



BRITISH-AMERICAN TOBACCO COMPANY LIMITED

DJB

TO: A C Johnston

CC: D S Watterton
S Smith
D J Aitken

FROM: David Bishop

DATE: 22 June 1994

SUBJECT: Uzbekistan - Visit 20/21 June

I enclose a note following my recent visit. The decree was signed by President Karimov on 20 June. We didn't know this was going to happen and there were some unilateral changes. My information was that Sir Patrick was not going to sign on 22 June, BAT is now working to an August 5 deadline.

On excise we will work to an 8 July deadline for preparation of the report promised in the decree, which will fit the decree deadline of 20 July. The 90% (900%) domestic excise rate still remains and after my discussions in Tashkent, this is one issue which Sir Patrick may raise with Jurabekov, together with the necessity of an instruction to Ministry of Finance to apply equal tax rates to domestic and imports, following the submission of the report required by the decree by 20 July.

D J Bishop

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MEETING WITH MINISTRY OF FINANCE, TASHKENT ON 20 JUNE 1994

Present: A.M. Abdoukadirov, Dep. Minister of Finance
Two Asst. from Ministry
D. Bishop
J. Caudill
C. Dufty
J. Selby

1. AMA did not know whether the decree had been signed nor in what form it was. We thanked him for his helpful wording suggestions (which basically confirmed his acceptance of equal application of excise rates to imports and domestic cigarettes - attached).
2. DJB raised the issue of the 90% (effective 900%) excise on local manufacture, this rate makes it impossible to sell domestic tax paid product in competition with imports which are not taxed. AMA asked what our proposal was, we suggested a restoration of the 40% (effective 67%) for filter and 25% (effective 33%) rate for plain cigarettes. He said he was prepared to consider such rates after BAT had introduced the new technology at TTF, with the new higher cost base. We then had an inconclusive discussion about "chicken and egg".

DJB then raised the question of the application of excise to imported products. AMA said this would be introduced with effect from July 1, 1994, but after prompting he was quite clear that at this stage it would not be at the same rate (conflict with 1. above!). AMA said the reason was that imports had a higher cost base. Although not conceding this principle, AMA said that advantages would be given to domestic production.

JC then expressed the view that unless rates were equal, the deal might be prejudiced. AMA said that if the decree stated that equal rates were required then he would comply.

AMA said that he was expecting BAT to make full proposals on systems of collection and control of excise. This we promised to do within two weeks. The paper will also set out our proposals and rationale for rates of excise.

3. AMA confirmed that the VAT rate of 25% would be reduced to 20% and also applied to imports from 1 July 1994. (This change is effectively neutral on domestic product, since it replaces the system whereby 5/25ths of the VAT paid could be retained for employee pay rates).

COMMENTS

Although AMA was receptive to proposals, he was unmoved by our view that the 90% rate should be reduced now (he is far more concerned over control - procedures on application of taxes to imports). His justification of the 90% rate is that the market has established a price (possibly borne out by prices quoted in

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2.

D. Aitken's trip note 13 June, cf. DJB/CDD note in January, but not by DJB market visit prices 21.6.94), and that because of the current low TTF cost base, Govt. must impose a high rate to receive its share of the actual selling price and that this rate would not effect actual selling prices, which would cause social unrest. This approach when not applied to all products, including imports, is patently unfair to BAT.

AMA seemed receptive to the concept of taxing imports, but is certainly concerned that imposition of tax might reduce availability of product for the market. He seems unwilling to apply his domestic logic to imports well. He has a mind set that more expensive products should be taxed less severely, in other words tax "equality" is a matching of prices not tax rates.

SUGGESTED COURSE OF ACTION

1. It is vital that the Council of Ministers instructs Min. of Fin. now to apply equal tax rates to both domestic imports, either directly via the C.of M. decree or as an accompanying letter with the authority of C.of M. instructing M.of F. to apply Annex I (attached).
2. BAT (C. Duffy) to prepare paper for AMA on tax rates, collection and control procedures. This will demonstrate that a high rate (90%) will lead to large scale smuggling, whereas a reasonable level of tax applied equally to all products will meet both Government revenue and TTF marketing requirements.

The note will also stress the vital importance to both Government revenue and the commercial viability of TTF of the vigorous policing of tax collection on imports. The concept of practical application of control procedures is giving M. of F. most difficulties at this time and our assistance is actively sought. It is worth noting that M.of F., following pressure from IMF, have already decided to impose excise on imports of alcohol and tobacco products from 1 July 1994, so control procedures must be introduced with or without our joint venture.

TIMETABLE

1. Preparation of note on rates and system of collection and control by 8 July. To include liaison with BATCF/BAT Benelux regarding practical application and day to day liaison with Uzbek fiscal authorities.
2. Discussion of paper with AMA w/b 11 July.


DJB/CDD/akt/157

22 June 1994

cc: A C Johnston, D S Watterton, S Smith, D J Aitken
(N.B. Copies left with Tashkent team after discussion.)

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