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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 48-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 work 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 genially, 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 heliose 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**



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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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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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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

" Oil Capital of Alaska "

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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.

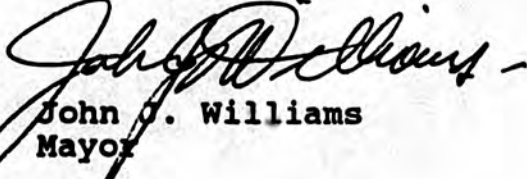
The Kenai City Council supports the principle and concept of a Alaska-Sakhalin Chamber of Commerce. And, as you discussed with Carol Freas, City Clerk of Kenai, understands there are no fiscal responsibilities in regard to this association at this time.

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

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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:

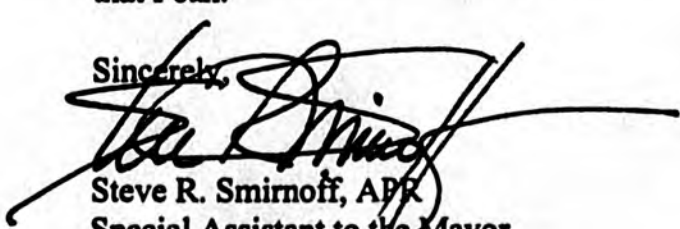
It has been brought to our attention that serious consideration is being given to establishing an official, permanent representation by the administration of the Sakhalin Region in Anchorage. Allow me to be among the first to congratulate you on such a proposal and to assure you of this office's total 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

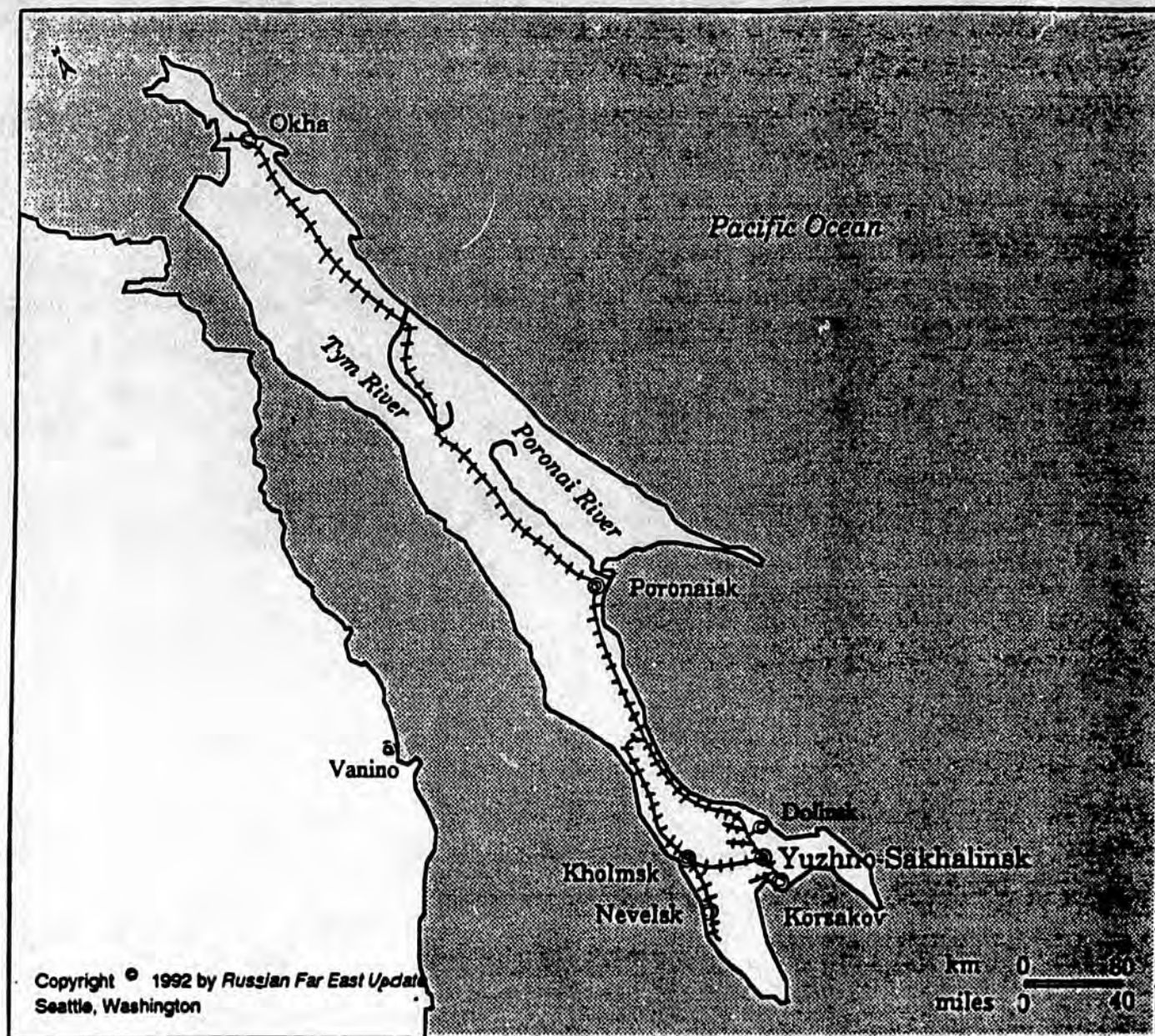
Sakhalin is different from the rest of the region. Why?

- 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 Lunkoye 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 Lunkoye 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

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FAX: (907) 456-8173

March 12, 1997

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

Dear Representative Cowdery:

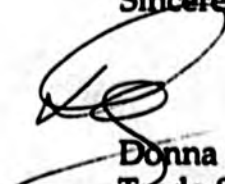
Attached please find materials to be included in the briefing material for the March 20 Sakhalin Briefing presented to the House Special Committee on International Trade and Tourism.

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

MEMBERS

Ben Barrera, Vice President

John Blomfield, President

Ken Boyd, Director

Judy Brady, Executive Director

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Bill Stamps, Cook Inlet Manager

Dennis Steffy, Director

Robert Tallent, Vice President

Jim Udelhoven, President

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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Foreign Economic Relations Department

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N.I. Gulyaeva, Head

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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).

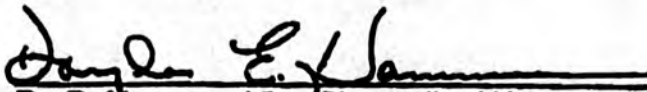
The purpose of the training service will be to provide high level technical training for Russian workers in support of oil and gas development in the Sakhalin region as well as associated construction, mining, timber and other resource development projects.

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

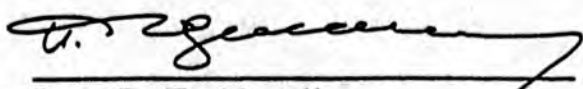
WHEREAS, a formal meeting of the Sakhalin-Alaska Working Group took place on October 31, 1995 in Anchorage, Alaska, under the terms of the July 1, 1994 agreement; and

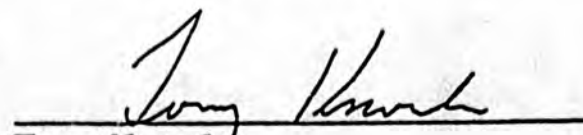
WHEREAS, the representatives of the Sakhalin Region and Alaska industry and government officials reached agreement on a number of priorities to guide the Sakhalin-Alaska Working Group in pursuing mutually beneficial projects; and

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				
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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	

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

Alaska Airlines

effective date: 10 May 1997 through 31 October 1997

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ALASKA
Export Assistance Center
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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>
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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 Mollé)

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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**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

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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

ARC AMERICAN RUSSIAN CENTER

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

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

Inquiries about the American Russian Center can be directed to its staff in Anchorage at the following address:

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ARC's Russian Branch Centers are:

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Russian American Business Center
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Khabarovsk, Russia 680056
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Fax: 011-7-4212-34-28-21 or 33-59-96
E-mail: ARC.KHB@sovcust.sprint.com

Magadan Center:

Russian American Business Center
16 Portovaya Street
Magadan, Russia
Phone: 011-7-41322-3-53-44
Fax: 011-7-41322-3-05-38
E-mail: RABC@talanov.magadan.su

Yakutsk Center:

Sakha-American Business Education Center
46 Kulakouskii Street, Room 208
Yakutsk, Russia 677891
Phone: 011-7-41122-6-19-97/6-08-39
Fax: 011-7-50985-4-30-05
E-mail: SAKHAL@yacc.yakutia.su

Yuzhno-Sakhalinsk Center:

Sakhalin State Pedagogical Institute
290 Lenin Street
Yuzhno-Sakhalinsk, Russia 693000
Phone/Fax : 011-7-50995-18-75
Local Phone: 011-7-424223-3-29-85
E-mail: ARC.SAKH@sovcust.sprint.com



Russian Far East News

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

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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).
- Primorsky 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-Sakhalinmorneftegaz, 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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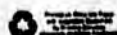
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