U.S. DEPARTMENT OF STATE
DIPLOMACY IN ACTION

Executive Summary:

Uzbekistan has a population of approximately 30 million and has the potential to become one of the most powerful economies in Central Asia. The country has an abundance of natural resources, a well-developed transport infrastructure, and a highly literate and flexible workforce.

The government of Uzbekistan has undertaken numerous efforts to attract foreign investors in recent years, but foreign direct investment has fallen precipitously over the past three years. The government has created several special investment zones and numerous other incentives, including tax holidays and customs waivers, to draw in investors, but its focus on specific strategic industry sectors, where government and state-owned enterprises exert substantial influence, has dampened investor enthusiasm.

In many areas, including intellectual property rights, investor protections, and worker rights, the government has a substantial body of laws and regulations to protect the business and investment community, but the difficulties companies face fall under the enforcement and interpretation of these laws.

The greatest operational concerns facing foreign and private investors include poor access to currency conversion, debilitating red tape, an onerous system of taxation, overregulated banking, and punitive customs laws and procedures. In addition, expropriations and politically motivated inspections of businesses in the recent past have damaged Uzbekistan’s reputation as an investment destination and sharpened a critical element of risk in its business climate.

Uzbekistan has a long and proud entrepreneurial heritage and boundless potential. Efforts by the government to improve regulatory and fiscal transparency, to lighten the burden of bureaucracy, and to loosen restrictions on currency and capital that now plague the country’s commercial and industrial development would go a long way toward propelling Uzbekistan to its role as a regional economic leader.

1. Openness to, and restrictions upon, foreign investment

Attitude toward FDI:
The government of Uzbekistan ("the government" or “the GOU”) has declared attracting foreign direct investment a core policy priority. However, Uzbekistan has one of the lowest cumulative inflows of FDI in the former Eastern Bloc due to a range of factors, including limited access to foreign currency, an underdeveloped and overregulated banking sector, trade restrictions, government involvement in trade and commerce, and widespread corruption.

Without support of the government or entities affiliated with the state, foreign investors have limited business opportunities in Uzbekistan. The government generally welcomes investors and investment projects that are in line with its import-substitution and export-oriented industrialization policy, and discourages investments in import-consuming sectors by controlling access to foreign exchange.

FDI levels fell well below government targets in 2011 and 2012, prompting President Karimov to create the Working Committee on Improvement of Uzbekistan's Ranking on the World Bank's *Doing Business* report, and to issue a number of decrees aimed at improving the business environment. These decrees emphasized *one-window* practices and electronic reporting systems aimed at reducing direct contacts between entrepreneurs and government entities, but they have not addressed a number of fundamental problems plaguing businesses and investors.

Formally, foreign investors are welcome in all sectors of the Uzbek economy. According to law, the government cannot discriminate against foreign investors based on their nationality, place of residence, or country of origin. At the same time, the government's involvement and control in key industries can have discriminatory effects on foreign investors. For example, the GOU retains strong control over all of the country's economic processes and maintains controlling shares of key industries, including energy, telecommunications, airlines, and mining. The government regulates investment and capital flows in the raw cotton market and also controls all silk sold in the country, dampening foreign investment in the textile and rug-weaving industries. Partial state ownership and influence are common in almost all sectors of the economy.

***Other Investment Policy Reviews*:**
The Organization for Economic Cooperation and Development (OECD) and the World Trade Organization (WTO) have not completed investment policy reviews of Uzbekistan in recent years. The United Nations Committee on Trade and Development (UNCTAD) published its Investment Policy Review of Uzbekistan in 2006: http://unctad.org/en/pages/PublicationArchive.aspx?publicationid=520), and contributed to the Uzbekistan Investment Guide report in 2009: http://www.jp-ca.org/data/investmentguide2009.pdf.

The report notes that the GOU did not address IMF and UNDP recommendations regarding liberalizing trade and supplying complete, accurate, and accessible official statistics.

***Laws/Regulations of FDI*:**
Primary legislation protecting foreign investors include the *Law on Foreign Investments*, the *Law on Guarantees and Measures on Protection of Foreign Investments*, the *Law on Guarantees of the Freedoms of Entrepreneurial Activity*, the *Production Sharing Agreements Law*, the *Law on Investment Activities*, and a number of decrees and resolutions.

Uzbekistani law provides the following rights to foreign investors:

- To decide the amount, kinds, and channels of investments;
- To conclude agreements to carry out investment activity;
- To own, use and dispose of investments and the results of investment activity;
- To patent inventions, models and industrial samples belonging to the foreign investor;
- To repatriate profits from Uzbekistan or to reinvest them into Uzbek entities;
- To obtain financial resources in the form of credits and loans;

- To convert local currency into foreign currency;
- To possess and use land on terms provided by the legislation;
- To receive compensation for investments/ assets in case of expropriation by the state; and
- To receive compensation for losses incurred due to illegal activity/decisions of the state.

A foreign investor may participate in a variety of legal forms of business, ranging from partnerships to joint-stock companies to wholly owned enterprises. Businesses with foreign investment must register with the Ministry of Justice or the regional governor's office (Khokimyat). Recent amendments to the Law on Foreign Investments (effective January 20, 2014) introduced the *single-window* process for business registration of businesses with foreign investments. According to the law, the registration process should take no more than seven business days after submission of a complete application package.

Depending on the extent of foreign participation, a business may be considered an "enterprise with foreign capital" (less than 30 percent foreign-owned) or receive special status as an "enterprise with foreign investment" (more than 30 percent, with a minimum charter capital).

Foreign companies may also maintain a physical presence in Uzbekistan as *permanent establishments* without registering a separate legal entity (other than with tax authorities). A permanent establishment may have a bank account.

Uzbekistan's investment legislation provides a range of guarantees for foreign investors, including:

- Protection against discrimination based on nationality, place of residence, or country of origin;
- Fair and equitable treatment;
- Protection from harm caused by retroactive implementation of legislation;
- In the case of changes to legislation, the right to apply at their own discretion those provisions of the new legislation which provide for better conditions for their investments;
- Protection from interference by the state in the economic activity of foreign investors which are carried out in accordance with the law; and
- Any change in legislation that worsens foreign investment conditions shall not be applied to those investments until ten years following the date of the investments.

Though the government nominally guarantees these rights, the legislation is ambiguous and self-contradicting. Several of the rights, such as converting and repatriating profits and conducting business without government interference, are routinely violated, and currency conversion difficulty is cited most frequently by foreign firms as the greatest impediment to doing business in Uzbekistan.

In principle, the judicial system upholds investor rights and the sanctity of contracts. The judiciary is not independent, however, and regularly favors state-owned or government-affiliated entities. Foreign investors have reported numerous procedural infractions in both the Economic and Criminal courts of Uzbekistan and the Embassy knows of a number of cases in which foreign companies did not receive timely payments from local partners.

Local legislation contains a number of disapplications (deeming that they do not apply to the state), which allows state interference and concedes equivocation of the law within the judicial system. Corruption is a constituent factor in legal proceedings, primarily in disputes between private businesses.

***Industrial Strategy*:**
The GOU encourages FDI through various tax incentives offered to companies investing in the following industries:

- Oil & gas exploration and extraction;
- Radio-electronic and IT hardware manufacturing;
- Light industry:
- Silk industry:
- Building materials production:
- Poultry, meat, dairy, and fish production;
- Food processing;
- Chemical and petrochemical industries;
- Pharmaceutical industry;
- Packaging materials production;
- Alternative energy;
- Coal processing;
- Production of ferrous alloy;
- Machinery, tool, and instrument production industry;
- Glass and porcelain production;
- Production of microbiology products;
- Production of toys (excluding rubber toys); and
- Tourism infrastructure development.

Please see Performance Requirements and Investment Incentives in this document for more details.

The government maintains the following list of projects where it is seeking foreign investors and technical assistance:
http://www.uzinfoinvest.uz/eng/investment_projects/foreign_direct_investments/

For detailed information on GOU programs to attract foreign investments, visit the Ministry for Foreign Economic Relations, Investment and Trade's dedicated website:
http://www.uzinfoinvest.uz/eng/

***Limits on Foreign Control*:**
Private capital is not allowed in some industries and enterprises. The Law on Denationalization and Privatization (1991) lists state assets that cannot be privatized including: land with mineral and water resources, the air basin, flora and fauna, cultural heritage sites, state budget funds, foreign and gold reserves, state trust funds, the Central Bank, enterprises that facilitate monetary

circulation, military and security-related assets and enterprises, firearms and ammunition producers, nuclear research and development enterprises, some specialized producers of drugs and toxic chemicals, emergency response, civil protection and mobilization facilities, public roads, and cemeteries.

There are several official limits to foreign investment. Foreign ownership and control are prohibited for airlines, railways, power generation, long distance telecommunication networks, and other sectors deemed to be related to national security. Restrictions also apply to media, banking, insurance, and tourism.

Foreign investment in media enterprises is limited to 30 percent. In banking, foreign investors may operate only as joint venture partners with Uzbek firms and banks with foreign participation face fixed charter funding requirements (€10 million for commercial banks, €5 million for private banks), while the required size of the charter funds for Uzbek firms is set on a case-by-case basis. In the tourism sector, foreign ownership cannot exceed 49 percent.

Privatization Program

The GOU renews its privatization programs every two years. The government had not published its 2014-2015 program prior to publication of this Investment Climate Statement, but its privatization program for 2012-2013 provided a list of 560 state-owned assets to be privatized. The list mainly consists of auxiliary or ineffective assets of state-owned enterprises and lossmaking public facilities. According to the official reports, only about 140 of these assets were privatized by the end of 2013.

The main mechanisms for selling state assets are public tender or auction, but often the process is transparent only at the initial stage. In some cases, the government uses financial consultants to privatize large enterprises. In June 2012, the government allowed foreign investors to buy state-owned, low-liquidity facilities at zero redemption cost with the condition of a specific investment commitment.

Many investors note a lack of transparency at the final stage of the bidding process, when the government negotiates directly with bidders before announcing the results. In some cases, the bidders have been foreign-registered companies associated with influential Uzbek families who have tenuous foreign addresses. Furthermore, the GOU is still unwilling to privatize state-owned monopolies in sectors that are potentially attractive for private investments, such as energy, railways, and airlines.

***Screening of FDI*:**

The government closely scrutinizes all foreign investment, with special emphasis on sectors of the economy that it considers strategic, including mining, cotton processing, oil and gas refining, and transportation. There is no standard and transparent screening mechanism, and the legal framework is designed to protect domestic industries and limit competition from abroad. Screening can be used to limit investment in certain industries and by certain countries, depending on Uzbekistan's current policy priorities.

The government also uses licensing as a tool to control enterprises in the telecommunications, energy, wholesaling, and tourism sectors. Often licenses for business operations in these sectors are issued by agencies that themselves have commercial interests in the sector.

A charter fund of an enterprise with foreign investment exceeding $20 million needs special government approval, usually in the form of a Cabinet of Ministers resolution, to register the enterprise. Smaller investments in certain sectors of the economy also require permission from government authorities, although there is no official list of what these sectors are and enforcement is perceived to be random. In any case, filing for a standard business license is mandatory.

Screening is an instrument of the government to control developments in the economy. It can be used to limit investment in certain industries and by certain countries, depending on Uzbekistan's current policy priorities.

The government reserves the right to cancel the registration of any business or withdraw its license. Lengthy government inspections may lead to punitive sanctions or subsequent closing. Each ministry within the government has the authority to determine when companies under its jurisdiction need licensing, but the Ministry of Justice conducts most of the business screening reviews in Uzbekistan. The Economic Court has the authority to close an enterprise, while the Superior Economic Court can overturn its decisions though an appeals process, in accordance with the Economic Procedural Code and other applicable local law. Court reviews are slow and some foreign investors, including U.S. firms, have characterized the process as unpredictable and non-transparent.

Competition Law:

The main entity that reviews transactions for competition-related concerns is the State Committee for Privatization, Demonopolization and Development of Competition. This agency is responsible for developing a competitive environment, limiting monopolistic activities and regulating natural monopolies, reorganizing economically insufficient ventures, supporting the development of entrepreneurship, protecting consumer rights, and controlling advertising activities. The Committee operates directly and through its territorial units, as well as through its non-profit consulting unit, the Antimonopoly Policy Improvement Center.

***Investment Trends*:**

Uzbekistan has one of the lowest cumulative inflows of FDI in former Eastern Bloc. According to the IMF, the volume of net FDI and portfolio investment is less than $800 million per year. The GOU reports about $2 billion in FDI per year, but this figure reflects contractual pledges, rather than actual investments. The World Bank raised its *Ease of Doing Business Index* ranking for Uzbekistan from 154 in 2013 to 146 for 2014. Accompanying analysis indicates that new legislation on insolvency made some improvement; however, other indicators, such as Trading Across Borders, Protecting Investors and Paying Taxes have deteriorated. Uzbekistan still holds the worst rank among the former Soviet republics.

Foreign and local investors suffer from government interference in investments, and bureaucratic obstacles consume significant time and resources. The current system of taxation is complicated and ambiguous, leading to widespread corruption and rent seeking. Offset of losses is not possible under current tax laws, and a company that does not show a concrete profit for six months can be deemed bankrupt by the government and becomes subject to takeover. Currency restrictions through the banking system hamper business and economic development, as do restrictive trade policies. International surveys and rankings routinely assign Uzbekistan low scores for corruption and economic freedom.

TABLE 1: The following chart summarizes several well-regarded indices and rankings of Uzbekistan

Measure	Year	Index or Rank	Website Address
TI Corruption Perceptions index	2013	168 of 177	http://cpi.transparency.org/cpi2013/results/
Heritage Foundation's Economic Freedom index	2013	163 of 178	http://www.heritage.org/index/ranking
World Bank's Doing Business Report "Ease of Doing Business"	2013	146 of 189	http://doingbusiness.org/rankings
Global Innovation Index	2013	133 of 142	http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener
World Bank GNI per capita	2012	$1,720	http://data.worldbank.org/indicator/NY.GNP.PCAP.CD

TABLE 1B: Millennium Challenge Corporation Scorecards of Uzbekistan

Measure	Year	Index or Rank
MCC Government Effectiveness	FY2014	-0.02 / 47%
MCC Rule of Law	FY2014	-0.37 / 22%
MCC Control of Corruption	FY2014	-0.32 / 22%
MCC Fiscal Policy	FY2014	4.7 / 100%
MCC Trade Policy	FY2014	66.1 / 44%
MCC Regulatory Quality	FY2014	-0.86 / 9%
MCC Business Start Up	FY2014	0.976 / 96%
MCC Land Rights and Access	FY2014	0.62 / 47%
MCC Natural Resource Protection	FY2014	12.9 / 23%
MCC Access to Credit	FY2014	31 / 66%
MCC Inflation	FY2014	12.1 / 19%

The Millennium Challenge Corporation, a U.S. Government entity charged with delivering development grants to countries that have demonstrated a commitment to reform, produced

scorecards for countries with a 2014 per capita gross national income (GNI) of $4,085 or less. A list of MCC scorecards for Uzbekistan is available here:
http://www.mcc.gov/documents/scorecards/score-fy14-english-uz-uzbekistan.pdf
Details on each of the MCC's indicators and a guide to reading the scorecards are available here:
http://www.mcc.gov/documents/reports/reference-2013001142401-fy14-guide-to-the-indicators.pdf

2. Conversion and Transfer Policies

Uzbekistan adopted Article VIII of the International Monetary Fund's Articles of Agreement in October 2003 and, thus, committed to currency convertibility for current account transactions. Foreign investors are guaranteed transfer of funds in foreign currency into and out of Uzbekistan without limitation, provided they have paid all taxes and other financial obligations in accordance with legislation.

In practice, however, multiple informal restrictions remain in place. The government reportedly issues banks confidential instructions regarding which orders are to be filled. Local authorities may stop the repatriation of a foreign investor's funds in cases of insolvency and bankruptcy, criminal acts by the foreign investor, or when directed by arbitration or a court decision.

There have been no recent changes in the rules regulating current account transactions. Banking regulations mandate that the currency conversion process should take no longer than two weeks, but current lag times range from three months to well over a year, making import of intermediate goods, raw materials, and manufacturing components difficult or impossible. During these delays, the entire amount to be converted is impounded by the Central Bank of Uzbekistan (CBU) in a non-interest bearing account, contrary to existing legislation. The government enforces tight foreign exchange control methods in its efforts to minimize capital outflow, regulate imports, stimulate local manufacturing, and reduce the country's dependency on external factors.

Investors can use foreign currency income or export earnings to pay remittances and other investment obligations, but only after meeting the government's mandatory surrender requirements. The GOU mandates companies to exchange 50 percent of their foreign currency earnings for local currency through authorized banks at the official exchange rate. Exemptions to this requirement may be provided to some smaller companies or to majority foreign-owned companies that export manufactured goods for not less than 60 percent of their total profit.

There are two legal exchange rates in Uzbekistan: the commercial (wire-transfer) rate and the exchange booth rate (2,236 and 2,272 soum per U.S. dollar, respectively, as of March 2014). Some businesses use a semi-official exchange mechanism through the Uzbekistan Commodity Exchange, where the dollar value usually exceeds the official rate by 60-65 percent, but is a closer reflection of the Uzbek currency's true market value.

Individual entrepreneurs often trade in the unofficial (black) market, which trades at its own rate (2,900 soum per U.S. dollar in March 2014), and which exceeds the official exchange booth rate by roughly 30 percent. These currency exchange operations are illegal.

Exchange booths provide services only to individuals and apply rigid limitations. By law, all citizens have access to the exchange booth rate, but in practice exchange booths don't sell foreign cash. Private money transfer services work only with individuals and have upper thresholds for remittances in foreign currency.

The U.S. Treasury has no currency manipulation records on Uzbekistan. The GOU accelerated the annual rate of nominal depreciation of its currency to 12.7 percent in 2013 from 8-9 percent in previous years in order to maintain export competitiveness. The government reportedly maintains large reserves (over 43 percent of GDP) in the Central Bank, which gives it the capacity to control currency depreciation in the near future.

Uzbekistan is a member of the Eurasian Group on Combating Money Laundering and Financing of Terrorism (EAG), a Financial Action Task Force-style regional body. Its most recent mutual evaluation can be found here:
http://eurasiangroup.org/ru/restricted/EAG_ME_2010_1_eng_amended.doc

3. Expropriation and Compensation

The government may seize foreign investor assets for violation of legislation, breach of contract, failure to complete investment commitments, and for arbitrary reasons such as revaluation of assets and site development programs. Although the government is obligated to make fair market compensation for seized property, it has offered less than market value in several recent cases with foreign and local businesses, and with individuals. The law obligates the government to make compensation to foreign partners in a transferable currency, but in most cases, the GOU does it with local currency.

Profitable, high profile foreign businesses are at greater risk for expropriation, but smaller companies are also vulnerable. A number of companies have faced expropriation in the food processing, mining, retail, and telecommunications sectors. According to Uzbekistan State Statistics, authorities closed 15,700 businesses in 2013, or 73.7 percent of all businesses liquidated last year.

In 2013, local authorities initiated criminal investigations against owners and senior executives of Muzimpex Company, the local partner of the Coca-Cola Bottlers-Uzbekistan joint venture, where Coca-Cola owns 43 percent of the shares. In February 2014, the government liquidated Muzimpex and presently controls the shares of the country.

In September 2012, the Tashkent City Criminal Court seized the assets of cellular telecom provider Uzdunrobita, a 100 percent subsidiary of the Russian company MTS, for financial crimes. An appeals court reversed this decision in November 2012, but upheld the $600 million of fines imposed. MTS wrote off its total assets in Uzbekistan of $1.1 billion, and left the market. In 2013, the government transferred all MTS assets to a state-owned telecom operator after trying unsuccessfully twice to liquidate them.

In October 2011, the government halted the production and distribution operations of a brewery owned by the Danish firm Carlsberg. The interruption of business lasted eighteen months before the company re-opened. Earlier in 2011, the government began liquidation of the Amantaytau Goldfields, a joint venture of the British company Oxus Gold and an Uzbek state mining company.

4. Dispute Settlement

Dispute settlement methods are regulated by the *Economic Procedural Code*, the *Law on Arbitration Courts*, and the *Law on Contractual Basics of Activities of Commercial Enterprises*. The *Law on Guarantees to Foreign Investors and Protection of their Rights* requires that involved parties settle foreign investment disputes using the methods they define themselves, generally in terms predefined in an investment agreement. Investors are entitled to use any international dispute settlement mechanism specified in their contracts and agreements with local partners, and these agreements should define the methods of settlement. Dispute settlement processes are also included in some bilateral treaties, but there is currently no treaty covering U.S. citizens.

If the parties fail to specify an international mechanism, Uzbekistan's economic courts can settle commercial disputes arising between local and foreign businesses. The economic courts break down to regional and city courts, with a Supreme Economic Court in Tashkent. Complainants may seek recognition and enforcement of foreign arbitral awards pursuant to the New York Convention through the economic courts.

Formally, the judicial system in Uzbekistan is independent, but government interference and corruption are common. Often government officials, attorneys, and judges interpret local legislation inconsistently and in conflict with each other.

The *Law on Bankruptcy* regulates bankruptcy procedures. Creditors can participate in liquidation or reorganization of the debtor only in the form of a creditor's committee. The World Bank has raised Uzbekistan's *Resolving Insolvency* rank to 63 for 2014 from 71 in 2013, reflecting an amendment to the bankruptcy law made in January 2013. According to this amendment, the bankrupt enterprise may claim exemption from paying property and land taxes, as well as fines and penalties for back taxes and other mandatory payments for the entire period of the liquidation proceedings. According to the *Law on Bankruptcy* and the *Labor Code*, re-solvency receivers should act with consideration of workers' rights. Monetary judgments are usually made in local currency. Bankruptcy itself is not criminalized, but in August 2013, the GOU introduced new legislation on false bankruptcy, non-disclosure of bankruptcy, and premeditated bankruptcy cases.

There have been a number of investment disputes involving foreign investors and contractors in Uzbekistan in recent years, mainly in the mining, textile, telecommunications, food processing and trade sectors. Most disputes involved nonpayment or delayed payment for goods or services by state entities. Disputes within joint ventures are also common, as local partners must balance their commitments against heavy government pressure and corruption. Some disputes are further complicated by tax authorities, who can seize assets or sequester funds from a company account before a court reviews the case. The general public has limited information about investment disputes, as official media either do not cover the disputes at all or present biased comments. Because of this, and due to limited access to the media, the reaction of nascent civil society business organizations on these disputes is minimal.

The *Law on Guarantees to Foreign Investors and Protection of their Rights* permits resolution of investment disputes in line with the rules and procedures of the international treaties of which Uzbekistan is a signatory. If international arbitration is permitted, awards can be challenged in domestic courts. Uzbekistan does not have a Bilateral Investment Treaty (BIT) or Free Trade Agreement (FTA) with an investment chapter with the United States.

Domestic arbitration bodies in Uzbekistan are represented by Arbitration Courts. According to the *Law on Arbitration Courts*, parties of a dispute can choose their own arbiter and they in turn chose a chair. The decisions of these courts are binding. The Law says that executive or legislative bodies, as well as other state agencies, are barred from creating arbitration courts and cannot be a party to arbitration proceedings. The verdict of the Arbitration Court can be appealed by either party to the dispute to the general court system within thirty days of the verdict. Separate arbitration courts are also available for civil cases, and their decisions can be appealed in the general court system.

When the court decides in favor of a foreign investor, the Ministry of Justice is responsible for enforcing the ruling. In some cases its authority is limited and co-opted by more influential powers within the government. Judgments against state-owned enterprises are particularly difficult to enforce.

Uzbekistan is a member of the International Center for the Settlement of Investment Disputes (ICSID) and a signatory to the 1958 United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards (the New York Convention). In November 2006, the Constitutional Court of Uzbekistan issued its ruling that ICSID arbitration does not stipulate the consent of the involved parties to have their dispute settled at the international level. In practice, this means that the Uzbekistan courts do not recognize foreign business attempts to defend their interests in international courts unless all parties first give their consent in writing.

Claimants seek recognition and enforcement of foreign arbitral awards pursuant to the New York Convention through the economic courts, as are commercial litigation and enforcement of foreign arbitral awards. Formally, the courts should accept jurisdiction within ten days of the date the complainant filed the lawsuit or petition, and the court should render a decision within one month of accepting jurisdiction. Upon request of a judge, the chair of the economic court can extend the period for rendering a decision by one month. In cases of commercial litigation, the decision must enter into force within one month of rendering, while cases of enforcement of foreign arbitral awards must go into force immediately once the court renders the decision.

In commercial litigation, parties may file an appeal with the same court within one month from the date of rendering the judgment. After the appeal, an uncontended party may file for cassation to the Supreme Economic Court. Alternatively, the party can skip the appeal and request cassation within one month from the date of the judgment coming into force. The appeal and cassation proceedings each require one to two months.

An economic court shall suspend a proceeding if it is impossible to settle the case prior to settling another related constitutional, economic, civil, administrative or criminal case. This may happen, for example, if any document, which is essential for settling a dispute in an economic court, was forged, and there is an ongoing criminal case relating to its forgery. An economic court also may (but is not obliged to) suspend the case it requires the opinion of an expert or if one of the parties in the proceeding is in the process of corporate reorganization. Apart from these exceptions, the periods reflected above are statutory requirements.

In practice, the vast backlog of cases in certain city and regional economic courts, especially in Tashkent city and Tashkent region, may also result in delays in setting hearing dates. Once set, various procedural complications might further delay proceedings (e.g. experts, witnesses, or parties to the case may fail to appear in court; parties may request additional time to prepare evidence), forcing the court to adjourn the hearing multiple times.

A party may file an international arbitration suit with an economic court in Uzbekistan, even after the parties have agreed to an international arbitration forum. Generally, this will not hinder potential or ongoing international arbitration proceedings because an economic court would delay the case, assuming the second party denies the jurisdiction of the economic court prior to the first party making its statement on the merits of the case.

5. Performance Requirements and Investment Incentives

Uzbekistan is not a member of the World Trade Organization (WTO) but has several practices that do not conform to WTO requirements on Trade-Related Investment Measures (TRIMS). Many of these practices reflect Uzbekistan's import substitution policy, including tax breaks for exporters, non-tariff barriers for imports, and poor records in protecting intellectual property rights. Uzbekistan's application for WTO membership was submitted in 1994, but its Working Party has not met since 2005. The GOU has made some positive statements suggesting a more active WTO accession effort, but has also stressed that Uzbekistan does not want to accelerate accession to the WTO at the cost of its economic interests.

From 2012-2014, the GOU modified legislation to introduce incentives to attract foreign direct investment. To qualify as an enterprise or business with foreign investment, the share of foreign investment must be at least 30 percent of the charter capital of a company. The investment must consist of hard currency or new equipment, delivered within one year of registering the enterprise. Set floor level requirements for charter capital for certain incentives are:

- $400,000 for joint-stock companies (except financial institutions);
- $150,000 for ventures in other sectors of the economy, except those registered in the Karakalpakistan and in Khorezm provinces, where the requirement is $75,000

Other legislation provides a number of incentives for businesses qualified as enterprises with foreign investment. These include:

- Enterprises with foreign investments operating in specified industries and located outside of Tashkent city and Tashkent province are granted tax holidays for a period of three years if the FDI exceeds $300 thousand; five years if it exceeds $3 million; and seven years if it exceeds $10 million. The privilege applies to enterprises with foreign investments conducting businesses in twenty specific industries, which include the production of electronics, leather products, textiles, apparel, silk, various building materials, foodstuffs, chemical products, pharmaceuticals, packaging materials, renewable energy generators, coal, industrial and agricultural machinery, glass, microbiological products, and non-rubber toys. The GOU will only grant the tax holiday if the company reinvests at least 50 percent of the tax savings and the investor does not require a sovereign guarantee.

- The GOU grants new foreign investors ten-year immunity to changes in tax legislation if they invest at least $5 million.

- The government will build all required external utilities, engineering, and communication networks at its own expense for projects with investments exceeding $50 million and when the share of foreign investors exceeds 50 percent;

- Foreign investors are able to buy state-owned, low-liquidity facilities at zero redemption cost if they make specific investment commitments. In January 2014, this right was also granted to local private investors;

- Goods produced and imported by a foreign investor who invested more than $50 million are exempt from customs duties.

- Enterprises with foreign investments can receive exemptions from customs duties for: 1) industrial and technological assets imported by foreign investors and enterprises with foreign investments for their own use; 2) production parts, components and materials of own production imported by foreign legal entities with more than $50 million of direct investments; 3) goods, works, and services required for operations under a Production Sharing Agreement (PSA) imported by a foreign investor within the project documentation; 4) goods of foreign investors exported in accordance with the PSA; and 5) equipment and spare parts imported in line with contracts that have GOU approval and support. The exemptions are applicable only during the first two years after registration of the enterprise.

- Joint ventures with foreign participation in the oil and gas sector carrying out exploration works have a seven-year tax holiday from income tax from the extraction start date. In certain cases, the Cabinet of Ministers may provide foreign companies engaged in prospecting, exploration and production of oil and gas additional privileges and preferences and concessions based on direct negotiations between the competent authority and the strategic investor.

The corporate income tax rate is 8 percent for businesses, 15 percent for commercial banks, and 35 percent for entertainment firms. Companies may reduce their taxable income by the amount of funds directed at modernization of production facilities through the purchase of new equipment, new construction, or renovation of buildings and structures. The reduction amount cannot exceed 30 percent of the company's total taxable income. If, in the current tax period, the amount of funds allocated for the above purpose exceeds 30 percent of total taxable income, the remaining amount may be deducted in subsequent tax periods within five years (from the date the cost was incurred, but from the day of commission for new equipment purchases).

Enterprises that export goods or services (except raw materials) benefit from a 50 percent reduction in income tax if the company's exports account for not less than 30 percent of the total sales of produced goods, and a 30 percent reduction in income tax if the company's exports account for 15-30 percent of the total sales of produced goods.

Newly established enterprises are exempt from property tax for two years from the moment of their registration. This incentive does not apply to enterprises created through liquidation or by reorganization of existing manufacturing enterprises or their separate divisions, nor does it apply to entities created under existing enterprises or to production facilities that rent their property and equipment.

Various types of new technological equipment are exempt from customs duties and value added taxation (VAT). The Inter-Ministerial Resolution of the Ministry of Economy, Ministry of Finance, Ministry of Foreign Economic Relations, Investment and Trade, and the State Customs Committee approve the list of such equipment. Production-related assets imported by a foreign investor or an enterprise with foreign share above 33 percent are exempt from customs duties. In the event of the sale or transfer of imported equipment for export within three years from the moment of its import, this GOU will rescind this privilege and the company must pay the VAT. Assets imported as a part of investment commitments under a privatization agreement with the GOU are exempt from VAT payments. Medicines and medical products that have no locally manufactured equivalents are also included on the exemptions list, as are raw materials and semi-finished goods used for children's footwear production.

The Government welcomes participation of foreign investors in research and development programs, and has committed to create a national prioritization of innovation projects. The GOU does not regulate participation of foreign firms in government/authority-financed and/or subsidized research and development programs, nor will it privatize major state-owned R&D enterprises.

After the decline of FDI in 2011-2012, the GOU introduced new investment incentives in its attempt to restore confidence to foreign businesses, but concerns of government interference and bureaucratic obstacles continue to plague investors. In practice, the government has and often uses its right to cancel the registration of any business or to withdraw its license. Government inspections, often initiated by competing clans, frequently lead to punitive sanctions or closings. Foreign investors also limit or reduce their activities in the country due to challenges caused by fervent and non-transparent state involvement and corruption.

Uzbek legislation stipulates that the government must apply requirements to use domestic inputs in manufacturing uniformly to enterprises with domestic and foreign investments, but in practice, this is not always the case. The government welcomes foreign investors mainly in the areas of localization, building local production capacities, and developing export potential.

There are several restrictions on foreign workers in Uzbekistan. The chief accountants in banking and auditing companies must be Uzbek nationals. The law also requires that either the CEO or one member of the Board of Directors be citizens of Uzbekistan. In the tourism sector, only Uzbek nationals can be professional tour guides. All foreign citizens, except those from certain countries of the former Soviet Union, need visas to work in Uzbekistan and all individuals must register their residence with authorities. A new law permits foreign investors and specialists to obtain multi-entry visas for the period of their contract, but the procedure has yet to be developed. To apply for a visa, American citizens must submit documents regarding their company to an Uzbek Embassy or Consulate. Foreign workers must also register with the Ministry of Labor.

Permission from the government is not required to invest in Uzbekistan, but the GOU's economic policy maintains an intense focus on import substitution and export-oriented industrialization. Investors in non-priority sectors should expect to have more difficulty importing capital and consumer products than those in priority industries.

The legislation does not require transfer of technology or proprietary information; such transfers are negotiated between the foreign investor and its local partner. There are also no requirements for using only local sources of financing.

Uzbekistan does not have a uniform law on enforcement of performance requirements. Local authorities may use various enforcement procedures, including registrations, licensing, and tax inspections. Investors are often required to present long-term investment commitments with set target investments and job creation goals before the government will approve their registration and licensing.

Tax incentives for foreign investment are essentially the same as for local enterprises participating in an investment program, localization, or modernization program. Enterprises with significant investment (more than $20 million) in priority sectors or registered outside Tashkent city or province can negotiate special benefits by concluding an investment agreement with the government, including additional tax and customs incentives, government guarantees and co-financing. These incentives generally require approval by the Cabinet of Ministers.

6. Right to Private Ownership and Establishment

Formally, Uzbekistan guarantees the right of foreign and domestic private entities to establish and own business enterprises and to engage in most forms of remunerative activity. The state reserves for itself the right to export gold, and the government maintains a monopoly on cotton exports. Natural gas, cotton and gold are Uzbekistan's largest sources of foreign exchange earnings. There are isolated cases of foreign companies that have entered the natural gas and cotton production sectors with some success. In theory, private enterprises may freely establish, acquire, and dispose of equity interests in private businesses, but in practice, this is difficult to do because Uzbekistan's securities markets are underdeveloped.

7. Protection of Property Rights

The GOU passed its *Law on Protection of Private Property* in September 2012. Uzbek and foreign entities may own buildings, but not the underlying land. All land in Uzbekistan is owned by the state. Legislation governing the acquisition and disposition of property poses relatively few problems for foreign investors and is similar to laws in other CIS countries. Property ownership is generally respected by local and central authorities. District governments have departments responsible for managing commercial real estate issues ranging from valuations to sale and purchase. The World Bank ranked Uzbekistan 136th in the world in the Registering Property category of its 2014 Doing Business Report, up from 142 the previous year, reflecting the introduction of the simplified *one-window* registration procedure.

Heavy tax burdens, debilitating trade restrictions, and widespread corruption drive much legitimate commerce to the informal sector. Although the GOU does not issue an official assessment, local experts estimate that the informal economy makes up as much as 31-35 percent of GDP. Local authorities can confiscate any business and personal private property, and private companies are subject to hostile takeover actions by well-connected businesses or individuals, and in most cases, owners should not expect remuneration at market value.

Intellectual Property Rights

Uzbekistan has been on the Watch List of the U.S. Trade Representative's (USTR) Special 301 Report since 2000 due to a lack of significant progress on intellectual property rights (IPR). The USTR noted that current enforcement remains weak and criminal penalties for IPR violations are insufficient to provide a deterrent effect.

Uzbekistan has made an effort to improve IPR protection by setting up the Uzbek Agency for Intellectual Property, which unifies responsibility for IPR issues. Uzbekistan also introduced several amendments to IPR law, as well as amendments to Civil and Criminal Codes to enforce stricter punishment for IPR violations. Uzbekistan is a consumer, but not a significant producer, of pirated material. Uzbekistan doesn't host a Notorious Market.

There are set rules and procedures for registration of each type of intellectual property. The process may take ten days for registering trademarks and copyrights, and up to sixty days for registering patents. The official body that oversees registration is the Intellectual Property Agency of Uzbekistan (IPAU), or its authorized divisions. The agency coordinates its IPR protection efforts with local law enforcement agencies, customs, and tax authorities.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/.

The concept of registering IP is still new to Uzbekistan. The GOU created the IPAU in 2011 after combining former copyright and patent agencies, at which time local IP holders became more active in protecting their rights. Last year IPAU reviewed 5,557 IPR protection cases. The agency also has an experience in enforcing the protection of foreign trade marks. In 2012, American Burger King Corporation filed a case of trademark infringement by a local restaurant, and the Economic Court of Uzbekistan ruled in favor of the complainant.

In general, businesses report that IP registration is not an issue, unlike its enforcement, which is often a difficult and long process. The main challenge is that the IP holder must file its claim through the local court system, and local legislation does not anticipate enforcement of IP rights for non-resident claimants.

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at http://www.wipo.int/directory/en/.

Resources for Rights Holders:

Contact at the U.S. Embassy in Tashkent:

John Etcheverry
Economic Officer
Telephone Number: +998-71-140-2111
Email address: etcheverryjc@state.gov

Local lawyers list: http://uzbekistan.usembassy.gov/law_firms_list.html

Country resources: Local American Chamber of Commerce (AmCham) lawyers: http://amcham.uz/membership/membership-by-sector/law/

8. Transparency of the Regulatory System

The legislation regulating private investments is complicated, ambiguous and contradictory. Foreign investors report that local officials inconsistently interpret laws, often in a manner that is detrimental to private investors and the business community at large. In addition, the government occasionally issues secret decrees or instructions that businesses are required to comply with, despite having no knowledge of them. Companies are particularly concerned with the lack of consistent and fair application of the *Law on Foreign Investment*, which outlines specific protections for foreign investors. To avoid problems with the tax and regulatory measures, foreign investors often secure incentives through Cabinet of Ministers decrees, which are approved directly by the President. These, however, are easily revocable.

Only a few local legal, regulatory, and accounting systems are transparent and fully consistent with international norms. Although the GOU has started to unify local accounting rules with international standards, local practices are still document- and tax-driven with an underdeveloped concept of accruals.

There are nearly no legal restrictions on foreign participation in industry standards-setting consortia or organizations, with exceptions in the media and tourism industries. Bureaucratic procedures, particularly licensing and financial reporting, are time-consuming and often contradictory and government-owned banks, ministries, and agencies routinely interfere in business operations.

Publishing drafts of laws and regulations for public comment is uncommon in Uzbekistan. Regulatory bodies often introduce changes and amendments to commercial legislation without notice, which creates disputes and misunderstandings even among state institutions. The government often amends requirements for licensing, registration and other permits without notice, creating opportunities for rent seeking as this creates more opportunities for government functionaries to reject documents on various technical grounds. From 2011-2013, however, foreign and local investors had the opportunity to review and comment on some upcoming legislation, but these instances are rare.

9. Efficient Capital Markets and Portfolio Investment

In general, the GOU has not made a priority of attracting portfolio investments, as it prefers what it calls strategic investors, which are capable of providing new technologies for specific local industries. A number of international fund management companies have worked in the country in the past, investing in various industries through the stock markets or in the real estate and construction sectors. Most of these funds left the market by 2010 due to capital losses brought about by the previous global financial crisis. The few portfolio managers remaining invest primarily in the insurance and leasing sectors. The stock exchange mainly hosts equity and secondary market transactions with shares of state-owned enterprises. In most cases, government agencies decide who can buy and sell shares and at what prices, and it is often impossible to locate accurate financial reports for traded companies.

Uzbekistan has relatively good liquidity indicators. Its gross official foreign reserves in 2013 were $19.3 billion, or 36 percent of GDP. The gross external debt to GDP was 13 percent. The government declared full commitment to honoring its obligations under IMF Article VIII, but in practice, difficulties with currency conversion are a major deterring factor for investors.

Foreigners and foreign investors can establish bank accounts in local banks without restrictions. They also have access to local credit, although the terms and interest rates do not represent a competitive or realistic source of financing. In general, the private sector has access to a restricted variety of credit instruments and the isolated and overregulated financial system yields unreliable credit terms. The government-led banking sector, burdened with non-core functions and excessive bureaucracy, cannot meet the lending demands of its clients. Access to foreign banks is limited and is usually only granted through their joint ventures with local banks. Commercial banks can, to a limited degree, use credit lines from international financial institutions to finance small and medium businesses.

The average capital adequacy ratio of local banks exceeds 24.3 percent, and the current liquidity rate is 65 percent. From 2009 through 2011, the government initiated a 40 percent increase in state-owned bank capitalization and encouraged private banks to do the same. In 2013, the banking sector’s capitalization grew by 25 percent and bank assets grew by 30 percent to about $21 billion. Included in this amount are the assets of the two largest state-owned banks, which are more than $10 billion. Stringent government control and the overregulated financial sector make sizeable deposits and withdrawals difficult.

A major operational challenge for foreign firms in Uzbekistan is restricted access to cash. All inter-firm transactions must be conducted by bank transfer and cash withdrawals by legal entities are only permitted for payment of wages and travel expenses. All cash receipts must be deposited the day they are received. The government improved this situation somewhat several years ago by allowing individual entrepreneurs, some small enterprises, and joint ventures with foreign capital to withdraw cash from their bank accounts up to the amount deposited within the previous ninety days. However, the government later issued several new decrees instructing local administrations, commercial banks, and tax authorities to tighten their control of cash circulation. Firms that fail to deposit their cash receipts in banks face stiff penalties, but the pervasive restrictions on cash withdrawals have forced many small enterprises to operate illegally. The fact that the largest denomination bill is 5000 soums (about $2.20 at the official exchange rate) aggravates the situation and has turned cash transactions of any significant value into major logistical undertakings.

There are very few private companies listed in the local and international stock markets, and a threat of hostile takeover by foreign investors has never been a major subject of concern.

10. Competition from State-Owned Enterprises

State-owned enterprises (SOEs) dominate those sectors of the economy recognized by the government as being of national strategic interest. These sectors include energy (power generation and transmission; oil and gas refining, transportation and distribution), metallurgy, mining (non-ferrous metals and uranium), telecommunications (fixed telephony and data transmission), agriculture (cotton processing), machinery (automotive industry, locomotive and aircraft production and repair), and transportation (airlines, railways, municipal public transportation). The *Law on Privatization and Denationalization*, with a number of subordinate acts, contains a list of sectors/industries where the GOU has banned participation of private businesses.

The published list of major Uzbek SOEs is available on the official GOU Website:
For companies: http://gov.uz/en/other_institutions/companies;
For large holdings: http://gov.uz/en/other_institutions/associations_concerns; and
For banks: http://gov.uz/en/other_institutions/banks.

Local SOEs, including joint ventures with large foreign investors, have larger budgets to fund research and development (R&D) activities, but their potential is limited because the government restricts private enterprise activity in these important sectors. For example, in 2004 the government granted exclusive control of the country's international telecommunication networks to the state-owned Uztelecom Company. This forces all providers of voice and data transmission services, including internet and IP-telephony, to use only Uztelecom switches to access long-distance and international channels. Going beyond technical restrictions, the providers must also conduct their financial transactions with international partners through Uztelecom, as well.

The government controls procurement activities of companies in which it has partial or minority interest, even in the case of private businesses. These companies are required to procure goods (with a value over $100,000) and services through an open tender process, which the government regulates.

By law, SOEs are obligated to operate under the same tax and regulatory environment as private businesses. In practice, however, private enterprises do not enjoy the same terms and conditions. The government leverages registrations, licensing, and currency conversion to protect quasi-governmental institutions and companies from commercial competition. Private businesses face more than the usual amount of bureaucratic hurdles if they compete with the government or a government-controlled firm. Most SOEs have a range of advantages, including better access to local and external markets, smoother access to financing, and more predictable currency conversion. Additionally, SOEs are usually not subject to legislative budget constraints unless they are in low-priority industries.

The GOU registers most SOEs as national holding companies or joint-stock companies, and usually a minority share in these companies belongs to employees or private enterprises. Although SOEs have boards of directors, typically one or more members will be a government official, and senior executives report directly to relevant ministries or the Cabinet of Ministers. Generally, SOEs must consult with the government before making significant business decisions.

At present, Uzbekistan does not adhere to the OECD Guidelines. Local SOEs and the Fund for Reconstruction and Development of Uzbekistan do not often publish annual reports. In 2010, legislators drafted the *Law on Openness of State Bodies*, but the draft is still under consideration. State-owned businesses and financial institutions are required to submit annual reports to the government, but they are not required to publish them. Local state-owned enterprises in the financial sector are required to submit their financial records for independent audit, as well. SOEs, as well as other Uzbek entities, are subject to domestic accounting standards and rules, which are still not fully comparable with International Financial Reporting Standards (IFRS), though through gradual effort, Uzbekistan has brought about 90 percent of its domestic standards into IFRS compliance.

The GOU created some of its largest SOEs by simply renaming existing government entities and, in some cases, those enterprises still exercises governmental powers. For example, Uzbekneftegaz National Holding Company dominates the oil and gas industry and foreign investors need its approval to do business in the sector, although there is no legislative mandate of this power. Similar situations exist in the situation in the transportation, energy, and automotive industries.

The government owns majority or blocking minority shares in numerous non-state entities, thereby having substantial control over their operations, but the GOU retains the authority to regulate and control the activities and transactions of any company in which it owns shares.

Some large state-owned holdings engaged in commercial activities act as government institutions. Nearly all U.S. businesses operating in Uzbekistan do so in partnership with a state-owned enterprises or firms, which are often affiliated with the political elite. The likelihood that domestic courts will rule in favor of SOEs is high (see Section 4). The State Committee of Uzbekistan for Privatization, Demonopolization and Development of Competition is responsible for management of state-owned assets, and the Fund for Reconstruction and Development (FRD) of Uzbekistan serves as a sovereign wealth fund.

The GOU established the Uzbekistan Fund for Reconstruction and Development (FRD) in 2006, using it to sterilize and accumulate of foreign exchange revenues, but officially the goal of the FRD was to provide government-guaranteed loans and equity investments to strategic sectors of the domestic economy. Uzbekistan's Cabinet of Ministers, Ministry of Finance, and the five largest state-owned banks were instrumental in establishing the FRD, and all of those institutions have membership on its Board of Directors. FRD loans require government approval and the FRD provides debt financing to SOEs for modernization and technical upgrade projects in sectors that are strategically important for the Uzbek economy.

11. Corporate Social Responsibility (CSR)

There is no legislation on Corporate Social Responsibility (CSR) in Uzbekistan, and the concept has not been widely adopted, though many companies are active in charity activities, either through their own initiative or at the direction of local government officials. Relevant government agencies and departments inspect both newly registering and operating local businesses and enterprises for enforcement of the *Labor Code* in respect to labor and employment rights; the *Law on Protection of Consumer's Rights* for consumer protections; and the *Law on Protection of the Nature* for environmental protections. Labor or environmental laws and regulations are not waived for enterprises with private and foreign investments.

Legislation, including the *Law on Joint-Stock Companies and Protection of Shareholder's Rights,* issued in 1996 and last updated in 2014, set a range of standards to protect the interests of shareholders. The *Law on the Securities Market* requires businesses that issue securities (except government securities) to publish annual reports, which should include a summary of business activities for the previous year, financial statements with a copy of an independent audit, and material facts on the activities of the issuer during the corresponding period.

12. Political Violence

There are supporters of extremist groups such as the Islamic Movement of Uzbekistan (IMU), al-Qaida, and the Eastern Turkistan Islamic Movement in Central Asia, though the GOU has made it a priority to limit the activities of these groups, which have all expressed anti-U.S. sentiments. In light of domestic and international threats, the government has implemented heightened security measures, such as establishing security checkpoints, restricting access to certain streets and buildings, and deporting nationals of suspect countries. Continued instability in southern Kyrgyzstan following the 2010 political and ethnic violence have raised tensions and led to substantially increased controls at the Uzbek-Kyrgyz border. In addition, border crossing points with both Kyrgyzstan and Tajikistan, both borders of security concern for the GOU, are often closed for periods of time. Although the border between Uzbekistan and Afghanistan is officially open to traffic, travel restrictions for the region remain in place.

13. Corruption

Uzbekistan's legislation and Criminal Code prohibit corruption. Enforcement is arbitrary, however, and there is considerable anecdotal evidence that a large portion of officials use their latitude in interpreting regulations to extract bribes. The government prosecutes a number of officials under anti-corruption laws every year and punishment can vary from a fine to imprisonment with confiscation of property. Often, prosecutions tend to focus on political dissenters rather than on corrupt but loyal government officials or individuals affiliated with the elite. Foreign and local individuals have reported numerous incidents of bribe solicitation to U.S. Embassy officers, and foreign investors who refuse to pay bribes have had difficulty in their business operations as a direct result. Uzbekistan ranked 168th out of 177 rated countries in Transparency International's 2013 Corruption Perceptions Index.

There has been no substantial evidence to suggest that the government encourages or requires companies to establish internal codes of conduct that prohibit bribery of public officials. Only a few local companies created by or with foreign investors have effective internal ethics programs.

Uzbekistan joined the UN Anticorruption Convention in 2008, but is not a signatory of the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions, and does not participate in any notable local or regional anti-corruption initiatives.

U.S. businesses have cited corruption as one of the main obstacles to foreign direct investment in Uzbekistan. Lack of transparency in bureaucratic processes, including procurement tenders and auctions, and limited access to currency convertibility, stimulate rent seeking, which public sector employees often justify by pointing out their low wages. Bribery is a common tool for obtaining lucrative positions, government contracts, preferences, and exemptions from regulations, as well as escaping criminal prosecution. Citizens are routinely required to pay bribes to receive public services.

Resources to report corruption:

The main arm of the government tasked with fighting corruption is the General Prosecutor's Office. Currently, no international or local nongovernmental *watchdog* organizations have permission to monitor corruption in Uzbekistan.

Contact information for the General Prosecutor's Office of Uzbekistan:

Address: 66, Akademik Gulyamov St., 100047, Tashkent, Uzbekistan
Website: www.genprok.gov.uz
Hotline telephone numbers: +998(71) 232-4391, 232-4550

14. Bilateral Investment Agreements

Uzbekistan has signed bilateral investment agreements with forty-nine countries. Several agreements, including those with Iran, Japan, and the United States, have not yet entered into force. In 2004, Uzbekistan and Russia signed a Strategic Framework Agreement that also includes free trade and investment concessions. Uzbekistan has signed bilateral free trade agreements with eleven CIS countries (Russia, Belarus, Ukraine, Armenia, Azerbaijan, Georgia, Kazakhstan, Kyrgyzstan, Moldova, Turkmenistan and Tajikistan). In 2005, the government signed an alliance agreement with Russia, which provides for economic cooperation, and Uzbekistan and Ukraine agreed in 2004 to remove all bilateral trade barriers. Uzbekistan joined the CIS Free Trade Zone Agreement in 2013, but its parliament has not yet ratified membership.

The governments of the United States and Uzbekistan signed a bilateral investment protection treaty in 1994, though the United States never ratified the agreement. In 2004, Uzbekistan signed the regional Trade Investment Framework Agreement (TIFA) with the U.S. Trade Representative's Office and its four Central Asian neighbors. The TIFA is a forum to encourage regional trade development in Central Asia. As a former Soviet Republic, the Income Tax Treaty of 1973 between the United States and the USSR covers Uzbekistan.

15. OPIC and Other Investment Insurance Programs

The Overseas Private Investment Corporation (OPIC) began working in Uzbekistan in 1992 and has loaned approximately $229 million over the course of its operations in Uzbekistan, but had no projects in FY2013. Uzbekistan is a developing country member of the Multilateral Investment Guarantee Agency.

The Embassy can purchase local currency at the exchange rate set by the local bank. Local currency is depreciating by approximately 10 percent per year. Depreciation of the local currency could accelerate in the future if the government chooses to narrow the spread between the official exchange rate—which is administratively set—and the black-market rate. The spread between the official and the black-market rates is about 25 percent.

16. Labor

Uzbekistan has the largest labor force in the region—about seventeen million, or 57 percent of the total population. At 97 percent, literacy is nearly universal, but most local technical and managerial training does not meet international business standards. Foreign firms report that younger Uzbeks are more flexible in adapting to changing international business practices, but are also less educated than their Soviet-trained elders. Widespread corruption in the education sector has lowered educational standards as students purchase grades and even entrance to prestigious universities and lyceums.

With the closure or downsizing of many businesses, it is easy to find qualified employees, and salaries are low by western standards. According government and alternative sources, 17 percent of the population live below the poverty level, 4.9 percent are unemployed, and approximately 60 percent of the employed population have low-productivity and low-income jobs. In the last twelve years, there has also been a dramatic increase in the number of workers migrating to other countries, notably Russia, Korea, and Kazakhstan, leaving less-qualified workers at home to fill the gaps.

Legislation requires companies to hire nationals for specified positions in banking and auditing companies. The chief accountant must be an Uzbek national, as should either the CEO or any one member of the Board of Directors. Only Uzbek nationals can be tour guides.

Uzbekistan's Labor Code regulates labor-management relations. The law established a standard workweek of forty hours, with a mandatory rest period of twenty-four hours. The law provides overtime compensation as specified in employment contracts or agreed to with an employee's trade union and can be implemented in the form of additional pay or leave. The law states that overtime compensation should not be less than 200 percent of the employee's average monthly salary rate. Additional leave time should not be less than the length of actual overtime work. An employee may not work more than 120 hours of overtime per year, but public sector employers rarely observe this limitation. The law prohibits compulsory overtime. In practice, overtime limitations are not widely observed and compensation is rarely paid.

The Ministry of Labor and Social Protection establishes and enforces occupational health and safety standards in consultation with unions, but anecdotal reports suggest that enforcement is not effective. Although regulations provide for safeguards, workers in hazardous jobs often lack protective clothing and equipment. Labor inspectors conduct routine inspections of small and medium-sized businesses once every four years, and inspect larger enterprises once every three years. The ministry or a local governor's office can initiate a selective inspection of a business, typically in response to an accident or complaint.

The law, including related regulations and statutory instruments, generally provides the right of workers to form and join independent unions and bargain collectively. The law prohibits anti-union discrimination. Volunteers in public works and workers employed by individuals without documented contracts do not have legal protection. Workers generally do not exercise their right to form and join unions due to fear of retribution. Unions remained centralized and dependent on the government. The state-run Board of the Trade Union Federation of Uzbekistan incorporates more than 35,800 primary organizations and fourteen regional trade unions, with official reports of 60 percent of employees in the country participating. The Office of the President appoints the leaders of the federation; union boards are not involved in electing these leaders to their positions. All regional and industrial trade unions at the local level are state managed. There are no independent unions.

The law neither provides for nor prohibits the right to strike. In recent years, workers in state-owned mining industry and energy enterprises conducted strikes, demanding pay increases and timely distribution of salaries. Reportedly, authorities agreed to negotiate, and eventually addressed most of worker's concerns. There is no public information about the role of official unions in these negotiations.

Uzbekistan ratified thirteen conventions of the United Nations' International Labor Organization (ILO), (Forty-Hour Week Convention, Holidays with Pay Convention, Right to Organize and Collective Bargaining Convention, Equal Remuneration Convention, Maternity Protection Convention (Revised), Abolition of Forced Labour Convention, Discrimination (Employment and Occupation) Convention, Employment Policy Convention, Workers' Representatives

Convention, Minimum Age Convention, Collective Bargaining Convention, and Worst Forms of Child Labour Convention, but employers often ignore the provisions of these conventions. The law prohibits all forms of forced or compulsory labor, including by children, except as legal punishment for such offenses as robbery, fraud, or tax evasion or as specified by law. The government does not effectively enforce these laws and there are high-profile cases in the cotton industry where this has gained international attention.

The Labor Code regulates general labor-management relations and the GOU passed no substantive changes to labor-related legislation in the last year. Officially, private or foreign-owned enterprises cannot waive labor or environmental laws and regulations.

17. Foreign Trade Zones/Free Ports

The law on free economic zones, passed in 1996, envisaged the establishment of free trade zones, including consigned warehouses, customs-free zones, and zones for the processing, packing, sorting, and storage of goods.

In 2008, the President of Uzbekistan issued a decree creating a free industrial and economic zone (FIEZ) in the Navoi region. The FIEZ was established for a period of thirty years, beginning in 2009, with possible extensions. Businesses in the territory of the FIEZ are promised a special customs, currency, and tax regime, a simplified procedure for entering, staying, and leaving, and provisions by which non-residents can receive labor licenses. Preferences are effective for the entire period of activity of FIEZ, or to 2038, with possibility of extension. Businesses registered within the Navoi FIEZ are exempt from most taxes for seven years if their direct investments exceed €3 million; ten years if they exceed €10 million; and fifteen years if investments exceed €30 million. For five years after the expiration of the tax holiday, businesses with direct investments exceeding €10 million enjoy an income tax and unified tax payment reduction of 50 percent, which extends to ten years for large investments (over €30 million). Business entities registered in Navoi FIEZ are also entitled with the following types of exemptions: (excluding charges for customs clearance):

- Exemptions from custom payments for the entire period of activity of the FIEZ for imports of equipment, raw materials, and components used for the manufacture of export-oriented goods (excluding charges for customs clearance); and

- Fifty percent reduction of custom payments (excluding charges for customs clearance) for imported raw materials and components, used for the production of the domestic market oriented goods

In April 2012, the President issued a decree on creating a special industrial zone (SIZ) in Angren City in Tashkent province. Businesses in the SIZ are exempt from custom payments (excluding charges for customs clearance) and enjoy holidays for the following taxes and mandatory contributions:

- Corporate income tax
- Property tax

- Social infrastructure development tax
- Unified tax payment
- Road tax; and
- Mandatory contributions to the Republican Road Fund

These exemptions and tax holidays will be granted for the period of three years if the volume of direct investments exceeds $300 thousand; five years if it exceeds $3 million; and seven years if it exceeds $10 million. Exemptions from customs payments are granted for imported components and materials that are not produced in the country. Preferences are effective for the entire period of activity of SIZ (30 years from the date of establishment with possibility of extension). The government has committed to direct $59.4 million for infrastructure development in the SIZ.

In March 2013, the President issued a decree on creating another special industrial zone "Jizzakh" in Jizzakh region with a branch in Syrdarya region. SIZ "Jizzakh" provides the same tax and customs preferences as SIZ "Angren". As in SIZ "Angren" preferences will be effective for the entire period of activity of SIZ, or for 30 years form date of its establishment with possibility of extension.

18. Foreign Direct Investment and Foreign Portfolio Investment Statistics

TABLE 2: Key Macroeconomic data, U.S. FDI in host country/economy

	Uzbekistan Statistical source*		USG or international statistical source		USG or international Source of Data: BEA; IMF; Eurostat; UNCTAD, Other
Economic Data	Year	Amount	Year	Amount	
Host Country Gross Domestic Product (GDP) (*Millions U.S. Dollars)*	2013 2012	$53,600 $51,700	2013 2012	N/a $51,165	http://www.worldbank.org/en/country http://www.imf.org/external/pubs/ft/scr/2013/cr13278.pdf
Foreign Direct Investment	Host Country Statistical source*		USG or international statistical source		USG or international Source of data: BEA; IMF; Eurostat; UNCTAD, Other

U.S. FDI in partner country (*Millions U.S. Dollars, stock positions)*	2012	N/A	2012	$71	(BEA)
Host country's FDI in the United States (*Millions U.S. Dollars, stock positions)*	2012	N/a	2012	$0	(BEA)
Total inbound stock of FDI as % host GDP (***calculate)***	2012	N/A	2012	$1.7	http://www.imf.org/external/pubs/ft/scr/2013/cr13278.pdf

*The State Statistics Committee of Uzbekistan.

TABLE 3: Sources and Destination of FDI

No data available.

19. Contact at Post to learn more:

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