

**REPORT**

on

**Economic Cooperation in the Barents Region**

October 1995

Working Group on Economic  
Cooperation established by  
the Barents Euro-Arctic Council

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## Annexes

1. List of Participants
2. Economic geography and structure of the Russian part of the Barents Region

## Introduction

1. At the Second session of the Barents Euro-Arctic Council on 14 and 15 September 1994 at Tromsø it was decided to establish a Working Group on economic cooperation chaired by Finland.

## Mandate

2. The mandate of the Working Group gave various tasks to promote economic development and cooperation in the Barents Region, viz. to:
  - identify common objectives and specific priorities as well as areas which can be improved by regional cooperation.
  - study possibilities for and problems of economic cooperation among the member countries in the Barents Region.
  - discuss various means to facilitate closer commercial cross-border cooperation and strengthen regional economic development including i.a. promotion of industrial development and investments and increased scientific and technological cooperation.
  - place particular emphasis on identifying obstacles to co-operation in the regional recommendations on possible measures to improve transport and telecommunications in the area.
  - make recommendations on measures to improve banking facilities, border crossing and customs practices in the Region.
  - make recommendations on ways to bring the economic legislation in the Region into correspondence with the requirements of the cooperation.
  - work in close cooperation with the Committee of Industry and Business of the Regional Council.
  - establish contacts and enhance cooperation with international financial institution such as the IMF, WB, EBRD and NIB. Observers and experts from these organizations may be invited to the meetings of the working group.

### Participation

3. Each of the members of the Barents Euro-Arctic Council was asked to nominate two members to the Working Group. In addition, observers and experts have been invited to take part in the work and meetings. The members, observers and experts are listed in Annex 1.

### Meetings

4. The Working Group has had meetings as follows:
  - 1: 18 January 1995
  - 2: 7 April 1995; a joint seminar meeting of the CSO and the WG
  - 3: 16 June 1995
  - 4: 17 August 1995
  - 5: 25 September 1995

All the meetings were held at Helsinki, except for the seminar meeting, which was held at Saariselkä in Finnish Lapland.

### Activities of the Working Group

5. The Working Group considered its main objective to be, in the first stage, to focus on the Russian side of the Barents Euro-Arctic Region and to identify and suggest priority infrastructure and industrial projects to be accomplished jointly by members.
6. In order to gain sufficient background material for its report to Ministers, the Working Group decided to use outside experts to draft a study on the main economic, industrial and infrastructural characteristics of the Russian part of the Barents Euro-Arctic Region. The expert report was drafted by the Finnish company Finnish Barents Group Oy. The report was financed by the Finnish Ministry of Trade and Industry and is attached, under the name of "Economic geography and structure of the Russian part of the Barents Region", at Annex 2.
7. The Working Group has, during its meetings, discussed in detail the ongoing work of the Finnish Barents Group and advised the experts on the completion of their report.

## The expert report

8. The purpose of the expert report is to provide a general description of the economic geography and structure of the Russian part of the Barents Euro-Arctic Region. The report is based on several existing publications and studies, as well as on other information and material received from various Russian and Western sources.
9. The history of the settlement and development of the Barents Region is described briefly with special emphasis on the early development of economy and trade, and on the cooperation carried on with the Nordic and some of the Central European Countries. The main characteristics of the geography of the region as well as data on its population and administrative structure are also given.
10. The natural resources of the Barents Region are described in the report in more detail. The main resources are fish, forests, minerals and hydrocarbons which form the basis of the region's economy. Various other resources such as coal, hydropower, peat, soils, berries, herbs, etc., are also discussed.
11. The infrastructure of the Barents Region is reasonably well developed, due to the extensive industrial activities and large population centres in the area. In the transportation and telecommunication, however, especially in the east-west direction and also in the social infrastructure, there are many shortages. The widening economic cooperation with the Nordic countries and the European Union will require new investments in the communications, financing and banking systems, as well as in various other services.
12. The Russian territories of the Barents Region are undergoing a similar economic reform to that going on in the rest of the country. The main elements of the reform are the privatisation of production units and service organisations, and the widening economic cooperation with foreign countries. Since 1991, GDP and the industrial output of the region have declined by about 50 percent, which causes huge economic problems. Today, however, there are several signals of a stabilisation of the economy, and long-term development prospects for the region are exceedingly good.
13. The present state of the economy and trade in the Barents Region is thoroughly described in the report in the light of the latest statistics

available. Prospects for the future economic development are discussed on with a view to removing trade barriers causing problems and obstacles to, and enhancing economic cooperation with, foreign countries, particularly with the neighbouring Nordic provinces.

### Proposals of the Working Group

#### Recommended projects

14. The Working Group on Economic Cooperation has received about 150 proposals for investment projects to be carried out in the Russian part of the Barents Euro-Arctic Region. The Working Group has drawn up the following list of recommended projects which are considered to be extremely important for the future economic development of the whole region. The projects have been selected on the basis of the mutual interest of the partners in the Barents cooperation, and of various economic and environmental aspects. The names of the projects listed below are in no order of priority:
- \* construction of the Pechenga oil and gas harbour in Linakhamari with the development of associated infrastructure in the Pechenga area;
  - \* reconstruction and modernisation of the commercial harbours of the cities of Murmansk and Archangel;
  - \* construction of a ship-breaking plant and a cargo terminal on the Belokamennaya Bay;
  - \* construction and reconstruction of railway and road connections between Kirkenes-Nickel-Murmansk;
  - \* development of the so-called "Barents Corridor" including the projects for the construction of a road and a railway between Salla and Alakurtti, and of a border crossing station at Kelloseikä;
  - \* development of the so-called "Arkhangelsk Corridor" including the projects for the construction of railway between Ledmozero and Kochkoma and also between Karpogory and Vendenga taking due account of the environment of the Kenozero National Park;

- \* construction and development of the road between Petrozavodsk and Parikkala;
- \* reconstruction and modernisation of the international airports of the cities of Murmansk, Archangel and Petrozavodsk;
- \* improvement of the flight connection Luleå-Rovaniemi-Murmansk-Archangel;
- \* development of energy efficiency and conservation programs for the Murmansk and Arkhangelsk Oblasts and for the Republic of Karelia;
- \* development of local energy sources in the Republic of Karelia by constructing a peat power plant at Olonets and four hydropower plants;
- \* development of telecommunication in the Murmansk and Arkhangelsk Oblasts and in the Republic of Karelia in various joint projects between Rostelcom, local operators and western companies;
- \* reconstruction and modernisation of the Pechenga-Nickel Melting Works;
- \* development and modernisation of the Kandalaksha Aluminium Works;
- \* conversion and development of the Zvezdochka Shipyard in Severodvinsk.

15. The possibilities of implementing the above-mentioned projects primarily depend on their economic viability, and also on the interest of project partners and potential financiers to carry out the projects. On the basis of this viewpoint, the following projects out of the above list can be considered more actual and viable in the short term. This new list, too, below is presented without any order of priority:

- \* reconstruction and modernisation of the commercial harbours of the cities of Murmansk and Archangel;

- \* construction of a ship-breaking plant and a cargo terminal on the Belokamennaya Bay;
- \* construction of a border crossing station at Kelloselkä with improvement of the road between Salla and Alakurtti;
- \* construction of a railway connection between Ledmozero and Kochkoma;
- \* improvement of the flight route Luleå-Rovaniemi-Murmansk-Archangel;
- \* development of energy efficiency and conservation programs for the Murmansk and Arkhangelsk Oblasts and for the Republic of Karelia;
- \* development of local energy sources in the Republic of Karelia by constructing a peat power plant at Olonets and four hydropower plants;
- \* development of telecommunication in the Murmansk and Arkhangelsk Oblast and in the Republic of Karelia in various joint projects between Rostelcom, local operators and western companies;
- \* reconstruction and modernisation of the Pechenga-Nickel Melting Works;
- \* conversion and development of the Zvezdochka Shipyard in Severodvinsk.

#### Financing and international cooperation

16. Financing evidently plays a key role for the carrying out of the projects proposed in this report. Ways and means to secure sufficient financing should, for that reason, be examined on a regional and national, as well as on an international level. It is also of vital importance to engage relevant international organizations in the work in the Barents Region. The Working Group has now got sufficient background material to make an effort to increase the interest of international investors and financial institutions in the potential of the region. In view of this, the Working Group proposes the following:



- a) Presentations to the major international financial institutions should be made on the prospects of the Barents Euro-Arctic Region. The World Bank (WB), the International Finance Corporation (IFC), the European Bank of Reconstruction and Development (EBRD), the European Investment Bank (EIB), the Nordic Investment Bank (NIB) and the Nordic Environment Finance Corporation (NEFCO) are the major institutions in this respect.
- b) Close cooperation should be initiated with the TACIS and INTERREG Programme administration of the European Union. The TACIS initiative would contribute to the realization of proposals of the Working Group. The Working Group recommends that North-West Russia should be included as a permanent sub-programme into the TACIS programme.
- c) The projects listed in the report should be presented to selected banks and financial bodies in key financial centres.
- d) As Finland and Sweden are now, from the beginning of this year, members of the European Union, there is a need to inform the Union of and engage it in the progress of the work carried out with a view to promoting economic cooperation in the Barents Region.

#### Engaging private business

17. In order to increase economic activities and industrial cooperation in the Barents Region, it is of utmost importance to engage industry and business in the plans for this region in as early a stage as possible. A broad range of activities should be undertaken to increase the awareness of industry and business of the opportunities offered by the region. The expert report drafted under the auspices of the Working Group constitutes a useful instrument for bringing about a greater understanding of the region, in countries belonging to it and, especially, in countries outside the region.
18. To that end, the Working Group proposes the following:
  - a) There should be organised a meeting between ministers and decision makers of the Barents Region countries and a select number of top business and industry leaders. Such a meeting could form a starting point for a continuous dialogue on the prospects of the region between administrations and economic operators.

- b) The expert report on the economic geography and structure of the Russian part of the Barents Region should be given as wide a circulation as possible among business and industry. Being the first in-depth analysis of the entire region it could serve as an impetus to further studies on a company level.
- c) A small number of seminars could be arranged for business and industry in main business centres of the Barents Region countries. The aim would be to inform companies with potential interest in the region of the main findings of the study.

#### Further activities

19. The Working Group has so far concentrated on the industrial and infrastructural problems involved in economic cooperation in the Barents Region. For evident reasons, the need to creation of as comprehensive and objective a profile as possible for the region has been a key concern of the Working Group. On the basis of that analysis, there now exist possibilities to look more closely into other elements of economic cooperation. These include, for example, a further updating and analysis of the various projects under planning in the region, the financial possibilities and practical trade related matters. Regarding the latter aspect, note has to be taken of the fact that Finland and Sweden have joined the European Union after the Working Group was set up. Matters related to trade policy, such as custom duties and quantitative restrictions, are consequently, insofar as Finland and Sweden are concerned, within the competence of the European Union. Here the possibilities to solve problems need to be solved together with the European Union.
20. Regarding further work in the economic area, the Working Group recommends that the following measures be undertaken:
- a) The Working Group should be given a mandate to continue its work and to give a progress report to the Barents Euro-Arctic Council / the CSO.
  - b) The Working Group should be instructed to organize the implementation of the decisions taken by the Barents Euro-Arctic Council on the basis of this report.

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