

## **Report and message from the Barents Business Advisory Group (BBAG) to the 11<sup>th</sup> Session of the Barents Euroarctic Council**

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Barents Business Advisory Group is a body in the framework of BEAC with the role of giving input from the business communities of the Barents Euroarctic Region to the BEAC Working group of economic cooperation. BBAG consists of one representative from each region. The representatives are nominated by regional Chambers of Commerce.

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# Background of the Business Advisory Group

The Euroarctic Chamber of Commerce (EACC) was established in March 1996 in Murmansk, Russian Federation. The main goals of the EACC have been:

- launch initiatives and cooperate with governments and organisations solving economic problems with a special attention to
  - o development of business infrastructure
  - o development of transport and communication systems
  - o development of human resources with consideration of social welfare
- support and assist the chamber member companies carrying out their duties and tasks with emphasis on
  - o identification and development of business relations
  - o juridical and economical aspects
  - o permanent exchange of experience and information of market development and regulations
  - o training personnel and specialists
  - o solving international business disputes
- development and improvement of the chambers organisations

In 2005 the EACC consists of following member chambers:

- Finland
  - o Lapland Chamber of Commerce
  - o Oulu Chamber of Commerce
- Norway
  - o Finnmark Chamber of Commerce
  - o Troms Chamber of Commerce
- Russian Federation
  - o Arkhangelsk Chamber of Commerce and Industry
  - o The North Chamber of Commerce and Industry, Murmansk
  - o Republic of Karelia Chamber of Commerce and Industry
  - o Komi Republic Chamber of Commerce and Industry
- Sweden
  - o Norrbotten Chamber of Commerce
  - o Västerbotten Chamber of Commerce

The chair of Sweden in the Barents Euroarctic Council Working Group of Economic Cooperation (WGEC) in 2002 started discussion about the need of continuous input of views and proposals from the regional business communities. WGEC agreed that a Business Advisory Group consisting of representatives from regional business organisations should be established. The Euroarctic Chamber of Commerce made proposal according to the discussion with some Swedish, Finnish, Norwegian and Russian member Chambers that EACC could organize and coordinate the work of the Business Advisory Council in Barents Region. So the Council of the EACC established in November 2002 the Barents Business Advisory Group using the model of the Baltic Sea cooperation (CBSS BAC). Every Chamber has named one representant to the BBAG, in practice CEO/President/director of the Chamber

# The activities of the Barents Region Business Advisory Group

The Business Advisory Group, BBAG, is a body in the framework of the Barents Euroarctic Council. BBAG is not an organisation, it is an advisory council. The members of this BAG are nominated by regional Chambers of Commerce. Council came into operation in November 2002 with the aim of giving advice to various bodies in the Barents Euroarctic Region regarding economic and business matters. BBAG thus speaks on behalf of the business communities in the region.

BBAG is a small and informal body and it does not receive any funding from Barents Euroarctic Council nor any other authorities. BBAG reports to Barents Euroarctic Council Workinggroup of Economic Cooperation (WGEC) as well as to ministerial meetings. BBAG participates very actively in the work of the WGEC. Also BBAG gives reports and makes initiatives regarding economic and business matters in the Barents Euroarctic Region.

BBAG has had meetings each year. Most of the meetings have been in the Russian part of the Barents Region together with project meetings or other bigger events for business community. BBAG has given three reports. First in October 2003 during the 9<sup>th</sup> session of the Barents Euroarctic Council, second in February 2004 during the meeting of the WGEC. Third was given in Harstad Norway in November 2005 during the 10<sup>th</sup> session of the Barents Euroarctic Council.

## The Members of the Business Advisory Group

Barents Euroarctic Region Business Advisory Group consists of following members:

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The secretariat of the BBAG has from the very beginning been in Rovaniemi in Lapland Chamber of Commerce .

## **Messages to the meeting of the Barents Council**

Barents Business Advisory Group gave its first report during the 9<sup>th</sup> session of the Barents Euroarctic Council four years ago. The report consisted of the views of the Barents region business community about four main factors which have influence in the development of business:

- Barents region and business
- Taxation and investments
- Customs and border crossing
- Transport and logistics

These factors are still today among the most important effecting to business. This report is an evaluation of the present day situation.

## **Barents Region and Business**

Barents Euroarctic Region is today even more important area in world business than it was two years ago. The future development of oil and gas in the north is important to the European Union and also to the United States of America. Snow white gas field in Hammerfest is today ready for production and we are expecting the start of the implementation of the Shtockman gas field project. Oil transport from Murmansk to Western Europe and the USA is still developing rapidly. These big projects have already been speeding up all kinds infrastructure investments in the Murmansk region. The Murmansk transport junction – project is the biggest of them all. Also the industry in the Kola Peninsula has began to invest in new technology and new production. New hypermarkets have been planned and built in the city of Murmansk. Also the total income of the Murmansk region and its people have rapidly increased according to the official statistics.

Investments to the mining industry in Northern Sweden are growing strongly. These include LKAB in Kiruna and new mines in the neighbourhood of Pajala on the borderland between Sweden and Finland. The building of new railroad from Kalix to Haparanda has been started.

Also northern Finland has several promising investments already under construction or close to the implementation. Mining industry is the key word also in Finnish high north. First new mine, the Kittilä gold mine is ready for the production in 2008. That will be followed by Talvivaara Sotkamo, Kainuu nickel mine also in the same year and Kevitsa nickel and copper mine a year after that. Already mentioned iron mine on the borderland between Pajala and Kolari is expected to be in production before 2010. In addition two more mines are expected to come to production in the first half of the next decade, Suhanko palladium and platinum mine and Sokli phosphate mine.

The tourism business in Lapland has also huge investments going on today. Tourism centers in Levi, Ylläs and Saariselkä are the main areas. Several big new hotels are under construction, also new skilifts, gondols and ski slopes. Total value of these investments are more than one billion euro. Together with trade investments in Tornio-Haparand and Rovaniemi and industrial investments the business community is in the high economical trend in Northern Finland.

These new investments and high economical trend and future expectations have created totally new situation in the Barents Euroarctic region. Also the SMEs are now participating in practice to the business. Today business is reality, not an expectation or vision anymore. Things could however be even better. The last ten years have been difficult for all areas. Some of the industry has been finished and some production has been moved to Asia. Also skilled labour has moved to south to get new jobs and it has also even deepened the problems caused by the aging of the people in the north. Today we have a lot of business possibilities but due to these reasons also lack of skilled labour and not enough companies to do the business. At least it may effect to cross border cooperation negatively, because companies have enough business and challenges in their own region. It seems to be so that this is creating a new kind of obstacle of trade if nothing is done to improve the situation.

#### **Barents Business Advisory Group urges following measures:**

- **Expectations for real cross border business are great in the business community. Situation has improved during the last two years. Main partners in these energy and industrial projects are big international companies. Most important for the region is that the SME's could participate to these projects as subcontractors or selling their services to the main contractors**
- **Support from member states and authorities both at national and regional level for the SME's of the region is needed**
  - **to participate in projects**
  - **to increase cooperation between SME's**
  - **to create subcontracting**

## **Taxation and investments**

Most of the problems in taxation and investments have been during the last four years on the Russian side of the region. The situation has developed to better direction, because the expected

accession of Russia to World Trade organisation. We are still expecting this accession, but the circumstances of western SME's to invest North Western Russia has also improved due to general political stability in Russia and this positive process seems to be continuing.

Also the whole business community in Finland has been more and more interested in opening business in the Murmansk region. About one hundred companies also from outside of the region itself have visited during last year in Murmansk to find partners and also investment possibilities. This process has been long-expected because Russia is today maybe the most important business partner of Finland. The total value of investments made by Finnish companies has rapidly increased in areas like Moscow, St.Petersburg and Leningrad oblast. Murmansk has been almost exception to the rule until now.

## **Customs and Border Crossing**

Customs problems are still number one obstacle of trade from the business point of view. The renewal of Russian Federation Customs Codex has been improving situation, but not totally. Business community has not noticed any multivisa application problems for many years in consulates of Norway and Finland in Murmansk. Situation is today totally normal in spite of capacity problems especially in the Finnish consulate. The reason to this is the constantly increasing amount of visa applications which relates to the economical rise of the region and the growing income of the people.

Russian Federation renewed recently the definition and area of the border zones. This has created some problems for SMEs mostly on the border between Russia and Finland. The business community understands the need of new military policy in Russian part of the Barents Euroarctic region, but it also hopes that it will not create any more obstacles of trade or totally restricted business areas in North West Russia.

### **BBAG urges following measures:**

- **There are still problems that could be solved at the border between Finland and the Russian Federation in the north:**
  - **There have been recently vehicle inspection problems in Salla and Lotta especially with charter buses from Finland**
  - **Swedish company Polarica AB has had big problems with veterinary inspection in Lotta border crossing station. According to authorities veterinary inspection is possible only in Borisoglebsk border crossing station**
  - **ATA Carnet situation has improved a lot, but Salla customs station has lost ATA Carnet status**
- **Registration of foreigners is still problematic in the business cooperation between Finnish side and northern parts of the Republic of Karelia**
- **BBAG gives strong support for the plan of EU and Russia to ease visa application process. Barents Region could be a pilot region in this process and the multivisas for businessmen could be prolonged up to five years in the region**
- **The business community on Swedish side is concerned about the increasing bureaucracy at the border between Sweden and Norway concerning transport declarations**

- **Swedish authorities have renewed the system to apply passports. New regulation have complicated the possibilities for businessmen especially in Tornedalen region, because police authorities in Haparanda have not been able to give passports.**

## **Transport and Logistics**

Improving the infrastructure in the north will have long term consequences for the overall development of the Region. Examples of this type of projects are those relating to road and railway connections, border-crossing facilities, the upgrading and development of ports, airports and shipyards, the adaptation of infrastructure for future offshore activities, development of modern telecommunications systems, environmental technology projects and energy and energy efficiency projects. The shortage of transport connections can also create a serious obstacle of trade like the lack of direct flight connections from Rovaniemi to Murmansk. This creates enormous problems for all Finnish businessmen to travel to Murmansk even from southern part of the country. Driving by car takes from 8-10 hours from Rovaniemi and flight connection from Helsinki to St.Petersburg and further to Murmansk takes almost the same time. Businessmen loose two days for traveling during trips to Murmansk.

The business community is very glad about the development of mobile phone connections in the region. Also the road from Salla border crossing point to Kandalaksha is today much safer because of the enlargement of the mobile phone network to this area. Same kind of improvement in Lotta border crossing point is devoutly expected.

### **BBAG urges following measures:**

- **Finnish authorities are planning to end railway transport between Kemijärvi and Salla. This makes impossible all future plans concerning Salla-Alakurtti – railway to the Murmansk region.**
- **There is still no train transport between Ledmozero-Kotshkoma on the new railroad. This creates problems for planning of new transport routes**
- **The east-west flight connections in the Barents Region are still very problematic. Flight route between Luleå – Rovaniemi – Murmansk – Arkhangelsk, which has been the base of all conections is recently totally closed. Travelling by car is the only possibility to go to Murmansk from Finnish Lapland and northern Sweden. Authorities should strongly support also the financing of this route.**
- **Road reparation on roads to border crossing stations Lotta-Murmansk and Kairala – Alakurtti should be concluded immediately on the Russian side**
- **Better mobile phone connetctions on the roads leading to border crossing stations are today even more necessary especially in the Murmansk region. These connections improve traffic safety.**
- **Fast broadband connections in the Barents Region are the backbone of the future business cooperation.**