OIL AND GAS SELF-SUFFICIENCY AS A FOUNDATION FOR ECONOMIC PROSPERITY AND SOCIETAL WELL-BEING IN UZBEKISTAN

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Abstract: This article presents a historical analysis of Uzbekistan's attainment of oil and gas independence in the post-independence period, examining sectoral reforms, their outcomes, and the institutional changes that accompanied this process.

Key words: fuel and energy resources, oil, gas, "Uzneftgazgazibchikarish," "Uzbekneftgaz," "Uzbekneftgazgazibchikarish," "Uzburneftgaz" joint-stock company, "Uztransgaz," "Uzneftnitaiishlash," "Uzneftproduct," "Uzneftgazqurilish," "Uzneftgazmash," "Uzneftgazishchita'minot."

The establishment of Uzbekistan's state independence created the conditions for consolidating national statehood and assuming control over the country's fuel and energy resources and industry. These resources constituted an important economic foundation of sovereignty. Under the Soviet system, the sector had been administered by the central authorities, and securing even limited quantities of oil or gas for local needs required lengthy administrative procedures. Requests could remain unresolved for years, and approval was not guaranteed. Even when senior Union officials accepted proposals during visits occurring at intervals of 4–5 years, their implementation often required further negotiations with central administrative bodies.

Reflecting on fuel and energy shortages during the Soviet period, President I.A. Karimov noted that meeting the needs of economic sectors and the population had previously required annual imports of 6–7 million tons of oil and petroleum products, involving substantial foreign exchange expenditure [1]. He contrasted this dependence with the subsequent situation: "Today, Uzbekistan has managed to increase the volume of exports, while providing for the growing needs of the country and the population in this regard."

Oil production in Uzbekistan had formed part of the Union-wide production system, with material and technical requirements also determined by the central authorities. In 1990, the reported output of oil products, including gas condensate, amounted to 2,810,000 tons. Despite substantial domestic demand, decisions concerning the allocation of this output remained under central control.

Natural gas production reached 34.8 billion cubic meters in 1990, most of which was directed to Russia and other Union republics under centrally determined arrangements. The exploration, utilization, and prospective development of Uzbekistan's fuel and energy resources were likewise administered centrally. As the Soviet economic crisis intensified, its effects extended to Uzbekistan's oil and gas industry.

Supplies of new machinery and technology became increasingly disrupted. Equipment could not be operated consistently, stoppages became frequent, and failures to comply with technological procedures contributed to industrial accidents and worker injuries. These difficulties exposed the sector's dependence on centrally organized supply and management systems.

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Following his appointment as the republic's leader on the eve of independence, I.A. Karimov raised Uzbekistan's economic interests and domestic needs with the central authorities and initiated measures to develop the industry under republican oversight. This approach provided geologists, exploration specialists, and oil and gas workers with a clearer prospect of exercising control over the resources they helped to develop.

The prospect of retaining the benefits of domestic production also strengthened interest in the results of work that had previously generated limited returns for the republic. Independence consequently opened new opportunities for the oil and gas industry. The formulation and implementation of state policy in the fuel and energy sector became a priority, while measures were introduced to establish the institutional basis for its transformation. Achieving oil independence and securing control over gas production were treated as integral components of strengthening the economic foundations of sovereignty.

Substantial changes in oil and gas production followed. Describing the country's resource potential, President I.A. Karimov stated: "Uzbekistan has unique fuel and energy resources. Discovered gas reserves are about 2 trillion cubic meters, coal - more than 2 billion tons, and there are more than 160 oil fields. ... Oil and gas reserves are 1 trillion. It is valued at more than USD. The discovered reserves cover the republic's needs for natural gas for more than 35 years, and oil for 30 years" [2].

The transition to independence initiated extensive changes throughout the national economy. As an integral part of that economy, the oil and gas industry was incorporated into the broader reform process. Its strategic significance was expressed by President I.A. Karimov in the following terms: "Achieving fuel and energy and grain independence in our country has been put on the agenda as an important strategic task" [3].

An immediate organizational priority was to integrate previously separate oil production, gas production, refining, and related activities into a unified production complex. The intended structure would connect successive operations, from well drilling to the sale of finished products. To this end, the "Uzbekneftgaz" concern was established by presidential decree in December 1992. The decree provided the basis for a comprehensive reorganization of the sector [4].

The concern was subsequently transformed into the "National Corporation of Oil and Gas Industry." During this period, the industry included state joint-stock associations, state enterprises, and state production and scientific-production associations, which began adopting management arrangements compatible with market relations. By 1993, the state joint-stock association "Uzbekneftgaz Production" had been established on the basis of the former "Uzbekgazsanoat" and "Uzbekneft" production associations.

The association comprised 28 enterprises and organizations, of which 8 were legally independent, while the remainder operated as constituent units. In 1994, a decision of the Cabinet of Ministers of the Republic of Uzbekistan included 5 state enterprises belonging to the state joint-stock association "Uzneftgazgazibchikarish" in the state program of denationalization and privatization [5]. The association itself was incorporated into the "Uzbekneftgaz" concern. In 1998, the joint-stock company "Uzbekneftgazgazchikarish" was established on the basis of the state joint-stock association "Uzneftgazgazchikarish."

Alongside "Uzneftgazgazibchikarish," the concern included "Ozburneftgaz," which conducted exploration and production drilling throughout the country and held shareholdings in drilling enterprises. Its organizational structure also encompassed "Oztransgaz," "Uzneftnikaitaiishlash," "Uzneftmahsulot,"

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"Uzneftgazkurilish," "Uzneftgazmash," "Uzneftgazishchita'minot," and "Uztashqineftgaz," together with the "Uzneftgazaloka" administration.

These institutional changes were intended to adapt the oil and gas industry to market relations and create more favorable conditions for attracting foreign investment. The gradual replacement of administrative-command methods with market-oriented management was guided by three strategic tasks identified by President I.A. Karimov in 1992:

1. Substantially increasing oil and gas condensate production to achieve the republic's oil independence.
2. Advancing oil and gas processing technologies to bring manufactured products into conformity with international standards.
3. Establishing a reliable resource base through the discovery of new fields and the expansion of hydrocarbon reserves, particularly liquid hydrocarbons.

These priorities informed the programs implemented by enterprise managers and employees. The "Concept for the development of the oil and gas industry of the Republic of Uzbekistan for the years 1993-2000" and "The concept of geological exploration for the years 1995-2000," developed at the initiative of President I.A. Karimov, provided a framework for expanding production [6].

The powers and activities of the National Holding Company "Uzbekneftegaz" were also regulated by legislation governing joint-stock companies and the protection of shareholders' rights, together with presidential decrees and government decisions.

Implementation of the development concepts included work at the Kokdumalak field, which possessed substantial oil and gas condensate reserves. Between 1991 and 1995, 100 wells were drilled in the Kokdumalak basin, and a facility for producing oil, gas, and gas condensate was constructed and commissioned. The account associates these developments with a 3.5-fold increase in national oil production and a 2-fold increase in gas production [7]. Further development of gas and gas condensate production followed through work at the Shorton field and the construction of the Mubarak gas processing plant.

The comparative data presented for the Commonwealth of Independent States (CIS) indicate differing production trajectories during this period. While energy production declined in several CIS countries, Uzbekistan recorded substantial growth. Oil and gas condensate production increased from 2.81 million tons in 1990 to 7.60 million tons in 1995, representing an increase of 170 percent. The same account reports a reduction in an oil-related indicator from 5.7 million tons to 0.2 million tons by 1995. Gas production reached 48.65 billion cubic meters in 1995, described in the cited material as 120 percent of the 1990 level. From 1995, production was reported to be sufficient to meet domestic requirements while allowing 6.8 billion cubic meters of gas to be sold abroad [8].

The comparative account also presents percentage figures for Russia, Turkmenistan, Kazakhstan, and Uzbekistan. For Russia, it gives 50% and 58.1%; for Turkmenistan, 70.9% and 88.9%; for Kazakhstan, 95.7% and 143.3%; and for Uzbekistan, 267% and 320% [9]. These figures are used to contrast developments in Uzbekistan with those elsewhere in the CIS, although the underlying indicators and comparison bases are not clearly identified in the supplied text.

The historical account places the beginnings of substantial changes in national oil production in the middle of the last century and identifies 1995 as a significant stage in the development of the Mingbuloq fields in Namangan region and the Kokdumaloq fields in Bukhara region. Their full operation is associated with the cessation of oil imports for refining from Russia and other foreign countries and the attainment of oil independence. The introduction of advanced technologies for producing specialized

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fuels from domestic oil also contributed to improved performance. During this period, the Bukhara–Khiva region developed as an important source of oil.

Commissioning the "AT-5" unit for producing light petroleum products expanded the product range of the association discussed in the account. Production of the technical oils "Fersol" and "Ferlita" was also introduced, reportedly for the first time in Central Asia. These products subsequently gained recognition in foreign markets.

In 1997, the Bukhara oil refinery was commissioned at the initiative of President I.A. Karimov. Equipped to meet advanced international standards, the refinery represented an important development in the fuel sector and the country's broader socioeconomic life. During the same period, refurbishment at the Fergana oil refinery included the construction of a new hydrodesulfurization complex [10].

Market-oriented reforms were accompanied by an increase in oil and gas condensate production from 2,832 thousand tons in 1991 to 7,891 thousand tons in 1997. The cited account characterizes this change as a threefold increase [11]. It presents the expansion as an important outcome of the transition toward market relations.

Institutional reform in the oil and gas industry followed a sector-specific course. Management arrangements associated with the administrative-command system were progressively replaced by structures intended to operate under market conditions. The establishment of state joint-stock companies and other joint-stock entities formed part of the early processes of denationalization and privatization. The legal framework was also improved to support industry development and define the operation of the new organizational structures.

Over the period examined, the National Holding Company "Uzbekneftegaz" developed into a large, diversified industrial complex. Its activities encompassed geological exploration, production, the sale of oil and gas and their processed products, and the construction of production infrastructure and social facilities.

The enterprises operating within the industry were directed toward implementing the principal priorities of the republic's fuel and energy strategy. These priorities included establishing a reliable resource base through the discovery of new fields and the expansion of hydrocarbon reserves, supplying economic sectors with fuel and energy resources, and achieving oil independence as a foundation of national economic security [12].

New production methods contributed to the expansion of liquid hydrocarbon output. Oil and condensate production increased from 2.83 million tons in 1991 to 7.13 million tons in 2003, or approximately 2.5 times. This growth supported the satisfaction of domestic demand for petroleum products and gas.

Gas production also expanded, increasing from 41.8 billion cubic meters to 58.1 billion cubic meters during the period described, or approximately 1.4 times. Gas retained a leading position in the sector's export development. Rising output of liquid hydrocarbons and natural gas provided a resource base for the development of chemical production and further expansion of oil and gas processing.

The commissioning of major energy facilities and the reconstruction of existing installations supported export growth. Between 1995 and 2003, gas exports increased by 1.4 times, exports of refined petroleum products by 1.35 times, and liquefied gas exports by 4.6 times. Exports of oil and gas industry products became a principal source of foreign exchange earnings and state revenue [13].

Economic reforms were accompanied by an expansion of the National Holding Company's international relations. Cooperation with companies in industrialized countries increased, while trade in petroleum products and liquefied gas developed with Russia, Ukraine, Tajikistan, Kyrgyzstan, and other

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CIS countries. From 2003, export relations involving polyethylene and sulfur were established with Russia, China, Iran, and Turkey.

Cooperation also developed with the French bank "BNP-Pariba," which acted as a financial adviser. The export capacity of "Ozneftegazmash" expanded alongside its reported conformity with ISO-9001 requirements. The company developed relations with "Hurricane oil product" of Canada, "Axema" of Latvia, "Technip" of France, and "Bentek" of Germany. From 1997, investment and industrial cooperation also involved "Dresser-Rend," "Kellogg" of the United States, and "Nisho-Iwai" of Japan.

To improve winter gas supplies to the population, a gas storage facility at the Khojaabad field was commissioned in cooperation with "VSI Industriez" of the United States, using "Dresser-Rend" compressors. Additional cooperation was undertaken with "Technip" of France and "Marubeni" and "DJ-Ji-Si" of Japan.

The first stage of reconstruction at the Fergana oil refinery was completed in 2001 in cooperation with "Mitsui" and "Toyo Engineering" of Japan. The project was intended to improve the quality of petroleum products, and the European Bank for Reconstruction and Development participated in its financing.

Construction of the Shortan gas-chemical complex, described in the account as the largest in Central Asia, was undertaken with a consortium led by "ABB Lummus Global" of the United States. An international presentation of the complex took place in December 2001. Consortium participants included "Mitsui," "Toyo Injering," and "Nisho-Ivai" of Japan, "ABB Soimi" of Italy, and other organizations.

In 2000, "Ozneftegazmash" and "Dresser-Rend" established the "UZ-DR Service Center" joint venture to repair compressors and pumping equipment and manufacture associated components. Cooperation through "UZ-VBM," involving the Russian company "Volgaburmash," also supported the production of drilling bits for well construction. These ventures illustrate the diversification of international industrial cooperation within the sector.

A substantial trunk gas transportation system also developed during the independence period. It delivered processed natural gas to domestic and foreign markets. The Central Asia–Central and Bukhara–Ural networks, passing through the northwestern part of the country, served interstate transit and export functions. These networks supported gas deliveries to Kazakhstan, Kyrgyzstan, and Tajikistan, as well as transportation in a northerly direction [14].

A modernization program covering 2004–2020 was planned to develop the gas transportation system and improve supplies to domestic and foreign markets. Its principal measures included:

- Construction of 198 km of trunk gas pipelines, together with the development, reconstruction, and rehabilitation of the natural gas transportation system.
- Rehabilitation and expansion of pipeline sections extending 445 km and 878 km, and completion of the new Sarimoy compressor station.
- Expansion and reconstruction of 20 existing gas-driven compressor stations and 4 compressor stations serving underground gas storage facilities.
- Reconstruction and rehabilitation of 123.3 km of gas pipelines, with gas exports projected to reach 16 billion cubic meters by 2014 [15].

Scientific and technological development formed another component of the industry's transformation. "Uzbekneftgaz" cooperated with "UzLITIneftegaz," "IGIRNIGM," and "Neftegazkonstruktsiya" to improve enterprise performance and introduce modern technologies. "UzLITIneftegaz" served as the company's principal scientific research and design institute. The holding company also sought investment and cooperation from foreign engineering companies and research

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organizations to improve production efficiency and expand technological and design capabilities. Cooperation with "IGIRNIGM," the Institute of Geology and Exploration of Oil and Gas Fields, supported geological and exploration activities.

The industry's development strategy sought to ensure reliable supplies of fuel and energy resources, maintain stable and uninterrupted production, and substantially increase export capacity. The "Concept of development of oil and gas production until 2010" identified the expansion of geological exploration, the development of hydrocarbon extraction, and the improvement of oil and gas processing as principal strategic directions. Growing demand for fuel and energy resources in industrialized countries was presented as an additional reason to increase liquid hydrocarbon and gas production and expand processing and gas-chemical activities.

Legal measures were introduced to support cooperation with foreign investors. These included the laws of the Republic of Uzbekistan "On Agreement on Product Distribution" of December 2001 and "On Underground Mineral Resources," adopted in a new revision in December 2002. The legal framework addressed cooperation based on production-sharing arrangements and concession principles for foreign companies using prospective subsurface resources.

At the beginning of the new century, the Russian Federation also demonstrated interest in Uzbekistan's fuel and energy resources. The strategic cooperation agreement signed between the two countries in June 2004 provided a further framework for cooperation in the oil and gas industry.

On June 16, 2004, an agreement was signed involving the Government of Uzbekistan and "Lukoil" JSC for the development of the Kandim group, Khauzak, and Shodi fields and geological exploration in the Ustyurt region. The arrangement, described in the supplied text as an MTK agreement on product distribution, envisaged annual gas production of up to 8.8 billion cubic meters. Planned investment amounted to approximately $1 billion, and implementation was expected to create an additional 7,000 jobs. The agreement was concluded for 35 years and entered into force on November 24, 2004.

Cooperation with Gazprom developed through a strategic agreement signed in December 2002 between Russia's Gazprom OJSC and "Uzbekneftgaz." Its purpose was to expand and intensify cooperation in the gas sector. Within this framework, and pursuant to a Cabinet of Ministers decision dated April 9, 2004, "Uzbekneftgaz" and "Zarubejneftegaz" signed a memorandum of understanding in Tashkent on April 14, 2004, concerning the preparation of the Shohpakhta oil and gas field in the Ustyurt region for production. The parties also envisaged using advanced gas production technologies to recover residual reserves.

Other Russian companies participated in cooperation with Uzbekistan's oil and gas industry. "LUKOIL" developed its own operations in the country. The account further identifies the June 16, 2004, production-sharing agreement between Uzbekistan and an investor consortium comprising "LUKOIL" OJSC and "Uzbekneftegaz," signed in the presence of the presidents of both countries, under the name "Candy-Khovuzak-Shodi." Cooperation also involved ZAO SoyuzNefteGaz, Interstate Oil Company, and OAO Stroytransgaz.

The resource base described in the account comprised more than 190 natural gas, oil, gas condensate, and coal deposits, with total reserves estimated at 2.1–5.7 billion tons of oil equivalent. Natural gas reserves were estimated at 1.8–2 trillion cubic meters. For the period under discussion, Uzbekistan was identified as the second-largest natural gas producer in the CIS, accounting for 2.3–2.5 percent of global gas production.

According to the same account, 66 percent of recoverable gas reserves were concentrated in 9 major gas fields, 8 of which were under development. As of January 1, 2005, identified natural gas resources

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amounted to 5.9 trillion cubic meters. The Ustyurt region in northwestern Uzbekistan was considered particularly promising for further exploration and development.

Fuel production accounted for 17.2% of industrial output in 2006, increasing to 17.8% in 2007 [16]. These figures formed part of a broader expansion of natural gas, oil, and gas condensate production during the independence period. In 1992, gas output stood at 42.8 billion cubic meters, while oil production, including gas condensate, amounted to 3.3 million tons. By 2003, the corresponding figures cited were 58.1 billion cubic meters of gas and 7.2 million tons of oil.

For the first 9 months of 2007, the account reports 2.3 million tons of oil industry products. It also lists 1056.7 thousand tons of gasoline, 1068 thousand tons of diesel fuel, 541.1 thousand tons of fuel oil, 240.5 thousand tons of kerosene, 225 thousand tons of lubricating oils, 174 thousand tons of liquefied gas, and 1.4 million tons of gas condensate products. The share of foreign investment and loans allocated to the fuel and energy industry increased from 7.9 percent in 2006 to 42.9 percent in 2007 [17]. Compared with the 34.8 billion cubic meters recorded in 1990, natural gas production was reported to have exceeded 60 billion cubic meters in 2005.

Proved oil reserves were estimated at 82 million tons. Forecast assessments of liquid hydrocarbon resources as of January 1, 2005, indicated 817.7 million tons of oil and 360 million tons of gas condensate. Within the account's discussion of the global fuel and energy situation, these resources were regarded as a potential basis for sustaining Uzbekistan's oil and gas independence.

Independence thus enabled Uzbekistan to combine the restoration of national statehood with greater control over its natural resources and the economic benefits derived from them. The account associates the movement for independence led by President I.A. Karimov with the late 1990s and emphasizes its public support. Over the 17-year period considered, the country's political and economic capacities expanded, while the oil and gas industry assumed a more substantial role in the national economy.

The reforms examined in this study were directed toward developing the industry's production, processing, management, and technological capabilities. Institutional restructuring, resource development, investment, and international cooperation contributed to the implementation of this objective. In the author's interpretation, the resulting changes demonstrate the importance of state development policy in strengthening the economic foundations of independence. They also provide a basis for the continued development of the sector, subject to the effective use of resources and the implementation of the strategic priorities identified.

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