

THE PRIVATIZATION REFORMS ENDING THE STATE MONOPOLY IN THE ALCOHOL INDUSTRY.

1 March 2019

In pursuit of the goals set out in the State Program 2019, the President of Uzbekistan issued the Decree No. UP – 5656 of February 5, 2019 on the improvement of state regulation of the alcohol and tobacco industries (the “**Decree**”). As a result, the prolonged state monopoly on the production of vodka and other alcoholic beverages has been abolished. The production of the food ethyl alcohol remains in the hands of the State. The Decree introduced the overhaul of the management system, incorporated new orders, strengthened licensing requirements and determined particular prospective legislative changes to be made by 2020.

Management Restructuring

The monopolist, JSC “Uzsharobsanoat”, shall be liquidated with its shares being sold to the private sector¹. The State shall retain only the functions of the regulator. Further, there shall be established the Agency for Wine - Making and Viticulture Development under the Ministry of Agriculture (the “**Agency**”) and the Inspectorate for Regulation of the Alcohol and Tobacco Market under the Ministry of Finance (the “**Inspectorate**”).

The major functions of the Agency shall be:

- assistance with the expansion of vine plantations and the development of winemaking processes (the introduction of modern resource-saving technologies and modernization of wine-making enterprises);
- provision of support for winegrowers and winemakers through attraction of direct investments;
- assistance in the training of highly qualified specialists; and
- maintenance of the electronic registry of wine type grapes plantations.

The Inspectorate, in its turn, shall license the production of food and technical ethyl alcohol, alcohol and tobacco products, as well as wholesale trade in alcohol products and monitor all these activities. In addition, the scope of the activities of the Inspectorate shall include the distribution of food-grade ethyl alcohol among entrepreneurs and development of information systems for monitoring and controlling production volumes and turnover of products used in the alcohol and tobacco industries.

As the result, the Commission of the Cabinet of Ministers on Licensing Activities for the Production of Ethyl Alcohol, Alcoholic Beverages and Tobacco Products is dissolved.

1. The state shares in JSC “Toshkentvino kombinati” shall not be transferred to the private sector.

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New orders and procedures

According to the Decree, the following new orders and procedures are coming into force:

- the production of food and technical ethyl alcohol, alcohol and tobacco products, as well as wholesale trade in alcohol products are carried out on the basis of licenses issued by the Inspectorate;
- producers and manufacturers of alcohol beverages sell products only to wholesale organizations, with the exception of brewing products, sparkling and natural wines;
- as for the wholesale trade in alcohol products, all legal entities are now eligible to be engaged in it, whereas the producers have the right to trade without an advance payment;
- the sale of food ethyl alcohol by the manufacturers is carried out on the terms of a 100% advance payment;
- the sale of brewing products and sparkling/natural wine that are locally manufactured can be carried out by all trade enterprises providing hotel or catering services without authorizations permit. Thus, all shops, hotels, cafes and restaurants can sell beer and wine of local production without permission. Previously, it was possible to do so only in respect of non-alcoholic beer, which is not to be regarded as alcoholic beverages;
- the laboratories under the Inspectorate that measure the quality of ethyl alcohol are located within the territories of the enterprises producing food ethyl alcohol, which provide the necessary technical conditions for their proper operation;
- the Inspectorate determines the volumes of the ethyl alcohol that can be purchased. If the amount of purchased ethyl alcohol exceeds the distributed volumes, the entity shall notify the Inspectorate;
- the following information is subject to the registration in the Unified System of Electronic Registration of Inspections¹: (i) integrity of measuring devices, seals and other means of monitoring, (ii) surpluses of ethyl alcohol and alcohol products, (iii) presence of additional machines for the production of food and technical ethyl alcohol, as well as alcoholic beverages that are not declared upon receipt of a license and (iv) the quality of grapes, fruits and berries used for the production of wine. This means that the Inspectorate shall conduct the enumerated inspections only when the Public Prosecutor's Office finds it reasonable. If the inspection takes place, the entrepreneur will be able to acquaint itself with the inspection reports completed through registration in that Unified System;
- from January 1, 2019, the entities growing wine type grapes in order to use it in the production of the natural grape wines (without added ethyl alcohol), do not have to obtain licenses for the wine production as such wines are classified as agricultural products. The Decree removes the requirement for such grape plantations to be at least 100 hectares.

¹ This system has been developed late in 2018 with a view to facilitate the unfettered way of doing business and cancel all kinds of unscheduled inspections. The registration is carried out by the regulatory bodies (e.g. the Inspectorate). The inspections that shall be registered in this system are conducted only in the cases when the Prosecutor's office finds it reasonable. Additionally, the entrepreneurs have a right to acquaint themselves with the inspection reports, regulatory bodies performing inspections and data concerning all the inspections conducted via SMS after registration in that Unified System.

We would like to remind that pursuant to the Presidential Decree No. PP – 3573 dated 28.02.2018¹ (the “Decree No. PP – 3573”) until 1 January 2025, the manufactures of the wine type grapes are exempted from the land tax and custom duties for the imported supplies, raw materials, plant protection products and other items that are used in the production of wine and not produced in sufficient quantities in the Republic of Uzbekistan .

Renewed licensing requirements

As the Decree strengthens the licensing requirements, starting from January 1, 2020, for the manufacturers of vodka and/or alcoholic beverages, the following additional licensing requirements are being introduced:

- creation of their own plantations of wine type grapes sufficient to cover at least 75% of their production needs;
- at least 60% of the installed capacity shall be involved in the production of vodka, including vodka and alcoholic beverages from food ethyl alcohol. At the same time, the production volume must be at least 100,000 deciliters per year in terms of absolute alcohol;
- not less than 50 % of the installed capacity shall be involved in the production of alcoholic beverages from food ethyl alcohol in enterprises that do not produce vodka.

Meanwhile, alcohol products made from grapes, fruits and berries are not subject to the minimum production volume.

In accordance with the Decree, the existing licenses for the production of alcoholic beverages and tobacco products shall remain in force until July 1, 2019. After this period, all businesses shall apply for new licenses.

Until the aforementioned licensing requirements enter into force, existing requirements established by the Regulation on the licensing of activities for the production of ethyl alcohol and alcohol products are applicable².

Upcoming modifications

In the beginning of April 2019, the draft Law “On introducing amendments and addendums to certain legislative acts of the Republic of Uzbekistan” shall be adopted, introducing:

- separate license for the wholesale trade in alcohol. The main licensing requirement shall be the registration in the system for monitoring and recording the movement of alcoholic beverages. Pursuant to the Decree No. PP – 3573, the system shall be introduced on January 1, 2020 and become fully operating till December 1, 2022. The system shall contain detailed information on all alcohol producers together with the production and realization volumes over “producer—wholesaler—retailer—customer” chain;

1. <http://www.lex.uz/docs/3574142>

2. <http://www.lex.uz/docs/946879>

- the authorization for the trade in alcoholic and tobacco products through the facilities that are located within the distance of 200 meters (to date - of 500 meters) from educational, sports and religious organizations. Additionally, it shall be allowed to sell alcohol in fairgrounds, shopping malls and markets with a total sales area of more than 1000 square meters;
- imposition of a ban on and responsibility for importing alcoholic products into the territory of the Republic of Uzbekistan in a polymer containers made of polyethylene, polystyrene and other polymeric material, with the exception of brewing and wine products.