



B A T Central Asia A.O.

FACSIMILE

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Comments:

Dear David,

EXCISE PROPOSALS

Please find attached various other scenarios. The problem I have is agreeing with Marketing on the rate of the minimum tax but it is good that this dialogue is happening now rather than after implementation. We are having another thrash out this afternoon. Marketing's main concern is the maximum price at each level they feel the market can absorb. I am pushing them somewhat on this as they are still assuming they will be competing against some level of transit. Bread prices double and triple here overnight so I am arguing a doubling in price on the cheap plain brands would be absorbed OK. Anyway, the scenarios attached (but not yet agreed with Marketing) are as follows:

- A. Present rates at full market prices. This is to show Government the amount of revenue they are losing.
- B. Present rates with a minimum. This is to get a feel for the impact on imposing a minimum.
- C. Present rates with a minimum and import duty. This adds import duty to the equation as we know it's coming.
- D. Present rates with minimum but higher import duties. Higher import duties may occur and we need to know the impact of this now.
- E. Present rates and with import duty but with reduced minimum on the plain brands and higher on the filters. Marketing like this as it allows a lower price on our plain manufacture.
- F. Present rates and an import duty but higher minimums. This gives the much needed higher Government revenue but Marketing say the prices this cause are unacceptable.
- G. Reduction in ad-valorem rates but an increase in the minimums. This adds bias against the cheap brands. This may be difficult to argue as it does not give more revenue and they will

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smell a rat. I must keep their present confidence that I am trying to be objective in helping them.

The possibilities are endless. The above are to give us a feel for the right level. Speed is of the essence to stop them going off at a tangent. Likewise I strongly believe in keeping the proposal as simple as possible. The Russian system is very simple and they will compare our proposals.


While our concern is the impact on the market, Government is largely concerned with revenue. Thus,

Scenario	Government Revenue Smillions
A	80.6
B	87.1
C	106.6
D	119.6
E	107.3
F	122.1
G	97.0

As mentioned before I unofficially know that total Government budgeted revenue for 1995 is Som 60 billion (\$2400 million) and that their excise expectation from all products is Soms 42 billion (\$1680 million). The comment made to me was that cigarette excise will provide a good chunk of this. I clearly have to lower their expectations but I am concerned that their Government budget has been prepared under incorrect assumptions. The Budget was passed some time ago and so considerable pressure could be brought to bear on Abdukadirov to go for ridiculous levels of duty or excise.

Anyway, this is just so you and I can continue our dialogue while we continue to debate out here. I shall phone you later today.

Kind regards


John Selby

c.c Simon Smith

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