UZBEKISTAN

In 1997, the U.S. trade surplus with Uzbekistan was $195 million, an increase of $1 million over the surplus level in 1996. In 1997, U.S. exports to Uzbekistan totaled $234 million, down $118 million (33.5 percent) from 1996. U.S. imports from Uzbekistan in 1997 were $39 million, a decrease of $118 million (75.1 percent) from the level of imports in 1996.

IMPORT POLICIES

In an attempt to husband its foreign currency reserves, the GOU has implemented a system of import contract licensing which severely restricts imports by restricting the availability of foreign exchange. In 1996, the GOU was well on its way to creating a convertible currency, but poor harvests that year, and the ensuing foreign exchange shortfalls, inspired the GOU to enlarge an earlier system of foreign exchange quotas into the restrictive system of today. Each strengthening of the system comes at a time of new foreign currency shortfalls. The GOU claims that these import contracts are intended to allow it to supervise and thus guarantee the quality of imports. However, independent business observers as well as the diplomatic community in Uzbekistan recognize that the procedure is an import restriction tool. A recent formal survey of foreign businesses concluded that the GOU's foreign currency restrictions are the greatest single barrier to doing business in Uzbekistan.

This system of import contract registration also applies to foreign companies or foreign joint ventures trying to import capital goods with their own funds sourced from outside of Uzbekistan. Every import is scrutinized by the GOU for being a threat to the nation's foreign currency reserves.

Once over this hurdle, imports face the next -- the State Customs Committee. Customs clearance is a tedious and capricious bureaucratic process. Even capital equipment imports for U.S.-Uzbek joint ventures are not exempt from substantial processing delays and often remain in customs for two to three months. In one recent case, a major American investor waited for three months to process equipment worth four million dollars through customs and then was forced to pay 2,500 dollars in customs storage costs. This is part of a general problem applicable to all imports and there is no procedure for releasing goods under bond. The overall result is an expensive delay and an additional disincentive to investing in Uzbekistan.

STANDARDS, TESTING, LABELING, CERTIFICATION

Uzbekistan does not accept international certifications, even such universal ones as ISO 9000 standards. Instead, it requires its own which are not only particular to Uzbekistan, but can be changed without notice by decree. Certificates of quality and technical standards from other countries are not accepted by the GOU. Customs officials view perishable goods as fair game, imposing burdensome phyto-sanitary tests and refusing all foreign certificates of quality. Foreign businesses see such customs practices as one of their greatest barriers.

Recently, the GOU established two joint ventures with the Swiss firm Societe General de Surveillance (SGS) designed to meet international quality and price competitiveness standards. Some U.S. businesses complain

that the SGS joint venture puts pressure on buyers not to buy top of the line products (*e.g.,* computers). Also, in 1997, USTR expressed concern about SGS's ability to protect business proprietary information -- particularly pricing information.

The GOU claims that the SGS joint ventures will significantly expedite the import contract approval process. A presidential decree of December 3, 1997, created a supposedly voluntary pre-inspection system via SGS whereby MFER must approve pre-inspected imports within two days. The new approval process should be set up by April 1998. Two other GOU joint ventures with foreign import process firms are in the offing.

GOVERNMENT PROCUREMENT

GOU procurement practices are similar to those of many countries, with tenders, bid documents, bids, and a contract awarded. Again, similar to practices in some countries, many tenders are announced with suspiciously short deadlines and are awarded to an insider company.

At present the GOU is considering a draft "government procurement law" produced by an inter-ministerial working group with support from a USG-provided advisor. The goal of this project is legislation conforming to international competitive bidding standards.

EXPORT POLICIES

The GOU does grant some tax benefits such as tax holidays for Uzbek or foreign joint venture exporters. However, on the negative side, the GOU has imposed a foreign currency surrender requirement on exporters. Under this, an exporter must convert 30 percent of foreign currency receipts at the official exchange rate. As the official rate is in the range of 45 percent of the actual market rate, this conversion requirement means that exporters must increase their export prices to compensate. This is in effect a tax on exports and hurts Uzbek competitiveness in export markets.

LACK OF INTELLECTUAL PROPERTY PROTECTION

Uzbekistan does not have an intellectual property piracy “industry” of its own, but the sale of and the broadcast of pirated material is common. The GOU appears to be making progress at establishing a legal system of IPR protection. It is passing the pieces of legislation that will be required for World Trade Organization accession. In order to teach both GOU officials and ordinary citizens alike the concept of IPR protection, the GOU is organizing a series of IPR seminars around the country.

This process, however, is far from complete. On the streets, pirated audio tapes, video tapes and compact discs are sold with impunity. Uzbek television news uses CNN footage without acknowledgment (the logo remains in the corner), and the Tashkent Cable TV company (a U.S.-Uzbek joint venture) routinely airs pirated films, received from a Russian feed. These films include subtitle warnings that they are not for public viewing.

SERVICES BARRIERS

There are several matters which are of concern to the insurance industry and indeed to both local and foreign investors. One is that insurance premiums are currently not a tax deductible expense.

There is a 10 percent withholding tax imposed on reinsurance premiums, effective January 1, 1998. It is not levied on reinsurers in countries which have a double tax treaty with Uzbekistan, but it will be levied on reinsurance premiums ceded to U.S. insurance companies. Reinsurers generally quote net premiums, and therefore this will increase the cost of insurance for foreign investors and will discriminate against U.S. insurers.

There is current uncertainty whether reinsurance premiums will be subject to a 30 percent customs duty. If this is the case, it will have a significant impact on the cost of insurance in Uzbekistan. Large investment projects require substantial amounts of reinsurance, as the Uzbek insurance market does not have the security or capacity required by foreign investors.

A presidential decree dated February 18, 1997 provides that claims paid in the (mostly unconvertible) Uzbek currency by the state-owned insurance company Uzbekinvest may be converted into freely convertible currency. This privilege has not been granted to foreign insurance companies operating in Uzbekistan and is therefore contrary to Article 7 of the Foreign Investment Law of May 5, 1994, which states that the legal regime for foreign investors cannot be less favorable than that which Uzbeks enjoy.

A yet unpublished provision of the amendments to the insurance law of December 25, 1997, is that mandatory state insurance will be provided by state insurance companies or by other state organizations indicated in the legislation. This prohibits private insurance companies and foreign insurance companies from competing in this business and is contradictory to Article 7 of the Foreign Investment Law.

INVESTMENT BARRIERS

The GOU's Foreign Investment Act of October 1996 defines enterprises with foreign investment as companies with a $300,000 capital fund which includes at least 30% foreign ownership. At present, there is no legal means for smaller foreign-owned companies to register. The GOU seeks foreign investment and new jobs, but this law essentially excludes small companies which have proven to be engines of growth and job creation in other countries.

Uzbekistan's new tax code is a great improvement over its predecessor. However, it misses a few important provisions, normal in most countries, that are part of a normal business environment. For example, it allows no relief (credit) for VAT on capital item purchases. This is particularly important for big items - such as plant, machinery and buildings. In other countries, neighboring Kazakhstan for example, the VAT will "flow through" the normal VAT mechanism and will not be a cost to the business. Businesses investing in Uzbekistan are put at a 20 percent (Uzbekistan's VAT rate) disadvantage.

The GOU also places a 30 percent "import duty" on the salaries of expatriate staff, causing the employers to increase salaries correspondingly. Also, Uzbeks face a 45 percent income tax on salaries as low as 1,200 dollars annual gross earnings. While Uzbeks and Uzbek companies normally fail to comply with their tax obligations, foreign investors feel obligated to adhere to the law, causing them to increase local salaries as well.

Uzbekistan

Business people in Uzbekistan note that if they are engaged in an activity (*e.g.*, sales or services) in which the GOU is either the business competitor, or partner in a joint venture in competition, they face more than the usual amount of bureaucratic hurdles and currency conversion problems.

OTHER BARRIERS

Bribery/corruption

While bribery is not unique to Uzbekistan, bribery and corruption are endemic. A bribe will solve virtually any problem, and some problems can only be solved by bribes. American companies clearly are not allowed corrupt practices, but other foreign business people privately confirm that they pay bribes regularly.

GOU Restrictions on Private Bank Accounts

American investors unanimously complain that they do not control their corporate bank accounts in Uzbekistan. Every routine banking operation requires official permission. Businesses find that enormous amounts of senior staff time are consumed processing simple and straightforward transactions. The GOU imposes ceilings on how much money can be withdrawn to pay local staff salaries. All purchases must be made via bank transfers because the GOU uses the banking system to do tax accounting. It is not possible to process a corporate expense account. Basic requirements, such as withdrawing funds to pay for airplane tickets for business travel, are tedious or impossible. There is no allowance for petty cash -- a normal business requirement. Uzbek companies handle this problem with pay withdrawals for nonexistent staff. Western accounting practices prevent American companies from using these deceptive practices to evade the banking system's restrictions.