

# Government regulation's priority instruments of fishery enterprises in Russia

## Los instrumentos prioritarios de la regulación gubernamental de las empresas pesqueras en Rusia

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#### ABSTRACT:

In a market economy fishery activity is most susceptible to the negative impact from different factors of the external and internal environment. It was demonstrated by our country's experience that the further development of productive fisheries forces is possible only if the government will support it using different tools. Actually, development of the mechanism of government regulation in this sector becomes an objective condition and practice demand for a modern market economy. One should note here that our conclusions also hold true when fisheries companies have a small scale of innovations, rapid deterioration fishing fleet property, and non-competition of Russian fish exports on the world market. Based on our results, some recommendations will be given for improving the domestic system of government regulation.

**Keywords:** Russia, fisheries management, government regulation, government support, support tools, principles

#### RESUMEN:

En una economía de mercado, la actividad pesquera es más susceptible al impacto negativo de diferentes factores del entorno externo e interno. La experiencia de nuestro país demostró que el mayor desarrollo de las fuerzas pesqueras productivas solo es posible si el gobierno lo apoya con diferentes herramientas. En realidad, el desarrollo del mecanismo de regulación gubernamental en este sector se convierte en una condición objetiva y en la práctica demanda de una economía de mercado moderna. Cabe señalar aquí que nuestras conclusiones también son ciertas cuando las compañías pesqueras tienen una pequeña escala de innovaciones, un rápido deterioro de las propiedades de la flota pesquera y la no competencia de las exportaciones rusas de pescado en el mercado mundial. Sobre la base de nuestros resultados, se darán algunas recomendaciones para mejorar el sistema interno de regulación gubernamental.

**Palabras clave:** Rusia, gestión de la pesca, regulación gubernamental, apoyo gubernamental, herramientas de apoyo, principios

## 1. Introduction

The first thing that needs to be said is fisheries management traditionally adopts a special position in the economy of the Russian Far East in general and Primorsky Krai in particular. It

ensures food security and employment of the population by stimulating economic activity in related industries.

On one hand, economic reform conducted in the 1990s helped create fishery entrepreneurship and promoted precompetitive developments. But on the other hand, it excludes government from fulfillment of important functions, which has led to the disintegration of economic ties between enterprises, and the loss of their economic stability. Without a doubt, this has led to a decrease in the total yield of aquatic biological resources from 7.8 million tonnes in 1990 to a record low of 2.96 million tonnes in 2004 (yield now has grown to 4.75 million tonnes), depletion of aquatic biological resources caused by the growth of illegal, unreported and unregulated fishing, and unsatisfactory provision of fish products to the entire population of Russia.

Moreover, the material and technical base of the fishery is in decline. It is shown by a high level of physical and moral depreciation of the completely non-refreshing fishing fleet and reduction in production and processing. Loss-making enterprises occupy a large share of the total fisheries. Domestic resources for the renovation of capital stock are not being formed, and foreign sources of investments are closed due to sanctions. Unfortunately, business structures can't independently solve the strategic tasks of innovative development without government support.

Because of these conditions, there is a need to find new approaches to government regulation of entrepreneurship, to determine priorities for Fishery managements' development to the concentration of financial and material resources, and to create a favorable economic climate for the dynamic development of entrepreneurial structures. If we deeply explore factors determining the influence of the government's economic policy which is directed on the fishery development, it will provide an opportunity to better understand the patterns underlying modern economic processes and will also make it possible to develop recommendations on government's support for fishery business structures.

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## **2. Materials and methods**

Organizational economic aspects of the substantiation and use of various approaches to government regulation of the development processes in national economy, including fisheries activities, were studied in the works of O.G. Golichenko, Yu.V. Simacheva, M.G. Kuzyka, A.P. Latkina, T. V. Terenteva, G.D. Titova, and others (Vorozhbit, Terentyeva, Titova 2016; Korneyko, Latkin 2015; Vorozhbit, Korneyko 2016; Terenteva, Shashlo, Kuzubov 2017; Golichenko 2017; Simachev, Kuzyk 2017; Zhuk 2015).

In these works, priority tools for government's fishery business structures' regulation are not identified, using modern requirements for ensuring their effective functioning and sustainable development.

The purpose of the research is the development of methodological basis of government instruments' regulation formations and support of entrepreneurship in fishery activities for modern requirements and development features.

The objects of the research are processes of government regulation of entrepreneurship in fisheries management.

The subjects of the research are the managerial aspects of increasing the effectiveness of entrepreneurship's government regulation in fishery activities with a view to ensuring its sustainable development.

The theoretical and methodological basis of this research is the fundamental text of economic theory, the results obtained by leading domestic and foreign economists, revealing the patterns of entrepreneurship's development in a market economy

The research was conducted using system, functional, comparative, interdisciplinary approaches and some tools of heuristic examination and macro- and microeconomic analysis.

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## **3. Results and discussion**

Despite the measures taken by government in recent years to stabilize fisheries production, it continues to experience different problems.

That's why the fishing and transport fleet in Primorsky Krai (Russian Far East) has been almost completely discontinued. As for fish farming, it continues inertial development. The strategic purposes of ensuring food security and fulfilling social functions are pushed to the back burner. The average per capita consumption of fish products by citizens of Primorsky Krai decreased by 1.6 times (from 52 kg in 1990 to 32 kg in 2016), despite of their significant role in population's nutrition.

Heuristic analysis methods based on expert assessments of 52 people (managers, owners and specialists of fishery enterprises) were used to identify and rank problems of entrepreneurship in fishery management of Primorsky krai.

Problems were ranked in terms of their importance for business entities using conducted research (Table 1)

High ranks (1, 2) were received by resource problems (there are no financial resources or rights to catch aquatic biological resources). Then there are material and technical problems (ranks 3 - 5). On the 6th place, there are problems of relations with authorities. Problems connected with the functioning of the logistics infrastructure finishes the rating with 7th and 8th ranks.

**Table 1**  
Assessments of problems affecting the development of the Primorsky Krai Fishery management

<b>Group number</b>	<b>Name of the problem</b>	<b>Percentage of respondents</b>
1	Lack of financial resources	63,0
2	Inadequate level of quotas for catching aquatic biological resources	52,6
3	High fuel prices, high tariffs on rail transportation, high prices for electricity, port facilities' high prices	48,4
4	Ultimate depreciation of the fleet (fishing and transport)	40,5
5	Problems with the acquisition of technological, field equipment, spare parts in the domestic Russian market	36,9
6	Relations with authorities	31,5
7	Problems with the sale, storage of fish products in the domestic market	21,1
8	Others	15,8

Awareness of the real state of the fishery management makes it possible to propose economic arguments in favor of the need for systemic development of new tools and the expansion of the application of already available tools for its support.

Government support, being an integral part of government regulation, is a set of organizational, legal, economic and other measures that are established for the purpose of long-term development of fisheries management structures. Existing instruments of government support for fishery management are presented in Table 2

**Table 2**  
Government support's tools of entrepreneurship in fishery management

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<b>Provision of entrepreneurial support</b>	<b>Results of the adoption</b>	<b>Critical assessment</b>
Long-term distribution of quotas among users	Companies have the opportunity to carry out long-term planning of activities	The definition of production quotas for water biological resources(WBR) share is based on information of the production volume for 4 years, thereby excluding access to fishing for those who did not have a history of fishing at all, which contributes to the growth of the shadow market of quotas with the use of bareboat and time charter schemes
Decrease number of fishery objects, which are established by the Total Allowable catch (TAC), is established, the harvesting is free or using according to the "Olympic system"	It promotes increased activity of economic entities, development of coastal fisheries	Among 230 species of WBR that can be caught freely or by the "Olympic system", only a few are attractive for entrepreneurship, because of high fishing costs or small number of its facilities
Transition from the general taxation to a special tax regime with the payment of UAT (unified agricultural tax)	Additional financial resources for renewal fixed assets and the fishing fleet	Applicable only for companies with a population of no more than 300 people or in the presence of a town-forming (village-forming) status.
Measures of protectionism: prohibition or restriction of the importation of foreign producers fish products	The ban on fish, crustaceans, mollusks and other aquatic invertebrates' imported from Norway and other countries, as a consequence, increasing the capacity of the domestic market for Russian fish producers	Competition's decrease in the Russian fish market contributed to the penetration of the Russian market of fish products of dubious quality and falsifications. There is an Information vacuum of the buyer about the product. There is no trade market information about places, conditions of growing bio resources and production of products from them, as is done in the EU countries and the USA
The fee rates for using of WBR facilities are set at a rate of 15% at the collection rates provided for in rep. 333.3 of the Tax Code of the Russian Federation	Additional financial resource of investment activities of fishery enterprises	The discriminatory nature of the instrument does not correspond to the basic principles of tax legislation
Reduction time for passage border, customs, veterinary control of fishing vessels and simplification procedure for their customs clearance in the ports of	Coordination activities of all control services allows for faster registration of vessels in the Russian ports to 3 hours, which saves costs and positively affects the quality of perishable fish products	The restraining factor remains bureaucratic red tape when receiving cargo in the port. The subjects of management refract the legislative initiatives in their own interests
Granting subsidies from the	Stimulates using of borrowed	Russian banks, unlike foreign banks,

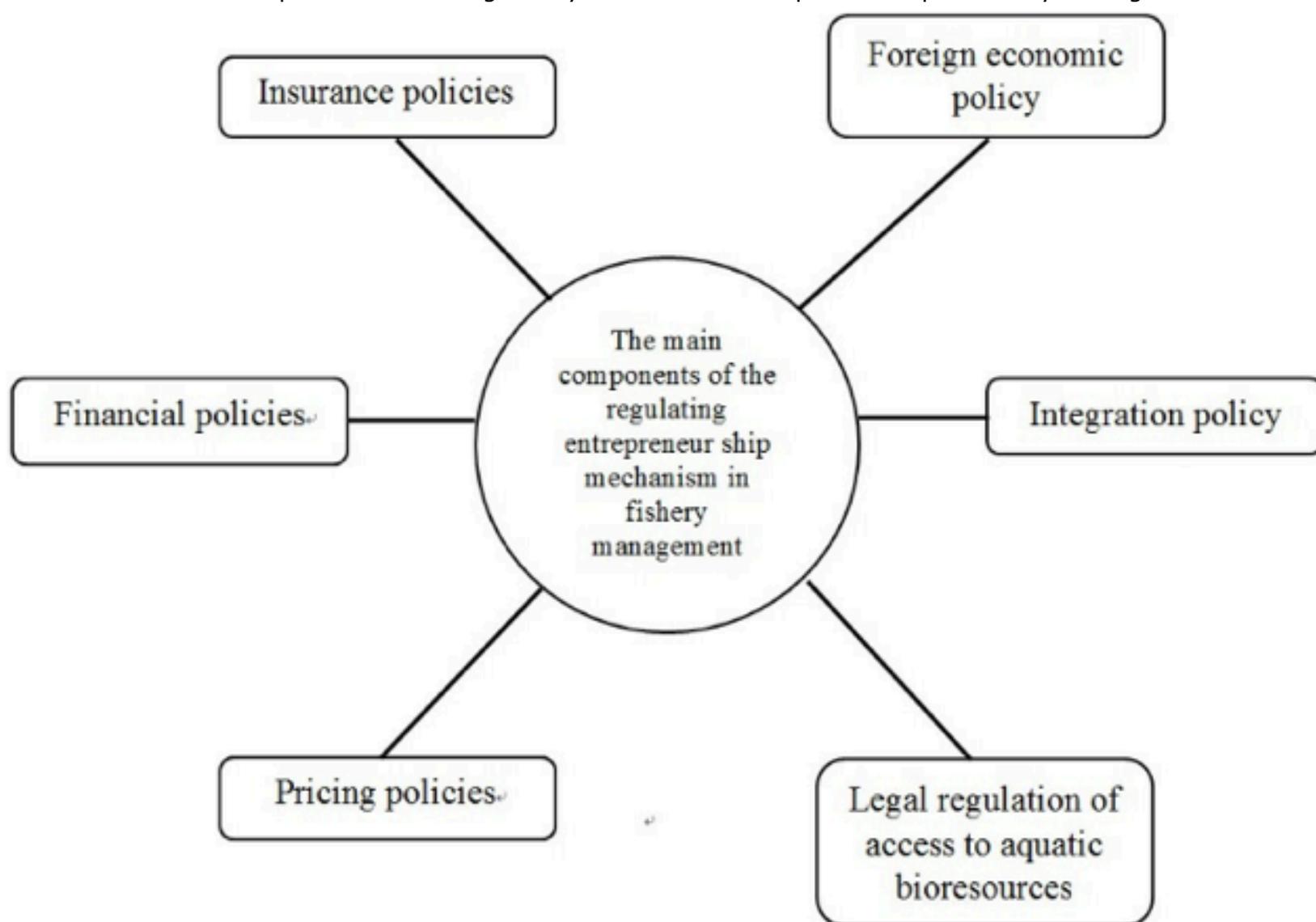
federal budget to reimburse part of the cost of paying% on loans for up to 5 years, received in Russian credit organizations for the construction and modernization of fishing vessels	funds for the renewal of fisheries business structures	are reluctant to lend to fisheries managers because of the insufficiency of the collateral value of worn-out fixed assets. Does not take into account long-term loans
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Source: drafted by author on the basis of: (Decree of the Government of the Russian Federation in 2014, the Presidential Decree of 2014, the Tax Code of the Russian Federation of 1998, the Tax Code of the Russian Federation (second part) of 2000; Federal Agency for Fishery’s official website

In the presented table 3, there is a distinct lack of systematic character of modern instruments of state influence on the fishery management. In addition, the tools used are clearly not enough to solve the problems of domestic fisheries’ innovative development. In this regard, it was proposed to develop existing measures to support entrepreneurship in the fishery management and make them systemic (Pictures 1,2 , Table 3)

**Picture 1**

The main components of the regulatory mechanism Entrepreneurship in fishery management.



**Table 3**

Economic and Administrative Support Tools for fishery management.

<b>Mechanisms and tools regulation</b>	<b>Ways to manage</b>
Budget	Loans and subsidies
	Leasing
	Public investment

	Financing access to World ocean
	Financing of research, consulting services
	Compensation fuel payments, rail transportation
	Financing national and regional investment program
Taxation	UAT (unified agricultural tax)
	Deductions for fees biological water resources.
	Accelerated depreciation
Credit	Lending credits for quotas
	Loan guarantees
	Long-term preferential lending
External economic policy	Requirements laid down in health standard
	Commercial information requirements
	Certification
	Restrain the quantity of imports
	Customs and tariff barriers
Legal access regulation to aquatic biological resources	Expanding the number of objects with free fishing or fishing according to "Olympic system"
	The admission to the distribution of quotas for the catchers of those who did not have a fishing history
Pricing policy	Minimum purchase price for raw fish
	Indicative prices
	Trade margin
Integration policy	Weakening of the antimonopoly mechanism
	Legal support for the registration of new integrated structures
	Organization and participation in regional clusters
Insurance policy	Insurance tariffs for property insurance, liability insurance, business risks

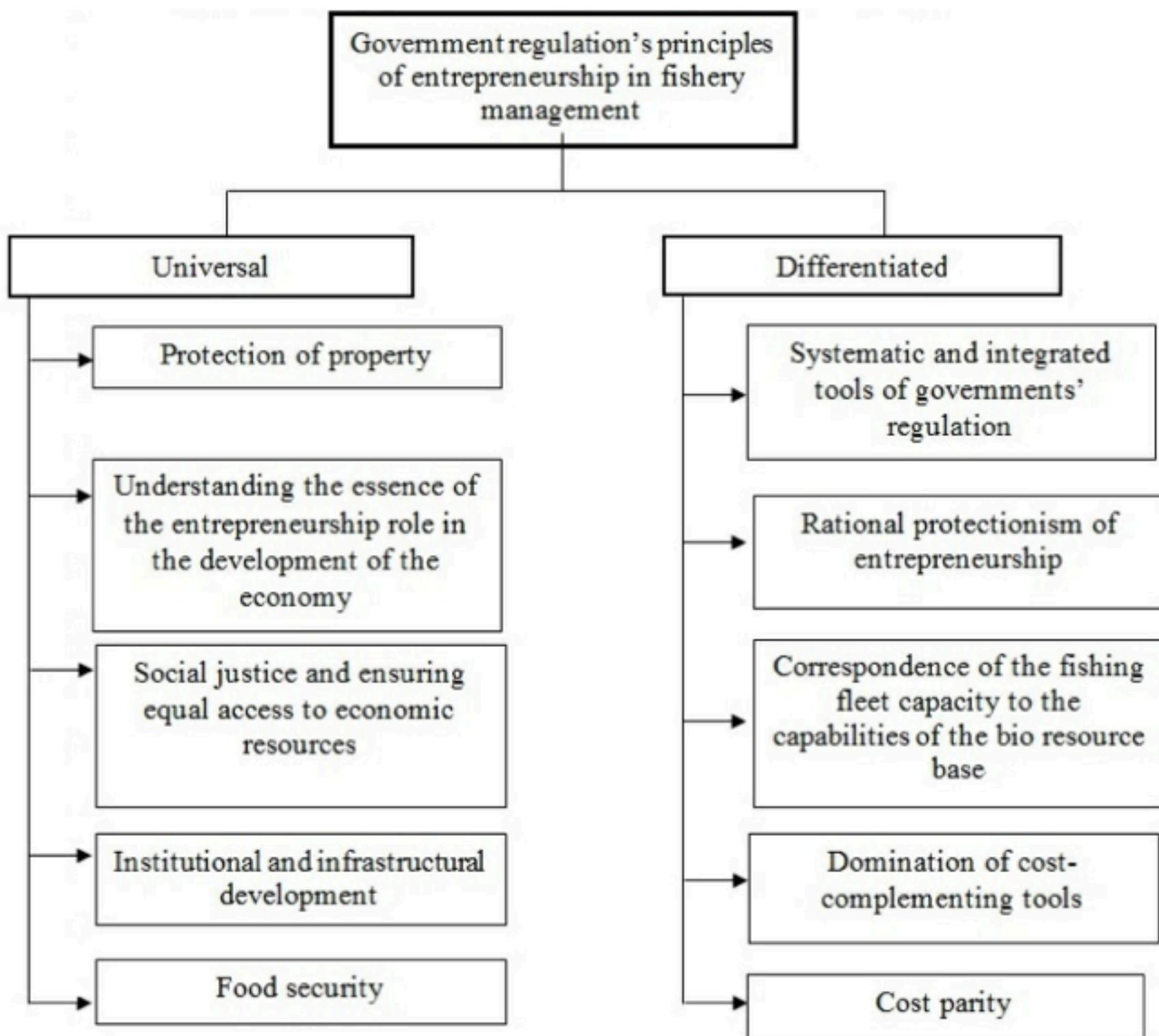
First, for successful implementation, proposed measures Government should rely on the above principles of government regulation of fishery management (Picture 1)

So government support of fishery business structures should be considered not only from the position of payments from budgets of all levels, but also from the position of the organizational and economic mechanism that creates the conditions for the stable functioning and development of domestic producers.

We will arrange measures of government support in terms of their need for them in the following order: financial (priority), administrative regulation of access to bio resources, foreign economic (Picture 1) Others should supplement and strengthen the measures of this group.

Most important for fishery producers are the instruments of financial policy which include: the spread of UAT, the expansion of access to credit resources (especially of a long-term nature) the compensation of fuel costs (in the structure of costs for the production of fishing and fish farming, fuel costs are 24 , 4%), railway transportation, and others. An important type of government budget support should be the investment programs of fishery management. The state redistribution of financial flows in favor of fisheries is a compensation that puts the work of fisheries managers on par with the labor of workers in other activities.

**Picture 2**  
Principles of government regulation of fishery management



Addressing of administrative barriers in the legal regulation of access to aquatic bio

resources allows fisheries to enter business entities that do not have a fishing history or who do not have sufficient shares in the quotas for the production of aquatic organisms.

Rational protectionism application, combining free trade and protection interests of domestic fisheries managers, will help to reduce dependency on imports, especially the import of artificial origin fish, and increase the capacity and accessibility of the domestic market for Russian producers of fish products.

Great importance for fishing industry is the mechanism of pricing, which is unbalanced due to existing disparity in production and circulation prices. In this regard, in government's price policy and the principles of free pricing should be applied, but in combination with government price regulation, the establishment of minimum purchase, and indicative prices.

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## 4. Conclusion

In conclusion, one can say that clear position of government in the solution of fishery management urgent problems, setting priorities and realization of the holistic system of fishery management's support will afford Russia the ability to fulfill strategic goals of innovative development and restore the old leadership positions in the world fisheries relations.

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