

Energy and Geopolitics in CIS

Thursday 15 June 2017, London

Access for Women in Energy (AccessWIE) organised a roundtable dinner discussion on Energy and Geopolitics in the Commonwealth of Independent States (CIS), on 15 June 2017 in London. The dinner was hosted by Fieldfisher, a leading European law firm and the largest dedicated Russia and CIS Group in London.

In addition to the Ambassador of Kazakhstan, HE Erlan Idrissov, who was the Guest of Honour, and Lord David Howell, Chairman of the House of Lords International Relations Committee and Co-Chairman of AccessWIE, participants came from a variety of institutions including: Amec Foster Wheeler, BP, Crystol Energy, Deutsche Bank, EBRD, Fieldfisher, IHS Markit, Kazakh Embassy, Kazmortrasflot, Mazarine Energy, Novatek, Oxford Institute for Energy Studies, Russian Embassy, Samruk Kazina, Statoil, Total, and the Windsor Energy Group.

Dr Carole Nakhle, CEO of Crystol Energy and Director of AccessWIE chaired the discussion, which focused on Kazakhstan, Russia, and Turkmenistan and addressed issues such as: the challenges and opportunities in the energy sector especially in the light of current oil and gas prices; energy and economic reforms; impact of sanctions; energy financing; transport issues and country risk. Below is the summary of the main points raised.



HE Erlan Idrissov (left) and Lord Howell (right) with participants during the networking reception

Kazakhstan

- Kazakhstan is the largest landlocked country in the world, surrounded by giants like Russia and China as well as emerging giant India.
- It is resource rich with substantial oil and gas reserves and the second largest uranium resources in the world (after Australia).
- The country's energy policy is based on balancing between conventional fuels and green energy.
- The Government has set a target to increase renewable project capacity by 29 times by 2020 (and potentially by 45 times by 2050). A share of alternative green energy sources, including nuclear energy, is planned to total 50% by 2050. Expo 2017 is dedicated to future energy.
- Despite strong policy support, there are several obstacles for green energy development, among others: long distribution distances, old infrastructural and facility systems, complexity of the Combined Heat and Power (CHP) plant operation, geographical and harsh weather condition.
- Traditionally, gas was primarily re-injected in oil fields, but a new gas strategy is being pursued with the aim to promote the role of natural gas in the country's primary energy mix (currently 19%) and a gradual replacement of the coal's share (more than 56%) – not a smooth process, however, given the strength of the coal industry.

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- The Government wants to tap its oil and gas resource potential at maximum before it is too late. But the top priority is to diversify the economy.
- The Kazakh authorities appreciate that the country needs to focus on internal prosperity and develop economic and human potential.
- The Government has embarked on a series of privatisation of national assets. The National Oil Company, KazMunaiGas (KMG), which has a broad portfolio of oil and gas assets, is considered for privatisation although it will be done in phases.



During the networking reception

- International banks are seeking to invest in ‘clean’ electricity production.
- The country has long adopted a welcoming attitude towards foreign investment and international expertise, especially in oil and gas. Legal stability is a reality. Several Asian companies, including China National Petroleum Corp. (CNPC) have also entered the market.
- New oil and gas opportunities will arise should the oil price continue to recover. The key for investors is a stable regulatory regime. The industry has expressed concerns about environmental regulations, mainly those related to CO2 emissions.
- Kazakhstan is trying to balance the ‘old’ onshore production (of more than a Century old) with the relatively ‘new’ offshore production. Despite a series of technical problems and cost overruns, the Kashagan oil field in the Caspian Sea is ramping up production helping sustain the total country’s crude output at a time when onshore production is declining.
- The Government is working on modernising the regulatory framework to improve the business environment. It has adopted the English Law, signed a constitutional law in Dec 2015 to establish a new financial hub, the Astana International Financial Centre, operational in 2018.
- Kazakhstan has strong ties with the UK. This partnership is poised to remain important at all levels, including political, economic, and trade relations as well as collaboration in military, educational, and legal areas.
- The dispute over territorial division and the legal status of the Caspian Sea remains. The Kazakh Government acknowledges the importance of regional cooperation and is backing a final agreement between the five littoral states (Azerbaijan, Iran, Kazakhstan, Russia and Turkmenistan). The first deal on the Caspian Sea took place between Kazakhstan and Russia.
- Kazakhstan is trying to mend the mistrust between Russia and the West.

Russia

- Russia is a global power, with the primary interest to build a strong society and economy – like any other global power.
- It is one of the world’s largest oil and gas reserves holder and producer. It is also a low-cost producer, especially in mature areas where transportation is well developed.
- State players dominate the upstream oil and gas sector. Several independent local producers exist but their access to pipeline exports has been limited given the monopoly of Gazprom, which provides around 30% of Europe’s gas needs.
- There is the general belief that the economy works better under sanctions. Sanctions did not deliver; isolation does not produce desirable results.
- Participation of international companies has recently been under pressure due to the imposition of sanctions. However, it has resulted in a greater collaboration with Asian partners. Other existing foreign players are proceeding cautiously but they have not exited the market completely (e.g. Amec Foster Wheeler, BP, Halliburton, Shell, Statoil, Total, and Weatherford).

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- Russia recorded a remarkable improvement in the ease of doing business during the last decade. The index is estimated to have increased from the 92nd place in 2013 to the 54th in 2014, a sharp improvement in just one year. In 2016, Russia ranked 40th among 190 economies according to the World Bank annual rating.
- Despite the double whammy of low commodity prices and international sanctions, the country has exceeded all expectations partially thanks to economic and monetary reforms particularly the devaluation of the Rubble. To improve efficiency of the monetary police, the Government abolished the dual currency soft peg which also helped the budget find a balance between US dollar revenues and Rubble expenditures.
- The GDP growth is expected to start recovering and account for around 2-3% in the short run.
- Approximately a half of Russia's revenues are sourced from taxes and export duties.
- Russian oil production has been resilient to poor market conditions and even hit a post-soviet high. Oil output is reported to have been cut by 300 million barrels a day under its agreement with OPEC.
- People put too much risk on Russia, unjustifiably. Above ground risks are much lower than other oil and gas rich regions such as Colombia, Nigeria, and some Gulf states.
- The Government is seeking to maximise budget revenues and make the investment climate more attractive. The crude export duty reduction to 30% set for 2017 is one example. The oil and gas fiscal regime is internationally competitive.
- The Novatek's Yamal LNG project – the first LNG this year from the Arctic region - proves that there are major opportunities for private partnership with the Government. The leading Russian natural gas producer demonstrated its ability to manage complex Arctic projects. Novatek partners with CNPC, Silk Road Fund, and Total.
- Russia is one of the world's largest power markets, however, the share of renewable energy in the country's primary mix remains low. To promote 'green' projects, the Government has launched the largest in its history auction, offering contract

awards to buy 1.9 GWt of 'clean' electricity.



Dr Carole Nakhle (center) chairing the dinner discussion

Turkmenistan

- Turkmenistan has world-class gas reserves, ranking 4th globally after Iran, Russia, and Qatar.
- Most of state revenues come from the hydrocarbon sector with the National Oil Company responsible for most of oil and gas production.
- The business environment is closed and government-controlled. Foreign investors are deterred by a high level of bureaucracy and red tape as well as the lack of transparency. A thirst for revenues may encourage the government to improve the regulatory system. At present, even such majors as Total and BP struggle to get a contract.
- One of the country's key issues is gas monetisation, especially after contractual disputes with important customers like Russia and Iran. Russia cancelled its contract for Turkmen gas in 2016, while gas supplies to Iran have been suspended recently.
- Turkmenistan managed to break its dependence on Russia and diversify gas export routes, although it has simply replaced it with China. In 2016, it was the largest supplier of gas to China and export volumes are expected to expand.
- International operators are currently restricted to the offshore (Caspian) area but the more interesting opportunities are onshore which is closed. CNPC is the only exception as it has direct access to the onshore development area (i.e. the Bagtyiarlyk contract area and Galkynysh gas field), in particular thanks to its investment in the vital Turkmenistan-China gas pipeline system.

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- Turkmenistan is facing significant financial challenges due to its high dependence on hydrocarbons and the prolonged market crisis.
- The country is attempting to diversify its economy, for example, by focusing on downstream projects where Japanese and South Korean investors are most notable.

Regional Overview

- The region has traditionally been a ‘peace zone’ for China and a reliable oil and gas supplier to the world.
- Resources are there, but costs remain an issue.
- Russia can deliver cheap supplies. The potential to export to Europe is also substantial, but there are political issues.
- Nord Stream makes perfect commercial sense; it opened up new opportunities.
- A major gas project to become operational in 2020 in Azerbaijan will feed into Europe’s Southern gas corridor.
- However, the geopolitical risk is high as countries face tougher competition: everybody is after the same thing.
- The former tension between producers and consumers has shifted to between producers.
- Central Asia will increasingly focus on itself.
- Opportunities exist for the region to enhance its internal trade, which currently stands abnormally at less than 5%.

Industry Trends

- The oil and gas industry should not be apologetic.
- We live in a world of abundance but the international oil companies need to revisit their strategies: they sit on massive data but they still don’t know how to be the Apples and Googles of this world.
- The future of the industry is bright but at a price. An increase in oil and gas prices will make greener energy more attractive.
- Customers are becoming much smarter. The industry needs to look for new ways to use their oil and gas. Natural gas, for instance, can be used to power hydrogen cars.



Farewell

- The service industry, primarily banking, follows the popular trends, hence, its increasing interest in financing green projects. The EBRD, for instance, has sponsored several solar projects in Kazakhstan, although bad weather has slowed construction.
- The US withdrawal from Paris deal will not make any major difference; today’s changes are not policy driven.

Access for Women in Energy (AccessWIE) establishes a community of practice, offering women a peer-group platform to meet with their contemporaries both female and male in the private and the public sectors across the world of energy.

AccessWIE engages its members in regular informed debates on global energy related issues. These are usually held on a quarterly basis and include seminars, business meetings and roundtable discussions to address strategic issues involving energy globally. Our central aim is to support the development of women in the energy sector – across the whole supply chain related services and all sources of energy: from oil, gas and coal to renewables and nuclear.

AccessWIE was founded in 2007 by Dr Carole Nakhle, who is the Chief Executive Officer of Crystol Energy. The group is co-chaired by Lady Judge (The Hon. Barbara Thomas), Chairman Emerita of the UK Atomic Energy Authority, and Lord Howell, President of the Royal Commonwealth Society and of the UK Energy Industries Council.

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