investment activity in the region, as well as forms of regional support and protection of investors' rights. The preliminary draft will be discussed at the gathering of Legislative Assembly in July. The law defines the concepts of priority investment project and regional investment program. According to the draft of the law, the regional investment program should be developed annually and included in the budget for the following fiscal year. The draft also suggests that investors who signed an agreement with the regional government on the implementation of a certain investment project are exempt from paying federal taxes in the amount due to the regional government as well as regional taxes. Tax breaks can be granted for the term of payback period, but not exceeding 7 years. The draft guarantees the adherence to these rules for the time of tax break period even if other laws contradicting with the initial arrangement will come into force. Finally, the draft maintains that investor's property can't be expropriated, despite the form of ownership (*Source: Vostok-Media, July 8, 2004*).

** Russian Far East awaits the federal law on Border Cooperation*
A draft version of law on Border Cooperation will be discussed at the meeting of Federal Assembly on July 14th. Currently, the lack of legal framework impedes the implementation of many projects, such as the creation of free trade and economic zones along the Chinese border in the Russian Far East (*Source: Zolotoi Rog, July 15th, 2004*).

MAGADAN

Gold mining

** A new gold production at Nyavlenga mine*
A new gold processing factory opened in 200 km away from Magadan at the Nyavlenga gold mine. The factory's production capacity amounts to 500 kg of gold and 10 tons of silver per year. Compared to other deposits in Magadan, this doesn't constitute a big production, but it will ensure stable tax collections for the regional budget as well as jobs for 180 employees. Construction of the supporting infrastructure at the site started in 2002 and by now the site has residential estate, cafeteria, medical center, post office and other facilities. The new



www.kolyma.ru

enterprise has a 100% of Russian ownership and is managed by LLC Nyavlenga (Source: *Vostok-Media*, July 12, 2004).

Infrastructure

* *Magadan Airport to adhere to industry standards*

Magadan Airport continues to modernize its facilities, currently focusing on runways and air terminal. Once the capital modernization of the airport is completed, the airport will fully comply with industry standards and will be able to work with international visitors. The airport's been undergoing reconstruction for 5 years. If the financing remains stable, the renovation of the landing field can be completed in 2 years (Source: *Vobstok Media*, July 6th, 2004).

CHUKOTKA

Government

* *Audit Chamber Inspecting Oil Companies in Chukotka*

According to Audit Chamber auditor Mikhail Beskhmel'nitsyn, The Russian Audit Chamber is currently inspecting 20 companies affiliated with the oil company Sibneft in Anadyr in the Chukotka autonomous district. According to the auditor, the local authorities allowed these companies to hide 9.8 billion rubles from the tax authorities through domestic offshore companies. The Chukotka authorities decided that the 20 Sibneft companies should invest 50% of profit tax in the economy of the district and keep the other 50%. This 50% share amounts to 9.8 billion rubles, the auditor said. Beskhmel'nitsyn added that the Audit Chamber plans to complete investigating these companies by September. He also said that at the moment the Audit Chamber has started to investigate the activities of Lukoil companies in 2002-2003 and in 2004 to date (Source: *Interfax*, July 4, 2004).

Infrastructure

* *International Airport Anadyr, Chukotka, to introduce modern airport technology and energy systems*

International airport Anadyr will modernize its energy-generating system and will make the airport energy system autonomous from the city system. Until lately, electricity outage in the city would affect the airport operations, which unacceptable for an international airport. In addition, the airport plans to introduce a new aviation navigation system by the 1st of September. The modern navigation system will allow the airport to receive airplanes even



Anadyr Airport modernization project
www.zrpress.ru

in fairly harsh weather conditions and to cut down flight delays by approx. 60%. The airport will also open a new fuel-filling terminal, which complies with international standards. A new fuel-filtering system will be used at the terminal, which will allow the airport to work with international airlines and increase flight safety (*Source: Vostok Media, June 29, 2004*).

KAMCHATKA

** Former U.S. President visits Kamchatka*

Ex-president of the United States of America, Jimmy Carter arrived July 10 in the Kamchatka Peninsula, a remote and spectacular district in the Russian Far East, for a vacation, local news agencies reported citing Kamchatka's administration as a source.

Carter, U.S. President from 1977 to 1981, traveled to Kamchatka with his wife Rosaline, bodyguards and attending staff of 15 people, the agencies said. Right after his arrival at Kamchatka's airport of Yelizovo, Carter boarded a helicopter and flew to the river of Zhupanova intending to spend four days rafting and fishing (*Source: Vladivostok News, July 14th, 2004*).



Kamchatka volcano
www.kamchatkaonline.ru

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