UNIVERZITA KARLOVA V PRAZE

"Oil and gas pipelines policy of the Republic of Kazakhstan"

Author

Saltanat Auyesbayeva

Advisor

Doc. PhDr. Borivoj Hnizdo

Master Degree Thesis

International Economic and Political Studies

Faculty of Social Sciences

CHARLES UNIVERSITY IN PRAGUE

January, 2008

I. DECLARATION

I declare that this thesis is my own work and has not been submitted in any form for another degree or diploma at any university or other institution of tertiary education. Information derived from the published or unpublished work of others has been given due reference.

Saltanat Auyesbayeva

Prague, Czech Republic

January 2008

II. ACKNOWLEDGEMENTS

The thesis was done with the assistance of several people. I would like to thank my family and parents in particular for moral support while this work was going on.

I am very thankful to both Professors Borivoj Hnizdo and Jan Sir for helpful advices and consultations during the entire process.

III. TABLE OF CONTENTS

IV. ABSTRACT

The importance of Kazakhstan as being oil and gas supplier has been steadily growing in the last decade. The policy of Government of Kazakhstan has focused on the energy sector. Kazakhstan is an oil rich country. Nevertheless it does not have direct access to the sea and international markets. Thus, it has to look for ways to export hydrocarbons. The best way to transport oil and gas is using pipelines. This thesis deal with oil and gas pipelines policy of Kazakhstan after independence. Introductory part describes newly emerged geopolitics in Central Asia. The following chapter offers a brief outline of what pipelines do function in Kazakhstan. The next part is an analysis of the policy of Kazakhstan towards oil and gas industry. The following parts cover foreign policy of Kazakhstan towards its neighbors and economics of the pipelines. The last part discusses what new export pipelines will be constructed in the nearest future. The author concludes that for the time being Kazakhstan is heavily dependent on Russia, all its efforts to diversify its export routes notwithstanding.

V. LIST OF ABBREVIATIONS

ABTC	Aktau- Baku-Tbilisi-Ceyhan
Agip KCO	Agip Kazakhstan North Caspian Operating Company
BTC	Baku-Tbilisi-Ceyhan
CIS	Commonwealth of Independent States
CNPC	Chinese National Petroleum Corporation
CPC	Caspian Pipeline Consortium
CPTDC	China Petroleum Technology & Development Corporation
EU	European Union
EurAsEC	Eurasian economic Community
FER	fuel and energy resources
FSU	Former Soviet Union
IBP	Initial Building Project's
ICG	International Crisis Group
KMG	KazMunaiGas
KTI	Kazakhstan-Turkmenistan-Iran
mbd	million barrels a day
NFRK	National Fund of Republic of Kazakhstan
OSCE	Organisation for Security and Cooperation in Europe
PSAs	Production Sharing Agreements
RoK	Republic of Kazakhstan
SOC	Shaghai Organization of Cooperation
TAP	Turkmenistan-Afghanistan-Pakistan
tcm	trillion cubic meters
TCO	TengizChevroil
TGP	Trans-Caspian Gas Pipeline
USEIA	United States Energy Information Administration

VI. LIST OF TABLES, MAPS, GRAPHS AND ANNEXES

Chapter 1. Introduction

1.1. Kazakhstan: leading country and the main producer of oil in Central Asia

When we speak about Central Asian states, we always remember "Soviet Union times" and what have left after the collapse of it. After the disintegration of such enormous system, and when there are several decades have passed already, the whole world turned there foreign policies toward those left post soviet countries and paid a lot of attention on how would these states behave in international politics.

Compared as "slightly less than four times the size of Texas", Kazakhstan is located on 2,717,300 sq/km land of Central Asian region. In 1991, when USSR finally collapsed, Republic of Kazakhstan has got independence. This is one of the five independent and sovereign states that had to stabilize their country's economy and establish foreign policy. This is the country with 15,284,929 inhabitants that is bordering with five countries (including China, Russia, Uzbekistan, Kyrgyzstan and Turkmenistán), and last but not the least, Kazakhstan is bordering Caspian Sea.[1] Nowadays, Kazakhstan's sector on Caspian shelf is attracting more and more attention. The advantages of bordering Caspian Sea are enormous. Due to fuel and energy resources extracted from oil and gas fields, now Kazakhstan is considered as the most developed state in Central Asian region. It has the eleventh largest oil reserves in the world and probably has the greatest capacity for production growth of any non-OPEC member.

In March 2006, President of the Republic of Kazakhstan Nursultan Nazarbayev announced strategy to make Kazakhstan one of the world's 50 most economically competitive countries.

On November 30, 2007, in Madrid, Kazakhstan was elected as a chairmanship country of the Organisation for Security and Cooperation in Europe

[1] Statistical information available at: http://worldfactbook.com/country/Kazakhstan/2006

(OSCE) in 2010. Kazakhstan became first country among former Soviet countries that was honoured with this prestige appointment.

The political and economical success of the country mostly depends on the energy sector. National reserves of oil of Kazakhstan are estimated at 30 to 40 billion barrels; while gas reserves made up 3 trillion cubic meters at the end of 2006.

The main problem for Kazakhstan is how to export that large amount of oil and gas resources. Kazakhstan is landlocked and located far from potential consumers of energy resources. Pipelines are considered as the most effective, fast and sufficient way of transportation. Pipelines cross borders of several other states. That is why questioning about how and where to transport oil and gas is very essential. In this work we will see different routes that Kazakhstan can use to transport energy resources. In choosing any of the possible ways, Kazakhstan would respond to its politics. Pipeline policy plays big role regarding relations with other countries. Today, 81% of Kazakhstan's oil is exported via pipelines, 12% is transported by railway, and about 7%, by sea.

1.2. Short description of thesis

This thesis covers the past, present and the future of the pipelines in Kazakhstan. It examines ways how Kazakhstan's natural fuel and energy resources (FER) are transported. Special attention is paid to political and economical sides of existing and being constructed in the future, pipelines. I would describe the current level of FER and pipelines development in the republic.

Aim of the thesis is to find out what is Kazakhstan's policy about oil and gas pipelines and to give at least structured picture of oil and gas pipelines that link Kazakhstan with other states. Such kind of link affects on foreign policy of the country. The methods, such as analyzing different sources of bibliography, case study and comparison would be used during the process of writing the thesis.

At the beginning there is information about Kazakhstan's oil and gas reserves. There are several big oil fields that allowed Kazakh leaders to plan their political and economical, as well as social, future. Then I have described all international oil and gas pipelines. These pipelines made Kazakhstan to maneuver among global powers and establish foreign relations. In the chapter about pipeline policy of Kazakhstan I tried to describe briefly but interestingly the foreign policy of Kazakhstan. I have covered all countries-representatives of particular pipeline and additionally I have talked about superpowers like USA and its attitude to Kazakhstan. The economical part covers possible risks that foreign companies face while doing business in Kazakhstan. Certainly, there is included investments and financial side of pipelines. Also, Kazakhstan, as most of countries experiencing oil boom, faced 'Duth disease' problem. So this paper would examine that phenomenon as well. The last part would show possible future pipelines that open for Kazakhstan new horizons to act on the international arena.

1.3. Literature review

As sources of information I have used books, articles from international magazines and journals, academic papers, reports of international organizations and internet sources. I would divide the bibliography as primary and secondary since I have primary speeches of officials, international agreements, official internet information and citations of authors of different books. I have got big inspiration from the books of authors like Martha Olcott or Sally N. Cummings. I have taken and quoted few of their ideas regarding Kazakhstan, its society and politics. Also, I was impressed by electronic sources of Charles University, where I was able to find many academic journals and articles about Central Asia. In order to show concrete and full information I have used tables, graphs and maps.

Chapter 2. Oil and gas resources in Kazakhstan.

Kazakhstan is landlocked country. But it has 600 kilometers border with Caspian Sea. This is the most advantage and luck that country has. Let me consider some statistics for this region first and afterwards we will see Kazakhstan's share. This will allow comparing and clearly seeing the significant resources of Kazakhstan.

2.1 Current data

As it was mentioned by United States Energy Information Administration (USEIA), the Caspian Sea region, including the Sea and the states surrounding it, is important to world energy markets because of its potential to become a major oil and natural gas exporter over the next decade.[2] It is clear that Caspian Sea and states surrounding it are the point of most attention from the whole world. All experts and scientists are wondered about the amount of 'black gold' and gas that are on the bottom of this sea. The amount of natural resources in Caspian base is still subject to discuss and were not counted exactly. "But it is possible to make some reasonable estimates", writes John Roberts, "that the oil and gas resources of the Caspian region are significantly higher than those of the North Sea, and may even be double those of the North Sea, while falling far short of those in the Persian Gulf. At some 40-60 billion barrels, the Caspian would possess between 4 and 6 per cent of world proven recoverable oil reserves, currently estimated at 1050 billion barrels".[3] In the gas sector, the Caspian region is currently estimated to contain between 10 and 15 trillion cubic meters (tcm), or 7-10 per cent of world proven recoverable reserves.

---

[2] Caspian Sea energy data, statistics and analysis, United States Energy Information Administration, available at: http://www.eia.doe.gov

[3] Roberts, J (2003) 'Caspian oil and gas', in Cummings S, (eds) (2003), p. 143

In order to compare data, we can see some data from the same Energy Information Administration (USEIA). They state that oil and gas reserves amount depend on the source you are looking at. For this reason they made their own calculations, and came up to the conclusion that oil reserves range between 17 and 49 billion barrels. This agency takes as comparison Qatar on the low end, and Libya on the high end. In 2006, regional oil production is expected to be 2.3 million bbl/d, which is comparable to annual production from South America's second largest oil producer, Brazil. Besides, USEIA have made future expectations by saying that during 2007 there will be over 200,000 bbl/d of annual production growth, comprised mostly of growth from Azerbaijan. By 2010, USEIA expects the countries of the Caspian Sea Region to produce between 2.9 and 3.8 million bbl/d, which would exceed annual production from South America's largest oil producer, Venezuela.[4] As to the gas resources, USEIA compares it with Nigeria reserves and puts it as 232 trillion cubic feet (Tcf).[5] So, we have seen Caspian Sea region's reservoirs that now allow us to show what the part of Kazakhstan in it is.

In previous parts we saw the importance of Kazakhstan as oil producer. Now let's see what this country has to be proud of. According to the BP statistical review of world energy 2007, to the end of 2006 Kazakhstan had had 5.5 billion tones or 39.8 billion barrels of proved reserves of oil. The total share from world oil reserves is 3.3%. Thus, the International Crisis Group (ICG) made a report on Central Asian energy resources, and pays attention on the differences that occur in given data. ICG refers to Oil and Gas Journal stating that Kazakhstan's crude oil reserves as for January 2007 were 30 billion barrels.[6] There is always difference in figures, so we have to check information twice. The production of oil as to BP statistics shows

[4] Caspian Sea energy data, statistics and analysis, United States Energy Information Administration, available at: http://www.eia.doe.gov
[5] Ibid.
[6] ICG (2007) *Central Asia's energy risks*, Asia report #133, may 24, 2007, p. 7

1.426 thousand barrels daily or 66.1 billion tones. The consumption of it consists of 10.6 million tones or 221 thousand barrels daily.[7]

Additionally, the natural gas reserves had been estimated as 105.90 tcf or 3.00 tcm and share from world gas reserves estimated as 1.7 %. You can find figures in Tables 1 and 2 below.

Table 1. Proved oil reserves (for selected countries)

Proved reserves	At end 1986	At end 1996	At end 2005	At end 2006			
	Thousand million barrels	Thousand million barrels	Thousand million barrels	Thousand million tonnes	Thousand million barrels	Share of total	R/P ratio
Azerbaijan	n/a	n/a	7,0	**1,0**	**7,0**	0,6%	29,3
Kazakhstan	n/a	n/a	39,8	**5,5**	**39,8**	3,3%	76,5
Norway	6,1	11,6	9,6	**1,1**	**8,5**	0,7%	8,4
Russian Federation	n/a	n/a	79,1	**10,9**	**79,5**	6,6%	22,3
Turkmenistan	n/a	n/a	0,5	**0,1**	**0,5**	♦	9,2
Uzbekistan	n/a	n/a	0,6	**0,1**	**0,6**	♦	13,0

Source: BP Statistical Review of World Energy 2007

Table 2. Proved gas reserves (for selected countries)

Proved reserves	At end 1986	At end 1996	At end 2005	At end 2006			
	Trillion cubic metres	Trillion cubic metres	Trillion cubic metres	Trillion cubic feet	Trillion cubic metres	Share of total	R/P ratio
Azerbaijan	n/a	n/a	1,35	**47,66**	**1,35**	0,7%	*
Kazakhstan	n/a	n/a	3,00	**105,90**	**3,00**	1,7%	*
Norway	2,30	3,00	3,01	**102,09**	**2,89**	1,6%	33,0
Russian Federation	n/a	n/a	47,66	**1682,07**	**47,65**	26,3%	77,8
Turkmenistan	n/a	n/a	2,86	**100,96**	**2,86**	1,6%	46,0
Uzbekistan	n/a	n/a	1,85	**66,01**	**1,87**	1,0%	33,7

Source: BP Statistical Review of World Energy 2007

Additionally, Kazakhstan has been producing 1426 billion barrels (or 66.1 billion tones) daily of oil and 23.9 billion cubic meters of gas in 2006.[8]

Kazakhstan's gas reserves consist mainly of gas related to oil, oil and gas, and oil and gas condensate fields. Almost all of the big Kazakh hydrocarbon fields have a high content of gas in oil, about 30%-40%. Kazakhstan has 130 registered hydrocarbon fields with proven and estimated gas reserves.[9] Commercial gas is

[7] BP Statistical Review of World Energy, 2007, available at www.bp.com
[8] BP Statistical Review of World Energy, 2007, available at www.bp.com
[9] 'Survey. Outlook for Kazakhstan gas industry', *The Times of Central Asia*, 30 September, 2005

mostly concentrated at the Tengiz, Tenge, and Tolkyn oil field, Karachaganak and Zhanazhol oil and gas condensate fields, and Amangeldy gas field.

In 2002, the republic extracted 12.3 billion c/m of natural gas; in 2005, it was 20.5 billion c/m of gas; the figure for 2010 is 35 billion c m, for 2015, 45-50 billion c m; it will consume 7.84 billion c/m, 11.15 billion c/m, and 15.83 billion c/m, respectively.[10] Considering these forecasts it is expected that country would increase its export potential to 29-34 billion c/m by 2015. Gas should mainly go to Russia and Western Europe.

The Kazakh-Russian Joint Venture KazRosGaz Co Ltd is the main gas exporter. In 2003 it bought 1.6 billion c/m of crude gas from the Karachaganak Integrated Organization that works on the country's largest Karachaganak oil and gas condensate field (see more about Karachaganak in the next parts) then the bought gas was processed by the gas purification plant in Orenburg.[11] In 2002, Ukraine, Slovakia, Moldova, and Great Britain bought gas from Kazakhstan; it is expected that the number of customers will increase in the nearest future.

Now let us see which oil and gas fields give Kazakhstan opportunity to show those figures in above tables. Where exactly does Kazakhstan extract oil from? In Kazakh sector of Caspian Sea there were found three major oil fields that give a hope for government to attract investments and explore these fields. Those are: Tengiz, Karachaganak and Kashagan. However, some sources like USEIA argue that there is a fourth oil field (Kurmangazy) that should be counted as major one too. But let us first of all see three famous oil fields found on Kazakh lands.

2.2. TENGIZ

[10] Khusainov, B & Turkeeva, K (2003) 'Kazakhstan's energy potential today and tomorrow', *Central Asia and the Caucasus*

[11] Ibid.

Tengiz field is located on the northeast shores of the Caspian Sea. It had long story to be recognized and known as Mr. Roberts said "sixth largest oil bubble in the world containing up to twenty-five billion barrels of oil".[12] Initially it was discovered in 1979, then happened destructive event in 1985 which led to (even if it sounds strange) the further development of Tengiz field.

Above I mentioned destructive case, so let me describe its story.[13] Everything has started because of the fire on one of the oil wells on Tengiz. It was on July 23, 1985, when during drilling operations at a depth of 4467 meters from well T-37 there had struck giant fountain of oil. Well flow became uncontrollable, there was an ignition. As a result, drilling installation has been completely destroyed, and the boring tool had been squeezed out from well under the pressure. That time, the spike/emission duration of an oil-and-gas fountain has last more than 400 days. There was a column of fire at a height of 250 meters that was released under the 900 atmosphere pressure. The volume of hydrogen sulphide emission to an atmosphere has made 8 billion cubic meters, and the financial damage has exceeded one billion US dollars without taking into account ecological damage and negative influence on health of citizens.[14] It is interesting because afterwards this well had earned name "fountain of the century". It is interesting because it brought to many animal and also human deaths and huge ecological damage. The fact was that Soviet leaders could not stop it at that moment and after a while asked for a help the Westerners. The fire was stopped thanks to the huge machine that pressed the fountain and made the stream be under the control. After this case there was involved American company Chevron that merged with Tengiz, became TengizChevroil and now (since 1993) it is consist of ChevronTexaco 50%,

---

[12] Kleveman, L. (2003) *The new great game: blood and oil in Central Asia* (New York, Grove Press), p. 80
[13] The story is taken from 'Kazakhstanskii put', N. Nazarbayev, (2006)
[14] Nazarbayev, N (2006) *Kazakhstanskii put* (Karaganda), p. 103

ExxonMobil 25%, Kazmunaigaz 20% and LukArco 5%. On Tengiz, crude oil reserves have been estimated at 6-9 billion barrels by consortium member Chevron. For the first half of 2005, the consortium produced 271,000 bbl/d of crude oil and condensate, or approximately 21 percent of Kazakhstan's daily crude oil and condensate production. According to Chevron, Tengiz could potentially produce 700,000 bbl/d by the end of the decade.[15]

2.3. KARACHAGANAK

Karachaganak oil and gas field is located onshore, in northern Kazakhstan, near the border with Russia's Orenburg field. This is the only one field located far from Atyrau region, where all other oil and gas fields are. Development of the field began in 1984. In 1985, there started transportation of gas through pipeline to the refinery in Orenburg. Karachaganak is being operated by Karachaganak Petroleum (KPO), which is a consortium including BG Group and Eni of Italy (each 32.5%), Chevron (20%), and LUKOIL (15%). It should be said that KPO has 40 years Production Sharing Agreement with government of Kazakhstan. According to KPO, the Karachaganak has reserves of around 8-9 billion barrels of oil and gas condensate and 47 Tcf of natural gas, recoverable over the 40-year life of the project. Oil and condensate production from Karachaganak averaged above 200,000 bbl/d during 2005, representing almost 20% of total Kazakh production. The consortium members have an aim to triple output with up to $10 billion in investment within 6-8 years.[16] In 2006, gas extraction on this field made up 11,9 billion cubic meters, liquid hydrocarbons content 10,4 mln tones. In first half of 2007, gas extraction made 7,5 bln c/m and liquid hydrocarbons were extracted in the amount of

[15] Kazakhstan energy data, statistics and analysis, United States Energy Information Administration, available at: http://www.eia.doe.gov

[16] Kazakhstan energy data, statistics and analysis, United States Energy Information Administration, available at: http://www.eia.doe.gov

6,1 mln tones.[17] It is clear that Karachaganak is perspective field for the future as well, and KPO is intended to work further and moreover to invest on this oil and gas field.

2.4. KASHAGAN

The situation around Kashagan is getting popularity very fast. By most of experts it is counted as the most sensational giant oil field found ever in 30 years. In his book, Kleveman writes: "in July 2000, geologists discovered a giant oil bubble at a depth of about fourteen thousand feet, below an ancient coral atoll. In whatever direction they moved the drill, the valves aboard the Sunkar nearly burst with highly concentrated brown crude. It took only a few days to realize that not since the sensational oil find in Alaska's Prudhoe Bay in 1970 had so much crude been discovered in one place".[18] Manager of the Italian oil corporation Agip Neil Booth commented that: "At first, nobody wanted to believe the results that were coming in. After all, it had been a 'wildcat'" (an industry term for searching for oil in a place where no one has ever drilled before).[19] It is true that all companies and specialists had big expectations from this field. The government of Kazakhstan hopes for it as well. If this is the biggest oil field found in Kazakh sector of Caspian Sea, then it becomes a point of all attention from entire world and attracts investments. According to the Developing Plan and Budget, worked out by the government of Kazakhstan, Kashagan field is expected to be realized in three stages:

1. 2002-2010 – beginning of process in eastern sector of the field by experimental-industrial explorations and achievement of 21 mln t/y level of oil production (450 thousand bbd);

---

[17] *Karachaganak,* available at www.kmg.kz
[18] Kleveman, L. (2003) *The new great game: blood and oil in Central Asia* (New York, Grove Press), p. 80
[19] Ibid, p. 75

2. 2010-2014 – expansion of the developing sector and increasing the level of oil production up to 42 mln t/y (900 thou bbd);

3. 2015-2041 – further expansion of developing sector and achievement of maximum level of oil production up to 56 mln t/y (1200 thou bbd).[20]

Operating company on the field is Agip Kazakhstan North Caspian Operating Company - Agip KCO (formerly known as OKIOC). The consortium consist of following companies: Eni (single operator of North Caspian project), Total, ExxonMobil, Royal Dutch Shell each has 18.52% shares, ConocoPhillips – 9.26%, and 8.33% for both Inpex and KazMunaiGaz.

Agip KCO has estimated recoverable reserves of the field as 7-9 billion barrels of oil equivalent.[21] From the time it was discovered (2000) and Agip KCO won tender to be operator on Kashagan, they expected to produce oil as soon as possible. Initial plan was to start extracting in the mid of 2005. But it faced several problems, mostly financial and technical. According to the decision taken by partner's committee the exploration works were postponed till 2007-2008. After, in February 2007 Agip KCO declared that production would start in the third quarter of 2010, not in 2008 as promised. Kazakh minister Baqtyqoja Izmukhametov made a comment about these delays by saying that oil might not be produced even until 2011.[22] Perhaps, this statement is also connected with the events happening with Eni this year. Government of Kazakhstan accused Eni in violation of contract terms (postponing of extraction) and also avoiding paying custom taxes for equipment. But there are also some objective reasons like 19% temper (containment of hydrogen

[20] *Kashagan*, available at www.kmg.kz
[21] Kazakhstan energy data, statistics and analysis, United States Energy Information Administration, available at: http://www.eia.doe.gov
[22] ICG (2007) *Central Asia's energy risks*, Asia report #133, may 24, 2007, p. 7

sulphide) in Kashagan's oil, seam pressure, the problem of utilization of gas and sulfur or far location from world markets.[23]

As it was said before, Eni operator (Agip KCO) delayed extraction dates of oil from Kashagan. Those unexpected changes is affecting on the Kazakhstan's desire to increase level of productivity and to extract 150 million tones of oil due to 2015. As far all these happened, now Kazakhstan should postpone it till 2007-09.[24] At this moment, government took decision to stop for three months the whole operations on Kashagan, and lay down conditions to pay 40 billion USD dollars or leave the project. The government of Kazakhstan is not the only one who wants Agip KCO leave the project. All members of committee think Agip KCO didn't realize all initially planned projects. In the opinion of partners, Agip KCO failed the project of experimental-industrial exploitations from Kashagan, as a result of which stockholders had to increase cost of it for 5 billion dollars (from 9.8 bln to 14.8 bln dollars)[25]. The point is that Eni, ConocoPhillips, Inpex and Total (participants of contract for Kashagan exploitation) are also stockholders of oil pipeline Baku-Tbilisi-Ceyhan (BTC) (more about pipelines in the next part). These companies are very interested in extracting Kazakh oil as soon as possible, so it could transit through BTC.

So now there are negotiations about which company should be the operator on Kashagan. According to the "Expert Kazakhstan" journal, there are two possible variants: American ExxonMobil and French Total. Last one has more chances because it is the biggest shareholder in BTC project, and also it almost became leading operator in export of oil from Karabatan through Aktau and Kuryk ports to the BTC. The final decision still has not been taken.

---

[23] E.Badyrkhanov, *Italiyanskuu Eni lishaut Kashagana, March 28, 2006,available at* www.vzglyad.ru
[24] I. Gorst, *Ostanovka Kashaganskogo proekta grozit neftyanym gigantam novymi politicheskimi bedami,* available at www.centrasia.ru
[25] E.Badyrkhanov, *Italiyanskuu Eni lishaut Kashagana, March 28, 2006,available at* www.vzglyad.ru

Kashagan is the most attractive and that is why the key field in the energy policy of Kazakhstan. The Kazakh government knows it very well and is trying to get as many benefits as possible. Delay in the exploitation works by Kashagan's operators made government of Kazakhstan change KazMunaiGas's share in the project. Recently, there was an official declaration that Kazakh government and western companies operating on Kashagan had reached the deal and from now on KazMunaiGas is the owner of 16,6 % share. KMG has to pay 1,78 billion USD dollars but the control over operational activity would be held by foreign companies.[26]

2.5. KURMANGAZY

Kurmangazy oil field also deserves to pay attention on it. Located on the maritime border with Russian part in Caspian Sea, this field has two operators that work on basis of 50:50 PSA. In 2002, Russian and Kazakhstan Presidents Putin and Nazarbaev signed Protocol, according to which Kurmangazy field is under Kazakhstan's jurisdiction and "Khvalynskoe" with "Tsentralnaya" are under Russian's control.[27] The Kazakh national company KazMunaiGaz (KMG) and Russian company Rosneft are two main operators on Kurmangazy oil field. The estimated reserves of Kurmangazy is 0,7-1 billion tonnes. Expected investment is varying from 10 to 23 billion dollars. However, it turned out that first well, in 2006, did not strike oil. Afterwords, companies and investors are willing to think that this is not the best field to invest in. The next drilling should happen in 2008, and experts already predict a failure.

In 2004, the development of the field stuck because Kazakh and Russian governments did not come to agreement. Kazakh taxation code has changed and they declared to Russian side about not allowing getting tax privileges on the field.

---

[26] *"Kazakhstan uvelichil dolu v neftyanom proekte"*, BBC news in Russian, available at www.bbcrussian.com
[27] Available at http://www.caspenergy.com/18/kazakh_r.html

Russia insists they should work on the previously agreed 2002 terms; otherwise they will not participate in the project. It's a big threat to Kazakhstan, if we take into account that Kazakh technical and economical resources would not allow them to develop the field properly. On the other hand, Rosneft was not fulfilling obligations as well. According to the conditions, they should provide a platform for exploration drilling, which so far they didn't, and the whole process get stuck because of it. As it comes up from different sources, in 2007 both companies are cooperating on the field, and still expecting oil strike from it.

Kazakhstan is expecting to produce more oil and gas resources in the future. But being landlocked prevents it to export hydrocarbon resources. The best way for Kazakh government to export oil and gas is to transport it through pipelines.

Chapter 3. Oil and gas pipelines

3.1. Oil pipelines

In the previous chapters we have seen the oil and gas reserves of Kazakhstan. So now it is necessary to describe how those reserves reach the world market. Pipelines are the best way to transport energy resources to the rest of the world. Kazakhstan has several oil and gas pipelines, so in this chapter we will see the pipelines that connect Kazakhstan with other countries. It will give us clear picture on the current situation with the development of pipelines industry and about their capacity. Among international routes existing in Kazakhstan, the followings are the most effective and famous: Atyrau-Samara, Tengiz-Novorossiisk and Kazakhstan-China.

3.1.1. ATYRAU-SAMARA

The Uzen-Atyrau-Samara oil pipeline is one of the main pipelines that exports Kazakh oil through CIS system of pipelines to the both terminals of Black and Baltic Seas. The length of it is 697 km; 535 km on the Kazakh lands. It was build during Soviet times and after reaching Samara it continues to the Russia's Druzhba distribution system, which in its turn provides oil to the international (mostly European) market. This is the only one big exporting pipeline that was functioning after the collapse of Soviet Union on the territory of Kazakhstan. After the collapse of USSR, Russian government was limiting the transit of Kazakh oil through this pipeline by assigning limited number of quotas for pumping the oil. But afterwards, when there were more or less determined the schemes of exporting pipelines from Caspian region, Russians changed their policy and allowed to transfer bigger amount. Accordingly, in the end of 1990, Russian side increased export quotas and decreased transport tariffs. In the end of 2001, both governments signed a Protocol

on transporting the oil from Kazakhstan to Russian Federation. So, we can say that after 2001 both governments achieved agreement about transporting Kazakh oil through this pipeline. In the end of 2002, it was expected that Atyrau-Samara pipeline would export 10,5 mln tones of oil.[28] After some reconstructions on this line (made by national company "KazTransOil"), it was possible to increase export volumes till 15,6 mln tones in 2006. In may, 2006 Atyrau-Samara pipeline have circulated the recordable volume of oil – 1 370 000 tones.[29]

The Kazakh national company KazMunaiGaz stated that in order to increase exports of oil, now there are reconstruction works on Atyrau – Samara line to increase the carrying capacity of oil to 20 million tones a year. Moreover, there is a plan to expand it to 25 millions in the future.[30]

There is one more important point about Atyrau-Samara pipeline. In 2003, Kenkiyak-Atyrau pipeline started to function with 6 mln t/y capacity and plus Alibekmola-Kenkiyak too, with 3,6 mln t/y capacity. Launching of these projects meant they connect to Atyrau-Samara and Tengiz-Novorossiisk routes and assist to essentially increase oil export from Aktubinsk region. Kenkiyak-Atyrau was considered as economically better option than railway transfer of oil. This project was realized by "Severo-Zapadnaya Truboprovodnaya Kompaniya Munaitas" JSC, where shareholders are KazTransoil – 51% and Chinese National Petroleum Corporation International Ltd. – 49%.

As it was mentioned before Atyrau-Samara oil pipeline is old. The oil reserves of Kazakhstan allow planning and building more pipelines. Moreover, that is one of the key issues in the pipeline policy of Kazakhstan. Tthere are many investors interested in constructing new oil and gas pipelines. Building new pipelines (or let us

---

[28] Abishev, A (2002) *Kaspii: neft i politika* (Almaty, Center for Foreign policy and analysis) p. 265

[29] E.Butyrina, *AO 'KazTransOil' gotov k razvitiu dalneishego cotrudnichestva s neftyanikami I operatorami zarubezhnyh nefteprovodnyh system dlya obespecheniya nadezhnogo eksporta kazakhstanskoi nefti, March 15, 2007* available at http://www.kaztransoil.kz

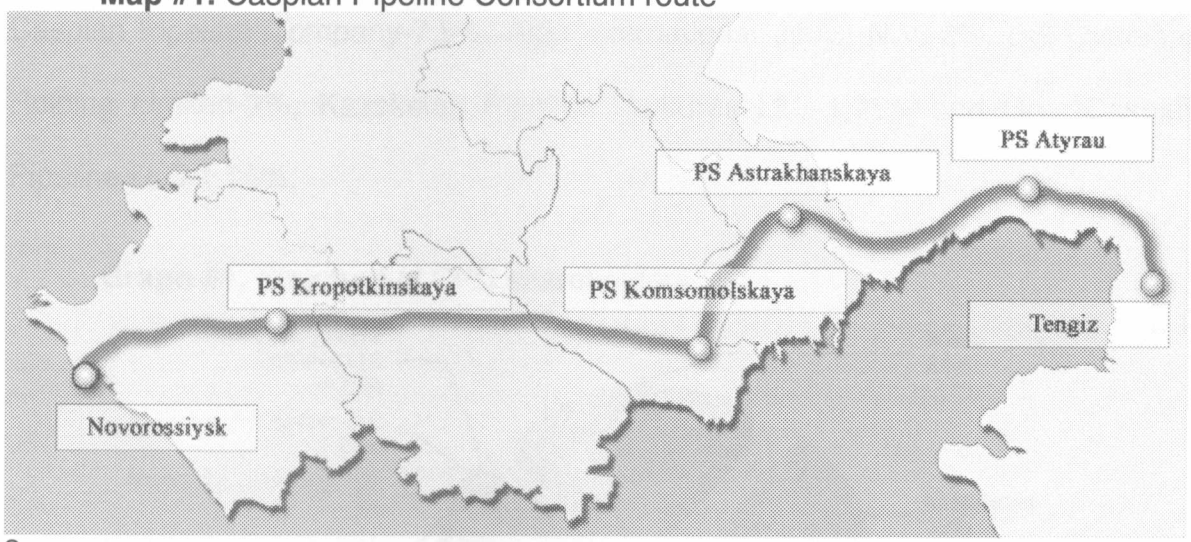
[30] *Nefteprovod Atyrau*-Samara, available at http://www.kmg.kz/index.cfm?id=99

say means of transportation of oil and gas) opens great opportunities for Kazakhstan. The Tengiz – Novorossiisk line is one of them.

3.1.2. TENGIZ-NOVOROSSIISK

This is not recently appeared pipeline, but it's expected to become major way of transporting oil from Kazakhstan. It's also known as Caspian Pipeline Consortium. The length is 1510 km and it connects Kazakh oil field Tengiz and marine terminal of Russia in Novorossiisk. Initial Building Project's (IBP) capacity is 28,2 mln tones a year. There is a possibility to extend carrying capacity of the pipeline to 67 mln t/y. It started to operate in 2001, and 131 mln tones of oil were transported already; additionally in 2006 were transported 31,1 mln tones and 19 mln tones for 7 months of 2007.[31]

Map #1. Caspian Pipeline Consortium route



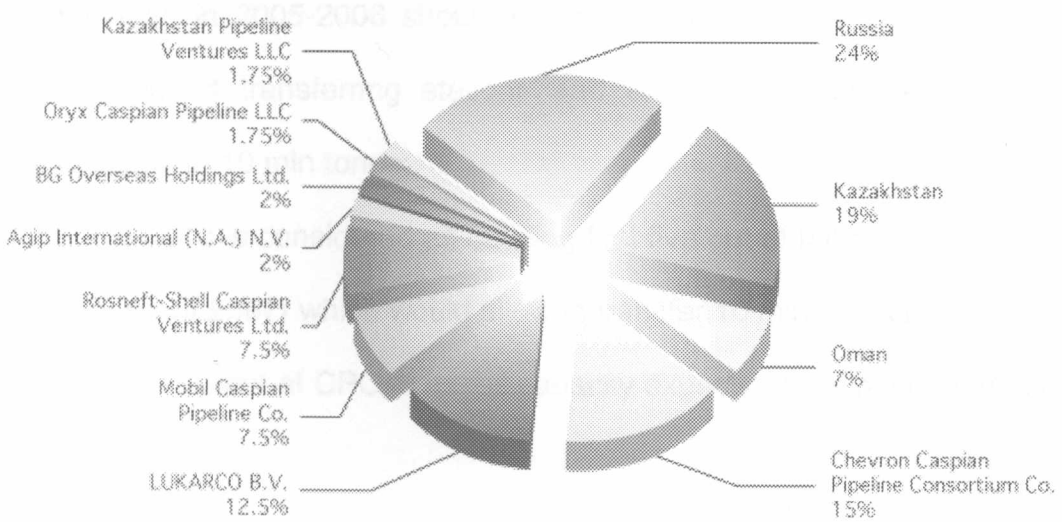
Source: www.cpc.ru

The question about building such a huge line for transporting oil from Kazakh sector of Caspean sea was raised by Sultanate Oman in the beginning of 1990. Initially Sultanate was consulting Kazakhstan in negotiations about Tengiz field. So representatives of Sultanate offered nine different possible routes to export oil and as a result the Russian variant was found as the best one. Before mid of 1992 the

[31] Information available at official web site of the company: www.kmg.kz

negotiations about building the pipeline were held among Kazakhstan, Oman, Russia and Azerbaijan. However, after the withdrawal of Baku, the final decision was to accept project of Tengiz-Novorossiisk direction without participation of Azerbaijan. So in 1992 there was signed intergovernmental agreement about creation of Caspian Pipeline consortium between Republic of Kazakhstan, Russian Federation and Sultanate Oman.[32] In May, 1997 CPC signed contract on preparing technical and financial basis with both "Giprovostokneft" planning institution and American company Fluor Daniel. Now the situation a bit changed, and the investors are not only three governments; the nowadays participants and shares of them in the project are: Russian Federation-24%, Kazakhstan-19%, Sultanate Oman-7%; and also following companies: Chevron Caspian Pipeline Consortium Company-15%, LUKARCO B.V.-12,5%, Rosneft-Shell Caspian Ventures Limited-7,5%, Mobil Caspian Pipeline Company-7,5%, Agip International (N.A.) N.V.-2%, BG Overseas Holding Limited-2%, Kazakstan Pipeline Ventures LLC-1,75% and Oryx Caspian Pipeline LLC-1,75%.

Graph #1. Structure of CPC shareholders



Source: www.cpc.ru

[32] Abishev, A (2002) *Kaspii: neft i politika* (Almaty, Center for Foreign policy and analysis) p. 268

The supply of oil to this pipeline started on March 26, 2001. On October 13, 2001, there was made first loading of crude oil into the tanker at the Russian marine terminal of Novorossiisk. The pipeline was expected to transport oil only from Tengiz field. But at the same time, the possibility to transport oil from other fields has also been considered. Once the Russian oil started to fulfill this route, the capacity of it grows up to 30 mln tones, while it was projected 28,2 mln. It was clear that CPC needs to expand the pipe. So the second phase (first phase was introduced in April 2003) should be process about expanding the pipe. In this case expansion means the construction of new pump stations, storage facilities and a third loading buoy at CPC's marine terminal at Novorossiisk.

The initial plans of CPC shareholders were about phased expansion, and to reach capacity of 67 mln tones in 2014. But "Tengizshevroil", US-Kazakh joint venture, and also other exporting shareholders have decided to push for its projects by using world high prices for the oil. In fall 2003, shareholders planned to reach maximum capacity as early as in 2008. So the expansion would be divided to three phases.

- the first, in 2005-2006 should place additional pumps on the already existing oil transferring stations and expected to increase carrying capacity to 10 mln tones;
- the second is considered as building first five out of ten new stations (to the end of 2007) which would allow to transfer 10 mln tones more;
- the last: output of CPC to its full capacity expected to happen in the end of 2008. [33]

[33] Zaslavskiy, I (2005) *Delo-truba.Baku-Tbilisi-Dzheyhan i Kazakhstanskii vybor na Kaspii* (Europa), page 39

It is clear that CPC line could be very profitable. But on the other hand, as some experts think, this route may cause many problems in the future. Andrei Chebotarev argues that this project is designed to transport mainly Tengiz oil which means that it may remain underloaded and the payback term might prove longer than expected.[34] Also he expresses the problem that the port of Novorossiisk has not enough capacities to receive large amounts of oil and even its expansion or modernization would not remedy the situation. In my opinion, the situation is not so pessimistic. Both countries are really interested in this project. Besides it may be even the best route for Kazakhstan to export oil through Russian territory. It means if the governments say there is oil and there are proper capacities, all should be done well. But this is also question of the future discussion; we just need to see what will happen in the end of 2008 when it is supposed to be finished.

3.1.3. WESTERN KAZAKHSTAN-WESTERN CHINA

Another very discussable and important route is Western Kazakhstan – Western China pipeline. Without doubt, China is slowly moving toward its broad presence and plus influence in the rich-of-oil Caspian region. Back in 2001, during his official visit to Kazakhstan, Premier of the State Council of the People's Republic of China Zhu Rungji announced that his country would not only continue importing ever increasing amounts of oil from Kazakhstan, but would also use its territory to move hydrocarbons to China.[35] Nowadays it became reality. The Kazakhstan-China pipeline's inauguration was held in December 2005. The whole project is divided into three stages. First, Kenkiyak-Atyrau was already completed in spring 2003; the carrying capacity is about 10 mln tones a year. The second stage is Atasu-Alashankou pipeline with 20 mln t/y capacity. On December 15,

[34] Chebotarev,A. (2001) 'Kazakhstan: priority oil routes', *Central Asia and the Caucasus,* page 29
[35] Barbasov, M 'An oil pipeline to China: an element of struggle for Caspian resources', page 105

2005, process of fulfilling oil in the pipeline started. Launching of the pump aggregate on the Atasu station was done by President of Kazakhstan Nursultan Nazarbayev. The pipeline crosses through oil refinery Atasu in Karaganda region to the railway station Alashankou on the Chinese territory. The length is 962 km. The last, third stage connects Kenkiyak with Kumkol. According to KazTransOil's information, this stage should be completed by 2010.

So the full length would be about 4000 km. The project is a 50:50 joint venture of KazMunaiGaz (KMG) and Chinese National Petroleum Corporation (CNPC), though CNPC paid over 85 per cent of the $800 million cost[36]. For the construction of pipeline there was created joint company "Kazakhstansko-Kitaiiskii truboprovod" LLC; shareholders are National Company KazTransoil and China Petroleum Technology & Development Corporation (CPTDC).

The route of the pipeline crosses three regions in Kazakhstan: Karaganda, East-Kazakhstan and Almaty regions, then continues on the Chinese territory through border zone Dostyk to Alashankou. Also it should be mentioned that since this pipeline exists, there is a great opportunity for West-Siberia part of Russia to export oil to China.

The Chinese-Kazakhstani project is very essential and important for both countries. It seems like Chinese side is very interested, so they agree on all conditions and they fulfill all contract obligations, so that there would be no break in constructions of pipelines. Not like in case with Italian Eni or any other companies. For more detailed discussion about these countries see part about pipeline policy of Kazakhstan.

3.2. Gas pipelines

[36] ICG (2007) *Central Asia's energy risks*, Asia report #133, may 24, 2007, p. 10

The Kazakh gas recovery started to increase only in 1995; most rapidly in Atyrau region (because of the Tengiz oil and gas field) and plus West-Kazakhstan (due to the Karachaganak oil and gas field). It is expected to increase it even more since Kashagan oil and gas condensate field was found. At present, there are some gas pipelines in Kazakhstan, but they are old and need reconstruction. Most of the pipelines in the Kazakh territory have build during Soviet times. They do link up Kazakhstan with other countries. There are three major trunk gas pipelines nowadays: 1) Central Asia – Center; 2) Orenburg – Novopskovsk; and 3) Bukhara – Ural; and plus pipeline that delivers gas to the southern region of the country Bukhara-Tashkent-Bishkek-Almaty.[37] The total length of all trunk gas pipelines are about 10 000 km. These three major lines link Kazakhstan with northern Russia, Ukraine and the Caucasus. Even though Russia serves as transit country and mostly controls export of gas from Kazakhstan. The western region of Kazakhstan receive gas from its own supplies and plus Russian and Turkmen gas. Aktyubinsk and Kostanai regions in the north-west receive gas from the Bukhara-Urals pipeline and from Zhanazhol field. The most densely populated and industrialized southern region received gas from Uzbekistan, but deliveries are irregular, costly, and do not cover demand fully. The annual capacity of the trunk gas pipelines is 190 billion cubic meters. As it was mentioned before, the main problem with the gas pipelines is that they have reached the critical depreciation level and must be reconstructed. The depreciation period for trunk gas pipelines is about 30 years. However, the gas pipelines in Kazakhstan are subject to increased wear since they pass through aggressive saline soil. An analysis of the pipeline structure based on its services

[37] Terterov, M (2004) *Doing business with Kazakhstan* (GMB Publishing Ltd) p. 66

shows that up to 30.4% of the pipelines have been in use for more than 30 years and 51% have been in use for 20 - 30 years.[38]

Nowadays renewing of pipelines is under the KazTransGaz control, which is branch of National Company KazMunaiGaz.

3.2.1. Central Asia –Center

The modernization of the Central Asia – Center gas pipeline is a priority for Kazakhstan. This pipeline is the base structure for long-term agreement with Russia's Gazprom for gas transport from Turkmenistan, Uzbekistan, and Kazakhstan to Russia and on to Europe. The modernization of the pipeline will increase capacity from 50 billion cubic meters to 90 billion cubic meters a year.[39] However, the official web site of KMG publishes different figures. The entire process of modernization and development of trunk gas pipeline is expected to be realized in seven stages during 8-9 years. So, at the last 7th stage, CAC would be able to carry 100,2 bln cubic meters a year.

KMG plans to spend about $1 billion USD dollars to modernize and reconstruct its 824 km section of CAC trunk pipeline. Kazakh side would spend this amount to modernize automated systems, remote control systems, communications, and other facilities. Of the 185 gas pumping units operated by the Atyrau pipeline in western Kazakhstan, 44 are operative (24%), 62 are in disrepair (34%), 23 are being repaired (12%), and 56 are held in reserve (30%).[40]

There are also some domestic gas pipelines, like the Gazli-Shymkent-Bishkek-Almaty, Kartaly-Kostanai, and Uzen-Aktau. They are used to transport gas for the domestic market to the southern regions of Kazakhstan, Mangistau, and to

---

[38] 'Survey. Outlook for Kazakhstan gas industry', *The Times of Central Asia*, 30 September, 2005
[39] 'Survey. Outlook for Kazakhstan gas industry', *The Times of Central Asia*, 30 September, 2005
[40] '$1 bln to modernize Central Asia-Center pipeline', *The Times of Central Asia*, October, 2002

Kostanai regions. Among recently occurred pipelines I can mention Akshabulak-Kyzylorda pipeline opened on November 11, 2004. The 122.9 kilometer pipeline with capacity of 205 million cubic meters a year provides gas for consumers in Kyzylorda region.[41]

[41] 'Outlook for Kazakhstan gas industry', *The Times of Central Asia*, 17 September, 2005

Chapter 4. Pipelines policy of Kazakhstan

"Petroleum Law" of 1995 is a legal basis of oil and gas policy. There was lack of legislature while Kazakhstan was standing on its legs and was becoming independent. During Soviet times everything was state's ownership. This fact somehow stopped the development of legislative basis in Kazakhstan. If Kazakhstan wanted to invite investors and create secure economical environment, it needed to establish proper juridical base. To the mid of 1994, according to President's decree, the Government started to work out the draft of "Petroleum Law". By Ministry of petroleum and energy resources there was created working group that consisted of several government representatives, science and financial institutions and other industry's representatives. It was necessary to make law that would respond on both national and private investor's interests. The "Petroleum Law" became one of 140 key laws that establish basis for economical reforms. President signed it on June 28, 1995. So, this law brought new chapter in the history of Kazakh oil exploration and industry. The main point of the law is: oil which is in the earth belongs to the state; after extracting it to the surface the ownership is defined by legal acts, concluded between Kazakhstan government and mineral resource users. Last amendments on this law were made on July 7, 2006. Now Kazakhstan has right of being first to purchase oil from contractor by world market's prices. Thus, it is clarified that the price should not exceed prices of world oil market.[42]

At present, the legal basis to conduct oil operations on Kazakhstan sector of Caspian Sea is formed of following laws: "Petroleum Law" (#2350 from June 28, 1995), "Subsoil/subsurface resources Law" (#2828 from January 27, 1996), Agreement about delimitation of seabed of north sector of Caspian Sea (July

[42] News, available at www.investkz.com

6,1998) and Protocol to the above Agreement signed between Kazakhstan and Russia (May 13, 2002).[43]

Additionally, on May 16, 2003, President Nazarbayev ratified State Program on exploration of Kazakhstan sector of Caspian Sea till 2015. It has two main goals in exploration of oil industry: first, developing oil extraction and creation of optimal system of trunk oil pipelines. Second, creation of domestic oil-extraction and oil-chemical industry.[44] This program was the continuation of first phase of realization of State Program established in 1993. In 2005, the government introduced new restrictions to concluding Production Sharing Agreements (PSAs). For example, the government-owned oil and gas company KazMunaiGaz must now own at least half of any PSA and should act as contractor in all new offshore PSAs in Kazakhstan. Also, some amendments in tax structure in January 2004 included a so-called "rent tax" on exports, a progressive tax that increases as oil prices grow. The amendment raised the government's share of oil income to a range of 65 to 85 percent, and certainly has taken away the right that was guaranteeing investors a permanent tax rate throughout the duration of the contract. The new structure includes an excess profit tax, and limits foreign participation to 50 per cent in each offshore project with no guarantees of operatorship. The remaining share should belong to KazMunaiGaz.[45]

So we see that after Kazakhstan became independent it worked out and developed (and is still developing) its national legislation system, in addition with fast developing oil and gas industry.

Above we have discussed legislative issues, so I would like to mention also the strategy of Kazakhstan to enter the number of 50 most competitive countries in

---

[43] Mezhdunarodnyi delovoi zhurnal KAZAKHSTAN (#3,2003) *'Programma osvoeniya Kazakhstanskogo sectora Kaspiiskogo morya,* available at www.investkz.com

[44] Nazarbayev, N (2006) *Kazakhstanskii put* (Karaganda), p. 135

[45] Kazakhstan energy data, statistics and analysis, United States Energy Information Administration, available at: http://www.eia.doe.gov

the world. It was introduced on January 18, 2006, during the speech of President on the joint session of Parliament's Palates. Oil and gas industry's development was mentioned in top 3 points. Nazarbayev said:

"We must not only extract oil and gas, but turn the country to the cluster of oil service, on the example of Norway".[46]

It was said that each oil and gas field should be considered as potential base for developing entrepreneurship and should contribute to build strong economical environment in the country.

Building processes of all trunk pipelines in Kazakhstan were connected with the conception of Unified Oil Transportation system of Soviet Union. But in the beginning of the 1990s together with "parade of sovereignty" that system failed. At that time, Kashagan was not found yet in Kazakhstan, however it was considered as a big oil rich country. Still, it had neither strategy nor structure model of managing the pipeline transportation system. There raised a big question on creation of own policy about raw materials transportation. Kazakhstan has become independent state on December 16, 1991, and had to establish contacts with other newly independent states as well as world powers.

Geopolitical location of this country had determined in advance its foreign policy. Location of Kazakhstan between two large world powers – Russia and China, its landlocked position and the absence of the access to the sea, multinational population, weak economy and military potential have determined the necessity of establishing reasonable and weighed foreign policy that was relied on mostly politics.

[46]Speech of President Nursultan Nazarbayev at joint sitting of Parliament Chambers, available at official web-site of President of Kazakhstan: www.akorda.kz

The foreign policy of Kazakhstan had been divided to three periods.[47] The first was foreign policy establishment and formation. During the second period foreign political activity of the republic became more developed. Third period began after September 11. This paper will discuss more the second period, as it concerns the countries which connect Kazakhstan through pipelines. During this period there was established doctrine of 'multivector diplomacy'. The principle of multivector diplomacy means developing equal and diverse relationships in all important directions for the country: the CIS, Central Asia, the East and the West, the Muslim World and Asian Pacific regions.[48] There are priority directions of foreign policy of Kazakhstan:

- Development of integration processes in the framework of Eurasian economic Community (EurAsEC), Shanghai Cooperation Organization, Central-Asian Economic Union and others;[49]
- Bilateral cooperation with Russia, China, CIS countries, USA, EU countries, as well as Japan, India, Turkey, Iran;
- Caspian region problems;[50]
- Development of transit-transport potential of the country.

The development of transit-transport system of oil and gas resources is under the responsibility of National Company KazMunaiGas. Since this company was mentioned several times and it directly affects on the pipeline policy of Kazakhstan it seems reasonable to look at KMG in details.

---

[47] Ashimbaev, M; Laumilin, M; Tukumov, Ye; Gusseva, L; Kaliyeva, D; Kozhikov, A (2003) *New challenges and new geopolitics in Central Asia: after September 11* (Almaty, KazISS under the President of RK) p. 152

[48] Ibid, p. 153

[49] Even if Kazakhstan considered as biggest exporter of oil in Central Asia, it is not a member of OPEC.

[50] Mostly about demarcation process of Caspian Sea between bordering countries;

4.1. KAZMUNAIGAS

The National Company KazMunaiGaz (KMG) has been mentioned several times already in this work. I would like to add some basic information about KMG together with KazTransOil and KazTransGas companies. The National Company "KazMunaiGas" was created in 2002, with the issue of President's order #811, as closed joint stock company where government owns 100% share.[51] It was merger of "Kazakhoil" and "Transport nefti i gaza" companies. The company participates in the development and implementation of general state politics and strategy of oil and gas industry; represents state interests in the contracts with investors, who are operating on oil fields and also takes part in organizing different types of tenders for conducting oil and gas operations on the territory of the Republic of Kazakhstan. KazMunaiGas has about 25% shares in oil extraction, 80% of transportation the oil through trunk pipelines and 100% in transportation of gas and also tank ship transfers. KazTransOil and KazTransGas are branch establishments of KMG. At present, KazTransOil is the major national leader in oil business of country because it is state-based operator of oil and gas pipelines. From December 2000 (company was created in 1997) KazTransOil has the monopoly right over exporting oil. It runs oil pipelines of 6400 km and water pipelines of 3140 km.[52] Oil transportation volume has increased from 22,9 mln tones in 1997 to 43,3 mln tones in 2006.[53] KazTransGas was created in 2000, and obliged to correspondingly represent interests of government in domestic as well as international gas markets. It controls transportation of natural gas through pipelines, sells gas on domestic and foreign markets; develops, invests, builds and reconstructs pipelines and gas-holders.

---

[51] Informacionnyi resurs OilCapital.ru, 'Kazmunaigas', available at www.oilcapital.ru
[52] Ibid.
[53] E.Butyrina, *AO 'KazTransOil' gotov k razvitiu dalneishego cotrudnichestva s neftyanikami I operatorami zarubezhnyh nefteprovodnyh system dlya obespecheniya nadezhnogo eksporta kazakhstanskoi nefti, March 15, 2007* available at http://www.kaztransoil.kz

While talking about Kazakhstan's policy in energy sphere it is important to notice that both national companies (like KazMunaiGaz) and international oil companies (representing foreign governments) have their own interests. There are many foreign companies operating on Kazakh oil and gas fields. So even if it is seemed like Kazakh laws allow investors to deal with 'their' part on the field as they would like to, in reality it looks different.[54] So who does really own the oil found on Kazakh lands? And what is the attitude of Kazakh government to these issues? During last decade, Kazakhstan with its increasing GDP and extraction of oil and gas resources is becoming surer and more independent in questions of policy toward foreign investors. Ilya Zaslavskyi thinks that Kazakhs are using all tools for its own interests and tries to maneuver between several functioning oil and gas companies. Let us see some examples.

- In first three months of 2005, "Tengizchevroil", Kazakhstan and USA joint venture, had to pay $780 mln dollars for state payments and salaries for staff. But, Kazakhstan demanded 20-30% more to contribute to national economy's growth. The reason to pay such is that "Tengizchevroil" received numbers of additional claims from Kazakh authorities regarding pollution of the territory and preserving oil-slime. The ecological argument is strong and effective so Tengizchevroil had no choice. But in this case the main point is that Kazakhstan achieved its initial goal and made foreign companies to contribute to the economy of the country.
- Except using pressure tools like increasing taxes, Kazakhstan is intended to participate in any project but pay less than others. Slowly, but in right way, Kazakh government is achieving their initial goals. Story of KMG's entry to the Kashagan project is bright example of above statement. Kazakhstan had no

[54] Zaslavskiy, I (2005) *Delo-truba.Baku-Tbilisi-Dzheyhan i Kazakhstanskii vybor na Kaspii* (Europa), p. 16

official right to even claim to Consortium's shares. Some foreign partners were looking for that right to enter number of Consortium members. But they faced with various pressures in response from Kazakh officials.[55] Agip KCO, operator on Kashagan field, could decrease its costs for developing the field. For instance, mud, industrial drains or other wastes need to be utilized on land, while Italians could just pump them into the layers or seams so they would save on leasing ships, transportation costs and building infrastructure for destroying siftings. Logically, Agip went to negotiate with the Kazakh government about making amendments in ecological program. However, even if we can not know for sure, it is more likely that Kazakhs promised to realize their request if they accept government owned KazMunaiGas into the Consortium. It did happen, so KMG has bought 8,8% share for $630 million dollars.[56] Well, just recently Consortium members and Kazakh government reached agreement to increase KMG's share to 16,6%.

These examples show us that Kazakhstan, whenever it would like to, can reach its goal by any means. Coming investors should define in advance their policy and be ready for contradictions that may occur during the operations on the field. Kazakhstan is no more inexperienced country as it used to be, now it has right to dictate who and how will work on the oil and gas spheres of the country.

So we saw that KMG works for and on behalf of Government. It takes crucial decisions about which company to cooperate with and what direction to follow in its policy. The policy of KMG and Government affects on entire energy policy regarding relations with other countries. As we have seen in the previous chapter, most of the

[55] Ibid, p. 19
[56] Zaslavskiy, I (2005) *Delo-truba.Baku-Tbilisi-Dzheyhan i Kazakhstanskii vybor na Kaspii* (Europa), page 20

Kazakh pipelines cross Russian territory. So, let us firstly see the situation with Russian Federation and Kazakhstan, and after look through relations with other countries as well.

4.2. KAZAKHSTAN – RUSSIAN FEDERATION

Russia is the most important economical and political partner of Kazakhstan. The official relations between two countries started in may 1992, when they signed the Treaty on Friendship, Cooperation and Mutual Aid. This agreement could be considered as crucial point in official intergovernmental legislative relations between Kazakhstan and Russian Federation. This scaled document had determined principles of bilateral cooperation in political, economical, strategically – military, cultural, religious and even spiritual spheres.[57] Then, both countries just proved their intention to create bilateral warm relations by signing other sorts of agreements.

There were signed many important agreements during long-time period. As to the petroleum sector, the whole process took lots of time and went through few problems. Delimitation of Caspian Sea was the main question that was discussed in the beginning (although it is still open question).

At that moment, Russia had no money and technology for exploring big fields like Tengiz. If to imagine that Tengiz went to Russian part, they would preserve the field and Kazakhstan would turn to be economical hostage of Russia. That's why the first serious success of Kazakhstan was concluding the contract with "Chevron", which had big influence on the further development of oil industry in Kazakhstan. This contract was sort of signal for other investors that show up later. It became "Deal of the century" that created the basis for the economical sector of independent Kazakhstan. The legal basis, an agreement "On division of the Bottom of the Northern Part of the Caspian Sea" was signed in July 1998.

---

[57] Tokaev, K. (1997) *Pod styagom nezavisimosti* (Almaty, Bilim)

Many years have passed since that times, and Russian Federation changed its President from Yeltsin to Vladimir Vladimirovich Putin. The policy of Russians has also changed. Thus, not to the good of Kazakhstan. According to many scholars, Russia wants to be a superpower in Eurasia and control if not all, but at least most of the oil and gas export from Central Asia. It would strengthen its position on the world arena too.

From the first side it seems like Kazakhstan was strongly bound with Russia. Peter Rutland states that

"Kazakhstan has been struggling since attaining independence to move out from Russia's shadow and develop its oil and gas resources. The long and largely unguarded border with Russia and the presence of a 30 percent Russian minority inside Kazakhstan mean that Kazakhstan's leaders must keep looking over their shoulders at Russian reactions".[58]

The author of several books related to Central Asia and Kazakhstan, lecturer in Politics at the University of Edinburgh, Sally N. Cummings writes:

"Nazarbaev has sought to balance disparate constituencies in his foreign as well as domestic policy between, on the one hand, partners that are geographically contiguous, notably Russia, and, on the other, foreign powers further removed, primarily the US. The elite has called this a multivector foreign policy, and it is driven both by heterogeneity at home and the need, as a landlocked state, to secure multiple pipeline routes and markets abroad".[59]

In reality, Kazakhstan has huge percentage of Russian population and it borders enormous kilometers with Russia. That's why Kazakhstan always has a look back to western neighbors. But it does not necessarily mean dependence on Russia.

---

[58] Lane, D. (eds) (1999) *The political economy of Russian oil* (Oxford, Rowman & Littlefield Publishers,Inc), page 170

[59] Cummings, S. (eds) (2003) *Oil, Transition and Security in Central Asia* (Wiltshire, Antony Rowe Ltd), page 32

As it was said before, Kazakh government established multivector policy toward its neighbors. Having such kind of policy does not mean strong influence from Russian side. In the past, certainly Kazakhstan had been under big dependence of Russia. But now, it is only one of the directions of foreign policy of Kazakhstan. Even without the resources that are hidden in the Caspian basin, it is still possible for Kazakhstan to decrease the dependence on oil supply from Russia. The point is that in the early 1990s Russia was providing crude oil for refining to Kazakhstan. Apparently, there were three refineries existing in Kazakhstan – Pavlodar, Shymkent and Atyrau. Pavlodar was consuming all of its raw material from Russia in the form of western Siberian oil, while Shymkent's refinery had received 75 per cent of its raw from Russian and only Atyrau's refinery received oil extracted in Kazakhstan.[60] So, after a while, we are the witnesses of the fact that Kazakhstan started to build up other routes for transporting its resources. One of them, as we have seen in previous chapter, is Atyrau-Kenkiyak-Kumkol-Alashankou (Kazakhstan – China) pipeline.

In general, we can see that Russia and Kazakhstan still keep friendly and kind-neighborhood relations with each other. I can summarize that during the meetings and contacts, both countries aim at avoiding disputes in terms of national interests. This kind of beneficial mutual cooperation reflects both in politics and economy and guarantees that bilateral relations would be just strengthened in the future.

This intention was realized just recently in the gas sector. On May 12, 2007, Presidents of Russian Federation, Republic of Kazakhstan and Turkmenistan signed significant trilateral agreement about building caspian gas pipeline. On the summit President of Turkmenistan Gurbanguly Berdymuhammedov pointed out that "this is the beginning of general/broad cooperation between our countries in the spheres of

[60] Crossain, M. & Aras, B. (eds) (1999) *Oil and geopolitics in the Caspian Sea region* (Westport, Praeger Publishers), page 185

energy, construction of new and reconstruction of existing trunk pipelines and increasing of natural gas supply to Russia".[61] Russia, in its turn showed great will to start the process as soon as possible. Putin even have planned to start constructions already in the first half of 2008. In details, there were two main issues that should be underlined:

1) reconstruction of pipeline from the fields of eastern Turkmenistan and building another one, parallel, to transport gas through Kazakhstan alongside the Caspian and north into Russia, for combined annual transport of 20 Bcm by 2012;

2) in agreement with Uzbekistan, to rehabilitate and otherwise expand by a date not specified the annual capacity of the main pipeline (CAC) from Turkmenistan and Uzbekistan to Russia to 90 Bcm. (Uzbekistan's President has just signed the document on May 9, 2007, but was not participating in the summit).

In short this summit shows that it is very beneficial for all three parties, but especially for Russia it would look like another way to consolidate its position in Eurasia continent.

As we have seen above, the plan is to transfer gas in capacity of 20 bcm by 2012. In reality, it is mostly counted by taking into consideration future gas production of Kazakhs. International Crisis group (ICG) that made report on energy resources of Central Asia, have shown table (see below) about gas production and exports for 2010. ICG supposes that exactly in 2010 all three countries would be able to export this amount of gas through new pipeline.[62]

Table #3. Central Asian states' gas production and exports, in bcm.

	Production	Exports
Kazakhstan	52.5	34.5
Turkmenistan	63	45
Uzbekistan	35	5

[61] *Trehstoronnie peregovory Presidentov Rossii, Kazakhstana i Turkmenistana*, May 14, 2007, available at www.zakon.kz

[62] ICG (2007) *Central Asia's energy risks*, Asia report #133, may 24, 2007

Total	**150.5**	**84.5**

Source: Central Asia's Energy Risk; Crisis Group Asia Report N°133, 24 May 2007

The Russian foreign policy is not clearly defined too. Contemporary Russia, under Putin's ruling, is seeking for ways to integrate within European society and to ignore, as much as it is possible, American politics. In these terms, having partners in Central Asia and Europe is crucial point in Russian foreign policy. As Karaganov supposes, there are several variants for Russians towards other countries.[63] The first option concludes to create alliances, one against hegemony of USA and second for friendship with China. This rumor seems like was spread just by people, so I guess in reality Russian Federation would not be openly against of USA. The problem with first option is that Russia could become small and younger partner of China, which Russia does not want to be for sure. Second option is still to keep policy of last ten years – multipolar policy. It means Russia would play and maneuver among its international partners. Well, I think policy toward Kazakhstan would be under exactly this option. Moreover, we can see that Kazakhs are repeating after Russians in such type of politics. It does not show any preferences between countries and plays with international powers to some sort of game. And third, is attempt to create alliance with developed states. For this aim, Vladimir Vladimirovich has already started process of changing attitude of Russians to Americans or Europeans. It will take long time, but President Putin had clear aim and he is following it. The situation could be changed since Russians are going to vote for new President on March, 2008.

In short, both countries are looking forward to strengthen relations because of national interests. Certainly Russians and Kazakhs are close nations to each other, so in the future I think they will keep same type of relations.

---

[63] Bunin, I., Karaganov, S., Nikonov, V., Ryzhkov, V., Salmin, A., Satarov, G. (eds) (2003) *'Sovremennaya Rossiiskaya politika'* (Moscow, Olma Press), page 196

4.3. KAZAKHSTAN – PEOPLE'S REPUBLIC OF CHINA

Kazakhstan borders with another big powerful country - China. People's Republic of China (PRC) is as much important as Russia. Foreign policy of Kazakhstan never ignores East 'big brother' neighbor. That's why relations between these two parties have been established almost immediately after Kazakhstan became independent. In 1992, Agreement of Diplomatic Relationships was signed. On October 1993, President Nazarbayev went with official visit to China to sign the Joint Declaration On Friendly Relations between two countries. China is one of the main external factors that influence on the national security and economical development of Kazakhstan. Now the border between China and Kazakhstan is about 1700 km, and there are 1 billion 224 million people. PRC is considered as a "bridge" to connect Kazakhstan with states of Pacific region. It serves as "gates to the East", providing Kazakhstan access to South and South-East Asian countries.[64] And also for China Kazakhstan is an open market to supply products and import energy product from Kazakhstan. China's own hydrocarbon resources are not enough to meet domestic energy demand. For instance, the growth of the Chinese oil industry from 1992 to 1996 was only 1.5 percent per year, but the consumption of oil increased to 7.5 percent per year.[65] According to BP's statistical review, in 2006, China consumed 349.8 mln tones or 9.0 % of total world share. Cooperation in oil and gas industries began with the signing an agreement in 1997. Kazakhstan and Chinese National Petroleum Corporation (CNPC) decided to build pipeline from the west of Kazakhstan to the west of China. Vladimir Babak wrote:

"Yet, it was not only energy demand that pushed Beijing to cooperate with Kazakhstan. China also wants to consolidate ties of economic and strategic

---

[64] Chjen, K (1999) *Geopolitika Kazakhstana – mezhdu proshlym I budushim* (Almaty, Zheti zhargy), p.276
[65] Crossain, M. & Aras, B. (eds) (1999) *Oil and geopolitics in the Caspian Sea region* (Westport, Praeger Publishers), p. 203

significance in the Central Asian region. Beijing understands that in this respect it has to compete with Russia and the United States, which are also penetrating this region".[66]

I would add here that Kazakhstan perhaps by knowing this fact wants to use China in its economical interests. The reason is that all costs of contract to build a pipeline are covered by Chinese side, which in fact proves their interest in getting Kazakhstan as partner. Also in 1997 countries came to decision to create joint company, so China has bought 60% share of Kazakh company Aktobemunaigaz, and there appeared "CNPC-Aktobemunaigas" joint venture. Moreover, according to Babak, Kazakh side also clearly shows its interest in building new pipeline - President Nazarbayev fires Vice-Prime Minister Ahmetzhan Esimov in 1998 for the reason that he did not rush with building pipeline through China.[67] We could see cooperation also from the results of building pipelines. More than half of planned buildings are ready by now. At the end of 1990s the Chinese government worked out the strategy of "opening" of the western area of country. One of the tasks of it is an extraction of resources in the west and revival of the markets of this Chinese region. Speaking about resources it is necessary to stress on the Kazakhstan-China newly occurring pipeline. It connects the west part of China, where Xinjiang Uighur Autonomous Region would get the oil from this pipeline. Kleveman underlines that Xinjiang is very important for Beijing. "It is the biggest region in China, comprising one-sixth of the country's overall territory. It is home to only one-sixtieth of its population, but it has three-quarters of its mineral wealth. Huge reserves of oil and gas are buried mainly in the Tarim Basin in northern Xingiang. The area is also important as a potential pipeline conduit for crude oil from Kazakhstan".[68]

---

[66] Ibid, p. 203

[67] Crossain, M. & Aras, B. (eds) (1999) *Oil and geopolitics in the Caspian Sea region* (Westport, Praeger Publishers), p. 204

[68] Kleveman, L. (2003) *The new great game: blood and oil in Central Asia* (New York, Grove Press), p. 101

China, as it was said before, consumes oil more than it produces. According to USEIA China's consumption is likely to grow from 4.78 million barrels a day in 2000 to 10.5 mln barrels a day by 2020. CNPC is the main operator from China in Kazakhstan. In "The New Great Game" it was written that General Director of CNPC Zheng Chengu has said:

"At the moment, we are producing about four million tons of oil in Kazakhstan, but that is not nearly enough for us. In the coming years, we want to acquire many more oil fields in Central Asia".[69]

Kazakhstan region becomes the center where China is making big business. The importance of Kazakhstan as an oil exporter rises even more when China shows it worry about being dependent on oil from unstable Middle East. China would like to have another way of importing oil and gas resources. So, existence of pipeline from Kazakhstan to China matters very much for China. To have this pipeline also shows in some way concern of PRC about US's actions in the Middle East. Professor Fang Zhangping, an employee of the Research Center of International Energy Strategy, stated:

"The events in Iraq graphically show that the United States, as the first oil importer in the world, will try to ensure its direct presence in the regions where oil is produced, which could pose a threat to China's increase in oil import."[70]

China is searching for ways to prevent that threat. For instance, the strategy to attract foreign capital into its economy came together with PRC government's adoption of "a strategy of entering the world". This strategy is counted as a part of the country's policy of integration into the world economy, which is also being applied in the energy sphere. So China has begun to invest in the oil and gas

[69] Ibid, p. 114
[70] Esimova, K (2005) 'Kazakhstan-Chinese cooperation in the energy sphere", *Central Asia and the Caucasus,* #1,2005

industries of the Sudan, Venezuela, Indonesia, Burma, Kazakhstan and other states, including purchasing shares in their oil and gas companies. As an example we may look at the case with the Sinopec Company, which was able to penetrate into Iran and Saudi Arabia. But the steps taken by the PRC are being complicated by the fact that many oil-bearing regions of the sphere of influence have already been divided among the U. S., the EU countries, and Canada.[71] So China is perceptibly activating its energy diplomacy. In particular, to resolve its energy supply problems, it is trying to make maximum use of regional cooperation organizations, such as the SCO.

So the oil security is one of the reasons why Celestial Kingdom decided to create strategic oil supplies. Regarding this fact, China would step up cooperation with its neighbor countries like Kazakhstan.

In June 2003, Kazakhstan President Nursultan Nazarbayev and PRC Chairman Hu Jintao signed several important documents, which also included aspects of cooperation in the energy sphere. Among them were the oil pipeline project, development of oil fields, and the possibility of building a gas pipeline from Kazakhstan to China. It would be second possible pipeline from Kazakhstan to China. The project was proposed by Asia Pacific Energy Research Center in 2000, and was expected to hold capacity of 32 bcm/y. Building such a long pipeline has some advantages: it does not cross any other state's territory on its way to China, and it helps Kazakhstan to diversify its routes in selling natural gas. However, Chinese side is holding this project for a while, as Benjing is considering possibility to get oil and gas from Russia's Far East and Siberia. Therefore, the final decision would be taken as soon as Chinese side finishes negotiations with Russia.[72]

---

[71] Ibid.

[72] Ziyadov, T.(2004) "Prospects of Caspian gas and its potential markets" *Central Asia and the Caucasus*, #5

So, the cooperation in transportation of energy products between Kazakhstan and China is in full running process. In the future, there is expectancy only to consolidate relations.

4.4. KAZAKHSTAN – AZERBAIJAN

These countries are neighbors in Caspian Sea region. During Soviet times Azerbaijan was the main supplier of oil and oil extracting equipment, while Kazakhstan was supplying Azerbaijan with provisions and agricultural needs. After the collapse of Soviet Union, Kazakhstan turned to being independent, the relations between countries were not developing fast. Only in 1996, during Kazakhstan President Nazarbayev's visit to Baku, both countries have signed full package of documents. This visit was sort of start for new relations and consolidating positions of Kazakhstan in Azerbaijan as well as in Caucasus region.

Nowadays relations are discussed mostly regarding the joining Kazakhstan to the Baku-Tbilisi-Ceyhan pipeline. In November 1999, at the OSCE Istanbul summit the United States, Turkey, Azerbaijan, Georgia, Kazakhstan, Turkmenistan, and Uzbekistan signed a declaration that approved the Baku-Tbilisi-Ceyhan route and the idea of a Trans-Caspian Gas Pipeline (TGP). USA, the most interested state in this project, knew from the beginning that Azeri shelf is not so rich in oil to use the line for its full capacity. Additionally, many companies were worried that pipeline would run along politically unstable area. (Nagorny Karabakh, conflicts between the Turkish authorities and Kurds). So, in terms of politics and economics Kazakhstan was the best reserve option.

The Cooperation Agreement in oil and gas industry was signed on June 16, 2006. As President Aliev said:

"Signed Agreement has become an evidence of high-level relations that have been established between our country and other nations, which is an example of cooperation. This agreement would define development of region for many years ahead. Significance of pipeline, which Kazakhstan joined too, is hard to overestimate; now it will be the largest oil-carrying artery/trunk of the region".

And Nazarbayev said that we have got a third alternative route to export our hydrocarbons. He added:

"This agreement would become an important milestone in the history of friendly relations between two countries, where among people there is a common in history, culture and roots".[73]

Kazakhstan planned to export about 10 mln tones a year through BTC. Moreover, there is a plan for expansion of the line to 25 mln tones. Azerbaijan had already declared about possible capacity expansion of the project till 75 mln tones a year.[74]

This just shows us the intention of Azerbaijan to cooperate with Kazakhstan in the future as well.

4.5. KAZAKHSTAN-GEORGIA

Georgia itself is not very rich country in fuel energy resources, however all kinds of resources were found on Georgia's territory in different amounts. But this country is very rich in energy sources like thermal waters, sun, wind, etc.

Historically, oil exploration in the country began in 1929, but it did not succeed much. The scale of oil production was insignificant. But in 1947 situation improved because of the newly discovered oil fields. Nowadays, Georgia has 16 producing

---

[73] *'Kazakhstan prisoedinilsya k BTD: truboprovod stanet 'krupneishei neftenosnoi arteriei regiona',* speeches of Presidents Nazarbayev and Aliev, available at www.regnum.ru

[74] Neftyanye vedomosti, available at www.neftevedomosti.ru

fields including Mirzaani, Patara-Shiraki, Norio, Samgori-Patardzeuli, Taribani, Shromisubani-Tskaltsminda, and others. There are five major companies operating on these fields: CanArgo Energy, Frontera, Anadarko, Ioris Veli and Teleti. In 2006, oil production in Georgia was only 63.5 thousand tons.

In the gas sector, there are three main ones: Ninotsminda, Samgori and Rustavi. But only Ninotsminda is producing today, it produced 21,4 mln c/m. Total gas reserves of Georgia are 8,317 mln c/m.[75]

Georgia needs about 4 mln tones of oil a year. Considering the fact that country's potential is not enough, the government of Georgia can create joint ventures and set up foreign relations to provide working environment. As an example, Georgia is doing so, and participating in the BTC project. The diplomatic relations between Kazakhstan and Georgia were established in May 1992. Georgia is supplying outputs for metallurgical, machine-building, chemical and food industries of Kazakhstan, including steel pipes, ferroalloy, power transformations and vine and so on. Kazakhstan is supplier of coal, leasing of non-ferrous and black metals, tires for automobiles, polypropylene, grain and meat products.[76] Both countries are willing to cooperate more. Georgia is located as an important transportation hub, so in BTC project is playing role of transit country. Through Georgia Kazakhs can export oil and other freights to the European markets. For this reason the government of Kazakhstan considers Georgia as an important 'reserve' variant for exporting energy resources. Kazakhstan realizes that Georgia is the shortest way through Caspian to the Europe. In the future plans, via Caucasus Kazakhstan want to export about 60 mln tones of oil. Having a possibility to export to European markets would attract more investors as well.

---

[75] Chomakhidze, D. (2007) 'Georgia: natural energy resources', *Central Asia and the Caucasus,#4*
[76] Tokaev, K. (1997) *Pod styagom nezavisimosti* (Almaty, Bilim) p. 154

4.6. KAZAKHSTAN-TURKEY

Turkey was the first country that recognized independency of Kazakhstan on December 16, 1991, and was actively assisting Kazakhstan to integrate into international community. From the first day of sovereignty of Kazakhstan, Ankara considered it as a serious and important regional partner in international issues. On March 15, 1991, Turkish Republic and Kazakh Soviet Socialist Republic had signed the Cooperation Agreement, which was developed in October 1994 to the Agreement On Friendship and Cooperation. Establishing multilateral relations with states surrounding Caspian is one of the priorities in the foreign policy of Turkey. Turkish President Demirel declared:

"We see this rich region of oil and gas reserves not just as a source of energy, but as an element of stability. Just as the founders of the European community saw coal as a sources of peace and stability for Europe, so we see oil and gas in our region serving the same role".[77]

Turkey is one of the participants in BTC project, so it is quite visible that Turkey is very much interested in Kazakh oil being carried out through Baku-Ceyhan pipeline. In 1995, Kazakhstan and Turkey signed an Agreement on the transportation of Kazakh oil through the Turkish Mediterranean port of Ceyhan. According to the above Agreement there are two stages for implementation, via the Mangyshlak-Baku undersea Transcaspian oil pipeline and then via BTC route.[78] As we see nowadays, Kazakhstan has chosen second option, and will export its oil via BTC pipeline.

Turkey and Kazakhstan have similar cultural and historical roots; they are counted as 'brothers'. We can surely say that keeping warm relations between

---

[77] Aras, B & Foster G. (1999) *Turkey: Lookinf for light at the end of the Caspian pipeline* in Crossaint, M.& Aras, B (eds) (Westport, Praeger Publishers), p. 229

[78] Aras, B & Foster G. (1999) *Turkey: Lookinf for light at the end of the Caspian pipeline* in Crossaint, M.& Aras, B (eds) (Westport, Praeger Publishers), p. 233

states are not only because of energy resources supply. In my opinion, even in the future the relations would not face many changes. Both countries would keep the same friendly bilateral relations.

4.7. KAZAKHSTAN – ISLAMIC REPUBLIC OF IRAN

At the end of 2006, Iran had 18.9 thousand mln tones of oil proved reserves, which makes 11.4% of total world share. Country itself produced oil in amount of 209.8 mln tones. Main oil fields are located in the South-Western region, Khuzestan province on the border with Iraq. 87% of oil is extracted on the following fields: Bibi Hakimeh, Ahvaz, Gachsaran, Aghajari, Masjid e Soleiman, Haftgel and others.[79] In IRI all decisions concerning oil and gas extraction, transportation and refinery are taken by Ministry of Petroleum. But as all states have, within Iran there are several national companies dealing with oil and gas issues. The largest ones are National Iranian Oil Company (NIOC), National Iranian Gas Company (NIGC), National Iranian Drilling Company (NIDC) and National Iranian Oil Refining and Distribution Company (NIORDC). In the gas sector, at the end of 2006, Iran had 28.13 trillion cubic meters of proved gas reserves, which gives Iran 15.5% of total share in the world. Gas also exported to Iran from Turkmenistan via Korpedzhe-Kurt-Kui pipeline.

Iran owns oil stocks both in the Persian Gulf and in the Caspian Sea. The significant part of oil comes from Persian Gulf, therefore they pay more attention on the development of this region. However, Iran expresses the interests on the Caspian region and also wants to strengthen the geopolitical positions and opportunities in the region. The Central Asia and Caucasus are considered by Iran as a possible basis for normalization of relations with the EU, China and Japan. For

[79] Graphov, P. (2003) "Neft' – schast'e I proklyat'e Irana", *Mirovaya energeticheskaya politika*,#5

the realization of its interests and to develop the transit potential Iran will take the most of the favorable geostrategical position.[80]

In 1996, during Tehran summit, governments of Kazakhstan and IRI signed agreement about Kazakh delivery of oil on swap basis. This contract was not ratified till December 2001, but since February 2002, Kazakhstan is sending oil to Iran.[81] The oil is moved by tankers from Aktau to the Iranian port of Neka; by 2004 Kazakhstan exported to the Islamic Republic of Iran about 500 thousand barrels a day.

Both countries look forward future relations, which would be strengthened by the construction of Kazakhstan-Iran pipeline. The proposed Kazakhstan-Turkmenistan-Iran (KTI) pipeline is 2 080 km long route, which start at Uzen, then crosses Turkmenistan, goes along the Caspian southern coast, acrosses the Iranian territory and reaches the Island of Kharq in the Persian Gulf. Profitability starts at the 25m tons a year. The project cost would be $2 billion.[82] On the whole, the Iranian route is the best suited for Kazakhstan: it is the shortest and, therefore, the cheapest; it runs across a politically stable area therefore it is safe; it is supported by Turkmenistan, one of the key partners; it will promote friendly and mutually advantageous relations with Iran that has already expressed its readiness to invest in the new transportation system.[83] Contrary to many experts' expectations, Kazakhstan after signing official document to join BTC, did not reject Iranian variant. With its multipolar or multivector petroleum foreign policy, Kazakhstan still not rejecting Iranian variant, by keeping it as 'reserve' option.

---

[80] Ashimbaev, M; Laumilin, M; Tukumov, Ye; Gusseva, L; Kaliyeva, D; Kozhikov, A (2003) *New challenges and new geopolitics in Central Asia: after September 11* (Almaty, KazISS under the President of RK) p. 138

[81] Auelbaev, B.(2004) "Kazakhstan's politico-economic relations with Iran" *Central Asia and the Caucasus,* #4

[82] Khusainov, B & Turkeeva, K (2003) 'Kazakhstan's energy potential today and tomorrow', *Central Asia and the Caucasus*

[83] Chebotarev, A. (2001) 'Kazakhstan: priority oil routes', *Central Asia and the Caucasus*

Iran is doing its best to convince Kazakhstan. KTI is very beneficial for both sides in economical terms. In December 2000, an Iranian delegation headed by Foreign Minister Sadyk Kharrazi visited Kazakhstan and negotiated with Foreign Minister of Kazakhstan Erlan Idrisov. The sides reached an agreement on oil transportation problems. Kazakhstan has not yet reached the final decision and the conditions of its participation in the project have not yet been discussed. But there is a dilemma: on one hand, Kazakhstan would get friendship with EU. It should be said that TotalFinaElf (French company) is the main foreign supporter of the Iranian oil pipeline. We can say that it represents interests of EU politicians, who are also very interested in the Caspian region. EU does not have any claims to Iran, not like USA, and they are apparently looking for opportunities to invest in oil or gas industry in Caspian region countries. This means if KTI works, Kazakhstan would have relations with Iran and certain some of EU countries. On the other hand, if Kazakhstan agrees to KTI project its relations with USA may be worsening.

4.8. KAZAKHSTAN – USA

Republic of Kazakhstan has multivector foreign policy in oil and gas sector. This means the government of Kazakhstan does not emphasize any priority country to cooperate with. Being located on the Caspian border gives Kazakhstan huge opportunities to explore oil and gas fields. The fields found on Kazakh lands are attractive for many states. The Caspian Sea and Central Asia regions are gaining more and more popularity on the international arena. If Kazakhstan has energy resources to export, USA is a potential country to consume it. Energy resources are one of the priority issues in the foreign policy of United States of America. The basic interests of USA in the Central Asia (we can say in Kazakhstan as well) are various. But we can highlight some major interests:

1) general establishment and expansion of presence in the region, as a consolidation of USA's global leadership in the long term perspective;

2) USA is extremely interested in maintenance of open access to energy resources of the Caspian region. This interest is expressed because USA wants to reduce the dependence from energy resources from Arabian oil countries;

3) US aspire to provide access to political and economical potential of Central Asian states; also because of implementation of policy toward Iran and restraint policy to China;

4) USA are interested in using the region to form the reserve space: on the one hand to create potential threat for so called 'problem states' such as Iran, Iraq or North Korea, on the other hand to show support to its allies;

5) Presence at Eurasian continent is big importance for USA in terms of gas and oil pipelines of different directions.[84]

It is obvious that USA wants to present at Central Asian region in order to weaken geopolitical and economical positions of two superpowers – Russia and China. This fact also plays big role in the decision making concerning oil and gas industries.

In 1998, Caspian region became as separate direction of USA's foreign policy. Among main questions there were discussed constructions of both oil transporting corridor East-West and Baku-Tbilisi-Ceyhan pipeline. In order to establish good coordination of Caspian policy, there was even created new position

[84] Ashimbaev, M; Laumilin, M; Tukumov, Ye; Gusseva, L; Kaliyeva, D; Kozhikov, A (2003) *New challenges and new geopolitics in Central Asia: after September 11* (Almaty, KazISS under the President of RK) p. 93-94

of Special Adviser of the President and State Secretary on energy issues of Caspian region.[85]

Relations between Kazakhstan and USA were established on December 25, 1991, when USA officially recognized Kazakhstan as a sovereign country. After, in 1992, in Kazakhstan there was opened American embassy. USA was trying to prevent expansion or invasion of Islamic fundamentalists into the region and was assisting Kazakhstan to enter OSCE and other international organizations. President Nazarbayev's visit to USA in December, 2001, was important event in bilateral relations between two states. The main topic of discussion was interaction of two states within the framework policy on promoting security and stability in Central Asia. Presidents of USA and Kazakhstan signed joint statement on cooperation called "New mutual relations". According to this agreement, countries assigned to strengthen long-term strategic partnership in the spheres like struggle against terrorism and economy. Presidents also signed "Memorandum on energy partnership between USA and RK". Both sides obliged to support Aktau-Baku-Tbilisi-Ceyhan (ABTC) oil export route on commercial terms.[86] Building of ABTC pipeline is the only route where USA is so much interested in involving Kazakhstan to the project. Big desire to be independent from Arabian oil and setting its own presence in Central Asia, where Russia is major player, leads USA to spread its influence more on Central Asian region. So the ABTC pipeline would be as one of the tools to control it.

4.9 Kazakhstan – European Union

[85] Abishev, A (2002) *Kaspii: neft i politika* (Almaty, Center for Foreign policy and analysis) p. 341
[86] Ashimbaev, M; Laumilin, M; Tukumov, Ye; Gusseva, L; Kaliyeva, D; Kozhikov, A (2003) *New challenges and new geopolitics in Central Asia: after September 11* (Almaty, KazISS under the President of RK) p. 159

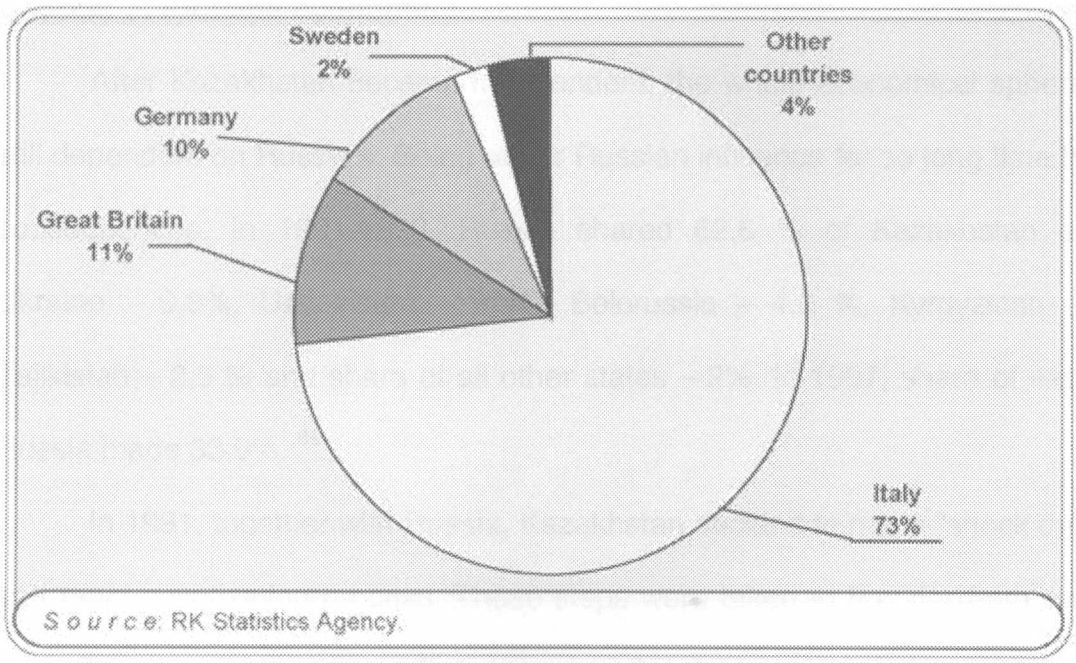
The European Union (EU) consisted of 27 countries, with a population of about 480 million and who produces about 28% of the world's GDP, has certain interests in Central Asia. Generally speaking, EU wants to see stable and democratic regimes with market economies in Central Asia; and also EU is interested in human rights protection issues. But considering the fact that EU's oil reserves will be exhausted in the next 15 to 20 years it is clear that energy sector is also one of the central issues. Nowadays main supplier of petroleum in EU is Middle Eastern countries, which with their political instability causes worries. So EU is looking for other ways of importing energy resources. Caspian states, including Kazakhstan, would be considered as potential providers. For Kazakhstan, EU would look like neutral side that could probably balance American and Russian political spreads in the whole region.

In 1996, in Almaty one of the significant meetings between Kazakhstan and EU took place. President Nazarbayev met with EU Commissioner Hans Van Den Broek and they achieved agreement to create working group for taking decisions on practical issues such as financial or consulting issues in transportation of oil and gas to the EU countries.[87]

Italy consumes about 70% of the total volume of exports to the EU. It is the main consumer of Kazakhstan's energy resources among all EU's member states.[88]

Graph # 2 . Structure of Consumption of Kazakhstan's Exported Energy Resources in the EU Countries

[87] Chjen, K (1999) *Geopolitika Kazakhstana – mezhdu proshlym I budushim* (Almaty, Zheti zhargy), page 256
[88] Burkhanov, A (2007) 'The EU strategy in Central Asia-successes and failures' *Central Asia and the Caucasus,* #3, 2007



The EU is obviously trying to diversify its oil imports; today it buys about 20% of the oil and gas produced in Kazakhstan. Representatives of European oil companies such as Agip KCO or TotalElFina are involved in many large projects in the Republic of Kazakhstan, such as Kashagan, and the development of energy resources in the northern Caspian. Additionally, another European company, British Petroleum, is the second biggest company investing in oil and gas development of Kazakhstan.

Though, in pipeline policy of Kazakhstan, EU does not seem like key player. But Europeans can take benefits for instance from KTI pipeline or Odessa-Brody pipeline. In practical terms, the EU badly needs more diversified oil-and-gas imports, which can be achieved by integrating the Central Asian and Caspian energy resources into the European energy system.

Chapter 5. Pipeline economics

After Kazakhstan became independent, the whole economical sphere was still dependent on Russia's. Being under Russian influence for so long time had its consequences. In 1991-1993, Russia shared 62,6 % of Kazakhstan export, Ukraine – 9,8%, Uzbekistan – 9,3%, Belorussia – 4,6 %, Kyrgyzstan – 3%, Tajikistan – 2,5 % and share of all other states – 2%. In 1997, share of export of Russia made 33,9%. [89]

In 1991, together with Russia, Kazakhstan decided to make "shock therapy" and rapid privatization process. These steps were taken to transfer from socialist type of economics to the market economy. But these measure did not solve the problem, instead of it there occurred crisis and high inflation. So in November 1993, Kazakhstan decided to reject Russian ruble and accept its own currency – tenge. Theoretically, this step helped to take off currency dependency from Russia, and was supposed to recover difficult economic situation and attract foreign capital. But in reality Kazakhstan was so much linked with Russia that there still was ruble dependency which brought to more depreciation of new Kazakh currency. Government was trying to do everything so not to repeat mistakes of its neighbors Uzbekistan and Kyrgyzstan.[90] However, that time there was very difficult situation within public trade. Prices for food and goods were getting higher and higher. Inflation rate was 2200%. Starting from 1994, prices for goods increased four times, productivity decreased even more, so it meant Kazakhstan faced stagnation in economical development. The crisis concerned even oil-and-gas industry, which attracted capital investment and was the most hope of government to improve entire situation. During 1992-1994, oil extraction in the country decreased to 20 279 000 tones (from 25 848 thousand), and gas

[89] For more information about export's share see Annex #6
[90] Chjen, K (1999) *Geopolitika Kazakhstana – mezhdu proshlym I budushim* (Almaty, Zheti zhargy), p.206

extraction decreased almost double times, from 8113 mln c/m to 4488 mln c/m. On the Karachaganak field, only 15 out of 130 oil wells were drilled. The extracted oil was transported through pipelines built during soviet times. It was transported to the Orenburg oil refinery, and Russian side had 40% of profit.[91] Nevertheless, Presidential economical program and implementation of it by government showed some results. The inflation in 1995 was 176%, which meant situation was improving.

Kazakhstan's GDP experienced steady growth by 2004, its average per capita income rose to $1780 in 2003, making it second only to Russia in the Commonwealth of Independent States (CIS). Kazakhstan acted better than Russia in 1998 and was able to control successfully the impact of the Russian and Asian financial crises that occurred in 1998. In recent years, the value of the local currency has held relatively stable, and the Kazakh tenge has effectively been a freely convertible currency.[92] The export revenues of three Central Asian countries are shown in the following table #4:

Table #4. Oil and gas export revenues for CIS countries.

Country/ export revenues	Oil Export Revenues in billion U.S. $	Gas Export Revenues in billion U.S. $	GDP in billion U.S. $	Hydrocarbon Export Revenue as per cent of GDP
Kazakhstan	18.3	1.0	76.8	25.16%
Turkmenistan	1.5	3.4	7.5	64.43%
Uzbekistan	-0.5	0.4	13.1	-0.92%
Total	**19.3**	**4.8**	**97.4**	**24.68%**

Source: Central Asia's energy risks, ICG report, calculations made for 2006

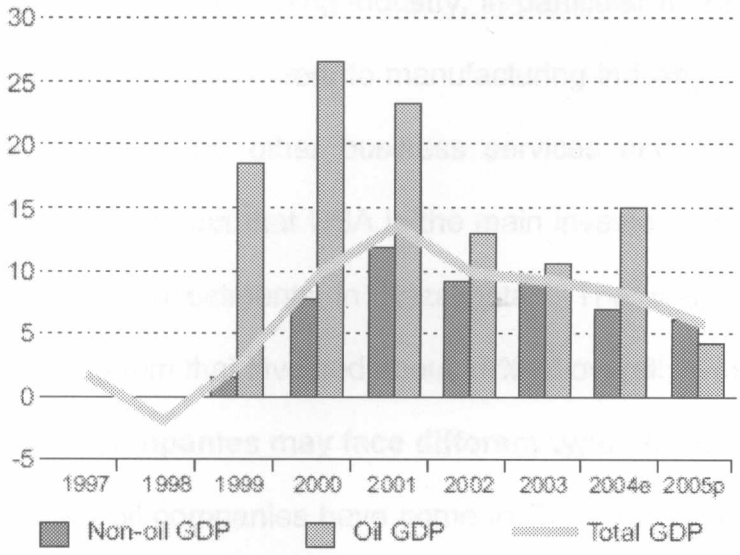
From 1995 to 2006, revenues from oil sector made 24 billion US dollars. If in 2005 it was 25.16%, in 2006, 30% of state budget's revenue came from oil sector. (For

[91] Ibid, p.206

[92] Olcott, M. (2005) *Central Asia's second chance* (Washington, Carnegie Endowment for International Peace) p. 86

comparison, in Azerbaijan it is 60% and in Russian Federation it is 25%).[93] In Kazakhstan, minerals and mining, including oil and gas, contributed about 16 per cent of GDP in 2005, oil alone 8-10 per cent.

Graph #3. Kazakhstan: Real GDP Growth, 1997-2005
(% change over previous period)



Source: World Bank Report: 'GETTING Competitive, STAYING Competitive: The Challenge of Managing Kazakhstan's Oil Boom', March, 2005

The oil and gas sector is essential point in economics of Kazakhstan. Most profit from this field is brought with investments. Kazakh government is concentrated in inviting foreign companies to the oil and gas industry to accelerate its development. This strategy looked as reasonable, it was expected to cover largest holes in economic and social spheres. The government of Kazakhstan worked hard to make the republic look attractive for possible investors: it created tax and other privileges that fitted Western standards. There is a special Investments Agency at the cabinet set up to help foreign investors whose money is "working" in the republic according to the official course. These efforts worth it. During the years of independence the country got over $7 million of direct investments which is the highest per capita figure among the post-Soviet states. In

[93] 'Economika Kazakhstana: est chemu pozavidovat', October 10, 2007, available at www.gazeta.kz

1994-1999 Kazakhstan got 77 percent of all foreign investments in Central Asia.[94] Due to 2006, according to different sources, Kazakhstan gained investment flow of 60 billion US dollars. The flow is increasing each year, and it guarantees the growth and development of economy of the country. About 55 % of foreign investments were assigned to mining industry, in particular to the development of hydrocarbon fields. Then 15,3% went to manufacturing industry; 12,9% to the real estates operations, rent and other business services and 10,3% assigned to metallurgic industry. It's a fact that USA is the main investor; it shares about 40% of total foreign direct investments in Kazakhstan. The second large investor country is United Kingdom that invested about 14% of overall investments volume.

5.1. Western companies may face different types of risks

Major western oil companies have come to Caspian region by the intention to develop supergiant oil fields discovered in that region. Mostly attractive fields were Tengiz and Karachaganak in Kazakhstan and Azeri-Chirag-Guneshli field in Azerbaijan. Today, Kashagan is the main attractive field for investors. In the decision to invest to any complexes, those companies consider three components of the political risk system: access to markets, obsolescing bargains and reputational risk.[95]

5.2. Access to markets

Central Asian region, including Kazakhstan, is landlocked, so the access to open markets is essential for development. Because of being far located from world consumers of oil, pipelines seem like the best way to transport oil and gas. Nowadays Kazakhstan can reach open markets through pipelines that cross territories of Russian Federation, China, Azerbaijan-Georgia-Turkey (BTC pipeline)

---

[94] Babak, V (2001) 'Kazakh oil: economic booster or dead weight?', *Central Asia and the Caucasus*, #3, p.42
[95] Riches, R. (2003) 'Perspectives on the political risk system for western multinational oil company investment in Central Asia' in Cummings, S (eds) (2003) p.163

and possibly in the future Iran. The cooperation of Kazakhstan with other countries involved in pipeline routes was discussed in previous part. We saw that this kind of risk is not as high as it was in previous years. Kazakhstan is willing to consider other options except Russian transit system, yet, showing that it is ready to cooperate with other states. This opens great opportunities for investors.

5.3. Obsolescing bargains

The risk of obsolescing bargains in Kazakhstan is quite high still. The risk here means changes in bargaining power during the life of the contracts, changes in the content of contracts and some external forces too. Corrupt political movements are also considered as risk for investors. Contracts about oil and gas field developments are signed usually from 25 to 40 years period. The development of the field requires investments of about 7 billion dollars, over the life of the field, for drilling, production equipment and pipelines.[96] It is necessary to have most of money in the first few years with production over the following decades used to recover the investment and make a profit. Agreements, such as Production Sharing Agreements, define the terms of operation, the work to be carried out and timetable. The government usually receives its profit from royalties, taxes and bonuses. In case of Kazakhstan, they require fine from foreign companies for damaging environment too.

5.4. Reputational risk

In the decision to invest, reputation plays big role too. For companies operating in oil field of Kazakhstan there is reputational risk both within the country and globally. There should be established good relationships with both local and central elites, so then companies would be sure in the smooth operation of business. Entire Central Asian region, not only Kazakstan, is very famous for corruption. The

[96] Riches, R. (2003) 'Perspectives on the political risk system for western multinational oil company investment in Central Asia' in Cummings, S (eds) (2003) p..168

control in all levels of government is in elite's hands, so doing business in this region depends on what kind of relationships the company would gain. According to the Transparency International 2007 survey, among 163 countries published, Kazakhstan stood at 111th place.[97]

Speaking about risks, I agree with Peter Riches, who argues that oil companies' commercial success in the region would probably depend less on their technical and operating knowledge and more on their ability to manage the evolution of political environments in both the long and short term. And that ability should include following factors: the growth of understanding of the region's cultures and economies; the ability to monitor and interpret the signals of changes in the political risk system; the development of appropriate local and political relationships and the understanding of stakeholders expectations about ethical and environmental responsibility.[98]

5.5. National Fund of Republic of Kazakhstan

However, even considering all facts mentioned above, foreign investors are still interested in the Central Asian region. The oil and gas industry of Kazakhstan has earned 80 percent of the investments coming to the country. In 2000, there was created National Fund of Republic of Kazakhstan (NFRK), to shelter income from taxes earned through the sale of the country's oil, gas and other mineral resources. The fund is intended to help protect Kazakhstan from fluctuations in the price of oil, gas, and other raw materials it exports. The income from the investment is intended to be used to bolster the budget, including social service expenditures and support for the country's economic policy.[99] Mostly earnings come from oil sector. The flow of earnings increased from $3.7 billion in January 2004 to $13.2 billion in November

[97] Transparency International 2007, Information available at official web site: www.transparency.org
[98] Riches, R. (2003) 'Perspectives on the political risk system for western multinational oil company investment in Central Asia' in Cummings, S (eds) (2003) page 173
[99] Olcott, M. (2005) *Central Asia's second chance* (Washington, Carnegie Endowment for International Peace) page 93

2006, with particularly robust growth in the latter half of 2006, due in part to a policy change.[100] Formerly, the NFRK absorbed government oil revenues in excess of a certain price; since June 2006 all such income goes into it, with a certain amount then applied to the budget. The budget is divided into current expenditures and development spending. The NFRK is to contribute the equivalent of 4.5 percent of GDP annually for development spending. Fund is headed by Commission, appointed by President. It includes Prime-Minister, Finance Minister, Central Bank's and Mazhilis's (one of Parliament palates) Chairmen. Some has thought this was created to increase transparency, but it caused opposite effect. It was not quite clear how contracts are managed, who gets commissions and management was not open to public.

In general, NFRK has several functions. ICG chose three main ones: it saves for future generations, insures the budget against a sharp downturn in world oil/commodity prices, and provides funds for the development portion of the budget. Its foreign investments accomplish additional important objectives: diversifying national wealth, from oil in the ground to financial assets; accumulating foreign currency so as to counteract somewhat pressure for currency appreciation due to the large dollar-denominated purchases of Kazakh exports (chiefly oil); and reducing the risk of over-concentration in any one place, particularly Kazakhstan itself. Investment abroad is perceived as bringing better returns.[101]

5.6. Law 'On Investments'

In January 8, 2003, government introduced a new law "On Investments". This law made equal the rights of foreign and domestic investors. It streamlines the investment process by reducing the number of bureaucratic agencies that a potential

[100] Ibid, page 26
[101] ICG (2007) *Central Asia's energy risks*, Asia report #133, may 24, 2007, page 26

investor needed to go through and the number of special licenses that foreigners needed. But as Martha Olcott states,

"many Westerners fear provisions in the new law that seem to force foreign investors to seek adjudication of disputes in Kazakh courts rather than in international ones and feel that leveling the playing field will serve to increase the advantage of local Kazakh entrepreneurs, who are better able to navigate in the largely nontransparent environment of Kazakhstan".[102]

In other words, changing of the law supposedly for the benefit of investors does not seem like truth. The government of Kazakhstan tries to get its own profit everywhere possible. But at the end, Kazakhstan's policy is working, it is attracting investors. In the future, Kazakhstan intended to be in the top six countries producing oil so it means this country has many opportunities. Thus, there is opinion that times when government would take profits from oil and gas sectors to invest in National Oil Fund is still several years away. While the size of Kazakhstan's economy continues to increase, the decline in both agricultural and the industrial sectors has been noticed, meaning that Kazakhstan's economy is increasingly based on the export of raw materials. This creates a series of problems for Kazakhstan, including 'Dutch Disease'.[103]

5.7. 'DUTCH DISEASE'

From the above it is clear that economy of Kazakhstan is facing the "Dutch disease".

Helen Boss Heslop argues that the future development of Former Soviet Union (FSU) countries (that have natural resources) would depend on how fairly enough the revenues spent and how successfully 'Dutch disease' is avoided. This

---

[102] Olcott, M. (2005) *Central Asia's second chance* (Washington, Carnegie Endowment for International Peace) page ?

[103] Olcott, M. (2002) *Kazakhstan: Unfulfilled promise* (Carnegie Endowment for International Peace), p. 131-132

phenomenon occurs when an oil boom has negative effects on the non-oil sectors of a country's economy.[104] When Kazakhstan declared about its potential in oil and gas exploration, many experts forecasted this syndrome to occur. If there is a lot of oil, then little attention would be paid to other industrial areas. But Kazakh government is already taking steps to avert this 'disease'. The government worked out developing programs that will allow investing big amounts in the innovative programmes. The system of tax benefits and preferences for hi-tech areas has already been established.

Conditions for developing innovative and industrial economy exist. For foreign investors, who would like to participate in the programme of industrial development of Kazakhstan, the tax on corporate profit and the land tax will be abolished. Exclusive benefits will be provided for the technology parks. Currently four such parks are being built up: there will be an information technology park in Alatau village, Almaty oblast, a nuclear technology park - in Kurchatov, a biotechnology park - in Stepnogorsk, a communication park - in Priozersk. Demonopolisation and liberalisation already started in the railway, telecommunications, and electric power. Conditions for healthy competitiveness are being created, with which the necessity for innovation technologies will grow. Big attention is paid to the medium and small businesses being supported. Practical measures on the protection of intellectual property have been undertaken. In education, there is already successfully working 'Bolashak' program that allows many students to study abroad, to gain international experience and come back to Kazakhstan and put into practice those knowledge. For the exact information about oil revenue spendings see annex#5.

5.8. Price for pipelines

[104] Heslop,H. (2003) 'The Caspian states of the former Soviet Union: economic performance since 1998' in Cummings, S (eds) (2003) p. 175

So the major part of investments comes from oil and gas sector. I think construction of pipelines on the territory of Kazakhstan, or even if its transit country, is based on both political and economical decisions. The previous chapter examined the policy of Kazakhstan toward different countries. The economical side of pipeline construction also matters in terms of deciding where to build pipeline routes. Cross border pipelines need to be discussed because they attract large portion of investments, demand fixed costs and they are subjects of economies of scale.[105] For instance, Tengiz – Novorossiisk route (CPC) is a unique to this region and its tariffs are defined on the basis of the agreement between the Shareholders. CPC line brought benefits to both host Governments (Kazakhstan and Russia). For Kazakhstan, CPC contributes to the budget with royalties and taxes. CPC line would be expanded, as it was said in the previous chapter, so after the expansion both countries would gain more profits. Initially, the cost of the first phase of construction amounted to 2.6 billion US dollars. After expansion, 67 million tons a year at present tariff rates will generate well over $1.5 billion a year in tariff revenue providing both host Governments with a high level of secure income for the next 35 years.[106]

The construction of Atasu – Alshankou pipeline was realized in terms of Agreement On cooperation in oil and gas industry signed between governments of RoK and PRC. Size of capital investments for this project makes up $806 mln US dollars. Financing of construction fulfilled due to the authorized capital and borrowed funds of international banks under the CNPC guarantee. The total price for the whole project is approximately $2.7 billion US dollars.[107]

In the chapter 4 we have seen that Kazakhstan officially joined BTC route (since 2006). It is essential to find out what benefits would Kazakhstan gain from it.

---

[105] Raballand G. & Esen, F. (2006) "Economics and politics of cross-border oil pipelines – the case of the Caspian basin" (Springer-Verlag)

[106] Information available at the official web site of the CPC project: www.cpc.ru

[107] Chebotarev, A. (2001) 'Kazakhstan: priority oil routes', *Central Asia and the Caucasus*

The project will cost from $2.4 to 4 billion US dollars. Main initiators are USA, Turkey, Georgia and Azerbaijan. Turkey needs oil and oil products and invited Kazakhstan to move its oil across Turkish territory. Experts from the Turkish National Oil Company have calculated that cost of Kazakhstan oil transportation along BTC route will be twice as low as along other routes. If everything goes right, Kazakhstan would save up to $120 million a year. [108]

Another alternative variant, which can be realized in the nearest future – Kazakhstan-Turkmenistan-Iran – with annual capacity of up to 20-25 mln tones, will cost $1,950 million.[109] This option presupposes that oil from Kazakhstan and Turkmenistan will be pumped through the export pipeline to Tehran and then sent to Iranian oil refineries by local pipelines. In exchange, Kazakhstan and Turkmenistan will get Iranian crude oil in the Persian Gulf.

Chapter 6. Pipelines tomorrow

6.1. Oil pipelines

The future plans of Kazakhstan to build new oil or gas pipelines are subjects to examine. During the whole thesis it was clear that Kazakhs aimed to be at the top 6 oil producers in the world. But it does face one problem – transportation. So the

[108] Ibid.
[109] Ibid.

ways how to export hydrocarbons are the main disputing questions right now. We saw that Kazakhstan has already started to establish international relations due to pipelines. Now we should see what kind of plans Kazakhstan has for the nearest future.

6.1.1. Aktau-Baku-Tbilisi-Ceyhan

Mostly discussed pipeline that Kazakhstan would join to in the future is BTC. In the chapter about international relations of Kazakhstan, we have seen that cooperation between Kazakhstan and Azerbaijan regarding ABTC line has began. Since this route could become the main transit route for many countries and Kazakhstan would play important role in it, I would like to discuss this pipeline in more details.

Its initial investors are the State Oil Company of Azerbaijan, BP and Ramco of Britain, Unocal of the United States, Statoil of Norway, TPAO of Turkey, Itochu of Japan, and Delta-Hess, a joint U.S. and Saudi company.[110] Georgia is showing itself as actively participating transit state.

Kazakh government has already given green light for realization of the large and significant project of BTC. This is about creation of new transport system for Kashagan's oil through energy corridor Aktau – Baku – Tbilisi – Ceyhan. In November 1999, President Nazarbayev confirmed the participation of Kazakhstan by signing Declaration about support of this project. It was signed between Kazakhstan, Azerbaijan, Turkey and Georgia. Nazarbayev expressed absolute political support for this route and promised soon joining of Kazakhstan to it. In June 2006, this promise was strengthened by signing of Kazakhstan – Azerbaijan Agreement On support and cooperation in transportation of oil from Republic of Kazakhstan through Caspian Sea and Azerbaijan Republic's territory to the world markets by dint of Baku

[110] Ibid.

– Tbilisi – Ceyhan. According to information on the official web-site of KazTransOil, now there are works on creating transcaspian system of oil transportation, that includes creation of large-capacity tanker fleet and appropriate receiving capacity means in Azerbaijan. It is assumed that Kazakh oil firstly will reach Kuryk port on the Caspian, and then would be transferred through Caspian to Baku by tankers. For this aim, Kazakh company KazTransOil will construct Eskene-Kuryk oil pipeline, which will connect oil-plant in Eskene with Kuryk port. Eskene receives oil from Kashagan field. In Kyruk port it is planned to build up bulk-oil terminal for receiving large capacity of oil – up to 60 mln tones. It is also planned that right-of-way (or channel) would pass in one technical corridor with acting Uzen-Atyrau-Samara pipeline. This will greatly optimize capital spending of construction. On the first phase Kazakhstan is intended to load from 7,5 to 10 mln tones a year with the future expansion of capacity to 25 mln tones.

6.1.2. Kazakhstan-Turkmenistan-Iran

Above I have described this route and said that Kazakhstan keeps this possibility as reserve option. It has been written that this pipeline would be 2080 km length and the carrying capacity would start from 25 mln tones a year. Began on the Kazakh territory it would cross Turkmenistan, Caspian south part, Iranian territory as well and would end up in the Persian Gulf. This is very beneficial route for Kazakhstan. However, Kazakhstan is not in hurry to join it. Perhaps, Kazakh government is waiting for Agip KCO starting to extract oil from Kashagan, and then they (Kazakhs) would negotiate more about this possible route. Several years ago, when President Nazarbayev and Iranian leaders started negotiations about swap operations on oil export, many experts thought it would last for many years. But surprisingly Kazakh President signed necessary documents very fast and

cooperation between two countries began. That is why nowadays almost no one has doubts that KTI project would be eventually realized.

6.1.3. Central-Asian pipeline Kazakhstan-Turkmenistan-Pakistan

The pipeline has been discussed many times. In the beginning, this gas pipeline was promoted by Turkmenistan, because Ashgabat was trying to avoid Russian 'Gazprom' influence and start to sell its gas independently. First, Kazakhstan was very busy with construction of Tengiz-Novorossiisk pipeline and did not pay much attention for this one. But later on, it seems like Kazakh government changed their policy. Initially, plans were about building two parallel gas and oil pipelines that would assist to reduce the costs. The pipeline should be build from the south part of Turkmenistan through Afghanistan to Pakistan. There is supposed to be build oil pipeline at the same time, which would start from Chardzhou to the terminal at Arabian Sea. Two parallel lines would allow pumping up to 50 mln tones a year. In this case Kazakhstan gains good benefits: by building 800 km sector from West Kazakhstan to Chardzhou, Kazakhs would be able to transfer Tengiz oil to the terminals at Arabian Sea.[111]

One more advantage of the project is that oil and gas flows to West Europe and Mediterranean Sea would be soon overloaded, so there would raise a question about other possible routes to transfer hydrocarbons.

But, KTP has got a very big problem – Afghanistan. The point is that because of the conflicts in the country, none of the investors would take a risk and start developing this project. Who would be controlling the part which will lie through Afghan territory while it is so politically unstable? That is why KTP pipeline seems like unreal project.

6.1.4. Odessa – Brody and possibly Tengiz

[111] Kubekov, M. (2007) 'Problemy exporta kazakhstanskoi nefti: pochemu Kazakhstanu nuzhna energeticheskaya nezavisimost? CA&CC Press, available at www.ca-c.org

The pipeline has been build by Ukrainian government itself, without any foreign participation and even without any promises from oil companies to fulfill the pipe with oil. Odessa-Brody pipeline is 674-km long and has an annual throughput capacity of 9 to 14.5 million tons that can be used to transport oil to Western Europe.

"It is believed in Kiev that the throughput capacity of the pipeline may be expanded to 40 million tons per year, making it part of the so called "Eurasian oil transport corridor", which has been specially designed to route Caspian oil "around Russia".[112]

It is projected to pass through Ukraine to Poland, and further on to Germany. Ukrainian variant looks like brilliant way to transport oil to European Union countries. Kazakhstan could play key role in the transportation. Ukrainian leaders are looking forward to involve Kazakhstan into the project. Additionally, it seems like Kazakh side is interested as well. In June, 2005 Prime Minister of Kazakhstan Danial Akhmetov reached an agreement about an early start of construction of a parallel 52 km section of the Odessa - Brody pipeline. Kazakhstan is even willing to lay the pipe down to Plock and Gdansk and build oil loading terminals there, providing thus a direct access for Kazakh oil to Baltic ports.[113]

Oil from Kazakhstan can reach Odessa - Brody pipeline via various routes. Besides the Baku - Supsa pipeline, one can also use oil transported from Tengiz to Novorossiisk via the Caspian Pipeline Consortium (CPC). By the year 2006, the volumes of Kazakhstan oil transported through CPC are expected to reach 32 million tons. As it was mentioned, by 2010, the throughput capacity of the CPC pipeline may be raised to 67 million tons, which means Kazakh oil quota in Ukrainian line may rise to 45 million tons.

---

[112] Kurtov, A. 'Odessa-Brody pipeline and Kazakhstan oil', *The Times of Central Asia*
[113] Ibid.

Odessa – Brody pipeline may receive positive answer from Kazakhstan only if Kazakh dreams about producing 150 mln tones by 2015 would be realized. Otherwise, it is clear that Kazakhs would not participate in this project. Besides, in May 2007, Kazakhstan President Nazarbayev had rejected invitation from Poland to take part in the discussion about further Odessa-Brody-Plock route's destiny. This move of Kazakhs meant they are not willing to be involved in the project. Kazakhstan showed again that it will cooperate with its nice friend only – with Russia.

6.2. Gas pipelines

There are not so many gas pipelines projects that could possibly occur in the future in Kazakhstan. But two of them we have already seen during the work: Turkmenistan-Afghanistan-Pakistan (TAP) and just recently agreed Turkmenistan-Kazakhstan-Russian (TKR). There was much said about these pipelines. I can only add that perhaps last option with Russia seems more realistic than others due to Kazakhs warm relations with RF. Another reason is that TAP route does not look like it would ever happen. Probably, after extracting enough gas resources Kazakh government would actively construct pipeline that should involve Turkmenistan and Russia too. Even if Kazakhstan trying to bypass Russia with oil pipelines, it still depends on gas pipelines. Moreover, President Nazarbayev never denied that Kazakhs would continue their dependence of Russia in terms of energy resources transportation.

Chapter 7. Conclusion

This thesis has focused on several international oil and gas pipelines that start from the territory of Republic of Kazakhstan. It has looked through and analyzed the current situation and attempted to see future plans of Kazakhstan regarding pipelines. We saw that Kazakhstan has several options to choose among existing and planned oil and gas routes that would open for the country international market. It is not an easy task to choose right direction and a state. The economical or technical questions are left behind while great politics came to the first front. Kazakhstan is the main oil supplier among Central Asian states and not the last one among Caspian bordering states. There is a pressure to Kazakhstan, since it has oil and gas and there are plenty of countries who would like to import it. The government of Kazakhstan took oil oriented policy in its economical growth. Kazakhs consider oil and gas not only as energy resources, but as the basis that would assist the country to successfully transit from the huge damages that disintegration of Soviet regime has brought.

In the selection of various routes it responds to the foreign policy. Obviously, Kazakhstan showed its preference to the Russian Federation, even though it claims at multivector policy in pipelines. But, since the entire world arena is not stable and nobody can be sure about their neighbors, Kazakhstan keeps reserve options to transport oil and gas. For instance, there is almost constructed Kazakhstan – China pipeline. It would supply oil first, and probably gas in the future as well, to the oil hungry China. At the same time, Kazakhstan does not reject other variants too. If by 2015 the plans would be realized and Kazakhstan would extract 150 million tones of oil a year, then it would be able to choose among Kazakhstan-Iran or Kazakhstan-Poland routes. (Odessa-Brody) Until that time, Kazakhstan is willing to cooperate with its old neighbor – Russian Federation.

At the same time, Kazakhstan is playing medium role in political game between Russia and USA. During several years USA was promoting BTC project and finally achieved its goal – Kazakhstan officially joined the project. Washington wanted Kazakhstan oil to bypass the America's political rivals (Russia and Iran); at the same time it wants a greater political role in the Caspian area. In order to get positive decision, USA was promoting Kazakhstan to the leadership in OSCE in 2010. In short, USA can attempt as many times as it wants too, but they are located very far from Kazakhstan, which makes Kazakhstan to be close allies with Russia and China.

Then Russia suggests to build new gas pipeline and Kazakhstan agrees on that too. President of Kazakhstan keeps saying that it would follow preferably Russian routes rather than other international ones. Obviously, even financial side of pipelines does not make big sense. It is all about politics.

So, due to its enormous oil and gas reserves, Kazakshtan is selecting the best option in transportation of its hydrocarbon resources. We have seen that in the nearest future Kazakhstan can be partners with Iran, Turkmenistan, Ukraine or Pakistan. All these countries are looking forward Kazakh oil. In the nearest future we will be witnesses of what pipeline did Kazakhstan chose.

VII. Bibliography

I. Primary sources:

- Petroleum Law, from June 28, 1995
- State Program on exploration of Kazakhstan sector of Caspian Sea till 2015
- Treaty on Friendship, Cooperation and Mutual Aid of 1992 between Kazakhstan and Russia
- Agreement "On division of the Bottom of the Northern Part of the Caspian Sea", July 1998
- Agreement of Diplomatic Relationships, 1992, between Kazakhstan and China
- Joint Declaration On Friendly Relations between Kazakhstana and PRC, October 1993
- The Cooperation Agreement in oil and gas industry, June 16, 2006 between Kazakhstan and Azerbaijan
- Cooperation Agreement between Turkish Republic and Kazakh Soviet Socialist Republic March 15, 1991
- Agreement On Friendship and Cooperation between Kazakhstan and Turkey, October, 1994
- Memorandum on energy partnership between USA and RK
- Law "On Investments", from January 8, 2003
- Speech of President Nursultan Nazarbayev at joint sitting of Parliament Chambers, available at official web-site of President of Kazakhstan: www.akorda.kz
- Speeches of Presidents Nazarbayev and Aliev during the official meeting, June 2006, available at www.regnum.ru
- Articles from official web site of KazMunaiGaz: www.kmg.kz
- Articles from official web site of KazTransOil: www.kaztransoil.kz
- Nursultan Nazarbayev, *Kazakhstanskii put* (Karaganda, 2006)
- Statistical information available at http://www.eia.doe.gov
- BP Statistical Review of World Energy, 2007, available at www.bp.com
- World Bank Report: '*GETTING Competitive, STAYING Competitive: The Challenge of Managing Kazakhstan's Oil Boom*', March, 2005

II. Secondary sources:

- Michael P. Croissant and Bulent Aras, *Oil and Geopolitics in the Caspian Sea Region*, (Westport, Praeger Publishers, 1999)
- Sally Cummings, *Oil, Transition and Security in Central Asia*, (Wiltshire, Antony Rowe Ltd, 2003)
- Lutz Kleveman, *The new great game: blood and oil in Central Asia* (New York, Grove Press, 2003)
- ICG (2007) *Central Asia's energy risks*, Asia report #133, may 24, 2007, p. 7
- Abishev, A *Kaspii: neft i politika* (Almaty, Center for Foreign policy and analysis,2002)
- Zaslavskiy, I *Delo-truba.Baku-Tbilisi-Dzheyhan i Kazakhstanskii vybor na Kaspii* (Europa, 2005)
- Terterov, M *Doing business with Kazakhstan* (GMB Publishing Ltd, 2004)
- Ashimbaev, M; Laumilin, M; Tukumov, Ye; Gusseva, L; Kaliyeva, D; Kozhikov, A *New challenges and new geopolitics in Central Asia: after September 11* (Almaty, KazISS under the President of RK, 2003)
- Tokaev, K. *Pod styagom nezavisimosti* (Almaty, Bilim, 1997)
- David Lane, *The political economy of Russian oil* (Oxford, Rowman & Littlefield Publishers,Inc.,1999)
- Bunin, I., Karaganov, S., Nikonov, V., Ryzhkov, V., Salmin, A., Satarov, G. *'Sovremennaya Rossiiskaya politika'* (Moscow, Olma Press, 2003)
- Chjen, K *Geopolitika Kazakhstana – mezhdu proshlym I budushim* (Almaty, Zheti zhargy, 1999)
- Olcott, M. *Central Asia's second chance* (Washington, Carnegie Endowment for International Peace, 2005)
- Olcott, M. *Kazakhstan: Unfulfilled promise* (Carnegie Endowment for International Peace, 2002)
- *'Survey. Outlook for Kazakhstan gas industry'*, The Times of Central Asia, 30 September, 2005
- Khusainov, B & Turkeeva, K (2003) *'Kazakhstan's energy potential today and tomorrow'*, Central Asia and the Caucasus
- Chebotarev,A. (2001) *'Kazakhstan: priority oil routes'*, Central Asia and the Caucasus

- Barbasov, M., *'An oil pipeline to China: an element of struggle for Caspian resources'*
- *'$1 bln to modernize Central Asia-Center pipeline'*, The Times of Central Asia, October, 2002
- Mezhdunarodnyi delovoi zhurnal KAZAKHSTAN (#3,2003) *'Programma osvoeniya Kazakhstanskogo sectora Kaspiiskogo morya,* available at www.investkz.com
- Esimova, K., *'Kazakhstan-Chinese cooperation in the energy sphere'*, Central Asia and the Caucasus, #1,2005
- Ziyadov, T. "Prospects of Caspian gas and its potential markets" Central Asia and the Caucasus, #5
- Chomakhidze, D. *'Georgia: natural energy resources'*, Central Asia and the Caucasus,#4
- Graphov, P. *"Neft' – schast'e I proklyat'e Irana"*, Mirovaya energeticheskaya politika,#5
- Auelbaev, B. *"Kazakhstan's politico-economic relations with Iran"* Central Asia and the Caucasus, #4
- Burkhanov, A., *'The EU strategy in Central Asia-successes and failures'* Central Asia and the Caucasus, #3, 2007
- Babak, V., *'Kazakh oil: economic booster or dead weight?'* Central Asia and the Caucasus, #3
- Raballand G. & Esen, F. "Economics and politics of cross-border oil pipelines – the case of the Caspian basin" (Springer-Verlag. 2006)
- *'Economika Kazakhstana: est chemu pozavidovat'*, October 10, 2007, available at www.gazeta.kz
- Kubekov, M. *'Problemy exporta kazakhstanskoi nefti: pochemu Kazakhstanu nuzhna energeticheskaya nezavisimost?* CA&CC Press,2007, available at www.ca-c.org
- Kurtov, A. *'Odessa-Brody pipeline and Kazakhstan oil'*, The Times of Central Asia
- *Trehstoronnie peregovory Presidentov Rossii, Kazakhstana i Turkmenistana*, May 14, 2007, available at www.zakon.kz
- I. Gorst, *Ostanovka Kashaganskogo proekta grozit neftyanym gigantam novymi politicheskimi bedami,* available at www.centrasia.ru

III. Internet sources:

www.cpc.ru

www.vzglyad.ru

www.oilcapital.ru

www.investkz.com

www.transparency.org

www.neftevedomosti.ru

www.bbcrussian.com

www.caspenergy.com/18/kazakh_r.html

www.worldfactbook.com/country/Kazakhstan/2006

VIII. Annexes

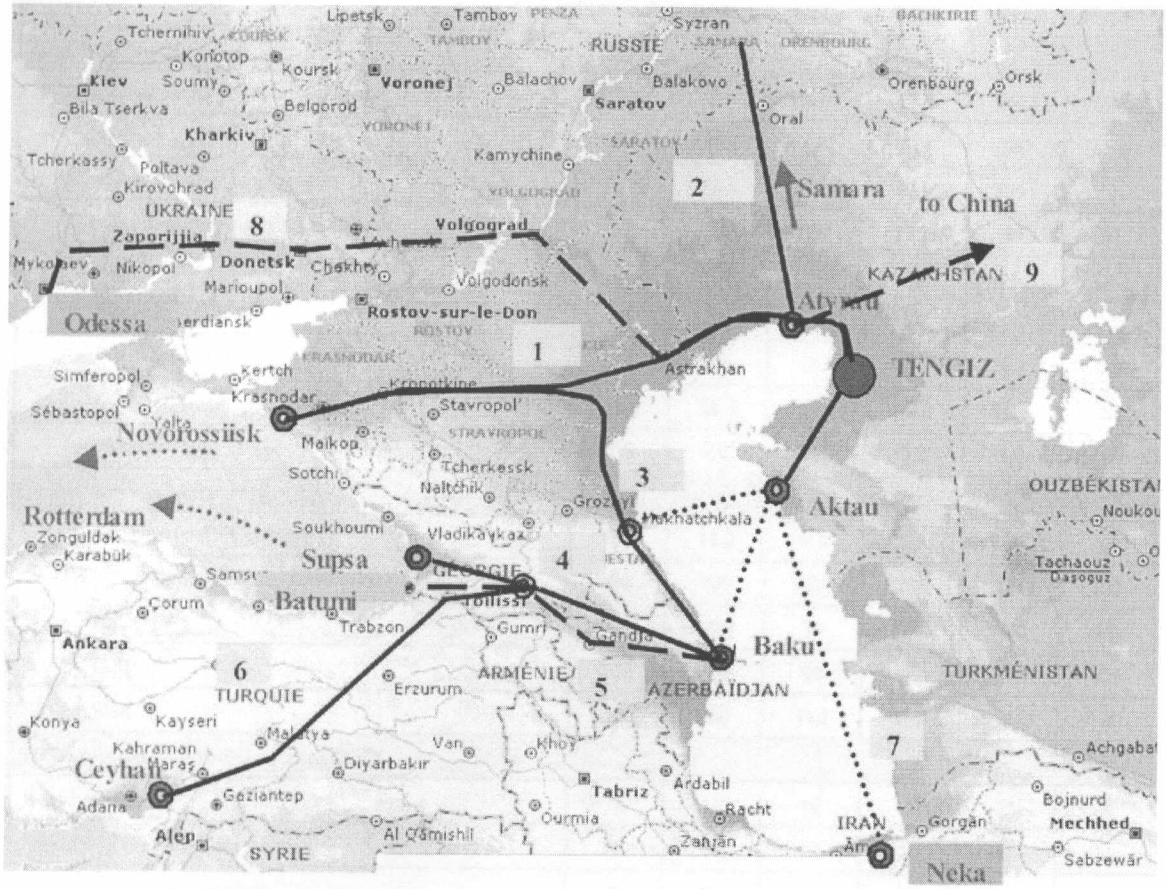
Annex #1. Map of Kazakhstan

Source: **KAZAKHSTAN,** Map No. 3771 Rev. 6 UNITED NATIONS, January 2004, Department of Peacekeeping Operations Cartographic Section

Annex#2. Kazakhstan-China Pipeline

Source: United States Energy Information Administration, available at: http://www.eia.doe.gov

Annex #3. Main Caspian oil export's outlets and routes.



1 – Atyrau-Novorossiysk (CPC)

2- Atyrau-Samara (Transneft system)

3- Aktau – Makhachkala by barge

4- Baku – Supsa

5- Baku- Batumi,

6- Baku-Tbilisi-Ceyhan (BTC) and possibly ABTC

7- Aktau-Neka (swap)

8- Astrakhan-Odessa by rail

9- Chinese pipeline

Source: Raballand G. & Esen, F. (2006) "Economics and politics of cross-border oil pipelines – the case of the Caspian basin" (Springer-Verlag)

Annex#4. Kazakhstan: Key Economic indicators, 1999-2004

	1999	2000	2001	2002	2003	2004
	Actual	Actual	Actual	Actual	Actual	Prelim.
National income						
GDP at current prices, billion tenge	2016	2600	3251	3776	4612	5543
Oil [1]	196	365	427	537	661	..
Non-oil	1820	2235	2824	3240	3951	..
GDP at current prices, US$ billion	17	18	22	25	31	41
Oil [1]	2	3	3	4	4	..
Non-oil	15	16	19	21	26	..
Real GDP growth, %	2.7	9.8	13.5	9.8	9.3	9.4
Oil [1]	18.6	26.5	23.2	12.9	10.5	..
Non-oil	1.5	8.0	11.9	9.3	9.0	..
Prices and exchange rates						
CPI inflation (pa), % change	8.3	13.2	8.4	5.8	6.4	6.9
REER (up=depreciation), 2000=100 [2]	94	100	101	106	111	107
USD	92	100	98	98	92	80
EUR	107	100	93	98	110	105
RUR	89	100	112	119	126	128
Monetary and financial sector (% of GDP)						
Broad money, M3	14	15	18	20	21	29
Deposits in the banking system	8	11	14	16	16	23
Commercial banks' lending	7	11	15	18	21	27
Pension fund accumulations	3	4	6	7	8	9
External sector						
Current account balance, US$B	-0.2	0.6	-1.2	-0.8	0.04	0.2
Exports of goods, f.o.b., US$B, of which	6.0	9.3	8.9	10.0	13.2	20.3
Fuel and oil products	2.3	4.8	4.8	5.6	7.9	9.0 [3]
Ferrous metals	0.9	1.2	1.0	1.1	2.1	2.4 [3]
Copper and copper products	0.6	0.7	0.7	0.7	0.7	0.8 [3]
Imports of goods, f.o.b., US$B, of which	5.6	6.8	7.6	7.7	9.1	13.3
Food	0.3	0.3	0.4	0.4	0.5	0.3 [3]
Other consumer goods	2.2	2.1	1.4	1.5	1.2	0.8 [3]
Petroleum and energy products	0.3	0.6	0.8	0.8	0.9	1.2 [3]
Intermediate goods	1.1	1.8	2.3	2.2	3.0	2.0 [3]
Capital goods	1.7	2.1	2.6	2.9	3.6	4.0 [3]
Gross FDI inflows, % of GDP	11.0	15.2	20.6	16.7	14.9	13.2 [3]
Oil and gas	9.2	12.8	16.6	12.2	10.8	10.4 [3]
Non-oil-and-gas	1.8	2.4	3.9	4.4	4.2	2.8 [3]

Annex#4. Continued.

	1999	2000	2001	2002	2003	2004
	Actual	Actual	Actual	Actual	Actual	Prelim.
Government finance, % of GDP (except otherwise specified)						
Total budget revenue	17.9	21.9	22.1	21.1	21.5	23.0
Budget oil revenue	0.7	3.2	2.3	2.3	2.7	3.6
Budget non-oil revenue	17.2	18.6	19.7	18.8	18.8	19.4
Total budget expenditure and net lending	23.1	22.8	23.0	21.4	22.5	23.4
Education	3.9	3.3	3.3	3.2	3.2	3.4
Healthcare	2.2	2.1	1.9	1.9	1.9	2.4
Social security and welfare	7.9	6.6	5.7	5.3	5.2	4.9
Agriculture	0.3	0.4	0.7	0.8	1.0	1.3
Transport and communication	0.6	1.5	1.4	1.5	1.8	1.9
State Budget balance, deficit(-)/surplus(+)	-5.2	-1.0	-0.9	-0.3	-1.0	-0.3
Non-oil balance, deficit(-)/surplus(+)	-5.9	-4.2	-3.2	-2.6	-3.7	-4.0
NFRK savings	0.0	0.0	5.8	2.9	5.0	2.5
NFRK oil revenue	0.0	0.0	2.3	1.2	2.7	2.3
NFRK non-oil revenue	0.0	0.0	0.2	0.2	0.3	0.0
NFRK capital revenue	0.0	0.0	3.3	1.5	2.0	0.2
Budget capital revenue	1.7	0.8	0.5	0.5	0.1	0.1
Consolidated budget balance, deficit(-)/surplus(+)	-3.5	-0.1	5.4	3.1	4.0	2.3
Labor market						
Employment, thousand people	6 105	6 201	6 699	6 709	6 985	7 148
Employment growth, %	-0.4	1.6	8.0	0.2	4.1	2.3
Unemployment rate, % of labor force	13.5	12.8	10.4	9.3	8.8	8.6
Participation rate, labor force as % of population at the age 15+	66.0	66.0	70.2	70.1	70.0	70.6
Real average wage growth, %	11.0	4.5	16.4	10.6	7.0	14.3

Source: World Bank Report: 'GETTING Competitive, STAYING Competitive: The Challenge of Managing Kazakhstan's Oil Boom', March, 2005

1 - Oil and gas extraction, extraction related services, and oil related construction and transportation.
2 - Real effective exchange rate (REER) is a weighted average of exchange rates of tenge to currencies of 24 countries.
3 - January-September 2004 (actual).

Annex#5. Kazakhstan: Use of Oil Inflows and Overall Spending Priorities, 2000-2007

	2000 Actual	2001 Actual	2002 Actual	2003 Actual	2004 Prelim.	2005 Proj. [a]	2006 Proj. [a]	2007 Proj. [a]
Total oil inflows, % GDP	3.2	8.0	5.0	7.4	6.1	5.9	4.7	4.0
Total oil inflows, % of total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Saved in NFRK [b]	0.0	70.9	54.6	63.7	40.5	21.1	6.3	-2.7
Spent through budget [c]	100.0	29.1	45.4	36.3	59.5	78.9	93.7	102.7
Total expenditure, % GDP	22.8	23.0	21.4	22.5	23.4	25.6	24.1	24.0
Total expenditure [d], % of total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Economic classification:								
Current expenditures	91.8	90.7	83.8	80.2	76.5	71.9	75.4	76.9
Capital expenditures	8.2	9.3	16.2	19.8	23.5	28.1	24.6	23.1
Functional classification:								
GPS [e], Defense, Public order	17.9	21.1	20.7	21.4	20.9	20.6	20.8	21.6
Education	14.7	15.2	15.6	15.6	15.3	14.8	15.3	16.7
Health	9.4	8.9	9.2	9.4	10.5	11.5	12.3	12.5
Social security and welfare	29.7	26.7	25.9	25.0	21.9	21.8	22.5	21.6
Housing	3.8	4.4	3.2	3.6	5.5	7.0	6.8	6.7
Agriculture	2.0	3.3	3.7	4.9	5.8	6.6	6.8	6.2
Industry and construction [f]	1.2	4.5	2.1	6.5	2.8	5.2	3.4	2.8
Transport and communication	6.6	6.3	7.4	8.6	8.4	7.4	8.1	7.9
Other	14.6	13.4	13.7	11.0	11.5	10.4	7.6	6.7
Memorandum items:								
Total public debt to GDP, %	25.5	20.4	17.7	15.0	12.1	12.3	11.4	10.5
Average monthly pension [g]	4462	4565	5011	5964	6570	8762	8560	8367
Average monthly wages [g,h]	9669	11238	12109	12478	14835	...	...	...

Source: World Bank Report: 'GETTING Competitive, STAYING Competitive: The Challenge of Managing Kazakhstan's Oil Boom', March, 2005

[a] 2005-07 Medium Term Socio-Economic Development Plan and 2005-07 Medium Term Fiscal Framework (updated in March 2005 to reflect possible amendments to the 2005 budget).

[b] Oil tax revenues (CIT, excess profit tax, royalty, bonuses and PSA receipts), investment income and capital revenue (sale of oil shares and similar transfers) saved in the National Fund of the Republic of Kazakhstan (NFRK).

[c] Oil tax revenues (CIT, excess profit tax, royalty, bonuses and PSA receipts) spent through the State Budget.

[d] Excluding Net lending.

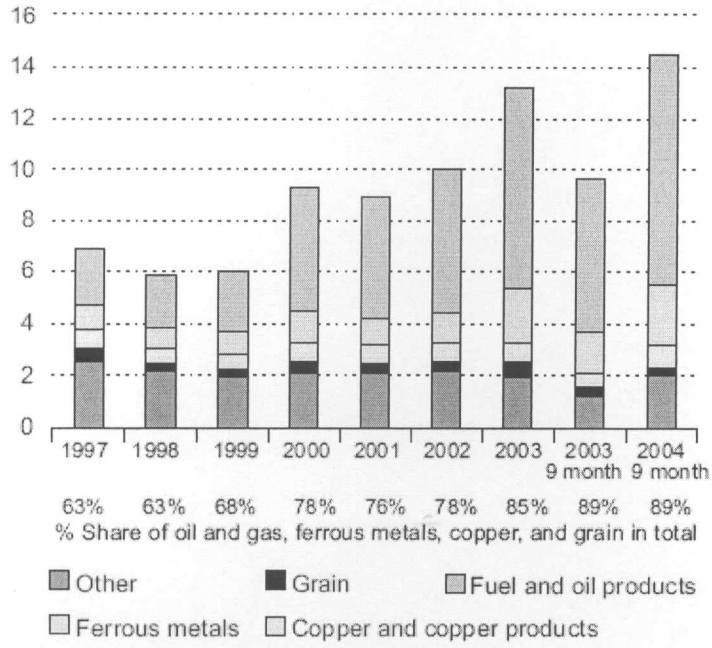
[e] General public services.

[f] Including Financial assets operations/Capitalization of development institutions.

[g] Constant tenge of 2000.

[h] Public sector, including civil servants, and health and education workers.

Annex #6. Kazakhstan: Exports of selected goods, 1997-2004 (US$ billion)



Source: World Bank Report: 'GETTING Competitive, STAYING Competitive: The Challenge of Managing Kazakhstan's Oil Boom', March, 2005