



A former Soviet Republic, Uzbekistan is bordered by Kazakhstan, Kyrgyzstan, Tajikistan, Afghanistan and Turkmenistan. It was declared an independent state in September 1991, which was endorsed about three months later by a popular referendum.

Uzbekistan is a dry, landlocked country, 11 percent of which is intensely cultivated and irrigated river valleys. More than 60 percent of its population lives in densely populated rural communities.

Uzbekistan is a member of the Organisation for Security and Cooperation in Europe (OSCE), the United Nations (UN), and NATO Partnership for Peace, the IMF, the World Bank and the European Bank of Reconstruction and Development (EBRD), and has acceded to the Nuclear Non-Proliferation Treaty (NPT).

Economy¹

Uzbekistan has substantial natural resources, including gas, oil, gold and silver. It is the world's third largest exporter of cotton. In the absence of substantive economic reform, the strength of the Uzbek economy is largely dependent gold and cotton prices.

Following independence in December 1991, the Government sought to prop up its Soviet-style command economy with subsidies and tight controls on production and prices. Uzbekistan responded to the negative external conditions, generated by the Asian and Russian financial crises, by emphasising import substitution industrialisation and by tightening export and currency controls within its already largely closed economy.

A sharp increase in the inequality of income distribution has hurt the lower ranks of society since independence. In October 2003, Uzbekistan introduced currency convertibility and signed up to the Article 8 of the IMF Charter. However, in April 2004, the EBRD restricted its

| PROFILE | |
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| Population: | 6 million*** |
| GDP (Current US\$): | 9.9 billion*** |
| Per Capita Income: (Current US\$) | 420 (Atlas method)*** 1,0 (at PPP)** |
| Surface Area: | 447.4 thousand sq. km |
| Life Expectancy: | 69.5 years** |
| Literacy (%): | 99.3 (of ages 15 and above)** |
| HDI Rank: | 107*** |
| Sources: - World Development Indicators Database, World Bank, 2004 - Human Development Report Statistics, UNDP, 2004 (**) For the year 2002 (***) For the year 2003 | |

investment programmes due to Uzbekistan's lack of progress on political and economic benchmarks set by the Bank. Until there is more clarity on legal issues and efficiency in the banking sector, foreign investors will face a difficult environment in Uzbekistan.

Competition Legislation and Institutions

A competition policy enforcement body in Uzbekistan was established for the first time in 1992, as the Department of Antimonopoly and Pricing Policies of the Ministry of the Finance. The function of this body was to oversee the observance of anti-monopoly provisions in Uzbekistan.

In 1996, the Department was transformed into the Committee on Demonopolisation and Competition Development of the Ministry of Finance, and for the first time it was given the status of a legal entity, though it still remained under the jurisdiction of the Ministry of Finance. At the same time, the Committee was given additional functions, and empowered to implement the observance of the requirements on consumer rights protection legislation, natural monopolies, and advertising.

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¹ FCO country profile www.fco.gov.uk

In August 2000, by the Decree of the President of the Republic of Uzbekistan, the antimonopoly agency was freed from the jurisdiction of the Ministry of Finance and transformed into an independent State Committee² (hereinafter referred to as the Antimonopoly Committee).

Improvements to the existing legislative framework for competition and regulatory policy were highlighted as a priority area for reform by the Anti-Monopoly Committee (AMC). With the assistance of international experts, the AMC identified several areas where amendments or new legislation were needed, including: de-monopolisation in commodity markets; anti-collusion measures; shareholder and property rights protection; rate-setting for regulated utility monopolies; false advertising; and consumer rights protection³.

The Law of the Republic of Uzbekistan on Competition and Restriction of Monopolistic Activities in the Market was adopted in 1996. This Law determines organisational and legal bases for the prevention, restriction, and suppression of monopolistic activity and unfair competition, and is directed towards providing conditions for the formation and effective functioning of a competitive market within a liberalised economy.

Basic conditions for free market competition⁴ are yet to flourish in Uzbekistan. Dense regulation of the economy, a legacy of the Soviet system, was reduced somewhat, but basic free market competition exists in only a few areas, for example, through the development of micro-enterprises and joint ventures. However, there is an extensive informal economy (black economy) that includes all sectors. The State continues to control and shape the economy in all strategic sectors, especially raw materials and agriculture.

Privatisation of large industrial enterprises, the de-monopolisation of a number of industries and the cotton market, and the liberalisation of foreign trade policies are moving ahead very slowly. One of the most important preconditions for a market economy reform policy, the convertibility of the Uzbek currency (the Soum), has been announced frequently; but it has only been implemented in certain segments. All banks are in the State sector, or heavily regulated by the Government, and a capital market does not exist.

Institutional Framework

Uzbekistan has made substantial progress, since the beginning of reforms, to develop an institutional framework for all commercial activities and to promote the establishment of a competitive business environment in

the country. The development of the framework is still in progress. As of now, it includes, amongst other measures and actions:

- The establishment of the AMC;
- Development of a programme entitled ‘The Concept of State Anti-monopoly Policy’, which formulates the main objectives of the Government’s competition and regulatory policy;
- Enactment of several laws, such as the laws ‘*On Competition and Restriction of Monopoly Activity in Commodity Markets*’, ‘*On the Limitation of Monopolistic Activity*’, ‘*On Natural Monopolies*’, ‘*On Protection of Consumers’ Rights*’, and ‘*On Advertising*.’

The central objectives of the Government’s competition and regulatory reform programme – implemented by the AMC – are: to develop competition and entrepreneurship in Uzbekistan’s economy; to regulate the activities of monopoly enterprises; to prevent abuse by firms with dominant market positions; to enforce sanctions on firms who engage in unfair competition; and to protect consumer rights. The emerging institutional framework and policy objectives are generally consistent with international practice.

The State Antimonopoly Committee⁵

The structure of the State Antimonopoly Committee is as follows:

The Regional Divisions of the Committee - Regional Divisions of the State Committee of the Republic of Uzbekistan on De-monopolisation and Competition Development are the bodies, which carry out the implementation of policies in the spheres of competition development, limitation of anticompetitive behaviour, regulation of the activity of natural monopolies, consumer rights’ protection, and advertising, in various regions of the Republic.

The Department of Methodology and Coordination of Activities of Antimonopoly Bodies - This Department conducts organisational, methodological and information dissemination work on the issues of de-monopolisation and competition development, antimonopoly legislation, legislation on consumer rights’ protection, natural monopolies, and advertising.

The Department of Enforcement of Compliance with Legislation on Competition - This Department supervises the compliance with anti-monopoly legislation, legislation on natural monopolies, and other normative acts.

2 From the State Committee on Demonopolisation and Competition Development website <<http://www.antimon.uz/eng/o1.html>>

3 Various laws for Uzbekistan: Law of the Republic of Uzbekistan On Competition and Restriction of Monopolistic Activity at the Markets 1996, Law of the Republic of Uzbekistan On Natural Monopolies 1997, Law of the Republic of Uzbekistan On Advertising 1998, Law of the Republic of Uzbekistan On Protection of Consumer’s Right 1996, and Regulation of Mergers and Acquisitions 2001.

4 <http://www.bertelsmann-transformation-index.de/151.0.html?&L=1>

5 www.antimon.uz

Overseeing compliance is within the remit of the State Committee, which also considers cases of legal infringements, issues appropriate decisions, provides the violators with the ‘cease and desist’ orders, and initiates cases/investigations, and appeals to the Court when it is appropriate.

The Department of Analysis of Commodity Markets and Anti-monopoly Regulations – This Department’s main functions include:

- Overseeing compliance with antimonopoly legislation and the reorganisation of undertakings which are either natural monopolies, or those with a dominant position in financial and product markets, including during the process of privatisation and breaking up of state enterprises;
- Coordinating development of de-monopolisation programmes;
- Developing practical measures aimed at the stimulation of business activity in monopolised industries and product markets;
- Supporting free competition; overseeing compliance with antimonopoly legislation in acquisitions of more than 35 percent of a company’s stock; and
- Overseeing transactions by natural monopolies.

The Department of Monitoring the Economic Reforms in Capital Construction Sector – This Department is in charge of overseeing compliance with anti-monopoly legislation; supervision of meeting the requirements of resolutions and instructions of the Cabinet of Ministers of the Republic of Uzbekistan; minutes of the Economic Panel of the Cabinet of Ministers; and other normative acts targeting budget disbursement in construction as well as in production of construction materials.

In addition, Uzbekistan has a *Press Centre* and an *Anti-monopoly Policy Improvement Centre*. The Antimonopoly Policy Improvement Centre was established with the view of strengthening the practical orientation of research and development in the sphere of anti-monopoly legislation and legislation on consumer rights protection. It helps in increasing the knowledge of specialists in the sphere of international practice of anti-monopoly regulation; and in creating a modern system of training and retraining of personnel in the sphere of antimonopoly policy.

Anticompetitive Business Practices

One of the primary instruments, by which the Anti-Monopoly Committee implements competition policy, is through its Register of Monopoly Enterprises. This policy instrument is common for many other CIS countries as well.⁶ Uzbek enterprises that are considered as ‘dominant’ – defined by statute as generally having a market share of at least 65 percent, and under certain conditions, a market share of at least 35 percent – are listed on the Anti-monopoly Committee Register. Therefore, they must declare their prices and profits for AMC’s approval.

6. See footnote 2 on page 97

Box 34.1: Excessive Licensing and Regulatory Requirements

The regulatory and licensing barriers are the continuation of the Soviet ‘system of permissions,’ whereby one must obtain approval from the authorities to embark on even the smallest task. Although Central Asian governments are vocal in their support and praise for the open and free market system, businesses have to seek permission from the Government at every step of operations.

The ‘permissive’ entrepreneurial climate, characterised by abundant over-regulation, continues to inflict losses on entrepreneurial activity across all sectors of the economy. When entrepreneurs attempt to seek legal redress, they soon discover newer hurdles: those who pay bribes can keep prices artificially low and force competitors out of business.

TIM, a small Uzbek limited liability company, which exported fruits and vegetables, was refused registration twice after lengthy delays despite the Government ‘one-stop-shop’ registration system. This system theoretically allows businesses to register within 12 days. *TIM* hired legal assistance, and eventually succeeded in registering, only to realise that it could not compete with similar firms, as competitors paid bribes to avoid paying arbitrary and excessive fines, which thereby could drive prices artificially low.

Once a firm is registered and does manage to operate, administrative barriers are reinforced by constant inspections. They serve to exhaust the firm’s owner(s) and virtually facilitate the firm’s transition into the informal sector. Indeed, inspectors themselves openly hint that should bribes be paid from the start, everyone will be spared delays and aggravation.

Some entrepreneurs petition the Government for redress, but governments rarely act against the abuser(s). The weak rule-of-law system does not punish corruption, but rather only serve to reinforce the administrative barriers.

To ease the chokehold on their activities, a pattern of conducting business by SMEs in Central Asia has emerged, which consists of three options for the entrepreneur: (1) Enter the informal sector by paying bribes each step of the way, (2) Secure and utilise ‘connections’ in Government and/or (3) Obtain a Government position and abuse the system of authority to one’s benefit.

Source: Centre for International Private Enterprise
WWW.CIPE.ORG

In addition, registered monopolies, once they agree with their input suppliers and output buyers on volumes, delivery times, and other conditions and prices, must register the transaction terms with the AMC along with their expected profits. In certain cases – typically for infrastructure (utility) monopolies – the AMC directly determines prices and profits.

Abuse of Dominant Position by an Undertaking⁷

The actions of an undertaking with a dominant position, which result or may result in the restriction of competition and/or discrimination of interests of other undertakings, are forbidden. Such actions include:

- Withdrawing goods from circulation, the purpose or result of which is the creation or maintenance of deficiency in the market or increase of prices;
- Establishing monopolistic high or low prices;
- Imposing conditions on the contractor, which are not related to the subject of a contract, including unreasonable requirements of financial asset transfer, and other property or property rights;
- Including discriminatory conditions in the contract, which put the contractor in an unequal situation in comparison with other undertakings;
- Only consenting to sign a contract under condition of additional purchase or sale by the contractor of other goods, or abstention of the contractor from purchase of the goods from other undertakings, or sale of the goods to other undertakings;
- Unreasonable refusing to sign a contract in the presence of an opportunity to manufacture or deliver the appropriate goods; and
- Creating barriers to enter the market for other undertakings.

In exclusive dealing cases, undertakings' actions, specified above, can be considered by the State Anti-Monopoly Committee as lawful if the undertaking will prove that the positive effect from its actions, including in the socio-economic sphere, will exceed the negative consequences for the given market.

Sectoral Regulation

Telecommunications Sector

The telecommunications industry plays a critical role in Uzbekistan, which inherited the bulk of its fixed telephony network facilities from the former Soviet Union. The country has made progress since independence in upgrading its fixed telephony system and building new wireless communication networks, struggling valiantly to bring its telecommunications system up to the standard found in developed countries.

Box 34.2: Taming Sugar Monopoly

Consumers expressed sharp discontent with increasing sugar prices. Following this the State Committee opened investigations against Shakar Investment, the sole sugar producer in Uzbekistan.

The research showed that Shakar had jacked up its prices following a world wide increase in sugar prices, in spite of having sufficient stocks in its warehouses. A press release from the State Committee noted that Shakar took undue advantage of its monopoly. Further, the firm supplied sugar via direct agreements instead of exchange trades. The average price for sugar at exchange was about Sum 782,200 per tonne, while retail prices ranged between 1,200-1,400 sums per kilo.

The Committee held the action by Shakar as violation of Section 5(2) of the competition law and was ordered to cease from the abuse of its dominant position.

Pursuant to the Committee's recommendation, the Economics Ministry, after assessing the production and consumption of sugar in the country, directed Shakar to increase supply of sugar through the exchange route from 38,000 tonnes to 140,000 tonnes. This measure will not allow artificial resale of sugar and promote price stabilisation.

Source: www.UzReport.com

With just over 1.6 million telephones at the end of 2002, for a penetration of less than seven percent, the country suffers from outdated and poorly maintained analogue equipment. In 1996, the Government began inviting foreign telecom companies to invest in Uzbekistan in their own right. In 2000, Uzbekistan created a national telecommunications holding company, Uzbek Telecom, in the first step towards privatising the sector, but has been moving slowly along this path.

Telecommunications has been one of the most attractive sectors of the country for foreign investment in the last decade. However, the main telecommunication facilities are still owned by the State. Current strict regulation on hard currency convertibility, as well as poor economic conditions, has hampered further development of the sector.

Energy Sector⁸

Uzbekistan is the largest electricity producer amongst the Central Asian Republics, and a net exporter of electricity. The country has a total installed generation capacity of

7 <http://66.102.7.104/search?q=cache:ybouGpMZJeUJ:www.globalcompetitionforum.org/regions/asia/Uzbekistan/competition.pdf+law+of+republic+on+competition+and+restriction+of+monopolistic+in+uzbekistan&hl=en&ie=UTF->

8 <http://www.bisnis.doc.gov/bisnis/isa/011105uzenen1.htm>

Box 34.3: Inefficient Local Monopolies

Every district or a town often has one small-size enterprise that is a monopoly within its territory. In theory, they could compete, but they do not, due to their territorial affiliation. For example, three regional repair shops function in Samarkand: Siab, Temiryul and Bagishamal.

The enterprises could have competed with each other within the city territory, but they continued functioning only in their districts and maintained their local monopoly positions.

The inefficiency of enterprises guided by the territorial principle lies in their inability to use the same resources, located nearby, but in different administrative districts, thus creating, in this instance, three supply chains.

An analysis of the situation produced a competition reform, in the form of the trade tender for contracts stipulating servicing zones allocated for tender (single district and multi-district contracts). It helped to raise the interest of previously non-competing companies for promoting competition among them.

Source: Centre for Economic Research – (June 2003) Policy Paper “Main directions and mechanisms supporting development of competitive environment and anti-trust policy” pg 25 (www.cer.uz)

11,283 MW. Uzbekistan has achieved self-sufficiency in energy after gaining independence in 1991. However, maintenance of its power systems has deteriorated over the past few years, and some generating units have ceased operation. Much of the equipment in generation, transmission and distribution systems is outdated and extremely inefficient.

The energy sector in Uzbekistan is entirely State-owned. Electric power generation was controlled by Uzbekistan’s Ministry of Power Engineering and Electrification until February 2001 when, by a Government Decree, the Ministry was transformed into the Uzbekenergo joint-stock company. However, its actual status, functions, and structure did not change significantly.

In 2001, growing demand for electricity, and depreciation of existing power generating facilities in the country, motivated the Government to develop a long-term programme for the reconstruction and development of the sector for the year 2001-10. This programme aims to extend the life of current power plants, as well as to increase their generating capacities.

Further, a timetable plan for privatisation of enterprises producing electric power was developed in June 2004. A

key tool in the privatisation process was the Decree of the President of the Republic of Uzbekistan No. PD-3202 dated January 24, 2003 *On Measures to Cardinaly Increase Share and Importance of the Private Sector in the Economy of Uzbekistan*. This was intended to speed-up the development of private sector, increase its role and importance in the country’s economy, and improve the system of corporate governance of privatised enterprises.

Consumer Protection

The *Law on the Protection of Consumer Rights* was enacted on April 26, 1996. The Department of Provision of Consumer Rights’ Protection and Regulation of the Advertising Market oversees compliance with the *Laws On Consumer Rights Protection* and *On Advertising*. The main objectives of the Department include the creation of information dissemination on undertakings and individuals, and products, as well as the improvement of entrepreneurial and customer culture.

Consumers are also establishing public organisations to protect their rights recognised by the Government. These organisations, together with the Committee or on their own, may provide support for resolution of issues related to the rights of consumers. There are several voluntary consumers’ organisations in Uzbekistan. The Association of Consumer Rights Protection, which also has regional offices, is one of them.

Box 34.4: Consumer Entry Fees in City Market Bazaars Stopped

The government allowed some of the city markets/bazaars in Uzbekistan to levy an entrance fee according to their choice. These varied from 25 to 100 Sum. On receiving complaints from consumers, the State Committee on Demonopolisation and Competition investigated and found that such a levy was in violation of the consumer protection law.

On the Committee’s request to the Ministry of Economy, the matter was referred to the Cabinet of Ministers. It was found out that the city markets were charging such entrance fee on an authorisation from the Ministry of Justice after getting an approval from the Statistics & Forecast Committee of the Cabinet. The Cabinet agreed with the submission of the State Committee and directed the suspension of the entrance fee system.

On February 1, 2003, the entrance fee to the biggest market, ‘Chilonzom bium basari’, formerly known as Hippodrome, was cancelled by a ruling of the Cabinet. Following this another 20 big Uzbek markets also cancelled the entrance fees.

Source: website of AMC

Concluding Observations and Future Scenario

A functional market economy in Uzbekistan depends on the creation of a truly competitive environment. Effective promotion of anti-monopoly regulation and natural monopolies is essential during the transition process.

Over the last few years, the formation of a competitive environment has considerably strengthened, due to the following factors:

- Government measures have been adopted to reduce the share of the Government sector in the economy;
- The Government has also reduced the sphere of State regulation and management of enterprises;

- The economy has been de-monopolised, and competition has developed within the framework of the industrial and regional programmes; and
- Prices and foreign trade activities have been liberalised.

To increase the effectiveness of the market economy in the future, the State of Uzbekistan needs to harmonise the legal and economic conditions for promoting competition, and enforce these laws, prevent market dominance, improve the existing Anti-monopoly Law, and the Law on the Protection of Consumer Rights. These few steps will hopefully reduce corruption.