

THE FUTURE OF UZBEKISTAN: HIGHLIGHTING ENERGY POTENTIALS

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Abstract

The EIAS roundtable discussion on "The Future Uzbekistan: Highlighting Energy Potentials" welcomed a series of distinguished guests and representatives from Uzbekistan, The European Parliament, The European Commission, The International Energy Charter and Ansaldo Energia. Moderated by EIAS Senior Adviser, H.E. Mr Alexander Spachis, this high-level discussion aimed to explore energy potentials within Uzbekistan and opportunities for cooperation with the EU. All parties agreed that Uzbekistan is leading the way in Central Asia in this regard, but more still needs to be done in terms of energy diversification and efficiency. Consensus was reached that while this is a substantial challenge, Uzbekistan and the EU are moving to a greater point of convergence on the issues involved. Further integration, dialogue and investment on all fronts was welcomed by the panelists.

The discussion began with brief welcoming remarks from H.E. Mr Dilyor Khakimov, Ambassador from the Mission of Uzbekistan to the European Union. Greeting everyone, he thanked EIAS for hosting the event and the speakers for attending. Introducing the topic of energy potential, he noted the tremendous transformation process that Uzbekistan has undergone in recent history, especially in the energy sector. He hoped this transformation will continue to develop with cooperation and engagement from the European Union. He highlighted the importance of conversation and discussions such as these to facilitate that process.

Introductory remarks were also given from former deputy mayor of Riga and current member of the European Parliament, Mr. Andris Ameriks. He echoed H.E. Mr Khakimov's speech and emphasised the need for the EU to engage with Uzbekistan. As a new member of parliament he recognised his role in this engagement process, signalling to Uzbek counterparts a strong common interest to promote stability and innovation. Mr Ameriks spoke positively of the experience and expertise the EU can share with Uzbekistan in the energy sector, whether it be on sustainable energy, a green deal or technical assistance, he was confident EU- Uzbekistan energy relations are heading in the right direction. Mr Ameriks concluded his statement by introducing the keynote speaker, Mr Jurabek Mirzamakhmudov, First Deputy Minister for the Ministry of Energy of Uzbekistan and Director General of Uzatom – Agency for Nuclear Energy.

Mr Mirzamakhmudov's presentation turned focus to examine the opportunities Uzbekistan faces in the energy sector. He not only set out these obstacles and opportunities, but also detailed precise plans of how Uzbekistan will unlock this potential. He began by discussing the challenges that Uzbekistan faces in the power sector, presenting a range of problems that need to be addressed, such as:

- Outdated energy utilities
- Supply security needs
- High energy intensity and need for transitioning to low carbon
- Limited regional trade
- Unrealised potential

Mr Mirzamakhmudov laid out the government response to these challenges, highlighting key priorities in tackling them. He summarised them as:

- Adoption of market principles and unbundling of energy SOEs
- Improving service delivery and reliability
- Sector investment planning based on optimal cost principles
- Promoting private sector participation and competition in the sector
- Improving transparency and accountability of the sector entities
- Enhancing regional connectivity and energy trade
- Energy efficiency scale-up
- Strengthening collaboration with IFIs and coordination among sector stakeholders

While there is still some way to go to realise these priorities, Mr Mirzamakhmudov explained that there have been a series of recent reforms that have started the process. In the renewable energy sector the preparation of the first 100 MW competitive solar PV

PPP project in Navoi region along with the Renewable Energy Law adopted in May 2019 are key signs of progress. Similarly, developments concerning public-private partnership were made clear, with the creation of the PPP Agency and the adoption of the PPP Law in May 2019 .

Mr Mirzamakhmudov also went on to specify a series of ongoing bilateral projects. Photovoltaic PPP bilateral projects, Wind PPP bilateral projects and CCGT PPP bilateral projects were all listed as key initiatives to unlocking Uzbekistan's energy potential. After briefly discussing the benefits of developing nuclear power plants in relation to the environment and the future sustainability of the energy sector, Mr Mirzamakhmudov came to the crux of the presentation - 2019-2020 plans for electricity sector reform. The comprehensive plan consisted of five key pillar and 40 priority actions. He established the five key pillars as:

- 1) Establishment and corporate governance of the newly unbundled electricity companies
- 2) Commercialisation of the power utilities
- 3) Financial sustainability
- 4) Investment program and private sector participation
- 5) Implementation Support for the Reform Plan

Within those pillars he gave brief examples of the 40 priority actions. These included projects on the modernisation and digitisation of main power networks; introduction of modern control systems (SCADA/EMS/IT); improvement of the accounting and reporting procedures for financial flows, accounting and management of electricity networks; regional Electricity Networks - commercial systems management, approval and implementation of the loss reduction program; and development of national social register with identification of low- income population. Mr Mirzamakhmudov concluded his presentation with an overview of the potential projects Uzbekistan could undergo with the EU. For example the IFC Sirdarya CCGT project for 1.3 GW, the EBRD 500 MW in Karakalpakstan region and the ADB Sherabad first 100 MW, up to 1,000 MW projects were listed as high priority. Mr Mirzamakhmudov made it clear that Uzbekistan would maintain high qualified expertise and high quality execution through this process.

After the keynote presentation the panel were invited to add to the discussion and give their thoughts on Uzbekistan's energy potential from an international context. First to offer their perspective was Mrs Anne-Charlotte Bournoville, Head of Unit for International Relations and Enlargement at the Directorate-General for Energy of the European Commission. She thanked Mr Mirzamakhmudov for his informative presentation and praised Uzbekistan as a leader in Central Asia on energy policy. With huge energy potential, huge assets for renewables and substantial oil and gas reserves the opportunity for cooperation with the EU is significant. Mrs Bournoville reminded the audience that this cooperation is already underway with the 2011 Energy Memorandum of Understanding, with the last two dialogues taking place in 2018. But she also suggested that there are still multiple challenges that need to be faced. Through this bilateral framework, issues surrounding clean energy, sustainable connectivity, reducing coal use and energy intensity needed to be dealt with.

Moreover, Mrs Bournoville argued that accession to the WTO to encourage consistent flows of FDI, should be a key strategy pursued by both parties in dealing with these problems. She also made note of the fact that the new EU Commission is considering setting up an energy programme fully dedicated to Central Asia. As part of this programme the Southern Gas Corridor is of utmost importance to EU energy strategy. Uzbekistan could play a role in this strategy, supplying some of their gas through the proposed pipelines. Mrs Bournoville ended her remarks by sharing her encouragement that Uzbekistan continues to come to the table on these matters. While stronger provisions on climate change and sustainable energy need to be met, the ingredients to step up cooperation exist in mutual integration.

The next speaker, Mr Marat Terterov, Head of the Expansion Unit at the International Energy Charter, concurred with these thoughts offered by Mrs Bournoville, before moving his scope to focus more directly on Uzbekistan. Noting his strong connection with Central Asia over the last 20 years, Mr Terterov called attention to Uzbekistan's progress from isolation to engagement, suggesting that it is now in a second phase of liberalisation. It has downsized the public sector and empowered capital. Naturally, this has nurtured the SME sector to improve the climate for a market economy, leading to massive investment funds coming into energy sector. Mr Terterov pointed to a 5 billion dollar gas power plant and Mazda energy moving ahead of Chinese investors, looking to build wind turbines as a significant statement to say Uzbek jurisdiction is safe for the world.

However, Mr Terterov also described a climate where more sustainable progress needs to be made. He contended that the key challenge now is to unlock private equity within Uzbekistan. While there are clearly big funding projects, to make these investments enduring, private equity needs to be liberated. In order to tackle this issue, Mr Terterov suggested a conference of key stakeholders to discuss the sustainability of finance and private equity. Concerns were also raised in relation to Uzbekistan's dramatic population growth and the ability of fossil fuel reserves to absorb that impact. Mr Terterov insisted that the proposed shift towards more sustainable measures is most welcome. He concluded in a similar vein to Mrs Bournoville, stating his positivity in the direction that Uzbekistan is heading, with the continued liberalisation of the Uzbek market, ultimately allowing greater flows of investment into the energy sector.

The final speaker was Mr Vittorio Olsece, the Vice President for Business Development and Strategy, at Ansaldo Energia. His insight allowed for a unique perspective on the business opportunities that Uzbekistan presents. He opened his presentation with a brief overview of Ansaldo Energia itself. A company of 4086 employees, it generates 1.2 billion revenues and has 3000 patents worldwide. Their main focus is on power generation with the four main pillars encompassing:

- 1) Engineering, procurement and construction
- 2) Power equipment
- 3) Power services
- 4) Nuclear

Within this framework, Mr Vittorio made clear that coal plant reduction is a key objective - they hope to help achieve this by 2030. Moving on the topic of Uzbekistan Mr Vittorio emphasised the emerging nature of the Uzbek energy market. While there is still centralised power production, he argued that there is potential to optimise electricity

production through high efficiency power plants. It's clear that Uzbekistan market is an attractive opportunity for investment and flexible cooperation. Despite some of the infrastructure being dated Mr Vittorio voiced his interest on behalf of Ansaldo Energia that they are ready to support Uzbekistan.

The session concluded with a question and answer section with an array of pressing and engaging questions for the panel. Of note was a question directed towards Mr Mirzamakhmudov, as a representative from Uzbekistan. The question regarded the technical standards that Uzbekistan are implementing and whether other countries in the region are adhering to the same standards. In reply, Mr Mirzamakhmudov, made it clear that Uzbekistan follows international standards on this matter in order to gain accession to the WTO. In terms of regional cooperation standards are based and met on the technical requirements e.g. certain capacities and requirements they have to meet.

Mr Mirzamakhmudov also added though, that while standards are being met, Uzbekistan are increasing activities in this regard. He encouraged experts from the EU to provide future technical assistance to ensure they maintain international standards, through workshops and conferences. Mr Terterov and Mrs Bournoville both acknowledged this point adding that Uzbekistan have been highly competent in this regard. Offering final thoughts all the panelists agreed that given the difficult challenges Uzbekistan faces in unlocking its energy potential, the direction and framework that has been implemented so far bodes well for the future.

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