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# 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

### **Russia's Lukoil may invest further in Kazakhstan**

Russia's Lukoil announced last week that it expects to sign an agreement with Kazakhstan to develop the country's oil fields.

"We expect we will sign a new field development agreement with Kazakhstan in the near future," Lukoil's CEO Vagit Alekperov said on Thursday, according to TASS news agency.

"The legislation of Kazakhstan has been changed lately and it becomes attractive for investors. Therefore, it is critical for us to preserve and build up the competence we have developed here," Alekperov said.

Russia's second-largest energy company, after Gazprom, has been involved in Kazakhstan for several years. With over \$7 billion invested in Kazakhstan, the company is currently developing three oilfields, namely Karachaganak, Kumkol and Tengiz. Lukoil holds a 15% share in the Karachaganak gas and gas-condensate field project and a 5% stake in Tengiz. Kumkol is its largest project in terms of shareholding, with 50%. That project is based in southern Kazakhstan and is being developed with the Canadian company called PetroKazakhstan.

Lukoil's interests in Kazakhstan currently account for about 10% of the country's overall oil production. The country ranks sixteenth globally in terms of crude oil production, and thirteenth in crude exports, according to U.S. figures.

On January 1, new tax laws went into effect, optimizing the tax scheme and making Kazakhstan a more attractive country for investment by outside corporations. According to reports, the new laws repeal of inefficient tax benefits and offer more incentives for businesses looking to operate inside what is Central Asia's largest economy, Caspian News reported.

## OIL & GAS PRODUCTION

### **Oil production in Kazakhstan to reach 2.7 million barrels per day by 2040: OPEC**

Oil production in Kazakhstan is projected to reach 2.7 million barrels per day by 2040, according to the Organization of the Petroleum Exporting Countries, OPEC.

Current oil production in Kazakhstan is 1.8 million barrels per day.

Already in 2025, Kazakhstan will produce 2 million barrels per day, 2.3 million barrels per day in 2030, 2.6 million barrels per day in 2035, and 2.7 million barrels per day in 2040, OPEC said.

Two oil giants Kashagan and Tengiz oil fields are expected to increase production.

In 2017, Kazakhstan produced 72.932 million tons, 11.2% growth year-on-year, AKIpress reported.

### **By 2025 Kazakhstan will increase oil production by 25%**

By 2025, Kazakhstan will increase oil and gas condensate production up to 107.3 million tons, the strategic development plan of the country, approved by a decree of President Nursultan Nazarbayev, says.

The production of oil and condensate in Kazakhstan in 2017 amounted to 86.2 million tons, an increase of 10.5% to 2016.

"It is assumed that the volume of crude oil and gas condensate production in Kazakhstan ... will amount to 107.3 million tons in 2025," the text says.

According to the document, the increase in production in the medium term will be implemented within the framework of the Kashagan field and the project of the future expansion of the Tengiz field. Integrated information technology platforms for the management of natural resources will be introduced, Prime.ru reported.

### **Oil production plan for 2018 is 87 million tons**

The plan for oil production in 2018 is 87 million tons, Energy Minister of Kazakhstan Kanat Bozumbayev said at a meeting of the Ministry, Kazpravda reports.

"Oil production in 2017 was 86.2 million tons, which is 10.5% more on-year. The largest oil production volume was provided by the Atyrau and Mangistau oblasts, and in 2018 the oil production plan is 87 million tons," Bozumbaev said.

The minister ascribed the main increase in oil production in 2017 to the stable growth of the Kashagan field.

"This year, the main increase is expected due to this field, Kashagan's production plan for the year 2018 is about 11 million tons," he added.

The forecast for 2018, Bozumbaev went on to say, is to be about \$55-60 per barrel. One of the key events in 2017 was the expansion of the capacity of the CPC (Caspian Pipeline Consortium) up to 52 million tons in Kazakhstan's section. Technically, the oil export capacity is about 100 million tons, Bozumbayev said.

### **Kashagan oil output crosses 300,000 barrels per day, but 'giant' increases unlikely**

Kazakhstan's giant Kashagan oil field is achieving new production highs every month and has done better than 300,000 barrels per day, but development beyond the current phase is likely to be about "discretionary step-ups" rather than giant steps, Shell country chair and vice president Olivier Lazare said.

Speaking at the IP Week conference in London, Lazare declined to specify the current production level, saying there were still reliability issues with the first phase, which started producing in 2016 after more than \$50 billion of investment and multiple delays, and has a target of 370,000 barrels per day.

Kashagan, a 10-billion-barrel, high-pressure, high-temperature field developed by a seven-company consortium in the Caspian Sea, is viewed as an industry landmark.

The project's numerous difficulties have attracted scorn at times. But it is now boosting supplies of the high-quality CPC crude blend delivered at Novorossiisk on the Black Sea coast, which amount to well over 1 million barrels per day.

Lazare noted that average production from Kashagan last year was over 225,000 barrels per day. But he sounded cautious about further big investments in the context of weaker oil prices and the technical challenges involved, saying the consortium was still learning from the first "experimental" phase.

He confirmed the consortium is focusing on optimizing operations for the time being, rather than further development.

"We're really talking about not doing the giant things again, but really looking at discretionary step-ups in moving forward. We're defining this future as we learn about the sub-surface," he said.

"We are producing right now from something like 16 wells -- these are giant wells. We're learning about the sub-surface. There's huge uncertainty. And that's also why we're prudent about the future. We're thinking about it. We don't want to leave this very large resource," Lazare later told reporters.

"The world has changed. It was a different oil price. [Kashagan] is sour, it's high pressure and it's offshore so as a starting point it doesn't start by being fundamentally cheap as a development. But it's very big, so that's the positive side," he said.

The comments chimed with those of Total upstream president Arnaud Breuillac, who in an interview with S&P Global Platts this week said of Kashagan: "There is some work being done to think what could be the next stage, but for now the priority is really to stabilize the potential of the field as it is today, with what is installed."

Lazare also cautioned against any expectations of big output increases from the similarly giant Karachaganak condensate field, which also contributes to CPC.

Shell gained a stake in Karachaganak in 2016 with its purchase of the UK's BG, and Lazare credited its involvement in the achievement of record oil and gas output last year of 390,000 barrels per day of oil equivalent, of which the liquids portion was 230,000 barrels per day.

Lazare said discussions -- which have reportedly been fraught -- were centered on sustaining a plateau of production from Karachaganak -- involving reinjection of gas to support pressure levels -- rather than aiming for big increases.

He said that building gas processing facilities at the site was a "possibility." Such a step could reduce the field's dependence on gas processing facilities located across the nearby border with Russia in Orenburg.

Lazare expressed dissatisfaction with the price the partners get for gas sold to Russia's Gazprom. He noted an "inter-dependency" as Gazprom is keen to maintain the Orenburg gas processing plant in the face of declines in its own production in Russia. Gazprom is not part of the Karachaganak consortium.

"At the moment we're talking about a plateau extension project. To make a big leap we need some other imagination. I never rule anything out," Lazare told reporters, according to Platts.

### **TCO reaches record-high oil production in 2017, seeks to expand in 2018**

Last year was a milestone for Tengizchevroil (TCO), the Chevron-led joint venture operating the Tengiz oil and gas field in Atyrau region, as the company achieved a record-high 28.7 million tons in oil production. TCO General Director Ted Etchison reported the 2017 results and plans for 2018 during a recent press conference in Almaty.

TCO was formed by the Kazakh government and Chevron Corporation in April 1993. Kazakhstan currently holds a 20% stake through the KazMunaiGas national oil and gas company, Chevron owns 50%, ExxonMobil owns 25% and Russian-American company LukArco owns 5%.

The company produced 27.56 million tons of crude in 2016, said Etchison, boosting oil production by 4.1% the following year. The figure included 1.38 million tons of liquefied petroleum gas, 7.45 billion cubic metres of dry gas and 2.49 million tons of sulphur.

June 2017 marked another milestone in TCO history, as the company produced its three billionth barrel of crude oil.

To date, TCO has contributed \$125 billion to the Kazakh economy, including salaries to local workers, purchasing \$24 billion in local goods and services, payments to state bodies and dividends to local partners, as well as taxes and royalty to the national budget, said Etchison. Payments reached \$8.5 billion in 2017.

"Oil prices drastically fell more than three years ago, which resulted in the decrease in payments to Kazakhstan starting in 2015. In 2017, however, the indicators were much better," he added.

The current production volume is not the limit, he noted. In July 2016, TCO partners announced the launch of the Future Growth (FGP) and Wellhead Pressure Management (WPMP) projects, which are expected to increase crude oil production by 12 million tons per year or 260,000 barrels per day. The cost of the expansion is estimated at \$36.8 billion.

WPMP will provide for the full load of the Tengiz plants' processing capacity by decreasing flowing wellhead pressures and boosting pressure at the six existing processing lines. FGP will incorporate sour gas injection technology used during the company's previous expansion project.

"In 1992 and 1993, the focus was on initial production, but by then we were already considering possible sour gas injection technology. The questions we faced within this experiment included sour gas injection back into the reservoir, which on one hand is good for the environment and on the other will help boost production. We launched this pilot project in the mid-2000s and built what we now call the second generation plant. The experiment turned out to be very successful from a technical point of view," said Etchison.

Social responsibility remains vitally important for TCO, he added. The company has invested \$3 billion since 2000 to decrease negative consequences on the environment and managed to achieve a 70% reduction in carbon dioxide emissions per tonne of crude oil.

The company will continue its social infrastructure projects, which to date total \$1.4 billion in addition to the \$25 million allocated annually to its Igilik voluntary social infrastructure project, said Etchison, according to Astana Times.

## **OIL & GAS EXPLORATION & DEVELOPMENT**

### **The question on development of the sea fields Khazar and Kalamkas-Sea will be solved in 2018**

The Ministry of Energy of Kazakhstan plans to reach final agreements on a joint development of the sea fields Kalamkas-Sea and the Khazar in 2018, Interfax Kazakhstan reports.

"We expect to achieve positive results on the project of development of Khazar and Kalamkas-Sea fields and negotiations are continuing," Minister of Energy Kanat Bozumbayev said.

The North Caspian Operating Company, the operator of Kashagan, studies a possibility of joint development of the field Kalamkas-Sea and the nearby field of Khazar of the Caspi Meruyerty Operating Company B.V.

"Cumulative recoverable reserves of these two fields make 67 million tons of oil and 9 billion cubic meters of gas. We hope that economy of expenses as the result of joint development of these fields will provide economic efficiency of development of fields and also open perspectives for the development of other fields on the Central Caspian Sea," specified the message of NCOC.

The Kalamkas-Sea field is located in a northeast part of the Kazakhstan sector of the Caspian Sea.

In 2013 the NCOC international consortium declared commercial opening on the Kalamkas-Sea field. According to some information, geological stocks of this field were estimated at least at 160 million tons of oil, and according to more optimistic forecasts up to 1 billion tons. The NCOC consortium plans to begin oil production on the Kalamkas-Sea field in 2022.

The Khazar field is in the water area of the Caspian Sea, located in the contract area of the offshore section of Kashagan. Its operator is Caspi Meruyerty Operating Company B.V. A production sharing agreement with the right of conducting exploration and production in the contract area signed on December 14, 2005.

The parties of the production sharing agreement are Shell, offshore Oil Company KazMunayTeniz, a subsidiary of KazMunaiGas, and Oman Zhemchuzhiny Company Limited, according to Informburo.

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

### **10 million tons of Kashagan oil exported**

Ten million tons of crude oil and condensate have been exported from the Kashagan field, Kazinform reported with reference to the NCOC press service.

"On February 2, 2018, North Caspian Operating Company N.V., Operator of the first offshore oil and gas project in the Kazakhstan sector of the Caspian Sea, announced that as of 30 January it safely produced and exported 10 million tons of crude oil and condensate from the Kashagan field," the company says.

It is noted that NCOC will gradually ramp production.

"Our approach to ramping up production is a sequence of steady and planned steps to build confidence in our equipment, processes, and the reaction of the reservoir. Safety, as always, is our first priority and will not be compromised," NCOC said, Kazinform reported.

### **Transneft expects pumping 1 million tons of oil of Kashagan through Russia in 2018**

Transneft expects that in 2018 pumping of oil from Kashagan Kazakhstan through the oil pipeline Atyrau-Samara- Novorossiysk will make 1 million tons, Interfax tells. The vice-president of the company Sergey Andronov reported about it to journalists. The vice-president added that applications from the Turkmen producers for 2018 on transportation of oil through Russia in the direction of Novorossiysk stand at the level of 120 thousand tons.

"The logistics of supply of the Turkmen oil depends on which company will win tenders and buy this oil. As far as we know, SOCAR is the winner of tenders for Turkmen oil, and it exports oil in the direction of Baku-Tbilisi-Ceyhan," Sergey Andronov explained, ABC TV reported.

## **PROCESSING & REFINERY**

### **Construction of fourth refinery to be decided on soon**

Construction of the fourth refinery will be decided in the second half of 2018, Energy Minister Kanat Bozumbayev informed today at the enlarged meeting of the Ministry.

“As urged by the President, we are working out the issue of construction of the fourth refinery,” the Minister said.

According to the Minister, the conducted analysis shows that, given anticipated growth of consumption, there will be deficiency of gasoline between 2021 and 2023, diesel fuel by 2023 and jet fuel after 2026.

“KazMunaiGas will prepare a feasibility study before the second half of 2018 under the guidance of the Ministry. In the second half of 2018 there will be made decisions of possible construction, location and capacity of the refinery,” Kanat Bozumbayev added, Kazinform reports.

## **RENEWABLE ENERGY**

### **Development Bank of Kazakhstan funds wind energy farm to open in 2019**

The Development Bank of Kazakhstan (DBK) is financing CATEC Green Energy’s construction of a wind power plant near the capital. The initial section, with a capacity of 50 megawatts, will be completed by mid-2019.

“The wind farm construction will contribute to the fulfilment of Kazakhstan’s international commitments to reduce greenhouse gas emissions. The project is also in congruence with the national strategy of transition to a green economy,” said CATEC Green Energy deputy director for technical matters Yedil Saryev.

The plant will be in Kostomar village, approximately 40 kilometres from the city. The project costs 46.1 billion tenge (\$143 million), with 30.5 billion tenge (\$94.8 million) issued by DBK as a 10.5-year loan and 3.6 billion tenge (\$11.2 million) provided by its subsidiary, DBK-Leasing, to purchase equipment. The company will use 12 billion tenge (\$37 million) of its own funds.

Once the first part is finished, the plant will be equipped with the necessary infrastructure and 15 Vestas wind generators. Approximately 300 jobs will be created during construction and 20 permanent positions will be offered to service the station.

After the second part is commissioned, the total capacity will reach 100 megawatts. The renewable energy will meet the demands of 10,000 families and simultaneously reduce reliance on fossil fuels.

“Environmental considerations are an integral part of the project. The launch of the wind power plant will allow reducing greenhouse gas emissions by 230,000 tons per annum, which exceeds the emissions of 113,000 cars per year. New developments and technologies for wind energy conversion adapted to the region’s climatic conditions will be applied,” said DBK’s client service senior banker Aizhan Bitebayeva.

CATEC Green Energy was established in 2014 to execute investment projects related to renewable energy sources. The company is also constructing a wind farm in Mangistau region and has contributed to the solar plant in Kapchagai and wind farms in Ereimentau and Shelek, Astana Times reported.

## INDUSTRY EVENTS IN 2018



### **KAZNEFTEGAZSERVICE-2018**

Annual Conference on Oilfield Construction and Engineering

16 March 2018, Atyrau

Organizer: KazService

[www.kazneftegazservice.com](http://www.kazneftegazservice.com)



### **Global Oil & Gas Atyrau**

Atyrau Regional Oil and Gas Technological Conference

10 – 11 April 2018, Atyrau

Organizer: Iteca

[www.oil-gas.kz](http://www.oil-gas.kz)



### **Atyrau Oil & Gas**

North Caspian Regional Exhibition on Oil and Gas

10 – 12 April 2018, Atyrau

Organizer: Iteca

[www.oil-gas.kz](http://www.oil-gas.kz)



### **KIOGE**

International Oil & Gas Exhibition and Conference

3 – 5 October 2018, Almaty

Organizer: Iteca

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

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