

# SHOWCASE Kazakhstan

2015

REVIEW OF THE OIL & GAS SECTOR

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## KAZAKHSTAN'S ENERGY INDUSTRY THE FUTURE

## INDUSTRY WHO'S WHO

Why Kazakhstan?

Opportunity With Local Content

Technical Regulations & Standards

Understanding Business & Regulatory Environment



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- Meetings with major operators one-to-one
- Priority categories for goods, works and services analysed
- Benefits of local content and localization strategy
- State incentive programmes explained
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# SHOWCASE Kazakhstan

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## INTRODUCTION LORD WAVERLEY

**Kazakhstan, with its large volumes of natural resources, is a country of geopolitical importance and is on a fast track development cycle.**

Whilst operational challenges are to deliver the three world-class oil and gas projects of Karachaganak, Kashagan and Tengiz within budget and time in a secure, safe environment, a structured approach towards industrialisation and creation of a base for professional skills is a national priority.

Kazakhstan is a country that is working overtime to becoming internationally competitive and be viewed as an investment destination of choice, with a wealth of opportunities available to those who wish to engage directly. It should be known that the country is placing great emphasis on local content and localisation development, and encouraging a unified approach by the oil and gas industry in this regard. Kazakhstan has taken a lead in this global trend. All stakeholders are

encouraged to embrace these ideals.

The technical, commercial, and socio-economic challenges are understood. It is recognised that it will take time, investment, focus and commitment to develop, however knowing Kazakhstan as I do, I have no doubt that this will be achieved.

This showcase of Kazakhstan attempts to illustrate those opportunities and are explained from the perspective of Kazakhstan, not from outside looking in. For this reason, I trust that those who are keen to explore these dimensions in a country set on positioning itself as a global player will find these articles of interest.

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### **Казахстан, с его богатыми запасами природных ресурсов, является геополитически важной страной, проходящей виток ускоренного развития.**

В то время как насущная задача состоит в осуществлении трех нефтегазовых проектов мирового класса - Карачаганак, Кашагана и Тенгиза, в установленные сроки и в соответствии со сметой, без ущерба для окружающей среды, структурированный подход к индустриализации и создание базы профессиональных навыков являются национальными приоритетами.

Казахстан - это страна, которая прилагает все усилия, чтобы добиться международной конкурентоспособности и рассматриваться инвесторами в качестве приоритетного места назначения, предлагающего огромные возможности всем, кто готов к прямому взаимодействию. Важно осознавать, что страна уделяет большое внимание местному содержанию и развитию локализации и поощряет единый подход в этом вопросе со стороны нефтегазовой промышленности. Казахстан играет ведущую роль в этой глобальной тенденции. Всем

заинтересованным сторонам рекомендуется принять эти идеалы.

Понятно, что существуют проблемы - технические, коммерческие, и социально-экономические. Никто не отрицает, что развитие потребует времени, инвестиций, целеустремленности и полной отдачи, однако, как человек, хорошо знающий Казахстан, я не сомневаюсь, что это достижимо.

Данная презентация Казахстана является попыткой проиллюстрировать имеющиеся возможности с позиции Казахстана, это взгляд изнутри, а не извне. Поэтому я надеюсь, что эти статьи будут интересны всем тем, кто хочет лучше понять суть происходящего в стране, которая стремится позиционировать себя в качестве глобального игрока.



## ROADMAP AS A COLLABORATIVE INDUSTRY STRATEGIC FRAMEWORK TO DRIVE TECHNOLOGY DEVELOPMENT VISION IN THE KAZAKHSTAN OIL AND GAS SECTOR



Oil and gas is among the most capital and technology intensive of all industries, and the role of technology innovation in aiding the discovery of economically viable new reserves and improving the efficiency of resource extraction is critical. Investments in R&D, aimed at supporting vital Kazakh oil and gas projects, will also help to realise the country's broader industrial and economic potential. But for innovation to be effective, research and development priorities must be business-driven and in line with the upstream industry's needs.



In order to help Kazakhstan focus its R&D efforts and to contribute to the government's innovation agenda, Shell undertook to work with the entire industry and to lead the development of the Kazakhstan upstream oil and gas technology and R&D roadmap.



### KEY DELIVERABLES

The roadmapping project achieved a number of important objectives. The industry collectively identified, screened and ranked the main technology challenges based on the potential financial benefits that could result if they are successfully addressed.

Potential technology solutions were also identified and assessed in terms of their impact on solving the challenges and on their attractiveness to the nation, which included consideration of local R&D and industry opportunities.



**THE ROAD-MAPPING PROCESS IDENTIFIED VALUE STREAMS WHICH INCLUDE:**

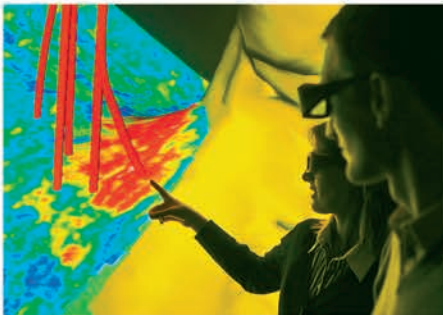
- 1 Short-term gains through faster and broader adoption of currently available technologies;
- 2 Mid-term gains through adaptation technologies being practiced in other parts of the world to the specific conditions in Kazakhstan;
- 3 Long-term gains through innovation and development of new technologies that will also support economic diversification objectives.

The in-depth review of the agreed top 15 technology challenges undertaken with the advice and input from KING and KMG resulted in the development of the specific topic roadmaps for each of the 15 challenges. The topic roadmaps help identify key actions that the Government can take to accelerate the uptake of key technologies, thus contributing both to the improved performance of the upstream oil and gas sector and greater opportunities for development of local capacity. The indicative total value of successfully addressing all of the 15 challenges would be several tens of US\$ billions.



Now, that we have identified the opportunities, we must look forward to implementation. The result can only be achieved through collective effort and commitment of the industry, the research community and the government to work together.

The importance of the project was recognized by President Nazarbayev who has instructed the Government to organize the implementation of the Roadmap and invited foreign investors to participate in addressing one of the identified priority technology directions (FIC May, 2013).



Technology roadmapping should be adopted by the industry as an integral part of the planning process. It provides decision-makers with a means to identify, evaluate and select the strategic technological objectives that will deliver most value to Kazakhstan. It is a comprehensive tool that increases collaboration, knowledge sharing and new partnerships and reduces the risk of costly investment in less appropriate technology and R&D.

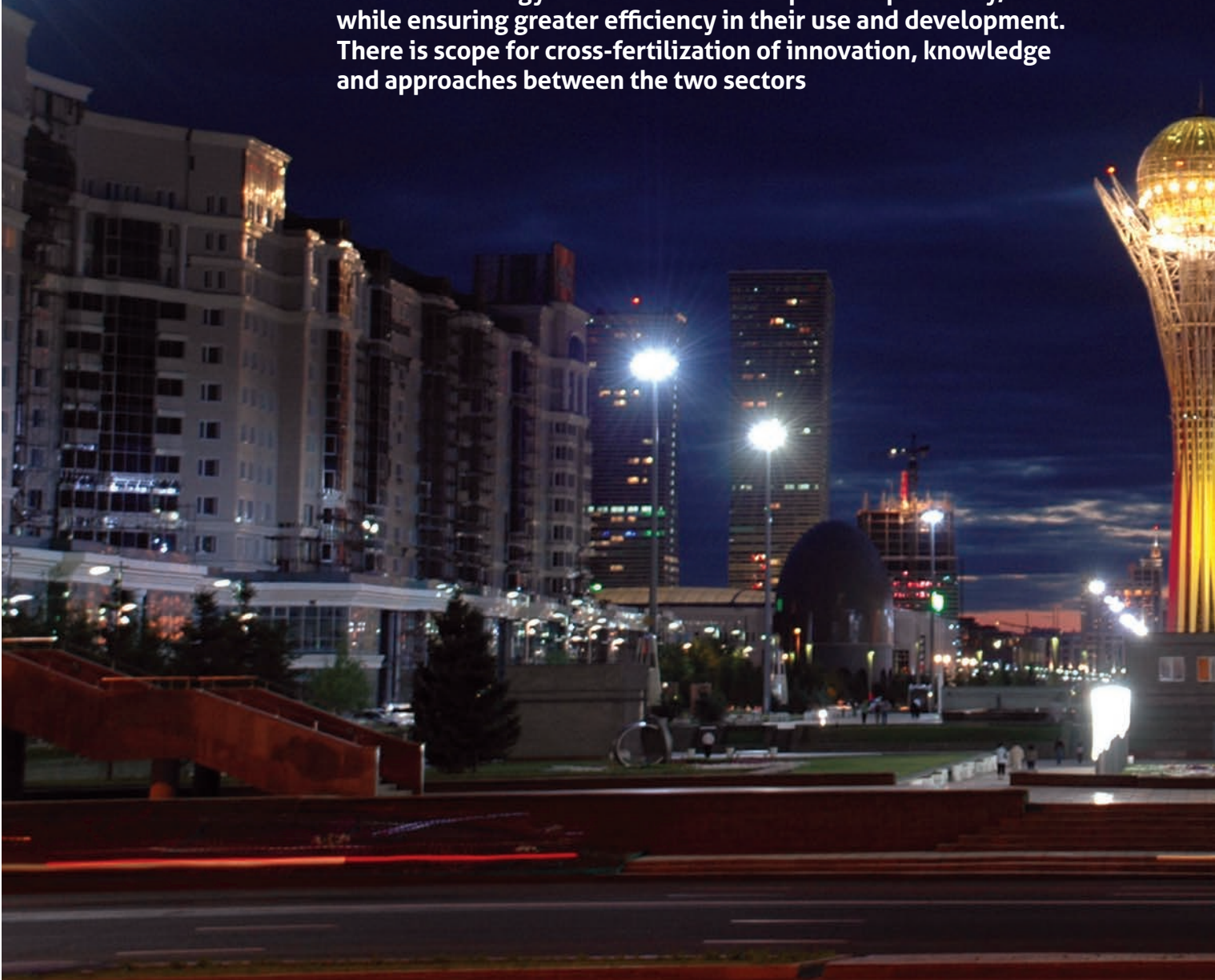
The roadmap presents consistent logical sequence of activities that will lead to greater opportunities for involvement of Kazakhstan companies, define the necessary technical skills, and identify R&D opportunities for Kazakhstan universities and technical institutes.



# KAZAKHSTAN'S ENERGY SECTOR; THE FUTURE

**U.Karabalin**  
Minister, Oil and Gas

It is important to ensure that both non-renewable and renewable energy resources are developed competitively, while ensuring greater efficiency in their use and development. There is scope for cross-fertilization of innovation, knowledge and approaches between the two sectors





At the end of 2012 the President of Kazakhstan highlighted the successful implementation of the first long-term National Strategy which was adopted in 1997, and which enabled Kazakhstan to join the list of the fifty most competitive countries in the world. We have now embarked on the implementation of the new long-term strategy, aimed at taking Kazakhstan into the top thirty.

The energy sector is one of the principal elements in the implementation of Kazakhstan's strategic economic objectives. Since our independence we have joined the top fifteen countries for proven oil reserves and the top twenty for gas.

Since 1997 Kazak oil production has grown more than threefold to 1.6 million barrels per day, and gas production by fivefold to 40 billion cubic meters annually. We predict that

Kazakhstan oil production will reach around 2 million barrels per day in 2020. Our supergiant fields -Tengiz, Karachaganak and Kashagan, each containing over seven billion barrels (in the world's top 60 fields) are our principal projects.

Three major Kazak oil refineries in Atyrau, Pavlodar and Shymkent will be upgraded before 2017.

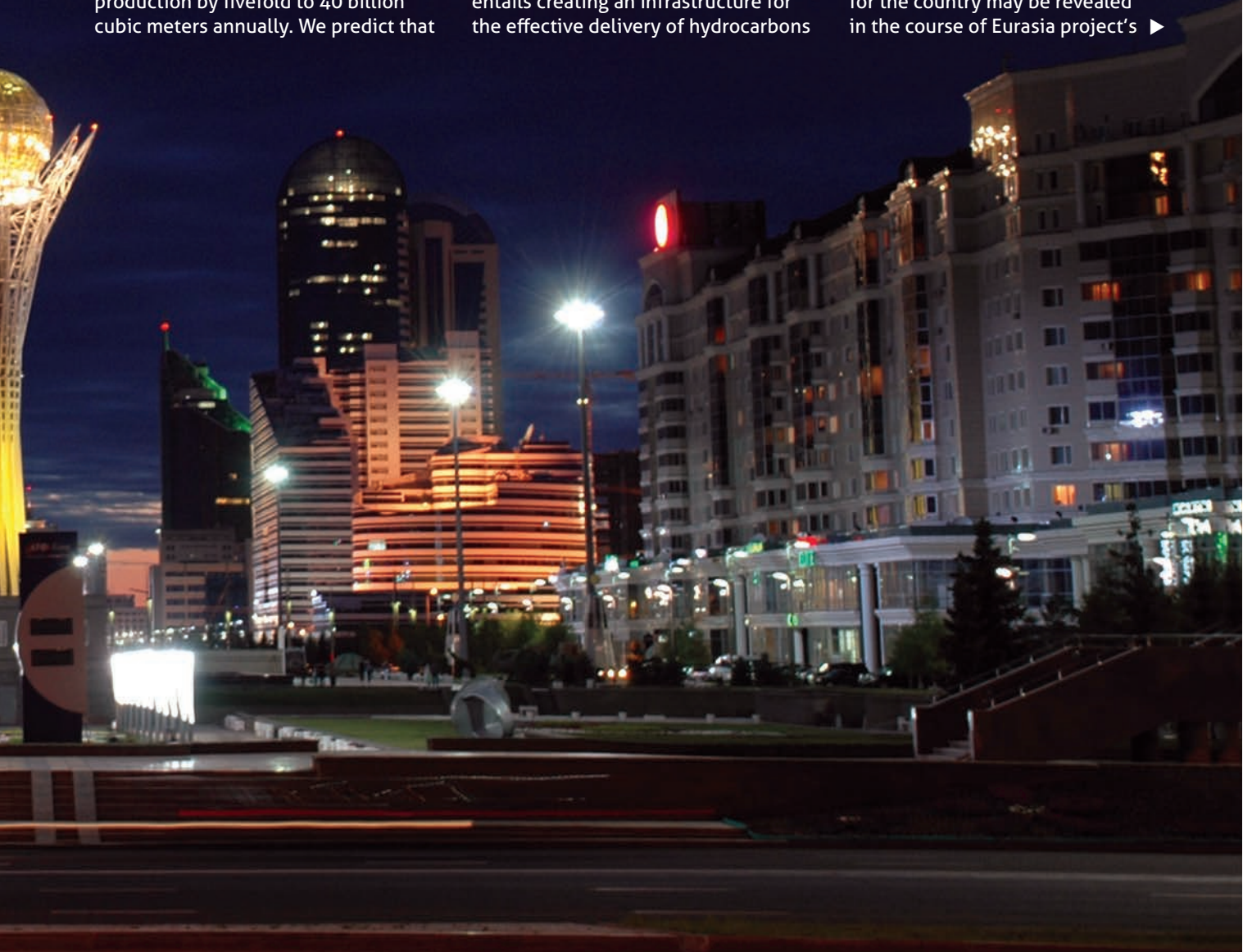
Investment projects to create world-class petrochemical plants will be developed. Four key locations on Kazakhstan's Caspian coast are being developed for the purpose of creating a service infrastructure; the cities of Atyrau and Aktau and the towns of Bautino and Kuryk. They will form part of the integrated service support for offshore oil and gas operations.

Sustained growth of production entails creating an infrastructure for the effective delivery of hydrocarbons

to foreign markets. Since independence we have established a comprehensive system of main pipelines. The implementation of such large-scale projects as the CPC, the Kazakhstan-China oil and gas pipelines, enable us to look forward with confidence to the future export of hydrocarbons to some of the most promising markets in the world.

In addition, we are building a comprehensive infrastructure for the utilization of the country's energy resources; covering exploration and extraction, refining, petro-chemical production and service infrastructure.

According to the International Energy Agency, Kazakhstan remains one of the most promising sources of growth in oil production together with Iraq, Brazil and Canada. New opportunities for the country may be revealed in the course of Eurasia project's ►





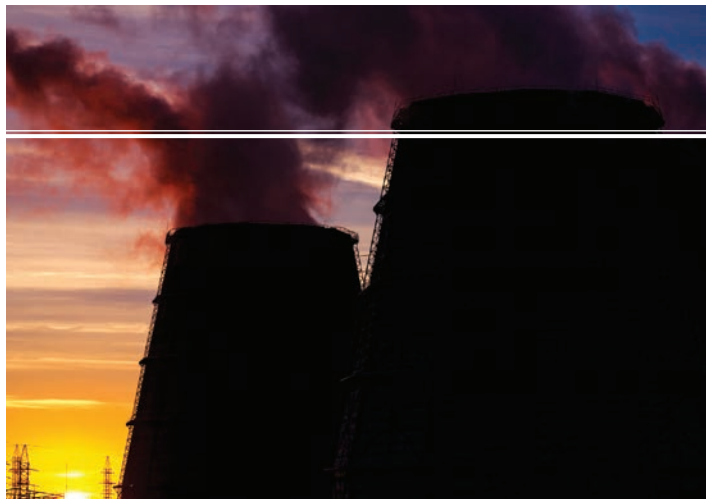
implementation, which will provide new data on the potential of the Caspian Basin.

The global energy future landscape, however, is undergoing significant changes as the era of the easy-to-extract oil comes to an end. While predictions of impending decline in global oil production have been made over many years, there are certainly signs that production and other costs are growing and this could lead to falling output in time.

Global agencies confirm a long-term significant increase in the demand and prices for oil and gas. In assessing the future, a balanced assessment of the impact of the shale revolution is needed. There is also a need to step up on energy efficiency, as part of global efforts to reduce our impact on the environment.

Kazakhstan is seeking to change its status as a raw material producer through an economic policy aimed at developing a diverse mixed economy, including manufacturing. Kazakhstan is also taking steps to green the economy, including improving efficiency of energy production together with the use and development of renewable energy sources.

It is important to ensure that both non-renewable and renewable energy resources are developed competitively, while ensuring greater efficiency of their use and development. There is scope for cross-fertilization of innovation, knowledge and approaches between the




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Kazakhstan is seeking to change its status as a raw material producer through an economic policy aimed at developing a diverse mixed economy, including manufacturing.

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two sectors. The results of such activities, including joint developments throughout the entire energy sector, and our longer term plans, will be exhibited at Expo 2017 in Kazakhstan's capital, Astana.

The Ministry intends to step up significantly its technology policies in the sector, in line with the Presidential Address. One of its main tasks is to increase the oil recovery ratio. Finding solutions to issues such as demand for advanced technical and technological solutions, development of the national R&D potential, transfer of global best practices, can greatly increase the efficiency of development of Kazakhstan's resources and help unleash the country's innovation potential.

As the President stressed, a significant breakthrough in this area can be achieved through promotion of joint ventures. Only through direct collaboration with leading global companies can Kazakhstan achieve the transfer of technologies it needs for the sector's comprehensive development, and the technical support needed for the professional development of its workforce.

Energy sector operations, including those of the oil and gas industry, are global by nature. States, associations, multinational and national companies, private investors and public community organizations and individuals all act as stakeholders in these activities. An objective analysis of the ongoing processes and global and local trends are therefore an essential prerequisite for decision-making at different levels.

We look forward to developing further our cooperation with international oil and gas companies. Kazakhstan bids you all a warm welcome. ■



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We recognize and demonstrate a continued commitment to the recruitment and development of our future leaders through comprehensive ongoing training.

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- world-class gas treatment experience globally
- world-class sulphur technology and sour gas removal and handling expertise
- world-class arctic and cold climate expertise from Kazakhstan, Russia, Canada and Alaska
- pre-eminent regulatory affairs, permitting and FSU standards experience; a world leader in concept, FEED and EPCM.

Beyond the recruitment and development of a Kazakh national team, we also seek to make a broader contribution to Kazakh Society. For many years, we have raised funds for orphaned children charities and since 2003, have helped support the Miloserdic Fund for Disabled Children. We look forward to further expanding this commitment in the future.

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## KAZAKHSTAN'S MACROECONOMIC, SOCIAL AND POLITICAL STABILITY; KEY FACTORS IN ATTRACTING INWARD INVESTMENT

**Kazakhstan today is a country of new opportunities and enormous potential for both large companies and medium-sized businesses. Trade and economic cooperation initiatives with Russia and Belarus have also expanded Kazakhstan's sales market to around 172 million people.**

### **Asset Issekeshov**

Deputy Prime Minister & Minister  
Industry & Development

Kazakhstan's international competitiveness is growing impressively. In the World Bank's International Finance Corporation's 2014 annual ranking of Doing Business, Kazakhstan was ranked 50 out of the top 148, improving its performance by three points over 2013. This puts Kazakhstan first among the countries of the Customs Union of Kazakhstan, Russia and Belarus, who were ranked 63 and 92 respectively.

According to United Nations Conference on Trade and Development (UNCTAD) data, we were ranked second after Russia in the CIS in terms of net FDI inflows. It is noteworthy that more than half (\$95.7 billion) of all gross inward direct investment in Kazakhstan since 2005 was attracted during the years of the state program of industrial innovative development.



Additionally, during this period about 70% of all gross direct investment was in manufacturing sectors (\$ 19.6 billion). With a continuing improvement in the country's investment climate the prospects for increase FDI are good. A critical part of this inward investment is the transfer of new technology, knowledge and new production processes.

Foreign investors in Kazakhstan are provided with many benefits and preferences. These include the granting of customs duties and tax breaks, and provision of land and premises. To qualify for such benefits investment must be in the priority manufacturing sectors. These are particularly strategic projects in areas needing economic development where foreign investors ▶

are exempted from land and property taxes, and the government guarantees contracts, orders and subsidies.

Kazakhstan is interested primarily in innovative investment projects, involving application of new knowledge and technologies. We have the necessary financial and institutional infrastructure to support such investment, and are ready to cooperate as an active joint partner.

The Kazakhstan legal framework is particularly attractive, especially in comparison with other CIS countries (former Soviet Union countries), because it covers fiscal, non-fiscal and other legal benefits.

Foreign companies can participate in implementation of differing projects. They can be suppliers of complex high-tech equipment; become partners in a joint co-financing ventures, or be the main project implementer and obtain all the investment benefits and privileges.

At the regional level, local development institutions such as the socio-entrepreneurial corporation (SEC) can actively partner foreign investors. On the basis of existing assets, with the participation of business structures, joint ventures can be created, focusing on the implementation of relevant, innovative, competitive projects. Special economic zones in Kazakhstan also offer significant opportunities for foreign business.

The first phase of the program of industrial innovative development finishes this year and the launch of the second phase, the next five years of industrialization, has already started (2015-2019). This second phase will concentrate on priority sectors; metallurgical complexes, engineering, oil and gas refining complexes, the chemical industry, production of construction materials and the food industry.

This second phase of industrialization will provide:

- Access to financing for entrepreneurs
- Improvement of industrial policy (including analytical support)
- The required human resources

## A key goal is to make Kazakhstan the regional hub for international investment.

- The right infrastructure (transport, logistics, Free Economic and Industrial zones)

This phase of industrialization will be crucial in determining and developing long-term industrial specialization, which is needed to ensure Kazakhstan's economic competitiveness. This is especially important, given the increasingly challenging market conditions in the Customs Union together with Kazakhstan's ambition to enter the WTO.

Our President has informed that the National Plan be adjusted further to attract more foreign investment. To this end, the Government wishes to improve conditions for the arrival and stay of foreign investors. For example, we are considering the possibility of introducing a visa-free regime for OECD countries, and facilitation of the entry of highly skilled personnel in the manufacturing industry. We are

also looking at how to ensure stability of our investment legislation, as well as the formation of a new package of incentives for large investment projects.

Finally, we are looking at how we can best improve development of Free Economic Zones (SEZ). Attracting foreign investment has been designated a top economic priority of economic policy throughout the country. Developing successful trade and economic relations internationally is a critical part of this policy.

A key goal is to make Kazakhstan the regional hub for international investment. I would hope that foreign enterprises already working in Kazakhstan will help promote the new investment opportunities in the country to those foreign companies which may be actively considering how to enter the Kazakhstan market but lack the necessary information and local knowledge. ■





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## WHY KAZAKHSTAN?

**HE Kairat Abusseitov**  
Ambassador to United Kingdom

**After independence in 1991, Kazakhstan was able quickly (particularly by historical standards), to establish a unique model of political stability and inter-ethnic harmony, underpinned by dynamic economic growth.**

Currently, Kazakhstan is experiencing a period of important domestic change. In December 2012, President Nazarbayev announced the Strategy "Kazakhstan-2050". The Strategy outlined new priorities for the development of our country.

This strategy paper set a major task – for Kazakhstan to enter the top 30 most developed countries globally. The goals of the previous Plan- "Strategy 2030" – in particular to enter the top 50 most competitive countries in the world – were almost all achieved ahead of time.

In the past two decades, Kazakhstan made a giant leap forward in development terms, and the economy is booming. 20 years ago, the economy was in ruins. Inflation was 2,100%. Today, GDP per capita is US \$12,000; 16 times more than in 1991.

According to British experts, Kazakhstan was the third-fastest growing country in the first decade of the 21st Century. Only China and Qatar performed better.





We have saved more than US \$66.6 billion in The National Fund – the so-called “Fund for Future Generations”. We plan to increase this in the medium term to US \$93.3 billion.

Currently, Kazakhstan is ninth globally in terms of proven oil reserves. The country ranks eighth for coal reserves and second for uranium reserves. Kazakhstan is first in the production of aluminium; and among the world’s top ten exporters of grain and flour.

Kazakhstan is implementing a large-scale project called the “New Silk Road”, which aims to revive the country’s historical role as the main nexus of the continent, and to turn it into the largest regional business and transit hub; a bridge between Europe and Asia. An important step in this direction is the creation of an attractive climate for investors based on sound policies in the use and distribution of natural and other resources. The

government plans to develop business clusters aimed at promoting innovative development

Competent, technically educated people are the key to moving from an energy resource based to a diversified economy. The government of Kazakhstan is investing heavily in staff, in new infrastructure, and in the creation and formation of a well-educated and remunerated national work force.

Kazakhstan was one of the first former Soviet Union states to join the European Higher Education Area. In 2010, we joined the European Cultural Convention and the Bologna Process.

We established a special study abroad programme – the Bolashak programme. Since 1993, the state has funded more than 8,000 young Kazakhstanis to study in the best universities of the world. The majority of Bolashak students

already work for their country in leading branches of the economy.

The healthcare system has been radically reformed. Since 1991, the financing of the healthcare system has increased more than 100 times.

At present, we can say with confidence that Kazakhstan’s model of development, with an emphasis on industrialisation, is bearing fruit. We are one of the 50 most developed countries in the World Economic Forum’s competitiveness ranking, and rank amongst the five richest countries in Asia according to per capita income.

In the World Bank’s ‘Ease of Doing Business’ ranking we share tenth-place for the protection of investors along with Great Britain and South Africa. On taxation, we are ranked between the UK and Switzerland in 17th position in the world. ▶

Since independence, Kazakhstan has made an enormous contribution to support international peace and security. Our government has introduced many measures to this end including: the renunciation of nuclear weapons, the creation of confidence-building measures in Asia, the strengthening of the integration process in Eurasia, the encouragement of inter-religious dialogue, and active participation in the strengthening of global security including the fight against international terrorism and extremism.

Kazakhstan has integrated successfully into international society. We have developed successful partnerships with our neighbours – Russia, China, the countries of Central Asia as well as the US and the EU. We are also an active member of the OSCE. Partly in recognition of our democratic progress, Kazakhstan was appointed chair of the OSCE in 2010.

Our chairing of the OIC came at a difficult time in Islamic world history. Under the motto 'Peace, Cooperation and Development', Kazakhstan focused efforts on overcoming humanitarian crises, resolving conflicts, developing new cooperation mechanisms, and promoting dialogue between the Islamic world and the West.

Since 2012, a Single Economic Space has begun to function between Kazakhstan, Russia and Belarus. Our immediate goal is to create a Eurasian Economic Union.

As a leader in Central Asia, Kazakhstan is making a significant contribution to strengthening regional stability. We are the region's largest aid donor. We channel our humanitarian aid both bilaterally and through multilateral mechanisms. Currently, a national agency for official development and technical assistance is being created in Kazakhstan. A priority is the implementation of aid projects in Afghanistan, whose development and security is critical to the peace and security of the Central Asia.

## As a leader in Central Asia, Kazakhstan is making a significant contribution to strengthening regional stability.

Kazakhstan initiated the Conference on Interaction and Confidence Building Measures in Asia, which now includes 24 countries with a combined population of over three billion people.

I must mention too Kazakhstan's excellent performance at the Summer Olympic Games in London in 2012, where we came 12th in the medal table.

The EXPO 2017 Exhibition will be held in Astana under the tagline of 'Future Energy'. Astana's candidature to host EXPO-2017 was supported by two thirds of the votes of member states from the International Exhibitions Bureau – 104 out of 154 countries.

Kazakhstan has become a modern, forward-looking, confident state, as well as a responsible international partner. We are an attractive and favourable destination for foreign investments. Big multinationals including Asian Development Bank, Arcelor Mittal, Baker & McKenzie, BG, Cameco, Chevron, ConocoPhillips, Deloitte, Deutsche Bank, EBRD, ENI, ENRC, Ernst&Young, Eurasian Development Bank, ExxonMobil, General Electric, JP Morgan Chase, Mitsubishi Corporation, PhilipMorris, RBS, Sberbank, Shell, TeliaSonera, Total and many more are actively engaged in Kazakhstan.

For many of them Kazakhstan is a market of strategic importance. It may not always be an easy market, but it is important to be part of it. Kazakhstan, as one of the world's fastest growing economies, offers huge possibilities. We want investors to be part of our continuing economic success.

The main element in Kazakhstan bilateral relations is trade/investment. After the Netherlands and the US, the UK is the third largest investor into Kazakhstan's economy, primarily in the oil and gas and mining sectors. According to the National Bank of Kazakhstan, the total volume of British FDI into Kazakhstan from 1993 to 2013 was over US \$12 billion.

The British Prime Minister's report on UK foreign policy (November 2012) listed Kazakhstan as one of the United Kingdom's 14 priority countries for trade and investment. To this end the Prime Minister appointed a personal trade envoy for Kazakhstan and in 2013 the Prime Minister made an historical visit during which a joint declaration was signed covering 13 agreements totalling over US \$1.2 billion.

British companies in Kazakhstan operate in the energy, mining, metallurgy, healthcare, food and banking sectors and include: BG, Shell, AMEC, Invensys, BAE Systems, Rio Tinto, Rolls Royce, HSBC, RBS, Ernst & Young, PWC, Deloitte, March Group, KPMG, SNR Denton, GlaxoSmithKline, Astra-Zeneca, Hambledon Mining, Dando Drilling and Sun Gold.

Kazakhstan's trade and economic cooperation is developing fast and as the economy develops and diversifies, has the potential to expand into new areas, including agribusiness, green technology, new materials, energy-efficient construction and specialised technical training. ■



## Daurzhan AUGAMBAY

General Director

Association of service companies of Kazakhstan «KazService»

Editor-In-Chief Informational-Analytical «KazService» Magazine

- KazService is an association of more than 90 local services companies
- Originally envisioned as a means to consolidate all oilfield services companies under one umbrella
- Hosts regional roundtables per year and annual conferences

### KEY SERVICES:

KazService, a lobby group for local services companies, has been an advocate of technical information exchanges, both at an individual and corporate level. This has the dual role of creating a knowledge flow of current technological developments with other countries as well as linking together Kazakh oilfield personnel with the information networks of other countries. Another major roadblock facing KazService's members is the often opaque nature of contract tenders. Smaller local services contractors form the core of KazService. If these companies lack foreknowledge of project details, they may not know which materials to invest in, which puts them at a disadvantage when the bidding process begins. KazService seeks to bridge this informational gap by bringing news about upcoming projects directly to its members via workshops, conferences and regional round tables across the country. TengizChevroil, operator of Kazakhstan's biggest producing field, Tengiz, and Karachaganak Petroleum Operating B.V. have been main partners in this process, giving a presentation at different meetings hosted by KazService on its procurement specifications for the coming year. Competition with foreign companies is a significant obstacle for many domestic companies to overcome. With the Customs Union lowering barriers to entry and the regulations of the World Trade Organization accession platform liberalising external relations, Kazakh companies have kept well ahead of tender requirements, new techniques, technologies and operational methods. Sharing information in order to keep Kazakh companies competitive and involvement of the local companies into the expansion projects are one of the bedrocks of our association.

### MAIN TARGETS:

KazService has pursued a tripartite strategy for growing its role in the oil and gas industry. Formulated over the course of 2011, the plan encourages strengthening ties with the private sector, particularly members and parties interested in membership, as well as the government and foreign service associations. Although KazService primarily works with oilfield services and construction companies, dialogue with law firms, audit companies and operators is also fostered through the association's framework. The second pillar of growth for KazService has been the government. Members of state-owned KazMunayGas, the Ministry of Oil and Gas, the Ministry of Industry and New Technologies, the Contract Agency and the National Agency for the Development of Local Content have been staples at conferences hosted by KazService. Moreover, the Ministry of Oil and Gas officially supports «Kazneftegazservice» Annual Conferences. The association has also given a voice to akims, or local regional political leaders, across the country through interviews and discussions. Bringing the government together with the local industrial players is intended to facilitate public-private co-operation on legislative and regulatory issues. The third targeted growth area for the association has been partnerships with its global peers, such as French Association of Companies and Professionals in the Oil, Gas and Related Industries, the Association of Dutch Suppliers in the Oil and Gas Industry and Norwegian Oil and Gas Partners, in addition to the multinational Society of Petroleum Engineers. Each of these partnerships is designed to be a conduit for technological and informational transfer. However, this bridge is not a one-way street. The rise of the country's production over the past two decades has given it its own hands-on experience to offer the international community. And all the actual problems and current issues are published in the informational-analytical «KazService» Magazine available at [www.kazservice.kz](http://www.kazservice.kz)

# INDUSTRY WHO'S WHO



## Ministry of Oil and Gas

[www.mgm.gov.kz](http://www.mgm.gov.kz)

- Coordinating the development and implementation of public policy in the oil & gas and petrochemical industries, including transportation of hydrocarbons
- Ensuring development of fuel and energy facilities
- International cooperation of the joint development of hydrocarbon resources, including within the Caspian Sea shelf
- Ensuring production of hydrocarbon resources and their reasonable use, including associated gas
- Providing the competency of the authorized body regarding production sharing agreements



## Ministry of Investments & Development

[www.mint.gov.kz](http://www.mint.gov.kz)

- Coordination of the diversification and acceleration of the industrial, innovative development of the country's economy
- Creation of conditions for development of the economy through the implementation of scientific and technological development, including the formation of high-tech industries
- Promoting innovation through the creation of new organizations, including the attraction of investments for the implementation of innovation policy
- Creation of a favorable investment climate for economic development
- Stimulate investment in new, expanding or refurbishment of existing facilities using modern technology
- Export control
- Measures to ensure implementation and monitoring of investment projects
- Establishment and operation of special economic zones



Comments or questions that arise from any aspect of these articles, please email to [info@aktaudeclaration.org](mailto:info@aktaudeclaration.org) 'for forwarding to relevant authority' for response.



## Kazenergy Association

[www.kazenergy.com](http://www.kazenergy.com)

- Independent voluntary non-commercial union of oil and gas and electric power organizations and companies of Kazakhstan
- Unites more than 70 major national and international energy companies in the extracting, processing, transportation and services sectors, in addition to electricity and nuclear power companies
- Actively involved in the work of the inter-ministerial commission and legislative processes for the development of the oil and gas and energy industries
- Ensuring effective cooperation with world organizations (The Energy Charter, World Energy Council and the World Petroleum Council, International Energy Agency)
- Securing assistance on legal, economic, organizational and managerial issues through consultation, scientific expertise, analytical and informational support

## Contract Agency

[www.contractagency.kz](http://www.contractagency.kz)

- Ensuring transparency and compliance within the procurement process required within all Kazakhstan's oil and gas projects
- Information and marketing support for domestic producers of goods, works and services in the oil and gas industry
- Assistance to Kazakhstan enterprises in creating new manufacturing facilities with advanced technologies by means of offset cooperation with foreign companies
- Gathering of information and analysis of Kazakhstan's content in procurement by oil and gas companies
- Information and marketing support for companies within the energy sector, and domestic producers of goods, works and services supplying the oil and gas industry
- Analysis of trends within the oil and gas industry including the competitiveness level of domestic goods
- Development of recommendations for improving the competitiveness levels of
- National manufacturers and suppliers of works and services
- Development of methodology documents, regulations and legislation relating to Kazakhstani content



## Aktau Declaration on Joint Actions



JSC National Agency on Development  
of Local Content NADLoC

### Aktau Declaration on Joint Actions

[www.aktaudeclaration.org](http://www.aktaudeclaration.org)

- Improve coordination and consistency of individual Local Content development programmes of operators, investors and agencies
- Identify synergies and advance outcomes of current local content programmes, and define new tasks to contribute to the growth of sustainable local supply chain capacity
- Clarify the constraints of local content development initiatives as a result of Operators working within different contractual frameworks
- Provide consensus on the extent to which harmonization of prequalification and tendering processes can be accommodated
- Review established and emerging local content development programmes to allow synergies and opportunities for cooperation and support
- Strengthening of Kazakhstan's Professional Skills and Industrial Base
- Further the objective of maximising opportunities as part of a strategy to develop an indigenous capability in the sector
- Assist in creating an appropriate environment and the attracting joint venture agreements, with technology transfer, by companies in the global oil and gas supply-chain
- Inward investment promotion internationally for manufacturing, works and services joint ventures for Kazakhstan's Oil and Gas & Mining sectors
- Industry matchmaking
- Identify investment funding sources
- Support implementation of investment projects within the oil and gas, petrochemicals and mining industries
- Consider current challenges and forthcoming opportunities for the creation of new jobs
- Support with meeting programmes, visas, logistics, corporate registrations and interpreting/translations

### National Agency on Development of Local Content (NADLoC)

[www.nadloc.kz](http://www.nadloc.kz)

- Information support for domestic producers of goods, works and services
- Analysis share of local content in procurement of goods, works and services
- Administer the state information register of goods, works and the services used for carrying out operations on subsurface use
- Prepare for electronic procurement
- Analysis of methodology documents and standards on issues of local content.
- Ensure the functioning of the internet portal of Kazakhstan content
- Organize conferences, business forums, trainings, presentations, seminars and exhibitions on local content.





## National Chamber of Entrepreneurs

[www.palata.kz](http://www.palata.kz)

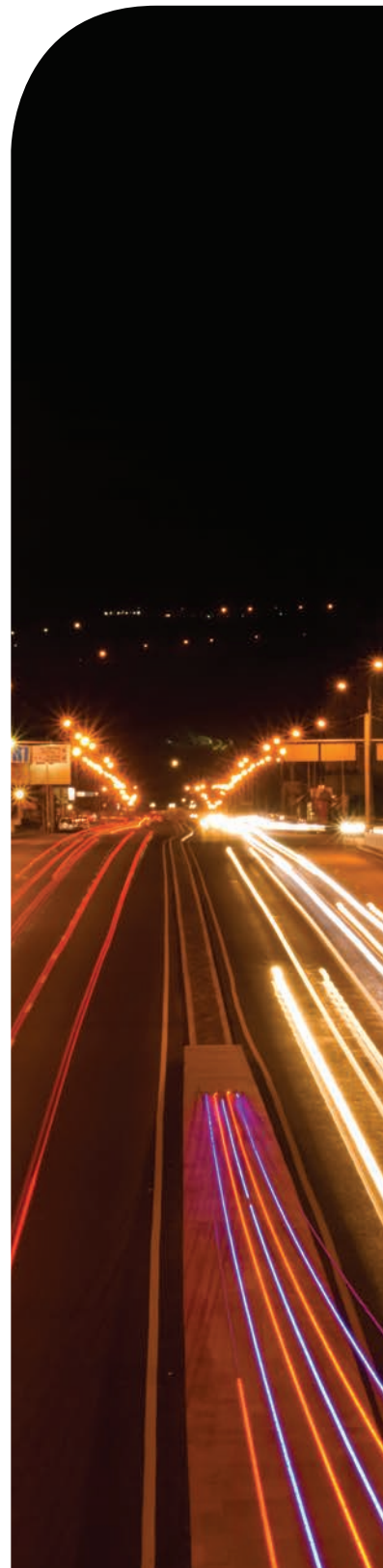
- Protection of the rights and the legal interests of national entrepreneurs both locally and internationally
- Monitoring of the national business activity and business climate by region
- Providing support for the national entrepreneurial development with the aid of governmental programs
- Development of national manufacturing and production of goods and services
- Increase local content
- Development of national human resources by providing education, training, advanced training and personnel certification
- International framework growth for national entrepreneurial activities
- Attraction of foreign investments for diversification



## KazNexInvest (National Export and Investment Agency)

[www.kaznexinvest.kz](http://www.kaznexinvest.kz)

- Assisting to diversify Kazakhstan's economy by encouraging exports of products from outside the natural resources sector
- Attract foreign investment to priority sectors of the economy
- Helping investors and exporters to cooperate with public authorities, state-owned enterprises and private businesses
- Export Development
- Investment image promotion of Kazakhstan



# THE MAJOR OIL & GAS OPERATORS







## KPO

### Karachaganak is producing at record levels

KPO is a joint venture between BG Group 29.25%, Eni 29.25%, Chevron 18%, LUKOIL 13.5% and KazMunaiGas 10%. We oversee the expansion and development of the Karachaganak field – one of the world's largest oil and gas condensate fields, which is located in northwest Kazakhstan covering an area of over 280 square kilometers. It holds estimated hydrocarbons initially in place (HIIP) of 9 billion barrels of condensate and 48 trillion cubic feet (tcf) of gas, with estimated gross reserves of over 2.4 billion barrels of condensate and 16 tcf of gas.

Since the signing of the FPSA, KPO's Partners have invested more than \$ 17 billion into developing the field, applying industry leading technology aimed at maximizing sustainable economic value. This is being implemented in accordance with the highest safety and environmental protection standards.

Today, Karachaganak is producing at record levels and is the largest gas producing field in Kazakhstan, accounting for more than 40 per cent of the country's total gas production and around 13 per cent of total liquids production.

In 2013, KPO produced 136.03 million barrels of oil equivalent of stabilised and un-stabilised liquid hydrocarbons, gas and fuel gas. Above that 8.57 billion cubic meters of sour dry gas were re-injected, a volume equivalent to approximately 49% of the total volume of produced gas.

Karachaganak not only represents vast resources, its development has also brought enormous benefits to Kazakhstan's economy and the communities within the West Kazakhstan Oblast. In developing

Karachaganak, KPO has utilised leading production and processing technology to enhance hydrocarbon recovery and harness significant value for the Republic of Kazakhstan.

KPO remains committed to Republic of Kazakhstan's sustainable development agenda through infrastructure enhancements, exemplary environmental performance, wide-scale social initiatives and the development of local capacity.

We fully support Kazakhstan's initiative regarding transition to a green economy. In 2013, the gas utilization rate at Karachaganak totaled 99.84%, which is a world class achievement. The volume of flared gas was 0.16% of the total volume of gas produced, or 0.94 tonnes per thousand tonnes of extracted raw materials.

A comparison of these figures with averages achieved by international and European oil and gas companies demonstrates KPO's leadership in this area. Overall, since 1998, KPO's investments in environmental activities have exceeded \$275.2 million.

As the largest employer in the region, KPO is fulfilling its obligations for the protection of employees' health and for the creation of long-term jobs with highly competitive salaries. KPO is also investing heavily in the professional development of local employees.

As a result of KPO's nationalisation programme, local employees today fill 100% of the skilled and clerical positions and 94% of professional and supervisory roles. At the managerial level, 68% of positions are locally filled.

During 2013, about 4,000 Kazakhstani specialists from KPO were enrolled in industrial safety, technical competence, management development programmes as well as personal and language skills training courses.

Overall, in recent years KPO has invested more than \$178 million in training and development of Kazakhstani professionals; using international and local experience, and cooperation with well-known RoK and overseas educational institutions. KPO is one of the first companies in ►

Kazakhstan to introduce successfully a local content programme. This has encompassed some 3,000 Kazakhstani companies involved in the development of Karachaganak, which collectively have received orders from KPO of over \$4 billion.

In 2013, the local content of KPO contracts for the supply of goods and services reached 50.15% ( \$461.1 million by value).

In 2014, KPO and Aksai Industrial Park (AIP) signed a Memorandum of Understanding (MoU) and a Road Map, through the initiative of the national Ministry of Oil and Gas. The documents aim to promote local capacity development, technology transfer and industrial growth, through localisation of high tech manufacture in the Western Kazakhstan region.

The signing of the MoU with AIP was a new milestone in KPO's plan to maximise the involvement of Kazakh companies in the Karachaganak project. KPO fully supports the national government's local content initiative, and is working closely with the national Authorities to achieve this goal.

Successful implementation of this initiative will create conditions for the manufacture of more complex high-tech products needed by Kazakhstan's oil and gas industry

In addition, every year KPO implements many large, social infrastructure development projects in WKO. The project priorities are determined by the West Kazakhstan Oblast administration. The KPO social development programme focuses on the construction of healthcare, education, culture and sports facilities. Kazakh contractors only implement all projects. To date, KPO has allocated \$270.97 million to such projects in WKO.

While delivering its operational commitments, KPO, as a responsible corporate business, works to ensure that the Karachaganak field generate the maximum socio-economic benefits for local communities and the nation as a whole.

KPO's efforts to develop the region's



social infrastructure have been recognized at the national Paryz Corporate Social Responsibility Competition, where KPO has won several prestigious awards, including the 2013 Silver Paryz Award in the Best Social Project category.



## NCOC The Project of Ample Opportunities

The Kashagan field, named after a 19th century Kazakh poet from Mangistau, is one of the world's largest oil discoveries of the last forty years. Discovered in 2000 and located in the Kazakh sector of the Caspian Sea, the field extends over an area of approximately 75 kilometers by 45 kilometers.

Its development, in the harsh offshore environment of the northern Caspian Sea, represents a unique combination of technical and supply chain complexity. The combined safety, engineering, logistical and environmental challenges, make it one of the largest and most complex industrial projects currently being developed anywhere in the world. The reservoir lies at a depth of around 4,200 metres below

the seabed and is under high pressure. The crude oil in the collector has a high sour gas content – some 15% hydrogen sulphide, and 4 % carbon dioxide. Extreme climatic conditions (temperature range from minus 40 to plus 40 c) and other physical challenges makes Kashagan one of the most difficult production projects anywhere in the world.

The North Caspian Sea Production Sharing Agreement (NCSPSA) was signed by Kazakhstan and an international consortium in November 1997. A year later (1998) an international consortium Operator, the Offshore Kazakhstan International Operating Company N.V. (OKIOC), was formed, to explore and produce hydrocarbons within the 5,600 square kilometer NCSPSA area. Assets within this area include the giant Kashagan field, 80 km southeast of Atyrau. Other assets include the Kalamkas Sea, Kashagan South-West, Aktote and Kairan fields.

In 2000, the Consortium members decided to have a single company as Operator. In 2001, a subsidiary of Eni, Agip Caspian Sea, was designated sole Operator. NCOC took over from Agip KCO as the sole operator under the NCSPSA on 22 January 2009. NCOC acts on behalf of seven co-venture consortium partners: Total, KMG, Eni, Shell, ExxonMobil, INPEX and the new member CNPC which has taken over from ConocoPhillips.

The execution of operations is

delegated by NCOC to four agent companies: Agip KCO; Shell Development Kashagan (SDK); ExxonMobil Kazakhstan Inc. and NC Production Operations Company B.V. (a KMG Kashagan and Shell Kazakhstan Development joint venture). NCOC is also responsible for the Consortium's Social and Infrastructure Projects (SIP) and sponsorship and donation (S&D) programmes. Implementation of SIP Projects is delegated to NC Production Operations Company (NCPOC).

Increasing local content in oil and gas projects is a key aim, to which the Kazakhstan authorities and foreign investors have devoted considerable effort and resources in recent years. This makes much sense as the country's mineral wealth should work for the good of the people of Kazakhstan, by providing them with work and education, and by improving the quality of their lives in a long-term sustainable manner. Notable progress has been made in recent years in developing local content in major oil projects.

The North Caspian project is one of the world's biggest and most difficult oil and gas projects. Since the start of its operations, it has focused on developing local content, by maximizing the use of local goods and services, by developing the skills of local staff, and by increasing the capacity of local companies to supply goods and services sustainably in compliance with legislation and without prejudice to HSE requirements. Overall the project Venture spent more than US \$10 billion on local goods, works and services between 2006 and mid-2014.

We believe in the importance of developing local content through development of local personnel. We are investing in people, through training and individual development. The Consortium's total staff in Q3 2013 was 13,726. Over 82% of those employed in Kazakhstan are Kazakhstani – an outstanding ratio for a project of this magnitude. The project provides multiple opportunities for development and professional growth in its different areas of operation. The project Venture has spent over \$53 million on training national staff since 2002. Our operations offer a significant

opportunity to support Kazakhstan's sustainable economic development. The Consortium not only favours the maximum involvement of Kazakh companies in the project's implementation, but also helps local companies engaged in the project to achieve international certification, including ISO, ASME, API etc. Some 60 local companies have been certified under international standards ISO 9001, ISO 14001, ISO 22000 and OHSAS 18001 and four Kazakhstan manufacturers have been certified under the widely recognized international standards of ASME and API.

Compliance with these standards offers many advantages for potential suppliers, enabling them to promote their goods and services both in-country and abroad. This approach provides tangible benefits both for the local community and for the Venture itself. In line with the NCSPSA, the Operator gives preference to local suppliers, provided that they meet quality and safety standards and price competitiveness. In other words they must offer materials and services competitive with those provided by international suppliers.

To help develop local businesses, the project Venture initiated and financed training and certification for local companies meeting International Standard Organization standards, including Quality Management, Environment Management, Occupational Health & Safety, Food Safety Management and Energy Management.

The project Venture also encourages the establishment of joint ventures between international and local companies, by helping to create the right conditions for developing their engagement in the project. Some 70 JVs have been providing works/ services for the project Venture. Given the Kashagan field's challenging specifications and demanding technological requirements and standards set for provision of services, the involvement of JVs in the project is essential and beneficial for both the project and Kazakhstan. Development of the Kashagan field

will continue for decades, so not only will those currently employed on the project continue to benefit, but future generations will too. During the project's life Kazakhstan will receive billions of dollars in income. It will also help create a network of suppliers, new oil infrastructure, and several thousand young specialists. The country and its national company KMG will gain huge experience in offshore oil extraction, which will enable them to engage fully in future projects on the Caspian shelf.



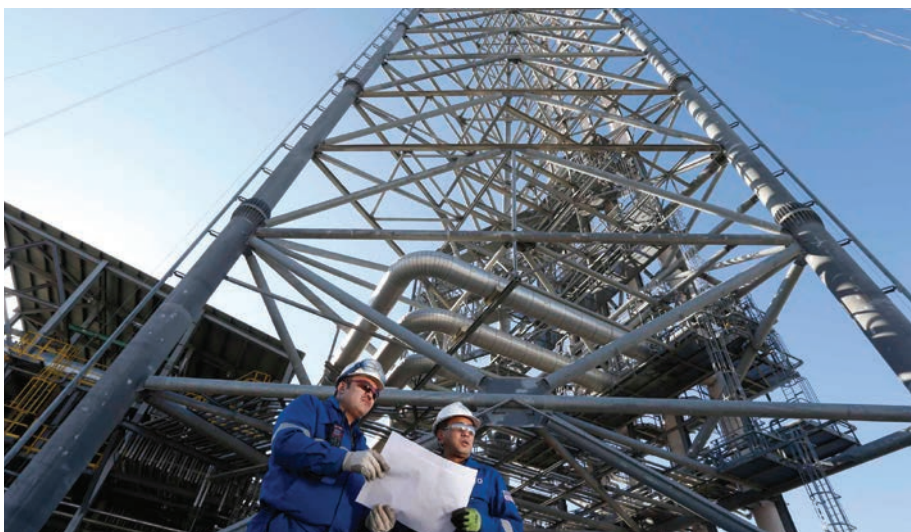
## TCO

### Biggest Oil Project in Kazakhstan

The Tengiz Oil Field was discovered in 1979. Recoverable oil reserves at Tengiz together with the associated Korolev fields total between 750 million and 1.1 billion tons (6 - 9 billion barrels). Total proven reserves in the Tengiz reservoir equal around 3 billion tons (26 billion barrels). The Korolev field's reserves equal around 190 million tons (1.5 billion barrels). The Tengiz reservoir is 20 km (12 miles) by 21 km (13 miles) in area.

Embanefit started development of the field. A specially established Tengizneftegas continued its development. On April 6, 1991, the first Tengiz oil from well No.8 was delivered to Complex Technological Line (KTL) No. 1.

The Tengiz Complex was built in cooperation with foreign companies. Its design involved Russian design institutes and companies, and a West German company Lurgi. Hungarian company Vegyepszer, field facilities were constructed with participation of companies Litvin, Lavalin (USA, ▶



Canada) and others, constructed the plant.

In the period 1991 to 1993, gross volumes of crude production in Tengiz were under one million tons a year. In that period, construction of second tranche of the Plant - KTL-2 - continued.

In April 1993, a package of agreements was signed in Almaty, establishing a Kazakhstan-American Joint Venture Tengizchevroil (TCO). Today, TCO Partners are KazMunaiGas (with 20% share), Chevron (50%), ExxonMobil Kazakhstan Ventures Inc. (25%) and LukArco (5%). General Director Tim Miller and Deputy General Director Anuarbek Sabanbayevich Jakiyev head TCO.

TCO is now the biggest oil company in Kazakhstan. Its crude output in 2013 from the Tengiz and Korolev fields was 27.1 million tones. In comparison with 1993 (the start of TCO's operation) crude production volume increased 27 fold.

In 2008, Tengizchevroil completed implementation of one of the largest technical projects in the company's history, the construction of production facilities for gas re-injection into oil reservoir and the second-generation plant. This project considerably expanded the company's strategic prospects, and brought TCO's crude annual production to 25 million tons. The Republic, TCO and their Partners, plans to implement a multi-billion Future Growth Project to increase crude production to 36 million tons a year.

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## The Republic, TCO and their Partners, plan to implement a multi-billion Future Growth Project to increase crude production to 36 million tons a year.

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In addition to crude, TCO produces other high-quality products. All its compressed gas output is processed for production of propane and butane of European quality, which is largely exported. TCO is increasing granulated sulphur production in Tengiz, which is mostly sold to China, Russia, Kazakhstan, and Uzbekistan and to Mediterranean countries. In 2013, sulphur sales were 3.85 million tons. The amount of sulphur stored onsite at the end of 2013 was 1.15 million tons (against more than 9 million tons in 2005). TCO's plans to increase sulphur exports from Tengiz, while applying the strict requirements of safety and environmental protection. With continued global sulphur demand growth, all stored sulphur will be sold within 2 years.

TCO strives to keep its position among the leading world companies in the sphere of safety and environment protection. The company has developed and successfully implements special programs of international standards, aimed at increasing labor protection

and personnel safety. These include a behaviour-based program, a complex program for ensuring safety among contractors and a program for ensuring road safety.

One of the critical components of TCO's business philosophy is avoidance of negative impact on the environment. Several special programs, which include enhancement of technological processes, including state-of-the-art approaches to technical water treatment and wastes utilization, confirm TCO's high standard of commitment to efficiency and environmental standards.

In December 2009, TCO implemented a unique Gas Utilization Project which allowed the company, for the first time in Kazakhstan's history, to discontinue routine gas flaring and to bring the flaring level to an internationally low level of 0.94 tonnes per 1000 tonnes of extracted product.

Consolidated team working is a key factor in TCO's successful performance. Kazakhstani personnel in TCO now



exceeds 86%, compared with only 50% in 1993, when the joint venture was formed. A continuing training and skills-improvement program enables TCO to promote national employees to ever-higher levels of responsibility. Today, Kazakhstani personnel occupy 76% of managerial, supervisory and specialist positions.

The joint venture's activities are not limited just to production. From the very beginning, development of this huge oil field has been linked to the region's development program. During the entire period of its operation, TCO has supported development of the region through its funding of social and infrastructure projects.

TCO searches for contractors which have the required technologies and experienced personnel. TCO's policy is always aimed at achieving maximum Kazakh content where possible, provided the companies concerned can meet conditions of operational safety and compete on prices. That is why maximum increase of Kazakh content is being taken into consideration in development of all aspects of the company plans. Special attention in increasing Kazakh content TCO pays to purchasing materials and hi-tech services; besides this TCO looks for opportunities to establish new joint ventures and consortiums in order to realize potential of the domestic market for goods, works and services that would allow to increase efficiency of Kazakhstani enterprises in the economy.

The long-term strategy provides for support in implementation of capabilities to strategic companies that intend to provide services in the territory of Kazakhstan, in the sphere of regulatory legislative environment, new technologies transfer, services localization, assembly and production of open-end cycle goods.

TCO supports national government aimed at actively increasing Kazakhstan involvement in the oil and gas sector. TCO continues to increase the share of local goods and services, used in the company operations. In 2013 TCO spent 2.3 billion USD on Kazakhstani goods and services.

The company's contribution to Kazakhstan's economy, taking account of salaries to national personnel, payment to local companies for goods and services, tariff payments to the state enterprises, as well as taxes and royalties paid to the state budget, is growing annually. In 2013, TCO's contribution to the national economy was approximately 15 billion USD.

TCO's regional development contribution continues to grow. During the first five years of its operation, the company implemented the Bonus Fund Atyrau social programme. In 1999 this was voluntarily replaced with a new program titled Egilik, or benefit, a good deed program. This funds new projects in the fields of education, public healthcare and social infrastructure.

In 2013, 25 million USD was allocated for infrastructure development in Atyrau and Zhylyoi Region. Specific projects included water treatment and water supply systems upgrade in Kulsary – the center of Zhylyoi Region, where TCO production capacities are located. The social infrastructure program Egilik is an example of effective cooperation between the Atyrau Oblast authorities and Tengizchevroil. In 2014, the Egilik program budget will total 25 million USD.

Tengizchevroil is proud of its contribution in Oblast development, and believes that in the near future the local population will witness further big changes in the region's economic and social development.



## KMG

### Representing the National interest

The National Company "KazMunaiGas" (KMG) is Kazakhstan's major prospector, producer, refiner and transporter of hydrocarbons. It is a key promoter of public policy in Kazakhstan's petroleum industry. The Joint Stock Company KazMunaiGas was the result of a merger of the National Oil & Gas Company Kazakhoil and the National Company Transport of Oil and Gas, following a Presidential Decree on February 20, 2002. 100% of KMG shares belong to National Wealth Fund Samruk-Kazyna.

KazMunaiGas is a vertically integrated oil and gas company, which manages full production cycle from hydrocarbon production, transportation and refining to provision of specialised services. It aims to ensure the maximum profits for the Republic of Kazakhstan from development of national petroleum industry.

#### KMG is responsible nationally for:

- 27.2% of national oil and gas condensate production;
- 83.2% of oil pipeline transportation;
- 95.7% of natural gas pipeline transportation;

The total number of KMG subsidiary and dependent entities is 222, forty-one of which are direct subsidiary and dependent entities. The KMG group includes companies engaged in hydrocarbon exploration and production, transportation, refining and marketing as well as service companies.

The largest companies of KazMunaiGas group include:

- KazMunaiGas Exploration & Production (oil and gas exploration and production)
- KazTransOil (oil transportation)
- KazTransGaz (gas transportation and sales) ▶

- KazMunayTeniz (offshore oil operations)
- KazMorTransFlot (national maritime shipping / tanker transportation)
- KazMunaiGas Refining and Marketing (sale of oil and gas products in domestic and international markets)

### Sponsorship

KazMunaiGas attaches great importance to social responsibility and is an active supporter of national economic development policy. The company also has an active sponsorship and charitable programme. KMG support social projects approved by the sole shareholder, Samruk-Kazyna.

#### The main sponsorship and charity focuses in 2013-2014 are:

- 1) Support for measures promoted by the State President: sponsoring construction of a spa therapy sanatorium on the shore of Lake Balkhash, with a capacity of 150 places for treatment of people with respiratory, musculoskeletal and urinary disorders.
- 2) Support of individual sports, sport events and development of sports infrastructure: funds are given to the Federations of Boxing, Judo, Weightlifting, Tae kwon do, Greek-Roman, Free-Style and Female Wrestling, Tennis, Modern Pentathlon, and also the Professional Boxing Club "Astana-Arlans". Since 2010 the project for creation of an AIBA World Boxing Academy in Almaty, under KMG sponsorship, is being implemented. It will develop Kazakh talent, and help promote the nation's sporting image globally.

KMG also sponsored the transfer of a 95 hectare plot of land in the Talgarsky region of Almaty district, in the territory of the former collective farm of Ryskulov, for the development of a Combat and Strength Sports Confederation, covering specialized sports and a training base for weightlifters. Additionally under KMG sponsorship the Confederation is constructing sports and recreation centres in the cities of Turkestan and Semei.

## The KMG group includes companies engaged in hydrocarbon exploration and production, transportation, refining and marketing as well as service companies.

3) Support of socially important projects: these include the Kazakhstan television project "Intellectual competitions", the theatrical award scheme ENLIKGUL, the KAZENERGY educational projects, support for gifted youth (young singer Maria Mudryak, children's choreographic ensemble Tumar and other projects.

4) Support for implementation of organizational and practical events related to Company activities. To promote the company's and the country's image, KMG sponsored important in-country events, e.g. the Eurasian Media Forum and KAZENERGY Eurasian Forum.

5) Support of authorized social programmes, including targeted financial support for war and labour veterans, orphans, disabled people, and also needy veterans of the oil and gas industry. Programmes also include, Marabayev, the International Social Movement of Disabled people of neighboring countries and the wider region.

Similar sponsorship activity is conducted also by KMG affiliated organizations in the regions. Development of local content

Local Content development is a key issue for KMG. In 2013 procurement, local content was 66%; 9% more than in 2012.

#### The main local content focuses are:

- a) Increasing the share of local content in procurement of goods, works and services
- b) The promotion/organization of new productions of goods, works and services

- c) Increase of local content in large oil and gas projects
- d) Signing more long-term contracts with domestic producers
- e) Implementation of the Aktau declaration on joint actions

In 2013 KMG's subsidiary and dependent entities concluded long-term contracts totaling 384 billion tenge. To support the domestic oil and gas engineering industry, the Board KazMunaiGas approved on 1 June, 2012 the Assistance Program of KazMunaiGas group of companies for development of oil and gas mechanical engineering and development of production of new types of the oil and gas equipment in the Republic of Kazakhstan for 2012-2014. Sixty-nine Kazakhstan companies producing goods for the oil and gas sector are involved in the Program. Because of this Program, Kazakhstan companies are now starting to produce new types of the oil and gas equipment, machinery and the materials for the first time.

KMG is engaged in the development of five new joint ventures with the leading foreign organisations (production of pumps, sophisticated pipe connections, junction and gushing valves, separators, and main pipes). Also work with large subsoil users – Tengizchevroil, NCOC and Karachaganak Petroleum Operating, is continuing in the following areas: creation of new local production, unification of standards and tender procedures, creation of a uniform database of suppliers, development of personnel potential, research and development support, and attracting new investment.

Further work on increasing local content in the Project is continuing, especially in the new extension phase. ■



**Abacus Emerging Markets** is an independent Anglo-Australian specialist investment banking firm dedicated to enabling global investors gain access to the dynamic investment opportunities available in Kazakhstan and across Central Asia.

We focus on the following key sectors across the region as representing the most exciting business opportunities for smart investors:

- Oil and Gas (upstream/downstream)
- Mining and Commodities
- Construction and Infrastructure
- Real Estate
- Agribusiness

With a unique combination of financial services expertise and structuring know-how, our clients receive a unique corporate advisory capability through in-depth understanding of industry and national priorities in Central Asia.

Extensive experience advising on ethical and Islamic banking investments.

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# UNIFYING THE LOCAL CONTENT AND LOCALIZATION ENDEAVOURS OF KAZAKHSTAN'S MAJOR OIL AND GAS OPERATORS

## Aktau Declaration on Joint Actions

JD Waverley  
co-ordinator

Measures and mechanisms that increase agreements between those with the necessary technology from around the world to partner those in Kazakhstan is seen as a necessity. Additionally, the importance of social and corporate responsibility by investors wishing to engage in operations and so ensuring that a culture of legacy beyond investment, development and profits is also considered an imperative.

Employment creates an environment for stability, which in turn enhances the confidence that protects the very investments that are necessary for the development of assets. The national focus is increasingly on creating an appropriate environment to attract cooperation agreements with technology transfer by companies in the global oil and gas supply chain.

This will support the implementation of

concrete foreign investment projects in services and fabrication of equipment and goods, which in turn will address current challenges and opportunities for the creation of new jobs. This will also enable the establishment of a vibrant indigenous oil and gas supply-chain sector, taking advantage of the opportunities of national and regional markets.

The Aktau Declaration on Joint Actions was created to implement practical innovative mechanisms to unify the endeavours of the major operators in this regard. Recognising the complex nature of the delivery of local content strategy that requires close cooperation and alignment between all sides of industry; operators, investors, suppliers, and central and local government departments, the initiative involves a Task Force whose membership is drawn from operator signatories and investor companies. ▶





The objectives include the strengthening of Kazakhstan's professional skills and industrial base to further maximise the opportunities for the companies and citizens to benefit directly from oil and gas projects as part of a strategy to develop an indigenous capability in the sector. It is designed to improve coordination and consistency of operator's local content programmes, based on a shared understanding of the challenges and vision of a strong and vibrant future for Kazakhstan's oil and gas industry.

The Industry Task Force enables a greater sharing of knowledge and a better coordination of effort, to avoid duplication and accelerate outcomes toward a common goal while developing a domestic supply chain. It is anticipated that this will make a substantive contribution towards long-term sustainable employment.

The Task Force has agreed a strategy and the content of a forward engagement plan with all stakeholders concerned with local content development and delivery. It considers the strategy, content and current activities of the main contractors, equipment manufacturers, service companies, and of the respective national trade representative associations and encourages a coordinated approach.

The terms of reference uses the frame work 'How it is – how it will be', containing six key components:

An in-depth analysis has being undertaken to evaluate all procurement from operators for the periods 2012/2013, together with future procurement plans for 2014 and beyond.

- **Inward investment programme;** to contribute to the commercial environment and identify opportunities to accelerate and expand the domicile of manufacturing and supply of works and services
- **Training and skills development;** fast track programmes to address critical skill shortages and longer term skills capacity building for the future.
- **Single supplier database** as a source of reference to identify current and potential capacity in the oil & gas and non-oil & gas sectors.
- **Harmonisation of standards, specifications and code of practice.**
- **Enterprise development;** to stimulate the promotion, growth and new development of local companies including access to management expertise and funding
- **Research and development;** to anchor specific technology development programmes to create new high value business opportunities within local and domestic markets

An in-depth analysis has being undertaken to evaluate all procurement

from operators for the periods 2012/2013, together with future procurement plans for 2014 and beyond. A rolling workshop programme, inviting vendors by category to consider Kazakhstan as an investment destination of choice, has been drawn up.

Workshops will be conducted over three day periods in Atyrau and Astana to meet: 1) Operator's procurement representatives 2) Central and local government 3) Kazakhstani industry, all with a view to joint ventures and technology transfer. Our goal is, as much as possible, to de-risk investment decisions and promote the benefits of such partnerships. Interest to attend these workshops can be emailed to: [info@aktaudeclaration.org](mailto:info@aktaudeclaration.org).

Finally, a monitoring process to ensure understanding and compliance of local content participation is now actively being undertaken by the Contract Agency. The Aktau Declaration on Joint Actions assists in this process. ■

# Chevron Launches Production of Iron Gate Valves in Kazakhstan



Chevron Eurasia opened in autumn of 2013 its Atyrau Valve Plant (AVP) that produces iron gate valves for use in water supply, sewage and natural gas transportation systems. The valve plant is part of Chevron's efforts to support the diversification of Kazakhstan's economy by introducing new technologies and business opportunities to Kazakhstan.

"Chevron strongly supports economic diversification," said Chevron Eurasia Managing Director Scott Davis. "We believe that AVP will contribute to the development of the domestic machinery industry and increase Kazakhstan's future export capacity."

AVP uses unique Chevron licensed technology from AVK, a manufacturer of iron gate valves headquartered in Denmark. Today there are 40 people working in one shift at AVP, but as the plant reaches its capacity to produce 30,000 pieces per year, the number of employees will increase to over 70. The plant is entirely managed and operated by local residents.

AVP is Chevron's second investment project in the Atyrau oblast outside of its core oil and gas business and follows the Atyrau Polyethylene Pipe Plant (APPP) that was commissioned in April 2003.

In addition to the economic diversification provided by AVP, Chevron is also developing a wind park project in Akmola oblast. The project will be the first Chevron facility to generate wind power outside the United States and one of the first wind parks in Kazakhstan.

Chevron was the first major Western oil company to enter Kazakhstan over the past two decades and has created thousands of jobs, provided billions of dollars of investment, developed the local workforce, and supported medium and small businesses and local communities.

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## LOCAL CONTENT BY PARTNERSHIP AND MONITORING

The local content development policy of the Ministry of Oil and Gas (MOG) received new impetus after approval of the Law 'On Subsoil and Subsoil Use' in 2010. Its implementation encompassed several regulatory acts, covering automated, real-time monitoring and analysis of local content data, and plans for procurement of subsoil users.

**Contract Agency**  
Zhan Nurbekov  
Director



The monitoring function and the development of local content in the procurement by subsoil users of hydrocarbons was assigned to the Contract Agency. For four years, there has been a steady trend towards increasing local content in monetary terms. Total procurement of goods, works and services (GWS) in the oil and gas industry between 2010 and 2013 increased by 80% (from \$ 1.5 trillion tenge to 2.7 trillion tenge) and local content by 135% (from 0.68 trillion tenge to 1.6 trillion tenge). The local content of purchases increased from 45.2 % in 2010 to 57.3 % in 2013.

Local personnel content has also increased dramatically, with Kazakh specialists in 2013 making up 97.13 % of the total. At the same time, programmes have been introduced to train and retrain Kazakhstan people in oil and gas industry technical subjects in order to increase their participation in the development of the country's new oil fields. A key element in this programme was an agreement signed in 2010 between the operators and MOG, assigning some \$4.96 billion tenge for training of 6,000 Kazakhstan citizens.





Local content development is moving in two directions. Firstly, there is growing interaction with the operators TCO, KPO, NCOC; a trend which is particularly attractive for foreign technology leaders interested in entering the Kazakhstan oil and gas market. Secondly, implementation of capital projects in the country's major fields is beginning with several key business opportunities. For example, those associated with TCO's future expansion total an estimated US\$24 billion.

A Memorandum of Understanding was signed recently between the Government and Tengizchevroil, which committed the operator to a fixed local content. A key element in these agreements with TCO is the local content requirement for

foreign contractors. This is essential to the Government's plans for future expansion of local production and the creation of joint ventures with Kazakh partners. That in turn provides a unique opportunity for foreign companies to enter into joint ventures with local businesses on large projects.

The next major project open to international business is the development at the Karachaganak field, worth an estimated 15-20 billion dollars. Another major project, open to international companies is the development of Kalamkas-sea oil field and island CCO1 NCOC, requiring an estimated investment of US\$13 billion.

International companies involved in joint venture partnerships will

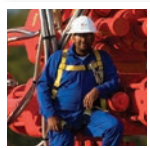
be encouraged through long term procurement contracts, to buy goods and services where possible from local businesses. This 'partnership' approach will allow:

- establishment of offset cooperation on localization of high-tech production in Kazakhstan
- the transfer and development of advanced knowledge and technology in the country
- the creation of a competitive advantage for foreign producers working with joint venture partners, when tendering for contracts associated with the largest local companies
- support for domestic enterprises (20% of the notional discount program of state) ■



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**University of Cambridge**  
Serik Orazgaliev and  
Siddharth S Saxena  
Central Asia Forum



## TECHNOLOGY CHALLENGES AND OPPORTUNITIES

Kazakhstan's sub-soil wealth presents a unique blend of challenges and opportunities, as part of the country's technological and wider economic development. But the huge business opportunities in Kazakhstan's energy sector, has the potential to turn each challenge into a golden opportunity for international partners and service providers.

Development of certain oil fields in Kazakhstan involves a unique combination of technical and supply chain complexity. For example, development of the Kashagan field involves engineering, logistical and environmental challenges that make it one of the most complex and expensive industrial projects currently being developed in the world. In addition, international companies must develop oil and gas production in a safe and efficient manner to meet stringent environmental standards. There is scope here for working with local experts, for training of local personnel and for technology transfer.

Of course experienced and skilled professionals are needed to operate new equipment. Similarly application of new technologies

requires specialist personnel. Development of skilled personnel in the hydrocarbon industry is a top priority in Kazakhstan, and is part of the Government's national priority to develop a wider skilled work force. A current focus is the development of oil and gas sector upstream local capacity. New partnerships with international operators will be needed here. The Ministry of Oil and Gas and KazMunaiGas, as well as its subsidiaries, have developed an expertise in the creation of consortia between local experts and international expertise. This will ensure that the new phase in the development of Kazakhstan's oil and gas sectors, is developed with the right technology, will be sustainable and will meet international environmental standards.

Kazakhstan's energy sector offers big and profitable opportunities for foreign operators. The petroleum sector is the most rapidly developing sector in Kazakhstan and the primary contributor to the country's fast economic growth. For this reason, new investment initiatives in the sector receive strong Government and Government agency, including through legislation and co-investment.

The potential for major new oil and gas discoveries in Kazakhstan is considerable. To help realize this potential several large scale exploration projects have been launched recently in the Caspian basin. For example, in 2013, a Memorandum of Understanding was signed between the government of Kazakhstan and Tengizchevroil, defining their joint commitment to expand production in the field. The Future Growth Project will enable the Tengiz field to increase production at from 26 million to 38 million tons of oil per year. Additionally, the Kazakh government is planning to enhance the national gas industry through an expansion of current gas pipeline capacity, including construction of new pipelines and gas processing facilities, and the development of a gas-based power generation industry.

Kazakhstan's long-term energy sector objectives will only be achieved with the support of foreign investors, who can offer the right technology and training. Kazakhstan thus presents unparalleled opportunities to international energy partners, whether in resource exploitation, oil transportation, technology provision or specialist servicing. ■

**Technical regulation is now an important component of Kazakhstan's overall economic system, and forms part of the Government's national strategy for improving the country's domestic prosperity and international competitiveness.**



## THE TECHNICAL REGULATION SYSTEM IN KAZAKHSTAN

**Committee of  
Technical Regulation  
and Metrology**  
Birzhan Kaneshiev  
Director

Kazakhstan's pre-2005 technical regulation system lacked the coherence and transparency required to meet international standards. There were numerous documents defining regulations and standards across a huge range of sectors, from veterinary science to construction, and from energy to conservation. But there were inconsistencies between documents, some were legally binding, others were not. This created difficulties for Kazakhstan businesses, unnecessary confusion for international trade/business partners, and distrust of the quality of local goods on the international market. Kazakhstan manufactured goods simply could not compete internationally.

To rectify this unsatisfactory situation the Government promulgated a new law on technical regulation - Republic of Kazakhstan Law No. 603-II. This provides for a progressive transformation of the state technical regulation system to harmonise it with international practice. Ultimately this will simplify procedures for local businesses, clarify what is legally binding, improve product quality and competitiveness, and help improve safety standards. It will also integrate with the country's national industrial and research and innovation strategy. All this will in turn help Kazakhstan prepare for its accession to the World Trade Organisation (WTO).

Kazakhstan businesses are already





embracing this change and are making significant progress on improving both the quality and competitiveness of their goods and services both domestically and internationally.

Guidelines for technical regulation cover in particular:

- the criteria for meeting the technical regulations and assessment of progress in this regard
- elimination of technical barriers to trade through harmonization of national standards with international standards
- Increasing product competitiveness and manufacturing safety, through the introduction of advanced quality and environment management systems.
- The legal basis of the national technical regulation system.

As part of the longer-term development and implementation of this new system, the Kazakhstan Government has familiarized itself with how the European Union has sought to harmonize its system with international competitive norms. Kazakhstan specialists have also visited East European countries, to study how they are harmonising their practices and systems with the requirements of the European Union's New and Global Approach. These specialists

have participated in numerous training workshops, covering especially relevant European Union Directives, and harmonisation of technical regulations and standards with international norms in preparation for accession to the WTO.

Kazakhstan's Head of State, President Nazarbayev, has stressed that harmonization of technical regulation legislation is a key part of the country's strategic socio-economic plan. Much progress has been made. Old laws have been revised and amended, and a new regulatory framework on quality control and safety has been created. Priorities have been defined. These include:

- promoting inward foreign investment;
- rationalizing the banking system
- accelerating Kazakhstan's integration into the global economy
- improving the quality and supply of consumer goods (especially food products) in the Kazakhstan domestic market
- Encouraging local manufactures to improve product quality and competitiveness and to increase exports.

Ultimately the Kazakhstan Government's key aim is to ensure complete harmonization and standardization of its technical regulatory system with international

norms. So far 3,787 (72.5%) of the country's 5,223 national standards have been harmonized with international requirements.

On 1 January, 2014 the Unified National Fund of Normative and Technical Documentation (EGFNTD) contained 67037 normative and technical documents. (5223 national standards; 19,966 interstate standards; 11,556 standards of the Russian Federation and CIS countries; 622 European standards and directives; 2650 American standards; 6302 British standards, standardization rules and recommendations, directories, catalogues and other normative documents.

The Republic of Kazakhstan is a member of various international and regional standardization organizations, such as the International Organization for Standardization (ISO), the International Electro technical Commission (IEC), Interstate Council for Standardization, Metrology and Certification (MGS), Interregional Standardization Organization (MAS), Central Asian Association for Metrology, Accreditation, Standardization and Quality (TsAS MAS-K). Membership in these organizations allows Kazakhstan to participate in the development of international and regional standards. ■

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# KAZMUNAIGAS (KMG) PROCUREMENT PROCEDURES

## KazMunaiGas

There are three procurement systems. Firstly, Samruk-Kazyna Rules for the procurement of goods, works and services. These Rules regulate procurement in the companies where Samruk-Kazyna owns at least 50% of equities. KMG is a subsidiary organization of Samruk-Kazyna and so these rules therefore apply to KMG and its subsidiary companies, such as KMG EP, KMG refineries, Kaztransoil and Kaztransgas.

Secondly, the Procurement Rules for subsoil operations

which apply to private oil and gas companies, as well as the organizations where the State's equities are less than 50%. For example CNPC-Aktobemunaygas, Buzachi Operating, PetroKazakhstan. Thirdly, the procurement system of oil and operators in the framework of the Production Sharing Agreements on Karachaganak and Kashagan oil fields and Tengiz project.

The difference between these three systems can be explained as follows:

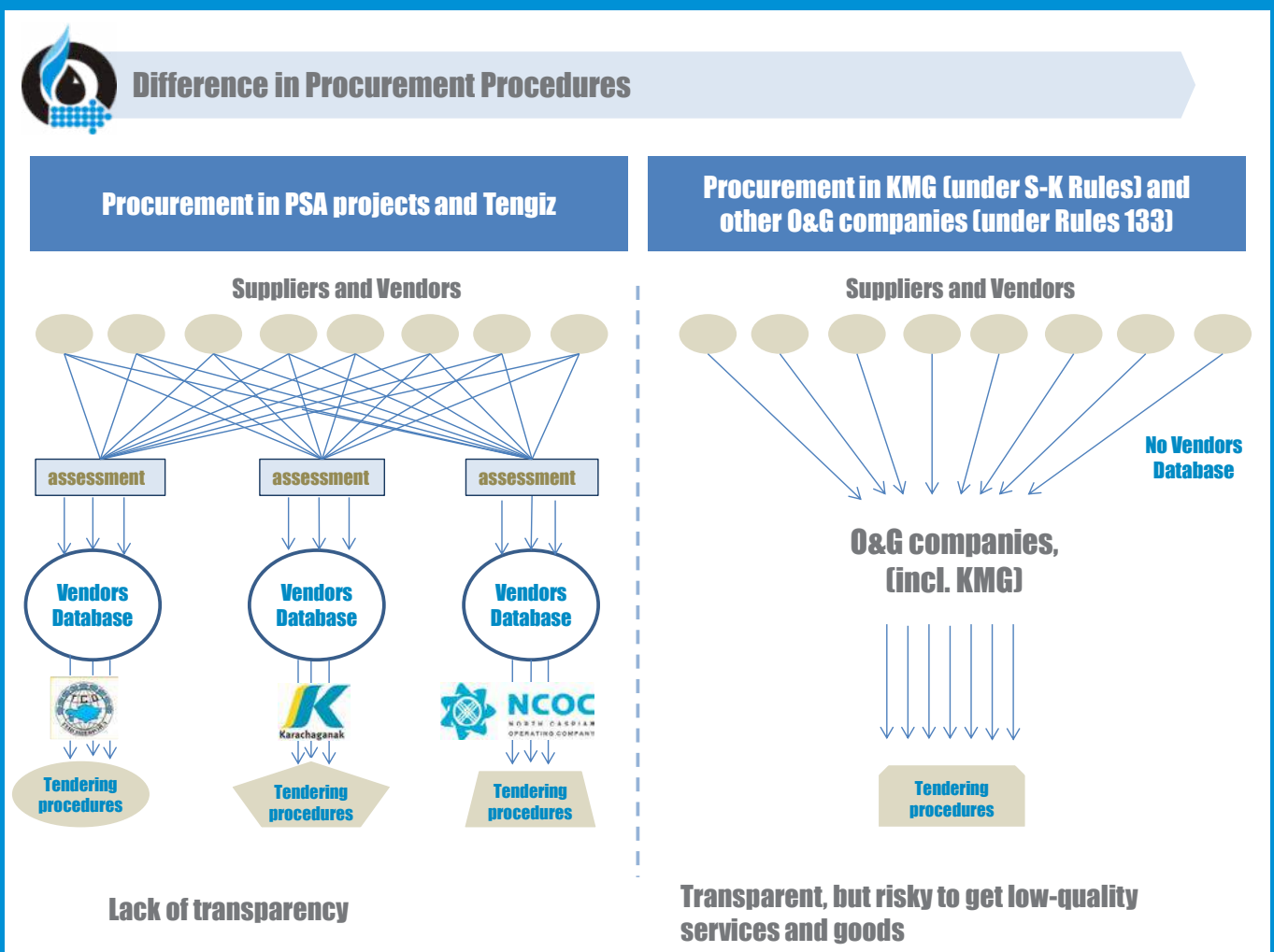


The procurement process is closed for the Tengiz, Karachaganak and Kashagan projects. In order to supply for these projects suppliers and service companies must first complete the registration in Vendors databases of these oil operators (TCO, KPO and NCOC). Each operator currently has its own system of registration and Vendors database. Only those companies that are registered in these databases may be invited to participate in the tenders.

Each operator has its own tendering procedures with potential suppliers not knowing how they are assessed and why they lost. The procurement rules may provide

advantages to local producers if the price and quality of their product are not worse than that of international ones. The procurement Rules of the operators of these large oil and gas projects are confidential while the Procurement Rules of other oil companies, including KMG, can be found online.

Samruk-Kazyna Procurement Rules and the Procurement Rules for subsoil operations are comparatively similar. The oil companies under these rules do not have vendor databases. Any company both local and foreign can directly participate in tenders. These Rules do provide however some advantages for local companies.



KMG procurement procedures are based on the principles of publicity and transparency, allowing all potential suppliers equal opportunities to participate in the procurement process and fair competition among suppliers.

Within 20 days after the approval of the company’s business plan we have to form and approve the Procurement plan. This plan must be placed in the company’s website within 5 days. The procurement plan includes not only the description of goods and services but also quantity, budget, terms of procurement and delivery.

There are mainly three methods of procurement goods and services: open tender, price proposals request and from single source or direct contract. The choice of the procurement method depends on the budget, frequency of the purchase of goods and services, and who provides them.

In case of open tender procedure the advertisement on a tender must be placed both in the company’s website and media not less than 15 days prior to the day of the tender. Having received bids on the day of the tender we are obliged to draw up a protocol for opening tenders that must

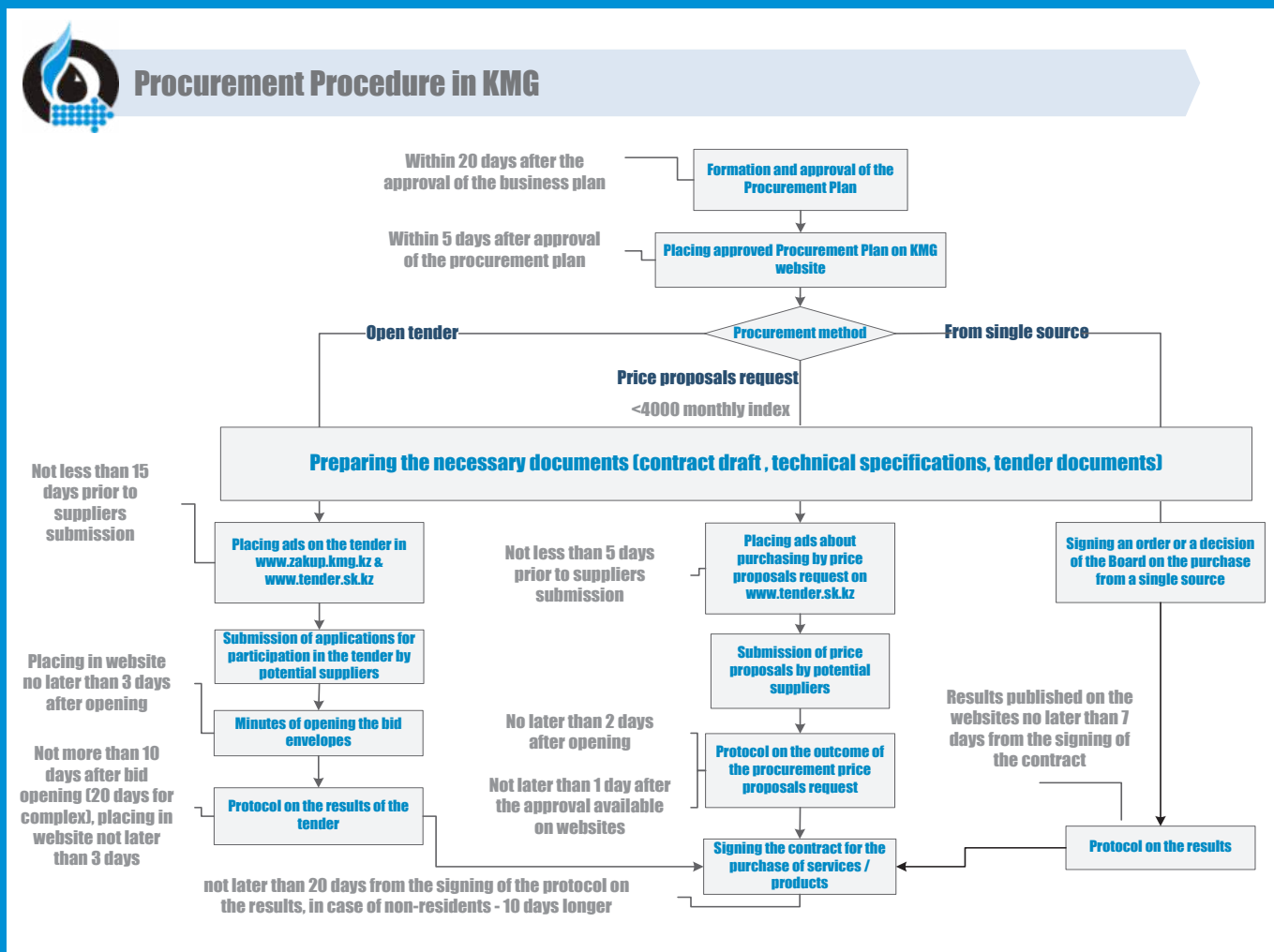
be placed in the website within 3 days. After that within 10 days we have to assess the bids and draw up a protocol with the result and announcement of the winner. This protocol must be placed in the website within 3 days. The contract must be signed within 20 days after the protocol.

Another procurement assessment of price proposals request is similar to open tenders. This mainly differs in terms of time, being shorter. All participants of open tenders and price proposals have access to the bids and proposals, and tender documentation of each other before and after tenders. There is the opportunity to challenge the results by appealing to the Buyer and the supervisory authorities if there is disagreement with the results of the tenders. In case of violation, the results are cancelled and the tender is

held again.

Procurement of goods and services from single source (without holding open tenders and price proposals request) is based on the decision of the Board or order of the Board's Chairman. Single source method is used if the open tender or price proposals request is not held; if for example there is only one service provider or producer of the equipment that KMG and is already in use. The results of such procurement must be also published on the website within 7 days after signing the contract. As can be seen, KMG's procurement procedure is quite transparent.

It is important to understand local content development support.



According to our rules a tender must be held only among local manufacturers if there are at least 2 producers in Kazakhstan. Those potential suppliers can additionally receive a conditional price reduction. Conditional price reduction is a price advantage when suppliers bids are compared at tenders. There are a number of criteria that are allowed to gain conditional price reduction.

Firstly, if a supplier is a domestic producer and included in Samruk-Kazyna Register of domestic producers, it gains 5% of conditional price reduction. Secondly, if a product is manufactured locally and has a relevant certificate, or a supplier has declared an obligation to manufacture a good in Kazakhstan, such suppliers gain 0.15% of conditional price reduction for each 1% of localization. For example,

if a good is manufactured entirely in Kazakhstan and its localization is 100%, the supplier gains 15% of conditional price reduction. If localization is 50%, the conditional price reduction is 7.5%. Thirdly, if a service company takes an obligation to use local goods and human resources indicating local content percentage, it gains 0.1% of conditional price reduction for each 1% of local content.

Potential suppliers can also gain 1% of conditional price reduction if they have the certified system of management according to the State standards. In addition, if a potential supplier is a bona fide supplier in accordance with the list of bona fide suppliers of Samruk-Kazyna, potential

suppliers gain up to 2.5% of conditional price reduction. It is important to understand that these criteria of conditional price reduction, excluding the first two, apply to foreign companies as well.

To summarize, in a potential scenario a supplier can receive up to 25% of conditional price reduction, which significantly increases its competitiveness. Organizations of disabled people also, however, have price advantages if they are registered in the relevant Database of Samruk-Kazyna.

The system of calculating local content in goods is straightforward.



### Local Producers Support in KMG Tendering Procedure

- Tender is hold only among local manufacturers if their number in Kazakh market is 2 and more;
- Conditional price reduction

#### Criteria that influence on conditional price reduction of applications for participation in tender:

Criteria	Rate of conditional reduction*
The supplier represents the domestic producers and composes the Holding Register of domestic producers	5%
Localization in goods, confirmed by the certificate CT-KZ or supplier's declaration with obligation to manufacture goods in RoK	0,15% for each 1% of LC
The guarantee of the supplier on localization of services with indication of percentage value of local content	0,1% for each 1% of LC
Certificated system of management according to the requirement of state standards	1%
The supplier is a bona fide vendor in accordance with the list of bona fide vendors of Holding	1%
Company's experience in supplying goods and services	1,5% - for the 3 years of experience; 0,5 % - for each year thereafter, but no more than 2,5%
Supplier represents the organization of disabled people and is in the relevant Register of Holding	5%

**\*In case of satisfaction to the given requirements it is possible to gain up to 25 % of the conditional price reduction**

The mechanism of local content calculation is approved by Decree of Kazakhstan Government, № 463, which can be found online. Localization percentage is calculated by the Chamber of Commerce, which issue a certificate for the good concerned and where the share of local content is indicated.

appear complex, in reality it is easy to determine the local content. There is a simple example. If a pen is assembled in Kazakhstan and a cap is manufactured locally and costs \$1 while the rest part is imported and costs \$3, local content in producing this pen is 25%.

The formula is shown in the slide below. Whilst this might



## LC Calculation Mechanism

Local Content calculation procedure approved by Decree of Kazakhstan Government, April 14, 2012 № 463

### Goods

$$KC_T = 100\% \times \sum_{i=1}^n (CT_i \times K_i) / S$$

### Works & Services

$$KC_{p/y} = 100\% \times \frac{\sum_{j=1}^m ((CA_j - CT_j - CCA_j) \times R_j + \sum_{i=1}^n (CT_i \times K_i))}{S}$$

Simple example:



**LC in a pen production =  
=1\$/(1\$+3\$) x100%=25%**

Local Content targets in procurement of goods and services for 2014 for KMG are 49% for goods and 78% for services, while for other oil and gas companies they are 16% and 72,5% respectively.

accelerated industrial and innovative development (2010-2014). Local Content in procurement of goods and services of oil and gas companies must comply with these targets this year.

These figures are approved by the State Program on

Actual figures in 2013 are shown in the table below:

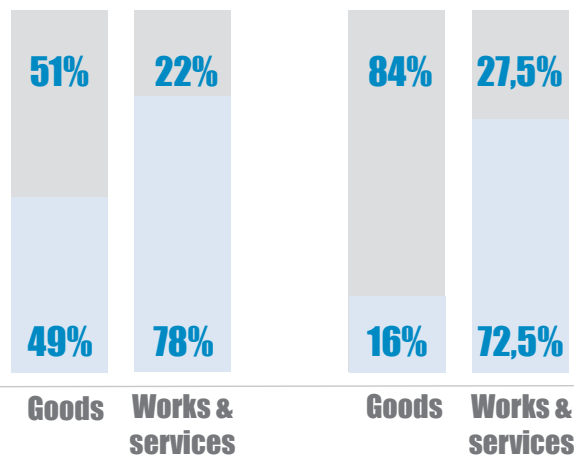


## Local Content Targets for Oil & Gas

**Local Content Targets for 2014,**  
approved by State Program on  
accelerated industrial and innovative  
development (2010-2014)

### National companies

### Oil & Gas Sector



Local Content

Import & goods without certificate CT-KZ

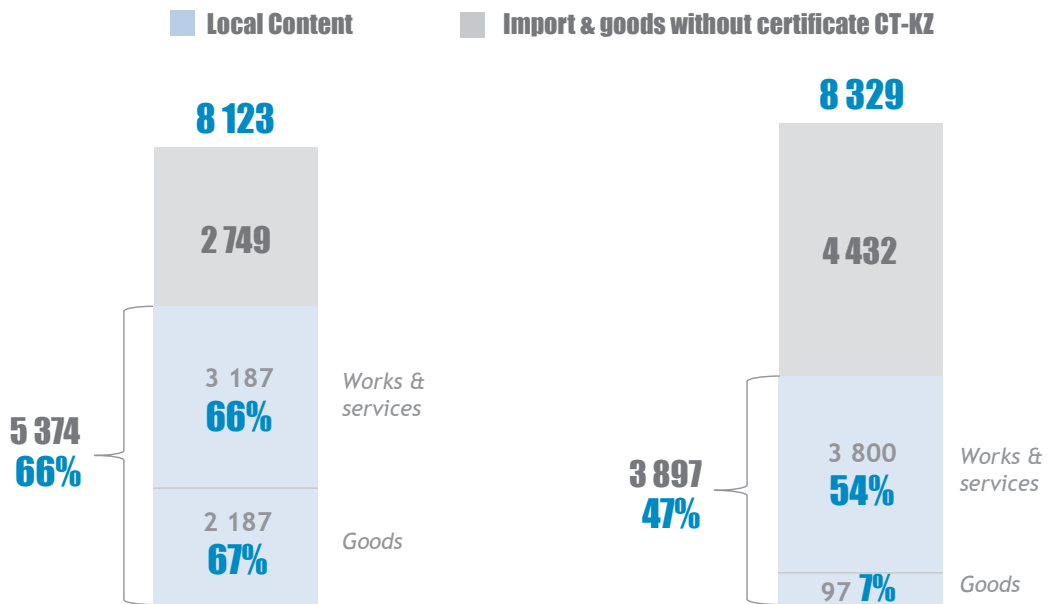
In 2013 KMG's procurement of goods and services was in excess of 8 billion dollars and overall local content was 66%, including 66% in services and 67% in goods. The total procurement of goods and services in Tengiz, Karachaganak and Kashagan, is 8,3 billion dollars. However, the local content in goods was insignificant in comparison – just 7%. This might be explained not just by transparency issues of tendering procedures, but also a lack of local manufacturers and service companies that fully comply with

their requirements and international standards.

Therefore, developing local content by attracting investment and technologies, as well as localization of new goods, is highly important both for oil companies and the country. This is why we agreed with our partners TCO, KPO and NCOC to develop a mechanism to improve the coordination and consistency of individual local content programmes and investors in the Aktau Declaration on Joint Actions.



### Local Content in Major Oil & Gas Companies, 2013 (in million USD)





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- Manufacture of rubber and plastic products
- Manufacture of other non-metallic mineral products
- Manufacture of fabricated metal products
- Manufacture of machinery and equipment
- Manufacture of household electrical appliances
- Manufacture of leather
- Production of petrochemical products, as well as related products, related industries and technologies
- Warehousing and support activities for transportation
- Manufacture of basic pharmaceutical products and pharmaceutical preparations

### CONTACTS:

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# PRIORITY SECTORS AND STATE ASSISTANCE PROGRAMMES

**KexNexInvest**  
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Kazakhstan's priority sectors are:

## 1) Oil and Gas sector

Kazakhstan was ranked 11th in terms of oil reserves and 17th in terms of natural gas reserves in the world. The republic extracted 80 million tons of oil and natural gas liquids in 2012, and more than 40 billion cubic meters of natural gas.

Oil and gas production	2008	2009	2010	2011	2012	2nd Quarter of 2013
Crude oil, thousand tons	58 646	64 354	68 084	67 765	66 475	34 417
Natural gas liquids, thousand tons	12 025	12 128	11 600	12 296	12 749	5 949
Natural gas, billion cubic meters	32 889	35 941	37 406	39 504	40 129	20 720
Motor fuel, thousand tons	2 505	2 612	2 926	2 775	2 877	1 262
Diesel fuel, thousand tons	4 375	4 261	4 435	4 665	4 713	2 638
Residual oil, thousand tons	3 204	3 261	3 805	4 277	3 936	1 993

Source: Agency of statistics of the Republic of Kazakhstan

**Sector infrastructure:** Currently, three oil refinery plants operate in Kazakhstan (Atyrau, Pavlodar and Shymkent). However, there is a need of a full production cycle of raw hydrocarbons in Kazakhstan.

79% of oil and liquefied natural gas is exported via oil pipelines, eight per cent by train, and 13 % by sea.

**Competitive cluster:** The principal oil and gas enterprises are situated in the western regions of Kazakhstan and in the Kyzylorda region. These are the main areas of mineral, oil and gas extraction. New production will be associated with the development of fields in Kazakh sector of the Caspian Sea. ►

## 2) Mining and Metals sector

Kazakhstan's mining and metals sector has a rich and diverse mineral base. Kazakhstan has around 30 % of global reserves of chrome ore, 25% of manganese ore, and 10% of iron ore. Copper, lead and zinc reserves are between 10 and 13 % of global reserves. Kazakhstan has around 90% of CIS country chrome reserves, 60% of its tungsten, 50% of its lead and copper, 30% of its bauxite, 25% of its phosphate and 15% of its iron ore reserves. Kazakhstan is the world's third ranked titanium producer, seventh ranked zinc producer, eighth ranked lead producer, thirteenth ranked iron ore producer, fifteenth ranked copper producer and thirty-fifth ranked steel producer.

## 3) Chemical industry sector

This is a priority sector, because it has to supply raw, intermediate and finished products to Kazakhstan's fast developing industrial sector. The sector is based mainly on the country's rich phosphate reserves, oil and gas production, sulphur dioxide gas from the metal industries, and the diverse national mineral reserves.

Chemical production is located widely around the country. Raw material processing, especially of phosphates and nitrates is found in the Zhambyl, Aktobe, Atyrau and South Kazakhstan regions. More specialised chemical production is located in Pavlodar,

Karagandy, East Kazakhstan regions and Almaty. Caustic soda is produced in Pavlodar, sulfuric acid in the Akmola, Kyzylorda and Zhambyl regions, and rubber technical goods production in the Karagandy region.

## 4) Nuclear Industry sector

Kazakhstan has the key requisites for development of a nuclear industry. These include:

- substantial proven uranium reserves
- developed uranium mining and uranium processing industries, and plants producing fuel and construction materials
- nuclear scientific capacity, concentrated in particular in state enterprises, such as the National Nuclear Center of the Republic of Kazakhstan, the Institute of Nuclear Physics and the Institute of Geophysical Research
- technically skilled human resources
- legislative and regulatory framework governing nuclear energy production and use which complies with IAEA requirements
- nuclear waste disposal and processing/re-processing experience
- comprehensive national seismic activity monitoring system

According to the IAEA, Kazakhstan has about 19% of proven world uranium reserves. The country was ranked first in terms of uranium extraction in the world in 2009. Extraction of natural uranium was 21240 tons in 2012.

The National atomic company Kazatoprom is the national operator of Kazakhstan for import and export of uranium, rare metals, and nuclear fuel for power plants, special equipment, dual-purpose technologies and materials.

The development of the nuclear industry is focused in the regions of uranium ore extraction, at the Stepnogorsk Mining and Chemical Plant and Ulba Metallurgical Plant.

Kazakhstan is recognized as a country with great experience in the field of fundamental nuclear physics and radiation material science.

## 5) Engineering Industry

**The machine tool sector includes several priority industries:**

**Engineering for oil and gas industry**  
The size and importance of this sector generates a large and continuing demand for engineered products. Kazakhstan companies now produce sophisticated drilling, production and transport equipment for the oil and gas sector. Well servicing and other companies are growing fast.

**Engineering for mining industry**  
The rapid development of mining is generating a growing and ever more diverse demand for load-haul-dump transport, hydro-perforators and pneumatic drills, pressure reduction valves, belt conveyers, steel-making



equipment, a wide assortment of rolling-mill equipment, spare parts production and so on.

#### Engineering for Railways

Domestic demand for railway engineering products is growing fast. These include especially freight wagons and locomotives, which are required by the Kazakhstan Temir Zholy company. The company is in the process of buying some 1,400 to 5,200 wagons and 100 locomotives annually. It is rebuilding the existing wagons and locomotive yards

#### Engineering for Agriculture

This sector's key equipment needs include combine harvesters (three or four types), tractors, attachable implements and crops and feed crops converters. Kazakhstan has the potential to produce such equipment, some of which will need to be adapted for local climatic conditions. Future demand will grow fast as the agricultural area is expanded and old equipment is scrapped as part of the sectors efficiency drive.

#### 6) Pharmaceutical Industry

This sector aims to develop local production capacity as part of a wider strategy to reduce imports of medicines. To meet international Good Manufacturing Practice the country will need to attract the right inward investment, including modern pharmaceutical manufacturing technology. But there will be a

continuing need to import specialized drugs, including antibiotics.

#### 7) Consumer Goods Industry

Cotton processing using local raw cotton is the main industry here. Raw cotton output (mainly upland cotton) in 2012 was 380 thousand tons.

#### 8) Agricultural Industry

Kazakhstan's main agricultural exports include wheat, rice, meat, oils and fats.

##### Crop farming

Kazakhstan is among the world's top ten wheat exporters. Flour is also an important export.

More than 70 countries import Kazakh wheat. Traditional importers are the countries of Central Asia (Uzbekistan, Tajikistan, Kyrgyzstan, Turkmenistan, Azerbaijan, Afghanistan and Iran) which import around five million tons annually (about 60% of Kazakhstan's export total). Kazakhstani grain is also exported to North Africa, the Middle East and the European Union. Kazakhstan produces a variety of vegetable oils, fruit and berry crops, grape, sugar beet, potatoes and other vegetables.

##### Cattle farming

Cattle farming is a major component of the country's agricultural sector. Rich pastureland and favorable climatic conditions support the development

of cattle farming. On 1 January, 2013, there were some 581 pedigree livestock business entities. These included around 42 stud farms and 515 livestock breeding farms. In January 2013, the ratio of stud cattle in the country amounted to 8.2% of the total herd: sheep 13.8%, horses 7.0%, camels 10.0% and poultry 11.7%.

In 2012, meat production was 934 thousand tons, milk was 4 852 thousand tons, eggs -3,673.4 million and wool 38.4 thousand tons.

##### Food and processing industry

The food processing industry includes meat, dairy, fish, flour and cereal, and compound feed, sugar and fat and oil. Total output was US\$5.6 billion in 2012. Output of beverages amounted to US\$1.2 billion. The most rapidly developing industries are meat, oil, fat, and flour, which are being modernised through inward investment. Some 80% of food production is consumed domestically. Food imports include canned fruits and vegetables (less than 10%), sugar (39%), cheeses and curd (46%), sausage products (57%), butter (64%) and canned soya burger (68%).

#### 9) Construction Industry and Construction Materials Production

This sector focusses on basic construction material. Much of the country's more advanced construction material needs are imported. That said there is a growing production of many ▶



types of construction materials, goods and semi-finished products. But window glass, and most sanitary ware has to be imported.

Cement production is established countrywide. Gravel, stone and sand supplies are plentiful.

## 10) Tourism Industry

Plans for infrastructure development, according to the Development program for prospective sectors of the tourism industry of the Republic of Kazakhstan for 2010-2014, a number of projects will be implemented in tourism industry of Kazakhstan. These include the construction of a tourist entertainment complex in the SEZ Burabai in Akmola region, an international tourist center Zhana-Ile on the coast of Kapchagay Reservoir in Almaty region, Kenderly international resort in Mangistau region and the Kokzhaylau ski resort in Almaty region.

Additionally, it is planned to establish tourist clusters along the international transport corridor Western Europe - Western China, passing through five regions of Kazakhstan (Almaty, Zhambyl, South Kazakhstan, Kyzylorda and Aktope regions).

As part of a competitive tourism industry infrastructure creation it is planned:

- The allocation of land by local executive bodies for the construction of road infrastructure along the transport corridor

- The creation of mechanical, electrical and plumbing infrastructure of the newly created tourism industry objects
- Subsidizing of interest rates on lending investment projects of national tourist clusters along the transport corridor Western Europe - Western China.

## Investment preferences

Under Law of the Republic of Kazakhstan No. 373 -II dated January 8, 2003 «On investments», RK entities implementing investment projects or strategic investment projects in priority sectors are provided with investment preferences by concluding investment contracts.

### Types of Investment Preferences:

- 1) Exemption from customs duties:
  - when importing technological equipment and component parts
  - when importing spare parts for production equipment, raw materials and (or) materials
- 2) Government in-kind grants mean the property owned by the Republic of Kazakhstan, including land, buildings and structures, machinery and equipment, computer equipment, measuring and control devices and equipment, vehicles (excluding cars), production and household equipment provided for temporary free use or on the right of temporary land use followed by the gratuitous transfer of the ownership or use of land.

3) Tax benefits for the period of up to 7 years for investment strategic projects (0% land tax and 0% property tax). An investment strategic project should be targeted at the production of high value-added products (products of a higher value-added level and processing in the value chain); it should comply with the priority activities, and meet one of the following criteria:

- Manufacture of products included in the list of activities for the production of high-tech products
- The volume of investments should be at least five million fold monthly calculation index established for the relevant financial year by the law on the national budget (more than 57 million U.S. dollars).

4) Industrial benefits for investment strategic projects in communities with the low socio-economic development level. Providing industrial benefits is to reimburse or pay part of the costs for the following:

- gas
- electricity
- purchase of land
- acquisition (construction) of buildings and structures

## Special Economic Zones

Special Economic Zone (SEZ) is a part of the territory of the Republic of Kazakhstan with precisely defined boundaries, where a specific legal regime of a special economic zone applies to the implementation of priority activities.



Ten special economic zones have been established throughout the country for the purposes of stimulating foreign economic and regionally accelerated development, industries' support and solutions to social problems, investment, technology and modern management, highly efficient and competitive industries creation Kazakhstan.

#### Privileges in SEZ:

Tax benefits. The following privileges are provided to all SEZ participants:

- Exemption from corporate income tax (CIT)
- Exemption from land tax
- Exemption from property tax
- Exemption from value added tax

(VAT) on all implementation activity within the territory of SEZ, on all goods completely consumed in the production process

#### Conditions for tax benefits:

- Registration as a taxpayer within SEZ territory
- Registration as a SEZ participant
- Absence of structural subdivisions outside the SEZ
- Income from the sale of own-produced goods by the priority activities of SEZ shall be at least 90 percent of the total annual income (for SEZ "ITP" - 70%)

#### Customs privileges:

Goods IMPORTED into SEZ territory

- Exemption from customs duties

Goods EXPORTED from SEZ territory

- CU commodities exported from the SEZ to the rest territory of the Customs Union are not subject to customs duties
- CU commodities exported from the SEZ territory to outside the Customs Union are subject to the payment of export customs duties
- Foreign commodities with no status as CU goods (simple assembly) exported from the SEZ to the rest territory of Customs Union are subject to the payment of customs duties

#### Other privileges:

- Simplified procedure for recruiting foreign workers
- Issuance of permits for foreign workers by local executive bodies are executed in accordance with the laws of the Republic of Kazakhstan, but using a simplified manner without opening the positions to the domestic labor market
- Free land plot for up to 10 years
- Free land plot for project implementation is provided for SEZ participants for up to 10 years ■



# REGULATORY ENVIRONMENT

**Deloitte**  
Mark Smith  
Central Asia Managing Partner

## Doing business in Kazakhstan

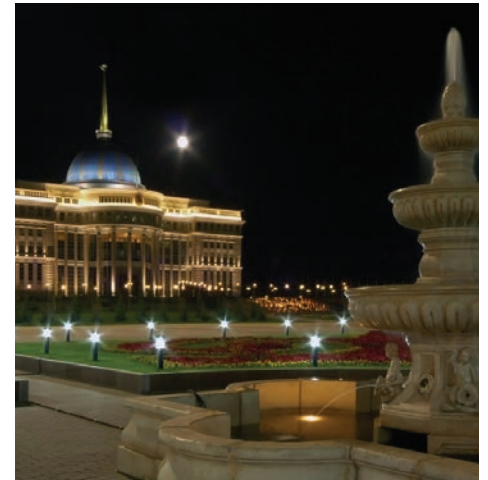
Since independence, Kazakhstan has achieved significant results in attracting foreign investment. The Kazakhstan Constitution affords foreign companies and individuals the same rights and obligations as Kazakhstan nationals<sup>1</sup>. As a result, foreign entities may invest in almost all sectors of the economy, with restrictions for specific industries such as oil and gas and telecommunications among others. Foreign investors may also face a number of operational restrictions, although not explicitly discriminatory, that local firms are not subject to, e.g. local content and obligations covering labour, goods and services.

The government has openly expressed its desire to improve the investment climate in Kazakhstan, which is why considerable efforts have been made to removing bureaucratic obstacles to investing in and operating a business in Kazakhstan.

For instance, legislation governing the incorporation of businesses in Kazakhstan has been significantly simplified in recent years, so that companies can now be registered either according to the "one-stop-shop" principle, i.e. all registration documents are filed at a single location - Public Service Centre - or through an on-line application process<sup>2</sup>. Officially<sup>3</sup>, the procedure takes from 1 to 14 business days, depending on the type of entity being registered, but more often than not, due to its still somewhat bureaucratic nature, the process can take up to 3 weeks.

As an additional incentive to investment, Kazakhstan has set up several special economic zones with the aim of creating efficient export-oriented manufacturing, implementing new technology and introducing modern





management techniques. At the same time, by investing in these zones, foreign investors can enjoy certain tax preferences and customs exemptions<sup>4</sup>.

Foreign and local investors may operate in Kazakhstan through a structural subdivision (branch/representative office), or a subsidiary (limited liability partnership ("LLP") or joint stock company ("JSC")). The choice of vehicle determines financial, tax and legal implications.

Generally speaking, from a tax perspective, no principal differences exist in the tax treatment of local legal entities, LLPs/JSCs or the branches/representative offices of foreign companies in Kazakhstan. However, consideration should be given to branch profits tax, the distribution of dividends by LLPs and JSCs, the allocation of general and administrative expenses by a branch/representative office's founding entity for corporate income tax purposes, as well as withholding tax, value added tax, payroll related taxes and others<sup>5</sup>.

It is worth mentioning that monopolistic activity and unfair competition are restricted or recognised as invalid under the law<sup>6</sup>. The antimonopoly authorities monitor economic concentration<sup>7</sup> (which includes, among others, the reorganisation of entities by way of mergers or takeovers; the acquisition of more than 25% of shares in a market entity) and permission should be obtained prior to a transaction leading to an economic concentration situation as defined under the law<sup>8</sup>.

All registered companies should comply with tax regulations, which require the regular submission of returns. Failure to comply can lead to severe fines and penalties. Hiring staff results in standard HR and payroll related issues. Generally speaking, foreign nationals can only be employed in Kazakhstan if local immigration regulations have been met and a work permit received in advance<sup>9</sup>.

As a way of supporting and increasing business activity, the government has adopted a policy of easing the administrative burden involved in obtaining licenses/permits (by reducing the processing period and list of documents to be filed with the authorities<sup>10</sup>).

As another positive step towards further improving and supporting entrepreneurial activities in Kazakhstan, the President recently suspended inspections of small and medium businesses until 1 January 2015 and even cancelled all scheduled inspections of all businesses from 1 January 2015<sup>11</sup>.

### Regulations in the Kazakhstan Oil and Gas Supply Chain

Kazakhstan's rich oil and gas reserves continue to provide the country with an important source of revenue, ensuring stable economic growth and improving living standards.

As in many countries, the Kazakhstan oil and gas industry is divided into three

distinct sections:

- a) Upstream: exploration and production of crude oil and gas (hydrocarbons)
- b) Midstream: processing and transportation
- c) Downstream: hydrocarbon refining and distribution

The integrated Kazakhstan legislative base regulates all aspects of the oil and gas supply chain, starting from the identification of subsoil areas through to the delivery of oil products to customers. While Kazakhstan reserves priority oil and gas industry rights<sup>12</sup>, foreign investors, who are afforded the same subsoil use rights as domestic investors<sup>13</sup>, still manage the bulk of exploration and production sectors.

Nevertheless, Kazakhstan still places great emphasis on local content development and encourages a unified approach to the oil and gas industry to ensure and increase the use of local goods, services and labour in the activities of foreign investors in Kazakhstan<sup>14</sup>. In 2010, the government approved a uniform methodology for all subsoil user contractors/subcontractors to calculate local content for goods, work and services<sup>15</sup>. Failure to comply with local content requirements triggers administrative sanctions<sup>16</sup> and even the termination of subsoil use contracts where applicable.

As part of its plans to protect the domestic market, the government is currently looking to increase local content ratios. For instance, local content in the oil and gas sector ►

(except for the three large fields - NCOC, KPO and TCO) is due to be increased in 2014<sup>17</sup> to 16% for goods, and 72.5% for work and services. However, while local companies have a significant presence in the production and downstream segments, foreign companies still control the more high-tech areas of the oil and gas supply chain. The same trend is somewhat repeated in the midstream segment. For example, KazTransOil (the national oil pipeline operator<sup>18</sup>) and KazTransGaz (the national gas supply operator<sup>19</sup>) cover the pipeline sector, while foreign investors and companies almost exclusively operate the tanker and oilfield services sectors.

Generally speaking, the midstream and downstream sectors are not treated as a subsoil use operations and as such no local content requirements apply. With only three major, but technologically limited oil refineries currently in operation (Atyrau, Shymkent and Pavlodar), Kazakhstan tends to export crude oil abroad. However, due to the recent export ban on lightweight products and distillates, kerosene, solar oil and other petroleum products until 1 June 2014<sup>20</sup>, vacuum solar oil and fuel oil make up the majority of exports. Another three gas refining plants (Kazakh, Tengiz and Zhanazhol), which are all located in the west of Kazakhstan, produce tank gas from associated gas, and then export it to neighbouring countries such as Russia within the framework of intergovernmental treaties<sup>21</sup>.

## legislation governing the incorporation of businesses in Kazakhstan has been significantly simplified in recent years



Currently, crude oil export duties are charged at US\$ 80 per tonne<sup>22</sup> and KazTransOil pipeline export tariffs - KZT 5,817.20 (approximately US\$ 32) per 1,000 tonne/km, exclusive of VAT, making a significant contribution to budget revenue.

The Kazakhstan Government recognises that the oil and gas industry, by its very nature, is a very complex and capital-intensive investment, and for that reason is working hard to ensure that the legislative base governing it reflects that. However, to ensure long-term growth, as a developing country relying significantly on its inherited wealth, Kazakhstan still has much work to do to diversify its economy and reduce its dependence on natural resources, which are vulnerable to volatility and changes in global commodity prices. ■

1. Constitution of the Republic of Kazakhstan dated 30 August 1995

2. According to Law # 60-V dated 24 December 2012 On the Introduction of Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan "On the State Registration of Legal Entities and the Registration of Branches and Representative Offices"

3. Law # 2198 dated 17 April 1995 On the State Registration of Legal Entities and the Registration of Branches and Representative Offices

4. Law # 469-IV dated 21 July 2011 On Special Economic Zones in the Republic of Kazakhstan

5. Tax Code # 99-IV dated 10 December 2008

6. Article 33 of Law # 112-IV dated 25 December 2008 On Competition ("Competition Law")

7. Article 50 of the Competition Law

8. Article 50.7 of the Competition Law

9. Article 26.4 of the Labour Code # 251-III dated 15 May 2007,

Rules and Conditions for issuing Work Permits for Self-Employed Foreign Nationals and to Employers to hire Foreign Nationals in Kazakhstan, approved by Government Resolution # 45 dated 13 January 2012

10. According to Law # 461-IV dated 15 July 2011 On the Introduction of Amendments and Additions to Certain Legislative Acts of the Republic of Kazakhstan regarding Improvements to the Permit System

11. Presidential Decree # 757 dated 27 February 2014 On Critical Measures to improve Business Conditions in Kazakhstan

12. Article 12 of Law # 291-IV dated 24 June 2010 On the Subsoil and Subsoil Use ("Subsoil Use Law")

13. Articles 29.1 and 3.3 of the Subsoil Use Law

14. Article 61.2 of the Subsoil Use Law

15. Uniform Methodology for calculating Local Content for Goods, Work and Services, approved by Government Resolution # 964 dated 20 September 2010

16. Article 275 of the Kazakhstan Administrative Offences Code #

155-II dated 30 January 2001

17. Kazakhstan Local Content Development Programme for 2010-2014, approved by Government Resolution # 1135 dated 29 October 2010

18. According to Government Resolution # 1273 dated 8 October 2012

19. According to Government Resolution # 914 dated 5 July 2012

20. According to Government Resolution # 1402 dated 26 December 2013 On the Introduction of a Temporary Ban on the Export of Lightweight Products and Distillates, Kerosene, Solar Oil and Other Petroleum Products

21. Government Treaty between the Republic of Kazakhstan and Russian Federation dated 28 November 2001 On Cooperation in the Gas Industry

22. Government Resolution # 211 dated 11 March 2014 On the Introduction of Amendments to Resolution of the Government of the Republic of Kazakhstan # 520 dated 7 June 2010 "On Export Customs Duty Rates"



## Promoting tax and investment reforms

The International Tax and Investment Center (ITIC), a nonprofit research and education foundation, has been working with the Republic of Kazakhstan on tax and economic reform since 1993.

- Encouraging sound tax and investment policies to promote national prosperity.
- Facilitating mutual understanding and trust between business and government on taxation.

ITIC is a respected, trusted independent resource on oil and gas taxation; indirect taxation (VAT and excises); environmental taxes and levies; and international taxation, including the application of double tax treaties and transfer pricing to oil and gas operations.

For more information on ITIC, please visit our website [www.ITICnet.org](http://www.ITICnet.org)

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## Schlumberger officially opened its new Integrated Operations Facility in Aktau, Mangystau.

The Aktau Integrated Operations Facility is a major infrastructure project for Schlumberger in the Caspian region, and the third biggest Schlumberger facility in the world. This facility located just outside Aktau City will service operations both onshore and offshore in western Kazakhstan and be a major support hub for the entire Caspian region.

The new facility integrates services across multiple service lines; these include Drilling & Measurements, Cementing, Fracturing, Wireline and Testing Services. It will also support Artificial Lift, Completion Services and Mud Logging services. The facility features key operational support functions such as dedicated equipment maintenance for tools, equipment and vehicles, fully fitted pressure testing bays and support for real-time monitoring operations.

The Aktau Integrated Operations Facility employs close to 400 people of which most come from Aktau and the surrounding area. The base covers an area of 60,000 square meters, with room to expand another 76,000 square meters. It holds over 10 major dedicated buildings with a workshop and office areas of approximately 14,000 square meters, all of which are connected to a global state of art data network.

Schlumberger is a major technology provider for oil and gas field exploration and development projects in Caspian region. To date, the company has participated in the construction of several hundred wells both onshore and offshore, and has been at the forefront of major oil & gas milestones in Kazakhstan.

### ABOUT SCHLUMBERGER

Schlumberger is the world's leading supplier of technology, integrated project management and information solutions to customers working in the oil and gas industry worldwide. Employing approximately 115,000 people representing over 140 nationalities and working in approximately 85 countries, Schlumberger provides the industry's widest range of products and services from exploration through to production.

# BUSINESS

# ENVIRONMENT

**Rashid Gaissin**  
Managing Partner  
GRATA Law Firm

Nearly 30 years ago, an enormous explosion caused a 200-metre column of fire, which took over 1 year to extinguish. The site where this took place was none other than the Tengiz oil field on the lowlands of the Kazakh coast of the Caspian Sea. The extraordinarily high pressure and temperature of the oil makes its extraction a challenging prospect even today. At the time, what was then the Soviet Union had to enlist the help of foreign specialists to cap the well and extinguish the fire. Whilst Kazakhstan has come a long way since this event, foreign resources and expertise still play a crucial role in its extractive industries.

At the heart of President Nazarbayev's recent address to the nation "Strategy 2050", is a commitment to diversify Kazakhstan's economy. Yet, the oil and gas sector is set to remain the primary source of national wealth and still attracts the most foreign direct investment in the Kazakh economy. In 2013, for example \$18, 1 billion worth of oil and gas procurement occurred in Kazakhstan and when production eventually recommences in Kashagan, this total will again increase exponentially.

Despite its being such a mainstream economic sector, investors have an uncertain knowledge of the regulation in the oil and gas sphere, since the rules are both quite complicated and evolving gradually as part of an on-going effort by the government to simplify this area of law.

In this article we seek to clarify some of the questions most frequently asked by investors. In our experience companies are most interested in shedding light on the general topics of procurement rules and local content. In particular, what are the relevant rules for each procurement, in what format are procurements conducted and what are the implications of violating the rules? And as for local content, how is this measured and whether there are fixed percentages which apply across the board. ▶

First, let us begin with how to determine which set of rules apply [11] to a given procurement. Broadly speaking there are 3 different sets of rules that could apply, depending on which organization is hosting the procurement. Tengizchevroil, Karachaganak Petroleum Operating and North Caspian Operating Consortium (which are the largest subsoil users unofficially called "Three Wales") each have their own internal rules, which it is not possible to elaborate in detail here as they are internal rules and thus not accessible.

Some subsoil users forming part of the Samruk group of companies (that is to say companies which are 50% or more directly or indirectly owned by Samruk Kazyna) use the Samruk Procurement Rules No. 80 dated 26 May 2012 (Samruk Rules). All other subsoil users use the Procurement Rules No. 133 dated 14 February 2013 (Rules 133). These latter two sets of rules are broadly similar in terms of structure and content, differing only in certain details.

In the case of Rules 133, the implications for subsoil-users who do not correctly adhere to the rules are not just financial but may even threaten the security of the project itself. That is to say, that if a certain volume of goods, works and services are procured in violation of the rules, then costs related to such procurements will not be accounted by authorities as the execution of a subsoil user's annual financial obligations. Consequently, underperformance may result in a subsoil user receiving notice from the authorities regarding the necessity to fix the violation of contractual obligations. Any failure to address the breach could result in the unilateral termination of the contract by the authorities.

Next, the question arises as to what the relevant method of procurement will be, in particular, the possibility of single source procurement (at a subsoil user's discretion). In order for this to be possible, the goods must feature in the approved list of goods, works

and services that can be provided by means of single source procurement, as contained in the Samruk Rules or Rules 133. If this is not the case and such goods, works and services cannot be obtained from a commodity market and cost approximately 140,000 USD or more a year, then the procurement process is conducted by tender or auction. However, if a tender or auction fails, then the process can be conducted by single source procurement.

So what is the difference between these various similar sounding processes? During a tender, potential contractors that have passed the pre-qualification stage submit their price quotes, which are announced openly at a certain time. The contractor who has proposed the lowest quote (taking into account conditional discounts, if applicable, as defined below) wins.

An auction is held through an electronic procurement system, where all potential contractors who have passed the pre-qualification stage, can see the price proposals of other potential contractors and are entitled to submit an unlimited number of price quotes. The contractor who proposes the lowest quote wins.

Another crucial question for foreign investors, but once again surrounding which is a great deal of uncertainty, is the necessary proportions of local content. The important thing to emphasize here is there is no statutory minimum limit, which applies across the board. Each subsoil use contract will stipulate its own minimum limit

for local content, in terms of goods and 'works and services'. Whilst there are no predictable fixed totals, some average figures for this could be 30% in terms of goods and 80% for both works and services. Failure to adhere to the percentages established in the subsoil contract can lead to substantial fines, potentially to the tune of 30% of the unachieved volume of local content in goods, works and services (the exact percentage of penalty is set out in each respective contract).

Of course, local content is measured differently according to what commodity is being procured. In the case of goods, local content is demonstrated simply by the certificate, which signifies the good has been produced in Kazakhstan, the so-called 'CT-KZ' certificate. Local content in services is equal to percentage share of payroll of Kazakhstan citizens in the company's general payroll fund. Local content in works is calculated taking into account above calculation methods for goods (if goods are supplied within a works contract) and for services.

As for tenders for goods, those companies that procure goods with CT-KZ assigned specifically to them, can gain a 20% conditional discount at a tender. Those companies that participate in tenders for works and services, are entitled to a 20% discount if they are Kazakh entities and have 95 or more percent of Kazakhstan citizens in the staff. ■

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In 2013, for example \$18, 1 billion worth of oil and gas procurement occurred in Kazakhstan and when production eventually recommences in Kashagan, this total will again increase exponentially.

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# Pipe Plant ArcelorMittal Tubular Products Aktau



ArcelorMittal is the world's largest steel company with 245,000 employees working in more than 60 countries. Tubular Products Division of ArcelorMittal consists of 24 pipemills located in 12 countries and combined employees count of more than 9,000. ArcelorMittal Tubular Products Aktau is part of Tubular Division of ArcelorMittal and is the only producer of welded steel linepipe of large diameter and provider of anti-corrosive coatings in Kazakhstan.

#### Production facility consists of:

- Pipe-making shop
- Coating shop
- Laboratory and Testing House
- Pipeyard

Product range includes welded steel pipes of large diameter with anti-corrosive coatings from 500mm up to 1420mm for oil & gas pipelines, water mains, district heating lines as well as slurry pipelines used in mining industry.

Pipes are manufactured in compliance with GOST, ISO, DIN, API and other technical specifications. Management system of the Company is certified as per QMS requirements of ISO9001, environment management ISO 140001 and health and safety OHSAS 18001.

The mill is located in Free Economic Zone "Sea Port Aktau" and has capability to ship products by sea, rail and by trucks.

In Kazakhstan, ArcelorMittal transforms locally mined iron ore and coal into high-value flat and long steel products, as well as large diameter pipes. ArcelorMittal Group is represented by ArcelorMittal

Temirtau which operates the integrated steel plant, coal mines and iron ore mines, and by ArcelorMittal Tubular Products Aktau which operates the pipeplant, protective coating line, laboratory and testing complex and pipeyard.

ArcelorMittal Temirtau is the largest producer in Kazakhstan's steel and mining sector. The integrated steel plant located in Temirtau has an annual capacity of 4 million tons of crude steel and produces hot and cold rolled steel, tin plates, galvanized steel and polymer-coated coils, welded pipes, coke, and chemical by-products. The company also operates 8 coal mines across Karaganda region and 4 iron ore mines in Central and Northern Kazakhstan. The steel plant commissioned in 1960 became part of ArcelorMittal in 1995. Having overcome considerable difficulties after the acquisition, the company stabilized steel and mining operations and implemented a series of strategic initiatives to upgrade technology, improve health and safety and environmental performance, and ensure long-term competitiveness in the market. This turnaround revived the communities across the region and ArcelorMittal has become a magnet for the development of local small and medium businesses.

[aktau.arcelormittal.com](http://aktau.arcelormittal.com)  
**+7 (7292) 541108 (301/302/303/304)**



# INVESTMENT ENVIRONMENT:

## A REFORM AGENDA TO BECOME CLOSER TO OECD STANDARDS

### OECD

Jean-Francois Lengelle  
Eurasia Competitiveness  
Programme



**Kazakhstan has significant trade relationships with OECD economies, OECD key partners and its neighbouring economies**

Kazakhstan has recorded trade surpluses since 1998, mainly thanks to increases in shipments of oil and other commodities. China and Russia are the main trading partners, accounting respectively for 21% of total exports and 26% of imports (China), and 10% of exports and 31% of imports (Russia). OECD member countries ranked among the top trading partners are France (9.3% of exports in 2012), Germany (6.9% of exports and 6% of imports in 2012), Italy (5% of exports in 2012) and Canada (4.8% of exports in 2012).

**Kazakhstan has made a number of efforts to strengthen its relationship with the OECD**

Kazakhstan started its cooperation



with the OECD in 2000. In the last few years, Kazakhstan has a fruitful engagement with the OECD, including in areas such as Investment, Good Governance, Education, and Environment. Kazakhstan has recently become a participant in the Committee of Industry, Innovation and Entrepreneurship and the Global Forum on Transparency and Exchange of Information for Tax Purposes.

Kazakhstan has now a multi-level relationship with the OECD. Besides the participation in the activities of several OECD Committees, Kazakhstan has already adhered to some OECD legal instruments such as the Istanbul Ministerial Declaration on Fostering the Growth of Innovative

and International Competitiveness.

Other forms of co-operation entail the participation in the OECD Anti-Corruption Network for Eastern Europe and Central Asia, which was established in 1998 as a regional forum for the promotion of anti-corruption reforms, exchange of information, elaboration of best practices and donor coordination. Kazakhstan is a participant to PISA (since 2009) and is a member of the Environmental Action Programme Task Force for Eastern Europe, the Caucasus and Central Asia, which aims at addressing the significant environmental legacy of the Soviet development model.







Kazakhstan plays a leading role in the OECD Eurasia Competitiveness Programme. Through policy reviews, dialogue, exchange of good practices, and support to reform implementation, the programme aims to bring Eurasia economies closer to OECD practices and standards. Kazakhstan is actively contributing to the programme, including being a leading donor and co-chairing - with the European Union - the OECD Central Asia Initiative.

Country-specific projects of the OECD Eurasia Competitiveness Programme in Kazakhstan include:

- The "Regional Competitiveness Project for Kazakhstan" aims to promote regional development, diversify the economy, and strengthen SME regional capabilities

by focusing on the FDI potential at the sub-national level.

- The "Regulations for Competitiveness Project for Kazakhstan" aims to enhance service delivery from the government to the private sector, to promote long-term development and competitiveness.

Both projects are co-financed by the EU and the government of the Republic of Kazakhstan. They are inspiring other such projects in the Eurasia region.

#### **The way forward: scaling up relations from a whole-of-government perspective**

OECD standards and its evidence-based policy recommendations are supporting Kazakhstan domestic reform agenda

and is providing with a platform for policy dialogue, including with other countries from the Eurasia region. Kazakhstan has strived to reciprocate by bringing its policy perspectives and experiences to this dialogue, with the spirit of promoting peer learning.

Building on this relationship, Kazakhstan has expressed interest in scaling up its relations with the OECD from a whole-of-government perspective, mainly in the policy areas which are today listed as top priorities in the country's reform agenda of the National Development Strategy adopted in 2013: good governance, fiscal affairs, environment and private sector diversification. ■



## Full range of services for implementation of turnkey projects

### Activity directions:

- Designing
- Production of electrotechnical equipment
- Constructing and production of construction materials
- Delivery and maintenance
- Installation and commissioning



# TAX ENVIRONMENT TO ENABLE LOCAL CONTENT

**International Tax and  
Investment Centre (ITIC)**  
Douglas Townsend and Daniel Witt

**Tax policy, law, and administration play a critical role in business formation and investment attraction and retention – factors which are vital for producing the sustainable and equitable economic development called for by Strategy-2050.**

Addressing these key fiscal parameters of the investment climate has continuously guided the programs of the International Tax and Investment Center (ITIC) since its founding with the Ministry of Finance in Kazakhstan in 1993. One public manifestation of this sustained interest is ITIC's annual Special Report on Eurasia Countries' Tax Systems, now in its 19th year. The 2014 edition includes a number of specialist articles on Kazakhstan tax issues.

Growth in Kazakhstan could slow to 5% this year (with the economy affected by uncertainty over the Ukrainian crisis), but then accelerate to 6.5% in 2015 on the back of a strengthening global economy (including the EU and Russia), some pick-up in oil production and

continued fiscal stimulus including investment ahead of Expo 2017.

Current events in the Middle East may have many unforeseen consequences, but they certainly would not diminish the importance of the Kazakhstan oil and gas sector to the country itself and to the wider world.

Kazakhstan is an essential part of the Eurasia Region economy and an important part of the global economy. Thus, it has a keen interest in the international tax system – an integral element of the globalised economy and impacts upon Kazakhstan's national (and now Eurasia Regional) tax systems. The continuing reorganisation of the international tax system has seen

action to intensify arrangements for tax information exchange and mutual assistance in tax matters.

In these and other areas, ITIC has played its part in assisting the Kazakhstani regulators to accommodate the changing realities of international tax, with sustained programs of research and briefings along with expert workshops on such key issues as tax treaties and transfer pricing. An example is the 2013 ITIC/Vienna University of Economics and Business (WU) paper, titled, *The Role of Tax Treaties in Facilitating Development and Protecting the Tax Base*.

Kazakhstan faces serious fiscal challenges as it seeks to balance the ►

need for increasing revenues while stimulating growth and enhancing competitiveness; to address the growing pressure for greater transparency and less onerous compliance; and to make sense of calls for onerous taxes in support of non-revenue but investment-detering objectives. The concern of investors-in-place lies with tax system complexity, with interpretation of law and obscurity of administration (hence with impact on management time and operational efficiency), as well as with formal tax rates.

For potential investors, tax competition over rates can be an incentive. In this regard, comparative international studies show over the last decade continued reform in respect of tax rates and business compliance requirements, with rates overall slightly below the global average and compliance effort reduced. Kazakhstan should also consider overly burdensome regulations that pose de-facto taxes on investors such as environmental fines and levies. Here, Kazakhstan can take steps to improve its investment climate while continuing to protect the environment.

As everywhere, (non) compliance is a major challenge to the tax

## Achieving good tax compliance requires a balance between service, enforcement, and measures which positively influence the attitude of taxpayers to paying tax.

administration. False entrepreneurship and bankruptcy, along with (carousel) fraud and the shadow economy, are principal sources of the tax "gap." Successfully encouraging voluntary compliance could ensure that tax collection levels can be sustained, while the tax administration's costs could be reduced. Understanding and influencing the behaviour of taxpayers (e.g. making it easy to comply and difficult not to) is a critical objective.

While there is still some way to go, the Tax Committee increasingly recognises that achieving good tax compliance requires a balance between service,

enforcement, and measures which positively influence the attitude of taxpayers to paying tax. The annual (since 2000) ITIC program of expert workshops for front-line Tax Committee staff, conducted variously in Astana and the western regions, has contributed in this regard.

In the context of Kazakhstan's economic development requirements, as well as its regionally and globally diversifying and dynamic trade and investment relations, issues of investment attraction and retention, revenue collection and compliance are necessarily commanding the priority attention of the political leadership and are the subject of continuous dialogue between taxpayers and tax collectors. Regulatory activity remains intense and can sometimes be idiosyncratic compared with familiar international norms.

Possibly, however, a trend could be discernible towards a greater stability in tax policy and law, as the authorities recognise the significance of that element for encouraging (re)investment and for facilitating compliance. ITIC would welcome affirmation of such a trend and stands ready to continue the cooperation that would further it. ■



**THE AKSAI INDUSTRIAL PARK (AIP)**, located in the city of Aksai, West Kazakhstan Region, Republic of Kazakhstan, is functioning as a Technology Hub for the entire West-Kazakhstan region and for the neighbouring region of the Caspian Sea, with a total territory of approximately 500.000km<sup>2</sup>.

This Project is formed to provide to International Investors and Partners a top-notch complex of facilities and services enabling them to set up their own production in Kazakhstan.

Along with the latest available equipment for mechanical, electrical works and fabrication, AIP also provides services of maintenance, logistics, marketing, certification, technical trainings, rent of production, warehouse and office facilities, laboratories and equipment.



**THE RESIDENT COMPANIES** that have already joined the Aksai Industrial Park, provide and develop the following services and products:

- Control panels and skids production (assembly and maintenance)
- Welding activities and welding training
- Aluminium scaffolding and covering systems production
- Waste management and pollution remedial solutions
- Valve assembly, testing and revamping
- Engineering and construction of flow lines
- Testing and attestation of materials and equipment
- Fittings and flanges production
- Heat-exchangers and boilers maintenance and revamping
- Trade skills training and development
- Accredited Laboratory for mechanical and E/I, as well as metrology and calibration services

## AIP RESIDENT COMPANIES



- Engineering and production of aluminium scaffolds
- Covering systems

[www.aip.kz/index.php/aluminium-technologies](http://www.aip.kz/index.php/aluminium-technologies)



Consultancy, Project Financing and Negotiation of Financing, Technical Advisor Services, Engineering Services, Provision of Supervision and High-Skilled Specialised Manpower, Procurement, Expediting and Inspection Services.

[www.castle-oil.net](http://www.castle-oil.net)

## PetroWeld

PetroWeld is an integral resident of the Aksai Industrial Park, initiating innovation, modernization, quality and pre-qualified products and services for the Aksai Industrial Park, and Clients with their associated contractors in the Karachaganak Fields and the West Kazakhstan Region.

- EPC/PMC Contracting
- Welding processes
- Welding Equipment design and production
- Supply of Welding consumables and equipment
- Welding International Standards training and certification

[www.aip.kz/index.php/petroweld](http://www.aip.kz/index.php/petroweld)



Design, manufacturing, supply, testing and commissioning of equipment for oil and gas, power and water industries.

[www.faicarvico.it](http://www.faicarvico.it)



Garant Project LLP is a fast developing Engineering Company providing high quality services in engineering support and designing for industrial and civil constructions.

- Feasibility study
- Conceptual design
- Developing of design documentation
- Engineering support

[www.garantproject.kz](http://www.garantproject.kz)



Leading international producer of ball valves for onshore/offshore, low temperature.

- Floating ball valves
- Floating and Trunnion ball valves with stem extension
- Double block and bleed modular ball valves
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[www.aip.kz/index.php/sferova](http://www.aip.kz/index.php/sferova)



- Creating value by waste management
- Pollution prevention and remedial
- Energy-saving solutions

[www.aip.kz/index.php/green-consortium](http://www.aip.kz/index.php/green-consortium)



The first company in Kazakhstan, producing a block-modular equipment for oil & gas industry.

- Automation and Control Systems
- DCS/Telecom systems
- Security management systems
- Instrumentation and Panels
- Skidded equipment

[www.aip.kz/index.php/tematech](http://www.aip.kz/index.php/tematech)



Kazakhstan Testing Service, with an experience of more than 10 years in the field of testing and calibration is able to offer one of the most complete lines of hydraulic test rigs and special equipment for testing and control of all kind of valves.

KTS parent Company Italcontrol, represented in 5 continents, is one of the major manufacturers of testing systems on the market and synonymous of quality and efficiency.

[www.italcontrol.net/en](http://www.italcontrol.net/en)

# SUPPORTING LOCAL CONTENT

## WorleyParsons Kazakhstan

Peter Orrell  
General Director

WorleyParsons opened its first office in Kazakhstan in 1998 in Atyrau, predominantly to support the oil and gas industry. From the start, we have focused on developing a skilled Kazakhstani team to guide and help customers in the long-term across a wide range of project types and engineering disciplines.

Today, our operations in Atyrau, Tengiz, Almaty, Aksai and Astana support customers in the hydrocarbons, infrastructure and minerals, metals & chemicals sectors. Our focus remains on building a highly skilled national resource base to deliver what we promise to our customers with resulting benefits to the local communities in which we operate, our staff and our shareholders.

As a direct result of our continued commitment to the development of our future leaders through comprehensive and ongoing learning and development, WorleyParsons Kazakhstan currently employs more than 700 personnel, 80% of whom are Kazakhstani nationals. Our sophisticated localization programs are supported by training, technology, systems, controls, mentoring and leadership that ensure global standards are met.

Training programs are delivered through a combination of on-the-job, in-house and external training courses. Workshops, round table discussions, seminars and master classes also play a key role in the development of our employees. WorleyParsons Kazakhstan has recently signed a contract with CIPS; Chartered Institute of Procurement and Supply. The objective



of this partnership is to provide our procurement and supply specialists with globally recognized qualifications to improve their personal performance in procurement and supply along with enabling our specialists to be recognized as industry professionals. By offering the opportunity for our personnel to attain globally recognized qualifications, WorleyParsons Kazakhstan hopes to set a benchmark for the improvement in expertise and knowledge in Kazakhstan.

Through one of our major joint venture projects, we have supported a co-operative alliance between the SGT Group of Kazakhstan and UK based William Hare Group. The Hare Group is a leading global provider of fabricated structural steelwork. The alliance between Hare and SGT will significantly increase local content to support continued growth in the Kazakhstan energy and infrastructure sectors. Considerable local investment

has also resulted in WorleyParsons Kazakhstan opening a state of the art, fully operational Lloyds register ISO 9001 accredited facility which enables us to provide the full range of project execution services to customer's in-country.

WorleyParsons Kazakhstan also supports the local community by assisting non-profit organizations such as the Miloserdie Fund for Disabled Children who care for children diagnosed with cerebral palsy. We have proudly supported Miloserdie Fund since 2003. "We are proud of our development track record throughout Kazakhstan in all areas of project execution and the broader community and will continue to work closely with our customers to achieve superior national content and development outcomes to the greatest extent practicable," commented Peter Orrell, General Director, WorleyParsons Kazakhstan. ■



**Abacus Emerging Markets** является независимой фирмой англо-австралийских специалистов в инвестиционно-банковской сфере, открывающая глобальным инвесторам доступ к динамическим инвестиционным возможностям, доступных в Казахстане и во всей Центральной Азии.

Мы сосредоточены на следующих ключевых секторах , как области представляющие самые интересные бизнес-возможности для умных инвесторов:

- Нефть и газ (upstream/downstream)
- Горнорудная промышленность и природные ресурсы
- Строительство и инфраструктура
- Недвижимость
- Агробизнес

С уникальным сочетанием экспертов в финансовых услугах и структурированного ноу-хау, наши клиенты получают уникальную корпоративную консультативную помощь, основанную на углубленном понимании промышленности и национальных приоритетов в Центральной Азии.

Обширный опыт консультирования по этическим и исламским банковским инвестициям.

Дополнительные сведения об **Abacus Emerging Markets**:

Телефон: **+44 (0)20 7769 6784**  
Email: **contact@abacusem.com**  
Сайт: **www.abacusem.com**

## International manufacturer & supplier of specialized sealing products & services.

Novus Sealing Caspian LLP, a Joint Venture company between Yulmar-Service (Kz) and Flexitallic (UK). Gasket manufacturing and Sealing Solutions to Oil, Gas, Petrochem and associated industries in Kazakhstan. The Flexitallic Group is the international market leader in the manufacture and supply of high quality, high value industrial static sealing products. The company was established in 2010 as Novus Sealing Caspian LLP. Manufacturing commenced in 2011. Following the integration of Novus Sealing into the Flexitallic family, the business can now offer the full range of Flexitallic products. Novus Sealing Caspian LLP is the only gasket manufacturer in Kazakhstan, and operates from a new 650 square metre manufacturing facility and offices in the Atyrau Industrial area. The company employs 100% permanent Kazakhstan Nationals, has agreements with major operators working in the Caspian area and holds a CT-KZ certification for in-country manufacture.



### Products:

- Kammprofile gaskets
- Spiral Wound Gaskets
- Ring Type Joints
- Isolation Kits
- Thermiculite
- Flange Rescue Gaskets
- Sheet Jointing
- Graphite
- Change Gasket
- SIGMA
- Compression Packings
- Bolting and Bolt Lube
- Technical Services

### Industries served

Oil & Gas: Upstream/offshore.  
 Downstream/refining  
 Process: Chemical. Speciality. Pharmaceutical.  
 Power: Fossil fuels. Nuclear.  
 OEM: Oilfield equipment. Valves/pumps.  
 Heat exchangers.  
 Aerospace/Automotive: Engines.  
 Exhaust systems.  
 Emerging Technology: Solid oxide fuel cell.





# DEVELOPMENT OF KAZAKHSTANI GOODS AND SERVICES; IMPORTANCE OF COLLABORATION AND SUSTAINABILITY

## Wood Group PSN

Marcus Hartland-Mahon  
Regional Sales Director

Wood Group, a UK oil and gas service company, has been operating in Kazakhstan for over 10 years and today operates through 3 joint ventures and one consortium. In the early days, it was thought that we could succeed on our own and subcontract Kazakh companies as and when needed. There was no real thought about building up a legacy as business was conducted on a project-by-project basis.

It became very apparent however that the Kazakh Government was serious about the development of local content and meant to succeed. There are far too many cases around the world where countries, with oil and gas reserves, fail to start the "local content" drive early enough. Each development cycle takes a minimum of 5-7 years and, by "missing the boat", the local industries have to wait for several years before the next wave of significant or strategic opportunities come up for tender. Very often, the same thing happens again!

Therefore, realising the importance of local content development, we formed our first 50/50 joint stock company in 2006, followed later by another 2 joint ventures and a consortium. We can quite safely say that by taking such steps, we have dramatically increased the size of our footprint in Kazakhstan with long term contracts providing the stability required to develop sustainable local content.

The question now is how can the industry improve the Kazakh manufacturing sector? The value of contracts for goods and products manufactured in Kazakhstan over the past 10 years is considered disappointing by the Kazakh Government. The engineering and construction sector is now stabilised with several international contractors having formed partnerships with local entities and are successfully operating.

One of the challenges now for the Kazakh manufacturing industry is that opportunities are not clear and there is insufficient notice of such opportunities being given in order to prepare in advance. Set up and start up time far exceeds the time required by the client for delivery.

One solution for the operators and EPC contractors, but mainly operators, as they have the most advance notice during conceptual and FEED stages, is to identify, tender and award well in advance of actual need. International manufacturing companies will have the time to establish joint ventures with the security of having a contract in hand, with prepayment if necessary. In this way, the manufacturing industry will be



given a very significant boost and there should be no reason to fail. It is high risk to invest on a speculative basis and so it will be difficult to happen, with the result that local manufacturing will not get on its feet.

Another key action is for the Kazakh Government to do away with the importation taxes for certain materials. Currently local manufacturing is disadvantaged by such tax, to the extent that international manufacturers find it pointless to set up in Kazakhstan because they can sell their products more competitively into Kazakhstan from their plants outside Kazakhstan. This issue has been around for many years and should be addressed. Notwithstanding this, the benefits of joint ventures outweigh such difficulties.

To conclude, our message is that it is possible to develop a sound, long-term business in Kazakhstan through collaboration with Kazakh companies. There are huge opportunities in the country, and with the customs treaty between Russia, Belarus and Kazakhstan, the opportunities are even greater. ■



# UNDERSTANDING CONSOLIDATED CONTRACTORS

*Karachaganak, West Kazakhstan: A world class energy facility*

**CCC Group**  
Hani Akkawi  
Managing Director

PLATINUM SPONSOR  
**Consolidated Contractors Company  
(CCC Group)**



**CCC, a construction and engineering conglomerate, has grown over 60 years into a major Group, being consistently placed within the top 20 globally.**

Our journey with Kazakhstan began in 1999 after recognizing the strategic importance of the Central Asia and South Caucasus region, both in terms of geo-political and socio-economics, in addition to the commercial opportunities. Kazakhstan forms the most important element of these regional activities.

Our formula remains unchanged; first and foremost, delivery with local partnership and participation, building on world-wide excellence, commitment to local content and partnership/localization agendas,



*Galkynysh Gas Field Development, Turkmenistan*

technology transfer, health and safety, and the training of both tomorrow's construction leaders on one hand, and the necessary skills on the other.

We have delivered a record of accomplishment from which to build a permanent presence in Kazakhstan. Hani Akkawi, Managing Director, is adamant, "We recognize that Kazakhstan is centre stage and looks for dynamic partners who offer solutions through multiple industries and market segments. CCC's diverse portfolio encompassing oil and gas, heavy civil, buildings, infrastructure,

mining, energy and power projects, executed in some of the most challenging projects in the remotest parts of the world, is facilitated by our expertise, experienced workforce, ample resources and the highest dedication. We pride ourselves with the highest commitment to HSE, Quality and Social responsibility with firm and proven local content on all our projects worldwide, and it is that commitment we bring to Kazakhstan".

Numerous projects have been successfully or are in the process of being completed in Kazakhstan,

Turkmenistan and Azerbaijan.

**Examples in Kazakhstan are:**

**Karachaganak Processing Complex in Aksai, West Kazakhstan.**

Construction and commissioning of the main process facilities, injection unit, infield and cross country pipelines.

**Kashagan experimental Program.**

Construction and Pre-commissioning of the Sulphur, Slug Catcher and Flare units.

**Kashagan Experimental Program.**

Hook-ups and commissioning of the processing facilities at A and D artificial islands. ▶



*Abu Dhabi Plaza, Astana: 75 storey tower*



*BTC pipeline, Azerbaijan: Connecting the world*

**Abu Dhabi Plaza.** A multi-functional complex of 5 buildings, comprising a 75-storey tower.

**Tengizchevroil's Future Growth Project**  
– Site preparation and civil works.

#### Examples further afield:

**Turkmenistan:** Full scope of works at the Galkynysh Project in Turkmenistan.

**Azerbaijan:** Baku-Tbilisi-Ceyhan pipelines, Azerbaijan portion, construction, testing and commissioning of 450 km, 42" Crude and Gas pipelines, associated valve stations and fibre optic cable.

These construction capabilities, whilst core, could not be achieved without commitment to the regions in which we operate. At CCC, we believe that being a leader goes beyond offering innovative and quality excellence; it is what is invested back into the community that is fundamental to our principles. We, as responsible human beings, have a duty to give back to society, preserve nature, protect Kazakhstan and fulfil an obligation to Kazakhstanians to leave an unpolluted earth.

We demonstrate our commitment

We recognize that Kazakhstan is centre stage and looks for dynamic partners who offer solutions through multiple industries and market segments.

in multiple ways; hospitals, water facilities, schooling together with contributing to life's essentials, particularly to those in need. In addition, we bring opportunity to co-invest in infrastructure, the development of a CCC Centre of Excellence for Innovation and Technology, in collaboration with the Ministry of Investments and Development and Samruk Kazyna; and a project with which we are particularly proud, a co-operation with Nazarbayev University to prepare graduates for employment through a programme of active internship, both within Kazakhstan and internationally.

Finally, CCC has embarked on a campaign to become involved in the renewable energy field, recognizing renewable energy as the future and a key growth sector. This is high on the

national priority agenda of Kazakhstan, and one with which we would be proud to be associated.

Samer Khoury, CCC President, Engineering and Construction, was recently asked in what direction he would wish to include in a long term relationship with Kazakhstan, and had this to say: "CCC Group's future, beyond our core business of construction and engineering, lies in the renewable energy of wind, solar and carbon capture. We are committed and actively participate in this global drive, and I hope that our long-term relationship with Kazakhstan would include future joint endeavours dedicated to the environment, offering viable and sustainable environmental solutions."

CCC Group looks to Kazakhstan as an address for our future. We are committed. ■



## INTRODUCTION OF INDUSTRIAL CLUSTERS

### Aksai Industrial Park

Marco Castagnini  
General Director

The Aksai Industrial Park (AIP) was established in 2011 in the western city of Aksai, West Kazakhstan Oblast. Our mission is to enhance and foster the development of an industrial center around the giant condensate field of Karachaganak. In 2011 when AIP was established the concept was innovative and attracted the attention of KPO, the Operator of the Karachaganak field, and PSA, the National agency of the Ministry of Oil that supervises the Kazakhstan participation in the Oil and gas industry in Kazakhstan.

CASTLE, the UAE based Company that initiated the AIP concept, signed a cooperation agreement with the former National Agency of Technological Development to coordinate the entering of international investors willing to grow their businesses in Kazakhstan. Today the concept of AIP has been expanded into a strategic development plan of the Kazakhstan Government to develop "clusters" in the principle industrial areas of the country.

AIP concept is simple and based on the merging of some of the most successful business concepts of the past 15 years, with a blending for the Kazakhstan market. Firstly is the free zone or trading area concept, with a developer that install the necessary facilities and utilities for manufacturers to start production. Secondly, AIP supports the overheads of the investors, ranging from human resources to

administration, legal to quality control and HSE. Thirdly, in order to react to the business environment of Kazakhstani market, AIP is a "pool workers" supplier, achieving two main targets; the supply of highly skilled staff and manpower on one hand, and the relieving of the burden of low workload phases on the other. Today AIP has 11 partners, each constituted as 100% Kazakhstani Company.

The initial study of CASTLE was considering the business model of working with 4 independent partners. AIP partners started production in the newly constructed facility in 2012, mainly in high technological engineered goods. In our view this is the result of the great leverage investors in Kazakhstan can obtain from logistic optimization for the introduction of their products in Kazakhstan.

All main ingredients for an industrial development are already present in Kazakhstan or can be ready in a short time:

- Production facilities provided by AIP
- Government support with an attentive policy to develop all initiatives that have real Technology Transfer into the Kazakhstan industrial net
- Major clients being sensitive to the Local Content of the products they purchase
- AIP supplying a dedicated Training program for the necessary engineers for different business opportunities

These pointers identifies the major challenges for investors to Kazakhstan. The country is a remote location with all the consequence of high logistic impact on the final value of the goods produced. We would like in the future to spend more time on the provision of Human Resources for the development of industrial manufacturing. Many training and human resources organizations are present in Kazakhstan today but the Training programs tend to address development of oil and gas workers with a discipline for service provision.

It is not a surprise therefore that while local content for services in all major oil and gas ventures is satisfactory, being well above 60% on average, procurement by the foreign operators for manufactured goods only achieve single digits. The main challenge for AIP therefore is the development of human resources orientated to manufacturing processes. It is even more challenging because in manufacturing no client questions the ability of the workers that assemble a car or a steel valve. The client just wants to receive the final product with quality and competitive. Many training organizations are actually financed through direct contracts from oil and gas operators, or from Government educational programs. AIP has created a full range of training programs that are definitely closer to an educational plan than a simple work instruction.

The future success of the oil cluster concept depends on being able to achieve enough supply of human resource capable to compete with European or Far East educational models. Initial results are encouraging but this will be a medium term process. ■

AIP concept is simple and based on the merging of some of the most successful business concepts of the past 15 years.



## CAMERON INTERNATIONAL: SUPPORTING LOCAL CONTENT DEVELOPMENT

**There are significant business opportunities within Kazakhstan's manufacturing sector, but any company wishing to maintain relevance in this market must have a clear business plan and a solid foundation on which to work.**

Cameron has been supplying equipment to Kazakhstan for 30 years and has maintained a presence locally for more than 15 years. Therefore, we understand well the changing dynamics of the oil and gas industry with regard to local content.

During our time in Kazakhstan, we have fully supported the local labour market and now employ more than 50 people in the country.

We have long recognized that a local presence is essential, but in the past 2 years we have observed a concerted push on the part of the government to expand local content. Cameron has embraced these demands and the ongoing benefits they provide.

As a manufacturer, Cameron has supported these initiatives by both utilizing direct employees and initiating the development of local partners.

This may be one partner or, in some cases, more. The vast size and the geography of Kazakhstan mean that we must consider the location of major customers when looking at where to position ourselves.

A number of local manufacturing companies have good facilities, but can benefit from the support a Western partner can provide - not only remotely from its home base, but also locally.

This local support is vital in providing a seamless structure made up of the resources of the Western company and the local manufacturing partner.

The support that we at Cameron provide to our customers and partners in Kazakhstan currently comes in the form of local administrative and sales offices as well as field located technicians.

Any local partnership should be based on a phased implementation dependent on the complexity of the business. It should provide extensive ongoing training and a well-defined development path for locally recruited staff. To support the development, all phases need to be properly monitored by the relevant parties, i.e. government bodies, end user/ customers and western partners.

The Cameron 3-phase implementation plan for the next 2-3 years is now established. This will create an organization that will not only support the local market by manufacture of components but utilize and train the local workforce in Kazakhstan.

Cameron has tailored a training scheme for valve technicians that is used throughout the international market place and now, with the help of our local partner, will be implemented in Kazakhstan. This will allow us to create a fully operational base in Atyrau with a large team of qualified local technicians.

A partnership arrangement benefits both parties. As a manufacturer, it allows us to accelerate the development of relationships within the customer base. From the perspective of our partner, they benefit from involvement in the manufacture of industry leading products, technology and advanced personnel training.

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# EXPO 2017



**EXPO 2017 will be held from June to September 2017 in Astana, capital of Kazakhstan, and include representatives from approximately 100 countries.**

It is expected to draw five million visitors, which would make it the largest international gathering of its kind in Central Asia. The event will provide Kazakhstan a unique opportunity to highlight the achievements it has made and the culture it has developed since gaining independence from the Soviet Union.

Kazakhstan has chosen the theme "Future Energy" to promote and discover sustainable, global energy solutions. Being a country that owns a rich reserve of oil, gas and uranium, Kazakhstan will seize its responsibility in preserving traditional energies and promoting alternative energies such as solar, wind, marine resources, ocean and geothermal waters to resolve the problems of energy shortage in the world.

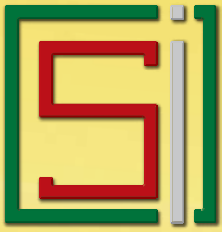
The theme will also promote efforts to find sustainable energy solutions to meet growing global demand. Kazakhstan's choice of the topic reflects the recognition by the country's leaders and policymakers that even its vast reserves of natural energy resources are ultimately finite and that eventually the country, and the rest of the world, will have to make the transition to alternative energy sources and greener economies.

Kazakhstan intends to make its own contribution to the innovative development of world energy and to gather in Astana best minds and projects in the field of alternative energy. The given theme will allow presenting best power saving technologies, new elaborations and technologies of using of existing alternative power sources, such as energy of the sun, wind, sea, oceanic and thermal waters. Astana could serve as a platform to demonstrate the world's best achievements and trends in this. The exhibition will also provide a powerful momentum for a systemic diversification of its economy and technological modernization of the country's industrial and scientific base.

Part of the exhibition facilities and platforms will be used as laboratories, scientific centres and research institutes following the exhibition. EXPO will turn Astana into a showcase for the latest global developments in the energy sector and will transform it into a hub for developing alternative energy solutions across Central Asia. This will give a powerful impetus to the innovative development of Kazakhstan. ■

[www.expo2017astana.com](http://www.expo2017astana.com)





# SICON OIL & GAS S.p.A.

International Contracting Company for Oil & Gas

## WHAT WE OFFER

- EPC turn-key projects
- Conceptual and basic engineering
- Detailed design services
- Procurement & manufacturing
- Construction & Installation
- Commissioning, start up, training & operation supervision
- Project Management
- Project financing



## WHERE WE SERVE

SICON OIL & GAS is an EPC (Engineering, Procurement and Construction) contracting company with major expertise in Lump Sum Turn-Key projects that encompasses Onshore, Upstream and Midstream sectors of the Oil & Gas industry. In house experience and capabilities are also extended to the downstream sector and to offshore projects.

SICON OIL & GAS is registered with major Clients and Operators in the Middle East, CIS Countries and Africa.

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- Gas Treatment and Condensate Recovery Plants
- Oil/Gas/Water Transportation & Pipelines Facilities
- Pumping and Compression stations
- Re-injection systems
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- Offshore facilities

REFINERY UNITS , UTILITIES AND OFF-SITES

POWER GENERATION PLANTS

INDUSTRIAL PLANTS

## OUR RESOURCES

- CORE PROJECT MANAGEMENT
- A MULTI-DISCIPLINARY ENGINEERING POOL (600,000 hrs/yr)
- PROCUREMENT SET-UP (90,000 hrs/yr)
- CONSTRUCTION SITE SET-UP (5,000,000 hrs/yr)

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# UNDERSTANDING KAZAKHSTANI CULTURE



**Kazakhstan is a unique region in the world, because of its history, geographical position and size.**

Being the world's 9th largest country and located in the centre of Eurasia, it is also the largest landlocked country in the world. These resulted in a specific climate and a peculiar natural system of the country, which seems to absorb the brightest examples of landscape

of both continents. A complicated history of Kazakh people and constant interaction of a nomadic lifestyle with settled people in South Kazakhstan ancient cities, have led to a unique and authentic culture of Kazakhstan. These peculiarities have created an opportunity to develop various and diverse offers in Kazakhstan travel and tourism industry, which include authentic cultural tourism, nature-based activities, including ecotourism, bird watching, etc. in national parks and protected areas, skiing or trekking in mountains, water sports, sunbathing and swimming in lakes and rivers of Kazakhstan, and many others.

Today, Kazakhstan is home to over

100 ethnic groups - according to some sources, the number is 126. In order to understand the causes of such national diversity, we need to look at the history of the movement of peoples and military conquest, which is so rich in history of Central Asia. In addition, before the territory of modern Kazakhstan was at the Great Silk Road. In the past, Taraz was one of the key towns on this route. With the help of nomads contributed to world culture.

The total population of Kazakhstan is slightly over seventeen million people. Various periods in the country's history have affected the existing demographic situation: the ethnic composition consists of Kazakhs, Russians,



Ukrainians, Germans, Koreans, Poles, Greeks, Tatars, Turks and many other nationalities.

It should be noted that these hospitable lands became a secure place for hundreds of thousands of individuals of various nationalities and religions. Today, many of them recall with gratitude the warmth and comfort offered to them by the natives who shared their last piece of bread in the harsh years of the repressions. The government ensures equality and development of the various national cultures. The Peoples' Assembly of Kazakhstan was established in order to coordinate the work carried out by the republic-wide, regional, national and

cultural centers.

Kazakhs have always revered and highly valued their national customs and traditions. The main tradition of Kazakhs, which eventually transformed into a feature of national character, is hospitality. In the Kazakh society, there is an unofficial law voiced in ancient times, which says "Meet a guest as God's messenger". Hospitality is considered a sacred duty in the Kazakh society. At all times, the steppe inhabitants did their best to please their guest. Therefore, each traveler knew that he or she would be welcomed anywhere in the Kazakh land. Respect for the elderly is another positive feature of Kazakhs.

Traditionally, a child from early childhood is taught to be moderate and honest when dealing with older, wiser and life experienced people.

Customs and traditions are an important part of the culture of any nation. In a sense, they are the basis of the unity of the nation and passed down from generation to generation. Customs and traditions of the Kazakh people evolved over many centuries under the influence of the nomadic lifestyle. Today the youth is growing interest in its past, and is a natural process: people should know the history of their ancestors and the place where they live, and transmit descendants remember their traditions. ■

## Возможности для компаний в области системы снабжения для нефтегазового сектора

Актауская декларация о совместных действиях объединяет крупных нефтегазовых операторов Казахстана. Она поддерживает создание совместных предприятий для организации системы снабжения товарами и услугами. Она также преследует общую цель - сделать простыми и понятными условия работы.

- Установление контактов между иностранными и местными компаниями
- Встречи один на один с крупными операторами
- Анализ приоритетных категорий товаров, работ и услуг в сотрудничестве с договорным агентством
- Преимущества местного содержания и стратегии локализации
- Объяснение программы государственных стимулов
- Визовая и логистическая поддержка

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Обслуживание



In cooperation with The Contract Agency