



# 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**

### **Kazakhstan hopes to resolve profit sharing dispute with oil majors by June**

Kazakhstan hopes to settle a profit sharing dispute with global energy companies developing the Karachaganak gas condensate field by June, its deputy energy minister said on Friday, after talks were repeatedly extended, according to Reuters.

Eni and Shell have the biggest stakes in the Karachaganak project, which they jointly operate.

"Negotiations on the Karachaganak project are rather active, we meet almost daily, our last meeting was yesterday," Magzum Mirzagaliyev told reporters.

"Because the talks are rather large scale... we have decided to extend the memorandum (on negotiations) until May or June."

Kazakhstan filed a \$1.6 billion claim against foreign firms developing the Karachaganak gas condensate field in 2015, one of the companies has said. The Energy Ministry has said the row was over how each party's share of the field's output was calculated.

Eni and Shell each own 29.25% of the Karachaganak project in northwest Kazakhstan, while Kazakhstan's KazMunaiGas owns 10%, Chevron Corp has 18% and Lukoil owns 13.5%.

Last September, Energy Minister Kanat Bozumbayev told Reuters the former Soviet republic had received an offer from the consortium, but considered it insufficient.

Kazakhstan had previously planned to conclude the talks by the end of last year and then by the end of the first quarter.

### **KazMunaiGas wants another large foreign loan**

The national oil and gas company is preparing to take a major loan.

KazMunaiGas has authorised Citi, Halyk Finance, J.P. Morgan, MUFG and UBS Investment Bank as joint managers and joint book runners to organise a series of meetings with investors in the US, Kazakhstan and Europe, starting April 6, 2018.

Depending on the market conditions, senior unsecured Eurobonds denominated in US dollar will be issued for at least \$500 million with expected maturities of 7 years, 12 years and/or over 30 years, with the expected ratings of Baa3 by Moody's and BBB- by Fitch.

KazMunaiGas has a lot of challenges ahead, and probably \$500 million, and even \$1 billion, may be not enough for the company in the short term. Especially if oil prices remain below \$70 per barrel.

The social program of the national company is very extensive, and first of all KazMunaiGas will have to work on reducing costs.

Now it is difficult to say how loans will affect the price of the company's shares during the planned IPO in 2019, and whether there will be an IPO in general. Without clear and transparent structure of the company and its expenditures, there is no reason to go to the stock exchange, Forbes Kazakhstan reported.

### **Lukoil sets sights on stakes in two fields on Kazakhstan's Caspian shelf**

Lukoil wants to acquire stakes in two new fields on Kazakhstan's Caspian shelf - I-P-2 and Zhenis, which Total turned down in 2012. According to Kommersant, Lukoil has little to no prospects of obtaining new shelf areas in Russia. The Russian oil company is discussing entry into a project with KazMunaiGas, Kazakh Energy Minister Kanat Bozumbayev told Kommersant.

The fields are located in the southern part of the Kazakhstan shelf. Joint ventures by Lukoil and Kazmunaigaz are not far from this region - the Tsentralnoye and Khvalynskoye oil fields.

In February, Lukoil CEO Vagit Alekperov said that the company was interested in participating in the exploration of two fields on the Caspian shelf of Kazakhstan on the border with Russia. According to him, after recent amendments, Kazakhstan's legislation has made it possible to have a good profitability rate on complex fields.

Currently, Lukoil is participating in a project to develop the Karachaganak gas condensate field in northwestern Kazakhstan. Karachaganak Petroleum Operating BV consortium is working on this deposit, along with British Gas (29.25%), Eni (29.25%), Chevron (18%), Lukoil (13.5%) and KazMunaiGas (10%).

## **OIL & GAS PRODUCTION**

### **Kazakhstan's the first quarter oil output rises 6.1% year-on-year**

Kazakhstan's oil output rose 6.1% year-on-year to 22.4 million tons in the first quarter of 2018, the energy ministry said.

Output at Tengizchevroil, owned by Chevron, ExxonMobil, LUKOIL and KazMunaiGas rose 1.8% in the same period to 7.4 million tons.

The giant Kashagan field, developed by Eni, ExxonMobil, CNPC, Shell, Total, Inpex and KazMunaiGas, boosted its output 79.4% to 2.9 million tons.

The Karachaganak field, operated by a Shell- and Eni-led consortium, reduced its output by 1.5% to 3.2 million tons, Reuters reported.

### **Kashagan oil output seen back to normal from mid-April after maintenance work**

Oil production at the giant Kashagan oilfield in Kazakhstan fell to 210 000-211 000 barrels per day in late March-early April, the Kazakh energy ministry said.

Output fell from normal levels of 310 000 barrels per day but the ministry told Reuters that production would return to those levels from April 17.

It said the drop was due to repair and maintenance works and the suspension of gas injection, a process which helps boost pressure and hence output from the offshore field in the Caspian.

Kashagan is operated by Eni, Total, Shell, ExxonMobil, KazMunaiGas, China's CNPC and Japan's Inpex.

One of the biggest oil discoveries in recent history, its development has been plagued by technical issues, delays and cost overruns. The field finally began stable commercial production in late 2016, 11 years behind the original schedule, according to Reuters.

### **Kashagan is going to increase production to 300 000 barrels per day by the end of June**

The Kashagan field is going to increase oil production from 215 000 to 300 000 barrels per day by the end of the first half of the year. This was announced by Deputy Minister of Energy of Kazakhstan Magzum Mirzagaliyev, Interfax-Kazakhstan reports.

According to him, oil production in Kazakhstan decreases without taking into account Kashagan, and the country entered the OPEC+ deal only on the condition that Kashagan will not be taken into account.

"If we did not take into account Kashagan, the extraction would be reduced. When we joined the deal we said that Kashagan, given its scale, costs incurred, delays in launching, cannot be limited. Last month we extracted 215 000 barrels per day on Kashagan. This year it was already 300 000 barrels per day. It is important for us to stabilise at this rate," Mirzagaliyev said at a meeting of the ministerial committee for monitoring the OPEC+ deal.

Earlier it was said about plans to restore production at the field in April. According to the calculations of the International Energy Agency, in March, instead of reducing oil production by 20 000 barrels per day compared to October 2016, Kazakhstan increased it by 150 000 barrels per day. The average level of fulfilment of the OPEC+ deal by Kazakhstan is 277%.

According to the initial plans of the NCOC consortium developing the Kashagan field, it was planned to reach the level of 370 000 barrels per day by the end of 2017, however, due to problems with injectivity of the reservoir, technical difficulties arose, Kursiv reported.

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

### **Turkmenistan and Kazakhstan will increase oil transportation via the BTC pipeline**

Transportation of oil from Turkmenistan and Kazakhstan via the main export pipeline Baku-Tbilisi-Ceyhan will increase over the next 3-7 years, according to Azerbaijan 24.

According to Azerbaijan 24, Tariel Mirzoyev, the head of strategic development and investment projects of the Azerbaijan Caspian Shipping Company, said at the III International Caspian Oil and Gas Forum in Baku.

“Growth will manifest itself in attracting new tankers. The shipping company will need new tankers; the old ones will be replaced by new ones. In connection with this, the program has been prepared,” he said.

According to T. Mirzoyev, the shipping company has ordered new tankers, the construction of which will be completed in 2019.

“At present, 55 tankers are on the balance of the shipping company, which annually transport about 8 million tons of cargo,” he added.

### **CPC Marine Terminal hits new record of monthly loading**

In March 2018, the CPC Marine Terminal hit a new record of monthly loading. It loaded 5,506,294 tons or 43,609,021 barrels, which is almost 6% higher than the previous record dated December 2017 when the monthly loading achieved 5,196,229 tons, the Consortium’s press service reports. Volumes loaded in March this year appeared to be 11.7% higher compared to the same period of last year. As a reminder, 4,929,486 tons were loaded into tankers in March 2017.

The remarkable thing is that the Marine Terminal handled 140 tankers from the beginning of 2018 through April 2 (50 of which were handled in March); these tankers received over 15 million tons of crude.

CPC Base Business has seen such an impressive increase due to the Tengiz-Novorossiysk Pipeline Expansion Project completed by the Consortium. In 2017 alone six new PSs were put into operation: A-PS-4A and A-PS-5A in Astrakhan Oblast, PS-8 in Krasnodar Krai, PS-5 in Stavropol Krai, A-PS-3A in Kazakhstan and PS-2 in Kalmykia, where comprehensive testing was successfully completed and the PS was put into pilot operation.

CPC pipeline system is one of the largest investment projects in the energy industry with the 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.

CPC Shareholders: Russian Federation (represented by Transneft - 24% and CPC Company - 7 %) - 31%; Republic of Kazakhstan (represented by KazMunaiGas - 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%, Kazinform reported.

### **CPC plans to ship 13 million tons of Kashagan oil in 2018**

The Caspian Pipeline Consortium (CPC) plans to ship 13 million tons of oil from Kazakhstan’s Kashagan oil field this year, up from 7.4 million tons pumped last year, CPC Chief Executive Nikolai Gorban told reporters.

CPC, the only private large oil pipeline in Kazakhstan and Russia, shipped a total of over 15 million tons of oil in the January to March period, including over 5.5 million tons in March alone, an increase of 11.6% from a year ago, Gorban said, according to Reuters.

### **250 000 tons of sulphur were exported from Kashagan**

From the oil of the Kashagan field, in the Atyrau region, 1.5 million tons of sulphur were produced, Kazinform reports.

“In October 2017, we began to export Kashagan sulphur by rail. The production of granulated sulphur quickly increased. By the end of the year, sulphur exports amounted to more than 100 thousand tons. In total, more than 1.5 million tons of sulphur have been produced since the launch of production. To date, more than 250,000 tons of pasted sulphur have been exported,” the managing director of North Caspian Operating Company, Bruno Jardin said in an exclusive interview to Kazinform’s correspondent.

The sulphur is piped in liquid form to make sulphur blocks at a sulphur granulation plant. When reaching the designed capacity, it is planned to completely abandon storage in sulphur blocks. All

processed sulphur without residue will be exported. The company plans to melt and recycle the already accumulated sulphur blocks.

“The finished granulated sulphur enters the conveyor belts and is loaded into the railway cars directly. Composition follows to Karabatan station, where NCOC transfers it to one of its shareholder companies, each of which is independently responsible for the sale of sulphur and other products of the North Caspian project. Potential markets are China and the countries of the western Mediterranean, where sulphur is used as raw material for the production of agricultural fertilizers,” Jardin explained, according to DKNNews.kz.

## **OIL & GAS INFRASTRUCTURE**

### **Damen completes three-Shoalbuster contract**

Kazakhstan state vessel operator Kazmortransflot has completed its vessel newbuilding programme to boost its marine and offshore support services in the northern Caspian Sea region. It has taken delivery of a third Damen Shoalbuster 2709.

Damen Shipyards gained a contract for three of these vessels in July 2017 and they were built at its Gorinchem shipyard in the Netherlands. The third of these, named Irgiz, was officially delivered on 15 March this year. It joins Emba and Talas, which were handed over to Kazmortransflot on 5 September 2017.

Shoalbuster 2709 duties will include towing structures and other vessels, assisting ships, navigational assistance, the planting and handling of anchors, and other auxiliary ship duties.

They were designed with draughts suitable for operations in the shallow waters of the Caspian Sea. They each have a top speed of more than 11 knots and a bollard pull of more than 40 tons.

Kazmortransflot, which is owned by state-run KazMunaiGas, operates a fleet of modern tankers and support vessels in the Caspian region.

Damen Shipyards Group operates 34 shipbuilding and repair yards, employing 10,000 people worldwide. This group has delivered more than 6,000 vessels in more than 100 countries. It builds around 160 vessels each year, Tug Technology & Business reported.

### **Malaysia's Sumatec to build plant in Kazakhstan**

Sumatec Resources Bhd has been granted an award from Markmore Energy (Labuan) Ltd worth \$120 million (RM480 million) to construct a condensate extractions plant (CEP) for the Rakushechnoye oil and gas (O&G) field in Kazakhstan.

In a filing with Bursa Malaysia yesterday, the O&G firm said intended to fund the construction of the plant, scheduled to be completed within 18 months of the signing of the gas supply agreement, via an equity fundraising exercise and bank borrowings.

Markmore Energy is the ultimate holding company of the entire participatory interest in CaspiOilGas LLP (COG), the concession owner and operator of the O&G field that supplies 80 million standard cubic feet per day of natural gas.

Sumatec will pay Markmore Energy \$155 million (RM600 million) as entry cost in the form of cash, \$100 million (RM380 million) in new Sumatec shares and redeemable convertible preference shares worth \$25 million (RM97 million).

“The Rakushechnoye O&G field is located in Karakiyansky region of the Mangistau Oblast. The nearest township is Kuryk and is located 40 km to the north, the capital city of Aktau of the Mangistau Oblast is 105 kilometres to the north,” said Sumatec.

Markmore Energy belongs to Tan Sri Halim Saad, the major stakeholder in Sumatec, while Abu Talib Abdul Rahman is both managing director of Sumatec and director of Markmore.

In January, Sumatec and COG inked a pre-sale gas agreement to sell gas to NIPIneftegas Consortium in Kazakhstan over 15 years.

The deal will see the NIP-led consortium converting the feed gas into petroleum products through a proprietary gas to liquid (GTL) technology.

The proposed capital expenditure for the gas utilisation plan, which is tied to the gas development production agreement between Sumatec and COG, will start at \$60 million (RM234 million), The Star (Malaysia) reported.

## **PROCESSING & REFINERY**

### **Shymkent oil refinery reconstruction to end in May**

The Shymkent oil processing plant (SOPP) reconstruction will last for one additional month and the interim shutdown will not affect the Kazakh fuel supply, said Vice Minister of Energy Makhambet Dosmukhambetov during the 2018-2020 draft budget presentation.

“The reconstruction will proceed according to plan. It will not affect the budget or the fuel supplies around the state,” he said.

Dosmukhambetov added the shutdown issue had been resolved with KazMunaiGas, one of SOPP’s owners. The plant was closed for overhaul April 10 to rebuilt operating equipment and add new facilities, according to owner PetroKazakhstan.

“New facilities of the residue fluid catalytic cracking (RFCC) complex will be integrated with SOPP functioning facilities,” noted the company press service.

The complex is the most important process for deep oil processing. Constructing RFCC, in addition to gasoline and hydrogen purifying and Merox desulfurising, was completed by 4,800 employees in March. New installations have created 445 jobs and employers are completing internships at Chinese, Kazakh and Russian oil processing plants.

The reconstruction phase is part of the plant modernisation project, including implementing industrial safety requirements and improving equipment reliability and qualitative and uninterrupted operation. The first stage was completed in 2017 and the second will be finalised in the third quarter of this year.

Before the planned shutdown, all tanks were filled with the necessary volume of commercial products. SOPP manufactures K4 and K5 class petroleum products.

Built in 1985, the Shymkent plant is one of the three leading and newest oil-processing plants in Kazakhstan. SOPP currently produces 30 percent of the total volume of petroleum products; the balance is produced at the Atyrau and Pavlodar plants.

PetroKazakhstan is a vertically-integrated group of oil companies with shareholders China National Petroleum Corporation and KazMunaiGas, Astana Times reported.

## **RENEWABLE ENERGY**

### **Wind power plant to be built 40 km from Astana**

Construction of a wind power plant is under construction 40 km away from Astana.

Its placement into service is expected to cut greenhouse gas emissions by 230,000 tons a year that exceeds the volume of more than 113,000 car emissions a year.

The Akmola region implements several projects aimed at alternative sources electric power production. The overall power of the wind park is to be 100 MW. The park will be 119 ha in size. Its construction will provide up to 300 workplaces, and 20 permanent jobs for its maintenance, according to Kazinform.

## INDUSTRY EVENTS IN 2018



### 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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