


Schroders

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Fax transmission

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Message:
PROJECT UMPIRE: FISCAL AND EXCISE WORKING GROUPS

I have spoken to Guy Harington and at his suggestion I am sending you this short briefing note for your discussions in Tashkent. I expect to be in my office by 0800hrs London time (1200hrs Tashkent time), so please call me if you have any queries.

1. Fiscal matters

Attached is the list of items which was appended to Schroders' letter to KPMG of 11th April. In order to minimise the risk of confusion, it might be appropriate to work through Sections 1 to 3 of the attachment. Subject to your views, it is currently proposed that those standard items available to foreign investors should be the subject of a letter signed by the MinFIN; any special exemptions or fiscal privileges are expected to be the subject of a CabMin decree. In relation to Sections 1 to 3 of the attachment, you should note the following:

1 (i). It would be desirable to have this import duty re-imposed prior to 1st July, 1995 as part of the defence of the home market. However, it has been accepted that this is unlikely therefore, it is a concession that can be accepted gracefully so long as we have equality of excise and VAT treatment for imported and domestic goods immediately

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1 (iii) and 1 (x) see 3 (i). It is estimated that if the income tax exemption is granted from the date at which the new factory begins to operate (ie. producing cigarettes) then it could be worth an additional US\$5 million to UZBAT. Therefore, this exemption is of some significance.

1 (vi). Given the level of capital investment, this is important to confirm exemption for foreign investors.

1 (xii). It is important to confirm that not only will UZBAT be "grand-fathered" but it will be "grand-soned" (ie. the recipient of beneficial changes to legislation)

3. In addition, it is proposed that UZBAT secure a 5 year tax examples from COT.

The goals of the fiscal working group with regard to non excise items should be:

- confirmation of eligibility for standard privileges;
- agreement to confirm this in writing to BAT;
- confirmation of special privileges;
- agreement as to the formal display of this confirmation (CahMin decree?); and
- identification of contentious items to be reserved for Steering Group discussions

You should note that unless you think to the contrary, the modest local taxes (land, advertising, vehicle owners, trade license and cleaning levy) should be paid so as to minimise the risk of disagreement with the Tashkent, Samarkand City and Urgut authorities.

2. Excise specific matters.

As discussed last Friday, the key issue is a commitment to the equality of excise and VAT treatment for imports and domestic manufacture. I understand that Nick Brookes is asking you, Chris, to prepare a paper on this for his consideration at the weekend. Subject to Nick Brookes' view, I understand that the excise agenda component of the Fiscal Working Group's discussion is:

- equality to treatment with measures in place to ensure this within three months of registration;
- specification of the measures which need to be in place to ensure such equality of treatment; and
- commitment to have discussed in detail a review of tobacco taxation system within 12 months of registration (specify agenda for such discussions).

3. Other issues

It would be helpful to understand the following points:

- which of the Uzbek Ministries and agencies has a particular interest in the different forms of taxation; and
- what other reformist influences are at work in the MinFin (IMF, World Bank?)

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