The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Multiple Incentives Mulled for Far East Investors

By Anatoly Medetsky

November 25, 2012

The Chinese-owned Sya Yan mall in Chita, at the intersection of Ulitsa Bogomyakogo and Ulitsa Babushkina. **Howard Amos**

A recent flurry of proposals related to developing the Far East shows the government's resolve to make policy adjustments that will attract investment to the hinterland.

In the wake of enormous construction efforts in the east coast city of Vladivostok that enabled it to host the Asia-Pacific Economic Cooperation forum in September, the government's proposals are focused on slashing taxes.

They come ahead of a session of an abridged State Council, an advisory board that includes governors, which President Vladimir Putin is slated to chair later this week.

"I have a feeling that there will be an easing of taxes," said Natalya Zubarevich, director of the regional program at the Independent Institute of Social Policy, a think tank. "There's a high probability of that."

The presidium of the State Council will aim to plot the course for the further development of the Far East, where lack of roads, power lines and people prevent investment, said Pavel Maslovsky, a Federation Council member who formerly was a mining director there.

In one of the most recent proposals, Energy Minister Alexander Novak said earlier this month that the ministry wants new oil and gas projects to be exempt from the tax on resource extraction for 25 years. The Finance Ministry supports the idea, he said.

The government is also drafting a bill to grant rebates on the profit, land and property taxes to companies that start projects in the Far East, Vedomosti reported last week.

Zubarevich believes that these three tax reductions are likely to become a reality. Regional, not federal, coffers would stand to lose the most from the measure because the larger portion of the profit tax is payable locally, she noted.

"It would be like getting the regions to pull the chestnuts out of the fire," she said.

Land and property taxes also go to local budgets, she said. Land in the Far East costs little and wouldn't generate much tax revenue anyway, she said.

On the flip side, the policy to suspend or reduce taxes for the area could cause a backlash from other economically depressed regions, such as the North Caucasus.

"Giving special status to a section of the country ... raises a question of the country's unity," said political analyst Alexander Kynev.

Russia wouldn't be reinventing the wheel if the government created special tax conditions for the Far East, Maslovsky said. It would simply follow the experience of Canada, Australia and the United States, he added.

Zubarevich said several tools to draw investment to the Far East have remained outside the policy debate. One approach would be to reopen the way for production-sharing agreements, she said.

Under these agreements, the government allows a company to own and sell all natural resources produced from a field until the investor recovers the money it spent on the project. The government and the company then split the resources in a preagreed proportion.

Zubarevich also pointed to concession contracts as another way of attracting capital to remote areas. Under this type of contract, a company would pay the state either a fixed sum or a percentage of revenue from a business.

Maslovsky said a State Council working group seeks to allow more geological exploration and development in the Far East by making sure companies can get government licenses more easily as well as buy and sell them from each other.

It's also imperative to build new railroads and reduce the rates they charge for cargo transportation, he said. In addition, the group, which includes regional governors, entrepreneurs and academics, is pushing for lower electricity rates, Maslovsky added.

To encourage domestic migration to the area, the government could offer income tax rebates and subsidized rates on mortgages and car loans, he said.

The Far East Development Ministry recently unveiled a list of 92 priority projects for the Far East, which are worth an estimated 5 trillion rubles ($156 billion). It asked the country's development bank, VEB, to consider financing them.

But it's doubtful the government will allot so much money, given the global economic slowdown and increasing domestic spending on social needs, Zubarevich said.

Related articles:

- Far East Development Hinges on Branding and Diversity
- Government Finalizing List of Far East Development Proposals
- State Mulls Far East Projects