



Current state of JSC “Uzbekneftegaz” and problems negatively affecting the industrial development

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ABSTRACT

It is impossible to imagine without maintaining the sustainable development of the oil and gas sector, which serves as a raw material base for the development of the petrochemical industry not only in the conditions of high growth rates of the republic, but also the country's energy resources. at least 7-8% per annum. From this point of view, one of the most important problems in the development of the oil and gas sector is its inefficient management system. The analysis showed that JSC "Uzbekneftegaz" is actively developing, at the same time, it was revealed that enterprises in the oil and gas sector need additional investment resources and poorly use such main sources of borrowing and investment resources as the stock market.

Keywords:

Oil and gas sector, corporation, industry development, system, industry,, JSC Uzbekneftegaz

Introduction

As a result of effective reforms implemented in Uzbekistan in a historically short period of time in various fields, our country occupies a worthy place in the world community. It should be noted that such a result is inextricably linked, first of all, with the implementation of the initiatives put forward by the head of our state at authoritative forums of the world community to ensure security and stability in the Central Asian region, at the same time, with the recognition by the international community of positive changes in the implementation of democratic principles and market reforms in the country [1-3].

Of course, in our country over the years of independence, special attention has been paid to ensuring the rights and freedoms of citizens, democratizing the state system, deepening market reforms, creating the necessary guarantees for the protection of private property, entrepreneurship, small and medium-sized businesses, and positive work in this direction also continues [3].

In Uzbekistan, the scale of political, socio-economic, spiritual and legal reforms has been

expanded, strategic programs have been adopted aimed at developing various forms of entrepreneurship for the sustainable growth of the national economy in the conditions of market relations and the effective use of existing opportunities, creating an organizational and legal framework for this area, further development. recovery and liberalization of the economy. Currently, they are effectively implemented and give their results [4, 5].

In this regard, the adoption more than a year ago of Decree of the President of the Republic of Uzbekistan No. 1 “On measures to introduce modern methods of corporate governance in joint-stock companies” was of great importance. This document laid a solid legal foundation for the widespread attraction of foreign direct investment [6].

in the economy, a radical increase in the efficiency of joint-stock companies, ensuring their openness and attractiveness for potential investors. At the same time, the document served as the basis for the consistent and effective implementation of modern corporate governance methods and the creation of favorable conditions for strengthening the role

of shareholders in the strategic management of enterprises [7, 8].

The time that has passed since the adoption of this Decree by the head of our state has shown the relevance and vital importance of carrying out work to further improve legal norms aimed at attracting foreign investment and managers to joint-stock companies, as well as creating favorable conditions for organizing corporate governance in this direction [9]. It should be emphasized that in order to fulfill the requirements of the decree, a number of laws and by-laws on the organization and implementation of corporate governance have been adopted in the country in this short period of time, and the necessary system for their implementation has been created. formed.

In particular, it should be noted that in accordance with Decree 1 of the President of the Republic of Uzbekistan dated March 31, 2015, a Commission was established to improve the efficiency of joint-stock companies and improve the corporate governance system [10]. As one of the aspects of the work carried out in this area, it should be noted that in order to radically improve the system of training specialists in the field of corporate governance and management, improve their professional level, as well as scientific and methodological support for the introduction of modern methods of corporate governance in Uzbekistan, corporate governance [10].

It must be recognized that today there is a growing need to study and comprehensively analyze the essence and meaning of such concepts as "corporate governance", "corporate law", their legal nature, history of origin, corporate governance models that are part of

the legal and economic life of our society. developed states and the activities of these models [11]. This promising direction opens up new facets and promising opportunities for further development not only in the economic sphere.

The urgent task of studying the activities of joint-stock companies on the basis of international principles and practice was set by the head of state in the Decree "On the establishment of a Commission to increase the efficiency of joint-stock companies and improve the corporate management system" dated March 31, 2015 [12]. This document emphasizes the importance of developing proposals for improving legislative and regulatory acts in the field of corporate law in the republic, taking into account a thorough analysis of foreign and national legislation in the field of effective corporate governance.

Current state of JSC Uzbekneftegaz

Today, the oil and gas industry of Uzbekistan is one of the largest and dynamically developing sectors of the economy. There are 240 hydrocarbon deposits on the territory of the republic, of which 110 deposits have been discovered over the past 20 years, 15 of them due to the attraction of foreign investors [13]. According to the estimated results of 2012, the confirmed oil reserves in Uzbekistan amounted to 100 million tons of oil and gas (1.1 trillion cubic meters). [14] The unstable growth in demand for oil consumption (see Fig. 1), observed in 2011–2019, was due to GDP growth, the development of new and related industries.

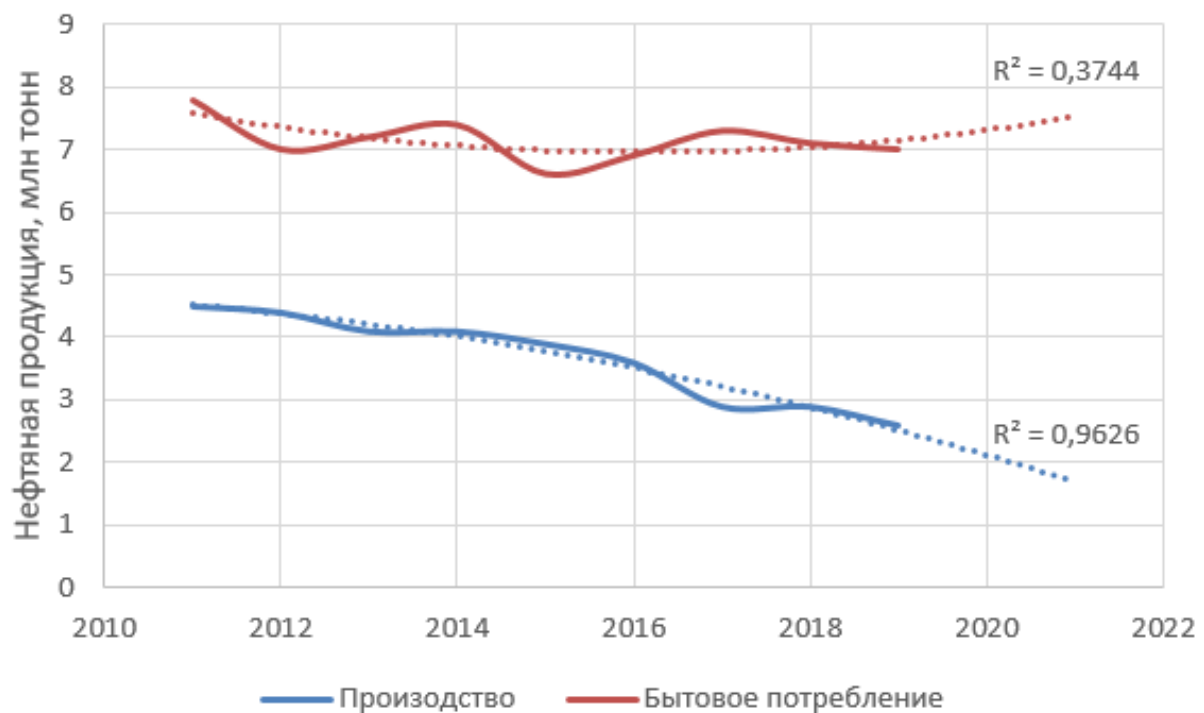


Figure 1. Production and domestic consumption of oil (with liquid gas condensate) in 2011-2019 in Uzbekistan

The volume of production in the oil and gas sector in 2011 amounted to 7.1 trillion in local currency (about 4.0 billion US dollars) [15], the share of imports was 3.7%. The republic produced 3.6 million tons of oil and 57 billion cubic meters of gas, as well as 1.05 million tons of diesel fuel, 0.33 million cubic meters. ton of kerosene, 0.26 million tons of liquefied petroleum gas and 0.26 million tons of mineral oils and lubricants [16]. In 2012, the production of oil and gas condensate in Uzbekistan decreased by 11.6%, compared to 2011, it decreased to 3.1 million cubic meters tons. This

indicates a critical point in the decline in production over the years of independence [17]. The decline in oil production began in 2009, while gas production continued to grow. In the period 2011 - 2019 oil production decreased by 40% (see Fig. 2). Since 2012, JSC «Uzbekneftegaz» stopped exporting oil and there was a need to import up to 3.4 million tons / year. Since 2006, due to the need to supply JSC «Uzbekneftegaz» and the resumption of exports, oil imports have almost doubled and amounted to 4.7 million tons in 2009.

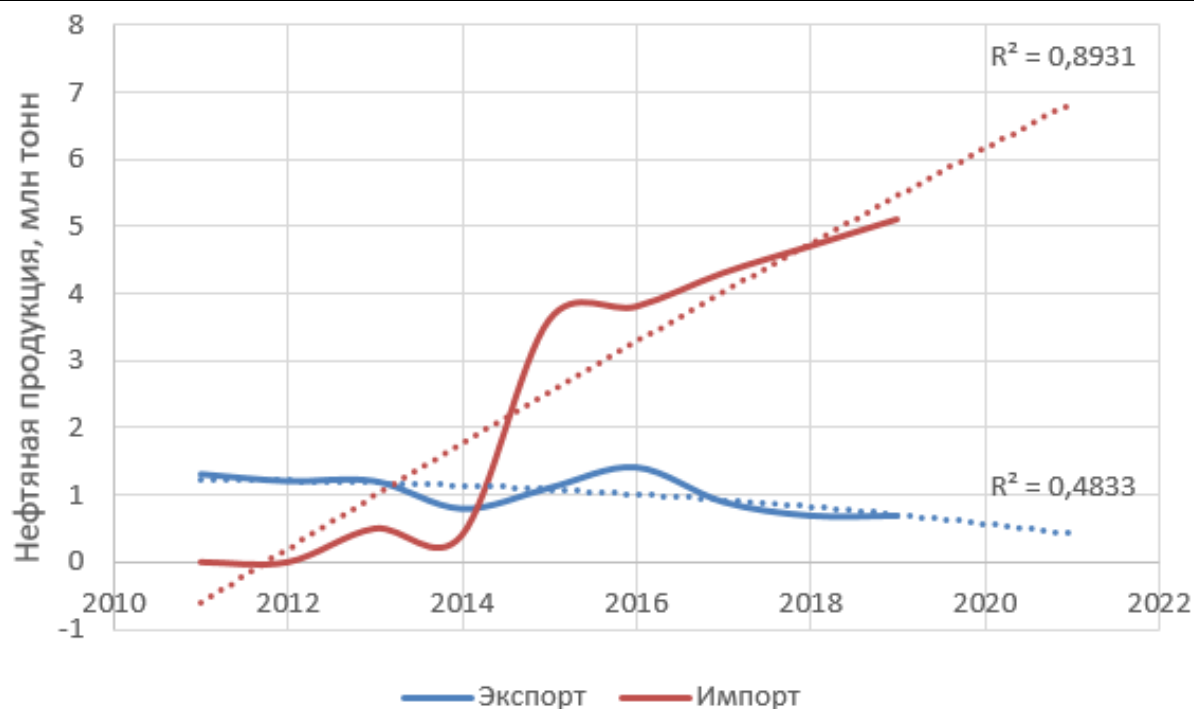


Figure 2. Export and import of oil (with gas condensate liquids) to Uzbekistan in 2011-2019

JSC «Uzbekneftegaz» believes that the decline in oil production and the growth of imports will last until 2025. However, the reduction in oil and condensate production, as well as the use of imported raw materials, lead to an increase in the cost of production and a deterioration in its quality. The financial situation of the enterprises of the oil refining industry and the energy dependence of the country as a whole. For further development, the national holding company JSC «Uzbekneftegaz» has developed a concept for the development of the oil and gas industry of the Republic of Uzbekistan for the period up to 2030.

Problems around JSC Uzbekneftegaz

Taking into account the planned large investments in JSC «Uzbekneftegaz», the importance of addressing issues of network management efficiency will be further increased. In 2011, the share of gas in the total investment amounted to 26.3%, oil and oil refining - 13.9%. In 2012, this sector accounted for 17.1% of all investment funds. In medium-term industrial development programs, 57% of all investments are in the oil and gas sector. The main direction of the project is the development of the oil and gas industry.

By 2020, the share of processing enterprises is expected to increase from 51% to 62%. At the same time, the share of the oil and gas sector in industrial production will increase by about 25-30%, taking into account ongoing structural transformations in JSC «Uzbekneftegaz». However, from the point of view of quality, this should be another priority - the share of processing of oil and gas raw materials.

In recent years, the creation of JSC «Uzbekneftegaz», its corporate reorganization, the creation of vertically integrated oil and gas companies of a holding type, including a number of subsidiaries and joint stock companies, have taken place. However, the existing management system of JSC «Uzbekneftegaz» today demonstrates its inefficiency, which is expressed in the following:

1. Violation of the legal norms of corporate governance in JSC «Uzbekneftegaz» is carried out both by managers (both holders of the holding) and managed (as subordinates). This creates a conflict between the interests of the main holding and its participants.
2. The similarity of the duties of managers of the first and second levels in the performance of the task. The result of the unity of multiple divisions and functions are decisions, including the timing of strategic decisions. This is regulated by law,

i.e. each degree depends on the time frame of JSC "Uzbekneftegaz" and supervisory boards and depends on the duration of the negotiation and settlement process. The leading role of the field is decreasing - the management of the lower third segment of the structure of JSC "Uzbekneftegaz".

3. Inefficiency of financial flows in the financial sector and lack of financial independence. Almost half of the money comes to JSC Uzbekneftegaz through special schemes controlled by financial authorities, most of which is directed to payments to the budget, which does not allow JSC Uzbekneftegaz to finance operating costs and capital costs in a timely manner. Oil, gas condensate, natural gas and oil products cost more than three-quarters of the price and are controlled by financial authorities, which, in turn, depend on the government's pricing policy. Coordinating the costs of importing the necessary goods and equipment, as well as delaying the process of foreign exchange appropriations, will not allow efficient and efficient management of the company.

4. Avoid rational use of all types of resources. For example, JSC «Uzbekneftegaz» has a lot of unnecessary labor resources, while others do not have enough material resources. The distribution of JSC «Uzbekneftegaz» does not contribute to the achievement of the final results of the entire network business.

5. Tax burden on the network, due to the triple taxation of dividends arising from one source of profit. Net profit is formed by third-party companies - they pay dividends in the amount of 10% and calculate dividends, and transfer these dividends to joint-stock companies. The subsidiary will profit from these dividends and pay 10% taxes to Uzbekneftegaz, which, in turn, will pay dividends on its shares, paying the same tax. Thus, income from a single source is taxed in three cases.

6. Low management structure of the central office of JSC «Uzbekneftegaz». The increase in the number of large investment projects aimed at deep processing of hydrocarbons and the production of new types of products, with the creation of new joint ventures and the creation of new joint ventures, requires careful and

consistent control. However, the existing structure of JSC «Uzbekneftegaz» does not imply such supervision. This has led to continuous project implementation, poor quality of design estimates, lack of control over a number of joint ventures and production sharing agreements.

Thus, all this clearly hinders the implementation of large investment projects aimed at the extraction and processing of oil and gas raw materials, including limiting the possibilities of creating a modern petrochemical industry.

Assessment of the impact of problems on the industrial development of JSC «Uzbekneftegaz» Since the first days of independence, an active investment policy has been pursued in the republic in the oil and gas complex, aimed at modernizing, technical and technological re-equipment of enterprises. In this regard, in December 2012, Thomson Reuters announced the financing of the integrated project of JSC Uzbekneftegaz with the international deal of the year in the Project Finance International 2012 Yearbook. For 2012, the investment program includes forty-four investment projects of JSC «Uzbekneftegaz». The volume of investment implementation amounted to 2701.45 million US dollars [11]. In continuation of the investment program launched in 2012, JSC «Uzbekneftegaz» plans to complete the construction of a booster compressor station at the Gazli field in the Bukhara region, establish the production of basic oil products in the Tashkent region, and launch the production of heating equipment in the city of Navoi [12]. In the next 2014, Uzbekistan plans to make a significant amount of foreign investment in the energy sector in the amount of 2.604 billion US dollars in 35 projects. Foreign companies plan to direct \$2.228 billion of direct investment in 16 projects in the oil and gas sector [13]. In particular, the Russian company "Lukoil" in 2014 plans to invest 1.05 billion US dollars in the implementation of two agreements on the division of gas production (Production Sharing Agreement) for gas production [14]. In general, in the coming years, JSC «Uzbekneftegaz» plans to implement a number of projects worth 3199.2 million US dollars [15].

Foreign companies such as Lukoil Overseas, JSC Lukoil Uzbekistan Operating Company, Lukoil

Gissar Operating Company, JSC Gazprom zarubezhneftegaz, Malaysian Petronas Charigali Overseas, JV Gissarneftegaz, Uzgazoil, Vietnamese JSC" Kossor Operating Company. The Chinese KNOC, Korean KOGAS, JSC Daewoo Energy Central Asia, JV Mingbulakneft and Chinese LLC Silk Road Group participate in this investment program of the oil and gas sector, especially in JSC Uzbekneftegaz. In the total volume of investments, a significant share falls on partners from Russia, China and South Korea. It should also be noted that a large share falls on projects with mixed investment.

JSC "Uzbekneftegaz" has a special structure for the distribution of funds. About 40% is directed to the construction of new enterprises, more than a third of all investments - to the creation of individual facilities at existing enterprises and about 20% - to the expansion of existing enterprises. Evaluation of the effectiveness of enterprise sustainability management showed that, despite the positive dynamics of the economic situation, there was a certain shortage of investment resources in the development of enterprises, which negatively affected the processes that ensure their intensive development [3].

For example, in 2012, a delay in commissioning [16] was observed for 5 projects of Uzbekneftegaz included in the 2012 Investment Program. Surcharge [17] on the wholesale selling price of natural gas in the amount of USD 0.10 [13] per cubic meter from January 1, 2013. This allowance is transferred by Uztransgaz JSC to a special account of JSC «Uzbekneftegaz» and will be used to finance facilities included in investment programs, technological modernization of capacities, as well as to repay loans and budget loans. On the one hand, it seems that an additional source of financing for projects has been found, and on the other hand, rising prices for gas filling at gas stations will affect the decline in consumer demand, which will finally slow down the development of this area, where significant funds have already been allocated.

Today's stock market is one of the potential sources for attracting loans and investment resources to the oil and gas sector. The development of the stock market of the republic

in recent years shows a changeable trend, although there is growth with a correction [1]. The total turnover of the stock and corporate bond market in 2012 amounted to 2.09 trillion in national currency (1.045 billion US dollars), while the share of the secondary securities market was 877.6 billion US dollars or 42% [11].

Conclusions

The analysis showed that JSC "Uzbekneftegaz" is actively developing, at the same time, it was revealed that enterprises in the oil and gas sector need additional investment resources and poorly use such main sources of borrowing and investment resources as the stock market. Referring to the practice of Russian oil and gas companies, from 2015 to 2020, 21 IPO issues were held on foreign sites. Placement of about 15% of Rosneft shares in July 2016 on the London Stock Exchange and in the Russian Trading System and trading floors. Rosneft raised about \$10.6 billion in Moscow and London, becoming the fifth largest IPO in the world and the largest IPO among global oil and gas companies.

The intensification of the work of JSC «Uzbekneftegaz» in the stock market, the use of IPOs in the foreign and domestic markets, the placement of ADRs and GDRs on the world's leading trading floors will help attract the necessary additional investment resources. These steps will allow the republican oil and gas companies to use the cheap capital of numerous small shareholders instead of the capital of a few large shareholders who are ready to interfere in the affairs of the company. To do this, JSC «Uzbekneftegaz» needs to study the experience of conducting IPOs and ADRs, placing GDRs in oil and gas companies in Russia and other developed countries, and also actively use such large sources as the stock market to attract loans and investment resources.

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