Kamchatka welcomes the world
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Kamchatka’s new frontier
Remote and sparsely populated, Kamchatka has the potential to become a commercial hub as Arctic shipping routes develop and rich resources are exploited

“Peaceful people with a real hope for their future”
Nikolay Pegin, director-general of the Kamchatka Development Corporation, explains the corporation’s functions and highlights areas of investment potential

Laying the foundations
Kamchatka is going all out to build the infrastructure needed to support development of its rich resources

The call of the wild
Kamchatka has much to offer the adventurous tourist, from winter sports to wilderness

Digging in
Mining firms are drawn to a region on the cusp of turning into a major new producer of energy, minerals and precious metals

Gateway to the Arctic
Kamchatka’s isolation is coming to an end with the opening of the Northern Sea Route, bringing a raft of other benefits in its wake

Growth story
Rich agricultural land and plentiful water supplies are among Kamchatka’s formerly neglected assets

In the pink
Famous for its unsurpassed Pacific salmon resources, Kamchatka’s fishing industry remains a mainstay of the peninsula’s economy

Land of opportunity
Investors are becoming increasingly aware that Kamchatka has the resources and opportunities to support a long-term growth story
Vladimir Ilyukhin

Vladimir Ilyukhin: Kamchatka becomes a very attractive investment platform

Against the background of stellar economic growth across the Asia Pacific region, Russia’s Far East is becoming steadily more attractive from the viewpoint of developing the region.

According to numerous experts, it may very soon become a base for developing the economy of the entire Russian Federation. The Kamchatka region is a part of the Far East that has recently been given new momentum in its economic development. According to governor Vladimir Ilyukhin, Kamchatka, long known for its teeming biological resources and vast reserves of natural resources, may soon become a major logistical transport centre, providing Russia with a direct and highly profitable economic link to the Asia Pacific region thanks to the increasingly important Northern Sea Route.

Kamchatka, a region of strategic development for Russia

The Far East is currently the centre of great attention. Russia sees this region as very promising indeed, as do societies across the entire world. To develop the Far Eastern territories is to invest in the future of the country, and proximity to countries across the Asia Pacific, with rich resource potential, provides us with a direct gateway to the global economy.

Of course, as with many remote areas, there are many infrastructural barriers, and economic development is currently slow. In these conditions, one of the main tasks of the regional authorities is to make this area as attractive as possible for business. Investors need conditions that show the territory’s interest in them. At present, we have a whole range of measures to support business. There is talk of various financial incentives and tax advantages, especially in the areas of greatest priority for the region. For example, we recently introduced tax advantages for investors realizing large-scale agricultural and mining projects. Of course tourism and fishing industry projects are also of the highest priority to us.

Fishing industry: aquaculture development progress

Kamchatka is traditionally considered the country’s greatest source of fish. Our fishermen, in fact, catch a quarter of all Russia’s fish yield. Over the past five years the Kamchatka region has become Russia’s leader in terms of water bio resources, and the fishing industry is one of the main pillars of the region’s economy. And it’s not just about tax revenues; it’s also about food safety and employment for the region’s populace.

Considering the significance of fishing in the region, we develop new mechanisms for supporting fishing companies every year. Particular attention is being paid to development of aquaculture in Kamchatka. The peninsula is currently one of the few places in the world where almost the entire salmon catch is of natural origin, but we understand the need to maintain the sustainability of this important natural resource. The practice of artificially breeding salmon is carried on all over the North Pacific, where over 700 salmon-processing factories are operating. Development of the fishing industry for us is not just a matter of preserving and increasing our salmon population, but of providing Russia and our trading partners across the Asia Pacific region with valuable fish stocks for many years to come. For this specific reason, alongside the development of onshore production, we are emphasizing the development of aquaculture. This area is of great interest to potential investors and we are ready to provide them with state support.

New development in mining

Another highly significant area for Kamchatka is the development of fossil fuels extraction. In recent years, this sector has started enjoying an upturn after a long break. Our gas extraction levels have significantly increased. An ore-mining industry is developing. Thanks to the launching of many new facilities and the increased strength of many existing production bases, volumes of extracted gold, nickel, copper and other valuable substances have increased by almost a third.

Business, thanks to state support, has started investing more actively in new production capacities. For the first time in recent years in Kamchatskiy krai, modern ore-mining and processing enterprises are being built. Our plan for the next 10 years is to increase volumes of gold extraction of up to 10-12 tonnes per year.
Kamchatka as a tourist centre
Kamchatka has always been known for its stunning beauty. Wild mountain rivers, geysers of boiling water, medicinal hot springs, snow-covered volcanoes and solidified lava flows – all of these attract tourists from across the world. People now visit the peninsula in summer and winter to relax, go fishing, swim in hot springs, visit a Koryak nomad camp, enjoy dogsledding and see the Valley of the Geysers for themselves. Lovers of extreme tourism can enjoy diving, rafting along mountain rivers or a climb up Klyuchevskaya Sopka, the highest volcano in Eurasia.

Kamchatka is a brand. Nobody doubts that the peninsula is a unique place. It is very important for us to create comfortable conditions for our guests. In recent years we have been actively involved in creating new lines of air communication in an effort to attract more tourists from Asia Pacific countries, and are working on an infrastructure and investment platform for developing the hotel business.

Agriculture
We have great hopes for the development of agriculture. We understand that Kamchatka is a risky area for arable farming, but the region has huge empty areas of agricultural significance and unique geothermal water sources. These could be used to heat greenhouses and grow ecologically friendly vegetables all year round for consumption on domestic and foreign markets.

Infrastructure development progress
Realizing many projects will be difficult without a developed infrastructure, our first task is to develop our engineering and transport infrastructure. We are currently completing reconstruction of Kamchatka’s main airport, which connects the ‘region’ with the ‘continent’. This project, costing more than $400 million, should be completed within the next two years. During this period, we plan to complete a new airport building that satisfies all modern requirements. Investors are being brought in within the framework of public-private partnerships.

NSR: The strategic northern sea route
One more important infrastructural project is the construction of a new seaport in Petropavlovsk-Kamchatskiy, on which work has already started. Given the development of the Northern Sea Route (NSR), Petropavlovsk port will be ideal for creating a major transport and logistics centre. Its geographical location is favourable, with great transit potential, the region being at the intersection of major transport and communication routes in the North-East Pacific.

Mastery of the Arctic passage is a new maritime gateway for Russia and Asia Pacific. There are many key advantages in using the NSR – not least because it offers a shorter route between Europe and Asia and is therefore more economical and efficient - and Petropavlovsk-Kamchatskiy plays a vital role on this route as a transit port. The movement of vessels along this route can draw in substantial new sources of revenue. For example, Chinese vessels use the NSR more actively for transporting cargo from Europe to Asia, and vice versa. Already we have started sending fish produce to central Russia from Kamchatka via the NSR, with significant reductions in supply times.

It is only a matter of time before the NSR becomes the principal logistical artery, as the Arctic ice thins. The role of Petropavlovsk-Kamchatskiy in this process looks very promising indeed.

Kamchatka open to investors
Kamchatka may, and indeed should, become a major platform for the modernization of the country and a point for the growth of Russia’s economy. Vast resources are concentrated in it and we are quite able to become a major logistical transport centre and a gateway for Russia through the NSR to Asia Pacific countries.

Attracting investment to the region is one of the most important activities of Kamchatka’s regional government. We are always open to dialogue and ready to provide help in the realization of any initiative, from creating favourable conditions for conducting business to accompanying investment projects.

A major investment forum is planned in Kamchatka in early September. This is a possibility to find out more about the most promising investment projects and the resources of the peninsula, on site. For my part, I guarantee that Kamchatka’s regional government will provide all the necessary support and assistance for realizing initiatives, accompanying investment projects at all stages of realization. We are always open to dialogue and are ready to become reliable partners.

“Kamchatka is a brand. Nobody doubts that the peninsula is a unique place”

Vladimir Ilyukhin
Introduction

Kamchatka's new frontier

Remote and sparsely populated, Kamchatka has the potential to become a commercial hub as Arctic shipping routes develop and rich resources are exploited.

LOOK AT THE map of Russia and you soon notice Kamchatka. It lies in the east of the vast, resource-rich Russian Federation, washed by the Pacific Ocean. An expansive peninsula, shaped a little like Indochina, it stretches south from far eastern Siberia, towards Japan. Kamchatka is part of the Far Eastern Federal Region. It occupies the Kamchatka Peninsula and adjacent continental territory, as well as the Komandor and Karaginsky Islands. Remote is a word that hardly does it justice: a population of roughly 320,000, more than half of whom live in the bustling capital, Petropavlovsk-Kamchatskiy, occupies a landmass of more than 460,000 square kilometres – an area larger than New Zealand, Great Britain or Italy.

Between Petropavlovsk-Kamchatskiy and Moscow lies almost 12,000 kilometres of tundra and farmland. It’s actually quicker to fly direct to Los Angeles from here. Kamchatka lies equidistant between the Russian capital and Chicago. Yet this remoteness, once a curse, is soon to become a blessing. In years to come, many people will find their gaze drawn toward Kamchatka, for several reasons.

Arctic route opens up
First and foremost, commerce. It may seem a stretch to suggest that so remote a place could come to play a major role in the ebb and flow of global trade. But it will. The Northern Sea Route (NSR), once a pipe dream, is fast becoming a reality as the Arctic ice melts. In 2013, no fewer than 72 commercial vessels used the NSR, up from just four in 2010, turning away from the Suez Canal as the route of choice between Europe and Asia.

Moreover, commerce is a double play here because of its favourable geographic location. Kamchatka lies at an intersection of international air routes between Europe, North America and Southeast Asia. It is on the main shipping highways of the North-Eastern Pacific, and the Russian government sees Petropavlovsk-Kamchatskiy as a principal port on the NSR. All container ships heading to and from Asia through the NSR have to pass the city, on the peninsula’s eastern coastline.

Petropavlovsk-Kamchatskiy’s potential as a hub for cold storage, transhipment services and maritime maintenance will only grow as trade soars and as sea-lanes further open up in the Arctic. After all, the distance between Yokohama and Rotterdam via the Indian Ocean is 11,205 miles. Through the NSR it is 3,860 miles fewer. The time saved is 300-320 hours, or 11-12 days. It is not just time that is saved. Fuel savings are also substantial. Of course the creation of a hub port is a long-term strategic project; but it is already quite clear that NSR shipping will develop and cargo volumes will increase.

Resources await
Second, energy and commodities. Kamchatka’s rich earth conceals a wealth of the world’s most valuable commodities, including an estimated 270 million tonnes of high-quality black coal. Local
authorities have plans to boost gold production up to 10 tonnes a year by 2020, from 2.5 tonnes at present, and silver production to 15 tonnes from 2 tonnes. The region is also set to become an increasingly important cog in the global energy industry, boasting vast reserves of gas and up to 10 billion barrels of oil. Many view Kamchatka as the next Sakhalin - the vast, hydrocarbon-rich island lying off northern Japan - and a key link in Russia’s energy sector. “We have enormous reserves of natural resources and, if we explore and exploit them well, and sustainably, Kamchatka will be a great long-term place to invest,” says Vasily Priydun, minister of natural resources and ecology of Kamchatskiy krai. European, Asian and North American energy firms have been eyeing major investments in the region for years; as Kamchatka’s infrastructure improves, those dreams will become a reality.

Third, natural resources. Kamchatka boasts great natural beauty. Untouched by civilization, it offers thermal and mineral springs, magnificent volcanoes and wonderfully clean lakes and rivers, all of which are natural assets that create unrivalled opportunities for ethnic, ecological and extreme tourism. The peninsula has about half of the world’s population of white-headed sea eagles and more than 10,000 brown bears. The fishing industry is growing fast, with investment in fish farming pouring in from China and Japan. Kamchatka-branded salmon, some of the best in the world, is now a popular feature of East Asian dinner plates.

Last but not least, tourism. In recent years the tourism infrastructure in the region has mushroomed. The most attractive areas have seen the development of camp sites, shelters and hunting camps.

**Competitive advantages**

We can see that the Kamchatka Region has a whole series of fundamental advantages in the competition, including its proximity to Asia Pacific countries, key targets for regional produce, its favourable ecological situation, the presence of world-famous cultural and natural monuments, and a wealth of tourist and recreational resources.

Many modern explorers, notably those with a yen for the wilderness, are keen to visit destinations that are new, unspoiled and distant-but-accessible, and which offer a landscape blessed with myriad adventure opportunities. Kamchatka ticks all those boxes. Winter travellers come here to go skiing and heli-skiing on the region’s many slopes. The peninsula boasts over 1,000 volcanoes - 29 remain active. Kamchatka boasts astoundingly beautiful nature reserves and the amazing Valley of the Geysers, voted one of the Seven Wonders of Russia in 2008.

Indeed, the soaring Klyuchevskaya Sopka, heart of the peninsula and embodiment of Kamchatka’s wild ruggedness, is the highest active volcano in Eurasia at 4,750 metres. The region is also a haven for bird and whale spotters, for river and deep-sea sport fishermen, and for those seeking genuine wild terrain to explore. Nor does the peninsula attract only the most weather-hardened of travellers or investors. The warming waters of the Pacific Ocean provide Kamchatka with a temperate climate. There are four distinct seasons, helping guarantee the peninsula ‘Goldilocks’ weather: not too cold in winter, and not too hot in summer, but just about right.

It’s hard to think of many reasons not to consider Kamchatka in your investment or travel thoughts. Investors will come for the manifold opportunities springing up in a region increasingly enmeshed with the global trading community, and stay for the skiing, the fishing and the experiences provided by one of the world’s last great untapped frontiers.
"Peaceful people with a real hope for their future"

Nikolay Pegin, director-general of the Kamchatka Development Corporation, explains the corporation’s functions and highlights areas of investment potential

What is the role of Kamchatka Development Corporation?
Investment today is the most important factor in developing an economy. Kamchatka Development Corporation (KDC) seeks, through the sensible organization of interaction between those involved in the investment process and those in power, and through financial institutions, to create conditions that will help investors assess territorial distribution and choose the support measures provided in the region.

Our task is also to create conditions in which investors come to us to feel comfortable. KDC is a special form of processing plant that takes ideas, realizes them and then promotes them. One of the most important tasks is reducing the time taken to approve an investment project after the investor obtains the multilateral assistance at the initial, and most difficult, stage. We become the original mediator between state, investor and local population. Our work must bring about a quick and high-quality reconciliation of the interests of everyone involved.

To attract investment one must react efficiently, almost instantly. Delay is a death sentence. Our task also includes speeding up the agreement process, reacting instantly to proposals from investors and to requests for social and economic development. The state cannot always participate directly in financing a project. The KDC then becomes a key instrument with its partnerships between the state and private businesses. We participate not only with our resources, but also with our skills and powers and the ability to find finance sources in companies and institutions interested in realizing investment projects in Kamchatka. We represent Kamchatka’s interests, reconciling them with potential investors’ interests.

Which areas of industry do you wish to support and develop?
There are hundreds of areas in which investing in the Kamchatka economy could be profitable, but the list would cover many pages. However, there are areas in which return on investments will be very high, as indeed will be the interest of both authorities and population. Some of the most promising areas include minerals and raw materials, tourism, freshwater and sea fishing, processing of seafood, and energy and communal reforms.

Kamchatka has a unique reserve of underground resources. Of greatest importance for the economy are four gas-condensate deposits, 16 thermal energy underground water reservoirs, 62 gold deposits, five widely scattered platinum-group metal deposits and underground fresh water deposits in Russkaya Bay. Nature in the region is remarkable, with many thermal and mineral water sources, magnificent volcanoes and mountains with permanent snow and glaciers, numerous rivers and lakes with salmon spawning grounds, areas of volcanic activity, wild areas untouched by civilisation, and spectacles of nature known the world over, such as the Valley of Geysers, the Uzon volcanic crater and the Kamchatka Volcanoes Nature Park. Tourism in Kamchatka is already well developed, although further development is hampered by lack of infrastructure. We have major projects to develop skiing resorts in association with Canadian partners, and have signed a memorandum to work with the French Alps Development Association. We have agreed to create areas that do not resemble the French or Swiss alpine resorts but are unique to Kamchatka and can be used all year round.

In addition, it is well worth mentioning opportunities in freshwater and sea fishing and seafood processing. More than 20% of all fish and other seafood in Russia comes from Kamchatka. Through the provision of state support, fish-production enterprises have, in the period 2008-13, invested over Rub11 billion ($305 million) in the development of their industry, constructing 16 modern factories on the shores of the peninsula to produce high-quality and profitable fish products with cutting-edge technology, which has helped increase production capacity to over 3,500 tonnes per day. The cold storage capacity for fish products has been increased by over 30,000 tonnes and an additional 1,700 jobs have been created.

Russian shipyards have built seven small vessels designed for fishing close to the shore and supplying catches with bio-resources in local territory for subsequent further processing onshore factories. Salaries of those working in the sector have increased from Rub29,000 to Rub48,000. Not only that, but the positive development of the fishing industry is reflected in overall indicators in the last five years, including increased volume of catches, increased volumes of fish foodstuffs produced and increased investment. The region’s rivers are spawning grounds for every species of wild Pacific salmon; this is a feature unique to Kamchatka. Investments in the fishing industry look very promising to us.

Another promising area is wood processing. A joint Russian-Italian business has been created and will start trading soon; its modern European wood-processing equipment will make sensible use of the peninsula’s forestry reserves and the finished products will be used for low-rise housing, one of several...
promising housing construction projects in Kamchatka.

The region is rich in resources but, to master them, a hitherto lacking infrastructure is required. The problem can be solved in several ways: by finding major investors willing to bear the full cost of creating it, or by creating a partnership between state and private sector (the state creates the necessary infrastructure while the investor organizes production) to produce an area of special development. We are involved in preparatory works on four such areas. A number of reliable organizations and investment funds have already expressed interest. We will do everything to help these new partners.

Overall, KDC is becoming the unique ‘entry point’ to the area for potential investors and for business. We speed up and simplify the investment process and answer all questions that investors have. The number of proposals, and their level of preparedness, is continually increasing, as is interest from widely varying investors, from experienced Pacific and Asian investors to European investors, all taking an ever-increasing interest in Kamchatka.

**How will you determine which projects and companies to support?**

Every project and idea is examined thoroughly. First and foremost, of course, we accept projects that appear to benefit not only potential investors but also the region. Social and economic aspects will be given priority. We will choose the projects that are best prepared, that rely on serious scientific research and require the least expenditure to turn them into viable business proposals. The economy is a very fluid environment. We endeavour to react to world economic trends quickly, almost instantly where possible.

Working together to realize investment projects will be multilateral, involving reduction and simplification of procedures connected with issue of permits and with connection to communication networks. The tax system is becoming steadily more investor-orientated, and there are other incentives.

**What are the main reasons foreign investors should invest in Kamchatka?**

There is a unique chance to invest in projects in an area that will provide not only return within a sensible time, but also much greater profits than in larger regions. The dynamic of the economic situation in Kamchatka over recent years has been positive. Today, also, Kamchatka is of intercontinental importance in the world transport system. The presence of an ice-free port in the Northern Passage, and the favourable geographical location on an intersection of air routes, opens up possibilities for creating a hub connecting America, Southeast Asia and Europe.

The waters around Kamchatka contain the region’s principal source of wealth: reserves with unique value and diversity of biological resources. In recent years, Kamchatka region has become a Russian leader in the catching and processing of fish and other seafood.

Development of a raw material and mineral complex is planned because of the great wealth of natural resource potential: everything from gold and platinum to hydrocarbons. On a worldwide scale, Kamchatka is a unique natural territory, with a huge wealth of tourist and recreational resources. The region is one of the most ecologically successful areas in Russia. Thermal and mineral sources, volcanoes and glaciers, and the largely untouched flora and fauna, provide great opportunities for developing all types of tourism: skiing and mountaineering tours, fishing and hunting trips and charter flights and cruises, and the creation of spa resorts. Far-sighted business people will, of course, recognize the potential of Kamchatka!

**What are the plans to create new industrial parks in Kamchatka in future?**

Agropark Nagorny is one of the most promising investment projects in the region. Kamchatka currently depends almost entirely on imported agricultural products. That, in the perception of many, is the norm; but it is far from right. Even in the 19th and early 20th centuries, the peninsula fed not only its own population, but the adjoining Far East territory, with its vegetable production. Now, we are bringing back that tradition. The plan is to make Nagorny a regional centre for agrarian production and trade. Its 121 hectares will contain huge hothouses with modern vegetable-growing technology, processing companies, and warehouses for storing farm and agricultural produce, as well as a farmers’ market and a trading and exhibition area. Through state finance, it is planned to create conditions for developing agricultural production, engineering networks (gas pipeline, electrical networks, water provision and removal systems), roads and platforms. It is planned to build other industrial parks, but in other directions.

**How do you see Kamchatka’s future economy in terms of growth and development?**

Kamchatka’s future is the future of a unique region that combines geographical and logistical opportunity and the function of a transport centre. This is not just a place to pass through, but a centre for the fishing and fossil fuel industries and an area with a developed agricultural and industrial system and, of course, opportunities for ecotourism. Volcanoes and geysers, hunting and fishing, and a developed tourist infrastructure, combine to create an atmosphere that rivals that of a beautiful Maldivian beach or the magnificence of Italian architecture.

The main thing is that this is the home of generations of peaceful people with a real hope for their future. This is what we are working for!
Infrastructure

Laying the foundations

Kamchatka is going all out to build the infrastructure needed to support development of rich resources

KAMCHATKA’S INFRASTRUCTURE IS improving rapidly. But more investment is needed to realize the full potential of one of the world’s great untapped frontier regions.

Today, the main area of activity by Kamchatka’s government is the development of the region, increasing inter-regional and international economic connections, and the active promotion of investment potential at both domestic and international level.

Infrastructure also offers investors an immediate as well as a sustainable way of being part of the region’s long-term growth story. Better infrastructure is key to this process. New factories are being built and better air connections are being developed, with more than Rub3 billion ($83 million) being pumped into the construction of new roads and bridges. Yuri Zubar, deputy chairman of the government of kamchatskiy krai, has stated that in 2014 the region will build more than 1,000 kilometres of new motorway, linking Petropavlovsk-Kamchatskiy with new production complexes and tourist sites, generating obvious benefits for the regional economy.

Zubar points to the capital already being invested in improving the region’s superstructure. Petropavlovsk-Kamchatskiy airport is being modernized, with reconstruction of take-off and landing strips, and the construction of a new airport terminal, with modern transit points, planned as part of a public-private partnership. It is expected that the main airport of Kamchatka will serve both domestic and international airline passengers, with the total cost estimated at Rub4.5 billion.

Kamchatka is also planning the construction, in the immediate future, of a major new seaport, equipped with a modern international transit point, which will play a major part in the development of the tourism sector.

New routes east and west
As the new airport expands, it is expected to open up routes to East and Southeast Asia, and North America. Charter flights have already been organized between Petropavlovsk-Kamchatskiy and Tokyo, as well as Anchorage. But local officials hope to see the roll-out of commercial routes connecting the region with cities such as Seoul and Beijing and other major population centres, thus increasing the annual flow of incoming tourists to more than 100,000.

“We need a new airport in order to become a true regional hub for international carriers and air transport,” notes Zubar. Adds Gevork Shkhiyan, head of the government’s Travel and External Affairs Agency: “The first aim is to increase flights between here and the Pacific Rim, starting with Japan, with which we have excellent relations in the field of tourism. We are also hoping to become a place of interest for flows of Chinese and Korean tourists; the introduction of commercial flights will be a major step in that direction.”

Shkhiyan notes that the aim is two-fold: to develop the region’s infrastructure “without damaging the environment”, while being as transparent as possible with investors. “Without a wider and better infrastructure, it is impossible to attract investors,” he adds. “And it is possible to attract good investors by putting all of our cards on the table and explaining exactly what we are doing.”

Solid investment
Kamchatka offers an unusually solid investment programme, based on an abundance of commodities and natural occurring resources, from minerals and energy to clean water and agricultural goods. Kamchatka is acquiring intercontinental significance due to its prime location at the nexus of air and sea routes connecting North America, Southeast Asia and Europe. This means that the main area of development is connected with the upturn in activity on the Northern Sea Route, which is becoming a major asset in the world economy and is in the Russian Federation’s zone of strategic interests.

Weather conditions have made the port of Petropavlovsk-Kamchatskiy one of the key points in the Northern Sea Route. It is here that the prerequisites for creating a powerful maritime transport and logistics infrastructure, with modern terminal complexes and innovative service and business centres that satisfy international regulations and standards, are fulfilled through the transport and dispatch service complex and the organization of an uninterrupted high-technology transport service.

The process has already begun. Around Rub3 billion is being spent on the construction of new deep-water port facilities. Investors can clearly see the wisdom of channelling capital into a region that stands to benefit enormously from the opening up, in the years to come, of the Northern Sea Route, which will slash the current time and cost of shipping goods between Asia and Europe, via the Arctic Ocean.
Tourist attractions
Better infrastructure will also mean more tourists. Already, the region teems with a dizzying array of outbound activities for the adventurous, from deep-sea and river fishing to hunting and bird watching. Climbers arrive to tackle the region’s soaring, snow-clad volcanoes. People travel to Kamchatka in both summer and winter to bathe in hot springs, enjoy dogsledding and delight in clear, fresh mountain air. Lovers of extreme tourism go rafting or diving in mountain rivers, while those who feel particularly bold can travel up the highest volcano in Eurasia, Klyuchevskaya Sopka, with experienced instructors. But more needs to be done to boost regional infrastructure – only then, admits Zubar, “can we fulfil our considerable economic potential”.

New infrastructure projects are springing up around the region. These include a new Rub90 billion hydroelectric dam to the north of Petropavlovsk-Kamchatskiy in Zhupanovskiy, which will generate more than 2MWh of electricity. Construction of a new water purification system, costing around Rub14 billion, is also planned, to serve the leading towns and cities. Roads and ports are also being built that will allow mining firms to gain access to remote parts of the interior, with its vast reserves of coal, gas, silver, oil and gold.

Sustainability in mind
In each case, says Oxana Gerasimova, deputy minister of economic development, business and trade of Kamchatskiy krai, new infrastructure projects will aim for two things. First, they will be designed with sustainability in mind. Too many tourism destinations diminish their own attractions because of poor long-term planning: roads, hotels, theme parks and entire new towns are built to cater for new arrivals, destroying an area’s intrinsic long-term selling point. Kamchatka, Gerasimova pledges, is not going to make that mistake. Rather, it will seek capital from investors wanting to be part of a sustainable, long-term growth story. “The watchword in terms of our infrastructure development, particularly the building of new roads, will be ‘slow-and-steady’. We need new infrastructure, but we don’t want to destroy our ecology.”

Second, regional leaders are rolling out business and tax incentives for investors keen to plough capital into infrastructure projects. “We are willing to offer special conditions including lower tax holidays and lower taxation rates on major infrastructure projects,” says Gerasimova. “Removing administrative barriers and directing more capital, both domestic and foreign, into major infrastructure projects is absolutely central to our economic future.”

New infrastructure – built with due care and attention for the environment – is being planned in the mining sector, to bring metals and energy to market through the construction of new link roads and ports, notably on the more isolated, western half of the peninsula.

Then there is the development of the agricultural sector. Kamchatka governor Vladimir Ilyukhin stated correctly a few years ago that the region can and indeed must keep itself supplied agriculturally. This has led to the creation of projects for greenhouse production of vegetables, a fattening centre for production of ham and a project to organize broiler production. Poultry factories are being reconstructed, and egg production has increased this year. Two milk factories have been built, in the villages of Milkovo and Zarechnoye, and construction of a livestock breeding centre is under way. One of the largest major investment projects is Agropark Nagorny; this will become a centre of agrarian production and trade in the Kamchatka region. Covering 121 hectares, it will contain huge greenhouse areas, processing businesses, warehouses for storage of agricultural produce, a farmers’ market and a trading and exhibition complex.

Winter sports paradise
Then there is the tourism sector. Parks and leisure facilities are being planned that will turn Kamchatka into a winter sports paradise. Billions of roubles are being ploughed into new skiing complexes that will include such all-weather diversions as spas, medical facilities for health tourists, water parks and indoor sporting facilities. Gerasimova says that a new skiing complex planned in Yelizovo, a few kilometres north of the main airport, will attract capital by offering 49-year infrastructure leases to foreign investors, allowing them to generate a cut of the profit once the complexes are up and running.

More capital though is needed to realize Kamchatka’s vast potential. In 15 years’ time, the region’s infrastructure will be largely complete, so for global investors looking to embed themselves in, and profit from, one of the world’s rising frontier regions, time is of the essence. Kamchatka is open to dialogue and to working together for the benefit of all.
Tourism

The call of the wild

Kamchatka has much to offer the adventurous tourist, from winter sports to wilderness

TOURISM, WHICH ONCE meant sightseeing or relaxing on a beach, has expanded considerably in recent years. Ever-increasing numbers of tourists want to see far-flung corners of the world, where nature has remained untouched. They want wilderness, rugged terrain, activities that go above-and-beyond. Above all, they want to be challenged. Kamchatka not only meets these expectations, but exceeds them. It is one of the world’s last remaining frontiers, a Klondike for the 21st century. A vast peninsula stretching 1,250 kilometres south from the eastern Siberian mainland towards Japan, it was off limits to outsiders until the 1990s, due to the presence of a Soviet military base. Slowly, as the Russian Federation found its economic footing, Kamchatka started reaching out to the wider world.

Tourists loved what they saw. Kamchatka offers – and this is no idle boast – some of the greatest outdoor experiences on the planet. Truly mind-blowing fly fishing, in lakes offering some of the world’s best, biggest and tastiest rainbow trout. Heli-skiing on active volcanoes in a region widely perceived as a rising winter sporting haven. Dogsledding with local tribespeople, watching truly wild birds – where else today can tourists have such unforgettable experiences? “The people who visit Kamchatka, and return to see us again and again, are those who love nature, and who love the wild, unspoilt wilderness, of the sort that only exists these days in a few other areas,” notes deputy minister of economic development, business and trade Oxana Gerasimova.

Rugged and different

First, let’s consider what makes Kamchatka special, and why it appeals to visitors and investors alike. Andrey Ivanov, minister of sport and youth policy of Kamchatskiy krai, describes the region as “rugged and different”. Vasiliy Priydon, minister of natural resources and ecology, points to the “pristine” nature of “a great frontier region ripe for exploration”. The head of Kamchatka’s Travel and External Affairs Agency, Gevork Shkhiyan, invites “everyone who loves nature in all of its unspoilt glory” to visit. “We have one bear for every one of our people,” he adds. “Where else can you find a place like that?”

Contrary to assumptions, the peninsula boasts a surprisingly temperate climate. This isn’t the depths of the Siberian hinterland, where the mercury can fall to -60°C. Temperatures never rise too far, topping out at an average of 12°C at the height of summer. But nor does the region suffer extreme cold. Thanks to warm prevailing winds and tides swelling in off the Pacific coast, the temperature rarely dips far below -10°C, even in the depths of winter. So come prepared with woolly jumpers and warm coats, but don’t worry about being chilled to the bone.

More people than ever are finding their way to Kamchatka’s clean shores and green hinterland. Tourism, says Shkhiyan, is the region’s largest and fastest-growing industry. “Currently, around 50,000 tourists come to Kamchatka every year,” he says. “That’s good, but we want to do better. We aim to increase that number to 100,000 in the near term.”

Image: Alena Denshchik
These plans are likely to be achieved, and sooner rather than later. Investors are pushing into the region, attracted by improving infrastructure and a raft of new activity-related sporting complexes. Ivanov has held talks with Chinese, Korean, Italian and Bulgarian companies keen to invest in a new, all-purpose, year-round resort complex in the area surrounding Kamchatka’s second city.

A new ski resort is planned for Topolovy mountain, with three slopes, state-of-the-art European chair lifts and snow-compacting vehicles. An amusement complex is also planned that will include paintballing, mountain biking trails, children’s playgrounds and skateboarding parks. A botanical garden will also be built, alongside a water park, a spa centre, healthcare facilities and three- and four-star hotels, as well as a full-size football stadium. Construction of the entire Paratunka resort zone will be broken down into seven projects, each interconnected with the others as part of the overall complex, but funded as separate investment vehicles.

Total estimated costs for the Paratunka project, which is set for completion by 2021, will be just shy of Rub7 billion ($200 million), officials reckon. The complex’s infrastructure is also being built from scratch, including pumping stations, a sewage treatment plant, power generators, highways, a brand new electricity sub-station and kilometres of new central heating pipes. “We have great plans for this park. Investors can choose sites on which to build,” pledges Shkhiyan. “We will support their building here and will help ensure that they get the requisite licences, and of course we will help with the paperwork. We want to bring in more investment capital into projects such as these. Our aim is to turn Kamchatka into a regional centre for tourism and physical development.”

Local officials are exploring a series of incentives to attract more capital to the region, with the aim of boosting inward investment in key long-term projects. These include rolling out tax benefits, financed by local budgets, handing subsidies to flagship investors and tightening up rules to protect investors’ rights. The region has also created a new government agency, the Kamchatka Development Corporation, which grants licences, deals with tax issues and generally acts as a one-stop shop for investors seeking to know more about, or query anything relating to, a project or investment in the region.

Unique experience
Central to this ambition is the region’s snowy hinterland. Despite the temperate climate, the region’s mountains and volcanoes remain clad in white throughout the summer. “You can ski almost all year round,” notes Gerasimova. “In fact, we offer a unique experience: active tourism, including heliskiing on active volcanoes.” Kamchatka is rapidly building up its infrastructure here. Local charter planes and helicopters fly skiers out to far-flung mountains across the peninsula; European firms including London-based Elemental Adventure, and Heliski Russia, a French outfit based in the Alpine resort of Chamonix, help to bring the wild Kamchatka outback closer to bankers, fund managers and general thrill-seekers.

But the region has only just started. Shkhiyan is keen to see more foreign investment capital flowing into support services. “We are encouraging more investment into areas like cargo transport and pleasure trips”, he says. “Surely flying by plane or helicopter is the best way to travel around Kamchatka, and to see everything that the region has to offer.”

Nor is that the limit of the region’s ambition. Last year, Kamchatka was nominated as the preferred training ground for Russian sportsmen preparing for the 2018 Winter Olympics.
Tourism

in Pyeongchang, South Korea. On top of that, the Kamchatka authorities are planning to build an international training base for biathletes; already international biathlon competitions are being held in Kamchatka.

**Winter sports capital**
According to Ivanov, Kamchatka has every chance of becoming the world winter sports capital. Much of the project’s success, he admits, depends first on building up the region’s infrastructure, and second, creating a world-class training complex ahead of the 2018 Winter Games. “If Russian sportsmen perform well in South Korea, they will recognize the importance of training in Kamchatka. The opinion of professionals is vital here. People will see we are a great training place with great conditions, and that we are open to any sportsperson who wants to train here.”

These are not the Kamchatka authorities’ only plans for developing the peninsula’s sporting infrastructure. The Canadian corporation Ecosign has developed plans for mountain skiing tourism and sport in Kamchatka, including a master plan for creating a skiing resort at the base of four areas, namely Sopka Petrovskaya (centre of Petropavlovsk-Kamchatskiy), Avachinskiy Volcano, Gora Moroznaya and Gora Sedlo (the current training base) as well as Topoloviy Ridge.

“This is certainly the largest and most ambitious project in Kamchatka. The overall cost will be over Rub25 billion. However, the complex will be built in stages,” says Ivanov.

“Every area will work as a separate resort as well as with other resorts within the complex.”

Kamchatka is a haven for those seeking adventure and new experiences. The region boasts many active volcanoes, geysers and hot springs. North of Petropavlovsk-Kamchatskiy are more than 10 separate holiday areas, where visitors can enjoy hydro-massage baths or bathe in swimming pools with heated water straight from underground. Small wonder that Kamchatka is often called “the living land”.

**Turning point**
The next few years will see Kamchatka cement its place as a frontier tourism destination of choice for travellers from across the world. Notes Shkhiyan: “We are at a turning point, where we are moving from a lower to a higher level of development.” This brave new world includes the expansion of key sub-sets of the tourism sector in sustainable ways. “We need to keep in mind the need to grow our economy, and to expand our tourism sector, but that cannot come at the cost of destroying the wonderful natural ecology of Kamchatka,” he says. “We need to find the right balance between ensuring returns to investors and creating jobs, and protecting the region’s natural birthright.”

Take fishing, one of the region’s three main industries, along with mining and tourism. In Kamchatka, tourism and fishing are closely intertwined. Thousands of visitors come to Kamchatka each year expressly to fish, both far out in the Pacific Ocean or in one of the region’s myriad pristine lakes and rivers. Adventure holiday specialists such as Yellow Dog promise experienced or amateur fly fishermen the chance to cast their rods into some of the cleanest waters on earth, surrounded by wooded hills and mountains (and a few bears – though experienced tour guides are adept at keeping away from them, or fishing in more secluded locations). Rainbow trout, wild Pacific salmon and Asiatic grayling, often reaching sizes now unheard-of in the rest of the world, can be caught here regularly and in extraordinary abundance. Throw them back in the water, or wolf them down at the end of a long day – the choice is yours. Marina Subbota, deputy chairman of the Kamchatka government, identifies sport fishing as well as hunting, which is carefully and restrictively licensed, as a “key area” of tourism development in the region.
Kamchatka attracts not only lovers of action holidays but lovers of nature as well. These tourists come to the region to see white-tailed, golden and sea eagles, falcons and hawks. There are more cliff nesting birds than anywhere else in the world, Shkhiyan reckons. At least 122 species of seabird nest on the cliffs in Avacha Bay, an hour by boat from Petropavlovsk-Kamchatskiy, making a magnificent sight.

Going with the dogs

Then there is dogsledding, the most popular form of travel in Kamchatka and the oldest tradition of the indigenous population. As those who have taken part in the annual Iditarod Trail Sled Dog Race in Alaska will testify, there is nothing like being hauled around a snowy hinterland by happy, hurrying huskies. Indeed, Kamchatka’s annual dogsledding races ‘Elizovo Sprint’ and ‘Beringia’ are already as famous as their Alaskan equivalent. “Dogsledding is a Kamchatka tradition,” says Valentina Bronевич, deputy chairman of the government of Kamchatskiy krai. “It’s a very important event in the local calendar. People come from across the region to see the races. It’s also a vital cog in the tourism industry. Our dogs are run for work, as well as pleasure, and tourists love taking part in longer or shorter dogsledding races.”

There are many good reasons to visit, and to invest in, Kamchatka’s tourism industry. It is a sensationally beautiful and rugged place, offering some of the best, last and most pristine countryside anywhere in the world. The people are genuinely friendly. If you are lost, they will help. If you stop and ask questions in the street, they’re happy to chew the fat. It remains largely untouched by the impatience and cynicism of the wider world. “We have museums, great skiing slopes, great bay trips and amazing monuments to nature, from volcanoes to geysers,” says Subbota. “The main challenge going forward will be to improve the infrastructure of the region – only by doing that will we maximize the tourism sector’s potential. That’s also where we are specifically counting on foreign investment capital.”

The tourist industry is actively developing in Kamchatka. This makes it one of the most promising areas in terms of investment resources. Construction of a new Petropavlovsk-Kamchatskiy airport, the main air hub for the region, is planned. This will attract more visitors from the likes of the US, Europe and Asia, notes Shkhiyan. “We have regular charter flights to Japan and Alaska, and we are hoping that international commercial flights along these routes, as well as to China and South Korea, will begin soon,” he says. “Only by improving our airport infrastructure will we be able to realize the full potential of the tourism sector.”

A new deep water port is planned for the capital. This will act both as a facility for commercial maritime vessels and as a mooring for cruise liners. As the Arctic Ocean opens up to more maritime traffic, and as Asia’s tourism sector continues to grow, more tourists are expected to hop aboard a cruise ship to explore the glories of the Pacific north.

“As the Northern Sea Route linking Europe and Asia via the Arctic opens up, Kamchatka will be a key destination for cruise ship operators,” says Shkhiyan. “To realize this plan, we need investment.” Yuriy Zubar, deputy chairman of the government of Kamchatskiy krai, notes that around 20 cruise ships called in the region’s capital in 2013 alone, a number that, he says, will “increase significantly” as the infrastructure – notably the new deep-water port facilities – improves.

We can say with confidence that Kamchatka has ceased to be on the edge of the world, and is attracting great interest from investors. This is one of the world’s wild and untouched areas, with a unique nature. It is difficult to find reasons for not visiting it. This means that the numbers visiting the peninsula can only grow, and the tourist industry continue to develop actively in consequence.
THE KAMCHATKA REGION has enormous potential for investment, with vast reserves of water bio-resources that have made it the country’s most important fishing area. The region is blessed with bounteous reserves of precious metals and carbon-based energy and is now a significant, and in many ways unique, part of Russia’s natural heritage.

The peninsula’s underground resources make the mining industry one of the most promising areas of development. Of greatest interest to investors will be the regions that show promise for hydrocarbon deposits. The promising hydrocarbon resources of the continental shelf adjoining the peninsula are assessed at 6 billion tonnes of oil equivalent.

Marina Subbota, deputy chairman of the government of Kamchatskiy krai, describes the region as “Sakhalin, 10 years on”. This comparison with another vast, energy-producing region of the Far East is telling. A couple of decades ago, the island to the north of Japan was merely an afterthought in Russia’s energy strategy; now, it’s an integral and fully integrated member of the global oil and gas community. Kamchatka, many believe, is heading in that direction. Various estimates have put the region’s oil reserves at up to 10 billion barrels of recoverable oil, while government deputy chairman Yurii Zubar does not dismiss the possibility that the region “will in the future be in a position to export its considerable gas reserves to China, and to other parts of East Asia. We’re now in the process of researching how much is down there, and how best to tap into our reserves.” Oil and gas could be recoverable both onshore and offshore, in fields in the Sea of Okhotsk, believes minister of natural resources and ecology of Kamchatskiy krai, Vasily Priyden. “We’re only in the early stages of drilling and exploring,” he says. “But we do know that there are considerable reserves of both oil and gas to be discovered in the region.”

Asian and Western European mining companies are showing interest in developing the energy coal deposits discovered in the northern and central parts of the peninsula. Reserves of high-quality coal concealed underground in Kamchatka exceed 250 million tonnes. However, mastering these deposits will require substantial logistical costs because of the difficulty of accessing the location.

**Precious metals potential**

Kamchatka’s most important mining reserves are gold, silver, platinum, nickel and tin. A positive geological and economic assessment has been given to over 20 gold ore areas, six copper and copper-nickel and two tin areas. The region undoubtedly has the potential to make it a significant precious metal supplier in years to come. The potential is in what Kamchatka has to extract; most of the area is unexplored, which of course carries a risk, but also requires significant input from pioneer investors.

Subbota points to the “great reserves of silver and gold in the region”. The region contains over 400 gold ore deposits and mineralization points, most of which remain unexplored.

Priyden says mining firms are actively exploring potentially rich seams of copper ore and nickel. “We are focused on determining exactly what minerals are down there, and what grade they are. It is highly likely that there is more down there than any of us realize. We are at the beginning of a decades-long investment story that will bring wealth and opportunity both to investors and to the region itself.”
Local authorities have plans to boost the production of gold to 10 tonnes a year, from 2.5 tonnes at present, and silver production to 15 tonnes from 2 tonnes. The timing, with Asian economies stockpiling gold and silver in record amounts, could not be better. Mining firms are increasingly drawn to a region on the cusp of turning into a major new producer of energy, minerals and precious metals.

One of the largest participants in the precious metals sector is Zoloto Kamchatki, whose controlling company, Interminerals, recently moved its head office from Moscow to Kamchatka. The holding company has six mining companies, which hold nine licences to extract precious metals. The controlling company is seeking investors wishing to invest in geological survey works and the creation of an infrastructure in the licensed areas.

In 2013, Interminerals extracted 1.5 tonnes of gold. According to Yuri Garashchenko, director for interaction between Interminerals and central government, it is expected that this volume will be doubled in 2015 and rise to 10-12 tonnes by 2025. Investments in principal funds and geological surveys by one of the Interminerals-controlled companies total Rub7 billion ($200 million). Of particular interest to outside investors will be the project at the Baranyevskoye gold and silver deposit in central Kamchatka. The mining company has the necessary licences, but is seeking partners able to build out much-needed local infrastructure.

Another example of successful activity in mastering the region’s gold ore deposits is Sigma, a company dedicated to long-term work in the region. Its main focus is to tap the vast Ozernovskoye gold ore deposit in the inaccessible Karaginskiy district of Kamchatkiy region. The company has an underground resource exploitation licence for this deposit which runs out in 2030. Total investments since 2005 now total $110 million, and the company has carried out substantial geological survey work prior to exploring the deposit as well as engineering surveys. By 2018 it is planned that Sigma will be extracting 2 tonnes of gold each year. The mine is expected to contain around 104 tonnes of gold, but that total may rise. Sigma is looking for new investors to take part in the building and completion of the mine. It is focused on looking for project financing partners, and on financing and building the infrastructure surrounding five separate extraction sites. The firm also notes the potentially plentiful reserves of platinum in the region, particularly along the central ridge.

**Protecting the environment**

The regional authorities are looking at ways to combine the preservation of the area’s unique natural beauty with developing its investment potential, while stimulating the long-term interests of investors seeking to profit from the region’s mineral reserves. This emphasizes the region’s readiness to monitor the balance between the requirement to preserve the environment, Kamchatka’s most important asset, and the interests of investors.

“The rights of investors in our territory are protected,” states Oxana Gerasimova, deputy minister of economic development, business and trade of Kamchatskiy krai. The key investors conducting long-term projects in the region will be given state financial and non-financial support in their investment activity, including tax benefits, state guarantees and regional budget subsidies.

The great resource potential of the peninsula, the interest of regional authorities, and the corresponding tax reliefs, will all be real incentives for mastering the mineral and raw material complex of the region. Kamchatka was slow off the mark in the 1990s as the rest of the Russian Federation’s economy grew, but it is more than making up for lost time. This is a great place, and a great time, to invest in one of the great mining stories of the next several decades.
Northern Sea Route

Gateway to the Arctic

Kamchatka’s isolation is coming to an end with the opening of the Northern Sea Route, bringing a raft of other benefits in its wake.

Many investors know Kamchatka only as lying on the edge of the Russian Federation: beautiful, wild, rugged, crammed with natural resources – but isolated. The last part of that equation is about to change. Global commerce has always adapted to, and profited from, expediency. Two-way west-east trade benefited from the opening of the Suez Canal in 1869, then accelerated further when the Panama Canal opened in 1914. Many believe the next great boost will come from the opening of the Northern Sea Route (NSR), linking Europe and Asia via the Arctic Ocean. And Kamchatka and its capital, Petropavlovsk-Kamchatskiy, which lie at the eastern end of that route, stand to benefit perhaps more than any other region from the route’s expansion in the decades to come.

The NSR was first broached as a possible trade route during the Soviet era, when icebreakers forged great channels in the Arctic ice between the northern hemisphere’s late spring and early autumn. In recent years, as the planet’s warming has caused the Arctic ice to thin earlier in the season, the NSR has become a viable long-term trade route. The journey between Shanghai and Rotterdam is 5,000 kilometres shorter via the NSR than through the Suez Canal, while offering none of the latter’s added political and security-related unpredictability.

The NSR’s rise has begun. In August 2013, the director-general of Moscow-based shipping firm Sovcomflot, Sergey Frank, told Russian President Vladimir Putin that the route would soon be opened year-round to western-bound maritime trade, and for up to five months of the year to east-bound trade. Total commercial shipping on the route doubled in 2013, to more than 1.6 million tonnes, according to the Arctic Logistics Information office, a Russian-Norwegian information service. Major trading nations are already eyeing the route between Kamchatka and Murmansk in the west – and beyond – as a viable long-term shipping route.

Trans-shipment hub

It’s hard to underestimate the importance to Kamchatka’s economic future. Authorities in Petropavlovsk-Kamchatskiy are building a new, deep-water port, which will turn the city into a leading regional trans-shipment hub capable of processing trade as well as providing technical assistance to ships in need of repair. Kamchatka’s governor, Vladimir Ilyukhin, is keen to secure more foreign and domestic capital to invest in infrastructure.

Vasiliy Priydun, Kamchatka’s minister of natural resources and ecology, believes the NSR will intrinsically provide a “great opportunity to attract investors of all stripes”. Head of the region’s Travel and External Affairs Agency Gevork Shkhiyan points to the region’s future as a natural stopping-off point for cruise ships looking to ply the summer waters of the Arctic. “Together with our partners, we want to promote Kamchatka’s future as a key destination for global and Russian cruise liners. This is vital to the region’s future,” believes Shkhiyan.

“Kamchatka is not widely seen as being a natural tourism destination at present. Taking into consideration the new infrastructure we are planning, both in terms of ports and roads as well as tourism services, as well as the increasing importance of the Northern Sea Route, that will change completely over the near term, and investors will want to be part of this investment story.”

As the route opens for more of the year to shipping, it will also become an increasingly important lynchpin of global maritime trade, bringing the great economic nations of the Pacific Rim closer to key trading partners in northern Europe. “The NSR minimizes east-west shipping and transport times. It is quicker, safer, and cheaper to use than any other major maritime transport route, and Kamchatka lies at its nexus,” notes Yuriy Zubar, deputy chairman of the Kamchatka government.

It’s hard to argue with this point of view. Kamchatka’s economic future is increasingly assured. However, as the NSR opens up, and as cruise liners and container ships start to transport goods and passengers via the Arctic Ocean, rather than through the Suez Canal, it will become increasingly integral to global trade. Kamchatka’s time has come.
Growth story

Rich agricultural land and plentiful water supplies are among Kamchatka’s formerly neglected assets

MANY ACTIVITIES ARE associated with Kamchatka but agriculture does not always spring to mind. It should. Few industries are as reliably entrepreneurial, or as significant in providing sustenance for a country or region, than the food industry.

One of the key advantages of Kamchatka, and of huge value, is drinking water. From China to the Middle East, nation states are seeking new ways to slake their people’s thirst. Some build desalination plants; others boost industrial and household efficiency to staunch water usage.

Kamchatka has no such problems. The region boasts some of the cleanest water on the planet, from its rivers and lakes to underground aquifers. Vasiliy Priydun, minister of national resources and ecology of Kamchatskiy krai, notes that pure drinking and thermal waters are "two of the region’s great natural resources". It is planning to export water in bulk and as branded bottled water to Southeast Asia – notably Indonesia, Malaysia and Singapore. However, further investment is needed to turn the Kamchatka brand into a global phenomenon. "We need investment and investors who can help take our water industry to the next level," says Priydun. "It is world-class water – the brand should sell itself. We just need a little help."

Investors move in

A more complex task is the attraction of capital into the food industry. In the 1990s, food production waned as fields fell fallow. Investment capital had been focused on established sectors such as raw materials, fishing and tourism. But that process has now reversed. Rising numbers of entrepreneurs see the region as a new source of fresh food, capable of meeting demand, not just in Kamchatka but across Asia and the rest of the Russian Federation.

Vladimir Rubakhin, director-general of Agrotek, is one such far-sighted investor. His company has invested heavily in livestock farming: in just 18 months, he has turned a local firm into one of the Far East’s largest pork producers, importing thousands of pigs and sows from Canada. His flagship farm, in the countryside round Elizovo, north of Petropavlovsk-Kamchatskiy, produces 1,300 tonnes of fresh meat a year, and he plans to more than triple that by 2017.

Agriculture is emerging as a key growth story in Kamchatka, a region blessed both with swathes of arable land and a sizable and hard-working rural population. In the past, the region suffered from its relative isolation: food had to be imported from Asia at considerable cost. “Everything used to arrive here by sea and air,” Rubakhin says. “So agriculture is very important for us. What’s surprising is how great the local climate is for agriculture and food production – the winters are temperate, and it doesn’t get too hot in summer.”

Value chain

And Rubakhin plans to expand. Agrotek is buying land near Vladivostok, close to the border with North Korea, with the aim of exporting his products across the region. “We want to create a complete vertical value chain,” he says. “Agrotek does not yet have this kind of brand, but the talk has been of producing a popular brand.” The firm has already invested more than Rub1 billion ($28 million) in local production and that number is set to rise, with Rubakhin seeking to make the region self-sufficient over the next several years. And that is only the start: “We welcome other investors to come and invest in the region. It’s big enough for everyone.”

The firm plans to involve itself in the new Agropark, north of Petropavlovsk-Kamchatskiy, and will be the main producer of food products in years to come. According to Rubakhin, “the new park will benefit from the full support of the Kamchatka government. The next step will be to modernize our facilities, and to introduce world-class technology to help boost production. Our main future aim is to become a leading food producer in eastern Russia.”

That is being aided by the introduction of special lighting and heating lamps from the Netherlands to help grow salad crops all year round in new greenhouses. Local authorities are also keen to build new agricultural cooperatives and intensive production complexes that help smaller farmers get a fair market price.

Agribusiness may not always have been a major industry across the peninsula. But with its ample, pure water reserves and thousands of hectares of land, much of it now being harvested again for the first time in decades, the region now has the opportunity to become a major and powerful new provider of food and water. Agrotek is at the heart of that story. There is plenty of room for more companies, and more investors, for many years to come.
Fishing

In the pink

Famous for its unsurpassed Pacific salmon resources, Kamchatka’s fishing industry remains a mainstay of the peninsula’s economy

IT’S HARD TO imagine Kamchatka without fish. The two go together like gin and tonic, or strawberries and cream. The fishing industry is integral to the region’s economy, a major provider of jobs and wealth. Kamchatka is widely known as one of the most remarkable fishing areas in the world, and the opportunities for recreational fishing generate a substantial part of overall tourism revenue. Many visitors come to Kamchatka exclusively to fish in a genuinely wild area, whether in the open sea or in distant mountain rivers.

Kamchatka’s governor, Vladimir Ilyukhin, notes that the region is blessed with vast water-based biological resources. The waters around the peninsula contain around 2 million tonnes’ worth of catchable fish and seafood, a list that includes pollock, cod, herring, plaice, halibut, perch, mackerel and Pacific salmon. During the last six years, the area has led the Far East in terms of overall fish catch and production. According to Vladimir Galitsyn, deputy chairman of the government of Kamchatskiy krai and minister for fisheries, the region accounts for more than 20% of Russia’s entire catch. Every year, Kamchatka companies produce over 800,000 of fish, some 250,000-300,000 tonnes of which is exported to countries across the Asia Pacific region, including South Korea, China and Japan. The remainder is sold domestically on the Russian market. A wide range of Kamchatka-sourced fish produce is sold in markets and shops all over the peninsula. Specialist shops in the large towns offer everything from caviar to the best wild salmon on the planet.

Marina Subbota, deputy chairman of the Kamchatka regional government, states that fishing remains the region’s leading industry. Other sectors are coming up hard on the rails, from tourism to mining. However, it is the catching and processing of fish, a natural resource that the world desperately needs, that remains the leading revenue generator.

Addressing problems

Development of the industry is a key task for the authorities. The state, at both federal and regional level, is providing all possible support. Addressing problems including the creation of a modern legal base, the long-term setting of quotas and allocated areas, and the creation of tax benefits and preferences, have provided real impetus to the development of the fishing industry across the region. Total private investment in the industry across the region over the past six years, including shore-based infrastructure, has reached Rub13 billion ($360 million). State support programmes include the construction of fishing vessels, while 16 modern high-technology fish-processing factories have opened on the peninsula, creating 2,000 jobs.

One of the most interesting investment projects now being realized in Kamchatka – in fact, the largest in the Far East - involves the building and modernization of a Rub1.2 billion fish-storage workshop on the premises of Ozernovskiy RKZ No 55, in the village of Ozernovskiy in the Ust-Bolsheretskiy district. The project aims to produce fish more profitably and efficiently, thereby increasing the availability of high-quality Kamchatka fish on the
domestic and foreign markets. The project will vastly increase production capacity (to 350 tonnes of frozen fish produce a day and 35,000 cans of fish paste a day), and will help the factory reach a whole new technological level throughout its production cycle.

Another source of pride in the area is an innovative project to modernize a high-technology fish-processing complex based in the Khaylulya River in Karaginsky district, with output capacity of 170 tonnes a day, and to modernize the production transport fleet, a process that will cost some Rub500 million. The project plans to introduce an entirely automated conveyor processing system. The newly installed equipment constitutes a complete processing cycle, from input to waste disposal, including a first-rate purification process, and the production of liquid ice. Total production issue could be up to 300 tonnes of finished product a day, including medical-quality fish oils.

**Widening the resource base**

Galitsyn notes that the development potential of the fishing industry in Kamchatka is connected directly with the development and widening of the resources base of offshore fishing, the development of onshore processing and the renewal of the regional fishing fleet. In short, this involves the creation of an entire horizontal production chain from catch to storage to processing to distribution, ending with the buyer and vendor. Particular attention is also being paid to development of aquaculture across the region, most notably to salmon farming.

Pacific salmon is the region’s most valuable resource and a great Russian achievement. Kamchatka’s salmon industry is supplied almost exclusively from naturally occurring local fish stocks. With its unparalleled piscine potential, Kamchatka is practically the only area in the Asia Pacific region where stocks of Pacific salmon remain virtually untouched, in natural abundance and at unsurpassable levels of quality. Five processing facilities across the region ensure that the salmon population rarely dips in number or in size, remaining largely untouched by human intervention.

Considering the wealth of experience and the indisputably positive results in artificial salmon reproduction achieved by Japan, the US and by Russia’s Sakhalin region, the Kamchatka government has decided to provide state support to investors in the construction of salmon processing factories in Kamchatka. Within the framework of the programme, the region plans to build 14 factories in the years ahead. Using the latest projections, this will see the annual catch of Pacific salmon rise by between 7,000 and 10,000 tonnes a year.
Land of opportunity

Investors are becoming increasingly aware that Kamchatka has the resources and opportunities to support a long-term growth story.

KAMCHATKA HAS HUGE investment potential, principally because of its great wealth of natural resources. The region offers vast aquatic, biological, mineral and energy resources, as well as unique opportunities for developing tourism. It is also of great significance in the world transport system. The presence of an ice-free port on the Northern Sea Route, and the advantageous geographical position where airline routes intersect has opened the potential for creation of a transport hub that connects North America, Southeast Asia and Europe.

Investment capital is flowing into the region in ever-greater amounts in search of higher returns. Responsibility for the creation of favourable conditions for investors rests with the ministry for economic development, business and trade of Kamchatkskiy krai. According to data from this department, a total of Rub32 billion ($950 million) has so far been invested in the region. Of this total, about 70% was obtained from non-budgetary sources. By 2020, says Oxana Gerasimova, deputy minister for economic development of Kamchatkskiy krai, that figure is expected to increase tenfold. Much of the total will be directly contributed by domestic and foreign investors interested in opening up and profiting from the potential of the region.

Kamchatka’s government, meanwhile, is working to create a favourable investment climate. Financial and non-financial measures are being taken to provide investors in projects on the peninsula with state support. This most notably includes provision of tax benefits, state guarantees, state co-finance of investment projects from the Russian Federation Investment Fund and the provision of state subsidies and resources from the Kamchatka Investment Fund for new engineering, energy and transport systems.

Founded on fish

A number of industries offer huge potential for investors. Take fishing, which plays a fundamental role in the region’s economy. The region’s most attractive and profitable industry, it boasts the national title of Russia’s ‘Leading Fisheries Region’. Kamchatka’s fishing industry is vital to the regional and national economy, contributing more than a fifth of Russia’s annual catch.

Kamchatka’s authorities have long recognized the profit inherent in the stable development of the fishing industry. “Sustainability is our watchword,” insists Vladimir Galitsyn, deputy chairman of the government of Kamchatkskiy krai. Local authorities are also working actively to develop the industry.

Kamchatka’s government is supporting investment across the fishing industry, with the aim of promoting Kamchatka-branded salmon worldwide, on a par with Scottish, Alaskan and Norwegian salmon. Galitsyn, who is responsible for the industry’s rapid development, notes that thanks to the provision of state support, the fishing industry has, during the period 2008-13, invested almost Rub13 billion ($360 million). He adds that 16 onshore factories have been built, “aimed at producing high-quality and profitable fish products, with brand new processing technology”.

The region is gradually being transformed into a fish processing and logistics hub. More than Rub1 billion is being invested in the construction of a high-tech factory in Ivashka, Karaginsky district, capable of processing up to 280 tonnes of fish a year. The fish storage centre at Ozernovskiy, in the southwest of the peninsula, is being modernized at a cost of Rub1.2 billion, with production capacity increasing to 350 tonnes of processed fish annually. The regional government is interested in channelling investment into both projects and into many small fish catching and processing factories, which will continue to spring up in the region.

Sport fishing has over the past few years become ever more popular. Many tourism companies now offer fishing tours in some of the peninsula’s cleanest rivers. The great attraction is the chance to catch “the cleanest and most genetically ideal salmon”. Until the 1990s Kamchatka was closed for visitors, meaning that its unique nature has been preserved, offering excellent opportunities for fishing and relaxation.

Abundant minerals

One of the most promising areas of development in Kamchatka’s economy lies in the extraction of minerals and raw materials. The region is abundantly rich in the deposits of gold ore and scattered gold, silver, platinum, dark metals, nickel, copper, tin, lead, zinc and mercury. There are significant deposits of natural gas, coal, peat and, the authorities hope, high-grade oil. Russian mining company Interminerals has recently opened an office in the regional capital, Petropavlovsk-Kamchatskiy. The company is now carrying out geological surveys on deposits, in search of new gold and platinum reserves. It has already invested Rub7 billion in a new gold extraction project, in keeping with its plan of increasing the volume of polished metals to 4 tonnes in 2014 from 2 tonnes in 2013.

And this figure is set to rise fast. According to Yuri Garashchenko, director of Interminerals, two promising deposits have been discovered in the north. One may contain up to 90 tonnes’ worth of gold and silver, and the other up to 200 tonnes. Garashchenko says the company is seeking to attract both domestic and foreign investors interested in opening up and profiting from the potential of the region.

Maximizing profit during the construction and management of new and explored deposits has also increased demand for qualified and experienced workers. Sigma, another major Russian company, based in St Petersburg, is promoting a project to build a...
gold-extraction plant at Ozernovskiy, at a cost of Rub12.6 billion. This will also require several billion rubles worth of investment in the years ahead. The regional government is set to pump Rub21 billion into developing the industry over the next five years, to improve the transport and energy infrastructure for priority projects in the mineral and raw materials industry.

**Renewable energies**

Kamchatka is also interested in satisfying energy demands through renewable resources. JSC “Mobile Energy” is building wind-diesel stations in small villages in the north of Kamchatka, with the aim of increasing energy output in Kamchatka’s isolated territories to almost 1.5MWh. This project, costing Rub2.3 billion, will be completed in 2016.

Hydropower is also developing actively in Kamchatka. Existing electricity stations meet the region’s needs, although the cost of electrical energy is relatively high and using renewable energy resources is becoming more convenient. Construction of the Zhupanovsky hydroelectric power station cascade, a huge new investment scheme, is projected to cost about Rub90 billion.

This project includes three main ranges. Electrical energy obtained from water resources is much cheaper, and investors will find it more attractive to invest in projects to build a series of energy-intensive ore and non-ore fossil fuel production centres within the framework of creating the Petropavlovsk-Kamchatskiy industrial cluster. A total of 310 kilometres of power lines will be constructed during creation of the project, creating a ring that ensures provision of sufficient energy to consumers across Kamchatka.

**Plenty for tourists**

Today, Kamchatka is also determined to create new investment opportunities for interested parties, and of particular interest in this context is the tourist industry. A new airport, will be built in the near future, should handle the vast majority of incoming flights. Most of the tourists will be Chinese and Japanese, who, like travellers from North America and Europe, enjoy skiing, fishing and relaxation.

Andrey Ivanov, minister of sport and youth policy for Kamchatskiy krai, considers that the peninsula has every chance of becoming a training centre for national sports men and women in the run-up to the 2018 Winter Olympics. The region is a special place for professional biathletes, as well as being a renowned dogsledding centre. No trip to Kamchatka is complete without a race across the snow in a dogsled. Medicinal tourism is also developing “very fast at present”, notes Ivanov, thanks to the pleasant and equable climate in both summer and winter.

Tourism development in the region will facilitate the creation of the Paratunka tourism and recreation cluster, 40 kilometres from Petropavlovsk-Kamchatskiy and 30 kilometres from the airport. The estimated cost of the project is Rub7 billion. The new cluster will comprise a number of hotels, a modern spa and health centre, a water park, a camping area, ski slopes, cycling routes, an entertainments complex, accommodation for year-round sporting activities, a museum and exhibition centre, and a mountain skiing centre. The cost of the infrastructure, planned to be completed in 2021, will exceed Rub1.4 billion. Local authorities plan to attract additional capital from private investors from all over the world to build the tourist centre, with the infrastructure financed from budgetary resources.

**Agricultural Klondike**

Finally, there is agribusiness. A few years ago, this would have been deemed an unlikely growth industry. Kamchatka was for many years seen as being both far from major population centres, and lacking in the infrastructure and investment needed to carry out major agriculture projects. All that has changed. Vladimir Rubakhin, general director of leading local food production company “Agrotek”, described his first impression of the region as of “a great and wonderful Klondike” – a huge swath of arable land with stunning potential.

Agrotek has expanded exponentially in recent years, producing 1,000 tonnes of hay and 1,300 tonnes of fresh meat – mostly pork – a year, with the aim of tripling production by 2017. The company’s new production centres are to the north of the capital and are investing heavily in greenhouses in which vegetable cultivation is planned, while funds are being invested in restoring fallow arable land to full health. Kamchatka’s government is supporting the investment project, initiated by Agrotek.

Rubakhin’s original vision of Kamchatka as a modern Klondike is correct, with only one exception. The Alaskan gold rush of the 1890s made a handful of early investors rich, but bankrupted tens of thousands more. Kamchatka’s growth story, built on a wealth of natural resources, will benefit the long-term investors as much as the early birds.