

3.1 BASIC SOCIOECONOMIC INDICATORS

Socioeconomic situation in 2005 was stable and generally followed positive pattern.

The region experienced growth of industrial output and enhancement of financial and economic performance of agricultural enterprises, with the latter improvement made possible by considerable regional budget allocations for the support of the farming industry. Consumer goods and services market was developing at a fast pace as well - in the course of year, the physical volume of retail trade and catering turnover and chargeable services rendered to population was growing continuously, month by month. Real wages, household cash incomes and pensions enjoyed a persistent growth. The region had no arrears of unemployment benefits, maternity and child support pay. The beginning of the year saw a decline in corporate arrears of wages. There has been a rise in the total employment headcount in the region's economy and a decrease in the unemployment rate.

Yet, the consumer price index continued to outstrip the growth of household cash incomes. There remained a significant wage inequality by industries and districts. The demographic situation did not improve. There still was a disparity between labor supply and labor demand in terms of skill mix, problems with low wages for the available job vacancies posted by employers and with job placement of the graduates.

Looking at the financial sector, the situation in 2005 made further progress, as the positive trends of the previous years were persistent: the enterprises representing staple industries of the region reported sufficiently high financial and economic performance; the tax revenue (including that of consolidated regional budget) showed a significant increase.

The operation of regional banking system was quite stable, providing high level of both business loans and consumer credits. Yet, there still were a large proportion of unprofitable enterprises. Utility services industry experienced the usual financial strait. The budget sector felt the funds crunch. The financial performance of organizations was significantly affected by an increase in oil prices in the second half of the year 2005. Table 3.1 gives a summary of basic indicators of Murmansk Oblast socioeconomic development.

Table 3.1 Basic indicators of socioeconomic situation, Murmansk Oblast

	2004	2005	2006 (estimate)	2005 to 2004, %	2006 to 2005, %
GRP, mln. rub.	118165	134392.4	149374.4	102.2	101.6
Investment in fixed capital, bln. rub.	14805.2	18763.8	209903.2	113.2	103.7
Index of industrial production, % to the previous year	104.3	100.5	100.9	100.5	100.9
In-house items shipped, force-account works and services performed (by kind of activity):					
Mining operations, mln. rub.	20138.1	27175.9	30797.4	134.9*	113.3*
Processing industries, mln. rub.	43917.9	44988.8	49912.4	102.4*	110.9*
Electric power, natural gas, and water supply generation and distribution, mln. rub.	22239.1	22646	24736.7	101.8*	109.2*
Volume of construction works performed, mln. rub.	6872.5	10030.1	11078.7	122.7	103.9
The total volume of freight shipments, mln. tons	34.96	34.42	35.16	98.5	102.1

* In actual prices

3.1.1 Gross regional product and its makeup

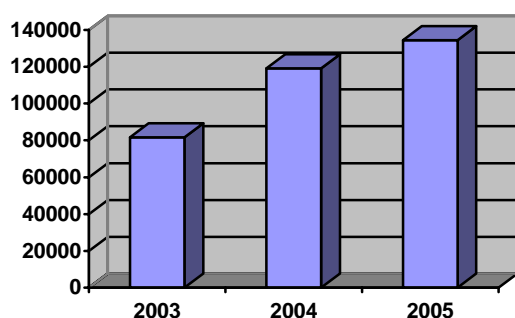


Fig. 3.1 The gross regional product, thousand rubles

Murmansk Oblast is one of the most economically developed regions of the North-Western Federal District of the Russian Federation. The real GRP grew by 8.1% compared with 2000. The GRP value in 2005 stood at 134392.4 mln. rubles (see Fig. 3.1).

Murmansk Oblast was one of the first regions of the Russian Federation to develop a long-term strategy of socioeconomic development (for the period 2001-2015). The regional government expects that the implementation of principal investment projects specified in the strategy should

enable to increase industrial output more than 1.5-fold by 2010, 2-fold by 2012, and 2.5-fold - by 2015. Moreover, the strategy implementation will ensure that by 2012 the GRP of Murmansk Oblast is doubled (see Fig. 3.2).

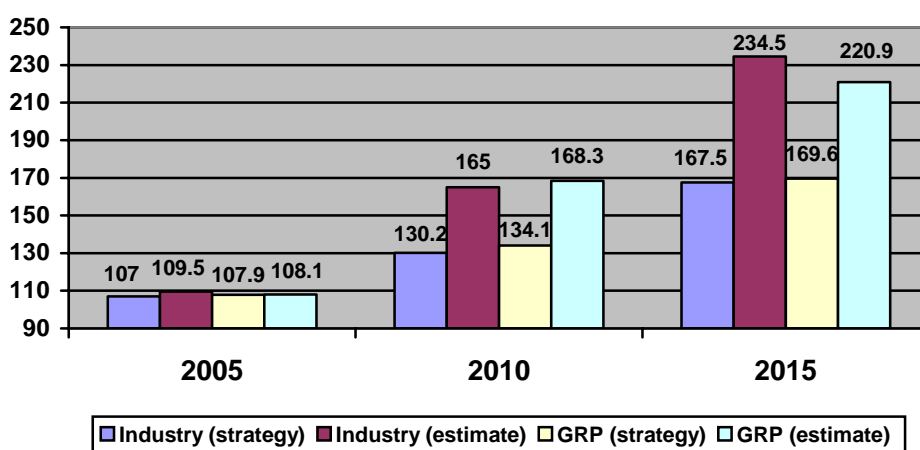


Fig. 3.2 The GRP and industrial output growth-rate, % (compared with 2000)

Industrial production of Murmansk Oblast followed the same pattern as the GRP as a whole, since the gross regional product is dominated by industrial goods.

Agriculture accounts for a small percentage (0.9% on average) of the gross regional product. Still, for the inhabitants of the oblast it's an important sector in that it satisfies the regional demand for dietetic foodstuff.

3.1.2 Industry

Industry plays a leading part in the region's economy, the latter resting upon the rich minerals and raw materials reserves of the Kola Peninsula, the biological resources of the Barents Sea and the access to the great oceans available for perennial navigation. All these factors have determined the nature of the region's development and its strategic importance for Russia. Most of the minerals found in the Kola land are those of national significance; as for apatite-nepheline ores, kyanite ores and rare metals, these are the reserves of even greater, universal importance (see Fig. 3.3). A distinctive feature of the region's mineral base is its composite makeup.

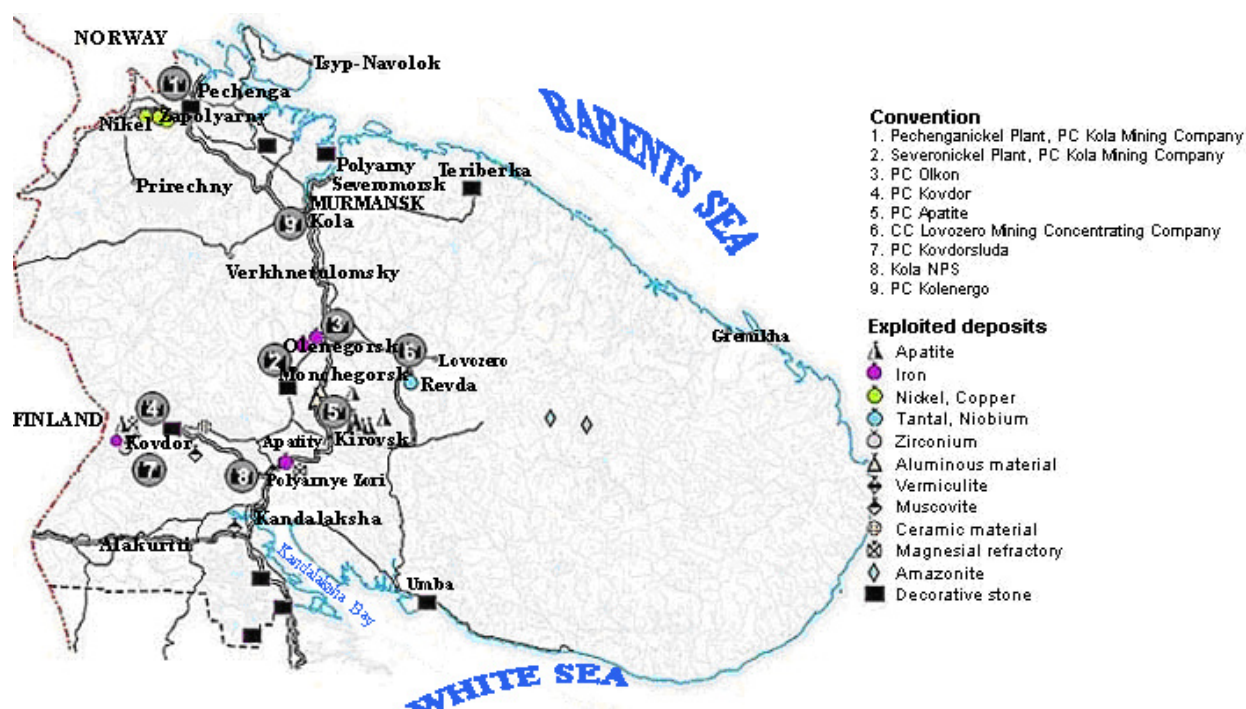


Fig. 3.3 Main industrial enterprises and exploited deposits layout chart

Murmansk Oblast ranks among the regions with the highest power supply capacity nationally and makes every sixth ton of all marketable edible fish products in Russia (see also Fig. 3.4).

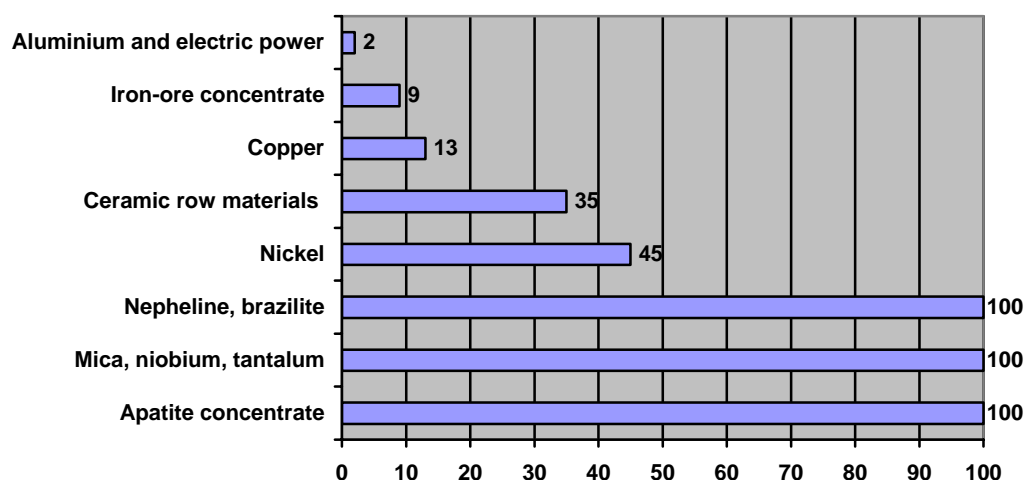


Fig. 3.4 The proportion of Murmansk Oblast in the national industrial production, %

In 2005, the value of in-house items shipped and force-account works and services performed in extractive industry was 27.18 bln. rubles (or 134.9% of the 2004 level, in actual prices); in processing industry – 44,99 bln. rubles (102.4%). Electric power, natural gas and water supply generation and distribution amounted to 22.65 bln. rubles (101.8% of the 2004 level). The forecasted industrial output growth-rates until 2009 are given in Fig. 3.5. In 2005, the aggregate regional index of industrial production stood at 100.5%; the breakdown by kind of activity shows the following figures: mining operations – 101.5%, processing industry – 100.5%, electric power, natural gas and water supply generation and distribution – 99.2%.

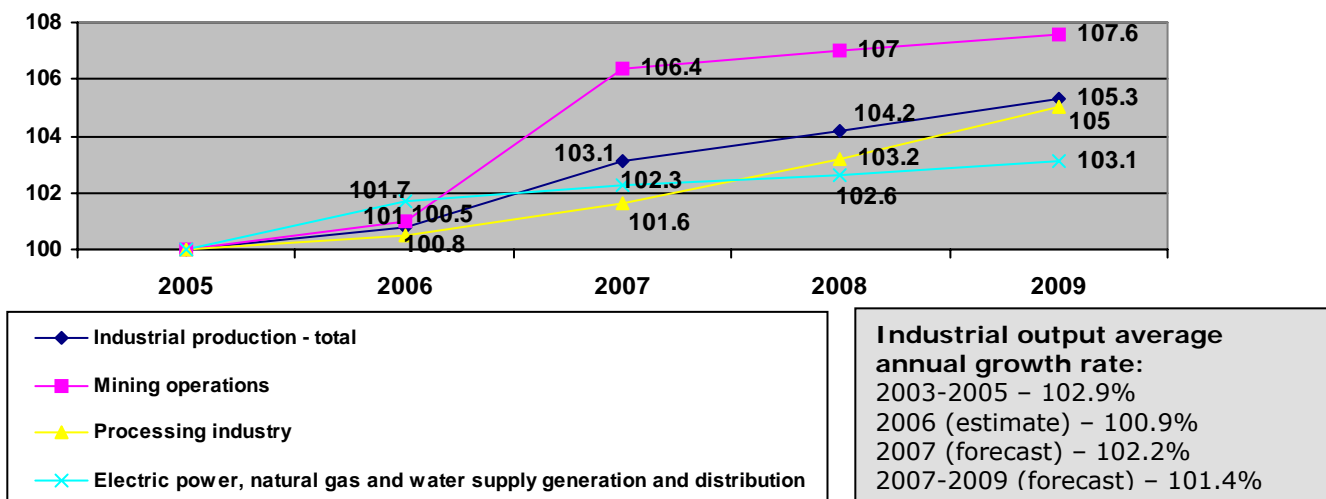


Fig. 3.5 Industrial output growth-rate, % (compared with 2005)

3.1.3 Basic sectors of the region's economy

▪ Mining

▪ Fuel and energy

▪ Fishing

▪ Transport and communications



PC "OLKON"



"LOVOZERO" Mining
Concentrating Company



PC Kola Mining Company
"PECHENGANICKEL"



PC Kola Mining Company
"SEVERONICKEL"

The specific character of the Murmansk Oblast economy is determined by four basic sectors.

The Kola mining industry is of key economic and social importance to Murmansk Oblast. The sector is involved in international economic relations and plays a significant part in economic development of the North-Western District and Russia as a whole. That is why the region's government considers one of its major concerns to be sustainable operation and long-run efficient development of the mining industry.

Whereas Murmansk Oblast occupies less than 1% of the total area of the country, it is home to large and efficient sources of major varieties of mineral wealth and has established a powerful mining sector satisfying a significant part of national demand for minerals of many kinds: phosphate ores, phlogopite, vermiculite, niobium, tantalum, rare-earth metals (almost 100%), brazilite (100%), nickel (45%), aluminium and ceramic raw materials (approximately 35% each), cobalt (26%), copper (17%), iron (10%).

Exploration and development of the Kola Peninsula mineral resources resulted in creating a powerful mining sector embracing enterprises of mining industry, ferrous and non-ferrous metallurgy and building materials industry, which operate in the market for quarrying and primary processing of raw materials into semiproducts (i.e. mineral concentrates).

Over the period of market reforms, the total volume of ores extraction and productive stripping operations dropped two- and three-fold, respectively. In a similar manner, there was a decrease in the primary commodities output.

At the same time, starting from mid-1990s, the production of non-ferrous metals and apatite concentrate is showing a steady growth pattern. The proportion of mining industries - traditional "core competences" of the region - in national and international division of labor increased from 40.2% of the industrial output value in 1990 up to 61.3% in 2000.

The main element of the long-term strategy of the Murmansk Oblast mining sector is comprehensive innovative reconstruction of the industry enterprises by means of sustaining and exploring mineral resources and implementing investment projects aimed at developing new technologies and new product varieties that would be competitive and would be continuously sought after in both home and world markets.

Implementation of the developed strategy will enable to raise operating and market competitiveness of the mining sector while maintaining the total physical volume of output. The required annual investment in fixed assets amounts approximately to 3 - 5 bln. rubles.

Fuel and energy sector includes a range of industries engaged in prospecting, production, processing, handling and distribution of hydrocarbon materials and electric power supply.

Electric-power industry is that of vital importance in that it affects almost all components of the region's economy. The largest enterprises of the industry are Public Company "Kolenergo" and Kolskaya Nuclear Power Station (see Fig. 3.6).

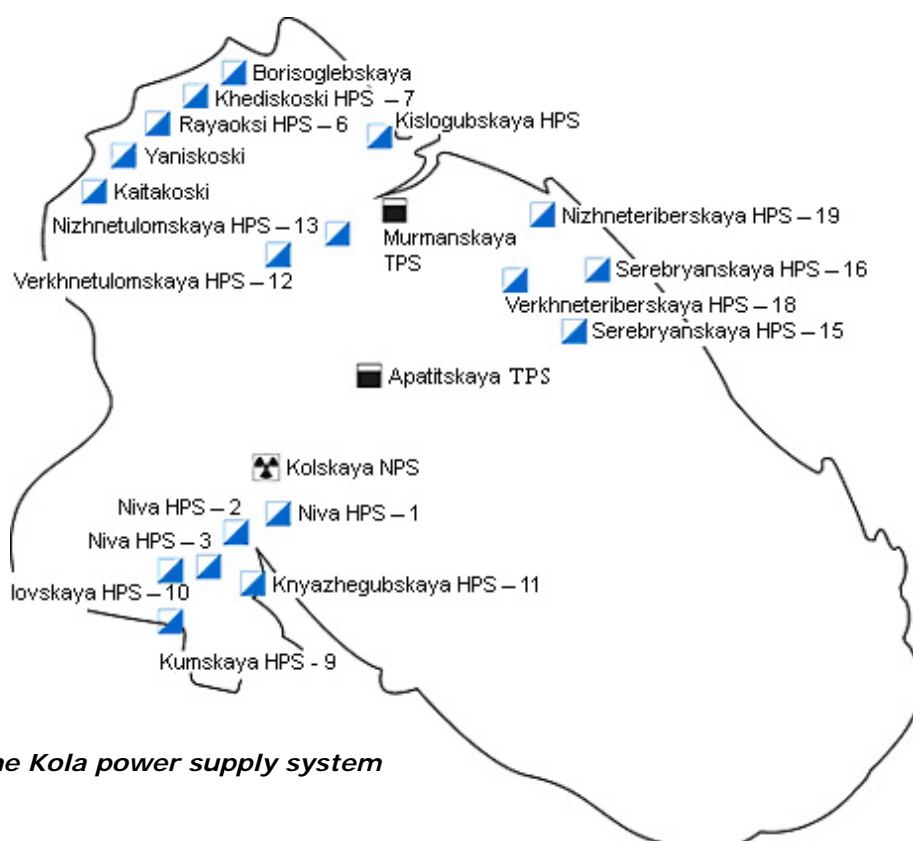


Fig. 3.6 The Kola power supply system

Murmansk Oblast ranks among the regions with the highest power supply capacity nationally. The proportion of **electric-power industry** in the region's industrial output increased from 8% in the early 90s up to 22% in 2002. Yet, the mentioned fact gives no occasion for optimism, as it was largely determined by outstripping growth of electric and heat power prices.

Fish industry sector

The regions' fish industry sector involves over 170 fishing and fish-processing enterprises employing more than 12 thousand workers. The city of Murmansk is home to major scientific organizations and vocational education institutions preparing personnel for the industry. The Murmansk Fishing Seaport Government Office register contains information on 275 catcher boats, including 64 off-shore fishing vessels.

Of late years, the coastal fish-processing enterprises have been strengthening their hold on the market. Murmansk Oblast accommodates nearly 50 enterprises with fish production capacity of 133 000 tons a year.

In terms of fish harvesting, Murmansk Oblast ranks the fourth in Russia and the first in Europe. Although over the past decade the fish industry has lost some ground, it is still playing an important role in the food security ensuring system of the Russian Federation.

Aims and targets of the fish industry development at local and national levels can be seen from either of the two perspectives.

According to ***the first approach***, the annual yield of fishing grounds with established catch quotas - the Barents Sea, the Norwegian Sea, other areas in the north-eastern and north-western parts of the Atlantic Ocean - is supposed to be 800-1000 thousand tons. In case this variant is adopted, the catch allowances fulfillment will require technical re-equipment of fishing vessels, expansion of coastal plants and arranging for auction sale of the seafood products made of pelagic and bottom-dwelling fish species in the city of Murmansk.

The second option depends on unconditional compliance with all requirements of the first variant and suggests that beyond 2005 works should be started to design and construct deep-sea fishery vessels that would operate in previously developed open-ocean areas and foreign zones. This alternative should take into account economic and political interests of the Russian Federation within those fishing fields and should provide for government support for the construction of high class ships with an average daily catch and on-board freeze up to 300-500 tons, total fish hold capacity up to 5000-7000 tons and length overall up to 80 meters. Fishery operations in those fields should be accompanied by international agreements and financial support on the part of the government.

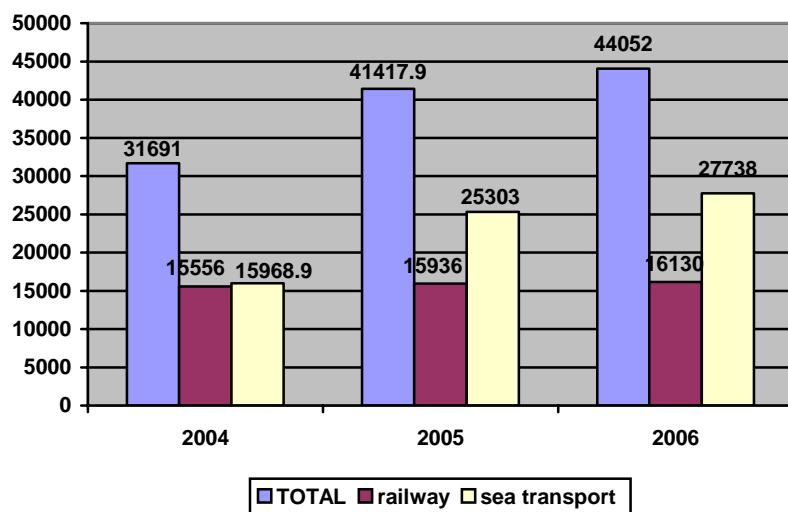
In future, the fishing industry employment is expected to decline as a result of selective technical re-equipment of the fish fleet and new vessels construction. At the same time, the employment headcount in fish-processing industry and agency services sector should increase.

Transport and communications sector

Transport sector plays an important part in the Murmansk Oblast economy. The reasons for it are, in particular, the prevalence of industries focused on producing and delivering large volumes of raw materials, metals and fish products to the regions outside Murmansk Oblast; advantageous geographic location; availability of transit communications; and opportunity of perennial navigation with access to international sea trade routes.

Murmansk Oblast has a relatively developed transportation network represented by all modes of transport, with the exception of trunk pipeline communications.

Over the first quarter 2006, the freight shipments by public transport enterprises increased by 1.5% (compared with the same period last year) to stand at 8.5 mln. tons. Freight shipments by sea, motor and rail transport grew by 4.4%, 4.1% and 0.7%, respectively. At the same time, the volume of goods shipped by air transport dropped by 7.5%, compared with the same period last year.



In 2006, the public transport freight turnover is expected to achieve the estimated figure of 44.05 bln. ton-kilometers (i.e. 6.4% growth in comparison with 2005), in particular: rail transport – 16.13 bln. ton-kilometers (101.2%), sea transport – 27.7 bln. ton-kilometers (109.6%) (see Fig. 3.7).

Fig. 3.7 Public transport freight turnover, bln. ton-kilometers

At present, the sector is capable of satisfying the current demands of the regional economy. Still, given that the transportation industry is becoming increasingly more important both for oblast and the country as a whole, there is a need for combined efforts of the federal center, regional authorities and business community to help develop the market.

There were devised several possible strategies of transport and communications sector development, with breakdown by mode of transport. Recently, certain investment projects have been proposed that had not been included in the long-term strategy of Murmansk Oblast socioeconomic development. Still, the implementation of the new initiatives is highly desirable in that they should shorten the period of transition from near-stagnation to significant economic growth.

3.1.4 Science and innovations. Scientific potential of the region

Several generations of the polar region scientists have been conducting fundamental and applied research providing an insight into the Earth's interior and giving evidence of mineral deposits occurrence.

The main domains of study among Murmansk region scientists include mining research and development, chemistry and mineral processing technologies, vegetable and animal resources, ocean resources exploitation and conservation, hydrocoles processing technologies, study of upper-air and near-space physical processes.



The electronic engineering plant is a convincing example of fundamental research applications for the creation of high technologies of the new century.

At the time of Russian economic crisis of 1990s the research industry of Murmansk Oblast managed to maintain its potential as measured by the amount of scientific and technical work done. At present, it ranks the second among the regions of the North-Western Federal District.

The Kola Scientific Center (KSC) of the Russian Academy of Sciences has a large share in Murmansk Oblast scientific potential - both in terms of the amount of financing and the number of employees. The institution conducts studies in 32 branches of science. The Center essentially consists of 11 scientific organizations employing a total of 1900 people, among them 4 academicians, 100 doctors of science and 311 candidates of science.

In 2003, for reasons of scientific developments commercialization and market promotion, it was decided to establish Technopark-Apatity and PC Pana on the base of the Kola Scientific Center. The Center is now surrounded by a sort of "college envelope" in the form of Saint-Petersburg, Petrozavodsk and Murmansk universities branches. Together with Luleå Technological University (Sweden), the KSC provides international training programs for mining engineers and geocologists.

One of the major results of scientific research in Murmansk Oblast is the development of microelectronic and computer-controlled advanced manufacturing technologies. The findings of scientific investigations and developments have a significant impact on innovation activity of the business community.

According to the 2003 survey, 7% of Murmansk Oblast industrial organizations can be described as innovation-pursuing. In communications and data-processing sector such enterprises account for 13% and 20%, respectively.

With a view to develop and apply innovation technologies to the local economy, efforts are made to establish a regional innovation business incubator, to promote centers of energy efficiency and large-scale hydrocoles processing, and to prepare the city of Apatity for obtaining official status of the "Science Town of the Russian Federation".

The regional government has developed The Strategy of Science, Research and Innovation Activity Development in Murmansk Oblast for the period until 2015.

To provide scientific support for the Strategy of economic development, the region should complete a number of priority fundamental and applied research tasks concerned with northern oil-and-gas deposits development - which includes ensuring social and financial efficiency of pipeline projects and feasibility study of the new plants designed for operation in newly discovered fields in the east of Murmansk Oblast.

The development of oil-and-gas deposits in the northern European part of Russia and on the Barents Sea shelf - along with new oil and gas pipelines construction - poses qualitatively new problems of ensuring environmental safety.

As regards the Barents Sea and the White Sea, it is essential to evaluate the effect that offshore production units, underwater pipelines, tanker shipments and oil terminals are having on the state of fishing ecosystems and protected species. It is necessary to carry out ecological assessment of certain large-scale projects, such as gas-extraction facilities of the Shtokman field and the oil pipeline Western Siberia – Murmansk. Looking at a broader picture, the task is to complete a strategic eco-environmental audit of the Barents Sea (in the longer term - of the whole Barents-Kara region) for the sake of harmonization of key marine industries – fishing sector and oil-and-gas production – taking into account the other aspects of marine activities, including defense, shipping and environmental considerations.

One of the priority long-term strategic goals is the development of a new industrial sector – namely, oil-and-gas industry, including production, processing and handling of hydrocarbon materials (over 100 mln. tons per year). Construction of a new oil pipeline passing over the region's territory can contribute to a quicker development of platinum and rare metals deposits in central and eastern areas of the Kola Peninsula, as well as to the enhancement of all related sectors. In this respect, the region's scientists are faced with a challenge to consider measures to prevent or alleviate possible social conflicts in the affected zones which are dominated by conventional nature management or accommodate carefully protected nature reserves. In addition, to deal with possible oil spills over sea or land areas it is essential to set up a powerful regional emergency center which would have available all necessary safety and early warning facilities, including those based on cutting edge technology.

One of the most important and most promising economic projects of the region is the development of payable platinum-palladium ore deposits, such as Federova tundra and Malaya Pana. The stock of these metals in the named fields - until primary depletion - is currently estimated at hundreds of tons. The development of these deposits should start in 2007. A good example of this kind of work is the innovation activity of the Kola Scientific Center Geological Institute carried out with the aid of PC Pana. The co-operation has enabled to involve several foreign and Russian companies in the exploration of platinum-palladium ore deposits.

In succeeding years, electric power consumption in Murmansk Oblast is expected to achieve annual growth-rate of 2.5%. The increase is basically determined by the prospects of new plants construction for hydrocarbon materials development and processing on the region's territory, as well as by the assumed military-industrial complex and fleet revival. What is more, new consumers of electric energy are also likely to appear - for example, the projected 300-megawatt aluminium plant by SUAL Group. Scientific and technical tasks are concerned with searching alternative energy supply sources - and developing ways to update the energy network in place. The latter work should combine piecemeal replacement of the old equipment with simultaneous validation of safe performance of the remainder. These tasks require appropriate methodology and experimental ground.

The problem with fishing and fish-processing industries is one of the most nagging issues of the day. Scarcity of raw materials drives the quest of new ways of the sector development, such as creating aquaculture plants and technologies for unconventional hydrocole species exploitation. In order to provide a scientific and forecast basis for efficient utilization of the arctic and North Atlantic biological resources, the region requires joined expert efforts of Polar Fish Industry and Oceanography Research Institute and Murmansk Marine Biological Institute, both belonging to the Kola Scientific Center of the Russian Academy of Sciences.

The major challenge facing research organizations is the study of socioeconomic processes of the region's development under globalization conditions. Making timely and justified decisions concerning regional management requires effective information support. Information support should include relevant and reliable information database as well as means of online analytical processing to forecast possible outcomes of decision-making and to develop the most successful regional development strategies. The assessment of the current state of information and telecommunications sector and of IT and computer machinery adoption shows that all these systems are generally developed, introduced and operated incoherently, without co-ordination and alignment of the information structure, content, data storage methods and formats. This results in activities superfluity, primary data redundancy and repeated input of information, which distorts its integrity, reduces its reliability and leads to rise in the cost of systems development and operation. Under such conditions, it is extremely important to devise and consistently implement a uniform, scientifically informed data policy.

Murmansk Oblast possesses the deepest borehole drilled for scientific purposes (12262 m). This is a unique knowledge tool enabling to solve the fundamental problem of nature of interaction between the Earth's physical fields (seismic, thermal, magnetic, electric and others). The Kola well is studied by the Kola Deep Geolaboratory which carries out a wide range of research concerning space-time variations of geomagnetic field and geological environment properties. This work can help predict natural disasters. As for the findings, the investigators not only gathered unique information on the evolution of the Earth's crust and the regularities of minerals accumulation, but also discovered ore deposits of nickel, copper and gold over the whole mining profile and identified opportunities for geological monitoring of the key natural processes and subsequent forecasting of ecological implications driven by anthropogenic factors. In this connection, the crucial strategic direction of regional scientific development is the creation of research geological fund of the Barents Sea arctic area using the findings of the Kola Superdeep Borehole (reference collections; chemical tests; petrographic and geophysical evidence; geological, geophysical, geochemical and ecological maps and profiles) and the development of geological, geophysical, geochemical and hydrogeological models of deep structure of arctic provinces of the Baltic continental shield (Norway, Finland, Russia) on the base of the Kola Superdeep Borehole exploration and geological ground surveys in Murmansk Oblast.

State support for fundamental and applied scientific activity and science-intensive industries in the areas with high density of research institutions is provided in the form of developing "Science Towns of the Russian Federation" and special innovation zones. The selection of innovation zones is guided by feasibility studies and/or innovation development programs showing positive economic outlooks connected with the state support for innovation development of these districts. In this framework, the regional scientific and engineering policy for the near-term outlook will focus on creating special economic zones for technology innovation and developing the "Science Town" Apatity. The special zones should become so-called "growth-points" or "the areas of outstripping innovation growth" - one of the key elements of the regional innovation system.

The Strategy of Science, Research and Innovation Activity Development in Murmansk Oblast for the period until 2015 is a methodical and organizational basis for the government regulation of research and innovation activity and for the scientific and technical sector development. The organizations belonging to the scientific and technical sector are capable of producing commercial output - which can find purchasers in the market - and generating knowledge not subject to commercialization. In addition, the very development of the scientific and technical sector constitutes a value for society. Research and innovation activity regulation and co-ordination are supposed to be conducted with the aid of dedicated departments of the Murmansk Oblast government, the Coordinating council on research and innovation activity in Murmansk Oblast, college academic councils, scientific institutions, community organizations, and information centers. The regional authorities, scientific institutions and economic entities making decisions on the base of developed forecasts and indicators can ultimately provide innovation development of Murmansk Oblast.

3.1.6 Population and employment statistics

Demographic trends

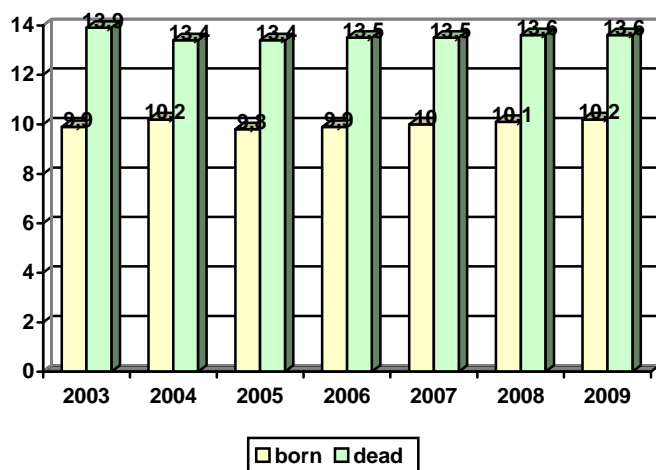


Fig. 3.8 Birth and death rates (forecast)

accounted for 69.7% of the total population size (according to the Strategy – 69.1%). Yet, in the future this percentage will certainly be decreasing as a result of the population ageing and younger-age groups diminishing. This has obvious negative implications for labor resources formation.

Employment trends

The total employment headcount in the region's economy increased by 3 thousand (0.7%) in comparison with 2005 to stand at 449 thousand people (see Fig. 3.9).

The number of unemployed people registered in public employment office reduced to 19.8 thousand (i.e. by 14.2%).

However, along with positive trends in labor market and employment developments (namely, increase in the employment headcount, decrease in unemployment rate and growing demand for labor) there is still a serious problem of disparity between labor supply and labor demand both in numerical and skill terms. Of all available vacancies posted by employers more than 80% is accounted for by blue-collar jobs.

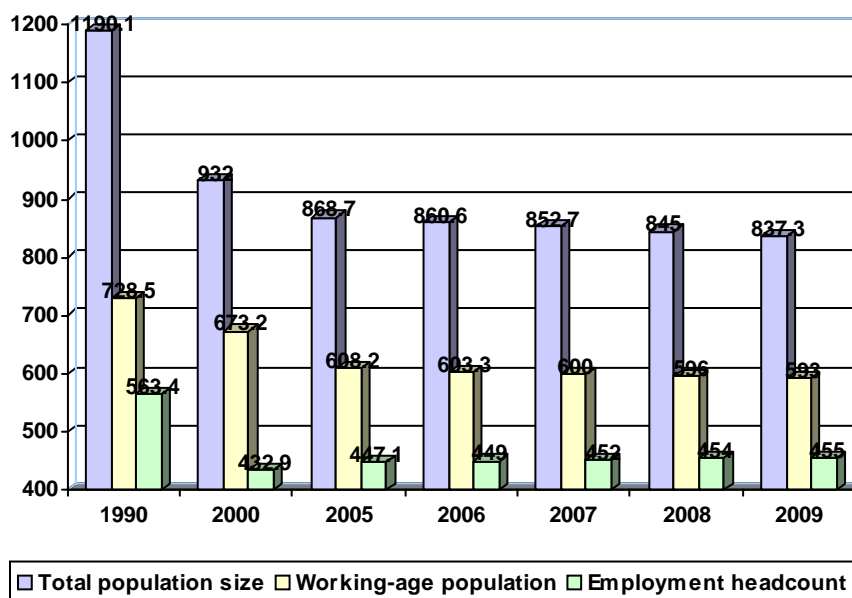


Fig. 3.9 Population size, labor resources and employment headcount. thousand people

Municipal and regional authorities together with employers, community organizations and job seekers are working hard to sustain labor market equilibrium.

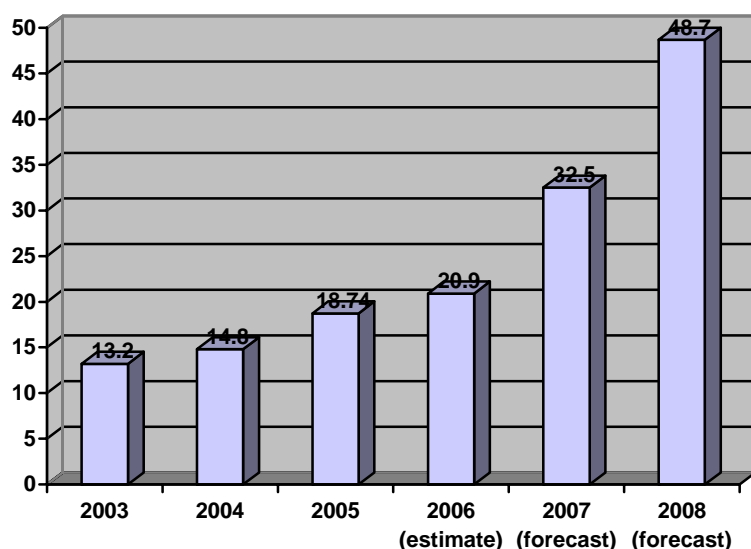
3.1.7 Investment

In terms of investment attractiveness rating, Murmansk Oblast holds no higher than average position among the Russian Federation subjects (its rank is 3B1, which means "low potential - moderate risk").

Investment legislation is one of the most important factors affecting investment activity in any region. In Murmansk Oblast, legal regulation with respect to investment activities is conducted according to the regional law "On the state control of investment activity in Murmansk Oblast" of 11 May, 2005; the regional government ruling "On the procedure of Murmansk Oblast regional task programs development, approval and implementation" of 28 July, 2005; the regional government ruling "On the procedure of Murmansk Oblast targeted investment program development, build-up and approval" of 24 March, 2005. It is useful to note that federal and regional legislation has an impact not only on the degree of investment risk, but also on the opportunities of investing capital into particular sectors or industries.

Currently, companies' own funds are the major source of investments into the region's economy accounting for up to 60% of the total investment capital. However, given the above-listed prerequisites as well as short-term trends of the region's economic development, the investment pattern is likely to change towards a greater proportion of borrowed funds - first of all in the form of bank loans and institutional investors' assets. The total volume of **investment in fixed capital** made from all funding sources over the first quarter 2006 was estimated at 2.5 bln. rubles, down 26.5% from the same period 2005.

The drop in investments was driven by declining capital expenditures in mining and highway engineering enterprises. The growth of investment in fixed capital in Murmansk Oblast is given in Fig. 3.9.



**Fig. 3.10 Investment in fixed capital
(in actual prices), bln. rub.**

Economic growth determined one of the key medium-term tasks of the Murmansk Oblast government investment policy - namely, to create investment framework and to involve financial institutions in long-term investment and risk reduction activity (see Fig. 3.10).

The Murmansk Oblast investment policy has the following goals:

- to attract investments enough to ensure the oblast GRP growth;
- to create new jobs;
- to increase Murmansk Oblast companies' capitalization;
- to ensure accelerated upgrade and renovation of capital assets;
- to adopt high technologies for goods and services production;
- to enhance competitive environment.

With a view to improve investment climate of the region, the Department of Economic Development together with the Department of Industry, Construction and Utility Services of Murmansk Oblast considers developing and submitting to the regional government a draft law "On supporting investment activity in Murmansk Oblast" involving tax benefits and privileges for investors. Furthermore, there were drawn up regional task programs "Investment activity development for 2007-2010" (see Fig. 3.11) and "Mortgage lending and residential housing development for 2006-2015".

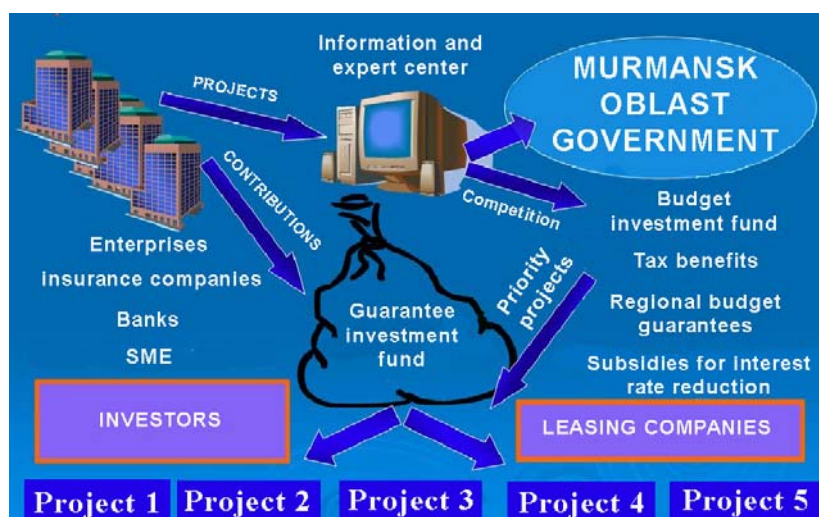


Fig. 3.11 The regional task program "Investment activity development for 2007-2010"

The total volume of **foreign investments** in Murmansk Oblast economy in 2005 amounted to \$29.4 bln., increasing by 96.8% in comparison with 2004.

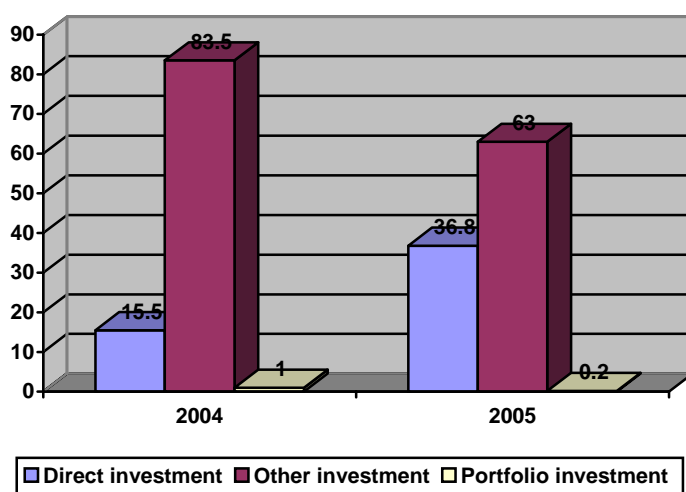


Fig. 3.12 Foreign investment patterns, %

The foreign investment pattern underwent a notable change: the proportion of direct investment grew up from 15.5% in 2004 to 36.8% in 2005, while the proportion of portfolio and other types of investment dropped from 83.5% down to 63% and from 1% down to 0.2%, respectively (see Fig. 3.12).

3.1.8 Foreign-economic activity

Murmansk Oblast is actively nurturing foreign-economic and interregional relations. This is one of the few Russian regions **sharing a frontier with the European Union**. The marginal location and significant export opportunities have been contributing to the development of international and external economic links, above all with the nearest neighbors - Finland, Sweden and Norway.

Foreign trade turnover in 2005 was \$1781.7 mln. (26.7% increase in comparison with 2004).

Murmansk Oblast is an export-oriented region enjoying a balance of trade surplus. The value of export was 7.4 time as high as that of import. The forecasted foreign trade dynamics for Murmansk Oblast until 2009 is given in Fig. 3.13.

Key business partners are non-CIS countries: 7 states – the Netherlands, Norway, China, the Republic of Korea, the UK, Finland and Sweden – account for 70% of the foreign trade. Member-countries of the CIS account for 2.8% of the total foreign trade turnover.

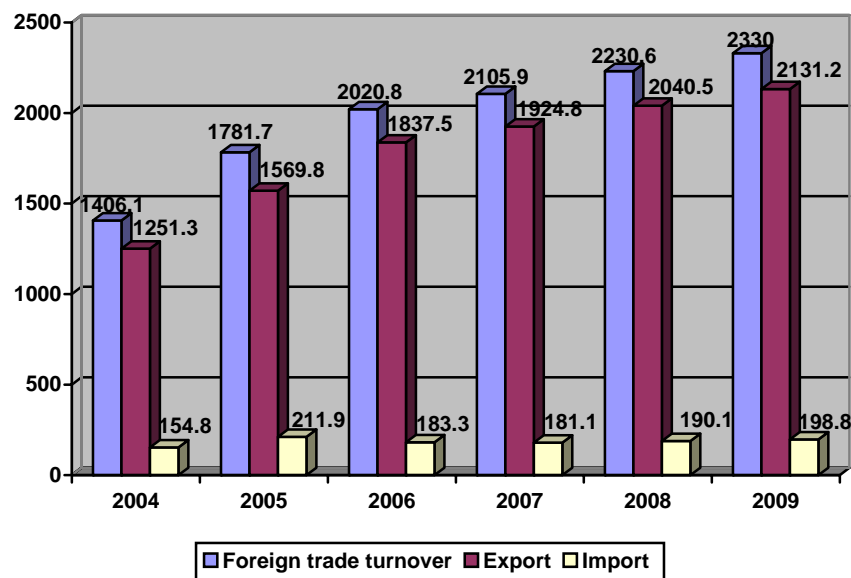


Fig. 3.13 Foreign trade dynamics, Murmansk Oblast, \$ mln.

Exportation of goods in 2005 stood at \$1569.8 mln. (which means a 24.4% increase in comparison with 2004), \$1537 mln. (25% growth) of which is accounted for by non CIS-countries and \$32.8 mln by member-countries of the CIS (14.3% growth). The main reason for the increase in the value of export is a rise in world prices for basic commodities. The export commodity composition is given in Fig. 3.14.

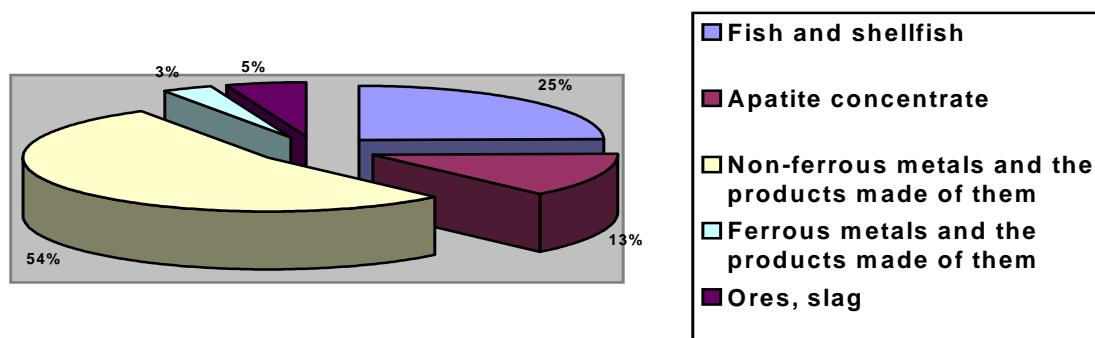


Fig. 3.14 Articles of export, % of total

Importation of goods in 2005 was \$211.9 mln. (indicating a 36.9% rise in comparison with 2004 level), of which: non-CIS countries account for \$195.4 mln. (68.2% growth) and member-countries of the CIS for \$16.5 mln. (42.7% growth). In terms of commodity composition, import is dominated by transport facilities (34.3%), machinery and equipment (27.4%), foodstuffs (14.2%) and chemical manufactures (10.5%). The import makeup is given in Fig. 3.15.

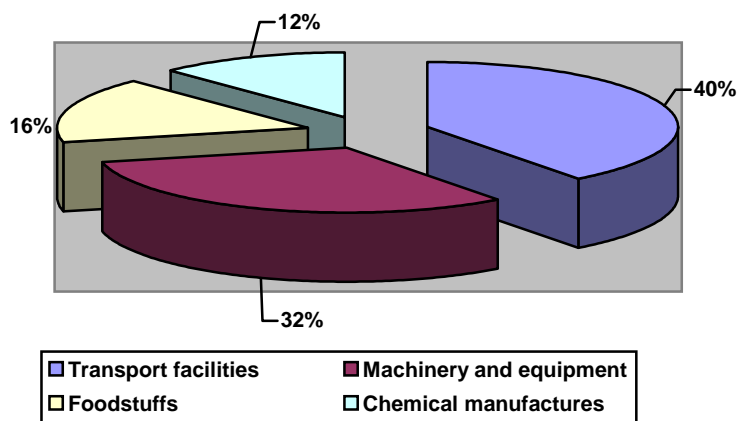


Fig. 3.15 Articles of import, %