

Report Part Title: Uzbekistan

Report Title: Central Asia Oil and Gas Industry - The External Powers' Energy Interests in Kazakhstan, Turkmenistan and Uzbekistan

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Uzbekistan

Uzbekistan is located at the heart of Central Asia. It is the only country that borders with all other regional countries: to the north with Kazakhstan; to the east with Kyrgyzstan and Tajikistan; to the southwest with Turkmenistan; and finally, to the south with Afghanistan. Also, Uzbekistan is the most populated country of the region, with more than 30 million of citizens, with a growth rate. The country has passed through the independence with no major shocks, because of the strong and firm hand of its first leader, Islam Karimov. Karimov has been Uzbekistan's uncontested ruler from 1989 to 2016, controlling the country with a combination of political skills and heavy reliance on his security services, which undermined any attempts to opposition as well as created an extremely opaque political environment. Despite he was reelected in March 2015, he suddenly died after a stroke on September 2, 2016. The Parliament appointed former Prime Minister Shavkat Mirziyoyev acting president a week later. Mirziyoyev had been able to maneuver behind the scenes in order to be appointed acting president. Mr. Mirziyoyev managed to be elected as the second President of Uzbekistan's history in the first presidential election without Karimov at the end of 2016, after having been Prime Minister since 2003. The new administration declared and launched a program of political and economic reforms in order to address some political and economic problems. Furthermore, the new administration needed to address its numerous problems in a complicated international and regional context, because of Karimov's policies that had brought Uzbekistan to isolation within the region and the world, particularly after the withdrawal from CSTO and refusing to join EAEU. Indeed, Uzbekistan is at the center of Central Asian transportation routes and it is particularly important for all of regional countries. President Mirziyoyev has undertaken some serious efforts to reform the conservative economic scenario; for this reason, he is trying to improve relations with its regional neighbors in order to lessen the burden of isolation as well as his reforms are aiming to attract more foreign investors. This situation might lead to stronger relations and presence of Western countries. Indeed, in 2017 Uzbekistan launched an ambitious program of market-oriented reforms that were unprecedented in the country's modern history. This program, called the Government's National Development Strategy for 2017-2021, aims to adapt the country to a more liberalized economy, enabling private sector growth.

The previous political power was translated also in the economic sphere; national economy is structured as a top-down economy, state-driven enterprise and strong limitations to foreign investors and ownerships in strategic sectors. The government carried out various state-led interventions based on export-oriented and import-substituting policies. The country is highly dependent on raw materials exports, mainly cotton, gas and gold. Indeed, the Uzbek republic has been the source of cotton for the Soviet Union and it still remains a major producer and exporter cotton, although it has to face some international sanctions on its exports due to its social and political bad records. The cotton exports allowed the government to receive substantial revenues and, as a result, the Uzbek state was able to maintain social services better than other Central Asian countries. After a decade of almost flat growth, domestic GDP has increased since 2005 at an average rate of 8%. It is important to highlight the fact that the Uzbek economy has been more or less insulated from the economic and financial downturns that other countries have faced in the past years (i.e. global financial crisis in 2008 and decline of oil prices in 2014). A reason to this output might be the adoption of the Anti-Crisis Programme implemented by President Karimov.

Table 1: Uzbekistan's GDP (constant 2010 US\$), billion

\$bn	1990	1995	2000	2005	2008	2010	2014	2015	2016	2017
GDP	20,458	16,593	20,046	26,085	33,535	39,333	53,657	57,949	62,469	65,78

Source: World Bank <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=UZ>

However, most of the population has not enjoyed the improvement of national GDP. The high unemployment rate forced many Uzbeks to flee in search of jobs in more developed economy, especially Russia. These labor migrants sent around \$3.9 billion from Russia to their homeland in 2017.

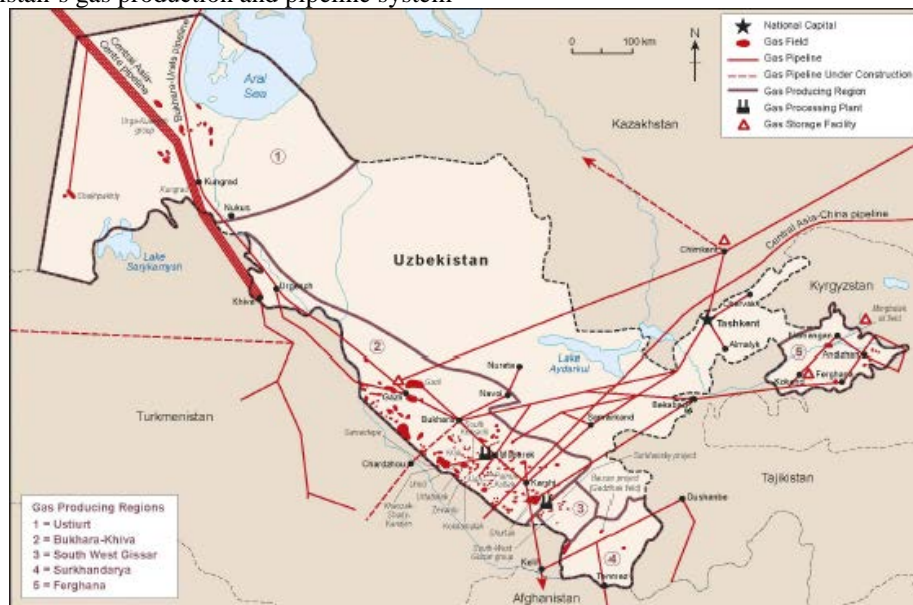
Uzbekistan presents some differences from Turkmenistan and Kazakhstan, because it is not a major exporter of energy, despite significant hydrocarbon reserves. As mentioned above, cotton and gold are the main raw materials exported from this Central Asian country. However, Uzbekistan has considerable energy resources, mostly natural gas, which is principally used in the national market. The oil and gas industry constitutes about 16% of the national GDP and contributes for more than 20% to the budget's revenue section.

According to 2018 BP Statistical Review of World Energy, Tashkent's total proved reserves of natural gas in the country amount to 1.2 Tcm at the end of 2017. However, conversely to the other regional gas producer, Turkmenistan, Uzbekistan has limited exportable volumes because of its high domestic consumption. Natural gas accounts for the majority of the energy consumption (88%), while petroleum products for 5%, coal 2% and hydroelectricity for 5%. The high domestic gas consumption is driven by the fact that the government has used gas as a subsidy for local industry and a direct economic benefit to the population. The vast majority of exploration, development and production has been undertaken by the state-owned company, renamed as Uzbekneftegaz in 1998. The current domestic production is estimated around 53.4-56.6 bcm in 2017 is mostly used to meet the high domestic consumption, that is estimated around 41.6-44.2 bcm in 2017¹³⁹. This domestic condition gives limited exportable volumes, around 11.8-12.4 bcm in 2017, for the three markets: Russia, China and Kazakhstan. In order to develop its resources and reserves Uzbekistan improved its legislation, with the introduction of a law on PSAs in 2001 and a new version of the law on mineral resources in 2002. However, initially Uzbekistan decided to limit the foreign involvement, in line with its policy of self-sufficiency and its view of the sector as a strategic one for the country. In the mid1990s some foreign companies accessed in Uzbekistan, but their involvement decreased as a consequence of decline of the oil prices and Uzbek production. Lukoil, Gazprom and CNPC are currently the most important foreign companies in the country's sector.

The most important region for Uzbek gas production is the southern Bukhara-Khiva region, where more than two thirds of Uzbek gas is produced. In 1953, the first natural gas field, Setalan-Tepe field, which is located in the Kyzyl-Kum desert, was discovered in the region. But, an important development for Uzbek gas industry took place when the Gazli oil and gas field was discovered in the Romitan district of Bukhara-Khiva, because the initial gas reserves of the field reached about 500 bcm. Hence, Tashkent became a gas producer for the Soviet Union, which decided to build two pipelines: Bukhara-Ural pipeline and the Central Asia-Center main gas pipelines. Nearly all gas fields located in the region are operated by the state-owned energy company, Uzbekneftegaz, and most of them are relative small fields according to international standards. Uzbekneftegaz has to manage constantly the decline of some fields, given their long productive history. In this region, there is also a field operated jointly with Lukoil under a 35-year PSA that is the Kandym-Khauzak-Shady project. Additionally there are also Uzbekistan's two major gas processing plants: Mubarek and Shurtan Another important region is the Ustiurt region, located in the north-western Uzbekistan. In this region there is a gas field, Shakhpakhty field, operated by Gazprom under a 15-year PSA signed in 2004. However, the most promising area of Uzbekistan's gas sector is the area called "25 Years of Independence", which located in the Surkhandarya region in the southern part of the country and is estimated to be the largest in Uzbekistan with more than 100 bcm of natural gas. This project is operated under a 30-year PSA between a Gazprom's subsidiary, a Uzbekneftegaz's part and Altmax Holding. Other oil and gas regions in Uzbekistan are Hissar and Fergana, while there are three promising regions that are Khorezm, Middle Syr Darya and Zarafshan.

¹³⁹ 2018 BP Statistical Review of World Energy & Asian Development Bank's 2018 key indicators for Asia and the Pacific, Uzbekistan

Figure 1: Uzbekistan's gas production and pipeline system



Source: S. Pirani, Central Asia and Caspian Gas Production and the Constraints on Export, OIES NG 69, December 2012, p. 31

Recently, the government adopted a special five-year program to boost energy production. Through this special program, Uzbek authorities plan to increase gas production by 53.5 bcm, oil production by 1.9 million tonnes and gas condensate production by 1.1 million tonnes by 2022. In February 2017, the President signed a presidential decree on expanding geological exploration in the Ustyurt oil and gas region, giving a new impetus to exploration. Recently, new industrial reserves of gas condensate were discovered on the Ustyurt plateau in Karakalpakstan. Uzbekistan's energy company declared that under the investment program in 2016 with the participation of foreign investments and loans 14 projects with a total value of foreign investments of \$16,3 billion are implemented, focusing on geological exploration, production and processing of hydrocarbons and other areas. Until 2020, Uzbekistan plans to implement 38 projects in the oil and gas industry with a total cost of about \$20,6 billion¹⁴⁰. Investments in the oil and gas sector are considered to be the most liquid among long-term projects, receiving half of all attracted funds¹⁴¹. Nevertheless, Uzbekistan is facing difficult time to meet the forecasts and the fall of oil and gas prices have also affected some projects, where some foreign investors decided to pull out. One of them is the Malaysian Petronas Carigali, which decided to withdraw from all existing petroleum upstream projects in the country in May 2011.

One important development in the country's energy industry is the Uzbekistan authorities' decision to promote the construction of petrochemical facilities in an effort to diversify the industry, shifting the focus of exports from raw materials to added-value products. The first important event for the fuel industry was the beginning of the operation of Mubarek Gas Processing Plant in the Kashkadarya region in 1972 and in 1980 another major gas processing plant was built in Shurtan. Also through international partnerships Uzbekneftegaz is building new processing plants, for example in 2013 it started the construction of a petrochemical plant for processing Surgil field's gas or the Kandym Gas Processing Facility built jointly with Lukoil or the oil refinery in Jizzakh region with Gazprom.

Concerning to the oil sector, Uzbekistan had 594 million barrels of proven crude oil reserves in 2016, while its production amounted to 54,000 barrels per day in 2017. However, Uzbekistan has been facing a declining oil production over the last decade as oil fields are depleted. Around 70% of the country's oil production are located in the Bukhara-Khiva region. In order to tackle this declining trend, Uzbekneftegaz decided to invest some \$200 million in geological prospecting to find heavy oil in the south and east areas of Uzbekistan. The state-owned company has already undertaken discovery works for heavy oil and bitumen in the Korsagly-Dasmamagin area, in the Besharcha block in the Surkhandarya region as well as in the Fergana area. It

¹⁴⁰ <https://www.azernews.az/region/125948.html>

¹⁴¹ <https://www.azernews.az/region/132412.html>

believes that it will be possible to produce at least 100,000 more tonnes of oil annually in those areas after these works are completed. The limited oil production affects also the three oil refineries' production, which have to operate below their capacity. It also obliges Tashkent to import some oil from Kazakhstan mainly. However, Uzbekistan plans to gradually reduce its oil imports by converting natural gas into other hydrocarbon products; for example, through the construction of a GTL (gas-to-liquid) facility.

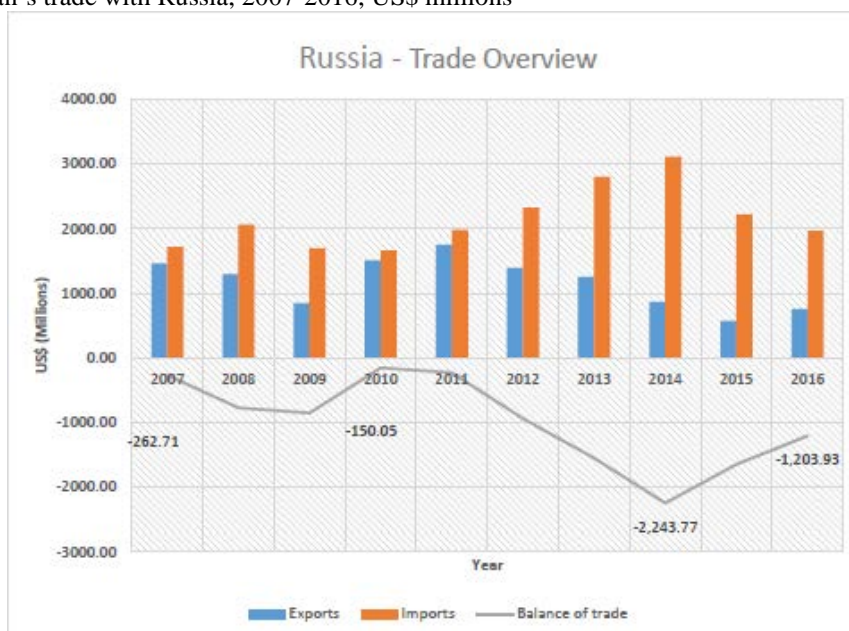
As we already mentioned, Uzbekistan does not export significant gas volume because of its high domestic consumption. In 2017, it exported 11.8 bcm mainly to Russia and China, and a smaller quantity to Kazakhstan. In 2017, Gazprom purchased 5,5 bcm of natural gas from the Central Asia country via the Bukhara-Ural pipeline, while China and Kazakhstan received 4,3 bcm and 1,5 bcm, respectively. These volumes might increase in the future, because Uzbekistan signed contracts to export up to 6 bcm of gas to Russia and up to 10 bcm to China annually. In order to provide more gas, Uzbekistan recently built two additional pipelines, Gazli-Kagan and Gazli-Nukus, in order to connect the Ustyurt and Bukhara-Khiva regions with the existing pipeline system. Additionally because of its geographical position, Uzbekistan is a transit country for Turkmen gas that flows through the three lines of the Central Asia-China gas pipeline as well as Central Asia-Center pipelines. Through Uzbek territory Lukoil exports gas produced in Uzbekistan to China. In 2014, Uzbekistan signed an agreement with China for the construction of the fourth line of Central Asia-China pipeline, but in 2016 the project was suspended and it is not expected to begin operation before 2020. Recently, in an effort to improve relations with neighbors, President Mirziyoyev announced that Uzbekistan might take part in the TAPI project, which would deliver Turkmen gas to India, passing through Afghanistan and Pakistan. In order to increase export of Uzbek gas, the Government plans to increase the production and use more alternative energy for domestic consumption.

Russia

Under Tsarits Russia and Soviet Union, Uzbekistan was entitled to produce cotton for Moscow, becoming for a century a single economy. After the collapse of Soviet Union, Uzbekistan tried to diversify its economy and find alternative markets, balancing its dependence to Russian market. Therefore, from 1991 to 1999 Uzbekistan opened its market especially to the world, especially to Western countries, China and South Korea. From its independence in 1991 until 1993, Uzbekistan remained in the Ruble zone. In 1991 Russia made up about 53% of both imports and exports, in terms of trade structure between Russia and Uzbekistan¹⁴². By 1995, Uzbekistan's export to Russia declined drastically. For instance, between 1994 and 1995, Uzbekistan's exports to Russia declined as a percentage of its total to 29.7%, while import over the same period increased by 40%. After 1995, Uzbekistan's export to Russia as a percentage of total trade averaged about 20%. Despite it was surpassed by China as top trade partner, Russia remains one of the major trade partners of Uzbekistan, having also important economic influence because of remittances from Russia, that amount roughly to 16% of Uzbekistan's GDP.

¹⁴² Oybek Madiyev, Why have China and Russia become Uzbekistan's biggest energy partners? Exploring the role of exogenous and endogenous factors, Cambridge Journal of Eurasian Studies, 2017, 1

Figure 2: Uzbekistan's trade with Russia, 2007-2016, US\$ millions



Source: The Pakistan Business Council, 2017 Republic of Uzbekistan, The Central Asia Country Series, p. 50

Uzbekistan still exports mainly two categories of products; cotton and clothing accessories. These products accounts about 50% of Uzbekistan's export to Russia, while it imports a large variety of goods from the Russian Federation. In the entire trade history of these two countries, one factor affects the most the commercial relations and the trade value: Ruble value. Indeed, Uzbekistan's economy was deeply affected by the 1998 Russian crisis and the devaluation of Ruble in 2014, following the sanctions and the drop of oil prices.

After 2000, Russia has started to strengthen its relations with Uzbekistan following the signature several security agreement in 1999 and 2000, the two countries signed the Treaty of Strategic Partnership in June 2004 and a treaty on alliance relation in November 2005. Furthermore, Russia needed to balance the increasing presence of US troops in the country during their activities in Afghanistan. For this reason, one area of notable cooperation is defense.

Despite some disagreements, Moscow has managed to maintain a significant presence in the country's energy sector, thanks to Lukoil and Gazprom, in the mid-2000s following the rise of oil price and Russian demand for Central Asian gas. Since then, the two Russian companies started to negotiate PSAs with the government¹⁴³.

The first PSA between Lukoil and Uzbekistan was established in 2004, for the development of three gas fields (namely Kandym, Khauzak and Shady) located in the Bukhara-Khiva region near the border with Turkmenistan, which were projected to achieve 11 bcm annually of gas production at peak. The PSA signed in 2004 is expected to expire in 2046 and Lukoil owns 90% of the project, while the remaining 10% is owned by Uzbekneftegaz. The first production started in the Khauzak and Shady gas fields in 2007, and in November 2011 first gas was launched at the Western Shady block of the area. Thanks to these actions, in 2012 the two gas fields delivered 3.8 bcm of gas and 19.000 tonnes of condensate. The Kandym group of gas fields consists of six separate gas condensate areas, namely Kandym, Kuvachi-Alat, Akkum, Parsankul, Khodzhi and West Khodzhi. The key facility of the Kandym project is the Kandym Gas Processing Complex, with a total annual capacity of 8 bcm divided in two process lines, 4 bcm each, making it one of the largest in Central Asia. The Processing Complex is designed to convert sour natural gas to marketable gas, stable gas condensate and marketable sulfur from the development of the six gas condensate areas

¹⁴³ S. Pirani, Central Asia and Caspian gas production and the constraints on export, p. 32

belong to Kandym area¹⁴⁴. Lukoil launched the first line of the processing complex in November 2017, six months ahead of the schedule. While the 88% of Phase 2 was completed as of the end of 2017. In 2006, Lukoil joined an international consortium, composed by Petronas Carigali, Korean KNOC, CNPC in order to sign a 25-year PSA for the Uzbek section of Aral Sea, but Malaysian Petronas left the consortium in 2011, followed by Korean KNOC in 2013.

Lukoil presence increased in March 2008, when it joined the South-Western Gissar project, regulated by a 35-year PSA signed the year before. The license area includes seven fields: the gas condensate fields Dzharkuduk-Yangi Kyzylcha, Gumbulak, Amanata, Pachkamar and Adamtash; the oil and gas condensate field Southern Kyzylbayrak; and finally the oil field Koshkuduk. In 2011, Lukoil produced early gas at the Dzharkuduk-Yangi Kyzylcha field. In 2017, Lukoil reached a milestone in this project as it successfully launched the main production and process facilities. These include a gas treatment plant (with the annual capacity of 4,4 bcm per year) a gas pre-treatment unit and six gas gathering facilities. Following the launch of these facilities, Lukoil ramped up gas production to the plateau level of 5 bcm annually. These projects has enabled Lukoil to become the most dominant international operator in Uzbekistan's oil and gas sector, handling around 30% of total Uzbek gas production by the next decade¹⁴⁵. Reports stated that the Russian company is planning to produce 14,6 bcm of gas in Uzbekistan in 2018, a 60% more than the previous year's production, and up to 18 bcm by 2020¹⁴⁶. Lukoil-operated projects has reached 60 bcm of cumulative gas production and its total investment (amounting about \$8 billion) in the country's economy make Lukoil the country's largest foreign investor. Lukoil was able to surpass its compatriot, Gazprom, which decided to focus more to develop its role in the Russian Far East. Indeed, Lukoil decided to use Uzbek gas to increase its exports to China via the Central Asian country. The Kandym gas processing complex is seen as central to its efforts to boost gas production and exports to China¹⁴⁷. Indeed, Lukoil affirmed that the gas produced in the Central Asian country flows only in two directions: north to Russia and Kazakhstan and east to China, which will receive around 80% of the gas production¹⁴⁸.

Gazprom has covered two different role in the Uzbek energy industry: producer and transporter. Gazprom's role in Uzbekistan began in December 2002, when it signed with Uzbekneftegaz the Agreement on Strategic Cooperation in the gas industry. The Agreement established long-term purchase of Uzbek gas for the period 2003-2012, Gazprom's participation in natural gas production projects under PSAs as well as cooperation in Uzbek gas transmission infrastructure development and Central Asian gas transmission in the country. In February 2005, Gazprom signed another agreement with UzTransGaz: the Mid-Term Agreement on natural gas transmission across Uzbekistan over 2006 to 2010, which pursues the objective of transporting Central Asian natural gas through the Central Asia-Center and Bukhara-Urals pipelines. In 2009, in close correlation with the prices achieved by Turkmenistan, Uzbekistan signed with Gazprom an addendum to the Uzbek gas supply contract providing for a pricing formula based on the European average gas prices¹⁴⁹. In April 2017, Gazprom and Uzbekneftegaz signed a contract for the purchase of 4 bcm per year of Uzbek gas for a period of up to 5 years starting from 2018¹⁵⁰. At one hand, this agreement represents the Russian commitment to maintain relations with Uzbekistan and its gas exports, providing Tashkent some certainty of cash transfers in economically uncertain times, however, at the other hand, it represents the steadily withdraw of Russia from Central Asia gas imports. Indeed, in 2016 Gazprom imported around 6.2 bcm of gas from Uzbekistan, while 5.5 bcm were purchased in 2017 by the Russian company.

Concerning the production and exploration part, Gazprom signed a PSA with Uzbekistan to develop the Shakhpakhty deposit in Ustyurt region, which had been in production between 1971 and 2002, through two subsidiaries (Zarubezhneftegaz and Gas Project Development Central Asia (GPD)). The 15-year PSA came into effect at the end of July 2004 and in August of the same year the operator commenced the operations on the re-entry of wells and natural gas production. Meanwhile, the operator decided to launch the upgrade of

¹⁴⁴ <https://www.ogj.com/articles/2018/04/lukoil-uzbekneftegaz-start-up-kandym-gas-processing-complex.html>

¹⁴⁵ <https://www.azernews.az/region/135995.html>

¹⁴⁶ <https://www.azernews.az/region/136355.html>

¹⁴⁷ <https://www.reuters.com/article/us-russia-lukoil-uzbekistan-gas/russias-lukoil-starts-up-uzbekistan-gas-plant-for-chinese-exports-idUSKBN1HQ1GR>

¹⁴⁸ <http://caspienbarrel.org/en/2018/04/lukoil-to-send-about-80-of-uzbek-gas-to-china/>

¹⁴⁹ <http://www.gazprom.com/press/news/2009/december/article72939/>

¹⁵⁰ <http://www.gazprom.com/press/news/2017/june/article335166/>

the gas field infrastructure in order to reach the design capacity for gas collection, treatment and transmission from the field. In 2006, construction of the Shakhpakhty booster compressor station (BCS) and a gas treatment facility were completed. In 2018, the sides signed the Supplementary Agreement No. 2 to the PSA, extending the operation of the PSA until 2024. In May 2006, Gazprom received geological exploration licenses for 7 investment blocks in the Ustyurt region, after having signed an agreement with Uzbekneftegaz in January 2006. The overall investment program is valued at \$400 million. In May 2009, the Dzhel natural gas field was discovered on the Ustyurt region and in 2018 Gazprom signed a 25-year PSA for the development of this field. Annual gas recovery is expected to reach 150 million cubic meters within first 4 years (2021-2024) and rise up to 300 mcm annually from 2025¹⁵¹. In 2009, Gazprom discovered also the Jel gas field, whose reserves could reach about 10 bcm. Gazprom and Uzbekneftegaz are discussing about the possibility to sign another PSA for developing this field. Besides being member of the Shakhpakhty PSA, One of Gazprom's subsidiaries, Gas Project Development Central Asia (GPD) owns 25% of the Kokdumalakgaz joint venture, which is engaged for the extraction and utilization of associated gas in the fields in the Kashkadarya region. GPD plays an important role also in the construction of the oil refinery in the Jizzakh region, which will have a processing capacity of 5 million tonnes annually of crude oil and it will produce clean-burning gasoline, diesel and jet fuel. This refinery is a key element of the Uzbek plans to increase production of high value-added products. Finally, GPD is part of the Surhan Gas Chemical Operating Company, which develops the entire investment block, Uzbekistan Mustakilligi. In the investment block, it was discovered the largest field in Uzbekistan: "25 Years of Independence" field¹⁵². The reserves of the field and the entire block are estimated at more than 100 bcm of natural gas. The Company has been established under a 35-year PSA signed in April 2017 between Uzbekistan and an investor consortium, composed by: GPD, Uzneftegazdobycha (a part of Uzbekneftegaz) and Altmax Holding Ltd. The project will be implemented in two stage. The volumes of gas processing could be brought up to 2 bcm annually at the first stage, which will cost \$2 billion, and up to 4 bcm per year at the second stage. The total investment that may reach \$5.8 billion, making the investment project become the largest in the modern history of Uzbekistan. In 2018, a 50% stake of Altmax Holding was acquired by Andrey Filatov through Brighttree Holding Ltd; in this way, the new investor will have a 37,5% share in the development project. The 25 Years of Independence field will be the raw material base for the gas chemical complex in the Surkhandarya region. Another interesting development is the possible creation of a joint venture between Uzbekneftegaz and the Russian Tatneft for the development of oil and gas sector in Uzbekistan. They will jointly conduct research work on the development and production of shale oil and gas, bitumen and heavy oil in the country¹⁵³.

China

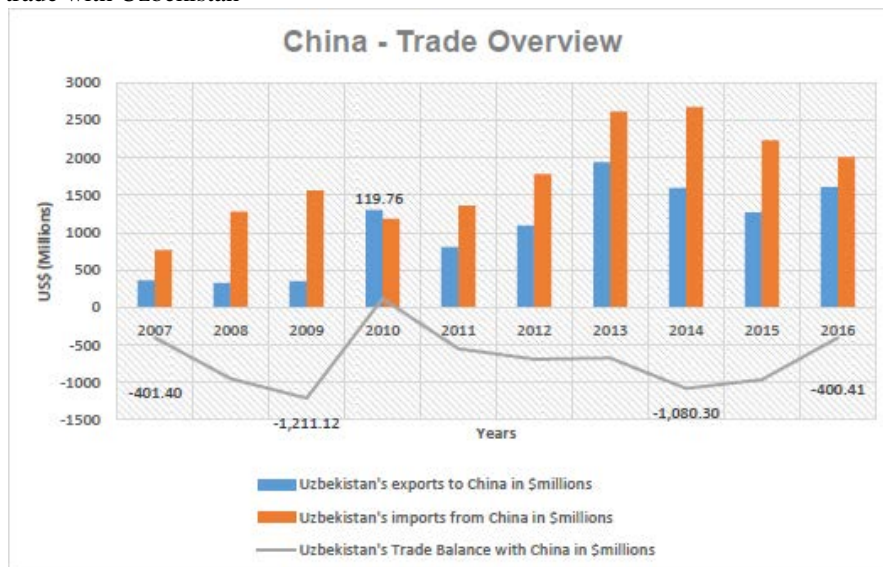
The establishment of bilateral relations started after the Uzbek independence and in October 1992 Beijing opened its embassy in Tashkent. Despite the countries signed an Economic and Trade in 1992, at the beginning of their relations Beijing had to pay the Uzbek decision to prioritize the Western countries for its development and the historical ties with Russia; therefore until the mid2000s, the trade between the two parties grew slowly. However, China has started to increase its trade volume with Uzbekistan since 2005. The countries have developed strong bilateral relations, mainly in the last decade. China has been able to become one of the most important trading partners and a major source of investment for Uzbekistan so much that in 2014 it overtook Russia as the Uzbekistan's biggest trade partner, with total trade more than \$3 billions. As the figure below shows, Uzbekistan has seen a trade deficit with China, with the exception of 2010. The Uzbekistan's trade turnover with China kept growing up to \$5 billions (\$2.2 bn exports and \$2.8 imports) in 2017.

¹⁵¹ <https://www.uzdaily.com/articles-id-46205.htm> & <http://gazprom-international.com/en/news-media/articles/gazprom-international-and-uzbekistan-signed-psa-dzhel-field>

¹⁵² <http://www.sgc-oc.com/?lang=en>

¹⁵³ <https://neftegaz.ru/en/news/view/177138-Uzbek-and-Russian-companies-will-produce-shale-oil-and-gas>

Figure 3: China's trade with Uzbekistan



Source: The Pakistan Business Council, 2017, p. 47

The turning point for the Chinese activities in the country took place after 2003, when its involvement became more visible. In 2004, Chinese President Hu Jintao visited Tashkent and signed agreement on the development of political, economic, military-technical, and cultural cooperation. Another important factor that improved bilateral relations is the deterioration of relations between Uzbekistan and Western countries after the 2005 Andijan massacre. Within the criticism caused by the massacre, Uzbekistan has started to turn east and China was ready to gain influence in the country offering economic and financing cooperation.

One of the main reason for the increasing influence of China in this country, it is undoubtedly the development of the Belt and Road Initiative. Indeed, Beijing looks positively Uzbekistan's central geographical position. In few years, Chinese investment in Uzbekistan's economy reached about \$6,5 billion. The most part of these investments was directed to transportation projects, but Beijing has invested also in the energy sectors, mainly financing the construction of three lines of the transnational pipeline system, Central Asia-China, and for developing oil and gas fields. China and Uzbekistan are both members of the Shanghai Cooperation Organization, which Beijing used to foster its trade relations with Tashkent and balance the renewed American interest for the country after 9/11 attacks.

As already mentioned, China invested significantly in the country's energy sector developing and exploring the country's oil and gas fields as well as investing in transportation system for natural gas due to the country's strategic importance as transit state. For the reasons mentioned before, the beginning of the energy relations is considered the year 2004, when CNPC and Uzbekneftegaz signed a framework agreement on cooperation; CNPC intended to implement a number of projects in the Uzbek oil and gas industry¹⁵⁴. During an official meeting in May 2005, CNPC signed a \$600 million contract to create a joint venture with Uzbekneftegaz to develop 23 oilfields in the Bukhara-Khiva region¹⁵⁵. Immediately after this deal, Sinopec signed a small contract to rehabilitate aging oil fields in Andijan and Namangan provinces and for exploration in the same regions for a total of \$106 million. This deal symbolized the strong Chinese commitment to strengthen its relations with Uzbekistan during difficult times for Western-Uzbek relationship. CNPC joined an international consortium that in August 2006 signed with Uzbekistan a 35-year PSA to develop offshore oil and gas fields in the Uzbek section of the Aral Sea. The international consortium was composed initially by Lukoil, Uzbekneftegaz, Petronas, CNPC and Korean KNOC.

¹⁵⁴ Vladimir Paramonov, China's Economic Presence in Uzbekistan Realities and Potentials, Uzbekistan Initiative Papers, No. 5, February 2014, p. 5

¹⁵⁵ <https://www.ogj.com/articles/print/volume-104/issue-10/exploration-development/central-asia-oil-and-gas-2-russian-chinese-competition-may-marginalize-us-european-influence.html>

The same year came into force an oil and gas exploration agreement signed by CNODC and Uzbek state-owned energy company; the project includes five onshore exploration blocks, located in Ustyurt, Amu Darya and Fergana basins, with a total investment in five years amounted to \$396 million. While in 2008 CNPC and Uzbekneftegaz signed a letter of intent to jointly boost the output of mature oilfields in Fergana basin. In October 2008, CNPC and Uzbekneftegaz signed a cooperation agreement to create a joint venture to develop Mingbulak oilfield, which was discovered in 1992 and contains more than 30 million tons of recoverable reserves¹⁵⁶. In 2013, Uzbekneftegaz and CNODC created a joint venture called New Silk Road Oil & Gas for the Karakul investment block¹⁵⁷. In 2018, New Silk Road Oil & Gas, a joint venture between CNPC and Uzbekneftegaz, announced that phase one of the Karakul block is ready to start production and it will be able to pump 1 bcm annually to China through the Central Asia-China pipeline¹⁵⁸. It is expected that after the start of gas production at all three fields of the block in 2021 the production will be up to 1 bcm per year, allowing to produce about 6,5 thousand of gas condensate for sale on the domestic and export markets. The project cost was about \$400 million, mainly funded by loans under the guarantee of CNPC¹⁵⁹.

Following the same strategy used in the other Central Asian countries, China signed bilateral agreements with Uzbekistan in order to secure the transportation of natural gas produced in the region. In August 2008 CNPC created with Uzbekneftegaz the Asia Trans Gas JV for the design, construction and operation of the Uzbek section of the Central Asia-China gas pipeline with a total capacity of 30 bcm and a length of 530 km¹⁶⁰. In 2011, Uztransgaz signed with PetroChina a contract to supply Uzbek gas to China. It was reported that China was planning to buy 10 bcm annually from Uzbekistan¹⁶¹. However, the volume never reached the target. Nevertheless, in August 2014 CNPC and Uzbekneftegaz signed an agreement on Line D of the Central Asia-China Gas Pipeline in Uzbekistan, which would have provided China with an additional 15 bcm. However, works for the fourth line have been suspended. Regarding gas export volume, during Uzbek President Mirziyoyev's visit to China in May 2017, the two parties decided to increase the gas export to 10 bcm annually by 2020 with a three-year agreement¹⁶².

Iran

Iran had long historical and cultural ties with Uzbekistan, but its cultural ties formerly ended with Soviet control over the entire region. The relations resumed after Uzbekistan's independence, after Iran and Uzbekistan launched formal diplomatic relations in May 1992. However, at the beginning, President Karimov saw Iran as an Islamic-fundamentalist threat, fearing the proliferation of Islamist terrorist groups; therefore, he decided to limit its economic and political relations with the Iranian regime. The new Uzbek President, Mirziyoyev, expressed his intention to change path in an effort to improve relations with neighbors. Therefore, recently the two countries affirmed that they are working for increasing the trade volume from \$400 million to \$1 billion in few years¹⁶³. Indeed, in the last year the bilateral relations has gained more and more importance. As with other regional countries, Iran proposes its geographical location as a basis for further relations. Indeed, Iranian officials invited Uzbek to take into consideration Iran geographical that provides the shortest route for Uzbek exports to access the Persian Gulf and international waters. Both countries have a strong interest in cooperating to build transportation infrastructure based on a north-south route. Therefore, Iran has offered the access to open sea to Uzbek goods through the Iranian Chabahar port, which is an ambitious and strategic project. In order to create this link, the two sides need to boost a trilateral cooperation between them and Afghanistan. Indeed, Iran and Uzbekistan might be

¹⁵⁶ <https://www.reuters.com/article/cnpc-uzbekistan/cnpc-uzbekistan-tie-up-to-develop-mingbulak-oilfield-idUSPEK30407220081020>

¹⁵⁷ <https://www.azernews.az/region/137802.html>

¹⁵⁸ <https://www.reuters.com/article/china-uzbekistan-gas-idAFL3N1O5205>

¹⁵⁹ <http://enews.fergananews.com/news.php?id=3641&mode=snews>

¹⁶⁰ <https://www.worldoil.com/news/2012/2/9/cnpc-to-begin-field-development-in-western-uzbekistan>

¹⁶¹ https://www.azernews.az/oil_and_gas/39631.html

¹⁶² <http://interfaxenergy.com/gasdaily/article/26388/uzbekistan-plans-to-up-china-gas-exports-to-10-bcm-by-2020>

¹⁶³ <https://www.azernews.az/region/140312.html>

connected via the extension of the Termez-Hairatan railway, which links Uzbekistan to Mazar-e-Sharif in Afghanistan¹⁶⁴.

Additionally, both Iran and Uzbekistan are members of the Ashgabat Agreement, the multimodal transport between India, Oman, Kazakhstan, Oman, Turkmenistan and Afghanistan. This Agreement aims to enhance connectivity within Eurasia and connect it with other important transport corridors, mainly the International North-South Transport Corridor. Uzbekistan plans to connect to Chabahar port through the Iranian railway system and. The idea is to connect Tehran and Tashkent by a railroad route via Afghanistan.

The two country currently have almost no energy relations, because of their previous policies. However, within an improvement of political relations, Uzbekistan started to discuss with Iran also the possibility of purchasing Iranian crude oil, in order to tackle Tashkent's limited production and oil shortages in the country. In October 2017, energy officials from both countries started to discuss possible export routes for Iranian crude oil. Given Uzbek landlocked nature, exports to the country would be carried out through land and probably by rail. Such a rail line already exists, so it should not take long for shipments of Iranian crude oil to start arriving in Uzbekistan after the two finalize a deal. Moreover, Uzbekistan expressed its willingness to have a stake in Iran's petrochemical ventures around the Persian Gulf; Tashkent is particularly interested in methanol-to-olefin projects¹⁶⁵. This positive scenario was deeply shocked by President Trump's unilateral withdrawal from the JCPOA and the consequent restart of the economic sanctions. In this new context, an improvement of energy relationship between the two countries might meet economic and political obstacles, because the strong opposition of the US and Saudi Arabia as well as the need of new Uzbek President to receive economic support for his reforms from Western governments.

Turkey

In 2017, Mirzoyoyev's official visit to Turkey marked the resume of bilateral relations after almost 20 years of ideological differences and political tensions. Indeed, Uzbekistan was the only Central Asian and Turkic country with which Ankara had limited relations. Although Turkey was the first country to recognize the newly independent country, the bilateral relations started to decline around 1993, when Muhammed Salih, the Uzbek opposition leader, fled to Turkey, accusing Ankara of meddling in internal affairs. Since then, tension among the two countries had been soaring due to episodes: firstly in 1999, when Tashkent accused a Turkish citizen to be part of an assassination plot against President Karimov and secondly, when Ankara condemned the 2005 Andijan massacre. Thus, between 1999 and 2012, relations were at an almost standstill. Only in 2012 Turkey tried to restart bilateral relations with some meetings. In 2014, then-former minister Davutoglu made an historic visit to Uzbekistan, during which he declared that a new era was beginning for Uzbek-Turkish relations and resumed communication channels between the two countries. After 16 years, Erdogan made an official visit to Tashkent in July 2016, marked further improvements in the bilateral cooperation¹⁶⁶. During this visit, the two countries signed 25 agreements in several fields. The advent of reforming policies in Uzbekistan with the new president, Mirziyoyev, has enhanced the positive development. Also, at the commercial level, the two countries witnessed a positive trend also in their trade volumes; for example, in 2018 the trade volume is expected to reached \$2 billion and both countries are committed to expand it up to \$5 billion over the next years¹⁶⁷. Since the bilateral relations have been resumed recently, the energy relations are almost irrelevant.

India

India's relations with Uzbekistan have deep historical roots; these ties remained also during the Soviet period though a steady exchange of high level visits between the two countries. In 1993, the two countries signed an agreement on Trade and Economic Cooperation, which has strengthened economic relations. India exports to Uzbekistan mainly medicines, various technological equipment and ferrous metals, while it imports from

¹⁶⁴ <https://en.mehrnews.com/news/139009/Connecting-to-Chabahar-Port-via-railroad-significant-for-Uzbekistan>

¹⁶⁵ <https://www.azernews.az/region/122752.html>

¹⁶⁶ <https://www.trtworld.com/turkey/how-did-turkey-uzbek-relations-improve-after-two-decades-of-stagnation--11677>

¹⁶⁷ <https://www.azernews.az/region/136453.html>

Uzbekistan edible vegetables and fertilizers. The volume of bilateral trade amounted to \$326 million in 2017¹⁶⁸; this figure represents how small is the Uzbek share in the India's total trade with SCO countries as well as the great asymmetric difference between external powers' influence in Uzbekistan. Nevertheless, the Central Asian country is particularly important for India's connectivity strategy. Indeed, through transnational railroad projects and agreements, such as Ashgabat Agreement and INSTC, New Delhi aims to increase connectivity with Eurasia¹⁶⁹. Within this strategy, India might look for Iranian cooperation due to Iran's geographical location. With India joining the SCO, a further political and economic cooperation might increase.

Concerning energy relations, the two countries failed to improve their relations even though they had expressed their positive intentions in doing so. In April 2006, Indian Prime Minister Singh visited Uzbekistan and signed several bilateral agreements. Among them, there was the memorandum on the development of gas fields signed between Gas Authority of India Ltd (GAIL) and Uzbekneftegaz. Also, after the visit Karimov promised exploration acreages to Indian firms in Uzbekistan's energy sector, including PSAs between ONGC and Uzbekneftegaz; however, the exploration status is still unknown after more than a decade¹⁷⁰. In October 2018, Uzbekneftegaz announced that it signed with Indian ONGC a cooperation agreement and a confidentiality agreement, which provide for joint preparation of specific cooperation proposals within 4 months by exchanging information on investment blocks of Uzbekistan¹⁷¹. Besides these limited developments, India has not been capable to enhance its energy relations with Uzbekistan. One of the reasons is the strong and long presence of Russian and Chinese companies in the Uzbek energy sector, which poses serious restrictions for Indian access in to the energy sector.

USA

In the immediate aftermath of the Soviet Union's collapse, Washington expressed an increasing interest for Uzbekistan. The first major bilateral economic agreement between the two countries was the Bilateral Trade Agreement came into effect on 14 January 1994. During President Karimov's visit to the US in March 2002, the two countries signed a Declaration on Strategic Partnership and Cooperation that established broad-scale goals for political, economic, security and humanitarian cooperation. Uzbekistan became more and more relevant in the US foreign policy, because the country's strategic position for military operations in Afghanistan, after 9/11 attacks. Indeed, the two countries signed an agreement on the US use of the Karshi-Khanabad airbase for Operation Enduring Freedom in Afghanistan in October 2001. Uzbek awarded the use of this airbase to US military forces, because they undertook several operations that had killed also many terrorists belonging to the Islamic Movement of Uzbekistan (IMU). However, bilateral relations were seriously set back in 2005 after Washington criticized the 2005 Andijan massacre. The American criticism resulted to Uzbekistan's closure of US-supported NGOs in the country, but above all the termination of US basing rights at Karshi-Khanabad base within six months, under strong Russian and Chinese advice. In the following years, US officials made several efforts in order to resume and improve bilateral relations; then-Secretary of State Clinton stated that an improved bilateral relationship was crucial to US interests¹⁷². A serious obstacle to an improved relationship has been the lack of respect for human rights as well as progress on democratic reforms. Uzbekistan has increased its importance regarding the positive development of Afghanistan due to geographical proximity and possible mutual economic development. Regarding commercial relations, US remained a marginal trade partner for Uzbekistan even though the strategic importance of the country. Indeed, the total trade amount around \$284 million as of October 2018.

¹⁶⁸ <https://www.azernews.az/region/142333.html>

¹⁶⁹ <https://economictimes.indiatimes.com/news/politics-and-nation/uzbekistan-seeks-to-be-indias-all-weather-ally-in-central-asia/articleshow/63472248.cms>

¹⁷⁰ <https://thewire.in/world/as-uzbek-president-visits-india-must-rethink-its-central-asia-policy>

¹⁷¹ <http://www.uzneftegaz.uz/en/press-center/news/uzbekneftegaz-i-ongc-videsh-limited-indiya-podpisali-soglashenie-o-sotrudnichestve/>

¹⁷² Jim Nichol, Uzbekistan: Recent Developments and US Interests, Congressional Research Service, August 21, 2013, p. 19 <https://fas.org/sgp/crs/row/RS21238.pdf>

Table 2: US trade in goods with Uzbekistan (US\$ million)

YEAR	EXPORT	IMPORT	TOTAL
1992	50,7	0,8	51,5
1995	69,4	18,8	82,2
1998	147,3	34,1	181,4
2001	144,8	53,6	198,4
2007	88,8	164,5	253,3
2014	21,9	14,4	36,3
2017	136,1	14,3	150,4

Source: <https://www.census.gov/foreign-trade/balance/c4644.html>

In May 2018, President Mirziyoyev visited Washington and met for the first time President Trump. At the end of this historic visit, the two Presidents issued a Joint Declaration “The US and Uzbekistan: Launching a New Era of Strategic Partnership”¹⁷³. Along the declaration, corporations of the two countries signed more than 20 large contracts estimated to be worth \$4.8 billion. This visit has shown the increasing interest of the US for this country and the strong Uzbek effort to improve its international reputation with a constructive foreign policy. In this effort, American companies and US government’s support are essential for Tashkent’s reform policies, especially because of US enormous influence in international financial institutions. Moreover, in October 2018 Uzbekistan and US signed additional agreements worth \$2.5 billion at the business forum in Tashkent.

The Presidential visit in May 2018 gave a positive impetus also for energy relations. Indeed, some American energy companies signed contracts or started negotiations for further cooperation in the Uzbek energy sector. General Electric signed a memorandum of understanding with Uzbekneftegaz on the modernization and expansion of Uzbekistan’s gas transport system, while ExxonMobil signed a letter of intent with Uzbekneftegaz to assist in the production of base oils at the Fergana refinery in eastern Uzbekistan. The cost of ExxonMobil’s project is about \$150 million for an implementation period between 2018 and 2021¹⁷⁴. Also, Honeywell signed a MoU with Jizzakh Petroleum to license its technology for the new refinery in the Jizzakh region. In August 2018, another American company, Air Products, announced its plan to invest \$1 billion in the oil and gas industry of Uzbekistan. Air Products is interested in organizing production, use and distribution of industrial gases in Uzbekistan and it possesses serious technologies that can be very useful for the development of the country’s oil and gas industry¹⁷⁵. However, particularly in the energy affairs US companies and government has to face a consolidated influence of Moscow and Beijing.

European Union

The European Union established relations with Uzbekistan since its independence in 1991. Their relations are in the wider context of the European partnership with Central Asia countries and the EU Central Asia strategy, which outlines the EU overall goals and priorities for its engagement with Central Asia. The

¹⁷³ <https://www.whitehouse.gov/briefings-statements/united-states-uzbekistan-launching-new-era-strategic-partnership/>

¹⁷⁴ <https://www.marketwatch.com/press-release/exxonmobil-to-implement-unique-oil-and-gas-project-in-uzbekistan-2018-10-02>

¹⁷⁵ <https://www.azernews.az/region/136245.html>

Partnership and Cooperation Agreement (PCA) that came into force in 1999 is the way for a broader bilateral relationship¹⁷⁶. Since 2017 in line with his ambitious reforms, President Mirziyoyev has requested a formal upgrade of the PCA and, finally, the European Council adopted the negotiation mandate for the opening of negotiations for an upgraded, Enhanced Partnership and Cooperation Agreement (EPCA) in July 2018. The EPCA should reinforce the status of the EU as an important partner. Currently, EU is the third top import partner and the eight top export market of Uzbekistan, being the fourth largest trade partner with a total trade amounted to €1,9 billion in 2017¹⁷⁷. One of the main European partner is Germany, whose trade with Tashkent amounted to \$613 million in 2017 and it has provided more than €341 million for technical and financial cooperation projects with Uzbekistan¹⁷⁸.

Regarding the energy relations, the European Union has not many exchanges with Uzbekistan for several reasons: first, because of the geographical distance and lack of infrastructures; second, because of the limited volumes of gas that Tashkent can export due to its high domestic consumption; third, the political isolation due to Karimov's policies and reported human rights violations. However, some developments are recently reported; for example, within framework of the British-Uzbek energy forum in April 2018 the UK Export Finance Agency (UKEF) signed with the Uzbekistan Reconstruction and Development Fund a MoU on the financing of investment projects in the oil and gas industry in Uzbekistan worth £1,25 billion¹⁷⁹. One of the project that UK might allocate funds for is the construction of the Jizzakh refinery in Uzbekistan. An additional step is the decision of the European Bank for Reconstruction and Development (EBRD) to finance two projects in Uzbekistan in 2017 after 10 years. Indeed, the EBRD limited lending in Uzbekistan in 2004 and stopped operations there by 2007. In October 2018, the President of the EBRD expressed the high interest of the bank in the participation of financing a program of technical re-equipment, modernization and development of the gas transmission system of Uzbekistan¹⁸⁰. As for other countries, Europeans has met difficulties to gain significant influence in the Uzbek oil and gas sector, but the EU might gain more importance and influence in the renewables energy sector; for example, French Total EREN and Uzbekenergo have agreed to jointly implement a project for the construction of a photopower station in the Samarkand region¹⁸¹.

¹⁷⁶ https://eeas.europa.eu/delegations/angola/11047/eu-uzbekistan-relations_it

¹⁷⁷ http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113461.pdf

¹⁷⁸ <https://www.auswaertiges-amt.de/en/aussenpolitik/laenderinformationen/usbekistan-node/uzbekistan/228618>

¹⁷⁹ <https://www.uzdaily.com/articles-id-45890.htm> & <https://www.azernews.az/region/130747.html>

¹⁸⁰ <http://www.uzneftegaz.uz/en/press-center/news/abr-mozhet-okazat-sodeystvie-v-korporativnom-razvitii-ao-uzbekneftegaz/>

¹⁸¹ <https://www.azernews.az/region/138787.html>