

6-1-2021

## THE ROLE AND IMPORTANCE OF VERTICALLY INTEGRATED COMPANIES IN THE OIL AND GAS SECTOR OF UZBEKISTAN

J.O. Shipilova

*Chief of tender department, JV LLC «JIZZAH PETROLEUM»*

Follow this and additional works at: <https://uzjournals.edu.uz/iqtisodiyot>

---

### Recommended Citation

Shipilova, J.O. (2021) "THE ROLE AND IMPORTANCE OF VERTICALLY INTEGRATED COMPANIES IN THE OIL AND GAS SECTOR OF UZBEKISTAN," *Economics and Innovative Technologies*: Vol. 2021 : No. 3 , Article 14.

Available at: <https://uzjournals.edu.uz/iqtisodiyot/vol2021/iss3/14>

This Article is brought to you for free and open access by 2030 Uzbekistan Research Online. It has been accepted for inclusion in Economics and Innovative Technologies by an authorized editor of 2030 Uzbekistan Research Online. For more information, please contact [sh.erkinov@edu.uz](mailto:sh.erkinov@edu.uz).

## **THE ROLE AND IMPORTANCE OF VERTICALLY INTEGRATED COMPANIES IN THE OIL AND GAS SECTOR OF UZBEKISTAN**

**Shipilova Julia Olegovna,  
Chief of tender department, JV LLC «JIZZAH PETROLEUM»**

**Abstract:** *The article shows the role of the oil and gas sector in Uzbekistan. The definition of vertically integrated oil and gas companies is given. This is a list of the largest oil and gas companies in the world. The features of the development of oil and gas companies in Uzbekistan are shown. The prospects and the current situation in the oil and gas sector of Uzbekistan are highlighted.*

**Keywords:** *Oil and gas industry, economic situation, oil and gas production, vertically integrated oil and gas companies, Uzbekneftgaz, Gazprom, Lukoil.*

### **Introduction**

The oil and gas industry in the economy of Uzbekistan is one of the priority areas, since it largely ensures the well-being of the population of this country and affects not only the economic development of the country, but also its security and energy independence. Therefore, the formation of tasks facing the oil and gas industry of Uzbekistan is dictated by the need for progressive economic development and is associated with the solution of tasks to ensure the cost-effective use of the fuel and energy complex of the republic, since oil and gas occupy a leading place in the structure of primary fuel and energy resources of the country - (96%), while coal (2.5 %) and hydropower (0.8 %) occupy a secondary position.

The modern structure of the global oil business, which was formed in the 30s of this century, is dominated by vertically integrated oil and gas companies. They are the most well-known and efficient oil companies in the world. Uzbekistan also made its choice in favor of the VINK. Vertical integration is understood as the integration of various technologically interconnected industries on a financial and economic basis. In the oil business, this includes enterprises that belong to the successive stages of the technological process: oil exploration and production — transportation — processing — petrochemicals — marketing of petroleum products and petrochemicals.

**Table 1**

**The world's Largest Oil and Gas Companies (2021)**

Rank	Company	Revenue (in billions of US dollars)	Country of origin
1	Saudi Aramco	465, 49	Саудовская Аравия
2	Sinopec	448	China
3	China National Petroleum Corporation	428, 62	China
4	ExxonMobil	268, 9	USA
5	Royal Dutch Shell	265	Netherlands / UK
6	Kuwait Petroleum Corporation	251, 94	Kuwait
7	BP	222, 8	UK
8	Total SA	212	France
9	Лукойл	144, 17	Russia
10	Eni	131, 82	Italy

Source: ru.history-hub.com - The largest oil companies in the world

**Literature review.**

The role and significance of vertically integrated oil and gas companies have been studied by such scientists as K. K. Akhmadaliev, V. Alekperov, R. R. Ibragimov, N. M. Salikhov, L. Kolyadov, L. Komarova, N. Epifanova, and others.

**Research methodology**

The development of the oil and gas business in the West from the very beginning followed the path of vertical integration. The largest oil companies established control over all areas of the oil business on a national and then international scale. The same approach was followed by many small outsider enterprises, although they operated in limited territories. Analyzing the experience of creating vertically integrated oil companies in Western countries, among the most important prerequisites for vertical integration, the following should be noted:

1. The desire of oil companies to control the markets for the final products-first petroleum products, and then petrochemicals.

2. Due to natural, technological and economic factors, the need to create an effectively managed organization of production and sales.

3. The possibility of saving on the scale of production. The concentration of capital and production, the presence of a single infrastructure, the ability to maneuver (capital, capacity, raw materials and product flows) contribute to the reduction of unit costs in production and lead to an increase in sales activity, an increase in mass and profit margins.

4. Provision of controlled sources of raw materials within vertically integrated structures.

5. The international nature of the oil business and its close connection with world and national politics.

The sources of efficiency improvement in vertically integrated companies are very diverse. The main sources are the following:

- \* the ability to organize an intensive information exchange between its divisions, which allows you to coordinate plans and schedules for the supply of raw materials, materials and semi-finished products, their processing and delivery of final products to the consumer;

- \* the possibility of a significant acceleration of the entire cycle of material movement and, accordingly, the acceleration of capital turnover and cost recovery;

- \* the possibility of saving on the costs of market transactions (the costs associated with finding a supplier, negotiating deals, in case of contract violations, etc. - are especially high in countries with poorly developed market infrastructure).

Intensive growth is justified in cases where the company has not fully exploited the opportunities inherent in its traditional markets. The three main types of intensive growth opportunities are as follows:

- \* Deep market penetration is the company's search for ways to increase sales of its products in existing markets through more aggressive marketing;

- \* Expanding the boundaries of the market is the company's attempts to increase sales by introducing existing products to new markets;

- \* Product improvement is the company's attempt to increase sales by creating new or improved products for existing markets.

### **Analysis and results.**

In accordance with the Strategy of Action on the five priority areas of Development of the Republic of Uzbekistan in 2017-2021, transformations were also carried out in the oil and gas industry. In particular, by the decree of the President of the Republic of Uzbekistan "On measures to improve the management system of the oil and gas industry" dated June 30, 2017, the management system of Uzbekneftegaz JSC was improved. A program to increase the production of hydrocarbons until 2021 has been approved, and the mechanisms for its implementation have been defined.

Only in the Ustyurt region (one of the five main oil and gas regions of the Republic of Uzbekistan), the prospective gas resources are estimated at about 2 trillion cubic meters, and in liquid hydrocarbons (oil and gas condensate) – at 900 million tons. In the long term – 25 years – the increase in blue fuel reserves in Ustyurt is expected to exceed 1 trillion cubic meters, which will be about 60% of the total projected increase in gas reserves in the Republic of Uzbekistan.

**Table 2**

**Oil and gas production in Uzbekistan**

Resource	2018	2019	2020
Oil	742,2 thousand tons	698,6 2 thousand tons	733,6 2 thousand tons
Natural gas	60,4 billion m <sup>3</sup>	59,46 billion m <sup>3</sup>	49,739 billion m <sup>3</sup>
Gas condensate	2,144 million tons	2,098 million tons	1,408 million tons

Source: The table was created by the author, based on the data [www.stat.uz](http://www.stat.uz) - Oil and gas industry

The State Statistics Committee of Uzbekistan has published a report on industrial production in the country for 2020. In 2020, oil production in Uzbekistan increased by 4.9% compared to 2019. Indicators for 2020 - 733.6 thousand tons. Natural gas production decreased by 17.8% to 49.739 billion m<sup>3</sup>. Gas condensate production decreased by 1.33 times to 1.408 million tons in 2020. Uzbekistan produced:

- \* 1.016 million tons of gasoline (0.9% less than in 2019),
- 933.1 thousand tons of diesel fuel (9.6% lower).

The turning point in this area came after the signing of the strategic agreement between Gazprom and Uzbekneftegaz in 2002. In this regard, Russian-Uzbek cooperation in the oil and gas industry, after years of stagnation that followed the collapse of the unified Soviet national economic complex, has entered a period of recovery. Since 2004, the project and investment activities of the largest Russian oil and gas companies-Gazprom and Lukoil – have also begun in Uzbekistan.

Uzbek gas supplies to Russia began in 2003. In 2004, Gazprom purchased 7 billion cubic meters of gas from Uzbekistan, 8 billion cubic meters in 2005, 9 billion cubic meters in 2006, 10.5 billion cubic meters in 2007, 13.8 billion cubic meters in 2008, and 15.4 billion cubic meters in 2009. In 2010. Gazprom purchased 15.5 billion cubic meters of gas. Subsequently, the volume of gas purchased by Gazprom from Uzbekistan decreased. In 2016, 6.2 billion cubic meters were purchased, and in 2017 – 5 billion cubic meters. 2.

Gazprom was engaged in the development of old (discovered in the USSR) and exploration of new fields on the Ustyurt plateau, whose reserves were estimated at 4 billion tons of conventional fuel, Lukoil-exploration and development of new fields in the Bukhara-Khiva region and in the Uzbek part of the Aral Sea (in addition to the Russian company, Uzbekneftegaz, Malaysian Petronas, South Korean KNOC and Chinese CNPC participate in the project). Currently, the gas produced by Lukoil in Uzbekistan is exported. In 2008, Lukoil's subsidiary Lukoil Overseas completed the acquisition of new assets in the Republic of Uzbekistan. The transaction amount was approximately \$ 580 million. The contract territory of the South-Western Hissar has 7 birth sites (the projected annual production volume is about 3 billion cubic meters

per ha and more than 300 thousand tons of liquid hydrocarbons). The project provides for financial investments in the amount of about \$ 1 billion in the development of gas condensate, oil and gas condensate and oil fields. Lukoil Overseas, in partnership with Uzbekneftegaz, also implemented the Kandym-Khauzak-Shady-Kungrad project (Bukhara region), within the framework of which the Kandym Gas Processing Complex (KGPC) with a capacity of over 8 billion cubic meters was built. m per year (the total cost of the project was \$ 3.4 billion). In April 2018, the gas processing complex of the Kandym group of fields was put into operation. The construction of the KGPC was completed 8 months ahead of the deadline approved by the decree of the President of the Republic of Uzbekistan, two years after the start of the project. It is planned to invest another \$ 5 billion in the further implementation of the project until 2039. The total volume of Lukoil's accumulated investments in projects in Uzbekistan at the beginning of 2017 exceeded \$ 5 billion. To date, Lukoil is the largest foreign investor in the Republic of Uzbekistan, and the amount of investments in all the company's projects in the republic exceeds \$ 7 billion. In the first half of 2018, Lukoil produced 6.1 billion cubic meters of raw materials at the Hissar and Kandym fields, which is twice as much as in the first six months of 2017. In total, Lukoil produced 9.09 billion cubic meters of gas in Uzbekistan in 2017. By the end of 2018, this figure is expected to grow by 60% to 14.6 billion cubic meters.

### **Conclusion and recommendations**

In general, after the change of the country's leadership, Uzbekistan demonstrates its desire to both improve and deepen its partnership with Russia, and to maintain the policy of political and economic maneuvering between the world centers of power. The partnership with foreign oil and gas TNCs is extremely important for Tashkent, since the beginning of the 2000s, due to the depletion of existing fields in the republic, there has been a general decline in the volume of hydrocarbon production. The leadership of Uzbekistan since the independence of the republic emphasizes that the strategic development goals of the republic are aimed at increasing the share of output of products with a high rate of added value. This fully applies to the oil and gas sector of the country's economy. Based on this, the new leadership of the republic expects that the existing and new refining capacities of the republic will attract many oil exporters and in the future the republic will be able to lock in significant volumes of Central Asian oil and become a kind of center of the region for oil refining and petrochemicals.

### **References:**

1. Akhmadaliyev K. K. Project: Improving the energy efficiency of industrial enterprises. // E-source "Uzbekneftegaz" (accessed 21.03.2015)

2. Alekperov V. Vertical integration and competition in the market of oil and oil products.// "Oil business", No. 2, 1997.

3. Ibragimov R. R. the Current situation and the fate of the oil and gas sector of Uzbekistan // the electron source (reference date: 22.04.2015)

4. Electric power industry of Uzbekistan. Application of innovative technologies in the development of oil and gas fields // Electronic source / (Accessed 19.03.2015).

5. Andreev O. S. Conceptual issues of integration of oil and gas complex in the world oil business/ World economy and international law, 2011

6. Mukhin A. Russian Vertically Integrated Oil Companies: Management Problems.// "Questions of Economics", No. 1, 1998.

7. Novikova E. Yu. Key aspects of functioning of vertically integrated oil and gas companies / / Actual issues of Economics and management: proceedings of the IV international conference. science. Conf. – Moscow: Buki-Vedi, 2016.

8. Xingyi Liu Vertical integration and innovation/International Journal of Industrial Organization, 2016

9. ru.history-hub.com - The largest oil companies in the world

10. www.stat.uz -Oil and gas industry