

PAPER • OPEN ACCESS

Governmental Regulation of Territorial Development: the Arctic Privileges and Preferences

To cite this article: G Kobylinskaya *et al* 2019 *IOP Conf. Ser.: Earth Environ. Sci.* **302** 012126

View the [article online](#) for updates and enhancements.

Governmental Regulation of Territorial Development: the Arctic Privileges and Preferences

G Kobylinskaya, T Barasheva, N Dyadik and A Chapargina

Luzin Institute for Economic Studies, FRC KSC RAS, Apatity, Russia

kobgal@iep.kolasc.net.ru, barasheva@iep.kolasc.net.ru, dyadik1@iep.kolasc.net.ru
nastya@iep.kolasc.net.ru

Abstract. The study assesses the existing and developed regulatory acts governing the socio-economic development of the Russian Arctic. Benefits and preferences are analyzed with the identification of support objects: population and economic activities. It is concluded that the compensatory function of the existing “northern” system of benefits and preferences to the population is insufficient, which is confirmed by the growing demographic problems and the shortage of labour resources. In relation to economic activities, it is found that the “Arctic” factor is absent. The governmental support to economic development is focused on identification of special areas (single-industry towns, new development regions, etc.) or certain types of economic activities. The main tool of the governmental support is the state programs, the major lack of which is strict financial dependency of their implementation on budgets of various levels, especially the federal one. Possibilities of the regional authorities are limited. Therefore the system of the “Arctic privileges” is oriented to the precision of the problems’ solutions and is of time limited, unstable nature. For achieving balanced development of the Russian Arctic regions when developing the system of privileges and preferences it is recommended to take into consideration specificities of the regions.

1. Statement of the problem

The increased interest in the Arctic, allocation of arctic territories in Russia as an independent object of the state regulation [1] and the strengthening of its value as a strategic resource base of the Russian Federation, ensuring the solution of the tasks of socio-economic development of the country, necessitated the formation of special legislation aimed at stirring up activities in the Russian Arctic on a qualitatively new basis with a focus: on integrated environmental management, on energy and resource saving technologies [2], minimizing environmental risks [3] and improving quality of life [4]. At the same time, in the Russian Federation 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 period. Regions of the Russian Arctic constitute a certain part of the northern territories of Russia. In this regard, the effectiveness and efficiency of newly developed benefits should be assessed in the light of historical experience. 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 study.

2. The Arctic privileges and preferences for population



Currently support for the population living in the Arctic is one of the most important goals of the domestic policy of Russia. Achievement of the development goals of the Arctic zone of the Russian Federation, consisting of ensuring sustainable development of the Arctic, creating the modern infrastructure, developing resources, developing the industrial basis, increasing life quality of peoples of the North, preserving their original culture, their traditions, is possible when not only preserving, but also increasing the working-age population [5].

Before turning to the analysis of privileges and preferences for the Arctic population, it is necessary to clarify the philological meanings of the following terms: privileges, preferences, incentives. Privileges are additional rights of an individual compared to other population categories. Preferences are advantages granted to certain categories of citizens having equal rights. Incentives are a factor (motive) that motivates people to take actions.

Based on these clarifications analysis is carried out in accordance with the legal norms and living conditions of the population living in the Russian Arctic.

Historically, the system of privileges and preferences has been developed for population of the regions belonging or equated to the High North. Regions of the Arctic are part of the indicated territory, and, consequently, privileges and preferences for the northerners are spread to population of the AZRF (table 1).

Table 1. Privileges and preferences for population of the northern territories

Name	Content	Regulatory document
<i>Economic privileges and preferences</i>		
1. District coefficient	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.	Article 316 LC of RF ^{1,2}
2. Northern allowances	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.	Article 317 LC of RF ^{1,2}
3. Privileged lending (social mortgage))	Employees of health care, education (under 35 years old) and civil servants have the right for privileged lending Право на льготное кредитование имеют работники	Mortgage programs ³
<i>Social privileges and preferences</i>		
1. Pension preferences	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.	The Law ⁴ The article 28, 28.1 of the Law ⁵
2. Additional paid vacation	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.	Article 321 of the Labor Code of RF ¹
3. Housing subsidies	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.	The Law ⁶
4. Remuneration of transportation costs	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.	Article 325 of the Labor Code of RF ¹
5. One time payments to highly skilled specialists	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.	The programs ^{7, 8}

Source: compiled by the authors

¹The Labor Code of 30.12.2001 No. 197-FZ (Edited 05.02.2018)

²RF law on 19.02.1993 No. 4520-1 (Edited 07.03.2018) “On the Governmental Guarantees and Remunerations for people working in the High North and the equated regions”

³Regulation of the Government of the Murmansk region of 30.09.13 No.571-PP “On the State Program of the Murmansk region on “Guaranteeing Comfort Environment for population of the region”

⁴Federal Law of 28.12.2013 No. 400-FZ (edition of 27.12.2018) “About insurance pensions”

⁵Federal Law of 07.12.2001 No. 173-FZ (edition of 04.06.2014, with changes of 19.11.2015) “On labor pensions in the Russian Federation”

⁶Federal Law on 25.10.2002 No. 125-FZ (edition of 07.06.2017) “On housing subsidies to citizens leaving the High North regions and equatorial territories”

⁷Decree of the Federation Council of RF of 16.05.2018 No.156-FC “On the State support to socio-economic development of the Murmansk region”

⁸The State program “Development of Health Care of the Murmansk region for 2014-2020” URL: <https://minzdrav.gov-murman.ru/documents/programs/gosproject/gosprog.php>

Table 1 makes it possible to conclude that the system of benefits and preferences for the population has two objectives: compensatory and stimulating. The existing benefits and preferences do not fully fulfill their compensatory function for solving the demographic problems and providing labor resources for socio-economic development.

For example, the level of wages, taking into account the district coefficient and northern allowances, is approaching the average Russian level [6], despite the fact that these privileges should smooth out the cost rising factor. At the same time, the weakness of the motivational measures makes it difficult to attract and retain qualified personnel in the North [7]. 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, in the framework of the “Arctic Doctor” program, 16 doctors were attracted, and a subsidy in the amount of 35 million rubles was allocated for social mortgage [8].

Social protection in relation to workers in the High North and equatorial areas of the population is also represented by tax norms (The Tax Code of the Russian Federation (part 1) of 19.01.2018 and “The Tax Code of the Russian Federation” (part 2) 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.

Unfortunately, the real level of privileges and preferences tends to decrease. Against this background, the developed Russian Arctic legislation declaring increase in the level of social and economic development of the Arctic does not contain any tools for its achievements.

Thus, the basis of the draft law “On the Arctic zone of the Russian Federation” (URL: <https://regulation.gov.ru/projects?type=Grid>) 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” (The Governmental Regulation of 21.04.2014 No. 366 (edition of 31.08.2017)), 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.

3. Privileges and preferences of economic activities in the Arctic Zone of the Russian Federation

The preferential management of business entities operating in the arctic territories of Russia is carried out within the framework of the all-Russian legislation. The greatest variety of instruments regulating economic activities is contained in the Tax Code.

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 taking into account the following expenditures: payment for additional vacation for northerners; 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 the increased level of costs caused by the northern increased costs and to compensate for the costs, ensuring equal conditions for functioning of small businesses, taking into account that the legislation does not provide for special “northern” tax benefits for them.

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. 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 overall goal of the formation of SEZ, ZTR, and TASED is socio-economic development of territories, creation and production of products in these territories through the use of a special regime for entrepreneurial activities [9].

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.

Table 2. Tools for attracting investments to the region*

Tools of the regional policy	Types of privileges	Opportunities for creating for regions
Regional investment project (RIP), special investment contract (SIC)	Reduced rate is applied to: - tax on profits in federal and regional parts of the rate; - Mineral tax (on the basis of using the coefficient of the mining territory); - regional and local taxes	Before 2017 was stipulated for a limited number of regions (in the Far East and Siberia); After 2017. – all over RF territory
Zone of territorial development (ZTD)	Reduced rate is applied to: - tax on profits in regional part of the rate; - regional and local taxes; Term of granting investment tax loan is extended to 10 years	Within municipalities of a limited number of regions (territories are approved by the RF Government))
Special economic zone (SEZ)	Reduced rate is applied to: - tax on profits in regional part of the rate (not less than 13,5%); - customs duties; - regional and local taxes	On land plots of the state, municipal or private property all over RF on the basis of RF Government solutions
Including technical-promotional and tourist-recreational ones	Reduced rate is applied to: - tax for profits in the federal part of the rate (0%) - tax on profits on the regional part of the rate (not less than 13,5%); The restriction on transfer of losses does not work	
Territory of advanced socio-economic development (TASED)	Reduced rate is applied to: - the federal part of the rate (0%); - regional part of the rate (not more than 5% for the first 5 years and not less than 10% during the following 5 years; отмена от уплаты налога на землю и налога на имущество; действует пониженная ставка по страховым взносам	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

*Compiled by the authors

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 Gydansky 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 (type of reservoir, permeability and thickness of the reservoir) and the degree of depletion of deposits. According to experts [10], 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 tax regulation demonstrates quite restricted tax tools, applied by the state for creating favorable conditions for functioning of economic entities in regions of the North and the Arctic, and presented non-systematically. At the same time, by the opinion of researchers-specialists in northern studies [11] active economic development of these territories requires separation of them as a particular object of the state regulation with development of special tax regulatory norms, allowing to remunerate the cost raising factors in the North and the Arctic.

Among the innovations of the developed Arctic legislation an attractive condition for potential investors (companies) is the obligation for regional authorities to form the necessary infrastructure for entrepreneurs. However, on the other hand, separation of anchor (the main) and non-anchor projects and establishment of the strict requirement of their interconnection (the application for inclusion of non-anchor projects to the support zone should contain the anchor investors' consent to their implementation) significantly restricts possibilities of creating diversified economic structure and prolongs further development of mono-entities in most of the Arctic territories (according to the Program 2/3 of the projects are connected to development of the mineral-resource base).

4. Conclusions and recommendations

In conclusion, it should be noted that 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 not taken into account. Privileges and preferences are oriented either to support areas with any characteristic features (single-industry towns, new development regions, etc.) or to support certain types of economic activity. The state support in this case is reflected, above all, in the establishment of tax incentives and special tax regimes. At the same time, the competences of regional authorities in matters of stimulating economic activity are sufficiently 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 (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 Russian Arctic, with documents on development of the Russian Arctic.

At the same time, state programs should be aimed at eliminating bottlenecks in any area. All activities should be systemic, more sustainable (act on the basis of a permanent legal framework) and provide comprehensive assistance in creating conditions for the development of the economic sector, improving the quality of life and protecting population of the Arctic and preserving the traditional culture of small peoples of the North, Siberia, and the Far East, living in the Russian Arctic.

References

- [1] Krivorotov A K 2018 Problems of the legal basis of the Russian Arctic zone development *The North and the Market: forming the economic order* **58** p 4-15
- [2] Didenko N I and Romashkina E S 2018 Assessment of the Influence of the Extraction of Energy Resources on the Environment IOP Conference Series: Earth and Environmental Science **180**(1) 012014
- [3] Gutman S and Teslya A 2018 Environmental safety as an element of single-industry towns' sustainable development in the Arctic region IOP Conference Series: Earth and Environmental

Science **180**(1) 012014

- [4] Didenko N *et al* 2018 Models of the impact the global crisis has on the world economy *International Multidisciplinary Scientific GeoConference Surveying Geology and Mining Ecology Management* **18** p 585-592
- [5] Agarkov S A *et al* Major trends in efficiency upgrading of the economic activity in the Arctic Zone of Russian Federation *Journal of mining institute* **230** p 209-216
- [6] Badylevich R V *et al* 2018 *Financial regulation of development of the High North Regions: the Institutional Aspect* Apatity
- [7] Fauzer V V *et al* 2016 *Population of the northern regions; from quantitative to quantitative indicators* Syktyvkar
- [8] Petrov A 2018 Program “The Arctic Doctor” has really startd working *Мурманский вестник* Available from: <http://www.mvestnik.ru/newslett/programma-arkticheskij-doktor-realno-zarabotala/> [Accessed December 10th 2018]
- [9] Bayanova L I 2016 On the peculiarities of taxation when implementing RIP *Tax for profits: registration of incomes and expenses* **12** p 41-50
- [10] Kondukov P 2014 New conditions for the Russian oil and gas industry development *EZh Yurist* **38** p 10
- [11] Ivanter V V *et al* 2014 The Arctic super-project of Russia *Problem analysis and state management design. Theory. Practice. Methodology* **7** p 6-24