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The Incredible Shrinking Special Economic Zone, Part 2

By Elena Agarkova

RUSSIA, Lake Baikal, the Irkutsk region

The Characters:

The Bolshoye Goloustnoye villagers: over 600 people of Buryat and Russian descent.

Local Administration: the mayor of Bolshoye Goloustnoye.

Irkutsk tourism firms: several small and medium sized local businesses.

The Pribaikalskii National Park: Bolshoye Goloustnoye is within the park's territory.

The Irkutsk administration: the governor, the agency of tourism, the agency of nature and ecology.

Siberian scientists.

Local environmentalists.

The federal government: the special economic zones (SEZ) agency and its representatives in Irkutsk.

Outside experts: Consulting, architectural, and planning firms from Germany, Austria, and St. Petersburg.

Foreign tourism firms: incognito for now.

Synopsis.

In Part 1 of this newsletter I shared some of the results of my research into the process of creating an SEZ in the village of Bolshoye Goloustnoye, a small settlement on the shore of Lake Baikal about 110 kilometers away from Irkutsk. In this part I continue exploring the different points of view regarding the SEZ. Specifically,

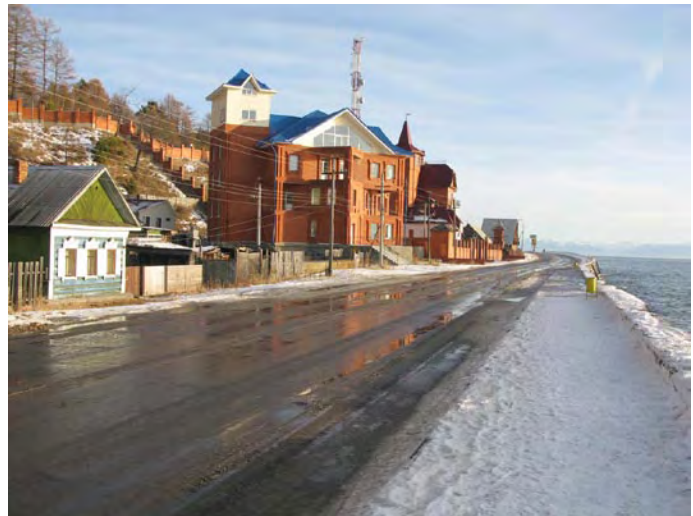
how wise is it to build hotels for 70 thousand tourists a year in a relatively remote, pristine area that presently lacks any necessary infrastructure? Who will benefit from this development and how? Are there alternatives?

A Choir of Voices. The Mayor.

I met the mayor of Bolshoye Goloustnoye, Dmitry Sebekin, on a corner nearby my house. A youthful-looking man in his late 50s, he came to our meeting in a chauffeured car. We crossed the street to go into a coffee shop inside of a movie theater. Loud music blared from plasma TVs, which, placed near the ceiling in all corners of the cafe, showed MTV videos. Outside it was cold and snowy, and Dmitry said he didn't have much time, so we stayed and I hoped I'd be able to decipher our conversation above the music.

Dmitry worked in the Irkutsk regional government as a deputy aide for seven years. He then became a deputy himself, elected by the people of Maloye Goloustnoye, a village several kilometers away from Bolshoye Goloustnoye. He served for three years, from 2004 to 2007. He is a local — his mother is from the island of Olkhon, and he was born in Irkutsk. He says he grew up on Baikal.

Perhaps it is his political experience that makes him cautious. When I ask what he feels are 'touchy' questions, he doesn't answer them even when I promise that it will be off the record. Instead he tells me a story about a time during his years as a deputy aide, when a reporter from a big Moscow newspaper, *Kommer-sant*, promised him that his comments would be off the record, but the next day the article prominently featured his opinion (disagreeing with the official point of view expressed at the meeting). This incident has made him suspi-



(left) This hotel, the Legend of Baikal, sits right at the spot where Angara flows out of Baikal, along the road to Listvyanka.
 (right) Dmitry says that Listvyanka was once a pretty village with pretty houses. It is that no more.

cious of reporters' promises. But as cautious as he is, his answers still provide a window into the politics of SEZ creation. Dmitry confirms my earlier impression that all of the important decisions, including where to locate the SEZ, are made on the federal level. Local interests, be they businesses, government, or individual villagers, stand on the sidelines.

Asked about his opinion of the SEZ in Bolshoye Goloustnoye, he replies that "at first everything was on the level of rumors." He says that he was jealous of Listvyanka when it was chosen as the SEZ site but, being a patriot of his land, welcomed the idea because an SEZ ultimately would benefit the region and create new work places. "But then the federal and the regional government conducted monitoring [of the potential zone locations in Bolshoye Goloustnoye]. We saw them more than once — people came in cars, flew over in planes, and then all of a sudden we find out that [Bolshoye Goloustnoye] is being considered as an option."

However, Dmitry insists that the regional administration did not keep him or the local population in the dark. He points to the fact that he has been included in the SEZ work group. "I can quickly pass on all the questions we discuss at the meetings [of the work group] to the population, discuss them with the people, and quickly come back with agreements or disagreements, to the regional level. Complete understanding existed then, and does now, and we are in constant contact with our territorial administration of the SEZ." But when I ask about the specifics of these communications, Dmitry does not provide much detail. He says that he has office hours in Bolshoye Goloustnoye every Wednesday (he lives

in Irkutsk for most of the week). "Every week the villagers, even if there's no specific need, gather in a local club. Maybe they are curious, because I come not alone but with representatives of the administration; there are always some papers to sign, pension questions etc. And every week people always ask, what's going on with the SEZ? What is the good news, what's going to be there? So this happens on a weekly basis. I don't hide anything



from them, because people always welcome a direct contact with the population.”

I ask whether the locals have expressed any demands or any wishes to the administration. Dmitry first replies that the “demands will be determined and expressed at the public hearings.” He then says, “The demands are always the same. The main demand that the people have is to preserve the pristine cleanliness, the sacredness of our Sea.” (The people who live around Baikal often express their reverence for this incredible natural wonder by calling it a Sea or Sacred Baikal.) He mentions the education that local kids receive, saying that it has a strong environmental component. “Our environmental awareness is so high that you won’t find a piece of paper on our streets. After ‘wild tourists’ visit us, our schoolchildren drive through with big bags, picking up garbage. We don’t wait until there are trucks of garbage. We have garbage bins in recreational areas, official fire pits. So the main demand is to preserve Baikal in the same state that we received it from our ancestors, in which we have to pass it on to the future generation. The native population, Buryats, Russians, everyone feels the same. And we will insist on this, because you get out of a car [in Bolshoye Goloustnoye], turn around, and see a plant that’s endemic. In some other places they have already been trampled out, have disappeared, but in our area they still grow, still flower.”

Dmitry has no doubts that the SEZ project will conform to the demands of the local population even though he has seen only the outline of the proposal. Since no investors have come forward with specific projects, at this point the public only knows about the infrastructure that the government plans to build, as well as the general criteria for planned tourism facilities; according to the current schedule, an architectural firm from Irkutsk will present the final infrastructure project in February, at which point the administration promises to conduct public hearings. Dmitry considers important the fact that the SEZ proposal calls for building waste disposal facilities. “And of course the local population and the local administration, represented by me, will demand that it will be the most modern [facility]. If foreign tourists will come, we must have a modern waste disposal facility.” He also thinks it is a plus that the zone will be built in a non-forested area. “It’s a flat area, a river delta with mountain slopes on one side and pine plantings on the other, where the houses will be located. There’s no need to cut anything. All conditions exist to preserve the ecology in its pristine state. We of course must monitor this, and will do so.” He adds right away, “But you can’t live your entire life

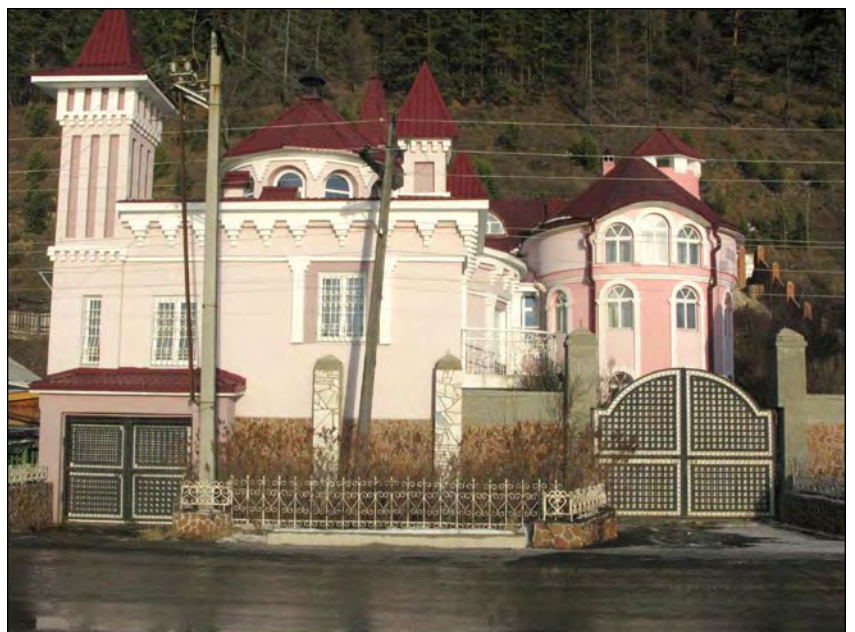


Among the architectural atrocities of Listvyanka is a pink castle that belongs to one of the former Irkutsk governors. I’ve heard locals refer to the castle as “Mickey Mouse architecture.”

in a Stone Age, and of course the people hope there’ll be new work opportunities.”

Later Dmitry comes back to the question of conservation. “In no event will we let them spoil our landscape. The people in the SEZ agency as well as people on all levels of administration understand that it is unacceptable to have cement or glass in the middle of the natural landscape. We cannot have those brick monsters or towers here, like what they have in Listvyanka. We need wooden architecture. Maybe a few three, four or five star hotels that are not nine or ten stories high, but two or three stories.”

He mentions that there is a certain percentage of un-



The view of the pink castle from the front. It is located on the road that runs along the shore of Baikal.

employed people in Bolshoye Goloustnoye today, and they, especially young people, welcome the SEZ. "For the past three years we taught graduates of the Bolshoye Goloustnoye school environmental education and the basics of tourism business. They complete the first phase of this education so that in the future they can continue with it and come back to work in the tourism business. There are quite broad types of tourism planned for the SEZ: adventure, water, ethnographical, horse-riding, mountaineering, fishing, winter sports, even an aqua-park.

"Now our youth leave the village in search of work, go to Irkutsk. But they will of course return when the SEZ appears."

I ask Dmitry if there is an agreement with the federal agency or the regional administration regarding hiring locals, including youth, to work in the SEZ. He says it is being worked on. "There is no specific document yet, but we will definitely insist [on it]. We will soon be discussing the question of granting additional land to the SEZ for worker housing, and according to the law, we can demand that up to 20 percent of the housing will be for locals. And of course we will include in the [SEZ] agreement a paragraph regarding the hiring of local population." He mentions again that the locals are getting ready for the SEZ by studying specific professions related to tourism. The Irkutsk agency of tourism, in response to my question about their plans for providing locals with SEZ jobs, said that they plan to create an educational center for SEZ personnel, which would provide vocational training to the population of Bolshoye Goloustnoye, Irkutsk, and the Irkutsk region. (The agency would only respond to written requests, submitted through the Irkutsk governor's press office.)

The main difficulties that Dmitry's municipality faces are financial. They rely on the money from the regional budget, because theirs is the only non-agricultural municipality in the region. "We don't have tillable lands or crop acreage, and no cattle except for what belongs to the locals. We never had any collective farms, and the forest agency was the only major local employer." The municipality gets a small amount of revenue from personal income tax. "Everything else is subsidized by the regional budget. But they cannot give us money in the amounts that we need for our projects." One of the underlying problems is that even though municipalities have significant self-governance responsibilities, all the taxes bypass local budgets. "Take the transport tax," says Dmitry. "They promised to give it to us last year. We collect it, and it goes to the regional budget. We used to get a small portion of it. This year they're saying this practice will end. The people are living better now, too. Behind every other fence there's a car. That's transport tax money right there. All of it will go to the region. So people drive around here, destroy our roads, and we see zero money out of it."

Within the borders of the two villages, Bolshoye and Maloye Goloustnoye, lies taxable private property worth

1.8 million rubles in annual tax revenues. Everything beyond that is federal land. Dmitry asks, "Isn't that ridiculous? Our minimal budget comes out to 8 or 9 million rubles." He talks of the need to support municipality's self-governance responsibilities through property rights. "That means we need to have our own land, which we would manage ourselves. Then we wouldn't be [standing there] with our hand stretched out. That's the main thing."

It seems that there may be some improvements in the next few years. The regional administration has begun to work on a new territorial development plan that calls for expanding municipalities over the next 30 years by using federal lands. Dmitry hopes that if Moscow approves their new borders, they will work out a new town plan and people will come to the Goloustnoye villages to build hospitals and restaurants. As for now, the villagers of Bolshoye Goloustnoye don't have many options for work. There is a forestry agency and a couple of schools. People fish, hunt, host tourists in their houses. "As everywhere else in Russia, at all times, people endure," says Dmitry. But he manages to see a bright side in this life of hardship. "You can't easily stifle a Russian man. This is why the financial crisis may have less of an impact on us. I think we're braver and more adaptable. I think bravery is in our genes because of the climate we live in. I think we will overcome. I just hope that we will get some financial help. As for us, we'll give our all."

The National Park

Vitaly Ryabtsev is the deputy director of Pribaikalskyi National Park (PNP), and the head of the park's scientific research department. The park, created in 1986, extends over an area of 418,000 hectares (four times the size of Moscow) along the southwestern shore of Lake Baikal. The park has 220 people on staff, four of whom are scientific employees. Forest inspectors comprise most of the rest.

The Goloustnoye delta is technically located on the park's land. Even though control and promotion of tourism is one of the tasks of a national park, the park can only do so much with limited staff and inadequate financing. The park should be the highest authority on its territory, but the reality appears to be that development of tourism in the PNP is happening without the park's involvement, without an agreed-upon plan, and without any control by the park.

When I ask Vitaly for his opinion on constructing an SEZ in Bolshoye Goloustnoye, he does not hesitate with an answer. "Bolshoye Goloustnoye is very important as a center of biodiversity. There is no doubt that this biodiversity will suffer enormous damage. On the other hand, this territory is ill-suited for tourism development. A lot has been said on this subject. It's the climate conditions, geography of the territory, lack of any beaches. It's obstructions for water tourism — the land is surrounded by broad



One of the new hotels in Listvyanka.

swaths of shallow water. It's also the lack of snow in winter, since we're talking about the steppe. There are many other minuses, and altogether they lead me to completely reject the idea of an SEZ in Bolshoye Goloustnoye."

He preferred the idea of building a tourist economic zone in Listvyanka. "At least there would be much less damage to biodiversity there, and it's more convenient for both summer and winter tourism. The climate is better there; it has more opportunities for tourists, from traveling along the Listvyanka coast, to taking the Circum-Baikal railroad, to going up the Angara delta. In winter there are more options for winter tourism, because there is a lot of snow."

Among Vitaly's concerns about locating the SEZ in Bolshoye Goloustnoye is the fact that this decision was made without consulting the park, even though the SEZ will be in the park's territory. "Our opinion was not considered at all. Not only that, but all subsequent work, including [the SEZ] proposal justification, which was done by German specialists, happened without the park's participation. We found out from the internet that a hearing [regarding the SEZ] has happened. They didn't even consider it necessary to invite us to these hearings. There was a completely conscious distancing of the park from any discussions."

Vitaly has reasons to be con-

cerned about lack of participation by the park in the process of SEZ creation. "We have been monitoring this territory for some time now. In 2001 we finished a project called 'Conservation of two most important biodiversity areas on Baikal.' The Goloustnoye delta was one of those areas, and even back then we already thought it was under serious threat of significant damage from humans." Vitaly mentions that one of the best botanical specialists in the region participated in the project, creating a thorough map of rare plants that grow in the Goloustnoye delta. Some of the plants are relict species, leftovers of the Ice Age, which exist nowhere else in the Irkutsk region.

Russia's Law on Nature Protection prohibits any activity that reduces rare species and impairs their habitat. It would be impossible to avoid damage to Goloustnoye delta's flora and fauna during construction of the SEZ, and if anything is left at the end, the expected thousands of tourists (if they come) will undoubtedly trample the remainder underfoot. One of reasons given by the federal SEZ agency for moving the zone to Bolshoye Goloustnoye from Listvyanka was that construction in Listvyanka would have run afoul of the federal Forest Code. In contrast to the forested Listvyanka, there is only one lone tree in the Goloustnoye delta. However, violation of the Law on Nature Protection does not appear to give pause to the SEZ planners.

Vitaly says that the SEZ planners should have consulted the information on rare species in the delta, collected by the park's specialists in 2001, during development of the SEZ proposal. "But this information is of no interest to anyone." He wonders whether it would be possible to develop a similar project in an American national park



An advertisement for winter dogsled tours in front of a café in Listvyanka, along with some local art.

without consulting the park and without using available information on the park's flora and fauna.

I ask whether it is true that the lakes and wetlands of the Goloustnoye delta will be drained as part of the SEZ construction. "No one discussed this with us. It's quite possible, because the wetland area is big." Vitaly says that in 2001 the park tried to fence off these lands because they are used by rare migratory birds, to protect them from cattle, but locals took apart the fences. "Even if they don't drain the wetlands," says Vitaly, "the presence of so many facilities and people right there will force the birds to leave. When I was there last year, I saw five black storks. It's a very cautious bird that won't tolerate people anywhere in its vicinity."

As for the idea that the SEZ builders can protect rare plants by fencing them off and creating flowerbeds for tourists to admire, Vitaly says that the planners should have consulted the park. As far as he could tell from the map of the SEZ presented at the Baikal Economic Forum, the main road will go straight through the habitat of a rare violet. "No flowerbed will save it. You cannot take these plants and deposit them somewhere else. You have to protect their specific habitat."

It's not that the people in the federal SEZ agency don't understand problems of nature conservation. Dmitry Fedotkin, the deputy director of the agency who supervises the Baikal SEZ projects, has previously worked in the federal environmental protection agency (Rosprirodnadzor). He was the head of the specially protected natural territories department¹ and as such was one of Vitaly's direct bosses. "Who but not him should know the rules of working on national park land," says Vitaly. The head of the federal SEZ agency has also previously worked in Rosprirodnadzor and was responsible for funding the protected natural territories. "Basically, what we see at the highest administrative level is utter disregard for the environmental component of the project. The economic aspect takes complete precedence."

There is also the question of who owns the land on which the SEZ will be located. The federal agency and local administrations insist that this is agricultural land, which is not part of the park's territory. The park disagrees. According to Vitaly, this land is under dual ownership. All the steppe lands that became part of the park at the time of its formation remained in agricultural use. Their original owners — previously state collective farms, currently local administrations — retained primary ownership rights. However, the national park is responsible for environmental monitoring and protection of said lands. Vitaly says that primary owners must use the lands according to their category, i.e., for agricultural purposes. But the park has no recourse for getting its voice heard. "There are numerous violations going on already [in Bolshoye Goloustnoye]."

The owner, the local administration, has already transferred or leased some plots for tourist facilities. This is a violation, but it is hard to overturn this kind of transfer in court, because they only care about the primary owner's consent." According to Vitaly, such illegal construction is happening in other national parks as well.

Given the fact that tourism on Baikal is becoming more profitable than farming, many farmers also choose to use their lands for recreational purposes. The anthropogenic impact on the park's ecosystems increases each year.

Confusion over rights, responsibilities, and priorities permeates the entire system of environmental protection. In 2000 Russia's federal environmental protection agency (Rosprirodnadzor) was integrated into the ministry of natural resources. Since the main goal of the ministry is exploration of natural resources, this fusion created an insurmountable conflict of interest, with the end result that resource use takes precedence over nature conservation.

"In September, during the Baikal Economic Forum, our immediate boss, the head of the special protected natural territories, came to the roundtable on development of tourism on Lake Baikal. He knows about our problems. But our bosses are themselves participating in these activities. What else can we tell them? The only thing that remains is for me to express my opinion in different publications, which is what I keep doing," says Vitaly.

Local Business

Green Express is a local tourism firm, started in 2001. It works with domestic and in-bound tourists in the Baikal region, specializing in outdoor recreational and eco-tours. Green Express also conducts educational tourism tours and business tourism events, which include corporate and "teambuilding" retreats. According to Vadim Kopylov, the director of Green Express, most of their clients come from western parts of Russia, Ukraine, Belorussia, from Germany, England and the Netherlands. The majority of the business tourists are companies from Irkutsk and the Irkutsk region. Vadim considers his company to be a pioneer of tourism as a business on Baikal. "People have always engaged in active recreation and environmental tourism here, but we were the first ones to do it on a business level."

I came to Green Express to talk about the local business' reaction to the proposed tourist SEZ in Bolshoye Goloustnoye. My first question to Vadim was whether local tour operators are interested in the zone. Vadim's reaction to the SEZ seems optimistic overall: "Tourism firms are interested in any infrastructure development because that means more choices for our tourists. To each his own though. Some will be interested in the crowdedness — and based on the proposed project we can say there will

¹ Russia has a complicated system of specially protected natural territories, which includes national parks, reserves, and zapovedniks, the strictest form of nature protection unique to Russia, which forbids any use of the territory other than for scientific research.

be quite significant crowdedness — so some tourists will want to stay in “civilization,” whereas some will want to leave civilization, but at least they will have a choice. What’s interesting is that the government has started to build, or at least says that it will build some infrastructure for tourism. I’m glad to hear this because until now tourism was neglected by the government’s attention and was developed only through private investments.”

One of his big, or “ever-present,” concerns is whether the SEZ will be done intelligently. “I say this because it has been repeated at all levels, in Russia and internationally, that Baikal will not be a mass destination for tourists like Egypt or Turkey. Baikal is, first of all, a destination for eco-tourism. How appropriate are pipes, cables, and other “delights of civilization” here? This is why I’m also glad that they are starting with localized projects. I wouldn’t want to see this process start simultaneously all over Baikal. It makes sense to try it in one place first. This is why the choice of Bolshoye Goloustnoye has its advantages. If something goes wrong, there won’t be a lot of damage.”

Vadim is careful to add that in the event there are mistakes, there will definitely be damage. “There will be damage to the ecosystem. But Bolshoye Goloustnoye is not popular enough with tourists for there to be damage to the tourist flow. So there is this small plus, in trying to do this in an area that’s not so popular, to gain experience that we can disseminate further.”

When I ask how he sees the worst scenario for Bolshoye Goloustnoye, Vadim chuckles:

“They’ll dig it up and abandon it. It’s quite possible that in the changing economic conditions the government won’t have enough passion, administrative management experience, or a competent strategy to see the project through. This is why it’s a good thing that they are building a road to [Bolshoye Goloustnoye]. A new road is absolutely necessary, for local villagers if not for tourists. As for laying of additional pipes and similar things, their necessity is under question.”

I mention that a few new tourist camps appeared in Bolshoye Goloustnoye recently, and ask Vadim whether this is happening in anticipation of the SEZ. He doesn’t think so. “If people were really building in anticipation, we’d see construction of a different scale. Sure, some people are trying to use this particular moment, but development of Bolshoye Goloustnoye began before the SEZ was announced, because it is the second promising area after



Market stalls in Listvyanka. It is a popular weekend destination for foreign and local visitors alike because Listvyanka is only 40 minutes away from Irkutsk. The main offerings on sale are omul, a Baikal endemic, and souvenirs made from wood and stone.

Listvyanka that’s not too far from Irkutsk. Especially considering the fact that there is no available land for sale in Listvyanka, or its price is astronomically high, this would be a natural process. Bolshoye Goloustnoye would develop with or without the [special economic] zone. In which direction will it develop, that’s the question. There was a concern that it would develop like Listvyanka, by way of suburban cottages, instead of more tourist-oriented construction. The zone, or its announcement, pushed Bolshoye Goloustnoye in the direction of tourism development, as opposed to suburbia. So there are certain pluses in the very announcement of the zone, even though nothing has been done yet.”

Since Green Express presents itself as a leader in eco-tourism, I ask Vadim what can be done in Bolshoye Goloustnoye to foster environmentally-friendly tourism, keeping in mind the fact that right now the SEZ proposal calls for construction of big hotels and villas which seem to fit the definition of ecotourism. He replies that if the current proposal gets implemented as written, we can forget about ecotourism in Bolshoye Goloustnoye because the proposal emphasizes amenities of civilization. “The area will change from an area of eco- and “active” tourism into an area of “civilized” tourism. This is the main contradiction. If we think of Baikal as an eco-tourism destination, then construction of such large-scale projects is not meaningless per se but is unprofitable. Obviously, it is the investors who will make this decision, but this is my opinion.”

Vadim has an alternative vision of the SEZ, as a model of eco-friendly construction. “Today’s technologies allow us to combine comfort and minimal damage to surround-



(above) Smoked omul sold at the Listvyanka market. (top, right and right) Some of the wooden souvenirs at the Listvyanka market. (below) A discerning local customer.



ing ecosystems. This is where I see the government's role as an investor, because modern solar energy and waste disposal technologies are quite expensive for a private investor, especially given the risky tourism conditions on Baikal — by this I mean that we have fluctuating, seasonal tourism. We'd only welcome it if the government invested into these technologies instead of pipes and cables. Creation of a model site in the SEZ for testing or implementing environmental technologies is exactly what's needed on Baikal. It'd be a natural connection to the "Baikal brand," an environmental connection. It would attract tourists who are ready to live in such eco-friendly conditions. It would also popularize such technologies. There are lots of pluses to this alternative. Unfortunately, for now the SEZ proposal looks different. Maybe there will be corrections, maybe not. It is the investors who will decide in the end."

In response to my question about the role that the federal SEZ agency plays in determining these aspects of the SEZ, Vadim says that "the federal agency or, to be more correct, the planners hired to develop the SEZ proposal, come up with some ideas and suggestions for the concept of the zone, but much more depends on the individual investor. The government builds the zone's infrastructure, and the investors build the facilities. If the investors demand a certain kind of infrastructure, the federal agency won't have a choice but to create it. That's my point of view. Sometimes it's impossible to tell what's ahead, the cart or the [horse's] ears."

The local Irkutsk press had several articles stating that local tourist firms are not interested in investing in the SEZ. I ask Vadim if that is true. He replies that the question is not



One of the local women selling souvenirs at the Listvyanka market. She told me she did this in her spare time to help her daughter, who would not have been able to afford a house if it were not for money they get from tourists.

one of interest. "There would be interested businesses, but the financial entry level set by the SEZ law is quite high even for medium-sized businesses. We heard numbers on the scale of one million euro, completely unreal sums for medium businesses. Given these parameters, it's the businesses for which tourism is a "non-core" activity that will come to the SEZ, i.e. businesses that made their money elsewhere but not in tourism. Mistakes of these investors may very well change the fate of the project. If people never worked in this market before, they will make a lot of mistakes in the beginning."

Vadim points out that the local tourism firms are mainly small and medium-sized businesses. "Only a couple can afford to invest into something small scale [in the SEZ]. Here, the local firms were outraged by the fact that during the development stages, at no point did the planners ask local businesses how they see the project, or ask about their experience, experience which they have from years of working on Baikal. This experience was not utilized at all. For some reason the planners relied on the experience of other countries. The planners, Germans or Croatians, gave us advice on how to conduct business in our conditions. I think this is the main mistake, because conditions that exist in those countries are not applicable to us. It's possible to rely on the experiences of Finland, Norway, or Alaska, but not Croatia and not Germany because they have completely different business conditions and different types of tourism. It's a totally different category."

As a director of a local tourism business, Vadim thinks there are unique factors that influence tourism development on Baikal. "We can't take "beach" or "educational"

tourism as a model. Germany and Europe in general have a lot of educational tourism, and Egypt, Turkey have the so-called beach tourism. We don't have either one of those. We can't use them as examples or rely on the experiences of those countries. We need to go our own way, using experiences of those countries that have similar climate conditions and similar tourist flows. By that I mean pronounced seasons, with harsh winter conditions, which call into question profitability of stationary facilities, which need to be heated in summer and in winter, calling for large expenses on utilities. Why are tourism businesses on Baikal mainly small firms that use small facilities, the kind that can be closed for winter or kept up with minimal expenditures? This model did not appear for no reason. It's based on the realities of running a [tourism] business here. Facilities proposed for the SEZ can be built, for sure, but how profitable will they be?"

There are other reasons for Vadim to be skeptical of the future of the SEZ. "As far as I know, they haven't found any residents for our SEZ yet," he says. "There are some preliminary talks, but nothing more. Given current [economic] conditions, I seriously doubt there will be any takers. The only solution will be [for the government] to use administrative measures to force companies into becoming SEZ residents, on a compulsory-volunteer basis." He laughs again. I ask if that's really possible. "I wouldn't be surprised," he responds. "Anything is possible in our country. For us the financial entry level is high, but for companies like Gazprom or Rosneft this is small money. They very well may spend it in exchange for the government's loyalty."

I'm not entirely convinced that this is possible; perhaps I spent too much time away from my birthplace. There is a global financial crisis going on, and Russian state companies are reeling from market downturns. But Vadim thinks they could afford to spend some money on the SEZ. "This kind of money they can find easily. It's probably comparable to their administrative office expenditures. In any event, it will be difficult for the government to find volunteers for the SEZ. The 2009 deadline will move to another, unspecified later time.² Until better times."

I wonder if the crisis is a good time to think about possible alternatives to the SEZ. Vadim agrees. "There's talk of [the crisis] as an opportunity to rethink some things. It already had a positive effect on two things that we couldn't change for several years. There is hope that, given the financial crisis, they will listen to our opinion on the SEZ as well."

A much larger tourism company, Grand Baikal, owned

² The latest schedule provides for an architectural firm from Irkutsk to present its vision of the SEZ infrastructure in February.

by Sberbank, Russia's biggest state-owned bank, and a Russian hotel company Moshotel, is cautiously considering investing in the SEZ. Last year about 30 thousand tourists passed through Grand Baikal's hotels. The final decision regarding investment in the SEZ belongs to the company's owners, but in the meantime the company's press office says that they are evaluating the possibility of building a three-star hotel for 100-120 people on the territory of the zone. However, the company already had these plans for Bolshoye Goloustnoye, along with two other areas on Baikal, prior to Moscow's decision to move the SEZ there from Listvyanka.

The director of Grand Baikal believes that Baikal needs at least seven different tourism centers, on the island of Olkhon, Maloye More (Small Sea, the picturesque shore across from Olkhon), and in several spots at the south of the lake, including Baikalsk, a town that already has a ski resort. "In that case it would be possible to build a relatively small number of tourist facilities on Olkhon and Maloye More, facilities that would comply with the most stringent environmental standards. They can be wooden structures in a 'Siberian' style, built into the landscape, or yurts." Grand Baikal agrees with the director of Green Express that tourism on Baikal should not follow the examples of Egypt or Turkey. "We don't need mass-volume tourism here," says Sergey Evchik, Grand Baikal's press secretary. As for the responsibility that comes with doing business on the world's largest lake, the company says that it is necessary to actively promote environmentally clean tourism. "In the end, it is the consumer that will have to make a choice in favor of tourism that does not damage the environment. If staying at a tourist center that violates the law will become in bad taste, such a tourist center will eventually disappear. But, as you understand, this will take a long time."

Who will want to invest in the SEZ and who will be able to afford to invest there is not clear at the moment. The head of the federal SEZ agency's office in Irkutsk, Ekaterina Vokhmina, told me she is aware that local tourism operators are unhappy with the current SEZ location. She also understood that it's hard for local businesses to invest in the zone, even though there is no set minimum,



One of the fish stalls in the Listvyanka market.

because these are medium-sized businesses that would have to risk 80 percent or more of their available funds. "For Moscow companies, we're talking 10, 20, maybe 30 percent of their money. It's much easier to risk such a sum. So it's possible that all of the SEZ investors will be from Moscow. But we hope that won't happen." In any event, according to the Irkutsk agency of tourism, the local governmental body responsible for organizing SEZ work, as of December of this year there have been no official expressions of interest in the Irkutsk SEZ from potential investors.

Ekaterina used to work in the regional IRS office. Somewhat surprisingly, at the very end of our meeting she mentioned that she sat down to check the official calculations of the zone's break-even point, set to occur in 12 to 13 years ("Just for fun."). She couldn't understand where these figures came from. Her explanation? The official calculations were done by German consultants, whose experience of living in a stable country does not translate well on Russian soil.

The Skeptics

Financial difficulties may be not the only problems facing the SEZ. According to Marina Rikhvanova, a co-founder and chair of the Baikal Environmental Wave, a local environmental non-profit,³ the zone will not be built

3 BEW is an environmental advocacy and watch dog group co-founded in 1990 by Jennie Sutton, a teacher from England who was teaching in an Irkutsk university and needed interesting material for her English discussion group. During one of her trips home a program dedicated to environmental issues caught Jennie's attention. Soon after, the discussion group morphed into the Baikal Environmental Wave, one of the first environmental NGOs in Russian and a most vocal proponent of sustainable development in the Baikal region.

in Bolshoye Goloustnoye for environmental reasons.⁴ Marina believes that there are absolutely no justifications for an SEZ there. Moreover, the authorities failed to conduct public hearings, as required by law, on the question of building an SEZ in Bolshoye Goloustnoye (such hearings took place in Listvyanka, when that village was the prime contender for an SEZ). She is also skeptical that in the current economic conditions the authorities will have enough funds to invest into the zone's infrastructure. "The Irkutsk administration is paralyzed, and Moscow is not thinking about the rest of the country right now, they're too busy trying to save their money."

Alexander Antipov, a prominent local scientist who is the head of the Irkutsk branch of the Geographic Institute of the Russian Academy of Sciences, shares Marina's misgivings about the zone's viability. "The Irkutsk administration, which practically does not exist now,⁵ did everything to make sure the zone won't come into being." He thinks the SEZ location is poorly chosen, and the authorities failed to follow proper procedures in selecting the zone site. "You cannot do what they did. They must conduct a strategic environmental assessment, which takes into account alternatives. Baikal has at least ten areas where you can build an SEZ. But [the head of the Irkutsk agency of tourism] refused to consider any of them."

Alexander also agrees with Marina that economic support for an SEZ is unlikely right now. "Who is going to

invest during a financial crisis?" He rattles off the minuses of building the zone in Bolshoye Goloustnoye, including the fact that the delta has very strong winds, the site is almost 140 kilometers away from Irkutsk, there is no existing infrastructure, there is not much to see in the area... "Developing a zone for the sake of the zone is nonsense. The people in Moscow don't understand the situation. They don't understand what wind of 20 meters per second feels like. Bolshoye Goloustnoye is a dead end. I wouldn't go there [to vacation.]"

One alternative to Bolshoye Goloustnoye, in Antipov's eyes, is Baikalsk. This town on the south shore of Baikal is where one of the main sources of Baikal's pollution operated until recently. The infamous Baikalsk Pulp and Paper mill, built in the 1960s, has dumped millions of gallons of chlorine into Baikal's water, poisoning the nearby area with dioxins that find their way into the food chain. Prominent scientists have decried construction of the mill on Baikal's shore since the Soviet government announced its plan, but their warnings went unheeded. The government justified construction of the mill on Baikal by the need for super clean water to produce corded cellulose for military plane tires. But by the time the mill was constructed, the technology became obsolete. The industry has switched to plastics. However, the mill was already there. It began to churn out sulfate cellulose, bleached and non-bleached varieties, for internal consumption and for export to China, Bulgaria, Turkey, and both Koreas.



The view from the Lisvyanka market.

The environmentalists kept complaining about the mill's pollution. Several years ago Continental Management, a pulp mill holding group owned by Oleg Deripaska, Russia's richest man (at least he was until the current financial crisis), acquired the majority stake in the mill. Ostensibly in response to environmental criticism, the new owners announced a plan to convert the mill to producing a cheaper grade of pulp that does not require bleaching, and to use a closed filtration system. After years of delay, this September the mill announced that it had finally switched to closed filtration, and it would no longer dump chlorine into Baikal. The federal minister of environment came to inspect the plant and congratulate it on putting an end to polluting the world's largest, purest lake. He mentioned that until now

4 This year Marina became one of the six winners of the prestigious Goldman Environmental Prize, given to "individuals for sustained and significant efforts to protect and enhance the natural environment, often at great personal risk."

5 Turmoil in the Irkutsk administration started in spring of this year, when the previous governor, Tishanin, left his post. No explanations were given at the time. As I mentioned in the previous newsletter, this September local media reported that the prosecutor's office had pressed charges against Tishanin that included abuse of office and mismanagement of official funds. Since spring the vice-governor has been the acting governor. He has been confirmed as the governor in November of this year.



The Baikalsk Pulp and Paper mill.

the mill operated at an “unfair advantage.”

However, just a few days after this visit the plant’s owners announced that they did not have the technology to produce bleached cellulose while on a closed filtration system, and production of only unbleached cellulose was unprofitable. They requested permission to go back to dumping chlorine into Baikal or face bankruptcy and fire all of its workers, who comprise half of the population of Baikalsk. The federal government called this blackmail and so far has refused to back down. Environmentalists wondered whether the plant ever succeeded in going on closed filtration system, and openly questioned the plant’s actions as a ruse (rumor that current owners were planning to squeeze the plant for all its worth and let it go bankrupt have circulated since Continental Management acquired the plant). Accusations flew back and

forth, but as of today, the local government still struggles to find a solution to the problem of several thousand unemployed workers.

Local scientists and environmentalists have previously voiced the idea of building a tourist SEZ nearby Baikalsk. But before now, the stench from the pulp mill made any expansion of the existing skiing resort unrealistic. Today, if the pulp mill remains closed, the area appears to be a much better location for a tourist SEZ than Bolshoye Goloustnoye. Baikalsk lies between Irkutsk and Ulan-Ude, on the Trans-Siberian railroad. It has a mild climate with significant amounts of snow in winter, and a very high percentage of sunny days. One can only hope that the combination of the global financial crisis and the local crisis at the mill will push the government to make a sensible decision and re-examine the concept of the tourist SEZ. □



The snowy streets of Baikalsk.

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ICWA Letters (ISSN 1083-4273) are published by the Institute of Current World Affairs Inc., a 501(c)(3) exempt operating foundation incorporated in New York State with offices located at 4545 42nd Street NW, Suite 311, Washington, D.C. 20016. The letters are provided free of charge to members of ICWA and are available to libraries and professional researchers on our web site.

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