

KAZENERGY INSIDE

03 – MAY - JUNE 2016

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REDUCING FISCAL AND NON-FISCAL BURDEN ON THE OIL AND GAS SECTOR IS IMPORTANT TO SUPPORT OIL SERVICE COMPANIES IN KAZAKHSTAN

On 24 May 2016 the 20th KAZENERGY Council Session in Astana chaired by Timur Kulibayev and attended by Parliament Members, state authorities, CEOs of national and international businesses discussed the importance of support to the oil and gas industry and employment in the oil services area under the current environment as well as KAZENERGY's involvement in the EXPO 2017 Future Energy Program.

Amendments to the laws regulating environmental, tax and other aspects of subsoil use in Kazakhstan will have a positive effect on the financial condition of businesses.

KAZENERGY Association exercises a regular monitoring of issues and financial-economic indicators of the Industry. Review of objective data enables to develop adequate legal mechanisms to reduce the burden on the businesses and eliminate excessive administrative barriers in the oil and gas industry. KAZENERGY General Director Bolat Akchulakov presented findings of the Association's expertise and analytical support to improve key laws governing activities of subsoil users.

The State agreed with Industry's proposals. A number of significant amendments were made to reduce the non-fiscal burden through the

environmental regulation. Relevant laws adopted April 2016 were able to remove gaps in the Environmental Code having reduced risks of excessive financial burden on honest entrepreneurs fully compliant with the environmental laws including adherence to permissible emission levels, requirements to waste storage, inevitable gas flaring, greenhouse gas emissions etc. As for the tax burden, plummeted world oil prices require further response in the form of adequate decrease of the tax burden to maintain the level of capital expenditures of producers and support the oil service sector. The Association Council discussed joint efforts of KAZENERGY, Atameken NCE and the Ministry of Energy to decrease export

customs duties (ECD), expedite review of applications to utilize MET-related privileges for marginal fields, set the export customs duty rate for vacuum gasoil at the mazut's rate and reduce excise rates for local suppliers-oil producers to the level of imported oil products as well as other mechanisms.

Considering the best international practices KAZENERGY jointly with stakeholders are putting extensive efforts to draft a new Subsoil Use Code with the purpose of improving competitiveness of subsoil use in Kazakhstan. Stimulation of private investments into geological exploration and maximum reduction of excessive administrative barriers are established as goals.

This session also covered discussion and presentation of oil and gas industry's plans to participate in the International Specialized Exhibition EXPO 2017 "Future Energy".

In the EXPO-2017 opening days it is scheduled to conduct a Ministerial Conference and UNECE International Forum Energy for Sustainable Development under UN's aegis. An initiative to organize the event at high level proposed by KAZENERGY was supported by the RoK Government and leadership of UN regional commissions (ESCAP, ESCWA, ECA, ECLAC) as well as all 56 UNECE Member States. To date a draft program has been developed. Topical issues and themes review is underway. A working group consisting

of representatives of RoK Ministry of Foreign Affairs, RoK Ministry of Energy and Astana EXPO – 2017 JSC has been organized.

In September 2017 in final days of the EXPO XI KAZENERGY Eurasian Forum will be held.

Highlighting of results and plans of KAZENERGY's educational program also was an important item on the Council's agenda. Based on the Memorandum of cooperation in the area of training signed by large companies and the Competent



Authority over 300 candidates were selected among nearly 3000 applications seeking their education to be funded by large-scale subsoil users. The program encompasses 25 local and overseas higher schools and colleges that train personnel for the oil and gas industry.

As part of celebration of the 25th Anniversary of the State Independence of the Republic of Kazakhstan the KAZENERGY Council session covered a presentation of the Project "Independent Kazakhstan's Oil". In the years of independence oil industry has made a significant contribution to the national development. This Project will provide the public with the most interesting and reliable facts

about the development of oil/gas and energy industries inseparable from Kazakhstan's establishment as a sovereign and economically developed state. The project considers publication of books including specialized publications for children, organizing of photo exhibitions, filming and conduction of Spartakiada (sportive competitions) Games and creative contests for industry professionals.



BEING CAUTIOUS ABOUT URALS

Kazakhstani oil traders cautiously look at the possibility of trading Urals oil futures contracts at St. Petersburg International Mercantile Exchange (SPIMEX) during the second half of 2016

The Russian mercantile exchange has still a long way to go from objectives declaration to international recognition, which the New York and London platforms already enjoy, said Uzakbay Karabalin, the Deputy Chairman of KAZENERGY Association. According to him, the Russian side will have to resolve several important issues before the Kazakhstani traders decide to come to this market. We remind you that the trading of oil futures contracts is scheduled to begin at the St. Petersburg International Mercantile Exchange (SPIMEX) in the second half of 2016. The test auctions were held in November 2015. The mercantile exchange is implementing a new Russian oil pricing mechanism together with the Russian Ministry of Energy, Federal Antimonopoly Service, Bank of Russia and the largest Russian oil companies.

“First, some period will have to pass until the Russian mercantile exchange gains high international recognition. For example, the New York exchange was created in 1872, the Tokyo exchange in 1878, the London exchange in 1980. Now then, the New York exchange has average daily transactions for 15 billion USD, whereas the St. Petersburg exchange – only for 30 million USD,” Uzakbay Karabalin described the situation to abctv.kz.

He reminded that according to the current estimates, the world oil prices are only 50% dependent on the fundamental factors such as direct indicators of hydrocarbon production and consumption. The other half is affected by the behavior of the three leading exchanges – in London, New York and Tokyo, as well as the political and economic aspects, including the US dollar index. Currently, the world has about 45 significant oil grades. The top five grades, in terms of production, include the Russian Urals, Arab Light (Saudi Arabia), Kuwait (Kuwait), Basrah Light (Iraq) and Murban (UAE). “In this regard, the desire of the Russian Federation to influence the pricing with the help of its own St. Petersburg International Mercantile Exchange is only natural and clear,” said Uzakbay Karabalin.

As for the issue of being attached to the U.S. dollar, according to the Deputy Chairman of KAZENERGY, the advantage of using the dollar is global liquidity, low conversion fees, use in the international arbitration. In addition, it is necessary to take into account that from almost all the Russian oil buyers, only the Chinese would potentially agree with the replacement of the dollar with the ruble.



Third, as the Kazakhstani oilman noted, Urals is not a high-quality oil grade. It means that under the current reality, the Urals price would never be higher than the Brent price. For example, Brent has a density of 38-40 API degrees, whereas Urals – not more than 32 degrees. The sulfur content in Brent is not more than 0.2-0.4%, whereas in Urals it is about 1-1.4%. “Thus, the Russian mercantile exchange has still a long way to go from objectives declaration to international recognition. Accordingly, the oil traders operating in Kazakhstan will be very cautious when considering the opportunities of trading at the Russian exchange,” said Uzakbay Karabalin.

He said that one of the most important aspects is the current orientation of Kazakhstan towards Brent. “It should be taken into account, for instance, that the Tengiz oil density is even higher than the Brent oil density, and it belongs to the premium class. This implies the possibility of selling certain Kazakh oil grades at higher prices. Therefore the Urals level is not the most preferred option,” said Uzakbay Karabalin. He reminded that, in contrast to Russia, oil is the dominant source of foreign currency earnings and replenishment of the National Fund of Kazakhstan. In Russia, the share of oil (excluding gas and oil products) in the export is around 30%, whereas in Kazakhstan it is about 60%. “Therefore, the issue of the oil contract attachment to dollars is multidimensional in its nature, and it has both cons and pros”, summed

up Uzakbay Karabalin.

The Ministry of Energy of Kazakhstan, which is the government's spokesperson on this issue, is even more cautious regarding the future participation of Kazakhstani companies at the trading of the Russian mercantile exchange. "The creation of a new mercantile exchange does not contradict the principles of the Eurasian Economic Union. The participation in the exchange trading of oil and gas will be determined, according to the decision of the Supreme Economic Council, after signing the international agreement on establishing common markets of oil and petroleum products of the Eurasian Economic Union, which will enter **into force at the** earliest on 1 January 2025", says the Ministry in its reply to the formal query from abctv.kz.

As for the size of the discount between the oil prices of Urals and Brent, according to the Ministry of Energy of the Republic of Kazakhstan, it is "the subject of agreements between the companies of the parties and is specified in oil purchase and sale contracts".

JSC "Exploration and Production "KazMunaiGas" did not provide any comments, stating: "we express our gratitude for your interest in our company and we inform you that KMG EP does not comment and does not provide any assessment on the plans of the St. Petersburg International Mercantile Exchange to launch its own Urals oil futures contracts".

The international agency Argus Media has reported that the agency has the same attitude regarding the plans as any other market participants: "We have the same attitude towards the launch of the Russian oil futures as all other market participants – it is just another tool for organizing trade in this market, and everything else will become clear with time and practice".

In turn, Alexander Gabuyev, the head of the Asian branch of the Moscow Carnegie Center, believes it possible that with the operation of this platform, the export pricing of Urals, including the Kazakhstani oil pricing, may become more transparent.

"The question is about the volume and liquidity of the platform or whatever it will be there. It is a reference grade oil, yes. However, the western platforms, where Brent is traded, are simply open and this factor may become a benchmark for all. If the St. Petersburg platform is attended by nobody else but the Chinese and so on, then it is a big question. Then they will set the price as they like. But they took the right direction in any case, especially considering that the problem with the supply base has been solved. There is Skovorodino, Primorsk and Ust-Luga," he said to abctv.kz. According to him, the Russian companies, which currently sell oil in yuans, exchange yuans via swaps to another currency or buy drilling rigs from China for yuans. "I think the main idea is to become detached from Brent, and then it will be interesting to see which currency will be used. The principal goal, in addition to procuring drilling rigs, saving on currency conversion and currency hedging, is that you want to become detached from the dollar and all other transactions through the American jurisdiction. In America, they say that if you have at least one transaction conducted through us, through our currency, then it all falls under our jurisdiction and gives us an opportunity and legitimate reason to follow you with their extensive tools," he said. According to the expert, the new platform can become a step towards de-globalization, which was induced by the US, with the sanctions used as a tool.

However, as Alexander Gabuyev believes, the project may become dependent on the Chinese players. "Most likely, it will be quite China-centric. Indians may come there, someone else may come too, whomever Russia invites," he said.

The fact that the Chinese companies are interested in trading Urals oil futures contracts at SPIMEX was reported by the Russian newspaper "Kommersant". "Chinese companies are considering participation in the future trading of the Urals futures, which is stated in the Protocol of the Russian-Chinese Intergovernmental Committee on Energy drafted for the meeting to be held in late May," reports the newspaper.

"The parties came to an agreement that they will consider possible options and volumes of the contracts, the pricing mechanism which may be based on the results of the trading of oil export contracts signed at SPIMEX", states the document. Thus, it is not only about the Chinese participation in futures trading, but is also about using quotes for determining the price of long-term oil purchase contracts. Despite the vague wording, it is the first confirmation of the interest of Russian oil foreign buyers in the new instrument for selling oil.

Kulpash Konyrova, Zhanbolat Mamyshev



III INTERNATIONAL DOWNSTREAM CENTRAL ASIA CONFERENCE



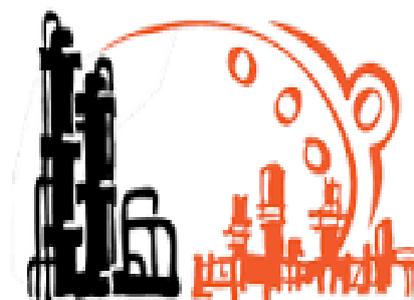
Astana held III International Conference “Oil Refining and Petrochemistry in Central Asia” with the support of KAZENERGY Association

During the event, Magzum Mirzagaliyev, Vice-Minister of Energy of RK, and Uzakbay Karabalin, Deputy Chairman of KAZENERGY Association, delivered their welcoming speech.

The main sessions were devoted to oil refining and petrochemistry development strategy and ensuring sustainable development and independence of the sector in the region. Specialists from the state bodies and different companies considered and discussed the global impact of macro-economic indicators, currencies volatility on the industry of Central Asia. Refinery operations in Kazakhstan, three refineries modernization process were reviewed. In his speech, Uzakbay Karabalin noted: “Oil and gas sector is on the cross-road of ways, opinions and forecasts. The events of recent years have exerted very controversial influence of different factors to exploration and production sector, as well as to oil and gas refining. Within this, we hope that the global oil and gas complex has not exhausted its potential. During the 20th and 21st centuries, oil has been repeatedly pushed to the background

in the world economy, but it is still the main market product”.

It should be noted that the majority of participating experts believe that today there is a trend of the gradual growth of oil price and improvement of production indicators. Despite the difficult period, there will be balance and stabilization in energy industry. The role of fossil hydrocarbons persists in the world. Oil and gas industry of Kazakhstan is aimed at creation and development of efficient refining and petrochemical fields. Oil refining accounts for only 1,2% of GDP and it is not enough for the republic. In this regard, the approach and experience of other countries in addressing challenges in these areas is very interesting.



The meeting of the Working group of KAZENERGY Association on implementation of Extractive Industries Transparency Initiative (EITI) was held on June 7, 2016

The Association members and the representatives of the Committee of Geology of RK and the World Bank discussed the measures on beneficiary right disclosure provided by new EITI standard.

The Companies noted the high importance of this issue implementation Roadmap development jointly with the National Stakeholder Council (NSC) and expressed their readiness to actively participate in the work.

Thus, on May this year, NSC meeting was held, during which it was decided to adjust the variant of fulfilling the requirement of beneficiary right disclosure proposed by the International EITI Board and approved by RK Government. In addition, the participants considered the forthcoming validation procedure by the Republic of Kazakhstan.

To note, the meeting of the International Board is scheduled on October 25-26, 2016 in Astana, and the National Conference on EITI will be associated with the meeting.



High technology approach and innovations are an important path in energy industry development in the world. Much attention is paid to new technologies, innovative developments and their application experience

On June 28, 2016, Astana (Radisson Hotel) held the Workshop on development of Kazakhstan-Japan energy and industrial cooperation “Future of Energy and Japanese technologies”, co-organizer of which was KAZENERGY Association jointly with Japan Association for Trade (ROTOBO). Attendees: representatives of state authorities, national and international companies, unions etc. The event is aimed at strengthening of bilateral business and scientific-research communications and takes place prior to visit of the President of the Republic of Kazakhstan Nursultan Nazarbayev to Japan in autumn this year.

мероприятия During the workshop, Japanese experts from well-known firms reported on clean carbon technologies in the field of heat energy, new developments for recycling of CO2 emissions from natural gas and heavy oil fields, possibility of using the advanced cogeneration technologies in CIS countries with the use of gas turbines etc.. The aspects of scientific and technology development of republic's downstream, as well as the issues of increasing energy efficiency

and energy saving were discussed with the Kazakhstan party. Current situation on deep hydrocarbons processing in RK was analyzed. Technical sessions allowed to familiarize closer with Japanese technologies in energy sector.

Japan is ready to share its experience and know-how. Currently the Land of the Rising Sun has reached the highest level in the world on energy efficiency, Sogawa Jiro, Managing Director of Energy Conservation Center of Japan, notes in his speech. In own example, the polluted country has become a country with zero CO2 emissions. “We have specialized centers for clean technologies, energy efficiency, etc. Over the past few years, thousands of Japanese professionals traveled abroad to conduct trainings, to train specialists, to participate in the projects and to show our achievements. More than 2,000 people visited Japan for training and exchange of experience in this field”, - Sogawa Jiro says.

“Despite the current situation, oil remains the strategically valuable energy resource”, - Uzakbay Karabalin, Deputy Chairman of KAZENERGY Association, notes in his speech. One of solutions of the existing tasks is introduction of the efficient oil refining and petrochemical industry technologies . By the way, oil refining accounts for only 1,2% in GDP of the country. That's why the President of the country N.Nazarbayev established the task to eliminate these market segments .

At the same time, Kazakhstan is aimed at clean energy and energy saving technologies development that is reflected in the strategic document of the Concept of the Republic of Kazakhstan on transition to “green energy”. In 2015-2020, it is planned to raise the energy service companies market (ESCO)

рынка энергосервисных and to create energy efficiency fund. During 2030-2050 – halving the energy capacity. The positive example of Kazakhstan-Japan cooperation on introduction of energy efficient technologies is the “Model project of energy saving technology at Uralsk TPP”, implemented by Japanese State Company NEDO within Kyoto mechanisms to reduce greenhouse gas emissions. As the result of this project implementation, energy efficient gas-steam cycle was first implemented in Kazakhstan.

Uzakbay Karabalin: “It is remarkable that oil and gas industry of Kazakhstan has a significant potential for improving energy efficiency and reducing greenhouse gas emissions, primarily due to the extended oil and gas transportation infrastructure. Japan is interested in participating in international projects on reducing greenhouse gas emissions for the implementation of own targets on reduction, therefore cooperation with Kazakhstan on introduction of energy-efficient technologies will be mutually beneficial”.



UPSTREAM INNOVATIONS

New innovations in the area of oil production and results of geochemical surveys were presented at KAZENERGY Research and Technical Council chaired by Uzakbai Karabalin

Participants demonstrated an interest in a presentation delivered by the Satpayev Kazakh National Technical University on new generation of energy accumulating substances and composites for comprehensive solution of crude oil production and transportation. The invention is referred to the oil industry and scientifically to hydrogen energy. It is reagents based on activated aluminum designed to clean the wellbore area, oil field equipment and enhance the oil recovery. This invention was highly evaluated by experts and considered as promising and requiring further development.

Kaspimunaigas Research Institute's presentation was also significant describing initial results of a geochemical survey of Kazakhstan's geological basins. As a reminder, a year ago the Institute jointly with KMG National Company and Shell Kazakhstan Development B.V. established a geochemical laboratory. This facility has modern high-tech equipment capable to assess the natural environment by various indicators, determine the original type of organic matter, variation of genetic code of crude oil and rocks, etc. This is a low-cost technology to assist exploration and prospecting activities in the oil and gas industry and provide additional data on new potential HC deposits in geological basins of the country. The laboratory's ultimate goal is to systematize the RoK Hydrocarbons Data Base and

develop a national crude oil map.

Geology and Subsoil Use Committee (Ministry for Investments and Development, RoK) representative delivered a report entitled the Development of Information Systems in Geology. Currently relevant data is being supplied to the electronic archive and interactive fields map is upgraded (available on committee's website). In the near future will focus on forming of the national data base holding all information on the subsoil (auctions, licensing, documentation, investments) up to online signing of subsoil contracts.



LAW-MAKING

The scheduled meeting of the advisory council on legislation of KAZENERGY Association took place on May 27 of this year

Participants considered various questions of Association's activity in the applicable legislation improvement. In particular, the initiatives on environmental issues and state regulation of production and turnover of certain types of petroleum products, implemented at the legislative level, were discussed; relevant information on the progress of work on the Code "On Subsoil and Subsoil Use" project and the draft law "On the offset agreements" was provided.

Experts exchanged opinions concerning modification of the draft law "On Subsoil and Subsoil Use" regarding elimination of oil spills (LARN), approaches of establishing liability under Article 328 of the Administrative Code of the Republic of Kazakhstan "Exceeding emissions into environment, established in environmental permit, or absence of environmental permit" for big enterprises. In addition, they considered the issue of elaboration of new approaches to regulate the procurement of goods, works and services of subsoil users taking into account Kazakhstan's accession to the WTO, as well as the need to support domestic producers.

The interaction points of Association with its members concerning regulatory legal acts expertise were discussed due to the adoption of the new Law of the Republic of Kazakhstan "On Legal Acts".

TECHNOLOGIES IN EXCHANGE FOR RESOURCES

The whole world is impressed by the scientific and technological achievements of the Land of the Rising Sun. It is well known that Japan has achieved the highest level of energy saving in the world. After the oil crisis in 1970-s, the country was able to improve its energy consumption efficiency by 40%.

Last summer, Shinzo Abe, the Japanese Prime Minister, visited Kazakhstan in the framework of his Central Asian tour. During his trip, he was accompanied by the top managers of 100 Japanese companies, who were willing to discuss the prospects of cooperation with Kazakhstani colleagues.

The focus in the negotiations on cooperation with Central Asian countries was made on the scheme "technologies in exchange for resources". As for our Republic, we are the largest trading partner of Japan in Central Asia.

However, as Nursultan Nazarbayev, the President of Kazakhstan, noted then, the bilateral cooperation potential does not match the opportunities and it needs to be increased. It was decided at the highest level to expand the interaction.

This autumn, the head of our state is going to make a return visit to Tokyo. At the upcoming meeting in Japan, the parties are expected to sign new documents and agreements that the two governments need to design and prepare.

New cooperation opportunities

Following the instructions of Prime Minister Shinzo Abe, a few months before the upcoming visit, Astana hosted a seminar on energy and industrial cooperation titled "The Future



of Energy and Japanese Technologies" on the initiative of the Japanese side.

The seminar was attended by the representatives of Japanese and Kazakhstani companies. Opening the meeting, Uzakbay Karabalin, the Deputy Chairman of KazEnergy Association, noted that the Japanese investments into the economy of Kazakhstan amounted to 4.5 billion US dollars during the years of independence.

In his opinion, this indicator (in comparison with other countries) is very low and does not match the existing potential. "In general, the lion's share of these investments was invested in uranium mining", said Uzakbay Karabalin.

Indeed, Kazakhstan has uranium – Japan has high technologies. We are interested in supplying this raw material to the Japanese market. Although Tokyo changed the country's energy strategy after the accident at NPP Fukushima-1 and shut down almost all nuclear plants that provide 30% of energy in the country, Japan is still ready to share its experience with other countries in this matter.

As we know, during the visit of the Japanese Prime Minister last summer, JSC NAC "Kazatomprom", the Japanese Nuclear Energy Company and LLP "Marubeni Utility Services" signed a memorandum of understanding on cooperation in the field of nuclear energy. The purpose of signing the memo-

randum is to develop the cooperation in the nuclear energy sector and to conduct a preliminary study of the possibility of building a light water reactor in Kazakhstan. However, according to Uzakbay Karabalin, the countries need to expand the scope of the established cooperation. He revealed his vision on the future prospects. Thus, according to him, the Kazakhstani oil and gas sector remains to be the main strategic energy resource of the country.

"The industry is facing new challenges due to the falling prices of raw materials; therefore it focuses on new areas, namely, on introduction of new clean technologies in oil production, oil refining, petrochemical, and energy-saving. These areas may be very promising for mutually beneficial cooperation", summed up Uzakbay Karabalin.

Now, we are going to focus on one of them. Energy saving is one of the most problematic issues for Kazakhstan. We experience enormous losses –many industrial enterprises have morally and physically obsolete equipment, which was built during the Soviet Union. The country needs not only investments, but also new energy-saving technologies and approaches. By the way, the Kazakhstani National Energy Report renders special attention to energy conservation by dedicating it a whole section, pointing out the areas and steps that we need to take.

Five reasons of success achieved through Japanese energy conservation policy

Jiro Sagawa, the managing director of the international cooperation department of the Energy Conservation Centre of Japan (ECCJ) attempted to provide an answer to this question at the seminar in Astana. He made a presen-

tation on “Japan’s Energy Saving Policy”.

Having listened to Mr. Sagawa, one understands that all genius is simple. In 1978, the government created a special structure called “the Energy Conservation Centre of Japan”. A year later the country adopted a law on energy saving.

Firstly, special energy consumption standards were developed under the law in all the sectors: industry, commerce, housing and transportation.

Secondly, according to the law, all enterprises in the country annually report to the government on how they use electricity and what they do with the purpose of not exceeding the allocated amount.

Thirdly, all businesses and organizations have an energy manager position.

Fourthly, the government tasks all companies to reduce electricity consumption annually by increasing the efficiency by 1%.

Fifthly, the government conducts spot checks in addition to the annual reports and provides recommendations on their basis. The name of a company or enterprise is made publicly known if the check identifies shortcomings in energy efficiency. “But no one has been included in this list yet since the adoption of the law”, said Jiro Sagawa.

According to him, the Energy Conservation Centre of Japan is open to all countries willing to use their knowhow. Thus, during the past 10 years, their Center trained around three thousand foreign students; around a thousand Japanese experts travelled to share experience locally.

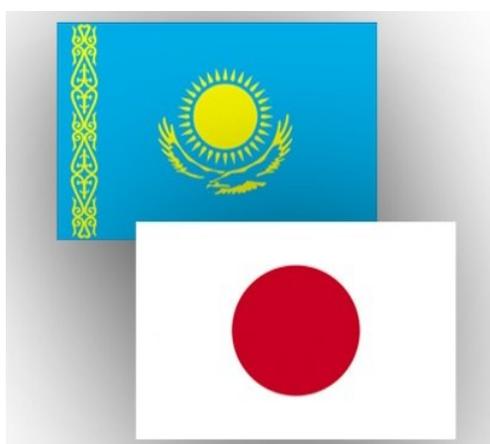
Recently, Japan has set a new goal: to reduce the electricity consumption by 13 percent by 2030, which means increasing energy efficiency by 35 percent.

“This goal is within our reach”, said Jiro Sagawa.

Stumbling blocks

Why is it so hard for the Japanese technologies and investment to break their way through to our country in spite of all the obvious benefits and opportunities for expanding cooperation between our two countries?

There are two reasons, as the representatives of Kazakhstani companies and businesses explained in the sidelines of the seminar to the abctv.kz reporter, asking them not to reveal their names.



The first reason is the high cost of Japanese technologies and scrupulosity of the Japanese representatives. At the same time, as the interlocutors admitted, these two issues are compensated by the quality. “Of course, Chinese companies are faster in concluding transactions and contracts and propose lower prices, but later they may fail to follow the project schedule. As for the Japanese, they take a very long start, but they work responsibly and ensure high quality”, said the interlocutors.

The second reason is the implicit overreliance of the Kazakhstani officials on the Chinese partners, who are given the priority.

As it is known, during the visit of the Japanese Prime Minister last year, JSC “KazGeology” and the Japanese National Corporation signed a Memo-

randum of Understanding on cooperation in the field of mineral resources.

Earlier, political scientist Marat Shibutov commented on the fact to some Kazakh media that Japan has huge potential for cooperation in Central Asia. However, it will be too tight for the two heavyweights, Japan and China, to work together here.

“During his visit, the Japanese Prime Minister has actually stepped in the sphere which is very sensitive for China – the gas industry of Turkmenistan, especially the Galkynysh field, from which China imports 30% of its gas, and has also taken active steps in Uzbekistan and Kazakhstan. The Japanese priorities are seen through the sizes of the agreements. If Japan boosts its presence in the extraction of rare earth elements and uranium in Kazakhstan, it will be a direct challenge for China”, said the expert.

Kulpash Konyrova

INTERNATIONAL DIALOGUE

The representatives of the UK Ministry of Trade and Investment (UKTI) have visited the office of KAZENERGY Association. The delegation had a meeting with “PSA” LLC in the framework of the Memorandum on Cooperation and on the occasion of Lord Astor’s visit to the Republic of Kazakhstan



The meeting was also attended by Sara Pickering, the Deputy Ambassador of Her Majesty in the Republic of Kazakhstan, other representatives of the UK Embassy and the country’s leading operator companies. In particular, the interlocutors discussed the development of investment, expansion of cooperation in energy and petroleum sectors, participation in subsoil projects. In turn, the division heads of TCO, KPO, NCOC told the guests about their companies, production projects, social focus and the local content. The meeting participants highly appreciated the work of the British compa-

nies in the field of oilfield services and consulting.

The dialogue held with Kazakhstan covers almost all aspects of interest, including the investment climate, joint production, safety, etc. The United Kingdom sees Kazakhstan as an important strategic partner in the Central Asian region. The meeting participants decided to continue developing communication and arranging additional meetings in order to discuss various forms of mutually beneficial cooperation



THE COORDINATION COUNCIL FOR RENEWABLE ENERGY IN THE MINISTRY OF ENERGY OF KAZAKHSTAN

A meeting of the Coordination Council for Renewable Energy was held on May 21 this year under the chairmanship of Kanat Bozumbaev, the Minister of Energy of the Republic of Kazakhstan and attended by the representatives of state bodies, associations, public organizations and industry companies

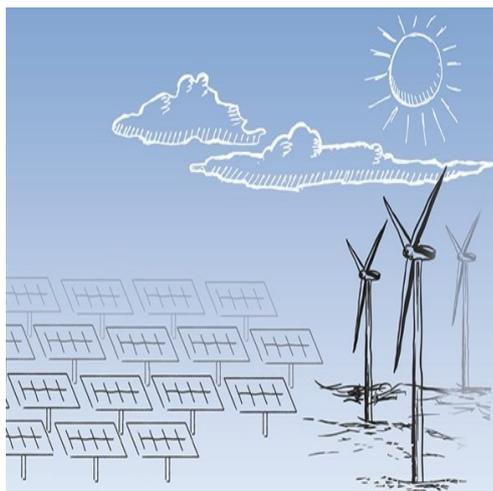
The agenda of the Coordination Council meeting included 2 issues: the new amendments to the Law “About the support of renewable energy use” and the newly proposed auctioning mechanism for implementation of renewable energy projects.

The meeting participants had a detailed discussion of the main amendments introduced in the said Law:

- promoting the sustainable development of renewable energy, including adoption of targets for development of renewable energy sector, including the consideration of its types (at the level of legislation), adoption and implementation of the location plan of renewable energy facilities taking into account the targets of renewable energy sector development;

- establishing a reserve fund under the Accounting and Financial Center (AFC) with the purpose of meeting the financial obligations that the AFC assumed vis-à-vis the renewable energy organizations in relation to purchased electricity.

The meeting participants additionally discussed the changes in the renewable energy fixed tariffs and the list of legal acts to be developed on the basis of the Order of the Prime Minister



of the Republic of Kazakhstan.

In 2015, during the first meeting of the Coordination Council for Renewable Energy of the Ministry of Energy of the Republic of Kazakhstan, KAZENERGY Association was asked to consider the introduction of an auctioning mechanism in the system of renewable energy support. To date, the proposed mechanism has been supported by the Ministry of Energy of the Republic

of Kazakhstan and the members of KAZENERGY Association. Currently, this mechanism is being studied by the working group of the Coordination Council.

This mechanism suggests gradual transition from fixed tariffs to a market-based tariff auctioning mechanism for renewable energy support under the conditions of imposing restrictions on the total capacity of power plants generating electricity from renewable energy sources, as well as developing renewable energy capacity based on the needs and possibilities of the energy system, plans to implement the concept of transition to a “green economy” and stimulating the most effective renewable energy construction projects. The objective is not only to control the forecasted renewable energy capacity, which needs to be supported, but also to reduce the cost of the renewable energy support policy through the creation of a competitive environment.

By the end of the meeting, the members of the Coordination Council for Renewable Energy were instructed to continue working on improvement of the legislation related to renewable energy support.

AEF 2016: LACK OF STABILITY IN THE WORLD ENERGY?



“Unstable situation in the field of world energy and natural resources” – is the theme of the session of Astana Economic Forum (AEF), which was attended by Bolat AKCHULAKOV, General Director of KAZENERGY, on May 25 this year

How long will energy prices continue to be unstable, who benefits from cheaper oil prices and if countries are able to give up traditional energy sources - these and other questions have been raised by AEF speakers. There has been an especially active discussion on the low oil price being often the main source of income for oil producing countries. AEF participants believe that it is hard to predict the cost of oil barrel in the near future with too many factors involved including the geopolitics, development of shale technologies and, of course, transition to the green economy.

Nevertheless, a number of speakers note a slight upward trend for oil prices at the moment. In particular, Alexander Mashkevich, Chairman of ENRC Board said that in the next 2 years the oil price will be conservative with the 15% correlation around the current price.

Bolat Akchulakov, General Director of KAZENERGY, referred to the forecast data of the National Energy report (issue 2) recently presented by the Association. Experts suggest that by year-end the barrel of oil

could reach \$ 60 and in the next 2 years – \$ 80. Akchulakov believes such prospect for the national extraction sector favorable since it enables to preserve the possibility of investing in the exploration of new fields and upgrading existing ones, which is very important for this sector.

Zhang Tingke, Vice President of China Huaneng Group, is also optimistic about the market prospects. He emphasized that the global economy is slowly recovering from the crisis just as the hydrocarbons price will grow slowly.

The speakers also agreed on assessments of the demand for raw materials in future. Chinese colleagues noted that China is focused on gradual transition to renewable energy sources and highly efficient consumption of energy resources. By 2030 the share of renewable energy resources in China will be nearly 9%. Broad use of shale oil and gas technology also remains promising.

Mr. Alexander Gabuyev, Carnegie Moscow Center Program Manager, pointed out in his speech that in Russia China is regarded as one of the economy drivers and, therefore, all risks associated with delivery of hydrocarbons are analyzed. In the future China will have difficulties to abandon traditional energy sources because this issue has a serious social ground, e.g., the China's coal industry is the basis for the well-being of many Chinese families.

In conclusion, Mr. Jan Ksyuu, Vice-President of the Institute of Boao Forum and session leader, asked all of the speakers one question: is mutually beneficial partnership of oil and gas market participants possible? There was a certain level of ambiguity across experts' opinions. E.g., Mr. Gabuyev called the

relationship between exporters and importers of raw materials a cooperative of "sheep and wolves" underlining that prospects of oil and gas companies depend on their competitiveness in the market conditions.

Other participants had distinct opinions. In particular, Vice-Minister of Energy of the Republic of Kazakhstan Asset Magauov said that investments can be the basis for long-term partnerships causing countries to be interested in joint projects.

UPCOMING EVENTS

IRENA-KAZENERGY REGIONAL CONSULTATION SEMINAR , CENTRAL ASIA 20-21 SEPTEMBER 2016 ASTANA, KAZAKHSTAN



Review

Central Asian countries have a great potential of renewable energy sources (RES) and have been increasingly involved in the dialogue on the use of RES in the last few years. The huge potential of resources makes it possible to increase the share of RES in the energy balances of these countries.

However, countries of this region are at different stages of preparation for introduction of RES as a solution of energy problems. Some countries stress the importance of RES development in the long term, and some have already adopted a number of legislative acts to support RES development. But these countries have yet to take a number of investment promotion measures to overcome the barriers to active involvement of the private sector. In addition, the level of public awareness of the benefits of RES is still low.

High energy intensity indicators in Central Asian countries dictate the need for promotion of energy-efficient technologies; in some countries, subsidies for the use of fossil energy sources and electric energy pose a threat to RES development.

Most countries in the region have a high potential for renewable electricity production and solar thermal energy. Countries with large reserves of oil and gas, such as Azerbaijan, Kazakhstan, Uzbekistan and Turkmenistan are considering the use of RES as an opportunity to increase oil and gas exports, and such countries as Kyrgyzstan and Tajikistan that rely heavily on large hydroelectric power plants seek to take advantage of RES to stabilize their energy supply and reduce dependence on imported energy.

KAZENERGY Association is an independent voluntary non-profit organization focused on creating favourable conditions for dynamic and sustainable development of the Kazakhstan's energy sector. Bringing together more than 80 major energy players, the Association seeks to create an efficient and sustainable energy system in Kazakhstan.

International Renewable Energy Agency (IRENA) is an intergovernmental body with a mandate to promote spread and accelerate introduction of various types of RES in the world. IRENA seeks to promote development of RES in Central Asia and helps to enhance the mechanisms to encourage investment in RES in the region.

In accordance with the signed

Memorandum of Understanding and Cooperation, ahead of the International specialized exhibition EXPO-2017 "Energy of the Future" (Kazakhstan, Astana), KAZENERGY Association and IRENA will hold a regional consultation seminar to involve the governments of Central Asian countries and stakeholders in the development and implementation



of the action program on acceleration of introduction of RES in the region.

Stressing the urgency of the themes of the exhibition and the planned seminar, NC Astana EXPO-2017 JSC is interested in supporting and promoting the issues of development of renewable energy sources and new forms of green technologies.

Aim and Format

The seminar is aimed at identifying the needs and priorities of the Central Asian countries' governments that can be supported by IRENA in cooperation with other

development partners, which is a key factor for the regional action program on support of the RES development in Central Asia.

The two-day seminar will be held on September 20-21, 2016 in Astana, Kazakhstan. The first day will be devoted to discussion of global trends in the field of RES, and the second day will be focused on attraction of investment and financing of regional RES projects.

The consultation seminar will bring together government experts, key regional and national stakeholders, who will share the experience of RES development in their respective countries and the region as a whole, as well as consider possible areas of cooperation with IRENA. This seminar will give IRENA an opportunity to determine a specific action program and identify key partners to support the work in the region.

An exchange of knowledge and experience at the seminar will help to determine how the obstacles and practical experience in Central Asia will affect the assessment of the technical cooperation of the participating countries with IRENA and its further improvement.

Target Audience

The consultation meeting will involve 15-20 official representatives of the energy sector of Azerbaijan Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan.

In addition, development partners and the private sector representatives and other relevant stakeholders will share their views on support of RES development in the region.





Society of Petroleum Engineers

SPE ANNUAL CASPIAN TECHNICAL CONFERENCE & EXHIBITION 1-3 NOVEMBER 2016, ASTANA, KAZAKHSTAN

Top Reasons to Attend

- Keynote panel sessions exploring some of the key issues faced by the Caspian region
- A full technical programme with a focus on research-based presentations to facilitate the exchange of knowledge, best practice and experiences
- Excellent networking opportunities
- Discover, debate, and discuss the latest challenges and trends in the industry

Who Should Attend

- Oil and gas professionals, experts, and managers
- Service, supply and consulting companies
- Government regulators
- Health, safety, and environmental professionals and representatives
- Local, national and international governmental organisations
- Non-governmental organisations
- Professional societies
- Universities, research centres, and institutes

"SPE CTCE helps KAZENERGY reach its goals on behalf of its members, by helping find solutions to the technical challenges faced by the region's upstream oil and gas sector. In this way the industry is positioned to move to the next stage of its development, and the local economy benefits. We wish all delegates, exhibitors and visitors fruitful discussions and every success".

Bolat Akchulakov, General Director, KAZENERGY Association

"SPE provides resources to help the industry develop oil and gas resources in Kazakhstan, as well as globally and to the public in general, a role that has become even more important given the current market conditions in the oil and gas industry. KMG is proud to continue its support for CTCE this year".

Christopher Hopkinson, First Deputy Chairman, KazMunaiGas



Ministry of Energy of the RoK





The fourth kindergarten built on Egilik funding

Tengizchevroil (TCO) has invested over \$1.18 billion for the improvement of social infrastructure in Atyrau Oblast since TCO's formation. TCO closely cooperates with the Atyrau Oblast Akimat in the selection of high-priority facilities for the benefit of the community, including facilities for children.

Representatives from the Akimats of Atyrau Oblast, Atyrau city, the Department of Construction and the children and their parents participated in the opening ceremony of the kindergarten constructed in Privokzalni micro-district in Atyrau.

This is the fourth kindergarten constructed by Tengizchevroil under its Egilik Voluntary Program. The construction of all four kindergartens has been executed according to a standard design. Built to accommodate 280 children, construction on this latest kindergarten started in January 2015 and was completed in May 2016. This is a big present to the city residents, noted Mr. Nogaev, Akim of Atyrau Oblast.

"TCO believes that children are our future," said Eimear Bonner, acting General Director of Tengizchevroil. "As such, and in the year of the 25th Anniversary of independence of Kazakhstan and the production of first oil of Tengiz, we have completed construction of the National Grammar School and kindergarten in Atyrau. I express my appreciation to the contractors who completed the work on time and with the quality specified. I also thank the Atyrau Oblast Akimat and the construction department for its assistance and support".

The kindergarten is provided with all the items required to encourage the development of the children: playgrounds for active games; playrooms and bedrooms for each group; canteen; music and drama rooms; and a gymnasium. All are equipped with modern, quality furniture.

MEMBERS & PARTNERS NEWS

IV KPMG Chess Championship in Astana closed the KPMG chess games season 2016

On 18 June, Astana hosted the KPMG Fourth Chess Championship, which brought to a close the chess games season 2016 of KPMG in Kazakhstan and Central Asia. "At the request of the tournament participants, certain changes have been made this year to the rules of the game: the participants of the Premier League Championship are the amateur chess players with assigned categories and those without categories, while the individual Top League Championship is organised for the professional players. Thus, all participants have equal chances to win in the championship", commented Karlygash Kaltayeva, Head of Markets, KPMG in Kazakhstan and Central Asia.

This year the Premier League Championship witnessed 13 teams competed for the first prize. The championship was held according to the Swiss system, with the participants playing for 7 rounds, each having 15 minutes to complete a round. The participants of the Top League Championship were 5 chess players – international masters of sport and candidate masters of sport who competed using the robin round system, in accordance with the FIDE rules, with time control of 15 minutes. The referee team headed by the chief referee, the FIDE arbiter, International Master Nurlan Ibrayev monitored the participants to play against time.

Following the Premier League Championship results, the prizes were awarded in both the team and individual classifications. The winning team was Kazakhmys, with the silver medal award going to KazMunaiGas-Refining and Marketing and the bronze medal awarded to Samruk-Kazyna. In the individual classification, Adilbekov Adlet from KazMunaiGas-Refining and Marketing became the winner on the first chessboard; the winner on the second board was Abitov Zhandilda from Kazakhmys; while Kanafin Rollan from Kazakhmys won the third chessboard.

In the Top League, champion was Alaguzov Maxat from Kazakhstan Temir Zholy. Kashkinbekov Arman from Association of renewable Energy of Kazakhstan came second, and third place went to Medeuov Zhandos from Samruk-Energo.

The memorable gifts were given to all tournament participants. The winners of Premier and Top Leagues were awarded diplomas and prizes.

IV KPMG Chess Championship in Astana closed the KPMG chess games season in Kazakhstan and Central Asia in 2016 opened by II KPMG Chess Championship in Bishkek in February 2016 that followed by XIII KPMG Chess Championship in Almaty on 4 June.

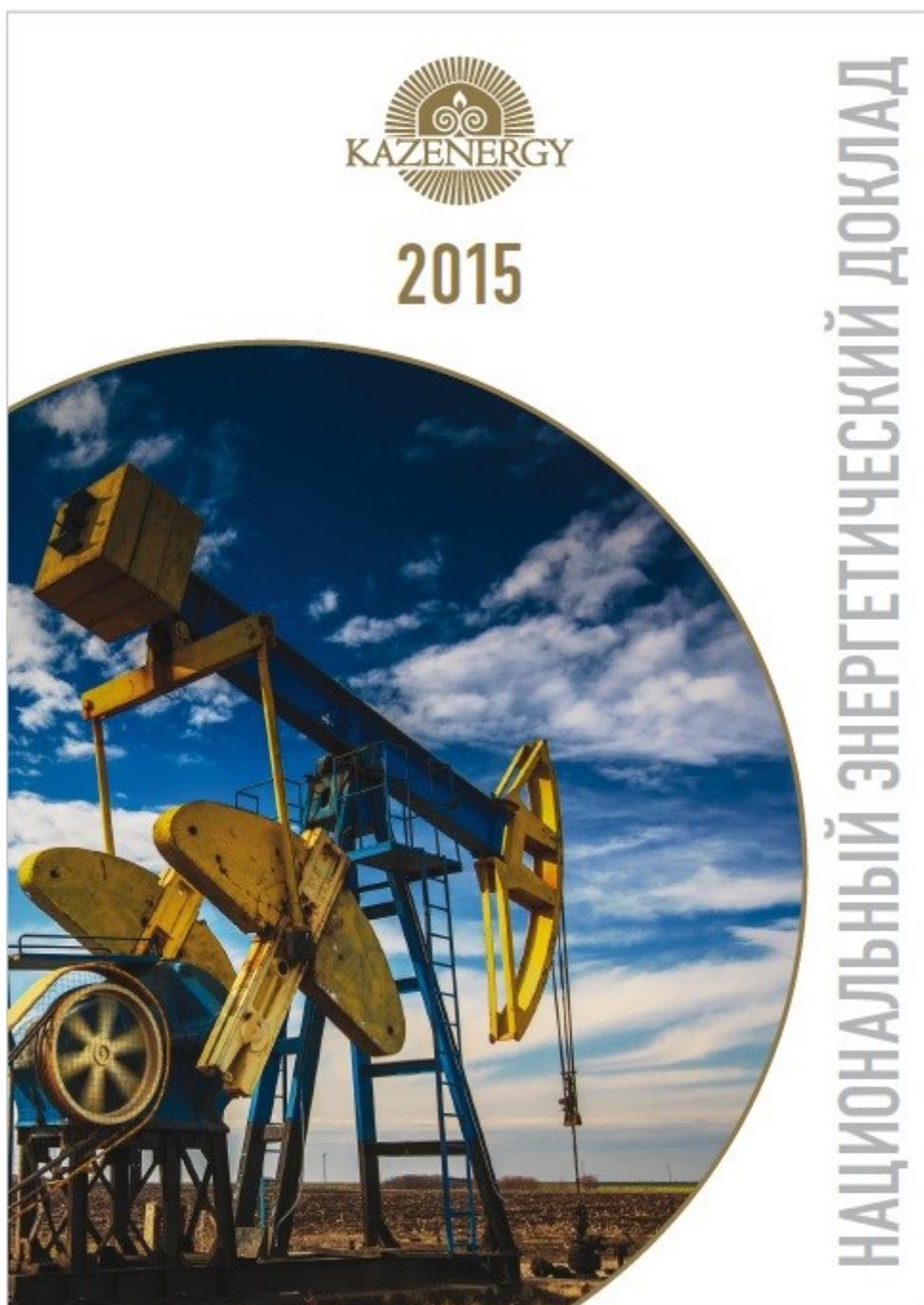
NATIONAL ENERGY REPORT 2015 AVAILABLE TO EVERYONE

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!





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