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Ways To Increase The Competitiveness Of The Oil And Gas Industry: Government Policy, Tax System And Licensing Procedure

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Abstract: This article explores the key factors and strategic approaches to enhancing the competitiveness of the oil and gas industry. It emphasizes the critical role of government policy, including regulatory frameworks and strategic planning, in shaping a favorable investment environment. Special attention is given to the optimization of the tax system, aiming to balance state revenue generation with industry growth incentives. Additionally, the article analyzes the importance of an efficient and transparent licensing procedure in reducing bureaucratic barriers and attracting domestic and foreign investors. The study highlights best practices and policy recommendations for achieving sustainable growth and global competitiveness in the oil and gas sector.

Keywords: competition, competitiveness strategies, social policy, economic system, tax policy, licensing, investment climate.

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1. Introduction

The oil and gas industry, one of the locomotives of Uzbekistan's economy, plays a crucial role in ensuring the country's energy security, increasing export potential, and shaping the state budget. In the first 3 months of this year, Uzbekistan exported 179.4 million dollars worth of oil and oil products and imported 788.3 million dollars. During the corresponding period in 2024, exports of these products amounted to 278.3 million dollars, and imports amounted to 126.8 million dollars. In this case, a significant decrease in exports and a sharp increase in imports was observed. During these months, the country exported 52.3 million dollars worth of natural gas and imported 462.8 million dollars. In the corresponding period of the previous year, exports amounted to 46 million dollars, and imports were much lower – 3 million dollars[1].

Considering the high relevance of the topic, the sharp competition in the global energy market, the changing demand for hydrocarbon resources, and the trends towards transition to a "green" economy are making it an urgent task to increase the competitiveness of the local oil and gas industry.

In recent years, the government of Uzbekistan has taken a number of important steps aimed at the development and modernization of the oil and gas sector. In particular, the new version of the Law "On Subsoil Resources" (draft) is aimed at improving the investment climate, simplifying the licensing procedure, and increasing transparency in

the sector. [2] Additionally, the Strategy for the Development of the Oil and Gas Industry until 2030, developed by the Ministry of Energy, has defined priority areas such as technological modernization of the industry, cost optimization, and development of new fields.

Nevertheless, the impact of the current state policy, tax system, and licensing procedures on the industry's competitiveness has not been fully studied. In particular, issues such as the impact of the tax burden on investment attractiveness, the effectiveness of licensing processes, and the adequacy of state support mechanisms require in-depth analysis.

The purpose of this article is to comprehensively analyze the role of state policy, the tax system, and licensing procedures in identifying ways to increase the competitiveness of Uzbekistan's oil and gas industry. During the research, the impact of these three factors on the industry's investment attractiveness, innovation activity, and overall efficiency will be examined, and appropriate proposals will be developed.

Literature review

The issue of increasing the competitiveness of the oil and gas industry has always been relevant in the world economy. In this direction, the fundamental works of well-known researchers such as Daniel Yergin on energy history and geopolitics reveal the importance of the industry on a global scale[4]. Robert Mabro's analysis of OPEC and oil markets creates important theoretical foundations for understanding the dynamics of the competitive environment[5]. James Hamilton's research on the macroeconomic consequences of oil prices is important in assessing the impact of public policy on economic stability[6].

The works of Michael Porter, the founder of the theory of competitiveness strategies, provide methodological frameworks for analyzing the internal and external competitive environment of the industry, identifying competitive advantages, and developing effective strategies[7]. Igor Ansoff's research on corporate strategy and diversification shows ways to increase the adaptability of oil and gas companies to changing market conditions[8].

The theoretical views of scientists such as George Stigler and Richard Musgrave, who studied the economic impact of public policy and regulation, are important in assessing the role of the state in the oil and gas industry, tax mechanisms, and the effectiveness of regulation[9]. The works of Joel Slemrod, who analyzed the impact of taxation on behavior[10], and Alan Auerbach, an expert on public finance, help to deeply understand the impact of tax policy on investment and industrial development[11].

The research conducted by the Institute of Economics of the Academy of Sciences of Uzbekistan, Tashkent State University of Economics, and other higher education institutions in this field, as well as analytical materials of specialists from the Ministry of Energy and "Uzbekneftgaz" JSC, serve as an important source in assessing the current situation in our country and identifying promising directions[12].

2. Research Methodology

Since the purpose of this article is to comprehensively analyze the impact of state policy, the tax system, and licensing procedures on the competitiveness of the oil and gas industry, scientific articles, monographs, analytical reports, as well as laws and by-laws regulating the oil and gas industry of the Republic of Uzbekistan, were thoroughly studied in the research process. Through comparative analysis, the situation in Uzbekistan was compared with the experience of other countries[3]. In the analysis of statistical data, statistical data such as oil and gas production, processing, export volumes, investments, and tax revenues were analyzed. This set of methodological tools makes it possible to achieve the research goal and obtain reliable and evidence-based results. The data obtained is analyzed, conclusions are drawn, and practical proposals are developed to increase the competitiveness of the oil and gas industry.

3. Analysis and Results

In the process of our analysis, we found it necessary to first and foremost mention the relevant policies of the state for the oil and gas industry, and the presidential decrees and resolutions of the Cabinet of Ministers related to it, which we consider to be the most important [13]. As the energy sector develops day by day, the oil and gas industry, which is the fundamental basis for the effective organization of this process, also needs to develop accordingly. This development requires not only financial development of the sector through internal and external investments but also legal support for all these operations to ensure that the overall economic development of the country and the socio-economic life rise to a higher level.

In ensuring competitiveness in the oil and gas industry, the personnel working in the sector and their potential are of great importance. In this regard, we can cite the Resolution of the President of the Republic of Uzbekistan dated 07.07.2022 No. PQ-309 "On measures to establish an education-production cluster in the oil and gas sector" [14] as a clear example. Within the framework of this resolution project, the following were defined as the main activities of the Education Cluster:

1. ensuring the mutual integration of education, science, and production in the oil and gas sector;
2. ensuring the consistency and continuity of educational programs, introducing best international practices, including modern educational technologies, into the educational process;
3. training, retraining, and advanced training of specialists and scientists in accordance with international educational standards based on modern requirements, based on the needs of production enterprises for the oil and gas sector;
4. broad involvement of pupils and students in direct production practice and the formation of practical skills in them;
5. implementation of joint educational programs and scientific projects in cooperation with leading foreign higher education and research organizations;
6. diversification of oil and gas products and increasing the export potential of the sector through the direct implementation of scientific achievements into production;
7. close cooperation with the Sectoral Council for Professional Qualifications and Knowledge in the Energy Sector in the development and implementation of sectoral qualification frameworks, professional standards, employee position classifications, and tariff-qualification reference books for workers in the oil and gas industry.

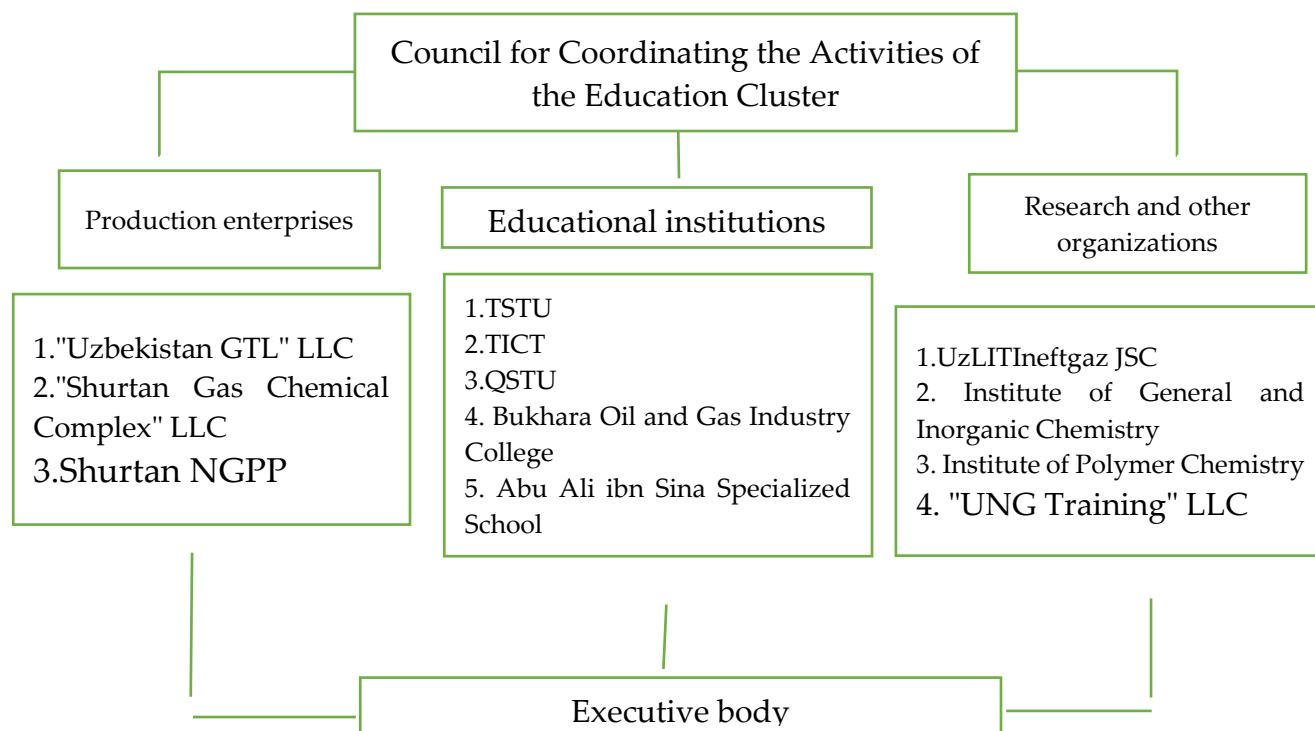


Figure 1. Structure of the education-production cluster in the oil and gas sector

Another factor of competitiveness in the oil and gas industry is investment. Investment policy and support for investors always remain relevant. We wouldn't be wrong in saying that the establishment of the Ministry of Energy in 2019 was a major foundation for the effective organization of this policy. The results of these reforms were particularly evident in Uzbekistan's oil and gas industry - over the past two years, gas production has increased by 10%, natural gas supply to the population has increased by 15%, and liquefied gas has increased 1.6 times. During this period, oil refineries produced an additional 204,000 tons of petroleum products, and domestic demand for gasoline was fully met[15].

Given the growing consumption of hydrocarbons, it is planned to attract approximately 9.8 billion dollars to the sector between 2019-2030, including 3.5 billion dollars for geological exploration and 6.3 billion dollars for increasing natural gas production.

It is planned to modernize natural gas flows and the main gas transmission system and introduce a monitoring system (SCADA). To this end, "Uzbekneftgaz" JSC is working on attracting approximately 1.5 billion dollars in loans from international financial institutions in 2019-2025.

According to our collected data, foreign investments in the sector in 2023 amounted to \$1.2 billion, of which \$918 million came from foreign investments and loans. During the period under review, the sector's share of the country's gross domestic product remained unchanged at 2.5%.

During this period, the volume of natural gas supplied to the population increased by 1.2 billion m³ (from 9.4 billion m³ in 2017 to 10.6 billion m³ in 2023), and the volume of natural gas supplied to the sectors of the economy increased significantly (from 26.1 billion m³ to 30.8 billion m³). However, natural gas exports decreased by more than 62% because resources were directed to meet the growing domestic demand. There was also a decrease in oil imports (95 million dollars in 2023) and an increase in gas imports (695 million dollars).

It should be noted that among the taxpayers in the republic, the enterprises of the oil and gas industry are the largest, and the taxes paid by them account for the largest share of the state budget. Therefore, tax policy, tax burden, and tax incentives are an integral

part of the oil and gas industry and inevitably affect competitiveness. Recognizing the necessity of such an environment, changes and additions are being made to the tax policy for the development of the oil and gas industry in our country year by year.

In 2022, revenues from the tax for the use of subsoil resources decreased by 1.92 trillion soums (169.5 million dollars) or 12.2%. Last year, budget revenues from this tax amounted to 13.89 trillion soums, in 2021 - 15.81 trillion soums, and in 2020 - 16.4 trillion soums. At the same time, the funds received exceeded the forecast figure at the beginning of 2022 and amounted to 13.76 trillion soums.

The decrease in tax revenues is explained by the unification and reduction of tax rates for certain types of minerals. This happened despite an increase in the number of taxpayers by 263, from 1,904 to 2,167. Last year, natural gas tax rates were reduced from 30% to 10%, and oil and gas condensate rates from 20% to 10%. Also, due to the introduction of the Netback mechanism in determining the tax base from 2022, 538.1 billion soums were left at the disposal of taxpayers.

In this regard, as evidence of our words, we will cite the top 10 enterprises that paid the most taxes in the production sector in January-March 2025.

Rank	Company Name	Turnover (billion UZS)	Taxes Paid (billion UZS)	Tax Rate (%)
1	"UZBEKNEFTGAZ" JSC	3,959.4	754.4	29.8
2	"UZZBAT AO" JSC	1,209.4	635.3	19.9
3	"UZZAUTO MOTORS" JSC	11,717.7	403.3	192.6
4	"SHURTAN GAS CHEMICAL COMPLEX" LLC	934.9	203.9	30.2
5	"BUKHARA NPZ" LLC	2,433.5	203.6	5.4
6	"TASHKENT TOBACCO" LLC	316.9	199.7	0.7
7	"THERMAL POWER PLANTS" JSC	4,690.3	123.7	0.3
8	"NAVOIYAZOT" JSC	1,399.5	106.4	34.4
9	"UZBEKISTAN METALLURGICAL COMBINE" JSC	1,962.3	96.3	9.4
10	"TASHKENT TPP" JSC	1,397.2	96.1	0.0

Table 2. Largest tax residents in Uzbekistan, January-March 2025.

The table data shows that 3 of the top 10 taxpayer enterprises are oil and gas companies, and the tax incentives granted to them are also among the highest, at 25-30%. The conclusion is that tax incentives for oil and gas companies are certainly justified and directly affect competitiveness. If we dwell on the reasons for these incentives in a certain sense, the following changes were made to the tax system between 2021-2022 to increase diversity, ensure a competitive environment, and achieve relatively low production costs in the sector:

1. Land plots allocated for geological exploration and/or prospecting are not considered an object of land tax levied on legal entities;
2. An annual license fee for the use of subsoil for geological surveys has been introduced, calculated based on the allocated area and types of minerals, at the rate established by legislative acts;
3. Special equipment necessary for geological exploration during the exploration, appraisal, and development of fields is exempt from periodic customs duties upon temporary import;
4. The excise tax rate on the export of natural gas was set at zero percent;
5. Legal entities are exempt from customs duties when importing natural gas into the territory of the Republic of Uzbekistan.
6. Tax rates for the use of subsoil resources were reduced to 10% for oil and natural gas, to 7% for gold and copper, to 2.7% for tungsten, and to 8% for uranium.

The importance of licensing for the oil and gas sector is very high, and its implementation significantly affects the sector's competitiveness. Licensing in the oil and gas sector is a necessary mechanism and plays an important role in resource management, ensuring environmental and technological safety, generating state revenues, and attracting investments[16]. However, for it to have a positive impact on the sector's competitiveness, the licensing process must be transparent, fair, efficient, and free from bureaucratic obstacles. Otherwise, improperly implemented licensing can restrict competition and hinder the development of the sector.

The importance of licensing for the oil and gas sector:

1. Resource management and control: Oil and gas are natural resources and are the property of the state. Licensing enables the state to regulate the use of these resources, manage them rationally, and preserve them for future generations.
2. Ensuring environmental safety: Oil and gas extraction and processing processes can cause serious damage to the environment. The licensing process establishes environmental safety requirements and monitors their compliance. This, in turn, helps to protect the environment.
3. Ensuring safety standards: Working at oil and gas facilities is associated with high risks. Licensing establishes occupational safety rules and standards, which serve to prevent accidents and protect the lives and health of workers.
4. Ensuring state revenues: Levying fees for issuing and using licenses can be an important source of revenue for the state budget. These funds can be used to finance social programs and develop the country's economy.
5. Attracting investments: If the licensing system is transparent and stable, it creates a reliable environment for domestic and foreign investors and helps to attract long-term investments in the sector.

The impact of licensing on the sector's competitiveness:

1. Creating equal conditions: A transparent and fair licensing process can create equal conditions for all participants. This, in turn, promotes healthy competition and increases efficiency in the sector.
2. Encouraging compliance with high standards: The existence of strict requirements for obtaining a license (technological, environmental, safety, etc.) encourages companies to comply with high standards. This leads to the provision of quality services and products in the sector.

3. Promoting innovation: License requirements can encourage the introduction of modern technologies and the use of innovative approaches. This helps the technological development of the sector and increases its competitiveness.

Increasing the competitiveness of the oil and gas sector, which is a strategic sector of Uzbekistan's economy, is crucial for ensuring the country's energy independence, expanding export potential, and achieving sustainable economic growth[17]. Factors such as state policy, the tax system, and licensing procedures, analyzed in the article, directly affect the current state of the sector and its future development directions.

In recent years, the government of Uzbekistan has taken a number of important steps to develop and modernize the oil and gas sector. In particular, the new version of the Law "On Subsoil Resources" aims to create an important legal framework for improving the investment climate, simplifying the licensing procedure, and increasing transparency in the sector. In addition, the Strategy for the Development of the Oil and Gas Industry until 2030, developed by the Ministry of Energy, has defined priority areas such as technological modernization of the sector, cost optimization, development of new fields, and increasing export potential.

The sharp competition in the global energy market, the changing demand for hydrocarbon resources, and the trends towards a "green" economy are making it an urgent task to further strengthen the competitiveness of the local oil and gas industry. The decrease in export volumes and the increase in imports indicate the need to take decisive measures in this regard.

To increase the competitiveness of Uzbekistan's oil and gas industry, attract investment, and ensure sustainable development, we propose considering the following recommendations:

In the field of state policy:

1. Develop, adopt, and implement improved draft laws on the use of subsoil resources. It is important to fully implement the provisions of the law aimed at improving the investment climate, simplifying the licensing procedure, and increasing transparency in the sector.
2. Review and improve the Strategy for the Development of the Oil and Gas Industry until 2030, taking into account the trends towards a "green" economy, changes in the global energy market, and digitalization processes. The strategy should give special attention to issues such as integration with renewable energy sources, the introduction of carbon emission reduction technologies, and increasing energy efficiency[18].
3. Expand and promote public-private partnership (PPP) mechanisms in the oil and gas sector. PPP projects can create new opportunities for attracting investments, introducing modern technologies, and adopting international best practices.
4. Form an innovative ecosystem for the local oil and gas industry. It is important to strengthen cooperation between research institutes, higher education institutions, and production enterprises, support startup projects, and promote technology transfer.

In the field of the tax system:

1. Consider the possibility of introducing differentiated tax rates that incentivize investment in the development of oil and gas fields and the introduction of new technologies. This can particularly encourage the development of fields in difficult conditions and the production of high value-added products.
2. Expand tax incentives for investments in geological exploration. Identifying new fields and strengthening the resource base is crucial for the long-term sustainability of the sector.
3. Ensure fair distribution of the tax burden and increase the investment activity of companies by improving and expanding the application of the "Netback" mechanism[19].

4. Gradually study the issue of introducing a carbon tax, taking into account global trends. This will help increase the sector's adaptability to the "green" economy.

In the field of the licensing procedure:

1. Digitize and maximize the automation of licensing processes. This will increase the transparency of processes, reduce their duration, and minimize corruption risks. It is necessary to accelerate work in this direction within the framework of the "Digital Uzbekistan - 2030" strategy.
2. Make license requirements clear, understandable, and stable. Frequent changes in requirements create uncertainty for investors.
3. Expand the use of tender (auction) mechanisms in granting licenses. This ensures competition in granting the right to use resources and creates the opportunity for the state to maximize revenue.
4. Strengthen monitoring and control over the implementation of license terms. It is important to ensure that licensed companies strictly adhere to their obligations.

4. Conclusion

In conclusion, enhancing the competitiveness of the oil and gas industry requires a comprehensive and balanced approach involving government policy, a modern and transparent tax system, and an efficient licensing procedure. Strategic government support through clear regulations, investment incentives, and infrastructure development can stimulate long-term growth in the sector. A well-structured tax regime that encourages investment while ensuring fair returns to the state is essential for maintaining industry sustainability. Additionally, simplifying and digitalizing licensing processes can attract both domestic and foreign investors, reduce bureaucratic delays, and improve operational efficiency. To remain competitive in the global energy market, it is crucial for the oil and gas sector to align with environmental standards, invest in innovation, and adopt sustainable practices alongside economic reforms.

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