

Evaluation of opportunities in petroleum development in Central Asia, Uzbekistan.

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This is a short summary for public use of studies and investigations carried out to evaluate and judge the business potential for petroleum development in Uzbekistan, Central Asia.

Introduction

The new political structures in Central Asia are providing many business opportunities. Laws and economies are rapidly re-organizing and adjusting to international business rules. The new governments realize that for the development of their economies there is a need for foreign technology and investments.

Uzbekistan's economy has traditionally been based on exports of minerals (mainly gold) and cotton that are providing the country with hard currency. In 1995 the country also became a net exporter of oil and natural gas products.

The upstream petroleum sector of Central Asia (at first mainly in Uzbekistan) has become on focus of some investors. The initial evaluation of publicly available data and information on the petroleum potential of Uzbekistan has been encouraging and opportunities and business conditions need to be examined more closely.

For this reason the Uzbekistan state oil company "Uzbekneftegaz" and other companies in Tashkent have been visited in February 2001. The objectives of the visit have been defined as

- Examine opportunities in Uzbekistan
- Demonstrate our capabilities in petroleum technology and potential for investment
- Open the way for the requisition of oil field geological and geophysical data

General aspects

The oil and gas industry is an important branch of Uzbekistan's economy. The country is producing enough oil and gas for their home market and has obtained oil and gas net-exporting capability since 1995.

A gas treatment and chemical industry is developing. At the Shurtan chemical plant there is production of polyethylene from gas distillate.

There are two new refineries producing diesel oil, gasoline, and other oil products. As the capacity of these modern refineries is presently larger than the oil and gas production of Uzbekistan there is a need to increase the production of crude oil and gas.

At present the refined products from the refineries are delivered to the local market but over the last few years the increased oil and gas production and the increased refinery output have created a surplus allowing for export of refined products to neighbouring countries which have a shortage of refined products.

Since 1991 the country has gradually developed the market economy and legislation for trade, investment and international business participation. Preferential legislation and taxation has been established in order to attract foreign investment.

The current legislation that is governing foreign companies activities in Uzbekistan is summarized in numerous codes, laws and decrees. References of these legislative texts are provided in the report handed out by UZBEKNEFTEGAZ: "Investment Projects in the Sphere of Exploration of Oil and Gas Fields". In this report a copy of the text of the decree from April 28, 2000, by the President of the Republic, I. Karimov, is provided. In summary this latest decree contains the following essential points:

- The Ustyurt region and some other areas have a high priority for oil and gas exploration and development and are given to foreign companies under preferential conditions.
- Foreign companies are exempted from taxations, customs duties, value added tax, profit tax.
- Exploration on exclusive basis is limited to 5 years.
- Concessions can be given on the basis of direct negotiations between authorized body and investor without conducting tenders.
- Uzbekneftegaz is the authorized body on regulation of oil and gas activities.
- The Cabinet of Ministers will conclude the contracts for carrying out oil and gas activities.
- Uzbekneftegaz has the right to transfer to the international consultants and foreign investors the information on oil and gas fields, including the information on their locations, reserves, extracted volumes, number of exploited, reconstructed and conserved wells on the basis of agreements on confidentiality.

The law may provide to the foreign investor many advantages that can become part of interesting contracts. However, the value of these advantages will have to be examined in a wider context and especially within the framework of regulations on financial transaction laws and the convertibility of the local currency.

Uzbekistan as a landlocked country and an infrastructure that has been built under Soviet conditions is faced with the task to build export routes. At present the transport links to the international market are still poorly developed.

During our visit we have hardly received realistic answers on our questions pointing at the export problems.

The visit had the purpose to outline the potential for foreign investment and to prepare the way to undertake further steps such as

- Negotiate with Uzbekneftegaz to receive oil and gas field information that would allow to evaluate and select prospective areas
- Come forward with a project proposal, e.g. a proposal to get concession rights for the exploration and production of oil and gas over a selected area.

The targets set for the visit have been fully met. We have been well received by the Uzbekneftegaz officials, our abilities were recognized and we were invited to come back to concentrate on data collection. We should receive enough technical data and information and our interpretation of this data would enable us to formulate a project proposal.

On oil and gas bearing regions in Uzbekistan

There are five oil- and gas-bearing regions as follows:

- Ustyurt
- Bukhara-Khiva
- South-western Gissar
- Sukhan-Daria
- Fergona

Total potential hydrocarbon resources of these areas based on geological-geophysical studies of many years is estimated at:

- 5300 million tons of oil
- 480 million tons of condensate
- 5095 billion cubic metres of gas

There are at present 171 oil and gas fields but almost half of them are not developed for production. In production are 51 oil fields, 27 gas fields, and 17 condensate fields.

Very large fields are Gazly and Shurtan, large fields are Kokdumalek, Zevardi, Kandim, Dengizkul, Hauzak, and many others, and average size fields are Garbi, Alan, Ufga and others.

The magnitude of explored reserves of hydrocarbon at discovered and producing fields is 3500 million tons.

There are 45 fields in preparation for development. 35 fields are under exploration.

Uzbekneftegaz has defined 16 projects (blocks) of oil- and gas-bearing regions for consideration and decision taking by potential investors.

These offered blocks include the following type of fields:

- Known oil and gas fields for completion of exploration and beginning of development
- Areas that have been covered by seismic surveys and are ready for interpretation and drilling
- Areas for seismic surveys and mainly deep targets

More information on the prospective areas of Uzbekistan is provided in the report by UZBEKNEFTEGAZ: "Investment Projects in the Sphere of Exploration of Oil and Gas Fields".

Conclusions

Our study to-date of references, publications and reports on the oil and gas potential of Uzbekistan and the contacts to Uzbekneftegaz in Tashkent have further encouraged us to evaluate the opportunities for investment.