

**Czech University of Life Science Prague**

Faculty of Economics and Management

Department of Economics



**DIPLOMA THESIS**

**Investment attractiveness of the Kazakh economy**

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## DIPLOMA THESIS ASSIGNMENT

Akzhamal Turmaganbetova

European Agrarian Diplomacy

Thesis title

**Investment attractiveness of the Kazakh economy**

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### Objectives of thesis

Considering the Diploma thesis objectives, which has been used in the work are:

- To describe and evaluate micro and macroeconomy of the country and the world
- To analyze investment environment and foreign direct investment indicators
- To compare two selected companies, operating in the oil and gas industry in the Republic of Kazakhstan.
- To determine key advantages and disadvantages
- To estimate future development of companies and a country
- To calculate future return of investments of a foreign company using economic tools

### Methodology

Methodology includes mainly scientific sources and analytical sources, such as:

- -Analysis of petroleum industry of the Republic of Kazakhstan made by analytical services AO Rating agency
- -Investment and their role in the economy, Research paper of made Kazakh agro-technical university
- -Statistical review of world energy for years 2010 and 2013

To count an investment return of foreign company, payback return technique of capital rationing was used. To fulfill the topic of the thesis different articles, journals, official company pages, publications were investigated.

## The proposed extent of the thesis

60 – 80 pages

## Keywords

Keywords: investment, FDI (foreign direct investment), oil and gas industry, investment attractiveness, Tengizchevroil, KazMunaiGaz and etc.

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## Recommended information sources

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## **Declaration**

I declare that I have worked on my diploma thesis titled “Investment attractiveness of the Kazakh economy” by myself and I have used only the sources mentioned at the end of the thesis.

Prague 2017

Signature:

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Turmaganbetova Akzhamal

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# Investiční atraktivita Kazašské ekonomiky

## Souhrn

Kazachstán vytvořen jako země s otevřenou ekonomikou, orientovaných na vývoz zboží, služeb, kapitálu a pracovních sil, na základě hospodářské soutěže a vzájemně prospěšnou spolupráci se všemi zeměmi světa. Kazašská republika je jednou z hlavních zemí produkujících ropu na světě, je na 9. místě v souladu s prokázanými zásobami a 12. podle předpokládaných zásobách. Perspektivní oblast obsahující ropy a zemního plynu je 1 milion 700.000 km, což představuje více než 62% území státu.

«KazMunaiGaz» lídr v produkci ropy v Kazachstánu. Hlavní konkurenční výhodou firmy je zaručena ekonomickou a politickou podporu ze strany státu, reprezentovaný vládou Republiky Kazachstán. Takový stav umožňuje KMG realizovat strategii rozvoje společnosti prostřednictvím rozšíření portfolia aktiv při nákupu nových polí.

Tengizchevroil je spojen s výrobní kapacitou expanzní a zavádění nejmodernější technologie těžby ropy. TCO vykonává činnost, se zaměřením na rozšiřování výroby v rámci „projektu pro budoucí rozšíření pomocí technologie, reverzní čerpání surového plynu, který přispívá k udržení potřebné úrovně tlaku ve švu, a tím zajišťuje vysokou výtěžnost oleje. Technologie zelenější a pomáhá rozšířit vhodnost terénu.

Kazachstán přilákal velké zahraniční investice do rozvoje odvětví ropy a zemního plynu. Zahraniční kapitál byl přitahován k 27 velkých projektů spojených s těžbou, průzkum, zpracování rekonstrukce rostlin a oleje, přepravy plynu.

«Kazachstán 2050 Strategie» zaměřuje na rozsáhlých ekonomických, sociálních a politických reform na pozici Kazachstán patří mezi top 30 světových ekonomik v roce 2050. Země prognózy lepší budoucnost pro odvětví těžby ropy a zemního plynu, rozšířením potrubí a nalézání nových oblastí.

V letošním roce, Kazachstán je také organizuje fórum ‚Future Energy‘ se bude konat v rámci EXPO-2017 v Astaně. Mezinárodní výstava, která pomůže přilákat investory po celém světě.

**Klíčová slova:** Investice, PZI (přímé zahraniční investice), ropný a plynárenský průmysl, investiční atraktivita, Tengizchevroil, KazMunaiGaz, ekonomika atd.

# **Investment attractiveness of the Kazakh economy**

## **Summary**

Kazakhstan formed as a country with an open economy, export-oriented goods, services, capital and labor, based on competition and mutually beneficial cooperation with all countries of the world. Republic of Kazakhstan is one of the major oil-producing countries in the world, occupying 9<sup>th</sup> place according to proven reserves and 12<sup>th</sup> according to probable reserves. Prospective area containing oil and gas is 1 million 700 thousand kilometers, which represents more than 62% of the territory of the country.

«KazMunaiGaz »- one of the leaders in oil production in Kazakhstan. The main competitive advantage of the company is guaranteed economic and political support of the state, represented by the Government of the Republic of Kazakhstan. Such status allows KMG implement the development strategy of the company through expansion of the portfolio of assets while purchasing new fields.

Tengizchevroil is associated with an expansion production capacity and introducing leading technologies of oil production. TCO performs activities, focusing on expanding production in the framework of the "Project for future expansion using technology, the reverse pumping raw gas, which contributes to maintain the necessary level of pressure in the seam and thereby ensures a high yield of oil. The technology is greener and helps to extend suitability of a field.

Kazakhstan attracted large foreign investments for the development of the oil and gas sector. Foreign capital was attracted to 27 major projects associated with the mining, exploration, reconstruction processing plants, and oil, gas transportation.

« Kazakhstan 2050 Strategy» focuses on widespread economic, social and political reforms to position Kazakhstan among the top 30 global economies by 2050. Country forecast a brighter future to the oil and gas industry, by expanding pipelines and finding new fields.



This year, Kazakhstan is also organizing Forum 'Future Energy' to be held under EXPO-2017 in Astana. An International Exposition which will help to attract investors all over the world.

**Keywords:** investment, FDI (foreign direct investment), oil and gas industry, investment attractiveness, Tengizchevroil, KazMunaiGaz and etc.

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## 1. Introduction

Kazakhstan was formed as a country with an open economy, export-oriented goods, services, capital and labor, based on competition and mutually beneficial cooperation with all countries of the world.

According to *Western experts*, the investment climate in Kazakhstan as a whole is favorable, but serious bureaucratic obstacles, financial risks, shortcomings in the tax legislation and administration, underdeveloped legal infrastructure in the field of insurance, mortgages, etc. may hinder the inflow of foreign capital and the economy in general.

On the other hand, Kazakhstan considered as one of the most attractive market for the main parameters of the business climate. Kazakhstan has large market potential, the abundance of natural and human resources. The potential profitability of investments is an essential factor for investors waiting to get more return on investment in Kazakhstan.

Country was able to create an attractive investment climate, due to radical liberalization of foreign economic activities. As a result, the Republic is provided by investment flows. The *World Bank* has included the Republic among the 20 countries in the world, attracting the largest amount of investment, especially in non-renewable sector. In particular, Kazakhstan is ranked fifth in terms of investment per capita in Eastern Europe and CIS countries. The economic level and development of the Republic of Kazakhstan is largely determined by the development of the sector, which is dominant in the economic structure - the oil and gas complex. Oil and gas industries are critical foundation for stability, which is associated with the economic prospects of the development of the state and society as a whole. The oil industry currently occupies a leading position in the system of the national economy of Kazakhstan.

Vice-Minister of Oil and Gas *L. Kinov* noted that,- «*The oil industry has been and remains a major and steadily growing sector of the Kazakh economy, which provides a significant portion of GDP, budget revenues and foreign exchange earnings to the country*».Country devotes a lot of time and attention to the development of oil and gas industry. One of the main scientific and practical problems of countries that gained political and economic independence after the collapse of the Soviet Union is effective utilization of mineral

resources. *President of the Republic of Kazakhstan* in his statement says, - «*Our focus should be on diversification and maintaining the supply of energy resources of Kazakhstan to world markets*».

## **2. Aim and Methodologies**

The aim of the thesis is analyze investment attractiveness of the Kazakh economy and compare the two selected companies operating in the oil and gas industry in the Republic of Kazakhstan. The goal of the topic is achieved through accomplishment of main following objectives:

- -Describing and evaluating economic indicators of the country and the world
- -Analyzing investment environment and foreign direct investment indicators
- -Comparison of two selected companies, operating in the oil and gas industry in the Republic of Kazakhstan.
- -Determining key advantages and disadvantages
- -Estimating future development of companies and a country
- -Calculations of future return of investments of a foreign company using economic tools

### **Methodology**

The methodology of the thesis is based on statistical analysis of primary data on trade, production, consumption, and export as well as relevant information on recent literature related to the issues of oil and gas industry. Trade statistics are obtained from Statistical review of world energy for years 2010 and 2013.

-Analysis of petroleum industry of the Republic of Kazakhstan, especially TCO and KazMunaiGaz are obtained from Analytical Report made by analytical services AO Rating agency. Investment and their role in the economy are compiled from Research paper of Kazakh agro-technical University's Coursework.

To count an investment return of foreign company, payback return technique of capital rationing was used. To fulfill the topic of the thesis different articles, journals, official company pages, publications were investigated. Most of the information about KazMunaiGaz and Tengizchevroil obtained from Official Web page archives of companies.

### **3. Brief characteristics of the petroleum industry of the Republic of Kazakhstan**

#### **3.1 The Republic of Kazakhstan and its geographical and macroeconomic data**

The Republic of Kazakhstan is the 9<sup>th</sup> largest country in the world, with total area of 2.724,900 km<sup>2</sup>, which exceeds the surface area throughout Western Europe (KMPG, 2011) Kazakhstan is located in the northern and central Eurasia, and is almost entirely surrounded by land.

Kazakhstan borders with Russia, China, Kyrgyzstan, Uzbekistan and Turkmenistan, part of the boundary runs along the coast of the Caspian Sea. The “Tenge” is the currency of Kazakhstan. According to *worldmeters website*, population of Kazakhstan is approximately 17.888,452 million. In 1997, Kazakhstan was moved from Almaty - the largest city in the Republic, to the city of Astana (Formerly Akmola).

Figure 1-Map of the Republic of Kazakhstan



Source: [http://www.kmgep.kz/rus/about\\_kazakhstan/key\\_facts/](http://www.kmgep.kz/rus/about_kazakhstan/key_facts/). 02.01.2011

**The main macroeconomic data of the Republic of Kazakhstan.**

Kazakhstan has high dependence on external markets. The banking crisis in Kazakhstan began immediately after the beginning of the mortgage crisis in the US, thus the fall of 2007. Annual growth rate was below the average of more than 10% during the period 2000-2007, GDP growth in 2008 was 3.3%, while in 2009 only 1.2%. Nevertheless, Kazakhstan is one of the few countries that maintain positive growth rate in crisis (Sberbank, 2010). Due to experience of a crisis, Kazakhstan tries to implement main financial and macro-prudential regulation. As in other areas of CIS, regeneration of Kazakhstan depends on the global economic recovery.

Table 1- Basic macroeconomic data of Kazakhstan % share in the previous year.

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	
91,8	100,5	101,7	98,1	102,7	109,8	113,5	109,8	109,3	109,6	109,7	110,7	108,9	103,3	101,2	107,3	107,5	105,0	106,0	104,3		Gross domestic product
92	100,3	104	98	103	116	112	110	109	110	103	107	105	103	103	110	104	101	102	100		Industrial production
76	95	99,2	81	128	96	117	103	101	99,5	107	108	109	93	115	88	127	82	111	101		Agricultural production
57	60	112	142	133	149	145	111	117	123	134	111	114	115	103	97	103	104	107	104		Capital investments
73	104	105	98	101	145	109	113	109	109	104	108	105	103	97	116	123	109	109	104		Freight carried
105	137	132	119	102	107	116	108	110	118	114	115	111	103	97	118	112	113	113	112		Retail trade turnover
240	124	116	100,8	119	138	100,3	100,3	109	117	124	118	112	137	78	125	127	104	99,7	110		Industrial producers price index
276	139	117	107	108	113	108	108	106	107	108	109	111	117	107	107	108	105	106	107		Consumer price indices
154	110	94	71	72	155	113	83	136	137	99,3	137	143	139	61	117	155	103	94	90		Export to CIS countries
174	115	129	92	135	148	93	125	133	161	149	137	122	151	61	141	147	104	96	93		Export to other countries
122	111	79	88	78	170	121	92	129	156	133	136	132	120	69	113	140	118	101	77		Import from CIS countries
83	112	152	115	91	113	136	113	126	149	138	137	144	112	80	99	112	123	110	91		Import from other countries

Source: CIS International Statistical Office, 2014



### **3.1.2 The oil market of Kazakhstan**

In 1999, Kazakhstan celebrated the centenary of domestic oil and gas industry. After overcoming 20th century, Kazakh industry contributed significantly to the economic, social and cultural development of the country.

Katherine Hardin (2011) in her article point out, that in the last decade, country has managed to double the level of oil production. During these years, the economy of the Republic of Kazakhstan has undergone dramatic changes from the central state control to economical free market. In this period, the oil and gas complex of Kazakhstan has achieved one of the most important agreements among the countries of the former Union progress. Emerging partnerships with major international oil and gas company helped the country to gain significant investment in modern technology and market management.

The amount of money involved in petroleum gas sector in Kazakhstan improved. It became a leader not only among CIS countries, as well as other countries in the world that produced oil except Norway, Mexico and Venezuela. Most of the financial resources have been focused on the development of mineral and commodity sectors of the Kazakh economy. Only in the first half of 2001, investment in the subsoil was 1.920,100,000 USD of which 80% are foreign direct investment and 20% domestic. It has attracted over 122 billion USD stable foreign capital since the independence of a country, from which 70 billion USD had been invested for last 5 years. However, almost all profit directed into the mining sector with an accent on oil industry. Kazakhstan has spent 80% of foreign direct investment to the development of the oil and gas industry in 2002.

Today the Republic of Kazakhstan is one of the major oil-producing countries in the world, occupying 9<sup>th</sup> place according to proven reserves and 12<sup>th</sup> according to probable reserves. Prospective area containing oil and gas is 1 million 700 thousand kilometers, which represents more than 62% of the territory of the country(Hardin, 2011). Experts believe, that the estimated amount of oil reserves in Kazakhstan are 13 billion tonnes, recoverable reserves are 2.76 billion tonnes, despite the excluding estimated reserves of the Caspian Sea. The proven reserves of hydrocarbon, includes more than 200 deposits of oil, natural gas, condensate and oil and gas of the country.

The Republic of Kazakhstan is steadily increasing its oil production since 1995. In 2003 recorded a highest level of the liquid obtained for the Republic - 50.1 million tonnes. Also in 2011 production of natural gas condensate increased up to 3.642,400 tonnes, petroleum gases to 438 000 tonnes, natural gas in gaseous state to 9.465, 7 million cubic meters. Foreign investment in joint survey of hydrocarbon reserves in the Caspian Sea is already delivering results.

Official page states the data of memorandum, which is 6<sup>th</sup> of April, 1993 there was a long-term contract agreement signed between Chevron Overseas Petroleum and state-owned company of Kazakhstan "KazMunaiGaz" a joint venture "TCO (TCO Inc.) to develop the Tengiz and Korolev fields (KazMunaiGaz, 2011)

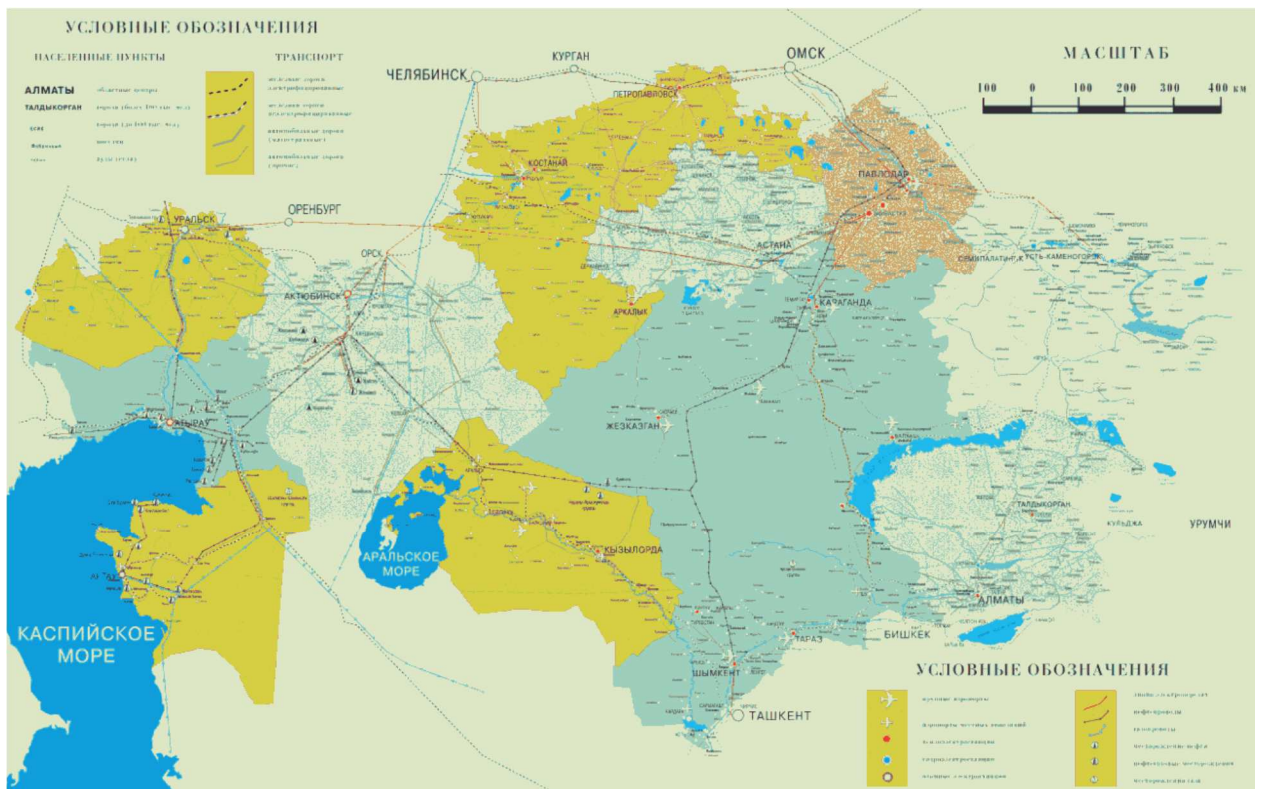
That year it became the largest oil company in the country, which appeared at the beginning of the independence of Kazakhstan. Companions «Tengizchevroil» current shares are: Chevron Texaco - 50%, NK «KazMunaiGaz» - 20%, «Exxon Mobil» Kazakhstan Ventures Inc- 25%, KN "LukArko" -5%. Regarding Tengiz geological and thermobaric conditions of oil layering and the technical and economic characteristics of development, is the unique field not only in Kazakhstan, but worldwide.

Coordinates or rich nature are Southeastern part of the Caspian lowlands, Gurievskaya (now Atyrau) region of the Republic of Kazakhstan, Zhylyoi miles southwest region from Kulsary, 150 km southeast direction from the regional center of Atyrau. Stock of Tengiz deposits were first approved in 1986 by the USSR State Committee for reserves (SRC). In 1998, «Tengizchevroil» performed three-dimensional seismic survey, after which the company supplies were valued at 1.3 billion tonnes. Anticipated amount of geological oil reserves estimated at 3.133 billion tonnes (25 billion barrels).

Kazakhstan's economy remains heavily dependent on the cycle of the global market, especially the oil market. Export of oil increased significantly, and Kazakhstan is the second largest producer of oil after Russia among the former republics of the Soviet Union. Kazakhstan has a lot of discovered oil reserves. Kazakhstan has large reserves of hydrocarbon resources. According to the estimate of "*British Petroleum*", among oil reserves in the country, Kazakhstan is among the top 15 countries in the world. Geography of the Republic of Kazakhstan is huge –petroleum gas regions occupy more than half of

the country (Makhmudov, 2011, s.159). However, the main supply is also on the huge Kashagan and Tengiz deposits (reservoirs), also Karachaganak and Uzen. Geography of oil production in Kazakhstan is very extensive. Investments are concentrated in six of the fourteen regions of Kazakhstan: in Aktobe, Atyrau, West Kazakhstan, Karaganda, Kyzylorda and Mangystau (see Fig. 2).

Figure 2- Regions division of Kazakhstan



Source: [http://ga-logistics.ucoz.kz/index/karta\\_kazakhstan/0-7](http://ga-logistics.ucoz.kz/index/karta_kazakhstan/0-7)

Major component of the state budget is revenues from oil production. In 2009, oil and natural gas condensate amounted to approximately 76.5 million tonnes (Decree No. 958, 2010 ) In accordance with the global scale, crude oil production in Kazakhstan was about 2%. Compared with 2008, this indicator increased by 8.3%. Along with the production of oil in 2009 there was an increase in energy exports by 8.4%, amounting to 68.1 million tonnes. Government wants to redouble efforts to increase the amount of oil development deposits Kashagan, Tengiz and Karachaganak to finance public and social projects.

Kazakhstan has three major oil refineries: in Pavlodar, which provides petroleum products to Northern areas, in the western region: Atyrau and Shymkent in the south of the region,

which has an estimated production capacity of 21,0 million tonnes per year (about 427,000 barrels of oil per day) (Decree No. 958, 2010 .p.8).

In 2009, these three refineries processed approximately 12.1 million tonnes of raw oil. Oil refinery in Pavlodar acquires raw oil mainly from western Siberia, Atyrau refinery works only with domestic oil from western regions of Kazakhstan, Shymkent refinery currently uses oil, imported from the southern regions of Kazakhstan. Atyrau refinery is located in the modernization process of commissioning a number of other devices allows to meet current European standards for fuel processing.

Kazakhstan is a major exporter of natural gas. Most of Kazakhstan's gas reserves are located in the western part of the country near the Caspian Sea.

### **3.1.3 Current development of the oil industry**

Oil industry in recent decades became a significant factor in the development of the world economy and international relations. The situation on the world oil market is changing rapidly, and an international challenge, which represents the struggle of various forces for holding this unique strategic commodity, always produces a loud echo throughout the world. (Buranbaeva, 2002) Examining the impact of the oil factor in the global economic and political processes is essential for understanding the nature and direction of world development as a whole and for individual countries.

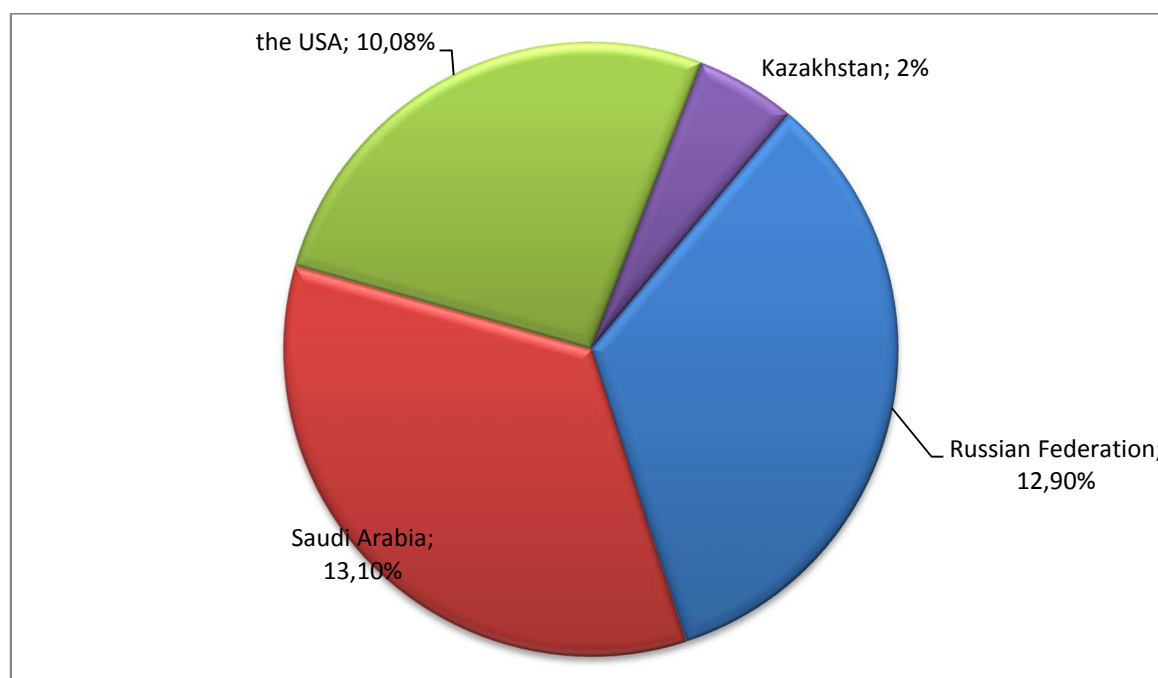
Meanwhile, at the turn of the XXI century the prospects for the development and localization of oil production worsened, with regard to sluggish exploration of new oil resources and costs, which were the subject of serious debates and discussions. The development of deposits in Kazakhstan is shaping the growing role of Kazakhstan as a potential long-term supplier of oil on world markets. In this case, the prospects for sustainable and harmonious economic development of Kazakhstan, is largely dependent on effective use of its own resources and especially petroleum potential. Relatively recent discoveries of rich oil deposits in the country and the rapid increase in oil production. From the need to make a priority to undertake a comprehensive report on the prospects for the world oil market and future opportunities in Kazakhstan 10 -15 years to join the group of

leading players in this market as a major exporter of liquid hydrocarbons( BP Statistical Review of World Energy, 2010).

About 40% of global production and half of oil exports accounted for countries, which are members of the Organization Petroleum Exporting Countries (OPEC). Three main leaders in the production of oil are the Russian Federation, Saudi Arabia and the United States (see Diagram.1, Table 2). In the Central Asian region, a major supplier is Kazakhstan, followed by Azerbaijan, Turkmenistan and Uzbekistan.

Diagram 1- Three main oil producers and the largest oil producer from Central Asia

Note: Total share of oil production in percentage



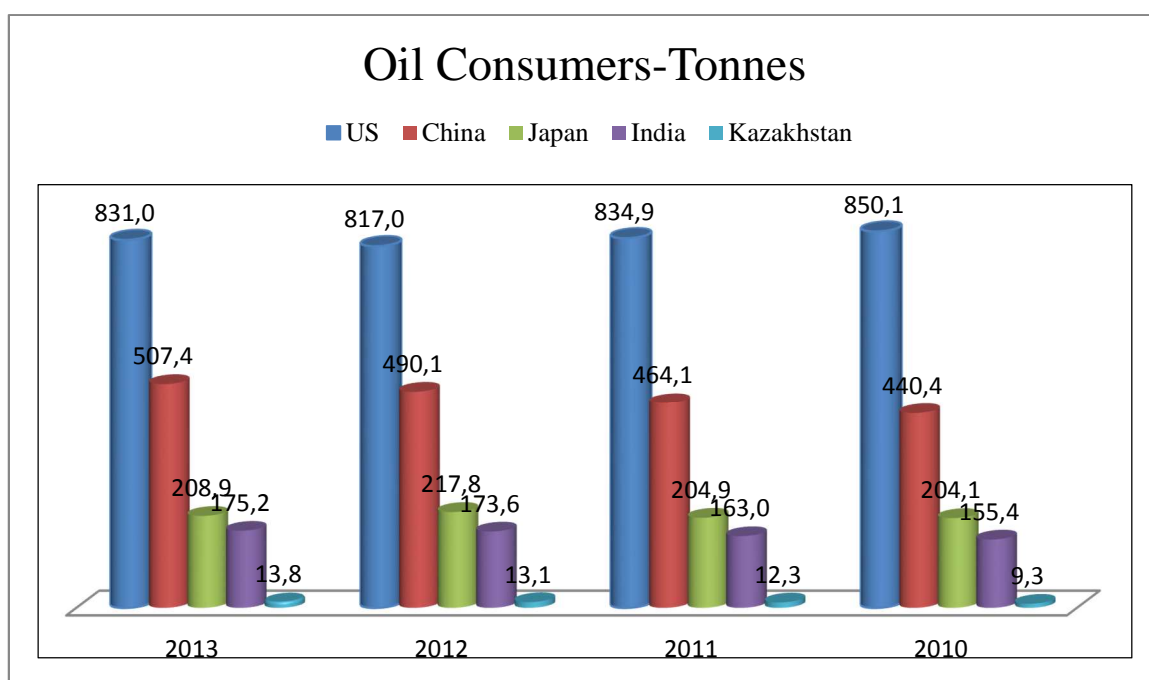
Resources : BP Statistic Review from the World Energy 2013

The USA remains to be the main consumer of oil in 2013. The proportion of land consumption represents 831 million tonnes per year. US consumption of oil is 19,9% of the total world is about 68% higher than the level of energy production in their own country(BP statistical Review of World Energy, 2013).

On the one hand, a high level of energy consumption shows a highly developed industry, however, it also indicates a high dependence of the US on stability of oil supplies to the region, which cannot be taken into account in the geopolitical direction and influence of

the United States on the international trends of oil production, consumption and pricing power. The second largest oil consumer in 2013 is China (507.4 million tonnes) followed by Japan (208.9 million tonnes) and India (175.2 million tonnes per year) (BP statistical Review of World Energy, 2013).

Table 2- Countries - consumers of oil, million tonnes per year



Source: statistical-review-2014/BP-statistical-review-of-world-energy-2014-full-report.pdf

In terms of global oil consumption Kazakhstan occupies 44th place. The main market for Kazakhstan oil trade is the West European region. However, given the diversification of transport routes, this alignment can be changed ( BP Statistical Review, 2014). With increasing supply in the world, world trade will continue to have oil shortage caused by growing volume of consumption and urbanization processes in developing countries led by China and India. Analysis of petroleum industry RK., states that, the trend of increasing demand for oil will also contribute to the fact that the largest energy importers are buying more oil than is required at this time. This evolution will be stored as long as the country importers will build strategic reserves.

### 3.1.4 Investment attractiveness of Kazakhstan

Kazakhstan aims to create a favorable social, economic and financial, legal regime for foreign investors and their respective interests of the investment climate, at the same time to solve their problems and achieve their goals. In this regard, the Government of the Republic of Kazakhstan made an important step: it was developed and put into an action. *The Law "On Foreign Investments"*, which defined the legal status of foreign investments in Kazakhstan, established forms of exercise facilities and foreign investment in the Republic of Kazakhstan. Legal regime provides guarantees to foreign investors, the main of which:

- 1) National treatment, - equal treatment to the foreign investors
- 2) Government guarantees on behalf of the Republic;
- 3) Guarantee against changes in legislation and political situation;
- 4) Guarantees against expropriation and others.

Also, the *Government of the Republic of Kazakhstan* developed other laws and regulations governing investment activities in the country. From the perspective of politicians and economists of the Republic, with the participation of foreign capital can perform the following tasks:

- Improve the efficiency of export potential, overcome its raw orientation and develop import substitution production;
- Empower strength of country's export expansion and strengthen its position in foreign markets;
- Improve the technological level of production using new techniques and technologies, management practices and marketing;
- Increase tax revenues to the state budget;
- Promote the development of backward and depressed areas and create new jobs in the national economy;
- Use of modern production and management experience through training and retraining;

- Achieve economic independence of Kazakhstan.

Thus, foreign investment acts as objectively necessary process for Kazakhstan, as it helps curb the crisis and, at the same time, the financial stabilization of the economy, solve strategic and tactical objectives of macroeconomic nature, such as the fight against inflation, structural adjustment, the elimination of technological backwardness and management of the economy. That is, all of these factors demonstrate the importance of attracting and using foreign capital investments (The Decree of the President of the Republic of Kazakhstan, 6. 03. 2000).

The profitability of direct investments is obvious. The inflow of foreign direct investment in Kazakhstan is carried out through joint ventures, subsidiaries, privatization of state enterprises with foreign capital, the transfer of the management of foreign firms to large industrial enterprises and investment banking sector. The main form of direct investments in the Republic is a joint venture (JV), to a lesser extent - with 100% foreign capital - subsidiaries. The greatest number of them was organized jointly with Turkey, Russia, China, Germany, USA, Italy, South Korea, Britain and other countries(

January 1, 2003 Kazakhstan had 5,300 enterprises with foreign capital (as of 1 January 2002 - 3995), including 2004 with the participation of foreign investors from 3296 enterprises wholly owned by foreign investors from 112 countries, with a total registered capital in the amount of 197.6 billion tenge. The largest number of existing enterprises from the CIS created with the companies of the Russian Federation, Kyrgyzstan and Ukraine (Zhakypbekova, 2010). In the country in all sectors of the economy are 740 joint Kazakh-Russian enterprises and companies with 100% Russian capital. Kazakh capital is also gradually coming to the Russian market.

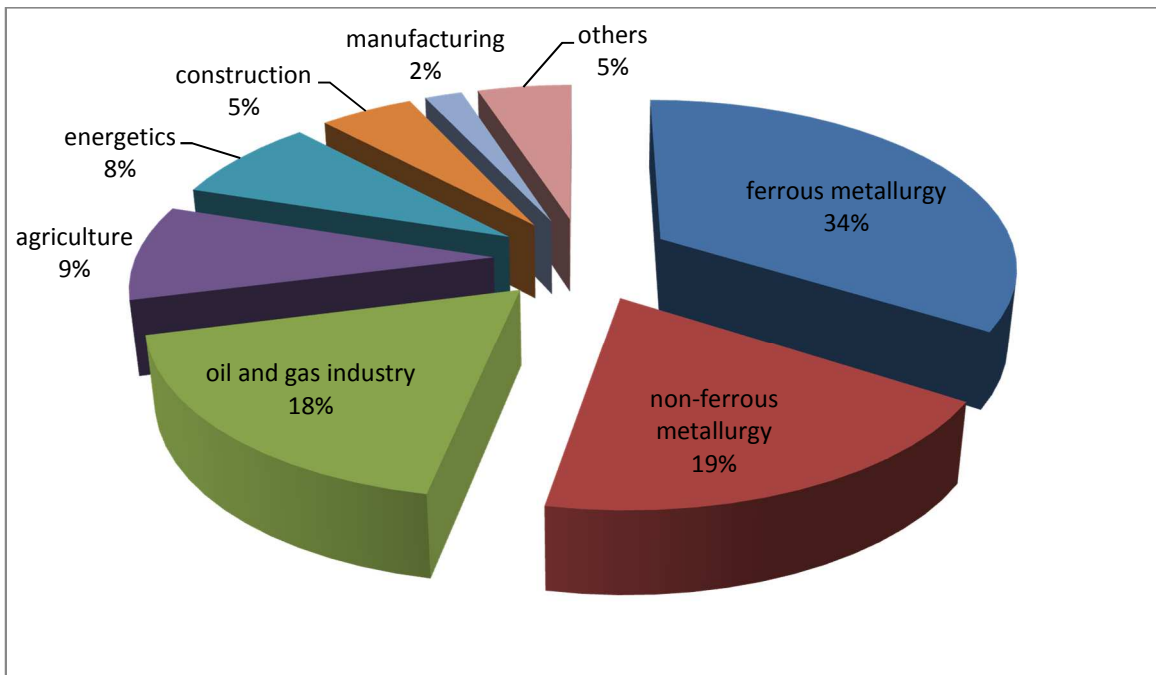
Russia is the largest trading partner of Kazakhstan, both exports and imports. It accounts for over a quarter of the total foreign trade of the country. Last year, the volume of trade with the "northern neighbor" amounted to about 4 billion USD. Kazakhstan is among the ten major trade partners of Russia. The share of the republic of Russia's foreign trade in recent years is 3-4%.

Foreign investment to Kazakhstan's economy for the last three years are 4-4.5 billion , including made in the form of share capital - 144.3 million USD, another capital - 256.4



million USD, reinvested earnings - 42.5 million USD in 2003 from the scope of the development of foreign direct investment in the amount of 1236.4 million USD, invested in individual sectors of the economy of Kazakhstan, the largest share is occupied by foreign direct investment in the metallurgical complex (784.6 million. USD, or 63.5%) and oil and gas (244.8 million USD, or 19.8%).

Figure 2- The development of foreign investment in Kazakhstan by industry for 2003.



Source: work on: Investments and their role in the market economy

It is expected, that Kazakhstan will develop more balanced policy and attract foreign investors to develop projects of oil production in the region in terms of conservation, a national company that will control more than 50% of the shares or shares in the contract.

Zhakypbekova underlines key factors,, As a result of the development of the Kashagan field, the development of the Caspian block, Tengiz development and implementation of the third stage of Karachaganak compared to 78 million tonnes in 2009. Implementation of this plan will bring Kazakhstan in the top five oil producers in the world.

### **3.1.5 Analysis of the development of the oil industry of the Republic of Kazakhstan**

Kazakhstan attracted large foreign investments for the development of the oil and gas sector. Foreign capital was attracted to 27 major projects associated with the mining, exploration, reconstruction processing plants, and oil, gas transportation. Potential investment in the ongoing projects with foreign participation is estimated at more than \$ 40 billion ( Nazarbayev, 2003).

Russian company's investment in joint projects was about three billion dollars states official page. Among the most significant of which are the development of Kumkol, development of hydrocarbon reserves of the Tengiz and Karachaganak. Large amounts of investments fell to the United States. American companies officially announced an investment of three billion dollars in the expansion project for the Tengiz oil field.

The largest oil company in Kazakhstan is "Tengiz-Chevroil", a joint venture involving ChevronTexaco (50 percent), ExxonMobil (25 percent), "KazMunaiGas" (20 percent) and "Lukarco" (5 percent), to invest in the Kazakh oil 20 billion USD and currently produces about 290,000 barrels per day.

The expected capacity of the Tengiz basin is 9.6 billion. Barrels, peak oil is expected in 2010 and will be 750,000 barrels a day.

Caspian pipeline plays a crucial role in the process of pumping oil from the giant Tengiz field, its transportation through Kazakhstan Atyrau terminal and on to the Russian oil terminal on the Black Sea coast near Novorossiysk. From Novorossiysk oil will be transported to Western markets by tankers.

Caspian Pipeline Consortium includes Kazakhstan, Russia, the Sultanate of Oman, Chevron, Lukarco, Rosneft-Shell, ExxonMobil, Agip International, BG Overseas Holding, Oryx and Kazakhstan Pipeline Ventures.

Western investors seek to find new opportunities in Kazakhstan. International Energy Corporation Hurricane Hydrocarbons headquartered in Calgary (Alberta, Canada), together with the "Kumkol" is developing fields in Torgai basin currently produces 120,000 barrels

a day, being the second largest oil producer in Kazakhstan. Canadian-Kazakh joint venture expects to increase oil production to 200,000 barrels a day for two years, while reducing by half the cost of transportation.

The joint venture Hurricane Hydrocarbons and "Kumkol", wants to buy the French oil company TotalFinaElf. It is also expected that Hurricane Kumkol become one of the shareholders of the Caspian Petroleum Consortium (Berniker,2002).

Drilling wells in Kazakhstan engaged in another Canadian energy company - Nelson Resources Limited. She made a successful drilling in the area Alibekmola. Nelson Resources formed a joint venture with "KazakhOil" and is developing two fields in Aktobe and Alibekmola / Kozhasai. The Company expects that the industrial stocks oil reserves are 500 million barrels.

Following the Tengiz second largest foreign investment area is Kashagan in Kazakhstan. Kashagan - the largest one found in the world in recent decades, oil fields, according to its reserves reach at least 10 billion. barrels, and it is expected that this year Kazakhstan will auction about 100 offshore sites. Giant plot develops operating company "Agip KCO» (Agip Kazakhstan North Caspian Operating Company, AgipKCO). It is expected that the right to develop land in the area of Kashagan will claim several other western oil companies.

In a related area company "KazMunaiGas" has signed a contract for a loan of 200 million. USD from the Japan Bank for International Development for the modernization of an oil refinery in Atyrau. It is expected that the refinery modernization will significantly improve the performance of oil production in Kazakhstan by 2005.

However, despite numerous predictions regarding the capacity of the Kashagan field, it is assumed that the impact of it can be expected only after 5-10 years. If Tengiz, Kashagan, and many others, not so large deposits will be so powerful, is expected to Kazakhstan in the coming years could be one of the five largest oil-exporting countries (Zhakipbekova, 2010).

## **4. Analysis of selected companies**

### **4.1 Basic characteristics of selected companies (Tengizchevroil)**

#### **4.1.1 History and activities (main activity), competitive advantages of Tengizchevroil.**

Tengizchevroil - Kazakh-American merged corporation, engaged in geological surveys, excavation, extraction and sale of crude oil and byproducts. Company «Tengizchevroil» is the largest oil producing countries now in Kazakhstan (Kazakhstan business magazine, 2003).

The Tengiz oil field in western Kazakhstan was opened in 1979 and is one of the deepest and largest oil fields in the world. In April 1993, as a result of the signing of the agreement between the Government of the Republic of Kazakhstan and the corporation "Chevron" was created by "Tengizchevroil" LLP (TCO). At present, its partners are: Chevron - 50%, KMG - 20%, ExxonMobil - 25% and LukArco - 5% ( Tengizchevroil ,2011)

"Tengizchevroil" is located within the licensed area of 2500 square kilometers or 1,600 square miles, includes the super-giant Tengiz field and a smaller but sizable Korolev field and several exploratory prospects

The recoverable reserves of the Tengiz and Korolev fields are estimated from 750 million to 1.1 billion tonnes of oil. Total proven reserves in drilled and undeveloped sites undrilled portions of Tengiz field reservoir projected at 3.1 billion tonnes, or 26 billion barrels. The volume of stocks of the Korolev field, relating to the world-class deposits, estimated at 188 million tons, or 1.5 billion barrels, accounting for one-sixth of the Tengiz reserves.

Tengiz field - is the world's deepest developed oil field-supergiant, the upper oil-bearing with the top reservoir which lies at a depth of 4,000 meters or 13,000 feet. Tengiz reservoir is 19 kilometers (12 miles) wide by 21 kilometers (13 miles) long. The oil column

measures an incredible one mile thick. The reservoir area is so large that one would have to run nearly two marathons to cover the entire distance around it (Tengizchevroil, 2011)

**Competitive advantages of the company.** Technological amenities are one of the key advantages of TCO. The basic priority in the direction of business development of TCO is associated with an expansion production capacity and introducing leading technologies of oil production. TCO performs activities, focusing on expanding production in the framework of the "Project for future expansion using technology, the reverse pumping raw gas, which contributes to maintain the necessary level of pressure in the seam and thereby ensures a high yield of oil. The technology is greener and helps to extend suitability of a field.

#### 4.1.2 Financial indicators

Table №7. Financial of LLP «TCO».

Indicators	2010	2011
Total assets	\$ 15 181 mln	\$ 15 212 mln
Costs for investing activities	\$ 5 789 mln	\$ 5 398 mln
Total receivables	\$ 6 532 mln	\$ 6 900 mln
Net profit	\$ 6 593 mln	\$ 4 178 mln
Total capital	\$ 8 657 mln	\$ 8 302 mln
The volume of sales	\$ 14 329 mln	\$ 8 941 mln

Note: own processing

Source: Financial statements of the company Chevron

Financial statement of Chevron points out the activity of Tengizchevroil for 2010. Company showed that, the company compared to the previous year has generally good results. Significant positive change is visible in indicators of net profit, which is 57.8% higher compared to the previous year 2009. Total capital is higher by 4.2%. Costs for investing activities decreased by 2.5%, and total assets decreased from the previous year by 5.3%(Financial statement Chevron). From 1993 through September 2011, TCO made direct financial payments of 55.8 billion USD to Kazakhstan entities, including Kazakhstan employees' salaries, purchases of Kazakhstan goods and services, tariffs and fees paid to state-owned companies, profit distributions to Kazakhstan shareholder and taxes and royalties paid to the state budget.

Through the third quarter of 2011, direct payments to the Republic of Kazakhstan totaled 10.4 billion.USD In 2010, sum of payments were 9.6 billion USD( Tengizchevroil, 2011).

#### **4.1.3 Mining and supplies.**

Mining reserves of oil in the collector of Tengiz and Korolev fields through April 2033 is from 750 to 1.1 billion metric tonnes (6-9 billion barrels) ( Tengizchevroil act sheets, 2011).Total Proven reserves of Tengiz field is 3 billion metric tons (26 billion barrels) and 190 million metric tonnes (1.5 billion barrels) in the Korolev field. The width of the reservoir is 19 kilometers by 21 kilometers. In the third quarter of 2008, TCO completed an expansion, which brought daily production capacity to approximately 75,000 metric tonnes (600,000 barrels) of crude oil and 22 million cubic meters (750 mscf) of gas.

##### **The volume of crude oil:**

The volume of crude oil from January to September 2011 compiled by 19 million metric tonnes (152 million barrels). Sales production totaled by 18.7 million metric tonnes (146.6 million barrels).

TCO exports crude oil via various transportation routes. During the first ten months of 2010, TCO exported 13 million metric tons of crude oil through the Caspian Petroleum

Consortium (CPC) pipeline to Novorossiysk. The other part was transported via rail to Odessa, Feodosiya, Aktau and further to Batumi and Kulev.

## **5.1 Basic characteristics of the selected company (KazMunaiGaz)**

### **5.1.1 History and main activities, competitive advantages.**

National company «KazMunaiGaz» (KMG) – Kazakhstan national operator, which deals with exploration, refining, processing and transporting hydrocarbons, representing the state interests in the gas and oil sector of Kazakhstan (Charter of JSC NC "KazMunayGas", 2010)

«National joint-stock company« KazMunaiGaz » was established in accordance to the Decree of the President of the Republic of Kazakhstan as of February 20, 2002. The founder of KMG is the Government of the Republic of Kazakhstan represented by the Committee of state property and privatization of the Ministry of Finance of the Republic of Kazakhstan.

KMG shares 90%, which are owned by Samruk Kazyna National Welfare Fund JSC. 10% of KMG shares are owned by the National Bank of the Republic of Kazakhstan. National Company “KazMunayGas” is a vertically integrated oil and gas company performing a full production cycle from exploration and production of hydrocarbons, their transportation and refining to provision of customized services ( KMPG, 2011)..

Main business areas:

- Exploration and production of oil and gas;
- Oil transportation;
- Refining and Marketing;
- Gas transportation and marketing;
- Service for the oil and gas industry.

The Company's shares are placed on the Kazakhstani Stock Exchange (KASE), and listed on the London Stock Exchange (LSE).

JSC NC "KazMunayGas" aims to become one of the 30<sup>th</sup> largest oil and gas company in the world in terms of reserves and oil production, strengthen its position in the sectors of oil refining and marketing of oil and gas business.

**Competitive Advantages of the company.** In 2006 JSC NC( Join-stock Corporation) «KazMunaiGaz» shares were placed on a stock market of Kazakhstan. Because of that, company obtained more than 2 billion USD. The main competitive advantage of the company is guaranteed economic and political support of the state, represented by the Government of the Republic of Kazakhstan. For existing conditions legislative standards of a country permits KMG to have priority status in purchasing expropriated territory in the gas and oil regions. Such status allows KMG implement the development strategy of the company through expansion of the portfolio of assets while purchasing new fields. Over the period from 2010 to 2014 JSC NC « KazMunaiGaz» plans to invest approximately 20 billion USD. One of the important aspect of competitive advantage of JSC NC «KazMunaiGaz» is access to the main oil tracks. The Company concluded a series of agreements and their condition guarantees access to the pipeline Uzen-Atyrau-Samara, through which company will conduct a considerable part of the export into far abroad, and to the pipeline of Caspian Piping Consortium (CPC).

### 5.1.2 Financial indicators.

Table 8- Financial indicators of JSC NC «KazMunaiGaz».

Indicators	2010	2009
Total assets	\$ 16 499 mln	\$ 12 157 mln
Costs for investing activities	\$ 3 873 mln	\$ 1 682 mln



Total receivables	\$ 10 203 mln	\$ 6 165 mln
Net profit	\$ 2 738 mln	\$ 2 341 mln
Total capital	\$ 5 903 mln	\$ 4 406 mln
The volume of sales	\$ 21 007 mln	\$ 11 778 mln

Note: own processing

Source: Financial statements of the company <http://www.kase.kz/ru/emitters/show/KMGZ#section-6>

Growth performance indicators, as well as exceeding the projected average price of crude oil production have a positive impact on the financial results of operations. Net income amounted to 339 488 365 thousand tenge (2 738 million USD). There were significant changes in total assets, an increase of up to 35.7%. Total capital is higher than the previous year by 35%.

According to operative data of *Consolidated Financial Statements of Erns andYoung audit company*, the volume of oil and gas extraction in the group of companies of "KazMunaiGaz"- on the 1<sup>st</sup> of September 2010 amounted to 12.6 million tonnes, exceeding the corresponding figure of last year by 5.8%. In January and August volume of transported oil by major pipelines amounted to 43.86 million. tonnes, which is 5.1% more than the indicator for the analogous period in 2009.

In addition, during the first eight months of this year the volume of transport of oil at sea compiled 4.4 million tonnes. The volume of gas transportation totaled 66.7 billion cubic meters, which is 11.7% higher than the analogous indicator of last year. Also, as on the 1<sup>st</sup> of September 2010, the consolidated volume of oil processing amounted to 10.1 million tonnes of oil, which is nearly double the analogous indicators of last year.

### **5.1.3 Mining and supplies.**

*Official pages of KazMunaiGaz states,* Joint Stock Company «Mining and Exploration «KazMunaiGaz » is a subsidiary of «National Company« KazMunaiGaz ». Mining is the main source of JSC NC « KazMunaiGaz». JSC «Exploration Mining « KazMunaiGaz »- one of the leaders in oil production in Kazakhstan. The company benefits from oil fields in the western and southern region of Kazakhstan.

The company manages 41 fields in Western Kazakhstan. The biggest one is Uzen, where is being mined since 1965. According to the government claim by the end of 2009 estimated oil reserves of KMG amounted 234 million tonnes (1 725 million barrels). For the same continuation of mining as in 2009 multiplicity of stocks is 26 years old. KMG has many years of experience in oil production and has an extensive knowledge base in the area of geological mining construction fields in Kazakhstan.

Sales of oil are carried through the store «KazMunaiGaz». Export of crude oil in 2009 represented 77% of total supply. Acquisition of new assets is the central task of the Company's strategy. *Annual report of the company* gives as information about, « KazMunaiGaz» purchased 50% shares of «Kazgermuni» in April 2007, 50% of «Karazhanbasmunai» in December 2007 and lastly a 33% of «Petrokozachstan» companies in December 2009. All of purchase which has been made led to an increase in production volume and resulted in a significant increment of oil reserves.

«KazMunaiGaz» has developed and successfully applies planned social program that includes social partnership, educational projects, sponsorship and support of employees and their families. The basic priority of the company is also to protect environment in regions where mining activity is carried out.

## 6.1 Comparison of selected companies

### 6.1.1 Financial indicators

On the basis of the main financial indicators with a first glance it is difficult to identify the leaders. It seems that both companies are strong competitors of their field.

Table 9- Financial indicators of «KazMunaiGaz» and «TengizChevroil» for year 2010.

Indicators	«KazMunaiGaz»	«TengizChevroil»
Total assets	\$ 16 499 mln	\$ 15 181 mln
Costs for investing activities	\$ 3 873 mln	\$ 5 789 mln
Total receivables	\$ 10 203 mln	\$ 6 532 mln
Net profit	\$ 2 738 mln	\$ 6 593 mln
Total capital	\$ 5 903 mln	\$ 8 657 mln
The volume of sales	\$ 21 007 mln	\$ 14 329 mln

Note: own processing

Source: Financial statements of the company «Chevron», consolidated financial statements of «KazMunaiGaz» - provided by an independent auditor «Ernst young», Astana, year 2010.

Despite of a fact, of two companies being serious players in oil and gas industry, yet there is a significant difference in the volume of oil production. From the given figures, definitely the leader is «KazMunaiGas »- about 49.6% of oil production, which is higher than the production of « Tengizchevroil ». But it should be noted that, net profit of « Tengizchevroil » is higher than «KazMunaiGas» by 58.5%. Indicators of investment

performance of « Tengizchevroil » is also much higher than the indicators of «KazMunaiGas» by 31%.

Total assets of the company « Tengizchevroil » are lower than «KazMunaiGas» by 8.6%. Total receivables of «KazMunaiGas» differ significantly - above 58, 5%. Capital of «KazMunaiGas» exceeds « Tengizchevroil » by 31, 8%.

### **6.1.2 Mining and oil stocks**

Based on production volume and stocks « Tengizchevroil » is dominating. As it's known, the «Tengizchevroil» is the largest oil producing company of a country(Kazakhstan business magazine, 2003) Tengiz field is one of the deepest and largest oil fields in the world (Robertsomblums, 2011).

As already mentioned in the second chapter, the total discovered reserves of Tengiz collector is 3 billion metric tonnes (26 billion barrels) and 190 million metric tonnes (1.5 billion barrels) in the Korolev fields. As a result of project implementation capacity expansion, production capacity of mining amounted to an average of 75,000 metric tonnes per day or 600,000 barrels and 22 million cubic meters of gas and 750 million cubic feet of gas per day.

Mining reserves of oil in the collector of Tengiz fields till April 2033 will amount from 750 million to 1.1 billion metric tonnes (6-9 billion barrels)(Tengizchevroil fact sheets, 2011).

## **7. Estimation of the future development of selected companies**

### **7.1 Trends in macroeconomic development of Kazakhstan**

*Ministry of Economic Development and Trade*, specifies the basic prognosis of macroeconomic parameters of a country for the year 2011. The forecast for oil prices to be maintained at the level of 65 USD a barrel, and that is the basis for developing the budget for the year 2011 (Drachev, 2016).

*« The basis for clarification is the results of development of the economic sector in the world in January 2011, which indicated more dynamic development of several branches of the real sector and the services sector »*, - commented *Zhanar Aitzhanova*, Minister of Economic Development and Trade

Minister of Economic Development and Trade *Zhanar Aitzhanova* said *«Taking into account the dynamics of development of the economic sectors and expected external conditions, economic growth in 2011 is assessed at the level of 5%, which is 1.9 % higher than last year's forecast (3.1%). The nominal value of GDP is going towards an increase by 2 trillion 567.6 billion tenge»*

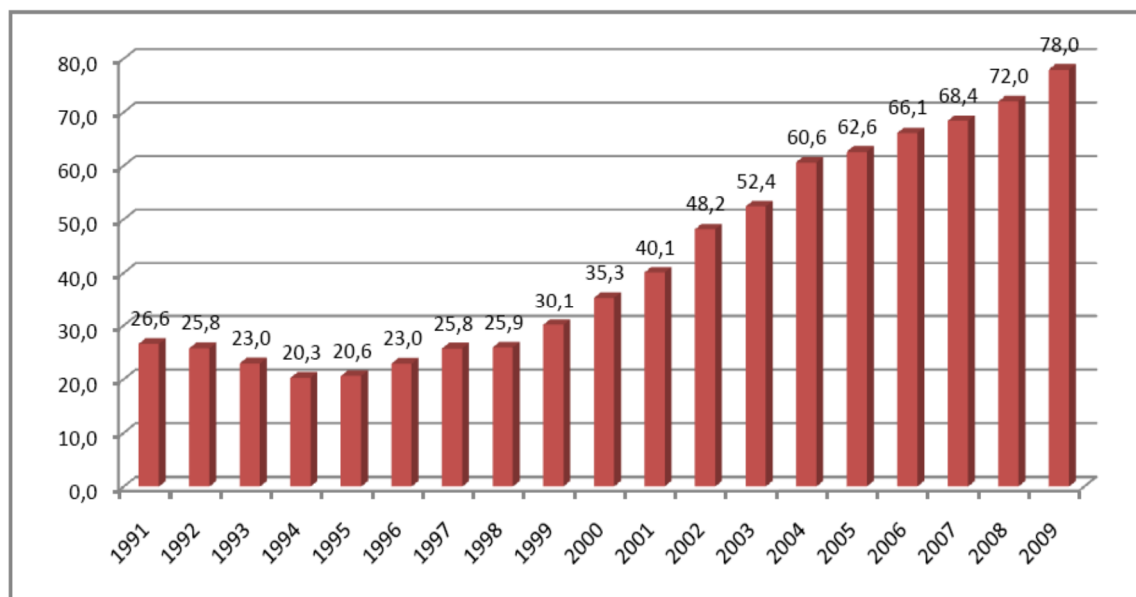
According to the assessment of the Ministry of Economic Development and Trade, with regard to the Ministry of Agriculture estimated volume of harvest of grain and livestock production, the volume of gross output of agriculture will grow in 2011 by 5.0%, exceeding the 1.3 percent previously approved indication.

"The volume of industrial production in 2011, according to the specified evaluation of a Ministry, will increase by 4.8% and by 1.2 % will exceed the value estimated earlier.

The industrial production growth will contribute an estimated growth of the mining industry by 3.5% and manufacturing industry by 7.3%.

## 7.2 Trends in the development of the oil industry of Kazakhstan

Graph 1 -Oil production in the Republic of Kazakhstan, million tonnes per year



Source: BP Statistical Review of the World Energy, June 2010

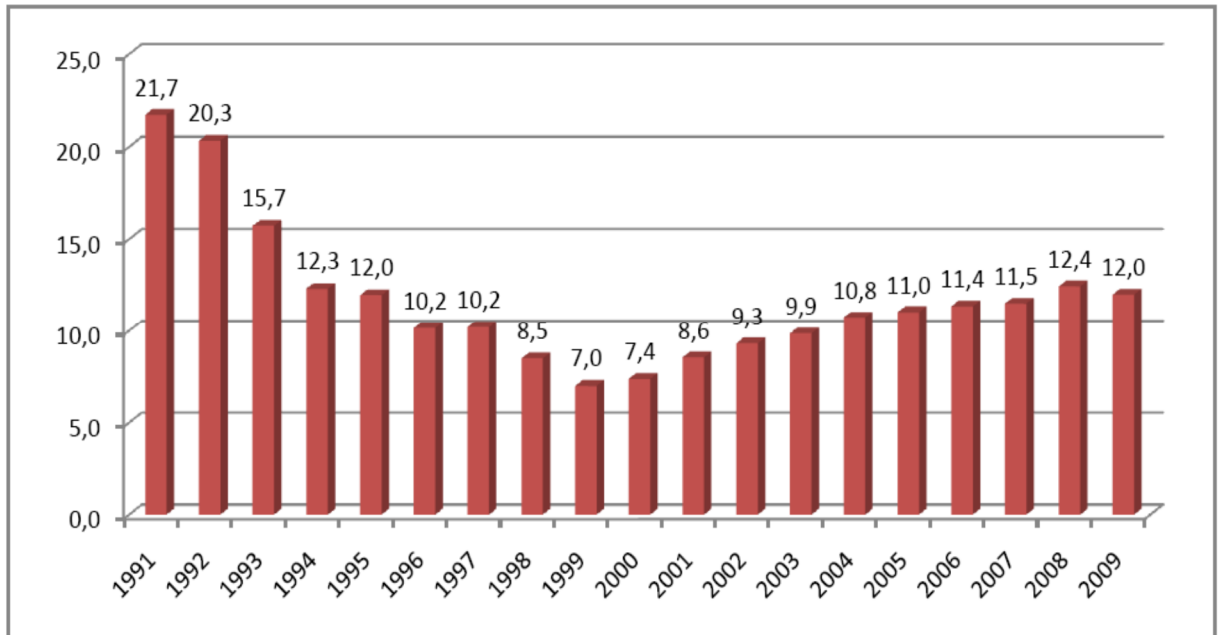
Table 2 -Oil production of Europe and Eurasia from year 2000 to 2009

Azerbaijan	14.1	15.0	15.4	15.5	15.6	22.4	32.5	42.8	44.7	50.6
Denmark	17.7	17.0	18.1	17.9	19.1	18.4	16.7	15.2	14.0	12.9
Italy	4.6	4.1	5.5	5.6	5.5	6.1	5.8	5.9	5.2	4.6
Kazakhstan	35.3	40.1	48.2	52.4	60.6	62.6	66.1	68.4	72.0	78.2
Norway	160.2	162.0	157.3	153.0	149.9	138.2	128.7	118.6	114.2	108.8
Romania	6.3	6.2	6.1	5.9	5.7	5.4	5.0	4.7	4.7	4.5
Russian Federation	323.3	348.1	379.6	421.4	458.8	470.0	480.5	491.3	488.5	494.2
Turkmenistan	7.2	8.0	9.0	10.0	9.6	9.5	9.2	9.8	10.3	10.4
United Kingdom	126.2	116.7	115.9	106.1	95.4	84.7	76.6	76.8	71.7	68.2
Uzbekistan	7.5	7.2	7.2	7.1	6.6	5.4	5.4	4.9	4.8	4.5
Other Europe & Eurasia	22.4	22.2	23.6	24.0	23.5	22.0	21.7	21.6	20.6	19.6
<b>Total Europe &amp; Eurasia</b>	<b>724.7</b>	<b>746.6</b>	<b>785.9</b>	<b>818.9</b>	<b>850.2</b>	<b>844.8</b>	<b>848.1</b>	<b>860.0</b>	<b>850.8</b>	<b>856.5</b>

Table 2. and Graph 2. shows, that Kazakhstan has highest production among Central Asian countries. The leader in production is Russia with estimated dynamic increase up to 500 million tonnes for the next year. Production of Norway is gradually declining. As OCD report notes, oil sector in Norway is “holding its breath” and future expectations and the right development of the oil price could increase the activity quickly. In 2008, the UK was the 14th largest oil and gas producer in the world. *Euan Mearns* in her analysis states, that

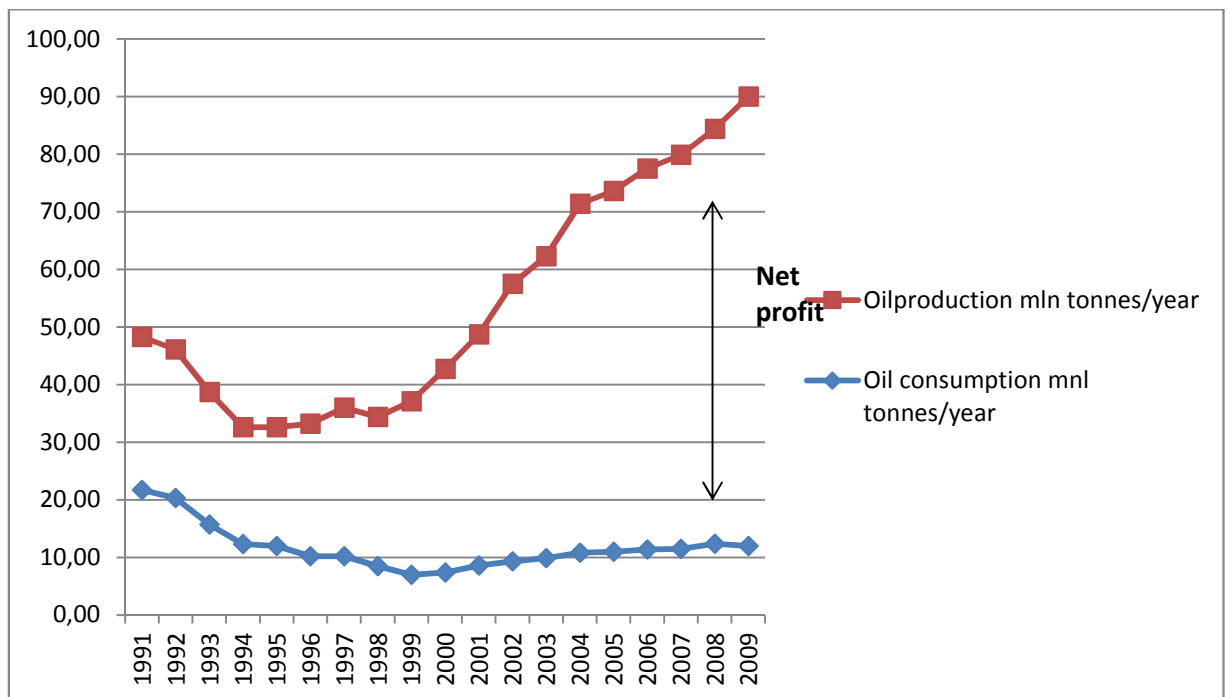
one of the main reasons of decrease are in ageing infrastructure (Schiehallion periodically 2009-2013; Elgin, Franklin and Shearwater in 2012).

Graph 2-Consumption of oil in the Republic of Kazakhstan, million tonnes per year



Source: BP Statistical Review of the World Energy, June 2010

Graph 3-Correlation of production and consumption of oil

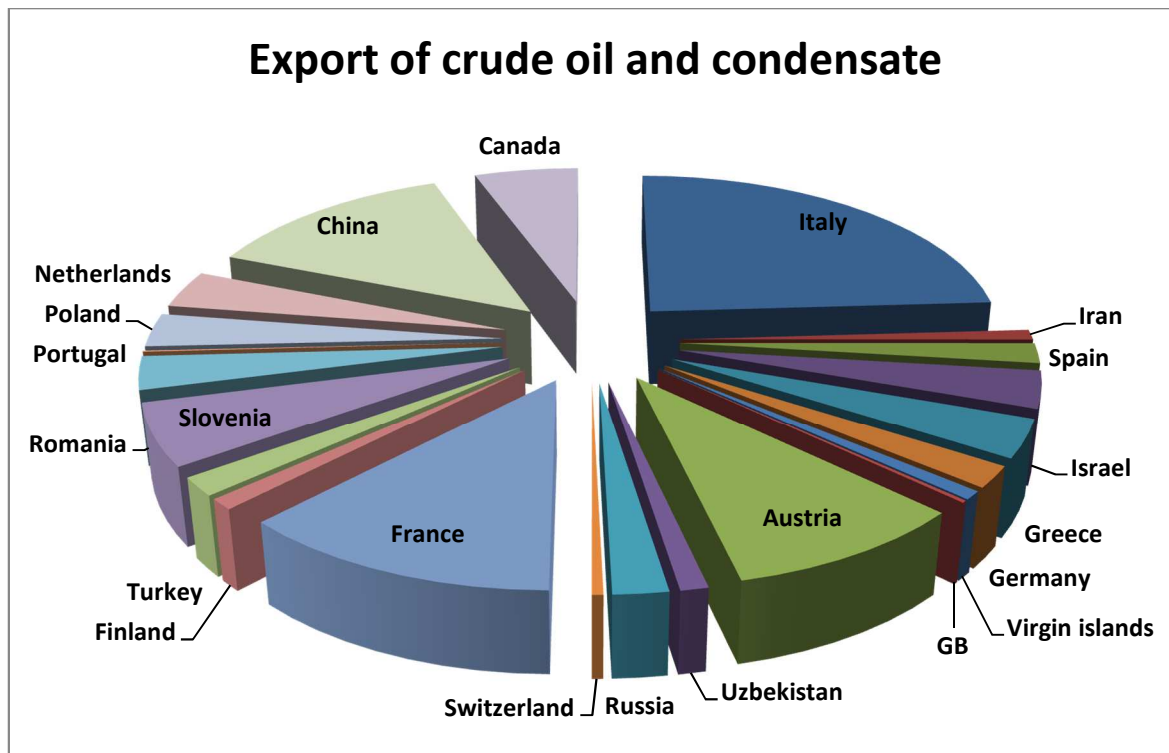


Source: BP Statistical Review of the World Energy, June 2010

The level of oil production is about 6.5 times higher than the level of consumption within the country. The positive balance net oil exports of Kazakhstan, which in 2009 amounting to 66 million tonnes, is a proof that GNP exceeds the volume of internal costs.

Oil is the basic export commodity of Kazakhstan, which is (*according to data's of Ministry of Industry and Trade of the Republic of Kazakhstan, 2010*) about 64.7% of exports in monetary terms (including petroleum products - 68%) (see Graph 1). It should be emphasized, that 70% of oil is carried out by foreign investors (from Russia, the US and European countries) represented by the number of multinational companies for the year 2010, that include ExxonMobil, Chevron, Agip, BG, BP / Statoil, Shell, Total, INPEKS, Philips, LUKoil, Eni and many others. (See Diagram 1).

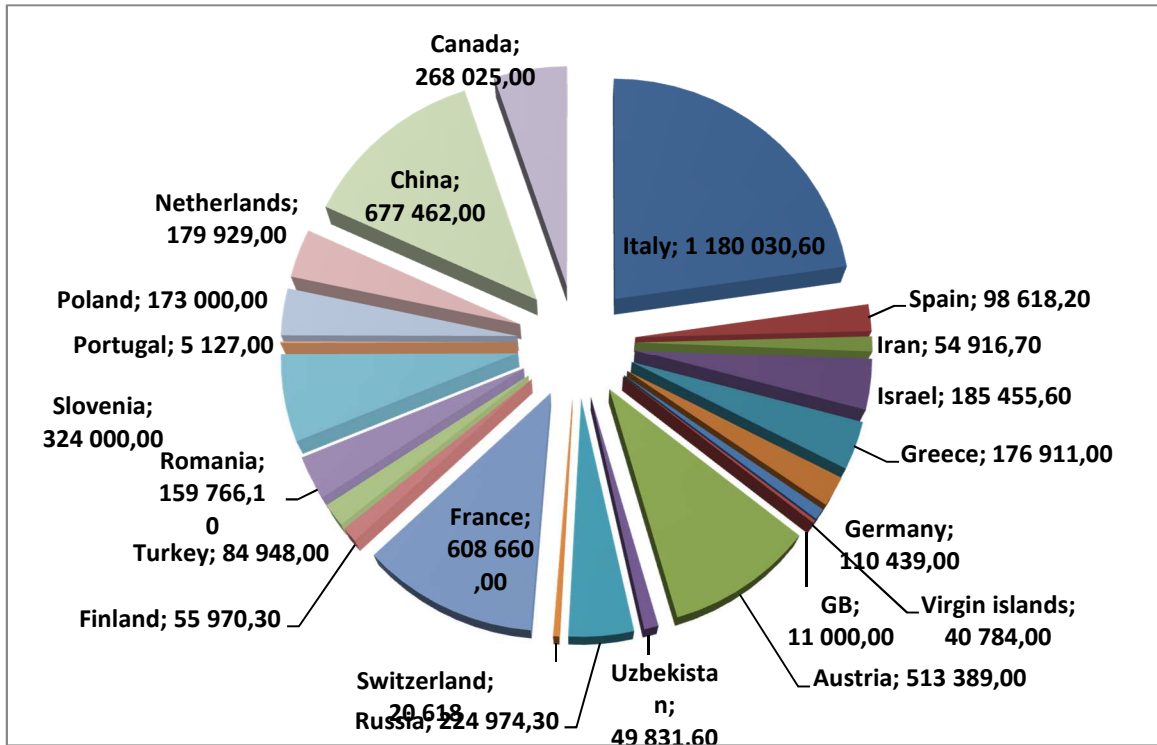
Diagram 3- The export of crude oil and condensate. January 2010 / USD million



Source: Data on exports of certain goods by main country -business partners in January 2010. The Ministry of Finance of the Republic of Kazakhstan, RARFCA



Diagram 4-The dynamics of world oil consumption by region in million tonnes

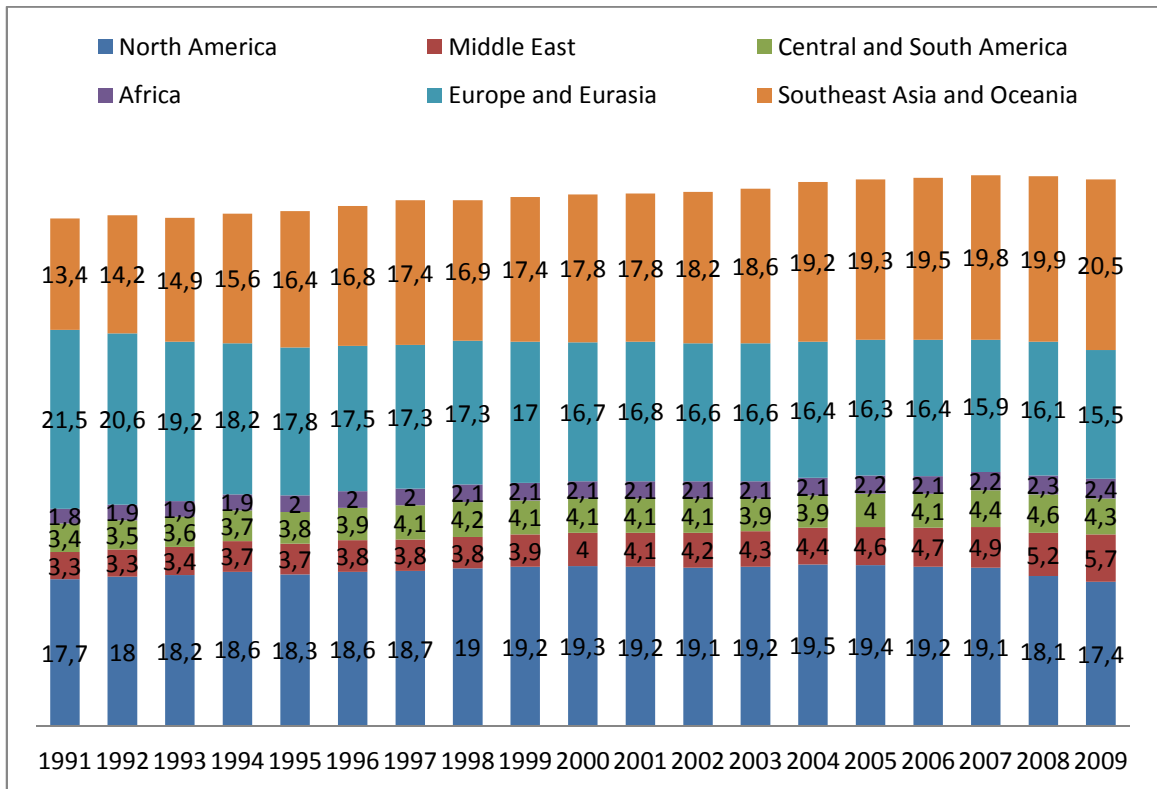


Source: Data on exports of certain goods by main countries - trade partners in January 2010. The Ministry of Finance of the Republic of Kazakhstan, RA RFCA

It should be noted, that the existing potential of increasing oil production in Kazakhstan is secured by the found and mined fields and is less dependent on the capabilities finding new fields of carbohydrates.

Although investment demand oil and gas sector is very high, the growth potential is at a high level as well. That fact is connected with the growing consumption in developing countries. There is strong demand from China and India, with informational analytical services estimation in the next year may be up to 45% of world oil consumption (Lynch, Bloomberg) .It will influence increase of export potential of the Republic of Kazakhstan and the development of the whole industry, which depends on demand of oil and oil products from the basic consumers of energy resources taking into consideration, the current dynamics of oil demand from Europe (see Graph 4, 5, 6).

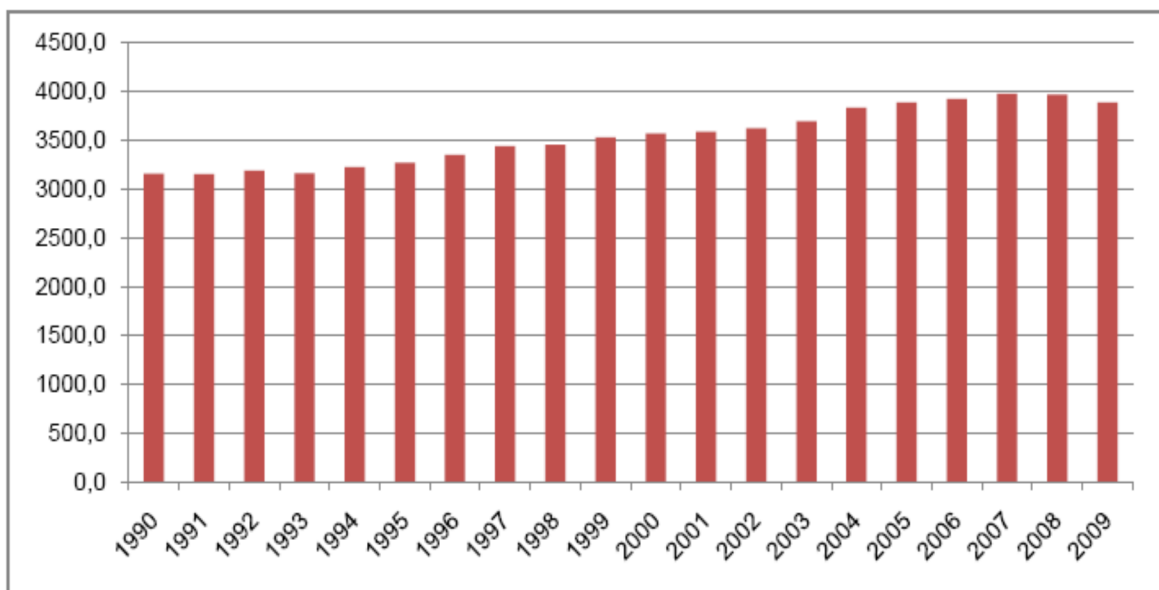
Graph 4-Dynamics of world oil consumption by general regions in million tonnes



Source: BP Statistical Review of the World Energy, June 2010, RA RFCA

The ratio percentage of dynamics of oil consumption by region looks like this:

Graph 6-Oil consumption in the world, millions of tonnes /annual

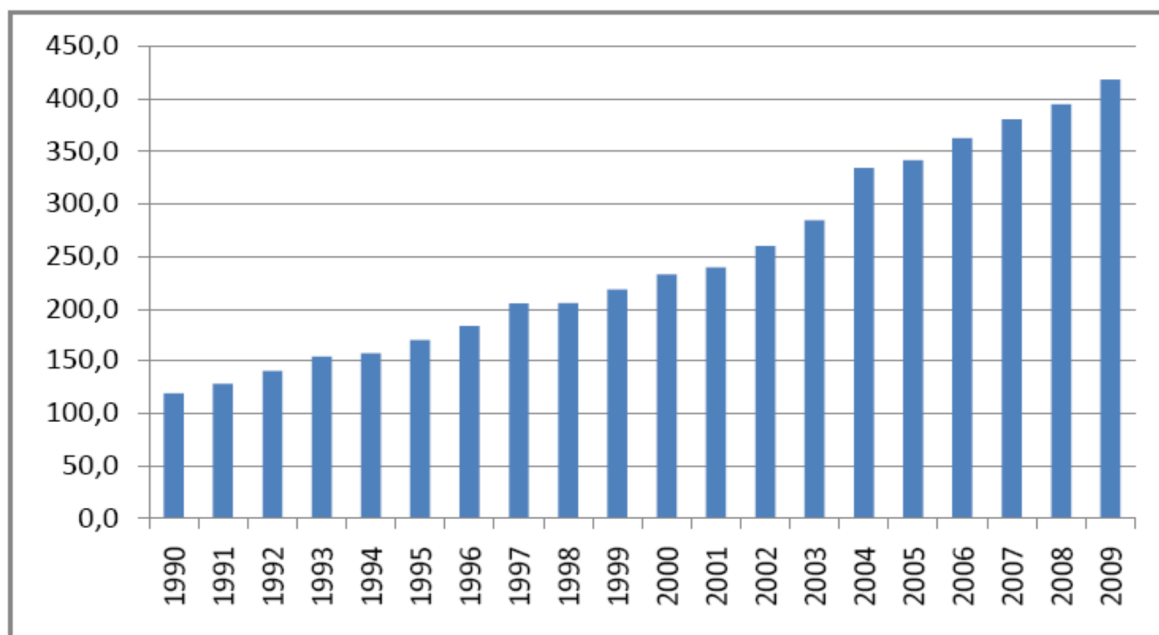


Source: BP Statistical Review of World Energy 2010

Comparing world production with Kazakhstan, the world production is more less stable than in Kazakhstan. Especially, between 1998 -2001 there was a harsh fall in production. *Yaroslav Razumov*, independent journalist assumes that the development of the defining sphere of the Kazakh economy depended on the state of one or two deposits. The world market conjuncture saved the country.

Kazakhstan's growth model opened with the onset of the financial crisis in the second half of 2007, and the economy once again came under attack when oil prices fell, as global economic conditions deteriorated in the last quarter of 2008, comments *Yaroslav Razumov*. The growth of Kazakhstan slowed by 1.8 percentage points in 2007, after which there was a sharp decline in 2008 and 2009, due to the worsening global economic conditions and a decline in demand. The volume of exports increased in 2010, as global economic conditions improved and exports increased by 46% in 2011 against the background of high oil prices. Imports, which had previously increased, declined during 2008 and 2009, but increased in 2010 and 2011 as consumption and investment activity gained momentum (Partnership Strategy: Kazakhstan, 2012-2016).

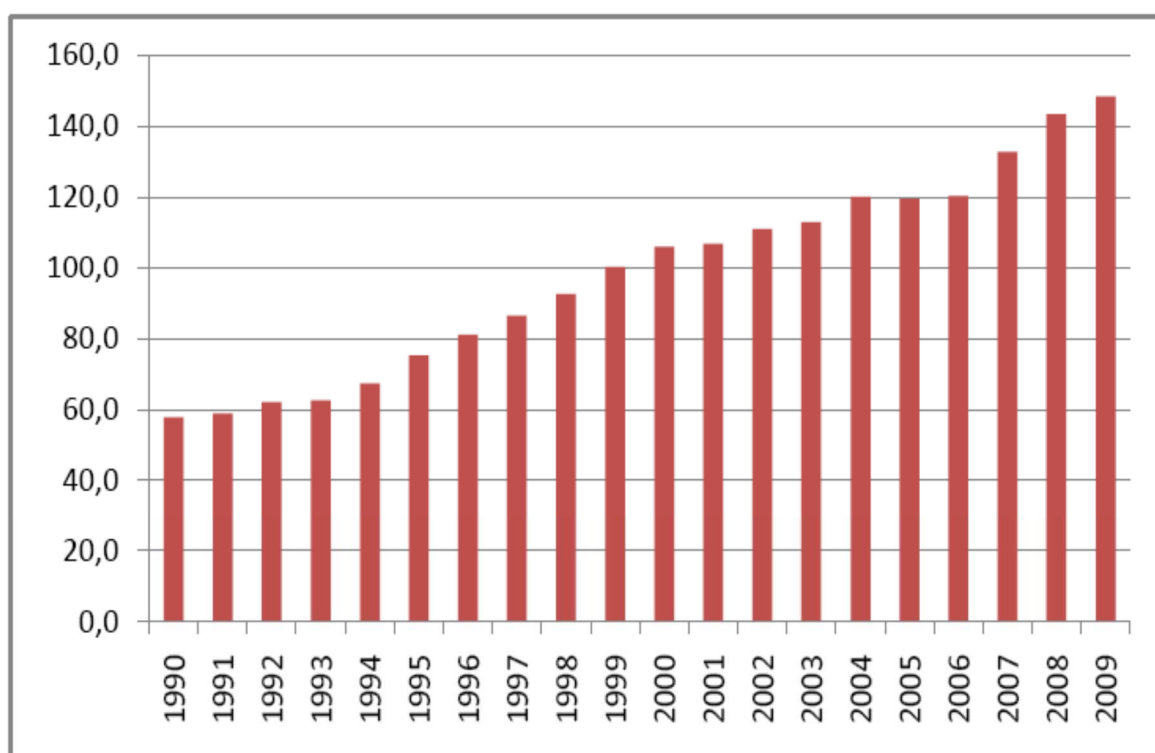
Graph 7-Increasing oil consumption in China (including Hong Kong)



Zdroj: BP Statistical Review of World Energy 2010

According to the forecast, the *IEA (International Energy Agency)* in 2030 oil consumption in India may double in comparison with consumption to 833 million tonnes of oil per year. During this period, the IEA predicts that the volume of consumption doubles, too. Over the last 20 years the level of oil consumption in China rose by nearly 4 times, while in India is about 2.5 times. The dynamics of demand for oil from China and India is shown in Graphs 7 and 8.

Graph 8-Increasing oil consumption in India



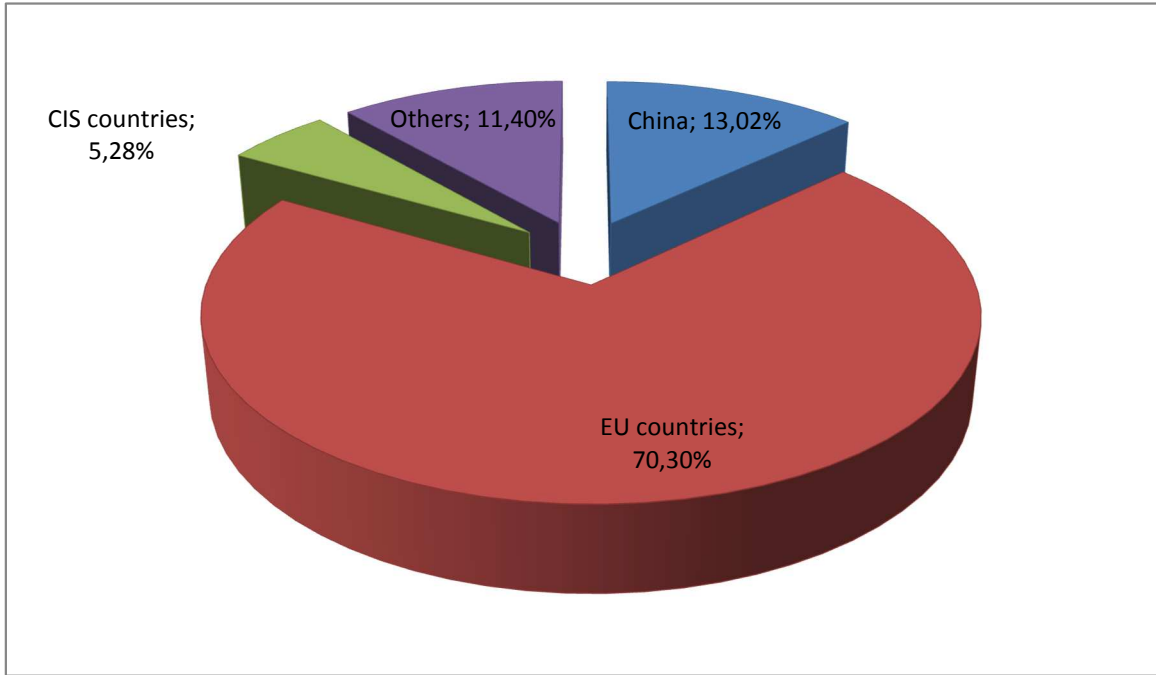
Source: BP Statistical Review of World Energy 2010

Financial capacity of India, the currency reserves of which 250 billion USD compared to China, look much more modest, but growing consumer market is forcing the country to invest in oil production projects. This factor favors the development of the oil industry in Kazakhstan, especially given the small proportion of oil exports of Kazakhstan's content, which can be increased through production growth.

Given the trend of sustainable economic development of India and China are very likely to expect a further increase in consumer demand for oil. It is expected that in upcoming 10 years, the development of alternative energy will not affect the stability of the demand for oil from these countries.

Despite the potential for export growth towards economies, currently the main export destination is the European Union, which accounts for 70.30% of oil exports (see Diagram 5)

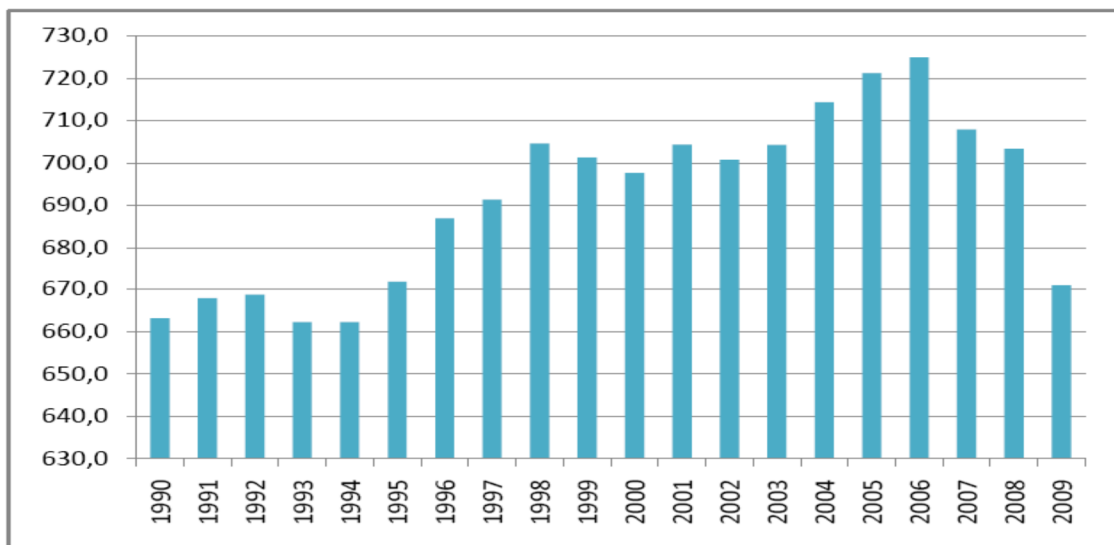
Diagram 5-Geography of the main areas of EU oil exports



Source: Data on the volume of exports of certain types of goods by main countries -trading partners in January 2010. Ministry of Finance of the Republic of Kazakhstan

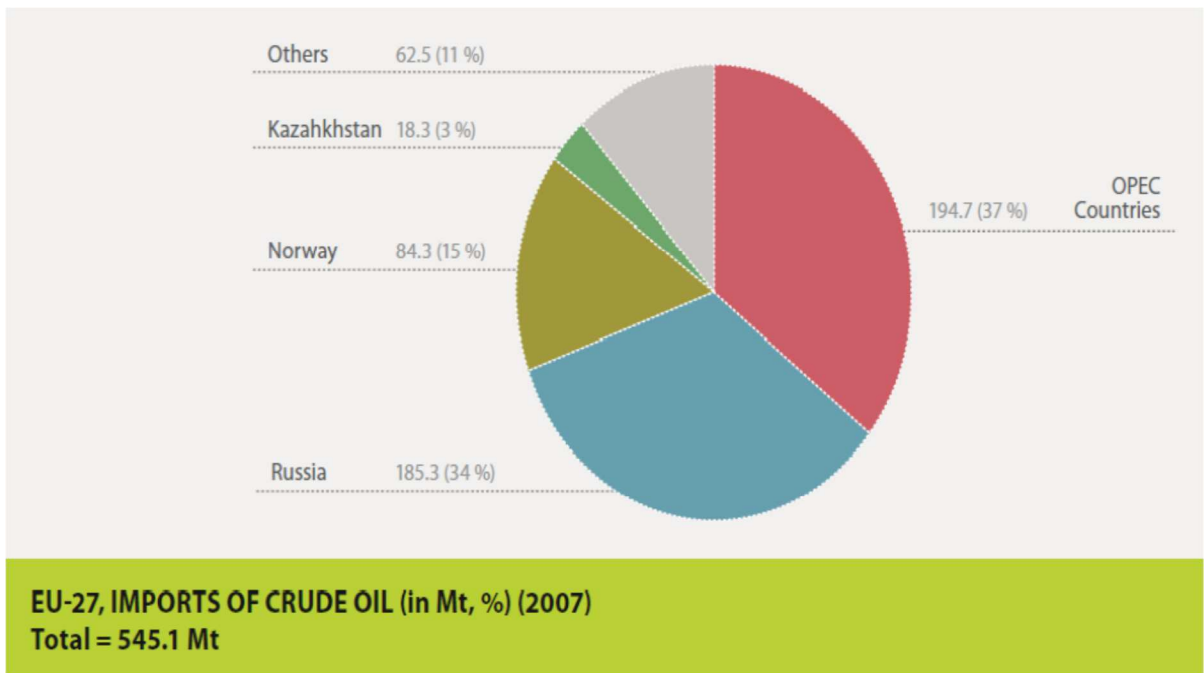
It should be noted that the supply of oil with respect to Kazakhstan content is stable, despite the volatility of the energy demand in the European Union (see Graph 9, Picture 3).

Graph 9-Oil consumption of the European Union countries.



Source: BP Statistical Review of World Energy 2010

Picture 3-Oil imports of EU countries



Source: Eurostat

Data source: -Europe's Energy Position: Market and Supply, Market observatory for Energy report 2009

Given the small share of oil exports of Kazakhstan to the European Union, in the absence of overt market barriers, it is certain, that there are all preconditions for growth in the volume of supplied energy resources in the EU 28. The diversification of export routes and increase in capacity of existing pipelines can promote the growth of the share of oil exports of Kazakhstan content in the European Union (Zhakypbekova, 2010).

## 7.2. Estimated future development of the company TengisChevroil

According to the contract, the shares in the joint venture were distributed equally between Kazakhstan and Chevron. The American side took on all the costs of the development of the deposit. The contract is valid for 40 years. The area of joint activity is 4 thousand square kilometers. Initial investments - 1.5 billion USD. Total revenues for four decades are 210 billion USD, and taxes, and royalties, are 83 billion USD. For four decades, Tengiz plans to produce 775 million tonnes of oil, 32 million tonnes of propane, 55 million tonnes of a wide fraction of light hydrocarbons, and 96 million tonnes of sulfur.

According to the initial investment and predicted cash flow, it is possible to find The is the length of time it takes to recover the initial investment.

So, **Payback period** technique is used.

**Initial Investment** were 1 500 000 000 USD.

**Expected cash flows** for the first three years were defined from the data's given ( Kazakh business magazine, 2003).

\*Cash flow was counted by converting tonnes to barrels.by multiplying an estimated USD for 1 barrel of a specific period.

\*Estimated cash flow in 1993 was 280 000 000 USD. However, due to the fact, that both Chevron and Kazakh company holds only 50%. The sum is divided by 2.

Final estimated cash flow equals to 140 000 000 USD.

1st year: 140 000 000 USD	140 000 000 USD
2nd year: 260 000 000 USD	400 000 000 USD
3rd year: 380 000 000 USD	780 000 000 USD

4th year: 740 000 000 USD	1 520 000 000 USD
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Payback period= 4 years

Nowadays, the company «Tengishevroil» officially announced that it plans to expand mining operations in Tengiz field, thereby, the volume of oil production increased by 12 million tonnes per year.

The company «Tengizchevroil» is committed to invest a sum of around 10-16 billion USD to projects, that aimed at expansion of the capacity of mined objects, such as in Tengiz fields. Project includes construction of an object, which allows stabilization of oil with the possible performance of 12 million tonnes per year, collecting system, construction object of energy production, and installation of two compressors for raw gas facilities. Additionally, 15 to 20 of pressured and mined wells will be drilled ( Kazakh news, 2011). Realization of Third generation factory project will increase the volume of mining of oil reserves in Tengiz field to 12 million tonnes per year. In doing so, all the raw gas obtained during the process of processing oil will be pumped back into the collector (reservoir). Thanks to this, project does not include object construction, for processing gas and the facility for production of sulfur.

For the year 2011, a start of a project is planned. Construction planned in the period of 2012-2017 years. Completion of installation and testing works as well as, object classification into operation is planned for the year 2017. It is expected, that the (Kazakh news, 2011) implementation of the project will involve more than 15,000 people. After project will be open for exploitation, it will create 500 job vacancies. It all promises future expansion and prosperity of a society.

Also it should be noted, that the prospective plans of «Tengizchevroil»- (TCO) on the development of mining activities in Tengiz and nearby fields hinders the problem of sulfur utilization, resulting from the industrial preparation of oil and gas.

Kazakhstan fined TCO with sum of more than 70 million USD for environmental damage due to storage in open space more than 5 million tonnes of crude sulfur (Kazakh news, 2011). As a result, to not be fined further TCO have to solve the dilemma - either to reduce the volume of oil production on the objects, or find a way of utilization of sulfur (Kazakh



news, 2010The problem is difficult by the fact that, to sell sulfur with each year is difficult and complex task. World production of this commodity steadily exceeds the demand. On the other hand, most of Kazakhstan's prospective fields contain hydrocarbons with high sulfur content, and how manufacturers will face a «sulfur obstacles»- not yet clarified.

However, it is the interest of a country to solve the problems, to better contribute to the further development of society, which is already on its way of developing.

### **7.3. Estimated future development of the company «KazMunaiGaz»**

Under difficult conditions of the global crisis, the National Company «KazMunaiGaz»- able to save the production potential at an adequate level, reaching all indicators, set last year and it managed to increase efficiency(Turezhanova, 2011).

*The National Society is maintaining its impressive position in the national economy and the figures are the proof: KMG today ensures every fourth tenge in the National Fund, every tenth tenge in retirement Republic,-said K. Kabyldin, CEO of the company*

Moreover, «KazMunaiGaz» - maintains its leadership position by the volume of oil extracted in Kazakhstan. Process of acquiring fields in the Kazakh sector of the Caspian Sea still continues, especially North Caspian project. Price purchased and included in operating assets including shares of KMG in 2009 is 540 billion tenge, which is a large volume of capital.

KMG wishes to mobilize its forces by the National Society. Company committed towards solving problems, defined the mission of the nation state president. Firstly, it concerns the modernization of production.

In the further years country will no longer feel of a need of a foreign petrol or aviation fuel. That National Society already expanded its own production. Also by this time, thanks to the modernization of factories, KMG promises to fill positions for gasoline with high octane and diesel fuel.

Company plans improvement in the environmental area. Environmental safety will be secured primarily, due to the introduction of advanced French technologies that will five times reduce benzene throws.

The company also will develop in another direction such as «Mission to Kazakhstan nations» - the formation of the economic growth center.

In the western part of Kazakhstan an implementation of oil and chemical industry began. Plans to improve profitability thanks to new projects and reduce dependence on supplies for raw materials for the petrochemical industry in the internal market.

One of the most important problems KMG is a shortage of skilled workers, which is caused by ( Shekshnya,1997, p.300):

- Poor organization of personnel planning;
- Inadequate participation of personnel services (department) to motivate staff;
- Lack of involvement of personnel services (departments) on vocational preparation, training and create employment potential;
- Lack of cohesion plan, personnel development plans for the overall development company;
- Lack of a plan for the possible adaptation to market changes;
- Weak linkages and collaboration with educational institutions, which deal preparing professionals

KMG was also controlled by the Administration of the President of the Republic of Kazakhstan. *K.Kabyldin* said, - «*All the problems arose due real shortage of qualified personnel because jobs do not receive the best workers. I remain the hope,that they will strive for professional growth, but in many cases it is not implemented. Nowadays,more of an attention is given to this issue*».

Country can soon expect growth and prosperity of society, not only from the economic side. Issues relating to human resources will be solved, which will contribute to increasing the number of skilled workers.

## 8. Conclusion

The aim of this study was to analyze and compare the two selected companies operating in the oil and gas industry in the Republic of Kazakhstan. Also, to define investment environment of a country for foreign investors. Deep investigation of economy, investment attractiveness of Kazakhstan and comparison of world and Europe economy along with oil and gas sector, is a good directory for people, who are interested to invest to the Central Asia.

Thesis deals with the comparison of the two leaders in the Kazakh oil industry such as ,«KazMunaiGaz» and «Tengizchevroil». Long-term bilateral relations of two companies, impacted on increase of GDP growth, investigating new deposits, employing more than thousands of people, opening social programs, grants as well as new regulation of a country. The Law "On Foreign Investments", determines by the legal status of foreign investments in Kazakhstan, establishes forms of exercise facilities and foreign investment in the Republic of Kazakhstan. The legal regime provides guarantees to foreign investors, . Entirely new approaches and management of energy resources. Thesis showed number of factors adversely affecting the functioning and development of the industry and its still ongoing economic crisis in Kazakhstan. It has an impact on potential natural resources and their processing and status of fixed assets and their qualitative properties in the exploited areas. Kazakhstan's economy remains heavily dependent on the cycle of the global market, especially the oil market. Export of oil increased significantly, and Kazakhstan is the second largest producer of oil after Russia among the former republics of the Soviet Union. Kazakhstan has a lot of discovered oil reserves. Kazakhstan has large reserves of hydrocarbon resources.

Today the Republic of Kazakhstan is one of the major oil-producing countries in the world, occupying 9th place according to proven reserves and 12th according to probable reserves. Prospective area containing oil and gas is 1 million 700 thousand kilometers, which represents more than 62% of the territory of the country. « Kazakhstan 2050 Strategy» focuses on widespread economic, social and political reforms to

position Kazakhstan among the top 30 global economies by 2050. Country forecast a brighter future to the oil and gas industry, by expanding pipelines and finding new fields.

Kazakhstan economy is growing steadily. Devaluation in 2016, was an intention of attracting new investors to the country. Almost 30 foreign investors launched new productions in Kazakhstan in 2016.

The oil company Tengizchevroil (Tengizchevroil) in 2017 will send a \$ 5 billion project to the future expansion project - the wellhead pressure management project (PFB PUUD) at the Tengiz field, which shows high interest in investing into the oil and gas industry.

This year, Forum 'Future Energy' to be held under EXPO-2017 in Astana. An International Exposition scheduled to take place between June 10 and September 10, 2017 in Astana, Kazakhstan. The expo's theme is "Future Energy", and aims to create a global debate between countries, nongovernmental organizations, companies and the general public on the crucial question: "how do we ensure safe and sustainable access to energy for all while reducing CO2 emissions(Bureau International des Exposition, 2017).

EXPO is also, one of the big step in a global arena, which will attract a lot of investors from all over the world. It is a huge opportunity to build new bridges between Kazakhstan and the world!

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