Kazakhstan’s Oil and Gas: a Powerful Partnership Potential

By Ariel Cohen

Recent events in the Eastern European and post-Soviet space, such as the Russian-Ukrainian war in particular, are forcing European consumers to look for alternatives to Russian hydrocarbons. One of the possible suppliers of both oil and gas could be another former Soviet republic—Kazakhstan. There are economic opportunities that consumers can find in future cooperation with the Eurasian Economic Union.

Kazakhstan has been a reliable partner of the United States and the European Union in the field of energy supply for over a decade. Since its establishment of diplomatic relations over 20 years ago with Washington and Brussels, Kazakhstan has proven to be a stable country without the political risks usually associated with Russia.

The economy of Kazakhstan is largely dependent on revenues from oil, gas, and other raw materials. Following the drop in oil prices and, more importantly, the abandonment of the fixed exchange rate policy by the central bank, the tenge, the national currency of Kazakhstan, has lost roughly 48 percent of its value against the U.S. dollar since the start of 2015. However, the cheaper tenge means more export opportunities for national producers, including the energy sector. Nevertheless, in these conditions, the largest Central Asian economy is forced to seek new opportunities not just to secure growth, but rather to stay afloat. Luckily, these opportunities exist, both in the East and in the West.

Kazakhstan boasts massive oil and gas reserves. Kazakhstan’s Ministry of Oil and Gas has almost doubled the proven hydrocarbon reserves, both onshore and offshore. These are "estimated to amount to 4.8 billion tons, or more than 35 billion barrels, while as of 2001 the explored in-place reserves of oil were only 2.9 billion tons." Furthermore, some experts say that there may be more reserves of oil in the Kazakhstani territory of the Caspian Sea; their size is estimated at 124.3 billion barrels. Taking into account the oil and gas reserves together with growing production, Kazakhstan is likely to remain among the leading global oil producers.

It has been estimated that it costs about $28 to produce one barrel of oil in Kazakhstan on average.\(^4\) Thereby, with the current global oil prices being $38 per barrel, the Kazakhstan oil industry is mostly profitable. It is especially important considering the fact that the mentioned production cost doesn’t include transportation and transit fees, which are the main obstacles for oil exports from landlocked Kazakhstan.

Unfortunately for the leaders in Astana, low oil prices are forcing Kazakhstan to cut production. As a result, large-scale projects such as the long-delayed Kashagan field, the Tengiz expansion, and the Karachaganak second phase expansion will have to wait to advance until oil prices recover.\(^5\) To make the situation worse, these three projects compose the bulk of the Kazakh energy sector’s projected growth.

For instance, the Tengiz oil field contains up to nine billion barrels of oil and is one of the largest oil fields in the world. It is jointly operated by Chevron Texaco (50 percent), KazMunaiGaz (20 percent), ExxonMobil (25 percent) and LUKArco (5 percent).

The Kashagan field, operated by AgipCaspian Sea B.V. (16.81 percent), KMG Kashagan B.V. (16.88 percent), ExxonMobil Kazakhstan Inc. (16.81 percent), Inpex NorthCaspian Sea Ltd. (7.56 percent), Shell Kazakhstan Development B.V. (16.81 percent), Total EP Kazakhstan (16.81 percent), and CNPC Kazakhstan B.V. (8.33 percent),\(^6\) has already become a money pit for foreign investors and the Kazakhstan government. At least $116 billion have been spent on the project.\(^7\) Ongoing troubles such as ecological dangers, complicated geology, and technological mistakes are stopping the investors, including Kazakhstan’s KMG, from fully exploring the potential of the field. Low oil prices further complicate the situation.

Karachaganak is a major gas condensate field, owned by a consortium of Western, Russian, and Kazakhstani companies (the shares are: BG – 29.25 percent, Eni – 29.25 percent, Chevron – 18 percent, Lukoil – 13.5 percent, KazMunayGas - 10 percent).\(^8\) It has been a major source of hope for Astana to enter the European gas market. Although the official statements have been assuring investors that the expansion of the field will start in 2018, the current situation casts doubt upon the field’s near-term outlook.

In other words, even the most promising energy projects in Kazakhstan are negatively affected by the grim pricing situation on the global market.


Kazakhstan borders and cooperates with the most energy-hungry consumer in the world—China. Among the most impressive results of this cooperation are the construction of both the 2,800-kilometer Sino-Kazakhstan oil pipeline and the China-Central Asia gas pipeline and implementation of other large energy cooperation projects.\(^9\) Kazakhstan has delivered more than 5,000 tons of crude oil to China.

Apparently, this was only the beginning. In 2013 while in Kazakhstan, Chinese President Xi Jinping announced that he wants to establish "a vast network of railways, energy pipelines, highways, and streamlined border crossings, both westward—through the mountainous former Soviet republics—and southward, toward Pakistan, India, and the rest of Southeast Asia." The name of this project is One Belt, One Road. If implemented, it will overshadow even the largest infrastructure systems in the world, including the infamous Trans-Siberian railway and pipeline systems bringing natural gas from Russia to Europe.

The new Silk Road will give an opportunity for natural gas and oil from Kazakhstan to enter European markets without paying high transit fees to Russia. Even in the low price environment, this project will be beneficial for the economy of Kazakhstan. It will also be beneficial to Europe, which is currently experiencing the negative effects of Russian energy diplomacy.

China has shown itself also to be interested in Kazakhstan’s energy assets in Europe. In December 2015, C.E.F.C. China Energy Company Ltd., a Chinese energy company, purchased 51 percent of a unit of KMGI (KazMunayGaz International), a Kazakh state-owned oil company. The four billion dollar deal gave the Chinese control over an oil refinery with a 100,000 barrel-per-day capacity, 1,000 gas stations all over Europe, and a fertilizer plant in Romania.\(^10\) This deal largely reflects the Silk Road project strategy, serving as a pilot for even larger investments.

Kazakhstan’s President, Nursultan Nazarbayev, is relentless in promoting the country’s modernization and infrastructure development. The steps outlined in the document “100 Concrete Steps to Implement Five Institutional Reforms,” announced during the economic forum in Astana on May 21, 2015, at which this author spoke, include:

1. Creation of a modern public service sector that is professional and independent;
2. The transition from the five-level justice system (first, appeal, cassation, supervising, and re-supervising) to a three-level system (first, appeal, and cassation);
3. Reviving and modernizing the agricultural sector through foreign investment;
4. Shaping a “Nation with a Common Future” by nurturing a viable middle class as the backbone of a successful nation; and


5. Creation of an accountable government.  

A new government body, The National Modernization Commission, has been created with the goal to facilitate the implementation of these reforms.

In general, Kazakhstan follows the established paths of developed nations in the field of energy.

In August 2014, President Nazarbayev merged several government departments and downsized the number of Cabinet ministers to accelerate the decision-making process. Kanat Bozumbayev was appointed the minister of energy on March 25 of this year. However, steps on a larger scale must be taken to improve the system’s performance significantly.

The market situation still looks grim for Astana. However, as oil and gas prices are climbing back up, there are hopes for a recovery that will help the Kazakh energy sector. Western investors will not abandon the country’s energy sector. However, time and geopolitics are working against Kazakhstan. The longer oil prices stay at low levels, and the higher Iranian and Iraqi production climbs, the less attractive Kazakhstan will look for investors, even though big oil companies will expand operations in Kazakhstan once prices have risen.

*Assertions and opinions in this Commentary are solely those of the above-mentioned author and do not necessarily reflect the views of the Middle East Institute, which expressly does not take positions on Middle East policy.*

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