

ROSCONGRESS INSIDER

EEF 2019
SPECIAL ISSUE





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International Cooperation

“This year we are hosting over 8,500 participants from 65 countries. Since the first Forum, representation has increased more than twofold. We believe this is a convincing indication of the growing interest in the Russian Far East and the cooperation opportunities offered by this truly colossal region”

Vladimir Putin,
President of the Russian Federation



OUTCOMES OF EEF 2019

In 2019, the Eastern Economic Forum was held under the motto ‘The Far East – Development Horizons’.

Five years of consistent efforts on the part of the government to stimulate the region’s economy have achieved notable results that will help to kickstart a new stage in its development.

“This stage will be about translating the region’s economic achievements over the past years into a social breakthrough in order to offer people a better quality of life. What this means is that we have to promote change in healthcare, education, urban and rural infrastructure that will be felt by millions of people. Importantly, people must feel these changes as soon as possible rather than in some kind of a distant future or in many years,” stated President of the Russian Federation Vladimir Putin at the Forum’s plenary session.

270 agreements
worth
RUB 3.4 trillion
were signed
at EEF 2019

BROADENING HORIZONS OF THE ECONOMY

Business support measures created in the Far East are popular among investors, according to participants of the Eastern Economic Forum

Federal and regional government agencies and development institutes are actively involved in the investment process.

“Thus, as many as 20 territories of priority social and economic development have been established around the region, with special conditions for launching production, special tax regimes and state support measures. As many as 369 resident companies have registered there, signed contracts worth nearly 2.5 trillion roubles and announced the creation of more than 60,000 new jobs. These businesses have already invested 344.8 billion roubles in their projects and created nearly 20,000 jobs. <...> The Vladivostok free port regime has been extended to 22 municipalities. <...> As many as 1,404 resident companies chose to take advantage of the benefits offered by the free port regime and signed contracts worth almost 700 billion roubles. They are going to create about 68,000 jobs in the area. As of today, 95.2 billion have been invested and over 10,000 jobs created. This is a fait accompli,” Vladimir Putin, President of the Russian Federation.

“Recent achievements and support measures that have been adopted include the co-financing of infrastructure construction as part of investment projects approved by the government, the subsidizing of interest rates for credit, and the provision of government



“As a result of our work over the last five years, over 240 operations are now up and running and over RUB 600 billion of private investment has been attracted. Our multiplier exceeds 10, which means we attract 10 roubles of private investment per rouble allocated from the budget for infrastructure. We have created 39,000 jobs. In recent years, the region’s growth rate has been almost twice that of the national average. In 2014–2018, 33% of the country’s direct foreign investment was in the Far East. We started with 2%, and now we are at 33%. This represents sixteenfold growth”

Yury Trutnev,
Deputy Prime Minister of the Russian Federation and Presidential Plenipotentiary Envoy to the Far Eastern Federal District

guarantees,” Dmitry Kobylkin, Minister of Natural Resources and Environment of the Russian Federation.

“We can already talk about large infrastructure projects involving both VEB and the Far East Development Fund. <...> One of the largest contracts in the shipbuilding sector is the project with the Zvezda shipyard: we are financing 15 LNG carriers, with a total value exceeding RUB 300 billion. <...> As of today, seven of the plant’s major projects have been approved [with project financing, – Ed.] including the Udokan copper mine and Nakhodka Fertilizer Plant, among others,” Nikolay Tsekhomskiy, First Deputy Chairman, Member of the Management Board, State Development Corporation VEB.RF.

“Speaking about the Far East: in the year since the last EEF we have doubled our project portfolio. At present we have 12 projects approved, ten financed and five under development,” Roman Petrutsa, Director, Industrial Development Fund.

“Financial support for almost 5,000 contracts in the Far East has reached RUB 97.7 billion. This includes RUB 37.7 billion in guarantees on the part of the corporation. From now until 2024, we need to grow by 25% annually. <...> This will result in a figure of RUB 420 billion by 2024 with an interest rate set at 2–3% below the market level,” Alexander Braverman, CEO, Chairman of the Management Board, Russian Small and Medium Business Corporation.

“As of today, roughly 1,700 of those who were given a hectare have received support, primarily in agriculture. About 30% of recipients of grants from regional authorities and the Ministry of Agriculture are owners of Far Eastern hectares,”



Sergei Khovrat, General Director, Agency for the Development of Human Capital in the Far Eastern Federal District.

The policy has helped turn the Far East into one of Russia’s fastest growing regions.

“As a result, industrial production growth in the Far East over the past five years has amounted to almost 23 percent – almost three times greater than across Russia,” Vladimir Putin, President of the Russian Federation.

“Rosstat’s figures show that labour productivity has increased by 1.8% compared to last year. The figure for the Russian Far East is 2.4%. <...> The Russian Far East is one of the most interesting regions in the eyes of foreign investors. If we take

20 ASEZs
operating in the Far East

369
residents

registered in ASEZs signed agreements worth almost

RUB 2.5
trillion

25–30%

of total foreign investment in Russia goes to the Far East

9 FEED regions

out of 11 have shown improvements in most of their National Rating of the Investment Climate indicators

15 companies

became residents of Russky Technopark in the year between EEF 2018 and EEF 2019



“The 5th Eastern Economic Forum was record-breaking in terms of participation numbers and the total value of contracts signed during the event. These accomplishments prove that the Forum has become a significant platform for the promotion of international cooperation and the discussion of current global and regional economic issues. The Forum brought together leading representatives of major businesses, and helps to foster partnership across the Asia-Pacific region. The EEF has proven to be a high-quality event. Participants are regularly offered new tracks and discussion formats, contributing to its overall effectiveness”

Anton Kobyakov, Advisor to the President of the Russian Federation, Executive Secretary of the Eastern Economic Forum Organizing Committee

a look at the statistics, we can see that in 2011, the Far East's share of all foreign investments in Russia was somewhere around 4%. Now, the Russian Far East accounts for 25–30% of foreign investments. Investors are coming here,” Alexander Ivlev, CIS Managing Partner, Deputy Regional Accounts Leader for Central, Eastern and Southeastern Europe & Central Asia, EY.

“The Republic of Sakha (Yakutia) and Kamchatka Region have already made it into the top 30 regions for entrepreneurship. <...> Nine out of 11 regions have shown improved figures for most of the 45 indicators in the national rating,” Svetlana Chupsheva, General Director, Agency for Strategic Initiatives.

Tourism has become one of the Far East's leading growth points.

President of the Russian Federation Vladimir Putin emphasized the fact that turning the region into a global centre for tourism is one of the country's strategic priorities.

“Tourism in the Far East is growing rapidly. <...> Tourism in the Far East has grown by 22.6% over the past year,” Olga Golodets, Deputy Prime Minister of the Russian Federation.



“Why does the Russian Far East have higher [labour productivity, – Ed.] indicators? The investment component plays an active role here. The share of investment in the Far East's GDP is higher than the Russian national average. We're seeing major projects come in because of the advanced special economic zones. A large number of investors go and implement projects with high levels of productivity. This affects overall economic growth”

Maxim Oreshkin, Minister of Economic Development of the Russian Federation



“Largely thanks to a modern regulatory framework, growth rates in industrial production in the microregion are now three times higher than the national average, and the Far East accounts for a third of all the foreign direct investment to have come into Russia in recent years. The region today is open to investors in a very literal sense. Citizens of 19 countries can apply for free visas under a simplified scheme”

Alexander Kozlov, Minister for the Development of the Russian Far East and Arctic



OBJECTIVES

International cooperation in science and technology should give the Far Eastern regional economy a further boost. Certain steps towards this objective have already been taken. The Far Eastern Federal University is set to become a centre for new competencies

“During the previous academic year, the university welcomed 20,000 students, including 3,500 foreigners from 74 countries. More than 200 foreign professors teach here. It is planned to further develop the local research infrastructure, including the construction of a megascience facility. And we can confidently talk about the university’s future as one of the supporting centres of the common APR education space,” Vladimir Putin, President of the Russian Federation.

One of the problems standing in the way of the region’s development is a lack of qualified human resources.

“The most pressing problem here [in the Far East] is in qualified engineering personnel at construction companies,” Anton Glushkov, President, National Association of Builders (NOSTROY).

“Turnover among small and medium-sized enterprises in the Far East grew by 5.2%. On the other hand, the number of employees at SMEs decreased by 3.7%. That is equivalent to 40,000 people. <...> The personnel issue is becoming the most pressing one,” Alexander Kalinin, President, All-Russian Non-Governmental Organization of Small and Medium-Sized Businesses OPORA RUSSIA.

The key problem is underdeveloped infrastructure. This was addressed

by representatives of practically all industries.

“Those who travel around the Far East know that getting from one city to another is practically impossible. This is a huge obstacle for business. We have people, people are coming over here, we have investors and powerful economic partners – they are all close at hand. We have everything that is required for development, but we do not have enough infrastructure,” Pyotr Zaselsky, Deputy Minister of Economic Development of the Russian Federation.

“Basic infrastructure links are missing. There are problems with the quality of our customs infrastructure or border checkpoints; the logistical



situation is too complicated. All these things prevent good producers from joining the supply chain. They have the produce, competencies, R&D, the licenses, and they know how to make and sell things. Unfortunately, infrastructural obstacles make market entry impossible,” Alexey Kozhevnikov, Senior Vice President, Russian Export Center.

Mining industry development is hindered, as there is no incentive for investing in prospecting and exploration. Representatives of the fishing industry are worried about the tough conditions for obtaining tax breaks in shipbuilding. Investments in the forestry industry call are coming up against a lack of information on the status of resources and a lack of transparency in pricing.

“What matters most is that we increase the accessibility of the country’s unique national parks, nature reserves, geological features, and historical sites, so that tourism becomes a more substantial offer”

Olga Golodets,
Deputy Prime Minister
of the Russian Federation



Another concern for investors is the instability of legislation.

“In August 2018 all residents and investors were hit with new rules, which introduce changes to conditions for providing benefits. Though the rule initially stipulated that the status granted the right to make use of benefits and reduced tariffs on insurance premiums, the revised version includes a requirement to observe several conditions, including the creation

of new jobs. <...> The situation that has arisen is not ideal for residents,” Olga Surikova, Head of Far East Practice, KPMG in Russia and the CIS.

“We know that there is a pending amendment to the Land Code regarding benefits in relation to the provision of FPV land without tender procedures. <...> If it is passed, if this benefit is lost, then we will see an erosion in the confidence of business in the economic regime,” Anton Skorik, Chairman, Vladivostok Free

Port Residents Support Association; General Director, Renaissance.

“Several regions in the Far East are switching to tax payments based on cadastral valuation. In Primorye, cadastral appraisals grew by 2–10 times. <...> Real estate owners are facing a serious threat, their survival is at risk,” Alexander Kalinin, President, All-Russian Non-Governmental Organization of Small and Medium-Sized Businesses OPORA RUSSIA.



A lack of coordination in regulatory practices is a further barrier to investment.

“Expedited VAT refunds. It would appear that the issue has been resolved from a regulatory perspective, but due to a lack of earmarked funding from the FEDC (Far East Development Corporation), guarantees cannot be given to the tax authorities and, as a result, it is impossible to implement expedited VAT refunds at present,” Denis Gros, Managing Partner, DA! Development Group; Executive Director, Avangard Industrial Park.

“At present, bodies of water are classed as federal property. At the same time, when it comes to land one has to deal with regional and local authorities. Unfortunately, there is currently no coordination between these issues. Business can therefore access the sea, but are unable to access the land. This is one of those issues we need to focus on in order to aid advanced processing,” Vasily Grebennikov, Director, Effective Energy; Chief Executive Officer, De-Freeze Zapad.

“Permanent registration in rural areas as a prerequisite for the Young Farmer programme is a hurdle that limits potential participation among young farmers who have acquired a Far Eastern Hectare,” Mikhail

Utrobin, recipient of a Far Eastern Hectare.

The issue of administrative pressure is still a pressing concern.

“In the Far Eastern regions, <...> 53% of entrepreneurs report heavy administrative pressure from regional and municipal administrations, less than 20% report on federal authorities, <...> 42% of entrepreneurs complain about courts of general jurisdiction, <...> and 55% mention power supply organizations,” Svetlana Chupsheva, General Director, Agency for Strategic Initiatives.

“The Republic of Buryatia is the most overregulated region in terms of environmental legislation. <...> The number of inspections has grown significantly. About 30% of small business in the tourism sector shut down this year alone. <...> A site may cost RUB 100,000 and be ready in a month. An audit will cost RUB 300,000 and takes two months,” Alexey Tsydenov, Head of the Republic of Buryatia.

Business development is constrained by the high cost of logistics and transport services.

“Tariff policy is a real challenge for agricultural export throughout the Far East. Today’s 10-01 tariffs

[Russian Railways’ tariffs for cargo shipment and support services, – Ed.] make cargo shipments and transit through the Far East uncompetitive,” Eduard Zernin, Deputy General Director, United Grain Company; Executive Director, Russian Union of Grain Exporters.

“What problems do we face in Khabarovsk? It is logistics above all – logistical services are very expensive. <...> Prices in the Far East are roughly three times higher than elsewhere,” Sergey Kolesnikov, President, TechnoNICOL Corporation.

RUB
180 billion

is what the FEFD requires for debt financing in 2019-2021 (based on ACRA estimates)

SOLUTIONS

It is necessary to fine-tune the mechanisms for attracting investors and supporting business, and to improve the business climate at the federal and regional level. Investors are calling for stability first and foremost.

"I would like to note two other things. <...> The first is the Simplified Tax System online <...> which helps those entities that use cash registers interact with tax authorities without declarations or ledgers of income and expenditure. <...> The second

is the adopted law that cancelled declarations for transport and land taxes," Konstantin Chekmyshev, Deputy Head, Federal Tax Service of the Russian Federation.

"Investors should be guaranteed the benefits and the conditions for receiving them that they were initially offered and on the basis of which they signed up to the ASEZs and planned their business models. <...> We would suggest submitting all draft amendments to existing rules in the Tax Code that affect

residents for public discussion," Anna Tsivileva, Chairman of the Board of Directors, Kolmar Group.

"The last year has seen many discussions of the law on protecting investment and capital spending. It is pretty simple: the entire investment-related regulatory environment – based on investment volumes – is set for up to 20 years. Taxes, export and import duties, and sometimes tariffs must stay unchanged," Grigory Berezkin, Chairman of the Board of Directors, ESN Group.

Measures taken at the regional and federal levels aim to alleviate administrative pressure on business.

"Vladimir Putin has instructed us to create a so-called 'Mirror Registry' [for small business audits, – Ed.] on the Business Navigator website. <...> It will resolve three issues. First of all, we get feedback, cross-checking things against each other – everything from executive orders or any other document that initiates an audit, to audit results and the relevant challenges in court. <...> We find the delta, and there is an immediate response from the prosecutor. The next task is to analyse and summarize all the violations detected through audits. <...> Then preventive measures for those types of violations need to be gradually prescribed," Alexander Braverman, CEO, Chairman of the Management Board, Russian Small and Medium Business Corporation.

"An important area <...> is the support infrastructure and the one stop shop service available to entrepreneurs. <...> Today, the Far East is welcoming My Business



centres," Vadim Zhivulin, Deputy Minister of Economic Development of the Russian Federation.

More active and comprehensive dialogue between government and business will help to improve the investment climate.

"There is a wonderful Far East Development Association. I would fully endorse an ASEZ Resident Association. They are a very good idea, because they allow you to achieve consensus and help federal agencies in their work," Pavel Volkov, State Secretary, Deputy Minister for the Development of the Russian Far East and Arctic.

"I believe that the time has come for ASEZ residents to come together. We have taken the first steps in this direction. A constituent meeting of ASEZ residents was held in early August. The documents are now with the Ministry of Justice. Nobody except us is going to make our proposals a reality," Denis Gros, Managing Partner, DA! Development Group; Executive Director, Avangard Industrial Park.

"Success lies in communication between business and regulatory bodies. This year we have created a very effective 'Boiling Point'," Vasily Orlov, Governor of Amur Region.

Participants suggested optimizing the regulatory environment for specific industries. Thus, mining industry representatives root for the promotion of prospecting and exploration as well as state support for investment in infrastructure.

"There is a need for a twofold increase in the expenses taken on by companies in prospecting and exploration. <...> One area that could be of interest to the regions in terms of developing the sector is reallocating the mineral extraction tax (MET), and increasing the share of the MET that benefits the regions. Today, the interest of the regions is merely hypothetical," Roman

Trotsenko, Founder, Chairman of the Board of Directors, AEON Corporation.

Yury Trutnev, Deputy Prime Minister of the Russian Federation and Presidential Plenipotentiary Envoy to the Far Eastern Federal District, announced plans to draft amendments to the legislation that would improve the mechanism for obtaining exploration and production licenses.

"We need to review the mechanisms the government can offer us in order to make projects in the Arctic more financially attractive. One of those elements would be concessionary financing for the construction of field facilities and the development of infrastructure," Andrey Patrushev, Deputy Chief Executive Officer, Shelf Projects Development, Gazprom Neft.

The forestry industry can be improved through updates to information about the status of resources and exchange trade.

"We need to think about using the exchange trade mechanism for a correct estimate of tax obligations for those who sell their product at low prices, and for those who sell stolen produce at lower prices," Mikhail Klinov, Deputy Head, Federal Agency for Forestry.

Introducing digital technologies in governance and business is a crucial development tool.

"Here, the main road we are taking involves ensuring the highest-quality and tightest IT integration possible between the Federal Customs Service and the Federal Tax Service. <...> This will enable automatic VAT refunds," Nikolay Podguzov, Director General, Russian Post.

"With digitalization, we are planning to make the most effective decisions possible online, helping to

optimize internal workflows. Our goal is to enable cargo shippers and other stakeholders to see what is happening with Russian Railways online, including where the cargo will be, how much shipments will cost, and how workflows can be optimized," Oleg Belozarov, Chief Executive Officer, Chairman of the Executive Board, Russian Railways.

"The Corporation also believes that customs clearance areas should be optimized, with improvements made to the process including the removal of fences and the use of cutting-edge digital accounting methods for tracking the flow of goods," Aslan Kanukoev, Acting General Director, Far East Development Corporation.

"The digital future of transport corridors is a joint digital effort of the customs service, our foreign counterparts, our carriers, and the business community in general," Vladimir Bulavin, Head, Federal Customs Service of the Russian Federation.

"We have very specific plans to transform the industry [tourism, - Ed.] digitally based on available resources. <...> Until we create high-quality and easily accessible digital content about the country, it is going to be very difficult to advance," Zarina Doguzova, Head, Russian Federal Agency for Tourism.

After the Forum, the President of the Russian Federation instructed the Government of the Russian Federation to draft proposals for attracting investors to develop ecotourism in the Far East by 1 December 2019.

Vladimir Putin assigned the Government of the Russian Federation the task of presenting its proposals to create a special venture fund in the Far East that would help to develop new high-tech companies. The human resources situation can be

improved by increasing the intake of students at Far Eastern universities, reintroducing a distribution scheme for graduates, and creating a network of education facilities to support the industry at both undergraduate and graduate institutions.

"I believe that we need to offer more targeted and state grants at Far Eastern universities in areas where professionals are in very short supply, so that the young people have their tuition fees covered by the government, or by their potential employers. This way, students will know for sure that they will get a job, which solves employment-related problems," Vladimir Putin, President of the Russian Federation.

"We would like to see interregional flagship secondary vocational institutions <...> We would like every promising industry to have a flagship educational facility in the Far East, where people would be trained and retrained," Marina Dedyushko, Deputy Minister for the Development of the Russian Far East and Arctic.

After the Forum, the President of the Russian Federation ordered the Government of the Russian Federation to increase quotas for universities by 1 December 2019, offering further federal budget-assisted places in targeted sectors where there are shortages of professionals in the FEFD. Additionally, the President ordered the Government to fund the regeneration of the resources and equipment of the FEFD's cultural facilities, with particular attention paid to small towns and rural areas.

Creating cultural clusters in the capitals of Far Eastern federal subjects will improve the humanities space in the country as a whole. The first of these centres is being created in Vladivostok.



"We believe it is necessary to reintroduce the professional distribution scheme for those whose tuition is covered by the government. The scheme will cover the Far East in the sectors that are in short supply, while young people will be able to access tax breaks and preferential treatment in tenders"

Oleg Kozhemyako,
Governor, Primorye Territory



"Russia aims to increase the number of foreign students significantly: twofold in the next five years. This required a special federal programme that will support our universities. <...> It aims to develop infrastructure in the cities where we expect foreign students to arrive"

Mikhail Kotyukov,
Minister of Science and Higher
Education of the Russian Federation



"We have created the first school of digital economics in Russia. We proposed a project alongside the BRICS countries: students will come from far and wide and will study at the Far Eastern Federal University, with professors also coming from different countries. We will use a new modular system to organize the process"

Nikita Anisimov,
Rector, Far Eastern Federal University
(FEFU)

BROADENING HORIZONS OF INTERNATIONAL COOPERATION

The location of the FEFD and its proximity to the Asia-Pacific nations offers unique development opportunities for the region and helps to attract foreign investment

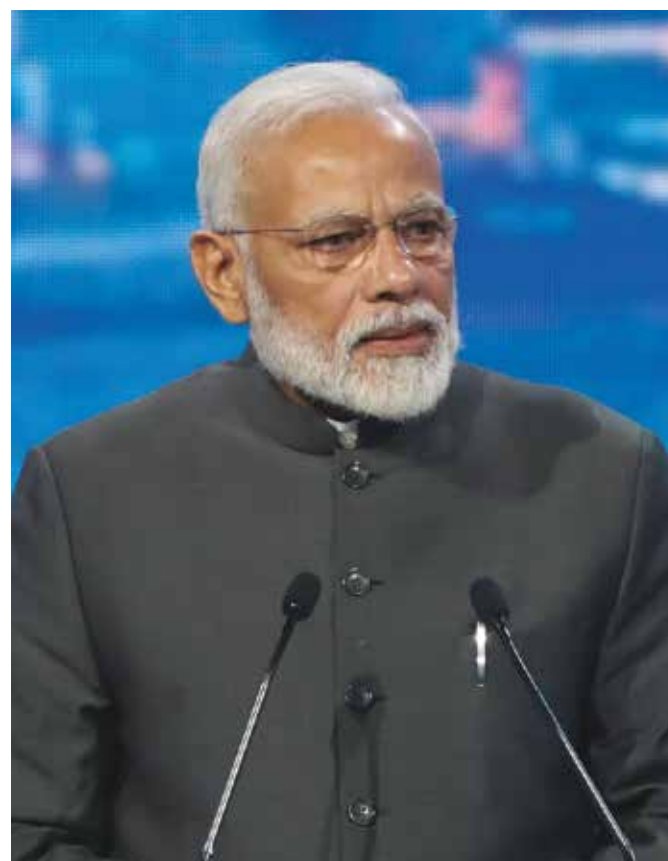


“Last year, President Putin and I visited the Mazda Sollers factory, which is close to Vladivostok. In June of this year the factory started building engines. I understand its capacity is 50,000 engines per year and it is an important factory for Mazda Sollers’ global strategy,” Shinzō Abe, Prime Minister of Japan.

Cooperation in the energy sector is on the rise.

“Indian partners own 20 percent in the Sakhalin-1 project. Indian energy concerns are invited to join other promising projects, such as Far Eastern LNG and Arctic LNG-2,” Vladimir Putin, President of the Russian Federation.

“We have also agreed on a five-year roadmap for cooperation in this area as well as in hydrocarbon and LNG production in the Russian Far East and the Arctic region,” Narendra Modi, Prime Minister of India.



“Transporting Arctic LNG to Asian countries in ice-class vessels with transshipment onto regular vessels in Kamchatka is a rapidly developing project. I mentioned it last year, when it was still being outlined. Today, the factory that was designed and built alongside our Japanese companies already liquefies gas along three lines and carries out shipments”

Shinzō Abe,
Prime Minister of Japan

“Around 50 agreements have been signed [during EEF 2019 – Ed.] across various sectors: energy, healthcare, professional training, mining, and forestry. We expect to be able to provide investments in the amount of USD 5 billion <...> In order to carry on facilitating the development of the Far East, India will provide a USD 1 billion credit line”

Narendra Modi,
Prime Minister of India

OBJECTIVES

Utilizing the potential of transport projects

“One project that is of strategic importance to our countries, not just for Russia but for Japan as well, is using the Russian Railways network for transit between Japan and Europe,” Maxim Oreshkin, Minister of Economic Development of the Russian Federation.



“The current state of the Far Eastern transport corridors can be succinctly described in one phrase – untapped potential. Despite significant progress it is still not being fully used. This can be said both about providing Northeast China with an outlet to the sea via our lands, and about increased volumes of shipments on a major, Transeurasian scale,” Sergei Ivanov, Special Presidential Representative for Environmental Protection, Ecology and Transport.

“We have the capacity to be involved in two bridge projects: developing port and railway transport and becoming a transit point for Korea’s shipments to Europe and vice versa. There is huge potential for us here – around 3 million containers. There is a certain political interest in taking those volumes from the Suez Canal to the Trans-Siberian Railway. The cost effectiveness of the Trans-Siberian Railway is achieved through reduced delivery times: working together with Russian Railways, we can reduce them by 2–2.5 times compared to the Suez Canal,” Alexandrs Isurins, Chairman of the Executive Board, President, Far Eastern Shipping Company (FESCO).

The situation in the transport and logistics segment can be improved through a comprehensive plan for highway and road infrastructure.

“In terms of expanding export, we need to address improvements to the capacities of the Trans-Siberian Railway Network and



“Russia is diversifying its economic ties with Asia in order to integrate its Eastern regions into global and Asian markets. Ports are being modernized, passenger and cargo terminals are under construction, and new regulations have been introduced in addition to a legislative framework. Indian industry must seize this opportunity”

Sandeep Somany,
President, Federation of Indian Chambers of Commerce and Industry

the Baikal–Amur Mainline. There is a programme in place, and it provides for an increase in their capacity to 210 million tonnes

“Today, cooperation with Japan accounts for nearly one third of the Trans-Siberian Railway’s cargo turnover. It exceeded 45 million tonnes last year, and the volume of cargo traffic is growing. Container shipments are growing faster than standard shipments, and account for more than 11% of total shipments”

Oleg Belozarov,
Chief Executive Officer, Chairman of the Executive Board, Russian Railways



by 2025,” Eduard Zernin, Deputy General Director, United Grain Company; Executive Director, Russian Union of Grain Exporters.

“National infrastructure development plans include reconstruction works at nearly all airports in the Far East. <...> In the next two to three years the Far East will see its airport infrastructure improve dramatically, with improvements to services and quality,” Evgeniy Chudnovskiy, Director General, Airports of Regions.

President of the Russian Federation Vladimir Putin stated that Far Eastern aircraft plants in Ulan-Ude, Komsomolsk-on-Amur, and Arsenyev will play an important

role in upgrading regional and local aeroplane and helicopter fleets and expanding the network of domestic flights. He also proposed incentives for airlines operating in this region.

“I believe it would be logical if the airlines that were willing to increase their operations in the Far East and to pursue a responsible and reasonable pricing policy were offered preferential rights to operate flights in other, more profitable regions. <...> I understand that this is not a market-oriented measure, but it is justified in this region. Nevertheless, we must discuss ways of formalizing it,” Vladimir Putin, President of the Russian Federation.

After the Forum, Vladimir Putin ordered the Government of the Russian Federation to take appropriate measures by 1 March 2020.

Up to
210
million tonnes

expected growth in the capacity of the Trans-Siberian Railway Network and Baikal-Amur Mainline by 2025

SOLUTIONS

The development of transport corridors is closely linked to the expansion of free trade zones



Creating special zones in border regions is another mechanism for invigorating trade.

“We need to create cross-border economic zones that will contribute to the growth of trade,” Alexander Krutikov, Deputy Minister for the Development of the Russian Far East and Arctic.

Mutual support for joint projects by way of financing can help to stimulate cooperation.

“We have created a joint venture with the Russian Direct Investment Fund. The tool to promote Japanese projects through special loans is up and running. This mechanism has already resulted in signing contracts with 16 potential Japanese investors and is, of course, helping to identify the weak spots and problems and resolve those problems even at the micromanagement level. <...> Tomorrow will see a signing ceremony for the contract with Vnesheconombank to finance an agricultural project in the Republic of Sakha (Yakutia),” Tadashi Maeda, Governor, Japan Bank for International Cooperation.

“Our fund could serve as an important partner for foreign investors, provide necessary financial support, and share connections with local and federal government agencies,” Denis Askinadze, Deputy General Director, Far East and Baikal Region Development Fund.

“Under our policy to invigorate trade, economic and investment cooperation with Eurasian countries, we proposed jointly looking at signing a free trade agreement between Mongolia and the Eurasian Economic Union”

Khaltmaagiin Battulga, President of Mongolia

"Today I am suggesting for the first time that we create a large investment fund to develop the materials and equipment parts industry through the joint efforts of Korea and Russia," Hong Nam-ki, Deputy Prime Minister of the Republic of Korea.

Forum participants emphasized the need for the Far Eastern Federal District to become part of global

value-added chains in the Asia-Pacific region. Digital technologies can assist with this.

"We are investing our efforts in involving Russian companies—small and medium-sized business primarily—in international chains through e-commerce tools. <...> The government has created a processing regime in the customs area. It is a shame that many

people are unaware of it," Alexey Kozhevnikov, Senior Vice President, Russian Export Center.

"We need digital technologies to ensure the continuity of business processes. Managing a company in the Far East from Moscow is far from easy. Technologies mean huge investments. They will provide regions with the opportunity to develop primary resources <...>



"Developing international cooperation in the breeding of rare bird species can help to restore their populations in our country and abroad. A joint project to create a Russian falcon centre in Kamchatka could prove to be an effective method of achieving this. The hatchery will contribute to the restoration of rare bird populations in their traditional habitat, while attracting major foreign investments into the region's tourism infrastructure. The Ministry of Natural Resources and Environment of Russia has expressed its willingness to carefully study all the details and coordinate implementation on this issue"

Dmitry Kobylkin,
Minister of Natural Resources and Environment
of the Russian Federation

"Our cooperation has not yet reached its potential. We must adopt a range of measures in order to reach an agreement on a free trade zone encompassing ASEAN and the EAEU"

Trinh Dinh Dung,
Deputy Prime Minister
of the Socialist Republic of Vietnam



"Yesterday, Transmashholding, Rosatom, and Sakhalin Region signed an agreement to develop the nuclear energy industry in Sakhalin. The hydrogen industry is very interesting. Japan has long been dreaming of <...> using hydrogen engines, in transport among other things. <...> Such an interesting project to develop the hydrogen industry in Sakhalin is of great interest to Japan"

Alexander Sergeev,
President, Russian Academy of Sciences

and create added value within the country," Gianni Bardazzi, Vice President for Russia and Caspian Region, Maire Tecnimont SpA.

Active cooperation in industry and energy can open up new opportunities.

"The agreement between technology parks on Russky Island and in Pohang can become a new cooperation mechanism. <...>

"I think we have huge potential, given the fact that both our countries, Russia and Indonesia, are G20 members. Among the G20 members with economies of this size, there is a lot of potential to increase both trade and mutual investments. We are actually in a strong position: Indonesia is one of the top ten exporters to Russia"

Bambang Brodjonegoro,
Minister of National Development
Planning of the Republic of Indonesia

The administration of Primorye Territory launched a project to set up an industrial park in Bolshoi Kamen and allocated 200 hectares near the Zvezda shipyard to build production facilities there. We have two contracts on the way with enterprises that are set to participate in the production chain for the first vessels to be produced at Zvezda," Konstantin Bogdanenko, Acting Vice Governor of Primorye Territory.

"Trade and economic ties between India, Russia and China have significant untapped potential. According to our calculations, Russia could increase its trade volumes with China by at least 25% and by 17% with India. Therefore, <...> Russia's pivot towards India and China, which we are currently witnessing, is a completely reasonable move"

Apurva Sanghi,
Acting Country Director for the Russian
Federation, The World Bank Group

USD **210**
billion

total Russian exports to India
for the first five months of
2019, according to the Federal
Customs Service of Russia

BROADENING HORIZONS OF INTERNATIONAL COOPERATION

Creating favourable conditions for life is a prerequisite for the development of the Far East

"We must tackle social issues when improving conditions for attracting investment. At first, we didn't pay much attention to it, as we counted on Russia's ministries of health, education, culture, sport, etc. These are their areas of responsibility. But fast growth requires support across all departments," Yury Trutnev, Deputy Prime Minister of the Russian Federation and Presidential Plenipotentiary Envoy to the Far Eastern Federal District.

President of the Russian Federation Vladimir Putin emphasized the fact that younger generations should get special attention. Efforts are already underway in this area.

"In 2018, we launched a project to facilitate the social development of cities [centres] of economic growth. By 2021, the federal budget will allocate RUB 95 billion to construct, repair and upgrade over 700 social facilities. This

year, we have launched a Far Eastern demography package to support families with children. <...> Before the end of the year, almost 75,000 families will receive one-time payments after the births of their firstborn and subsequent children," Alexander Kozlov, Minister for the Development of the Russian Far East and Arctic.



"At least 55% of the country's population should have permanent access to sporting facilities. Based on our population figures, this should mean at least 80 million people. This is the target we need to achieve in Russia"

Igor Levitin,
Aide to the President
of the Russian Federation



"If we look at the health improvement programme as a whole, we can see that there is a whole range of preventive measures. <...> It includes establishing a network of public health centres directly connected to every community, and creating individual regional programmes to promote healthy lifestyles. <...> It also includes corporate healthcare"

Veronika Skvortsova,
Minister of Health of the Russian
Federation



"Developing cities in the Far East is very important: it is a huge, underpopulated territory with very few attractive places. This problem needs to be resolved, because preserving this region and making life there comfortable is a geopolitical objective"

Vladimir Yakushev,
Minister of Construction, Housing and
Utilities of the Russian Federation

OBJECTIVES

Efforts to develop the region's social infrastructure currently lag behind the national average, and must be accelerated

The regional lag in socioeconomic development is a huge challenge for cooperation.

"In Far Eastern healthcare facilities, 73% of medical equipment is worn out. Over 1,000 additional ambulances are required. <...> At present, when it comes to doctors and paramedics, there are 5,500 job vacancies in rural areas," Alexander Kozlov, Minister for the Development of the Russian Far East and Arctic.

"There are 60% more deaths from external causes in the Far Eastern Federal District compared with the national average – socially significant infections such as tuberculosis cause twice as many deaths than the average figure for Russia. The working age mortality rate for all causes of death is 15–20% higher," Veronika Skvortsova, Minister of Health of the Russian Federation.

"Dilapidated housing is among the most pressing issues. <...> Its share here is 2.5–3 times higher than the average for Russia. Only 70% of housing has a water supply, only 68% has sewage, and only 74% has central heating," Nikolay Kharitonov, Chairman of the Committee for Regional Policy and Issues of the North and Far East, State Duma of

the Federal Assembly of the Russian Federation.

"The baseline condition of human capital in the Far East creates potential risks for future high-tech development. I would like to share some numbers. Let's take the results of the Unified State Exam in computer science, physics and chemistry in Primorye Territory: 352 people scored 60 and above in computer science; 28 people scored 80 and above in physics; and 41 people scored 80 and above in chemistry," Nikita Anisimov, Rector, Far Eastern Federal University (FEFU).

The need for major investment in the region's social sphere overlaps with the need for investment in its low investment attractiveness.

"The main indices for the region's economic development do not yet reflect its stability and sustainability, which is driven by strengthened internal potential. <...> The Far East as a market is not yet attractive if we take into account its size, demographic trends and global interdependence with neighbouring economies. This means we need to profoundly alter our cooperation," Lee Jae-Young, President, Korea Institute for International Economic Policy (KIEP).

"Productivity is a pressing issue for the Far East. [We need to understand, – Ed.] how to develop the region with such a deficit in the labour force, how to improve the training services market, and how to implement automation," Mikhail Akim, Vice President, ABB Ltd.

Dissatisfaction with living conditions is the key reason for migration out of the Far East. President of the Russian Federation Vladimir Putin noted that this problem still exists, though it has halved since 2005.

"The population of practically all Far Eastern regions continues to decline. Unfortunately, more people leave the Far East than arrive here," said Vladimir Putin.

"Two-thirds of those who receive targeted government-sponsored education intended to boost the Arctic region avoid going to the Arctic by any means possible. The reasons are clear: there is no incentive in the form of higher wages. Wages are basically the same as everywhere else: there are no benefits that would motivate people to go to remote areas," Vladimir Solodov, Chairman of the Government of the Republic of Sakha (Yakutia).





SOLUTIONS

The national programme for the development of Russia's Far East to 2025 and to 2035 aims to overcome the region's socioeconomic lag. The President of the Russian Federation has given orders to prepare the programme, a draft version of which was discussed at the meeting of the State Council Presidium that took place in Vladivostok during the Forum.

"The national programme includes measures that, if implemented, will help to achieve two goals: ensure economic growth and bring living standards in line with the national average. All the programme's measures have been discussed with federal agencies – they are in agreement that this list of measures is necessary, and that the development of one of the country's largest regions depends on it," Alexander Kozlov, Minister for the Development of the Russian Far East and Arctic.

A new mortgage programme that is set to launch in 2019 and run for five years could become an effective tool in resolving the housing problem. A decision on the programme was adopted during the Forum.

Members of the State Council suggested other measures to make housing more affordable including, for example, fully or partially government-sponsored construction of housing that would be rented out to private and public sector employees.

The development of PPP tools could help to improve the situation in the housing and utilities sector.

"Today, when it comes to concessions in the Far East we must



"I agree that a special mortgage programme should be launched in the region, so that young families can borrow money to purchase flats or houses in the Far East at an annual interest rate of 2%. <...> We must apply it to the so-called primary market, that is, the market for new residential buildings, as well as to the construction of private homes by those who are taking part in the Far Eastern Hectare programme. I suggest that we use funds from the national programme for the development of Russia's Far East and the Far East Development Fund"

Vladimir Putin,
President of the Russian Federation

think about additional incentives and a compensation mechanism. For example, we can provide VAT exemptions to utility providers in the Far East that adopt concession agreements as well as a simplified tax system," Nikolay Kharitonov, Chairman of the Committee for

Regional Policy and Issues of the North and Far East, State Duma of the Federal Assembly of the Russian Federation.

Given the low population density in the FEED, the approach to financing healthcare must be altered.

“Healthcare institutions of the Far Northern and equivalent Far Eastern territories should be financed from the Federal Compulsory Medical Insurance Fund according to their estimated running costs, rather than regulatory prescriptions. <...> Part of the oil and gas revenue that comes from the Far East and is later redistributed through the Russian National Wealth Fund could provide a source of additional financing,” Aysen Nikolaev, Head of the Republic of Sakha (Yakutia).

“When it comes to estimated financing the decision has already been made. Starting in 2020, paramedic and first aid stations across Russia will be fully financed, instead of being financed based on a tariff model, given that payroll accounts for 90% of monthly costs,” Veronika Skvortsova, Minister of Healthcare of the Russian Federation.

Furthermore, Veronika Skvortsova believes that the regional subsidy

limit should be abolished at the regional healthcare financing level.

In order to attract social workers to the Far East, Vladimir Putin suggested increasing payments as part of federal programmes.

“Among other things, we need to adapt the Rural Doctor and Rural Teacher national programmes for Russia’s Far East. This could include offering greater benefits to doctors, paramedics and teachers willing to relocate to small communities in the Far East. I propose doubling these allocations for the Far East compared with present national rates,” said Vladimir Putin.

Breakthrough projects will allow healthcare in the region to reach an entirely new level in terms of services and technologies.

“It is possible to create a medical cluster in the Far Eastern Federal District with a special regulatory

procedure, which would make it possible to open subdivisions and branches of foreign clinics without excessive formalities, attract top foreign specialists, and use medicines and methods that have already proven their effectiveness abroad. This cluster should of course function within the Russian jurisdiction,” Vladimir Putin, President of the Russian Federation.

After the Forum, Vladimir Putin ordered the Ministry for the Development of the Russian Far East and Arctic to work alongside the Ministry of Healthcare and the Administration of Primorye Territory to prepare draft legislation by 15 January 2020. The legislation is to outline the creation of the medical cluster in the FEFD, define its regulatory and administrative forms as a special type of organization, and assist in providing innovation in the healthcare sector.



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