

**Increasing FDI inflows into oil and gas industry in Uzbekistan**

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Foreign direct investment (FDI) has made great contribution to the economic development of Uzbekistan since its independence in 1991. It has enabled Uzbekistan to establish new branches of industry and Uzbek consumers to experience a far wider range of goods and services. Joint Ventures (JVs) have provided employment, much of it embodying training and experience in both technological and managerial skills transferable to domestic enterprises. FDI has played a major role in expanding Uzbekistan's international trade, which has developed to almost 1/5 of GDP. JVs now account most of Uzbekistan's two-way merchandise trade.

However, during the Soviet times, Uzbekistan was providing cotton, gold, and hydrocarbons. Soon after the independence, Uzbekistan made step-by-step transition toward market liberalization. And taking into account the major role of oil and gas sector in economy of Uzbekistan, it is important to look at ways of enhancing investment activity in oil and gas industry.

According to the 'The World Oil Outlook' data, Uzbekistan is one of the richest countries in Central Asia for oil, and especially, for natural gas, which puts it in top ten countries by their natural gas reserves [1]. Uzbekistan has over 205 hydrocarbon fields including 96 oil and 109 natural gas fields, with estimated reserves counted for over next 75 years with current extraction volume [2].

Rich oil and gas resources, as well as export of natural resources provides high growth of Uzbekistan's GDP, which have been over 8 percent since 2003. And FDI received has played an important role providing such high growth rates (see fig.1):

When the legal framework for foreign investors in oil and gas industry in Uzbekistan is analyzed, one can see that Uzbekistan's oil and gas producing companies are state owned and gathered in the vertically integrated 'Uzbekneftgas' national holding company. It is the only actor in Uzbek legislation, which is authorized to sign oil and gas exploration contracts with foreign companies. It acts as a participant in JVs and supervises all petroleum operation within country [3]. Moreover, this company is state nominated as state co-venture in exploration and production ventures with foreign investors; also, it is a 'Complementary body', which regulates oil and gas operations. Foreign investors however, might consider this type of dual role as both producer and regulator as a conflict of interest.

Also, the legislative framework in Uzbekistan is less liberal compared to other oil-rich countries in the region. For example, the articles 3-4 and 7 of 'Subsoil law' of Uzbekistan gives authority to the President, Cabinet Ministers, local authorities, and specially designed state agencies to terminate actions of foreign investors. In addition to these powers, article 4 of the law on natural monopolies also gives power to regulatory oversight for natural monopolies to the state [4]. The law on subsoil (September 1994) and its amendments set out Uzbekistan's framework of statutes governing the exploration and development of all subsoil resources, including hydrocarbons and other minerals. Article 19 of the subsoil law provides many excuses for the government to terminate foreign investors' license on exploration and producing.

Perhaps, on one hand this type of authoritativeness in monitoring actions with FDI does lead to more benefits for the host country, consequently to more development. On the other hand, it does not enhance investment attractiveness of the industry, though JVs in oil and gas

sector that carry out explore oil and gas reserves are released from payments of the profit tax for a period of 7 years from the oil recovery or gas beginning.

Moreover, such JVs enjoy other privileges, including:

bligatory sales of currency gains from realization of production received from primary activity;

ax holidays for the property and income of foreign participants of individual share in joint ventures.

Thus, in Uzbekistan the attractive investment climate and favorable conditions for attraction of the foreign capital to oil and gas branch of the economy is growing.

Besides, unprecedented privileges to the foreign companies which have expressed desire to work in branches of thermal power station of the country have legislatively been guaranteed. For example, since May 2002 following privileges are given to foreign investors:

he exclusive right on carrying out of resource searching activity and the subsequent working out of the revealed deposits;

he right of priority to reception of new territory for continuation of works;

he right of primary processing of raw materials, export of oil, gas and produced products;

he right to reception in specially stipulated cases of compensation before the expenses suffered by the companies;

In addition, the foreign companies are also provided with considerable tax and customs privileges, up to full cancellation of all fiscal payments operating in the countries until the moment of a recoupment of the enclosed capital.

### Источники и литература

- 1) OPEC World Oil Outlook, 2011.
- 2) Uzbekneftegas, 2009 - Working paper #134 by L. Ivonina.
- 3) U.S. Department of Energy 2008, Energy Information Agency, "Central Asia; Country Analysis Brief"
- 4) 4. Law of the Republic of Uzbekistan # 398-I "On Natural Monopolies", 1998

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### Иллюстрации

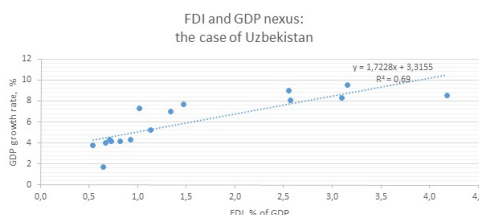


Рис. 1. Source: Author's calculations based on WDI, 2012