

REGULATION

On “Karakol” Free Economic Zone

*(as amended by Resolution of the Government of the KR No. 376 dated
July 8, 2016)*

1. General Provisions

1. This Regulation has been developed in accordance with the Law of the Kyrgyz Republic “On Free Economic Zones in the Kyrgyz Republic”; it defines the legal framework for economic activities and foreign trade activities of the Karakol Free Economic Zone (hereinafter - “Karakol FEZ”).

2. The goals of creating the Karakol FEZ are to contribute to the social and economic development of the region, providing favorable conditions for attracting investments, technologies, creating and developing industries, transport infrastructure, modern industrial and social infrastructure, new jobs, saturating the market with goods, improving the living standard of the population, tourism and health and recreation sectors.

3. Relations arising from Karakol FEZ operations and registration of legal entities as Karakol FEZ Entities shall be regulated by the Law of the Kyrgyz Republic “On Free Economic Zones in the Kyrgyz Republic”, tax legislation, the customs legislation and other normative legal acts of the Kyrgyz Republic, and international treaties to which the Kyrgyz Republic is a signatory, which have been effectuated in the manner prescribed by laws.

(As amended by Resolution No. 376 of the Government of the Kyrgyz Republic dated July 8, 2016)

4. If an international treaty to which the Kyrgyz Republic is a signatory, which has been effectuated in the manner prescribed by laws, stipulates the provisions other than those provided for by the legislation on Free Economic Zones, the provisions of such international treaty shall apply.

5. Karakol FEZ a function-type FEZ; it has own fenced territory and boundaries, budget, governance bodies.

6. Karakol FEZ is located on two plots:

- in Balykchy city of Issyk-Kul region; 500 hectares area;
- nearby Tamchy village, Tamchy *ayil aimak*, Issyk-Kul district, Issyk-Kul region; 1180 hectares area.

2. Establishment and Operation of Karakol FEZ

7. Karakol FEZ is established in designated area, which is subject to the customs control and customs regulation of the Karakol FEZ Entities operations pursuant to the requirements of the customs legislation of the Kyrgyz Republic.

8. Requirements for the provision of necessary facilities of the Karakol FEZ territory where the customs procedure of a free customs zone is applied, including fencing requirements, as well as the regulation of the activities of Karakol FEZ Entities in the territory of Karakol FEZ shall be determined in accordance with the legislation of the Kyrgyz Republic.

A customs government authority shall confirm the adequacy of the fencing or other facilities for the purpose of customs control with the legislation of the Kyrgyz Republic.

9. Unless otherwise stipulated herein, if Karakol FEZ entities fail to comply with conditions stipulated in paragraph 7 of this Article, the general tax regime shall apply to such Karakol FEZ Entities.

10. Karakol FEZ Entities may perform manufacturing and other business operations in the territory of FEZ associated with the use of foreign goods and goods of the Eurasian Economic Union, provided that they comply with the Law “On Free Economic Zones in the Kyrgyz Republic” and other normative legal acts of the Kyrgyz Republic.

(As amended by Resolution No. 376 dated July 8, 2016)

11. Karakol FEZ Entities may perform other activities, not prohibited by the legislation of the Kyrgyz Republic.

12. Inspections of compliance of Karakol FEZ Entities with customs, tax and state social insurance legislation shall be performed in accordance with the customs legislation of the Kyrgyz Republic and the General Directorate of Karakol FEZ shall be notified accordingly.

(As amended by Resolution No. 376 dated July 8, 2016)

13. It shall be prohibited to any government agency to interfere in the economic activities of FEZ Entities, except as otherwise provided for by the laws of the Kyrgyz Republic.

3. Financing and Special Currency Regime of Karakol FEZ

14. The establishment and development of Karakol FEZ, including production, utilities, transport and other infrastructure, and other operational costs of Karakol FEZ, including the costs of upkeep of its General Directorate, may be funded from the national budget, local budget, own budget of Karakol FEZ or other sources not prohibited by the legislation of the Kyrgyz Republic.

15. The General Directorate of Karakol FEZ shall make deductions to the local budgets at the rate of 0.01% of revenue and to the national budget at the rate of 0.01% of revenue.

(As amended by Resolution No. 376 dated July 8, 2016)

15-1. Karakol FEZ Entities shall make annual payments to the General Directorate of Karakol FEZ for the right to operate in the territory of FEZ as Karakol FEZ Entities.

(As amended by Resolution No. 376 dated July 8, 2016)

16. Payment for the right to operate in Karakol FEZ as Karakol FEZ Entity shall be charged at the rate of one (1) percent of revenue from sales of goods, works and services in the Kyrgyz Republic and one (1) percent of revenue from sales of goods, works and services produced in Karakol FEZ designated for export from the territory of the Kyrgyz Republic and such rates shall be calculated upon invoicing and submission of goods declaration.

Except for the above-mentioned payments and payments under the executed contracts by the General Directorate of Karakol FEZ with Karakol FEZ Entities, other payments shall not be provided.

(As amended by Resolution No. 376 dated July 8, 2016)

17. The special currency regime in the territory of Karakol FEZ provides for the free circulation of foreign currency, including associated with the provision of services and financial settlements between legal entities and individuals in accordance with the rules established by the laws of the Kyrgyz Republic.

18. Settlements of Karakol FEZ Entities with foreign trade participants shall be made in any currency, upon agreement by the parties.

4. Fulfillment of Tax and State Social Insurance Obligations

19. A legal entity shall be registered as FEZ Entity or deprived of the status of FEZ pursuant to the Procedure for record (profile) registration of a legal entity as FEZ Entity.

20. The preferential tax treatment with regards to the operations of Karakol FEZ Entities shall be applied according to the provisions of Chapter 57 of the Tax Code of the Kyrgyz Republic for

the period of their operating activities as Karakol FEZ Entity, provided that the customs government authority has confirmed compliance of fencing or other conditions to the customs control requirements for Karakol FEZ Entities.

21. Karakol FEZ Entity shall fulfill obligations on state social insurance, including with respect to hired individuals in accordance with the legislation of the Kyrgyz Republic.

22. Karakol FEZ Entities shall keep accounting and reporting systems on financial and business operations pursuant to the procedures for accounting and tax legislation of the Kyrgyz Republic.

5. Effective Customs Procedure in Karakol FEZ

(the section's name as amended by Resolution No. 376 of the Government of the Kyrgyz Republic dated July 8, 2016)

23. The territory of Karakol FEZ is a part of the customs territory of the Eurasian Economic Union for the purpose of compliance with customs control requirements in accordance with the customs legislation of the Kyrgyz Republic.

(As amended by Resolution No. 376 dated July 8, 2016)

24. A free customs zone is a customs procedure under which Karakol FEZ Entities place and use foreign goods within the territory of Karakol FEZ without paying customs duties and taxes, without applying tariff and non-tariff regulation measures to foreign goods, and without applying prohibitions and restrictions on goods of the Eurasian Economic Union.

The conditions and procedure for placing goods within the territory of Karakol FEZ under the customs procedure of a free customs zone shall be applied in accordance with the international agreements of the member-states of the Eurasian Economic Union and the customs legislation of the Kyrgyz Republic.

(As amended by Resolution No. 376 dated July 8, 2016)

25. The customs procedure of a free customs zone shall be applied in the territory of Karakol FEZ adequately equipped to ensure customs control in accordance with the requirements of the legislation of the Kyrgyz Republic.

(As amended by Resolution No. 376 dated July 8, 2016)

26. Foreign goods imported by Karakol FEZ Entities to the territory of Karakol FEZ shall be placed under and used in the territory of Karakol FEZ following the customs procedure rules of the free customs zone.

The exportation of goods from the territory of Karakol FEZ shall be performed under the customs procedure selected by the Karakol FEZ Entity in accordance with the customs legislation of the Kyrgyz Republic.

(As amended by Resolution No. 376 dated July 8, 2016)

27. The territory of Karakol FEZ where the customs procedure of a free customs zone is applied shall be a customs controlled area. Customs control and customs formalities related to placing goods of Karakol FEZ Entities under the customs procedure shall be implemented by the customs authorities of the Kyrgyz Republic in accordance with the customs legislation of the Kyrgyz Republic.

(As amended by Resolution No. 376 dated July 8, 2016)

28. Foreign goods imported by Karakol FEZ Entities into Karakol FEZ territory and placed under the customs procedure of a free customs zone shall be deemed as being outside the customs territory of the Eurasian Economic Union for the purposes of customs duties and taxes as well as tariff and non-tariff regulation measures.

(As amended by Resolution No. 376 dated July 8, 2016)

29. *(invalid pursuant to Resolution No. 376 dated July 8, 2016)*

29-1. In the territory of Karakol FEZ, established with the purpose of accelerated development

of the region, Karakol FEZ Entities performing operations with goods shall keep records of imported, exported, stored, manufactured, processed, utilized, purchased and sold goods and submit to the General Directorate of Karakol FEZ the respective reporting on such goods. Any changes with the goods within the territory of Karakol FEZ shall be reported in the accounting documents.

(As amended by Resolution No. 376 dated July 8, 2016)

30. Customs and tax authorities of the Kyrgyz Republic, as well as the General Directorate of Karakol FEZ, within their jurisdiction, shall control and keep record of operations with goods performed by Karakol FEZ Entities pursuant to tax and customs legislation of the Kyrgyz Republic.

(As amended by Resolution No. 376 dated July 8, 2016)

31. With respect to goods exported from the territory of the Karakol FEZ to the territory of the Kyrgyz Republic:

- 1) Taxation is carried out in accordance with the tax legislation of the Kyrgyz Republic;
- 2) Tariff and non-tariff regulation measures shall be applied in accordance with the customs legislation of the Kyrgyz Republic.

(As amended by Resolution No. 376 dated July 8, 2016)

32. *(invalid pursuant to Resolution No. 376 dated July 8, 2016)*

33. Exportation of products manufactured in Karakol FEZ to the territory of Eurasian Economic Union member-states, as well as beyond the customs territory of the Eurasian Economic Union, shall be exempt from quotas, except for imports into the territory of the Kyrgyz Republic.

Importation of products manufactured in Karakol FEZ into the Kyrgyz Republic shall be subject to quotas, except for processed agricultural products. The quota amount shall be determined based on a classified as approved by the Government of the Kyrgyz Republic, and such amount shall not exceed 30 percent of total volume of manufactured products for each Karakol FEZ Entity during the year.

If the output manufactured by Karakol FEZ Entity in the territory of FEZ exceeds the quota amount in its importation into the territory of the Kyrgyz Republic, it shall be subject to taxation in accordance with the tax legislation of the Kyrgyz Republic.

The customs and tax authorities of the Kyrgyz Republic and the General Directorate of Karakol FEZ exercise control over compliance with the established quota of exports of products manufactured in Karakol FEZ.

(As amended by Resolution No. 376 dated July 8, 2016)

34. Goods shall be deemed to have been produced in Karakol FEZ if such goods have been entirely produced or sufficiently processed/processed in accordance with the criteria established by the customs legislation of the Kyrgyz Republic.

(As amended by Resolution No. 376 dated July 8, 2016)

35. Goods supplied by Karakol FEZ Entities to the territory of the Kyrgyz Republic, regardless of the degree of processing in Karakol FEZ, a transaction amount and a buyer, shall be subject to taxation in accordance with the tax legislation of the Kyrgyz Republic.

Goods imported from FEZ territory by Karakol FEZ Entities to be delivered to the territory of the Kyrgyz Republic, including when alienated in favour of parties who are not Karakol FEZ Entities, shall be "taxable import" delivery and shall be subject to taxation in accordance with the tax legislation of the Kyrgyz Republic.

(As amended by Resolution No. 376 dated July 8, 2016)

36. Customs formalities related to the placement of goods under customs procedures imported into Karakol FEZ territory by Karakol FEZ Entities and goods exported by Karakol FEZ Entities from Karakol FEZ territory shall be performed by the customs authorities of the Kyrgyz Republic with notification of the General Directorate of Karakol FEZ.

37. Goods prohibited for importation into Karakol FEZ territory in accordance with the list approved by the Government of the Kyrgyz Republic cannot be placed under the customs procedure of a free customs zone.

38. Goods imported by a legal entity into the territory of Karakol FEZ after the legal entity has lost the status of Karakol FEZ Entity cannot be placed under the customs procedure of a free customs zone.

39. With regard to goods imported into the territory of Karakol FEZ included in the National List of Products Subject to Control of the Kyrgyz Republic, the non-tariff regulation measures shall be applied pursuant to the customs legislation of the Kyrgyz Republic

6. State Guarantees for FEZ Entities and Foreign Investors

40. The legislation on Karakol FEZ and other legislation of the Kyrgyz Republic establishes guarantees for Karakol FEZ Entities.

41. Karakol FEZ Entities shall be subject to guarantees of investor rights and investment protection provided by the legislation of the Kyrgyz Republic on investment activities.

42. Pursuant to the legislation of the Kyrgyz Republic, legal protection of foreign investments shall be secure.

43. Disputes arising between a foreign investor (Karakol FEZ Entity) and the General Directorate of Karakol FEZ shall be resolved in accordance with the legislation of the Kyrgyz Republic.

44. Rules for entry, stay and departure of foreign nationals and stateless persons shall be regulated by the legislation of the Kyrgyz Republic and international treaties to which the Kyrgyz Republic is a signatory, which have been effectuated in the manner prescribed by laws.

(As amended by Resolution No. 376 dated July 8, 2016)

45. Karakol FEZ Entities shall be liable for breach of the legislation of the Kyrgyz Republic, in accordance with the legislation of the Kyrgyz Republic.

7. Governance of Karakol FEZ

46. The General Directorate of Karakol FEZ shall be the governance body of Karakol FEZ that manages the functioning and development of the Karakol FEZ, as well as coordinates the activities of the Karakol FEZ Entities on issues within its competence.

(As amended by Resolution No. 376 dated July 8, 2016)

46-1. The General Directorate of Karakol FEZ shall be constituted as an institution.

(As amended by Resolution No. 376 dated July 8, 2016)

46-2. The General Directorate of Karakol FEZ in its activities shall be guided by the Constitution of the Kyrgyz Republic, laws of the Kyrgyz Republic, other normative legal acts of the Kyrgyz Republic, international treaties to which the Kyrgyz Republic is a signatory, which have been effectuated in the manner prescribed by laws, as well as by acts of the government agency responsible for formulation of national policy for operation of Karakol FEZ, and by this Regulation.

(As amended by Resolution No. 376 dated July 8, 2016)

46-3. The General Directorate shall be a legal entity and shall have the right to open settlement, foreign currency and other accounts with the banks of the Kyrgyz Republic in accordance with the established procedure.

(As amended by Resolution No. 376 dated July 8, 2016)

46-4. Full name of the General Directorate of Karakol FEZ:

In the state language:

“Karakol Erkin Ekonomilik zonany bashky directorate mekemesi”;

in the official language:

"Uchrezhdenie 'Generalnaya Direktsiya svobodnoi ekonomicheskoi zony Karakol "

(As amended by Resolution No. 376 dated July 8, 2016)

46-5. The registered address of the General Directorate of Karakol FEZ: 1a Naryn highway, Bakykchy, Issyk-Kul region, 721900, Kyrgyz Republic.

(As amended by Resolution No. 376 dated July 8, 2016)

46-6. The General Directorate of Karakol FEZ shall be liable in accordance with the legislation of the Kyrgyz Republic.

(As amended by Resolution No. 376 dated July 8, 2016)

47. The Karakol FEZ shall be managed by the Director General and his/her deputies appointed and dismissed by the Prime Minister of the Kyrgyz Republic.

(As amended by Resolution No. 376 dated July 8, 2016)

48. Ministries, state committees, administrative agencies and other governmental agencies of the Kyrgyz Republic shall act in coordination with the General Directorate of Karakol FEZ when resolving issues within their competence, if they affect the interests of Karakol FEZ. If any contradictions emerge, they shall be resolved by the Government of the Kyrgyz Republic

49. The General Directorate of Karakol FEZ shall not be liable for the debts and obligations of the Kyrgyz Republic, nor the Kyrgyz Republic shall be liable for the debts and obligations of the General Directorate of Karakol FEZ.

50. The authority of Karakol FEZ General Directorate shall extend to:

- 1) Carrying out record (profile) registration of legal entities as Karakol FEZ Entities;
- 2) Maintaining the Register of Karakol FEZ Entities and issuance at the request of Karakol FEZ Entity or at the request of interested persons an extract from the Register of Karakol FEZ Entities;
- 3) Reviewing applications of a legal entity for conclusion of an operating agreement in the territory of Karakol FEZ;
- 4) Issuing at the request of Karakol FEZ Entity or at the request of interested persons an extract from the Register of Karakol FEZ Entities;
- 5) Representing the interests of Karakol FEZ Entities in interaction with government agencies, local self-government bodies, organizations and institutions on the issues related to Karakol FEZ operations;
- 6) Advertising, conducting outreach activities in the Kyrgyz Republic and abroad to inform on the conditions of investment and business operations in the Karakol FEZ and to attract foreign and domestic investors;
- 7) Providing access to information about operations of Karakol FEZ for public, including mandatory placement of such information on the website of the General Directorate of Karakol FEZ;
- 8) Development and approval upon coordination with the government authority for formulation of the national policy for functioning of FEZ of a model operating agreement in the territory of Karakol FEZ;
- 9) Conclusion and/or extension of operating agreements in the territory of Karakol FEZ and control over their execution;
- 10) Obtaining information from Karakol FEZ Entities about their activities as Karakol FEZ Entities;
- 11) Making a decision on withdrawal of the status of Karakol FEZ Entity pursuant to the legislation of the Kyrgyz Republic;

- 12) Managing the property transferred to the General Directorate of Karakol FEZ for operational administration in the manner prescribed by the laws of the Kyrgyz Republic;
- 13) Approaching to the Jogorku Kenesh of the Kyrgyz Republic and the Government of the Kyrgyz Republic with a proposal to change the existing territorial boundaries of Karakol FEZ;
- 14) Exercising other functions pursuant to normative legal acts of the Kyrgyz Republic and this Regulation.

(As amended by Resolution No. 376 dated July 8, 2016)

50-1. The General Directorate of Karakol FEZ to carry out its duties and functions as defined by this Regulation shall have the following powers:

- 1) Propose a change of the territorial boundaries of Karakol FEZ and extend its functioning term;
- 2) Request appropriate information from government agencies;
- 3) Send on business trips employees of the General Directorate of Karakol FEZ to participate in conferences, seminars, exhibitions.

(As amended by Resolution No. 376 dated July 8, 2016)

51. The obligations of the General Directorate of Karakol FEZ shall include:

- 1) Ensuring the protection of national economic interests within the territory of the Karakol FEZ and its jurisdiction;
- 2) Submission of quarterly reports on activities of the General Directorate of Karakol FEZ until the 15th day of the month following the reporting period to the government authority for formulation of the national policy for functioning of Karakol FEZ as per established form;
 - 2-1) Submission to the tax body the monthly data on the total volume of output by Karakol FEZ Entity, with separating goods imported to the territory of the Kyrgyz Republic according to the form established by the government authority for formulation of the national policy for functioning of Karakol FEZ;
- 3) Approval and presentation of the annual development plan of Karakol FEZ for a corresponding year to the government authority for formulation of the national policy for functioning of Karakol FEZ;
- 4) Building engineering installations and infrastructure on the territory of Karakol FEZ that meet modern requirements and use them according to rules established by the legislation;
- 5) Development and maintaining Karakol FEZ official web-site that contains full information about land plots and premises, established tariffs for offered land plots and premises, conditions of registration and deprivation of status of Karakol FEZ Entity and other operating conditions of Karakol FEZ Entities;
- 6) Establishment and compliance with internal security rules of Karakol FEZ;
- 7) Defining the structure and staffing size of the General Directorate of Karakol FEZ;
- 8) Hiring and dismissal of employees of the General Directorate of Karakol FEZ;
- 9) Ensuring safety of state property transferred to operational administration;
- 10) Performance of duties in accordance with the legislation of the Kyrgyz Republic and executed agreements.

(As amended by Resolution No. 376 dated July 8, 2016)

52. The budget of the General Directorate of Karakol FEZ consists of the budget of Karakol FEZ.

(As amended by Resolution No. 376 dated July 8, 2016)

53. The General Directorate of Karakol FEZ shall act on the principles of full cost accounting, self-financing and self-sufficiency in accordance with the legislation of the Kyrgyz Republic and this Regulation.

(As amended by Resolution No. 376 dated July 8, 2016)

54. The budget of the Karakol FEZ shall be formed from funds received from:

- 1) Payment for the right to operate in the territory of Karakol FEZ as Karakol FEZ Entity;
- 2) Other sources of revenue not prohibited by the legislation of the Kyrgyz Republic.

(As amended by Resolution No. 376 dated July 8, 2016)

55. The Karakol FEZ budget funds shall be used by the General Directorate for the following purposes:

- 1) Formation, development of transport and other infrastructure determined by the Karakol FEZ legislation;
- 2) Maintenance of property which is allocated to the General Directorate for the operational administration;
- 3) Infrastructure maintenance, salary to employees of the General Directorate of Karakol FEZ, public utilities and hospitality expenses.

(As amended by Resolution No. 376 dated July 8, 2016)

56. The General Directorate of Karakol FEZ shall follow the accounting practices in the manner prescribed by the laws of the Kyrgyz Republic.

(As amended by Resolution No. 376 dated July 8, 2016)

57. The working conditions and recreation of the employees of the General Directorate of Karakol FEZ, social security and insurance shall be regulated by the norms of the legislation of the Kyrgyz Republic.

(As amended by Resolution No. 376 dated July 8, 2016)

58. The structure and staffing list shall be approved by the Director General of Karakol FEZ.

(As amended by Resolution No. 376 dated July 8, 2016)

59. The General Director of Karakol FEZ shall be personally liable for performing the tasks and functions assigned to the General Directorate of Karakol FEZ.

(As amended by Resolution No. 376 dated July 8, 2016)

60. The property of the General Directorate of Karakol FEZ shall be entered in its books and shall be formed by:

- 1) Property allocated to the General Directorate of Karakol FEZ on the right of operational administration at its establishment;
- 2) Property acquired at the expense of Karakol FEZ budget;
- 3) Property, including revenue, fruits, products received or acquired as a result of using allocated property to the General Directorate of Karakol FEZ.

(As amended by Resolution No. 376 dated July 8, 2016)

61. The General Directorate of Karakol FEZ shall enjoy the rights to own, use and dispose of the property allocated to it, to the extent permitted by the applicable laws of the Kyrgyz Republic.

(As amended by Resolution No. 376 dated July 8, 2016)

62. The General Directorate of Karakol FEZ shall ensure the safety and efficient use of the property in compliance with the rules and regulations of its operation.

(As amended by Resolution No. 376 dated July 8, 2016)

63. The General Directorate of Karakol FEZ shall be dissolved in accordance with the procedure established by the legislation of the Kyrgyz Republic.

(As amended by Resolution No. 376 dated July 8, 2016)