

Federal Law # 13FZ dated January 22, 1996
On the Special Economic Zone in the Kaliningrad Oblast
(incorporates changes of December 27, 2000, December 30, 2001, and March 21, 2002)

Adopted by the State Duma on November 15, 1995
Approved by the Federation Council on January 5, 1996

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This Federal Law defines fundamental legal and economic principles of the creation and functioning of the Special Economic Zone in the Kaliningrad oblast, taking into account its specific geographical position and importance from the standpoint of national interests of the Russian Federation. This Federal Law is aimed at creating favorable conditions for social and economic development of the Russian Federation and the Kaliningrad Oblast.

Chapter I. General Provisions

Article 1. Concept of the Special Economic Zone in the Kaliningrad Oblast. Purposes of Its Creation

The Special Economic Zone in the Kaliningrad Oblast (hereinafter referred to as the Special Economic Zone) shall be created within the limits of the Oblast territory, except for territories of defense facilities of strategic importance for the Russian Federation - military bases, military units, defense industry facilities, as well as also oil-and-gas industry facilities on the continental shelf of the Russian Federation and in the exclusive economic zone of the Russian Federation.

The Special Economic Zone shall be created in accordance with this Federal Law. The development of the Special Economic Zone shall be based on a Federal State Program for the Development of the Special Economic Zone adopted by the Government of the Russian Federation upon presentation by bodies of state power of the Kaliningrad Oblast.

The Special Economic Zone shall have a special regime of investments and entrepreneurial activity, including external economic and investment activity, that is preferential compared to the regime applicable to the rest of the country.

The Special Economic Zone shall be a part of the sovereign and customs territory of the Russian Federation. With regard to the collection of customs and other payments (including taxes) levied during customs processing of imported and exported goods, the Special Economic Zone shall be considered as having the status of a free customs area with particularities stipulated by this Federal Law.

Article 2. Legal Protection by the State of Investments and Entrepreneurial Activity in the Special Economic Zone

In the Special Economic Zone investment and entrepreneurial activity shall enjoy legal protection provided by the state in accordance with the Constitution of the Russian Federation, this Federal Law, other Federal Laws and other regulatory legal acts of the Russian Federation, international agreements of the Russian Federation, laws and other regulatory legal acts of the Kaliningrad Oblast.

Article 3. Powers of the Kaliningrad Oblast Duma and Administration with Regard to the Special Economic Zone

The Kaliningrad Oblast Duma as the legislative (representative) body of a subject of the Russian Federation, and the Administration of the Kaliningrad Oblast shall exercise their powers on issues pertaining to the functioning of the Special Economic Zone in accordance with the Charter (Fundamental Law) of the Kaliningrad Oblast.

The Administration of the Kaliningrad Oblast shall exercise administrative functions with regard to the Special Economic Zone in accordance with this Federal Law, other Federal Laws and other normative legal acts of the Russian Federation, and laws and other normative legal acts of the Kaliningrad Oblast. It coordinates the attraction of Russian and foreign investments for the implementation of Zone-specific investment projects and entrepreneurial activity.

The Administration of the Special Economic Zone (hereinafter referred to as the Administration) may enter into civil-law contracts in accordance with the legislation of the Russian Federation, and to enter into other civil-law relations with Russian and foreign investors, other Russian and foreign entrepreneurs in the Special Economic Zone.

Chapter II. Investments and Entrepreneurial Activity in the Special Economic Zone

Article 4. Legal Regulation of Investments and Entrepreneurial Activity in the Special Economic Zone

Commercial organizations engaging in whatever type of entrepreneurial activity (industrial, construction, trading, intermediation etc.) with full or partial foreign investment participation shall be established, liquidated, and operate in accordance with the procedure stipulated by the effective legislation of the Russian Federation.

*Part Two of Article 4 of this Federal Law was amended by Federal Law N 31-FZ dated March 21, 2002; the amendments becoming valid starting from July 1, 2002.
See the previous language.*

Subject to the observance of requirements of the legislation of the Russian Federation, non-incorporated individual entrepreneurs may also engage in entrepreneurial activity. State registration of individual entrepreneurs shall be provided by justice authorities of the Kaliningrad Oblast in accordance with the procedure stipulated by the legislation of the Russian Federation. State registration of legal entities shall be provided in accordance with the procedure established by the Federal Law "On State Registration of Legal Entities.

Representative offices and branches of foreign legal entities may be opened in the Special Economic Zone on the basis of an SEZ Administration decision subject to the observance of requirements of the legislation of the Russian Federation.

On measures to ensure state support to the establishment in the Kaliningrad Oblast of facilities to assemble modern automobiles, please refer to Resolution # 524 of the Government of the Russian Federation dated April 23, 1996.

Licensing of entrepreneurial activity in the Special Economic Zone shall not be required, except for cases stipulated by the legislation of the Russian Federation.

Federal executive authorities may, under an agreement with the SEZ Administration, transfer to the Administration the power to license certain kinds of entrepreneurial activity, except for activity in the following areas:

- 1) Defense industry, manufacture of armaments and combat equipment, arms and combat equipment trading;
- 2) Production of, and trading in, fissionable materials, toxic, explosive, poisonous, psychotropic and narcotic, biologically and genetically active materials and substances;
- 3) Electric power generation, transmission and trade;

- 4) Extraction, processing of, and trading in precious metals, precious and semiprecious stones (the processing of, and trading in, amber and amber products shall be regulated by agreements entered into between the Government of the Russian Federation and the Administration);
- 5) Oil and gas production on deposits of federal importance;
- 6) Transport and communication;
- 7) Mass media, production and demonstration of motion pictures

Article 5. Contractual Nature of Relations in Attracting Investments into the Special Economic Zone

Acting in accordance with this Federal Law and the Federal State Program for the Development of the Special Economic Zone, the Administration shall review applications of Russian and foreign investors for implementation of SEZ-specific investment projects, and enter into contracts on the implementation of the relevant projects subject to the observance of requirements of the legislation of the Russian Federation.

The Administration shall have the right to hold tenders (competitions, auctions), and in irregular cases, in particular in the event of investment of unique technologies and equipment, direct negotiations with individual Russian and foreign investors and entrepreneurs to conclude contracts on the implementation of SEZ-specific investment projects.

The Administration shall have the right to lease to Russian and foreign entrepreneurs property owned by the Kaliningrad Oblast as a subject of the Russian Federation, including real estate, in accordance with the legislation of the Russian Federation. The procedure governing the use of federal property is determined by the Government of the Russian Federation with account taken in view of particularities of economic activity in the Special Economic Zone.

The Administration shall maintain a register of contracts specified in Parts One, Two and Three of this Article, and establish the rules governing the submission and review of applications for implementation of SEZ-specific investment projects.

In the Special Economic Zone the right to use land shall be afforded to foreign physical persons and legal entities, international organizations (associations) with the participation of Russian and foreign physical persons and legal entities only on the basis of land-lease agreements (with no buy-back option). Said agreements shall be entered into on the basis of actual market land lease rates, with account necessarily being taken of interests of Kaliningrad Oblast residents, rational land use factors, conservation and improvement of the environment; said agreements shall be registered by the relevant bodies of state power of the Kaliningrad Oblast.

Article 6. Investment Implementation Forms

In the Special Economic Zone investments shall be carried out in the forms stipulated by the legislation of the Russian Federation and international agreements of the Russian Federation.

Chapter III. Customs Regulation in the Special Economic Zone

Article 7. Customs Regime in the Special Economic Zone

On the Interim Procedure governing imports to and exports from the territory of the Kaliningrad Oblast, please refer to Executive Order # 01-14/893 of the State Customs Committee of the Russian Federation dated August 17, 1998

On the strengthening of customs control over separate categories of the goods taken into the territory of the Special Economic Zone in the Kaliningrad Oblast, please refer to Executive Order # 01-14/1042 of the State Customs Committee of the Russian Federation dated September 1, 1999.

In the Special Economic Zone, a free customs area regime shall apply with the following particularities:

1) Goods produced in the Special Economic Zone (as confirmed by the certificate of origin) and exported to other countries shall be exempted from customs and other payments levied at the customs registration of the goods (save for the custom fees). Economic policy measures (non-tariff state regulation of external trade activity) shall not apply to such goods.

Subitem 2, Part One, Article 7 of this Federal Law was suspended by Federal Law # 194-FZ dated December 30, 2001 for the period of January 1 through December 31, 2002 with regard to incentives involving excise and VAT payments on excisable goods imported to the Special Economic Zone from other countries.

Subitem 2, Part One, Article 7 of this Federal Law was suspended by Federal Law # 150-FZ dated December 27, 2000 with regard to incentives involving excise and VAT payments on excisable goods imported to the Special Economic Zone from other countries.

2) Goods imported from other countries to the Special Economic Zone shall be exempted from import customs and other payments levied at customs registration of the goods (save for the custom fees). Economic policy measures (quantitative state regulation of external trade activity) may be applied to certain categories of goods and services

Resolution # 526 of the Government of the Russian Federation dated July 14, 2000 authorizes the introduction for 2000 - 2005 of quantitative restrictions on select categories of goods imported from other countries to the free customs area on the territory of the Special Economic Zone in the Kaliningrad Oblast; the Resolution becomes effective 30 days after the date of its official publication.

3) Goods produced in the Special Economic Zone (as confirmed by the certificate of origin) and imported to other parts of the customs territory of the Russian Federation (and also to the territory of the Customs Union) shall be exempted from import customs and other payments levied at customs registration of the goods (save for the custom fees). Economic policy measures (non-tariff state regulation of external trade activity) shall not apply to such goods.

4) Goods imported from other countries to the Special economic zone and then taken to other parts of the customs territory of the Russian Federation, and the territory of the Customs Union (excepting goods processed in the Special Economic Zone and, therefore, considered to have been produced in the Special Economic Zone) shall be subject to import customs and other payments at customs registration of the goods. Economic policy measures (non-tariff state regulation of external trade activity) may be applied to such goods.

Subitem 2, Part One, Article 7 of this Federal Law was suspended by Federal Law # 194-FZ dated December 30, 2001 for the period of January 1 through December 31, 2002 with regard to incentives involving excise and VAT payments on excisable goods imported to the Special Economic Zone from other countries.

Subitem 2, Part One, Article 7 of this Federal Law was suspended by Federal Law # 150-FZ dated December 27, 2000 with regard to incentives involving excise and VAT payments on excisable goods imported to the Special Economic Zone from other countries.

5) Goods imported from other countries to the Special economic zone and then exported to foreign countries (with or without processing) shall be exempted from customs and other payments at customs registration, and quantitative import and export restrictions shall not be applied.

The Administration together with the State Customs Committee of the Russian Federation shall establish the procedure governing the determination of the origin of goods from the Special Economic Zone.

The procedure governing the determination of the origin of goods from the Special Economic Zone in the Kaliningrad Oblast has been authorized by Executive Order # 296-p/01-14/1365 of the Kaliningrad Oblast Administration and State Customs Committee of the Russian Federation dated December 31, 1998.

Goods shall be considered to have been produced in the Special Economic Zone if the added value of their processing accounts to at least 30 percent; and for electronic goods and sophisticated domestic appliances – to at least 15 percent; and the processing of the goods results in a change of the goods code in the customs classification. The procedure governing the determination of the origin of sophisticated domestic

appliances from the Special Economic Zone shall be established by the State Customs Committee of the Russian Federation upon presentation by the Administration.

The Administration, subject to the consent of the Government of the Russian Federation, shall have the right to introduce additional restrictions on, and exceptions from, the free customs area regime with a view to protecting interests of local producers of goods (work, services).

On the introduction of additional restrictions on the free customs area regime aimed at protecting local producers, please refer to Decision # 71 of the Head of the Kaliningrad Oblast Administration dated February 5, 1996.

Article 8. Transit of Goods Through the Territory of the Special Economic Zone

Transit of the goods through territory Special Economic Zone shall be regulated by the legislation of the Russian Federation and international agreements of the Russian Federation. Receipts from the rendering of transportation services, loading, unloading, overloading and storage services in the process of transportation and handling of goods from the Special Economic Zone to other parts of the customs territory of the Russian Federation, and from other parts of the customs territory of the Russian Federation to the Special Economic Zone shall be exempted from the value-added tax.

Article 9. Customs Registration and Customs Control

Particularities of customs registration of goods, including vehicles, and customs control over the movement of goods, including vehicles, to and from the Special Economic Zone shall be regulated in accordance with the Customs Code of the Russian Federation and this Federal Law.

In accordance with Executive Order # 01-14/1218 of the State Customs Committee of the Russian Federation dated November 25, 1998, goods belonging to Group 8703 of the CIS Foreign Trade Commodity Classification and produced in the Kaliningrad Oblast under the free customs area regime may not be divested or transferred for use outside the territory of the Kaliningrad Oblast.

Chapter IV. Taxation in the Special Economic Zone

Article 10. Tax Exemptions

Tax exemptions shall be afforded to both Russian and foreign investors and entrepreneurs in accordance with the tax legislation of the Russian Federation and the legislation of the Kaliningrad Oblast.

Chapter V. Banks and Banking Activity in the Special to Economic Zone

Article 11. Russian Banks Operations

Russian banks shall operate in the Special Economic Zone in accordance with the procedure established by the legislation of the Russian Federation on banks and banking activity.

Article 12. Foreign Banks Operations

Foreign banks shall operate in the Special Economic Zone in accordance with the legislation of the Russian Federation, on the basis of licenses duly issued by the Central Bank of the Russian Federation, and on the basis of the national banking regime of the Russian Federation.

Article 13. Special Conditions of Russian and Foreign Banks Operations in the Special Economic Zone

The Administration, upon consent by the Government of the Russian Federation and the Central Bank of the Russian Federation, may introduce incentives for Russian and foreign banks in connection with their activities aimed at implementing the Federal State Program for the Development of the Special Economic Zone.

Article 14. Settlements

Russian and foreign physical persons and legal entities may select banks and other credit institutions operating on the territory of the Special Economic Zone for settlement purposes.

Chapter VI. Currency Regulation and Currency Control in the Special Economic Zone

Article 15. Currency Regulation

In the Special Economic Zone the property right and other rights of physical persons and legal entities with regard to foreign currency shall be exercised in accordance with the procedure established by the legislation of the Russian Federation.

The procedure of mandatory sale by residents of foreign currency proceeds on the foreign exchange market of the Russian Federation shall not apply to foreign exchange receipts from exporting goods (work, services) and results of intellectual activity generated on the territory of the Special Economic Zone.

Currency regulation shall be carried out by the Central Bank of the Russian Federation and the Government of the Russian Federation in accordance with the legislation of the Russian Federation on currency regulation and currency control.

Article 16. Dividend Transfer and Capital Repatriation

Foreign investors shall freely transfer dividends and repatriate capital from the territory of the Special Economic Zone in accordance with the legislation of the Russian Federation and international agreements of the Russian Federation.

Article 17. Foreign Exchange Insurance

Russian and foreign physical persons and legal entities may solicit services of Russian or foreign insurance companies (insurers) for all kinds of insurance transactions in the Russian currency or foreign exchange, including insurance of export risks. Insurance transactions shall be effected exclusively by the insurers who have been licensed to engage in insurance activities on the territory of the Russian Federation in accordance with the legislation of the Russian Federation.

Please refer to the Conditions of Licensing Insurance Activity on the Territory of the Russian Federation introduced by Executive Order # 02-02/08 of the Russian Insurance Supervision Authority dated May 19, 1994.

Article 18. Currency of Settlements

All settlements in the Special Economic Zone shall be carried out in the currency of the Russian Federation only.

Article 19. Currency Control

In the Special Economic Zone currency control shall be exercised by the Central Bank of the Russian Federation, the Government of the Russian Federation, and banks - currency control agents in accordance with the procedure established by the legislation of the Russian Federation.

Article 20. Investment Activity of Commercial Organizations Established in the Special Economic Zone and in Foreign States

Commercial organizations established in the Special Economic Zone in accordance with Article 4 of this Federal Law, and foreign states shall carry out investment activities in accordance with the legislation of the Russian Federation, and subject to permission.

Chapter VII. Federal State Program for the Development of the Special Economic Zone

Article 21. Federal State Program for the Development of the Special Economic Zone

The Government of the Russian Federation approves the Federal State Program for the Development of the Special Economic Zone providing the basis for the priority annual allocation of federal budgetary resources to finance federal, inter-regional and regional facilities, primarily those connected to the accommodation and operations of military units and organizations of federal bodies of executive power involving military service in accordance with the legislation of the Russian Federation.

In the process of Special Economic Zone development, resolution of issues pertaining to construction and reconstruction of infrastructure facilities used for defense and national security purposes shall be subject to prior coordination with the corresponding federal bodies of executive power.

On measures to ensure state support to the establishment in the Kaliningrad Oblast of facilities to assemble modern automobiles, please refer to Resolution # 524 of the Government of the Russian Federation dated April 23, 1996.

Chapter VIII. Procedure Governing the Entry to, Exit from, and Stay in the Kaliningrad Oblast. Social Relations

Article 22. Procedure Governing the Entry to, Exit from, and Stay in the Kaliningrad Oblast

The procedure governing the entry to, exit from, and stay in the Kaliningrad Oblast of foreign national and stateless persons shall be determined by the legislation of the Russian Federation and international agreements of the Russian Federation.

Please refer to the Rules of Residence Registration and Deregistration of Citizens of the Russian Federation within the limits of the Russian Federation introduced by Resolution # 713 of the Government of the Russian Federation dated July 17, 1995.

On the territory of the Kaliningrad Oblast the uniform procedure of registration of citizens of the Russian Federation, foreign nationals, persons with dual citizenship and stateless persons shall apply in accordance with this Federal Law and other normative legal acts of the Russian Federation.

For economic security purposes bodies of state power of the Kaliningrad Oblast may be afforded the right to independently introduce restrictions on time and place of stay in the Kaliningrad Oblast of certain categories of foreign citizens and stateless persons. Such restrictions may not infringe on human rights and civic freedoms guaranteed by the legislation of the Russian Federation and international agreements of the Russian Federation.

Former citizens of the USSR, currently residing in Lithuania, Latvia or Estonia, speaking Russian as the native language, shall enjoy concessional terms and conditions of resettlement to the territory of the Kaliningrad Oblast afforded by bodies of state power of the Kaliningrad Oblast.

Article 23. Social - Labor Relations in the Special Economic Zone

Issues of employment, dismissal, work and recreation arrangements, work conditions and norms, social guarantees and compensations shall be governed by collective agreements and individual contracts in accordance with the labor legislation of the Russian Federation.

After tax payments incomes received by foreign employees in foreign exchange may be freely transferred outside the Russian Federation at the employee's request, and similar incomes received by Russian employee may be transferred outside the Russian Federation in accordance with the legislation of the Russian Federation on currency regulation and currency control.

Chapter IX. Miscellaneous Provisions

Article 24. International Agreements of the Russian Federation on Kaliningrad Oblast Issues

International agreements of the Russian Federation on Kaliningrad Oblast issues shall be entered into in accordance with the Federal Law "On International Agreements of the Russian Federation" in coordination with the bodies of state power of the Kaliningrad Oblast.

International agreements of the Russian Federation on Kaliningrad Oblast issues shall necessarily contain positions confirming the existing status of the Kaliningrad Oblast as an integral part of the Russian Federation.

Article 25. Agreements of the Kaliningrad Oblast with Administrative-Territorial Entities of Foreign States

The Kaliningrad Oblast duly represented by its authorized bodies of power may conclude agreements on economic, scientific and technical, cultural and sports cooperation with administrative-territorial entities of foreign states, including with states, provinces, cantons, and lands.

Agreements specified in Part One of this Article:

- 1) May not be in contravention of the legislation of the Russian Federation and international agreements of the Russian Federation;
- 2) Shall necessarily contain positions confirming the existing status of the Kaliningrad Oblast as an integral part of the Russian Federation;
- 3) May not be construed to be international agreements of the Russian Federation;
- 4) Shall be subject to obligatory registration by the Ministry of Foreign Affairs of the Russian Federation in accordance with the procedure established by the President of the Russian Federation;
- 5) May not become effective before the date of their registration by the Ministry for Foreign Affairs of the Russian Federation.

Article 26. Liquidation of the Special Economic Zone

The Special Economic Zone may be liquidated on the basis of the Federal Law adopted on the initiative of the Government of the Russian Federation in the following cases:

- 1) Failure to achieve the purposes and objectives stipulated by this Federal Law;
- 2) Incompatibility of the Special Economic Zone existence with the vital interests of the Russian Federation.

In case of adoption of the Federal Law on the liquidation of the Special Economic Zone the Government of the Russian Federation shall determine the procedure, terms and conditions of the liquidation of the Special Economic Zone in accordance with the legislation of the Russian Federation, including the legislation on the protection of rights and interests of Russian and foreign entrepreneurs and investors.

For the entities specified in Article 4 of this Federal Law and established in the Special Economic Zone after this Federal Law has come into effect, conditions of economic activities established by this Federal Law shall remain unchanged within a period of three years from the effectiveness date of the Federal Law on the Liquidation of the Special Economic Zone.

Article 27. Effectiveness of this Federal Law

This Federal Law shall become effective from the date of its official publication.

Article 28. Bringing this Federal Law in Conformity with Other Regulatory Legal Acts of the Russian Federation

The President of the Russian Federation the Government of the Russian Federation shall hereby be advised to bring their regulatory legal acts in conformity with this Federal Law within a period of three months from its effectiveness date.

President of the Russian Federation B. Yeltsin

Moscow, the Kremlin
January 22, 1996
13-FZ