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# **Integrating Sustainable Trade Principles in Uzbekistan**

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# Integrating Sustainable Trade Principles in Uzbekistan

Challenges and opportunities of integrating international trade into Uzbekistan's SDG policies

January 2022

## **ABSTRACT**

This article is an assessment of the current state of affairs in Uzbekistan's SDG policies. It is based on an analysis of UN compiled data on SDGs, as well as an overview of Uzbekistan's key SDG-related strategies, as well as unstructured interviews with a dozen respondents. Desk research suggests that Government's key SDG priorities remain in export promotion, job creation and increased economic competitiveness. Interviews suggest that sustainability is understood as political and economic stability, economic growth, environmental conservation and rule of law. From the SDG issues, respondents identified SME and female entrepreneur support, employment generation and e-commerce as the ones with the highest priority, while concurring that corruption, monopolies and market distortions, low policy implementation capacity and limited public awareness of sustainability were the greatest obstacles.

The greatest strength of Uzbekistan in integrating international trade into SDGs is the current reform momentum. Significantly improved relations with neighbors is another strength, with a window of opportunity to improve on regional trade, transit, connectivity, as well as water management and water-energy nexus. The greatest challenge, on the other hand, remains the government's focus on exports, FDI, job creation and GDP growth, even if at the expense of the other SDGs. The other significant challenge is the insistence on import substitution and local production, and economic mercantilism in general, at the expense of the free-trade, value-chain-integration-based development model.

Agriculture and food production, energy and e-commerce will be the sectors with highest potential in scaling up sustainable trade principles.

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## **INTRODUCTION: UZBEKISTAN'S ECONOMY AND DEVELOPMENT STRATEGY**

Uzbekistan is a landlocked lower-middle income country in Central Asia, the most populous of the five states of the region and the only one with borders with the remaining four and Afghanistan. It is one of the two double-landlocked countries, with none of Uzbekistan's neighbours having direct access to a seaport. While presenting a logistical challenge to the integration of Uzbekistan into the global economic system, this fact also elevates the importance of trade facilitation, promotion of services and high-value goods trade and transport facilitation for the competitiveness of the Uzbek economy.

Among a handful of non-members of the World Trade Organization, Uzbekistan has consistently pursued import-substituting industrialization policies since gaining independence in 1991. The exports are dominated by natural resources, whose rising prices in 2000-2008 ensured value growth of Uzbek exports. Public finance authorities consistently posted trade surpluses, which were in reality obtained through exorbitant taxation of imports, limiting access to foreign exchange and micromanagement of the customs administration.

Since the passing away of its president and the election of Shavkat Mirziyoyev into the presidency in 2016, the economic policy took a U-turn, making significant steps towards economic and trade liberalization. The foreign exchange system was liberalized in the third quarter of 2017, as were regulated prices,<sup>1</sup> average import tariff was brought down from 15 to 3%, the corporate and personal tax rates were significantly reduced starting 2019.<sup>2</sup>

Despite these significant developments, Uzbekistan has a long way to go until international trade is put to the service of national development. In 2020 the Doing Business index of the World Bank Uzbekistan ranked 152th out of 190 countries for external trade, with a score 58/100.<sup>3</sup> In fact, the country's lowest score in Doing Business is for external trade, and within external trade, for documentary compliance costs of exports and documentary compliance time for imports. Related to external trade, land reform is yet to be completed, state and state-allied monopolies eliminated and inefficient state enterprises privatized.

This report will take stock of these developments and identify SDG-related risks and opportunities to Uzbekistan's trade liberalization.

## **ECONOMIC INDICATORS AND COVID-19 IMPLICATIONS**

According to the World Bank, in 2020, the COVID-19 crisis has 'almost entirely extinguished GDP growth', but the organization continues to maintain its positive economic outlook based on the pace of reforms.<sup>4</sup> Uzbekistan posted a 5.8% growth in 2019 and zero growth in the first half of 2020 and capital investments decreased 12.8%. Unemployment jumped from 9.4 to 15% between the first and second quarters of 2020. The IMF, having reviewed economic indicators for the first half of 2020, issued a

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<sup>1</sup> The previous country policy has been to administratively manage prices for energy and water, both as inputs into agriculture and for corporate and household consumption. Artificially low prices encouraged overuse and environmental degradation.

<sup>2</sup> World Bank, Uzbekistan: Towards A New Economy, Country Economic Update, Summer 2019. Available at: <http://documents1.worldbank.org/curated/en/866501562572675697/pdf/Uzbekistan-Toward-a-New-Economy-Country-Economic-Update.pdf>

<sup>3</sup> World Bank, Doing Business: Measuring Business Regulations (2020). Available at: [https://www.doingbusiness.org/en/data/exploreeconomies/uzbekistan#DB\\_tab](https://www.doingbusiness.org/en/data/exploreeconomies/uzbekistan#DB_tab)

<sup>4</sup> World Bank, Overview: Country Context for Uzbekistan. Available at: <https://www.worldbank.org/en/country/uzbekistan/overview#:~:text=Economic%20Outlook&text=Annual%20GDP%20growth%20is%20projected,elevated%20by%20further%20price%20reforms.>

statement forecasting slight (around 1%) growth in 2020 and a return to 5-6% growth in 2021.<sup>5</sup> Fortunately for the country, the shrinking capital investments, cargo and passenger transportation volumes were partially offset by robust growth in state-sponsored construction, agricultural production and a slight increase in services, leading the Uzbek Statistics Committee to post a 0.4% increase in GDP in January-September of 2020.<sup>6</sup>

In terms of the external balance, foreign labour migrants' remittances, a major source of hard currency earnings, declined by 19%, exports - by 23% and imports - by 15%.<sup>7</sup> Export decline is primarily due to supply chain disruptions and falling prices for natural gas, gold and other metals, while import decline is mainly due to imports of capital goods.

According to the Economists Intelligence Unit, the three basic problems that Uzbekistan faced against the backdrop of the COVID-19 was the fall in commodity export values, the drying up remittances and the tightening fiscal space to address the economic implications of the COVID-19 pandemic.<sup>8</sup>

In response to the pandemic, the government introduced a standard set of measures, targeting primarily the SMEs and sectors considered hardest hit by the COVID-19, like sales, entertainment, catering and hospitality. Tax relief and expanded business financing were the major policy instruments utilized.

Besides economic measures, the government introduced a number of commonplace social protection and public health measures, including two lockdowns. It also included a number of trade facilitation measures at the onset of the crisis, such as a trader assistance hotline and end further digitalisation of customs and trade procedures.

A Crisis Fund of USD 1 billion (1.5% of GDP) was created to cover immediate social needs and assistance to the businesses. Between February-November 2020, about 2.5% of GDP has been spent, to increase social payments by 17% and minimum wages by 10%. In September, the government adopted a crisis mitigation program 2020-21, with a focus on investment and economic reforms.<sup>9</sup>

Overall, Uzbekistan has implemented the necessary containment and support measures from the book and in the assessment of the OECD, is the only country, besides Kazakhstan, to do so in the region.<sup>10</sup> As a way forward, international development agencies, typically recommend further digitalisation and facilitation of trade, customs and other government procedures, stepping up of support to the SMEs (training, finance, trade facilitation) and employment assistance.

## ***STRUCTURE OF THE ECONOMY AND ITS MOST COMPETITIVE SECTORS***

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<sup>5</sup> International Monetary Fund, 'IMF Staff Concludes Virtual Mission to Uzbekistan', September 21, 2020. Available at: <https://www.imf.org/en/News/Articles/2020/09/21/pr20296-uzbekistan-imf-staff-concludes-virtual-visit-to-uzbekistan>

<sup>6</sup> Uzbekistan Statistics Committee welcome page, Uzbekistan in Numbers, <https://stat.uz/uz/>

<sup>7</sup> World Bank, Overview: Country Context for Uzbekistan.

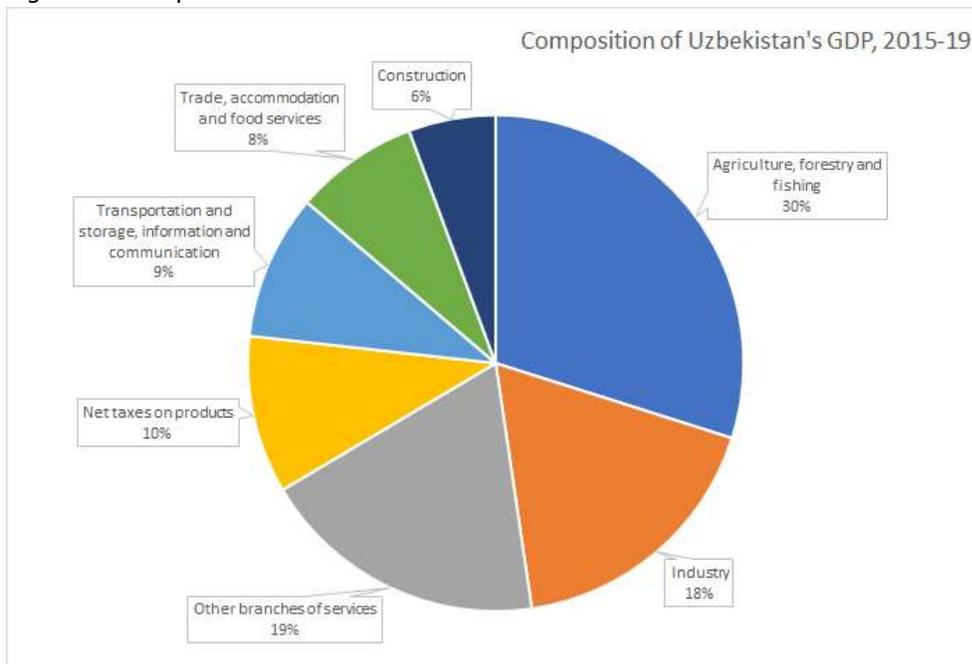
<sup>8</sup> Tenth Central Asia Trade Forum 2020 (virtual). Economist Intelligence Unit Roundtable on 17 November 2020. Available at: <https://catradeforum.org/expert-interviews/>

<sup>9</sup> Organization for Economic Cooperation and Development, COVID-19 in Central Asia: Economic Recovery and Challenges Ahead. London, November 2020.

<sup>10</sup> Organization for Economic Cooperation and Development, COVID-19 in Central Asia: Economic Recovery and Challenges Ahead. London, November 2020.

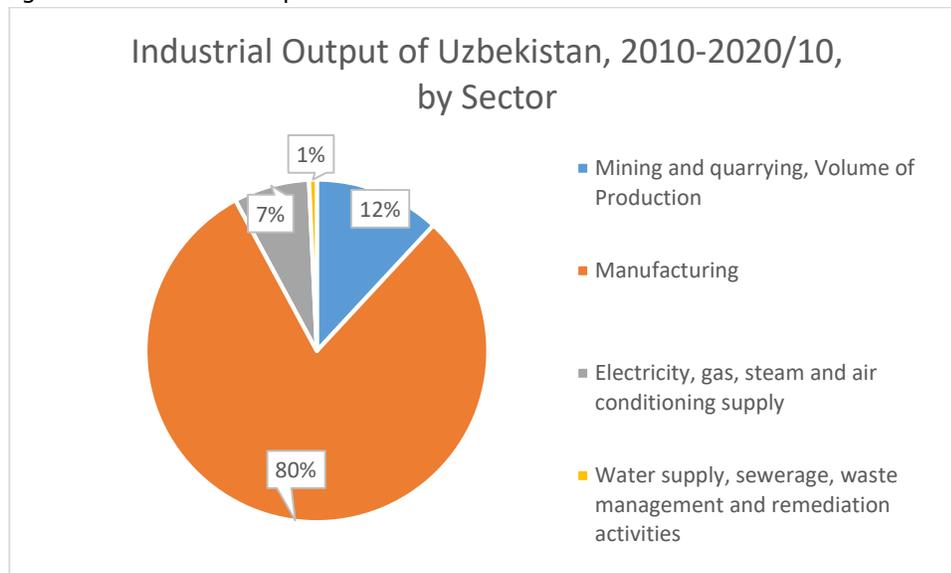
Uzbekistan’s economy is agriculture-driven. The national GDP is made up to a third by agriculture and related sectors. Services make up 42%, with transportation and telecoms leading with 9%. Industry has been growing and constitutes 18%, if the last five years are taken into account.<sup>11</sup>

Figure 1. Composition of Uzbekistan’s GDP in 2015-2019



Within the industry group, manufacturing has made up 80% in the last ten years, mining - 12% and energy - 7%. Zooming into the manufacturing, the output is traditionally dominated by metallurgy, food and beverages, textiles, automobiles, chemicals and minerals.<sup>12</sup>

Figure 2. Industrial Output of Uzbekistan 2010-2020

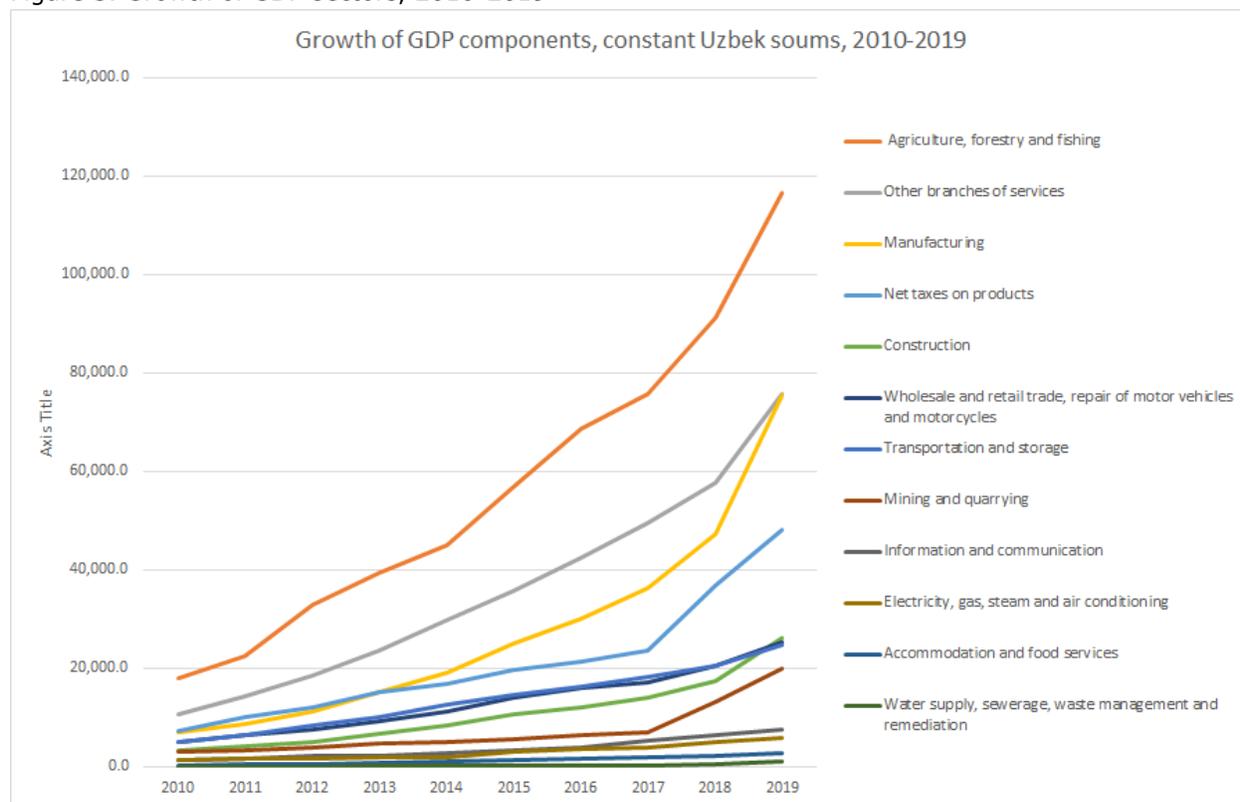


<sup>11</sup> Authors calculations based on National Statistics Committee’s data.

<sup>12</sup> Authors calculations based on Statistics Committee’s IMF’s DSBB-compliant data, <https://nsdp.stat.uz/>

Of all the GDP components, agriculture grew the most in the last ten years, as did manufacturing and “other” services, including tour operator services.

Figure 3. Growth of GDP sectors, 2010-2019



So far we have looked into the economy in general. Competitive sectors can also be identified in terms of external trade.

For example, Uzbek agriculture was the second largest producer of apricots in the world, by volume, in 2017, the fourth largest producer of cherries and watermelons, the sixth largest producer of cucumbers, twelfth and thirteenth of tomatoes and grapes, respectively.<sup>13</sup>

The competitive sectors, as measured by the revealed competitive advantage<sup>14</sup> would be agriculture, textiles, mining and metals, natural gas and its primary derivatives (like polymers) and electricity. Below is the list of the twenty most competitive Uzbekistan exports, ranked by the RCA.

Table 1. Revealed Comparative Advantage of Top 20 Export Items

No	Good type and CPC code	RCA	No	Good type and CPC code	RC A
1	[261] Silk	128	11	[057] Fruits and nuts	8

<sup>13</sup> Ibid.

<sup>14</sup> The revealed comparative advantage (RCA, also known as the Balassa Index) is an index used in international economics for calculating the relative advantage or disadvantage of a certain country in a certain class of goods or services as evidenced by trade flows. To put it simple, it is a certain goods' share in the overall exports of a country divided by the share of that good in world exports.

<b>2</b>	[263] Cotton	34	<b>12</b>	[571] Polymers of ethylene	8
<b>3</b>	[046] Meal and flour of wheat	33	<b>13</b>	[075] Spices	7
<b>4</b>	[651] Textile yarn	29	<b>14</b>	[351] Electric current	7
<b>5</b>	[686] Zinc	22	<b>15</b>	[611] Leather	4
<b>6</b>	[525] Radio-actives	19	<b>16</b>	[562] Fertilizers	4
<b>7</b>	[343] Natural gas	19	<b>17</b>	[652] Cotton fabrics, woven	4
<b>8</b>	[971] Gold, non-monetary	16	<b>18</b>	[659] Floor coverings, etc.	3
<b>9</b>	[682] Copper	12	<b>19</b>	[655] Knitted or crocheted fabrics	3
<b>10</b>	[054] Vegetables	8	<b>20</b>	[274] Sulphur and pyrites	3

Besides producing almost a third of the gross domestic product, agriculture employs around a quarter of its population. Despite featuring prominently in domestic production and external trade statistics, it has been plagued by low productivity, with a per employee agricultural output of only USD 2200 in 2017.<sup>15</sup>

In terms of services, the competitive and exporting sectors are transport services (including cargo and transit) and tourism. The two accounted for almost 90% of the Uzbek services exports in 2019.<sup>16</sup>

## **UZBEKISTAN'S DEVELOPMENT STRATEGY AND PLACEMENT ON INTERNATIONAL INDICES**

### *SDG INDEX*

Uzbekistan formed its first National Sustainable Development Commission under the Government in 1997 and issued its first Sustainable Development Concept in 1998.<sup>17</sup>

Uzbekistan has strongly supported the Sustainable Development Goals, with a national focus on education, health, gender equality, infrastructure, and financial inclusion. The national SDG action plan stresses skills training, support to active labour market programs, expanding legal and policy support to labour migrants (primarily in Russia) and reforming the labour market. Uzbekistan's overall index score for the year 2020 is 71 and its ranking 66/166. SDG 14 (Life Below Water) is not included in the national plan as the country is landlocked. For the rest of the Goals, the following has been reported in 2019 by the UN MAPS team.<sup>18</sup>

<sup>15</sup> To compare, in France it is USD 50 thousand and almost 10 thousand in Turkey. Source: Buyuk Kelajak Uzbekistan 2035 Strategy, p. 107.

<sup>16</sup> United Nations Conference on Trade and Development, UNCTADStat, <https://unctadstat.unctad.org/CountryProfile/GeneralProfile/en-GB/860/index.html>

<sup>17</sup> National Notification of Uzbekistan to the United Nations, "Uzbekistan On Path of Sustainable Development", prepared by Chairman of the State Nature Protection Committee N.Umarov, <https://sustainabledevelopment.un.org/content/documents/1034uzbekistan.pdf>

<sup>18</sup> United Nations Development Programme Istanbul Regional Hub, Regional Bureau for Europe and the CIS, Discussion paper "Summary Of Main Findings From SDG Mainstreaming, Acceleration And Policy Support Mission

Figure 4. Summary of Uzbekistan’s Progress per SDG



A more detailed look into the problematic SDGs using the Sustainable Development Report Dashboard<sup>19</sup> reveals the following “serious efforts” areas. From among the indicators related to international trade, Uzbekistan’s obesity and Sustainable Nitrogen Management Index present “major challenges” (i.e. is red-coded) for SDG2, with the government admitting that sustainable productive and agricultural methods are not applied.<sup>20</sup> The country ranked 71st in the 2019 Global Food Security Index of the Economist Intelligence Unit, out of 113 reviewed, behind Kazakhstan and Azerbaijan with comparable agricultural systems.<sup>21</sup> Nevertheless, it is a seven-position improvement from 2016.<sup>22</sup> The Index cites corruption, low purchasing power and low levels of R&D investment into agriculture as the most important challenges for Uzbekistan’s food security policy.

Freshwater withdrawal and wastewater treatment present a challenge to attaining SDG6. For SDG8, unemployment rate rose in 2019, while the prevalence of bank account has slightly decreased (in 2017). For SDG9, R&D expenditures fell slightly and are well below the target rate of 3% of GDP,<sup>23</sup> while journal articles count has barely changed in the last 18 years. For a country seeking import-substituting industrialization, these unimpressive SDG9 indicators are a wake-up call.

For SDG11, access to piped water has declined from 95% to 88% in 16 years. Given residential construction spree in the major cities of Uzbekistan and absence of corresponding improvements in public utilities, this indicator will fall even more. For SDG16, the corruption perceptions index is not improving fast enough to attain the global goal, while the press freedom index has slid below the levels

Reports” (MAPS) 2019, <https://www.eurasia.undp.org/content/rbec/en/home/library/sustainable-development/summary-of-findings-from-sdg-MAPS-missions.html>

<sup>19</sup> United Nations Sustainable Development Report. Sustainable Development Index and Dashboard. Uzbekistan’s profile. Current Assessment. <https://dashboards.sdgindex.org/profiles/UZB>

<sup>20</sup> SDG Uzbekistan, Implementation of National Sustainable Development Goals and Voluntary National Review of the Republic Of Uzbekistan, [https://sustainabledevelopment.un.org/content/documents/26424VNR\\_2020\\_Uzbekistan\\_Report\\_English.pdf](https://sustainabledevelopment.un.org/content/documents/26424VNR_2020_Uzbekistan_Report_English.pdf)

<sup>21</sup> Economist Intelligence Unit. Global Food Security Index 2019. Available at: <https://foodsecurityindex.eiu.com/Country/Details#Uzbekistan>

<sup>22</sup> National Sustainable Development Goals. SDG2 - Situation in Uzbekistan, <http://nsdg.stat.uz/goal/5>

<sup>23</sup> The Uzbek Statistics Committee estimates it to have been 0.2% in 2017, <http://nsdg.stat.uz/goal/12>

observed under the previous government. For SDG17, government spending on health and education decreased slightly and is well below the global target, as is the government revenue as part of GDP – fluctuating, but well below the global target.

The MAPS team has stated that rapid progress in SDG nationalization is constrained by limited data availability, with the data availability among the worst in Central Asia and East Europe. The MAPS have also highlighted the absence of a well-defined national development policy framework that could build on the ongoing reform impulse, as well as limited application of evidence-based policy-making. More specifically, the National Action Strategy 2017-2021, for example, has “shows serious data gaps for goals 1,2,10, 12,13,15 and 16”.<sup>24</sup> As of November 2020, the Ministry of Economic Development and Poverty Reduction is yet to address the concerns raised by MAPS missions and quite a few indicators from the 2020 Dashboard are outdated. The Gini Coefficient data for SDG10 is completely absent.<sup>25</sup> January 2021 interviews with UN Country Team revealed serious progress being made by the Uzbek statistics authorities in closing these gaps.<sup>26</sup> Noteworthy is that no political and administrative barriers exist anymore to the collection of data, a significant change from preceding president’s policies.

The government admits the existing shortcomings. In a report to the parliament, the government indicated “certain weaknesses in the effectiveness of public administration, the rule of law, weak market institutions, structural imbalances in the economy, insufficient capacity to collect statistics, lack of funding, and the impact of the global COVID-19 pandemic”<sup>27</sup> will pose a challenge to the attainment of the SDGs.

#### *GLOBAL INNOVATION AND COMPETITIVENESS INDICES*

Uzbekistan is one of around sixty economies not covered by the World Economic Forum’s Global Competitiveness Index, but this will change from next year’s report.<sup>28</sup>

The country also doesn’t regularly participate in the WIPO Global Innovation Index. Rated 115<sup>th</sup> economy in 2015, it fell out due to lack of reliable statistics and wasn’t included in the 2016-19 editions of the Index. In 2020, the country came back and ranked 93<sup>rd</sup> out of 131 reported economies, with a note that the innovation score is in line with the country’s developmental level.<sup>29</sup> The best rank is in market sophistication (27<sup>th</sup>) and the worst in business sophistication and creative output (both 127<sup>th</sup>) and political institutions (95<sup>th</sup>). In terms of the worst scores for the components of the above sub-indices, Uzbekistan is ranked lowest on generic top-level domains (i.e. online creativity, ranked 131), ICT services imports (i.e. knowledge absorption capacity, ranked 130), ICT exports (i.e. knowledge diffusion, ranked 130), regulatory quality (127) and rule of law (124). The Index also lists areas where Uzbekistan performs worse than its income group peers. These areas are regulatory quality and rule of law, global R&D companies’ exports, local university ranking, firms offering training, ICT service imports and generic top-level domains. As part of its Innovation Development Strategy, the government set the goal of entering top-50 in the Global Innovations Index by 2030.

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<sup>24</sup> UNDP Istanbul Regional Hub, “Summary of Main Findings”

<sup>25</sup> SDG Index and Dashboard. <https://dashboards.sdgindex.org/profiles/UZB>

<sup>26</sup> Interview with Zarif Jumaev, Economist at the UN Country Team in Uzbekistan, 25 January 25, 2021

<sup>27</sup> SDG Uzbekistan, Implementation of National Sustainable Development Goals and Voluntary National Review of the Republic Of Uzbekistan,

[https://sustainabledevelopment.un.org/content/documents/26424VNR\\_2020\\_Uzbekistan\\_Report\\_English.pdf](https://sustainabledevelopment.un.org/content/documents/26424VNR_2020_Uzbekistan_Report_English.pdf)

<sup>28</sup> Kun.Uz, Uzbekistan may be included in Global Competitiveness Index from 2021, 8.10.2019,

<https://kun.uz/en/news/2019/10/18/uzbekistan-may-be-included-in-global-competitiveness-index-from-2021>

<sup>29</sup> World Intellectual Property Organization, Global Innovation Index 2020,

[https://www.wipo.int/edocs/pubdocs/en/wipo\\_pub\\_gii\\_2020.pdf](https://www.wipo.int/edocs/pubdocs/en/wipo_pub_gii_2020.pdf)

## THE CIRCULARITY GAP REPORT

The 2020 Circularity Gap Report published by Circle Economy classifies Uzbekistan as a “grow” country, i.e. a country which is on the path of development and rising out of poverty, where development should ideally be managed in a sustainable, resource-efficient and circular way.<sup>30</sup> The Report doesn’t issue country-specific recommendations and its country-group recommendations are too broad to be taken up for direct action. Recognizing that, for example, China, Suriname, Costa Rica, Thailand and Uzbekistan cannot be recommended the same developmental pathways, the Report recommends adapting the general strategies into national plans alongside the following dimensions:

1. Fostering smart consumption
2. Designing circularity into new stocks
3. Transforming the informal economy, and
4. Growing capacity for renewable energy

All four dimensions are topical given Uzbekistan’s economic realities, and the last two in particular. According to the World Bank estimates, almost 60% of the labor force is employed in the informal sector, including at seasonal, temporary informal jobs and as labor migrants abroad.<sup>31</sup> The Government has put a renewed effort to fight the informal sector, mainly through financial controls, but with little incentive for the informal sector to formalize.<sup>32</sup> As for the renewable energy, at the moment, 85% of Uzbekistan’s primary electricity production source is natural gas, with coal’s share expected to rise from the current 3% to 10%. The country’s solar energy potential is an impressive 600 thousand MW.<sup>33</sup> The newly adopted Energy Concept 2030 (see National Legislation section) seeks to address some of the shortcomings in the energy production.

## GLOBAL FOOD SECURITY INDEX

In terms of food security, Uzbekistan continues to suffer from undernutrition and micronutrient deficiencies, albeit the situation has dramatically improved since early 2000s.<sup>34</sup>

Table 2. Food Security Outlook for Uzbekistan

<b>Indicator</b>	2016, %	Compared to 2002, % change
Poverty (USD 1.9, 2011 PPP, %)	27	-40
Undernourishment	6.3	-12.6
Stunting (children under 5), 2006	19.6	n/a <sup>35</sup>
Wasting (children under 5), 2006	4.5	n/a
Anemia (children under 5)	36.6	-16.2
Anemia (reproductive age women)	36.2	-9.1

Uzbekistan relies almost entirely on Kazakhstan for the imports of the highest-class and first-class wheat that the local market demands for baking. Uzbekistan’s own wheat produce is stocked in state reserves or exported to Afghanistan. In 2011, following the global food crisis, Kazakhstan imposed export

<sup>30</sup> Circle Economy, Circularity Gap Report 2020, <https://www.circularity-gap.world/>

<sup>31</sup> World Bank, Country Economic Update: Uzbekistan, Summer 2019. Available at: <http://documents1.worldbank.org/curated/en/866501562572675697/pdf/Uzbekistan-Toward-a-New-Economy-Country-Economic-Update.pdf>

<sup>32</sup> President’s Decree N6098 dated 30.10.2020, <https://lex.uz/ru/docs/5073461>

<sup>33</sup> United Nations Development Programme, Renewable Energy Snapshot: Uzbekistan, <https://www.undp.org/content/dam/rbec/docs/Uzbekistan.pdf>

<sup>34</sup> Burkitbayeva S, Swinnen J, Warrinnier N (2020) Food and nutrition security in Eurasia: Evolution, shocks and policies. Russian Journal of Economics 6(1): 6-25. <https://doi.org/10.32609/j.ruje.6.49749>

<sup>35</sup> There is only one study conducted, in 2006, and it has not yet been updated.

restrictions on wheat, forcing the government of Uzbekistan unseal the wheat reserves to supply the domestic market with wheat.<sup>36</sup>

There is no stand-alone law on food security, it is rather a part of the national development strategies.<sup>37</sup> Neither is nutrition part of the food security agenda. The government pursues strong self-sufficiency goals to establish food security, at the expense of more systemic, international trade-based arrangements.

The 2019 FAO review of food security and nutrition mentions that the residents of Uzbekistan lack adequate supplies of fruits, vegetables and fish products, a problem which can be resolved by more nutrition-sensitive production and trade policies.<sup>38</sup> Part of the problem is collating food and nutritional security. An illustrative example is subsidized production of wheat and bread, as a food staple, to ensure food safety through self-sufficiency. Subsidised bread price leads to overconsumption by the vulnerable groups and feeds into animal feed, both aggravating the nutritional safety problem.<sup>39</sup>

Recognizing the role of trade in securing healthy, high quality and nutrient rich foods, the FAO notes that in the recent years, the non-tariff measures have become increasingly important obstacles to food trade, recommending enhanced transparency measures, risk management and modernized customs valuation methods, mutual recognition of certificates and electronic documents, as well as trade facilitation and building capacity of conformity assessment, standardization and metrology entities and the private sector.<sup>40</sup>

The increasingly dominant systems frameworks in food security and nutrition, the “food systems” and “agro-ecological practices” frameworks, both stress making farming more nutrition-sensitive, diversified, small-scale, healthy, produced in shorter value chains, boosting rural employment and environmentally friendly. The principal policy to attain these goals is to reorient from price and production support to general services and rural development, a very topical recommendation for Uzbekistan, which still runs price support and export promotion programs.

Given high levels of land salinization and water shortage, Uzbekistan cannot meet its demands in dairy, oils and sugar and this shortage will only increase, necessitating the facilitation imports to ensure food security. In 2017 and 2018, recognizing the risks of rising consumer prices on the vulnerable groups, the government has already reduced or abolished customs duties on socially important imports.

#### *UN GLOBAL SURVEY ON DIGITAL AND SUSTAINABLE TRADE FACILITATION*

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<sup>36</sup> Burkitbayeva et al., Fig. 7, World Bank, World Bank (2011). Rising food and energy prices in Europe and Central Asia. Washington, DC.

<sup>37</sup> Burkitbayeva et al., Table 4

<sup>38</sup> FAO. 2019. Regional Overview of Food Security and Nutrition in Europe and Central Asia 2019. Structural Transformations of Agriculture for Improved Food Security, Nutrition and Environment. Budapest. Available at: <http://www.fao.org/3/ca7153en/CA7153EN.pdf>

<sup>39</sup> Interview with an international food safety expert familiar with Uzbekistan, January 15, 2021.

<sup>40</sup> FAO Regional Overview of Food Security and Nutrition, p 60, <http://www.fao.org/3/ca7153en/CA7153EN.pdf>

In the 2019 edition of the Survey, Uzbekistan scores 62%, which is a considerable improvement from the 2017 score of 25%. The country's weak points are paperless cross-border trade and institutional arrangements and cooperation, while the highest score is for transparency. In comparison with 2017, the strongest gains were made in formalities and paperless (domestic) trade. In paperless trade and SME trade facilitation, the country is well ahead of the Central Asian average and even the ECE average. For institutional arrangements, the country is below the ECE and the regional average, while on paperless border trade - below the ECE average, but above the regional average. Women-related trade facilitation is not scored.

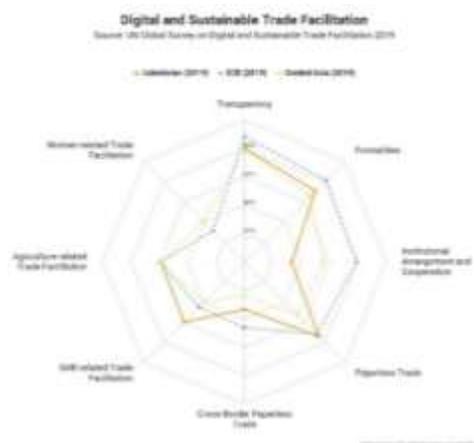


Figure 5. Digital and Sustainable Trade Facilitation Indicators

## KEY GOVERNMENT STRATEGIES

### Five Priorities Strategy

In February 2020, the government's 2020 program was unveiled,<sup>41</sup> with the following principal pillars, relevant to this report's subject matter:

- Fewer licensing requirements
- Subsidies to exporters;
- Finance to social entrepreneurship and to infrastructure development
- Business training for women and youth, re-training programs for the unemployed
- Rollback of the state's role in grain and cotton markets

A related, but not identical programme<sup>42</sup> has been developed by the Buyuk Kelajak center, which mobilizes expatriated Uzbek professionals in various sectors in the design and planning of the national development strategy. Their 2035 strategy that the center has developed does mention several sustainable development principles, as it does mention the trade, however their interrelation is beyond the scope of that document. The strategy mentions climate change, water shortage and labor migration as challenges to sustainable development, while calling for export and SME development, renewable energy and resource-efficient industries. One reading of the report suggests that energy, agriculture and construction/infrastructure would be the most promising sectors in terms of trade and sustainable development.

### Investment and Industrial Policy 2025

<sup>41</sup> Government of Uzbekistan, Стратегия действий по пяти приоритетным направлениям развития Республики Узбекистан в 2017-2021 годах (Action Plan on Five Priority Directions of the Development of the Republic of Uzbekistan in 2017-2021). Available at: [http://strategy.gov.uz/ru/pages/action\\_strategy](http://strategy.gov.uz/ru/pages/action_strategy). The strategy is formalized by President's Decree UP-4947 dated 7 February 2017.

<sup>42</sup> International nongovernmental nonprofit organization Buyuk Kelajak, Development Strategy Framework of the Republic of Uzbekistan by 2035. Available at: <https://uzbekistan2035.uz/wp-content/uploads/2019/05/Концепция-Развития-Узбекистана-ENG.pdf>

The concept of the strategy of investment and industrial policy of the Republic of Uzbekistan until 2025 does acknowledge the problems of energy efficiency and labor productivity,<sup>43</sup> but sees the solutions in technology transfer, international investments and modernization without corresponding opening of the border for the imports of machinery and inputs. “Optimal reduction of import-dependent sectors” continues to be a leading policy goal. The leading sectoral development for the chemical industry, for example, is import substitution. The Ministry of Economic Development, which oversees the policy, routinely publishes a list of import-substituting inputs and components recommended for the take-up by private and state companies.<sup>44</sup>

### Banking Sector Strategy 2025

The ambitious Strategy approved in May 2020 envisions a major privatization of state banking assets and reduction of the state’s involvement in lending, introducing the Basel standards and the IFRS and promoting digitalisation, including electronic money and payment systems. Also, the government aims to discontinue the practice of preferential loans, by requiring that loans are issued at rates not lower than those of the market starting 2021.

### Air Transport

In aviation, the new government policy seeks to attract new, international players and promote competition.<sup>45</sup> Also, based on the success of the Navoi airport pilot, the authorities plan an overhaul of the airport management system and attract foreign investment through private-public partnerships. The management of the national flagship carrier Uzbekistan Airways is to be outsourced to foreign management.

### Energy Concept 2030

The government is planning to implement energy sector reforms to meet growing demand for electricity. Its efforts will be guided by the Concept for Provision of Electric Energy to Uzbekistan in 2020-30, which was approved in May 2020.<sup>46</sup> The concept envisages transition to the wholesale electricity market by 2023, the establishment of an independent energy regulator in 2020-21, and the introduction of differentiated tariffs for electricity from 2022. In addition, there are plans to create an energy market operator – a state-owned company with online platforms for wholesale market customers to carry out purchases and sales of electricity and natural gas. The government also sets new targets for power generation, including solar, hydro, wind and nuclear power to meet growing demand (annual power consumption is expected to rise by 6-7 per cent a year until 2030). The headline-making government target is to have 25% of the national energy supply from renewables by 2030 (hydropower is considered a renewable in Uzbekistan). Interestingly public-private partnerships predominate investment projects in the energy sphere.<sup>47</sup>

Related to this is the Presidential Decree on Energy Efficiency, Energy Savings and Alternative Energy (PP-4422). It sets up a Foundation for Energy Efficiency in Industrial Firms, calls for the introduction of

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<sup>43</sup> Presentation of the Concept of the Strategy of Investment and Industrial Policy of the Republic of Uzbekistan Until 2025 by the Ministry of Economic Development and Poverty Reduction dated 27 June 2019, [http://mineconomy.uz/sites/default/files/27.06.2019\\_-\\_prezentaciya\\_prom\\_0.pdf](http://mineconomy.uz/sites/default/files/27.06.2019_-_prezentaciya_prom_0.pdf)

<sup>44</sup> See for example President’s Decree N5992 dated 12 May 2020, <https://lex.uz/ru/docs/4811037>

<sup>45</sup> European Bank of Reconstruction and Development, Transition Report 2020-21: Uzbekistan, <https://2020.tr-ebrd.com/countries/#>

<sup>46</sup> Energy Ministry. Concept for Provision of Electric Energy to Uzbekistan in 2020-2030, <http://minenergy.uz/ru/lists/view/77>

<sup>47</sup> Public-Private Partnership Development Agency under the Ministry of Finance of Uzbekistan. List of projects: <https://pppd.uz/ru/projects-custom>

the ISO50001 in all companies by 2023 and national energy efficiency standards for certification.<sup>48</sup> The Decree also introduces several subsidies for energy efficient equipment purchase and installation.

Parallel to this, however, there is a state-sponsored promotion campaign of coal as an “alternative fuel” to natural gas<sup>49</sup> and a target to increase the use of coal by 2030 from the current 5 to 15%.<sup>50</sup> While the move would liberate natural gas consumed by cement and brick mills and glasshouses, environmental consequences of this are undoubtedly negative.

### Agriculture Development Strategy 2030

In 2018, the Government launched a viticulture development program, abolishing licensing requirements and putting a 100ha grape production barrier to entry. The same year, a horticultural cluster development program was introduced with minimal government intervention. The government significantly increased agricultural export subsidies from USD 70-150 million in 2015-17 to 550 million in 2018.

Now the development of the agricultural sector is advancing under a new strategy. Approved in October 2019, Uzbekistan’s Agriculture Development Strategy for 2020-30 aims to liberalise the sector, remove export barriers and eliminate mandatory production quotas for cotton and wheat. It provides a plan for diversifying agricultural production, phasing out state control of production, and the sale and processing of cotton and wheat. Agribusiness clusters will be created in the cotton, wheat, horticulture and livestock sectors in order to attract private capital, increase value added through deeper processing, and improve access to export markets. The sector’s development will be accompanied by measures to ensure environmental protection and efficient use of resources, the Strategy promises.

### Customs Reform Strategy

In June 2020, admitting that the customs procedures could be further improved, the President of Uzbekistan announced a concept and a roadmap of customs facilitation and reform.<sup>51</sup> The Decree prescribes customs one-stop shops (starting September 2020) reduced customs clearance time and customs escorts requirements, inter-agency coordination of inspections, risk management and post-clearance audit and other international best practices advocated by the WTO Trade Facilitation Agreement and by the World Customs Organisation. Uzbekistan is also to ratify the Revised Kyoto Convention of the World Customs Organisation.

At the same time, the Customs are assigned atypical tasks of analysing import volume and value peaks and promoting localisation of production. Separation of release from clearance and financial guarantee practices are yet to be introduced.

Starting 2021, customs introduced the following changes relevant to sustainable development: zero-duty utilization fee on trucks and minibuses using fuel of quality Euro-5 and higher (until 2023), authorized economic operator framework, utilization of the e-CMRs (consignment notes in the

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<sup>48</sup> Although, since 2016 there is already a mandatory requirement for the energy efficiency labelling of household electrical appliances. Unless these labels translate to notable financial incentives to companies and households, labelling would not be enough for culture change.

<sup>49</sup> Ministry of Energy, Press Release on Energy Efficiency and Energy Savings, 2 August 2019, <http://minenergy.uz/ru/lists/view/33>

<sup>50</sup> R. Babakhodjaev and R.Zakhidov, Uzbekistan’s Approach to Sustainable Energy: Policy Targets, Key Objectives and Challenges, June 2018, <http://ptfcar.org/wp-content/uploads/2018/06/6-Uzbekistan-Institute-of-Energy-Tashkent-State-Technical-University-Rakhimjan-Babakhodjaev-Romen-Zakhidov-EN-RUS.pdf>. Note that the government itself cites 3% to 10%.

<sup>51</sup> Decree of the President “On Reforming Customs Administration and Improving the Activities of the State Customs Service of the Republic of Uzbekistan”, 05.06.2020, UP-6005, <https://lex.uz/docs/4844619>

framework of the Convention relative au contrat de transport international de Marchandises par Route<sup>52</sup>), VAT and duty-free imports of technology and equipment not produced in Uzbekistan, integration of electronic phytosanitary certificates into the customs single window, permission of certified private sector labs to issue phytosanitary certificates, introduction of quarantine controls at the border using service dogs.<sup>53</sup>

### Competition Law

Competition policy (including price regulation) is overseen by the Antimonopoly Committee and the Ministry of Finance. The legal framework consists of the “Law on Competition” (2012) and the “Law on Natural Monopolies” (1999). The Government reform blueprint, the Five Priorities Strategy (see above) calls for enhanced economic competition and curbing the role of the existing monopolies. The Antimonopoly Committee has recently requested the EBRD for technical assistance to review the existing legal framework, build regulatory and human capacity.

### Environmental Strategies

**Action Strategy 2017-2021** sets the following two priorities: mitigate the negative impact of global climate change and the drying up of the Aral Sea on the development of agriculture and the life of the population; prevent industrial damage to the environment, health and the gene pool of the population. Another programmatic document was the **2019 presidential address to the parliament**, with the following priorities: higher attention to environmental issues and improving the environment, mitigation of environmental problems of the Aral Sea, improving environmental controls, preventing negative impact of industrial development on the environment, rational and efficient use of water resources, drip irrigation systems and other water-saving technologies in at least 30 per cent of irrigated land, maintenance of the water balance; electricity generated from renewables to increase to 20%.

**Green Economy Strategy 2019-2030** sets the following goals: improvement of energy efficiency in basic sectors of the economy, diversification of energy consumption and development of renewables, adaptation to and mitigation of climate change, conservation of natural ecosystems, financial and other forms of state support to the green economy.

**Environment Protection Concept 2030** seeks to promote sustainable economic development through the introduction of innovative technologies to mitigate negative environmental impacts, rational use of the environment and reproduction of biological resources, mitigating Aral Sea disaster, improvement of waste management and greater engagement of the civil society and the public. There is also a National Gender Strategy which calls for a greater involvement of women in environmental matters.

**Water Economy Development Concept 2030** pursues conditions necessary to meet the constantly growing water needs, reliable and safe operation of water facilities, effective management and rational use of water resources, improving irrigated lands and water security.

Most of the priorities and strategies, although renewed, do not radically break with the previous strategies in the sense that the role of international trade in environmental goals achievement remains marginal.

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<sup>52</sup> Second protocol to the United Nations Convention for the carriage of goods (Convention relative au contrat de transport international de Marchandises par Route), 20 February 2008, <https://www.iru.org/what-we-do/facilitating-trade-and-transit/e-cmr>

<sup>53</sup> Association of Customs Brokers of Uzbekistan, «Ведение внешнеэкономической деятельности: новые условия и возможности», <http://atb.uz/2020/12/26/vedenie-vneshneekonomicheskoy-deyatelnosti-novye-usloviya-i-vozmozhnosti/>



## **UZBEKISTAN'S LEGAL FRAMEWORK, SUSTAINABLE TRADE AND CIRCULARITY**

### ***NATIONAL LEGAL FRAMEWORK***

Uzbekistan, undergoing reforms, is in the process of rewriting many existing laws and regulations. For the interim, presidential decrees and resolutions give a good overview of government's plans and the state's vision of how the updated laws would look like. Therefore, whenever relevant, the legal analysis will focus on presidential decrees rather than the existing laws.

#### Foreign Trade Law

The Law of the Republic of Uzbekistan On Foreign Economic Activity was adopted on 14 June 1991, before Uzbekistan was independent and updated in 2000. As typical of the laws pre-dating the development of the trade in services and e-commerce it doesn't mention e-commerce or have a dedicated chapter on either e-commerce or services trade. Value chain development, food security, SMEs and other SDG-related concepts are also not part of the law. To give an specific example, while Belarus has an explicit norm that import and export measures shouldn't be used as hidden limitations on foreign trade,<sup>54</sup> a similar norm is absent from the corresponding article of the Uzbek law.<sup>55</sup> As another example, while Belarussian and Kyrgyz foreign trade laws<sup>56</sup> mention that limitations on trade aiming to preserve non-renewable resources should be accompanied with similar limitations on the domestic production and consumption of such resource, the Uzbek law doesn't contain such a norm.

#### Public Procurement Law

Adopted in April 2018, the new public procurement law was developed with inputs from the World Bank. While welcoming its adoption, a senior Bank official noted that further improvements were needed to ensure welfare-maximizing behavior by procurement officials and the suppliers, to introduce an incentives system for good suppliers, digitize the procurement process to limit corruption and streamline due diligence, audit and other controls and to improve capacity of procurement officials.<sup>57</sup> In response, the government introduced a new draft of the procurement law, addressing some of the concerns raised by the World Bank and the OECD. Both versions have a clause ensuring that the public procurement system responds to the government's social and economic priorities, including those relating to innovative and high-tech productions and environmental protection.<sup>58</sup> The extent of its implementation is to be seen. The implementing legislation currently in the stage of public discussions does not yet deal with this clause. Most likely, further developments of this law would be in reducing corruption, promoting digitalization and ensuring SME participation, rather than optimizing the system for environmental and social considerations.

In 2019 and 2020, the government continued to update the procurement law to extend its coverage and to strengthen its corruption-control elements. For example state organizations previously excluded

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<sup>54</sup> Article 24 of the Law of the Republic of Belarus On State Regulation of Foreign Economic Activity, 25 November 2004, N347-3. Available at: <https://www.pravo.by/document/?guid=3871&p0=H10400347>

<sup>55</sup> Article 20 of the Law of the Republic of Uzbekistan On Foreign Economic Activity, 26 May 2000, N77-II. Available at: <https://www.lex.uz/acts/67238#67482>

<sup>56</sup> Article 16 of the Law of the Kyrgyz Republic On State Regulation of Foreign Economic Activity in the Kyrgyz Republic, 2 July 1997, N41. Available at: <http://cbd.minjust.gov.kg/act/view/ru-ru/541>

<sup>57</sup> UzDaily, Всемирный банк содействует развитию прозрачности в секторе госзакупок в Узбекистане, 29.09.2018, <https://www.uzdaily.uz/ru/post/39639>

<sup>58</sup> Law of the Republic of Uzbekistan on Public Procurement ZRU-472, dated 9 April 2018, Article 13, <https://www.lex.uz/docs/3648311> and draft of the new version of the same law, Article 15, <https://regulation.gov.uz/uz/d/4818>

from the coverage of the law were also addressed, conflict-of-interest situations were addressed and administrative liability was introduced for the violation of the public procurement legislation.<sup>59</sup>

### Standardisation Law

The Uzbek standardization legislation deals with voluntary standards in the Law on Certification of Products and Services, stating voluntary certification is permissible, but needs to be accredited by the national agency UzStandard.<sup>60</sup> From the implementing legislation there is only one Cabinet Resolution, on “voluntary ecological labeling” which details the procedures necessary for certification.<sup>61</sup> According to the Resolution, the standards for eco-labelling are to be developed in 2019-2022, in cooperation with Germany.

### Investment Law

The new investment law still contains references to import-substitution<sup>62</sup> and still requires export and localization indicators to be identified in investment contracts, despite the WTO TRIMS Agreement prohibiting and the international best practices discouraging them.<sup>63</sup> The law requires an expert review of investment projects to ensure its compliance with labor, environmental, sanitary and public health standards.<sup>64</sup> Investment contracts between the state and investor should contain clauses on labor, environmental and technical standards, environmental efficiency of the set-up equipment and mutual obligations in socio-economic development of the local territories.<sup>65</sup> The law reserves the right to prohibit or limit foreign investments in certain areas to protect public health or the environment or flora and fauna of Uzbekistan.<sup>66</sup>

The socio-economic, labor safety and environmental impact assessments of certain investment projects are to be done at the Center for Comprehensive Review of Projects and Import Contracts at the Ministry of Economic Development and Poverty Reduction. This should have been the place where the state would ensure that the investment projects comply with the nation’s long-term development goals. However, there is a long list of projects that are exempt from such expertise, including production sharing agreements, projects financed by international financial and governmental financial institutions, investment projects over 70% financed by a foreign investor, investors whose projects don’t require fiscal and other preferences and so forth.<sup>67</sup>

Principal criteria for the admission into the free economic and small industrial zones in Uzbekistan seem to be import substitution, exports orientation, high-tech and innovation productions with a localization component and high employment creation. Interestingly, the government prioritizes the employment of the registered unemployed.

### SME Law

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<sup>59</sup> <http://www.uzdaily.com/en/post/60622>, <https://regulation.gov.uz/ru/d/2884>

<sup>60</sup> Law on Certification of Goods and Services, N1006-XII dated 28.12.1993, <https://lex.uz/docs/99887#118488>

<sup>61</sup> Resolution of the Cabinet of Ministers of Uzbekistan, N435 dated 27.05.2019, <https://lex.uz/docs/4355493#4358546>

<sup>62</sup> Article 30, Law on Investments and Investing, ZRU-598, dated 25.12.2019, <https://lex.uz/ru/docs/4664144>

<sup>63</sup> Uzbekistan is not yet a member of the WTO but has relaunched its accession negotiations and announced an ambition to join the organization as soon as possible.

<sup>64</sup> Article 39

<sup>65</sup> Article 42

<sup>66</sup> Article 46

<sup>67</sup> Annex I to the Resolution of the President N3550 dated 20.02.2018, <https://www.lex.uz/docs/3565227#3567157>

The SME law requires entrepreneurs engaged in imports to register as actors of foreign economic relations,<sup>68</sup> but also prescribes preferential access to loans, as well as fiscal preferences, such as accelerated amortization. The Government encourages exports of SMEs and has set up a specialized agency to promote entrepreneurship.<sup>69</sup> SMEs benefit from state guarantees on loans and interest payment subsidies. The same preferences are available for entrepreneurs, with loan priority given to “vulnerable persons” (seniors, single parents, graduates, human trafficking victims, low-income family members, former inmates, registered unemployed and returning labor migrants).<sup>70</sup> Women and youth qualify for subsidized entrepreneurship training and preferential loans.<sup>71</sup>

In October 2020, the Government introduced export financing support. Exporters and trade intermediaries benefit, until 2022 from: interest payment subsidies and loan guarantees on loans for pre-export financing.<sup>72</sup>

### Transport Law

The transportation legal framework, devised in 1990s is currently undertaking a major upgrade, as evidence by unification of transport-related agencies into several ministries into a single ministry of transport in 2019. The reform ambitions, as evidence by the most recent presidential decrees and resolutions, are in enhancing safety and environmental and financial sustainability of transport, as well as its contribution to exports, investment attractiveness and economic growth. In the capital, transportation strategy seeks also to eliminate road and passenger transportation bottlenecks. The existing practice of state companies combining services provision and regulatory functions has been eliminated in railways and airlines. Tax and financial incentives have been put in place to promote internationalization of domestic road transport companies and modernization of their fleet. The government is also making a second push to make Uzbekistan the hub for air and rail freight transit.<sup>73</sup> Accessibility and equity considerations are not so far explicitly addressed.

### Environmental Law

Uzbekistan’s environmental law is undergoing significant changes at the moment and the review of the legal framework should be read in conjunction with the government’s environment-related development strategies (see above). The analysis below captures the situation as-is, and it is expected to change very soon.

The national environment law consists of laws on nature protection, biodiversity conservation, air quality control and environmental impact assessment. UNECE experts involved in the second environmental review of Uzbekistan noted that the legal framework for monitoring of pollution is over ambitious, with implementing capacity below the declared targets and ambitions.<sup>74</sup> There is a need for a third review, given the ambitious reform program that the government announced.

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<sup>68</sup> Article 22. Law on Guarantees of Freedom of Entrepreneurship N69-II dated 25.05.2000 (updated edition of 2012), <https://www.lex.uz/docs/4177>

<sup>69</sup> Resolution of the President PP-4417 dated 13.08.2019, <https://lex.uz/docs/4472976>

<sup>70</sup> Order of the Minister of Labor N40-2019-Б, dated 11.10.2019, [https://static.norma.uz/official\\_texts/3192.pdf](https://static.norma.uz/official_texts/3192.pdf)

<sup>71</sup> NormaUz, “Потенциальным бизнесменам – обучение и микрокредиты”, 14.10.2020, [https://www.norma.uz/novoe\\_v\\_zakonodatelstve/potencialnym\\_biznesmenam\\_-\\_obuchenie\\_i\\_mikrokredity](https://www.norma.uz/novoe_v_zakonodatelstve/potencialnym_biznesmenam_-_obuchenie_i_mikrokredity)

<sup>72</sup> Decree of the President of Uzbekistan UP-6091, О мерах по дальнейшему расширению финансовой поддержки экспортной деятельности, 21 October 2020.

<sup>73</sup> World Bank. 2019. Uzbekistan: Building Blocks for Integrated Transport and Logistics Sector Development, <https://openknowledge.worldbank.org/bitstream/handle/10986/34160/Uzbekistan-Building-Blocks-for-Integrated-Transport-and-Logistics-Development-Policy-Paper.pdf?sequence=4&isAllowed=y>

<sup>74</sup> UNECE, “2nd Environmental Performance Review of Uzbekistan”, April 2010, ECE/CEP/156, <https://unece.org/environment-policy/publications/2nd-environmental-performance-review-uzbekistan>

Despite dire environmental situation in the country with land degradation, water scarcity, rising average temperatures related to the climate change and increased environmental stress due to economic development, the government has so far not prioritized environmental considerations over economic development or job creation. Also, the state environmental programs do not fully utilize the potential of international trade to improve environmental performance.

The country is a signatory to the Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal.

#### SPS, Food Safety, Quarantine and TBT Laws<sup>75</sup>

Due to the highly complex and technical nature of the laws in this area and scarcity of published information, the review of the SPS and TBT laws is based on an interview with an international expert who works on Uzbekistan.

Technical support projects supported by international donors (e.g. Asian Development Bank) have prepared draft food safety and quarantine legislation, based on the latest FAO Codex Alimentarius recommendations. The adoption of this legislative framework, however, is yet to be seen. The main problems plaguing the sector are lack of political will at the highest levels, resistance of the public administrations to change (there are quite a few standards based on the Soviet-era "GOSTs") and reformers' tendency to postpone the inevitable systemic reforms, favoring cosmetic changes. Agency staff capacity is not a factor of resistance per se, but capacity gaps are reported to be enormous (but in line with development stage peers). The existing human capacity is spread thin over two agencies responsible for SPS – the UzStandard Agency under the Cabinet of Ministers and the Sanitary Epidemiological Service under the Ministry of Health.

A few examples from the current food safety framework. There is no differentiation between "best by" and "use by" expiration dates, i.e. food quality and food safety are not differentiated at the policy level. There is a limited understanding of and support for evidence- and science-based standards adoption, with some residue standards for example, extremely stringent, while meat listeria standards are non-existent. There is an over-reliance on the end product standards, as opposed to proper hygienic practices, e.g. in poultry production.

There is no legislation on food waste reduction. Unlike in France, supermarkets cannot legally donate unsold food items. However, due to certain cultural factors (informal community-based food donation practices, intolerance of food, especially bread waste in the aftermath of the Great Hunger of 1930s) food waste per se is not a significant policy problem.

#### Customs Law

Starting 2021, customs introduced the following changes relevant to sustainable development: zero-duty utilization fee on trucks and minibuses using fuel of quality Euro-5 and higher (until 2023), authorized economic operator framework, utilization of the e-CMRs (consignment notes in the framework of the Convention relative au contrat de transport international de Marchandises par Route<sup>76</sup>), VAT and duty-free imports of technology and equipment not produced in Uzbekistan,

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<sup>75</sup> Due to the highly complex and technical nature of the laws in this area, scarcity of published information and lack of response for an interview request from the authorities, the review of the SPS and TBT laws is based on an interview with an international expert who works on Uzbekistan.

<sup>76</sup> Second protocol to the United Nations Convention for the carriage of goods (Convention relative au contrat de transport international de Marchandises par Route), 20 February 2008, <https://www.iru.org/what-we-do/facilitating-trade-and-transit/e-cmr>

integration of electronic phytosanitary certificates into the customs single window, permission of certified private sector labs to issue phytosanitary certificates, introduction of quarantine controls at the border using service dogs.<sup>77</sup>

## **BILATERAL, REGIONAL AND INTERNATIONAL AGREEMENTS**

### WTO

Uzbekistan is not currently a member of the WTO. It applied for membership in 1994, but the negotiations lost momentum by 2005. The accession negotiations were relaunched under the Mirziyoyev presidency in 2017, with the highest foreign policy officials proclaiming it the key foreign economic policy priority. The Working Party resumed its meetings in 2020. Currently, the WP is drafting the Memorandum on Foreign Trade Regime and, having processed initial goods and services offers, organizing the bilateral negotiations. The current investment and trade minister, appointed in January 2019, was promoted to vice premier in March 2020, signaling the governments high priority to accession. Uzbekistan's starkest contradictions with the WTO legislation will be in agriculture, import-substitution-focused industries and state-owned enterprises with monopoly status.

### UN

The Government of Uzbekistan doesn't have agency-level basic agreements with either the UNEP or the UNECE, so the technical assistance proceeds in the framework of the general agreements between the GoU and the UN system. With many other specialized agencies (UNDP, FAO, UNIDO, UNICEF, IFAD), there is a framework agreement and most are present in the country.<sup>78</sup>

The regional work of the UN Environmental Programme is managed from the regional sub-office in Almaty, Kazakhstan. Probably as a result of this distant presence, most of the environment-related programs in Uzbekistan are in cooperation with the UNDP and other country-based specialized UN agencies.

SDG-related work is overseen by an entity called the United Nations Country Team. A document titled United Nations Common Country Analysis offers a summary of the country diagnostics of various agencies present in the country. The January 2020 analysis<sup>79</sup> highlights "exclusions and inequalities" as key development challenges, calls for a stronger integration of SDGs into development plans, as well as policy coherence and a build-up of administrative capacity to deliver the announced reforms. Among the UN's stated comparative advantages to support the reforms in the country, resilience to climate change, sustainable resource use and livelihoods and accountable governance are relevant to this report.

The latest system-wide UN-Uzbekistan agreement, the UN Sustainable Development Cooperation Framework 2021-2025 makes environment and climate change-related reforms one of the three main pillars of cooperation. Within that pillar, natural resource efficiency, climate adaptation action and better environmental governance are the main targets.

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<sup>77</sup> Association of Customs Brokers of Uzbekistan, «Ведение внешнеэкономической деятельности: новые условия и возможности», <http://atb.uz/2020/12/26/vedenie-vneshneekonomicheskoy-deyatelnosti-novye-usloviya-i-vozmozhnosti/>

<sup>78</sup> UNIDO is currently in talks to open a country office.

<sup>79</sup> UN Common Country Analysis: Uzbekistan, January 2020, [https://uzbekistan.un.org/sites/default/files/2020-10/United%20Nations%20Common%20Country%20Analysis%20Uzbekistan\\_en.pdf](https://uzbekistan.un.org/sites/default/files/2020-10/United%20Nations%20Common%20Country%20Analysis%20Uzbekistan_en.pdf)

On climate change, there are four activities to be supported by the UN: development of policies on environmental protection, resource efficiency and the revival of the Aral Sea region, upgrading Uzbekistan's environmental impact assessment system to international standards, mainstreaming environment and climate change into sectoral development policies and, finally, mobilizing private business.

On sustainable resource use, the UN offers eight "developmental solutions": behavioral change through incentives, efficient water use, energy efficiency and the renewables, reducing air pollution, setting up sanitary landfills, facilitating transition to the green economy, enhancing farmland efficiency, and conserving small water bodies, their flora and fauna. There is a third, separate program of action on disaster risk preparedness.<sup>80</sup>

With UNECE (and ESCAP), Uzbekistan also cooperates on the SPECA themes of water, energy, environment, sustainable transport, transit and connectivity, trade, statistics, knowledge-based development and gender. It approved the SPECA Strategy on Innovation for Sustainable Development. On the Uzbek side, the government is represented by the Ministry of Investment and Foreign Trade. Uzbekistan chairs the SPECA program in 2021.

The country is a signatory to the UNPCCC Paris Agreement, committing to a 10% reduction in greenhouse gas emission per unit of GDP by 2030, as compared to 2010.<sup>81</sup> The other national commitment in the framework of the Paris Agreement is to enhance climate change adaptation of the economy, the social sector and the Aral Sea region.

Since the UN cooperation framework is SDG-focused, there is a considerable overlap between the framework and the UNECE Trade and Sustainable Development Principles concerning the sustainable development goals.

### Regional Trade Agreements

Uzbekistan has concluded bilateral free trade agreements with Azerbaijan, Georgia, Moldova, Kazakhstan, Russia, Tajikistan and Ukraine in the 1990s and with most of the same countries in the framework of the CIS Free Trade Agreement in 2013. Typically, the agreements have a GATT Article XX-type reservation about domestic policy space to pursue environmental protection and other social causes, but since most of the agreements were concluded in the 1990s and have not since been updated, they would contain no environmental, human and labor rights sustainability clauses. Also, Uzbekistan is not a member of the highest-level environmental committee of the CIS – Interstate Environmental Council.<sup>82</sup>

### The EU – Central Asia Cooperation

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<sup>80</sup> The indicators for the climate change adaptation and sustainable resource use action are: Water Pollution Index, electricity generated from the renewables, energy intensity (primary energy and GDP), share of protected mountain ecosystems, share of population under food shortage, share of new housing with sewage and water supply, share of agricultural land with water-saving technologies, share of degraded and highly saline land, forest cover, reduction in greenhouse gas emissions from agriculture, extent of integration water resource management implementation (The UN Sustainable Development Cooperation Framework 2021-2025, <https://unsdg.un.org/sites/default/files/2020-11/Uzbekistan-UNSDCF-2021-2025.pdf>)

<sup>81</sup> Law "On the Ratification of the Paris Agreement", 27 September 2018.

<sup>82</sup> Commonwealth of Independent States. Membership in the IEC: <https://e-cis.info/cooperation/3019/77683/>

The initial EU Central Asia strategy adopted in 2007<sup>83</sup> provided, among others, technical assistance to the WTO accession, as well as an GSP+ access to the European markets conditional, among others, on sustainable labor practices. There was also a program of support to SMEs targeting European markets. EBRD and EIB financing was widely to finance priority projects in renewable energy, exports and energy trade. The updated, 2019 version of the EU Central Asia strategy<sup>84</sup> largely continues support to trade in general and sustainable trade in particular. For Uzbekistan, such support is to take the shape of technical assistance to the WTO accession and wider access to the European markets, technical assistance on sustainable natural resource management and climate change resilience, access to the GSP+ system and, potentially, an Enhanced Partnership and Cooperation Agreement with the EU.

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<sup>83</sup> Council of the European Union. The EU and Central Asia: Strategy for a New Partnership, [https://eeas.europa.eu/sites/eeas/files/st\\_10113\\_2007\\_init\\_en.pdf](https://eeas.europa.eu/sites/eeas/files/st_10113_2007_init_en.pdf)

<sup>84</sup> European Commission. The EU and Central Asia: New Opportunities for a Stronger Partnership, [https://eeas.europa.eu/sites/eeas/files/joint\\_communication\\_-\\_the\\_eu\\_and\\_central\\_asia\\_-\\_new\\_opportunities\\_for\\_a\\_stronger\\_partnership.pdf](https://eeas.europa.eu/sites/eeas/files/joint_communication_-_the_eu_and_central_asia_-_new_opportunities_for_a_stronger_partnership.pdf)

## TRADE IN SUSTAINABLE GOODS AND SERVICES

Since Uzbekistan is not a member of either the WTO, the OECD or APEC, the main international organizations working on the development of environmental goods and services trade,<sup>85</sup> there is no dedicated country profile on the subject. Uzbekistan's state statistics office does not collect environmental goods and services trade data, and the export data of advanced industrial trade partners doesn't disaggregate data by destination. Therefore, this section will be based on anecdotal, rather than statistical, evidence.

In Uzbekistan, sectors mostly relevant for sustainable goods and services (e.g. infrastructure<sup>86</sup>, utilities, energy, construction engineering and environmental monitoring) are usually state operated, and where international trade is carried out either by state trading enterprises or procurement units of state owned entities.

It is not unusual for the trade to be conducted in the framework of an international financial institution-financed industrial modernization project. For large projects, peculiarities of external trade are set in designated government or presidential resolutions. As a rule, the SoE and STEs, as well as government-ordered infrastructure project benefit from very liberal imports regime and accelerated formalization procedures, this being true for environmental goods and benefits.

With Uzbekistan passing a new law on public private partnerships and government's expectation of private sector players in these fields, these trade preferences will most likely be extended to a wider range of private operators.

Among the most important conventional environmental goods imported are solar panels and pollution control and capture equipment for industrial facilities, mainly oil and gas, chemicals and metals. For the services, industrial engineering should be among the most significant imports, as well as post-sales services of industrial equipment and construction of facilities and installation of equipment.

Neither environmental goods, nor services, feature prominently in the export profile of Uzbekistan.

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<sup>85</sup> For the environmental goods, there are at least three competing sets of definitions (OECD, APEC and WTO). For the environmental services, the OECD/ Eurostat definition is services to measure, prevent, minimize or correct environmental damage to air, water, soil and problems relating to waste, noise and ecosystems (C. Kirkpatrick, "Trade in Environmental Services: Assessing the Implications for Developing Countries in the GATS", page 6. A fuller overview of the definitions is in ITC, "Trade in Environmental Goods and Services, Opportunities and Challenges", page 8, <https://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/AssetPDF/EGS%20Ecosystems%20Brief%20040914%20-%20low%20res.pdf>)

<sup>86</sup> International Trade Administration (2019), Uzbekistan: Market Overview, [https://www.export.gov/article?series=a0pt0000000PAv7AAG&type=Country\\_Commercial\\_\\_kav](https://www.export.gov/article?series=a0pt0000000PAv7AAG&type=Country_Commercial__kav).

## AWARENESS SURVEY ON SUSTAINABILITY AND CIRCULARITY

Fourteen respondents have filled out the questionnaire and several more have agreed to phone interviews. The interviews were conducted in December 2020 and January 2021. Four respondents represented the public sector. Private sector and non-state sector was represented by five respondents each. The respondent pool had three environmental specialists, three trade specialists, two agribusiness and three economics/finance/procurement specialists.

The concept of sustainability in Uzbekistan was most commonly associated with political and economic (mainly cost of life) stability, economic growth, environmental conservation and rule of law.

Eight out of 14 respondents could list government's actions on green economy and green trade, most listing the government's action plan on the transition to the green economy 2019-2030. Some mentioned specific government support actions and project-level initiatives with international development partners, e.g. for international recognition of organic certification. With the existence of a high-level framework strategy, "green economy" was a buzzword for most of the respondents.

Most of the respondents couldn't relate or could only partially recognize the SPECA Principles inclusion in the national strategies and documents (e.g. e-commerce, energy efficiency). Several noted the government ambitions had implementation gaps or that the policies were flawed (e.g. promotion of the exports of services is limited to programmers). It is necessary to note that non-recognition was not necessarily a sign of their non-inclusion: the Principles spanning a dozen sectors, the respondents most often were unaware of the developments outside of their area of expertise.

Most of the respondents also agreed that government's trade and investment policies reflect the need to create decent jobs, with only two disagreeing. However, expanded interviews with respondents showed that they were referring more to job creation rather than improving work conditions at existing jobs. Together with this, a respondent who has visited joint-ventures and exporting companies highlighted that work conditions and pay were better than on average. Also, the government has reportedly been requesting large companies to implement corporate social responsibility initiatives.

Average scores on priority given by government to various aspects of sustainable development in national plans and strategies are as follows:

Table 3. Summary of Average Scores per Priority

Environmental policies	4.6
Resource and energy efficiency	4.4
Export diversification and value addition	4.6
Support to SMEs and women entrepreneurs	5.3
Employment and decent work conditions	5.1
Food security	4.7
Food waste	2.8
Public private partnerships for sustainability	4.6
Sustainable public procurement	4.0
E-commerce	4.9

*Number of respondents: 14; 0 stands for no priority and 7 stands for highest priority*

The low score for food waste is not necessarily an indication of an ignored public issue. Many respondents underlined that food waste laws do not exist, because large food operators donate expiring or unsold food through informal networks embedded in the local culture of charity.

For all other aspects, the average range between 4 and 5.3. For energy efficiency, support to SMEs and female entrepreneurs, employment generation, PPPs and e-commerce, the relatively high scores for prioritization were given due to widely publicised presidential or cabinet decrees mentioning these subjects. Many respondents noted that government's priorities and public priorities often diverge, as do government's top-down initiatives and their local implementation.

Energy-efficiency is a relatively topical issue, but respondents didn't reach a consensus on its inclusion in trade and investment plans, with half of the respondents confirming it and half denying. Lack of consensus was also evident in the question about sustainable procurement.

This is not the case with food security, which, most respondents agreed is reflected in national economic development and trade plans. It is noteworthy that food security is seen as contradictory to trade, with government insisting on self-sufficiency and export controls in times of need and granting import preferences for inputs (e.g. duty-free imports and direct subsidies to pedigree cattle to address seasonal meat shortages). The recently opened country FAO office is credited with promoting many legislative initiatives in line with international best practices.

Although they indicated a relatively high score (4.6) for government's prioritization of the PPPs for sustainability, the respondents were only familiar with two sustainability-related PPP projects: in renewable energy and solid waste management. This is absolutely normal, given that the PPP legislation was only introduced in May 2019.

Respondents agreed that the state support for SMEs and women-led enterprises is extensive and mentioned Small Enterprise Support Fund, tax reductions and subsidized loans, innovation ministry's financing the costs of sending export goods' samples for certification abroad, the National Gender Strategy, as well as the work of the EBRD, ITC, FAO and the UN in this area.

When asked about facilitating e-commerce for SMEs, many respondents associated the concept with e-government (government's online services) for business facilitation. They mentioned the electronic single window for tax and customs matters, e-procurement, as well as the presidential decree on the promotion of e-commerce that specifies tax preferences for companies active in the field.

Listing most significant sustainability issues, respondents referred to the following (sorted by frequency of mention):

1. corruption, issues with the rule of law and property rights
2. market-distorting economic preferences, extensive monopolies
3. problems of implementing national development plans, inadequate capacity and high turnover in public administration
4. low environmental and sustainability awareness of the public, lack of culture of sustainability

Single mentions were also made of:

- energy supply issues
- inadequate environmental standards
- inadequate financing for sustainable development
- existing environmental issues (land degradation, endangered biodiversity, overuse of land, water and energy resources in agriculture and industry)
- structural inequalities in access to healthcare and education, income stratification.

Sectors most scalable in sustainability are agriculture, energy and e-commerce/IT, according to respondents. Tourism, telecoms, transport (aviation) were also mentioned. Preferred trade partners

referred to, in terms of sustainability: EU (Germany most often), Russia, China and Kazakhstan. It is noteworthy that most respondents thought either in terms of imports of know-how (EU, Russia, China) or countries with relative easy of exports (Russia, China, Kazakhstan and other regional partners).

On longer-term solutions to recover the Uzbek economy from the negative impact of COVID-19, respondents referred to the general international best practices:

- facilitation of business operations and procedures, including the expansion of e-government
- promotion of exports and of integration into global value chains
- promotion of competitiveness, facilitation of the imports of innovations and advanced technologies

Quite a few respondents mentioned the necessity and urgency of continued short term state support in the form of tax and customs payment holidays and deferrals, as well as subsidized financing.

## CONCLUSIONS AND RECOMMENDATIONS FOR SCALING UP SUSTAINABLE TRADE

### **CHALLENGES AND OPPORTUNITIES IN THE TRANSITION TO A MORE SUSTAINABLE AND CIRCULAR ECONOMY**

The 2016 World Bank Country Diagnostic recommended the following priorities, relevant to sustainable trade, which the government has only partially addressed: removing market distortions, business-conducive regulatory environment, reallocation of land to more productive uses, modernizing public infrastructure, labour market reforms, inequities in access to water and sanitation, and sustainable use of natural resources.<sup>87</sup>

The following are the systemic challenges that have been preventing Uzbekistan from fully embracing the sustainable trade agenda.

#### Priority of Economic Development and Job Creation over Environment

The most ground-breaking and highly publicized step of Uzbekistan towards sustainability has been the elimination of the mandatory cotton purchase system and elimination of forced and child labor during the cotton campaign. It has been achieved after a sustained pressure of the European Union and the United States to improve work conditions and wages of the Uzbek laborers. Import boycotts seem to have worked. While being the most vivid indication of trade policy promoting sustainable development in Uzbekistan, it is also an illustration of how economic development considerations have trumped other ethical and sustainability considerations in the past. Unfortunately, this tendency continues into the present, with economic growth, job creation and exports being the three most important economic policy goals of the government. Other sustainability considerations, especially the environment, is still understood to be secondary to these three goals, at least in the lower levels of the state administration.

#### Continuing Preference for Import Localisation Policies

Having liberalized foreign currency exchange and tariff policy and demoted mandatory agricultural purchases, the government nevertheless did not fully give up on the former's *raison d'être* – the industrial policy of import-substitution and industry localisation. The government still uses customs and public procurement policies to promote local industries, often at the expense of customers and competitive domestic firms who are denied cheap foreign inputs.<sup>88</sup> There are many examples, from construction to automotives and electric goods, when localization policies hinder environmental and resource efficiency, as well as the emergence of new industries (e.g. car-sharing).

#### Existing Public Administration Capacity

Survey respondents in government, parliament, private sector and expert community have all underlined the inadequate human capacity of the state administrative apparatus, especially in the regions. In addition to the capacity building on the international best practices in each area of expertise of the SDGs, there is a capacity building need on the cross-cutting and systemic SDG issues and on strategic planning skills to maximize potential synergies between various SDG programs, e.g. environment, agriculture and exports. High turnover of senior ministry officials and the practice of political appointments into “technical” ministries has also been identified as a barrier to effective implementation of the sustainable trade agenda.

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<sup>87</sup> World Bank Systemic Country Diagnostic for Uzbekistan 2016.

<http://documents1.worldbank.org/curated/en/304791468184434621/pdf/106454-REVISED-PUBLIC-SecM2016-0167-1.pdf>

<sup>88</sup> For example see Regulation on Tendering for the Procurement of Raw Materials, Components, Components and Equipment, section 55. <https://lex.uz/docs/386482>, Resolution of the President No PP-4348 dated 30 May 2019, section 4, <https://www.lex.uz/ru/docs/4360787> and Resolution of the President No PP-4302 dated 1 May 2019, section 8, <https://lex.uz/ru/docs/4318272>

### Limited Public Awareness of Sustainability Issues, Lack of Sustainability Culture

While the government has taken significant steps to define, plan and monitor the SDGs (e.g. all highest state officials report to the parliament on the SDG attainment progress<sup>89</sup>) and while SDGs and the president's Five Priority Directions Action Plan incorporate quite a few SDGs, the wider public, including regional officials and ministers "outside" of the traditional SDG areas have very limited understanding of SDGs and render little practical contribution to their attainment. Many survey respondents have highlighted the necessity of sustainability-related information campaigns. There were calls to reintroduce environmental science into the school curriculum or subsidise its costs as an extra-curricular activity.

### Openness to International Community and Its Recommendations

On the opportunities side, the biggest promise lies in the opening up of Uzbekistan and government's willingness to international community's criticism and advice. In less than five years, Uzbekistan went from refusing to disclose its basic national budget figures and denying documented cases of forced labor to digitizing and publishing public procurement records and agreeing to surveys on culturally sensitive topics like gender violence. Uzbekistan's Statistics Office featured as one of the three top performers in the Open Data Inventory.<sup>90</sup>

### Increased Public Attention and Scrutiny of Environmental and Social Issues

Greater openness and elimination of the practice of persecuting journalists and social activists has brought many pertinent environmental and social issues into the international and domestic public fora. Increased awareness and attention to such issues opens a rare window of opportunity to meaningfully address sustainability challenges. For example, when authorities axed dozens of trees in the center of Tashkent in 2009, there was no public resistance. Today, environmental activists battle developers yard-by-yard, often winning<sup>91</sup> and the president signed a moratorium on tree-logging in 2019.<sup>92</sup> From 2021, there are substantial financial incentives to report environmentally harmful actions to the authorities.<sup>93</sup>

### Popular Support to and Demand for Trade Liberalisation and Trust-Busting

The role of trade in supplying higher quality goods at lower prices has come to be a widely shared public belief, with domestic legal monopolies and politically-connected dominant players suffering significant reputation losses. Although the authorities have so far refused to eliminate market distortions in several key sectors (automobiles, electronics, processed foods), there is a high and sustained public pressure to do so.

### Opportunities for Regional Cooperation

Improved relations with neighboring countries open a rare and a very promising window of opportunity to improve on regional trade, transit, connectivity, as well as water management and water-energy nexus. The latter was one of the biggest bones of contention for regional water cooperation,<sup>94</sup> but under President Mirziyoyev, Uzbekistan has changed its position, towards a more constructive approach.<sup>95</sup>

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<sup>89</sup> Draft of the Decree of the President of the Republic of Uzbekistan On State Programme to Implement The Action Plan on Five Priority Directions of the Development of the Republic of Uzbekistan in 2017-2021 in the 'Year of the Development of Science, Education and Digital Economy', published for public discussion on 11 February 2020, PFL-54/20

<sup>90</sup> Open Data Watch, Open Data Inventory 2020/2021, <https://opendatawatch.com/publications/odin-open-data-inventory-2020-21-executive-summary/>

<sup>91</sup> <https://eurasianet.org/uzbekistan-tree-lovers-score-win-in-battle-against-developers>

<sup>92</sup> <https://www.gazeta.uz/ru/2019/10/31/trees/>

<sup>93</sup> <https://lex.uz/docs/5023690>

<sup>94</sup> <https://rus.azattyk.org/a/27165367.html>

<sup>95</sup> <https://bit.ly/3ajnwlJ>

## **AREAS WITH HIGHEST POTENTIAL**

The areas listed in this section as having the largest scaling potential for sustainable trade were based on the following three criteria:

1. Economic weight or economic potential
2. Influence on the attainment of the SDGs, whether positive or negative
3. Contribution to the regional or international trade

Agriculture and energy, with their share in the GDP and national employment, as well as the scope of environmental issues and outdated technologies are primary candidates. E-commerce has been selected due to its potential to absorb young, educated and capital-poor workforce, contribution to improving wages and working conditions, export and technological upgrading potential. All three sectors' development is also prioritised by the government.

### **Agriculture**

Agriculture generates 28% of GDP and is the biggest employer, with 27% of the entire labor force. It cushioned the negative impact of the COVID-19 pandemic and is expected to grow faster than the rest of the economy (2.8% in 2020, while the GDP grows 0.6%).

Agriculture's potential in terms of exports, contribution to the GDP, employment, food and nutritional security, female and rural unemployment is enormous. So is the potential of the trade policy to assure decent working conditions in agriculture, as seen in almost complete elimination of child and forced labor practices in the "largest recruitment operation in the world" to gain access to the lucrative export markets and sustainability practices.<sup>96</sup>

The new government agricultural policy is focused on phasing out mandatory state purchases of cotton and wheat, giving farmers greater liberty on planting and sale decisions and on the so-called "intensive orchardry" (fast-growth, low-height multi-harvest fruit trees planted in proximity to each other and drip-irrigated) and glasshouses. This policy choice is understandable - horticulture is more labor intensive than cereals, and offers more lucrative, higher-value-added niches, as well as future opportunities in packaging and processing. Also, it is less water-intensive.

The current exports could significantly expand. The World Bank estimated that Tajikistan, Kyrgyzstan and Uzbekistan export a mere one third of their full potential in fresh fruits and grapes. While the hugely promising Chinese market has so far been off limits to the regional producers due to production limitations in terms of quantity, quality and packaging,<sup>97</sup> the traditional Russian and post-Soviet markets are also slipping away due to the tendency to move from the traditional open-air markets to supermarkets and formal retail outlets. Supermarkets also require stability of quality and quantity of supplies.

The glass houses, normally fueled by gas, have been told by the Ministry of Energy to ensure adequate supplies of "alternative fuel", coal, that is, in the peak consumption season.<sup>98</sup> In the absence of clean and renewable energy in the foreseeable future, the sector will become a major consumer of coal energy and undermine the government's ambitious plan of the transition to renewables. Alternatively, gas

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<sup>96</sup> International Labor Organisation, "Systemic forced labour and child labour has come to an end in Uzbek cotton", 28 January 2021, [https://www.ilo.org/washington/news/WCMS\\_767753/lang--en/index.htm](https://www.ilo.org/washington/news/WCMS_767753/lang--en/index.htm)

<sup>97</sup> And increasing food safety requirements, as survey respondents highlighted.

<sup>98</sup> Ministry of Energy of Uzbekistan, Press Release dated 23 November 2020, <http://minenergy.uz/ru/news/view/923>

supply interruption will lead to production disruption and, as already happened, destruction of production capacity.<sup>99</sup>

Uzbek agriculture's climate change adaptation should be an urgent priority. Uzbekistan is particularly vulnerable to the climate change, with Tashkent and the Fergana Valley's annual average temperatures 1.8°C and 1.6°C above pre-industrial levels, respectively. This is considerably higher than the global temperature change.

For agriculture, the top water using sector, climate change is a grave concern. Already now, Uzbekistan is among the most water-dependent countries in the world (80% of renewable water resources originating abroad). Annual water availability, at about 1700 m<sup>3</sup>/person approaches stress levels.<sup>100</sup> Given this external shocks, it is surprising that in the last 30 years, irrigation and drainage system has been steadily deteriorating, underfunded and inefficiently managed. Up to 70% of water in Uzbekistan is estimated not to reach the crops, resulting in estimated annual direct losses amounting to 8% of GDP and around the same share – from reduction in agricultural production due to poor water management. Meanwhile the irrigation authorities spend USD 350m annually (60% of budget) on covering electricity expenses of water pumping stations.

To improve water management efficiency, the government has instituted water user associations along hydraulic boundaries, introduced participatory irrigation management methods and took steps to recover operations and maintenance costs. These changes and increased investment in irrigation and drainage networks did yield significant results in pilot areas (South Karakalpakstan and Ferghana Valley).<sup>101</sup>

The ongoing efforts to make Uzbek agricultural exports (mainly) sustainable could be expanded. Currently sustainability is applied only to cotton and textiles, as the primary export commodity, with a small share of Uzbek-grown cotton even certified as such by the Better Cotton Initiative.<sup>102</sup> portion of cotton has even been certified as sustainable Even here, the focus is on the human rights and decent work. There is a significant development potential and a solid business case in expanding sustainability efforts to pesticide use, land and water efficiency, and help Uzbek cotton qualify for voluntary sustainability standards as well. UzTextile, for example, was financed by the government in its efforts to obtain its organic cotton certification, in addition to a transport subsidy.<sup>103</sup> Current direct payments and interest payment subsidies for investment into drip irrigation, sprinkler and wide-area irrigation technologies<sup>104</sup> could be further increased and expanded into other water efficient and land reclamation efforts, too.

There is also significant sustainability benefits from imports, i.e. from facilitating imports of healthy, nutritious and safe foods to satisfy local consumer needs and country's food and nutritional security. Since the border and trade compliance costs are usually transferred to consumers, especially with inelastic-demand food products, that the poorer strata tend to consume more, more efficient and simpler border regulations will translate into cheaper, fresher and better quality food for the Uzbek consumers and to reduce food waste.

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<sup>99</sup> <https://www.gazeta.uz/ru/2020/11/25/kattakurgan/>

<sup>100</sup> World Bank, Uzbekistan: Ferghana Valley Water Resources Management Project - Phase II, UZBEKISTAN Ferghana Valley Water Resources Management Project - Phase II

<sup>101</sup> Ibid.

<sup>102</sup> Ilkhom Khaydarov, Chairman of UzTextile Industry Association, Presentation at the Sustainable Sourcing From Uzbekistan workshop, 29 January 2021, American Uzbekistan Chamber of Commerce.

<sup>103</sup> Khaydarov, Presentation at the Sustainable Sourcing workshop

<sup>104</sup> Presidential Decree PP-4499, 25 October 2019,

[https://www.norma.uz/novoe\\_v\\_zakonodatelstve/subsidii\\_na\\_vnedrenie\\_vodosberegayushchih\\_tehnologiy\\_poliva\\_differenciuyut](https://www.norma.uz/novoe_v_zakonodatelstve/subsidii_na_vnedrenie_vodosberegayushchih_tehnologiy_poliva_differenciuyut)

## Recommendations

- Implement the announced land privatization program
- Further facilitate the development of agricultural cooperatives
- Further promote trade facilitation, logistics, processing and certification infrastructure, as well as digitization of agriculture<sup>105</sup>
- Implement the climate change adaptation and mitigation measures recommended by the UN Cooperation Framework 2021-2025, making full use of the international trade system to achieve the stated indicators
- Implement trade facilitation technologies and actions recommended by the WTO TFA, the ITC and FAO to reduce compliance costs and time required, including digital solutions for agricultural exports and imports (pre-arrival processing, electronic phytosanitary certificates)
- Expand participation in the UNECE SPECA trade facilitation program
- Join the FAO International Convention on Plant Protection, to harmonize phytosanitary measures with global standards, facilitate trade and participate in new standards setting. Uzbekistan's trade partners increasingly demand ICPP mandated tools to admit exports (e.g. plant pest surveillance systems).<sup>106</sup> Integrated pest managed is also crucial for food security, biodiversity conservation and environmental protection.
- Engage in international and regional efforts (CIS and EAEU) to standardise sanitary and phytosanitary requirements and implement mutual recognition agreements
- Consider a revision of customs duties on healthy and nutritious foods not available in Uzbekistan<sup>107</sup>
- Design and implement an effective water efficiency policy for agriculture, complement current drip irrigation initiatives with improved water table management and irrigation and drainage methods. Rehabilitate the policy option of water pricing *after* full commercialization of the agriculture system
- Given the high costs of land salinization, explore potential compact with downstream private sector stakeholders of Uzbekistan's agriculture, e.g. textiles, food processing and retails etc, including trading partners, to help finance desalinization techniques (soil additives like gypsum, salt-tolerant crops like licorice etc).
- Ratify the Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters (the Aarhus Convention) to prevent agricultural development resulting in negative environmental and human rights outcomes
- Sign the UNECE Declaration on Gender Responsive Standards and Standards Development<sup>108</sup> that requires all standardisation organizations to move to a more gender-balanced and gender-responsive standards, including those affecting international trade.
- Conduct the UNECE Needs Assessment for Uzbekistan, based on Regulatory and Procedural Barriers to Trade
- Explore potential synergies between the national agriculture modernization program and regional policy harmonisation processes under the UNECE SPECA Water, Energy and Environment Thematic Working Group

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<sup>105</sup> World Bank, Central Asia's Horticulture Sector: Capitalizing on New Export Opportunities in Chinese and Russian Markets, 2019, <http://documents.worldbank.org/curated/en/533791576731672430/Central-Asia-s-Horticulture-Sector-Capitalizing-on-New-Export-Opportunities-in-Chinese-and-Russian-Markets>

<sup>106</sup> Interview with Umida Haqnazar, an SPS expert based in Tashkent, January 2021.

<sup>107</sup> Some of these customs duty revisions were already made in President's Resolutions 4470 (02.10.2019) and 3818 (29.06.2018), but the duty exemptions and reductions could cover a wider range of products

<sup>108</sup> UNECE Declaration on Gender Responsive Standards and Standards Development, [http://www.unece.org/fileadmin/DAM/trade/wp6/documents/2019/2019\\_World\\_Standards\\_Day/Brochure\\_Gender.pdf](http://www.unece.org/fileadmin/DAM/trade/wp6/documents/2019/2019_World_Standards_Day/Brochure_Gender.pdf)

- Accelerate the launching of the national policy dialogue (NPD) on water (UNECE/WECOOP), with wide participation of expert community, media, civil society and policymakers at the level of the Cabinet and Presidential administration

## **E-commerce and digital economy**

Today, according to Nordea, besides the Uzbek ArbaUz, the other widely used e-commerce websites are OLX, AliExpress, and Amazon. Health and beauty products, electronics, clothing and shoes dominate sales, with China and Turkey are most commonly cited origin. The majority of domestic transactions are cash on delivery, while international payments are done by the use of bank cards linked to smartphones.<sup>109</sup>

Given its relatively young and relatively well-educated population, the rising disposable incomes and its government's political commitment to developing a digital economy, Uzbekistan has a significant developmental potential in both the production and exports of digital products and services and e-commerce. According to a recent USAID survey,<sup>110</sup> the population of Central Asia is becoming more comfortable with e-commerce, partially as a result of the COVID-19 related movement restrictions. The ecosystem for B2C and B2B payment processing, as well as the digital marketplaces are also picking up, as does the appetite of the mid-sized and large companies in apparel, textiles, retail, food products to take up digital tools to transform their businesses. All these sectors are strongly represented in the Uzbek exports.

Also, the geographic location of Uzbekistan carries a huge potential for becoming a transshipment hub.

An ITC global e-commerce survey divides policy challenges related to the topic into four groups, based on the process chain: establish an online business, international payments, cross-border delivery and after-sales. For Uzbekistan, international payments and cross-border delivery remain the most problematic areas.<sup>111</sup> Slow internet is to be added to these.<sup>112</sup>

Part of the problem is that the regulator views the developmental potential of e-commerce only as an export promotion tool, ignoring its potential to satisfy import demand. Importing users of e-commerce still face high customs fees and purchase payment issues. Also, regional and international e-commerce actors are not yet encouraged to enter the Uzbek goods and services market.<sup>113</sup>

In terms of the challenges, cash payments and paper transaction still predominate transactions, limiting the full potential of e-commerce. Absence of adequate shipment and logistics infrastructure is another challenge, as is the low awareness of cutting edge solutions and best practices. Most SMEs for example, still sell their products on social media instead of own websites.<sup>114</sup>

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<sup>109</sup> Nordea, Country Profile: Uzbekistan, chapter on E-Commerce. Available at: <https://www.nordeatrade.com/en/explore-new-market/uzbekistan/e-commerce>

<sup>110</sup> Central Asia Trade Forum 2020. Presentation of Kati Suominen in the E-Commerce Panel, 17 November 2020. Available at: [https://www.youtube.com/watch?v=y1Bmenl7dgw&feature=emb\\_logo](https://www.youtube.com/watch?v=y1Bmenl7dgw&feature=emb_logo)

<sup>111</sup> International Trade Center. New Pathways to E-Commerce: A Global MSME E-Commerce Competitiveness Survey. Geneva, 2017. Available at: [https://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/New%20Pathways%20to%20E-commerce\\_Low%20res\(2\).pdf](https://www.intracen.org/uploadedFiles/intracenorg/Content/Publications/New%20Pathways%20to%20E-commerce_Low%20res(2).pdf)

<sup>112</sup> Yevgeniy Sklyarevskiy, What Prevents the Development of E-Commerce in Uzbekistan? RepostUz, 12 February 2018, <https://repost.uz/e-commerce>.

<sup>113</sup> SpotUz. Highlights of the report of the Chairman of the Association of Electronic Commerce of Uzbekistan Muzaffar Azamov. 25 June 2018. Available at: <https://www.spot.uz/ru/2018/06/25/e-commerce/>

<sup>114</sup> Suominen.

Inadequacies of the logistics ecosystem in Uzbekistan have been highlighted by the COVID-19 lockdown as courier services were disrupted and border closures broke supply chains.<sup>115</sup> Also, the absence of simplified payment solutions like PayPal limited the development of the market, as the Uzbek diaspora used the local online grocery Le Bazar to deliver groceries to their relatives.<sup>116</sup>

Uzbekistan is the largest remittance receiving country from Russia. Uzbek labor migrants send between USD 2.7 and 5.6 billion annually between 2014 and 2019. Money transfer operators are traditionally the dominant providers of money transfer services, since most migrants do not have bank accounts. However, those services are usually hosted by the banks. Given that electronic money transfers are the cheapest medium, it makes sense for the government to invest into e-money capacities in Uzbekistan to bypass (often foreign) intermediaries, maximize amounts wired into Uzbekistan and help a local money transfer industry develop.

The government took some steps to address these issues. President's May 2018 initiatives on accelerated development of e-commerce for example, have the following facilitating measures concerning international trade:

- Exports of up to USD 3000 are exempt from registration in the Single Electronic Information System of Foreign Trade Operations and from registering customs declarations
- Government's commitment to facilitate integration of eBay, Amazon and PayPal with the local finance and trade laws.

In November 2019, the Payments Law was upgraded, to introduce electronic money and additional payment processing actors. In April 2020, the Central Bank issued Electronic Money Directive. However, electronic money issue is limited to Uzbek banks and the national currency.

For taxpayers included in the National Register of E-commerce Entities that sell goods and services online, the CIT rate has been lowered to 7.5%.

The facilitation measures, however, don't seem to be enough and the boom of the e-commerce industry is yet to come. As of November 2020, there were just 60 companies and entrepreneurs registered with the National Registry of the Participants of Electronic Commerce.<sup>117</sup> Talks with Pay Pal are also now entering into a second year, with no feasible results reported.

Starting 2020 foreign legal entities providing B2C electronic services in Uzbekistan via Internet are required to register as a VAT payer via online platform and pay the VAT.

#### Recommendations:

- Targeted capacity building to improve knowledge and skills pertaining to paperless trade and e-commerce. Such capacity building can be an extension of the current active training programs on government provided online tools like e-Customs
- Improved coordination between customs and other border agencies to ensure the later have full access to paperless protocols and are fully integrated into the customs' e-architecture

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<sup>115</sup> Central Asia Trade Forum 2020. Presentation of Botir Arifdjanov in the E-Commerce Panel, 17 November 2020. Available at: [https://www.youtube.com/watch?v=y1Bmenl7dqw&feature=emb\\_logo](https://www.youtube.com/watch?v=y1Bmenl7dqw&feature=emb_logo)

<sup>116</sup> Arifdjanov.

<sup>117</sup> National Registry of the Subjects of the E-Commerce. E-tijoratUz. Available at: <https://e-tijorat.uz/ru>. To clarify, entities registered in the Registry have to derive at least 80% of their earnings from e-commerce. If this condition is met, the entities pay a 2% simplified company tax, instead of the statutory corporate income tax.

- Improved access to cost-efficient platform, payment and delivery services (especially Paypal) through legislative amendments and expanded broadband solutions
- Implementation of trade facilitation measures and streamlined customs procedures (WTO Trade Facilitation Agreement, WCO Immediate Release Guidelines and reasonable de minimis thresholds on imported goods released automatically).
- In November 2020, the Uzbek and Kazakh customs services launched an e-TIR system to move to paperless transit declarations.<sup>118</sup> We welcome the introduction of this transit facilitation tool and encourage the implementation of all the actions prescribed in Presidential Decree UP-6005.<sup>119</sup>
- Close the existing legal and technical gaps identified by the UN ESCAP study on paperless cross-border trade in Uzbekistan and join the Framework Agreement on Facilitation of Cross-border Paperless Trade in Asia and the Pacific.<sup>120</sup>
- Create legal infrastructure for mobile money systems connected to the international wire transfers
- Follow OECD recommendations on the globalisation of the Uzbek SMEs.<sup>121</sup>
- Include women-related trade facilitation in the next UN Survey of Digital and Sustainable Trade Facilitation.

## **Energy: Renewables, Energy Efficiency and Regional Electricity Market**

Uzbekistan is among the world's largest natural gas producers, with an annual production of around 60 billion cubic metres of natural gas. Of that, it exports 10-15 bcm each year, mostly to China, Russia and Kazakhstan. Latest coal production data, from 2019, is 4000 kiloton, gas condensate – 2000 and conventional oil – 700.<sup>122</sup> Electricity generation stood at 61.6 terrawatt hours in 2019, predominantly powered by natural gas (85%). Coal currently produces around 3% of electricity, with the share to rise to 10% by 2030.

On the consumption side, the total is 30 megatonnes of oil equivalent, with households consuming around 40% and industry, transport and services – 20% each. If only electricity consumption is taken into account, the industry consumes 40%, households – 23%, agriculture – 20% and utility companies – 13%.

While Uzbekistan's share in the global greenhouse gas is a miniscule 0.33%, its economy is extremely emissions-intensive, due to an energy mix dominated by natural gas and a growing coal share, outdated

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<sup>118</sup> Uzbekistan Customs Committee, Состоялся запуск первых пилотных перевозок проекта «e-TIR» между Республикой Узбекистан и Республикой Казахстан, 18.11.2020, <http://customs.uz/ru/news/view/4899>

<sup>119</sup> Uzbekistan President's Decree dated 5 June 2020, UP-6005, "О реформировании таможенного администрирования и совершенствовании деятельности органов Государственной таможенной службы Республики Узбекистан", <https://lex.uz/docs/4844619>

<sup>120</sup> United Nations Economic and Social Commission for Asia and the Pacific (UNESCAP), Readiness Assessment for Cross-Border Paperless Trade: Uzbekistan, 2019, <https://www.unescap.org/sites/default/files/UZB-CBPT%20Readiness-FINAL%2B.pdf>

<sup>121</sup> Organization for Economic Cooperation and Development. Boosting SME Internationalisation in Uzbekistan through better export promotion policies. Paris, 2017. Available at: [https://www.oecd.org/eurasia/competitiveness-programme/central-asia/Uzbekistan\\_Peer\\_review\\_note\\_dec2017\\_final.pdf](https://www.oecd.org/eurasia/competitiveness-programme/central-asia/Uzbekistan_Peer_review_note_dec2017_final.pdf)

<sup>122</sup> IAE, Uzbekistan Energy Profile, <https://www.iea.org/reports/uzbekistan-energy-profile>

energy infrastructure, considerable energy subsidies and energy-intensive sectors like cement and metals.<sup>123</sup>

Uzbek economy is also extremely energy-intensive, among the most energy-intensive in the world. With 480 kg of oil equivalent per USD 1000 of GDP, it is twice the world average and four times higher than that of the EU, as well as 35% higher than in Kazakhstan. The government plans to halve its energy intensity by modernising key energy-intensive sectors (equipment upgrade, process re-engineering etc). The initiatives have been well regarded by the international community, with a six-position rise in the World Economic Forum's Energy Architecture Performance Index (from 84 to 78 out of 125).

As Uzbekistan's economy grows, the energy demand will increase even more, putting the existing system in even greater stress: the electricity demand, for example is forecast to rise 40% in the next five years. The government has taken the following measures to meet that demand, all of which have a sustainable trade dimension:

- Investment into new generating capacities, including the renewables and nuclear
- Modernisation of the existing capacities
- Implementing energy efficiency policies
- Greater integration into the regional electricity market

### *The Renewables*

The government is taking measures to establish a legal framework for the development of this energy segment. The Law on the Use of Renewable Energy Sources and the Law on Public-Private Partnerships have been adopted, as well as the Regulations for Connecting Businesses that Produce Electricity, Including from Renewable Energy Sources, to the Unified Electric Power System. Unlike the regional leader Kazakhstan, Uzbekistan has already adopted a yearly action plan on the transition to the renewables. The investment conditions are also better than in Kazakhstan (take or leave).<sup>124</sup>

The renewable energy law, adopted on 21 May 2019<sup>125</sup> regulates the relationship between the state and producers of electricity from renewable sources, as well as producers of generating equipment. Both legal and physical persons can produce electricity and the state guarantees the purchase of the generated capacity for the single electricity network. A single operator of the network has been named (National Electric Grid of Uzbekistan, in a separate law). While the law exempts producers of electricity from land and property taxes and producers of generating equipment from all taxes, no customs and import preferences have been given.

Despite very significant solar energy potential, Uzbekistan has no industrial-scale solar power plants, despite several initiatives launched in mid-2010s. The government has recently concluded tariff competitions and concluded an agreement with Emirati and French companies for the first two solar power stations.<sup>126</sup>

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<sup>123</sup> OECD, Sustainable Infrastructure for Low-Carbon Development in Central Asia and the Caucasus : Hotspot Analysis and Needs Assessment, <https://www.oecd-ilibrary.org/sites/5fd38a3d-en/index.html?itemId=/content/component/5fd38a3d-en>

<sup>124</sup> Armen Arzumanyan, Chief of Party, Power the Future, Central Asia Regional Electricity Market, USAID. Presentation at the Central Asia Trade Forum.

<sup>125</sup> Law of the Republic of Uzbekistan on the Renewable Energy Use, N539 dated 21 May 2019. Available at: <https://lex.uz/docs/4346835>. Part of the same legal regime are the Law on Public-Private Partnerships and the Regulations for Connecting Businesses that Produce Electricity, Including from Renewable Energy Sources, to the Unified Electric Power System.

<sup>126</sup> Interview of Uzbekistan's energy minister Alisher Sultanov to AlterEgo channel, 29 November 2020, <https://www.youtube.com/watch?v=E1qD7v7UXkg> and Fergana News agency, "Французы инвестируют €150 млн в солнечную электростанцию под Самаркандом", 13 September 2019, <https://fergana.news/news/110758/>

Furthermore, as wind potential has not been studied sufficiently, there are also no industrial-scale wind farms. Wind and biomass energy production shares are low, so statistical agencies do not currently take them into account.

Plans to construct a nuclear power plant and render it operational by 2028 also undercut government efforts to support renewable energy, by reducing the scale of its use. This is so because nuclear energy is around 20 times cheaper to produce than renewable, and Uzbekistan has extensive uranium deposit and mining capacity.

Challenges to the development of the renewables:

- There are certain fiscal preferences to the producers of solar power and solar power equipment, however they are not adequate to motivate a definitive switch to the solar power
- Case-by-case granting of preferences at the level of the head of state. As an example of this, it takes a presidential decree to set-up a solar equipment joint venture with state participation.<sup>127</sup> Instead of having a sectoral policy, the preferences are given on a case-by-case basis, with a very high level of details.
- Low level of public awareness on the available technologies, relatively high costs and perceived risks
- Need to integrate the renewable generating systems with conventional gas-based systems to ensure supply and capacity stability, at nighttimes and still weather. According to experts, this is one of the barriers to the Russia – Central Asia trade in renewable energy<sup>128</sup>
- Absence of an adequate number of “serious” technical studies into the feasibility and capacity of renewable energy<sup>129</sup>
- Government of Uzbekistan’s insistence on using coal for electricity generation and household and small business energy needs
- Fossil fuel subsidies. Uzbekistan was 15<sup>th</sup> largest distributor of fossil-fuel subsidies in the world in 2019.<sup>130</sup> The market exchange rate value of subsidies distributed that year was 7.4% of the gross domestic product. The government spent USD 2.7 billion on gas subsidies and another 1.4 billion on fossil fuel subsidies to generate electricity.

Recommendations

- Introduce duty-free imports of solar power production equipment and solar power systems. The currently relatively high international prices mean opening this segment to trade would not discourage domestic production, as it could remain price-competitive.
- Replace current case-by-case system of granting fiscal, financial, administrative and customs preferences to joint ventures producing renewable energy equipment, with a sector-wide set of rules
- Intensify awareness-raising campaigns on the renewables and state policies to support them, to stimulate consumer demand, especially in rural areas

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<sup>127</sup> President’s Resoluiton “On Additional Measures to Implement an Investment Project on Solar Panel Production in Khorezm Oblast” (Draft for public consultation): <https://regulation.gov.uz/ru/document/2896>

<sup>128</sup> Arumanyan, Presentation at the Central Asia Trade Forum 2020.

<sup>129</sup> Arzumanyan, Presentation at the Central Asia Trade Forum 2020.

<sup>130</sup> IEA, Value of fossil-fuel subsidies by fuel in the top 25 countries, 2019, IEA, Paris <https://www.iea.org/data-and-statistics/charts/value-of-fossil-fuel-subsidies-by-fuel-in-the-top-25-countries-2019>

- Draft implementing regulations of the sustainable energy law to facilitate its smooth implementation
- Take steps to ensure that the renewable and clean energy sources remain viable after the launch of the nuclear power plant (e.g. guaranteed minimal green tariffs, investments into regional exports infrastructure)
- Examine the technical feasibility of upgrading current biomass usage practices (e.g. cotton plant branches, animal waste) into small-scale biogas production, to increase biomass usage efficiency in the rural areas.
- Promote further technical studies on the use of renewables to address knowledge gaps
- Access the knowledge and experience of the UNECE member states in transition away from coal-based energy generation
- Phase out fossil fuel subsidies

### *Regional Energy Market*

One of the most economically viable ways to satisfy to satisfy Uzbekistan’s growing energy demand is the regional energy (electricity) market. This is so because energy self-sufficiency is an expensive luxury, due to fiscal costs involved and limited financing for such projects available from international financial institutions. This is also so because a regional energy market would lead to national energy systems being more competitive and more efficient: instead of constructing new generating capacity the countries of the region would utilize the existing capacities, contributing to their efficiency.<sup>131</sup> Also, efficiency would increase due to a reduction in energy production and consumption subsidies and an improved correlation between production costs and actual tariffs. This point of view is almost unanimously supported by the donor agencies active in the sector.<sup>132</sup>

Experts agree that the regional has a potential for the energy exports into South Asia,<sup>133</sup> Iran and Afghanistan, which would also benefit from the peak hour consumption differences. There is also a significant potential for export of services accompanying regional energy exchange (e.g. distribution, monitoring etc) that Uzbekistan can tap into.

The current plans of action center on rehabilitating the Soviet-era Unified Electricity System by drafting and approving intergovernmental agreements and coordinating on technical standards and modernization plans. The transit of electricity through third countries is one of the most important aspects of the regional energy market. The current transit methods have been updated, as has been the unified approach to the transit tariffs. Uzbekistan signed the plan of action on transfer to the regional energy market and energy exchange. According to the deputy minister of energy of Uzbekistan, the new gas law will have regional market clauses.<sup>134</sup>

### Challenges and Solutions

The greatest challenge to the export capacity of Uzbekistan is the divided functioning of the gas and gas-transport and electricity systems. Experts call for initiatives to coordinate the functioning of the two energy systems, to ensure stability of exported capacities.

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<sup>131</sup> Pedro Robio, USAID Power Sector Projects Manager. Presentation at the Central Asia Trade Forum.

<sup>132</sup> Central Asia Trade Forum 2020. Session 7. Roundtable Powering Central to Better Electricity Delivery. 19 November 2020. Available at: [https://youtu.be/M47\\_3C-vQME](https://youtu.be/M47_3C-vQME)

<sup>133</sup> Kh.Shamsiev, Director of Energy Coordinating Center, presentation at the Central Asian Trade Forum 2020.

<sup>134</sup> B.Narmatov, Deputy Minister of Energy of Uzbekistan, Presentation at the Central Asia Trade Forum 2020.

Also, current gas systems do not have the technical capacity to build up generation to the amount that the provision of stable electricity would require from the electricity system. This requires either modernization of the current gas systems or construction of electricity collection units. The latter would also benefit exports of electricity generated from the HPPs: the exporters could invest into assemblage capacities, in cooperation with customers and neighboring countries.

Finally, current demand forecast models are inadequate and purchase notice periods too long. Steps are to be taken towards agreeing on and implementing shorter purchase notice periods.

Related to the regional electricity market are two other government initiatives: the draft 2021 strategic action foresees an elimination of import tariffs and import-related permits on liquefied natural gas, starting March 2021. Also starting August 2021, the government commits to permitting large enterprises directly import natural gas and electricity. The energy ministry is to design a roadmap for the wholesale domestic market of electricity and natural gas.<sup>135</sup>

### *Energy efficiency*

Energy efficiency is a part of the Industrial and Investment Policy of the country until 2025, as well as target of a handful of dedicated laws and presidential decrees. Since 2011, the World Bank sponsored USD 325 million project provides cheap loans to companies in mining, oil and gas, construction materials, metallurgy and cement to implement energy efficiency projects, while a more recent 100 million Euro EBRD project offers the same conditions for the SMEs.<sup>136</sup> While energy efficiency has become a buzzword in the policy discourse, there is a lot to be done.

First, government still insists that the industry give preference to domestically manufactured industrial equipment and energy-efficient consumer items. In public procurement and procurements of the state-owned enterprises this is often a legal requirement, while the private sector is discouraged from importing through tariff policy. There are reportedly cases, when state authorities also pressure the Uzbek certification agency UzStandard to “facilitate” certification of domestically manufactured equipment and consumer items as energy-efficient when this is not the case. Also, there are allegations of corruption and political interference in public procurement, the most publicized case being the tender on the installation of smart gas meters for households: a substantial number of those newly installed meters exploded, with reasons still to be established.<sup>137</sup>

Second, the current system of fossil fuel (coal and gas) and sectoral subsidies (e.g. manufacturing of fertilisers, cotton and wheat production) eliminate commercial incentives to energy efficiency by distorting price mechanisms.

Third, the current energy tariffs are lower than the market price, discouraging overconsumption. Current calls to simply raise tariffs to the market levels, however, ignore the fact that the quality and stability of energy supply is also not up to the market standards. The year 2020 was an especially stark

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<sup>135</sup> Draft presidential decree, “О Государственной программе по реализации Стратегии действий по пяти приоритетным направлениям развития Республики Узбекистан в 2017–2021 годах в «Год поддержки молодежи и укрепления здоровья населения»”, ID-27993, <https://regulation.gov.uz/ru/d/27993>

<sup>136</sup> Ministry of Economic Development and Poverty Reduction. Project Increasing Energy Efficiency of Industrial Enterprises, <https://mineconomy.uz/en/news/view/3280>. The project estimates to have saved around 500 MKWt/h of electricity and 190 million cubic meters of gas per year.

<sup>137</sup>

illustration of the limits of Uzbekistan's energy system with energy outages, forced disconnections and accidents becoming the most discussed topics in the media and social networks.

Recommendations:

- Phase out the system of customs and public procurement preferences to domestically manufactured industrial equipment, consumer electronics and household electricity equipment. Recognizing that the government's insistence on import substitution is unlikely to change, the existing support can be continued, but with a clearly defined sunset clause and a phase out strategy
- Document other tariff and non-tariff barriers to the trade in energy-efficiency technologies and knowledge and review them with a view to eliminate
- Phase out fossil fuel subsidies and sectoral subsidies leading to energy inefficiencies
- Review certification agency's operating mandate and energy efficiency standards to eliminate political interference and to upgrade the standards to the international best practices
- Review energy tariffs and design a market-consistent upgrade that takes into account quality and stability dimensions
- Finalise the blueprint of energy consumption subsidies for the most vulnerable groups of the population and publish it for consultation with stakeholders

## **Migrants and Remittances**

Migration from Uzbekistan to Russia, Kazakhstan, Turkey and South Korea has been very significant and has had an important influence on the country's unemployment, social welfare and hard currency inflow. While estimates vary, up to 6 million of Uzbekistan's 15 million workforce travels abroad for seasonal work. From Russia alone, Uzbek migrants have been remitting between USD 800 and 1400 million per quarter.<sup>138</sup>

While dangerous journeys and precarious living have always characterized Uzbek low-skilled labour emigration, the COVID-19 has aggravated these problems. A recent survey of Central Asian migrants in Russia established that 40% of respondents had lost their job and 75% were forced into unpaid leave, compared to 23% and 48% of the Russian population.<sup>139</sup> Substandard living conditions, severely limited access to healthcare and high levels of informality put labour migrants at a higher health risk.<sup>140</sup> For those who decided to return from Russia, border closures created a nightmare of homelessness and straying at air and land ports of exit, in addition to job loss.

Recommendations:

- Potential take-up of Mode 4 trade in services as a potential theme under the SPECA Thematic Work Group on Trade
- Financial literacy programs for low-skilled migrants
- Formation of an investment market to absorb migrant remittances into investment projects
- Government incentives to alternative, cheaper and simpler money transfer mechanisms, including electronic wallets

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<sup>138</sup> Data of the Central Bank of the Russian Federation

<sup>139</sup> Gurevich and Kolesnikov, 2020

<sup>140</sup> Rocheva and Varshaver, 2017

- Advocacy of work permit extensions, simpler registration and hiring procedures in host economies
- Instituting retraining/placement programs for returning migrants to facilitate their absorption into the domestic market and/or securing employment with skills acquired abroad
- Building on the impetus of the newly created migrant pension schemes to institute travel and health insurance programs

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