



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

Kashagan operator on oil output cut within OPEC deal

Oil production at huge Kashagan oil field in Kazakhstan will not be cut or frozen at the current level despite Kazakhstan's commitment to reduce oil output within the deal with OPEC, External Affairs department in the North Caspian Operating Company (NCOC) consortium, developing the field told Trend May 31.

The source said that over three million tons of oil has been produced at Kashagan since the launch of the field in the fall of 2016. Currently the confirmed production capacity of the field is 180,000 barrels of oil per day.

"The production level of 370,000 barrels per day is expected to be reached within the Phase 1 of Kashagan development by the end of 2017, after the start of reverse injection of associated (sulphurous) gas and optimization," a source in the NCOC said.

Kashagan located in the north part of the Kazakh sector of the Caspian Sea is one of the biggest oil fields opened in the last 40 years. Its recoverable oil reserves are assessed at 9-13 billion barrels.

Oil production at Kashagan was launched in autumn 2016 after many delays.

The project participants are KMG Kashagan BV (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. (nearly 16.81%), Shell Kazakhstan Development BV (nearly 16.81%), and Total E&P Kazakhstan (nearly 16.81%). The field is operated by North Caspian Operating Company BV (NCOC).

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

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. The agreement was for a six-month period, extendable for another six months.

Within the deal, Kazakhstan has committed to cut oil output by 20,000 barrels per day from the November 2016, Trend reported.

OIL & GAS EXPLORATION & DEVELOPMENT

Eni, KazMunaiGas strengthen ties offshore Kazakhstan

KazMunaiGas (KMG) has signed an agreement that confirms the transfer to Eni of 50% of subsoil use rights for the Isatay block in the Kazakh sector of the Caspian Sea.

A joint operating committee (JOC) between the two companies will operate the block, which is thought to hold potential for large hydrocarbon resources.

The JOC will make use of Eni's proprietary technologies for exploration and working in challenging technical and environmental areas such as the Caspian basin, pending approval for the license transfer by the Republic of Kazakhstan.

In addition, Eni and KMG subsidiary KazMunaiGas EP have agreed to expand their upstream technology cooperation and evaluate potential joint developments in new projects. Along with the Ministry of Energy, KMG, and the Kazakh Committee of geology and subsoil use, Eni signed a memorandum of understanding to assess future cooperation terms in the Kazakh-Russian Pre-Caspian basin where numerous large oil fields have been discovered.

The MoU is part of the Eurasia project promoted by the Ministry of Energy to study the depth exploration potential of the basin.

Offshore Indonesia, Eni has completed the first shipment of LNG from the newly onstream deepwater Jangkrik field to Indonesia's domestic market.

The 22,500-cu m (794,580-cf) cargo left the Bontang Liquefaction Plant, in East Kalimantan, and headed to Bali, to be unloaded as part of a long-term LNG contract signed with PT Pertamina in June 2015.

Produced gas produced is processed onboard the FPU Jangkrik, then flows to the onshore receiving facility for onward delivery to Bontang via the East Kalimantan Transportation System, the Offshore Magazine reported.

OIL & GAS EXPORT & TRANSPORTATION

Kazakhstan to export up to 5 billion cubic meters per year of natural gas to China as of 2017

Kazakhstan is to debut gas exports to China under a memorandum of understanding signed Wednesday between KazMunaiGas and CNPC, with up to 5 billion cubic meters /year set to be moved to China from Kazakhstan in 2017-2018, national gas transportation operator KazTransGas said in a statement.

The MoU follows up on a previous plan to start supplies this year, with a 45% expansion of the Kazakhstan-China pipeline to 55 billion cubic meters /year earmarked for completion in 2017.

"The sides discussed the possibility of natural gas supplies from Kazakhstan to China in 2017-2018, and agreed to sign the sales and purchase agreement on Kazakh gas exports in the volume of up to 5 billion cubic meters [per year]," KazTransGas said.

Kazakhstan currently exports no gas of its own to China, the country's energy ministry said. China will receive gas at Khorgos on the border between the two countries, according to the MoU, which also defines the volumes, price and quality of the product, the company said, without providing further details.

"The diversification of transit and export routes of Kazakh gas, as well as increasing export volumes of blue fuel are important strategic tasks that were set by the head of state," Kairat Shripbayev, chairman of KazTransGas's board of directors, said in the statement.

Gas exports are expected to further firm cooperation between the neighbors, which already cooperate in the upstream oil and gas sector, along with services and oil and gas transportation in Kazakhstan, according to the statement.

"Supplies of Kazakh gas to China will help bilateral mutually beneficial relations, as well as joint promotion of cooperation relations as part of the 'One belt, one road' initiative, aimed at creating infrastructure and firming trade and transport ties between Eurasian countries," the company said.

The construction of compressor stations on the third line of the pipeline intended for gas transportation to China foresees 20 billion cubic meters /year transit volumes of Turkmen and Uzbek gas, in addition to Kazakh volumes, according to KazMunaiGas, which controls KazTransGas and 95% of the country's gas transportation.

Volumes from Turkmenistan and Uzbekistan are transported through the Central Asia-China gas pipeline network that links with CNPC's Second West-East Pipeline in western Xinjiang province at the border with Kazakhstan.

Kazakhstan's gas production is expected to rise by 3.2% on the year to 48.1 billion cubic meters this year, mainly from the Kashagan, Karachaganak and Tengiz fields, the country's energy minister Kanat Bozumbayev estimated earlier this year.

Kazakhstan's joint project with China to expand the capacity of the Beney-Bozoy-Shymkent pipeline, running from the west to southeast Kazakhstan, to 10 billion cubic meters this year "will allow to start exports of [Kazakh] gas to China," he said, adding, however, that Kazakh gas will face strong competition from Turkmen, Uzbek and Russian future gas supplies under long-term contracts with China.

Besides, Kazakhstan prioritizes domestic supplies as it expects further natural depletion at its key fields by 2025, according to the energy ministry.

Kazakhstan also needs gas for reinjection to maintain rock pressure for crude oil production, according to Platts.

Japan starts imports of gas condensate from Kazakhstan

Japan's oil sales were 13.92 million kilolitres (2.92 million barrels per day) last month, down 2.3% from a year earlier, data from the Ministry of Economy, Trade and Industry showed, the lowest volume for April in at least 28 years.

Oil demand in the world's third-biggest economy has been declining gradually for more than a decade, reflecting a falling population and a shift to more efficient vehicles and equipment. Japan's crude oil imports in April rose 1.8% from a year earlier to 3.53 million barrels per day (16.84 million kilolitres), marking the first year-on-year gain in three months, the data showed. Meanwhile, Japan imported South Blend crude from Colombia and Zhaikmunai condensate from Kazakhstan for the first time last month, a METI official said, Reuters reported.

PROCESSING & REFINERY

Chicago Bridge & Iron (CBI) reports multi-technology contract in Kazakhstan

CB&I announced it has been awarded a contract by TOO Hill Resources for the license and engineering design of a grassroots Lube Base Oil plant in Shymkent, Kazakhstan. The plant will use Chevron Lummus Global's (CLG) proprietary ISOCRACKING, ISODEWAXING, ISOFINISHING and Solvent Deasphalting technologies for the production of high-quality base oils and clean fuels. CLG is a joint venture between Chevron U.S.A. Inc. and CB&I.

"This multi-technology contract is another example of CB&I's breadth of technology portfolio at work," said Daniel M. McCarthy, CB&I's Executive Vice President of Technology.

This award is CLG's first award in Kazakhstan and symbolizes additional growth for the Central Asia region, Street Insider.

RENEWABLE ENERGY

Kazakhstan continues with green energy investments

Kazakhstan has continued investments in renewable energy sources and will to expand these volumes as it moves forward.

So far, the investment share does not exceed 1 percent, according to an alternative energy study completed by the United Nations Economic Commission for Europe and the International Energy Agency. The study was conducted in 17 nations, where experts observed a significant drop in investments.

Authorities in the renewable energy field consider subsidising the energy industry as one of the factors hampering the development of alternative energy sources in Kazakhstan. Arfoour Zervos, chairperson of the Energy Policy Network for Renewable Energy, summarised the report as it relates to the country.

"One of the main goals of this report is to identify gaps in the regions. It is very important to have data that will form the basis of renewable energy and energy efficiency efforts in the region. Lack of investment in the development of renewable energy is among the negative aspects. Subsidies for electricity persist in the regions. This complicates the development of renewable energy sources. Low oil prices also inhibit the situation," he said.

Renewable energy production volumes will grow three times compared to current indicators, according to Kazakhstan's Ministry of Energy. In three years, more than 100 alternative energy facilities will operate in the country compared to the 50 currently in use. The facilities will include 23 wind energy plants, 17 solar power stations and 13 hydroelectric power stations, as well as several plants producing biogas, an alternative energy source.

According to the numbers, special focus is currently being placed on wind power facilities, which is largely due to the unique natural conditions of the country's regions. For example, the average annual wind speed reaches nine metres per second in the capital and Fort-Shevchenko, on the territory of the Dzungarian Gate and Shelek Corridor. The areas, which measure approximately 50,000 square kilometres or 2% of the country's total area, can produce a trillion kilowatt-hours per year, which significantly exceeds the nation's energy needs, Astana Times reported.

Construction of largest solar power plant in Central Asia started in Karaganda region

On the eve of the International Specialized Exhibition EXPO 2017 in Saran, Karaganda region, today construction of a solar power plant SESSaran LLP has started, which will be the largest plant in Central Asia. The cost of the project is about 140 million euro.

Investors are the representatives of the European Union, Kazpravda.kz reports with reference to the press service of the Karaganda region governor.

A lot of preparatory work was done. Today, legislative and financial issues have been resolved; all permitting procedures have been completed. A technical justification for the project has been developed, and there is an expert opinion. Together with the JSC KEGOC, the scheme of power delivery was developed and agreed; technical conditions of connection were received, said Karaganda region governor Yerlan Koshanov.

Today, everything is ready to start construction, investors said. According to the initiators of the project, all conditions for development of solar energy have been created in Kazakhstan. When choosing the territory, the support of local authorities played an important role.

"Today we are launching the construction of a solar power plant that we plan to complete in 2018. We are confident that our power plant will contribute to improving the quality of life of the people of Kazakhstan. First of all, it is "green" technologies and reduction of environment pollution, and secondly, the creation of new jobs," said the main investor of the project, Jan Zonnenshain.

The state support includes the guaranteed purchase of the electric power under the fixed price defined by the governmental order. The region receives foreign direct investment and additional clean electricity.

A land plot of 160 hectares has been allocated for construction of the solar power plant. More than 370,000 solar panels will be located on this territory. Annual electricity generation will be about 145 million kW / h. The station's capacity is 100 MW. For comparison, Saran town consumes 10 times less, Kazakhstanskaya Pravda reported.

EBRD invests in second solar park in Kazakhstan, Burnoye-2

The EBRD is financing the 50 MW Burnoye Solar-2 project in Kazakhstan in partnership with the multilateral Clean Technology Fund (CTF).

The investment in the southern Zhambyl region follows Burnoye Solar-1, the award-winning first utility-scale renewable energy project in Kazakhstan under the new legislation which enabled private investment in the sector.

Coming as part of a comprehensive \$200 million EBRD renewable energy financing framework for Kazakhstan, Burnoye Solar-2 is the second stage of an ambitious solar park demonstrating that renewable energy is taking hold in the country, which is still over 70 per cent dependent on coal for energy production. Burnoye Solar-1 and 2 are expected to result in CO2 emission savings of 150,000 tons annually, neutralising carbon emissions from 30 MW of domestic coal-fired power plants, according to EBRD.

The signing on the sidelines of the Expo 2017 in Astana came just days after the EBRD Board of Directors approved a \$500 million financing envelope for solar energy in Egypt, cementing its leading place as renewable energy financier in its region.

Burnoye Solar-2 will be built by the same investors as the first stage of the solar park: Samruk Kazyna United Green Energy Ltd, a joint venture between UG Energy Ltd, a privately owned investment company registered in the United Kingdom, and Samruk-Kazyna Invest, a division of the sovereign wealth fund.

The EBRD will provide a loan in Kazakh tenge in the amount equivalent to up to \$44.5 million with a tenor of up to 15 years. Such long-term local currency financing is currently not available in the country.

CTF is participating with a \$10 million loan for up to 20 years. The rest of the project cost, expected to be up to \$80 million, will be invested by the owners of the future solar park.

The loan agreements were signed by the EBRD Director for Energy and Natural Resources in Russia, Caucasus and Central Asia Aida Sitdikova, and Nurlan Kapenov, General Director of Burnoye Solar-2 LLP. The Project Support Agreement was signed by the Minister of Energy of the Republic of Kazakhstan Kanat Bozumbayev, the EBRD Managing Director for Energy and Natural Resources Nandita Parshad and Investment Director of UG Group, Albrecht Frischenschlager.

Nandita Parshad said: “Kazakhstan needs more projects like Burnoye. I am proud that we are signing it just as vital discussions about clean, secure and affordable energy in the region kick off at the high-level Ministerial Conference on Energy, part of the Astana Expo 2017. Following the success of Burnoye Solar-1 this second project is a demonstration that Kazakhstan is truly a part of the global renewable energy revolution that is happening right now.”

The EBRD is not only the largest financier of renewable energy generation and related energy sector modernisation in its region of operations but also a leading force in policy engagement, supporting governments in their efforts to create the enabling environment for investors to build renewable energy projects. In Kazakhstan, the EBRD is actively working with the authorities to provide advice and support for the new renewable energy law, which provides local and foreign investors with opportunities to enter the sector.

The EBRD is also a top international provider of finance in local currency, tenge, the first supranational issuer of tenge bonds, and is at the forefront of efforts to develop a green financial system as part of the Astana International Financial Centre which is to open on the grounds of Expo 2017. In addition to its US\$ 200 million envelope dedicated to future renewable energy projects, the Bank is working on providing finance and advice for female entrepreneurs, small and medium-sized enterprises, and other areas where development finance is crucial.

To date, the Bank has invested €7.3 billion in Kazakhstan, of which €1.7 billion is invested in sustainable energy and resources. In 2016 Kazakhstan became the EBRD's second-largest country of operations by volume. Investment is expected to continue at a high level in 2017, The Financial reported.

Kazakhstan, Ukraine's FWT arranging expansion of wind farm in Ereymentau to 300 MW

Kazakhstan is holding talks with Ukraine's Fuhrlaender Windtechnology (FWT, Kramatorsk, Donetsk region) to arrange expansion of a wind farm project in Ereymentau to 300 MW, charge d'affaires of Ukraine ad interim in Kazakhstan Volodymyr Dzhydzhora has said.

“They [Fuhrlaender Windtechnology] are holding talks with Kazakh partners to expand this project to 300MW production... There is the decision. It should be put on paper,” he told reporters last week in Astana.

The diplomat said that during the first business project the Ukrainian company installed a wind farm with a capacity of 45 MW in Ereymentau. A total of 22 WTU2.0 wind turbines with a capacity of 2.05 MW each were installed.

Fuhrlaender Windtechnology is the only Ukrainian producer of modern wind turbines. It is engaged in construction of wind farms. The company produces turbines at the site of Kramatorsk Heavy Machine Tool Plant. During the period from 2010 to the present time Fuhrlaender Windtechnology has built (using its own equipment) seven wind farms in Ukraine and one wind farm in Kazakhstan, Interfax-Ukraine reported.

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INDUSTRY EVENTS IN 2017



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