



RESIDENTS OF THE FREE PORT OF VLADIVOSTOK: FIRST AGREEMENTS AND EXPECTED CHANGES

FAO executives and heads of legal in companies planning to develop business in the Far East and to take advantage of preferential tax regimes

Pepeliaev Group advises that, on 16 March 2016, the first agreements were signed between JSC Far East Development Corporation and residents of the free port of Vladivostok, which have already been included in the register of residents. Moreover, a draft law has been prepared extending the composition of potential residents to include companies that are already operating.

Resident	Project
Vladivostok Fish Terminal LLC	Construction of a refrigerated warehouse complex for fish products to be reloaded and stored
TRK Primorye Koltso LLC	Construction of the Primorye Koltso sports and leisure complex
ERZO LLC	Creation of an innovative enterprise to process used tyres by the hydrolysis method
Mentor LLC	Provision of services relating to the production of agricultural crops
Kaskad LLC	Construction of a logistics centre
Aviapolis Yankovskiy LLC	Construction of the Aviapolis Yankovskiy private industrial park
DYuK Avesta LLC	Construction of the UNION transport and logistics warehouse complex in the town of Artyom

The above projects were approved on 22 December 2015 at a session of the Supervisory Council. The minutes of the session, signed by the Russian Government's deputy chairman Yury Trutnev, approved one further project: "Setting up the production of energy efficient LED lighting equipment" (TERRA LLC).

On 24 March 2016, a scheduled session of the Supervisory Council took place, at which 29 new investment projects were approved. It is intended that benefits and preferences will ensure additional profitability for these projects.

We remind the reader that on 12 October 2015, Federal Law No. 212-FZ of the Russian Federation came into force. According to this Law, the free port of Vladivostok is created on the greater part of the coastal

¹ The register contains information about the types of activity that such residents undertake. The register may be viewed by following this link: <http://erdc.ru/vladivostok>

territory of Primorsky Krai, including on the territory and water area of marine ports.

To stimulate active investment on the part of residents of the free port of Vladivostok, the law establishes particular simplified regimes for conducting business, administrative and investment activities, as well as a preferential tax regime and a light-touch customs regime.

The Russian Government's Resolution No. 1123 dated 20 October 2015 approved the selection criteria for residents of the free port of Vladivostok, in particular:

1. The novelty of the proposed activity for the potential resident (referred to in its application to enter into an agreement to carry out activities or types of business activity that are new to such resident, that is, they were not carried out until the date of application), or the intention to implement a new investment project in the territory of the free port of Vladivostok
2. The volume of capital investments may not be less than RUB 5 million during a period not exceeding 3 years from the date on which the individual entrepreneur or legal entity was included in the register of residents of the free port of Vladivostok. In determining the volume of capital investments, account is taken of the costs of creating (purchasing) depreciable property, and specifically expenses on new construction, technical re-equipment, modernisation of plant and equipment, reconstruction of buildings, and the purchase of machinery and equipment².

To acquire the status of a resident of the free port of Vladivostok, a person must file an application with the Managing Company attaching various documents, including a business plan.

What to think about and what to do

Currently, a draft law amending the Law on the free port of Vladivostok is with the Russian Government. Under the draft, the status of resident will also be granted to companies that have already been active in the territory in question for two years or more. It is proposed that the main conditions for obtaining the status will be:

- technical re-equipment and/or modernisation of fixed assets, which results in the production of goods, performance of work or provision of services increasing by 50 percent or more;
- the volume of capital investments in re-equipping and/or modernising fixed assets is more than RUB 100 million during a period not exceeding 3 years from the date on which the individual entrepreneur or legal entity was included in the register of residents of the free port of Vladivostok.

What is more, the resident must ensure that its level of tax liabilities is no lower than the average over the two years preceding the year in which it submits its application. Otherwise, it will have to pay the difference. The draft law also contains a list of factors which, if present, exempt a resident from meeting this obligation.

Help from your adviser

Pepeliaev Group's lawyers are monitoring the changes being made to the legislation governing the regime for the free port of Vladivostok.

We are ready to provide legal assistance and support for investment projects, including in: obtaining the status of a resident of the free port; during the conclusion of the agreement with the management company about carrying on activity in the free port of Vladivostok; assistance in appealing a decision refusing to grant the status of a resident of the free port or to obtain land plots in the free port; customs and foreign trade regulation; and also legal support during subsequent business activity.

² Various expenses are directly stated as not to be taken into account as part of capital investments.

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