Trends of Agro-industry

Uzbekistan is a lower middle income country with GNI per capita as of US$ 1,100 in 2009. Total number of population is 27.8 million inhabitants, of which 63 percent live in rural area, and the annual population growth is 1.65 percent. Uzbekistan enjoyed strong economic performance with 6.2 percent of an average real GDP growth between 2002 and 2009 and has remained largely resilient to the global economic crisis and economic contraction. The economy was, and remains highly resource-dependent. The agricultural sector contributed with 20 percent of value added to GDP and employed around 26 percent of the total labour force in 2009. Despite a significant reduction of the agriculture in GDP from 37% in 1991, it is still important sector of the economy. In this sector cotton, this was strongly developed in the past, accounted for only 19% of total agricultural output measured by domestic raw cotton prices or about 3.5 percent of GDP in 2009. The government sets prices and production targets for the agriculture sector. All land belongs to the state. Farmers lease land and are effectively state employees. Manufacturing industry generated 13.3 percent of GDP with 4 percent of annual growth in 2009. Most State-owned Enterprises in Uzbekistan are registered as national holding or joint-stock companies, which are mostly in key economic sectors including energy, metallurgy, mining, telecommunications, agriculture (cotton processing), machinery and transportation.

Food and Beverages Demand

Based on the 2006 Uzbek and US Regional Panel Survey the headcount index, i.e. the share of population under the poverty line, is estimated at 29.8%, when the population cannot afford the basic basket of foodstuffs, and the poverty gap index is 7.4%. A share of total household expenditure on food of rural population is 53% and of urban – 32.7%, in Tashkent it is about 30%, while poorest households spend on food 61% of the total expenditures and richest families - 31.3%. The country needs to import one-third of food wheat consumption despite the larger domestic production. Prices of staples wheat flour and bread are stable reflecting the Government price regulation system.

Food and Agriculture Organization of the United Nations
Regional Office for Europe and Central Asia

Agro-industry Outlook
The food and beverages industry forms a large part of the economy, generating UZS3.136 billion (US$ 1.82 bn), that represents about 12.6 percent of industrial output in 2009 and with 9 percent of annual growth and enjoy a general growth in value over time. In 2007 F&B industry employed 89.9 thousand people (or 14.5 percent of industrial labor force) working at 4470 enterprises (or about 7.5 percent of total number of industrial enterprises). In many of agro-food industrial enterprises there are still a share of the state fund. Some movement in privatizing refineries was made, resulting in 75 percent privately owned and 25 percent government owned out of which 70% are of cottonseed oil and 30% - of soybean oil. In 2005 89 enterprises of oil & mill food industry established the Food Industry Association. In 2006 HC "Uzvinprom-holding" was transformed from "Uzbeksoyuzhishprom-holding" in accordance with the President resolution, and counted 170 enterprises, out of which 67 are wine processing companies, 65 – primary processing and bottling and 44 – specialized stores. Gross Fixed Capital Formation in F&B industry accounted only 5.5 percent of total investments in 2007. Important subsectors include vegetable oil, fruit, flour & vegetables, meat and dairy processing. The trends are expected in such directions as manufacture of infant's foodstuff, dry breakfasts, confectionery, cheese and sausage products.

Chart 1: Food and Beverages Industry Performance

Uzbekistan

Key Economic Indicators

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP, US$ billion</th>
<th>Manufacturing VA, % of GDP</th>
<th>Agriculture VA, % of GDP</th>
<th>Employment in Agric., % of total</th>
<th>Gross Fixed Capital F., % of GDP</th>
<th>FDI net inflows, % of GDP</th>
<th>R&amp;D, % of GDP</th>
<th>Merchandise Trade, % of GDP</th>
<th>Merchandise Exports, US$ billion</th>
<th>Merchandise Imports, US$ billion</th>
<th>Global Merchandise Exports rank</th>
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</thead>
<tbody>
<tr>
<td>2009</td>
<td>32.1</td>
<td>13.3</td>
<td>20.0</td>
<td>25.7</td>
<td>26.1</td>
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<td>61.5</td>
<td>10.7</td>
<td>9.0</td>
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Food and Beverages Industry

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<tr>
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<tbody>
<tr>
<td>2009</td>
<td>12.6</td>
<td>n/a</td>
<td>14.5</td>
<td>5.5</td>
<td>-0.43</td>
<td>1.1</td>
<td>6.1</td>
<td>0.6</td>
</tr>
</tbody>
</table>

National Development Programme. The key document setting out the Government policies for the country, agriculture, rural and agro-industry development include: (i) The Welfare Improvement Strategy of Uzbekistan for 2008-2010 with perspectives to 2015 (Poverty Reduction Strategy Papers); (ii) The Anti-Crisis Program for 2009-2012 that includes measures to support the banking system, encourage exports through subsidized credit and tax rebates and support the food and consumer goods sectors; (iii) The Privatization Program for 2007-2010; (iv) The Program for Encouragement of Livestock Expansion in Household Plots and Private Farms, primarily aimed to improve livestock production for 2006-2010; (v) The Concept of development and improvement of standardization, quality assurance systems in Uzbekistan in line with international practice for 2003-2010; (vi) The Modernization and Reconversion Program for Cotton Gis for 2007-2011; (vii) The Investment Program in 2011 with foreign credits guaranteed by the Government of Uzbekistan, where nine investments projects are planned with the total budget of US$106.6 mn. Together with the UN organisations the country elaborated UNDAF for 2010-2015.

Uzbekistan remains at an early stage in its transition towards a market economy and still has a substantial structural reform agenda. According to EBRD to increase competitiveness and growth in the private sector, government intervention needs to be reduced in Uzbekistan. Policy challenges include reducing discriminatory barriers against imports, liberalizing state procurement prices in agriculture and implementing privatization in a transparent manner.

Chart 2: Trends of Agro-industry

In 2006 a holding company "Uzvinprom-Holding" was established under the Presidential Decree "On measures to stimulate the development of wine industry as a specialized sector. In 2002 there was the Center on Science and Technology established.

Legal Framework. Uzbekistan has adopted a number of laws to encourage agricultural growth and rural development, among those are: the Law on Farms, the Law on Dekhan Farms, the Law on Agricultural Cooperatives (Shirkat), the Law on Land Code, the Law on Protection of Trademark and Brand Names (2006), the Law on "amendments and addenda to some legislative acts of Uzbekistan in connection with the deepening of economic reforms in agriculture and water management" (2009), the Resolution on "the predictives parameters of production and use of fruits and vegetables, potatoes, melons and grapes in 2011" (2010), the Decree "On measures for deepening economic reforms in fruit and vegetables production and viniculture (2006), the Decree "On additional measures privatizing the attraction of direct foreign investments" (2005). The three "On measures to stimulate the increase in livestock at Dekhan farms and agricultural cooperatives" (2010), the Decree "On concerning improvement of the functioning of oil and fat industry" (2010). In 2011 the Law on Agriculture was drafted.
Trade Liberalization, WTO Accession and Trade Performance

**Trade Regulation.** The legal framework of Uzbekistan’s trade is regulated by the Customs Code (1998, the new Custom Code), the Law on Export Control (2004), the Law on Import Tariffs (1997), the Decree on Approving the List of Consumer Products Imported into Uzbekistan (2008), the Decree on “additional measures on strengthening control and stopping smuggling of tobacco, cigarettes, rice and bread products” (2008) and the Decree on Creating the first Free Industrial and Economic Zone in Navoi region (2008). Tariff reforms were adopted to ensure cost-recovery but lack proper collection mechanisms, payment systems and discipline. Foreign traders continue to experience major market distortions with trade and foreign exchange owing to delays in currency conversion for imports, restrictions on cash and foreign exchange availability, the restrictive trade policy and the continuation of state procurement quotas in cotton and wheat. The list of imports subject to obligatory certification includes foodstuffs, alcohol and soft drinks, tobacco.

Uzbekistan has signed eight FTAs with individual countries, two of which are in effect, as well as with Eurasian Economic Community Customs Union (in effect) and CIS. With some countries, like U.S., Korea, U.K., Switzerland, France, Germany, Belgium, Italy, Japan, India, China and Thailand, Uzbekistan has special agreements on trading.

**WTO accession.** Uzbekistan has been negotiating accession to the WTO for 17 years since Dec 1994, and it has gone through various steps of the WTO accession procedure (application, Working Party creation, memorandum of external trade, no export subsidies, 3 meetings, and agreement). The current status of Uzbekistan in WTO is an observer. There is no news on the negotiation progress after the latest third meeting of the WTO Working Party took place in Oct 2005.

**Trade Performance.** Uzbekistan had a negative merchandise trade balance of US$2.7 billion in 2009. Uzbekistan is a net importer in F&B processed products accounting US$0.43 bln of a negative trade balance in 2009. Processed F&B products accounted 6.1 percent of total merchandise imports and 1.1 percent of total merchandise exports with an annual export growth by 0.6 percent in 2009 after a sharp increase of exports by 31 and 27 percent in 2007 and 2008, respectively. The main exported groups are milling products and starches (44%), fruit & vegetable products (32%). The major export agricultural product is cotton accounting around 10% of total merchandise exports. For the processed F&B the main imported groups are milling products (50%), animal and vegetable fat & oil (24.5%) and sugar and confectionery (14%). Uzbekistan relies on imports for about 30-35% of its vegetable oil requirements.

**Top destinations for F&B products:** Afghanistan (50%), Russia (24%), Kazakhstan (15%) and Kyrgyzstan (6%);

**Top origins for F&B products:** Kazakhstan (51%), Russia (21%), Belarus (5%), Malaysia and Ukraine (5%) in 2009.

Foreign Direct Investments

**Regulation.** The Law on Foreign Investments (1998), the Law on Investment Activities (2000), the Law on Guarantees and Measures of Protection of Rights of Foreign Investors and the Law on Protecting Rights of Investors in Securities Market provide the legal basis for foreign investment in Uzbekistan. In 2007 the Decree on the procedure of application of customs privileges to the property, imported by foreign investors to Uzbekistan for own needs was adopted. Investors can benefit from tax exemption, customs and other privileges if they meet the following terms: the established Fund of a company must be not less than US$ 150 thousand; one of the participants is the foreign legal entity; the share of foreign investments makes not less than 30% of company capital, the enterprise earns over 60% of incomes from sale of produced goods or services.

Uzbekistan has signed bilateral investment agreements with 49 countries.

FDI inflows. In 2009 Uzbekistan’s FDI inflows accounted US$0.75 bln or 2.34% of GDP grown in 4.3 times since 2006. Foreign investments under the Government declined from 83% in 2002 to 17% in 2010. The vast amount of FDI goes to the fuel and energy sector. FDI in agro-processing sector is a growing. FDI inflow in wine production sector generated US$32.5 mln during the period 2008-2010.

In 2009 there were 54 foreign affiliates registered, half of them were fully foreign-owned, and 3 parent corporations based in Uzbekistan. Major foreign companies in F&B sectors are: Coca-Cola, Nestlé, (Switzerland) and Wimm-Bill-Dann (Russia) in soft-drinks and milk, British American Tobacco (U.K.), in brewery – BIIH (Sweden) and Stolwiek beer (Kazakhstan). More investors come from Poland, Turkey, Latvia and other countries.

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Food Safety, Certification & Quality Control

**Food Safety regulation.** Uzbekistan is a member of the Codex Alimentarius Commission and a member of the International Organisation of Standardization (ISO). Issues of protection of human health in general and in particular from food-borne risks are dealt with the Law on Foodstuff Quality and Safety (1997); The Law on Veterinary (1998), the Law on Plant Quarantine, the Law on Technical Regulations (2009), the Law on Standardisation (1993), the Law on Metrology (1993), the Law on Products and Services Certification (1993), the Law on Consumer’s Protection (1996/08) and the Law on State Sanitary Inspection (2009).

In 2004, there was new regulations on veterinary certificates adopted issued for exporting, importing and transit of commodities, which are based on requirements of the International Veterinary Codex. Uzbekistan is a member of an Agreement of CIS on cooperation on hygienic certification of potentially hazardous imported products.

**Certification.** Uzbekistan continues to use an arbitrary set of technical standards based on Soviet methods. Certification is based on national standards and GOSTs. There are more than 65,000 normative documents regulating national standars. Standards for imported goods are subject to state registration in the branches of the Uzbek Agency for Standardization, Metrology and Certification. There are 17 Technical Committees and 21 Organisations for Standardisation were established over the country.

**Quality Control.** Hygiene Requirements of food safety is regulated by Sanitary Norms (SanPN). The Resolution as of 2004 “On measures for implementation of quality management systems compliant with international standards at the enterprises” regulates the introduction of the new system of the quality control in Uzbekistan.

Business Environment and Competitiveness

**Business Environment.** According to the Doing Business Report 2011 Uzbekistan has through reforms improved getting and closing business, paying taxes, getting credits and registering property, but dealing with construction permits became more difficult due to the latest reform of 2011. The country is ranked (out of 183 economies) as 150 in 2011 (no changes to 2010). Trading across the borders is ranked as of 169), paying taxes – 154, protecting investors – 132, getting credit – 138, and starting business – 106 (down by 14 points).

**Taxation Relieving.** Uzbekistan is in the list of the last ten countries of the world where the highest total tax rate (96% of profit). In accordance with the new Tax Code the tax burden on companies was eased by lowering the social tax and the corporate income tax to 10 percent zero-rate VAT applies to sales of cotton fibre. To encourage the timely replacement of fully-depreciated equipment, a charge of 0.25% of the equipment’s historical value is being calculated for legal entities (except for micro and small enterprises) for the continued use of such equipment, but revenue from the sale/disposal of fully-depreciated equipment is exempt from CIT. Foreign companies producing agricultural products are exempted from asset tax. There is 0% on exports of goods for foreign currency. Uzbekistan is also a party to 44 double tax treaties.

**Competitiveness.** No information on Uzbekistan is available in the Global Competitiveness Report 2010-2011.

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**Chart 3: Food and Beverages Trade Performance over time (data is based on mirror information from other partner countries)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Millon US$</th>
<th>Exportvalue</th>
<th>Importvalue</th>
<th>Trade balance</th>
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<tbody>
<tr>
<td>2001</td>
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<td>2009</td>
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**Chart 4: Share of Exported Product Groups of F&B in total exports, in 2009**

- Milling products, starches: 44%
- Sugar & confectionery: 0%
- Meats, fish & aquatic food: 23.5%
- Vegetable & fruit: 22.4%
- Dairy products: 0.4%
- Beverages, spirits & tobacco: 5%
- Cocoa and coffee preparation: 2.4%
- Residues, animal fodder: 0.5%
- Animal oil: 5.9%