

DJB

Note to Mr. U.G.V. Herter

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On the telephone to Neil Bruce-Miller and William Wells earlier today in Tashkent, I learned that the Chairman was not satisfied with the approach that we took on excise and import tariffs. He said that we should have insisted on tariffs against imports rather than a level playing field, which we argued for and was given. The team did indeed argue for import tariffs at the outset, but as discussions developed and in view of 4. below, took the view that in order to achieve other concessions we should seek a level playing field on excise/VAT in the first instance and argue for import tariffs once established in the market.

Schroders are preparing a short note on the point but in response to the Chairman the following points can be made:-

1. CIS countries have no tradition of import tariffs. CIS countries tax cigarettes at the point of manufacture not at the point of consumption. Even under the new excise regime to be introduced, the Uzbeks have insisted that recognition will need to be given to cigarettes which have been manufactured in other CIS countries and taxed there.
2. In addition, a Customs Union has been created between Uzbekistan, Kyrgyzstan and Kazakhstan and other countries have been invited to join. Import tariffs against manufacture in those countries are waived.
3. In view of items 1 and 2 above, ensuring that excise and VAT levels in Uzbekistan are competitive with other CIS countries is arguably more important than import tariffs in the short term.
4. Because of the supply shortfall, Uzbekistan introduced a no import duty Decree in February 1994 until at least July 1995.
5. We have negotiated a 5 year monopoly for cigarette manufacture in Uzbekistan. This could only be achieved by arguing that competition would be available from imports.
6. Despite being a monopoly we have, nevertheless, negotiated exclusion from the Uzbek Monopolies Committee which amongst other things, would have restricted our freedom to set prices.
7. Our capital programme will not fully satisfy domestic demand until the new factory is on stream in years 4 or 5.
8. If the new level playing field tax regime is properly applied, cigarettes entering Uzbekistan from outside the CIS should in any event reach the market at a price disadvantage to locally manufactured cigarettes owing to higher ex-factory prices, transportation costs, etc.

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Accordingly, the approach taken by the negotiating team was, in my opinion, the correct one. Once established in the market it will be possible, of course, to argue for greater protection, particularly when full manufacturing capacity is on stream.



N.G. BROOKES

c.c. Mr. J. King
Mr. W. Wells
Mr. D.J. Bishop ✓

NGB/DET
22nd June 1994

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