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CONTENTS

GENERAL	1
OIL & GAS PRODUCTION	4
OIL & GAS EXPORT & TRANSPORTATION	6
OIL & GAS INFRASTRUCTURE	6
LAW & REGULATIONS	7
CONTACTS	8
UPCOMING INDUSTRY EVENTS IN 2016	8

The Economic Section of the Embassy of the Kingdom of the Netherlands in Kazakhstan intends to distribute this newsletter as widely as possible among Dutch institutions, companies and persons from the Netherlands. The newsletter summarises economic news from various Kazakhstani and foreign publications and aims to provide accurate information. However, the Embassy cannot be held responsible for any mistakes or omissions in the bulletin.

GENERAL

Shell to deepen energy cooperation with Kazakhstan

The Ministry of Energy of Kazakhstan, KazMunaiGas (KMG), KazTransGas (KTG) and Shell Kazakhstan signed the Memorandum of Cooperation (MOC) which aims at joint assessment and possible implementation of a number of strategic initiatives in line with Kazakhstan's strategic objectives.

The MOC covers assessment of opportunities in gas based and renewable industries in Kazakhstan as well as improving oil recovery at Kazakhstan's fields through sharing experience and new technologies.

Minister of Energy, Bozumbayev: "Cooperation under the MOC between Shell, KMG and KTG demonstrates strong partnership between the state and private businesses. We believe that the knowledge and expertise of Kazakhstani specialists combined with Shell's international experience and technical excellence will enable the partnership to help create a diversified energy market in Kazakhstan, which in turn will positively impact the competitiveness of the national economy as a whole".

KMG CEO Sauat Mynbayev: "As part of the Memorandum we are looking forward to cooperating together and exploring opportunities to maximise the potential of existing oilfields, carry on joint activities with Shell as part of the RoK Oil & Gas Technology Roadmap, as well as to exchange the technical know-how in the energy sector".

Upstream International Director, Royal Dutch Shell, Andrew Brown: "We value our co-operation and mutual understanding developed with the Republic of Kazakhstan over the many years of Shell's presence in country. Shell intends to deepen its strategic alliance with KMG and the Republic of Kazakhstan and welcomes an opportunity to further contribute to the development of energy sector through the MOC with MoE, KMG and KTG. We are looking to provide our support and technical excellence in assessing opportunities in gas processing, oil recovery and renewables," according to pm.kz.

Shell eyes gas processing plan

Kazakhstan's energy ministry, state producer KazMunaiGas, energy transporter KazTransGas and Anglo-Dutch major Shell have signed a memorandum of co-operation in the field of gas processing and petrochemicals market research. The energy minister Kanat Bozumbaev told reporters after the signing on September 6 that they would also consider the prospects for processing output from the Karachaganak field.

Shell's purchase of UK independent BG brought it a stake in the giant sour gas and condensates field. The gas is now delivered to Gazprom for processing at the Orenburg plant in southern Russia.

The study will also look at how to increase output from Kazakhstan's oil fields and technology transfer as well as the potential development of renewable energy projects, the report said.

"Our task is to thoroughly consider and with Shell's help to decide in the near future whether the country should build some large petrochemical complex on the basis of Karachaganak, including gas processing, or stay with the same model, with which we work and process our raw materials," he said.

"As part of the memorandum, we plan to cooperate in the field to explore the potential of existing oil and gas industry, continue to work together with Shell under the "road map" of the mining industry in Kazakhstan," said KazMunaiGas CEO Sauat Mynbaev.

Shell is one of the largest foreign investors in the economy of Kazakhstan. The concern takes part in four projects: an agreement on the division of the North Caspian Sea production (with a share of 16.81%), a PSA to develop the license area Pearl in the Kazakhstan sector of the Caspian Sea (55%), the Karachaganak production-sharing agreement (29.25%), and the Caspian Pipeline Consortium (7.4%), according to Natural Gas Europe.

Kazakhstan drafts economic outlook based on \$35 Brent

Kazakhstan's economy ministry has based its medium-term economic outlook on a Brent crude price of \$35 per barrel, it said on Thursday, implying reduced earnings from oil and gas exports and putting pressure on the tenge exchange rate.

The tenge would average 360 per dollar in 2017-2019 under such a scenario, the ministry said in a presentation, compared with a prevailing rate of 338.86 per dollar.

The Kazakh currency has lost nearly half of its value against the dollar since last August when the authorities in the Central Asian nation abandoned their pegged exchange rate policy due to the oil price slump.

The tenge will begin strengthening alongside oil prices in 2020-2021, according to government forecasts.

Based on the same crude price assumption, oil output would increase to 79.5 million tons next year from 75.5 million tons expected this year, the economy ministry said.

This will include 4.0 million tons from Kashagan, the mammoth offshore field due to start commercial production next month after years of delays and technical problems.

In 2020, the ministry expects Kashagan's output to plateau at 13.0 million tons while the country's total production will reach 86.5 million tons.

Kazakhstan's gross domestic product growth will accelerate to 1.9% next year from 0.5% this year, according to the outlook, and continue strengthening to reach 3.1% in 2021, Reuters reports.

Kashagan to be in production by year's end

A spokesperson for a company overseeing the giant Kashagan oil field in the Kazakh waters of the Caspian Sea said production will resume by year's end.

Kazakh Energy Minister Kanat Bozumbayev said some of the wells at the offshore field could start opening up in the latter half of October. Production at Kashagan, which holds an estimated 16 billion barrels of oil, was halted in October 2013, less than a month after it started, when a pipeline associated with the field cracked open.

Ainash Chengelbayeva, a spokesperson for the North Caspian Operating Company, said in response to emailed questions the field is all but ready to go into service.

"There are no changes of the target to safely re-start Kashagan production by the end of 2016," she said. "Production is expected to ramp up initially to 180,000 barrels per day and further to 370,000 bpd during 2017."

A year ago, the government said total crude oil output would reach 630 million barrels in 2017 and 760 million barrels in 2020 thanks in part to an expansion program planned for the Tengiz field, positioned in the wetlands along the shores of the Caspian Sea.

In 2014, when crude oil prices were above \$100 per barrel, Kazakhstan produced around 590 million barrels of oil.

Prospects for Kashagan were lowered somewhat because of the technical challenges of operating in an environment rich in corrosive hydrogen sulfide.

Experts reviewing pipeline issues at the field said it may cost as much as 15 times more than initially expected to restart the field.

The spokesperson said the pipeline replacement was completed ahead of schedule and within budget.

A June report from the World Bank said economic decline in Kazakhstan has been broad-based, with gross domestic product declining from 4.1% in 2014 to 1.2% in 2015. During the first five months of this year, the bank said the economy contracted another 0.2%.

Low crude oil prices and contractions in trading partners China and Russia have left the Central Asian country facing a long road to recovery, Oil Price reports.

Giant Kashagan oil field being tested

Testing and precommissioning works started at Kashagan oil field in the Kazakh sector of the Caspian sea, Sputnik Kazakhstan news agency reported on September 29 with the reference to the project operator North Caspian Operating Co (NCOC).

According to NCOC, hydrocarbons are being supplied to some objects including new pipelines as a part of complex process of commissioning and testing of the field.

The consortium stressed the safety of personnel and the environment is its priority.

Two days ago, Kazakh Energy Minister Kanat Bozumbayev said Kazakhstan would start opening wells at Kashagan in a few days. Official start of oil production at Kashagan oil and gas field is expected at October 23, according to Bozumbayev.

Kashagan is a large oil and gas field north of the Caspian Sea.

Kashagan's geological reserves are estimated at 4.8 billion tons of oil. The total oil reserves amount to 38 billion barrels; about 10 billion out of them are recoverable reserves. There are large natural gas reserves at the Kashagan field of over one trillion cubic meters. Production at the Kashagan field started in September 2013, but in October, it was suspended after a gas leak in one of the main pipelines. The analysis has been conducted for several months.

As a result, numerous micro-cracks were found in the pipeline. They emerged as a result of the effect of the high sulfur content associated gas on the metal.

NCOC project operator confirmed the need for complete replacement of the gas pipeline and oil pipeline on the field. They have a total length of about 200 kilometers.

The North Caspian Operating Company BV (NCOC) is operating the project. The project participants are KMG Kashagan B.V (16.88%), AGIP Caspian Sea BV (nearly 16.81%), CNPC Kazakhstan BV (8.33%), Exxon Mobil Kazakhstan Inc. (nearly 16.81%), INPEX North Caspian Sea Ltd., Shell Kazakhstan Development BV (nearly 16.81%), Total E&P Kazakhstan (nearly 16.81%), according to Azernews.

Kazakhstan awaiting answers from oil firms in Karachaganak dispute

Kazakhstan's government and energy companies developing the Karachaganak gas condensate field are still in talks about the Central Asian nation's financial claim against the consortium, Kazakhstan's deputy energy minister said.

"The ball is in their court, we have sent them some questions and are awaiting answers," Magzum Mirzagaliyev told reporters, adding the negotiations were "constructive" and declining to disclose the exact sum of the claim.

"I have no timeline (for the dispute's resolution)," he said.

Russia's Lukoil said in April Kazakhstan had filed a \$1.6 billion claim against the Karachaganak consortium led by BG Group and Eni.

The energy ministry, meanwhile, has said the dispute was about calculations of the parties' shares in the field's output.

Eni and BG, recently acquired by Royal Dutch Shell Plc, each own 29.25% of the Karachaganak project in northwest Kazakhstan, which they jointly operate. State-owned KazMunaiGas owns 10%, Chevron Corp 18% and Lukoil 13.5%.

Karachaganak produced 78.8 million barrels of liquid hydrocarbons in the first half of 2016, up 11.3% from the same period a year earlier.

The field contains 1.2 billion tons of oil and gas condensate and more than 1.35 trillion cubic meters of gas, making it one of the world's largest oil and gas deposits, Reuters reports.

OIL & GAS PRODUCTION

Kazakhstan to boost oil production by 2021

Kazakhstan plans to increase its oil production to 79.5 million in 2017 and to 86.5 million tons in 2021, according to the 2017-2021 socio-economic development outlook, the Kazakh National Economy Ministry said September 15.

In the baseline scenario, the oil price is expected at \$35 per barrel in 2017-2019, with an increase to \$45 per barrel by 2021.

In 2015, oil production in Kazakhstan hit 79.46 million tons (1.7% decrease compared to 2014).

Kazakhstan plans to produce 74 million tons of oil in 2016.

Kazakhstan's proven oil reserves as of early 2016 stood at 30 billion barrels, according to the BP Statistical Review of World Energy, Trend reports.

Kazakhstan to boost gas output by 2020

Kazakhstan's annual gas production will reach 65 billion cubic meters by 2020, said Minister of Energy of Kazakhstan Kanat Bozumbayev at the Energy of the Future forum in Astana.

He noted that gas sector development is one of the priority directions of domestic energy.

According to recent forecasts, the volume of annual gas production will reach 65 billion cubic meters by 2020. This year, production totaled 43 billion cubic meters. Increased production will not only increase gas export, but also make it available for greater use in the domestic market, helping displace coal.

According to the minister, it will also enable Kazakhstan's energy system to significantly reduce its environmental impact, including decreasing harmful emissions.

"The oil and gas sector is one of the most important drivers of economic growth. In spite of the current market prices situation, Kazakhstan continues to demonstrate its investment attractiveness. In July 2016, the shareholders of Tengizchevroil approved the expansion of the Tengiz deposit project, worth more than \$37 billion. It is expected that the production at one of the largest deposits in the world, Kashagan, will start as well. In light of global trends and challenges, gas industry development has become a priority for our country," explained Bozumbayev.

He also spoke about the ministry's plans to further develop renewable energy sources. He believes that Kazakhstan will actively introduce many more such sources by 2030. Extensive research in this area is to be carried out in the near future, Bozumbayev said.

"We plan to hold a large-scale study, 'Foresight 2050: a New World of Energy and Kazakhstan's Place in It.' The study will involve local and international experts. The study will provide answers to questions related to the transformation of the country's energy policy and serve as its long-term foundation," added the minister.

The study's results will be presented at the opening of EXPO 2017, he said.

"The global trend of renewable energy development indicates a significant reduction in electricity costs over the past decade. For instance, the latest auctions organised in the United Arab Emirates and Chile presented 2.9 US cents for one kilowatt-hour [of solar generated electricity]. This is clear evidence that renewable energy can compete with both gas and coal generation. An important task for any state, including our country, is to find the right balance between the use of various forms of energy to produce electricity and heat," concluded Bozumbayev, the Astana Times reports.

KazMunaiGas gas production hit 2.3 billion cubic meters in in the first of half of 2016

During the first six months of 2016, the consolidated production of natural gas across KazMunaiGas subsidiaries totaled 2,385 million cubic meters, which 3% less than during the same period of 2015, the company said in a press release.

KazMunaiGas Exploration Production produced 154 million cubic meters, which is 9% less than in the same period of 2015 due to the natural decrease in production as the field is in the final stage of development.

Tengizchevroil LLP, taking into account NC KMG's share (20%), produced 898 million cubic meters.

MangistauMunaiGas JSC, taking into account NC KMG's share (50%) produced 107 million cubic meters, which is 6% more compared to the same period of 2015 due to the increase in its own needs associated with the commissioning of the Kalamkas gas turbine power plant.

KMG Karachaganak LLP produced 830 million cubic meters or 9% less than in the same period of 2015. The difference is due to planned preventative maintenance works in 2016, Akipress reports.

Kazakhoil Aktobe LLP, taking into account NC KMG's share (50%) produced 155 million cubic meters, 5% less than in the same period of 2015, due to decreased production levels.

Kazakhturkmunai LLP produced 80 million cubic meters or 12% more than in the same period of 2015, due to the commissioning of Zapadnyi Elemes-94 from the 2nd quarter of 2015.

KazTransGas (Amangeldygas LLP) produced 161 million cubic meters or 10% more compared to the same period of 2015 due to the commissioning of new wells on Amangeldy field and the adjustment of the production level of the Zharkum field, Akipress reports.

OIL & GAS EXPORT & TRANSPORTATION

Kazakhstan could increase oil shipments to 20 million tons per year to China

Kazakhstan could increase its supply of oil to China from 7 to 20 million tons, a press statement from Ak Orda reported.

Kazakh President Nursultan Nazarbayev at a briefing following the results of a visit to China said the possibility of supply of Kazakh oil to China would increase connected with the launch of the huge Kashagan oil field.

"Now we are supplying about 7 million tons of oil per year to China, but this figure could be increased to 20 million tons. We also can increase the supply of gas from to China. All of this raises a new level of trade turnover between our countries," Ak Orda quoted President Nazarbayev as telling a briefing.

The president added that for the first time the two parties had reached an agreement on the delivery Kazakh wheat, pulses and oilseeds, as well as meat and poultry to China.

"Thus, we open the way for our agricultural producers. I think this is very good news. However, the Chinese side has very strict requirements on the quality of goods and phytosanitary. Our farmers should be prepared for it," President Nazarbayev added.

He also said that Astana and Beijing reached an agreement on the construction of modern joint ventures in Kazakhstan. "Fifty one objects included in this list, two of which have already been built, the construction of four facilities totaling \$2.5 billion will be completed this year. In total, over five years, we plan to build the company a total value of \$26 billion. In addition, for support of these projects are joint Kazakh-Chinese funds, for example, the Foundation for the development of the Silk Road," the Kazakh head of state said.

President Nazarbayev said that the chairman of the State Council Li Keqiang would arrive on a visit to Kazakhstan in the near future, according to New Europe.

Kazakhstan prepares for China gas exports

KazTransGaz (KTG), a subsidiary of state-owned KazMunaiGas (KMG) plans to start exporting gas to China by the Central Asia-China gas pipeline later this year, said a company official, without saying how much.

"As part of the agreement reached between KMG and China's PetroChina, we will start to export gas of Kazakh origin to China in the fourth quarter. So, in the coming winter, Chinese consumers will receive not only Turkmen and Uzbek gas, but also fuel from Kazakhstan," announced KGT chairman and general director Rustam Suleimanov after a meeting to discuss the Turkmenistan-Uzbekistan-Kazakhstan-China gas export pipeline September 22.

As he explained, following the construction and commissioning of the Kazakh section and four compressor stations on string C of the pipeline, its export capacity reached 20 billion cubic meters per annum and next year it will be at nameplate capacity of 25 billion cubic meters. The first two strings, A&B, carry 30 billion cubic meters per annum in total.

Line C starts at the Uzbek-Kazakh border and runs for 1,300 km to the Chinese border town Khorgos.

With the completion of construction of the compressor station in Bozoi in autumn 2016 Kazakhstan will be able to simultaneously receive gas from the main gas pipeline Bukhara-Ural which connects Uzbekistan and Russia via Kazakhstan, and Central Asia – Center line which connects Turkmenistan to Russia via Kazakhstan, KMG CEO Saut Mynbaev said earlier, according to Natural Gas Europe.

OIL & GAS INFRASTRUCTURE

Topaz bags \$30 million Kazakh contract to manage 3 vessels

Renaissance Services' subsidiary Topaz Energy and Marine, a leading offshore support vessel firm, has secured a management contract for three vessels worth \$30 million in Kazakhstan.

“Topaz has been appointed the technical manager of three vessels by a consortium comprising Blue Water Shipping A/S and KazMorTransTlot (KMTF), in connection with the TCO developed Tengiz oilfield in Kazakhstan,” Renaissance said in a filing with the MSM.

Under the terms of the agreement, Topaz will act as the technical manager for three newly designed module carrying vessels.

The vessels will commence work in the second quarter of 2018 for a minimum contract period of a little over two years.

The vessels will transport oil and gas modules to the Tengiz oilfield from transshipment bases in Kazakhstan, Renaissance said, according to Muscat Daily.

LAW & REGULATIONS

New Kazakh Subsoil Code set for approval in late 2017

Kazakhstan plans to refer the new Subsoil Code for consideration to the parliament in late 2017, according to the Minister for Investments and Development of Kazakhstan.

Initially it was planned that the Code would be referred to and considered by the Parliament at the end of 2016.

On 15 October 2015, MWP hosted a meeting with the members of the Working Group on the draft of the Subsoil Use Code of Kazakhstan (code).

The code is a completely new law, which envisages a number of significant developments and amendments to Kazakh subsoil use legislation.

The Ministry for Investments and Development (MID) is the state authority responsible for the drafting of the code.

The meeting, held in MWP offices, was attended by representatives of the Kazakh State authorities (i.e. the Subsoil Department and the Geology and Subsoil Committee, both within the MID), the Kazakhstan Stock Exchange (KASE) and mining industry players and investors. The meeting was devoted to a discussion on the key issues addressed in the draft code (such as the granting of a subsoil use license, obtaining access to geological information, the application of the State's priority right and consent for transfer of the subsoil use rights, stability of the subsoil use licenses and local content issues), analysis of the novelties contemplated by the draft code, an exchange of views and ideas on the code and the provision of suggestions in relation to the code. MWP is now planning to continue the discussions on the code with the Working Group members, according to Mondaq.

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Comments

The Special Energy Issue on Kazakhstan appears every month on the Embassy's website:
<http://kazakhstan.nlembassy.org/>.

UPCOMING INDUSTRY EVENTS IN 2016



KIOGE

Kazakhstan International Oil & Gas Exhibition and Conference
4 – 7 October 2016, Almaty
Organizer: Iteca
www.kioge.kz



Mangystau Oil, Gas and Infrastructure

Mangystau Regional Exhibition on Oil, Gas and Infrastructure
8 – 10 November 2016, Aktau
Organizer: Iteca
www.mangystau.oil-gas.kz