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INSTITUTE OF CURRENT WORLD AFFAIRS

PACIFIC NETWORK: OPENING A WINDOW TO THE EAST

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Petropavlovsk-Kamchatsky
Russia

Mr. Peter Bird Martin, Executive Director
The Institute of Current World Affairs
4 West Wheelock Street
Hanover, New Hampshire 03755

Dear Peter,

The demise of the administrative-command system and the rise of private enterprise is changing the economic ecology in Russia and opening niches for new, independent enterprises to fill. The reorganization of the Russian Far East fishing industry has meant an increase in foreign interest in the region, and created a demand for services that never existed under the old Soviet system. An emerging force in filling the demand for services in Petropavlovsk-Kamchatsky is Pacific Network, Limited.

Pacific Network is the brainchild of its founder and President, Sergei Frolov. Originally part of the Foundation for Social Innovations, (which landed a commercial satellite off the coast of Washington State in November, 1992), Pacific Network became a private company in 1991. According to Frolov, Pacific Network is dedicated to developing Kamchatka's infrastructure, and integrating the peninsula into the Pacific Rim economy. The 29-year-old Frolov is determined to place Pacific Network in a key niche in the Kamchatka's international affairs. His drive has led to an impressive string of 'firsts' for the company.

Pacific Network got into business in 1991, when it hosted a Marine Business Symposium in Vladivostok. In April, 1992, Pacific Network brought the first-ever international flight from the United States to Kamchatka when they sponsored a MarkAir charter from Anchorage to Petropavlovsk-Kamchatsky. Pacific Network sponsored a highly-successful Volcanology and Air Safety Symposium in 1992, calling in experts from Asia, Europe and North America to discuss the problems of commercial aviation in volcanic regions such as Alaska and Kamchatka.

Perhaps the biggest first for the company came just prior to the official opening of Petropavlovsk-Kamchatsky's port. Pacific Network brought the transport vessel 'Skylark' to offload crab processing lines in Petropavlovsk-Kamchatsky on December 17,

Peter H. Christiansen is researching Pacific Fishing Nations.

Since 1925 the Institute of Current World Affairs (the Crane-Rogers Foundation) has provided long-term fellowships to enable outstanding young adults to live outside the United States and write about international areas and issues. Endowed by the late Charles R. Crane, the Institute is also supported by contributions from like-minded individuals and foundations.

1992. The offload was the first-ever peacetime port call to the city by a foreign commercial vessel in over 70 years (note: Petropavlovsk-Kamchatsky was open to American transports during Lend-Lease during the Second World War). The 360-foot long 'Skylark' spent a mere 24 hours in Avacha Bay, but the offload demanded coordination among a large cast of multinational characters. The 'Skylark', registered in Panama and crewed by Filipinos, is chartered by the Kyokuyo Company, Ltd., of Tokyo, Japan. The port call was organized by International Shipping Services, Inc., of Seattle, Washington, and Pacific Network.

Getting the 'Skylark' into Avacha Bay involved Pacific Network in a weeks-long, nightmarish struggle with the many-headed hydra of the Russian bureaucracy, which the workers at Pacific Network refer to as simply 'Fred'. 'Fred' (and his American counterpart, 'Vasya') pervades and regulates the whole in Russia (as does 'Vasya' in America).

Getting the many heads of Fred to agree baffles and frustrates all but the most tenacious. For the 'Skylark' offload, Pacific Network needed approval from the Russian Naval High Command (in Petropavlovsk-Kamchatsky, Vladivostok, and Moscow), the Kamchatka Regional Administration, the City of Petropavlovsk-Kamchatsky Executive Committee, the Russian Republic Coast Guard, the Kamchatka Regional Customs Bureau, the Kamchatka Regional Immigration Bureau (even though none of the 'Skylark' crew actually came ashore), four separate Health Inspection Bureaus, and the Petropavlovsk-Kamchatsky Port Administration. Any one of these bureaucratic structures could have objected and cancelled the 'Skylark' port call.

Commented Neal Gordon, Director of International Shipping Services, who was in town for the offload, "The company was tremendous," he said. "Pacific Network is an extremely dependable and energetic organization. They have excellent personnel, and accomplished everything they said they would right on time, no mean feat given the bureaucracy in Russia. Sergey and Pacific Network are a real find."

Gordon continued, "We're hoping to establish regular shipping services in and out of Petropavlovsk-Kamchatsky. One of our goals is to integrate the city into the transport route for fish products going from the Bering Sea to Japan."

Besides gaining an ally in a difficult and highly competitive market, Gordon said he is motivated by a desire to assist Russia in one of its darkest hours. "Business should benefit everyone involved, and bring something tangible into their lives. We see this as an opportunity to help develop Petropavlovsk-Kamchatsky in a positive way."

If all goes well in Russia, International Shipping Services has tentative plans to build a refrigeration/freezer facility

in Petropavlovsk-Kamchatsky. The proposed facilities would compliment a similar one being developed in Dutch Harbor, Alaska. "For Americans, a foreign ship coming into their port is no big deal," said Sergey Ivaschenko, Pacific Network's Office Manager. "But for us, it's an important precedent. It means we can really begin to participate in the world economy."

Pacific Network has an eight-person staff, all of them under 30 years old, and all of them conversant in English, the lingua franca of the modern business world. Like Frolov, they are devoted to the onerous task of opening a window to the East from Kamchata. The company has established worldwide links from their modest office by IBM computer and electronic mail to their partners in the United States and Russia, recently added a direct telephone line to Moscow, and a DALTELCOM satellite telephone/fax link through Hawaii directly to North America. Frolov is working with the Kamchatka Regional Television and Radio Agency to install a satellite disc on the roof of the building where the company has its offices. "I want to get CNN here", said Frolov, contemplating yet another 'first'.

The communications links mean that decisions can be made fast, and that those decisions are based on hard information, enabling Pacific Network to keep the promise it makes in its 'company profile'; "We believe that personal integrity is a vital ingredient for any successful business, and take great pride in doing what we say we will do, when we say we will do it."

Pacific Network often finds itself too far ahead of the curve in its quest for 'firsts' in Petropavlovsk-Kamchatsky. A local bank recently spent nearly four days trying to sort out a money transfer that the company organized in a mere few hours. "It's the first time they ever transferred money from a bank in the West, and they had a little trouble handling it", said Frolov wryly. The money transfer system has been improved, and funds can now be wired to Petropavlovsk-Kamchatsky in 36 hours.

The fledgling company is growing fast into its new responsibilities. This year Pacific Network has expanded to include maritime agency services. In less than a year, Pacific Network has built an impressive client list, which reads almost like a 'Who's Who' of Seattle maritime businesses. Companies listed include Arctic Alaska Fisheries, International Shipping Services, Marco Fisheries, Deep Sea Fisheries, Marine Resources Company, Sunmar Shipping, and Alaska Maritime Services. Locally, Pacific Network enjoys good relations with virtually all of the major fishing enterprises in Petropavlovsk-Kamchatsky.

Frolov has big plans for Pacific Network, including founding

an Express Mail Service from North America to Kamchatka (the one in place now, run by the Russian government, goes through Moscow, and takes over 12 days to deliver mail to the peninsula); and a Pacific Network Information Service, a Pacific Network Financial Group, and a Pacific Network Communications Group, which together would assist foreign investors in Kamchatka. "I don't want to limit myself to just one activity, or doing business with just one company," he said. "Today, our maritime agency is doing well, but tomorrow we may have to shift into air transport. In Russia today, you have to be really flexible, and do more than one thing well."

Preparing for the future is a big part of Frolov's strategy for Pacific Network. Frolov obtained a lease on a tract of land on Petrovskaya Hill in downtown Petropavlovsk-Kamchatsky, and has developed a plan with local architects for constructing a business center that would house foreign companies and business people. The company has obtained a conditional lease for land outside of Petropavlovsk-Kamchatsky on Zavoika Bay, on the entrance to Avacha Bay, where Frolov would like to put in a modern port facility.

Pacific Network's staff, however, is it's richest resource. Frolov has done an admirable job of collecting young, talented, and energetic people around himself. Besides fluency in English and computer languages, the Pacific Network staff has acquired one of the most necessary skills for international business--customer service. Irina Rybukhina is typical of the Pacific Network staff. A native of Volgograd, she moved to Petropavlovsk-Kamchatsky to be with her husband, a factory manager at a local fishing collective. A literary critic by profession, and a passionate devotee of the arts, she opened her own jewelery and fine arts shop in Petropavlovsk-Kamchatsky, but was driven out of business by the local mafia when they burned down her kiosk. Irina, disgusted by her experience in 'the commercial structure', found temporary work in the nursery her son was attending. One day, she heard about an American delegation visiting town, and offered her services to the company sponsoring the delegation, Pacific Network. Now, Irina is one of the company's managers, responsible for everything from logistics to market research.

Not a typical career path for Russia, but then, nobody on the Pacific Network staff has a typical biography. In the new Russian economy, an unorthodox, free-wheeling approach turns out to be an advantage. In the scramble for economic survival, the most energetic and flexible new enterprises--as well as the ones with the best connections--stand the best chance not only of surviving, but of thriving.

Peter H. Christiansen

