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China and Kazakhstan energy partnership – its implications for the world energy market

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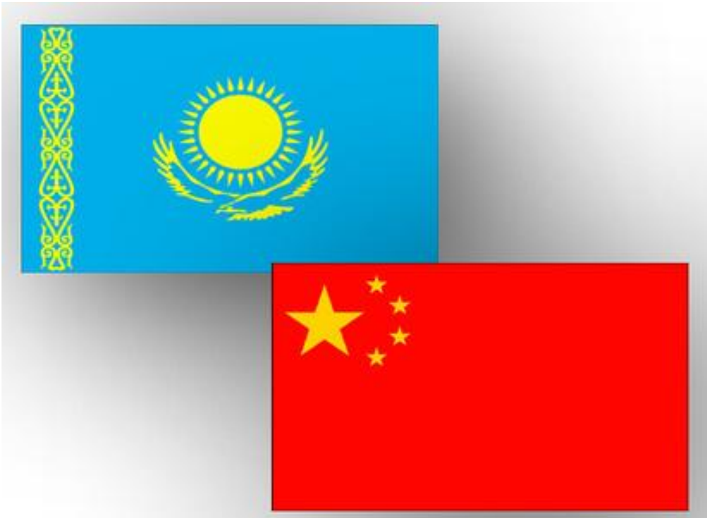

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Sino-Kazakhstani energy relations: overview (I)

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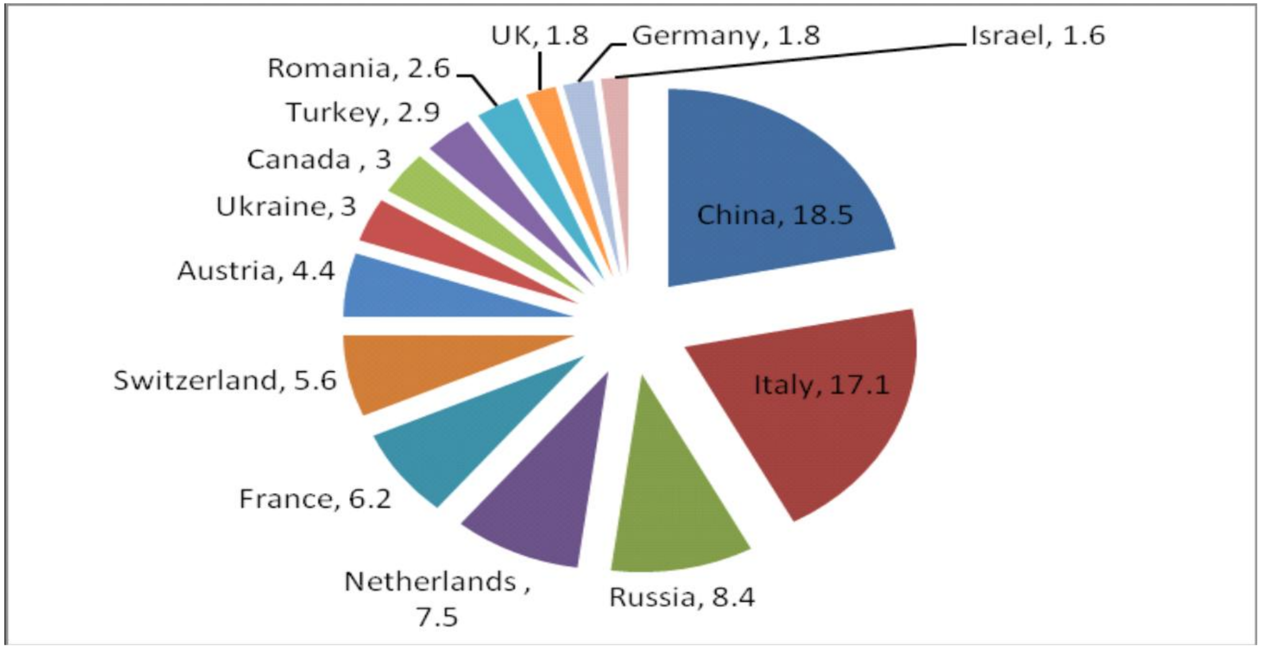
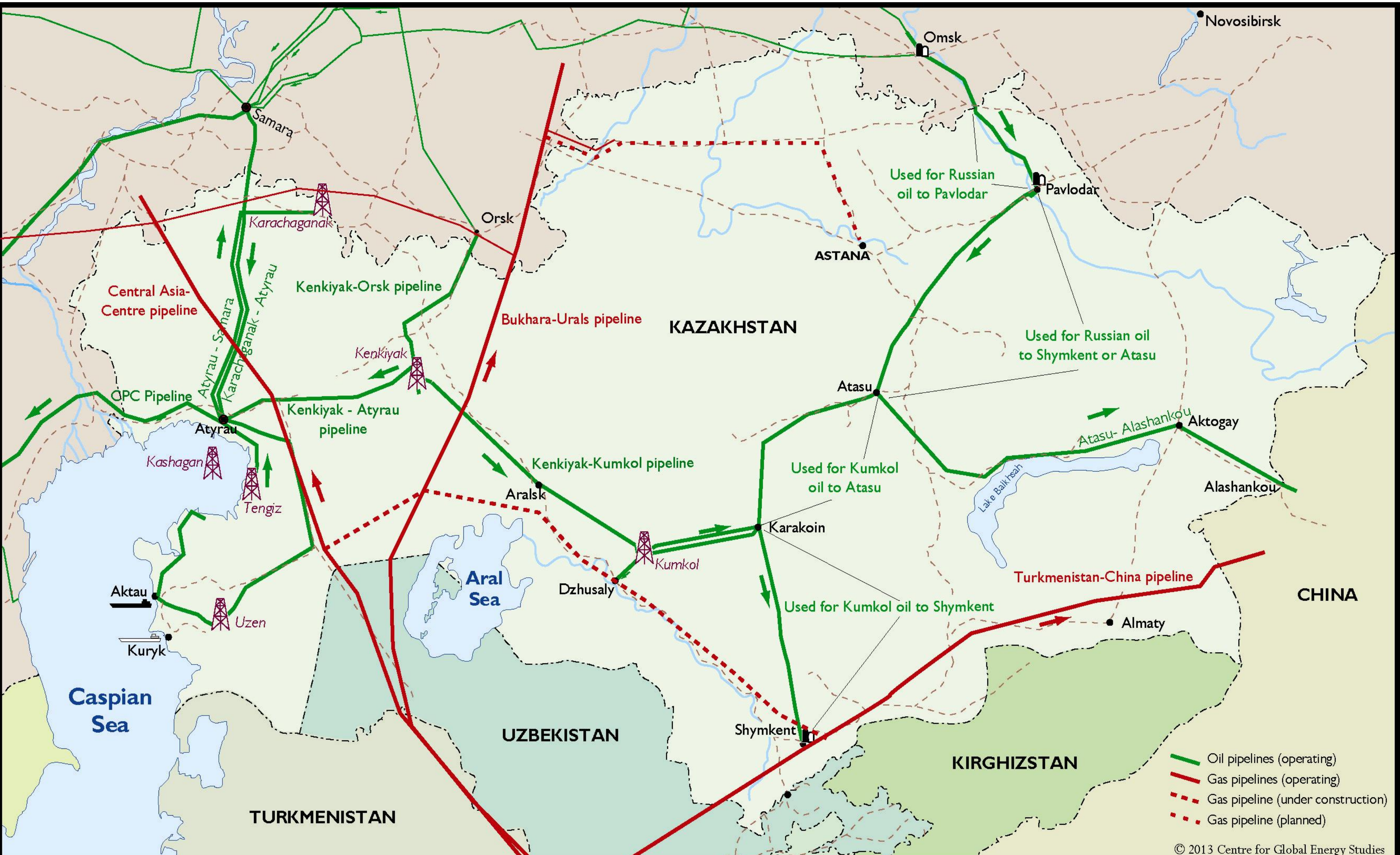
Figure 1 Share of the main trade partners in the Kazakhstani export, 2011, %



Source: National Agency on Statistics: Vneshnyya torgovlya Respubliki Kazakhstan

Kazakhstan's crude oil exports to China

Main oil and gas infrastructure in Kazakhstan



Kazakhstani hydrocarbons: value estimations

- NBV = Ps – Cd, where:

NBV – netback value of a barrel of oil, Ps – selling price of the oil in the target market, Cd – the cost of delivering the oil from the wellhead to the selling point

- In turn the delivery cost can be expressed as: Cd = P + L + S

where:

P – pipeline tariff, L – loading costs at the export terminal,

S – shipping cost, including freight cost, insurance,

demurrage and navigation dues where applicable

Average netback value for Tengiz crude in the first eleven months of 2012, $/bbl

Variable	$/bbl, Ave 2012
CPC cif Med	111.48
Shipping (freight)	0.77
Insurance	0.03
Loading fees	0.36
Demurrage/navigation	0.23
CPC pipeline tariff	5.07
Netback	105.02

Options of securing hydrocarbons open to China

- direct investment in oil and gas projects in countries that are shunned by Western investors, either due to government sanctions, shareholder pressure, or an unfavourable political/economic climate, such as Iran, Sudan, Venezuela, Ecuador and Myanmar;
- direct investment in oil and gas projects in countries that have been of marginal interest to their Western competitors, such as Chad, Niger, Mauritania and Peru;
- ‘oil for loan’ deals, in which future oil production is used as collateral for large loans to oil-producing countries from state-owned Chinese banks;
- direct bidding for service contracts in Middle Eastern countries, either with or without Western partners, particularly in Iraq;
- construction of pipeline infrastructure to allow delivery of hydrocarbons directly to China;
- aggressive acquisitions in key countries (Kazakhstan is the prime example).

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Estimating the impact on Kazakhstan's external relations

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- According to authors' calculations Chinese companies might control over 40% -45% of Kazakhstan's oil industry. This figure would exceed the share controlled by Kazakhstani investors.
- The Chinese oil and gas investment in Kazakhstan starting as early as 1997. Joint venture is one of the forms of investing to Kazakhstan by the Chinese companies.

Research Highlights

- China's strategic objectives with respect to Kazakhstani energy resources are identified.
- Netback calculations are used in order to determine the value of Kazakhstani hydrocarbons at the wellhead derived from sales on the European market.
- Netback calculations provide a rationalisation for China's preferred path of upstream investment in Kazakhstan's oil sector over purchases from other producers.