

**Meeting at Tashkent Ministry of Finance  
13 July 1994**

**Present:** Dr AM Abdoukadirov - Deputy Minister  
Mrs Irina Golysheva  
Treasury Manager  
Treasury Manager  
DJ Bishop  
Soukrob - translating

1. AMA confirmed having received the Presidential decree and acknowledged requirement of "equal taxation regime".
2. DJB gave him Russian translation of BAT indirect tax proposal. This he read (quickly) and expressed his agreement to the principle of equal excise/VAT rates on both domestic and imported cigarettes.
3. DJB asked AMA what rates he would recommend. AMA said 90%! After a short discussion AMA accepted that this is unrealistic, despite giving equality, and agreed BAT suggestion of : 40% filter, 25% plain.
4. We discussed how the tax could be collected. From TTF production there would be no problem but the vast borders and previous tax - free environment admittedly makes collections on imports very difficult. An added complication is guaranteeing country of origin, in the case of cigarettes transitted through the Uzbek/Kazak/Kyg preferential trading bloc. The ultimate solution is some form of tax stamp/marker system.
5. We discussed the merits of the Hungarian (marker) and Belgium (banderole) systems. It seems the banderole, whilst being preferred, if not as practical as the marker. AMA expressed a desire for a familiarisation visit to Hungary. DJB said this could be arranged through BAT.
6. DJB agreed to visit AMA tomorrow (Thursday) to review with his team the preparations of a response to the Presidential decree by next Wednesday. AMA said three matters had to be covered:
  - (i) order of Ministry of Finance in terms of new excise rates.
  - (ii) report to Minister of Finance and Cabinet of Ministers with draft of proposed tax stamp system.
  - (iii) change in legislation to permit new system.
7. In response to DJB question AMA confirmed that after approval of Cabinet of Ministers to proposed new structure/rates the Ministry of Finance can issue new orders which repeal existing (90%) legislation.

503922515

## 8. Comments

The visit seemingly produced very positive results, in that BAT recommendations were accepted in full. (I remember however the first visit in January which seemed equally so!) *e*

John Selby will follow up the actual response from the Ministry of Finance next Tuesday (19/7/94). If this is in line with my suggested response then I think we can say that the Ministry of Finance is definitely co-operating with BAT. If approved by the Council of Ministers (so effectively removing the 900% impediment) then for the time being the excise issue should not hinder the deal completion.

At a later date it will very likely be that a more appropriate indirect tax system would be: a mixed pure specific/ad valorem. With the ad valorem proportion being based on RSP I think the Ministry of Finance would welcome a move to a stick base and ad valorem on RSP if only to avoid the complication of the present excise inclusive ex factory ad valorem.

BAT must gain control over Uzbekistan domestic RSP. This can only come about when BAT is able to supply a greater proportion of the total market.

At the moment, based on current RSP, the trade margins are enormous, even after the imposition of the proposed excise and VAT on all products. The excise/VAT incidence is around 30%:

### UZBEKISTAN

#### Indirect Tax Incidence/multiplier

| US\$ (equiv)        | Uzbekistan              | TU134                   | Hollywood               | Marlboro                 |
|---------------------|-------------------------|-------------------------|-------------------------|--------------------------|
| Ex factory          | 2.47                    | 5.50                    | 6.00                    | 11.00                    |
| Excise 40%          | 1.65                    | 3.67                    | 4.00                    | 7.33                     |
| VAT 20%             | <u>0.82</u><br>2.47 29% | <u>1.83</u><br>5.50 43% | <u>2.00</u><br>6.00 28% | <u>3.67</u><br>11.00 26% |
| Trade Margin        | <u>3.56</u> 42%         | <u>1.86</u> 14%         | <u>9.43</u> 44%         | <u>20.86</u> 49%         |
| RSP                 | <u>8.50</u>             | <u>12.86</u>            | <u>21.43</u>            | <u>42.86</u>             |
| Som/Pack<br>@ 35000 | 5000                    | 9000                    | 15000                   | 30000                    |
| Multiplier          |                         |                         |                         |                          |
| - tax               | 1.4                     | 1.75                    | 1.4                     | 1.35                     |
| - overall           | 3.4                     | 2.3                     | 3.6                     | 4.0                      |

503922516

TU 134 would likely rise to Som 12000 per pack

9. Follow up points for DJB.

- (i) contact Arthur Morrow to see if he can suggest consultant help from person ex UK customs, to advise on collection/control logistics
- (ii) make arrangements for Uzbek delegation visit to BAT Pecs or Belgium to discuss and see tax stamp/marker system
- (iii) Send to Abdoukadirov another copy of Tobacco Tax Guide in Russian.



DJ Bishop  
19 July 1994

503922517