



# Special Energy Issue on Kazakhstan

| July 2017

## CONTENTS

GENERAL.....	1
OIL & GAS PRODUCTION .....	3
OIL & GAS EXPORT & TRANSPORTATION .....	4
OIL & GAS INFRASTRUCTURE .....	4
PROCESSING & REFINERY .....	5
RENEWABLE ENERGY.....	5
CONTACTS .....	6
INDUSTRY EVENTS IN 2017 .....	7

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

### **Kazakhstan to switch to international oil reserves management system by 2025**

Kazakhstan plans to switch to the international system of oil reserves management by 2025. This was announced by the First Deputy Minister of Energy of Kazakhstan Makhambet Dosmukhambetov at the roundtable on conceptual issues of the draft Code "On Subsoil and Subsoil Use", Kazinform reports.

"Regarding the implementation of the international system of standards for reporting reserves. You know that today we are using the old Soviet classification of reserves. But at the same time, we analyzed, and today a large part of the industry also uses the international system of inventory management," Makhambet Dosmukhambetov said.

Therefore, according to him, in order to avoid duplication, the ministry has thoroughly worked out a complete transition to the international.

"It is clear that we will not be able to switch to this system at once. Therefore, there will be a transitional period until 2025. After 2025, we plan to fully switch to the international inventory system. But the state expertise of geological reserves will remain in the part of hydrocarbon raw materials. As for state control, only critical indicators of project documents will remain in control," Makhambet Dosmukhambetov said.

That is, as he explained, these are indicators that characterize rational approaches.

"We will not control the absolute values, we will not control production volumes, but with some investment activity, we will control the rationality of subsoil use, so that there will not be an unsystematic or predatory mining so that deposits are used the way they should be," said the Deputy Minister.

According to him, companies engaged in mining, can themselves either activate or slow down their work.

"Thus, if the price situation changes, you can activate your work or slow it down. But the rationality of the use of mineral resources, we believe, will need to be taken into account, this will be targeted by the control of state bodies," he emphasized, according to Kazinform.

### **KazMunaiGas ends hunt for partner at Abay block**

Kazakhstan's national oil company (NOC), KazMunaiGas (KMG), has ended its one month-long search for a partner at the Abay block in the Caspian Sea, Newsbase reports.

At the end of May, the state-owned producer invited international oil companies (IOCs) to bid for a minority stake in the shallow-water block, which lies around 65 km from the Kazakh coast. In a statement on June 28, the state-owned producer announced that the deadline for applications had passed. It did not say whether it had attracted any offers for the block, nor how long it would take to evaluate potential candidates.

According to Kazakh authorities, the Abay contract area could contain as much as 4.4 billion barrels of oil in reservoirs between 1,300 and 1,800 metres below the seabed. Water depths at the site are between 8 and 10 metres.

Norway's Statoil signed a memorandum of understanding on its participation at the block in 2005, and went on to strike a heads of agreement with KMG for development work in 2011. Two years later, however, the Oslo-based producer withdrew from the project, allegedly after deeming it too risky a venture.

In a statement in May announcing a fresh search for a partner, KMG said it would accept offers from oil and gas companies in the Forbes' 200 list of the world's largest public entities, as well as their wholly owned subsidiaries, without pre-qualification. Other potential investors will need to have at least five years of prior experience working at Caspian exploration projects backed up by significant financial resources, the company said.

The Abay block is nearby to the Kalamkas deposit, which has been earmarked as the next development target of the consortium operating the Kashagan oilfield. The consortium includes Royal Dutch Shell (UK-Netherlands), ExxonMobil (US), Total (France), CNPC (China) and Inpex (Japan), alongside KMG.

Abay is also adjacent to the Satpayev block, which KMG is developing with India's ONGC Videsh Ltd (OVL). Astana invited OVL to work at the Abay block in 2014, although a partnership was never

finalized. The Indian company did not respond to a request by NewsBase Intelligence (NBI) to confirm whether it had made an offer for the Abay block last month.

OVL bought a 25% stake in Satpayev in 2011, paying \$80 million to KMG plus a \$13 million signing bonus to the Kazakh government. It originally had planned to drill two exploration wells at the site in 2014 and 2015, although delays in securing a platform meant this schedule was not kept. Work on the first well finally got under way in mid-2015, although results were not published. In its report for the 2016-2017 financial year, OVL said it intended to spud a second well at the site this month. It also noted that Astana had granted it a two-year extension on its license for exploration work, KazWorld reported.

#### **ATR grows upstream support capability in Kazakhstan**

ATR has opened a new base in Kazakhstan. This will initially employ 12 new personnel, 10 locals, with plans to double the size of the team over the next 12 months.

The company took the decision after securing various contracts to supply lifting equipment and regulatory inspection and maintenance services to support projects for leading energy services companies.

The purpose-built facilities at Aktau, close to 2,000 sq m (21,528 sq ft) in size, will include offices, workshops, and a yard area with the location selected to support clients in the Caspian area.

ATR, which merged last year with Centurion Group, claims to be the largest rental fleet management company to the UK's oil and gas industry.

Other Centurion subsidiaries are Conserve Oilfield Services, Jack Winches, Mining Camps Australia, RentAir Offshore, Safety & Technical Hydraulics, Seanic Ocean Systems, UES, and Tristar Water Solutions.

Under Centurion, ATR expects to be better placed to support campaigns elsewhere for operators, drilling companies, fabric maintenance contractors, engineering firms, and across shutdowns and marine projects.

The local workforce in Aktau will liaise with personnel in Baku and Aberdeen, according to a company press-release.

## **OIL & GAS PRODUCTION**

### **Kazakhstan confirms commitment to OPEC agreement to cut oil production**

Kazakhstan confirmed July 12 its commitment to agreements between the Organization of the Petroleum Exporting Countries (OPEC) and non-OPEC countries to reduce oil production until April 2018.

"I want to say that Kazakhstan will try to fulfil its obligations on all signed agreements. Our commitments were taken last year and extended at the OPEC and non-OPEC meeting in May. Thanks to these agreements, we sold our oil for export at an average price of \$52 per barrel in the first quarter. For comparison, prior to these agreements, Brent crude oil price was \$32 in the first quarter last year," said Kazakh Minister of Energy Kanat Bozumbayev at a July 12 press conference.

Kazakhstan, however, reportedly has not yet made a final decision on whether to extend the original agreement past April 2018, TASS reported July 9, citing Bozumbayev. The ministry denied this information.

"In connection with the latest incorrect publications in some well-known news agencies, the Ministry of Energy of the Republic of Kazakhstan informs that Kazakhstan once again confirms earlier commitments on an agreement to reduce the level of oil production between the OPEC and non-OPEC members. We will continue to adhere to signed commitments taken until April 2018. There were no proposals to extend or change the volume of obligations from partners. Therefore, now, this issue is not considered. Therefore, we kindly ask you to take the information of the ministry unambiguously and without any free interpretation," the ministry's press service stated.

In November 2016, OPEC and non-OPEC countries agreed to cut production by 1.8 million barrels per day from Jan. 1 in an attempt to end a supply glut.

In May, Vienna hosted the OPEC meeting, where member countries agreed to prolong the agreement on the oil reduction for another nine months through March 2018. Other eleven countries that are non-OPEC members, including Kazakhstan, also agreed to extend the output cuts for this period. Bozumbayev attended the meeting representing the interests of Kazakhstan, Astana Times reported.

#### **Tengizchevroil plans to cut oil output due to maintenance**

Tengizchevroil, Kazakhstan's largest oil producer, plans to cut oil production by 480,000 tons in August and by 60,000 tons in October due to maintenance works, the Kazakh Energy Ministry told Reuters in emailed comments.

The maintenance work will be in two phases between August 1 and September 2 as well as October 1-12. Kazakhstan holds a 20% stake in the venture via state oil and gas firm KazMunaiGas. Chevron owns 50%, Exxon Mobil has 25% and Lukarco, controlled by Russia's Lukoil, the remaining 5%, reported by Reuters.

## **OIL & GAS EXPORT & TRANSPORTATION**

### **Crude exports via CPC terminal up 24.6% to 27.2 million tons in the first half of 2017**

In January-June 2017, crude oil exports via CPC Marine Terminal in Novorossiysk increased by 24.6%, year-on-year, to 27.2 million tons, CPC says.

The terminal shipped more than 24.6 million tons of Kazakh oil and more than 2.6 million tons of Russian oil.

In June, crude exports climbed by 37.7% to 4.68 million tons.

CPC pipeline system is one of the largest investment projects in the energy industry with participation of foreign capital on the CIS territory. The length of the pipeline connecting the oil fields in Western Kazakhstan with the Marine Terminal near Novorossiysk is 1,511 km. CPC Marine Terminal is equipped with single point moorings which allow for safe tanker lifting at a considerable distance from the shore, also when the weather conditions are unfavorable. Crude exports via CPC terminal in 2014 climbed by 22.2% to 39.9 million tons.

CPC Shareholders are the Russian Federation (represented by Transneft – 24% and CPC Company – 7 %) – 31%; Republic of Kazakhstan (represented by KazMunayGaz – 19% and Kazakhstan Pipeline Ventures LLC – 1.75%) – 20.75%; Chevron Caspian Pipeline Consortium Company - 15%, LUKARCO B.V. – 12.5%, Mobil Caspian Pipeline Company – 7.5%, Rosneft-Shell Caspian Ventures Limited – 7.5%, BG Overseas Holding Limited - 2%, Eni International N.A. N.V. - 2% и Oryx Caspian Pipeline LLC – 1.75%, according to Port News.

## **OIL & GAS INFRASTRUCTURE**

### **Kuryk ferry port to take one million tons of cargo by year's end**

Kuryk international ferry port on the Caspian Sea, which started operation in the beginning of the year, has received 93 ships and more than 400,000 tons of cargo. Plans are underway to increase the number up to one million tons, according to a Kazakhstan Temir Zholy (KTZ) press release.

First Deputy Prime Minister Askar Mamin inspected the Nurly Zhol projects during his working trip to the Mangystau region. He also visited the construction site of the port's second phase.

Phase one was launched in December. Last year, 44 areas were put into operation, including the railway road, which allowed handling ferries with freight cars in round-the-clock mode.

Kazakh President Nursultan Nazarbayev's state-of-the-nation address specified the nation's third modernization must enhance vehicle access, which will provide transshipment of cargo vehicles. That access is part of the second phase of construction, as equipment at the ferry port is currently being built and offshore dredging has been completed. Construction of the eastern and western protection embankments is underway.

The new ferry crossing will provide multimodal transportation of all types of cargo, including liquids, significantly increasing transit cargo traffic and export potential across the Caspian Sea to the ports in Azerbaijan, Iran and Russia. Commissioning the crossing will expand Kazakhstan's sea gates, appreciably increasing the potential of the Trans-Caspian International Transport Route. The route arrangement includes countries such as Kazakhstan, Azerbaijan, Georgia and Turkey.

Mamin was also familiarized with the execution of projects to reconstruct the region's nationally important highways. A number of projects, such as Aktau-Shetpe (167 kilometres) and Shetpe-Sai Otes (60 kilometres), are proceeding and regional authorities have also started rebuilding the 85-kilometre Beineu-Akzhigit-Uzbekistan border highway.

After the loan agreement is ratified this fall, reconstruction will begin on a 73-kilometre section of Zhetybai-Zhanaozen Road.

Mamin instructed local authorities to take measures to complete the work in the shortest possible time to significantly increase the region's transportation potential, Astana Times reported.

## **PROCESSING & REFINERY**

### **Shymkent refinery completes first stage modernization**

On June 30, the Shymkent Refinery commissioned a large process facility, which is the isomerisation unit for light gasoline fractions with a pre-hydro treating block and produced the first certified batch of motor gasolines as per K4 and K5 emission standards. This ended the first stage of the Shymkent Refinery Modernization and Reconstruction Project.

Akim (Governor) of the South Kazakhstan region Zhanseit Tuimebayev, Senior Vice President for Oil and Gas Processing of Kazmunaygas Daniyar Tiyessov, General Director of CNPC in Kazakhstan Bian Dezhi, PKOP top management represented by President Jiang Shi and First Vice President Askar Turisbekov, as well as representatives of a number of subcontracting companies participated in the launch ceremony.

Adding this unit with a capacity of 600,000 tons a year to the refinery process scheme will increase the production of high-octane gasolines meeting up-to-date emission standards by 460,000 tons a year.

Pre-commissioning works began March 31 and implementation of the modernization project began in January 2014. That was preceded by a feasibility study, estimates and state reviews.

The project created 2,500 construction-phase jobs and over 100 permanent jobs for the operation of the first stage facilities, including 45 for the isomerisation unit. Professional training of employees was arranged at the Atyrau Refinery and the Guangxi Refinery in China.

In April 2017, Kazakh Minister of Energy Kanat Bozumbayev inspected the facilities of the first stage of the modernization and instructed to ensure production of high-octane gasolines of K4 and K5 emission standards by July 2017. The refinery has met the deadline.

On June 23, the first on-spot oil product loading unit with the capacity of 2.5 million tons/year, ensuring closed-dome loading of oil products into rail tank cars, was put into operation in Kazakhstan. Also, within the framework of the first modernization stage a Diesel Hydrotreater with the capacity of 1.5 million tons/year, a sulphur plant with the capacity of 4,000 tons per year and off-sites have been already put into operation.

Currently, the refinery is continuing the construction of facilities under the second modernization stage, the purpose of which is to increase the refinery throughput to six million tons a year and the conversion rate with the project completion in September 2018, Astana Times reported.

## **RENEWABLE ENERGY**

### **Large-scale solar energy plant built in beach resort north of Almaty**

The largest Central Asian solar power plant will be built in the Almaty region. The plant will produce 50 megawatts of electricity. This is enough to provide power to five rural areas. Thus, the Kapchagai lake town is planned to be turned into the first large settlement that will receive energy exclusively from alternative sources. The first experiment was conducted in 2013. A solar power

station with a capacity of two megawatts was constructed there. 60 panels were installed to generate energy, they rotate following the sun movements during daylight. The plant is successfully operating and provides electricity to a thousand houses.

“We have 500 hectares of land at a distance of 10 kilometers from this site. We are going to build an electric power station with a capacity of 50 megawatts on this plot. We have already received approval from the state expertise on design estimates,” says the station’s director Zhomart Momyrbayev.

The warranty service life of the solar power plant is 25 years. People benefit from wind energy too. According to experts, 158 mini hydropower plants with a total capacity of 1800 megawatts can be built in the Almaty region.

“We installed four wind power stations last year. In the future, we are planning to install up to 20 additional wind farms. They will produce about 20 Megawatts of electricity in the future,” in the words of Kapchagay’s mayor Talgat Kainarbekov.

There is the first eco-office in Almaty. It uses alternative energy sources. The office is illuminated with electricity obtained from solar panels that are installed on the roof. The building has water recirculation for drainage and plants watering. The office uses diode lighting. A laptop consumes less power than that with a hundred-watt bulb. The project was prepared in five years. The arrangement of the green space costed 25% more expensive than that of a traditional office.

Businessman Maxim Baryshev commented: “On average, I can say that a similar but not eco-friendly office building’s utility consumption costs about 350,000 tenge per month. Our office building’s utility bill is maximum 70,000 tenge a month, according to Kazakh TV.

### **Belgian company ready to invest in alternative energy projects in Kazakhstan**

The management of the Belgian company QWAY energy has arrived in Shymkent in the South Kazakhstan region to meet with local businesspeople at the region’s Chamber of Entrepreneurs and discuss a renewable energy project, the Atameken National Chamber of Entrepreneurs of Kazakhstan reported.

300 days of sunshine out of 365 days a year — this natural characteristic of the South Kazakhstan region has become a tipping point in the decision of Belgian investors to implement joint alternative energy projects in the region.

Luc Graré, CEO and Managing Director of QWAY energy, said that in May 2017, the company founded a subsidiary in Astana and currently participates in the development of 300MW solar energy projects, 15MW of biogas, 50MW hydro-power and several wind power projects in Kazakhstan.

Luc Graré expressed interest in the participation of local companies in the projects for the construction, development, modernization, expansion and reconstruction of Kazakhstan’s hydroelectric stations, solar stations and wind farms. “There are a lot of projects in Kazakhstan in this direction which require investments,” he said. “Our company is ready to invest its own funds, as well as borrowed funds from other investors, and thus become a bridge between Europe and Kazakhstan, attracting not only financing, but also modern technologies, construction companies, equipment and suppliers. At the international level, we have an extensive network of partners, in order to provide the necessary financial resources for the implementation of projects.”

## **CONTACTS**

### **Embassy of the Kingdom of the Netherlands**

62, Kosmonavtov str.  
Chubary mcrd, 3<sup>rd</sup> floor  
010000 Astana  
T: +7 7172 555450  
F: +7 7172 555474  
[ast@minbuza.nl](mailto:ast@minbuza.nl)

### **Embassy Office in Almaty**

103, Nauryzbai Batyr Str.  
050022 Almaty  
T: +7 727 2503773  
F: +7 727 2503772  
[alm@minbuza.nl](mailto:alm@minbuza.nl)

## INDUSTRY EVENTS IN 2017



### **KIOGE**

International Oil & Gas Exhibition and Conference

3 – 6 October 2017, Almaty

Organizer: Iteca

[www.kioge.kz](http://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](http://www.moge.kz)