

SCOMM

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MEMORANDUM

Representative John Cowdery

TO: SEN. MIKE MILLER, SENATE PRESIDENT
REP. GAIL PHILLIPS, SPEAKER OF THE HOUSE
FROM: REP. JOHN COWDERY *JC*
DATE: MARCH 10, 1997
RE: ALASKA'S ROLE IN SAKHALIN
CC:

NOTE: Hearing on March 20th at 3:30 pm,
Butrovich Room

BR

The purpose of the hearing is to bring the legislature and public up to date about events and opportunities for Alaska in Sakhalin.

Briefings will be given by Steve Smirnoff- Russian Consulate, Division of Trade & Development, Marathon Oil, Lynden Air Freight, Exxon, World Trade Center, Alaska Center for International Business, The Alliance, Chuck Becker, Reeve Airlines, Alaska Airlines, C.L. Wareham, Arctic Camp and Equipment, and others yet to confirm.

The briefers will impart their knowledge about Sakhalin's development and what they see as the State of Alaska's role.

Ultimately, the legislature must make a decision whether the State of Alaska will commit any portion of the budget to facilitate our business community's opportunities in Sakhalin.

Alaskans have an inside track because of our proximity and similarity to Sakhalin. However, competition is stiff. Alaska Airlines indicates that they are carrying many more passengers from Seattle to Sakhalin than from Anchorage to Sakhalin.

International corporations like Marathon, Exxon, other oil companies, and their support service companies, operate in both Alaska and Sakhalin. However, this does not mean that they will put Alaskan

MEMORANDUM
Senator Mike Miller
Rep. Gail Phillips
Page 2

interests first. They are international players whose geopolitics are much broader than Alaska.

What I have learned from many conversations with a variety of Sakhalin-watchers is that Alaska will only play a significant role if some kind of government to government accommodation is made.

The legislature and the governor will have to decide in what form the accommodation will be, and how much we are willing to spend.

The approach being taken by the governor is to set up an office in Sakhalin and hire a local consultant there. Many others are doing the same thing.

I asked Smirnoff what would happen if we reversed the approach and invited Sakhalin to set up an office in Alaska. In this way, our private sector could contribute office space, telecommunications, etc. The government to government accommodation could be that Sakhalin makes their Alaskan office their clearing house for investment and contracts with the U.S. We could also offer to pay some of their costs. They could give us weekly intelligence reports, to be defined by contract, that would be useful to Alaskan businesses.

Smirnoff (Honorary Russian Consul) likes the idea. But, it would take some state funding and initiative from the legislature. You, Mr. President and Madam Speaker, may want to make this an initiative on behalf of the legislature. Please let me know how I can assist you.

By: D. Stary, OAA

Testimony to House Oversight Committee

20 March 1997

Representative Cowdery, Chair

On behalf of the University of Alaska Anchorage and our Joint Venture Partners, Bill Stamps of Peak Oilfield Services Company, and Mikhail Krasny of the Russian Academy of Science, I would like to thank Chairman Cowdery and the members of the committee for your kind invitation to testify this afternoon.

I have spent the past 27 years with the University training workers for the resource development industries of Alaska, primarily in oil and gas, but more recently in mining as well. My entire career has been tied up in vocational training in Alaska.

We have a joint venture to establish and operate the "Sakhalin Alaska Technical College" based on the expertise of our JV partners, the Kenai Peninsula College and the Mining and Petroleum Training Service. This College will be developed jointly by the joint venture and the operators of the Sakhalin oil and gas projects. We will attempt to do on Sakhalin what we have been doing in Alaska for the past 27 years. This College will ultimately address training in other resource industries including forest products, fisheries and environmental technology.

Our involvement with Sakhalin Island began over two years ago, first with the sister city relations on the Peninsula, Kenai with Okha and Soldotna with Nogliki. Borough Mayor Don Gilman, Kenai Mayor John Williams and Soldotna Mayor Ken Lancaster introduced us to the many Sakhalin delegations to Alaska which demonstrated their intense desire to share in oilfield technology training. This interest and desire was included high on the first Alaska Sakhalin protocols signed by Governor Hickle, later reaffirmed by Governor Knowles.

We learned that one of our Alaskan friends, Tom Brooks with Marathon Oil Company was leading the Sakhalin Energy group in Yuzhno-Sakhalinsk. Mr. Brooks was kind enough to introduce us to the rest of the operators on Sakhalin and suggested the approach we should take with respect to training the Russian workforce. His advice was accurate, useful and saved a great deal of time.

Testimony/3/20/97/12:20 PM

We began by a thorough needs assessment including polling the operators, and conducting certification training for Russian workers to determine as to their needs their competence. From this process came the ultimate training strategy. This strategy has just been reinforced by Sakhalin Energy training personnel who have just returned from Sakhalin. At this time we are working closely with both Sakhalin Energy and Exxoneftgaz regarding the direction the project will take.

Our purpose is twofold. First to fulfill the intent of the Alaska Sakhalin protocol and second to provide a means of showcasing Alaskan technology and expertise. Our hope is that Alaskan business will be able to market their expertise through the medium of participating in classes involving potential clients for their goods and services.

After Prudhoe, this may be the greatest opportunity for our businesses to sell their services that we will ever see. The advantages of our special expertise in offshore and onshore drilling, development, transportation, logistics and environmental protection in the arctic and sub arctic may never see this kind of opportunity again.

The Sakhalin is intimidating to many Alaskan enterprises. It is complicated beyond any American understanding with taxes and regulations from many levels. The Petrosak refinery on Sakhalin is subject to 68 separate taxes before the product even ships from the facility, and many more before it reaches the consumer. Customs, living standards, medical and dental services, transportation and sanitary facilities may not meet modern Alaskan expectations. Beside the language barrier, there is a cultural gulf which can and must be bridged in order for effective commerce to take place. Those who are active on Sakhalin right now are the leaders. They are the ones who are willing to assume the risks and pave the way for those to come.

The situation has many parallels to the Alaskan gold rush era. The people people in that era who had the fortitude to come to Alaska essentially made it possible, or at least much easier for everyone who followed. Those pioneers did not have an easy time of it, but I suspect every real Alaskan considers them real heroes of our state.

In the Global Economy, individuals cannot participate or even survive without secure, fundamental support from their government. In my opinion, and I do not claim to be an old Russian hand, without the full support of both the Legislature and the state Administration, Alaskans will be shut out of the Sakhalin Island development. This is fundamental.

There are several organizations which have contributed to our progress. First, the Department of Commerce and Economic Development has probably be the greatest resource. They have provided introductions and windows that we would never had access to in any other way. The Department parallels Russian governmental expectations and mirrors the way they expect to do business. I send Commissioner Hensley and his people our most sincere thanks.

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The American Business Center is gratifyingly prompt and effective. An e-mail sent at 0800 Alaskan time usually has a complete and accurate response by 1400 hours. (Sakhalin time is Alaska -4 hours) Several times they have enabled us to meet critical deadlines, and in the process have saved us many thousands of dollars.

Alaska has a number of organizations which provide essential services to business on Sakhalin and the Russian Far East. My personal concern is that there is considerable overlap and duplication of effort with resulting loss of focus. We recommend that a task force of persons already involved in business on the island be formed to evaluate the various service groups and recommend effective roles for each which will make the greatest use of their individual expertise. The task force should be charged with developing an accurate description of who is responsible for what and communicating that information to the interested business community.

I would encourage you to consider making Alaskan Sakhalin Joint Ventures which meet strict guidelines eligible for business loans and even grants in some instances where the interests of the state are involved.

Finally, the actions of the legislature and administration toward Sakhalin and the entire Russian Far East should be models of democratic efficiency. Swift decisions, and equally swift implementation of our policy would I believe send an effective message to the Sakhalin administration and the Russian Duma that economic development is dependent upon reasonable governmental policy, promptly developed and promptly implemented.

I and myJV partners, as well as our parent organizations are excited about our role in bringing Alaska and Sakhalin closer together. We have received the finest kind of encouragement and participation from the operators, government and industry on Sakhalin. We believe this is because we did our homework and confined ourselves to areas where we had the greatest expertise.

I am extremely pleased that the legislature and Chairman Cowdrey have held this hearing. It indicates a high level of awareness on the part of the legislature of the potential rewards the state and our people might achieve by becoming real partners with our neighbors on Sakhalin.

I hope your interest will continue, and we will do our best to keep you informed about our progress and our success. We hope our project meets with your approval, and we hope we can count on your support.

RECEIVED

MAR 20 1997

Ans'd.....

DATE: March 11, 1997

COMMENTS: Charles Becker, Director
USDOC, Alaska Export Assistance Center

REFERENCE: Alaska - Sakhalin Island Legislative Overview

CHAIR: Representative Cowdery

Thank you for inviting us to participate in your overview hearing on development activities on Sakhalin Island. The Committee's timing is most fortuitous since we have with us a key member of the U.S. diplomatic corps, Timothy (Tim) Smith, Principal Commercial Officer, at the American Consulate General in Vladivostok, Russia. Mr. Smith is prepared to respond to any questions you or members of the Committee may have.

I will address your questions directly. I am the Director of the Alaska Export Assistance Center here in Anchorage. The Center is a unit of the U.S. Commercial Service of the United States Department of Commerce. Domestically, the Commercial Service operates 75 Export Assistance Centers nationwide. Abroad, we are located in 135 cities in 65 key foreign markets. Our mission is to help U.S. companies successfully penetrate these markets with sales of their products and services.

For Sakhalin specifically, the Commerce Department has funded one of a network of 14 American Business Centers operating in key locations throughout Russia and other countries of the former Soviet Union. The ABCs, as we call them, provide American companies with western business services such as office space and equipment, rental, international telephone, fax and e-mail capacity, scheduling, meeting arrangements, travel assistance, counseling and market research. As you know, Governor Knowles has established a state presence on Sakhalin through the (ABC) in Yuzhno-Sakhalinsk. I'm sure you know that for many companies in Alaska, the potential \$30 billion development scenario on Sakhalin could prove to be their next "Prudhoe Bay." The oilfield service and supply industry in Alaska has the expertise to handle the exceptional challenges of offshore oil and gas development on the island. The government and private industry leaders on Sakhalin I have spoken with personally, are fully cognizant of that fact. Representation through the ABC on Sakhalin should prove to be a cost-effective

strategy for maximizing Alaskan company participation in the developments.

The ABC network has proven to be invaluable to representatives of U.S. companies in the challenging markets of the Newly Independent States. We now operate three ABCs in the Russian Far East - Vladivostok, Khabarovsk and Yuzhno-Sakhalinsk. The U.S. Commercial Service operates the ABC in Vladivostok while the Foundation for Russian American Economic Cooperation administers the others. The three have developed an excellent working relationship, often collaborating on optimizing business missions by individual company representatives, trade missions, and logistical services.

Dinty Miller, Executive Director of the American Business Center in Yuzhno-Sakhalinsk, is formerly from Alaska's "oilpatch" and has gained the confidence of the Alaska business community. To date, over 70 Alaska companies have used his services for everything from telecommunications facilities and business meetings services to corporate registrations. Miller's personal familiarity with Alaskan companies and the hurdles they have mastered in the Cook Inlet and the North Slope, is a remarkable asset in a representative office. The ABC has developed a close working relationship with the Sakhalin Regional Administration as evidenced by formal protocols executed with the shelf department and other key departments in the Administration. Moreover, the ABC has recently executed a protocol with the Administration of the Khabarovsk Krai, tying in that very important and proximate area to the Sakhalin development initiative.

In addition to the ABC in Yuzhno-Sakhalinsk, the Commerce Department has also funded a joint proposal of the Municipality of Anchorage, the World Trade Center Alaska and the State Division of Trade & Development through our CABNIS program. As you may know, the World Trade Center Alaska, the administrator of the program, opened an office on Sakhalin called the Troika Alaska Center, in addition to their original office in Khabarovsk. Initially funded by our Department, the office has carved out a niche among the service providers offering individual representation to companies in Alaska. Moreover, the office has begun to publish a newsletter focused on developments in the petroleum industry on Sakhalin.

Supplementing these operations, the American Russian Center of the University of Alaska Anchorage, funded through the U.S. Agency for International Development, has an operation in Yuzhno-Sakhalinsk that works toward the goal of developing a cadre of individuals trained in the principles of a market economy.

These three offices constitute a remarkable network of intelligence gathering sources and talented assistance providers for American corporate representatives as they begin to explore business opportunities on Sakhalin and to obtain work in the exploration and development phases of the oil and gas operations there. This network may prove to be the competitive edge needed by our firms. As you can imagine, they will be facing stiff competition from foreign oilfield service and supply companies, especially those currently operating in the North Sea. Japanese firms are also likely to prove challenging competitors. Not only are major Japanese companies involved in joint ventures with the producers, the Government of Japan has also opened an office in Yuzhno founded on service principles comparable to the ABC.

We are pleased your Committee is taking the leadership in reviewing developments on Sakhalin and welcome the Legislature's assistance in developing a comprehensive strategy for tapping into this remarkable developing opportunity for Alaska companies. Your interest will help us focus the attention of corporate executives on the importance of immediate attention to developing an effective market penetration strategy. With a commitment to a 70% local content target by the producers, Alaska companies will find it essential to be partnered up with a Russian enterprise in order bid successfully on projects on the island. Finding that partner and developing a solid relationship, on which all lasting business is conducted in Russia, takes time and effort. The Legislature's efforts can help to again call this imperative to the attention of our oilfield service and supply companies.

You may be interested in knowing that we are working on several initiatives that will also serve to underscore that imperative. Tomorrow we will feature Tim Smith, Commercial Officer in charge of our operations in the Russian Far East, at three public presentations. Additionally, Ambassador Dick Morningstar, U.S. coordinator for all policy and assistance in the Newly Independent States and Bruce Shewmaker, newly appointed president of The U.S. Russia Investment Fund, and Jack Brougher, Director of the Russia division of the U.S. Department of Commerce, will also be here to brief Alaska companies on opportunities in Russia. Later this Spring, we will be featuring Jane Miller Floyd, U.S. Consul General in Vladivostok in a number of appearances around the state. Briefings by these VIPs, coupled with the Governor's trade mission to Sakhalin, should help to alert Alaska companies to the importance of initiating their partner search.

For your information, we are also working with the suppliers Committee of the

Alliance and the Anchorage Economic Development Corporation, in the founding of an international marketing consortium focused immediately on the Sakhalin play. It appears as if we may be able to bring close to 40 companies operating in Alaska into this consortium. As we proceed, we are working to ensure that these companies will be protected from prosecution under the federal anti-trust statutes through another program of the Commerce Department.

We applaud the leadership of the State in its essential government-to-government initiatives and in founding the Sakhalin-Alaska Working Group. We applaud the World Trade Center Alaska for its foresight in opening up what I would call a "Man in Sakhalin" operation. We applaud the Anchorage Economic Development Corporation for its leadership role in spearheading development of the marketing consortium. We applaud the American Russia Center for its unique efforts in free market development. If we can all work together, corporate Alaska is bound to win in this exceptionally challenging and potentially exceptionally rewarding development.

Once again, we appreciate the Committee's interest in this important initiative.

Copy: Members of the ITT Committee:

Rep. Ramona Barnes
Rep. Pete Kott
Rep. Eldon Mulder

Rep. Gail Phillips
Rep. Kim Elton
Rep. Reggie Joulie

Members of the World Trade & State/Federal Relations Committee

Rep. Alan Austerman
Rep. Gene Kubina

Rep. Irene Nicholia

**SPECIAL COMMITTEE
on
INTERNATIONAL TRADE
and TOURISM**



**LEGISLATIVE OVERVIEW
of the
ALASKA - SAKHALIN ISLAND
WORKING RELATIONSHIP**

MARCH 20, 1997

**Representative John J. Cowdery, Chair
Representative Gail Phillips, Representative Ramona Barnes,
Representative Eldon Mulder, Representative Pete Kott,
Representative Kim Elton, Representative Reggie Joule**

**SPECIAL COMMITTEE
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MARCH 20, 1997

**SPECIAL COMMITTEE
on
INTERNATIONAL TRADE
and TOURISM**



**LEGISLATIVE OVERVIEW
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MARCH 20, 1997

**SPECIAL HOUSE COMMITTEE on
INTERNATIONAL TRADE and TOURISM**

TABLE OF CONTENTS:

Agenda

Letter to Representatives

Participation invitation

Sakhalin Projects -- Alaska's Role

by Honorary Russian Consulate Steve Smirnoff

(A must read)

Reference

Maps

- 1 Global Map**
- 2 Russian Federation Map**
- 3 Current Sakhalin**

Background information

- 1 Northern Forum Synopsis**
- 2 Useful information about Sakhalin**
- 3 American Business Center : Useful information about S Sakhalin**
- 4 Foundation for Russian American Economic Cooperation
- Membership List**

Speaker attachments

- 1. Honorary Russian Consulate Steve Smirnoff**
 - A New York Times Article 3-11-97**
 - B Anchorage's role in the development of Sakhalin Island, July 29, 1994**
- 2. Commissioner Willie Hensley, Department of Commerce and Economic Development**
 - A. Introduction letter and index**
- 3. Mining and Training Services, UAA, Dennis Steffy**
 - A. Introduction letter and answers to questions by committee**
- 4. Alaska Airlines, Dave Hall**
 - A. Proposed Air flight Schedule to Sakhalin.**

5. Alaska Export Center, Chuck Becker
 - A. Executive Briefing Notice
 - B. SAKHALIN OVERVIEW -- GREAT DOCUMENT
6. University of Alaska, American Russia Center
 - A. Mission Statement
 - B. Accomplishments and purposes
 - C. Russian Far East News Jan, Feb and March 1997 --GOOD SAKHALIN UPDATES
7. UAA's World Trade Center
 - A. Troika Alaska Commercial Center Sakhalin Oil and Gas report

Alaska - Sakhalin Island Legislative Overview Agenda

- AK *1/2 - 1/4* *10 or Dirty M.* *1/8*
- ✓ 3:30 Honorary Consulate Steve Smirnoff =
 - ✓ 3:45 DCED, Commisioner Willie Hensley/Debbie Sedwick (tele)
 - ✓ 4:00 Frank Duffield, Marathon Oil. *President, Sakhalin Energy Project - #2*
 - ✓ 4:15 Chuck Becker, Alaska Export Assistance/ Tim Smith, Consul for Commercial Affairs @ the American consulate General, (Uladivostok)
 - ✓ 4:30 Dennis Mitchell, Lynden Air Freight = *Promote AK businesses - Sakhalin*
 - ✓ 4:45 Bill Stamps, Peak Oil Services, Chariman International Affairs for the Alliance *Govt to Govt relations ✓ 10 way / break rice & Sakhalin 1/2 business > AK businesses are not in competition w/ other Alaskans but w/ other States*
--- 10 Minute Break ---
 - ✓ 5:10 Dennis Steffy, Mining and Training Services, UAA *Govt to Govt relations opened the doors*
 - ✓ 5:25 C. Lee Wareham, International Pathfinder, (tele) *need a Senior Statesman like Gilman to lead this up. need to do a legislative trip to Sakhalin also.*
 - 5:40 Rory Courreges, Arctic Camp and Equipment
 - 6:00 Dave Halls, Alaska Airlines *Dis of Marketing & Planning*
bilateral agreement for Air Service w/ a mandatory ANC stop?
more lower '48 traffic - Alaskan traffic to Sakhalin
- AK #5 hours decreased about 30%*
- Smirnoff = 1/2 - 1/4 \$5,000 etc to Dirty*

Original Correspondence

The House Special Committee on International Trade and Tourism will hold an overview hearing on development activities on Sakhalin Island, Russian Federation. The meeting will take place March 20, 1997. The meeting time will be from 3:30 p.m. to 5:30 p.m. in committee room 120 of the Capitol Building. Teleconference will be available at the Anchorage Legislative Information Offices, located at 716 W. 4th Ave.

«title» «last name», we would appreciate it if you would provide part of the initial overview, focusing on the basic tenets of the Alaska - Sakhalin working relationship; past, present and future. Furthermore, addressing basic questions such as:

- A brief historical and geographical perspective of Sakhalin
- How does Sakhalin affect Alaska
- Who else in our state, and out of state is involved and why
- In your view, What is the role of the State.
- What do we need to do to ensure Alaska is a primary player in Sakhalin
- A brief description of your company's mission and strategies regarding Sakhalin

Please limit your presentations to fifteen minutes, plus question and answer time from the committee members. Please send in advance as much of the material as possible for review and organization by the committee. Please confirm name of testifiers with contact phone number and fax by March 14. You may fax it to 465-2069. The committee will issue a summary report of the hearings.

Thank you for your cooperation

Yours truly,

John J. Cowdery
Representative

Contact: Casey Sullivan 1.888.269.3879 or 907.465.4967

SAKHALIN PROJECTS-ALASKA'S ROLE

Overview

If Alaska is to play an active role in the monumental Sakhalin Island projects, it is imperative that we, as a state, project a unified effort and form a coalition - an alliance - between the private and public sectors and begin to actively seek out business opportunities. The opportunities are there, but they will not be handed over on a silver platter. The competition is fierce both from international sources as well as from other states. If we want opportunities, we have to actively pursue them.

It is equally important to demonstrate to the Russian Federal government and to the Government of Sakhalin, that Alaska is interested in playing an active role and is ready, and certainly able, to assist the project managers in virtually every stage of development. We have done this before on the North Slope, we have the knowledge and the technology. What we need now is to actively market those skills in Russia.

To this point we have not done very much. Certain Alaskan companies have taken some preliminary steps. Some trade missions have taken place, and these are to be commended. But, frankly, most efforts up to this point have not proceeded past the discussion stage. Unfortunately, the image we have projected to the Sakhalin Administration is not one of a state ready to become an integral partner. This perception needs to be changed immediately.

We must proceed to change our image through a well managed program that sells Alaskan expertise to both Russian and American decision makers on Sakhalin. Such a program will need leadership, funding and long term commitment by all participating interest groups.

Organizational structure and Strategy

The organizations which will support such an effort and be key players may elect to form a consortium. A suggested name is SakhAlaska Partnership. The word 'group' has been deliberately omitted so that there will not be any confusion - especially by the Russian side - with another effort undertaken locally.

The nucleus of the organization will be the existing Troika Alaska operation in Sakhalin. The group is on site, well connected, but understaffed and under budgeted.

The main purpose of Sakhalin Alaska Partnership is to operate, for a want of a better name, **ALASKA SUPPORT ALLIANCE**. The concept of a one-stop-shop providing instant information on all Alaskan resources, on site, will be a great equalizer with existing American efforts which promote primarily Washington state interests.

It is absolutely vital that this proposal be viewed as a *long-term investment* and not a short term expense. The suggested initial start up and first-year budget is \$400,000 which would be used to hire staff, purchase office equipment, pay for leased office space, fund an in-depth marketing and sales program, and provide operating funds. The specific details, to include structure and suggested incorporation of existing Troika Alaska office into the expanded presence will be discussed later.

Sakhalin Island

Sakhalin Island, in the Russian Far East, has been producing oil since the turn of the century, when pools of standing oil were found by Czarist geologists. It was not until the breakup of the USSR that foreign companies were invited by the Sakhalin government to explore for additional reserves of oil and natural gas, and to enter into joint production agreements.

Today, a number of large American and foreign petroleum companies are in Sakhalin gearing up for the inevitable boom. These include Mobil, Exxon, Standard Oil, & Marathon Oil. Other substantial players include Shell, Mitsui, Mitsubishi and McDermott.

Projects - Current and Future

The Government of Sakhalin had designated four distinct projects for the exploration and extraction of natural gas and oil. Currently, Sakhalin 1 and 2 are in the early stages of operation. The first flow of oil is expected 1999.

Sakhalin 1

A consortium of Exxon Neftegaz (JV with Russian partner), Sakhalin Oil and Gas Development Co. (SEDECO) Japanese, Rosneft-Sakhalin (Russian) and Skhalinmorneftegas (Shell Oil and Russian JV).

Estimated cost of project - \$15 billion US.

Total investment to date by US side - \$300 million US.

Estimated reserves - 2.5 - 5 billion barrels of oil & 15 trillion cubic feet of gas.

Sakhalin 2

A consortium of Sakhalin Energy Investment Company, LTD made up of Marathon Sakhalin (JV), McDermott Sakhalin (JV), Mitsui Sakhalin Development Co. (JV), Shell Development Sakhalin B.V. (JV), Diamond Gas Sakhalin, B.V. (JV) (a subsidiary of Mitsubishi).

Estimated cost of project -- \$10 billion US.

Total investment by US side to date -- \$80 million.

Estimated reserves -- 1 billion barrels of oil & 13 trillion cubic feet of gas.

Sakhalin 3

On horizon - Major players are Texaco and Mobil. Current investment by US companies -- \$300 million plus.

Sakhalin 4

On drawing boards - 2020.

Opportunities

Opportunities exist on Sakhalin for numerous enterprises. In addition to the obvious oil patch support areas they include, but are not limited to, the following:

- Housing construction - apartments, schools, hospitals
- Road building
- Security
- Food services
- Transportation
- Telecommunications
- Supplies - everything from window glass to shoes
- Services - environmental & social.
- Government relations
- Education - job related schools and training facilities

Anchorage's role

A number of Anchorage-based companies have sent representatives to personally investigate opportunities on Sakhalin. Most have reported positive first impressions. Some have already entered into contracts for products and services.

Among the more promising organization to seek opportunities on Sakhalin is the Support Industry Alliance. A 350-member statewide organization whose members

constitute a petroleum support group, the Alliance would like its members to participate in Sakhalin's development and is encouraging its member companies to investigate opportunities through personal contact, whenever possible. The Alliance - in their words - wants Alaska to be a part of the project.

In July of this year, a delegation of 26 Alaskan business and government leaders traveled to Yuzhno-Sakhalinsk - the capitol city - to evaluate possible business ventures in the Island's rapidly growing oil patch. The fact-finding mission was organized by the World Trade Center Alaska and Troika Alaska - a support organization funded by municipal, state and federal funds to assist American companies interested in exporting American products and business know-how to Russia generally and specifically to the Russian Far East.

The feedback received from delegation participants has also been positive. There is widespread support for Anchorage to become an active player in the Sakhalin project.

The most obvious avenue is for Anchorage to become a staging area for movement of personnel and equipment, in much the same fashion that the city was the gateway to Alaska's North Slope. Equipment, especially high tech, low weight items which can be delivered by air would ideally be warehoused in Anchorage for delivery to Sakhalin in a matter of 4 -5 hours.

The benefits which would accrue to Anchorage as a result of becoming a gateway to and from Sakhalin are numerous. Perhaps the best way to describe them is to state that they would reflect similar benefits the State of Alaska, and Anchorage in particular, experienced during the TAPS project and continue to enjoy to this day.

While the Municipality of Anchorage, along with the State of Alaska and the state's private sector have a very distinct opportunity to position Anchorage as the gateway to Sakhalin, there are competitors for the title.

Seattle, Tacoma and to a lesser degree, Portland have declared themselves as the 'gateways' and all are moving forward with establishing themselves as dominant players. State of Washington has an office in Yuzhno-Sakhalinsk with a combination American-Russian personnel. The office is co-located in the same building as the majority of American and foreign oil companies and is actively lobbying for Washington-based firms. This is happening now.

Troika-Alaska also has offices in the same building but is faced with continuing budgetary shortfalls. However, Troika has been in the game since the start, and would be an ideal foundation on which to build an expanded Alaskan presence on Sakhalin.

Anchorage and Alaska need to become extremely active, on-site if we are to become a serious contender. Such a step would demonstrate to the Russians that Anchorage and Alaska are committed to playing an active role in the Sakhalin projects and are able to deliver on that commitment.

Yukon Pacific

Some may perceive the proposed participation in the Sakhalin project as assisting a competitor at the expense of the Yukon Pacific project. However, it should be noted that the Alliance, which is closely tied to the Alaskan petroleum infrastructure is supportive of the Sakhalin project and sees the many opportunities for its members almost immediately.

The Alaska gas line is years away and may be brought on stream during the first decade of the next century. The gas owners have not reached agreement on the sale of the gas and the market for the gas remains tenuous at best.

The Sakhalin projects will proceed regardless of whether Anchorage or Alaska participate. It must be clearly understood that we are not promoting the Sakhalin project. It is happening and the choice to become or not to become a participant is entirely ours.

Immediate needs

Among the more immediate needs is to bring the Yuzhno-Sakhalinsk airport up to international flight standards. Local aviation officials estimate that the initial cost would be in the area of \$20 million. Construction of an international passenger terminal and freight warehousing facilities will add an additional \$30 million.

It is imperative that multi-national funding sources be located. European Bank for Reconstruction and Development, the ExIm Bank and a number of US funded program are excellent starting points.

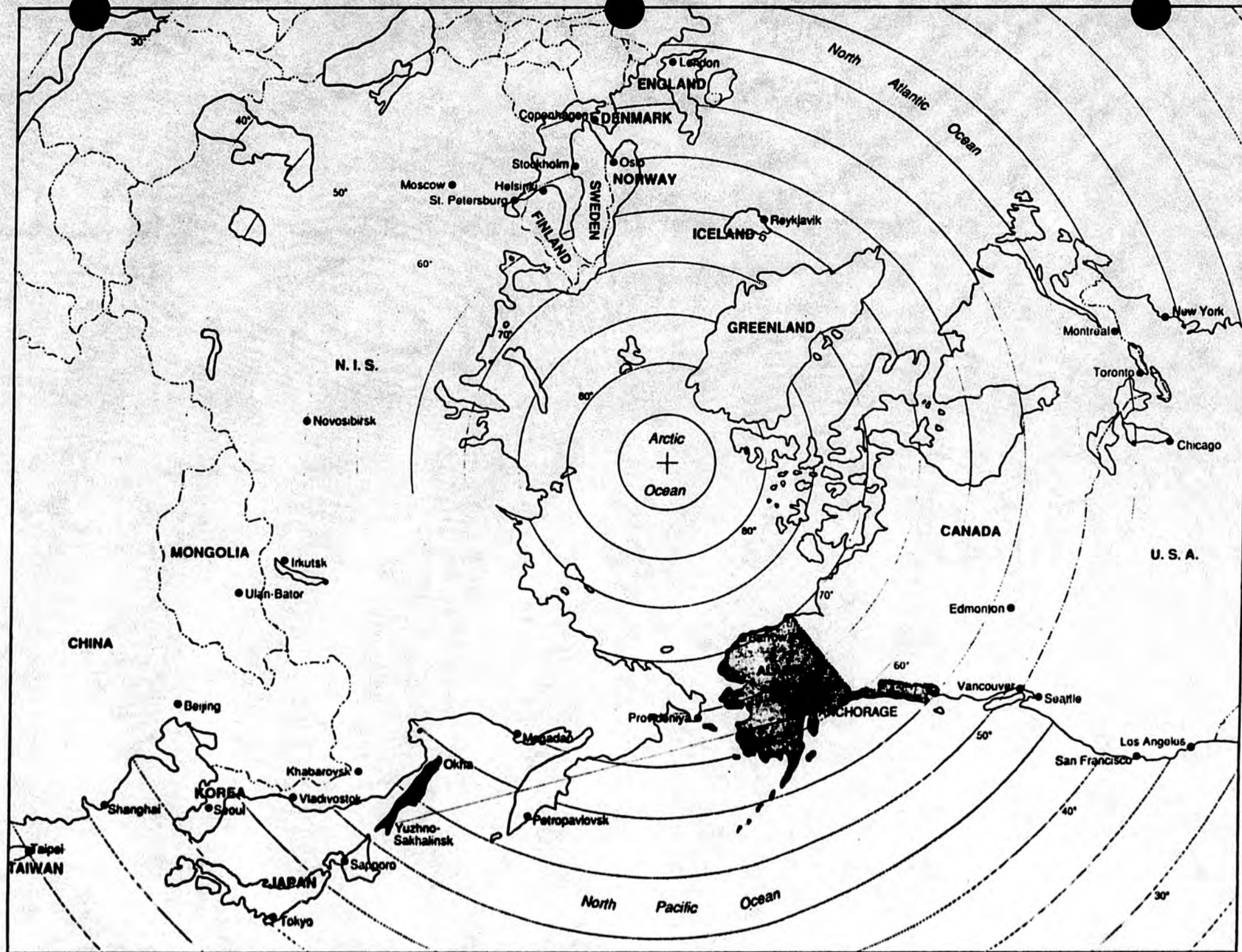
Conclusion

Sakhalin is happening now. The Government of Sakhalin has opened its doors to both American investment as well as expertise. Progressive American oil companies have already invested heavily into the projects. These astute companies do not invest without a full understanding of long term returns. They realize that these investments will return huge profits over the 10-20 year life of the Sakhalin mega-projects.

The Yukon Pacific gas line will likely happen, but not for many years. When it does, Anchorage will still realize the economic impact as we did during TAPS. Can we afford to let the opportunities available to us in Sakhalin today, pass us by?

**Submitted by
Steve R. Smirnoff**

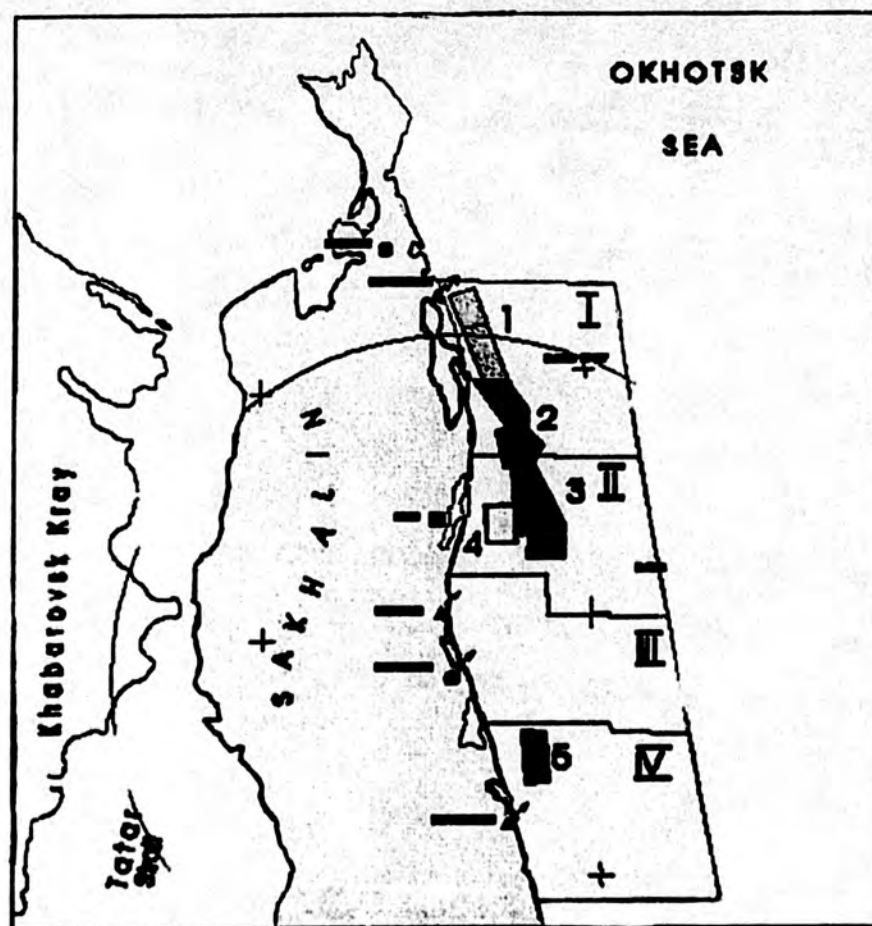
December 1, 1996





Current Sakhalin Offshore Projects:

- I, II Exxon Neftegas Limited, (Project Sakhalin - III)
- IV Mobil, Texaco, (Project Sakhalin - III)
- 1, 5 Sakhalin Energy Investment Company Ltd.,
(Project Sakhalin - II)
- 2, 3, 4, Exxon Neftegas Limited, (Project Sakhalin - I)



Sakhalin Oblast (Russia)

Area: 87,100 sq. km.

Population: 676,000 (as of January 1995)

Capital: Yuzhno-Sakhalinsk

Membership in the Northern Forum: 1993-present

Sakhalin Oblast is made up of Russia's Sakhalin Island and the Kuril Islands. With a relatively large amount of snow, average temperature in February ranges from -14 degrees to -23 degrees Celsius and from 15 degrees to 17 degrees Celsius in August. There is no permafrost in Sakhalin and the climate is more mild than the continental area of the Russian Far East. Two thirds of the area of Sakhalin is covered with forests.



Currently there are approximately 2,008 Nivkhi, 320 Ulta (or Oroki), 188 Evenk and 173 Nanai peoples living on Sakhalin island. Ainu peoples also lived on the island at one time. The language of the largest group, the Nivkhi, has been preserved and the Nivkhi publish their own newspaper, the Nivkhi Dif (Nivkhi Word). About 50 percent of the Nivkhi people on the island live in northern towns and villages and work in the industrial sector. The other 50 percent of the Nivkhi on Sakhalin live in settlements on the northwest coast where they fish and hunt.

Key industries in the Sakhalin Oblast include fishing, lumber and paper pulp, raw materials-related industries including coal and natural gas, as well as food processing. The fishing industry is Sakhalin's largest, accounting for over 30 percent of the region's gross economic output with an annual catch of over 570,000 tons.

With its rich forestry resources, the timber and paper pulp industry are developed and active industries. Sakhalin has 60 deposits of approximately 11.3 billion tons of coal, 37 percent of the Russian Far East's total reserves. There are 58 oil and gas fields on Sakhalin, most of these on the continental shelf. The total reserves of the Sakhalin shelf alone are estimated at 700 million tons of oil and more than 35 billion cubic feet of gas. Currently, several foreign investment and joint venture projects center around the development of projects on the shelf.

Sakhalin has one international and ten local airports, and a 1,100 km. railroad line. Many schools are located in Yuzhno-Sakhalinsk, including the Institute of Sea Geology and Geophysics, Far-East Branch of Russian Academy of Sciences, and many museums.

The Sakhalin Oblast has been active in projects of the Northern Forum since it joined the organization in 1993. Currently the Oblast is engaged in the Environmental Monitoring, Environmental Health and Emergency Response, and East-West and Circumpolar Air Routes projects. In October 1994, Sakhalin hosted a major conference of environmental specialists from Northern Forum regions.

Additional sources of information about Sakhalin.

Useful Information about Sakhalin Island

[Home Page](#)	[Fast Fax](#)
[Members](#)	[Become a Member](#)
[Banking](#)	[Financing Sources](#)
[American Business Center](#)	

Contents

- ☐ [Production Sharing Law](#)
- ☐ [Oil Consortium Projects](#)
- ☐ [Economic Overview of Sakhalin Island](#)
- ☐ [Transportation on and around Sakhalin](#)
- ☐ [Why *You* Should Do Business on Sakhalin Island](#)

Production Sharing Law

Investment by foreign companies in the development of Russia's oil and gas resources has been slow to take place. Foreign investors have traditionally cited a number of factors discouraging investment in Russia, including uncertain tax structures, the lack of a clear definition of ownership and antiquated laws applied without uniformity, frequently to the detriment of foreign companies. To alleviate such concerns, oil and gas companies operating in developing markets frequently sign Production Sharing Agreements (PSA's) or Contracts (PSC's) with the government of the country they seek license to operate in. Until now, international agreements in Russia, between foreign companies and either regional or federal authorities, have had their legal basis in presidential decree, a basis too unstable and too much at odds with other Russian laws governing subsurface resources to validate the PSA process. This will change with the adoption of the so-called Law on Production Sharing Agreements (PSAL) which is currently working its way through the Russian parliament.

Legislative Process

Any proposal for a new law in Russia must receive three readings in the Lower House of the Parliament (Duma) and must pass a vote after each reading. Then the draft law must be passed by the Upper House (Federation Council) and signed by the President before it is official law. An early draft of a PSAL passed the Parliament, only to be vetoed by President Yeltsin. Another PSAL was passed after one reading in the Parliament in February 1995, but it was sent back to the Duma by the Federation Council for amendments. The law, it was felt,, was not sufficient to induce foreign investors to move ahead with large-scale projects.

On June 9th, the amended law received a second reading and failed to pass. It was necessary to have at least 225 votes for the draft to pass. The law passed the Duma on June 14th with 255 and 227 votes in its second and third readings respectively and went to the Federation Council and the President for final approval (or veto). In the third reading, Duma deputies also accepted about 100 amendments, including some from the Cabinet and the Federation Council.

Forecasting Russian legislation is difficult at best, but sources throughout the industry are optimistic that the PSAL will pass in its current form sometime this year.

What Is The Current PSA Law?

According to the new law, a PSA is a contract between the state and an investor. In return for payments, the investor receives, for a specified period of time, the exclusive rights to explore, survey, and extract minerals from an area of land indicated in the agreement, as well as the right to carry out related work. The agreement defines all the necessary conditions for using mineral resources, including the conditions and procedures for dividing the output between the parties.

Among its main provisions, the draft simplifies the tax regime for foreign investors with production-sharing agreements, allows some field-development licenses to be awarded without bidding or tender (when the interests of the Russian Federation require an agreement with a particular entrepreneur or when the competitive bidding or auction is declared null and void because there was only one bidder), states that the investors share of the output under the terms of the agreement is the investor's property and protects investors against changes in the law that could hurt project economics (for example, if in the future the Government decides to restrict oil and gas exports).

The law also includes a clause explicitly stating that its provisions are universally applicable, even if they contradict other legislation on the use of subsurface resources and on foreign investment.

Under the PSA law, state oil monopoly Rosneft, slated for eventual privatization, will be Moscow's legal agent in PSA operations. Rosneft is the only remaining Government-owned oil and gas company in Russia.

A PSA cannot be signed without the consent of the administration of a region. The portion of the output assigned to the Russian side under terms of the agreement is distributed between the government organ signing the agreement and the administrative region.

Moscow's Kommersant Daily reports pending and future oil and gas PSAs could represent foreign investment of \$7-8 billion/year.

Ongoing Concerns

Three problems which will exist, even with the adopted law, are:

- ☐ taxes
- ☐ inflation and the exchange rate of the ruble
- ☐ rights for using pipelines.

Even while incorporating some of the taxes into the in-kind portion of the agreement to be covered by the Russian government, the legislation will leave in place a large tax burden for foreign investors.

Inflation in Russia is more or less under control (6% for June 1995 compared to 18% a year ago). But this is still a large figure for western investors. The Central Bank regulation of the exchange rate creates some temporary stability.

Quotes for using pipelines in Russia for 1995 have exceeded the actual capacity of existing ones. The Russian Government should create a system of rights for using the pipelines, which should be based on three things: existing capabilities, needs of producers, and needs of refineries. Without such a system the oil and gas production will be a more risky undertaking.

In summary, the PSA law:

- ☐ sets out conditions and procedures for production sharing.
- ☐ provides a license for use of underground resources within 30 days of PSA signature.
- ☐ provides for export of production free of previous restrictions.
- ☐ grants relief from taxes, fees, and duties under current law other than the profits tax and royalties, plus a one-time signing or milestone bonus (the foreign investor will pay directly only a profit tax,, bonuses., rentals, and royalties, while other payments can be in-kind),
- ☐ ensures an investor's adequate return by modifying the PSA if other laws or regulations reduce the value of the investment.

Oil Consortium Projects

Sakhalin is the Russian Far East's leading center for oil production. Oil recovery started in 1921. The oil is mostly light and low in sulfuric content. Natural gas is high in methane. About 40 fields are in operation. The only offshore deposit tapped so far is Odoptu, but Russian drillers, lacking capital and technology, had to use directional wells drilled to the offshore sector from the onshore part of the field.

Sakhalin-1

In 1975, the Japanese Sodeco company and the Soviet Oil Ministry started the Sakhalin-1 project (for Chaivo, Arkutun-Daginskoye, and Odoptu fields off northeast sakhalin). The project has been plagued by numerous problems for many years. New life came in 1993 when Exxon joined with Sodeco on the project. Exxon and Sodeco each have 30% of the project, and Rosneft and Sakhalinmorneftegas combined for 40%.

On July 30, 1995 the members of the Sakhalin-1 consortium and Russian Minister of Fuel and Energy Yuri Shafranik signed a production-sharing agreement in Moscow. Domestic enterprises will be contracted for about 70% of the work under the project. Sakhalinmorneftegas will receive 23% of the profits, Rosneft will receive a 17% share, and Exxon and Sodeco will each receive 30%. Royalties were set at 8% of product cost and the companies will pay a 32% profit tax.

Production will peak at 10 million tons of oil and 15 billion cubic meters of gas four years after production begins. Nearly 245 million tons of oil and 286 billion cubic meters of gas will be recovered during the 33-year contract.

The fields hold 291 million tons of oil reserves and 420.8 billion cubic meters of natural gas. The Chaivo and Arkutun-Daginskoye fields will be developed in the first stage of the project, which will cost \$ 12.7 billion.

Sakhalin-2

On January 27, 1992 the Sakhalin Island Governmental Tender Commission, headed by the Russian Minister of Ecology and Natural Resources, awarded the contract for development of two off-shore oil and gas fields in the Sea of Okhotsk (Piltun-Astokhskoye and Lunskeye fields) to the "3-M" consortium of Marathon Oil Co., McDermott International, and Mitsui & Co. The Commission recommended that the consortium include Mobil Corporation and the Japanese consortium Sodeco in the development projects.

Under the terms of the award the consortium received a right to conduct a feasibility study for development of the two fields and complete it by the end of that year. The production of oil was planned to begin in the Piltun-Astokhovskoe field by 1995

(production of liquefied gas from the second field was scheduled to begin in 1999). The consortium needs to develop a suitable infrastructure for the processing and transportation of natural gas. A pipeline will transport the gas and condensate to an onshore production facility at Katangi for further processing. Neither exist as of yet. The natural gas will then be transported to the South of Sakhalin Island through the pipeline and directed for both domestic use and for export. The gas to be exported will be converted to liquefied natural gas at Prigorodnoye.

In the middle of 1992, the consortium was joined by Shell Development Sakhalin (a subsidiary of Royal Dutch/Shell), and at the end of that year the "3-M" consortium expanded into the MMSM consortium (when Mitsubishi joined). In April, 1994, the consortium created the Sakhalin Energy Investment Company Ltd. to manage the development, production, financing and marketing aspects of the Astokhskoye and Lunskeye fields. On June 24, 1994, Sakhalin Energy signed a Production Sharing Contract for Sakhalin-2, the first project in Russian history that gives foreign companies permission to develop off-shore oil/gas fields. The Russian Government agreed to a lower level of profit tax for the project of 32%, instead of the usual 35%.

According to the Production Sharing Contract,, production sharing will begin in the first year of operation. Until the project returns a profit of 16.5%, investors will receive 85% of the oil produced, and the Russian Government will receive 15%. At the second profit threshold, the split will be 50-50, and at the third level - 30-70 in Russia's favor.

The 4MS consortium spent \$80 million on a feasibility study of the fields. Two appraisal wells were drilled during the summer of 1992. The study was completed and submitted to the government on December 31, 1992. It promises results in 3-4 years.

It was determined that all platforms for oil and gas exploration will be single leg structures, or monopods. They will be designed to meet not only the extreme ice loads but also the severe geo-technical loads expected in this earthquake prone area.

The anticipated development scheme for the Piltun-Astokhskoye field will include three ice-resistant monopod type platforms for full field depletion over a 30-year period. The platforms will be about 10 miles offshore in 100 feet of water. Marine pipelines must be buried under fifteen feet of cover for protection from ice gouging.

In the Lunskeye field, a single platform will supply a six million ton Liquefied Natural Gas (LNG) plant in Prigorodnoye as well as gas for domestic consumption.

Sakhalin-3

This project works with the East Odoptu field. Block 1 of this project was sold to Mobil and Texaco. Exxon has two blocks. Amoco and Shell are also interested in the project. Sakhalinmorneftegas will drill two exploratory wells this year. The company will have a 20% share.

The Sakhalin-3 contract zone covers 15,000 square kilometers. Mobil Oil and Texaco will explore the first section and have invested \$151 million. Exxon will invest more than \$300 million to develop the

second and third blocks. The three companies could sign the Sakhalin-3 contract with Russia in September or October, 1995. Both sides have agreed on the size of the profit tax, which was set at 35% as stipulated by a production sharing agreement.

Other Projects

The next sections to be leased (further off in the future) include the Sakhalin Area and the Southern Kurils. The Southern Kurils have significant oil and gas structures. Local geologists who have conducted extensive surveys in these waters say that the potential reserves there could exceed the largest known reserves off of Sakhalin. Moreover, they are located in ice free waters at a shallow depth.

Economic Overview of Sakhalin Island

The economy of Sakhalin Island has three major sectors, each of which dominates in one of three parts of the island. The fishing industry, located predominantly in the southern part of the island comprises more than 40% of the area's commodity output and exported more than 8,000 metric tons of fish and seafood last year. The fishing fleet is represented by different types of vessels: from small fishing sailers for coastal fishing to big ocean trawlers and other fishing vessels.

The majority of the catch is processed at regional enterprises. Only a small part is sold unprocessed. The most wide-spread method of processing is freezing both prepared and unprepared fish, but there is also some salting and canning done on the island. Other kinds of seafood products produced on the island include dried and smoke-dried fish. Other types of finished product are insignificant in volume.

The center of the island is home to the timber industry (18% of the region's commodity output). Almost 68,600 tons of lumber and paper products were exported from the region last year. The Ulegorsk Pulp and Paper Plant is the major supplier of newsprint in the Russian Far East.

The energy industry (oil and gas production, coal and peat) is the third largest sector of the island's economy. It accounts for 12% of the the region's output. The island exported 93,800 metric tons of crude oil last year. Annual oil output is approximately 2 million tons, natural gas output is 2 billion cubic meters, and coal output is close to 5 million tons.

Despite being the most developed and equipped industries in Sakhalin, all of these industries suffer from material deficiencies and a lack of capital investment. The fishing industry needs advanced Western processing technologies, which would make it possible to both produce food products of high consumer demand and use resources more efficiently. Obsolete vessels with a high grade of deterioration form the main part of both the fishing and processing fleet. The technological equipment of the fleet as well as of shore enterprises do not meet modern requirements. The amount of hard manual labor in the industry is fairly high and output is low in comparison with world standards. The pulp and paper and woodworking sectors of the timber industry are represented, in general, by depreciated plants which need technological development. The forestry sector is in need of environmental restoration projects. The energy sector faces problems due to a depletion of on-shore fields. There is great potential in off-shore exploration, but the domestic industry lacks the technical expertise or capital to address the technical challenges (earthquakes, winter ice floes) facing those projects.

The major oil and gas fields are located off the northeast shore of Sakhalin Island in the Sea of Okhotsk. They have attracted much foreign involvement. There are already three big projects to explore those fields (named Sakhalin-1, Sakhalin-2 and Sakhalin-3). which have among their participants such firms as

Marathon Oil, McDermott International, Mitusi and Co., Shell, Mitsubishi, Amoco, Smith Energy, and Sodeco. The forth project, Sakhalin-4, located to the northwest of the island, is in the early stages of planning.

The oil and gas sector is the largest expected growth sector on the island and will have a considerable impact on the Sakhalin economy. Its growth will affect such sectors as transportation, construction, telecommunications, and power engineering.

The construction and building materials industry is of local significance. It partially supplies the building materials needed by the region. 13.1% of the working population of the region is employed in this sector. The industry can not supply enough building materials. A lack of materials, combined with the high cost of bringing in supplies from other parts of Russia, doesn't allow it to satisfy the demand for new construction. For the past five years, the amount of construction by the industry has fallen by 65% (compared to 1989). With the exploration of the oil and gas fields in the north part of the island this industry will have an opportunity to grow.

The region's transportation infrastructure is also in need of improvement. Marine transport plays the most important role in the region's life. It provides practically all freight turnover between the region and other parts of Russia. The most important ports on Sakhalin are Korsakov (the main fishery and international shipping port) and Kholmsk (site of a rail-barge to mainland Russia). Due to a shortage of orders from consumers, the Sakhalin Steamship Company (which operates the rail-barge to the mainland) and river transport enterprises have been experiencing some difficulties. The exploration of oil and gas will give them the necessary value of work and allow them to modify their fleet.

Rail lines connect the northern and southern districts of the island. There is rail- barge service from Vanino (Khabarovsk krai) to Kholmsk, but because the railway system was originally built by the Japanese in the first half of the century, the Sakhalin network of railway lines has a narrow gauge, which necessitates that each rail car's chassis be switched at port in Kholmsk. There are several proposals to connect Sakhalin Island and mainland Russia by rail and automobile bridge. One of these has been submitted by the Japanese company "Dzuro" and proposes to connect Japan and the Russian Far East by the start of the next century via two unique bridges for rail, road, and pipe (first bridge from Cape Soya (Japan) to Cape Crillon (42km) and the second one - from Pogibi (Sakhalin) to Lazarev (7km)). The cost of the project is 7 trillion yen. There is also a proposal (sponsored by the Sakhalin Regional Administration) to build a tunnel or bridge from Pogibi to Lazarev (without changing the current railway system).

The exploration will bring more human resources to the northern part of Sakhalin. This will necessitate changes in social infrastructure in order to meet the needs of the increasing population. Currently, the northern part of the island (which includes Ohinsky and Nogliksky administrative districts) is the largest (33% of territory) portion of the island, but it is under-developed and is the most sparsely populated part of the island (61,060 people in 1992, which is less than 10% of Sakhalin's population).

Transportation on and around Sakhalin

There are three ways to deliver cargo to Sakhalin Island: railway, air, or sea transport.

The only railway is from the Russian mainland via train ferry from Vanino to Kholmsk (12 hours). Sakhalin railways use Japanese diesel trains which carry less cargo than a usual train on the Russian mainland. The Oblast Administration is considering resuming construction of a rail tunnel under the Tatar

Strait (to Khabarovsk territory) that was begun in the 1940's and 1950's. They believe that construction of the tunnel will be more cost-effective than replacing the ten obsolete ships which now comprise the ferry fleet.

There are several airlines which work on Sakhalin Island. Aeroflot has everyday flights to and from Khabarovsk, Vladivostok, Petropavlovsk-Kamchatskii, Moscow, and several other cities and towns in the Russian Far East. It is planning to commence regular flights between Yuzhno-Sakhalinsk and Seoul and between Yuzhno-Sakhalinsk and Pusan. Unfortunately, the Yuzhno-Sakhalinsk airport can not receive wide-body airplanes because of its short runway. Sakhalin International Airport (SIA) and Skidmore Owings and Merrill (San Francisco) led a consulting group working to develop a comprehensive plan for airport development. The plan was ready by April, 1994. The estimated cost of construction was \$30 million. Aeroflot also can organize cargo transport to Sakhalin. Other airports on Sakhalin include Kholmsk, Okha, Zonalnoe and Shahtyorsk. None of these, however, are approved for international flights.

Sakhalinskie Aviatrassi (SAT Airlines - former Sakhalin agency of Aeroflot) has its own planes and can transport cargo from Sakhalin to the Russian mainland and back. It has regular service to Khabarovsk, Vladivostok, Hokodate, Hokkaido (Boeing 737-200 several times a week), and Seoul (once a week) and is planning charter flights to Atlanta, Korea, and China.

Volga-Dnepr Russian Cargo Airline plans to offer all-cargo scheduled air service from Alaska to Sakhalin Island.

There are several companies, which ship cargo to Sakhalin by sea: FESCO Agencies shipping one or two times a month from Tacoma, Sunmar Shipping Inc. with the same frequency from Seattle, Sakhalin Shipping Company from the Russian mainland, Hyundai Merchant Marine Corporation shipping cargo from Korea, Primorsk from Vladivostok and Vostochny, and Kamchatka from Petropavlovsk-Kamchatski. Kholmsk and Korsakov are the island's main ports. The majority of cargo goes via Korsakov, with Kholmsk serving as fishing industry port.

There is ferry service between Korsakov/Kholmsk and Wakkanai/Otaru (Hokkaido).

There are also several express carriers which can deliver mail and cargo to and from Sakhalin. Northern Hemisphere Express ships priority packages and cargo between Sakhalin and the U. S., Mexico, and Canada. DHL has an office in Yuzhno-Sakhalinsk and ships documents and packages to and from there. U.S. Postal Service Express Mail is also an effective option for documents and small parcels.

Why You Should Do Business on Sakhalin Island

- ☐ Sakhalin Island is located strategically on the Pacific Rim, within close proximity of major air and shipping routes, positioning Yuzhno-Sakhalinsk, the region's capital, as a major center for international trade and investment activity. Sakhalin Island has a population of 710,000, with Yuzhno-Sakhalinsk boasting 180,000 inhabitants.
- ☐ The region offers tremendous opportunities in the energy industry. Some of the greatest potential oil and gas fields in the former Soviet Union are located on and offshore Sakhalin Island.

The potential impact of offshore oil and gas drilling on the region's economy is immense. Correspondingly, the potential market for U.S. secondary and tertiary support services and

technology is extremely large. Several major U.S. oil and gas companies, including McDermott, Marathon, Mobil, Texaco and Exxon, are heavily invested in multi-billion dollar drilling projects on and around the island. Local Russian firms are anxious to partner with U.S. companies to capitalize on this specialized market.

Even for companies outside the oil and gas industry, markets on Sakhalin Island will expand with the increasing oil and gas activity. Officials on the island predict broad economic impact from development projects, and this will in turn cause an increase in demand for everything from electronics and office equipment to household consumer goods. '

- There is excellent potential for U.S. investment in the fisheries industry, currently the dominant industry on Sakhalin Island, accounting for over 40 percent of the region's economic output. Sakhalin's timber industry, including logging, pulp and paper, and woodworking, also holds significant potential for U.S. companies. Modern machinery, technological development and environmental restoration in both sectors are in great demand.
- Despite being located off the mainland of Russia, Sakhalin Island has excellent access to transportation. There are five major ports on Sakhalin, including the Port of Korsakov, which serves as the island's main port for international cargo shipping. The Port of Kholmsk connects the island to the mainland by rail barge and ferry. An extensive network of railroads provides access to all areas of Sakhalin. The island has one international airport, located in Yuzhno-Sakhalinsk, with flights to mainland Russia, South Korea and Japan.

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Yuzhno-Sakhalinsk, Sakhalin Island

Useful Information about Sakhalin Island

Sakhalin Island offers tremendous potential for U.S. trade and investment activity. As some of the most active foreign investment projects in the entire Russian Far East proceed with the development of the island's natural resources, the demand for U.S. goods and services constantly increases.

This rich frontier offers a vast natural resource base, a progressive international outlook and an emphasis on private sector development. Sakhalin Island is positioned to become one of the most important centers in the Russian Far East for two-way trade with the United States.

Opportunities exist for U.S. companies to supply goods and services in a number of industry sectors, including:

- ☐ Oil, mineral and energy-related
- ☐ Forest products and construction
- ☐ Light-industry
- ☐ Agribusiness
- ☐ Fisheries
- ☐ Telecommunications
- ☐ Financial services
- ☐ Environmental services
- ☐ Consumer goods

Services

The ABC Yuzhno-Sakhalinsk has been established to take advantage of the high demand for U.S. goods and services in the region. The ABC increases U.S. business opportunities by providing the information and services critical for successfully establishing operations and conducting business in the Sakhalin region.

- ☐ Matchmaking of business partners
- ☐ Market analysis and research services
- ☐ Export counseling
- ☐ Trade fairs and missions
- ☐ Product display / demonstration
- ☐ Business appointments
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- ☐ *Novosibirsk*
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- ☐ *Vladivostok **
- ☐ *Volgograd*
- ☐ *Yekaterinburg*

Belarus

- ☐ *Minsk*

Ukraine

- ☐ *Kiev **

Uzbekistan

- ☐ *Tashkent **

Kazakhstan

- ☐ *Almaty **

** These ABCs are under the management of the U.S. Department of Commerce's U.S. and Foreign Commercial Service.*

For a general information packet on the American Business Centers, contact the Business Information Service for the Newly Independent States at:

Phone: (202) 482-4655, option 21

Flashfax: (202) 482-3145, document #7022

Sakhalin Island



Sakhalin Island is located off the Pacific Coast of Russia, slightly north of Japan. The island has a population of approximately 700,000 people. A single administrative region (Sakhalinskaya Oblast) encompasses the entire island. Owing to its geographic location and status as the capital of the region, Yuzhno-Sakhalinsk is well situated to serve as a center for economic development. Approximate flight times from major Asia Pacific cities are:

Khabarovsk: 1 hour
Vladivostok: 1 hour
Seoul, Korea: 2.5 hours
Niigata, Japan: 5 hours

Other major cities on Sakhalin Island include:

- ☐ Kholmsk, a port city which channels shipping to and from mainland Russia;
- ☐ Poronaisk, a center for coal mining and paper production;
- ☐ Korsakov, an international shipping port and major center of the fishing industry;
- ☐ Okha, the working capital of the oil and gas industry.

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Vadim Zima

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Heller Ehrman White & McAuliffe
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LeBoeuf, Lamb, Leiby & MacRae
Mikkelborg, Broz, Wells, and Fryer
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Simburg, Ketter, Sheppard & Purdy
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The Context Institute
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Manufacturing

ALLWEILER Marine, Inc.
C-Lee Manufacturing

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Marketing Data Research
TRADEC

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Goodwill Physicians Exchange
NCA MED International/NCA Pharma-Plus
Segol Distributing
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Petroleum

Norsk Petroleum

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The Port of Everett
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Lamb Hanson Lamb Appraisal Associates Inc.

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First Interstate Bank
Key Bank, International Division
National Bank of Alaska
Seafirst Bank, International Division
U.S. Bank, International Banking

Construction

Dawson Construction
McGranahan Partnership
Oregon Dome, Inc.
Wolf System, Inc. (USA)

Consulting

Peregrine International

Distributorship

AMI Ltd.
Besco, Inc.
Budget Office Furniture
NC Machinery Company
Platt Electric Supply

Education/Training/Exchange

American Cultural Exchange
American Russian Educational Exchange
CIBER
Conflict Resolution Research Institute
Green River Community College
Search for Common Ground
University of Washington Department of Economics
Washington State University
The Weekend Farmer Co.
Western Washington University

Engineering

BERGER/ABAM Engineers, Inc.
Cooper Consulting Company

Environmental

EMCON
International Snow Leopard Trust
O'Neill and Sons

Fisheries

Arctic King Fisheries
Magna C, Inc.
Marine Resources Co. Int'l
Oceantrawl Inc.
Polmar Fisheries
Trident Seafoods, International Division
Tyson Seafoods

Food Products

Tim's Cascade Potato Chip Co.
TOMA International

Forestry

Agroforestry Associates
McFarland Cascade
Rayonier
Sharp & Son, Inc.
Weyerhaeuser Co.

Government Agencies

The Consulate General of Russia
State of Washington
Washington State CTED
Washington State Senate

Graphic Design

Free-Lancelot

High-tech/Electronics

Dorado International Corporation
Kelly Consulting
Science Applications International Corporation
Scifor Corporation

Import/Export/Trade

Acorn
Alaska Wholesale Company
Albacore, Inc.
Ananda International
Bob Walsh Enterprises Inc.
Center for Russian/American Economics
Fountain Galleries, Inc.
Galley Resources, Inc.
International Trade and Development Group
Lewis and Finkelstein Ventures, Inc.
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Nowogroski Insurance Associates

Investment

Columbia Group, Inc.
Frank Russell Co.
PMI International
Talbot Investment Co.

journalism

Central European Business Information Services, Inc.
PlanEcon, Inc.
Russian Far East Update
WorldTrade Executive, Inc.

Language Services

Pac-Russ Enterprises
Leo Pavloff

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HONORARY RUSSIAN CONSULATE
STEVE SMIRNOFF

"I'm comfortable," is all the comment offered by the new public commentator on his remuneration. "I'm too large to be either as small," he jokes of his well-colored gown, and the George Little that seems custom-fit for his rocco cadences and baritone barbs. For all its simplistic cross-bark-

bin time, for he has loved playing to any camera ever since he was a child actor in Hollywood. He hesitates to address George's publisher simply as John, but what else can he do? Call the younger man Mr. Kennedy? Or John-John? "Just a regular fellow," the pundit said simply of the Camelot actor

of capital politics. "I enjoyed the combat of taking the Citadel," said the 49-year-old lawyer, history addict and Republican polemicist. In retrospect, his seven years at Mr. Gherard's side seem a kind of Speaker Newt's Lusk March that only whetted the Blankley appetite for something of-

his wife and two young sons, Mr. Blankley has an R. B. White air of buxom underlining. He takes a break from the word processor to gurn, Arnold and Phoebe in their sheep pen, particularly Jenny the black sheep. "I don't hold myself out to be other than an advocacy opinion

claim to be in a sort of first-derivative thinker." That can pass for genius on typical day in Washington, and if Blankley is grateful that the new George readers might for him beyond Beltway cliché, a first column is a celebration partnership, with a wailing it

gan, he won but here's got no manosee to do anything." The pundit eased back in his chair, prepared for further developments yet no longer eased to generate them. "Blankley's swing on right now," he said gently, at the ready to expound for pay on the musings of the nothingness.

A U.S. Citizen Is Becoming a Russian Official, Sort Of

By CAREY GOLDBERG

ANCHORAGE, March 13 — It will only be a footnote, true, but as of Friday, Steve R. Smirnoff will have his place in superpower history.

If all goes as planned, Mr. Smirnoff, a 57-year-old public relations professional and special assistant to the Mayor of Anchorage, will be given the diplomatic "potencia" — as he understands it, a kit containing an official seal, bronze plaque and documents — that will make him the first United States citizen to become an honorary consul of the Russian Federation.

Little is expected to change with his new title, though. The office, which is largely ceremonial, will formalize the role he has voluntarily performed for years: acting as liaison and translator for Russians in trouble or seeking business contacts here.

"It is not as glamorous as it sounds," Mr. Smirnoff said in an interview in a plush restaurant overlooking the broken ice of Cook Inlet.

But it is nonetheless one of those small moments of the post-cold-war world that make people like Mr. Smirnoff and his colleagues, who remember the hostile old days, shake their heads at all that has changed.

"It's like all that was a past

dream," said Jim Simpkins, the former president of the Home Chamber of Commerce, who used to so thirst for Soviet-American friendship that he would send helium balloons with tobacco, tea and warm messages across the Bering Sea. "Steve was at the right place at the right time of Alaska-Russian relations."

Mr. Smirnoff was born in Shanghai to Russian parents who taught him to speak the language fluently and love the culture.

The family moved to Canada in 1952. Mr. Smirnoff came to the United States to go to college, and became a citizen.

He began his liaison efforts soon after he moved to a new job in Anchorage, from Wisconsin, in 1971, rising in the middle of the night to interpret for Russian merchant seamen who had fallen ill or about of the law. His new status, he said, comes in recognition of those years of service as well as his work to bring down "the ice curtain" between Alaska and its then-Communist neighbor.

In the past, this seemed he used to help would be supremely suspicious of him because he spoke Russian, he said, and he can recall being ordered to tell schoolmates that he was of Russian heritage.

Now, he does not worry about de-

An American will be Moscow's honorary consul in Anchorage.

ties for the Russian Government that will include flying a red Soviet hammer-and-sickle flag outside his house on Victory Day, the Russian holiday on May 9 that marks the triumph over Nazi Germany in World War II. Nor does he feel a qualm in representing a foreign government.

"I'm an American citizen, but my soul is Russian — I can never change that, nor would I want to," said Mr. Smirnoff, whose given Russian name and patronymic are Roislav Vsevolodovich.

Alaskans were among the most active of Americans seeking cultural and commercial ties with Mikhail Gorbachev's Soviet Union as it underwent a transformation in the late 1980s. Mr. Smirnoff was one of those who helped arrange flights and deals to foster the new friendship. Among other things, he helped teach American pilots how to say, in Russian,

"Do not shoot! We're a civilian aircraft!"

"Now we think of ourselves as the natural gateway city to the Russian Far East," he said, a claim many in Seattle would dispute. "We're the closest American city to Russia."

George Vlasits, the Russian consul in Seattle who will award Mr. Smirnoff his potencia, said the new honorary consul himself was seen by many as a gateway.

Mr. Smirnoff agreed. "I'm convinced there's a big sign in Vladivostok and Magadan saying 'Going to Anchorage? Call Smirnoff!'" he said of two major cities in the Russian Far East.

He is frequently called by Russians wanting to know how to obtain a green card, he said, or seeking verification that a potential American business partner is legitimate.

Much of his work as liaison has been voluntary, but with the contacts and knowledge he has accumulated, Mr. Smirnoff said, he is planning to leave the Mayor's office later this spring and continue working with Russia.

If he were younger, he said, he would open a hardware store on the Russian island of Sakhalin.

He will receive no salary as honor-



Steve R. Smirnoff, who will be Russia's honorary consul in Anchorage, got a hand yesterday from V. Bakur, an Aeroflot official.

ary consul, he said; at this point he is hoping mainly for a relationship for the very selective diplomat not entertaining he does.

"Most honorary consuls get at least an expense account," he said, "but Russia's pretty broke right now."

New York Times
3/13/97

**Municipality
of
Anchorage**



P.O. Box 196650
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Fax: (907) 343-4991

Rick Mystrom, Mayor

OFFICE OF THE MAYOR

**ANCHORAGE'S ROLE
IN THE DEVELOPMENT
OF
SAKHALIN ISLAND, RUSSIAN FEDERATION**

JULY 29, 1994

**MAYOR'S CONFERENCE ROOM
CITY HALL**

ANCHORAGE, ALASKA

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US & Foreign Commercial Service
World Trade Center, Alaska
Reeve Aleutian Airways, Inc
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USR Express
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Steve R. Smirnoff
Laurie Cunningham, Rhonda Thompson,
Donna Logan
Rick Pollock
Chuck Becker
Robin Zerbel & Becky Beck
Dick Reeve
Steve Levi
Jay Drewry
Russ Howell or Peter Sokolof
Rich Monroe
Veronica Woodall
Sam Taylor
Warren Suddock and/or Larry Nelson
Rick Nerland
Tandy Wallack
Rebecca Davidson
Cathi Valero and Andre Grannik
Jim Cross
Fred Schikora
Jerry Tokar
Steve Irvin
Mike Langston
William Madigan
Ed Rackette & Jerry Curlee
Paul Landis
Vern McCorckle
Rusty Devereaux
Bonnie Golden
Mayor John Williams
Bruce Bustamante
Bill McLaughlin
Walter Bhagatram
Dave Morgan**

AS OF: 7-28-94

Municipality of Anchorage



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Telephone: (907) 343-4431
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Rick Mystrom, Mayor

OFFICE OF THE MAYOR

SAKHALIN-COLLOQUIUM OVERVIEW

A wide cross section of interests was represented at the July 29th colloquium on Sakhalin and its relationship to Alaska. The enclosed list of participants testifies to the level and diversity of interests in Sakhalin. The primary interest, it appears, is driven by the upcoming construction of petrochemical facilities on Sakhalin and the anticipated corresponding demand for products and services, hopefully to be provided by Alaskan-based companies.

The consensus of opinions seems to be that the potential for utilizing Alaskan resources is there. However, putting together a deal is still very much a complex issue with no clearly defined procedures which need to be followed. There is no clearing house of information of what is needed, where it may be found, how to obtain the appropriate information and contacts, how to get the products and services to the attention of the appropriate parties and how to eventually get the business.

In short, big players like Marathon Oil and Shell have virtually unlimited resources when it comes to working with their Russian counterparts in reaching agreements. The smaller companies, however, still find themselves in the dark when it comes to getting their products and services to the end user.

It is suggested that what is needed is an inventory of services required by both the Russians as well as the MMMMS consortium. Equally important is for this side to produce an inventory of available products and services from Alaska which could be provided to the consortium and to the Russian entities to include local and regional governmental agencies. This inventory should be based on experiences gained from the construction and operation of the TAPS project. The similarities between the gas project on Sakhalin and the oil project in Alaska are obvious. While the end product is different, the logistics needed to make the project a viable enterprise are very much the same.

It appears that, in general terms at least, the following support areas require the attention of Alaskan service and product providers:

Transportation - multi modal
Telecommunications - long distance and local
Security
Housing
Transportation - to and from the project, and on-site
Medical support - emergency, as well as on-site routine
Provisions and feeding
Recreation - both off and on-site

Naturally, the highly technical field and operational support is the purview of the oil patch and we need not address these requirements here. It must be assumed that the industry is on top of the opportunities and is working with the consortium. However, assumptions are dangerous to make so perhaps the oil patch should be included into the mix.

The keys to all of the support functions becoming viable enterprises are reliable transportation to and from Sakhalin and availability of reliable round-the-clock telecommunications. These two areas require very specific attention from Alaska. It is here that Anchorage's role can be instrumental. In terms of staging air transport and as a logistical supply base, our role could be a pivotal one. Telecommunications, especially satellite based, may be direct but still require technical support and switching capabilities. Alaska offers both through a number of international telecommunications companies based here.

Although attention is being focused on Sakhalin, we must not ignore the on-going opportunities in other sectors of the Russian Far East and beyond. If carriers establish routes to transport passengers and goods to Sakhalin, it is only prudent to consider continuing on to Vladivostok, Khabarovsk, Blagoveshchensk and even Harbin.

The proximity of both Japan and Korea to Sakhalin Island suggest that there will be a certain amount of competition from these two geographic areas. Sapporo, especially, will play an increasingly important role as a supplier of goods and R&R site. With its well developed tourism infrastructure, the Island of Hokkaido presents ample opportunities for recreation. Because of its proximity to the project, Hokkaido's shipping companies can readily access Yuzhno-Sakhalinsk with cargo and passenger vessels in a matter of hours.

On the air transport front, it is clear that Anchorage International Airport could become a vital staging area for movement of goods to Sakhalin and beyond. The possibility of cargo coming to Anchorage in bond for trans-shipment via barges and regular vessels and then air lifted into the Russian Far East should be studied carefully. Because marine shippers can provide lower rates for cargo that is destined for foreign ports and is in bond, the rates will be very attractive and not raise the ire of Federal and State regulatory

In closing it is important to note that a unified effort must be made by those Anchorage-based agencies, organizations, companies and individuals with vested interests in seeing Anchorage benefit from the Sakhalin project.

The formation of an Alaska-Sakhalin Chamber of Commerce will be just such a step. Through membership in the organization members will have access to common areas of interest and concern and will have an opportunity of communicating with one another in an organized forum. It is suggested that one of the first steps would be to produce a data base reflecting the members' strengths, areas of expertise and generally providing basic information on all of the companies in the organization. An inventory of goods and services. Such a data base would go a long way in bringing buyer and seller together for the benefit of both.

If you have an interest in becoming a founding member of the ASCOC it would be appreciated if you would respond in writing to this office so that initial steps toward achieving this goal could begin.

In a conversation with Governor Krasnoyarov's office this week, I was given unequivocal assurance that such a proposal would be welcomed by local Sakhalin authorities as well as the island's private sector. I trust that we will receive the same level of commitment from the American side.

Submitted August 5, 1994

by

Steve R. Smirnoff, APR

**Special Assistant to the Mayor
on International Affairs**



15 August 1994

Mr. Steve R. Smirnoff, Special Assistant to the Mayor on International Affairs
Municipality of Anchorage
P. O. Box 196650
Anchorage AK 99519

RE: Alaska-Sakhalin Chamber of Commerce

Dear Mr. Smirnoff:

We have reviewed your Sakhalin-Colloquium Overview (furnished by the World Trade Center, Alaska) and endorse the concept of establishing an Alaska-Sakhalin Chamber of Commerce to promote business opportunities between the two regions. The "Chamber of Commerce" concept is much more a business prerequisite in the CIS than here in the USA, thus it will give Alaskan companies an organized, official sanction that Russian officials and businessmen will respect.

We'd like to work with you to establish this organization. You can reach me at 267-6312 when you wish to discuss this further.

Best regards,

ARCTIC SLOPE REGIONAL CORPORATION

JOHN D. McCLELLAN, P. E.
Vice President
International Business Development

cc: Eileen MacLean, ASRC
Steve Lewis, Petro Star



CITY OF KENAI

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TELEPHONE 907-283-7535
FAX 907-283-3014



August 22, 1994

Steve R. Smirnoff, APR
Special Assistant to the Mayor
on International Affairs
Municipality of Anchorage
P.O. Box 196650
Anchorage, AK 99519-6650

RE: **ALASKA/SAKHALIN CHAMBER OF COMMERCE**

At their regular meeting of August 17, 1994 the Kenai City Council discussed your *Sakhalin-Colloquium Overview*. On the last page of the *Overview*, you discussed the possible formation of an Alaska-Sakhalin Chamber of Commerce.

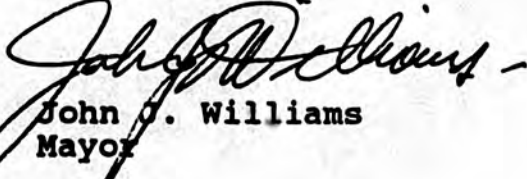
The Kenai City Council supports the principle and concept of a Alaska-Sakhalin Chamber of Commerce. And, as you discussed with Carol Freas, City Clerk of Kenai, understands there are no fiscal responsibilities in regard to this association at this time.

Because of their interest in the formation of the chamber, the Kenai City Council would like to remain on your mailing list and requests information in regard to the chamber be forwarded to them for their review. We will urge support of our local Chambers of Commerce for this joint formation as well.

If you have any questions, please contact this office at 283-7539.

Sincerely,

CITY OF KENAI


John O. Williams
Mayor

JJW/clf



ASSOCIATED GENERAL CONTRACTORS of ALASKA

4041 B STREET • ANCHORAGE, ALASKA 99503
P.O. BOX 240609 • ANCHORAGE, ALASKA 99524-0609
TELEPHONE (907) 561-5354 • FAX (907) 562-6118

22. August 1996

To
City of Anchorage
632 W Sixth Ave.
PO Box 196650
Anchorage, AK 99519-6650

Attn: Steve Smirnoff

Subject: SAKHALIN PROJECTS

Dear Mr. Smirnoff:

Our executive director, Henry Springer has briefed me on the contents of a meeting he attended on 12. August on the referenced subject.

We are in full agreement that the City of Anchorage is a very suitable staging area for any development on Sakhalin Island and that the State- and Municipal Government play a key-role. Creation of an organization such as is outlined as a "SAKHALASKA" partnership seems a logical step. We as contractors could play an important role in the development of this interesting and consequential area and are supportive of your plans as outlined. Please keep us informed as things progress.

Sincerely,

Greg Romack

President

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October 17, 1996

Mr. Steve R. Smirnoff
Executive Assistant to the Mayor
on Economic Development
P.O.Box 196650
Anchorage, Alaska 99519-6650
Telephone: (907) 343-4431
Fax: (907) 343-4499

Dear Mr. Smirnoff:

Thank you for your fax of August 26, 1996.

We send you the Feasibility Study of Yuzhno-Sakhalinsk Airport development and of its up-grading to international standards (ICAO). The Feasibility Study was developed by the U.S. companies with standing reputation.

We would appreciate your approaching the appropriate agencies, both in the private and public sectors, with a proposal to fund the projects and your interest in our further cooperation.

Sincerely ,

V.P.Yagubov, Mayor
City of Yuzhno-Sakhalinsk

V.K.Bagrov, General Director
of Yuzhno-Sakhalinsk Airport

ENCLOSURE:

1. A diskette containing the Feasibility Study
2. A compact disk(CD) with figures on the Feasibility Study

SAKHALIN PROJECTS-ALASKA'S ROLE

Overview

If Alaska is to play an active role in the monumental Sakhalin Island projects, it is imperative that we, as a state, project a unified effort and form a coalition - an alliance - between the private and public sectors and begin to actively seek out business opportunities. The opportunities are there, but they will not be handed over on a silver platter. The competition is fierce both from international sources as well as from other states. If we want opportunities, we have to actively pursue them.

It is equally important to demonstrate to the Russian Federal government and to the Government of Sakhalin, that Alaska is interested in playing an active role and is ready, and certainly able, to assist the project managers in virtually every stage of development. We have done this before on the North Slope, we have the knowledge and the technology. What we need now is to actively market those skills in Russia.

To this point we have not done very much. Certain Alaskan companies have taken some preliminary steps. Some trade missions have taken place, and these are to be commended. But, frankly, most efforts up to this point have not proceeded past the discussion stage. Unfortunately, the image we have projected to the Sakhalin Administration is not one of a state ready to become an integral partner. This perception needs to be changed immediately.

We must proceed to change our image through a well managed program that sells Alaskan expertise to both Russian and American decision makers on Sakhalin. Such a program will need leadership, funding and long term commitment by all participating interest groups.

Organizational structure and Strategy

The organizations which will support such an effort and be key players may elect to form a consortium. A suggested name is SakhAlaska Partnership. The word 'group' has been deliberately omitted so that there will not be any confusion - especially by the Russian side - with another effort undertaken locally.

The nucleus of the organization will be the existing Troika Alaska operation in Sakhalin. The group is on site, well connected, but understaffed and under budgeted.

The main purpose of Sakhalin Alaska Partnership is to operate, for a want of a better name, ALASKA SUPPORT ALLIANCE. The concept of a one-stop-shop providing instant information on all Alaskan resources, on site, will be a great equalizer with existing American efforts which promote primarily Washington state interests.

It is absolutely vital that this proposal be viewed as a long-term investment and not a short term expense. The suggested initial start up and first-year budget is \$400,000 which would be used to hire staff, purchase office equipment, pay for leased office space, fund an in-depth marketing and sales program, and provide operating funds. The specific details, to include structure and suggested incorporation of existing Troika Alaska office into the expanded presence will be discussed later.

Sakhalin Island

Sakhalin Island, in the Russian Far East, has been producing oil since the turn of the century, when pools of standing oil were found by Czarist geologists. It was not until the breakup of the USSR that foreign companies were invited by the Sakhalin government to explore for additional reserves of oil and natural gas, and to enter into joint production agreements.

Today, a number of large American and foreign petroleum companies are in Sakhalin gearing up for the inevitable boom. These include Mobil, Exxon, Standard Oil, & Marathon Oil. Other substantial players include Shell, Mitsui, Mitsubishi and McDermott.

Projects - Current and Future

The Government of Sakhalin had designated four distinct projects for the exploration and extraction of natural gas and oil. Currently, Sakhalin 1 and 2 are in the early stages of operation. The first flow of oil is expected 1999.

Sakhalin 1

A consortium of Exxon Neftegaz (JV with Russian partner), Sakhalin Oil and Gas Development Co. (SEDECO) Japanese, Rosneft-Sakhalin (Russian) and Skhalinmorneftegas (Shell Oil and Russian JV).

Estimated cost of project - \$15 billion US.

Total investment to date by US side - \$300 million US.

Estimated reserves - 2.5 - 5 billion barrels of oil & 15 trillion cubic feet of gas.

Sakhalin 2

A consortium of Sakhalin Energy Investment Company, LTD made up of Marathon Sakhalin (JV), McDermott Sakhalin (JV), Mitsui Sakhalin Development Co. (JV), Shell Development Sakhalin B.V. (JV), Diamond Gas Sakhalin, B.V. (JV) (a subsidiary of Mitsubishi).

Estimated cost of project -- \$10 billion US.

Total investment by US side to date -- \$80 million.

Estimated reserves -- 1 billion barrels of oil & 13 trillion cubic feet of gas.

Sakhalin 3

On horizon - Major players are Texaco and Mobil. Current investment by US companies -- \$300 million plus.

Sakhalin 4

On drawing boards - 2020.

Opportunities

Opportunities exist on Sakhalin for numerous enterprises. In addition to the obvious oil patch support areas they include, but are not limited to, the following:

- Housing construction - apartments, schools, hospitals
- Road building
- Security
- Food services
- Transportation
- Telecommunications
- Supplies - everything from window glass to shoes
- Services - environmental & social.
- Government relations
- Education - job related schools and training facilities

Anchorage's role

A number of Anchorage-based companies have sent representatives to personally investigate opportunities on Sakhalin. Most have reported positive first impressions. Some have already entered into contracts for products and services.

Among the more promising organization to seek opportunities on Sakhalin is the Support Industry Alliance. A 350-member statewide organization whose members

constitute a petroleum support group, the Alliance would like its members to participate in Sakhalin's development and is encouraging its member companies to investigate opportunities through personal contact, whenever possible. The Alliance - in their words - wants Alaska to be a part of the project.

In July of this year, a delegation of 26 Alaskan business and government leaders traveled to Yuzhno-Sakhalinsk - the capitol city - to evaluate possible business ventures in the Island's rapidly growing oil patch. The fact-finding mission was organized by the World Trade Center Alaska and Troika Alaska - a support organization funded by municipal, state and federal funds to assist American companies interested in exporting American products and business know-how to Russia generally and specifically to the Russian Far East.

The feedback received from delegation participants has also been positive. There is widespread support for Anchorage to become an active player in the Sakhalin project.

The most obvious avenue is for Anchorage to become a staging area for movement of personnel and equipment, in much the same fashion that the city was the gateway to Alaska's North Slope. Equipment, especially high tech, low weight items which can be delivered by air would ideally be warehoused in Anchorage for delivery to Sakhalin in a matter of 4 -5 hours.

The benefits which would accrue to Anchorage as a result of becoming a gateway to and from Sakhalin are numerous. Perhaps the best way to describe them is to state that they would reflect similar benefits the State of Alaska, and Anchorage in particular, experienced during the TAPS project and continue to enjoy to this day.

While the Municipality of Anchorage, along with the State of Alaska and the state's private sector have a very distinct opportunity to position Anchorage as the gateway to Sakhalin, there are competitors for the title.

Seattle, Tacoma and to a lesser degree, Portland have declared themselves as the 'gateways' and all are moving forward with establishing themselves as dominant players. State of Washington has an office in Yuzhno-Sakhalinsk with a combination American-Russian personnel. The office is co-located in the same building as the majority of American and foreign oil companies and is actively lobbying for Washington-based firms. This is happening now.

Troika-Alaska also has offices in the same building but is faced with continuing budgetary shortfalls. However, Troika has been in the game since the start, and would be an ideal foundation on which to build an expanded Alaskan presence on Sakhalin.

Anchorage and Alaska need to become extremely active, on-site if we are to become a serious contender. Such a step would demonstrate to the Russians that Anchorage and Alaska are committed to playing an active role in the Sakhalin projects and are able to deliver on that commitment.

Yukon Pacific

Some may perceive the proposed participation in the Sakhalin project as assisting a competitor at the expense of the Yukon Pacific project. However, it should be noted that the Alliance, which is closely tied to the Alaskan petroleum infrastructure is supportive of the Sakhalin project and sees the many opportunities for its members almost immediately.

The Alaska gas line is years away and may be brought on stream during the first decade of the next century. The gas owners have not reached agreement on the sale of the gas and the market for the gas remains tenuous at best.

The Sakhalin projects will proceed regardless of whether Anchorage or Alaska participate. It must be clearly understood that we are not promoting the Sakhalin project. It is happening and the choice to become or not to become a participant is entirely ours.

Immediate needs

Among the more immediate needs is to bring the Yuzhno-Sakhalinsk airport up to international flight standards. Local aviation officials estimate that the initial cost would be in the area of \$20 million. Construction of an international passenger terminal and freight warehousing facilities will add an additional \$30 million.

It is imperative that multi-national funding sources be located. European Bank for Reconstruction and Development, the ExIm Bank and a number of US funded program are excellent starting points.

Conclusion

Sakhalin is happening now. The Government of Sakhalin has opened its doors to both American investment as well as expertise. Progressive American oil companies have already invested heavily into the projects. These astute companies do not invest without a full understanding of long term returns. They realize that these investments will return huge profits over the 10-20 year life of the Sakhalin mega-projects.

The Yukon Pacific gas line will likely happen, but not for many years. When it does, Anchorage will still realize the economic impact as we did during TAPS. Can we afford to let the opportunities available to us in Sakhalin today, pass us by?

**Submitted by
Steve R. Smirnoff**

December 1, 1996



AGREEMENT

BETWEEN

SAKHALIN REGION AND STATE OF ALASKA

THE SIGNATORIES OF THIS AGREEMENT AGREE TO WORK TOGETHER IN THE FOLLOWING AREAS:

- 1) TECHNICAL ASSISTANCE ON ENVIRONMENTAL AND BUSINESS REGULATORY SYSTEMS TO STABILIZE AND NORMALIZE THE BUSINESS ENVIRONMENT.
- 2) TECHNICAL ASSISTANCE IN THE ESTABLISHMENT OF BANKING AND INSURANCE SYSTEMS.
- 3) ENCOURAGEMENT OF THE USE OF ALASKAN COMPANIES AND WORKERS IN THE SAKHALIN OIL FIELD DEVELOPMENT WHEN THE EXPERTISE IS NOT AVAILABLE LOCALLY.
- 4) ESTABLISHMENT OF A TRAINING PROGRAM FOR SAKHALIN WORKERS IN THE USE OF MODERN OIL FIELD TECHNOLOGY.
- 5) CULTURAL AND EDUCATIONAL EXCHANGES TO INCLUDE STUDENT AND BUSINESS EXCHANGES.
- 6) OTHER BUSINESS PROJECTS WHICH ARE MUTUALLY BENEFICIAL TO THE PEOPLE OF SAKHALIN AND THE PEOPLE OF ALASKA.
- 7) BOTH SIDES WILL IDENTIFY LEAD CONTACTS AND FORM THE APPROPRIATE WORK COMMITTEES TO FULFILL THIS AGREEMENT.
- 8) GOVERNORS OF THE SAKHALIN REGION AND THE STATE OF ALASKA WILL CO-CHAIR THIS COMMITTEE.

SIGNED IN ANCHORAGE, ALASKA JULY 1, 1994

A handwritten signature in black ink, appearing to read "E. Krasnoyarov", is written over a horizontal line.

EVGENEY ALEXEEVICH KRASNOYAROV
GOVERNOR OF SAKHALIN

A handwritten signature in black ink, appearing to read "Walter J. Hickel", is written over a horizontal line.

WALTER J. HICKEL
GOVERNOR OF ALASKA



Municipality of Anchorage



P.O. Box 196650
Anchorage, Alaska 99519-6650
Telephone: (907) 343-4431
Fax: (907) 343-4499

Rick Mystrom, Mayor

OFFICE OF THE MAYOR

March 20, 1996

Mr. Vladislav V. Rukavets
Director
Department of Foreign Economic Relations
Administration of Sakhalin Region
Yuzhno-Sakhalinsk, Russia

Dear Mr. Rukavets:

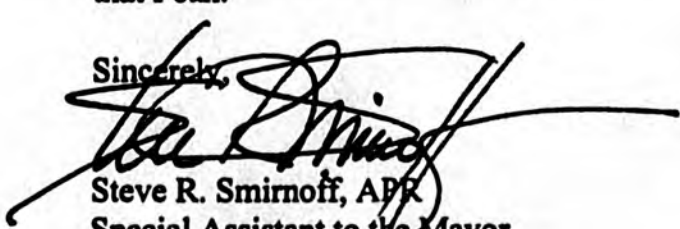
It has been brought to our attention that serious consideration is being given to establishing an official, permanent representation by the administration of the Sakhalin Region in Anchorage. Allow me to be among the first to congratulate you on such a proposal and to assure you of this office's total cooperation. We would be pleased to be your point of contact here in Alaska and to assist your efforts in any way we can.

As you indicated to Robin Zerbel of the World Trade Center here in Anchorage, funds for such an undertaking are minimal. However, working together I am certain that we can come up with an equitable solution and to provide Sakhalin with the distinct advantage of being the first region of the Russian Far East with an official presence in our state.

There is little doubt that such an arrangement would be beneficial to both Sakhalin and Alaska. With our substantial expertise in the petroleum business and with Sakhalin facing an increasing need for such expertise as you begin your huge undertaking in oil and gas development, this would be what we in America call a win-win situation.

It was great seeing you again at the conference and I look forward to helping in any way that I can.

Sincerely,



Steve R. Smirnoff, APR
Special Assistant to the Mayor
on International Affairs

"City of Lights and Flowers"

Oil industry urges state office in Sakhalin



Knight-Ridder Tribune

By TOM BELL
Daily News reporter

With American and foreign oil companies poised to spend as much as \$25 billion in the next 20 years developing gas and oil fields near Russia's Sakhalin Island, companies from around the world are scrambling to make deals.

Among them are Alaska's oil-field service companies. But they and others believe the state government should do more to help them get ahead of their competition by opening an office in Yuzhno-Sakhalinsk, the region's capital.

"A lot of us feel the clock is ticking, and we need to mobilize," said Steve Shropshire, an Anchorage businessman who sells food and beverages in the Russian Far East. "So many

Alaskans aren't aware of the opportunity, it could go right through our fingers."

Sakhalin Island is less than five air hours from Anchorage. Some Alaska business leaders and government officials envision the city becoming the staging area for oil and gas development there. They say the city could service the island's oil fields much as it services the North Slope. Some have even started calling Sakhalin "the next Prudhoe Bay."

They worry, however, that the state isn't doing enough to market Alaska businesses to the Russians, and that other states — namely Washington, Oregon, California and Texas — are moving more aggressively to

SAKHALIN: State needs foot in the door, oil industry says

Continued from Page A-1

promote themselves on the island.

A loose coalition of oil-field service companies, the Mystrom administration, Anchorage Economic Development Corp. and the World Trade Center is appealing to legislative leaders and Gov. Tony Knowles to create an office on Sakhalin this year.

"This is an idea we're tossing out to whoever wants to lead the charge," said Steve Smirnoff, who handles economic development issues for Mayor Rick Mystrom. Smirnoff said he figures an office would cost \$200,000 to \$300,000 to run the first year, and about half that in subsequent years.

Two oil consortiums — one led by Exxon and the other by Marathon Oil — have announced plans to spend billions developing gas and oil fields off Sakhalin Island's northern coast. They also plan to build two 300-mile-long pipelines. As part of an agreement with the Russian government, the work force will be composed of at least 70 percent Russians.

Exxon drilled a successful test hole this summer, and Marathon has started building a platform. Marathon is hoping to start pumping oil by 1999.

About 50 Alaska companies are registered in Sakhalin, said Dinty Miller, general director of the American Business Center in Yuzhno-Sakhalinsk. Forty percent to 50 percent of the American companies showing interest in Sakhalin are from Alaska, he said.

Bill Stamps, Cook Inlet area manager for Peak Oil Field Service Co. in Kenai, has been traveling to Sakhalin for three years. He said Washington state, which already has an office in Vladivostok, is aiming

Russian government officials and business people place a high value on official government contacts, said Smirnoff. ... He said the Russians would feel more secure forming business relationships with Alaska firms if they knew the state had a representative on the island who could work out problems.

ing to be the American "kick-off point" for Sakhalin.

But Alaska's cold climate is its greatest advantage, he said, and Russians want to tap Alaskans' experience.

"They recognize that they don't want to re-invent the wheel to get where we are now," he said.

Stamps and others in the Alaska Support Industry Alliance, a statewide trade group of companies that do business in the oil patch, want the state to set up an office on the island.

A state office would help Alaska business make contacts as well as provide them with technical as-

sistance, said Patty DeMarco, president of the Anchorage Economic Development Corp. She described current efforts by business community as "fragmented."

Russian government officials and business people place a high value on official government contacts, said Smirnoff, who was born to Russian parents in China and speaks Russian fluently. He said the Russians would feel more secure forming business relationships with Alaska firms if they knew the state had a representative on the island who could work out problems.

Rep. Ramona Barnes, R-Anchorage, said she supports the idea, but doubts her colleagues would fund it because cost-cutting is a high priority this year.

Sen. Rick Halford, R-Chugiak, a leading budget-cutter, said legislators would be open to creating an office if it made economic sense.

Right now, Alaska companies rely on Miller in the American Business Center for help. The center receives federal funding and helps all American companies.

Alison Krupnick, Washington state's program director for emerging markets, said Alaska doesn't need its own office. She said her state's staff in Vladivostok also depend on Miller when dealing with Sakhalin issues.

She said Alaska companies shouldn't see themselves as competing with companies from Washington. She said the two states have different strengths and can provide the Russians with different services and products.

"We should work together," she said. "There's room for everybody."

SAKHALINSKAYA OBLAST

Population: 709,000

Area (including Kurile Islands): 87,100 sq. km.

Administrative Center: Yuzhno-Sakhalinsk

Governor: E. A. Krasnoyarov

Telephone: (424-22) 2-14-02 **Telex:** 213 216 GROM SU

Chairman of Territorial Council: Anatolii P. Aksyonov

Telephone: (424-22) 2-14-02

Address: 693000 Yuzhno-Sakhalinsk

Communist Prospect, 39

Yuzhno-Sakhalinsk (population: 173,900) was founded in 1881 and ruled by Japan from 1905 to 1945. The city now is a center for light-industry and food-processing. The port of Kholmsk (50,500), terminus for the Sakhalin-Vanino ferry, has two pulp & paper plants, a fishing fleet and a ship-repair yard. Korsakov (44,500) is the island's biggest fishing center; Dolinsk (38,200) and Poronaisk (25,100) head the island's coal and paper industries. Okha (37,700) in the north is the oil & gas capital of Sakhalin.

Economy and Industry

Sakhalin's economy is relatively mature with a higher-than-average (for RFE) share in fish and food processing (54% of the oblast's economic output), even though its annual fish catch of 1.1 million tons lags behind those of Primorye and Kamchatka. Next in importance is the timber industry (19%), aided by some of RFE's best pulp & paper mills; however, seven of these plants date from Japanese rule and need reconstruction. The energy complex (15%) contributes 2 million tons of oil per year. Several foreign firms are actively seeking involvement in off-shore drilling. Coal mining annually provides one million tons for other RFE regions. Both coal and on-shore oil & gas production are stagnant.

Basic Infrastructure

In the first half of the century, Japanese occupying forces constructed a rail system in the southern half of the island. Lines extend into the north as well. A domestic airport is located near Yuzhno-Sakhalinsk. The port of Korsakov, on the southern tip of the island, is open to international shipping. The port of Kholmsk is the terminus for the Sakhalin ferry (connecting to Vanino on the Mainland).

Geography and Climate

Sakhalinskaya Oblast is surrounded by the Sea of Okhotsk, the Sea of Japan and the Pacific Ocean. The island is mountainous, and experiences strong seismic activity. The two main rivers, the Tym and the Poronai, are located in the northern half of the oblast. Winters are cold and damp, summers are cool and rainy. Fall is often accented by typhoons with hurricane-force winds. Average temperatures range from -13° (7° F) in January to 15° (59° F) in July.

Natural Resources

Sakhalin's proven reserves of off-shore oil are estimated at 1.5 billion barrels of oil; on-shore reserves are almost depleted. Gas reserves also are substantial. Medium-quality coal reserves can support production for many years, but costs are high. Timber reserves are overexploited. The Kurile Islands have substantial reserves of titanium and sulfur; gold also has been found there.

Prospects

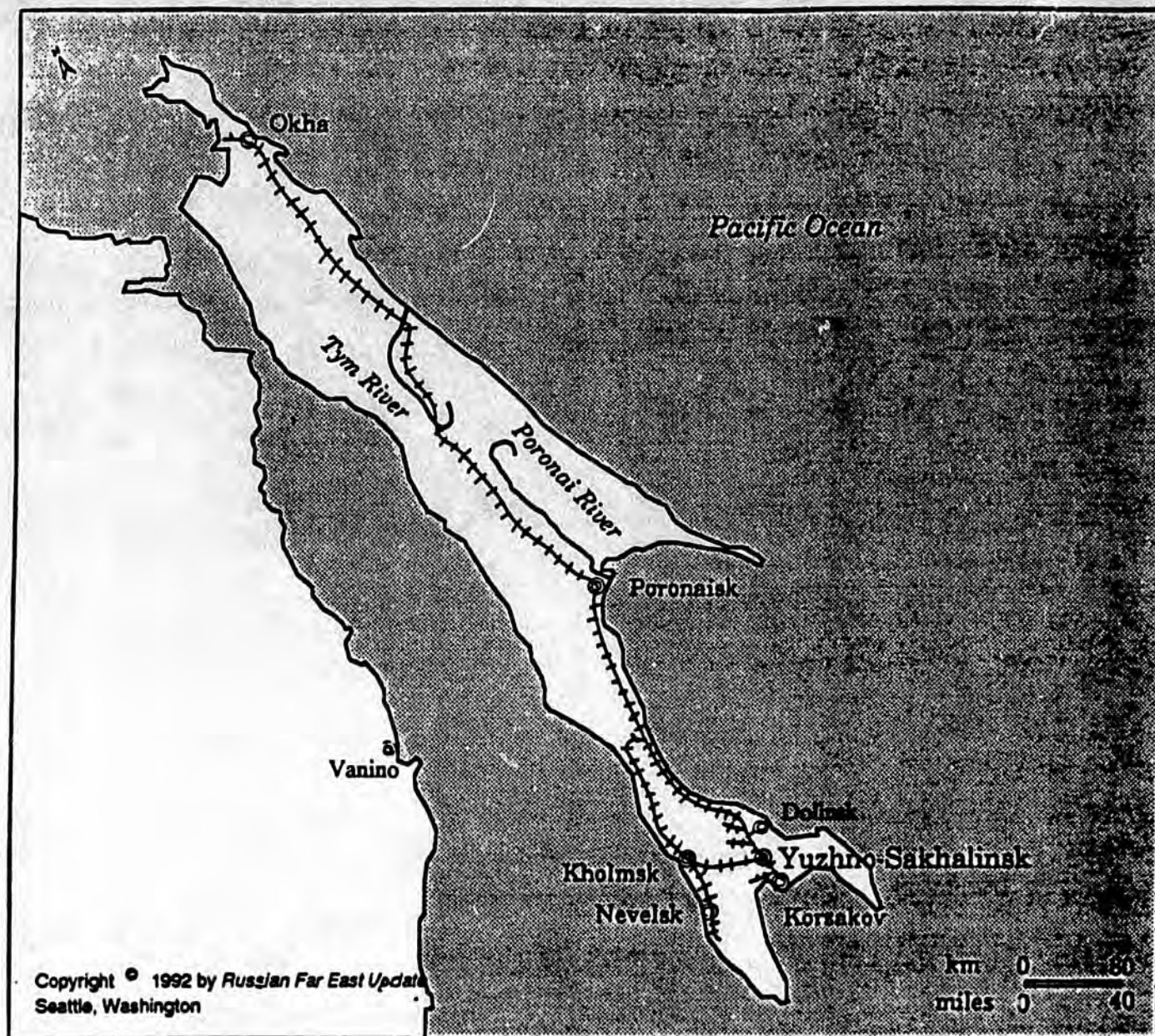
Sakhalin is different from the rest of the region. Why?

- Proximity to Japan which makes trade, investment, and travel easier than elsewhere in the region.
- Offshore Oil and Gas: if the billion-dollar deal gets off the ground, the economic effects will be significant.
- Fyodorov's bold economic policy: an attempt to make the island a showcase of market development.

♦ ♦ ♦ ♦ ♦

The famous Russian writer Anton Chekov visited Sakhalin in 1890 and wrote a book about it called *The Island*. During the time of Chekhov's visit, the island was infamous as vast penal colony, a monument to human misery. "I have seen Ceylon, which is paradise, and Sakhalin, which is hell," Chekhov wrote.

From Sakhalin - A History, by John J. Stephan



"Oil was first thought to exist in Sakhalin in 1880 when a Nikolaevsk merchant named Ivanov heard Gilyak stories about a "black lake of death" in northeast Sakhalin where birds perished in an inky mire which they had mistaken for pools of water. Acting on the basis of these tales, Ivanov petitioned the government for a prospecting and drilling concession... He died before his request was answered.

"Ivanov's son-in-law, a former naval captain called Grigorii Zotov, received a concession from the government in 1889 to drill around the 'black lakes' in the Okha region. . . Zotov drilled at Okha and Nogliki without success until 1904 when he finally struck oil. Delighted, he rushed to Harbin [China] to raise capital for the 'Zotov Oil Association', but like his father-in-law he died before his ambitions could be fulfilled.

"Northern Sakhalin's oil soon attracted international interest. Surveyor Platonov hailed the surface deposits as surpassing those of Baku on the shore of the Caspian Sea. F. Klay, a German geologist, made a detailed survey of the Okha region in 1899. He then formed a syndicate in London. . . returned to Sakhalin in 1910 but abandoned further drilling after a year for lack of capital. Meanwhile English and American geologists began to probe the potential of this new Baku. A company financed by German and Chinese capital gained access to oil-rich sites along the Okhotsk coast in 1910.

The Russians responded to this interest by forming Petrograd Commercial Ass'n in 1901 (name changed to Sakhalin Oil and Coal Co in 1911 and finally to the Russian Far East Industrial Company in 1914. The Russian Far East Industrial Company included among its directors an assortment of aristocrats, ministers, and Governor Grogoriev of Sakhalin. English capital played a crucial role. Half of the company's shares were held by two syndicates formed in London in 1910.

THE M/M/M CONSORTIUM

Marathon Oil Company, McDermott International, Inc. and Mitsui and Co., Ltd. formed the M/M/M Consortium to participate in the development of Sakhalin Island's offshore oil and gas resources. The proven strengths of each of the three companies create a unique combination of: technical skills by McDermott; financial and marketing skills by Mitsui; operating, environmental protection and safety capabilities in the arctic conditions by Marathon.

McDermott is a diversified energy services company employing more than 34,000 personnel in the oil and gas and power generation industries. McDermott has constructed over 3,000 platforms which operate in practically all regions of the world where oil and gas are produced in offshore fields, including areas with harsh climactic conditions such as Alaska and the North Sea. Of the 15 ice-resistant platforms in Alaska's Cook Inlet, 10 have been designed and/or constructed by McDermott.

Marathon, founded in 1887, is a fully integrated oil company. It is among the 25 largest corporations in the United States and ranks among the top 15 oil companies worldwide. Its production activities span over 15 countries on six continents. Marathon operates 47 offshore platforms, two subsea production facilities and two floating production systems worldwide. Marathon pioneered offshore development in the arctic environment of Alaska beginning with exploration in 1959, and it currently operates three production platforms and has interests in four other platforms. In 1969, Marathon began the world's first liquefied natural gas (LNG) operation. Exports of LNG from Alaska to Japan will continue past the year 2000. Marathon also operates five refineries, about 25,000 kilometers of oil and gas pipelines and markets products through 4,000 retail outlets in the United States.

Mitsui, founded in 1876, is one of the world's largest trading companies with transactions of over \$147 billion last year. Mitsui trades in commodities and provides investment, financial and turnkey services for many industries and participates in petrochemical and energy projects. Mitsui has over 45,000 employees located in over 200 offices around the world. More than 30 chemical plants in Russia have been constructed and financed by Mitsui with a total value of around \$5 billion. In the last five years alone, Mitsui has successfully arranged financing of six energy-related projects worldwide, totalling over \$6 billion.

SAKHALIN ISLAND

In late 1990, Marathon Oil Company was invited to join McDermott International, Inc. and Mitsui and Co., Ltd. in their pursuit of hydrocarbon rights offshore Sakhalin Island. The M/M/M Consortium was formed in early 1991 as a unique combination of construction experience of McDermott, financial and marketing expertise of Mitsui and operating and environmental protection and safety skills in arctic conditions by Marathon, to form a group with stellar qualifications to conduct this US \$10 billion development. During 1991, M/M/M/ participated in a number of tender rounds announced at both the Russian Federation and Sakhalin Executive Committee levels. As a result, early in 1992, M/M/M/ was awarded the right to prepare a detailed feasibility study of the Piltun-Astohskoye and Lunskeye Developments offshore Sakhalin.

The contract to perform the feasibility study was executed on March 30, 1992 amongst M/M/M, the Russian Federation and Sakhalinmorneftegas, the local production association. The feasibility study agreement awards the M/M/M Consortium exclusive rights to prepare a detailed feasibility study, encompassing the technical, legal, financial and commercial aspects of the exploration, development and exploitation of the oil and gas reserves of the Piltun-Astohskoye and Lunskeye Fields. These two fields contain recoverable reserves in excess of 14 trillion cubic feet of natural gas and 750 million barrels of liquids.

FACT SHEET

• The Sakhalin Energy Investment Company informed Russian officials in Moscow on May 21 that it had selected June 20, 1996 as the start date for the \$10 billion Sakhalin-2 offshore oil and gas development in Russia's Far East. Russian Minister of Fuel and Energy, Yuri Shafranik told the Petroleum Information Agency that \$60 million dollars would be invested into Sakhalin-2 by the end of 1996, and first oil would be produced in 1998 or early 1999. Frank Duffield, president of Sakhalin Energy Investment Co., said the company is ready to appraise and offer a development option for the contract, and hopes to agree on a project with Russia in the shortest possible time. The Sakhalin-2 consortium is split 20% to Mitsui, 10% to Mitsubishi, 20% to McDermott, 30% to Marathon, and 20% to Royal Dutch Shell, and will produce the Lunskoye and Piltun Astokhskoye fields with commercial reserves of 95.5 million tons of oil, 37 million tons of gas condensate, and 462 billion cubic meters of gas. ("Interfax News Agency", May 17-24, 1996)

• America's Exxon has announced the official completion of talks with Russia on a production-sharing agreement for the Sakhalin-3 project to develop two oil and gas blocks off the coast of Sakhalin Island. The press release indicated that deals for each block will soon be reviewed by the government and the Sakhalin region administration. The Sakhalin-3 contract zone embraces three sections with a total area of roughly 15,000 square kilometers. Mobil and Texaco will also spend \$151 million to help explore the first section, and Exxon will invest over \$300 million in the other two sections - Ayashky and Vostochno-Odoptinsky. ("Interfax News Agency", May 17-24, 1996)

• A group of companies led by Exxon Corp. plans to start drilling this year in the oil fields off the Russian island of Sakhalin, an Exxon executive said Wednesday. Michael Jackson, a geophysicist for Exxon Ventures Inc., said the consortium plans to drill in the Pacific waters off Sakhalin within the next few months, after years of exploration and study. The Exxon-led consortium, known as Sakhalin-1, includes a recently privatized Russian energy company called Sakhalinmorneftegaz, and a group of Japanese companies led by the Japan National Oil Corporation. Jackson said he expects full petroleum production off Sakhalin within four years. ("Anchorage Daily News", Thursday, May 16, '96)

• The Joint Operating Committee for the Sakhalin-1 project confirmed its continued support for the Russian Federal government and legislative efforts to complete a comprehensive legal and fiscal regime for the Production Sharing Agreements. The consortium wants to advance Sakhalin-1 as soon as possible on a solid legal and technical basis. Confirmation of the legal framework and the delineation of resources are essential to the consortium's decision to invest 15 billion USD to develop this potential five billion barrel resource. The Sakhalin-1 Project Consortium includes the two Russian companies "Rosneft-Sakhalin" and SMNG, the Japanese company "SODECO" (Sakhalin Oil and Gas Development Co., LTD) and Exxon Neftegaz LTD, as operators. Both Exxon and SODECO have 30% interests, while Rosneft and SMNG have 17% and 23% interest respectively. ("Sakhalin News", April 12, '96)

• Mobile-Texaco will continue negotiations on the agreement for sharing the production which will be extracted from the Kirinsk block of the Sakhalin shelf. This cooperation has already permitted the nearly-completed modernization of the of the semi-submerged drilling unit "Shelf-6". The press-release states: "the Mobile-Texaco consortium has a rather optimistic attitude to the prospects of the Sakhalin oil and gas shelf extraction, and intends to become a long-term participant in the development of oil and gas resources in this region". ("Sakhalin news", N 14 (April 4))

REGIONAL CORNER: SAKHALIN ISLAND

Sakhalin Island lies off Russia's Pacific coast and is a major center for the fishing forest products, and oil and gas industries in the Russian Far East. Sakhalin has already attracted the interest of a number of U.S. companies, but its industries and infrastructure need modernization to realize their full economic potential. Investment in the island's transportation infrastructure will be vital to its future economic development.

Major Industries

Fishing -- The fishing industry, based predominantly in the southern part of the island, exported more than 6,000 metric tons of fish and seafood in 1995. Fishing operations range from small-scale coastal fishing to large ocean-going trawlers and processing ships. The most common method of processing used by the Sakhalin fishing industry is freezing, but fish are also salted, canned, dried, and smoked.

Forest Products -- The center of the island is home to the forest products industry. Almost 68,600 tons of lumber and paper products were exported from the region last year. The Uglegorsk Pulp and Paper Plant is the major supplier of newsprint in the Russian Far East.

Energy -- The energy industry is the third major contributor to the island's economy, but has the potential to become the destination of the largest Western foreign investments in Russia. Annual crude oil output is approximately 2 million tons, natural gas output is 2 billion cubic meters, and coal output is close to 5 million tons. The major oil and gas fields are located off the northeast shore of Sakhalin Island, in the sea of Okhotsk. They have attracted a number of U.S. and other companies, including Marathon Oil, McDermott International, Mitsui, Shell, Mitsubishi, Amoco, and others.

Need for Investment

Despite being the most highly developed industries in Sakhalin, all three suffer from a lack of capital investment. The fishing industry needs improved processing technologies to enable it both to produce higher-quality products and use resources more efficiently. Pulp, paper, and woodworking plants are in serious need of modernization, and the island's forests need improved environmental management. Sakhalin's onshore oilfields are increasingly depleted, and local producers lack the capital and expertise to tackle offshore projects.

Transportation

Maritime transport is essential for Sakhalin. Ships provide practically all freight transport between the region and other parts of Russia. The island's most important ports on Sakhalin are Korsakov (fishing and international shipping) and Kholmsk (rail-barge service to the mainland). The Sakhalin Steamship Company, which operates the rail-barge to the mainland, and the island's river transport enterprises have struggled in recent years, although the development of Sakhalin's energy reserves is likely to boost their fortunes in the years ahead.

Rail lines connect the Northern and Southern Districts of the island. Sakhalin's railway system was originally built when the island was under Japanese administration and uses a narrow gauge. As a result, the chassis for each railcar must be switched in Kholmsk. There are several proposals to connect Sakhalin Island and mainland Russia by rail and automobile bridge. This article is based on a recent report from the American Business Center--Yuzhno Sakhalinsk. For more information on Sakhalin Island, contact Dinty Miller of the Yuzhno-Sakhalinsk ABC, via satellite phone link, at 011 7 (509) 95-1545 (voice), or 011 7 (509) 95-1540 (fax).

****Produced by the Business Information Service for the Newly Independent States (BISNIS)**

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**COMMISSIONER, COMMERCE & ECONOMIC
DEVELOPMENT
WILLIAM HENSLEY**

**DEPARTMENT OF COMMERCE AND
ECONOMIC DEVELOPMENT**

DIVISION OF TRADE AND DEVELOPMENT

TONY KNOWLES, GOVERNOR

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PHONE: (907) 452-7464
FAX: (907) 456-8173

March 12, 1997

Representative John Cowdery
Alaska State Legislature
State Capitol Building, Suite 416
Juneau, AK 99801

Dear Representative Cowdery:

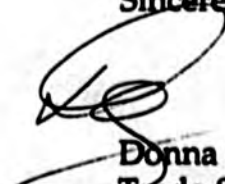
Attached please find materials to be included in the briefing material for the March 20 Sakhalin Briefing presented to the House Special Committee on International Trade and Tourism.

This material includes:

- * Alaska and Sakhalin Membership on the Alaska-Sakhalin Working Group
- * Memorandum of Cooperation between the Twentieth Alaska Legislature and the Second Sakhalin Duma (February 14, 1997)
- * Letter of Intent to Establish a Technical Training Center on Sakhalin Island (August 20, 1996)
- * Protocol of Intentions (Department of Development of Mineral Resources of the Continental Shelf, Sakhalin Regional Administration and Department of Natural Resources, State of Alaska) (January 1996)
- * Memorandum of Renewed Cooperation between Sakhalin Region and State of Alaska (November 3, 1995)
- * Agreement on Cooperation of the Working Groups of the Sakhalin Region and Alaska (November 3, 1995)
- * Agreement between Sakhalin Region and State of Alaska (July 1, 1994)

I hope these materials, combined with the Chuck Becker, U.S. Department of Commerce's Sakhalin Overview (of which you have already received a copy), will provide your members some good background information prior to the briefing. If you would like any further information, please contact me at 465-5462. Thank you.

Sincerely,


Donna Logan
Trade Specialist

MEMBERSHIP OF THE ALASKA-SAKHALIN WORKING GROUP

ALASKA

CHAIR

William L. Hensley, Commissioner,

State of Alaska Dept. Of Commerce &
Economic Development

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Robin Zerbel, Manager

National Bank of Alaska

Central Core Exporting Corporation

State of Alaska Dept. Of Natural Resources

Division of Oil and Gas

Alaska Oil & Gas Association

Alaska Support Industry

The Northern Forum

Kenai Peninsula Borough

Pacific Rim Telecommunications

Era Aviation

Environmental Systems, Inc.

Arctic Slope Regional Corporation

American-Russian Center, UAA

Fairweather Forecasting Inc.

Lynden Air Freight

Arctic Camps and Equipment

State of Alaska Dept. of Commerce &

Economic Development

Peak Oilfield Service Co.

Mining and Petroleum Training Services, UA

Universal Ogden

Udelhoven Oilfield System, Inc.

World Trade Center Alaska

SAKHALIN ISLAND

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V.V. Rukavets, Director

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S.A. Rasputnyak, President

A. G. Karlov, Head

E.M. Freedman, Head

N.A. Laigun, Head

Control Department

Judicial Department

Legislative Department

Department of the Sakhalin Shelf's Mineral

Resource Development

Sakhalin Oblast Branch, Russian Federation

Central Bank

Finance Department

Federal Revenue Inspection

Commercial Bank "Sakhagro"

Sakhalin Regional Administration

Department of the Sakhalin Shelf's Mineral

Resource Development

Department of Fuel and Energy

"Sakhalin Energiya" Company

Construction Department

"Sakhalinmorneftegaz" Company

Department of Air Transportation

"Sakhalin Avistrassy" Company

"Sakhalinskoye Morskoye Parakhodstvo"

Company

Sakhalin Regional Administration, Head of

Kuril Islands and Fishing Industry Department

Committee on Protection of Environment and

Natural Resources

"Tunaicha" Company

Department of the Sakhalin Shelf's Mineral

Resource Development

Sakhalin Regional Administration

Department of Trade and Services

"Sakhalinsky Torgovy Dom" Company

"Sakhalinskaya Initsiativa" Company

Department of Culture and Tourism

Department of College and Professional

Education

Northern Native Affairs Department

**MEMORANDUM OF COOPERATION
BETWEEN
THE TWENTIETH ALASKA LEGISLATURE
AND THE SECOND SAKHALIN DUMA**

WHEREAS, the visit of the Sakhalin Duma delegation to Juneau, Alaska, February 14, 1997, reflects the continuation of our efforts toward the establishment of legislative, economic, scientific and cultural ties between the Twentieth Alaska Legislature and Second Sakhalin Regional Duma; and,

WHEREAS, areas of cooperation include but are not limited to:

- exchange of official legislative delegations on an alternative annual basis;
- continued coordination between representatives of the Sakhalin Duma and Alaska legislative and industry officials to reach agreement on a number of priorities to guide Alaska and Sakhalin in pursuing mutually beneficial projects.

NOW THEREFORE BE IT RESOLVED, Deputy Chairman of Sakhalin Duma, Vladislav Vladimirovich Rukavets and Member, Budget and Economy Commission of Sakhalin Duma and Chairman of Representative Business Association of Sakhalin Regional Administration Vasily Ilyitch Latsina together with Senate President Mike Miller and Speaker of the House Gail Phillips pledge renewed and continued cooperation and friendship between the members of the Sakhalin Duma and the Alaska State Legislature; and,

BE IT FURTHER RESOLVED, that both sides will identify lead contacts and form the appropriate committee pursuant to this agreement; and,

BE IT FURTHER RESOLVED, the Duma Deputy Chairman along with the Member, Budget and Economy Commission together with the President of the Senate and Speaker of the House of Representatives will Co-Chair the Committee.

Signed at Juneau, Alaska on this 14th day of February, 1997.



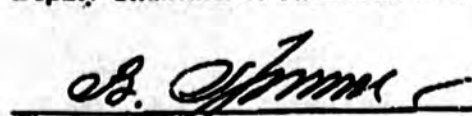
Mike Miller
President of the Senate



Gail Phillips
Speaker of the House of Representatives



Vladislav Rukavets
Deputy Chairman of Sakhalin Duma



Vasily Latsina
Member, Budget and Economy Commission
Chairman, Representative Business Assn.

Letter of Intent to Establish a Technical Training Center on Sakhalin Island,
Russian Federation

Date: 20 August 1996

The University of Alaska Anchorage, Mining and Petroleum Training Service and Peak Oilfield Service Co., Cook Inlet Division, agree to partner in the establishment and operation of a technical training service on Sakhalin Island, Russian Federation. The principals in this agreement are Mr. Bill Stamps of Peak and Mr. Dennis Steffy of MAPTS.

The principals agree to jointly develop and submit proposals to the producing companies on Sakhalin to establish the training service, and if successful to jointly establish and operate the service along with our Russian partner(s).

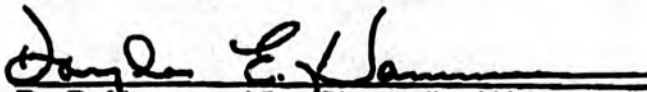
The purpose of the training service will be to provide high level technical training for Russian workers in support of oil and gas development in the Sakhalin region as well as associated construction, mining, timber and other resource development projects.

The University intends to contribute its instructional credentials, curriculum, instructional personnel, approvals and certifications, instructional management and Russian expertise. Peak Oilfield intends to contribute its Arctic expertise and technical oilfield expertise in drilling, production, maintenance, construction, and management and instructional support.

Signed:


Mr. Bill Stamps, Peak Oil field Service Co., Cook Inlet Division 9-11-96
Date


Mr. Dennis Steffy, MAPTS, UAA 9-11-96
Date


Dr. D. Hammer, Vice Chancellor UAA 9-11-96
Date

PROTOCOL OF INTENTIONS

January, 1996

In accordance with Memorandum of Renewed Cooperation between Sakhalin Region and State of Alaska and Agreement on Cooperation of the Working Groups of the Sakhalin Region and Alaska which were signed by the parties on November 3, 1995 in Jurem, Alaska Department of Development of Natural Resources of the Continental Shelf of the Sakhalin Administration and the Alaska Department of Natural Resources signed the present protocol to implement the following issues:

1. The parties express mutual interests and wishes to establish long-term cooperation between the Departments by means of regular exchanges of technical and normative documentation, study of practical work of the Departments and exchange of experience concerning questions that are of interest for the both parties. The parties shall consider one delegation exchange per year.

2. The parties consider it possible to participate in preparation of joint programmes connected with the Sakhalin off-shore projects.


Arsenyev N.V.
Director
Department of Development
of Mineral Resources
of the Continental Shelf
Sakhalin Regional Administration


John T. Shively
Commissioner
Natural Resources Department
State of Alaska

MEMORANDUM OF
RENEWED COOPERATION
BETWEEN
SAKHALIN REGION AND STATE OF ALASKA

WHEREAS, an Agreement was executed on July 1, 1994, between the Sakhalin Region and the State of Alaska to cooperatively work in the areas of technical assistance in environmental, business regulatory, banking and insurance systems, technical expertise and training, cultural and educational exchanges, and other business projects mutually beneficial to the people of Sakhalin and the people of Alaska; and

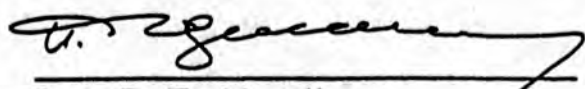
WHEREAS, a formal meeting of the Sakhalin-Alaska Working Group took place on October 31, 1995 in Anchorage, Alaska, under the terms of the July 1, 1994 agreement; and

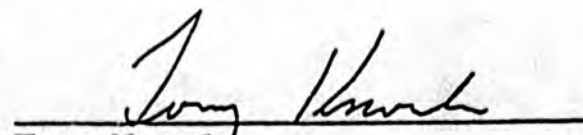
WHEREAS, the representatives of the Sakhalin Region and Alaska industry and government officials reached agreement on a number of priorities to guide the Sakhalin-Alaska Working Group in pursuing mutually beneficial projects; and

WHEREAS, the terms of the Sakhalin-Alaska Working Group agreement have been formalized in an Agreement on Cooperation of the Working Groups of the Sakhalin Region and Alaska executed by the Honorable Vladislav Rukavets and the Honorable Don Gilman, as designated Co-Chairs of the Sakhalin-Alaska Working Group;

NOW, THEREFORE, Governor Igor Farkhutkinov of the Sakhalin Region and Governor Tony Knowles of the State of Alaska hereby pledge renewed and continued cooperation and friendship between the peoples of the Sakhalin Region and the State of Alaska.

Signed at Juneau, Alaska on this 3rd day of November, 1995.


Igor P. Farkhutdinov
Governor of Sakhalin


Tony Knowles
Governor of Alaska

**Agreement
on Cooperation of the Working Groups
of the Sakhalin Region and Alaska**

Juneau, Alaska

This Agreement on cooperation of the working groups of the Sakhalin Region and Alaska was written based on the Agreement signed in Anchorage between the Sakhalin Region and the State of Alaska on July 1, 1994.

Don Gilman, Mayor of Kenai Peninsula Borough, and Vladislav Rukavets, Director, Department of Foreign Economic Relations, Sakhalin Regional Administration, signed this Agreement on cooperation of the working groups of the Sakhalin Region and Alaska to implement the following specific issues of cooperation of the Sakhalin Region and the State of Alaska:

1. Legislation:

- Preparation of joint agreements, draft projects, and programs concerning both parties;
- Study of the budget, fiscal systems, and taxation legislation of the State of Alaska, as well as the relations of the legislative bodies with Federal Agencies.

2. Loans, Finances, and Banking:

- Study of the prospective of mutually beneficial cooperation between the banks of the Sakhalin Region and the State of Alaska;
- Study of the loan policy of the Federal Agencies and Alaskan banks for social and development programs;
- Exchange of experience in banking, finances, insurance, and taxation.

3. Fuel and Energy Industry:

- Preparation and implementation of joint programs on research and development of new types of energy resources;
- Study on Supply of Energy resources in the Sakhalin Region including the development and delivery of natural gas to Sakhalin citizens;
- Vocational training for mining and oil gas industries;
- Exchange of technical information, including government regulatory changes within both countries.

4. Construction:

- Creation of competitive infrastructure for construction: construction material and equipment supply center;

- 
- Development of deposits of construction materials and manufacturing of construction parts and accompanying materials;
 - Creation of competitive general construction operations in infrastructure both, connected and not, with the Sakhalin off-shore projects;
 - Various services for construction companies, repair, and leasing of construction equipment;
 - Competitive bidding practices and procedures for construction.

5. Transportation & Communication:

- Opening of direct non-stop flights between Yuzhno-Sakhalinsk and Anchorage;
- Creation of partnerships in air, water, and ground transportation services for the Sakhalin Region;
- Communication statement.

6. Ecology & Fishing Industry:

- Exchange of information and expertise in complex environmental monitoring during oil and gas development projects on Sakhalin shelf, development, and processing of the natural resources of the Sakhalin Region;
- Joint research on seafood resources;
- Joint fishing operations.

7. Trade:

- Research of Sakhalin markets for Sakhalin and Alaska exports and imports;
- Study of the supply and distribution system of main food products, consumer goods, and other trade goods within Alaska;
- Encourage the continuation of the Troika Alaska Commercial Center/American Business Center in Yuzhno-Sakhalinsk to provide access to affordable office space, equipment and updated information for Alaska/Sakhalin businesses.

8. Education, Culture and Tourism:

- Encourage activity of the Russian American Center further development of cooperation between the Alaska State University and the Pedagogical State Institute of Sakhalin in implementing the training programs within the framework of this agreement;
 - Establishment of contacts between the Natives of Sakhalin and Alaska in various areas of their culture;
- 

- Establishment of contacts between tourist agencies and companies to study tourism infrastructure in Alaska and implementing of mutually beneficial projects.

In order to provide for continuity in this agreement, the Sakhalin Region and the State of Alaska shall consider two joint meetings per year.

Sub-committees shall communicate directly with each other and develop their own implementation plans.

Each project or any activity shall be done based on additional agreements between the sub-committees, which shall be integral attachments to the Agreement.

This agreement shall become valid when signed by both parties.

3-11-95

Date:

Don Gilman

Don Gilman
Mayor
Kenai Peninsula Borough

3.11.95

Date:

Vladislav Rukavets

Vladislav Rukavets
Director
Department of Foreign
Economic Relations
Sakhalin Regional Administration

WITNESSED BY:

Tony Knowles

Tony Knowles
Governor of Alaska

Igor P. Farkhutdinov

Igor P. Farkhutdinov
Governor of Sakhalin



AGREEMENT

BETWEEN

SAKHALIN REGION AND STATE OF ALASKA

THE SIGNATORIES OF THIS AGREEMENT AGREE TO WORK TOGETHER IN THE FOLLOWING AREAS:

- 1) TECHNICAL ASSISTANCE ON ENVIRONMENTAL AND BUSINESS REGULATORY SYSTEMS TO STABILIZE AND NORMALIZE THE BUSINESS ENVIRONMENT.
- 2) TECHNICAL ASSISTANCE IN THE ESTABLISHMENT OF BANKING AND INSURANCE SYSTEMS.
- 3) ENCOURAGEMENT OF THE USE OF ALASKAN COMPANIES AND WORKERS IN THE SAKHALIN OIL FIELD DEVELOPMENT WHEN THE EXPERTISE IS NOT AVAILABLE LOCALLY.
- 4) ESTABLISHMENT OF A TRAINING PROGRAM FOR SAKHALIN WORKERS IN THE USE OF MODERN OIL FIELD TECHNOLOGY.
- 5) CULTURAL AND EDUCATIONAL EXCHANGES TO INCLUDE STUDENT AND BUSINESS EXCHANGES.
- 6) OTHER BUSINESS PROJECTS WHICH ARE MUTUALLY BENEFICIAL TO THE PEOPLE OF SAKHALIN AND THE PEOPLE OF ALASKA.
- 7) BOTH SIDES WILL IDENTIFY LEAD CONTACTS AND FORM THE APPROPRIATE WORK COMMITTEES TO FULFILL THIS AGREEMENT.
- 8) GOVERNORS OF THE SAKHALIN REGION AND THE STATE OF ALASKA WILL CO-CHAIR THIS COMMITTEE.

SIGNED IN ANCHORAGE, ALASKA JULY 1, 1994

EVGENEY ALEXEEVICH KRASNOYAROV
GOVERNOR OF SAKHALIN

WALTER J. HICKEL
GOVERNOR OF ALASKA

MINING & TRAINING SERVICES - UAA
DENNIS STEFFY

MINING AND PETROLEUM TRAINING SERVICE
University of Alaska

14 March 1997

Representative John J. Cowdery
State Capital, Suite 416
Juneau, Alaska 99801

Subject: Sakhalin Overview Hearing--Sakhalin Island RFE

Dear Representative Cowdery:

Thank you for the opportunity to share our experience on Sakhalin with your committee.

Our Joint Venture is made up of the UAA Mining and Petroleum Training Service, Peak Oilfield Service Company and the Special Design Bureau of the Russian Academy of Science. The mission is to establish a facility for "the provision of training facilities and services on Sakhalin Island in support of the oil and gas and infrastructure development". This facility will export the Kenai Peninsula College and the MAPTS curriculum to Sakhalin for Russian workers.

MAPTS became involved about two and half years ago through company officials with whom we had worked in the past in Alaska and who were familiar with our capabilities. We have been working very closely with Sakhalin Energy and Exxoneftgaz, and will have their training representatives in Soldotna next week to finalize the arrangements. We have a start date of 1 June 1997. Much or most of the training will be done in Yuzhno Sakhalinsk at the facility we are equipping for heavy industrial training, however there are some specialized aspects which will have to be completed in Kenai, Soldotna and Anchorage. Instructors will be trained at the Kenai College.

This facility will provide an opportunity for Alaskan companies to showcase their experience and capabilities by providing instructional resources and personnel as they desire. It will greatly enhance the visibility of Alaskan firms and provide those incredibly valuable contacts with the people on the ground floor.

Sakhalin is where Alaska was in 1969 with an added element of political and economic uncertainty. The opportunities are incredible. I came to Alaska in 1968 and grew up with the industry here. I see the same parallels and the same opportunities there. There would appear to be work for Alaskans who might be displaced from their current employment, and a wide open opportunity to provide goods and services where none exist at this time.

Again, thank you for the opportunity to share our project and our expectations with the committee.

Sincerely,


Dennis D. Stoffy
Director

Testimony to the House Special Committee on International Trade and Tourism
20 February 1997

By the Joint Venture "Sakhalin Alaska Technical College"
UAA, Peak Oilfield Service Co. and the Russian Academy of Science

Response to questions:

1. Brief description of the JV mission and strategy:

The mission is to equip a facility and train instructors to prepare Russian workers for the Sakhalin Projects. The strategy is to work very closely with the producers and the Sakhalin Administration to do so effectively and economically and to create good will between Sakhalin and Alaska. The JV will provide opportunities for Alaskan Firms to demonstrate their capabilities by participating in the training process with the people who will be the future decision makers.

2. Current working environment on Sakhalin:

The JV will be housed in the existing Russian Academy of Sciences Facility in Yuzhno-Sakhalinsk. Administrative offices will be located both there and in Soldotna, Alaska, at the MAPTS headquarters. The JV is represented by the American Business Center in Yuzhno. The legal domicile of the JV will be in Alaska.

3. Number of personnel and their assignments:

There will be three personnel in Soldotna charged with the project's day to day operation. Two rotating training managers, working on a 4 and 4 schedule and one fiscal officer. In Sakhalin there will be a chief administrator, an assistant administrator, two clerical personnel, one fiscal officer and approximately 5 Russian faculty supplemented by adjunct faculty from Alaska.

4. The major obstacles so far have been the slowness of government and the lack of start-up capital. We may have found the capital, however we are still bound to the wheel of bureaucracy.

5. What is the state's primary role?

First, because of the Russian culture, the state government must be visible to the Russians and supportive of their attempt to move to a market based economy. We should consider making funds available both for Alaskan government personnel at the state and local level to meet with their Russian counterparts and to bring their Russian counterparts to Alaska to work with and learn how to manage their affairs in a western economy system.

Secondly, the state must be swift and decisive. It can demonstrate the value of a responsive bureaucracy.

ALASKA AIRLINES
DAVE HALL

1997 SUMMER RUSSIA FLIGHT SCHEDULE
Effective 10 May 1997 through 31 October 1997

Alaska Airlines

effective date: 10 May 1997 through 31 October 1997

Flt #	City Pair	Days of Operations/Local		UTC Time	Local Time	Block Time	Grnd Time
		Departure	Arrival				
201	SEA-ANC	Sat	Sat	1720-2045	1020-1245	3+25	01+15
201	ANC-GDX	Sat	Sun	2200-0230	1400-1430	4+30	00+40
201	GDX-KHV	Sun	Sun	0310-0540	1510-1640	2+30	00+35
201	KHV-VVO	Sun	Sun	0615-0730	1715-1830	1+15	

effective date: 10 May 1997 through 31 October 1997

202	VVO-UUS	Mon	Mon	2200-2340	0900-1140	1+40	00+30
202	UUS-GDX	Mon	Mon	0010-0230	1210-1430	2+15	00+30
202	GDX-ANC	Mon	Sun	0300-0715	1500-2315	4+15	01+40
202	ANC-SEA	Mon	Mon	0855-1220	0055-0520	3+15	

effective date: 10 May 1997 through 31 October 1997

Flt #	City Pair	Days of Operations/Local		UTC Time	Local Time	Block Time	Grnd Time
		Departure	Arrival				
205	SEA-ANC	Thu	Thu	1720-2045	1020-1245	3+25	01+15
205	ANC-PKC	Thu	Fri	2200-0240	1400-1540	4+40	00+30
205	PKC-UUS	Fri	Fri	0310-0520	1610-1720	2+10	00+30
205	UUS-VVO	Fri	Fri	0550-0730	1750-1830	1+40	

effective date: 10 May 1997 through 31 October 1997

206	VVO-KHV	Sat	Sat	2200-2320	0900-1020	1+20	00+30
206	KHV-PKC	Sat	Sat	2350-0245	1050-1545	2+55	00+30
206	PKC-ANC	Sat	Sat	0315-0710	1615-2330	4+15	01+40
206	ANC-SEA	Sat	Sat	0910-1225	0110-0525	3+15	

Post-It® Fax Note	7671	Date	3/18	# of pages	1
To	CASEY SULLIVAN	From	DAVE HALL		
Co./Dept	REP. COMPANY	Co.	AK AIRLINES		
Phone #		Phone #	206-431-7195		
Fax #	207-465-2069	Fax #	206-433-3366		

ALASKA EXPORT ASSISTANCE CENTER
CHUCK BECKER

**CONSUL FOR COMMERCIAL AFFAIRS
AMERICAN CONSULATE GENERAL
TIM SMITH**

ALASKA
Export Assistance Center
421 West First Avenue, Suite 300
Anchorage, AK 99501-1635



Tel: (907) 271-6237
Fax: (907) 271-6242
Email: cbecker@doc.gov
<http://www.alaska.net/~export>

Russia Now!

Executive Briefing

Timothy J. Smith, Consul for Commercial Affairs at the American Consulate General in Vladivostok, Russia, will brief business executives on opportunities in the Russian Far East on Friday, March 21 from 9:00 am - 11:30 am.

The briefing will be held at the Alaska Export Assistance Center, which is in the depot of the Alaska Railroad at 421 West 1st Ave., Suite 300. The presentation is open to representatives of companies doing business in- or planning to do business in Russia. The cost is \$10.00.

Smith has been in charge of U.S. commercial operations in the Russian Far East for the past three years. His experience in the U.S. Commercial Service also includes operations in Uzbekistan and in the international economic policy group of the Commerce Department in Washington, D.C., as a specialist in the former Soviet Union. Smith will transfer to the American Embassy in Moscow in June to assume the post of deputy senior commercial officer.

Seating is limited and will be available on a first come basis. For reservations call 271-6237.

OPTIONAL FORM 99 (7-90)

FAX TRANSMITTAL

of pages 1

TO <i>CASEY SULLIVAN</i>	FROM <i>Richard Becker</i>
DEPT/AGENCY <i>CASEY - Please use Tim's title &</i>	PHONE #
FAX # <i>REGISTRATION</i>	FAX #

NSN 7540-01-517-7968

5010-101

GENERAL SERVICES ADMINISTRATION

U.S. Department of Commerce • International Trade Administration

Sakhalin Overview ✓
November 1996

Sakhalinskaya Oblast population was 673,000 as of January 1, 1995, a sharp decrease of 25,500 or 3.7 percent from the year before. About 85 percent are urban residents. Emigration to other parts of Russia accounted for about 3/4 of the decrease. About 42,000 ethnic Koreans make up about 7 percent of the population and are a legacy of Japan's previous occupation.

Sakhalinskaya Oblast administers the main island of Sakhalin and the entire Kuril Islands chain, including the Russian occupied Northern Territories of Japan, consisting of Etorofu (Iturup); Kunashir (Kunashir); Shikotan; and the Habomai islands. The Oblast covers an area of 87,100 -square kilometers; Sakhalin Island itself is 78,000 square kilometers, stretches 948 kilometers north to south, and is 9,000 kilometers distant from Moscow.

Political Situation: Appointed Governor in April 1995. Igor Pavlovich Farkhutdinov -- formerly the Mayor of Yuzhno-Sakhalinsk -- has had a difficult year, with earthquakes and cyclones causing billions of rubles worth of damage and destruction, contributing to the not exodus of people from the oblast, and complicating an already extremely difficult economic situation. According to recent statistics, 59 percent of the population is below the poverty level.

Economic Situation: Once the Sakhalin offshore natural gas and petroleum projects get underway, Sakhalinskaya Oblast could become a major producer of natural gas for export to the mainland and to Northeast Asia, thereby transforming itself as well as the economy of the RFE. Today, Sakhalinskaya Oblast's economy is based on fish and fish processing (45 percent of industrial output); logging and paper production; and fuel and energy industries. Sakhalin's rich fishing areas include those off the Kuril Islands, which alone account for 20.3 percent of the RFE catch. Although current petroleum and natural gas on land is limited, there are substantial proven and estimated reserves on the offshore shelf northeast of Sakhalin which are being developed by U.S. and other major foreign companies. Sakhalin relies on its even coal for much of its electricity production.

Commercial Situation: Sakhalin's foreign trade turnover reached \$768 million in 1995, a 33 percent increase from the previous year, with growth registered for both exports and imports. Exports were about \$475 million, comprised mostly of fish and sea food, coal and oil, while imports were about \$292 million, primarily consumer goods and machinery and equipment imports. Japan is the region's leading trade partner, accounting for about 50 percent of all trade, followed by South Korea and the United States. Foreign investment was reported at \$59.2 million in 1995 primarily in fishing and energy sectors.

There are more than 300 joint ventures (Japan - 120; United States - 51; South Korea - 49), 22 foreign representative offices, and 45 fully-owned foreign companies operating on Sakhalin. Foreign oil companies -- including Amoco, Exxon, Mobil, Shell, the Sakhalin Energy Investment Consortium -- are the most prominent commercial presence on Sakhalin. Other foreign companies are being drawn to the region, primarily by the potential oil and gas activity.

U.S. firms with offices in Yuzhno-Sakhalinsk include McDermott, Price Waterhouse, DHL, Alaska Cargo Transport, Sunmar Shipping, and Kriljon Communications.

The American Business Center (ABC), opened officially last September, has become a visible and busy hub of activity. The ABC is managed by Carol Vipperman's Foundation for Russian/American Economic Cooperation (FRAEC) under a cooperative agreement with USDOC.

Oil and Gas Projects: U.S. and other foreign oil and gas companies are still

awaiting Russian federal approval of legislation and regulations before proceeding with several long-term, multi-billion-dollar projects to develop large petroleum and natural gas reserves located off Sakhalin's northeast coast:

SAKHALIN-I: In June 1995, the Russian Federation and Sakhalin Oblast governments approved the Sakhalin-I Production Sharing Agreement (PSA) for a consortium made up of project operator Exxon-Neftegaz (30%), Japan's Sakhalin Oil and Gas Development Company - SODECO (30%), and Rosneft-Sakhalin and Sakhalinmorneftegas-Shelf (combined interest 40%). With development costs estimated at \$15 billion, the Sakhalin-1 project area encompasses the Chayvo, Odoptu, and Arkutun-Dagi fields, with total recoverable reserves of 2.5 billion barrels of oil and 15 trillion cubic feet (TCF) of natural gas. SODECO is a Japanese consortium including the Japanese National Oil Company, which gained initial rights to develop Chayvo and Odoptu in 1975.

SAKHALIN-II: On June 22, 1994, a consortium including Marathon Oil (30%), McDermott International (20%), Mitsui (20%), Mitsubishi (10%) and Royal/Dutch Shell (20%) signed a PSA with the Russian Federation. They formed the Sakhalin Energy Investment Corporation (SEIC) to manage and operate the project, which will require an investment of \$8-10 billion. This PSA covers development of the Piltun-Astokhskoye and Lunskoye oil and gas fields, with estimated resources in excess of 750 million barrels of oil and condensate and 14 TCF of gas. The first oil and gas could be produced within four years after beginning field development activity. Production could peak at 180,000 barrels a day of liquids and 1.5 billion cubic feet a day of gas.

SAKHALIN-III: In December 1993, Mobil Russia Ventures, Inc. and Texaco jointly won the Sakhalin's-3 tender and are now negotiating for the PSA to explore and develop the Kirinskiy offshore oil and gas block. Depending on the volume of reserves to be discovered and produced, Mobil and Texaco may invest several billion dollars over 40-50 years. Geological work alone will cost an estimated \$200 million and take six years.

SAKHALIN-IV: Although the first presentation of terms for the Sakhalin-4 tender proposal in September 1994 in Denver attracted 20 major oil and gas companies, interest subsequently dwindled due to continued delays in adopting needed legislation. A formal tender bid in summer 1995 ended unsuccessfully when the Sakhalin Geology Committee rejected on "economic grounds" a bid on the Shmidtovskiy block (one of three) by Exxon -- the sole party submitting the required documents. A new tender is planned.

Sakhalin and Japan: Notwithstanding outstanding problems over the Northern Territories and the occasional arrests and shootings at Japanese "poachers" by Sakhalin boarder guard patrols, Sakhalin's relations with Japan are expanding. Sakhalin's exports go mainly to Japan. Earlier this year Michinoku Bank opened a branch office in Yuzhno-Sakhalinsk and, just recently, the Japanese Government has opened a "Japanese Center" which will offer training programs and business facilitation services. The Association for Promotion of Hokkaido Business operates an office in Yuzhno-Sakhalinsk to promote commerce between the two regions.

The U.S. Government strongly supports the development of business relations between Sakhalin and American companies, and is supportive of the close cooperation between regional officials and the American Business Center. By helping U.S. firms to better understand the region and its commercial opportunities, as well as by facilitating contacts with potential Russian partners, the ABC is playing a vital role in supporting the growth of commercial relations between the United States and Sakhalin.

The U.S. Government strongly encourages formation of joint ventures to blend the expertise and strength of U.S. and Russian firms, and envisions opportunities for such partnerships particularly as the offshore oil and gas

projects move forward.

A. Background, Sakhalin Oil Production

I. Although Sakhalin oil and gas comprise less than one percent of total Russian reserves they are the only commercial fields in Russia west of Tyumen. Oil production peaked at 26 mmt in 1985 and has declined every year since to 15mmt. Gas production declined by a quarter in this period. North Sakhalin onshore fields are estimated 63% exhausted. Offshore reserves are several times larger than remaining onshore reserves.

II. Sakhalin's oil is transported by pipeline to Komsomolsk. This refinery (built 1942) and one in Khabarovsk (built 1935) have a combined capacity of 9 mmt/yr. The bulk of these refineries' feedstock is Tyumen crude long-hauled from Angarsk at great cost. Production is insufficient to meet Far East demand, and so refined products are also long-hauled by rail.

III. Existing Russian onshore industry is plagued by aging infrastructure and less-than-modern environmental protection techniques. Spills were reported along the pipeline route after the 1995 Neftegorsk earthquake. A well over the new super-deep Ust-Evay gas field, which began producing in 1958, has been burning uncontrolled since mid-1994.

IV. Primary producer is Sakhmorneftegaz a division of Rosnft: 1.5 mmt/year oil 2 bn/y gas. \$40 million this year profits, 13,000 employees. They discovered and explored the offshore fields in Sakhalin-1,2,3 tenders in the 1970s and 80's. Other companies include Saudi JV Petrosakh which operates two wells and a small field refinery near mid-island and has begun exploration drilling this year. ANK Shelf, which has also received, license to eight small onshore fields and has begun development of two, and Sakhalin Petroleum PLC, which is contracting SMNG to do exploratory drilling this year through the ice Nabri Bay near Nogliki.

B. Sakhalin-I (Larry Kennedy)

I. Sakhalin I is three fields: Chayvo Odoptu and Arkutun-Dagl, which were all discovered by SMNG. Total recoverable hydrocarbon reserves potential for the three fields is approximately 2.5 billion barrels of oil and 15 tcf of gas although extensive delineation of Arkutun-Dagl, is required.

II. Exxon Neftegas Limited (30%), Japanese consortium SODECO (30%) and two Russian companies. Rosneft-Sakhalin (17%) and Sakhalinmorneftegas-Shelf (23%)

III. In 1994, a conceptual feasibility study was approved by the Russian Federation and Sakhalin Oblast in June., 1995. Commencement Date was announced formally on June 10, 1996.

IV. During the summer of 1996 a well will be drilled and tested in the Arkutun-Dagl field using Sakhalinmorneftegas OKHA drilling rig. A 3D seismic program over Arkutun-Dagl alone will cover over 1,100 km², one of the largest single surveys to be acquired by industry. This work is the first part of a US\$200-\$300 million resource appraisal program that is planned to better define estimates of reserves.

V. The development of the three fields will involve a combination of large ice-resistant platforms and subsea templates. Significant offshore facilities, pipelines and project infrastructure will have to be established on the island in order to support the project and the export of oil and gas. Portions of the offshore facilities and pipelines may be a joint industry project serving all markets. Russian members of the consortium and the foreign partners will be responsible for marketing their own respective shares of production

C. Sakhalin- III (Jan Mølle)

I. Consortium of Mobil/Texaco were awarded rights in 1993 to Klorskoye gas field. Est. reserves: 100 bcm gas; 50mmt condensate. Expect to spend \$151 million in exploration at 100% own risk. Have not signed PSC yet. Fuel and Energy Ministry and Rosneft approve of signing PSC, but SMNG director Bogdanchikov is adamantly opposed to giving away more fields to foreigners.

II. Article from 9 Aug 96 Soviet Sakhalin "Foothold" interview with SMNG director Bogdanchikov Statements: "RFE energy demand will be satisfied by Sakh-1.2 alone no

need for Sakh-3. We should limit foreign investment to absolute minimum. We can master the technology and apply for financing based on ownership of the license just like foreign companies." PSA law was signed in 1995 but neither Exxon nor other Foreign partners were in a hurry to start work until Bogdanchikov and Shafranik gave Exxon an ultimatum: "announce CD or lose fields." This applied to Sakh-2 as well. Now, administration must spend bonus dollars wisely for construction of schools and hospitals. 1996 profits approx. \$40 million (fourfold increase). Four new gas fields on line. If the administration is interested in new jobs it must pay for training \$1 million was contributed for Nogliki power station. "My goal is to make common people see real effect from shelf projects."

D. Sakhalin II Project

I. Putun-Astokhskoye (oil with associated gas) and Lunskeye (gas with associated oil and condensate) offshore fields, located 13-16 km offshore northeast. Estimated recoverable reserves of 100mmt (750 million barrels) of hydrocarbon liquids and 494 bcm (14tcf) of gas. Plans at the feasibility stage called for production to be transported to shore and then by pipeline to oil terminal and LNG plant in Prigorodnoye before being exported. However, at this early stage the best economic and technical development solution is a phased approach starting with the PA field. Appraisal of the remainder of the PA Field, and of the Lunskeye Field, continues.

II. Sakhalin energy was formed at request of the Russian Government in April 1994 as a single legal entity to hold licenses for use of the subsurface resources, and to manage development of the fields on behalf of its shareholders. Marathon Sakhalin Limited (30%); McDermott Sakhalin, Inc. (20%); Mitsui Sakhalin Development Co., Ltd. (20%); Shell Sakhalin Holdings B.V. (20%); Diamond Gas Sakhalin BV a wholly owned subsidiary of Mitsubishi corporation (10%).

III. M/M/M/ Consortium won the tender in Jan 1992. In March 1993 the feasibility study was approved by decisions of Environmental and Economic Expertise Committees. Production Sharing Contract signed on June 22 by representatives of the Russian Federation and Sakhalin Energy. In May 1996, the Russian Federation Government issued licences to Sakhalin Energy. In June 1996 Sakhalin Energy declared Commencement Date for PSC, the first project to proceed under production sharing in Russia.

IV. Immediate and Long-term Benefits to the Russian side include: Revenues: a combination of hard currency and actual production royalties a share of profit and profit taxes. Bonus Payments: \$15 million at Commencement Date in June this year. A further \$15 million when a final decision is made to proceed with PA first phase development following technical approval. Development Fund: A first development decision (possibly in 1997) will also trigger the establishment of a Sakhalin Development Fund, amounting over five years to US \$100 million, for improving social and economic infrastructure of Sakhalin. Russia Content: PSC requirement that Sakhalin Energy will use "best efforts to maximize Russian content over the lifetime of the project".

V. Sakhalin Energy has participated in community activities since arrival on Sakhalin in 1991. (1) Active support for the high school economic education program Junior Achievement (with over 100 classes now an official part of Regional education curriculum), (2) intern program with Sakhalin college students; (3) support for Regional student arts and music scholarship competitions called "Young Talent of Sakhalin" (4) support for Native Crafts vocational school in Poronalsk; (5) contributions to youth sports schools, traditional local festivals, (6) recently announced grants to Library which will total \$110,000 over five years.

VI. PRESS RELEASE: Sakhalin Energy Investment Company, Ltd. (Sakhalin Energy) announced today, July 24, 1996, that it has obtained the support of the Government of the Russian Federation and the Administration of Sakhalin Region to progress a plan to start development if the Putun-Astokhskoye (PA) field offshore Sakhalin Island. The plan is based on a phased approach to developing the PA Field which could lead to first production of oil in 1999, considerably earlier than under other development options. The plan is based on extensive study which has shown that early economic production could be achieved through the use of an existing mobile drilling and production facility known as the Molikpaq. The Molikpaq is a

large ice-class drilling unit which has been successfully deployed in Arctic drilling operations and which has been designed for operating conditions significantly more severe than those experienced offshore Sakhalin. The plan proposes that the Molikpaq would produce oil from the Astokh feature in the Pultun-Astokhskoye Field. The oil would be transported by a short pipeline to a single anchor leg mooring buoy (SALM) and a storage tanker, for subsequent loading onto tankers, an operating procedure widely practiced in other parts of the world. The plan now requires formal technical approval from appropriate Russian regulatory authorities, and further progress on the achievement of stabilization prior to final shareholder commitment.

E. Background Sakhalin political situation

I. Elections for Governor took place October 20, 1996. Ten gubernatorial candidates registered. Communist Party candidate Anatoly Chyorny, former SMNG director and now a director at Sidanko, a vocal opponent of shelf development by foreign companies, lost to the incumbent, capturing 27.5% of the vote. Another critic of the Sakhalin-2 PSC is candidate Valery Timofeyev from Koraskov. As of today, we do not have a fix on this election. Vladimir Bersenyov is Yabloko candidate and General Director of the ANK Shelf Oil Company. Incumbent governor Farkhutdinov won with 39.5% of the vote. Farkhutdinov understands the need for stabilization and understanding of the ways of Western oil business. His re-election was far from assured. He had the advantage of incumbency and the support of Yeltsin. The Sakhalin electorate, characterized by a high proportion of active voters among the military and pensioners voted overwhelmingly for Yeltsin in the last election.

II. Elections for a new Regional Duma were also conducted on Oct 20. The previous Duma was split apart last year by a power struggle and finally dissolved by the courts. Its former chairman Maksyutov emerged as one of two Sakhalin representatives to the Federation Council, the other is Farkhutdinov. The two men hardly speak, a situation which complicates joint action in supporting legislative initiatives. However, indications are that Maksyutov has been defeated. The Sakhalin representative to the lower house at the time of this writing is Zhdakayev, a Communist from Tymovsk and outspoken opponent of shelf development by foreigners.

III. Vital issues to the future of Sakhalin-2 (stabilization, land code, profits tax split) remain to be decided in Moscow. Elevation of PSC Law opponent Glazlyev to post in Ledbed's Security Council bodes ill for needed amendments to that law and prevailing attitude at Fuel & Energy Ministry is that the law in current form is sufficient to start investment. Little is known about the policies of new Minister Rodionov, except that he is a Chernomyrdin man and a Russia-Firster.

F. Sakhalin fact sheet

I. Sakhalin is 950 km in length and only 160 km across at its widest point lying eight time zones east of Moscow and separated from mainland Russia by the narrow Tatar Straite. The southern tip of Sakhalin is just 45 km north of the northernmost Japanese island of Hokkaido.

II. Sakhalin's climate is maritime. Summers are cool with June and July misty and foggy, and hot weather in August. Fall is the season for typhoons and hurricane-force winds. Snow falls from November to March and may measure up to 50cm in the north, 70cm in the south and 100 cm in the east. Scrubby lowland tundra with sparse larch and cedar cover the northern third of Sakhalin; two-thirds are forested and mountainous, with spruce and fir predominating. Wetlands stretch along the perimeter of north Sakhalin, at the delta of the Poronay River and near Aniva Bay. Only about 2% of the land area is suitable for agriculture.

III. Sakhalin is a seismically-active region which has experienced two serious earthquakes in the last two years - October 1994 in the Kuriles (12 dead) and May 1995 in Neftegorsk (2000 dead, town obliterated). Monitoring stations are closing due to lack of funds and there is no money for research.

IV. The population of Sakhalin has decreased 11% since 1992, and is about 641,000. Eighty eight percent are ethnic Russian or Ukrainian, 5% Korean, and less than 0.5% indigenous (Nivkhi, Ulita, Nanai, Evenki). The majority of the

population live in the extreme south of the island. Kholmsk (pop. 62,000) is a major port with two pulp and paper plants, a fishing fleet, and a ship-building and repair center. Korsakov (pop. 46,000) is also a major center for fishing, fish processing and international shipping. Near mid-island, Poronaysk (pop. 26,000) produces paper pulp and cement. Okha (pop. 36,000) in the extreme north of the island, is the center of the onshore oil and gas industry. On the northeast Sakhalin coast, Nogliki (pop. 11,000) is the population center nearest the offshore Sakhalin project areas.

V. Fishing and fish processing represent 30% of the Region's total industrial activity, and 50% of its exports. The Kuril basin and Sea of Okhotsk are among the richest fisheries in the world providing at one time about half the total seafood demand of the former Soviet Union. Forestry (including timber, pulp and paper) is the second largest industry: formerly Sakhalin accounted for almost all the paper and half the pulp production of the Russian Far East. Industrial production of coal is declining due to high transport costs, loss of federal subsidies, outdated machinery, and intensive resource exploitation.

G. Sakhalin Regional Budget

Interview on Sakhalin evening TV 17 July 96 with Vice-Governor Gomilevskiy- How bonus payments of \$5M and \$15M from the Sakh-1 and 2 projects will be spent \$5M will remain in dollars as hard-currency fund for the Region, \$15M will be converted to rubles and evenly distributed among districts for "important work of preparation for winter, and construction of social infrastructure." Examples: purchase turbine for Nogliki gas-fired electric plant; hospital in Korsakov; repair earthquake-damaged school in Okha; school in native village of Krasnaya Tym; bridge in Makarov; repair of steam lines in Aniya. When asked if the bonuses are important and timely, Gomilevskiy answered "yes, especially when you consider that the Region has received transfer payments for Jan-Mar, but not a ruble since." MinFin has called in all loans. Governor has made frequent trips to Moscow to solve these problems. According to Sakhalin Regional Administration as of 1 Dec 96, Regions' expenditures totalled \$265 million (including \$108 million for industry subsidies, \$122 for social spending, \$16 million for administrative costs). Income was \$301 million, half from taxes and half from transfer payments from center and other sources (that are in arrears).

H. Economy

I. Article from 15Aug96 Soviet Sakhalin, "We Only Dream of Stability". Governor's cabinet discussed socio-economic reports of first two quarters. Deficit of \$45 million due to non-collection of taxes and delays in subsidies from Moscow. GNP down 7%, 20% in consumer goods. Half of Sakhalin live below poverty level.

II. Sakhalin Radio. Morning interview with Governor, 25 Jul 96; reported on first Sakhalin-2 project Supervisory Board meeting. With approval for 1999 first oil, "the money starts in three years, not all that long," stressed to foreign partners need for "maximum participation of Russian contractors, and ecological safety of the Project, "the need for foreign investors to provide opportunities primarily for exploration companies like DMIGE, DMNG to re-equip, train and increase competitiveness. Repeated pledge of 20,000 jobs "on Sakhalin."

III. Recent articles about socio-economic situation

* Article in 22 Aug 96 Gubernskiy Vedemosti "About the Budget: Poverty Levels in region. July 1996": Poverty level reached approx. \$125 in July, up 28.3% from last year. Half of population falls below. Bread up 8%, potatoes up 40%, milk, butter and eggs down slightly. Yuzhno is one of most expensive consumer basket in all Russia.

* Article in 30 Aug 96 Soviet Sakhalin by E. Kropp head of DMNG "No turning Back": cites report showing sharp drop in real wages in 1995, avg. Salary was only 20% above poverty level. Agricultural production down by half. Unemployment up 6.5-fold 80% of all ruble turnover in Moscow who live four times better than Sakhalinians. Total foreign investment in Russia in 1995 was \$2.5 billion, but Sakhalin has unique chance at \$50 billion via Sakh-1,2,3. But it can be lost. Example: Murmansk \$14 Billion foreign-consortium gas projects which were re-tendered to Rosshelf in 1992 due to intervention from Moscow.

Development was delayed. Time and markets were lost to Norway. Beware such intervention driven by selfish political or industry goals.

* Article from 2 July 96 Soviet Sakhalin "Librarians are Grateful to Foreigners, But Want More Attention From Their Own": Reports Sakhalin-2 gift of \$110,000 over five years to library. Quotes Library Director: "Regional Duma has not yet approved even one-sixth the annual budget needed, and two library development programs announced by the Governor have not been funded yet. Librarians are paid only \$80-120 per month. Library wants for more attention from local authorities. Note: According to postal data, there are approximately 31,500 subscribers of Soviet Sakhalin daily newspaper of Sakhalin. Other local newspapers (mostly weeklies) have circulations from 200-5000.

I. ISSUES

- I. Foreign and US investment is critical to economic progress in Russia.
- II. Legal instability in Russia is delaying this investment.
- III. Enabling Laws and normative acts must be passed as soon as possible.

J. Population, short facts

I. Yuzhno-Sakhalinsk: capital of Sakhalin Region and largest city, pop. 160,000. Rail and air transport hub. Airport is international, but requires modernization to accomodate larger aircraft. Primary industries include food, timber processing, construction and building materials (including concrete and panel structures), finance and banking. Higher education: State Pedagogical Institute, and three smaller business colleges. Home of Institute of Marine Geology, Sakhalin Fisheries Research Institute, FEMCO, DMNG, and other oil exploration-related firms.

II. Article from 27 June 96 Soviet Sakhalin "Marine Geophysicists Enter the Picture": Finally after negotiations and parties, work is beginning. Quotes DMNG's Lifshifts that a research vessel will conduct \$15 million in contract work for Exxon and SE this summer on shelf, emphasized that all money will go through local banks and taxes paid.

III. Article from 15 Aug 96 Gubernskiye Vedemosti "You're Going Nowhere Without Some Taxes": Mayor of Yuzhno met with cabinet to discuss socio-economic situation. City owes power system \$9 million. Why? Non-payment of taxes: 8000 businesses owe a total of \$8.5 million. Tax inspectorate keeping up the pressure. However, new expenses start Sept 1 -fund for small business development.

K. Impending winter power crisis

Article from 16 Aug 96 Svobodnyy Sakhalin: "Get Your Candles and Kerosine Heater Ready for Winter, Says Coal Company". Coal company is bankrupt strike looms. They owe \$120 million, only government can bail them out. One tonne of coal costs them \$80 to produce, price on foreign market is \$30/tonne. Worker productivity and maintenance low due to non-payment of wages. We can only deliver 1 mmt this year, 1.6 mmt needed.

L. Troika Alaska Opens Sakhalin Office

On October 15, the World Trade Center Alaska announced that the Troika Alaska Commercial Center has opened a representative office in Yuzhno-Sakhalinsk. Troika, a program of the World Trade Center Alaska, is located in room 509 of the Sakhincentre. Todd Crossett is the Troika Assistant Manager for Sakhalin and Elena Danilova is the administrative assistant. Troika represents a consortium of Alaskan or Alaska-based businesses and provides members with exclusive business services and information about their industries and their competitors in the Russian Far East.

M. Other Cities & Resumes

Korsakov

Population, 46,000, third largest in Region. Largest port primary ocean fishing base and largest fish processing plants located here. Also corrugated cardboard, food and light industries. Prigorodnoye, east of town, is proposed site for Sakhalin-2 LNG plant and export terminal.

Igor Pavlovich Farkutdinov, Head of Administration (Governor) - Sakhalinskaya Oblast

Born: 1950, Novosibirsk

Education:

1972: Krasnoyarsk Polytechnical Institute - Engineer and Economist

Professional Career:

1972-77: Engineer in Technology-production Section; Shift Chief; Then Chief, Boiler and Turbine Section of Power Station, Tymovskoye, Sakhlinskaya Oblast

Political Career:

1977-80: Second Secretary, Then First Secretary, District Komsomol Committee, City of Tymovsk;

1980-91: Director of Section on Young Industrial and Agricultural Workers, Komsomol Oblast Committee; in Yuzhno-sakhalinsk, Capital of Sakhalinskaya Oblast

1981-85: Instructor, Section on Organizational and Party Work, Sakhalinskaya Oblast Committee of CPSU;

1985-91: Chairman of the Executive Committee (Ispolkom), of the Soviet Of People's Deputies, City of Nevelsk, Sakhalinskaya Oblast;

1991-92: Chairman of Ispolkom of Municipal Soviet of People's Deputies, City of Yuzhno-sakhalinsk;

1992: January: Appointed Head of Administration (Mayor) of Yuzhno-Sakhalinsk;

1995: April 24: Appointed by President Yeltsin as Head of Administration (Governor) of Sakhalinskaya Oblast Following Resignation of Yevgeniy Krasnoyarov;

1995: November; One-week, Economic-oriented Visit to Alaska Included Oil-refining and Extraction Facilities-

Family:

Married; One Son

Vladimir YAGUBOV (yi-GOO-boff) Mayor Yuzhno-Sakhalinsk Born 1948 in Kurgan Region, graduated Kurgan Agricultural Institute in 1971 as agronomist. Seed agronomist and later chief agronomist of Niva collective farm in Kurgan. Moved to central Sakhalin in 1975 and graduated from the Higher Party School in Khabarovsk. Named Deputy Mayor in March 1995, and two months later assumed the post of Mayor when Farkhutdinov became governor.

Valeriy Ivanovich BELONOSOV (byen-la-NOH-soff) Vice Governor for Social and Cultural Issues - Born 1942 in Irkutsk. Graduated Irkutsk Mining Institute in 1963 as a mining engineer. Assigned to coal mine in Dolinsk, Sakhalin, as a mine surveyor. After military service returned to the Dolinsk mine as head of the design bureau, then transferred to Shabunino mine as chief surveyor. He worked

there five years, later becoming party secretary for the mine company. After graduating from the CPSU Academy of Social Sciences, he was named head of Sakhalinglavsnab in 1988 he became ideology Secretary of the Regional Committee CPSU, then in 1991 the head of regional transport and communications department. He has served as Vice-governor since June 1995. He is married and has two daughters.

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Rusty Devereaux

**UNIVERSITY OF ALASKA'S
AMERICAN RUSSIAN CENTER**

American Russian Center

Mission:

Under the Freedom Support Act and with funding from U.S. agencies to promote the development of a free market economy and democratic institutions in the Russian Far East, especially by building on the geographic positions, historical experiences, and current business resources of Alaska.

Strategies:

Small business centers in Russia
Introductory and advanced business courses
Technical assistance to Russia
Specialized Russian groups to Alaska
Cultural exchanges
Reinforcement of economic and cultural development

Note: ARC is funded totally by federal grants



**The American Russian Center
Accomplishments and Purposes**

ARC AMERICAN RUSSIAN CENTER

3211 Providence Drive, Anchorage, Alaska 99508-8356
▲ Telephone (907) 786-4300 ▲ Facsimile (907) 786-4319

The American Russian Center of the University of Alaska Anchorage began operations with a \$2.15 million grant from the U.S. Agency for International Development in April 1993. ARC opened small business development centers in Yakutsk and Yuzhno-Sakhalinsk in the fall of 1993. In May 1994, ARC's AID funding was increased to \$3 million. As a result, new centers were opened in October 1994 in Khabarovsk and Magadan.

ARC oversees a \$1 million grant from the U.S. Information Agency, following a \$2 million grant in 1994, with which has supported 33 separate cultural and educational exchange projects between Alaska and the Russian Far East.

ARC received a USAID Partnership grant of \$1.5 million in 1995 which links the three campuses of the University of Alaska with institutions in Sakhalin, Yakutsk and Magadan.

ARC also was selected by the Academy for Educational Development to oversee three separate training projects in Reindeer Meat Processing, Oil and Gas Management, and Economic Education which provided training to 60 Russian entrepreneurs and teachers.

Here is a brief summary of ARC's major accomplishments between October 1993 and October 1996.

<u>AID-sponsored activities:</u>	<u>Courses/Seminars</u>	<u>Clients</u>
Khabarovsk Business Training Center	56	1,817
Magadan Business Training Center	16	359
Yakutsk Business Training Center	38	956
Yuzhno-Sakhalinsk Business Training Center	62	1,753
Technical Assistance Projects	78	2,460
Alaska, Based Advanced Business Training	14	273
Specialized Business Training Trips to Alaska	23	169
Business Counseling		2,135
Training/Technical Assistance/Counseling Total:	287	9,922

Business Linkage Assistance:

- Developed comprehensive data base on U.S. and Russian businesses in the RFE.
- Set-up business library for firms working in the RFE.
- Provided assistance/information to more than 400 U.S. businesses and over 500 Russian businesses throughout the RFE.

USIA-sponsored activities:

- A total of 33 exchanges have been implemented in two cycles of funding from USIA's Bureau of Educational and Cultural Affairs. To date, the exchanges have brought 372 Russians and 236 Americans together to increase understanding of cultures, promote democracy and facilitate the movement toward a free market in Russia.
- Successes from the first year of exchanges are starting to materialize. For example, after conducting training on management of non-profits in Petropavlovsk-Kamchatsky, 17 NGO's have been established. Some NGO's are lobbying the federal Duma to reform laws concerning non-profits, while others are lobbying the Duma for free market reforms.
- Now there are 101 students enrolled in the Journalism Program at Yakutsk State University, which helped get its start from a USIA grant.



American Russian Center

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America's Alaskan Connection to the Russian Far East

Russia's Far East (RFE) is a vast resource rich area located eight time zones away from Moscow, yet its closest point only a few miles from Alaska. A population of 8 million people is distributed through seven major administrative regions and seven principal population centers. Its area comprises more than a fifth of the land mass of Russia. The American Russian Center is one of the few American sponsored activities working on a sustained basis in an area vital to Russia's future and to Russian-American relations.

The principal purposes of the American Russian Center are to promote small business development through training and technical assistance; to enhance Russian-American business connections; to facilitate educational and cultural exchanges between Alaska and the Russian Far East; and to build institutional relationships between universities in Alaska and educational institutions in the Russian Far East.

History

The American Russian Center was established in May 1993 with a grant from the United States Agency for International Development. In the fall of that year, ARC opened small business development branches in Yakutsk and Yuzhno-Sakhalinsk which were followed a year later by additional centers in Khabarovsk and Magadan. At the branches, basic courses in small business management and operations are taught by visiting experts and permanent staff fluent in Russian. Individuals are chosen from the graduates of these courses for further study in Alaska and internships with Alaskan businesses. Additionally, ARC offers technical assistance seminars for such groups as bankers, individuals interested in establishing credit unions, airport managers, physicians interested in private practice, government officials wishing to learn about Alaska's experience promoting small business, and women interested in establishing small businesses. ARC maintains a business information library in the Anchorage office and regularly consults with American businesses interested in finding joint venture partners or investing in Russia.

In the spring of 1994, ARC received a grant from the United States Information Agency which eventually sponsored 24 separate projects involving exchanges between Alaskan cultural and educational groups and their counterparts in the Russian Far East. By May 1995, these projects were completed and proved successful enough for a second grant which funds nine additional, slightly larger projects through the fall of 1996. ARC sponsored educational and cultural exchanges have involved Natives, women, students, professors, journalists, local government officials, and representatives of specialized groups from virtually all geographic areas of Alaska and the Russian Far East.

With another major grant from USAID to promote institutional partnerships, ARC is now sponsoring a program to develop more direct relationships between the University of Alaska Fairbanks and the State University in Yakutsk, the University of Alaska Anchorage and the International Pedagogical University in Magadan, and the University of Alaska Southeast and the State Pedagogical Institute in Yuzhno-Sakhalinsk. These projects will involve exchanging professors and developing joint curricula in the areas of business, education and journalism and will operate over a two year period commencing in the spring of 1995.

Accomplishments

In its first three years of operation, ARC completed the following:

	<u>Russian Participants</u>
Small Business Development	
Training in Russia	4,885
Training in Alaska	442
Technical Assistance Seminars	2,460
Business Counseling	2,135
Cultural Exchange	
Alaskans to Russia - 196	0
Russians to Alaska	<u>308</u>
Total	10,230

Staffing

The ARC staff currently consists of 14 Americans in the Anchorage office and 6 Americans at the four branches in the Russian Far East (Yuzhno-Sakhalinsk, Yakutsk, Khabarovsk and Magadan). All American senior staff are fluent in Russian. In the RFE, the ARC branches employ approximately 20 Russians. Charles Neff is director of ARC.

Business Services Offered

- ARC can develop and conduct specialized business training programs for Russian employees of US companies in a variety of areas.
- Through its branches in Khabarovsk, Yuzhno-Sakhalinsk, Yakutsk and Magadan, ARC has a limited capability to support US business people on site on a cost reimbursement basis. Support includes assistance in finding contacts, arranging for translators, and transportation.
- ARC centers can provide specific business information to US and Russian businesses on request.
- In Anchorage, ARC provides a small RFE business library which is available to business people during normal working hours. The library contains city information on Vladivostok, Khabarovsk, Yuzhno-Sakhalinsk, Yakutsk, Nakhodka, Magadan and Komsomolsk. The library holdings also include over 24 English language business journals and publications related to business in Russia and the RFE. They include Russian Far East News, Russian Far East Update, Foreign Broadcast Information Service NIS Bulletins, East West Executive Guide, Kommersant, the Business Directory of the NIS, Interfax Bulletins and many other business journals, newspapers and directories.

Since its inception, ARC has worked with over 60 public and private organizations, over 400 private businesses and 400 individual business people. Sponsors and collaborators in ARC programs include other universities, federal, state and local agencies (such as the Peace Corps), other USAID sponsored agencies in the RFE, numerous non-profit groups, banks, oil and gas companies, retailers and a large number of small to medium businesses of every description.

Contacting ARC and Its Operations in Russia

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Russian Far East News

Alaska Center for International Business • American Russian Center • University of Alaska Anchorage

Rapid Assessment	1
From the Editor	2
About Sources	4
Conferences, etc.	4
Construction	4
Economy	5
Environment	5
Finance	6
Fishing	6
Information Resources	6
International Update	7
Mining	7
Politics	7
Real Estate	8
Focus on Sakhalin	8
Sales Opportunities	11
Trade	12
Transportation & Shipping ..	12
Travel & Tourism	12
Map of the Region	insert

Rapid assessment of potential significant pollution sources in the Russian Far East

With funding from the U.S. Department of State and the U.S. Environmental Protection Agency, the State of Alaska Department of Environmental Conservation (ADEC) embarked on a *Rapid Assessment of Potential Significant Pollution Sources in the Russian Far East Project* to identify sites in the Russian Far East with the greatest significant risk to human health, natural resources and the environment. The project also provided the basis for long-term coordination and cooperation between regional governments of the Russian Far East and Alaska through a collaborative and joint assessment of potential pollution sources.

The participating Russian Far East regions were Chukotka, Magadan, Kamchatka, Sakhalin and Primorye. The project identified sites in these regions and developed a combined database which includes such information as site location, pollution type, site ownership and responsible party, type of response action taken, source of pollution, toxicity value, contaminant quantity, location of population centers, presence of drinking water source surface and/or groundwater contamination, and proximity to protected areas. The database contains a ranking model designed to give a relative index of site severity, not a concrete value of risk. The regions differed greatly in their approaches to the project and their ability to assign resources and staff to it, and the number of sites submitted for each region reflects these differences.

The project identified a total of 619 sites. They include 15 agricultural areas, one chemi-

cal plant, 9 electrical generation plants, 8 fish processing facilities, 11 oil and/or hazardous material releases, one inactive military location and one active military site, 4 timber processing facilities, 12 leaking underground storage tanks, one metal working plant, 13 mining operations,

The project identified a total of 619 sites.

one petroleum processing facility, 17 sewage treatment plants, 4 solid waste disposal facilities, 404 unclassified industrial sites and 117 sites which were either unclassified or the contaminate source was listed as unknown.

Using the ranking model, 7% of the sites, or a total of 44, scored over 75, a benchmark score for site management within the ADEC distinguishing high priority sites from lower priority sites. The following table on page two shows the distribution of sites by region and those scoring greater than 75:

continued on next page

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Please note: Russian words for administrative units are translated as: krai-territory; oblast-province; okrug-district. Adjectival endings (ii in Khabarovskii, aya in Khabarovskaya, etc.) have been eliminated, except for addresses.

We welcome articles and letters from our readers. We reserve the right to edit submissions. Please include a telephone number and a short biographical note.

From the editor

Happy Holidays to all our readers! We at the staff of *Russian Far East News* wish you all warm and fun-filled holidays and a prosperous New Year.

If all goes well, this newsletter will be reaching you a little earlier than usual. Because the University of Alaska presses shut down over the Christmas and New Year's holidays, we have to be either a little early or very late with the January issue.

In this issue we are inaugurating our *Focus on Sakhalin* section to provide you a quick glance at this rapidly-developing island. For this month, read up on the oil and gas development projects, look over economic statistics for the island and some of its towns, note the infrastructure problems, and see where the Sakhalin administration plans to spend some of its bonus money.

While working with Priscilla Wohl, author of our cover story on assessing pollution sites in the Russian Far East, I was struck by her comment that one of the greatest exportable

"products" from Alaska to the Russian Far East is environmental expertise. When you read her article you will see why such expertise is critical to natural resource development in the Russian Far East today and in the future.

Finally, some of our newly-subscribing readers have asked, "who is Anne Sudkamp? Does she speak Russian?" To answer: I'm someone I'd call a specialist on Russia and economics who then learned editing and graphic design. I have a bachelor's and a master's degree in Russian from Middlebury College in Vermont, and I'm currently a doctoral candidate there. Within the degree programs I've concentrated on Russian culture and economics. Thanks to trips to Russia and the whips my professors at Middlebury have continually cracked, I've tested at advanced proficiency in Russian. ■

Anne Sudkamp

Rapid assessment, continued

Sites scoring greater than 75

Region	# sites	Sites > 75	%
Kamchatka	23	2	9%
Chukotka	18	0	0%
Primorye	393	0	0%
Magadan	30	7	23%
Sakhalin	155	35	23%

The higher priority sites can be grouped as mines, energy facilities (e.g. coal-fired plants), heavy industry (e.g. cement plants, auto plants), industrial sea port areas, and agriculture. Because of inconsistencies in data entry and other factors, the ratio of 44 out of 619 sites with a ranking of 75 is believed to be low. None of the Primorye or Chukotka sites had rankings greater than 75, yet additional information received from Primorye indicates that in some areas pollution levels exceed acceptable limits by more than 100 times. Following is a description of sites found in each region.

Kamchatka

Kamchatka's 23 sites include mines, coal-fired energy facilities, oil releases, active and inactive defense sites, leaking underground tanks, chemical plants, forestry and agriculture, industrial zones and fish processing facilities. Information provided was consistent with the population size, resource base, geography, and military use of the area.

Examples of sites include a shipyard galvanotechnics plant in Zavoiko listed for diesel fuel spillage. Due to the nature of the facility it is likely that other contaminants such as heavy metals are present at the site. A chemical plant in Petropavlovsk-Kamchatsky scored 94 and indicates the presence of pollutants which pose the greatest threat to the environment such as radiation, chlorinated solvents, PCBs, halogenated hydrocarbons, and synthetic chlorinated pesticides. Surface water and groundwater are potentially affected at this site. Most of the Kamchatka sites which are municipally or privately controlled indicate that the owner/operator is unwilling or unable to

continued on next page

Rapid assessment of potential ... pollution sources, continued —

perform investigatory or remedial action at the sites. Seven of the sites indicate possible contamination of public water supplies, and six of the sites are currently involved in some form of enforcement action.

Magadan

Magadan's 30 sites include mines, leaking underground tanks, state-owned gold processing facilities, fish processing facilities, agricultural sites, and power generation and industrial sewage facilities. The Magadan airport complex has several contaminant sources including two with ranking scores of 277 and 180. Other high-ranking sites include a mine, a power plant, and a sewage plant. It is believed that the sewage plant handles industrial wastewater as well as domestic wastewater.

For Magadan region sites, those showing municipal or local ownership also indicate that the local government is either unwilling or unable to perform investigatory or remedial action at the sites.

Chukotka

The 18 sites in this region include sewage treatment plants, leaking underground storage tanks, a nuclear power station, a radiation site of unspecified origin, and orphan sites with no responsible party.

Site scores from Chukotka were generally lower and reflected less industrialization and groundwater usage when compared to other regions. The Lenin State Farm in Lorino with radiation contamination was the highest scoring site with a score of 26. Stockpiles of contaminated material are indicated. The site is undergoing closure action.

Chukotka also reported two offshore sites. One pollution source is a sunken vessel which created a diesel fuel spill in Ugolnaya Bay, in the Bering Sea, a protected area in Russian waters.

Eleven of the Chukotka sites are either orphan sites, where the responsible party or owner is unknown, or the responsible party is unwilling or unable to take corrective action at the site.

Sakhalin

The 155 sites submitted by Sakhalin include a wide assortment of problem areas ranging from forestry and agriculture to coal

mines. Sites on Sakhalin are clustered near Yuzhno-Sakhalinsk. Other sites include military sites, timber processing facilities, and industrial sea ports.

Site scores were generally high, reflecting, at least in part, heavy industrialization and resource utilization. For example, Northern LPK, a site operated by the Ministry of Forestry, scored 426. It is contaminated with "class 4 contaminants," which include radiation, toxic chlorinated compounds and pesticides. It also has contaminated drinking water and is in a remedial design phase. Two coal mines scoring 410 in the communities of Makarov and Gornozavodskaya show multiple pollutant problems. Air quality and drinking

per year to significant pollution releases of 5,324.5 thousand metric tons per year. The largest pollution source is located in Ussuriysk, about 120 kilometers (74 miles) north of Vladivostok, but the source of the pollution was not indicated.

Primorye is also tracking pollution types using other databases and Geographical Information System (GIS) mapping. Significant violations of pollution limits (more than 100 times per year) occur in some agriculture zones of the region. Violations of permissible air quality standards are common in several urban areas. Nitrogen dioxide levels exceed permissible concentrations by more than double in the vicinity of Vladivostok,

Nitrogen dioxide levels exceed permissible concentrations by more than double in the vicinity of Vladivostok, Nakhodka, Artem, Ussuriysk, and Spassk-Dalniy.

water at these sites are potentially affected by class 4 contaminants.

Many of the sites submitted by Sakhalin do not list responsible parties or owners, nor do they indicate what type of site cleanup or remediation is in progress. Thirty four of the sites are listed as being in the coastal zone. The coastal zone in Russia refers to the area from 12 kilometers (7 miles) offshore to 10 kilometers (6 miles) onshore.

Primorye

The 393 sites in this region are all air quality sites, though there are several facility types. The ranking scores were all the same (57) for the Primorye sites because they all represent locations where air quality exceeds acceptable limits. Due to the death of the key staff person from Primorye working on this project, contaminated sites involving other pollution sources were not included in the database.

Each of the Primorye site records indicates a quantity of pollutant released "without cleaning" into the environment. Sites list total disposal of gases and liquids into the air. Quantities vary from relatively low amounts of 24.3 thousand metric tons

Nakhodka, Artem, Ussuriysk, and Spassk-Dalniy. Dust or particulate matter routinely exceed allowable limits in many areas, but in particular in Ussuriysk, Dalnegorsk, and Rudnaya Pristan.

Conclusion

Because of the differences in ranking scores and type of information provided between regions, it was not possible to directly compare scores between the regions. In general, regions with heavy industrialization and extensive military presence had higher scoring sites than rural, underdeveloped regions.

Clearly, many more sites and more significant sites exist. This project was only a beginning, and these results should not be viewed as a comprehensive inventory of sites and sources in the Russian Far East. At this time, Russian environmental professionals do not have complete access to information and the necessary authority to inventory some facilities. Radiation, toxic chemicals, and military bases are topics still

continued on next page

About Sources

American Russian Center offices in Khabarovsk, Magadan, Yakutsk and Yuzhno-Sakhalinsk provide information on the business climate in the Russian Far East. The American Russian Center is funded by a grant to the University of Alaska Anchorage from the U.S. Agency for International Development. The center's mission is to assist Russia in its transition to a market economy by providing comprehensive training in business operations. Contact the Anchorage office. Tel.: (907)786-4300. Fax: (907)786-4319.

Troika Alaska provides a weekly news report from its Khabarovsk and Yuzhno-Sakhalinsk offices. Troika is funded by a grant from the U.S. Department of Commerce and is a collaborative effort between the World Trade Center Alaska, the Alaska Division of Trade and Development, and the Municipality of Anchorage. Its mission is to increase U.S. exports to the Russian Far East and help U.S. firms establish a commercial presence there. Contact Kathy Beeck, program manager. Tel.: (907)278-7233. Fax: (907)278-2982. E-mail: 75362.1020@compuserve.com.

BISNIS, the Business Information Service for the Newly Independent States, provides reports from a variety of U.S. government sources, including BISNIS specialists, the American Embassy in Moscow, and the U.S. & Foreign Commercial Service in Vladivostok. BISNIS is a division of the U.S. Department of Commerce, International Trade Administration. Tanya Shuster is the BISNIS trade specialist who focuses on the Russian Far East. Tel.: (202)482-4655 ex. 23. Fax: (202)482-2293. E-mail: shuster@usita.gov.

World Trade Center Alaska (WTCAL) provides information on international trade through its weekly publication *Trade Winds*. WTCAL is a membership organization based at the University of Alaska Anchorage. Its mission is to promote Alaskan member companies in the international trade arena. Tel.: (907)278-7233. Fax: (907)278-2982.

Conferences, Trade Missions, & Shows

In the U.S.

Financial and Direct Investment Opportunities in Russia. January 9-12, 1997. Boston. Anatoly Chubais, President Yeltsin's chief of staff, will be a keynote speaker for this high-level conference organized by Harvard's John F. Kennedy School of Government. Contact: Jill Costello. Tel.: (617)787-6597. E-mail: jillc@world.std.com.

Pacific Rim Coal Conference. May 10-13, 1997. Anchorage. This twelfth annual conference will feature Alaska and the RFE. Contact: World Trade Center Alaska. Tel.: (907)278-7233.

To Russia

Trade Mission to Yuzhno-Sakhalinsk. February or March, 1997. Troika Alaska is organizing this trade mission which will include briefings and meetings with oil

consortium and Sakhalin administration officials. Tel.: (907)278-7233. E-mail: 75362.1020@compuserve.com.

In Russia

Moscow International Oil and Gas Exhibition MIOGE '97. April 7-10, 1997. Moscow. World Trade Center Alaska is organizing a delegation to this fourth annual exhibition. Contact: World Trade Center Alaska. Tel.: (907)278-7233.

Construction

See also Focus on Sakhalin

Firms seeking materials and/or partners

Construction Materials Co. is interested in purchasing on a regular basis

continued on next page

Rapid assessment, continued

highly sensitive in Russia. For example, Chukotka submitted the Bilibino Nuclear Plant as a site, noting polluted water from sewage treatment. It is known, however, that a minor radiation release occurred there in 1991 and between 4 and 30 "incidents" occurred there in 1993. Additional data are needed about Bilibino to clearly determine its risks to the people and environment in Chukotka and neighboring Alaska. As another example, the Environmental and Health Atlas of Russia indicates that a Kamchatka radiation burial site has pollution levels of 500-2200 curies per year activity, but it is not accounted for in this database.

An exchange with Sakhalin

ADEC is also working to provide additional training to Russian environmental specialists. Along with the State of Alaska Department of Commerce and Economic Development and the Alaska Support Industry Alliance, a private nonprofit membership organization, ADEC is conducting a two-phase environmental exchange program between Alaska and Sakhalin.

Phase one of the project was an eight-day intensive training seminar in Alaska in

September 1996 for ten Sakhalin representatives. The group viewed environmental protection technology and learned about oil spill cleanup techniques. The focus was on sustainable natural resource development technology, including oil and gas development technologies in the Arctic and subarctic, and the supporting infrastructure.

Part two will involve a demonstration project on Sakhalin that will focus on natural resource development, including spill response and pollution prevention, and the incident command structure.

The project aims to enhance the awareness and expertise of Russian environmental specialists in sustainable, environmentally-sensitive natural resource development technology while supporting the transfer of U.S. technology and techniques to Sakhalin. ■

Priscilla Wohl is a manager with the State of Alaska Department of Environmental Conservation (ADEC). The full report on the rapid assessment project is available for viewing by contacting her. She may be reached at: Tel.: (907)269-7591. Fax: (907)269-7600. E-mail: pwohl@envircon.state.ak.us.

decorative materials (ceramic tiles, wall paper, paint, etc.), as well as linoleum, carpeting, doors and interior materials. The company was established in 1992; is engaged in manufacturing timber products and furniture, and selling construction and decorative materials as well as other household goods; owns two retail stores and a manufacturing company; and has a monthly turnover of 300 million rubles. Contact: Viktor Dimoov, Director. Address: Russia; 680000 Khabarovsk; 28, Lenin St. Tel.: 7(4212)22-36-99 or 22-34-99. *Troika Alaska* (11-22-96).

Orient Express seeks to buy two 20-foot containers per month of drywall, paneling, roof and wall waterproofing sealant, suspended ceilings, and liquid wallpaper. The company prefers to work with manufacturers. Orient Express was established in 1990, has 60 employees, is involved in construction and retail trade, and has annual sales of more than \$1.5 million. Best way to respond is by fax or express mail. Contact (possible in English): Valeriy Guzanov, Director. Address: Russia; 680000 Khabarovsk; 27 Gogol St. Tel.: 7(4212)224-523. Fax: 7(4212)224-523 or 224-372. *BISNIS* (12-5-96).

Economy

See also Focus on Sakhalin

Consumer goods prices up

According to the Russian State Statistics Committee (RSSC), the price of consumer goods, nationally, increased by 1.2% in October. This is the highest rate of increase since June, and it considerably exceeds September's rate of .3%. Prices for food products increased by .4% and non-food products by 1.2%. The highest increase was in paid services at 3.9%. During the first ten months of this year, prices increased by 13% on food products, by 15% on non-food products and by 43% on services. According to the RSSC forecast, prices will increase by a total of 21% by the end of the year. *Priamursky News* (11-5-96) in *Troika Alaska* (11-8-96).

Komsomolsk-na-Amure pessimistic

According to a poll by the Far Eastern Center of Social-Psychological Surveys, residents of the city of Komsomolsk-na-

Amure are not particularly optimistic. Two percent of the 643 people interviewed consider themselves wealthy. Twenty-one percent considered themselves of average income, and the remaining 566 considered themselves to be poor. Sixty one percent do not trust the current president, 82% do not trust the Russian government, 82% do not trust the Khabarovsk Duma, and 59% do not trust the Khabarovsk governor. The mayor of Komsomolsk-na-Amure, however, is respected by 74%. Furthermore, only 6.6% believe the situation in Russia will improve during the next six months.

Priamursky News (11-4-96) in *Troika Alaska* (11-8-96).

Khabarovsk statistics

According to the Khabarovsk Territory Statistics Committee, during the first nine months of 1996, Khabarovsk Territory manufacturers produced 8649.4 billion rubles worth of goods, of which 81.2% is technical-industrial production and 18.8% is consumer goods. Energy, meat products, fat, cheese, eggs, and coal are produced in the territory and consumed locally. Oil processing companies produced 1,440,000 tonnes of various kinds of liquid fuel, which is 12.7% less than during the same period last year. *Pacific Star* (11-6-96) in *Troika Alaska* (11-22-96).

Consumer prices in Yakutsk

Following are prices in rubles for food and consumer goods in Yakutsk in early December. The ruble: 1 dollar exchange rate was approximately 5,500.

10 eggs	12,000
1 liter milk	5,800
1 loaf bread	5,800
1 kilo apples	17,000
1 kilo rice	7,900
1 kilo sugar	6,100
1 liter gasoline	3,600
.5 liter Stolichnaya vodka	21,000
1 pack cigarettes	7,500
1 Snickers bar	4,000
Total	90,700 (\$16.49)

Also note: in early January 1996, these items totaled 83,900-85,800 with an exchange rate of 4,600 (\$18.24-18.65); in early March they came to 75,613 with an exchange rate of 4,815 (\$15.70); and in early April they came to 79,150 with an exchange rate of 4,863 (\$16.28). *American Russian Center, Yakutsk.*

Khabarovsk salaries up

The average monthly salary (without payment for social needs) came to 1,173,500 rubles (\$217.31) in September. Compared to last year's salary in September, it increased by 12% in real figures. Following are average monthly salaries in September in various sectors in thousand rubles and in dollars. The approximate ruble: 1 dollar exchange rate in September was 5,400.

Sector	Average salary
Finance	2,440.3 (\$451.90)
Computers, information	1,479.4 (\$273.96)
Construction	1,477.3 (\$273.57)
Transportation	1,448.8 (\$268.30)
Communication	1,412.4 (\$261.56)
Supply of materials	1,322.2 (\$244.85)
Manufacturing	1,252.5 (\$231.95)
Agriculture	878.4 (\$162.67)
Trade	848.6 (\$157.15)
Health care	828.2 (\$153.37)
Education	716.2 (\$132.63)
Art & Culture	716.2 (\$132.63)

Pacific Star (11-8-96) by *American Russian Center, Khabarovsk.*

Environment

Nuclear waste plant delayed even longer

Installation of a liquid nuclear waste treatment plant on a barge near Vladivostok has been delayed until March 1997.

The Japanese government financed the project in order to present the vessel as a gift to Primorye and prevent Russia from dumping more nuclear waste in the Sea of Japan. McAmur Construction Services, a joint venture between McDermott and Amur Shipbuilding, built the ship at the MacAmur ship-yard in Komsomolsk-na-Amure. B&W Nuclear Environmental Services, an affiliate of McDermott, and Tomen won the \$25 million contract to build the liquid nuclear waste treatment plant that will be mounted on the vessel. The plant will process waste from Russian nuclear submarines located in Primorye.

From the outset the project has experienced delays, first in obtaining parts and now in obtaining government permits. Evgenii Stomatyuk, chairman of Primorye's

continued on next page

Environment, continued

Natural Resources Committee, notes that plans are for the barge to be sent to the Zvezda plant in Bolshoy Kamen, but that the Russian Ministry of the Defense Industry has not yet secured an agreement from the local government to place it within city limits. Even with this plant, Primorye lacks an adequate storage facility for solid nuclear waste and federal agencies are running late in making decisions about building such a facility. *Russian Far East News* (5-96 & 7-96) and *Economic Life of the RFE* (11-24 - 11-30-96).

Reindeer starving on Chukotka

About 700 reindeer already have starved to death on Chukotka Peninsula and another 150,000 are near starvation, said the region's civil defense chief, Yuri Zhulin. Rain and snowfall over the past two weeks have turned up to 70% of pastures into ice sheets. The number at risk is one-half of the local population's total stock. Helicopters and cross-country vehicles are combing the peninsula for green pastures. *Associated Press* (11-29-96).

Finance

Ruble still falling; to stay in corridor

On the following days, the ruble: 1 dollar exchange rate was:

November 8	5,460
November 15	5,478
November 22	5,486
November 26	5,497
December 2	5,500

Meanwhile, Sergey Dubinin, chairman of the Central Bank, announced that, on January 1, the trading corridor will be 5,500-6,100 rubles per dollar and that, by December 31, 1997, the range will be 5,750-6,350 rubles per dollar. *Capital Markets Report* (11-28-96).

Khabarovsk investment

According to the Khabarovsk Territory Statistics Committee, in the first nine months of 1996 investments in economic development and social infrastructure

totaled 1677.1 billion rubles (down 29% from this period last year). About 62% of the investment comes from the budgets of enterprises and organizations, while 30% comes from federal, regional and local government budgets. Investments to the agricultural complex decreased by 56% and totaled 43.9 billion rubles. *Pacific Star* (11-6-96) in *Troika Alaska* (11-15-96).

Fishing

Seafood freezers sought

Intertransit, Ltd. seeks to buy one or two autonomous, outdoor, semi-hermetic, self-contained, water-cooled freezers for seafood products. They must have a 2,000 kilogram capacity per every 4-hour shift, be able to accept 805mm by 260mm by 60mm trays, handle products weighing 10,000 kilograms every 24 hours, freeze products in 4 hours, and be 380-volt, 50 hz cycle, 3 phases. Intertransit is a trading company founded in 1995 by several fishing companies to distribute their seafood products. It employs nine people. Best way to respond is by fax. Contact (possible in English): Dmitry Chernyshev, Manager. Address: Russia; 690019 Vladivostok; 10/3 Uborevicha St. Tel.: 7(4232)260-713 or 269-737. Fax: 7(4232)220-391. *BISNIS* (11-22-96).

Sakhalin quota reduced

A. Medvedev, Sakhalin vice-governor and fisheries director, returned recently from Moscow with 1997 seafood harvest quotas which were generally reduced from last year. In total, the quota will be 425,341 tonnes of fish. Only the quota for pollock will exceed 328,000 tonnes. The quota for crab has been lowered, as has that for shrimp and herring. However, the quotas for halibut and cod have actually risen from last year. The quota must be divided amongst 170 fish enterprises. *Sovetsky Sakhalin* (11-14-96) in *Troika Alaska* (11-15-96).

Poaching a real problem

Poaching of fish and sea products off the RFE coast has reached epic proportions. Most of this catch is exported abroad. For example, according to Japanese statistics, in 1994, Russians sold 38,688 tonnes of crab to Japan and received \$510.973 million in return. According to Sakhalin Customs statistics for 1994, however, the RFE

exported only 7,285 tonnes of crab to Japan and received \$90.476 million in payment. According to 1995 Japanese statistics, the RFE sold 56,782.7 tonnes of crab and received \$622 million. Russian statistics, however, show the export of 7,316 tonnes of crab to Japan and the receipt of \$85.585 million (see following table).

	Japan stats.	Sakhalin stats.
1994 tonnes	38,688	7,285
\$ million	\$510.973	\$90.476
1995 tonnes	56,782.7	7,316
\$ million	\$622	\$85.585

The difference between legal and actual sales is significant. In fact, poaching in the RFE brings revenues roughly equal to the annual budget of the Sakhalin government. Aside from lost tax revenues, poaching is threatening the marine resources of the Sea of Okhotsk and throwing off attempts to regulate the harvest of marine products based on scientific data. *Sovetskiy Sakhalin* (11-19-96) in *Troika Alaska* (11-22-96).

Information Resources

See also Focus on Sakhalin

Alaska International Trade & Investment Directory

This directory is a cooperative effort between Alaska Center for International Business and Commercial Buyers Guide USA Inc. The Russian section is well developed. Contact: Eric Downey. Tel.: (907)786-4323. E-mail: anebd@uaa.alaska.edu.

Russian Customs

CIS Information Publishing has come out with two new products, *Russian Custom News*, an 8-page monthly newsletter; and *Russian Customs Tariffs Service*, a directory listing goods and current tariff rates, and commentary on the customs and tariff environments. The *Tariffs Service* also offers immediate updating by fax or e-mail of tariff changes. Tel.: +44-171-490-3774. E-mail: 101511.1665@compuserve.com.

RFE food certification report

BISNIS has prepared a comprehensive report on certification requirements for exporting processed foods to the RFE, including numerous contacts for officials in regions throughout the RFE. Tel.: (202)482-4655. E-mail: bisnis@usita.gov.

Access Russia

This latest catalog from Russian Information Services lists books, maps, videos and more about Russia and the CIS. Tel.: 1-800-639-4301.

International Update**People's Republic of China**

Chinese citizens deported. Russian officials moved 83 Chinese citizens from Chelyabinsk to Amur Province for further deportation. They were caught in various cities from the central part of Russia. Their visas expired a long time ago and some of them didn't have any documents at all. *Priamurskie News* (11-13-96) by *American Russian Center, Khabarovsk.*

United States

Khabarovsk group to perform in Denver. Jingle Bells, a children's song and dance troupe from Khabarovsk, will be in Denver January 5-18 to perform in public schools. Tom and Nancy McClanahan, former volunteers with Citizens Democracy Corps, are helping Jingle Bells organize a tour of the United States and are seeking donations to help cover the group's expenses. Contact: Nancy McClanahan, c/o McClanahan, Kirkpatrick and Bertrand, CPAs. Address: 950 South Cherry Street, Suite 1506, Denver, CO 80237. E-mail: TomNanMc@aol.com.

Mining**Beshenaya River bid**

The Primorye Geology Committee, for the third time, will open competitive bidding for a license to develop the gold placer deposit on the Beshenaya River. Deadline for applications is May 15, 1997. Payment for use of these natural resources has been reduced to 2% of the value of gold extracted in the first 3 years, and 3% thereafter. Contact: Committee on Geology and Natural Resource Use of Primorye [Komitet po geologii i ispolzovaniyu nedr Primorskogo kraya]. Address: Russia; 690600 Vladivostok; Okeanskiy pr., 31. Tel.: 7(4232)259-514. Fax: 7(4232)258-733. *Economic Life of the RFE* (11-24 - 11-30-96).

Magadan gold output down

Severovostokzoloto, a major Magadan gold producer, announced that its January-October gold output totaled 10,853 tonnes, down from 12,423 tonnes in the first ten months of 1995. Susuman mine produced 3,823 tonnes, Yagodnoye 3,064 tonnes, Berelekh 1,953 tonnes, and Matrosov 1,574 tonnes.

Although mines have shut down for the winter now, these output figures cannot be regarded as final because mining companies are holding back some of their output until the Russian government catches up in paying for it. Severovostokzoloto's annual target this year was 14.8 tonnes. Magadan Province as a whole had a 1996 extraction quota of 27 tonnes from the Committee for Precious Metals and Stones. The committee forecasts that Magadan will produce 22.3 tonnes this year, down from 28.2 tonnes in 1995. *Capital Markets Report* (11-21-96).

Black market gold

In 1995 police detained about 200 people who attempted to sell a total of about 425 pounds of black market gold in Magadan Province, a quantity equal to the annual output of a medium-size gold prospecting team. In 1996 the government recovered more than 220 pounds of gold.

One reason for the theft is that the government is not paying on time for gold it has purchased and gold miners' wages are delayed. The price of gold on the black market is about \$155 per ounce, about one half the amount the government pays. *Economic Life of the RFE* (11-24 - 11-30-96).

ARS violations

Investigations by the Russian government have revealed serious financial violations at Almazy-Rossii Sakha (ARS), the Sakha Republic diamond enterprise. A government report has shown that, in spite of reported revenues of \$1,380 million in 1995, the company has debts of \$565 million. The report alleges that ARS management diverted large amounts of money into costly and unprofitable projects since its establishment in 1992.

ARS is state-owned but largely controlled by regional authorities in the Sakha Republic. The Russian government wants key company officials fired. *Mining Journal* (11-8-96).

More coal strikes

Coal miners are striking across Russia, protesting that their wages have not been paid, some for months. The Russian government has conceded that it owes workers in all fields nearly \$9 billion in back pay and that the debt is growing by almost 20% a month. *New York Times* (12-7-96).

Coal output down

Primorskugol, the primary coal mining enterprise in Primorye, produced 7,408,090 tonnes of coal in the first nine months of 1996, 405,000 tonnes less than in the same period in 1995. Coal shortages over the past year and a half have resulted in serious problems for the territory's energy sector.

The company hopes to do better in 1997. A program it developed with Rosugol, the national coal-mining holding company, calls for coal mining enterprises in Primorye to produce 12.075 million tonnes of coal in 1997. Of that amount, 10.895 million tons are supposed to come from Primorskugol. The program also calls for closing 6 mines suffering high losses in Artem, and Partizanskiy, Otyabryskiy, and Shkotovskiy regions. Primorskugol also plans to develop in the first half of 1997 a feasibility study for developing small underground and open-pit mines at the Zharikovskiy, Cheremshovyy, Nekkovyy, Liaptinskiy, Dolina, and Yuzhnyy-3 sites.

In 1997 Rosugol will allocate 101 billion rubles from funds dedicated to support Russia's coal industry to Luchegorskugol, the main supplier of coal to the Luchegorsk electric power plant, for capital construction. The mine administration in the town of Tavranchanka will receive 28.25 billion rubles to begin operating the Nezhinskiy open-pit mine (300,000 tonnes capacity per year). *Economic Life of the RFE* (11-24 - 11-30-96).

Politics

See also Focus on Sakhalin

Amur election invalid

The Amur Province Court has declared results of the September 22 gubernatorial election invalid because of numerous violations at voting stations. A. Belonogov,

continued on next page

Politics, continued

former chairman of the Amur legislative assembly, had won the election by 189 votes with the support of local communists. Yuriy Lyashko, the former mayor of Blagoveshchensk and acting governor prior to the election, also protested the election. New elections will be held on March 23, 1997. Until then Lyashko will continue to act as governor. *Economic Life of the RFE* (11-24 - 11-30-96).

Koryak governor challenged

Incumbent governor Sergey Leushkin has challenged the election of Valentina Tadeeva Bronevich as governor of the Koryak Autonomous District on Kamchatka, arguing the election is invalid because it was conducted under presidential decree rather than local laws, and he called for President Yeltsin to impose a state of emergency because of energy shortages and wage arrears in the region. Bronevich beat Leushkin by 46% to 25% to become the first female governor in Russia. Aleksandr Veshnyakov, head of the Central Electoral Commission, said, however, that Leushkin's actions were illegal, stating that governors would not be allowed "to appoint themselves to second terms." *Economic Life of the RFE* (11-24 - 11-30-96).

Real Estate

Values up in Khabarovsk

Although housing values decreased in Khabarovsk in the first half of October, they were up again last week—the cost of 1 square meter of housing increased by .1%, to 1,917,000 rubles. Average prices on residential apartments are as follows:

- 1-room apartment downtown-76,737,000 rubles (about \$14,000); in a suburb-46,497,000 rubles (about \$8,500).
 - 2-room apartment downtown-118,803,000 rubles (about \$21,500); in a suburb-65,632,000 rubles (about \$12,000).
 - 3-room apartment downtown-180,467,000 rubles (about \$33,000); in a suburb-85,812,000 rubles (about \$15,500).
 - 4-room apartment downtown-225,703,000 rubles (about \$41,000); in a suburb-103,018,000 rubles (about \$19,000).
- Amursky News* (11-8-96) in *Troika Alaska* (11-15-96).

Focus on Sakhalin

See also Conferences, etc., Fishing and Sales Opportunities

CONSTRUCTION

Development projects

With bonus money received from the Sakhalin oil development projects, the Sakhalin administration has decided to invest in the following major construction projects:

- **Kuril Program.** The goal of this program is to build prefabricated housing for the population of the Kuril Islands. Some contracts regarding the program have already been signed with foreign companies.
- **Construction Program for the Neftegorsk People.** The goal of this program is to build 800 prefabricated houses with the help of a Canadian aid program. *Sakhalinskiy Neftyanik* (11-12-96) in *Troika Alaska* (11-22-96).

ECONOMY

Immigrants flowing in

According to a study by the Russian Immigration Service and the Organization of Domestic Affairs, a real flow of immigrants to Sakhalin from the former republics of the U.S.S.R. is occurring now. They believe immigrants from Azerbaijan and Armenia are largely criminal and contribute to crime problems in Yuzhno-Sakhalinsk. This fall a large number of gypsies from Moldova also relocated to Sakhalin. With the exception of immigrants from Belarus, with which Russia has a special agreement, immigrants are seen as "uninvited guests" who compete for jobs with the 13,000 officially-registered unemployed residents of Sakhalin and Kuril Islands. *Sovetsky Sakhalin* (11-14-96) in *Troika Alaska* (11-15-96).

Workers demanding paychecks

On November 5 on Sakhalin Island 30,000 workers from more than 42 enterprises, 24 marine vessels, and six sea ports gathered to protest 502 billion rubles in salary debts. During the two-hour Sakhalin-wide strike the government stated that it had located funds within its budget to pay off back salaries of workers owed by the government and local authorities. Mr. Zotov, chairman of the regional council of united trade

unions, is expected to meet with Sakhalin governor Farkhutdinov to draw up a schedule of payments. Farkhutdinov also announced that he would fly to Moscow on November 9 to meet with Vice President Viktor Chernomyrdin about paying off salary debts in accordance with the *Law of the Northern Territories* (a Russian federal subsidy program designed to help pay government workers' salaries in the Northern Territories). The Russian government is seen as trying to reduce its debt by transferring debt to regional budgets. Those hardest hit are teachers and medical and social workers. *Sovetsky Sakhalin* (11-6 & 11-8-96) in *Troika Alaska* (11-15-96).

Statistics on Sakhalin

Following are social and economic statistics for Sakhalin, January 1-September 30, 1996 (in billions of rubles):

	1996	% 1995
Gross output	6372.0	91.7
Gross indust. output	4379.8	93.7
Consumer goods prod.	1303.6	74.9
Capital investments	1067.4	78.9
Apartment construct.	30.3	49.6
Gross agricult. output	654.0	83.0
Freight transportation	4985.3	77.7
Retail trade	2479.5	75.3
Services	1005.0	101.1
Consumer price index	124.1	173.4
Indust. output cost index	108.6	168.1

Sovetsky Sakhalin (11-5-96) in *Troika Alaska* (11-8-96).

Statistics on Kholmsk

Following are economic statistics for Kholmsk compiled by the State Department of Statistics:

- There is one job opening now for every 9 unemployed people.
- Average salary in August 1996 was 1211 thousand rubles (\$231), 18.1% less than in July and 1.3 times more than in August 95.
- The difference between minimum and average salary is currently 16 times.
- Salary levels depend on industry sector. In education, workers receive 759 thousand rubles (\$144) or 62.7% of average salary level. Culture and art workers receive 658 thousand rubles (\$125) or 54.4 %. Public health workers receive 981 thousand rubles (\$187) or 81%. Bank and production workers receive higher salaries. *Kholmsk Panorama* (11-5-96) by American Russian Center, Yuzhno-Sakhalinsk.

Statistics on Nogliki

Following are statistics about Nogliki, one of the most important oil towns in northern Sakhalin, and the location where offshore oil and gas will come onshore. The town's population is about 12,000. The period is January 1-September 30, 1996 and all comparisons are to January 1-September 30, 1995, unless otherwise noted.

Overall industry

	Amount	Compared to Jan-Sep. 1995
Industrial output	371,315 million rubles	4.3% more
Oil	559,000 tonnes	3.3% more
Associate gas	121.6 million cub meter	2.8 times more
Natural gas	6.9 million cub meter	13.3% more
Fish	1,052 tonnes	19.4% of last year
Fish products	254 tonnes	36.8% of last year
Bread and bakery	111 tonnes	19.4% less
Local newspaper	226,100 copies	88.9% of last year
Consumer goods	1,880.5 million rubles	47.7 % of last year
Food products	1,752.5 million rubles	
Non-food products	128 million rubles	

Agriculture. There are 14 farmers working in the region. They have 479 acres of land allotted to them. Their production includes meat and poultry-48 tonnes, milk-236 tonnes, eggs-1,051,000, cattle-800 head, pigs-323 head, and poultry-13,000. The NYSH joint stock company produced milk-166 tonnes (20 tonnes less), meat-38.8 tonnes (2.5 tonnes less), cattle-584 head (77.8% of 1995), pigs-141 head (71.9% of 1995).

Capital construction

	Amount	Compared to Jan-Sep. 1995
Capital investments	91,843 million rubles	1.8 times more
industrial	89,778 million	1.9 times more
Living space built	1,668 square meters	
private living space	528 square meters	

Transportation

Type	Amount
Cargo (total)	48,300 tonnes
railway	21,200 tonnes
auto	27,000 tonnes
air	100 tonnes
Passenger (total)	155,000 people
railway	28,300 people
auto	120,000 people
air	6,700 people

Finances and credits

Regional budget	
expenses	46,940 million rubles
revenue	45,008 million rubles

Profits

industry & constr.	22,139 million rubles
oil industry	21,249 million rubles

Unprofitable companies

they lost	44.4%
	4,205 million rubles

Debts of industrial, construction & agricultural enterprises

Debts receivable	253,151 million rubles
more than 3 months	143,618 million rubles

Salary debts, by industry, as of September 23, 1996

Total	4,446 million rubles
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industry	1,980 million rubles
construction	1,263 million rubles
agriculture	370 million rubles
health care	451 million rubles
education	382 million rubles

Personal finance

Deposits of residents	12,224 million rubles
Average deposit	609,000 rubles

Salaries

Average in Aug.	1,578,000 rubles (\$300)
Russia average	831,044 rubles (\$158)
Sakhalin average	1,445,374 rubles (\$275)

Pensions

# people on, 10-2-96	2,768
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Disease. The number of cases of dysentery, scabies, worms, etc. significantly decreased. However, the number of diseases such as tuberculosis (5 cases—3 last year), hepatitis (121 cases—17 last year), syphilis (33 cases—9 last year), influenza (3.7 times more) and several others increased.

Crime. During this period, 573 felonies were registered (503 last year). They include 5 murders and attempts, 5 assaults, 4 rapes and attempts, 32 burglaries, 209 thefts, and 65 misdemeanors.

Employment. In late August 6,229 people were working and 854 were unemployed.

Demographics

	#	# in period 1995
Births	131	146
Deaths	133	159
Out-migration	450	826
In-migration	370	353
Marriages	65	84
Divorces	56	82

Znamia Truda (11-2-96) by American Russian Center, Yuzhno-Sakhalinsk.

INFORMATION RESOURCES

Sakhalin Oil & Gas Report

Troika Alaska has begun publishing *Sakhalin Oil & Gas Report*, a no-frills, one-page information brief distributed weekly via e-mail. Tel.: (907)278-7233. E-mail: 75362.1020@compuserve.com.

INFRASTRUCTURE PROBLEMS

Planned power outages

Because of a lack of fuel at the Sakhalin Power Plant, planned power outages have been implemented nightly on Sakhalin from 6:00 pm to 10:30 pm to reduce energy usage. The plan is scheduled to operate until November 15, however, Mr. N. Kon, senior engineer of the power station, believes the "power limitation" plan may continue indefinitely, or at least until the fuel delivery and bill payments problems can be solved. The Sakhalin ferry system currently cannot handle the volume of coal needed from the mainland. And, according to statistics, debts of Sakhalin companies

continued on next page

Focus on Sakhalin, continued

The power station total 167.6 billion rubles. Federal and local government budgets are responsible for 70% of the debt. Constant non-payment affects not only coal delivery, but also the power station's ability to purchase spare parts for its equipment. *Svobodny Sakhalin* (11-14-96) in *Troika Alaska* (11-15-96).

Water problems

This winter Sakhalin residents will have water in their apartments only at certain hours, claims Natalia Legeida, head of the State Sanitary Service Communal Hygiene Department. Last winter there were times when Yuzhno-Sakhalinsk residents had water for only two hours a day. The problem is a water-supply shortage for the southern part of the city.

For several years the department has tried to convince the local government to use the water tank that belongs to the Construction Bureau and is located on Gorky Street. The authorities and designers think, however, that the problem could be solved by developing a roadside water intake plant in the southwestern part of the city. The Sanitary Inspection, though, argues the plant will not be able to supply the whole city. While the arguments are going on, the situation is growing worse.

Water and power shortages can cause hepatitis and acute intestinal diseases. Last year there were several cases of these diseases already, and there was a hepatitis epidemic in Lugovoe settlement.

However, water shortages are not the only reason for intestinal diseases, say local doctors. Water-supply pipelines and sewer systems are damaged and the Pipeline and Sewerage Service lacks money for repairs. For instance, out of 7,000 meters of water pipeline which need to be replaced, only 96 were fixed. According to Natalia Legeida, water disinfection is done regularly and the bacterial count is lower now, but some chemical pollution remains.

It is evident even for a common consumer that the water Sakhalin residents use in their apartments is turbid. Seventy percent of water samples taken in various places in the city did not meet GOST (State Standards) standards for turbidity, color and smell.

According to Legeida, about half of all sewer water is now thrown into reservoirs without proper disposal. Disposal units have the capacity to process 41,000 cubic meters every 24 hours, and the city throws in over 70,000 cubic meters every 24 hours. Officials from the Sanitary Inspection believe that all construction in the city should be terminated in order not to worsen the water-supply even more. *Svobodny Sakhalin* (11-15-96) by *American Russian Center, Yuzhno-Sakhalinsk*.

THE OIL AND GAS PROJECTS

Sakhalin III moving forward

Mr. Arsenev, director of the Sakhalin Administration Shelf and Natural Resources Department, announced that draft legislation which includes a list of oil fields to be approved for development by the Sakhalin III tender has been prepared and presented to the Russian government for approval.

A previous draft was rejected by the Russian Duma earlier this year. The deputies of the State Duma who helped prepare this legislation expressed uncertainty as to whether the proposal would pass immediately. If it does, a committee appointed by Prime Minister Viktor Chernomyrdin will begin evaluating the potential value of the fields.

Although this is just one piece of legislation needed to begin Sakhalin III, it is seen as a positive step in moving the project to an active phase.

In Sakhalin III, Exxon Neftegas Ltd. has a 100% interest in the Ayashskiy and East Odoptinskiy blocks, while Mobil-Texaco have rights to the Kirinskiy block. *Svobodny Sakhalin* (11-1-96) in *Troika Alaska* (11-8-96).

Sakhalin I happy with progress

In a press conference November 21 in Yuzhno-Sakhalinsk, Sakhalin I consortium members expressed their satisfaction with the 1996 season. Consortium members include Exxon Neftegas Ltd. (the operator), SODECO, Rosneft-Sakhalin, and Sakhalinmorneftegas-Shelf. The offshore fields are Odoptu, Chayvo and Arkutun-Dagi.

Terry Koonce, chairman of Exxon Neftegas Ltd., noted that, during this first season of field work, the project estimated

and evaluated Arkutun-Dagi reserves through 3D seismic testing, and it drilled the first test well there to a depth of 2,500 meters (8,200 feet), the first well drilled under a production-sharing agreement in Russia. During the 1997 season, the project will drill three more wells in Arkutun-Dagi. The jack-up rig *Okha*, which belongs to Rosneft-Sakhalinmorneftegas, will drill two of the wells. Also in 1997 the project will do 3D seismic testing in Chayvo and it is considering putting in a 40-slot, ice-resistant platform in about 45 meters (150 feet) of water to develop oil reserves in the central part of Arkutun-Dagi.

The consortium spent \$30 million on exploration in 1996 and a large majority of the expenditures went to Russian organizations, including joint ventures. It expects first production oil to flow in 2000. *Exxon press release*.

RFE company gets contract

Khabeco-Partner, a leading RFE computer company, will create and install a corporate network information system for Rosneft-Sakhalinmorneftegas, the largest Russian oil and gas company on Sakhalin Island. Sakhinfo and Interface, two other RFE companies, will also contribute to the project. The three beat out a number of prominent Russian and foreign computer companies in the tender. *Pacific Star* (11-15-96) by *American Russian Center, Khabarovsk*.

Amur plant to build rig

The Amur Shipbuilding plant in Komsomolsk-na-Amure has signed a \$35 million contract to build a substructure for an offshore platform for Sakhalin Energy Investment Co. Ltd., Sakhalin II project. The platform will be installed in the Piltun-Astokh field. According to Sakhalin Energy, the contract will create 2,000 jobs at the Amur plant. *Capital Markets Report* (11-28-96).

POLITICS

New officials

On November 5, the second-elected Sakhalin Duma held its first meeting at which it elected Mr. Tretjak as chairman and Mrs. Shubina as first deputy.

On November 7, the Sakhalin Duma selected two additional people as deputies to the chairman. Mr. Rukavyets will be in charge of internal Duma affairs and Mr. Ponamarev will be in charge of legislation and control. The deputies also elected committees on ethics, economy and budget, legislation, local self-government, social protection and health, ecology and natural reserves, science, and culture and youth.

In the executive branch of the regional government, Mr. Malakov, chief regional designer and planner, will serve as first vice governor under re-elected Governor Farkhutdinov. *Molodaya Gvardiya* (11-6-96) and *Sovetsky Sakhalin* (11-8-96) in *Troika Alaska* (11-8 & 11-15-96).

Sales Opportunities

See also Construction and Fishing

Khabarovsk

Anna is interested in finding a partner from whom to buy a mixed container of various canned food products. The company was established in 1991, deals in retail and wholesale trade, has experience trading with the Netherlands and Japan, has 110 employees, and has 40 kiosks and a warehouse. Contact: Evgeny Zoria. Address: Russia; 680000 Khabarovsk; 70, Nekrasov St. Tel.: 7(4212)34-27-15. Fax: 7(4212)34-27-15. *Troika Alaska* (11-15-96).

Edem, Ltd. seeks to buy 2,500-3,000 fresh-cut roses, 3,000-5,000 fresh-cut carnations, and 1,500-2,500 fresh-cut chrysanthemums per week, shipped by air freight to Khabarovsk. Edem is a wholesale/retail trader established in 1994, has 5 employees and has annual sales of more than \$400,000. Best way to respond is by fax, e-mail, or express mail. Contact (in Russian): Andrei Borisenko, Director. Address: Russia; 680020 Khabarovsk; 8/4 Zaparin St. Tel./fax: 7(4212)394-522. E-mail: flower@boris.khv.ru. *BISNIS* (12-5-96).

Ekolog Trading Company seeks to buy one set of food processing equipment for producing sugar substitutes (weekly capacity of one metric ton); and one 20-foot container of assorted low-fat processed diabetic foods with sugar substitutes. The

company seeks a long-term supplier of food products for diabetics and it needs one container per month. Ekolog has received an order for sugar substitutes from the Khabarovsk Diabetic Society, which represents more than 25,000 potential consumers of sugar substitute, and for regular purchases of processed food products for diabetics. Ekolog prefers to hear from manufacturers only. It is a wholesale/retail state trading company established in 1991, has 82 employees, has annual sales of more than \$1 million, and has international trading experience. Best way to respond is by fax or express mail. Contact (possible in English): Svetlana Lavrova, Director. Address: Russia; 680000 Khabarovsk; 72 Frunze St. Tel.: 7(4212)33-52-93. Fax: 7(4212)22-74-39, 33-29-71 or 33-75-42. *BISNIS* (12-6-96).

Vladivostok

Metchnikoff, Ltd. seeks to buy immunoassay equipment and to find long-term suppliers of medical equipment and supplies. The company is a medical firm founded in 1991 to provide services for residents of Primorye. It specializes in oncology diagnosis and treatment, has more than 40 employees, and has annual sales of more than \$150,000. Best way to respond is by fax. Contact (possible in English): Valery N. Bagryantsev, President. Address: Russia; Vladivostok; 1 Selskaya St. Tel.: 7(4232)294-317 or 276-373. Fax: 7(4232)271-731. *U.S. & Foreign Commercial Service*, by *BISNIS* (11-19-96).

Astra seeks to buy 100 portable equipment units for preparing fast foods (i.e., for use by street vendors). The company is a RFE representative of the Siberian Gold Association, which distributes mining machinery and other equipment throughout the region. It was established in 1988, has 8 employees, and has annual sales of \$8 million. Best way to respond is by fax. Contact (possible in English): Alexander Drovorub, Chairman. Address: Russia; 690090 Vladivostok; 26 Semyonovskaya St. Tel.: 7(4232)265-826. Fax: 7(4232)311-809. *BISNIS* (11-20-96).

The Primorsky Fund for the Disabled seeks to buy \$10,000 worth of household water purifiers for use in filtering residential tap water to remove metals and chemicals and improve taste. They should be counter-top or under-counter models, 20-40 centimeters high and with a diameter of 7-15 centimeters. The fund is a charitable

organization which undertakes commercial projects to support people with physical disabilities, and it has some tax privileges. It was established in 1994 and has 10 employees. Best way to respond is by fax. Contact (possible in English): Sergei Popov, Chairman. Address: Russia; 690001 Vladivostok; 4 Petra Velikogo St., Office 34; Tel./fax: 7(4232)268-000 or 220-515. *BISNIS* (11-21-96).

Masst Company seeks to buy three or four 20-foot containers per month of confectionery goods, processed meat products, processed cheeses, and vegetable oils. The company is a wholesale distributor of food products imported from the U.S. and the Philippines, was established in 1990, has 24 employees, and has annual sale of more than \$4.5 million. Best way to respond is by fax. Contact (possible in English): Tatyana Kraineva, Commercial Director. Address: Russia; 690016 Vladivostok; 2 Raskovoy St., Office 82. Tel./fax: 7(4232)230-882 or 279-546. *BISNIS* (11-19-96).

Svetinform seeks to buy one production line of printing equipment for high-quality publishing, by April 1997. Payment by letter of credit is preferred. The company is an advertising firm established in 1991, has 10 employees, and has annual sales of \$400,000. It has provided outdoor advertising services, including illuminated media boards, in Vladivostok since 1992. Best way to respond is by fax. Contact (possible in English): Vadim Volkov, Manager. Address: Russia; 690091 Vladivostok; 23 Aleutskaya St., Office 10; Tel./fax: 7(4232)266-219 or 266-265. *BISNIS* (11-26-96).

Yuzhno-Sakhalinsk

Fast-Invest, Ltd. would like to purchase approximately 2,000 tonnes yearly of meat products, fruits and grains. The company would eventually like to establish a credit relationship with a U.S. supplier. Fast-Invest is a wholesale trade company with trade experience with Chinese, Japanese and Korean firms. It was established in 1995, has 15 employees, and has annual sales of \$1 million. Contact (possible in English): Mr. Ko Si Khva. Address: Russia; Yuzhno-Sakhalinsk; Komsomolskaya St. 241-A. Tel.: 7(42422)5-64-31, or 5-04-59. Fax: 7(42422)5-64-31. *Troika Alaska* (11-22-96).

Trade

Balance of trade up for Khabarovsk

During the first half of 1996, Khabarovsk Territory's foreign trade turnover increased by 2.5% over the first half of last year. Exports increased by 9% and imports decreased by 15%. In 1996 as well as in 1995, the leading exports were timber (24.9%), services (9.6%), oil products (2.5%), and ferrous metals (2.1%). The biggest exporters are Dalles, Khabarovsk Aviation troop, Solnechniy Mining Complex, and Khabarovsk Oil Refinery Plant. The main importers of Khabarovsk products are China, Japan, Republic of Korea, and Singapore. *Priamursky News* (11-8-96) in *Troika Alaska* (11-15-96).

Transportation & Shipping

Cargo transportation down

According to the Khabarovsk Territory Statistics Committee, the volume of cargo transportation during the first nine months of this year was 25% less than in this period last year. The decrease in rail transportation volume was as follows: cement-41%, grain-36%, oil products-2%, timber-12%, and coal-6%. Motor transport enterprises and

individuals engaged in commercial cargo transportation delivered 4,848.3 thousand tonnes of cargo, which is 36% less than during this period last year. Vanino and Nikolaevsk-na-Amure marine ports handled 3,382.1 thousand tonnes of cargo, a 20% decrease over this period last year, including exported cargo-1,683.6 thousand, and imported cargo-323.7 thousand tonnes. The volume of air transportation was down by 41% and totaled 7.2 thousand tonnes. *Pacific Star* (11-6-96) in *Troika Alaska* (11-15-96).

Working with foreign companies

Approximately 30 vessels of the Amursky Steam Shipping Co. (ASSC) are continuing to operate on routes which connect southern ports of Primorye with Japan, the Republic of Korea, and China. During this year alone, vessels operating on foreign routes transported over 1.1 million tonnes of a variety of cargo. Foreign companies are the main freighters of Amursky vessels because it is easier to get payment from them. A large group of dry-cargo carriers is operating for Linkwest, Ltd., a South Korean company. The vessel *Professor Kerich* transports coal from the port of Vostochny to the Japanese port of Ominato. Several ASSC vessels are also operating in Vanino and Sovgavan ports carrying timber and metal to Japan and Korea. *Priamursky News* (11-19-96) in *Troika Alaska* (11-22-96).

Travel & Tourism

Company seeks partner

AnTur, an eco- and adventure tourism company located on the Lutdoga River in southern Sakhalin, is looking for a partner to help it expand its operation. AnTur offers skiing, parasailing, hunting, fishing, rafting, wildlife-viewing, and cultural programs, and it is interested in increasing its international clientele, marketing family programs, and in marketing adventure travel in the U.S. to Russians through a partner company. AnTur was established in 1995 and has 5 employees plus contract employees when needed. Contact (in Russian): Gennady A. Krasovsky, General Director. Address: Russia; Sakhalin; 694030 Aniva; 6, Lenin St. Tel.: 7(42422)5-11-60 or 5-23-58. Fax (Troika Alaska): 7-509-95-1509. *Troika Alaska* (11-15-96).

Another plane crash

An Ilyushin-76 military cargo plane slammed into a snow-covered mountain and exploded after taking off November 27 from Abakan, in central Siberia. All 23 people on board were killed. A top Russian airforce official speculated that the crash may have been caused by overloading. The plane was carrying commercial cargo, one way the military pays for crew training. *Associated Press* (11-28 & 11-29-96).

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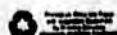
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Service to the
Russian Far East

Russian Far East News

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IN THIS ISSUE

Development Plan	1
From the Editor	2
About Sources	3
Career Opportunities	4
Communications	4
Conferences, etc.	4
Economy	5
Energy	5
Environment	6
Finance	6
Information Resources	6
International Update	7
Mining	7
Politics	8
Russian Legislation	9
Focus on Sakhalin	9
Sales Opportunities	10
Timber	10
Travel	11
Map of the Region	insert

New economic development master plan for the Far East

Doug Barry

Central planners have given residents of the Russian Far East a New Year's present: a master plan for economic development through the year 2005. Actually, the plan was announced on the eve of the Russian general election last year, and it's possible that the timing was no accident. President Boris Yeltsin received a majority of votes from the region. Unlike his opponents, he at least had a plan for the Far East.

The plan, written by the Council for Location of Productive Forces and Economic Cooperation, aims to deal with the current economic crisis in the region, then work on infrastructure improvements that will sustain growth into the next century.

In an English-language version which appeared in the October 1996 report of the local Japanese-government supported Economic Research Institute for Northeast Asia, the plan catalogs the region's numerous problems and unrealized potential. The problems include: a withering of central government subsidies and investments; increased transportation and energy costs; big cuts in military procurement which have devastated the main industrial base of the Far East; fracturing of Soviet era trade links with the central and western parts of Russia; and plummeting output of natural resource-based industries.

Social woes

The economic woes have created social welfare problems. Due to the high cost of living and other factors, Russian Far East residents' disposable incomes have fallen below the Russian average. Existing housing is in a mostly deplorable state. Unemployment is

growing and people, among them some of the most capable workers, are leaving. The total population of the Russian Far East and Trans-Baikal region is now 9.9 million, down 500,000 since 1989.

... the authors of the new plan ... hope to focus on fewer goals and to spend more money.

Acknowledging the failures of previous grand schemes of central government design, including one called the *Program of the Russian Far East*, which disappeared with the collapse of the Soviet Union, the authors of the new plan, among them Alexander Granberg—academician, Yeltsin economic advisor, and a former visiting professor at the University of Alaska Anchorage—hope to focus on fewer goals and to spend more money. The new plan will also have two additional features: frequent rejiggering of program goals ("the principle of 'sliding' realization"); and a greater effort to integrate the economy of the Russian Far East with those of Japan, South Korea, and China.

Opportunities for foreign suppliers

The plan has a number of specific goals. One is to overcome fuel shortages by increasing local coal production. Second, enterprises

continued on next page



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Please note: Russian words for administrative units are translated as: krai-territory; oblast-province; okrug-district. Adjectival endings (ii in Khabarovskii, aya in Khabarovskaya, etc.) have been eliminated, except for addresses.

We welcome articles and letters from our readers. We reserve the right to edit submissions. Please include a telephone number and a short biographical note.

From the editor

This month's biggest news is Russia's oil spill off the coast of Japan (see *Environment*). The Japanese are already unhappy about Russia dumping liquid nuclear waste in the Sea of Japan. Now they have the second-largest oil spill in their nation's history to contend with. Besides being a foreign relations nightmare for Russia, the spill means even worse energy shortages in the Russian Far East. One possible silver lining in this cloud is that Russia might move a bit faster to approve Sakhalin oil and gas development plans and production-sharing agreements. The tanker that broke apart in rough seas was carrying fuel oil from Shanghai, China, according to the Associated Press. If that fuel oil was available locally, there would be no need to be transporting it from Shanghai.

Another possible scenario, though, is that the Russian government approvals process will slow considerably, as officials check whether

tankers that will transport oil and liquefied natural gas from Sakhalin to export markets are sea-worthy.

In any case, relations with Japan, already strained over ownership of the Kurils Islands, may take a turn for the worse. With the nuclear waste dumping problem, Japan responded by funding a nuclear waste processing facility in Primorye. Will they respond now with funds to increase the sea-worthiness of Russian tankers, if a lack of sea-worthiness was the problem in this case? Somehow, after seeing photographs of Japanese workers thigh-deep in sludge, it's hard to imagine. We may, instead, see Japan spending considerable funds on oil-spill clean-up materials and technologies. ☐

Anne Sudkamp

New economic development master plan, cont.

supplying power will get tax breaks and local governments will get more subsidies to help lower costs to consumers. Third, deeper cuts in transportation costs to and from the Far East will be proposed, and the government may encourage more food imports from neighboring countries as one way of putting cheaper, higher quality food in the marketplace. These bits of the plan—more help generating fuel supplies and imported food—may create more business opportunities for U.S. suppliers in Alaska and Washington.

Another area in the plan for possible increased foreign participation is in seafood, mining, and timber. The plan boldly calls for the expeditious removal of many barriers to offering up more natural resources for sale in Russia and to countries in the Asia Pacific region. On offer will be the following: development of oil and gas fields in Sakhalin and Sakha; diamond deposits in Sakha; gold in Kamchatka; tin in Khabarovsk and Primorye; timber in Khabarovsk; seafood in the eastern seas; and tourism in Kamchatka.

Foreign investment is to be enthusiastically courted and barriers to foreign participation removed, including onerous permitting,

licensing, and import/export tariffs. In addition, cash handouts and cheap credits may be available to local enterprises for purchasing foreign equipment and technology.

Billions needed

Foreign investment in a country without much so far is seen as key because the plan has the Russian federal government ponying up only 49% (a Russian-language version of the plan put the government's share at 90%) of the estimated \$82 billion needed to reverse the Far East's present fortunes (see tables on page 3).

What is the likelihood that the plan will get off the ground and what do residents of the Far East think of it? At first blush, the plan resembles the grand state plans of the old Soviet system. A major difference may be that central planners have perhaps made a greater effort to include local government officials in the process and seem sincere about making the Far East more autonomous.

The plan as published in the Japanese and local Russian press, however, seems remarkably free of specifics, cannily suggesting in language sure to be included in future parodies of government bureaucrats that results are

continued on next page

New economic development master plan, continued

Master plan financing (by %)

Source	1996	1997	1996-2005
Federal budget of Russia	20.7	36.0	23.0
Federal target programs	29.9	22.0	26.0
Federal highway fund	5.3	3.0	4.0
Other federal sources	14.7	13.0	13.0
Local sources	9.3	5.0	8.0
Investor's money	20.1	17.0	20.0
Program implementation fund	-	4.0	5.0

Money needed for plan (in billion 1995 rubles)

1995	8,995.6
1996-1997	75,942.4
1998-2000	144,998.9
2001-2005	150,470.8
1996-2005	371,411.6

Money needed for plan, 1997 (in billion 1995 rubles)

Total	40,974.5
Federal budget financed	23,828.9

Source: Alexander N. Pilyasov

subject to the "principle of sliding realization." This caveat suggests that if goals prove to be pie in the sky, the door is left open to blame others or to claim symbolic successes.

As a practical matter, it is unclear how the central government will raise its share of the funds required, and centrifugal forces at work within individual ministries overseeing various kinds of development projects and between and among central and regional government authorities could turn implementation into a nightmare. Critics of the plan point to the Nakhodka Free Economic Trade Zone, which they say has been a big disappointment because of meddling from Moscow.

"Cynical sand castle"

One Magadan economist pronounced the plan *deja vu* all over again, and called it a "cynical sand castle guaranteed to disappoint the long-suffering residents of the Far East." Still, a grand state plan may be better than no plan at all. And the plan's call for creation of a development bank in the Far East to be run like a business suggests that at least some of the grand planners have looked outside Russia for some potentially-useful models. Also, the planners are shopping their schemes for the Far East to government and business leaders in Asia, particularly Japan, which is anxious to get the Kuril Islands back and may be ready to strengthen its bargaining position by dangling some serious money for Russian Far East development. It may be no coincidence that a draft of the plan was reportedly shared with an audience in Northern Japan before it was circulated in Russia.

Building better castles

The cynics might also admit that they're living in a different country now, one that this year will be in a better position to fund sand as well as other kinds of castles. For one thing, some western economists predict that Russia will reverse years of economic decline, and GNP will grow 3% in 1997. ☐

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About Sources

American Russian Center offices in Khabarovsk, Magadan, Yakutsk and Yuzhno-Sakhalinsk provide weekly information on the business climate in the Russian Far East. The American Russian Center is funded by a grant to the University of Alaska Anchorage from the U.S. Agency for International Development. The center's mission is to assist Russia in its transition to a market economy by providing comprehensive training in business operations. Contact the Anchorage office. Tel.: (907)786-4300. Fax: (907)786-4319.

BISNIS, the Business Information Service for the Newly Independent States, provides reports from a variety of U.S. government sources, including BISNIS specialists, the American Embassy in Moscow, and the U.S. & Foreign Commercial Service in Vladivostok. BISNIS is a division of the U.S. Department of Commerce, International Trade Administration. Tanya Shuster is the BISNIS trade specialist who focuses on the Russian Far East. Tel.: (202)482-4655 ex. 23. Fax: (202)482-2293. E-mail: shuster@usita.gov.

World Trade Center Alaska (WTCAL) provides information on international trade through its weekly publication *Trade Winds*. WTCAL is a membership organization based at the University of Alaska Anchorage. Its mission is to promote Alaskan member companies in the international trade arena. Tel.: (907)278-7233. Fax: (907)278-2982.

Troika Alaska is a program of the World Trade Center Alaska that operates offices in the RFE in Khabarovsk and Yuzhno-Sakhalinsk. The Yuzhno-Sakhalinsk office publishes the *Sakhalin Oil & Gas Report*, a weekly information brief on the status of the oil & gas development projects on Sakhalin Island. Troika Alaska also leads trade missions to the RFE and provides representative office services for companies interested in establishing a presence there. Contact Kathy Beeck, program manager. Tel.: (907)278-7233. Fax: (907)278-2982. E-mail: 75362.1020@compuserve.com.

Career Opportunities

Vostokles seeks manager

Vostokles, a Russian joint-stock company owned principally in Homer, AK, seeks a business manager to be stationed in Khabarovsk. Vostokles manufactures wood products for export to Pacific Rim countries. Manager must be fluent in Russian and English and must have demonstrated experience in business management. Tel.: (907)235-8141. Fax: (907)235-8590. E-mail: vostokls@ptialaska.net.

Communications

Khabarovsk exhibition

On December 15 an annual exhibition on telecommunications opened in Khabarovsk. One of the companies that is participating in the exhibition is Daltelecom International, a Russian-American joint venture. It is the only company in Khabarovsk that provides cellular communication. At the moment, about 500 people have cellular phones. *Pacific Star* (12-17-96) by American Russian Center, Khabarovsk.

Cellular service in Primorye

Cellular telephone service is now available in several cities in the RFE, including Vladivostok, Khabarovsk, Yuzhno-Sakhalinsk, and Petropavlovsk-Kamchatskiy. In Primorye there are currently two operational cellular systems, Primtelefon and AKOS. Another one, NTK, is in the works.

Primtelefon is a joint venture between CommStruct International, a subsidiary of Global TeleSystems Group of the U.S., and Electrosvyaz of Primorye. It holds the NMT 450 license, covers Vladivostok, Artem, and Nakhodka, and has acquired 2,000-2,500 subscribers since it went into service in late 1995. Initial cost of service ranges from \$1,500 to \$3,000. The company has the advantage of effectively unlimited growth thanks to ease of interconnect resulting from Electrosvyaz's participation.

AKOS is two-thirds owned by Russian Telecommunications Development Corp., primarily owned by US West; the remainder is owned by local investors. It operates a Hughes ETDMA digital system on the GPS 800 standard, has been in service since early 1995, and has a similar number

of subscribers as Primtelefon. AKOS, however, is constrained by interconnect considerations—not all of its subscribers can be provided access to the city telephone network and the quality of the interconnect is relatively low. The problem has plagued the company for some time.

In 1993 the right to a GSM 900 license was awarded to United Telecom, a joint venture between US West and Rostelekom, but it did not implement the system. The license was rescinded in 1995 and awarded to New Telephone Co. (NTK). Shareholders of NTK include a Singapore-based holding company (49%) and ACFES of Vladivostok. NTK is a 22% shareholder of Electrosvyaz.

NTK has been a player in the Primorye telecommunications market since at least 1993, when it received from Electrosvyaz the right to provide local wireline service in districts of Vladivostok. The company installed a switch from South Korea two years ago and currently provides wireline service to 20,000 customers. NTK is planning to provide GSM 900 cellular service in 1997. *BISNIS* (12-19-96).

Conferences, Trade Missions, & Shows

In the U.S.

Construction, Oil and Mining Exposition (PAC COM Expo). February 11-12. Sullivan Arena, Anchorage. Russian representatives including Sakhalin Governor Igor Farkhutdinov and Sakhalinmorneftegas Deputy Director Sergei Zyemiliyuk will participate in round-table discussions with Alaskan businesses. Contact: Sourdough Productions. Tel.: (907)277-7469. Fax: (907)272-7372. E-mail: sourdo@alaska.net.

Pacific Rim Coal Conference. May 10-13. Anchorage. This twelfth annual conference will feature Alaska and the RFE. Contact: World Trade Center Alaska. Tel.: (907)278-7233.

To Russia

Trade Mission to Yuzhno-Sakhalinsk. Tentatively February 23. Troika Alaska is organizing this trade mission which will include briefings and meetings with oil consortium and Sakhalin administration officials. Tel.: (907)278-7233. E-mail: 75362.1020@compuserve.com.

State of AK Trade Mission to Yuzhno-Sakhalinsk. Tentatively in March. Governor Tony Knowles will lead this mission open to Alaskan companies. Tel.: (907)465-3500.

In Russia

Please note: most contact information is given at the end of this list.

Computer-Soft '97. February 3-10. Khabarovsk. Computer hardware and software; office equipment. Organizer: FEITC.

Architecture, Construction & Design '97. March 24-31. Khabarovsk. Building products, equipment and services. Organizer: FEITC.

Moscow International Oil and Gas Exhibition MIOGE '97. April 7-10. Moscow. World Trade Center Alaska is organizing a delegation to this fourth annual exhibition. Contact: World Trade Center Alaska. Tel.: (907)278-7233.

Dallesexpo '97. April 21-28. Khabarovsk. Timber and wood products and processing equipment. Organizer: FEITC.

Fair organizers

FEITC (Far Eastern International Trade Center). Contact: Evgeniy V. Panasenkov, President. Address: Russia; 680038 Khabarovsk; 60 Seryshev St., Office 101. Tel.: 7(4212)343-967. Fax: 7(4212)332-999 (ask operator for #403096).

In other countries

Financing Mining Projects in the Emerging Markets. February 24-25. London. Euromoney Seminars and Interfax News Agency will sponsor this conference which will include presentations on Russia, Uzbekistan, Poland, and other emerging market countries. Tel.: 44-171-779-8793. Fax: 44-171-779-8795. E-mail: emp.seminars@dial.pipex.com.

Oil & Gas Pipelines in the Former Soviet Union. February 26-27. Vienna. Organized by the Adam Smith Institute. Contact (in London): Ailsa McNeal. Tel.: 44-171-490-3774. Fax: 44-171-490-2362.

Fourth North Pacific Rim Fisheries Conference. April 22-24. Tokyo. The Alaska Center for International Business, University of Alaska, Anchorage, the Ministry of Foreign Affairs of Japan, Ministry of Agriculture, Forestry and Fisheries of Japan and the Japan Fisheries Assn. will sponsor this conference which serves as a focus for government managers and industry representatives to discuss

management and marketing developments in the North Pacific. Contact: Shawneen Conover at the Alaska Center for International Business. Tel.: (907)786-4300. Fax: (907)786-4319.

Economy

Notes on Magadan

Molly Davenport, director of the American Russian Center-Magadan from 1994-1996 and an intern for Audubon in Magadan in 1991-1992, offers the following observations on changes there (see also *Politics*):

- For a city of its size, 120,000-130,000, Magadan has a large number of scientific research institutes. With the decrease in funding from Moscow over these five years, many of these institutes are floundering.
- Magadan is more active in its ties to the U.S. than any other RFE region, and connections to Alaska are especially strong. The region has had ties to the University of Alaska since 1989-1990, which has spurred steady growth in Alaskan connections ever since. Two notable Alaskan companies in Magadan are Alaska Russia Company and N.C. Machinery. Still, some U.S. companies are coming in with unreasonable expectations and little understanding of the region, and are losing their shirts.
- In 1991, foreign goods were not available in the city of Magadan. Today plenty of foreign goods, especially food from the U.S., is available.
- Few residents of the city of Magadan are aware of the Kubaka project or seem to be affected by it.
- In general, gold mining is not as profitable as it used to be. Much of the region was developed for gold mining, and now there is a lack of support for maintaining the infrastructure needed for mining. The question remains how to revive the economy.
- The region has seen a shift in its population, as Ukrainian nationals and people originally from Western and Central Russia left for home in 1991-92, and residents of smaller communities in the region moved to the city of Magadan.
- Energy problems have not reached the crisis stage of some other RFE regions. Apartments in the city of Magadan still have electricity and hot water at most

times, although heat is supplied at a lower level than in 1991-1992.

- The biggest problems for foreign companies in Magadan are that the tax, business, and customs laws and regulations are changing constantly. Customs especially seems to be trying to pull in more revenue (see also *Travel*).
- It has become much easier to change money, although even now banks may be closed when they are listed as open, or they may say they do not have the money to change—arbitrariness still plays a role.
- In 1991-1992 with the recent break-up of the Soviet Union and the country reeling in hyper-inflation, Magadaners seemed shell-shocked. Today morale may not be high, but people have adjusted to the changes.
- Socio-economic stratification is occurring. For the first time you can see visible signs of wealth among a few Magadaners—foreign vehicles, especially. For people who have been drilled all their lives about the virtues of equality, this change is hard to take.
- Crime has increased over these five years. Now many people have heavy metal doors and massive locks on their apartments and businesses. People talk about crime more now.

Consumer prices in Yakutsk

Following are prices in rubles for food and consumer goods in Yakutsk in early January. The ruble: 1 dollar exchange rate was approximately 5.895.

10 eggs	15,000
1 liter milk	5,800
1 loaf bread	5,800
1 kilo apples	18,000
1 kilo rice	7,900
1 kilo sugar	6,100
1 liter gasoline	3,600
.5 liter Stolichnaya vodka	21,500
1 pack Marlboro cigarettes	7,500
1 Snickers bar	4,500

Total 95,700 (\$16.23)

Also note the following totals for these items in 1996 in Yakutsk:

early Jan.	83,900-85,800 (\$18.24-18.65)
early March	75,613 (\$15.70)
early April	79,150 (\$16.28)
early Dec.	90,700 (\$16.49).

Sakha American Business Education Center (American Russian Center).

Inflation down sharply

Russia's yearly inflation fell to 21.8% in 1996, down sharply from 133% in 1995.

said the State Statistics Committee. The 1997 federal budget assumes a rate of 11.8% for 1997. The government's tight money policies, sanctioned by the International Monetary Fund, are largely regarded as the reason for the drop.

Still, the picture is not completely rosy, as industrial output is expected to have fallen 5% for 1996, slightly sharper than the 3% fall in 1995. *Associated Press* (1-7-97) and *Capital Markets Report* (12-12-96).

Some economic crime statistics

In its December 1996 issue, CIS Law Notes offers the following notes on economic crime in Russia:

- Russia has a prison population of 1.3 million, giving it the highest incarceration rate in the world. Approximately 800 per every 100,000 Russians are presently incarcerated; the Western European average is 50 per every 100,000 persons.
- About 50 trillion rubles a year are currently laundered through illegal commercial structures.
- Laundering money is the source of most illegal incomes in Russia and a kind of system has involved. First, the illegally-obtained money is deposited in a foreign bank, then it is transferred to a second bank, and then to a third, and so on. After several transfers, the money is invested—most often in activities that further criminal activity.
- At present, only 16% of all Russian companies pay taxes regularly. As of October 1, 1996, tax arrears in Russia had reached \$24.4 billion.

Energy

See also *Environment*

Energy crises

All the thermal power plants in the coastal region are in critical condition. On top of the lack of crude oil, consumer debts have increased, amounting to 1 trillion rubles as of January 10. The plants are prepared to cut off power for a time in the coastal region after January 10.

The temperature for early morning January 10 in Khabarovsk was minus 30 degrees Celsius. At present electricity to

continued on next page

Energy, continued

homes is stable, but the thermal power plant in Ushakovsk has only enough coal to last another week. *Dalnevostochnaya radio* (1-10 & 1-11-97).

Environment

Oil spill off Japan

On January 2 the oil tanker *Nakhodka*, traveling from Shanghai, China to Kamchatka with 5 million gallons of fuel oil, broke apart and sank in rough seas about 90 miles off Japan's western coast, spilling 962,000 gallons into the Sea of Japan. Thirty-one crew members were rescued, but the ship's captain is missing. The cause of the accident is not known.

By January 7 the oil had fouled about three miles of beach at Mikuni, a summer tourist spot about 200 miles west of Tokyo, and several other large slicks were still moving. The drifting bow of the ship ran aground off Mikuni and may hold some fuel oil, but the still-sunken stern is believed to hold most of it. Stormy weather hampered efforts to prevent the oil from reaching beaches.

By January 9 dead birds were washing up on the oil-covered beaches.

By January 12 the oil had soiled a 125-mile stretch of shoreline. It had also reached a barrier set up around the Takahama nuclear power plant, threatening operations there and at several nearby reactors. Plant officials said that, as long as the amount of oil entering the area remained small, they would be able to prevent damage. The plants use sea water to cool their steam-generated turbines.

Fishermen fear the spill will ruin the seaweed, abalone and shellfish cultivated in the area. Tourists are already canceling reservations for the summer season.

The spill is the second-largest off Japan, eclipsed only by a 1971 spill of 1.87 million gallons near Niigata port.

The sinking has worsened an energy crisis in the RFE. Another tanker bound for Petropavlovsk-Kamchatskiy is not expected to arrive before January 11; until then power to homes and businesses on Kamchatka will be limited to 6 hours a day.

The Russian government has also promised to send immediately 10 thousand metric tons of fuel oil from the Pacific Fleet's reserves to Kamchatka. *Associated Press* (1-5, 1-6, 1-8, 1-9, 1-10, & 1-13-97) and *Dalnevostochnaya radio* (1-8-97).

More reindeer die

More than 10,000 reindeer out of a population of 240,000 have starved to death in Chukotka after about 70% of pastures on the peninsula became encased in ice after heavy rains in November were followed by extreme cold. Regional defense chief Yuri Zhulin said that losses have reached more than \$1.2 million. *Associated Press* (12-15 & 12-24-96).

Finance

Ruble continues slow fall

Following are ruble: 1 dollar exchange rates:

December 4	5.515
December 11	5.524
December 18	5.540
December 25	5.553
December 30	5.555
January 6	5.895

Capital Markets Report and *Sakha American Education Center* (American Russian Center).

IFC to add Russia to index

As of February 1, the International Finance Corporation (IFC) will add Russia to its family of investable indexes, a move considered to herald a new level of legitimacy for the Russian financial markets. One IFC index, the Russian Global Index, has advanced 144.5% since December 31, 1995, illustrating Russia's position as the world's top performing emerging market. *Capital Markets Report* (12-19-96).

Information Resources

Troika Weekly Report is no more

Due to a lack of financial support, the *Troika Weekly Report* will no longer be published. Troika, though, will begin publishing *Sakhalin Oil & Gas Report*, a weekly briefing from its Yuzhno-Sakhalinsk office. Contact Kathy Beeck, Troika

program manager. Tel.: (907)278-7233. Fax: (907)278-2982. E-mail: 75362.1020@compuserve.com.

Economic cooperation with the RFE

The American Chamber of Commerce in Russia has prepared a White Paper on Economic Cooperation between the Russian Far East and the U.S. West Coast and Alaska. Contact the American Chamber. E-mail: amchamru@online.ru.

Investing in Russia's Securities Market

Investing in Russia's Securities Market: An Independent Assessment of the State of Play is the Geonomics Institute's most recent publication. It discusses investment options in Russia, their safety, and how to invest. Appendices includes directories of Russian brokers-dealers, banks, internet and other information providers, and other useful information. Tel.: (802)388-9619. Fax: (802)388-9627.

Mining articles

- In *Unraveling Russian law*, Mining Journal (11-29-96) discusses legal issues in Russia pertaining to mining.
- In *Russian technical and economic assessments*, Mining Magazine (12-96) discusses differences in western and Russian approaches to estimating resources and reserves.
- In *Russia's diamond production*, Mining Journal Diamond Supplement (11-22-96) provides an overview of the diamond industry in Russia.

For all publications, contact: Tel.: 44-171-216-6060. Fax: 44-171-216-6050. E-mail: mjournal@easynet.co.uk.

Smart Link catalog

The company offers Russian fonts, translation software, electronic dictionaries, etc. Tel.: 1-800-256-4814.

BISNIS reports

Following is a list of reports BISNIS has recently prepared and/or distributed that may be of interest to a company doing business in the RFE:

- *Key Contacts for U.S. Business in the Russian Far East*. Includes contact information for American Russian Center offices, American Business Centers, U.S. government agencies, and other organizations that can help a U.S. company;
- *Overview of Major Ports and Port Projects in the Russian Far East*. Includes

comprehensive contact information for RFE ports and maritime agencies, and U.S. shippers and freight forwarders; *International Money Transfers*. A how-to guide on transferring money in and out of Russia;

- *Moving your Money*. A how-to guide to sending money back and forth between Russia and the U.S. Printed in the December 1996 issue of *BISNIS BULLETIN*.
- *A Shipping Guide to Russia*. Includes information on freight forwarding; export documentation; shipping air freight; freight insurance; customs bonded warehousing; and import licenses, passports, duties and taxes.
- *Overview of the Timber and Wood Processing Industry in Khabarovsk Territory*. Includes a section on timber exports and includes contact information for Khabarovsk government officials and timber companies;
- *U.S. Trade and Investment Days in Nakhodka and Vostochniy, January 13, 1997*. From their visit in early October 1996, BISNIS officials provide an overview of the two cities with information on opportunities and a list of key contacts.

Most, if not all, of these reports are available both on-line or in hard copy. Tel.: (202)482-4655. Fax: (202)482-2293. E-mail: bisnis@usita.gov.

International Update

General

Foreign missionaries encountering resistance. At the break-up of the Soviet Union, foreign missionaries flocked to Russia and they were warmly received. Now interest among Russians has faded some and the Russian Orthodox Church has become increasingly critical of the foreign influx. Currently the Vladivostok region is home to 130 registered churches, temples, and other religious centers, including a traveling Danish Buddhist lama to a Hare Krishna cafe to a small congregation established by Sun Myung Moon's Unification Church. *Associated Press* (12-30-96).

Japan

Kuril officials to visit Tokyo. A group of representatives from the southern Kuril Island district will visit Tokyo to discuss

visa-free exchanges. The group will also confer with the Foreign Ministry about the following three proposals: the construction of a regional culture center, a credit grant for the building of a hotel, and the establishment of air service between Kunashir and Hokkaido. *Sakhalin T.V. and Radio Company* (1-13-97).

United States

Tim Smith goes to Moscow. Tim Smith, U.S. Commercial Service Officer for the Russian Far East, is heading for an assignment in Moscow. His replacement is Richard Steffens, who is arriving in Vladivostok from Moscow. E-mail: steffens@usita.gov. *World Trade Center Alaska* (12-16-96).

Provideniya requests donation of an x-ray machine. Former Nome, Alaska resident Dazee' Listenkova, who now lives in Provideniya, notes the town needs a portable x-ray machine of some sort with film or access to purchase film. There is no modern (30 years or newer) x-ray machine available. Contact the World Trade Center Alaska. Tel.: (907)278-7233.

Group wants to swim across the Bering Strait. The Universal Marathon Cold Swimming Association in Moscow has requested visa invitation letters from the Nome, Alaska city council so that a group of its members can attempt a swim from Cape Dezhnev, Chukotka to Cape Prince of Wales, Alaska in July and August. Nome officials were cautious in their response because the city has dealt with a number of Russian citizens needing more hospitality than Nome expected. *Associated Press* (1-16-97).

BISNIS seeks success reports. BISNIS is conducting an assessment of its role facilitating U.S. business successes in the NIS. If any of BISNIS' trade/partner leads or reports led your company to a fruitful commercial transaction, BISNIS would appreciate hearing about it. BISNIS will strictly guard any business-sensitive information and will not use direct references to your company without your clearance. The information BISNIS seeks is: your company name; source/date of BISNIS information; Russian/NIS company; any dollar figures/results, including projected figures; and whether you grant clearance to include your company name in reference to a BISNIS "success story." Tel.: (202)482-4655. Fax: (202)482-2293. E-mail: bisnis@usita.gov.

Mining

See also Information Resources

Coal

Coal funding shortfall. Rosugol, the national coal company, estimates that the industry needs a minimum of 18.4 trillion rubles in federal subsidies. The 1997 federal budget, however, contains only 6 trillion rubles of subsidies. Nationwide coal miners are owed an average of three months' back-pay, amounting to a total of 2.4 trillion rubles, and they have held a number of strikes in 1996 protesting non-payment of wages. *Mining Journal* (11-29-96).

Six killed in explosion. Six coal miners were killed in an explosion at the Kadychan coal mine in Magadan Province. The explosion is thought to have been caused by either coal dust or methane. *Mining Journal* (11-29-96).

Diamonds

Caterpillar sells in Sakha. Caterpillar Overseas has sold 40 Caterpillar machines and spare parts worth \$36.5 million to Almazy Rossii-Sakha (ARS). The U.S. Export-Import Bank provided a \$54.4 million loan guarantee to support the sale of \$60 million of U.S. mining equipment and services to be exported by Caterpillar and several other manufacturers. ARS purchased its first Cat machine, a mining truck, in 1988. Since then Caterpillar has supplied more than 70 pieces of equipment. Contact: Caterpillar Overseas. Address: Case Postale 6000.; 1211 Geneve 6; Switzerland. Tel.: 41-22-849-4432. *Mining Magazine* (12-96).

Diamond agreement awaits approval. De Beers and Almazy Rossii-Sakha (ARS) reached an agreement on marketing Russian diamonds in September 1996 and now are awaiting approval from the Russian government. The last formal agreement expired at the end of 1995, but De Beers has continued to buy diamonds from ARS under the old agreement while negotiations continued. De Beers has stated, though, that it will not continue to do so after the end of 1996.

Under the agreement, Russia again may keep 5% of its uncut diamonds for its domestic diamond-cutting industry, and it may also sell up to 20% of its cut diamonds within a range of \$550 million to \$1.3 billion from existing stockpiles.

continued on next page

Mining, continued

Some Russian authorities, however, wish to develop the country's diamond-cutting industry and would like a greater share of uncut diamonds. Evgeny Bychkov, president of the Russian Association of Diamond Manufacturers, even suggested that the industry could grow enough in one year's time to absorb the whole of the country's production of rough diamonds.

For their part, De Beers is unwilling to see as many Russian diamonds leak out onto the market outside its deal with Russia. In the past six months or so, there have been large leakages of Russian rough diamonds onto the market, and in the past three years, Russia has sold about \$550-\$800 million a year in diamonds from its stockpile, also outside the contract. De Beers hopes that Russia will see the advantage that a 'bankable' contract with its Central Selling Organization will have for attracting foreign investment to upgrade Russian mines. *Mining Annual Review* (1996), *Mining Journal* (11-29 & 12-20/27-96) and *Mining Journal Diamond Supplement* (11-22-96).

Gold and silver

Kubaka almost complete. Construction of the \$180 million gold and silver mine in Magadan Province is 98% complete. The operation is expected to begin commercial production early in 1997. At full capacity, it is expected to produce 310,000 oz/y of gold and 235,000 oz/y of silver over a seven-year mine life. Omolon Gold Co., a joint venture between Amax Gold and several Russian organizations, is developing the mine. *Mining Journal* (12-13-96).

Gold output down; reserves up. The Russian Ministry of Industry reports that official Russian gold output is expected to be 100 metric tons in 1996, down from 122 metric tons in 1995 and 132 metric tons in 1994. Producers estimate that up to 5% of Russia's output is sold on the black market, where producers can receive cash rather than wait months for payments from the central government.

The Central Bank purchased about 100 metric tons of gold in 1996, boosting reserves to around 400 metric tons. *Mining Journal* (12-20/27-96) and *Capital Markets Report* (12-19-96).

Taxes swallow earnings. An analysis in 1995 of the cost structure of gold mining in

Russia demonstrated that, even with a fairly high efficiency (production costs in Russia account for about 60% of the received gold price), earnings are swallowed up by taxes—which averaged 37% of the selling price in 1995. In comparison, tax rates in South Africa, Australia and Canada were quoted as 12%, 17% and 21% of selling prices, respectively, in 1995. *Mining Journal* (11-29-96).

EBRD finances mines in Buryatia.

Two gold mines in the Republic of Buryatia (Eastern Siberia) are to be upgraded and expanded with a \$17.5 million finance package which the European Bank for Reconstruction and Development (EBRD) is extending to the mine owner and operator, Buryatzoloto, a recently-privatized Russian joint-stock company.

The two mines, Zun-Holba and Irokinda, are located in separate and remote areas in the southwestern and northeastern regions of the Republic of Buryatia. The proceeds of the financing will be used to install new technology, allowing the company to produce gold ore at the Zun-Holba mine, open new veins at both mines and fund environmental clean-up at Irokinda. Once upgraded, the mines should produce 75,000-90,000 ounces of gold a year.

The total project is expected to cost about \$59.5 million. The EBRD is providing a \$10 million loan. It is also making a further \$7.5 million equity investment in the company, equal to 19.6%. An additional \$7.5 million in financing is being raised through a private placement of new equity with institutional investors and a Canadian company, High River Gold Mines Ltd., which owns 22.9% of Buryatzoloto.

Buryatzoloto has calculated its total gold reserves at about 280,000 kg, of which approximately 37% is proven reserves. About 90% is in the Zun-Holba deposit. *BISNIS* (1-3-97).

Politics

Nazarov reelected

Chukotka governor Alexander Nazarov was reelected in late December. It seems Chukotka has recently isolated itself from Alaska. Because it had not paid its membership fees for more than a year, as of December Chukotka is no longer a member of The Northern Forum, an international organization of northern and arctic regions.

It also has closed its trade office in Anchorage (see also *Travel*).

Tsvetkov wins in Magadan

Molly Davenport, director of the American Russian Center-Magadan from 1994-1996, notes the following political changes there (see also *Economy*):

The first elected governor, Governor Valentin Ivanovich Tsvetkov, won his seat by a very small margin in November 1996, a surprise to many. He has no previous political experience and was a general director of a large state-owned gravel enterprise. The smaller communities surrounding the city of Magadan gave him enough votes to take the seat. [Ed. note: Mr. Tsvetkov is also a business partner of Earl Romans of Fairbanks, a business pioneer in the RFE.]

Governor Tsvetkov shocked many Magadaners by replacing many regional administration officials with his own people, a practice common in the U.S., but fairly new to Russia. Many former officials just packed up and left Magadan.

A factor in incumbent Governor Viktor Mikhailov's defeat was mounting unpaid wages for workers—as much as three month's worth for many people. It was a problem largely out of Mikhailov's control. Unpaid wages were a factor in elections throughout Russia.

Ishaev and Biryukov reelected

Khabarovsk Territory Governor Viktor Ishaev was reelected with the following slogan for his campaign: "I need a mandate of popular trust in order to speak with Moscow on equal terms."

Kamchatka Governor Vladimir Biryukov was also reelected. *OMRI Report* (1-8-97) and *The Northern Forum*.

Nikolaev reelected

At the end of December, President Mikhail Nikolaev was reelected to a second term in the Sakha Republic, carrying 64% of the vote. In one speech to voters he insisted on state regulation of the economy, at least during the transitional period. *The Northern Forum* and *Capital Markets Report* (12-19-96).

Sakha up, Primorye down

Looking at Russian regional politics, *Capital Markets Report* (12-19-96) cited the Sakha Republic as an interesting place to invest, but commented that Primorye is a place to avoid.

The newsletter said that Sakha is marked by extreme independence from Moscow and is far wealthier than the national average. It also cautioned that murky ethnic and clan trends are more important than any particular ideology there and direct investors should have outstanding contacts with the local political leadership before proceeding.

As for Primorye, the newsletter commented that it is a region with rapidly falling production and that the region's administration is extremely authoritarian and widely considered corrupt.

Yeltsin sick; Lebed attacks; troops leave Chechnya

While President Boris Yeltsin has been hospitalized with pneumonia, his chief political rival and former national security advisor, Alexander Lebed, declared on Moscow television, "I want to become president and I will." Lebed has called Yeltsin an "old, sick man" who should resign for the good of the country. President Yeltsin underwent quintuple bypass surgery on November 5, and, by all accounts, had made a good recovery. Doctors said the pneumonia is unrelated to his heart trouble.

Still, the country is heartened by the completion of troop withdrawal from Chechnya. Russia has been withdrawing troops gradually since a peace deal was reached in August. The pullout clears the way for general elections in Chechnya in late January. *Associated Press* (1-6 & 1-3-97).

Russian Legislation

Export passports needed

The order, *Customs control over goods crossing the border of the Russian Federation*, came into being November 25. It obligates businesses involved in international transactions to have a passport confirming the transactions.

The Ministry of Foreign Economic Relations (MFER) can provide the passport. In Khabarovsk, Nikolai Selutin, a representative of MFER, can issue the document, although if the transaction is for more than \$200,000, businesses will have to go to Moscow to get it.

The order was issued to keep money from leaving Russia. The first regulation designed to retain money in Russia came in January 1994; it provided controls over

money exporters transfer abroad. In January 1996 the same was done with Russian businesses dealing with imports. Some traders, however, just went around the system by going to barter transactions. During the first nine months of 1995, these exports came to \$9.3 million. *Pacific Star* (12-17-96) by *American Russian Center, Khabarovsk*.

Food imports must have Russian labels

The Russian Government plans to impose, effective May 1, a regulation requiring that all imported food products be labeled in Russian. Russian officials described the resolution as a way to protect consumers who can not read the foreign-language packaging on imported products. Products without label information in Russian will reportedly be restricted from distribution.

Information likely to be required about imported products—either on labels or enclosed descriptions in Russian—includes ingredients, nutritional value, date of production and shelf life, weight and volume, calories, materials injurious to health, price, guarantee period, conditions of storage, expiration dates, "best before" dates, and instructions for use.

This list should not be considered exhaustive. U.S. companies should consult the relevant Russian authorities, as well as competent legal counsel, for further information.

For more information, contact: Dr. Sergei Ryabov, Gosstandart (in Moscow). Tel.: 7(095)236-4044. Fax: 7(095)236-6231. Or contact Igor Moskovich, Rostest Moskva (in Moscow). Tel.: 7(095)129-3200. Fax: 7(095)124-9996. Or contact Dr. Sergei Tarasov, Russian Federation Chamber of Commerce and Industry (in Moscow). Tel.: 7(095)209-9697. Fax: 7(095)921-5675. *BISNIS* (1-10-97).

Alcohol tax enforcement coming

President Boris Yeltsin will soon sign a decree introducing tight controls for Russia's approximate 700 distillers and strict licensing rules for producers, sellers and importers. The decree will especially enforce payment of duties; each bottle of spirits is supposed to yield the treasury an 85% excise tax, 20% VAT and several additional taxes, but smugglers, moonshiners and bootleggers are cheating the state out of about \$350 million a month. *Capital Markets Report* (1-2-97).

Focus on Sakhalin

Economy

School employees strike in Kholmsk.

A number of workers from elementary and junior high schools in Kholmsk went on strike January 14. Elementary School #8 entered an all-out hunger strike on January 15. If unpaid wages are not remunerated by January 20, more school personnel are expected to go on hunger strikes. *Sakhalin T.V. and Radio Company* (1-15-97).

Energy

Energy shortages. All energy-related facilities in Sakhalin began the year in critical condition. Yuzhno-Sakhalinsk's Heating Power Plant #1 is especially in dire straits. *Sakhalin T.V. and Radio Company* (1-8-97).

Investment Opportunities

Yuzhno-Sakhalinsk seeks investors.

The city administration of Yuzhno-Sakhalinsk seeks U.S. joint venture partners/investors for the following projects: construction of a mini-brewery; construction of a plant to produce animal fodder additives; and construction of a plant to produce baby food.

Contact: Sergei V. Vlasov, Head of Foreign Economic Relations, Yuzhno-Sakhalinsk City Administration. Address: Russia; 693000 Yuzhno-Sakhalinsk; 173 Lenin St., Office 10A. Tel.: 7(42422)232-19. Fax: 7-50441-62222. *BISNIS* (1-1-96).

Transportation

Alaska Airlines applies for route. The company has applied for authority to fly direct Anchorage to Yuzhno-Sakhalinsk.

Sakhalinaviatrassy rates up. A one-way ticket from Khabarovsk to Yuzhno-Sakhalinsk now costs \$360 on this airline. There are some other flights from Khabarovsk to Yuzhno-Sakhalinsk on Aeroflot that now cost \$150 one-way.

Airport seeks foreign investment. Sakhalin Airport director V. Bagrov confirms that airport authorities are seeking foreign investment to reconstruct the Yuzhno-Sakhalinsk airport for international flights and are actively negotiating with several Japanese firms. The estimated cost of the airport project is \$55 million. The Sakhalin Regional Administration provided

continued on next page

Focus on Sakhalin, continued

\$3 million for airport construction in 1996. The federal government has designated funds for the airport but has yet to provide them. Some construction has begun, including reconstruction of the fuel storage facility, upgrading of the runway, and excavation for a new international terminal. The airport expects to begin construction of a centralized refueling facility in 1997.

Contact: V. K. Bagrov. Tel.: 7(42422)3-48-78. Satellite fax: 7(504)41-6-2205. *BISNIS* (1-7-97).

PRISCO to transport oil and gas. Primorsk Shipping Company (PRISCO), the second largest shipping company in the RFE, is negotiating an exclusive contract to transport oil from Sakhalin, and also is interested in transporting natural gas produced there. The company seeks partners for the project. PRISCO is a joint-stock company and more than half of its stock is held by U.S. and European companies. It employs more than 2,000 people.

Contact: Yevgeny Kozmin, Deputy General Director, PRISCO. Address: Russia: 692904 Nakhodka; Administrative Building of PRISCO. Tel.: 7(42366)546-15 or 444-29. Fax: 7(42366)546-55 or 429-95. Telex: 213812 PSC SU. *BISNIS* (1-13-97).

U.S. activity

Representation services available.

Troika Alaska offers business representation services in Yuzhno-Sakhalinsk for Alaskan firms and organizations. Contact Kathy Beeck, Troika program manager. Tel.: (907)278-7233. Fax: (907)278-2982. E-mail: 75362.1020@compuserve.com.

State of Alaska contracts with ABC.

Governor Tony Knowles has appointed Dinty Miller, director of the American Business Center in Yuzhno-Sakhalinsk, to represent the state in promoting business ties. About 50 Alaskan companies are registered in Sakhalin now, and about half of the U.S. companies showing interest in Sakhalin are from Alaska.

New Rotary club. The Alaska and Yukon Territory Rotary District is working to establish a Rotary club in Yuzhno-Sakhalinsk that may be chartered by May or June. Contact: Steve Yoshida. Tel.: (907)235-5255. E-mail:

4472.3376@compuserve.com.

Sales Opportunities

Magadan

Voskhod. a supermarket in Magadan, seeks to buy about \$100,000 a month worth of lipstick, eye make-up, and shampoos. It also seeks to buy \$200,000 a month of household appliances, including vacuum cleaners, electric food mixers/processors, and microwave ovens. All appliances must be 220V, 50/60HZ. Voskhod was established in 1966, has 84 employees, and has annual sales of \$3 million. Best way to respond is by fax and mail.

Contact (possible in English): Olga Volkova, Director. Address: Russia: 685000 Magadan; 38 Karla Marxa St. Tel.: 7(41322)295-03. Fax: 7(41322)280-98. *BISNIS* (1-9 & 1-10-97).

Nakhodka

Nakhodka Can Manufacturing Plant seeks to buy tin-plate and various packaging equipment. The plant is a manufacturer established in 1953, has 1,189 employees, and has annual sales of more than \$10 million. It manufactures tin, plastic, and paper-packing materials for fishing, food-processing, and other industries in the RFE and Siberia. The company is also participating in development of an industrial park within the Nakhodka Free Economic Zone and seeks opportunities for joint manufacturing of packing materials. Best way to respond is by fax and/or telex.

Contact (possible in English): Garriman Vorobyev, General Director. Address: Russia: 692911 Nakhodka; 1 Astafieva St. Tel.: 7(42366)234-84. Fax: 7(42366)236-67. Telex: 213828 CAN RU. *BISNIS* (12-13-96).

Vladivostok

ACFES Group seeks to buy 5-6 sets each of restaurant equipment, including ovens/stoves; food processing/packaging equipment; fast food counters; automatic coffee and soup vending machines; and cash registers. It also seeks to buy 5-6 sets of restaurant tables and chairs. ACFES Group is the largest importer of food products and consumer goods in the RFE. It consists of 52 companies and represents several foreign manufacturers including Toyota and Coca Cola. Its founders include several of the largest companies in the RFE, such as FESCO and PRISCO (Primorsk Shipping Co.). ACFES Group was established in 1989, has 1,614 employees, and has annual

sales of more than \$50 million. Best way to respond is by fax.

Contact (possible in English): Nikolai Matvienko, Head of Strategic Planning Department, ACFES Group. Address: Russia: 690600 Vladivostok; Prospekt 100-let Vladivostoku, 103. Tel.: 7(4232)318-757 or 318-510. Fax: 7(4232)318-311. Telex: 213115, MRF RU for ACFES. Sprint mail: CUSSRASOVMAIL.OVLAD.WOOD.UNACHES. *BISNIS* (12-10 & 12-16-96).

Svetinform seeks to buy one production line of printing equipment for high-quality publishing. Svetinform is an advertising firm established in 1991, has 10 employees, and has annual sales of \$400,000. Best way to respond is by fax.

Contact (possible in English): Vadim Volkov, Manager. Address: Russia: 690091 Vladivostok; 23 Aleutskaya St., Office 10. Tel./fax: 7(4232)266-219 or 266-265. *BISNIS* (12-9-96).

Capital Trading Corporation seeks to buy 5,000 to 10,000 metric tons monthly of gasoline and low-sulfur-content diesel fuel and fuel oil. Capital is involved in the wholesale trade of fuel products in the RFE. Volume of annual sales is 100,000 metric tons. It was established in 1995, has 8 employees, and has annual sales of more than \$20 million. Best way to respond is by fax.

Contact (possible in English): Viktor Chudinov, Deputy General Director. Address: Russia: 690001 Vladivostok; 17 Slavyanskaya St., Office 25. Tel./fax: 7(4232)287-319 or 263-159. *BISNIS* (12-13-96).

Timber

Ex-Im Bank finances equipment purchases

The U.S. Export-Import (Ex-Im) Bank and Roslesprom, a Russian state timber company, have finalized an agreement which will provide loan guarantees and possibly direct loans to Russian timber enterprises to buy U.S. equipment and services. Russian timber companies can apply for financing directly through Ex-Im Bank or through Roslesprom.

Application forms and supporting documentation are available from Ex-Im Bank's Business Development office in Washington, D.C. Tel.: (202)565-3900. Fax: (202)565-3931.

Contact for Roslesprom (in Moscow):
Andrei V. Frolov, Head of Foreign Economic Relations. Tel.: 7(095)208-0461.
Fax: 7(095)208-0339. *BISNIS* (1-7-97).

Prices up

According to Interfax News Agency, Rosexportles has raised prices by 5% for the pine and fur lumber it will ship to Western Europe in the first quarter and expects prices for those products and others to continue to climb throughout the first half. Rosexportles official Andrei Ochkov told Interfax that contracts for pine and fur lumber had already been signed in Greece and Italy.

Ochkov said that prices were also gradually increasing for sawlogs. Russia exports small quantities of sawlogs to Sweden, Finland and Belgium. Rosexportles now plans to make a tangible increase in its profits by shipping sawlogs to several major sawmills in Austria. Prices for the commodity could reach \$80 for a square meter in the first quarter, much higher than in the fourth quarter of 1996, Ochkov said.

Prices for round timber are also expected to rise this January. Prices for round timber shipped to Japan through the Far Eastern ports of Nakhodka, Vostochny, Vladivostok and Posiet to Japan in January 1997 will amount to \$133 per cubic meter for fur, over \$140 per cubic meter for pine and \$111 per square meter for deciduous wood. That is up from \$127.5, \$138 and \$108.9 per square meter respectively in December 1996.

Ochkov said that prices will stabilize in February and March as Russian yards start felling more timber. The main markets for Russian timber are Japan, Britain, Spain, Belgium and Denmark and, to a lesser extent, France and Germany.

Vera Golubovich, another Rosexportles expert, said she expected demand to remain at what she called a "good level" for cellulose. Demand will start to rise for the commodity at the beginning of the second quarter, when prices will reach \$600-\$650 per tonne, she said. Golubovich reckons prices will close 1997 at \$675-\$700 per tonne. She said there was a distinct downward trend for newsprint prices in 1996, mostly because of high stocks of the commodity. Prices for standard paper dropped from \$750 per tonne at the beginning of the year to \$550-\$570 in the fourth quarter. Prices may stabilize at around \$400-\$500 per tonne by the end of the year.

Analysts reckon that Russia exported 15 million cubic meters of round timber and 4.4 million-4.6 million cubic meters of coniferous lumber, down from 19 million cubic meters and 5 million cubic meters respectively in 1995. *BISNIS* (1-10-97).

Nakhodkales selling stock

Nakhodkales, one of Russia's leading timber exporting companies, is offering Russian and foreign investors an opportunity to purchase controlling ownership (50.1%) in the company. The estimated \$8 million which will be raised through the sale of stock will be used for construction of a new timber port in Nakhodka.

The company was established in 1992 as an open joint-stock company. It handles more than 10% of Russia's total annual timber exports, or about 1.1 million cubic meters.

The new timber port in Nakhodka will have annual turnover capacity of 2 million cubic meters. When the port is operational, Nakhodkales hopes to double its share of Russia's timber exports, with shipments largely to Japan, China, and other Asian Pacific Rim countries. The first phase of the port project, including a railway spur, roads and two moorings, is scheduled for completion in December 1997 and will require total investment of \$36 million.

The Nilin Investment Company will distribute 12,341,200 shares of Nakhodkales-registered stock with a nominal cost of 1,000 rubles each. Foreign investors may purchase the stock through a contract with Nilin Company.

Contact: Vladimir Voronkov, General Director, Nilin Investment Company.
Address: Russia: 692900 Nakhodka: 17-1 Gagarina St. Tel.: 7(42366)256-77. Fax: 7(42366)705-14. Homepage: <http://itl.pacific.ru>.

Contact for Nakhodkales: Vitaliy Teteryuk, Chairman. Address: Russia: 692900 Nakhodka: 13/A Astafieva St. Tel.: 7(42366)423-49 or 434-41. Fax: 7(42366)434-52. Teletype: 213849 BEREZA RU. Inmarsat tel.: (872)140-3330. Inmarsat fax: (872)914-03330. *BISNIS* (1-16-97).

Saving valuable trees

Beginning January 1, 1997 in Khabarovsk Territory there will be limits for cutting and quotas for selling Manchzhursky Ash trees. The Khabarovsk Territory Administration is also to prepare and give to the Territory

Duma suggestions for increasing taxes on valuable trees. The measures are part of a larger order the Khabarovsk governor passed to control the activities of entities cutting, sawmilling and selling timber in Khabarovsk Territory. Some entities which cut trees do so inaccurately and often break the law. Sometimes they even sell non-coniferous timber for cash. *Pacific Star* (12-20-96) by American Russian Center, Khabarovsk.

Finnish equipment in Khabarovsk

Finland has recently sent 12 railcars with five sawmills to Khabarovsk. The sawmills offer high output—up to 4,000 cubic meters per worker per year. Next year Khabarovsk Territory plans to get 15 sets of this equipment and in future years 20-25 sets per year, which will help it increase output of high-quality timber.

Khabarovsk territory has about 18 million cubic meters of timber to process while now only 3 million cubic meters are being processed per year. *Pacific Star* (12-5-96) by American Russian Center, Khabarovsk.

Travel

New visa regulations

According to a new regulation, a Russian host organization must be registered with the Russian Foreign Ministry (MID) to be able to apply for a business visa for any foreigner to Russia, and any visa invitation letter must be signed and approved by MID. Because these regulations change often, be sure to call a Russian consulate to receive the latest requirements.

An Associated Press article mentioned a new law requiring all foreign visitors to Chukotka to obtain permission from Chukotka Governor Nazarov's office before entering the region and special visa fees of as much as \$250, but the Russian consulate in Seattle was not aware of the law or fees. It seems that once tourist or scientific groups reached Chukotka, they were charged the local visa fees (see also *Politics*).

continued on next page

Travel, continued

Following is contact information for Russian consulates in San Francisco and Seattle:

In San Francisco: Consulate General of the Russian Federation. Tel.: (415)929-0862. Fax: (415)929-0306.

In Seattle: Consulate General of the Russian Federation. Tel.: (206)728-1910. Fax: (206)728-1871.

Traveler insurance

International SOS Assistance, Inc. sells emergency medical, personal, and travel assistance services for world travel, including to all parts of Russia. Tel.: 1-800-523-8930.

Magadan assessing more duties

According to Molly Davenport, director of the American Russian Center-Magadan from 1994-1996, the Magadan Airport Customs has been closely screening everyone entering the region and assessing high duties on baggage over a certain weight. These "excess weight" duties do not correspond to airlines' concepts of or restrictions on baggage weight (see also *Economy*).

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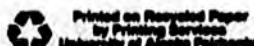
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**Service to the
Russian Far East**

Russian Far East News

Alaska Center for International Business • American Russian Center • University of Alaska Anchorage

IN THIS ISSUE

Certification Requirements ...	1
From the Editor	2
About Sources	3
Agriculture	4
Business Opportunities	4
Conferences, etc.	5
Economy	5
Environment	6
Finance	6
Information Resources	7
International Update	7
Mining	7
Oil, Gas & Energy	8
Russian Legislation	8
Focus on Sakhalin	8
Timber	11
Transportation & Shipping .	11
Travel Tips	12
Map of the Region	insert

Certification requirements for exporters to the Russian Far East— Reprinted with permission from Russian Customs News

Certification issues are increasingly cited by exporters as a primary obstacle in selling processed foods to Russia, including the Russian Far East. This report provides an overview of current certification requirements and procedures for exporters seeking to take advantage of the growing demand for imported food products in the Russian Far East.

Certification requirements are becoming a key means employed by the Russian government to regulate food and other imports and are in some cases replacing quotas and other restrictions. During recent years, certification requirements and procedures have grown increasingly complex, and it is expected that the lead Russian certifying authority, Gosstandart, and other agencies will introduce more changes in procedures, particularly for food products, cosmetics and medicines. New procedures may include:

- certification of manufactured products;
- certification of quality systems;
- labeling requirements (see *Russian Legislation* for text of labeling in Russian decree); and
- pre-contract certification.

Gosstandart also is expected to establish standards for faster product identification methods.

Food product importers currently need to obtain a minimum of two certificates: a sanitary certificate and a safety certificate. Importers of animal products also are required to obtain a veterinary certificate. Each of these certificates is issued by a separate authority.

The sanitary certificate, which grants permission for the product to enter Russia, is issued by SANEPIDNADSOR, the sanitary and

epidemiological oversight body of the Russian Ministry of Health Care, and is required for all food products, medicines, and electric appliances imported into Russia. The Centre of Standardisation, Metrology and Certification (CSMC), an agency subordinate to Gosstandart,

Certification requirements are... in some cases replacing quotas and other restrictions.

issues a safety certificate confirming that the imported product corresponds to Russian and international standards. A safety certificate is not issued without a sanitary certificate.

A veterinary certificate is required for each shipment of animal products (including meats, offal, fats, poultry, fish, dairy products, lard, baby food containing animal products, honey, and other animal products). The certificate includes procedures for import and distribution of the product in Russia as approved by the Russian veterinary department. Regional veterinary services control distribution of these products locally.

Procedures

SANEPIDNADSOR recommends that exporters begin the certification process upon signing a sales contract. The company must submit the following documents to

continued on next page



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Please note: Russian words for administrative units are translated as: kraj-territory; oblast-province; okrug-district. Adjectival endings (ii in Khabarovskii, aya in Khabarovskaya, etc.) have been eliminated, except for addresses.

We welcome articles and letters from our readers. We reserve the right to edit submissions. Please include a telephone number and a short biographical note.

From the editor

While I was in Khabarovsk in early February, one U.S. citizen described the time and energy it took to file the 19 different categories of taxes—for local, territory and federal taxes—he was required to pay to run a company in Khabarovsk. Every form had to be filled out in triplicate. Every tax organization had different forms. Some of the tax payments were for as little as \$1 or \$2. The taxes had to be paid in person, and there were long lines every time. No matter how much time company accountants poured over the massive amounts of tax paperwork, tiny non-intentional mistakes would appear, and the company would be subject to fines.

Besides the bureaucratic inefficiency described above that Russia inherited from her past, part of the problem is that so many

Russian companies are reluctant to pay their taxes. The federal government has been short on revenue and unable to pay state workers across the country. The International Monetary Fund only recently released loan payments to Russia it withheld in November and December until "monetary and fiscal targets were met," including "efforts to improve tax collections." In the short-term anyway, "aggressive" will be the word to describe the tax authorities.

Some recent news, though, is heartening for trade. The Ministry of Foreign Economic Relations has announced that joining the World Trade Organization was Russia's primary trade policy now and pledged that import duties would not increase. ■

Anne Sudkamp

Certification requirements, continued

SANEPIDNADSOR, with Russian translation, to obtain a sanitary certificate:

- a letter of application;
- certificate of origin;
- copies of the contract, invoice, and packing list;
- safety certificate issued by the competent authorities in the country of origin;
- safety certificate from the manufacturer;
- list of product ingredients;
- date of manufacturing or expiration; and
- samples (if required by SANEPIDNADSOR).

The following additional documents are required for vegetable or plant products:

- sanitary certificate of the exporting country;
- information on fertilisers, pesticides and chemicals used; and
- harvest date

SANEPIDNADSOR issues a sanitary certificate on the basis of documents submitted and may require laboratory testing in instances where documentation is incomplete, the product was exported from the country of origin without a sanitary certificate, the product has no analogue in the Russian market, or the product was supplied by a manufacturer who is new to the market. Samples for laboratory tests are selected by SANEPIDNADSOR experts. A final decision on issuance of the sanitary certificate is generally issued within two weeks from the date of application and the certificate

is valid for a limited period which varies depending on product. Certificates issued in one region, for example by SANEPIDNADSOR in Primorye Territory, are valid throughout Russia. Manufacturers planning to export large quantities of a specific product to Russia may wish to invite SANEPIDNADSOR experts to inspect their production facilities. In this case, a general sanitary certificate may be issued for a period of one to three years.

To obtain a veterinary certificate, a company must submit the following documents to the Russian veterinary department through its appropriate regional office:

- application (including product description; intended use of product; country of origin; point of entry into Russia; and place of storage and processing);
- certificate of quality from the appropriate authorities; and
- veterinary certificate of the exporting country.

The veterinary department typically provides a list of product requirements within 30 days. When the veterinary authorities in the exporting country confirm that the established requirements have been met, the Russian veterinary department issues a veterinary certificate permitting import of the product. The certificate is also required for transit shipment. At the border, the border veterinary inspection service exchanges the veterinary certificate for

Certification requirements for exporters, continued

• veterinary permit (also known as Form 2), which requires approval of the regional veterinary service. The regional veterinary generally administers laboratory testing, which is normally completed within three days. After laboratory testing, the regional veterinary service registers the veterinary certificate.

In Primorye Territory, safety certificates are issued by the Primorsky Centre for Standardisation, Metrology and Certification (CSMC). When an application is received, CSMC establishes testing procedures, selects test samples, and conducts testing prior to issuing a certificate. Test samples range from 3-10 kilograms, and the process typically takes 1-3 days to complete. The final decision on issuance of the safety certificate depends on the test results and additional information available from the following documents:

- certificate of test selection;
- test record;
- sanitary certificate;
- documents certifying the origin of the product (contract, bill of lading, certificate of quality etc.);
- quarantine certification for plants issued by the Department of Agriculture; and
- veterinary certificate for animal products.

Packaging for processed food products should contain the following information which is required by the Russian Federation *Law On Protection of Consumer Rights*: weight, volume, content, nutrition, name and address of manufacturer, expiry date and storage instructions. Effective as from September 1996, this information is to be provided in Russian. Safety certificates are generally not issued for products with no or overdue expiry dates.

A safety certificate for a shipment is valid for 6 months. In some cases, for example, for large shipments of products not likely to be sold within this period, the validity of the safety certificate may be extended for up to an additional six months by applying to CSMC.

Exporters distributing assorted products well-known to the local market or products in large quantities are recommended to obtain a safety certificate for the whole range of products to be imported into Russia. This can be arranged by the manufacturer inviting 2-3 CSMC experts to visit the premises to review storage and use of inputs, technical specifications, product safety, sanitary and temperature controls,

and storage facilities. The cost of a general certificate is \$3,000-5,000, in addition to which the U.S. company is required to pay travel expenses for the CSMC experts visiting the facility. The certificate will be valid for all products manufactured by the company for a period of one to three years.

CSMC plans to introduce a new type of safety certificate, the "Contract Certificate," in 1997. This certificate will be given only to companies which have been importing large amounts of food products to the local market for several years and which have a good reputation, and only for those products which are well-known in the local market. After successfully testing the first shipment, CSMC will issue a certificate for all further shipments of the same products. ■

Contacts

Primorye Territory

- Alexander Feigin, Centre of Standardisation, Metrology and Certification. Address: 690600 Russia; Vladivostok; 54 Praporchika Komarova St. Tel.: 7(4232)223-639. Fax: 7(4232)264-728.
- Galina Andreeva, SANEPIDNADSOR. Address: 690600 Russia; Vladivostok; 3 Selskaya St. Tel.: 7(4232)293-666 or 292-921. Fax: 7(4232)293-144.
- Mikhail Omelchenko, Veterinary Service. Address: 690000 Russia; Vladivostok; 2 Pervaya Morskaya St. Tel.: 7(4232)225-309.

Sakhalin

- Yuriy Nogin, Centre of Standardisation, Metrology and Certification. Address: 693000 Russia; Yuzhno-Sakhalinsk; 5/A Pobedy St. Tel.: 7(42422)355-35 or 303-40. Fax: 7(42422)303-17.
- Yevgeny Papirenko, SANEPIDNADSOR. Address: 693000 Russia; Yuzhno-Sakhalinsk; 30/A Chekhova St. Tel.: 7(42422)229-18. Fax: 7(42422)220-41.
- Nelli Plyaskina, Veterinary service. Address: 693000 Russia; Yuzhno-Sakhalinsk; 107 Mira Ave., office 35. Tel.: 7(42422)234-09; Fax: 7(42422)234-09.

Sakha Republic

- Vladimir Btyansky, Centre of Standardisation, Metrology and Certification. Address: 677000 Russia; Sakha Republic; Yakutsk; 26 Kirova St. Tel.: 7(4112)433-902. Fax: 7(4112)434-183.

- Ivan Egorov, SANEPIDNADSOR. Address: 677000 Russia; Sakha Republic; Yakutsk; 9 Oyunsogo St. Tel.: 7(4112)251-645. Fax: 7(4112)250-955.
- Tamara Karataeva, Veterinary service. Address: 677000 Russia; Sakha Republic; Yakutsk; 28 Kurashova St. Tel.: 7(4112)240-022.

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About Sources

American Russian Center offices in Khabarovsk, Magadan, Yakutsk and Yuzhno-Sakhalinsk provide weekly information on the business climate in the Russian Far East. The American Russian Center is funded by a grant to the University of Alaska Anchorage from the U.S. Agency for International Development. The center's mission is to assist Russia in its transition to a market economy by providing comprehensive training in business operations. Contact the Anchorage office. Tel.: (907)786-4300. Fax: (907)786-4319.

BISNIS, the Business Information Service for the Newly Independent States, provides reports from a variety of U.S. government sources, including BISNIS specialists, the American Embassy in Moscow, and the U.S. & Foreign Commercial Service in Vladivostok. BISNIS is a division of the U.S. Department of Commerce, International Trade Administration. Tanya Shuster is the BISNIS trade specialist who focuses on the Russian Far East. Tel.: (202)482-4655 ex. 23. Fax: (202)482-2293. E-mail: shuster@usita.gov. BISNIS reports are available through its home page on the

continued on next page

About Sources, continued

World wide web: www.iep.doc.gov/bisnis/bisnis.html.

World Trade Center Alaska (WTCAL) provides information on international trade through its weekly publication *Trade Winds*. WTCAL is a membership organization based at the University of Alaska Anchorage. Its mission is to promote Alaskan member companies in the international trade arena. Tel.: (907)278-7233. Fax: (907)278-2982.

Troika Alaska is a program of the World Trade Center Alaska that operates offices in the RFE in Khabarovsk and Yuzhno-Sakhalinsk. The Yuzhno-Sakhalinsk office publishes the *Sakhalin Oil & Gas Report*, a weekly information brief on the status of the oil & gas development projects on Sakhalin Island. Troika Alaska also leads trade missions to the RFE and provides representative office services for companies interested in establishing a presence there. Tel.: (907)278-7233. Fax: (907)278-2982.

Open Media Research Institute (OMRI) publishes the *Russian Regional Report* and distributes it by e-mail. OMRI is a nonprofit organization with research offices in Prague, Czech Republic. For more information about OMRI, please write to info@omri.cz.

Agriculture

Primorye rice output plummets

According to Interfax, last year Primorye produced just 8,000 metric tons of rice, way down from 64,000 metric tons in 1990 because farmers are no longer getting any money to shore up crumbling irrigation systems. Alfred Viksne, head of the Department of Melioration and Water at the Ministry of Agriculture and Food, told a recent meeting of senior ministry colleagues that, thanks to underfinancing for repair work, the total paddy area had shrunk from about 94,000 acres to about 22,000 acres. Viksne said that the average yield had dropped from 1.08 metric tons per hectare (2.47 acres) in 1986-90 to 0.9 metric tons per hectare in 1996 as agrochemical

applications fell and physical depreciation for machinery reached 70%.

The Primorye government has drawn up proposals to raise the rice area to about 105,000 acres and increase yields to 2.5 metric tons per hectare by the end of the century. To meet that target the region will have to repair 86,450-98,800 acres of irrigation and drainage systems, develop a workable system of crop rotation and provide an annual 2,800 metric tons of mineral fertilizer and 85 metric tons of crop protection chemicals.

Viksne praised the Primorye government for raising financing for the rice industry. Federal financing of the project, he said, was still at issue. Russian output of rice has fallen from 896,000 metric tons in 1990 to 389,000 metric tons in 1996. Consumption is measured at 750,000 metric tons. *BISNIS* (2-5-97).

Business Opportunities

Khabarovsk

Private Collection, a private publishing house in the city of Khabarovsk which specializes in historical materials, seeks U.S. writers and publishers interested in joint publishing projects on the history of Russian America, and Alaska and the Russian Far East. Private Collection was established in 1996, employs 10 professionals, and uses modern computer publishing systems. Contact: Olga P. Burya, General Director. Address: 680020 Russia; Khabarovsk; PO Box 2004. Tel./fax: 7(4212)71-35-85. E-mail: rvm@rvm.khv.ru.

Petropavlovsk-Kamchatsky

Rloko-Trust seeks to buy eight refrigerators for use in retail establishments. The company is a wholesale and retail trading company established in 1993. It employs 14 and has annual sales of more than \$750,000. Best way to respond is by fax or e-mail. Contact (possible in English): Dmitriy Shustov, Director. Address: 683000 Russia; Petropavlovsk-Kamchatsky; 10-1 Lenin St. Tel.: 7(41522)282-50 or 234-48. Fax: 7(41522)282-50. E-mail: gorry@rtrust.kamchatka.su. *BISNIS* (2-11-97).

Vladivostok

The Women's Business Club seeks to buy crepe-making equipment and is also

interested in receiving information on ice cream-making equipment and restaurant equipment for fast-food cafes. Several members of the club plan to open fast-food cafes in the city. Respond by fax or e-mail. Contact (possible in English): Olga Belous, Manager, Women's Business Club. Address: 690013 Russia; Vladivostok; 31/1 Shepetkova St., office 8. Tel.: 7(4232)265-789. Fax: 7(4232)234-326. E-mail: wbclub@bwm.marine.su. *BISNIS* (2-7-97).

Primorsk Regional Exporters' and Importers' Assn. seeks to buy from manufacturers two 20-foot containers monthly of a variety of motor oils. Respond by fax. The assn. was established in 1990, employs 15, has annual sales of \$700,000 and distributes motor oils, car care products and automotive parts. Contact (possible in English): Konstantin Gunin, Chairman. Address: 690068 Russia; Vladivostok; 10/A Kirova St., Suite #22. Tel.: 7(4232)473-395. Fax: 7(4232)315-376. *BISNIS* (2-7-97).

Yakutsk

Stimex seeks to buy food-processing equipment, haying machinery, and sawing machinery. Stimex is a private company engaged in wholesale and retail trade of agricultural and wood-processing equipment. It was established in 1994, employs 24, and has annual sales of \$2,500,000. Respond by fax. Contact (possible in English): Stepan Moskvitin, General Director. Address: Russia; Yakutsk; 24/1-2 Dzerzhiskogo St. Tel.: 7(4112)453-038. Fax: 7(4112)453-038 or in Moscow: 7(095)230-2919. *BISNIS* (2-10-97).

Yakutgazprom, a joint stock company, seeks a joint venture partner to help it construct a station in Yakutsk to re-equip automobiles to use liquefied gas, and to service them. Contact: Viktor Bolonov, General Director. Address: Russia; Sakha Republic; Yakutsk; Petr Alekseev St. 76. Tel.: 7(4112)44-81-27. Fax: 7(4112)44-80-59. *Sakha-American Business Education Center (American Russian Center)*.

Delegation seeks technology and investment. A delegation from the Sakha Republic attended the *Construction, Oil and Mining Exposition* in Anchorage in February, seeking new technologies, joint venture partners, and investment. Representatives came from:

- **Villuigesstroi.** This construction company is building a large hydro-electric station. Address: Russia; Sakha Republic; Yakutsk; Tsilkovskogo St., 14. Tel.: 7(4112)62-146 or 62-237.

- **Kustuk.** This ceramic and brick-manufacturing company also seeks construction materials. It has a government guarantee. Address: 677011 Russia; Sakha Republic; Yakutsk; Lenin Prospect, 30, office 419. Tel./fax: 7(41122)42-23-65.
- **Yakutskenergo.** Address: Russia; Sakha Republic; Yakutsk; Popov St., 14. Tel.: 7(41122)49-86-25 or 46-05-33.

Conferences, Trade Missions, & Shows

In the U.S.

Pacific Rim Coal Conference. May 10-13. Anchorage. This twelfth annual conference will feature Alaska and the RFE. Contact: World Trade Center Alaska. Tel.: (907)278-7233.

To Russia

State of AK Trade Mission to Yuzhno-Sakhalinsk. Tentatively April 14-15. Governor Tony Knowles will lead this invitation-only mission open to Alaskan companies involved in oil and gas development. Contact: Becky Beck, AK Division of Trade and Development. Tel.: (907)269-8102.

In Russia

Please note: most contact information is given at the end of this list.

Mining and Exploration, international exhibition. March 18-21. Moscow. Contact: International Trade & Exhibitions Group. Address: Byron House; 112a Shirland Rd; London W92EQ; UK. Tel.: +44-171-286-9720. Fax: +44-171-286-0177.

Architecture, Construction & Design '97. March 24-31. Khabarovsk. Building products, equipment and services. Organizer: FEITC.

Moscow International Oil and Gas Exhibition MIOGE '97. April 7-10. Moscow. World Trade Center Alaska is organizing a delegation to this fourth annual exhibition. Contact: World Trade Center Alaska. Tel.: (907)278-7233.

Dallesexpo '97. April 21-28. Khabarovsk. Timber and wood products and processing equipment. Organizer: FEITC.

Fair organizers

FEITC (Far Eastern International Trade Center). Contact: Evgeniy V. Panusenko.

President. Address: 680038 Russia; Khabarovsk; 60 Seryshev St., Office 101. Tel.: 7(4212)343-967. Fax: 7(4212)332-999 (ask operator for #403096).

In other countries

Fourth North Pacific Rim Fisheries Conference. April 22-24. Tokyo. The Alaska Center for International Business, University of Alaska, Anchorage, the Ministry of Foreign Affairs of Japan, Ministry of Agriculture, Forestry and Fisheries of Japan and the Japan Fisheries Assn. will sponsor this conference which serves as a focus for government managers and industry representatives to discuss management and marketing developments in the North Pacific. Contact: Shawneen Conover at the Alaska Center for international Business. Tel.: (907)786-4300. Fax: (907)786-4319.

Economy

Notes on Khabarovsk

Nancy Luther, director of the American Russian Center-Khabarovsk since 1994 and a Russia specialist who has lived and worked in the Soviet Union and Russia for numerous stints since 1978, notes the following changes in Russia in general and Khabarovsk in particular:

- In general Russian people are more stressed now than they were under the Soviet system. They accept that the Soviet Union is over and they know they can't go back to the social safety net they once had, but the new uncertainties are still hard to cope with. They find it hard to make plans for their lives when economic changes are happening so fast.
- Many people are worse off economically because of the changes. For example, many people can't afford vacations now, whereas everyone used to be able to go on some kind of vacation before.
- People are working harder and don't have as much time to get together and socialize with friends now.
- The infrastructure isn't working as well. There are more potholes, housing isn't as clean, and things don't run as well as they did even during the Soviet Union.
- The flip side is that many people are energized with the new economic possibilities, especially the possibility to

develop and fulfill yourself. For example, there are new possibilities now for men to provide a good life for their families and achieve higher self-esteem than they could under the Soviet system. Business people, especially, aren't disillusioned.

- The scary side, though, is that people have to create their own opportunities now, and without a social safety net.
- With the greater political freedoms there are more possibilities to be yourself. Freedom from repression is a very big deal, but things could still change for the worse politically. At least the political situation is much more stable than it was two years ago—there has been a break-off point since the election and an understanding that now Russia will not go back to communism.
- Many more consumer goods are available now, so shopping has become much easier. The flip side is that more and more is imported now and less and less is grown locally. Even since 1994 a number of small local stores have gone out of business.
- Russian consumers have become much more discriminating in their buying habits. Business people have become much more savvy about business. People are also much more knowledgeable about the U.S.
- In general, women are adapting faster to the changes.
- Overall, life in Russia is better now, but it's not more pleasant.

Khabarovsk statistics

GosKomStat provides the following statistics on the 1996 performance of the Khabarovsk Territory economy:

The territory's gross manufactured product fell 10%, totaling 11,507 billion rubles. Services comprise 51.6% of the gross product.

Overall industrial output totaled 12,755.9 billion rubles—13% lower than during 1995. The iron and steel industry produced 34,400 tons of rolled metal—27% of 1995. The machine-building, chemical industry and construction materials sectors also suffered a significant decline. The drop in copper and tin production was 40% and 30% respectively. Gold output was 0.6% higher. Output of coal dropped from 1,528,000 metric tons in 1995 to 1,450,000 metric tons in 1996. Timber companies

continued on next page

Economy, continued

produced 4.5 million cubic meters of oil. The decline in energy production was not considerable. Volume of consumer goods manufactured fell 13% from twelve months of 1995 to 2,352.8 billion rubles.

Approximately one half of regional enterprises was running at a loss, with total losses amounting to 1,068.0 billion rubles. The most unprofitable sectors were transport (69% of all companies operating in the sector), metallurgy, machine-building, timber and pulp production. Debts totaled 1,172.5 billion rubles, and 56% of debts were overdue. Total capital inflow, including foreign and government investment, amounted to 28,650.0 billion rubles (down by 13%).

45 enterprises were privatized in 1996. 39 of them had belonged to the municipal government, 4 to the regional government and 2 to the federal government.

According to customs data, Khabarovsk's international trade turnover was \$1,051.5 million, of which export amounted to 77.1%. Exports of fish and sea products came to \$31.2 million. 58.8% of fish and sea products was sold to Japan, 19.1% to the Republic of Korea, 15.1% to U.S., and 6.7% to New Zealand.

According to preliminary figures, as of January 1, 1997, the population of the Khabarovsk region was 1,555,500, which is 1% less than in the beginning of 1996. 80.5% of the population is urban. During 1996, 22,527 people moved to the region, and 28,951 left for mostly western regions of the country. The number of patients with tuberculosis increased 26%, and syphilis 80%. *Pacific Star* (2-5-97) by *BISNIS* (2-12-97).

Life expectancy down

According to the World Health Organization, life expectancy now for Russian men is 57.7 years, down from a peak of 65 years in 1987. Life expectancy for Russian women is 71 years, down from 74 years in 1987. The agency blamed the decrease on the collapse of the country's health care system. In the U.S. today, men can expect to live 72 years and women 79 years. *Associated Press* (2-15-97).

Environment

Oil spill notes

Spill has increased. The amount of oil estimated spilled now reaches 1.2 million gallons. The slick has now reached beaches in seven prefectures along a 500-mile stretch of coast. *Associated Press* (1-27-97).

Services sought. The U.S. Embassy in Tokyo is compiling names of U.S. firms capable of providing oil spill services or equipment. Companies interested in being included on the list should fax the embassy as soon as possible. Contact: Mr. Aomori or Mr. Tasharski. Tel.: 011-81-3-3224-5086. Fax: 011-81-3-3589-4235. *World Trade Center Alaska* (2-3-97).

Captain found and buried. The body of Valerii Melnikov, captain of the *Nakhodka*, washed ashore the Japanese coast January 26. *Associated Press* (1-27-97).

Melnikov was buried with full honors in the city of Nakhodka. According to crew members, Melnikov fought to the last minute to save his tanker and was the last man to abandon ship. *Priamurskie News* (2-8-97).

Phenol found in Amur

Priamurskie News (2-8-97) reports that phenol has been found in elevated concentrations in the lower reaches of the Amur River, especially at villages not far from Nikolaevsk-na-Amure.

WWF grant for Sakha Republic

Under an agreement signed February 11, the Swiss-based World Wide Fund for Nature (WWF) will allocate about \$350,000 to fund conservation projects in the Sakha Republic. The republic has suffered severe environmental degradation in Soviet times, when it was plundered for its diamond, oil, and gold reserves. Diamond and gold processing, for example, have polluted the Vilyui River with traces of thallium and other toxic chemicals. In the 1970s and 1980s, the republic experienced 12 underground nuclear explosions, seven of which had a yield equal to or greater than that of the bomb dropped on Hiroshima, according to Sakha officials. Dead forests now surround the explosion sites, and the permafrost is radioactive. Sakha President Mikhail Nikolaev said that his administration wants to improve the situation and is creating a system of nature reserves protected by the government. *Penny Morvant, OMRI Russian Regional Report* (2-12-97).

Investors sought

The Siberian Forests Protection Project at the Pacific Environment and Resources Center and the RFE Association for the Use of Non-Timber Forest Products are looking for potential investors and partners to work with enterprises to promote and develop the RFE non-timber forests products (NTFP) industry. Contact: Sarah Lloyd, NTFP Initiative Coordinator, Siberian Forests Protection Project, Pacific Environment and Resources Center. Address: 1055 Fort Cronkhite, Sausalito CA 94965. Tel.: (415)332-8200. Fax: (415)332-8167. E-mail: percsiberia@igc.apc.org. *BISNIS* (1-24-97).

Finance

Ruble rates

Following are ruble: 1 dollar exchange rates:

January 30	5,627
February 5	5,636
February 14	5,652

Capital Markets Report

EBRD Update

Contact information for the RFE regional representative office of the European Bank for Reconstruction and Development (EBRD) has been changed as follows: Contact (in Vladivostok): Elena Danysh. Tel.: 7(4232)43-07-50. Fax: 7(4232)43-09-49.

EBRD's Russia Small Business Fund began functioning in the RFE at the end of January. It has \$300 million to lend throughout Russia. Small loans up to \$75,000 are available for a two-year term; micro-loans up to \$30,000 are available for a six-month term.

EBRD has also provided \$30 million for the RFE to the Daiwa Far East and Eastern Siberia Fund, a regional venture fund managed jointly by Daiwa Securities and Itochu Corporation. *BISNIS* (2-11-97).

New TUSRIF information

The U.S. Russia Investment Fund (TUSRIF) has appointed Derek Norberg as its new RFE regional director. TUSRIF is a private investment firm capitalized with \$440 million from the U.S. government to assist in the development of a market economy in Russia. To date it has committed over \$9 million to seven projects in the RFE. Contact information for TUSRIF's

office in Khabarovsk is: Address: 680000 Russia; Khabarovsk; 5A, Tolstogo St.; Amethyst Hotel. Tel./fax: 7(4212)22-77-14.

The U.S. office has relocated: Address: 345 Fifth Ave., Suite 300; New York, NY 10017. Tel.: (212)818-0444. Fax: (212)818-0445.

Information Resources

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Vladivostok: Your Essential Guide comes to you from Erik and Allegra Azulay, residents of Vladivostok and authors of *The Russian Far East*. It is available in Vladivostok at the Vlad Motor Inn, the American Business Center, and Nostalgia. To get a copy in the U.S., send an e-mail to: JoanAz@aol.com.

A wall map of Russia based on GIS digital mapping has been published by Russian Information Service. Tel.: 1-800-639-4301.

U.S. Trade and Investment Days in Yakutsk, Republic of Sakha (Yakutiya), a report from BISNIS' September visit to Yakutsk, has been made available by BISNIS. See *About Sources* for BISNIS contact information.

International Update

South Korea

Disputes with Nakhodka Free Economic Zone. Primorye governor Yevgenii Nazdratenko slammed South Korean companies for demanding extra tax benefits in order to begin construction work on an industrial park in the Nakhodka Free Economic Zone, ITAR-TASS reported on February 7. Nazdratenko said that the existing tax benefits in the zone comply with international standards and that the Russian government has allocated 88 billion rubles in 1997 for the construction of a power station and a water supply system for the park. According to Nazdratenko, in 1996, Russia's contribution to the South

Korean economy totaled \$2.5 billion, largely as a result of placing contracts for the construction and repair of merchant ships with Korean companies.

Meanwhile, the administration of Vladivostok has announced its intention to set up its own free economic zone in order to attract more investment and stimulate economic growth. ITAR-TASS reported on February 12. *Natalia Gurushina, OMRI Russian Regional Report* (2-12-97).

United States

President Clinton requests increased NIS funds. On February 6 the president presented his FY 1998 budget to Congress. Included is a request for an increase of NIS funds from \$625 million budgeted for FY 1997 to \$900 million for FY 1998. The emphasis of U.S. aid to the NIS will also change, from technical assistance to partnership activities.

American General shuts down. American General Corporation, a U.S. company based in Khabarovsk and set up as a bridge company to distribute Western Family foods, and, to a lesser degree, computer disks and over-the-counter pharmaceuticals, has shut down. American General began activities in Khabarovsk in 1992. At the height of its operation, the company had 100 distributors and/or retailers under contract; 150 smaller-scale regular buyers; 1,500 stores, 1,000 kiosks, and numerous small outdoor market vendors carrying its food products; and penetration throughout Khabarovsk Territory to Novosibirsk, Vladivostok and Yuzhno-Sakhalinsk. United Grocers out of Portland will now provide Western Family products in the RFE, but not on the same scale as American General.

AOL cuts off Russia. A large number of aol users in Russia had managed to hook up for free, through fake credit card numbers or various types of hacking, so the company cut off the country's local telephone numbers. To connect at all now, users in Russia must make a long-distance call to a U.S. number and pay Russian long-distance rates. *Allegra Azulay*.

Order of Lenin recipient dies. Clyde Armistead, a former Fairbanks airplane mechanic who in 1934 helped save the lives of Soviet scientists stranded on an ice floe in the Arctic Ocean near Chukotka, died February 11. He was the last living recipient of the Order of Lenin—the highest civilian honor the Soviet government bestowed. *Associated Press* (2-16-97).

Mining

Dispute over Kamchatka

The Environmental Defense Fund, Sierra Club, and Pacific Environment and Resources Center have called on the U.S. Overseas Private Investment Corporation (OPIC) to reject providing financing for the Aginskoye gold mining project on Kamchatka. They are concerned about possible pollution of the *Volcanoes of Kamchatka* World Heritage Site, a site designated recently by the United Nations Educational, Scientific, and Cultural Organization.

The protected site consists of five parks: Bystrinsky Park, Kronotsky Nature Preserve, South-Kamchatsky Park, Nalichevsky Park, and the Tundra Nature Preserve.

The environmental groups argue that Aginskoye could pollute Bystrinsky Park, and also argue that Asachinskoye and Rodnikovoye mine sites threaten South-Kamchatsky Park.

Aginskoye is being developed by Kamgold, a joint venture between Canada-based Kinross Gold Corporation, U.S.-based Grynberg Resources, and Russia-based Kamgeo. Asachinskoye and Rodnikovoye are being developed by Canada-based TVX Gold.

The Kamchatka Environmental Control Committee of the Russian Ministry for Environmental Control and Natural Resources supports the Aginskoye mine development, as does the governor of the Bystrinsky Region. In letters to OPIC they brought up the project's economic benefits to the region and environmental controls in place.

Gold market in the works

Russia hopes to establish both a physical and a futures market for gold within the next few months. Since November 1996, when Roskomdragmet was dissolved, gold producers have been unable to sell their gold and an estimated 45 metric tons of metal lies in stock at mines and refineries. Mines have been unable to pay their employees for 2-3 months and production has been effectively suspended.

From February the central bank will once again purchase all gold production and act on behalf of the commercial banks. Thereafter the central bank will participate

continued on next page

Mining, continued

in the proposed new gold market alongside commercial banks and, it is hoped, Western dealers. With gold production running at about 120 metric tons/year, about 90 metric tons/year could come into the market after satisfying local fabrication demand of 30 metric tons/year. Bar sizes will correspond with the 400 oz bar in London, but will also be available in small sizes to encourage private ownership. *Mining Journal* (1-31-97).

Oil, Gas & Energy

Coal might stop

Primorskugol coal company is threatening to stop coal deliveries to the Dalenergo power-generating company in February until the latter pays its 300 billion ruble debt. Primorskugol miners have not been paid since last September—wage arrears come to 180 billion rubles of the total debt. *Capital Markets Report* (2-6-97).

Fuel shortages in Nakhodka

Nakhodka mayor Victor Gnezdilov declared the current fuel shortage an emergency. According to the city administration, heating systems for 80% of residential houses are non-operating. Liquid fuel supplies for boiler rooms, which are the major heat-providing systems in the city, will last only four days. At present, the city administration is negotiating with exporters of liquid fuel to the Asian-Pacific Rim for help in directing some of that fuel to the city in order to patch the problem. *Pacific Star* (1-23-97) in *Sakhalin Oil & Gas Report* (1-29-97).

Russian Legislation

Decree on food labeling

Following is the text of the decree requiring that food products imported to Russia be labeled in Russian by May 1: "With an aim to strengthen the quality and safety control of imported goods, the Government of the Russian Federation approved on December 27, 1996, Decree

No. 1575. *Rules on Ensuring the Availability on Imported Foodstuffs of Information in Russian*, effective as of May 1, 1997.

The Ministry of External Economic Relations, State Committee on Standardization, Metrology and Certification, Ministry of Health Care, and Ministry of Agriculture and Foodstuffs shall ensure the fulfillment of the Decree and introduce necessary changes to appropriate normative acts, regulating wholesale and retail sale of foodstuffs.

The present Rules are developed pursuant to Decree No. 799 of the Russian Federation Government of July 12, 1996, *On Measures to Protect the Russian Federation Consumer Market Against the Penetration of Off-Standard Import Goods*.

Organizations importing foodstuffs into Russia shall provide in the contracts on their delivery as one of mandatory conditions the availability on foodstuffs of information in Russian about structure, food value, period of validity, conditions of storage and application.

Individual entrepreneurs shall not buy import foodstuffs without the information on them in Russian.

The information shall be located on a package or label. In case of small sizes of a package or label on which it is impossible to place the necessary text completely, it is allowed to enclose the information about the good, or part of it, on a supplementary sheet attached to each unit of the good.

The information on foodstuffs should contain the following data:

- name of a product and its kind;
 - country and manufacturer (name of firm may be printed in letters of Latin alphabet);
 - weight or volume of product;
 - names of main ingredients of product, including food additives;
 - nutrition facts (calories, availability of vitamins for products intended for children, remedial and diet nourishment);
 - conditions of storage (for products having limited periods of validity or requiring special storage);
 - period of validity (final date of use or date of manufacturing and term of storage);
 - method of preparation (for semifinished items and products intended for children's nourishment);
 - recommendations for use (for biologically-active food additives); and
 - conditions of application, including contraindication because of any diseases."
- BISNIS* (1-27-97).

Licensing of imported alcohol

Russian prime minister Viktor Chernomyrdin has signed a resolution introducing the licensing of imported alcohol from February 1. Under the new regulations, the customs committee will levy the value-added tax and customs duties in advance. *Capital Markets Report* (2-6-97).

The Russian government had planned on implementing import quotas on strong alcoholic drinks and ethanol, but instead ordered the licensing. It also may increase its tariffs on alcohol and tobacco 20-30% in 1997. *Russian Customs News* (1-97).

New border fees

Under amendments to the law *On the State of the Border of the RF*, individual travelers crossing the Russian border will pay \$10-12 per person, all trucks will be subject to a \$180 levy, and fees on motor vehicles, trains, aircraft, and cargo will be calculated by formula. The fees took effect December 10, but cannot be enforced until border procedures are in place, which is likely to occur during the first quarter of 1997. *BISNIS BULLETIN* (1-97).

On overweight baggage

According to new customs regulations, passengers flying in to Russia must pay \$5 per kg. for any baggage over a 50-kg. limit. The regulation is aimed at collecting money from people who buy goods abroad for resale in Russia. *American Russian Center, Khabarovsk*.

Focus on Sakhalin

Economy

Statistics. At the end of 1996 the Sakhalin region had 180 large and medium enterprises, of which 16% were state enterprises, 3% municipal, 29% private, and 52% mixed enterprises. The largest are JSC Sakhalinugol employing 13,111; JSC Sakhalinlesprom employing 10,396; and JSC Sakhalinmorneftegaz employing 5,160.

Last year industrial production amounted to 6 trillion rubles (in 1996 rubles), 90.7% of 1995 levels. The largest reductions were in timber and mill industries, which came down 29% from 1995 levels; in the construction industry-22%, in food and light industries-23%, and in flour-grinding,

cereals and mix fodder industries-50%. *Free Sakhalin* (1-10-97) by *American Russian Center, Yuzhno-Sakhalinsk*.

Infrastructure development

Construction of Nogliki power station stops. At a late January meeting called by Sakhalin governor Igor Farkhutdinov, construction of the Nogliki Gas Power Plant was officially halted until environmental and local concerns can be addressed. Local dacha owners claim the site is being located closer to them than the 500-600 meters originally planned in order to adhere to environmental regulations. Concerns were also voiced about the plant's proximity to rail tracks, about noise, and about pipe height and quality in order to prevent leaks.

Contractor Sakhalinmorneftegas has not moved forward with construction since December 1996 because sufficient funding has not yet been secured. Officials hope the plant, when completed, will supplement the local economy and decrease power shortages throughout the region. Nogliki is located on north-eastern Sakhalin Island near the off-shore fields. *Free Sakhalin* (2-11-97) in *Sakhalin Oil & Gas Report* (2-13-97).

Water system upgrade. The Sakhalin Regional Administration has budgeted money from oil bonus funds for a water system upgrade in Yuzhno-Sakhalinsk. As we reported in our January issue, water problems are acute in the city. Water is currently only available for limited periods of time each day, particularly in the newer southern regions of the city. Water quality is also a concern, with hepatitis outbreaks and increased levels of harmful chemicals and insect larvae.

Now problems have cropped up in paying for the project. The administration transferred half of the money for the upgrade in August, but delayed transferring the balance until December. The money moved through a bank that went bankrupt, and so was not received. As a result construction companies involved in the project have not been paid. The federal government also promised \$1.4 million but has not yet delivered it. *Sovietsky Sakhalin* (1-21-97) in *Sakhalin Oil & Gas Report* (2-5-97).

International

Japanese ambassador visits Sakhalin. Japanese Ambassador to the RFE Takahero Togo recently visited Sakhalin for the first time. Sakhalin residents expressed displeasure at the Japanese government's decision to host U.S. and NATO military games on Hokkaido. Mr. Togo said that increasing forces there allows Japan to move some of the burden of U.S. military troops from Okinawa. He emphasized the passing of the Cold War and that the Japanese-U.S. alliance provided a stabilizing force in the Pacific Rim. Mr. Togo also discussed the proposed future construction of a bridge or tunnel to connect Sakhalin and Japan. *Free Sakhalin* (2-7-97) in *Sakhalin Oil & Gas Report* (2-13-97).

Gore & Chernomyrdin investment initiative. On February 7 at the eighth meeting of the U.S.-Russian Joint Commission on Economic and Technological Cooperation, U.S. vice-president Al Gore and Russian prime minister Viktor Chernomyrdin issued a joint statement on a regional investment initiative in Russia. They noted that the U.S. and Russia will focus special attention on the RFE and on key U.S.-Russian energy projects involving Sakhalin Island.

Oil and gas projects

An update. Dinty Miller, general director of the American Business Centers in Khabarovsk and Yuzhno-Sakhalinsk, provides the following notes on the Sakhalin off-shore oil and gas projects and the business climate on the island:

Sakhalin I (Exxon Neftegas Ltd., SODECO, Rosneft-Sakhalin, and Sakhalinmorneftegaz Shelf) will continue to do survey work this summer to confirm reserves. Work will include running two platforms. The project will also be constructing western-style single-family and multiple-resident housing in Yuzhno-Sakhalinsk for expatriate employees and Russian employees transferring from Western Russia.

Sakhalin II (Sakhalin Energy Investment Company Ltd. (Marathon Oil, McDermott, Shell, Mitsui and Mitsubishi)) is having a spacer (an understructure) for the Molikpaq mobile drilling and production facility built at the Amur Shipbuilding Plant in Komsomolsk-na-Amure. The company is also having a production unit for the side of the Molikpaq built in Japan. The Molikpaq will drill and produce the oil and then a short pipeline will transport the oil to a

single anchor leg mooring buoy and a storage tanker. In the initial phase of the project, tankers will fill up right there, rather than from an on-shore facility. Sakhalin Energy hopes to have these facilities in place by the summer of 1998 and to produce first oil by 1999. The company also plans to begin construction of a western-style office building and western-style housing in Yuzhno-Sakhalinsk this summer (see following *Sakhalin Energy housing tender* report). Finally, Sakhalin Energy will be doing land survey work this summer in preparation for later-phase land-based facilities.

Sakhalin III Tender (Exxon Neftegas Ltd. has a 100% interest in the Ayashskiy and East Odoptinskiy blocks; Mobil-Texaco have rights to the Kirinskiy block) The companies are still waiting for ratification of their production-sharing agreements.

The business climate. The "boom" is happening slowly. Currently there isn't a lot of building activity in Yuzhno-Sakhalinsk. It may take 1-2 years for many joint-ventures to begin working well. There is also still some caution until normative acts that support the PSAs pass the federal legislature. Timing is critical for U.S. companies coming to Sakhalin—it's an expensive place to do business.

Those companies arriving include international transport companies, engineering firms, and construction firms—especially larger firms are becoming established and setting up offices.

Sakhalin is not the easiest place to live and do business. Food prices are currently rising and selection is going down. Tax and customs authorities are getting more aggressive in collecting money—there are 44 different tax agencies in Yuzhno-Sakhalinsk now. Energy problems on Sakhalin are also worse now and blackouts are common. The general business climate is more difficult than even two years ago. Still, tax reform will happen—it's just a question of time.

Sakhalin Energy housing tender. Sakhalin Energy will hold a tender probably in March for a housing construction project. To qualify, Russian and foreign contractors must be on a pre-qualification list. Sakhalin Energy Infrastructure Manager Stephen R. Cravey said that although it would be difficult for other companies to get on the list at this point, it might not be impossible.

continued on next page

Focus on Sakhalin, continued

The houses are likely to be wooden, two-story pre-fabricated units. The project will start as soon as weather permits this spring and will be carried out in stages over about a three-year period. The end result will be housing for approximately 250 people, about 150 homes. The project will be located on land procured by the contractor from the Sakhalin government.

Preference will be given to joint ventures. Sakhalin Energy maintains a database of Russian and U.S. companies interested in bidding on projects involved with Sakhalin II. Contact: Sakhalin Energy Investment Company Ltd. Address: 693000 Russia; Yuzhno-Sakhalinsk; 32 Kommunisticheskoy Ave.; Sakhalincenter #550. Local tel.: 7(42422)2-39-42 or 7-35-51. Intl. tel.: 7-504-41-62013. Local fax: 7(42422)2-35-61. Intl. fax: 7-504-41-62012. *Sakhalin Oil & Gas Report* (2-19-97).

OPIC protocol with Sakhalin Energy. At the eighth meeting of the U.S.-Russian Joint Commission on Economic and Technological Cooperation held in Washington D.C. February 7, Ruth R. Harkin, President and CEO of Overseas Private Investment Corporation (OPIC), signed a protocol with Sakhalin Energy for \$116 million in project financing for the Sakhalin II project. U.S. vice-president Al Gore and Russian prime minister Victor Chernomyrdin witnessed the signing. Under the protocol, Sakhalin Energy will proceed on an expedited basis to complete its application with OPIC for project financing, and U.S. partners Marathon Oil and McDermott International Inc. may consider applying for OPIC political risk insurance. Tel. for OPIC: (202)336-8636. *OPIC* (2-7-97).

Strike at Amur Shipbuilding Plant. *Pacific Star* (2-8-97) reports that three hundred workers at the Amur Shipbuilding Plant in Komsomolsk-na-Amure staged a one-hour strike protesting non-payment of wages for four months now, low wages and lack of safety clothing needed for work. Employees shut down work both on the spacer (understructure) for Sakhalin II's Molikpaq mobile drilling and production facility and on the refitting of a barge with a nuclear waste processing facility for Primorye.

An update on Petrosakh. In March Mahfood Binhameed, vice-president of operations for the past two years, will succeed Laszlo Karoly, Petrosakh president since September 1995.

Petrosakh is currently the only international petroleum operator producing and refining oil on Sakhalin—in the Okruzhnoye field in the Pogranichni basin mid-way up the western side of the island. Petrosakh is 95% owned by Nimir Petroleum Limited and 5% by Russian partner Sameco.

In 1994 the company constructed a refinery on the island which, under the terms of the licensing agreement, refines for local consumption 40% of the oil it produces. At 3,800 bpd, this oil meets 25% of Sakhalin's need for refined products. The rest comes from the mainland. Because, however, mainland supplies are often interrupted by shipping service problems brought about by strikes, fuel shortages, etc., Sakhalin power plants often call on Petrosakh to supply fuel oil on credit in order to bring relief to frequent power shortages. Refinery output is 9% kerosene, 20% diesel, 35% gasoline and 36% fuel oil.

In 1996 Petrosakh drilled three new development wells and one exploration well and completed the construction of a new marine terminal.

Petrosakh currently produces about 6,400 bpd of crude. It exports the 60% not refined on the island via the Okruzhnoye sea terminal during the summer and the port of Korsakov during the winter. China is a major customer. Another noteworthy customer is Tesoro Alaska. It transports local fuel oil by road to the town of Pervomaik and then by train to final destinations on the island. The company employs about 500, 96% of whom represent local skilled labor.

With exploratory drilling completed in December, the Pogranichni basin is fully explored, and the Okruzhnoye field is considered mature. Ten production wells are currently in operation and, due to a fractured reservoir, no additional wells are required. The use of secondary recovery techniques is deemed too expensive for the small Okruzhnoye field.

The future of Petrosakh is uncertain at present. Nimir originally made the decision to invest on Sakhalin in the hopes that the tax atmosphere in Russia would improve. The tax burden, however, has continued to increase. Petrosakh is currently required to pay 38 different taxes, 45% of which are

local and 65% of which are federal. Total taxes paid in 1996 exceeded \$14 million, even though the project lost \$1 million.

Unlike the upcoming offshore projects, Petrosakh is not protected by a Production Sharing Agreement (PSA). The company is seeking such an agreement, but no legislation currently exists to allow a company to convert from a joint stock company to a PSA.

As one of the only operating companies on the island to pay full taxes on time, Petrosakh is a major source of tax revenue and receives a great deal of support from the Farkhutdinov administration.

Petrosakh is also required to pay taxes on profits at the point of sale. Doing so is not a problem when exporting crude, but the products the company is required to sell domestically are often not paid for in a timely manner. Thus, the company is required to front not only the cost of producing the product, but the tax on unreceived profits as well. Debt from local customers presently exceeds \$4 million.

Another growing concern is increased taxes and certification regulations on food supplies imported for camp consumption, even though they are not for resale. One shipment was held for two months at a storage cost to the company of \$18,000.

Petrosakh is currently seeking to cut costs and to lower tariffs in order to decrease the need for parent-company financing. For the company to continue to operate much longer under the current conditions, it would need to be awarded new fields. Otherwise, increasing costs and decreasing profit potential may force it to evaluate other options, one of which would be to reorganize as a new company, allowing it to seek a PSA. *Sakhalin Oil & Gas Report* (1-29-97).

Exploration licenses lost. In December several Sakhalin companies lost exploration licenses to oil and gas fields offshore Sakhalin because they had not begun research and exploration of the fields. According to Peter Sadovnik of Sakhalingeolcom, the fields are located on the east and west coasts of Sakhalin, encompass an area of 500 sq. km., and may contain ten million tons of fuel. Samir and Sameto had their licenses revoked; oil joint stock company Shelf voluntarily gave up its license.

The companies were not able to begin research and exploration mainly because they lacked financial means. According to Peter Sadovnik, the current tax policy is to

blame for discouraging investment in research and exploration. *Free Sakhalin* (1-17-97) by *American Russian Center, Yuzhno-Sakhalinsk*.

Politics

Sakhalin Duma cuts money to Moscow. On February 11 the Sakhalin Regional Duma passed a resolution halting the transfer of all payments to the federal treasury because of non-payment of wages owed to Sakhalin workers by the Ministry of Finance. The Sakhalin government has, though, fulfilled its financial obligations to the federal government for 1996. The Ministry of Finance first responded with threats and then with a promise to transfer 126 billion rubles to Sakhalin for 1996 debts, and earmark an additional 10 billion rubles for Sakhalin. *Sovietsky Sakhalin* (2-13 & 2-19-97) in *Sakhalin Oil & Gas Report* (2-13 & 2-19-97).

Travel

Alaska plans to fly to Yuzhno. Pending approval by Russian authorities, Alaska Airlines has announced that it will begin direct service from Anchorage to Yuzhno-Sakhalinsk on May 15. Alaska plans to fly to Yuzhno-Sakhalinsk on Thursdays (arriving on Fridays) and return to Anchorage on Mondays (arriving on Sundays).

Alaska Airlines began regular service to Russia in 1991 and currently flies to Khabarovsk, Magadan, Petropavlovsk-Kamchatsky and Vladivostok. For reservations and more information, contact Alaska Airlines' international desk at 1-800-308-0101.

ABC Yuzhno is agent for Alaska Airlines. The American Business Center (ABC) in Yuzhno-Sakhalinsk is the booking agent for Alaska Airlines on Sakhalin Island. Alaska Airlines passengers there may contact the ABC for travel assistance. Local tel.: 7(42422)2-31-42. Intl. tel.: 7-509-95-1545. Intl. fax: 7-509-95-1540. E-mail: abc@abc.sakhalin.su.

Fuel shortages grounding SAT flights. Fuel shortages on the island grounded Sakhalinsk Aviatrassy (SAT) flights for a number of days in early February. SAT arranged a special flight Friday February 7 to get Sakhalin Duma members and PAC COM conference participants off the island and on their way to Anchorage, but several travelers remained stranded on Sakhalin.

Passengers to Burivestnik in the Kuril Islands were unable to leave Yuzhno-Sakhalinsk for an entire week due to the

lack of fuel. SAT is the only company servicing the Kurils from Sakhalin.

SAT has resumed regular service to Khabarovsk, but is fueling primarily in Khabarovsk through an agreement with Khabarovsk Air. It has canceled flights to the Kurils and to Okha for an indefinite period of time. The majority of SAT's fuel reserve on Sakhalin is slated for international flights. *Sovietsky Sakhalin* (2-13-96) in *Sakhalin Oil & Gas Report* (2-13-97).

Snowstorm paralyzes island. Two days of heavy snow and strong winds have paralyzed life on Sakhalin, cutting off flights and ferries between the island the mainland. About 1.5 feet fell and wind gusts reached 65 mph. One man died in an avalanche. *Associated Press* (2-19-97).

Timber

Japan offers loan

The Japanese government will provide Russia with a \$100 million credit for timber harvesting in the Far East. ITAR-TASS reported on February 4. The loan will be repaid with supplies of 3 million cubic meters of Russian timber to Japan over five years. The money will be available in the form of loans from Japan's Export-Import Bank. Japanese trade and engineering companies participating in the credit agreement are also likely to get part of the \$500 million Japanese humanitarian aid package, which was frozen in 1991 and unlocked in November 1996.

Meanwhile, Russian financial authorities have expressed concern that Russian timber exporting companies are concealing their income from tax collectors. A spokesperson for the Far Eastern Tax Service said that timber exports to Japan topped 450,000 cubic meters in 1996, a 36% increase over the previous year. A large proportion of this amount was sold through barter deals which are often used as a way of concealing export revenue and taxes from authorities. *Natalia Gurushina, OMRI Russian Regional Report* (2-5-97).

Canada sells equipment

Amurskiy Furniture Combinat, a joint stock company, has signed a \$421,000 contract with Morbach of Canada for timber-processing equipment to arrive in Amursk in May. With this equipment the factory will be able to increase its output and

quality of export products which it ships mainly to Japan and South Korea. *Pacific Star* (2-15-97) by *American Russian Center, Khabarovsk*.

Lumber plant in Poronaik

The board of directors of Sakhalinlesprom joint stock company recently approved an investment program for construction of a lumber plant at Poronaik, Sakhalin. The plant will manufacture prefabricated homes, export-quality lumber and particle board. The project will be part of a federal program to develop the timber industry in the RFE. Loans to cover purchases of U.S. equipment and technology will come from the U.S. Export-Import Bank. The total project is estimated at \$100 million. *Znamya Truda* (2-6-97) in *Sakhalin Oil & Gas Report* (2-13-97).

Transportation & Shipping

Air traffic control modernization

A \$30 million project is in the works to modernize air traffic control in the RFE. It will involve procurement and installation of air traffic control equipment and navigational aid systems in the RFE.

The U.S. Trade and Development Agency funded a feasibility study on the project, which was completed in 1994 by Booz Allen & Hamilton. The European Bank and Development is considering provision of a loan to fund procurements. Final agreement with EBRD on lending terms and announcement of a tender have been delayed by personnel changes and structural reorganizations at Rosaeronavigatsiya and its parent entity, the Russian Ministry of Transport.

Expected tender release is in first quarter 1997. The contracting authority is: Department of Air Traffic Control (formerly Rosaeronavigatsiya), Mikhail Ushakov, Head. Tel. (in Moscow): 7(095)155-5310. Fax: 7(095)155-5335. *U.S. Embassy, Moscow* (2-12-97).

Travel Tips

Notes on Khabarovsk

When I came down with a sinus infection during a recent stay in Khabarovsk, I made the following discoveries:

- You can get a wide variety of drugs, including over-the-counter antibiotics manufactured in Europe, at the three Dal'farma stores in Khabarovsk: 1). Karl Marks St. 45, tel.: 21-06-26, open 9am-8pm, no breaks; 2). Muravyova-Amurskogo 22, tel.: 38-83-56, open 8am-8pm, break 2:30-3:00pm; and 3). Muravyova-Amurskogo 1, no tel., open 24 hours, no breaks. You will need to be able to recognize the generic name of the drug in Cyrillic.
- The Dal'-U Sauna, a luxury bathing and sauna establishment, is a treat whether you're sick or not. Cost is 88,500 rubles for two hours; daily rates are also available. Mo. Wed. Fr. are women's days; Thu. Sat. are men's; and Tues. Sun. are family. Bathing suits are worn only on family days; bring your own shampoo. Open 11am-11pm. Located at Moskovskaya St. 7. Tel.: 33-53-89.

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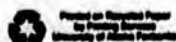


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WORLD TRADE CENTER**

**** SAMPLE ****

The following report is a publication of the Troika ALASKA Commercial Center in Yuzhno-Sakhalinsk, Sakhalin Island, Russia. The Director of the Yuzhno-Sakhalinsk office is Todd Crossett. The Office Manager is Elena Danilova. Robin Zerbel, Director, can be reached at 421 West First Avenue, Suite 300, Anchorage, Alaska 99501, tel: 907-278-7233, fax: 907-278-2982, e-mail: ANRRZ@uaa.alaska.edu

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**Sakhalin Oil and Gas Report
Troika ALASKA Commercial Center
Yuzhno-Sakhalinsk, Russia
February 28, 1997**

Ruble Exchange Rate: 5660

Sakhalin I Selects Kvaerner Oil and Gas Ltd. for Platform Construction

The Sakhalin I oil and gas development project has selected Kvaerner Oil and Gas Ltd. to assist in the construction of a world class production platform to be located on the Arkutun Dagi offshore field. Involved in the effort will be: project management, engineering, procurement, and construction management for the platform's jacket and topsides. The total cost, installed, is estimated at one billion USD.

A fixed jacket will support a 20,000 to 30,000 ton topside with drilling equipment, processing facilities and living quarters. The platform is expected to have a daily capacity of 115,000 barrels of oil and 360 million cubic feet of gas. The project execution team will be based in London.

Contact Information:

In USA:

Contact person: Derek Disney
Of: Kvaerner John Brown
Tel: (713) 270-2380

In UK:

Project Director: Borger Mabraten
Tel: 44 (181) 401-0695
Or: George Mowatt
Tel: 44 (181) 401-0600

In Oslo:

Vice President of Corporate Communications: Marit Ytreeide
Tel: 47-67-51-3106 or 901-28-308
(Kvaerner Press Release)

Head of Protocol Division Hired by Sakhalin II

Anatoli M. Samolenko, former Head of the Protocol Division of the Sakhalin Administration Department of Foreign Economic Affairs, has been hired by Sakhalin Energy as the Recruiting and Human Resources Coordinator for the Russian side. Vladimir Nosov is the current acting Department Head of the Protocol Division. A permanent replacement for Mr. Samolenko has not yet been named.

Mr. Samolenko said Sakhalin Energy has advertised job openings and is currently accepting resumes. In the short term, they plan to fill ten mid-management positions in technical fields, such as: environmental science, electrical engineering and process training. Priority will be given to Sakhalin residents, but it is expected that some specialists will also be relocated from elsewhere in Russia. Mr. Samolenko added that many specialists are already located on Sakhalin, but that, having mostly been involved in research, they are not yet experienced in offshore production. Specialists from FEMCO, for example, have recently been working in Vietnam as advisors for oil and gas exploration there.

(From a Troika interview with Anatoli Samolenko, February 24, '97)

Aviation Fuel Shortage - Update

An aviation fuel shortage on Sakhalin Island continues to curtail service on the Sakhalin carrier, SAT, to certain local destinations. Service remains canceled to Okha, the Kuril Islands and Vladivostok. However, SAT is still operating local flights to Khabarovsk and international flights to Hokkaido, Seoul and Pusan. A tanker of fuel is reportedly to be shipped from Nakhodka. Two hundred million rubles were granted to SAT, from the Sakhalin Regional fund, for buying fuel.
("Sovietsky Sakhalin," February 22, '97)

Sakhalin Personal Profiles

Ivan Pavlovich Malakhov, First Vice Governor of the Sakhalin Region. Also the Head of the Department of Planning and Development.

Mr. Malokhov was born in the Astrakhan Region in 1953. He attended the Leningrad Engineering College, graduating in 1977. From graduation to 1987, he served as an officer in the Soviet Armed Forces. In 1990 and 1991, he was First Vice-Chairman of the Executive Committee of Nevelsk, on Sakhalin Island. From 1991 to 1996, he was the Mayor of Nevelsk. In 1995, he earned a doctorate in economics from the Russian Academy of State Service, under the President of the Russian Federation.

Since September, 1996, he has been Head of the Sakhalin Department of Planning and Development. As such, he is also Head of the Sakhalin Infrastructure Development Committee. This committee is responsible for developing short and long term infrastructure development goals and funding priorities. Mr. Malakhov is reportedly of the personal opinion that financial priority should be given to the development of leading local enterprises and that 10 to 15 percent should go toward social development. Mr. Merkoshev is the First Deputy of Mr. Malakhov and is in charge of coordinating proposals gathered from department heads and from Mayors of Sakhalin communities.

Mr. Malakhov is married and has two children.
(Public Record)

Sakhalin Duma Delegation to Anchorage Returns

* A Sakhalin Duma Delegation, headed by Vladislav Rukavets, returned recently from Anchorage where they were guests of Sakhalin Energy. The deputies studied the preparations of the Sakhalin II project players for the development of Sakhalin shelf. They also learned about Alaskan oil and gas production and distribution - paying particular attention to how Alaskans dealt with environmental safety.

Also during the ten day trip, the Sakhalin Regional Duma and the State of Alaska Legislature signed a memorandum of cooperation. According to Zinaida Sbotova, Chairman of the Legislation Committee of the Sakhalin Region Duma, the Sakhalin Duma plans to use the experience of Alaska's Legislature while preparing Sakhalin Region draft bills related to the Sakhalin Shelf.
("Pacific Star," February 26, '97)

Yuzhno-Sakhalinsk Mayoral Candidates

The electoral committee has register the following candidates for Mayor of Yuzhno-Sakhalinsk:

- * Aldoshin, Vitaly Tikhonovich. Born June 26, 1933. Deputy of General Director of the Joint-Stock company "Sakhalinlesprom".
- * Labay, Vladimir Romanovich. Born April 10, 1955. Chairman of the Sakhalin Administration Construction Department.
- * Sidorenko, Fyodor Ilich. Born May 19, 1950. Chairman of the Sakhalin branch of Russian Federal Hard Currency and Export Control.
- * Kruglov, Vyacheslav Mikhaylovich. Born February 19, 1948. Director of a municipal enterprise, "Yuzhno-Sakhalinsk Passenger Car Transportation."
- * Vatazhnikov, Pavel Borisovich. Born 1955. General Director of the Joint-Stock company "Novoaleksandrovsk Car Enterprise."
- * Semikolennikh, Oleg Mikhaylovich. Born October 12, 1939. Chairman of the Cooperative, "Mostovik".

The City Elections are to be held on March 16.

Nogliki District Elections

On March 16, the Region of Nogliki will hold elections for Regional Council deputies and for the position of Mayor of the Nogliki District. The Mayor and seven deputies are elected for four year terms. Nogliki is located on north-east Sakhalin, and is a logical hub for offshore activity.
("Znamya Truda," February 18, '97)

Sakhalinmorneftegas Review of 1996

Rosneft-Sakhalinmorneftegas reports a successful year in 1996. Profits increased 40%, from 315 billion rubles in 1995 to 470 billion rubles in 1996. Planned drilling work for the year was actually exceeded by three percent. Sakhalinmorneftegas (SMNG) put on-shore gas fields into production and commenced work on the Sakhalin I and II projects.

The average wage for SMNG workers doubled, increasing from 1,100,000 rubles per month in 1995 to 2,100,000 rubles per month in 1996. Three billion rubles were also spent on medical equipment and approximately 700,000 rubles, per employee, on medical treatment.

Problems encountered by SMNG include still unpaid debts for oil delivered to Khabarovsk Krai and high prices for Sakhalin oil, driven by high costs. SMNG has had to work out a cost reduction program to lower prices in order to compete with Siberian oil producers.
("Znamya Truda," January 29, '97)

Local Insurance Companies Unite Against Outside Competitors

Sakhalin insurance companies are appealing to Sakhalin Governor Igor Farkhutdinov in their struggle to prevent an exclusive insurance agreement between the Regional Administration and Moscow based joint stock insurance company "Rosno". The agreement would grant the rights to insure all shelf projects. Also under the contract, the Regional Administration would cover all of Rosno's risks connected to the Shelf projects. In return Rosno would invest two trillion rubles in the Region.

Eight insurance companies held a special meeting of the "Sakhalin Insurance Companies" organization, established by Farkhutdinov. Although Rosno has opened a branch office on Sakhalin, the local companies protest that awarding the contract to the Moscow based firm will increase the flow of money off the Island. They also argue that Rosno specializes in private and medical insurance and that their service structure consists of only two percent property insurance. They feel the Shelf projects should be insured by someone with greater experience with marine and oil and gas projects.

In response, the local Sakhalin insurance companies have put their own plan before the Governor. According to this plan, one local company would serve as the coordination leader, allowing other Sakhalin insurance providers to join that company. Foreign insurance companies would then be allowed to serve the Shelf projects - but only in conjunction with Russian companies. In addition, foreign insurance contracts would be allotted through a competitive process, guaranteeing the Region the ability to choose the most profitable terms.

The reporter feels the Governor is aware of the need to keep large insurance contracts on Sakhalin but is also torn by the need to meet regional financial commitments, such as wage and pension debts.
("Svobodny Sakhalin," February 21, '97)

Sakhalin State Duma Representative Speaks Out Against PSA's

Sakhalin Representative to the Federal Duma, Ivan Zhdakaev, a Communist Party member, spoke out recently against the Production Sharing Law. His arguments are the following.

1. He feels that "supplement E" of "issue 18", will oblige Russia to reimburse oil companies all previous tax payments. He feels this would be a great financial loss to Russia.
2. He accuses Regional Duma Deputies and Sakhalin inhabitants of knowing little about the agreements of the Sakhalin Projects.
3. He does not believe there have been conclusive positive decisions by Russian ecological institutions about the proposed oil-gas pipeline construction on South Sakhalin Island.

He goes on to accuse an unknown entity of being interested in forcing inhabitants off of North Sakhalin in order to sell off its resources and that "nobody knows who will become the master of these new treasures."
("Gubernskie Novosti," February 27, '97)

Submarines Seek Work on Shelf

* Professor G. Turmov, Rector of the Far Eastern Technical University, recently addressed the Sakhalin Region Administration with a proposal to enlist submarines to carry out work on marine oil drilling platforms for the Shelf projects, including: production, installation and ice proofing. Scientists of the Marine and Construction Institutes of the Far Eastern Technical University are ready to draw feasibility studies, design a sketch project and prepare a business plan. The scientists claim their proposal will solve the following problems. First of all, a large number of aging diesel and nuclear submarines, owned by the Russian Pacific Fleet, need to be put to work. Secondly, Russian Far East ship repairing plants are facing difficulties with conversion and are currently overloaded with orders, creating a potential environmental hazard. And thirdly, they believe the use of submarines will reduce platform construction costs. The Sakhalin Region Administration plans to examine this proposition.
("Pacific Star," February 19, '97)

Sakhalin Oil & Gas Report

Sakhalin Island, located off the southeastern coast of the Russian Far East just north of Japan, is the site of enormous oil & gas deposits being developed by Exxon, Sakhalin Energy Corporation (McDermott, Marathon, Mitsui, Mitsubishi, & Shell), Mobile, Texaco, and others. **Investments by these multi-national corporations in the first two development projects alone will total over 25 billion USD.**

The SAKHALIN OIL & GAS REPORT is a **no-frills, 1-page information brief distributed weekly** (48 weeks, excluding major holidays) via e-mail from the World Trade Center Alaska's office in Yuzhno-Sakhalinsk, the capital of Sakhalin Island.

The Report will keep you up-to-date on the status of the oil & gas projects, and will include:

- information from local newspapers on oil development projects
- press releases from the energy companies located on Sakhalin
- updates from the Sakhalin Regional Administration and other players
- progress/status reports on the energy companies' current activities and time-lines
- tender announcements (when possible)
- personnel changes in the energy companies/regional administration and other similar information

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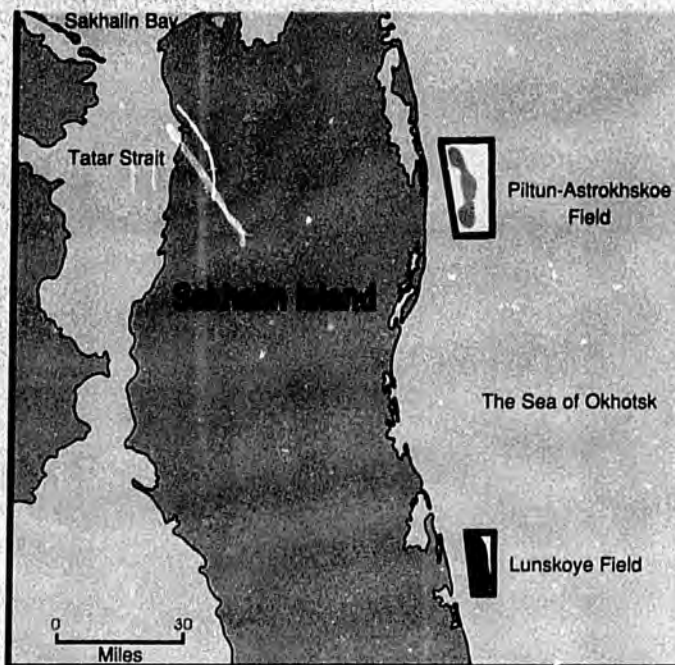
THE SAKHALIN ENERGY PROJECT



**The first project to proceed under
production sharing terms in Russia**



BACKGROUND



Region Map

Oil and gas have been produced on Sakhalin Island for more than 60 years. Most onshore fields are almost depleted. Several large hydrocarbon deposits have been discovered off the northeastern shore of the island over the last 20 years, including the Odoptu Field in 1977, Chaivo in 1979, Lunkoye in 1984, Piltun-Astokhskoye in 1986, and Arkutun in 1989.

Tender

In May 1991 an offshore tender was announced for development of the Sakhalin shelf, which attracted a number of major multinational oil companies experienced in working in harsh Arctic environments.



After winning the tender, a group of companies which later became known as the MMMMS Consortium, together with Russian experts, completed a Feasibility Study for the development of the Piltun-Astokhskoye and Lunkoye offshore fields (the Sakhalin-II Project). In March 1993, after examination of the Feasibility Study the Finance and Environment Ministries of the Russian Federation recommended the Russian Federation sign an agreement with the MMMMS Consortium to develop these fields on the basis of production sharing.

Sakhalin Energy

In April 1994, the MMMMS Consortium formed Sakhalin Energy Investment Company, Ltd. for the centralized management of the Project on behalf of its shareholders.

Shareholders in the Sakhalin Energy Project

Marathon Sakhalin Limited	(30%)
McDermott Sakhalin, Inc.	(20%)
Mitsui Sakhalin Development Co., Ltd.	(20%)
Shell Sakhalin Holdings B.V.	(20%)
Diamond Gas Sakhalin B.V., a wholly owned subsidiary of Mitsubishi Corporation	(10%)

Each of the Sakhalin Energy shareholder companies is well-known internationally and, because of their long record of successful multibillion dollar oil and gas projects, each of these companies enjoys a high reputation in the oil and gas community, and with the countries in which they work.

The Production Sharing Agreement (PSA)

Sakhalin Energy signed its Production Sharing Agreement with the Russian Federation in June 1994. The agreement gave Sakhalin Energy the right to explore, develop and operate the Piltun-Astokhskoye and Lunkoye fields.

Under the terms of a PSC, the investor is paid for his efforts through a share of the production from the project. Typically, revenues from the production are used first to pay a royalty to the host government for use of its subsoil resources. Next, the operating company is reimbursed the costs of development and operation. Remaining revenues are then split between the investor and the host government according to a sliding scale which gives the host country the greater share of revenues according to the rate of return. A scheme like this offers benefits to both the host country and the investors. It allows the host country to develop its natural resources, obtain early revenue from the development, and to maximize its share of revenue should energy prices rise or production exceed expected levels. At the same time it provides greater certainty for investors that they will recover their costs and earn an acceptable return.

Since Russian legislation governing the relationship between parties exploring for hydrocarbon resources was still in its formative stages at the time of signing the Sakhalin Energy PSC, implementation was made conditional upon the enactment of certain laws in Russia. These laws would establish a legal framework for the development of oil and gas fields under production sharing terms.

In December 1995 the Russian Federation State Duma enacted a "Law on Production Sharing Agreements." This was a key step toward the creation of a legal basis in Russia for agreements of the production sharing type. Work also began on other legislative acts needed to establish a coherent and comprehensive regime.

Licences

In May 1996 the Russian Federation issued licences to Sakhalin Energy to develop the Piltun-Astokhskoye and Lunkoye fields.

Commencement Date

On May 21 1996, Sakhalin Energy, according to terms of its PSC, notified the Russian party of an official Commencement Date for the Project. When making this announcement, Sakhalin Energy emphasized that critical elements of the legal framework for PSCs still had to be resolved, and until then development could not go forward.

BRIEF DESCRIPTION OF THE PROJECT



Geological Setting

Piltun-Astokhskoye is an oil field with associated gas. Lunskeye is a gas field with associated oil and condensate. The fields are located 13-16 km off the east coast of Sakhalin Island, in the Sea of Okhotsk.

It is estimated that the two fields contain recoverable reserves of 100 million tonnes (750 million barrels) of hydrocarbon liquids and 494 billion cubic meters (14 trillion cubic feet) of gas.

Environmental Conditions in the Sea of Okhotsk

Ice season	-up to nine months a year
Seismicity	-up to magnitude 8 Richter
Ice field thickness	-1.5 to 2 meters
Water depth	-30 to 50 meters

These characteristics of the Sakhalin shelf were given careful consideration in the Feasibility Study, and they will be taken fully into account in the preparation and approval of the detailed development plans.

Environmental Protection

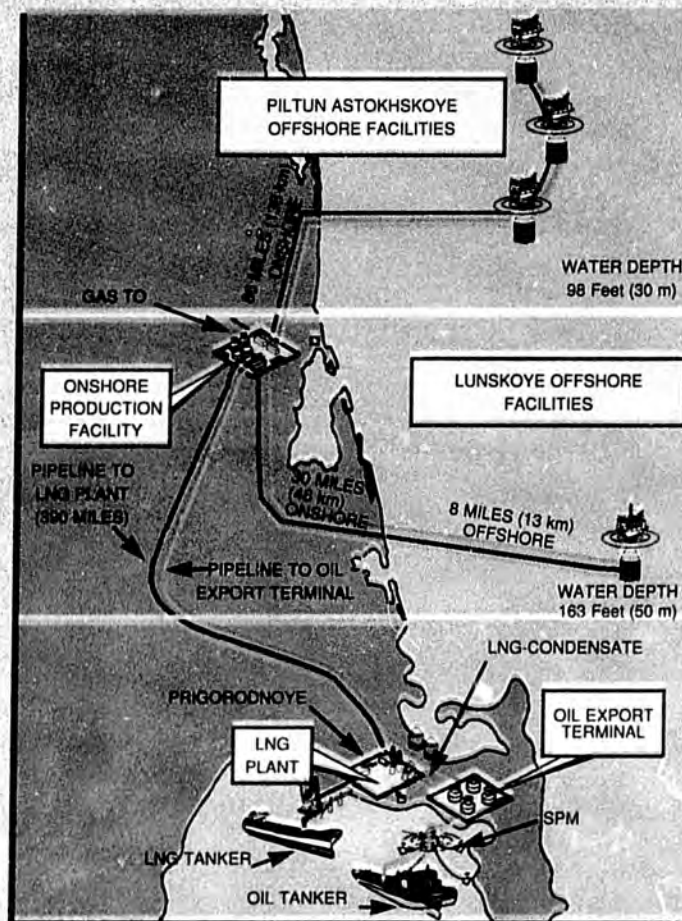
Sakhalin is an island of great natural beauty. To ensure it remains so, the Project's PSC contains detailed provisions for environmental protection. In adhering to these, Sakhalin Energy will, at all stages of development, apply standards and procedures designed to achieve the lowest possible risk for existing ecosystems.

These standards and procedures will be based on the considerable experience that the shareholders of Sakhalin Energy have gained in working in ecologically sensitive and seismically active environments such as the North Seas and Alaska. Technology that has been developed in these regions has helped to establish a balance between the needs of the environment, local inhabitants, commercial interests such as fisheries, and the oil and gas projects.

Project Financing

Given the harsh climate and difficult geological conditions in both field areas, comprehensive implementation of the Sakhalin Energy Project will require considerable capital, estimated in excess of \$10 billion.

When fully implemented, the Project will be one of the largest private investment ventures in Russia. In addition to shareholders' capital, project financing will be sought using international credit agencies such as the World Bank, European Bank for Reconstruction and Development, US Eximbank and the Japanese Export-Import Bank.



The Project Concept

Development Scheme

Since completion of the Feasibility Study, Sakhalin Energy has continued to work on finding the best development schemes for both fields.

Based on available data the following options are being considered.

Molikpag Platform



Piltun-Astokhskoye Field

Given the elongated shape of the field, and the fact that geologically it divides into two parts, the most economic solution is a phased development.

Sakhalin Energy has prepared a proposal for a first phase development using an existing large-scale mobile drilling and production unit known as the "Molikpaq." This proposal is now under discussion with Russian specialists. Use of the Molikpaq will enable development work on the field to commence immediately, with the possibility of oil production as early as 1999. This phase alone will cost in excess of \$500 million. Discussions are underway with international lending agencies for financing a large part of this cost.

Additional appraisal work on this field will also be carried out.

Lunskoye Field

The proposed scheme for this field provides for the installation of a production platform with a yearly output of 15.5 billion cubic meters of gas.

A subsea pipeline will transport gas and condensate to an onshore facility for further processing and transportation through an onshore pipeline to the south of the island for domestic consumption and for export. The gas to be exported will be converted to liquefied natural gas (LNG) at an LNG plant and then shipped out in LNG tankers.

Many issues need to be addressed before final decisions can be made about this scheme. However, the proposal to export Lunskoye gas as LNG will require the construction of a large-scale high-technology gas liquefaction plant. This would place Sakhalin among those countries of the Pacific rim which have attained a high level of economic development thanks in part to the export of LNG in this energy-hungry region.

Immediate and Long-term Benefits for Russia

Revenues

Under the PSC, the Russian party will receive a combination of benefits in hard currency and actual production. These will be in the form of royalties, a share of production, and profit taxes. The cumulative share of revenues to the Russian party over the life of the Project will exceed 50%, and would amount to several billion dollars. If oil prices or production levels are greater than anticipated, the Russian authorities will receive the greater share of the resulting increased revenues.

Bonus Payments

Under the PSC, Sakhalin Energy is to pay bonuses to the Russian Party upon certain events occurring. The Russian Federation was paid a bonus of \$15 million when the Feasibility Study agreement was signed in 1992. A bonus payment of \$15 million was also paid when the Commencement Date was declared in June 1996. Further bonuses will be awarded upon announcement of Development Dates for the two fields (\$15 million for Piltun-Astokhskoye and \$20 million for Lunskoye).

Sakhalin Development Fund

When development of the fields commences, Sakhalin Energy will establish a Sakhalin Development Fund, to which the company will contribute \$100 million over five years. The aim of the Fund is to develop and improve the social and economic infrastructure of Sakhalin Island.

Russian Content

The PSC also provides that Sakhalin Energy will, over the lifetime of the Project, use its best efforts to maximize the use of Russian companies and specialists. Subject to meeting requirements on quality, cost and scheduling, a target of 70% Russian content is set.

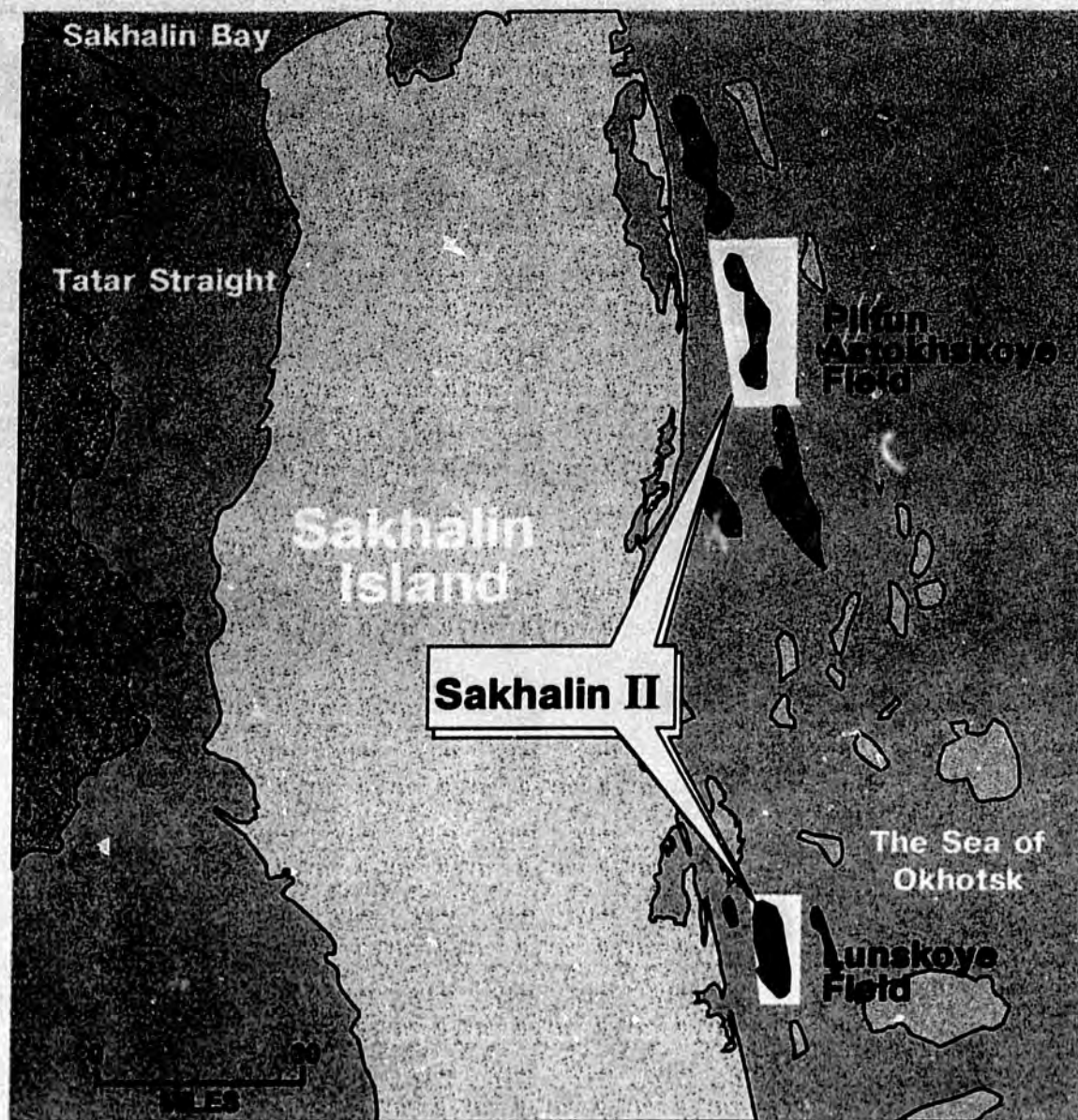
In addition Russian workers will be required by other companies that support the Sakhalin Energy Project and future large-scale offshore oil and gas projects. Experience with similar development projects in other parts of the world has proven that projects of this magnitude create additional non-project job opportunities covering a wide range of occupations, such as transportation and communications jobs to educational and social service positions. Growth in the variety and the number of available jobs will continue into the future with additional offshore developments. The Project's full benefits will be realized by Russians as they assume roles of suppliers for products and services at competitive terms of quality, price, and deliverability.

Sakhalin Energy Investment Company Ltd.

The Sakhalin Energy” Project

*The first production-sharing project to be
implemented in Russia*

Sakhalin Energy Investment Company Ltd.



Sakhalin Island

-  Gas fields
-  Oil & Gas Fields
-  Perspective Areas



Sakhalin Energy Investment Company Ltd.

SAKHALIN II PROJECT MILESTONES

22 June 1994	Sakhalin II Production Sharing Contract entered into between Sakhalin Energy and the Russian Federation
11 January 1996	Law on Production Sharing Agreements Enacted
20 May 1996	Licenses Awarded to Sakhalin Energy for Development of Piltun-Astokhskoye and Lunskeye Fields
21 May 1996	Commencement Date Declared by Sakhalin Energy for Development of Piltun-Astokhskoye and Lunskeye Licence Areas
24 June 1996	First Phase Development Proposal Announced
15 November 1996	Contract Award to Amur Shipbuilding

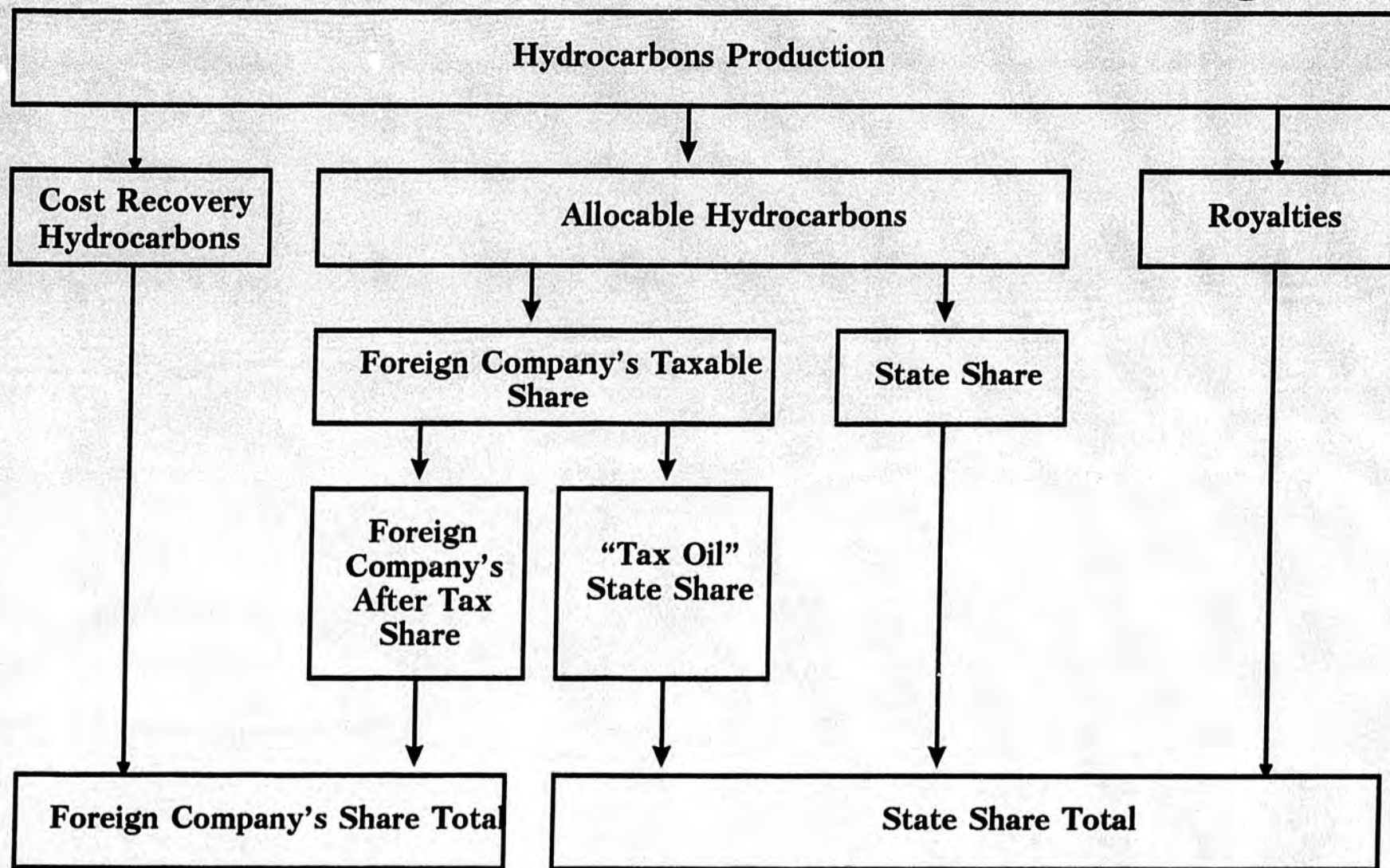
Sakhalin Energy Investment Company Ltd.

REASONS FOR PRODUCTION SHARING AGREEMENT

- ◆ Nation retains ownership of natural resource
 - ◆ Nation does not need to find development capital
 - ◆ Avoids negative impacts of new and developing taxation regimes which discourage investment
 - ◆ Investor's capital is at his own risk on his technical performance
 - ◆ Nation gets virtually all benefit of future energy price increases
-

Sakhalin Energy Investment Company Ltd.

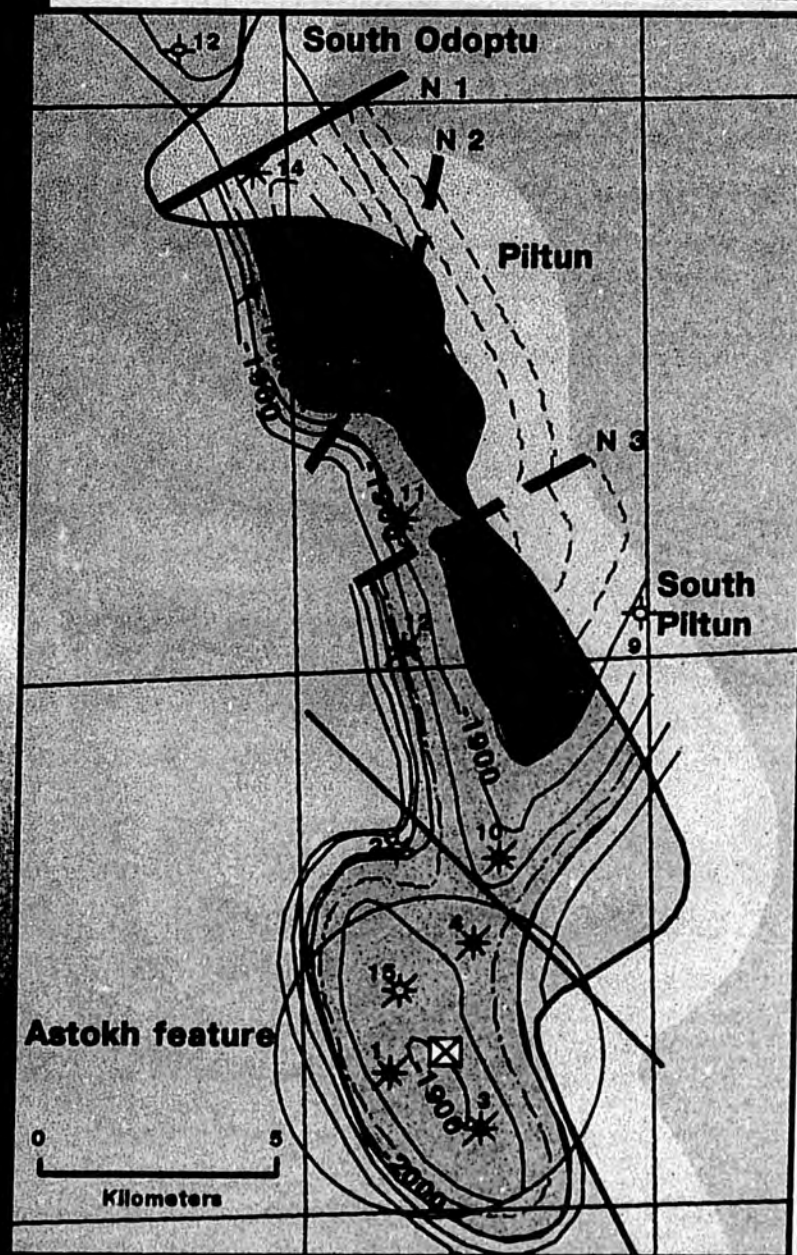
PSA Block Diagram



Sakhalin Energy Investment Company Ltd.

PA Phased Development Plan

Astokh Area:
first oil -
in 1999



☒ **Molikpaq Location**

Sakhalin Energy Investment Company Ltd.

Offshore Facilities

Molikpaq

Loading Buoy

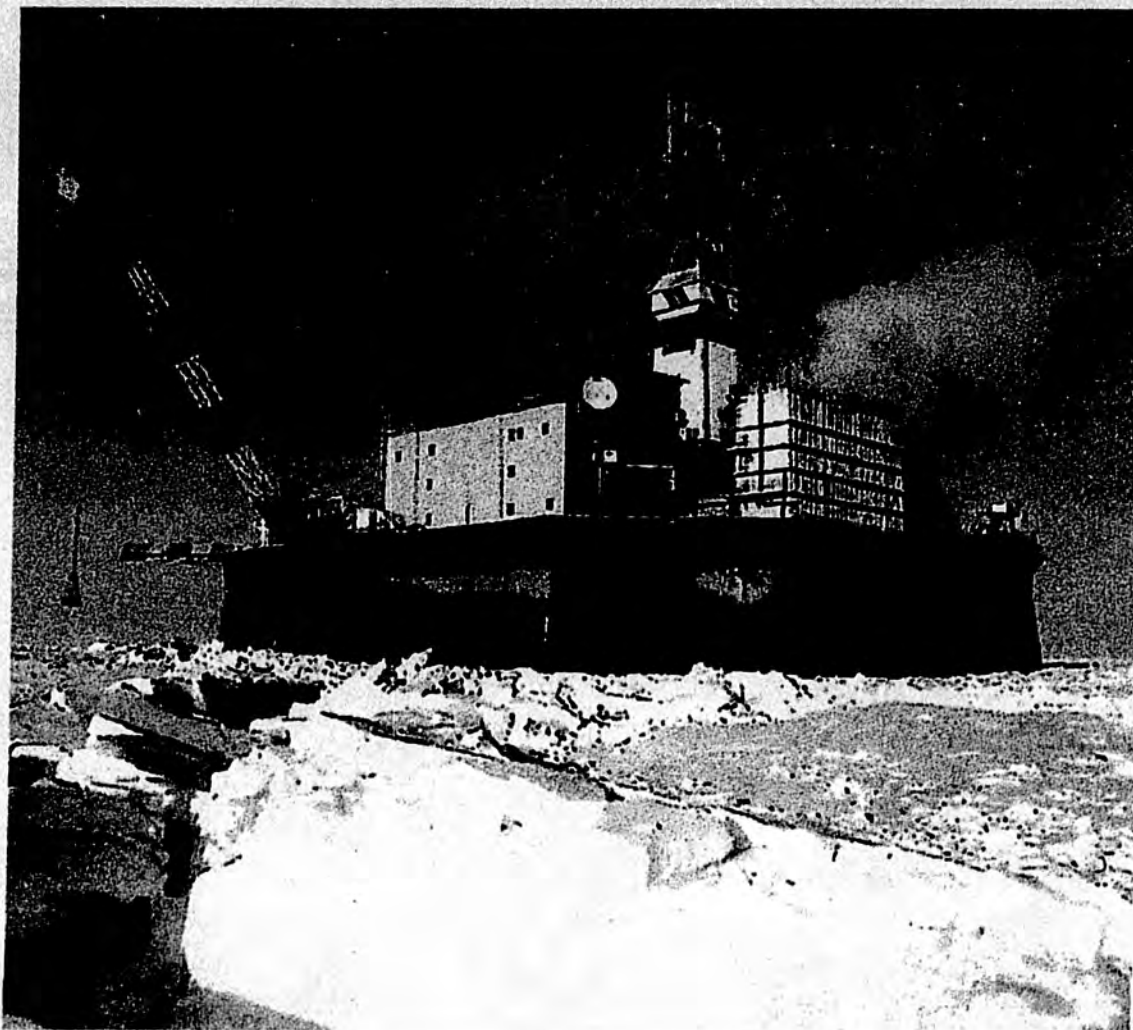
Floating
Storage

Pipeline



Sakhalin Energy Investment Company Ltd.

Molikpaq Platform



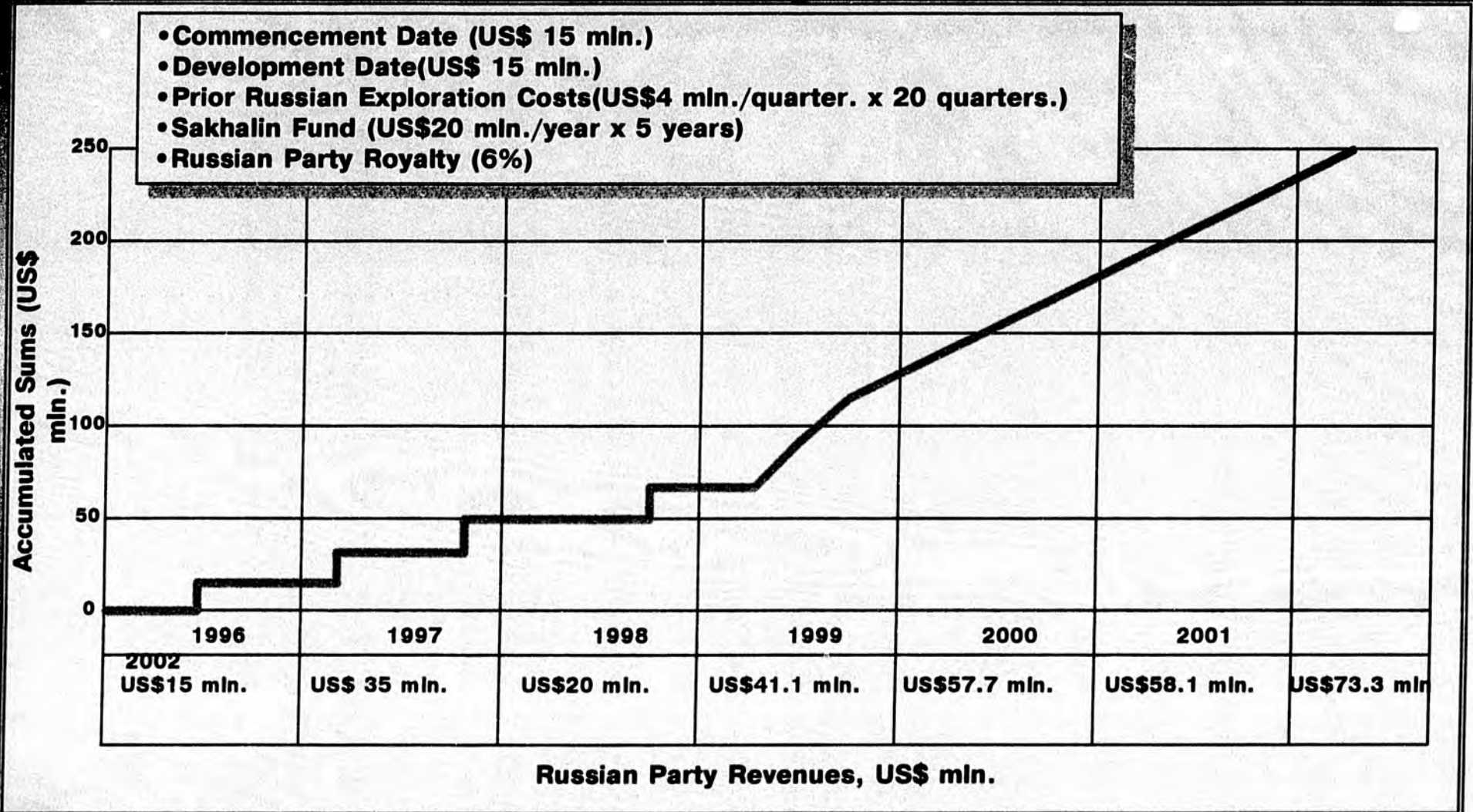
Sakhalin Energy Investment Company Ltd.

Immediate and Long Term Benefits to Russian Federation and Sakhalin Oblast

- ◆ Bonuses (Commencement Date, Development Date)
 - ◆ Sakhalin Development Fund (after first oil -1999)
 - ◆ Royalties
 - ◆ Profit Taxes
 - ◆ Recovery of Russia's Past Exploration Costs (after first oil -1999)
 - ◆ Profit Oil
-

Sakhalin Energy Investment Company Ltd.

Astokh Feature Development: Benefits to Russian Party



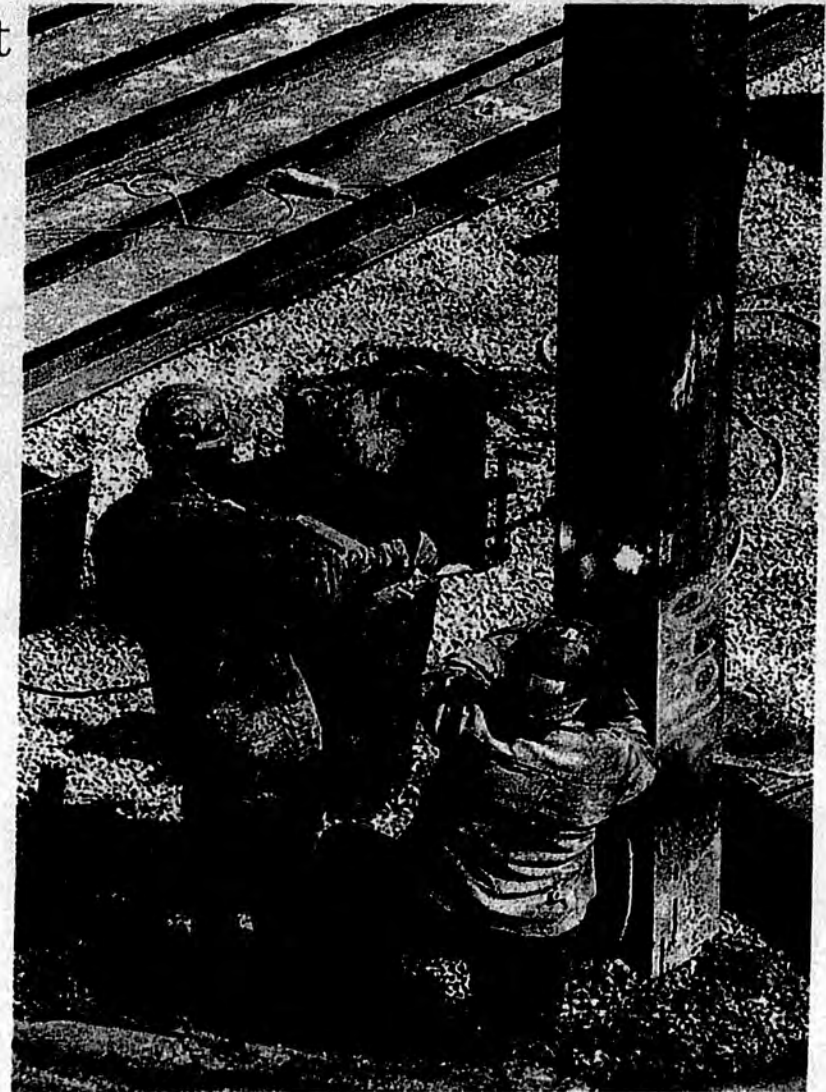
Sakhalin Energy Investment Company Ltd.

Russian Content

The PSA signed requires the best effort to achieve participation of 70% of competitive Russian contractors over the life of the Project

- ◆ As of today, more than 35 Russian organizations have performed and (or) are performing work under Sakhalin Energy Project

All other conditions being equal, Sakhalin Energy intends to give first preference to Russian suppliers and contractors



Sakhalin Energy Investment Company Ltd.

CONTRACT WITH AMUR SHIPBUILDING

- ◆ For Construction of First Large Critical Platform Component
 - ◆ Total Value of Contract is \$35.5 million
 - ◆ Requires high welding skills and several hundred qualified welders (2000 jobs)
 - ◆ Work will go on for 18 months at 2 shipyards in the Russian Far East
 - ◆ Successful performance could improve chances of winning future work on Sakhalin projects
-

Sakhalin Energy Investment Company Ltd.



- ◆ Sakhalin Energy has carried out considerable work and expenditure in response to recommendations of two State Expertise Commissions
- ◆ Despite lack of clarity in PSA Law and absence of normative acts and regulations, Sakhalin Energy continues to perform work
- ◆ As a result Sakhalin Energy is preparing to implement the first phase of development which includes a substantial contract for Russian work
- ◆ A final decision to proceed depends on further measures of legal and regulatory stabilization

THE SAKHALIN ENERGY PROJECT

GEOGRAPHY

SAKHALIN FACT SHEET

Location

Sakhalin island is a long, narrow island in the Russian Far East, 950 km in length and only 160 km across at its widest point. It lies almost 7000 km and eight time zones east of Moscow, separated from mainland Russia by the narrow Tatar Straits. The southern tip of Sakhalin is just 45 km north of the northern most Japanese island of Hokkaido, across the Straits of LaPerouse. The west and north coasts of the island are washed by the Sea of Okhotsk.

Geography

Sakhalin's climate is maritime, with average temperatures ranging from -13°C in January to +15°C in July. Summers are cool, with June and July misty and foggy, and hot weather arriving only in August. Fall is the season for typhoons and hurricane-force winds. Snow falls from November to March, and may reach up to 50 cm in the north, 70 cm in the south, and 100 cm in the east. Scrubby lowland tundra with sparse larch and cedar cover the northern third of Sakhalin; two-thirds are forested and mountainous, with spruce and fir predominating. The Tym and Poronay rivers, largest on the island, flow between two parallel ranges extending north to south. A third range, the Susunaisky, lies in the south near the capital city of Yuzhno-Sakhalinsk. Wetlands stretch along the perimeter of north Sakhalin, at the delta of the Poronay River, and near Aniva Bay. Only about 2% of the land area is suitable for agriculture.

Population

The population of Sakhalin is about 641,000, of which 88% are ethnic Russian or Ukrainian, 5% Korean and less than 0.5% indigenous (Nivkhi, Uil'ta, Nanai, Evenki). The majority of the population live in the extreme south of the island. Yuzhno-Sakhalinsk (pop.160,000) is the administrative center and a center for light industry, finance, and food processing. Kholmsk (pop.52,000) is a major port with two pulp and paper plants, a fishing fleet, and a ship-building and repair center. Korsakov (pop.46,000) is also a major center for fishing, fish processing and international shipping. Near mid-island, Poronaysk (pop.26,000) produces paper, pulp and cement. Okha (pop.36,000) in the extreme north of the island is the center of the onshore oil and gas industry. On the northeast Sakhalin coast, Nogliki (pop.11,000) is the population center nearest the offshore Sakhalin II project areas.

Ecology

Arctic and tropical varieties of certain flora can be found growing side by side in some regions of the south. High precipitation, low evaporation and mountainous relief create a high density of the lakes and streams which are important spawning grounds for many varieties of salmon. Coastal birds such as whooper swans, mergansers, sandpipers and scooters migrate to these wetlands from as far away as Australia. An enormous colony of seals and marine mammals is found on Tyuleniy island, just off the extreme eastern tip of Sakhalin in the Sea of Okhotsk. Nearby is the Poronaysk Nature Reserve, protecting the conifer forests of the

Terpeniye Peninsula. Another point of interest is Moneron island in the Tatar Straits, famed for its cliffs and waterfalls, crystal clear waters, and unique sea life, including rare many-armed starfish.

Economy

Fishing and fish processing represent 30% of the Region's total industrial activity, and 50% of its exports. The Kuril basin and Sea of Okhotsk are among the richest fisheries in the world, providing at one time about half the total seafood demand of the former Soviet Union. Forestry (including timber, pulp and paper) is the second largest industry: formerly Sakhalin accounted for almost all the paper and half the pulp production of the Russian Far East. Industrial production of coal, oil and gas is declining due to high transport costs, loss of federal subsidies, outdated machinery, and intensive resource exploitation. Sakhalin produces most of the crude oil and over half of natural gas production of the Russian Far East. Although overall industrial production dropped by one-third between 1990 and 1994, by 1995 it was already showing signs of bottoming out and recovery. Investment by Western companies in offshore oil and gas development is expected to contribute to economic growth and infrastructure improvements.

THE SAKHALIN ENERGY PROJECT

THE PROJECT FACT SHEET

Background

Oil and gas have been produced on Sakhalin Island for more than 60 years. Most of the known small and medium onshore fields are almost depleted. Several large hydrocarbon accumulations have been discovered by Sakhalinmorneftegas, the local Production Association, off the north eastern shore of the island over the last 20 years. The Odoptu Field was discovered in 1977, Chaivo in 1979, Lunskeye in 1984, Piltun-Astokhskeye in 1986, and Arkutunskoye in 1989. The Sakhalin II project fields comprise Lunskeye and Piltun-Astokhskeye (PA).

Project Description

It is anticipated the project, when completely implemented, will develop the two offshore oil and gas fields on the Sakhalin continental shelf of the Russian Far East. Plans at the feasibility stage were for production to be transported to shore and then to the south of the island, where it would be processed through an oil terminal and a liquefied natural gas plant before being exported. It was, however, apparent that more work was

needed to assess the optimal economic and technical development solutions. The proposal to undertake a first phase development of the PA Field is a result of this further work. Appraisal of the remainder of the PA Field, and of the Lunskeye Field, continues.

When completely implemented, the Sakhalin II Project will be one of the largest private investment projects in Russia, and the first to proceed under the terms of a Production Sharing Contract (PSC). A PSC is an agreement under which a company undertakes to develop oil and gas reserves owned by a host country. The company is responsible for financing and carrying out the development, and is compensated by receiving a share of the oil and gas production sufficient to cover its costs and generate an acceptable return. The remaining production remains the property of the host country, which also receives royalty and tax revenues from the developers profits.

Geological Setting

Piltun-Astokhskeye is an oil field with associated gas. Lunskeye is a gas field with associated oil and condensate.

The fields are located 13-16 km offshore east Sakhalin Island in the Sea of Okhotsk. The two fields are estimated to contain recoverable reserves of 100 million tonnes (750 million barrels) of hydrocarbon liquids and 494 billion cubic meters (14 trillion cubic feet) of gas.

Company Profile

Sakhalin Energy Investment Company Ltd. (Sakhalin Energy) was formed in April 1994 to hold the licences for use of the subsurface resources, and to manage the entire development of the Piltun-Astokhskeye oil field and the Lunskeye gas field (the Sakhalin II Project) on behalf of its shareholders.

Shareholders in Sakhalin Energy:

- Marathon Sakhalin Limited (30%);
- McDermott Sakhalin, Inc. (20%);
- Mitsui Sakhalin Development Co., Ltd. (20%);
- Shell Sakhalin Holdings B.V. (20%);
- Diamond Gas Sakhalin B.V. a wholly owned subsidiary of Mitsubishi Corporation (10%).

Project Milestones

- February 1991, Marathon, McDermott, and Mitsui form the M/M/M Consortium.

- May 1991, Sakhalin Offshore Tender announced and data packages are made available for purchase. M/M/M qualifies for bidding.

- January 1992. Russian Governmental Tender Committee declares M/M/M Consortium is the tender winner.

- March 1992. A Feasibility Study Agreement (FSA) signed for the evaluation of the Piltun-Astokhskoye and Lunskoye fields by M/M/M, Sakhalinmorneftegas and other Russia experts under the direction of joint management and co-ordinating committees comprised of both Russian and Consortium members. In addition, the FSA provided for the negotiation of an agreement to implement the development of the fields.

- December 1992. Shell joins the M/M/M group in September 1992, and Mitsubishi Corporation in December, to form the MMMMS Consortium. The joint Feasibility Study report is submitted to Russian Expertise for review.

- March 1993. Positive decisions by both the Environmental and Economic Expertise committees are handed down to the Consortium. Negotiations continue for an agreement to carry out the Sakhalin II Project.

- April 1994. MMMMS Consortium forms Sakhalin Energy Investment Company Ltd. to manage the development, production, financing and marketing aspects of the project.

- June 1994. The Sakhalin II Production Sharing Contract signed on June 22 by representatives of the Russian Federation and by Sakhalin Energy.

- December 1995. The "Law On Production Sharing" passed by the Federal Assembly and signed into law by President Yeltsin. The Law provides a basis for production sharing contract in Russia. Work begins on other necessary legislation and supporting regulations.

- May 1996. The Russian Federation Government issues licenses to Sakhalin Energy to develop Piltun-Astokhskoye and Lunskoye Fields. Sakhalin Energy on behalf of its shareholders provides notification of Commencement Date under its PSC for the Sakhalin II Project. This is the first project to proceed under production sharing in Russia.

- June 1996. Commencement Date for the Sakhalin II Project.

- July 1996. Plans for developing the first phase of the PA Field, with a potential first production date of 1999, announced.

- November 1996. Award of major construction contract to Amur Shipbuilding Plant.

Environmental Protection

The Sakhalin II PSC contains extensive provisions relating to measures, procedures and permits for ensuring the protection of the environment, and the prudent use of the natural resources of Sakhalin during development and production. The considerable experience of the shareholders in Sakhalin Energy in working in

ecologically sensitive environments - such as offshore Alaska and the North Sea - will be available to the project.

THE SAKHALIN ENERGY PROJECT

PRESS-RELEASE

May 21, 1996

SAKHALIN II PROJECT - NOTICE OF COMMENCEMENT DATE ANNOUNCED

Sakhalin Energy Investment Company Ltd. has announced an important step towards the development of the Sakhalin II oil and gas fields in Russia with the notification to the Russian authorities of a Commencement Date for its Production Sharing Contract (PSC) with the Russian Federation.

The PSC, the first ever with the Russian Federation, was signed on 22 June 1994.

The notification of Commencement Date follows the granting of licenses to Sakhalin Energy earlier this month granting the right to develop the Sakhalin II fields. This too was a pioneering event because these are the first licenses for a production sharing project to be issued in Russia.

The President of Sakhalin Energy Mr. Frank Duffield said: "We are delighted to be the first company to have been granted licenses to develop Russian oil and gas reserves on the basis of a PSC.

"Our decision to notify a Commencement Date reflects the considerable progress the Russian authorities have been making with the complex task of putting in place the necessary new laws and regulations to make production sharing contracts effective in Russia, and the particular recognition that has been given in the legislation to our agreement."

Commencement Date will occur within thirty days after Sakhalin Energy's notice or sooner, following acceptance by the Russian authorities. Upon Commencement Date, Sakhalin Energy will carry out appraisal work with the aim of submitting development plans to the Russian authorities for approval.

"Important legislative measures are still required before we can undertake development work, but we believe these will be put in place," said Mr. Duffield. "We are, therefore, ready to undertake detailed planning to assess development options. Our hope is

to agree on a development plan as early as possible."

The shareholders in Sakhalin Energy are Marathon Sakhalin Ltd. (30%), McDermott Sakhalin Inc. (20%), Mitsui Sakhalin Development Co. Ltd. (20%), Shell Sakhalin Holdings B.V. (20%) and Diamond Gas Sakhalin B.V. (10%, a subsidiary of Mitsubishi Corporation).

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THE SAKHALIN ENERGY PROJECT

PRESS-RELEASE

July 24, 1996

PILTUN-ASTOKHSKOYE FIELD PHASE ONE DEVELOPMENT

Sakhalin Energy Investment Company Ltd. (Sakhalin Energy) announced today, July 24, 1996, that it has obtained the support of the Government of the Russian Federation and the Administration of Sakhalin Region to progress a plan to start development of the Piltun-Astokhskoye (PA) field offshore Sakhalin Island. The plan is based on a phased approach to developing the PA Field which could lead to first production of oil in 1999, considerably earlier than under other development options.

The plan is based on extensive study which has shown that early economic production could be achieved through the use of an existing mobile drilling and production facility, known as the Molikpaq. The Molikpaq is a large ice-class drilling unit which has been successfully deployed in arctic drilling operations and which has been designed for operating conditions significantly more severe than those experienced offshore Sakhalin.

The plan proposes that the Molikpaq would produce oil from the Astokh feature in the Piltun-Astokhskoye Field. The oil would be transported by a short pipeline to a single anchor leg mooring buoy (SALM) and a storage tanker, for subsequent

loading onto tankers, an operating procedure widely practiced in other parts of the world.

The plan now requires formal technical approval from appropriate Russian regulatory authorities, and further progress on the achievement of legal stabilization prior to final shareholder commitment. The President of Sakhalin Energy, Frank D. Duffield, said: "We had been encouraged by the progress on legal stabilization up to the Presidential elections. With the election completed, we hope legal stabilization will proceed positively. We anticipate that key enabling legislation will be reintroduced and passed early in the new session of the Federal Assembly, and this will expedite future decisions about the project".

If it goes ahead, Sakhalin Energy's proposal would be the very first development scheme offshore Sakhalin, an area which has the potential to become a major new oil producing region. Once development begins, the Russian Federation and Sakhalin Region will benefit immediately from the payment of a Development Bonus of \$15 million, and the establishment of a Sakhalin Development fund building up to \$100 million over five years. This

would be used by the Regional Administration in improving social infrastructure on Sakhalin.

Frank Duffield said: "Our proposal could mean that, after many years of discussion, development work on the Sakhalin shelf will soon start. It would produce immediate benefits to the Russian Federation and the Sakhalin Region and would also provide the opportunity to demonstrate the viability of large development projects undertaken by foreign investors in Russia".

Sakhalin Energy is the project company established by Marathon Sakhalin Limited, McDermott Sakhalin, Inc., Mitsui Sakhalin Development Co., Ltd., Shell Sakhalin Holdings B.V., and Diamond Gas Sakhalin B.V. to undertake the development of the PA and Lunskeye oil and gas fields offshore Sakhalin.

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THE SAKHALIN ENERGY PROJECT

PRESS-RELEASE

November 15, 1996

RUSSIA
SAKHALIN

PANY WINS MAJOR \$35 MILLION CONTRACT WITH
ENERGY

Sakhalin Energy Investment Company LTD., (Sakhalin Energy) announced today it had awarded a major contract worth \$35 million to Amur Shipbuilding Plant, *Komsomolsk-on-Amur* (Amur Shipbuilding) for the construction of a substantial off-shore structure as part of the first phase of the Sakhalin II Project in the Russian Far East.

The structure is required for the first phase of the development of Piltun-Astokhskoye oil field off the North East of the Russian island of Sakhalin. The project will be the first Sakhalin off-shore development and first oil production is targeted for 1999.

Under the contract Amur Shipbuilding - a Russian Joint Stock Company and JV McAmur Construction Services T.O.O. (McAmur) will be responsible for the construction of a support base for an existing large mobile drilling unit. Sakhalin Energy plans to convert this to a drilling and production platform and install it at the Piltun-Astokhskoye Field during 1998. The Rubin Central Design Bureau for Marine Engineering and Krylov Shipbuilding Institute, both Russian organizations, will also participate in the contract.

The President of Sakhalin Energy, Mr. Frank Duffield said: "We are pleased to have reached an agreement with a Russian company for one of the largest

single contract relating to our development plan. We have looked carefully at Amur Shipbuilding's capabilities and we are satisfied that they can meet the high standards of work and the very challenging schedule we require. Successful completion of the contract will provide a solid foundation for future participation of Russian suppliers in the development of the Sakhalin Shelf."

Mr. Duffield emphasized that implementation of the development and of the Contract with Amur Shipbuilding were dependent on the Russian authorities completing the work currently being undertaken to introduce remaining legislative and regulatory measures needed to provide a legal and taxation framework for its production sharing agreement.

General Director of Amur Shipbuilding Plant, Mr. Pavel Bely stated that oil and gas development in Sakhalin opened new prospects for his company to use facilities that have been converted for civilian purposes. In addition, the involvement of Russian Design Bureaus gave an opportunity for their skills and potential to be applied in marine oil production engineering.

Mr. Bely said: "We will complete the contract within time and to a high quality of work. This will be for the Company and our subcontractors a

powerful advertisement for future Sakhalin oil and gas project work. We rely on the efforts of the Russian Government to ensure the project goes forward."

Mr. Bely also commented on the role of "McAmur Construction Services Company T.O.O." It will act as Contractor Coordinator. It combined the management expertise of western companies with Russian technical capabilities, and had already performed a great amount of preliminary work on Amur Shipbuilding's products certification to meet requirements of West Certifying Authorities. Mr. Bely said: "We are currently working on the construction of a high technology processing facility with McAmur, and this has given us recent experience of working with western contractors".

Contact:
Sakhalin Energy:

SAKHALIN II - RUSSIA'S FIRST LNG PROJECT?

By Frank Duffield

President, Sakhalin Energy Investment Company, Ltd.

Sakhalin Island is a long narrow island in the Russian Far East, 950 km in length and only 160 km across at its widest point. It lies almost 7000 km and eight time zones east of Moscow, and is separated from mainland Russia by the narrow Tartar Straits. In winter these straits freeze, and can be driven across. The southern tip of Sakhalin is just 43 km north of the northernmost Japanese island of Hokkaido, across the Straits of La Perouse. The east and north coasts off the island are washed by the Sea of Okhotsk.

Oil and gas have been produced on Sakhalin Island for more than 60 years. Most of the known small and medium onshore fields are approaching depletion. Over the past 20 years several large hydrocarbon accumulations have been discovered off the north eastern shore of the island by Sakhalinmorneftegas, the local oil and gas production association. Of these, Odoptu Field was discovered in 1977, Chaivo in 1979, Lunskeye in 1984, Piltun Astokhskeye in 1986, and Arkutun Daginskoye in 1989. The fields of the Sakhalin II Projects are Lunskeye and Piltun Astokhskeye.

The Sakhalin II Project is managed by Sakhalin Energy Investment Company, of which I am privileged to be President. Sakhalin Energy was established in April 1994. Its shareholders are Marathon Oil Company (30%), Mitsui (20%), McDermott (20%), Shell (20%) and Mitsubishi Corporation (10%).

In June 1994 Sakhalin Energy signed a Production Sharing Contract (PSC) with the Russian Federation for the development of the Piltun Astokhskeye and Lunskeye fields. I am sure it is hardly necessary to explain in detail to this audience the structure of PSCs, but a brief outline may be useful.

Under a PSC the investor in a project is paid for its efforts through a share of the production from the project. Typically, revenues from production are applied first to paying a royalty to the host government. They are then applied to reimbursing the operating company its costs of development and operation. Remaining revenues are split between the investor and the host government according to a scale which reduces the investor's share as its overall rate of return increases. This structure meets the aspirations of host governments to develop their natural resources, obtain early revenues from that development and maximize their share of revenue, should future energy prices or production exceed planned levels. At the same time it fulfills the goal of private investors to recover their costs and earn an acceptable return on capital investment. In some cases the production sharing project is overseen by a supervisory board made up of representatives of the investor and the host government. Such a board is provided for in our project.

Our PSC was subject to the conditions that the Project would not commence until the Government of the Russian Federation, the

Russian Federation legislature, and the Administration of the Sakhalin Region had taken measures to ensure the effective implementation of the agreement, and issued satisfactory licences to the Company.

Over the past two years we have been working very closely with the Russian authorities to help them meet these conditions. In December 1995 a Federal Law on Production Sharing Agreements was signed by President Yeltsin. This went a long way towards meeting our requirements. I would like to pay tribute to the Russian authorities for successfully enacting such a technically complex measure in the context of the great political and economic changes taking place in Russia. It was a remarkable effort.

However, the Law on Production Sharing Agreements was not sufficient in itself to meet our contractual requirements. It is still necessary to enact conforming amendments to existing Russian laws to provide for PSCs, and also to prepare and promulgate detailed regulations to enable satisfactory implementation and management of such agreements. Since the passage of the Law on Production Sharing Agreements considerable effort has been devoted to these further tasks. As a result a draft law containing the required amendments is to be introduced in the Russian State Duma. In fact this law is on the agenda of the State Duma for a first reading next week. Draft regulations, for promulgation once the conforming law is enacted, are also in an advanced stage of preparation. We are confident that the authorities fully understand that these further measures are critical for

triggering investment and are, therefore, committed to putting them in place.

In May of this year the Russian government issued Sakhalin Energy with exploration and production licences for its two fields. We were very proud to be the first wholly foreign owned Project to be awarded such licences in Russia.

In view of all these positive developments, we decided in June of this year to declare a commencement date under our PSC. This decision also reflected our wish to identify viable development proposals for our fields, and to implement them on the quickest possible schedule.

I would now like to outline our current thinking on development plans beginning with a description of the fields for which we now hold licences.

The Piltun Astokhskoye field (PA) is the more northern field. It is located about two thirds of the way up the east coast of Sakhalin. It is 16 kilometers offshore in 30 meters of water. The amount of hydrocarbons in place is substantial but the complex nature of the reservoir affects recoverability.

The Lunskeye field is a very large gas and condensate reservoir located 150 kilometers south of PA. It is 13 kilometers offshore in 50 meters of water. The reservoir at Lunskeye is of better quality and less complex than at PA. A daily flow rate of gas of about 1 billion cubic feet over an extended period is clearly possible, and this would support a 20 year LNG contract for 6 million tonnes per annum.

At the time we signed our PSC we estimated that the combined reserves of the two fields are in excess of 750 million barrels of hydrocarbon liquids and 14 tcf of gas, with 80% of the gas reserves located in Lunskeye. However, analysis of additional seismic data was outstanding. This work has now been done, and as a result we have just very recently been able to agree with the Russian State Reserves Committee to increase the hydrocarbon liquids reserves to 1 billion barrels. Further 3D seismic work on both fields is included in our work plans.

Although both of our fields are situated relatively close to shore and in moderate water depths, the technical challenge of developing them is significant. The area is subject to typhoon related storm conditions, and the sea is frozen for six months of the year. There is, therefore, a very short weather window for carrying out much critical development work.

The overall development concept in the feasibility study, prepared at the time of our PSC negotiations, is for the oil and gas to flow via marine pipelines from both fields to a common onshore processing facility. After processing, the oil and gas would then flow through pipelines some 625 kilometers to an LNG plant and oil export terminal in the south of Sakhalin. From there the oil and LNG can be exported year round.

Since signing our PSC, we have been reviewing these ideas in more detail. As a result we undertook discussions with the Russian authorities on a proposal to initiate development of the PA field by using an existing large drilling unit designed for Arctic

conditions. The plan is to convert this structure, known as Molikpaq, to a production unit and to place it on the Astokh feature of the PA field. Use of the Molikpaq would enable production to commence as early as 1999.

The Russian Party has approved this proposal in concept, and we are now working together closely to achieve the necessary approvals and certifications for the converted unit. Russian enterprises are also participating in project work, and last month we were able to announce the award of a large construction contract related to this development to Amur Shipbuilding Plant in Komsomolsk. However, a final decision to proceed will not be made until early next year, in the light of progress on stabilization and the approval process.

Among the many advantages of this first phase concept is the opportunity it provides for gaining early development and operating experience with Russian agencies, contractors and suppliers, and in the challenging logistical and operating environment of offshore Sakhalin. This experience will be invaluable to us, as we undertake simultaneously the detailed planning for the further development of the PA field and the Lunskeye field.

I would like to spend a few moments on the Lunskeye Project which, as a world class gas field, will be of particular interest to this audience. We are now undertaking detailed appraisal work on this project to enable preparation of a development plan. First gas delivery from the Lunskeye field will be determined by market opportunity. A very important part of our early appraisal work,

therefore, is a further careful assessment of the market opportunities for our gas.

As I have described, our scheme proposes the export of LNG from Sakhalin. The flexibility that LNG offers, with access to several potential markets in the Far East, such as Japan, Korea and Taiwan, and the greater certainty over timing of supply, compared with constructing a pipeline, were key factors in this preference. Our current view is that opportunities for supply of our gas as LNG will exist from the year 2005 in the Japanese, Korean and Taiwanese markets.

As this conference has heard, numerous projects are under consideration for the delivery of gas to Far Eastern markets by pipeline. Our current studies also include a careful assessment of these proposals and of the feasibility of delivering our gas by pipeline within the time frame that I have outlined. It is our intention to complete this assessment soon, because we need to proceed quickly with detailed design work if we are to meet our target date for first production.

Whether delivery is by LNG or pipeline, what is certain is that the Lunskeye field contains a substantial volume of gas, located close to markets with a growing demand. Sakhalin Energy has been entrusted by the government and people of Russia with the development of this attractive field. We share fully the aspiration of the Russian authorities for this field, and the PA field, to be developed on the most economically advantageous terms, within the quickest feasible time frame.

I have outlined broadly our plans for achieving this. Critical to them is the securing of sales agreements. I therefore look forward to fruitful discussions with those of you who are potential customers. Together we can make the plans I have outlined become reality.

House Speaker
Phillips

Sakhalin Overview
November 1996

Sakhalinskaya Oblast population was 673,000 as of January 1, 1995, a sharp decrease of 25,500 or 3.7 percent from the year before. About 85 percent are urban residents. Emigration to other parts of Russia accounted for about 3/4 of the decrease. About 42,000 ethnic Koreans make up about 7 percent of the population and are a legacy of Japan's previous occupation.

Sakhalinskaya Oblast administers the main island of Sakhalin and the entire Kuril Islands chain, including the Russian occupied Northern Territories of Japan, consisting of Etorofu (Iturup); Kunashir (Kunashir); Shikotan; and the Habomai islands. The Oblast covers an area of 87,100 -square kilometers; Sakhalin Island itself is 78,000 square kilometers, stretches 948 kilometers north to south, and is 9,000 kilometers distant from Moscow.

Political Situation: Appointed Governor in April 1995. Igor Pavlovich Farkhutdinov -- formerly the Mayor of Yuzhno-Sakhalinsk -- has had a difficult year, with earthquakes and cyclones causing billions of rubles worth of damage and destruction, contributing to the not exodus of people from the oblast, and complicating an already extremely difficult economic situation. According to recent statistics, 59 percent of the population is below the poverty level.

Economic Situation: Once the Sakhalin offshore natural gas and petroleum projects get underway, Sakhalinskaya Oblast could become a major producer of natural gas for export to the mainland and to Northeast Asia, thereby transforming itself as well as the economy of the RFE. Today, Sakhalinskaya Oblast's economy is based on fish and fish processing (45 percent of industrial output); logging and paper production; and fuel and energy industries. Sakhalin's rich fishing areas include those off the Kuril Islands, which alone account for 20.3 percent of the RFE catch. Although current petroleum and natural gas on land is limited, there are substantial proven and estimated reserves on the offshore shelf northeast of Sakhalin which are being developed by U.S. and other major foreign companies. Sakhalin relies on its even coal for much of its electricity production.

Commercial Situation: Sakhalin's foreign trade turnover reached \$768 million in 1995, a 33 percent increase from the previous year, with growth registered for both exports and imports. Exports were about \$475 million, comprised mostly of fish and sea food, coal and oil, while imports were about \$292 million, primarily consumer goods and machinery and equipment imports. Japan is the region's leading trade partner, accounting for about 50 percent of all trade, followed by South Korea and the United States. Foreign investment was reported at \$59.2 million in 1995 primarily in fishing and energy sectors.

There are more than 300 joint ventures (Japan - 120; United States - 51; South Korea - 49), 22 foreign representative offices, and 45 fully-owned foreign companies operating on Sakhalin. Foreign oil companies -- including Amoco, Exxon, Mobil, Shell, the Sakhalin Energy Investment Consortium -- are the most prominent commercial presence on Sakhalin. Other foreign companies are being drawn to the region, primarily by the potential oil and gas activity.

U.S. firms with offices in Yuzhno-Sakhalinsk include McDermott, Price Waterhouse, DHL, Alaska Cargo Transport, Sunmar Shipping, and Kriljon Communications.

The American Business Center (ABC), opened officially last September, has become a visible and busy hub of activity. The ABC is managed by Carol Vipperman's Foundation for Russian/American Economic Cooperation (FRAEC) under a cooperative agreement with USDOC.

Oil and Gas Projects: U.S. and other foreign oil and gas companies are still

awaiting Russian federal approval of legislation and regulations before proceeding with several long-term, multi-billion-dollar projects to develop large petroleum and natural gas reserves located off Sakhalin's northeast coast:

SAKHALIN-I: In June 1995, the Russian Federation and Sakhalin Oblast governments approved the Sakhalin-I Production Sharing Agreement (PSA) for a consortium made up of project operator Exxon-Neftegaz (30%), Japan's Sakhalin Oil and Gas Development Company - SODECO (30%), and Rosneft-Sakhalin and Sakhalinmorneftegas-Shelf (combined interest 40%). With development costs estimated at \$15 billion, the Sakhalin-1 project area encompasses the Chayvo, Odoptu, and Arkutun-Dagi fields, with total recoverable reserves of 2.5 billion barrels of oil and 15 trillion cubic feet (TCF) of natural gas. SODECO is a Japanese consortium including the Japanese National Oil Company, which gained initial rights to develop Chayvo and Odoptu in 1975.

SAKHALIN-II: On June 22, 1994, a consortium including Marathon Oil (30%), McDermott International (20%), Mitsui (20%), Mitsubishi (10%) and Royal/Dutch Shell (20%) signed a PSA with the Russian Federation. They formed the Sakhalin Energy Investment Corporation (SEIC) to manage and operate the project, which will require an investment of \$8-10 billion. This PSA covers development of the Piltun-Astokhskoye and Lunskoye oil and gas fields, with estimated resources in excess of 750 million barrels of oil and condensate and 14 TCF of gas. The first oil and gas could be produced within four years after beginning field development activity. Production could peak at 180,000 barrels a day of liquids and 1.5 billion cubic feet a day of gas.

SAKHALIN-III: In December 1993, Mobil Russia Ventures, Inc. and Texaco jointly won the Sakhalin's-3 tender and are now negotiating for the PSA to explore and develop the Kirinskiy offshore oil and gas block. Depending on the volume of reserves to be discovered and produced, Mobil and Texaco may invest several billion dollars over 40-50 years. Geological work alone will cost an estimated \$200 million and take six years.

SAKHALIN-IV: Although the first presentation of terms for the Sakhalin-4 tender proposal in September 1994 in Denver attracted 20 major oil and gas companies, interest subsequently dwindled due to continued delays in adopting needed legislation. A formal tender bid in summer 1995 ended unsuccessfully when the Sakhalin Geology Committee rejected on "economic grounds" a bid on the Shmidtovskiy block (one of three) by Exxon -- the sole party submitting the required documents. A new tender is planned.

Sakhalin and Japan: Notwithstanding outstanding problems over the Northern Territories and the occasional arrests and shootings at Japanese "poachers" by Sakhalin boarder guard patrols, Sakhalin's relations with Japan are expanding. Sakhalin's exports go mainly to Japan. Earlier this year Michinoku Bank opened a branch office in Yuzhno-Sakhalinsk and, just recently, the Japanese Government has opened a "Japanese Center" which will offer training programs and business facilitation services. The Association for Promotion of Hokkaido Business operates an office in Yuzhno-Sakhalinsk to promote commerce between the two regions.

The U.S. Government strongly supports the development of business relations between Sakhalin and American companies, and is supportive of the close cooperation between regional officials and the American Business Center. By helping U.S. firms to better understand the region and its commercial opportunities, as well as by facilitating contacts with potential Russian partners, the ABC is playing a vital role in supporting the growth of commercial relations between the United States and Sakhalin.

The U.S. Government strongly encourages formation of joint ventures to blend the expertise and strength of U.S. and Russian firms, and envisions opportunities for such partnerships particularly as the offshore oil and gas

projects move forward.

A. Background, Sakhalin Oil Production

I. Although Sakhalin oil and gas comprise less than one percent of total Russian reserves they are the only commercial fields in Russia west of Tyumen. Oil production peaked at 26 mmt in 1985 and has declined every year since to 15mmt. Gas production declined by a quarter in this period. North Sakhalin onshore fields are estimated 63% exhausted. Offshore reserves are several times larger than remaining onshore reserves.

II. Sakhalin's oil is transported by pipeline to Komsomolsk. This refinery (built 1942) and one in Khabarovsk (built 1935) have a combined capacity of 9 mmt/yr. The bulk of these refineries' feedstock is Tyumen crude long-hauled from Angarsk at great cost. Production is insufficient to meet Far East demand, and so refined products are also long-hauled by rail.

III. Existing Russian onshore industry is plagued by aging infrastructure and less-than-modern environmental protection techniques. Spills were reported along the pipeline route after the 1995 Neftegorsk earthquake. A well over the new super-deep Ust-Evay gas field, which began producing in 1958, has been burning uncontrolled since mid-1994.

IV. Primary producer is SakhMornefteGaz a division of Rosnaft: 1.5 mmt/year oil 2 bn/y gas. \$40 million this year profits, 13,000 employees. They discovered and explored the offshore fields in Sakhalin-1,2,3 tenders in the 1970s and 80's. Other companies include Saudi JV Petrosakh which operates two wells and a small field refinery near mid-island and has begun exploration drilling this year. ANK Shelf, which has also received, license to eight small onshore fields and has begun development of two, and Sakhalin Petroleum PLC, which is contracting SMNG to do exploratory drilling this year through the ice Nabri Bay near Nogliki.

B. Sakhalin-I (Larry Kennedy)

I. Sakhalin I is three fields: Chayvo Odoptu and Arkutun-Dagl, which were all discovered by SMNG. Total recoverable hydrocarbon reserves potential for the three fields is approximately 2.5 billion barrels of oil and 15 tcf of gas although extensive delineation of Arkutun-Dagl, is required.

II. Exxon Neftegas Limited (30%), Japanese consortium SODECO (30%) and two Russian companies. Rosneft-Sakhalin (17%) and Sakhalinmorneftegas-Shelf (23%)

III. In 1994, a conceptual feasibility study was approved by the Russian Federation and Sakhalin Oblast in June., 1995. Commencement Date was announced formally on June 10, 1996.

IV. During the summer of 1996 a well will be drilled and tested in the Arkutun-Dagl field using Sakhalinmeftegas OKHA drilling rig. A 3D seismic program over Arkutun-Dagi alone will cover over 1,100 km², one of the largest single surveys to be acquired by industry. This work is the first part of a US\$200-\$300 million resource appraisal program that is planned to better define estimates of reserves.

V. The development of the three fields will involve a combination of large ice-resistant platforms and subsea templates. Significant offshore facilities, pipelines and project infrastructure will have to be established on the island in order to support the project and the export of oil and gas. Portions of the offshore facilities and pipelines may be a joint industry project serving all markets. Russian members of the consortium and the foreign partners will be responsible for marketing their own respective shares of production

C. Sakhalin- III (Jan Mølle)

I. Consortium of Mobil/Texaco were awarded rights in 1993 to Klorskoye gas field. Est. reserves: 100 bcm gas; 50mmt condensate. Expect to spend \$151 million in exploration at 100% own risk. Have not signed PSC yet. Fuel and Energy Ministry and Rosneft approve of signing PSC, but SMNG director Bogdanchikov is adamantly opposed to giving away more fields to foreigners.

II. Article from 9 Aug 96 Soviet Sakhalin "Foothold" interview with SMNG director Bogdanchikov Statements: "RFE energy demand will be satisfied by Sakh-1.2 alone no

need for Sakh-3. We should limit foreign investment to absolute minimum. We can master the technology and apply for financing based on ownership of the license just like foreign companies." PSA law was signed in 1995 but neither Exxon nor other Foreign partners were in a hurry to start work until Bogdanchikov and Shafranik gave Exxon an ultimatum: "announce CD or lose fields." This applied to Sakh-2 as well. Now, administration must spend bonus dollars wisely for construction of schools and hospitals. 1996 profits approx. \$40 million (fourfold increase). Four new gas fields on line. If the administration is interested in new jobs it must pay for training \$1 million was contributed for Nogliki power station. "My goal is to make common people see real effect from shelf projects."

D. Sakhalin II Project

I. Putun-Astokhskoye (oil with associated gas) and Lunskeye (gas with associated oil and condensate) offshore fields, located 13-16 km offshore northeast. Estimated recoverable reserves of 100mmt (750 million barrels) of hydrocarbon liquids and 494 bcm (14tcf) of gas. Plans at the feasibility stage called for production to be transported to shore and then by pipeline to oil terminal and LNG plant in Prigorodnoye before being exported. However, at this early stage the best economic and technical development solution is a phased approach starting with the PA field. Appraisal of the remainder of the PA Field, and of the Lunskeye Field, continues.

II. Sakhalin energy was formed at request of the Russian Government in April 1994 as a single legal entity to hold licenses for use of the subsurface resources, and to manage development of the fields on behalf of its shareholders. Marathon Sakhalin Limited (30%); McDermott Sakhalin, Inc. (20%); Mitsui Sakhalin Development Co., Ltd. (20%); Shell Sakhalin Holdings B.V. (20%); Diamond Gas Sakhalin BV a wholly owned subsidiary of Mitsubishi corporation (10%).

III. M/M/M/ Consortium won the tender in Jan 1992. In March 1993 the feasibility study was approved by decisions of Environmental and Economic Expertise Committees. Production Sharing Contract signed on June 22 by representatives of the Russian Federation and Sakhalin Energy. In May 1996, the Russian Federation Government issued licences to Sakhalin Energy. In June 1996 Sakhalin Energy declared Commencement Date for PSC, the first project to proceed under production sharing in Russia.

IV. Immediate and Long-term Benefits to the Russian side include: Revenues: a combination of hard currency and actual production royalties a share of profit and profit taxes. Bonus Payments: \$15 million at Commencement Date in June this year. A further \$15 million when a final decision is made to proceed with PA first phase development following technical approval. Development Fund: A first development decision (possibly in 1997) will also trigger the establishment of a Sakhalin Development Fund, amounting over five years to US \$100 million, for improving social and economic infrastructure of Sakhalin. Russia Content: PSC requirement that Sakhalin Energy will use "best efforts to maximize Russian content over the lifetime of the project".

V. Sakhalin Energy has participated in community activities since arrival on Sakhalin in 1991. (1) Active support for the high school economic education program Junior Achievement (with over 100 classes now an official part of Regional education curriculum), (2) intern program with Sakhalin college students; (3) support for Regional student arts and music scholarship competitions called "Young Talent of Sakhalin" (4) support for Native Crafts vocational school in Poronalsk; (5) contributions to youth sports schools, traditional local festivals, (6) recently announced grants to Library which will total \$110,000 over five years.

VI. PRESS RELEASE: Sakhalin Energy Investment Company, Ltd. (Sakhalin Energy) announced today, July 24, 1996, that it has obtained the support of the Government of the Russian Federation and the Administration of Sakhalin Region to progress a plan to start development if the Putun-Astokhskoye (PA) field offshore Sakhalin Island. The plan is based on a phased approach to developing the PA Field which could lead to first production of oil in 1999, considerably earlier than under other development options. The plan is based on extensive study which has shown that early economic production could be achieved through the use of an existing mobile drilling and production facility known as the Molikpaq. The Molikpaq is a

large ice-class drilling unit which has been successfully deployed in Arctic drilling operations and which has been designed for operating conditions significantly more severe than those experienced offshore Sakhalin. The plan proposes that the Molikpaq would produce oil from the Astokh feature in the Pultun-Astokhskoye Field. The oil would be transported by a short pipeline to a single anchor leg mooring buoy (SALM) and a storage tanker, for subsequent loading onto tankers, an operating procedure widely practiced in other parts of the world. The plan now requires formal technical approval from appropriate Russian regulatory authorities, and further progress on the achievement of stabilization prior to final shareholder commitment.

E. Background Sakhalin political situation

I. Elections for Governor took place October 20, 1996. Ten gubernatorial candidates registered. Communist Party candidate Anatoly Chyorny, former SMNG director and now a director at Sidanko, a vocal opponent of shelf development by foreign companies, lost to the incumbent, capturing 27.5% of the vote. Another critic of the Sakhalin-2 PSC is candidate Valery Timofeyev from Koraskov. As of today, we do not have a fix on this election. Vladimir Bersenyov is Yabloko candidate and General Director of the ANK Shelf Oil Company. Incumbent governor Farkhutdinov won with 39.5% of the vote. Farkhutdinov understands the need for stabilization and understanding of the ways of Western oil business. His re-election was far from assured. He had the advantage of incumbency and the support of Yeltsin. The Sakhalin electorate, characterized by a high proportion of active voters among the military and pensioners voted overwhelmingly for Yeltsin in the last election.

II. Elections for a new Regional Duma were also conducted on Oct 20. The previous Duma was split apart last year by a power struggle and finally dissolved by the courts. Its former chairman Maksyutov emerged as one of two Sakhalin representatives to the Federation Council, the other is Farkhutdinov. The two men hardly speak, a situation which complicates joint action in supporting legislative initiatives. However, indications are that Maksyutov has been defeated. The Sakhalin representative to the lower house at the time of this writing is Zhdakayev, a Communist from Tymovsk and outspoken opponent of shelf development by foreigners.

III. Vital issues to the future of Sakhalin-2 (stabilization, land code, profits tax split) remain to be decided in Moscow. Elevation of PSC Law opponent Glazlyev to post in Ledbed's Security Council bodes ill for needed amendments to that law and prevailing attitude at Fuel & Energy Ministry is that the law in current form is sufficient to start investment. Little is known about the policies of new Minister Rodionov, except that he is a Chernomyrdin man and a Russia-Firster.

F. Sakhalin fact sheet

I. Sakhalin is 950 km in length and only 160 km across at its widest point lying eight time zones east of Moscow and separated from mainland Russia by the narrow Tatar Straite. The southern tip of Sakhalin is just 45 km north of the northernmost Japanese island of Hokkaido.

II. Sakhalin's climate is maritime. Summers are cool with June and July misty and foggy, and hot weather in August. Fall is the season for typhoons and hurricane-force winds. Snow falls from November to March and may measure up to 50cm in the north, 70cm in the south and 100 cm in the east. Scrubby lowland tundra with sparse larch and cedar cover the northern third of Sakhalin; two-thirds are forested and mountainous, with spruce and fir predominating. Wetlands stretch along the perimeter of north Sakhalin, at the delta of the Poronay River and near Aniva Bay. Only about 2% of the land area is suitable for agriculture.

III. Sakhalin is a seismically-active region which has experienced two serious earthquakes in the last two years - October 1994 in the Kuriles (12 dead) and May 1995 in Neftegorsk (2000 dead, town obliterated). Monitoring stations are closing due to lack of funds and there is no money for research.

IV. The population of Sakhalin has decreased 11% since 1992, and is about 641,000. Eighty eight percent are ethnic Russian or Ukrainian, 5% Korean, and less than 0.5% indigenous (Nivkhi, Ulita, Nanai, Evenki). The majority of the

population live in the extreme south of the island. Kholmsk (pop. 62,000) is a major port with two pulp and paper plants, a fishing fleet, and a ship-building and repair center. Korsakov (pop. 46,000) is also a major center for fishing, fish processing and international shipping. Near mid-island, Poronaysk (pop. 26,000) produces paper pulp and cement. Okha (pop. 36,000) in the extreme north of the island, is the center of the onshore oil and gas industry. On the northeast Sakhalin coast, Nogliki (pop. 11,000) is the population center nearest the offshore Sakhalin project areas.

V. Fishing and fish processing represent 30% of the Region's total industrial activity, and 50% of its exports. The Kuril basin and Sea of Okhotsk are among the richest fisheries in the world providing at one time about half the total seafood demand of the former Soviet Union. Forestry (including timber, pulp and paper) is the second largest industry: formerly Sakhalin accounted for almost all the paper and half the pulp production of the Russian Far East. Industrial production of coal is declining due to high transport costs, loss of federal subsidies, outdated machinery, and intensive resource exploitation.

G. Sakhalin Regional Budget

Interview on Sakhalin evening TV 17 July 96 with Vice-Governor Gomilevskiy- How bonus payments of \$5M and \$15M from the Sakh-1 and 2 projects will be spent \$5M will remain in dollars as hard-currency fund for the Region, \$15M will be converted to rubles and evenly distributed among districts for "important work of preparation for winter, and construction of social infrastructure." Examples: purchase turbine for Nogliki gas-fired electric plant; hospital in Korsakov; repair earthquake-damaged school in Okha; school in native village of Krasnaya Tym; bridge in Makarov; repair of steam lines in Aniya. When asked if the bonuses are important and timely, Gomilevskiy answered "yes, especially when you consider that the Region has received transfer payments for Jan-Mar, but not a ruble since." MinFin has called in all loans. Governor has made frequent trips to Moscow to solve these problems. According to Sakhalin Regional Administration as of 1 Dec 96, Regions' expenditures totalled \$265 million (including \$108 million for industry subsidies, \$122 for social spending, \$16 million for administrative costs). Income was \$301 million, half from taxes and half from transfer payments from center and other sources (that are in arrears).

H. Economy

I. Article from 15Aug96 Soviet Sakhalin, "We Only Dream of Stability". Governor's cabinet discussed socio-economic reports of first two quarters. Deficit of \$45 million due to non-collection of taxes and delays in subsidies from Moscow. GNP down 7%, 20% in consumer goods. Half of Sakhalin live below poverty level.

II. Sakhalin Radio. Morning interview with Governor, 25 Jul 96; reported on first Sakhalin-2 project Supervisory Board meeting. With approval for 1999 first oil, "the money starts in three years, not all that long," stressed to foreign partners need for "maximum participation of Russian contractors, and ecological safety of the Project, "the need for foreign investors to provide opportunities primarily for exploration companies like DMIGE, DMNG to re-equip, train and increase competitiveness. Repeated pledge of 20,000 jobs "on Sakhalin."

III. Recent articles about socio-economic situation

* Article in 22 Aug 96 Gubernskiy Vedemosti "About the Budget: Poverty Levels in region. July 1996": Poverty level reached approx. \$125 in July, up 28.3% from last year. Half of population falls below. Bread up 8%, potatoes up 40%, milk, butter and eggs down slightly. Yuzhno is one of most expensive consumer basket in all Russia.

* Article in 30 Aug 96 Soviet Sakhalin by E. Kropp head of DMNG "No turning Back": cites report showing sharp drop in real wages in 1995, avg. salary was only 20% above poverty level. Agricultural production down by half. Unemployment up 6.5-fold 80% of all ruble turnover in Moscow who live four times better than Sakhalinians. Total foreign investment in Russia in 1995 was \$2.5 billion, but Sakhalin has unique chance at \$50 billion via Sakh-1,2,3. But it can be lost. Example: Murmansk \$14 Billion foreign-consortium gas projects which were re-tendered to Rosshelf in 1992 due to intervention from Moscow.

Development was delayed. Time and markets were lost to Norway. Beware such intervention driven by selfish political or industry goals.

* Article from 2 July 96 Soviet Sakhalin "Librarians are Grateful to Foreigners, But Want More Attention From Their Own": Reports Sakhalin-2 gift of \$110,000 over five years to library. Quotes Library Director: "Regional Duma has not yet approved even one-sixth the annual budget needed, and two library development programs announced by the Governor have not been funded yet. Librarians are paid only \$80-120 per month. Library wants for more attention from local authorities. Note: According to postal data, there are approximately 31,500 subscribers of Soviet Sakhalin daily newspaper of Sakhalin. Other local newspapers (mostly weeklies) have circulations from 200-5000.

I. ISSUES

- I. Foreign and US investment is critical to economic progress in Russia.
- II. Legal instability in Russia is delaying this investment.
- III. Enabling Laws and normative acts must be passed as soon as possible.

J. Population, short facts

I. Yuzhno-Sakhalinsk: capital of Sakhalin Region and largest city, pop. 160,000. Rail and air transport hub. Airport is international, but requires modernization to accomodate larger aircraft. Primary industries include food, timber processing, construction and building materials (including concrete and panel structures), finance and banking. Higher education: State Pedagogical Institute, and three smaller business colleges. Home of Institute of Marine Geology, Sakhalin Fisheries Research Institute, FEMCO, DMNG, and other oil exploration-related firms.

II. Article from 27 June 96 Soviet Sakhalin "Marine Geophysicists Enter the Picture": Finally after negotiations and parties, work is beginning. Quotes DMNG's Lifshits that a research vessel will conduct \$15 million in contract work for Exxon and SE this summer on shelf, emphasized that all money will go through local banks and taxes paid.

III. Article from 15 Aug 96 Gubernskiye Vedemosti "You're Going Nowhere Without Some Taxes": Mayor of Yuzhno met with cabinet to discuss socio-economic situation. City owes power system \$9 million. Why? Non-payment of taxes: 8000 businesses owe a total of \$8.5 million. Tax inspectorate keeping up the pressure. However, new expenses start Sept 1 -fund for small business development.

K. Impending winter power crisis

Article from 16 Aug 96 Svobodnyy Sakhalin: "Get Your Candles and Kerosine Heater Ready for Winter, Says Coal Company". Coal company is bankrupt strike looms. They owe \$120 million, only government can bail them out. One tonne of coal costs them \$80 to produce, price on foreign market is \$30/tonne. Worker productivity and maintenance low due to non-payment of wages. We can only deliver 1 mmt this year, 1.6 mmt needed.

L. Troika Alaska Opens Sakhalin Office

On October 15, the World Trade Center Alaska announced that the Troika Alaska Commercial Center has opened a representative office in Yuzhno-Sakhalinsk. Troika, a program of the World Trade Center Alaska, is located in room 509 of the Sakhalin Centre. Todd Crossett is the Troika Assistant Manager for Sakhalin and Elena Danilova is the administrative assistant. Troika represents a consortium of Alaskan or Alaska-based businesses and provides members with exclusive business services and information about their industries and their competitors in the Russian Far East.

M. Other Cities & Resumes

Korsakov

Population, 46,000, third largest in Region. Largest port primary ocean fishing base and largest fish processing plants located here. Also corrugated cardboard, food and light industries. Prigorodnoye, east of town, is proposed site for Sakhalin-2 LNG plant and export terminal.

Igor Pavlovich Parkutdinov, Head of Administration (Governor) - Sakhalinskaya Oblast

Born: 1950, Novosibirsk

Education:

1972: Krasnoyarsk Polytechnical Institute - Engineer and Economist

Professional Career:

1972-77: Engineer in Technology-production Section; Shift Chief; Then Chief, Boiler and Turbine Section of Power Station, Tymovskoye, Sakhalinskaya Oblast

Political Career:

1977-80: Second Secretary, Then First Secretary, District Komsomol Committee, City of Tymovsk;

1980-91: Director of Section on Young Industrial and Agricultural Workers, Komsomol Oblast Committee; in Yuzhno-sakhalinsk, Capital of Sakhalinskaya Oblast

1981-85: Instructor, Section on Organizational and Party Work, Sakhalinskaya Oblast Committee of CPSU;

1985-91: Chairman of the Executive Committee (Ispolkom), of the Soviet Of People's Deputies, City of Nevelsk, Sakhalinskaya Oblast;

1991-92: Chairman of Ispolkom of Municipal Soviet of People's Deputies, City of Yuzhno-sakhalinsk;

1992: January: Appointed Head of Administration (Mayor) of Yuzhno-Sakhalinsk;

1995: April 24: Appointed by President Yeltsin as Head of Administration (Governor) of Sakhalinskaya Oblast Following Resignation of Yevgeniy Krasnoyarov;

1995: November: One-week, Economic-oriented Visit to Alaska Included Oil-refining and Extraction Facilities-

Family:

Married; One Son

Vladimir YAGUBOV (yi-GOO-boff) Mayor Yuzhno-Sakhalinsk Born 1948 in Kurgan Region, graduated Kurgan Agricultural Institute in 1971 as agronomist. Seed agronomist and later chief agronomist of Niva collective farm in Kurgan. Moved to central Sakhalin in 1975 and graduated from the Higher Party School in Khabarovsk. Named Deputy Mayor in March 1995, and two months later assumed the post of Mayor when Parkhutdinov became governor.

Valeriy Ivanovich BELONOSOV (byen-la-NOH-soff) Vice Governor for Social and Cultural Issues - Born 1942 in Irkutsk. Graduated Irkutsk Mining Institute in 1963 as a mining engineer. Assigned to coal mine in Dolinsk, Sakhalin, as a mine surveyor. After military service returned to the Dolinsk mine as head of the design bureau, then transferred to Shabunino mine as chief surveyor. He worked

there five years, later becoming party secretary for the mine company. After graduating from the CPSU Academy of Social Sciences, he was named head of Sakhalinglavsnab in 1988 he became ideology Secretary of the Regional Committee CPSU, then in 1991 the head of regional transport and communications department. He has served as Vice-governor since June 1995. He is married and has two daughters.

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Rusty Devereaux

Oil and gas: Updates on Sakhalin-1 and -2

Oil companies do a lot of advance work before putting contracts out to bid. Creating the document (called the Request for Proposal, an RFP) which solicits the bids is one important feature of this advance work. Another is prequalifying companies who will be listed to receive the RFP, and thus invited to bid on it.

All the major oil companies work with major international contractors. So, just as the oil company is preparing the information needed to put out a contract for the bidding process, the companies who wish to bid on the contract are seeking pre-qualification status and are preparing themselves, as well as they can, for the bidding process.

One large contract has been awarded to Kvaerner Oil and Gas.

Based on a competitive bid, the Sakhalin-1 consortium has selected Norwegian firm Kvaerner Oil and Gas Limited to provide design engineering, procurement, and construction management assistance for the Sakhalin-1 Arkutun-Dagi Phase I Development Project. This includes the installation of an offshore structure and its associated oil and transportation and export system. The project execution team will be based in London.

The work will be divided into two stages. Stage One will consist of preliminary study, engineering and design work, including how best to use Russian products and services. Stage Two will include detailed engineering, procurement and construction management.

Arkutun Dagi lies in 40-45 meters of water about 20 kilometers off the northeast shore of Sakhalin Island.

Operator Exxon Neftegas Ltd. has a 30 percent interest in the field, Japan's Sakhalin Oil and Gas Development Company (SODECO) has 30 percent, and Russia's Rosneft-Sakhalin and Sakhalinmorneftegas-Shelf have 17 and 23 percent respectively.

And one small project awarded: Architectural planning for a housing project for Sakhalin-1

Yost Grube Hall (YGH—Portland, Oregon) has an agreement with Exxon to plan a community development for Exxon's Sakhalin-1 project. The architectural firm is currently in the preliminary planning phase of the project, considering different sites in Yuzhno-Sakhalinsk. A scope-of-work is expected to be completed by the end of March.

"Candidate-contractors" are exploring the possibilities

This was the purpose of a recent visit to Vladivostok and Sakhalin of a delegation from Morrison-Knudsen (MK—Boise, Idaho). The company is an international contractor in mining, engineering, oil and gas project work. The delegation included the Executive Vice President for International Affairs and the Executive Vice President for Environmental and Government Affairs.

Since the need for *local content* is a policy for both Sakhalin-1 and Sakhalin-2, the western companies who are preparing to bid on these contracts are looking for candidate Russian companies to train as partners in the contract work ahead. "This was also a purpose of our visit," said a member of MK's delegation.

* * *

In the process of our conversations with several companies we asked a few other questions.

Update: What's noticeable on Sakhalin right now?

"Lots of oilpatch folks running around, that means PhD's who wear cowboy boots. Folks who have developed oil around the world."

Update: Are the projects seen as American projects?

"The projects' shareholders certainly don't present it that way. Both Sakhalin-1 and Sakhalin-2 are multinational consortia (Japanese, American, European interests). But, yes, I suppose the islanders see these as American projects."

Update: Any impact on food export business to Sakhalin?

"We're noticing lots of special orders. Sally wants this, John wants that. But these orders are handled by the oil companies as special deliveries." □

EXXON COMPANY, USA
SAKHALIN INFORMATION

EXXON COMPANY, U.S.A.

POST OFFICE BOX 199901 • ANCHORAGE, ALASKA 99519-9901 • TELEPHONE (907) 551-5351

PRODUCTION DEPARTMENT
ALASKA INTEREST

JAMES F. BRANCH
PRODUCTION MANAGER • ALASKA

March 19, 1997

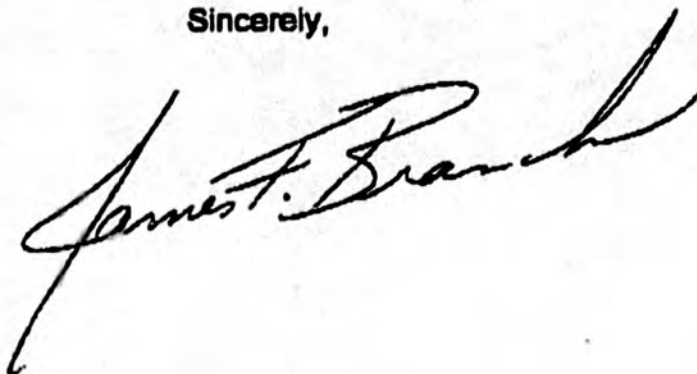
The Honorable John Cowdery
Chair, House Special Committee
on International Trade/Tourism
Alaska State Legislature
State Capital, Room 416
Juneau, AK 99801-1182

Dear Representative Cowdery:

Enclosed is a copy of Mr. Robert Olsen's speech on Sakhalin oil and gas development activities to the 1997 Alaska Support Industry Alliance. I hope you find this information useful in connection with the Committee's discussions on future economic development and government relations work on Sakhalin Island. Feel free to distribute copies of this material to the members of your Committee.

Please contact me or Mark Boudreaux at (907) 463-2577 if you should have any questions.

Sincerely,



JFB/MDB:dgo
Enclosure



SAKHALIN DEVELOPMENTS

**PRESENTED IN ANCHORAGE, ALASKA
JANUARY 18, 1997
TO THE ALASKA SUPPORT INDUSTRY ALLIANCE**

**BY
ROBERT C. OLSEN
PRESIDENT, EXXON NEFTEGAS LIMITED**

GOOD AFTERNOON. I'M PLEASED TO JOIN YOU TODAY AND DISCUSS THE CHALLENGING NEW PROJECTS OFFSHORE SAKHALIN ISLAND IN RUSSIA. YOU HAVE COME TO KNOW EXXON AS A LONG TERM INVESTOR AND BUSINESS PARTNER IN ALASKA, BUT YOU MAY NOT BE AWARE OF THE EXTENT OF EXXON'S INVOLVEMENT IN EMERGING OPPORTUNITIES IN THE FORMER SOVIET UNION.

TODAY I'LL PROVIDE AN OVERVIEW OF THE INVESTMENT ENVIRONMENT IN THE CIS AND THE MAJOR AREAS OF ACTIVITY. I'LL DESCRIBE THE PLANS FOR THE DEVELOPMENT PROJECTS IN THE SAKHALIN AREA SPECIFICALLY, AND THE CHALLENGES WHICH WILL LIKELY BE FACED BY SUPPORT INDUSTRY COMPANIES SUCH AS YOURS.

FIRST, LET'S LOOK AT THE OIL AND GAS INDUSTRY ENVIRONMENT.

CIS INDUSTRY OVERVIEW

THE COMMONWEALTH OF INDEPENDENT STATES, OR CIS, HOLDS VAST HYDROCARBON RESOURCES. ESTIMATES OF REMAINING RESOURCES (DISCOVERED AND UNDISCOVERED) HAVE BEEN PLACED AT OVER 200 GB OF OIL AND OVER 3000 TCF OF GAS. IN FACT, THE TOTAL CIS RESOURCE POTENTIAL ACCOUNTS FOR ABOUT 1/3 OF THE REMAINING LIQUID POTENTIAL AND OVER 1/2 OF THE REMAINING GAS POTENTIAL AMONG THE NON-OPEC COUNTRIES OF THE WORLD. THE CIS IS SECOND ONLY TO SAUDI ARABIA IN LIQUID RESERVES, AND SECOND TO NONE IN GAS RESERVES.

UNTIL ONLY RECENTLY, THE CIS WAS ALSO THE LARGEST SINGLE PRODUCER OF OIL AND GAS IN THE WORLD. LIQUID OUTPUT, AFTER PEAKING AT OVER 12 MBPD IN THE LATE 1980'S, HAS FALLEN TO A CURRENT LEVEL OF ABOUT 7 MBPD (~6 MBPD IN RUSSIA). PRODUCTION FROM RUSSIA, WHICH COMPRISES 90% OF THE CIS TOTAL, DECREASED BY 50%. AS A RESULT, THE CIS SHARE OF TOTAL WORLD PRODUCTION WAS REDUCED FROM 20% IN 1988 TO 11% IN 1995. THESE PRODUCTION DECLINES ARE THE DIRECT RESULT OF DECREASED GOVERNMENT INVESTMENT AND WERE AGGRAVATED BY THE DISSOLUTION OF THE SOVIET UNION.

IN RESPONSE, THE RUSSIAN GOVERNMENT HAS BEEN RESTRUCTURING THE OIL INDUSTRY SINCE 1992. LARGE INTEGRATED COMPANIES ARE BEING FORMED AND PRIVATIZED BY COMBINING ASSOCIATIONS THAT PREVIOUSLY HAD ONLY A SINGLE FUNCTION, SUCH AS EXPLORATION, PRODUCTION, OR REFINING. THE RUSSIAN INDUSTRY IS NOW FACED WITH SIGNIFICANT FINANCIAL REQUIREMENTS AND THEY ARE NOT ABLE TO FUND THE NEEDED NEW PROJECTS AND EXPLORATION PROGRAMS.

THIS HAS CREATED A NEED FOR SIGNIFICANT FOREIGN INVESTMENT AND HAS CREATED AN OPPORTUNITY FOR EQUITY PARTICIPATION BY WESTERN OIL COMPANIES. ASSUMING THAT CURRENT LEGAL AND COMMERCIAL DIFFERENCES CAN BE RESOLVED, THIS SHOULD BE A WIN-WIN SITUATION IN WHICH WESTERN OIL COMPANIES AND CONTRACTORS PARTICIPATE IN DEVELOPING THE CIS RESOURCE BASE TO THE MUTUAL BENEFIT OF ALL PARTIES INVOLVED.

AS THE NEXT SLIDE SUGGESTS, THIS RE-DEVELOPMENT EFFORT IS BEING PURSUED ON A LARGE SCALE ALL OVER RUSSIA AND THE NEIGHBORING STATES.

KEY AREAS OF CIS ACTIVITY

HERE YOU CAN SEE THE FOUR MAIN REGIONS OF NEW HYDROCARBON DEVELOPMENT WHERE THE WESTERN INDUSTRY IS FOCUSING. ALTHOUGH MANY OF YOU IN ALASKA ARE USED TO ENORMOUS GEOGRAPHICAL SCALES, SOME OF US HAVE TO REMEMBER THAT THIS MAP REPRESENTS ABOUT 1/6 OF THE WORLD'S LAND AREA, CONTAINS 12 SEPARATE REPUBLICS, AND SPANS 11 TIME ZONES.

TO THE NORTHWEST IS THE RUSSIAN REGION OF TIMAN PECHORA; TO THE NORTH IS THE HIGHLY DEVELOPED WEST SIBERIA REGION; AND THE RICH, ACTIVE BASINS OF THE CASPIAN SEA AREA ARE IN THE SOUTHWEST. TO THE EAST, IS THE SAKHALIN REGION WHERE I'LL CONCENTRATE MY DISCUSSION IN A MOMENT.

SOME OF THESE REGIONS, ALTHOUGH THEY ABOUND IN PROVEN RESOURCES, ARE HINDERED BY LACK OF ACCESS TO OUTSIDE MARKETS. WEST SIBERIA, IN PARTICULAR, HAS BEEN THE BACKBONE OF THE CIS OIL INDUSTRY SINCE THE LATE 1970'S. IN RECENT YEARS, THIS REGION HAS ACCOUNTED FOR ALMOST 70% OF TOTAL RUSSIAN OIL PRODUCTION AND OVER 90% OF GAS PRODUCTION. MUCH OF THE JOINT VENTURE ACTIVITY HAS OCCURRED HERE, BUT MOST OF THESE VENTURES HAVE BEEN RELATIVELY SMALL AND ACCESS TO EXPORT CAPACITY OFTEN DIFFICULT.

TIMAN PECHORA AND SAKHALIN, DUE TO THEIR COASTAL LOCATIONS, OFFER RELATIVELY EASIER ACCESS TO FOREIGN MARKETS. BOTH ARE REMOTE WITH LIMITED INFRASTRUCTURE, HOWEVER, AND WILL BE MORE COSTLY TO DEVELOP. THE CASPIAN SEA AREA IS VERY ACTIVE TODAY, DUE TO LARGE FIELD SIZES AND SUPPORTIVE GOVERNMENTS IN AZERBAIJAN AND KAZAKSTAN. EXXON IS PURSUING PROJECTS IN EACH OF THESE FOUR CIS AREAS.

EXXON'S INITIAL CONTACT IN THE CURRENT ENVIRONMENT OCCURRED IN 1990. BY 1992, WE HAD ESTABLISHED A REPRESENTATIVE OFFICE IN MOSCOW. TODAY, EXXON OPERATES FIVE OFFICES INCLUDING MOSCOW, YUZHNO ON SAKHALIN ISLAND, ARKHANGELSK IN TIMAN PECHORA, BAKU IN AZERBAIJAN, AND ALMATY IN KAZAKSTAN.

WITH THAT BACKDROP, LET ME NOW DESCRIBE THE SAKHALIN AREA.

SAKHALIN AREA OVERVIEW

FROM THE BEGINNING, EXXON FOCUSED ON THE SAKHALIN AREA WHICH HOLDS DISCOVERED AND UNDISCOVERED RESOURCES ESTIMATED TO BE ABOUT HALF THE SIZE OF ALASKA'S PRUDHOE BAY. IT IS NOW THE MOST ACTIVE AREA IN RUSSIA FOR MAJOR NEW DEVELOPMENTS-- LARGELY DUE TO THE EFFORTS OF THE PROGRESSIVE LOCAL GOVERNMENT, OR OBLAST ADMINISTRATION. SOME ONSHORE PRODUCTION HAS EXISTED ON THE NORTH HALF OF THE ISLAND FOR MORE THAN 50 YEARS. BUT THE OFFSHORE AREAS REMAIN UNTAPPED DESPITE EXPLORATION ACTIVITY WHICH HAS INCLUDED 25 WELLS SINCE THE 1970'S.

PHYSICALLY, SAKHALIN ISLAND IS IN A REMOTE SUB-ARCTIC REGION SIMILAR IN MANY WAYS TO THE COAST WEST OF ALASKA. THE OFFSHORE ENVIRONMENT FACES THE SAME CONDITIONS OF SEVERE SEASTATES, ICE COVERAGE ABOUT 8 MONTHS PER YEAR, AND SIGNIFICANT EARTHQUAKE ACTIVITY.

ALSO LIKE ALASKA, THERE IS CONSIDERABLE ONSHORE OIL PRODUCTION EXPERIENCE UNDER CONDITIONS GENERALLY SIMILAR TO YOUR NORTH SLOPE. THIS HAS PROVIDED A BASIC INFRASTRUCTURE, BUT IT IS NOW OLD AND CERTAINLY NOT YET PREPARED TO HANDLE THE SIZE OF PROJECTS THAT WE'RE PURSUING. THE LOCAL GOVERNMENT IS EAGER TO REVITALIZE THE SAGGING ECONOMY BY PUTTING PEOPLE TO WORK ON THESE NEW DEVELOPMENTS.

ON THIS MAP, YOU CAN SEE OUR SAKHALIN I AREAS FOR WHICH THE PSA, OR PRODUCTION SHARING AGREEMENT, BECAME EFFECTIVE LAST JUNE. THIS ALLOWED JUST ENOUGH TIME FOR US TO DRILL OUR FIRST APPRAISAL WELL AND SHOOT 3-D SEISMIC BEFORE WINTER ICE SET IN. I'LL COVER SAK I IN MORE DETAIL IN A MOMENT.

ALSO SHOWN HERE ARE THE TWO LARGE, DISCOVERED FIELDS IN THE SAKHALIN II PROJECT WHICH ARE BEING DEVELOPED BY THE SAKHALIN ENERGY CONSORTIUM OF MARATHON, SHELL, MCDERMOTT, MITSUI, AND MITSUBISHI. THE PSA FOR THESE AREAS ALSO BECAME EFFECTIVE IN JUNE 1996. THE FIELDS ARE REPORTED TO CONTAIN 750 MB OF LIQUIDS AND 14 TCF OF GAS.

SINCE IT IS IN RELATIVELY SHALLOW WATER, SAKHALIN ENERGY HAS ANNOUNCED PLANS TO USE A MODIFIED CANADIAN DRILLING STRUCTURE, THE MOLIKPAQ, AS A PRODUCING PLATFORM TO ESTABLISH EARLY PRODUCTION FROM THE PILTON-ASTOKH FIELD BY 1999. THE CONSORTIUM HAS RECENTLY LET A \$35M CONTRACT TO A RUSSIAN SHIPYARD TO FABRICATE THE BASE FOR THE PLATFORM. IN TOTAL, DEVELOPMENT OF THE TWO FIELDS IS EXPECTED TO REQUIRE AN INVESTMENT OF AROUND \$10 BILLION OVER MANY YEARS.

FINALLY, THE LARGE SAKHALIN III EXPLORATION BLOCKS ARE OUTLINED ON THIS MAP. EXXON WAS AWARDED THE TWO NORTHERN BLOCKS IN A 1993 TENDER AND THE COMBINE OF MOBIL/TEXACO PICKED UP THE SOUTHERNMOST BLOCK AT THE SAME TIME. EACH OF THESE BLOCKS COVERS ABOUT 1.1 MILLION ACRES. PSA NEGOTIATIONS WERE COMPLETED ON EACH OF THESE BLOCKS IN 1996 AND INCLUDE PLANS FOR SIGNIFICANT DRILLING ACTIVITY. AT THIS TIME, HOWEVER, THE PSA'S ARE AWAITING APPROVAL FROM THE LOCAL AND FEDERAL GOVERNMENTS AND THE PSA LEGAL FRAMEWORK IS BEING COMPLETED TO ALLOW THESE NEWER CONTRACTS TO BE VALID AND ENFORCEABLE.

LET'S NOW LOOK AT THE SAKHALIN I PROJECT MORE CLOSELY ON THE NEXT SLIDE.

SAKHALIN I

EXXON IS THE OPERATOR FOR THE 5 GOEB SAKHALIN ONE PROJECT TO DEVELOP THE ARKUTUN-DAGI FIELD AND A PROMISING GAS CONDENSATE FIELD KNOWN AS CHAYVO. IN ADDITION, ODOPTU, A THIRD FIELD THAT LIES TO THE NORTH, MAY BE COMMERCIALY DEVELOPABLE IN THE FUTURE. EXXON HAS A 30% INTEREST IN THE PROJECT, ALONG WITH AN EQUAL INTEREST BY THE JAPANESE GROUP SODECO, AND TWO RUSSIAN COMPANIES, ROSNEFT AND SAKHALINMORNEFTEGAZ, WHICH HOLD A COMBINED 40%.

ROSNEFT, ONE OF RUSSIA'S PREMIER INTEGRATED COMPANIES, BRINGS ESSENTIAL WORKING KNOWLEDGE OF THE RUSSIAN PETROLEUM INDUSTRY AND ESTABLISHED CONTACTS IN INDUSTRY AND GOVERNMENT.

SAKHALINMORNEFTEGAZ HAS 50 YEARS OF EXPERIENCE IN ONSHORE SAKHALIN OPERATIONS AND HAS OFFSHORE EXPLORATION AND DRILLING CAPABILITY.

SODECO BRINGS TECHNICAL AND MARKETING EXPERTISE, AND THE EXPERIENCE GAINED FROM OVER 20 YEARS OF ASSOCIATION WITH THE PROJECT.

CONSIDERABLE EXPLORATION WAS CONDUCTED BY THE RUSSIANS AND JAPANESE THAT RESULTED IN THE DISCOVERIES OF ODOPTU AND CHAYVO IN 1977 AND 1979, BUT THEY COULD NOT BE DEVELOPED ECONOMICALLY.

THE HIGH POTENTIAL ARKUTUN-DAGI FIELD WAS DISCOVERED IN 1989 IN WATER DEPTHS OF 65-165 FEET, ABOUT 20 MILES OFF THE EAST COAST OF SAKHALIN ISLAND. EXXON WAS SUBSEQUENTLY INVITED TO JOIN THE PROJECT AND IN 1995 THE FOUR COMPANY CONSORTIUM WAS FORMED TO PROVIDE THE STRENGTH NECESSARY TO UNDERTAKE A PROJECT OF THIS SIZE AND COMPLEXITY.

THE GREATEST CHALLENGE HAS ALWAYS BEEN TO COMMERCIALIZE RESOURCES IN THIS REMOTE AREA WITH A HARSH PHYSICAL ENVIRONMENT, LIMITED INFRASTRUCTURE, AND RESULTING HIGH

DEVELOPMENT COSTS. THE FIRST STEP IS TO GAIN A BETTER UNDERSTANDING OF THE RESOURCE POTENTIAL. THEREFORE, A 5-YEAR APPRAISAL PROGRAM WAS BEGUN WITH DRILLING IN THE ARKUTUN-DAGI FIELD LAST SUMMER USING A SAKHALINMORNEFTEGAS JACK-UP DRILLING RIG.

THE 1996 FIELD PROGRAM ALSO INCLUDED STATE OF THE ART 3-D SEISMIC ACQUISITION AND SITE SURVEYS IN PREPARATION FOR DRILLING OF 3 MORE WELLS DURING THE 1997 SEASON. THIS 1996 FIELD WORK, WHICH COST APPROXIMATELY \$30M, WAS THE FIRST PART OF A \$200-\$300 MILLION RESOURCE APPRAISAL PROGRAM THAT IS REQUIRED TO BETTER DEFINE ESTIMATES OF RESERVES IN THE THREE FIELDS.

ULTIMATELY, WE EXPECT IT WILL REQUIRE ABOUT \$15G TO FULLY DEVELOP THE THREE FIELDS. EARLY STUDIES INDICATE THAT WE MAY HAVE FOUR MAJOR ICE-RESISTANT PRODUCTION PLATFORMS WITH OFFSHORE TREATING CAPABILITY AS WELL AS SEVERAL SATELLITE DRILLING PLATFORMS OR TEMPLATES. STUDIES ARE NOW UNDERWAY TO PROGRESS THE PLATFORM, FACILITIES, AND PIPELINE DESIGN CONCEPTS.

THE CONSORTIUM IS CURRENTLY EVALUATING VARIOUS PHASED DEVELOPMENT AND TRANSPORTATION ALTERNATIVES TO ESTABLISH ECONOMICAL OIL PRODUCTION FROM ARKUTUN-DAGI JUST AS SOON AS REASONABLY POSSIBLE. UNDER CONSIDERATION FOR THE FIRST DEVELOPMENT PHASE IS AN ICE-RESISTANT PLATFORM CAPABLE OF PRODUCING MORE THAN 100 KBD AND LOCATED IN ABOUT 140 FEET OF WATER, SHOWN ON THIS MAP AS "P1". IT WOULD ACCOMMODATE BOTH DOMESTIC AND EXPORT OIL SALES WHILE GAS WOULD BE RE-INJECTED TO IMPROVE ULTIMATE OIL RECOVERY.

THE CONSORTIUM WILL UNDERTAKE ADDITIONAL ENGINEERING DESIGN WORK IN 1997 FOR THIS FIRST PHASE. IF THE RESOURCE APPRAISAL CONTINUES TO BE SUCCESSFUL AND THE

DEVELOPMENT IS COMMERCIALY JUSTIFIED, WE BELIEVE THAT FIRST OIL PRODUCTION COULD BE REALIZED SHORTLY AFTER THE TURN OF THE CENTURY.

DEVELOPMENT OF THE NEIGHBORING CHAYVO FIELD COULD FOLLOW CLOSELY BEHIND. WE PLAN TO RUN A 3-D SEISMIC SURVEY OVER THE FIELD IN THE SUMMER OF 1997 TO HELP CONFIRM THE RECOVERABLE VOLUME OF GAS. HOWEVER, COMMERCIALITY WILL BE LARGELY DEPENDENT ON THE ABILITY OF THE CONSORTIUM TO SECURE CONTRACTS FOR GAS MARKETS.

GIVEN THE EARLY STAGES, IT IS LIKELY THAT BOTH THE SAKHALIN I AND SAKHALIN II PLANS WILL CHANGE AS WE LEARN MORE. HOWEVER, ON THE NEXT SLIDE I'D LIKE TO SUMMARIZE THE KEY ELEMENTS COMMON TO MAJOR DEVELOPMENTS IN THIS REGION WHICH WILL REQUIRE SUPPORT ACTIVITY FROM COMPANIES SUCH AS YOURS.

MAJOR DEVELOPMENT ACTIVITIES

APPRAISAL DRILLING AND SEISMIC EFFORTS WILL BE EXTENSIVE TO ENSURE DEVELOPMENT OPTIMIZATION. BOTH JACK-UP RIGS, SUCH AS "OKHA" RIG SHOWN HERE ON OUR WELL LAST SUMMER, AND SEMI-SUBMERSIBLES ARE EXPECTED TO BE USED. THE ACTIVE PROJECTS ARE EXPECTED TO SPEND OVER \$300M ON APPRAISAL WHILE THE THREE SAK 3 BLOCKS COULD TOTAL \$450M IN EXPLORATION EXPENDITURES IN THE NEXT FEW YEARS.

CONSORTIUM ENGINEERING AND DESIGN EFFORTS WILL ALSO BE EXTENSIVE AND INVOLVE CONTRACTORS TO ASSIST WITH CONCEPTUAL, PRELIMINARY, AND DETAILED DESIGNS FOR THE VARIOUS COMPONENTS OF THE DEVELOPMENTS. IN ADDITION, THE DIFFICULTIES OF OPERATING PLATFORMS AND FACILITIES IN THIS ENVIRONMENT WILL REQUIRE THAT THE FULL RANGE OF OFFSHORE SUPPORT SERVICES BE ESTABLISHED FOR THE AREA.

THE PROJECTS WILL NOT ONLY HAVE COMMON CHALLENGES, BUT WILL LIKELY SHARE COMMON INFRASTRUCTURE, INCLUDING ONSHORE PIPELINES, LOADING TERMINALS, AND GAS PROCESSING PLANTS WHERE PRACTICAL. SUCH SYSTEMS WILL REQUIRE PLANNING FOR BOTH THE TECHNICAL REQUIREMENTS AS WELL AS ENVIRONMENTAL SENSITIVITIES. THE INCOMING VOLUME OF EQUIPMENT AND SUPPLIES WILL ALSO REQUIRE AN EXPANSION OF THE MATERIAL LOGISTICS AND HANDLING CAPABILITIES THAT ARE IN PLACE TODAY. FINALLY, WAREHOUSING, MAINTENANCE, AND TRANSPORTATION SERVICES WILL BE IN DEMAND.

OF COURSE, ALL OF THIS WILL BE DONE WITH CONSIDERABLE RUSSIAN PARTICIPATION. BOTH SAKHALIN I AND SAKHALIN II ARE BOUND BY THEIR PSA'S TO UTILIZE A HIGH DEGREE OF LOCAL CONTENT WHEN SUCH CAPABILITY EXISTS. THIS IS UNDERSTANDABLE SINCE THERE IS CONSIDERABLE OILFIELD EXPERIENCE IN THE AREA AND THEY WANT TO GENERATE AS MANY LOCAL JOBS AS THEY CAN. IN OUR CASE, WE INVOLVED MORE THAN 400 RUSSIAN NATIONALS IN

OUR 1996 APPRAISAL WORK ALONE, AND 2/3 OF OUR EXPENDITURES WERE WITH RUSSIAN ORGANIZATIONS.

THE POPULATION OF SAKHALIN, WHICH EXCEEDS 700,000, HAS BEEN LARGELY SUPPORTED BY FISHING AND TIMBER INDUSTRIES. HOWEVER, THEY DO HAVE AN INDUSTRIAL BASE WHICH NEEDS TO ATTRACT CAPITAL AND TECHNOLOGY TO EFFECTIVELY PARTICIPATE IN THE OFFSHORE DEVELOPMENTS. THEREFORE, THE IMPORTANCE OF RUSSIAN CONTENT CANNOT BE OVERSTATED.

THE ACTIVITIES SHOWN HERE CREATE SUPPORT OPPORTUNITIES DIRECTLY ASSOCIATED WITH THE MAJOR PROJECTS. IN ADDITION, THE GROWTH OF THE LOCAL ECONOMY WILL GENERATE A NUMBER OF RELATED NEEDS AS ADDRESSED ON THE FOLLOWING SLIDE.

RELATED SUPPORT OPPORTUNITIES

HERE I'VE LISTED A NUMBER OF AREAS WHERE THESE PROJECTS WILL CREATE BUSINESS OPPORTUNITIES WHICH ARE ONLY INDIRECTLY RELATED TO OIL DEVELOPMENT. AMONG THE MORE OBVIOUS IS THE NEED FOR UPGRADES TO THE MAJOR PORTS SUCH AS THE ONE SHOWN HERE AT THE SOUTHERN CITY OF KORSAKOV. SIMILARLY, MANY OF THE ISLAND'S ROADS AND BRIDGES WILL NEED IMPROVEMENTS TO HANDLE ADDITIONAL TRAFFIC AND CARGO.

EXPANSIONS OF LOCAL AIRPORTS AND ASSOCIATED SERVICES WILL ALSO BE NEEDED TO ACCOMMODATE THE HIGHER NUMBER OF PEOPLE COMING TO THE ISLAND. BETTER AIR CONNECTIONS TO THE U.S. WOULD FACILITATE THE EXPECTED BUSINESS GROWTH INCLUDING THE MOVEMENTS OF U.S. PERSONNEL. ONCE THERE, OF COURSE, THE INCREASED NUMBER OF VISITORS WILL NEED ADDITIONAL HOTEL, RESTAURANT, AND OTHER FACILITIES.

COMMUNITY SERVICES SUCH AS TRANSPORTATION, COMMUNICATIONS, RECREATION, AND THE LIKE WILL ALSO NEED IMPROVEMENTS AS THE ECONOMY GROWS. FINALLY, I LIST HOUSING WHICH WILL BE NEEDED NOT ONLY FOR PEOPLE SUPPORTING THE PROJECTS, BUT FOR ALL THE PEOPLE DRAWN TO THE ACTIVITY ON THE ISLAND.

SOME OF THESE NEEDS WILL BE MET THROUGH PRIVATE INVESTMENT WHILE OTHERS WILL BE FUNDED BY THE FEDERAL AND LOCAL GOVERNMENTS. TO THAT END, A SAKHALIN DEVELOPMENT FUND IS BEING ESTABLISHED IN CONJUNCTION WITH THESE PROJECTS TO HELP BUILD AND IMPROVE THE SOCIAL INFRASTRUCTURE ON SAKHALIN ISLAND, AND WILL BE ADMINISTERED BY THE SAKHALIN OBLAST ADMINISTRATION.

I'D LIKE TO CONCLUDE NOW BY SUMMARIZING SOME KEY POINTS REGARDING THE PURSUIT OF OPPORTUNITIES AT SAKHALIN.

PURSuing SAKHALIN

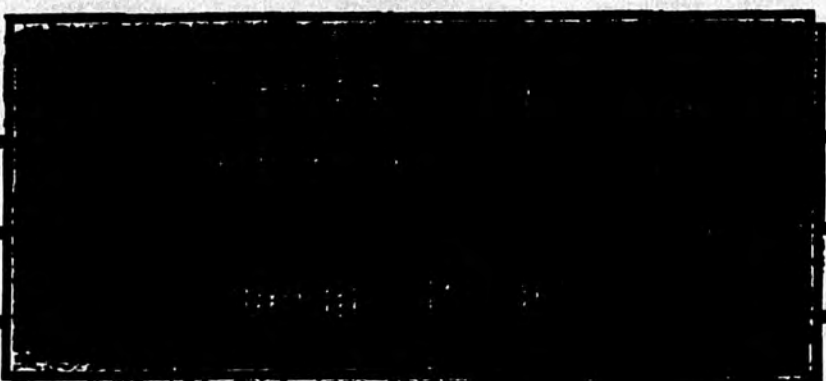
WITH THE SAKHALIN DEVELOPMENTS MOVING FORWARD, THERE IS LITTLE QUESTION THAT MANY COMMERCIAL BUSINESS OPPORTUNITIES WILL DEVELOP BOTH IN DIRECT SUPPORT FOR-- AND INDIRECTLY AS A RESULT OF-- THE UPCOMING PROJECTS.

THE MOST SUCCESSFUL COMPANIES, IN MY VIEW, WILL BE THOSE WHICH DEMONSTRATE THE BEST COOPERATIVE SKILLS AND EFFORTS. THE POPULATION OF SAKHALIN RIGHTFULLY EXPECTS THAT THEY WILL SHARE IN THE BENEFITS THAT ACCRUE FROM THESE ACTIVITIES. ALTHOUGH MANY LOCAL INDIVIDUALS HAVE VALUABLE EXPERIENCE, THE REGION CLEARLY NEEDS FINANCIAL ASSISTANCE AND TECHNICAL INPUT IN MANY AREAS SUCH AS OFFSHORE SERVICES. TO PROVIDE THIS INPUT, WESTERN COMPANIES VYING FOR BUSINESS WOULD BE WELL ADVISED TO SEEK OUT RUSSIAN PARTNERS EARLY AND ESTABLISH JOINT VENTURES TO IMPROVE THEIR CHANCES OF BEING INCLUDED.

FINALLY, COMPANIES NEW TO RUSSIA AND SAKHALIN SHOULD BE PREPARED TO MAKE A LONG TERM COMMITMENT. WE'RE SPEAKING HERE ABOUT A VERY CHALLENGING ENVIRONMENT-- PHYSICALLY, CULTURALLY, AND ECONOMICALLY. THE DEVELOPMENT OF SAKHALIN ISLAND AND ITS RESOURCES WILL BE A LONG TERM ENDEAVOR AND IS NOT FOR THE FAINT-HEARTED .

HOWEVER, WITH CAREFUL PLANNING, CONTINUED COOPERATION WITH LOCAL COMPANIES, AND APPLICATION OF OUR COLLECTIVE EXPERIENCE, WE SHOULD BE ABLE TO FORGE A FUTURE IN WHICH WE CAN ALL BENEFIT.

THANK YOU.



INDUSTRY OVERVIEW

Commonwealth of Independent States (CIS)



REMAINING RESOURCES

- > 200 GB C&C
- > 3000 TCF Gas

CURRENT TRENDS

- Production Declining
- Investments Decreasing

BUSINESS ENVIRONMENT

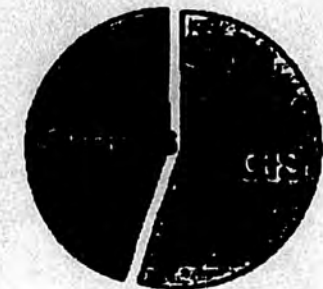
- Industry Restructuring
- Foreign Capital Required
- Win-Win Solution Exists

Non-Opec Remaining Resources

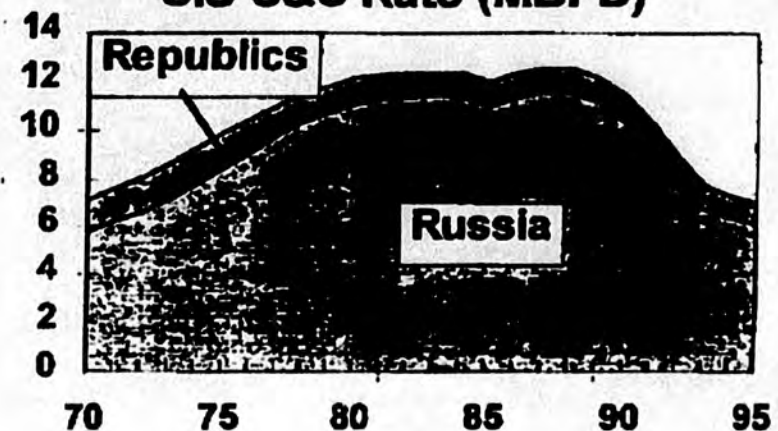
C&C



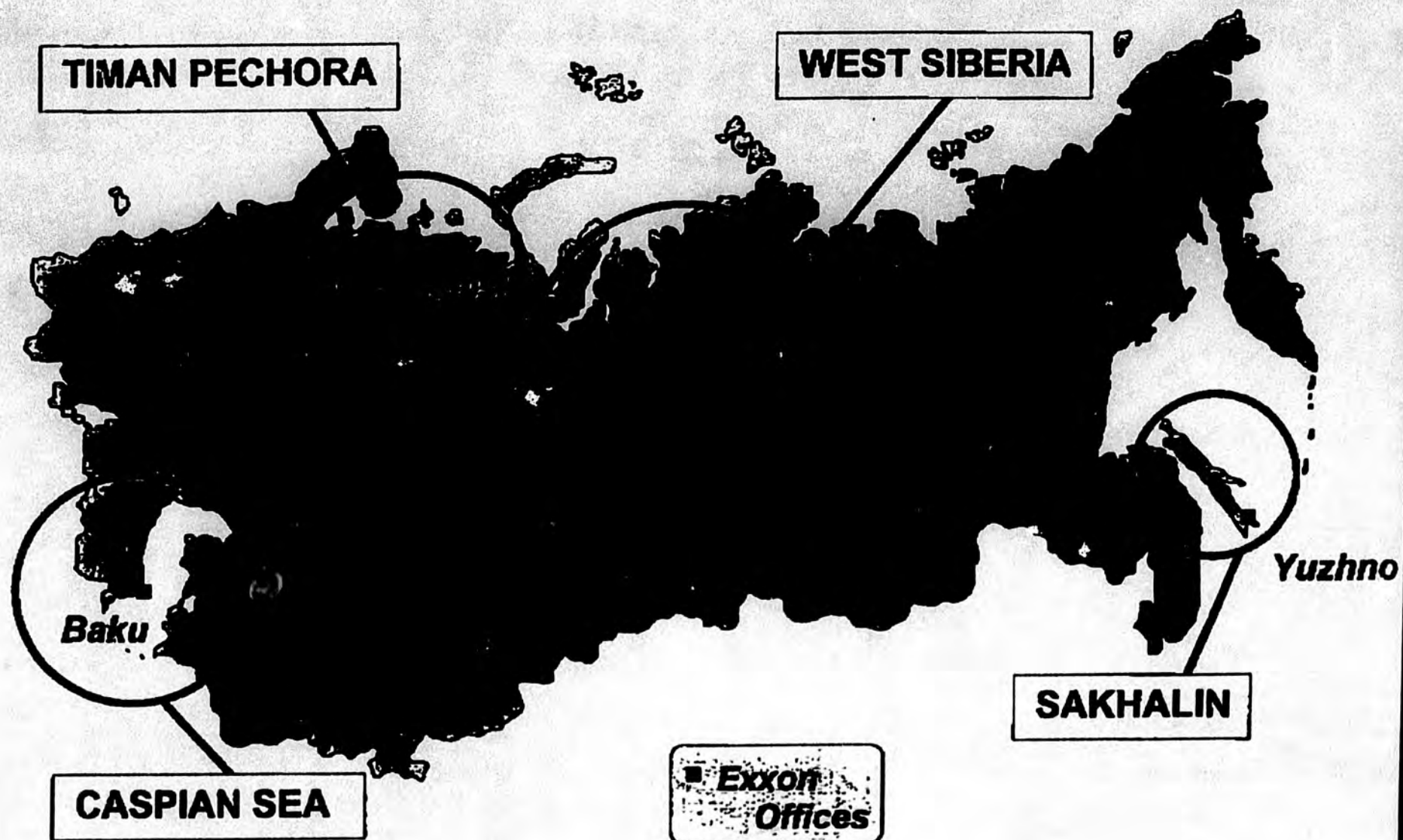
Gas



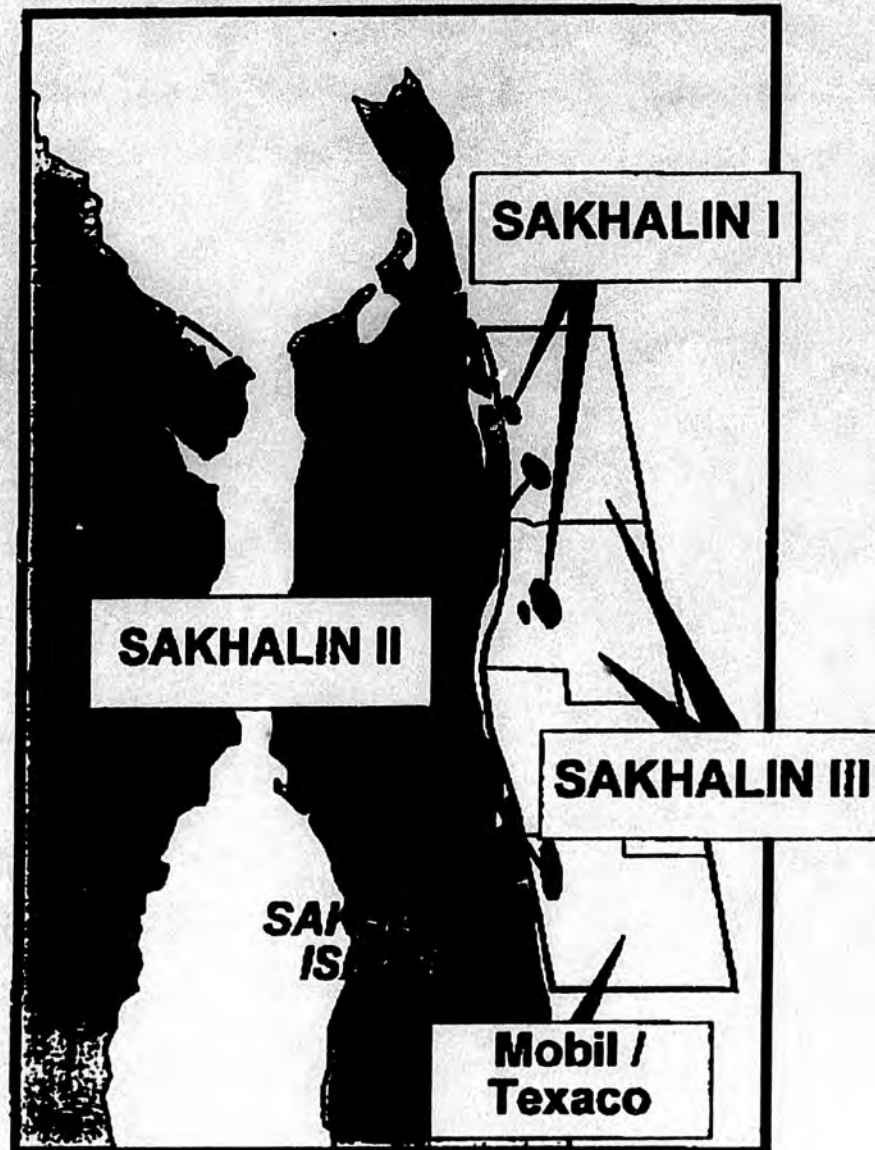
CIS C&C Rate (MBPD)



KEY AREAS OF CIS ACTIVITIES



SAKHALIN AREA



MOST ACTIVE RUSSIAN DEVELOPMENT REGION

- ▶ *Mature onshore production*
- ▶ *Offshore exploration since 1970's*

SAK I

- First Well/ 3-D Seismic 1996

SAK II

- 1999 Early Production Start-Up
- Russian Fabrication of Base

SAK III

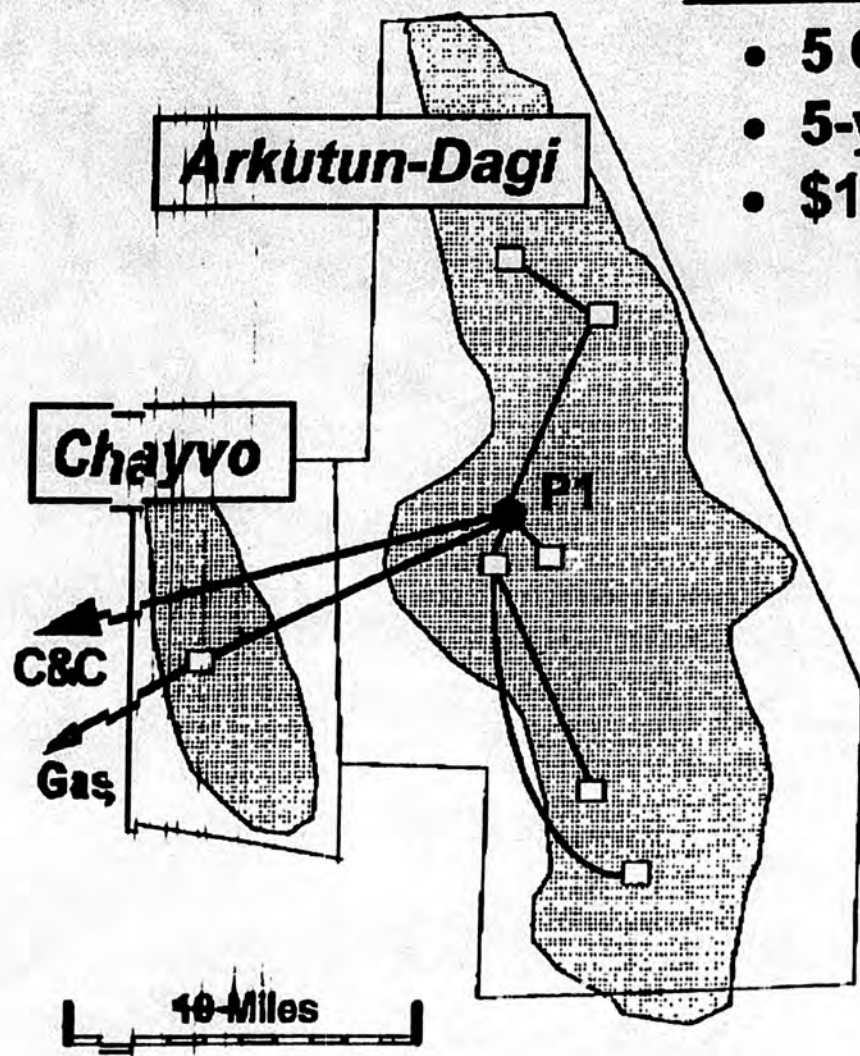
- Exxon & Mobil/Texaco Blocks
- PSA's Negotiated - 1996
 - ▶ Gov't Approvals Pending

SAKHALIN I



INTEGRATED DEVELOPMENT

- 5 GOEB Resource Estimate
- 5-year Appraisal Program
- \$15 G Development



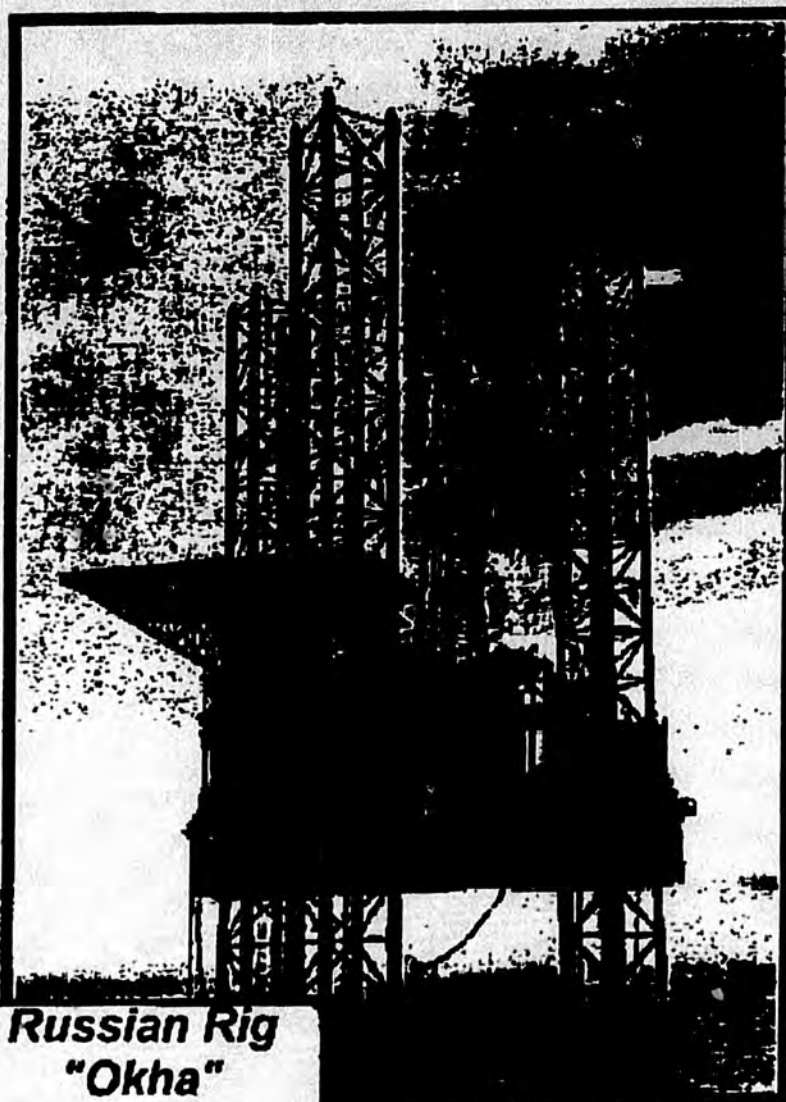
PHASE ONE -- A/D OIL

- Ice-resistant Platform
- ~115 kBD Capacity
- Domestic & Export Oil Sales

CHAYVO DELINEATION

- 3-D Seismic Survey in '97
- Assess Gas Markets

MAJOR DEVELOPMENT ACTIVITIES



**Russian Rig
"Okha"**

PROJECTS

- Appraisal/ Drilling
- Engineering & Design
- Offshore Platforms/ Facilities

INFRASTRUCTURE

- Onshore Pipelines/ Terminals
- Supply Logistics

RUSSIAN CONTENT

- PSA Requirements
- Experienced Workforce
- Need For Capital/ Technology

RELATED SUPPORT NEEDS



- **PORT FACILITIES**
- **ROADS & BRIDGES**
- **AIRPORTS & SERVICES**
- **HOTELS & RESTAURANTS**



Korsakov

PURSuing SAKHALIN



COMMERCIAL OPPORTUNITIES EXIST

- Direct & Related Project Support

COOPERATIVE EFFORTS

- Local Benefits Expected
- Financial/ Technical Needs
- Joint Ventures Encouraged

COMMITMENT REQUIRED

- Challenging Environment
- Long Term Projects