



## GAS SECTOR DEVELOPMENT POLICY PRIORITIES OF THE REPUBLIC OF UZBEKISTAN

Natural gas is the priority area in the development of the energy sector in Uzbekistan. Uzbekistan is the major gas producing country and it has the largest gas processing capacity in the region. Uzbekistan has been and remains a key supplier of gas within Central Asia and is highly interested in increasing the volume of gas export to external markets. However, since natural gas constitutes the largest share in the energy consumption mix of Uzbekistan, increasing export capacity may come at the expense of domestic energy needs.

Natural gas reserves of Uzbekistan are estimated in the amount of 1.1 trillion cubic meters ( $m^3$ ) placing it third after Kazakhstan (1.6 trillion  $m^3$ ) and Turkmenistan (17.5 trillion  $m^3$ ). According to Uzbekneftgaz, a national holding company, around 60% of the country's territory has a potential for oil and gas extraction. 50% of 108 gas fields are currently being exploited, while 35% are under development. Gas fields in the country are mainly located in Ustyurt, Bukhara-Khiva, Gissar, Surkhandarya and Fergana regions. While the largest amount of gas reserves is concentrated in the Bukhara-Khiva region, the Ustyurt area has recently contributed to increasing the reserve estimates of the country.

The gas production in Uzbekistan dates back to 1950s. The first Uzbek gas was extracted from the Setalan-tepe field in the Kyzylkum desert in 1953. Currently, most of the gas production comes to the Bukhara-Khiva region, including the largest gas field in the country - Gazly, which was put online in 1962. Uzbekistan is not only a major producer, but also is the largest consumer of gas in Central Asia. Out of 57.3 billion  $m^3$  of gas produced in the country, 48.8 billion  $m^3$  was consumed domestically in 2014. Natural gas is the main source for the domestic energy mix in Uzbekistan, as it accounts for 85% of the primary energy consumption. Excessive reliance on gas for electricity generation, heating and fuel supply as well as inefficient gas production, distribution and consumption facilities in combina-

tion with large population (around 30 million), which is nearly half that of Central Asia are key factors determining such high rate of gas consumption in the country. In addition to extensive gas production level, Uzbekistan enjoys the largest gas processing capacity in Central Asia totaling over 50 billion  $m^3$  of gas per year. Mubarek gas processing plant, built in 1972 with the capacity of 30 billion  $m^3$ , is one of the biggest in the world. Shurtan gas processing plant was built in 1980 and is capable of processing 20 billion  $m^3$  of gas. Gas products of Uzbekistan are exported to the European (Poland, Hungary, Lithuania, Latvia, Turkey), Asian (Iran, Pakistan, China) and a number of other countries (Ukraine, Russia, Azerbaijan, Kazakhstan).

Uzbek gas market is highly subsidized. Governmental subsidies for the domestic gas market cost the budget almost \$10 billion annually. While the gas price for the Uzbek household consumers does not exceed \$50 per 1,000  $m^3$ , Uzbekistan has recently been exporting gas to external markets at prices six to eight times higher. In an attempt to cover up the budget gaps created as a result of providing subsidies to domestic customers, Uzbek authorities are interested in increasing the volume of gas export to external customers, which pay higher prices in hard currency. Uzbekistan exported around 12.8 billion  $m^3$  of gas in 2014 and earned \$6.1 billion.

Uzbekistan is a completely landlocked country, which makes large diameter pipelines the most cost-efficient transportation means. As a legacy of the Soviet Union, Uzbekistan inherited two major transportation systems to move gas to Russia: a) the Bukhara-Ural pipeline (capacity 7.5 billion  $m^3$ ) and, b) the Central Asia-Center pipeline (capacity 45-50 billion  $m^3$ ). Uzbekistan is also the biggest supplier of gas within the Central Asian region. The Bukhara-Tashkent-Bishkek-Almaty gas pipeline was designed to supply 4.5 billion  $m^3$  of Uzbek gas to Southern regions of Kazakhstan, Northern Kyrgyzstan and Almaty city.

The Central Asia-China gas pipeline is another major network that has been recently put in place. Out of four designed lines (A, B, C and D) to transport Central Asian gas to China, Uzbekistan is expected to export 10 billion  $m^3$  of gas through the Line-C (total capacity 25 billion  $m^3$ ) of the pipeline, which is projected to be fully operational by the end of 2015-beginning of 2016.

Uzbekistan is currently showing interest in increasing export of gas toward Chinese direction. While it exported only 2.3 billion  $m^3$  in 2013 and 2.0 billion  $m^3$  in 2014, it is expected that the export would grow up to 10 billion  $m^3$  in 2015 and up to 14-18 billion  $m^3$  by 2020. Projected increase of gas export to China is now only being possible by reducing exports in other directions. For instance, Russia used to be the main customer for the Uzbek gas. Uzbekistan supplied 13.4 billion  $m^3$  in 2010, 8.7 billion  $m^3$  in 2012, 5.66 billion  $m^3$  in 2013. The amount is expected to drop down to 1 billion  $m^3$  in 2015. As a result, instead of significantly increasing the volume of gas exports, Uzbekistan is only swapping its dependence on the Russian market into excessive dependence on the Chinese market.

Taking into account the fact that no major gas reserves have recently been discovered and the annual gas production remains below the level of 60 billion  $m^3$  per year, Uzbekistan may not be able to significantly increase the volume of gas export without compromising domestic consumption. Implementing energy efficiency in the gas sector can potentially provide some prospects. Highly inefficient energy processing and delivery facilities account for 60% of primary energy loss in the country. Losses caused by outdated and inefficient gas production and delivery facilities cost Uzbekistan approximately 4.5% of its GDP every year. By addressing the problem of energy inefficiency in the gas sector Uzbek authorities would hypothetically be able to increase gas export capacity without negatively affecting domestic energy supplies.

## Politics, Foreign Affairs and Security

- The 42<sup>nd</sup> Session of the Special Working Group on Elaboration of the Caspian Sea Legal Status Convention was held in Astana. During the meeting, the parties discussed the possibility to convene a conference of the Foreign Ministers of the Caspian States, which should sum up preliminary results of elaboration of the Convention and determine the level of readiness for the V Caspian Summit.
- Iran and the P5+1 Group, as well as the EU Foreign Policy Chief, Federica Mogherini, have signed a document on contribution to the redesigning and modernization of the Iranian Arak heavy water reactor. According to the document, redesigned and rebuilt Arak reactor will not produce weapons-grade plutonium.
- The President of Russia, Vladimir Putin, has signed a decree to put into effect the Russian defense plan for 2016-2020.
- The Minister of Defense of Georgia, Tina Khidasheli, and the Minister of Defense of Japan, Gen Nakatani, signed a Memorandum of Understanding (MoU) in the sphere of military cooperation, which became the first defense accord between the two countries. Under the terms of the MoU, Georgia and Japan will begin a dialogue and cooperation on the development of defense systems, and organize meetings of experts, seminars and workshops in bilateral and multilateral formats.
- The Director General of the Russian high-technology state corporation Rostec, Sergey Chemezov, announced that Russia and China inked a contract on purchase of 24 Sukhoi Su-35 fighter jets, with an estimated sum of the deal topping \$2 billion.

## Economy, Finance and Energy

- According to the State Statistical Committee of Azerbaijan, the country reduced its oil and gas production by 2% and 2.7% to 35.026 million tons and 24.546 billion cubic meters respectively in January-October 2015 compared with the same period last year. Overall, in 2015 the country

plans to produce 41.2 million tons of crude oil and 30.2 billion cubic meters of gas.

- According to the First Deputy Minister of Energy of Russia, Alexey Teksler, the country has plans to increase oil production from 525.7 million tons in 2014 to 533 million tons in 2015 and to keep amounted level of production in 2016.
- According to the Minister of National Economy of Kazakhstan, Erbolat Dossayev, forecast for Kazakhstan's crude oil production for 2015 decreased by 1.5 million tons from 80.5 million tons approved earlier. Thus, adjusted forecast of oil production will stand at 79 million tons.
- The Director General of Rosatom, Sergey Kiriyenko, and the Minister of Electricity and Renewable Energy of Egypt, Mohamed Shaker, signed an intergovernmental agreement on building Egypt's first nuclear plant in Dabaa, which would have four power-generating units, with an output capacity of 1,200 MW each. Moreover, Russia and Egypt signed an agreement on extending an export credit loan for construction of the plant.
- During the 5<sup>th</sup> Joint Economic Summit in Ashgabat, Afghanistan and Turkmenistan agreed to expand bilateral economic relations and signed the MoUs concerning agriculture, transportation, and telecommunications.
- Within the framework of the APEC Summit in Manila, the capital of the Philippines, the Minister for Economic Development of Russia, Alexei Ulyukayev, and the Minister of Trade of the Philippines, Gregory Domingo, signed an economic cooperation agreement, under which a joint commission for trade and economic cooperation would be set up.
- According to the Ministry of Finance of Japan, the trade turnover with Russia decreased by 38% in dollar terms due to the fall of the ruble and oil prices amounting to a little over \$17.7 billion in January-October 2015 as opposed to \$28.3 billion in the same period of 2014.
- The Ministry of Economic Development and Trade of Ukraine

kept its GDP forecast unchanged at minus 10% for 2015. According to the State Statistics Service of Ukraine, the country's real GDP went down by 7% in Q3 of 2015 compared with the same period last year.

- According to the World Bank's Tajikistan Economic Update report, the decline in remittances from Russia, weak global demand and low prices for the Tajikistan's key export commodities such as aluminum and cotton will cause country's economic growth to slow down to an estimated 4.2% in 2015.
- According to the Minister of National Economy of Kazakhstan, Erbolat Dossayev, the growth of the economy of the country amounted to 1% in January-October 2015. Due to the world economic slowdown and lower prices for commodities, Kazakhstan decreased its GDP forecast by 0.3% to 1.2% for 2015.
- According to the National Bank of Tajikistan, the consumer prices and tariffs for services increased by 0.5% in October 2015 compared to September 2015. The inflation in January-October 2015 in Tajikistan was estimated at 4.1% compared to 6.1% at the same period of 2014. The year-on-year inflation reached 5.4% in October 2015. Tajikistan intends to keep the inflation level at 7.5% until the end of 2015.

## Society and Culture

- According to the Russian Deputy Prime Minister, Dmitry Rogozin, Iran and Russia reached agreement on expanding cooperation in space research.
- The Defense Ministry of Russia reported that Russian Soyuz-2.1b carrier rocket laden with the newest defense satellite launched from the Plesetsk Cosmodrome was put into orbit.
- According to the Deputy Director of the Arctic and Antarctic Research Institute, Valery Lukin, 4 radioisotope thermoelectric generators and 4 sources of ionizing radiation, which were used in different equipment, have been removed from Antarctica within the framework of the joint Russian-American program.