# UZBEKISTAN

*By Interfax-CNA*

Uzbekistan's GDP grew by 4.4% in 2003, industrial output increased by 6.2% and agricultural production by 5.9%. Construction work grew by 3.5% and there was a 20% expansion in the communications market. Inflation slowed from 21.6% in 2002 to 3.8% in 2003.

Investments in Uzbekistan grew by 32% in 2003, with foreign investment increasing by 34% to US$602 million. Foreign direct investment (FDI) soared 81% to US$167 million. Investment in the manufacturing sector accounted for 65% of total investment, up from 57% in 2002.

Uzbekistan's privatisation programme for 2003-04 calls for a substantial increase in the number of privately-owned companies and there are plans to sell off nearly 80% of the 3,728 state enterprises.

Uzbekistan hopes to raise US$1.03 billion in foreign investment for 92 projects in 2004. Of the total, it is expected that US$651 million will be in the form of foreign loans guaranteed by the government, and US$377 million as foreign direct investment and loans. There are 60 projects, estimated to cost US$2.62 billion, that are to be implemented with the help of foreign loans, including five fuel and energy projects worth US$453.9 million, two concerning industrial development and worth US$227 million, and 14 in the social sphere worth US$434 million. The investment programmes that will involve direct investment and loans include 32 projects worth US$2.33 billion. These include five in the fuel and energy sector worth US$1.78 billion. Projects are being launched this year to develop the Kandym oil and gas fields with Lukoil, and to complete exploration of the Shakhpakhty gas field with Gazprom.

The European Bank for Reconstruction and Development (EBRD) will implement 20 projects in Uzbekistan involving a total sum of US$1.4 billion. The EBRD's contribution will amount to US$723.8 million. The EBRD is involved in projects in the coal mining, fuel and energy sectors, and is giving active support to small and medium Uzbek businesses. EBRD allocations for support to small businesses are approaching US$200 million.

At the beginning of 2004, the government raised tax rates on precious metals and copper mining. The tax was increased from 2.8% to 5% of the value of mined gold, from 7% to 8% for mined silver, and from 7.9% to 8.1% for the amount of mined copper. The tax rate remains at 1% for lead, zinc and molybdenum, and 8% for tungsten. The increases are consistent with the tax policy for 2004, which calls for boosting the role of resource taxes in, and increasing resource payments' contribution to, the country's budget.

The 2004 budget targets resource payments at 9.9% of total revenue, up from 9.1% in 2003. The tax on the use of subsurface resources is expected to bring in 1.7% of 2004 revenues, up from 1.2% in 2003. Revenue from this tax should increase, thanks to the expected higher prices for base and precious metals on the international market.

The government plans to liquidate precious metals producer Kyzylkumredmetzoloto. This is in accordance with a presidential decree that aims to liberalise economic and business management and accelerate administrative reforms, as recommended by international financial institutions. Kyzylkumredmetzoloto comprises Navoi Mining and Metals Co, which accounts for 80% of Uzbekistan's gold output.

In 2003, Israel's Metek Metalls Technology completed a feasibility study for the creation of a centre for prospecting, mining and processing minerals in the Central Kyzyl Kum Mountains of Bukantau. The project cost is US$138.6 million. It includes tungsten deposits in Sautbai and Burgut, gold in Barkhanoye and Turbai, and silver in Okzhetpes. The new enterprise will reportedly be able to extract 3 Mt/y of nonferrous and precious metal ore, producing roughly 2 t/y of gold and 900-950 t/y of tungsten products.

**Gold**
The gold mining industry plays a leading role in Uzbekistan's economy. Uzbekistan is the world's ninth-largest gold producer and is second to Russia in the CIS. The country possesses proven gold reserves of about 2,100 t Overall reserves were estimated at 3,350 t at the end of 1998. The Geology Committee has said that 41 deposits containing gold have been discovered. However,only nine are under development and could yield a potential 85 t/y or more of gold.

Muruntau is the biggest gold deposit in Uzbekistan, and one of the largest in the world. It was discovered by Soviet geologist in the 1950s and contains proven reserves of nearly 1,500 t. Production is around 37 Mt/y of ore averaging 3.5 g/t Au. Kyzylkumredmetzoloto is developing Muruntau and Navoi Mining and Metallurgical Combine processes the ore.

Navoi Mining and Metals Combine plans to complete the first phase of an overhaul of the Muruntau open-pit mine in 2005 at a cost of about US$15 million. The project will involve building transport systems using steeply inclined conveyors that can carry ore at an angle of 45 degrees, which would allow Navoi to more than double the pit depth to 1,000 m from the current 460 m. Ore is now removed by a large fleet of dump trucks. The company is preparing the ground for installation of the conveyors, and assembly of production equipment is expected to begin in the first quarter of 2005.

Navoi Mining and Metals Combine might opt to leave foreign investors out of the US$250 million project to build a gold mining complex at the Kokpatas and Daugistau deposits. But a final decision on the project has not yet been made. In 2002, Navoi signed a US$198 million contract with South Africa's Bateman for the construction of a gold recovery complex in Central Kyzylkum.

The US$250 million project was supposed to be financed with US$200 million in foreign loans under guarantees from the Uzbek Government, and the company's internal resources. The complex would include a biox-leaching gold recovery plant and mines at the Kokpatas and Daugistau deposits. The mill will have annual ore processing capacity of 5 Mt. The project is to be carried out in two phases over a period of four years. Once design capacity is reached, the complex will produce about 20 t/y of gold. Construction was initially supposed to begin in 2003 and the project was included in the national investment programme. However, construction has yet to begin.

Navoi Mining and Metals Combine plans to increase gold output by 20% by 2010. At the Zarafshan gold recovery mill, the company plans to partially overhaul and update the No.2 hydrometallurgical plant, which is expected to increase ore processing to 29 Mt by 2006, from 27.5 Mt in 2003. At the Uchkuduk gold recovery complex, gold production is expected to increase with the merger of the Kokpatas and Daugistau deposits and the processing of sulphide ores. Gold production is targeted to jump 270% by 2008 from the 2002 figure. The Mardzhanbulak mine is expected to increase production of oxidised ore to 600,000 t/y, which will keep the gold recovery mill running at capacity until 2008. The mill will then shift to sulphide-arsenic ore. Deep mining at the Zarmitan mine will be increased to 100,000 t this year.

Under a 50:50 joint venture agreement with Uzbek government entitities, Newmont Mining Corp of the US, through the Zarafshan-Newmont JV, processes low-grade stockpiles at the Muruntau gold deposit. In 2003, it produced 13.6 t, 15% less than in 2003 because of depleting reserves but the production was still higher than the targeted 12.8 t. Newmont Mining owns half the equity in Zarafshan-Newmont and the Navoi combine and Uzbek State Geology Committee own the other half. Since 1995, the operation has recovered more than 100 t of gold. Uzbekistan has defined the JV's resources as being 220 Mt averaging 1.4 g/t Au. During the first five years, the JV processed 60 Mt averaging 1.6 g/t Au, and at a recovery rate of 65%. It then began processing leaner ore and is now processing material averaging 1.1 g/t Au, with a recovery rate of 50%.

Oxus Gold plc, listed on AIM in London, has increased its classified resources in Uzbekistan significantly. The contained gold in its deposits have been increased from 5.42 Moz (60 g/t) as of June 2003, to 5.72 Moz (66.7 g/t). Silver reserves are 9.22 Moz and the total gold equivalent amounts to 5.58 Moz. Additional Uzbek resources under categories C2, P1 and P2 have been increased by more than 150% to 60.54 Moz gold equivalent, including 50,960 oz of gold and 638,580 oz of silver.

Oxus has also reported an increase in mineable reserves at the Amantaytau gold mine, and an increase in the grade of the Amantaytau oxide ores. Oxus owns 50% and the Uzbek State Geology Committee owns 40% of the Amantaytau Goldfields JV. Navoi Mining and Metals Combine owns 10%. The JV introduced phase one of a US$45 million gold recovery plant at Amantaytau at the end of 2003. The first stage of the plant will process up to 1 Mt/y of oxide ore. In 2004, the JV intends to double ore processing capacity to 2 Mt/y and prepare a draft bankable feasibility study to mine the sulphide ore, based on a current resource of 7.15 Mt averaging 11.7 g/t Au. Amantaytau could be producing about 9 t/y of gold once both stages have been completed. Oxus plans to produce at least 200,000 oz (about 6.2 t) of gold at Amantaytau in 2004 at a cash operating cost of about US$106/oz.

Uzbekistan may form a joint venture with a company from the United Arab Emirates to develop the Gudzhumsay gold project at an estimated cost of US$25.1 million. United International Group and the Uzbek State Geology Committee have started to draft the founding documents for a JV which would produce around 1.6 t/y of gold from 250,000 t/y of ore. The Gudzhumsay lode deposit is estimated to contain about 61 t of gold.

**Molybdenum and tungsten**

Uzbek Heat-resistant and Refractory Metals Combine, one of the biggest producers of tungsten and molybdenum products in the CIS is in financial difficulties. A new management has been brought in but if the financial situation does not recover, the combine might be declared bankrupt and its assets sold off at their residual value. In 2002, the government instigated a financial recovery programme but this proved unsuccessful.

The combine, built in 1956, made hard alloys, powders and rolled metal from molybdenum and tungsten for the defense industry in the former Soviet Union (FSU). Its tungsten concentrate is supplied from Russia and the local company, Almalyk Mining and Metallurgy Combine, supplies it with imported molybdenum concentrate. All raw materials are supplied on a tolling arrangement and more than 90% of output is exported.

Israel's Metek Metalls has reached agreement with Navoi Metallurgical Combine, Spetssplav and Goskomgeo to develop the tungsten deposits at Sautbai where there are an estimated 4 Mt of ore containing 19,900 t of tungsten trioxide. Goskomgeo estimates that the total tungsten resource in Central Kyzyl Kum could be 30-40 times greater than at the Sautbai deposits.

Separately, Metek Metalls (50%), Almalyk Metallurgical Combine (20%) and UzKTZhM High-Temperature and Refractory Metals Combine (30%) have established Uzmetall Technology, a JV that processes 600 t/y of molybdenum concentrate.

**Copper, lead, zinc, silver**

Almalyk Mining and Metals Combine is one of the leading non-ferrous metal producers in Central Asia. It is developing the Kalmakyr, Sary-Cheku, and Uch-Kulach deposits and has the Dalneye deposit in reserve. The combine has also acquired the Kyzylalmasai and Kochbulak deposits. Almalyk mines and processes about 25 Mt/y of ore and its annual metal output is estimated to be worth more than US$220 million. It comprises two mining divisions, two concentrating divisions and two smelters. Approximately 68% of production is exported, including 5% to other CIS nations. Refined copper output from concentrates from its own mines was estimated at about 85,000 t in 2003.

The government owns 97.5% of the shares in Almalyk, but plans to offer 46.5% to a foreign investor. Employees own the remaining 2.5%.

The combine has drafted a refurbishment and modernisation programme for 2002-10 that will cost US$347.5 million. The programme is expected to increase refined copper output to 93,000 t/y by 2006, and to 102,000 t/y by 2010.

In July 2003, an international syndicate of banks headed by ABN Amro Bank signed a pre-export financing agreement for Almalyk worth US$35 million. The loan is secured by a three-year commercial contract for the delivery of copper cathodes to Glencore International AG of Switzerland. The loan is being extended without guarantees from Uzbekistan's government. The bank syndicate also includes KVS of Belgium, Commerzbank of Germany, Natexis Banques Populaires of France and UFJ of Japan. Almalyk plans to spend the money on new mining equipment and technology, including excavators, rail transport to take ore from mine to the mill, equipment for gold mining and other machinery. The equipment updates should boost production of copper, gold and silver, and output of cathode copper in 2004 is expected to rise by about 5,000 t.

Oxus Gold plc has an interest in the Khandiza polymetallic deposit through its subsidiary Marakand Minerals Ltd (listed on the London AIM in December 2003). Khandiza is a volcanogenic massive sulphide deposit that contains zinc, lead and copper sulphides and associated silver and gold. It is located in the Sariasia region of southeast Uzbekistan, in Surkhandarya Province, and is 50 km from the regional towns of Sariasia and Denau.

The results of a positive feasibility study released in September 2004, envisage a pre-production capital requirement US$71.23 million for a mechanised cut-and-fill underground operation with ramp access producing 650,000 t/y of ore. Operating costs are estimated at US$35/t of mined ore. Measured and indicated resources amount to 11.83 Mt averaging 7.66% Zn, 3.65% Pb, 0.91% Cu, 129 g/t Ag and 0.38 g/t Au. Inferred resources amount to 2.59 Mt at 5.36% Zn, 2.81% Pb, 0.65% Cu, 161 g/t Ag and 0.38 g/t Au. Mineable reserves for the first 14 years of production are estimated at 8.88 Mt at 8.04% Zn, 3.82% Pb, 0.97% Cu, 126 g/t Ag and 0.37 g/t Au, based on a 4% Zn cut-off grade.

It is proposed that ore is milled and transported by gravity via a 43 km pipeline to Shargun for secondary milling and flotation. Separate zinc, lead and copper concentrates will be produced. The copper and zinc concentrates would be toll-smelted by Almalyk and all lead concentrate would be sold for smelting in Kazakhstan.

Marakand is now awaiting the finalisation of the Concession Contract, which will confirm ownership rights, the fiscal terms for project development and the proposed 15-year concession period. Meanwhile, the company is examining project-financing options and intends to complete an environmental impact assessment.

Apex Silver Mines Corp of the US is reported to be assessing the commercial viability of the Aktepe silver deposit, and to have signed a protocol of intent with the State Geology Committee (SGC) to carry out the study and present its findings in 2004. Akpete is in the Namangan region and the SGC has estimated that the deposit could contain contain in excess of 3,000 t of metal. Uzbekistan produces about 55 t/y of silver and Almalyk accounts for 90% of output. Navoi produces silver as a by-product.

**Steel**

Uzbek Metal Works (Uzmetkombinat) in the Tashkent region, is Uzbekistan's only ferrous metallurgy enterprise. The company covers domestic demand in full and exports some of its product to Russia, Kazakhstan, Kyrgyzstan, and Iran. The electric smelting complex consists of three arc furnaces, each with a capacity of 250,000 t/y. Uzmetkombinat smelted 471,983 t of steel in 2003, 4.9% more than in 2002.

Uzmetkombinat is the sole steel plant in Central Asia using scrap metal and has the capability to process 750,000 t/y. Formerly, it processed scrap metal supplied from all Central Asian countries, but now operates below capacity. Meanwhile, Uzmetkombinat may process scrap metal shipped from Afghanistan, in particular tanks and armored personnel carriers. Several intermediaries, some of them US concerns, have said they are willing to supply scrap metal. This could be shipped by truck to the border with Uzbekistan, and then by rail from Termez.

Employees own 9.3% of Uzmetkombinat stock, and the National Bank for Foreign Economic Activities, UzDaewooAvto, and the Navoi and Almalyk mining combines hold a combined 17.7%. It is expected that the government, which owns 40% of the shares, will call a tender for the sale of 33% to a foreign investor during 2004.

**Coal**

Uzbekistan has listed commercial coal reserves of approximately 3,000 Mt, including 1,000 Mt of bituminous coal. The Angren field contains a proven 1,900 Mt. Uzbekistan's current annual coal requirement is 4 Mt.

Ugol, Uzbekistan's monopoly coal producer, reduced output substantially, to 1.91 Mt in 2003. Production of brown coal fell by 30% to 1.85 Mt, and bituminous output was down by 18% to 61,600 t. The Angren open pit produced 1.63 Mt of coal, down 33%. Ugol is currently developing two coal deposits, Angren in the Tashkent region and the Shargun pit in Surkhandarya. It is also involved in exploration in the Baisun field in Surkhandarya region.

The lower coal output last year reflected upgrading at Angren with the help of Germany's ThyssenKrupp Fordertechnik GmbH. The mine is being switched to continuous mining technology, which is expected to boost annual output from 2 Mt to 3.2 Mt. The first stage of the project cost US$19.2 million. A second stage, scheduled for 2004, will cost US$42 million.

During the period to 2010, Uzbekistan plans to invest US$254 million in the coal. About 90% will be spent on upgrading Angren mine to raise annual output to 7.8 Mt in 2010. Stripping will increase from 11.2 million $m^3$/y to 62.7 million $m^3$/y. Mine operating costs should fall from US$10.38/t to US$7.85/t. The programme will be financed by Ugol itself, foreign credits and foreign direct investment.

**Natural gas and oil**

Uzbekistan is the second-largest producer of natural gas in the CIS and a major oil producer. Uzbekistan had 190 known oil and gas fields as of September 1, 2003. At present, 88 of them are under production, 58 have been prepared for production, 35 are under exploration and nine have been mothballed. Oil and gas exploration has been accelerated since 1998 and, since 2002, 14 new fields have been discovered, five of them in the Ustyurt district.

Gas production by Uzbek national holding company Uzbekneftegaz fell 0.3% year-on-year to 57.481 billion $m^3$ in 2003. Production of oil and gas condensate last year fell 0.9% to 7.13 Mt, including 4.39 Mt of oil, up 8.1%, and 2.75 Mt of condensate, down 12.5%.

UzPEC Ltd of the UK, a subsidiary of Trinity Energy Group, invested US$13 million in oil and gas projects in 2003, including US$1 million on exploration in the central Ustyurt field. The remainder was directed to development and exportation in the southwest Hissar oilfields. These fields produced about 40,000 t of liquid hydrocarbons last year, unchanged from 2002. Recoverable reserves amount to about 15 Mt of liquid hydrocarbons and 200 million $m^3$ of natural gas. Exploration indicates that this licenc area has potential for increases in reserves. UzPEC plans to invest over US$50 million in production and exploration in Uzbekistan in 2004, and to increase production of liquid hydrocarbons from southwest Hissar to 120,000 t and to start producing natural gas at the end of 2005.

UzPEC currently has two licences. The first, for exploration and production in the central Ustyurt field, has been granted for five years, with the right to be extended by a further three years. The second licence, for 25 years (with the right of extension for a further 15 years), was granted for the development of the Adamtashsky and south Kyzylbairaksky oil and gas fields in southwest Hissar. According to forecasts, by 2006 the UK company will be able to produce up to 2 billion $m^3$ of natural gas from southwest Hissar, in addition to 350 t/d of oil.