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New Opportunities for Investors to the Russian Far East

The Russian Far East has significant importance for the country and the attraction of investments and improvement of the investment climate in the region is the top priority of the Russian government. Investors have been provided with new opportunities such as the possibility to use the advantages of the Advanced Special Economic Zones and Free Port of Vladivostok as well as to receive the measures of state support of infrastructure projects.



The Importance and Potential of the Russian Far East

The Russian Far East comprises the extreme eastern parts of Russia, between Lake Baikal in eastern Siberia and the Pacific Ocean. This region of 6,169,300 square kilometres occupies a significant part of Russian territory (36 percent). It is worth mentioning that according to the 2010 Census, the Far Eastern Federal District had a population of 6,293,129 (5 percent of the Russian population). Given the vast territory of the Russian Far East, 6.3 million people translates to slightly less than one person per square kilometre, making the Russian Far East one of the most sparsely populated areas in the world.

The Far East, without a doubt, has geopolitical and geostrategic importance for Russia. The reasons for this are the following:

- A strong resource base, in particular the territory has significant resources of diamonds, gold, natural gas and oil, timber, fresh water, seafood and other resources.
- A favourable economic and geographical location in Russia and the Asia-Pacific region. The Russian Far East has a

border with the countries with the fastest growing economies: China, Japan, and South Korea. The region has access to two oceans, the Pacific and Arctic Oceans with the Northern Sea Route being a shorter route to connect Northeast Asia with Western Europe, compared to the existing preeminent route that goes through the Suez Canal and the route around the Cape of Good Hope. The location of the Russian Far East makes it one of the most important sea gates of the country.

Creation of Advanced Special Economic Zones and Free Port of Vladivostok

Since the Far Eastern Federal District has significant transport and economical potential, improving the investment climate and creation of a powerful legal framework for investors in the Russian Far East are at the top of the priorities of the Government of the Russian Federation and the Ministry for the Development of the Russian Far East. One of the measures for achieving this goal is the creation of the Advanced Special Economic Zones ('ASEZ') and Free Port of Vladivostok ('FPV').

Generally, ASEZ and the FPV are the territories with special legal status. The government grants ASEZ and FPV investors tax and customs benefits to develop priority Russian industry sectors and regions.

The law regulating ASEZ was adapted in 2014 and came into force starting from the end of March 2015. As of today ASEZ may be established in the territory of the Far Eastern Federal District of Russia only and after 31 March 2018 it will be possible to establish ASEZ in other territories of the Russian Federation.

As of November 2015, three ASEZ are being actively developed, which are:

Komsomolsk ASEZ: within the boundaries of Komsomolsk-on-Amur and Amursk, four main residents (production of aircraft parts and wood processing), private investment amounting to 7.9 billion rubles, required budget financing of 1.2 billion, 770 jobs to be created.

Nadezhdinskaya ASEZ: three main residents in Nadezhdinsky district (transport and logistics centre, confectionery factory, food industry facilities for the production of semi-finished products), private investment amounting to 6.7 billion rubles, required budget financing of 3.9 billion, 1,630 jobs to be created.

Khabarovsk ASEZ: within the boundaries of Khabarovsk, nine main residents (bitumen plant, agricultural greenhouse complex, warehouse transport and logistics complex and airport), private investment amounting to 15.4 billion rubles, required budget financing of 2.4 billion, 2,574 jobs to be created.

Beside these, in accordance with the Russian Government Decree, six additional ASEZ were approved for development. Such ASEZ are the Mikhaylovsky ASEZ specialising in animal breeding and crop production; the Priamursky ASEZ specialising in the manufacturing industry and logistics; the Belogorsk ASEZ established for development of the agricultural sector; the Kamchatka ASEZ with tourism and the manufacturing industry as the areas for development; the Beringovsky ASEZ specialising in mining operations; and the Kangalassy ASEZ being an industrial park.

ASEZ are created for 70 years and this term may be extended upon the Decree of the Government of Russia.

ASEZ residents can be a legal entity or an individual entrepreneur not participating in regional investment projects and not having branches and representative offices outside of the relevant ASEZ. The minimum amount of investments for an investor is 500,000 rubles (approximately US\$7,800). ASEZ provide residents with a number of advantages aiming to increase investment returns and reduce risks, in particular:

- (1) full exemption from the corporate property tax and VAT (for the first 10 years);
- (2) a maximum federal and regional profits tax rate which may be 5 percent in the first five years, and for the next five years the federal profits tax rate will be 2 percent and the regional profits tax rate will be at least 10 percent;
- (3) reduced rates of mineral extraction tax;
- (4) accelerated depreciation;
- (5) the rate of social security contributions is reduced to 7.6 percent (instead of approximately 30 percent) for the 10 years for those companies which become residents within three years from the establishment of the ASEZ.

Also residents of ASEZ are entitled to receive the following customs and social opportunities: preferential land use, including preferential rental rates (0.5 – coefficient of base lease rate for buildings, 0.4 – coefficient of base

lease rate for lands, 0.001 – coefficient of rate for lease of buildings, lands and other objects of infrastructure under lease agreement with the managing company), subsequent preferential repurchase of the land; a regime of a free customs zone; a one-stop approach for investors which means that all state and municipal services for investors including transport services, utility services, communication services are to be rendered through the managing company (multiservice centre), no audit without consent of the Ministry for the Development of the Russian Far East can be performed; a shortened timeline for obtaining approvals and authorisations, in particular it is proposed that the terms of property registration, obtaining electricity, dealing with construction permits in ASEZ will take significantly less time in comparison with the territories outside ASEZ.

Moreover, employers, that is, ASEZ residents, also have some additional incentives. These include the absence of the obligation to obtain work permits for foreign employees, no requirements as to the salary amount of highly qualified specialists, and some others.

The other opportunity for foreign investors is the Free Port of Vladivostok that continues the ongoing development process of Russian Far East. The FPV is an area of the Primorskiy region and includes 15 municipal entities in the south of Primorsky Krai, as well as key ports of the southern Russian Far East – from Zarubino to Nakhodka, covering an area of approximately 30,000 square kilometres.

The main goal of the FPV is to attract suppliers and investors, including those from the Asia-Pacific region and to achieve the transport potential of the Russian Far East. Among the preferences for economic progress are tax relief in respect of profits tax, corporate property tax; reduced rates of social security contributions, acceleration of licensing procedures; a simplified administrative treatment where the FPV provides residents with favourable conditions for port activities and an increasing attractiveness for entry of vessels:

- (a) free customs zones regimes which can be applied in the territories of the FPV such as sea ports and an airport with the surrounding areas, territories determined by the Supervisory Board of the FPV and territories of the residents;
- (b) an integrated one-stop border control point and 24/7 border crossing check-points;
- (c) exports and imports free of delays if an electronic

customs declaration is submitted;

- (d) the ability to store, demonstrate and sell rare items and luxury goods generally on the same basis as it can be done in Luxembourg, Singapore and Switzerland.

There are also other benefits, which may influence an investor's business, including a simplified visa procedure for those individuals who arrive in the FPV and leave the Russian territory within eight days (that is, an eight-day single-entry visitor's visa issued at the border).

Furthermore, applicable legislation allows persons with medical education obtained in foreign countries to conduct medical activities in the territory of the FPV which creates conditions for the establishment of foreign medical clinics. Additionally, the law entitles the Russian Government to stipulate licensing considerations for educational activities of entities in the territory of the FPV in order to create conditions for implementation of the best foreign educational methods and standards. This may lead to the establishment of new educational organisations, including foreign organisations, in the territory of the FPV.

An investor who is planning to start a business in ASEZ or in the FPV and to use the state-provided preferences, must obtain a special resident status beforehand (the process of obtaining the resident status includes filling in an application to local authorities and some other formal procedures). Obtaining the status of resident involves the steps described below.

First, the potential investor shall submit an application to the managing company regarding conclusion of an agreement on carrying out the activity in the territory of the ASEZ or the FPV. The managing company has 15 days to consider the application and to approve it or to provide the applicant with a reasonable refusal. Upon approval of the application, the managing company and the applicant or the subsidiary of the applicant enter into an agreement on carrying out the activity in the territory of the ASEZ or FPV. After concluding the agreement, the managing company registers the applicant in the Register of ASEZ or FPV residents respectively. Registration takes three days.

ASEZ and the FPV are managed by the JSC Corporation of the Russian Far East Development, a state-owned managing company. Shareholders' rights are exercised

by the Ministry for the Development of the Russian Far East. This managing company acts as a developer and is responsible for infrastructure functioning. Moreover, as mentioned above, the managing company exercises such functions as consideration of investors' applications, taking a decision on providing the status of resident, providing land and infrastructure to residents and rendering other state and municipal services for investors.

Other Opportunities for Investors

Investors having projects outside ASEZ are also entitled to apply for state support in the form of participation in the special program of targeted infrastructure financing. Thus, any investor whose project meets particular criteria may take participation in selection of the projects to be partially invested in by the Russian government for the purpose of building the infrastructure needed for that particular project.

At the time of drafting this article, the first selection of investment projects has been performed and the second selection has been announced.

The result of the first selection is that six projects will receive the first tranches of financing from the Russian Federation this year. The total amount of state support to the selected projects will be 13.8 billion rubles which allows investors to realise projects with costs of more than 128 billion rubles. Such projects are:

- building a coal refinery at Ingalinsky Coal Field
- building a coal terminal at the Vanino Port
- a complex investment project of a coal refinery at Urgalsky Coal Field
- an ore refinery at the Ozernovsky gold mine
- building an ore refinery at the Neryungri iron deposit
- development of gold mining in the Selemdzhinsky District

The criteria for selection of the projects to be financed by the Russian state are stipulated by the Decree of the Russian Government and include the following: added value to be created by the project; amount of the private investments to the amount of budget support; and of the taxes to budget expenses / private investments.



Development of the
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one of the priorities
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Government.

For the purpose of selection of the projects, the Ministry for the development of the Russian Far East announces the date when the procedure will be started and welcomes investors to submit their respective applications. The Ministry undertakes a preliminary consideration of the submitted applications, makes a preliminary selection and publishes the results. The selected projects shall be finally approved by a special committee.

Also, there is an opportunity to obtain funding for the project from the Far East Development Fund ('the Fund') which was created a couple of years ago but started activities only this year. The aim of the Fund is to provide financing to foreground investment projects in the areas of infrastructure and new production facilities. The size of the projects to be financed shall be 0.5 billion rubles and more. As of today, the Fund provides financing through long-term loans with an interest rate 10.5 percent which is much cheaper than receiving debt financing from banks.

Despite the fact that at the moment only three projects have been chosen, namely:

- (1) the railroad bridge connecting Russia and China across the Amur River (total investment of 10 billion rubles, including 2.5 billion financed by the Fund);
- (2) construction of roads to two gold mines (total investment of 12.4 billion rubles, including 2 billion financed by the Fund);
- (3) a garbage recycling facility (total investment of 0.9 billion rubles, including 0.3 billion financed by the Fund), until the end of 2015 the Fund proposes to select five more projects. Also 16 projects with total investments amounting to 293 billion rubles (including 24 billion worth of investments by the Fund) are under consideration.

Additional Assistance to Investors

As one of the purposes of creating the ASEZ and FPV is providing favourable conditions for conducting business in the territory of the Russian Far East, the Russian Government additionally established two state agencies with the authority to assist investors or potential investors in the Russian Far East.

The first agency is an investment agency which shall attract residents to the ASEZ and direct investors to other territories of the Russian Far East as well as provide support for exports. This agency is supposed to be a 'single

window' for those considering the possibility of investing in the Russian Far East.

The next is an HR development agency created for the purpose of determination of the main difficulties in providing the Russian Far East with human resources, performing an 'HR service' to the investment projects and investors and attraction of new residents to the Russian Far East.

Conclusion

Development of the Russian Far East is one of the priorities of the Russian Government. The Russian Federation always welcomes Russian and foreign investors and, moreover, encourages their development by offering various business opportunities. The ASEZ and FPV, with their advantages such as tax incentives and preferences, reduction of administrative barriers, free custom areas, as well as state financing of investment and infrastructure projects in the Russian Far East are, undoubtedly, attractive instruments for launching business in the Russian Federation and for being able to create unique possibilities for business development in the Far East.



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