

**DECISION OF THE GOVERNMENT OF THE RUSSIAN FEDERATION NO. 413 OF APRIL 23, 1998 ON
ADDITIONAL MEASURES TO ATTRACT INVESTMENTS FOR DEVELOPMENT OF DOMESTIC
AUTOMOTIVE INDUSTRY**

Pursuant to the Decree of the President of the Russian Federation No. 135 of February 5, 1998 on Additional Measures to Attract Investments for Development of Domestic Automotive Industry (Collection of Acts of the Russian Federation No. 6, Item 721, 1998) and in accordance with Article 24 of the Customs Code of the Russian Federation the Government of the Russian Federation hereby decrees to:

1. Approve attached hereby:

Regulation on Peculiarities of Legal Control of Customs Treatment of Free Warehouse;

Procedure for Determining Country of Origin of Means of Automotive Transportation and Automotive Components in Case They Are Removed from the Territory of Free Warehouse with Peculiarities of Legal Regulation of Customs Treatment and Imported to the Main Territory of the Russian Federation;

Procedure for Determining Quantitative Limits for Application of Peculiarities of Legal Control of Customs Treatment of Free Warehouse and the Share of Outlays Borne on the Territory of the Russian Federation, Being a Part of the Prime of Cost of Final Products.

2. Vest the Government of the Russian Federation with the authority to make investment agreements pursuant to the Decree of the President of the Russian Federation No. 135 of February 5, 1998 and specifying therein obligations undertaken by investors on volumes of investments and volumes of production output for each year of implementation of investment projects and possible state participation in charter capital of commercial organizations that carry out large scale investment projects in the automotive industry.

Acting Chairman of the Government
of the Russian Federation

S. Kirienko

**REGULATION ON PECULIARITIES OF LEGAL CONTROL OF CUSTOMS TREATMENT OF FREE
WAREHOUSE (Approved by the Decision of the Government of the Russian Federation No. 413 of
April 23, 1998)**

1. Means of automotive transportation and automotive components manufactured in free warehouses with peculiarities of legal regulation of customs treatment shall be regarded as originated from the Russian Federation within annual quotas fixed by the Government of the Russian Federation, provided conditions are met which are laid down by the Procedure for determining the country of origin of means of automotive transportation and automotive components in case they are removed from the territory of free warehouse with peculiarities of legal regulation of customs treatment and imported to the main territory of the Russian Federation, which was approved by the Decision of the Government of the Russian Federation No. 413 of April 23, 1998 on Additional Measures to Attract Investments for Development of Domestic Automotive Industry.

2. Means of automotive transportation and automotive components which are recognized as originating from the Russian Federation shall not be levied by any customs fees when they are removed from the territory of a free warehouse with peculiarities of legal regulation of customs treatment and imported to the main territory of the Russian Federation within annual quotas fixed by the Government of the Russian Federation (in kind and in terms of their value). In case the above means of automotive transportation and automotive components are marketed on the territory of the Russian Federation they are subject to taxation by the procedure established by the legislation of the Russian Federation.

3. Means of automotive transportation and automotive components which have been manufactured in compliance with requirements laid down by the Procedure for determining the country of origin of means of automotive transportation and automotive components in case they are removed from the territory of free warehouse with peculiarities of legal regulation of customs treatment and imported to the main territory of the Russian Federation in excess of quotas listed in Item 2 of this Regulation, shall be imported from free warehouse with peculiarities of legal regulation of customs treatment to the main territory of the Russian Federation by the procedure set forth by the customs legislation of the Russian Federation and are levied by customs fees applicable to assembly components of foreign origin, which have been used in their manufacture at the rates in effect of their placement under the customs treatment of free warehouse.

4. Means of automotive transportation and automotive components which are not recognized as originating from the Russian Federation shall be imported from free warehouse with peculiarities of legal regulation of customs treatment to the main territory of the Russian Federation by the procedure set forth

by the customs legislation of the Russian Federation and are levied by customs fees applicable to assembly components of foreign origin, which have been used in their manufacture at the rates applied to means of automotive transportation and automotive components which have been in effect at the moment of their importation from free warehouse to the main territory of the Russian Federation.

5. A license to set up a free warehouse with peculiarities of legal regulation of customs treatment shall be granted to a Russian commercial organization (an owner of a free warehouse) by the State Customs Committee of the Russian Federation on the basis of decisions taken by the Government of the Russian Federation within one month after such a decision is adopted, provided the organization complies with requirements established by the customs legislation of the Russian Federation.

6. Proposals on setting up by a Russian commercial organization, including those with foreign investments of a free warehouse with peculiarities of legal regulation of customs treatment shall be submitted to the Government of the Russian Federation by the Ministry of Economics of the Russian Federation on the basis of a concluded investment agreement.

7. The Government of the Russian Federation shall establish for each investment project a specific period for application of peculiarities of legal regulation of customs treatment of free warehouse, but not to exceed 7 years.

In case the license is revoked by the State Customs Committee of the Russian Federation on a decision of the Government of the Russian Federation, the goods which have been placed into a free warehouse must undergo the repeated customs clearance under the customs treatment of release for free circulation. In so doing customs value of such goods is determined at the date of their placement into the free warehouse.

8. No security for payment of customs fees is required in the course of issue of a license to set up a free warehouse with peculiarities of legal regulation of customs treatment.

9. Territory of a free warehouse with peculiarities of legal regulation of customs treatment can not be used for any other manufacturing purposes different from the activities stipulated by the decision of the Government of the Russian Federation to set up the free warehouse.

10. A license to set up a free warehouse with peculiarities of legal regulation of customs treatment can not be revoked by customs bodies. In case a license is revoked or suspended pursuant to Article 77 of the Customs Code of the Russian Federation, the State Customs Committee of the Russian Federation shall immediately inform thereof the Government of the Russian Federation.

11. If any violations or noncompliance with (undue fulfillment of) the legislation of the Russian Federation, including violations of conditions stipulated by peculiarities of legal control of free warehouse customs treatment and/or an investment agreement to implement a project with application of peculiarities of legal control of free warehouse customs treatment, the State Customs Committee of the Russian Federation has the right to suspend the license since the day the violations are discovered until the uncovered violations are eliminated, but for no longer than 3 months; in so doing it must also inform the Government of the Russian Federation and the Ministry of Economics of the Russian Federation.

If an owner of free warehouse with peculiarities of legal regulation of customs treatment fails to eliminate the uncovered violations within the prescribed period, then Ministry of Economics of the Russian Federation and the State Customs Committee of the Russian Federation have the right to propose to the Government of the Russian Federation to stop application of peculiarities of legal regulation of customs treatment of free warehouse

12. Peculiarities of legal control of free warehouse customs treatment shall not be applied following the day violations are discovered of conditions stipulated by peculiarities of legal control of free warehouse customs treatment or an investment agreement. The State Customs Committee of the Russian Federation takes the decision not to apply the above peculiarities and notifies the Government of the Russian Federation.

PROCEDURE FOR DETERMINING THE COUNTRY OF ORIGIN OF MEANS OF AUTOMOTIVE TRANSPORTATION AND AUTOMOTIVE COMPONENTS IN CASE THEY ARE REMOVED FROM THE TERRITORY OF FREE WAREHOUSE WITH PECULIARITIES OF LEGAL REGULATION OF CUSTOMS TREATMENT AND IMPORTED TO THE MAIN TERRITORY OF THE RUSSIAN FEDERATION (Approved by the Decision of the Government of the Russian Federation No. 413 of April 23, 1998)

1. Means of automotive transportation and automotive components being imported from free a warehouse with peculiarities of legal regulation of customs treatment into the main territory of the Russian Federation within annual quotas fixed by the Government of the Russian Federation for each investment project shall be regarded as originating from the Russian Federation, provided the following conditions are met, if:

- following the start of implementation of the investment project and during the first year means of automotive transportation are manufactured using certain assembly components, the minimal list of which is enclosed in the Annex to this Procedure and the share of outlays borne on the territory of the Russian

Federation, which are referred to prime cost makes up no less than 10 per cent of prime cost of final products;

- at the end of the first year and during the second year since the beginning of implementation of the investment project means of automotive transportation are manufactured using certain assembly components, the minimal list of which is enclosed in the Annex to this Procedure and the share of outlays borne on the territory of the Russian Federation, which are referred to prime cost makes up no less than 15 per cent of prime cost of final products;

- at the end of the second year and during the third year since the beginning of implementation of the investment project means of automotive transportation are manufactured using certain assembly components, the minimal list of which is enclosed in the Annex to this Procedure and the share of outlays borne on the territory of the Russian Federation, which are referred to prime cost makes up no less than 20 per cent of prime cost of final products;

- at the end of the third year and during the fourth year since the beginning of implementation of the investment project means of automotive transportation are manufactured using certain assembly components, the minimal list of which is enclosed in the Annex to this Procedure (apart for vehicle body), vehicle bodies are welded, painted, and assembled and the share of outlays borne on the territory of the Russian Federation, which are referred to prime cost makes up no less than 30 per cent of prime cost of final products;

- at the end of the fourth year and during the fifth year since the beginning of implementation of the investment project means of automotive transportation are manufactured using certain assembly components, the minimal list of which is enclosed in the Annex to this Procedure (apart for vehicle body), vehicle bodies are welded, painted and assembled, and the share of outlays borne on the territory of the Russian Federation, which are referred to prime cost makes up no less than 40 per cent of prime cost of final products;

- at the end of the fifth year and until the end of the investment agreement means of automotive transportation are manufactured using certain assembly components, the minimal list of which is enclosed in the Annex to this Procedure (apart for vehicle body), vehicle bodies are welded, painted and assembled, and the share of outlays borne on the territory of the Russian Federation, which are referred to prime cost makes up no less than 50 per cent of prime cost of final products.

2. Automotive components are regarded as originating from the Russian Federation, provided the following conditions are met, if:

- following the start of implementation of the project to manufacture automotive components and during the first year the share of outlays borne on the territory of the Russian Federation, which are referred to prime cost makes up no less than 10 per cent of prime cost of final products;

- at the end of the first year and during the second year since the beginning of implementation of the project to manufacture automotive components the share of outlays borne on the territory of the Russian Federation, which are referred to prime cost makes up no less than 15 per cent of prime cost of final products;

- at the end of the second year and during the third year since the beginning of implementation of the project to manufacture automotive components the share of outlays borne on the territory of the Russian Federation, which are referred to prime cost makes up no less than 20 per cent of prime cost of final products;

- at the end of the third year and during the fourth year since the beginning of implementation of the project to manufacture automotive components the share of outlays borne on the territory of the Russian Federation, which are referred to prime cost makes up no less than 30 per cent of prime cost of final products;

- at the end of the fourth year and during the fifth year since the beginning of implementation of the project to manufacture automotive components the share of outlays borne on the territory of the Russian Federation, which are referred to prime cost makes up no less than 40 per cent of prime cost of final products;

- at the end of the fifth year and until the end of the investment agreement the share of outlays borne on the territory of the Russian Federation, which are referred to prime cost makes up no less than 50 per cent of prime cost of final products.

3. Certificate of origin of goods shall be the document confirming the origin of means of automotive transportation and automotive components from the Russian Federation.

Certificate of origin of goods shall be issued by a customs body of the Russian Federation. The form of certificate of origin of goods and procedure for its issue is established by the State Customs Committee of the Russian Federation.

**Annex to
the Procedure for determining country of
origin of means of automotive transportation
and automotive components when they are**

removed from the territory of free warehouse
with peculiarities of legal regulation
of customs treatment and imported to the
main territory of the Russian Federation

Minimal List* of Certain Assembly Components Used in Production of Means of Automotive Transportation

Vehicle body assembly
Engine with transmission
Radiator
Road wheels assembly
Front half-axles (front suspension)
Rear suspension
Battery
Shock-absorbers, front and rear suspension
Exhaust system
Set of industrial holders and fasteners

PROCEDURE FOR DETERMINING QUANTITATIVE LIMITS FOR APPLICATION OF PECULIARITIES OF LEGAL CONTROL OF CUSTOMS TREATMENT OF FREE WAREHOUSE AND THE SHARE OF OUTLAYS BORNE IN THE TERRITORY OF THE RUSSIAN FEDERATION, BEING A PART OF THE PRIME OF COST OF FINAL PRODUCTS (Approved by the Decision of the Government of the Russian Federation No. 413 of April 23, 1998)

1. This Procedure has been drafted pursuant to the Decree of the President of the Russian Federation No. 135 of February 5, 1998 on Additional Measures to Attract Investments for Development of Domestic Automotive Industry in order to regulate application of peculiarities of legal control of customs treatment of free warehouse and to determine the share of outlays borne on the territory of the Russian Federation, which are referred to prime cost of final products in the course of implementation of large scale investment projects.

2. A large scale investment project (hereinafter referred to as the investment project) is an investment project aimed at creation or development of production facilities to manufacture modern means of automotive transportation and automotive components, including projects implemented with participation of foreign investors, the former meeting the following criteria:

a) total amount of investment over the first five-year period of investment project implementation is no less than 1.500 million roubles. In case a foreign investor takes part in a charter (contributed) capital of a Russian commercial organization carrying out the investment project, his share must be no less than 150 million roubles;

b) at the end of the fifth year since the start of implementation of the project and until the end of the investment agreement the share of outlays borne on the territory of the Russian Federation, which are referred to prime cost of means of automotive transportation and automotive components shall make up no less than 50 per cent of prime cost of final products.

An investment project shall be drafted by a Russian commercial organization on the basis of feasibility study which is to undergo independent expert examination in accordance with the Decision of the Council of Ministers - the Government of the Russian Federation No. 585 of June 20, 1993 on the State Expert Examination of City Planning and Construction and Design and Estimate Documents and on Approval of Construction Specifications, which was approved by Ministry of Economics of the Russian Federation and has enclosed opinion of the Expert Council under the Government of the Russian Federation.

3. An investment agreement shall be drafted by a Russian commercial organization on the basis of an investment project and business-plan which meets the requirements laid down by the Decision of the Government of the Russian Federation No. 1470 of November 22, 1997 on Approval of the Procedure for Granting Government Guarantees on Competitive Basis from the Resources of the Budget of Development of the Russian Federation and the Regulation on Assessment of Efficiency of Investment Projects For Competitive Placement of Centralized Investment Resources of the Development Budget of the Russian Federation, which have passed expert examination of the Ministry of Economics of the Russian Federation, the Ministry of Finance of the Russian Federation and the State Customs Committee of the Russian Federation.

4. This Regulation applies quantitative limitations as quotas for means of automotive transportation and automotive components originating from the Russian Federation being imported from a free warehouse with peculiarities of legal regulation of customs treatment into the main territory of the

Russian Federation within annual quotas fixed by the Government of the Russian Federation for implementation of the investment project (hereinafter referred to as quotas).

Government of the Russian Federation shall annually establish for the Russian commercial organization quotas for each investment project with due regard to the degree to which the organization meets obligations stipulated by the investment agreement, as well as anticipated volume of investments in the upcoming period.

5. Structure of outlays in manufacture of means of automotive transportation and automotive components, which are produced on the territory of free warehouse with peculiarities of legal regulation of customs treatment shall be determined according to the Regulation on the Structure of Outlays for Manufacture and Marketing of Products (Works, Services) Included into Prime Cost of Products (Works, Services and on Procedure for Calculation of Financial Results Taken into Account When Levying Profit Tax, which was approved by the Decision of the Government of the Russian Federation No. 552 of August 5, 1992 (Collection of Acts of the Russian Federation No. 9, Item 602, 1992; Collection of Acts of the Russian Federation No. 27, Item 2587, 1995; No. 28, Item 2686; No. 48, Item 4683; No. 17, Item 1989, 1996; No. 43, Item 4924; No. 49, Item 5557; No. 11, Item 1322, 1997, No. 2, Item 260, 1998), and shall be quoted in the business plan by elements with specific data on cost of raw materials, and assembly components, which have not originated from the territory of the Russian Federation.

6. A Russian commercial organization implementing an investment project shall annually submit to the Ministry of Economics of the Russian Federation, the Ministry of Finance of the Russian Federation and the State Customs Committee of the Russian Federation its statement on share of outlays made for production in the Russian Federation of means of automotive transportation and automotive components, which is to be certified by tax bodies. The statement shall inclose forms of statistical reports on prime cost of commodity products covering the effective period of the last set quota.

Share of outlays made for production of means of automotive transportation and automotive components on the territory of the Russian Federation shall be calculated as percentage rate between prime cost of commodity product and value of imported raw materials, materials, assembly components and services, which were taken into account in its calculation as well as goods of non-Russian origin purchased from Russian commercial organizations, and prime cost of commodity product.

At the same time the Russian commercial organization shall also submit:

- statement of actual investments made into implementation of the investment project;
- data on production volumes and degree of mastering a manufacturing technology used in production of means of automotive transportation and automotive components, which are to be authenticated by a body authorized by the State Customs Committee of the Russian Federation;
- report on actual utilization of quotas stating amounts of customs fees not paid by this organization owing to peculiarities of legal control of customs treatment of free warehouse.

7. On the basis of analysis of data provided by the Russian commercial organization the Ministry of Economics of the Russian Federation jointly with the State Customs Committee of the Russian Federation and the Ministry of Finance of the Russian Federation shall submit to the Government of the Russian Federation their proposals on amounts of quotas for a next period of implementation of an investment agreement.

* The minimal list of certain assembly components can be amended for a specific investment project by a decision of the Government of the Russian Federation upon a proposal by the Ministry of Economics of the Russian Federation and the State Customs Committee of the Russian Federation.