

## **KRASNOYARSK IS THE RESIDENT OF INDUSTRIAL SPECIAL ECONOMIC ZONE: BENEFITS FOR METALLURGICAL COMPLEX**

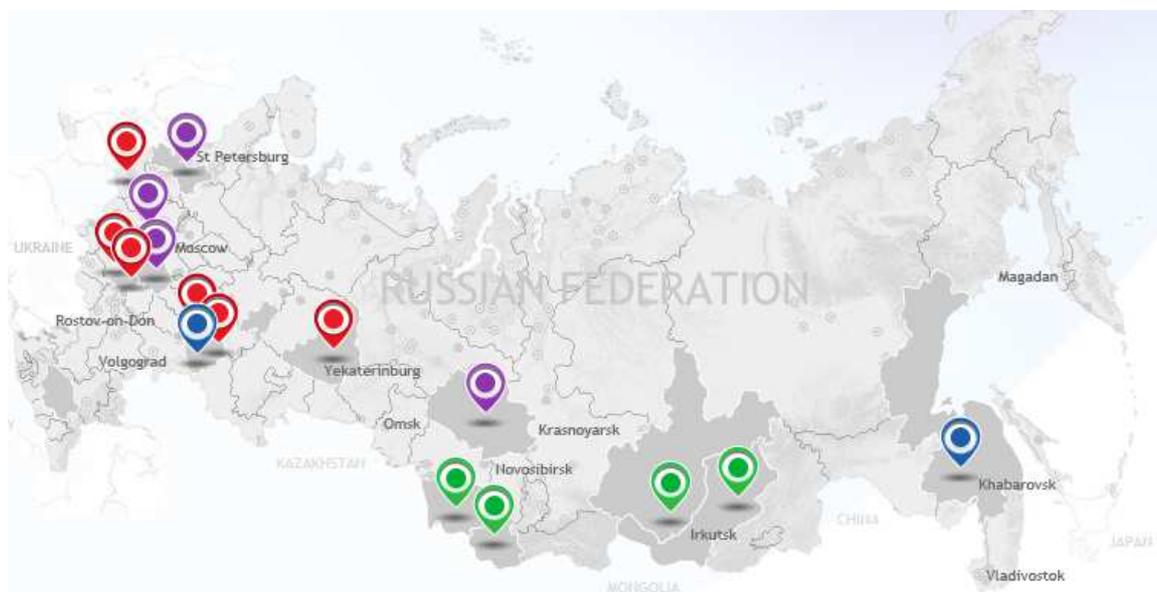
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Special Economic Zones (“SEZs”) are defined as areas, governed by one oversight management body, which offers special trade incentives to firms who choose to physically locate within them. Many countries employ their own variations of these special enclaves, and in doing so use their own terminology to describe them. For example, Cameroon, and Jordan have “industrial free zones,” the Philippines calls its “special export processing zones,” and Russia has “free economic zones.” Despite the differences in nomenclature, each SEZ operates to increase trade throughout its respective region by offering special trade incentives to stimulate local and foreign investments within the region.

The SEZs of Russian Federation are a large-scale federal project aimed to bring in investments and advanced scientific, manufacturing, and management technologies. There are 4 types of SEZs in Russia:

- Industrial Zones
- Innovation Zones
- Tourist Zones
- Port&LogisticZones

With manufacturing facilities in an Industrial Zone, companies can reduce cost to make their products more competitive on the Russian market.



Russian SEZ's

Source: [www.russez.ru](http://www.russez.ru)

Considering the possibility of creation the special economic zone of industrial type in Krasnoyarsk we should assess advantages of the region.

Krasnoyarsk is close to rapidly developing countries of the Asia-Pacific region and it creates the opportunity for rapid growth of the economy through increasing foreign trade and cooperation. Economy of Krasnoyarsk Region is focused on capital-intensive and energy-intensive industries. The competitive advantages of the region are:

- the possibility of cooperation with neighboring regions and abroad;
- diversification of production;
- vertical integration of production through the development of local raw materials and the organization of production of deep processing;
- availability of innovative potential to create high-tech industries;
- maintaining long-term demand in the global commodity markets for the products of the leading enterprises of the region.

Table 1 – Krasnoyarsk’s Largest Metallurgy Enterprises

RUSAL Krasnoyarsk Aluminium Smelter	One of the largest smelters in the world
Krasnoyarsk Metallurgical Plant (KraMZ)	The plant for processing aluminum and aluminum alloys in Russian Federation
Gorevsky Mining - Processing Plant	One of the five largest global enterprises mining lead-zinc ore
The Gulidov Krasnoyarsk Non-Ferrous Metals Plant	Precious metals refining plant

Source: [www.metaprom.ru](http://www.metaprom.ru)

Krasnoyarsk region is one of the most industrially developed Russian regions with the powerful metallurgical complex. Companies of Krasnoyarsk Region are interested in cooperation with foreign partners, searching for new technologies, materials and equipment. SEZ is the opportunity to simplify business-processes and motivate entrepreneurs for modernization. Every entrepreneur intends to reduce the costs and SEZ is the way to return some kinds of taxes back. SEZs usually adopt regulations that establish tax concessions. Companies established within zone boundaries benefit from:

- 0% property tax;
- 0% VAT and customs duties on import of modern equipment into the SEZ;
- 15,5% profit tax (standard is 20%);
- Land tax 0%;
- The right to use double depreciation on fixed assets;
- Accelerated write-off on research and development expenditures.

SEZ units are also benefited as import-export transactions do not have to face the procedural hassles with the customs authority.

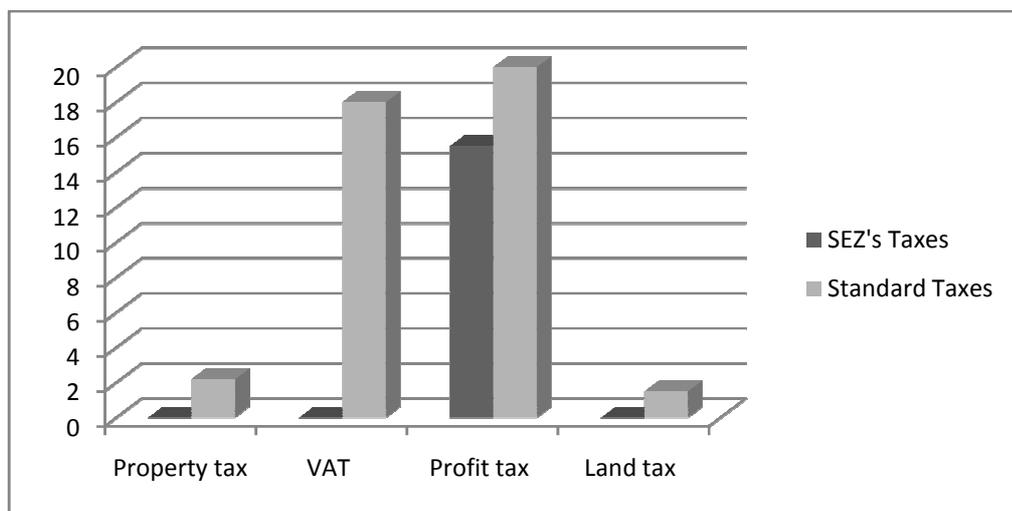


Figure 1 - Tax reductions for residents of SEZ in comparison with Standard Taxes

Source: [www.economy.gov.ru](http://www.economy.gov.ru)

As a regional example of reduced tax benefits we counted free margins for Krasnoyarsk's largest metallurgy enterprises (Table 2).

Table 2 – Profit taxes free margins in case of SEZ

<b>Plant</b>	<b>Profit taxes paid in 2012, RUR</b>	<b>Profittaxes SEZ, RUR</b>	<b>Freemargin, RUR</b>
<b>RUSAL KrasnoyarskAluminiumSmelter</b>	423436000	404381380	19054620
<b>KrasnoyarskMetallurgicalPlant (KraMZ)</b>	129080000	123271400	5808600
<b>GorevskyMining - ProcessingPlant</b>	42464000	40553120	1910880
<b>The Gulidov Krasnoyarsk Non- Ferrous Metals Plant</b>	146831000	140223605	6607395
<b>Total sum of free margin</b>			<b>33381495</b>

*Source: Authors' calculations from Plant's Reports of Cash Flows*

The total sum of free margin implies alternative ways of usage bankroll such as buying new equipment, infrastructure modernization or advanced training or re-training of staff. And this is only one positive aspect of SEZ.

SEZ attracts foreigners and it is a contemporary platform for international professional dialog. There are also benefits for foreign staff. Foreign nationals belonging to the category of highly qualified personnel employed by SEZ residents shall pay personal income tax at a rate of 13% (Article 224 (para.3) of the Tax Code of the Russian Federation). Foreign nationals who are not tax residents of the Russian Federation and work in territories other than SEZ pay personal income tax at a rate 30%. Apart from that, simplified migration procedures are used in respect of such individuals pursuant to provisions of the Russian legislation regulating the legal status of foreigners.

Anyway, SEZ is one of the most effective modern macroeconomic instruments to attract investments in the economy. SEZ generates investments from both domestic as well as foreign sources and the majority of investments are in the form of domestic sources. All improvements within SEZ framework create the investment climate which is the set of public policies that shape the opportunities and incentives for firms to invest productively. Why SEZs are so popular among investors? That is because they offer up to 30 % of cost reduction for investors (Figure 2).

In order to succeed in achieving their intended policy objectives economic zones should not be used as a substitute for a country's larger trade and investment reform efforts. The success of Economic zones depends on the extent to which they create linkages with the local economy thereby generating employment and increasing transfer of know-how. A common element of many successful SEZs is the technical competency of the bureaucracy responsible for constructing and implementing them. While this cautions against targeting when government capacity is weak, several Latin American countries have recorded successes by relying on private sector ownership and management.



Figure 2 - Investor preferences in SEZ

Source: JSC SPECIAL ECONOMIC ZONES, [www.oao-oez.ru](http://www.oao-oez.ru)

For instance, in the Dominican Republic, where public and private zones coexist, there are no clear differences in employment, investment, or exports by zone ownership. But the private zones generally offer higher-quality infrastructure and more value-added services than the government-run ones and, accordingly, charge higher rents.

In circumstances where the government cannot provide high quality services throughout Russia, it is easier to do it in some areas. In Russia, SEZs will benefit if the government does not repeat the experience of the mid-90s. In 90s in free zones plants practiced tax evasion, without developing production. Regional integration offers significant opportunities for economic zones in terms of expanding market access. Linking regional SEZs to infrastructure investments to create "growth corridors" may be a powerful new route to competitiveness.

As SEZ programs continue to proliferate it is critical for policy makers to learn from past experiences and anticipate the implications of the emerging and potential issues. Future SEZ program success will require adopting a more flexible approach to use SEZ instruments effectively to leverage a region's comparative advantage and ensure flexibility so that the zone program can evolve over time. Fundamentally, this approach will require a shift in mindset away from the traditional reliance on fiscal incentives and wage restraint to instead focus on facilitating a more effective business environment that fosters firm-level

Thus, a number of factors listed above, suggest the possibility of creating a special economic zone of industrial type in the Krasnoyarsk region, but the final decision for the main companies in the region is necessary to set procedures for evaluating the performance of SEZs in the region.