TURUN KAUPPAKORKEAKOULU
Turku School of Economics and Business Administration

THE RUSSIAN MILLION CITIES – BUSINESS OPPORTUNITIES AND STRATEGIES FOR FINNISH SMALL AND MEDIUM SIZE ENTERPRISES

Peter Zashev

Electronic Publications of
Pan-European Institute, 12/2004

http://www.tukkk.fi/pei

I would like to express my gratitude to the Paulo Foundation and the Academy of Finland. Without their research funding, this investigation could not have been accomplished.

Executive Summary

The Russian market has been always of interest for Western companies. With 145 million people, abundant natural resources and underdeveloped markets Russia certainly represents significant business opportunity.

During the last 15 years the Russian political and socio-economic environment experienced great turbulence. Thus entering the Russian market was an option mostly for big multinational companies with the resources and skills to operate in a high-risk environment. For Small and Medium Size Enterprises /SMEs/ the risks and were far too big to permit them enter the market and expand their business in Russia.

The Russian economy bottomed up after the 1998 crisis and some political stability was established since Vladimir Putin assumed Russian presidency. Political stability, industrial revival and high oil prices led to booming incomes and consumer spending. The Russian business environment certainly became more favourable as it reached some early maturity. That brought some clarity about the participating economic agents and made "the rules of the game" more transparent even if not universally applied. Western concepts of marketing, financing, advertising etc. increasingly apply to the Russian conditions provided that the local specifics are accommodated.

The Russian market is not a homogenous space. There are the two biggest cities of Moscow and Saint Petersburg as well as something that often in business circles is referred to as "the regions". Typically when looking for business Finnish SMEs are using what could be called a geo-centred approach of entering the Russian market in Moscow and Saint Petersburg. The assumptions are that these are the richest cities in Russia with the biggest business opportunities. However, the fact is often neglected that the competition level there is at its strongest and that the entry costs are among the highest.

"The regions" are however a very concrete place that includes 11 million cities and 20 cities with population over half a million people. "The regions" are where the Russian raw materials come from and where most of the industry is located. "The regions" are where 130 million Russian live. This report concentrates on the compact concentrations of consumers and industries – the 11 Russian million cities.

There are many factors that make the 11 million cities represent an excellent business opportunity. Their city profiling industries and enterprises are in most cases in private hands and with a new management. All these companies have investment plans for modernization, new machinery, technological upgrades etc. – most of which must come from the West. The potential demand is quite vividly highlighted by the fact that only 13% of the capital funds in Russia are less than 10 years old. The growing incomes of the 11 million cities population are also resulting in a demand for quality consumer goods. The cities are also spending increasing amounts on infrastructure.

Until now often the million cities were doing business with Western companies through Moscow or Saint Petersburg intermediaries. Reaching them directly may certainly enhance the export potential of Finish SMEs. All these will suggest that the 11 million cities present many and interesting business opportunities if one knows about them and is able to utilize them.

Therefore the two main objectives of this report are (1) to highlight the business opportunities that exist in the 11 million cities for export oriented Finnish SMEs and (2) to build a reasonably feasible and executable strategy that can help Finnish SMEs utilize these opportunities.

CONTENT:

EXECUTIVE SUMMARY **1**

INTRODUCTION **5**

CHAPTER I. ACCESSING, GENERATING AND DOING BUSINESS IN THE RUSSIAN MILLION CITIES **8**

1. THE RUSSIAN BUSINESS ENVIRONMENT A DECADE LATER 9
   1.1. Macroeconomic background *10*
   1.2. Political and legal environment *12*
   1.3. Revival of the economy *13*
   1.4. Implications for Finnish SMEs *15*
2. INITIAL PREPARATIONS 16
   2.1. Common misconceptions *16*
   2.2. Limitations for Finnish SMEs *18*
   2.2. Network of contacts and the right partner *19*
   2.3. Getting the geography right *20*
3. RUSSIAN REGIONS AND BIG CITIES AS SALES TARGETS 22
   3.1. Administrative division of Russia *22*
   3.2. Russian million cities as a sales target *24*
   3.3. Natural Resources in Russian Regions *30*
4. REACHING THE RUSSIAN MILLION CITIES: PREPARING AND BUILDING AN ENTRY STRATEGY 35
   4.1. Market or industry analysis *36*
   4.2. Decision making *37*
   4.3. Reaching the Russian Million Cities: action plan *39*

CHAPTER II. THE SOUTH OF RUSSIA **43**

1. ROSTOV-ON-DON 44
   1.1. Rostov-on-Don and Rostov region - general outline *44*
   1.2. Main industries and city profiling enterprises *51*
   1.3. Consumer markets *56*
   1.4. Establishing a business presence *58*
2. VOLGOGRAD 62
   2.1. Volgograd and Volgograd region – general outline *62*
   2.2. Main industries and city profiling enterprises *67*
   2.3. Consumer markets *73*
   2.4. Establishing a business presence *74*

CHAPTER III. THE VOLGA 3 ..... **78**

1. NIZHNY NOVGOROD 79
   1.1. Nizhny Novgorod and Nizhny Novgorod region – general outline *79*
   1.2. Main industries and city profiling enterprises *84*
   1.3. Consumer markets *92*
   1.4. Establishing a business presence *94*
2. KAZAN 99
   2.1. Kazan– general outline and perspectives *99*
   2.2. Main industries and city profiling enterprises *107*
   2.3. Consumer markets *111*
   2.4. Establishing a business presence *112*
3. SAMARA 117
   3.1. Samara and Samara region – general outline *117*
   3.2. Main industries and city profiling enterprises *123*
   3.3. Consumer markets *127*
   3.4. Establishing a business presence *128*

CHAPTER IV. THE URAL'S 1+3 ..... **134**

1. UFA 135
   1.1. Ufa and Republic of Bashkortostan – general outline and perspectives *135*
   1.2. Main industries and city profiling enterprises *142*

1.3. Consumer markets ... *146*
1.4. Establishing a business presence ... *148*
2. PERM ... 153
2.1. Perm and Perm region – general outline and perspectives ... *153*
2.2. Main industries and city profiling enterprises ... *160*
2.3. People and consumer markets ... *164*
2.4. Establishing a business presence ... *166*
3. CHELYABINSK ... 172
3.1. Overview of Chelyabinsk and Chelyabinsk region ... *172*
3.2. Main industries and city profiling enterprises ... *178*
3.3. Consumer markets ... *182*
3.4. Establishing a business presence ... *183*
4. YEKATERINBURG ... 188
4.1. Yekaterinburg and Sverdlovsk region– general outline and perspectives ... *188*
4.2. Main industries and city profiling enterprises. ... *193*
4.3. People and consumer markets ... *197*
4.4. Establishing a business presence ... *198*

CHAPTER V. BEHIND THE URALS ... 204

1. NOVOSIBIRSK ... 205
1.1. Novosibirsk and Novosibirsk region – general outline ... *205*
1.2. Main industries and city profiling enterprises. ... *208*
1.3. Consumer markets ... *212*
1.4. Establishing a business presence ... *213*
2. OMSK ... 217
2.2. Omsk – general overview and perspectives ... *217*
2.2. Main industries and city profiling enterprises ... *221*
2.3. Consumer markets ... *225*
2.4. Establishing a business presence ... *226*

CONCLUDING REMARKS ... 229

1.1. THE RUSSIAN MILLION CITIES AND THEIR STRATEGIC GEOGRAPHY ... 229
1.2. MAIN INDUSTRIES AND CITY PROFILING ENTERPRISES ... 229
1.3. CONSUMER MARKETS ... 231
1.4. BUSINESS PRESENCE ... 232

SOURCES: ... 234

CHAPTER I. ACCESSING, GENERATING AND DOING BUSINESS IN THE RUSSIAN MILLION CITIES ... 234
CHAPTER II. THE SOUTH OF RUSSIA ... 236
Rostov on Don ... *236*
Volgograd ... *237*
CHAPTER III. THE VOLGA 3 ... 238
Nizhny Novgorod ... *238*
Kazan ... *240*
Samara ... *241*
CHAPTER IV. THE URAL'S 1+3 ... 242
Ufa ... *242*
Yekaterinburg ... *243*
Perm ... *245*
Chelyabinsk ... *246*
CHAPTER V. BEHIND THE URALS ... 248
Novosibirsk ... *248*
Omsk ... *249*

Introduction

As the globalisation process continuously brings the world closer, going international, became from a privilege only to huge companies an available option also for Small and Medium Size Enterprises /SMEs/. However, in the case of SMEs a regional approach often proves to be the more logical and easier expansion on an international scale. Still, SMEs are not necessarily restricted only to a certain region defined by geographic proximity. The new technologies and practices in international business furthermore allow them within certain limitations to choose their market regardless of its geographical distance.

A review of the current state of world economy reveals that Russia and China are perhaps the two economies in the world with a biggest economic growth in the world. The Russian economy appears to be growing for a 5^{th} consecutive year with an annual growth for 2003 standing at above 6% and there are reliable indications that this growth will continue at least in the next several years. Its growth is especially interesting on the background of the stalled growth in Western Europe, slow recovery in the USA and still struggling to recover Japanese economy.

The Russian economic growth continues for more than 5 years and certainly provides with excellent opportunities for expanding one's business to new markets. After Vladimir Putin was elected president and assumed power, the overall situation in Russia and correspondingly its business environment marked considerable improvement. The entry costs for companies willing to enter and operate on the Russian market went down and most importantly the possibility to plan and forecast one's business became a rule rather than an exception.

That opened the door to Russian market wider and increasing number of Western SMEs started their operations in one form or another. As the environment stabilizes and economic growth continues, for many Western SMEs in general and particularly for Finnish SMEs with proximity to Russia, the Russia's economic growth might represent an interesting opportunity for geographic diversification of business. That

could help minimise the risks and consequences of possible continuous economic slowdown in the West.

During the 1990s Western SMEs were not really heading the expansion of Western business to Russia. It was the big multinational companies who were leading the quest. It was a logical development as the level of uncertainty and financial risks involved were quite big and only large corporations were able to absorb them without risking the overall position of their company. But recently the Russian business environment marks some early signs of maturity and thus becomes more predictable and manageable to plan and operate in. The diminishing transaction costs of entry will suggest a growing opportunities for Western SMEs in general and Finnish SMEs in particular.

Typically most of the foreign companies, no matter big or small use a rather *geo-centred* approach and enter the Russian market in Moscow and/or Saint Petersburg. The logic of such choice is obvious as these are the two biggest cities, one of which is the capital with the biggest populations with the biggest purchase power. The two cities also offer comparatively better infrastructure in terms of logistics and communications and are easily reached from abroad. Business culture in Moscow and Saint Petersburg is somewhat closer to the Western one due to the generally more intensive business interaction with Western companies business culture its Western equivalent.

Besides Moscow and Saint Petersburg, there are 11 other million cities in Russia that for Finnish SMEs largely represent white spots on the Russian business map. Therefore the objective of this report is twofold:

(1) to demonstrate the growing market and industry potential of the Russian million cities and stress the fact that their business potential is at present somewhat undervalued;
(2) to elaborate and outline a preparation process demonstrating that it is well within the capabilities of Finnish SMEs to prepare and complete an entry strategy to the markets of the 11 million cities;

The opening chapter of the report discusses the difficulties for Finnish SMEs in entering the million cities markets and builds and outlines a target based preparation strategy that could minimize the risks and optimise the expected results. The chapter plays important role in the report as it provides with a well-elaborated strategy for utilizing the business opportunities that are to be revealed in the following chapters.

Then the million cities are divided into several areas. Rostov-on-Don and Volgograd represent the South of Russia. The Volga three cities are Nizhny Novgorod, Kazan and Samara. The Ural's one plus three are Yekaterinburg, Perm, Chelyabinsk and Ufa. Finally behind the Urals presents the cities of Omsk and Novosibirsk. Such allocation of million cities to geographic areas is not based on a scientific approach but rather aims to give readers non familiar with the specifics of Russian geography an easy concept of memorizing the cities location.

Each city's analysis includes a general review of the city and its region geography, natural resources and economic potential, a brief outline of the city profiling industries and companies and the consumer markets and citizen's incomes. Each city's analysis ends up with practical information about legal assistance, banking, and office space and wage arrears when hiring personnel. Useful contacts are always provided at the end.

As already mentioned, the purpose of this report is to highlight the growing opportunities in the Russian million cities and to demonstrate that they are becoming easier to access and do business for Finnish SMEs. Therefore the information it contains is collected and included based on its practical value and aims at enabling Finnish SMEs to grasp and utilize the existing opportunities.

Chapter I. Accessing, generating and doing business in the Russian million cities

1. The Russian business environment a decade later

In terms of political reforms and economic changes that occurred in Russia, the past decade could be described as rather turbulent. The dissolution of the Soviet Union, a series of poorly designed and semi-implemented economic reforms, drastic changes in the social fabric of the Russian society to name a few, are some of the fundamental changes Russians experienced in only a decade.

Therefore it is quite natural that in terms of business environment such times would be also characterised as turbulent with rapid and unpredictable changes. Another trait of the time is the existence of a complicated tax regime that frequently placed a heavy burden on foreign corporations, an unclear and frequently changing foreign investment legislation as well as insufficient legal protection of foreign business activities; and growing crime and corruption.

The major economic and political developments during the 1990s could be classified broadly in four stages —commercialisation, privatisation, nomenklatura, and statization**.** However, even if with an overzealous participation of the state, the latest developments may suggest some improvement and early maturity of the Russian business environment – a statement that some may not agree with and continue describing it as turbulent. Western concepts of marketing, financing, advertising etc. increasingly apply to the Russian conditions provided that the local specifics are accommodated. In addition in most industries and business fields the privatisation process of the 90s is over as already by mid-1994, almost 70% of the Russian economy was in private hands. That brought some clarity about the participating economic agents and made "the rules of the game" more transparent. From a business perspective the most important changes might be stated as:

- *stable macroeconomic background;*
- *stable political environment with the consecutive improvements in the legislation;*
- *revival of the industrial sector of the economy;*

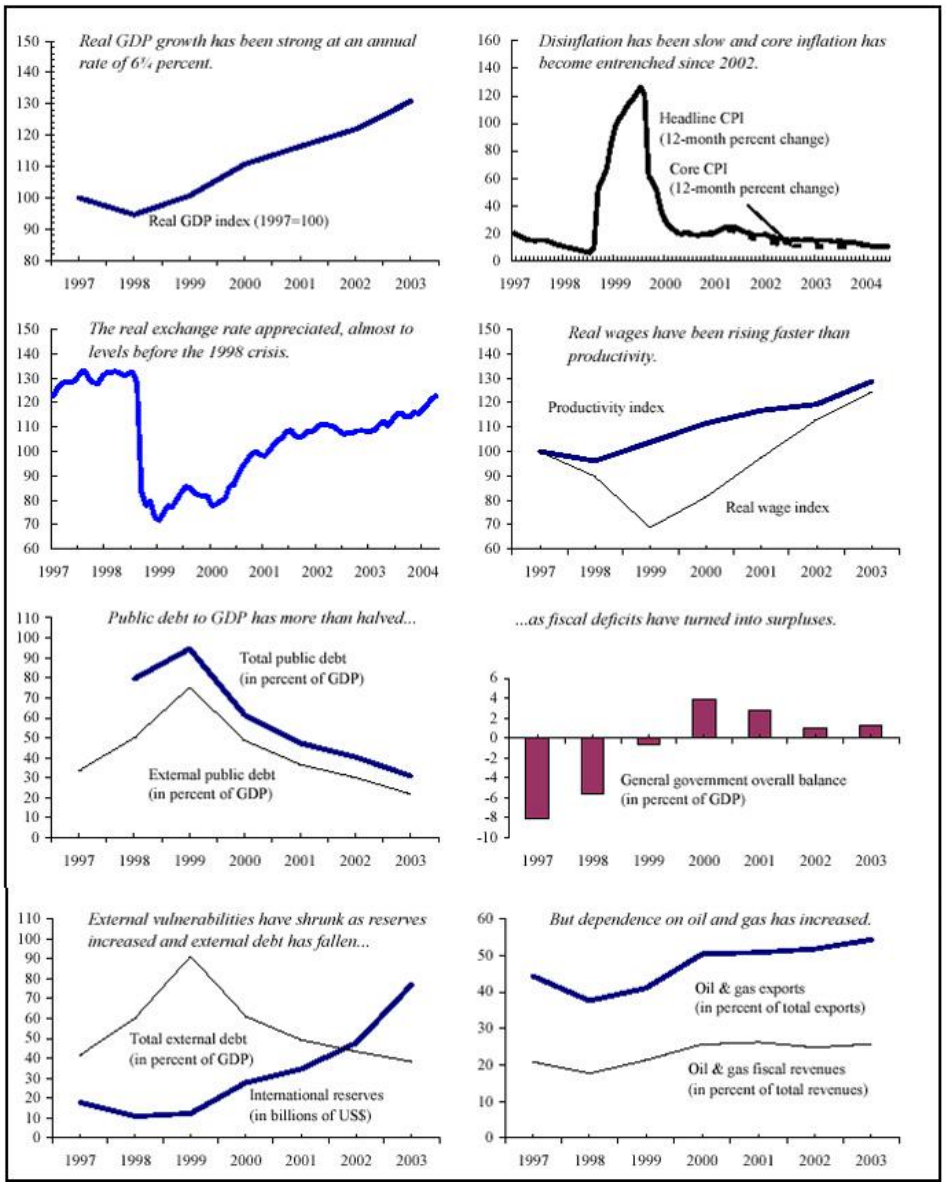
- *a clear rise in the capital investments and the development of Russian conglomerates;*
- *growing living standards and consumer demand;*

A closer look reveals the resulting important implications for Western businesses and SMEs.

1.1. Macroeconomic background

With or without a good reason an indicator that truly matters to many Western businessmen is how the International Monetary Fund (IMF) experts judge the Russian macro economy. One of the latest reviews by the IMF reveals that the Russian authorities succeeded to create a stable macroeconomic environment as outlined in Box 1.

Box 1. The Russian economy since the 1998 crisis (*IMF, 2004*)



GDP growth has increased and become better balanced since early 2003. It rose to 7¼% in 2003, with all main sectors, except agriculture, and most industrial sub-sectors buoyant. Data for the first half of 2004 suggest that growth remains high, around 7½%, and broadly based. The acceleration in 2003 was mainly due to higher investment, but also to increased oil export volumes. With consumption growth still strong, driven by rising real wages, all main demand components are now providing positive stimulus. The strength of growth continues to hinge on the favourable external environment—notably higher energy prices—but the rise in investment is likely also to have been due to political stability, generally sound macroeconomic policies and some structural reforms, suggesting that GDP is increasingly deriving strength from domestic factors as well.

The projection for Russian GPD growth was also raised notably to 7,3% this year and 6,6% in 2005. Russia's current account surplus is expected to decline both in dollar terms, suggesting rapid import growth, and relative to GDP (from this year's 10% to 8% in 2005).

Following the rising prices for oil, gas and metals, Russia's budget continues to produce surplus, especially at the federal but also at regional level. The federal budget surplus is anticipated to remain at around 3,5% of GDP in 2004–05. Inflation would ease slightly to 9% in 2005. In the 1H04 federal budget high energy and metal prices boosted customs duties and natural resource payments, which accounted for 36% of all revenues compared to about a quarter in 1H03. VAT and excise tax revenues dropped, however. At the beginning of 2004, the VAT rate was cut from 20 to 18% and the gas excise tax was removed. In the consolidated regional budget, profit tax revenues became the most important revenue source while federal budget transfers decreased.

Expenditures also went up a bit. The budget draft supports the overarching goals of diversifying the economy, increasing non-resource-based investment and completing the tax reform. Compared to 2004 budget, revenues, expenditures and the surplus (not including the social tax) as a share of GDP would be larger. However, both revenues and the surplus would be smaller than currently projected for 2004 (Ibid.).

1.2. Political and legal environment

Almost all political analysts and observers agree that since President Putin occupied the top of the Russian political structure there are some visible improvements. Even though that some of his methods may not qualify as democratic, the results so far overshadow that concern. Firstly Putin succeeded in stopping the Russian federation disintegration from within because of the virtually limitless powers of the local governors. Secondly, he clearly suggested and sometimes imposed new rules on the Russian business tycoons therefore significantly limiting their influence on governmental decisions. Still, expelling only the most controversial Berezovski and Gussinski and being friendly to most of the others Putin indicated that a new era came in the relations between the tycoons and Kremlin. It seems these would be relations where there will not be a revision of the privatisation's past but also where big business will pay taxes and become socially more responsible. Or so it seemed initially. The latest developments with Yukos' main shareholder Mihail Khodorkovski rise a significant uncertainty how exactly these relations will develop in the future.

Under Putin's administration there is also some clear attempt to simplify the existing Russian legislation. Even though all the results are not yet there, there are signs that the administration could be on the right track. It is a long way to go but still the Russian political and legal framework at the moment is more stable than ever. Even if held in questionable circumstances, the elections of December 2003 do not speak of political instability and perhaps with some irony it could be observed that from business perspective their results were very good. Neither there are surprises expected in the March 2004 presidential elections.

Structural reforms focused on strengthening the investment climate through a combination of tax reform, deregulation, enhancing property rights, and developing financial markets and institutions. Tax reforms simplified the tax system, reduced the tax burden, and broadened the tax base. New laws were introduced on business registration, licensing, and inspections; a new Land Code established the general principle of land ownership for urban land; and a new Labour Code liberalised the hiring and firing of workers and clarified employees' rights. Reform strategies for the

railways and the electricity sector were approved, aiming to restructure, liberalise, and privatise potentially competitive segments of these markets. A pilot scheme was initiated for introduction of International Accounting Standards (IAS) and anti-money laundering legislation was adopted.

1.3. Revival of the economy

The most positive consequence of 1998 financial crisis in Russia was perhaps that Russian entrepreneurs became forced to orient inwards. As importing became loosing enterprise overnight, Russian businessmen turned to the forgotten in the preceding 10 years Russian producers and this symbiosis delivered magnificent results. It was the food and mass consumer goods (FMCG) industries where these changes were most notable.

In 2000-2001, the impact consumer industries upon production growth remained unchanged resulted from both residual effects of import substitution in relation to light and food industry and of currency devaluation inertia. The comparison of monthly dynamics of output of consumer goods showed a gradual decline in the gap between the growth rate in terms of light and food industry output and dynamics of the retail trade turnover (*IET, 2002*).

Consumer spending has been climbing so rapidly, 42% in the past two years - that it is not only attracting retail giants such as Auchan, it is turning Russia into the fastest-growing market world-wide for many major multinationals, including Procter & Gamble, Nestle, L'Oreal, and Ikea.

The growth in investment demand appeared to be a characteristic feature of the economic renewal that started after the financial crisis of 1998. While financial performance of firms was improving and their savings were growing, the demand for capital goods increased from late 1999. This particular tendency intensified in 2000-2001 under the influence of rising demand on the part of export-oriented industries for domestic machine-engineering goods. The output of investment complex grew by one- third over 1999-2001 compared to the 1998 level. In July 2003 real investment

was 11,8% higher on a year-on-year while construction was up 15%. Being subject to developed inter-sector relations, the production growth in machine engineering industry and the sector for construction materials ensured growth in the associated industries' output.

A major constraint to spur Russian economic growth and ease the Russian economic dependence on exporting natural resources, by most accounts, is indeed Russia's capital stock. The trickle of new capital (annually 1–1,5% of fixed assets in industry) and slow exit of capital have caused the capital stock to age badly. Some 45% of production capital on the balance sheets of industrial enterprises is over 20 years old, while only 12-13% is under ten years old. Despite low domestic energy prices and regional and local barriers to competition that have supported a rise of capacity utilisation ratios (to around 50% in the industry in 2003), the usefulness of older stock is questionable.

Investment increased about 60% in 1999 to 2003. It represented a notable demand component in GDP (which grew 40% over the period) and a factor supporting growth. However, the shunning of investment during the uncertain 1990s in Russia crippled fixed capital formation, which was still not higher than 18% of GDP in 2003, i.e. much below the levels that fast-growing economies have typically reached and sustained. In that vein, the economy ministry currently projects that GDP will grow at around 6% per year in 2005 to 2007 if investments increase at about 10% per year.

Investments in Russia also lean towards natural – resource industries, particularly energy and metals. The share of investments in energy production and pipeline transportation is still at least a quarter of total investment (although sectoral data here appears about 1.5 years after the fact; the share is about 30% of investments in the up-to-date data which excludes small firms and the unrecorded economy). The metallurgy sector absorbs about 5% of investment. All other industry branches together account for just 12% of investment – and their share has remained rather constant in the past two years. Thus, while investments in non-oil, non-metal industries have matched the rise of investment generally, a scale needed to propel proper industrial diversification lies ahead. Instead, stronger investment diversification in recent years emerged from telecommunications and trade.

1.4. Implications for Finnish SMEs

The general political and economic climate in Russia experienced considerable improvements during the last six years and recently forms a comparatively stable and more predictable environment. Not entirely stable! There are still serious increments of transaction costs, due to inefficient customs and transportation, as well as a number of related institutional imperfections. Examples of these include poor protection of property rights, excessive degree of corruption, over-regulation and inefficiency of the state bureaucracy, immaturity of business legislation, and substantial degree of state capture.

Still, the economic growth that occurred after the 1998 crisis created conditions for revival of domestic industrial production (especially in FMCG) and the consequent need for capital investments. All these developments led to growing living standards resulting in increased consumer spending that closes the circle by generating increased demands for both products and services. The potential for doing business in Russia is bigger than ever before and illustrated by the advancements of many multinational companies to the Russian market.

The stable environment and growing demand for products and services in Russia certainly offer immense opportunities for Finnish SMEs. Provided that the latter would have the skills and the abilities to build a feasible entry strategy and navigate within the specifics of Russian business landscape.

2. Initial preparations

2.1. Common misconceptions

The image problem

In terms of business environment and general publicity the Western media not exactly pampers Russia. The image the media world continues to project is of lawless country with a lot of poor people, corrupt officials, chaotic economy, and recently added, suspicious democracy. In many Western countries doing business in Russia is contemplated rather as an adventure than as a normal occupation.

The first obstacle for doing successful business in Russia is rooted precisely in that negative attitude. Russia is a market as any other market in the world that basically functions as a market economy with its specificities and particularities as anywhere else (and especially in emerging markets). In many respects Western businessmen still think of Russia and its economy in terms of the beginning or the middle of the 1990s.

One of the most important changes is that the once upon a time valid argument that unpredictability and turbulence make great demands upon firms entering the market is no valid anymore. That will suggest that in the recent Russian business environment it is possible to prepare, plan and operate in a relatively stable and to some extent predictable over mid-term environment.

Market size

Another commonly spread misconception is about the size of the Russian market. On one extreme, businessmen argue that the average incomes in Russia are too low to generate sufficient demand and as a result the market is too small. Such statement would be wrong due to number of reasons, one being that substantial parts of the salaries in Russia are still paid unofficially in envelops. On the average, about one fourth of personal incomes is concealed and not included into the taxable base.

Therefore the general statistics on incomes in Russia could not provide yet an accurate picture on this account.

On the other extreme would be the perception of ”the big Russian market” that is able to absorb almost anything. This attitude originated in the years after the break up of the Soviet Union when almost any Western product had good chances to sell in Russia. Still, these times are gone and today a serious preparation is needed to penetrate the market, to position and promote one’s product.

The common miscalculations of the size of Russian markets leaning towards one or another extreme did fail a lot of businessmen. So how big is the Russian market? It is exactly as big as a thorough market analysis would suggest, adjusted to the fact that the average Russian incomes are higher than officially reported.

Superiority syndrome

The political, economic and social developments in Russia are much more dynamic than in the West and things change much faster. The times when the Russian businessmen had a non-existent knowledge of basic business practices and concepts are gone. And that is why one of the worst mistakes a Western businessman could make is to act based on the assumption of possessing superior knowledge also known as the *”know it all”* attitude. In fact quite the opposite - Russia is far from Western style market economy and contains an immense number of local specifics. The latter are of the type that usually Western businessmen do not know or often refuse to learn and understand. So it is the Russian businessmen that are better prepared and knowledgeable about business and thus being in a more favourable position in the process of business negotiations. That may be changed provided that the Western businessmen make some preliminary preparations and knowledge gathering – a fact that strongly underlines the importance of partner-country-specific knowledge in the case of Russia.

Product compatibility

Interestingly enough, a strategy to enter and operate on the Russian market does not immediately start with exploring the local market itself but rather with a clarification of what and why makes the product/ service on offer competitive. Right after this self assessment would come the initiative to check if the product/ service that is to be offered would position itself within the limits of the Russian local quality expectations, price levels, safety standards etc. At this preliminary point a rough estimate than a precise evaluation may be sufficient. It may prove further explorations and preparation worthless and thus prevent time, efforts and money being wasted.

2.2. Limitations for Finnish SMEs

Unlike big corporations or furthermore Multinational Corporations (MNCs), SMEs quest for internationalisation is framed by hard limitations. These could be broadly described as scarce resources of:

- available finances
- manpower
- time
- difficulty to have a "helicopter view"

Having available finances certainly helps - recruiting extra manpower, visiting potential clients and partners in different parts of Russia, preparing in Russian all types of advertising and promotion materials, renting offices etc.; could be easily conducted in the presence of sufficient finances. The latter also allows widening the time horizon of expectations – and in Russia time is having somehow different dimensions compared with the West meaning that everything takes much longer time. Longer time without doubt results in greater costs.

There is some lower limit of needed financial resources below which an attempt to enter the Russian market will have rather negligible chances for success. There is no clear limit but it is reasonable to assume the annual budget for entry should not fall below €10 000 - €20000.

Another, sometimes even bigger limitation is the availability of manpower. A sales or export manager within the SME could be overloaded with work and thus not be able to direct enough attention or focus to an unknown even if promising market. Hiring a new employee is often not an option for SMEs (especially in over-regulated labour markets).

An average SME is also not always ready (often psychologically) to exercise continuous effort (and investments) over a long period of time. Thus a result is expected and required much sooner than if a big company is entering the Russian market.

Another big problem is the inability of many Finnish SMEs to adopt a "helicopter view" on their business in a global context in general and in its Russian dimension in particular – that is to see their future business with Russian companies through the eyes of their market in its international dimension of global competition, through the eyes of their potential Russian customers, through the eyes of international merchants as opposed to domestic producers. Such a "narrow mindedness" and lack understanding of market specifics is potentially poisonous for any international business expansion. Still, when applied to the Russian specifics it immediately reflects in an inability to cope with the business reality.

2.2. Network of contacts and the right partner

It is often said that in Russia (and not only) it is personal contacts that matter in doing business. That is correct and many Western businessmen do not plan business in Russia because of the absence of such contacts. It is not a reason not to start but rather a good suggestion for how and where to start. A network of personal contacts could be and is developed gradually. The process of learning about the market and the key players in it provides the best opportunity for creation of a network of personal contacts.

It is true that business connections in Russia mean a lot. That should be added to the earlier popular nostrums that every firm needed a local partner. The ideal partner is described as legitimate and as one who would have the necessary network and relationships to be invaluable in solving "Russian" problems and smoothing the road (*Wade, 2002*). On the other hand, in the search for a partner quite often companies with criminal links might be contacted.

It is of course good to find reliable and good partner in Russia but it never was and is not the ultimate condition for success. In addition it is not that easy as expert level knowledge must be possessed in order to evaluate properly a potential partner. For instance while size may not really be of importance, age certainly matters as younger companies tend to have better performance. Finding the partner might be the only solution for very small companies that do not have even the minimal resources needed to learn about the market, to establish their own presence and start with their business. But for all others finding a partner is not an ultimate must.

Researching and learning the market, building a feasible entry strategy, hiring knowledgeable professionals and giving them concrete objectives and targets is much more likely to bring the expected results. By finding the right people in Russia to help, there are many opportunities for the foreign investor (*Coleman & Beaulieu, 1999*). The ability and the will to learn, to be flexible and to adjust and manage Russian personnel might be much better option than finding a Russian partner.

2.3. Getting the geography right

One of the first things to be considered when entering the Russian market is the geographic location of your entry. As mentioned several times above Finnish SMEs typically aim for Moscow and Saint Petersburg. The location and the market size of the latter makes it natural target for business while Moscow is, of course, the capital city of Russia with all the coming of this consequences such as highest rate of investments and foreign trade per capita as well as highest for Russia incomes. As mentioned above Saint Petersburg and Moscow represent the markets with the fiercest market competition and the biggest transaction costs for entering.

How should one determine to which part of Russia a business entry, penetration or diversification should be focused? The answer depends on a number of factors. In business-to-business markets it comparatively easier as it is necessary to identify the geographic location of the targeted industrial clusters and reach for clients. For consumer markets it is more difficult as compactly populated Russian regions and cities should be matched against their regional specifics, income levels, consumer habits etc.

It is very important to comprehend the fact that there is no such thing as a homogenous Russian market yet. Russia is basically divided into Moscow, Saint Petersburg and something that is often referred to as “the regions” but for many businessmen /and sometimes astonishingly for economists/ remains fuzzy.

3. Russian Regions and Big Cities as Sales Targets

3.1. Administrative division of Russia

An analysis of the Russian regions as a sales target was made and presented in 2004 in a report of Kari Liuhto, Elina Pelto and Kirsi Lipponen titled "Where to Do Business in Russia? - A Report on Russian Regions, Firms, Foreign Trade and Investment Flows"[1].

The federal structure of Russia is anything but simple. Russian Federation consists of 89 administrative regions or 'federal subjects' as the official term goes. However, these subjects are not equal in status, nor is there comparable information on all of them. The 89 subjects consist of 21 autonomous republics, six krai(s) (provinces), 49 oblasts (regions), two cities of federal status, one autonomous oblast and ten autonomous okrug(s) (districts). Autonomous republics, autonomous okrug(s) and autonomous oblast are ethnically defined while krai(s) and oblasts are defined on territorial bases. The following grouping and short descriptions of different administrative units aims at making the matter a bit more understandable:

• **Republic** is an administrative unit formed by notably large ethnic group that gives the name for the republic, as Tatars in Tatarstan Republic. However, in many republics ethnic Russians are majority, for example in Karelia Republic.
• **Krai** is a vast administrative unit often situated in sparsely inhabited eastern or southern parts of the Russian Federation.
• **Oblast** is a relatively homogenous and self-supporting region that is usually named after the centre of the region, for example Novgorod oblast.
• **Autonomous oblast and okrugs** are lower level administrative areas that to some extent function as a part of a bigger federal subject. Autonomous oblasts and okrugs are usually remote, backward and sparsely populated territories.
• **Federal cities** refer to the two biggest cities, namely Moscow and St. Petersburg that have distinct federal status.

[1] Paragraph 4 is based on excerpts from the 2004 report of Kari Liuhto, Elina Pelto and Kirsi Lipponen "Where to Do Business in Russia? - A Report on Russian Regions, Firms, Foreign Trade and Investment Flows"

In some statistics the federal cities are included in the figures of the surrounding oblasts. Also many regional statistics do not cover autonomous oblast or okrugs separately, so here too, they are often considered as parts of a larger region. In this paper, however, all these differently named federal subjects are often simply called "regions", although the actual Russian names (e.g. oblast, krai, okrug) are also used.

The 89 Russian regions form seven larger administrative areas called Federal Districts. These are:

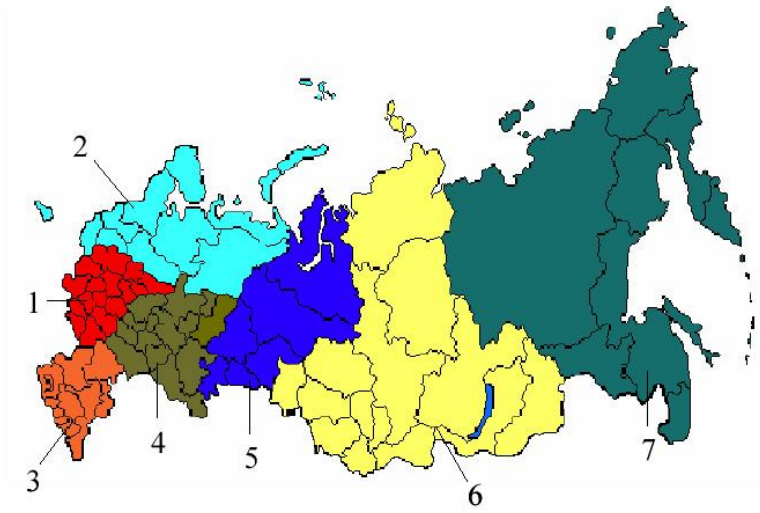
1) Central, 2) North-Western, 3) Southern, 4) Volga, 5) Ural, 6) Siberian, and 7) Far Eastern Federal Districts. The area, population, population density and the share of urban population in the federal districts are presented in **t**he following table. The locations of the federal districts are illustrated on Map 1. (See Appendix 6 for the administrative division of Russia.)

Table 1. Area and Population of Russian federal Districts

Federal District	Area (1000 km²)	% of total	Population (mil.)	% of total	Population density (person/km²)	Share of urban population (%)
1. Central	651	3.8	38.0	26.2	58.3	79.9
2. North-Western	1 678	9.8	14.0	9.6	8.3	82.3
3. Southern	589	3.4	22.1	15.8	38.9	57.5
4. Volga	1 038	6.1	31.2	21.4	30.0	70.8
5. Ural	1 789	10.5	12.4	8.5	6.9	80.7
6. Siberian	5 115	30.0	20.1	13.8	3.9	71.1
7. Far Eastern	6 216	36.4	6.7	4.6	1.1	75.9
Total	**17 075**	**100**	**145**	**100**	**8.5**	**73.3**

Sources: Goskomstat 2003; 2004.

Map 1. Russian Federal Districts



The Far Eastern and Siberian Federal Districts together make up about 66% of the Russian territory, thus, the Russian population is extremely unevenly distributed over the vast country. In fact, density of Russian Federation reaches about 28 person / km² but less than 20% of the total population. The population density is highest in the Central Federal District, where over a quarter of the total Russian population lives. Moscow is the centre of the Central Federal District and alone has a population of about 10 million. Together with Moscow oblast the population of the capital region reaches over 16 million. Next highest population density is in Southern and Volga Federal Districts, whereas the North-Western Federal District has the population density close to the Russian average. The city of St. Petersburg with its 4.7 million inhabitants makes up over a third of the total population of North-Western Federal District.

Thus, the Russian population is extremely unevenly distributed over the vast country. In fact, practically only one third of the total area is inhabited and used for economic purposes common for industrial society. Outside these areas lies uninhabited wilderness used by the numerous indigenous peoples of the Russian Federation. If to take into account only the populated area, the population density of Russian Federation reaches about 28 person / km².

Outside these areas lies uninhabited wilderness used by the numerous indigenous peoples of the Russian Federation. If to take into account only the populated area, the population density of Russian Federation reaches about 28 person / km².

3.2. Russian million cities as a sales target

Despite of her large territory, the share of urban population in Russia is high, 73%. Only in Southern Federal District, where agriculture is an important sector of economy, the share of urban population is notably less than the Russian average, namely 58%. In all other federal districts the share of urban population is over 70%. Peculiarity of Russian urban population division is the unusually prominent role of big cities: over half of Russian population lives in the cities bigger than 100 000 inhabitants, and 70% of urban population lives in big cities. Middle-sized cities on the

other hand, are relatively few in Russia: only 12% of urban population lives in middle-sized cities with 50 000 – 100 000 inhabitants.

In Russia it is typical that big cities located far from each other, have only very few middle-sized cities between them. Thus, the western type of city hierarchy does not exist in Russia. Furthermore, Russian cities do not have network type of connections between each other, but rather form linear links often by major railway routes.

The fact that the Russian population lives in big cities that are far away from each other and are surrounded by vast sparsely populated areas, often with poor transportation connections between the cities, makes an extensive distribution in Russia challenging. On the other hand, several cities with over million inhabitants offer market potential for many companies. In addition to the two federal cities, Moscow and St. Petersburg, there are 11 other cities that have population of one million or more, and 20 more cities with a population of more than half a million.

The Russian million-cities and their population are listed in the following Table 2 and Map 2. In Table 2, the regions surrounding the million-cities are listed by the size of the million cities within them, and million-cities are listed bellow the surrounding regions in italic. Table 2 gives information on the regional population, gross regional product (GRP), income level and retail trade.

If we have a look at the Russian million cities we'll find out that if exclude Moscow and Saint Petersburg, there are 11 million cities in addition to Moscow and Saint Petersburg and 20 cities with population over half a million inhabitants (*Table 2b*) with total number of inhabitants at approx. 27,401 million people. The number significantly increases if we add the population in the surrounding areas.

This report assumes that it could prove business wise to virtually divide Russia into Moscow, Saint Petersburg and 4 virtual regions that include the Russian million cities. The 11 million cities (besides Moscow and Saint Petersburg) are grouped as follows: Volgograd and Rostov-on-Don represent "The South of Russia"; Nizhny Novgorod, Kazan and Samara represent the "The Volga 3"; "The Ural 1+3" are Yekaterinburg, Perm, Chelyabinsk and Ufa and finally, Novosibirsk and Omsk represent the "Behind

the Urals" region. The division is aimed to readers not familiar with Russian geography a more "visual" image where and how are the million cities situated.

As Table 2 shows these other million cities have considerably lower figures of cumulative import-export turnover per capita. Such statistics could be interpreted in two ways. On one hand it is logical to claim that the capital Moscow and the biggest port of Russia Saint Petersburg would naturally attract more foreign trade. Therefore the typical market penetration in Russia follows the geo-centric approach of establishing business with Moscow or Saint Petersburg first. As most companies choose this approach the market competition in these two cities is much stronger.

On the other hand the same statistics could be interpreted as a great opportunity to approach directly the markets of other million (and big) Russian cities - markets that so far have been predominantly served by Moscow or Saint Petersburg companies. However the advantages of lower levels of competition are somehow balanced against bigger number of risks and regional specifics such as poorer infrastructure, lack of experience in international business of local companies etc. The existence of such regional specifics and higher risk levels once again points to the need of better preliminary preparation.

As can be seen on the table, the wealthiest regions of those in the table measured by the GRP per capita are Moscow city, Perm oblast, Samara oblast, St. Petersburg, and Tatarstan republic, that all have GRP per capita over $2000.

Highest average income level of the regions with a million-city can be found in Moscow city, where the average income level is significantly higher than in the other regions in the table. In income level ranking, Moscow is naturally number one in Russia, followed by regions that have rich natural resources2. The next best region in average income level ranking among the million-city regions is St. Petersburg on 10th place. As most of the top 10 regions in average income level ranking are sparsely inhabited regions with rich natural resources, the average income level tells little about the sales potential of the region.

Gini coefficient index indicates the degree of inequality in income distribution: the smaller the figure, then more even income distribution. Here too, Moscow differs from the other regions considerably with Gini index of 0.6. Other regions on the table are close to Russian average (0.4).

	Fed. distr.	Popul. (1000)	Urban popul. (%)	GDP per capita (USD)	Income level			Retail trade		
					Average (USD)	Ranking in Russia	Gini coefficient	Volume (million USD)	Per capita (USD)	Growth index
RUSSIA		**145164**	**73**	**1901**	**139**		**0.398**	**131378**	**905**	**109**
Moscow obl.	Centr	6619	79	1444	127	20	0.345	5383	813	112
Moscow	*Centr*	*10383*	*100*	*6577*	*522*	*1*	*0.609*	*36216*	*3488*	*103*
Leningrad obl.	NW	1669	66	1696	85	55	0.304	933	559	109
St. Petersburg	*NW*	*4661*	*100*	*2076*	*160*	*10*	*0.347*	*4876*	*1046*	*109*
Novosibirsk obl.	Sib	2692	75	1368	102	37	0.349	2380	884	119
Novosibirsk		*1425*								
Nizhny Novgorod obl.	Volga	3524	78	1626	111	25	0.343	2617	742	115
Nizhny Novgorod		*1311*								
Svedrlovsk obl.	Ural	4486	88	1646	137	16	0.356	3770	840	121
Ekaterinburg		*1293*								
Samara obl.	Ural	3240	81	2183	148	13	0.424	4473	1381	106
Samara		*1158*								
Omsk obl.	Sib	2079	69	1139	111	26	0.362	1463	704	124
Omsk		*1133*								
Tatarstan rep.	Volga	3779	74	2026	114	24	0.374	2610	691	107
Kazan		*1105*								
Chelyabinsk obl.	Ural	3604	82	1454	108	29	0.350	2336	648	113
Chelyabinsk		*1078*								
Rostov obl.	South	4404	68	1014	109	28	0.364	3568	810	110
Rostov on Don		*1070*								
Bashkortostan rep.	Volga	4104	64	1589	110	27	0.368	2872	700	113
Ufa		*1042*								
Volgograd obl.	South	2699	75	1196	106	31	0.328	1757	651	114
Volgograd		*1012*								
Perm obl.	Volga	2820	75	2211	140	14	0.397	2385	846	111
Perm		*1000*								

Sources: Goskomstat 2003; 2004.

Table 2b. Russian big cities (population between 500 000 and 1 million)

City	Population (1000)
14. Krasnoyarsk	911,7
15. Saratov	873,5
16. Voronezh	848,7
17. Toliatti	701,9
18. Krasnodar	644,8
19. Ulianovsk	635,6
20. Izhevsk	632,1
21. Yaroslavl	613,2
22. Barnaul	603,5
23. Irkutsk	593,4
24. Vladivostok	591,8
25. Habarovsk	582,7
26. Novokuznetsk	550,1

27. Orenburg	548,8
28. Rjazan	521,7
29. Penza	518,2
30. Tiumen	510,7
31. Naberezhnye Chelny	510,0
32. Astrahan	506,4
33. Lipeck	506,0

(*Source: Goskomstat 2002*)

For comparison, in the Nordic countries Gini coefficient ranges between 0.25 and 0.30 (in Finland 0.25), while the average for Latin America is estimated at 0.58. (PAHO 2004.) Thus, in Russia, and especially in Moscow, the income differences of the population are high.

Table 3. Regions with highest retail volume, 2002

	Fed. distr.	Popul. (1000)	GDP per capita (USD)	Retail trade			Household spending (% of incomes)			Consumer durables (per 100 housholds)		
				Volume (million USD)	Per capita (USD)	Share of food products	Food products	Other products	Services	TV	Video/ videoca mera	PC
RUSSIA		**145164**	**1901**	**131378**	**905**	**47**	**44**	**36**	**18**	**129**	**54**	**10**
Moscow	Centr	10383	6577	36216	3488	41	41	36	21	154	98	30
Moscow obl.	Centr	6619	1444	5383	813	44	50	30	20	146	76	18
St. Petersburg	NW	4661	2076	4876	1046	43	49	29	19	143	64	11
Samara obl.	Ural	3240	2183	4473	1381	45	40	41	17	135	65	12
Krasnodar krai	South	5125	1277	3847	751	48	44	37	17	113	49	4
Tyumen obl.	Ural	3265	8822	3838	1176	51	31	50	18	141	78	21
Svedrlovsk obl.	Ural	4486	1646	3770	840	51	46	34	17	129	51	10
Rostov obl.	South	4404	1014	3568	810	45	50	32	15	117	51	6
Bashkortostan rep.	Volga	4104	1589	2872	700	52	40	42	15	120	49	7
Krasnoyarsk krai	Siberian	2966	2766	2657	896	51	33	45	20	138	67	19

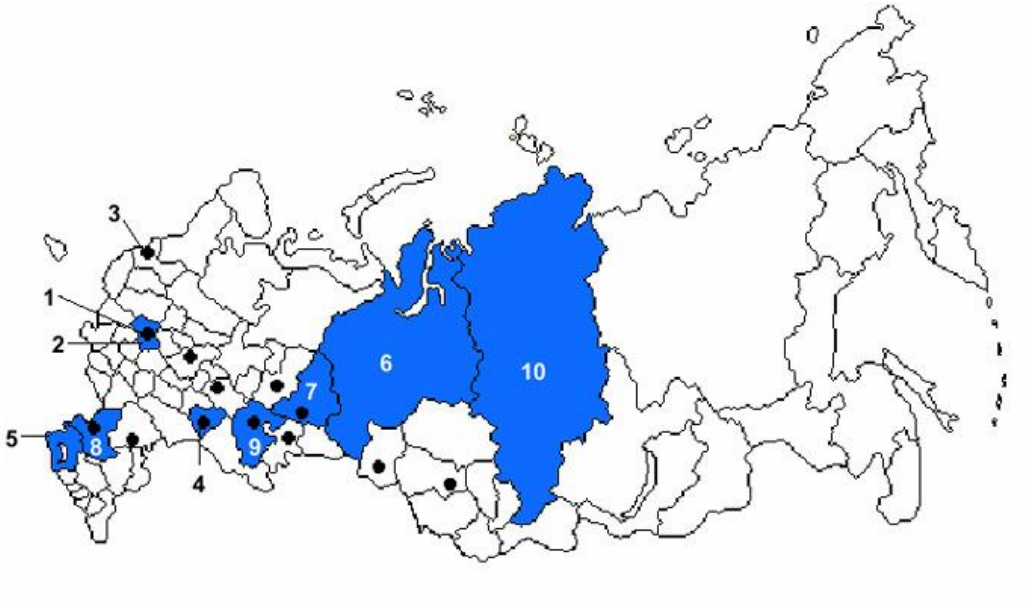
Sources: Goskomstat 2003; 2004.

Probably the best indicator determining the sales potential of the regions is the volume of retail trade. The top 10 regions with highest retail trade volume listed in Table 3 are marked in the following map that also shows the locations of Russian million-cities. The regions are numbered by the retail trade volume ranking as follows: 1) Moscow city, 2) Moscow oblast, 3) St. Petersburg, 4) Samara oblast, 5) Krasnodar krai, 6) Tyumen oblast, 7) Sverdlovsk oblast, 8) Rostov oblast, 9) Bashkortostan republic, and 10) Krasnoyarsk krai.

As can been seen on the map, most of the regions are those surrounding million-cities. Only number 5) *Krasnodar krai*, number 6) *Tyumen oblast*, and number 10) *Krasnoyarsk krai* do not have million-cities in them. Krasnodar krai in Southern Federal District is the main sea gateway to the Russian Federation. The two ports by

the Black Sea, Novorossiysk and Toapse are focused on exporting oil and gas products. The biggest city in the region, Krasnodar, has a population of over 600 000 people, and the second biggest city, Sochi (330 000) is a well known tourist resort. Total population of the region is about five million, thus third largest after Moscow and Moscow oblast, which also explains the high retail trade volume. As the table indicates, retail trade volume per capita in Krasnodar krai is considerably lower than the Russian average.

Map 2. Regions with highest retail volume in 2002



Tyumen oblast in Ural Federal District is a major oil and gas resource base in Russia, and the richest region measured by GRP per capita. The region's population is over three million, of which approximately half a million lives in the capital Tyumen. On the contrary to Krasnodar krai, the retail trade volume per capita in Tyumen region is third highest in Russia after Moscow city and Samara oblast. Krasnoyarsk krai in Siberian FD is number 10 in retail trade volume ranking and number 11 in retail trade per capita ranking. The region has rich natural resources including nickel, coal, lead, copper, platinum, gold, as well as wood resources. The biggest city, Krasnoyarsk, has a population of 875 000.

Moscow city has clearly the highest standard of living, as the share of food products of total retail volume is lowest in there (41%), indicating that the population has more money to spend on other products than food. The leading role of Moscow can be seen

also by the higher than average density of home computers. In Moscow there are 30 computers per 100 persons whereas the Russian average is 10. In general, the living standard seems to be lowest in the regions of Southern FD and in southern parts of Volga FD.

3.3. Natural Resources in Russian Regions

In addition to the market potential of 145 million consumers with growing income level, Russia is an attractive investment and business target not least for its natural resources. When measured by the natural resource deposits, Russia is the richest country in the world. Here we have a brief overview on Russian natural resources and on their geographical distribution over the Russian regions.

Russia's proven oil reserves make up approximately 5-10% of world total, and her natural gas reserves are the world's largest, more than twice the size of those of Iran, which has the next largest natural gas reserves. Majority of Russian oil and gas reserves are located in Western Siberia, between the Ural Mountains and the Central Siberian Plateau. In addition to Western Siberia, the most significant oil and gas resources in use at the moment are located in Volga and Ural area and in Far East. The following table lists the most important oil and gas producer regions in Russia.

Number one oil and gas producing federal district of Russia is the Ural Federal District, where all oil and gas comes from Tyumen oblast, and especially from its autonomous okrugs of Khants and Mansis and Yamal Nenetses. Tyumen region accounts alone for 67% of Russian oil, and 91% of natural gas production. Second best Federal District in both oil and gas production is Volga FD, followed by North-Western FD in oil production and Southern FD in gas production. In oil production number four is Southern FD, number five Siberian, and number six far Eastern FD. In natural gas number four is Siberian FD, number five North-Western FD, and number six Far Eastern FD. In Central FD, there is no oil or gas production.

Table 4. Top 10 oil and gas producing regions in Russia in 2002

Rank	*Oil producing regions*	*Oil extraction, including gas condensate, (1000 tonnes)*	*Rank*	*Natural gas producing regions*	*Natural gas production, (million m³)*
	Russia	**379563**		**Russia**	**594912**
1	Tyumen oblast (Ural)	254165	1	Tyumen oblast (Ural)	539916
2	Tatarstan republic (Volga)	28716	2	Orenbug oblast (Volga)	23769
3	Orenburg oblast (Volga)	11454	3	Astrakhna oblast (South)	10891
4	Samara oblast (Volga)	11433	4	Tomsk oblast (Siberia)	4444
5	Bashkortostan rep. (Volga)	11383	5	Komi republic (NW)	3459
6	Tomsk oblast (Siberia)	10592	6	Krasnodar krai (South)	2679
7	Perm oblast (Volga)	9865	7	Sakhalin oblast (Far East)	1863
8	Komi republic (NW)	9568	8	Sakha republic (Far East)	1612
9	Udmurtia republic (Volga)	7793	9	Perm oblast (Volga)	863
10	Arkhangelsk oblast (NW)	5105	10	Tatarstan republic (Volga)	726

Source: Goskomstat 2003.

Russia holds the world's second largest coal reserves after the United States. In 2002, 78% of the extracted coal was mined in Siberian Federal District, where Kemerovo oblast was by far the leading coal mining region. Second most prominent coal mining federal district in Russia is the Far Eastern FD, where the extracted amount in 2002 was 12% of Russian total. The share of the third biggest coal mining federal districts, namely North-Western FD, was 5% of total Russian coal extraction.

In addition to fossil fuels, Russia has rich reserves of metals and minerals. Russia ranks as the world’s third biggest producer of aluminium, accounting over 10% of world total aluminium production. Russia is also a major nickel, palladium and platinum producer, and has rich deposits of for example gold, silver, copper, cobalt, selenium, tellurium and diamonds. Russia with her prominent iron ore deposits ranks as fourth largest steel producer in the world, covering for 6-7% of world’s total steel production in 2003. Most steel production takes place in Ural Federal District, followed by Central, North-Western and Siberian FDs. The following table lists the top 10 coal mining and steel melting regions in Russia.

Table 5. Russian top 10 coal mining and steel producing regions in 2002

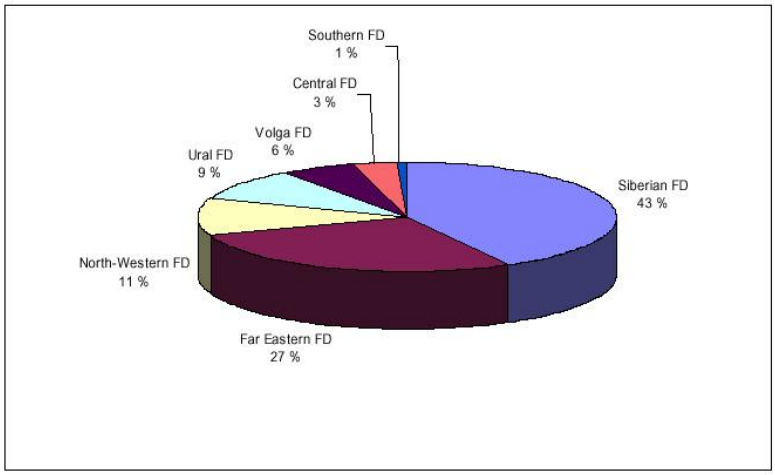
Rank	*Region*	*Coal extraction (1000 tonnes)*	*Rank*	*Region*	*Steel production (1000 tonnes)*
	Russia	**255754**		**Russia**	**59883**
1	Kemerovo oblast (Siberia)	131318	1	Chelyabinsk oblast (Ural)	16044
2	Kransoyarsk krai (Siberia)	33780	2	Vologda oblast (North-West)	9660
3	Komi republic (North-West)	13123	3	Lipetsk oblast (Central)	8568
4	Irkutsk krai (Siberian)	12049	4	Kemerovo oblast (Siberia)	8348
5	Primosk krai (Far East)	10752	5	Sverdlovsk oblast (Ural)	7070
6	Chita oblast (Siberia)	10495	6	Orenburg (Volga)	2969
7	Sakha republic (Far East)	9878	7	Belgorod oblast (Central)	2273
8	Rostov oblast (South)	8385	8	Volgograd oblast (South)	903
9	Khakassia republic (Siberia)	5896	9	Perm oblast (Volga)	622
10	Buryatia republic (Siberian)	3869	10	Rostov oblast (South)	598

Source: Goskomstat 2003.

Russia is the largest forest country in the world, which houses about 22% of the world's forests. For comparison, the next largest forest countries and their share of the world's forest cover are Brazil – 16%, Canada – 7% and USA – 6%. Some 70% of Russian forests lie behind the Ural Mountains in Siberian and Far Eastern Federal Districts. In the European part of Russia, most forests can be found in the North-Western FD, particularly in Arkhangelsk oblast and Komi republic. The following figure illustrates the distribution of Russian wood resources (total 74 322 million m^3**)** over the federal districts, and Table 6 thereafter lists the top 20 wood regions.

Thus, the regions with richest wood resources are those located in Siberian and Far Eastern Federal Districts. However, among the top 20, there are also regions from Ural, Volga and North-Western Federal Districts. Of the North-Western FD as many as four regions reach to the top 20 list. These are Komi republic, Arkhangelsk oblast, Vologda oblast, and Karelia republic which are also important regions for wood procurement of Finnish forest industry companies.

Figure 1. Russian wood resources, distribution over the Russian federal districts in 1998 (% of total Russian wood resources)



Source: Goskomstat 2003.

Table 6. Regions with largest wood resources in Russia in 1998

Rank	*Region*	*Forest reserves (mil. m³)*	*Rank*	*Region*	*Forest reserves (mil. m³)*
1	Krasnoyarsk krai (Siberia)	11300	11	Buryatia republic (Siberia)	1976
2	Irkutsk oblast (Siberia)	9050	12	Primosk krai (Far East)	1771
3	Sakha republic (Far East)	8844	13	Sverdlovsk oblast (Ural)	1560
4	Khabarovsk krai (Far East)	5265	14	Kamchatka oblast (Far East)	1192
5	Tyumen oblast (Ural)	4912	15	Perm oblast (Volga)	1180
6	Komi republic (North-West)	2856	16	Chelyabinsk oblast (Ural)	1137
7	Tomsk oblast (Siberia)	2605	17	Tuva republic (Siberia)	1079
8	Chita oblast (Siberia)	2491	18	Vologda oblast (NW)	990
9	Arkhangelsk oblast (NW)	2162	19	Karelia republic (NW)	919
10	Amur oblast (Far East)	1992	20	Kirov oblast (Volga)	773

Source: Goskomstat 2003.

The following table presents the regions with highest industrial production volume. Here the oil and gas region Tyumen is by far the best performer. As the table shows, Tyumen industrial sector is strongly dominated by fuel industry (87% of industrial production), which is also the most important branch in many Volga FD's regions, like Perm oblast, and Tatarstan and Bashkortostan republics. As the table indicates, the metallurgy is an important industrial branch in the regions of Siberian FD, e.g. in Krasnoyarsk (73%), and in many regions of Ural FD. Machinery is the dominating branch in many regions of Volga FD, such as in Samara oblast (59%) and in Nizhny Novgorod region (43%). For both Federal cities, Moscow and St. Petersburg, machinery and food industry are the most important sectors of industry.

As the following table indicates, no regions from the Southern Federal District are among the most industrialised regions of Russia. In many region of the Southern

Federal District, agriculture is an important sector of economy. Map 3 shows the regions with highest agricultural output in 2002.

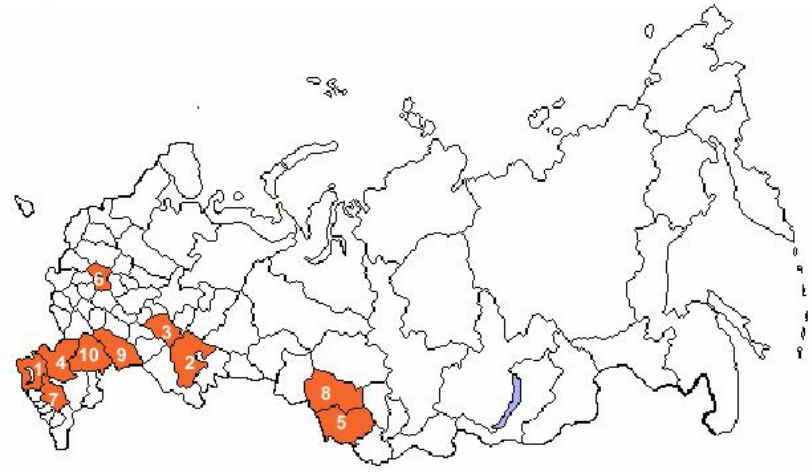
As the map illustrates, agriculture is important also for many regions in Volga and Siberian federal districts. Quite surprisingly, the sixth highest agricultural output in 2002 was found in Moscow oblast.

Table 7. The most industrialized Russian regions, 2002

	Fed. district	Popul. (1000)	Urban popul. (%)	GDP per capita (USD)	Income level ranking in Russia	Industrial production			Main industrial branches (%)						
						Volume (million USD)	Per capita	Growth index	Machinery	Food	Forest	Metallurgy	Fuel	Power	Chemistry
RUSSIA		**145164**	**73**	**1901**		**240380**	**1656**	**104**							
Tyumen obl.	Ural	3265	77	8822	3	23670	7249	104					**87**		
Yaroslavl obl.	Centr	1368	81	1782	23	14009	10240	103	32	17					22
Sverdlovsk obl.	Ural	4486	88	1646	16	8791	1960	104	20			**49**		11	
Samara obl.	Volga	3240	81	2183	13	8453	2609	98	**59**						11
Moscow obl.	Centr	6619	79	1444	20	8327	1258	106	**29**	22					
Tatarstan rep.	Volga	3779	74	2026	24	8255	2184	101	25				36		19
St. Petersburg	NW	4661	100	2076	10	7803	1674	131	**36**	**35**					
Chelyabinsk obl.	Ural	3604	82	1454	29	6867	1905	102	19			**58**			
Krasnoyarsk krai	Sib	2966	53	2766	12	6766	2281	107				**73**			
Bashkortostan rep.	Volga	4104	64	1589	27	5691	1387	103	14				**39**	10	17
Nizhny Novgorod obl.	Volga	3524	78	1626	25	5678	1611	106	**43**	12		11			
Perm obl.	Volga	2820	75	2211	14	5482	1944	100	14			10	**26**	11	19
Kemerovo obl.	Sib	2899	87	1376	15	5121	1767	99				**35**	**33**	13	
Irkutsk obl.	Sib	2582	79	1633	21	4177	1618	107	13		22	**29**		11	
Vologda obl.	NW	1270	69	1865	22	3649	2873	104				**58**			10

Sources: Goskomstat 2003; 2004.

Map 3. Regions with highest agricultural output in 2002



1. Krasnodarsk krai (Southern FD)
2. Bashkortostan rep. (Volga FD)
3. Tatarstan rep. (Volga FD)
4. Rostov oblast (Southern FD)
5. Altai krai (Siberian FD)
6. Moscow oblast (Central FD)
7. Stavropol krai (Southern FD)
8. Novosibirsk oblast (Siberian FD)
9. Saratov oblast (Volga FD)
10. Volgograd oblast (Southern FD)

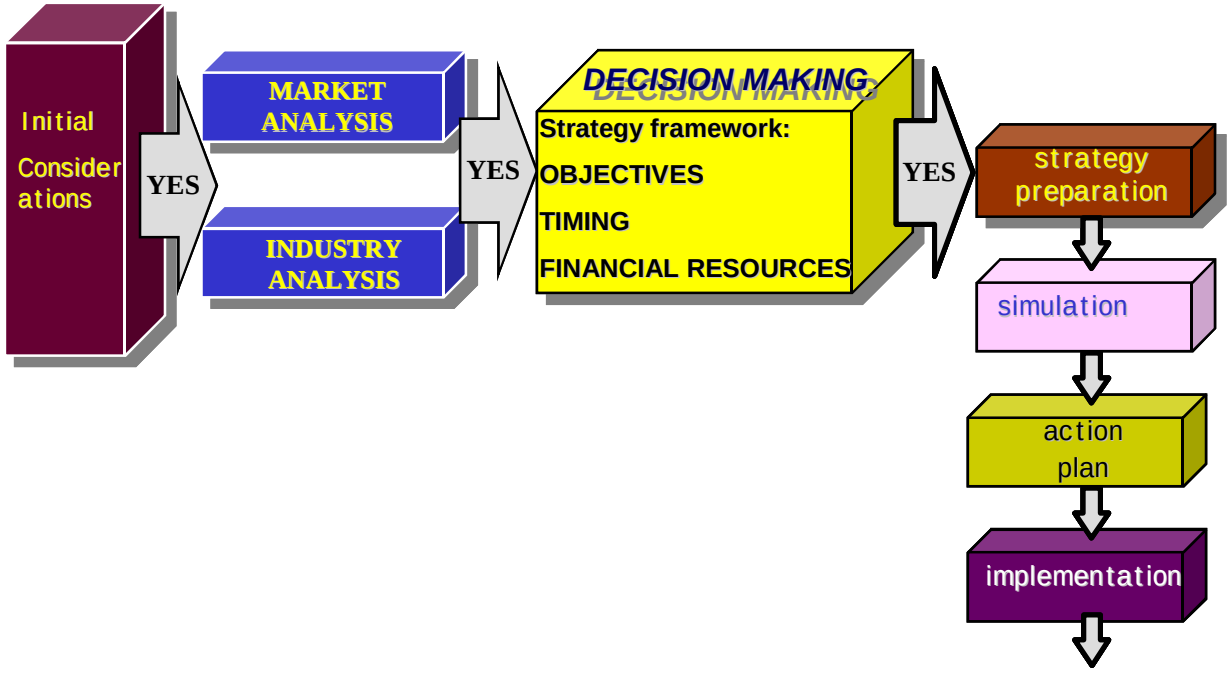
Source: Goskomstat 2003.

4. Reaching the Russian Million Cities: preparing and building an entry strategy

The entire preparation process that starts with the described above initial considerations is outlined in Figure 2. It suggests the logic and internal sequences that intend to secure a further involvement only when and if feasible and thus minimise the risks of entering and operating on the market.

Following this internal logic, a market and/or industry analysis is initially performed to provide the information needed for a sound decision-making. Only after the principal decisions are taken, a strategy is prepared and put on a virtual test through simulation. If all looks reasonable the strategy is further developed into an action plan. Even though such an approach may look "too academic" it does not necessarily consume a lot of time and is flexible enough to be modified according to a company's particular needs.

Figure 2. Outline of the preparation process divided into certain consecutive steps



4.1. Market or industry analysis

As discussed above one of the best changes in the Russian economic environment is that it became fairly stable and predictable in mid-term. Concepts such as market analysis, marketing channels, consumer's preferences and distribution networks became increasingly similar to their equivalents in the West. As a result if a decade ago a market analysis was not feasible as the situation was permanently changing and the data was by large unreliable, at present a professionally made market or industry analysis may be ordered or created in a reliable and professional way.

Some experts claim that the best place to start an investigation of your potential business in Russia is with one of the several world-class financial and business consulting companies in Moscow. However, it remains to be established if the average Western SMEs may afford using the services of big names such as McKinsey, Accenture or Boston Consulting. There is increasing evidence that smaller Western or Russian consulting companies offer analysis that are not far in terms of quality but are still much more affordable. Figure 3 demonstrates the basic ingredients of the intended market / industry analysis.

Figure 3. The three pil

One way or another the market or industry analysis should be the fundamental guide to the market one is interested in. Table 2 outlines the basic set of variables that is wise to get knowledge about in advance.

Table 8. Basic set of information on markets and/or industries in Russian business environment

Product	Distribution	**Consumer's preferences**	Local &International Producers	**Relevant legislation**
regulation	channels	**product quality**	Size	**certificates**
prices	wholesalers	**Packaging**	Strengths	**customs**
qualities	retailers	**price sensitivity**	Strategies	**payment**
specifics	discounts	**Advertising**	Problems	**disputes**

To summarise, before making a decision a SME's management must be convinced to fair degree that:

1. Their product/service does not miss grossly the Russian market demands.
2. The produced market / industry analysis gives reasons to believe that there is certain potential that makes it worth investing further time, money and efforts.

4.2. Decision making

Very often some distortions appear in the phase of making the decision. As the SMEs operate within much narrower frame in terms of capital and return on their investments etc., they must be much more precise when defining what exactly they would expect from their Russian operations. Here are the three basic assumptions that must be made in this respect.

The first is the definition *of the objectives and the expectations*. That is by far the most important point to be clearly spelled. A typical mistake is to state that the objective is to "generate some business". The business objective must be defined as clearly and precise as possible. For example it could be to gain a 15% share of the Nizhny Novgorod market within two years or to generate €100 000 sales within the first year. In the same token, the expectations are defining the outcome a SME would expect of the company's investments of efforts, time and money. A well done market or an industry analysis will be sufficient to provide the key figures and facts that will help establish a reasonable and realistic horizon for the expectations and the business objective.

To establish *the approximate time frame* is also important. Originally, the time frame should put the dates (at this stage on a level of expectations only) for the following key events to occur. These would be:

- first sales / results generated
- breakeven point
- achieving the established objectives

Having the objectives and the expectations settled and the time frame needed to accomplish them established, the last crucial item to determine is *the amount of time, money and efforts* a SME would find reasonable to apply in pursuing the aimed result. There is a whole complex of considerations to make in this respect that are not limited only to the intended Russian expansion of the business but also have to deal with the short term and long term financial situation of a company and its overall financial stability.

Entry strategy

By the time it would be possible to build the concrete entry strategy, it will be sufficiently pre-shaped and moulded by the number of facts and limitations established during the market / industry analysis and the decision making phases. Therefore to a large extent it would be quite visible what options are clearly unavailable and what would fit better.

A simulation of the just formulated strategies could eventually additionally optimise the chances for success. Lets assume that as a result of the preparation process there are two strategies – A and B being formulated and each of them could develops in three basic scenarios:

- pessimistic / disappointing
- medium / average
- optimistic / beyond expectations

It is wise to preview each scenario and prepare in advance different options and possibilities in terms of exit strategy, damage control and / or strategy reformulation. Obviously one may not grasp every potential development in the chain of events but

nevertheless, some speculation with different scenarios and their outcomes could only help.

For someone's business operation in Russia to succeed, a proper understanding of the Russian concept of time is needed. Russian companies may express initial interest, not do anything for months and then ask for an offer expecting the answer within 24 hours. Such a rather hectic approach to business demands for two major additions to a successful business strategy:

- patience or the understanding that business in Russia is a rather cyclical event where either nothing happens for considerable period of time or all of a sudden everything develops with a difficult to handle speed;
- commitment that stays mainly for the ability not to be disappointed in the short-term and to execute a sustainable and constant effort to penetrate the market and generate business in the mid-term.

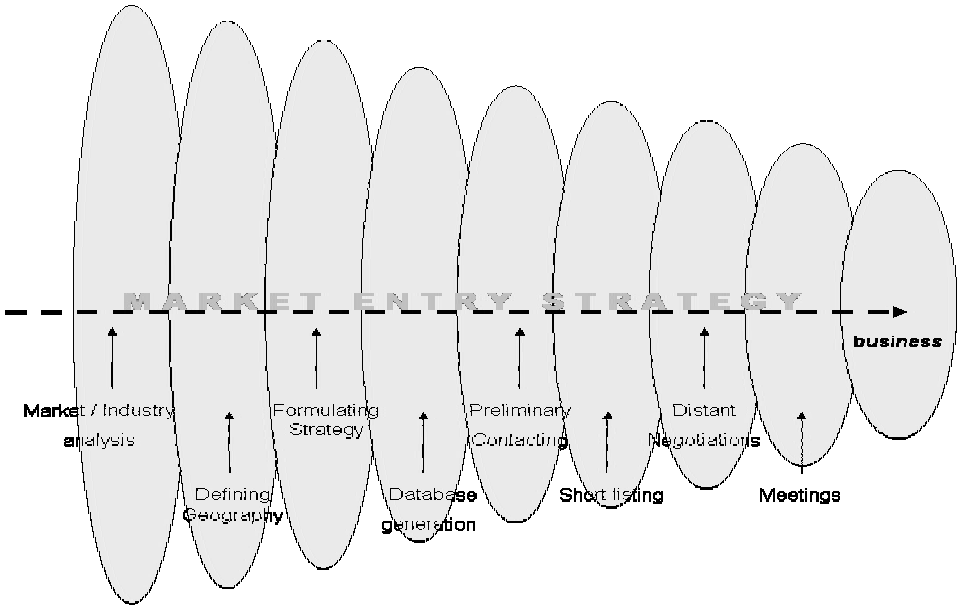
There is sufficient evidence that companies that concentrate on Russian markets on a continuous basis perform much well than other firms.

4.3. Reaching the Russian Million Cities: action plan

When taken into account the limitations described above a successful strategy for Finnish SMEs entering the Russian market could be formulated as an effort that is concentrated, focused, precise, fast and target oriented as outlined in Figure Y. It should be, to borrow a military term, a pinpoint operation that has to deliver results fast.

The precondition for success is to have a properly collected market intelligence and information that could serve as a base for drawing a reasonable entry strategy. The entry strategy should be answering to questions such as if to look for partners or to open an office, pricing, logistics etc. As presented in Figure Y it will mean that the first three phases – market / industry analysis, defining the geography and formulating the entry strategy are accomplished. The next that comes is the action plan. In the case with SMEs a good action plan should be simple, cost effective and swiftly moving towards a clearly settled objective.

Figure 4. Risk optimising target based market entry strategy model



Generating a database of potential clients and/or partners is an important part of the process in reaching the Russian million cities markets. It could be subcontracted to marketing and export promotion companies or elaborated by company's own means. A typical database should include minimum company's name, industry profile, location and contact information. It will further enhance the opportunity to make an interesting offer if also information on recent past and business potential, market share, ownership and financial stability is collected.

Once that is done the next step is perhaps one of the most difficult parts – inquiring and monitoring the level of interest among potential customers and partners. The difficulty stems from the fact that most Russian companies, and companies in the Russian regions particularly are used to having personal meetings. Reaching them from a distance by telephone, fax, email etc. is very difficult process. Based on authors experience a list of the necessary prerequisites for success and the sequence of their implementations presented in Box X.

Box 2. Contacting and short-listing partners

1. **It is quite beneficial having a Russian speaking person to assist.**
2. **Calling each company with a brief introduction of one's core business and inquiry of who is in charge of these issues in the corresponding Russian company and how he/she prefers to be reached.**
3. **Sending him/her information and promotional material in Russian. It should be short and precise. A good letter of interest should be max 1 page and should clearly state (1) the nature of one's company (2) reasoning the existence of a common business interests and (3) clear list of the benefits that possible cooperation could bring to the Russian counterpart**
4. **Calling again and inquiring upon their interest and comments on the received offer/materials.**
5. **The final aim is short-listing the 40 most potential companies that seem worth continuing of negotiations.**
6. **Preparing and developing concrete offers for the short-listed. The distance negotiating must bring the number of short listed companies to 15 - 20 companies that are reasonable to attempt and meet in person.**

Concluding remarks

The Russian business environment is experiencing something that could be characterised as early maturation. Therefore it becomes increasingly possible to plan and execute a market entry in an organised and target oriented fashion. The chapter attempted to demonstrate that reaching for business in the Russian million cities is not a "mission impossible" enterprise for the Finnish SMEs provided that they have better understanding of market specifics and thoroughly prepared market intelligence and entry strategy.

A successful strategy for Finnish SMEs entering the Russian market should start with better knowledge and awareness of the opportunities and specifics in Russia in general and the Russian million cities in particular as well as avoiding the common misconceptions about its business environment and market potential.

Such a successful entry strategy should be an effort that is concentrated, focused, precise, and fast and target oriented. To borrow a military term, a pinpoint operation

that has to deliver results. A detailed model was presented that demonstrated the proper structure and content of a well made preparation in the context of Finnish Western SMEs operational specifics and limitation of resources.

Chapter II. The South of Russia

1. Rostov-on-Don

1.1. Rostov-on-Don and Rostov region - general outline

The Rostov region is situated in the southwest part of Russia and occupies area of 100.8 thousand square kilometres. It borders the Kalmykia Republic, Voronezh and Volgograd oblasts, Krasnodar and Stavropol krais, and Ukraine. The Caucasus Mountains surround the Oblast in the south and Azov Sea on the west, the main water supply of the region is the River Don. One of Europe's largest navigable rivers, the River Don (total length, 2000 km), flows through Rostov Region. The region has a coastline on the Sea of Azov in the southeast and the Tsimlyanskoe Reservoir in the east.

Within Russia's current boundaries, Rostov Region has acquired key economic, geographic, political, and international significance. The region has strong agricultural, industrial, human resource, and scientific/technical potential, as well as great significance in the overall Russian division of specialization. It is one of the leading Russian regions in terms of its level of economic development and industrial diversification.

The region's coal mining companies are in fourth place in coal production in Russia after Kemerovo Region. There are 150 coal seams in the coal-bearing formation of the Eastern Donbass; coal reserves amount to 9573 million tons. Eighteen percent of these reserves are situated in the fields of operating companies, 23% are in reserve areas ready for commercial development, and the remaining reserves are in areas that are being explored or have exploration potential and other areas.

The Donetsk basin is almost the only coal supplier to consumers in the Northern Caucasus economic district and also supplies most of the consumer coal market of the Central Black Earth and Volga districts. In addition, the Russian Donbass delivers more than one-third of the total volume of coal to the CIS countries. Rostov Region has reserves of anthracite, which has the highest caloric value of any coal.

The problem with the Eastern Donbass is that most of the operating mines are past their peak of production and are in a state of decline. Work is carried out at great depths or in remote areas and in thin seams. Workable reserves in the coal seams of operating mines are limited and will be exhausted within 12-15 years. A regional socio-economic development program has been implemented for the Eastern Donbass in order to increase coal production and reduce the cost of marketable production after cleaning by 20%.

Rostov Region is a large-scale user of electric and thermal energy owing to the presence of power-consuming industries of the metallurgical, boiler, combine and aircraft manufacturing, and defence sectors. The region is currently experiencing a severe shortage of locally produced electric and thermal power for industrial and domestic needs. Regional facilities satisfy only one-third of the region's electric power requirements. The Novocherkassk Thermal Power Plant owned by RAO UES of Russia (RAO EES Rossii) supplies most of the electric power input.

The construction of a new 3200 MW Rostov Thermal Power Plant could solve the problem of a stable power supply for Rostov Region. The construction project was included in the special federal program "Fuel and Energy"; however, at present, the facility is not on the priority list of the RF Ministry of Fuel and Energy.

The engineering industry is the region's area of specialization. Engineering and metalworking are oriented toward various lines of activity, which in their level of development, make Rostov Region a leader in both Russia and the CIS countries. These lines of activity include electric locomotives (Novocherkassk), combine manufacturing (Rostov-on-Don, Taganrog), heavy helicopter construction, boiler making, and production of equipment for nuclear and thermal power plants (Taganrog, Volgodonsk).

Rostov Region has traditionally been considered one of Russia's major agricultural provinces. It goes without saying that the federal government is interested in the region's agricultural complex, since it must supply not only itself with agricultural products, but also other Russian regions. The agricultural complex satisfies most of the population's requirements for food products and employs 36% of all workers in

the material production sector. Products are supplied to Moscow, St. Petersburg, and 41 Russian regions and are exported to the CIS and other foreign countries.

Grain fields, vegetable and melon plantations, vineyards, and orchards spread across the Don expanses. Among the cultivated crops are sunflowers, corn, rice, buckwheat, soybeans, and legumes. The leading crops are grain and oilseeds, which are sown on 50% and 8% of the cropland, respectively.

Livestock farming is oriented toward raising beef and dairy cattle, sheep, pigs, poultry, and fur-bearing animals. The region is also a leader in fishing and fish farming.

The region has high agricultural production potential owing to an irrigation canal system and irrigation farming, which has made it a centre for the introduction of leading technologies for processing agricultural products. Adverse weather is considered the main reason for the misfortunes of Don region producers. Nature has not been kind to Rostov Region for the past five years. Direct damage from natural disasters has averaged RUR780 million per years. A program to protect farms from emergency situations was developed for 1999-2003, but as before, it was aimed only at eliminating the consequences and compensation for damages.

1.1.1. Natural resources

Of the natural resources, represented in Rostov region, there are coal and anthracite, oil and gas, and raw construction materials. The most important resource, however, is Rostov's fertile black soil, which produces high-quality crops. The farm area constitutes more than 1,2 million hectares and the total land area used for agriculture in Rostov is twice as large as Denmark.

Various types of black earths (chernozems) up to 1,5 million thick cover 64,2% of the territory of Rostov Region and are some of the world's most fertile soils. They were formed from meadow-steppe and steppe vegetation over a period of 10 000 years following the last ice age. Enormous amounts of solar energy synthesized by vegetation, as well as nitrogen, phosphorus, potassium, calcium, and many other plant

nutrients are fixed in the humus of these chernozems. Chernozem soil is characterized by a firm granular structure; it is porous and well aerated, but at the same time retains moisture tenaciously.

Chestnut soils cover another 20,8% of the region. They form in arid climates and are subdivided into dark chestnut, chestnut, and light chestnut types. A thin humus layer (up to 50 cm) and low humus content (up to 4%) are characteristic of these soils. Floodplain-meadow soils, which cover 7,7% of the region, are found on the floodplains of the Don and Western Manych rivers. They are fine fertile soils with high humus and soluble material contents. Sands occupy 1,5% of the region, and bedrock, 5,8%. These areas are used for pasture and vineyards.

Rostov Region is Russia's second-largest producer of high-quality hard coal. There are also oil and gas fields and deposits of building materials (limestone, clay, crushed stone, building sand, and beater stone) and non-metallic raw materials used in the metallurgical industry (fluxing and converter limestone and ferroalloy quartzite). Thermal and coking coal deposits are located in the southern part of the Donetsk coal basin. The region's explored subsurface coal reserves are estimated at 6 billion tons. The coal seams are from 0,5 to 1,5 m thick; the occurrence depth is down to 1500 m.

Small, locally important gas fields include the Azovskoe (Azovsky District), Sinyavskoe field (Neklinovsky District), Astakhovskoe and Grachkinskoe (Kamensky District), and Kruzhilovskoe (Tarasovsky District) fields. Exploration of the Leonovskoe oil field (Tarasovsky District) is underway.

Clay gypsum, clay, fluxing and building limestone, quartzite, expanded clay materials, brick and tile materials, chalk, marl, refractory clay, and foundry, silicate, and building sand are produced throughout the region. Phosphorite is produced in northern districts, and table salt, in the Manych lakes. Mineral water resources are located in Aksaisky, Verkhnedonsky, Kamensky, Oktyabrsky, Salsky, Tatsinsky, Tsimlyansky, and Sholokhovsky districts and in Rostov-on-Don

Deposits of therapeutic mud include the Gruzskoe (Orlovsky District), Sadkovskoe (Semikarakorsky District), Peleninskoe (Azovsky District), and Tuzlovskoe (Oktyabrsky District) deposits.

1.1.2. Location, transportation, logistics

Rostov-on-Don is the administrative centre of the Oblast and has 1.07 million residents. The distance between Rostov-on-Don and Moscow is 1,225 km. Rostov-on-Don became a capital of the Southern Federal District. The other big cities in the Rostov region are Volgodonsk (160 000 inhabitants), Novocherkassk (164 000 inhabitants), Taganrog (281 000 inhabitants) and Novoshahtinsk (101 000 inhabitants).

The major regional airline is Don Airlines and Rostov International Airport is located about 20 minutes from the city centre via automobile. There about five daily flights to and from Moscow, this makes easy connections with any country in the world. The flight time to Moscow is 1.5 hours. There are also direct flights to as direct flights to Vienna, Frankfurt and Düsseldorf in Europe.

Rostov-on-Don is one of the largest transportation hubs in Russia and C.I.S. There are six railroads and seven highways going through the city and a very active waterway in the Don-river. An international airport connects the city with Europe, Africa, Russian cities and the other countries of the C.I.S. Visitors and cargo come to the region by all means of transportation.

There are three sea and river ports in the Rostov region - Rostov-on-Don, Taganrog and Azov. Ships coming down the Volga-river can reach the Black Sea and the Mediterranean through the Volga-Don channel, and then through the Don River and Azov Sea. The only problem, which makes shipment to and from Europe less cost efficient, is that cargo can be delivered only by small ships due to the shallowness of the Azov Sea.

Rostov-on-Don – Volgograd – 495 km
Rostov-on-Don – Krasnodar – 275 km

Rostov-on-Don – Stavropol - 354 km

Rostov-on-Don – Sochi - 563 km

Rostov-on-Don – Shahty – 78 km

Rostov-on-Don – Taganrog – 69 km

Rostov-on-Don – Volgodonsk – 244 km

Rostov-on-Don – Novocherkassk – 41 km

Rostov-on-Don – Novoshahtinsk – 83 km

Rostov-on-Don – Saint Petersburg – 1801 km

Rostov-on-Don – Moscow – 1083 km

1.1.3. Business perspectives

The most developed industrial sectors are the power, fuel, engineering, and food industries, which account for three-quarters of the region's output. Many companies have national significance as the country's only or largest producers of certain kinds of goods. Rostov Region produces 100% of the mainline electric locomotives and steam boilers and three-quarters of the combine harvesters manufactured in the country, and is a Russian leader in the areas of heavy helicopter engineering and production of ship navigation systems. The region has nearly 50% of all cultivator production facilities and produces 16,5% of all ferrous metals in Russia.

The region has been the country's second-largest agricultural producer for many years. Grain and sunflowers are of particular importance.

Rostov Region carries on foreign trade operations with 95 countries, and products manufactured by its companies are exported to more than 70 countries. The main partners of Rostov companies are the United States, Italy, Spain, Greece, Turkey, Slovakia, Bulgaria, Ukraine, and Latvia, and deliveries to EU countries have increased in recent years. Countries of the Black Sea basin account for a significant volume of the region's export sales. There are 213 joint ventures operating in the region.

Most of the investments in the joint ventures' charter funds come from countries of the Black Sea basin, Turkey being the undisputed leader (more than RUR136.7 billion or 56,7% of total investments). Traditional partners for joint ventures are Germany (6,5%), the United States (8,5%), and Great Britain (2,2%).

Three factors make foreign investment unattractive in Rostov. First is the on-going redistribution of property in the region in which the authorities pay little attention to the requirements of the law for property rights protection. Companies often change hands without proper sales. The continuation of this practice gives owners only shaky rights to their property and creates conditions for another redistribution of property in the future with similar legal violations.

A second issue is that the most profitable enterprises of Rostov Oblast, which with a relatively small investment could quickly start to produce a profit, are already controlled by large Russian financial industrial groups. Russian big businesses prefer to extract profit from these companies themselves and are not inclined to share such income with foreigners. Using all possible political and economic methods, they block any potential undesirable competitors. Sharing risks is not an attractive option for them. Thanks to their good connections with well-placed regional officials, these big Russian companies can obtain state orders, credits or subsidies without having to go through the process of a public tender. As a result, potential investors are usually offered second tier enterprises, which are not interesting to Muscovite investors.

If someone does invest in a local enterprise, then the third factor comes into effect. In Rostov, local businesses must make a large number of payments to a wide range of funds beyond just the usual bribes common in all regions. But, considering only the official payments, an investor must pay an additional dollar for each dollar of actual investment.

One of the effective ways to promote products or brand name in the Rostov and other Southern Russian regions is participation in the local tradeshow and exhibitions. The Southern Russia Expo Centre is one of the largest tradeshow organizers in the region. It offers promotion services for foreign companies.

1.2. Main industries and city profiling enterprises

The leading industry sectors of the Rostov region are food processing (45% of regional output), machine building and metalworking (23%), metallurgy (12,2%), power generation (17%) and fuel and energy sector (7,1%). A remarkable change in the structure of the industrial output by industries occurred in 1999 with a drastic fall of the fuel and energy sector. That can be explained partly by the closing of 30 from 62 coal mines, operating in the area, in the result of the Russian government's decision in the early 1990s to stop subsidizing unprofitable coal mining together with the upturn of the food-processing sector is the result of the rouble devaluation and import substitution after the August 1998 crisis.

1.2.1. Agriculture

Rostov region produces 2,7% of the total Russian agricultural output and ranks the second largest supplier of the agricultural products after Krasnodar. More than 4% of all Russian land used in agricultural production is located in Rostov and constitutes 3,8 million hectares. It produces grain, especially high-quality wheat, corn, rice, fodder grass, sunflower seeds, sugar beet and vegetables. Also developed dairy and beef cattle breeding, sheep breeding, and pig breeding, horse breeding and poultry farming.

It is not by accident that equipment, fertilizers and seeds suppliers, such as Monsanto, Nedera, John Deere and FMC work with local customers. There is a representative office of the British potato seeds importer Gordon & Innes in Rostov-on-Don; one of the largest region's grain exporters Agrafin Company was also established with 100% of foreign capital.

Agricultural Complex of the Rostov region is one of the leading in Russia. It is successfully developing. More than nine hundred large and small agricultural enterprises and about 17 thousand farmers are engaged in agriculture. Agriculture is the main branch of the region economy. Agricultural sector produces more than 45% of the gross regional product. The share of agricultural output in Agricultural

Complex is 64,4%, the production of food and food-processing industries accounts for 35,6%.

The Agricultural Complex of region specialize in production of grain, olive cultures (sunflower), vegetables, livestock breeding production, their processing and selling. In 2001 gross output of agriculture, food and food-processing industries of the region made up RUR54,4 billion, that is 17% more than in 2000, in 2002 it accounted RUR62,9 billion, which is 15,6% more than in 2001.

Plant growing accounts for more than 50% of overall agricultural production. The total area of arable land of the Rostov region constitutes 6 million hectare (5685,8 thousand hectare). 50% of arable land is used for grain production, the third of it - for stern production. The leading branch of the Don agriculture - plant growing, it is based, on the whole, on irrigation lands. The share of plant growing in overall agricultural output makes up 58%. The region ranks 2nd among the Russian grain producers. The main grain culture is winter wheat. Spring barley, corn, millet, rice, buckwheat, peas and soy are also widely spread.

Sunflower is the leading technical culture. The Rostov region provides more than 20% of the national sunflower output, being the greatest Russian sunflower producer. Horticulture and vine-growing are established on the industrial basis. Having natural, industrial and science resources, the region are capable of providing both national and foreign markets with grain, potatoes, vegetable, and melon and water-melon production.

Cattle-breeding sector produces 40% of the gross agricultural product. Farms of the region specialize in diary and meat cattle breeding, pig farming, sheep, horse and poultry farming and apiculture. The Rostov region is one the leading Russian meat producers.

Food and processing industries are based on agriculture, which produces the main foodstuffs. Food and food-processing industries are represented by a wide network of enterprises engaged in production and processing of diary, meat, fish products, spirits

and alcohol products, soft drinks, bakery and pastry, macaroni, tobacco, etc. More than century the tobacco branch of Don is developed.

The leading companies in the food processing industry are:

Yug Rusi (http://www.yug-rusi.ru **)** is a huge holding that includes companies producing, storing and trading with grain, seeds, animal feeds and vegetable oils. The company also includes a grain terminal with capabilities to load sea vessels. The company also owns the biggest in Russia oils extraction plant. In September 2003 Yug Rossii revealed upcoming investment plans for about €40 million.

Baltika-Don is the largest beer producer in the region and belongs to the largest Russian beer company Baltika (St. Petersburg) that spent more than €20 million for reconstruction of the production facilities and creation of new brands.

Don Tobacco (http://www.dontabak.ru) is the largest Russian tobacco company. In 2003 Donskoy Tabak put into operation the Italian G.D and German Focke equipment. The efficiency of the new equipment went up to 550 cigarette packets per minute. **Tavr** (http://www.tavrgroup.ru) is the largest meat processor in the region and is also a property of Don Tobacco.

Atlantis-Pak (http://www.atlantis-pak.ru) is producing a complete set of plastic-based casings for boiled sausages, cheeses, and frankfurter products, half-smoked and boiled-and-smoked sausages. Significant part of the production is being exported.

Don Confection Factory (http://www.donkonfab.ru/promo_links.php4) and **Kamensk Confection Factory** represent the local confectionery industry.

1.2.2. Machine Building and Metal Working Industry

Machine building and wood-processing industries have a number of branches, which brought the region to the leading position not only in Russia, but also in CIS. The industrial enterprises of the region produce 100% of all locomotives and boilers,

manufactured in Russia, more than 60% harvesters, 94% of industrial sewing machines. The machine building industry on the Don region is represented by:

Novocherkassk Electric Locomotive plant /NEVZ/ (http://nevz.novoch.ru/) is the leading Russian producer of electricity driven locomotives. In 2002 the company became managed by its creditors - Transmashholding and Roswagonmash. The creditors worked out a plan of reforming of NEVZ that includes not only the continuation of production of electric locomotives and electrical equipment, but also the learning of new aspect of services - major repairs of locomotives, foregoing the modern pattern VL-80. Planned investments in production only in 2003 amounted for approximately RUR90 million.

On "EMK-Atomash", within the framework of diversification, the production of new perspective output for gas-turbine settings (recuperative heaters) is prolonged, the range of consumer goods is enlarged, the discharge of oil-gas equipment is augmented. Approximate bulk of the investments in modernisation of production by the strategic investor of the plant (the company "Energoprom") amounts 30 million dollars. Moreover, it is registered the considerable increase of special equipment for atomic electric power stations and the increase of volumes of production of equipping for gas-turbine installations.

TagAZ /Taganrog automobile plant/ (http://www.tagaz.ru) was founded in 1998 on the basis of unused building sites of Taganrog Harvester Plant, which were in incomplete building. The first output of automobiles of a world level with the Russian trade-mark, in bulk 120 thousand pieces annually, is opened up. The productive technologies on welding, colouring and assembling of automobiles are created. The technological processes of production are based on achievements of world practice and equipped with machinery of leading foreign corporations. The company runs in output of fixed-route taxis with the mark "Doninvest Orion M" on the basis of French producer "Citroen Berlingo, and also the discharge of automobiles "Accent" of the Korean concern "Hyundai".

Rostselmash (http://www.rostselmash.ru) is the largest Russian producer of harvesters. Established in 1929 it produced its millionth harvester in 1969. Supplied

harvesters of “DON” model to the entire Soviet Union and abroad. Currently employs more than 20 thousand people. As almost all enterprises of such scale in former USSR, Rostselmash experienced hard times and was desperately looking for strategic investors. In 1999 the Moscow financial group Sodruzhestvo became the main investor of the enterprise. The new owners intend to develop domestic production of harvesters and are to invest €15 million according to the investment agreement with the regional administration. The company currently holds about 55% of the harvesters market in C.I.S. countries and has as an objective to raise the market share to 70% by 2007.

Rostvertol (http://www.rostvertolplc.ru) was established in 1936 initially for airplane production, in 1956 Rostvertol started to produce helicopters. At present Rostvertol produces the world largest helicopters Mi26T in different modifications and exports them with spare parts and services to about 20 countries. The number of employees in 1997 was 7.4 thousand people.

Taganrog Aviation Complex (http://www.beriev.com) is another large aircraft producer located in Rostov region. It employs currently approximately 3 thousand people and specializes on development and manufacturing of amphibian aircraft, used in agriculture, transportation, medical and rescue services. Taganrog Aviation Complex has an investment project for certification, organization of production and sale of the multipurpose amphibian aircraft BE-200. The new aircraft is equipped with modern navigation systems, produced jointly by ASATA (USA) and Aviation Equipment Institute (Russia).

Krasniy Kotelshik (http://www.tkz.taganrog.ru **)** is an open joint-stock company that employs more than 6 thousand people and produces equipment for energy sector, mostly boilers. The main customers are the energy systems of Russia, C.I.S., Germany, India, Pakistan, and China.

Donpresmash (http://www.donpressmash.com) is the biggest Russian producer of metal cutting and metal processing machinery.

Metallurgy in the Rostov region is represented by several large former state enterprises, which produce rolled ferrous metals, non-ferrous metals, mostly aluminium, electrodes and some finished goods. In Rostov's economy, metallurgy is experiencing redistribution of ownership between large financial-industrial groups (FIG). The Moscow holding MAIR, one of the world largest ferrous metals processors has acquired metallurgy plant **Staks** (http://www.mair.ru/staks.shtml), located in Krasniy Sulin, Rostov region. There are also enterprises, such as **Vtormet** (http://www.icvtormet.ru), which collects and process scrap metals.

Novocherkassk Electrode Plant (NEZ) (http://www.nez.novoch.ru) produces electrodes for non-ferrous metals production. The company competes at the world markets with Ukar (USA) and SGL (Germany).

1.2.3. Chemical and Petrochemical Industry

Novocherkassk Plant of Synthetics Products (http://home.novoch.ru/~nzsp/english.html) is located 40 km from Rostov-on-Don and its main product is methanol. Today at the plant work 3800 people.

There should be mentioned also **Kamenski Chemical Plant (**http://www.kxk.ru **)**, **Kamenskvolokno** that produces synthetic fibres (http://www.aramid.ru), **Darus** that produces paints (http://www.darus.ru) and **Empils** producing paints and varnishes. At present approx. 80% of the overall industrial output is produced by these enterprises.

1.3. Consumer markets

Rostov-on-Don could be used a distribution hub serving the south of Russia. The city together with Rostov region has a population of The region inhabits 4,4 million people of which 1,4 million are rural. Within a distance of approximately 500 km there are 8 big Russian cities Volgograd (1,01 million inhabitants), Krasnodar (646 000 inhabitants), Stavropol (355 000 inhabitants), Sochi (328 000 inhabitants) Taganrog (282 000 inhabitants), Shahty (260 000), Novocherkassk (182 000

inhabitants) Volgodonsk (166 000 inhabitants) Novoshahtinsk (116 000 inhabitants). That makes altogether approximately 4,4 million compactly located city population.

In June 2004 the average salary in Rostov-on-Don was RUR6245,3 (18,9% higher than in Rostov region and 89,5% of the average for Russia). Median salary for big and medium size enterprises was 7121,6 but only RUR3104,1 at the small enterprises. Employees in banking and finances got biggest incomes (RUR11862) followed by colleagues in building and construction (RUR9737) and food processing (RUR8876).

However, official statistics do not give a deep insight into the potential of the Rostov consumer market. The largest part of real incomes comes from the entrepreneurial activities of the population, which are not always registered officially. The presence of a quantity of luxury stores with western goods in Rostov-on-Don, such as elite perfumes and cosmetics, fancy cars, mobile phones and imported furniture indicate the demand and real purchasing power of the population.

There were 510 000 sq. meters of residential areas planned to be built in 2004 in Rostov on Dom and the mayors office plans to increase the figure to 600 000 square meters in 2005. From the international retailers ”Metro Cash&Carry” is in the process of completion of a 15 000 sq meters hypermarket. The total investment amounts for approximately RUR190 million. The Russian retail Î `key also plans to finish a 8000 sq. meters hypermarket amounting for RUR185,6 million. According to the city economic estimates the trade volume allows for the existence of 25-30 hypermarkets.

The prices for western consumer goods are more expensive than in Moscow, because they are distributed via the capital (and multiple middle men) in the most part. Some local businessmen, working with imported goods, have made a point that they have to buy from Moscow distributors because there are no representative offices of the needed producers in Rostov. Direct imports are not profitable for medium sized retailers due to the time-consuming and expensive customs procedures. The way to reduce these costs and avoid Moscow intermediaries is to establish representation of the foreign producer in the region with consignment warehouses, so that the small and medium local wholesalers and retailers could buy customs cleared goods in the region.

1.4. Establishing a business presence

1.4.1. Office and personnel

As everywhere else the job market in Rostov-on-Don is quite difficult to be generalized. Still, it is reasonable to consider the following wage levels when looking for motivated professionals:

Position	**Monthly Salary / €**
Head of Representative Offices	500-1200
Secretary	160-400
Chief accountant	300-700
Sales manager	300-1000
HR Manager	300-700
System engineer	200-400
Driver	150-250
Translator	250-400

1.4.2. Legal assistance and banking

Regardless of the size of a share capital the registration of a company with foreign capital is carried out in common with Russian legal entities. If a Western company wants to establish a presence in the Rostov-on-Don it must go through the initial routine of registration. A foreign business can operate in the Rostov-on-Don in any of three ways:

- As a *joint venture* with a local company or as a *legal entity that is 100% foreign owned,* which is the easiest variant of registration. In this case , the foreign businessmen obtain the ability to operate in the Russian Federation on an equal

footing with resident enterprises, because, in essence, they become a Russian legal entity. Moreover this way of registration is less expensive and less time-consuming.

- In cases where foreign legal entities wish to participate personally in inter-relations with Russian counterparts they should register a branch office; or an accredited office that is wholly foreign-owned. The difference between these two is in the scope of authorities conceded. A branch office is given wider authority. The parent company itself specifies the scope of authorities in a warranty of authority given to the branch director. Accredited offices fulfil representation functions and are not allowed to practice commercial activity.

Establishing a company or opening an office is a procedure where legal assistance from a Russian lawyer's office is very much recommended. There are more than 50 agencies companies providing legal services in Rostov-on-Don – two of them have been the randomly selected and their contact info is provided below. Average Prices for legal services:
Registration of the Limited Liability Company costs approximately €300. A registration of a closed/open joint stock company (including the issue of shares) is approximately €600. Accreditation of a branch/representation office costs approximately €1500 while obtaining Work Permits is about €800.

Among others in Rostov-on Don, the Chamber of Commerce and Industry may also assist in registering joint ventures, affiliates and representative offices of foreign companies.

Rostov-on-Don banks provide services to individuals and companies engaged in international trade and partnerships. Local banks offer the following services: opening a foreign currency account (including EURO), providing currency loans, issuing letters of guarantee for customs, payment and settlements on export/import contracts via letter of credit, plastic card services and other conventional banking. Among the leading banks of the region are: Doninvest Commercial Bank, Invest-Invest Commercial Banks, Bank of Moscow (Rostov Branch) and Guta Bank (Rostov branch), Sberbank. These banks cooperate with foreign investment funds and leasing companies, represented in the region.

There are several international financial institutions, investing into the Rostov region. Southern Russian Venture Fund, established by EBRD, operates in the region since 1995. It invests into the rapidly developing, private enterprises in Rostov, Krasnodar, Stavropol regions. The Fund is based in Rostov-on-Don. International Bank for Reconstruction and Development finances social projects and technical assistance, such as support of the regional social infrastructure, coal-mining closure program, development of the public transportation in Rostov-on-Don and others.

1.4.3. Some useful contacts.

Business support organizations

Department of Economy and Foreign Economic Relations Rostov Regional Administration Ul. Sotsialisticheskaya112 344050 Rostov-on-Don, Russia Tel. + 7 8632 40 50 84; 40 14-27 Fax + 7 8632 40 54 80 Email: rra@donpac.ru	**Rostov Region Chamber of Commerce and Industry** Ul. B.Sadovaya 73, office 212 Rostov-on-Don, Russia Tel. + 7 8632 64 45 47 Fax + 7 8632 64 45 52 Email: tpp@cons.rnd.ru
Southern Russia Expo Centre Ul. Moskovskaya 63, office 30 344007 Rostov-on-Don, Russia Tel. + 7(8632) 44 10 58; 52 05 14; 62 28 83 Fax + 7(8632) 62 28 76; 62 05 14 Email: expoce@aaanet.ru http://www.expo.rsd.ru	**European Bank for Reconstruction and Development** Southern Russian Regional Venture Fund Ul. Beregovaya 10, 6th floor Rostov-on-Don, Russia Tel. + 7 8632 67 31 28; 67 39 72; 67 34 22 Fax + 7 8632 67 04 07
RKM Leasing Centre Contact person: Yevgeniy Balala, General Director Ul. Beregovaya 10, 11th floor	**The World Bank for Reconstruction and Development** Rostov Regional Social Projects Implementation Bureau

Rostov-on-Don, Russia Tel. + 7 8632 67 17 86 Fax + 7 8632 67 17 68 Email: rkm@deltalease.ru	Ul. Gorkogo 295, office 414 Rostov-on-Don, Russia Tel. + 7 8632 65 32 02 Fax + 7 8632 51 67 38

Legal assistance

Avesta Lawyer's Agency 344010 Rostov-on-Don, Russia ul. Sokolova 80, office 101; 505 Tel. + 7 8632 38-70-34 Fax + 7 8632 38-73-37 E-mail: agentstvoavesta@rambler.ru http://www.aaavesta.narod.ru	**Fenix-K** Ul. Budennovskii d. 117., office 33 Rostov-on-Don, Russia Tel. + 7 8632 622994 Fax + 7 8632 623980

Personnel recruitment agencies

S-Persona Pr. Voroshilovskii 46/176, 6th floor, office 610 344010 Rostov-on-Don, Russia Tel. + 7 8632 40-65-49 Fax + 7 8632 40-56-39 E-mail: spersona@spersona.ru http://www.spersona.ru	**Complex Personnel Recruiting** ul Serafimovicha d. 42 344007 Rostov-on-Don, Russia Tel. / Fax + 7 8632 625726

Real estate agencies

Alpha – Don Ul. B. Sadovaia 59 Rostov-on-Don, Russia Tel. + 7 8632 670-001 E-mail: info@alfadon.ru http://www.alfadon.ru	**Titul** Pr. Budenovskii 35, office 4 344082 Rostov-on-Don, Russia Tel. + 7 8632 90-78-78 E-mail: info@realtitul.ru http://www.realtitul.ru

2. Volgograd

2.1. Volgograd and Volgograd region – general outline

Volgograd region is located in the south-eastern part of the East European Plain is a connecting link between all Russian regions, the CIS countries, and the whole world. It shares a border with many neighbours, including Voronezh, Saratov, Astrakhan, and Rostov regions, the Republic of Kalmykia, and Kazakhstan. The Volga River divides the region into the high Right Bank (elevations to 358 m) and the low Left Bank (or Trans-Volga). The Volga and the Don are the region's main rivers. Volgograd Region has an area of 113 900 km^2 (0,67% of the Russian Federation). The region is made up of 33 districts, 19 cities, and 29 towns. The region has a continental climate with hot, dry summers and cold winters with little snow. Annual precipitation varies from about 500 mm in the northeast to 250 mm in the southeast. The average January temperature ranges from -8 °C to -12 °C, and the average July temperature is +23 °C. Most of the region is located in the dry steppe and semi desert zones. Soils are divided into five different zones: steppe black earth (chernozem), dry steppe light chestnut, dry steppe chestnut, semi desert light chestnut, and Volga-Akhtuba floodplain.

Volgograd region ranks consistently high in the Volga Economic Basin and is among the top industrially developed areas of Russia. However, the most remarkable fact is the dynamics of Volgograd's economic development. For last two years the average annual output growth was 15%, which is twice as high as the Russian average. There are 33 administrative districts, and six industrial cities in the Volgograd region. The total population is about 2.7 million people, of which 702 thousand are rural. A little bit more than one million people live in the capital city of Volgograd.

Volgograd is a major industrial and cultural centre in the south of Russia, which is advantageously situated at the cross of the major transport mains. The city has an international airport and a river port. Federal highway, length about 1000 km, connects Volgograd with Moscow. To the north of Volgograd there is the largest in

Europe the Volga hydroelectric station, capacity 2,5 million kW, it provides a great part of the country with electric power. The Volgograd enterprises' output makes up 44,5% of the Volgograd region enterprises' output.

2.1.1. Natural resources

Volgograd Region has abundant mineral resources. Oil, natural gas, phosphorite, salts (sodium and magnesium chloride), mineral water, building sand, clay, and limestone are among the minerals produced in the region.

Volgograd Region is also unusual for its rivers and watersheds. The beautiful Volga and Don rivers flow majestically through its territory, and there are 199 other waterways associated with the Volga and Don basins. The Volga Basin includes about 234 km of the Volgograd Reservoir and 86 km of the Volga River as far as the border with Astrakhan Region. The city of Volzhsky is located in the lower reaches of the Volga; and owing to its excellent geographical location on Europe's greatest waterway, which is connected to other river basins of European Russia through a system of canals, Volzhsky is effectively a port for five seas. The Don Basin takes in 253 km of the Don River, 197 km of the Tsimlyanskoe Reservoir, and 169 small rivers between and 200 km long. Of the 199 small rivers with a total area of 4190 km^2, 4 flow year round in their middle and lower reaches, 40 flow year round only at their outlets, and the others flow only during spring flooding and heavy rains. A total of 2057 million m3 out of a diversion limit of 2842 million m3 are diverted from shallow water sources in the region. Freshwater utilization amounts to 641 million m3, which includes 88 million m3 for domestic needs, 126.4 million m3 for industrial purposes, 149 million m3 for irrigation, 177 million m3 for agriculture, and the remainder for other needs. Each spring, water levels in the shallow rivers rise 5-7 m, flooding the riverbanks and covering them with sand. The dry steppe air and Ergeniskaya mineral water resources create favourable living conditions for residents of Volgograd Region.

2.1.2. Location, Transportation, Logistics

Volgograd is located 954 km southeast of Moscow in the flatland zone between two major Russian rivers – the Volga River and the Don River. The Volgograd region is the largest in the Volga river basin and borders Voronezh oblast on the northwest, Saratov oblast on the northeast, Kalmykiya Republic and Astrakhan Oblast on the south and Kazakhstan on the east. The geographic placement of Volgograd offers many advantages. The city is located on the Volga River, the primary waterway of European Russia. Western Russia, the Urals, the Caucasus, and Kazakhstan are accessible from Volgograd due to this vast river and its flow to the Caspian Sea.

The location of Volgograd provides accessibility for both goods and travellers. The main roads, railways, air routes and waterways that pass through the region connect it to all of Russia, the NIS and the rest of the world.

The Volgograd Airport is located in about 30 minutes of car ride from the downtown. There are several daily flights to and from Moscow served by Aeroflot and the local airline Volga-Aviaexpress, the flight time to Moscow is 1 hour 40 minutes. The Volgograd Airport does manage international flights to countries of the former Soviet Union, including Armenia and Moldova. However, most foreign travellers make their flight arrangements using Moscow as the routing city abroad due to more predictability and consistent scheduling of flights.

The passenger terminal Volgograd-1, located in the city centre, provides railway connection with almost every major city in Russia. It takes 22-24 hours to get to Moscow by train. Volgograd offers four railroad cargo terminals - Volgograd II, Maxim Gorky, Sarepta and Gumrak. The customs office will, at the company's request, send a customs agent to meet and clear the incoming/outgoing goods.

Volgograd City has one of the largest river ports, located at the embankment in the city centre. Volgograd is justly called a port of five seas. Through the Volga-Don Canal, Belomore Canal, Moskva Canal and the Volga-Balt Canal, ships can reach the Azov, Black, Caspian, Baltic and Polar Seas. The river and the canals are deep enough to accommodate the passage of cargo ships up to 5,000 tons. The average depth is 7.5 meters. The shallowest point is five meters, therefore the maximum

submerged depth cannot exceed 4.5 meters. The passages are navigable from mid-April until late October. Volgograd boasts four refuelling stations for various types of sea-faring vessels. There are two water cargo terminals servicing the Volgograd region which can accommodate up to 22 loading and unloading ships per day. Seven vessels can be loading/unloading simultaneously. Each port offers customs houses for on-site customs clearance.

There are three main highways, Moscow-Astrakhan, Volgograd-Rostov, and Elista-Saratov. Here are the main distances between Volgograd and the big cities within 500 km around it:

Volgograg – Rostov-on-Done - 495 km
Volgograd – Voronez - 572 km
Volgograd – Astrahan – 576 km
Volgograd – Saratov - 389 km
Volgograd – Volzhskij 28 km

Volgograd – Moscow 954 km
Volgograd – St.Petersburg 1677 km

2.1.3. Business perspectives

The region's main industrial sectors are engineering and metalworking (tractors, ships, tower cranes, and bearings; equipment for the oil, electronics, and food industries; and drilling, warehouse transport, medical, and store equipment), fuel (oil and gas production), oil refining, chemicals and petrochemicals (including production of caustic soda and chemical fibres), and ferrous and nonferrous metallurgy.

The building material, textile, woodworking, and food industries are also well developed in the region. The main types of industrial goods produced in Volgograd Region are steel pipe (148 000 tons), cement (1 270 000 tons), tractors (3575 units), roofing slate (224 million standard tiles), ceramic facing tiles (1 895 000 m^2), meat and meat by-products (42 600 tons), whole milk products (59 700 tons in terms of milk), and vegetable oil (47 200 tons).

The leading sectors of the industrial complex are chemicals and petrochemicals, power, engineering, fuel and food. Other smaller sectors include ferrous and nonferrous metallurgy; forestry, woodworking, and pulp and paper; building materials; and light industry. For the past two years, the production volume index for the city of Volgograd has been higher than in the region as a whole.

Despite this, Volgograd's industrial profile is undergoing significant changes, with ferrous and nonferrous metallurgy becoming increasingly important. More than 400 large and medium industrial plants with an annual output of more than RUR18 trillion operate in Volgograd Region. The power, chemical and petrochemical, and engineering and metalworking industries account for 15-16% of total output; the food and fuel industries and ferrous metallurgy, for 9-12%; and the building material industry, ferrous metallurgy, light industry, and other sectors, for 6%.

Agriculture is well developed in the region, with 27 state companies, 150 joint-stock companies, 67 partnerships, 50 production cooperatives, and 12 900 farms currently in operation. The main agricultural products are wheat, sunflowers, mustard, potatoes, vegetables, melons, eggs, meat, milk, and wool.

More than 250 active joint ventures and foreign companies are registered in Volgograd Region. Companies with foreign investments are mainly involved in ferrous and nonferrous metallurgy, furniture manufacturing, lumber production, clothing, construction, and scientific research. Joint ventures provide various services, such as transportation, automotive maintenance, money transfers, etc. The region exports tractors and engines, steel pipe and cable, drilling rigs and oil production equipment, fishing boats, bearings, petroleum products, and cotton fabrics to Russian and foreign markets. Companies in the chemical and petrochemical industries supply car tires, petroleum products, synthetic resins, plastics, fibres and thread, and caustic soda among other products. The largest industrial facilities in the region include the following.

However, the situation in the region's industry is not entirely cloudless, since many companies are operating at a loss. The products of most companies cannot compete

with the products of foreign manufacturers in structural perfection, quality, design, and operating and environmental characteristics.

2.2. Main industries and city profiling enterprises

The Volgograd industry is represented by 181 companies regarded as large and medium-sized enterprises (as of 01.01.2000). The share of private and mixed enterprises (without participation of foreign companies) is 84,6% of the total number of enterprises, the share of state-owned enterprises is 3,8% and the share of municipal enterprises is 1,4%.

The industry of Volgograd is represented by leading enterprises of Russian chemical and petrochemical branches, fuel and energy complex, building materials production, ferrous and non - ferrous metallurgy, machine - building and instrument – making, metal – working industry. Volgograd region is a major agricultural producer that conditions the availability of food industry enterprises: milk processing and meat processing factories, margarine factory, macaroni factory, fruit and vegetable cannery, the unique in Europe mustard factory, which produces mustard plasters and mustard foodstuffs both. Consumer goods industry, processing, building industry are quite developed. 12% of the total number of Volgograd population is employed in industry.

The region's leading industrial sectors include fuel industry (19%), chemical and petrochemical industries (16%), machine-building and metal-working (15%), food processing (11%), ferrous metallurgy (13%), and light manufacturing (10%). The largest industrial enterprises in Volgograd are:

Red October Metallurgical Plant
Volgograd Aluminium Plant
Volgograd Tractor Works
Volgograd Pipe-making Plant
Lukoil Refinery
Khimprom Chemical Refinery
Barricada open joint-stock company (artillery guns)

Other major industrial centres in the region include petrochemical/chemical plants, a tire manufacturing facility and pipe factory in Volzhsky, a concrete factory in Mikhailovka and a textile plant in Kamyshyn, one of the largest cotton processors in European Russia.

2.2.1. Chemical and petrochemical production

Lukoil controls the Volgograd oilfields and refining facilities. Lukoil affiliated companies conduct the whole spectre of oil production works, including prospecting, drilling and extraction, processing of the crude oil, distribution of the petroleum and petrochemical products. Lukoil holding includes **Lower Volga Oil Drilling Company** (Lukoil Nezhnevolzhskneft), **Volgograd Oil Refinery**, **Volgograd Petroleum Products** (Lukoil Volgograd Nefteproduct) and **Lukoil Insurance Company**. Together they provide 16 thousand jobs for the region and contribute up to 30% of the regional tax collection.

The refinery, which was built in 1950, processes up to nine million metric tons (180,000 barrels per day) of high quality Russian crude oil annually and is one of the top Russian producers of lubricants, including motor oil, hydraulic and aircraft oils. In addition to gasoline and diesel fuel, it provides feed stocks for chemical and petrochemical industries, which specialize in the production of chemical fibre and thread, synthetic resins and plastics, tires, oil products, and caustic soda.

Chimprom (http://www.vocco.ru) is one the leading Russian chemical companies and produces a wide range of technical products and consumer goods. Technical products include non-organic compounds, polymers and copolymers, plant protection chemicals, politicising and extracting agents, surface-active substances and many other products. Chimprom is the only manufacture of lime; it produces 39% of gross national output of calcium carbide, 26% of sodium chlorate and 12% of caustic soda. Among the consumer goods, produced by the plant, are synthetic detergents, insecticides, fertilizers, disinfectants and car care chemicals. The plant employs 8700 people.

Kaustik (http://www.kaustik.ru) is another big chemicals producer, located in Volgograd. Kaustik produces about 16% of Russia's output of caustic soda and chlorine and is the 2nd biggest among the 15 Russian producers of these products. Kaustik has its own research and development centre with 100 employees, working on development of new products.

Volshina (http://www.voltyre.com) belongs to the SIBUR holding and produces automotive tires. The company has an annual capacity of 3,47 million tires in more than 25 different models.

Other significant producers that constitute chemicals production complex of the Volgograd region are **Volzhskiy Kislorodno-Azotny Plant** (oxygen, nitrogen production), **Lateks** (producer of rubber and latex) and **Volzhsky Abrasives** (producer of metal abrasives).

Furthermore, in recent years there has been significant interest in defence conversion investment projects to turn several former chemical weapons facilities into viable factories with peacetime products.

2.2.2. Mechanical Engineering

Volgograd Tractor Plant (http://www.vgtz.com) controls approximately 70% of track-type tractors for agricultural application as well as spare parts to them. In its best times the plant delivered over 2,5 million tractors to agricultural sector. Recently the new owner - Agromashholding is having plans to invest in the plant. The first investment of approx €400 thousand will be spent on developing new model line of tractors.

Volgograd Shipyard was founded in1931. For the last 30 years more than 100 sea tankers with cargo capacity from 4,600 to 6,000 tons, 150 trawler-seiners, crane ships, pollution control ships have been built in this shipyard. For the last 10 years there were built 10 universal ocean bulk-carriers of "Baltic" type with deadweight from 2,950 to 3,350 tons for the North-Western ship company that works on the route St. Petersburg-Europe, Novorossiysk-Middle East. The plant is engaged in building of

“river-sea” type oil-carriers, pollution control ships, and pontoons of raft railway and car bridges.

Volgograd Engine Plant (http://www.vgmz.ru **)** is a leading manufacturer of high-power air-cooled diesel engines designed for installation on heavy industrial tractors. In year 2000 the enterprise produced already more than 23 thousand engines and constantly modernizing their design and characteristics. For the development of manufactured products and the construction of new engineering, **VgMZ** has got research base, equipped with units and devices of leading companies of the whole world in the field of engine building; "AVL", "Elin" (Austria), "Schenck", "HBM", "Bosch" (Germany), "Shinken", "Horiba" (Japan), "Hartridge", "Elven" (Great Britain), "Olivetti" (Italy), "Bruel und Kjer", "Dantec" (Denmark) and etc.

2.2.3 Metallurgical Industry

Development of the Volgograd’s metallurgy began in 1898 when the metallurgy plant Ural-Volga (now is Red October Plant) was constructed with French investments. The inception of steel smelters gave birth to the regional metal working industry and 16 metalworking facilities were built. In 1914, when an English company Wickers and Co. joined the project, the Gun Factory (now Barrikady) was constructed.

Red October Metallurgy Plant (http://www.vmzko.ru) was built in 1898. By 1990 the factory became the leading Russian manufacture of high quality and special grades of steel for various industries. During 6 months of 2004 VMM "Krasniy Oktyabr" Ltd produced 312 700 tons of steel. It is 50% more than at the same period in 2003. The volume of finished products increased in 44% in comparison with the same period in 2003.

Barrikady (http://www.barricady.ru/index.htm) was founded in June 1914 as Tsaritsyn gun plant. With time the plant became one of the largest enterprises of the country’s defence industry. The unique technology allows the plant to operate in closed cycle with the least cooperation. The plant produces equipment with specific technology for oil and gas industry, coal and ore production. Production of steel, centrifugal and cast iron casting, as cast precise work pieces, metal work pieces,

forgings, stampings, spare parts for tractors, medical equipment, framework for site-cast concrete construction, as well as consumer goods (washing machines, bags, metal racks, plastic receptacles, etc.)

Volgograd Aluminium Plant was built in 1959 and was the first in Russia. At present the plant is the 7th biggest aluminium plant in Russia and the 2003 production output amounted for 150 thousand tons of primary grade aluminium. 90% of the company belongs to the giant SUAL holding (http://www.sual.ru) together with the SevZapProm company from Saint Petersburg. The plant manufactures various powders and granules of high quality aluminium and its alloys. The products of the plant are applied in rocket- and aircraft- building, automobile and electromechanical industries, in metallurgy for steel de-acidification and in chemistry to obtain varnishes and paints; in civil engineering to manufacture structures and cellular concrete, in food industry for packing and kitchen utensils.

WEST-MD Pipe works produces electric-welded pipes of water- and gas assortment as well as special pipes used in the production of complicated domestic and industrial devices and in automobile industry. Among the customers of the plant are almost all automobile plants of Russia and NIS: AZLK, ZIL, KAMAZ, VAZ, MAZ, KrAZ, AutoVAZ, CeAZ. WEST-MD pipes are used in production of refrigerators: STINOL, NORD, ZIL, OKA, SARATOV, YURYUZAN, ORSK etc. The pipes are exported to Uzbekistan, Ukraine, Moldova and Iran. In 1998 WEST-MD was nearly announced bankrupt when the industrial group MAIR (Moscow) appeared and became the main shareholder of the plant.

The expenses were reduced and production was put on breakeven level. In the meantime it takes the 10th place among all pipe enterprises in Russia by the volume of annual output. There is a perspective of the plant certification according to the international quality standards ISO-9000. For the first half of 2004 the plant manufactured approx. 26642 tons of electric-welded pipes with a diameter up to 108mm that is an increase of 42% compared to the first half of 2003. Provided that the March 2004 modernization doubled the plant monthly capacity to 17 thousand tons, it becomes apparent that the plant management foresees expansion in production and sales.

2.2.4. Food Industry

The Volgograd region encompasses a land area larger than Hungary and smaller than the former Czechoslovakia. However, with 2.7 million inhabitants, the province has a much lower population density than either country. The region's rural population numbers some 695,000 including 205,000 who work directly in the agricultural sphere. The total area of the Volgograd Region is 114,000 square kilometres, with about 86,000 square kilometres being used for agriculture. The farming area is 8.2 million hectares. The arable land is shrinking from year to year and one of the main reasons for this is low supply of necessary farming equipment (only 50% of needed).

The region is 9th in Russia for its volume of agricultural production, which generated 30% of the region's gross income through wheat, sunflowers, mustard, potatoes, tomatoes, cucumbers, melons, meat, milk, and wool. Despite occasional droughts, the region has been self-sufficient in agricultural production and, in fact, regularly exports more than a quarter of its production to other regions. Volgograd's regional productivity is one-and-a-half times higher than the Russian Federation's average, but six times less than Germany, for example. Below are the profiles of successful agribusiness enterprises in the region.

Agribusiness Corporation Pridonye is a fruit and berries processing company, founded in 1997. It produces natural juices in Tetra Pack packaging. Sady Pridonya is a 50-year-old fruit-growing farm, which is known as one of the best in its kind in the nation. Both facilities – the farm and the processor – are located in an environmentally clean area in the Don River delta.

Uryupinsky Oil-crushing Plant (http://www.mez.avtlg.ru/main.htm) consistently invests money in its equipment and widens the range of its products. A new refining and deodorization line from the Swedish manufacturer Alpha Laval was installed in 1999. The Plant's production capacity is the following: sunflower seeds processing – 650 metric tons of seeds per day, oil production - 84 thousand of metric tons per year, including 600 tons of packaged oil.

Dais-II, Ltd. is one of the few in Russia, which produce high quality frozen fish and crayfish. Dais's production capacity is 1500-2000 metric tons of fish per year, 100-120 metric tons of crayfish per year and 500 tons of herring per year.

Other significant companies in the food and food processing industries are:

"Nikolaevskiy" Butter Factory
"Vostok" Poultry Factory
Brewery plant "Povolzhie"
Volgograd Non-Alcoholic Drinks Plant
Volgograd Alcoholic Beverage Plant
Volgograd Meet Factory
Confectionery Factory
Reemtsma-Volga tobacco factory

2.3. Consumer markets

The city administration evaluates that in 2003 the nominal average incomes rose at 40% compared to 2002 and correspondingly that represents approx. 11% increase in the .real incomes. The people living under the considered poverty line in 2003 were 7,8% as opposed to 16,3% in 2002. While the average gross salary for 2002 was RUR3713 in 2003 it reached RUR5296. The total amount of spending and savings in 2003 is evaluated at RUR63,8 billion that is 40% more compared to 2002. 85% of this amount is spent on goods and services.

Approximately 10% of the working age people in Volgograd are occupied in trade and services. In 2003 there were 2119 shops, 919 cafeterias and restaurants, 1216 kiosks and 56 markets. The retail chains are comparatively new and growing sector of the Volgograd economy. Most prominent among them are Radezh, Magnit, Mir Tehniki, Tehnomarket, Eldorado, 24 hours etc. New commercial centres were built such as "Caricynskii passage" and "Krasnopolianskii".

2.4. Establishing a business presence

2.4.1. Office and personnel

Unlike many other provincial cities in Russia, Volgograd has several Western styled and freshly built office buildings throughout the city. Office rental rates vary according to location, size and state of repair. Rental rates in the recent past have averaged about €8 -15 per square meter per month.

It is not easy to generalize the tendencies at the Russian jobs market but a preliminary review of recent jobs on offer in Volgograd will reveal the following:

Position	**Monthly Salary / €**
Head of Representative Offices	500-1200
Secretary	160-300
Chief accountant	300-600
Sales manager	300-600
HR Manager	300-600
System engineer	200-300
Driver	150-250
Translator	200-300

Of course, it is recommended to link the salary with the personnel performance.

2.4.2. Legal assistance and banking

As in other regions of Russia a company that plans to operate in Russia for more than 30 days a year must be registered in accordance with the law on "Foreign Investment in the Russian Federation" adopted in 1999. A foreign business can operate in Volgograd in any of three ways:

- As a *joint venture* with a local company or as a *legal entity that is 100% foreign owned,* which is the easiest variant of registration. In this case , the foreign businessmen obtain the ability to operate in the Russian Federation on an equal

footing with resident enterprises, because, in essence, they become a Russian legal entity. Moreover this way of registration is less expensive and less time-consuming.

- In cases where foreign legal entities wish to participate personally in inter-relations with Russian counterparts they should register a branch office; or an accredited office that is wholly foreign-owned. The difference between these two is in the scope of authorities conceded. A branch office is given wider authority. The parent company itself specifies the scope of authorities in a warranty of authority given to the branch director. Accredited offices fulfil representation functions and are not allowed to practice commercial activity.

It is highly recommended to contract with a local lawyer or law firm that specializes on registration issues to conduct and facilitate the registration process and for further legal routine maintenance such as renting office space, contract monitoring. Average Prices for legal services:
Registration of the Limited Liability Company costs approximately €300. A registration of a closed/open joint stock company (including the issue of shares) is approximately €600. Accreditation of a branch/representation office costs approximately €1500 while obtaining Work Permits is about €800.

Among others in Volgograd, the Chamber of Commerce and Industry assists in registering joint ventures, affiliates and representative offices of foreign companies.

Volgograd offers both state financial institutions as well as progressive, private banks, some of which are local branches of Moscow-based banks. Many banks are licensed to deal in both rouble and hard currency accounts for both individuals and corporations. These banks maintain correspondent relationships with large international financial institutions, which provide ease of fund transfer, both in and out of Russia.

The regional banking system incorporates 6 local commercial banks with 16 branches, one representation office and 17 branches of inter-regional and Moscow-based banks and the Volgograd branch of Sberbank with 24 offices throughout the region. All

Volgograd local banks are authorized to do currency exchange transactions, Volgoprombank has a general license for all possible operations with foreign currency. Nokssbank is authorized to operate with precious metals. The inter-regional chain banks with offices in Volgograd include GazPromBank, Alfa-Bank, Sobinbank, Menatep St. Petersburg Bank, Vozrozhdenie, Vneshtorgbank, Moscow Industrial Bank and others. Gazprombank, Moscow Industrial Bank, Alfa-Bank and Express-Volga are the leaders in giving credits to local businesses.

2.4.3. Some useful contacts

Business support organizations

Volgograd City Administration **Department of foreign relations and external economic affairs** Ul. Profsoyuznaya 15/1 Volgograd, Russia Tel. + 7 8442 94 85 85 Fax + 7 8442 93 11 57; 93 17 68	**Volgograd Chamber of Commerce and Industry** Ul. Gvardeyskaya 27 400005 Volgograd, Russia Tel. + 7 8442 34 41 78, 93 61 35 Fax + 7 8442 34 22 02 E-mail: derig@volgogradcci.ru
Tsaritsin Fair (Trade Shows and Exhibitions) Pr. Lenina 88, office 503 400005 Volgograd, Russia Phone + 7 8442 34 33 77 Fax + 7 8442 34 33 77 Email: zarexpo@advent.avtlg.ru	**Department of International, Interregional Relations and External Economic Activity** Ul. Volodarskogo 5 400131 Volgograd, Russia Tel. + 7 8442 95-42-10 Fax + 7 8442 30-17-27 E-mail: inter@volgadmin.ru http://www.volgadmin.ru

Legal assistance

Kulagin & Company pr. Lenina, 98, office 415 Volgograd, Russia Tel. / Fax + 7 8442 34-85-27 E-mail:acgkip@rambler.ru	**Jurinform** pr. Lenina 86, office 701 Volgograd, Russia Tel. + 7 8442 34-03-86; 34-83-70; 96-52-33 Fax + 7 8442 96-52-34

	E-mail: staff@urinform.com contact@urinform.com

Personnel recruitment agencies

Citizen Initiatives Centre – Volgograd ul. Chuikova 37 400131 Volgograd, Russia Tel. + 7 8442 93 60 42 Fax + 7 8442 93 60 43 E-mail: ccivd@vlink.ru	**Raid** pr. Lenina d. 102, office 102 400005 Volgograd, Russia Tel. Fax + 7 8442 73-89-68 E-mail: ka-ridå@mail.ru http://www.karide.ru

Real estate agencies

Ariorosa 400131 Volgograd, Russia ul. Krasnoznamenskaia 15a Tel. / Fax + 7 8442 33-17-82, 33-17-79 E-mail: ario@ariorosa.ru http://www.ariorosa.ru	**Danko-N** Ul. Sovetskaia d.5, office 303, 306. 400066 Volgograd, Russia Tel. / Fax + 7 8442 36-63-51, 33-76-37 E-mail: danko-n@interdacom.ru http://www.interdacom.ru

Chapter III. The Volga 3

1. Nizhny Novgorod

1.1. Nizhny Novgorod and Nizhny Novgorod region – general outline

Nizhny Novgorod region is situated at the confluence of the Volga and Oka rivers and serves in a sense as a bridge between the European and Asian parts of Russia. Nizhny Novgorod Region borders on Kostroma region in the northwest, Vladimir and Ivanovo regions in the west, Ryazan region in the southwest, the Republic of Mordovia in the south and southeast, the Chuvash Republic and the Republic of Mari El in the east, and Kirov Region in the north and northeast. The region is part of the Volga-Vyatka economic district.

Owing to its strong industry and stable agriculture, Nizhny Novogorod region is also in a favourable socio-economic and political position. The region's cultural and historical heritage has contributed greatly to its spiritual and intellectual influence on European Russia.

The region covers an area of 80 500 km^2, which is approximately equal to the entire area of the Benelux countries. Agricultural land occupies 41% of this area; forests, 48%, lakes and rivers, 2%; and other lands, 9%.

Nizhny Novgorod Region has a population of 3.7 million people (about 2,5% of the population of Russia), 78,2% of whom live in urban areas; the population density is 48,5 people per km^2. The region is divided administratively and territorially into 52 districts, 25 cities, 71 district centres, and 4600 villages. Two more cities in the region have a population of over a 100 thousand. They are Dzerzhinsk (273 thousand) and Arzamas (109 thousand). Six more cities have more than 50 thousand residents. They are Sarov (86 thousand), Kstovo (70 thousand), Pavlovo (70 thousand), Vyksa (62 thousand), Bor (62 thousand) and Balakhna (62 thousand).

The regional centre is the city of Nizhny Novgorod located 400 km northeast of Moscow. It has a population of 1.4 million, making it Russia's third-largest city. The main industrial sectors are car manufacturing, engineering, food processing, and the chemical and petrochemical industries.

The region is rated as the fifth most populous and seventh in industrial output in Russia. 78,3% of the local population lives in urban areas. Average monthly wage in the city in September 2002 constitute $131,5, showing a 37,3% increase compared to September 2001.

1.1.1. Natural resources

The forests of Nizhny Novgorod Region consist mainly of pine (43,2%) and birch (34,9%), with some spruce (7,1%), aspen (10%), and other species (4,8%); total timber reserves are 352.16 million m3.

There are more than 9000 rivers and streams in the region with a total length of 33 000 km. The Volga flows for 260 km through the region, and the Oka for 268 km. Other large rivers include the Sura, Vetluga, Pyana, Kerzhenets, and Pizhma. Due to its location on main waterways, the city of Nizhny Novgorod has a large river port with access to the Baltic, Black, Caspian, and White seas and the Sea of Azov.

Explored reserves of drinking and process water in the region amount to 2,67 million m3 / day. There are extensive subsurface reserves of low-mineral sulphate drinking water, as well as chloride, sodium, and bromine brines used in medicine. There are more than 7000 lakes in Nizhny Novgorod Region, the most famous of which is Lake Svetloyar.

Enormous reserves (more than 2.5 billion tons) of rock salt suitable for producing high-grade table salt, chlorine, and caustic soda have been discovered in the region. The southern part of the region also has small deposits of nonferrous (copper, lead, and zinc) and rare (molybdenum) metals, trace elements (scandium, yttrium, and lanthanum), and rare earth elements (neodymium, cerium, and ytterbium). There are extensive deposits of building sand in the region, as well as large reserves of gypsum, anhydrite, peat, and sapropel [aquatic ooze].

1.1.2. Location, transportation, logistics

Nizhny Novgorod is a transportation hub of national importance. It has a large railway transportation terminal. The railway grid in the region is more than 780 miles; railway cargo turnover was 9,795 thousand tons in 2002. A major river port on the Volga River and international airport are located here. Direct regular flights by Lufthansa from Nizhny Novgorod to Frankfurt-Main make any trip to and from Europe and the Americas faster and more convenient, without lengthy transfers in Moscow. Since late December 2002, a new commuting train is connecting Nizhny Novgorod and Moscow, which may be reached in five hours.

The city's traditional role as a commercial centre and the region's defence significance has led to the construction of an extensive transportation infrastructure. The region has more than 1000 km of waterways (most of them are equipped with light fixtures and reflectors and have a guaranteed depth of 3.5 m), more than 14 000 km of roads (with a network density nearly five times the average figure for Russia), and more than 1000 km of railways. The rail network can be considered complete, and electrification is currently nearing completion.

The conclusion of a series of international transport agreements offers real prospects for local companies, owing to the fact that two Eurasian transport corridors intersect in Nizhny Novgorod Region: the road and railway Pan-European Corridor No. 2 (Berlin-Warsaw-Minsk-Moscow-Siberia TransSib) and a shipping route (Antarctic-Middle Eastern seas through the Volga Basin).

Nizhny Novgorod is a convenient destination for production base or a distribution hub due to its good location. There are 12 significantly big cities (including Moscow and Kazan) that are within 500 km distance from Nizhny Novgorod:

Nizhny Novgorod – Kazan – 393 km
Nizhny Novgorod – Saransk – 298 km
Nizhny Novgorod – Ulyanovsk – 474 km
Nizhny Novgorod – Yoshkar Ola – 324 km
Nizhny Novgorod – Cheboksary – 260 km
Nizhny Novgorod – Novocheboksarsk – 274 km

Nizhny Novgorod – Arzamas – 104 km
Nizhny Novgorod – Kostroma – 339 km
Nizhny Novgorod – Ivanovo – 255 km
Nizhny Novgorod – Vladimir – 240 km
Nizhny Novgorod – Penza – 438 km
Nizhny Novgorod – Dzerzhinsk – 37 km

Nizhny Novgorod – Moscow – 425 km
Nizhny Novgorod – Saint Petersburg – 1122 km

1.1.3. Business perspectives

Nizhny Novgorod is a promising market for Finnish SMEs, especially those interested in trade and investment opportunities in such sectors as machine-building, engineering, petrochemical, telecommunications, electronics & software, construction, food processing and retail trade.

The advantages of the region include, but are not limited to diversified industrial sector, which produce more than 40% of the GRP, highly-skilled labour, which is cost-efficient compared to Moscow and St-Petersburg, expanding financial and service sectors, growing consumption capacity of the population, developed transport & communication infrastructure, and favourable geographical position, which makes of Nizhny Novgorod a hub to the Volga and the Urals regions.

Regional and local establishment is friendly to foreign companies, although the bureaucracy is slow as elsewhere in Russia. Regional laws provide tax incentives to investors and ensure their rights, and it really works, especially, when supported by professional lawyers of a foreign company.

Along with a favourable geographical location that has made Nizhny Novgorod a connecting link between Europe and Asia, the drive and initiative of its people and their willingness to devise and carry out bold projects has contributed to the region's economic development. The region's reputation for strong industry and daring

economic experiments is growing year by year, and the city is better known outside Russia now than it was only ten years ago.

The Nizhny Novgorod region's government reported 15,85% growth in foreign trade turnover in 2003, compared to the previous year. The foreign trade turnover totalled $1,999.6 million, where export from the region equalled $1,330.2 million (+8,6%), and import constituted $669.3 million (+33,6%).

In 2003, major export items included machinery (36,4% share in overall export), fuel (31,6%), other petrochemical products (11,3%), timber & newsprint (9,6%). Major import products included machinery (44,4%), petrochemical products (17,1%), food products (13,3%), ferrous and non-ferrous metals and components (10,7%). The companies of the region have been trading with 114 countries, with major exports to Ukraine (22,9%), Kazakhstan (8,1%), Estonia (6,7%), India (6%), Switzerland (5,6%); and major imports come from Germany (19,6%), Ukraine (11,9%), China (5%), Finland (4,8%), and Hungary (4,1%).

The cities of Nizhny Novgorod and Sarov are national centres of research and development (R&D). The region hosts 15 state universities with 120,000 students (and 60,000 more people, who get higher education with distant learning programs). Presently, there are 48,000 researchers and scholars in the region, who also work at 107 national and regional research labs, including 7 institutes of the Russian Academy of Science, 48 federal research labs, 15 university research institutes, and 18 corporate R&D labs. The R&D potential of the region contributes to the development of telecommunications and IT. Nizhny Novgorod hosts the head office of Volga-Telecom, one the seven national operators in wired communication, a dozen of internet-providers, seven cellular companies and a number of software development companies, which carry out orders for international companies i.e. Motorola, Nortel, MATRA, and some others.

By late 2002, total foreign investment in the region had approached $400 million. Most numerous investors are German companies: Knauf (construction materials), Wella (cosmetics & washing products), Udhe (engineering), Bericap (plastics), Troplast (polymer & glass), Jowat (construction materials). US and international

investors are represented by four companies: Instrum-Rand, a subsidiary of Ingersoll-Rand (electrical tools and devices; Lear, a subsidiary of Lear Corp. (car seats and interior components), Intel Nizhny Novgorod Lab (information technologies, R&D); Coca-Cola factory. Other major investors are Gloverbel (glass production), Europe Foods (food concentrates), FIAT (Nizhegorodmotors), and Spar (food supermarkets). Three more large foreign companies – Stora Enso Packaging (corrugated cardboard), IKEA (furniture production & trade) and Metro (cash & carry supermarkets) announced their investment plans in the region in 2003. The European Bank for Reconstruction and Development (EBRD), and the International Finance Corporation (IFC) are active participants in investment projects in the Nizhny Novgorod region.

Today, the city and the region are open for cooperation; many joint projects have been developed and are already being implemented. The region maintains trade relations with many countries and has an export surplus. The largest volume of exports goes to Ukraine, Belarus, Switzerland, Kazakhstan, Belgium, and France. Imports come mainly from Ukraine, Germany, Belarus, Kazakhstan, Austria, the Netherlands, China, and the United States. The Administration of Nizhny Novogorod has many specific programs that may be of interest to business partners.

1.2. Main industries and city profiling enterprises

There are 722 industrial companies in the region, most of them engaged in the following sectors: Machine-building and engineering, Chemical & petrochemical, Fuel & energy, Ferrous and non-ferrous metallurgy, Construction materials, Glass, Wood and paper, Cloth-making, Food & food processing, Medical & pharmaceuticals, Printing & publishing.

These key industries are supplemented by other sectors of the economy such as agriculture, trade, services, communications and transport. According to preliminary estimations, in 2002, the GRP of the Nizhny Novgorod region totalled $5,6 billion, where the industrial and transportation companies produced $4,5 billion.

Industry occupies a significant place in the Nizhny Novgorod structure. It's represented by 151 large and middle-sized enterprises of 13 different branches, where employed 212 thousands prs. - 45% working people of the City.

The principal branches - car building and metal-working industry, ferrous and non-ferrous metallurgy, wood manufacturing, food and light, medical and printing industries. These branches compose 95% of all the City's industry. In the structure of branches of the public facilities in the gross volume of produced goods and services of the City industry forms 56%. Guideline of machine building is transport machine building: auto-industry, ship-building, plane construction, diesel engines' production.

In 2001-2002, many regional industries got under control of Russian national holdings, which are, currently, restructuring them to increase efficiency and to accumulate more profit. The national holding groups, which have a reasonable stake in the regional industries, are as follows: Gazprom (petrochemical), Lukoil (petrochemical), Basic Element /former Sibal/ (automotive), Severstal (automotive), OMZ (ferrous metallurgy), Uralmash-Izhora (ship-building), Kaskol (aerospace), Alfa-Eco (newsprint), Planeta Management (meat products & farming) and Wimm-Bill-Dann (diary products & farming, brewery).

1.2.1. Machine building and metallurgy

The engineering industry is mainly oriented towards transportation, i.e., the auto industry, shipbuilding, diesel engines, aircraft manufacture, and machine tools, with the auto industry being the leading sector (50%).

The national importance of these industries is shown by the fact that 34% of the trucks and 26% of the buses produced in Russia are made in Nizhny Novgorod Region. Car manufacturing began here in 1932 with the construction of the Gorky Automobile Plant (GAZ). Today, AO GAZ is the region's largest company. The plant has close ties with many allied companies. Various auto industry facilities in other Russian regions and the CIS were relocated to Nizhny Novgorod Region to form the basis of a regional production complex. At present, there are ten plants in Nizhny Novgorod Region and other areas of the Volga-Vyatka economic district producing

assembled units, accessories, and components for the auto industry. Among them are **Etna**, **Zavolzhye Motor Plant /ZMZ/**, **Lyskovo Electrical Engineering Plant**, **Pavlovo Tool Plant**, **Bor Glassworks**, and **Bogorodsky Tannery**. New auto industry plants have been built in Pavlovo for bus manufacturing, in Zavolzhe for caterpillar tractors and in Arzamas for car parts. Various goods and raw materials for the region's auto industry are supplied from plants in the Volga region, the Urals, and southern Russia.

Shipbuilding, unlike car manufacturing, is an old traditional Nizhny Novgorod industry. Large shipbuilding companies involved in full-scale production of modern ships grew up around the old Russian shipyards of Sormovo and Mordovshchikov (Navashino). The industry continues to build innovative river and sea-going vessels, combined river-sea vessels, diesel-electric ships, train ferries, catamarans, hydrofoils, hovercraft, and airfoil boats. Shipbuilding, like the auto industry, has an extensive production network. Shipyards, ship-repair works, and mechanical plants operate in the cities of Gorodets, Chkalovsk, and Bor and in Vorotynsky, Borsky, Vyksunsky, and Bogorodsky districts. These facilities build floating cranes, landing stages, docks, reinforced concrete vessels, pontoons, and other ships; manufacture winches, water heaters, pumps, and other shipbuilding products; and repair ships. **Rumo** of Nizhny Novgorod is a leading producer of marine engines and Russia's largest diesel engine manufacturer.

Melinvest, which has operated in Nizhny Novogorod for nearly 130 years, produces modern automated systems used in the food industry. Chemical engineering received a boost with the formation of the Khimmash group of companies, which operates plants in Dzerzhinsk, Zavolzhe, Semenov, and other cities of the Volga-Vyatka region. The machine tool and metalworking industries are located in Nizhny Novgorod, the Volga-Oka area, and in old metal industry districts of the region (Pavlovsky, Vachsky, and Sosnovsky). These industries specialize in the manufacture of blanks, tools, and hardware for the engineering industry, as well as metal consumer goods (knives, forks, scissors, locks, etc.), medical instruments, and fitting/assembly, automotive, and woodworking tools. The leading machine tool company is AO ZeFS, which manufactures N/C [numerical control] milling machines equipped with

microprocessors. Many engineering and metalworking plants also produce various household appliances and other consumer goods for leisure and home use.

Gorkovskii Avtomobilnyj Zavod /GAZ/ automotive company (http://www.gaz.ru). was founded in 1932. At present it is a typical universal car manufacturer producing trucks for the agriculture, military trucks as well as lighter trucks, vans and automobiles. The GAZ share in the Russian automotive industry is 6,5% for the automobiles, 55,6 for trucks and 47,9% for buses. GAZ strategy is to have an almost complete production cycle in-house that includes as various processes as metal processing and metal powder technologies, wheels production, gearboxes production, production of automotive aggregates and systems, power & heating production etc. GAZ is involved in number of international projects with Ingersoll - Rand (production of high-quality instruments), Haden (car painting lines), ÑZ (production of gas turbines for diesel engines), Bosch (production of electric equipment for autos)), Lear (production of seats), Tucker (welding technology transfer).

In 2003 GAZ produced 213 489 autos. In 2004 the company plans to produce 230 thousand automobiles (72000 cars) and launch the new “Volga” GAZ-31105, mid-size truck "Valdai”, the multipurpose auto “Tigr”.

GAZ is the leading company in the holding “**Nizhegorodskie avtomobili**” where belong also the **Arzamas Machinebuilding Plant** (machinery for military and special purposes), "**ZZGG**" (tractors), "**Velozavod**" (http://www.velon.ru) (bicycles), "**Volga engines**" (auto engines), **Saranskii zavod avtosamosvalov** (special constructions on GAZ truck platform).

There are 60 000 people working at GAZ and the average salary is RUR7 229 (approx. €207). The GAZ share in the machine building industry of Nizhniy Novgorod is 75,3% and the company is the biggest local taxpayer.

Pavlovo bus company /PAZ/ (http://www.autobus.ru) . The company produces small and middle-sized buses for city and inter-city transport. Unlike car production, which is, currently, decreasing at Russian plants, bus manufacturing has recently revealed a tendency for intensive growth. In 2002 Russian enterprises produced 67

239 buses where the **PAZ** share was 10,358 buses. The company also manufactures assemble kits and spare parts for other Russian bus companies. The company's annual sales constituted almost $90 million.

Zavolzhye motor plant /ZMZ/ (http://www.zmz.ru). The company is part of the Severstal group and produces gasoline and diesel engines including its new diesel engine ZMZ-514 that is certified in Euro-2 standard. The current production capacity allowed ZMZ to produce 67 435 engines for the first quarter of 2004 / 8,9% more compared to the 2003 first quarter/. The tasks of ZMZ for 2004 is to complete the transition to producing only "Åuro-2" certified engines and increasing the production capacity as to satisfy the demand of GAZ and UAZ /Ulianovsk AvtoZavod/.

Krasnoye Sormovo (www.sormovo.ru) Ship building and ship repairs.

Sokol (www.sokolplant.ru/index.shtml) is a company uniting engineering design bureau and production of airplanes and military aviation equipment.

Hydromash (www.hydromash.ru) produces different machinery and equipment used in aviation construction and major supplier to most aircraft producers in Russia. Among the Western partners of Hydromash there are names such as EADS, Messier-Dowty, Liebherr Hydraulikbagger, Jungheinrich, Steinbock and others.

Vyksa metallurgical plant /VMZ/ (www.vmz.ru). is a large producer of railroad wheels, and metal tubes and pipes. Its principal consumers are Russian railways, oil and gas companies, as well as customers primarily in the C.I.S. countries and China. In February 2003, the company won another tender on 762-mm pile pipes for the Sakhalin-1 project. VMZ is, currently, investing $100 million for the production of 1067-mm and 1420-mm pipes for oil pipelines. The company's annual sales exceed $390 million.

Rumel (http://www.rumo.nnov.ru) produces engines and diesel generators with various applications ranging from shipbuilding to automotive industry and different compressors.

Other significant companies in the field are **Krasnyi yakor** (anchor chains), **ZeFS** (metal-cutting machines) and **Melyinvest** (automated collection for food).

1.2.2. Chemical and petrochemical

The chemical and petrochemical industries have contributed significantly to the region's industrial development. Construction of several chemical plants began in Dzerzhinsk in the 1920s. Today, Dzerzhinsk is one of the country's largest chemical production centres. Synthetic corundum used in manufacturing textile machinery, lasers, and jewellery was first developed here. Dzerzhinsk chemical plants produce sulphuric acid, fatty acids, caustic soda, PVC resins and copolymers, organic glass, plastics, highly effective plant protection agents, fertilizers, various catalysts, activators, preservatives, cleaning agents, and many other products. Chemical companies in Nizhny Novgorod Region include Zarya Production Association (PO Zarya); AO Kaprolaktam; state enterprises (GP) Korund, Orgsteklo, and Sverdlov Plant (Zavod im. Sverdlova); Plastic Production Association (PO Plastik); and AO Sintez.

SIBUR-Neftehim (http://www.sibur.ru) is a subsidiary of Gazprom, its main supplier of light hydrocarbons, and includes three petrochemical enterprises in the region: **Petrochemical Plant**, **Ethylene Oxide and Glycol Plant**, and **Kaprolactam**. They manufacture ethylene, propylene, benzene, ethylene oxide, ethylene glycols, and various products on the basis of ethylene and chlorine, recovered from the supplied rock-salt: PVC resins and films, linoleum, plasticators, synthanols, brake and coolant fluids, caustic soda, etc. In 2002-2010, Gazprom plans to invest $2-2.5 billion in Sibur-Neftekhim to develop its petrochemical facilities for new production of aromatic hydrocarbons and mylar film from gas condensate, produced in northern Russia, and pyrolysis of ethane-rich natural gas from new gas fields, developed in the Vologda region of Russia.

Lukoil-VolgaNefteProduct (http://www.lukoil-volga.ru/main/default.asp) /**Lukoil-VNP**/ is a daughter company of Lukoil. The company is a Lukoil centre for the production and sale of petroleum products in the Nizhny Novgorod, Vladimir, and Ivanovo regions, and in the republics of Mari El, Mordovia, and Chuvashia. In late

2002, Lukoil announced a US$200 million investment to upgrade its enterprises in the area and to ensure an annual supply of at least 7.5 million tons of crude oil to Lukoil-NORSI oil refinery. Lately, Lukoil-NORSI pooled approx. US$50 million to modernize its facilities: (a) the gasoline catalytic reforming plant, with a production capacity over 600,000 tons a year, (b) the preliminary oil refining plant, with a production capacity of 3.5 million tons per a year, and (c) the paraffin producing and refining complex. Some funds are to be invested into the oil terminal project on the Volga river.

Syntez (http://www.sintez.nnov.ru/) is the only producer of ethyl liquid that is used in the production of ethylic gasoline. Business partners of Syntez are Gazprom, Lukoil, General Electric. ISP etc.

Bor Glassworks (www.bor.ru) is part of the Glaverbel Group, Belgium that is the European part of the biggest glass producer worldwide Asahi Glass, Japan. In 2002 the company launched a new "Triplex" car windows production line with capacity 800 thousand pieces a year. The company's major shareholders are Gloverbel (36,4%), the EBRD (19,25%), and the IFC (19,25%).

Dzerzhinskoye Orgsteklo (http://www.orgsteclo.ru) is one of the biggest Russian companies specializing in research, production and sales of wide range of acryl based products

Nizhpharm (http://www.nizhpharm.ru/index.phtml) Nizhpharm is one of the 3 biggest Russian pharmaceutical manufacturers. The company produces and distributes approximately 100 generic and brand drugs. The pre-tax sales for 32003 accounted for $45,9 millions from which $5,6 millions were exported.

Volga paper mill (www.volga-paper.ru). The Balakhna Pulp and Paper Mill was established in 1928 on the bank of the River Volga 40 km from Nizhny Novgorod. The mill was privatised at the end of 1994 to become OJSC Volga. Western investors from Germany and the US (93%) and the Mill workers (7%) now fully own the Company. In 2002, the paper mill paid back all the loans. In 2002, the company's output exceeded 550,000 tons of newsprint, with the annual sales of US$ 230 million.

The company produces newsprint with modern Western machinery, and exports most of its output. Main markets of JSC Volga in 2001 were Europe (230,212 tons) and Russia (151,109 tons).

1.2.3. Food and food processing

Agribusiness is concentrated in crops and vegetable growing, cattle- and pig-breeding, poultry, egg-laying, and diary farming. The main agricultural areas are located to the south of the Volga river, which divides the region in two parts. The annual harvest of main crops - rye, wheat, oats, buckwheat – is around one million tons, and it is mostly grown on the black-soil of the southern part and adjacent areas. Vegetables – potato, sugar beetroot, onion and flux – are also an important component of the agricultural sector. There are five spirit factories, three large flourmills, and dozens of large and medium bakeries in the region.

Nizhegorodsakhar sugar factory produces 53,000 tons of sugar, and it plans to increase its output to 300,000 tons of sugar from beetroot, grown up by a hundred of local firms. Since 2001, cattle- and pig-breeding, poultry, egg-laying, and diary farming have been demonstrating constant growth because of national agricultural holdings' concentration in these sectors. In 2002, sales of 50 cattle- and pig-breeding companies of the region totalled US$ 63.5 million. The companies' output is 58,100 tons of meat and meat products a year.

The largest producers are Demka meat factory, Dzerzhinsk, Ilyonogorskoye company, Ilyonogorsk, and Perspektiva company, Diveyevo. Ilyonogorskoye and Perspektiva are owned by Planeta Management agribusiness holding, close to Sibneft. The holding group also owns Linda and Chernoramenskaya poultry companies. Linda company is the largest poultry firm of the region, which produced 10,000 tons of chicken in 2002. There are five more poultry and egg-laying companies in the area.

Another large agribusiness investor is the Wimm-Bill-Dann national holding, which owns Nizhegorodsky company, leading in the dairy sector of the region. Nizhegorodsky dairy company processes 200 out of 700 tons of milk, which are processed daily in the region. In 2005, the company plans to process 500 tons of milk

per day. To ensure regular supply, Nizhegorodsky dairy company plans to buy control portfolio of shares of dozens large milk farms of the Nizhny Novgorod region, and neighbouring republics of Mordovia and Mari El. Most of dairy products, produced by Nizhegorodsky diary company are supplied to the Moscow market, which is ready to consume daily 355 tons of diary products from the company. In 2002, milk farms of the region produced 406,800 tons of milk, where 338,800 tons were consumed by the regional dairy companies. Apart from Nizhegorodsky company, which controls 36% share of the regional dairy market, other large dairy companies are Nizhegorodsky dairy factory N1 (15% share), Gorodetsky diary factory (17%), and Shakhunsky dairy factory (10%). To develop its niche in the regional market, both Planeta Management and Vimm-Bill-Dann holdings plan significant investments for their companies in the area.

Tangible players in the food and food processing industry are also the **Nizhny Novgorod Oils & Fats Company** (http://www.nmgk.ru) and the **Sormovskaya confectionary factory** (www.zaoskf.ru).

1.3. Consumer markets

Nizhny Novgorod has developed transport & communication infrastructure, and favourable geographical position, which makes of Nizhny Novgorod a hub to the Volga and the Urals regions. There are 12 significantly big cities that are within 500 km distance from Nizhny Novgorod: Moscow (10,13 million people), Kazan (1,1 million people), Ulyanovsk (636 thousand people), Penza (518 000 thousand people), Cheboksary (441 thousand people), Ivanovo (432 thousand people), Vladimir (316 thousand people), Saransk (305 thousand people), Kostroma (279 thousand people), Dzerzhinsk (261 thousand people), Yoshkar Ola (257 thousand people), Dimitrovgrad (131 thousand people) Novocheboksarsk (126 thousand people), Arzamas (109 thousand people). Altogether Nizhny Novgord could serve as a distribution centre for approximately 16,16 million urban consumers living in citi4es that are in distance closer than 500 km.

The development of small & medium sized enterprises, which employ more than 300,000 people, goes alongside with a growth of the retail services sector. 52% of small businesses and entrepreneurs are engaged in trade, 17% - in construction, and 15% - in manufacturing. 20% of all revenues collected by the budget of Nizhny Novgorod are paid, now, by small businesses.

As of the end of 2003 the trade network of Nizhny Novgorod includes 2200 shops, 1250 mini shops and 1229 units of retail trade. Retail sector development is greatly encouraged by the regional supermarket chains: Alliance, Sladkaya Zhizn, and Narodny. Alliance chain includes 46 discounters Pyatachok, 4 supermarkets Karavan, and 8 food popular food stores. Sladkaya Zhizn concluded a cooperation agreement with Spar to develop a network of supermarkets in the Upper and Middle Volga area. By early 2003, Nizhny Novgorod has got 5,097 trade points, including 3,148 shops, which trade in food products, and 1,949 shops, which trade in consumer goods.

According to the city administration in 2003 there were 394,9 thousand people (or 29,7% of the population) with an average monthly income between RUR2 and 4 thousand. The same report estimates that 307,2 thousand people (or 21,3% of the population) have average monthly between 4 and 6 thousand. The group of people having incomes higher than RUR10 thousand amounts for 185,4 thousand people (or 14% of the population). Thus the average monthly income in total in 2003 was RUR6573,9.

Construction works in general and construction of residential areas in particular boomed during the last 4 years and stabilized at an annual 160 – 170 thousand sq. meters. Nevertheless the demand outpaced the supply and prices rise by almost 30% and some downtown areas hit record levels of $1300-1600 per sq. meter.

The city department of economics made a sociological poll made at the beginning of 2004 shows that more than 60% of the Nizhny Novgorod inhabitants plan to change or improve their housing conditions.

1.4. Establishing a business presence

1.4.1. Office and personnel

At present, Nizhny Novgorod has six large and twelve medium-size business centres, and a number of smaller 3- & 4-storey office buildings. Almost all are located in former science and research labs and institutions, and may be included into the category of 'second-hand' real estate project sites, built during the Soviet Union time. Two new business centres opened in the downtown area in early 2004.

In order to rent an office in a business centre or a trading area in a mall, Western companies may approach proprietors of the buildings directly, or place an order with a real estate agency so that they can also search through little office centres close to the downtown area. While leasing a trading area is fairly easy, do to the constant flow of tenants at malls and shopping centres, almost every business centre or office centre is 'booked' in Nizhny Novgorod. Real estate agencies usually charge a commission for their services equalling the rental rate for one month.

As everywhere else the job market in Nizhny Novgorod is quite difficult to be generalized. Still, it is reasonable to consider the following wage levels when looking for motivated professionals:

Position	**Monthly Salary / €**
Head of Representative Offices	800-2000
Secretary	200-300
Chief accountant	500-1000
Sales manager	300-800
HR Manager	300-500
System engineer	200-400
Driver	150-250
Translator	250-400

1.4.2. Legal assistance and banking

As in other regions of Russia a company that plans to operate in Russia for more than 30 days a year must be registered in accordance with the law on "Foreign Investment in the Russian Federation" adopted in 1999. A foreign business can operate in Nizhny Novgorod in any of three ways:

- As a *joint venture* with a local company or as a *legal entity that is 100% foreign owned*, which is the easiest variant of registration. In this case , the foreign businessmen obtain the ability to operate in the Russian Federation on an equal footing with resident enterprises, because, in essence, they become a Russian legal entity. Moreover this way of registration is less expensive and less time-consuming.

- In cases where foreign legal entities wish to participate personally in inter-relations with Russian counterparts they should register a branch office; or an accredited office that is wholly foreign-owned. The difference between these two is in the scope of authorities conceded. A branch office is given wider authority. The parent company itself specifies the scope of authorities in a warranty of authority given to the branch director. Accredited offices fulfil representation functions and are not allowed to practice commercial activity.

There are a number of small legal firms in Nizhny Novgorod, which render services to their customers either on a recurrent or non-recurrent basis. According to some foreign companies, operating in the region for the last few years, local lawyers are quite professional but charge much less for their services and consultations than their colleagues from Moscow-based and international legal companies. Nizhny Novgorod legal firms can provide professional advice on possible acquisitions and registrations of companies in the region as well as tax engineering and tax incentives. Opening of a local bank account in roubles is a provision to register a representative office or a new company in the region to pay taxes to the regional tax inspection (IRS), and to the pension, medical and social insurance funds.

It is highly recommended to contract with a local lawyer or law firm that specializes on registration issues to conduct and facilitate the registration process and for further

legal routine maintenance such as renting office space, contract monitoring. Average Prices for legal services:
Registration of the Limited Liability Company costs approximately €300. A registration of a closed/open joint stock company (including the issue of shares) is approximately €600. Accreditation of a branch/representation office costs approximately €1500 while obtaining Work Permits is about €800.

In 2002, there were 23 regional banks, 87 branches of national & regional banks, and 4 representative offices of national and foreign banks, registered in the Nizhny Novgorod region. In January – September 2002, the banks reported total profit before tax of $56,7 million, total liabilities of $1,6 billion and total capital of $346 million in the Nizhny Novgorod region. Volga-Vyatsky bank of Sberbank dominates the Nizhny Novgorod and the Upper Volga banking markets, and it is the regional leader in investment credits for corporate sector, and in credit & deposit services for retail sector. There are other active participants of the regional banking market, which are NizhegorodPromStroyBank /NPSB/, Alfa Bank (Nizhny Novgorod branch), SarovBusinessBank /SBB/, AvtoGazBank, and UralSib Bank (Nizhny Novgorod branch). NBD-Bank and KMB-Bank (Nizhny Novgorod branch), both co-owned by the EBRD, render a variety of services to small and middle enterprises (SMEs) of the region. Two subsidiaries of foreign banks have opened their offices in Nizhny Novgorod (West LB, Moscow Narodny Bank). Alongside with the representative office of Moscow International Bank, co-owned by foreign financial institutions, they are focused on promotion of medium- and long-term credits, foreign trade financing, letters of credit (L/Cs), bank guarantees, and consulting.

Two foreign financial funds, registered in Nizhny Novgorod, are focused on investment projects, and micro-loans to small business respectively. Quadriga Central Russia Regional Venture Fund (CR RVF) considers investment projects of $4–10 million from private companies. The period of investment does not exceed 5 years, with the fund's participation in the company's capital ranging from 25 to 49%. Fora fund provide short-term micro-loans at high rate to entrepreneurs and business start-ups of the region, who do not have sufficient collateral to receive a bank loan.

1.4.2. Some useful contacts

Business support organizations

Nizhny Novgorod Region's Ministry of Economy and Enterprise Building 2, Kremlin, 603082 Nizhny Novgorod, Russia Tel + 7 8312 390 049, 390 265, 390 559 Fax: + 7 8312 390 049 E-mail: root@dep.kreml.nnov.ru www.government.nnov.ru	**Nizhny Novgorod Government, Department for International Relations** Building 5, Kreml 603082 Nizhny Novgorod, Russia Tel + 7 8312 39 12 32 Fax + 7 8312 39 09 83 E-mail: depinter@admgor.nnov.ru www.admgor.nnov.ru
Nizhny Novgorod Region's Department for International Relations Building 1, Kremlin 603082 Nizhny Novgorod, Russia Tel. + 7 8312 390 526 Fax: +7 8312 390 642 E-mail: info@dms.kreml.nnov.ru	**Economic Development Agency of Nizhny Novgorod** ul. Beketova 8b 603056 Nizhny Novgorod, Russia Tel. / Fax + 7 8312 62 45 27 E-mail: gsavinov@mail.ru
International Community Association of Nizhny Novogorod Ul. Osharskaya 52 603006 Nizhny Novgorod, Russia Tel. / Fax: +7 8312 78 43 10 / 20 / 30 E-mail: stacieschrader@cs.com	

Legal assistance

Kotin & Partners Ul. Zvezdinka 26 603000 Nizhny Novgorod, Russia Tel. / Fax + 7 8312 19-88-86 E-mail: info@kotin.ru	**Biznes Centr Pravovoe Agenstvo** Ul. Engelsa d. 2. 2603094 Nizhny Novgorod, Russia Tel. / Fax + 7 8312 734578 E-mail: businesscenter@mail.ru

http://www.kotin.ru	

Personnel recruitment agencies

Agency "Professional" Pr. Gagarina 27, office 230, 231 Nizhny Novgorod, Russia Tel. + 7 8312 65-82-93 Tel. / Fax + 7 8312 65-88-85 E-mail: prof-nn@sandy.ru http://www.professional.inc.ru	**Business Solution Corporation** Teatralnaya pl. 3, office 41 603005 Nizhny Novgorod, Russia Tel. + 7 8312 16 60 49 Fax + 7 8312 19 70 86 E-mail: info@bs-corp.ru http://www.bs-corp.ru

Real estate agencies

Triumph Ul. Volodarskogo 49 Nizhny Novgorod, Russia Tel.: + 7 343 78-44-88 E-mail: triumf@sandy.ru http://triumf.nn.ru	**Monolit Estate** Ul. Beketova 13 Nizhny Novgorod, Russia Tel. + 7 343 78-66-99; 78-66-80 E-mail: info@monolit.nnov.ru http://www.monolit.nnov.ru

2. Kazan

2.1. Kazan– general outline and perspectives

The capital of the Republic of Tatarstan, the city of Kazan, is situated on the left bank of the Volga River in the estuary of the Kazanka River and has the largest population and economic potential among the cities of the republic. Other large nearby cities are Naberezhnie Chelny, Nizhnekamsk, Elabuga, Almetievsk. The area of Kazan is 425,16 square kilometres, and its population as is 1,101,000. Young people at the age of up to 30 constitute 40,7% of the city population. Citizens of Kazan represent over 100 nationalities. Kazan is home to 22 national-cultural societies. Administratively, Kazan is divided into 7 districts.

Kazan is the city where the republic's largest enterprises are located. The products of OAO "Kazanorgsintez", OAO "Kazan Motor-Building Production Association", OAO "Kazan Helicopters", OAO "Kazan Aircraft Association named after S.P. Gorbunov", OAO "Kazankompressormash", OAO "Kazan Plant of Medical Instruments", OAO "Red East" are well-known and in demand far outside the republic.

2.1.1. Natural resources of the Republic of Tatarstan

Natural Resources. Tatarstan's main wealth is crude oil. Its largest oil deposits are the Romashkinskoye, Novo-Elkhovskoye, Pervomaiskoye and Bondyuzhskoye oil fields located in the south-eastern and north-eastern Tatarstan. The republic's current oil reserves are still large (0,8-0,9 billion tons) although much of them are concentrated in medium and small fields still awaiting development. The largest fields are nearly exhausted; e.g., the Romashkinskoye field is 83% exhausted, and the Novo-Elkhovskoye field, 69% exhausted.

Along with crude oil, wellhead gas is extracted in amounts of about 40 cu. m per ton of oil. There are good prospects for involvement of natural bitumen in economic turnover, since probable reserves in the republic are 12,5 billion tons.

Among other fuel resources, Tatarstan possesses brown and black coal, oil shale, and peat. There are about 800 peat deposits with an overall area of more than 35,000 hectares. Large coal deposits have been discovered in the eastern regions, but commercial development is complicated by the depth of their occurrence. Reserves of oil shale are found in the south-western part of the republic. They may be of industrial importance in future.

Permian deposits provide carbonate rocks, vast deposits of gypsum, and other minerals used as construction materials. Among the largest reserves are deposits of sand-gravel mix (246 million cu. m), loam (73,5 million cu. m), gypsum (72 million tons), limestone and dolomite (66 million tons), building stone (35,3 million cu. m), bentonite clay (24,3 million tons), clay for the production of foamed clay (14,9 million cu. m), and mason's sand (45 million cu. m). There are also large deposits of phosphorite, chalky sandstone, mineral water, therapeutic mud, and materials for cement production.

Tatarstan, as no other republic or region, is rich in rivers. There are numerous lakes and underground waters. As noted above, the republic's largest rivers are the Volga and the Kama and two tributaries of the Kama, the Vyatka and the Belaya. The annual flow of the four rivers amounts to 234 billion cu. m per year., There are also about 500 small rivers at least 10 km long and numerous brooks. Huge water resources are accumulated in the two largest reservoirs, the Kuibyshevskoye and the Nizhnekamskoye. There are also over 8,000 small lakes and ponds in the republic. The republic has substantial reserves of underground waters varying from highly mineralised water to slightly saline and freshwater.

2.1.2. Location, Transportation, Logistics

The Republic of Tatarstan is located in the centre of European Russia, at the confluence of the two largest rivers of the area: the Volga and the Kama. These rivers have contributed greatly into the region’s development currently and in the past. With the total area of 67,836 km^2, the republic spans for 257 km from north to south, and for 408 km from west to east. The local climate is moderate; winters are usually milder than in other oil-rich regions of Russia like Northern Urals and Siberia. The

climate is favourable for the regional agriculture (crops, vegetables, cattle-breeding), which satisfies principal demands of the republic's population in food products. There are two official languages in the republic: Tatar and Russian, as these are two principal nations of Tatarstan.

Tatarstan ranks among the countries with developed transport system. Air, train, car and ship can reach Kazan, which is 811 km to the east of Moscow. The city houses an international airport, where Lufthansa flies 3 days a week. Foreign cargo can be cleared at the customs in Moscow or in Kazan, which has a large railway station and a river port, which is open 5-6 months a year.

The common deep-water system of the European part of Russia mainly formed by the Volga basin provides conditions for use of river-marine vessels in international transportation towards the Caspian, the Mediterranean and the Baltic basins. Navigable waterways are represented by deep sections of the rivers Volga, Kama, Vyatka, and Sviyaga. There are river ports in Kazan, Naberezhnye Chelny and Chistopol.

Road transport becomes increasingly important in the field of international freight transportation. The total length of motorways in the republic is over 18,000 kilometres. Major motorway junctions are Kazan, Naberezhnye Chelny, Almetyevsk, Zelenodolsk, Leninogorsk, and Bugulma. Motorway network of Tatarstan has been constantly developing: under construction are country roads, city by-pass roads, flyovers, sections of roads of federal and republic's importance; existing roads are also being reconstructed.

Rail transport plays the leading role in facilitation of interregional relations of the Republic of Tatarstan, effecting major part of interregional transportation of freight and passengers. The trunk railways run across the Republic of Tatarstan in latitudinal and meridian directions. Important railway junctions in the republic are Kazan, Zelenodolsk, Agryz, Krugloye Pole, and Bugulma.

Civil airports and airfields are located in 9 points. There are two international airports, one in Kazan (of federal importance) and another one, "Begishevo", in Naberezhnye

Chelny (of republic's importance). The airport in Bugulma services interregional and local routes, while other 6 airfields are for local air services only. The Kazan and Begishevo airports are under reconstruction, and their air traffic control systems are being upgraded.

Export of crude oil is carried out through pipeline transport. Starting from oil producing areas, oil and gas pipelines run to Perm, Ufa, Orenburg, Samara and Kazan. Deliveries to European countries are effected through oil pipeline "Druzhba" starting in Almetyevsk. Annually, pipeline transport pumps approx. 30 million tons of oil.

All main traffic arteries in the Republic of Tatarstan are not only of republic's, but also of federal importance. Their location coincides well with direction of international transport corridors, which impose additional requirements as regards the improvement of technical parameters, freight transportation safety, environment protection, and development of service network.

International activities of the Republic of Tatarstan in the field of transportation consist in freight carriage for the republic's foreign trade and in the provision of passenger traffic links with foreign countries. Favourable geographic position of Tatarstan situated on the shortest Euro-Asian routes and availability of strong and well-equipped latitudinal trunk railway, as well as meridian-directed deep waterways, enable Tatarstan to expand its participation in passenger and freight traffic of other countries.

Kazan, the capital of Tatarstan, upholds the necessary infrastructure: a well-established 3-star hotel, Safar, with a business centre and satellite TV, developed communication and transport networks, car rental offices, various restaurants and cafes, sports and entertainment centres. Since the mid-1990s, Kazan has become a rather safe city with a low level of criminal activity. The local government pays good attention to improvements in the appearance of the city, and the city regularly invests in the reconstruction of historical buildings and the infrastructure. At present, a new 4-star hotel is being erected in the historical centre of Kazan.

Naberezhnye Chelny is located in north-east Tatarstan on the bank of the Kama River. The city is mono-industrial, nearly all of its population being somehow associated with the city-forming company, Kamsky Motor Works (KamAZ), manufacturer of heavy-duty trucks and their components. The Nizhnekamsk Hydroelectric Power Station supplies electric power to the city and the whole economic region. The services of "Begishevo" International Airport completely cover the north-east of the republic.

Nizhnekamsk originated during the construction of petrochemical plant in 1961. The city is one of the largest centres of petrochemical industry in the country. Major manufacturers are OAO "Nizhnekamskneftekhim", OAO "Nizhnekamskshina", and "Elastik" plant.

Almetyevsk is the largest centre of crude oil production in Tatarstan. Here starts "Druzhba" oil pipeline, through which Tatarstan exports its crude oil. The largest company in the region is OAO "Tatneft" (production of crude oil and petroleum gas). The Almetyevsk Petroleum Institute plays an important role in training of personnel for the main industry of the republic.

Zelenodolsk is an important transport junction in the west of the republic. The products of the Shipbuilding Plant and Production Association "Plant named after Sergo" located in the city are in demand far outside of Tatarstan.

There are 19 cities with population of over 100 thousand people within 500 km from Kazan to which the city could serve as a distribution centre. The distance are as follows:

Kazan – Zelenodolsk - 39 km
Kazan – Novocheboksarks – 137 km
Kazan – Yoshkar Ola – 144 km
Kazan – Cheboksary – 151 km
Kazan – Nabereznie Chelni - 228 km
Kazan – Nizhnekamsk - 242 km
Kazan –Ulyanovsk – 243 km

Kazan – Dimitrovgrad - 256

Kazan – Almetjevsk - 273 km

Kazan - Samara - 362 km

Kazan - Oktiabrskii – 375 km

Kazan – Tolyatti – 370 km

Kazan – Izhevsk – 384 km

Kazan - Nizhniy Novgorod – 400 km

Kazan – Kirov – 403 km

Kazan – Dzerzhinsk – 430km

Kazan – Sarapul – 407 km

Kazan – Saransk – 424 km

Kazan Neftekamsk – 454 km

Also:

Kazan – Moscow 811 km

Kazan – St.Petersburg 1513 km

Kazan – Ufa 552 km

Kazan - Perm 602 km

2.1.3. Business perspectives

Tatarstan is one of the most economically developed republics of the Russian Federation. According to official statistics, Tatarstan is the 3rd of 89 Russian regions in industrial and agricultural output. Its oil companies produce 9% of crude oil in the RF.

Tatarstan is the leader in the production of some key industrial goods in Russia. The republic produces (in % of the total volume for Russia):

- 100% of film, catgut;
- more than 95% of gas turbines;
- about 75% of styrene;
- more than 50% of centrifugal electric pumps for oil production;
- about 50% of diesel trucks, pipe, and thermoplastic pipeline components;
- about 40% of ethylene, polyethylene;

- about 30% of synthetic rubber, automobile tires, felt boots, film materials;
- about 20% of fur hats, gas stoves, benzene, cologne;
- about 14% of household clocks;
- about 9% of oil.

Stable business links has been established recently with many firms and companies of Europe, primarily from Germany, France, United Kingdom, Switzerland, Poland, and Finland. The USA also remains an important partner over a number of years. Developing is the cooperation with Turkey, Egypt, India, China, UAE, Malaysia, and Iran. These countries imported mechanical engineering and petrochemical products. Quite rapidly progressing in past years are relations with Japanese companies.

The Chamber of Commerce and Industry of the Republic of Tatarstan assists organisations and enterprises in their foreign economic operations. It has a rich experience in the support of small and medium enterprises in what refers to introduction of their products to external markets. The Chamber of Commerce of Tatarstan, which currently has 1,000 members, would assist a foreign company to prepare a registration package to open an office or start a commercial project with foreign investment in Tatarstan. Foreign trade and leasing contracts could be assisted by the Agency for International Cooperation Development, set by the government of the republic.

A number of perspective investment projects have been developed in the petrochemical sector of Tatarstan. Most of them are to be carried out with the petrochemical leaders: Kazanorgsyntez (producer of plastic, phenol, acetone, synthetic coolants, plastic pipes of various diameters, etc.), and Nizhekamsk Neftekhim (NKNK), one of the largest producers of synthetic rubber in the world. Both of the companies are developing investment projects with German firms (i.e. BASF), and could potentially become interesting partners for foreign companies.

Tatarstan is an interesting option for Western companies, which are either promoting their products and services in Russia or that are looking for investment opportunities in Russia. One may figure out the following restrictions of the Tatarstan market of nowadays:

- Strong tendency to rely on domestic natural, financial, and human resources, which is based on a greater of autonomy of Tatarstan compared to other regions of Russia;
- Strong governmental support to local producers, and to agricultural companies, in particular;
- Representation of regional bureaucracy in most large-size companies of the region;
- Deficit in long funds at the regional financial market.

Still, there are a number of features in the regional economy, favourable for Western companies:
- Stable and predictable political climate;
- Existing system of tax incentives for investment projects;
- Dynamic regional economy with a strong focus on reconstruction and modernization of productive assets, and introduction of new technologies;
- Powerful production base in petrochemical and machine-building sectors with big markets in Russia and abroad;
- Active strategy for development of oil production facilities in Tatarstan and neighbouring Bashkortostan;
- Relatively high consumption capacity of population in big cities;
- Sufficient professional human resources.

A firm, entering the Tatarstan market should be prepared for competition with other foreign companies: German, Italian (in petrochemical sector), German (in machine-building and engineering), Turkish (construction), and Chinese (telecommunication). Trade financing is a good way to compete with other foreign companies. Risks on investment in Tatarstan could be diminished wherein a local bank is involved as an advisor on the project.

2.2. Main industries and city profiling enterprises

2.2.1. Chemical production & light industry

The oil-gas-chemical complex of the Republic of Tatarstan is represented by 24 companies specialising in production and processing of oil, gas, and light hydrocarbons, four of which are largest budget-forming enterprises of the republic. The oil-gas-chemical complex holds the lead in the republic's industrial output, accounting for over 58% of revenues to the republic's budget and being the main contributor to foreign trade turnover of the Republic of Tatarstan (over 80%). The industry employs more than 100,000 people, or 30% of employees in manufacturing sector.

Tatneft (http://www.tatneft.ru) is ranked N30 in the world among oil companies. Tatneft produces almost 90% of all crude oil in the republic that is 25 million. tons a year, taking the 6th place in the world oil market. Mainly, Tatneft do researches, extraction and processing of oil, trading of oil products through its own retail chain in Russia and Ukraine. Also it produces metal-plastic pipes, automobile tires, synthetic motor oils, cables and other products. The oil production is carried out in 57 oilfields, the main of which is Romashkinskoe – one of the biggest oilfields in the world.

Tatneft has enough resources to carry out a complete cycle of oil and gas production: surveying, drilling, producing, refining, transporting and trading. According to the estimates, Tatneft has enough resources for 40 years of production at the present production rate. The company maintains a powerful research lab TatNIPIneft, which has introduced 2,000 of its own inventions.

NizhekamskNefteKhim /NKNH/ (http://www.nknh.ru/index.htm) is one of the ten biggest oil refineries in Russia and works in close cooperation with Tatneft.

Kazanorgsintez (www.kazanorgsintez.ru) is one of the biggest chemical enterprises in Tatarstan and Russia, which produces over 43% of all the Russian polyethylene and is the biggest exporter of it. OAO "Kazanorgsintez" also produces pipe-line

polyethylene pipes, carbolic acid, acetone, refrigerating fluids and other chemical products for the oil and gas production. Annually, OAO "Kazanorgsintez" produces over 1 million tons of 170 different chemical products and approx. 34,4% of its products go to export.

Nizhnekamskshina (http://www.shina-kama.ru) manufactures some 40% of all tyres made in the Russian Federation. The development of structure of tires of new generation and new technologies allow to produce finished products of high quality. The new technologies are still being applied in production making a bigger variety and enhancing the quality of tires. Today Nizhnekamskshina produce 94 different sizes for all existing tires and agricultural machinery.

TatHimFarmPreparaty (http://www.chempharm.kzn.ru/general.html) is one of the biggest manufacturer of pharmaceuticals and the only producer of catgut in Russia.

Plant of synthetic rubber of "S. M. Kirov" (http://www.tars-rubber.com) is the oldest multiple-discipline enterprise of the petrochemical industry. At the moment the plant produces 5 different synthetic rubbers and also drying oil, different mastics, etc.

2.2.2. Mechanical Engineering

Kamsky Motor Works /KamAZ/ (http://www.kamaz.net) marketed in 2002 20,089 trucks and 37,800 cars. As per the 1st quarter of 2003, 39% of 4-20 ton capacity trucks on the Russian market were the vehicles produced by the joined companies of KAMAZ Inc., whereas at the end of 2002 KAMAZ share amounted to 28%. Export of trucks is quite significant for KAMAZ Inc. For three years in a row (in 1999, 2000, and 2001) Ministry of Commerce of Russian Federation declared KAMAZ plant as the best exporter of RF in machine-building section. In 2002 export exceeded 6,000 units and grew up to 30%. By the end of 2002, net profit of the Group of KAMAZ, Inc. companies grew up by 6,9 times and earned RUR1,869 million.

Kazan Helicopters (http://www.kazanhelicopters.com) is one of the leading republic's exporters supplying 93% of its products to tens of foreign countries. The company manufactures helicopters in different versions, such as passenger, transport,

flying hospital, executive (VIP), military transport, and other modifications equipped with rescue, fire-extinguishing, ambulance, and parachute jump facilities. "Kazan Helicopters" is the biggest manufacturer of MI type of helicopters. In recent years the company is actively engaged in modernisation of the new model of helicopter, named Mi-17MD. Simultaneously, the designing and production of a new light helicopter ”ANSAT” with a take-off mass of 3.3 tons is started. In 2003 the company was the second biggest exporter of Kazan.

Compact Car Plant /ZMA/ (http://www.oka.ru) produces the small cars OKA. For the colouring of cars in 2002 ZMA acquired a painting line from the German company ”DURR” in 2002. One of the possible directions of development the plant sees in team-work with foreign car manufacturers. By the year 2005-2006 the plant is planning to increase car output from 75 to 100 thousand of cars per year and to find a partner for the production of licensed car in the plant premises. Recently ZMA seeks the local or foreign partner for the cooperation in developing new injection engines for the OKA cars.

Kazan Production Association “Gorbunov”
(http://kapo.mvdv.ru/expo/837/index_r.htm#) manufactures passenger and cargo aircrafts. In 2000 the company was granted a certificate for Tupolev-214 aircraft. For the first time in Russia, a classical scheme of financial leasing was implemented. In the year just ended two TU-214 airplanes made by KPA n.a. Gorbunov were handed over for leasing to GUP "Dalavia".

Kazan Motor Building Production Association (http://www.kmpo.ru) started 70 years ago with air cooled motors for aircrafts U-2,. In the 60s the enterprise started serial production of turbo-jet engines for the first passenger jet aircrafts TU-104. At present the company produces turbo-jet engines for TU-154 and IL-86 and a new engine for business aircrafts Tu-324 and Jak-48 is being put into production. Also "Pratt & Whitney Canada" projects of aviation engine parts and assemblies are being put into production.

Alnas (http://www.alnas.ru/main.htm) is the leading producer in Russia of oil pumps and pump stations.

Watch factory VOSTOK (http://www.vostok-inc.com) is the producer of the established and somewhat traditional "Vostok" brand.

Kazan Plant of Medical Instruments (http://kzma.narod.ru) is manufacturer of medical equipment. It produces more than 3000 different products and approximately 36% of manufactured products are patented inventions of the company "Kazan Plant of Medical Instruments". In the recent years due to some financial problems of the enterprise there was a re-structurisation going on. The financial support was provided by the president of Tatarstan and the government. In the nearest future "Kazan Plant of Medical Instruments" is planning to develop and introduce microsurgical instruments, creating the production of atraumatic surgical needles and introduction to the market disposable medical instruments.

2.2.3. Food processing and light industry

Melita (http://www.melita.ru) is processing more than 3 million fells of different types. The company is using chemical products and new technology of the leading German, Swiss and Italian firms in order to make a high quality end fur products.
The industry of building materials ranks second in terms of production growth, next to mechanical engineering. One of the Russian big furs producers

The industrial-trading group **Edelveis** (http://www.edelveis.ru) dominates the food products market of Kazan. It includes the food supermarket chain Edelveis, the brewery **Krasny Vostok** (http://www.krvostok.ru) , a dairy company, a candy and a soft drink company. Annually, the brewery Krasny Vostok produces almost 7% of all beer in Russia. The cosmetics producer **Nefis** also reached an impressive turnover of RUR2,3 billion.

2.3. Consumer markets

Statistics on the average salary in Tatarstan are presented below:

Average salaries in main industries and branches.	**Average monthly salary, RUR**		**Increase, %**
	2003	2002	
Kazan	**5590**	**4240**	**131,8**
In industries:			
Manufacturing	5689	4271	133,2
Agriculture	4353	3324	131,0
Forestry	2466	2367	104,1
Transport	6593	4750	138,8
Communication	8696	5850	148,6
Construction	6927	5185	133,6
Trade, food products	3515	3209	109,5
Trade the rest	6920	6588	105,0
Property market	4286	4050	105,8
Education	3415	2492	137,0
Science	5566	4751	117,1
Finances, Insurance	11917	8889	134,1

In 2003 the turnover in retail trade in Kazan made up RUR47463,2 million. The growth was 22,7% as compared to 2002. As for the trade of food products, the increase was 13,6% as compared to 2002 making up RUR2806,4 million.

In 2003 Kazan attracted RUR2,1 billion for building commercial centres and hypermarkets including such as Ì ega-Dom, IKEA, City Centre, Savinovo, Behetle, Centralnyj rynok, DOMO, and others. Together with the reconstructed the total commercial areas put in use reached more than 45 thousand sq. meters. In September 2004 Metro Cash & Carry started building a $20 million supermarket on 13800 sq meters.

Kazan could also serve as a distribution hub serving 8,37 million urban consumers living in 19 cities with population of over 100 thousand people that are located in less than 500 km from Kazan. These are:

Nizhny Novgorod - 1,31 million people
Samara - 1,16 million people
Tolyatti - 703 thousand people
Ulyanovsk - 636 thousand people)
Izhevsk - 632 thousand people
Naberezhnye Chelny - 510 thousand people
Kirov - 458 thousand people
Saransk - 305 thousand people
Dzerzhinsk – 261 thousand people
Yoshkar Ola - 257 thousand people
Nizhnekamsk - 225 thousand people
Almetyevsk - 140 thousand people
Dimitrovgrad - 131 thousand people
Neftekamsk - 122 thousand people
Oktyabrskii - 108 thousand people
Novocheboksarks - 120 thousand people
Sarapul - 103 thousand people
Zelenodolsk - 100 thousand people

2.4. Establishing a business presence

2.4.1. Office and personnel

Considering the boom in real estate prices in Russia in general and in Kazan in particular it could be a wise investment to buy an office. The prices vary somewhere between €500 and €1000 per square meter. For renting an office in a business centre or a trading area in a mall, Western companies may approach proprietors of the buildings directly, or place an order with a real estate agency so that they can also search through little office centres close to the downtown area. Real estate agencies usually charge a commission for their services equalling the rental rate for one month.

Over 30 recruiting agencies operate in Kazan and can help to find qualified staff for both local and foreign employers. In addition, they can provide employment and consulting services on the labour market.

As everywhere else the job market in Kazan is quite difficult to be generalized. Still, it is reasonable to consider the following wage levels when looking for motivated professionals:

Position	**Monthly Salary / €**
Head of Representative Offices	500-1000
Secretary	200-300
Chief accountant	300-600
Sales manager	300-600
HR Manager	300-500
System engineer	200-400
Driver	150-250
Translator	250-350

2.4.2. Legal assistance and banking

As in other regions of Russia a company that plans to operate in Russia for more than 30 days a year must be registered in accordance with the law on "Foreign Investment in the Russian Federation" adopted in 1999. A foreign business can operate in Kazan in any of three ways:

- As a *joint venture* with a local company or as a *legal entity that is 100% foreign owned,* which is the easiest variant of registration. In this case , the foreign businessmen obtain the ability to operate in the Russian Federation on an equal footing with resident enterprises, because, in essence, they become a Russian legal entity. Moreover this way of registration is less expensive and less time-consuming.

- In cases where foreign legal entities wish to participate personally in inter-relations with Russian counterparts they should register a branch office; or an accredited office

that is wholly foreign-owned. The difference between these two is in the scope of authorities conceded. A branch office is given wider authority. The parent company itself specifies the scope of authorities in a warranty of authority given to the branch director. Accredited offices fulfil representation functions and are not allowed to practice commercial activity.

It is highly recommended to contract with a local lawyer or law firm that specializes on registration issues to conduct and facilitate the registration process and for further legal routine maintenance such as renting office space, contract monitoring. Average Prices for legal services:
Registration of the Limited Liability Company costs approximately €300. A registration of a closed/open joint stock company (including the issue of shares) is approximately €600. Accreditation of a branch/representation office costs approximately €1500 while obtaining Work Permits is about €800.

Western companies planning to open an office in Kazan may choose a bank among affiliates of both Moscow-based (Alfa bank, IMPEX bank, Avtobank, etc) and regional banks (Ak Bars, TatfondBank, Kazansky, Devon-Credit, and Avers).

Tatarstan is one of the few Russian regions, which is heavily dominated by regional banks. 24 of 29 banks, working in the republic, are regional. According to statistics of the National Bank of the Republic of Tatarstan, their share in total bank assets in the region exceeded 80%. The biggest regional banks are Ak Bars, TatfondBank, Kazansky, Devon-Credit, and Avers. Three banks from Tatarstan are included in the 100 largest banks of Russia: Ak Bars is #16, TatfondBank is #74, Avers is #85.

Ak Bars is a reputable bank in Tatarstan and in Russia. It participates in all large investment projects in the republic, and it has provided more than 35% of all corporate loans in Tatarstan. Ak Bars has solid experience in international banking, and its managers have participated in various training programs in Western Europe and in the USA. The experts of the bank may consult a foreign company, which considers doing business in Tatarstan.

2.4.3. Some useful contacts

Business support organizations

Ministry of Trade and Foreign Economic Cooperation of Tatarstan, Tel. + 7 8432 920 455 Fax + 7 8432 921 645 E-mail: Flura_kzn@mail.ru	**Chamber of Commerce of Tatarstan,** Tel. +7 8432 646 207 Fax + 7 8432 360 966 E-mail: tpp@radiotelcom.ru
Committee for External Economic Relations, Government of Kazan Tel. + 7 8432 928 196 Fax + 7 8432 929 672 E-mail: kvs@bancorp.ru	**Agency for International Cooperation Development, Government of Tatarstan** Tel. + 7 8432 927 902 Fax + 7 8432 928 776 E-mail: agency@bancorp.ru

Law firms

VIP PUBLIC RELATIONS Ul. Pushkina d. 25 420021 Kazan, Russia Tel. + 7 8432 922111 Tel. + 7 8432 663763 http://www.arbciten.ru	**Centr Juridicheskogo & Ekonomicheskogo Sodejjstvija** Ul. Mardzhani d. 24 420022 Kazan, Russia Tel. + 7 8432 934192 Tel. + 7 8432 644290

Personnel recruitment agencies

EXPRESS Tukaevskij per. 3, 3rd floor 420111 Kazan, Russia Tel. / Fax + 7 8432 939249, 939250, 939251, 939252, 487685 http://www.express-job.ru	**Personal-Master** Ul. Ostrovskogo d. 57B, office 312 420107 Kazan, Russia Tel. + 7 8432 927300 Tel. /Fax + 7 8432 927302 www.personalmaster.ru

Real estate agencies

Flet	**Makler**

ul. Vishnevskogo d. 26, office 101 Kazan, Russia Tel. + 7 8432 38-93-71 Fax + 7 8432 60-60-08 E-mail: flat@tatre.ru http://flat.tatre.ru	Sibirskii trakt d. 34, korp 5 PAI, office 327 420029 Kazan, Russia Tel. / Fax + 7 8432 109861 E-mail: makler@mi.ri

Exhibitions

White Kreml ul. Sverdlova 50 420107 Kazan, Russia Tel. + 7 8432 36-72-54, 36-93-00 Fax + 7 8432 36-72-54,36-93-00 E-mail: wk@mi.ru http://www.maxibit-kazan.ru	**Kazanskaja Jarmarka** Orenburgskij tr. 8 420059 Kazan, Russia Tel. + 7 8432 64-33-22, 64-34-22 Fax + 7 8432 77-58-94 E-mail: vico@tbit.ru http://www.expo.kzn.ru
TatExpo ul. Pushkina 18 420503 Kazan, Russia Tel. + 7 8432 64-62-61 Fax + 7 8432 64-62-71 E-mail: tatexpo@mi.ru	**ERG** Jamasheva prospekt, 10/1 420032 Kazan, Russia Tel. + 7 8432 64-14-23, 41-34-27, 18-05-03, 18-05-04, 18-07-41 Fax + 7 8432 64-14-23, 41-34-27, 18-05-03, 18-05-04, 18-07-41 E-mail: mail@erg-expo.ru http://www.erg-expo.ru

3. Samara

3.1. Samara and Samara region – general outline

The city stands in the centre of a boundless expanse of steppe on the high left bank of the Volga River, bounded by the Zhiguli Mountains. Most of the city is situated in the area between the Volga and its left tributary, the Samara River.

Samara extends for 50 km lengthwise and is 20 km wide; it occupies an area of 46 597 hectares. Many air, rail, and water routes and highways pass through it, and it is conveniently connected with all the important Russian regions and other republics.

The Volga is the most important waterway. It is a great navigable river with large fish stocks that occupies an area of 53 600 km^2 and connects the Volga region with the Baltic and Black seas and the Sea of Azov.

Samara Region borders on Saratov Region (Lower Volga) in the south, Ulyanovsk Region (Volga region) in the west, Tatarstan in the north, and Orenburg Region (Ural region) in the east. There are 11 cities in the region (10 under regional jurisdiction and 1 under district jurisdiction): Samara, Togliatti, Syzran, Novokuibyshevsk, Chapaevsk, Otradny, Zhigulevsk, Oktyabrsk, Kinel, Pokhvistnevo, and Neftegorsk. Samara and Togliatti are additionally divided into 12 city districts. There are also 1333 rural communities in 324 rural administrations and 27 rural districts, as well as 24 towns.

The region's topography is intricate and varied, and in combination with the natural vegetation forms distinctive landscapes. The Volga Uplands extend along the right bank of the Volga, reaching elevations of 375 m in the Zhiguli Mountains, while the left bank of the river is low and flat. The Zhiguli Mountains in the northern part of the Samara Bend are one of the most beautiful places in the entire East European Plain. The mountainous terrain of cliffs, crags, and deep valleys give the Zhiguli range both esthetical and scientific value.

The Samara region has consistently been in or near the top five regions in Russia in attracting foreign investment. Located on a horseshoe bend in the middle stretch of the Volga River, 860 km southeast of Moscow, Samara is a trade and investment leader in Russia's Volga federal district. The region's population is 3.3 million people and its two major cities are Samara and Togliatti.

3.1.1. Natural resources

Along with a beautiful location in the centre of a vast steppe and a favourable geographical position, Samara Region has abundant natural resources. The region has a well-developed raw mineral base that includes coal; a wide variety of building materials; several kinds of non-metallic industrial (process and chemical) minerals; oil and gas; and underground water, some of it containing commercial concentrations of dissolved minerals (hydro minerals).

Oil and associated gas are the region's most important mineral resources. The oil contains 7-11% paraffin, 12,2% pitch, and a significant percentage of light hydrocarbons. It also has a high sulphur content (3-3,5%), so it is of great importance as a chemical feedstock. More than 350 oilfields have been discovered in the region; 80 of them are located in unallocated subsurface reserves, and they may be developed on a tender basis. Specialists are working to resolve problems of development and the introduction of effective methods of increasing oil recovery from the formations. The Mukhanovskoe field is believed to be the region's largest oilfield; however, a significant proportion (83-85%) of unexplored oil reserves still remain that are considered economic to develop.

In addition to oil, Samara Region has large reserves of commercial-grade building materials, such as building stone, sand-gravel mix, building and silicate sands, brick and tile materials, rock asphalt, gypsum and anhydrite, expanded clay materials, aggloporite clay [a porous aggregate material], glassmaking materials, refractory clays, and cement materials. These reserves are considered to be the largest in the Volga region.

Among the industrial minerals are reserves of foundry sand, which represent more than a 40-year supply for the region. The geological preconditions for bentonite and zeolite deposits also exist. Other industrial minerals include phosphorite, native sulphur, rock salt, asphalt and bitumen, native bitumens (estimated reserves down to 500 m are 780 million tons). There are large reserves of oil shale, which is produced and processed at the Kashpirskoe and Dergunovskoe deposits. The region is interested in attracting investments to develop the Dergunovskoe rock salt deposit. The value of the Kashpirskoe oil shale deposit is largely dependent on the export potential of its processed products. The bitumen and asphalt will find applications in road construction, given the use of effective technologies. In addition, the Volodinskoe and Syreisko-Kamenodolskoe native sulphur deposits are being developed, and limestone is produced at the Shiryaevskoe deposit.

The region's reserves of formation water have commercial concentrations of certain elements (e.g., bromine, iodine, boron, strontium, rubidium, potassium, and lithium) and could be used as a source of hydrominerals by employing the appropriate technologies. The region has ample reserves of underground water, including mineral water, various medicinal and therapeutic waters, and hydromineral sources.

3.1.2. Location, Transportation, Logistics

Samara stands in the centre of a boundless expanse of steppe on the high left bank of the Volga River, bounded by the Zhiguli Mountains. Most of the city is situated in the area between the Volga and its left tributary, the Samara River. The Zhiguli Mountains near Samara formed the Samara Bend in the Volga River. Samara extends for 50 km lengthwise and is 20 km wide; it occupies an area of 46 597 hectares. Many air, rail, and water routes and highways pass through it, and it is conveniently connected with all the important Russian regions and other republics.

The Volga is the most important waterway. It is a great navigable river with large fish stocks that occupies an area of 53 600 km^2 and connects the Volga region with the Baltic and Black seas and the Sea of Azov. Samara Region borders on Saratov Region (Lower Volga) in the south, Ulyanovsk Region (Volga region) in the west, Tatarstan in the north, and Orenburg Region (Ural region) in the east.

The region has an extensive transportation infrastructure, with 1400 km of operating general-use railway lines, 10 200 km of paved roads, and 525 km of internal waterways. The Friendship (Druzhba) and Mangyshlak (Kazakhstan)-Samara oil pipelines and the Togliatti-North Caucasus product pipeline pass through the region.

There are 14 big cities with population over 100 thousand people that are located within 500 km from Samara. These are:

Samara – Nojvokujbishevsk - 34 km
Samara – Togliatti - 82 km
Samara –Dimitrovgrad – 155 km
Samara –Syzran – 162 km
Samara – Uljanovsk - 240 km
Samara – Balakovo – 279 km
Samara – Oktyabrskii – 287 km
Samara – Kazan - 360 km
Samara – Almetyevk – 362 km
Samara –Naberezhnye Chelny – 380km
Samara – Orenburg - 412 km
Samara – Saratov - 442 km
Samara – Ufa - 469 km
Samara –Cheboksary – 486 km

Samara – Nizhny Novgorod 714 km
Samara – Moscow 1070 km
Samara – St.Petersburg 1792 km

3.1.3. Business perspectives

The region and its population enjoy some of the highest average salaries in Russia, and the retail sector is starting to develop to accommodate this increasing purchasing power. Overall, the region boasts strong industrial enterprises, a progressive government, and high levels of foreign trade and investment.

The Volga region's economic complex began forming and developing before the 1917 revolution. This was mainly due to the large transhipment and trading points located on the Volga, which led to the formation of major trading centres. The Volga region was initially an agricultural district, but after the Second World War, rapid development of the power industry and oil and gas reserves began, and petrochemical production was set up. Large-scale hydroelectric power plants (Volgograd, Samara, Saratov, and Nizhnekamsk) were built in the Volga region. They were of enormous significance in the formation of various districts and a number of large metallurgical, engineering, and chemical plants, as well as in the expansion of irrigation farming. New cities appeared in the region.

Samara Region is the most developed part of the Volga region. Of the 89 constituent regions of the Russian Federation, it is in second place after Moscow in total retail turnover volumes. The region's economy experienced a recession, but less than in other regions. The crisis particularly affected industrial sectors, such as the oil and chemical industries, engineering, and the military-industrial complex. Samara Region is currently one of the few Russian regions to see the return of a certain amount of economic stability and a way out of the crisis.

Samara Region is one of the leading Russian regions in economic potential. It is among the top ten regions in terms of covering commitments with internal revenues and balancing the regional budget.

A well-developed infrastructure, dynamically expanding industry, high intellectual potential, and low investment risk make the region one of the most attractive locations for new facilities. The region has a well-educated population (10th in Russia) and is in 5th place in industrial production volumes, 6th place in level of budget revenues, and 17th place (between Saratov and Perm regions) in investments in science. Samara Region as a whole is one of Russia's most successful regions and has become a centre of regional and interregional cooperation.

The regional administration gives priority to creating favourable conditions for economic development and attracting investments. A number of special programs

have been implemented to promote increased production, develop small and medium business, and solve social and environmental problems.

The region is developing and implementing various programs to obtain financial resources on international capital markets. Specifically, the European Bank of Reconstruction and Development is carrying out a lending program for small business with the participation of Sberbank, Inkombank, and Rosestbank.

The level of economic activity among the region's population is high: the number of economically people is 1.6 million out of a total population of 3.3 million. In addition, the region's high educational potential creates good conditions for economic growth. Samara Region is considered to be one of the country's main oil producing districts, although its role is gradually declining. There is a well-developed oil refining industry. Car manufacturing is leading sector in the engineering industry, followed by machine tools and bearings.

Samara is a major educational and scientific centre of Volga area with 12 public and 13 commercial institutions of higher education as well as 26 colleges. The recently inaugurated Management Institute trains economic executives to be. The students are instructed by prominent scientists, highly skilled lecturers and experts. Basic research is also carried out in Samara by the Samara Research Centre of Russian Academy of Sciences. It incorporates Samara branch of the Physical Institute, Theoretical Engineering Institute and Image Processing Systems Institute. Major research institutions operate in the city.

Financial and consulting assistance to Samara institutions is rendered by Eurasia Fund, ALHA, Know-How Fund, Soros Foundation, TACIS, EBRD, USAID. The number of foreigners coming to Samara is sky-rocketing. Exhibitions and fairs of presenting products of foreign companies are organized here.

3.2. Main industries and city profiling enterprises

Samara, the regional capital, has strong industrial potential and is a leading industrial centre of the Volga region. As a result of its favourable geographical location, Samara developed rapidly and by the early 20th century, had become one of Russia's major commercial and financial centres. The city is among the top ten Russian cities in generated national income and industrial production volumes.

Samara's primary economic sector is industry, especially heavy industry (77% of the total), which employs 137 000 people, or 40% of employed in industry city residents. The engineering complex includes the aerospace, electrical, cable, and machine tool industries; instrument-making; bearing production; and production of oilfield, construction, and agricultural equipment. The city's industries produce a wide range of sophisticated high-end equipment, TU passenger planes, carrier rockets for satellites and space vehicles, aircraft and spacecraft engines, metal-cutting machines, and a wide assortment of cable products.

Production facilities for manufacturing rolled aluminium, petroleum products, chocolate candy, alcoholic beverages, and meat, dairy, and pasta products account for a large share of total output.
Small, medium, and large companies are involved in all spheres of activity. Most of them are found in industry, construction, trade, communications, science, finance, and culture. A total of 156 large and medium industrial companies operate in Samara.

There are about 70,000 businesses registered in the Samara region and approximately half of them are active. The leading branches of the regional economy are machine building and metallurgy (53,8% of the total regional GDP), chemical and petrochemical (12,7%), power generation and food processing industries. Among the regional industrial enterprises are such export-oriented giants of the national economy, as **AvtoVAZ** (Russia’s largest car producer), **TogliattiAzot** and **KuibyshevAzot** (nitrogen producers), Sintez-Kauchuk (rubber producer), several oil refineries and others. At the same time, there are an increasing number of new, small-

and medium-sized dynamic enterprises involved in such modern fields of business as, for example, telecommunications and Internet services, retail and fast food. All of these enterprises are potential consumers for business consulting. The demand for these services is often determined by the external business environment and changes in the national economy. Restructuring of large enterprises, especially in the energy sector, conversion of the military enterprises, shifts in top management and owners, growing interest of foreign investors and trading partners, as well as intensifying competition, are the main factors that account for the demand in the Samara consulting market.

Samara oblast is a major producer of fuel, refining approximately 10% of oil in Russia, and producing 10% of gas, diesel, and fuel oil in the country. Yukos dominates the oil industry in the Samara oblast, but there are opportunities for smaller companies in reworking old wells and other areas.

3.2.1. Mechanical Engineering

Machine building is the largest sector of Samara oblast's economy, producing automobiles, aircraft, engines, oil-production equipment, hydro turbines, bearings, and cable, among other items.

AutoVAZ (http://www.vaz.ru) in Togliatti is the largest passenger cars automaker in Russia, producing roughly around 700 000 – 770 000 cars annually. More than 200 companies from Samara oblast supply AvtoVAZ. The automobile production constitutes 81% of all machine-building output of the region.

Aviation and aerospace are also important sectors. The region home to several leading Russian manufacturers of aircraft, aircraft engines, rockets, and satellites, as well as vehicles for both manned and unmanned spacecraft. Principal companies include:

Aviakor (http://www.aviacor.ru) produces the Russian main passenger aircrafts TU-154 and AN-70. The company is part of the investment – industrial group "Siberian Aluminium".

Motorostroitel (http://motor-s.ru/) manufactures aviation and aerospace engines, gas turbines for the gas pipelines, mobile power generation stations and outboard engines for boats.

Progress (http://www.rosaviakosmos.ru/cp1251/org/progress.html) is one of the most successful examples of restructuring of the defence industry in Samara oblast. During Soviet times, the plant produced 60 launch missiles per year. It now produces half that, but the plant is actively involved in different commercial space projects with French and American companies and exports many of its products and services.

Volgaburmash (http://www.vbmbits.com) is the major producer of drilling bits in Russia. The Company commands an 85% market share of the total volume of drilling bits produced in the country. Recently the company is implementing a wide program of technical renewal of production and mass reconstruction process. In the past years the Company has successfully expanded its international marketing efforts in Asia, The Middle and Far East, North and South America, Africa, and Australia

Integra-S Consortium (http://www.integra-s.com) is one of the leading Russian companies specializing on development and production of network controllers and intelligent integrated security systems based on digital technologies. Annually more than 200 new units are equipped with modern safety systems, created by Integra-S, and more than 30 different companies become our permanent partners. In 2004 the consortium won a tender for projecting and installing a complex of informational safety system in Novorosijskij Trade Seaport and a tender for equipping a plant of international concern Tarkett Sommer AG with control systems.

3.2.2. Metallurgical Industry

Samara Metallurgical Plant (http://www.smp.ru/rus/) is the largest manufacturer and supplier of semi-finished aluminium products in Europe With an export market of $40 million, the Samara Metallurgical Plant accounts for 30% of the Samara region's total exports. Naturally, the plant has a serious role in underpinning the aerospace and automotive sectors in the region.

Samara Bearing Plant (http://www.spzgroup.ru) belongs to SPZ group. The company produces approximately 40 million bearings annually ranging from 19mm to 4m in diameter. The company's production is exported to more than 30 countries.

3.2.3. Chemical production & light industry

The local chemical and petrochemical complex in the Samara oblast includes:

Kuybyshevazot (http://www.kuazot.ru/) is of the largest enterprises of the Russian chemical sector. Located in Togliatti the company manufactures organic chemical products (namely caprolactam and cyclohexanone), ammonia and nitrogen fertilizer (ammonium nitrate, urea, ammonium sulphate, UAN solution) and industrial gases (such as oxygen, nitrogen and argon). Kuibyshevazot is a majority shareholder in the Togliatti River Port with cargo handling capacity 10.1 million tons per year and the Petcherskoye agricultural farm (land area 5500 hectares).

Togliattiazot (http://www.toaz.ru) is one of the world's largest exporters of mineral fertilizers and nitrogen. The company employs 4500 people and exports significant part of its production.

Plastic is located in Syzran and the company established a joint venture with Germany's Henkel for the production of automobile chemicals and plastic parts.

3.2.4. Agriculture & Food Processing

Agriculture in the region is oriented towards grain growing and livestock farming. The formation of reservoirs in Samara Region has made it possible to expand irrigation farming, increase the amount of arable land, and increase animal production, as well as locate flour-milling companies in Samara. The hot summer months provide enough warmth and light for growing and ripening various crops. Corn, grapes, and melons are grown in the region's southern districts. Other important crops include industrial crops, especially sunflowers, as well as sugar beets and hemp. Samara Region is also a supplier of wool, meat, and valuable sturgeon. Livestock

farming specializes in raising beef and dairy cattle; sheep are also raised for meat and wool. Beekeeping is another developed sector.

The most progressive local farms try to increase land productivity and grain quality through implementation of new technologies, fertilizers, and equipment. For example, in 2002, local company Samaraoblagropromsnab purchased millions of dollars worth of tractors, combines, and other agricultural equipment from CNH (www.cnh.com).

Moreover, possibilities for cooperation in agribusiness have grown since Russian President Putin signed the Law "On turnover of agricultural land." This law formally finishes the land reform in Russia, allowing non-residents to rent agricultural lands for up to 49 years. Samara is one of the few regions to have already passed legislation supporting the implementation of this federal law.

Food processing is one of the most dynamic sectors in the Samara oblast. European companies have been the most aggressive and successful investors here. Nestle Foods is the main shareholder and investor in the Rossiya Chocolate Factory, the largest in Russia. Danone has a factory in Togliatti.

Rossia Chocolate Factory (http://www.rossiachoco.ru) is ranked fourth in Europe in terms of production capacity. In the last two years the factory is cooperating with the international giant "Nestle".

3.3. Consumer markets

The average monthly wage in Samara in 2003 was about RUR6025 and is expected to grow in 2003 by 17%. In Samara region the average monthly wages came to RUR5162, which was 21,4% higher than in 2002. Samara region population purchased hard currency worth RUR15,9 billion, securities and real estate worth RUR4,3 billion and RUR4,8 billion respectively. As of January 1, 2004, Samara Region population's bank account balances totalled RUR28,2 billion (1.6 times higher than on January 1, 2003).

Samara is ranked third Russia in retail volumes and the purchasing power of its population is second only to Moscow. There were 2126 big and medium size shops including 51 commercial centres as of 2002. Samara could be also a distribution hub for 7,84 million urban consumers living in 14 cities with population over 100 thousand people that are located within 500 km from Samara. These are:

Samara – Nojvokujbishevsk - 113 thousand people
Samara – Togliatti - 703 thousand people
Samara –Dimitrovgrad – 131 thousand people
Samara –Syzran – 188 thousand people
Samara – Uljanovsk - 636 thousand people
Samara – Balakovo – 200 thousand people
Samara – Oktyabrskii – 109 thousand people
Samara – Kazan – 1,1 million people
Samara –Naberezhnye Chelny – 510 thousand people
Samara – Almetyevk – 140 thousand people
Samara – Orenburg - 549 thousand people
Samara – Saratov - 873 thousand people
Samara – Ufa – 1,04 million people
Samara –Cheboksary – 441 thousand people

In 2002 there were 265,7 thousand sq. meters of residential areas build in 52 storey buildings and 155 individual houses. The biggest aqua park in Europe "Victoria" was also completed in 2002 and has total area of 7000 sq. meters. Also in 2002 there were completed 76 construction projects for industrial and administrative purposes.

3.4. Establishing a business presence

Foreign companies and some large Russian corporations more and more often move or expand their activities away from Moscow to the Russian provinces. These provinces attract companies by their great commercial potential and, at the same time, lower costs of doing business. Samara is one such place. Many foreign and Russian small and medium sized companies emerged recently in the Samara market. As a

result a demand for high-level office services arose. The existing supply sometimes cannot satisfy every wishes of every customer. However, office services are rapidly developing in Samara.

3.4.1. Office and personnel

In spite of its vast commercial and business activities, the city of Samara lacks first class offices and business-centres. The cause is the predominance of demand over supply, when customers have strong requirements for different parameters. Nevertheless, there are several ways to find space for a representative office.

First of all, one can apply to various business-centres. These places in Samara sometimes combine the functions of trade-centres. Stores are located on the lower floors and available office space is situated on the upper floors. Leasing an office in a business-centre, a renter can have well-decorated and convenient suite with telephone line (s), security, cleaning and sometimes a parking place. Furniture, air conditioning, garage, and extra security are available for an extra fee. The monthly rent in business-centres is €8-25 per square meter.

Another option for finding an office space is to contact a real estate agency. Such agencies will locate office space for a small fee (usually not more than 20-60% of a single monthly rent payment). Most often these agencies offer office space in former state enterprise buildings. Telephone lines and security are also available there. But the typical drawback of this option is that upkeep of the office might not be up to the western standards of maintenance. Rent in these buildings usually does not exceed €7 per sq. m. monthly and depends on the distance from the city centre.

Considering the difficulties of selecting office space in Samara, some foreign companies do things in the following way: first of all they find an apartment, convenient in terms of size and location. Then, these apartments are redecorated with the renter's specifications. Foreign contractors sometimes are hired for this purpose.

Some business-centres available in the centre of the city Samara:

Aquarium Trading and office centre Ul. Michurina 15 Samara, Russia Tel. + 7 8462 349 517, 364 628	**Nevskiy** Trading and office centre Ul. Novo-Sadovaya 14 Samara, Russia Tel. + 7 8462 371 698
Samara Agrostroy Office centre Ul. Michurina 52 Samara, Russia Tel. + 7 8462 368 793	**VITMASH** Office centre Ul. Yeroshevskogo 3 Samara, Russia Tel. + 7 8462 344 772, 346 622
Progress Office centre Ul. Chernorechenskaya 61-A Samara, Russia Tel. + 7 8462 380 404	**Progress** Office centre Ul. Osipenko 11 Samara, Russia Tel. + 7 8462 380 404

There are eleven higher education institutions located in Samara. Traditionally, Samara is famous for its technical specialists due to the high concentration of defence industry that used to develop and apply high technologies. At the same time, sciences related to the market economy are relatively new for Samara universities. Thus it is easy to find highly qualified technicians, but rather hard to find people with western type of management skills. It is especially difficult for companies seeking an English-speaking accountant, for example. Most of the bilingual working force graduated from the Philological Department of the Samara State University and Foreign Languages Department of the Samara Pedagogical University. Usually, they need to be trained to fulfil the required work.

Approximate salaries are in the table below:

Position	**Monthly Salary / €**
Head of Representative Offices	800-1800
Secretary	200-300
Chief accountant	400-800
Sales manager	300-800

HR Manager	300-700
System engineer	200-400
Driver	150-250
Translator	200-400

Charges of employment agencies do not exceed 25% of the annual salary of each position.

3.4.2. Legal assistance and banking

As in other regions of Russia a company that plans to operate in Russia for more than 30 days a year must be registered in accordance with the law on "Foreign Investment in the Russian Federation" adopted in 1999. A foreign business can operate in Samara region in any of three ways:

- As a *joint venture* with a local company or as a *legal entity that is 100% foreign owned*, which is the easiest variant of registration. In this case , the foreign businessmen obtain the ability to operate in the Russian Federation on an equal footing with resident enterprises, because, in essence, they become a Russian legal entity. Moreover this way of registration is less expensive and less time-consuming.

- In cases where foreign legal entities wish to participate personally in inter-relations with Russian counterparts they should register a branch office; or an accredited office that is wholly foreign-owned. The difference between these two is in the scope of authorities conceded. A branch office is given wider authority. The parent company itself specifies the scope of authorities in a warranty of authority given to the branch director. Accredited offices fulfil representation functions and are not allowed to practice commercial activity.

It is highly recommended to contract with a local lawyer or law firm that specializes on registration issues to conduct and facilitate the registration process and for further legal routine maintenance such as renting office space, contract monitoring. Average prices for legal services:

Registration of the Limited Liability Company costs approximately €300. A registration of a closed/open joint stock company (including the issue of shares) is approximately €600. Accreditation of a branch/representation office costs approximately €1500 while obtaining Work Permits is about €800.

Western companies planning to open an office in Samara may choose a bank among affiliates of both Moscow-based (Alfa bank, IMPEX bank, Avtobank, etc) and regional banks (Promek-Bank, Guta-Bank, KMB-Bank, etc.).

3.4.3. Some useful contacts

Business support organizations

Samara Region Administration Tel. + 7 846 232-3821 Fax + 7 846 232-7568 http://www.adm.samara.ru	**Samara Entrepreneurs' Movement** Tel. + 7 846 232-6681 Fax: + 7 846 242-3003 Email: drp@saminfo.ru
Samara Regional Chamber of Commerce Tel. + 7 846 232-1159 Fax + 7 846 232-7662 http://www.cci.samara.ru	**Agency for International Cooperation** Tel. + 7 846 246-1161 Fax + 7 846 243-5421 E-mail: mag555@sama.ru
Department for Development of Entrepreneurship of the Samara Region Ul. Molodogvardeiskaya 210 443006 Samara, Russia Tel. + 7 8462 32-74-98 Fax + 7 8462 32-28-55; E-mail: dmb@sme.ru	**Centre of Professional Training for Employment Service** Ul. Novo-Sadovaya 106A 443068 Samara, Russia Tel. + 7 8462 43-91-75

Law firms

Terra Jukc	**Kollegija Advokatov N10**

Ul. Stepana Razina d. 130, office 7 443099 Samara, Russia Tel. + 7 8462 324596 Fax + 7 8462 335608	ul. Rabochaja d. 15 443010 Samara, Russia Tel. + 7 8462 335415 Fax + 7 8462 327489

Personnel recruitment agencies

Helios Personnel Agency Ul. Novo-Sadovaja d.106, office 629 Samara, Russia Tel./Fax + 7 8462 70-35-78, 70-35-88, 70-35-79 E-mail: gelios@mail.samtel.ru http://www.gelios-samara.ru	**Senat Recruiting Agency** Ul. Lesnaia d.9, 1st floor Samara, Russia Tel. / Fax + 7 8462 733-688, 733-689, 733-690, 733-691, 706-807, 706-817 E-mail: info@senat.samara.ru http://www.senat.samara.ru

Real estate agencies

El Grandj Ul. Leninaskaia 202 443001 Samara, Russia Tel. / Fax + 7 8462 476-007, 476-153, 900-294 E-mail: el_grand@front.ru	**Spektr Nedvizhimosti** Ul. Michurina 15, 4th floor Samara, Russia Tel. / Fax + 7 8462 706-222 (reception), 34-98-48, 37-80-28 http://www.spectr.samara.ru

Chapter IV. The Ural’s 1+3

1. Ufa

1.1. Ufa and Republic of Bashkortostan – general outline and perspectives

The Republic of Bashkortostan covers an area of 143 600 km^2 or 0,8% of the total area of the Russian Federation. It occupies a large part of the Southern Urals, the adjacent Bashkirian part of the Ural foreplains, and the high plain belt of the Bashkirian Transural region. It borders on Perm and Sverdlov regions in the north, Chelyabinsk region in the southeast, Orenburg region in the south and southwest, the Republic of Tatarstan in the west, and the Udmurt Republic in the northwest.

As of January 1, 1999, 4 110 300 people lived in the republic, including 2 540 200 in cities and 1 570 100 in rural areas. The Republic of Bashkortostan has the seventh-largest population among subjects of the Russian Federation. People of nearly 100 different nationalities live in Bashkortostan, including Bashkirs, Russians, Tatars, Chuvash, Mari, Ukrainians, and Germans. The Bashkirs are the indigenous inhabitants. There are 20 cities in the republic, the largest of which are Ufa, Sterlitamak, Salavat, Neftekamsk, and Oktyabrsky. The capital of the republic is Ufa, founded in 1574 has a population of 1,04 million in 2002.

A strong national economic complex has been formed in the republic, including diversified industry, agriculture, and a branching network of railways, highways, and pipelines. Republic of Bashkortostan occupies 143,600 square kilometres, which comprises 0,8% of the Russia's territory. Bashkortostan enterprises produce 2,3% of the Russia's GDP, 3% of industrial products, 3,7% of agricultural products of the overall Russian industrial output. Republic of Bashkortostan holds the ninth place in terms of industrial output, the third place in terms of agricultural production, the sixth place in terms of investments in capital assets and the fourth in terms of civil construction among other regions of Russia.

Bashkortostan is one of the largest federal budget donors, dominated by oil and gas interests. The Republic of Bashkortostan consists of 54 administrative centres, including 21 cities and 40 townships.

1.1.1. Natural resources

Geological surveys reveal over 3500 deposits of different mineral resources. Oil and gas are the major resources extracted and processed in the Republic. The republic is the Russian Federation's third-largest oil producer after Tyumen Region and the Republic of Tatarstan and is the largest refiner. Oil is the main component of Bashkortostan raw mineral base, and oil production will remain a priority sector of the extractive industry for a long time to come.

At present, of the 177 listed oil fields, 156 are being developed, 12 are suspended, and 3 are being tested. Most of the fields are past their peak production rates and are at the late development stage with a high degree of water-cut production. Development levels of total initial reserves are 78,8% for oil and 27,7% for gas. The republic's current hydrocarbon potential is still relatively high. In the next few years, it is planned to increase oil reserves through traditional prospecting and exploratory work at a fairly intensive level.

Bashkortostan is also rich in iron ore, copper, zinc, gold, chromium, manganese, oil and natural gas, and other minerals. Bashkortostan also produces 10-12% of all copper in Russia (as concentrates) and 30% of all copper and 48% of all zinc in the Ural region. If associated gold from composite chalcopyrite deposits is included, the republic is the Ural region's second-largest gold producer.

Present-day gold reserves are represented by fine alluvial gold (reserves up to 1 ton); small (up to 3-4 tons) deposits of gold-bearing "iron hats"; and primary gold-sulphide, gold-quartz-sulphide, and other deposits, the largest of which is the Murtykty deposit (30 tons). Yearly gold production from these gold reserves is 500 kg. Hundreds of tons of gold reserves are contained in chalcopyrite ores, and up to 1500 tons per year are extracted from them.

Bashkortostan has been considered a major supplier of ore for the non-ferrous enterprises and sulphur containing crude for the chemical enterprises in the Urals and Russia. The Republic is also rich in timber, which covers a third of its territory and one of Russia's largest producers of rock salt (37%).

Industrial development in the republic is closely linked to development of its raw mineral resources, since 69% of all industrial output comes from the fuel and chemical/petrochemical industries, engineering and metalworking, and ferrous and nonferrous metallurgy, whose operations are based on reserves of various commercial minerals.

There are more than 50 known sources of mineral water, therapeutic mud, and thermal steam (gas) in the republic, around which well-known health and recreation centres have been built, for example, Yangantau, Krasnosolsk, Assy, Yumatovo, and Yaktykul.

Bashkir Engineering Company (Bashkirsky MSK), Uchalinsk Mining and Processing Company (Uchalinsky GOK), and Buribaev Mining and Processing Company (Buribaevsky GOK) are the largest mining companies in the Ural nonferrous metallurgy sector. Their operations are based on proven reserves of composite chalcopyrite ore deposits that are the second most important mineral reserves of the republic's economy. Rock salt and limestone of the Sterlitamak mining area are the basis of a powerful industry for producing sodium hydroxide and chlorine and more than 100 designated derivatives based on them. Similarly, the iron ore deposits of the Beloretsk mining area (Zigazino-Komarovskaya group) have served as the basis for the formation and development of the complete-cycle Beloretsk Steel Works (Beloretsky MGK).

Bashkortostan's long list of mineral resources, convenient geographical location, and developed infrastructure make the republic extremely attractive for both domestic and foreign investments in the extractive industry.

1.1.2. Location, Transportation, Logistics

The Republic of Bashkortostan is located in the central part of the Urals providing connections to different oblasts in the Urals region and to Kazakhstan and Tatarstan. The Republic of Bashkortostan is located in a well-populated and developed part of the country.

Major railway lines, pipeline routes, and highways pass through its territory, connecting the European part of the Russian Federation with the Urals and Siberia. The republic has direct railway connections to western Kazakhstan, the lower reaches of the Volga, the Northern Caucasus, Uzbekistan, and Turkmenistan. The Belaya River is part of the Unified Deepwater Transport System of European Russia, which provides the Republic of Bashkortostan with access to ports on the Caspian, Baltic, and Black seas and the Sea of Azov. The republic is a constituent part of the Ural economic region; it is second only to the Central region of the Russian Federation in scale of industrial development and adjoins the highly developed Volga and West Siberian economic regions.

The capital of the Republic is Ufa with a population of 1.1 million people. It is located 1519 kilometres from Moscow and 508 kilometres from Yekaterinburg. There are daily flights to Moscow and several weekly flights to Yekaterinburg and other regional cities. It takes one hour to get from Yekaterinburg to Ufa by plane and 8 hours by car. It takes only 5 hours to get to Ufa from Chelyabinsk by car, and there are daily flights from Chelyabinsk to Moscow and other Russian and international cities.

The Republic of Bashkortostan is located in a well-populated and developed part of the country. Major railway lines, pipeline routes, and highways pass through its territory, connecting the European part of the Russian Federation with the Urals and Siberia. The republic has direct railway connections to western Kazakhstan, the lower reaches of the Volga, the Northern Caucasus, Uzbekistan, and Turkmenistan. The Belaya River is part of the Unified Deepwater Transport System of European Russia, which provides the Republic of Bashkortostan with access to ports on the Caspian, Baltic, and Black seas and the Sea of Azov. The republic is a constituent part of the Ural economic region; it is second only to the Central region of the Russian Federation in scale of industrial development and adjoins the highly developed Volga and West Siberian economic regions.

There are 22 cities with population over 100 thousand people (including 5! Of the Russian million cities) that are located in the proximity of less than 550 km from Ufa. These are:

Ufa – Sterlitamak - 121 km

Ufa – Salavat – 151 km

Ufa – Oktyabrskii – 187 km

Ufa – Sarapul – 275 km

Ufa – Neftekamsk – 228 km

Ufa – Almetevsk – 289 km

Ufa – Magnitogorsk – 331 km

Ufa – Mias – 302 km

Ufa – Orenburg 356 km

Ufa – Izhevsk – 341 km

Ufa –Nizhnekamsk – 351 km

Ufa – Chelyabinsk 397 km

Ufa – Samara 469 km

Ufa – Pervouralsk- 497 km

Ufa – Dimitrovgrad - 504 km

Ufa – Yekaterinburg 508 km

Ufa – Glazov – 517 km

Ufa –Tolyatti – 522km

Ufa – Orsk – 533 km

Ufa – Perm - 537 km

Ufa – Kazan - 543 km

Ufa – Novotroick – 547 km

Ufa – Moscow 1354 km

Ufa – St.Petersburg 2056 km

1.1.3. Business perspectives

Due to its natural resources Bashkortostan is a donor to the federal budget. Its GDP and basic macroeconomic figures place it within ten most developed regions of Russia and in some industries Bashkortostan maintains leading positions. Every seventh ton

of oil is processed in the republic, more than half of all Russia's butyl and isobutyl alcohols is produced here, as well as half of the country's soda ash and chemical weed and pest killers, the greater part of caustic soda, polyethylene, and synthetic resins and plastics.

Major railways, pipelines and highways go throughout the territory of Bashkortostan providing connections between European countries and the central part of Russia with the Urals, Siberia and Kazakhstan. There are over 600 rivers and 800 lakes in the Republic. Ufa city, the capital of the Republic, stands on the Ural River one of the largest navigable rivers in Russia.

Republic of Bashkortostan leads other Russian regions in chemical and petrochemical production with 88% of industrial output, 63% of synthetic fat alcohol, over 60% of soda ash, 24% of caustic soda, 57% of polyester, over 44% of polypropylene. Oil refining industry is one of the most advanced in Russia, using the latest technologies and imported equipment.

As every third resident lives in the countryside, agriculture plays a very important role. The volume of republic's agricultural production places it among the top five agricultural regions in the Russian Federation. The leading agricultural industry is farming, though grain, sugar beet, sunflowers, potatoes and vegetables are grown in large quantities.

Bashkortostan Statistical Department reports 1047 large and medium sized agricultural enterprises with almost 42% of kolkhozes and sovkhozes (collective farms, which belong to the Republic's Government) still exist in Bashkortostan. At the same time 3,826 private farms are reportedly operating in the Republic, manufacturing over 50% of the agricultural output.

The Bashkortostan Republic's statistics reported 18,300 small and medium sized enterprises registered. Over 37% of small and medium sized enterprises are involved in trade and catering businesses, 19% are in agricultural industry, 16% of small and medium sized enterprises are in construction industry, 12% are devoted to industrial manufacturing, 7% of enterprises are involved in social services sector, providing

cleaning, laundry, educational and other services for population of Bashkortostan Republic.

Like anywhere in Russia factories and industrial units require urgent modernization. Some of these enterprises also need international audit and consulting to restructure and to improve management skills of personnel to provide further successful development in the local and international markets. The oil and gas sector, as well as petrochemical industry require investments in machinery and equipment for further development, being the major contributors to the Republic's budget.

Waste processing and air pollution is a hot issue for the Republic, which lacks technologies like anywhere in Russia. New technologies and equipment to monitor the ecological problems, to neutralize oil leakage and spills. Ecological Technology Centre, located in Ufa seeks partnership to develop new technologies and to manufacture materials and equipment to overcome ecological problems.

Catering and food processing enterprises started their rapid development after the 1998 financial crisis, trying to capture the local market. They also lack modern technology and equipment to meet the demand of the market, which brings enormous opportunities for Finnish companies.

However there are also some major setbacks for doing business in Ufa. Lack of democracy after the republic has the same president for 13 years resulted in nepotism and cronyism that seriously undermine the economic potential of this Russian region. As a result of its isolation, the sovereign economy of the republic has been insolvent and non-competitive for many years. The closed economy, nepotism, the archaic legal system and even more archaic relations with business have had an adverse effect. A more or less big investor has not come to Bashkortostan in the past, and the situation will not apparently change in the next few years, though the decrepit economy desperately needs investment.

Investment is urgently needed by ordinary enterprises because almost half of them are operating at a loss. But lately the local authorities have not been very concerned about their fate and have even found a way of getting rid of them. There are not enough

funds for retooling the petrochemical complexes, first of all, and for the ambitious projects that the pharaoh-minded Rakhimov decided to perpetuate his rule with.

A comparison of Bashkortostan (population: 4,1 million people, land area: 143 thousand sq. kilometres) with Tatarstan (population: 3,6 million people, land area: 68 thousand sq. kilometres) that has similar industrial structure could reveal the looming difficulties. The industrial output per employee in Tatarstan is higher more than twice (RUR80300 against RUR36677). Tatarstan has bigger budget expenditures on education, healthcare and culture, builds more housing and has better personal incomes. The industrial pollutants in Bashkortostan for 2002 were estimated at 435 thousand tons (106kg per capita) while the same figure in Tatarstan was 253 thousand tons (70kg per capita).

1.2. Main industries and city profiling enterprises

Industry occupies the leading position in the structure of Ufa's production output. In 2002 the industrial output reached RUR45,9 billion. Industrial companies of Ufa produce 28,4% of total industrial output of Bashkortostan Republic. Most dynamically industrial branches of the City that determine the growth of industrial output are engineering and metal-working industries, construction materials production, food and printing industries. Production of new goods has been set up, which decreased the production costs and increased competitiveness. The companies of the industry undergo continuous reconstruction and renovation, set up new equipment.

1.1.1. Fuel and energy

Bashneft (http://bashneft.narod.ru) is the republic's leading oil producer. The company represents a major production, economic, and scientific complex involved in more than 20 kinds of activity. Bashneft carries out the complete work cycle from prospecting and exploratory work and development and oil field operation to preparation and delivery of marketable products. The company supplies 12 million

tons of oil per year to the market and cooperates on a mutually beneficial basis with leading firms in more than 20 countries worldwide.

Being the major contributor to the Republic's budget, Bashneft contributes for about 1/5 of the Republic's budget and manufactures 20% of its industrial output. The company was set up in January 1995 and is comprised of almost all oil and gas extracting and processing companies of Bashkortostan. The range of oil products manufactured in Bashkortostan exceeds 200 different types, including aviation fuel and various oils. Bashneft employs over 50 000 people. Increasing the efficiency of oil field development is one of Bashneft's primary objectives.

Bashneftehim owns 4 oil refineries in Ufa and claims to be the third biggest producer in Russia. The refineries are **Ufimskii neftepererabotyvaiuschii zavod**, **Ufimskii neftepererabotyvaiuschii zavod**, **Ufaorgsintez and Ishimbajskii neftepererabotyvaischii zavod**. For the first 6 months of 2004 the company processed 8,9 million tons of crude oil.

In May 2004 the company agreed to pay RUR10 billion (approx €285 million) of previously covered taxes to the federal budget. Worst yet in July 2003 the Russian Audit Chamber investigated the company’s share structure. It appeared that the control packages in Bashneft (until April 2003owned by the state owned BTK), the 4 oil refining plants owned by Bashneftechim, and 36,7% of Bashnenergo (also previously owned by BTK) were sold to 7 of private companies and thus the state lost its controlling stakes in these companies. The investigation also revealed that the Chairman of Board of Bashneft, Bashneftehim and Bashenergo who actually authorized the sales is Ural Rahimov - the son of the Bashkortostan president Murtaza Rahimov. In December 2003 the sales were reversed.

Bashkirenrgo (http://www.bashkirenergo.ru) produced in 2003 15918,66 gigacalories / hour and 5075,24 MWt of electricity and supplies it to 840 thousand customers. The company owns 11 thermal power plants, one hydropower plant and employs 15080 people. In 2003 the company turnover RUR17,7 billion.

1.2.2. Mechanical Engineering

Engineering industry in 2002 was one of the most stable branches of economy and the total production output reached RUR13,9 billion (approx. $463 million), which exceeded the 2001 level by 57%.

Ufimskii zavod avtomobilnyh dvigatelej (http://www.uzam.ru) produces carburettor based car engines for the Russian “IZH” cars and “Moskvich”.

Bashkir trolleybus factory successfully wins new markets with its new trolleybus models. In 2002 the factory participated in municipal tenders organized by the cities of Khabarovsk and Berezniki and won the right to supply these cities with Bashkirian trolleys.

Energometrija (http://www.energym.on.ufanet.ru) water consumption meters and wide range of electricity consumption energy. The counters are made according to the newest technological decisions, which were taken in aerospace industry. Presently the company enlarged the product assortment and increased the volume of production with products offering new possibilities in the field of energy saving.

Gornas /Ufimskii zavod gornogo oborudovania/ is specializing in production of machinery and equipment for mining.

Geoofizika (http://www.npf-geofizika.ru) is a leading and rapid developing enterprise of Russia and CIS countries in creating a new geophysical equipment and technology for oil and gas wells researches. The production volume of the company has doubled compared to 1992 and the range is broadened to 50 items. More than 40 enterprises of oil & gas Russian complex are Geofizika customers and its technology was used in the exploration of more than 3000 fields of China, Kazakhstan, Vietnam and Sweden.

BashElektroMontazh (http://www.bem.rb.ru) manufactures wiring products and half-finished products, supporting fixing structures, polymeric construction materials, cable and conductor materials, substandard equipment.

Uralsoft (http://www.uralsoft.ru) is an engineering company developing systems and software products for production automation and control in number of industries such as food processing, oil extraction and refining etc.

BashkirDorTransProekt (http://www.avtoproekt.ru) is a company delivering engineering and geodesic services in bridge and road constructions.

In 2002 the output of the following products of engineering industry has been increased: automobile engines, illuminating lamps, metal-cutting equipment, power-blocks and power cultivators, mineral processing equipment, other automation tools and equipment.

Polyplast (http://www.polyplast-ufa.ru) specializes on fibres glass products used in various industries.

1.2.3. Food processing and light industry

Food processing enterprises started their rapid development after the 1998 financial crisis. The majority of the population cannot afford imported food products any longer due to the severe depreciation of the rouble. Therefore, an inadvertent benefit of the 1998 financial crisis was the boost that it gave to the local food processing industry. Some food processing enterprises have already imported new technologies and equipment for milk and meat processing to become market competitive, the rest are seeking investors.

Ufimskii meat processing &canning plant (http://www.umkk.ru)

Zatonskij meat-processing plant (www.zatonsky.ru) produces approx. 1200 tons of meat annually. The plant owns about 150 big shops and supermarkets and more than 100 pavilions in Ufa. In 2000 the complex purchased new industrial equipment from Germany, Austria and Poland. The modernization is not accomplished yet.

Bashpticeprom unites all the 11 poultry farms and 23 chicken incubators in Bashkortostan. The company recently sells some them in public auctions.

Ufavita (http://www.ufavita.ru) is one of 10 the biggest Russian pharmaceutical manufacturer, which is the leading in production of mono- and poly-vitamin medicines. Besides vitamins, the enterprise also produces a wide range of other drugs. At the moment the assortment of Ufavita products accounts for more than 80 various drugs. However, the plant is mostly specializing on vitamins and is know in Russia as a vitamin producer first of all. Starting from 2000 the company adopted a program including modernization of equipment, construction of new workshops, approved for GMP and creating and producing new vitamin complexes of modern medicine. In 2001 Ufavita was seen in the group of 10 the most influential Russian manufacturers. Today Ufavita" is a leading producer of vitamin products in Russia in monetary valuation enjoying some 11,8% of the Russian market.

Ufimskii lakokrasochnyj zavod (http://ulkz.ru) produces paints and varnishes

Uzemik is a leading Russian producer of producing sea rafts and safety vests from rubber.

Industrial complex of work wear (www.icity.ru/kro) is actively operating on the market of Russia and Bashkortostan as a supplier of work wear, footwear and means of individual protection. The production base of the complex is equipped with modern sewing equipment. The new experimental workshop of the company allows constantly improving the products.

1.3. Consumer markets

The retail trade turnover exceeded RUR9,6 billion (approx. $320 million (26,7% increase to the level of 2001)) where foodstuffs (without alcohol) reached RUR2,4 billion, non-food products RUR6,3 billion with corresponding increase of 43,7 and 21,5%. The retail volumes growth continued during the 2003 as well. According to some reviews Ufa is one of the regions with faster growing incomes that makes it more attractive for retailers with regional ambitions.

Some of the biggest retail chains are Matrica, Furor and Optimarket. From the biggest Russian chains Paterson is presented.

In 2002 the average salary was as follows:

Quality of life in Ufa	2002	2001
Monthly average salary, RUR	4684,8	3342,4
industry	5217,3	3678,1
construction	5601,8	4397,9
transport	4501,8	3137,2
communication	6223,9	3891,6
education	3100,7	1774,6
culture and art	3112,8	1754,8
science	4577,9	3575,4

In 2004 according to official statistics it reached some RUR6975 (approx. €190).

Entrepreneur and investment activity in trade and catering estimated as one of the highest in the region. Only during the first half of 2002 there were new 350 enterprises registered and only 18 closed. The fast food sector is still underdeveloped in Bashkortostan as anywhere in Russia. Outdoor summer cafes and fast food sold from kiosks, common throughout Russia and the Urals, are not easy to find in Ufa. Currently a large entertainment centre is in construction of which will include fast food cafes, a restaurant, dance halls and halls with various gambling machines.

There are 22 cities whose location is in the proximity of less than 550 km from Ufa with population over 100 thousand people. Altogether they make for 9,94 urban consumers while in Bashkortostan live altogether 4,1 million people. These are:

Yekaterinburg - 1,29 million
Samara – 1,16 million people

Kazan – 1,11million people
Chelyabinsk – 1,08 million people
Perm - 1 million people

Tolyatti – 703 thousand people
Izhevsk – 632 thousand people
Orenburg – 549 thousand people
Magnitogorsk – 419 thousand people
Sterlitamak – 264 thousand people
Orsk – 251 thousand people
Nizhnekamsk – 225 thousand people
Salavat – 159 thousand people
Miass – 158 thousand people
Almetevsk – 140 thousand people
Pervouralsk- 132 thousand people
Dimitrovgrad – 131 thousand people
Neftekamsk – 122 thousand people
Oktyabrskii – 109 thousand people
Novotroick – 106 thousand people
Sarapul – 103 thousand people
Glazov – 101 thousand people

1.4. Establishing a business presence

The Republic of Bashkortostan is reported to be one of the largest republics of the Russian Federation in terms of population and industrial output. Bashkortostan ranks the ninth place in terms of industrial output, fourth in agricultural production and seventh in terms of fixed capital in Russia. The developed transportation network, well-educated labour force and abundant natural resources play a decisive role in attracting Russian and foreign investments in the Republic's economy.

1.4.1. Office and personnel

The majority of rental office space is found in institutes scattered in and around the downtown. The office spaces often may not meet Western standards and an average office space in such building would require at least some renovation and needs furniture and office equipment. Often the old-fashioned security systems in these buildings do not allow visitors to have free access. The rental price for a decent office space varies between €6-16 per square meter monthly.

Over 20 recruiting agencies, such as Kart Blansh, Personal, Triza Ural operate in Ufa, and others can help to find qualified staff for both local and foreign employers. In addition, they can provide employment and consulting services on the labour market.

It is not exactly possible to strictly define the general level of salaries in Russia in general and in Ufa in particular. Still qualified English speaking personnel could be found in the following arrears:

Position	Monthly Salary / €
Head of Representative Offices	500-1000
Secretary	150 – 250
Chief accountant	400 – 600
Sales manager	300-600
HR Manager	300-600
System engineer	150-300
Driver	100-200
Translator	150-250

1.4.2. Legal assistance and banking

As in other regions of Russia a company that plans to operate in Russia for more than 30 days a year must be registered in accordance with the law on “Foreign Investment in the Russian Federation” adopted in 1999. A foreign business can operate in Ufa in any of three ways:

- As a *joint venture* with a local company or as a *legal entity that is 100% foreign owned,* which is the easiest variant of registration. In this case , the foreign businessmen obtain the ability to operate in the Russian Federation on an equal footing with resident enterprises, because, in essence, they become a Russian legal entity. Moreover this way of registration is less expensive and less time-consuming.

- In cases where foreign legal entities wish to participate personally in inter-relations with Russian counterparts they should register a branch office; or an accredited office that is wholly foreign-owned. The difference between these two is in the scope of authorities conceded. A branch office is given wider authority. The parent company itself specifies the scope of authorities in a warranty of authority given to the branch director. Accredited offices fulfil representation functions and are not allowed to practice commercial activity.

It is highly recommended to contract with a local lawyer or law firm that specializes on registration issues to conduct and facilitate the registration process and for further legal routine maintenance such as renting office space, contract monitoring. Average prices for legal services:
Registration of the Limited Liability Company costs approximately €300. A registration of a closed/open joint stock company (including the issue of shares) is approximately €600. Accreditation of a branch/representation office costs approximately €1500 while obtaining Work Permits is about €800.

As of January 1, 2003, twelve lending agencies operated in Ufa. The banking system covers the growing demands of real economy sector in investments and credit resources, as well as of individuals and companies in the volume and range of banking services. The scale of banks' operation increases. UralSib Banking Group, headquartered in Ufa, is in Top Ten of largest Russian banks. In 2002 the volume of assets that yield direct profit reached RUR44,4 billion exceeding the level of 2001 by 60%.

1.4.3. Some useful contacts

Business support organizations

Ministry of Foreign Relations and Trade of the Bashkortostan Republic, Investment Cooperation Department Ul. Karla Marksa 3 450101 Ufa, Russia Tel. + 7 3472 50-68-67 Fax + 7 3472 50-68-88	**Chamber of Commerce and Industry Of the Bashkortostan Republic** 22, Ul. Vorovskogo 450057 Ufa, Russia Tel. + 7 3472 23-23-52 Fax +7 3472 510-70-79 E-mail: tpp@bashnet.ru
Customs House of the Republic of Bashkortostan Bulvar Ibragimova 63 450052 Ufa, Russia Tel + 7 3472 24-75-08 Fax +7 3472 25-15-56	**Foreign Investment Agency of Bashkortostan (FIAB)** Ul. Karla Marksa 3 450001 Ufa, Russia Tel. + 7 3472 51-85-46 Fax + 7 3472 51-85-47
Small Businesses Development and Support Fund Of the Bashkortostan Republic Ul. Gogolya 57 450052 Ufa, Russia Tel. + 7 3472 51-67-36 Fax + 7 3472 51-67-63	**Finnish Business Infocenter** Rinat Islamov, Director Ul. Kirova d. 15, korp. B 450000 Ufa, Russia Tel. + 7 3472 223863

Law firms

ADVOKAT OOO Lesotekhnikuma ul. d. 49 office 96 450071 Ufa, Russia Tel. + 7 3472 328548 Fax + 7 3472 375730	**ALIBI-KONSUL'TANT OOO** ul. Lenina d. 70, office 210 450077 Ufa, Russia Tel. + 7 3472 521005 Fax + 7 3472 230612

Personnel recruitment agencies

Kart Blansh Rossijjskaja ul., d. 13	**Personal** Molodezhnyjj bul., d. 10, of. 603

450081 Ufa, Russia Tel. + 7 3472 317330 Tel. / Fax + 7 3472 310770 http://www.cartbl.on.ufanet.ru	450071 Ufa, Russia Tel. + 7 3472 377340 Fax + 7 3472 396411

Real estate agencies

Stan Pr. Oktiabria d. 78 450054 Ufa, Russia Tel. / Fax + 7 3472 323710	**San** Ul. Lenina 104 Ufa, Russia Tel. + 7 3472 223982 Fax + 7 3472 239908

2. Perm

2.1. Perm and Perm region – general outline and perspectives

Perm region has an area of 160.6 thousand square kilometres with the population of over three million people. The largest cities in the region are Perm (population 1,1 million people), Bereznyaky (201,8 thousand people), and Solikamsk (over 109 thousand people). 76% of the population is urban. In terms of volume production, the region is ranked 12th in the Russian Federation and 4th in Privolzhskiy Federal District and the Urals. Perm region is ranked 1st in the Urals in per capita production. The city of Perm is the capital of the Perm region with a well-developed industrial and social infrastructure. Located 1,100 kilometres from Moscow, it takes one and a half hours via air to travel between Perm and the Russian capital.

Perm region is among the most economically developed areas of Russia. There are over 55,000 businesses, the majority of which operate in industry, trade and catering. In 2003 gross regional product has amounted to RUR232,8 billion (over $7,5 billion) and it has been growing at about 5% rate annually in recent years. The region today is among the top ten donor-areas which provide the biggest revenues to the federal budget. It is one of the leaders in the industrial production of Russia.

In the Russian and world markets the Perm area figures prominently in the fuel, power, chemical and petrochemical, engineering and metalworking, timber, woodworking and pulp-and-paper industries.

The region's economy is to a large extent export-oriented; it accounts for up to a quarter of gross regional product. A stable level of foreign trade turnover and multiple (6 times) excess of export over import have characterized foreign trade dynamics for the last few years. In 2003, foreign trade turnover of the regional enterprises amounted to $2,165.5 million (5,4% higher than in 2002). Export increased by 4,3% and made up $1,854.5 million, whereas import grew by 12,6% and came up to $1,311 million.

2.1.1. Natural resources

Nature has endowed Perm Region generously. Salt deposits in the region have been worked since the early days. Strategic production of potassium, magnesium, and sodium chloride salts is underway at the Verkhnekamskoe deposit, which has an area of 1800 km^2 and salt beds up to 514 m thick. Nearly half of all Russian rock salt reserves are concentrated here.

Hydrocarbon reserves are distributed throughout the region. At present, 89 oil fields, 3 gas fields, and 18 gas and oil fields are under development. Oil pools in the northern part of the region lie at great depths beneath salt beds. Production is mainly carried on in the region's central and southern districts. The most developed oil and gas reservoirs are the Polaznenskoe, Krasnokamskoe, Kuedinskoe, Osinskoe, and Chernushenskoe fields. The efficient operation of small hydrocarbon deposits in the region is due to the presence of a local oil refining system.

The best known coal deposits are located in the Kizelovsky coal basin. Coal production has been going on for more than 200 years but is gradually decreasing today. Ten percent of the hard coal reserves in the Ural economic district are concentrated in the Kama region.

The main Saranovskoe chromic iron ore deposit is the only deposit in Russia where chromites is mined. More than ten different deposits of nonferrous, rare earth, and precious metals (gold, platinum) are known. High-quality diamonds used mainly for jewellery are mined in Krasnovishersky District in the northern part of the region. Other known mineral deposits include quartz, citrine, selenite, marble, and uvarovite /green garnet/. Building materials, such as limestone, dolomite, gypsum, clay, anhydrite, quartz sand, and gravel, are also produced.

Perm has three large botanical sites: the Zakamsky pine grove, Linden Mountain (Lipovaya Gora), and the municipal Chernyaevsky Forest Park, which have a total area of 2400 hectares. Forests cover 71% of Perm Region. Dense stands of spruce and fir are located in the north; pine woods, in the northwest; and deciduous forests

(linden, maple, elm, oak, and shrubs), in the south. Birch and aspen forests are encountered everywhere.

Mature and over mature stands occupy more than half of the total forest area. Intensive logging is going on; however, the pace of forest regeneration work in the region is slower for various reasons. The planting stock is grown in nursery forests.

In addition to direct planting, preparation of land for future forestation, nurseries, and plantations is progressing well. Meadows and pasture occupy about 10% of the region, and bog vegetation occupies another 5%.

Perm Region has the largest number of natural and artificial water bodies in the Urals. All rivers flowing into the region belong to the Kama River basin. The Kama River itself is 1805 km long. Several tributaries of the Kama with their sources in the Urals are typical mountain rivers, although their flow velocity decreases significantly on the plains. The main water source for the rivers of the Western Urals, including the Kama, is snowmelt. Therefore, prolonged freezing, high spring runoff, and low water in summer and winter are characteristic of the rivers in the region. The rivers in the north-eastern part of the region have high water levels year round, while those in the south become very low and even dry up. Ponds in the Kama area control the flow of small rivers and are also used to meet the needs of small-scale power generation, timber rafting, fishing, water supply, irrigation, and for beautifying rural landscapes.

There are more than 800 bogs in Perm Region with commercially important peat reserves; however, owing to their water-conservation role and biological and other valuable qualities, these bogs are not being developed. The varied natural conditions in the region have led to the formation of many types of underground water. Several dozen kinds of mineral water have recently been discovered in the Kama area; many of them have good medicinal properties, which are of interest for resort development. The region also has a number of large reservoirs constructed for hydroelectric power plants, e.g., the Kamskoe and Votkinskoe reservoirs on the Kama River and the Shirokovskoe on the Kosva River.

2.1.2. Location, Transportation, Logistics

Favourable geographic position determines the transport system in the region, with intersection of major transcontinental railways, motorways and airways.

Perm region is located on the borderline between Europe and Asia. It is situated on the Kama river, one of the largest navigable rivers in Russia. The Kama provides access from Perm to five seas - the Azov, the White, the Baltic, the Caspian, and the Black Sea - through a network of channels.

There is one international airport in the Region “Bolshoye Savino” with a cargo terminal with a capacity of 10 thousand tons a year, bonded warehouse, customs and border services. “Permskie airlines” which owns the “Bolshoye Savino” airport exploits a license for conducting international flights worldwide and is registered with The International Organizations of Civilian Aviation (IKAO & IATA). In addition to Russian airlines flights to Perm are also carried out by Lufthansa.

Kama River is an important link in the unifying deep-water system of the European part of Russia. The river connects the Region with European water-routes. The four easternmost river ports in Europe are situated in the Region: Port Perm, Tchaikovsky Rechnoy Port, Port Levshino, Port Berezniki. A Locking Through System functions Permskaya (in the City of Perm) and Votkinskaya (Tchaikovsky city) hydroplants. It is possible to ship cargo from Kama river area to the sea ports of White, Baltic, Azov, Black and Caspian seas without reloading. The largest cargo-carrier in charge of cargo shipments and passenger trafficking is Upravliayuschaya Kamskaya Sudohodnaya compania (Kamskaya heading shipping company) and Port Perm.

Transsibirskaya railway (Transsib) passes through the territory of the Region and links businesses and organizations of the Kama river area with Central and Western Regions of the European part of the country, Siberia and the Far East. Transit by rail freightage in the Region is carried out by the Perm division of Sverdlovskaya railway is in charge of registering and shipping any cargo and is capable of providing customers with ordinary or specialized rolling-stock. The main railways included in division’s fixed assets extend to 2,042 thousand km.

Oil and gas pipelines of both national and international significance pass through the territory of the Region and link Western Siberia with Europe. Gas transportation goes through 14 of the largest arterial gas pipelines. Two of them - Urengoy-Uzhgorod and Yamburg-Zapadnaya granitsa (Western border) provide gas exports.

There are 9 cities that are with population of over 100 thousand people and located within 500 km of Perm. These are:

Perm - Berezniki – 174 km
Perm – Solikansk – 196 km
Perm – Izhevsk - 278 km
Perm - Pervouralsk – 323 km
Perm - Neftekamsk - 333 km
Perm - Sarapul – 337 km
Perm – Yekaterinburg - 357 km
Perm – Nizhni Tagil – 443 km
Naberezhnye Chelny – 461km

Perm – Moscow 1415 km
Perm – St.Petersburg 1931 km

2.1.3. Business perspectives

Today the Perm region is an active member of international trade and is in communication with 130 countries. Roughly 420 companies are engaged in foreign trade operations. The export-import pattern of the Perm region has remained relatively stable for several years. The majority of the region’s exports are products of the fuel and chemical industry (25% - mineral fertilizers such as potash and nitrogenous fertilizers). Cast iron, rolled metal, bimetal, ferroalloys, magnesium, titanium and their alloys are actively exported as well. The main timber export is lumber, plywood, and newsprint.

Perm Region is one of the country's most important industrial centres, especially noted for heavy industry. The main industrial sectors are ferrous and nonferrous

metallurgy, the chemical and oil industries, engineering (especially heavy engineering), and the forest, pulp and paper, and building material industries.

Engineering provides 43,7% of the city's gross output; the fuel industry provides 13,7%; and the chemical industry 12,8%. Perm's industry is characterized by concentration in the defence industry. Ten major defence industry companies employ half of the region's industrial production workers.

Products manufactured by companies in Perm are in high demand in Russia and the CIS. Thirty companies deliver their products to 60 countries around the world. They export aircraft engines, petroleum products, cable, paper products, paints, power saws, power pumps, bicycles, telephone sets, Skif trailers, chemicals, synthetic cleaning agents, parts for forest industry equipment, component sets for cars, and other items.

The overall level of socio-economic, technological, and intellectual potential in Perm makes it possible to create the necessary conditions for the city to function effectively in a market economy. The formation of a Perm "techno-city" offers a means of using the natural resources and cultural potential of Perm and its suburban areas more effectively to develop non-traditional economic spheres such as tourism, including international tourism.

The region has 390 registered enterprises with foreign capital participation (as of July, 2002). Germany, the United States, and China are among the most active investors to the Perm oblast. The Ministry of Economic Development and Trade of the Russian Federation, the Federal Service of Foreign Exchange and Export Control, and the Perm Customs have formed a network of customs checkpoints to ease the transport of goods.

The regional administration maintains a Department of International and Foreign Economic Relations; administrative bodies in regional towns have analogous divisions and representations as well. The Perm Chamber of Commerce and Industry and the Perm Exhibition Fair are active contributors to the economic development of the Perm region.

Priority directions for investments into the region are:

- oil-processing industry;
- power engineering;
- wood processing industry;
- agricultural production and processing;
- telecommunications networks and transport;
- construction materials.

Perm currently enjoys a favourable investment climate aided by political stability, financial independence from the federal centre; a well-developed transport infrastructure, a highly qualified labour force, and unique natural resources combined with a powerful industry complex. At present, the basic document regulating foreign investment is the Regional Law “On Foreign Investment in Perm Region” which envisages up to 100% local tax remission for investment resources attracted to concrete programs until the payback stage.

The Perm region is also a solid scientific and cultural centre. 60,000 students attend 13 higher educational institutions. The teaching staff of 330 doctors of science and 1,700 candidates of science provides educational training in engineering and technical sciences, the humanities and social occupations, economics and management. The scientific and industrial potential of the region is represented by the Centre of Fundamental Scientific Research, Perm’s Centre of the Ural Department of the Russian Academy of Sciences, scientific and research departments and design offices.

Perm has also become quite a cosmopolitan city, with several western-standard hotels and a variety of very pleasant cafes and restaurants featuring Italian, Chinese, Japanese, American, and other international cuisines.

It is difficult to find any other region in Russia that has 10 professional theatres. The largest one, the Opera and Ballet Theatre, named after P.I.Tchaikovskiy, is well known far beyond the region's boundaries. More than 50 branches of traditional folk handcraft have still survived, for instance, just few of them birch-bark braiding, wood carving, weaving, stone cutting and pottery, lace making, etc.

2.2. Main industries and city profiling enterprises

Perm region belongs to the number of regions in Russia which experience dynamic economic growth. The region's industrial specialization is focused on the following industries: oil, chemical, petrochemical, machine building, power industry, timber, woodworking, and pulp & paper industry. Nearly 69% of the gross production of the Region falls within these industries. In addition there are more than 500 small and large enterprises operating in the region.

In 2003 production index in such industries as power industry, ferrous metallurgy, chemical and petrochemical industry, machine building and metalworking, woodworking and pulp-and-paper industry, construction materials, food industry, flour, grains and fodder production, medical equipment and products, printing exceeded the Russia's average figures and the industrial growth rates in the region came to 105,3%.

Traditionally, majority of private companies in the industry specialize in machine building (82 companies), building material production (35), timber (53), food (29) and production of Consumer goods. Out of 38 state-owned companies about 60% represent wood and printing industries, and 13,2% - machine building. Almost 70% of companies with mixed ownership operate in machine building, timber and food industries. The segment of large and medium-sized companies accounts for approximately 90% of the total regional output.

The industrial complex is based on chemicals and petrochemicals, fuel, electric-power engineering, metallurgy, machine building, and wood processing. Machine-building is comprised by instrument manufacture, machine-tool making, shipbuilding, aircraft, electrical engineering, cable industry, aircraft and rocket engines, spaceship control gear, and a wide range of consumer goods such as saws, excavators, electric and gas stoves, diesel shunting locomotives, bicycles, pumps, electric motors, enameled kitchen ware, and other such goods. The products of ferrous and non-ferrous industries are broadly represented in the region. Powder metallurgy prospers as well. Regional titanium sponge manufacture produces half of Russia's magnesium. The

timber-industrial complex in Perm oblast is the Russian leader in wood production and processing. The pulp and paper mills manufacture about 20% of Russia's total paper production. Production of industrial-purpose ware, construction industry, and agriculture demand a good deal of power supply. The region is home to the largest combination hydro- and thermo- electric power stations, located in Dobryanka, with a capacity of 5.0 million kilowatts. Over 40% of the electric power generated in the Perm region is disbursed to neighbouring regions. Light industry is represented by 38 large and medium sized companies involved in the manufacture of clothes, textiles, leatherwear, furs, and footwear.

2.2.1. Machine building & metallurgy

The most prospective area of machine building above all is the aerospace industry. Companies of the industry occupy leadership positions in aero and rocket engine production as well as oil refining equipment, aircraft control and navigation systems, gas compressing units, gas turbine (power) plants, oil field equipment, digital and optic-optic data transmission systems. Major part of such productions belongs to large entities: Aviadvigatel Company, Permskiye Motori Company, Inkar Company, Permskaya R&D Company, Kamkabel Company, Iskra R&D Company, Motovilihinskiye Zavodi Company, Privod Company.

Aviadvigatel (http://www.avid.ru) is constructor and developer of aircraft engine and industrial gas turbine engines that are manufactured in Permskie Motory.

Permskie Motory (http://www.avid.ru) is manufacturing aircraft engines and industrial gas turbine engines. In year 2000 the company successfully put into service heat & power generation plant "Shigili" in Baskortastan that is based on Perm-developed and Perm-made GTES"Ural-2500R" gas turbine power plant.

Inkar (http://www.inkar.ru) specializes on development and production of fuel regulation systems for gas turbine engines for aircrafts and helicopters.

KamKabel (http://www.kamkabel.ru) is the biggest cable plant in Russia and supplies 35% of the domestic market for power cables, 13% of the market for cables

for oil drill pumps and 15% of the plated cables. The present the company employs 4000 people.

Iskra-energetika (http://www.iskra-energy.ru) was established in 1996 as a joint venture between the Russian Iskra and the US company Russian Engine Holding Company that is a daughter company of Pratt & Whtiney. The company designs and builds gas pumping systems and gas turbine power plants with an annual capacity of 25 units or 5 turnkey delivered projects.

Motovilihinskie zavody (http://motovilikha.perm.ru/metall **)** is a holding of companies involved in metallurgy and engineering with a particular focus on military hardware. The metal processing companies are **Kamasteel** (http://www.kamasteel.com) that produces rolled sheets and profiled iron, and **Centrolit** (http://www.centrolit.ru). The machine building is oriented towards production of military hardware (artillery systems), equipment for oil drilling, equipment for road building etc.

Mashinostroitel (http://www.skif.permonline.ru) was a defence industry company that after conversion specializes on the production of auto trailers, pumps, furniture and machinery for the chemical industry.

Mashinostroitelnyj Zavod "F.E. Dzerzhinki" (http://zid.perm.ru) produces professional gasoline tree cutters, medical instruments.

Zavod gornoshahtnogo mashinostroenia (http://www.rcenter.ru/GSHMR) produces machinery and equipment for mining.

2.2.2. Chemical and petrochemical

The share of chemical & petrochemical industries in total production volume amounts to 17%. All in all, 27 large and medium companies in the industry employ 59.8 thousand people. Relying upon significant raw-material base, the companies manufacture the following products: synthetic ammonia, sulphuric acid, soda and other types of chemical products.

Total share of oil industry output in total production volume amounts to 24%. There are 12 large and medium industrial plants, with 84% of total volume are controlled by **Lukoil-Permneft**, **Lukoil-Perm**, and **Lukoil-Permnefteorgsintez** companies. Oil production volumes in 2003 totalled 10,04 million tons. Motor petrol production was 1,56 million tons, diesel fuel was 2, million tons.

Perm Lubricants Plant (http://www.rovel.ru) is engaged in the manufacturing of lubricant products for machine-building, metallurgical, machine-tool-building and mining enterprises.

Mineralnye udobrenia (http://www.minud.ru) is a leading producer of liquid synthetic ammonia.

Sorbent (http://sorbent.perm.ru) produces and supplies chemical absorbents and coagulants and filtering materials as well as chemicals for industrial safety and gas masks for protection of human life.

Halogen (http://www.halogen.ru) produces more than 100 types of organic products and inorganic chemicals such as polytetrafluoroethylene, fluorocarrons, hydrogen fluoride, acids etc. Based on these resins, the enterprise manufactures more than 2000 dimensions of semi-finished and finished articles and PTFE impregnated cloths and PTFE-containing plates for printed circuit boards.

In 2003, chemical fertilizers production totalled 5,4 million tons, enriched carnallite – 696,3 thousand tons, synthetic ammonia – 1,16 million tons, synthetic resin and plastic masses – 80,8 thousand tons, methanol-rectificate – 896,5 thousand tons, paintwork materials – 6,1 thousand tons.

2.2.3. Energy & forestry products

The Regional energy production is 14% of the National power output. The power industry's unique feature is combination of hydro- and thermoelectric power plants. In fact, one of the Nation's largest hydro-plants with 5.0 million kilo-Watt power output

is located on Kama River along with thermoelectric power plants of Permenergo. More than 40% of electrical energy produced in the Perm Region is directed to the neighbouring subjects of the Russian Federation.

Permenergo (http://www.permenergo.ru) is supplying 80% of the electricity used in Perm region. It employs 14 thousand people and consists of 9 thermal and 1 hydro power plants.

The Region holds one of the leading positions in forest resources across the European part of Russia. The industry employs 33,4 thousand people (11,8% of the industry total) Timber industry is represented by 74 companies specialized in timber, woodworking and pulp and paper production. The year 2003 results of operations are: total timber production of 2,59 million m^3, plywood - 141 thousand $m^{3,}$ paper – 632,6 thousand tons, and carton - 108 thousand tons.

Naturally most of the largest pulp & paper producing companies are located in the Region.

Permskii celiulozo bumazhnyj kombinat /Perm Pulp and paper plant/ (http://www.pcbk.ru) produces different types of cardboard.

Other significant players are **Solikamskbumprom** (90% of the newsprint paper in Russia), **Kamskiy Pulp &Paper Plant** and **Visherabumprom**. The latter two are gradually bought out by the **Papirus** paper trading house.

2.3. People and consumer markets

The average wages and living standards in Perm and Perm region are somewhat higher than in Yekaterinburg or Chelyabinsk. Money incomes received by the population of Perm city in 2003 made up RUR111225,5 million and rose in comparison to the previous year by 30,2%. Real money incomes of people, adjusted by the Consumer Price Index, increased by 13,5% compared to 2002.

Main figures	2003	In% to 2002
Incomes of population		
Average per capita money income of population monthly , RUR.	9197,1	130,2
Average monthly income of workers of large and medium enterprises, RUR:	6836,7	124,2
Industry	7760,0	124,4
Transport	6976,4	124,1
Public health	3690,9	113,9
Education	3797,8	115,2
Culture	3418,0	107,5
Banking	21496,1	116,8

Average nominal wage to employees in large and medium Perm enterprises grew by 24,2% in comparison to 2002. The rise of remuneration of labour shows the growth of incomes and living standards of the population.

As of January 2004 there were 1345 companies involved in catering and 3145 retail outlets registered in Perm with a clear trend for the share of super- and hypermarkets as well as shopping centres to grow. The most famous in the city retail chains are SemJa, Dobrynya, Vivat, NormaN, Saturn-R. In Perm could be found also chains from other cities such as Piaterochka, Eldorado, Monarh. Ekonika. The city administration estimates show that by 2005 the dominant role in the retailing sect will be played by the chains.

SemJA is recently finishing a 30 thousand sq. meters hypermarket that is being built by a Turkish company Suma. Another 30 thousand sq. meters shopping centre belonging to DVI group and worth $12,6 million is built by yet another Turkish company Yenigun.

In 2003 220 thousand sq. meters of residential areas were built and in total 700 thousand sq. meters are in an ongoing construction. Still the demand is outpacing

supply and in 2004 the average price for a square meter jumped by 20 to30% compared to 2003 and reached RUR16-18 thousand (approx. €490).

Per, could also serve as a distribution centre for 4,65 million urban consumers that are living in cities with population more than 100 thousand people and are located within 500 km from Perm. These are:

Pervouralsk – 132 thousand people
Sarapul – 103 thousand people
Neftekamsk – 222 thousand people
Berezniki – 173 thousand people
Perm – Nizhni Tagil -391 thousand people
Perm – Solikansk -103 thousand people
Perm – Izhevsk 632 thousand people
Perm – Yekaterinburg – 1,29 million people
Naberezhnye Chelny – 510 thousand people

2.4. Establishing a business presence

Perm region is among the most economically developed areas of Russia. There are over 55,000 businesses, the majority of which operate in industry, trade and catering. In 2003 gross regional product has amounted to RUR232,8 billion (over $7,5 billion) and it has been growing at about 5% rate annually in recent years. The region today is among the top ten donor-areas, which provide the biggest revenues to the federal budget. It is one of the leaders in the industrial production of Russia.

All these positive sites of the Perm region economy together with developed transportation network, well-educated labour force and natural resources give to the region a very valuable position in attracting Russian and foreign investments in the economy.

2.4.1. Office and personnel

Considering the boom in real estate prices in Russia in general and in Perm in particular it could be a wise investment to buy an office. The prices vary somewhere between €500 and €800 per square meter. For renting an office in a business centre or a trading area in a mall, Western companies may approach proprietors of the buildings directly, or place an order with a real estate agency so that they can also search through little office centres close to the downtown area. Real estate agencies usually charge a commission for their services equalling the rental rate for one month.

Average salary in Perm city ranks from RUR6836,7 to RUR9197,1 (approx. €187 – €251) per month. The situation on the labour market is quite stabilized. The unemployment rate is almost non existent at approximately rather low 0,58%.

Over 30 recruiting agencies operate in Perm, and others can help to find qualified staff for both local and foreign employers. In addition, they can provide employment and consulting services on the labour market.

Even if it is not possible to define the exact salaries for different professional groups it is possible to find qualified personnel within the following arrears:

Position	**Monthly Salary / €**
Head of Representative Offices	800-2000
Secretary	200-400
Chief accountant	400-900
Sales manager	400-800
HR Manager	300-700
System engineer	250-400
Driver	200-300
Translator	250-350

2.4.2. Legal assistance and banking

Regardless of the size of a share capital the registration of a company with foreign capital is carried out in common with Russian legal entities.

In order to obtain permission to create a representative office outside of Moscow a preliminary concordance of its location with Regional authorities is required. In Perm region concordance letter is given by the Regional Administration to a State Registration Chamber. To receive such a letter of concordance one has to prepare a list of documents similar to the one given to the State Registration Chamber of Moscow as well as a declaration stating the purpose of creating a Regional division with the following items indicated:

- Aim of creating a division;
- Description of the company's activities;
- Cooperation prospects;

Among others in the Perm and Perm region, the Chamber of Commerce and Industry assists in registering joint ventures, affiliates and representative offices of foreign companies.

If a Western company wants to establish a presence in Perm and Perm region, it must go through the initial routine of registration. It is highly recommended to use the services of a local Russian law firm / lawyer or a Russian business partner to facilitate and handle this process.

Western companies planning to open an office in Perm may choose a bank among affiliates of both Moscow-based (Alfa bank, IMPEX bank, Bank of Moscow, etc) and regional banks (Dzerzhinskiy KB, Kamabank, Perminvestbank, Permcredit Bank, etc.).

The banking sector is comprised of 11 local banks and 29 affiliates (including subsidiaries of the largest national banks) that are licensed to perform currency transactions and are extensively experienced in international financial markets.

Not so many companies in Perm provide business services, such as market research, partner searches, translation/interpretation, making hotel reservations, etc. Organizations, such as the Chamber of Commerce and Industries of the city of Perm

and consulting agencies like Consult-Profi JSC and KSI Consulting provide some of these services.

2.4.3. Some useful contacts

Business support organizations

Department of International Economic Relations of the Perm Oblast ul. Kuybysheva 14, office 137 614006 Perm, Russia Tel. + 7 3422 33-54-21, 33-89-57 Fax + 7 3432 90-19-61, 90-18-81	**Department of International Economic Relations** ul. Lenina 23 614000 Perm, Russia Tel. + 7 3422 12-44-01, 12-82-30 Fax + 7 3432 34-94-91
Chamber of Commerce and Industries of the city of Perm Sovetskaya str. 24b, 614000 Perm, Russia Tel. + 7 3432 12-28-11, 10-10-00 Fax + 7 3432 12-41-12 E-mail: permtpp@permtpp.ru http://www.permtpp.ru	**Perm Customs House** ul. Geroyev Khasana 46 614064 Perm, Russia Tel. + 7 3422 45-43-18 Fax + 7 3422 45-14-39
Perm Centre of Standardization Metrology and Certification ul. Borchaninova 85 614068 Perm, Russia Tel. + 7 3422 33-31-00, 33-60-53 Fax + 7 3422 33-78-37 E-mail: pcsm@Perm.raid.ru	**System Ural Services** Ul. Geroyev Khasana 46 614041 Perm, Russia Tel. + 7 3422 45-71-55, 68-03-60 Fax + 7 3422 68-08-16 Provides custom clearance and product certification. The company is a regional representative of United Parcel Services, sends and delivers goods, and provides warehouse services.
Head of Regional Fund for Entrepreneurial Support Ul. Goleva 2 614068 Perm, Russia	**Head of Urals Fund For Small And Medium Business Support** Ul. Popova, 11, Office 205 614006 Perm, Russia

Tel. + 7 3422 44-63-63 E-mail: smeda@perm.ru http://smeda.perm.ru Regional fund for entrepreneurial support provides business training, creates and provides expertise of business plans, makes analytical research, works in close cooperation with the oblast government to create laws for investment support and entrepreneurial development.	Tel. + 7 3422 90-12-34, 90-14-21 Fax + 7 3422 90-11-39 E-mail: uralfund@mail.perm.ru The Urals fund for small and medium business support carries the state program for financial support for small and medium businesses. The fund provides financial expertise for business plans, and takes decisions for granting small credits.
Russian Association for SME Development 78, Ul. Kirova, office 9,10 Tel. / Fax +7 3422 12-67-44 E-mail: ex-press@permonline.ru The Association lobbies interest of local small and medium businesses on the local and federal levels. Works in close cooperation with the oblast government to create laws for investment support and entrepreneurial development.	

Law firms

Business-Consulting 1st Krasnoarmeyskaya str. 43, 614039 Perm, Russia Tel. + 7 3432 19-51-10, 19-51-20 Fax + 7 3432 44-10-83 E-mail: permlaw@permonline.ru	**Polis** Comsomolskiy pr., 54 614990 Perm, Russia Tel. + 7 3432 19-64-69, 19-62-22 E-mail: poliss@permonline.ru

Personnel recruitment agencies

Ancor ul. Bolshevistkaia 120à, offices 301—303, 310	**Profi** Ul. Geroev Hasana d. 7À, office 316

614600 Perm, Russia Tel. / Fax + 7 3422 36-44-28, 36-45-12, 36-46-42 E-mail: perm@ancor.ru http://www.ancor.ru/perm/	316 614039 Perm, Russia Tel. / Fax + 7 3422 492063

Real estate agencies

Ogni Permi Ul. Gazety Zvezda 12 Perm, Russia Tel. / Fax + 7 3422 181846 E-mail: workperm@mail.ru http://real-estate.narod.ru	**Gradstroi** Ul. Ordzhonikidze d.59 Perm, Russia Tel. + 7 3422 98-72-38, 98-92-77 Fax + 7 3422 33-66-41 E-mail: gradreal@mail.ru http://gradstroy.perm.ru

3. Chelyabinsk

3.1. Overview of Chelyabinsk and Chelyabinsk region

Chelyabinsk region is located at the boundary between Europe and Asia in the southern Ural Mountains and adjacent plain. It has an area of 87 900 km^2 and has existed within its present borders since February 6, 1943.

The region includes 24 district, 27 villages, and about 300 other communities. The population is over 3 600 000 people or 2,5% of the total Russian population. Most of the population (81%) lives in cities. Chelyabinsk, with a population of 1,1 million, is the eighth largest city in Russia. It is made up of 7 districts, more than 50 communities, and 1300 streets. Due to the high concentration of defence-related industries Chelyabinsk was closed till the mid nineties, like many other Urals' cities.

The Ural Mountains cut across the north-western part of the region, where the highest point is 1640 m above sea level. Rolling hills alternate with valleys in the eastern part of the region. The central part is also hilly, with elevation drops averaging about 100-200 m.

Due to its location deep in the European continent, Chelyabinsk region has a continental climate with long cold winters, and short warm summers. Chelyabinsk region ranks fifth in Russia in industrial output. Ferrous metallurgy and engineering are the leading economic sectors. Agricultural production makes up about 5% of the gross regional product.

3.1.1. Natural resources

Chelyabinsk Region has nearly 3170 lakes, including many stunningly beautiful ones in the northeast. It also has a wide variety of therapeutic bathing resources, such as organic and mineral mud and alkaline water. The Ilmen Mineralogical Reserve located on the eastern slopes of the Urals is famous for more than 70 kinds of rocks and 260 minerals that have been discovered there.

The region has a variety of mineral resources, including iron, titanomagmetite, and copper-zinc ores, nickel, gold, bauxite, talc, graphite, quartz, and refractory materials. More than 300 commercial deposits have been explored.

Regional economic water intake is about 1,3 km^3, 42% of which is used in industry, 43% in public utilities, and 10% in agriculture.

Chelyabinsk Region has total forest resources of 2,46 million hectares, which are divided into two groups for economic purposes. Group 1 forests cover 1,9 million hectares, and group II forests, o,56 million hectares. Forest lands used for logging occupy 0,64 million hectares. The estimated timber yield is 1 million m3. A large proportion of the total available timber consists of birch (55%), followed by aspen (23%), pine (15%), and spruce (5%). In recent years, felling volumes for intermediate use have been about 0,4 million m3 of timber annually.

A large number of the more than 300 explored commercial mineral deposits are promising but still undeveloped, forming a large raw material base for industry, building materials, facing stone, and combined ore processing. More than 20 deposits contain iron ore; one of the largest of these is the Magnitogorskoe deposit, which has nearly 200 million tons of ore reserves with a 50-54% iron content.

Limonite deposits lying close to the surface in the Bakalsky iron ore district contain about 48% iron. Total reserves in this district are as much as 600 million tons. Seven large and medium-sized copper-zinc deposits are located in the Verkhneuralsky ore district (total area - 90 km^2).

A magnesite deposit that is not only the largest in the country, but also the largest in the world, is located near the city of Satka. The Koelginskoe deposit is one of Europe's largest white marble deposits. A large nickel-cobalt deposit is located near Verkhny Ufalei. The Zhuravlinolozhskoe deposit is Russia's only deposit of kaolin clay used in making fine ceramics, porcelain, glazed pottery, and paper. The Kusinskoe deposit contains titanomagnetite ores. There is a bauxite deposit near Sulei

station. Other minerals produced in the region include talc, phosphate, sulphur pyrites, and salts.

Brown coal deposits of the Chelyabinsk basin extend for 170 km from north to south, with a maximum width of 14 km. The basin has more than 700 million tons of reserves. Chelyabinsk Region has a monopoly in Russia on the production and processing of graphite (95%), magnesite (95%), furnace dolomite (71%), and talc (70%); and in the Urals, on kaolin (93%), foundry sand (80%), refractory clay (64%), and some other raw materials.

Iron ore is concentrated in 24 explored deposits with total reserves of 1300 million tons. The deposits already in production have total reserves of 700 million tons. Other raw materials for the ferrous metallurgy industry include deposits of titanium, manganese, and chromium; these are not in operation at present. Titanomagnetite ore deposits with total reserves of about 12 000 million tons are being readied for development.

There are nine explored copper-zinc deposits in the region, four of which are in operation (total reserves - about 150 million tons). Cadmium, selenium, gold, silver, tellurium, barium, and other rare metals are associated with the ores in these deposits. Copper-porphyry ores with total reserves of 790 million tons are being readied for development. Copper-zinc ores, and to a lesser extent nickel and bauxite, are the most important raw materials for nonferrous metallurgy.

Chelyabinsk Region has considerable subsurface gold reserves, which are concentrated in ore and placer deposits. The gold deposits are associated with both basement rock and fluvial deposits. Probable reserves are estimated at 500 tons of ore gold and 40 tons of placer gold.

The most important non-metallic minerals in the region in terms of reserves are deposits of graphite, talc, kaolin, and vermiculite (rock raw materials); barite, phosphorite, and glauconite (chemical raw materials); magnesite, quartzite, fluxing limestone, and furnace dolomite (metallurgical raw materials).

Chelyabinsk Region also has large reserves of refractory clay, marble, limestone, building and industrial stone, sand, and facing stone with a wide range of colours and patterns. There are numerous shows of semiprecious and precious raw materials used in industry and jewellery.

Industrial mineral resources are not being fully utilized. A large part of the total produced mineral resources is dumped in the environment in the form of tailings. These tailings constitute secondary mineral resources suitable for further processing, since they often have metal contents equal to natural ores.

3.1.2. Transport, location, logistics

The Oblast has a well-developed transportation network. Chelyabinsk and a number of other cities in the oblast are located along the Trans-Siberian Railway. The daily rail transportation is 180,000 tons. The shipping industry is highly competitive. Over 10 international transport companies in Chelyabinsk region are permitted to work outside of the Newly Independent States.

There are two airports in Chelyabinsk region; one is located in Chelyabinsk, the other – in Magnitogorsk. During the period of 2002 the airports of Chelyabinsk region have dispatched 198,3 thousand of passengers and 1103,4 tones of cargo. Russian airlines regularly fly to Germany from the airports of Chelyabinsk and Magnitogorsk. Also the airport of Yekaterinburg located at the distance of 220 km from Chelyabinsk allows expanding significantly the air communication opportunities with the cities of Russia, CIS countries and foreign countries through the representation offices of different airlines including Lufthansa airline.

The total public motor road length constitutes 8359 km including 97,6% of the hard surface roads. Federal motor road network with the improved surface constitutes 663 km including the roads of strategic importance: Moscow-Chelyabinsk and Kazakhstan-Yekaterinburg. In 2002 hard surface road with the length of 343,3 km have been repaired. RUR1485,3 million have been spent on the repair and maintenance of roads and road constructions.

Chelyabinsk region is situated at the border with the republic of Kazakhstan. The main traffic flows pass the boarder of the Russian Federation and Republic of Kazakhstan through “Troitsk” and “Mariinsky” motor checkpoints located on the territory of Chelyabinsk region. Over 120 cars cross the border in both directions.

The South-Ural railroad passing over the territory of Chelyabinsk region crosses the territory of the European and Asian continents. Freight trains count to 100 cars, passenger – to 24. The South-Ural railroad takes 10^{th} place by the line length (route miles – 4806,6 km, which is 5,6% of the total length of the railroad network) and services the territories of 6 agents of the Russian Federation (Chelyabinsk, Kourgan, Orenburg, Kuibyshev, Sverdlovsk region and Republic of Bashkortostan) and Kazakhstan. During the period of 2002 the railroad transported over 70 million tones of cargo, and over 23 million of passengers (data for the period of January-November 2002).

The South-Ural railroad cooperates with more than 200 of large and medium-scale enterprises. The largest ones are **Magnitogorsk metallurgical industrial complex**, **Mechel**, **Chelyabinsk electrometallurgical industrial complex**, **Chelyabinsk tube-rolling plant**, **Chelyabinskugol**, **Magnesite industrial complex** and others.

There are 10 cities with population over 100 thousands inhabitants in the proximity of 500 km from Chelyabinsk that are reachable by road. These are:

Chelyabinsk - Miass – 95 km
Chelyabinsk - Zlatoust – 123 km
Chelyabinsk - Kamensk Uralskii – 180 km
Chelyabinsk – Ekaterinburg - 202
Chelyabinsk – Pervouralsk – 250 km
Chelyabinsk – Kurgan – 264 km
Chelyabinsk – Magnitogorsk – 283 km
Chelyabinsk – Nizhny Tagil – 348 km
Chelyabinsk – Ufa – 397 km
Chelyabinsk – Tumen – 414 km

Chelyaninsk – Moscow – 1758 km
Chelyaninsk – Saint Petersburg – 2455 km

3.1.3. Business perspectives

Chelyabinsk is known for its heavy industry and ferrous and non-ferrous metals plants. The discovery of mineral deposits at various times has resulted in the construction of a large number of processing facilities. More than 150 companies in the region are involved in working mineral deposits and processing the raw materials. The best known of these are the Magnitogorsk Iron and Steel Works (MMK), Chelyabinsk Iron and Steel Works (Mechel), Chelyabinsk Zinc Plant (Chelyabinsky elektrolitno-tsinkovy zavod), OAO Ufaleinikel, the Magnezit Industrial Complex, and the Koelga marble quarry. The Magnitogorsk Metallurgical Plant and the Chelyabinsk Metallurgical Plant are internationally-known steel producers.

Chelyabinsk is also a centre of higher education and research. There are over 12 institutes and universities in Chelyabinsk and 14% of city residents have graduated from universities or other institutes of higher education.

Chelyabinsk region produces more than 15% of Russia's tractors, 10% of its lorries and 90% of its bulldozers. Metallurgical enterprises produce 25% of Russia's total output of rolled ferrous stock and 18% of pipes. The non-ferrous metals industry produces about 65% of Russia's zinc, 12,6% of refined copper and about 3% of nickel. Nuclear centres, Snezhinsk and Ozersk, are located in the northwest part of the oblast.

Another growth sector is food production and processing. After the August 1998 financial crisis, the purchasing power of consumers became limited and local enterprises started developing their own production. Many food production companies are now interested in purchasing foreign manufactured equipment to improve the quality of products and packaging. According to the Deputy Chairman of the Chelyabinsk Chamber for Trade and Industry, the unavailability of locally produced quality packaging is the most serious problem current facing local food producers.

Over 13,000 small and medium enterprises employ over 90,000 people in the region. Both the Agency for the Entrepreneurial Support and Investment and the Chelyabinsk Chamber of Trade and Industry are involved in business consulting and training for local entrepreneurs and search for commercial partners abroad. They also organize trade missions and provide information support to the local entrepreneurs.

Chelyabinsk offers investors opportunities in raw materials and heavy industries. The financial crisis has priced many imports out of the market. Nonetheless, there is still interest in importing equipment for food processing, construction materials, and equipment. The top foreign investors in Chelyabinsk are Germany, UK, USA and Cyprus.

3.2. Main industries and city profiling enterprises

Chelyabinsk region ranks third in the Urals in terms of industrial output after Sverdlovsk and Tyumen regions. Major industries are metallurgy and machinery building, construction and agriculture. Metallurgy represents 50% of the region's industrial output and is a key sector in the local economy. Ferrous and non-ferrous metallurgy remains a growth sector. Magnitogorsk Metallurgical Plant and the Chelyabinsk Metallurgical Plant Mechel export their products all over the world and are the main contributors to the region's budget.

3.2.1. Metallurgy

The Metallurgical complex of Chelyabinsk and Chelyabinsk region accounts for 241 enterprises, including 45 large and medium-sized ones that comprises 53,8% of industrial production assets and 32,8% of total industrial staff. The Regional Administration views the development of ferrous and non-ferrous metallurgy as priority in production development. The Government of the Russian Federation approved the Special Federal Program on the "Economic and Social Development of the Chelyabinsk Region for the period of 2000-2005". This program pays much attention to the metallurgical complex modernization as the metallurgical potential of the Chelyabinsk region is also of great national importance. Investments required for

the renewal and modernization of the ferrous metallurgy of the Region are estimated at approximately RUR17 billion over the period of 1999-2005. Enterprises of most importance are:

Magnitogorsk Steel and Iron Works /MMK/ (http://www.mmk.ru) alone presents 20% of the Russian metal market. In terms of output the company is rated as N1 steel producer in Russia and N16 worldwide. More than half of the MMK production is being exported. In 2003 the MMK turnover was RUR84,5 billion while the profits exceeded RUR29 billion (against only RUR12 billion in 2002). In 2004 the company plans to spend on capital investments approximately RUR 12 billion. Including its daughter companies MMK employs 66 thousand people and the average monthly salary including the bonuses in 2003 reached RUR11,7 thousand.

Mechel (http://www.mechel.ru) is he largest and most comprehensive producer of specialty stells and alloys in Russia, producing 52% of total Russian specialty stell output. In the first half of 2004, Mechel had revenues of $1,63 billion and net profit (U.S. GAAP) of $254,5 million, EBITDA - 420,8 million. The company is divided into two business divisions: Steel Business and Mining Business.

The steel business steel business comprises production and sale of semi-finished steel products, carbon and specialty long products, carbon and stainless flat products, and value-added downstream metal products including hardware, stampings and forgings, as well as coke and coke products. Within these product groups the company is able to tailor steel grades to meet specific end-user requirements.

The mining business comprises production and sale of coal (coking and steam), iron ore and nickel, which supplies raw materials to the company's steel business and also sells substantial amounts of raw materials to third parties. The company is capable to internally source all of the coking coal, 92% of the iron ore and 55% of the nickel requirements of the steel segment. In addition, Mechel is the only specialty steel manufacturer in the world capable of internally sourcing all three of these raw materials. It is the second largest producer of coking coal in Russia in 2003, with a 12% market share. Mechel also controls 24% of the coking coal washing capacity in Russia.

Chelyabinsk Pipe-Rolling Plant (http://www.chtpz.ru) is one of the largest Russian tube and pipe manufacturers that employs over 8000 people and has an overall annual production of more than 600,000 metric tons of steel pipe, it amounts approximately 13% of all steel pipe produced in Russia. To ensure the quality of our product, the plant is implementing a $100 million reconstruction program.

Chelyabinsk Steel Sheet Cold-Formed Sections Works (http://www.profsteel.ru) specializes on the production of steel sheets and steel profiles used in building, construction and other sectors.

Chelyabinsk Electric Integrated Iron & Steel Works is another big company that operates in this area.

The most significant enterprises in the non-ferrous metallurgy are:

Ufaleynickel (http://www.ufaleynickel.ru) produces annually approx. 5400 tons of nickel and 1900 tons of cobalt (in the thirds quarter of 2004 1370 tons nickel and 473 tons cobalt). The company employs 3017 people.

Chelyabinsk Zinc Plant (http://www.zinc.ru) is a large-scale enterprise of the Russian non-ferrous industry, namely zinc, cadmium, indium and other products. At the Plant nameplate capacity of 130 thousand tons, CZP produced 138 thousand tons of zinc and zinc based alloys in 1999.

Karabash Copper produced in July 2004 4309 tons of copper. The company employs 1450 people the average salary of which is approximately RUR6750.

Kyshtym Copper Electrolyte Plant (http://www.kmez.ru) is producing electrolytic copper and copper based products such as copper foil, electrolytic copper foil, copper cathodes, copper wire rod etc., as well as gold.

Chelyabinsk Electrode Plant (http://www.chez.ru) the possibility to produce the whole range of production - from Carbon graphite products based on the traditional technology to unique Carbon fibers and Carbon-carbon composites that can be made

by means of pyrrolitic precipitation of Carbon. The raw materials for the production of different Carbon graphite materials are low-ash petroleum cocks, thermo-anthracite, and coals. Coal pitch is used as a binder. Main product items: **c**arbon electrodes diameters 1205 mm**,** carbon electrodes d 75 - 610 mm, bottom carbon - graphite and carbon blocks, carbon sidewall and corner blocks, graphite blocks for blast furnaces, carbon rectangular and trapezium blocks, constructional types of graphite etc

3.2.2. Machine building

Machine building is one of the key branches of the Chelyabinsk region economy. Its specific share in the total industrial output comprised 16,7% in 2002. The machine building industry employs 162 thousand persons that are of 18% of total.

The machine-building complex is represented by automobile industry (25,3%), tractor and agricultural ones (14,1%), lathes and instrument-making industry, metallurgical, road-building and municipal, electro-technical, shafting and mining machine-building as well as enterprises outputting construction and articles of metal. The leading enterprises of this branch are:

Urals Automobile Plant (http://www.uralaz.r**u) ** is part of the Ruspromauto holding **(**http://www.ruspromauto.ru **)** and produces heavy load trucks with 4x4 drives. For the heavy load trucks the company has a 20% market share in Russia while for the heavy loads 4x4 the market share is 71%. In the fist half of 2004 the company sales are up 37,7% and the average monthly salary for as of June 2004 was RUR6280.

Chelyabinsk Tractor Plant "Uraltrack" (http://www.chtz-uraltrac.ru) produces more than 9 types of tractors and bulldozers as well as road building and maintaining machinery. The company is experiencing problems particularly in marketing and sales and as a result the production had to be stopped 6 times in 2002 and again several times in 2003. In the beginning of 2004 the Japanese company Komatsu expressed interest in a joint venture that will aim at some annual output of 9000 Komatsu tractors.

Uralavtopricep (http://www.uralavtopritsep.ru) is the biggest Russian producer of auto trailers. The company produces more than 100 types of auto trailers. For the fir5st half of 2003 the company's turnover was RUR204 million.

Strommashina (http://www.strommashina.ru) is producing machinery with special functions for transportation and refilling of fuels, oil & gas production machinery and equipment for oil & gas well drilling and recovering. At the same time the company develops production of self-propelled chassis with special equipment based. Main clients are Lukoil, Yukos, and Gazprom etc.

Chelyabinskii chasovoj zavod "Molnia" was once a well established Russian producer of watches that have had significant part of the Russian marker. In 2003 the company's output decreased by 43% and totalled for RUR38,7 million. The company is presently looking for strategic investor / partner and is having negotiations with the Swiss company Leaschot SA.

Teplopribor (http://www.tpchel.ru) is a large-scale instrument making company producing the instruments for gauging, control and regulation of operation processes. The company has a wide network of distributors across Russia and is also representing in Russia companies such as Endress + Hauser Group and Konics.

3.3. Consumer markets

In the first half of 2004 the average monthly salary in Chelyabinsk grew by 30% and reached RUR6980 while the industrial output volume reached 107,6% of the 2003 level. The unemployment was only 0,6% of the economically active population.

For the first half of 2004 the retail volume in Chelyabinsk amounted for RUR57,3 billion that is 14,2% higher than for the same period of 2003. It is also important to not that non-food products share of the retail trade grew and reached 54,3% against 48,5% in 2003

The biggest retail chains in Retail chains Chelyabinsk are Nezabudka, Dixi, and Piaterochka. From the national chains in September 2004 Paterson opened a store.

Construction of housing in Chelyabinsk is not really having the same growth as in other Russian million cities but is visibly gaining speed. For the first quarter of 2004 there were built 22 thousand sq. meters and that figure was 2,5 bigger than for the same period of 2003.

Chelyabinsk could serve as a distribution hub for 5,75 million urban consumers living in 10 cities with population over 100 thousand inhabitants that are located within a 500 km distance. These are:

Chelyabinsk - Miass – 158 thousand people
Chelyabinsk - Zlatoust – 195 thousand people
Chelyabinsk - Kamensk Uralskii – 186 thousand people
Chelyabinsk – Ekaterinburg – 1,29 million people
Chelyabinsk – Pervouralsk – 132 thousand people
Chelyabinsk – Kurgan – 346 thousand people
Chelyabinsk – Magnitogorsk – 419 thousand people
Chelyabinsk – Nizhny Tagil – 391 thousand people
Chelyabinsk – Ufa – 1,04 million people
Chelyabinsk – Tumen – 511 thousand people

3.4. Establishing a business presence

3.4.1. Office and personnel

The majority of rental office space is found in institutes scattered in and around the downtown. The office spaces often may not meet Western standards and an average office space in such building would require at least some renovation and needs furniture and office equipment. Often the old-fashioned security systems in these buildings do not allow visitors to have free access. The rental price for a decent office space varies between €9-20 per square meter monthly.

Over 20 recruiting agencies operate in Chelyabinsk and can help to find qualified staff for both local and foreign employers. In addition, they can provide employment and consulting services on the labour market.

It is not exactly possible to strictly define the general level of salaries in Russia in general and in Ufa in particular. Still qualified English speaking personnel could be found in the following arrears:

Position	Monthly Salary / €
Head of Representative Offices	600-1200
Secretary	200-300
Chief accountant	400-600
Sales manager	400-800
HR Manager	300-600
System engineer	200-300
Driver	150-250
Translator	200-300

3.4.2. Legal assistance and banking

As in other regions of Russia a company that plans to operate in Russia for more than 30 days a year must be registered in accordance with the law on "Foreign Investment in the Russian Federation" adopted in 1999. A foreign business can operate in Chelyabinsk in any of three ways:

- As a *joint venture* with a local company or as a *legal entity that is 100% foreign owned,* which is the easiest variant of registration. In this case , the foreign businessmen obtain the ability to operate in the Russian Federation on an equal footing with resident enterprises, because, in essence, they become a Russian legal entity. Moreover this way of registration is less expensive and less time-consuming.

- In cases where foreign legal entities wish to participate personally in inter-relations with Russian counterparts they should register a branch office; or an accredited office

that is wholly foreign-owned. The difference between these two is in the scope of authorities conceded. A branch office is given wider authority. The parent company itself specifies the scope of authorities in a warranty of authority given to the branch director. Accredited offices fulfil representation functions and are not allowed to practice commercial activity.

It is highly recommended to contract with a local lawyer or law firm that specializes on registration issues to conduct and facilitate the registration process and for further legal routine maintenance such as renting office space, contract monitoring. Average prices for legal services:
Registration of the Limited Liability Company costs approximately €300. A registration of a closed/open joint stock company (including the issue of shares) is approximately €600. Accreditation of a branch/representation office costs approximately €1500 while obtaining Work Permits is about €800.

A June 2004 survey revealed that 35% of the companies in Chelyabinsk use the services of Chelyabinskinvestbank, 30% of Chelindbank, 23% of Chelyabinsk branches of Sberbank. The combined market share of Inkombank and Impexbank is only 3%. Still, especially in crediting the banking sector is quite underdeveloped as the interest rates on credits remain high.

3.4.3. Useful contacts

Business support organizations

Office of the Governor **Chelyabinsk Oblast** Ploshchad Revolutsiyi 4 454113 Chelyabinsk, Russia Tel. + 7 3512 33-92-41 Fax + 7 3512 33-12-83	**Foreign Relations Committee** Ploshchad Revolutsiyi 4 454113 Chelyabinsk, Russia Tel. +7 3512 33-78-75 Fax +7 3512 33-49-85 E-mail: comitet@komvn.chel.su
Innovation and Investment Department Ploschad Revolutsiyi 4	**South Urals Chamber for Trade and Industry** Ul. Vsenko 63

454113 Chelyabinsk, Russia Tel. + 7 3512 33-50-62 Fax: + 7 3512 33-00-07 E-mail: cecon@chel.surnet.ru	454080 Chelyabinsk, Russia Tel. + 7 3512 66-18-35 Fax + 7 3512 66-52-23 E-mail: urals@chel.surnet.ru
Chelaybinsk Regional Agency for Entrepreneurial Support and Investments Prospect Leneina 83 454080 Chelyabinsk, Russia Tel. + 7 3512 61-60-01 Fax +7 3512 65-43-48 E-mail: victor@chelyabinsk.ru	

Legal assistance

Garant Partner ul. Vorovskogo 26a, Office 5 454048 Chelyabinsk, Russia Tel. / Fax +7 3512 62 84 94, 60 64 94 http://www.cppi.ru	**Konsultant** Ul. K Libknehta d. 2, office 218 454091 Chelyabinsk, Russia Tel. / +7 3512 672907 Fax +7 3512 67 29 36 E-mail: pek@incompany.ru http://672907.3512.ru

Personnel recruitment agencies

Vip-Persona Sverdlovskii pr. 21a, office 4 454008 Chelyabinsk, Russia Òel. / Fax + 7 3512 96 57 17, 96 57 26, 90 82 72, 91 19 86 E-mail: vip-persona@bk.ru http://www.vip-persona.ru	**Business I Kadry** Ul. Entusiastov 12, office 303 Chelyabinsk, Russia Tel. / Fax + 7 3512 65 74 00, 62 87 66, 34 20 74, 34 20 16 E-mail: bussin@chel.surnet.ru http://www.bussin.ru

Real estate agencies

Trast Service	**Rikont**

Ul. Svobody, 83, office 108 454091 Chelyabinsk, Russia Tel. + 7 3512 67-08-42 Fax + 7 3512 67-08-45 E-mail: ts@uralliga.ru http://trust-s.com.ru	Pr. Lenina 81, office 108 Chelyabinsk, Russia Tel. + 7 3512 65-67-95, 65-67-98, 78-28-58 Fax + 7 3512 65-38-10 E-mail: info@rikont.ru http://www.rikont.ru

4. Yekaterinburg

4.1. Yekaterinburg and Sverdlovsk region– general outline and perspectives

Yekaterinburg was founded as a factory fortress on the Iset River in 1723 and in 2003 the city celebrated its 280th anniversary. Yekaterinburg, the administrative centre of Sverdlovsk region, is located 1667 km east of Moscow on the border between Europe and Asia. Presently metropolitan Yekaterinburg occupies an area of 490 km^2, includes 31 communities, and has a population of more than 1 320 000 people. More than 60% of the city's residents are of working age. It is one of Russia's largest cities, with a strong industrial base, great cultural and scientific potential, and considerable financial resources.

Sverdlovsk region has a long-term raw material base for the ferrous and nonferrous metallurgy and power industries. Subsurface oil and gas exploration is in the initial stages; however, an oil- and gas-bearing structure has been identified in principle. Raw materials for the construction industry are virtually unlimited. Production of alluvial gold and platinum, gold ore, and semiprecious stones is fairly high; there are also reserves of rare earth elements. Forests cover two-thirds of the region.

Economically and geographically, Sverdlovsk region is part of the Ural economic district and is located at the intersection of major transportation routes between eastern and western Russia. Yekaterinburg has a subway and two airports, one for local air traffic and the other for cargo and passenger service in Russia and the CIS (38 routes), as well as for international flights.

The predominant industries are engineering and metalworking, which manufacture metallurgical, mining, oil and gas, and chemical equipment; steam and gas turbines; compressors; excavators; diesel engines; hydroelectric generators; transformers; high-voltage equipment, and many other products.

Yekaterinburg is one of Russia's leading financial centres. Thirty-one independent commercial banks and 20 branches of intercity banks currently operate in the city, as

well as the Ural Regional Currency Exchange, where more than 50 banks take part in trading.

An unusual combination of architectural and historical rarities distinguishes Yekaterinburg cultural legacy and gives the city its own unique character. With more than 600 historical and cultural monuments, Yekaterinburg has earned the right to be included among Russia's historic cities. City residents are especially proud of the many museums and theatres.

Yekaterinburg is also a major scientific centre. The Ural Division of the Russian Academy of Sciences, 16 higher state educational institutions, and more than 100 industrial research and development organizations are located here. About 1000 Doctors of Science and 5000 Candidates of Science are engaged in scientific activities. Given Yekaterinburg's large number of higher educational institutions, it is justifiably considered a student city.

Today, Yekaterinburg is one of Russia's most dynamic cities in the economic and political sense. Churches are being rebuilt, and the city is developing rapidly. New prospects are combined with respect for former city traditions.

4.1.1. Natural resources

Sverdlovsk region has long-term reserves of iron, copper, nickel, and manganese ores, bauxite, fluxing agents, coal, and peat used in the metallurgical and power industries. The region produces 71% of the bauxite, 61% of the chrysotile and anthophyllite asbestos, 23% of the iron ore, 97% of the vanadium, 6% of the copper, 2% of the nickel, and 20% of the refractory clay of Russia's total raw material balance. Raw material resources for the construction industry, e.g., asbestos, kaolin and brick clays, building sand, marble, and talc, completely satisfy the region's requirements and are supplied to neighbouring regions.

There are 24 explored iron ore deposits in Sverdlovsk region with proven reserves of 7,9 billion tons; ten of these deposits, with total reserves of 4,9 billion tons, are being worked. Annual production is approximately 48 million tons.

The region's oil and gas fields are located in the southwest and northeast. They were explored nearly 30 years ago. Specialists estimate their reserves at 240 million tons of oil and 390 billion m3 of gas.

Sverdlovsk region has 18 414 rivers with a total length of more than 68 000 km. Reservoirs with a total water volume of 2482 million m3 and 1200 artificial lakes with volumes from 50 000 to 700 000 m3 have been constructed on them. There are also 2500 lakes with a surface area of 1100 km^2, as well as 146 slurry and ash gathering ponds and toxic water settling ponds with a total volume of 990 million m3 and a surface area of 141,2 km^2. The region's surface water resources are unevenly distributed territorially and seasonally. For example, the Iset and Pyshma river basins, where much of the population and industry is concentrated, account for only 5% of the river discharge, whereas the Tavda River basin, where 3% of the population lives, accounts for 55%. Groundwater reserves are located primarily in sparsely populated districts; useful natural resources amount to about 2,5 km^3 per year.

Forests cover 12.6 million hectares, or 65,6% of the region's territory; coniferous forests make up 63,5% of the forested area. Logging has been going on here for more than 300 years, and the southern and central districts are into their fourth cutting cycle. The forests of Sverdlovsk region comprise 1,5% of Russia's total forested area, 1,4% of the mature timber reserves, and 5% of the logged volume. Therefore, mature timber reserves have decreased from 877 to 600 million m3 over the past 20 years. Actual reserves suitable for industrial use are estimated at 290-310 million m3.

4.1.2. Location, transportation, logistics

Yekaterinburg is some 1400 km east of Moscow and it takes 2 hours of flying time or 36 hours by train to get there. Several European airlines started or resumed flying to the city including Lufthansa, British Airways, Malev, Czech Airlines and Finnair. The most common way is to get to Moscow first and then fly or take a train trip to Yekaterinburg. There are three main airlines flying to Yekaterinburg from Moscow: Ural Airlines and Transaero fly from Damodedovo airport in Moscow Koltsovo Airport in Yekaterinburg while Aeroflot flies from Sheremetevo.

Yekaterinburg is an important railway junction, with lines radiating to all parts of the Urals and the rest of Russia. You might wish to take Trans-Siberian express and go all the way from Moscow to Yekaterinburg or vice versa by train. There are 11 cities with population over 100 thousand people (including three cities with population over 1 million people) that are located within 500 km from Yekaterinburg. These are:

Yekaterinburg – Pervouralsk – 48 km

Yekaterinburg – Kamensk Uralskii – 109 km

Yekaterinburg – Nizhny Tagil – 146

Yekaterinburg – Chelyabinsk – 202 km

Yekaterinburg – Miass – 225 km

Yekaterinburg – Zlatoust – 253 km

Yekaterinburg – Tumen – 325 km

Yekaterinburg – Perm -357 km

Yekaterinburg – Kurgan – 372 km

Yekaterinburg – Magnitogorsk – 444 km

Yekaterinburg – Ufa – 508 km

4.1.3. Business perspectives

The region ranks 2nd and 3rd among other Russian republics and regions in industrial output, availability of fixed capital assets, and number of industrial production personnel. In recent years, its share in Russia's total GDP has been 2,6-2,7%. Transportation, communications, trade, and catering have the largest market share in the service sector. Industry has the largest share in the GDP in the area of commodity production and also generates more than 60% of the region's national income, while agriculture and construction generate about 7% and 8%, respectively.

The leading economic sectors are heavy, power, and transport engineering. More than 70% of all facilities in the heavy and electrical engineering sectors are concentrated in Yekaterinburg. The fuel and energy complex plays a crucial role in ensuring stable operation of the region's businesses. Power producers include large and small electric power plants, thermal power plants, and the Beloyarsk Nuclear Power Plant.

Foreign economic ties are strengthening. During the time of the economic crisis and production slumps, foreign trade was the one sector that showed significant growth. Exports surpass imports, and foreign trade turnover is steadily increasing. The primary export items are ferrous and nonferrous metals and petrochemical products. Sverdlovsk region has high investment potential and substantial financial resources consisting of company funds and budgetary and extra budgetary funds. The region ranks 7th in Russia in the number of banks and bank branches.

Sverdlovsk region's mining and metallurgical complex is made up of 50 integrated plants, factories, repair companies, and more than ten research and design institutes. Mining and metallurgy account for nearly half of all industrial output. Companies in the ferrous metallurgy sector produce metal for railway transport and the transport engineering industry (rails, coach wheels, axles, wheel rims, and locomotives) and structural bars, including H-girders and other shaped products made of carbon and alloy steels.

Three large plants in the region manufacture hot- and cold-rolled welded metal pipe, oxygen cylinders, and cast iron pipe. Unique precision alloys in the form of strips and wire are produced for the electronics industry, and cold-rolled magnetic sheets are manufactured for the power industry.

The nonferrous metallurgy industry produces blister and refined copper. Six large aluminium companies produce 53% of all Russian alumina, 15% of all rolled aluminium, about 10% of all primary aluminium, and a major portion of the aluminium foil and fluoride salts. There is also large-scale production of rolled titanium, which is used in aircraft construction. The mining and metallurgical complex exports more than 30% of its production.

The construction industry complex in Sverdlovsk region has facilities to produce 1,25 million tons of asbestos, 5,8 million tons of cement, 3,0 million m3 of pre-cast reinforced concrete structures, and about 750 building bricks. The product range also includes crushed rock, roofing slate, asbestos cement pipes and unions, window glass, linoleum, construction lime, and other building materials. The largest construction

and building material companies are mainly located in major industrial centres, such as Yekaterinburg, Nizhny Tagil, Pervouralsk, and Kamensk-Uralsky.

The forest and chemical industry complex of the Central Urals is one of the region's leaders in industrial potential. The forest utilization rate is 22,2 million m3 per year out of useful mature and over mature timber reserves of 657,5 million m3. The Central Urals produce 5,7% of the commercial timber in Russia, 6,2% of the lumber, 6,7% of the plywood, 4,8% of the chipboard and fibreboard, and 0,9% of the paper. The region's wood processing industry consists of a number of sectors, including timber sawing and processing and plywood, board, furniture, pulp and paper, match, hydrolytic, and wood chemical production

Production of synthetic resins, plastics, general rubber and asbestos goods, chemicals, and pharmaceuticals is also well developed in the region

Engineering is one of Sverdlovsk region's leading diversified industrial sectors, and in many respects determines the technical level of other industries. The engineering industry accounts for more than 20% of the region's industrial output. The industry manufactures a wide range of engineering products, such as equipment for the chemical, oil, metallurgical, and electrical industries; excavators with various bucket capacities; steam and gas turbines; farm machinery; railway freight cars; diesel engines and generators; trucks; press-forging machines; metal-cutting and woodworking machine tools; continuous billet casting machines; blast furnace, steel smelting, and rolling equipment; motorcycles; and electronics.

4.2. Main industries and city profiling enterprises.

4.2.1. Machine building

Uralmash (http://www.uralmash.ru **)** is the biggest Russian enterprise for heavy machine building. Metallurgical factories all over Russia use Uralmash machinery. All rails and solid-rolled wheels for railroad carriages in Russia, as well as all transformers and tin free steel, and nearly all the national output of automobile steel - are made on rolling mills manufactured at Uralmash. Uralmash presses are used at all

Russian civil aircraft construction enterprises. Machinery for billet continuous casting is being designed and manufactured by Uralmash in co-operation with the Fest-Alpine company of Austria. The Russian- American joint venture "UNOC" (a joint venture between Uralmash, National Oilwell, and Caterpillar) is manufacturing drilling rigs.

Uraltransgas (http://www.energogas.ru) is among the top 20 biggest Yekaterinburg companies. It designs, produces and delivers gas utilization equipment for various purposes.

Uraltransmash group was the only enterprise in the former Soviet Union to produce self-propelled mounts for artillery of the world standard. Thirty-six machines manufactured at the enterprise took part in the 50th Anniversary Victory Parade (commemorating the allies' victory in World War II) in 1995. Well known oil well pumps and automobile trailers are examples of civilian products manufactured from conversion of military production.

Uralelectrotyazhmash /Urals Plant for Heavy Electrical Machine-Building/ (http://uetm.ru) manufactures powerful hydro-electric generators for power stations and unique electric motors for atomic power plants. The plant is one of the major suppliers of vertical engines for Russian pump stations.

Uralvagonzavod (http://www.uvz.ru) in Nizhny Tagil manufactures universal type 8-axle rail cars and tanks of the highest quality.

Kalinin Machine Building Works (http://www.zik.ru/) in Yekaterinburg used to specialise in field- and anti-aircraft artillery production. It became a world-famous manufacturer of the still produced SS-20 missiles, as well as S-300 anti-aircraft systems, still produced and considered to be the best in the world. The works also produces electric and Diesel lift trucks.

Uralskii zavod grazhdanskoj aviacii /Ural plant for civil aviation/ was built originally for repairing of aircraft turbine engines in general and the engines for TU-154 in particular. At present the plant is also producing power generating systems.

Uralenergostroi is construction company building nuclear and thermal power plants as well as civil engineering.

Uralmash (http://www.uralenergomash.ru) produces air compressors.

4.2.2. Metallurgy

Pervouralsky novotrubny (http://www.pntz.com **)** is one of the leading enterprises of the Russian pipe rolling industry. The mill manufactures hot-rolled seamless pipes, cold-rolled pipes from carbon steel, steel alloys, corrosion-resistant steel and titanium alloys, as well as other types of pipes.

Bogoslovsky Aluminium Plant (http://www.baz-sual.ru **)** in Krasnoturinsk is one of the major non-ferrous metallurgy enterprises in Russia and in Europe. The plant was given the Gold Star award for the high quality of its product by the International Society "Business and Initiative". The A7E aluminium is registered at the LME. The plant produces 70% of all Russian alumina.

Nizhny-Tagil Metallurgical Plant /NTMK/ (http://www.ntmk.ru) is large industrial complex comprising mining, sintering, coking, refractory, blast-furnaces, steel-melting and rolling production units. The range of production includes about 800 rolled items of more than 150 steel grades.

Uralelektromed is the largest copper-smelter in the CIS that together with the Sredne Uralsk Works, the Kirovgrad Works and the Krasnourlaks Works makes up a powerful copper-production complex.

Verkh-Isetsky Metallurgical Plant is one of the world's leading manufacturers of electrical steel, and the leading exporter of the region's metal production. Approximately 92% of output is exported to Western markets.

Yekaterinburg Plant for Non-Ferrous Metals Processing (http://www.uralplatinum.ru/eng/index0.htm **)** was put into operation in 1916 to process noble metals extracted from the Urals deposits. In the twenties the plant developed the production of pure platinum, and in the forties - the production of products from the noble metals and alloys.

Kamensk Uralsky Metallurgical Works (http://www.kumz.ru/kumz) is a diversified producer of rolled aluminium products. The company manufactures over 70,000 types of products, in addition to about 80 brands of aluminium and magnesium alloys.

Chrompic (http://www.chrompic.com/eng/index.htm) produces chrome products such as Green Chrome Oxide Technical and Metallurgical, Sodium Dichromate, Chrome Tanning Agent, Technical Chromic Anhydride, Sodium Sulphate, Chrome Metal are exported on American, European and Asian markets in the most important industry sectors (tannery, textile, metallurgy, plastic, paint, dyes, glass, rubber, wood pulp & paper, detergents, etc.).

4.2.3. Food processing and light industry

Slad&Co (http://www.sladco.ru **)** in Yekaterinburg is the largest confectionery in the Urals and Siberia. The factory ranks third in Russia by its output. The sales grow by nearly 10% each year. The product range includes 11 groups of more than 250 items.

Yekaterinburgskii miasokombinat is the leading meat processing plant on Yekaterinburg and Sverdlovsk region. It employs 2,5 thousand people and produces meat, salami, pâtés as well as fish and fishery products. The company experienced turbulent change of management and ownership in 2002 and is still in a process of reviving and stabilization.

Ekaterinburgskii vinshampankombinat (http://www.shmpan.ru) produces champaign and alcoholic beverages. In 2003 the company produced 721,2 dekalitres of alcohol beverages that was somewhat 9% less than in 2002..

Zhirovoj kombinat (http://egk.etel.ru) is one of the 5 biggest producers of oils and fats in Russia. The company produces more than 50 articles including mayonnaises, ketchups and oils and fats.

Concern Kalina (http://www.kalina.org) is one of the leading Russian manufacturers of cosmetics, fragrance and other household and personal care (HPC) products. The company has a strong position in its core segments in Russia, with a 34,1% market share in skincare and 15,8% in oral care products it terms of volume. Skin care and oral care have represented 43.4% and 17% respectively out of our net sales amounted to $70,1 million and $27,1 million in 2003. Net earnings of the company for 2004 are forecasted at $10,7 million in 2004.

Uralplastic (http://www.uralplastic.ru) is producing plastic and plastics based packaging used in agriculture and food processing.

4.3. People and consumer markets

During the last several years the unemployment level in Yekaterinburg remains at less than 1%. Quite indicatively the big job cuts of 2002 did not change the situation as most of the fired employees were absorbed by the booming small and medium size enterprises sector. The average monthly wage in Yekaterinburg in 2003 was a little bit more than RUR6000 that is with some RUR500 more than the average for the Russian big cities. The number of people living under the poverty line went down and for the end of 2003 amounted to 17,6% as compared to 21% in 2002.

According to a made in 2003 survey of the Vecherniy Yekaterinburg newspaper over 700,000 citizens of Yekaterinburg (half of the population) are considered to belong to middle class based on international method of revenues ($150-1,000 per person). Over 30% work for different industries, over 28% in trade and over 17% in

educational and health care spheres. That is expected to bring some changes in the consumer's behaviour and create bigger demand for higher quality products.

The city department of statistics estimates that the retail volume in 2003 was with 11,2% higher than in 2002 and amounted for the first 9 months of 2003 RUR51854 million.

The retail trade was divided between shops and shopping centres 62,4% (6,2% less than in 2002) and 37,6% on street markets (5,0% higher than in 2002). The share of catering in all retail trade was approximately 4,1%. The retail volume per capita was estimated at RUR4837,16 against RUR4337,4 roubles in 2002.

In 2002 there were built 23 new shopping centres and supermarkets with total area of 55 thousand sq. meters. In 2003 there were built 413,6 thousand sq. meters of housing residential and the forecast for 2004 suggests some 5 to 10% increase in that figure. Still the demand is outpacing supply and recently the average price for a sq. meter is about RUR 22,9 thousand (approx. €626).

In 2004 there were 19 chains of food stores and 14 chains of non-food products that included in total more than 100 shops. It is expected that in 2005 IKEA will open its doors in Yekaterinburg and both the Saint Petersburg Piaterochka and the Moscow based Kopeika are planning entering the Yekaterinburg retail market.

4.4. Establishing a business presence

The easiest way for the initial stage of entering the local market, is to find a Russian partner company to act as a distributor/dealer. Through such an agreement, a Finnish can avoid registration issues altogether, but will have limited influence on marketing policy and percent mark-up by the Russian dealer/ distributor.

4.4.1. Office and personnel

Businesses may choose either to rent office space from another establishment (sublease), to rent an office in a business centre, or to purchase office space. Several local hotels also provide office space on their premises.

Purchasing an office is a less expensive option in the long run and as of September 2004 the price of a sq. meter of office premises was approximately €850. Firms that are interested in purchasing office space are advised to contact the city property committee, which can provide current information on city properties available either for production and storage or for office space and trade.

Several new modern business centres with developed infrastructure including IDSN lines, air conditioning, ventilation, security and alarm systems, etc are available or under construction. These new office facilities are located in the downtown and provide wide range of additional services: garages and parking lots, conference and hotel rooms, cafeterias, shops and other public services. Naturally these services are expensive and are aimed at the so called “business elite” companies. The most well-known is the World Trade Centre (WTC), which is a member of the WTC Association and collocated with the Atrium Palace Hotel close to the city centre.

However there is great demand for cheaper offices from small and medium enterprises (SMEs). Demand by SMEs for office space exceeds the market offering by seven times in 2002. Therefore office premises rental may vary hugely money wise between €400 and €800 per square meter annually.

Many small companies prefer to rent offices in former institutional or educational buildings or to purchase and re-build apartments on the ground floors of buildings. The rental price for this kind of office space could be significantly lower.

There are several agencies specializing in hiring qualified personnel - Ancor Yekaterinburg, Staff Pro, Carrier Union and the others. They provide a wide range of services including personnel search, outsourcing, consulting services and assessment centres.

The average monthly salaries for qualified English speaking professionals are not easy to summarize but may be somewhat presented in the table below**:**

Regional representative	€ 600- €2000
Sales manager	€ 500- €1200
Accountant	€ 300- €400
Chief Accountant	€ 600- €1200
Engineer	€ 300- €800
Sales Representative	€ 300- €600
Office manager	€ 250- €450

4.4.2. Legal assistance and banking

As in other regions of Russia a company that plans to operate in Russia for more than 30 days a year must be registered in accordance with the law on "Foreign Investment in the Russian Federation" adopted in 1999. A foreign business can operate in the Sverdlovsk region in any of three ways:

- As a *joint venture* with a local company or as a *legal entity that is 100% foreign owned*, which is the easiest variant of registration. In this case , the foreign businessmen obtain the ability to operate in the Russian Federation on an equal footing with resident enterprises, because, in essence, they become a Russian legal entity. Moreover this way of registration is less expensive and less time-consuming.

- In cases where foreign legal entities wish to participate personally in inter-relations with Russian counterparts they should register a branch office; or an accredited office that is wholly foreign-owned. The difference between these two is in the scope of authorities conceded. A branch office is given wider authority. The parent company itself specifies the scope of authorities in a warranty of authority given to the branch director. Accredited offices fulfil representation functions and are not allowed to practice commercial activity.

It is highly recommended to contract with a local lawyer or law firm that specializes on registration issues to conduct and facilitate the registration process and for further legal routine maintenance such as renting office space, contract monitoring. Average Prices for legal services:

Registration of the Limited Liability Company costs approximately €300. A registration of a closed/open joint stock company (including the issue of shares) is approximately €600. Accreditation of a branch/representation office costs approximately €1500 while obtaining Work Permits is about €800.

2.4.3. Useful contacts

Business support organizations

Yekaterinburg City Government Office of the Mayor of Yekaterinburg Ul. Lenina 24 620014 Yekaterinburg Tel. +7 3432 56-29-90, 77-55-01 http://www.ekburg.ru	**Department of International and Foreign Economic Relations** City of Yekaterinburg Ul. Lenina 24 620014 Yekaterinburg, Russia Tel. +7 3432 71-13-07 Fax: +7 3432 71-43-83
Finnish – Russian Chamber of Commerce / Yekaterinburg office Ul. Vatutin 56 Pervouralsk 623111, Sverdlovsk region ,Russia Tel. + 7 343 9255 017 Fax + 7 343 9255 017 E-mail: finruscc-ek@mail.ru http://www.finruscc.ru	**Ministry of International and Foreign Economic Relations, Sverdlovsk region** Oktyabrskaya square 1 620031 Yekaterinburg, Russia Tel. + 7 3432 55-42-91, 58-96-56 Fax + 7 3432 51-98-70
Customs House, City of Yekaterinburg Ul. Melnikova 50 Yekaterinburg, Russia Tel. + 7 3432 71-97-79	**Sverdlovsk Regional Customs House** Ul. Gogol 25 Yekaterinburg, Russia Tel. + 7 3432 50-33-77 E-mail: smith@ural.customs.ru

	http://www.ural.customs.ru
EBRD, Russia Small Business Fund Achim Haensel, Senior Bank Advisor Ul. 8th of March 13, office 611 Yekaterinburg, Russia Tel. + 7 3432 56-31-85 E-mail: haensela@ebrd-rsbf.ru	**International Financial Corporation / Leasing Development Program** Ul.Gogolya 15, 1st floor Tel. + 7 3432 56-47-27, 56-92-26 http://www.ifc.org/russleasing

Legal assistance

INCOR ALLIANCE INC Pervomaiskaya street 56, 7 floor Yekaterinburg, Russia Tel. + 7 3432 505-845 E-mail: ies-law@mail.ru	**Uralskii Regionalnyj Centr Prava** ul. Karl Marx d.8, office 306 620026 Yekaterinburg, Russia Tel.: + 7 3432 694051 E-mail: uzrp@mail.ru

Personnel recruitment agencies

Ancor Yekaterinburg ul. Krasnoarmeyskaya, 68 620055 Yekaterinburg, Russia Tel. + 7 343 377-51-01, 377-51-02, 377-51-03, 377-51-04, 377-51-05 Fax + 7 343 377-51-00 E-mail: Yekaterinburg@ancor.ru http://www.ancor.ru	**Agenstvo Kadrovyh Reshenii** ul. Komsomolskaia 61, office 301, 303 620078 Yekaterinburg, Russia Tel. + 7 343 375-94-04 Fax + 7 343 375-9405 E-mail: post@akrg.ru http://www.akrg.ru
Staffing solutions department ul. Lunacharskogo, 210-À, office 6, 620026 Yekaterinburg, Russia Tel. + 7 3432 62-50-25, 62-42-43 Fax + 7 3433 77-51-00 E-mail: Yekaterinburg@ancor.ru	**Agenstvo Personala Axioma** ul Bazhova 103 620142 Yekaterinburg, Russia Tel. + 7 3432 179016 Fax + 7 3433 55-16-28 E-mail: axioma@axioma-ekb.ru http://www.axioma-ekb.ru

Real estate agencies

Avista Ul. Sakko i Vancetti 58B 620014 Yekaterinburg, Russia Tel. + 7 3433 76-63-82, 76-63-87 Fax + 7 3433 76-64-03 E-mail: avista@sky.ru http://avista.ur.ru	**Prospect** Ul. Sverdlova 22 620027 Yekaterinburg, Russia Tel. + 7 3433 70-37-34 Fax + 7 3433 70-24-00 E-mail: rcp@r66.ru http://www.rcprospect.ru

Chapter V. Behind the Urals

1. Novosibirsk

1.1. Novosibirsk and Novosibirsk region – general outline

The Novosibirsk Region is located in West Siberia, right in the middle between the Ob and Irtysh rivers, and occupies the area of 178,200 square kilometres. In the south the region borders with Altai region and Kazakhstan, in the west - with Omsk region, in the north - with Tomsk region, and in the east - with Kemerovo region. The region is situated in plain land; in the south the steppes prevail, whereas the north is featured by enormous tracks of woodland with great number of marshes. The climate is continental. Winter is long and cold (up to -50C), and summer is short and hot (up to +40C).

Economically and geographically, the Novosibirsk Region is traditionally divided into four zones. The Suburban Zone consists of the Novosibirsk, Iskitim, Kochenyovo and Moshkovo districts, and has well developed industry and agriculture. The Eastern Zone includes six districts with sufficiently developed industry and diversified agriculture: Bolotnoye, Maslyanino, Ordynskoye, Suzun, Toguchin, and Cherepanovo. The Baraba Zone consists of 14 northern and northwest districts mostly covered with taiga and forest-steppe: Barabinsk, Vengerovo, Dovolnoe, Zdvinsk, Kargat, Kolyvan, Kyshtovka, Kuibyshev, Severnoye, Tatarsk, Ubinsk, Ust-Tarka, Chany, and Chulym districts. Beef and dairy animal husbandry are primarily developed in the zone. The Kulunda Zone includes six steppe districts where grain production and sheep husbandry are mainly developed: Bagan, Karasuk, Kochki, Krasnozerskoye, Kupino, and Chistoozernoye districts.

1.1.1. Natural resources.

Unlike many other Siberian regions, Novosibirsk does not have significant mineral resources. However, deposits of oil and gas, coal and anthracite, gold and copper-nickel, peat and plant fertilizer, building materials (including marble), and mineral waters found in the region are, or potentially may become, of interest for both local and foreign companies.

Six oilfields with extractable reserves of 31.7 million tons and inferred reserves of 11.4 million tons are found in the region. Only two of them have been exploited for the present, the Little Icha and East Tara fields. The most promising is the Upper Tara oilfield, located 340 kilometres from the city of Novosibirsk, and 160 kilometres from a railway. Extractable reserves of the field are estimated at 24.5 million tons. Closeness to the Trans-Siberian railway and an oil pipeline make the deposit even more attractive for potential investors. Considerable deposits of gas are explored in the Veselovskoye gas field, with reserves of 0.5 billion cubic meters of free gas, and 0.1 million tons of condensed gas.

The largest deposits of gold in the region were explored in the Yegorievskoye field, and were estimated to be up to 17 tons. There are six other locations with a total amount of 3,045 kilograms of gold.

Russia's only field of high-quality anthracite that can be used for industrial electrode production is located in the Novosibirsk Region. Two of four coalfields, Gorlovka and Listvyansky, have been presently exploited. Coal is mined opencast. Prospected reserves of coal are 550 million tons, and forecasted to be 5.7 billion tons. The Novosibirsk Electrode Plant, the largest producer of industrial electrodes in Russia and the NIS countries, has been using the resources of the Listvyanski coalfield.

1.1.2. Location, Transportation, Logistics

Lying on the banks of the Ob River and along the Trans-Siberian Railway, Novosibirsk acts as a transportation centre and distribution hub for the surrounding regions of Kemerovo, Altai, and Tomsk. Thus, the main railways from Kuzbass (one of the major coal mining locations in Russia), Central Asia, and the Trans-Siberian Railroad meet in Novosibirsk. Airlines connecting the Russian Far East and Europe land in Novosibirsk. Roads from Omsk (1 134 000 inhabitants), Krasnoyarsk (909 000 inhabitants), Barnaul (601 000 inhabitants), Novokuznetsk (550 000 inhabitants), Tomsk (488 000 inhabitants) and Kemerovo (485 000 inhabitants), and go through Novosibirsk which is located on the ancient Moscow Highway. Finally, ships carrying cargo to the North by the Ob River go through Novosibirsk as well.

The railroad dominates the other means of transportation. Its operating length is 4,18 thousand kilometres. In 1999, over 7,29 million tons of cargo were transported via the railroad, which is over 95% of all cargo transported. The railroad remains one of the most important means of passenger transportation: in 1999, 36,4 million passengers used the transportation services of the Trans-Siberian Railway in Novosibirsk.

The major local air carrier is the Sibir Airline Company, ranked in the top five largest airline companies in Russia. The company established air routes to almost all the major Russian cities, such as Moscow, St. Petersburg, Vladivostok, Irkutsk, Samara, Nizhny Novgorod, etc. From the Tolmachevo International airport, flights to the NIS and other foreign countries, such as China, Germany, Thailand, and Turkey have been established. Foreigners coming to Novosibirsk usually take a direct 4-hour flight from Moscow.

Novosibirsk could serve as a distribution centre simultaneously for 6 cities with a population above 200 000 inhabitants. The distances between them are as follows:

Novosibirsk – Tomsk 236 km
Novosibirsk – Barnaul 239 km
Novosibirsk – Kemerovo 274 km
Novosibirsk-Novokuznetsk 404 km
Novosibirsk – Omsk – 663 km
Novosibirsk - Krasnoyarsk – 789 km

Novosibirsk – Saint Petersburg – 3 869 km
Novosibirsk – Moscow – 3 231 km

1.1.3. Business perspectives

Novosibirsk is Russia's fourth largest city and represents one of the most important commercial centres outside of European Russia. It has one of the highest levels of agricultural production in Russia, and has a highly specialized machine-building

sector. Novosibirsk's Akademgorodok (academic city) is home to one of the world's highest concentrations of scientific institutes and scientists.

Much of Novosibirsk's importance is due to the fact that it serves as the processing and handling centre for much of the resources from the surrounding regions. While Novosibirsk does not contain the vast natural resources of its neighbours, it serves as the processing and distribution centre for those goods. Novosibirsk region is known for its manufacturing, transport, and research and development capabilities.

Novosibirsk is home to the Siberian Branch of the Russian Academy of Sciences (SB RAS). Novosibirsk Science Centre, the largest in SB RAS, includes approximately half of the resources of the Siberian Branch. Novosibirsk Akademgorodok, situated 30 km to the south of the city centre, was intended as the world's first comprehensive science centre. The scientific and technological achievements of the local research institutes are recognized worldwide. There are a number of inventions developed by the research institutes that were successfully implemented by well-known international companies such as Hewlett Packard, Dupont, and Motorola. However, turning the developed inventions and technologies into commercial value, and adjusting to a market economy, remains a serious problem for the institute.

Of particular interest to Western companies could be the food processing, mechanical engineering, software development, and construction materials industries. Other industries, such as heavy machinery, ferrous and non-ferrous, and tin production, can also be interesting for bigger investors.

1.2. Main industries and city profiling enterprises.

Enterprises of processing industries provide 95% of the total production volume. The leading industries are machine-building and metal-processing. Today production in the Novosibirsk region includes electric generators for turbines, metal-cutting and wood-processing machines, textile machines, polyvinylchloride plasticizers, large electrical machines. Most electronics, instrument-making, machine-building, aviation and chemical plants are unique and sole producers in their industry, they have got

specific high technologies and top-skilled personnel. Novosibirsk is the main business centre of the Asian part of Russia.

A comprehensive list Novosibirsk enterprises that may turn out rather useful for establishing business contacts can be found at
http://www.allsiberia.com/novosibirsk/BUSINESS/list.html

1.2.1. Mechanical Engineering

Mechanical engineering and metal processing remains a leading industry in the region. The most significant sub-sectors in that particular industry are railway machinery, agricultural machinery, and instrument making. Major local enterprises involved in the industry are:

Elsib (http://www.elsib.ru)
Research-and-production amalgamation ELSIB is one of the leading plants of heavy electric machine industry. Main trends of ELSIB activity are:
design and manufacture of turbo-generators and hydro-generators;
design and manufacture of asynchronous motors and frequency converters;
design and manufacture of other equipment;
servicing, delivery as a complete plant, repair and modernization of power-generating machinery of its own production as well as of other manufacturers.

The Novosibirsk Tool-Making Plant (http://www.niz.ru) is one of the biggest producers of tools in Russia.

StonkoSib (http://www.nsk.su) is one of the oldest machinery building companies in Russia—at present manufactures and offers to customers a wide variety of consumer goods, as well as metal cutting and woodworking machinery.

SibSelMash (http://www.sibselmash.ru) is a producer of mining equipment, agricultural machinery, bolting valves, furniture, worked sheepskin etc.

SibTextilMash (http://stm.x1.ru) is, after a number of conversion procedures, the leading manufacturer of high pressure cylinders for carbonic acid extinguisher (capacity from 1,5 I up to 10 I) in Russia. The factory also manufactures high pressure bulbs, heating equipment, industrial instrument, vibratory mills, garden stock, plastic product, fixing details

1.2.2. Metallurgical Industry

Major enterprises involved in the industry are:

Novosibirsk Integrated Tin Works (http://www.nok.ru) is the biggest Russian producer of tin and wide range of various tin alloys, solders and babbits. The company's annual capacity of tin, alloys, babbits, lead and tin solders production is more than 20 000 tons.

Novosibirsk Electrode Plant (http://www.novez.com) is the youngest among the five electrode plants in Russia. Its products are used for smelting of aluminium, steel making, in metallurgy of pure metals, chemical industry, machine - building, power engineering. The basic raw material - anthracite of Gorlovka deposit is referred to the world best quality. At present the available capacities allow the plant to produce 40 thousands tons of graphite products, 40 thousands tons of carbon products and 95 thousands tons of electrode and bottom paste.

Novosibirsk Metallurgical Plant (http://www.nmz-k.ru)is the single plant producing top- quality and special rolled steel, cold rolled belt, a wide range of pipes. The large assortment and top service properties of products are provided by complete rolling, thermal processing and finishing equipment. 50-years experience, high research potential due to the close cooperation with research, design and academic institutes makes it possible to expand the assortment and to meet the strict requirements of customers.

1.2.3. Food Industry

Novosibirsk Meat- Processing Complex (http://www.nmk.sibnet.ru) has leading position of the complex in raw meat processing and production of different meat products in the Siberian Region. The modern equipment of German firms, application of up-to-date technologies in production of conventional kinds of sausage and delicatessen products, semi-finished products give every opportunity to produce products meeting the top world standards. The main specific feature of Novosibirsk meat-processing complex is the complete cycle raw meat material processing.

VINAP (http://www.vinap.ru) consist of 5 independent producers producing brewery, liqueur and vodka, soft drinks, wines and champagne. Founded in 1967, VINAP is a single enterprise of such kind in Russia. At present we produce 70 - 80 million litters of more than 100 brands of beverages and supply with them all the major cities and regions within the territory from Ural to Far East.

Novosibirsk ZhirKombinat (http://www.sunnyfoods.ru) is one of the 7 biggest in Russia plants for butter, oils and fats.

1.2.4. Chemical production & light industry

Chemical Concentrates Plant (http://www.nccp.ru) is a major exporter in the Novosibirsk region and produces fuel for power reactors, fuel for research reactors, lithium and its compounds, chemicals for household industrial application as well as equipment, instruments and tools.

Other significant products in the chemical industry are plastic materials and moulded items, produced by **KhimPlast** (http://www.himplast.ru) and Plastic Making Plant; paints and varnish, produced by **KhimProduct** (http://www.himprodukt.sibtorg.ru); and household chemistry, produced by the **Household Chemistry Plant**.

The major producers in light industry are **Severyanka** (http://www.severyanka.ru), **Sinar** (http://www.sinar.ru), **Children's Clothes Factory**, and **Sorevnovanie**. Major producers of footwear are **Westfalika** (http://www.westfalika.ru) and **Kors**

companies. The largest companies in the woodworking industry are the **Bolshevik Factory**, and the **Sibir Wood-Working Company**.

The main products imported are machinery and equipment, petrochemical products, and consumer goods. The major exporters are the Novosibirsk Chemical Concentrates Plant, VINAP, and Elsib. The most active foreign trade partners of the region among non-NIS countries are Germany, China, Japan, and South Korea.

1.3. Consumer markets

Over 2,700,000 people inhabit the Novosibirsk region. Based on the In 2004 statistics, 1,43 million people live in the city of Novosibirsk. It is the largest city in Siberia, and has traditionally been considered as the "capital" city of Western Siberia, encompassing the Tomsk, Kemerovo, and Altai regions, and the Altai Republic. Novosibirsk serves as a distribution hub for these regions. Big cities in the area are:
Omsk – 1,134 million inhabitants
Krasnoyarsk - 909 thousand inhabitants
Barnaul - 601 thousand inhabitants
Novokuznetsk - 550 thousand inhabitants
Tomsk - 488 thousand inhabitants
Kemerovo - 485 thousand inhabitants

In 2003 the wages in big and medium sized enterprises Novosibirsk was approx RUR6 000. The highest wages were observed in financial institutions (RUR15 400) followed by managers (RUR7800), construction workers (RUR7300), communications (RUR7200), transportation (RUR7000). The next level was represented by science & industry where the average wage was estimated at RUR6000. Wages were at the RUR4600 level in the commerce sector while the lowest wage was somewhat observed in education, healthcare and culture where wages were estimated at an average RUR4000.

In September-October 2003 Expert - Sibir conducted a survey in an attempt to find out the size of the middle class in Novosibirsk. They put the lower income level to be

$170 per person per month while the higher income level to be $1000 per person per month. Altogether 675 000 people or approx 45% of the city's population belonged to this category. In 2003 their consumption equalled approximately $2–2,5 billion. The survey also discovered that among the Novgorod middle class 32% use Internet every day while 23,2% at least once a week. That is the highest rate for Russia (as a comparison in Moscow the numbers are 26,3% and 21,8%).

1.4. Establishing a business presence

As Novosibirsk is situated at Russia's crossroads, it is one of the most important commercial centres outside of European Russia, and thus could be attractive place for finding a partner or for opening a representative office.

1.4.1. Office and personnel

The majority of rental office space is found in institutes scattered in and around the downtown. All of these buildings were built during Soviet times, and were not designed to be rented out. The office spaces often may not meet Western standards and an average office space in such building would require at least some renovation and needs furniture and office equipment. Often the old-fashioned security systems in these buildings do not allow visitors to have free access. The rental price for a decent office space varies between €200-300 per square meter annually.

One of Novosibirsk's most significant assets is its highly qualified human resources. Novosibirsk has one of the most highly educated citizenries in Russia. A large number of qualified and trained people with experience working in banks, financial companies, and foreign firms are available in the local labour market. In addition, many of these people speak English. Salaries in Novosibirsk are generally lower than in Moscow. It often happens that foreign companies offer their Novosibirsk staff positions in their Moscow offices.

Position	Monthly Salary / €
Head of Representative Offices	600-1200
Secretary	160-300
Chief accountant	300-600
Sales manager	300-600
HR Manager	300-600
System engineer	200-400
Driver	150-250
Translator	200-300

Over 40 recruiting agencies, such as SibAncor, Supercadry, Bisnes-Personal, operate in Novosibirsk, and others can help to find qualified staff for both local and foreign employers. In addition, they can provide employment and consulting services on the labour market.

1.4.2. Legal assistance and banking.

As in other regions of Russia a company that plans to operate in Russia for more than 30 days a year must be registered in accordance with the law on "Foreign Investment in the Russian Federation" adopted in 1999. A foreign business can operate in Novosibirsk in any of three ways:

- As a *joint venture* with a local company or as a *legal entity that is 100% foreign owned*, which is the easiest variant of registration. In this case , the foreign businessmen obtain the ability to operate in the Russian Federation on an equal footing with resident enterprises, because, in essence, they become a Russian legal entity. Moreover this way of registration is less expensive and less time-consuming.

- In cases where foreign legal entities wish to participate personally in inter-relations with Russian counterparts they should register a branch office; or an accredited office that is wholly foreign-owned. The difference between these two is in the scope of authorities conceded. A branch office is given wider authority. The parent company itself specifies the scope of authorities in a warranty of authority given to the branch

director. Accredited offices fulfil representation functions and are not allowed to practice commercial activity.

It is highly recommended to contract with a local lawyer or law firm that specializes on registration issues to conduct and facilitate the registration process and for further legal routine maintenance such as renting office space, contract monitoring. Average prices for legal services:
Registration of the Limited Liability Company costs approximately €300. A registration of a closed/open joint stock company (including the issue of shares) is approximately €600. Accreditation of a branch/representation office costs approximately €1500 while obtaining Work Permits is about €800.

Western companies planning to open an office in Novosibirsk may choose a bank among affiliates of both Moscow-based (Alfa bank, IMPEX bank, Avtobank, etc) and regional banks (NovosibirskVneshTorgBank, SibAcademBank, Accept, etc).

Only a few companies in Novosibirsk provide business services, such as market research, partner searches, translation/interpretation, making hotel reservations, etc. Organizations, such as the Novosibirsk Regional and the City Chambers of Commerce and the World Trade Centre – Novosibirsk, provide some of these services.

1.4.3. Some useful contacts.

Business support organizations

Department of Foreign Economic Relations the Novosibirsk Regional Administration, Krasny pr. 18 630011 Novosibirsk, Russia Tel. + 7 3832 239395 Fax + 7 3832 234514	**The Novosibirsk Regional Chamber of Commerce** Ul. Marx 1, Novosibirsk, Russia Tel. + 7 3832 464150 Fax + 7 3832 464150 http://www.sbcnet.nsk.ru

The Novosibirsk City Chamber of Commerce 220/10 Krasny Prospect Novosibirsk, Russia Tel. + 7 3832 276781, 276792 Fax + 7 3832 276791 E-mail: info@ngtpp.ru http://www.ngtpp.ru	**World Trade Centre – Novosibirsk** Krasny pr. 220/10 Novosibirsk, Russia Tel. + 7 3832 259845 Fax + 7 3832 269802

Law firms

Siberian Juridical Company Dimitrov pr. 7, 5th floor Novosibirsk, Russia Tel. + 7 3832 213554 Fax + 7 3832 213588	**Juridical Alliance Company** Ul. Lenin 12, office 705 Novosibirsk, Russia Tel. + 7 3832 224425 Fax + 7 3832 224425

Personnel recruitment agencies

Bisnes-Personal Marx pr. 30, office 604 Novosibirsk, Russia Tel. + 7 3832 495456 Fax + 7 3832 495456 E-mail: business@personnel.nsk.su	**Supercadry** Dimitrov pr. 7, office 619a Novosibirsk, Russia Tel. + 7 3832 186098 Fax + 7 3832 184272 E-mail: root@supercdr.nsk.su

2. Omsk

2.2. Omsk – general overview and perspectives.

Omsk is geographically located in the middle of the vast continent on the south of West Siberia. It borders with the Tyumen region on the west and north, Novosibirsk and Tomsk regions on the east, and the Republic of Kazakhstan on the south. The territory of the Omsk region stretches for 600 kilometres from north to south, and for 300 kilometres from east to west, and occupies an area of 140 sq. kilometres. The average temperature in winter is about –19 Centigrade, and +18 Centigrade in summer.

The region's population is 2,176,000 people, including 1,170,000 inhabiting the city of Omsk, the administrative centre of the region. The distance from Omsk to Moscow is roughly 2,550 kilometres.

2.1.1. Natural resources

The region has relatively scarce natural resources. Oil resources are estimated at 150 million tons. Over 280 deposits of peat are found in the region. Up to 30 deposits, with total reserves of 36.5 million tons of peat, are prepared for industrial development.

Significant reserves of zirconium-ilmenite ore sands near the town of Tara were discovered. The reserves exceed 160 million cubic meters. Zirconium and Titanium are used in various industries, such as ferrous and non-ferrous metallurgy, equipment production, and chemical industry.

Forest resources of the region cover an area of 2,574,300 hectares, including 963,400 hectares of coniferous and 1,608,100 hectares of deciduous wood. Total reserves of commercial wood are estimated at 6,3 million cubic meters, including 800 million cubic meters of coniferous, and 5,5 million cubic meters of deciduous timber.

2.1.2. Location, transportation, logistics.

The infrastructure consists of railway, road, air, and river transportation. Omsk is located The Trans-Siberian Railroad, which crosses the region from west to east. Irtysh River is important transport artery (length of the artery is 1,174 kilometres) stretching through the region from south to north. Major industrially developed sites are located along the Irtysh. Rivers in the region provide effective transport connection with eastern part of Kazakhstan, Tyumen, Novosibirsk, and Altai regions.

Administratively, the road network in the region falls under two groups: federal and Oblast roads. The main roads are federal ones: “Chelyabinsk-Kurgan-Petropavlovsk (Kazakhstan)-Omsk-Novosibirsk”, “Omsk-Tyumen-Yekaterinburg”, and Omsk-Pavlodar (Kazakhstan)”. They provide road transport connection with other Russian regions and Kazakhstan.

Air transportation provides connection mostly with other regions of Russia, and NIS countries. Most intensive route of passenger and cargo transportation is Omsk-Moscow-Omsk. An international airport “Omsk-Fedorovka” is planned to be established in the region. The airport is deigned to become an essential part of Eurasian airline transportation.

There are 6 big cities (including 3 million cities) in a distance shorter than 1000 km from Omsk. The cities and the distances are:
Omsk – Novosibirsk- 663 km
Omsk – Chelyabinsk – 810 km
Omsk – Tomsk - 899 km
Omsk – Barnaul - 902 km
Omsk – Yekaterinburg – 918km
Omsk – Kemerovo - 937 km

Omsk – Saint Petersburg – 3 206 km
Omsk – Moscow – 2 568 km

2.1.3. Business perspectives

The building material, power, oil refining, light, food, forest, woodworking, chemical, petrochemical, and engineering industries comprise Omsk Region's industrial base. Three of these sectors, namely, the oil refining, petrochemical, and engineering industries, together with agriculture, are important for both the region and for Russia. Most engineering industry production is oriented towards the defence complex. Companies in the engineering sector manufacture AN-74 airplanes; cultivator tractors; TV-7-117 aircraft engines; new communication facilities; medical, agricultural, and oil and gas equipment; compressor motors for refrigerators and freezing rooms; cryogenic, navigational, and hydraulic equipment; car tires; and many other products.

The region's natural resource potential and its location on transportation routes have influenced the development of the above-mentioned industries. Fertile soils and climatic conditions favourable for agriculture have led to region-wide development of many agricultural sectors and companies of the food industry, and to some extent light industry, that process raw agricultural products. The dairy, butter- and cheese making, meat, and meat canning sectors dominate the food industry. The presence of the Main Siberian rail line in the southern part of the region has influenced the formation of heavy industry, e.g., engineering, oil refining, and petrochemicals.

The forest and woodworking industries of Omsk Region are based on regional resources and requirements. Logging is mainly concentrated in the forest zone and does not exceed 2 million m3 of whole timber per year. Nearly 90% of woodworking industry production, consisting of lumber, chipboard, and furniture, is located in Omsk and its suburbs and the remainder in Tara, Ust-Ishim, Muromtsev, and Ekaterininsky.

The building material industry is oriented towards the production of reinforced concrete structures for industrial construction and large-panel house building, wall and roofing materials and asphalt. Nearly 90% of the main facilities are located in Omsk. Construction of private housing using up-to-date technologies is going on under the organized regional programs "Housing" and "Your Own House," and

comfortable housing is being built in cooperation with Canadian specialists under the joint Toronto-Omsk project.

Agriculture is one of Omsk Region's leading sectors. There are four distinct agricultural zones within the region: steppe, southern forest steppe, northern forest steppe, and northern. Nearly 7 million hectares of fertile land are available for use, including more than 4 million hectares for cropland, about 1 million hectares for hayfields, and slightly less than that for pasture; about 115 000 hectares of land are irrigated.

Basic macroeconomic indicators (gross regional production, industrial production, retail trade turnover, population incomes, etc) for the past several years show that the regional economy is steadily growing. While the average growth in the industrial sector in Russia for 2003 was 7% the figure for Omsk region was 10%. Investments in fixed capital of enterprises in the region increased by 20,9% (12,5% in Russia), retail trade turnover increased by 16% (8% in Russia). The region is the forth largest regarding residential construction, with increase of 36,4% in 2003. Most dynamically growing industries in 2003 were food production (9,9-% increase compared to 2002), dairy production (13,2%), fuel production (6,7%) mechanical engineering (18,5%), forestry and wood-working and pulp & paper (42,5%), chemical and petrochemical (7,7%). Leading regional companies, and major tax payers are SibNeft, OmskEnergo, Osha, OmskVinProm, and the “Mobilnye Sistemy Svyazi”.

For the period January-June 2004 the capital investments amounted for RUR7,81 billion. In the same period 134 thousand square meters of housing was built that is an impressive 82% more than for the same period of 2003.

For the past several years, foreign trade is becoming export-oriented. The region was involved in foreign trade turnover with 103 countries of the world. Most important partners are Kazakhstan, Germany, Poland, Netherlands, China, and Finland. Regionally produced products are actively exported to Germany, Kazakhstan, and Netherlands. The main products exported are oil products, contributing over 60% of the total export volume. Another important group of products exported from the region is chemical industry products. The main products exported are hydrocarbons,

tires, and synthetic rubber. Main food and agricultural products exported are sugar and confectionery products, diary products, soft and alcohol drinks, butter and vegetable oil, and fish. Major importer of the products is Kazakhstan.

The main products imported in the region are mechanical engineering products and equipment, food and agricultural products, and fuel and energy industry products.

In 2002, main investments (73%) were made from Europe. German companies invested over €333 million in 2002. Over 60 joint ventures are registered in the region. Most active are Rosar, Sibneft-Omsky NPZ, OmskShina, Matador-OmskShina, Omsky Becon, and OmskAvia.

Most attractive industries for foreign investment are trade and public catering, food industry, chemical and petrochemical industry, fuel industry, and telecommunications.

2.2. Main industries and city profiling enterprises

A comprehensive list of the main industries and companies in Omsk could be found (in Russian) at http://www.omskindustry.ru.

For the past five years, basic macroeconomic indicators (gross regional production, industrial production, retail trade turnover, population incomes, etc) are steadily growing. Most dynamically growing industries in 2002 were food production (23,3% increase compared to 2001), flour and fodder production (17,3%), mechanical engineering (12%), forestry and wood-working (10,2%), chemical and petrochemical (4,2%)

Overall regional industrial production in 2002 totalled RUR46.5 billion (approx. €1,2 billion). The division of main industries in regional production in 2003 is in the table below:

Industry Share	%
Electric Engineering and Fuel Production	33,4
Food Production	26,7
Chemical and Petrochemical	14,9
Mechanical Engineering	15,3
Other	9,7

For the past several years, list of industries with significant contribution remains the same: electric engineering and fuel production, food production, chemical and petrochemical. These industries altogether contribute 90% in overall regional production. One of the trends in the regional economy is increase of investments in chemical and petrochemical, electrical engineering, food production, and fuel industries.

2.2.1. Fuel production and electric engineering

One of the leading industries in the region is fuel production. The industry consists of mainly oil processing and natural and condensate gas extraction sectors. The main products of the oil processing sector are gasoline, diesel fuel, and fuel oil.

A major enterprise involved in the industry is the **Omsk Oil Refining Plant** (belongs to SibNeft http://www.siboil.ru) has very good geographic positioning as the plant is connected to two oil pipelines. One goes East to Novosibirsk and the second goes West to Ufa. In 2002 the plant processed 13,3 million tons of crude oil.

Another company in the field is **Ekoil** (www.ekoil.ru) that produces some annual 100 thousand tons of gasoline additives.

Omskenergo (http://www.omsk.elektra.ru) is the local power and heat generation and distribution monopolist. The company owns 5 thermal heating power plants and 4 power grids. In 2002 the company produced 6227 million kWt hours of electricity.

2.2.2. Food production

The agricultural complex of the Omsk region is considered to be one of the most developed in Russia. The area of agricultural lands constitutes 6,6 million hectares, including 4,3 million hectares of plough-land, 1,2 million hectares of pastureland and over 1.0 million hectares of hayfields. About 56% of the sowing acreage is for grain crops, mostly wheat. Oil-bearing crops, flax, and sunflower are cultivated as well. The production of grain in 2000 was over 1,7 million tons divided as follows:

Production	thousand tons
Grain Crops Including:	**1,724**
Wheat	1,200.1
Barley	279
Oats	167,9
Millet	7,8
Buckwheat	1,4
Rye	44,9

Main products of the sector are meat (202,300 tons), eggs (593,3 million), and milk (800,000 tons).

A leading agriculture company in Omsk is **Omskii bekon** that specializes on production of pork. In 2002 the company led a consolidation process and established the **Omskii Bekon Group** that consists of **Omskii meat processing plant**, **Luzinskii animal feed plant** and **Sibir poultry farm**. The group produced 45,5 thousands tons pork meat, 200 thousand tons animal feed, 15,2 thousands tons of poultry meat. Thus the group accumulated RUR535 million of profits. Recently Omskii Bekon Group is part of the Moscow based **Prodo-Management Holding**.

Omskptitseprom company is one of the biggest poultry producers while for wool it is the **Omskovtseprom** company. **Osha** is a holding that specializes on soft drinks, brewery and alcoholic beverages.

2.2.3. Chemical and petrochemical industry

According to the Omsk Regional Statistics Committee, chemical and petrochemical industry is ranked the third regarding investment attractiveness. Leading enterprises in the industry are:

OmskShina (http://www.omsktyre.ru) belongs to the Sibur Holding that specializes on production of rubber, polymers, condensed gases and tires. In 2003 the company produced 5,2 million motor vehicle tires 1,8 million bicycle tires. Among motor vehicle tires, 2,067,800 truck tires (105% from 2002), 2,283,000 car tires (2% growth), 134,300 tires for agricultural machines (91% from 2002) and 407,600 motorbike tires (78% from 2002) were produced. The fastest growth was recorded for light truck tires: in 2003 322,900 such tires were produced, 132% from 2002.

Matador-OmskShina (http://www.matador-omsk.ru) was founded in 1995 as a Russian-Slovakian Joint-Venture. According to the magazine “Expert-Sibir” the plant is among the 20 most profitable industrial companies. Since 1995 the production volume increased over 8 times and in 2004 the company aims to produce 1,75 million tires. The factory aims to expand its capacity to an annual 3 million tires.

Omsktechuglerod (http://www.carbonblack.ru) is one of the largest enterprises in the petrochemical branch of Russia with an annual capacity of 190000 tons of carbon black. Omsk plant is famous for manufacturing more than 20 carbon black grades.

Omsky Kauchuk produces rubber and latex while **Omskhim-prom** produces polystirol, fibre optics and fibreglass.

2.2.4. Mechanical engineering

Omsktransmash produces tanks (T80Y), tractors, elevators and washing machines. However, the financial situation remained critical and in 2004 the company was divided into three parts: **Omskvagonzavod** (train carriage manufacturer), tractors manufacturing and the thirs, defence equipment manufacturing.

Polet (http://www.polyot.su) is designing and building space rockets, satellites, cargo airplanes and civic engineering.

Mechanical engineering contributes over 15% in gross regional production. As a result of conversion programs development, these enterprises gradually began to manufacture non-military-purpose machinery and equipment, such as civil aircrafts, tractors, medical equipment, and motor engines. The majority of the enterprises in the industry are involved in the defence sector, and many of them are still struggling with developing production of non-military products valuable in the domestic and foreign markets.

2.3. Consumer markets

In 2003 the nominal average salary was RUR7685 (31% more than in 2002) for the big and medium size enterprises. There were 221 thousand square meters (31% more than in 2002) of residential construction works were accomplished while the retail trade amounted for RUR47859 millions (19% more than in 2002).

Preliminary estimates of the regional statistics committee put the average monthly income monthly income for the period January-June 2004 at RUR4965 that is 14,3% higher than for the same period of 2003. Savings are estimated to be up 12,2%. Consumer spending accounts for 65,8% of the incomes. In May 2004 the average nominal monthly wage was RUR5387,3 that is 26,6% higher than in May 2003.

The retail trade turnover for January-June 2004 reached RUR30,7 billion or 15,6% more than for the same period of 2003. Catering turnover reached RUR1,61 billion while services accounted for RUR8,3 billion.

2.4. Establishing a business presence

2.4.1. Office and personnel

It appears that finding an office space in Omsk is somewhat more problematic than in other Russian big cities as growing demand is not matched properly by developing new properties. Still it could be assumed that 100 square meters of office space could be find and rented in the range of €400-800 and will most probably need some refurnishing and improvements.

The inconvenience with finding office space is partially compensated with lower costs for labour as compared to other million cities in Russia. The approximate salary levels are shown in the table below.

Position	Monthly Salary / €
Head of Representative Offices	400-800
Secretary	150 – 250
Chief accountant	300 – 500
Sales manager	300-500
HR Manager	200-400
System engineer	250-300
Driver	150-250
Translator	200-300

2.4.2. Legal assistance and banking

As in other regions of Russia a company that plans to operate in Russia for more than 30 days a year must be registered in accordance with the law on "Foreign Investment in the Russian Federation" adopted in 1999. A foreign business can operate in Omsk in any of three ways:

- As a *joint venture* with a local company or as a *legal entity that is 100% foreign owned*, which is the easiest variant of registration. In this case, the foreign

businessmen obtain the ability to operate in the Russian Federation on an equal footing with resident enterprises, because, in essence, they become a Russian legal entity. Moreover this way of registration is less expensive and less time-consuming.

- In cases where foreign legal entities wish to participate personally in inter-relations with Russian counterparts they should register a branch office; or an accredited office that is wholly foreign-owned. The difference between these two is in the scope of authorities conceded. A branch office is given wider authority. The parent company itself specifies the scope of authorities in a warranty of authority given to the branch director. Accredited offices fulfil representation functions and are not allowed to practice commercial activity.

It is highly recommended to contract with a local lawyer or law firm that specializes on registration issues to conduct and facilitate the registration process and for further legal routine maintenance such as renting office space, contract monitoring. Average Prices for legal services:
Registration of the Limited Liability Company costs approximately €300. A registration of a closed/open joint stock company (including the issue of shares) is approximately €600. Accreditation of a branch/representation office costs approximately €1500 while obtaining Work Permits is about €800.

Number of banks and their branches/affiliates operating in the region is 43, including 23 branches of Sberbank (Savings Bank) of Russia. As of 01/01/2003, amount of resources attracted by banks totalled RUR14,6 billion (approx. US$463,5 million).

2.4.3 Useful contacts

Business support organizations

Office of the Governor	**Department Foreign Relations**
Ul. Krasny Put 1	Ul. Krasny Put 1
644002 Omsk, Russia	644002 Omsk, Russia
Tel. + 7 3812 241415	Tel. + 7 3812 246359
Fax + 7 3812 244011	Fax + 7 3812 232765

Omsk Chamber of Commerce Ul. Krasny Put 18 644099 Omsk, Russia Tel. + 7 3812 230523 Fax + 7 3812 235248 E-mail: omtpp@omskelecom.ru	

Legal assistance

Promex Ul. Krasnogvardejskaia, 40/0, office 75 Omsk 644099, Russia Tel. + 7 3812 23-31-52; 24-37-52 Fax + 7 3812 23-45-47 E-mail: office@promex.ru http://www.promex.ru	**Alpha Group Consulting Bureau** Ul. Lermontova 60/0 5th floor Omsk, Russia Tel. + 7 3812 53-29-36, 53-23-42 Fax + 7 3812 53-25-01

Personnel recruitment agencies

Personal Novacia Ul. Lenina 2à, office 302 644043 Omsk, Russia Tel. + 7 3812 233-180; 243-297 E-mail: omsk@persona-nov.ru http://www.persona-nov.ru/	**Luchshie Kadry** Ul. Uchebnaja d.76 ê.20 644024 Omsk, Russia Tel. + 7 3812 532296; 534645 Fax + 7 3812 318640 E-mail: sbs@omskelecom.ru

Real estate agencies

Mir Nedvizhimosti pr. Marksa 18/1 Office 206 Omsk, Russia Tel. / Fax + 7 3812 39-64-18; 28-88-96; 28-88-52 E-mail: realtyworld@nm.ru http://www.realtyworld.ru	**Vasha Kvartira** Ul. Mendeleeva 2/1 644100 Omsk, Russia Tel. / Fax + 7 3812 52-90-42, 52-03-84, 52-03-75, 52-72-51 (ext. 106) E-mail: info@kvartira-omsk.ru

Concluding remarks

1.1. The Russian million cities and their strategic geography

As this report had demonstrated most of the Russian million cities are located quite strategically in terms of their geography. That is natural provided the history of Russia – its territorial expansion and economic development. Most cities are in very favourable position in terms of logistics and transportation. It is comparatively easy to ship goods from and to them using multiple transportation opportunities. In addition most million cities are located in regions rich in natural resources, which (1) gives them opportunity to maintain and enhance their industrial base and (2) allows them to maintain living standards that are comparatively higher than the average for Russia. The report suggests that when attempting to generate business with the million cities it is wise to seek for partners / distributors in 4 virtual zones:

Zone 1. The south of Russia including Rostov on Don and Volgograd

Zone 2. The Volga region where Nizhny Novgorod, Samara and Kazan are located

Zone 3. The Urals“ 1+3 including Ufa, Chelyabinsk, Perm and Yekaterinburg

Zone 4. Behind the Urals where Novosibirsk and Omsk are situated

1.2. Main industries and city profiling enterprises

The report highlighted the fact that Russian million cities have significantly diversified industries with a particular accent on machine building, metallurgy, chemical and petrochemical production as well as metallurgy. These industries are dominant for natural reasons – abundant natural resources and particularly oil, gas and metals: and of historic reasons – the state policy of creating strong machine building sector that will make the Soviet industry not dependent on Western technology be and allow the Soviet Union to compete in the arm race during the cold war. Presently, and again quite logically, a rapid growth are experiencing sectors of the economy that were previously neglected – services, production of mass consumer goods, agriculture and food processing among others. It is quite indicative that layoffs in the big Russian

industrial plants did not lead to significant unemployment as the service sector and slowly but growing number of SMEs provided with employment.

During the last years major changes occurred in the ownership structure of the Russian industrial sector. Many companies were bought and grouped or included in Russian national or regional industrial groups or holdings. Most of the new owners were buying in to stay or in some cases after implementing better management practices to sell the bought companies for profit. In both cases the developments led to significant improvements in the quality of the corporate governance and management and consequently in the overall performance of the companies. Together with the rouble devaluation of 1998 the competitiveness of Russian producers was increased and the revival of the industrial sector picked up.

Better-managed and more profitable companies led to a more prosperous social and economic background of the Russian million cities. Firstly the better performing companies are able to pay taxes and or help the municipalities tackle number of diversified projects. Secondly the better-handled federal budget in the conditions of high oil prices became more generous (and also importantly paying in time) to the regions. Thus the state owned sector also became an influential client to number of products and services – infrastructure, healthcare etc.

The challenge in front of the Russian industry is the technological upgrade of factories and production lines. According to estimates of the Institute of Transformation Economies the share of machinery and equipment, which are more than 20 years, rose from 15% to 42% between 1990 and 2001. The number of machines that are younger than 5 years fell from 29% to 6% and their average age rose from 11 to 19 years. In addition investments were and largely still are channelled in one direction: fuel and energy sectors and transport and communication together account for almost half of gross fixed capital formation. Industrial sectors producing machines and plants account for less than 7% and the consumer goods industry accounts for only about 5% of investments in industry. A somewhat positive signal is that bank loans in 2002 that worldwide are among the most common ways for financing technological upgrade were accounting for only 4,8% of financing.

If it is to be competitive or even only to stay afloat the Russian industrialists must switch their attention from better corporate governance to modernizing their production lines. That shift alone presents tremendous potential for Finnish SMEs as in number of fields they could offer technology, expertise and products. This opportunity has better chances to succeed if steps are done to get in touch with perspective clients, partners etc. already now. Even the financing is decreasing as a problematic area in Russia as there are increasing opportunities for leasing and other forms of financing presented by development banks such as the Nordic Investment Bank, European Bank for Reconstruction and Development, the International Finance Corporation as well as by commercial banks that will be increasingly involved in such financial operations. What is needed for Finnish SMEs to succeed in this respect is awareness of the opportunities, industrious approach in seeking them and flexibility in accommodating the offer to the specific needs and requirements of the Russian clients.

1.3. Consumer markets

If any indicator gives a glimpse at the current good health of the Russian economy – it is the booming consumer markets. Nowhere it becomes more visible than in the Russian million cities. The average Russian salary in the million cities is officially in the arrears of RUR5000 – RUR6500 (€137 - €178). However there are several reasons to believe that this figure is higher such as:

1) still in quite many places only the minimal salary is paid officially. The rest comes in an envelope and is not accounted by the statistics

2) quite many Russians tend to work at more than one place or to have an extra income (providing taxi services for instance)

3) many companies (especially the big and/or the state owned ones) provide their employees with number of services/benefits that normally should be considered as an income

4) there is a big discrepancy between the poor and the wage earners that brings the figure for the average salary significantly down

All this should suggest that the real figure is somewhat higher even of it is not easy to calculate how much higher. Higher incomes led to shifts in the consumer's behaviour and Russians try and look for more qualitative products that present value for money.

The report demonstrated in several different aspects there is serious increase in the purchasing power of consumers and customers. One is the shape of Russian retailing. The retail figures for the Russian million cities suggest that retail volume is growing with some 7 to 12% annually. The speed with which shopping centres are popping all around the Russian million cities suggest that various economic analysis forecast for the growth in retail volumes to continue.

Another very interesting indicator is that the real estate prices and particularly housing is on a significant rise in all the million cities reviewed in the report. As clearly demand outpaces supply it is evident that Russian million city dwellers find ways to generate money in cash (as housing loans are not widespread yet). Furthermore marketing surveys reveal that more than 45% of the Russian million city dwellers plan to make "tangible improvements" in their housing conditions through either substantial renovation or just buying bigger/better apartments/houses. The market for building materials reached approximately €2 billion in 2003 and is expected to grow with some annual 10%. At the source of this growth are the people living in the Russian million cities.

The growing purchasing power and living standards of Russians offers vast business opportunities not only for exporting but also for investments and production in Russia. Finnish SMEs should be aware of these changes and try to establish a more visible and operational business presence in one form or another.

1.4. Business presence

The easiest way to operate and do business in the Russian million cities is simply to find a Russian partner/distributor in each city or in some of the 4 virtual zones defined in the report. Money wise that is, of course the most cost saving strategy. Still, it is not necessarily the most effective and result oriented one.

Setting up a company, hiring personnel and having a direct control over the business becomes an increasingly available to Finnish SMEs option both in terms of it financial burden and ease of communication. Such an option may prove more costly in the short run but more rational when it comes to market coverage, industrious sales representation and control. For it to succeed it is crucial to have a feasible entry strategy as discussed in Chapter 1 and successfully selected and trained personnel.

As the report revealed business assistance is increasingly available in Russia at every stage of the preparatory process. Setting up a company or a representative office, renting office premises and hiring personnel speaking English could be subcontracted to professional agencies whose services are affordable. In addition often the city administration will be also in help as foreign investments in the Russian million cities are not as often as in Moscow or in Saint Petersburg.

The above-mentioned can bring to the conclusions that the economies of the Russian million cities are experiencing rapid revival. The clear ownership of their industrial base and improved corporate governance start resulting in significant capital investments. The latter surely create enormous business-to-business opportunities in which the Finnish SMEs could and should participate. The Russian million cities also contain excellent opportunities for mass consumer goods as the bigger incomes and living standard of their inhabitants generate constantly growing demand. That is another trend that should be utilized by Finnish SMEs.

The report stresses the fact that for successful business in the Russian million cities it is needed to (1) be aware of the opportunities, (2)explore and be knowledgeable about the market and (3)employ a target oriented entry strategy that is simultaneously industrious and cautious. Finnish SMEs have significant experience from doing business with/in Moscow and Saint Petersburg. Historically and geographically Finns are somewhat more experienced and skilled in conducting business with Russians. These skills and experience should be used as a basis for building business entry strategies to the Russian million cities. The awards for those who succeed are surely there.

Sources:

Chapter I. Accessing, generating and doing business in the Russian million cities

Belianin Alexis: Protectionism, Restructuring, and Russia's Accession to the WTO, in Russian Economic Trends, Vol. 11, pp. 14-19, 2002

Belton Catherine: To Russia, with Love It's the multinationals' new darling, in Business Week, New York; Sep 16, 2002

BOFIT: Russian Review, 06, 07-08, 09, 10,2004, Bank of Finland, Institute for Economies in Transition, at http://www.bof.fi/bofit/fin/4ruec/index.stm

Borell J.: Russia's new rise, UPSIDE, Foster City, Volume 14, Issue 3, American Edition, and Apr 2002

Broadman Harry G.: Competition and business entry in Russia, Finance & Development; Washington, Volume 38, Issue 2, Jun 2001

Bush Jason: Russia Partners in crime, Business Eastern Europe, Vol. 31 Issue 28, August 7 2002

Business Eastern Europe: Russia: So Much to Do, in Business Eastern Europe, Nov 2th 2002, Vol. 31 Issue 44 p.6-8

Coleman Linda Jane, Beaulieu, Elizabeth: Marketing in Russia: A Problem or Opportunity?, in Journal of East-West Business, 1999, v. 4, iss. 4, pp. 69-80

Etemad Hamid, Wright Richard W.: Internationalisation *of* SMEs**,** Toward a New Paradigm., in Small Business Economics, Feb 2003, Vol. 20 Issue 1, p.1-5

Flemming William: The Political Environment and the New President, in "Doing Business in Russia" ed. editor, Marat Terterov, London, Kogan Page, 2001

IET: Russian Economy in 2001- Trends and Outlooks, Issue 23, Institute for the Economy in Transition, Moscow, Apr 2002

IMF: Russia, Country Report, September 2004, No. 04/314, at http://www.imf.org/external/pubs/ft/scr/2004/cr04314.pdf

IMF: IMF Concludes 2001 Article IV Consultation with the Russian Federation, Public Information Notice (PIN) No. 02/40, Apr 4, 2002

James Wade: What mining companies should know to succeed in Russia, in Canadian Mining Journal, Volume 132 Issue 5, Aug 2002

Jacobs Everett M: The influence of Western concepts on Russian marketing theory, British Journal of Management. Chichester: Jun 2001. Vol. 12, Iss. 2; p. 149-158

Johanson Martin: Entering and participating in the turbulent Russian market: Internationalisation as a search and discovery prices, in Journal of East-West Business**,** Binghamton, 2002, Vol. 8, Iss. 3,4; p. 61 -82

Johanson J., Johanson M.: Developing Business in Eastern European Networks., in "Business Entry in Eastern Europe" ed. Jan Åke Törnroos, Jarmo Nieminen, Kikimora Publications, 1999

Liuhto Kari: How much does size, age or industry membership matter in transition?, in Problems of Economic Transition, Armonk, Apr 2001. Vol. 43, Iss. 12; p. 6-50

Liuhto Kari, Pelto Elina, Lipponen Kirsi: Where to Do Business in Russia? - A Report on Russian Regions, Firms, Foreign Trade and Investment Flows, Electronic Publications of the Pan European Institute, 5/2004, at http://www.tukkk.fi/pei/verkkojulkaisut/Liuhto_Pelto_Lipponen2004.pdf

McCarthy Daniel J. Puffer Sheila M., Naumov Alexander I.: Russia's retreat to statization and the implications for business, in Journal of World Business, Volume 35, Issue 3, 3rd Quarter 2000, Pages 256-274

Meyer Klaus, Skak Ane: Networks, serendipity and SME entry into Eastern Europe, in European Management Journal**,** London, Apr 2002, Vol. 20, Iss. 2; pg. 179-188

Nieminen Jarmo, Larimo Jorma, Springer Reiner: Market strategies and performance of western firms in Eastern Europe: A comparative survey, in *Journal of East - West Business,* Binghamton 2001, Volume 7, Issue 3, pp. 91-117

Radayev V.V.: Major Vectors of Institutional Transformations in Russian Economy, State University - Higher School of Economics, Feb 16, 2000, from IMF external publications at http://www.imf.org/external/pubs/ft/seminar/2000/invest/pdf/rad.pdf

Russian Ministry of Economic Development and Trade: Kompleksnaja ocenka socialno ekonomicheskogo razvitia regionov Rossijskoj federacii v 2003 godu (In Russian); taken from http://www.ivr.ru/regions/index.php?a=view&title=298

Sbleifer Andrei, Treisman Daniel: A Normal Country, in Foreign Affairs, Mar-Apr 2004, Vol. 83 Issue 2, p.20 – 39

Sestanovich Stephen: Doing business in Russia, Across the Board, Volume 31, Issue 10, New York; Nov/Dec 1994

Starobin Paul, Belton Catherine: Russia's New Wealth, in Business Week, New York, Aug 5, 2002

Thornhill John: On the road towards reform: But challenges remain in the form of the oligarchs, in Financial Times, London, Oct 9 pg. 3

Chapter II. The South of Russia

Rostov on Don

Radionova I.A.: Regionalnaja ekonomika, Examen publishing house, Moscow 2003

Business Information Service for Newly Independent States: Russia, Southern Federal Region, at http://www.bisnis.doc.gov/bisnis/country/southern.cfm

Kommersant: Rostov region, General Information at
http://www.kommersant.com/tree.asp?rubric=5&node=408&doc_id=-64

Business Information Service for the Newly Independent States /BISNIS/:
Economic overview of Rostov region, at
http://www.bisnis.doc.gov/bisnis/bisdoc/000918rostov.htm

Business Information Service for the Newly Independent States /BISNIS/:
Rostov: Agrobusiness developmenty in Rostov region, at
http://www.bisnis.doc.gov/bisnis/bisdoc/001003rsrostovag.htm

Business Information Service for the Newly Independent States /BISNIS/:
Commercial News Update From Southern Russia, at
http://www.bisnis.doc.gov/bisnis/bisdoc/0403SouthRus.htm

The Principal Cities and Agglomerations of Countries in Europe at
http://www.citypopulation.de/Russia-PrivolzskijFederalnyjOkrug.html

AutoTransInfo: Road Distances in Russia, at
http://www.autotransinfo.ru

Companies:
http://www.yug-rusi.ru/

http://www.dontabak.ru/english/

http://www.atlantis-pak.ru/en

http://www.donkonfab.ru/promo_links.php4

http://nevz.novoch.ru/

www.tagaz.ru
http://alumni.iubip.ru/sherbakova/machine_building.htm

http://www.rostselmash.ru/rus/

http://www.rostvertolplc.ru/ENG/index1.htm

http://www.beriev.com

http://www.tkz.taganrog.ru

http://www.donpressmash.com/

http://www.mair.ru/staks.shtml

http://www.icvtormet.ru/

http://www.nez.novoch.ru/home_en.htm

http://home.novoch.ru/~nzsp/english.html

http://www.kxk.ru

http://www.aramid.ru

http://www.darus.ru

http://www.spersona.ru

http://www.russianrealty.ru/news/83311.phtml

http://www.rostov-gorod.ru

Volgograd

Radionova I.A.: Regionalnaja ekonomika, Examen publishing house, Moscow 2003

Kommersant: Volgograd region, General Information at
http://www.kommersant.com/tree.asp?rubric=5&node=422&doc_id=-78

Business Information Service for the Newly Independent States /BISNIS/:
Overview of the Volgograd region, at
http://www.bisnis.doc.gov/bisnis/bisdoc/010105ovvolgagd.htm

Business Information Service for Newly Independent States: Russia, Southern Federal Region, at http://www.bisnis.doc.gov/bisnis/country/southern.cfm

Business Information Service for the Newly Independent States /BISNIS/:
Commercial News Update From Southern Russia, at
http://www.bisnis.doc.gov/bisnis/bisdoc/0403SouthRus.htm

Volgograd City Administration
http://www.volgadmin.ru

The Principal Cities and Agglomerations of Countries in Europe at
http://www.citypopulation.de/Russia-PrivolzskijFederalnyjOkrug.html

AutoTransInfo: Road Distances in Russia, at
http://www.autotransinfo.ru

Companies:

http://www.vocco.ru

http://www.kaustik.ru

http://www.sibrustire.ru/4608.shtml

http://www.voltyre.com/

http://www.vgtz.com

http://www.vgmz.ru

http://www.vmzko.ru

http://www.barricady.ru/index.htm

Chapter III. The Volga 3

Nizhny Novgorod

Radionova I.A.: Regionalnaja ekonomika, Examen publishing house, Moscow 2003

Kommersant: Nizhny Novgorod region, General Information at
http://www.kommersant.com/tree.asp?rubric=5&node=399&doc_id=-55

Business Information Service for the Newly Independent States /BISNIS/:
Overview of Nizhny Novgorod region, at
http://www.bisnis.doc.gov/bisnis/bisdoc/030308NizhNovOverview.htm

Business Information Service for the Newly Independent States /BISNIS/:
Overview of Nizhny Novgorod region, at
http://www.bisnis.doc.gov/bisnis/country/volga.cfm

Novgorod City administration at
http://www.admgor.nnov.ru

AutoTransInfo: Road Distances in Russia, at
http://www.autotransinfo.ru

The Principal Cities and Agglomerations of Countries in Europe at
http://www.citypopulation.de/Russia-PrivolzskijFederalnyjOkrug.html

Business Monitoring Agency: News from Nizhny Novgorod region, at
http://abm.r52.ru/index.phtml?rid=12&fid=10&sid=10&nid=70

Triumph Group of Companies at:
http://triumf.nn.ru/press06.htm

Regional Government at:
www.government.nnov.ru

City Administration
www.admgor.nnov.ru

Companies:
http://www.gaz.ru

http://www.velon.ru

http://www.autobus.ru

http://www.zmz.ru

www.sormovo.ru

www.sokolplant.ru/index.shtml

www.hydromash.ru

www.vmz.ru

http://www.rumo.nnov.ru

http://www.sibur.ru

http://www.lukoil-volga.ru/main/default.asp

http://www.sintez.nnov.ru/

www.bor.ru

http://www.orgsteclo.ru

http://www.nizhpharm.ru/index.phtml

www.volga-paper.ru

http://www.nmgk.ru

www.zaoskf.ru

http://www.professional.inc.ru

http://www.bs-corp.ru

www.kotin.ru

http://triumf.nn.ru

http://www.monolit.nnov.ru

Kazan

Radionova I.A.: Regionalnaja ekonomika, Examen publishing house, Moscow 2003

Kommersant: Republic of Tatarstan, General Information at
http://www.kommersant.com/tree.asp?rubric=5&node=450&doc_id=-108

Business Information Service for the Newly Independent States /BISNIS/:
Overview of Tatarstan
http://www.bisnis.doc.gov/bisnis/bisdoc/02TatarstanInvestorsGuidePart1.htm

The Principal Cities and Agglomerations of Countries in Europe at
http://www.citypopulation.de/Russia-PrivolzskijFederalnyjOkrug.html

AutoTransInfo: Road Distances in Russia, at
http://www.autotransinfo.ru

Kazan City Government at:
www.kazan.org.ru

Companies:
http://www.tatneft.ru

http://www.nknh.ru/index.htm

www.kazanorgsintez.ru)

http://www.shina-kama.ru

http://www.chempharm.kzn.ru/general.html

http://www.tars-rubber.com

http://www.kamaz.net

http://www.kazanhelicopters.com

http://www.oka.ru

http://kapo.mvdv.ru/expo/837/index_r.htm#

http://www.kmpo.ru

http://www.alnas.ru/main.htm

http://www.vostok-inc.com

http://kzma.narod.ru

http://www.melita.ru

http://www.edelveis.ru

http://www.krvostok.ru

http://www.kazan.ws/cgi-bin/newsn/print.pl?r=&a=f&i=81662

www.personalmaster.ru

Samara

Radionova I.A.: Regionalnaja ekonomika, Examen publishing house, Moscow 2003

Kommersant: Samara region, General Information, at
http://www.kommersant.com/tree.asp?rubric=5&node=411&doc_id=-67

Business Information Service for the Newly Independent States /BISNIS/:
Country reports / Russia / Volga region, at
http://www.bisnis.doc.gov/bisnis/country/volga.cfm

Business Information Service for the Newly Independent States /BISNIS/:
Commercial Overview of Samara region, at
http://www.bisnis.doc.gov/bisnis/bisdoc/010307SamaraOV.htm

Business Information Service for the Newly Independent States /BISNIS/:
Development of Small and Medium Size Enterprises in Samara region, at
http://www.bisnis.doc.gov/bisnis/bisdoc/0207smesam.htm

The Principal Cities and Agglomerations of Countries in Europe at
http://www.citypopulation.de/Russia-PrivolzskijFederalnyjOkrug.html

AutoTransInfo: Road Distances in Russia, at
http://www.autotransinfo.ru

Samara City Government, at:
http://city.samara.ru/economics/

Companies:

http://www.vaz.ru

http://www.aviacor.ru

http://motor-s.ru/

http://www.rosaviakosmos.ru/cp1251/org/progress.html

http://www.vbmbits.com

http://www.integra-s.com

http://www.smp.ru/rus/

http://www.spzgroup.ru

http://www.kuazot.ru/

http://www.toaz.ru

http://www.rossiachoco.ru

http://www.gelios-samara.ru

Chapter IV. The Ural's 1+3

Ufa

Radionova I.A.: Regionalnaja ekonomika, Examen publishing house, Moscow 2003

Kommersant: Omsk region, General Information at
http://www.kommersant.com/tree.asp?rubric=5&node=434&doc_id=-90

Business Information Service for the Newly Independent States /BISNIS/:
Overview of Bashkortostan republic, at
http://www.bisnis.doc.gov/bisnis/bisdoc/010220bash.htm

The Principal Cities and Agglomerations of Countries in Europe at
http://www.citypopulation.de/Russia-PrivolzskijFederalnyjOkrug.html

AutoTransInfo: Road Distances in Russia, at
http://www.autotransinfo.ru

Companies:
http://bashneft.narod.ru

http://www.bashkirenergo.ru

http://www.uzam.ru

http://www.energym.on.ufanet.ru

http://www.npf-geofizika.ru

http://www.bem.rb.ru

http://www.uralsoft.ru

http://www.avtoproekt.ru

http://www.polyplast-ufa.ru

http://www.umkk.ru

http://www.zatonsky.ru

http://www.ufavita.ru

http://ulkz.ru

http://www.icity.ru/kro

http://www.cartbl.on.ufanet.ru

Information Agency Bashinform: Po obyemam neftepererabotki OAO Bashneftehim na tretem meste v Rossii, at http://www.bashinform.ru/index.php?id=15339

NEWSru.com: V Bashkirii proizoshla tihaia privatizacia, at http://palm.newsru.com/finance/23jul2003/bashkiria.html

Obzor cen: Roznichny business v Rosijskih regionah – poisk uspeshnoj strategii razvitia., at http://www.pricereview.ru/archive.phtml?id=315

Information Agency Bashinform: Segodinia prohodit Vserosijskaja akcia protesta biudzhetnikov, at http://bashvest.bashinform.ru/showinf.php?nid=8217

Yekaterinburg

Radionova I.A.: Regionalnaja ekonomika, Examen publishing house, Moscow 2003

Kommersant: Sverdlovsk, General Information, at http://www.kommersant.com/tree.asp?rubric=5&node=414&doc_id=-70

Business Information Service for the Newly Independent States /BISNIS/:

Country Reports / Russia / Volga Region**, at**
http://www.bisnis.doc.gov/bisnis/country/volga.cfm

Business Information Service for the Newly Independent States /BISNIS/: Registering an office in Yekaterinburg, at
http://www.bisnis.doc.gov/bisnis/bisdoc/0311OpenOfficeYekat.htm

Business Information Service for the Newly Independent States /BISNIS/: Sverdlovsk region: SMEs development overview, at
http://www.bisnis.doc.gov/bisnis/bisdoc/030912uralssme.htm

The Principal Cities and Agglomerations of Countries in Europe at
http://www.citypopulation.de/Russia-PrivolzskijFederalnyjOkrug.html

AutoTransInfo: Road Distances in Russia, at
http://www.autotransinfo.ru

Companies:
http://www.uralmash.ru

http://www.energogas.ru

http://uetm.ru

http://www.ntmk.ru

http://www.uvz.ru

http://www.pntz.com

http://www.zik.ru/

http://www.uralenergomash.ru

http://www.pntz.com

http://www.baz-sual.ru

http://www.ntmk.ru

http://www.uralplatinum.ru/eng/index0.htm

http://www.kumz.ru/kumz

http://www.chrompic.com/eng/index.htm

http://www.sladco.ru

http://www.shmpan.ru

http://egk.etel.ru

http://www.kalina.org

http://www.uralplastic.ru

Potrebitelskii rynok Ekaterinburga, at
http://www.market-ekb.ru/market/rinok%20tovarov/index.htm

Rosrielt, Obyem stroitelstvo zhilia Ekaterinburge, at
http://www.zelgor.ru/news/2004/06/07/3532.shtml

MAN Nedvizhimost, at
http://www.manural.ru

Yekaterinburg gorod,
http://www.ekburg.ru/news.php?p=2&t=5339

Agenstvo Kadrovyh Reshenii, at
http://www.akrg.ru

Perm

Radionova I.A.: Regionalnaja ekonomika, Examen publishing house, Moscow 2003

Kommersant: Perm region, General Information, at
http://www.kommersant.com/tree.asp?rubric=5&node=406&doc_id=-62

Business Information Service for the Newly Independent States /BISNIS/:
Country Reports / Russia / Ural region**,** at
http://www.bisnis.doc.gov/bisnis/country/ural.cfm

Business Information Service for the Newly Independent States /BISNIS/:
Perm regional overview, at
http://www.bisnis.doc.gov/bisnis/bisdoc/030327Perm.htm

The Principal Cities and Agglomerations of Countries in Europe at
http://www.citypopulation.de/Russia-PrivolzskijFederalnyjOkrug.html

AutoTransInfo: Road Distances in Russia, at
http://www.autotransinfo.ru

Perm regional server, at
http://www.perm.ru

Companies:
http://www.avid.ru

http://www.inkar.ru

http://www.kamkabel.ru

http://www.iskra-energy.ru

http://motovilikha.perm.ru/metall

http://www.kamasteel.com

http://www.centrolit.ru

http://www.skif.permonline.ru

http://zid.perm.ru

http://www.rcenter.ru/GSHMR

http://www.rovel.ru

http://www.minud.ru

http://sorbent.perm.ru

http://www.halogen.ru

http://www.permenergo.ru

http://www.pcbk.ru

Vedosmosti Prikame, at
http://alpha.perm.ru/iaproject/txt.php?n=5583

Kommersant – Prikame, at
http://kamenev.perm.ru/main/article.php?id_article=46

Permskii torogvyj dom nedvizhimosti, at
http://www.ptdn.ru/main/page.php?id_page=64&

Recruiting agency Ancor, at
http://www.ancor.ru/perm

Chelyabinsk

Radionova I.A.: Regionalnaja ekonomika, Examen publishing house, Moscow 2003

Kommersant: Chelyabinsk region, General Information at
http://www.kommersant.com/tree.asp?rubric=5&node=382&doc_id=-39

Business Information Service for the Newly Independent States /BISNIS/:

Useful Contacts List for the Urals Federal District, at
http://www.bisnis.doc.gov/bisnis/bisdoc/021028UralsContacts.htm

Business Information Service for the Newly Independent States /BISNIS/:
Commercial News Update: Urals Region, at
http://www.bisnis.doc.gov/bisnis/bisdoc/030417UralsCommNews.htm

The Principal Cities and Agglomerations of Countries in Europe at
http://www.citypopulation.de/Russia-PrivolzskijFederalnyjOkrug.html

AutoTransInfo: Road Distances in Russia, at
http://www.autotransinfo.ru

Chelyabinsk City Administration: Investivionnyj profil goroda/ Promyshlenost I malyj business, at
http://cheladm.ru/index/investitsionnyyprofilchelyabinska/promyshlennostimalyybiznes/

Companies:
http://www.mmk.ru

http://www.mechel.ru

http://www.chtpz.ru

http://www.profsteel.ru

http://www.ufaleynickel.ru

http://www.zinc.ru

http://www.kmez.ru

http://www.chez.ru

http://www.uralaz.r**u**

http://www.ruspromauto.ru

http://www.chtz-uraltrac.ru

http://www.uralavtopritsep.ru

http://www.strommashina.ru

http://www.tpchel.ru

http://www.vip-persona.ru

russianrealty.ru: V Chelyabinske rezko vozrosli obyemy zhilishtnogo stroitelstva, at http://www.qaz.ru/index.php?id=2229

Torgovyj dom Passat: Na baze Uraltrak budut proizvodit traktory Komatsu, at http://www.allmetal.ru/news/news.php?1873

REGNUM: Na 30% vzrosla zarplata v Chelyabinske za pervye 4 mesiaca 2004 goda, at http://news.74mail.ru/news.php?news_id=7165

Paterson: Chelyabinsk za nedeliu, konklurencia v Chelyabinske nevelika, at http://www.paterson.ru/doc.asp?ob_no=1166&print=1&doc_url=http%3A%2F%2Fwww%2Epaterson%2Eru%2Fdoc%2Easp%3Fob%5Fno%3D1166

Chapter V. Behind the Urals

Novosibirsk

Radionova I.A.: Regionalnaja ekonomika, Examen publishing house, Moscow 2003

Business Information Service for Newly Independent States: Russia /BISNIS: Opening an Office in Novosibirsk, at: http://www.bisnis.doc.gov/bisnis/bisdoc/031110novoopenoff.htm

Kommersant: Novosibirsk region, General Information at http://www.kommersant.com/tree.asp?rubric=5&node=401&doc_id=-57

Business Information Service for the Newly Independent States /BISNIS/: Internet Informational Resources for Novosibirsk, Russia, at http://www.bisnis.doc.gov/bisnis/bisdoc/030228InternetResNovosibirsk.htm

Business Information Service for the Newly Independent States /BISNIS/: Commercial News – Siberia (Novosibirsk, Krasnoyarsk, and Altai), at http://www.bisnis.doc.gov/bisnis/bisdoc/0409Novo_news.htm

Business Information Service for the Newly Independent States /BISNIS/: Commercial News – Siberia (Novosibirsk, Krasnoyarsk, Omsk, and Altai), at http://www.bisnis.doc.gov/bisnis/bisdoc/0408Novo_news.htm

The Principal Cities and Agglomerations of Countries in Europe at http://www.citypopulation.de/Russia-PrivolzskijFederalnyjOkrug.html

AutoTransInfo: Road Distances in Russia, at http://www.autotransinfo.ru

Companies: http://www.allsiberia.com/novosibirsk/BUSINESS/list.html

http://www.elsib.ru

http://www.niz.ru/english/index.html

http://www.nsk.su/~stankosib/english/index.htm

http://www.sibselmash.ru/eng/index.html

http://stm.x1.ru/about_01en.htm

http://www.nok.ru/engl/about.html

http://www.novez.com/about.html

http://www.nmz-k.ru/about/

http://www.nmk.sibnet.ru/

www.vinap.ru

http://www.sunnyfoods.ru

http://www.nccp.ru/EN/

http://www.himplast.ru/

http://www.himprodukt.sibtorg.ru/

http://www.severyanka.ru/

http://www.westfalika.ru/english/eng_main.php

Business connection: Zarplaty v Novosibirske, tayny raskryty, at
http://www.buscon.ru/aboutus/article0150.php

Expert-Siir: V stile srednego klasa, at
http://www.expert-sibir.ru:8080/es/Numbers/20/p5/a5/Print

Omsk

Radionova I.A.: Regionalnaja ekonomika, Examen publishing house, Moscow 2003

Kommersant: Omsk region, General Information at
http://www.kommersant.com/tree.asp?rubric=5&node=402&doc_id=-58

Business Information Service for the Newly Independent States /BISNIS/:
General overview of ther Omsk region, at
http://www.bisnis.doc.gov/bisnis/bisdoc/0406_Omsk.htm

Business Information Service for the Newly Independent States /BISNIS/:

Internet resources for Omsk, at
http://www.bisnis.doc.gov/bisnis/bisdoc/010423omskintrnt.htm

Business Information Service for the Newly Independent States /BISNIS/: Commercial News – Siberia (Novosibirsk, Krasnoyarsk, Omsk, and Altai), at
http://www.bisnis.doc.gov/bisnis/bisdoc/0408Novo_news.htm

Business Information Service for the Newly Independent States /BISNIS/: Commercial News – Siberia (Novosibirsk, Krasnoyarsk, Omsk, and Altai), at
http://www.bisnis.doc.gov/bisnis/bisdoc/0402RU_NovosibCommercial.htm

The Principal Cities and Agglomerations of Countries in Europe at
http://www.citypopulation.de/Russia-PrivolzskijFederalnyjOkrug.html

AutoTransInfo: Road Distances in Russia, at
http://www.autotransinfo.ru

Companies:
http://www.omskindustry.ru.

http://www.siboil.ru

www.ekoil.ru

http://www.omsk.elektra.ru

http://www.omsktyre.ru/

http://www.matador-omsk.ru/

http://www.carbonblack.ru/

http://www.polyot.su

Omskaia guvernia, Information portal: Denezhnye dohody I rashody naselenia Omskoj oblasti v avguste 2004, at
http://www.omskportal.ru/default.asp?sidFavorites=1&sidObjectType=2&sidObjectValue=7235

Omsk regiona portal, at
http://www.regions.trj.ru/omsk/

Expert-Sibir: Vmesto tankov, vagony, at
http://www.expert-sibir.ru:8080/es/Numbers/17/p2/a3/Print

Omsk City Administration portal: Socialno ekonomicheskie pokazateli Omska (janvar – dekabr 2003), at
http://www.omsk.ru/www/omskru.nsf/015f210e781b068d46256b80003ab141/9966d1149311eb1ac6256e0000349cb6!OpenDocument

Omsk City Administration portal, at
http://www.omsk.ru

Job announcements in Omsk region, at
http://omsk.zarplata.ru/