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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

KazTransOil announces volumes of Kashagan oil pumping

The pipeline system of Kazakh KazTransOil got 18,900 tons of Kashagan oil as of October 18, the company reported.

Kashagan started supplies of oil to KazTransOil's pipelines on October 11.

KazTransOil will pump Kashagan oil to export through Atyrau-Samara pipeline. In early November this oil will be shipped through Russian port of Ust-Luga in the Gulf of Finland.

Moreover, this week Caspian Pipeline Consortium's (CPC) said that its pipeline system receives up to 10,000 tons per day of Kashagan oil. CPC is expected to pump up to 1 tons of Kazakh Kashagan oil till the end of 2016 and up to 12 million tons of Kashagan oil in 2017.

Kashagan is a large oil and gas field in Kazakhstan, located in the north of the Caspian Sea. Its total oil reserves amount to 38 billion barrels. Some 10 billion out of them are recoverable reserves. Kashagan's natural gas reserve exceeds one trillion cubic meters. Oil production at Kashagan was launched in Oct. 2016.

KazTransOil is Kazakhstan's national operator of the main oil pipelines. The company operates a network of 5,400 kilometers long main oil pipelines and 2,000 kilometers long water pipelines, according to Trend.az.

Kazakhstan hopes to get 1 million tons of Kashagan oil by year-end

Kazakhstan expects to get 500,000 – 1 million tons of Kashagan oil by the end of the year, Sputnik Kazakhstan quotes Kazakh Energy Minister, Kanat Bozumbayev as saying on October 27.

The minister noted that Kashagan field is being tested now.

Kazakhstan expects oil production at Kashagan to reach 4-7 million tons in 2017, according to Bozumbayev.

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Its total oil reserves amount to 38 billion barrels. Some 10 billion out of them are recoverable reserves.

Kashagan's natural gas reserve exceeds one trillion cubic meters.

Oil production at Kashagan was launched in October 2016, Trend reports.

Kazakhstan to profit from Kashagan at any oil prices

Kazakhstan will profit from the Kashagan oil field no matter what the oil price is, Kazakh Energy Vice Minister Magzum Mirzagaliyev said at the KIOGE oil and gas exhibition in Astana, the official website of Energy Ministry reported citing article from the LSM.kz business news website.

"We will receive royalties and taxes at any oil price," Mirzagaliyev said.

He added that commercial production at Kashagan will start in the third decade of October and the field is under testing now.

Mirzagaliyev added that in line with existing agreements, Kazakhstan will not reimburse the costs of the repair work held at the field in 2014 -2016. These costs were funded by the project shareholders on their own.

Kashagan is a large oil and gas field in Kazakhstan, located in the north of the Caspian Sea.

The geological reserves of Kashagan are estimated at 4.8 billion tons of oil. The total oil reserves amount to 38 billion barrels; some 10 billion out of them are recoverable reserves. There are large natural gas reserves at the Kashagan field - over one trillion cubic meters.

In the ranking compiled by CNN Money in 2012, Kashagan was assessed at \$116 billion and recognized as the most expensive energy project in the world.

Moreover, the cost of the project considerably grew up in price since that time. Many experts believe that the prime cost of Kashagan oil exceeds current oil price.

The 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 revealed in the pipeline.

They emerged as a result of the effect of the associated gas with high sulfur content on the metal.

The project operator confirmed the need for complete replacement of the gas pipeline and oil pipeline on the field. Their total length is about 200 kilometers.

North Caspian Operating Company BV (NCOC) is operating the project, according to Trend.az.

OIL & GAS PRODUCTION

OPEC ups forecast for Kazakh oil output

OPEC increased its forecast for oil production in Kazakhstan in its monthly oil market report published Oct. 12 compared to monthly oil market report published in September.

According to the new report, Kazakhstan's oil supply, despite the start of production at the Kashagan field, is expected to decrease by 40,000 barrels per day over the previous year to average 1.56 million bpd in 2016.

In its September report, OPEC expected Kazakhstan's oil production to decrease by 50,000 barrels per day to average 1.55 million barrels per day in 2016.

According to the September report, Kazakhstan's oil production in August dropped by 0.3 million barrels per day to average 1.27 million barrels per day due to the steep 40% drop in production at the TengizChevroil field as a result of scheduled field maintenance.

However, the output is expected to recover in September to the same level as in July.

OPEC said the start of production at the giant Kashagan field in Kazakhstan will add new volume in the fourth quarter of 2016 and is planned to reach an initial plateau of 0.37 million barrels per day in Phase 1 by mid-2017.

Therefore, Kazakh oil production growth is currently forecast at 0.22 million barrels per day in 2017.

Kazakhstan has already started testing oil production at Kashagan. The official production start at the field is expected in late October.

Oil production in Kazakhstan dropped by 30,000 barrels per day in 2015 and averaged 1.6 million barrels per day, according to OPEC.

The country's proven oil reserves stood at 30 billion barrels as of early 2016, according to BP. Kazakhstan's largest oil fields are Tengiz, Karachaganak and Kashagan, Trend.az.

Kashagan output forecasted at 7 million tons in 2017

Oil production at Kashagan field is expected to range between 4 to 7 million tons in 2017, Minister of Energy, Kanat Bozumbayev told the Senate.

"The oil production volume depends on the equipment and wells," Bozumbayev said.

By the end of 2016, Kashagan oil production will reach 1 million ton, he added.

The Kashagan field is one of the largest oil discoveries of Kazakhstan in last 40 years.

Kashagan oil reserves are estimated at 4.8 billion tons.

Kashagan began producing oil in September 2013 but halted production a few weeks later after gas leaks were detected in its pipelines, Akipress reports.

Condor begins production at Taskuduk field

Condor Petroleum has announced that commercial oil production has begun at the Taskuduk oilfield in Kazakhstan.

The production from Taskuduk field compliments the Shoba commercial production that began last month.

To date, the combined flow rates from these oilfields have grown at an average of 600 barrels per day during October.

Condor Petroleum has signed the first sales contract since starting commercial production at the approximate wellhead price of \$29 per barrel. This price, after deducting royalties, provides a netback of \$28 per barrel.

"The production from Taskuduk field compliments the Shoba commercial production that began last month."

In Turkey, the drilling rig has completed the intra-field move from the recently drilled Poyraz 5 well across the shared drilling pad and the Poyraz 3 well has been spud.

Surface casing was set as intended and drilling continues in the main whole section, while the drilling results for Poyraz 3 are expected in early next month.

Completion and testing operations will commence once the drilling rig moves off the shared pad. Condor is a Canadian-based oil and gas company with 100% working interest in four contiguous production licenses covering 171km² located in the Gallipoli Peninsula within the Republic of Turkey, along with 100% interest in the production rights to the Shoba and Taskuduk oilfields and 100% interest in the exploration rights to the 3,777km Zharkamys West 1 Territory located in the Pre-Caspian basin within the Republic of Kazakhstan, according to Hydrocarbons Technology.

OIL & GAS INFRASTRUCTURE

Kashagan output needs new pipelines, says expert

The start of oil production at Kazakhstan's Kashagan field requires the construction of new pipelines, says Professor Chingiz Ismayilov, head of the Center for Regional Development and dean of the Administrative Management Faculty at the State Management Academy under the President of Azerbaijan.

During the Baku-Astana video conference titled, Prospects for Azerbaijani-Kazakh Relations, at the Sputnik News office in Baku, Ismayilov said that after the increase in production at the Kashagan field, the capacity of existing oil transportation infrastructure running to Russia and China will be insufficient.

He noted the construction of the Eskene-Kuryk-Baku pipeline for the transport of the Kashagan oil through Azerbaijan will help resolve this problem.

He said the construction of the Baku-Tbilisi-Ceyhan pipeline at the time opened up new prospects for the transportation of Central Asian hydrocarbons westward, and the pipeline is now ready to transport Kashagan oil as well.

Azerbaijan's Energy Minister Natig Aliyev said previously that Kazakhstan will be able to daily export 150,000 barrels of Kashagan oil through the Baku-Tbilisi-Ceyhan pipeline, Trend reports.

Azerbaijan and Kazakhstan plan new pipeline

Azerbaijan's Energy Minister Natig Aliyev announced on October 7 that his government and their Kazakh counterparts are in the final stages of negotiations over the construction of a 739-kilometer oil pipeline that will extend under the Caspian Sea.

"The construction of this pipeline will enable Kazakhstan to export its oil to ports in both Georgia and Turkey. The new pipeline's capacity will amount to 23-25 million tons per year, with the possibility of a future expansion to 56 million tons," Aliyev said.

Kazakhstan has one of the world's proven reserves of hydrocarbons, which accounts for 5.5 billion tons of oil and 3 trillion cubic meters of gas.

Kazakhstan is to produce 33.6 billion cubic meters of gas and 80 million tons of oil per year, but has no guaranteed reliable and secure export route except the Baku-Tbilisi-Ceyhan. Three other existing pipelines that pass through Russia and the Caspian Pipeline Consortium, that carries oil from Kazakhstan's huge Tengiz oil field to Russia's Black Sea port Novorossiysk, are incapable of meeting the country's growing export potential.

Aliyev said the new pipeline will be part of the Kazakhstan Caspian Transportation System (KCTS). The KCTS consists of oil terminals on the Kazakh coast of the Caspian Sea, as well as tankers, vessels and oil terminals on the Azeri side of the Sea.

All of the facilities are connected to the Baku-Tbilisi-Ceyhan Pipeline, according to Georgia Today.

More vessels ordered for Kazakh project

Compared with most other markets, offshore vessel owners can reflect relatively positively on the Caspian market where major oil projects are progressing.

Tengizchevroil's development of the Tengiz oil field in Kazakhstan has led to contracts for multiple vessels owned and operated by a consortium between Topaz Energy and Marine and Blue Water Shipping.

The combined revenue from these contracts will be more than \$500 million, according to Topaz. It has commissioned construction of 15 module carrying vessels (MCVs) for field operation. These are due to enter service in the second quarter of 2018. Topaz has also been appointed the technical manager of three additional MCVs by a consortium consisting of Blue Water Shipping and Kazmortransflot. All of these vessels will be transporting oil and gas modules for at least two years to the Tengiz oil field from transshipment bases in Kazakhstan, according to Oil Support Journal.

LAW & REGULATIONS

Code on subsurface use in Kazakhstan to be adopted in 2017

Kazakhstan will adopt the code on subsurface use in 2017, Deputy Minister of Energy of Kazakhstan Magzum Mirzagaliyev said at the conference of the KIOGE "Oil and Gas" in Almaty. In addition, it involves gradual introduction of international accounting system of mineral reserves. Following the results, specific legislative proposals will be developed in 2017. International reserves accounting system is scheduled to launch in 2018.

"In order to create a favorable investment climate, our ministry works on improving legislation in the oil and gas industry. The basic principle is to bring national legislation to international standards. Thus, developing new Code on mineral resources is essential," Magzum Mirzagaliyev said.

According to Deputy Minister, the Code provides simplification of granting rights for subsoil use, expansion of international cooperation and investment flow for the exploration of new oil and gas fields.

"The main directions of the reform of the Code - is introduction of mechanisms to stimulate private investment in mineral and geological exploration, ensuring predictability and stability of the industry regulation; to simplify procedures of the term of the interaction with the regulators, in other words elimination of administrative barriers. The adoption of the Code is planned in the second half of next year," the Deputy Minister informed, according to Caspianenergy.net.

Economy Ministry offers to introduce new tax preferences for sub-surface users

The Ministry of National Economy offers new tax preferences for sub-surface users. Minister Kuandyk Bishimbayev has said today in the Majilis while presenting a bill "On amendments to some legislative acts of the Republic of Kazakhstan on taxation and customs administration", Kazinform correspondent reports.

"As per the bill, sub-surface users will be exempted from corporate income tax when their financial investment debt is amortized given that there is no commercial discovery [of a mineral deposit]. An entire package of amendments in this bill is related to sub-surface use and is aimed at eliminating the measures of the Tax Code hindering the development of extracting and processing companies," Bishimbayev said.

JSC KazMunayGas implements a number of sub-surface using projects by attracting strategic partners. In order to be KazMunayGas' strategic partner, an enterprise must cover a share of the Kazakh company's expenses at the stage geological exploration.

KazMunayGas returns all the expenses to the strategic partner given that there is a commercial discovery and net cash flow on the project. In case if sub-surface user does not discover a deposit, KazMunayGas will not pay back the expenses. KazMunayGas' debt is written off, which means that it gets income from debt amortization. In this case, this income must be imposed 20% corporate income tax as per the Tax Code of Kazakhstan.

For this reason, the Ministry offers not to levy corporate income tax on such types of income. The bill, in general, aims at retaining entrepreneurship activity in agriculture and activation of the country's economy, according to Kazinform.

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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



Mangystau Oil, Gas and Infrastructure

Mangystau Regional Exhibition on Oil, Gas and Infrastructure

8 – 10 November 2016, Aktau

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www.mangystau.oil-gas.kz