

Recent developments in the regulation of mining sector of Uzbekistan



5–7 September 2018

IBA Europe-Caucasus-Asia Forum
Almaty, Kazakhstan

Azizov & Partners

UZBEKISTAN
info@azizovpartners.uz
www.azizovpartners.uz

Reforms of the past two years (from 2016 to August 2018)

CONTENT:

A. The General Investment Regime:	3
1. Government.....	3
2. Investments	4
3. Privatization	5
4. Foreign Exchange and Banking	6
5. Taxation	6
B. Regulatory Regime in the Mining Sector:	8
1. Supervising Authority	8
2. Geological Data	9
3. Assessment of Mineral Reserves	10
4. Licenses	11
5. Mining Allotments (MA)	13
6. Land Allotment	14
7. Contractual Acquisition of Mining Rights	14
8. Transfers	15
9. Encumbrances.....	16
10. Mining Charges and Taxes	16
11. Liability.....	17
12. Abandonment	17
13. Right of Recourse to International Arbitration.....	17
14. Authority in Oil and Gas Sector	18
15. The Glossary.....	19

A. The General Investment Regime:

Spheres	Reforms of 2016- 2018	Future Reforms
<p>1. Government</p>	<p>1. <u>Strategy of future reforms</u> There are two key policy documents adopted by the Government of Uzbekistan in the past two years: The Strategy of actions on five priority directions of development of the Republic of Uzbekistan in 2017-2021, which covers the following 5 areas: (i) improving administrative system; (ii) reform of the judicial and legal systems; (iii) economic liberalization; (iv) development of the social sphere; and (v) mutually beneficial foreign policy. (yπ-4947 of 07.02.2017)</p> <p>The Program of comprehensive measures for further reform of the judicial and legal systems, strengthening of guarantees of citizens' rights and freedoms. The key elements of the Program are: (i) reform of the law enforcement organs; (ii) introduction of principles of transparency and application of electronic means to courts; and (iii) introduction of administrative courts, which will review claims against administrative organs and officials (yπ-4850_21.10.2016)</p> <p>2. Optimization of State Management and De-Regulation The Government has determined 52 state-owned enterprises to remain in the state ownership. The other state enterprises to be privatized. (ππ-3067_16.06.2017)</p> <p>There is the Program for transformation of state-owned enterprises and legal entities with a predominant state share, to introduce advanced corporate governance systems. It covers Uzneftegaz, Uzenergo, Uzbekugol, AGMK and NGMK, which vested with administrative powers in the mining sector. (ππ-3720_12.05.2018)</p>	<p>Obviously, the Government will continue to implement: The Strategy of actions on five priority directions of development of the Republic of Uzbekistan in 2017-2021 and The Program of comprehensive measures for further reform of the judicial and legal systems, strengthening of guarantees of citizens' rights and freedoms.</p> <p>Among the judicial reforms also deserves mentioning the step-by-step introduction of systematic publication of judicial decisions on the website of the Supreme Court of the Republic of Uzbekistan. (yπ-5482_13.07.2018)</p>

Spheres	Reforms of 2016- 2018	Future Reforms
	<p>3. Administrative reform: The Government has approved a further strategy, with the following principles:</p> <ul style="list-style-type: none"> (i) modernisation and restructuring of the Government; (ii) introduction of the institute of PPP; (iii) elimination of combination of state regulatory and economic functions by management bodies; (iv) furthering the separation of powers; (v) reduction of the administrative inter-departmental collegial commissions, councils, working groups; (vi) reduction of excessive administrative control; (vii) decentralization of public administration; (viii) de-bureaucratization; <p>81 State commissions and groups were recently terminated. To the moment only 25 commissions remain preserved. (УП-5185_08.09.2017)</p> <p>4. Anti-Corruption Actions The Law of Uzbekistan On counteraction against the corruption (03.01.2017)</p> <p>The State Program of actions to resist the corruption (ПП-2752_02.02.2017)</p> <p>5. Digitalization of Public Administration The Law on Electronic Government (09.12.2015) governs provision of public services via E-GOVERNMENT (ПКМ-262_12.08.2016)</p>	
<p>2. Investments</p>	<p>1. <u>International standards in corporate finance</u> In 2015-2018, all joint-stock companies will proceed with publication of annual financial statements and conduct its external audit in accordance with International Standards on Auditing and International Financial Reporting Standards. (УП-4720 24.04.2015)</p>	<p>1. <u>Prior to 1 December 2018 Uzbekistan has plans :</u></p> <ul style="list-style-type: none"> (i) to harmonize national standards of accounting with the international standards of financial reporting; (ii) to reduce and simplify licensing and authorization procedures; (iii) to join the CIS treaty on cooperation in the examination, exploration and development of mineral resources.

Spheres	Reforms of 2016- 2018	Future Reforms
	<p>2. <u>Incentives for attraction of foreign labor</u> (i) JSCs released from social security on payrolls to foreign managers; (ii) foreign management's income to be exempted from the individual income tax, the tax at the source of payment and compulsory insurance payments to the Pension Fund. (yп-4720 24.04.2015)</p> <p>3. <u>Incentives for entrepreneurs</u> The Government has plans to introduce the following incentives prior to 1 December 2018: (i) long-term lease of a non-agricultural land plots for the implementation of investment projects for up to 50 years, (ii) sale of the right of permanent possession of land for the construction of real estate through an auction; (iii) simplified registration and liquidation of companies; (iv) new forms of investment activity - PPPs (yп-5495_01.08.2018)</p> <p>4. <u>Business Ombudsman</u> An institute of the Commissioner for the Protection of Rights and Legal Interests of Business Entities (Business Ombudsman) was established in the Parliament of Uzbekistan (yп-5037_05.05.2017)</p> <p>5. <u>Simplified approval of investment projects</u> The procedure for approval of pre-project and project documentation of the investment and infrastructure projects was simplified. (пп-3874_190718)</p>	<p>(yп-5495_01.08.2018)</p> <p>2. <u>Complex expertise of preproject documentation</u> (i) created will be the Unified National Information System for Project Management of Uzbekistan, including the Unified National Resource Directory for determining market value of goods, works and services a correctness determination of the quantity and types of resources, and for electronic control over plans and schedules and implementation of programs. (ii) the examination of pre-project documentation will be performed in a single agency of the Center for Complex Examination of Projects and Import Contracts under the National Project Management Agency under the President of Uzbekistan This expertise also covers mining sector (пп-3874_190718)</p> <p>3. <u>Internet Invest portal</u> The Internet Invest portal (www.webinvest.uz) will be created, which will provide statistics and information on the created conditions for business in Uzbekistan. (yп-5308_22.01.2018)</p>
<p>3. Privatization</p>	<p>As of 1 January 2017, total quantity of commercial legal entities reached 285,000, of which near 5000 are with foreign investments (FDIs). The annual growth equals to near 10,000 legal entities per annum. (yп-4933_17.01.2017)</p> <p>1. <u>Innovations in privatization:</u> (i) the prohibition for the state organs to initiate revision and annulment</p>	<p><u>Prior to 1 December 2018 Uzbekistan has plans :</u> New policy of operation of state-owned enterprises: (i) restructuring of the state management bodies, termination of the inefficient companies; (ii) reduction of preferential loans to the state enterprises; (iii) removal or privatization of non-core assets from the state-owned</p>

Spheres	Reforms of 2016- 2018	Future Reforms
	<p>of the results of privatization, including the results of the evaluation of objects.</p> <p>(ii) it is planned to sell the state property under the rules of IPO and SPOs and tenders/auctions conducted in electronic form by specialized organizations.</p> <p>(iii) Exemption from property tax and land tax on newly acquired objects of state property for 12 months (УП-4933_17.01.2017)</p> <p>2. <u>Corporate management</u></p> <p>(i) Total amount of joint-stock companies with 100% state share was reduced to 9 (ПП-2635_171016)</p> <p>(ii) The Government has determined a list of strategic objects of state ownership and relevant enterprises that will be exempt from privatization. Total amount of enterprises (including JSCs) which remain in the state ownership reduced to 53. (ПП-3067_16.06.2017)</p>	<p>enterprises;</p> <p>(iv) the powers in some sectors dominated by public enterprises, such as energy and transport, will be transferred to State ministries, which will continue to act as industry regulators.</p> <p>(v) transfer of corporate management of state-owned companies and enterprise to third-party private companies selected on the competitive and transparent grounds. (ПП-3720_12.05.2018)</p>
<p>4. Foreign Exchange and Banking</p>	<p>From 5 September 2017 was introduced market based mechanism of foreign exchange. (УП-5177_02.09.2017)</p>	<p>The Government has announced new priorities for the banks:</p> <p>(i) to reduce preferential loans to state enterprises;</p> <p>(ii) to restructure the state-owned banks;</p> <p>(iii) to study the best international banking experience and introduce new types of banking services and products (UP-3620_23.03.2018)</p>
<p>5. Taxation</p>	<p>1. <u>From 1 January 2017 the following were introduced :</u> New policy of operation of state-owned enterprises:</p> <p>(i) restructuring of the state management bodies, termination of the inefficient companies;</p> <p>(ii) all types of unplanned and counter inspections of business entities are canceled</p> <p>(iii) business entities and their employees who first committed offenses during financial and economic activities are exempted from administrative and criminal liability, fines</p>	<p>In the next few months, a draft of a modern tax code will be elaborated. Yet in the next 2-3 years, the tax service will have to accomplish the reform of its territorial bodies and modernize the information systems.</p> <p>1. <u>Tax burden on workforce to reduce as follows:</u></p> <ul style="list-style-type: none"> · the individual income tax rate will be at 12%, uniform or all payers; · insurance payments by citizens to the non-budgetary Pension Fund (withheld from the individual income in the form of labor remuneration) to be cancelled; · a single social payment at the rate of 25% to be retained for the

Spheres	Reforms of 2016- 2018	Future Reforms
	<p>and financial sanctions</p> <p>(УП-4848_05.10.2016)</p>	<p>budgetary and state organizations, and for all other legal entities to range from 12% to 15%;</p> <p>2. <u>Taxation of the payers of general and simplified taxes:</u></p> <ul style="list-style-type: none"> · mandatory deductions to state trust funds, levied on the turnover (proceeds) of legal entities, to be abolished; · the corporate income tax rate to reduce from 14% to 12%; · the income tax rate levied at the source of payment on income in the form of dividends and interest to reduce from 10% to 5%; · new taxes on property of legal entities, land tax and water use tax for all commercial legal entities with turnover (revenue) up to 125,000 USD to be introduced; · the procedure for calculating and paying a tax on excess profits, including the introduction of payment of royalties, to be improved. <p>3. <u>Improvement of the simplified taxation regime:</u></p> <ul style="list-style-type: none"> · the tax on property of legal entities to be reduced from 5% to 2%; <p>4. <u>The procedure for calculation and payment of VAT is being improved:</u></p> <ul style="list-style-type: none"> · The current rate of value added tax of 20% to remain, but VAT to become generally binding and to gradually reduce in the next 5 years. <p>5. <u>Individual and common tax exemptions and privileges to abolished:</u></p> <ul style="list-style-type: none"> · permanent benefits can be introduced only by the Tax and Customs Codes. <p>6. <u>Simplification of tax reporting:</u></p> <ul style="list-style-type: none"> · tax accounting to integrate with automated accounting; · the tax administration to radically improve. <p>7. <u>To introduce a mechanism for determining market value of real estate of legal entities with reference to international standards</u></p>

B. Regulatory Regime in the Mining Sector:

Spheres	Law Regime prior to 2016	Law Reform of 2016- 2018	Future Reforms
1. Supervising Authority	<p>1. <u>State organs:</u></p> <ul style="list-style-type: none"> (i) The Goskomgeo (controls acquisition of rights); (ii) Kontehnazorat of the Cabmin (controls observance of technical and industrial safety requirements); (iii) Goskomecology (controls observance of environment protection standards) <p>2. <u>State Joint-Stock Companies:</u></p> <ul style="list-style-type: none"> (i) Uzneftegaz (licensing organ in the sphere of oil and gas; (ii) Uzenergo (preserves certain regulatory functions for coal mining) 	<p>1. <u>State organs:</u></p> <ul style="list-style-type: none"> (i) The Goskomgeo (controls acquisition of rights); (ii) Inspection of the Goskomgeo on Control of Mining Activity (controls observance of technical and industrial safety requirements); (iii) Goskomecology (controls observance of environment protection standards) <p>2. <u>State Joint-Stock Companies:</u></p> <ul style="list-style-type: none"> (i) Uzneftegaz (licensing organ in oil and gas sphere) <p>Earlier this year was adopted a regulation on Goskomgeo. The Regulation approved new structure for Goskomgeo. The following functions are:</p> <ul style="list-style-type: none"> (i) <u>attracting investments to the sector;</u> (ii) increasing efficiency of geological exploration; (iii) approving mineral reserves; (iv) improving mining technologies; (v) supervising implementation of GKZ; (vi) <u>issuing mining allotments;</u> (vii) <u>approving projects for exploration works;</u> (viii) <u>attracting foreign specialists</u> <p>New subdivisions:</p> <ul style="list-style-type: none"> - The Inspection on control of mining activity - received a part of functions of Sanoatkontehnazorat (i.e. control over use and protection of subsoil); - The State Commission on Reserves of Mineral Resources (was moved from Cabmin to Goskomgeo) (approves conditions for reserves of MDs) <p style="text-align: right;">(ПКМ-315_270418)</p>	<p>New policy that is pursued by the Government for the mining sector:</p> <ul style="list-style-type: none"> • Reduction of the discretionary powers of the Government • transition from the regulation by ad hoc acts to predominantly regulation by legislation of general application

Spheres	Law Regime prior to 2016	Law Reform of 2016- 2018	Future Reforms
<p>2. Geological Data</p>	<p>1. <u>Authority:</u> Goskomgeo and its subdivision (SGF)</p> <p>2. <u>Public Access:</u> Yes. Public. On case by case ground</p> <p>3. <u>Free:</u> No</p> <p>Geological data is kept at the State Geological Fund (SGF), which is formed by the State Centre for Geological Information (Gosgeoinformcentr or GGIC). The Geological data could be obtained through direct communication with the Goskomgeo by filing an application or hard copy documents and annually published bulletins could be accessed in the GGIC library. Information collected by GGIC from private parties requires consent of the owner prior to the release. Data initially generated by private parties (owner) and passed to Goskomgeo could be released only upon the owner's permission.</p> <p>PKM-142_25.06.2008 provides for the inventory of solid mineral deposits in order to create a single electronic database on solid mineral deposits based on GIS technologies used for the purpose of promptly providing geological and other information on subsoil plots to government bodies in the established order, as well as to potential investors in the field of solid minerals. undeveloped facilities;</p>	<p>The Government has approved a new approach towards attraction of Foreign Investments (FI) to exploration and development of mineral deposits (MD).</p> <p>The Government has (1) established criteria for selection of promising mineral deposits; and (2) publicly listed all the perspective MDs offered to FI for exploration or for development.</p> <p>Such information shall be updated every 5 years. (PKM-238_31.05.2017)</p> <p><u>1. Criteria for selection of promising mineral deposits:</u></p> <p>4.1. Criteria for the selection of perspective fields:</p> <ul style="list-style-type: none"> - non-inclusion of the field with other state programs on exploitation of minerals; - <u>location</u>:- must be a territory with search characteristics and geoprerequisites for the forecasting of minerals; - <u>size of the area</u>:- not more than 1500 sq. km; - <u>depth of the study area</u>:- within the forecast mineralization zones; - <u>presence of manifestations of other minerals within the prospective area</u>:- not limited; - <u>presence of associated components (in ores)</u>:- not limited. <p>4.2. Criteria for the selection of deposits:</p> <ul style="list-style-type: none"> - the deposit should be beyond the AGMK and NGMK programs; - <u>location</u>:- outside the protected areas or other zones with special regime (border, hazardous or urban); - <u>depth of field location</u>:- within economically justified boundaries; - <u>presence of associated components (in ores)</u> :- is not limited; 	<p>Be believe that the future Government policy in relation to geological information shall be in line with the most advanced jurisdictions:</p> <ul style="list-style-type: none"> - simplified, free and open access to geodata; - continued upgrade of geodata; - correspondence of geodata to widely applied or universal standards (JORC, CRIRSCO etc.)

Spheres	Law Regime prior to 2016	Law Reform of 2016- 2018	Future Reforms
		<p>- <u>impact on the environment</u>:- not affecting the environmental situation.</p> <p>Of the 435 known subsoil plots with promising deposits of precious, non-ferrous/rare metals/uranium, 380 sites (87%) are not covered by medium/long-term programs for the development of the republic's mineral resource base, and 120 (71%) of solid MDs are not used.</p> <p>Info on promising areas and MDs to be updated every 5 years.</p> <p style="text-align: right;">(PKM-N 328_31.05.2017)</p>	
<p>3. Assessment of Mineral Reserves</p>	<p>From 1994 (2002 restatement) to date the main regulatory act of Uzbekistan for the mining is the Law on Subsoil.</p> <ol style="list-style-type: none"> 1. <u>System of assessment of Mineral Reserves (MRs)</u>: Controlled by the State. Not completely market based. 2. <u>Valuation principles for MRs</u>: <ul style="list-style-type: none"> - Rational and integrated use of mineral resources with full development of mineral deposit (MD); - Combination of geological and economic assessment (in past values); - GKZ Principle as the base. 3. <u>The principle of economic efficiency of developing MRs</u>: Not prioritized. 4. <u>Estimation principles</u>: Conditions elaborated and set-up by the State 5. <u>The Principle of Competence (expert's competence)</u>: Permitted, but not prioritized. 6. <u>Transparency of prospecting and production conditions and recourses</u>: Yes, but not absolute. 	<ol style="list-style-type: none"> 1. <u>System of assessment of Mineral Reserves (MRs)</u>: Controlled by the State. Not fully market based. 2. <u>Calculation principles for MRs</u>: <ul style="list-style-type: none"> - Rational and integrated use of mineral resources with full development of mineral deposit (MD); - GKZ Principle is basic (i.e. the quantitative growth) - <u>Goskomgeo acknowledges need for changes and coordination with foreign and internationally applied systems of appraisal of MRs</u> - <u>Goskomgeo understands the need to prioritize quality of assessment of MRs.</u> 3. <u>The principle of economic efficiency of developing MRs</u>: Currently not prioritized (contrary to CRIRSCO) The selective development of rich plots of MDs is prohibited. Full extraction of minerals is a must. 	<p>We hope in the nearest future, the principles of economic efficiency and the cut-off grade would replace the GKZ principle of rational use of subsoil resources (RUSR).</p> <p>We believe Uzbekistan will soon start works on accommodation of UN International Framework Standard for Reserves/Resources, 1997 and start harmonization of RUSR with CRIRSCO, JORC et al.</p> <p>There is also a major task of reclassification stockpiles.</p> <p>There is a need in compilation of detailed computer models of MDs.</p>

Spheres	Law Regime prior to 2016	Law Reform of 2016- 2018	Future Reforms
<p>4. Licenses</p>	<p>1. <u>Types of licenses</u> (i) license for geological exploration of subsoil; (ii) license for pilot production; (iii) license for commercial production; (iv) license for use of technogenic mineral formations (man-made mineral dumps) Licenses may be issued simultaneously for several types of subsoil use.</p> <p>2. <u>Issuing organ</u>:- Goskomgeo (based on the decision of the Government)</p> <p>3. <u>Timeframes</u>:- from 100 to 200 days</p> <p>4. <u>Exclusivity at the stage of Transition from Exploration to Mining</u>: Legal entities and individuals who financed geological exploration of mineral resources have the exclusive right to obtain a license for mining operations in the field they have explored (valid to 25.04.2016)</p> <p>5. <u>Principle of the first application</u> "First come fist take" does not work. Instead there are tenders and direct negotiations.</p> <p>6. <u>The moment of issuance of license for the development</u> The license could be acquired upon the tender or direct negotiations. In both instances the license is issued by Goskomgeo after the approval of issuance of license by the Cabmin RU, which is based on the approved feasibility study.</p> <p>7. <u>Terms associated with licensing</u> - geological study: - for up to five years; - production of minerals: - for a period determined by the feasibility study; - pilot production: - for a period approved for the</p>	<p>4. <u>Exclusivity at the stage of Transition from Exploration to Mining</u>: There is the right to conclude a contract. This exclusive right is preserved during a (1) year from the date of approval of mineral reserves on the MD. Upon expiration of the exclusivity term, the User retains a pre-emptive right in public tenders for obtaining a license for the extraction of minerals in the MD.</p> <p>6. <u>Terms associated with licensing</u> Terms of validity of license will have to change based on the УП-5409_11.04.2018 which has determined that all licenses (other than in the gasoil sector) shall be unlimited (perpetual). <u>From June 1, 2018, all licenses to be issued without limitation of validity period (except medical and pharmaceutical, mobile telecom and television, production, processing and sale of oil and gas).</u> <u>If the licensing body does not make a decision on issue or refusal of license within the allocated decision-making period, the applicant has the right to proceed with the activity subject to notifying the licensing body in writing. The licensing authority is then required to issue the license within 5 working days after the notification.</u> (УП-5409_11.04.2018)</p> <p>13. <u>Simplification of licensing</u> From 1 June 2018 eliminated certain - A conclusion on the selection of land plot in the course of land allotment is abolished; - a number of documents are reduced and the representatives of the Cabinet of Ministers, the</p>	<p>Earlier this year (April 2018) was announced new State policy toward licensing and administrative approvals:</p> <ul style="list-style-type: none"> - simplification, transparency, legal certainty, reduction of state supervision; - gradual reduction of licensing procedures; - activation of information and communication technologies G2G and G2B. (УП-5409_11.04.2018) <p>Since the initial rights to subsoil and minerals are in the public ownership and the right of operational management of subsoil is held by the State, it is hard to expect that the reduction of administrative presence in the mining sector will substantially reduce.</p> <p>However there is general understanding for the need of gradual transition from the administrative system to contractual.</p> <p>We hope in the forthcoming periods we will witness further liberalization and advancement of the administrative regime in</p>

Spheres	Law Regime prior to 2016	Law Reform of 2016- 2018	Future Reforms
	<p>exploration works.</p> <p>Term of use of subsoil are specified in the license and <u>starts from the date</u> of state registration of the right to use the subsoil area.</p> <p>The term of subsoil use may be extended upon application of the subsoil user within <u>six months</u> before the end of subsoil use period. The decision shall be within <u>30 days</u> from the date of application</p> <p>The right of extension is for an indefinite and unlimited period. The Law does not provide for any limits. (ПП-649_070607)</p> <p>8. <u>Quantity of licenses</u> Not limited. Several licenses are allowed if deposits located closely. Simultaneous licenses permitted for different types of use of subsoil. (ПП-649_070607)</p> <p>9. <u>Revocation and suspension of license</u> License could be revoked if any term of license is violated. There is no procedure for the voluntary suspension of license with the preservation of the rights for a certain period.</p> <p>10. <u>Block system of sites in exploration:</u> No. There is also no formal limitation on the quantity of blocks under a single license. The law is also silent as to the quantity of licenses that could be held by a single User.</p> <p>11. <u>Terms of development.</u> Based on KGZ policy. A selective development (incomplete extraction) of MD is not permitted.</p> <p>12. <u>CPs for development of MD</u> 1) the License;</p>	<p>State Committee for Ecology and Environmental Protection, the State Committee for Assistance to Privatized Enterprises and Competition Development, the Ministry of Finance, the Ministry of Construction, the Ministry of Internal Affairs are removed from the Licensing Commission.</p> <ul style="list-style-type: none"> - the requirements for the submission of the conclusion of the Ministry of Economy and the Ministry of Finance in the course of licensing of the right to use subsoil areas in relation to: - design, construction, operation and repair of oil and gas pipelines; - extraction, processing and sale of oil and gas. <p>The Cabmin RU shall reconsider all licensing and procedures on regulatory approvals within a three-month period (from 1 June 2018). (УП-5409_11.04.2018)</p> <p>14. <u>Abolished types of licenses or approvals</u></p> <ul style="list-style-type: none"> - approval for performance of engineering and blasting operations, mining operations, laying of cables, pipelines and other communications and drilling operations on the forestry lands; - Conclusion of municipal organs on selection of land; - Conclusion on successor licensee in the course of transfer of license from the initial licensee. <p>15. <u>Reduced term of processing of license</u> The term of issuing licenses for</p> <ul style="list-style-type: none"> - Design, construction, operation and repair of main gas pipelines, oil pipelines and oil product pipelines; - Extraction, processing and sale of oil, gas and gas condensate <p>Was reduced from 30 days to 20 days, the timing of the procedures</p>	<p>the sphere of mining too.</p>

Spheres	Law Regime prior to 2016	Law Reform of 2016- 2018	Future Reforms
	2) the approved Report with calculation of MRs; 3) the Act of transfer of the explored deposit into the industrial development; 4) the approved ecological expertise of the Project; 5) the Act certifying Mining Allotment; 6) the State Act on the right of permanent use of land; 7) The Act of the State Commission on the commissioning of the production facility; 8) permits for special water use; 9) the Development Plan for mining operations; 10) core samples from exploratory wells. (ПКМ 20_13.01.1997)		
5. Mining Allotments (MA)	1. <u>Compulsoriness:</u> Yes for all subsoil users. The development of mineral deposit (MD) without Mineral Allotment (MA) is banned. The pilot (except gasoil) projects are exempted from MA. 2. <u>Authority:</u> MAs historically were issued by Kontehnazorat, a subdivision of the Cabmin RU (for solid minerals and fossil/ fluid fuels - liquid and gaseous). 3. <u>CPs:</u> 1) the approved reserves of DMR; 2) the License; 3) the approved Project for the construction of production facility. 4. <u>CSs:</u> Allotment of land for the construction of facility 5. <u>Transferrability:</u> No (PKM-20_130397) 6. <u>Exemptions:</u> the open pit extraction of common MR 7. <u>Duration:</u> Could be perpetual or linked to the license term (5	2. <u>Authority:</u> From 2015 the Authority became liable for the direct obtaining of the CP documents from the other relevant state organs instead of the Applicant. From June 2018 the function of mining allotment was partially transferred to Goskomgeo's Inspection on the control of mining activity (UP-5490_27.07.2018) 11. <u>Forceful alienation of land from User for public needs (for mining)</u> Yes. (УП-5495 01.08.2018)	From October 1, 2018 the simplified registration of the rights to land will enter into force: <ul style="list-style-type: none"> - information on the occurrence, transfer, limitation and termination of ownership of real estate, as well as on the relevant transactions shall be submitted to the territorial bodies of the land cadastre (Goskomzemgeodezkadastr) by notarial offices other state organs within one day via electronic information system; - territorial bodies of Goskomzemgeodezkadastr shall perform state registration of rights to immovable property on the basis of data collected from

Spheres	Law Regime prior to 2016	Law Reform of 2016- 2018	Future Reforms
	<p>years for gasoil). Could be extended</p> <p>8. <u>Elaboration:</u> By local engineering organization approved by the Authority.</p> <p>9. <u>Decision-making term after filing:</u> 30 days.</p> <p>10. <u>Term:</u> Unlimited</p> <p>11. <u>Forceful alienation of land from User for public needs (for mining):</u> No.</p>		<p>the electronic information system. (ҮП-5490_27.07.2018)</p>
6. Land Allotment		<p>1. <u>Forcefull alienation of land for public needs:</u> From 1 August 2018 expropriation of land plots for public needs is allowed only for certain purposes including the surveying and exploitation of MD.</p> <p>2. <u>Other novations</u> Registration of hard copy certificates of ownership of immovable property is abolished due to introduction of Electronic State Register. Bearers of real estate rights do not need to contact registering authority for the registrations. (ҮП-5490_27.07.2018)</p>	<p>From 1 October 2018 long-term lease of non-agricultural land plots for up to 50 years. Registration of land after the approval of Mining Allotment shall be made via electronic system. (№ҮП-5495 01.08.2018)</p>
7. Contractual Acquisition of Mining Rights	<p>1. <u>Contractual acquisition of mining rights :</u> Yes.</p> <p>2. <u>Concessions:</u> Concessions are granted via competition or auction. In exceptional cases, according to the decision of the Cabinet of Ministers, concession could be granted via direct negotiations. (Law on Concessions_110-I_300995)</p> <p>3. <u>PSAs:</u> Subsoil plots for use on the terms of PSA shall be</p>		<p>1. <u>Contractual acquisition of mining rights:</u> Could be obtained from: (a) the Government, (b) another subsoil user or (c) in legal succession. through direct negotiations with the Government (primarily with Goscomgeo for SMs or Uzneftegaz for FM) or by</p>

Spheres	Law Regime prior to 2016	Law Reform of 2016- 2018	Future Reforms
	<p>granted on the basis of public tenders held according to rule determined by the Cabmin RU. According to the decision of the Cabinet of Ministers, PSAs could be concluded without holding a public tender through direct negotiations, if the announced public tender was declared invalid in due to participation of a single investor.</p> <p style="text-align: right;">(Law on PSAs No. 312-II_07.12.2001)</p> <p>4. <u>Other forms of contractual acquisition of mining rights:</u> Not prescribed or prohibited by the applicable Law.</p>		<p>winning a tender.</p> <p>2. <u>Revocation of Permit or Termination of Contract</u>[^] The Government can demand early termination of contract if the subsoil user violates duties. There is no yet <i>numerus clauses</i> for termination of contract.</p> <p>3. <u>Concessions:</u> Prior to 1 Dec.2018 the concession term to be extended. (ҮП-5495_01.08.2018)</p>
<p>8. Transfers</p>	<p>1. <u>Assignment of mining rights:</u> Yes.</p> <p>2. <u>Assignment of mining rights after completion of exploration</u> A person conducting geological surveying of subsoil with its own funds may assign the right of use of subsoil. (ПП-649_070607)</p> <p>3. <u>Assignment of the right to use a subsoil block under a license</u> A holder of license may assign the right of use of mineral area (in whole or in part) to a qualified party upon agreement with the Authority, if the third party assumes licensing obligations. (Art30_Law on subsoil_2018-XII_230994_restated_131202) The assignment of the right of use of subsoil area (in whole or in part) requires consent of Goskomgeo (Uzneftegaz -for hydrocarbons). The final decision is made by the Cabinet of Ministers Uzbekistan. The overall term - 27 days. (ПП-649_070607)</p> <p>4. <u>Assignment of the right to use a subsoil block within</u></p>	<p>No change after 2016.</p>	<p>We hope the Government will liberalize the transfers and assignments. Currently, Article 11 of the Law on licensing of certain types of activity bans transfers of licenses and any rights under the licenses to third parties. This may raise questions regarding permissibility of any transfers of right from the original licensee to the successor. (The Law on licensing of certain types of activity_71-II_25.2000) Uzbekistan's system of acquisition of mining rights remains a "permit system", since the license is the prime source for occurrence of various categories of mining rights.</p>

Spheres	Law Regime prior to 2016	Law Reform of 2016- 2018	Future Reforms
	<p><u>the framework of the PSA</u> Investor has the right to transfer his rights and obligations under the PSA only with the consent of the State, provided the acquirer is a qualified person. (Law on PSA_312-II_071201)</p>		We hope in the future the "contractual" or "mixed" models of acquiring mining rights will expand.
9. Encumbrances	<p>6. <u>Encumbrances under licenses</u> There is no clarity regarding the permissibility of encumbrances over mining rights under the license. There is Art 11 of the Law on Licensing that bans transfers of licenses and rights to third parties. (Law on licensing of certain types of activity_71-II_25.2000)</p> <p>7. <u>Encumbrances under Contracts</u> Article 23 of the PSA Law envisages the Investor can create pledge over property or property rights under the PSA. (Law on PSA_312-II_071201)</p>		
10. Mining Charges and Taxes		<ol style="list-style-type: none"> <u>Bonuses or Royalties:</u> No royalties <u>Subscription bonus (SB) (since 2009)</u> Varies from 100 MMS for non-metallic minerals to 10,000 MMS for hydrocarbons and gold. During 2009-2014 the SB unchanged. <u>Commercial Discovery Bonus (CDB) (since 2009)</u> The CDB applied to the right to extract hydrocarbons, precious/rare metals, ore and non-metallic minerals. Not changed and equal to 0.1% of the taxable base. <u>Subsoil tax (ST)</u> The ST rate is measured in percents to the taxable base. From 2005 to 2018 it varied from 1.3% (non-ferrous/rare metals) to 58% (gas). 	

Spheres	Law Regime prior to 2016	Law Reform of 2016- 2018	Future Reforms
		5. <u>Excess profit tax:</u> also applied at 50% rate	
11.Liability	<p>1. <u>The right to use subsoil may be restricted, suspended or prematurely terminated in the following cases:</u></p> <ul style="list-style-type: none"> - occurrence of a threat to public or the environment; - if user has not started use of subsoil in 1 year; - systematic non-payment of subsoil use payments; - violation of basic terms of the license; - non-compliance with GKZ and technical requirements. <p>2. <u>The right to use subsoil plots is terminated in the following cases:</u></p> <ul style="list-style-type: none"> - expiration of the due period of use of subsoil area; - user's waiver of the right of use the subsoil area; - liquidation of the user. 	<p><u>The Decree of the President (УП-5024_21.04.2017) has increased liability of the user in order to secure rational use of natural resources , specifically the administrative penalties have been elevated by 10 times and currently range from 2-10 to 20-100 times MMS (equivalent to near 750-2,000 USD)</u></p> <p style="text-align: right;"><u>УП-5024_21.04.2017</u></p>	<p>The State penalizes not for the actual damage, but for exceeding certain maximum permissible concentrations of polluting agents. We believe that such a system of hypothetical responsibility will eventually be changed to compensatory, i.e. when the subsoil user compensates only real damage.</p>
12.Abandonment	<p>8. <u>Abandonment payments:</u> Not provided</p> <p>9. <u>Financial coverage of liquidation or abandonment:</u> <u>Yes</u> There is no financial coverage of the abandonment expenses. The abandonment must follow the State plan. Expenses borne by User.</p> <p>10. <u>Trigger of coverage obligation:</u> N/A</p>		<p>It is clear that in the ideal model, there must be a form of periodical payments to secure the reliable surpassing the abandonment stage. We hope this issue will be acknowledged in the mining law of next generation.</p>
13.Right of Recourse to International Arbitration	<p>11. <u>Dispute resolution institutions (in general)</u> In relation to foreign investment should be resolved:</p> <ul style="list-style-type: none"> - by the Economic Court of Uzbekistan or - by an arbitration in accord with rules/ procedures of international treaties, to which Uzbekistan has joined. <p style="text-align: center;"><small>(Law on guarantees and measures of protection of rights AI_300498 with amended from No. 140917)</small></p>		<p><u>Issues</u></p> <ul style="list-style-type: none"> - the State must directly agree for the waiver from judicial immunity and recognize jurisdiction of court. - License disputes not always qualified as contractual.

Spheres	Law Regime prior to 2016	Law Reform of 2016- 2018	Future Reforms
	<ul style="list-style-type: none"> - A dispute also could be resolved by a foreign court, if Uzbekistan has an appropriate BIT. 12. <u>Dispute resolution institutions under the PSA Law</u> Contractual disputes (state vs investor) are resolved in accordance with the terms of the agreement in court 13. <u>International Conventions</u> Uzbekistan has acceded to the following conventions: <ul style="list-style-type: none"> - Convention on the Settlement of Investment Disputes Between States and Nationals of Other States - ICSID, Washington 1965; - Convention on the Recognition and Enforcement of Foreign Arbitral Awards (New York, 1958) 		<p>Uzbekistan has a practice of license agreements. This to be gradually abolished.</p>
<p>14. Authority in Oil and Gas Sector</p>		<p>The Resolution of the President of Uzbekistan "On measures to improve management system of oil and gas industry" has announced Uzneftegaz restructuring: Here are the objectives:</p> <ul style="list-style-type: none"> - structural transformations in the oil and gas industry, modernization and diversification, - attracting FDI, strengthening shareholders role in the management of JSCs, ensuring openness of activities and attractiveness for potential investors; - increasing efficiency of management, financial transparency. <p>Upon the "Uzbekneftegaz" transformation near to 12,000 employees will be dismissed. The restructuring will result in withdrawal of 18 companies from Uzneftegaz. Shares to be sold via public sales until 31 December 2019. Eight companies to be liquidated.</p> <p style="text-align: right;">(PP-3107_30.06.2017)</p>	

15. The Glossary

Abbreviations:	English Expansion	Russian Expansion
AGMK	. Almalyk Mining Smelter Joint-Stock Company	АО "Алмалыкский горно-металлургический комбинат"
Cabmin	. The Cabinet of Ministers of the Republic of Uzbekistan	Кабинет министров Республики Узбекистан
CRIRSCO	. the Committee for Mineral Reserves International Reporting Standard of the Council of Mining and Metallurgical Institutes (CMMI)	
FI	. Foreign Investors	
FDI	. Foreign direct investments	Прямые иностранные инвестиции
FM	. Fluid minerals (Fossil minerals)	Жидкие и газообразные (включая горючие) полезные ископаемые
GKZ	. Soviet system of classification of Mineral Reserves and Resources	
Goskomecology	. The State Committee on Ecology and Protection of Environment of the Republic of Uzbekistan	Государственный комитет Республики Узбекистан по экологии и охране окружающей среды
Goskomgeo or Gosgeo	. The State Committee on Geology and Mineral Resources of the Republic of Uzbekistan	Государственный комитет Республики Узбекистан по геологии и минеральным ресурсам
JORC	. the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves (sets public reporting standards)	
MA	. Mineral Allotment	Горный отвод
MD	. Mineral deposit	Месторождение полезных ископаемых
MMS	. Minimum Monthly Salary (currently equals to near 25USD)	Минимальный размер заработной платы
MR	. Mineral recourses	Запасы минерального сырья, запасы полезных ископаемых
NGMK	. Navoi Mining Smelter State Unitary Enterprise	ГУП "Навоийский горно-металлургический комбинат"
SM	. Solid minerals	Твердые полезные ископаемые
Sanoatkontehnazorat or Kontehnazorat	. The State Inspectorate for the Supervision of Geological Exploration of the Subsoil, Safe Work in Industry, Mining and the Public Utilities Sector under the Cabinet of Ministers of the Republic of Uzbekistan	Гос. инспекция по надзору за геологическим изучением недр, безопасным ведением работ в промышленности, горном деле и коммунально-бытовом секторе при Кабинете Министров РУ
UzbekUgol	. Uzbekugol Joint-Stock Company	Акционерное общество "Узбекуголь"
Uzenergo	. Uzbekenergo Joint-Stock Company	Акционерное общество "Узбекэнерго"
Uzneftegaz or UNG	. Uzbekneftegaz Joint-Stock Company	Акционерное общество "Узбекнефтегаз"
ПКМ	. Resolution of Cabinet of Ministers of the Republic of Uzbekistan	Постановление Кабинета Министров Республики Узбекистан
ПП	. Resolution of the President of the Republic of Uzbekistan	Постановление Президента Республики Узбекистан
УП	. Decree of the President of the Republic of Uzbekistan	Указ Президента Республики Узбекистан
SAMREC	. SAR mining standards	