



Special Energy Issue on Kazakhstan

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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

Karachaganak operator fined in Kazakhstan

A specialized economic court of Kazakhstan's West Kazakhstan region satisfied a suit of the state enterprise Kapitalneftegaz against operator of Karachaganak oil field - Karachaganak Petroleum Operating B.V., the court said in a message March 7.

Kapitalneftegaz conducted an inventory of state property transferred to Karachaganak Petroleum Operating B.V. (KPO) and went to court when revealed absence of 16 inventory objects worth 10.4 million tenge.

The court sentenced Karachaganak Petroleum Operating B.V. to fine in the amount of 10.4 million tenge to the republican budget for caused damage. The fine has been paid off. Karachaganak field, located in the West Kazakhstan Region, is one of the largest oil and gas condensate fields in the world. Its reserve is estimated at over 1.2 billion tons of liquid hydrocarbons and 1.3 trillion cubic meters of gas.

The field gives almost 45% of the total gas and 16 percent of the total liquid hydrocarbons produced in Kazakhstan.

Karachaganak is being developed within the production sharing agreement (PSA) reached between Kazakhstan and a consortium that includes Royal Dutch Shell (29.25%), Eni (29.25%), Chevron (18%), Lukoil (13.5%) and KazMunaiGas (10%).

In 2016 KPO produced 139.7 million barrels of oil equivalent of stable and unstable liquids, raw gas and fuel gas compared to 141.7 million barrels of oil equivalent in 2015, Trend reported.

Great Wall wins Tethys drilling contract

Great Wall Drilling has a deal worth around \$6 million lined up with Tethys Petroleum to drill 10 shallow gas wells in Kazakhstan – but will have to wait for payment from the cash-strapped operator.

The wells are set to be drilled on Tethys' Kyzylai and Akkulka gas development in the Central Asian country, with the work set to start on 1 May 2017, contingent on signing of a firm drilling contract. Tethys said in a statement it now has 10 days within which to sign the deal with Great Wall but will have until the end of the 2018 fiscal year to meet the drilling costs, which it intends to finance from production revenue.

The Toronto-listed company also intends to work over three existing wells and tie in two wells that have been drilled but not tied in for production under the drilling campaign, which will add 12 production wells at the project.

A mini-compressor will also be installed this summer to enhance gas production from new wells that will be tied in.

Tethys admitted it has a continued cash flow problem and a need for funding, having gained an 18-month extension on a \$3.5 million loan secured against its rigs.

It is also in talks with other lenders for extensions on loans due to mature in March and June this year, according to KazWorld.

OIL & GAS PRODUCTION

Kazakhstan increases oil output in February 2017

Kazakhstan's oil production in February exceeded its agreed limit under an Opec-led deal to cut output and support prices, official Kazakh data showed.

The central Asian country's output of oil and gas condensate rose 2% last month from January to total 1.718 million barrels per day, or 38,000 barrels per day above its limit under the deal.

Kazakhstan's energy minister has said his country, which is not an Opec member, would cut output by 20,000 barrels per day from the 1.7 million barrels per day it produced in November. In January, Kazakhstan produced 1.68 million barrels per day of oil and gas condensate.

The rise in Kazakh production mainly came from the country's largest fields, including the giant Kashagan field where daily output was up 7% month-on-month, according to the data from the analytical centre of the Kazakh energy ministry.

Output at the Tengiz field was up 6% versus January levels, the same data showed, Reuters reported.

Kazakh minister sees higher March oil output, questions OPEC cuts

Kazakhstan's energy minister, Kanat Bozumbayev, has again cast doubt on the country's commitment to cut oil output under an agreement with OPEC, telling state media that March output was again likely to be on the high side and suggesting the trajectory of production was upward.

The comments, carried by state news agency Kazinform, came after Kazakh officials failed to attend a meeting in Kuwait over the weekend intended to discuss last November's agreement between OPEC and non-OPEC producers on reducing output, and a possible extension beyond its six-month term.

Speaking to reporters after a government meeting, Minister Bozumbayev highlighted methodological problems with calculating countries' compliance and said output from two of Kazakhstan's 'super-giant' fields, Karachaganak and Kashagan, would increase, according to Kazinform.

Asked by how much Kazakhstan intended to cut its output, Bozumbayev said: "It is not a question of how much. We can only increase." He attributed recent fluctuations in production partly to seasonal factors.

"We, let us say, in January over-fulfilled our commitment -- the cut was more than 20,000 barrels per day -- in February a little less. In March, our production will be a bit higher. In April I expect, with the warmer weather, production will fall," Bozumbayev said.

"This is due to various factors, including climactic ones, and how the oil fields in various parts of the country behave, depending on their stage of exploitation. Many of our large fields are reducing their output, in total by a million mt a year, because they passed their peak." Bozumbayev has previously described as symbolic Kazakhstan's obligation under the agreement to cut its production by 20,000 barrels per day. Kazakh compliance is complicated by recent increases in output from the giant Kashagan field, which came on stream last October after a decade's delay.

Even accounting for declining production from mature fields, it is unclear whether Kazakhstan's participation in the November deal will square with the output of the country's three main oil exporting fields.

The Karachaganak, Kashagan and Tengiz fields are unlikely to be subject to any government-mandated cuts, being managed by international consortia.

Output from Tengiz, the largest producing oil field, increased by 1% last year to slightly above its nameplate capacity of 600,000 barrels per day, or 35% of total Kazakh production, and in the first half of 2016 was considerably higher.

While production figures for March have yet to be published, the country's crude and condensate output rose to 1.72 million barrels per day in February.

Last November's agreement, spearheaded by Russia and Saudi Arabia, obliges Kazakhstan to cut output by 20,000 barrels per day for six months, from a November production level of 1.7 million barrels per day.

However in January Kazakhstan earned itself some latitude as its production was 30,000 barrels per day below November levels. Calculating compliance is complicated by the need to convert from tons, the standard measure of oil output in Kazakhstan, to barrels.

"We can only increase oil output," Bozumbayev said, answering the question as to what extent can Kazakhstan reduce oil output.

In December 2016, OPEC and non-OPEC producers reached their first deal since 2001 to curtail oil output jointly and ease a global glut after more than two years of low prices.

Non-OPEC producers such as Azerbaijan, Bahrain, Brunei, Equatorial Guinea, Kazakhstan, Malaysia, Mexico, Oman, Russia, Sudan, and South Sudan agreed to reduce output by 558,000 barrels per day starting from January 1, 2017 for six months, extendable for another six months, to take into account prevailing market conditions and prospects.

OPEC agreed to slash the output by 1.2 million barrels per day from January 1, with top exporter Saudi Arabia cutting as much as 486,000 barrels per day.

Within the deal with OPEC and non-OPEC oil producers, Kazakhstan has committed to cut oil output by 20,000 barrels per day from the November 2016 level from January 1, 2017. Bozumbayev noted that in January, Kazakhstan over-fulfilled its obligations within the deal. In February and March, oil output was a little higher, and it is expected to decrease again in April. According to Kazakh Statistics Committee, Kazakhstan's oil and gas condensate production increased by 4.4% to 13.69 million tons in January-February 2017 compared to the same period of 2016, according to AzerNews.

OIL & GAS EXPORT & TRANSPORTATION

Oil transports through Sino-Kazakh pipeline hit 100 million tons

Oil imports from Kazakhstan to China through a land pipeline hit the 100-million-ton mark, the pipeline operator said.

"The safe operation of the pipeline has ensured diverse export channels for Kazakhstan, and also ensured stable energy supply to western regions of China," said Meng Fanchun, general manager of the Central Asia Pipeline Company of China National Petroleum Corporation. The pipeline runs 2,800 kilometers from the city of Atyrau to Atasu, in Kazakhstan, via the Alatau pass in Xinjiang Uygur Autonomous Region, to the PetroChina Dushanzi Petrochemical Company, one of China's major petrochemical producers.

Operation started in 2006. Crude oil arriving in China through the pipeline is so far worth \$60 billion, according to Meng.

The oil is transported to refineries in Xinjiang, Sichuan and Gansu.

By the end of last year, the pipeline company had paid about \$350 million of fees and taxes to Kazakhstan, the company said.

The Kazakhstan-China oil pipeline, China's first cross-border land oil import pipeline, carried 100 million tons of petroleum into the country, the China Youth News reported.

The pipeline, which runs 2,800 kilometers from the Caspian shore in Kazakhstan to Northwest China's Xinjiang Uyghur Autonomous Region, is also the first pipeline financed and built by CNPC in Central Asia, and it is also "a model of cooperation along China-proposed 'One Belt, One Road' initiative," the report said.

The report also quoted experts as saying that "the project is strategically important to both China and Kazakhstan.

It expands China's crude oil import channels and safeguards the supply of crude oil to CNPC's refineries in Xinjiang, Northwest China's Gansu Province and Southwest China's Sichuan Province, according to the report.

The pipeline has created many jobs in Kazakhstan and buoyed the local economy.

It is estimated that the value of oil sent to China via the pipeline accounted for more than 50% of Kazakhstan's exports to China from 2008-13, according to the report.

From 2010-16, it transported more than 10 million tons of petroleum every year, Xinhua reported.

Kazakhstan prepares to export domestic gas to China in 2017

The Kazakh Ministry of Energy plans to start exporting domestic gas to China this year.

At present, 18,000 kilometres of main and 30,000 kilometres of distribution gas pipelines have been built, which to date have transported 173 billion cubic metres of transit gas, including 35 billion cubic metres last year, and additional capacities of the Kazakhstan-China gas pipeline are being introduced.

The linear part of the Beineu-Bozoi-Shymkent gas pipeline has been built and about five billion cubic metres of gas have already been transported, including two billion cubic metres in 2016.

"The design capacity of the pipeline will be brought up to 10 billion cubic metres, which will allow the country to start exporting its gas to China if the relevant agreements are signed. In addition, the possibility of transit of Russian gas to China via the existing gas transportation system of Kazakhstan is being considered," said Minister of Energy Kanat Bozumbayev at the ministry meeting on February 20 on the results of 2016.

Speaking about those results, he noted the volume of gas production was 46.4 billion cubic metres, most of which was provided by deposits in the East Kazakhstan and Atyrau regions. Expectations for this year are to produce up to 48.1 billion cubic metres of gas, including up to 18 billion cubic metres at Karachaganak, up to 14.5 billion cubic metres at Tengiz and up to 3.1 billion cubic metres at Kashagan.

"In general, the gas industry has good development momentum. In 2016, we exceeded our planned production of both commercial and liquefied gas; in 2017, the production of marketable gas will be increased to 29 billion cubic metres and liquefied gas by 2.7 million tons," he added.

During past three years, the consumption of liquefied gas has grown by 65% and gas sales for motorists' needs have grown annually from 100,000 tons to 450,000 tons, said Bozumbayev.

"This is one of the current measures to replace the existing import dependence on foreign fuel. Gas is significantly cheaper than gasoline and solves many environmental problems," he noted.

He also spoke about the stage-by-stage gasification of the country with natural gas. Taldykorgan will be gasified for the first time this year when the main gas pipeline is put into operation.

"Today, over eight million people have access to gas; in percentage terms, it is 46.3% of the population of our country. In 2016, 50 settlements of six regions were gasified: West Kazakhstan, Kostanai, Zhambyl, Mangistau, Aktobe and Kyzylorda. This year, we plan to gasify eight settlements in the relevant areas – this will affect about 72,000 people," said Bozumbayev.

Authorities consider building pipeline to fully supply Astana with natural gas by 2021

According to Astana times, KazTransGas and government officials are reviewing a feasibility study to build a pipeline that would fully supply natural gas to Astana residents by 2021.

Within a month, they will be able to calculate the efficiency of the new gas pipeline, gas tariffs for Astana residents and compare the costs with coal prices, said Energy Minister Kanat Bozumbayev, during a recent government meeting.

"The new gas pipeline will be connected to the gas pipeline, which stretches from the west of the country to the Kyzylorda region, then goes towards Zhezkazgan, passing through the Karaganda region, Astana and further to Kokshetau," he said.

Bozumbayev also told the meeting that Global Gas Regasification, part of the Global Gas Group, has entered into an agreement with Gazprom Export to import 5,000 tons of low-tonnage liquefied natural gas from Russia. The shipment will be made by road.

He also noted that there is also a memorandum, according to which, by 2021, the volume of supplies will reach 320,000 tons of liquefied gas, which is enough to meet the current fuel needs in Astana and parts of the northern regions of the country.

"As for the private sector of Astana, the supply will start at the end of 2018. We're planning to start with the Koktal residential area. We are sure that in the 2018-2019 heating season, heating in Koktal will be ensured with natural gas. Before 2021, we believe we will provide full access to city residents. We will prepare the city for the construction of the main pipeline," said Panayot Saulidi, head of Global Gas Regasification.

The first regasification station for liquefied natural gas Turan has already been put into operation in the capital. The launch of the new gas supply source is the first stage of the non-reflux gas supply process in northeastern Kazakhstan. Natural methane will also be supplied to Pavlodar, Ust-Kamenogorsk and Kokshetau.

"Today, we supply Russian gas, tomorrow it can be our gas. If we learn how to liquefy it in order to have a competitive price, then we will have it here, in Kazakhstan," Saulidi added.

OIL & GAS INFRASTRUCTURE

Uzbekistan to use Kazakh oil pipe to import hydrocarbons

Uzbekistan and Kazakhstan reached an agreement on use of oil pipeline "Omsk-Pavlodar-Chimkent" to import oil, the chairperson of Uzbekneftegaz Alisher Sultanov said.

He underlined that Uzbekneftegaz held negotiations with Kazakh companies such as KazMunayGas, KazTransgas and KazTransOil.

Alisher Sultanov said the main agreement, which was achieved at the talks, was use of oil pipeline “Omsk-Pavlodar-Chimkent” to import raw oil to Uzbek refineries.

Minister of Foreign Affairs of Uzbekistan Abdulaziz Kamilov underlined that Uzbekistan and Kazakhstan reached the agreement on supply of oil. He expressed gratitude to the Kazakh side for assistance.

Uzbek Foreign Minister said that Uzbekistan and Kazakhstan do not compete each other. He said that economies of two states fulfill each other.

The Ministry of Energy of Kazakhstan and Uzbekneftegaz signed a memorandum of understanding on cooperation in oil and gas industry within the visit of the President of Uzbekistan Shavkat Mirziyoyev to Kazakhstan.

The document is directed at strengthening cooperation between two states in the oil and gas industry, according to UzDaily.

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Comments

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

INDUSTRY EVENTS IN 2017



Global Oil & Gas Atyrau

Atyrau Regional Oil and Gas Technological Conference

11 – 12 April 2017, Atyrau

Organizer: Iteca

www.oil-gas.kz



Atyrau Oil & Gas

North Caspian Regional Exhibition on Oil and Gas

11 – 13 April 2017, Atyrau

Organizer: Iteca

www.oil-gas.kz



KIOGE

International Oil & Gas Exhibition and Conference

3 – 6 October 2017, Almaty

Organizer: Iteca

www.kioge.kz



Global Oil & Gas Mangystau

Mangystau Regional Exhibition on Oil, Gas and Infrastructure

7 – 9 November 2017, Aktau

Organizer: Iteca

www.moge.kz