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## FUEL CRISIS HITS KAZAKHSTAN HARD

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Despite being the second-largest oil producer and exporter in the former Soviet Union, only behind Russia, Kazakhstan has been historically plagued by chronic deficits of fuel for domestic consumption. National energy security is at the top of the countrys priority list, yet little progress has been made since independence to address this concern. The seriousness of the situation again came to light in late September, when the national air carrier, AirAstana, warned about an impending shortage of aviation fuel. The company come forward with accusations against Russian exporters that currently dominate the Kazakhstani market, widely relaying its message through the media (Kapital.kz, Forbes.kz, Inform.kz, September 25).

According to official statistics, four key Russian oil companies [ ] Gazprom Neft, Lukoil and Tatneft [ ] on average 44,000 metric tons of high-octane kerosene a month to Kazakhstan last year. This years imports have dropped to around 15,000 metric tons on a monthly basis, or some 180,000 for the whole year. Meanwhile, the Shymkent oil refinery, one of three Kazakhstani refineries based in the south of the country, which is half-owned by China National Petroleum Corporation (CNPC), produced only 240,000 metric tons of aviation fuel in 2016. The rest was imported from Russia. In contrast, total demand from domestic air companies is due to exceed 800,000 metric tons in 2017. That leaves a hole of approximately 380,000 metric tons. Among Russian exporters, Gazprom reportedly notified the government in Astana of its inability to supply more because of unexpectedly high demand in Russia itself, which may last through mid-spring 2018 (Sputniknews.kz, October 10; Motor.kz, October 19; Today.kz, October 9).

The month of October began with long queues at gas stations and growing grumbling over the governments inability to supply the domestic market in full. Kazakhstan depends on imported gas and diesel, mostly from Russia, for about 40 percent of overall annual consumption. Dependence on aviation fuel, whose production requires a higher degree of refining, is even greater, at 70 percent. The Ministry of Energy subsequently admitted its guilt by acknowledging that the fuel crisis had been exacerbated by the simultaneous shutdown of all three refineries for upgrade works and seasonal maintenance. The government has since promised a number of steps to bring the aggregate fuel dependence down to 30 percent in November and as little as 20 percent in December and thereafter. Among them are the import of up to 200,000 metric tons of the most popular fuel brand, AI-92, and increased domestic output, at the expense of other fuels (Abctv.kz, Interfax, November 13; Neftegaz.ru, October 10).

Energy Minister Kanat Bozumbayev received a formal reprimand from President Nursultan Nazarbayev, who dismissed in mid-October his deputy Asset Magauov, as well as KazMunayGas deputy CEO Daniyar Berlibayev, for poor work. The last time such punitive reshuffles occurred was in May 2016, when the president dismissed then          economy minister Yerbolat Dossayev, following weeks of protests against the governments controversial land reform (see EDM, May 16, 2016). But while Dossayev immediately went on to head a government holding company and has retained Nazarbayevs full trust, both Magauovs and Berlibayevs careers are the direct casualties of the latest fuel crisis. The energy minister himself is also facing a potential crisis of confidence, especially after a technical incident at the Pavlodar refinery during the first week of November. Low-quality maintenance had prompted the shutdown of a hydrogen purification facility. As a result, the Ministry of Energy and KazMunayGas have had to order an additional 90,000 metric tons of diesel fuel from Russia, although it had heretofore been in adequate supply (Rambler.ru, November 9; Kursiv.kz, October 11; Liter.kz, October 10).

In spite of the seeming seasonality of the current crisis, the regular chronic fuel shortages have deeper roots. Kazakhstan initiated a large-scale modernization of its three refineries back in 2009, having previously rejected a plan to build a new fourth refinery according to the best Western standards. Total costs have since skyrocketed to more than \$3 billion. Meanwhile, the completion of works has been delayed multiple times. The energy ministry now estimates that the Pavlodar and Atyrau refineries, respectively in the north and west of the country, will be ready to produce increased volumes of gas, diesel and aviation fuel as of 2018. The Shymkent refinery is slated for a step change in output, starting in the second half of 2018. Bozumbayev said, on November 15, that Kazakhstan would be capable of satisfying domestic demand by its own means in July or August 2018, with a potential to produce as many as 900,000 metric tons of aviation fuel, well ahead of present-day consumption figures (Rambler.ru, Inform.kz, November 15, 2017; Neftegaz, December 14, 2016).

While the above plans may not materialize as quickly as forecasted, the latest fuel crisis has thrown Kazakhstani-Russian energy relations under a new spotlight. On the one hand, Russian producers stick to market logic when they refuse to sell fuel to Kazakhstan at unfavorable or slightly less favorable terms than they can expect domestically. On the other, energy is by far the largest source of bilateral trade between Russia and Kazakhstan as well as in the entire Eurasian Economic Union (EEU), of which both are founding members. Existing economic integration plans assume that a common energy market may emerge no sooner than 2025. The complexity of the situation is due to a number of factors, including fundamental ones such as supply and demand, the strategic importance of oil for national sovereignty, price differentials, available pipeline infrastructure, etc. Yet, the lack of cooperation on such a vital issue is one more irritant in the bilateral relationship.