

The transformation of the petroleum sector of Kazakhstan

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Kazakhstan, being one of the top producers and exporters of oil, gas, coal and uranium, has demonstrated sustained and steady growth in its energy sector for many years. Global changes in energy consumption prompted our country to put in place initiatives that strengthened our position in the regional energy market. This has helped move us from a particularly sensitive zone towards a more comfortable position. Thus, in spite of pricing challenges, oil and gas mega projects have not only been able to sustain the pre-existing rate of production nationwide, but even to increase it in the long-term.

At year-end 2017, crude oil production in Kazakhstan reached 86.2 million tons, which is 10.5 per cent higher than in 2016, and went above the target by 2 per cent. Last year's production set a record in the entire history of the country's oil and gas industry. In addition, natural nationwide gas production reached around 53 billion cubic meters – this is an increase of 14 per cent compared to the previous year and 10 per cent higher than the target. Today, the oil sector is the source of crucial support to the consolidated budget of the country, including the movement of funds through the National Fund: in 2017 alone oil revenues increased by 60 per cent, with their share in revenues up to 30 per cent. In 2018, the country is ready to demonstrate to the energy world a new all-time high in the production of hydrocarbons, significantly influencing the balance of forces on the energy map of the region. By 2025, we will be able to reach production levels of 104 million tons of oil per year. Hydrocarbon production in Kazakhstan is growing amidst the current increase in world oil prices, which continues after a long and significant decline. The landmark decision by OPEC members to ease quotas for oil production has made it possible to determine the price vector at least until the end of this year.

The current favourable market conditions have allowed the largest oil and gas conglomerates to continue investing in technological and digital modernisation in Kazakhstan. Total investment under the initiatives of the Fuel and Energy Sector for 2017-2025 are projected to surpass 19 trillion tenge (US\$51 billion), more than 97 per cent from private commitments. In the hydrocarbon production and export segment, three giant oil and gas fields – Tengiz, Kashagan and Karachaganak – the stronghold of Kazakhstan's economy, will see billions of US dollars in investment over the next few years. With the expansion of production from these fields, the country will be able to increase oil production by tens of millions of tonnes. This will further strengthen the energy security of not only

Kazakhstan, but will also ensure the stability of fuel supplies to global consumers for many years to come.

For many years Kazakhstan has been providing reliable exports of crude oil and natural gas to the west through Russia. A few years ago, in order to diversify and provide alternative supplies, the country invested in the construction and commissioning of a gas pipeline to China, thus enabling the transit of Central Asian gas as well as reliable exports of Kazakhstan's fuel to the east. The reorientation of gas flows towards China has forced the global energy industry to reappraise Kazakhstan, now as a reliable and efficient export partner capable of supplying fuel directly to consumers, without the need of intermediaries. Planned improvements to gas transportation infrastructure – the modernisation and capacity expansion of the Kazakhstan-China and Beineu-Bozoy-Shymkent gas pipelines, as well as the construction of the new "Saryarka" pipeline – will in the future double export capacity and ensure effective domestic gas supply, including for the country's northern regions and Astana.

The multi-million dollar investment in upgrading the three largest oil refineries in Atyrau, Shymkent and Pavlodar, as well as the planned construction of a fourth refining facility, will make it possible for the country to be fully supplied with our own high-quality motor fuels in line with Euro-4 and Euro-5 standards. We already cover 85 per cent of the local market with our own fuels, 95 per cent with diesel fuel and 36 per cent with jet fuel. At the same time, our country ranked twelfth in the world for the cheapest gasoline and fifteenth for the cheapest diesel fuel out of 167 countries. These are good positions given the region's competitive environment. Moreover, the delivery of projects for the production of high-value-added commodities will help develop the petrochemical industry.

Huge investment in energy projects – unique in design and ground-breaking performance-wise – testify to high investor confidence in Kazakhstan.

Legislative changes, corresponding to best global practices, have increased Kazakhstan's investment attractiveness and the competitiveness of mineral producers. The Code "On Subsoil and Subsoil Use," signed in late December 2017 by President Nursultan Nazarbayev, is recognised by international experts as one of the most progressive pieces of legislation for investors.

Starting this year, we have simplified the mechanism of issuing subsoil use rights, it is analogous with the Australian model, and operates through the introduction of a "first come first served" licensing order. We have granted guarantees for



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the stability of subsoil use conditions, started the transition to international procedures for stock assessment and availability of geological information, in digital format, as well as ensured the openness of data on subsoil users, subsoil use conditions and final beneficiaries. In addition, we have retained the state's priority right with respect to strategic hydrocarbon sites operated by the national oil and gas holding KazMunayGas.

The recently updated Code of the Republic of Kazakhstan "On Taxes and Other Mandatory Payments to the Budget", also signed by the Head of State in late 2017, has abolished the commercial discovery bonus in geological exploration, offering instead an alternative tax on subsoil use for offshore and deep oil and gas deposits.

Once improved, the legislative framework for the management of energy-related emissions and waste made it possible to approve the National Plan for the Allocation of Greenhouse Gas Emission Allowances for 2018-2020, as well as to amend the current Environmental Code.

By the close of 2019, a draft of the new Environmental Code will be submitted to parliament for approval. It will meet the requirements of the OECD and ensure the transition to environmental standards and economic mechanisms for environmental regulation, as well as the improvement of procedures for state environmental control.

The development of clean energy in Kazakhstan will boost the active use of renewable energy sources – for this purpose,

the country has created all the necessary conditions at the legislative level.

To continue the legacy of EXPO-2017, 105 foreign and 28 local green technologies have been selected for further development in the country. Nine technologies have already been implemented, and nine more will be implemented by the end of this year. Furthermore, the first international bidding auction for RES projects has taken place. All this demonstrates Kazakhstan's commitment, while dependent on the extraction of traditional raw materials, to create clean energy for the benefit of the country's future.

Kazakhstan, which enjoys a positive reputation in the global arena and actively pursues international cooperation with numerous energy and oil companies, including the World Petroleum Council, is open for further partnerships in areas of current interest.

Welcoming the participants of the World Petroleum Council, I would like to emphasise the contribution of the WPC to the development of the energy sector and the global economy. I hope that through discussion in Astana at our meeting on October 1-3 we will continue to promote the use of oil resources for the benefit of our countries and humanity.

We have repeatedly demonstrated to the entire global energy industry that we are a reliable and stable partner to rely on in any circumstances and are ready to responsibly continue to follow this policy, no matter what challenges we encounter. ●