



**ON CURRENT AND PROPOSED CHANGES TO THE
REGULATION OF INDUSTRIAL ASSEMBLY OF CARS
AND AUTOMOTIVE COMPONENTS AIMED TO
SUPPORT RUSSIAN AUTOMOTIVE INDUSTRY**

23 августа 2016 г.

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- Recent changes to the **effective Procedure** for Industrial Assembly of cars and their components
- The concept of a **new Procedure** for Industrial Assembly of cars and their components

Brief info regarding the application of the "industrial assembly" regime

- The industrial assembly regime applies in Russia from 2005
- The leading world automotive concerns manufacturing more than 90% of cars in the world have launched production in Russia
- There are 31 car manufacturing projects being implemented in Russia (Toyota, Ford, Volkswagen, Renault, Hyundai, Mazda, Skoda and others)
- The Ministry of Economic Development of Russia has entered into more than 100 industrial assembly agreements with manufacturers of automotive components (86 agreements are currently effective)
- There are factories with aggregate manufacturing capacity exceeding 2 million cars per year built in the territory of Russia
- Car manufacturers have invested more than 180 billion rubles
- 25 thousand new jobs were created

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Recent changes to the **effective Procedure** for Industrial Assembly of cars and their components

Recent changes to the effective Procedure for Industrial Assembly of cars and their components (1)

Order No 381/2046/91H of 21 June 2016

of the Ministry of Economic Development of Russia, the Ministry of Industry and Trade of Russia, the Ministry of Finance of Russia *'On Amendment of the Procedure Defining the Concept of "Industrial Assembly" of Motor Vehicles and Determining How This Concept Should Be Applied When Automotive Components for Manufacturing of Motor Vehicles under Commodity Headings from 8701 through 8705 of the Customs Union Commodity Classification of Foreign Economic Activity, Their Units and Assemblies Are Imported to the Russian Federation'*

- Registered by the Ministry of Justice on 30.06.2016; registration No 42706
- Effective from 15 July 2016
- Retroactive qualification: applies to 2015 reporting period

Recent changes to the effective Procedure for Industrial Assembly of cars and their components (2)

Reasons why the Procedure was amended:

- the degree of localization set forth in the Procedure was high
- the localization calculation formula was imperfect
- laws regulating the obligation to file some reporting documents with the ministries were ambiguous
- some terms lacked definitions

Recent changes to the effective Procedure for Industrial Assembly of cars and their components (3)

FOR CARS' MANUFACTURERS

Localization (%)	Previous Version	Effective Version
4 th calendar year	50 %	45 %
5 th calendar year	55 %	50 %
6 th calendar year	60 %	60%

Recent changes to the effective Procedure for Industrial Assembly of cars and their components (4)

FOR AUTOMOTIVE COMPONENTS' MANUFACTURERS

Localization Stage	Previous Version	Effective Version
1 stage	2011-2014	2011-2014
2 stage	2015-2017	2016-2018
3 stage	2018-2020	2019-2020

- From 2015 the requisite degree of localization (%) is increased from 15-30% to 45%
- Taking into account the increase in currency rate in 2014-2015 some companies engaged in automotive components assembly failed to reach the requisite localization level
- After the Procedure was amended those companies continued application of the Industrial Assembly Agreements (after 15 July 2016 the Ministry of Industry and Trade issued opinions concerning the intended use to them)

Recent changes to the effective Procedure for Industrial Assembly of cars and their components (5)

- A duty to file the following reports on an annual basis has been expressly defined:
 - report on defective components returned to the supplier
 - certificate of defective components disposal
- Companies may **exclude defective components or those returned to the suppliers from imports**



Recent changes to the effective Procedure for Industrial Assembly of cars and their components (6)

- The Procedure provides for the possibility to take into account the residual stock of those finished products (cars/components) that were not sold during the reporting period while calculating the localization

(!) This possibility was not provided before



Recent changes to the effective Procedure for Industrial Assembly of cars and their components (7)

The new version of the Procedure allows

- **wholesaling and retailing of the manufactured components to legal entities and retailing them to individuals**
- **selling the manufactured components for export**



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The concept of **a new Procedure** for Industrial Assembly of cars and their components

The concept of a new Procedure for Industrial Assembly of cars and their components (1)

- In the beginning of June 2016 the Government of the Russian Federation instructed the respective ministries **to develop a new Procedure for Industrial Assembly**
- The INSTRUCTION in question shall be fulfilled – prior to **15 September 2016**
- The Ministry of Economic Development of Russia is preparing **a new Concept of the "industrial assembly" regime**



The concept of a new Procedure for Industrial Assembly of cars and their components (2)

Why this Concept was developed:

- 1) Obligations to terminate the "industrial assembly" regime in December 2020 assumed by Russia to the WTO
- 2) Equalization of general duties' rates and those applicable to "industrial assembly" after July 2018



The concept of a new Procedure for Industrial Assembly of cars and their components (3)

The main purpose of the Concept is **a new localization calculation methodology**

- A quantitative index is supposed to be excluded from the calculation (now the localization takes into account automotive components' imports and finished products' sales)
- New localization shall be centered around qualitative indices (for example, the degree of involvement of Russian suppliers)
- A flexible localization calculation system is proposed to be created (for example, to take into account the dynamic pattern of the exchange rate fluctuations and the development of the car market in general)

The concept of a new Procedure for Industrial Assembly of cars and their components (4)

- The Ministry of Economic development is developing a **new localization calculation methodology**
- In the middle of July 2016 the Ministry of Economic Development of Russia sent **official requests** to those companies that signed Industrial Assembly Agreements seeking provision of reference information about indices to be presumably used to calculate the localization

The concept of a new Procedure for Industrial Assembly of cars and their components (5)

Company Name		
Index	2014	2015
P		
V_{imp}		
$V_{Rus. manf}$		
$V_{particip}$		
L		
AV		

where:

- P - shall mean the total value of all manufactured vehicles and their units and assemblies;
- V_{imp} - shall mean the customs value of all automotive components;
- $V_{Rus. manf}$ - shall mean the value of automotive components bought from the Russian manufacturers;
- $V_{particip}$ - shall mean the value of automotive components bought from the program participants (intragroup cooperation);
- L - shall mean annual average level of localization;
- AV - shall mean value added (profits + workplace costs)

The concept of a new Procedure for Industrial Assembly of cars and their components (6)

- The Concept provides for entering into **NEW agreements with the Ministry of Economic Development**
- It is expected that such Agreements can be concluded both **by the companies that have signed Industrial Assembly Agreements**, and **by other companies**



The concept of a new Procedure for Industrial Assembly of cars and their components (7)

- Reduced/zero duties rates will be replaced by budgetary funding (compensation)



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