

LENINGRAD REGION: PROFILE

INDUSTRY

THE CHEMICAL AND PETROCHEMICAL INDUSTRY

The chemical and petrochemical industry includes 13 large and medium-sized enterprises, the largest of which are listed below.

- OAO Fosforit;
- OAO Era;
- OAO Volkhov Chemical Plant;
- AO Khimik;
- OAO Lesogorsk Factory;
- Zavod Imeni Morozova State Enterprise.

The assortment of industrial product is quite wide. In 1999, the production volumes were as follows: sulfuric acid, 665,000 tons; soda ash, 163,400 tons; mineral fertilizers, 197,500 tons; synthetic resins and plastic masses, 7,300 tons.

THE CONSTRUCTION MATERIALS INDUSTRY

The construction materials industry of the Leningrad Region includes quarries of natural construction materials, such as ceramic clay, fireproof clay, limestone, dolomite, crushed rock, sand, and gravel, as well as factories that produce cement, lime, clay, construction ceramics, slate, roofing, brick, and concrete and ferroconcrete construction. The industry includes 35 large and medium-sized enterprises.

In 1999, the production volumes were as follows: cement, 1.5 million tons; construction brick, 114 million pieces; ferroconcrete constructions, 89,100 cubic meters; ceramic facing tile, 3.4 million square meters; non-metallic construction materials, 8.7 million cubic meters.

ENGINEERING AND METAL PROCESSING

The engineering sector of the Leningrad Region includes over 60 large and medium-sized enterprises, which produce a wide assortment of industrial and technological products.

The main corporations in the engineering sector are listed below:

- The Transmash Plant;
- The Luga Abrasive Plant;
- The Tosno Bus Plant;
- Burevestnik;
- Ladoga, and a number of other enterprises.

THE FUEL AND ENERGY SECTOR

The fuel and energy sector forms the foundation of the Leningrad Region industrial base and is vitally important for the needs of the Northwest region. The share of fuel and energy products as a percentage of total production volume in the region is 39 percent. The fuel and energy sector of the Leningrad Region is a complex, highly developed system that produces, transports, and

distributes fuel and energy. It includes the following parts:

The electric power sector:

The Leningrad atomic power plant (LAES) produces almost 60 percent of the power that the region needs. Since 1995, the plant has produced 16 to 21 million kWh of power per year.

OAO Lenenergo is the operating company. Its largest source of electric energy is the Kirishi Main Regional Power Plant.

Lenenergo is based on a 330-kV network, which links the main load units and carries electric power from the power plants. The 110-kV network and a part of the 220-kV network are the distributing networks. RAO EES Rossii owns the 330 kV through 750 kV networks, which carry the power from the Leningrad region atomic powerplant and the Kirishi Main Regional Power Plant, connect the system to other power systems, and allow for power exports to Finland. Objects that belong to RAO EES Rossii are operated by Lenenergo.

The electric networks are 3,484 km long, and their power is 14,109 MBA.

THE OIL REFINING SECTOR

The Kirishinefteorgsintez plant is one of the largest oil refineries in Russia. Its production capacities are loaded by almost 90 percent.

The shale industry:

The largest shale producing enterprise is OAO Leningradslanets. This plant also produces and sells limestone facing tile, anchor chains, spare parts for mining equipment, and other products.

The Slantsy Plant does shale processing. It produces shale oil, mastic, oil polymer resins, heat, and electric energy, and fires coke.

THE PEAT INDUSTRY

There are 18 peat enterprises employing 2,500 people in the Leningrad Region. Their main products include cut fuel peat, cake fuel peat, peat for agriculture, peat pots, substrate peat bars, mini greenhouses, planting soil, plant foods, biohumus, and pressed nutritive soil.

The gas sector:

Natural gas is supplied from the United Gas Supply System of Russia. The gas supplying organization is LENTRANSGAZ, and the distributing organizations are OAO Lenoblغاز and OAO Gatchingaz, which also provide for liquefied gas supplies. The gas distributing organizations include 13 inter-district enterprises, which have their own balance sheets. These enterprises have 42 production and technical facilities and 15 emergency and dispatching services.

LIGHT INDUSTRY

The light industry of the Leningrad Region includes 22 large and medium-sized enterprises. The sector leaders are listed below:

- OAO Uzor;
- OAZT Luzhsky Trikotazh;
- ZAO Volkhovchanka;
- OAO Ivteks.

The light industry mainly produces fabrics, non-woven materials of fabric type, knitted goods, and clothing.

THE LUMBER SECTOR

Raw Materials

On January 1, 2000, the total area of the forest fund was 6.1 million hectares, 4.7 million of which were covered with wood. About 42 percent of the forest fund lands of the Leningrad Region are forests with a special economy regime called Group One forests. The rest are Group Two forests that can be used for various purposes.

The average species content shows that the forest fund is of a high quality; 37 percent are pine; 29 percent, fir; 26 percent, birch; eight percent, aspen and other trees. On January 1, 2000, the total wood reserve was 582 million cubic meters. The maximum annual wood production volume that can be harvested without harm to the environment is 12.3 million cubic meters. The calculated annual cut for main use is 9.8 million cubic meters.

Productive potential

The Leningrad Region timber sector consists of three interrelated branches, the lumbering sector, the wood processing sector, and the pulp and paper sector.

The timber sector's share of the total industrial production in the region is 23 percent.

Currently, there are about 770 enterprises including 70 - 80 large and medium-sized businesses, over 20 saw mills, 20 furniture enterprises, three pulp and paper mills, and five cardboard factories. Their capacities provide for over seven million cubic meters per year. The productive capacities would allow for production up to 12,000 cubic meters per year of plywood, up to 56,000 cubic meters per year of chipboard, up to 400,000 tons of cellulose, up to 420,000 tons of paper, and up to 200,000 tons of cardboard.

Development perspectives

The export capacity of the Leningrad Region will increase greatly after the opening of a new timber port terminal, which will require US\$160 - US\$190 million of investment. Its designed cargo turnover is four million cubic meters per year.

The main goals of the Leningrad Region lumber sector are:

- Increasing the degree of wood processing;
- Providing for rational wood use;
- Applying wood saving technologies;
- Changing the production structure in compliance with the requirements of the domestic and foreign market;
- Developing transport and information infrastructure.

Promising investment projects

- Development and modernization of the Syassky Pulp and Paper Mill;
- Development of the Vyborg Pulp and Paper Mill Company;
- Construction of a wood processing plant in Boksitogorsk city;
- Development and modernization of the timber companies in the region;
- Establishment of a timber shipment company;
- Establishment of a timber port terminal in Ust-Luga.

THE METALLURGIC SECTOR

The development of the metallurgic industry is directed by three large enterprises that are listed below.

- OAO Glinozyom Pikalyovo Plant;
- OAO Volkhov Aluminum;
- OAO Boksitogorsky Glinozyom.

Small Business Development

There are almost 13 thousand small enterprises on the territory of the Leningrad Region. 128.7 thousand people are employed by this thriving sector of the regional economy (in 2003 - 121.6 thousand people). According to the Tax Ministry of the Russian Federation, by January 1, 2005 the number of individual small businessmen registered on the tax account of the Leningrad Region was 51,343 people. The Leningrad Region is second only to Saint Petersburg among the subjects of Northwest federal district in the number of small enterprises and people employed in their operation. In total, 23% of the working age population of the region is employed in small business (including the registered farms - 6032 units).

The sectoral structure of the small industrial enterprises of the region is multifaceted and covers almost all spheres of manufacture. The forestry and timber-processing industry plays a leading role among the small enterprises of the region and employs almost half of the small industry employees in the region. The mechanical engineering and metal working industry employs 22%, the food-processing industry 12%, the construction materials industry 6%. The aforementioned sectors produce more than 80% of the industrial output of all small enterprises, and their share of the people employed at the small industrial enterprises is more than 76% of the regional total.

Small business in the Leningrad Region continues to suffer from the inaccessibility of credit from domestic banks and complex leasing schemes necessitated by increased risk in the region and a shortage of property available for collateral. To overcome this problem, the Leningrad Regional Government has developed a new system of financial aid for small business owners which includes the creation of a system of granting the guarantees for the credits of small enterprises in commercial banks despite the absence of a hundred-per-cent mortgaging property and subsidizing the bank interest rate on credits for small businesses. This project is the first of its kind in Russia.

As part of this program, the Russian "Agency of Credit Maintenance" was created in 2003 with the full support and active participation of the regional government. In 2005, 46 million rubles were allocated for the activity of the Agency from the regional budget. The Agency is the only organization of its kind operating on the in the Russian Federation.

The governor of the Leningrad region Valery Serdyukov is the author of the all-Russian concept of development of the small and medium-size business which was approved at the session of the State Council of the Russian Federation under the presidency of the President of Russia Vladimir Putin

SMALL-SCALE ENTERPRISES

The main small business support tool of the Leningrad Region's government consists of establishing special institutions such as business centers, municipal funds, and business incubators that help increase the stability of small enterprises. The heads of small enterprises are offered various services including consulting, information services, organizational services, and assistance finding suitable business partners.

INFRASTRUCTURE OF SMALL BUSINESS SUPPORT IN THE REGION

Regional level:

The Small Business Development Department of the Economy and Investments Committee of the Leningrad Region; Retsept, the Small Business Support Fund of the Leningrad Region; and the Small and Medium Business Support Agency in Shlisselburg;

Municipal level:

Small business support departments of municipal administrations; business incubators in Volkhov and Tosno; 15 business centers; funds; small business agencies and social business centers in a number of cities and villages in the Leningrad Region.

LIST OF ORGANIZATIONS THAT PROVIDE SUPPORT FOR SMALL BUSINESSES IN THE LENINGRAD REGION

The Small Business Development Department of the Economy and Investments Committee of the Leningrad region

67 Suvorovsky Ave., Room 256, St. Petersburg, 193011

Natalia Borisovna Bagrova

Telephone: (812) 274-98-55

Fax: (812) 276-65-73

Retsept, the Small Business Support Fund of the Leningrad Region

15 Bolshaya Morskaya Str., St. Petersburg, 190000

Vladimir Aleksandrovich Antonov

Telephone: (812) 315-75-16, 315-72-82

OA Region Expo, a Leningrad Regional Exhibition

38 Serpukhovskaya St., St. Petersburg, 198013

Yury Anatolyevich Samokhin

Telephone: (812) 167-15-75

Fax: (812) 110-10-99

St. Petersburg to Farmers, a Regional Farm Support Fund

8/46 Robespierre Emb., Office 92, St. Petersburg, 191123

Vladimir Aleksandrovich Antonov

Telephone: (812) 275-29-67

Fax: (812) 275-29-67

Leningrad Regional Small and Medium Business Support Agency

18 Staroladozhsky Channel, Shlisselburg, 187320

Yelena Gennadyevna Shkoda

Telephone: 8(262) 75-310

The Northwest Association of Credit Alliances

3 Smolnogo St., Rooms 1 - 11, St. Petersburg, 193311

Galina Mikhailovna Sedova

Telephone: (812) 110-00-61

Fax: (812) 110-00-61

Gatchina City Small Business Support Fund

28-a 25th October Ave., Floor 2, Gatchina, 188350

Arkady Arkadyevich Aleksandrov

Telephone: 8(271) 35-532, 39-451

Fax: 8(271) 33-844

Municipal Small Business Support Fund of the Gatchina District

Yelena Vladimirovna Bulanova

Telephone: 8(271) 32-952

Head of the Small Business Support Department of the Municipal Administration: Boris

Yakovlevich Bogdanov

Business Agency of Small Business Support, Taitsy village

35 Pushkina St., Taitsy, Gatchina district, 188340

Telephone: 8(271) 52-696

Business Agency of Small Business Support, Vyritsa village 7 Oredezhskaya St, Vyritsa, Gatchina district

Natalia Vyacheslavovna Kerner

Telephone: 8(271) 22-544, 93-550

Municipal Fund of Economic Development and Business Support, Luga district

56 Kirova Ave., Room 38, Luga, 188230

Tamara Petrovna Toloknova

Telephone: 8(272) 41-924

Fax: 8(272) 41-924

Municipal Fund of Small Business Support, Tosno district

16a, Boyarova St., Tosno, 187020

Vladimir Borisovich Popov

Telephone: 8(261) 29-139

Fax: 8(261) 29-139

Regional Social and Business Center for the Tikhvin and Boksitogorsk districts and the city of Pikalyovo

24a 1st Microdistrict, Tikhvin, 187500

Yefim Anisovich Finkelberg

Telephone: 8(267) 28-838, 21-659, 23-372

Pulse, the Small Business Support Fund of the Vyborg District, Leningrad region

2a Sovetskaya St, Vyborg, 188900

Nikolai Nikolayevich Prikhozhderko

Telephone: 8(278) 24-763

Municipal Fund of Economic Development, Lodeinoye Pole district

20 Lenina St., Lodeinoye Pole, 187710

Yevgeny Gennadyevich Drachyov

Telephone / Fax: 8(264) 21-737

E-mail: mfer@lodia.spb.ru

Ivangorod Municipal Fund of Business Support and Development Coordination

24 Gagarina St., Ivangorod, 188454

Vasily Ivanovich Vdovin

Telephone: 8(275) 52-783

Fax: 8(275) 51-531

Business Incubator, the International Educational Institution of Volkhov
48 Aviatsionnaya St., Volkhov, 187400
Igor Anatolyevich Gruzdev
Telephone: 8(263) 26-326
Fax: 8(263) 26-326

Fora-P, the Volkhov District Business Support Fund
15a Sovetskaya St., Syasstroy, Volkhov district, 187420
Stanislav Vyacheslavovich Vezhov
Telephone: 8(263) 52-463

Vsevolozhsk Business Development Center
Olga Antoninovna Minina
Telephone: 8(270) 28-920
Fax: 8(270) 23-186

Social Business Center, the Small Business Support Fund of the Slantsy district
19 Kirova St., Slantsy, 188560
Irina Anatolyevna Gulyayeva
Telephone: 8(274) 21-844

Sodeistviye, the Sertolovo Business Support Fund
5 Molodtsova St., Sertolovo, 188650
Sergei Vladimirovich Lapytsky
Telephone: 8(812) 593-39-13

THE AGRICULTURAL SECTOR

The agricultural sector of the Leningrad Region includes 217 agricultural farms, 10 fishing enterprises, five fish-breeding factories, 6,314 farms, 213,900 part-time farms, 20 food processing plants, including 12 dairy plants, six meat plants, and two canneries, 24 service enterprises, 29 vet clinics, 18 state seed inspections, and 17 other enterprises serving the agricultural sector.

The total area of farmland is 745,400 hectares, of which 423,800 hectares is plough-land. The average amount of farmland per farm is 2,500 hectares. The average area of a farm is nine hectares and of a personal farm, 0.19 hectares.

The agriculture in the Leningrad Region is very diverse. The crop production accounts for 16 percent of the commodity composition of output, and the animal industry for 74 percent; milk production accounts for 27 percent and egg production for 22 percent. The main crops produced in the Leningrad Region are potatoes, vegetables, and feed crops. Potatoes and vegetables are the most profitable products in the agricultural sector. In 1996, the region produced 699,000 tons of potatoes, 239,300 tons of vegetables, 469,500 tons of milk, 87,300 tons of meat, and 1,644 million eggs.

Latest Agricultural Growth Figures

Agricultural production

(accounting for the 14 agricultural enterprises, situated on the territory of Saint-Petersburg)
The Leningrad region's gross agricultural output in 2004 amounted to 25,4 billion rubles (or 98,2% of the 2003 level), including agricultural production - 10 billion rubles (94,4%) and stock-breeding

– 15,4 billion rubles (101,2%).

Agricultural enterprises produced 63,4% (16,1 billion rubles or 102,7% of the 2003 level) from the total volume of agricultural production.

Grains

The Leningrad Region's farms of every category produced 552,000 tons of grain (in the height after revision), that is 1,5 times more than in 2003; 471,000 tons of potato (73%), 255,400 tons of vegetables from the open and protected soil.

The share of the private farms and individuals is 74% in the total potato production and 41% in the vegetable production.

Agricultural enterprises produced 548,000 tons of grain cultures, that is 1,5 times more than in the last year, with the yield of crops 25 centners per one hectare (4,3 centners more than in 2003); 124,900 tons of potato (120,6%) with a yield of 147 centners per one hectare (11 centners lower than in 2003); picked up 124,900 tons of vegetables from the open soils (106,6%) with the yield of crops 382 centners per one hectare (19 centners more). 243,000 tons of vegetables were produced on protected soils, 8% lower than the 2003 level.

Cattle-Breeding

In 2004 158,500 tons of cattle and poultry beef were produced in the Leningrad Region - 105% of 2003 level (by agricultural enterprises – 144,500 tons or 107%), milk – 565,200 tons or 94% (by agricultural enterprises – 487,300 tons or 96%), 2 192 700 000 eggs or 102% (by agricultural enterprises – 2 155 000 000 eggs or 102%)

INTERNATIONAL INVESTMENT

As the financial resources of the farms and the state budgets are limited, one of the main goals of the agrarian policy of the Leningrad Region government is maintaining the productive potential of the agricultural sector, which includes attracting investment.

The most valuable investment fields for the Region's agricultural market are listed below:

- Potato and vegetable processing including post-harvest processing;
- Dairy processing, prepackaging, and packing;
- Market infrastructure development;
- Power and material resource saving;
- Elite potato seed breeding;
- Wood procurement and processing;
- Egg and broiler meat production.

One of the biggest environmental projects is a workshop with pollution control facilities for producing the Bamil organic fertilizer at the Vostochny hog farm. The design capacity of the workshop is 10,000 tons per year with an average sales price of US\$400 per ton.

In elite seed breeding, a plant for mini tuber production by the apical meristem method presents a attractive opportunity for investors. The plant can produce two million tubers per year. The technology uses unique Russian equipment. Since 1993, there has been close cooperation in the field of agricultural equipment supplies with the German-based Grimme, Pandtechnik, and Deutz plants.

The largest international investment projects are sponsored by the TACIS program, the International Bank for Reconstruction and Development, and the British Know-How Fund. Currently, there are a number of large investment projects in the Leningrad Region with Finnish,

Dutch, and Polish partners. The pilot project of agricultural consulting centers in St. Petersburg and the Leningrad Region is already being implemented in the Vyborg and Priozersk districts.

The information bank of the Agricultural Committee of the Leningrad Region government has 50 investment projects in every field that is attractive for potential investors.

In addition, the Committee is developing new activities including consulting, information services, analytical work, and marketing. For these purposes, the Committee has established a center of information and consulting, a price monitoring service, a reform group for insolvent enterprises, and a regional agribusiness center.

LIVESTOCK SECTOR

The livestock breeding sector includes 26 dairy breeding plants and farms, a Biotechnology Transplantation Center, seven pig-breeding farms, four fur-breeding farms, one fish-breeding farm, four horse-breeding farms, the Nevskoye State Breeding Enterprise, AOZT Lenigradskoye, and the Aschar Association.

The Leningrad Region is a national leader in animal breeding. Regional breeders have created a large stock of cattle, pigs, and poultry with some of the highest genetic potential in Russia.

The Leningrad Region farms have two dairy breeds, black and tabby (91 percent) and Irish (18 percent). All of the black and tabby animals and 91 percent of the Irish are straight-bred. There is a new high-productive type of black and white animals with an average milk yield of 6,855 kg. The milk contains 3.8 percent of fat and 3.1 percent of protein.

Two leading poultry breeding plants, the Bolshevik Meat Chicken Plant and the Nagorny Egg Chicken State Enterprise, are located in the Leningrad Region. Bolshevik works with a Broiler 61 four-line cross, improved by imported crosses from the Scotland-based Ross Company and the Dutch-based Juribreed. Nagorny works with the Russian Zarya cross and a cross from the German-based Lomann Company, which has large eggs and a high egg yield of 280,290.

Horses are bred at the Zvezdochka Horse Farm Luga State Stable and the farms of the St. Petersburg State Agrarian University and the Russko-Vysotskoye Poultry Plant. The horse breeds include Oryol Trotter, Trakeninskaya, Toriskaya, Soviet Draught Horse, and Latvian Draught Horse.

Investment Policy of the Leningrad Region

Many factors have promoted the development of investment in the Leningrad Region. The region's unique geopolitical location, wealth of natural resources, industrial, scientific and technological potential and higher education levels are combined with local legislation favorable to investors and aimed at creating transparency and the legal groundwork for successful business dealing.

Regional laws adopted from 1997-1999 have established a series of measures for regional support and protection of investors. These laws regulate: investment activity, issues of preferential taxation of enterprises and the organizations located on the territory of the Leningrad Region as well as tax and investment tax credits. Relations between authorities and investors regarding privileges is governed by one of the most comprehensive laws in the Russian Federation, and has created a real competitive advantage for the Leningrad Region.

In recent years the amount of direct investments made in the region is between 1-1.5 billion dollars per year, giving the Leningrad Region one of the levels of investment per capita in the Russian Federation. Domestic capital accounts for 60% of the overall investment totals.

Large foreign firms quickly recognized the favorable investment climate of the Leningrad Region. Phillip Morris International Investment Corporation was the first major multinational to sign a contract on the creation of an enterprise on the territory of the region. In September, 1999, the tobacco fiber processing factory Kres-Neva Ltd. was opened. After the company signed a contract with the Regional Government and the Administration of Lomonosovsky District, the cigarette-making factory (Joint-Stock Company "Phillip Morris Izhora") was launched in January, 2000.

Kraft Foods company - the largest grocery holding in the USA and a subsidiary of Phillip Morris - has constructed an instant coffee packing factory in the space of only five and a half months. Operations at the plant were launched on October 6, 2000.

In Vsevolozhsk district a tea-weighing enterprise of the "Nevskije porogi" Ltd was launched, at which the most well-known market brands of the region - "Princess Candy" and "Princess Gita" are packed. As a result, at present the Leningrad Region produces more than 50 percent of the tea sold on the local market.

The Henkel-Era corporation in Tosno district, a wholly-owned subsidiary of the German firm Henkel, is the largest manufacturer of synthetic washing detergents and household glues.

The region has benefited from large-scale investments in transport mechanical engineering. Since the summer of 1998, the Caterpillar corporation has run a factory in Tosno, manufacturing construction material for road-building and digging equipment and assembling of building machines. "Caterpillar Tosno" Ltd. Was created on the basis of foreign direct investment and to this day is 100% financed by foreign investors.

On March 11, 1999 the board of directors of the Ford Motor Company took a decision to construct an assembly plant on the base of the Rusky Diesel factory in Vsevolozhsk. In October, 2001, the assembly and testing of Ford Focus cars was launched.

This is but a small number of the many examples of successful cooperation between the Leningrad Region and leading foreign investors and firms. Twice, in 2001 and 2003, the Leningrad Region was awarded the Golden Ruble in the all-Russia competition on improvement of the national economy in the "Best Subject of the Russian Federation" category. Quite naturally, the region enjoys one of the highest levels of international investment among Russian regions.

At the end of 2004, over 140 large and medium sized enterprises were financed in part by foreign capital.

Regional Investment Policy

One of the investment policy's priorities of the Government of the Leningrad Region is the creation of the appropriate conditions for attracting investment and further developing the investment process. The main aspects of the Leningrad Region's investment policy are listed below:

- Establishment of regional investment legislation and a legal base for business support;
- Making the region open from the information viewpoint;

- Establishment of a special market infrastructure to help the investment process;
- Restructuring of enterprises in order to increase their investment attractiveness.

Investment Potential

The total need of the Region in the investment resources today is not less than 10 billion US dollars.

With the needs of the local economy taken into account, the most promising sectors for investments are follows:

- Development of energy complex and power-consuming industries. Leningrad region is one of nine regions in Russia Federation with an energy surplus, and electrical costs for industrial consumers in this region is one of the lowest in the country;
- Development of thorough wood processing. The Government of the Leningrad Region is ready to lease to potential investors forest areas that will allow them to lay in and process about 5 million cubic meters of wood in a year in additional to the volumes stocked at present moment;
- Realization of transport and telecommunication projects. Raising year by year transit of cargo via Saint Petersburg and Leningrad Region will have to increase at not less than 100 million tones in a year according to "Transit" program worked out after the Edict of Russian Federation President that was signed on June 6, 1997. That will ensure rapid increase of transport capacities. It will include development of seaports and river-ports, automobile and railroad highways, airports and pipelines, and their exploitation will be profitable both for investor and Russia.
- Development of tourism. It would be a great mistake not to attempt to attract to the Region additional financial resources via the development of tourism activity. Leningrad Region possesses extremely picturesque nature, monuments from old times etc.
- Development of science consuming and higher technology industries. Enterprises of the Region has accumulated rich experience in this direction. Both production and personnel potentials are saved in the region, and they are continuously "fed" from scientific center and institutes of Saint Petersburg.

Restructuring of Industrial Enterprises

The reason for a restructuring program for enterprises is that, whereas the regional economy has become financially stable and highly liberal, the slow process of reforms at the level of certain enterprises remains one of the main obstacles to economic growth. The process of structural changes includes the following aspects:

- Liquidating reputedly unprofitable enterprises;
- Updating product assortment;
- Developing anti-crisis programs for certain enterprises;
- Optimizing the cash flows and reducing the maintenance costs for unprofitable production capacities.

The government uses several kinds of financial schemes and resources for the restructuring process. These include a bank line of the World Bank for Reconstruction and Development. Its total volume is US\$85 million. Enterprises can get medium-- term loans under privileged terms for the purposes of updating their work with the help of foreign and Russian consultants and increasing their business and investor attractiveness for a wide circle of potential investors

International Investment Levels

The volume of foreign investment, excluding monetary and credit regulation, commercial and savings banks (in millions of US dollars).

	1995	1998	2000	2001	Jan.-Sept. 2004
Investment, total	20,6	190,7	305,6	326,9	105,2
Including:					
Direct investments	20,5	90,6	205,5	238,2	84,9
Of them:					
Contribution to legal capital	10,9	11,5	128,8	37,7	
Credits, borrowed from foreign joint owners	1,1	62,6	75,2	173,0	
Other direct investments	8,5	16,5	1,5	27,5	
Portfolio investments	0,0	0,0	0,0	0,0	
Other investments	0,1	100,0	100,1	88,7	20,3
Including:					
Commercial credits	0,1	0,5	2,1	16,5	
Other credits	-	99,6	97,8	61,4	
Other	-	-	0,2	10,8	
The share of direct investments in the total volume, %	99,5	47,5	67,2	72,9	

Structure of international investment broken down by sector (in millions of US dollars)

	1995	1998	2000	2001	Jan.-Sept. 2004
Investments, total	20,6	190,7	305,6	326,9	105,2
Agricultural	0,3	-	-	18,0	2,1
Industry	19,9	187,8	295,4	293,3	84,5
Engineering-metal working industry	1,1	34,5	93,0	150,0	27,5
Timber, wood working, pulp and	10,9	106,1	58,6	84,1	25,7
Paper industries					
Food industry	-	40,0	138,5	21,1	13,6
Communication	-	-	9,1	12,1	

Trade and public catering	0,4	0,5	0,6	0,0	
Others branches	0,0	2,4	0,5	3,5	18,6

Potential for Research and Innovation

The Leningrad Region enjoys tremendous potential for research and innovation. It has more than 40 state academic institutes, special institutes and research centers, the largest of which are listed below.

- The Ministry of Atomic Energy Research Institute, named after A. P. Aleksandrov (NITI), Sosnovy Bor;
- The Research Institute of Complex Testing of Optical Electronic Devices and Systems, the Federal Center of Research and Production (NIKI OEP), Sosnovy Bor;
- St. Petersburg Nuclear Physics Institute of the Russian Academy of Sciences, named after B. P. Konstantinov (PIYaF), Gatchina;
- Applied Chemistry, an experimental plant of the Russian Research Center, Kuzmolovsky, Vsevolzhsk district;
- A branch of the I. P. Pavlov Physiology Institute of the Russian Academy of Sciences (IF RAN), Koltushi, Vsevolzhsk district.

In total, science organizations employ approximately 10,000 people, over 7,000 of who work in scientific research and development, and 700 have a Ph. D.

MAIN WORK FIELDS OF SCIENCE ORGANIZATIONS

- nuclear power and power conservation;
- nuclear physics;
- applied chemistry;
- biology and medical science;
- agriculture;
- instrument engineering including lasers and radar sets;
- fisheries;
- environmental issues;
- design of territory, industrial and residential objects, and engineering infrastructure.

THE INFRASTRUCTURE OF RESEARCH, DEVELOPMENT AND INNOVATION ACTIVITIES

- The Research Council of the Leningrad Region Governor;
- The Sector of Coordination and Activities of Science Organizations of the Committee of Economy and Investments;
- A network of business incubators;
- Retsept, a small business support fund; AO Regional Expo, which promotes research -- intensive products.

PARTICIPANTS IN THE INVESTMENT PROCESS IN THE LENINGRAD REGION

KEI, the Committee on Economy and Investments of the Government of the Leningrad Region
67 Suvorovsky Ave., St. Petersburg, 193311

Telephone: 274-14-46

Fax: 276-65-73

KVMS, the Committee on Foreign Economic and International Relations of the Leningrad Region
67 Suvorovsky Ave., St. Petersburg, 193311

Telephone: 274-47-42

Fax: 274-59-86

KAG, the Committee on Architecture and Town Planning of the Leningrad Region
(Lenkomarkhitektura)

1 Lomonosova Sq., Entrance 5, St. Petersburg, 191011

Telephone: 311-13-23

Fax: 311-13-23

KZR, the Committee on Land Resources and Land Organization in the Leningrad Region
(Lenoblkomzem)

3 Smolnogo St., St. Petersburg, 193311

Telephone: 279-61-22

Fax: 274-93-82

KST, the Committee on Housing and Communal Facilities, Construction, and in the Leningrad
Regional Government

14 Nekrasova St., St. Petersburg, 191104

Telephone: 279-85-38

Telephone / Fax: 279-85-37

MVK, the Interdepartmental Commission on the Placement of Productive Forces on the Leningrad
Region Territory

67 Suvorovsky Ave., St. Petersburg, 193311

Telephone: 276-69-98

Fax: 276-65-73

TsGSEN, the State Sanitary and Epidemic Control Center of the Leningrad Region

27 Olminkogo St., St. Petersburg, 193029

Telephone: 265-18-00

Fax: 265-00-52

LKE, the State Environmental Protection Committee of St. Petersburg and the Leningrad Region
(Lenkomekologiya)

51 Bolshaya Morskaya St., St. Petersburg, 190000

Telephone: 311-21-55

Fax: 279-76-45

GU GO IChS, the Chief Civil Defense and Emergency Department for St. Petersburg and the
Leningrad Region

26/28 Razyezzhaya St., St. Petersburg, 191002

Telephone: 272-70-34

Fax: 164-93-03

UGVE, the Department of State Non-departmental Appraisal (Lenoblgosekspertiza)

1 Lomonosova Sq., Entrance 5, St. Petersburg, 191011

Telephone: 312-80-48

Fax: 312-44-25

GASN, the State Architecture and Construction Control Service

1 Lomonosova Sq., Entrance 5, St. Petersburg, 191011

Telephone: 311-07-78

Fax: 311-07-78

NLBVU, the Neva and Ladoga Basin Water Department of the Ministry of Natural Resources of the Russian Federation

26 Sredny Ave., Vasiliyevsky Island, St. Petersburg, 199004

Telephone: 323-37-36

Fax: 328-76-71

SZRV, the Northwest Basin Department for Fishery Protection, Reproduction, and Fishing Control (Sevzaprybvod) of the Russian Federation Fishing Committee

63 Nevsky Ave., St. Petersburg, 191025

Telephone: 314-62-15

Fax: 112-52-57

LORP, the Leningrad Region Registration Chamber

3 Smolnogo St., St. Petersburg, 193311

Telephone: 325-19-35

Fax: 279-64-97

TsGLSD, the State Center for Licensing Construction Activities on the Leningrad Region Territory

2 Yakovlevsky Lane, Floor 3, St. Petersburg, 196105

Telephone: 298-77-90

Telephone/Fax: 294-63-65

GEUT, the Leningrad Region Committee of Labor and Employment, the State Labor Conditions Expertise, the Department of Labor Terms and Protection

6 Zamshina St., St. Petersburg, 195197

Telephone: 225-28-50, 225-33-60

Fax: 225-24-60

Essential Laws and Normative Acts Regulating Investment Activities in the Leningrad Region

Federal laws of the Russian Federation

The Land Codex of the Russian Federation	No. 136-FZ	October 25, 2001
On Put in Action the Land Codex of the Russian Federation	No. 137-FZ	October 25, 2001
On Foreign Investments in the Russian Federation	No. 160-FZ	July 9, 1999
On Investment Activities in the Russian Federation in the Form of Capital Investments	No. 39 - FZ	February 25, 1999

On Industrial Security of Dangerous Industrial Objects	No. 116-FZ	July 21, 1997
On Investment Activities in the Russian Soviet Federative Socialist Republic, with Amendments of June 19, 1995	No. 1488-1	June 26, 1991

Decrees of the Government of the Russian Federation

On Realization Order of the State Examination and Ratification of Town-Planning, Project Planning and Projects Documentation	No. 1008	27.12.2000
The Thesis on Realization of the State Examination and Ratification of Town-Planning, Project Planning and Projects Documentation in the Russian Federation		

Legislation Enacted by the Russian Federation Ministry of Construction

Rules and Regulations for Elaboration, Coordination, Adoption and Expediency of Investments into Construction of Enterprises, Buildings, and Facilities, SNiP 11 – 101 – 95	No. 18 - 43	June 30, 1995
Instruction on the Procedure of Elaboration, Coordination, Adoption and Expediency of investments into Construction of Enterprises, Buildings, and Facilities SNiP 11 - 01 – 95	No. 18 - 64	June 30, 1995

Laws of the Leningrad Region

On Introduction of Changes and Additions to the Region Law “On Investment Activities in the Leningrad Region”	No. 63 - oz	December 30, 1999
On Tax and Investment Tax Crediting	No. 56-oz	October 8, 1999
City Planning Code of the Leningrad Region	No. 15 - oz	July 7, 1998
On Investment Activities in the Leningrad Region	No. 24 - oz	July 22, 1997

Leningrad Region Governor Decrees

On the Enlargement of the Structure of Scientist-Technical Council to the Governor of the Leningrad Region and Changes in its Staff	No. 209-pg	May 19, 2000
On Introduction of Changes and Additions to the Provision on Interdepartmental Committee Regarding Allocation of Productive Forces on the Territory of the Leningrad Region	No. 253 - pg	August 9, 1999
Basis Adopted by Instruction from Governor Issues of	No. 257 - pg	May 26, 1997

Allocation Production Forces on the territory of the Leningrad Region. Provision on the Interdepartmental Committee on Allocating Production Forces on the territory of the Leningrad Region		
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Leningrad Region Governor Orders

On Rules of Work With Investment Projects, Programs for Promotion and Support of Minor Businesses and Their Financing in the Government of the Leningrad Region government	No. 430 - rg	October 24, 1997
On Promotion Organizational and Systematic Approaches in the Activities of Attracting investments into the Socioeconomic Development of the Leningrad Region. Conception on Promotion Organizational and Systematic Approaches in the Activities of Attracting Investments into the Socio-economic Development of the Leningrad region.	No. 169 - rg	May 12, 1997
On the authorization of the Temporary Regulations of the Commissioning Order for Finished Construction Objects in the Leningrad Region	No. 51 - rg	February 17, 1997

Leningrad Region Government Decrees

On Adoption Order of the State Guarantees of the Leningrad Region for the loans with investments purposes	No. 89	September 17, 2001
On the authorization of the Clause on the order of accordance of tax credit and investment tax credit	No.34	April 6, 2001
On Adoption Methods of Calculating the Pay-back Period and the Period of Factual Recoupment of investments for the Purpose of Realizing Privileged Taxation in the Leningrad Region.	No. 11	March 30, 1998
On the Temporary Rules of Elaboration, Co-ordination and Adopting Preliminary Project and Design Documentation for Construction Enterprises, Buildings and Facilities on the Territory of the Leningrad Region.	No. 328	July 25, 1996
On the State and Measures on Advancing the Work with Investment Projects in the Leningrad Region	No. 21	January 26, 1996

Leningrad Region Government Orders

The Regional program for the development of the automobile network of the region till the year 2010 with a forecast for the 20-year period

The program was created by the Scientific-Technical and Projects Institute of the territorial development and transports infrastructure. It includes the long-terms forecast for 20-year perspective, the middle-terms one for 10 year and the plan of immediate works for 2001-2005.

Automobile roads in the Leningrad Region

Motor vehicles carry high-valued and perishable goods long distance. Automobiles account for a considerable share of the middle-distance road haulage (500-1000 km) and practically every short-distance haul (to 200 km).

There has been a steady increase of the volume of traffic on the roads of the Leningrad Region. Since 1990 to 1999 it increased by 1,7-2 times on the motorways of federal importance and by 1,2-1,5 times on territorial importance. According to the forecast on socio-economic development of the region, by the year 2020 the amount of automobile transportation in Leningrad region will increase up to 200-220 million tons, the number of lorries will grow by 1,9 times and the number of cars per 1000 inhabitants will grow from 130 up to 300 automobiles. In general the experts predict that the transport streams crossing the territory of the region will increase at a minimum by 1,8-2 times within the nearest several years.

The road network of the Leningrad region occupies the leading position in the North-West region by its density and length – 10909 km. Including 1245 km (11,4%) of the roads are the motorways of federal importance and 9664 km (88,6%) of territorial importance. 60% of all roads of the region have the advanced type of covering. The density of the motorways in the region is 127 km per one thousand sq. kilometers of territory. It is 4 times higher than average in Russia (31 km. per 1000 sq. km) and considerably lower than in Europe (in Germany and Denmark – 1600-1700 km/ 1000 sq.km; in Sweden and Finland – 220-230 km/ 1000 sq.km).

The density of the motorways of the region in the areas adjacent to Saint Petersburg is 2,5 times more than in others and in 1,5 times more the average level of the region.

The most important of the highways of federal importance are “Rossia” (Saint Petersburg-Moscow), the line Saint Petersburg – Pskov, Scandinavia and “Kola”. They are the sectors of IX intermodal corridor.

Problems of the Leningrad region’s road network:

- insufficiently developed lines between Russia and European countries;
- 1/3 of the roads lack an advanced type of covering, which is needed year-round traffic;
- low technical conditions of the intraeconomic road network, which were passed to the Road committee of the Government of the Leningrad Region;

the disparity of the technical parameters of some of the roads to the modern traffic's conditions and volumes of the traffic streams;
the absence of roundabout ways of some large localities and of the ring road around Saint Petersburg;
single-level crossroads automobile and railroad intersections;
the disparity of the parameters of some arterials and bridges to the volumes of the traffic streams;
unfinished repair on some roads (the average – 76% from the normative size)

Primary purposes and tasks of the program, top-priority works:

Principal purposes of the road policy of the Leningrad Region are as follows – perfection and development of the automobile's network for the integration into the European transport system; ensuring of the economical growth and demands for motor freight carriers; increasing of the efficiency of natural-resources potential and the population's standard of living.

The priority tasks of the road policy of the Leningrad region:

improvement of the transport-exploitation conditions of the present railroad network;
perfection and development of network of roads of federal importance and of the principal roads of territorial importance;
construction along the coastal territories of the Gulf of Finland highways corresponding to the requirements the international transport corridors;
construction of roundabout ways of large localities, includes the ring road around Saint Petersburg;
development of the automobile roads in the frontier areas with the development of transport way-outs abroad Russian Federation;
ensuring of intraregional and intradistrict connections by the roads with the advanced type of covering; acceptance of the former intraeconomic roads into the network of all-the-year-round roads and ensuring of its all-the-year-round exploitation;
creation of the paying roads network with purpose of the investment attraction;
increasing the service level for road users.

The program determines the list of automobile roads and bridges, recommended for construction and reconstruction for the period till 2020. Also – the volume of works for theirs keeping in order and repair proceeded on the basis of funds from the Federal and the Territorial Roads Fund.

The top-priority works for the network of roads of federal importance are as follows:

highway Vologda – Novaya Ladoga – the completion of the construction of Kisel'na – Chvalovo section with the bridge across river Volchov (2001) – is realized;
highway “Scandinavia” – the completion of the construction of a roundabout way of Vyborg (2002) – was realized;
highway “Rossiya” – the construction of the flyovers (2002) – was realized;
highway “Kola” – the completion of the reconstruction of the section Sinyavino – Nazia (2003) – was realized;

highway Saint Petersburg – Pskov – construction of the roundabout way of Luga (2001-2005);
 highway Magistral'nyy - construction of the roundabout way of Kirovsk (2004) – was realized.

Moreover:

reconstruction of the doorway to boundary's passage "Svetogorsk" (2001-2005);
 forming of the road-transport way-out to the "Scandinavia" highway from the constructing sea port in Primorsk (2003-2005);
 reconstruction of the Pargolovo-Ogon'ki-Tolokonnikovo highway on the section Osinovay Roscha – intersection with the highway "Scandinavia" with the construction of the roundabout way of Sertolovo (2001-2004) – was realized;
 construction of the new way-out from Saint Petersburg – Sortavala (2002-2007);
 completion of the reconstruction of the highway Lodeinoe Pole – Vitegra (2001-2004).

Plans have been made to construct and reconstruct 2140 kilometers of motorways and 97 bridges. For accomplishment of the Program for this 20-year period 108,2 billion rubles are required - for the construction and reconstruction – 44,4 billion rubles, for the repair and maintaining of motorways and bridges – 56,6 billion rubles.

The changes of the length (km) of the network of common use roads according to the stages of Program's realization:

Roads	Years			
	2001-2005	2006-2010	2011-2015	2016-2020
Federal importance	1366	1376	1384	1384
Territorial importance	9940	10287	10769	11106
Total	11306	11663	12153	12490

The Baltic Pipeline System – the key federal project in the Leningrad Region

The Baltic Pipeline System (BTS) is one of the most promising projects in the whole of the Russian Federation. It was designed for a new direction of oil exports from the Timan-Pechora region, West Siberia, and the Urals-Volga region, as well as oil exports from the CIS states, mainly Kazakhstan.

The Baltic Pipeline System has been established in compliance with the President's Decree No. 554 of June 6, 1997, entitled 'Providing cargo transit via the coastal areas of the Gulf of Finland' and the Russian Federation Government Decree No. 1325 of October 16, 1997, entitled "Design, construction, and operation of the Baltic Pipeline System".

The system complies fully with national economic and political interests, as currently the port in Novorossiisk is Russia's only deepwater port.

The Baltic Pipeline System will:

Establish an independent and promising new export route via the Russian oil terminal at the Baltic Sea;

Make Russia more influential in the Baltic region;

Provide tax earnings for the budget. According to the evaluations, during 20 years of system operation, the Treasury will receive US\$400 million, a quarter of which will go to the federal budget and three quarters to regional budgets. Most of the latter, US\$259.6 million, will be paid to the Leningrad Region's budget;

Attract investment to the fuel and energy sector;

Increase oil exports from the CIS states via Russia.

Oil transportation via the Baltic Pipeline System will enable Russia to stop using the expensive services of the transit countries. The transportation costs in the Baltic Pipeline System will be US dollars 3 – US dollars 4 per ton lower than the costs at the routes going via Ventspils, Latvia, or Odessa, Ukraine.

The project will be implemented in several stages.

At the first stage, a new transport route with a capacity of 12 million tons per year will be established on the base of the existing Transneft's main pipeline system, new loopings at the existing Yaroslavl-Kirishi pipeline, and a new pipeline from Kirishi to Primorsk with an oil terminal in the Gulf of Finland. The project will cost US dollars 460.2 million.

No.	Index name	Units of measurement	Value
1	Capacity of the Kirishi-Primorsk pipeline	Million tons per year	12
2	Length of new pipelines	Km	453.3
3	Total investment costs. Including: The Yaroslavl-Kirishi main pipeline, The Kirishi-Primorsk main pipeline Oil terminal in Primorsk	US dollars million	460.2 127.4 163.2 169.6
4	Directive construction time, approximately	Months	18

5	Payback period	Years	12
6	Budget earnings:	US dollars million	401.5
	Total		
	Federal budget		106.0
	Local budgets		295.5

The Baltic Pipeline System Implementation Concept

The implementation concept for the first line of the Baltic Pipeline System implies the following steps:

Starting the construction of an oil terminal in Primorsk, financed by the investment tariffs collected in 1999.

In 2000 - 2001, reconstructing and expanding the Yaroslavl-Kirishi pipeline with 175-km loops.

Organizing the financial resources for building the linear part of the Kirishi-Primorsk pipeline and completing the terminal.

In the future, the pipeline capacity may be increased if additional oil volumes exceed 12 million tons per year.

Special attention will be paid to environment protection.

The environmental program of the Baltic Pipeline System includes a set of measures for protecting the water, land, and biological resources, atmosphere control, ecological monitoring, waste collection, processing, and utilization, and a number of others. The technologies for overcoming large water obstacles will be environmentally oriented. Under the Neva river, the pipeline will be laid by the micro-tunneling method with the pipeline placed in a protective coat, and then in a micro-tunnel located no less than 10 meters from the river bottom.

Large water obstacles like the rivers Kotorosl, Volga, Mologa, or Volkhov will be overcome by the controlled directional drilling method.

Therefore, the pipeline construction will neither change the natural state of the river nor harm the fishery. Coast-protecting works will not be necessary either

Due to the stricter environmental requirements, the pipeline category is no lower than II, which implies stricter requirements to the pipe quality, test pressure, test time, and the nondestructive control volume for pipeline welds.

According to the project, all the objects will be equipped with automation, telemechanics, and computer equipment, which will increase their reliability and allow diagnosis on the state of the equipment and the pipeline. There will be full control over the environment state and environment protecting measures.

Mandatory tests include strength and water-proofing tests for the main pipeline and pumping station equipment. Before the opening of the objects, the main pipeline, the reservoirs, oil-pumping stations, and other equipment will be diagnosed.

The principal features of the Baltic Pipeline System are its geopolitical value, benefits for national security, economical feasibility, environmental safety, and technical feasibility.

The GOVERNMENT of LENINGRAD REGION
67, Suворovsky prospect, Saint-Petersburg, 193311
e-mail: lenobl@lenobl.ru

Grigory Victorovich DVAS
Committee on Economic Development, Chairman
Address: 67 Suворovsky Ave., St. Petersburg, 193311
Phone: (812) 274-14-46
Fax: (812) 576-65-73

Zhanna Viktorovna Aleksandrova
Committee on International and Regional Relations, Chairman
Address: 67 Suворovsky Ave., St. Petersburg, 193311
Phone: (812) 274-47-42
Fax: (812) 274-59-86

Raisa Alekseevna Kartasheva
Committee on Youth Affairs, Physical Education, Sport and Tourism, Chairman
Address: 3 Smolnogo St., St. Petersburg, 193311
Phone: (812) 576-79-22
Fax: (812) 576-25-10

Mikhail Moiseyevich Mikhailichenko
Committee on Communication Policy and Telecommunications, Chairman
Address: 67 Suворovsky Ave., St. Petersburg, 193311
Phone: 274-59-18
Fax: 271-44-70

PRESS CENTER CONTACTS

Telephones: +7 (812) 312-46-35, +7 (812)576-61-00;
Fax: +7 (812)110-78-41;
E-mail: lenobl@lenobl.ru

Veretin Alexander I. — deputy chairman of the Committee on Information, Press, TV and Broadcast, Mass Media and Public Relations, head of the press-centre(veretin@lenobl.ru);

PRESS-SECRETARY OF THE GOVERNOR OF THE LENINGRAD REGION
Motylkov Dmitry A. Telephone: +7 (812) 274-44-16
E-mail: dmitrym@lenobl.ru

THE PRESS CENTER OF THE GOVERNOR OF THE LENINGRAD REGION

Sidorin, Valentin, Volobuev, Valery

Telephone: +7 (812) 274-4739; 7 (812) 576-6127 fax: 7 (812) 110-7841

E-mail: gubernator@lenobl.ru, lenobl@lenobl.ru, lenobl@mail.wplus.net

THE PRESS-CEKRETARY OF THE ECONOMIC AND INVESTMENTS

Butenin Aleksandr V.: Telephone: +7 (812)274-64-30, 271-98-97

E-mail: butenin_1@mail.ru

Editor of the web-site of the Government of the Leningrad Region.

Solovyeva Elena B. — Tel.: +7 (812) 576-61-00; editor@lenobl.ru.