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RUSSIA

Supreme Court Prohibits Injunctions Delaying Shareholders' Meetings

On October 10, 2001, the Plenum (i.e., session) of the Supreme Court of the Russian Federation ("RF") issued a ruling prohibiting courts of common jurisdiction from issuing injunctions in cases filed by individual shareholders that result in a delay of a general shareholders' meeting. The Supreme Court stated that first, such judicial power contradicts provisions of Article 31 of the RF Constitution, which guarantee "RF citizens the right to gather peacefully . . . and to hold meetings, rallies, demonstrations and marches" and, second, such power violates the rights of other shareholders not a party to such action to participate in the shareholders' meeting.

Such injunctions have become one of the principal weapons in corporate disputes in Russia. In a typical case, an obscure individual shareholder owning a minimal number of shares files a claim, sometimes without a reasonable basis, and requests issuance of a preliminary injunction pursuant to which a general shareholders' meeting may not be held until the case is considered on its merits. Although in most cases, courts have eventually dismissed such claims on their merits, the relevant injunction usually exists for some time, thus delaying the shareholders' meeting.

This decision of the Supreme Court was widely praised by both the legal and business communities. However, the Plenum at which this decision was issued disappointed some observers, as it had been expected that the Supreme Court would issue opinions on other important issues concerning shareholders' rights, which to date remain unresolved. /P. Gloushkov

AZERBAIJAN

Government Seeks to Reform Tax System

The Government of Azerbaijan is expected to introduce significant changes to its taxation system in 2002. According to Tax Minister Fazil Mammadov, the proposal submitted to the President includes a measure aimed at reducing the corporate profit tax rate to 25% (a reduction of 2%). According to Mr. Mammadov, the value added tax (VAT) is likely to be reduced by 1% or 2% from the current 18%. In addition, a revised taxation regime will be introduced for individuals licensed as entrepreneurs and engaged in manufacturing activities. Currently, such entrepreneurs may avoid VAT if their quarterly turnover is less than 30 million Manats (approximately US \$6,522).

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The current individual income tax system divides taxpayers into five tax brackets. The proposed revisions to this system would reduce the number of tax brackets to three. The minimum rate will remain 12%, while the maximum rate is expected to be lowered from 35% to between 30% and 33%. The average rate will likely be set at 25%. These revised rates will be applied as follows: any income between 100,000 Manats and 1 million Manats (approximately US \$21.70-\$217) will be taxed at 12%, between 1 million Manats and 5 million Manats (approximately US \$1,087) at 25%, and over 5 million Manats at the maximum rate. /F. Huseynova

SOCAR Claims TransCaspian Gas Pipeline Will Not Be Built

Mr. Natig Aliyev, President of the State Oil Company of the Azerbaijani Republic ("SOCAR"), recently announced that the TransCaspian gas pipeline to deliver gas from Turkmenistan to Turkey through Azerbaijan and Georgia will not be built. Mr. Aliyev said that since the large Shah Deniz gas field was discovered within the Azeri section of the Caspian Sea in 1999, emphasis has shifted to the export of Azeri gas to world markets. Mr. Aliyev also stated that Azerbaijan had been seeking rights to half of the TransCaspian pipeline's capacity, but the Government of Turkmenistan considered this proposal unprofitable.

However, according to current information, Mr. Ilham Aliyev, First Vice-President of SOCAR, has indicated that Azerbaijan remains ready to discuss Turkmenistan's proposals regarding construction of the TransCaspian pipeline. He claimed that Azerbaijan has always supported the project, but that Azerbaijan will give its consent to the use of its territory only if the Government of Turkmenistan agrees to certain specified terms.

According to unofficial sources in SOCAR, there does not seem to be a connection between the announcements of the demise of the TransCaspian pipeline and the construction of the Baku-Tbilisi-Erzurum gas pipeline (see the October 8, 2001 issue of the *CIS Legal Newswire*). Rather, according to these sources, the tentative decision to terminate discussions on the TransCaspian pipeline is related to ongoing bilateral issues between Azerbaijan and Turkmenistan, which in turn arise out of Turkmeni debts for electricity supplied by Azerbaijan, Turkmeni claims on the Azeri and Chirag deposits, and differing views on the legal status of the Caspian Sea. /F. Huseynova

UZBEKISTAN

Government Reforms Procedure for State Registration of Enterprises

Effective as of October 1, 2001, the Uzbek Government has modified the system for state registration of enterprises in Uzbekistan. Among other things, Decree No. 347 of the Cabinet of Ministers of Uzbekistan, "On Improvement of the System of, and Procedure for, State Registration of Entrepreneurial Entities," dated August 22, 2001 ("Decree No. 347"), introduced the "Regulation on the Procedure for State Registration and Post-Registration Filings of Entrepreneurial Entities" (the "Regulation"). In comparison with previous Uzbek legislation, the Regulation significantly eases the cumbersome procedures for registration of enterprises with various state agencies.

Pursuant to Decree No. 347, the registration authorities (the Ministry of Justice or local municipality, depending upon the aggregate charter capital amount) are responsible not only for state registration, but also for the post-registration filings with various state agencies for, among others, companies with foreign investment, auditing and insurance companies, and exchanges (e.g., commodity and stock exchanges). Registration of all other enterprises not specifically referenced will be the responsibility of the municipal authorities having jurisdiction over the location of such businesses.

Pursuant to the Regulation, within 12 days after submission of the required documentation, the registration authorities must effect the state registration of an enterprise, as well as carry out the post-registration procedures with the tax and state statistics authorities, and obtain the approval of the Ministry of Internal Affairs for the company's seal. In addition, upon completion of all of the registration and post-registration procedures, the registration authorities must send the required information on the newly registered company to the local road fund, the district department for labor, employment and social protection, the local epidemiologist center, and the local fire department. Such information will be sufficient to register the new enterprise with these organs. The Regulation also makes it easier for newly-registered businesses to obtain permits for various enterprises (such as gas, electricity, water, heat and sewage).

However, Decree No. 347 and the Regulation revise the rules related to the pre-registration deposit amount required by the founders of companies with foreign investment in order to register as an Uzbek limited liability company (of which there are several variations under Uzbek law). Under the previous registration procedure, the founders of a company with foreign investment were obligated to deposit 30% of the proposed aggregate charter capital amount, provided that such amount need not exceed US \$50,000, as an initial charter capital contribution before state registration of the company. The new rules eliminate the US \$50,000 ceiling, and thus the entire 30% amount must be deposited. Decree No. 347 and the Regulation do not provide any pre-registration capital requirements for the establishment of a joint stock company.

The Regulation provides an exception to the 30% pre-registration capital requirement. If the charter capital of a new limited liability company, or any portion thereof, is to be paid-up with either in-kind or intellectual property contributions, then the founders are not required to provide evidence that 30% of the value of the proposed contributions has been paid-in prior to state registration. The Regulation stipulates that it is sufficient to indicate in the foundation documents of the company that its charter capital will be paid by means of in-kind or intellectual property contributions.

The Regulation has also simplified procedures for amending the constitutive documents of legal entities. Pursuant to the Regulation, a legal entity must submit to the registration authorities a very limited number of documents, including the decision on the amendments approved at the general meeting of the company's shareholders, a text of the amendments affixed with the company's seal, and evidence of payment of the registration fees. /A. Voronin

UKRAINE

New Regulations to Combat Money Laundering

Recently, Regulation No. 1124, which is aimed at combating money laundering in Ukraine, entered into force. Regulation No. 1124, which was issued jointly by the Cabinet of Ministers of Ukraine and the Ukrainian National Bank, obligates banks and other financial institutions in Ukraine to adhere to cer-

tain recommendations issued by the United Nations in 1998 on combating drug trafficking.

A fundamental recommendation of the U.N. is that money laundering be recognized as a "serious offense" under national criminal legislation. Regulation No. 1124 ensures that Ukraine's criminal legislation will reflect this concept, and furthermore, establishes that concealing information about money laundering activities will be punishable by up to three years of imprisonment. Regulation No. 1124 will implement another key U.N. recommendation by introducing new legislation holding not only employees of a corporation criminally liable for money laundering (as under Ukraine's current Criminal Code), but also the corporation itself.

Regulation No. 1124 also provides that in addition to criminal sanctions and seizure of laundered funds, a new series of financial and civil sanctions (including invalidation of contracts) will be available to authorities as additional measures to deter money laundering. Finally, as part of the effort to eliminate anonymous accounts, under Regulation No. 1124, in order to open an account with a financial institution in Ukraine, it will be necessary to present official identification. /T. Rogach

Parliament Adopts Amendments to Insurance Law

On October 4, 2001, the Ukrainian Parliament adopted amendments to the 1996 Law "On Insurance." Analysts believe that the new amendments are geared towards attracting major foreign insurance companies to the Ukrainian market. The amended law provides for a significant increase in the minimum size of the charter capital of an insurance company. According to the amendments, each insurance company is obligated to increase the amount of its charter capital to up to EUR 1 million within three years after adoption of the law (under previous requirements, the amount of the charter capital could not exceed EUR 100,000).

The amended law removes all restrictions on foreign investment in Ukrainian insurance companies. Until recently, a foreign investor's share of the charter capital of an insurance company could not exceed 49%. Now, the percentage share of the charter capital of an insurance com- / continued page 4

pany that may be owned by a foreign investor is unlimited. Furthermore, the amendments introduce 15 new obligatory types of insurance, including insurance of investors' civil liability, exporters' liability, and realtors. It is anticipated that these provisions will increase the turnover of the insurance market by millions of Ukrainian Hryvnias in the near future. Also, insurance companies may calculate their liabilities in foreign currency, but all payouts must be in Ukrainian Hryvnias.

Certain provisions of the amended law increase the scope of business opportunities for companies specializing in life insurance. For instance, such companies will now be permitted to extend credit to clients with life insurance policies based on the redemption value of such policy. The new law requires, though, that the borrower's life insurance policy has been outstanding for at least one year.

Finally, for the first time, Ukrainian insurance legislation will include a recognition of a policy holder's right of privacy. Pursuant to the new law, disclosure of the provisions of an insurance policy is strictly prohibited. */T. Rogach*

KYRGYZSTAN

Government Continues Steps to Improve Investment Climate

Recently, the Government of Kyrgyzstan has sought to stimulate the development of small and medium size businesses, as well as to improve the investment climate within Kyrgyzstan for both foreign and domestic investors. One important step in this process was reducing the income tax on individuals and legal entities to 10%, effective as of January 1, 2002 (see the August 2, 2001 issue of the *CIS Legal Newswire*). Furthermore, this summer, the Government approved the report of a working group on judicial reforms, which recommended establishing a commercial arbitration regime as an alternative to traditional state arbitration courts (though Kyrgyzstan earlier had, and subsequently eliminated, commercial arbitration), along with other measures to encourage transparency in judicial proceedings and reduce corruption in the courts.

In late August, President Askar Akayev ordered the creation of a consultative committee on foreign investment and the

appointment of a Presidential representative in charge of attracting foreign investment. The new consultative committee is headed by the President, and includes the Prime Minister, the above-mentioned Presidential representative, representatives of international financial organizations and diplomatic missions to Kyrgyzstan, and three foreign investors elected for a one-year term. In September, the United States Ambassador to Kyrgyzstan, the permanent representative of the World Bank in Kyrgyzstan, and the directors of Kumtor Operating Company and Reemtsma-Kyrgyzstan joined the committee.

On September 25, the Government approved the "Basic Goals for Effective Attraction of Foreign Investment into the Kyrgyz Economy," covering a wide-range of financial, legal, informational, administrative, human resources, infrastructure and marketing issues. Analysts believe that the process of developing Kyrgyzstan's small and medium business sector will be aided by the credit policies of the Kyrgyz Bank for Investment Credit, a bank created by the Government, European Bank for Reconstruction and Development, and several private foundations, which will provide credit to the private sector at reduced rates. */J. Askarov, with T. Kenenbaev of the Bishkek, Kyrgyzstan law firm "Partner"*

For more on the information contained herein or about Chadbourne & Parke LLP and its affiliated offices throughout the CIS, please contact:

In Moscow

Laura Brank – lbrank@chadbourne.com
Mikhail Rozenberg – mrozenberg@chadbourne.com
Shane DeBeer – sdebeer@chadbourne.com
7-095-974-2424 or 1-212-408-1190

In London

Nabil Khodadad – nkhodadad@chadbourne.com
44-20-7337-8000

Or visit our website – www.chadbourne.com.

To change an address, or to add or remove a recipient from this distribution list, please contact:

Marc Schleifer, Marketing Coordinator
mschleifer@chadbourne.com
7-095-974-2424 or 1-212-408-1190

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