Legislative possibilities in the system of state regulation of the development of the Arctic territories

Tatyana Barasheva  
Institute for Economic Studies of the Kola Bay Scientific Center of the Russian Academy of Sciences named after G.P. Luzin, Apatity, Russia  
barasheva@iep.kolasc.net.ru

Galina Kobylinskaya  
Institute for Economic Studies of the Kola Bay Scientific Center of the Russian Academy of Sciences named after G.P. Luzin, Apatity, Russia  
kobgal@iep.kolasc.net.ru

Natalia Dyadik  
Institute for Economic Studies of the Kola Bay Scientific Center of the Russian Academy of Sciences named after G.P. Luzin, Apatity, Russia  
dyadik@mail.ru

Anastasia Chapargina  
Institute for Economic Studies of the Kola Bay Scientific Center of the Russian Academy of Sciences named after G.P. Luzin, Apatity, Russia  
achapargina@yandex.ru

Abstract. The increased interest in the Arctic is associated with the strengthening of its importance as a strategic resource base of the Russian Federation, ensuring the solution of the issues of the country’s socio-economic development. Harsh northern environmental conditions, the underdevelopment of the transport network and infrastructure, limited energy supply and other become a serious obstacle to the further development of the northern and arctic regions and the creation of favorable conditions for the population life. These circumstances require the development and formation of special legislation that takes into account the specifics of the Arctic zone. The aim of the study is to systematize the measures of the regulatory support of the population’s residence and carry out economic activity in harsh northern environmental conditions as a basis for developing additional incentive mechanisms for the development of the Russian Arctic. The method of content analysis of the regulatory framework and a method for analyzing data on Arctic projects and programs are used in this study. Authors found that, the privileges and preferences fixed in legislative acts and taking into account the northern (Arctic) specifics are provided exclusively for the population. However their action far incompletely compensates for the discomfort of living in these regions. The toolkit to support the activities of economic entities and create favorable conditions for their functioning is presented mainly by the Tax Code with minimal consideration of the signs of “northerness”. The competences of regional authorities in matters of stimulating economic activity are significantly limited. The most efficient tool of the state support still is presented by the state programs focused on solving problems of the national scale and developing commercially unprofitable spheres. Their disadvantage is limited duration and narrow focus. The main conclusion was that active economic development of the North and the Arctic, harsh climatic conditions and other restrictions require the separation of these territories into an independent object of state regulation with the development of special mechanisms and legislative norms ensuring the sustainable socio-economic development of the Arctic regions.

Keywords — privileges, arctic regions, state regulation, population, economic entities

I. INTRODUCTION

The increased interest in the Arctic, the emergence of the Arctic zone of the Russian Federation (AZRF) as an independent object of the state regulation [1] and its strengthening as a strategic resource base of the Russia, ensuring the solution to problems of socio-economic development of the country, necessitated the formation of special legislation aimed at activation of activities in the Russian Arctic on a qualitatively new basis with a focus: on integrated environmental management, on energy and resource saving technologies, minimizing environmental risks and improving quality of life [2]. At the same time, in the Russia a
certain positive experience has been accumulated in formation of benefits and preferences that ensured the accelerated pace of development of the northern territories in the Soviet era. In this regard, the effectiveness and efficiency of newly developed benefits should be assessed in the light of historical experience, as well as on the basis of the results of modern scientific research obtained by specialists engaged in northern and arctic issues [3-4]. The system of benefits and preferences traditionally involves separation of objects of support: labor resources (population) and economic activities. Accordingly, it is expedient to single out two directions when performing this research.

The aim of the study is to systematize the measures of the regulatory support of the population’s residence and carry out economic activity in harsh northern environmental conditions as a basis for developing additional incentive mechanisms for the development of the Russian Arctic.

The main objectives of the study are: 1) an analysis of Russian legislation governing the development of territories; 2) systematization of benefits and preferences for the population and economic entities in order to take into account the "northern"; 3) assessment of the regulatory impact of existing and developed tools on the development of the regions of the North and the Arctic zone.

II. MATERIALS AND METHODS (MODEL)

The method of content analysis of the regulatory framework and a method for analyzing data on Arctic projects and programs are used in this study. In-depth study of legislative and regulatory acts in the context of implementing social and economic obligations to the population and regulating the activities of economic entities in the northern conditions made it possible to identify existing benefits and preferences, also to designate new directions for developing tools and evaluate their regulatory impact.

III. RESULTS AND DISCUSSION

A. The Arctic benefits and preferences for population

Today one of the most important goals of the domestic policy of Russia is support for the population living in the Arctic.

An analysis of the mechanisms for the legal regulation of existing state benefits and preferences of the population living in the AZRF shows that, historically, the system of benefits and preferences has been developed for the population working and living in belonging or equated to the High North. Regions of the AZRF are part of the indicated territory, and, consequently, benefits and preferences for the northerners are spread to population of the Arctic regions (table 1).

This system for the northerners is spread to population of the Arctic regions (table 1).

<table>
<thead>
<tr>
<th>Name</th>
<th>Content</th>
</tr>
</thead>
<tbody>
<tr>
<td>District coefficient</td>
<td>The right to receive the wage with the district coefficient appears from the first day of work in the High North. Each northern region has its own coefficient – from 1.5 to 2 [5-6]</td>
</tr>
<tr>
<td>Northern allowances</td>
<td>The northern allowance to the wage increases according to the time of work and can reach the maximal size fixed for each climatic group after several years [5-6]</td>
</tr>
<tr>
<td>Additional paid vacation</td>
<td>For each calendar year of work a northerner receives additional paid 24 days to 28 days of vacation established in Russia. Those who work in localities equated to the High North regions additionally receive 16 days to their vacations [5]</td>
</tr>
<tr>
<td>Remuneration of transportation costs</td>
<td>Northerners are entitled to go on vacation at the expense of the employer. This privilege is granted once in two years and spread out to the employee and dependents [5]</td>
</tr>
<tr>
<td>Privileged lending (social mortgage))</td>
<td>Employees of health care, education (under 35 years old) and civil servants have the right for privileged lending. Право на льготное кредитование имеет право гражданин РФ [(5-6)]</td>
</tr>
<tr>
<td>One time payments to highly skilled specialists</td>
<td>Doctors coming to medical institutions of the Arctic when get employed receive one time payment of 500 thousand rubles. After one year of work 500 thousand rubles more. After the contract is over (5 years) a doctor receives an additional payment of 1 mln rubles [7]</td>
</tr>
<tr>
<td>Pension preferences</td>
<td>When having the necessary work period of 15 or 20 years in the High North men can get retired being 60, and women 55 years old. Besides, women having two or more children get pension being 50 years old if they have worked not less than 12 years in the High North or not less than 17 years in equated localities [8-9]</td>
</tr>
<tr>
<td>Housing subsidies</td>
<td>Northerners came to the northern territories before 1992, having worked in such regions over 15 years and having no private dwelling in Russia outside the northern regions as well as disabled persons living in the High North have the right to receive housing subsidies [10]</td>
</tr>
</tbody>
</table>

For example, the level of wages, taking into account the district coefficient and northern allowances is approaching the average Russian level [8], despite the fact that these privileges should reduction cost-increasing factor. At the same time, the motivational measures makes it difficult to attract and retain qualified personnel in the North [9]. At present a serious problem for practically all regions of the Arctic zone is the growing shortage of medical doctors and teachers.

To solve this problem, regional authorities introduce new subprogrammes, including measures to stimulate the inflow of qualified specialists. For example, in the Murmansk region during the implementation of the program “The Arctic Doctor” 16 doctors were attracted, a subsidy of 35 million rubles was allocated for social mortgage [11].

Social protection in relation to workers in the High North and equated areas of the population is also represented by tax norms [12] and on in the form of exemption from the personal
income tax base of the part of the income received by an individual related to dismissal, payment for travel and baggage in the holiday period.

The Tax Code separates family communities of small indigenous peoples of the North, Siberia and the Far East of the Russian Federation into a separate category of beneficiaries. As a support, the state provides for exemption from payment of: personal income tax and insurance payments in terms of income (not including the remuneration of employees) from sales of products received from traditional types of fisheries; fee for use of fauna and aquatic bioresources; land tax in terms of land used for living, business and crafts; the state duty in connection with the state registration of rights to land used for reindeer herding.

However, the main incentives that remain decisive for most people, especially for young people, when choosing a place of permanent residence are highly-paid jobs, career opportunities, availability of a developed infrastructure, and comfortable housing.

The study shows, that the real level of privileges and preferences tends to decrease in the AZRF. Against this background, the developed Arctic legislation declaring increase in the level of socio-economic development of the Arctic zone of the Russian Federation does not contain any tools for its achievements. Thus, the basis of the draft law “On the Arctic zone of the Russian Federation” [13] is the regulation of the processes of forming and ensuring the functioning of the support zones development. Support to life under the severe nature-climatic conditions of the Arctic is governed by regulations developed during the Soviet period. The state program “Social and economic development of the Arctic zone of the Russian Federation” [14], approved by the Government of the Russian Federation in a new edition in August of 2017, also does not cover all directions for creating conditions for comprehensive socio-economic development of Arctic territories, increasing life quality and protection population in the AZRF. Financing is done along three directions: development of support territories, the Northern Sea Route and navigation in the Arctic as well as creation of new equipment and technologies.

B. Benefits and preferences of economic activities in the AZRF

The preferential management of business entities operating in the Arctic zone is carried out within the framework of the all-Russian tax legislation [12]. There is a number of tax instruments aimed at economic support of the northern and Arctic regions.

The Russian legislation provides remunerations for work under the northern conditions. In institutions financed from the state budget such social obligations are provided by the State, while in organizations working in the non-governmental sector remunerations are done from their own funds. In order to reduce the increased burden on private businesses the Tax Code provides decrease in the taxable basis for the tax on profits regarding payments according to district coefficients and northern allowances as well as payment for additional vacation; payments for travels to and from vacations of the employee and members of his (her) family including baggage allowance, payment for moving to another place in case of termination of employment.

Also remunerations connected to dismissal of workers in the part exceeding the fixed norm as well as baggage allowance and travels to and from vacation are exempted from taxation.

Despite the fact that the indicated expenses reduce tax liabilities of the taxpayer, they are included in the costs of production (works, services), reducing the competitive advantages of northern companies and especially small businesses. This situation was further aggravated in 2018 by the increase in the minimum wage to subsistence minimum, which resulted in the following unpopular personnel decisions: transferring employees to part-time work, reducing staff and recruiting employees by civil contracts for seasonal work, and closing small businesses. In addition, high costs inflating contract prices do not allow small businesses in the northern regions on equal terms with companies from other regions to participate in tenders for providing state and municipal services (works) and to win them. As a result, employees of small enterprises lose their jobs, which leads to increase in social tensions in the northern regions. In this situation, it is necessary to take into account equal conditions for functioning of small businesses, taking into account that the legislation does not provide for special “northern” tax benefits for them today.

From the state, tax incentives are being strengthened towards development, modernization and technical re-equipment of production. Economic entities of the Russian Arctic are characterized by a high level of physical and moral depreciation of fixed production assets, which reinforces the significance of such measures for them. [15]. However, from the proposed list of tax instruments (accelerated depreciation, investment premium, investment tax credit) exclusively “northern” privileges that companies in the oil and gas industry can definitely take advantage of, include the multiplying factor to the basic depreciation rate of fixed assets that are “in contact with explosive -, flammable, toxic or other aggressive technological environment and used under the conditions of work in 3-4 shifts”.

To enhance investment activities and attract investments to the region, special all-Russian legislative acts provide for a number of regional policy instruments (table 2), which extend their actions, including that to the Arctic regions.

The objectives of RIP and SIC are production of goods intended for sale to final consumers, as well as support for the industries, in which investment projects are implemented [16]. Initially the right to implement RIP was granted for the Far East and Siberia (out of 15 regions of the Russian Federation 8 belong to the regions of the High North and 3 are regions of the AZRF (Sakha Republic, Krasnoyarsk Territory and Chukotka Autonomous Ocrug ), since 2017 RIP are implemented in all regions of Russia.
Table 2. Tools for attracting investments to the region*

<table>
<thead>
<tr>
<th>Types of benefits</th>
<th>Opportunities for creating for regions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regional investment project (RIP), Special investment contract (SIC)</td>
<td>Before 2017 was stipulated for a limited number of regions (in the Far East and Siberia); After 2017, – all over RF territory</td>
</tr>
<tr>
<td>Zone of territorial development (ZTD)</td>
<td>Within municipalities of a limited number of regions (territories are approved by the RF Government)</td>
</tr>
<tr>
<td>Special economic zone (SEZ)</td>
<td>Created by the decision of the Government of the Russian Federation on land plots in state, municipal or private ownership throughout the territory of the Russian Federation</td>
</tr>
<tr>
<td>Territory of advanced socio-economic development (TASED)</td>
<td>Before 2018 it was intended to establish for a limited number of territories (The Far East Federal District, single industry towns, and single industry towns within closed administrative territorial formations); After 2018 – within municipalities or several municipalities all over RF</td>
</tr>
</tbody>
</table>

The overall goal of the formation of SEZ, ZTR, and TASED is socio-economic development of territories, creation and production of products. The territories in which ZTR can be established are approved by the Government of the Russian Federation. Since 2016, the list of such regions of the Russian Federation includes the Murmansk region - the representative of the Arctic zone, as well as the Republic of Karelia and the Magadan region - representatives of the regions of the High North.

In contrast to the ZTR, SEZ can be created throughout the territory of the Russian Federation by decision of the Government of the Russian Federation on the basis of established criteria. Creation of TASED is also in the competence of the Government of the Russian Federation. Since 2018, they can be created in the Northern and Arctic regions.

To the “northern” tax privileges and preferences in their territorial execution the existing approaches to taxation in the oil and gas industry can be referred to. The zero rate on mineral tax is valid for the extraction of natural gas and gas condensate in the subsoil areas located on the Gydan and Yamal Peninsulas in the Yamal-Nenets Autonomous District. The reduced rate on mineral tax is retained when oil is produced in the Krasnoyarsk Territory, the Sakha Republic, the Nenets Autonomous District and other territories.

Without a territorial reference, a tax exemption for mineral tax is introduced for hard-to-recover oil fields: a reduction factor is established depending on the degree of complexity of oil production and the degree of depletion of deposit. According to experts [17], this exemption may be applicable in the regions of the Siberian Federal District and the Khanty-Mansi Autonomous District due to the peculiarities of the deposits located there.

Tax privileges can be used by enterprises developing offshore (already exploited and new ones) deposits of hydrocarbons on the continental shelf of the Russian Federation, including those in its northern part. Depending on the category of the development of deposits, lower rates of mineral extraction tax and exemption from the payment of export customs duty are set.

Thus, the analysis of the modern mechanisms of the state regulation demonstrates the quite restricted tax tools, applied by the state for creating favorable conditions for functioning economic entities in regions of the North and the Arctic. At the same time, the active economic development of the North and the Arctic, harsh environmental conditions and other limits require separation of the territories as a special object of the State regulation with development of the special tax regulation norms.

Among the innovations of the developed Arctic legislation an attractive condition for potential investors (companies) is the obligation for regional authorities to form for entrepreneurs infrastructure. However on the other side separation of anchor and non-anchor [13] projects and establishment of the strict requirement of their interconnection (the application for inclusion of non-anchor projects should be attached by non-anchor anchors consent to their implementation) significantly restricts possibilities of creating diversified economic structure and prolongs the further mono-households development in most of the Arctic territories (according to the Program of socio-economic development of the Russian zone of the Russian Federation 2/3 of the project are connected to development of the mineral-resource base).

IV. CONCLUSION

The privileges and preferences fixed in legislative acts and taking into account the northern (Arctic) specifics are provided exclusively for the population. At the same time, their action far incompletely compensates for the discomfort of living in harsh climatic conditions. This is evidenced by the negative migration balance of the majority of the Arctic territories and the growing problems of providing socio-economic development with labor resources. There is also a serious problem with regard to the structural mismatch of demand and supply in the labor market.
In terms of stimulating economic activities, the Arctic (northern) specifics are taken into account partially. The competences of regional authorities in matters of stimulating economic activity are significantly limited. Benefits and preferences should be presented systematically, have a more sustainable nature (act on a regular legislative basis) and fully contribute to creating conditions for the development of real sectors of the economy, improving the quality of life and protection of the population of the Russian Arctic and preserving the original culture of the indigenous peoples.

The most efficient tool of the state support still is presented by the state programs focused on solving problems of the national scale and developing commercially unprofitable spheres (transport, energy infrastructure, social and environmental components). In this regard, the process of coordinating the activities of various levels of government and coordinating their actions in the implementation of large-scale national-level projects and ensuring the interconnection of strategic planning documents for socio-economic development of entities entering the Arctic Zone of the Russian Federation, with documents on development of the Russian Arctic. At the same time, state programs as an instrument of regulation have a limited duration and should be aimed at eliminating “bottlenecks” in certain spheres.

References