

'A Sustainable Future for Sakhalin?'  
9th March 2005, Leicester University

# The role of Sakhalin Regional Administration in the development of Sakhalin

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Ladies and gentlemen, respected seminar participants,

First of all I would like to pass on greetings to you from the governor of Sakhalin Region, Ivan Pavlovich Malakhov, and express gratitude for your interest in our island region and for the invitation to take part in this seminar.

Sakhalin Region is one of 89 'subjects' (administrative regions) of the Russian Federation, and the only one made up of islands, of which there are 59. I will not go into detail about the geographical location or the natural resource potential of our region – all this information can be found in encyclopaedias and text books. However, I will have to use a few statistics to illustrate the main theme of my presentation.

The development – or 'sustainable development' to employ the modern term – of Sakhalin Region assumes the satisfaction of society's needs in the present without jeopardising the ability of future generations to meet their own development needs.

If sustainable development is the goal, then we need to identify the components necessary to achieve it: economic development, social development, political development, ecological development and so on.

The satisfaction of the needs of a society or an individual depends a great deal on ability to pay, which is determined largely by the population's income. The main goal of any government is to provide comfortable living standards for the population and create opportunities for every resident to have work and a decent wage.

In our region, wages make up 70% of the population's income. Since 2000 there has been an annual increase in the size of the working population. As of the end of December 2004, employment totalled 288,000.

Annual job vacancies recorded by the Employment Agency have more than doubled since 2000, and unemployment has dropped from 2.8 to 2%. In 2004, registered unemployment was 1.9-2%, and in September of that year it was as low as 1.2%. Unemployment is decreasing faster in Sakhalin Region than in the Russian Far Eastern Region and in Russia as a whole.

The economic growth of recent years has led to growth in the population's income to the level it was before the 1997 financial crisis. Real income has risen by 49.8%, wages by 49% and pensions by 2.5%. As of 2004, average income rose by 12.3% in comparison to 2003.

Today, Sakhalin Region is a rapidly developing region with a lot of potential. Of the 89 'subjects' of the Russian Federation, we come 29th with regards to level of socio-economic development and are considered to have an average level of development for Russia.

In recent years Sakhalin Region has become internationally well-known, primarily thanks to the offshore oil and gas projects that are being implemented on the basis of production sharing agreements (PSA).

As of 2004 the positive growth tendency is continuing in the socio-economic sphere. As of 2003 the gross regional product increased by 13.9% in relation to the previous year. The rate of growth was almost double that of the GDP for the Russian Federation as a whole. Assessments for the current year and predictions up to 2007 are similarly optimistic.

Sakhalin's economy is mainly based on the following industrial sectors, which represent about 90% of regional industrial production:

- **Fuel and energy:** oil and gas extraction, coal extraction and processing, heat and electricity generation
- **The forestry sector:** logging and timber processing
- **The fishing industry:** harvesting and processing of fish and marine resources, production of related processed food products, salmon breeding
- **The food industry:** meat and dairy, alcoholic beverages, cakes and pastries, animal feed and others

Our enterprises currently have three major sources of economic growth. The first is external demand, based on a favourable climate in foreign markets at the moment. Today, approximately 65% of industrial production is exported. By 2007 about 80% of our production will be exported.

According to our estimates, by 2007, our international trade will have tripled. About 90% of our export is made up of our region's traditional products: oil, commercial timber, fish and marine resources. Our major imported goods include the following: cars and equipment, metal goods, and various services. In general, import is related to the oil and gas industry, supply to the fishing industry and the consumer market.

Over the past three years retail trade, catering and paid services have demonstrated an annual growth of 15%. The volume of transport and communications sector is growing at an annual rate of about 30%.

The third of our specific sources of growth is the demand for goods, work and services created by the implementation of the offshore oil and gas projects Sakhalin 1 and 2 and the first steps in implementation of Sakhalin 4,5 and 6. Here I will just mention one fact: over the next two years the volume of construction work will total no less than US\$1 billion.

With regards to foreign investment, as of 2005, more than US\$ 8.5 billion has been invested in Sakhalin Region, 90% of which is direct foreign investment. Every third dollar of all direct foreign investment in Russia has been spent on Sakhalin.

The clear leaders in attracting direct foreign investment are the fuel industry, geology, the food industry and construction. The main countries investing in Sakhalin are the Netherlands, India, the USA, Great Britain, Japan and the Republic of Korea.

Foreign investors are particularly interested in the Sakhalin 1 and Sakhalin 2 projects. At the same time, we believe that development of the energy sector should take place systematically and include the following key components:

- Implementation of Sakhalin 1 and Sakhalin 2 on the basis of production sharing agreements (PSA)
- Secondly, exploitation of new oil and gas reserves on the basis of commercial risk. Projects are already starting up on other parts of the Sakhalin shelf
- Other areas of development of the oil and gas industry include:
  - gasification of Russian Far Eastern regions and possible export of coal
  - gas/petrochemical plants established on Sakhalin for export
  - gasification of Sakhalin's main electrical generation plants & utilities

We are currently in negotiations about all of the above with potential Russian and foreign partners.

According to our calculations, in the event of any development scenario, in the next 30-50 years natural resource extraction – primarily of fuel and energy resources – will be the main growth factor in Sakhalin's economic development. Thanks to the development of the oil and gas sector, the rate of growth of industrial production, which currently stands at 5%, is set to double in the next two years.

Small business development is very important to Sakhalin's development. Today Sakhalin has around 4,000 active small businesses. About 32,000 entrepreneurs are registered in the region. About 40% of the working population is engaged in small business. Small business contributes no less than 25% of the gross regional product and makes up at least 30% of revenues to the region.

Here I will briefly summarise the investment situation on Sakhalin. In 2004, while in Russia as a whole investment rose by 11%, on Sakhalin investment doubled in that time. We are particularly pleased at the level of activity of Russian investors. A lot of investment is currently being made in the transport sector, construction and communications, the food industry, and consumer markets among others.

The following activities have a lot of potential for commercial collaboration:

- **The fishing and forestry industries:** we aim to stimulate creation of new enterprises and restructuring of old ones to include the whole process of exploration, extraction, and processing. In the fishing industry we are focusing on developing coastal fishing and increasing artificial production of salmon and other marine products. In the forest sector, we aim to establish large logging and processing enterprises, including pulp and paper mills.
- **The construction industry:** we aim to develop infrastructure (energy sector and utilities), mass housing construction, production of industrial construction materials, and modernisation of marine ports and airports.
- **Tourism** is a good area for collaboration. The uniqueness of Sakhalin Region, its areas of pristine wilderness, its unique landscapes and wildlife, all make our islands attractive to tourists from different parts of the world. The development of tourism will provide an additional boost to the already fast-growing hotel industry.
- We are also exploring **new business opportunities** such as gas-based chemical production and biological pharmaceuticals.
- And of course there is a lot of potential for collaboration in the **consumer sphere** and in **food processing**.

Sakhalin Regional Administration has been actively pursuing all the above as part of our focused efforts to develop the Sakhalin economy.

Every year the Economics Committee develops socio-economic development predictions. These include: development of the economic sectors; regional budget; balance and distribution of material, technical and labour resources; income and expenditure; investment needs and sources; export and import; financial needs of the State; wage and consumption levels; social security measures; and other macro-economic indicators, both for the short term (following year) and the medium term (next three years).

Eleven federal and 19 regional programmes are being implemented in Sakhalin Region. The best known of these is the targeted federal programme: 'Economic and social development of the Russian Far East and the Baikal area, 1996-2005', which has presidential status and is managed by the president's administration, and also the programme 'Socio-economic development of the Kuril Islands'.

Responsibilities of the Sakhalin Regional Administration include state regulation of the economy:

- Direct state regulation of sectors that have a particular significance for the economy and society
- Tax, budget and price regulation
- Social regulation and insurance
- Regulation of working conditions, contracts and wages
- State regulation of environmental protection and restoration
- Legislative regulation

Social development is no less important for Sakhalin Regional Administration. Social services are working consistently in the region, guaranteeing the population's Constitutional rights to education, health care, social support for the disadvantaged, and cultural services.

Of course social development is directly related to economic development. The social sphere has had a significant boost from contributions by the operators of the Sakhalin 1 and 2 projects. This money has been used to build schools, hospitals, roads, and to purchase expensive hospital equipment, computers for schools, and other things.

I would like also to mention another aspect of our work. Sakhalin Region is experiencing ever greater anthropogenic impacts, which are set to increase with the development of Sakhalin's offshore oil and gas reserves, the exploitation of further reserves and large scale logging. Ecological security is closely related to the protection of the environment and local livelihoods from possible negative industrial impacts, natural and technical disasters and their consequences.

Sakhalin Regional Administration's Department for Natural Resource Use and Environmental Protection promotes state policy and provides regulation in the sphere of research, production, use and protection of natural resources and the environment. It's role is to enforce legislation, to guarantee ecological security and the rights of the population to a healthy environment and reliable information about the state of the environment.

The problem of decontamination and disposal of industrial waste, including hazardous waste is particularly important for Sakhalin Region. Sakhalin Regional Administration and Sakhalin Energy Investment Company Ltd. have signed a framework agreement on collaboration on waste management. We are also attracting other companies to this work.

Oil spill response plans (OSRPs) are being developed and approved for relevant Sakhalin-based organisations. OSRPs have been developed for Sakhalin oil company Rosneft-Sakhalinmorneftegas, Sakhalin Energy Investment Company Ltd., Exxon Neftegas Ltd., the oil processing facility Petrosakh and others. An organisation has been selected to complete Sakhalin's regional-level oil spill response plan. The European Bank for Reconstruction and Development (EBRD) is taking part in this work.

Sustainable development of the region, a high standard of living and public health can only be provided if natural systems are preserved and the environment is protected. The Sakhalin Regional Administration works on these issues together with oil and gas operators, environmental NGOs, and the local population.

Unfortunately in the time that I have, it is impossible to talk about all the work that the Sakhalin Regional Administration does towards development of the region. There are many problems that we are resolving, and many more that we still have to resolve. I will be delighted to answer any questions that you might have.

***Thank you for your attention***