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POLICY

Voluntary Public

Date: 10/30/2014

GAIN Report Number:

Uzbekistan - Republic of

Post: Tashkent

2014 Uzbekistan Exporter Guide

Report Categories:

Exporter Guide

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SECTION 1. MARKET AND ECONOMIC OVERVIEW

With a population of over 30 million, Uzbekistan is one of the important emerging markets in Central Asia for U.S. agricultural products. The Government of Uzbekistan (GOU) reports that real GDP growth averaged 8.2 percent in 2012, and 8 percent in 2013. GDP output in the past several years was driven by exports derived from state-owned or state-controlled assets, and a favorable export environment for natural resources. In 2013, industrial output was 25 percent of GDP, agricultural production was 17 percent, construction was 6 percent, and services and taxes were 44 percent and 8 percent, respectively. The GOU will continue to support growth through policies that boost domestic consumption and investment under its industrialization program. External and fiscal positions will remain strong. The GOU forecasts that GDP will grow by 8.1 percent in 2014. (Note: All of these figures are official government statistics, which the IMF notes are incomplete and unclear. According

to the United Nations, GDP growth is forecast to reach 7.1 percent in 2014. End Note.)

The structure of Uzbekistan’s economy is changing as the shares of industry and services in GDP increase and the relative share of agriculture decreases.

The state budget was implemented with an official net surplus of 0.3 percent of GDP in 2013. At the same time, the taxation burden on the country’s economy ostensibly decreased from 21.5 to 20.5 percent in 2013, and the minimum level of individual income tax was decreased from 9 to 8 percent. However, informal and therefore unquantified rent seeking practices by officials create a major drag on economic activities not reflected in official statistics.

According to official sources, an active investment policy aimed at modernization and re-equipping the leading industrial sectors, housing, transportation, and communications infrastructure led to an increase in state investments by 14.4 percent in 2013.

Uzbekistan’s total exports grew 10.9 percent in 2013, but cotton and gas exports declined. Although commodity (food products) export growth in 2013 continued to be relatively high, non-commodity exports also grew quickly, led by exports of foodstuffs, machinery, and chemicals; the share of non-commodity exports has also been expanding recently.

In 2013, total imports grew by 7.7 percent (mainly metals, energy and oil products) compared to 2012, but there has not been a significant change in the structure of imports, which remains dominated by capital goods and raw materials related to public investment projects. Food and energy represented 6 and 12 percent, respectively, of total imports in 2013.

In 2013, gross external debt remained low at about 17 percent of GDP and 60 percent of total export volumes; Uzbekistan continues to be classified as a net creditor to the world. Over the past decade Uzbekistan’s government conducted a prudent debt policy by following the path of zero net borrowing and as a result, external debt stock declined from 64 percent of GDP in 2001 to 13 percent of GDP in 2013 (IMF estimate).

Table 1. Macroeconomic indicators in 2013

	Uzbek Sums (billion)	U.S. Dollars (million)
Gross domestic product	118,986.9	50,418.2
Industrial output	61,105.8	25,892.3
Agricultural output	30,849.4	13,071.8
Investments in fixed capital	27,557.3	11,676.9
Construction work	15,080.8	6,390.2
Retail trade turnover	47,463.7	20,111.7

(Sources: Uzbek State Statistics Committee)

Official exchange rate: USD 1.00 = 2,360 Uzbek Sums (as of September 24, 2014)

Black market rate: USD 1.00= 3,040 Uzbek Sums (as of September 24, 2014)

Note: The dual exchange rate has existed in Uzbekistan for the past 16 years, mainly due to continuing problems with local currency convertibility.

Table 2. Main Economic Indicators of Uzbekistan, 2010–12

	2010	2011	2012	2013*
GDP growth, %	8.5	8.3	8.0	
GDP per capita, current US\$	1377	1545	1823	
Population, million	28.6	29.3	29.8	
Gross invest in fixed capital, % GDP	25	24	25	
Inflation (official CPI), % change	7.2	7.3	7.5	
Current account balance, % GDP	6.2.	5.8	4.5	
Fiscal balance, % GDP	4.9	9.0	3.6	
FDI (net), million USD	1628	1418	1410	
FDI (net), % GDP	4.2	3.1	2.6	
External debt, % GDP	14.8	13.3	12.8	

Source: World Development Indicators 2012; IMF and World Bank staff calculations

*2013 IMF data is not yet available.

Agriculture Sector

Despite declines relative to other sectors in recent years, agriculture remains the backbone of the economy, accounting for 17 percent of GDP and nearly 25.5 percent of the labor force as of 2013.

Cotton, one of the main agricultural crops, accounts for about 10 percent of Uzbekistan’s export earnings. However, over the past ten years cotton production has declined considerably and now comprises only 50 percent of what it was during Soviet times. The government hopes to increase agricultural productivity through the adoption of new technologies, such as developing new high-yield and early ripening cotton varieties. Uzbekistan has a ratio of fiber to raw cotton (known as ginning outturn) of 32 percent against an average of 39 percent in other cotton producing countries. Over the past few years the GOU has encouraged diversification, but given its control over the cotton industry and resulting direct access to hard currency from world market sales, it continues to see cotton as the dominant cash crop. Currently, only about 30 percent of cotton fiber is used for domestic value-added processing and manufacturing, thus there is significant potential for development.

As a part of its policy to achieve self-sufficiency, Uzbekistan has expanded its production of wheat. The state, however, remains very much in control of inputs and the marketing of commodities. In addition, it retains ownership of the land. Strategic crops (wheat and cotton) are still produced under state orders.

The GOU has recognized the importance of alternative crops (fruits and vegetables) both for food security and export potential. More than 30,000 hectares of new orchards were established in Uzbekistan over the past four years, and the GOU is planning to plant an additional 10,000 hectares of intensive-production orchards in 2014. This reflects a gradual transition from inefficient cotton production to other high-value crops, which use water and other inputs more efficiently.

The GOU controls and subsidizes most agricultural inputs and uses these subsidies to justify state orders and low procurement prices. Agricultural farms and enterprises also receive preferential tax treatment. All farms have one unified “land tax,” which is lower than individual taxes. Farms are also exempt from paying value added tax (VAT) when buying inputs such as fuel, seed, and fertilizers. Inputs are exempt from excise and other taxes, and revenues are subject to a reduced profit tax.

It is a policy of the government to attract greater foreign investment to the agricultural sector in particular and the agricultural processing sector specifically. The GOU offers foreign investors a host of incentives on case-by-case bases, including tax holidays, duty-free capital goods imports, and protection against expropriation. They are permitted to own or control enterprises in Uzbekistan (with the exception of some industries, such as tourism and journalism), although the government keeps a controlling share in a number of strategic industries, such as mining, agriculture, and machinery manufacturing.

Food Processing Sector

During Soviet times, food packaging in Uzbekistan was outsourced. After the break-up of the USSR, Uzbekistan was left with a small industry geared towards chemical packaging. Current food processing and packaging equipment is antiquated or non-existent, but this is one of the fastest developing sectors of the economy. Given Uzbekistan’s potential to develop into a major food exporter to Central Asia, Russia, and Eastern Europe, the demand for modern packaging and processing equipment could greatly expand with reform in the agricultural sector and elimination of trade barriers. Uzbekistan produces six million tons of fruits and vegetables annually, although 35-40 percent of this output is lost due to the lack of a modern processing industry. Uzbekistan exported over USD 1.0 billion in fruit and vegetables in 2013, but further development will require more investment into processing, packaging, and storage facilities, which are all opportunities for U.S. equipment manufacturers.

The sector is open to companies interested in juice, vegetable, meat, and milk processing, as well as manufacturers of equipment to process, label, and package products. The GOU is trying to encourage private sector development in these areas, but real agricultural reform will be necessary if its efforts are to make a significant difference in the sector’s development. There is a high demand for packaging materials, such as cardboard, paper, glass, aluminum foil, and shrink wrap, but these materials are not produced in the country. Small scale processing equipment is in demand, particularly for small-scale operations. Cold storage warehouse equipment is also in demand.

For specific opportunities, businesses should contact foreign companies involved in Uzbekistan’s food processing sector. Nestle, Coca Cola, PepsiCo and a number of Russian brands are active in the market. The government investment promotion agencies value international partners who can provide management skills, modern technology, and export market access.

Livestock Sector

Uzbekistan’s livestock sector is one of the fastest developing and promising areas for potential U.S. exports. From 2012-2013, Uzbekistan imported 20,000-25,000 head of cattle in both 2012 and 2013, and that figure may increase to as much as 30,000 in 2014. The main countries of origin for live cattle imports in the past two years were Poland, Holland, Ukraine, Belarus, and China. However, in the past

several years, interest among local private companies in importing live cattle as well as frozen cattle semen from the United States has increased.

Market Challenges

- **Import Taxes and Duties:**

High value imports are prohibitively expensive. Duties on foodstuffs and textiles vary but are high relative to other countries in the region, ranging from 5 to 30 percent. The government continues to maintain the duties, which have been in place for years, as a temporary measure. Highly discriminatory excise taxes reportedly exist to protect locally produced goods.

- **Overregulated Banking Services:**

Uzbekistan introduced current account convertibility in October 2003. Although the government committed itself to the provisions of the IMF's Article VIII on currency convertibility, multiple restrictions remain in place. All legal entities, including those with foreign investments, must have the Central Bank's permission to deal in foreign currency. In the past, private businesses reported regular conversion delays of three months and more. These delays have increased steadily, and in late-2014 businesses report conversion delays of more than one year as the norm. These conversion delays not only affect consumer goods importers, but also domestic importers trying to get process inputs, and investors trying to repatriate dividends or profits. Cash shortages are common, resulting in a requirement to conduct routine business transactions via bank transfer. Private commercial banks cannot always compete with state-owned specialized "microcredit" banks which perform micro-financing operations for small and medium enterprises. In 2011 and 2012, several private banks lost their licenses to conduct transactions in foreign currency, and the Central Bank closed down all of the nation's credit unions in 2012. The business equipment leasing industry, however, has been developing successfully, and the number of private leasing companies has increased.

Market Entry Strategy

The following factors should be considered in developing a market entry strategy:

- **Importer Solvency:**

Currency exchange for certain types of imports is still limited, but some importers may have offshore accounts, or they may have their own dollars from export revenue. Businesses should confirm cash flows and solvency of potential partners, clients, and customers.

- **Building Relationships:**

The government and public sector are the major importers of goods and services, but their procurement procedures are not always transparent. It is important to build relationships, as appropriate, with key officials responsible for procurement decisions. Employing a local representative or sales agent and visiting trade partners (especially in the initial stage of negotiations) is strongly advised.

Trade Policy

Import regulations (requirements and documentation)

The Ministry for Foreign Economic Relations, Investment, and Trade (MFERIT) requires all Uzbek enterprises engaged in export/import operations to be registered as participants in international trade relations. Uzbek companies or individuals are allowed to conduct trade with foreign enterprises directly or through foreign trade agents.

On October 1, 2003, preliminary registration of import contracts by MFERIT was abolished. However, the following import contracts shall still be subject to examination by the Ministry:

- Those funded from the state budget;
- Those funded from credits (loans) attracted by the GOU or under its guarantee; and
- Those concluded by economic sectors in whose authorized capital the public share constitutes over 50 percent and which are not secured by their own currency resources.

An importer must prepare and provide to the proper authorities the following documents:

- Contract;
- Certificate of conformity for certain products, the list of which is defined by the Cabinet of Ministers;
- Certificate of origin;
- Certificate of registration of the contract with MFERIT and/or contract with the seal indicating registration with an authorized bank;
- Passport of an import deal (a document describing a contract on import and its terms, signed by the importer, a bank, and a customs officer);
- Certificate of the availability of funds in either foreign or domestic currency that would have no liabilities or a guarantee of an authorized bank, according to the established form, which confirms an importer's ability to pay for a contract;
- Cargo customs declaration;
- Commercial invoice;
- Phytosanitary and veterinary certificates (issued in required cases by authorized bodies according to the established procedure);
- License (for goods subject to licensing) and, in necessary cases, permission from authorized

banks.

Import duties

Import taxes include:

- Customs duty and levy,
- Value Added Tax (VAT),
- Excise tax (as applicable),
- Customs clearance fee.

Customs duties for imported goods vary from 0-200 percent, depending on classification, but on average the rate is no higher than 30 percent. For example, no customs duties are applied to imported live animals, milk and cream, or wheat; 10-30 percent duties are applied to clothing and foodstuffs; and 50 percent duties are applied to luxury consumer goods such as cigarettes and cars. The highest customs duty is levied on imported ice-cream products. The following categories of imported goods are indefinitely exempt from custom duties:

- charter fund contributions for private enterprises, provided that these are not further sold or otherwise disposed of;
- goods imported by enterprises with foreign investment for their own needs;
- goods imported by foreign investors for their own production and personal use, and for the personal use of their foreign citizen employees;
- goods imported under a temporary importation regime;
- goods imported to process for further export; and
- goods imported for statutory needs.

Excise tax, charged as a percentage of the declared customs value, must be paid on certain products, such as cigarettes, vodka, ice-cream, oil and gas condensate, fuels, cars, and carpets. Excise tax rates vary depending on the type of imported good and may deviate significantly.

The VAT rate on imports is 20 percent for all goods. VAT is based on a rate that includes the declared customs value plus customs duties and excise taxes (if applicable).

The customs clearance fee is 0.2 percent of the declared customs value, although interpretation of the value varies widely, and officials sometimes see this fee as a rent-seeking opportunity. In December 2012, the GOU passed a new customs law, according to which exporters are required to present a stamped customs declaration confirming the value of imported goods. This law, which went into effect as of April 1, 2013, is widely contested internationally because it violates WTO rules. MFERIT announced that they have amended the law to comply with WTO regulations, but exporters continue to complain about Uzbekistan customs officials requiring these documents.

Currency Convertibility

The GOU practice on currency conversion is a serious impediment to international commerce, as buyers in Uzbekistan cannot get the hard currency required to make purchases.

Phytosanitary and Veterinary Regulations

Uzbekistan's Plant Quarantine Act (PQA) is based on the old Soviet model and generally conforms to the recommendations of the FAO International Plant Protection Convention (IPPC), as well as the rules and regulations of neighboring countries. Uzbekistan revises its PQA periodically to conform to developments in Plant Protection and Plant Quarantine (PPPQ). Uzbekistan bans the import of certain seeds and planting materials to protect domestic agriculture from exotic pests and diseases. Seed imports must comply with minimum international quality standards. U.S. phytosanitary certificates are accepted by Uzbekistan for wheat, rice, soybeans, and other bulk commodities.

The GOU issues veterinary certificates for export, import, and transit of commodities under control of the State Veterinary Department. These regulations are based on requirements of the World Organization for Animal Health (OIE). In accordance with these new regulations, the following documentation is necessary for importing and exporting agricultural commodities:

- A veterinary certificate issued by district/city veterinary departments for exported goods and by the Frontier Veterinary Control Post for importing goods; A veterinary certificate issued by the Frontier Veterinary Control Post for exported products and the veterinary service of the exporting country for imported goods;
- A permit for import, export, or transit is issued by the General Veterinary Inspector of Uzbekistan or by his/her deputy.

Food Labeling

Uzbekistan has no uniform system of labeling. However, in accordance with Uzbek legislation on protection of consumer's rights, all products sold in the country must contain the following information in the Uzbek language:

- Name of the product;
- Manufacturer's name and contact information;
- Ingredients and 'best before' date (if applicable);
- User's manual (if needed); and warnings (if any).

In addition, it should be noted that these labels cannot be added to the product in Uzbekistan and must instead be affixed at the point of manufacture/processing.

Customs Regulations and Contact Information

Customs clearance is a difficult bureaucratic process. Even capital equipment imports sometimes are subject to substantial processing delays. Delays affect all imports as there is no procedure for releasing goods under bond. To avoid these problems, many firms contract for pre-shipment inspections (PSI), which reduces delays. Excessive documentation requirements make customs clearance a costly and time-consuming process. In the absence of a system of pre-arrival clearing and systematic risk analysis, customs clearance is only possible after physical inspection of the consignment.

The customs clearance process normally occurs in the territory where the customs authority is located. However, if requested by the party concerned, customs clearances can be conducted in other locations. The Customs Code of Uzbekistan stipulates that customs formalities are to be performed within ten days after receipt of the customs declaration and other necessary documents. Goods may be declared by a person/legal entity moving/transferring the goods or a customs broker. The person/entity that declares the goods must fulfill all obligations and carries full responsibility provided under legislation regardless of whether this person/entity is the importer or a customs broker. A customs broker is a legal entity in Uzbekistan that conducts customs clearing operations on behalf of the person/entity that he represents. Customs brokers register themselves with the Customs Committee of Uzbekistan by submitting required documents and an application form.

State Customs Committee of the Republic of Uzbekistan
3, Uzbekistan Ave.
Tashkent, Uzbekistan Telephone: (998) +71 120-76-31, 120-76-41
www.customs.uz

Annex A – Related Ministries, Traders Associations Contact List:

Ministry of Agriculture and Water Resources
Minister: Shukhrat Teshayev
Address: 4, Navoi Street, Tashkent, Uzbekistan
Tel: (99871) 244-2130; 244-2397
Fax: (99871) 239-4771

UZVINPROM Holding Company (wine production and canning business)
Chairman: Shuhrat Rahimov
Address: 6, Abai Street, 100011. Tashkent, Uzbekistan
Tel: (99871) 244-2756
Fax: (99871) 244-1711
e-mail: rais@vinsanoat.uz

UZMASLOJIRPISHEPROM Association (vegetable oil, margarine, mayonnaise production)
Address: 73A, Nukus Street, Tashkent, Uzbekistan
Tel: (99871) 255-0790, (99871) 255-7643
e-mail: kabul@uzmaslojir.uz

UZMYASOMOLPROM Association (Meat and Dairy Producers Association)
Address: 75, Koh-ota street, 100125, Tashkent, Uzbekistan
Tel: (99871) 241-5035, (99871) 241-9071
e-mail: mmp@sarkor.uz

State JSC “O’ZDONMAHSULOT” (Wheat Millers, Bakeries)
Deputy Chairman: A. Yuldashev
Address: 36, Shahrizabz Street, Tashkent, 100060, Uzbekistan
Tel: (99871) 233-6964,
Website: www.uzdon.uz
E-mail: info@uzdon.uz

Annex B - Other Import Specialist Contacts:

U.S. exporters are advised to contact the FAS office in Tashkent, Uzbekistan for additional information and/or a list of private sector firms which can provide assistance with customs clearance and import regulation issues. In most cases, the importing company or agent should be familiar with (and ultimately responsible for) existing regulations.

Foreign Agricultural Service Office in Uzbekistan
American Embassy
3, Maykurgan Street
Yunusabad District, Tashkent
100093, Republic of Uzbekistan
Tel: (99871) 120-5450, 140-2153
Fax: (99871) 120-6335
e-mail: Nizam.Yuldashbaev@usda.gov

Annex C-Important trade shows:

12th annual Central Asian International Specialized Exhibition “Textile Expo Uzbekistan”

www.textileexpo.uz

- May 27-29, 2015, Tashkent

15th Uzbek International Exhibition “Food Industry-WorldFood Uzbekistan”

www.worldfood.uz

- March 25-27, 2015, Tashkent

10th Uzbek International Exhibition “Agriculture – AgroWorld Uzbekistan”

www.agro.worldfood.uz

- March 25-27, 2015, Tashkent