

UNFC and UNRMS in Central Asia ways forward

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RESOURCE MANAGEMENT WEEK 2023

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UNFC current status by countries of CA



Current state reserve classification system in CA countries (ranked by GDP):

1. Qazaqstan (mostly oil and gas and minerals) – Soviet classification system GKZ for oil and gas, KazRC (CRIRSCO) and GKZ for minerals;
2. Uzbekistan (mostly gas and minerals) - Soviet classification system GKZ both for oil and gas and minerals;
3. Turkmenistan (mostly minerals and gas) - Soviet classification system GKZ both for oil and gas and minerals;
4. Tajikistan (mostly minerals) - Soviet classification system GKZ both for oil and gas and minerals;
5. Kyrgyzstan (mostly minerals) - Soviet classification system GKZ both for oil and gas and Minerals.

Most of the CA countries are familiar with UNFC and UNRMS, but still use GKZ system for hydrocarbons and minerals as the main state reserve classification system. Several case studies have been conducted for UNFC reporting in these countries.

In Qazaqstan, there is a phased transition to international reserve management systems for both solid minerals and hydrocarbons. However, work is ongoing at the moment.

Value of UNFC to State Reserve Management Systems of CA countries



Based on the study conducted in 2019 with the participation of the Ministry of Energy, the Committee of Geology and the Association to analyze the best international systems to be used for reserve management in Qazaqstan, the following critical points have been identified:

- The main task of the state reserves management system is to maximize the fiscal cash flow of the contractor or to maximize the **undiscounted cash flow** of the project.
- The state emphasizes social and environmental outcomes and does not discount the future, in line with sustainable development principles (social undiscount rate).
- The main indicators of the International Reserve Management System are NPV, IRR, PVR, etc., or indicators based on **discounted cash flow**.

Based on the above points, the International Reserve Management System cannot be used for government purposes, as it contradicts the main task of any government, which is to maximize the undiscounted cash flow of projects.

Why the future should not be discounted?



1. The social discount rate is important for climate change policy because it affects how much we value the future impacts of our current greenhouse gas emissions.
2. Climate change is a long-term problem that will affect many generations, so the choice of social discount rate can have a significant impact on the optimal level of mitigation and adaptation measures.
3. A **higher** social discount rate means that we place lower value on the future costs and benefits of climate change and are therefore less willing to invest in reducing emissions or adapting to climate impacts.
4. A **lower** social discount rate, or undiscounted rate, means that we place more value on the future costs and benefits of climate change and are therefore more willing to invest in reducing emissions or adapting to climate impacts.

Value of UNFC and UNRMS to State Reserve Management Systems of CA countries



Disadvantages of the State Reserve Management System:

- Inability to directly compare reserves and resources between international RMS and government RMS.
- Low confidence of international contractors in the government balance sheet due to questionable quality of reserve estimates.
- Low confidence of international financial institutions in investment projects based on local reserve estimates.
- Limited access to modern methods and technologies in reserve estimation and classification.

Due to the above factors, some countries may opt for the existing international RMS system as it is, but this choice may not lead to the desired results as this task of transitioning to the international reserve management system is more complex.

Value of UNFC and UNRMS to State Reserve Management Systems of CA countries



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Conclusion matrix main indicator 4 out of 9 estimated:

##	Criterion description	State RMS		International RMS		State RMS bridged to UNFC	
		Description	Score	Description	Score	Description	Score
4	Attractiveness of the system in terms of attracting maximum investment and increasing tax revenues.						
4.1	Increasing the transparency of the approach to the evaluation of hydrocarbons for foreign investors through the implementation of the candidate system.	Minimum	-	Maximum	+	Maximum	+
4.2	The degree of confidence of foreign investors in the results of the assessment of hydrocarbon materials carried out by Local auditors through the implementation of the candidate system.	Minimum	-	Minimum	-	Maximum	+
4.3	Increased investment in the industry due to changes in estimated volume of resources.	Absent	0	Negative	-	Maximum	+
4.4	Increase in additional state taxes.	Absent	0	Negative	-	Maximum	+
4.5	Maximization of cash flow for social programs.	Absent	0	Negative	-	Maximum	+

Value of UNFC to State Reserve Management Systems of CA countries



For countries with a local Reserve Management System, the following workflow has been proposed to make the local RMS internationally recognized:

- Compare and reconcile local RMS categories with UNFC reserves.
- Update "how to" estimation requirements to be consistent with UNRMS guidelines.
- Update competent person requirements to a currently existing UNRMS.
- Harmonize local RMS with UNFC to be able to transfer reserves in local RMS to any international system (i.e. PRMS or CRIRSCO).

This approach will maintain the independence of any local RMS and eliminate the disadvantages of the local system compared to any existing international RMS.

Ways forward to promote UNFC and UNRMS in CA countries



For the moment, several proposals have been prepared on how to move forward in promoting UNFC in CA countries:

- Continue the case study activities (the study on local system drawbacks from the 2019 case study has been completed).
- Take proactive initiatives to involve CA country representatives in the Profile EGRM Working Groups (Nuclear, Renewables, Anthropogenic Resources, UNFC and Environmental and Social Management, UNFC and Sustainable Development Goals, Competent Persons, Groundwater, Women and Diversity).
- Development of a unified Bridging RoadMap for CA countries.
- Meetings and Round Tables.

НАЗАР АУДАРҒАНЫҢЫЗҒА РАҚМЕТ!

БЛАГОДАРИЮ ЗА ВНИМАНИЕ!

THANK YOU FOR YOUR ATTENTION!

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