

# The Arctic economy – details are important

The expiring 2020 was full of events that affect the future of the Arctic zone of RF. Early in the year, basic principles of state policy in the macro-region<sup>1</sup> were approved, in the second half of the year – the strategy of its development and state security protection<sup>2</sup>. Before that, in 2019, the geographical boundaries of responsibility of the Ministry of Far East development were expanded and it is now called the Ministry of the Far East and Arctic development. It will now deal with resolving and following-up questions of strategic nature in the Arctic zone<sup>3</sup> as well. A fateful ecological accident for the Arctic happened in Norilsk in May 2020 when over 20 thousand tons of diesel fuel leaked into the river basin of the Ambarnaya river from an oil storage facility of TPP-3<sup>4</sup>. This accident is one of the worst ‘manmade’ troubles in the Arctic zone not in Russia alone but globally, in all its known history.

The months that followed were full of various reports about real-life problems and economic activity in Taimyr and the Russian Arctic in general. The accident sparked a discussion of similar problems from various points of view – from a financial position and social responsibility of big business to problems of urban settlements and indigenous Northern peoples.

One might say that life itself ‘voiced’ its opinion about the vector of some approaches to economic activity organization to be implemented in the specific Arctic conditions. In particular, we believe that the Norilsk accident made it absolutely clear that:

– the Arctic is incompatible with standard (tested in other climatic, natural, and geographic conditions) engineering and managerial decisions; building a 20 000 ton storage tank for POL on the eternal permafrost ex-ante

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<sup>1</sup> The decree of the president of the RF from 5 March 2020 # 164 “On principles of the state policy of the RF in the Arctic for the period to 2035”: URL: <https://www.garant.ru/products/ipo/prime/doc/73606526/> (the date of access: 19.11.2020).

<sup>2</sup> Adopted is the Strategy of development of the Arctic zone of Russia and provision of national security to 2035. URL: <http://www.kremlin.ru/acts/news/64274> (the date of access: 19.11.2020).

<sup>3</sup> The Ministry of Far East development is transformed into the Ministry of Far East and Arctic development. URL: <https://tass.ru/politika/6161204> (the date of access: 19.11.2020).

Decree on enhancing the state governance of the Arctic zone development. URL: <http://kremlin.ru/acts/news/59897> (the date of access: 19.11.2020).

<sup>4</sup> ‘Nornikel’ answers to Putin. Moscow learned about a diesel fuel leak 25 minutes after. URL: <https://prmira.ru/news/nornikel-otvetil-na-kritiku-putina-ob-utechke-diztoplivna-tets-moskva-uznala-cherez-25-minut/> (the date of access: 19.11.2020).

contains huge environmental risks even with a highly state-of-the-art system of monitoring; it is incompatible with any approaches based on the general unification and project efficiency evaluation, and minimization of capital and current costs per unit;

- the indigenous people of the Arctic cannot be denied their say in discussing and decision making on exploration and use of natural resource potential of their native land;

- the conditions for life and work in the Arctic require utmost care towards details and ‘trifles’; disrespecting them leads to irreversible consequences and colossal expenses; considering them both in monetary terms may not follow standard schemes of obtained profit (the reaction of PAO ‘Norilsk Nickel’ just proves it: the so-called public company, which is, in fact, controlled by a limited group of people, does not acknowledge the damage of 143 bln Rb. and considers acceptable the sum of 21 bln, while at the moment of this publication, it has actually paid up ... 500 mln Rb.);

- the Arctic cannot have too ‘little’ state; this does not mean the presence of the state as a dominant owner of new and used assets but its role as a consolidating force for various interest groups involved in solving strategic and current problems and issues.

The North and the Arctic are of utmost importance for Russia – not only because of the share of GDP created here but from the point of view of safeguarding the territorial integrity and socio-economic stability of the country. Moreover, Arctic projects ‘continue’ in the activities of companies from other regions. However, one cannot accept the situation when resources of the National wealth fund go to support the infrastructure of business projects in the Arctic zone together with unprecedented tax preferences that ensure the commercial success of projects and regular dividends to private owners of PAO.

The ‘price’ of the Russian presence in the North and the Arctic includes not only and not so much investments and costs of business as the loss of expected gain and potential damage to be covered by the taxpayers of the Russian Federation.

It is gratifying that the Federation Council of RF took a constructive stand in discussing the above-said problems both on-field meetings that took place ‘on-site’ (in Norilsk and Krasnoyarsk) and on October session in Moscow<sup>5</sup>. The governor of Krasnoyarsk territory A.V. Uss said that the spill of oil at one of

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<sup>5</sup> Matvienko criticized ‘Nornikel’ for social irresponsibility. URL: <https://rg.ru/2020/10/21/matvienko-raskritikovala-nornikel-za-socialnuiu-bezotvetstvennost.html> (the date of access: 19.11.2020).

Nornikel sites is not a coincidence: “The analysis of management strategy of the company in the later years points out that this strategy was aimed primarily at extracting dividends to the detriment of technological renewal of production and achievement of other crucial goals”<sup>6</sup>.

It is difficult over a few months to have a full discussion and deliver solutions to problems accumulated in Norilsk and the Arctic. Nonetheless, the Council of Federation pointed out the main thing – the priority to the environment and people’s living conditions. The adopted decisions aim to form a brand new character of relations between the territory (Norilsk and the Krasnoyarsk territory) and PAO ‘Norilsk Nickel’. They may not be legitimately considered only through the prism of tax transfers and payouts to the social needs of the municipality and region. The business efficiency (development of unique polymetallic ores) and the fragility of the natural environment presume direct participation of beneficiaries of the core activity in advancing the living conditions of people in the North and the Arctic.

Such an approach requires the awareness of the local authorities and ordinary citizens of development plans and business problems as well as understanding the financial-economic part of it (not only the annual (quarter) reports of consolidated taxpayer groups but also the state of each natural site (deposit)). Alas, the existing tradition of implementing ‘fateful’ projects in the Arctic and securing ‘national priorities’ has very little in common with such requirements. This is clearly seen in the example of the construction program of an icebreaker fleet and navigation along the North Sea route (the paper by Arild Moe): “... there still has not been published a clear cost-benefit analysis of a year-round operation of the sea route”. The analysis attempted by the author encounters multiple difficulties as to the quality of data and its initial assumptions.

Development of the Arctic may not be considered in isolation from the nature, economy, and the social sphere of regions ‘inside’ the Russian universe. What is more, “... reconstruction of economy and living environment of the region unlike the reconstruction of plants and factories cannot be short-lived. It is precisely the factor of time that determines the marching order to move forward especially concerning the technological integration of various parts of the system” (the paper by V. N. Lazhentsev).

The Arctic is rapidly changing not only due to the ice melting but also in the course of development of human civilization – the rise of new technical means

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<sup>6</sup> The head of Krasnoyarsk territory connected the accident in Norilsk with the management strategy of ‘Nornikel’. – 14.10.2020. URL: <https://www.kommersant.ru/doc/453048> (the date of access: 19.11.2020).

and approaches to satisfying various requirements. In the last decades, these included IT development, the emerging role of knowledge-intensive activities such as the service sector. “However, the existing regional markets have a high level of concentration of demand, which does not promote effective development of service companies (mostly independent ones)” (the paper by V. A. Kryukov, A. N. Tokarev, Ya. V. Kryukov). At the same time, “digital transformation, on the whole, does not lead to less unemployment in the Northern countries’ economies”.

The Arctic does not accept conventional or behind-the-scenes decisions. The spirit of this unique region calls for a system of interactions aimed at the harmonious socio-economic development of all parties. But this can hardly be achieved through the adoption of “26 mechanisms for reaching set targets”<sup>7</sup> in combination with a system of test scores. Determination and adoption of the ‘price’ of developing the Arctic require active participation not only of state or corporative governance structures but of the society as a whole – from the indigenous people and local inhabitants to experts in various fields. The crucial condition in all of this is the clarity and accessibility of real information about projects, and the current state of things in the social, economic, and ecological spheres. Society must comprehend why and for what purpose these or those steps and measures are taken. The ‘price’ of error is too high.

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<sup>7</sup> Yuri Trutnev held a meeting of presidium of the State commission on Arctic development. – 13 May 2020. URL: <http://government.ru/news/39684/> (the date of access: 19.11.2020).