

**MEMORANDUM**

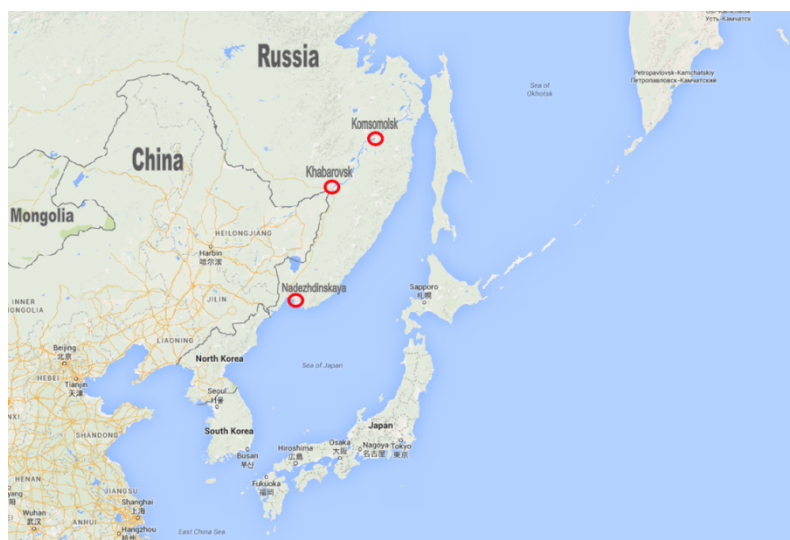
**ON PRIORITY DEVELOPMENT AREAS  
(PDA)**

1.

Introduction

- 1.1 Russia utilizes international experience when it comes to attracting investments in times of crisis. The Federal Law number 473-Φ3 from December 29<sup>th</sup>, 2014 (hereinafter referred to as the "Federal Law on PDA"), entered into force on March 30<sup>th</sup>, 2015. Federal Law on PDA provides for the creation of priority development areas (hereinafter referred to as the "PDA").
- 1.2 This law is primarily aimed at partners of the Russian Federation in the Asia-Pacific region, as first PDA's will be created in the Russian Far East during the first three years of the law's application (paragraph 1, article 35 of the Federal Law on PDA). Subsequently, such practice is planned to be extended to other regions of the Russian Federation.
- 1.3 PDA are the territories with a special preferential economic and administrative regime. In addition to an opportunity to ease the economic burden on PDA business residents in terms of reducing the taxes and insurance premiums that they pay, it also simplifies many administrative procedures related to the conduct of business. In particular, the procedures for attracting foreign workers, getting land plots, and construction activities are simplified. PDA also implies that the number of inspections carried out by state bodies is limited. According to a general rule, such inspections are carried by all state bodies together.
- 1.4 PDA work according to the state within a state principle. PDA do not fall under the laws of the Russian Federation and Russian rules of the game (management, population, education, medicine, etc.). In order to become a PDA resident, you need, first of all, to select the type of activity permitted in a particular PDA, and, secondly, to invest a certain amount of money in it.

**Figure 1. General scheme of existing PDA**



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1.5 In April 2015, the Ministry for the development of the Far East of the Russian Federation (hereinafter referred to as the "Minvostokrazvitiya") approved another six PDA (decrees of the government of the Russian Federation on these PDA will be adopted in the near future):

- PDA in the Amur Region (Predmostovaya and Belogorsk),
- PDA in the Primorsky Territory (Kamchatka and Mikhailovskaya),
- PDA in the Chukotka Autonomous Region (Beringovskiy) and
- PDA in the Sakha (Yakutia) Republic (Kangalassy Industrial Park).

## 2.

### Creating and managing PDA

2.1. Each PDA is a separate project developed by Minvostokrazvitiya and approved by the Government of the Russian Federation. PDA is created for 70 years. Decree of the Government of the Russian Federation identifies the main parameters of a future PDA:

- planned amount of public funding and private investments;
- specific land plots used to form a PDA;
- specific areas of activities which guarantee PDA resident status.

2.2. An agreement on the establishment of PDA between the federal, regional, and municipal authorities in the territories of which PDA is planned to be established is then concluded on the basis of the decree of the Government of the Russian Federation. This agreement sets out, among other things, what powers a management company will have. Such powers are usually reserved for regional and local authorities.

2.3. AO Far-East Development Corporation (with 100% participation of the Russian Federation) and its subsidiaries act as the management company in all cases. This management company interacts directly with investors, reviews applications submitted by organizations, assigns them the status of a PDA resident, and concludes agreements on the order of conducting activities in PDA with investors.

## 3.

### Getting a resident status

3.1. In order to get a status of a PDA resident, you must apply to the management company providing all the necessary paperwork. The application submitted by you should specify a land plot or other property which is necessary for an investor to implement a project. Also a land plot or other property which an investor would like to lease or purchase should be specified in the application submitted.

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3.2. Business plan detailing an investor's project in one of those areas that are planned to be developed in the territory of PDA should be submitted together with the application. The following is taken into account first of all when evaluating a business plan

- amount of personal investments by a resident and
- number of jobs created.

3.3. The management company either approves an application, assigns a resident status to an investor, and concludes an agreement with them on the conduct of activities in PDA or rejects an application and denies conclusion of an agreement according to the analysis of an application and a business plan.

## 4.

### Benefits of a resident status

4.1. Land plots and real estate:

- 4.1.1. PDA offers its residents an opportunity to get a simplified procedure when it comes to acquiring land rights. The relevant provisions of the Civil Code of the Russian Federation and the Land Code of the Russian Federation for land acquisition do not apply to PDA in this regard.
- 4.1.2. Typically, land plots in the Russian Federation can only be purchased at auctions for sale of land plots. It means that each participant should over-bid another one by increasing the offer price. PDA offers an opportunity to purchase land plots without any auctions.
- 4.1.3. It is enough for a PDA resident to indicate in the application submitted to the management company that needed land plots are located in the territory of a PDA and justify the need for their use in a business plan to get a land plot. Initially, land plots are offered for rent and then (after all obligations under the agreement on the activities in PDA are fulfilled by an investor), they can be purchased at a price not higher than their cadastral value.
- 4.1.4. Also, there are the categories of land plots in the Russian Federation which cannot be purchased by foreigners. Such categories include border areas and agricultural lands. Such categories of land plots cannot be purchased by a foreigner, they can only be rented. There are no such restrictions in PDA.

4.2. Construction and Ecology

- 4.2.1 PDA territory does not fall under the regulations of the Town Planning Code of the Russian Federation. Approval of the land-use planning paperwork and issue of building permits in the territory of PDA are carried out by Minvostokrazvitiya not by the State Construction Supervision and Inspection Service of the Russian Federation or a relevant authority of the territorial entity of the Russian Federation as usual.
- 4.2.2 Approval of design documentation is accelerated. Thus, environmental assessment of design documentation is carried out in the most expeditious manner (not more than 45 days).

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- 4.2.3 PDA territory does not fall under the regulations of the Forest Code of the Russian Federation and the Water Code of the Russian Federation. Thus, the use of these types of resources is permitted without severe restrictions imposed by the Forest Code of the Russian Federation and the Water Code of the Russian Federation.

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## 4.3. Attracting foreign workers

4.3.1 Typically, foreign workers in Russia have to go through obtaining two state permits. One state permit should be obtained by an employer (for attracting foreign workers). The second state permit should be obtained by an employee (work permit).

4.3.2 PDA offer much simplified procedure for attracting foreign workers.

- Employers which are PDA residents can attract foreign workers without the need to obtain a state permit.
- Foreign workers working in PDA are still required to obtain a work permit. However, such permits are not subject to the annual quota established by the Government of the Russian Federation for foreign workers working in a particular industry. The share of foreign workers attracted for work in the territory of PDA is determined by the PDA Supervisory Board which includes representatives of the authorities of federal, regional, and municipal levels, the management company, and unions and employers' associations.

## 4.4. Tax incentives

4.4.1 Income tax:

- regular rate is 20% (2% goes to the federal budget, 18% goes to the regional budget).
- rates for PDA residents is 0% to the federal budget. The rate of the regional budget might be reduced subject of the decision of a territorial entity of the Russian Federation. This issue is likely to be addressed during the conclusion of an agreement on the establishment of PDA with regional and local authorities.

4.4.2 Mineral extraction tax (hereinafter referred to as the "**MET**"):

- PDA residents are provided with significant benefits in terms of the MET cuts. They can apply such benefits during the first years of deposits development.

4.4.3 Land tax and property tax:

- PDA residents might be exempt from these taxes.
- The relevant decision should be taken by the municipality or a territorial entity of the Russian Federation. As a rule, such a decision is agreed upon at the stage of conclusion of an agreement on the establishment of PDA.

4.4.4 Compulsory insurance premiums:

- PDA residents will get reduced insurance premium rates.
- The total compulsory insurance premium rate for PDA residents is 7.6% as compared to the usual rate of 30%.
- At the same time, it is important to get a PDA resident status within three years from the date of creation of the respective PDA. Otherwise, PDA residents lose their eligibility for rate reduction.

5.  
Existing PDA

**Nadezhdinskaya PDA**



Custom mode: Free customs zone

Minimum investment amount: 500 thousand rubles

Area: 806 hectares

Planned jobs: 1,600

Planned investments:

- 6,7 billion rubles of private investments,
- 3,9 billion rubles of public funding

Main activities:

- natural resources (plant-and animal husbandry, forestry, fisheries);
- production of food, tobacco products, clothing, chemicals, pharmaceuticals, rubber, metallurgy, electronics, furniture, and other finished products
- services (sports, recreation, entertainment, education, health, and other services)
- transport (water, land)
- telecommunications, publishing, and scientific activities

Main investors:

- transport and logistics complex (Inkom DV),
- confectionery factory (Primorsky Konditer),
- company producing semi-finished products (Nevada-Vostok)

## Komsomolsk PDA



Custom Mode: Free customs zone.

Minimum investment amount: 500 thousand rubles

Area: 587 hectares

Planned jobs: 3,095

Planned investment:

- 7,9 billion rubles of private investments,
- 2,3 billion rubles of public funding

Main activities:

- natural resources (plant-and animal husbandry, forestry, fisheries);
- production of food, tobacco products, clothing, chemicals, pharmaceuticals, rubber, metallurgy, electronics, furniture, and other finished products
- services (sports, recreation, entertainment, education, health, and other services)
- transport (water, land)
- telecommunications, publishing, and scientific activities

Main investors:

- metallurgical plant,
- agro-industrial greenhouse complex,
- warehouse transportation and logistics complex

**Khabarovsk PDA**



Custom mode: Free customs zone.

Minimum investment amount: 500 thousand rubles.

Area: 210 hectares

Planned jobs: 2,700

Planned investments:

- 15,4 billion of private investments
- 1,2 billion of public funding

Main activities:

- natural resources (plant-and animal husbandry, forestry, fisheries);
- production of food, tobacco products, clothing, chemicals, pharmaceuticals, rubber, metallurgy, electronics, furniture, and other finished products
- services (sports, recreation, entertainment, education, health, and other services)
- transport (water, land)
- telecommunications, publishing, and scientific activities

Main activities:

- aircraft parts manufacturing services
- woodworking