

The Untapped Energy Riches of Uzbekistan

While many Western investors remain fixated on somehow acquiring a slice of Turkmenistan's natural gas riches, despite a recent scandal over the country's actual reserves, there is another country further east whose energy and mineralogical reserves have been overlooked – Uzbekistan.

While a number of factors are responsible for this oversight, including relative geographical isolation (Uzbekistan, along with Liechtenstein, is one of the world's doubly landlocked nations, requiring crossing two other nations to gain access to the oceans), which currently limits energy exports available for the global market there are a number of pluses that the country has for investors willing to “think outside the box.”

With a population of 27 million, Uzbekistan is Central Asia's most populous and dominant power. A conservative fiscal policy since 1991, including inconvertibility of the national currency, the som, has shielded its citizens from the hyperinflation that ravaged other former Soviet republics, but the policy previously diminished potential foreign investment.

Since the global recession that began a year ago, however, Uzbekistan's fiscal conservatism, previously dismissed by the foreign investment community, has looked more and more like a pragmatic policy that isolated the country from the worst aspects of the recession in stark contrast to other post-Soviet states that fervently embraced free market capitalism like Lithuania, whose economy contracted 18.1% this year and is expected to shrink further by 3.9% in 2010. In a move certain to be welcomed by foreign investor Uzbekistan is slowly moving towards making its currency convertible but whenever it happens, for the present the country offers a fiscal stability unmatched by many of its more free-market neighbors.

And now, the good news about the country's resources. In 2006 Uzbekistan's natural gas reserves were estimated at 1.798 trillion cubic meters (tcm). During the Soviet era Uzbekistan was the USSR's third-largest producer of natural gas, accounting for more than 10% of the Soviet Union's production, trailing only Russia and Turkmenistan. In 1992, the country's first year of independence, Uzbekistan produced 42.8 billion cubic meters (bcm) of natural gas. Uzbekistan currently produces 60 bcm of natural gas annually, an amount nearly equal to Turkmenistan's production. Uzbekistan's reserves are primarily concentrated in Qashqadaryo province and near Bukhara in the country's south-central region. During the 1970s Uzbekistan's largest natural gas deposit at Boyangora-Gadzhak was discovered in Surkhandaryia province north of the Afghan border.

Unlike its energy-rich neighbors to the West, Kazakhstan and Turkmenistan, nearly 80 percent of Uzbekistan's production, about 48.4 bcm, is currently reserved for domestic use at heavily subsidized rates. Of the remaining 12 bcm of natural gas that Uzbekistan exports, more than half currently goes to Russia, with the remainder to neighboring Central Asian states.

Under Uzbekistan's fiercely patriotic President Islam Karimov relations with Europe's favorite *bête noire*, Russia's state-owned gas firm Gazprom, have been subject to fierce negotiations to win an equitable price for the country's exports. Like other former Soviet republics, the Uzbek government chafed under Gazprom's "buy cheap, sell dear" policies and in early December 2008 scored a significant negotiating success by getting an agreement that in 2009 Gazprom would pay \$305 per thousand cubic meters (tcm). To put the accomplishment in perspective, Uzbekistan's state gas

company Uzbekneftegaz sold gas to Gazprom for \$130 per tcm in the first half of 2008, which then rose to \$160 in the second half of 2008.

Those betting on the eventual pacification of Afghanistan and the subsequent pipelines that would crisscross the country to deliver Central Asian gas to the massive Pakistani and Indian markets would also do well to take note of Uzbekistan's persistent, low key policies over more than a decade attempting to bring peace to its hapless southern neighbor. The initiatives put forward by Uzbek President Islam Karimov during the NATO summit in Bucharest in April 2008 take on heightened importance as one of the few foreign policy ideas offering some hope to quelling Afghanistan's three decades of turmoil.

The text of Karimov's address is at: -

http://www.jahonnews.uz/eng/sections/politics/address_by_president_of_the_republic_of_uzbekistan_he_mr_islam_karimov.mgr.

Nearly completely overshadowed by the Bush administration's relentless efforts to have Georgia and Ukraine join the alliance, Karimov proposed that the UN's Afghanistan "6 plus 2" assembly, established in 1999, be revived by expanding it into a "6 plus 3" ensemble by including NATO because of its anti-terrorist operations in Afghanistan among the "six" members Uzbekistan, Tajikistan, Turkmenistan, Pakistan, China and Iran and the "two," the United States and Russia.

Noting that that it is impossible to solve Afghanistan's problems without the direct involvement of neighboring countries, which have felt the destructive impact of the Afghan crisis for more than 30 years, as Afghanistan's problems are now of global nature, Karimov told his audience in Bucharest that their resolution must also be global, with the participation of members of the international coalition that comprise NATO's International Security Assistance Force (ISAF). Karimov concluded by noting that the current situation in Afghanistan precludes a purely military solution and that while it is possible to continue increasing the foreign military presence there, without a clear model of national reconciliation it will be impossible to end the conflict.

Needless to say, one of the benefits of peace and the aforementioned pipelines for Uzbekistan would be that it could export its surplus gas through Afghanistan to southern Asian markets for a higher price than it receives at home or Gazprom's miserly accountants. Acting on Tashkent's belief that economic assistance is of greater utility than military operations, Uzbekistan has become involved in a host of reconstruction projects in Afghanistan, including railways, power generation, mining, agriculture, irrigation, education and the exchange of specialists as well as providing its neighbor with construction materials, metals, fertilizer, food and other goods. Uzbek companies and engineers have built 11 bridges in the Mazar-e-Sharif-Kabul area and are finishing the construction of a 275-mile high-voltage line capable of transmitting 150 megawatts from Termez to Kabul across some of the world's most mountainous terrain, which when it becomes fully operational next month, will provide power and light not only to the capital but the country's five northern provinces.

For now, Uzbekistan remains largely a transit country rather than a net energy exporter in its own right. But the fiercely independent nationalist policy that Tashkent has followed since 1991 indicates that any company whose policies most benefit the country will have an inside track, and as the old saying goes, "fortune favors the bold." Chinese, Malaysian, Russian and South Korean companies have already begun investing in Uzbekistan's energy infrastructure – what do they seemingly know that American and European companies do not?

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