



Russian Far East

Emerging Business Opportunities in the Kamchatskiy Krai

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Summary

In October 2005, a referendum unified the Kamchatskaya Oblast and Koryak Autonomous Okrug (KAO) unification into a new single Russian Federation (RF) subject to be called the Kamchatskiy krai. The merger was heavily supported at the Federal level – by President Vladimir Putin and Konstantin Pulikovskiy, then Plenipotentiary Russian President in the Far Eastern Federal District, and by Governor Mikhail Mashkovtsev of the Kamchatskaya Oblast and the former Governor of KAO, Mr. Oleg Kozhemyako. Local residents believe that the merger will solve their chronic fuel supply and transport problems and create business and investment opportunities in construction, fishing, forestry, mining, oil&gas, and tourism sectors. End Summary

Benefits from the Kamchatskaya Oblast and KAO Union

Isolated, beautiful and sparsely populated (about 358 thousand and 30 thousand correspondingly), Kamchatskaya Oblast and KAO are remote territories in the northeastern RFE, washed by the Bering Sea in the East, the Sea of Okhotsk in the West, and the Pacific in the South and Magadanskaya Oblast and Chukotka in the North. Kamchatskaya Oblast is a 472.3 thousand km² and occupies the Kamchatka peninsula and the Komandor and Karaginskiy islands. Spanning over 300 thousand km² to the North of the Kamchatka peninsula and on the adjoining part of the mainland, the KAO was only accessible by either sea or via Kamchatka.

In October 2005, about 85% (118 thousands of people) supported integration, in Kamchatskaya Oblast; about 89% voted for the merger in KAO. The unification is hoped to foster economic development in Kamchatka – attract investment, increase Gross Regional Product, revive ship repair facilities, improve energy, fishing, and transportation sectors, decrease local government apparatus and create better conditions for solving social problems (improvement of quality of life and medical aid, education system unification), and problems of indigene people consigned to oblivion and surviving on their own. According to the new amendment to the Russian Federation Constitution, the new RFE territory, Kamchatskiy krai will be officially formed on July 1, 2007. However, it is estimated that the merger process will last through 2008.

Problems of Being Separated

The separation of the regions took place in the early 90s, when every small Russian territory sought independence from Moscow and neighboring regions. However, this separation was artificial since Kamchatka and KAO had existed jointly prior to 1991. While Kamchatka's economy is in a relatively good shape, KAO's general decay and the bankruptcy of its enterprises is characteristic of the Okrug's last two decades. Five fishing plants and fishing farms went bankrupt during the last six years. The total number of reindeer was reduced sharply; the threat of extinction of deer became more and more real. KAO's population unemployment is currently as high as 70-80%. Cost of life in KAO became the highest in the RF with an average salary still less than \$100 a month. The resulting drop in living standards, cuts of federal donations to residents of Northern territories (from 12% to 1.6%), and the lack of vital daily necessities in the severe Northern climate lead to growing of social tension and migration. Since 1990, the KAO population has decreased by 40% and today is less than 25 thousand. The Federal Government has been subsidizing KAO by 80% and the expected development resulting in the mining, fishing, and energy sectors after the merger are hoped to decrease the State subsidy by 75%.

Fisheries. In Kamchatka and KAO, fishing industry plays a vital role. The maximum fish catches in the previous years amounted to 1.3 million tons/year, double the figure, as compared with the last year. The economic effects of notorious fish auctions with artificially low prices resulted with losses of fishing companies in Kamchatka, resulted in a 20% increase in unemployment. Today, many unemployed fishermen use the KAO's remoteness and undeveloped infrastructure to their advantage and to the detriment of the fishing stock. Since fishing inspectors are not able to cover the large sparsely populated territory, many have chosen seasonal poaching of red fish caviar to survive.

KAO's former Governor Oleg Kozhemyako is himself an owner of a large fishing company from Primorye and maintains control of the best fishing grounds in the peninsula. Local mass media are now focused on discussions of the re-distribution of ownership in the fishing sector and "Primorye expansion" in sharing Kamchatka's catch limits and quotas and redistribution of fish industry property. As soon as the referendum was announced, Kamchatskaya Oblast government hinted that a redistribution of KAO's plentiful fish resources would be a key to economic expansion plans. It is expected that the newly united region will receive federal assistance to develop coastal fish processing, instead of exporting live fish and sea products. Kamchatka and KAO fishermen expect local quota allocation be a fixed ratio or quota allotted in accordance with economic activities of a company.

Transportation. Petropavlovsk-Kamchatsky, the capital of Kamchatskaya oblast receives cargoes destined for the whole Kamchatka peninsular. Subsequently, cargoes destined for KAO are shipped from Magadan, Vladivostok, and Yuzhno-Sakhalinsk to Palana via Petropavlovsk-Kamchatsky, and then loaded onto smaller vessels to be transshipped to KAO's hub port irregularly during a short navigation season, thus leaving KAO undersupplied with fuel and food stock. There is no sea or river passenger transportation to Kamchatka or KAO, and the existing surface transport system is woefully inadequate to ensure a reliable connection.

There are no asphalted roads on KAO's marshy permafrost vast expanses. Military cross-country crawlers connect remote settlements via temporary dirt roads in summer and winter roads rolled on the snow. Helicopter/plane flights are irregular because of regular fuel shortages, high cost, and frequent winter snowstorms. Often, to save fuel, helicopters refuse to land in remote villages to pick up passengers, preferring to just drop off cargo and leave. A passenger air ticket from KAO to Petropavlovsk-Kamchatsky costs the same or more than one from Petropavlovsk-Kamchatsky to Moscow.

Energy supply. It is also believed that the merger will have a positive impact on the KAO's perpetual energy crisis. Till 2005, power cuts and blackouts were common. Shortage of fuel resulted with numerous ruptures in the municipal heating systems, 80% of which were already in a state of disrepair. Funds allocated from the federal budget were sufficient for only 40% of the energy required by the region. 12 known brown coal deposits exist in the region but only three of them – Palanskoye, Korfskoye, and Gorelovskoye - are currently exploited. KAO ships coal mainly from Sakhalin, because of low caloric content of local brown coals.

Natural Resources of Kamchatka

Marine. Kamchatka is rich in marine resources, as well as large reserves of coal and thermal and mineral waters. Among the minerals discovered in the region are gold, silver, mercury, sulfur and limestone. There are both on-shore and off-shore oil and gas reserves. The regional capital of Petropavlovsk-Kamchatskiy has two ports and a Russian navy nuclear submarine base. But in general, the lack of infrastructure, remoteness, high energy prices and fuel supply disruptions hinder regional economic development. Kamchatka's economy has been in difficult straits for years. There is little foreign investment, and large infusions of capital will be needed to significantly upgrade the oblast's infrastructure if the reunified Kamchatka is to become a more attractive site for business.

Fish and seafood are the primary exports and a source of cash to pay for imported food products and fuel. The KAO fishing industry, which includes catching and processing of saltwater fish, is the leading industrial sector. Ust-Khairyuzovo and Pakhachi are the centers of the fishing industry. Kamchatka crab is a unique commercial resource. KoryakRyba and Tymlatsky Fish Processing Plant (with U.S.-made freezing equipment) are the main on-shore fish processing facilities.

Timber. Over 100 wood and wood processing companies operate in Kamchatka; a few are based in Palana, KAO. Most lack equipment for processing lumber and instead sell raw timber to Japan and South Korea. Kamchatka's substantial timber reserves and lack of processing technology and equipment may present an opportunity for U.S. wood processing equipment exporters.

Mining. Much of the known deposits in the northern Kamchatka Peninsula remain underexploited due to the poor infrastructure. KAO does have identified platinum deposits and an estimated 500 thousand tons of gold. Although the development of the platinum deposit has only begun, it is expected to produce 400 kilograms this year. 30% of Russia's gold and platinum is mined by regional holding Koryakgeoldobycha, LTD., Russia's second-largest producer of platinum. Koryakgeologodobycha is expected to produce 3-3.5 tons of platinum and 3-4 tons of gold this year, which would provide the company with revenues of about \$130 million.

There are also commercial mining operations for brown coal in the Korf deposit and mercury ore deposits at Cape Olyutorsk (estimated at five million tons). Chaibukha and Koryakgeoldobycha mining companies are also building a road to the Korf coal deposit. KAO has resources of precious and semi-precious stones, such as demantoids, green stones resembling emeralds. In the South of KAO, there are large resources of ash-gray obsidian, volcanic glass which is usually black and used for decoration and in jewelry making. The ash-gray color of Koryak obsidian is extraordinarily beautiful. Yet, it is not gold and platinum that are the region's main potential of mineral resources, but offshore oil and gas. According to expert estimates, there are over 50 offshore oil and gas bearing areas on the KAO shelf, which can become promising oil fields. A recently established Russian-Canadian JV with 85% of Canadian capital develops the KAO shelf estimates. However, the nature of the northern land is very sensitive to man's interference, so the development of all the above-mentioned mineral deposits will require using environmentally friendly technologies.

Transportation to and from Kamchatka is possible only by air and sea. The region hopes to become a transportation hub serving air and sea routes to/from Asia. Commercial and fishing ports in PK are equipped to handle oil, wood and fish products, and general cargo. The major Kamchatka airport, located in Yelizovo, 22 kilometers from the city center, serves as an international one.

International Trade and Investment

Kamchatka exports fish, machinery, and round logs. Its major imports are fuel, including oil and lubricants. Kamchatka's major trading partners are the United States, Japan, Canada, Germany, Poland, China, Romania and the Czech Republic. ½ of food products Kamchatka and KAO are importing. The total volume of foreign investment in Kamchatka in 2004 amounted to \$39.6 million, 74.9 percent of 2003 volume. The main recipients were: industry, construction, trade and food services.

Exports to the U.S. were primarily shellfish, fishing boats and fish-processing vessels. Leading imports from the U.S. were electrical power generators, pork and other meat products, metals, spare parts for internal combustion engines, bulldozers, excavators, and transmission shafts. The U.S. share in Kamchatka's foreign trade total was 10% in 2004 (the most updated stats).

There are several U.S. companies and JVs operating in Kamchatka. The cooperation is focused on the fishing industry, sea transport and heavy machinery. Other sectors with U.S. presence are tourism and food products import. Some examples of U.S. business involvement on Kamchatka are Marine Business International (fishing and fish-processing equipment, ship agent), N.C. International (authorized CAT dealer), Pacific Network (agent for cruise lines, tourist agent), "Explore Kamchatka"(tourism), WorldWise Ecotourism Network (tourism), and UPS (shipping).

BEST SALES PROSPECTS:

- construction technologies/ building materials;
- fish processing/canning equipment and technologies;
- small-scale fish/meat processing equipment;
- bottling and packaging equipment;
- wood processing equipment, especially dry kilns;
- mining machinery and equipment;
- self-propelled commercial barges with a nose-located boarding ramp, or a RO-RO vessel with a small draught and tonnage 200-800 tons used for products and food supply to the remote settlements, where the port depth is limited up to 3-5 meters and where berths hardly exist.
- fuel;
- food products;
- medical equipment;
- small aviation;
- consumer goods.

The following is information on potential areas of cooperation between U.S. and Russian companies in Kamchatka:

CONSTRUCTION. Kamchatka has the highest heating and electricity utility rates in Russia. Several “elite” building companies are introducing more energy efficient construction techniques. Kamchatka and KAO need prefab panels for single family or low-rise residential construction. Energy-efficient building products/ seismic-resistant construction technologies create high opportunities for U.S. manufacturers as buildings in Kamchatka are aging and in need of reconstruction or insulation.

Each fourth kilometer of automobile road network in Kamchaka requires reconstruction and repair. Road construction between small settlements and a Palana-Petropavlovsk-Kamchatskiy 4000 km automobile road with small and large bridges over numerous rivers and springs require new road construction/repair technologies and materials capable to withstand climate extremes and moisture.

A new runway in Palana, KAO’s regional center is under reconstruction; financed by the federal government since an older airport was recently destroyed by fire. U.S. manufacturers of fast mounted facilities (most of the northern airports building technologies are very much alike) are invited to place their proposals.

FISHING. There are about 500 fishing companies in Kamchatka, and 120 fish-processing facilities with a capacity to process 1,400 tons of bio-resources per year. Kamchatka’s total allowable catch is 2.5-3 million tons. Kamchatka requires up-to-date packaging and fish processing technologies to process fish/sea food into a competitive high quality product. Portable small fish processing/ canning equipment will be the best selling product, especially during salmon fishing season.

TOURISM. During summer season, seven to nine foreign cruise lines plus an assortment of smaller vessels call Kamchatka. Several more companies are eyeing the route as a way to bridge the gap between the end of the season cruises in Alaska and the start of cruise programs in the Russian Far East. Number of local tourist companies has increased to 90. The largest ones are Krechet, Kamchatintour, Lost World, Lena & Friends, and Pacific Network. Some local tourist companies were trained by the Japanese Educational Center to provide services that cater to Japanese tourists. Local companies are interested in being training by American trainers. Opportunities for U.S. companies in the tourism sector are: joint projects ecotourism and adventure tourism training; hotel industry management; sporting goods export; and small aviation development to replace expensive helicopter services.

ENERGY: Petroleum exploration underway on the western Kamcatka shelf. In August 2003, RosNeft obtained a license for exploration of 63 thousand km² of Western Kamchatka Shelf. In February 2005, RosNeft and South Korean National Oil Corporation (KNOC) signed an interim agreement on forming a JV. According to the agreement, KNOC is expected to invest \$150 million in the shelf exploration. The KNOC was attracted by the shelf’s proximity to the Korean Peninsula and the estimated reserves of up to 900M tons of oil and 1.6B m³ of gas. Some experts believe that the project could eventually be comparable with the Sakhalin projects in terms of scale.

An accompanying natural gas pipeline is projected to run from the northern part of the peninsula (Kshukoye field) to Petropavlovsk-Kamchatskiy to substantially decrease heating fuel costs in Kamchatka, but the project is opposed by environmentalists.

Market Access

Today, Russian market is very competitive and the introduction of a new product requires strong promotion; sales volumes will be very dependent on a successful marketing and promotion strategy, which should include market assessment, pricing policy, participation in local trade shows, development of a Russian language promotional brochure and translation of technical documentation, etc. The best contact for the suspended access systems/ aerial work platforms promotion to the RFE market will be an experienced distributor of construction equipment and building materials related to construction and maintenance.

For More Information

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