

Foreign delegation in push to calm dispute over Kazakh oilfield

By Isabel Gorst in Almaty

A high ranking foreign delegation arrived in Astana yesterday to discuss Kazakhstan's demands for compensation for production delays and soaring costs at the Kashagan oilfield in the Caspian Sea.

A group led by Italy's Eni is under intense pressure to meet a November 30 deadline set by Kazakhstan for amicable settlement of the dispute, which erupted after the Italian energy group presented a revised development plan for Kashagan, one of the world's biggest oilfields.

The plan postponed first production by two years until 2011 and increased Eni's estimate of the project's cost to \$136bn from an earlier \$57bn.

Julia Nanay, a senior partner at PFC Energy, a consultancy firm, said: "There is unlikely to be an early solution to a problem involving

so much oil, capital and risk to the reputations of both the oil majors and Kazakhstan."

Kazakhstan complains that consortium infighting has exacerbated the mismanagement of the Kashagan project and now threatens to derail settlement of the dispute.

"They hate each other. Each company has its own agenda and they are con-

'It would be understandable if some companies decided [this] was just too big a bullet to bite and opted to pull out'

stantly trying to trip one another up," said one Kazakh official.

Stefano Cao, the head of Eni's exploration and production division, is attending this week's talks alongside vice-presidents of Exxon, Royal Dutch Shell, Total, ConocoPhillips and Inpex of Japan.

Experts said Kazakhstan was unlikely to invoke recently passed legislation empowering the government to end natural resource contracts deemed harmful to its strategic interests.

However, the new law signalled Kazakhstan's determination to exact compensation from the Eni group for failing to honour earlier contract commitments.

Kazakhstan is demanding a larger stake for KazMunaigas, the state oil company,

in the project, and a revision both of the bonus payments paid to the government and of the interest rates known as "uplift" added by investors to development costs.

The republic is also seeking financial compensation for the production delay at Kashagan, which has undermined its plan to enter the ranks of the world's top 10 oil exporters.

Exxon has asked for an extension of the Kashagan contract beyond 2041 in exchange for allocating KazMunaigas a larger share in the project.

Eni has been the target of bitter recriminations from within the consortium about its operatorship of the Kashagan project, according to industry sources.

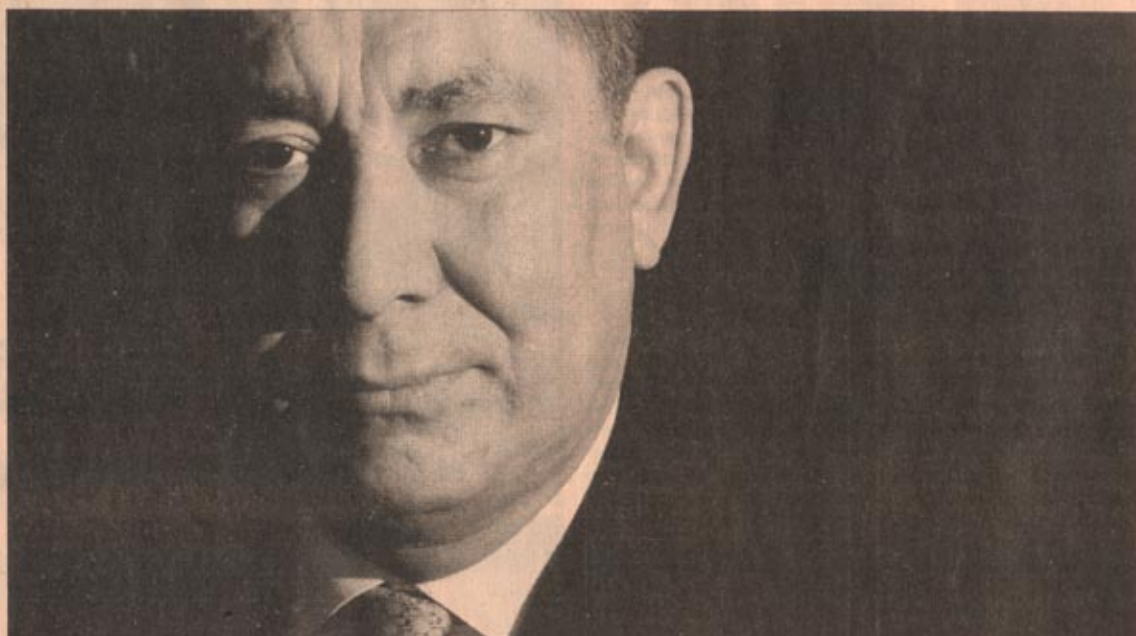
Some companies are understood to be considering abandoning the project altogether.

Ms Nanay said: "It would be understandable if some companies decided Kashagan was just too big a bullet to bite and opted to pull out".

Karim Massimov, Kazakhstan's prime minister, said Western concern that the republic was using the Kashagan dispute as an opportunity to nationalise oil resources was unjustified. "Kazakhstan honours, and will continue to honour, the security of contracts."

"But I would like to remind you that signed contracts should be honoured by both parties," he said last week during a visit to Karachaganak, another giant Kazakh foreign oil development.

See European View



Askar Balzhanov: the chief executive of KMG EP says his company's experience would be useful at Kashagan

Daniel Lynch

KMG EP 'knocking on the door'

FT INTERVIEW

The London-listed company continues to target a stake in the Kashagan field, write Ed Crooks and Isabel Gorst

KazMunaigas Exploration Production, the London-listed arm of Kazakhstan's national oil company, hopes to get a stake in the troubled Kashagan development if the consortium running the project is restructured.

Askar Balzhanov, the chief executive of KMG EP, which is 61 per cent owned by KazMunaigas, the state-owned oil and gas company, told the Financial Times he was "knocking on the national oil company's door incessantly", trying to get involved in Kashagan.

He also identified MangistauMunaigas, a Kazakh oil company with obscure ownership, as his biggest take-over target.

Most of KMG EP's production comes from mature fields where it is a struggle merely to sustain output, and it is relying on acquisitions to generate growth.

Mr Balzhanov said KMG EP's hopes of getting into Kashagan, a huge offshore oil project in the Caspian Sea, depended on what emerged from the talks over the project's future. "If there is an increase in Kazakhstan's stake, I believe we will have a chance," he said.

The state-owned KMG is expected to be given a greater role in Kashagan in any restructuring.

All KMG EP's assets are onshore, and it will need government permission to get involved in any offshore project. But Mr Balzhanov said the company had staff with offshore skills who could make a contribution to Kashagan.

In particular, he added, KMG EP's experience of cost control in Kazakhstan could be useful at Kashagan, where costs have soared.

Mr Balzhanov also said he

had highlighted to analysts and investors a potential takeover of MMG, one of the biggest privately owned oil companies in Kazakhstan, with production of about 115,000 barrels a day and a controlling interest in the Pavlodar oil refinery in the north of the republic.

"In western Kazakhstan

'In western Kazakhstan there is one more big asset still owned by independent investors: MangistauMunaigas'

there is one more big asset still owned by independent investors: MangistauMunaigas," he said.

"We know this asset well. A number of our staff were operating [it] in the past. I would say that morally we are ready, and if the owners of MMG announce they want

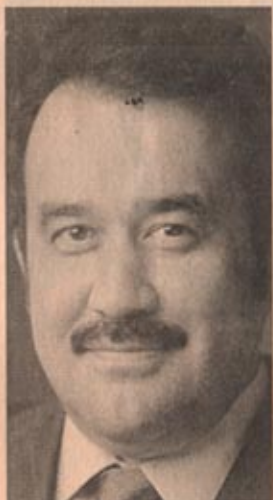
to sell, we will try to make use of this opportunity."

Officially, MMG is owned by Jakarta-registered Central Asia Petroleum, but sources in Kazakhstan say the company is partly controlled by Rahat Aliyev, son-in-law of Nursultan Nazarbayev, the Kazakh president.

Mr Aliyev has been living in exile in Europe since May when Kazakhstan launched an investigation into his alleged involvement in a kidnap this year in Almaty, Kazakhstan's second city.

Mr Balzhanov said he believed a sale of MMG was "in the pipeline", adding that when it happened, KMG EP could either do a deal directly, or wait for the application of Article 71 of Kazakhstan's 2005 subsoil law, which gives the government pre-emptive rights to buy any operating asset being put up for sale.

The value of MMG could be as much as \$4bn, although Mr Balzhanov would say only that he thought it would be "definitely more than a billion".



Karim Massimov: assured