

Strategic Areas for Territorial Development of Krasnoyarsk Krai: Management of Economic Growth and Urbanisation Poles

Good morning, distinguished colleagues:

Before I start my presentation about strategic areas for the Krai's development, I would like to thank the OECD Secretariat and the Ministry of Regional Development of Russia for the opportunity to work jointly. We are interested in discussing economic challenges of regional development and searching for the best ways of addressing them together with international experts. We reckon that experience transfer and review of best practices of the OECD member countries will help us choose the most efficient development strategy.

I would like to start my presentation by describing the region we are in and its place and role in Russia and globally.

So, what is Krasnoyarsk Krai today? We are used to telling our guests that almost five Frances can fit on the Krai's map – **the Krai's surface area is almost 2,340,000 sq. km**, it is the second largest constituent entity in the Russian Federation. And yet **just 2.8 mln people live here**, which, undoubtedly, affects the region's development scenarios.

The Krai ranks 8th in terms of size of gross regional product among 83 constituent entities of Russia. Currently, it amounts to **more than one trillion roubles**. Key sectors in the region's manufacturing industry are: non-ferrous metallurgy, oil and gas sector, and fuel and energy complex. In the aggregate, they produce 80% of the Krai's industrial output.

Our industrial output has been growing consistently for the past 13 years. Only crisis year 2009 was an exception, but even then decline in the Krai's industrial output was smaller than in Russia as a whole (*98.2% in the Krai and 90.7% in Russia*).

Krasnoyarsk Krai is **one of the richest in natural resources**. Its mineral resources base is comprised of more

than 1,500 fields with more than 80 minerals. Key ones are: nonferrous metal ores, gold, coal, oil, and gas. The Krai also has the largest timber resources in the country – timber stock accounts for about 14% of the total stock in Russia. It is **one of the best in the world** in terms of its qualitative features.

The geopolitical and economic significance of Krasnoyarsk Krai for Russia is determined exactly by its ample natural resources capacity. Key sectors of the Krai's economy play a major role not just nationally, but also globally.

For instance, the region mines **more than 80% of Russia's total amount of nickel, more than 40% of copper, almost 98% of platinum-group metals** and produces **about 30% of primary aluminum**. In terms of gold mining, the Krai ranks first in Russia, securing **18% of Russia's production**.

As regards electric power generation, the region ranks **third** in Russia, being behind just Tyumen and Irkutsk oblasts. Each year, approximately 15% of electric power the Krai generates (about 9 bn kWh) is channeled to supply power to other regions in Russia.

In terms of coal mining, the Krai ranks 2nd in Russia after Kemerovo Oblast.

Mineral wealth, energy facilities, production capacity, advantageous location at the crossing of transport routes from Europe and North America to Asia, skilled labor, and developed education and science – **all those competitive advantages of the Krai attract investors**.

Due to that, the Krai is among lead regions both in Siberia and in the country as a whole in terms of investment activity level. In 2011, **investment in fixed assets in the Krai amounted to RUB 304 bn** (*about 30% of GRP*). Importantly, the process's trend has been consistent: investment in the Krai's economy increased 3.5-fold in comparable prices since 2005 (*2-fold in the country as a whole over the same period*).

Such a major indicator as **unemployment** is currently at its

lowest since 2005 in the Krai at 6.1% (according to the International Labour Organization's methodology) (*cf. country-average is 6.6%*).

Distinguished colleagues, one might conclude from what I have said now that **Krasnoyarsk Krai is just lucky**: it is rich in resources which are developed by largest internationally-reputable Russian companies. And we can do nothing, happy with the situation.

But all is not as simple as it seems. Extractive enterprises' capacities are not infinite. **It is impossible to ensure the region's competitiveness just by exploiting its natural resources.**

Even today taxes on extractive companies fail to secure sufficient amount of revenues for the regional budget. That is why we are forced to build up public debt each year in order to maintain people's living standards and social development trend.

That being said, we regard changing the Krai's existing economic model as a key area for its long-term development. We put for ourselves the task of creating, on the basis of the region's current focus on commodities, a new industrial development framework with deep processing of commodities produced here and production of output with high value added.

Our long-term plans are reflected in the draft **Krai Development Strategy until 2020** key provisions of which I would like to share with you today.

Only **large national-scale projects** can be a prerequisite for efficient development of Siberian spaces. It is our specificity – it is impossible to ensure industrial development of Siberia otherwise.

What sectors specifically will our economy rely on in the

coming years? There are three of them, the main ones: **metallurgy, fuel and energy** complex and vibrant **oil and gas sector** which is new for us. Major large investment projects are expected to be implemented exactly in those sectors.

In **oil and gas production**, two large centres of federal importance are planned to be set up on the Krai's territory.

In the long run, the Krai will become one of the main suppliers of raw hydrocarbons domestically and for exports. It is especially important in the conditions of depleted raw materials base in Western Siberia and European part of Russia.

By 2020, oil production in the Krai is to increase more than 3-fold (to 42-48 mln tones) and gas production, by an order of magnitude (to 20 or more bn cub. m). That will make it possible to create a basis for construction of gas-processing and gas chemical industries in the Krai.

The Krai's standing as the largest **exporter of non-ferrous metallurgy** in Russia will grow even stronger in the coming years. It is due to the plans of our major companies: Norilsk Nickel will develop new rich ores and fields, RUSAL will put into operation a new aluminum plant next year, and Polyus-Zoloto will continue gold-mining projects.

It is also planned to set up another major copper and nickel ores mining and processing center in the Krai, of course, not as large as Norilsk Nickel's production facilities, but a significant one. I mean Kingash field.

In addition to increasing the production of metals and deepening their processing, we emphasise **development of high-tech production facilities** and production of products in demand in an innovative economy, such as germanium, silicon, and pharmaceuticals based on the platinum-group metals.

Energy sector is our third core sector. The country's leadership regards Krasnoyarsk Krai as a territory which should

ensure creation of new energy facilities to eliminate electric power shortages in Siberia, Urals, and European part of Russia.

Development of the fuel and energy complex in the Krai will be related to the rehabilitation and construction of thermal and hydroelectric power plants and power grids and development of coal mining facilities.

We also plan to introduce technologies for high-level processing of coal and coal chemistry development.

I would like to point out that **public-private partnership** is a key arrangement to manage those growth poles in Krasnoyarsk Krai. Implementation of any major project in Siberia requires a huge amount of funds not just to set up production facilities themselves but also to establish related infrastructure.

Investors would not come to an area where there are no roads or energy. For this reason, we have joined efforts with business and envisage measures to provide state support to investment activities, including special tax arrangements.

Furthermore, our three core sectors give us an opportunity to develop **cooperation** within the Krai. We seek to make sure money from the largest corporations which develop our resources stays in the Krai's economy and facilitates development of allied industries – machine-building, construction, and transport enterprises. We can see a lot of promise there.

It is especially important for development of **machine-building**. On the one hand, it is a stand-alone sector, but, at the same time, it depends on core sectors which shape demand for its output. Therefore, our strategic priorities here include manufacturing equipment for maintenance and rehabilitation of industries in the region.

Developing innovative machine-building sectors in the

sphere of space and communication is a stand-alone area. It is them which determine cutting-edge of the Krai's economy in the sector even today.

In addition to the three core sectors I have mentioned, **timber processing complex and agro-industry** also play a special role in the Krai's economy. In addition to their economic significance, they also play an important social role – ensure employment of population throughout the region and maintain settlement system. Probably, if it were not for active development of those two sectors, all rural residents would eventually move to cities in search of jobs.

Lest it happens, we regard industrial production of new products of high-level processing of forest resources and development of domestic consumption of forest products to be a priority in the **timber processing complex** development.

The main task is to increase 3-4-fold **return on 1 m³** of timber harvested in the Krai by 2025 in order to bring it close to that of lead timber-processing nations in the world: Finland, Canada, USA, and Sweden. Otherwise difficult to access timber base and the Krai's remoteness from sales markets will **become an insoluble problem for future development of the sector**.

As regards **agro-industry**, our enterprises operate in the most difficult conditions because Krasnoyarsk Krai is a risk-farming area. In such an environment, support of agriculture by the Krai's government is justified – it is the largest in Siberia at present.

The main challenge for development of agriculture in the context of Russia's accession to WTO is to enhance efficiency of production. In addition to promoting grain production, we emphasise livestock production, introduction of advanced technologies and high-level processing of raw materials, and development of a distribution system for local products.

We consider it crucial not just to ensure the Krai's food security but also to expand gradually to markets in the country's east.

Distinguished colleagues, as I have pointed out already, **provision of infrastructure is a *sine qua non* for development of Siberian territories.** Completion of infrastructure construction within the framework of Angaro-Yenisey cluster development and construction of 400-km long Kuragino-Kyzyl railroad which will provide access to the mineral resources base in the Krai's south and in the Republic of Tyva will be key projects in the area in the coming decade.

Construction of oil main from Kuyumbinskoye and Yurubcheno-Tokhomskoye fields to head oil pumping station in Eastern Siberia-Pacific Ocean pipeline system is a no less important project.

We also count on the Northern Sea Route development and plan to set up an international transport hub on the basis of Krasnoyarsk airport and develop cross-polar routes via the Arctic Pole, connecting North America and South-East Asia countries.

In order to make the Krai's remote northern areas accessible by transport, airports in the north will be upgraded and rehabilitated and aircraft fleet will be renovated with support from the federal centre. In the road transport sector, projects for development of road network in Krasnoyarsk agglomeration and roads in new investment project areas will be a priority.

Summarising the above and saying what we plan to achieve by 2020, it looks as follows briefly.

Gross regional product will increase more than 1.5-fold. Commodities sector will persist, but a system will be created for processing the commodities produced with an emphasis on

high value-added products. The growth should be ensured by increasing **labour productivity because we do not expect any significant population growth.**

Thus, by 2020 **the role of Krasnoyarsk Krai as a whole as a powerful industrial hub in Russia's east** comprising the economic space of Siberia and Far East **will increase.**

Of course, investment is a good thing but economic growth is ensured by people. People's health and education are, in our opinion, one of the main factors of the area's competitiveness. High income and interesting projects alone will not suffice for life in severe conditions in Siberia. Therefore, it is the authorities' priority task to create comfortable conditions for the population.

Given the topic of my presentation and limited time, I **cannot dwell on the social projects** in the Krai, but I would like to underscore that **more than 70%** of the Krai's budget funds is channeled each year for healthcare, education, sports, culture, and social support.

Importantly, **social sphere gives major impetus to economic development today** in the form of new demand for infrastructure and consumption of goods and services. We thereby promote construction market and production of materials and various kinds of equipment within the framework of government orders.

Over the past two years alone, the largest perinatal centre in Russia and cardiovascular surgery center were put into operation in the Krai, a new cancer center, new schools, hospitals, sports facilities, and kindergartens are being built. And the work continues.

Distinguished colleagues, I have set out in my presentation our conceptual views of economic growth poles in the Krai. But it does not mean that work on the Krai development strategy is over. I am confident that the dialogue launched today within the

framework of the conference will benefit the region. We are also to continue our work within the framework of the territorial review of Krasnoyarsk agglomeration.

I would like to underscore that we are still interested in the cooperation, we are open to dialogue and are willing to take advice and use best practices the OECD member countries accumulated in the development of regional economies.

Thank you for your attention.