"The Russian Far East can take advantage of the steady growth in demand for methanol"

Vice President of “ESN” Vadim Medvedev on the development of their project in the Amur Oblast
APRIL 11, MOSCOW

DMITRY MEDVEDEV: THE FAR EAST BECAME THE RUSSIAN LEADER IN INVESTMENT GROWTH IN 2017

The development of the Russian Far East was one of the subjects of the speech of Russian Prime Minister Dmitry Medvedev for the parliamentary body in the State Duma. The Prime Minister noted that in 2017, for the first time in 4 years, the growth of investments in fixed assets in the region was almost four times higher than the national average. More than a quarter of all direct foreign investments are in the Russian Far East. Indices of industrial production, agriculture and construction in the macroregion are higher than the national average.

According to the head of the Russian government, “this is the result of the work of investors in the ASEZ, the Free Port of Vladivostok and such initiatives as the Far Eastern Hectare program, as well as the reduction of energy tariffs for industry in the Russian Far East.”

We should note that in 2017, the Russian Far East became a leader in the growth of direct investment in the district’s economy. The Far Eastern Federal District showed an investment growth of 17.1% in 2017, whereas the national average was 4.4%. Out of 17% of growth, more than half owed to the investments of residents of ASEZ and FPV, including foreign ones.

APRIL 13, MOSCOW

GOVERNMENT OF RUSSIAN FEDERATION APPROVES PLANS FOR DEVELOPMENT OF POINTS OF GROWTH IN RUSSIAN FAR EAST


The regions identified 41 centers of economic growth in the Russian Far East: 6 centers in the Amur Oblast, 5 centers in the Sakha Republic (Yakutia), Primorye, Magadan Oblast, Khabarovsk Krai, the Sakhalin Oblast, the Jewish Autonomous Oblast, 3 centers in Kamchatka, and 2 centers in Chukotka. 195 priority facilities and social activities will be financed with RUB 55.8 billion. As the result of this work, 19 schools, 20 hospitals, 11 kindergartens, 8 community centers and leisure centers, 26 sports facilities will be built in the centers of economic growth of the Russian Far East.

The financing for the Russian Far Eastern regions will open at the end of May 2018.

APRIL 19, KHABAROVSK

KHABAROVSK HOLDS DAY OF THE CHINESE INVESTOR

On April 19, Deputy Prime Minister, Plenipotentiary of the President in the Far Eastern Federal District, Yury Trutnev, opened the Day of the Chinese Investor in Khabarovsk. This was the third meeting with representatives of the Chinese business community.

The results of the negotiations were agreements on the implementation of a number of projects in the Khabarovsk Krai. For example, a manufacturer of oil and gas equipment, Yantai Jereh Group, is ready to build gas compression capacities using the latest CNG (Compressed Liquid Gas) technology at the port of Sovetskaya Gavan; the product will be shipped to China. Beijing Zhonglian Ruihua New Energy Technologies is planning to set up a chain of factories for processing the timber industry waste and the producing pellets with a capacity of 100,000 tons per year in the Khabarovsk Krai and the Primorsky Krai. Each plant will cost about 30 million yuan. The products will be delivered to China and South Korea.

In the meeting, they discussed the projects proposed for implementation in the Primorsky Krai, including the ITC projects “Primorye-1” and “Primorye-2.” The construction of the high-speed railway Vladivostok – Mudanjian was also part of the discussion. The proposal has been made to connect these cities with a road where trains can ride at 250 kilometers per hour. To do this, it will be necessary to build 12 railway stations and lay 380 km of rail. The preliminary cost of the project is USD 12 billion, and the China Railway Dongfang Group is ready to invest this money. As part of the Day of the Chinese Investor, an agreement on the intentions of implementing this project was signed.
"KOLMAR" COMPANY COMMISSIONS "DENISOVSKAYA" CONCENTRATOR IN YAKUTIA

On April 26, the Kolmar management company opened the Denisovskaya concentrator in Yakutia to process 6 million tons of coal per year. The project was developed and implemented very quickly: Only 10 months passed since the signing of the contract until the release of the first concentrate. The process involved more than 20 Russian and Chinese manufacturers of equipment, metal structures, and non-standard products. The geography of suppliers of components and equipment covered the territory from the western borders of Russia to the southeastern borders of China.

At the opening of the plant, the general director of Kolmar, Artem Levin, noted that to load the factory the company will build a new mine called "Vostochno-Denisovskaya" (eastern Denisovskaya) for which modern mining equipment has been purchased. "We plan that by the end of the fourth quarter of this year the factory will be fully loaded and will reach its production capacity of 6 million tons of coal," said Artem Levin.

The Denisovskaya coal-preparation plant is expected to deliver coking coal to both the domestic market and the countries of the Asia-Pacific region.

"RUSOLOVO" TO INVEST 9.5 BILLION RUBLES IN TIN EXTRACTION AND PROCESSING PROJECTS IN "KOMSOMOLSK" ASEZ

PAO Rusalovo (part of the Seligdar holding company) will launch two new projects for the extraction and processing of tin ore at the Komsomolsk ASEZ. For this purpose, the Ministry of Regional Development of the Russian Far East submitted a proposal to the government of the Russian Federation to expand the territory of ASEZ.

As the Minister for Development of the Russian Far East Alexander Galushka noted, the launch of the projects will provide at least 956 jobs and attract more than 9.5 billion rubles of private investment. Total revenues to the consolidated budget from taxes and fees (including tax subsidies) for the period from 2018 to 2027 will amount to more than 7.4 billion rubles.

The first project of Rusalovo provides for the construction of a mining enterprise with the necessary infrastructure on the basis of the Pravourmiyskoye tin ore deposit. The implementation of this project will increase the production of tin concentrate to 4,000 tons. The total estimated volume of capital investments in the launch of the MPP will be 8.7 billion rubles. It's expected to create 806 workplaces.

The second project of Rusalovo involves the modernization of a solar processing plant operating at the Festivalnoye deposit of the Khabarovsk Krai. The total volume of planned investments is 802 million rubles, and the number of jobs is 150.

NORDGOLD NERYUNGRi MINE STARTS CONSTRUCTION OF FACTORY BUILDING AT GROSS DEPOSIT

In Yakutia, Neryungri Metallic LLC (part of Nordgold) has started construction of a gold extraction plant within the Gross mine construction project at the gold ore deposit of the same name. The foundation of the factory was laid at the end of last year.

At the Gross construction site, the construction of the metal frame of the main building of the factory was fully completed in a short time. The installation and the enlarged assembly of the metal frame of the reagent compartment are 80% complete; the analytical and assay laboratory is 65% complete. The works on erecting the building's enclosing structures and laying the foundations for the technological equipment of the main building are underway at the same time.

From 2002, Neryungri-Metallic LLC has been developing the Taborny site within the eastern part of the Olekmo-Charsky upland (Olekminsky settlement in the southwest of Yakutia). Since 2017, the company has also extracted ore at the "Gross" and "Tyomnoye" deposits. The Gross project is under construction; it’s a year-round heap leaching open cast mining project. It is expected that after reaching its projected capacity, Gross will become the largest Nordgold mine in Russia, processing about 12 million tons of ore and producing 6.221 tons (more than 200,000 ounces) of gold per year for 17 years.

"RENOVA" COMPANY AND POLYMETAL AGREE TO CONSTRUCTION OF SPP AT SVETLOYE

Hevel Group of Companies (part of the Renova Group of Companies) and Polymetal signed an agreement on the construction of an industrial solar power plant at the Svetloye gold deposit in the Okhotsky District of the Khabarovsk Krai. The SPP is supposed to replace part of the electricity from the diesel generators that supply the deposit and the adjacent infrastructure.

"Svetloye is located in a hard-to-reach locality, so reducing the fuel supplies for providing power to the shift camp and its infrastructure makes a big difference. We expect that, after launching the station, the saving will amount to 250 tons of diesel fuel annually," said Viktor Oskolov, chief engineer of Svetloye LLC (part of Polymetal). Taking into account the high level of insolation inherent to the Khabarovsk Krai, the SPP with the capacity of 1 MW will generate 1.2 GWh per year.

Founded in 2009, the Hevel Group of Companies is the largest integrated solar energy company in Russia. The company includes the photovoltaic module plant in Chuvashia, the development department, and the R&D center of thin-film technologies in power engineering (St. Petersburg).
FPV RESIDENT CREATES NEW RAILWAY FLEET OF CARS

JSC Vostochny Port, an FPV resident, launched a park for the delivering empty cars at the port of “Nakhodka Vostochnaya” of the Russian Far Eastern Railway. This will increase the plant’s capacity by 5 million tons. The total investment in the project is more than 17.2 billion rubles.

“Opening the new park will allow increasing transshipment at the already operational terminal and will create the necessary conditions for starting the Third stage of the coal terminal, thus bringing the total capacity to 40 million tons. The new terminal will create additional 500 jobs,” said the Russian Minister of Transport Maksim Sokolov at the opening.

The construction of the park was completed as part of the third stage of the specialized coal terminal of the Vostochny Port. Works on the creation of the park were held from May 2017 to April 2018. During the construction, they used 7.3 km of railway track, about 350 thousand tons of rocky ground, more than 30 thousand tons of crushed stone, and 9 km of contact suspension of electrified tracks. Additionally, they installed more than 20 km of high-voltage lines.

BIROBIDZHAN PLANT OF METAL STRUCTURES TO OPEN NEW ENTERPRISE

This year, BirZM LLC, the resident of the Amuro-Khanganskaya ASEZ, is launching a plant for the production of metal structures and small-scale mechanization for agriculture. The total investment is 1.5 billion rubles.

In 2017, the company has already launched a line for the production of sandwich panels, employing about 80 people. When the company reaches the projected capacity, the number of employees will increase to 200 people, and tax revenues to budgets of all levels will amount to about 100 million rubles a year.

“The ASEZ resident status made it possible for us to modernize production and to significantly expand the product range. In fact, now we are building a new plant at the Amuro-Khanganskaya ASEZ site,” says Konstantin Bosyakov, General Director of BirZM LLC.

CONSTRUCTION OF THE INFRASTRUCTURE OF THE KHABAROVSK ASEZ USES RESIDENT’S PRODUCTS

Khabarovsk Pipe Plant LLC will produce 300 wells and 40 kilometers of polyethylene pipes for the construction of water disposal and water supply systems within the framework of creating the infrastructure of the Khabarovsk ASEZ. The project investments are 1.5 billion rubles.

The plastic materials from the ASEZ resident are non-corrosive, durable, simple, and easy to install, and their service life is not less than 50 years. The plant produces polymer pipes for external water supply networks, gas distribution, water disposal and sewage systems, cable networks, and industrial pipelines. The products of the Khabarovsk Pipe Plant will become the basis for creating the conditions for investment activity of other ASEZ residents.
ASEZ RESIDENT TO PROVIDE CONCRETE TO THE SVOBODNENSKY DISTRICT OF PRIAMURYE

The Smena company, a new resident of the Svobodny ASEZ, will launch its production in autumn 2018, and it plans to fully meet the needs for concrete in the Svobodnensky district. The volume of investments in the project is 90 million rubles. The production investments will pay off in two years. The complex will employ 19 specialists. With its development, the staff will increase to 35 people.

The concrete production facility will be based on the German Liebherr Betomix system. For the needs of the city of Svobodny and Svobodnensky district, the company will supply 100,000 cu. m of concrete per year. Negotiations on the supply of concrete to the construction organizations of the Amur Oblast are already under way.

BERINGOVSKY ASEZ RESIDENT LAUNCHES ELECTRICAL LABORATORY

The management company Energoefekt LLC, a resident of the Beringovsky ASEZ, will be engaged in installing electrical equipment, as well as controlling and inspecting the entire energy supply infrastructure of the Chukotka Autonomous Okrug. The investment in the project amounted to 550 thousand rubles.

The acquired measuring equipment will help the resident monitor energy supply and provide consumers with quality electricity. According to Sergey Maly, General Director of Energoefekt Management Company LLC, the electrical laboratory will help avoid such problems as current leakage, power outages, and ignition of the insulation coatings of cables as well as reduce power consumption and energy losses.

IN YAKUTIYA ASEZ, SAYURI COMPANY HAS GROWN ALMOST 30 TONS OF VEGETABLES

The Sayuri Company, the resident of the Industrial Park Kangalassy ASEZ, has grown more than 16 tons of tomatoes (since October 2016) and 13 tons of cucumbers (since August 8, 2017). The total investment in the project is 1.3 billion rubles.

The project of creating year-round greenhouses is being implemented jointly with the Hokkaido Corporation using Japanese technologies. The operating greenhouse works as a platform for practical evaluation. At present, the second stage is being implemented, which is planned to be completed by the end of the year. Today, the area of greenhouses is 0.1 hectares, but with the second stage it will increase to 1.3 hectares.

ASEZ RESIDENT IN YAKUTIA EXCEEDS PLAN FOR INVESTMENTS AND JOB CREATION

During six months after obtaining the ASEZ status, Servis-Integrator Yakutia LLC, a resident of “Yuzhnaya Yakutia” ASEZ, has purchased more than 30 units of mining and auxiliary equipment and created more than 180 new jobs. The company is implementing a coal extracting project at the Vostochnaya Denisovka deposit in the Neryungri district of the Sakha Republic (Yakutia). The amount of investments exceeded 800 million rubles.

100,000 cu. m of concrete per year is the planned supply volume of the “Smena” company to the Svobodnensky district
For the first quarter of 2018, the coal mining of Servis-Integrator Yakutia LLC amounted to more than 130 thousand tons. After the commissioning of all purchased equipment, Servis-Integrator Yakutia LLC plans to raise the production level to 220 thousand tons of coal per quarter.

According to the company's CEO Sergei Andrianov, the company exceeded its plans for investment and job creation. Thanks to state support, it managed to implement a complex and capital-intensive integrated management project of the mine in the interests of JSC ‘GOK “Denisovskiy”’.

**PROJECT OF CONCRETE PRODUCTION BEING IMPLEMENTED FOR AMUR GPP AT SVOBODNY ASEZ**

The production and trading company Pchely – Svobodny, a resident of Svobodny ASEZ, is developing a production complex for the supply of high-quality and particularly durable concrete for the construction of the Amur gas processing plant. The project is supposed to be completed in September 2018.

Within the project, the company is building auxiliary infrastructure of the concrete complex, organizing the access road, and fencing the territory. The resident also plans to build another concrete batch unit, car boxes and warehouses for inert materials, as well as expand the laboratory for testing the quality of concrete.

The updated laboratory will be able to ensure a high level of quality of its own products and serve third-party organizations that produce construction materials. Thanks to the round-the-clock operating mode, the plant has 200–400 tons of cement in reserve every day.

**FPV RESIDENT TO PROVIDE PEVEK WITH BOTTLED WATER**

Istok LLC, a new FPV resident, will be purifying and bottling non-carbonated bottled drinking water of the first category in various volumes to meet the needs of the residents of the Pevek urban district for a quality product. The volume of future investments will be more than 8 million rubles. The payback period of the project is 2.5 years. The project will create 11 jobs.

To cover the maximum consumer audience, the water will be bottled in PET bottles with a volume of 0.5 liters, 1.5 liters, 5 liters. To achieve the indicators required by normative and technical documentation, a modern multi-stage water purification system will be used. Within the announced project, the investor plans to build a production facility and infrastructure as well as purchase a set of equipment and a truck.

**CHILDREN’S HEALTH IMPROVEMENT CAMP TO BE BUILT IN KAMCHATKA ASEZ**

DOL Metallist LLC, a resident of the Kamchatka ASEZ, has started construction of new modern buildings of the “Volna” children’s health improvement camp. According to the project, children from the peninsula will rest here all year round. For this purpose, all the necessary infrastructure has been created: comfortable sleep-
ing buildings, a swimming pool with thermal water, a refectory, modern equipped sports grounds.

The new buildings will double the number of vacationers, create additional shifts and new jobs.

“The recreational possibilities of the region and new investor support measures, as well as subsidies allocated to small and medium-sized businesses today, are making it possible for us to develop this area,” said Vladimir Ilyukhin, Governor of the Kamchatka Krai.

NEW RESIDENTS OF FREE PORT OF VLADIVOSTOK TO BUILD RESIDENTIAL HOUSES AND HOTELS

Over one week in April, the Free Port of Vladivostok received 19 residents. New investors are ready to invest 2.7 billion rubles in their projects. The created enterprises will provide 545 workplaces in the region.

In particular, the company Stark and Stroitelnye Tekhnologii will be engaged in the creation of commercial real estate and parking lots. Kharkovskaya 1 LLC will build a residential complex, as well as preschool and primary education facilities. ZVK LLC will build a modern residential complex and townhouses in the territory of Vladivostok.

The enterprises “Teplostroy” and “Servis Vostok” will produce reinforced concrete pile foundations for low-rise construction. SIMONA Company to Create Chain of Hotels. Hotel No. 1 LLC and Enterprise-DV will also be engaged in the construction of hotels. Melodiya Morya LLC will build a tourist recreation center in the central part of Triozyorie Bay in the Primorsky Krai.

INVESTOR OF FREE PORT VLADIVOSTOK OPENS DENTAL CLINIC

The Edranov Professorial Clinic, an FPV resident, opened a dental clinic in Vladivostok. The investment amounted to 11 million rubles.

The dental clinic provides a wide range of consultative, therapeutic, surgical, and orthopedic services. The clinic also provides training for medical staff. The licensed training center was created for dentists as additional postgraduate education in all areas of modern dentistry.

“The initial idea of the professorial clinic was for it to be based on modern medical and management technologies,” says Sergei Edranov, director of the Edranov Professorial Clinic LLC. “The recent visit of the Chinese delegation to the company resulted in a preliminary agreement about training Chinese specialists in the clinic training center and mutually beneficial exchange of experience.”

CHUKOTKA ASEZ RESIDENT MODERNIZES PRODUCTION OF FRESH-FROZEN FISH IN REGION

Individual entrepreneur Ivan Andriyanov, a resident of the Beringovsky ASEZ, is successfully developing his business of fresh-frozen fish production in the city of Anadyr, Chukotka. The amount of investments in the project is more than 500 thousand rubles.

The main products of the enterprise are Siberian salmon and pink salmon, red caviar and salmon roe, frozen with a modern shock technology.

“Thanks to ASEZ preferences, we are developing the shop and buying new equipment, creating more jobs, releasing products. During the high season, we provide work for up to 30 people. The fact that we work in an advanced special economic zone helps in reducing tax and insurance payments,” said the head of the farm Ivan Andriyanov.
Government to Finance Construction of Infrastructure for Belogorsk ASEZ

Russian Prime Minister Dmitry Medvedev signed a decree on the allocation of 883.2 million rubles from the federal budget for the creation of infrastructure for the “Belogorsk” ASEZ in the Amur Oblast. The infrastructure will be financed within the state program for Social and Economic Development of the Russian Far East and the Baikal Region.

The funds will be used to create additional energy infrastructure facilities. Now, at the sites of the Belogorsk ASEZ and the adjacent territory, there is a shortage of free capacity from the network organizations, which hampers the development of existing residents.

In particular, there is need for electricity from the Amursky oil extraction plant, a ASEZ resident, the first stage of which has already been commissioned, and the construction of the second stage is planned. Building a new substation with a load of 16.69 MW will make it possible to meet the needs of OEP Amursky LLC, as well as potential residents, taking into account the further development of the “Reservnaya” site of the Belogorsk ASEZ.

KRDV BEGINS CONSTRUCTION OF BUILDING FOR PRODUCTION NEEDS OF RESIDENTS OF Khabarovsk ASEZ

As part of creating the infrastructure for the “Khabarovsk” ASEZ, the Russian Far East Development Corporation (KRDV) began the construction of a building on the “Rakitnoye” site to accommodate the productions of various profiles. The construction is scheduled to be completed in the fourth quarter.

According to Denis Tikhonov, the Director General of the KRDV, the construction work for the ASEZ infrastructure takes into account applications of the residents. Now, key agreements have been concluded to provide the ASEZ sites with all the necessary resources, namely water supply and water disposal, gas, electricity and thermal energy. The main commissioning of infrastructure facilities, including those under technological connection agreements, is planned for 2018–2019.

The total area of the premises in the building will be 2.8 thousand square meters, and it will be provided with all necessary infrastructure, including internal and external engineering networks, its own boiler house, and roads. The residents will be able to rent the sites at favorable conditions. In the future, similar production and administrative buildings will be built on the “Parus” site of the “Komsomol’sk” ASEZ in the Khabarovsk Krai and in the “Nadezhdinskaya” ASEZ (Primorye).

GOVERNMENT EXPANDS BORDERS OF MIKHAILOVSKY ASEZ FOR INVESTOR BENEFIT

A Special Resolution of the Government of Russia changed the borders of the Mikhailovsky ASEZ in the Primorsky Krai. Included in the perimeter of the territory are the lands where there is an investment project for the construction of dairy production by the company TH Rus Primorskiy (a subsidiary of the Vietnamese corporation TH True Milk).

The investment project involves the construction of livestock complexes for the cultivation of dairy breeds of cattle with a total headcount of 15,000 animals, including 7.2 thousand heads of a dairy herd. It’s supposed to process more than 60 thousand tons of milk per year. The volume of investment in the project, based on the construction of 3 farms and a dairy plant, according to preliminary estimates, may amount to about 16 billion rubles.

“We are willing to find common ground with business and its needs. We are ready to expand the territories of the ASEZ for launching new production facilities. A large Vietnamese investor wants to build a dairy plant in the Primorsky Krai, we are extending the regime of the advanced special economic zone to the place where they want to implement the project,” commented the Minister of the Russian Federation for the Development of the Russian Far East, Alexander Galushka.

22 INVESTMENT PROJECTS INCLUDED IN STATE PROGRAM FOR DEVELOPMENT OF RUSSIAN FAR EAST

Twenty-two investment projects with a total investment of 147 billion rubles will be included in the State Program for the Development of the Russian Far East and will receive administrative support from the federal authorities.

Among the projects are the construction of a bridge from Blagoveshchensk (RF) to Heihe (China) in the Amur Oblast, an investment project for the construction of the Kimkano-Sutarsky MPP in the EAO, the creation of a fish processing plant in the Kamchatka Krai, as well as a petroleum storage project in Petropavlovsk-Kamchatsky. In the Magadan Oblast, the State will provide support for the AgroInvest greenhouse complex; in the Sakhalin Oblast, to a project of comestible and microbiological agar by Alyans DV LLC, as well as a project for building a fish-processing facility by Rybokombinat Ostrovnoy LLC. There are also plans to build a river-boat station with a frontier checkpoint in the Khabarovsk Krai as well as to implement an investment project to build a fish farm.

The largest number of projects — nine in total — will be implemented in the Primorsky Krai. You can find a full list of the projects on the website of the Ministry for Development of the Russian Far East.
Special Tax Regime to be Used for Investors and Their Insurance Premiums to be Lowered

The Ministry for Development of the Russian Far East is continuing to improve legislative control of the region’s advanced development. Here, we cover the most important initiatives.

**MINISTRY FOR DEVELOPMENT OF RUSSIAN FAR EAST MAKES A NUMBER OF AMENDMENTS TO LAW ON ASEZ**

**LAND FOR ASEZ INFRASTRUCTURE WILL BE ISSUED FASTER**

The Ministry for Development of the Russian Far East proposes amending the law on ASEZ to simplify procedures and reduce the time required for the creation of infrastructure facilities for PSEDA (Priority Social and Economic Development Areas). The time required for the procedures for the seizure of land for the creation of ASEZ infrastructure will be reduced to six months. ASEZ Residents will be able to apply to the Ministry for Development of the Russian Far East with proposals to include the land for the construction of infrastructure in the ASEZ.

**THE PROCEDURES FOR BUILDING ASEZ INFRASTRUCTURE WILL BE REDUCED**

The period of state expertise of design documentation for infrastructure objects and results of engineering surveys will be shortened from sixty to twenty days. The Ministry for Development of the Russian Far East will approve the land planning documentation and will determine the categories of ASEZ land in accordance with it. The corresponding bill has been submitted to the government of Russia.

**RISK-ORIENTED APPROACH MAY BE IMPLEMENTED TO MONITOR THE ACTIVITIES OF ASEZ RESIDENTS**

The bill improves the regime for coordinating the unscheduled inspections by state control bodies (supervision) and municipal control bodies. In particular, to the application for approval of an unscheduled inspection, the control and supervisory bodies will attach documents showing the deviation of risk indicators of violating mandatory requirements. If there are no grounds for conducting unscheduled inspections, the Ministry for Development of the Russian Far East is entitled to refuse its approval and recommend taking measures aimed at preventing the violations of compulsory requirements by ASEZ residents, including by sending a warning about the inadmissibility of violating mandatory requirements. The bill has been referred to federal executive bodies for approval.

**SPECIAL TAX REGIME SUGGESTED FOR FREE PORT OF VLADIVOSTOK**

The bill, developed by the Ministry for Development of the Russian Far East, lays down the legal framework for applying the taxation system for the participants of the regional financial center of the Free Port of Vladivostok. To this end, the agency has proposed amending the first and second parts of the Tax Code of the Russian Federation.

The single tax rate is set at 6 percent. Individuals who pay a single tax are exempt from paying corporate profit tax and corporate property tax. They also do not pay value-added tax (except for the value-added tax payable when importing goods into the territory of the Russian Federation). A taxpayer has the right to transfer to paying a single tax no later than 30 calendar days from the date of registering as a participant in the regional financial center of the Free Port of Vladivostok.

**FEEDBACK**

In order to improve the quality of legislative activity of the Ministry for Development of the Russian Far East, a special committee for issues relating to law-enforcement policy has been established.

The committee is led by the State Secretary – Deputy Minister Pavel Volkov.

If you have any questions for the committee, call +7 (495) 531-06-44 (Ext. 4512) or send an email to komissiaminvr@minvr.ru

**FEDERATION COUNCIL COMMITTEE APPROVES LOWERING INSURANCE PREMIUMS FOR INVESTORS IN FAR EASTERN FEDERAL DISTRICT**

The Committee on the Federal Structure, Regional Policy, Local Self-Government and the Affairs of the North supported the bill created by the Ministry for Development of the Russian Far East and the bill by the Russian government on improving the procedure for calculating and paying insurance premiums for ASEZ residents and residents of the Free Port of Vladivostok.

The Ministry for Development of the Russian Far East proposes establishing preferential tariffs for insurance premiums solely for individuals employed at new workplaces, for 10 years from the day ASEZ residents and the FPV residents receive the status. For this purpose, it’s planned to amend Article 427 of the Tax Code of the Russian Federation.

The current version of the Tax Code establishes the following preferential insurance premium rates for ASEZ residents of the FPV residents: mandatory pension insurance – 6.0% (the general rate is 26%), compulsory social insurance in case of temporary incapacity for work and in connection with maternity – 1.5% (the general rate is 2.9%), compulsory medical insurance – 0.1% (the overall rate is 5.1%).

Insurance Premiums to be Lowered

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Against the backdrop of volatile oil prices, the consumption of methanol in the world is growing: this is an important source of raw materials for the chemical industry and, perhaps, the main fuel for sea-going vessels in the future. Meanwhile, the Russian Far East consumes only 100 thousand tons of methanol per year. The group vice-president Vadim Medvedev explains why the ESN group is ready to invest more than 44 billion rubles by 2020 in a plant with a capacity of 1 million tons per year in the Amur Oblast and why this is only the first stage of the project.

– Vadim Vladimirovich, at the last Eastern Economic Forum the ESN Group announced the construction of a methanol processing plant. It was said that the plant would have 44.3 billion rubles of investments and 1 million tons of product per year. At what stage is the preparation of the project now?

– Thanks to comprehensive support, the project is actively developing. 1 million tons of methanol is only the first stage of the project. Based on the oil terminal that the Group has, we plan to build a gas chemical complex with several process stages. I repeat, 1 million tons of methanol is the first stage and will be commissioned in 2020. At the moment, we, firstly, have completely provided the project with the necessary resources – land plots, railway, gas, electricity, water supply, water disposal. We have already completed the feasibility study and now are moving on to the basic design. At the same time, we are preparing to conclude a contract for the acquisition of methanol production technology, which, in fact, only three companies have: the German company Lurgi, the Danish company Haldor Topsoe, and the British company Johnson Matthey.

– What are the fundamental differences of these technologies, and what parameters will you look at when choosing?

– There are several groups of parameters. Some of them are purely economic, for example, gas consumption per ton of methanol. Some are related to the fact of how widely the technology is spread, how safe it is, and what the experience of the licensor has in the world and in work on the Russian market. When we started work, we thought there would be significant differences in the techniques, but now we see: all three technologies are, in fact, similar, and they differ by a fraction of a percent. All three companies have a large reference, and their facilities operate all over the world: we visited the United States of America, Malaysia, the Middle East, and China, and we see that each of these companies can be entrusted with such a project.

– What will be the decisive factor in this case?

– The Devil is in the details, including the degree of orientation of each licensor to the specific needs of the client. I don’t want to get ahead of myself, but the sum of these minutiae will be decisive. And, of course, personal contact is important; we are already getting acquainted with the engineers who will be engaged in the project.

– If these technologies are so widespread, that means that they are also safe, right?

– Absolutely. The key point is the concentration of harmful substances in the atmospheric air. With regard to the project in Skovorodi-
no, the concentration along the border of the plant’s sanitary protection zone will be several times lower than the maximum allowable concentration. This will be the second facility of this type in Russia; the first one has successfully operated in the city of Shchekino, Tula Oblast since 2011. There are more than 10 facilities in the world working on this technology by now (in Norway, the USA, Malaysia, Iran, Trinidad and Tobago, and Egypt).

Starting next year, there will be a mandatory environmental expertise of projects introduced in Russia, and our project will be one of the first, if not the very first, that will pass it. We are in constant contact with both local authorities and the public regarding all aspects of the construction.

– The public is probably even happy about you creating additional jobs, isn’t it? Can the local citizens apply for them?

– After we launch the first stage, more than 200 people will work directly at the facility, as well as about 60 people in the auxiliary ones. The construction stage will involve more than 1,000 people. We will employ those who are currently employed at the terminal; based on the agreement with the Amur Oblast, we are committed to involving local personnel as much as possible. Moreover, we are already engaged in a dialogue with local higher education institutions (Amur State University, Amur Industrial College (Svobodny)), so that when the plant is put into operation, we will have trained specialized professionals.

– Will the project claim any subsidies?

– Fortunately, we don’t need much support from the government for the construction of infrastructure for the plant itself. I repeat: the project is provided with infrastructure. We have an operating terminal with a boiler house, we have access to the railway, and we have administrative buildings.

At the same time, we are very grateful that the federal and regional authorities support the project and we will claim tax incentives as a resident of the Svobodny ASEZ. We entered it as anchor investors along with reputable companies like Gazprom and Sibur.

As for the social sphere, with the support of federal and regional authorities, we see the opportunity to find solutions to social issues in Skovorodino, like the reconstruction of urban treatment facilities, road repairs, a kindergarten and the Community Center, converting coal-fired municipal boiler houses to natural gas. This would not only improve the standard of living for citizens, but also improve the ecological situation. We believe that we should strive for comprehensive development of the city.

– How much gas are you requesting for the project?

– About 1 billion cubic meters of gas is needed to produce 1 million tons of methanol. Despite the complexity and ambitiousness of the Power of Siberia project, thanks to the balanced strategy of PJSC Gazprom for supplying gas to domestic consumers along with export supplies, PJSC Gazprom was able to support our project and sign a long-term contract for gas supply.

– There was information that Gazprom was only willing to sell gas at the export price plus a transportation premium.

– According to our information, Gazprom plans to connect a lot of different consumers: the population, the power industry, chemical projects, the “Vostochny” cosmodrome. The tariff for gas will be determined by the Federal Anti-Monopoly Service. But the cost of another type of raw materials, butane fraction, which at the later stages of development of our project can be used for the production of additives for motor fuel, is already a result of purely contractual relations and taking into account the export prices for the product.

– What about the exporting prospects for your products? Will you primarily focus on China?

– Our project has different logistics capabilities. You mentioned the first — the supply to the north of China. It is possible via three types of transport: by railway through the existing border crossings, Zabaikalsk-Manchuria or Grodekovo-Suihehe, or the constructed Nizhnelenskinsk-Tongjiang. The second way is automobile transport — the construction of a bridge in the Kanikuragan area at the Blagoveschensk-Heihe border crossing is actively underway. It’s possible to implement a project of building a cross-border product pipeline between Russia and China because we are only 60 kilometers from the border with China, and our Chinese partners are interested in this idea. Finally, we can supply products to the markets of southern China, Japan, and South Korea from the ports of the Russian Far East by sea.

– Will the domestic market take any significant volumes?

– Unfortunately, domestic consumption of methanol in the Russian Far East is not yet very high — 100 thousand tons per year. In general, methanol is consumed by manufacturers of creatine kinase resins, which are used as binders in the production of chipboard, plywood, MDF. But we believe that the timber industry complex of the Far Eastern Federal District is will simply be forced to develop due to the fact that global demand for timber is tremendously increasing, and the resource base is rapidly dwindling. The Russian Far East has the potential to increase timber processing by several times. The presence of local methanol production will improve the economy of local wood board production. Such enterprises often work on logging waste and use low-grade wood, which makes it possible to dramatically increase the depth of timber processing without increasing the volume of logging.

– What will be the proportion of export and domestic supplies?

– We’re aiming to reach the 50/50 ratio in the future. Then, everything will depend on the market situation at the time that the plant opens.

– And what are the forecasts for methanol consumption in Asian countries?

– Methanol is a global commodity in the best sense of the word. It is traded in the markets and needed by a multitude of industries. The production of olefins from methanol is the main driver here. If we talk about tomorrow, there are pilot projects on using methanol as fuel for bunkering: it’s more environmentally friendly than fuel oil, and if there is a breakthrough in this area, the consumption of methanol will double. Presently, the demand for methanol is steadily growing in physical volumes. Even in heaviest years of the crisis, 2009, 2014, when oil cost USD 30, methanol was adding 5–7% per year. Current world consumption is about 70–80 million tons and, according to forecasts of all leading world agencies, the demand will continue to grow. This is a window of opportunities, which makes it possible not only for our project, but also for other similar projects throughout Russia, to take their place in the growing world market.

– What do you expect from the forthcoming Eastern Economic Forum?

– The same as previous EEFS, that we took part in, we expect to acquire many useful contacts at the site, which we consider a good addition to the St. Petersburg and Sochi forums. First of all, contacts with foreign partners: consumers, construction companies, potential investors. We expect a large number of agreements, but I’m not ready to disclose details yet. The previous three forums were extremely useful for us. We’re planning to further expand the fields of cooperation, and the development institutions of the Russian Far East help us significantly in this; they are a storehouse of useful contacts not only with representatives of foreign business, but also with officials of other countries. This is also very important because our project is a partnership between Russia and the APR countries; it is supported at the intergovernmental level.
Six months ago, Servis-Integrator Yakutia LLC engaged in a project for extracting coal in the Neryungri District. During this time, the resident of the Yuzhnaya Yakutia ASEZ invested more than 800 million rubles without VAT and fulfilled its obligations to the Russian Far East Development Corporation ahead of schedule. It took even less time, namely 3 months, to go from the signature in the contract to the first bucket of rock mass.

“We have invested in this project with the whole team. The work was going 24 hours a day: Each day began early in the morning on Yakutiya time and ended after midnight on Moscow time. Since 2000, the Servis-Integrator Group of Companies has been engaged in transport outsourcing and now it manages a fleet of more than 3,000 thousand units that operate in 50 hard-to-reach locations throughout the country. We have been performing contracts for open pit mining for more than 3 years. In 2017, the total volume of performed stripping works exceeded 20 million m³. We have a rich experience of launching such projects as ‘Vostochnaya Denisovka’; says Dmitry Kovalev, Commercial Director of Servis-Integrator Yakutia LLC.

At the Yuzhnaya Denisovka deposit, the resident of the Yuzhnaya Yakutia ASEZ performs a full complex of open pit mining: drilling blast-holes, excavating and transporting overburden as well as extracting and transporting coal to the enrichment site. The company purchased more than 30 units of mining and auxiliary equipment: excavators, dump trucks, bulldozers, drilling rigs, graders, and other auxiliary machines. In the three months of 2018, the contractor has produced more than 130,000 tons of coal for its customer, Kolmar.

‘The contractor’s task is to perform overburden work (remove the waste rock) and carefully remove the entire coal seam, avoiding losses and dilution (presence of gangue in coal). The actual volume of coal may differ from plans based of geological surveys. The mismatch of the plan and the actual amount of coal is the risk of the customer. The contractor, figuratively speaking, is a ‘hired spade;’ they are responsible for the performance of stripping works and the quality of mining, as well as for compliance with the standards of the approved project and the execution of operational instructions of geologists and mining engineers of the customer. At the section, the extracted coal is loaded into road dump trucks and transported to the concentrator. The result of 130 tons was achieved as early as the start of the project, when not all the equipment was put into operation. In the second quarter of 2018, we expect a production volume of at least 220 tons’, continues Dmitry Kovalev.

In the Neryungri district of Yakutia, there is no shortage of coal enterprises, and there is fierce competition for qualified personnel. Servis-Integrator Yakutia LLC gives preference to the local population, but they invite some miners from other regions of the country to work on a rotational basis: there’s simply not enough hands.

‘The launch of the project has provided more than 180 new jobs on the territory of the Neryungri district of Yakutia. The personnel strategy of our company provides for a long-term approach to attracting, recruiting and retraining personnel, preserving the safety and health of employees. We fully declare all salaries that we pay, and the ASEZ benefits increase our competitiveness as an employer’, said Sergei Andrianov, managing director of Servis-Integrator Yakutia LLC.

In Neryungri district, they extract valuable coking coal. But without state support, even this factor wouldn’t make the extraction profitable, at least for the contractor. The relations of Servis-Integrator Yakutia LLC with the customer, Kolmar company, have been arranged for 5 years with the possibility of doubling the term; the agreement with KRDV JSC was signed for 10 years.

As early as this year, the Kolmar company plans to produce at least 900,000 tons of coking coal at the Vostochnaya Denisovka deposit in the Neryungri District. Coal from South Yakutia is mainly used in metallurgical industries, large steel producers from Japan and South Korea purchase it readily.
In December 2017, Vostochny LUCH LLC (authorized capital of 15 million rubles) commissioned the first house under the federal program entitled "Housing for Russian Families." The tenants received documents and keys to apartments at 137 Neibut St. in Vladivostok before the New Year. Some families moved in on the same day. The cost of a square meter of housing was only 35 thousand rubles. Few people believed that the developer would be able to erect a house and put it into operation on a tight schedule, in just a year.

"Everyone thought that this was impossible because we had exactly one year left before the completion of the presidential program ‘Housing for the Russian Family.’ It was supposed to close in December 2017. In December 2016, we started the works on site, and in December 2017 the first tenants moved in. It’s worth emphasizing that this is a large house with 192 apartments, six entrances, and nine floors. All communications (i.e. heating, sewerage, hot and cold water) have been connected. A service management company has already been established. We spent our own money to buy the land for this first house, build networks, build the houses and gave people the opportunity to buy inexpensive apartments," said Alexey Isakov, Deputy Development Director of Vostochny LUCH LLC.

A regional operator, the administration of the Primorsky Krai, selected future tenants of the first "program" house in Primorye. The inexpensive apartments could be claimed by single-parent or large families, people with health restrictions, by a total of 16 categories of citizens. 4000 approved participants purchased the apartments on a first-come, first-served basis; the sales were closed in one day.

The rapid development of entrepreneurship in Primorye is facilitated by favorable legal treatment for the Free Port of Vladivostok, including zero profit tax for the first five years of work, reduced rates for social taxes (i.e. 7.6% instead of 30%).

"The preferences for the FPV residents significantly help to raise and develop the company, as well as to enable paying employees with fully declared salaries. This makes it possible to reduce the cost per square meter of housing for buyers. One of the big advantages of the FPV regime is the opportunity to receive administrative and methodological support," says Igor Dulnev, the head of Vostochny LUCH LLC.

Now, Vostochny LUCH is building the second and third houses, although they aren’t part of the "Housing for Russian Families" program. The commissioning of the second and third houses is scheduled for the end of June 2018 and August 2018, respectively. With investments of 1.4 billion rubles, the first stage will be commissioned and there will also be a grand opening of a new microdistrict of three 9-storey houses with a total area of 36 thousand m². 576 Primorye families will celebrate housewarming. The first floors will be allocated for social facilities, like pharmacies, children's institutions, shops, offices. Recently, the administration of the Primorsky Krai has chosen a name of the new street, "Zelyony Bulvar" (Green Boulevard). This will be the first boulevard in Vladivostok which is famous for its elevations and a hilly landscape, as well as one of the few microdistricts of the city with a green zone.

"The second and third houses of the first stage are commercial, but we are selling the apartments at 50–60 thousand rubles per square meter of finished housing and 40 thousand rubles when buying at an early stage of construction, whereas the usual cost in new buildings in the capital of Primorsky Krai is 70–90 thousand rubles per square meter. We are looking for options for compensation, so that there is a profit margin. For example, our construction projects is one of the few in Primorye, where you can monitor the work progress through video cameras in real time. It's important to track the very fact of work, the time and the amount of people in order to count the hours of work," adds Alexei Isakov, Deputy Director for Development of Vostochny LUCH LLC.

By the summer, the FPV resident plans to finish the premises of the new buildings, pave the sidewalks and roads, install sports and playgrounds, build a parking lot, plant trees. After commissioning the first stage, Vostochny LUCH will move on to the second one and will be engaged in monolithic housing construction. Vladivostok will have several 17-storey "candles", which will contain economy-class apartments.

"576 Primorye families will celebrate housewarming this year"
The regions of the Russian Far East have a significant potential for developing the timber industry. Nevertheless, this potential is not being used to the full extent; to date, the development of the Russian Far East forest fund doesn’t exceed 20%. The main task for the near future is to reduce the volume of exports of timber raw materials and to widely implement its processing in the field. A number of large projects in this area are already being implemented. The Khabarovsk Krai remains the leader of the timber industry in the Russian Far East, but other areas rich in forest resources – the Primorsky Krai, Yakutia, and the Amur Oblast – have also been paying much attention to the development of the industry.
PROBLEMS AND PROSPECTS FOR THE DEVELOPMENT OF THE INDUSTRY

The Far East is rich in forest resources, which makes the development of the export-oriented timber industry promising. Total timber reserves in the macroregion are estimated at 21 billion cubic meters, which is 51% of the total forest area of APR countries and 25% of Russia’s timber reserves. The leaders in terms of forest reserves are the Yakutia Republic (8.8 billion cubic meters) and the Khabarovsk Krai (5.2 billion cubic meters), followed by the Amur Oblast (2.1 billion cubic meters) and the Primorsky Krai (1.9 billion cubic meters). At the same time, the leaders by production volumes are the Khabarovsk Krai and Primorye, having, in addition to resources, the necessary infrastructure for exporting (a land border with the PRC, ports for shipping products by sea).

Prospects for the development of the industry in the Russian Far East are associated with the gradual phasing out of export of raw materials and the transition to processing timber in the field. So far, this direction has been developing at a slow pace; since 2013, the export of timber products has increased by only 23%. The main direction of the timber industry in the macroregion is the export of untreated timber, which has increased by 84% since 2013. In 2017, more than 6.8 million tons of timber were shipped through customs posts in the border regions of the Far Eastern Federal District (the Primorsky Krai and Khabarovsk Krai, Amur Oblast, Jewish Autonomous Oblast), but a bulk of 5.6 million tons was raw materials.

One of the measures to change this situation is the establishment of high export duties on raw materials. At the same time, an increase in the export duty for all enterprises adversely affects the competitiveness of Russian products and, at the same time, doesn’t stimulate investment in timber industry. For this reason, the system of distribution of quotas for the export of untreated timber from the Russian Far East is being reformed; it is also planned to bond them with the volume of investments in the processing of raw materials. In 2017, the government of the Russian Federation decided to gradually increase export duties on roundwood for companies not engaged in processing from the current 25% to 80% by 2021. At the same time, for enterprises engaged in deep processing of wood, this duty will be 6.5%. Tariff quotas for certain types of timber were introduced (Ajan spruce, Dahur larch, KHINGAM FIR), apart from which customs duties will gradually be increased. Thus, the tariff quota for a particular company will be proportional to the export of timber products for the previous year. At the same time, the share of processed products by the recipient of the tariff quota should not be less than 20% of the value of all exports, followed by an increase to 35% within three years, starting from 2019.

The criminalization of the timber industry in the Far Eastern Federal District is another serious problem, hampering its economically efficient development. To combat the shadow business, the state is gradually introducing control measures aimed at reducing the number of illegal transactions. It’s important that international cooperation is developing in this area, primarily with China, which is the main importer of Russian timber. In particular, there is a discussion about creating a Russian-Chinese timber exchange for selling and purchasing timber and sawn timber in the Russian Far East. It is supposed that all the timber sold on the exchange will be certified, and the timber bought otherwise will be recognized as contraband. Now, the parties are working on a more detailed elaboration of this proposal. Then, it is planned to bring it to the governmental authorities of both countries.

Forest reserves by regions of the Far Eastern Federal District, in bil. m³

<table>
<thead>
<tr>
<th>Region</th>
<th>Reserve (bil. m³)</th>
</tr>
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<tbody>
<tr>
<td>Sakha Republic (Yakutia)</td>
<td>8.8</td>
</tr>
<tr>
<td>Khabarovsk Krai</td>
<td>5.2</td>
</tr>
<tr>
<td>Amur Oblast</td>
<td>1.9</td>
</tr>
<tr>
<td>Primorsky Krai</td>
<td>1.9</td>
</tr>
<tr>
<td>Kamchatka Krai</td>
<td>1.2</td>
</tr>
<tr>
<td>Sakhalin Oblast</td>
<td>0.7</td>
</tr>
<tr>
<td>Magadan Oblast</td>
<td>0.5</td>
</tr>
<tr>
<td>Jewish Autonomous Oblast</td>
<td>0.2</td>
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<tr>
<td>Chukotka Autonomous Okrug</td>
<td>0.1</td>
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</table>

Source: Rosstat (Russian Federal State Statistics Service)

From 2000 to 2016, the export volume of timber processing products from Russia to China increased by more than 4.5 times, and by more than 5 times to India.
In order to develop the timber industry complex, the Far Eastern Federal District is implementing a wide range of investor support:

- preferential tax and administrative regimes for residents of ASEZ and FPV;
- a 50% payment benefit for woodlot use and a mechanism for obtaining woodlots for priority forest exploitation projects (Government Decree No. 190 dated February 23, 2018);
- subsidizing up to 90% of the costs of transporting raw wood to processing sites, partial cost recovery (RF Government Decree No. 1319 dated December 5, 2014);
- the possibility of co-financing the infrastructure necessary for the implementation of the project at the expense of budgetary funds in the amount of up to 10% of project investments;
- assistance in finding partners and attracting financing for projects, implemented by the Ministry of Regional Development of Russia and the ANO Far East Investment and Export Agency.

The list of taxes and fees:
1. Land tax
2. Profits tax
3. Property tax
4. The total amount of insurance premiums

Source: ANO Far East Investment and Export Agency

DEVELOPMENT OF TIMBER INDUSTRY: MAIN PROJECTS

The volume of processing in the Far Eastern Federal District is gradually increasing, although a significant part of the local production capacity is still under construction. In the Khabarovsk Krai, the main producer and exporter of unprocessed timber in the Russian Far East, in 2016–2017, over the implementation period of the regional program "On the Development of the Timber Industry Complex of Khabarovsk Krai Until 2020," the production of sawn timber increased by 18.5% compared to 2015, veneer by 2.3 times, fuel pellets by 1.3 times, and the total share of timber processing in the province increased from 37% to 46%. Currently, about 50% of harvested wood is processed in the region. The plans are to bring the processing level up to 70–80% by 2020 through commissioning new capacities.

It should be noted that the Khabarovsk Krai is the leader in the Far Eastern Federal District in the number of investment projects that are included in the priority list in the area of forest development. The total investment in their implementation exceeded 43 billion rubles. For example, the RFP Group, the largest timber company in the region and a "Komsomolsk" ASEZ resident, has already built two plywood and sawn timber production plants in Amursk (the subsidiaries Amurskaya Lespromyshlennaya Kompaniya LLC and Amursky Promyshlenny Tsentr JSC), and it’s starting the construction of the third plant for the production of fuel pellets (RFP "Drevesnye Granuly").

In addition to the RFP Group, a number of smaller projects are being implemented in the region, which, nevertheless, are of great importance for the development of the industry. Along with the production of pencil blanks by Lesprom DV, the second stage of sawn timber production of the Malaysian company "Rimbunan Hidzhuo MDF" is going to be commissioned.

The main direction of the forest industry in the macroregion is still the export of untreated timber.
In 2015–2016, the company launched two production facilities with a total capacity of 180,000 cubic meters of sawn timber per year in the villages of Khor and Siziman. Asia Les (part of the BM group) is building a wood processing complex for the production of sawn timber (Solnechny District), which is scheduled to reach its full capacity of 200 thousand cubic meters of dry sawn timber and 84 thousand tons of fuel pellets per year in 2022. And this year, Logistik Les LLC is planning to launch a sawmill production facility as part of the “Komsomolsk” ASEZ, which by 2020 is planned to produce 380 thousand cubic meters of dry sawn timber annually.

The growth in the number of projects in the timber processing sector is particularly important for regions such as Yakutia and Primorsky Krai, which are still inferior to the Khabarovsk Krai in the development of the industry, but have the same significant timber resource potential.

In Yakutia, the republican authorities are working to create a new road map for the development of logging with the goal of increasing the logging rate from the current 176,000 cubic meters to 800 thousand cubic meters per year by 2020. In addition, the plans also aim to achieve 440 thousand cubic meters in timber production. At the same time, the republic currently rates third in the Far East, with 7% in processing softwood and 7.1% in timber production in the total volume of the Russian Far Eastern Federal District.

A new timber processing project is being implemented in Primorsky Krai, where the Spassky Lesopererabatyvauschiy Kompleks – Grupp LLC, as part of the FPV, is already producing blockboards, furniture boards, peeled veneer, fuel briquettes, and there will be a new furniture and pellet line later. It should be noted that pellet production is promising in terms of the export development, as demand for this type of fuel is steadily growing both in European and Asian countries (in Japan in particular).

Alexander Sidorenko, chairman of the Dalexportles association:

“In late 2017, the Russian government adopted two resolutions on the tariff regulation of timber exports, which were important for the Russian Far East: Nos. 1520 and 1521. They introduced tariff quotas for Ayan spruce, Khingam fir, and Dahurian larch, which mainly grow in the Russian Far East, in the amount of 4 million cubic meters per year. The quotas are granted to exporters whose export share of processed forest is at least 20%. For them, the export duty rates are set at 6.5%, but not less than 4 euros per 1 cubic meter (in 2018, the current export duty rate outside the quota is 25%, but not less than 15 euro per cubic meter, and it will be increasing from 2019). I thank the government for this measure. Unfortunately, not all forest suppliers that are part of the cooperative chain of timber processing have the right to access tariff quotas, and we believe that the access criteria can be improved. With a fee of 25%, members of the association pay 762 rubles for the cubic meter. In the future, the state’s profitability from each cubic meter, involved in the turnover, will increase to 1,100 rubles. Taking into account the forecasted increase in logging volumes from the current 17.5% of the estimated allowable cut to 22%, the timber industry of the Far Eastern Federal District will increase the profitability for the state by 70%, from 4 billion rubles to 19.5 billion rubles. Forest enterprises of the Russian Far East also request that attention be paid to access to railway infrastructure. Of the 267 wagons loaded daily by the Far Eastern Railway, 80% is timber cargo. This is a transit region. What is happening now is that since mid-March 450 wagons with timber products have not been able to unload, which makes the production stop due to a lack of raw materials. We’d like for the loggers to get priority access to the loading.
Pulp and Paper Mill (Khabarovsk Krai)

On November 28, 2017, the Far East Investment and Export Agency (API) signed an agreement with the Chinese company China Chengtong Holdings on the construction of a pulp and paper mill in the Khabarovsk Krai. The plant is supposed to produce up to 500 thousand tons of pulp, the total volume of investments will be about USD 1.5 billion, and 1,500 new jobs will be created.

The construction site of the plant will be included in the ‘Komsomolsk’ ASEZ, which will allow the investor to receive significant tax benefits (the new production is planned to be located in Amursk). China Chengtong Holdings (part of the Chengtong Holding) is a large state corporation run by the State Property Committee of the State Council of the People’s Republic of China. The multi-profile holding company operates in such sectors as mining, paper production, timber industry, transport, and logistics. China Chengtong Holdings includes 280 small enterprises and 13 second-tier companies in China, Hong Kong, Russia, Great Britain, the Netherlands, Belgium, and other countries. The company’s assets are USD 7 billion with an annual revenue of USD 4 billion. The volume of paper production is 3.2 million tons per year (the 18th place in the world and the 4th in China). Undoubtedly, participation in the Russian-Chinese project will help the company to significantly improve its positions.

It is planned that the plant will produce several kinds of cellulose for various types of paper and cardboard. The products will be shipped to China. At present, there is not a single pulp and paper mill in the Russian Far East: all enterprises that operated in the Soviet era ceased operations in the post-perestroika period. Up to 40% of the extracted forest resources in the region are not being used, but remain in the cutting area. This worsens sanitary and fire safety in}

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<tr>
<th>PROJECT INFORMATION</th>
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<tbody>
<tr>
<td>- Creation of a pulp mill;</td>
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<tr>
<td>- Location: Amursk;</td>
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<tr>
<td>- Investments: 87 billion rubles (USD 1.5 billion);</td>
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<tr>
<td>- EBITDA: 17 billion rubles;</td>
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<tr>
<td>- IRR: 20%;</td>
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<tr>
<td>- Capacity: 500 thousand tons of pulp a year;</td>
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<tr>
<td>- Number of new jobs: 1,500;</td>
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<tr>
<td>- Sales of products: Chinese market.</td>
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</table>
Timber Industry Complexes in Primorsky Krai

At the moment, there are four forest districts in Primorsky Krai that have rich and commercially attractive cutting areas. Finewood (up to 35% of the cutting area) will be used for the production of furniture boards and parquet. Project Priority: production of products with high added value. Main sales markets: the Asia-Pacific region. The development strategy includes the transition from supplying unprocessed timber to China to the products of deep timber processing, as well as the creation of production with high added value (parquet, furniture boards) and the growth of export supplies.

Timber Industry Complex in the village of Svetlogorye, Primorsky Krai

- **Project:** Timber Industry Complex
- **Location:** the village of Svetlogorye, Primorsky Krai + adjoining areas of the Khabarovsk Krai
- **Investments:** 3 billion rubles;
- **Estimated cutting area** – 800 thousand m³
- **Number of workplaces** – 550
- **IRR** – 35%

Indeed, the pulp and paper mill is a capital-intensive project, which will be easier to master, if the number of participants increases. Regional authorities say that they will provide maximum assistance to investors. As the governor of the Khabarovsk Krai Vyacheslav Shport noted, the main criterion in choosing an investor is the environmental friendliness of its production. “Our goal is to create a modern production that will meet all the requirements of environmental safety. There is some serious work needed in order to provide the plant with resources and infrastructure. We are interested in the further development of timber processing in the region. This work has already yielded tangible results. Since 2008, investors have invested about 50 billion rubles in the industry. Thanks to this, the Krai has the capacity for processing 3.7 million cubic meters of timber annually. This made it possible for us to almost double the tax return,” said Vyacheslav Shport at a meeting with journalists.

Timber Industry Complex in the village of Olga, Primorsky Krai

- **Project:** Timber Industry Complex
- **Location:** Port of Olga, Primorsky Krai
- **Investments:** 2.5 billion rubles;
- **Estimated cutting area** – 0.6 million m³
- **Number of workplaces** – 700
- **IRR** – 34%

Detailed information on participation in these or other projects in the region can be obtained from the Far East Investment and Export Agency.
"Kangalassy Industrial Park" ASEZ is open for New Residents

We would like to bring to your attention the dynamically developing "Kangalassy Industrial Park" ASEZ in Yakutia, a diversified production and business site. The ASEZ was established in 2015, aiming to create special investment conditions for attracting private capital investments, accelerating the development of the economy of the Sakha Republic (Yakutia) and creating new jobs. A large amount of work was completed in two years, which allowed the "Kangalassy Industrial Park" ASEZ to become one of the top three in the Russian Far East following the results of 2017.

To date, the first stage of the ASEZ of 17 hectares of land is being formed, the infrastructure for which is financed from the budgets of three levels at once: the city of Yakutsk, the Sakha Republic (Yakutia), and the Russian Federation. The network costs are estimated at 355 million rubles, of which almost 215 million rubles were already invested in 2016–2017. The ASEZ consists of four sites: Kapitonovka, Molodezhnaya, Syrdakh, and Kangalassy. Over the past two years, residents have already invested more than 300 million rubles. The Sayuri company implemented a project for the construction of greenhouses to grow vegetables and greens all year round. At present, the resident has started the second stage of the project, which will increase the area of the greenhouses by ten times. The Bige company launched production of acrylic paints. The Sakha Lipsnele company has established production of solid fuel long burning boilers. The Teply Krai company produces double-glazed windows, metal structures, and sandwich panels. In 2017, Sakha Sino Stal LLC and Seibiem LLC joined the ASEZ residents.

"We have never regretted our company becoming an ASEZ resident, not for a second. Here, there are all conditions for people to work on the development of their business, increase production volumes," says Pud Timofeev, the head of Sakha Lipsnele. "In 2013, having only the idea, we came to the Yakutia technopark. We began working on the manufacture of components for long burning boilers and expanding the client base; the initial profit started coming in. And when the PSEDA (Priority Social and Economic Development Area) emerged in the micro-district of Kangalassy, we decided to become residents. Thanks to the ASEZ development, our company has built a plant for the production of solid fuel boilers, components, and ventilation systems, which accounts for 12 workplaces.

The "Kangalassy Industrial Park" has become one of the first ASEZ sites in the country, and it offers great opportunities for the development of investment projects.
Production in production at the city-forming enterprise, Razrez Kangalassky OJSC (subsidiary of KhN “Yakutugol”), which in turn led to a decrease in the population (people were leaving to work in other cities). However, the settlement was still a promising site for the development of production: there is free land in the village, a riverside wharf of river-sea class, gas mains, a 110/35 substation for 20 MW, and its own water intake. It’s only 25–35 km away from the Tuymaada international airport and the Yakutsk river port. Thus, the settlement had all the conditions for the creation of an industrial park, a complex of buildings and infrastructure for compact placement of small and medium-sized enterprises, managed by a single operator.

In 2014, the city and the region adopted a number of normative legal acts providing for the phased establishment of an industrial park on the territory of Kangalassy. The events were to be completed by 2018. But just at that moment, the Ministry for Development of the Russian Far East started selecting potential sites for advanced special economic zones. The “Kangalassy Industrial Park” was one of the first ASEZ sites in the country.

According to the plan of long-term development of the “Kangalassy Industrial Park” ASEZ, it will turn into a platform for innovative projects of Yakutia by 2028. Already now, Kangalassy is a multi-disciplinary site specialized in solving key problems of the Yakut agglomeration. Among the rare competences, which the region has the potential to develop, are the jewelry complex, nanotechnology and materials science, construction technologies in permafrost conditions, provision of vital activity in conditions of extreme temperatures. According to the site plan developers, in the 10-year perspective, Yakutsk is supposed to become an international center for developing and testing products for extremely low temperatures. By 2028, the ASEZ enterprises will provide tax revenues of more than 13 billion rubles, more than 1.5 thousand new jobs are expected. The ASEZ enterprises will be able to provide 70–80% of fresh vegetables and greens for the local market; the volume of sales by small and medium-sized enterprises in processing industries, agricultural products and transport will increase by almost 50%. Following the results of 2017, the “Kangalassy Industrial Park” ASEZ was among the three best ASEZ in the Russian Far East, along with the “Yuzhnya Yakutia” and “Belogorsk” ASEZ.

This year, the construction of several large industrial facilities in the “Kangalassy Industrial Park” ASEZ is in full swing. For example, “Egoplast,” the first enterprise for the production of polyethylene pipes in Yakutia, is building a 1,000 square-meter workshop in the ASEZ. Its general director Mikhail Solovev notes that during the 5 years of operation, the company has produced about 1,600 km of pipes. That’s one and a half times more than the length of France from north to south, and it masters new types of products every year.

“We will soon receive new equipment, and we will be able to increase the diameter of the pipes. We will produce new useful products. Recently, we have begun to make runners for sledges and burans, and they are very popular among the inhabitants of the northern regions. We will also promote our design of a unique water disposal system. Last year, we received a patent for it, and it was successfully tested. We are closely working with the Institute of Oil and Gas, studying new materials. Perhaps, after the experiments our pipes will become even stronger. We plan to enter markets of other regions in the future,” he says.

Anatoly Semenov, Director of the Yakutia Technopark:

“I remember how the guys from ‘Bige’ came to us with an idea on paper, and now we can walk through the plant; it’s the most important award for us, the result of our work. They are the first residents, the first graduates of the technopark, the first ASEZ residents, and they were the first to open a plant. They started with 0 rubles, and when they were leaving the technopark, the sales volume was 50 million rubles. We set a plan to reach one billion rubles of turnover by 2022, to cover the territory from Vladivostok to Novosibirsk and almost all of the Urals with Yakut paint. In quality and price, we are competitive up to the Moscow region.”
The main difficulties in the development of agriculture in the Russian Far East are connected with the climatic features of the macroregion. Most of the territories are of little use for agriculture (a total of 8 million hectares of agricultural land). Accordingly, there is a problem of the region’s self-sufficiency in food, higher dependence on external supplies from other regions of Russia, as well as on the import of products. Nevertheless, the southern part of the macroregion is quite promising in terms of the development of the industry, where in fact the entire volume of agricultural products of the Russian Far East is produced. At the same time, the Russian Far East has its own specialization, growing soybeans. The main agricultural areas are still the cultivation of corn, wheat, rice, barley, rapeseed, the development of meat and dairy cattle, and the establishment of processing enterprises.

One of the most promising agricultural projects of Khabarovsk Krai is the project for the construction of the wholesale distribution center ORAP AgroHab (Amurzerno LLC). The investor is a resident of the “Khabarovsk” ASEZ. The project involves receiving, storing, and processing farming agricultural products. The implementation of the project will reduce logistics costs and retail prices by 10%.

**DESCRIPTION AND STAGES OF THE PROJECT IMPLEMENTATION**

The AgroHab wholesale distribution agro-industrial park is a part of Amurzerno group of companies (the Group also includes Amurzerno LLC – grain wholesale in the domestic market of the Far Eastern Federal District and for export to Japan as well as Ptitsefabrika “Komsomol’skaya” JSC – the production of chicken eggs). After the AgroHab agro-industrial park is completed, the capacity of one-time storage will be 63,000 tons (potatoes, vegetables, fish, meat, grain), and the processing capacity will be 94.5 thousand tons.

**KEY FINANCIAL INDICATORS**

The total amount of investments is 3,270.0 million rubles

- **Own funds** – 817.5 million rubles
- **Borrowings** – 2,452.5 million rubles
- **Payback period**: 7 years
- **IRR**: 26%
- **NPV**: 295 million rubles

The objects planned for construction as part of the project:

1. The wholesale distribution center, including
   - Vegetable storage for 25.3 thousand tons, for storage, conditioning, and deep processing of vegetable products and potatoes
• Freezing warehouses for 2 thousand tons
• Dry and multi-temperature warehouses for 6.0 thousand tons
• Shop for processing fish products for 1.0 thousand tons
• Social food factory for 10.0 thousand tons.

2. Agro-industrial park, including
• Milk processing shop for 6.0 thousand tons
• Shop for processing meat semi-finished products for 2.5 thousand tons
• Granary for 30.0 thousand tons
• Feed production for 40.0 thousand tons
• Flour production for 10.0 thousand tons

The project will be implemented in three stages. In 2018–2019, it is planned to build capacities for storage of vegetable products, in 2019–2021, expansion of capacity for storage of vegetable products, construction of a plant for post-harvesting crop products, shops for the production of fish products, construction of grain storage facilities, construction of flour and feed productions, a milk processing shop. At the final stage, in 2022–2023, it is planned to bring the capacity of the storage of vegetable products to the project aims, install a technological line for deep processing of vegetable products, build a workshop for the production of meat semi-finished products, and build a social food factory.

At the moment the project is at a high stage of readiness. Namely, ORAP Agrohab LLC received the status of a ASEZ resident (‘Rakitnoye’ site), the investor concluded a lease agreement with the management company for the period until December 30, 2065, exploration works and geological works were completed, the draft design and the master plan for the site of the resident were received. The Japanese company Sojitz Machinery completed the engineering works of the first stage of the vegetable store; a contract with the Dutch company Tolsma-Grisnich for the supply of equipment was signed; technical expertise (non-governmental) was obtained; the Ministry for Development of the Russian Far East issued a construction permit.

PLAN FOR FIRST-STAGE IMPLEMENTATION AND PROPOSAL FOR INVESTORS
In order to successfully implement the first stage of the project in 2018, it is necessary to raise 200 million rubles for the capital of ORAP Agrohab LLC and 582 million rubles for debt financing at the expense of Rosselkhozbank JSC. In addition, it is necessary to carry out construction and installation works until July 2018 (the cost of the vegetable storage facility is 782 million rubles).

The proponent is ready to attract co-financing from potential co-investors for the implementation of the first stage of the project on the following terms.

• Amount of financing: 200 million rubles
• Form of financing: contribution to the authorized capital
• Acquired share in the project: 25% + 1 share
• The option to acquire a controlling stake after the implementation of the 2nd and 3rd stages of the project
• Exit from investment: selling a stake to a strategic investor from Japan and selling a stake to the project proponent.

The investment advantages of the project are in the high efficiency of the project economy (IRR > 20%) and its high stage of preparation (there is the permission for construction and preliminary consent of the bank to increase the limits and issue an investment loan). The project is implemented by an experienced proponent with an operating business in the agro-industrial sector. In addition, Sojitz Corporation is taking part and will contribute to the project’s authorized capital in the second and third stages, as well as supply technological equipment.

STATE SUPPORT OF THE PROJECT
Potential investors of the project will be provided with state support measures that include preferences according to the ASEZ resident status (insurance contributions from the payroll budget are 7.6% (30.2% in the general taxation regime), the creation of public infrastructure (electricity, gas, water supply and water disposal), exemption from income and property tax for the first 5 years, exemption from customs payments and import value added tax of imported equipment and materials used for construction, creation of a free customs zone). In addition, preferences will be granted according to the State Program for the Development of Agriculture of the Russian Federation. It implies a 25% recovery of capital costs for the construction and purchase of equipment as part of the selection of the investment project by the Ministry of Agriculture of the Russian Federation and 5% concessional lending to the project.

Feedback
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