

Kazakhstan's NOC: KazMunaiGas (KMG)

Martha Brill Olcott

Why KMG?

CARNEGIE ENDOWMENT

FOR INTERNATIONAL PEACE

- Size of Kazakhstan's Oil and Gas Reserves
 - Oil reserves are estimated between 9 billion and 17.6 billion barrels
- While still a hybrid hopes to become a new Style NOC, a driver of economic development, but not the sole driver.
- The National Fund of Kazakhstan helps insure that it won't be a "cash cow" for the government.
- Seeks to be a model for other NOCs in the post-Soviet space, partially privatized, while representing government interests, while not above the law.

KMG's Strategy

- Maximization of economic benefits of the company by levelling the playing field with foreign actors
 - increase the Company's value through division into publicly traded and solely government held assets. (KMG E and P, vs NC KMG)
 - improvement of the financial and economic parameters
 - increase reserves of hydrocarbon raw material
 - increase efficiency of production
 - advance the strategic interests of the State
- Public commitment to increasing Transparency (joined EITI)
- Looking to get foot in lucrative foreign market: but limited prospects outside of CIS
- Divestment of poorly performing assets

Relationship to Government

■ Formal

- Articulated in complex set of Laws and Tax Code
- Empowered to serve as negotiator in all PSA Negotiations first refusal of licenses for all on-share reserves
- Required to provide certain social services and subsidized fuels
- Creation of and Inclusion in Samruk National Holding Company.

■ Informal

- Timur Kulibayev (son-in-law of President Nursultan Nazarbayev); will insure family's position in the country
 - Chairman of KMG's Board
 - Vice-Chairman of Samruk holding

Corruption?

- No longer the vehicle for personal enrichment of ruling “family” as in the early years of Kazakh oil industry with “Kazakhgate.”
- Vertically integrated infrastructure maximizes RK ability to protect its interests at potential expense of foreign partners (especially in transport).
- Corrupt conditions remain characteristic of dealings at mid-levels of government and in law enforcement.
- Court System has become more transparent and applies to KMG
- Divestment of Nazarbayev’s holdings and the formation of a legacy

Outlook and Future

CARNEGIE ENDOWMENT

FOR INTERNATIONAL PEACE

- Remain an operating company?
- Will remain unable to compete with potential foreign investors in technologically complex projects
- Reduction of holding in certain poorly operating projects
 - money for further downstream and foreign investments
- An uncertain future for economic diversification and transparency
- Could demonstrate that NOC's need not be synonymous with rent-seeking in post-Soviet space