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LEGAL NEWSLETTER FOR JULY 2019

Dear Clients and Partners,

In July 2019, a number of significant changes were introduced to Uzbek laws. Thus, ambitious development plans were approved for the oil and gas and automotive industries (with the dominant state-owned holding companies JSC “Uzbekneftegaz” and JSC “Uzavtosanoat” going to be restructured) and long awaited rules for getting access to the state-controlled Single Power Grid in the electric power industry were adopted. Other changes relate to valuation activities, public procurement procedures, the taxation of large companies, real estate transactions and the extraction of non-metallic minerals. It is also of importance that the recently adopted Data Protection Law has been supplemented by changes to the Code on Administrative Liability and Criminal Code (for more detailed description please follow the link below).

In the business dimension, the Uzbek government continues to make a lot of effort to attract foreign and local investment by offering investors engagement in potential investment projects with a number benefits and incentives being attached.

Adoption of Data Protection Law

On June 2, 2019, the Law on Personal Data (the “**Law**”) has been adopted. Unofficial English version of the Law can be found [here](#). The Law shall come into force on October 1, 2019. It means that, by that date, all organizations have to change the way they capture, use and share personal data – both internally and externally – regardless their size or structure. [Read more](#)



Power Energy Sector in Uzbekistan



Uzbekistan, being currently subject to a large-scale transformation. The legal and economic structure of the power industry of Uzbekistan has always been relatively simple. Proceeding from the assumption that the provision of el...

1. DEVELOPMENT OF THE OIL GAS SECTOR

The Concept for Developing the Oil and Gas Industry till 2030 has been approved. The activities envisaged by the Concept include the reorganization of JSC "Uzbekneftegaz" (including the separation of the monopolistic gas transportation company JSC "Uztransgaz"), the sale of its non-core assets and the engagement of the private sector into the oil and gas industry, including the hydrocarbon exploration activities.

The state will also attempt to attract investors through initial (IPO) and secondary (SPO) public offerings of shares in JSC "Uzbekneftegaz" and JSC "Uztransgaz", though it does not intend to relinquish its control over the companies and will retain 51% of shares in both entities. The placement is planned to be made after the reorganization of the companies is complete, but before 2024.

Further, gas supply facilities are going to be transferred to private operators that, among others, will also be engaged in the sale of natural gas to end consumers. It also envisaged that 1381 gas stations serving farming enterprises, which are owned by JSC "Uznefteprodukt" (which is a company controlled by JSC "Uzbekneftegaz"), will be sold through public auctions.

It is also planned to develop a practise of transferring management over deposits with hard-to-recover hydrocarbons to private investors on the terms that relevant investments may be recovered in the course of the extraction and based on contracts whereunder risks are on the investor.

[Presidential Decree No. PP - 4388 of July 9, 2019](#)

2. DEVELOPMENT OF THE AUTOMOTIVE INDUSTRY

The government has revealed its plan for the development of the automotive industry till 2023. It is planned to ensure increase in the production of automobiles, to abolish some special fees and payments in the industry, to implement a number of PPP/investment projects, to improve corporate governance in the state holding company JSC "Uzavtosanoat" and to optimize its activities by, among other things, selling its non-core assets.

Some of the measures related to taxes and special fees will include: (i) vehicles with an electric motor will be relieved from the excise tax; (ii) the excise tax on cars produced by JSC "Uzautomotors", sold under contracts concluded after October 1, 2019 will be cancelled; (iii) starting from October 1, 2019, fees

materials and technological equipment for the production of cars, trailed and mounted equipment, will be able to get VAT deferment for up to 120 days.

The relevant document also provides for a list of companies within the structure of JSC "Uzavtosanoat", shares and assets of which will be privatized through the specialized online auction "E-IJRO AUKSION".

[Presidential Decree No. PP - 4397 of July 18, 2019](#)

3. GETTING ACCESS TO THE SINGLE POWER GRID

The Regulation for the Connection of Business Entities Producing Electricity Including Manufacturers of Renewable Energy to the Single Power Grid has been adopted. The Regulation applies in cases of the first connection, increase in power capacity of a connected entity or a change of a connection point

According to the Regulation, the connection procedure consists of 12 successive stages (a detailed scheme is provided in the Regulation). At the initial stage, a relevant application – request for technical conditions has to be submitted to the owner of the relevant section of the Grid (for now, as a rule, state-owned JSC "Regional Power Grids"). The whole process takes about 6 months.

The Ministry of Energy and the Antimonopoly Committee oversee the functioning of this system and accept relevant complaints.

[Resolution of the Cabinet of Ministers No. 610 of July 22, 2019](#)

4. NEW CRITERIA FOR LARGE TAXPAYERS

The Regulation on the Criteria for Assigning Legal Entities to the Category of Large Taxpayers has been approved. The categorization as such is envisaged by the Tax Code and is implemented for exercising stricter control over tax payments of large companies. In accordance with the Regulation, the following types of legal entities are considered to be large taxpayers: (i) entities producing excisable goods, (ii) entities performing works under production-sharing agreements, (iii) entities with the net revenue from the sale of products (goods, works and services) at the end of a calendar year for more than UZS 100 bln, (iv) banks and their branches, commodity, stock and currency exchanges (v) the Almalik and Navoi Mining and Metallurgical Combines and their subsidiaries.

The taxpayers that have been classified as large ones, but do not meet the above criteria by the end of a calendar year, retain the status for the next 3 years.

A list of large taxpayers is annually approved by the State Tax Committee. Organizations that included or excluded from the list are notified about that in writing within 5 days from the date of adoption of the relevant decision, including through the personal account of a taxpayer within the state online tax system.

5. LICENSING OF VALUATION ACTIVITIES

Valuation activities are now again subject to licensing. In June 2018, this requirement was abolished, but a recent Presidential Decree has reinstated it.

According to this Decree, the Agency on State Assets Management is now the licensing authority. The newly issued licenses will be valid for an undetermined period. Those companies that already have the license will not have to renew it.

Further, starting from August 1, 2019, the Agency will begin to assign all valuation experts one of three professional categories: the 'first', the 'second' or 'the highest' one. This will be done based on qualification levels of experts and their membership in professional public organizations.

It has also been set that starting from January 2020, the Association of Valuation Organizations and the Society of Valuation Experts will begin to prepare and publish the ranking of valuation organizations on their websites.

[Presidential Decree No.PP-4381 of July 1, 2019](#)

6. THE EXTRACTION OF NON-METALLIC MINERALS

A Regulation on e-auctions for getting the licence for the use of subsoils with non-metallic (industrial) mineral deposits has been approved by the Cabinet of Ministers. The licenses are issued by the State Committee of the Republic of Uzbekistan for Geology and Mineral Resources based on the results of regular e-auctions for the rights of usage held on the online platform "E-IJRO AUKSION", within 20 days after each relevant auction has concluded. Currently, since July 1, 2019, this procedure is applied only in respect of non-metallic deposits, the discovery of which has been financed from the state budget. Starting from 1 January 2020, it will be extended to all non-metallic deposits.

The information and template documents required to participate in the auctions are published on the [website](#) of the State Committee for Geology.

To participate, a legal entity must submit an electronic application, certified by its electronic digital signature, and pay a deposit – 5% of the initial value of the rights to use a deposit. The starting price is 36 times the baseline calculation value (about USD 900 in total). The auction is held based on the principle of a step-by-step price increase (one step – at least 5% of the initial value of the rights). The winner of the auction must make all relevant payments within 5 days after the end of the auction. After that, a corresponding protocol on the results of the auction is issued by the operator of the online platform "E-IJRO AUKSION". Within 3 days after the protocol was prepared, the winner must sign a document with terms and conditions of using the relevant subsoil plot. After that, within 2 days, the license is issued.

[Resolution of the Cabinet of Ministers No. 546 of July 1, 2019](#)

A Group for Supporting Foreign Investors has been created to work in test mode. The Group, consisting of 10 professionals, will provide a full range of assistance services to foreign investors, including among other things, (i) provision of up-to-date information on the investment climate and the business environment in Uzbekistan, (ii) assistance in resolving particular problems by facilitating interaction with state authorities and (iii) support for getting qualified legal assistance.

One part of the Group providing 24-hour support services to foreign professionals will locate in the Tashkent International Airport. Another part of the Group will work in the Ministry of Investment and Foreign Trade and will be available during normal working hours.

[Resolution of the Cabinet of Ministers No. 547 of July 2, 2019](#)

8. CHANGES IN PUBLIC PROCUREMENT PROCEDURES

The Regulation on the Organization and Conduct of Public Procurement Procedures has been amended. Now, a public purchaser carrying out a competition or a tender for acquiring particular goods or services has the right to conduct a public procurement procedure envisaging the participation of only local (Uzbekistan-based) organizations, if there are 3 or more local organizations willing to participate in such a procurement procedure.

[Order of the Minister of Finance No. 3016-2 of July 4, 2019](#)

9. PPP IN THE SPHERE OF ARTS AND CULTURE

A procedure for providing state subsidies to non-governmental institutions of arts and culture operating based on PPP agreements has been developed and approved. According to the relevant Resolution of the Cabinet of Ministers, legal entities building or equipping relevant facilities (i.e. theatres, circuses, zoos, cultural parks, concert halls, cultural centers) are eligible to apply. Subsidies are provided after relevant construction or equipping works have been completed and may cover some of the incurred costs based on annual income and annual expenses indicators. The amount of coverage may vary from 30% to 60% depending on the type of a cultural institution and its location.

In order to get subsidies, a cultural institution must fill in a standard application form and to attach a number of supporting documents.

[Resolution of the Cabinet of Ministers No. 570 of July 9, 2019](#)

10. ACCEPTANCE OF CASH FOREIGN CURRENCY

The Regulation on the Procedure for Receiving Foreign Currency in Cash on the Territory of the Republic of Uzbekistan has been supplemented. Cash foreign currency may now be accepted from foreign individuals repaying debts under foreign trade contracts.

In doing so, a foreign individual is required to have one of the following documents confirming the origin of cash foreign currency: (i) a passenger customs declaration proving the import of cash foreign currency or (ii) checks

abroad from his local bank accounts.

A local individual who pays in cash foreign currency on behalf of a foreign individual based on a power of attorney must have a passenger customs declaration proving that he has imported cash foreign currency into Uzbekistan.

[Resolution No. 1165-9 of July 5, 2019](#)

11. REAL ESTATE COMPLEX “BUKHARA CITY”

Business and residential center “Bukhara city” will be built in the area of 83 hectares in the center of Bukhara with the help of public and private investments. Entities investing in its construction will get incentives that are generally provided to companies supporting the construction of “business cities” in Uzbekistan, as provided by the [Presidential Decree No. PP-3895 of August 2, 2018](#).

The state may reimburse to investors the costs of the excavation and construction of engineering and transport communications, improvement of common areas, the organization of advertising campaigns, and the use of consulting and architectural services. A specialized state fund will also ensure that compensations are paid to owners of private real property within the allocated territory for appropriating this property. However, if some damage has been caused to private owners by investors constructing the complex as a result of the demolition of objects within the allocated territory, it is investors who will have to compensate.

[Resolution of the Cabinet of Ministers No. 565 of July 8, 2019](#)

12. INVESTMENT PROJECTS IN FERGANA REGION

A list of potential investment projects in Fergana region for 2019-2020 has been approved. The list contains information on each project, including the information on its location, initiators, name, costs and engaged state agencies/state-owned enterprises. Relevant projects include projects in the textile industry, agriculture, the production of furniture, the industry of construction materials, pharmaceuticals, oil and gas, power energy and tourism.

It is also envisaged that another list of investment projects will be approved within 1 month and will contain a number of potential projects in the sphere of the production of construction materials with the use of deposits of mineral resources and non-metallic minerals.

[Resolution of the Cabinet of Ministers No. 617 of July 22, 2019](#)

13. REAL ESTATE TRANSACTIONS

The Regulation on the Procedure of the Compulsory Registration of Agreements on Lease of Real Estate with State Tax Authorities has been amended. Now only lease agreements between individuals have to be registered, whereas the relevant requirement for legal entities has been abolished.

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registration of real estate transactions and for the assignment, a change and the termination of addresses of real estate objects have also been approved. No fees for these services were charged before. Starting from September 1, 2019, the following prices are applied in respect of legal entities:

- for the state registration of rights to real estate (including the issuance of a confirmation extract from the state register) and for real estate transactions - 5 times the baseline calculation value (about USD 116) (irrespective of real estate area).
- for the assignment, a change or the termination of addresses of real estate objects– 1 time the baseline calculation value (about. USD 24).

[Resolution of the State Tax Committee No. 3077-1 of July 24, 2019](#)

[Resolution of the Cabinet of Ministers No. 623 of July 24, 2019](#)

To ensure that we are addressing the topics that are most important to you, we would welcome your feedback and suggestions.

Have a good day and upcoming weekend!

Sincerely,
Kosta Legal Law Firm

Feedback



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