

**ADVENTURES IN SIBERIA:
PROJECT MANAGEMENT OPPORTUNITIES IN EASTERN RUSSIA**

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INTRODUCTION

In May 1992, the author travelled to the Sakha Republic of Yakutia in Russia's Far East, at the invitation of the Yakutia Minister of Architecture, Construction, Housing and Communal Services. The purpose of the trip was to review construction-related project needs and opportunities for Western companies, and to meet the leaders of Russia's largest and most resource-rich republic (Yakutia has major diamond, gold, coal, oil and gas reserves).

Because of his project management and consulting background, the author was also introduced to the Republic's Ministers of Energy, Industry, Communications, Transport, and Foreign Relations. As a result he was introduced to major development needs in all sectors, offered opportunities to participate in a number of major projects, and asked by the Vice-chairman of the Republic to provide strategic planning assistance.

Work is now proceeding on several major projects, including a helium refinery, a cement plant, a brick and tile plant, a construction panel plant, airport modernization, power plant and energy development, and several construction projects. The author's firm is assisting in the planning of these projects, assisting in financing, and facilitating the participation of major American companies in these ventures.

This paper reviews the history of these activities, opportunities and challenges associated with projects in Eastern Siberia, and key factors for achieving success - for both contractor and developing country. This paper can be of interest to companies and project managers who are interested in the new opportunities in Russia and Siberia but are unsure of the process to follow for such involvement.

BACKGROUND

Yakutia

Yakutia is a huge semi-autonomous region of the Russian Federation in Far Eastern Siberia. In size it is 3,103,000 square kilometers, approximately 1/3 the size of the United States. Like many other regions in far Eastern Russia, it has become more and more independent of central Moscow control over the last two years. While Yakutia intends to remain a part of Russia, in December, 1991, a President was freely elected, a new regional government was formed and it declared itself the Sakha Republic of Yakutia. In 1992 that government set out to bring Yakutia into the modern world, initiating infrastructure and industrial projects, soliciting investment from the West, and establishing new and proactive relationships with neighboring regions and countries.

Yakutia may well be the richest of all regions in Russia, in terms of natural resources. 95% of Russia's diamonds are mined in Yakutia, as well as about 60 % of Russia's gold. In the south, and in the mountains of the north, vast coal fields reside. In central Yakutia an enormous gas field has accounted for all the regions local energy needs and is now attracting investment from Korea and Europe. Yakutia has many oil and gas areas, many yet unexplored. This summer a major initiative called "Polar Search" was launched by the government to find oil and gas in the Laptev Sea.

In Yakutia reside the raw materials for major industrial development, including construction materials. Major deposits of clay, marble, granite and other stone products are available. A number of rare stones and minerals can also be found there. A Yakutia saying has it that when God was distributing precious minerals over the world, a hole developed in the bag allowing many to fall into Yakutia. To demonstrate, a major gas discovery was recently made immediately under the current largest diamond field.

Yakutia has a population of only just over one million people, so unlike western Russia it does not have many of the population-related problems such as food shortages, major unemployment and crime. Yakutsk, the capital city, with a population of 350,000, is the political and commercial center of the Republic. Many smaller towns and settlements exist throughout Yakutia, separated by long distances. It is the great size of the country and distances between towns, along with extremes in climate, that cause the biggest problems for development.

The coldest temperatures in the populated northern Hemisphere, -150 C, have been recorded near Yanskiy in the Kherebet Cherskogo mountain range of northern Yakutia. Most of the country must contend with permafrost, at great depths, making infrastructure and construction projects especially challenging. In Yakutsk, the world's only "Permafrost Institute" was established to develop methods and techniques for construction in the Far North. Yakutia is also a long way from the outside world. Six time zones and a ten hour flight from Moscow, Yakutsk is hundreds of kilometers from other major cities in Russia, China and the Far East.

Given the great distances, weather and an antiquated industrial infrastructure (like the rest of the former USSR) Yakutia's desire to modernize faces major challenges. Unlike Western Russia, however, it has the natural resources (and, increasingly, the hard currency) to pay for development. In the last year the Yakutia government has launched an aggressive program to attract Western investment and participation.

SPMI Contact/Involvement

In September, 1991, the author was contacted by the leaders of the newly formed Russian Project Management Association, SOVNET. Included in the initial correspondence was an "offer" by the Minister of Construction, Republic of Yakutia, for approximately \$200 million of construction-related work for Western companies willing to bring technology and expertise to Yakutia to assist in modernization. The author responded with a request to be the Yakutia minister's representative in the USA, and a serious and productive relationship was begun.

After approximately six months of correspondence with the Russians, and discussions with American construction, forest products and construction-materials firms, the author determined the need to visit Yakutia personally. Of the U.S. companies contacted, all large corporations were reluctant to make any investments or take any risks in Russia, due to political uncertainties, currency instability and unanswered questions related to payment. Many companies had questions the author could not answer, especially as related to authority in

Yakutia, structure of ventures, payment terms, logistics, etc. However there was enough interest in America to continue exploration. The author decided to go to Yakutia himself to try to answer these questions, to meet the people involved, and to see conditions first hand. It turned out to be a critically important and smart thing to do.

In May, 1992, the author, along with a senior reporter from Channel 8 News in Dallas, flew to Moscow and on to Yakutia. The trip lasted one week, was sponsored by the Yakutia Ministry of Architecture, Construction, Housing and Communal Services, and was coordinated by SOVNET in Moscow. After initial meetings with the Minister of Construction and his entire staff of Deputy Ministers, tours of several areas were arranged, including tours of cement and brick plants south of Yakutsk, a gold mine near Aldan City, log and lumber processing mills in the south, and various municipal areas.

Because of his background in project management consulting, in a number of different industries in America, the author was able to discuss details of any project in any industry or sector. After several days of meetings and tours, and after asking questions about such topics as energy, transportation and communication as related to doing business in Yakutia, doors in the Yakutia government began to open. Meetings were held with five different Ministries. Presentations were made to the author by the Ministers of Energy, Transportation, Telecommunications, and Foreign Economic Affairs. In each meeting the author would ask "What are your major problems? Where do you want help? How would you like American firms to participate?" Many potential projects were identified.

At the end of the week a "PROTOKOL" was established between the Yakutia government and the author's firm, signed by the Vice-Chairman of the Yakutia government. The PROTOKOL requested the author to find western companies to participate in Yakutia's development, to assist in the planning and implementation of projects, and to provide project management consulting assistance.

Finally the Yakutia Vice-Chairman asked the author if he could organize a very high-level team of U.S. experts, sponsored by the U.S. government, to come to Yakutia to assess the region and assist the Yakutia government with development of a Long Range Strategic Plan. While somewhat overwhelmed by this request, the author recognized the tremendous opportunity and replied positively.

The May trip to Yakutia was a tremendous success, and was captured on film by the television news reporter, who subsequently produced several news stories about the trip and about Yakutia, which were aired in Dallas and on the National Business Report to a broad U.S. audience in June and July.

Key to the success of the trip, however, was the participation of the Russian Project Management Association SOVNET. SOVNET coordinated all correspondence between the USA and Yakutia as well as travel plans, logistics in Russia and arrangement in Moscow. A SOVNET Director hosted the author in Moscow, accompanied the author to Yakutia, introduced the author in all official meetings with proper protocols, participated in discussions, and provided personal interpretation (although interpreters were provided by the Yakutia government). SOVNET continues to participate in followup activities.

Followup

When he returned to Moscow from Yakutia on May 28, 1992, the author was able to meet with U.S. Ambassador Robert Strauss and to brief the Ambassador on activities and opportunities in Yakutia. The Ambassador reacted enthusiastically, directing the author to the embassy's USAID officer for possible funding support of the high level consulting. Since that time the author has been working with U.S. State Department officials in Washington D.C., along with University of Texas experts, to plan the support requested by the Yakutia Vice Chairman.

After returning to Texas the author contacted numerous American experts and firms about projects in yakutia. Planning of projects in the Energy, Constructin and Transportation sectors have proceeded. Approximately ten major projects are in process, including brick and cement plant projects, refinery projects, power plant projects and construction projects. As conditions in Russia have become more predictable, more American companies have become interested in participating in these ventures. Because of the resources available and profit potential, more projects are becoming attractive to Western firms.

Correspondence with Yakutia officials has continued, via SOVNET in Moscow. In September, 1992, two top SOVNET officials came to the USA for the first time. They were hosted by the author for five days at the Project Management Institute's PMI'92 Seminar/Symposium in Pittsburgh. Detailed discussions and plans about Yakutia projects, as well as elsewhere in Russia, were held at that time. A followup trip to Yakutsk is now planned for mid-November, 1992, involving the author, SOVNET officials and a representative of the University of Texas.

PROJECT OPPORTUNITIES IN YAKUTIA

Based on the May meetings in Yakutsk with Yakutia government officials, and subsequesnt correspondance, major project opportunities exist in at least five industrial sectors -- Energy, Construction, Transportation, Telecommunications and Industry. Western investment or participation is needed or wanted in all these projects.

Energy Sector Projects

The Minister of Energy of Yakutia is responsible for all power and energy production and distribution, as well as all energy-related natural resources, including oil, gas and coal. In meetings with the Minister of Energy in Yakutia, and in a subsequent request received by the author, the following project needs and opportunities were identified:

- o Oil & Gas Refineries
- o Helium Refinery
- o Coal-Fired Power Plant Upgrades
- o Electical Distribution System Upgrades
- o New Power Plants
- o Oil & Gas Exploration

In addition the Ministry has some environmental concerns associated with coal plant byproducts and power plants, which may offer additional oportunites to western experts.

Construction Projects

The Ministry of Architecture, Construction, Housing and Communal Services is responsible for all major construction activity in Yakutia, including construction materials-related industries. The following projects are being planned by the Ministry:

- o Single Family Housing Construction
- o Apartment Buildings
- o Schools, Hospitals and other Municipal construction
- o Industrial Construction
- o Brick plants
- o Cement Plants
- o Crushed Rock & Materials Production
- o Marble & Granite Quarry Development
- o Construction Management Services
- o Contract Management & Procurement Services
- o Construction Equipment & Supplies

The Ministry wants western assistance in all these activities. In addition several new towns are planned, requiring all the necessary infrastructure and construction work.

Transportation & Telecommunications Projects

The Ministry of Transportation and Telecommunications is responsible for all road, air, water and rail transportation in Yakutia, as well as all telecommunications systems. Upgrades in all sectors, especially airport modernization and railroad development, are underway. Telecommunications improvements are badly needed, for long distance and international telephone calling. Local system upgrades are also needed, including new equipment and services.

Other Industry Projects

The Ministry of Industry is responsible for mining, including gold, diamonds and a variety of other minerals, as well as consumer goods industries, manufacturing and other commercial activity. No opportunities now exist related to diamond mining, though Western involvement in all other activities would be welcomed.

PROJECT MANAGEMENT OPPORTUNITIES

The major project management skills and expertise needed now include project planning, especially related to feasibility studies, financial analysis and contract administration. Much early activity can be business development-related, although understanding of management and technical capabilities of organizations and companies is essential. As projects are launched and as Western companies get involved, project management experts and professionals in all functions will be needed.

Throughout Russia, including Yakutia, transfer of western management techniques and approaches is desired and drastically needed. Project management education and training is therefore also needed in Eastern Siberia. For American educators and managers, however, appreciation of Yakutian culture, language and living conditions should be considered.

CHALLENGES & CONSTRAINTS IN YAKUTIA

Several major challenges to doing business in Russia still exist. Those issues, translated as risks by many firms, include political conditions in Russia, legal issues (property, investment and tax laws), financing and payment issues (including ruble valuation and exchange), and lack of Russian experience with business and management practices in free-market conditions (i.e. how to demonstrate profitability to attract western investment). These problems continue to exist, but are all being addressed by various levels of the Russian government, with western advice and assistance.

Many Russian managers are aware of shortfalls in their business and management backgrounds, and are open to advice and support from western experts. Perhaps the largest problem, however, is lack of perspective on the need for demonstratable return-on-investment (ROI) to attract western investment. Too often projects are presented to westerners as very profitable by enthusiastic Russian managers, only without enough financial analysis, detailed market analysis or demonstrated ROI potential.

KEYS TO SUCCESS

For projects in Yakutia to be successful, several key factors are needed, by both western participants and the local enterprises and officials.

For Western Companies

Four major success factors should be considered and addressed by any company wishing to operate in Eastern Russia. They are:

- o Technical & Professional Qualifications
- o Personal Contacts & Local Partners
- o Commitment to work in Russia (Yakutia)
- o Sensitivity to local Needs & Conditions

Yakutia wants modern technology. Russian and Yakutian managers, however, are very well educated. Western companies who go to Siberia will often deal with officials educated in Moscow or elsewhere. Western companies must be technically qualified with good reputations for work at home. From a technical standpoint there is already growing competition among companies from Asia, Europe, Canada and the USA.

In Russia, even more than in many other countries, personal contacts and local partners are critical. Not only do local experts understand local conditions, they know who the decision makers are, how local decision making occurs, and how to access local resources. In the author's case, close association with the leaders of SOVNET in Moscow has been essential to the progress made to date.

Western companies and managers must be committed to projects and joint ventures for the long term. There is very little "fast money" available in Russia or Yakutia. Very positive returns, however, are possible with investment of money, energy, technology and time. Only serious participants should explore opportunities in Eastern Siberia.

Finally, as is true on all international projects, westerners must be sensitive to local conditions, customs, needs and language. Western companies will need to establish local offices and have employees learn to speak Russian. Local employees must be hired and local needs must be paramount to planning investment.

For Local Officials

For officials in Yakutia, two major factors must be clearly understood to ensure successful investment and participation by western firms. First, investment and business projects must be profitable for the western participants. Few western companies can underwrite unprofitable investments in today's weak global economic conditions. Projects must have demonstrated and documented profit potential, and a positive ROI for the Western company.

Secondly, local officials must understand that western companies don't have to invest in Russia. Plenty of opportunities exist elsewhere in the world in most industries. It is Russia that needs the West right now. Investment conditions in Russia, including laws and living conditions for western workers, must be at least semi-painless and hopefully attractive. If Russian or Siberian conditions are too unattractive, regardless of profit potential for individual projects, westerners will just stay home.

CONCLUSION: A NEW BEGINNING

Most of Siberia was closed to the West until very recently. In May, in several locations in Yakutia, the author was the first American ever seen by local citizens and administrators. Now the changes have opened opportunities never available before -- opportunities to modernize their country, to establish positive relationships with other countries and peoples, and to greatly increase their standard of living. In Yakutia they have the natural resources to pay for these changes. For western firms it is also an opportunity -- to participate in the rebirth of a major part of our world.

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