



BARENTS STRATEGY FOR THE ADVANCEMENT OF FINNISH ENTERPRISE IN THE RUSSIAN BARENTS REGION

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**BARENTS STRATEGY
FOR THE ADVANCEMENT OF FINNISH ENTERPRISE
IN THE RUSSIAN BARENTS REGION**

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Foreword

Russia is one of Finland's most important trading partners. Finnish enterprises are particularly heavily involved in business in St. Petersburg and Moscow. Our country holds a significant position, especially in the logistic chains connected to Russian imports, but also in those dealing with exports. Many foreign enterprises establish business operations in Russia via Finland. Despite our strong competence in dealing with Russia, the opportunities provided by the Barents Region have received little attention in Finland. The majority of companies' strategies are directed at St. Petersburg and Moscow or, at best, cover the other metropolises of Russia. Government measures and strategic guidelines set by public actors have, to a large degree, paralleled company strategies. The objective of this Barents Strategy is to promote, amongst Finnish enterprises, opportunities for success in the market of the Russian Barents Region.

Formulation of the Barents Strategy for the Advancement of Finnish Enterprise in the Russian Barents Region became timely when Norway set up one of the first gas fields in the arctic area and Russia launched preparations for large-scale investments in the Murmansk Oblast. Expected investments in the Barents Region offer opportunities for many sectors of industry. The wide scope of projects in the Barents Region will make those projects significant for the entire Finnish economy. The projects in the Barents Region have also been internationally recognised and the operations of foreign enterprises in the region have increased.

Compilation of the Barents Strategy for the Advancement of Finnish Enterprise in the Russian Barents Region began in the latter part of 2007. The investigations presented in this report, concerning the current state and future prospects for business activity in the Barents Region, were made in January–October 2008. Naturally, the global economic crisis that deepened in late 2008 has also affected the situation in the Barents Region, but the economic crisis will hardly impede the progress of the oil and gas projects that function as the economic drivers of the Barents Region. Implementation of the oil and gas projects is not possible without significant infrastructure investments, and therefore, despite the economic crisis, the Barents Region will probably continue to offer opportunities over the next few years.

This report includes a summary of future prospects in the Russian Barents Region, estimates Finnish enterprise opportunities in the region, outlines the target state for the year 2015, and presents industrial policy actions for the government, regional councils, cities, universities and research institutions that are needed to attain the target state. In a five-step plan of action, the following are presented as strategic measures:

1. Communication carried out by the government with the most central actors in the Barents Region.
2. Coordination, carried out in Finland, of regional measures related to the Barents Region.
3. Improving Finland's visibility in the Russian Barents Region.
4. Development of transport links between northern Finland and the Russian Barents Region.
5. Enhancing the operating opportunities of small and medium-sized enterprises (SMEs).

The strategy has been drawn up in broad cooperation with experts on the Barents Region and enterprises operating in the region. The project has been managed by the Council of Oulu Region, the Regional Council of Lapland, the Regional Council of Central Ostrobothnia, the City of Oulu, the City of Kokkola, the City of Rovaniemi, the Lapland Chamber of Commerce, Finnarents, Oy SteelDone Group Ltd and the Oulu Chamber of Commerce. The steering group has been chaired by Jaakko Okkonen, Managing Director of the Oulu Chamber of Commerce. Ramboll Finland Ltd and Ramboll Storvik AS have acted as outside experts. The strategy work has been partially financed by the Northern Finland ERDF Operational Programme.

With the help of this strategy, the bodies taking part in managing the project wish to develop Finland's economic conditions in the Barents Region together with the Finnish government. Implementation of the strategy will require broad cooperation both in Finland and internationally with Russians, Norwegians and Swedes, among others. Nordic cooperation is central to the progress of both international transport links and the networking of small and medium-sized enterprises.

A major factor in the implementation and coordination of the strategy will be the cooperation network steered by the Barents Advisory Board Finland. The Barents Centre of Northern Finland will be part of this network. The Barents Advisory Board Finland will include representatives from parties committed to Barents cooperation: regional councils, higher education institutions, Finpro, chambers of commerce and central cities. The office of the Barents Centre of Northern Finland, which will be established to support the strategy, will be located in Rovaniemi.

Helsinki, 12 May 2009

Mauri Gardin
The City of Rovaniemi

Pauli Harju
The Council of Oulu Region

Antti Isotalus
The City of Kokkola

Esko Lotvonen
The Regional Council of Lapland

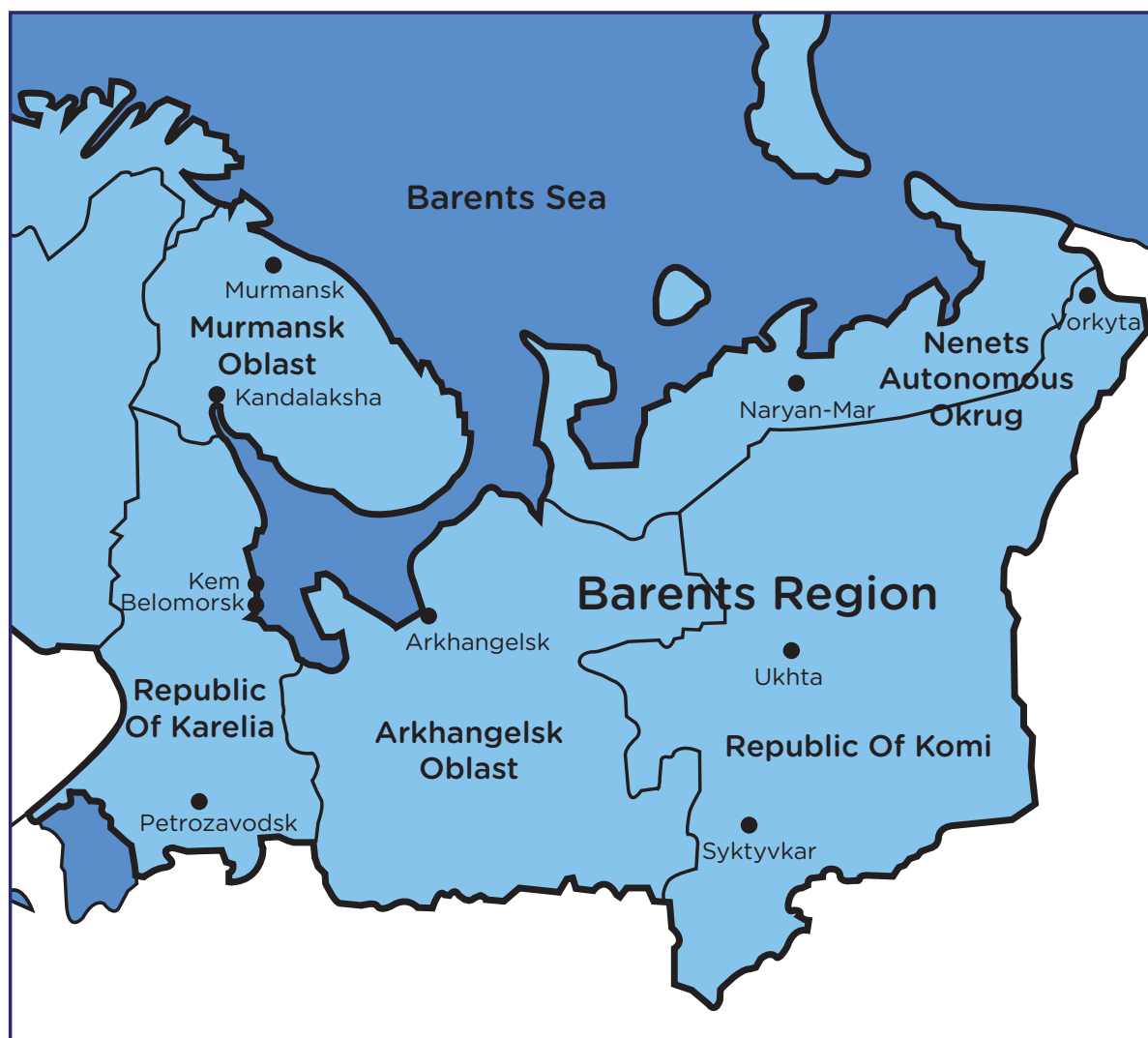
Jaakko Okkonen
The Oulu Chamber of Commerce

Matti Pennanen
The City of Oulu

Timo Rautajoki
The Lapland Chamber of Commerce

Altti Seikkula
The Regional Council of Central Ostrobothnia

SUMMARY OF FUTURE PROSPECTS FOR THE RUSSIAN BARENTS REGION



The Murmansk Oblast

The Shtokman gas field

The most important project in the Murmansk Oblast is the development of the Shtokman gas field. Shtokman is located in a deep sea area in the Russian sector of the Barents Sea at a distance of about 600 kilometres from Murmansk. The depth of the sea in this area varies from 320 to 340 metres. The Shtokman gas field contains 3.8 trillion cubic metres of gas and 31 million tons of gas condensate. It has been estimated that gas production can commence in 2013. For Russia's part, Sevmorneftegas (Gazprom's subsidiary) is responsible for the development work at Shtokman. Total and StatoilHydro are also participating in the development work. In February 2008, Gazprom, Total and StatoilHydro signed a Shareholder Agreement out of which Shtokman Development AG was created. Gazprom owns 51% of the company's shares, Total, 25% and StatoilHydro, 24%. The company owns the infrastructure of the first phase of the Shtokman gas condensate field for 25 years after the field starts production. In conjunction with the development of Shtokman, it has been agreed that five percent of the gas will be reserved for the region's own energy needs, which creates favourable conditions for the development of energy-intensive production plants. To promote investments by Russian and foreign enterprises in the development of Shtokman, the regional government of the Murmansk Oblast has established an association named Murmanshelf.



The following construction projects form part of the development of the Shtokman gas field area:

- drilling rigs
- a sub-sea gas pipeline from Shtokman to the coast
- a liquefied natural gas plant
- tankers intended for the export carriage of liquefied gas
- a gas pipeline from the coast of the Barents Sea to the starting point of the Nord Stream pipeline in the Baltic Sea.

The following are amongst the significant investments related to the development of Shtokman:

- Development of Teriberka as a gas port and as a production plant for liquefied natural gas.
- The aim is to achieve a capacity four times higher than that of StatoilHydro's Melkøa plant.
- Capacity in Hammerfest.
- Development of an export port for liquefied natural gas in Teriberka or the near vicinity.
- Construction of housing and infrastructure for 15,000 employees in Teriberka.
- Construction of roads and transport infrastructure between Teriberka and Murmansk.
- Construction of a gas pipeline from Teriberka to the Leningrad Oblast and connection of this pipeline to the Nord Stream pipeline in order to transport gas to Germany.
- A distribution centre in the Kola Fjord.

According to one estimate, the investments required by the Shtokman area amount to approximately 50 billion euros; Shtokman Development AG's budget for 2009 is about 550 million euros.

Development of the Murmansk transport junction

A general plan for the Murmansk transport junction was compiled and approved as part of the Russian Federation's transport strategy. The plan includes construction of oil and cargo terminals as well as construction of coal and container terminals on the eastern and western shores of the Kola Gulf. In addition, the plan covers development of the rail network in the old part of the port as well as a special economic zone that enables customs and tax reliefs. The main objective is to promote the port sector's development and competitiveness compared with foreign ports in the Barents Region.

Other industries

There are several significant ongoing and planning-phase mining projects and infrastructure development projects in the Murmansk Oblast. An increase in the region's infrastructure and housing is a particular prerequisite for the development of the Shtokman gas field as well as for other projects.

The Republic of Komi

Energy sector

The energy sector – production of oil, gas and coal – dominates industry in the Komi region and accounts for about 70% of industrial production in the whole region. The following can be cited as examples of significant investment projects in the energy sector:

- Yenisey Co Ltd. An oil and gas processing and refining plant with a capacity of one million tons of crude oil per year.
- Bovanenkovo-Ukhta trunk gas pipeline system. Bovanenkovo-Vorkuta-Ukhta-Torzhok has been defined as the central gas transport route. According to a construction plan, the route of the gas pipeline passes through seven areas: Vorkuta, Inta, Pechora, Sosnogorsk, Ukhta, Knyazhiy Pogost and Ust-Vym. Gazprom's interest in this project has grown recently and the company has increased its budget reserves for this project.

Forest industry

The forest industry is the second most important industry in Komi. In addition to sawn timber, cellulose and paper, the region also produces a large variety of construction materials, chipboards, glued plywood and furniture. Among the most important companies are Mondi Business Paper, Syktyvkar Boumizdeliya Ltd and the Syktyvkar Tissue Group. Half of the paper products are exported to over 80 different countries. Nevertheless, insufficient processing capacity restricts the forest industry in Komi. Significant investment projects:

- Construction of the Udora pulp and paper mill, which has the following capacities: bleached pulp, 205,800 tons/year; sulphate pulp, 213,000 tons/year; mechanical pulp, 100,000 tons/year; corrugated paperboard, 250,000 tons/year; printing papers, 250,000 tons/year.

Mining industry

The state of the mining industry in the Komi region is stable, and it is believed that the mining industry will remain one of the republic's high priorities in the coming years. There are six mining companies in Komi, which produce bauxite, baryte, manganese ore and quartz fibres, for example. The leading companies in the region are JSC Komi Aluminium, JSC Bauxite of Timan, JSC Yarega-Ruda and JSC Hoylinsky Enrichment Plant. Important investment projects are:

- Development of the bauxite-aluminium sector in the Republic of Komi; the Sosnogorsk aluminium refinery.
- Yarega ore mine and refinery, which has a capacity of 650,000 tons/year.

Other industries

- Production Company Kaskad Co. Ltd; development of concrete product and element production in Pechora.
- Infrastructure projects
 - o Construction of a main road linking Syktyvkar, Ukhta, Pechora, Usinsk and Naryan-Mar, with additional connections to Vorkuta and Salekhard.
 - o Construction of a railway trunk line linking Solikamsk, Gainy, Syktyvkar, Karpogory and Arkhangelsk.

The Arkhangelsk Oblast

Forest industry

The forest industry is the most important industry in Arkhangelsk. During the past five years, annual investments have varied between 50–100 million euros and have been focused on the development of OAO Arkhangelsk Pulp and Paper Mill, OAO Kotlas Pulp and Paper Mill, OAO Solombala Pulp and Paper Mill, ZAO Timber Mill 25 and OAO Onega Woodworking Plant. Currently, four forest industry projects in the Arkhangelsk Oblast have been included in the investment list of the Russian forest industry:

- Development of plywood and sawn timber production in Arkhangelsk; capacity, 95,000 m³ / year.
- Restarting of paperboard production at the OAO Arkhangelsk Pulp and Paper Mill.
- Establishment of a wood processing plant in connection with the OOO Ustyansky wood treatment plant.
- Modernisation of paperboard and paper production at the Kotlas Pulp and Paper Mill.

Furthermore, there are two possible projects in the wood processing sector:

- Construction of fibreboard production facilities in the Velsk area. The planned capacity is 150,000–270,000 m³ / year.
- Construction of fibreboard production facilities in Savinsky, Plesetsk. The LAD enterprise from Arkhangelsk is behind this project.

The regional government is launching negotiations with foreign investors on the construction of paper and pulp mills. Negotiations are being held with German investors on the construction of a mill in Lukovetsky and with English investors on possibilities of constructing a plant that produces wood granulates and pellets.

Mechanical engineering

Mechanical engineering is the largest industry after the forest industry in the Arkhangelsk Oblast. Mechanical engineering enterprises constitute a considerable share of industrial production in the Arkhangelsk Oblast. The following are amongst the key sub-sectors in mechanical engineering:

- Production of marine technology and equipment for industry operating in the Arctic regions.
- Power plant technology.
- Shipbuilding and ship repair for military and civilian purposes.

Other industries

- Advancement of mining projects.
- Investments in local energy production and distribution.
- Infrastructure projects.
- Belkomur railway. Construction of the Belkomur railway is strategically important to Russia and to the development of the Arkhangelsk port, in particular, as the railway forms a transport corridor linking Arkhangelsk, Syktyvkar, Kudymkar and Perm. This transport corridor would provide the shortest route from Siberia and the Ural region to the ports of Arkhangelsk and Murmansk. In addition, the railway connections would significantly improve international connections between Northern Europe, the Middle East and Southeast Asia. It has been estimated that construction of the Belkomur railway will start in 2016. Construction will take 5–6 years.
- The objective of the Arkhangelsk regional government is to construct a deepwater port 55 kilometres north of Arkhangelsk, in the Sukhaya Bay area.

The Nenets Autonomous Okrug

Oil and gas sector

The oil and gas sector is the cornerstone of the Nenets Autonomous Okrug's economy; the sector constitutes roughly 99% of industrial production in Nenetsia. The budget's revenues have increased from 6.2 million euros in 1997 to 190 million euros in 2007. Due to rapid development in the utilisation of oil and gas resources, industrial investments have increased considerably. About 90% of investments are directed at the fuel industry, and the largest source of investments is financing by parent companies. Development of the region is largely based on investment plans made by companies (Rosneft, LUKOIL, Total, Surgutneftegaz, TNK-BP) that are in oil production. The following can be cited as examples of investment projects that have been started in recent years:

- Construction of the Varandey oil export terminal in the Barents Sea: cost, 700 million euros; duration, 5 years; company, OAO Varandey Terminal.
- An oil pipeline between the oil fields of ZPS Southern Khylichuyu and BRP Varandey: cost, 250 million euros; duration, 3 years; company, OOO Naryanmarneftegaz.
- Kharyaga-Indiga pipeline system. Owner: OAO TK Transneft.
- Construction of a gas plant near Kumzha. Owner: OOO SN Invest.

Infrastructure projects

Utilisation of Nenetsia's natural resources is complicated by poor accessibility, insufficient infrastructure and severe climate conditions. Consequently, infrastructure is one key target of investment. The government of the Nenets Autonomous Okrug has made a priority list of infrastructure investment projects. The list contains the following projects. The aim is to launch them in the coming years.

- Naryan-Mar – Usinsk road (third phase): cost, 245 million euros; duration, 5 years.
- Modernisation of the Naryan-Mar Commercial Port: cost, 24 million euros; duration, 2 years.
- Naryan-Mar – Telviska – Velikovisochnoe gas pipeline.
- Renovation of the wastewater treatment system in Iskateley: cost, 18 million euros; duration, 3 years.
- Renovation of the wastewater treatment system in the Kachgort municipality in Naryan-Mar.

The development strategy of the Russian railways extends until 2030 and includes construction of two railway lines through the Nenets Autonomous Okrug to the Arctic Ocean, at a total cost of 3.3 billion euros. One of these railway lines travels from Vorkuta to Ust-Kara (210 km) and the other from Sosnogorsk to Indiga (610 km). In addition, Nenets officials propose that the Vorkuta – Ust-Kara line be continued to Amderma, where the line would pass through several mineral deposits. The value of the mineral resources amounts to approximately 100-135 billion euros.



The Republic of Karelia

The Government of the Republic of Karelia has set out its objectives in a report titled "Recommendations for the development of the society and economy of the Republic of Karelia until 2012". According to this programme, the following items are major focuses of development in the Republic of Karelia:

- Development of industry, particularly in the leading sectors (wood processing and mining). The aims are production of highly processed wood products and efficient utilisation of natural resources.
- Supporting agriculture within the framework of the national development programme for the agricultural sector, as well supporting fish farming and processing of fish products.
- Enhancing tourism.
- Improvement of the transport and customs infrastructure.
- Growth in the level of construction, including housing construction in accordance with the national housing construction programme.
- Development of operational preconditions for small businesses.
- Creation of innovation potential.

Below are a few examples of development projects:

Forest industry

The forest industry is the leading industry in the Republic of Karelia. Its share of total production is 40%, and more than half of the employees in the region work in the forest industry. Products from the Karelian forest industry hold a significant position in the Russian market: 24% of paper production, 35% of newsprint, 59% of paper sacks, 6% of sawn timber and 4% of wood. The following can be cited as examples of development projects within the forest industry:

- Renovation of the Segezha pulp and paper mill.
- Renovation of the industrial plants at the OAO Pitkyaranta pulp mill.
- Construction of a furniture factory (OOO Swedwood Karelia).
- Continuation of construction of a plant that produces boards (OAO DOK Kalevala).

Mining industry

The Karelian mining and metallurgy industry, which includes metals and construction materials, is a promising sector that strongly believes in self-investment. Currently, development activity has been focused on companies engaged in quarrying and production of building stones. In order to boost production volumes, OAO Karelsky Okatysh has created an investment programme with the aim of modernising the plants and developing the Korpangsky deposit and the iron deposit areas located close by. The programme lasts until 2016, and the value of the investments related to the programme is 167 million euros.

Infrastructure

From Karelia there are good transport links by road, railway and waterways to the central and eastern parts of Russia. Karelia's economic development and operational preconditions are strongly tied to transport connections and their further improvement. Consequently, the Government of the Republic of Karelia has adopted measures for the development of the transport network: road connections and border crossing points have been improved, construction of the Sortavala–St. Petersburg and Petrozavodsk–Sortavala–St. Petersburg roads is being planned and Russia's Ministry of Transport has been informed of the development needs of the rail network.

Opportunities for Finnish enterprise in the region

Russia is one of Finland's most important trading partners. Finnish enterprises are particularly heavily involved in business in St. Petersburg and Moscow. Our country holds a notably significant position in the logistic chains connected to Russian imports, but also in those dealing with exports. Many foreign enterprises establish business operations in Russia via Finland. Despite our strong competence in dealing with Russia, the opportunities provided by the Barents Region have received little attention in Finland. The majority of the companies' strategies are directed at St. Petersburg and Moscow or, at best, cover the other metropolises of Russia. Government measures and strategic guidelines set by public actors have, to a large degree, paralleled company strategies. The objective of the Barents Strategy is to promote, amongst Finnish enterprises, opportunities for success in the market of the Russian Barents Region.

Compilation of the Barents Strategy for the Advancement of Finnish Enterprise in the Russian Barents Region began in the latter part of 2007. The investigations presented in this report, concerning the current state and future prospects for business activity in the Barents Region, were made in January–October 2008. Naturally, the global economic crisis that deepened in late 2008 has also affected the situation in the Barents Region, but apparently not as strongly as in St. Petersburg and Moscow, for example, where construction has slowed down considerably. The economic crisis will hardly impede the progress of the oil and gas projects that function as the economic drivers of the Barents Region. Implementation of the oil and gas projects is not possible without significant infrastructure investments, and therefore, despite the economic crisis, the Barents Region will probably also offer opportunities over the next few years. However, in this tight economic situation, Russia and Russian actors may behave in a protectionist manner: customs duties may rise and purchases in large projects may be directed to Russian companies. The importance of finding the right cooperation partners in order to access the market will be emphasised.

Barents Observer 10 November 2008:

The Russian government has presented a plan with 55 measures on how to overcome the looming economic crisis in the country. Among the measures are massive state support to domestic manufacturers and the initiation of huge state-supported investment projects.

According to newspaper Vedomosti, the government will in 2009 step up state orders from domestic industry with 100 percent to a total of 8 trillion RUB (23 billion EUR).

The plan of measures, available on the government website, also includes closer state control of the major banks. Central Bank representatives will be placed in the management of several of the country's biggest banks in order to ensure that state money reaches its intended targets.

In addition, the government is pushing on the country's major companies to initiate huge projects in order to revitalize demands. According to the Moscow Times, state corporations and state-controlled "natural monopolies" like Gazprom have until the new year to increase the tempo of their investment plans in order to maintain domestic demand.

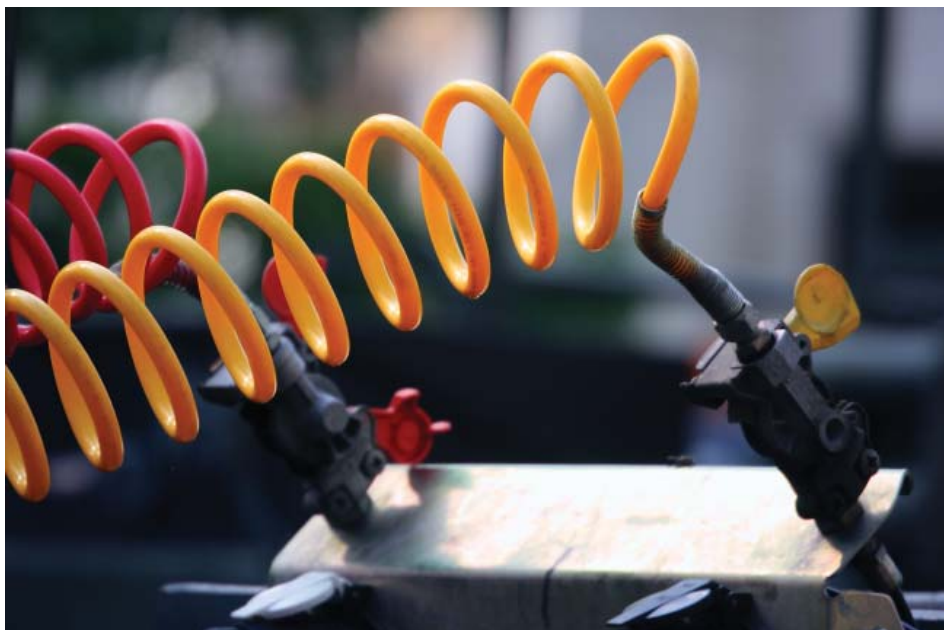
If these corporations move their enormous investment projects ahead, this will boost slackening demand for metals, energy and equipment, creating jobs for people currently being laid off, Yelena Matrosova, macroeconomic research director at the consulting firm BDO Unicon, told the newspaper.

The Murmansk Oblast

Development of the Shtokman gas field will probably continue despite the economic crisis. Investments that deal directly with the Shtokman gas field and infrastructure investments indirectly related to the project will probably be continued. Shtokman Development AG has recently approved the budget for 2009, the sum total of which is 554 million euros. Technical challenges arising from the development of the Shtokman gas field will require international, multisectoral cooperation: logistics (both goods and passengers), knowledge of arctic conditions, machines and equipment, environmental competence and construction. A large amount of foreign know-how and labour from outside the Murmansk Oblast will probably be needed during the project. The personnel participating in this international project and their families may be interested in the high-quality housing possibilities and services offered by northern Finland. In this respect, northern Finland's location is ideal. For example, Alta in Norway took on a central role, as described above, in connection with the Snøhvit development project.

Consequently, for Finnish enterprises, the Murmansk Oblast is amongst the areas with the most potential in the Russian Barents Region:

- Investments launched in the Murmansk Oblast will probably continue despite the economically challenging times.
- A considerable number of western enterprises in the Murmansk Oblast may be interested in western cooperation partners.
- To promote investments by Russian and foreign enterprises in the development of Shtokman, the regional government of the Murmansk Oblast has established an association named Murmanshelf.
- The Finnish consulate and strengthening operations by Finpro in the Murmansk Oblast are advancing enterprise operations.
- Despite insufficient transport links, Murmansk is more easily accessible than some other Barents regions.



In addition to the Shtokman gas field project and related infrastructure development and services, other substantial projects in the Murmansk Oblast also offer potential for Finns:

- The Port of Murmansk has been defined as the most important transport centre in the region and is perhaps the second most important transport centre in European Russia after St. Petersburg. During the next 5–10 years, the Port of Murmansk's transport volumes will be tripled, which is only possible by means of modern cargo handling techniques and logistic excellence. Finnish enterprises and consortia have an opportunity to participate in this development.
- The mining industry is advancing throughout Nordkalotten; Finland, Russia, Sweden and Norway have plans for large projects. In the future, the mining industry will need plenty of new technology and logistics investments in railways, road networks, ports and handling equipment. Synergy benefits can be attained by carrying out parallel planning of projects in different countries.
- Construction volume in the building industry has remained at a very low level for a long time. The size and resources of construction companies operating in the Murmansk Oblast are limited. This may provide opportunities for suppliers of machinery for the construction products industry as well as for Finnish constructors. It can be said that activity within the construction industry will accelerate after an inactive period that has lasted over 15 years. At the same time, customers require higher quality, energy efficiency and improved aesthetic features. There is a serious lack of construction materials. There are not many construction material manufacturers in the Murmansk Oblast, and most materials are purchased from other regions or from abroad. That concerns all regions.

Consequently, it would perhaps be worthwhile giving the Murmansk Oblast quite high priority amongst the various sectors of the Russian Barents Region; to seek to strengthen and establish Finnish enterprise operations first in Murmansk and then beyond Murmansk according to demand.

Republic of Komi

The Republic of Komi is the easternmost part of the Barents Region. Because of its location – the southern part of the region is forest-covered, the northern part is arctic and in the east it is bordered by the Urals – the region has no significant cooperation with any of the Nordic countries. The oil and gas industry has a central role in the northern and central parts of Komi, and coal mining is the main industry in the northernmost parts. The forest industry and related industries in the southern part of Komi are well developed. The southern part of Komi cooperates with Austria and Germany, for example.

The oil and gas industry is chiefly in Lukoil's possession. The tundra and the very limited infrastructure in the Republic of Komi pose a significant challenge. In recent years, Lukoil has invested large sums in new deposits and in infrastructure. The advancement of logistics and infrastructure provides cooperation opportunities for western actors. Environmental issues are also becoming increasingly important; there may be a demand for know-how in combating oil and cleaning oil spills.

The forest industry is amongst the most advanced industries in Komi. Logging, cellulose and paper production as well as plywood and paperboard manufacturing may provide opportunities for exporting Finnish know-how.

Arkhangelsk Oblast

There are plenty of activities in the Arkhangelsk Oblast, from the large shipyards in Severodvinsk to sawmills, pulp and paper mills, the aviation industry, diamond mining and the forest industry. The construction industry in Arkhangelsk has been more active than in Murmansk, for example, but on the other hand, the oil and gas industry is concentrated in Murmansk. The shipyards have focused on technological development of the Russian offshore oil and gas industry. The forest industry comprises sawmills, pulp and paper mills, the wood products industry and production of biofuels. Here, production of modular houses can be cited as an example: recently, the goal has been to greatly increase their production. Production of construction materials has a bright future in Arkhangelsk. The products are cement, wood products and products from the concrete products industry: bricks and blocks. Development of the ports is also very important. The challenge faced by Arkhangelsk arises from the icy conditions that prevail from November/December to May. In Finland, technological know-how exists in several of the above-mentioned sectors, and technological cooperation with Finnish enterprises may be possible.

Nenets Autonomous Okrug

The traditional structure of livelihood in the Nenets Autonomous Okrug is very similar to that of northern Finland: a large proportion of the population is comprised of indigenous peoples whose main source of livelihood is reindeer husbandry in austere conditions where the winters are long. The number of people in the region is low. The predominant industry in the region is the oil and gas industry, which requires construction and infrastructure as well as materials and services. The weakness of the Nenets Autonomous Okrug is its far-flung location; it is chiefly accessed by air. In summer, freight is transported via rivers and the sea. Foreign operations in the Nenets Autonomous Okrug have mainly concentrated on delivery of technological equipment to the oil and gas industry.

Republic of Karelia

There is plenty of cross-border cooperation with Karelia, which is located close to Finland. Finland has technology for and know-how in Karelia's most significant industries. Close cooperation with Finnish or foreign enterprises operating in Karelia may open new opportunities for Finnish enterprises that aim to establish business operations in the region. The suppliers and cooperation partners with whom work is carried out in the domestic market are also the most reliable partners in the foreign market. This also applies to the other regions, but Finns have already gained a foothold in Karelia and operations may therefore develop more quickly there.



The vision 2015: The Barents region - a significant part of Finland and Russia's trade

THE BARENTS REGION - A SIGNIFICANT PART OF FINLAND AND RUSSIA'S TRADE

Finnish society - the government, the regions, research and development
and particularly enterprise -
will regard the Barents Region as a significant market area

The Barents Region will be a central part of Finland and Russia's trade.
The cooperation between Finland - especially northern Finland -
and the Russian Barents Region will be active at all levels.

The transport links between Finland and the Barents Region
will be adequate.

Finnish enterprises will be actively involved
in the economic development of the Barents Region.

Yritykset - erityisesti pk-yritykset - toimivat kansallisissa ja kansainvälisissä
Barentsin alueen yritysverkostoissa.

The enterprises - particularly small and medium-sized enterprises (SMEs) -
will be active in the national and international business networks
of the Barents Region.

Finland's active role in the Barents Region
will be internationally recognised.
Finnish actors will stand out and they will be clearly recognised
in the Barents Region.

Strategic objectives 2015

- 1. Communication carried out by the government with the most central actors in the Barents Region.**
- 2. Coordination, carried out in Finland, of the regional actors who deal with the Barents Region**
- 3. Improving Finland's visibility in the Russian Barents Region.**
- 4. The development of transport links between northern Finland and the Russian Barents Region.**
- 5. The boosting of operating opportunities for small and medium-sized enterprises.**

Strategic objective 1.

Communication carried out by the government with the most central actors in the Barents Region

Regular communication carried out by the government with the most central actors in the Barents Region will create, for its part, a foundation for cooperation between other actors. It will be much easier for actors who represent the regional public authority – regional councils and cities – as well as for enterprises to create new contacts and retain working relations with representatives of public authorities in the Russian Barents Region, when contacts are created in connection with ministerial visits, for example.

Minister-level visits or visits that are otherwise coordinated by ministries will also have a central role in opening discussions between Finnish business actors and enterprises that hold the main responsibility for the largest Barents projects. Both the Russians and their largest western partners are large global enterprises with whom it is challenging to open discussions, even for large Finnish enterprises. In connection with the ministerial visits, so-called business-to-business meetings should be organised, where participating enterprises may reserve a short audience with a desired party beforehand. For example, Norwegians have organised pre-booked business-to-business negotiations in connection with ministerial visits, and the results have been good.

The government's active role has become prominent in several ways during the compilation of the Barents Strategy for the Advancement of Finnish Enterprise in the Russian Barents Region. For example, enterprises – including small and medium-sized enterprises – appreciate ministerial visits to both the regions and the enterprises that coordinate the most significant of the large projects in the Barents Region. Yearly ministerial visits should be organised to different regions in the Russian Barents and, when necessary, to the Russian or western enterprises that are essentially connected to Barents Region projects. The other active countries of the Barents Region, such as Norway, also carry out regular ministerial visits.

The government's active role in promoting matters relating to the Barents Region is also necessary in the Finnish–Russian Intergovernmental Commission for Economic Cooperation, the Northern Dimension partnership programmes and the cooperation carried out via the Barents Euro-Arctic Council.

Measures:

- Ministry for Foreign Affairs of Finland will seek to organise one minister-level visit to the Russian Barents Region per year.
- Ministry for Foreign Affairs of Finland will participate, when necessary, in arranging meetings with enterprises that hold the main responsibility for the largest projects in the Barents Region.
- In connection with the ministerial meetings, a business-to-business event will be organised in which Finnish enterprises may reserve a short meeting with potential cooperation partners in advance.
- Active promotion of Barents Region issues in the Finnish–Russian Intergovernmental Commission for Economic Cooperation, the Barents Euro-Arctic Council and the Northern Dimension partnership programmes.

Strategic objective 2.

Coordination, carried out in Finland, of regional measures related to the Barents Region

Interest in the Barents Region has grown in Finland in recent years. Many regional organisations, such as regional councils, cities, universities and chambers of commerce are active towards the Barents Region. Improved coordination of existing measures would intensify the use of resources directed at utilising the opportunities offered by the Barents Region. Speaking with one voice would make the messages more easily understood in Finland as well as abroad.

A cooperation network should be created for the coordination of regional measures. The activities of this cooperation network would be steered by the Barents Advisory Board Finland, and the Barents Centre of Northern Finland would function as part of this network. The Barents Centre is expected to carry out network-like cooperation with actors from Lapland, the Oulu Region, Central Ostrobothnia and Kainuu. The Barents Centre's office will be located in Rovaniemi. The Barents Advisory Board Finland would include representatives from parties committed to Barents cooperation: regional councils, higher education institutions, Finpro, chambers of commerce and central cities. The Advisory Board – using the Barents Centre, in some respects, as a preparatory organisation – could:

- function as the upper-level coordinator of measures concerning the Barents Region
- speak with one voice – representing the viewpoints of actors interested in the Barents Region – to the Finnish Government and the ministries as well as the European Union
- promote cooperation amongst its members in matters related to the Barents Region
- familiarise the public with matters concerning the Barents Region by selecting the Barents Achievement of the Year
- participate in the implementation of actions that are essential to the Barents Strategy for the Advancement of Finnish Enterprise in the Russian Barents Region, propose ministerial visits to the Ministry for Foreign Affairs and participate in the arrangements together with its members
- initiate projects connected to the Barents Region (such as the implementation of Barents Region market research that serves small and medium-sized enterprises)
- coordinate educational initiatives related to the Barents Region and Barents issues
- promote the utilisation of different sources of financing; inform (via its members) small and medium-sized enterprises of potential sources of financing:
 - regional development financing
 - financing provided by Nopef, Finnvera and Finnfund
 - activate financing via EU projects, for example
- supervise the implementation of the Barents Strategy for the Advancement of Finnish Enterprise in the Russian Barents Region and, when necessary, update the strategy.

Measures:

- After the completion of the project, the steering group of the Barents Strategy for the Advancement of Finnish Enterprise in the Russian Barents Region will continue as a monitoring group, promoting the strategy's implementation until the Barents Advisory Board is established.
- Preparations for the establishment of the Barents Centre of Northern Finland will be swiftly executed in cooperation with committed actors from northern Finland.

Strategic objective 3. Improving Finland's visibility in the Russian Barents Region

Russia is one of Finland's most important trading partners. Finnish enterprises are particularly heavily involved in business in St. Petersburg and Moscow. Our country holds a significant position, especially in the logistic chains connected to Russian imports, but also in those dealing with exports. Many foreign enterprises establish business operations in Russia via Finland. Despite our strong competence in dealing with Russia, the opportunities provided by the Barents Region have received little attention in Finland. This is also reflected in Finland's visibility in the Barents Region; Finnish actors – representatives of the government as well as enterprise – are not maximising their visibility in the Russian Barents Region.

The Barents Region is large, and it is therefore unfeasible for Finns to seek visibility in all the centres of the Barents Region in the short run. Increasing visibility in Murmansk, in the ways cited below, has been regarded as the most appropriate first step:

- The resources and activities of the Finnish consulate located in Murmansk must be strengthened and the consulate's active focus on the region's business life and corporate networks must be ensured.
- The financing and operating conditions of the Finpro office which was opened in Murmansk must be guaranteed at least until the year 2015.
- In the next few years a so-called Finland House should be established in Murmansk. The Finland House would provide office and meeting facilities for Finnish enterprises operating in Murmansk. At the same time, the Finland House would improve Finnish visibility in Murmansk.

Measures:

- Allocation of additional government resources to strengthen the resources and activities of the Finnish consulate located in Murmansk.
- Ensuring Finpro's operating conditions until the year 2015.
- Negotiations on the Finland House between the Barents Advisory Board, Ministry for Foreign Affairs of Finland and Finpro. Creation of a joint plan for the establishment of the Finland House.

Strategic objective 4.

Development of transport links between northern Finland and the Russian Barents Region

Finland is located close to the Barents Region, but our transport links to the Barents Region are inadequate. The lack of flight connections between northern Finland and the Barents Region, in particular, weakens the opportunities of Finnish enterprises in the region. For example, in terms of flight connections, the state of Norwegian enterprises is substantially better. In addition, the road connection from the Finnish border to Murmansk is poor, and there are no rail connections between northern Finland and northwestern Russia. The development needs regarding transport links in northern Finland were summarised in the report titled "International transport corridors in Northern Finland", which was published in Finnish in late 2008, and therefore these development needs are not dealt with in depth in this report. Considering the utilisation of the opportunities provided by the Barents Region, it is important that the representatives of northern Finland and the planned Barents Advisory Board together communicate their viewpoint about the development needs of transport links to the representatives of the Finnish Government and the European Union. In seeking to influence the European Union's TEN-T policy, it is advisable to consider possible joint communication with Norway and Sweden.

Measures:

- Promotion of the development of transport links as presented in the report titled "International transport corridors in Northern Finland".
- Influencing the European Union's TEN-T policy in cooperation with representatives from northern Sweden and northern Norway.
- Commencement of flight connections between Finland and the Barents Region in the form of purchased transport services, if necessary.



Strategic objective 5.

Enhancing the operating opportunities of small and medium-sized enterprises

In the end, success in the Barents Region market depends on the enterprises themselves. Enterprises must have a presence in the Barents Region, as it is not possible to achieve substantial success solely by operating from Finland. Naturally, strategic objectives 1-4, as presented above, will advance enterprise opportunities in the Barents Region. However, they may lead to a situation where, in practice, only large Finnish enterprises will be able to concretely go and market themselves and search for customers in the Barents Region. The resources of small and medium-sized enterprises are often too small to allow them to make full use of the opportunities provided by the Barents Region and to engage in risk-taking.

Measures:

Together with committed actors from northern Finland, the Barents Advisory Board Finland will

- actively search for enterprises that are interested in the Barents Region and maintain a list of enterprises interested in the region.
- promote mutual networking between enterprises both in Finland and internationally, especially with Russian, Norwegian and Swedish enterprises. The particular aim is to identify corporate networks that already operate in the region and connect new enterprises to these networks, to increase the size of existing entities and to strengthen existing channels.
- help enterprises develop so that their know-how corresponds to demand in the Barents Region market: recognise the enterprises' development needs and create with them a development plan for reaching the target state.
- financially strengthen small and medium-sized enterprises marketing measures by, for example, the following methods:
 - o promote financing of market studies that serve small and medium-sized enterprises, partly by means of public funds obtained through Nopef or Finnvera, for example.
 - o support small and medium-sized enterprises' export rings or marketing companies in the following manner:
 - 50-60% of the budget of the marketing company / export ring will be financed by public aid for a few years
 - 20-30% of the budget will be financed by the small and medium-sized enterprises that are served by the marketing company / export ring concerned
 - 10-30% will be financed by the marketing company / export ring itself.

Barents Strategy project's steering group

www.ouluregion.fi
Council of Oulu Region

www.lapinliitto.fi
Regional Council of Lapland

www.keski-pohjanmaa.fi
Regional Council of Central Ostrobothnia

www.ouka.fi
City of Oulu

www.kokkola.fi
City of Kokkola

www.rovaniemi.fi
City of Rovaniemi

www.oulu.chamber.fi
Oulu Chamber of Commerce

www.lapland.chamber.fi
Lapland Chamber of Commerce

www.finnbarents.fi
Finnbarents

www.steeldone.com
Oy SteelDone Group Ltd

www.ramboll.fi
Ramboll

References

Regional authorities:

<http://www.dvinaland.ru>
Administration of the Arkhangelsk Region

<http://gov.murman.ru>
Governor of the Murmansk Region

<http://www.gov-murman.ru>
Murmansk Regional Government, the official portal of the regional authority

<http://economy.gov-murman.ru/>
Ministry for the Economic Development of the Murmansk Region

<http://www.rkomi.ru>
Republic of Komi, official portal

<http://www.komirsp.ru>
Republic of Komi

<http://www.econom.rkomi.ru>
Ministry for Economic Development of the Republic of Komi

<http://www.gov.karelia.ru>
Republic of Karelia, the official portal of the regional authority

<http://www.kareliainvest.ru>
Republic of Karelia for investors

<http://www.adm-nao.ru>
Administration of the Nenets Autonomous Area

Statistical data:

<http://www.gks.ru>
Federal State Statistics Service

<http://arhangelskstat.ru/default.aspx>
Territorial body of the Federal State Statistics Service for the Arkhangelsk Region

<http://krl.gks.ru/default.aspx>
Territorial body of the Federal State Statistics Service for the Republic of Karelia

<http://www.stat.murmansk.ru>
Territorial body of the Federal State Statistics Service for the Murmansk Region

<http://komi.gks.ru/default.aspx>
Territorial body of the Federal State Statistics Service for the Republic of Komi

<http://www.arhzan.ru/>
Department of the Federal Employment Service for the Arkhangelsk Region

<http://www.murman.rostrud.ru/portal/r/vacancy/main.aspx?cfl d=375>
Department of the Federal Employment Service for the Murmansk Region

International networks:

www.beac.st

Website of the Barents Euro-Arctic Council

www.barentsinfo.org

Barents portal - your window to the Barents Region

www.murmanshelf.ru

Murmanshelf - association of suppliers for the oil and gas industry

<http://www.sozvezdye.org>

Sozvezdye - Assistance Centre for the Arkhangelsk Regional Association of Suppliers for the Oil and Gas Industry

www.nba-murmansk.net

Norwegian Business Association (NBA), Murmansk

www.siva.no

SIVA (Industrial Development Corporation of Norway)

www.sivatech.org

SIVA Center in Murmansk

<http://barentsnova.com/pages/barentsnova-root/business-incubator-page/whatis>

Polar Star Business Incubator, Murmansk

From the www.barentsnova.com pages

Foreign Investors Business Association (FIBA), Murmansk

www.nrcc.no/index.php

Norwegian-Russian Chamber of Commerce (NRCC)

<http://www.finnbarents.fi/index.php?project=2&lang=2&content=615&menu=615>

SevZapInvest project, Murmansk

<http://www.ncci.ru/default.asp?cont=934>

Russian-Swedish Council for SME support

www.northernmaritimecorridor.no

Northern Maritime Corridor

www.barents.no

Norwegian Barents Secretariat in Kirkenes

From the www.barents.no site

International Barents Secretariat

<http://www.gov.karelia.ru/gov/Different/Region/Sweden/080218.html>

Swedish-Karelian Business Center

www.barentsobserver.com

BarentsObserver news site operated by the Norwegian Barents Secretariat

Companies in Murmansk:

<http://www.tekos.ru>

District heating company TEKOS

<http://www.kolenergo.ru>

Kolenergo

<http://www.tgc1.ru>

OAo Territorial Generating Company -1 (TGK-1)

<http://kolanpp.rosenergoatom.ru>

OAo Kolskaya Nuclear Power Plant

http://apatit.phosagro.biz/pages/page_0.php?id_page=43

OAo Apatit

<http://www.kolagmk.ru>

OAo Kola mining company

http://www.rusal.ru/kaz_factory.aspx

RUSAL - Kandalaksha aluminium plant

<http://www.portmurmansk.ru>

OAo Murmansk commercial port

<http://www.portofmurmansk.ru/>

OAo Murmansk fishing port

<http://www.portofkandalaksha.ru>

OAo Kandalaksha Commercial Port

http://branch.rzd.ru/wps/portal/branch?STRUCTURE_ID=88&layer_id=983&refererLayerId=983&print=0&id=310

Murmansk branch of OAo Russian railways

<http://www.msco.ru>

OAo Murmansk Shipping Company

Companies in Komi:

<http://www.gazprom.ru>; http://www.gazprom.ru/child/dk_gptuh.shtml

OAo Gazprom

<http://www.komienergo.ru>

OAo Komienergo

<http://www.mondigroup.com/en/desktopdefault.aspx/tabid-833>

Paper production company Mondi Syktyvkar

<http://www.lukoil-komi.lukoil.com>

OAo Lukoil-Komi

Companies in Arkhangelsk:

<http://www.ilimpulp.ru>
Corporation Ilim Pulp

<http://www.appm.ru>
OAO Arkhangelsk pulp and paper mill

<http://www.solombala.com/sppm>; <http://www.sppm.ru>
OAO Solombala pulp and paper mill

<http://www.solombala.com/sldk>
OAO Solombala woodworking plant

<http://www.sawmills.ru>
OAO Onezhsky woodworking plant

<http://www.titansgroup.ru>
Production and commercial enterprise OOO TITAN

<http://www.rosneft-anp.ru>
OAO Rosneft-Arkhangelsknefteproduct

<http://www.severalmaz.ru>
OAO Severalmaz

<http://www.tatneft.ru>
ZAO Tatneft-Arkhangelsk

<http://www.sevmash.ru>
OAO Sevmash

<http://www.star.ru>
OAO Ship repair centre Svesdochka

<http://www.sevreid.ru>
OAO Severny Reid

<http://www.ansc.ru>
OAO Northern Shipping Company
<http://www.aeroflot-nord.ru>
OAO Aeroflot-Nord

<http://www.ascp.ru>
OAO Arkhangelsk Sea Commercial Port

<http://www.kuznitsa.ru>
OAO Krasnaya Kuznitsa Shipyard

<http://http://www.smz.ru>
OAO Solombala Machine Building Plant

<http://www.ador.ru>
Motor road administration Arkhangelsk Avtodor

NAO Companies:

<http://www.nmng.ru>
OOO Naryanmarneftegaz

http://rosneft.ru/Upstream/ProductionAndDevelopment/timano-pechora/severnaya_neft
OOO Severnaya Neft

<http://www.econao.ru>
Environmental issues in the NAO

<http://www.total.com>
OOO TOTAL E&P Russia

<http://zr.naryan-mar.ru>
Magazine Zapolyarny Region

Companies in Karelia:

<http://www.scbk.ru/portal/>
OAO Segezhsy pulp and paper mill

<http://www.investforestindustry.com/news>
ZAO "Investlesprom" holding

<http://mlph.onego.ru>
OOO Medvezhyegorsky Lespromkhoz

<http://www.kostomuksha.ru/>
OAO Karelsky Okatysh

<http://www.osby.ru>
OOO Onezhsky Shipbuilding Factory

<http://avangard.karelia.ru/>
OOO Shipbuilding Factory Avangard

http://www.avtomash.ru/pred/otz/otz_istori.htm
OAO Onezhsky Tractor Plant

<http://bop.onego.ru>
OAO Belomorsk-Onega shipping company

<http://www.karelenergo.ru>
OAO Karelenergo

<http://www.tgc1.ru/>
OAO Territorial Generating Company -1 (TGK-1)

Barents Strategy for the Advancement of Finnish Enterprise in the Russian Barents Region on the Internet

This document is available on the Internet in English and Russian at the following address:

www.ouka.fi/elinkeino/barents

Document editing and layout:

www.ramboll.fi
Ramboll

Document translations:

www.translatinki.com
Translatinki Oy

Printing:

www.suomenmaa.com
Painotalo Suomenmaa



Oulun seutu



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