

How to realise Uzbek export potential to the EU: Key bottlenecks in two value chains

Veronika Movchan, Woldemar Walter

Berlin/Tashkent, May 2021

Summary

Against the background of the EU granting GSP+ status to UZB, we identified bottlenecks for exports to the EU in two main value chains; results are based on interviews with companies and experts

Key bottlenecks	Recommendations
Fruits and vegetables	
Limited availability and use of precooling facilities	Development of a network of small precooling facilities; education campaign for farmers
Packaging not fitting export needs	Facilitate use of modern light-weight packing (e.g. carton, tin, recyclable polymer materials)
Food safety certification	Ensure proper implementation of quality management and certification process
Apparel	
Poor image of UZB regarding labour standards	Targeted information campaigns in the EU; ensure that ILO standards remain fully and consistently fulfilled
Social standards compliance audit	Introduce state support scheme for international 'social responsibility standards' certification of UZB companies

Structure

1. Motivation
2. Methodology
3. Bottlenecks for exports of fruits and vegetables
4. Bottlenecks for exports of apparel

Annex

1. Motivation

- In April 2021, the EU granted GSP+ status to Uzbekistan
- In a recent policy briefing, we analysed Uzbek export potential to the EU in view of GSP+ and identified top-20 products with highest export potential*
- These products could largely be assigned to the following product categories
 - Fruits and vegetables
 - Textile and apparel
- This policy briefing is a follow-up study to identify key export bottlenecks for the two relevant value chains

Key questions:

- What are key bottlenecks for selected Uzbek export value chains?
- How can these bottlenecks be addressed?

[*https://www.german-economic-team.com/usbekistan/en/policy-briefing-05-2020-2/](https://www.german-economic-team.com/usbekistan/en/policy-briefing-05-2020-2/)

2. Methodology

- Main source of information: structured interviews with producers and exporters, transport and logistic companies, sector specialists
- Supplementary sources: analytical reports, statistical information, legislation, international indices

Disclaimer: We do not provide a comprehensive analysis of production and trade values chains. Instead, we summarise bottlenecks and suggest how to address them.

Bottlenecks identified in the interviews: overview

Factors of
production and
inputs

For fruits &
vegetables: cold
chain

Packaging

Transportation

Certification

Design, branding,
UZB image

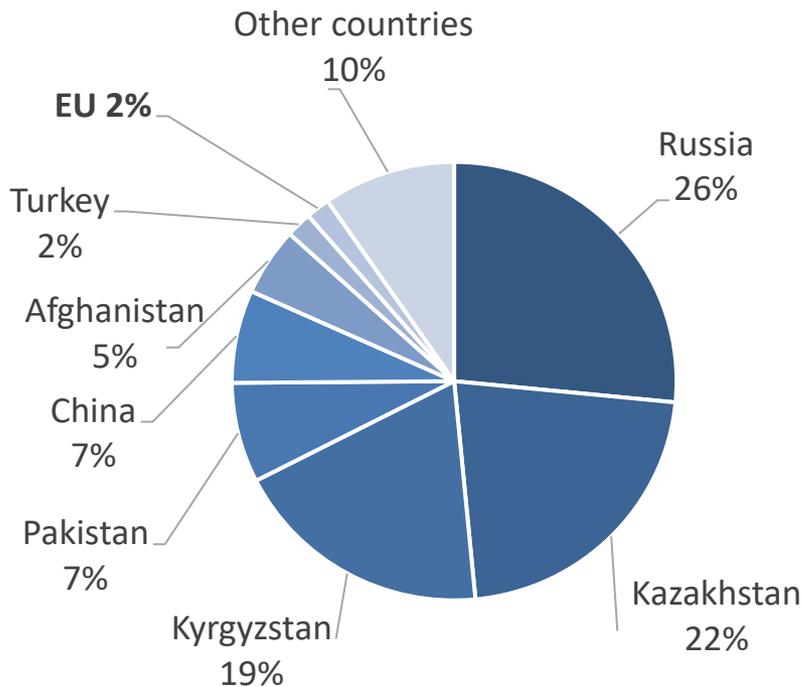
Customs clearance

Rules of origin

Information gaps

3. Bottlenecks for exports of fruits and vegetables

UZB exports by partners, 2020



Source: WITS, fruits & vegetables include HS 07, 08, 20

UZB exports of fruits & vegetables, 2020:

- Aggregate: USD 1.0 bn
- Share in total exports: 7.6%
- **Relatively high importance**

Main trade partners:

- **Neighboring traditional markets**
- **Reasons: cheaper transportation, common language and lower safety/quality requirements**
- **So far very small share of EU, but this could change in view of GSP+ status**

Production capacity of fruits and vegetables

- Access to land and water:
 - Issues with size of land plots: small plots do not allow economies of scale and prevent development of cold chain (important e.g. for melons)
 - Saline soil: need melioration, negatively affects production capacity
 - Access to melioration: limited supply, priority to grains and cotton
- Need for new breeds:
 - Table grapes: old breeds with seeds inside, while Europe used to seedless breeds; difficult to introduce new breed due to risk of bringing diseases
 - Melons: too juicy / too large – hard to store and transport

Bottleneck importance: Moderate to high

Recommendations:

- Facilitate demand-driven allocation of land among crops
- Support introduction of new breeds taking all necessary SPS precaution

Labor force quality

- Limited knowledge/understanding of modern technologies, e.g. importance of cold chain
- Shortage of qualified personnel, for example, in:
 - Cold chain
 - Plant protection
 - Technical specialties
- Outdated education programs for agrarian specialisation

Bottleneck importance: Moderate

Recommendations:

- Update education programmes for agrarian specialisation in cooperation with international experts/educational institutions
- Develop training programs as a part of the development of quality management system

Cold chain

- UZB developed an extensive network of large cold storage facilities, but they are mostly not designed to provide precooling services
- Limited number of facilities providing services of precooling, cleaning, sorting, packaging and further cooling
- Low culture of precooling: farmers frequently do not understand importance of correct temperature regime for fruits and vegetables
- Different products require different storages to avoid disease spread
- Fruits and vegetables are frequently sorted and packed immediately at fields resulting in a higher share of rotten products, lower price and increased risk of rejection by buyers, especially in EU

Bottleneck importance: High

Recommendations:

- Support investments into small, close-to-field cold chain facilities
- Farmers-targeted education campaign explaining cold chain importance

Packaging for fresh fruits and vegetables (1/2)

- Plastic boxes:
 - Domestically produced, easily available and quite cheap
 - Widely used, although not well-suited for fruit storage
 - High import duties: 15% MFN and 30% full rate (HS 392310)

- Carton boxes:
 - Domestically produced, easily available
 - Light-weight, so reduce transport costs
 - BUT: domestically produced boxes have insufficient carton strength, so need to import or invest in new production
 - High import duties: 20% MFN and 40% full rate (HS 4819)
 - Branding: expensive to add a company brand

Packaging for fresh fruits and vegetables (2/2)

- Wood packings:
 - Domestically produced, easily available and quite cheap
 - Low quality of available boxes, e.g. non-standardised weight
 - Need to ensure compliance with phyto-sanitary requirements for wood packaging materials, e.g. International Standard for Phytosanitary Measures No. 15 (ISPM 15) applied by many partners, including the EU (see Annex 1). UZB does not participate in ISMP 15
 - High import duties: 20% MFN and 40% full rate (HS 4415)

Bottleneck importance: Moderate to high

Recommendations:

- Focus on use of carton packing (light-weight, recyclable)
- Reduce import duties on packing materials, especially carton boxes, to increase domestic competition and improve variety
- For wood packing: consider joining International Standard for Phytosanitary Measures No. 15

Packaging for processed fruits and vegetables (1/2)

- Tin cans:
 - Light-weight: cheaper transportation
 - Not produced domestically, have to be imported
 - High excises (now abolished)
 - Moderate import duties: 5% MFN and 10% full rate (HS 731021)

- Polymer/carton food packages for processed products:
 - More attractive for consumers
 - Light-weight: cheaper transportation
 - Mostly imported, thus not immediately available
 - For polymer packing: High import duties at 15% MFN and 30% full rate (HS 392390)

Packaging for processed fruits and vegetables (2/2)

- Glass bottles/jars:
 - Domestically produced, thus easily available
 - Heavy: can be used for exports to EU only if high profit margin expected
 - Need to change design to penetrate other markets: size and forms of jars sold on domestic market are not attractive for foreign consumers (e.g., jars are too large)
 - Non-flexible supply: expensive to order specially designed jars/bottles
 - High import duties: 10% MFN and 20% full rate (HS 7010)

Bottleneck importance: High

Recommendations:

- Focus on light-weight packing, like polymer (recyclable), carton and tin
- Reduce/eliminate import duties to increase domestic competition and improve variety

Food safety certification

- No reported problems with domestic quarantine certificates
- Need to implement international standards, e.g. Global G.A.P., ISO 22000:
 - High certificate costs: Global G.A.P. could costs up to USD 10,000
 - High costs for preparation of certification (restructuring of production facilities, personnel training)
 - The state compensates costs of certificates, but not the preparatory costs
 - Low understanding of the quality management importance by farmers
 - Producers often focus on getting the certificate rather than building sustainable quality management systems and engraining this culture

Bottleneck importance: High

Recommendation:

- Focus on building sustainable systems of quality management at companies by combining education, training and financial support

Transportation

- Fruits and vegetables are shipped by road
- Average time for one-way trip to the EU: 7-15 days depending on season
- High costs: up to USD 5,000 per refrigerator truck (one way)
- In 2021, the state compensates a part of expenses
- Other challenges:
 - Availability of refrigerator trucks
 - Reliability of services
 - Insurance: not used; low quality of insurance (not all risks can be covered); insurance company may not keep its obligations

Bottleneck importance: Moderate

Recommendations:

- Facilitate use of insurance to reduce risk burden on exporters
- Improve insurance market supervision, including for foreign companies

Customs clearance

- Customs services improved considerably over last years
- Time for customs clearance (incl. documentary compliance): approx. 1 day
- Waiting time at border: from a few hours to (in exceptional cases) a few days, queues
- Paper originals are still needed even when electronic documents are available, meaning additional compliance costs

Bottleneck importance: Low

Recommendations:

- Expand customs border crossing facilities to reduce waiting time at the border
- Continue the shift towards electronic documents

The REX system

- The REX system is an EU system of certification of origin of goods based on a principle of exporters' self-certification (see Annex 2 for details)
- Full-scale application for UZB: July 2020
- According to the EU regulation:
 - UZB competent authority is responsible for the maintenance of UZB exporters register (registration, modification, regular control)
 - UZB authority sets intervals for regular control based on risk analysis criteria
- Cabinet of Ministers Decree 994 (13/12/2019): quarterly submission of all relevant invoices; examination of compliance at least annually
- Companies perceive REX as complicated

Bottleneck importance: Moderate

Recommendations:

- Introduce risk-based criteria for regular control of the REX system compliance
- Reduce frequency of controls for low-risk products/companies

Information and communication gaps

- Domestic supply:
 - Although there are several state-funded platforms, they are not actively used
 - Private platforms are developing
- EU market: limited information about GSP+; interested in detailed data on the EU market prices for their products
- Potential partners: almost all companies highlighted the need for additional information about partners; interested in participation in fairs
- UZB regulations: respondents were not fully aware of taxes and regulations relevant for their foreign trade operations
- Language skills: insufficient knowledge of English limits trade with EU

Bottleneck importance: Moderate

Recommendations:

- Permanent information campaign about available online resources
- Support education and training of export consultants

Conclusions for fruits and vegetables (1/2)

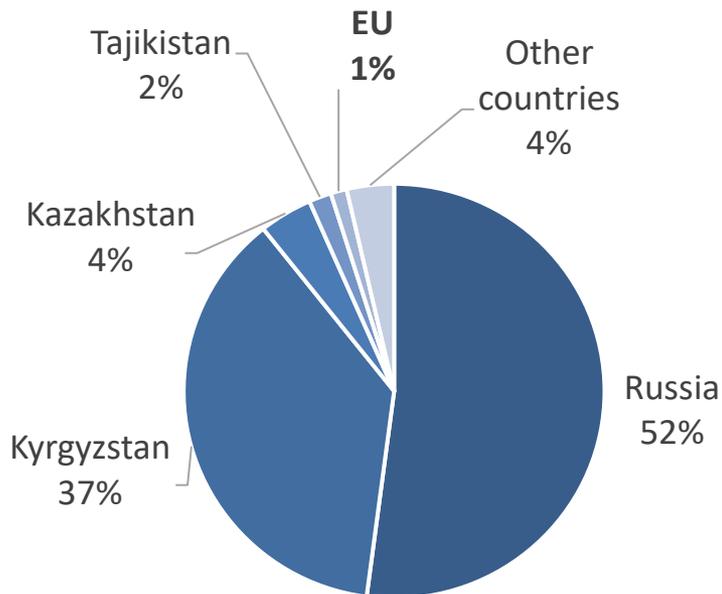
Key bottlenecks	Importance	Key recommendations
<p>Access to land and water: small scattered plots; need special types of land for certain crops; need to meliorate</p> <p>Need new breeds</p>	Moderate to high	<ul style="list-style-type: none"> Facilitate demand-driven allocation of land among crops Support introduction of new breeds taking all necessary SPS precaution
<p>Labor force qualification: deficit of specialists; outdated education programs, limited knowledge of modern technologies</p>	Moderate	<ul style="list-style-type: none"> Update education programmes for agrarian specialisation together with int'l experts Develop training programs
<p>Cold chain is not fully developed: lack of precooling facilities</p>	High	<ul style="list-style-type: none"> Shift focus from construction of large cold storages to a development of a network of small precooling facilities
<p>Packaging: domestic supply does not fit export needs (weight; quality; design), while imports is expensive, also due to high import duties</p>	High	<ul style="list-style-type: none"> Reduce/eliminate import duties Focus on using light-weight modern packing

Conclusions for fruits and vegetables (2/2)

Key bottlenecks	Importance	Key recommendations
Certification: costly, focused on getting certificates, rather than building sustainable practices	High	<ul style="list-style-type: none"> Focus on establishing sustainable quality management practices instead of certification per se
Transportation: costly; need more refrigerator trucks; need more reliable insurance	Moderate	<ul style="list-style-type: none"> Facilitate use of insurance Improve insurance market supervision
Customs clearance: queues at border; need paper originals even for electronic documents	Low	<ul style="list-style-type: none"> Expand border crossing facilities Continue the shift towards electronic documents
REX system: compliance control not based on risk analysis	Moderate	<ul style="list-style-type: none"> Apply risk analysis to reduce compliance control burden
Information gaps regarding domestic supply, EU market, partners	Moderate	<ul style="list-style-type: none"> Support education and training of export consultants Provide permanent information campaign about online resources

4. Bottlenecks for exports of apparel

UZB exports by partners, 2020



Source: WITS, apparel include HS 61, 62

UZB exports of apparel, 2020:

- Aggregate: USD 0.5 bn
- Share in total exports: 3.8%
- **Relatively small share**

Dominant trade partners:

- **Neighboring traditional markets**
- **Reasons: cheaper transportation, language and lower requirements**
- **So far very small share of EU**

Poor image regarding labor standards

- In the past, UZB was not compliant with ILO standards
- However: UZB has recently become compliant

“The systematic and systemic use of child labour and forced labour in Uzbekistan’s cotton industry has come to an end, although some local vestiges still remain” (ILO (2021) [2020 Third-party Monitoring of Child Labour and Forced Labour During The Cotton Harvest In Uzbekistan](#))
- Despite this improvement: large brands are still reluctant to cooperate with UZB
- Reason: negative perception still prevails

Bottleneck importance: High

Recommendations:

- Conduct information campaign in the EU on ILO standards compliance
- Ensure that ILO standards remain fully and consistently fulfilled (no backtracking)
- Promote positive results of UZB companies’ compliance with international certifications like BSCI, SEDEX, STeP

Audit of social standards compliance

- No problems with domestic certification
- Additional international certification (audit) may be required (see Annex 3):
 - Business Social Compliance Initiative (BSCI) for compliance with the social standards when manufacturing the consumer goods
 - SEDEX for ethical and responsible business practices
 - STeP by Oeko-Tex for environmentally friendly and socially responsible production facilities in the textile and clothing industry
- Costly: annually, up to EUR 22 thsd per year per audit
- High costs of preparatory process

Bottleneck importance: High

Recommendation:

- Introduce state support scheme for international ‘social responsibility standards’ certification (audit) of UZB companies

Transportation

- Apparel products are shipped mostly by road
- Shipment is costly
- Average time for one-way trip to the EU: up to 15 days depending on season
- Other challenges:
 - Reliability of services
 - Insurance: risk that insurance company does not keep its obligations

Bottleneck importance: Moderate

Recommendations:

- Improve insurance market supervision, including for foreign companies

Customs clearance and REX system

- Key findings are the same as for fruits and vegetables
- Customs Clearance:
 - Significant improvement over last years
 - “One-stop-shop” principle implemented at customs
 - Time for customs clearance (incl. documentary compliance): < 1 day

Bottleneck importance: Low

- REX system:
 - Complicated, more information needed
 - Compliance costs: quarterly reporting; examination at least annually

Bottleneck importance: Moderate

Recommendations:

- Continue implementing measures aimed at speeding customs clearance
- Apply risk-based criteria to control exporters registered in the REX system

Information and communication gaps

- EU & UZB trade-related regulations: more information needed
- Potential partners:
 - Companies need additional information about partners in the EU
 - EU market has to learn more about UZB
- Language skills: insufficient knowledge of English limits trade with EU

Bottleneck importance: Moderate

Recommendations:

- Permanent information campaign about available online resources
- Support education and training of export consultants
- Improve UZB image in the EU

Conclusions for apparel (1/2)

Key bottlenecks	Importance	Key recommendations
Image: large brands are still reluctant to cooperate due to labor standards issues in the past	High	<ul style="list-style-type: none"> • Conduct targeted information campaigns in the EU • Ensure that ILO standards are fully and consistently fulfilled • Promote positive results of UZB companies' compliance
Social standards compliance audit: costly both audit and preparatory process	High	<ul style="list-style-type: none"> • Introduce state support scheme for international 'social responsibility standards' certification of UZB companies
Transportation: costly; need more reliable insurance	Moderate	<ul style="list-style-type: none"> • Improve insurance market supervision

Conclusions for apparel (2/2)

Key bottlenecks	Importance	Key recommendations
Customs clearance: queues at border; need paper originals even for electronic documents	Low	<ul style="list-style-type: none"> Expand border crossing facilities Continue the shift towards electronic documents
REX system: compliance control not based on risk analysis	Moderate	<ul style="list-style-type: none"> Apply risk analysis to reduce compliance control burden
Information gaps regarding regulations, partners	Moderate	<ul style="list-style-type: none"> Support education and training of export consultants Permanent information campaign about available on-line resources

About the German Economic Team



Financed by the Federal Ministry for Economic Affairs and Energy, the German Economic Team (GET) advises the governments of Moldova, Georgia, Ukraine, Belarus and Uzbekistan on economic policy matters. Furthermore, GET covers specific topics in other countries, such as Armenia. Berlin Economics has been commissioned with the implementation of the consultancy.

CONTACT

Woldemar Walter, Project Manager Uzbekistan
walter@berlin-economics.com

German Economic Team
c/o BE Berlin Economics GmbH
Schillerstraße 59
10627 Berlin

Tel: +49 30 / 20 61 34 64 0
info@german-economic-team.com
www.german-economic-team.com

Implemented by



Annex 1: Standards related to fruits and vegetables

- **International standard for phytosanitary measures No. 15 (ISPM 15)** is developed by the International Plant Protection Convention (IPPC). It regulates treatments of wood materials of a thickness greater than 6mm, used to ship products between countries. It aims to prevent the international transport and spread of disease and insects that could negatively affect plants or ecosystems. List of participating countries:
<https://www.ippc.int/en/countries/all/ispm15/>
- **Global G.A.P. (Global Good Agricultural Practice)** is an international private standard primarily designed to reassure how food is produced on the farm. It aims ensuring minimal detrimental environmental impacts of farming operations, the low use of chemical inputs and a responsible approach to worker health and safety as well as animal welfare. Global G.A.P. is a business-to-business standard. See: https://www.globalgap.org/uk_en/
- **ISO 22000** is an international standard setting food safety management requirements. It combines the ISO9001 approach to food safety management and HACCP for the assurance of food safety at all levels. See: <https://www.iso.org/iso-22000-food-safety-management.html>

Annex 2: The REX system

- **The Registered Exporter system (the REX system)** is a system of certification of origin of goods based on a principle of self-certification. The origin of goods is declared by economic operators themselves via statements on origin.
- Applied for UZB since 1 January 2019; transition until 30 June 2020
- Legal basis: Regulation (EU) 2015/2447
- The competent authorities of partner countries are responsible:
 - Registration of exporters
 - Modification of registration data
 - Revocation of exporters
- According to Art. 108, the local competent authorities shall carry regular controls on exporters. It shall be carried out at intervals determined on the basis of appropriate risk analysis criteria.

Link: https://ec.europa.eu/taxation_customs/business/calculation-customs-duties/rules-origin/general-aspects-preferential-origin/arrangements-list/generalised-system-preferences/the_register_exporter_system_en

Annex 3: Certification of social responsibility

- **The Business Social Compliance Initiative (BSCI)** is industry-driven movement that aims to monitor and assess workplace standards across the global supply chain. It facilitates implementation of the key international labor standards (ILO conventions, UN Guiding Principles on Business and Human Rights, OECD guidelines). BSCI provides companies with a social auditing methodology and report, while the audit is conducted by external accredited auditing companies. See: <https://www.tuvsud.com/en/services/auditing-and-system-certification/amfori-business-social-compliance-initiative>
- **Sedex** is a membership organization that provides online platforms for companies to manage and improve working conditions in global supply chains. See: <https://www.sedex.com/>
- **STeP by OEKO-TEX®** is an independent certification system for brands, retailers and manufacturers from the textile and leather industry. Certification is suitable for production facilities at all processing stages who want to communicate their environmental measures externally in a credible and transparent way. See: <https://www.oeko-tex.com/en/apply-here/step-by-oeko-tex>