

COMMERCIAL UPDATE - SAKHALIN REGION, April 2004 (Russian Far East)

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Oil and Gas.

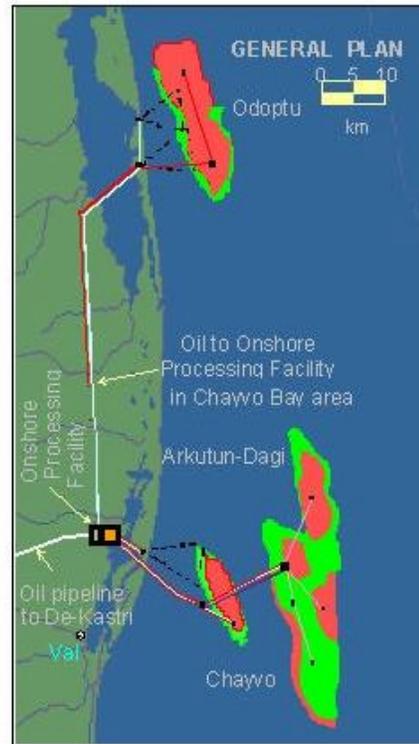
Sakhalin-1 construction Feasibility Study for the facilitation and fuel extraction objects obtained State approval.

The approval is one of the key project stages and will allow to start Chaivo oil extraction on time in 2005. Feasibility study approval was preceded by the positive conclusion on the project given by the State Environmental Expertise of the Russian Ministry of Natural Resources. (*Source – Reuter; sakhpa.ru April 12, 2004*)

Rosneft-SMNG and Exxon Neftegas Limited discusses mutual work on Sakhalin-1.

At the meeting, which took place in Houston at the end of April, the companies discussed their future cooperation on Sakhalin-1 activities, construction of industrial infrastructure and Odoptu field development. Rosneft-SMNG has a drilling base and ready-to-use infrastructure at the area of Odoptu development; ENL will use these available facilities. According to Mr. Ramil' Valitov, Rosneft-SMNG General Director, in 2002 his company completed Sakhalin-1 related contractor work for USD 79 million. This year, subsidiaries of Rosneft-SMNG are going to complete contractor work for 20-25% of ENL 2004 project budget (budget makes up about USD 1.4 billion). One of the large contracts to be signed by JSC Sakhalinmorneftegaz in cooperation with VECO (USA) is for manufacturing of packages (module equipment) for the hydrocarbon treatment onshore processing facility at Chaivo. The equipment will be manufactured in Canada, South Korea and Sakhalin. (Source – TIA Ostrova, April 14, 2004)

Picture taken from ENL presentation



ENL announced the major office construction phase.

On April 16, the company announced about the major phase in permanent office construction in Yuzhno-Sakhalinsk. The contractor is Bouyguesstroi, the Russian subsidiary of a French company Bouygues; Transstroy Sakhalin (Russia) is the major subcontractor. The new building will accommodate more than 300 workers (the area is 12 thousand square meters). The facilities will include 5-storey office with a multi-level parking lot for 200 vehicles. The adjacent area will also have a parking lot for 48 vehicles. Total cost of construction is estimated at USD 80 million; the construction is to be finished in the II-nd quarter of 2005. (Source – TIA Ostrova, April 19, 2004)

Contract for Orlan Platform modernization handed over to a South Korean company.

The contract is handed over from Amursk Shipyard. The news was announced by Governor Malakhov, who returned from the Sakhalin-1 Authorised State Body meeting, held in Moscow in April. Mr. Malakhov stated that the plant is behindhand in schedule; by April 22nd the shipyard was to complete 88% of planned work, but completed just more than a half of it. Mr. Malakhov also noted that on Sakhalin-2, Russian contractor from Volgograd is late in manufacturing of the special hydrocarbon tanks and the contract is virtually about to be terminated. (Source – www.sakh.com, April 26, 2004)

In 2005, Sakhalin-1 will deliver LNG to Khabarovsk Krai.

The agreement was signed with the representatives of Khabarovsk Krai Administration. The planned volume of delivery is about 2-3 billion cu. meters per annum. Sakhalinmorneftegas infrastructure is being studied in order to determine if it is suitable for oil delivery to the Krai. (Source – RIA Novosti Agency, April 26)

Sakhalin-1 first oil to be extracted in January 2006.

The schedule was approved at the shelf projects Administrative State Body meeting in Moscow. In January, it is planned to start the first phase of the extraction, with 25 million metric tons of oil extracted per annum. The second stage will commence in December 2006, when the extraction starts at full scope.

Governor Malakhov stated that the Sakhalin Region Administration is not happy with the gas marketing of Sakhalin-1. As he said, negotiations are held with Japan, South Korea and China, but it is early to say about any progress. (Source – RIA Novosti Agency; *sakhipa.ru*, April 26, 2004)

Svarochno-Montazhny Trust started Sakhalin-2 trunk oil and gas pipeline welding.

In April, 2004 the company welded 1.5 kilometers of pipeline. In 2003, Starstroj was awarded a tender for the trunk pipeline construction. The length of each linepipe is more than 800 kilometers. The project consists of four phases – Nogliki & Tymovsk Districts (SMU-4, Omsknefteprovodstroj and Vostoknefteprovodstroj as subcontractors), Tymovsk and Snirnykh districts (Kuban'neftegasstroj), Poronaisk & Makarovski districts (Lizingstroimash and Tatnefteprovodstroj), Dolinski & Korsakov Districts (Svarochnomontazhnyj Trust). In 2003 Starstroj and its subcontractors completed work for the amount of almost USD 2.1 million. Local railway transported 1.5 thousand cars of different structures and equipment for the temporary mancamps and 2700 cars with pipes. 950 units of heavy machinery were brought to Sakhalin from the mainland. More than 83 thousand metric tons of pipes were trucked, part of the pipes is still located at Zapadnyj Port in Kholmsk. 200 kilometers of route is cleared of forest so far; more than 2.5 thousand people work at 4 phases of the pipeline, more than 800 of them are Sakhaliners, in 2004-2005 the amount of workers shall reach the figure of about 5 thousand people. (Source – TIA Ostrova, April 20, 2004)

Sanitary and Antiepidemic Committee of Sakhalin region to take rigorous measures against Sakhalin-1 and 2 subcontractors, who violate sanitary requirements.

At the meeting, held in the Regional Administration, the officials stated that the companies working on Sakhalin have to act according to the existing norms of Russian legislation, otherwise the Administration will question further possibility of such companies activity on Sakhalin. Special groups were created at the Regional Sanitary-Antiepidemic Committee, which include the representatives of law machinery, Migration Service and Health Department. The groups carried out examinations at the districts where the construction for oil and gas projects is going on. The list of incoming workers, by profession, who have to undergo medical tests, will be also prepared. 20% of all AIDS-infected in the region are people who came from other regions of Russia (122 people officially registered in total). During the two past years, about 13 thousand people officially came to Sakhalin. The Vice-Governor on Social Sphere, Ms. Lubov Shubina underlined, that the Administration would take all possible measures in order to bring the sanitary situation back to normal. (Source – TIA Ostrova, April 01, 2004)

Chiyoda Trust representatives visited Sakhalin.

The delegation came to discuss LNG plant construction issues and to meet with the Sakhalin Governor Mr. Malakhov. Chiyoda Trust, together with Toyo Engineering established JV CTSD, including Russian partners Khimenergo and NIPIGaspererabotka for the construction of the first LNG plant in Russia. This is the second meeting of Chiyoda management with Governor Malakhov in the past two weeks. The first meeting took place in Qatar, at the *LNG-14* Conference.

In 2007, the plant should start shipping LNG to Japan. (*Source – The Press Center of Regional Administration, April 05, 2004*)

Fisheries.

According to the official statistics, Sakhalin fishermen exported more than 160 thousand metric tons of seafood in 2003.

In 2003, Sakhalin enterprises manufactured 422.6 thousand metric tons of seafood products (including canned food), which is 21.12% more than in 2002. Frozen seafood and canned products output increased; in total, canned food manufacturing increased by 44%, specific share of fishing industry output in total for Sakhalin region economy increased from 25.71% in 2002 to 30.98% in 2003. 162,330.7 metric tons of seafood were exported, increasing export by 21.88%, compared to 2002. In money terms, export of seafood made up USD 236 million 99.8 thousand. (34.66% increase). The major part of exported seafood goes to Japan – 41%. Investments into fixed capital made up RUR 572,218 thousand (about USD 20 million) – 58.3% increase compared to 2002. Tax proceeds from fishing industry made up more than USD 23 million (116.3% to the level of 2002).

In 2003, catch of seafood made up almost 463.9 thousand metric tons, which is 25.82% more than in 2002.

Major items of fishery are –

Pollock – 222.5 thousand metric tons (compared to 147.1 in 2002);

Salmon – 117.5 (66.4);

Herring – 23.4 (29.2);

Pacific saury – 16.4 (19.3).



Out of all fishing quota available for Sakhalin, the following remain unclaimed – 1) kelp (in Western Sakhalin and South Kuril fishing zones), more than 100 thousand metric tons in total, 2) anchovy (same fishing zones) – more than 44 thousand metric tons. Not fully claimed were also navaga (3.2 thousand metric tons), rasp (1.5 thousand), flounder (4.3 thousand), herring (4.5 thousand), saury (3.5 thousand). Navaga and salmon catch season was quite successful in 2003, as the Regional Fishing Department reports;

117,496 metric tons of salmon was caught. In order to keep salmon farming, farms received quotes for 3903 metric tons of fish. 80% of all salmon catch was sent to the onshore processing plants (94 thousand metric tons), 12144.5 tons (10.3%) – to processing vessels, and 11376.6 tons (9.7%) to the processing vessels of other regions.

Fish farming of pacific salmon plays a key role in support and increase of current salmon population. At the moment, 16 State-owned and 9 private fish farms are involved into farming. Regional Administration is supporting the initiatives of private companies to build salmon fish farms and nurseries. In 2002 only, all farms released more than half a billion young salmon into rivers – $\frac{3}{4}$ of the total for the RFE fishing farms. As the research shows, local natural conditions allow to increase salmon reproduction by construction of fish farms and isolated nurseries, as well as by preserving and widening the existing natural spawn areas. Private companies have funds available for the investment into fish farming, as the Administration reports.



Some positive results were achieved by the industry, the onshore processing was developing, salmon catches reached the historical maximum during the past years, the new coastal fishing objects are developed.

(Source – TIA Ostrova, April 01, 2004) Pictures taken from internet – author unknown.

Business Community.

Tour Business of Sakhalin is integrating.

The new project, called Tourism Development Facilitation Center, was presented in Sakhincenter on March 31st. As a part of this project, this non-commercial center signed an agreement on cooperation with the Regional Foreign Economic and Interregional Ties Committee. The goal is to unite all tourism resources available in the region for their effective utilization. In 2003, 4 thousand tourists visited Sakhalin, which is not much. The Head of the Tourism Development Department of the Committee Ms. Natalya Ivanova urged the local tour operators to cooperate, promising help of the Committee from her side. It is also planned to create an information internet-portal for Sakhalin.

Lately, the competition between tour operators on Sakhalin increased – tour companies from Kamchatka, Vladivostok and Khabarovsk open branches in the region to provide services of external travel tourism, which is connected with increasing paying capacity of Sakhaliners. The services are offered at lower prices than previously available in the region. At the moment, 54 tour operators are registered on Sakhalin; 44 companies have tour agent license, 22 – tour operator license. 18 companies are involved into internal travel tourism and the competition in this sector is rather high.

(Sources – TIA Ostrova, April 01, 2004; Deita.ru, April 12, 2004)

EBRD-supported project for study of the administrative barriers for investment started in Sakhalin region.

EBRD confirmed financing for such a project in Sakhalin region. Preliminary work was already carried out last year by the Regional Committee for Economics and the potential participants. The major stage started in April with questionnaire for legal entities and private entrepreneurs from 5 towns of the region. The organizers also envisage a seminar on establishing the favorable investment climate for entrepreneurs, citing examples from the activity of Sakhalin companies. An important detail of the project is to keep all names anonymous. The report on the project will be ready by fall of current year. (Source – TIA Ostrova, April 09, 2004)

Poronajski Beer Plant has a chance to be reconstructed.

The plant's activity ceased about 10 years ago and the enterprise officially undergoes bankruptcy procedure. As TIA Ostrova agency informed, two private entrepreneurs are interested to restore manufacturing at the plant, but not only at the beer line. They worked out a project worth about USD 345 thousand, which includes manufacturing of juices, jam, pasta, frozen vegetables, vacuum-packed mushrooms and soft drinks; it is planned that part of the products will be exported and the potential owners of the plant already negotiated berry products deliveries with foreign partners. The new plan envisages creation of 86 working places, the old equipment is to be redeemed together with the purchase of the new one. The entrepreneurs plan to apply for a bank loan and asked Poronaisk Administration to be a guarantor. So far, the officials did not give positive answer, waiting for the business-plan expertise. (Source – TIA Ostrova, April 22, 2004)

Warehouse/workshop facilities in Yuzhno for lease/sale.

Lesco Co. Depot.

Address: 5A Kholmsk Shosse , Yuzhno-Sakhalinsk

The owner is Yurek Transport, LTD, ownership certificate 65-? ? ? 021598 (The land at the site is in ownership until 2022.

5-minute drive from city center. The production depot includes:

- Industrial block, constructed of reinforced concrete, 120x36 meters (394x118 feet), total area 4032 square meters (used; total- 4320) (43400 (46500) square feet), height – 9 meters (29.5 feet).
- Two-storied administrative building, total area 780 square meters (8395.8 square feet).
- Dead-end siding at the depot;
- Workshops and utility rooms;
- The area of the depot makes up 2.23 hectares (26670.58 square yards)

Vehicle access ways, communications lines available.



After repairs, can be used as a warehouse or facilities for equipment. Sale, lease or mutual utilization of the depot possible. Please send your enquiries to BISNIS Representative, Elena Sabirova, at Elena.Sabirova@mail.doc.gov; tel. in Yuzhno-Sakhalinsk - +7-4242-728335 (GMT +10).

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