

Peeter Vahtra & Harri Lorentz

*Analysis on Krasnodar and Rostov regions –
Opportunities for foreign food manufacturers*

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Contents

1	Introduction.....	3
2	An overview on the most favourable regions for food manufacturing	4
3	Rostov region	6
3.1	General information	6
3.2	Economic situation.....	7
4	Krasnodar region	16
4.1	General information	16
4.2	Economic situation.....	16

1 Introduction

Russia's robust economic growth in recent years has multiplied consumer expenditures on food and beverages and yielded considerable development in Russia's domestic agribusiness and food manufacturing. Considerable public and both domestic and foreign private investments have contributed to increased production and improved productivity of the agri-food sector. Due to booming domestic demand and improved conditions for production, the Russian food industry, thus, holds considerable potential for outward-minded Finnish food manufacturers.

For the current report, we have shortlisted three leading Russian regions for closer analysis on the potential and opportunities they hold for foreign food manufacturing companies (see Lorentz et al. 2007). The ranking of Russian regions is based on a regression analysis of a wide set of economic indicators from the Russian regions. By offering a closer insight into the three regions – Krasnodar, Rostov, and Moscow – we aim to facilitate the expansion of internationalising Finnish food manufacturers, to explore the potential of the Russian food and agribusiness sector and its production capacities.

In the current report, we offer an overview of relevant socio-economic indicators of the target regions complemented by a supportive analysis on the key operational prospects and challenges.

2 An overview on the most favourable regions for food manufacturing

The regions under scrutiny in the current report are the two regions in the Southern Federal District, the Krasnodar and Rostov Oblasts.

As discussed in Lorentz et al. (2007), the results of our performance ranking of Russian regions presented an interesting juxtaposition between the northern and southern districts of European Russia. While the Moscow city and region are generally assumed to be the most lucrative among the Russian regions for foreign companies due to their vast market potential, in our comparison, the two regions in the south ranked ahead of Moscow in several supply chain-related factors (Lorentz et al. 2007). By discussing the strengths and weaknesses of the investment environment of these regions the current report aims to facilitate the knowledge of the wider potential of the Russian market among the foreign food manufacturing companies.

The rapid growth of the Russian retail sector and the increasing purchasing power of the Russian population make Russia an attractive location for foreign food manufacturing enterprises. In addition, the retail sector in Russia is fragmented, and the agricultural production and the labour costs remain low. Simultaneously, the ongoing market liberalisation promotes domestic and foreign investments, while the competition in the sector is becoming fiercer than ever. Given the promising but challenging market environment, investment decisions need to be based on relevant information on local conditions. The current report aims to provide supporting information for Finnish food manufacturing enterprises that seek to invest in Russia. While abundant literature exists on general conditions of the Russian agriculture, food manufacturing and retail sectors, their development trends and even future scenarios, the present study offers a more pragmatic insight into investment conditions of the three most promising regions for foreign food manufacturers, as identified in our preceding study (Lorentz et al. 2007).

Table 1 presents the main socio-economic indicators of the two regions in focus in relation to the capital area (Moscow region).

Table 1 Key socio-economic indicators of the Krasnodar and Rostov regions, 2006.

<i>Indicator/ Region</i>	<i>Moscow</i>	<i>Krasnodar</i>	<i>Rostov</i>
Size, square km	45 900 (54 th)	76 000 (42 nd)	100 800

Population	6 600 000 (2 nd)	5 125 000 (3 rd)	4 400 000
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The two regions subject to the present report rank among the top 10 Russian regions when measured by regional purchasing power (Table 1).

Table 2 Russia's top 10 regions in purchasing power comparison

<i>Region</i>	<i>Federal District</i>	<i>Share of the regional purchasing power of the total Russian purchasing power, %*</i>
RUSSIA		100
Moscow city	Central	18,36
St. Petersburg city	North-West	4,47
Moscow region	Central	4,15
Tyumen region	Urals	3,40
Sverdlovsk region	Urals	3,25
Rostov region	South	2,86
Republic of Tatarstan	Volga	2,79
Republic of Bashkortostan	Volga	2,76
Samara region	Volga	2,66
Krasnodar Krai	South	2,64
Total, top 10 regions		47,34

* Combined regional purchasing power = population x average personal income/ price of food basket)

Source: Ylä-Kojola (2006)

In the subsequent chapters, the regional investment conditions will be elaborated on in more detail.

3 Rostov region

3.1 General information

The territory of Rostov region totals 100.8 thousand square km. Rostov Region has borders with Voronezh and Volgograd Regions, Stavropol, and Krasnodar Regions, the Republic of Kalmykiya, and Ukraine.

In the administrative and territorial division the region includes 55 main administrative units, including: 23 cities and towns (among them, 16 of regional subordination and 7 of district subordination), 25 settlements with town status, 43 rural districts, including 2287 rural settlements.

The city of Rostov-on-Don is the administrative center of the region. This city, with a population of more than one million people, is a large industrial and scientific center, as well as a major river port and an important transportation junction. In 2002, the city acquired additional political and economic importance by becoming the capital of the Southern Federal District. Other large cities of the region include Taganrog (pop. 282 000), Shakhty (255 000), Novocherkassk (185 000), Volgodonsk (172 000), and Novoshakhtinks (118 000).

The Rostov region ranks 5th among the Russian regions in terms of population (4.5 million people in 2005). Urban population accounts for more than two thirds of the total. The population density of the Rostov region is 42.5 persons per 1 sq. km.

As for the national composition, 90% of the population is Russian, 3.4% Ukrainian, 1.8% Armenian and 0.9% Belorussian. Educational level of the people in economically active age is relatively high. For every 1000 people, 300 have secondary specialised education, 400 – secondary general education, 87 – unfinished secondary education, 12 – unfinished higher education and 190 completed higher education degree. The average annual number of individuals employed in economic activities is 1,75 million people, among them 1,2 million people are employed by private enterprises and organizations.

The development of the region's economy is influenced by its favourable economic and geographical position (the region brings together central Russia, the North Caucasus and

Trans-Caucasia), the abundance of natural resources, the historical development advantages, the presence of excellent human labour resources and a well-developed transportation infrastructure. By the pace of economic reforms in recent years and the volume of production of different goods and services, the region occupies one of the leading positions both in the Southern Federal Unit and in the Russian Federation, in general.

The region is surrounded by economically advanced territories: Donbass in the west, the central part of the Russian Federation in the north and northeast, the Volga region in the east and Caucasus in the south. In the zone of approximately 1.0 to 1.5 thousand kilometers around Rostov Region's border, the country's richest coal, oil and gas extraction, metal production, machine-building, chemical and agricultural centers and districts are situated. A lot of the goods exchanged between these districts go through the territory of Rostov Region. The Don River, one of the largest rivers in Europe, with numerous branches and tributaries, flows across the territory of the Rostov region.

Mineral resources include the minerals of the fuel and energy group. Among these are the coals of the Eastern Donbass, mainly anthracite, the best coal in the world by the level of calorie content. The fields of non-metallic rock minerals are being exploited, supplying raw materials for the metal industry and construction materials production. The explored reserves of natural gas are estimated at being around 56.2 billion cubic meters. The timber resources of the region are not remarkable, taking up only 2.8% of the region's territory. They are mainly represented by the forests that fulfill water-protective and other environment-safeguarding functions.

The recreational resources include the resorts of local importance for summer recreation. These resorts are rich in mineral water and are considered to have a potential for international tourism development.

3.2 Economic situation

General characteristics of the region's economy

Rostov has a favourable geographical position in the south of Russia, between the European part of the CIS and the Caucasus Mountains, which has contributed to relatively

dynamic development of the region. The main contributors to GRP are industry, commerce, and agriculture (Table 3).

Table 3 Composition of the Gross Regional Product (GRP) of the Rostov region, 2005

Sector	Share of GRP, %
Industry	22,4
Commerce and public catering	20,2
Agriculture and forestry	12,9
Transport and communication	10,4
Housing and construction	6,4
Other	27,7

Industry

By its level of development and the variety of branches, the production industry in Rostov Region is one of the leading industries in the Russian Federation.

The leading industries of the Rostov region are food production, machine-building, ferrous and non-ferrous metallurgy, and power generation. Many of the industrial enterprises in the region are of national importance, being the only or the largest producers of certain types of goods in Russia.

The region is the sole producer of main-line electric locomotives in Russia and accounts for more than 90% of the sewing machines and more than 60% of the grain harvesters produced in the country. In addition, the producers of heavy helicopters, shipping navigation systems, boiler heat exchange and water heating units, oil equipment, and tractor cultivators in the Rostov region also occupy leading positions in a countrywide comparison. Production of the largest companies in the food industry – OJSC “Yug Russie”, OJSC “Baltika-Don” and OJSC “Donskoy Tabak” cover nearly 20% of the Russian beer and tobacco market.

Food industry is the largest industrial branch in the Rostov region by the volume of output. The sector consists of a wide network of enterprises that are engaged in meat production and processing, fish, dairy products, oil, wine, beer, sparkling wine, soft drinks, bakery goods, pasta, canned fruit and vegetables, and tobacco products. In 2003, an objective was set in the Rostov region set an objective to ensure that all of the food produced in Rostov region would be processed locally. Examples of meeting this objective are the vegetable oil-extraction plants – AgroSouz “Yug Rusi” Ltd. and “Volshebniy Kray” Ltd.

These enterprises create the opportunity for processing the whole harvest of sunflowers grown in the region. The “Tavr” company and “Novocherkaskiy Myasokombinat” – the region’s largest meat plants – have their own farms and work under long-term contracts with the agricultural enterprises in the region, purchasing cattle-breeding raw materials from them on a regular basis. These measures provided for the growth of the gross production output of the food and processing industry from 15.4 billion rubles in 2000 to 29.3 billion rubles in 2003 and further to over 40 billion in 2005.

Agriculture

The composition and fertility of the soil in the region is considered as one of the key assets of the Rostov region and has lays the basis for a strong agricultural production. The agricultural enterprises of Rostov account for almost 15% of the GRP, utilise 17% of the total amount of production funds, and employ 15% of people engaged in all industries in the region.

Grain production occupies a leading position in the agricultural structure of the region accounting for more than one-half of the total sown areas. Rostov is the fourth-largest producer of grain crop among the Russian regions. Winter wheat is the main type of grain produced in the region. In addition, production of corn, soy, rice, millet, buckwheat, and other groats is widespread. Sunflower is the leading industrial crop in the Rostov region. Rostov is the largest producer of sunflower seeds among the Russian regions with a 20%-share of the country’s total production.

In addition, the gardening, grape growing and winemaking industries have been developing fast over the past decade. By the amount of produced vegetables, Rostov ranks fifth in among the Russian regions. Despite the high level of consumption of local agricultural production, majority of the production is destined for exports.

The key specialisation areas of cattle-breeding companies in the Rostov region are milk- and meat-cattle breeding, sheep breeding, horse breeding and poultry farming. All the poultry and cattle are concentrated in five climatic and soil zones in the region: northwestern, northeastern, eastern, southern and central Azov. The Rostov region is the seventh-largest meat producer among the Russian regions.

Investment regime

The proclaimed objective of the regional investment policy is to create favorable conditions for attracting investment into economically effective and competitive enterprises and into activities that are capable of creating the region's own investment potential and assisting in the other industries' adaptation to the market-economy environment.

Investment legislation being formed in the region aimed specifically at providing the necessary stimulation to attract national and foreign investment in the economy. The core of the investment legislation of Rostov region is being formed by the following regional laws: "*On Supporting the Investment Activity in Rostov Region*", which defines the procedures of supporting investors, and "*On the Development Budget of Rostov Region*", which outlines the main aspects of the formation and spending of the funds of the regional budget allocated for investments.

The development of the economy in the region is relatively stable in countrywide comparison resulting in the regional budget surplus. More than 50% of the budget of the region is directed towards tackling social issues. The registered unemployment rate of the region is one of the lowest in Russia (0.8%).

Innovations

The stimulation of innovation in the economy of the Rostov region and the gradual formation of an innovative economy are the two main objectives of the regional economic policy. The recent "*Concept of Innovative Policy*" and the "*Regional Target Program for Development of Innovation Activities*" are aimed at forming a system of legal and socio-economic tools for stimulating the structural and technological changes in the main areas of development of the innovative industries in the region. The acts are also geared towards supporting the integration of business and science, synchronising the innovation processes in defense industry and in the areas of civil industry as well as actively involving the potential of the innovation research conducted in higher educational institutions and at the large- and medium-sized enterprises in technical re-equipment of the industry.

Local investment environment and legislation

The Rostov region has several competitive advantages, which create favorable conditions for investment and regional development:

- the favorable geographical position, which gives the region the status of being the gateway of Russia to the countries of the Black Sea area, the Mediterranean and the Caspian region;
- the geopolitical importance of the region for the whole country;
- the well-developed transportation infrastructure, represented by the railroad and the motorways of federal importance, sea and river ports and the international airport in Rostov-on-Don;
- favorable and abundant natural resources in the region
- well-developed production industry, led by machine building;
- a rich raw materials base for the processing industry;
- a wide variety of raw materials and mineral resources;
- the existence of a highly-qualified and active workforce;
- the dynamic formation of a market institutions infrastructure (banks, insurance firms, investment companies, leasing organizations, etc.);
- the existence of a good legislative basis that contributes to the investment appeal of the region;
- high consumer demand; and
- a stable social and political situation.

At the beginning of 1998, Rostov Region became one of the first federal units in Russia to adopt the Regional Law *“On Supporting Investment Activities in Rostov Region”*. Adopting this law made a foundation for the formation of the legislative basis in the region that was mainly directed towards creating a favorable situation for the development of competitive business that would fit into the framework of the rigid demands of the world market. The legislation was also meant to ensure that the financial situation of the real sector of the economy would be strengthened, along with creating stable income sources for the budget.

Today the following regional laws make up the core of the investment legislation in the region:

- *“On Investment in Rostov Region“ (adopted in September 2004);*
- *“On the Development Budget of Rostov Region“ – regulating the basic features of the formation and spending of the part of the regional budget allocated for investment;*
- *“On the Investment Tax Credit in Rostov Region“, describing the procedures of giving an investment credit for regional tax payments (to the extent of the federal unit’s authority);*
- *“On the Priority Development of the Mining Territories in Rostov Region“ (adopted in April 2004).*

Adopting the laws introduced greater variety into the inventory of the forms of state support given to the enterprises that are involved in investment projects. Those forms include:

- providing state guarantee for credits and loans;
- giving investment tax credits;
- providing the enterprises with tax advantages (in the amounts equal to the transfers to the regional budget: the property tax, the income tax and the land tax);
- subsidising the enterprises for the part of the expenses connected with the interest payments on the loans and credits taken by the enterprise for the implementation of investment projects
- making investments from the budget on the condition of creating regional property.

The formation of the legislative basis of investment activities was founded on the principles of compliance of the regional laws with the federal legislation of Russia, creating and opportunity to consolidate the budget funds on all levels for the purpose of solving the highest priority tasks both on the regional and on the federal levels.

Foreign investments in the region enjoy full legal protection. Foreign investors can direct their funds to the enterprises representing any branch of the economy. They can participate in all kinds of activities, with the exception of those branches, industries,

activities and locations in the region, where investment activity is limited by the federal legislation.

In 2004, the Regional Administration together with the National Agency for Direct Investments (Moscow) created the *Strategy for Attracting Investments in Rostov Region*. (The agency was selected for this project by means of a tender in September 2003).

The creation of this document is a new step in the development of the investment processes in the region. It illustrates the general changes in the approach to the regional investment policy itself.

The strategy defines the aims of developing the investment activities in the region and the necessary volumes of investment resources to be attracted. It also describes the advantages that the region can offer to potential investors. In addition, the document reveals the priority sectors and industries for investment, the target investors and the main directions of the region's marketing program. The strategy includes an action plan for creating favorable conditions for investment in the area and promoting the positive image of Rostov Region in Russia and abroad.

The fact of bringing in an outside organization that would deal with attracting investments and developing investment activities in the region by means of a tender became part of an absolutely new concept of organizing the work in this area in Rostov Region. In this case, it was the Investment Promotion Agency of Rostov Region.

Tax benefits in the Rostov region

Regional tax benefits are specified by RF Tax Code and (or) RF subjects' laws. The regional legislation determined tax benefits and grounds for their application by taxpayers. Chapter 8 of the *Regional Law on Some Taxation Issues No. 186-ZS dated 02.11.2001* regulated the preferential profit taxation for organizations implicating the 4 percent decrease in the tax rate to be directed to the regional budget.

The indicated benefit applies to enterprises of penitentiary institutions, non-governmental organizations for disabled persons, media and small business support foundations.

According to the *Regional Law on Priority Development of Rostov Region Mining Areas No.102-ZS dated 5.05.2004* the preferential taxation is provided to organizations registered and operating on mining areas. When complying with clearly specified conditions economic entities enjoy benefits relating to profit tax, property tax and transport tax. As well a decreased correcting rate of the unified tax on imputed income for certain types of business has been determined.

The *Regional Law on Investments in the Rostov Region No. 151-ZS dated 01.10.2004* also establishes organizations' profit and property tax preferences with respect to investors operating in the region.

Granting tax exemptions to implement investment projects and subsidies for compensation of the interest on investment credit share currently complies with the *Decree of Rostov Region Administration on Procedure for State Support of Organizations' Investment Activity from the Regional Budget No.91 dated 16.08.05*.

Tax benefits are not individual and can be granted to investors implementing investment projects provided that the volume of investments exceeds:

- 3 mln rubles in Rostov-on-Don and Taganrog;
- 0.5 mln rubles in dry eastern parts of the Rostov Region: Dubovskoy, Zavetinsky, Zimovnikovsky, Orlovsky, Proletarsky and Remontnensky districts;
- 1 mln rubles in rural districts and in towns not mentioned above.

As well, tax preferences are granted to organizations producing excisable products and gradually investing in reconstruction of separate segments of a single technological process, whose investment volume exceeded 10 mln USD in the previous financial year.

The concessional taxation does not apply to organizations under liquidation or going through insolvency procedures specified by federal legislation.

Tax advantages are granted within the investment project payback period stipulated by the project documentation but not more than for five years.

The tax benefits include:

1. Pursuant to the Regional Law on Organizations' Property Tax the establishment of the tax rate in the amount of 1.1% with respect to purchased within the framework of the project implementation organisation property excluding the leased-out or other fee-based property;
2. 4% decrease in the organisations' profit tax relating to tax amounts transferred to the regional budget with respect to the profit obtained upon selling products or services and manufactured on production capacities generated within the investment project implementation.

Local tax benefits have been specified by regulatory acts of representative bodies of municipalities.

4 Krasnodar region

4.1 General information

The Krasnodar region as a part of the Southern Federal District is the southernmost region of Russia. The region covers a total area of 76,000 square km, and it borders with the Rostov region, the Stavropol Territory, Georgia, and the Republic of Karachaevo-Cherkessia. The region is washed by the Azov and the Black Seas.

The Krasnodar region enjoys a temperate continental climate, while at the Black Sea coast the climate is subtropical. The growing period lasts around 260 days. The plains are covered with black earth soil.

The region's population is over 5.1 million people, of which about 53% live in the urban area. The average density of population is 67.4 people per sq. km. The region's leading urban centers are Krasnodar, the administrative centre of the region, Sochi, Novorossiysk, Armavir, Yeisk, and Kropotkin.

The Krasnodar region is rich in over 60 types of mineral resources including oil and natural gas. The Europe's largest basin of fresh water is located in the region. Its Mediterranean-type climate, warm seas, unique mineral water springs, and therapeutic mud make the Krasnodar region one of the most ecologically pure and popular recreational and tourism regions of the country.

The region is governed by the Krasnodar region Legislative Assembly, which passes laws obligatory for execution in the region, and the Krasnodar region Administration, which is main executive body and which is headed by the governor.

4.2 Economic situation

The positive dynamics of GRP result from a higher output of products and services in the main branches of economy. The biggest shares in the structure of GRP belong to transport

and communication (18.6%), industrial production (14.3%) and agriculture and forestry (13.7%).

Agriculture

The Krasnodar region is the largest producer and supplier of agricultural products and raw materials in Russia. The agricultural sector accounts for some 13.7% of GRP and over 6% of Russia's gross agricultural product, including 10% of grain output, 27% of sugar beet output, and 20% of sunflower seeds output. About 25% of the working population of the region is engaged in agriculture. The region has 4.4 million hectares of arable land, including 3.9 million hectares of ploughed fields, 77,000 hectares of orchards, and 35,000 hectares of vineyards.

Major industries

The most important industrial sectors are food and beverage (48% of the regional industrial output), energy (13.9%), fuel (6.4%), machine engineering and metal processing (10.4%), and construction materials (8.1%).

The leading industrial sectors, represented by some 700 large and medium size companies and over 4,000 small enterprises, account for over 80% of total industrial output. Small business companies account for 20.5% of GRP. The sector employs 28% of the region's workforce. The number of small business enterprises is steadily increasing. The main branches of activity of small enterprises are commerce, public catering, industry, and construction.

Food and beverage. The food and food processing sectors hold the leading position, accounting for 48% of total industrial output. About 35% of the total volume of food production fall on dairy products and meat processing, 15% - tobacco items production, 8% - sugar and bakery foods, 6% - fat and butter industry, 5% - winery & fruit and vegetable production. As of 2005, the Region has 16 sugar refineries, 16 vegetable and fruit canning plants, 7 fish canning plans, 39 dairy and 20 meat processing plants, 2 tea and 2 tobacco processing plants, 7 oil and fat plants, 48 vineyards, 11 vine plants, 3 distillers, and 25 bakeries.

Major companies within the sector are *Krasnodar Oil-and-Fat Plant OAO*, *Florentina OAO*, *Abrau-Durso OAO*, *Sochi Meat Processing Complex OAO*, *Krasnodarsky Fish Processing Plant ZAO*, *Krasnodar Ptitsa Municipal Unitary Company*, and *Subsidiary No 1 of Moscow Brewery and Soft Drink Plant Ochakovo ZAO*.

Fuel and Energy. The fuel and energy sectors account for some 20.3% of total industrial output (6.4% and 13.9% correspondingly). Over the past three years, oil output has risen by 254,000 tons, or 16%, and natural gas – by 749 million cubic meters, or 39%. Primary oil refining reached 5.2 million tons in 2001, which constitutes 220% growth on 1998 levels. *Kuban Energo OAO* is the main energy generator and supplier. The energy system comprises *The Krasnodar Power Station*, three hydroelectric power stations, high-voltage transmission lines and transformer substations. The Region is home to three oil refineries, the largest being *KrasnodarEcoNeft Refinery ZAO*, *NK-Rosneft OAO* (the Tuapse Oil Refinery).

Machine engineering and metal processing. The sector accounts for 10.4% of total industrial output. Over 100 enterprises produce a wide range of machinery, including metal-cutting and lumber machines, automation tools, agricultural vehicles, electrical engines, compressors, pumps, refrigerators, and oil exploration and extraction equipment. Major companies within the sector are *Saturn OAO*, *Compressor Plant OAO*, *Novorosmash OAO*, *Novorossiysk Ship Repair Plant OAO*, *Armavir Electric Technical Plant OAO*.

Construction materials. The sector accounts for 8.1% of total industrial output. The Region's four construction materials manufactures – *Kuban Gypsum-Knauf OAO*, *Yamburg Gas Invest OAO*, *OBD OAO*, and *Novoros Cement OAO* – are among Russia's top construction materials companies.

Timber industry, woodworking and pulp and paper industry. The sector accounts for 4.2% of total industrial output and is represented by 35 large and medium companies producing lumber, chipboard, parquet flooring, and home and office furniture. Industrial wood production amounts to 150,000 cubic meters per year. Major companies include *Goryachy*

Klyuch Furniture Plant OAO, Yug ZAO, Garda OAO, AR Carton OAO, Ockerlund & Rausig Kuban OAO, SCA Packaging Kuban ZAO, and Tetra Pak Kuban ZAO.

Tourism and recreation

Over 1 300 sanatoriums and 400 tourist enterprises with an estimated capacity of 220 000 generate more than \$ 350 million per year in revenue. The region is home to several Russia's major seaside resorts, including Sochi, Anapa, Gelendzhik, Tuapse, and Yeisk. Annual number of vacationers amounts to over 5 million.

Transport infrastructure

The transport sector accounts for 15.6% of the Region's GRP. The volume of rendered services in 2004 exceeded 65 billion rubles; during 2000 – 2003 over 400 million tons of cargo and some 3 billion passengers were transported.

The Region has more than 10000 km of roads, including the following: *Krasnodar – Novorossiysk, Krymsk-Port – Caucasus*, and federal roads *Krasnodar – Baku and Don* (Moscow – Voronezh – Rostov-on-Don – Krasnodar – Novorossiysk). In addition, the region has 2 200 km of railroads. The main route going through the Region is the Krasnodar section of the North-Caucasus railroad. The main freight flow goes in the direction of the seaports. Freight is dominated by oil, oil products, timber, lumber, grain, sugar, construction materials, and equipment. Further development of the railroad system of the Region is planned to increase the traffic capacity and to improve the links with the coast and remote settlements.

The Krasnodar Region has international airports in *Krasnodar, Sochi, and Anapa*. Over the last three years new passenger airlines have been introduced, including international flights to Austria, Germany, Greece, Italy, UAE, and Turkey. There are eight seaports in the Region: *Novorossiysk, Tuapse, Sochi, Anapa, Gelendzhik, Yeisk, Temryuk, Port-Kavkaz, and the Krasnodar river port*. These account for up to 40% of the Russian Federation's ports freight turnover. Major shipping companies are *Novorossiysk Sea Ship Line OAO, Novoship OAO*.

Sections of such major oil pipelines as *the Makhachkala – Grozny – Tuapse*, oil pipelines of *Transneft OAO*, *Chernomortransneft OAO*, *Caspian Pipeline Consortium ZAO*, and the *Lazarevskoe – Tuapse – Nebug* gas pipeline, all pass through the Region.

In December 2003 the second stage of the Russia-Turkey *Blue Stream gas pipeline* was put into operation. The total length of the pipeline is 1,213 km, including 317 km passing through the territory of the Krasnodar Region. By 2008 the gas pipeline will operate at a full design capacity. The annual scope of supply will reach 16 billion cubic meters.

Teleommunication

Telecommunication is the most prospective and dynamically developing infrastructure branch of the Krasnodar Region, possessing notable potential for long-term economic growth. The volume of communication services in 2003 exceeded 12.5 billion rubles. The number of subscribers of fixed telephone communication exceeded 1 million people. The sector of mobile communication saw even higher growth rates and ranks third among Russia's regions. The regional and municipal communication programs are being implemented in several of the rural areas. The largest operator in the region is *Southern Telecommunication Company OAO*.

Trade and Investment

Export and Import

The region's foreign trade turnover exceeded \$ 3 billion in 2005 (extra-CIS trade accounted for 92.7% and CIS trade for 7.25%).

The main goods exported by the region are crude oil, sunflower seeds, sugar, tobacco products, raw timber, and grain. Major trade partners include Turkey, Bulgaria, Italy, Greece, the Netherlands, Germany, Spain, and the USA. The region maintains close links with Ukraine, Belarus, Kazakhstan, and Uzbekistan.

The main goods imported by the region are raw sugar, fertilisers and pesticides, agricultural equipment, citrus plants, oil products, and medicine. The main exporters to the region are Ukraine, Germany, Italy, France, Turkey, China, Cuba, Greece, and the USA.

Due to the specific features of trade in the Krasnodar Region, mainly industrial companies perform export and import operations.

Investments

Foreign investments. The share of investors from Kazakhstan amounts to 28.2% of total investments, that of the Netherlands – 19%, the USA – 12.3%, the Great Britain – 9.9%, France – 7.55, Cyprus – 6.6%. 39 branches of foreign legal persons have been opened in the region and over 800 enterprises with foreign investments have been registered in the Krasnodar Region.

Major enterprises with foreign capital. The Krasnodar Region is home to 781 companies with foreign investment from 60 countries. Major companies are Sochi Pepsi-Cola Soft Drinks Plant ZAO (beverages, international), Kuban Gypsum-Knauf OAO (construction materials, Germany), JV Tetra-Pak Kuban (packaging, Sweden), Caspian Pipeline Consortium-R (oil transportation, international), Blue Stream Pipeline Company Ltd (gas transportation, international), Cargill-Yug Ltd (food processing, USA), KLAAS Ltd (agricultural machine engineering, Germany), Bonduelle-Kuban Ltd (canned vegetables and fruits, France).

Current legislation on investor tax exemptions and privileges

- In 1999, the Regional Legislative Assembly passed the Krasnodar Region's *Law on State Support to Investment Activity in the Krasnodar Region*, which ensures various forms of state support to investment credits from local budget, guarantees provided by the Regional Administration, and reimbursement of portions of interests on loans issued from the regional budget. Moreover, investors may rent land, use natural resources, and acquire the Region's real estate on preferential terms.

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- Investors putting their own or borrowed funds into investment projects with the “approved” status are eligible for exemptions from local taxes. Domestic and foreign investors have equitable rights to tax privileges.
 - The law envisages special tax incentives for banks and leasing companies providing loans for the implementation of projects with the “approved” status. The loan guarantee offered by the Administration is a major measure aimed at attracting private-sector investment.

Investment climate

- The economic development of the region is dynamic and friendly towards foreign investors. The regional and sub-regional administration are used to international standards and genuinely interested in raising foreign investments, commerce and trade.
- The administration of Krasnodar offers a "single window" service in order to surmount administrative barriers and to facilitate the procedure of obtaining permits and licenses.
- The region is within the ten leading regions of Russia by investment climate rating: according to Expert RA Rating Agency, is rated 10 for investment risk and 9 for investment potential. In September 2004, Standard & Poor's granted to Krasnodar Krai a long-term credit issuer of B+.

Trends

- Krasnodar Krai has a relatively well-developed transport and telecommunication infrastructure. Recently, private companies (including foreign ones) have been allowed to purchase land for industrial purposes.
- The purchasing power of the population is steadily increasing as is being reported by foreign companies operating in the region. The development of the telecommunication industry, in particular mobile telephone services for businesses and individuals are a confirmation of that trend. The increasing number of new restaurants and supermarkets in the main towns are also confirming this positive trend.
- The region is oriented towards the following priorities as determined by the Program of social-economic development of Krasnodar Region for 2003-2008:

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- *Agro-industry* ("Agro-cluster"): the government aims at developing the potential for the agriculture by increasing processing facilities and developing regional agricultural machine building, taking advantage of the rich material base for the processing sector. Foreign companies such as Nestlé, Bonduelle and Klass have taken advantage of these opportunities.
 - *Tourism*: the region possesses unique recreational resources for tourism. The Federal government aims to develop a modern tourism industry by creating resort infrastructure in Sochi, Anapa, Gelendzik, and Temryuk. The majority of projects are in the hotel infrastructure. Of special priority for the government is the development of the sport mountain-climatic complex of Krasnaya Polyana, located 70 km away from Sochi and 40 km from the international airport. Several Projects for construction of cable cars, hotels, equipment of skiing routs are proposed.
 - *Transport*: development of seaports capabilities (Azov Black Sea coasts; railway junctions at sea ports, highways to the sea ports, in particular Novorossisk). The Region has an advantageous geographic location and direct access to international sea routes through the Black Sea and the Mediterranean.
 - *Green technologies*: the local government is willing to support special efforts of foreign companies.

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