The Moscow Times
30 YEARS
INDEPENDENT NEWS FROM RUSSIA

Kazakh Oil Plans Vex Foreigners

By The Moscow Times

October 12, 2010

Kazakhstan's plans to boost oil output by 60 percent over the next decade may hinge on the state's ability to reassure foreign majors that their billion-dollar investments will be protected by law, industry officials said.

Foreign oil executives say privately they are concerned about growing state influence in Kazakhstan's lucrative energy sector and changes to the tax regime in a country with slightly more than 3 percent of the world's recoverable oil reserves.

"The laws are relatively simple, but they leave too much to the discretion of the government," said a lawyer active in the energy sector, who declined to be identified.

Kazakhstan, already the largest oil producer in Central Asia, aims to increase crude output to 100 million metric tons by 2015 and 130 million by 2020, from 81 million forecast for this year, the Oil and Gas Ministry said.

Crude oil exports are forecast to rise to 88 million tons by 2015 from 73.8 million in 2010, while a $4 billion revamp will allow the country's three refineries to process 17.5 million tons of crude by 2015, up from 12.7 million tons this year, including some supplies of Russian crude.

"Kazakhstan represents a significant source of incremental, non-OPEC oil supply," Kazakh Prime Minister Karim Masimov told a conference in the capital, Astana, last week.

Officials provided no clarity, however, on the start date for the key second phase of the Kashagan project — the world's biggest oil discovery in more than 40 years and potentially the largest contributor to Kazakhstan's forecast oil boom.

Cost overruns and assertive government policy, which opened the door for state oil and gas company KazMunaiGas to join the consortium of foreign investors that runs the field, have repeatedly postponed the project.

Oil and Gas Minister Sauat Mynbayev said Kashagan's first phase was on track to start producing oil as scheduled by 2013.

But he said questions remained over the timetable for the larger second phase, pending completion of a field development plan.

ExxonMobil is among the partners in the Kashagan consortium. Asked about the state's role in the energy sector, the company's senior vice president, Mark Albers, said, "When agreements are changed along the way, that increases the risk."

He added, "Where there have been disagreements, we have been able to come to a resolution that has enabled the programs to go forward."

Kazakhstan plans to earn nearly $3 billion next year by doubling its oil export duty to $40 per ton from Jan. 1, less than six months after the tax was reintroduced at $20 per ton.

While the duty should swell state coffers, even some Kazakh oil executives said it could have damaged investor sentiment.

KazMunaiGas chief executive Kairgeldy Kabyldin estimated that the state had effectively lost close to $1 billion after the market value of its London-traded unit, KazMunaiGas Exploration & Production, fell in response to the export duty.

"The market showed that investors reacted negatively to the additional export duty," he told a news conference in Almaty.

Kazakhstan's growing confidence that the state can play a significant role was in evidence at two major energy conferences held in the country last week.

The prime minister and many senior representatives of international oil majors were absent from the 18th KIOGE event in the former capital, Almaty, the traditional annual gathering of Kazakhstan's oil and gas industry.

Instead, they spent the preceding two days in a futuristic conference center in the showpiece capital Astana, attending the fifth event organized by the Kazenergy association. Its chairman, Timur Kulibayev, is also the chairman of KazMunaiGas.

Billions of dollars of Chinese investment have helped support energy sector growth in Kazakhstan, which shares a border with the world's No. 2 consumer after the United States.

Philip Andrews-Speed, professor of energy policy at the University of Dundee in Scotland, said Central Asia would supply about 10 percent of China's crude oil imports this year and could maintain such a percentage as consumption rises.

The long-term challenge to Kazakhstan and other Caspian region states, he said, would be to ensure that they are economically viable suppliers to China, which is not short of alternatives.

"The international [liquefied natural gas] market is often cheaper than gas transported 6,000 kilometers by pipeline," said Andrews-Speed, a Chinese energy specialist. "The Caspian region has a big challenge ahead to make sure it is seen by China as a favored source for energy flows and investment."

Original url: https://www.themoscowtimes.com/2010/10/12/kazakh-oil-plans-vex-foreigners-a2142