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LEGAL NEWSLETTER FOR NOVEMBER 2019

Dear Clients and Partners,

In November 2019, there were a number of changes across different industries. The most notable changes affected the banking sector, where several major laws were revised, including the Law on Banks and the Banking Activity and the Law on the Central Bank. It is also of significance that the government is seriously determined to reform the utilities sectors and after the electrify sector has been transformed, it is now water supply services that are subject to the revision.

1. DEVELOPMENTS IN THE BANKING INDUSTRY

Several legal acts affecting the banking sector were adopted in November. The following changes were introduced, among other things, in respect of: (i) the imposition of certain limitations on the Central Bank and banks, (ii) bank-customer relationship matters.

Thus, banks are no longer allowed to have shares of legal entities, except for special cases, as provided by law, and not more than for the amount equivalent to 15% to the tier 1 regulatory capital. Further, it is set out that banks are not allowed to participate in transactions with securities and own shares of legal entities in excess of 50% of the tier 1 regulatory capital. It is also provided that a bank may not be a member in a legal entity that owns 1% or more shares of that bank.

Non-residents have been prohibited to own more than 50% of shares of a local bank. New rules apply for getting a special permit of the Central Bank in case if residents or non-residents (acting individually or as a group of related entities) want to buy more than 5% of local bank's shares.

The Central Bank is, in turn, no longer allowed (i) to own shares of banks, (ii) to provide guarantees for obligations of third parties, including the Government of Uzbekistan, (iii) to provide loans or financial assistance to the Government of Uzbekistan, other state bodies and organizations.

In respect of customer service in banking, the following changes have, among other things, been envisaged: (i) a loan agreement between a bank and a borrower must reflect the choice of the latter to receive a loan in foreign currency, (ii) a borrower/pledger has the right to choose an insurance company

[Law No. ZRU – 580 of November 5, 2019](#)

[Law No. ZRU – 582 of November 11, 2019](#)

[Resolution of the Board of the Central Bank No. 3030-3 of November 22, 2019](#)

2. SEIZURE OF LAND PLOTS

On November 16, 2019, the Cabinet of Ministers signed the document that envisages the introduction of new regulations pertaining to the compensation procedure for land seizure. To date, the process has not been transparent and lacked adequate protection for property owners. The regulations apply to cases where land occupied by real property is owned based on the rights of permanent or temporary use.

As per the procedure introduced by the document, land seizure is allowed given that both of the following conditions are met: (i) the owner/user/leaseholder explicitly provides his/her consent, (ii) a Presidential Decree or a Resolution of the Cabinet of Ministers provides for a seizure. Both local municipalities and investors may initiate land seizure following the procedures provided in the regulations. An initiator and an owner of a property must conclude the relevant compensation agreement subject to notarization. Evaluation of the property that is going to be seized is done at the expenses of the initiator. When 75% of property owners provide their consent to land seizure, the initiator has the right to apply to court in order to get a compulsory sale order for the rest 25% of the owners. In such cases, the compensation is to be determined in a court ruling rather than by a compensation agreement.

New objects being part of a compensation for seizure must be provided within 2 years, otherwise fines are applied for each day of delay.

Demolition of real estate objects is permitted only after their owner is compensated in full as provided in a compensation agreement or a court decision (in case of a dispute).

[Resolution of the Cabinet of Ministers No. 911 of November 16, 2019](#)

3. PILOT PROJECT FOR PRODUCT LABELING

Starting from December 1, 2019, a pilot project for products labeling will begin that is aimed at facilitating the traceability of labeled products. Local alcohol and cigarettes manufacturers/importers are identified as the first line of potential pilot project participants. As for now, the labeling is done on a voluntary basis. It is to note, however, that the voluntary participation of business entities in the project does not exempt them from the mandatory labeling of products with excise stamps as well as the requirement to label products in the state (i.e. Uzbek) language.

Russian company "CRPT TURON" is the operator and administrator of the labeling system. All interested entities may approach the company electronically. Currently, the company provides relevant labeling services (including the provision of corresponding codes and the registration in the system of products traceability) free of charge.

It is envisaged that subsequently, medicines and medical products will be included in the list of products subject to labeling. In addition to that, a single electronic system for produced and imported goods will be created within the State Tax Committee.

4. DEVELOPMENTS IN THE SECTOR OF WATER SUPPLY SERVICES

The President has signed two Decrees that initiate the reorganization of the water supply sector. In Uzbekistan, the water supply and sewerage services are a natural monopoly. Hence, state unitary enterprises (SUEs) - monopolists are the only market players within the sector.

As a result of the reform, by May 1, 2020, SUEs will be reorganized into limited liability companies, being successors to all SUEs' contracts, rights and obligations. A new joint-stock company – JSC “Uzsuvtaminot”, will also be established and will receive the state's shares in all the reorganized SUEs and related assets, having been previously at disposal of the Ministry of Housing and Communal Services. JSC “Uzsuvtaminot” will thus be performing the functions of a single operator for the management over water supply and sanitation facilities.

[Presidential Decree No. UP – 5883 of November 26, 2019](#)

[Presidential Decree No. PP – 4536 of November 26, 2019](#)

5. TAXATION

The Law on Environmental Protection and the Law on Wastes have been amended to include provisions on the recycling fee that is going to be charged on wheeled vehicles, self-propelled vehicles and trailers. The relevant changes will become effective starting from February 15, 2020.

The fee is collected by:

- the State Customs Committee, where taxable vehicles are placed under the customs regime “release for free circulation (import)”;
- the State Tax Committee, where taxable vehicles are being produced and manufactured.

The amount of the fee, types and categories of objects subject to the fee as well as the procedure for making payments will be determined in by-laws that will be adopted later.

[Law No. ZRU – 584 of November 14, 2019](#)

6. REGULATED ACTIVITIES IN THE ALCOHOL INDUSTRY

On November 14, 2019, the Law that brought some changes to the alcohol industry was adopted. These changes include:

- the production of technical alcohol and the wholesale trade in alcoholic products have been included into the list of the activities subject to licensing. It is to note here that the previously signed [Resolution of the Cabinet of Ministers](#) sets January 1, 2020, as the date since when such a license for the production of technical alcohol will have to be required. Moreover, the Annex 1 to the mentioned Resolution lays down the procedure for considering license applications;
- limits in respect of the import and sale of alcoholic beverages have been revised (with the brewed beer and wine being an exclusion). Thus, (i) the import of alcohol in polymer containers made of polyethylene, polystyrene and other polymeric material is banned and (ii) the permissible distance

[Law No. ZRU – 584 of November 14, 2019](#)

7. PRESIDENTIAL COUNCIL OF FOREIGN INVESTORS

The President has signed a Decree on the establishment of the Presidential Council of Foreign Investors (the “**Council**”) that will act as an advisory body. Among others, members of the Council will include heads and representatives of foreign companies, banks, investment and other structures, foreign governmental financial organizations and international financial institutions, including the European Bank for Reconstruction and Development (EBRD), which carry out investment and business activities in Uzbekistan. The primary objective of the Council is to advise the government on the most important areas of investment, industrial, technological and innovative development of the country based on the best international practices.

To become a member of the Council, an individual or a legal entity must submit a standard form application (per the form attached to the Decree) to the Ministry of Investment and Foreign Trade/EBRD.

[Presidential Decree No. PP – 4519 of November 13, 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!

Sincerely,
Kosta Legal Law Firm

Feedback



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