

State Actions Aimed to Increase Privatization Efficiency in Cotton and Light Industry of Uzbekistan

(ginning industry section)

Aiming further deepening of demonopolization and privatization processes in ginning industry of the Republic, extension of enterprises independence, wider attraction of investments including foreign ones, for the development and technical re-equipping of ginning industry branch the Decree of the President of the Republic of Uzbekistan dated June 11, 2001, № УП–2874 «On Measures for Demonopolization and Improvement of the Republic’s Ginning Industry Control» has been adopted.

According to this Decree:

- State Joint-Stock Association on raw cotton processing and cotton products sale “Uzgoskhlopkopromsbyt” has been transformed into “Uzhlopkoprom” (“Uzpahtasanoat”);
- regional joint stock unions – representations of “Uzkhlopkoprom” (“Hlopkoprom”)s were established in the Republic of Karakalpakstan and in provinces;
- actions were performed aiming strengthening of processes of enterprises and organizations transformation into joint-stock associations and other non-governmental forms of property.

Basic tasks of “Uzhlopkoprom” Association are:

- systematic study of world and domestic cotton market opportunities based on tendencies being formed on them, creation of proposals on improvement of cotton selection grades allocation system, of volumes and structure of raw cotton production;
- support to regional “Hlopkoprom” joint-stock unions, ginneries in implementation of market reforms, organization of word market competitive production, modernization and technical re-equipping of ginneries, introduction of up-to-date techniques and technologies, wider attraction of investments including foreign ones;
- control over the observance of established procedure of cotton grades renovation and allocation; over production process, preparation and supply of cotton seeding farms with high quality sowing seeds in strict accordance with established grades allocation;
- control over the number and quality of raw cotton stored up by ginneries, of produced cotton goods, maintenance of established standards for cotton fiber and other cotton products output, over burn-offs and other losses arising during raw cotton processing;
- participation in forming, jointly with the Ministry of Economy of the Republic of Uzbekistan and regional “Hlopkoprom” joint-stock unions, of cotton goods production and supplies balances.

Regional “Hlopkoprom” joint-stock unions (hereinafter referred to as “Hlopkoprom” RJSU”) are the basic part of ginning industry responsible for purchasing and processing of raw cotton, the supply according to established order of produced cotton goods to exportation as well as to consumers within the Republic, timely mutual settlements with agricultural enterprises for raw cotton and cotton products being supplied, provision of agricultural producers with sowing seeds of cotton selection grades being of great demand on world cotton market.

“Hlopkoprom” RJSU are established on the basis of liquidated regional state – joint stock unions on raw cotton purchasing, processing and cotton products supplies, in the form of public corporations with the transfer of ginneries’ control packet of shares to their authorized funds.

“Hlopkoprom” RJSU comprise ginneries (with cotton purchasing centers), enterprises for preparation of sowing seeds, repair, construction, supply, transport and other service organizations. Besides, RJSU may comprise raw cotton waste processing plants as well as enterprise for manufacturing of by-products from cotton waste.

“Hlopkoprom” RJSU are authorized to provide:

- development and improvement of market tools of raw cotton purchasing and processing;

- Formation of contracting agreements with cotton seeding agricultural enterprises and farms for raw cotton purchasing and processing as well as contracts with foreign trade companies of the Agency for Foreign Economic Relations of the Republic of Uzbekistan and with domestic consumers – for the supply of products resulted in cotton processing for exportation and for internal market;

- Organization of purchasing and timely processing of raw cotton according to contracting agreements concluded by them and supplies of cotton products for exportation and for internal market;

- Efficient preparation and provision of cotton seeding enterprises with sowing seeds of selection grades of cotton being of great demand on world cotton market;

- purposeful utilization of means provided by the Fund for payments on agricultural production being purchased for the state needs, under the Ministry of Finance of the Republic of Uzbekistan, advancing and final settlements with cotton seeding agricultural enterprises and farms in accordance with contracting agreements concluded for purchasing and processing of raw cotton;

- record keeping and accounting for raw cotton purchasing, output, shipment and for cotton fiber remains and other cotton products, provision of data adequacy regarding volumes of raw cotton purchasing, cotton production output, supplies for export and for internal consumers.

In pursuance of the Decree of the President of the Republic of Uzbekistan, dated June 11, 2001, № VII–2874 «On Measures for Demonopolization and Improvement of the Republic’s Ginning Industry Control» and aiming development of joint-stock enterprises formation within ginning industry and optimization of ginning branch control system the Regulation of the Cabinet of Ministers of the republic of Uzbekistan was adopted, dated June, 2001, № 252 «On the improvement of ginning industry control system of the Republic».

Management authority of Association has been established. The Board of “Uzhlopkoprom” Association includes managers of regional joint-stock unions – “Hlopkoprom”s, heads of leading ginning enterprises and of companies performing preparation of sowing seeds, belonging to regional joint-stock unions.

Chairman of the Board of “Uzhlopkoprom” Association and his deputies are elected by Association Council, approved in the position by the Cabinet of Ministers and are equal on status for First Deputy Minister and Deputy Ministers respectively.

Supervisory Boards of “Hlopkoprom” RJSU comprise public attorneys on management of state-owned packets of shares and shareholders owning significant volume of shares in authorized funds of the unions:

– authorized funds of “Hlopkoprom” RJSU are formed from the property of regional state joint-stock associations being liquidated, which have been responsible for purchasing, processing of raw cotton and for cotton products supply; delivery of control packets of shares (51 per cent) of ginneries to the authorized fund, including state owned packets of shares of other enterprises being members of regional union.

State Property Committee of the Republic of Uzbekistan in pursuance of above mentioned Decree of the President and of the Regulation of the Cabinet of Ministers of the Republic of Uzbekistan has performed:

– formation of authorized funds of “Hlopkoprom” RJSU, offering circulars of shares emissions has been registered with allocation of shares as follows: 51 per cent is state-owned, 49 per cent are subject to free sale, including foreign investors participation;

– Jointly with the Ministry of Finance, State Taxation Committee of the Republic of Uzbekistan and with other concerned organizations the restructuring, in established order, of authorized funds of ginneries being members of “Hlopkoprom” RJSU has been performed, with fixation of share packets in the amount of 51 % as the state property and not more than 7 % for members of labor collectives, with free sale of remaining packets of shares, including foreign investors participation.

According to above mentioned Regulation State Property Committee of the Republic of Uzbekistan is allowed to deliver 50 % of revenue received from realization of subject to free sale public corporations’ shares to “Hlopkoprom” RJSU for technical re-equipping of enterprises being members of regional units (operational costs excluded).

It is determined that “Hlopkoprom” RJSU are commercial agents of the Fund and they are authorized to conduct settlements for agricultural products being purchased for the state needs, under the Ministry of Finance of the Republic of Uzbekistan.

The structure of “Uzpahtasanoat” Association currently includes: 172 joint-stock companies, 7 limited liability companies, 1 joint venture and all of them are established on the basis of above mentioned Decree of the President and of the Regulation of the Cabinet of Ministers of the Republic of Uzbekistan.

Regulation of the Cabinet of Ministers dated 17.04.2003, № 185 regarding “Uzpahtasanoat” Association stipulated the sale of state assets of 38 enterprises. Factually, state assets of 37 enterprises are marketed, which is 97 %.

At the date of 01.01.2005 for the whole Association it is stipulated to market state assets for the amount of 1 764,46. Factually, shares for 1476,76 million Soams are sold, which is 83,4 %.

At the date of 01.04.2005 for the whole branch it is stipulated to market state assets for the amount of 201,63 million Soams. Factually, shares for 102,19 million Soams are sold (51,0 %).

On the results of activity for 2003 general meetings of shareholders were organized and held in 2004 in 175 join-stock companies of ginning industry. Ginning industry enterprises has brought net profit at the amount of 12,62 billion Soams, from which

6,93 billion Soams were directed for technical re-equipping of enterprises, 5,68, as well as payments of dividends on state shares – 874,4 billion Soams for dividends.

Introduction of new forms and methods of corporate management significantly increase the role of shareholders in participation in enterprises' activities, it allowed to revise the role and status of director corps and Supervisory Board, increased their responsibility for shareholders.

In accordance with the requirements of the Decree of the President of the Republic (№ VII–3202) managing authorities in all joint-stock companies were adjusted: in 27 joint-stock companies chairmen of the boards were replaced. In Supervisory Board and in Revision Commission 687 and 385 members respectively were reelected.

On the results of joint-stock companies' activity in 2004, from the whole branch net profit of 13,616 billion of Soams was received (operatively), it is for 7,9 % more than in 2003.

It is necessary to emphasize that due to low profitability, the lack of raw materials and according to General Meeting of Shareholders' decision (29.05.03; 22.03.04) joint-stock companies «Volkov» and «Irjar», ginneries of Syrdaria and Jizzak provinces were incorporated to joint-stock companies «Pahtaobod Pahta Tozalash» and «Dustlik Pahta Tozalash », therefore those above mentioned joint-stock companies were liquidated.

According to the Regulation of the President of the Republic of Uzbekistan dated 14.03.2005. № III–29 «On the program of liberalization and privatization of enterprises for 2005 – 2006 period» for the whole «Uzpahtasanoat» Association state assets of 27 enterprises are subject to be sold on exchange bids. For the date assessment works are being performed for displaying on auction.

In accordance with the Regulation of the Cabinet of Ministers №189 dated April 19, 2003, the Association was performing monitoring of general meetings having been held, methodical assistance was provided to companies regarding normative documentation drawing: emission and amendments to emission offering circulars, amendments to the provision concerning Supervisory Board, encouragement of Supervisory Board and Revision Commission members, drawing and timely submission of general meetings' minutes to regional offices of State Property Committee.

In 2004, jointly with the Center of Corporative Management of High School of Business of the Academy of State and Public Construction under the President of the Republic of Uzbekistan and with the purpose of reduction of enterprises' costs for their employees' training, field (zonal) training courses based on individual programs considering specificity and needs of the branch were organized.

141 managers and specialists were trained during those courses in fundamentals of corporative management, strategic and financial management in market conditions, in conduct of monitoring over the activity of executive bodies of a joint-stock company. Business-plan fulfillment and new legislative and normative acts were also explained.

In accordance with the Regulation of the Cabinet of Ministers dated June 3, 2003, № 240 «On improvement of mechanism of payments for produced and marketed cotton fiber» shipment of cotton goods produced by members of “Uzpahtasanoat” Association to consumers is performed through specialized cotton terminals. Payment for production shipped

for export are performed according to “Time order of cotton fiber marketing for export and settlements of foreign trade companies with «Hlopkoprom» regional unions and with internal buyers through Republican Commodity Exchange of Uzbekistan.

During inventory conducted in storehouses existing in the Republic provinces a list consisting of 20 points has been determined regarding actions aimed at transformation of store houses into cotton terminals with total capacity of concurrent storage of 223,8 thousand tons of cotton. Additionally «Uzpahtasanoat» Association presented a list consisting of 16 points, on the basis of which it was suggested to create cotton terminals with total capacity of concurrent storage of 111,5 thousand tons of cotton.

Inventory of local production enterprises was also conducted, and it shows that there are 124 enterprises performing cotton fiber and linter processing.