



# CRIMEAN DIGEST



*Publisher: Business & Cultural Center of Republic of Crimea State Autonomous Enterprise*

## **Free Economic Zone** in the territories of the Republic of Crimea and Sevastopol - an Effective Tool of Public-private Partnership



**Special Edition**  
**2021 г.**



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# Chapter 1

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## Free Economic Zones - Basics



Free Economic Zones (FEZs) originated in Europe and later spread to Asia and Africa in the 19th century. Free Economic Zones have become widespread in the United States, Germany, Great Britain, Ireland, Poland, Brazil, UAE and other countries. In their development they have undergone a transformation from trade-oriented zones to zones of a complex level, where various tools of foreign trade activities are applied.

According to [most analysts](#), it is almost impossible to count the number of SEZs, as they come in many forms: industrial parks, enterprise zones, foreign trade zones, free trade zones, export processing zones, private cities, development zones, freeports.

The numbers are constantly changing. Zones are planned, launched, cancelled, redefined, and phased out. Industry preferences also change over time.



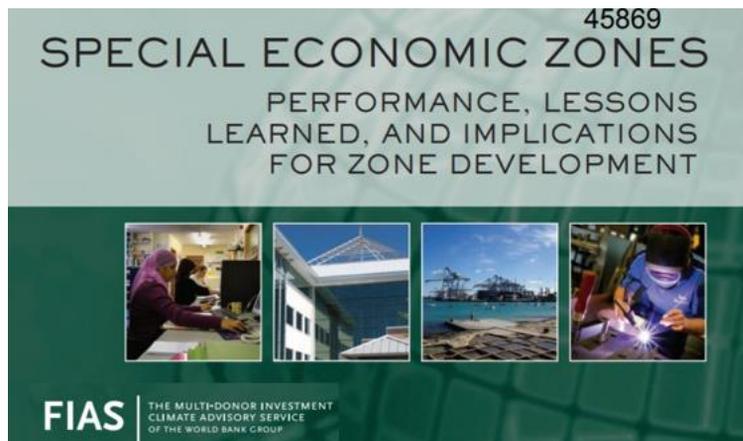
Around the world, special economic zones (SEZs) have different names, depending on the country in which they are located and on their particular type; the same name may have different meanings in different countries. Special economic zones in Ireland, for example, are called "industrial free zones" or "export free zones," while in the United States, they are called "foreign trade zones" and all goods produced there can theoretically be sold in the domestic market. In developing countries that produce goods specifically for export, they are generally referred to as "Special Export Zones". Similar zones in the People's Republic of China (PRC), which tend to be less export-oriented than SEZs, are often referred to as "Special Economic Zones," although the most recently established zone in Shanghai is called a "Free Trade Zone" (FTZ).

In general terms, SEZs are defined by the Asian Development Bank (ADB) as *"clearly defined geographically, with a single management or administration and a separate customs area (often duty-free), where simplified business procedures apply, and where physically located enterprises are entitled to apply more liberal and efficient rules than those applicable in the country (covering, for example, investment conditions, international trade and customs, tariffs and taxation)."*



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In the 1980s, export processing zones were in vogue. In the 2000s, the industry switched to technology parks. Now the most famous projects are full-fledged [charter cities](#) (a city whose system of management is determined by its own document (the city charter), rather than by local, county, national, or state laws).



The most general definition of SEZs is given in the [2008 Report on SEZs by the World Bank's Foreign Investor Advisory Service](#). ***Special economic zones should have the following characteristics:***

- A geographically delimited area, usually physically secured (fenced-in)
- A single management / administration organization
- Tenants eligible for fiscal and regulatory benefits based upon their physical location within the zone
- A separate customs area (with duty-free benefits) and streamlined import / export procedures



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At present, more than 5,000 FEZs have been created and are functioning in the world, their number is growing steadily.

The functioning on a global scale of such a number of FEZs, numbering in the thousands, **is conditioned by the following:**

- ❑ Effective implementation of strategic programs to stimulate high-tech production
- ❑ Expansion of the scale and volume of exports carried out both on the basis of application of various systems of universal preferences (absence of duties on imported goods and services, significant privileges on payment of taxes or complete tax exemption, indirect subsidies in the form of the right of residents to use the infrastructure of the developed zone) and in the context of differentiation of specific preferential mechanisms by country





# Chapter 2

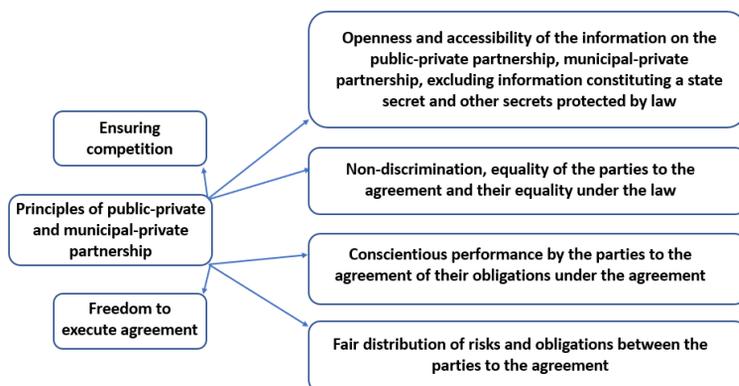
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## Public-private Partnership (PPP)



<https://minpromtorg.gov.ru>

Currently, economic theory **distinguishes SEZs** as a special form of public-private partnership (PPP) . They serve as a tool to activate PPP or simultaneously as a form of PPP and a development institution. In global practice, SEZs are considered, first of all, as a means of implementation of state regional policy, which can "equally reanimate a depressed territory, and give an additional impetus to the regional points of growth". The zone is a special system with links to the national and regional economic systems.



<https://ifirmal.com>

Public-private partnership is one of the tools for the development of public infrastructure. It is based on the long-term interaction of the state and business with business involved not only in creation of an infrastructure facility, in its design, financing, construction or reconstruction but also in its subsequent operation.



Twenty-four FEZs at the stage of formation of the new Russian state in the early 1990s were mostly created artificially, as a result they turned into real “black holes” for capital outflow. There were mass cases of non-compliance of investment, industrial and foreign economic activities of business entities with the Russian legislation in force; shadow business developed rapidly, the tendency to increase the criminogenic situation was noted in them.

After a long period of time, the activity of free economic zones in Russia was restored by creating one of their varieties - Special Economic Zones (SEZ), the activities of which are regulated by the Federal Law No. 116-FZ of July 22, 2005 "On Special Economic Zones in the Russian Federation".

Direct management of the SEZ is delegated to the Ministry of Economic Development of the Russian Federation. Along with it and its territorial bodies, management of the SEZ is provided by public subjects of state bodies of the Russian Federation, bodies of municipal formation, as well as private subjects - representatives of SEZ residents and of commercial organizations which are members of the Supervisory Board of the SEZ. The Supervisory Board as a coordinating body that coordinates the activities of public authorities, participates in financial control, as well as in the activities of development planning and projections of the SEZ.



**The paramount importance for potential investors in SEZs** is the creation of engineering infrastructure at the expense of the state - roads, communications, energy, buildings. In our country, the creation of SEZs is **based on public-private partnership**, which consists in the joint investment of budget funds and private investment in the development of a particular territory. The state is responsible for the construction of infrastructure, while private business is responsible for commercial facilities

**The critical factors** influencing the inflow of investments in SEZ at present are:

- Guarantees of both general economic and political stability in the region that gets the capital - in which the SEZ is located
- Immutability of general federal and regional tax legislation in the long term
- Possibility of predictable and guaranteed stable profit and its free use by the zone resident, rather than momentary extraction of super-profits.

УДК 330.1

## КОНЦЕПТУАЛЬНАЯ МОДЕЛЬ РАЗВИТИЯ ОСОБЫХ ЭКОНОМИЧЕСКИХ ЗОН НА ТЕРРИТОРИИ РОССИЙСКОЙ ФЕДЕРАЦИИ\*

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## **A legal framework for operations of PPP is developed in the republic:**

- Federal Law No. 115-FZ of July 21, 2005 ["On Concession Agreements"](#)
- Federal Law of July 13, 2015 № 224-FZ ["On Public-Private Partnership Municipal-Private Partnership of the Russian Federation and Amendments to Certain Legislative Acts of the Russian Federation"](#)
- Decree of the Council of Ministers of the Republic of Crimea of February 15, 2016 № 50 ["On approval of the procedure for the preparation and conclusion of concession agreements implemented in the territory of the Republic of Crimea"](#)
- Decree of the Council of Ministers of the Republic of Crimea of July 27, 2017 № 389 ["On some issues of implementation of public-private partnership projects"](#)

## **Administrative Endeavors:**

- PPP Project Office Created
- Establishment of the Interdepartmental Coordination Council for PPP Development
- Approval of the ["Concept for the Development of Public-Private Partnerships in the Republic of Crimea in 2020 – 2025"](#)
- Approval of the ["Action Plan for Development of Public-Private Partnerships in the Republic of Crimea in 2020-2021"](#).

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The list of projects that are planned for executions of concession agreements and agreements on PPP in the Republic of Crimea, is posted on the Investment Portal of the Republic of Crimea ([invest-in-crimea.ru](http://invest-in-crimea.ru)) and on the official website of the Ministry of Economic Development of the Republic of Crimea ([minek.rk.gov.ru](http://minek.rk.gov.ru))



In accordance with the Concept of PPP Development in the Republic of Crimea for 2020-2025, the priority sectors are identified:

- Waste management
- Healthcare
- IT technologies
- Social services
- Sports
- Resorts and tourism
- Culture

**From a legal point of view**, public-private partnership is the relationship between public-law entities (the Russian Federation, the Republic of Crimea, a municipal entity of the Republic of Crimea) and private persons. These relations are based on **public-private partnership agreements** or on **concession agreements** concluded between them and are by their legal nature civil-law contracts.

**The main forms of participation** of the Council of Ministers of the Republic of Crimea and municipal formations of the Republic of Crimea in public-private partnerships may be:

- Concession Agreements
- Agreements on Public-private Partnership (municipal-private partnership).





# Chapter 3

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## Free Economic Zone in the Republic of Crimea



The accession of the Republic of Crimea and the city of Sevastopol to Russia in 2014 presented to the new subjects and to the Russian government with not only complex political but also with socio-economic tasks. First of all, against the background of the inefficient economy at the time of accession, it was necessary to resolve the problem of integrating Crimea as quickly and as constructively as possible into the system of economic relations of the Russian Federation.



The economic block of issues concerning the development of the Crimean Peninsula was proposed to be **resolved by establishing a special economic regime**, that is, **creation of a free economic zone**. The mechanism of the free economic zone's functioning was supposed to allow, in the shortest possible time, the restoration of the existing manufacturing facilities and create new production facilities, improve transport infrastructure, and develop tourism business, agriculture and other industries.

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The main legal act aimed at achieving the above objectives was the Federal Law of November 29, 2014 № 377-FZ ["On Development Of The Republic Of Crimea and the City Of Federal Significance Sevastopol and Free Economic Zone In the Territories of Republic of Crimea and the City of Federal Significance Sevastopol"](#).



РОССИЙСКАЯ ФЕДЕРАЦИЯ  
**ФЕДЕРАЛЬНЫЙ ЗАКОН**

О развитии Крымского федерального округа и свободной экономической зоне на территориях Республики Крым и города федерального значения Севастополя

Принят Государственной Думой 21 ноября 2014 года  
Одобен Советом Федерации 26 ноября 2014 года

Глава 1. Общие положения

Статья 1. Сфера действия настоящего Федерального закона

Настоящий Федеральный закон устанавливает режим на территориях Республики Крым и города федерального значения Севастополя

## Development Goals

- Bringing in and implementation of investments
- Establishment and operations of free ports
- Execution of the customs procedure of a Free Customs Zone, attracting foreign citizens to operations
- Establishment of a special legal regime in the territories of the Republic of Crimea and Sevastopol



## SEZ Highlights



Established in accordance with Federal Law of the Russian Federation



Covers the area of the Republic of Crimea and the City of Federal Importance Sevastopol



Operational life - 25 years (till December 31, 2039)



Administrates a special regime for business and other activities, as well as Free Zone customs procedure

### PREFERENCES



**TAX RELIEF**



**REDUCED  
INSURANCE  
PAYMENTS**



**ACCELERATED RATE  
OF DEPRECIATION**



**FREE ZONE  
CUSTOMS  
PROCEDURE**



**NO TENDERS FOR  
LEASE OF LAND  
PLOTS**



**FREE PORTS**



## SEZ Highlights

### FREE CUSTOMS ZONE



# 0%

### Customs duties and taxes

A FEZ participant may place and use goods (including equipment) within the FEZ territory without paying customs duties, taxes, and in abeyance of non-tariff regulation measures to foreign goods, without applying prohibitions and restrictions on goods of the Customs Union

### REDUCED INSURANCE PAYMENTS



## 7,6 %

(ref.: common regime - 30 %)

## 6 %

Payments to pension  
insurance fund

## 1,5 %

Social Insurance Fund  
payments

## 0,1 %

Health insurance

*The preference applies for 10 years for entities who received the status of a participant in the FEZ in the first three years (until December 31, 2017)*



## SEZ Highlights



### FREE PORTS

#### Seaports of the Republic of Crimea and Sevastopol

- Separate procedure of border, customs and other control procedures for of passengers, animals, cargoes, goods and vehicles
- Customs procedure of free customs zone established by the customs legislation of the Customs Union

### CORPORATE INCOME TAX



#### Federal Budget

**0 %** for 10 years

#### Republic of Crimea Budget

**2%**  
Years 1 to 3

**6%**  
Years 4 to 8

**13,5%**  
Starting Year 9

*The rates are applied provided that taxpayers keep separate accounts of income (expenses) from those of activities, carried out as a FEZ participant and income (expenses) from other activities*

### ACCELERATED RATE OF DEPRECIATION

Related to their own depreciable fixed assets



multiplier up to

**2**

*Accelerated depreciation provides an opportunity to increase own internal investments*



## TAX RELIEF

## SEZ Highlights



**0%** for 10 years

*Member of FEZ for 10 years is exempt from property tax created or acquired for the purpose of carrying out activities in FEZ territory*



## LAND TAX

**0%** For 3 years

*Entities-participants of FEZ are exempted from land tax with regard to land plots, located on FEZ territory and used for the purpose of execution of the Agreement on conditions of activity in FEZ, for the period of 3 years from the month of accrual of ownership to each land plot*

## LEASE OF LAND PLOTS



**No tenders for lease of land plots** for duration of the Agreement

*Land plots that are in state or municipal ownership are leased to the FEZ participant without tenders for a period necessary for the implementation of the Agreement on the conditions of activity in the FEZ, unless a shorter period is declared by the FEZ participant.*

## SEZ Highlights

### CRITERIA FOR PARTICIPANTS AND PROJECTS



- ❑ **Incorporation and tax accounting** on the territory of the Republic of Crimea
- ❑ **Volume of capital investments** in the first 3 years:



For Small and Medium Enterprises – starting from **3 million rubles**

For other entities starting from **30 million rubles**



FEZ members are not entitled to carry out the activities in the following areas: subsoil use for exploration and production of mineral minerals, mining of the continental shelf of the Russian Federation





# Chapter 3

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## SELECTED OUTCOMES (as of January 2021)



## Current Status and Results for 2020



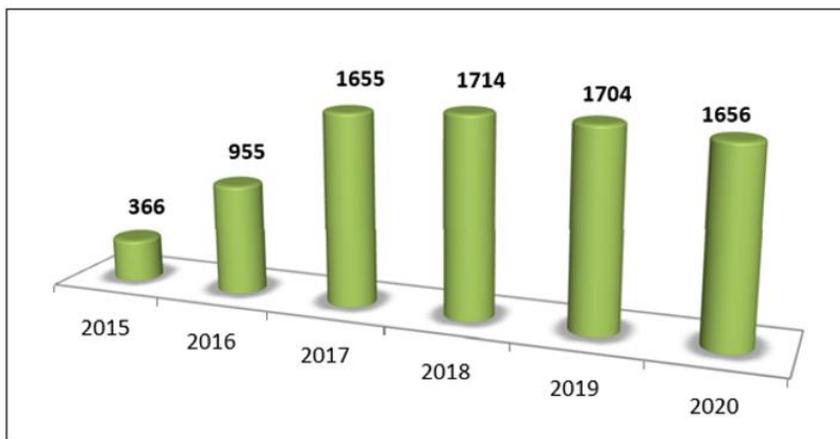
In 2020, 98 agreements on the conditions of activities in the Free Economic Zone, (including in City of Sevastopol – 14, and in the Republic of Crimea – 84) - were concluded.



As of December 31, 2021, over the six years, 1,747 Agreements in the Free Economic Zone are in effect and a corresponding number of investment projects were being implemented.



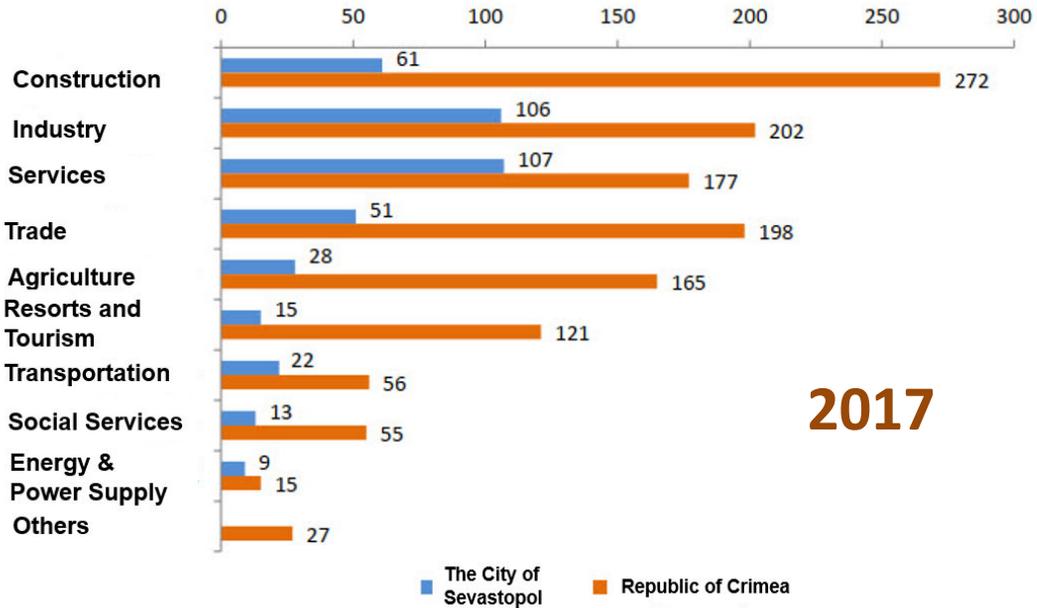
As of December 31, 2020, 1,656 business entities were registered as members of the Free Economic Zone, including 751 in 2020. (In the City of Sevastopol - 13 and in the Republic of Crimea - 62)



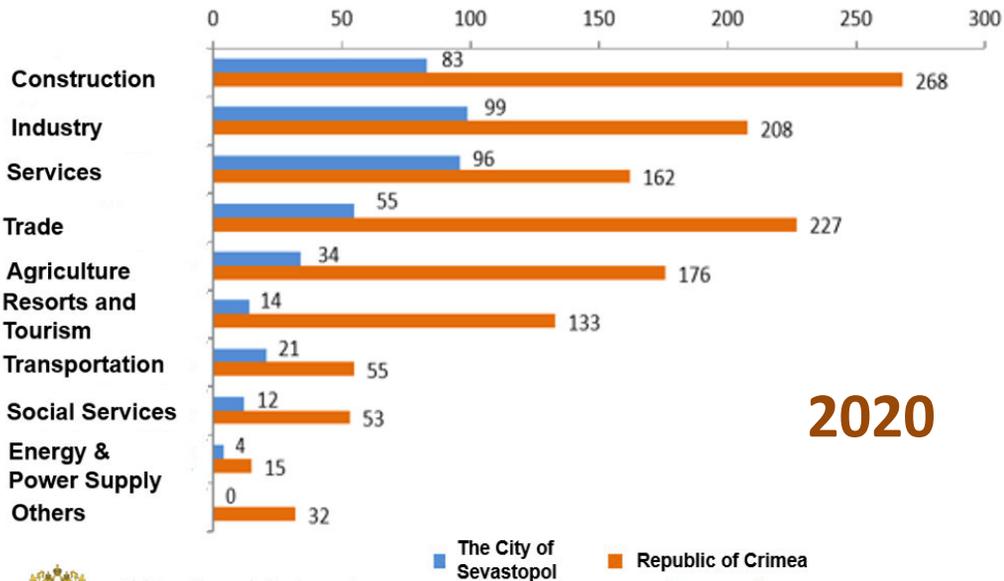
*Members of the Free Economic Zone for the period of 2015-2020 (on a cumulative total)*



## Distribution of Investment Projects by Industry



2017



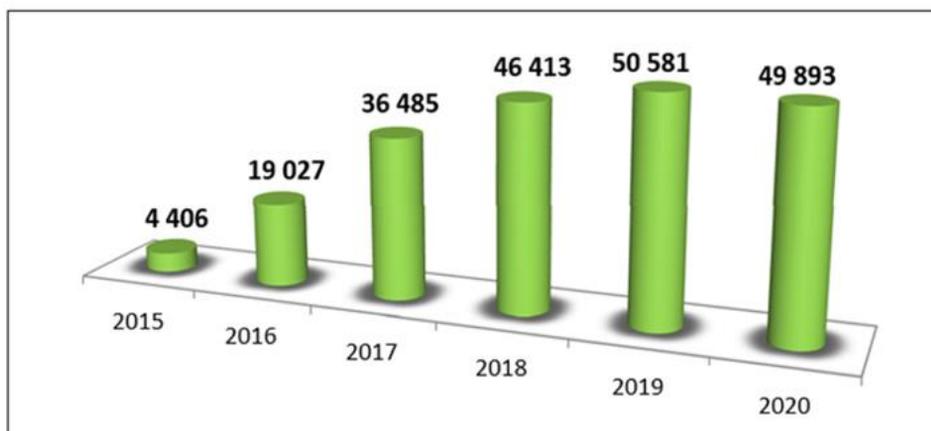
2020



Ministry of Economic Development of the Russian Federation



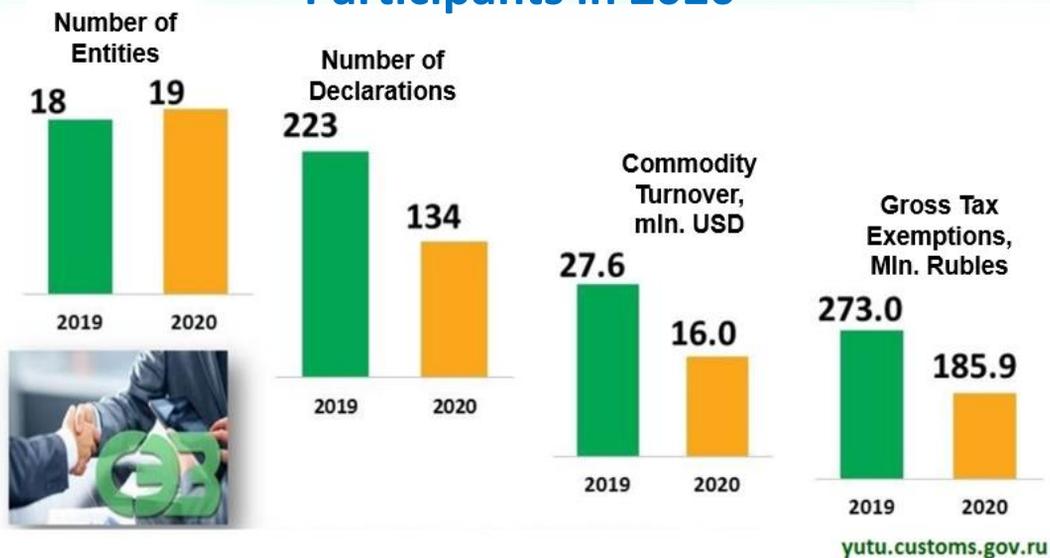
The total volume of investments of the Free Economic Zone members in 2020 was 49,893.1 million Rubles (in the City of Sevastopol – 10,819.0 million Rubles and in the Republic of Crimea – 39,074.1 million Rubles), almost 50 % of which (25,383.4 million Rubles) refer to the capital investments made by the participants of the Free Economic Zone in 2020.



*Gross Volume of Investments Made by the Members of Free Economic Zone in 2015-220*



## Crimean Customs: Application of the Free Customs Zone Procedures by FEZ Participants in 2020



**Southern Customs Office**

The effectiveness of operation of the Free Economic Zone for the reporting period is defined as the ratio of certain actual absolute quantitative indicators to similar planned (forecast) indicators of operation of the Free Economic Zone and is assessed on a five-point scale.

## PROJECTED GOALS AND ACTUAL PERFORMANCE METRICS OF THE CRIMEAN FREE ECONOMIC ZONE

Metrics	Planned	Actual	Planned /Actual	Score	Final Score
Members of FEZ	39	75	192%	5	<b>5</b>
Volume of revenues from the sale of goods, works and services, Rubles	316,702	313,853	99%	5	
Number of built and commissioned real estate properties, facilities of engineering, transport, social, innovative and other infrastructure	101	948	939%	5	
Number of jobs created in the Free Economic Zone	7,058	8,885	125%	5	
Volume of investments, including capital investments, made in accordance with the concluded agreements, mln. Rubles	26,860	49,893	186%	5	



## ASSESSMENT OF THE GOVERNMENT OF THE RUSSIAN FEDERATION



**Operations of the Free Economic Zone in the Republic of Crimea and the City of Sevastopol in 2020 is recognized as effective**



**Operations of the Free Economic Zone for the 2017 to 2020 period is recognized as effective**



Ministry of Economic Development  
of the Russian Federation





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Voice of Crimea - <https://t.me/CrimeaVoice>

