

Client Alert

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Russia Investment Guide: New Opportunities For Russian And Japanese Business

Russian and Japanese companies are constantly looking for new ways to do business together. The two countries have a track record of successful joint projects in the fields of healthcare, energy and construction, as well as in other industry sectors. A wide range of important agreements have been reached over the past few years to implement such projects, particularly in Russia's Far East.

8-point economic cooperation plan

An eight-point cooperation plan was signed by Prime Minister Shinzo Abe and Russian President Vladimir Putin during their meeting at the Sochi Summit in May 2016¹. It provides for the development of cooperation between Japan and Russia in the energy sector, support for small and medium-sized businesses, and the promotion of the industrialization in the Far East and the expansion of the export base; the plan also includes a proposal to strengthen cooperation in cutting-edge technologies such as nuclear energy, and in the sphere of humanitarian exchanges².

The results of the negotiations: key understandings

Russian and Japanese companies signed a number of memoranda and agreements on cooperation in the energy sector during the Russian president's visit to Japan in 2016³. The agreements included technological and financial collaboration in the oil and gas industry.

Russia and Japan signed 50 interdepartmental and intergovernmental memoranda at the Eastern Economic Forum 2017. Among them was a Memorandum of Understanding between the authorities of Russia's Primorsky Region, the Russian Far East Investment and Export Agency, JGC Corporation, and Hokuto Social Medical Corporation.

Key incentives for investing in Russia

There are various incentives for foreign investors considering localization of their business in Russia. These incentives include such mechanisms as Territories of Advanced Development ("**TORs**"), Special Investment Contracts ("**SPICs**"), and Special Economic Zones ("**SEZs**"). For more details, please see our [Legal Alert of November 24, 2017](#).

A "**Territory of Advanced Development**" ("**TOR**") is a locality that offers special set of incentives and benefits for foreigners who invest funds and resources predominantly into Russia's Far East.

¹ <http://en.kremlin.ru/events/president/news/51884>

² <http://tass.com/economy/991234>

³ <https://www.platts.ru/latest-news/natural-gas/moscow/russia-japan-deepen-ties-withagreements-on-upstream-27733406>

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Established under Federal Law of December 29, 2014 No. 473-FZ "On Territories of Advanced Social and Economic Development in the Russian Federation", TORs were initially allowed to be created only in the Far Eastern Federal District. Three years after the law was enacted, the program was extended to other regions. So far, 18 TORs have been established in the Far East.

A "**Special Investment Contract**" ("**SPIC**") is an investment contract under which a private investor undertakes to create, modernize or operate a production facility in Russia, while the Russian federal (or regional) government agrees to provide the investor with certain benefits (e.g., a stable and preferential tax regime) to facilitate product manufacturing, as well as the special "sole supplier" status for government procurement purposes. Tax incentives for SPICs may differ at the regional level; for example in the Far East, the Khabarovsk Region reduced its corporate profit tax ("**CPT**") rate for SPICs from 17% to 0%, and the Kamchatka Region reduced its CPT rate to 15%.

A "**Special Economic Zones**" ("**SEZ**") is industrial, technological and logistical areas (Ulyanovsk Vostochny, Sovetskaya Gavan, Murmansk Region) and tourist destinations (Altai Valley, Baikal Haven, Turquoise Katun, Gate of Baikal, Russky Island etc.) in Russia that offer special benefits and incentives for investors. Investors in industrial production, tourism, and recreational SEZs may apply accelerated depreciation, setting out a multiplier for fixed assets. Investors in technology, innovation, tourism, and recreational SEZs are eligible for lower insurance premiums for the transitional period 2011-2019.

New Russian-Japanese investment platform

On February 16, during the Russian Investment Forum 2018 in Sochi, the Japan Bank for International Cooperation ("**JBIC**"), the Far East Investment and Export Agency, and the Far East and Baikal Region Development Fund ("**FEBRDF**") established a Russian-Japanese joint venture to implement investment projects in the Russian Far East. This partnership will focus on the development of a Russian-Japanese investment platform aimed at attracting Japanese capital to projects in TOR's and the Free Port of Vladivostok⁴. The joint venture is intended to become a "single window" for Japanese investors and provide comprehensive support to the Japanese business community, including informational support, business planning, and interaction with state authorities at all stages of project implementation⁵.

In addition, JBIC has announced that it would provide funding to the Arctic LNG-2 project if there were Japanese companies involved. It is the second project of Novatek for LNG production.

The first agreements on the implementation of high-tech projects in the Far East were signed at the 2018 St. Petersburg International Economic Forum (for more detail, please see below). These agreements include four projects in the medium-size business sector for a total amount of 3.5 billion rubles.

⁴ The free port of Vladivostok is an area with special customs regimes, tax, investment, and related regulation. For more detail: <https://eng.minvr.ru/activity/svobodnyy-port-vladivostok/>

⁵ <https://investvostok.ru/en/news/1541/>



Latest updates: St. Petersburg International Economic Forum 2018

A number of agreements between Russian and Japanese partners were signed at the St. Petersburg International Economic Forum ("**SPIEF**") which took place on May 24–26, 2018⁶.

Russia and Japan signed 11 bilateral documents, including a joint action plan for cooperation in the field of digital economy.

In addition, a Memorandum of Cooperation was signed between the Russian Agency for Strategic Initiatives to Promote New Projects ("**ASI**") and the Japan External Trade Organization ("**JETRO**"). Its priorities include the strengthening of trade and economic relations between Russia and Japan, and more effective communication between experts in the business, political and regional sectors of the two countries.

During SPIEF, a meeting was held between Alexey Miller, Chairman of the Management Committee at Gazprom, and Tatsuo Yasunaga, President and CEO of Mitsui & Co., Ltd. Gazprom and Mitsui are partners in the Sakhalin-II project. In 2017 the companies signed a Framework Agreement on cooperation in the field of small- and mid-scale LNG. The meeting was aimed at the ongoing and future bilateral partnership between the companies. In addition, Gazprom and Mitsui are discussing the possibility of constructing a third train of the plant.

This Russia Investment Guide is issued to inform Baker McKenzie clients and other interested parties of legal developments that may affect or otherwise be of interest to them. The comments above do not constitute legal or other advice and should not be regarded as a substitute for specific advice in individual cases.

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⁶ <https://www.forumspb.com/en/about/?lang=en>