Role of large mineral mining companies in resource regions: Finding tools of balanced interaction

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Abstract. This article is devoted to assessment of weight of large mining companies in resource regions of Russia in terms of Kuzbass. Performance of three Kuzbass companies is analyzed with demonstration of positive and negative economic effects. Obstacles for balanced development of the resource region are revealed. The key problem is interaction between regional authorities and large mining companies, as well as the enclave nature of regional economy. For the balanced development of resource regions, it is suggested to define and fix rules of play by means of a regulatory contract.

1. Introduction

Despite sanctions imposed by Western countries on Russia, the country’s largest mining companies are scratching for new opportunities for business growth and expansion. Such opportunities may be offered in the regions the companies base. Resource regions are represented by vertically integrated companies (VIC) from mining and intermediate sectors and are characterized by steady replication of dual economy of enclave nature, i.e. economy with high-production export-oriented sector isolated from the rest of economy. The process of finding tools for development aims to abate impact of VIC on the resource region economy and to ensure VIC–resource region interaction to the benefit of mutual balance advancement.

The impact exerted by large exterritorial companies on their presence area is the subject of study for many Russian and foreign researches, including V.A. Kryukov, V.V. Shmat, V.I. Nefedkin, A.G. Shelomentsev, W.M. Corden, J.P. Neary, J. Saks, A. Warner et al. Mining companies in the fuel-and-energy sector are the largest tax payers and employers; they form vertical coordination and displace horizontal management based on interaction of equal subjects on the market [1]. Moreover, resource regions differ in “make-up” of the leading sector. For instance, the Kemerovo Region relies on the coal mining industry unlike many other regions where the chief role belongs to oil-and-gas companies. Fluctuations in coal mining are mirrored by the regional economy. Here, we should emphasize distinctions of the coal industry as against the oil and gas sector: first, up 97% of coal is produced by large mines; second, almost all coal mines are private companies; third, production is concentrated and labor efficiency grows year by year; fourth, coal export expands while internal consumption remains on the same level; fifth, coking coal is totally subjected to preparation while cumulative processing of power-generating coal is low (30% in 2017).
2. Analysis of activities of coal mining companies in the Kemerovo region

The influence of coal mining companies on regional economy was assessed based on the analysis of their delivery chains. To this end, Russia’s three largest coal-mining companies operating in the Kemerovo region were selected: SUEK, SDS Ugol and Evraz.

In 2016 SUEK produced 105.5 Mt of coal, or 27% of overall coal production in Russia (1st place). Inside the Kemerovo Region, the company produced 37.7 Mt of coal (1st place among the other areas of presence). Aside from Kuzbass, the company operates large surface and underground mines in other regions of Siberia and Far East of Russia [2].

SDS Ugol Holding produced 28.6 Mt of coal in 2016, which made 7% of total coal production in Russia (3rd place). The company operates entirely in Kuzbass.

Evraz produced 22.1 Mt of coal in 2016, which was 6% of overall coal production (5th place in Russia). The company’s output in the Kemerovo region was 22.5 Mt [3].

Below, we present the supply chains of the companies, their types and effects on the regional economy.

SUEK is a vertically integrated company; it holds control over the whole cycle—from coal extraction, preparation and shipment to marketing all over the world via network of the manufacturer’s representatives (Figure 1).

![Figure 1. Supply chain of SUEK.](image)

SUEK possesses port and railway infrastructure to deliver products to consumers in Russia as well as in the Atlantic and Asia-Pacific countries. The global supply chain of SUEK has adverse effect on the areas of the company’s presence as it shapes enclaves.

SDS Holding is a political conglomerate formed by way of acquisition of effective different-branch business using managerial assistance rather than through the business development. In the resultant supply chain, the company has a control center in all divisions (Figure 2). SDS Ugol carries out extraction, preparation and haulage of coal; some part of coal goes to SDS Energo. Thus, this supply chain represents coal assets within a conglomerate. This variant is the most productive for the region.

Evraz is a vertically integrated mining and metallurgical company. It possesses its own reserves of iron ore and coking coal to meet the internal requirements nearly in full. The supply chain of Evraz is coal assets within a metallurgical company (Figure 3).
Apart from negative impact, large-exterritorial companies have positive potential. The potential is generally represented by four blocks: (1) nature preservation/ecology; (2) social responsibility; (3) career; (4) cooperation agreement with territorial, regional and local authorities (table 1).

In terms of Evraz company, Health, Safety and Ecology block includes: (i) strategy; (ii) health and safety; (iii) environment; (iv) international safety standards.

Charitable Projects block is (i) children; (ii) youth; (iii) education; (iv) environment; (v) sports.

Our Fellows block is comprised of (i) personnel development strategy; its principles are: competitive wage for the best productivity, 100% personnel engagement in development programs, in-house specialists to take new vacancies; (ii) Evraz youth; (iii) professional advancement.
Table 1. Interaction between large coal mining companies and regional authorities in Kuzbass [2–4].

|                        | Evraz                                      | SUEK                                          | SDS Holding (SDS Ugol)                          |
|------------------------|--------------------------------------------|-----------------------------------------------|-------------------------------------------------|
| **Ecology/Nature Preservation/Occupational Safety** | **Health, safety and ecology:** | **Included in Sustainable Development block** | **Ecology:**                                   |
|                        | (i) strategy                               |                                               | (i) ecological management/philosophy            |
|                        | (ii) health and safety                     |                                               | (ii) environmental impact                       |
|                        | (iii) environment                          |                                               | (iii) biodiversity preservation                 |
|                        | (iv) international safety standards        |                                               | (iv) control blasting                           |
|                        |                                            |                                               | (v) basic aspects of activities                 |
|                        |                                            |                                               | (iv) contacts                                   |
| **Social Responsibility/Social Policy**            | **Charitable projects:**                  | **Sustainable development**                   | **Social policy:**                              |
|                        | (i) children                               |                                               |                                               |
|                        | (ii) youth                                 |                                               |                                               |
|                        | (iii) education                            |                                               |                                               |
|                        | (iv) environment                           |                                               |                                               |
|                        | (v) sports                                 |                                               |                                               |
|                        |                                            |                                               |                                               |
| **Career/Personnel Policy**            | **Our fellows:**                           | **Career:**                                   | **Personnel policy:**                           |
|                        | (i) personnel development strategy         |                                               | (i) personnel monitoring                        |
|                        | (ii) Evraz’s youth                         |                                               | (ii) personnel reserve                          |
|                        | (iii) professional development             |                                               | (iii) interaction with all-level professional education institutions |
|                        |                                            |                                               | (iv) continuing education and professional improvement |
|                        |                                            |                                               | (v) health monitoring                           |
|                        |                                            |                                               | (vi) Counseling subprogram                      |
|                        |                                            |                                               |                                                |
| **Cooperation Agreements with the Kemerovo Region** | (included in the blocks above)            |                                               |                                                |
|                        | None                                       | + 2018                                       | + 2018                                         |

Sustainable development at SUEK involves: health and safety, environmental protection, personnel. Regional development (SUEK implements social programs in 48 towns in various regions of Russia) and social reports (reports on basic activities and performance of the company towards production, economic, social and ecological objectives are published since 2016).

At SDS Ugol, Ecology block includes ecological management/philosophy; environmental impact evaluation; biodiversity preservation and environment monitoring under blasting. SDS Ugol is an official partner of the draft program of UN, Global Ecological Foundation and Russia’s Ministry of Nature: Biodiversity preservation objectives in policy and development programs of the energy sector of Russia. The company’s personnel policy involves personnel monitoring, formation of personnel...
reserve, communication with professional education institutions at all levels (for instance, the Company has negotiated a long-term contract with the Kuzbass State Technical University for with the target training of specialists, continuing education and professional improvement), health monitoring and Counseling subprogram. The Company’s Social Policy is presented without explanations.

SUEK and SDS Ugol concluded cooperation agreements with the Kemerovo Region in 2018. Furthermore, SUEK has cooperation agreements negotiated with the Khabarovsk and Krasnoyarsk Territories in 2017.

Thus, all three VICs possess potential to handle the problem connected with the negative impact on the area of presence. On the other hand, fluctuating policy relative to the resource regions disables a balanced decision. Underdevelopment of the institutional environment with an attempt to offer a universal transition approach without regard to signatures of each resource region and unpreparedness of development institutions to function efficiently provokes the opportunist behavior of both business and regional authorities.

The authors propose a way out by introducing a regulatory contract in the area of power engineering. The initiator was the Ministry of Finance of Russia by elaborating in partnership with the Russian Union of Industrials and Businessmen the Law on Protection and Encouragement of Investment in the Russian Federation and on Introduction of Alteration in Some Legislative Acts of Russia [5].

It is suggested to alter the public and private partnership format. The governmental agencies will present their projects for investors in the road show format in compliance with the generally accepted business standards (NPV, IRR) and other financial and economic indices. Such approach will provide a “filter” to pick up the most financially attractive projects.

The principal singularity of the investment protection and encouragement agreement (IPEA) lies in the stability of the project implementation conditions. According to the draft, since IPEA enters into force and up to its expiration, the company implementing the project is not subjected to any amendments in standards and regulations (such as international contracts, federal laws, legislations of subjects of the country, etc.) enforced after the effective date of the given agreement, which regulate production or any other economic activities under the project implementation and make the project conditions worse [6]. The regulatory contract format reduces investor’s risks by means of the guaranteed governmental protection from changes in the rules of play in the course of project implementation.

The agreement can be concluded in case of investment of not less than 3 billion rubles and will preserve all fiscal and regulatory terms for the investor for the period of 6 years. Upon investment of more than 30 billion rubles, the guarantee of no institutional changes extends for the period of 12 years. It is worthy of mentioning that participants of the agreement are the Russian Federation, a private investor and a subject of the Russian Federation inside which the project is to be implemented.

3. Conclusions
In this manner, the balanced interaction between large mining companies and regional authorities is constrained by economic privacy of a region, vector of development of the region and its preparedness to alter the model of development. The background may become the regulatory contract capable to fixate the rules of play in the region for a long term in order to avoid opportunism. In this case, there appear conditions for new value-added production projects (based on NPV) [7] and reduction of resource dependence [8].

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