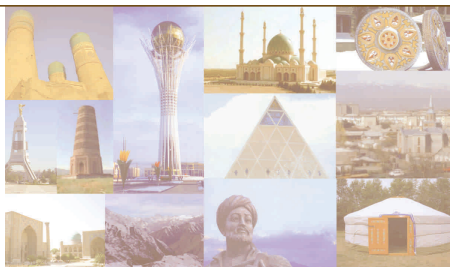


CENTRAL ASIA OBSERVATORY

<http://www.asiacentral.es>



The Central Asia Observatory (CAO) was established in 2007 by three institutions that are interested in the area: Casa Asia, CIDOB Foundation and Royal Institute Elcano



CASA ASIA



CIDOB
Fundación Center for International Affairs



Royal Instituto Elcano



KAZAKHSTAN

SEPTEMBER-OCTOBER 2010

November 2010

Bimonthly article

Prof. Nargis Kassenova*

Eurasian energy forum discusses export diversification and investment climate

On 5-6 October Astana hosted the 5th KAZENERGY Eurasian Forum “The Eurasian Energy Map: Balancing Risks and Opportunities”, organized by the KAZENERGY Association headed by Timur Kulibayev, son-in-law of President Nazarbayev. Kazakhstan’s growing role as an energy producer made this forum a high-level event with the participation of foreign officials, experts and representatives of major energy companies working in Kazakhstan.

The two-day event featured sessions on issues most pertinent to the development of Kazakhstan’s energy sector: Eurasian energy geopolitics; finding the balance between transit routes, supply and demand centres; alternative energy sources, including nuclear energy and new and renewable sources; energy and climate change; investment climate; and mitigation of environmental risks in the Caspian Sea based on lessons learnt from the Gulf of Mexico disaster.

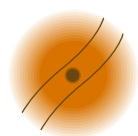
During the session on the transit potential of the Caspian region, the president of the national oil and gas company KazMunaiGaz Kaïrgeldi Kabýldin confirmed the continuation of Kazakhstan’s policy of diversifying energy export routes. Currently existing ones are Atyrau-Samara and Caspian Pipeline Consortium (CPC) pipeline going to the Russian port of Novorossiysk, Western Kazakhstan – Western China, and transportation across the Caspian Sea to Azerbaijan. Two projects under development are increasing the capacity of the CPC pipeline to 67 million tons by 2015 (currently 28 million tons) and Kazakhstan Caspian Transportation System (KCTS). The latter would include oil infrastructure on the coast and tankers to bring oil to Azerbaijan and further transport it to Turkey via the Baku-Tbilisi-Ceyhan pipeline. It is

forecast to have an initial capacity of 23 million tons a year, later increased to 35-56 million tons. Both projects have been pushed to accommodate growing production volumes of Kazakhstani oil, especially in anticipation of the giant Kashagan oilfield going online and Tengiz oilfield reaching its peak capacity. Both projects target European markets.

The session on the investment climate was one of the most interesting. Daniel Stein, senior advisor to the US Special Envoy for Eurasian Energy, expressed concern about recent actions of the government that could undermine investor trust in the contracts. He said that it is understandable that new circumstances can require corrections in existing agreements, but he reiterated that this should be achieved through negotiations and not by resorting to other methods. Stein was clearly referring to the administrative pressure exerted on Karachaganak Petroleum Operating (KPO) and Tengizchevroil (TCO) companies. The KPO was accused of tax evasions and violation of environmental laws and labour and migration legislation. After a few months of pressure, the authorities decided to drop cases filed against the company and expressed willingness to acquire a 10% stake in the company. The TCO was accused of violating the petroleum production contract conditions by drilling a number of wells below a certain level.

Meanwhile, government representatives attempted to reassure investors that Kazakhstan remains investment-friendly. A representative of the Ministry of Oil and Gas promised that contracts will not be reviewed and that the new tax regime that increases the burden on the extractive sector will not apply to stabilized contracts. He noted, however, that all the obligations shouldered by the companies must be met. Thus, Kazakhstani authorities continue to be interested in foreign investments but are now confident enough to renegotiate the deals in their favour and correct the

*Department of Political Science, Kazakhstan Institute of Management, Economics and Strategic Research



mistakes made in the 1990s contracts concluded when Kazakhstan was in a weaker position.

Another presidential term for Nursultan Nazarbayev?

The law adopted in June gave the incumbent President Nazarbayev the status of Leader of the Nation providing him with considerable powers after he retires from the post and triggering speculation about a possible successor. In the highly centralized political system of Kazakhstan, a change of leader implies serious risks both in terms of national security and the wellbeing of various interest groups. Presidential adviser for political affairs Yermukhamet Yertyspayev in an apparent attempt to diffuse the unsettling potential of such speculations, announced in an interview with a weekly newspaper that that Nazarbayev would seek re-election in 2012.¹

If Nazarbayev does run for president in 2012, he will be entitled to a term of five years. Although the Constitution contains a two-term limitation on presidency, Nazarbayev as the first president is exempt from this constraint based on a constitutional amendment adopted in 1997. If there are elections, he will most certainly win considering the nature of the political regime in Kazakhstan. Some experts, however, expressed an opinion that the elections might be cancelled in favour of a referendum that would give Nazarbayev a life-long presidency. If this pessimistic scenario proves accurate, Kazakhstan's reputation as a democratizing -albeit very slowly- country will suffer another blow and this would be perceived as particularly scandalous in case of a former OSCE chairman.

The political system of Kazakhstan has entered a stage where the personification of power and its concentration around the figure of the first president makes it vulnerable to unpredictable changes. Nazarbayev has turned seventy this year and no apparent successor has been groomed for the position.

Kazakhstan hosts the SCO "Peace Mission 2010"

For two weeks in September (9-25), all the Shanghai Cooperation Organization (SCO) member-states, barring Uzbekistan, held joint military exercises "Peace Mission 2010" at the Matybulak testing ground located 200 kilometres west of Almaty. Since 2003 there have been five exercises of this kind. "Peace Mission 2010" involved 5,000 troops: China sent about 1,000 soldiers, Russia and Kazakhstan more than 1,000 each, and Kyrgyzstan and Tajikistan contributed more than 100.

The various vignettes that formed the overall scenario centered on fighting terrorist and separatist groups and dealing with local conflicts of small and medium intensity. While combating the "three evils" of terrorism, extremist and separatism" are staples of the SCO activities, this year's Mission was also inspired by the growing instability in Afghanistan and the threat of a spillover to neighbouring territories.

While SCO as a security organization cannot be compared to NATO or even the Russian-led Collective Security Organization (CSTO) in terms of its cohesiveness, trust and level of shared responsibility for the security of each member, "Peace Mission 2010" shows that there is interest in military cooperation between Russia, China and Central Asian states. It can be argued that behind the declared intention to develop interoperability and ability to jointly combat regional security threats, there is a desire to get to know each other better as a continuation of confidence-building measures adopted in the 1990s to help resolve territorial disputes.

¹ "Svoboda slova", 16.09.2010.

The opinions expressed here are those of the authors and do not necessarily reflect the positions of the Central Asia Observatory (CAO). The institutions that constitute the CAO are not responsible for the use of these contents.