

**FEDERAL LAW NO. 16-FZ OF JANUARY 10, 2006 ON THE SPECIAL ECONOMIC ZONE IN THE
KALININGRAD REGION AND ON AMENDING SOME LEGISLATIVE ACTS OF THE RUSSIAN
FEDERATION (with the Amendments and Additions of May 17, October 30, 2007)**

**Adopted by the State Duma on December 23, 2005
Endorsed by the Federation Council on December 27, 2005**

Chapter 1. General Provisions

Article 1. Scope of Operation of This Federal Law

This Federal Law shall regulate the relations arising in connection with the establishment of the Special Economic Zone in the Kaliningrad Region, its functioning, change and termination of the special legal environment in this zone subject to the geopolitical position of the Kaliningrad Region for the purpose of speeding up its socio-economic development.

Article 2. Basic Concepts Used in this Federal Law

The following basic concepts shall be used in this Federal Law:

1) **the Special Economic Zone in the Kaliningrad Region** (hereinafter referred to as the Special Economic Zone) shall mean the territory of the Kaliningrad Region where a special legal environment for exercising economic, industrial, investment and other types of activity is in effect;

2) **management of the Special Economic Zone** shall mean the activities of the authorized body and the activities of the administration of the Special Economic Zone aimed accordingly at ensuring the operation of a special legal environment in the Special Economic Zone and at ensuring organization of its functioning;

3) **the authorised body** shall mean the federal executive body authorised to exercise the functions of managing special economic zones and ensuring operation of a special legal environment in the Special Economic Zone in compliance with the provisions of this Federal Law;

4) **the administration of the Special Economic Zone** (hereinafter referred to as the administration) shall mean the structural subdivision of the supreme executive state power body of the Kaliningrad Region charged with ensuring organization of the functioning of the Special Economic Zone in compliance with the provisions of this Federal Law;

5) **a resident of the Special Economic Zone** (hereinafter referred to as a resident) shall mean a legal entity complying with the requirements of this Federal Law and included into the comprehensive register of residents of the Special Economic Zone (hereinafter referred to as the register);

6) **an investment declaration** shall mean the document containing data on the terms and conditions of implementation by a resident of an investment project in the Special Economic Zone in compliance with this Federal Law.

Article 3. Management of the Special Economic Zone

1. For the purpose of ensuring operation of the special legal environment of the Special Economic Zone the authorized body shall interact with the federal executive bodies, and coordinate interaction of the administration and federal executive bodies in settling matters concerning such ensuring operation.

2. The administration, for the purpose of ensuring organization of the functioning of the Special Economic Zone, shall exercise the following functions:

1) keeping the register in the procedure and according to the form established by the authorized body;

2) considering applications submitted by legal entities for their inclusion into the register and deciding on the inclusion of legal entities into the register or on the exclusion of residents from the register in compliance with this Federal Law;

3) presenting tax and customs authorities with information concerning the inclusion of legal entities into the register and exclusion of residents from the register;

4) exercising control over the observance by residents of the terms and conditions of investment declarations;

5) coordinating amendments to be made by a resident to the investment declaration and making such amendments in the register;

6) drawing up proposals concerning inclusion into the register of the commodity categories whose placement under the customs treatment of free customs zone is prohibited;

7) protecting legitimate interests of residents in their relations with territorial agencies of the federal executive bodies, state power bodies of the Kaliningrad Region and local self-government bodies, when settling matters related to implementation of investments projects;

8) presenting an annual report on the results of functioning of the Special Economic Zone in the appropriate reporting year in the procedure and according to the form established by the authorised body;

- 9) issuing an extract from the register at the demand of a resident;
- 10) endorsing the form of an investment declaration.
3. The head of the administration shall be appointed and dismissed by the top-ranking official (the head of the supreme executive state power body) of the Kaliningrad Region by approbation of the head of the authorized body.

Chapter 2. Residents

Article 4. Inclusion of Legal Entities into the Register

1. A legal entity shall be included into the register if it complies with the following requirements:
 - 1) the legal entity is established in compliance with the laws of the Russian Federation;
 - 2) the state registration of the legal entity is effected in the Kaliningrad Region;
 - 3) the legal entity produces goods solely on the territory of the Kaliningrad Region;
 - 4) the legal entity makes investments on the territory of the Kaliningrad Region;
 - 5) the investment project presented by the legal entity complies with the requirements established by this Federal Law.
2. Legal entities applying the special tax treatments that are provided for by the legislation of the Russian Federation on taxes and fees may not be residents.
3. Financial establishments, including credit and insurance organizations, as well as professional security market participants, may not be residents.
4. A legal entity shall submit to the administration an application in writing for inclusion of the legal entity into the register (hereinafter referred to in Parts from 5 to 9 of this Article as an applicant) and submit concurrently the following documents:
 - 1) copies of the constituent documents of the legal entity attested and certified by a notary public;
 - 2) a copy of the document, proving the fact of making an entry in respect of the legal entity in the comprehensive state register of legal entities, attested and certified by a notary public;
 - 3) the certificate of registration with a tax authority;
 - 4) the investment declaration.
5. The administration shall consider an application for inclusion of an applicant into the register within ten days at the most, as of the date of submitting this application to the administration, shall decide on the applicant's inclusion into the register or on the refusal to include the applicant into the register, indicating reasons for the refusal, and shall send a notice in writing to the applicant on the date of adopting the appropriate decision.
6. A decision to deny an applicant inclusion into the register shall be rendered by the administration solely in the event of non-observance of the terms of inclusion into the register provided for by this Federal Law.
7. A decision to include an applicant into the register shall be legalized by issuing a certificate of his inclusion into the register to the applicant.
8. An applicant shall be entitled to exercise activities applying the special legal environment of the Special Economic Zone as of the date of deciding on the applicant's inclusion into the register.
9. A decision to deny an applicant inclusion into the register may be appealed against by the applicant in an arbitration court.
10. The following requirements shall be set up with respect to the investment projects implemented by residents:
 - 1) implementation of the investment projects on the territory of the Kaliningrad Region;
 - 2) the investment project may not be aimed at the following:
 - a) production of oil and natural gas, provision of services in these areas;
 - b) production of ethyl alcohol, alcoholic products, production of tobacco products and other excisable commodities (except for passenger cars and motorcycles) in compliance with the list endorsed by the Government of the Russian Federation;
 - c) wholesale and retail trade;
 - d) repair of household appliances and articles for personal use;
 - e) financial activity;
 - 3) making investments in the form of capital investments. As capital investments accountable, when assessing the minimum cost of an investment project, shall be deemed investments into the fixed capital (fixed assets), including outlays on survey and design works, new construction, technical re-equipment, modernization of fixed assets, reconstruction of buildings, acquisition of machines, equipment, tools, implements (except for outlays on acquisition of passenger cars, sports, tourist and pleasure vessels, as well as outlays on construction and reconstruction of living quarters that are not accounted as capital investment when assessing the cost of an investment project);
 - 4) the amount of capital investment under a presented investment project must constitute in total at least one hundred and fifty million roubles;

5) capital investments in the amount of at least one hundred and fifty million roubles must be made within three years at most as of the date of deciding on the inclusion of a legal entity into the register;

6) when assessing the volume of capital investments specified in this Article, the transfer on a gratuitous basis and the transfer on a payable basis (in particular, when allowing payment by installments for a term over three years), including the transfer through third persons, of machines, equipment and transport vehicles by the persons whose state registration on the date of entry of this Federal Law into force is effected in the Kaliningrad Region in the procedure, established by the legislation of the Russian Federation, shall not be counted.

11. An investment declaration must contain the following data:

1) the aim of the investment project (types of commodities and services whose manufacture or rendering are planned in compliance with the investment project);

2) the total volume of the investment project financing;

3) the schedule of making annual investments within the first three years of the investment project's implementation.

12. Amendments concerning the terms and conditions of implementation of an investment project shall be made to an investment declaration by the administration on the basis of a resident's application in writing with the substantiation of the necessity of making such amendments in the procedure provided for by Parts from 4 to 8 of this Article. A decision to amend an investment declaration shall be drawn up in two copies, with one of them issued to the resident.

13. Grounds for the refusal to amend an investment declaration shall be as follows:

1) non-compliance of the amendments to be made with the requirements of this Federal Law;

2) change of the aim of the investment project;

3) reduction of the total volume of financing of the investment project within the first three years of its implementation to a level less than one hundred and fifty million roubles;

4) change of the schedule of annual investments making impossible the implementation of the investment project in compliance with the requirements of this Federal Law.

Article 5. Exclusion of a Resident from the Register

A resident shall be subject to exclusion from the register:

1) on the basis of an application in writing for exclusion from the register as of the day following the date of receipt of such application by the administration;

2) on the basis of an effective decision of an arbitration court on the exclusion of the resident from the register;

3) in the event of making an entry in the Unified State Register of Legal Entities to the effect that a legal entity is in the process of liquidation - from the day following the day of making the relevant entry in the Unified State Register of Legal Entities;

4) in the event of termination of activities of the resident legal entity as result of re-organization thereof as of the day following the date of the re-organisation's completion.

Article 6. Guarantees Granted to a Resident

1. If adopted federal laws and (or) other normative acts of the Russian Federation cause the increase of the total tax burden upon a resident engaged in the implementation of an investment project (except for excises, value-added tax and payments to the Pension Fund of the Russian Federation) or introduce a system of bans and restrictions with respect to making capital investments as compared to the total tax burden and the system that was in effect in compliance with federal laws and (or) other normative legal acts of the Russian Federation on the starting date of the resident financing the investment project, the adopted federal laws and (or) other normative legal acts of the Russian Federation shall not apply within the time period, specified in Article 21 of this Federal Law, in respect of the resident engaged in the implementation of the investment project, provided that he complies with the requirements of this Federal Law.

2. The provisions of Part 1 of this Article shall not extend to the federal laws and other normative legal acts adopted for the purpose of protection of the fundamentals of the constitutional system of the Russian Federation, citizens' health, their rights and legitimate interests, of environmental protection, ensuring the country's defence and security, as well as regulation of relations in the area of establishment, calculation, recovery and payment of duties, value-added tax, excises and customs fees in connection with commodities' movement across the customs border of the Russian Federation.

3. The procedure for estimation of the amount of the total tax burden as of the starting date of implementation of an investment project and a procedure for detecting (fixing) the fact of an increase of this value shall be determined by the Government of the Russian Federation.

4. The land plot required for implementation of an investment project shall be granted to a resident in rent or under ownership in compliance with the legislation of the Russian Federation regulating land legal relations. The rent rate, fixed on the date of making a contract of rent for the time period of

implementation of an investment project, may not be changed within the whole period of validity of the contract of rent.

Article 7. Exercising Control over Implementation of an Investment Project

1. After meeting the terms and conditions of an investment declaration, but at latest in two months as of the date of expiry of the first three years from the day of a legal entity's inclusion into the register, the administration jointly with the tax authority at the place of a resident's tax registration shall inspect the compliance of the resident's activities with the requirements of this Federal Law (hereinafter referred to as an inspection) in the procedure established by the Government of the Russian Federation.

2. The tax authorities at the place of residents' tax registration shall be entitled to make inspections in respect of these residents in the procedure provided for by the Tax Code of the Russian Federation.

3. In the event of detecting in the course of an inspection the fact of underestimation of the amount of capital investments as compared to the amount provided for by Article 4 of this Federal Law, the administration shall be entitled to demand the exclusion of the resident from the register judicially.

4. If an inspection does not result in detecting the fact of underestimation of the volume of capital investments, provided for by Article 4 of this Federal Law, the administration shall be obliged to issue to the resident a certificate proving compliance with the terms and conditions of the investment declaration at the latest in ten days as of the finishing date of the inspection but not later than in three years and three months as of the date of including the legal entity into the register. The form of the certificate proving a resident's compliance with the terms and conditions of the investment declaration shall be established by the administration.

5. A refusal to issue to a resident the certificate proving his compliance with the terms and conditions of the investment declaration or a failure to issue such certificate within the time period provided for by this Article may be appealed against by the resident in an arbitration court.

6. In addition to the inspections specified in Parts 1 and 2 of this Article the administration, jointly with the authorised body, shall be obliged on an annual basis from the date of including a legal entity into the register and up to the date of deciding on the issue of the certificate, proving compliance with the terms and conditions of the investment declaration, to conduct inspections of residents' activities in the procedure established by the federal executive body authorised to perform the functions of statutory-legal regulation in the sphere of creation and functioning of special economic zones, for the purpose of revealing the compliance of such activities with the terms of implementation of the investment project contained in the investment declaration. In the event of non-compliance of a resident's activities with the requirements established by this Federal Law, as well as in the event of detecting violations by a resident of the terms and conditions of the investment declaration concerning the amount and time of making investments, the administration shall be obliged to demand the exclusion of such resident from the register judicially.

7. In the event of excluding a resident from the register prior to his receiving the certificate proving his compliance with the terms and conditions of the investment declaration, the said resident shall be obliged to pay the taxes not paid by him in connection with application of the special procedure for payment of taxes in compliance with the legislation of the Russian Federation on taxes and fees.

Chapter 3. Operation of the Customs Treatment of Free Customs Zone Applied in the Kaliningrad Region

Article 8. Scope of Application of this Chapter

1. This Chapter shall determine application of the customs treatment of free customs zone in the Kaliningrad Region established in compliance with the legislation of the Russian Federation in respect of the commodities imported to the territory of the Kaliningrad Region and exported from the territory of the Kaliningrad Region.

2. In respect of the legal entities, exercising their activities in compliance with Federal Law No. 13-FZ of January 22, 1996 on the Special Economic Zone in the Kaliningrad Region, a transition period shall be in effect for ten years subject to the specifics established by Chapter 8 of this Federal Law.

Article 9. Contents of the Customs Treatment of Free Customs Zone Applied in the Kaliningrad Region

1. The customs treatment of free customs zone applied in the Kaliningrad Region shall mean a customs treatment under which foreign commodities shall be imported to the territory of the Kaliningrad Region and used on this territory without paying customs taxes and fees and without application of the bans and restrictions established in compliance with the legislation of the Russian Federation on the state regulation of foreign trade activity subject to the specifics stipulated by this Federal Law.

2. The customs treatment of free customs zone applied in the Kaliningrad Region shall extend to foreign commodities imported into the territory of the Kaliningrad Region and used on this territory by the

legal entities whose state registration is effected in the Kaliningrad Region in the procedure established by the legislation of the Russian Federation.

3. As the declarant of commodities placed under the customs treatment of free customs zone applied in the Kaliningrad Region may act solely a legal entity whose state registration is effected in the Kaliningrad Region in the procedure established by the legislation of the Russian Federation.

4. Commodities placed the customs treatment of free customs zone applied in the Kaliningrad Region, as well as products of their processing, may be consumed solely on the territory of the Kaliningrad Region.

5. Transfer of the rights of possession, use and (or) disposal shall be allowed in respect of the commodities placed under the customs treatment of free customs zone, as well as in respect of products of their processing, including retail sale of the said commodities.

Article 10. Terms and Conditions of Placing Commodities under the Customs Treatment of Free Customs Zone Applied in the Kaliningrad Region

1. Foreign commodities may be placed under the customs treatment of free customs zone applied in the Kaliningrad Region, except for the following:

- 1) excisable commodities;
- 2) commodities whose importation to the customs territory of the Russian Federation is prohibited in compliance with the legislation of the Russian Federation;
- 3) commodities whose placement under the customs treatment of free customs zone applied in the Kaliningrad Region is prohibited in compliance with the list endorsed by the Government of the Russian Federation, including at the proposal of the Government of the Kaliningrad Region.

2. The Government of the Russian Federation may establish, in particular at the proposal of the Government of the Russian Federation, time periods when some categories of commodities, included into the list specified in Part 1 of this Article, may not be placed under the customs treatment of free customs zone applied in the Kaliningrad Region.

3. Foreign commodities, previously placed under other customs treatments and complying with the requirements of Parts 1 and 2 of this Article, may be placed under the customs treatment of free customs zone applied in the Kaliningrad Region.

4. When placing commodities under the customs treatment of free customs zone applied in the Kaliningrad Region, the provision of security for making customs payments shall not be required.

5. When importing into the Kaliningrad Region and placing under the customs treatment of free customs zone applied in the Kaliningrad Region foreign commodities for undergoing processing operations, customs authorities on the basis of the declarant's application shall identify these foreign commodities.

6. Persons importing commodities in compliance with the customs treatment of free customs zone applied in the Kaliningrad Region shall be obliged to keep records of such commodities and submit to the customs authorities report documents concerning such commodities.

7. The form of, and procedure for, keeping records, as well as the form of, and procedure and time for submitting, reporting documents shall be established by the federal executive body authorised to exercise the functions of normative-and-legal regulation in the customs area.

Article 11. Identification of Commodities in Products Processed from Them

1. Commodities placed under the customs treatment of free customs zone applied in the Kaliningrad Region shall be identified in the products processed from them in the following ways:

- 1) affixing by the applicant, processor or official of a customs body seals and stamps to imported commodities, making digital and other types of marking on imported commodities;
- 2) detailed description of imported commodities, taking photos of them, their representation on a scale;
- 3) comparison of the results of analysis of samples or specimens of imported commodities and processed products;
- 4) use of serial numbers or other marking of the imported commodities' manufacturer.

2. The acceptability of the declared way of identifying commodities, placed under the customs treatment of free customs zone applied in the Kaliningrad Region, in products processed from them shall be determined by the customs authority subject to the nature of the commodities and the processing operations conducted.

3. At the declarant's demand and by approbation of the customs authority identification for customs purposes may be ensured by way of studying presented detailed data on the raw stuff, materials and components that are used in their manufacture, on the methods of manufacture of processed products or by way of exercising customs control in the course of carrying out commodity processing operations.

Article 12. List of Commodity Processing Operations

Operations used in processing commodities placed under the customs treatment of free customs zone applied in the Kaliningrad Region shall include the following:

- 1) processing and treatment of commodities proper;
- 2) production of new commodities, including assemblage, mounting or dismantling of commodities;
- 3) repair of commodities, including their restoration, replacement of components, restoration of their consumer properties;
- 4) processing of commodities which contribute to the commodity output or make it easier, even if these commodities are used in full or in part in the course of processing.

Article 13. Termination of the Customs Treatment of Free Customs Zone Applied in the Kaliningrad Region

1. The customs treatment of free customs zone applied in the Kaliningrad Region may be terminated by release for free circulation of imported commodities and (or) processed products thereof by way of placing these commodities and (or) processed products under the customs treatment of release for domestic consumption or under other customs treatments in compliance with the Customs Code of the Russian Federation.

2. When releasing imported commodities for free circulation, the amounts of customs duties and taxes that would be payable, if the imported commodities were declared for free circulation on the date of placing the commodities under the customs treatment of free customs zone applied in the Kaliningrad Region, shall be paid. For the purpose of calculation of customs duties and taxes the following values shall be used: the customs value and (or) the quantity of foreign commodities on the date of a customs authority accepting the customs declaration with the declared customs treatment, as well as the foreign currency exchange rate with respect to the currency of the Russian Federation established by the Central Bank of the Russian Federation for making customs payments and effective on the date of the customs authority accepting the customs declaration with the declared customs treatment. In respect of these commodities shall apply the bans and restrictions established in compliance with the legislation of the Russian Federation on the state regulation of foreign economic activity.

3. When releasing of processed products for free circulation, provided that imported commodities are identified in the processed products, the amounts of customs duties and taxes that would be payable, if imported commodities and those used in processing (materials, raw stuff and components) were declared for release for free circulation on the date of placing commodities under the customs treatment of free customs zone applied in the Kaliningrad Region, shall be paid. For the purposes of calculating customs duties and taxes the following shall apply: the customs value and (or) the quantity of foreign commodities on the date of a customs authority accepting the customs declaration with a declared customs treatment, as well as the foreign currency exchange rate with respect to the currency of the Russian Federation established by the Central Bank of the Russian Federation for the purpose of making customs payments and effective on the date of the customs authority accepting the customs declaration with a declared customs treatment.

4. If there is no identification effected in compliance with Article 11 of this Federal Law, the provisions of Part 3 of this Article shall apply, provided that the declarant presents the documents and data proving the customs value and (or) quantity of the foreign commodities placed under the customs treatment of free customs zone applied in the Kaliningrad Region and of those used in their processing.

5. If the terms and conditions established by Parts 3 and 4 of this Article are not observed, customs duties and taxes shall be calculated, when releasing processed products for free circulation, on the basis of the rates applied with respect to processed products. The customs value and quantity of products of processing shall be determined as of the date of their being declared for release for free circulation.

6. The customs treatment of free customs zone applied in the Kaliningrad Region may be terminated by exportation under the customs treatment of export of products processed from the commodities that have undergone the processing operations established by this Federal Law.

Article 14. Specifics of Applying Rates of Customs Duties with Respect to Processed Products

1. In respect of processed products the rate of customs duties subject to the country of origin of commodities imported for processing shall apply.

2. When using in processing foreign commodities that have different countries of origin, rates of customs duties shall be applied subject to the following specifics:

1) if processing has resulted in the change of any of the first four symbols of the CC FEA code of commodities, in respect of the products of processing the same rates of customs duties as in respect of the commodities imported from countries to which the Russian Federation grants most-favoured-nation treatment in its trade-and-political relations shall apply;

2) in other instances the rate of customs duties for the country of origin of the foreign commodities whose customs value is the greatest shall apply. If the customs value of the foreign

commodities used in processing is equal, the rate of customs duties applicable with respect to the commodities imported from the countries, to which the Russian Federation grants most-favoured-nation treatment in its trade-and-political relations, shall apply.

Article 15. Specifics of Applying the Customs Treatment of Free Customs Zone in the Kaliningrad Region in Respect of Certain Categories of Commodities

1. Motor vehicles for freight carriage, prime movers, trailers, central axle trailers, tractors, buses, sea vessels and aircraft, railway rolling stock, which for the customs purposes have the status of foreign commodities imported into the territory of the Kaliningrad Region and placed under the customs treatment of free customs zone applied in the Kaliningrad Region shall be deemed transport vehicles for customs purposes, when engaged in international carriage between the territory of the Kaliningrad Region and territories of foreign states, as well as in carriage of commodities and passengers between the territory of the Kaliningrad Region and the rest of the customs territory of the Russian Federation, if the following conditions are met:

1) transport vehicles are registered on the territory of the Kaliningrad Region;
2) transport vehicles are in the ownership of the legal entities indicated in Part 2 of Article 9 of this Federal Law.

2. The Government of the Russian Federation shall be entitled to impose restrictions as to the use and disposal of the commodities specified in Part 1 of this Article, including by way of establishing time-limits for the use of such commodities on the rest of the customs territory of the Russian Federation and of routing such commodities' carriage.

3. The federal executive body authorised in the customs area shall establish by approbation of the administration a simplified procedure for customs registration of the commodities specified in Part 1 of this Article, when they are moved across the customs border of the Russian Federation.

Article 16. Customs Registration and Customs Control

1. Customs registration and customs control in respect of the commodities, imported to the territory of the Special Economic Zone and exported outside the territory of the Special Economic Zone, shall be effected by customs authorities in compliance with the customs legislation of the Russian Federation.

2. In order to simplify making customs operations when applying the customs treatment of free customs zone in the Kaliningrad Region, the federal executive body authorized in the customs area may establish and, at the will of persons concerned, may apply special techniques of customs registration, including the submission to customs authorities of documents and data that are not provided for by the Customs Code of the Russian Federation.

3. The time period for checking the commodities and transport vehicles imported into the territory of the Special Economic Zone and exported from the territory of the Special Economic Zone, while effecting their customs registration, may not exceed twenty four hours, as of the time of submission of required documents and data, as well as of showing commodities and transport vehicles to customs authorities.

4. When moving commodities from the territory of the Kaliningrad Region to the rest of the territory of the Russian Federation and to the territory of the Kaliningrad Region from the rest of the territory of the Russian Federation, payment for exercise of sanitary-and-quarantine, quarantine phytosanitary, veterinary and other types of state control shall not be recovered.

Chapter 4. Taxation and Currency Exchange Regulation in the Special Economic Zone

Article 17. Taxation Procedure

1. In the Special Economic Zone the special procedure for payment by residents of profit tax of organizations and property tax, established by Articles 288.1 and 385.1 of the Tax Code of the Russian Federation, shall be applied.

2. Other federal, regional and local taxes and fees, as well as fees to state extra-budget funds, shall be paid in compliance with the legislation of the Russian Federation, legislation of the Kaliningrad Region on taxes and fees, as well as with normative legal acts of local self-government bodies on taxes and fees.

Article 18. Specifics of Application of the Legislation of the Russian Federation on Currency Exchange Regulation and Currency Exchange Control

The procedure for obligatory sale of a part of foreign currency proceeds in the domestic money market of the Russian Federation shall not extend to earnings of the legal entities whose state registration is effected in the Kaliningrad Region and which receive proceeds in foreign currency from the export of commodities (works and services) and (or) results of intellectual activities manufactured (created) in the Special Economic Zone.

Chapter 5. Specifics of the Procedure for Entry into the Kaliningrad Region, Exit from the Kaliningrad Region and Stay on the Territory Thereof

Article 19. Procedure for Entry into the Kaliningrad Region, Exit from the Kaliningrad Region and Stay on the Territory Thereof

1. The procedure for entry to the Kaliningrad Region, exit from the Kaliningrad Region and stay on its territory of foreign citizens and (or) stateless persons shall be determined by international treaties made by the Russian Federation and the legislation of the Russian Federation subject to the provisions of this Federal Law.

2. For the entry of foreign citizens who are representatives of residents, of investors, as well as of the persons who are invited to discuss prospects of cooperation in the Special Economic Zone, the Government of the Russian Federation shall establish a simplified procedure for issuing visas that provides for their issuance to the said categories of foreign citizens directly at a check-point of the State Border of the Russian Federation when they are entering the Kaliningrad Region. The said issue shall be effected at a check-point of the State Border of the Russian Federation by a representative office of the federal executive body in charge of foreign affairs on the basis of invitations drawn up in the established procedure on the basis of an application of the administration.

3. For the purpose of ensuring the security of the Russian Federation, the authorised federal executive bodies shall be entitled to impose restrictions with respect to foreign citizens and (or) stateless persons, as regards their entry to the Kaliningrad Region, the time period and place of their stay in the Kaliningrad Region in compliance with the legislation of the Russian Federation. When doing this, such restrictions must not violate the human rights and fundamental freedoms guaranteed by international treaties made by the Russian Federation.

Chapter 6. Settlement of Disputes

Article 20. Procedure for Settlement of Disputes

Disputes emerging in connection with the establishment of the Special Economic Zone, its functioning, change or termination of conditions of the Special Economic Zone shall be settled by an arbitration court in compliance with the legislation of the Russian Federation.

Chapter 7. Effective Period and Termination of the Conditions of the Special Economic Zone

Article 21. Effective Period of the Conditions of the Special Economic Zone

The Special Economic Zone shall be established for a term of twenty five years.

Article 22. Grounds for Termination of the Conditions of the Special Economic Zone

1. The conditions of the Special Economic Zone shall be terminated on the basis of a federal law adopted upon the expiry of the time period established by Article 21 of this Federal Law. A federal law on termination of the conditions of the Special Economic Zone may enter into force at the earliest in one year as of the date of its official publication.

2. A federal law on early termination of the conditions of the Special Economic Zone may be adopted for the following reasons:

- 1) imposition of martial law all over the territory of the Russian Federation;
- 2) declaration of a state of emergency all over the territory of the Russian Federation for a term of over three months.

Chapter 8. Transitional Provisions

Article 23. Specifics of Applying the Customs Treatment of Free Customs Zone within the Transitional Period

1. The legal entities whose state registration is effected in the Kaliningrad Region and which on the date of entry of this Federal Law into force are exercising their activities on the basis of Federal Law No. 13-FZ of January 22, 1996 on the Special Economic Zone in the Kaliningrad Region, may apply the customs treatment of free economic zone in the procedure determined by Chapter 3 of this Federal Law subject to the specifics established by this Chapter.

2. When releasing for free circulation products of processed from commodities imported in compliance with the customs treatment of free customs zone, customs duties and taxes shall not be paid, if the commodities comply with the processing criteria set by Chapter 24 of this Federal Law.

3. When exporting from the territory of the Special Economic Zone products processed from commodities imported in compliance with the customs treatment of free customs zone, export customs duties shall not be paid, if the conditions, established by Article 24 of this Federal Law, are observed.

3.1. No export customs duties shall be paid until July 1, 2012 in the exportation from the territory of the Special Economic Zone of products of vegetable origin manufactured (grown) and collected on the territory of the Special Economic Zone, including on the basis of imported raw materials, in accordance with the list determined by the Government of the Russian Federation.

4. The provisions of this Chapter shall not extend to the legal entities included into the register.

5. The provisions of this Chapter shall apply in respect of the legal entities indicated in Part 1 of this Article for ten years as of the date of this Federal Law's entry into force. Upon the expiry of said time period application of the customs treatment of free customs zone with the specifics, established by this Chapter, shall not be allowed.

6. Operation of the provisions of Article 15 of this Federal Law in respect of motor transport vehicles intended for freight carriage, prime movers, trailers, central axle trailers, tractors and buses imported into the customs territory of the Kaliningrad Region and placed under the customs treatment of free customs zone before this Federal Law's entry into force shall likewise extend for three years as of the date of its entry into force to the instances when said transport vehicles are in the ownership of natural persons whose state registration as individual businessmen has been effected in the Kaliningrad Region.

Article 24. Sufficient Processing Criteria

1. Commodities shall be deemed sufficiently processed, if one of the following conditions is met:

- 1) any of the first four symbols of the CC FEA code of the commodities has been changed as a result of conducting operations of processing or manufacture of the commodities;
- 2) as a result of conducting operations of processing or manufacture of the commodities the cost of the commodities changed and a thirty percent share of added value was attained.

2. Irrespective of the provisions established by Part 1 of this Article, the following shall not comply with the sufficient processing criteria:

- 1) operations related to ensuring the safekeeping of commodities during their storage or carriage;
- 2) operations related to preparation of commodities for sale or carriage (division into batches, forming of consignments, sorting, repacking);
- 3) simple assembly operations and other operations that do not essentially change the state of a commodity according to the list determined by the Government of the Russian Federation;
- 4) mixing commodities that have different countries of origin, if the specifications of final products do not essentially differ from those of the mixed commodities.

3. The compliance with the terms and conditions established by this Article shall be proved by the appropriate certificate.

4. The procedure for applying the sufficient processing criteria and for issuing the appropriate certificates shall be determined by the Government of the Russian Federation.

Chapter 9. Final Provisions

Article 25. On Amending Part Two of the Tax Code of the Russian Federation

The following amendments shall be made to Part Two of the Tax Code of the Russian Federation (Sobranie Zakonodatelstva Rossiyskoy Federatsii, 2000, No. 332, Article 3340; 2001, No. 33, Article 3413; 2002, No. 1, Article 4; No. 22, Article 2026; No. 30, Article 3027, 3033; 2003, No. 1, Article 4; No. 22, Article 2026; No. 30, Article 3027, 3033; 2003, No. 1, Article 2, 6; No. 28, Article 2886; No. 46, Article 4435; No. 52, Article 5030; 2004, No. 27, Article 2711; No. 31, Article 3220, 3231; No. 34, Article 3520, 3522, 3525; No. 35, Article 3607; No. 41, Article 3994; 2005, No. 1, Article 30; No. 24, Article 2312; No. 30, Article 3128):

1) Article 288.1 with the following contents shall be added thereto:

"Article 288.1. Specifics of Estimation and Payment of Tax on Profits of Organisations by Residents of the Special Economic Zone in the Kaliningrad Region

1. Residents of the Special Economic Zone in the Kaliningrad Region (hereinafter also referred to as residents) shall pay tax on profits of organizations in compliance with this Chapter, except for the instances established by this Article.

2. Residents shall apply the special procedure for payment of tax on profits of organizations established by this Article in respect of the profits derived from implementation of an investment project in compliance with the Federal Law on the Special Economic Zone in the Kaliningrad Region, provided that residents keep separate records of the incomes (outlays) received (made), when implementing the investment project, and of the incomes (outlays) received (made) when exercising other types of economic activities.

3. Where separate records of the incomes (outlays), received (made), when implementing an investment project in compliance with the Federal Law on the Special Economic Zone in the Kaliningrad Region, and the incomes (outlays) received (made), when exercising other types of economic activities, are not kept, the profits derived from implementation of this investment project shall be taxed in

compliance with this Chapter starting from the quarter when keeping of such separate records is terminated.

4. For the purposes of this Chapter, as the tax base for tax on the profits derived from implementation of an investment project in compliance with the Federal Law on the Special Economic Zone in the Kaliningrad Region shall be deemed the profit in monetary terms derived from implementation of this investment project and assessed on the basis of data obtained as a result of keeping separate records of the incomes (outlays) received (made) in the course of implementation of this investment project and the incomes (outlays) received (made) in the course of exercising other types of economic activity, which the provisions of this Chapter apply to.

5. For the purposes of this Article, as incomes derived from implementation of an investment project in compliance with the federal law on the Special Economic Zone in the Kaliningrad Region shall be deemed the incomes derived from selling commodities (carrying out works or rendering services) produced as a result of implementation of this investment project, except for production of the commodities (carrying out the works or rendering services) that are not be the aim of the investment project.

6. Within six calendar years as of the date of inclusion of a legal entity into the comprehensive register of residents of the Special Economic Zone in the Kaliningrad Region, tax on the profits derived from selling commodities (carrying out works or rendering services), derived from implementation of an investment project in compliance with the Federal Law on the Special Economic Zone and determined in compliance with this Chapter and the Federal Law of the Special Economic Zone in the Kaliningrad Region, shall be collected at the 0 rate in respect of tax on profits of organizations.

7. Within the period from the seventh to twelfth calendar year inclusive, as of the date of including a legal entity into the comprehensive register of residents of the Special Economic Zone in the Kaliningrad Region, the rate of tax on profits of organizations with respect to the tax base for tax on the profits derived from implementation of an investment project in compliance with the Federal Law on the Special Economic Zone in the Kaliningrad Region shall constitute the amount established by Item 1 of Article 284 of this Code and reduced by fifty percent. For this:

1) tax on profits of organizations with respect to the tax base for tax on the profits derived from implementation of an investment project in compliance with the Federal Law on the Special Economic Zone in the Kaliningrad Region estimated on the basis of the tax rate reduced by fifty per cent in the amount established by Paragraph Two of Item 1 of Article 284 of this Code shall be entered into the federal budget;

2) tax on profits of organizations with respect to the tax base for tax on the profits derived from implementation of an investment project in compliance with the Federal Law on the Special Economic Zone in the Kaliningrad Region estimated on the basis of the tax rate, reduced by fifty per cent, in the amount established by Paragraph Three of Item 1 of Article 284 of this Code shall be entered into the budget of the Kaliningrad Region.

8. If a law of the Kaliningrad Region establishes in compliance with Paragraph Four of Item 1 of Article 284 of this Code a reduced rate of tax on profits of organizations for individual categories of taxpayers, that include residents, in respect of the taxes to be entered into the budget of the Kaliningrad Region residents shall apply in the instances, provided for by this Article, this tax rate reduced by fifty per cent.

9. The difference between the amount of tax on profits of organizations with respect to the tax base for tax on the profit derived from implementation of an investment project in compliance with the Federal Law on the Special Economic Zone in the Kaliningrad Region, that would be computed by a resident, if he did not apply the special order of paying tax on profits of organizations, established by this Article, and the amount of tax on profits of organisations computed by a resident in compliance with this Article in respect of the profits, derived from implementation of an investment project in compliance with the Federal Law on the Special Economic Zone in the Kaliningrad Region, shall not be included into the tax base for tax on profits of organizations for residents.";

2) Article 385.1 with the following contents shall be added thereto:

"Article 385.1. Specifics of Calculation and Payment of Tax on the Property of Organisations by Residents of the Special Economic Zone in the Kaliningrad Region

1. Residents of the Special Economic Zone in the Kaliningrad Region shall pay tax on the property of organizations in compliance with this Chapter in respect of all the property constituting a taxable object for the said tax, except for the property created or acquired in the course of implementation of an investment project in compliance with the Federal Law on the Special Economic Zone in the Kaliningrad Region.

2. Residents shall separately calculate the amount of tax on the property of organizations in respect of the property created or acquired in the course of implementation of an investment project in compliance with the Federal Law on the Special Economic Zone in the Kaliningrad Region.

3. Tax on the property of organizations in respect of the property, created or acquired while implementing an investment project in compliance with the Federal Law on the Special Economic Zone in

the Kaliningrad Region, shall be established for residents within the first six calendar years starting from the date of inclusion of a legal entity into the comprehensive register of residents of the Special Economic Zone in the Kaliningrad Region at the rate of 0 per cent.

4. Within the period from the seventh to twelfth calendar year inclusive, as of the date of inclusion of a legal entity into the comprehensive register of residents of the Special Economic Zone in the Kaliningrad Region, the tax rate for tax on the property of organizations in respect of the property created or acquired, while implementing an investment project in compliance with the Federal Law on the Special Economic Zone in the Kaliningrad Region, shall constitute the amount established by a law of the Kaliningrad Region and reduced by fifty per cent.

5. The special procedure for paying tax on the property of organizations shall not extend to the part of the value of property (created or acquired while implementing an investment project in compliance with the Federal Law on the Special Economic Zone in the Kaliningrad Region) that was used for production of the commodities (carrying out the works and rendering the services) that may not be the aim of the investment project. In doing this the share of the property value used for production of the commodities (carrying out the works and rendering the services), that were not be the aim of an investment project, shall be deemed equal to the share of incomes derived from the selling such commodities (carrying out such works or rendering such services) in the total amount of all resident's incomes.

6. The difference between the amount of tax on the property of organizations with respect to the tax base for tax on the property of organizations (created or acquired when implementing an investment project in compliance with the Federal Law on the Special Economic Zone in the Kaliningrad Region), that would be computed by a resident, if he did not use the special order of paying tax on the property of organizations, established by this Article, and the amount of tax on the property of organizations estimated by the resident in compliance with this Article in respect of tax on the property of organizations, created or acquired while implementing an investment project in compliance with the Federal Law on the Special Economic Zone in the Kaliningrad Region, shall not be includable into the tax base for tax on profits of organizations for residents."

Article 26. On Amending the Customs Code of the Russian Federation

Subitem 25 with following contents shall be added to Item 1 of Article 357.9 of the Customs Code of the Russian Federation (Sobranie Zakonodatelstva Rossiyskoy Federatsii, 2003, No. 22, Article 2066; 2004, No. 46, Article 4494):

"25) goods imported into the territory of the Kaliningrad Region in compliance with the customs treatment of free customs zone and products of processed from them placed under the customs treatment of release for domestic consumption."

Article 27. Entry into Force of This Federal Law

1. This Federal Law shall enter into force as of April 1, 2006.

2. The following shall be declared invalidated from the date of this Federal Law's entry into force:

1) Federal Law No. 13-FZ of January 22, 1996 on the Special Economic Zone in the Kaliningrad Region (Sobranie Zakonodatelstva Rossiyskoy Federatsii, 1996, No. 4, Article 224), except for Subitem 2 of Part One of Article 7, whose operation shall be extended to July 1, 2006 in respect of importation of passenger cars into the territory of the Special Economic Zone in the Kaliningrad Region;

2) Item 26 of Article 2 of Federal Law No. 31-FZ of March 21, 2002 on Bringing Legislative Acts into Accord with the Federal Law on the State Registration of Legal Entities (Sobranie Zakonodatelstva Rossiyskoy Federatsii, 2002, No. 12, Article 1093);

3) Article 11 of Federal Law No. 169-FZ of December 8, 2003 on Amending Certain Legislative of the Russian Federation, as Well as on Declaring Invalidated Legislative Acts of the RSFSR (Sobranie Zakonodatelstva Rossiyskoy Federatsii, 2003, No. 50, Article 4855);

4) Article 35 of Federal Law No. 53-FZ of June 29, 2004 on Amending Certain Legislative Acts of the Russian Federation and Declaring Invalidated Certain Legislative Acts of the Russian Federation in Connection with Realisation of Measures Aimed at Improving Public Administration (Sobranie Zakonodatelstva Rossiyskoy Federatsii, 2004, No. 27, Article 2711);

5) Paragraph Three of Article 73 of Federal Law No. 122-FZ of August 22, 2004 on Amending Legislative Acts of the Russian Federation and Declaring Invalidated Certain Legislative Acts of the Russian Federation in Connection with Adoption of the Federal Laws on Making Amendments and Addenda to the Federal Law on the General Principles of Organisation of Legislative (Representative) and Executive State Power Bodies of the Subjects of the Russian Federation and on the General Principles of Organisation of Local Self-Government in the Russian Federation (Sobranie Zakonodatelstva Rossiyskoy Federatsii, 2004, No. 35, Article 3607);

6) Article 4 of Federal Law No. 90-FZ of July 18, 2005 on Amending Certain Legislative Acts of the Russian Federation (Sobranie Zakonodatelstva Rossiyskoy Federatsii, 2005, No. 30, Article 3101);

7) Article 7 of Federal Law No. 117-FZ of July 22, 2005 on the Introduction of Amendments into Certain Legislative Acts in Connection with the Adoption of the Federal Law on Special Economic Zones in the Russian Federation (Sobranie Zakonodatelstva Rossiyskoy Federatsii, 2004, No. 30, Article 3128).

3. The following shall be declared invalidated as of July 1, 2006:

1) Federal Law No. 13-FZ of January 22, 1996 on the Special Economic Zone in the Kaliningrad Region (Sobranie Zakonodatelstva Rossiyskoy Federatsii, 1996, No. 4, Article 224);

2) Article 73 of Federal Law No. 122-FZ of August 22, 2004 on Amending Legislative Acts of the Russian Federation and Declaring Invalidated Certain Legislative Acts of the Russian Federation in Connection with Adoption of the Federal Laws on Making Amendments and Addenda to the Federal Law on the General Principles of Organisation of Legislative (Representative) and Executive State Power Bodies of the Subjects of the Russian Federation and on the General Principles of Organisation of Local Self-Government in the Russian Federation (Sobranie Zakonodatelstva Rossiyskoy Federatsii, 2004, No. 35, Article 3607);

4. Normative legal acts, including the normative legal acts of state power bodies adopted prior to realization of Federal Law No. 13-FZ of January 22, 1996 on the Special Economic Zone in the Kaliningrad Region and effective on the date of this Federal Law's entry into force, shall be valid, insofar as they do not contravene this Federal Law.

President of the Russian Federation

V. Putin

The Kremlin, Moscow
January 10, 2006
No. 16-FZ