

# Investing in the future

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On 16 December 1991, Kazakhstan became the last former Soviet republic to declare autonomy, becoming an independent sovereign state in the process. Today, it is renowned for its rapid economic growth and continued political stability. Since its ascension to independent status, Kazakhstan's society and economy have been virtually revolutionised as the state has seamlessly made the transition from a single party political system with a centrally planned economy to a market-oriented democratic model.

According to the World Bank, Kazakhstan has achieved a real GDP growth rate of 5% in recent years. This is in part attributable to the extensive efforts made by the government to stimulate investment from abroad, including in the oil and gas sector. This is unsurprising, as Kazakhstan boasts vast reserves of valuable natural resources, particularly oil and natural gas. According to statistics outlined in *Business Insider* in 2012, Kazakhstan has the ninth largest oil reserves globally, with supplies from its 172 oil fields accounting for roughly 3% of the globe's total oil production.

Kazakhstan's oil and gas fields are located in six of the country's 14 provinces – Aktobe, Atyrau, Karaganda, Kyzylorda, Mangystau and West Kazakhstan.

- **Aktobe** – Some 25 hydrocarbon fields have been identified in Aktobe. It has been reported that within this province lie the Zhanazhol fields, which are home to roughly 170mn tonnes of reserves.
- **Atyrau** – A 2012 report issued by the LSE noted that 75 oil fields have been identified in Atyrau, equating to reserves of 930mn tonnes. The largest field in the province is Tengiz, which alone stores 781mn tonnes of reserves. Of the remaining 150mn tonnes, more than 50% are located in two fields:

Korolevskoye (55mn tonnes) and Kenbai (31mn tonnes). This does not include the giant Kashagan deposit, which is estimated to hold 4.5bn tonnes.

- **Kyzylorda** – The Kumkol group of oil fields fall within the province of Kyzylorda, reported as the fifth largest oil and gas accumulation in Kazakhstan.
- **Mangystau** – The European Centre for Geopolitical Analysis indicates this province as rich with oil reserves, totalling 725mn tonnes. Four of Kazakhstan's largest oil fields (Uzen, Zhetybai, Kalamkas and Karazhanbas) are located here.
- **West Kazakhstan** – West Kazakhstan holds the largest gas condensate field in Kazakhstan, Karachaganak, with around 320mn tonnes of liquid hydrocarbon feedstock and 450bn cm of natural gas. Total oil and gas condensate reserves in the province are estimated at 200mn tonnes.

According to the Kazakhstan Ministry of Oil and Gas, unsecured oil reserves located in the Kazakhstan sector of the Caspian Sea could total over 17bn tonnes (124.3bn barrels). Considered in tandem with the country's already-identified oil and gas reserves, and constantly escalating production volumes, Kazakhstan seems likely to remain amongst the world's top oil producers.

## Foreign interest

Foreign direct investment is important to the Kazakh economy, and to the oil and gas sector in particular. Significant investments have been made by many of the international majors (including British Gas, Chevron, CNPC, Eni, ExxonMobil, Shell and Total). To ensure the country is a palatable investment prospect, the government has focused on creating an attractive legal and regulatory environment. Foreign investors now have almost the same rights as Kazakh nationals, although certain

restrictions currently apply to the change of control, participation of the Kazakhstan national company in oil and gas projects, work permits for expatriate specialists, the hiring of local personnel and procurement of local goods and services.

However, the rapid rise of shale gas and alternative energy projects across the world in recent years has led to a change by the Kazakh government to its strict policy with respect to restrictions in oil and gas law. Various amendments are currently being developed to return the attractiveness of the Kazakh market for foreign investors.

It is important to note that despite being landlocked, the Kazakh government has taken many steps to guarantee the country's export capabilities. Notably, during the independence era, Kazakhstan, with the active involvement of foreign investors, has been developing new oil and gas transportation routes via the Caspian and Black Seas, and to China.

There are three major refineries in Kazakhstan, all of which were built during the Soviet era. Most of these are underutilised due to inconvenient locations, lack of capacity or out-of-date equipment, and currently the majority of produced crude oil is delivered for export. The Kazakhstan government recently initiated an upgrade programme at these refineries, with the involvement of foreign partners. A new refinery is also planned to be built within the next few years. As there is no sufficient experience in developing such a major project locally, it is very likely that the construction of the new refinery would involve a foreign partner(s).

## Road to recovery

While the global financial crisis impacted Kazakhstan's economy, the country looks to be well on the road to recovery and continues to offer foreign investors with opportunities, supported by ongoing legal and economical reforms. The volume of oil and gas exiting Kazakhstan is expected to grow significantly in the coming years, thanks to an anticipated increase in foreign investment, and exceptionally constructive national and international market conditions for crude production. To make the most of such opportunities, it is advisable for foreign investors to have access to experts with both local experience and insight. ●

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