Kazak Oil Dilemma

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Oil-rich Kazakstan is keen to exploit international demand for petroleum, but risks overlooking its own domestic fuel needs.

The energy crisis in Europe and the United States could have a significant economic and political impact on Kazakstan.

Almaty is currently profiting from the growing international demand for Kazak oil. Revenue from the petroleum sector now makes up for a third of the country's budget.

Around 15 million tons of crude were extracted in the first six months of this year - a 13 per cent increase over the corresponding period in 1999 - much of which is going abroad.

The trend appears set to continue as Moscow last month said it plans to substantially increase the volume of oil it permits Kazakstan to transport across Russian territory.

But the export of oil has led to severe domestic fuel shortages, which could damage the domestic economy, especially the agricultural sector.

There have been huge fuel price hikes across the country - in the republic's western region the cost of gasoline has spiralled by 150 per cent since August.

What's becoming increasingly clear is that the government must work out how to continue exporting while ensuring reasonably priced domestic supplies.

One possible answer is to press ahead with exports but at the same time attempt to accumulate domestic fuel reserves.

At present, however, this would be hard to do as it is more profitable for producers to export petroleum than sell it domestically.

The Energy, Industry and Trade Minister, Vladimir Shkolnik, recently revealed a plan to lower domestic transport tariffs as a means of encouraging producers to sell fuel to Kazak customers, enabling farmers to proceed with the country's all important harvest.

"Reducing transport tariffs on crude oil and refined oil product within the country would result in increased revenues of $5-8 per tonne of oil," Shkolnik said.

At the same time, the government has taken several steps to regulate the export of crude oil, including the setting of minimum prices.

The head of the anti-monopoly department, Altai Tleuberdin, believes stricter control will help to provide

Kazak refineries with sufficient crude and supply the market with enough refined oil.

At the same time, the authorities must exercise some degree of control over Western investment in the oil sector.

Although some analysts believe Almaty's oil reserves have been exaggerated, the most important deposits in the Caspian Sea, such as the Tengiz oil field, are still a key area for the world's biggest petroleum companies. Around $30 billion has been spent on oil exploration projects to date.

And a network of planned and existing pipelines such as the Caspian Pipeline Consortium have already attracted plenty of investors.

Investment in this sector, as well as the volume of crude exports, began to grow several months ago when the signs of the impending energy crisis emerged.

At the end of August, Chevron paid $450 million for five per cent stake in the giant Tengiz Chevroil project. As a result, the US oil major became the leading shareholder in the consortium - the main Caspian pipeline supplier.

But Kazakstan could lose out if the authorities allow foreign investors to control a significant portion of the oil industry. This might lead to a downturn in investment in other sectors, which could provoke a political and economic crisis.

Concerns have also been raised about government plans to put hard currency earnings from the export of oil into foreign investment accounts.

The government argues revenue generated by an 'oil fund' could support major economic projects in Kazakstan and could also be used to bail out the treasury should the price of oil fall sharply.

Many parliamentary deputies and independent experts are worried, however, that the fund may be misused by the authorities, particularly in the light of recent scandals involving oil company revenues held in secret bank accounts.

They also question the logic of investing huge sums of money abroad when the current state budget is not sufficient to pay for the most basic public services.

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