Special investment contract and localisation in the Russian Federation
SPIC is an agreement between an investor and the state which sets forth:

- investor’s obligations to implement an investment project to adopt or develop and adopt technology in order to master serial production of industrial products based on this technology
- obligations of the Russian Federation, a constituent entity of the Russian Federation, and a municipality to ensure the stability of the conditions for conducting business activities and to apply incentives in the industry provided for by the agreement

**GOAL**

Adoption of a modern technology in order to manufacture internationally competitive industrial products

**PERIOD**

- **Up to 50 years**
  - \( \leq 50 \text{ bln } \text{₽} \) investment
- **Up to 20 years**
  - \( > 50 \text{ bln } \text{₽} \) investment
  - No minimum amount of investment

**PARTICIPATION CONDITIONS**

The investor takes part in the competition. The winner may be one or more participants by decision of the Commission on the basis of the following criteria:

- implementation date of the manufacture of industrial products
- volume of industrial products produced during the SPIC period
- localization level

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1 IDF is an expert organization providing information and analytical support to investors, as well as conducting input and comprehensive expert reviews of investment projects for concluding SPIC
2 Ministry of Industry and Trade of the RF / Ministry of Energy of the RF / Ministry of Agriculture of the RF
### OBLIGATIONS AND RESPONSIBILITIES OF THE PARTIES

#### INVESTOR’S OBLIGATIONS
- Invest the investment volume provided for by the project
- Develop and introduce / or introduce a modern technology from the list approved by the Government of the Russian Federation
- Provide availability of exclusive rights or the right of use for R&D in respect of a technology from the list as of the date set forth in the SPIC

#### INVESTOR’S RESPONSIBILITY
- The Investor is responsible for non-fulfillment of obligations under the SPIC in the following forms:
  - compensation of real damages
  - payment of a penalty
- The investor’s responsibility is limited to the total amount of incentives provided under the SPIC

#### STATE OBLIGATIONS
- Apply incentives in the industry during the period of the SPIC
- Ensure stability of doing business conditions

#### STATE RESPONSIBILITY
The state is responsible for non-provision incentives in the form of compensation for real damage

### PROJECT TARGETED INDICATORS
- Achievement of a specific production and product sales volume
  - Payment of taxes in a specific amount
  - Creation of a specific number of work places
SUPPORT MEASURES

1 Support measures are applied until the total amount of budget expenditures and revenues not received by the state amounts to 50% of the capital investments specified in the SPIC


3 Federal Law No. 44 dated April 5, 2013 “On the contract system of the federal and municipal procurement of goods, work and services”

4 Resolution of the RF Government No. 484 dated 22.04.2017 “On approval of rules for attribution of fixed assets being depreciated to those manufactured in accordance with conditions of a special investment contract”

TAX BENEFITS
- Non-deterioration of tax conditions
- Possible lowering of the profit tax rate to 0%
- Possibility to reduce rates of regional and municipal taxes

"MADE IN RUSSIA" STATUS
Expediting and simplified procedure of obtaining the status of a product manufactured in Russia

SUBSIDIARY MEASURES
Special conditions for access to subsidiary programs

SIMPLIFIED ACCESS TO GOVERNMENT CONTRACTS
Possibility of obtaining the sole supplier status on public procurement

ACCELERATED DEPRECIATION
Provision of certificates confirming the opportunity to apply accelerated depreciation

OTHER MEASURES
- Special conditions of land plot lease
- Creation of infrastructure facilities
All processes related to SPIC 1.0 (including amendment, termination and control) will be fully implemented through the State Industrial Information System (GISP).

IDF is an expert organization that is implementing information and analytical support for investors, as well as conducting an initial and complex expert evaluation of investment projects for SPIC.
1. CHOOSING A TECHNOLOGY FROM THE LIST OF MODERN TECHNOLOGIES
   - It is necessary to check whether the technology is included in the list
   - If it is not, an application must be submitted to update the list

2. APPROVAL WITH THE CONSTITUENT ENTITY OF THE RUSSIAN FEDERATION AND MUNICIPAL AUTHORITIES
   - Selection of Russian region for implementation of the investment project
   - Approval of the place of production
   - Verification of availability and approval on incentive measures

3. SENDING A PROPOSAL TO CONCLUDE A SPIC
   - Filling out the investor’s proposal form for concluding a SPIC
     - The proposal must include a letter from the constituent entity of the Russian Federation and the municipality on the approval of the place of production
     - The proposal is sent through the GISP to the appropriate federal authorities depending on the industry

4. PARTICIPATION IN COMPETITIVE SELECTION
   - The following must be prepared:
     - action plan for development and implementation of a modern technology
     - business plan
     - financial model
     - a roadmap of planned investments
     - documents confirming potential to attract investments
     - the roadmap of localization of production etc.

THE AVAILABILITY OF INCENTIVE MEASURES FOR SPIC PARTICIPANTS IN REGIONAL LEGISLATION IS A PREREQUISITE FOR ENTERING INTO A SPIC

1 The form and composition of the proposal were approved by order No. 627 of the Ministry of Industry and Trade of the Russian Federation dated 26.02.2020
DEVELOPING THE TECHNOLOGY

- independent R&D or technology development by third parties (for example, by entering into an R&D contract)
- providing legal protection of the technology (if it is subject to protection)

IMPLEMENTING TECHNOLOGY

The technology is being implemented in order to master the mass production of industrial products.

The technology implementation period is a period from the moment of conclusion of the SPIC till the moment of production of the first batch of products.

ACQUIRING RIGHTS FOR THE TECHNOLOGY

Exclusive right or right to use the IP:

- from third parties (when implementing the SPIC on their own initiative)
- from public legal entities (when implementing SPIC on the initiative of the Russian Federation)

By entering into an agreement on granting a license for a technology, an agreement on alienation of an exclusive right.
The updated mechanism of special investment contracts gives the investors more advantages, while the SPIC 1.0 model has established itself as a sought-after tool of state support. At the moment, 45 federal special investment contracts have been signed. Rules for contracts concluded according to the SPIC 1.0 model are now valid only in terms of amending and terminating the SPIC.

**KEY INDICATORS**

- 807,8 bln₽ total volume of investment
- 1 112 bln ₽ volume of tax payments
- 23 989 units number of jobs

**DISTRIBUTION BY ECONOMIC SECTORS, [PCS.]**

- AUTOMOTIVE INDUSTRY: 14
- CHEMICALS: 8
- PHARMACEUTICS/MEDICINE: 7
- MACHINE BUILDING: 6
- MACHINE TOOL MANUFACTURING: 4
- AGRICULTURE AND SPECIAL MACHINE BUILDING: 3
- METALLURGY/MATERIALS: 2
- AIRCRAFT INDUSTRY: 1

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1 Resolution of the RF Government No. 708 dated July 16, 2015 “On special investment contracts for specific industries”
Updating the model range of cars and modernizing the facilities for their production
- Project cost: 20,000 million rubles

Creation of a new production of light commercial vehicle
- Project cost: 4,960 million rubles

Creation of a plant for the production of engines for motor vehicles
- Project cost: 2,800 million rubles

Modernization of industrial production of the Ulyanovsk machine-tool plant
- Project cost: 750 million rubles
DISTRIBUTION OF INCENTIVES

<table>
<thead>
<tr>
<th>Incentive Type</th>
<th>Count</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permanence of incentive (grandfathering)</td>
<td>44</td>
</tr>
<tr>
<td>Tax benefits</td>
<td>41</td>
</tr>
<tr>
<td>Industry subsidies</td>
<td>14</td>
</tr>
<tr>
<td>&quot;Made in Russia&quot; status</td>
<td>13</td>
</tr>
<tr>
<td>Other incentives</td>
<td>7</td>
</tr>
</tbody>
</table>

KEY INDICATORS

- **45 companies** signed federal SPIC 1.0
- **13 companies** got the status "Made in Russia"
- **10 companies** that got the status "Made in Russia" are foreign investors

Other measures:
- recognition of the investor as the sole supplier of goods whose production is to be set up in the Russian Federation
- creation of engineering infrastructure facilities
ADVANTAGES OF LOCALIZATION IN THE RUSSIAN FEDERATION

01 Market potential
- An advantageous geographical position between Europe and Asia
- Access to the Russian market and markets of the EAEU
- EAEU countries’ GDP amounting to 1,965 billion $^1

02 Tax benefits
- SPICs
- Benefits granted by constituent entities of the RF
- SEZs
- Technological and industrial parks
- PSEDA (Priority Social and Economic Development Area)

03 Being admitted to the national and municipal procurement process
- Being admitted to the governmental procurement process
- Being given a priority in the course of procurement by governmental companies

04 State support of industry
- Loans by the IDF
- Export support
- SPICs
- Other measures
- Subsidies

05 State Industrial Information System
- A navigator on measures of support
- A ‘one stop shop’ for filing reporting documents
- An industrial product catalogue
- A navigator for foreign investors

^1 According to the Eurasian Economic Commission’s analytical summary dated 12 February 2020 for January to December 2019
MEASURES OF SUPPORT FOR LOCALIZATION IN THE RUSSIAN FEDERATION

Having obtained a confirmation that its products are manufactured in the Russian Federation, a manufacturer can be provided with a variety of benefits and measures of State support.

**BEING ADMITTED TO THE NATIONAL AND MUNICIPAL PROCUREMENT PROCESS**

- Being admitted to the governmental procurement process by virtue of Federal Law No. 44 dated 05 April 2013 “On the Contractual System in the Area of Procurement of Goods, Works and Services to Satisfy National and Municipal Needs”

- Being given a priority in procurement by governmental companies by virtue of Federal Law No. 223 dated 18 July 2011 “On Goods, Works and Services Procurement by Certain Types of Entities”

**INDUSTRY-SPECIFIC SUBSIDIES**

- Farming equipment and special-purpose machinery manufacturing (RF Government’s Resolutions No. 145 and 146 dated 10 February 2018 and No. 1432 dated 27 December 2012)

**CROSS-INDUSTRY SUBSIDIES**

- Export support (RF Government’s Resolutions No. 719 dated 23 February 2019 and No. 496 dated 26 April 2017)
Determination of the "Made in Russia" Status

1. Products in the Appendix to the RF Government Resolution No. 719

   - Application for the CCI examination report submitted to the local CCI
   - Application for confirmation submitted to the Ministry of Industry and Trade of the Russian Federation

2. Country of Goods Origin

   - Application for the ST-I certificate submitted to the local CCI
   - Application for confirmation submitted to the Ministry of Industry and Trade of the Russian Federation

3. SPIC Concluded with the Russian Federation

   - Application for confirmation on the basis of the SPIC concluded submitted to the Ministry of Industry and Trade of the Russian Federation

Applications are submitted and confirmations are issued through the GISP.

After receiving confirmation from the Ministry of Industry and Trade of Russia, the products are included in the Register of Russian industrial products.

1. Chamber of Commerce and Industry of the Russian Federation
2. Agreement "On the Rules for determining the country of origin for products in the Commonwealth of Independent States" [as revised on 20/11/2009]
CRITERIA FOR DETERMINATION OF THE "MADE IN RUSSIA" STATUS

PRODUCTS IN THE APPENDIX TO THE RF GOVERNMENT RESOLUTION NO. 719

- possession of rights for the design and technical documentation, sufficient for the production, modernization and development of the products for the period of not less than 2 years
- availability of a service center in the territory of one of the EurAsEC countries
- maintenance of percentage of foreign components for product manufacture
- performance of a required number of production operations in the RF

COUNTRY OF GOODS ORIGIN

[country – party to the Agreement\(^2\)]

- change of the commodity item code according to the Foreign Economic Activity Commodity Nomenclature (any of the first four digits) due to the processing efforts
- compliance with necessary conditions, performance of process and production operations in the territory of the country
- ad valorem share rule when the cost of used materials of foreign origin reaches a fixed percent value in the price of the final product
- cumulative approach [product’s origin as a result of consecutive processing/recycling] is determined by the country of the final product manufacturing

SPIC CONCLUDED WITH THE RUSSIAN FEDERATION

- the investor shall implement step-by-step technological and production operations as required by the RF Government Resolution No. 719
- In case of the product’s absence in Resolution No. 719 of the RF Government, scheduled localization – in accordance with the requirements of the Agreement\(^2\)

An on-site inspection of the availability of production capacities, equipment and workers, the implementation of technological operations will be conducted upon first appeal to the CCI

\(^1\) but not more than during 2 years from the start date of product manufacturing

\(^2\) Agreement “On the Rules for determining the country of origin for products in the Commonwealth of Independent States” [as revised on 20/11/2019]
# PRODUCTION LOCALIZATION SUPPORT IN THE RUSSIAN FEDERATION (IDF LOANS)

## PROGRAM

**"COMPONENTS"**

### PROGRAM CONDITIONS

<table>
<thead>
<tr>
<th>Description</th>
<th>Requirement</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan amount¹</td>
<td>50 - 500 mln ₽</td>
</tr>
<tr>
<td>Loan rate:</td>
<td>1% - first three years \n 5% - remaining contract term</td>
</tr>
<tr>
<td>Project budget:</td>
<td>≥ 62.5 mln ₽</td>
</tr>
<tr>
<td>Loan term:</td>
<td>up to 5 years</td>
</tr>
<tr>
<td>Applicant’s co-financing:</td>
<td>≥ 20% of the project budget</td>
</tr>
<tr>
<td>Target sales of new products:</td>
<td>≥ 30% of loan amount per year, from the second year of mass production</td>
</tr>
<tr>
<td>Loan target purpose (of the loan amount):</td>
<td>≤ 10% - general business expenses \n ≤ 50% - pilot preproduction</td>
</tr>
</tbody>
</table>

¹ In case of co-financing together with the regional industrial development fund, the loan amount is 20-100 million rubles

### DESCRIPTION

Debt financing of projects on establishment and/or modernization of production facilities for components intended for the use as part of the products listed in the appendix to Resolution No. 719 of the RF Government.

- Possibility to use preferential loans along with other state support measures: subsidies, SPIC, regulatory state support measures
- The Applicant is a resident of the RF; the key contractor/equipment supplier is a resident of the RF or a foreign legal entity that is not registered in a low-tax jurisdiction
- Loan security shall be: not less than the loan amount + interest amount for the whole period
- The loan may not be used for construction, real estate purchase or R&D

*Project is implemented in the RF and is among the industries financed by the IDF*
<table>
<thead>
<tr>
<th>No.</th>
<th>Company</th>
<th>Country</th>
<th>Loan Details</th>
<th>Project Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>SCHATTDECOR, LLC</td>
<td>Germany</td>
<td>Loan under the “Development Projects” program for 500 mln ₽</td>
<td>Production of surface decor film on a paper basis for furniture and construction materials. Around 10% of the production volume, the company plans to export to Germany, Poland, and CIS countries. Installation of modern high-tech equipment which will allow to implement new innovative film products on the Russian market.</td>
</tr>
<tr>
<td>2</td>
<td>ELME MESSER RUS, LLC</td>
<td>Germany and Estonia</td>
<td>Loan under the “Development Projects” program for 499 mln ₽</td>
<td>Construction of an air separation plant for the production of liquefied technical and medical gases: oxygen, nitrogen, and argon. Around 35% of the production volume, the company plans to export to Belarus, Latvia, and Lithuania. The project implementation will allow to reduce the dependency of Russian companies in the North-Western Federal District on import from EU countries.</td>
</tr>
<tr>
<td>3</td>
<td>COSKUNÖZ ALABUGA, LLC</td>
<td>Turkey</td>
<td>Loan under the “Components” program for 500 mln ₽</td>
<td>Construction of a new production workshop for progressive and transfer presses. Import-substituting production of stamped chassis parts of motor vehicles for “AutoVAZ” and other car-manufacturers.</td>
</tr>
</tbody>
</table>
On the basis of the State Information System of Industry we designed a Foreign Investor's Navigator intended specifically for foreign companies.

FROM NAVIGATOR YOU CAN LEARN

- about prerequisites to entering the Russian market
- how to incorporate a company and set up manufacturing facilities
- how to make arrangements for product sales
- about measures of State support (including SPIC 2.0)
- about manufacturing facilities localization nuances and many other things

\[1 \text{ https://gisp.gov.ru/invest/de-de-DE}\]