

Finding market opportunities in

RUSSIA





“Russia attracted the third highest number of foreign direct investment projects in the world in 2003”

“Since the election of President Vladimir Putin in 2000, the former unstable political situation in the country has disappeared and the Russian economy has greatly improved.”

“Russia contains over 30% of all the natural resources in the world.”

International Business

A unique student project

International Business (IB) is an annual project carried out by students attending the Norwegian University of Science and Technology (NTNU), the Norwegian School of Economics and Business Administration (NHH) and the Norwegian School of Management (BI). This unique and recognized project is carried out in close collaboration with the Norwegian Trade Council and their network of contacts in development of this report. The main purpose of the project is to study potential markets for international business ventures, and support Norwegian enterprises considering entering these markets. Since its beginning in 1984, IB has visited all continents, each year selecting a new country of focus in cooperation with the Norwegian Trade Council.

Developments and trends beyond our borders are determinant for a small country like Norway. Globalisation and increased business complexity increase the importance of such elements and pull foreign markets and the opportunities they offer closer to us. To take advantage of these opportunities and understand the development, information and knowledge is vital. IB's primary goal is to provide information and insight in to areas that are important to enterprises wanting to set up business or invest in a foreign market.

IB also develops the participating students' international understanding as communication and information gathering skills, and is a forum for contact between students and the business sector. The information and conclusions of the report are based on extensive research prior to our stay abroad and our meetings with companies and institutions in the country of focus. The whole project is financed through the companies advertising in this report and their extensive goodwill. We would like to use this opportunity to thank them for their support, a necessity to render this project possible.

In addition to the paper-copy, the report is also available on our website: <http://www.ib.no>. Some of the earlier reports and works and further information about the International Business is also available at our homepage.

International Business is an independent, voluntary, non-profit student organization, and is fully responsible for the content in this report.



Foreword



Øyvind Nordsletten
Ambassador of Norway to Russia

Russia - Norway's great neighbour to the Northeast, is developing dynamically. Over the last four years its economy has grown by 4 – 8 % annually. True, Russia still faces formidable challenges, but it has embarked on a course of reform and integration into the European and world economy which is now yielding tangible results. It is the largest country in the world with talented people enjoying increasing purchasing power, a diverse and rapidly modernizing industry, and abundant natural resources.

The economy is based on the mechanisms of the market and a significant part is privatized.

As political stability and a more predictable investment climate replace the uncertainties of the 90'ies, more and more foreigners look to Russia for new business opportunities. That also goes for Norway which has seen a considerable growth in its exports to Russia. Several Norwegian companies have invested successfully in various sectors of Russian business and new projects are being developed.

To many Russia is a new experience, and a taking on it seems like a daunting and demanding venture. Therefore, projects like the one now launched by students from three Norwegian ranking academic institutions, serve a very useful purpose. Their work will undoubtedly help us better to understand both the risk factors and the opportunities opening up for Norwegian traders and manufacturers in Russia.

Royal Norwegian Embassy, Moscow, 27 May 2003



Ansgar Gabrielsen
Minister of Trade and Industry

Norway and Russia share a long history of well-established trade and business relations. Our current relations are on a fast-moving track forward. Our bilateral trade reflects the positive development. Business has grown healthily since the turn of the millennium and the trade balance now amounts to approximately 1 billion Euro per year.

Some Norwegian companies discovered the vast business opportunities the Russian market can offer already several years ago. However, it can prove both time-consuming and costly to establish business in Russia. As a result, it is mostly the major Norwegian companies that have so far invested in Russia. The need for predictability in the investment climate has been a key concern for the large segment of smaller Norwegian companies.

In 2003, however, the Russian economy, the external conditions and the society as a whole is undergoing a rapid and positive development. Exactly how this may increase business opportunities for Norwegian industries is an important question.

The current project undertaken by three leading academic institutions in Norway is aiming at answering this question. I regard this project as a significant initiative, and I trust the result will contribute to a further development of the Norwegian-Russian economic co-operation.

PART 1

• GENERAL BACKGROUND

POLITICS	12
ECONOMY	13
SOCIETY	16
ART, LITERATURE AND CULTURE	17
RUSSIA'S SOCIAL STRUCTURE	18
RUSSIAN BUSINESS CULTURE	22
TECHNOLOGY	24
NATURAL RESOURCES	27
MEDIA	32

PART 2

• FRAMEWORK FOR DOING BUSINESS

SUPPORT FACILITIES	36
EXPORT FINANCING AND INSURANCE	38
CONTACTS	44
TRANSPORTATION & LOGISTICS	46
BANK SYSTEM	48
LEGAL ISSUES	52

PART 3

• SECTORS OF INTEREST

ELECTRICITY SECTOR	58
OIL AND GAS	61
SHIPPING	63
REGIONS	70
SPECIAL THANKS	79
SPONSORS	81
PROJECT MEMBERS	84
NEXT YEAR: CHINA	87



PORSGRUND

P O R S G R U N D S P O R S E L Æ N S F A B R I K A S



*Gaver som gleder
Priser som varmer*



Fabrikkutsalget på Porsgrunds Porselænsfabrik er åpent hele året!
Telefon: 35 56 21 00 www.porsgrund.com



SINTEF

SINTEF Energiforskning AS utvikler gode løsninger knyttet til kraftproduksjon og omforming, overføring/distribusjon og sluttbruk av elektrisitet og andre typer energibærere.

Instituttet arbeider også med alt fra innemiljø og energi i bygninger - til gassteknologi, forbrenning, bioenergi, kuldeteknikk og næringsmiddelteknologi.

Selskapet har 190 ansatte og en budsjettert omsetning på ca 190 mill. kroner i 2004.

7465 Trondheim
telefon: 73 59 72 00
faks: 73 59 72 50
www.energy.sintef.no



Expanding your business into Russia..... The Russia and Eastern Europe Funds

Innovation Norway can offer:

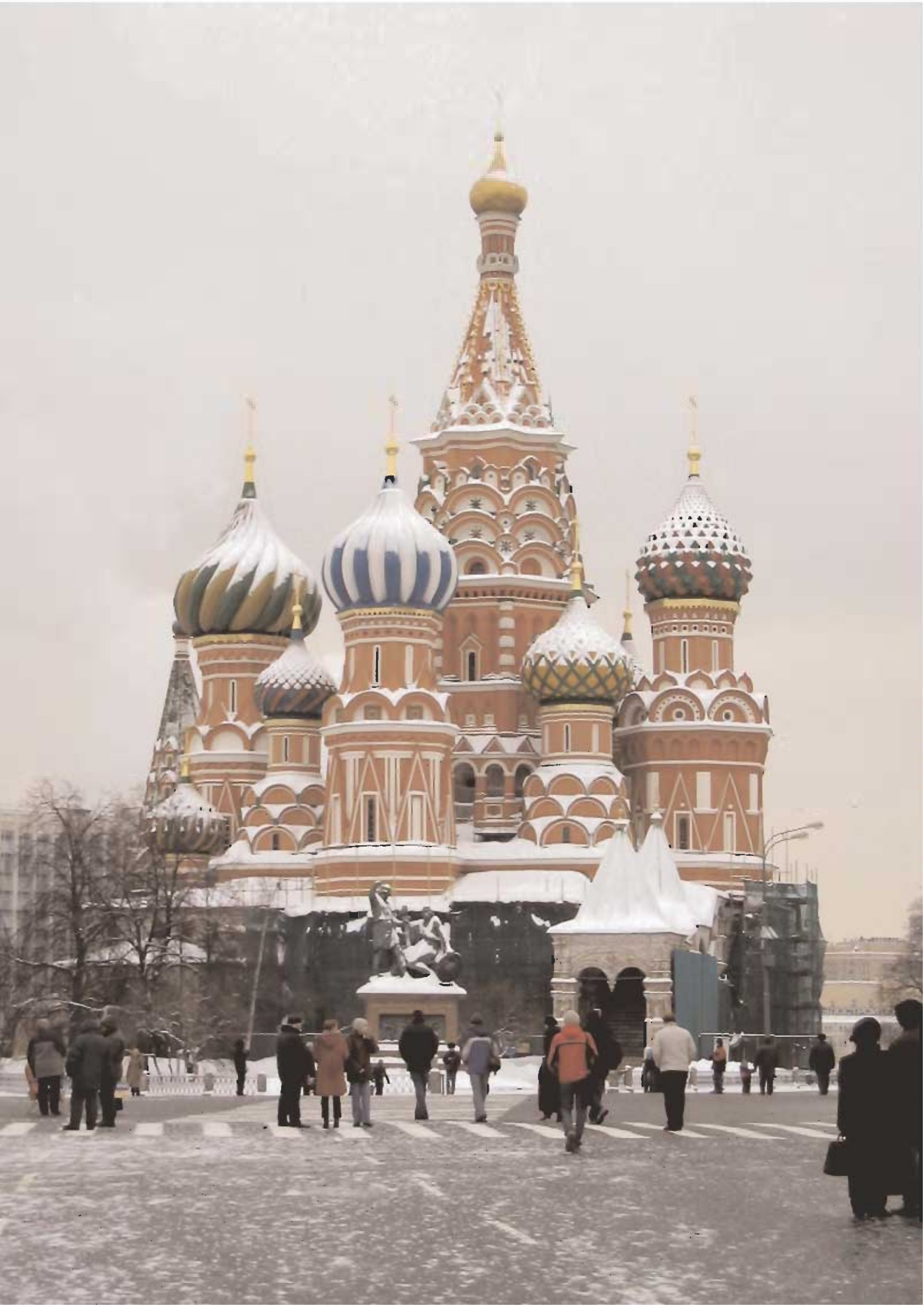
The Russia and Eastern Europe Funds; equity funds for investments in Russia, CIS and the Balkan. We invest in profitable projects together with Norwegian companies.

The Consultancy Fund for North-West Russia may contribute with grant to pre-feasibility studies for investment projects.

Innovation Norway has representation offices in Moscow, St. Petersburg and Kiev which offers consulting and practical assistance to companies.

Innovation Norway has from 1 January 2004 replaced the following four organisations: The Norwegian Tourist Board, the Norwegian Trade Council, Norwegian Industrial and Regional Development Fund (SND) and the Government Consultative Office for Inventors (SVO). For more information please see our web-site www.invanor.no or call +47 22 00 25 00.

Innovation Norway
P.O. Box 448 Sentrum
NO-0104 Oslo
Norway





Part I

- **Politics**
- **Economy**
- **Society**
- **Technology**





The Russian Federation consists of 21 autonomous republics, altogether constituting the largest country in the world by area. Its legislative authorities are made up by two branches, the state Duma and the Federal Council. The Duma has 450 representatives; respective numbers of representatives depend on the population of each region. The Federal council has 176 representatives from all over the vast country.

President Putin, who took over as president when president Yeltsin retired on 31st December 1999, has become a strong leader and proved to be able to rule the country with a firm hand. Russia has got a certain level of stability. Although there is a civil war going on in Chechnya, business can develop as usual in Moscow and other central parts of Russia that, because of the country's enormous size, seem a world away.

The most exciting event in Russian politics in 2004 will probably be the presidential elections taking place on 14th March. As opposed to earlier, the candidates running for elections might actually get a substantial share of the votes. However, few believe that any one of these will be able to take the presidents' seat for the four next years. The conservative candidate Irina Hakamada and Sergey Vlazev of the left-wing "Rodina"-party might prove to be a challenge to the strong and popular president.

According to Jon Fredriksen, at the Norwegian Royal Embassy in Moscow, it has recently become clear that the background for the trial against the head of the Russian oil company Yukos, Mikhail Khodorkovski, was more politically motivated than has been assumed. When declaring a "war on corruption", the president wanted to state an example of pursuit against this kind of crime. Thus, many others could well have been accused of the very same amounts of- and kinds of crime as Khodorkovski. But as the government does not want to stop market developments more than necessary, these things are not likely to happen to all who have committed these very same acts of crime.

After the economic crisis in 1998, ambitious reforms aiming to improve the economy were implemented, and this has among factors led to a relatively low inflation rate and prosperity for many businesses. Still, one must remember that Russia is an unpredictable country, and that its stability today is based on a fragile economy, but strengthened by a strong president.

Today, environmental issues are important common challenges, especially there in the north are fishing

grounds of tremendous importance for both countries. The destruction and disposal of outranged nuclear-driven submarines are issues that will need cooperation from other countries in the Barents region, and the success of which would have great impact on the economies of the entire region.

Lack of freedom of official information is another issue. Although the Freedom of Information Act has been adopted, the right practices are not yet in place. Businesses may still not have access to important official documents like city development plans. But the situation is improving, and some cities now ensure access to such documents in local regulations. Russian authorities have also been criticized for the lack of freedom and high level of self-censorship in the media. Few people in the regions regularly read newspapers from the central areas of the country, and hence are left with the information broadcasted on the national TV that, by the way, is state-owned.

Ties between Norway and Russia are prospering. Although both countries strongly depend on the exports of raw materials, this should be yet another reason for cooperation, rather than competition. Although Russia has over 140 million more inhabitants than Norway, its national budget is of approximately the same size as Norway's, and also there are oil exports important to offer public services.

Over the latest years, Russia's relationship towards the west has become a lot heartier, leading to the country by far being more accessible to foreign business. The country is at present trying to gain full membership to WTO, and is going through strict economic reforms to pull this through. However, Russian authorities are, as many countries in the WTO have already been doing, exploiting a scheme of mixed protectionism and liberalism in an attempt to gain benefits for domestic production. For Norwegian companies wishing to enter the Russian market, this makes it even more important to make use of local partners and contacts.

References:

- Meeting with Jon Fredriksen in the library of the Royal Norwegian Embassy, 16th January 2004
- "Russia Protects Its Agriculture" by Ahtyam Ahtyrov published in Pravda 6th February 2003
- "Russia's Political System" by Daryl R. Evans,
- www.csudh.edu/global_options/375Students-Sp96/Russia/PolitSys.html

Economy

Since the election of President Vladimir Putin in 2000, the former unstable political situation in the country has disappeared and the Russian economy has greatly improved. The inflation rates are slow, the Ruble exchange rate is stable, and the industry production has increased.

Russian economic history

Towards the end of the nineteenth century the Russians became attracted by the Marxism and the way it predicted the fall of capitalism and its replacement by a seemingly much fairer and more efficient economic system known as socialism. In the political chaos after world war I, the Bolsheviks seized power under the leadership of Lenin. He managed to reconstruct the former Russian Empire, known by most people as the Soviet Union. The Soviet Union was the first country to proclaim itself socialist, and aimed to develop the country in a completely non-capitalist way.

In the early 1930s, Joseph Stalin, Lenin's successor, succeeded in establishing the world's first fully fledged command economy. This meant that all the market type relations were entirely abolished and replaced by a system of state planning. The Soviet Union based its economy fully on communist principles, where the state owned all the means of production, and farming was collectivized. Almost all the basic infrastructure was owned by the state and most decisions regarding investment, production and distribution were made by the Communist party and the state. There were also strict controls over migration, the distribution of labour and wages. Nevertheless, the most heavy industry and the military were to enjoy priority while sectors like agriculture, transport and the consumer sphere were to suffer relative or even absolute neglect.

Stalin's death in 1953 led to modification to some of his former drastic policies, including a reduction in the use of official terror, and attempts to make the economy more consumer-friendly. Eventually it became clear that the command economy lacked in flexibility, efficiency and capacity. The period before the collapse of the Soviet Union, the economic growth had slowed to dangerously low levels. The Soviet leader, Mikhail Gorbachev wanted the economic growth to sustain, something that president Andropov had begun, but which lagged under president Chernenko. In 1985 he introduced Perestroika to the Soviet Union. Perestroika was used to mean "economic restructuring." Gorbachev realised the Soviet economy was failing and felt the communist system did not need to be replaced, but needed to be reformed, and this would be done by the process of Perestroika. A key part of Perestroika was to reduce the leasing of land to farmers, limit the numbers of private enterprises, and dras-

tic cuts in state spending; especially the defence spending. Perestroika is regarded to have failed in its original goal of restructuring the Soviet economy. Among the reasons cited for Perestroika's failure was the inability to promote new private or semi-private economic entities and the unwillingness of Gorbachev to reform Soviet agriculture. Both industrial and agricultural output declined drastically during the period of 1990-91 which led to a fall in gross national product and national income. In 1991 the GNP and national income was over 20% less than in 1989. By 1991 the Soviet economy had stopped declining and gone into complete collapse.

On June 12, 1991 Boris Yeltsin won the presidency to become Russia's first democratically elected leader. He introduced privatization and attempted quickly to establish a market-oriented economy.

Russian economy after the collapse of the command economy

The Russian Federation has been undergoing a difficult transformation period and has been struggling to rejoin the capitalist world since the collapse of the Soviet Union. Right after the collapse, it became necessary to seek an alternative as quickly as possible. Under influence of the IMF, the World Bank and other international and western agencies, the former Soviet Union under the leadership of Boris Yeltsin attempted to establish market economy. Firms became private owned and were no longer controlled by the state, money supply, inflation, interest rates and taxation became an issue for the government and export and import became allowed.

The financial crisis in 1998

In the third quarter of 1998, Russia experienced a financial crisis, combining a currency crisis, a debt crisis and a banking crisis.

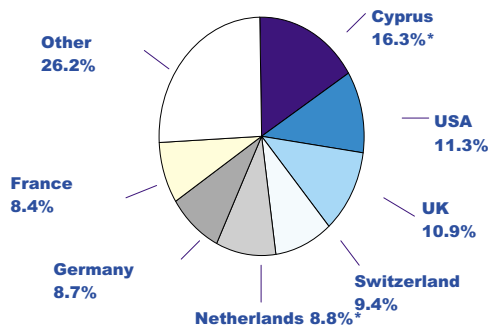
"The market was in a boom period, the velocity of money was high and people were investing. Many foreigners had invested in rubles, and many had hedged their position, including the banks. Suddenly the rouble devaluated with almost 70%. People lost their savings and the banks that had hedged their positions were no longer in a favourable position, since the persons that had guaranteed for their investments went bankrupt."

The Russian crisis was typically caused by excessive public sector debt, demonetisation and insider ownership.

Due to the financial crisis in 1998, there exists no long-term forward marked, however, non-delivered forward is traded.

FDI

According to OCO Consultant's LOCOMonitor™ database, Russia attracted the third highest number of foreign direct investment projects in the world in 2003. Over half of the FDI projects in Russia are from European companies. Despite the increase in FDI over the past years, Russia is still not making full use of its investment potential. According to the OECD: "In terms of investment resources, there is a clear misbalance in supply and demand between the export-oriented raw materials sectors and the rest of the economy, which is in dire need of capital" (OECD, 2002)

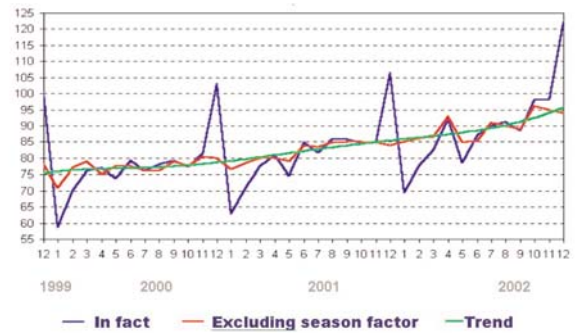


Countries with the most prominent investments in Russia 2001

Future trends in the Russian economy

Since the election of President Vladimir Putin in 2000, the former unstable political situation in the country has disappeared and the Russian economy has greatly improved. Investors are more optimistic about Russia than other any country except China (AT Kearney's FDI Confidence Index). The country's improving profile is a consequence of the government's ongoing reform and sustained economic growth. In 2003, GDP grew by over 6%, providing further evidence of recovery from the 1998 crisis. Relative political and economic stability plus ongoing reforms, in particular the tax reform, are likely to sustain growth and strengthen the overall investment environment.

If we are to believe the investment bank Goldman Sachs, the four emerging economies, Brazil, China, India and Russia will have a larger combined GDP in within 50 years than the 6 G's combined.



Source: Norwegian trading council

What does this mean for Norwegian companies?

It is typical Norwegians to be somehow a little afraid of the unknown, afraid to take chances that might lead to either success or disaster. It is not long ago Russia was the country "everybody" has heard of but "no one" had been to. Most Norwegians have heard of the poor, communistic Soviet Union, the vodka and the cold war. However, Russia is different than it has been. There is more optimism among the Russian people than in a very long time. The Russians are more sophisticated and more educated. Putin has promised small and medium sized enterprises better business opportunities, and moreover, it is going to be easier to set up a new business in Russia. By walking around in Moscow, one can see big shopping malls, building workers, reconstruction work, hyper fashion clothes shops etc. This shows that people have money, and they use them.

The optimistic attitude among investors about Russia as well as the stable political situation in the country will hopefully get foreign investors to open their eyes for Russia as a growing market with a huge potential.

References:

Rosser, Rosser, *Comparative Economics in a transforming world economy*
 Sutela, Pekka; *The financial crisis in Russia*
www.norskeksportraad.no



NTNU - the university of diversity

Trondheim - technology capital of Norway

Creative, Constructive, Critical

The Norwegian University of Science and Technology, NTNU, is a centre for scientific and technological education and research in Norway.

NTNU is also a university with broadly based expertise in the humanities, architecture, medicine and the social sciences. It also has the widest range of higher education in music and the visual arts in Norway.

All these elements combine to make NTNU a thriving university community as well as Norway's best environment for students.

www.ntnu.no

Creative, Constructive, Critical

NTNU educates 80 per cent of the graduate engineers in Norway and many of these hold senior positions in industry and the public sector. The university has focused on strong-point areas where technological expertise is necessary to successfully compete on international markets.

The other technological axis which brings Trondheim to the international forefront is SINTEF, one of the largest independent research institutes in northern Europe. NTNU and SINTEF work closely together in technological R&D.



NTNU
Norwegian University of
Science and Technology

Creating business opportunities for our clients

Russian experience and expertise

Wikborg Rein is one of the leading law firms in Norway, and with some 150 lawyers in Oslo, Bergen, London, Singapore, Kobe and Shanghai, it is by far the most international.

Our dedicated Russia-Team specializes in facilitating business relationships and resolving commercial disputes between clients in Russia and Norway. Over the years we have provided assistance to both Russian and Norwegian clients on a wide array of matters.

The four Russian-speaking lawyers on our team all cooperate closely with highly regarded lawyers in the most important Russian cities. Our combination of legal expertise and industry experience from both Russia and Norway ensures that our clients receive the best possible legal assistance.

● www.wr.no



WIKBORG REIN

Oslo | Bergen | London | Singapore | Kobe | Shanghai

History

Russian history is usually traced back to the Kievan Rus', established by Scandinavian Vikings under the rule of the knyaz' ('prince' or 'duke') Rurik in Novgorod in 862 AD. The Orthodox faith was introduced to Rus through the duchess Olga. Her son from first marriage, Sviatoslav later took over the throne, and under his rule and that of his son, Vladimir, and from then on, the Russian civilization thrived until it was weakened by internal warfare.

In 1223 AD the Russians were invaded by Tatars, and lived under Tatarian over lordship until 1452. Even so, the princes of Rurik's descendents were ruling the Russian people, and were collecting taxes for the Tatar khans. The Grand Prince of Moscow in those days, Ivan III extended Russian rule in the 15th century, and his son, Ivan IV (Ivan the Terrible) became the first Tsar of Russia. At this time, Moscow served as a capital, and Kiev had become less and less important.

The Romanov family ruled Russia from 1613 to 1855 and during this time, Russia became a major European power. Peter the Great's reign transformed Russia. He strengthened the rule of the tsar and introduced western values to Russia while at the same time made Russia a power in Europe and greatly expanding Russia's borders.

The reign of the Tsars was ended by the October revolution in 1917, when Vladimir Ilyich Ulyanov, a.k.a. Lenin and the Bolsheviks seized power. The last Tsar

family; that of Nikolay II, was killed in the summer of 1918. There have been doubts about whether the Bolsheviks managed to kill the entire family, but nothing has so far been proven.

Soon after, Russia became a republic in the USSR. Lenin's successor was Josef Stalin, and his rule of terror cost millions of lives. During the World War II, The Soviet Union was attacked by Germany, and suffered heavy losses, though the invaders were eventually defeated by the Russian Winter.

The Cold War brought economic and social stagnation, and it lasted until Mikhail Gorbachev became leader of the communist party in 1985. The words "glasnost" (openness) and "perestroika" (rebuilding) expressed his visions of a more democratic Russia. Today, feelings amongst Russians towards Gorbachev are mixed; some claim that he made a wise political choice; others claim him to be the first traitor of the Soviet Union. However, his reforms could not keep the Communist Party in power, and in 1991 the USSR was dissolved.

Since 1991 a great number of changes have been seen in Russia. The political situations have been turned from total instability to some sort of stability under the present President Vladimir Putin.

Vast & growing

References: -"A Chronology of Russian History" by Robert Beard



Tekna

Art, Literature and Fine Culture

Fine culture and performing art are very important to the Russian image, and in conversation, foreigners are often left with a feeling of being culturally less literate than their Russian counterparts. Efforts to get acquainted with for instance the Tretyakovskaya Gallery or the Pushkin Gallery of Modern Art in Moscow or the Hermitage in St. Petersburg are generally heartily welcomed by Russians, whose national identity is partly rooted in their great history of fine culture. The same is true for going to theatres. When sharing your first impressions of the Bolshoy Theatre with a Russian, you give them a feeling that you want to be acquainted with their culture.

Subtly displaying knowledge about their culture, such as about the habits among Russian noblemen in the 19th century to look for spouses for their children during theatre performances, using binoculars, will make your Russian counterparts feel that you are making an effort to get to know them, and will be both welcome and positive. Forget your subtleness, however, and you will only leave an impression of exhibitionism.

Religion

During the Soviet era, the official religion in Russia was communist atheism, and after 1991 one has seen a huge growth in numbers of people joining the Orthodox Church, as well as in confessing Moslems. Today there is also a growth among Protestant churches and among sects for whom Russia was closed completely until 1991.

Food

Typical for the Russian cuisine are the many tasty soups that are often served with sour cream (or 'smetana'). You will also find that the menu is often dominated by potatoes, cabbage and pork meat.

Education

The Russian educational system is renowned for the amount of books that the students have to read. Performance in school is measured by grades from 1 to 5 where 5 is excellent, from the early years of primary school. 11 years of schooling are compulsory before one can enter an institution of higher education.

Russian school curricula are enormous compared to those in Norway, and this often leads to Norwegians feeling illiterate and inferior when it comes to knowledge about international authors and artists.

Higher education is considered the key to getting a good job.

The old school system, which was known to be extremely good, collapsed at the same time as the Soviet Union in 1991. One of the major challenges and focus areas of today is to rebuild the educational system at all levels. Consequently, over the last years, it has become more and more usual to have to pay for higher education in Russia.

Although there is possibilities for free higher education for those who study well, there is considerable competition for entrance to universities and this makes it unrealistic to rely on getting free education.

People

Who are the Russians? What characterizes Russian society? These are important questions that need to be answered when doing business in Russia. To know the people, their culture, their history and their living conditions is necessary to understand the Russian market. Some parts of the Russian society have changed dramatically after the collapse of the Soviet Union.

References:

-Meeting with Russian students in St. Petersburg, 25 January 2004
-"The Educational System of Russia"
<http://www.euroeducation.net/prof/russco.htm>

Demographic data:

Population: 143 954 500
Population per sq km: 8.4
Urban population: 105.0 million
Average annual population growth: -0.65%
Age structure: 0-14 years: 16.7 %
15-64 years: 70.2%
65 years and over: 13.1%
Number of households: 44 million
Average people per household: 3.28
Cost of living index (New York=100) 85 in Moscow
Ethnic groups: Russian 81.5%, Tatar 3.8%, Ukrainian 3%,
Chuvash 1.2%, Bashkir 0.9%, Belrusian 0.8%, Moldavian 0.7%,
other 8.1% (1989)
Religions: Russian Orthodox, Muslim, other
Literacy: definition: age 15 and over that can read and write
Total population: 99.6%
Male: 99.7%
Female: 99.7%

Russia's social structure

The new middle class

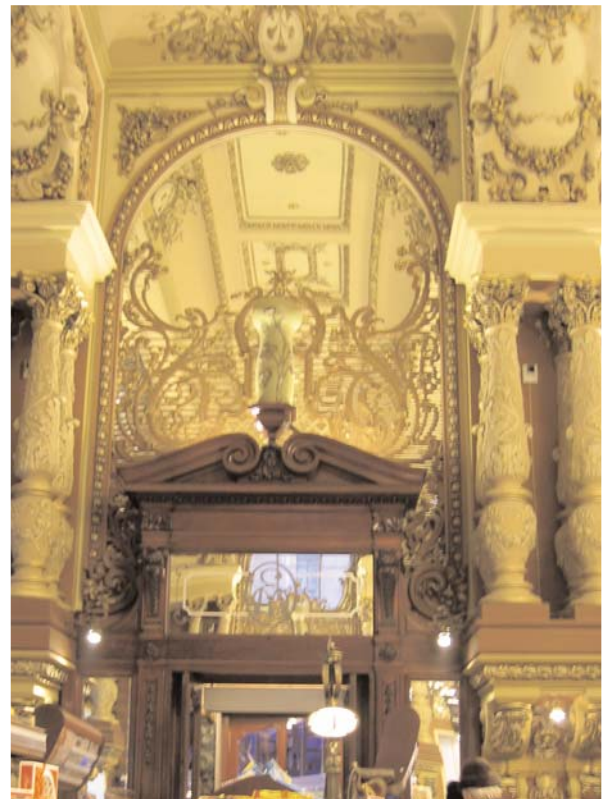
Perhaps the most significant fact about Russia's social structure is that ideology no longer determines social status. During the Soviet era, membership in the Communist Party was the surest path to career advancement and wealth. Political decisions rather than market forces determined social status. Despite Marxist-Leninist notions of a classless society, the Soviet Union had a powerful ruling class, which consisted of party officials and key personnel in the government and other important sectors such as heavy industry.

Post-communist society is also characterized by a wide disparity in wealth and privilege. Although there is no rigid class structure, a stratified society based on wealth is evident and growing. Many members of the Communist Party in the Soviet era used their power and their relations to get important positions when capitalism was introduced. According to a 1995 study by the Russian Academy of Science, more than 60% of Russia's wealthiest millionaires and 75% of the new political elite are former members of the Communist Party.

A stratified society of this kind is not a Russian phenomena, it has been a tendency throughout history that societies going through large economic, political and social changes face larger differences in wealth between its citizens. In addition to the elite mentioned, there is a growing middle class in Russia that has increasing purchasing power. The new shops of Yves Saint Laurent, Prada and Gucci that are popping up in the largest cities show that some people in the Russian society have more money than ever before. The Russian middle class now accounts for about 25% of the population, based on indicators including income, home ownership, savings, occupation and self-determination. Reports on the rising living standards in Russia are in line with the recent statement by Russian president Vladimir Putin that Russia's economic growth indicators exceeded average world levels. (The Russian Journal, 14 Oct 2003)

More consumer-spending is a result of the increasing purchasing power, and in January-August 2003 the total spending was RUR 3.8 trillion, or USD 122.5 billion, which is 7.9% more than in the same period one year earlier. Something which is quite remarkable is that 2.5-3% of the spending was financed through lending. On average, consumer lending rose by 6.9% a month in January-August 2003. An increase in consumer lending for long term products is due to a rise in living standards and that consumer credit has become more available. Growing competition on the consumer lending market forces banks to use a more flexible lending policy. Loans are increasing in popularity in the service market too; examples are loans for education and vacations.

But of course, there is another side of the story that is not so glamorous.



GDP real growth rate: 4.3 % (2002 est.)
GDP purchasing power parity -9 700 US dollars (2002 est)
Population below poverty line: 25%
Household consumption by %:
 Lowest 10%: 5.9%
 Highest 10%: 47% (2001)
Inflation rate: 15% (2001)
Labour force: 71.8 million
Labour force by occupation:
 agriculture 12.3%,
 industry 22.7%,
 services 65% (2002 est.)
Unemployment rate: 7.9%

Poverty

The 9 April 2003 the Russian Journal wrote the following: "In February, in an unusual wave of protests, thousands of Russian pensioners throughout the country sent President Vladimir Putin money transfer of 30 Rubles. This was the amount (equivalent to 1 US dollar), by which monthly pensions had been raised by the Russian government to index pensions for inflation."

As Russia makes the transition from a command economy to a partial free-market system, there is an increasing need for an effective social safety net for the citizens. The World Bank has reported that the current social-protection system is inappropriate for the market-oriented economy which Russia is striving towards. The Ministry of Social Protection is the primary federal agency handling welfare programmes. Social security and welfare programmes provide modest support for the most vulnerable segments of Russia's population: elderly pensioners, veterans, infants and children, families with more than one child, invalids and people with disabilities. These programmes are inadequate and they need to be reformed if they are to be successful.

Poor countries often focus on their basic healthcare, literacy, education, communications and infrastructure, small-scale businesses, self employment and on economic ideas that affect the poorest people in society. Though some of these are prioritized and well developed by the Russian government, other important issues for the poorest are neglected.

In Russia, where a large proportion of poverty is "shallow" (i.e. a large share of those living below the official poverty line have incomes close to that threshold), economic growth has an immediate and visible positive impact on the poor. However, although rapid growth has led to overall improvements in income, this has not necessarily translated to broader social indicators, such as life expectancy or unemployment.

Unemployment continued to increase, according to revised unemployment statistics for 2002 and the first quarter of 2003. In the first quarter of 2003 the average level of unemployment increased to 9.1% (compared to 8.4% a year earlier), and by the end of June it stood at 8.6% -more than 1% higher than in June 2002. Despite the negative tendency for employment, reported poverty data continue to show improvements. The share of the population living below the subsistence level (for the period under consideration estimated at 2047 Rubles or 66.4 US dollars per month) fell from 31.5% in the first quarter of 2002 to 26.1% in the first quarter of 2003, and continues to decline further to 24.6% for the first half of 2003.

In September 2003, the Federation Council of the Russian Federation, the upper house of the Russian parliament, decided to raise the minimum monthly wage from 450 rubles to 600 rubles. However, this is not much when it is compared to the subsistence level at 2047 Rubles.



Russia's social structure

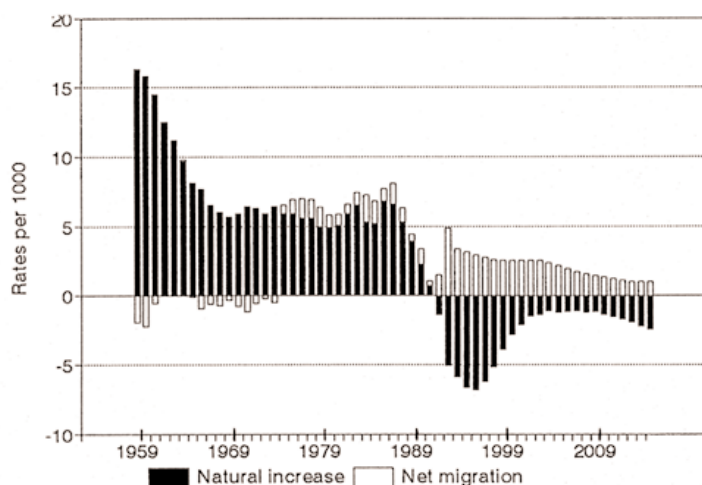
The role of women

In the post Soviet era, the position of women in Russian society remains at least as problematic as it was in previous decades. In both cases, some of the nominal legal protection for women either have failed to address the existing conditions or have failed to supply adequate support. Such conditions contribute heavily to Russia's declining birthrate and the general deterioration of the family. At the same time, feminist groups and social organizations have begun fronting the cause of women's rights in what remains a strongly traditional society dominated by men.

Most of the nominal State benefit programmes for women continued into the post-Soviet era. However, as in the Soviet era, Russian women in the beginning of the 21st century still dominate the economic sectors where pay is low, and they continue to receive less pay than men for comparable positions. Despite the fact that, on average, women are better educated than men, women remain in the minority in senior management positions. Working women continue to bear the "double burden" of a job and family-raising responsibilities, and usually there is little participation of Russian husbands in the latter. Such dissatisfaction is a factor in Russia's accelerating divorce rate and declining marriage rate. The rapidly expanding private sector offers women new employment opportunities, but many of the Soviet stereotypes remain; the most frequently offered job in new businesses is that of secretary.

The negative population growth rate

The negative population growth rate remains one of the most urgent problems facing Russia, and the impact of the current conditions will be felt for many



years. Theoretically there are three ways Russia could change this negative trend: increase the number of births, attract more immigrants or reduce the number of deaths.

Some have suggested funding as an incentive to increase the number of births, but the current economic situation in Russia makes this impossible to support at a sufficient level needed to reverse the negative trend. It is also unlikely that immigration would make much of a difference unless Russia opens up for at least 500 000 immigrants every year for the next half century to maintain its current population size. Russia has experienced a decrease in life expectancy, especially for men. Today the male life expectancy in Russia is about 14 years lower than in the US, and even lower than that of developing countries like Indonesia and Iraq. The Russian health system is not able to combat diseases in the same way it did during the Soviet era. Even diseases like tuberculosis which Russia once controlled, are starting to spread again. Another "disease" which has grown parallel to the Russian male mortality rate, is alcohol consumption.



The health care system

In Russia, basic medical care is available for most of the population free of cost, but its quality varies a lot and in the 1990s the efficiency of the system continued the decline that begun before the collapse of the Soviet system. The decline in health is related to such environmental and social factors as air and water pollution, overcrowded living conditions, inadequate nutrition, alcoholism, and smoking.

In addition, there is a lack of modern medical equipment and technology. Curable infectious diseases such as diphtheria and measles have reached epidemic levels unseen since the Bolshevik Revolution, and the rates of tuberculosis, cancer and heart diseases are the highest of any industrialized country. Low salaries within the health sector have made corruption common among medical personnel, who often extract bribe for both materials and services.

Although the health care is free in principle, the chances of receiving adequate treatment may depend on the patient's wealth, and elderly people are hit especially hard by this situation. Also disabled people have a poor safety net in Russia, and the facilities are rather poor compared to the west. Wheelchairs and artificial limbs are in very short supply, rehabilitation centres are few, and wheelchair ramps are virtually non-existent.

The hospitals and polyclinics are generally old (about 15% were built before 1940), and they lack basic equipment. Although Russia pioneered in some specialized fields of medicine such as laser eye surgery and heart surgery, the access to modern hospital

equipment, technology and pharmaceuticals is rather poor. Even in the best hospitals, medical personnel do not wash their hands regularly, surgical instruments are not always properly sterilized, and the rates of infection are abnormally high.

Aside from shortfalls in Russia's health facilities, much of the poor health conditions are related to personal hygiene, diet and lack of exercise. Preventive

medicine and health programmes are virtually nonexistent, in addition to programmes for educating the public about personal sanitation, proper diet, and vitamins. The Russian rate of alcohol consumption is traditionally among the highest in the world and a major contributor to the poor health conditions among the Russian people. According to available statistics, the average Russian currently drinks 44 litres of beer and 15 litres of vodka a year, which means the alcohol budget roughly equals USD 100 per year, or 8% of total income.



Life expectancy, population: 67.66 years (2003)
 Life expectancy, men: 62.46 years (2003)
 Life expectancy, women: 73.11 years (2003)
 Total fertility rate: 1.33 children born/ woman (2003)
 HIV/AIDS -adult prevalence rate: 0.9% (2001)
 HIV/AIDS -people living with HIV/AIDS: 700000 (2001)
 HIV/AIDS -deaths: 9000 (2001)

After the first case of AIDS in Russia was discovered in 1987, the Soviet Union passed the strictest anti-AIDS law in the world. Persons who knew they had HIV and transmitted the disease to other people could be punished by up to eight years in jail. As in the Soviet period, the public receives little information about precautions against AIDS or the identity of the high-risk categories in society, and those suffering from AIDS meet much intolerance in Russian society. Because the disease has been associated with foreigners, the government has ignored the need for preventive measures among Russians.

References:

- Master of International Business` presentation at the International Business Development Forum: "Country profile: Russia", Bergen, October 2003
- www.worldbank.org.ru: Russian Economic Report, August 2003
- <http://memory.loc.gov>: Library of Congress Country Studies, Russia
- The Russian Journal:
- Ajay Goyal: "Focus the fight on poverty", 20 June 2003
- RBC: "Minimum wage raised to \$20", 24 September 2003
- Clifford Grammich and Julie DaVanzo: "Tackling Russia's demographic meltdown", 7 June 2002
- Otto Latsis: "Inflation for the poor", 9th of April 2003 and "Strategy and demography", 25 November 2000
- RBC: Consumer spending rises in Russia, 14 October 2003
- Vlada Melkova, "Russian middle class hits 25%", 3 February 2001
- Centre for Russia and Eurasia: www.rand.org/publications
- http://www.csudh.edu/global_options/375Students-Sp96/Russia/PolitSys.html

Russian Business Culture

Coming out of the Soviet era things are changing fast in Russia and in the Former Soviet Union. Nevertheless, some things have not changed that much, like the Russian culture and the character of the Russian people. When doing business in Russia it helps to understand these cultural differences. Russian business culture has a deeply entrenched hierarchy, although the State no longer dominates business as much as it used to. Superiors have authority over their subordinates, and are ultimately responsible for the final decision. The fact that managers are held responsible for success and failure, to a great extent, naturally gives them more authority and influence when compared to Norwegian managers. Norwegian managers are also more accustomed to delegating responsibility. Russian managers, on the other hand, are more likely to follow up and control the workforce, which often leads to decreased levels of initiative and motivation on the part of the workers.

Allowing your Russian contact to get to know you personally is an essential part of successfully conducting business there. It will also help if you make the effort to appear down to earth, sincere, and reliable. Expect your business partner to be well educated. So you are likely to have interesting conversations on a large range of subjects. Good topics of conversation include peace, the current changes taking place in Russia, and their current economic situation. It is customary for Russians to ask a companion private questions about his family, income, hobbies, health, job or business, and to expect an informal reply to these questions.

Patience is an extremely important virtue among Russians. As a foreigner, you are expected to be on time to all business appointments. However, your Russian counterpart may be late, as this may be a test of your patience. The attitude towards time is short term. To plan everything in the last minute is quite common. This also has a lot of positive features, like a high degree of flexibility and creativity.

There is a Russian term meaning connections or influence. Even though many Russians speak English, especially in Moscow and St.Petersburg, it is extremely difficult to do business in Russia without help from a local. This has mainly to do with the facts that trust and connections are very important in Russia and they take time and effort to build. In addition, understanding the mentality and culture is essential.

Even though an increasing number of females are entering the Russian business environment, they often have problems being accepted in senior positions. The Russian society is still very masculine and dominated by the male population. However, recent research shows that 90% of Russian companies have women in leading positions, while the total amount of women managers is 42%.

In addition, remember the following:

- Be sure to have plenty of double-sided business cards. One side should be printed in English, the other in Russian.
- Be alert and open to taking a drink as refusing to do so is a serious breach of etiquette.
- Speaking or laughing loudly in public is considered rude, as Russians are generally reserved in an official setting.
- To bring gifts or other items are appreciated when doing business in Russia.
- Make sure that you do business with the decision makers and not with intermediate-level people. Ensure this is the case by planning and investigation well in advance of your business trip.
- In meetings, your Russian counterpart will try to be represented by as many people as you, or more.
- When greeting, it is usual to shake hands and introduce oneself, although shaking hands is not obligatory if you are a woman. Do never shake hands, or initiate a handshake in a doorway.
- Titles and formal status are important, when addressing a Russian, using both the given name and patronymic signifies respect. (Example: "Ivan Ivanovich Ivanov"- here Ivan is the given name, Ivanovich is the patronymic and Ivanov is the family name, here you would address your counter part as "Ivan Ivanovich")

References:

<http://www.homeworklang.com/russian-business.htm>

<http://www.executiveplanet.com/business-culture-in/132353845177.html>

<http://www.norway.mid.ru/norway/general.html>

- Conversation with Valery Bely, Director of the Department for Russian and Belarusian languages at the Belarusian State Agrarian and Technical University in Minsk

- Meeting with Jouko Nevala, Det Norske Veritas, in St. Petersburg, 27 January 2004



den naturlige!

I over 90 år har vi vært tillitsmenn for norsk næringsliv.

Ved å bidra til pålitelig informasjon, trygghet og verdiskapning for våre kunder skal vi være den naturlige samarbeidspartneren innen revisjon og revisjonsnære tjenester.

Ønsker du mer informasjon om Noraudit, besøk våre Internettsider, ta kontakt med oss på telefon: 23 11 91 00 eller e-post: oslo@noraudit.no Registrer deg gjerne på våre Internettsider for gratis e-postabonnement over aktuell informasjon for næringslivet.

Noraudit DA
Boks 1704 Vika, 0121 Oslo
Tlf: 23 11 91 00 - Fax 23 11 91 01

www.noraudit.no

 **NORAUDIT**
- når tallene teller!

Russia has a knowledgeable and skilful labor force within a great number of technological sectors. Foreign investors are optimistic about Russian technology, especially industry sectors and information technology. These sectors have experienced problems with lack of investments and funding, but this is gradually improving.

Oil and gas

Russia possesses approximately 15% of the world's oil reserves and 45% of the gas reserves. They are today the 3rd largest producer of oil with some 7.7 million bpd, and are the world's largest exporter of gas and the second largest exporter of oil. The oil and gas sector in Russia collapsed after the break up of the Soviet Union. The privatization of many of the major oil companies in Russia has helped rapid developments. Today we see that the several of the larger companies have implemented international accounting practice and corporate governance as well as increased transparency about ownership.

The development and expansion rate in the Russian oil and gas sector is unprecedented both in Russia and in the international oil and gas sector. There are enormous values laying in the ground, and that there are no shortage as to interested companies or to possible new projects. Interest and investigation is directed especially to the Northern Seas, new pipelines, upgrading of existing fields, exploration of Eastern Siberia and at Sakhalin.

Heavy industry

Heavy industry such as mining, metallurgy and machine-building was a corner stone in the Soviet economy. The transition to the market economy was especially hard on steel production and machine building industry. 68 million tonnes of steel products were produced in 1989, mostly for the domestic market. Then the industry declined, and in 1998 only 35.2 million tonnes was produced, mainly for export. The devaluation in 1998 led to improved conditions for industry, and today the situation looks brighter. The steel industry can be recognized by vertical integration, ensuring the supply of raw materials and energy. Russian metal and steel products are of high quality and have international standards. A few large enterprises have emerged that supply both domestic and international markets with heavy machinery.

The mining industry was the one industry that managed to get through the crisis with the smallest contractions. Russia has a large supply of precious stones and other metals and minerals. A high share of foreign

investments has ensured stability in this industry. As stricter demands on security and efficiency arise in this sector, opportunities are created for Norwegian technology and experience.

Food production

Russian domestic food production is increasing. The domestic production of goods is potentially cheaper than imports due to low labour and production costs and import taxation. During the last few years the profitability of importing consumer goods has declined.

Most of the equipment used in food production in Russia is second-hand equipment, bought from European companies in the late 1990s. This machinery is still operable and produces goods of high quality, though it is not cost efficient. However, low labour costs and long depreciation periods reduce the profitability of acquiring new machinery.

Research and development

Traditionally, the Russian science and technology sector has been strong and was behind many important discoveries. After the Soviet Union dissolved, the sector struggled with both structural challenges and lack of funding. The R&D players can today be divided into four main groups, namely government, business enterprises, higher education institutions and private non-profit organizations. The business enterprise sector specializes in applied R&D, and accounts for more than 60% of all R&D. Many former State-owned institutions now belong to this sector. Institutions of higher education conduct only restricted R&D compared with other market economies, while non-profit organizations are a fairly new and still small sector.

Some of the top priority areas in Russian science and technology are basic research, information technology, electronics and industrial technologies. The brain drain and the international migration of scientists is still a major problem. To help promote research for market demand, new legislature concerning intellectual property rights is currently being drafted.

Internet and software

The share of Russians having their own computer and Internet access is increasing. The amount of Internet available is sharply restricted by the extensive use of copper and aluminium cables, which makes it hard to use ISDN or DSL technology. Dial-up modems are most common, but the connection is slow and quality is poor. In Moscow and other major cities fibre cables are appearing, and for business centres the speed is improving though still not always adequate. The quality of service is not satisfactory for most subscribers, 24-7 support is non-existent and there is no flexibility concerning customized services. The cable structure across Russia and the backbone to Europe is complex and insufficient.

In the regions, Internet access is usually provided by the local phone company, as often in some European markets. In major cities specialist Internet service providers (ISPs) have the market, with Golden Telecom dominating. Whenever a new building or business centre is built in Moscow, ISPs compete for exclusive rights to supply services to the building. This practice is unfortunate, as it does not create pressure on prices and the quality of service.

There is high supply of labour with knowledge of computers, programming and IT technology. The challenge is to make the right use of it. Many of the computer viruses have been traced to Russia. With better work opportunities and improved project management, the idle resources can be used for extensive value creation. Russia is closing in on India as being a major producer of software

Telecommunications

Within telecommunications there are huge differences between urban and western parts of Russia, and the rest of the country. While in the western parts and in the main cities services are good, there are still large areas without permanent phone connections due to the vast distances. An alternative is the satellite phone system, which is cheaper both for providers and subscribers. However, there are many delays and poor quality due to the use of old military satellites. It is interesting to note that in Russia only 20% of the telephone exchanges are digital and 80% are analogue. In most other countries the ratio is the opposite.

Cell phones are no longer a status symbol but a commodity that everyone possesses, at least in the major cities. Text services like SMS are most popular besides calling, and MMS is on the rise. Other non-voice services are little used compared to the European market. WAP is available, but the quality of service is poor. Other services that are taken for granted in Europe, like keeping the old number when switching phones, or special service contracts for exclusive cell phone usage in business offices, are not available.

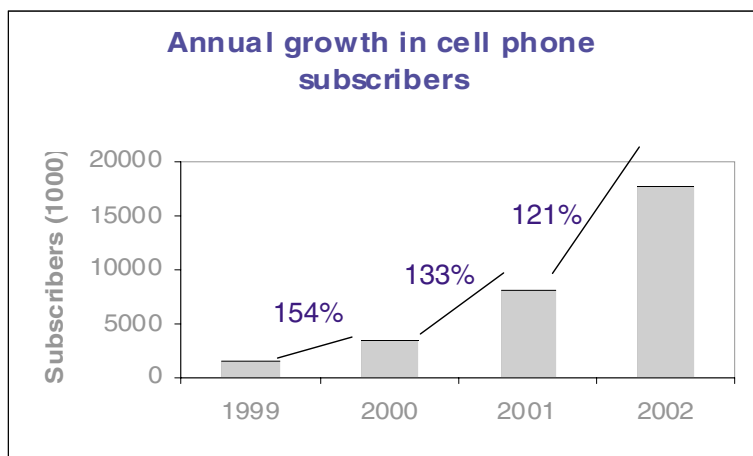
There are three nationwide providers of cell phone services: Vimpelcom, Megaphone and MTS. Telenor is one of the larger owners in Vimpelcom. All of these originate in Moscow and St. Petersburg, and have spread by acquiring local operators. The technology in use is mainly GSM, and coverage is good across most of the country. GSM handsets account for 95% of local sales, and the fact that handsets are sold independently of mobile service contracts has ensured competitive prices and availability of a wide

range of handsets. GPRS technology is also available, but quality of service tends to be poor. 3G technology is currently being tested, but no licences have been allocated yet and it is not clear when this will happen.

Penetration (Jan. 2003):

Overall Russia - 13,4%

Moscow + Moscow region - over 50%



Dec. 1999
about 1.5 mln subscribers

Jan. 2003
over 19 mln subscribers

Media

TV is the medium that reaches the largest group of Russians, as 96% of the population has access to a TV set. There are four national TV stations: Channel One, Rossia, NTV and Kultura. The transmitting equipment for both television and radio is owned by the State enterprise Russian Television and Radio Broadcasting Network, and dates back to the 1970s and is often in a state of disrepair. Satellite transmission is a viable alternative, and if current development plans are implemented successfully, the satellite network capacity will satisfy the broadcasting demand in 2005.

Newspapers are not widely read in Russia. This is clearly related to the problem of distribution. In some parts of Siberia newspapers may be as much as a week late, if they are delivered at all. The typical Russian newspaper reader is an urban resident with higher education. There is also a rising market for hip newspapers targeting metropolitan youth.

References:

- Meeting with Børge Nilsen, IT Director, Deloitte & Touche CIS, 29. January 2004
- Meeting with Christopher Tolliss, International Consultant, 20. January 2004
- Telephone meeting with Henrik Wessert, iTicket AS, 13. January 2004
- Meeting with Alexander P. Mironov, Marketing Director, Petrozavodskmash, 23. January 2004
- Nikolai Shavrov, 2002: "Russian science & technology", Norwegian Trade Council
- Various authors, 2003: "Extra: IT & Telecoms Special", no 2, The Moscow Times Business Review
- Aksartova, Fossato, Kachkaeva, Libergal, 2003: "Television in the Russian Federation: Organizational structure, programme production and audience", European Audiovisual Observatory
- Vasenyov: 2003: "Heavy industry and machine building in Khabarovsk Krai" www.bisnis.doc.gov

Powel. Another word for making hydro utilities more profitable.

The Powel Group and its partners are software suppliers to power companies and utilities in competitive electricity markets worldwide.

Main product lines are:

Generation Management

Long-, mid, short-term planning, optimizing and simulation in hydro-thermal systems

Utility Management

GIS-based planning, design, calculation and asset management in infrastructural systems

Market Management

Tools for trading, bidding, metering, sales organizing, forecasting and time series management



Photo: Torbjørn Moen

Powel is based in Norway with subsidiaries/partners in USA, Canada, Sweden and the Czech Republic. Powel's software systems are in regular use by more than 250 utilities to support their business processes.

Powel Technology, Ltd. – Canada
Tel (250) 385-0206

Powel Group, Inc. – USA
Tel (408) 486-9790

Powel ASA – Norway
Tel (+47) 7380 4500



www.powel.com

Natural Resources

Introduction

Russia is the largest country in the world in terms of geographical extent. It contains the greatest reserves of mineral resources of any country in the world. The country is self-sufficient in nearly every major industrial raw material and has at least some reserves of every valuable non-fuel mineral. Actually, Russia contains over 30% of all the natural resources in the world.

According to the estimate of the RF State Statistical Committee, for 1999 through 2000, natural resources amounted to 95.7% of all of Russia's national wealth. The percentages in terms of world natural resources:

- 45 % of natural gas
- 13 % of petroleum
- 23 % of coal
- 27 % of iron and tin
- 40 % of platinum
- 13 % of uranium
- 30 % of nickel
- 12 % of Zinc
- 11 % of copper
- 25 % of timber resources

Traditionally, the European part of Russia has been more economically developed than Siberia, Russian Far East and the Northern regions of the country - the centres of economic activity are almost exclusively located in the more hospitable European part of Russia. Prior to the 1950s, exploitation of natural resources in Siberia and Far East had been largely limited by unfavourable location and inaccessibility by conventional modes of transportation. At that time, the European part of Russia had considerable stocks of coal and natural gas. But the European fuel base was largely depleted by the 1980s. This forces modern Russia to rely more on Siberian deposits explored quite far from the central part of the country.

Although minerals are abundant, many are in remote areas with extreme climate conditions, which make them expensive to extract. Nevertheless, all of these minerals make a substantial input in the economy of Russia. For Norwegian companies it will be very difficult to explore and extract natural resources without having established a partnership with a Russian company in the specific industry. This is due to licences, and Russian companies being preferred by the State. However, Norwegian technology supplying expertise in the business of extracting natural resources there should be a lot of opportunities, especially as Russian companies often lack modern equipment.

References:

<http://www.russiacourier.com/eng/info/geography/>
www.umass.edu/peril/pdfs/CDP9.doc
http://www.russiansabroad.com/russian_history_200.html
<http://www.ems.psu.edu/~williams/russia.htm>
www.ntc.no

Agriculture

Climatic and geographical factors limit Russia's agricultural activity to about 10% of the country's total land area. Of that amount, about 60% is used for crops, the remainder for pasture and meadow. In the European part of Russia, the most productive land is the Central region occupying the grasslands between Ukraine and Kazakhstan. More than 65% of the land in those



regions is devoted to agriculture. In the mid-1990s, about 15% of the working population was occupied in agriculture, with the proportion dropping slowly as the younger population leaves rural areas to seek economic opportunities elsewhere.

The data below reflects the size of the Russian market both compared to quantities produced internationally and the Norwegian agricultural market.



Natural Resources

International harvest statistics 2001, in 1000 tonnes

	Wheat	Rye	Barley	Oats	Corn	Rise	Potatoes
World	578 932	22 718	139 654	27 278	605 213	592 831	308 195
Norway	252	5	612	333	-	-	388
Russia	46 871	6 000	19 500	8 010	831	497	34 500

In Norway only 10 325 km² is used for agricultural activity, which is 2.8% of the total land area. In 2003, 63 000 people were employed within the Norwegian agricultural sector, which only counts for 2.79% of the working population.

Gross harvest of main agriculture crops in farms of all type (in million tonnes)

	1992	1995	1997	1998	1999	2000	2001	2002
Grains (weight after processing)	106.9	63.4	88.6	47.9	54.7	65.5	85.2	86.6
Sugar beet(factory)	25.5	19.1	13.9	10.8	15.2	14.1	14.6	15.7
Oil crops seeds:								
-sunflower	3.1	4.2	2.8	3.0	4.1	3.9	2.7	3.7
-soybean (thousand tons)	505	290	280	297	334	342	350	423
Flax-fibre (thousand tonnes)	78	69	23	34	24	51	58	38
Potatoes	38.3	39.9	37.0	31.4	31.3	34.0	35.0	32.9
Vegetables	10.0	11.3	11.1	10.5	12.3	12.5	13.3	13.0
Fruit, berries and grapes	3.4	2.5	3.1	2.6	2.4	3.4	3.1	3.6

Source: Russia in figures 2003, Gaskomstat

Problems within the agricultural sector go back to the Soviet era. The villages were in a mess, and despite huge state investments the Soviet planned economy was unable to produce enough grain to feed the country, even though it had the largest areas of fertile black earth soil in the world. Before the Soviet Union collectivized its farms the country was a major exporter of agricultural products, but under Leonid Brezhnev the Soviet Union became one of the world's largest grain importers.

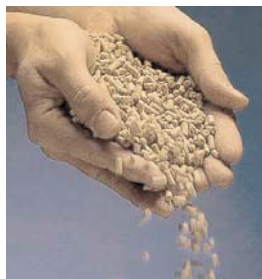
Today Russia imports one third of its meat and poultry supplies, even though the industry has excess capacity. It is not sound economic sense to earn foreign currency by exporting grain and then spend some of it on importing meat. The wheat import price in 2002 was USD 79 a tonne, while meat imports cost 1200 US dollar a ton. So what is stopping Russia from producing its own meat and poultry instead of buying it from

abroad? The answer is that the imported products cost less than those produced in Russia. Still the Russian farmers do not earn high profits on the meat production. The high costs of transport, because of underdeveloped infrastructure, and the monopoly power of the processing industry prevent the rural population from beating foreign competitors.

In 2001, Russia was able to export grain after being an importer for more than 30 years. In 2002, the grain exports could have reached 8 million metric tons, but the Russian ports became the bottlenecks that made it impossible. The strongest pressure is felt at the harbour in Novorossiysk, on the coast of the Black Sea, because most of the export grain is produced in the Krasnodar and Rostov regions to the west of the port. Novorossiysk usually ships half or more of Russia's grain exports. Russian port capacity for shipment of grain is a maximum of 5 million tonnes per year. The

volume available for shipment has been causing problems for rail transport and terminal storage at the ports.

According to the reports from the Transport Ministry, Novorossiysk, St. Petersburg and Vladivostok are all modernizing and expanding their capacities for grain transport. As a result of this expansion there will be added 30 - 60% capacity for grain throughput. That is a potentially costly risk for Russian firms to run, if they must count on Russian farms constantly delivering such harvests in the near future.



The situation in the agricultural sector is slowly improving through the impact of the market forces. It was the

move towards a market economy that forced the country to stop the grain imports. The new market conditions have also shown that investment in agriculture is one of the most profitable forms of investment in recent years, at least in the black-earth regions. Big industrialists have begun to put money into agriculture.

But the natural action of the market mechanisms alone is improving the situation too slowly, and the poorly paid agricultural workers have yet to feel the effect of market benefits. The changes for the better would be more noticeable if the State was more effective in supporting the agricultural sector. This does not mean that the State should invest in the sector like it did in the Soviet era. Rather it is about implementing an active anti-monopolies policy in the sectors related to agriculture. Also a better tax policy is needed and more information to the farmers about how they should market their products.

The market opportunities for Norwegian companies mainly exist in the supplies industry. Many Russian farms are going through a modernization process, which has increased the demand for new agricultural machinery. Norwegian companies should therefore make use of their unique competence and either export or set up production facilities in Russia to sell their high quality products.

References:

- *Russia in figures 2003, Gaskomstat*
- *Statistisk Sentralbyrå: Norges offisielle statistikk D 286 Jordbruksstatistikk 2002*
- *Arbeidskraft undersøkelsen 4th Quarter 2003*



Prosessindustriens
Landsforening
Federation of Norwegian
Process Industries

PIL

ENVIRONMENT



FOR INNOVATION

THE NORWEGIAN PROCESS INDUSTRIES

Cement, chemical industry, glass and ceramics, laundry and cleaning, metallurgical industry, mining, packaging, paints and coatings, pharmaceuticals, petroleum - downstream, plastics, pulp and paper, rubber, waste and recycling

Natural resources

Herring "The silver of the sea"

Did you know?

About 70% of all exports from Norway to Russia is fish. Of this fish export, more than 60% is herring. Around 40% of all herring exported is for Russia, (all numbers for 2003). In 2003 the value of herring export for Russia was about NOK 800 million and the volume was 177 457 tonnes.

The Russian people love herring - and Russia has always been a herring-eating nation. For hundreds of years herring has been food in great demand and the herring has been a part of the Russian food basket. A reason for this is of course the fact that herring is a great source of vitamins A, D and B 12, and also rich in Omega 3 fatty acids.

The Russians eat herring both as a snack, "zakuska", with their Vodka and as traditional food for dinner and other meals. They enjoy it fresh, preserved, smoked, as pickled herring, marinated herring, spiced herring and so on. Much of the herring they eat come from Norway; the Norwegian spring-spawning herring is next to the Pacific Ocean herring the most important herring resource in Russia. Compared to the Norwegian spring-spawning herring, the Pacific Ocean Herring is very lean.

The process of export to Russia
The process starts in the Norwegian Sea. When the herring is taken on board the fishing boat, it is sold through an electronic auction while the boat is still in sea. The auction is handled by Norges Sildesalgslag (NSS), a nationwide sales organization owned by those who fish pelagic fish. NSS is the leading first-hand sales organization of pelagic fish in Europe; total volume in 2003 was 2 200 000 tonnes. Among the auction buyers you will find fish exporters selling their products to Russia.

Most of the Norwegian herring is exported to Russia through St. Petersburg. Most of the businesses and factories for preparation are situated between St. Petersburg and Moscow and in the rural parts of Moscow. The majority of the fish is exported frozen. Only about 5% is prepared in some way back in Norway, and then mainly as filets. Due to customs regulations it is most profitable to prepare the herring in Russia.

There is a trend now that goes from mostly whole salted herring in barrels and canned herring, to more vacuum-packed herring. This trend started in the cities. As more and more supermarkets and hypermarkets find their way to the more rural areas of Russia, one expects this change to continue. The Russian people tend to ask for more and more prepared products. A Herring can be up to 25 years old. This means that this industry can have stable delivery for export markets.



Of the total volume of Norwegian herring going to Russia, about 30% of the volume goes to the cities, and 70% of the volume to the districts. But in general the fish is first transported to the cities before going to the regions.



Future

The combination of herring being a part of the "Russian food basket" and the stable herring stock makes sales quite stable, although prices vary to some extent. But in the last decade there has been a significant increase in Norwegian herring exports to Russia. The future volume is expected to be at the level of today, but more and more of the herring will be prepared in Russia before sale - and the varieties of Norwegian herring on the market are enormous

References:

Aftenposten Nettutgaven - 22.09.03
Rapport 26/1999 - "Konkurrenter til norsk sild i Russland", Pirjo Honkanen, Fiskeriforskning.
Jarle A. Hansen - Norges Sildesalgslag
NTC - St. Petersburg
Luba Bychova - Norwegian Trade Council, Moscow
Inger Marethe Egeland - Pelagic Forum



midnight

Pure Scandinavian. Like Jarlsberg.



Introduction

During the Soviet era, Russia had a long and well-established tradition of media use. The State system of media financing made sure that the idea of media profitability did not play any significant role. But the collapse of the Soviet Union has changed this system.

During the 1990s there were a lot of changes in terms of ownership and players, and the so-called "Russian media wars" reached their peak by the year 1999.

Today, the Russian media market is in the beginning of a new growth period both in the use of media and revenue from advertising. Newspaper reading is facing stagnation when it comes to national newspapers, but the situation regarding regional newspapers is more uncertain. The advertising business faces a significant growth, and TV enjoys most of this. The written press has also seen growth in advertising, but it loses its market share compared to TV.

Due to the following factors, more growth for the written press is expected:

- Reading skills at same level as in western Europe
- A strong tradition for reading among the population
- Increasing living standard
- Strong economic growth and more use of advertising
- Improving legal framework

hold owns at least one TV-set and receives at least two national, one regional and one local TV channel. 83% of the households have colour TV, and there are 3267 television channels registered by the Ministry of Press.

The most influential TV stations

ORT is the first national channel (51% - government, 49% - private), and the biggest TV channel. It has a total penetration of 98% of the Russian territory with about 140 million viewers.

RTR/VGTRK is the second national channel, and completely state-run. It has about 50 million viewers, and a total penetration of 98.5 % of the Russian territory.

NTV is a national network, owned by gas monopoly Gazprom. NTV is the only private Russian TV channel with the status of a national channel. NTV covers about 95% of the country's territory and has an audience of 110 million viewers.

The written press (circulation - numbers)

- Komsomolskaya Pravda: Mass circulation, outspoken daily, controlled by tycoon Vladimir Potanin (27, 000, and 00)
- Kommersant: A liberal, business-orientated, controlled by tycoon Boris Berezovsky (117 340)
- Moskovskiy Komsomolets: A popular daily controlled by Moscow Mayor Yuri Luzhkov
- Izvestia: A popular daily controlled by tycoon Vladimir Potanin (263 650)
- Rossiyskaya Gazeta: An official government newspaper
- Nezavisimaya Gazeta: An influential privately-owned daily (50 000)
- Argumenty i Fakty: A popular weekly (2 880 000)
- Sovetskaya Rossiya: A pro-Communist daily
- Krasnaya Zvezda: Defence Ministry newspaper
- The Moscow Times: An English-language daily

Radio stations

Moscow Echo is an influential private station (66% Gazprom, 34% employees).

Radio Mayak and Radio Russia are both State-run national networks (VGTRK).

The Voice of Russia is an external service that broadcasts in English and other languages.

Audiovisual media

Television is the most popular medium in the country and popularity has increased since the 1990s. This is not only a result of bigger diversity and better quality of programmes. Watching TV is much cheaper than newspaper reading. There is no fee for receiving national channels. And from the Soviet era, Russia has inherited a highly developed network of television transmission since all broadcasts then were from Moscow. So today, practically every Russian house-

hold owns at least one TV-set and receives at least two national, one regional and one local TV channel.

RIA-Novost is also State-owned. It was established in 1991 as a State information and analytical agency of the Russian Federation.

Interfax is an independent news agency.

News agencies

The advertising market

While the global advertising market is in stagnation, the market for advertising is expecting to grow considerably in Russia. Average advertising expenditure per capita in Russia in 2000 was USD 8, while in the EU it was USD 137.

In recent years, critics say that the State has secured greater control over the media. They claim that independent reporting has suffered, and this is especially with regard to the main national TV networks. President Putin and his government are facing a challenge in terms of increasing the freedom of speech. Changes seem to be underway as a new legislation on mass media is under consideration with laws that will support free and independent media.

Future prospects regarding media in Russia

More interest for foreign media players, especially for the written press. Russian media players have more

focus on value chain development.

Increasing investments in media-infrastructure.

Growing interest both in Russia and among foreign investors for investments in printing facilities.

Things to consider when entering the market

When entering a new market, it is important to develop a trusting relationship with your partners. Russia is a very relation-focused nation. You should do proper research of the markets and study the regulations and conditions for the business. Most important of all: you must have respect for Russian culture and traditions.

References:

http://news.bbc.co.uk/1/hi/world/europe/country_profiles/1102275.stm

MiB presentation - Country profile Russia

<http://www.demoscope.ru/weekly/017/strimir02.php>

<http://www.apressen.no>, <http://www.ejc.nl/jr/emland/russia.html>





НЕВСКИЙ ПР. ДОМ 63



**ТЕХНО
СВЯЗЬ**





Part 2

Framework for doing business



Support Facilities

There are several arrangements for Norwegian enterprises exploring new markets. These arrangements are established in order to increase the number of companies doing business abroad.

The above mentioned institutions can offer capital, counselling, knowledge and a trustworthy partner (the Norwegian Government (stat)) as well as an international network. Thereby they are able to minimize risk for the company, if unforeseen impediments occur.

These institutions are capable of supplying such services because they have long-term experience from supporting projects abroad. Through this work they have established a broad network. In addition they make sure that all projects are managed according to Norwegian as well as international rules when it comes to health, environment and safety. Due to the fact that these institutions provide financial support, they contribute to sustainable economic development for both the Norwegian company and also the involved country.

NATIONAL RESOURCE CENTRES

THE ROYAL NORWEGIAN EMBASSY, RUSSIA

The Royal Norwegian Embassy in Russia is situated in Moscow. The Embassy maintains and nourishes the official contacts between the governments of Norway and Russia. Furthermore it keeps the authorities in Norway informed about the political and economic situation in Russia. In addition to the political work, the Embassy promotes economic and cultural cooperation between the two countries and also supports Norwegian and Russian business communities, as well as citizens in various ways. The Embassy takes an active part in promoting visits for both the Russian and the Norwegian Governments. In connection with such visits, close consultations are held with trade and industry. The Embassy is also a proper arena for Norwegian companies to interact with the Russian Government or other Russian contacts.

THE RUSSIAN EMBASSY, NORWAY

The Russian Embassy in Norway is mainly engaged in bilateral governmental negotiations with Norway. The Embassy supports Russian business affairs, but on request, they also support Norwegian businesspeople. Some of the services the Embassy is offering are; providing of commercial information about Russia, helping Norwegians to find Russian business partners for sale or purchase of Norwegian/Russian products and providing information about the investment situation in Russia. The Russian Ambassador in Norway is Yuly A. Kvitsinskiy.

INNOVATION NORWAY

As of 1 January 2004 the new State-owned company Innovation Norway has replaced the following four organizations: The Norwegian Tourist Board, the Norwegian Trade Council, the Regional Development Fund (SND) and the Government Consultative Office for Inventors (SVO).

Innovation Norway promotes nationwide support for business development as well as it assists enterprises through the entire export and internationalization process, acting as a strategic adviser, door opener and problem solver. Joint promotions include exhibitions, delegations and campaigns to promote Norway and Norwegian trade and industry abroad.

Innovation Norway has offices in more than 30 countries worldwide. There are two offices in Russia; one in Moscow in connection with the Royal Norwegian Embassy, and another one in St. Petersburg. The local presence has led to the development of a close, personal long-standing relationship at levels of government, as well as with many Russian corporations and financial institutions.

Process consultancy

All Norwegian companies can make use of Innovation Norway's services. This means both small and medium-sized enterprises as well as major corporations and companies with limited experience in exports or experienced exporters entering new markets. Services are based on the needs of each company.

Market information

Market information service is the easiest way for the Norwegian business community to access information on foreign markets. Innovation Norway provides this basic information on export markets and information on practical business matters at their website.

Trade delegations

Participation in Innovation Norway's trade delegations to foreign countries gives Norwegian enterprises an opportunity to make important contacts. The purpose is to promote Norwegian business and industry towards foreign governments and business environments.

Innovation Norway collaborates with companies, industrial federations, research institutions and authorities to develop long-term, goal-oriented networking projects for exports and internationalization.

Brief information on Innovation Norway in Russia

Innovation Norway focuses on stability, predictability and availability as well as quality in all areas in its services. Furthermore, it stresses the importance of Norwegian companies taking responsibility and action in all parts of their business, from the commodity trading until the final product arrives at the market. This relates to the fact that Russians are more positive to companies that are not acting as commodity traders. Rather than considering the Russian market, and in particular the Moscow market, as a market for low-quality products, Norwegian players should introduce their high-quality products there.

	The Nordic Finance Group								
	Innovation Norway	SIVA	Eksportfinans	GIEK	NIB	NDF	NEFCO	NOPEF	NORFUND
The project's business cycle									
Innovation (R & D)	■				■				
Pilot study	■							■	
Export	■		■	■		■		■	
Establishment/Expansion/Moving out	■	■		■	■	■	■	■	■
Special schemes for different projects									
Infrastructure		■	■	■	■	■			
Environment			■	■	■	■	■		
Training			■						
Trade promotion									
Type of finance									
Guarantee				■	■	■	■		
Debt capital (loan, lending)	■	■	■		■	■	■	■	■
Mezzanine	■						■		■
Shareholder's equity	■						■		■
Subsidy	■					■		■	

Sectors of great importance for Norwegian export

- Energy; electricity, oil and gas
- Marine technology
- Mining technology
- IT & Telecommunication
- Tourism
- Food, especially sea food



Export Financing and Insurance

THE NORWEGIAN GUARANTEE INSTITUTE FOR EXPORT CREDITS (GIEK)

The Norwegian Guarantee Institute for Export Credits (GIEK) is the central governmental agency responsible for furnishing guarantees and insurance of export credits. The primary function of the Institute is to promote the export of Norwegian goods and services and Norwegian investment abroad by furnishing guarantees that reduce the credit risk borne by the individual exporter in transactions with foreign partners.

GIEK today is an important player on the Norwegian market for short-term customer credit insurance through the subsidiary GIEK Credit Insurance Ltd, primarily servicing exporters who are unable to secure satisfactory offers on the private market. GIEK also offers long-term guarantees for the export of capital goods to most countries, including emerging markets. Furthermore, GIEK's guarantees cover the export of ships.

GIEK underwrites exports to over 150 countries for all types of goods and services ranging from fruit and berries to ships and consultancy services. The guarantees may encompass a single transaction or a series of transactions and cover not only commercial risk, i.e. failure on the side of the debtor, but also political risk, i.e. war, expropriation and actions by the public authorities that prevent payment.

EKSPORTFINANS ASA

Eksportfinans offers a wide range of financial schemes for both small and larger companies. All loans must be secured by a guarantee, either from GIEK or from Norwegian or international banks. Norwegian exports of capital goods may be financed through government-supported loans or strictly commercial loans. International investments are financed on commercial terms only.

The support schemes are handled by Eksportfinans on behalf of the Norwegian Ministry of Trade and Industry, and the loans are offered on a line with international regulations set by the OECD.

Eksportfinans is working in close cooperation with both Norwegian and foreign institutions. It supports Norwegian companies in order to promote sale of Norwegian export products through good financial solutions. Moreover it communicates relevant knowledge to investors considering investments in the company's bonds and commercial paper.

On behalf of the Government, Eksportfinans is also handling government supported export financing including ships, and the ship's support scheme that has been terminated for new contracts. Eksportfinans actively seeks to handle new relevant tasks on behalf of governments, banks and other institutions.

ECONOMIC SUPPORT THROUGH FUNDS

THE NORDIC FINANCE GROUP

The Nordic Finance Group consists of four multilateral finance institutions owned by the five Nordic countries. The head office is located in Helsinki. The institutions within the finance group are Nordic Investment Bank (NIB), Nordic Development Fund (NDF), Nordic Environment Finance Corporation (NEFCO) and Nordic Project Fund (Nopef).

The finance group builds on solid experience of financial assignments virtually all over the world. The institutions have financed projects such as, for instance, cross-border investments in the Nordic countries, telecommunications projects in the Baltic countries or environmental programmes in Central and Eastern Europe. Furthermore they also support projects in Africa, Asia and Latin America. Environmental investments have a high priority in the finance group's lending. All projects should be of mutual interest to the Nordic countries as well as to the recipient country.

The Nordic Finance Group has extensive cooperation with other financial institutions within and outside the Nordic countries, and with Nordic and multilateral financial institutions, such as banks and regional sources of finance.

THE NORDIC INVESTMENT BANK (NIB)

The Nordic Investment Bank (NIB) is a multilateral finance institution that finances private and public projects both in and outside the Nordic countries. NIB offers its customers long-term loans and guarantees on competitive market terms. The bank finances up to half the total costs of a project thus supplementing loans from other banks and finance institutions and/or the customer's own funding.

NIB grants loans to companies, local authorities and public institutions for the financing of projects supporting the economic development in the Nordic countries and to investments in different parts of the world that are of mutual interest to the Nordic countries and the recipient country. NIB also grants loans to Nordic companies' investments, e.g. joint ventures and company acquisitions, in the OECD countries.

THE NORDIC DEVELOPMENT FUND (NDF)

The Nordic Development Fund (NDF) is a multilateral Nordic development financing organization. It was established for the purpose of promoting economic and social development in poor developed countries. The Nordic countries naturally support projects they find interesting through participation in financing on concessional terms. The credits are granted for high-priority projects, which promote economic and social development. NDF's lending strategy is governed by the principles of the Nordic countries' international development cooperation with particular focus on poverty reduction.

NDF only grants credits that are co-financed with other sources of funding, primarily other multilateral financial institutions such as the World Bank Group and the major regional development banks. Co-financing is also undertaken with the Nordic Investment Bank (NIB) and with Nordic bilateral development assistance agencies.

THE NORDIC ENVIRONMENT FINANCE CORPORATION (NEFCO)

The Nordic Environment Finance Corporation (NEFCO) is a risk capital institution financing environmental projects in Central and Eastern Europe. The main purpose of NEFCO is to implement environmentally beneficial projects in the surrounding regions, so that both countries involved i.e. Russia as well as the Nordic countries, will benefit from the project.

Projects should be based on long-term cooperation through investments in enterprises, primarily through formation of joint ventures companies or corporate acquisitions. NEFCO participates in the financing of a project through guarantees, equity investments, and loans on market terms, loans with equity features or subordinated loans of mezzanine financing. NEFCO's participation in a project is generally in the range of 25-35% of the total financing.

THE NORDIC PROJECT FUND (NOPEF)

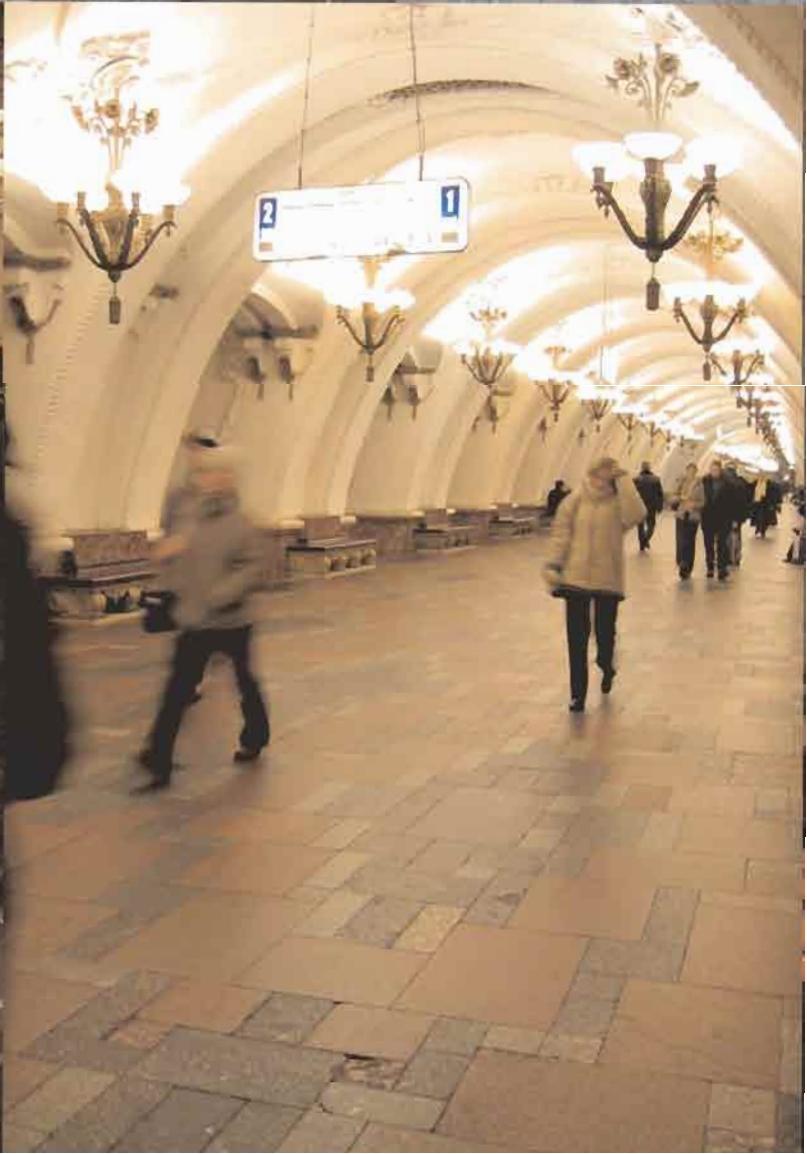
The Nordic Project Fund (Nopef) grants Nordic companies favourable loans and grants for feasibility studies for project export deals and internationalization projects in countries outside the EU and EFTA.

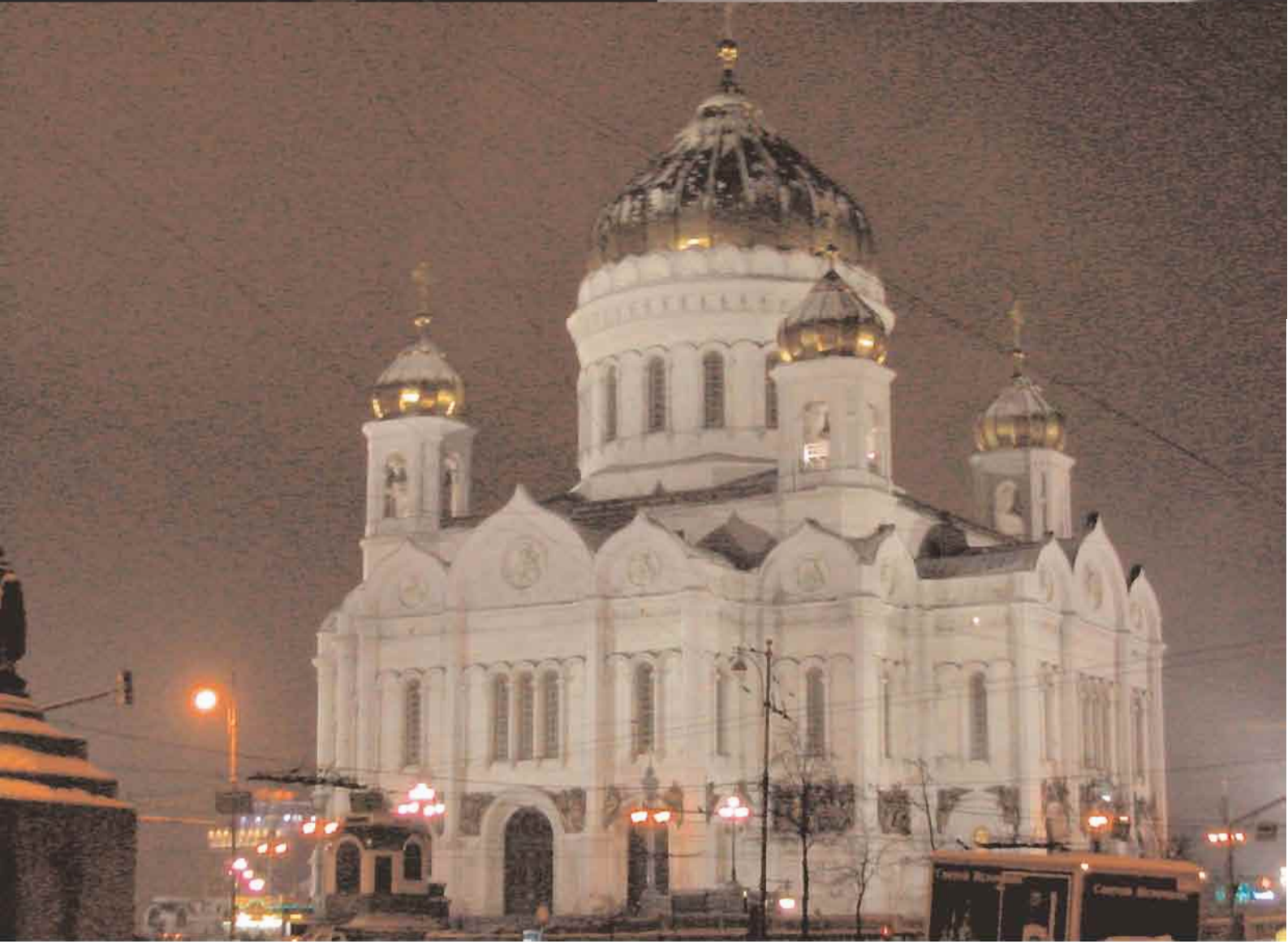
The loans can be granted for the working up of a business plan, own investments, cooperation agreements, joint ventures and project export studies. As regards project exports, the loan is maximum 50% of budgeted expenses. If the feasibility study suggests that the project should not be implemented, the loan can be made into a grant providing the requirements for reporting are fulfilled and the expenses have been audited. If the project is implemented the loan is to be repaid. The loans are interest free.

For internationalization projects, the loan can be up to 40% of expenses for a feasibility study. The loan can be made into a grant even when the project is not implemented. Successful projects in the neighbouring areas to the Nordic countries (the Baltic Sea area) can receive an additional twenty per cent grant. The loans are interest free.



Airport Express Train





Export Financing and Insurance

NORFUND

Norfund makes risk capital investments through profitable private enterprises in most countries in Africa, Asia, Latin America and the Balkans. Any country with a GDP under USD 5295 per capita is eligible for investments. It can provide equity and debt financing for new business ventures, expansions, management buy-ins and buy-outs. Norfund can invest in most sectors of the economy as long as the investment offers opportunities for growth, profitability and local development. Norfund also works closely with Norwegian organizations such as the Innovation Norway, the Norwegian Guarantee Institute for Export Credits (GIEK), the Norwegian Agency for Development Cooperation (NORAD) and Eksportfinans AS (provider of export financing and credit).

THE INDUSTRIAL DEVELOPMENT CORPORATION OF NORWAY (SIVA)

SIVA is owned by the Ministry of Trade and Industry and has its headquarter in Trondheim, Norway. Its basic strategy is to develop strong regional and local industrial clusters all over the country. The company has developed a considerable network of innovation centres to facilitate and encourage entrepreneurship. SIVA actively works in partnership with individuals, companies and local communities to develop attractive business environments and profitable business growth. This contributes to the development of sustainable local communities and regions throughout the country.

SIVA International's objective is to facilitate the internationalization of Norwegian companies, particularly with respect to lowering the threshold for establishing small- and medium-sized enterprises abroad. Achieving this requires improving predictability, reducing risk and reinforcing long-term investment perspectives. One of SIVA International's industrial parks is situated in Murmansk, Russia.

USEFUL INFORMATION ONLINE

The Norwegian Ministry of Foreign Affairs: Information about travelling in Russia
<http://odin.dep.no/ud/norsk/landinfo/032091-991222/index-dok000-b-n-a.html>

Innovation Norway: Information about the Russian market
<http://www.ntc.no/templates/Page.aspx?id=46730>

Complementary information about several finance institutions
<http://www.midler.no>

References:

- Innovation Norway: <http://www.invanor.no>
- Knut A. Mugaas and Per Anders Hem, representatives of Innovation Norway
- EKSPORTFINANS: <http://www.eksportfinans.no>
- GIEK, Garanti-Instituttet for Eksportkreditt: <http://www.giek.no>
- SIVA, The Industrial Development Corporation of Norway: <http://www.siva.no>
- NORFUND, Norwegian Investment Fund for Developing: <http://www.norfund.no>
- <http://www.midler.no>
- NEFCO, The Nordic Environment Finance Corporation: <http://www.nefco.org>
- NOPEF, The Nordic Project Fund: <http://www.nopef.com>
- NDF, The Nordic Development Fund: <http://www.ndf.fi>
- NIB, The Nordic Investment Bank: <http://www.nib.fi>

INFORMATION ABOUT EMBASSIES AND CONSULATES

The Royal Norwegian Embassy in Moscow
E-mail: emb.moscow@mfa.no
Tel: +7 (095) 933 14 10, Fax: +7 (095) 933 14 11/12
Add: Ulitsa Povarskaya 7, 131940 Moscow

The Embassy of the Russian Federation in Oslo
<http://www.norway.mid.ru/>
E-mail: rembassy@online.no
Tel: 22 55 32 78 / 22 44 06 08, Fax: 22 55 00 70
Add: Drammensveien 74, 0271 Oslo

Consulate Department in Oslo
E-mail: consul@online.no
(E-mail can also be used when applying for a Russian visa)
Tel: 22 60 30 35, Fax: 22 56 58 78
Add: Oscarsgate 16, 0352 Oslo

The Royal General Consulate in Kirkenes
Tel: 78 99 37 37 / Fax: 78 99 37 42
Add: Rådhusplass 2, 9900 Kirkenes

The Royal General Consulate in Murmansk
E-mail: cons.gen.murmansk@mfa.no
Tel (from Norway): 78 91 00 37, Fax (from Norway): 78 91 00 44,
Tel (from Russia): 8 (152) - 45 70 77
Add: Ulitsa Sofii Perovskoy 5, 188038 Murmansk

The Royal General Consulate in St. Petersburg
E-mail: cons.gen.stpetersburg@mfa.no
Tel: +7 (812) 326 26 50, Fax: +7 (812) 326 26 51
Add: Nevsky prospekt 25, 193015 St. Petersburg
Tel. +7 (812) 326 26 50

Havyard Leirvik AS



A PROVEN AND INNOVATIVE SHIPBUILDER

**Contact us for
newbuilding and
rebuilding**

**Inhouse drydock:
Beam: 20m
Length: 130m**

**Havyard Leirvik AS
Leirvik i Sogn N-6953, Norway
Tlf: +47 57 78 90 50
Tlf: +47 57 78 90 50
Havyard.leirvik@havyard.com
www.havyard.com**



Contacts

CONTACTS

Innovation Norway in Norway
E-mail: post@invanor.no
Tlf: + 47 22 00 25 00, Fax: + 47 22 00 25 01
Visiting Add: Indekshuset, Solli plass,
Drammensveien 40, 0243 Oslo
Mail Add: Postboks 448 Sentrum, 0104 Oslo

Innovation Norway in Moscow
E-mail: moscow.trade@invanor.no
Tel: +7502 221 0200/+7095 933 14 10, Fax: +7502
221 02 80/+7095 933 14 29
Add: c/o Royal Norwegian Embassy, Ulitsa Povarskaya
7, Moscow 000940, Russian Federation

Innovation Norway in St. Petersburg
E-mail: post@invanor.no
Tel: +7812 326 9037, Fax: +7812 326 9038
Add: Kaluzhski per.3, 193015 St. Petersburg,
Russian Federation

SIVA - The Industrial Development Corporation of
Norway: www.siva.no
E-mail siva@siva.no
Tel: +47 73 54 62 00, Fax +47 73 54 62 50
Add: Leiv Eiriksson Senter, N-7462 Trondheim,
Norway

SIVA's contact person for Russia:
Mr Arild Brekken, Tlf: +47 90 86 33 32, E-mail:
arild.brekken@siva.no

GIEK - The Norwegian Guarantee Institute for Export
Credits: www.giek.no
Tel: +47 22 87 62 00, Fax: +47 22 83 24 45
Add: Postboks 1763 Vika, N-0122 Oslo

EKSSPORTFINANS: WWW.eksportfinans.no
E-mail: companymail@eksportfinans.no
Tel: +47 22 01 22 01, Fax: +47 22 01 22 02
Add: Dronning Maudsgt. 15, Postboks 1601 Vika,
0119 Oslo

NIB - Den nordiske Investeringsbank: www.nib.int,
E-mail info@nib.fi,
Tel: 358 9 18001, Fax: 358 9 1800 210
Address: NIB, Postboks 249, FIN 00171, Helsinki.

NDF - Nordic Development Fund: www.ndf.fi,
E-mail: info@ndf.fi
Tel: + 358 9 1800 451, Fax: + 358 9 622 1491
Add: Postbox 184, FIN-00171 Helsinki

NEFCO - Nordic Environment Finance Cooperation:
www.nefco.org,
E-mail info@nefco.fi
Tel: + 358 9 18001, fax + 358 9 630 976
Add: Nordisk Miljøfinansieringsselskap "NEFCO",
P.O. Box 249, FIN-00171 Helsinki

NOPEF - Nordisk Prosjektfond:
www.nopef.com,
E-mail per-olof.dahllof@nib.fi,
Tel: + 358 9 1800 350, Fax +358 9 650 113.
Add: NOPEF, P.O. Box 241, FIN-00171 Helsinki

Contact person: Zølvi Pedersen, Regional Manager:
E-mail: zolvi.pedersen@nopef.com

NORFUND: www.norfund.no
E-mail: post@norfund.no,
Tel: 22 01 93 93, Fax: 22 01 93 94
Add: Norfund, P.O. Box 1280 Vika, 0111 Oslo.

There are also other institutions that might be of interest for more specific programs in connection with Russia.

NORAD: www.norad.no
E-mail: informasjonssenteret@norad.no,
Tel: 22 24 20 30, fax 22 24 20 31.
Add: NORAD, Postboks 8034 Dep. 0030 Oslo

THE NORWEGIAN RESEARCH COUNCIL:
www.forskningssradet.no or
www.forskningssradet.no/fag/eu/
E-mail: info@forskningssradet.no.
Tel: 22 03 70 00
Add: Norges Forskningsråd, Postboks 2700 St.
Hanshaugen, 0131 Oslo



Yet another ship to DNV class

One out of four ships ordered globally is built to the high standards of DNV class. The best available Rules for voluntary protection of the environment as well as comfort for passengers and crew are among the reasons for this. An excellent example is Birka Line's recent cruise ship order at Aker Finnyards shown above.

Det Norske Veritas
www.dnv.com

Oslo	+47 67 57 99 00
Helsinki	+358 9 681 691
Stockholm	+46 8 587 940 00
Tallinn	+372 628 5060
Riga	+371 7 325 010
Copenhagen	+45 39 45 48 00



Transportation & Logistics

Infrastructure

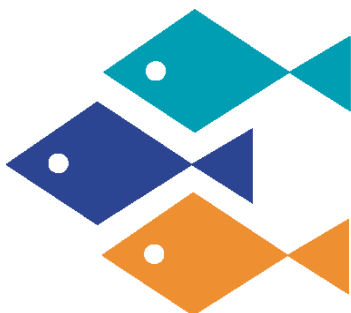
The road system west of the Urals is in relatively good shape. Transporting goods or people by road is no problem, although rail is preferred over great distances. East of the Urals the situation is very different. In great parts of Siberia, roads only exist in the winter, when the ground is frozen. In the summer they become impassable swamps. However, in the southern parts along the Trans-Siberian railway, roads are open all year round. The Ministry of Transportation has presented plans to develop and improve Russian infrastructure, with emphasis on roads.

All major cities west of the Urals are connected by rail, and the Trans-Siberian railway traverses the country east of the Urals. The Soviet government built railways to ensure the transportation of raw materials and other goods from remote locations all over Russia.

St. Petersburg is the most important port in the north-west of Russia, handling over 70% of Russia's international cargo. It has facilities for dry and liquid bulk cargo as well as container cargo and ro-ro shipments. The northern ports of Murmansk and Archangelsk

handle large amounts of oil products, timber and metals in addition to general cargo. Archangelsk is the only north-western port outside of St. Petersburg that can handle containers. Other main ports in Russia are Kaliningrad, Novorossiysk and Vladivostok.

Rivers and canals also play an important role in transportation. Canals in connection with the river Volga are of special importance, and provide access to the White Sea, the Baltic Sea and the Black Sea. Ships up to approximately 5000 tonnes frequent these canals.



Westcoast

S E A F O O D F R O M N O R W A Y

Consumer goods

The most important trading routes for consumer goods between Norway and Russia go through the Baltic countries. Goods are loaded in containers or trucks and transported by sea to Tallinn or Riga. From there the cargo continues towards Moscow or the destination.

The main advantage of transporting goods from the Baltic to Russia by road, is avoiding to clear customs at the border or in a Russian port. Customs points in these places are more expensive and time consuming; hence customs are usually cleared in the Moscow region. This makes Moscow a trade centre where goods enter by road, and are distributed all over the country by rail, or again by road. In Moscow there are about 20 competing customs clearance points that charge differently. Third-party brokers can help in finding a good deal.

Other routes go through Finland and by rail into Russia. The railway in Finland and Russia has the same gauge, so time-consuming reload stations are avoided. From the north of Norway, cargo can be transported by ships to the ports of Murmansk and Archangelsk. Air freight is another option available, and there are several regular routes of air freight going from Norway to Russia. Air freight is charged by cargo weight and therefore expensive. It is often used for transporting fresh sea food, but when speed is not critical other means of transportation is preferred.

Bulk goods

The major ports for Russian bulk freight to northern Europe and America are St. Petersburg, Vyborg, Murmansk and Archangelsk. The latter two are becoming important for oil, although oil refineries are located far into the country. Unusual as it may seem, oil is transported by train from the big refinery cities, like Yaroslavl, east of Moscow, to Archangelsk, where there are facilities for loading it into vessels. As an oil terminal is being planned in Murmansk, an upswing in activity is expected there.

Whereas Karelian timber is mostly transported through St. Petersburg and Vyborg, most of the timber from the county of Archangelsk leaves the country through Archangelsk port, even in the winter, when Archangelsk has a problem with frozen seas. Murmansk is Russia's only year-round ice-free north western port; and has the potential for growth, as it

avoids the expenses connected to ice-breakers. Neither is it affected by the pressure to limit traffic in the same way as ports depending on transportation routes through the Baltic Sea and through Bosphorus.

Future prospects

The northern sea route is the shortest waterway between the north western Europe and the Asian Pacific, the west coast of US and Canada. The route is mainly used for transit goods and some export of Russian goods. With the proper icebreaker escort, ships are able to travel the route from June to late November. Russia has integrated the route with the world transportation system for several years, and prepared construction of new icebreakers. Prospects show that the route can be self supported by 2008-2010.

Because of Russia's strategic location between the European market and growing South-East Asian markets, there is potential in promoting the Trans-Siberian railway as an alternative transportation route between these markets. Currently, most of the cargo is shipped through the Suez Canal. This option is the cheapest and is therefore preferred even though the railway is faster. Security along the railway has also improved over the last 10 years. But for the Trans-Siberian railway to become a real alternative requires additional speed and greater capacity. Existing customs regulations and Russian import taxes also represent a problem

References:

- Meeting with Christopher Tolliss, International Consultant, Moscow 20 January 2004
- Telephone meeting with Morten Nordli, Sarpsborg Shipping Partner, 12 January 2004
- The Eurasian Railways Symposium, Helsinki 3-4 April 2002: Prof. Yuri Khromov, Deputy Director of Russia's Institute for Strategic Studies (Moscow): "Strategic importance of Eurasian railways for Russia"
- "The Northern Sea Route", New East 3/4 2000 [online] Available at URL: http://www.segodnya.spb.rus.net/3-4-00/eng/06_e.htm [Visited 4 February 2004]

Russia's present day banking system features two levels of banking institutions, the Central Bank of Russia and commercial banks and credit institutions.

The Central Bank

The Central Bank of the Russian Federation was founded on 13 July 1990, on the basis of the Russian Republic Bank of the State Bank of the USSR (www.cbr.ru). The Central Bank reports to the Parliament, the State Duma. Currently the bank consists of 25 functional and 78 territorial subdivisions and employs over 50 000 people. The principal purposes of activities of the Central Bank are protection of the national currency, development and enhancement of national banking system, and provision for efficient payment system functioning. The State Duma has just accomplished a new tax reform, where everyone pays a tax of 13%.

Commercial Banks

Today there are around 1300 registered banks in Russia, however, the 10 biggest banks covers around 90% of the assets. The state holds majority stakes in more than 20 banks that represent a third of the banking sector's total assets. The State also holds minority stakes in a few hundred other banks.

As part of the Government and Central Bank's banking reform strategy, which was designed to ensure further development in the Russian banking system, Vneshtorgbank and Vnesheconombank, was split in 2002 into a state debt agency and a commercial bank. Sberbank, the national savings bank, in which the Central Bank of Russia holds the majority stake, controls more than a fifth of the banking sector's total assets. International Moscow bank has 25% market share of all Russian corporations, and is owed partly by Nordea which has 20% shares in the bank. Among other large banks in Russia are AlfaBank, Russian bank for development, NIKoil IBG bank, Citibank and Gazprombank.

Most people in Russia do not have a bank account; they still find it hard to trust the bank and the rouble. So far, people have had their savings at home, in US dollars. Some even say that there are more dollars in Russia than in the US. However, over the past few years, the trend has started to change, and more and more people put their money in the bank. Last year, the average bank deposit among private persons increased by 17%. The credit for this can partly be given to big companies, who have started to pay salaries directly into their employees' bank accounts. This forces people to use the bank. Yet, there are still many companies who are small and pay their employees in cash.

Loans

Regarding private loans, there are still few people who take up loans in the bank. Due to the crisis in 1998, there are few people who have house loans, and it is said that there are only about 100 million dollars of house loans in the whole Russia. In addition, the houses that were government owned before 1991 were transformed into private property and is now transferred within families from generation to generation. This means that the demand for new housing and associated loans are kept at a constant low level. The interest rate for people is about 10%-15%, depending on your income. Since there is still a lot of people who are paid "under the table", some banks in Russia will give you a lower interest rate if you can refer to an "unofficial" salary. The interest rate for corporations is approximately 8%-12%.

Leasing

Leasing is profitable because a lot of capital is not needed to renew machinery, as well as the tax relief you get on leased goods. An existing problem in Russia is the old equipment that is still to be found in many enterprises and factories. Approximately 70% of all fixed assets in Russia are already depreciated, and new equipment is necessary to keep up with the strong rate of development. A major problem is that many Russian companies, especially small and medium-sized ones, do not understand leasing and its implications. For example, current legislation limits the ability of leasing firms to lease equipment where they cannot control the location and maintenance. Moreover, the inadequate long-term financial base of leasing companies and Russian banks forces them to cut the terms of leases to 3-4 years.

Among the 50 largest Russian leasing companies, 34 are in Moscow and five are in St. Petersburg. However, an indicator of positive developments in the leasing sector is the growing number of independent leasing companies. The trend towards expansion of leasing into new industries and regions is expected to continue in the coming years. One reason that leasing volumes can be expected to grow is that the share of leasing in investment is only 4 to 5% in Russia, whereas in the United States and western Europe leasing accounts for 30 to 80% of the total.

Future trends in the banking sector

The Government and the Central Bank of Russia seem to have recognized that to continue the development of the Russian economy; it requires improvement of the Russian banking system. The future challenges for the Russian banking sector are to strengthen the stability of the banking system, to accumulate more funds in the system which are available to make loans and investments, increase the trust of savers and other creditors of banks, strengthen the protection of savers and other creditors of banks and prevent the use of banks for unfair business practices.

The concept of a minimum capital requirement for banks will be a challenge for the Russian banking system if Russia is to become a member of the WTO and the OECD. An increase in this requirement could wipe out half of all Russian banks, which means that all the millions of Russian people who live on the countryside, will not have the opportunity to use any bank, since the largest and best functioning banks do not open a branch in cities with less than 1 million inhabitants.

EKSPORTFINANS

Dronning Mauds gate 15, 0250 Oslo
Box 1601 Vika, 0119 Oslo
phone 22 01 22 01, fax 22 01 22 02

www.eksportfinans.no

Regular flights to 88 cities
in 48 countries

Only Aeroflot offers non-stop flights **OSLO – MOSCOW – OSLO**
5 days per week



Aeroflot Russian Airlines

Øvre Slottsgt, 6
0157 Oslo
Tlf.: 23 35 62 00, Fax: 22 33 28 80

Oslo Lufthavn
Tlf.: 64 81 04 10 www.aeroflot.no

AEROFLOT
Russian Airlines

НОРТЕЛ СЕКЬЮРИТИ
Охранное предприятие

NORTEL SECURITY CJSC

MOSCOW, RUSSIA
123022, Moscow,
Ul.Rochdelskaya, 15
Tel: 7-095-255-19-00/15-87
Fax: 7-095-255-19-00

Oslo, NORWAY
Fr. Nansens pl., 9
N-0160 Oslo
Tel: 47-22-42-34-42
Fax: 47-22-33-19-69

Attn: Mrs. Anna Sundberg
Aeroflot, Oslo

From: Mr. Aage Th. Klungland
President
Nortel Security CJSC, Moscow

Moscow
24 February 2004

Subject: International business

Dear Mrs. Sundberg,

I am happy to confirm that we are always satisfied with the service we receive from Aeroflot.

Nortel Security employees and myself have been using Aeroflot for already 12 years flying from Oslo to Moscow. And I have always received an excellent service. Personally I am always flying business class and the flights are most precise.

After I have been flying most of the International Airlines for many years I must admit that Aeroflot is one of my favourite air companies.

I am happy to recommend Aeroflot to my business colleagues.

Sincerely yours,

Aage Th. Klungland
President

"Aeroflot Russian Airlines stands today as the preferred partner for our company. They offer a product that is unique in service, flexibility and cost-wise, for both international and domestic flights. Time is of essence in our line of work. Through a period of 10 years we have developed a loyalty towards Aeroflot, based on their fine understanding of our needs. We highly recommend the services of Aeroflot, and will surely be using them in the future."

Hans Morten Bjørge
Financial Director
SBB Ltd

"I have been traveling internationally for about 30 years, Concorde, First Class, Business Class and Economy, but I cannot recall someone taking the initiative to assist a customer as closely and customized to his needs, as Aeroflot has done for me on so many occasions. Many thanks to Aeroflot and their service-minded employees."

Kris. I. Moberg
K.I. Moberg Consulting

AEROFLOT



Russian Airlines

Moscow-based Aeroflot Russian Airlines, Russia's Number one air carrier, has cut back on unprofitable routes, upgraded its fleet, and is allying with Western airlines. It flies passengers and cargo to 88 destinations in 48 countries accounting for 68% of Russia's international air travel. Airbus and Boeing jets now make up some 20% of its 94 aircraft fleet. In the year 2002 shareholders of the company have approved the program of updating the air fleet. The program provides replacement of Airbus and Boeing planes on new ones. Thus, in the near future Aeroflot will own the most up-to-date air fleet in Europe.

The company employs around 15,000 workers, including 2,000 flight experts; over 500 of them are aircraft pilots. Aeroflot has the largest flight control center in Eastern Europe. The entire flight management process is automated in real-time ensuring high flight safety (99.94%) and corresponding to the level of the world's most reliable airlines. Aeroflot has cut costly flights to some unprofitable routes like Miami and Jakarta, Indonesia, while increasing the frequency of more profitable flights to Berlin, London, Paris, and Prague, Czech Republic.

To boost its domestic presence, the company has increased the frequency of routes within Russia and removed "International" from its name. To allow more convenient connections between flights and to gain entry into a global airlines alliance, Aeroflot intends to build a new terminal at the Sheremetyevo airport in Moscow. The Russian government controls 51% of Aeroflot, the company's employees and other legal entities hold 49%. Aeroflot Russian Airlines is the only airline offering non stop flights between Oslo-Moscow and Moscow-Oslo, with good connections to a lot of destinations in other parts of Russia as well as to third countries all over the world. Flying time is 2,5 hours and flights are operating daily except Thursdays and Saturdays in both directions. Departure/arrival times from/to Oslo are perfect for making same day connections within Norway.

SCHEDULE SUMMER 2004

(shown in local times)

From Oslo to Moscow

Mondays, Wednesdays, Fridays and Sundays
Tuesdays

departure 12-50, arrival 17-25
departure 11-30, arrival 16-05

From Moscow to Oslo

Mondays, Wednesdays, Fridays and Sundays
Tuesdays

departure 10-50, arrival 11-30
departure 09-20, arrival 10-00

First Aeroflot flight to Oslo took place about 35 years ago and since that time Aeroflot has had its own Ticket Office/Representation with own, highly qualified staff in the centre of Oslo.

Aeroflot office is now located in Øvre Slottsgate 6, office hours are Monday - Friday 0830 - 1600. Telephone number is 23 35 62 00.

Actually 3 of Aeroflot's local Norwegian staff have been employed by Aeroflot for a total of 52 years.

FLEET

Type of aircraft	No	Type of aircraft	No
Ilyushin Il-96-300	6	Airbus A-310	5
Ilyushin Il-86	14	Airbus A-319/320	10
Ilyushin Il-76 TD (cargo)	10	Boeing 737-400	5
Tupolev Tu-154	20	Boeing 767-36 NER	5
Tupolev Tu-134	13	Boeing 777-2Q8	2
		Boeing DC-10-40F (cargo)	4

Total 94

The Russian Legal System

The Russian legal system was known to be very complicated and difficult to understand and interpret even for lawyers. This made people break the law without knowing that they actually did so. But in recent years a lot of legal reforms have been made by the Russian government to make the system better and less complicated.

Russian law is very similar to many of the European countries (Note: Not the countries with Anglo-Saxon legal tradition and practices, i.e. UK and the US), this especially accounts for the civil law. The Russian system is highly codified (these codes exist within laws) and today the Russian legal system is based on several codes; for example:

- The Civil Code
- Part One - General laws (within contracts, real estate and so forth)
- Part Two - The different contract types
- The Criminal Code
- The Tax Code
- Part One (1998) - general principles
- Part Two (2000) - special regulations (like VAT)

The Russian courts do not accept foreign justice practice. For example, a dispute between a Norwegian and Russian company which is solved/closed in a Norwegian court will not have any practical influence at all in Russia, since the Russian Government and companies do not recognize such decisions.

In addition, there is an imperative norm which implies that you have to obey the Russian law and legal system. That is, you cannot waive the right to go to court even if you write it in your contract.

How to enter the Russian market

There are several ways for Norwegian companies to enter the Russian market. For example:

- Establish a representative office
- Establish a Russian subsidiary
- Invest in a Russian company (or Joint Venture)
- Export goods to Russia.

If you establish a representative office the rules are a bit different than if you start up a new company. There are less rules concerning accounting, you can pay a Russian co-worker with foreign currency and there is less paperwork establishing the office than if it had been a new company. To start up a representative office in Russia you will need the following documents (for the Russian State registration chamber):

- A formal application to establish a representative office.
- The regulations of your company.
- Registration documents from your company's home

country.

- The decision to establish a representative office in Russia.
- Guidelines for the representative office and what kind of business is planned in Russia.
- Confirmation from a bank about the company's solvency.
- Two confirmations from Russian business partners.
- A confirmation of the location of the office in Russia.

When you establish a Russian company you should hire a Russian lawyer who knows the Russian tax system, as the tax system is still complicated and it is much cheaper to hire someone who knows the system than to pay too much taxes or pay fines because of faults in your accounting. If you pay too much taxes you will have a hard time getting it back from Russian authorities, and this may take some time and a lot of resources. The company will need to send the following documents to the Russian State registration chamber:

- The company's regulations.
- Confirmation of the investor's juridical status in its home country.
- Confirmation of the investors' solvency.

In this case the company also will have to register at these places:

- The regional/local registration chamber
- The State statistics committee
- The tax department
- The Pension Fund
- The labour market department
- The Health insurance department
- The fund for social insurance

The registration may vary from different parts of Russia and it is also important to have the right licences when starting up a new business in Russia (this is something that a lawyer should take care of for the company). If you are planning to do business in Russia for a long time, you should establish a new company instead of just having a representative office. This will make it easier for you to be taken seriously both by Russian business partners and the Russian government and shows that you are willing to make a long-term commitment to the Russian market.



SELMER
ADVOKATFIRMA

The No. 1 Advisoralso on Russia

Advokatfirmaet Selmer DA is a top tier Norwegian law firm with 80 lawyers and 14 financial advisors

Selmer is the law firm No. 1 in Norway to establish a Strategy & Finance Team comprising experienced civil economists, state authorised auditors and lawyers

Selmer has proven the synergies in combining strategic, financial and legal skills and services

Selmer's Russia/Eastern Europe team includes Norwegians, English and Russians with the experience to assist customers all the way through....

www.selmerlaw.com

The Russian tax system and custom rates

Taxes in Russia have decreased in the last couple of years compared to rest of the European countries, but it is not a tax paradise. The Russian tax system has been, and still is to some extent, a very complex system. But there have been some changes in the last couple of years. The list of tax predictable costs has been decreased to make the system less complicated. Here is a list of taxes for companies in Russia:

- Profit tax 24 %
- VAT 18 %
(changed 1 January 2004 - used to be 20 %, plans to decrease the VAT to 16 % within two years)
- Property tax 2.2 %

You will also have to pay taxes on real estate and special goods like oil, expensive cars and others. In some regions, companies within a specific sector may be offered to pay less tax to increase the investments in one region, but in practice, it is often difficult to get the

VAT refund. That is, it is easy to get your rights supported through the court system, but still the tax authorities probably do not pay you and you have to

CORRUPTION

When the Soviet Union collapsed, bribes were crucial to ensure the delivery of former State services like heating, healthcare and education. This history makes some Russians look upon daily corruption with less condemnation than they otherwise would.

Business corruption varies with the size of businesses. Analyses show that small businesses are under high pressure from inspections, and bribes are often an easy alternative. Within big businesses, bribes are less of an issue than connections, favours and reciprocity. The northwestern regions are generally regarded as more investment friendly and less corrupt than central and poorer regions.

President Putin has several times announced that he will fight corruption, although no specific plans have been presented. However, several of the new market reforms have been designed to promote transparency, and public attention to corruption has raised general awareness. Over the past few years, more focus has been put on corporate governance and business principles, and although there are still many problems, several companies are improving business routines in order to attract foreign investors.

go to court again. Such situations are especially frequent in the construction industry.

When it comes to personal taxes the rates are 13 % on payment if you have been living in Russia for 180 days within a year, or 30 % if you have spent less than 180 days in Russia that year. Unlike in Norway, the more you earn the less you pay, in percentage.

On the export of oil, gas and metals you have to pay an export tax. On the import of goods you either have to pay a percentage of the value of the goods, per kilo or per unit or a mix between these three ways. In average in real life you will have to pay about 15% of the value of the goods. However there are some exceptions like for instance the import of production machines to be used in domestic.

References:

- Oleg Konnov (partner of Salans Law Company in Moscow)
- *Næringsvirksomhet i Russland - rettslige rammebetingelser* (by Brynjulf Risnes/Louis Skyner (NUP1 - 2001))

For Norwegian companies in the Russian market, handling corruption is a challenge, but it is fully possible to do business without being subject to corruption. However, be prepared for the fact that it may take more time and resources to get things done the right and ethical way, than it would otherwise. It is necessary and important to develop clear ethical guidelines, and a good network of contacts that can be used in a positive way. Implementing guidelines for corporate social responsibility tend to become more important, as an increasing share of Russian companies start to focus on such issues.

Having a Russian partner may also reduce the challenge of corruption, as they are already familiar with the system. Many companies entering Russia are using this strategy. If needed, institutions like the Russian Chamber of Commerce and Transparency International can provide information or guidance on corruption-related issues.

References:

- Meeting with Elena Panfilova, General Director of Transparency International in Russia, 21 January 2004
- Sanita Jemberga (journalist in the Latvian daily Diena): "Many believe corruption saved Russia", interview with Elena Panfilova, 2003

A Career in Orkla?



Choose a future with the biggest branded consumer goods supplier in the Nordic region!

Would you like to...

...work for the leading supplier of branded consumer goods to the Nordic retail trade?

...work on strong brands such as Carlsberg, Baltika, Chef, Grandiosa, Pepsi, Farris, Define, Laban?

...join an international chemicals company with strong global positions in selected niche markets?

...work for a company that focuses on personal and human resource development?

Then you should choose a career in Orkla!

Visit us at: www.orkla.com







Part 3

- Electricity
- Oil and gas
- Shipping
- Regions



Electricity sector

Restructuring the Russian electricity sector is one of the most important steps on the way to a well functioning Russian economy. The industry is dependent on a reliable and stable power supply, which until now has not been satisfactory, both in amount and in system stability. Therefore, the Russian Joint Stock Company for Power and Electrification – RAO UES launched a deregulation programme, which was approved by the Government in July 2001. The main goal of this reform is to liberate the market, in order to bring efficiency gains that benefit the industry and consumers. This is also thought to increase reliability and renew the ageing technology and equipment.

The Russian power system has the total production capacity of some 210 GW. (This is approximately 5 – 6 times more than Norway). 67 per cent of which is thermal, 22 per cent hydro and 11 per cent nuclear power. It is important to bear in mind that the Russians do not have the same electricity consumption level as Norwegians; heating is mostly supplied by thermal heating facilities.

The generation structure varies for different parts of Russia. In Siberia, more than half the generation consist of hydropower plants, while gas-fired thermal and nuclear plants supply the central part of Russia. The northern and eastern territories have a considerable portion of combined electric and heat power plants. Due to the fact that most of the population and industries are located in the European part of Russia, 52% of the power is generated here. 22% is generated in

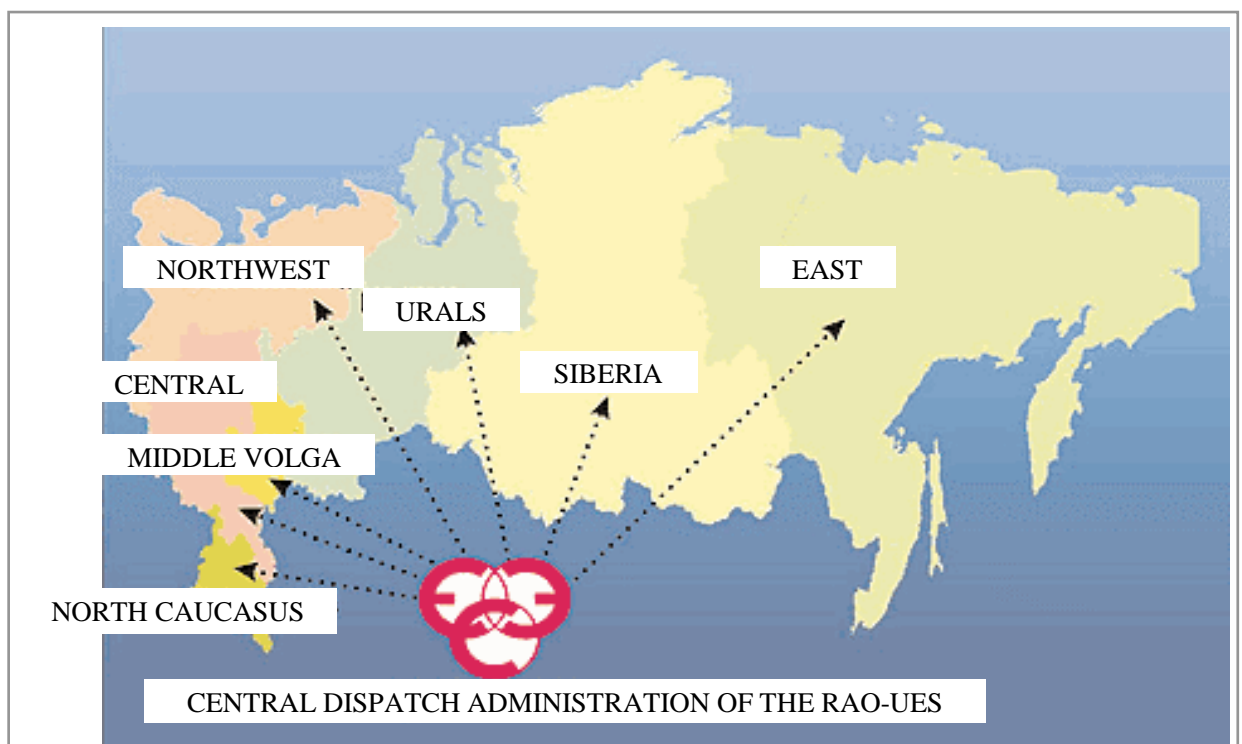
the Siberia, 20 % in the Ural region and 6 % in the Russian Far East.

The system, as it works today, is divided into seven regional power systems, six of them operating synchronously. Most of the Russian infrastructure was developed between 1955 and 1990. This development aimed that each of the seven regions should be self-sufficient, and by doing so, there is now a lack of transfer capacity between some of the regions. The hierarchical system of dispatching consists of the central control board in Moscow and seven regional units.

Russia's Environmental Potential

Russia has always been, and will be, rich on natural resources such as oil, gas and coal for a substantial period of time. Thus, there has never been any demand to exploit the renewable energy possibilities. The domestic gas price is kept far below the international price, making the average Russian able to keep their houses warm and industry rolling. Though the recent economic growth in Russia has resulted in an increase in the consumption of gas, oil and coal, energy efficiency has been neglected. If the domestic gas price continues to rise, or the Russian federation ratifies the Kyoto Protocol, this situation will surely be different.

Many of the remote regions of Russia are dependent on fuel imports from a few energy-rich regions. Given



the scale of the Russian territories, transportation costs can dramatically increase the total cost of this fuel. Using local renewable sources such as hydroelectricity, wind or geothermal energy, would make it possible to serve remote populations and provide energy at competitive prices. Approximately 10 million people live without connection to the national electricity grid.

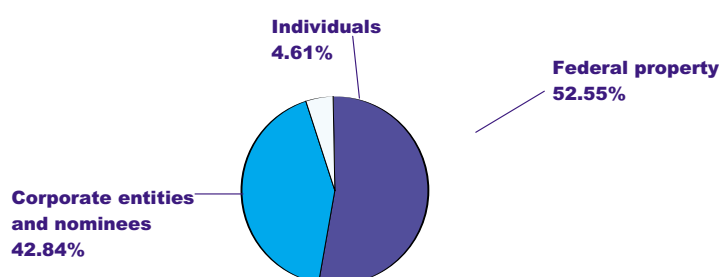
The balance of the Russian electricity production

The Russian power system consists of thermal, hydro and nuclear power generating facilities. There is some research on renewable energy, but this is not yet a priority of the Government or industry. The total generation of electricity in 2002 was 890 TWh, and the production is expected to reach 1000 TWh before 2010. In comparison, the average of the total Norwegian generation is 120 TWh/year.

The thermal generation output in 2002 was 584.2 TWh, while hydropower generated 164.1 TWh and nuclear facilities 141.5 TWh. Most of the electricity is used for domestic consumption. Exports in 2002 were approximately 7.1 TWh to Finland, and 7.2 TWh to the former USSR countries. In order to increase exports to countries outside the synchronic Russian grid, back-to-back facilities have to be installed. The main focus of the RAO UES is the ongoing deregulation of the domestic market, and therefore the development of export facilities is not prioritized at the moment. However, this situation will change once the market opens.

The deregulation of the Russian market

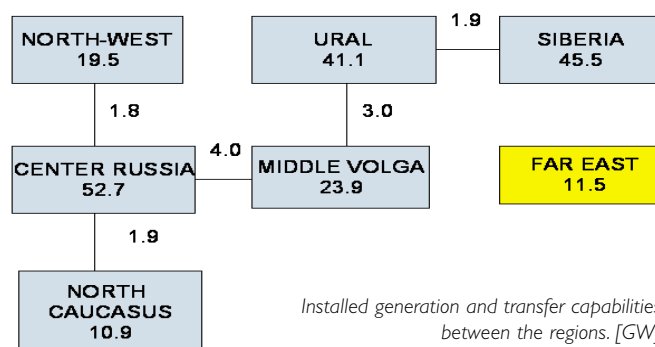
The restructuring of the Russian power market is an extensive process, which roughly can be divided into three stages. The first stage (2001-2004) is to create an appropriate regulation base, and develop the future market structure. This stage is almost complete, although there has been delay due to some political disagreement. The next stage (2004-2006) is about creating a competitive market in the generation and distribution sectors. This market has until now been administratively regulated and nontransparent. The goal is to establish a number of companies, which effectively work in the accessible market. Stage three is aiming towards the investors. Hopefully the market now works properly and the industry becomes more attractive for private investors. It is estimated that the market will be fully developed somewhere between 2006 and 2008.



Ownership structure of RAO UES 31.12.2001

Today the State owns 52% of the RAO UES. The UES owns the federal grid company, the system operator and the federal power stations. Some regional power companies are not owned by UES, but they generate only 15% of the total production. Altogether, UES controls more than 75% of the total electricity generation. Rosenergoatom, the federal nuclear power company, produces the last 10% of the generated electricity. After the restructuring, the situation will look differently. The State will still keep its ownership in the central companies such as the federal grid company and the system operator, but the power generation will be taken over by private investors.

It is not easy to predict the future of this extensive market. The process is on its way at a slow pace. There are still challenges on the road ahead. First, the size of the sector is enormous not only because of the size of country and the extent of the networks, but also because of the great differences in fuel type capacity throughout the country. Second, because the ownership of the sector is so diversified, reform becomes even more difficult. When the Russian Government began electricity reforms, the sector was already partially restructured and privatized. The nonpayment problem is also urgent. This is a challenge to which the Government has not yet acted upon because of the



Installed generation and transfer capabilities between the regions. [GW]

Electricity sector

potential of a political backlash. Moreover, the country would need significant funds to restructure the sector and provide a social safety net during the reform process.

The power sector is extremely politicized at both the national and regional levels. Moreover, Gazprom has been increasing its influence by acquiring electricity assets in exchange for utilities' bad debts to the company. As such, until after the presidential elections, officials will spend their time trying to control UES and the regional utility companies, rather than reforming and improving this vital sector.

Conclusion

Although the process is slow, there are market possibilities for foreign companies. In September 2003 the UES suggested that they would open up for foreign ownership in central production facilities, and by February 2004 two international companies are competing for the management of Russia's first combined cycle gas turbine plant, near St. Petersburg.

"If successful, the transaction will facilitate the entry of major power companies into Russia, opening the way for a large-scale participation in [the] Russian power sector, which is currently undergoing restructuring," UES said in a statement to The Moscow Times.



Complete range of services to cover all your need for information about the power markets.

- Real time price service
- Real time news service
- Comprehensive historical database
- All european power exchanges
- Over 2500 users in over 15 countries

<http://www.montel.no>

Oil and gas

History, control and structure

Russia is a leading nation in the world when it comes to hydrocarbons. It is believed to have the second largest oil reserves in the world, second only to Saudi Arabia, and has the largest reserves of natural gas, even by the most conservative estimates. This is evident even at a stage where large areas of the country still are unexplored. The oil industry in Russia dates back from the early 19th century, with the first mechanical oil well started up in the Caucasus in 1864. This developed to USSR being the world's largest oil producer in the 1970s. After the collapse of the USSR, foreign investment and restructuring was urgently needed. The immense values lying idle has helped the oil and gas sector to recover and develop at a much greater speed than the rest of Russian industry. This is clearly shown by the fact that oil and gas today accounts for approximately half of Russia's budget revenues.

The control and development of this sector is strong, and consist of two separate, but interdependent parts, the Government and the oligarchs. It is fair to say that almost everything is controlled, and major decisions are made by the central government and company head-quarters in Moscow. In the oil and gas sector, Moscow is where things happen. Several different official bodies contribute to legislation and for developments within this sector; the most important ones are The Anti-monopoly Ministry, The Energy Ministry, The Ministry of Economic Development, The Energy Commission of The Russian Federation and the Ministry of Foreign Affairs.

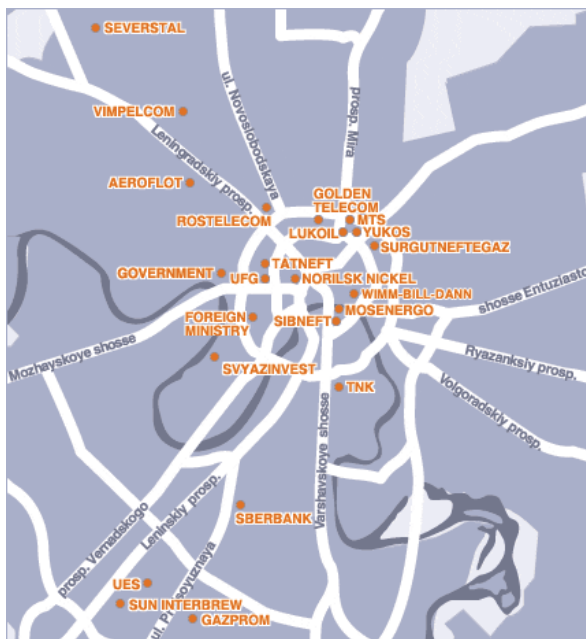
It is also important to notice that many practical aspects regarding oil fields are regulated by local authorities. The major Russian oil companies, many of which originate from certain areas, have managed to gain strong influence in some regions where they have developed close contacts with the local administration.

The major companies

The major oil companies in Russia are large, innovative and increasingly efficient, and are becoming attractive partners and investment objects for western players. Several oil companies have adopted international accounting practices and have focused on developing an acceptable corporate governance and increased transparency. The focus on environmental protection and corporate social responsibility has increased.

There are approximately 10 major oil companies operating in Russia today. Of these, LUKoil, Yukos and TNK-BP are among the world's largest oil companies. The larger part of the Russian oil industry consist of five privately-owned companies that contribute to roughly 70% of the total production. On top of this, joint ventures and smaller, private companies represent for about 6% of the production, giving the publicly-owned oil companies a production share of approximately 24%.

As for gas, Russian gas production is, in practice Gazprom. It represent approximately 95% of the total gas production and owns all gas pipelines. The remaining gas production comes from oil companies



The five most important oil companies

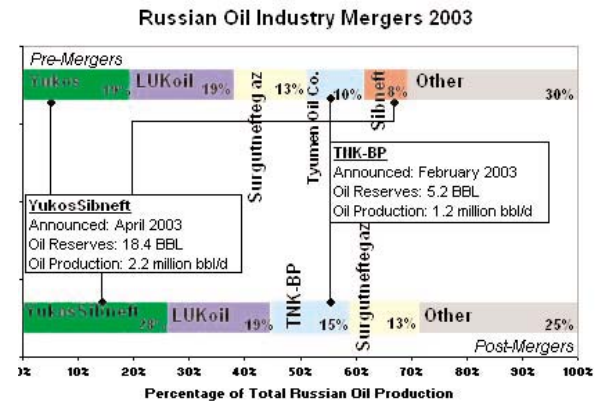
	Market share
LUKoil, oil company	20.5 %
LUKoil Overseas Holding Ltd, Corporate Centre	
Yukos, oil company	17.8 %
TNK-BP (Tyumen Oil Company), temporarily called Newco	13 %
Surgutneftegas, oil company	13 %
Sibneft, oil company	6.7 %

Rosneft, state-owned oil company
 Sidanco, Oil Company
 Tatneft, Joint Stock Company
 KMOOC, Khanty Mansiysk Oil Corporation

Gazprom, State-owned, gas focused company with 95% of production
 Transneft, State-owned oil pipeline network operator

Oil and gas

that get gas as a secondary product through their oil production. Most oil companies burn the gas that they extract, but some fields in western Siberia get such amounts that they have made an agreement with Gazprom to ship through their pipelines. There has been a lot of movement, positioning and merger- and joint venture activities within the oil and gas sector in Russia in 2003. The two most important cases were the much debated Yukos-Sibneft merger and the BP-acquisition of a 50 % share of TNK. Yukos and Sibneft, which are controlled largely by the two oil magnates Mikhail Khodorkovskij and Roman Abramovitsj, announced that their two companies would merge in April 2003. After the jailing of Khodorkovskij, the investigations into Yukos and possibly other factors, this deal was later cancelled. BP has paid some USD 6.5 billion for 50% of the shares in the now temporarily called Newco, and has become one of the three biggest oil companies in Russia. "This signifi-



Oil companies and part of production in Russia

cant deal is the clearest indication that there has been a step change in corporate governance in the Russian oil industry." (Nick Latta, commercial officer at the British Embassy in Moscow)

BP has been operating in Russia since 1990.



Our activities cover oil and gas exploration, retail, lubricants, chemicals, aviation fuels and lubricants, and lubricants for the marine market. In 2003 BP bought 50% in TNK-BP company which started operations on 1 September 2003.

BP's 50% share now represents around 15% of our total production and we expect that it will remain at this percentage over the next five years.

Russia is one of the great natural resource centres of the world. It will be a very important player in supplying global oil and gas needs for decades to come, and for BP it's a place to be.

Shipping

Russian Shipbuilding

The Russian shipbuilding industry is facing an interesting, but still challenging future. Today the rough numbers are around 700 yards building and 350 yards both building and repairing vessels. In the Soviet period, enormous capacity and competence were developed both in commercial and military segments. To keep this know-how within Russia and maintain the workforce, there is a political priority to make the industry competitive on an international basis.

The State is still an important player as a strategic owner, though many yards have been privatized in the past few years. Both State-owned and private enterprises have with varying success implemented western management systems. The largest challenge for the Russian yard industry is to close the gap between Russian yards and other international yards regarding administrative solutions.

The craftsmanship within the shipbuilding industry is known to be of international class. This regards the competence in welding and steel work. Russian steel is of high quality and is inexpensive. The same description applies to the workforce.

Russian yards are competitive, in the segment of advanced ships. In addition, there are incentives among Russian yards to compete for shares on the international market. Therefore they are eager to adapt to the needs of international shipowners.

If a shipowner takes a calculated risk and builds a complete vessel in a Russian yard, he or she is likely to achieve long-term advantages in a stable and exclusive cooperation. Decisiveness and the will to act are important aspects Russian yards look for in their long-term partners.

We have decided to focus on four of the leading Russian yards, Sevmash, Zveshdochka, Baltiysky Zavod and Admiralty Shipyards. These yards should be interesting for many Norwegian players, given their positive development in management solutions and their unique competence.

The listed yards all have international experience and are among the largest and most renowned production facilities in Russia. It is a clear advantage to approach the yard with an experienced broker, if one has limited knowledge about the Russian market and Russian business mentality.

In our analysis of the shipping sector we are focusing on selected Russian yards and selected Russian ports. The choice of solely focusing on yards and ports was much because of the competent people who could assist us in these matters.

Baltiysky Zavod

The yard was established in 1856 and is situated in central St. Petersburg. It is one of the largest enterprises in the Russian shipbuilding industry with almost 7 000 workers. The building berths of the shipyard are designed for building ships up to 100 000 DWT. Baltiysky Zavod has been involved in building mainly complex ships during their nearly 150 years existence.

The yard is capable of building sophisticated merchant vessels and also nuclear powered vessels. Further examples are nuclear icebreakers, ice-class tankers, ice-going supply vessels, chemical carriers and general cargo vessels among others.





Supplying the world with

- Manganese Alloys
- High Purity Pig Iron

We are represented with offices in:

Düsseldorf	Milano
Helsingfors	Luxembourg
Madrid	Sheffield
Ohio	Tapei

Tinfos Jernverk AS
P.O. Box 103, 1325 Lysaker, Norway
Ph: +47 67103400 Fax: +47 67103410
E-mail: sales@tinfos.no
www.tinfos.no

**...we collect and deliver
goods at agreed place and
the agreed time!**



Smile to the clouds
– they warm your home

Each year, Statkraft gathers enough water to supply Oslo with electricity for 10 years.



www.statkraft.com

HardangerBestikk - den ideelle gave

asonoTM

The Future of FarmingTM

The ambitions of the Kverneland Group is to work together with the professional farming community to shape the Future of FarmingTM. Our brands are making the farmers work easier and more profitable by providing the most efficient and cost effective solutions for modern agriculture.



Kverneland Group is the largest specialised producer and distributor of farming implements in the world. The Group is a family of strong brands enabling us to provide both the farmer and dealer with a unique and complete range of high quality products for soil preparation, grass treatment, seeding, spreading, spraying, potato cultivation and grape harvesting.

Estonia: Kverneland Group Baltic AS. Turu 7. 48303 Jogeve. Tel.: +372 77 58 045 **Czech Republic:** Kverneland Czech, spol.s.r.o. Kostalkova 1527. 266 01 Beroun.

Tel.: +420 311 636 766. **Hungary:** Kverneland Hungária KFT. Karinthy u. 63. H-5008 Szolnok Tel.: +36 56 527 010 **Poland:** Kverneland Poland sp.zo.o.



www.kvernelandgroup.com

UM

Vicon

RAU

Kverneland

ACCORD

PARIS

KLEINE

taarup

GREOIRE

LAGARDE

BOBARD

OXO

Baltiysky Zavod was one of the first yards in Russia to initiate comprehensive reconstructions of their production facilities. When this investment programme is finished, the yard will be one of the most modern in Europe. It is to be mentioned that the lifting capacity of the yard includes a 350-tonne floating carrier, hoisting height up to 50 m and thereby the most powerful crane in the northwestern region. The future focus of Baltiysky Zavod will be on large tankers and supply vessels.

Sevmash

The shipyard was established in 1939. Sevmash is today the largest shipbuilding and machinery engineering enterprise in Russia, and has close to 30 000 employees. It is located in Severodvinsk, 35 km away from Arkhangelsk, in the estuary of Northern Dvina River, flowing into the White Sea. Sevmash is a large diversified production association that builds high-tech and high performance products, meeting all modern requirements.

The State-owned yard has been, and still is, the leading player in the Russian yard industry. Through stable government investments over the past years, the yard is today one of best equipped in Russia. Their experience, equipment and facilities enable them to implement projects of any degree of complexity, whether it regards commercial shipbuilding, military shipbuilding or construction of offshore facilities for oil and gas industry.

Consequently, Sevmash is likely to play an important role in the development of the oil and gas industry in the northwestern part of Russia. Sevmash also has an interest in increasing their share of commercial shipbuilding of their total production. Their focus will be on advanced tankers and other more complex ships.

Admiralty Shipyards

Admiralty Shipyards is the oldest shipbuilding enterprise in Russia, founded as far back as in 1704 by Peter the Great. The yard is situated in St. Petersburg and is a State-owned enterprise with approximately 6000 employees.

In the commercial segment the yard's key business is tankers and ice-class product carriers of 5 000 to 70 000 DWT. Their key competence is building high standard vessels. These have been built for both national and foreign shipowners with success.

The yard has managed to preserve the production facilities and the number of its staff. Furthermore contracts have been accomplished in due time with the agreed quality. The yard has found its niche in the world market for naval and commercial shipbuilding. Admiralty Shipyards works determinedly to keep this position.

Zvezdochka

Zvezdochka is a shipyard situated in Severodvinsk, Archangelsk County. It has one department for civil shipbuilding and one for navy purposes. The city of Severodvinsk was founded around this shipyard in 1936.

Both the yard and the city were in the early years of operation of high military strategic importance. Even today, visitors to the shipyard need to have security clearance from FSB, the Russian Security Police. The navy is still its biggest customer. The yard is both competent and experienced, and is well equipped. Focus has often been put on Zvezdochka as being a building site for nuclear powered submarines. This gives a slightly wrong impression since the yard also has strong interests in building more installations for the oil and gas industry and also more activities in the commercial shipbuilding market.

References:

www.bz.ru, www.sevmash.ru, *Official Sevmash brochure*, *Official Zvezdochka brochure*
www.admiralty.ru, *Frank Mohn*



Barwil

Harbours

We will briefly introduce two northern harbours, Murmansk and Archangelsk. These ports will in the future most likely increase their strategic importance in shipping oil and other goods out of Russia to the international market. Under the section on Krasnodar Krai in our report, we also describe more about the harbour of Novorossiysk, which now is the largest commercial port in Russia.

Murmansk

Murmansk harbour was established in 1915. It became a joint stock company in 1994 and is today one of the biggest companies in the Murmansk area. The harbour is situated in the northern part of Kola bay, 22 miles from the Barents Sea. The Murmansk harbour is ice-free all year round. No icebreakers are required. The harbour is divided into 3 unloading complexes with a total capacity of 9 million tonnes a year. It can handle tankers with deadweight more than 240 000 tonnes. Oil is the main product that is transported from this harbour during the first half-year of 2003 around 4.5 million tonnes of oil was shipped through the port of Murmansk and its offshore terminals. There also exist plans to build the West Siberian-

Murmansk pipeline which is meant to be ready in 2008 for full production, but many experts consider that this pipeline might never be realized or for sure will be delayed. The importance of Murmansk can therefore be questioned, at least the importance in the near future.

Archangelsk

Arkhangelsk harbour was established over 400 years ago. The port has a total capacity of 4.5 million tonnes a year. In 2002 the following goods were shipped through Arkhangelsk Commercial Sea Port (overall 3.5 million tonnes): 1.9 million tonnes of oil, 700 000 tonnes of saw-timber, 100 000 tonnes of coal, 88 000 tonnes of nickel, copper and zinc. Rosneft has planned an investment scheme for around USD 15 million to increase the capacity of oil transport from this harbour up to 6 million tons a year. Ice breakers are required during winter season.

References:

The official strategy of Russia for development of oil and gas sector in North-West Russia for the period till 2020 (a Storvik & Co Report by Svetlana Makoveeva November 2003)



Barents Russia – a place for business?

Barents Russia is the far north-western corner of the Russian Federation, bordering on the Barents Sea and the Nordic countries.

It is a region of enormous natural resources and potential, but also of considerable risk.

“Barents Russia 2015” is a scenario project aimed at providing the deeper understanding you need to discover opportunities and evaluate the risks.

Check out www.barentsrussia2015.net.





ULSTEIN

T U R N I N G V I S I O N S I N T O R E A L I T Y

www.ulsteinverft.com

FRANK MOHN AS is a leading supplier of pumping systems for marine and offshore applications.

The company was founded in 1938 and is located outside Bergen in Western Norway.

Own subsidiaries established world wide are responsible for after sale services.

Total number of employees is today about 1200.



Framo cargo pump

MARINE

Frank Mohn AS pioneered the development of hydraulically driven submerged cargo pumps, whose innovative design has changed the way in which tankers are built and operated. Our records show that about 23.000 cargo pumps are in service on board more than 1.400 vessels comprising barges, chemical carriers, product tankers and large crude and OBO carriers. Our range of products for marine use also include transportable emergency off-loading pumping systems and anti-heeling systems.

Subsidiaries abroad:

- Rotterdam
- Pusan
- Gothenburg
- Houston
- Yokohama
- Rio de Janeiro
- Singapore
- Shanghai



Test dock for offshore

OFFSHORE

The oil and gas division within the Frank Mohn group is a supplier of different pumping systems for offshore installations/floating production and storage units. The range of products comprises complete firewater pumping systems, seawater injection pumps and cable-free electric driven seawater pumps. Crude oil transfer pumps for large caverns are also manufactured. Delivery of environmental protection equipment is another field of production comprising oil recovery skimmers for offshore and coastal areas.



Frank Mohn AS

P.O. Box 98 Slottthaug, NO-5851 Bergen, Norway

Tel: + 47 55 99 90 00 Fax: + 47 55 99 93 80

E-mail: marine@framo.no www.framo.no

Regions

Moscow

Moscow lies in the centre of what is known as European Russia. The border between Europe and Asia runs down the west side of the Ural Mountains, 1300 km (805 miles) east of Moscow. To the east of Moscow is the south-flowing Volga River, one of Russia's historic highways.

Moscow is Russia's largest city and is home to some of the country's most renowned cultural institutions, theatres, and film studios. Officially the city has about 13 million inhabitants, but some say that there may be as many as 16 to 20 million. One of the first impressions Moscow gives is the one of a chaotic city with large busy avenues, jammed traffic, hectic life, and glittering ads. At the same time you see calm grey residential areas, and hidden little churches with golden domes. Nowhere are Russia's contrasts more

apparent than here - ancient monasteries and ultra-modern monoliths standing side by side, and new Russian millionaires and poverty-stricken senior citizens walk the same streets.

Moscow is the country's most important transportation hub (even today most flights to the former Soviet republics are routed through Moscow's airports). To salvage and propel Russia's giant economy, the government and business communities of Moscow are actively pursuing outside investment and setting their own economic plans and agendas. For visitors this translates into a modern, high-paced city with increased availability of Western-style services and products. Even as Moscow becomes a hub of international business activity, however, the metropolis is determinedly holding onto its identity as the heart and soul of Russia.

As Russia enters the 21st century, development and reconstruction are at an all-time high. Parts of the city, especially within the Boulevard Ring, are now sparkling clean and well kept. Although the Russians are protecting most of their architectural heritage, they are also creating a new legacy in the form of skyscrapers, shopping malls, and churches.

The new century promises growth, excitement, and hurdles to overcome. Moscow is in the centre of the changes sweeping through Russia. When the winds of change start blowing, they blow through Moscow first. Moscow holds the financial and political power as well as the most influential businesses. It is said that you have to go through Moscow to succeed in doing business in Russia.

References:

<http://www.lonelyplanet.com/destinations/europe/moscow/>

<http://www.waytorussia.net/Moscow/Moscow.html>

<http://www.fodors.com/miniguides/mgresults.cfm?destination=moscow@107>



Denofa

St. Petersburg

St. Petersburg is inexorably linked with the personality of its founder, Tsar Peter I. He inherited a Russia that was far too backward for his liking, and decided to modernize Russia, no matter the cost. After he came back from two years exploring Europe, he saw the need for both a Russian navy and an ice-free port, and on 16 May 1703, Peter laid the first stone of the fortress named after his patron saint, St. Peter. Across the river from the fortress, the Admiralty shipyard was built. He then decided that there might as well be a city around the fortress, and ordered it built.

The construction work of St. Petersburg was difficult, especially as it had to be built on marshland. In the early stages of its construction, thousands of peasants and workers died of malaria and many were picked off by marauding wolves, earning St. Petersburg the name "the city laid on bones." In 1712, Tsar Peter made St. Petersburg capital of Russia and required the aristocracy to move there, at their own expense, of course.

Ever since the city was built 300 years ago, except maybe under the Stalinist regime and during the Cold War, St. Petersburg has functioned as a "window to the west". In the 18th century St. Petersburg flourished and became a cultural centre of Russia, as well as the capital politically speaking.

Since then, St. Petersburg has had a special place in the Russian self esteem, even after it ceased to be capital in 1918, and was later being renamed Leningrad. During World War 2, Hitler ordered his troops to wipe Leningrad off the face of the earth and they blockaded the city for 900 days, shelling incessantly in an attempt to destroy the population's will. Leningrad did not give in and the blockade was eventually broken on 27 January 1944. In the course of these years, over half a million civilians had been killed or died from starvation. On 27 January 2004, the 60th anniversary of the end of the blockade was celebrated. This, however is not only a happy celebration, it is dedicated to the memory of those who perished during the blockade and also remembers the suffering of those who survived.

It was at a local referendum in 1991 that the vast majority of Leningraders voted to have their city renamed St. Petersburg and since then the city has reopened its "window to the west". The first quasi-democratic elections had been held in 1989, when inhabitants of the city got a choice of Communist party members to vote into the city council.

St. Petersburg is now the home of approx. 5 million people, and as in all big cities, the problems connected to being a big city are all present, but so are also a great variety of cultural landmarks, such as the State Hermitage, Petropavlovskaya Krepost, the Church of the Resurrection, and a great number of growing businesses. The city is promising, both in terms of good opportunities for a fruitful business partnership, but also of widening one's cultural horizons.

References:

"About St. Petersburg"

<http://www.basecamp.cnchost.com/peterbrg.htm>

Official St. Petersburg website: <http://www.spb.ru/english>



BI



HAVSTAD TINN

The Barents Region

The Russian parts of the Barents Euro-Arctic Region comprise the Murmansk Oblast, the Republic of Karelia and the Arkhangelsk Oblast. The Republic of Komi has applied for membership of the Barents Regional Council and is included in the following. The region has an area of 1 321 500 km², or 7.7 % of the Russian land mass, and enjoy a population of 4.4 million inhabitants which is only 3.0 % of the total Russian population.

The region consists of vast boreal coniferous forests and tundra and has an average population density of 3.3 inhabitants per km². The conditions in the region are harsh with long, cold winters with plentiful snowfall, and short, light summers. It has an arctic and sub-arctic climate. The Barents Region has experienced a steep demographic decline, with a fall in population by 7.6 % in the last decade and a drop in production,

exports and average wages. There are, however, indications that some of these trends are stabilizing and are also on the turn.

The region is endowed with a number of rich mineral and hydrocarbon deposits, with the Timan Pechora, the Barents Sea shelf, which includes the enormous Schtockmanovskoye structure, and the Arctic Ocean as the most hydrocarbon rich areas. There is also some 6.5 billion m³ of standing timber in the region.

References:

www.cdi.org/russia/johnson/default.cfm
eng.globalization.ru/live/map.asp
 Meeting with Petrozavodskmash Corp.
 Olesia Plaxina, Chief of Marketing Department/Hotel Severnaya, conference@severnaya.onego.ru

Krasnodar Krai

The territory of Krasnodar Krai is equal in size to the combined area of Denmark and The Netherlands. Krasnodar Krai is situated on the same latitude as Northern Italy and Southern France. Its territory is 76 thousand square kilometres, or 0.4% of the total territory of the Russian Federation.

More than five million people live in the Krai, 53% of them in cities and towns and 47% in rural areas. The administrative centre of Krasnodar Krai is the city of Krasnodar.

Krasnodar Krai is one of the most attractive regions of the Russian Federation. Being an important link between Europe and Asia, the Krai plays an important role in connecting the continents.

As an example, the investments into the region's economy equalled 60.7 billion roubles in 2001. It counts for eleven percent of all direct investments in Russia. This is the second-best result to Moscow. Some of the for-

eign companies represented in the Krai are Philip Morris, Tetra Pak, Pepsi Cola, Chevron Texaco, Knauff, Nestle and Bonduelle.

The administration of the Krai has been through many years of interaction with foreign companies, and has developed to be the most western oriented administration in southern Russia. From an investors' point of view, the most appealing about Krasnodar Krai is its favourable geopolitical position. It has direct access to international sea routes via eight ports, three international airports and one of the best road- and railway networks in Russia. Furthermore, the region has fertile agricultural lands, abundance of raw materials for processing industry, favourable natural and climatic conditions, promoting the development of tourism and the leisure industry and has a qualified labour force.

References

<http://economy.kuban.info/en>
<http://www.russijournal.com>
<http://www.russijournal.com>



Petrozavodsk and Petrozavodskmash Corp.

Three of the IB students headed for Petrozavodsk for a visit to the city and the Petrozavodskmash Corporation to experience the qualities of this northwestern city and this large machinery building enterprise. This city of approximately 300 000 inhabitants was founded by Tsar Peter the Great at the shore of the Onega Lake, just after he founded St. Petersburg. The name derived as Tsar Peter was planning a factory there because of an iron ore, and can be translated to "Peter's factory".

The visit was organized by Steinar Moe, head of the company Vedlikeholdsteknikk AS, which has cooperated here and has had the agency for Petrozavodskmash in Norway for several years. After a city tour, we were taken to the plant where general director, Valeriy Somin, and Marketing Director, Alexander P. Mironov, heartily greeted us and gave us a presentation of the company and an overview of the plant facilities.

Valeriy Somin and Steinar Moe



The Petrozavodskmash is Russia's largest enterprise within machinery manufacturing and specializes in equipment for pulp and paper, petroleum and chemical industries. It has factory halls of 250 000 m², and have the moulding capacity of 45 000 tones a year. Currently, there are 3 000 employees, some 1 200 machines which are capable of handling all kinds of metals and qualities. As Mr Mironov so adequately put it: "We can produce anything made out of metal." Petrozavodskmash have implemented international quality standards and can deliver all types of machinery at a very competitive price. They have their own power plant and a private harbour, taking

ships up to 5 000 tonnes. With their strategic location they are able to disembark large parts that can easily be transported to the White Sea and to the Baltic Sea. This has resulted in an export rate of some 30-40 % with customers around the world.

We were greatly impressed with the immense facilities that they possess. They represent considerable opportunities for Norwegian companies. We would like to send our heartiest greetings to the people of Petrozavodskmash and Steinar Moe with thanks for their hospitality and the sincere interest they showed in us.

Sources/references:

Meeting with Petrozavodskmash Corp. Friday 23.01.04, www.pbm.onego.ru

Vedlikeholdsteknikk, v/Steinar Moe, vedlike@online.no



Hydro Oil & Energy

progress of a different nature



Norsk Hydro ASA Moscow

33/7 Ulitsa Usacheva

119048 Moscow

Russian Federation

www.hydro.com

Regions

Novorossiysk – the most prosperous harbour in Russia

The city of Novorossiysk was founded in 1838, and today it has approximately 250 000 inhabitants. Novorossiysk is now the largest commercial port in Russia. The harbour is partly State-owned and private interests are represented by Nikoil. Most major decisions are taken in Moscow, but the city of Novorossiysk and the local administration decide in most questions concerning immigration and customs.

The city is situated along the Tsemesk harbour, one of the most convenient harbours in the Black Sea. It is ice-free in wintertime and is 15 km long, 2-9 km wide and very deep. Any ocean-going vessel can enter it. From the northeast and southwest the city is surrounded by mountain ranges. The harbour separates the western and eastern parts of the city. The eastern part is an industrial area and there are 37 industrial enterprises in the city.

The harbour of Novorossiysk is very diversified and handles all kinds of cargo. Last year the Port handled approximately 67 million tonnes of cargo, of this about 50 million tonnes is oil and 17 million tonnes is dry cargo.

For our report it was natural to establish contact with Barwil and Mr Konstantin Shapkin, Agency Department Manager. Barwil is a leading worldwide supplier of port and marine services, serving a large number of maritime clients through an expanding global port network. Barwil provides an extensive line of services, ranging from simple ship agency tasks, to complex outsourcing activities. Their focus is global uniformity and local expertise and knowledge. In year 2002



Barwil handled over 32 000 ship calls. The international network of Barwil represents a large number of major liner operators and approximately 1700 clients in the tramp, tanker, cruise and gas carrier trades. Being a worldwide business Barwil has 225 offices in 58 countries with a working force of some 2700 people.

The Barwil Novorossiysk office was established in 1996, and the company was the first to establish a private agency in Novorossiysk. It was a hard start for the Black Sea office as 1996 was a very difficult year in the area. The Novorossiysk office represents a several kinds of businesses in the harbour, and has handled 2 000 vessels from its foundation in 1996. Last year (2003) they handled 119 vessels.

There are several ongoing projects in the harbour at the moment. From spring this year a new container terminal will start to operate with 2 cranes delivered from Germany this January. On the Oil Terminal "Sheskhri", an extension of piers is expected. At the inward oil terminal "ImportPisheProm" there is planned a deepening of the piers no. 26-27 to accept vessels up to 60 000 MDWT. A major bottleneck for the harbour is the railway connection. A railway tunnel from before the revolution makes cargo flow out of the city difficult. The capacity today

is congested. This is an obstacle for further development. A better railway connection to the city will improve the harbour capacity significantly. Further building of silos for grain etc. is also needed. Today's capacity is inadequate.

A new harbour administration with more focus on investments and modernization is established. This new Administration started to operate in the timber and fishing port which are to be united to one big Port area in the nearest future handling all kinds of cargo. Novorossiysk is open for partnership and collaboration. Today the town has its place among the ten Russian cities that are mostly attractive for investors. Many Russian investors are interested in the harbour, but no foreign investors have arrived so far. The situation is "now or never", especially if one considers investments in terminals. There are still a lot of possibilities, but they will not last for too long. We got the impression that if you wish to invest in a port and participate in the development of Novorossiysk, now is the time for action.

References:
<http://www.nvrsk.ru>, www.barwil.com,
<http://economy.kuban.info>. Mr Konstantin Shapkin,
 Agency Department Manager Barwil, Mr Evgeniy Shokhin, General Manager Assistant, Barwil

Exports	Imports
Crudeoil productes	Citrus
Liquid products	Wine
All kinds of metal	Palm oil
Cement	
Paper	
Wood	
Grain	
Live stocks	

Agrocomplex Company

Visselky – Krasnodar Region

Did you know that the largest farm in Russia has 76 000 hectares of agricultural land?

The company Agrocomplex was founded in 1993 by the Governor of the Krasnodar region Mr Alexander N. Tkachev, who was the general manager of the feed mill in Visselky at that time. In the Soviet period, the government was the financier and the coordinator of all the industries including agriculture. In the beginning of the nineties these companies found themselves without finance, without marketing for their goods and there was complete chaos regarding payments between the companies.

Mr Tkachev decided to merge with the cattle fattening complex situated next to his feed mill. The main purpose was to have a regular demand on the compound feed for the mill, and to ensure the feed for the complex. Later the company started to merge with the earlier Collective farms, which were in a very difficult financial situation. Furthermore the company built up a complete processing chain for its crops and developed a chain of retail points to sell its products. Today, 11 years after its foundation Agrocomplex is the largest agricultural integration in the Russian Federation, it employs around 8 000 people and socially looks after 7 000 veterans of pension age.

These are some of the most important operations of the company:

- 76 000 hectares of agricultural land growing wheat, barley, corn, Soya-beans, peas, sunflower, vegetables.
- A feed mill with a capacity of 120 000 tons of compound feed per year. All the production of the feed mill is exclusively consumed at the farms of the company.
- A cattle fattening complex with 8200 animals produces over 3000 tons of beef per year
- Milk farms, with around 6000 milking cows produces over 25 000 tons of fresh milk per year.
- Pig farms with a total of 30 000 pigs
- 7 chicken farms with more than 500 000



layers and a production of 150 million table eggs a year and a broiler production of 4000 tons a year and a broiler breeders farm with a large hatchery

In 2000, the sales amounted to around USD 40 million. The company is well-known in producing high quality products, and in selling its produce at very affordable prices because of its 100% vertical integration.

The company is now in the middle of a modernization process and much of the outdated equipment will be substituted by new models. The most needed equipment in the modernization process is cultiva-

tors and harvesters, and they are renewing the equipment every year. Last year the company invested about USD 3 million in new machinery, and this year they are planning to invest smaller amounts. The company is most interested in equipment that can distribute both liquid and non-liquid fertilizer. When it comes to fertilizer, Agrocomplex imports some fertilizer from abroad, but the market opportunities are rather small for foreign companies because Russia is one of the largest producers of fertilizer in the world.

We were given the following advice to the supply industry of agricultural machinery; introduce the equipment at a low price, so the farmers get to know the products. In this way such companies are able to build a good reputation. Norwegian companies have substantial opportunities to enter the market because of their unique competence within the industry.



*References:
Information collected during
the visit at Agrocomplex
1 February, 2004*



JOTUN

*Should things take
an unexpected turn....*

...be prepared

Ensure your products are well protected
Jotun – protecting all types of exposed surfaces against
all that man and nature can place in their way



Jotun AS
P.O. Box 2021,
N-3248 Sandefjord, Norway
tel: +47 33 45 70 00
fax: +47 33 46 46 13
www.jotun.com



Jotun World-Wide

- In more than 50 countries Jotun assists and advises customers on the most effective solutions to the prevention of corrosion and fouling.
- Jotun is active in every aspect of the coating technology. The expertise is built on investment, innovation and the practical knowledge earned by more than 70 years experience in the coating industry. Jotun is recognised as the leading supplier of high technology coatings and the most advanced range of TBT free antifoulings.

More than 10 years with own set up in Russia

- Jotun's representative office in St. Petersburg was established in 1991. Experienced people are working in many of the large cities in Russia.
- Jotun Russia is active in every aspect of the market, has today a leading position in the shipping market and is a major supplier to the industry and offshore market.
- An important aspect of the work done in Russia is the follow up towards the customers, from ordering to actually applied paint and follow up the performance of the coating system.
- The head of Jotun's representative office in St. Petersburg stresses the importance of using local people when establishing operations in Russia, and thinks that this is the main reason for Jotun's success here.

<http://www.jotun.com>

Comparison of the regions

It is said that Moscow is the heart of Russia, St. Petersburg is the soul and the southern region including Krasnodar Krai is the breadbasket of Russia...

During our visit to Russia we visited all three regions, and it was very interesting to experience the large differences in climate, landscape, architecture and culture, and between the people, their attitudes and way of living.

Concerning business matters, both Moscow and St. Petersburg are so different from other parts of Russia, that it is useful to treat them as separate markets. First, both cities' markets have grown steadily in the post Soviet period, and even though they are not growing at the same rate/pace they are still unique when it comes to people's purchasing power. The increased purchasing power of many citizens is related to Russia's growing middle class, and a more stratified society is evident in the cities, especially in Moscow. Second, both cities are powerful regions but in different fields. Moscow is the political centre of Russia, and all the largest companies, Russian as well as foreign ones have their headquarters here. St.

Petersburg, on the other hand, is known for its shipping competence and as an important centre for the production of consumer products.

There are still opportunities for doing business in these areas, but competition is getting harder and the markets are narrowing. Business potential is not stagnating but the growth is not as prosperous as it was in the 1990s. However, a positive trend is that development is spreading to other regions of Russia, taking advantage of the growth that started in the cities. The changes are mainly due to increase in the variety of consumer goods and the openness towards foreign investments. The market opportunities are therefore more promising in the regions, especially for new business investments. Krasnodar Krai is an example of a prosperous region, which attracts international investors. It is important that foreign companies make use of the competence that already exists in the regions. In order to do business in the rural areas it is crucial to create close connections/ties to local companies and business people who know the market; both in terms of political conditions as well as cultural matters.



Special thanks

This project and the subsequent report would have been impossible to complete without the assistance of numerous people. We give special thanks to:

Name	Position	Company	Contribution
Aleksandr Greber		V.Ships	
Alexander P. Kutkovsky	Commercial Department Manager	Kanonersky Ship Repairingyard	Meeting in St. Petersburg
Alexander P. Mironov	Marketing Director	Petrozavodsk Mash Corp.	For receiving us with great hospitality and kindness, and for information about PetrozavodskMash Corp. and the machine building industry
Allan Christiansen	General Director	Eltek, Russia	Meeting in St. Petersburg
Anna Kamalutdinova	Financial Manager	Jotun	Background on Jotun in Russia
Atle Lillehagen	Sales Director Nordic Retail	Elkjøp ASA	Equipment
Bernt Stilluf Karlsen	Partner	Procorp	Contacts
Bjørn Brunstad	Project Coordinator	Econ Analysis	
Børge Nilsen	IT Director	Deloitte & Touche CIS	Meeting, Information
Christopher Tolliss	Businessman and international consultant		Information
Eivind Borgen	Area Sales Manager	Frank Mohn AS	Meeting in Bergen
Ekaterina A. Blinova	Associate Dean	Plekhanov Russian Academy of Economics	Consumer market
Elena A. Panfilova	General Director	Transparency International, Russia	Information
Elise Lindbekk	Assistant Director	Eksport Finans	Support
Erling Sæbø	Country Manager	DnV	Meeting, Information
Esa Teräväinen	Head of Corporate Banking Nordic Clients	International Moscow Bank	Meeting in Moscow
Evgeny Berezin	Manager	Bedford Group Services	Information on logistics and general trends
Evgeny V. Gromyko	Trade and Economic spokesman for Governor of Krasnodar Krai	Krasnodar Region Administration	Meeting in Visilki
Hallvard Bakke		Europaprogrammet	Meeting
Hans Christian Bangsmoen	Information Director	Wilhelm Wilhelmsen	Meeting in Oslo
Hans Morten Bjørge		SBB Ltd	City of Krasnodar
Hans Traaholt		Norsk Hydro	Meeting in Moscow
Harald Rokke	Assistant Director	Eksport Finans	Support, Contacts
Helge Hummel	Sr. Consultant Human resources	NTC	Support/contacts
Henrik Falck		Barwil	Meeting in Oslo
Henrik I. Wessert	Market coordinator, Russia and Eastern European territories	iTicket AS	Information
Hugo Overgaard	Senior Adviser	Europaprogrammet	Meeting
Haakon Christian Andersen		Orkla Foods	Information
Igor Kabarov	Student	NHH	Bergen
Ingebjørn Røren	Market analysis manager	Ulstein design	Information
Inger Marethe Egeland			Pedagogical Forum, Moscow
Irina I.Skorobogatykh	Associate prof. Marketing department (PhD Econ)	Plekhanov Russian Academy of Economics	Consumer market
Jan Borgen	General Manager	Transparency International, Norway	Information
Jarle A. Hansen	Direktør Strategi og informasjon	Norges Sildesalgslag	Meeting
Juoko Nevala	Vice President Country Manager		DNV-Meeting

Special thanks

Karl Kleive	CEO	Webilities	Websites and technical support
Knut A. Mugaas	Sr. Advisor Sales and marketing	NTC	Support/contacts
Konstantin Osetrin	Dean	Tomsk State Pedagogical University	Meeting
Konstantin Shepkin	Agency Department Manager	Barwil Novorossysk Ltd	
Kris. I. Moberg		K.I. Moberg consulting	
Kåre Storvik	Board Member	Storvik&Co	Meetings, Information
Lars Morten Nordlie		Sarpsborg Shipping Partner	Information
Lera, Svetlana, Nina, Misha and Dimitry	Students	Plekhanov Russian Academy of Economics	Consumer market
Luba Bychkova		NTC	Moscow
Maxim Topper		Alfa Bank	Banking
Nadezhda V. Martynova		Russian Bank for Development	Banking
Nikolai Shavrov	Head of St.Petersburg Office	Innovation Norway	Meeting, Information, Visit on ship yard in St. Petersburg
Oleg Konnov	Partner	Salans Law	Tax and legal system
Olga Philippenko	Financial and project mgr.	Innovation Norway	Consumer market
Olga V. Saguinova	Director of graduate school, professor in Marketing	Plekhanov Russian Academy of Economics	Consumer market
Per Anders Hem	Commercial Counselor	Innovation Norway	Contacts
Per Leikvang	Foreman	The Norwegian Polytechnic Society	Support/contacts
Petr Zubkov	Web manager	Vneshmarket	Meeting
Pierre Mema	Consulent	Adviser of AgroComplex	Krasnodar, Visilki
Ragnhild Borchgrevink			Presentation
Sigurd Larsen	Senior Vice President Port & Marine Services	Barwil agencies AS	
Steinar Moe	General Manager	Vedlikeholdsteknikk AS	For organizing our trip to Petrozavodsk
Stewart Clarck	Adviser	The Norwegian University of Science and Technology	English language advice and useful help with our work.
Svetlana Denissova	Consultant	IM Russia partners	Consumer market
Thor Andre Lunder	Student	Plekhanov Russian Academy of Economics	General help and information
Tikhon Oleinikov	Msc-student	NSM	Desk Research Consumer market
Timen Nikolaj	CEO	Remma-Rent	Consumer market
Venidikt Staritsyn	Deputy head of representative office Jotun	Deputy head of representative	Jotun in Russia
Vitaliy A. Kuskov	Marketing Department, Foreign Activities Division Chief	Petrozavodsk Mash Corp.	For receiving us with great hospitality and kindness, and for giving us an excellent tour of the facilities at PetrozavodskMash Corp.
Vladimir Gnatyk	Head of representative office Jotun	Jotun	Jotun in Russia
Vladimir Ryashin	Consultant	Intsok	Meeting, Information
Øyvind Nordsletten	Ambassador of Norway to Russia		The Royal Norwegian Embassy
Øyvind Olsen	PR manager	Ulstein Mekaniske Verksted Holding ASA	Information and guidance

Sponsors

Aeroflot

Asono

BI

BP

Denofa

Det Norske veritas

Econ

Eksport finans

Eltek

Flytoget

Frank Mohn

Hardanger Sylvplett

Havstad Tinn

Havyard Leirvik AS

Hydro

Innovation Norway

Jotun

Kverneland Group

Montel AS

Moss Maritim

Noraudit

NTNU

Orkla

Pasvik Turist

Porsgrunn porselen

Powel

ProCorp

Prosessindustriens Landsforening (PIL)

Raufoss Water and Gas

Selmer

Shipping Partners Sarpsborg

Sildesalgslaget

Sintef

Statkraft

Statoil

Tekna

Telemark Wood Company

Tine

Tinfoss

Ullstein

Vedlikeholdsteknikk

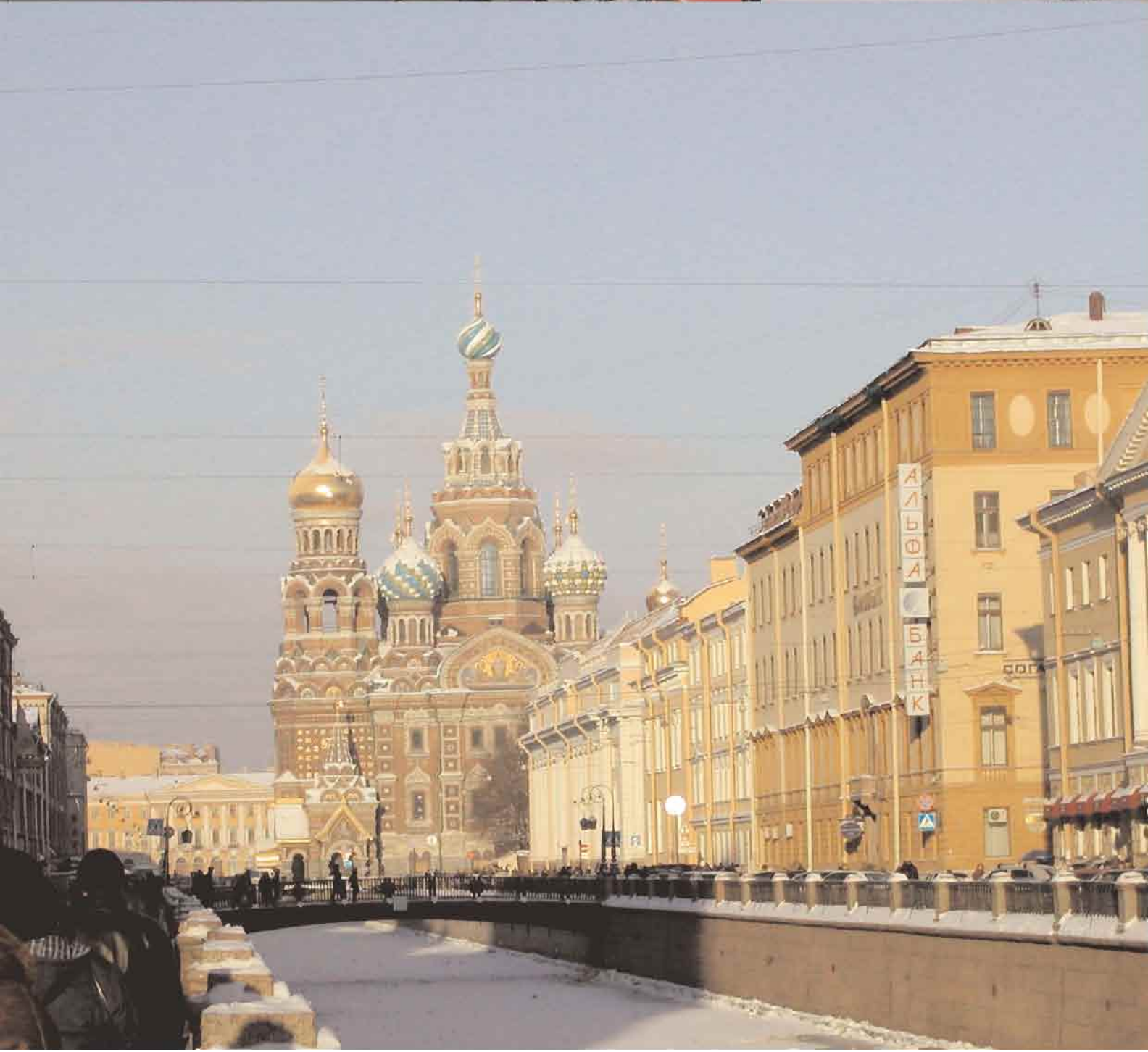
Westcoast

Wikborg Rein

Wilhelm Wilhelmsen







Project members



Aslak Mæland (23)

Is from Oslo in eastern Norway. He will receive his Masters of Science degree in Environmental Energy Engineering at the Norwegian University of Science and Technology in May 2006. Areas and sectors of responsibility: Oil and Gas, Energy and Environment

Elin Irgens (22)

Is from Kragerø in southern Norway. She will receive her Masters degree in Industrial Economics and Technology Management at the Norwegian University of Science and Technology in June 2006. Areas and sectors of responsibility: Technology, Transportation and Logistics, Corruption, (Oil and gas)



Jørgen Færevaa (23)

Is from Oslo. Attending the third grade in Management Engineering and Industrial Economy with information technology background and specialization within finance and statistics, and will receive my degree in Master of Technology from the Norwegian University of Technology and Science.

Torhild Kvam Fikseanet (22)

Studies at the Department of Marine Technology at the Norwegian University of Science and Technology, NTNU. Specializing in the field of Industrial Ecology and planning to receive her Masters of Technology degree in the spring 2006. Areas of responsibility: Politics, History and Culture, (co-responsible for: Transportation and Logistics, Corruption)



Anne Dingstad Vabø (22)

Is from Spydeberg in eastern Norway. She will receive her Masters of Science in Business degree from the Norwegian School of Economics and Business Administration in 2006. Areas and sectors of responsibility: Framework for doing business, International Management, Shipping, Culture and Tourism.

Harald Solum (23)

Is from Oslo. Third year student, the Norwegian School of Economics and Business administration, NHH. Will receive his diploma in June 2005. Areas and sectors of responsibility and contribution: about Shipping, Herring, Natural Resources, Media. Oil and gas.





Rannveig Nygård Eriksen (23)

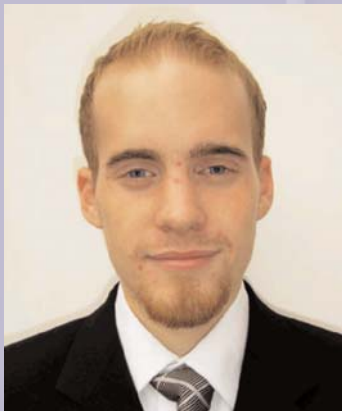
Is from Odda in western Norway. She will graduate from the Norwegian School of Economics and Business Administration in December 2004 with a Masters of Science in Business degree.

Areas and sectors of responsibility: Society and Health, Agriculture, Krasnodar Krai and Shipping

Torbjørn Nordenborg S. Sandbukt (25)

Is from Øksendal in western Norway. He will graduate from the Norwegian school of Economics and Business Administration in June 2005 with a Masters of Science in Business degree.

Areas and sectors of responsibility: Shipping, Fisheries, Agriculture, Krasnodar Krai & Culture.



Christian Dechsling (25)

Is from Fredrikstad in eastern Norway. He will receive his Masters of Business and Economics degree at the Norwegian School of Management in 2005. Areas and sectors of responsibility: Shipping and the Russian Legal system.

Kristine Vergli, (24)

Is from Oslo. She will receive her Master of Science degree in Finance from the Norwegian School of Management in June 2004. Areas and sectors of responsibility: Economy and the banking sector.



Johan Swärd (30)

Is from Eskilstuna Sweden. Graduating from Norwegian School of Management 2004, with a Master of Science degree in Strategy. Areas of responsibility; Project manager and writing about the consumer market.

Anna Sundberg (32)

Is from Trysil in eastern Norway. She will receive her Master of Science degree in International Management from the Norwegian School of Management in June 2004. Areas and sectors of responsibility: Responsible for coordination of sponsors, as well as writing about Business Culture and Consumer Market in the report.





Next Year: China



China, (People's Republic of China), is situated in eastern Asia, bounded by the Pacific in the east. China is the third largest country in the world, after Canada and Russia, it has an area of 9.6 million square kilometers, or one-fifteenth of the world's land mass. It had a population of approximately 1.4 billion in 2003, accounting for 1/5 of the world's population.



Ever since the opening policy of developing economy in 1978, the reform in economic as well as political has led to a prosperous future. During the past 10 years, China has had an economic growth rate of 7-8% annually, which makes it one of the fastest developing economies in the world. It has become the 'world processing factory', attributed to the competitive cheap labor and the good quality. The policy for FDI will be much appreciated, especially in some big trade zones such as Shanghai, Guangdong province, Yanzi River Delta, etc. After entering the WTO in late 2001, China's policy has become more attractive, thus making it easier for FDI to access the regulated market.

Earlier project countries:

Singapore 1984/1985
Brazil 1985/1986
Australia 1986/1987
Italy 1987/1988
China 1988/1989
Thailand 1989/1990

Russia and the Baltic states
1990/1991
Portugal 1991/1992
Mexico 1992/1993
Hungary 1993/1994
Chile 1994/1995
South Africa 1995/1996

India 1996/1997
Indonesia 1997/1998
The Baltic states 1998/1999
Brazil 1999/2000
South Korea 2000/2001
Poland 2001/2002
Turkey 2002/2003

MAIN SPONSORS



Russia



Norwegian School of Management

Elias Smithsvei 14
P.O.Box 580
N-1302 Sandvika
Tel: +47 67 55 70 67
Telefax: +47 67 80 41 61



Norwegian university of Science and Technology

Stud.Post 133 - NTNU
N-7491 Trondheim
tel: +47 73 59 57 65
Telefax: +47 73 59 52 10



Norwegian School of Economics and Business Administration

helleveien 30
N-5045 Bergen
Tel: +47 55 95 94 35
Telefax: +47 55 95 94 35

e-mail: ib@ib.no