



Ready to go global? Opportunities for Turkish Automotive Suppliers in Germany, Russia and China

In cooperation with:



I. Automotive industry in Russia

Economic impact

- Significant industry sector
 - Directly **employing** around **600,000 people**
 - **1% of the country's total workforce**
 - Russia ranks in the **Top-10 of the largest car producing countries** in the world
 - **total amount of vehicles produced** in 2013: **2,175,311**
 - Russia is expected to remain **one of the long-term growth markets;** regardless of a slow economic development
 - according to leading accountancy firms the 2.1 million light vehicles produced in Russia in 2012 could reach 2.9 million by 2020

I. Automotive industry in Russia

Political impact

- High political impact
 - Large number of **directly employed people** (see slide above) and **support of** approximately **2-3 million people in related industries**
 - Special **governmental programs** for **supporting** the (local) **automotive industry**
 - “Concept of the Development of the Russian Car-Making Industry by 2020” with a value of € 4.5 billion

I. Automotive industry in Russia

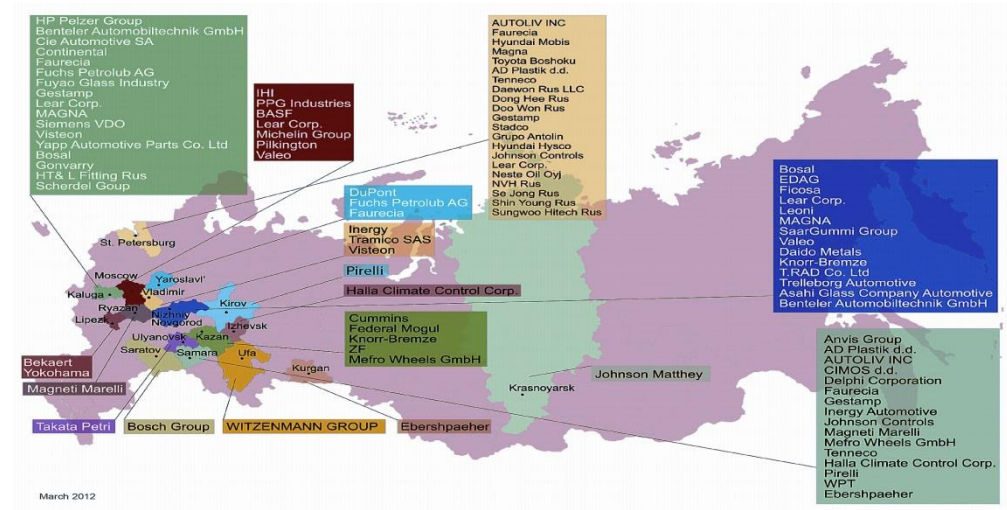
Structure of the supplier industry (1)

- Government's concept of enhancing innovation by an "Industrial Assembly" of vehicles and components in the RF by foreign car manufacturers led to:
 - a **growth in imports of components** that are **to be assembled locally**
 - a **growth in the number of production alliances** between local and global companies
 - e.g. Renault-Nissan-VAZ
 - an **increased number of domestically assembled foreign cars sold in Russia**

I. Automotive industry in Russia

Structure of the supplier industry (2)

- **Sizeable Russian component in the industry**
- **New suppliers join** the existing component industry and invest in Russian production capacity
 - **Growing industry**
- **Local suppliers** are not always meeting the quality expectations of international ones
 - **Demand for high-quality international suppliers**



II. Legal framework

Corporate structure

1. Available corporate legal forms

- Limited liability company ("OOO")
- Joint stock company ("AO")
- The most popular structure is OOO
 - flexible
 - low administrative costs
 - simple handling

2. Joint structure with Russian partners?

- Historical developments:
 - Joint-venture were the choice of the 90ies in Russia
 - In the 2000s, switch to sole foreign ownership
 - Industrial assembly legislation lead to revival of JV-structures

II. Legal framework

Corporate structure

3. Acquisition of an existing Russian entity

- Russian M&A market exists on a low level
- Russian special issues
 - lack of transparency and incomplete documentation make due diligence difficult
 - success in business may depend more on personal relations than on legal grounds
- M&A is the first choice when looking for industrial assembly licenses

II. Legal framework

Corporate structure

4. Key issues in corporate structuring

- JV / fully foreign owned entity
 - especially industrial assembly licenses
- Russian expertise: local partner or administrative structures
- Relationship between JV-partners:
 - Shareholders' agreements
 - JV-holding abroad?!
- Controlling, decision making and business
 - holding the key positions: GenDir / chief accountant

II. Legal framework

Real estate issues

- Land and buildings, construction
 - Property rights, land categories, permitted use and urban planning provisions, connection to the utilization system
 - Most important questions related to construction: complex rules (locally varying), numerous players involved, fixed price completion is rare, commissioning
 - Acquisition of ownership
 - Acquisition of land/buildings from a private owner: no government regulation of the sale and purchase or of the land rent
 - Acquisition of state-owned land:
 - Procurement by tender
 - Procurement without tender: state regulation of the sale and the purchase price or municipal regulation of the land rent

II. Legal framework

Real estate issues

- Criteria for the choice of location
 - **Regional support:** political support is the key question for a successful project; entering into an investment agreement in some regions; possibility of a refund of the construction costs for the production facility (removal of soil pollution)
 - an **existing infrastructure** (roads, railways) as well as energy and utility supply (gas, electricity, water supply and sewerage) at the planned production facility should be the most important criteria

II. Legal framework

Real estate issues

- Criteria for the choice of location
 - **Regional / municipal tax incentives:** exemption from wealth tax, regional share of income tax, exemption from the transport tax, license fees for leases, etc.
 - Available **workforce and local infrastructure** for new employees (apartments, schools, hospitals, etc.)

II. Legal framework

Real estate issues

- Criteria for the choice of location
 - Regional investment incentives
 - **Kaluga:** Strategic investor agreement + investment agreement + capital investments of 3 trillion rubles (100 million USD) - reduction of profit tax to 13.5% for a duration of 8 years and full exemption from the property tax for a period of 8 years
 - **Leningrad region:** investment agreements - reduced profit tax to 13.5% for the payback period (but not longer than the requested duration plus 2 years)
 - **St. Petersburg:** production and processing sector; capital investments of 300 million rubles (10 million USD) within a calendar year - income tax reduction to 13.5% for 3 years; 50% discount on the property tax for a 3-year period

II. Legal framework

Customs regime

- Russia is a member of the:
 - Eurasian Economic Union (“EurAsEC”)
 - Customs Union of Belarus, Kazakhstan and Russia
 - World Trade Organisation (“WTO”)

- Customs are regulated by the Customs Code of the Customs Union and certain regulations passed by the EurAsEC
 - nevertheless the principles of the WTO always need to be considered

- Note: the Russian Customs Code has been replaced!

II. Legal framework

Customs regime

- Before joining WTO, Russia's policy was to established custom barriers for import of cars and components and, in the meantime, granting incentives for localisation under "industrial assembly" schemes
- Industrial assembly: producers sign agreements with Russia on localisation of production with local content increasing over the years
- Today, no investment agreements are offered except for entities already holding Lol's with Russia on industrial assembly agreements
- Incentives are under doubt as they are contradicting to WTO rules!

II. Legal framework

Customs regime – after joining the WTO

- Long-term perspective

- Until 2018:

- Provision of the benefits for the industrial assembly will be terminated
 - Tariff rates will be lowered down to 17%

- Until 2019:

- Tariff rates will be finally lowered down to 10-15%

- Short-term perspective

- High import tariffs

- Producing within the Russian Federation will remain beneficial

- Utilization fees

- Utilization fees are to be paid by foreign **and** Russian manufacturers since 2013 (Federal Order No. 1291)

III. Summary

- The Russian automotive industry is an industry with a promising future due to:
 - a low saturation (250 cars per one thousand people)
 - huge investments made by the government for supporting the industry

- Investments made now will pay off in the future

Contact

Dr. Thomas Heidemann
Partner

CMS, Russia
Gogolevsky blv., 11
119019 Moscow
Russia



T +7 495 786 4049

F +7 495 786 4001

E thomas.heidemann@cmslegal.ru

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