

KAZENERGY INSIDE

06, 2016

CURRENT ISSUE

- KAZENERGY-SPE: Bilateral Memorandum
- Local Content & Integration Processes
- VII Sustainable Energy Forum
- Kazakhstan-Hungary Business Forum
- EITI meetings
- The USA recommends Kazakhstan to keep a foot in both camps

LOCAL CONTENT DEVELOPMENT & INTEGRATION PROCESSES

October 31, 2016, the expert workshop "Local Content Development and Integration Processes" organized by KAZENERGY Association jointly with the World Petroleum Council (WPC) was held in Astana

The extended meeting was attended by the representatives of ministries, agencies, national and international companies, industry associations etc. Joseph Tot, the President of the World Petroleum Council, Dzhambulat Sarsenov, Deputy Chairman of KAZENERGY Association, Special Advisor to the WPC President presented their welcome speeches at the opening ceremony.

The agenda was devoted to the review of the relevant issues of the local content development with analysis of experience of Kazakhstan and foreign countries. Special attention was paid to the problematic issues in this field and in creating of the competitive market from the perspective of the national manufacturers. What measures are taken to protect

the national manufacturers in our country and what is the current situation, taking into account the accession to the WTO and EEU? In the part of the legal framework, the experts discussed – the Subsoil Code, public regulation of procurements, technical regulation, elaboration of standards and certificates, as well as the themes of employment, professional skills development, database use, the tools for the local content development are considered. Saken Shakirov, Deputy Director of the Subsoil Use Department of the Ministry of Energy of RK, noted in his report: "In 2015, Kazakhstan became the legitimate 162nd member of the WTO and EEU, having thus strengthened its positions in the world arena. It is apparent that in terms of the integration processes it is impossible to apply measures of stimulating the domestic producers and suppliers only by forcing subsoil users to purchase their goods and services. Therefore, it is necessary to introduce the alterna-

tive measures to support the domestic producers, which in our opinion, should be reflected in the Code on Subsoil and Subsoil Use. In particular, public regulation of procurements of subsoil users, which is an integral tool for the local content development and thus not contradicting the WTO's requirements, should be saved and adopted for the existing realities". At the interactive panel, the subsoil users, including one of the leading companies Tengizchevroil – Tengiz field operator - shared their opinions and experience. According to TCO's data, currently for the local content on the Future Growth Projects (FGP) and the Wellhead Pressure Management Project (WPMP) were spent 1,3 bn. USD. Such international corporations as Shell and MOL Group have significant liabilities in Kazakhstan. They emphasize the activity targeted at the Kazakhstani content development by building interaction between the government, oil and gas operators and goods and services suppliers. In this case, Shell follows the "Win-Win" strategy. Within this, training of the local specialists, conducting of

the trainings, courses, workshops etc. play the main role for investors.

Over the independence years, the serious work was performed in the Republic of Kazakhstan on the local content development, however, as per today, the volume of production and procurement of the local goods, works and services is insignificant compared with the imported volumes. Since 2010-2015, the local content share in subsoil users procurements increased by more than 2,5 times – from 680 billion tenge to 1,8 trillion tenge.

Concerning the oil and gas field, in order to achieve the sustainable development, Kazakhstani enterprises should modernize and increase the efficiency of the existing production, transfer technologies, form the competent staff potential.

Thus, the purpose of the expert workshop is to analyze the main barriers and to work out joint recommendations to improve public policy in the field of the local content development.

In this connection, study of the advanced foreign experience and development of the international cooperation in this field with the experts of the member countries of the World Petroleum Council are of special interest.

KAZENERGY Association investigates the implementation of recommendations made by the international and Kazakhstan experts. The obtained results, conclusions and proposals on the local content improvement under new conditions will be summarized and presented within the special session of the XXII World Petroleum Congress in Istanbul (Turkey) in 2017.

KAZENERGY-SPE BILATERAL MEMORANDUM - BENEFICIAL COLLABORATION



KAZENERGY Association and the Society of Petroleum Engineers (SPE) concluded the Memorandum of Understanding and Cooperation. The signing ceremony was held within the framework of the SPE Annual Caspian Technical Conference and Exhibition in Astana on November 1, 2016

The document identifies the main aims and objectives of bilateral cooperation providing “exchange of technical information on exploration, development and operation of oil and gas fields, providing specialists with the opportunity to improve their professional skills and knowledge”, as well as strengthening of the strategic partnership with industrial companies.

KAZENERGY is an official partner of the event, which will continue till November 3 in the Palace of Independence with participation of the representatives of state authorities, national and international companies, service and production enterprises, research institutes, professional organizations. The most relevant issues of extractive industry, technology and engineering solutions are discussed here. In particular, panel session “Adding Reserves” moderated by Arman Satimov, Advisor to the Chairman of KAZENERGY Association, was devoted to the themes of ultradeep exploration, enhanced oil recovery methods, new business models.

“Participation in the SPE Caspian technical conference and exhibition

helps KAZENERGY Association to achieve the established aims, to resolve technical problems in the field of hydrocarbons exploration and production at the regional level. In addition, SPE will further develop oil and gas industry and economy in the Caspian region”, - Bolat Akchulakov, General Director of KAZENERGY, says in his welcome speech.



7TH SUSTAINABLE ENERGY FORUM OF UN ECE



with whom were conducted the same day, also expressed their interest in participation in Astana events. The parties discussed the prospects of cooperation, as well as different aspects of the extensive program of Ministerial conference and the 8th International Forum scheduled for June 11-14, 2017 in Astana.

On October 18 current year, the 7th Sustainable Energy Forum of UNECE was held in Baku (Republic of Azerbaijan) with support of five UN regional commissions

Kazakhstan delegation headed by Magzum Mirzagaliyev, Vice Minister of Energy of RK, participated in the forum. KAZENERGY Association was represented by Bolat Akchulakov, General Director, and Ramazan Zhampiissov, Executive Director of International cooperation.

Participating in the panel discussion "High level political dialogue: Further actions after the 5th and the 6th Forums: Call for actions of the ministers of energy", Bolat Akchulakov noted the importance of taking into account the regional aspect in promoting sustainable energy development. And within this, the initiative of the President N.Nazarbayev on establishment of the regional Center for "green" technologies and investment projects development in the framework of "EXPO-2017. Future Energy" under the auspices of UN may have substantial practical value.

Active discussion, started within the Forum, was continued within the range of bilateral meetings. Thus, during the extensive exchange of opinions, U.Rusnak, General Secretary of Energy Charter, provided full

support and participation in the Ministerial conference "Solving sustainable energy tasks" and in the 8th International Forum "Energy for sustainable development", which will be held in Astana within the framework of EXPO-2017. The Ministerial conference in Kazakhstan will be held for the first time and its importance is very high, – Mr. Rusnak noted.

Igor Dydenko, Vice Minister of Energy and Coal Industry of Ukraine, Nantik Aliyev, Minister of Energy of the Republic of Azerbaijan, and Mahmud Ahmed Bhatti, Secretary for development issues of the Ministry of Water and Power of Pakistan, negotiations





Committee of Oil and Gas Industry (COGI) of the Presidium of the Atameken National Chamber of Entrepreneurs of the Republic of Kazakhstan held its 19th meeting chaired by Daniyar Abulgazin with participation of KAZENERGY Association and representatives of the companies

According to the Report on Execution of Official Instructions of the COGI, as of today the KAZENERGY Association has resolved 14 issues out of the 33. Work is continued in respect of the export customs duty and dark oil products. Together with NCE, the KAZENERGY Association prepared the Draft Proposals for Improving State Regulation of the POL market in the Republic of Kazakhstan. This issue is supposed to be completed by the end of this year. Regarding the equipping of the process facilities of the manufacturers of petroleum products and gas filling stations with metering devices, over the last period the Association held several meetings to discuss the efforts to launch the pilot projects at the refineries and delivery terminals. Adjustments and additions were made to the technical requirements for the system of collection, processing and transfer of data from metering devices to the sites. Under discussion and review are the approaches to converging with the international system of reserve calculation. EBRD held a tender to select the winner for the project of technical cooperation in "Development and Introduction of

Subsoil Use Standards". On its part, KAZENERGY is working independently on some issues of the procedure of the reserve calculation system, and inclusion in the national register, based on the experience of the foreign countries. Moreover, the participants of the Committee's meeting have reviewed the current status (results) of working on the Draft Code "On Subsoil and Subsoil Use", information system of oil metering, changes in environmental and tax laws and other conceptually important aspects. The participants of the meeting also discussed the applications of the Association members related to problems in taxation and environmental protection.



On October 12 this year, KAZENERGY Association held the Workshop on renewable energy sources. The representatives and experts of the Ministry of Energy of RK, "Atameken" NCE of RK, different companies and organizations were invited to the event

During the meeting, the participants discussed several issues concerning the activities of green energy field. In particular, the reports on auctions for renewable energy were presented with an overview of foreign experience, as well as the possibilities and problems of RES integration in the electricity market and energy system. Presentations are prepared by Tukenov Anuar Akimzhanovich, an independent expert, former director of Electrical energy development center of "Kazakhstan Industry Development Institute" JSC and Deputy Chairman of the Management Board of "Institute of Electricity Development and Energy Saving" JSC. He is the author of 2 books and different publications.

KAZAKHSTAN - HUNGARY BUSINESS FORUM, BUSINESS COUNCIL MEETINGS



stan. “EXPO opens unlimited opportunities for cooperation. Before this event, we have time to prepare and present our business at a decent level, to share the investment opportunities and analyze the work reasonability”, - Deputy Chairman of KAZENERGY noted. In turn, Timur Zhaksylykov, Vice Minister of National Economy of RK, reported the following figures: in 2015, the volume of the foreign trade turnover between Kazakhstan and Hungary

Astana held Kazakh-Hungarian business forum jointly with the 5th meeting of the Business Council. The event was attended by Timur Zhaksylykov, Vice Minister of National Economy of RK, Mikhai Varga, Ministry of National Economy of Hungary, co-chairmen of Kazakh-Hungarian Business Council – Dzhambulat SARSENOV, Honorary Consul of Hungary in RK, - from Kazakhstan’s part, and Shandor

Fashimon – from Hungarian part, as well as representatives of different companies and organizations

During the opening of the forum and the meeting, Dzhambulat Sarsenov presented his welcome speech and report, he noted the increasing role of bilateral relations and importance of extension of contacts before the upcoming international specialized exhibition EXPO-2017 in Kazakh-

was 102 mln. USD, and by the results of 8 months of the current year – about 80 mln. USD.

Since 2005, Hungary invested over 100 million USD to Kazakhstan’s economy.

During the business forum and the meeting, the range of agreements and memorandums were signed. Representatives of business circles of two countries conducted B2B meetings.

BILATERAL COOPERATION

On October 11, 2016, the meeting of the General Director of KAZENERGY Association with Claudiu Vranceanu, State Secretary of the Ministry of Economy, Trade and Entrepreneurship of Romania, was held.

The issues of the energy sector development in the Republic of Kazakhstan, the investment climate of the two countries, as well as the prospects of the bilateral cooperation development were discussed.

Within this, the Romanian party was informed on the upcoming Ministerial Conference and the 8th International Forum on sustainable energy under the auspices of UN regional commissions, as well as the XI KAZENERGY Eurasian Forum, which will be held within the International

specialized exhibition EXPO-2017.

The meeting was held within the visit of Romanian delegation for participation in the 12th meeting of Kazakh-Romanian intergovernmental commission on trade-economic and scientific-technical cooperation.



ECOLOGY, TECHNOLOGIES & INNOVATIONS

Ecology has become the main theme of the regular meeting of KAZENERGY Scientific and Technical Council (STC) chaired by Uzakbay Karabalin

Representatives of the Ministry of Energy and the range of companies familiarized with the presentations of modern innovative technology developments on cleanup operation, sludge processing and recycling of wastes at production facilities connected with the use of raw hydrocarbons.

Specialists of scientific research enterprises reported on the ways to eliminate contamination of the environment through the liquidation of industrial wastes due to the use of soil, ground and water biorecultivation and biotreatment technology.

In turn, representatives of industrial companies, in particular "KazMunayGas" Exploration Production" JSC, shared their devel-



oped experience of utilizing oil contaminated soil with the use of energy accumulating additive based on humate-containing compositional materials, as well as with the use of hydromechanic methods and BioBox technology.

At the same time, during the offshore well drilling at the Caspian shelf, NCOC applies cuttings re-injection.

During the meeting, the issues of oil spills on waters, potential risks of spills and incidents response in RK were considered.

KAZENERGY STC is an interactive platform for discussing scientific developments on different areas of oil and gas field, as well as for the possibility to build and continue cooperation between the participants – companies, Association members.

WINNERS OF MEPHI FELLOWSHIP



**АКАДЕМИЯ
РОСАТОМА**

Pursuant to Russian Federation Education and Science Ministry's and Rosatom Corporate Academy's (Moscow) initiative KAZENERGY Association announced a fellowship program contest for Kazakh students in February 2016 whose winners would study at the National Research Nuclear University MEPHI (the MEPHI)

This project's intention is to support Kazakh students doing a bachelor degree in physics, nuclear physics, technical physics and heat energy.

KAZENERGY's education program jointly with technical higher schools of Kazakhstan did an initial selection of candidates wishing to study the Nuclear Physics Program and receive master's degree at the MEPHI.

Totally 51 applications were submitted by students of Kazakhstan technical higher schools. Based on selection outcomes 21 students won the above-mentioned education fellowships.



LABOR NORM-SETTING

In connection with amendments to the Labor Code from 2016 typical labor norms and normatives (standards) shall be drafted and approved by industry associations of employers. Common and/or inter-industry typical labor norms and normatives (standards) shall be approved by Atameken NCE upon agreement with representatives of employees as per the procedure established by the state labor authority (Article 101.7 of the RoK Labor Code).

Pursuant to this provision of the Labor Code the KAZENERGY Association will perform the following activities associated with the labor norm-setting:

- approve typical labor norms and normatives in the area of oil/gas and energy drafted by Employer;
- draft research-based labor normatives and organize works on the labor norm-setting, relevant calculations, review of their quality and revision.

QUALIFICATION FRAMEWORK (IQF) TASKFORCE

From 3 to 7 October 2016 KAZENERGY hosted sessions of the Industry Qualification Framework (IQF) Taskforce participated by KAZENERGY members and vocational and higher education organizations of Kazakhstan. Session deliverables include draft IQF descriptions and professional qualification maps for 6 areas: Oil and Gas Exploration; Drilling of Oil and Gas Wells; Oil and Gas Production; Oil and Gas Transportation; Oil and Gas Processing (including petrochemistry). Currently the KAZENERGY Association jointly with the RoK Ministry of Energy is working the IQF alignment taking into consideration comments of KAZENERGY members.



THE USA RECOMMENDS KAZAKHSTAN TO KEEP A FOOT IN BOTH CAMPS



Below is an interview with Mary Warlick, US Deputy Assistant Secretary of State for Energy, for “Atameken” business channel (<http://www.abctv.kz/ru/news/ssha-predlagaet-kazahstanu-usidet-nadvuh-stulyah>). She participated in the national meeting of the Board of Extractive Industries Transparency Initiative (EITI), which brought together all oil and gas companies operating in Kazakhstan. State Department representative also met with the heads of American companies and representatives of the Kazakhstan Government.

Mrs. Warlick, is it worth continuing oil production on such expensive project like Kashagan with current low oil prices?

Certainly oil production should be continued. Firstly, it is still important for ensuring energy security in the world. If you stop oil production, there will be the risk that the global market can face energy resources shortage. There has to be some predictability in the medium and long term. That is why I reiterate that oil production should be continued even with low oil

prices. Secondly, the current difficult situation in the global oil market is a good opportunity for the government of any country to carry out reforms on efficient use of resources, including oil and gas. We are talking about measures and reforms at the state level that would ensure greater energy efficiency through adoption of new technologies and equipment. Thirdly, in the times of low prices it is important for any country to use this chance to transit to clean energy and use of renewable energy sources in order to ensure the climate protection goals that we have set. For Kazakhstan, which was lucky to have natural resources it is essential to see the growth of investments in solar energy and wind energy. The International Exhibition EXPO to be held in Astana next year makes it possible for Kazakhstan and other world countries to develop and demonstrate new technologies that will enable society to get to a new level of consumption and building of its economy.

Have you met with US Chevron to discuss another major project - Tengiz?

Yes. I have met with representatives of US companies to discuss their investments in Kazakhstan, in particular, the FGP project at Tengiz. As you know American Chevron investments will be 36 billion US dollars. I also met with representatives of another US company ExxonMobil and representatives of the Kazakhstan Government to discuss the Kashagan Field Development Project.

By the way, the start of Kashagan re-raises the idea of building the Kazakhstan - Caspian Transportation System (CCST), which, as we know, runs through the South Caucasus, bypassing Russia. Although, the CPC pipeline (that goes through Russia) is going to complete the expansion project and the first Kashagan oil has already flown into its pipeline system.

Any large-scale project including CCST requires certain investments to be made based on its economic viability. A decision or “the last word” is to be said by the companies that wish to participate in this project. But we (the USA) always support businesses seeking alternative routes for delivery of energy resources to the global market. We have always supported and will continue to support other projects offering new routes for hydrocarbons delivery to Europe and other markets. Alternatives always contribute to the energy security and we, as I have stated earlier, will always support such projects.

In your opinion, will the Trans-Caspian gas pipeline project, which could provide the transit of gas from Central Asia to Europe via the Caspian Sea, as well as the initiative for construction of the Nabucco gas pipeline (Azerbaijan-Europe) be implemented? Why Kazakhstan should take part in these projects?

Gas supply from the Caspian region to Europe and other global markets is an important issue. Despite the fact that Nabucco is not actively considered we have supported the interest of companies to provide Europe with gas from the Caspian region. This is why we are supporting the Project of the Southern Gas Corridor enabling to deliver gas from Azerbaijan across the Caspian Sea to Greece and other South European countries and eventually to Italy. We will continue to support such projects of the countries that provide diversification of gas routes and offer new routes, i.e. contribute to the global energy security.

How would you assess the implementation of the EITI principles in Kazakhstan?

Joining the EITI principles is crucial for all oil-producing countries, not only Kazakhstan, which has become the follower of this initiative's principles. What is the benefit? In addition to revenue transparency, the state that has accepted and is implementing the EITI, decides for itself not only the man-

agement and use of natural resources, but also how the economy and society will benefit from revenues. It is important to apply the established rules in practice. As you find it critical to ensure creation of favorable business climate for all businesses, that in turn will provide new investment inflow, creation of new projects and new jobs. This is our main message to the Government of Kazakhstan.

In his book "Oil curse: How Petroleum Wealth Shapes the Development of Nations" Michael Ross, Professor, University of California, shares his view that oil importers with developed democracies can influence on the establishment of democracy in the countries with large oil reserves. Do you agree with this argument?

If I may, I would not like to comment a question concerning the oil and gas policy. But I do wish to say that any country economically dependent on a single resource puts itself in a difficult position during the periods of adaptation to changes in economy. One can cite the example of Venezuela and other coun-

tries. We urge the Government to consider the diversification of the economy, which is primarily in the interests of the country itself. From the perspective of importers there is an issue of energy security – how difficult it is to be dependent on the single source. In particular, if there are disruptions in supplies due to the market functioning or politically motivated decisions.



EITI MEETINGS



On October 26, 2016, the VIII National Conference on Extractive Industries Transparency Initiative (EITI) was conducted. This year the Conference received a high international status since it was held jointly with the 35th Session of EITI International Board Meeting for the first time ever conducted in the Central Asian region and increasing the interest of the Organization's member states. The event was attended by international public organizations, state authorities of RK, deputies of the Mazhilis of the Parliament of RK, management of KAZENERGY Association and its industry member companies.

In the welcome speech, General Director of KAZENERGY Association Bolat Akchulakov highlighted the progress of the program implementation in Kazakhstan, high importance of EITI adoption for businesses and EITI's favourable impact on the country's image and investment attractiveness of the energy industry. Discussions addressed publication of information on beneficiaries of extractive companies under EITI standard till 2020, EITI implementation at the regional level and review of the draft Subsoil Code. We should separately note the discussions regarding data on social investments costs and expenditures for training, professional development and re-training of energy industry workers provided by the companies.



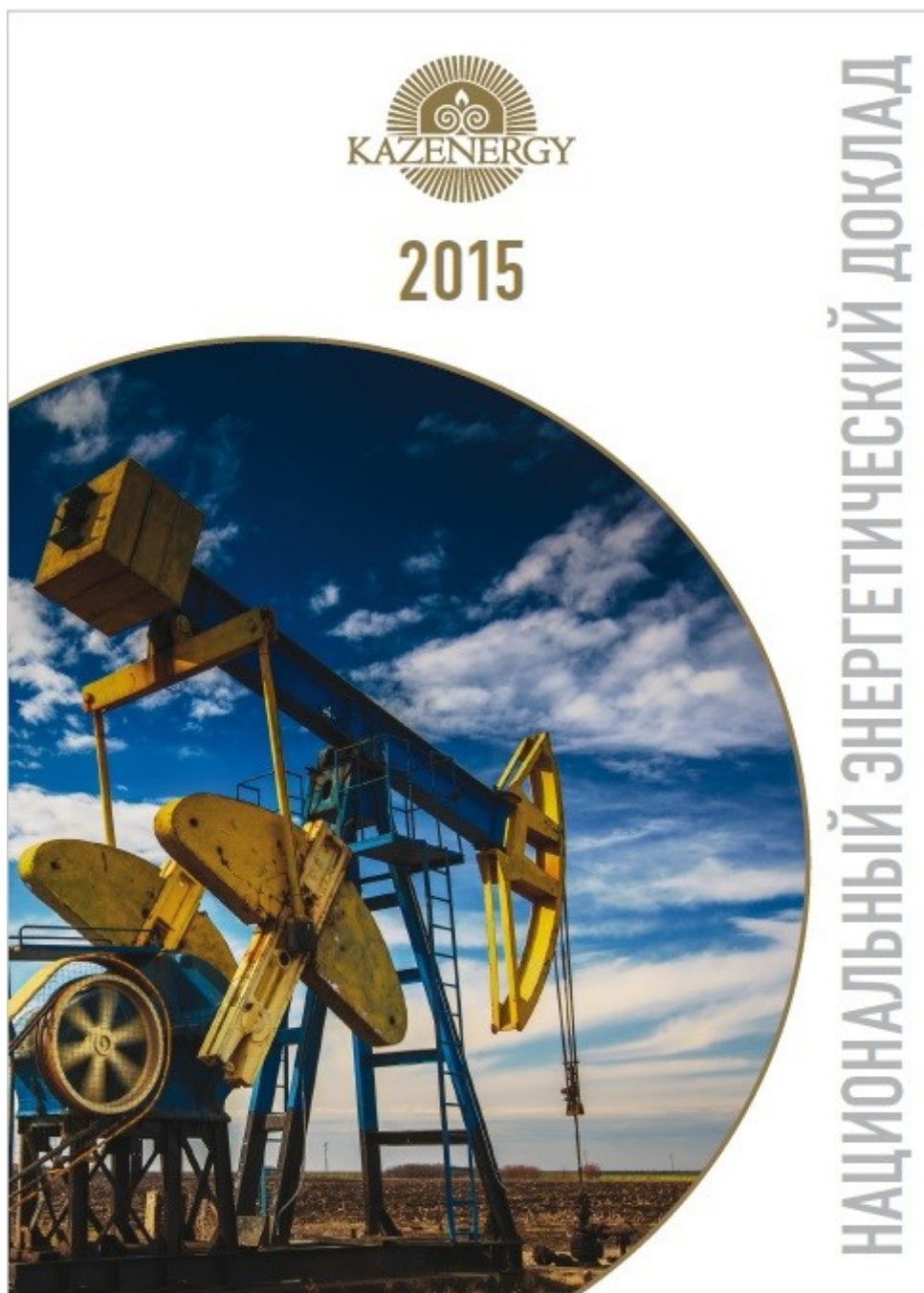
NATIONAL ENERGY REPORT 2015 AVAILABLE TO EVERYONE

Dear friends!

The 2nd issue of the National Energy Report, recently presented by KAZENERGY Association aroused much interest among the industry specialists, representatives of academia, state structures, students. The Association receives a large number of requests on the possibility to purchase this important analytical document.

In this connection, the Executive Committee of KAZENERGY decided to distribute the National Energy Report free of charge with electronic versions in Russian and English provided on our website www.kazenergy.com

We hope that the report's materials will be useful and will help to solve scientific and practical tasks for the benefit of our country!





Press & PR Office
KAZENERGY
Tel: +7(7172) 790181, 790173
shaira@kazenergy.com