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Kazaks Struggle With Oil and Food Prices

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Government's attempt to hold fuel prices down may be too little, too late.
A new ban on exports of petroleum products is designed to stabilise the domestic economy, struggling with inflation across the board and especially with soaring food prices. However, analysts say the measure may not be enough to bring down the cost of fuel.

The global economy has suffered a double blow from rising prices of oil and food. In theory, Kazakstan should be in a position to benefit as it is a major exporter of both crude oil and wheat, and has an opportunity to earn higher revenues from both.

However, domestic consumers have nevertheless been hit because Kazak producers responded to strong global oil prices by exporting 50 per cent more petrol and fuel in January-March than in the same period last year. They may also have been encouraged to export more of the refined product because the government had announced a higher customs duty on crude exports, effective from May 17.

As Kazak-produced fuel became less freely available on the domestic market, prices shot up correspondingly. This came at a time when fuel prices were set to rise anyway because of the demand created by agricultural users in the spring sowing season.

Petrol now costs 90 tenge (75 US cents) a litre for the popular 92-octane variety, while diesel is about 130 tenge a litre.

The fuel price rises have had an inflationary effect on food prices as farmers pay more for fuel and factor this into their wholesale prices. Coupled with smaller price rises in other areas, some analysts are predicting that year-on-year inflation for 2008 will top 25 per cent, compared with the 18 per cent recorded last year.

Although opposition parties have attacked the authorities over the deteriorating economic outlook and the impact this will have on living standards, there is little the government can do about external factors. It has, however, taken steps in areas where it exercises some control. To build up wheat stocks at home, it halted grain exports in April, and these are expected to resume only in September.

Then, on May 19, Prime Minister Karim Masimov ordered a halt to exports of petroleum products, once again lasting until September. “This should freeze the growth in prices,” he told members of a government economic commission.

Sauat Mynbaev, Kazakstan's minister of energy and mineral resources, added, “There are large export volumes – both formal and informal - and we have to react because of the price rises on the domestic market.” By “informal” exports, the minister meant the lucrative business of smuggling oil products out of the country.

Companies at the smaller end of the fuel retail market expressed concern about the price rises at a press conference in Almaty on May 19.

Sultan Ushbaev, the head of Nar Oil, warned that the wholesale costs in agriculture – including bread prices – might rise by at least 35 per cent as a result.

Analysts interviewed by IWPR were not critical of Masimov’s fuel export ban, but warned that other factors might dilute its impact.

Political analyst Oleg Sidorov said the ban was an appropriate measure, but needed to be complemented by formal price regulation at home, conducted via the state-owned oil and gas production and distribution company, KazMunayGaz.

“An instruction should go out to the leading player that regulates fuel and lubricant prices, by which I mean KazMunayGaz,” he said. “If it holds petrol and diesel prices below 80 or 90 tenge a litre, all the other [retailers] will have to reduce prices”.

Sidorov predicted that cutting export levels would prove more complex than Masimov’s blanket ban suggested. Many fuel export firms have already committed themselves to contracts with foreign partners, and cannot simply renege on these obligations.

Add to this the volumes of fuel that continue to exported illegally, and the ban is likely to result in “no change, or insignificant change” to domestic availability and prices, Sidorov said.

Eduard Poletaev, chief editor of the Mir Yevrazii news magazine, agreed that smuggling was a well-established industry and was unlikely to be checked at a time when it was particularly profitable.

“One way or another, crude oil and petroleums products are going to leak out of the country at more profitable prices. No one’s going to abandon this lucrative flow,” he said. “We have long borders, corruption is rife and it’s easy to get oil products out at profitable prices. There are plenty of loopholes.”

Gulnur Rahmatullina, head of economic research at the Institute for Strategic Studies, welcomed Masimov’s decision but said the limited availability of refined fuel should have been addressed much earlier, when the economic climate was better.

“There’s been a period of stability since the late Nineties, and Kazakstan’s three refineries should have used it to gear up for high-quality petrol production,” she said.

“Firefighting” measures were not enough, she said, adding, “We need to invest in the refining industry, not just in extracting crude oil. The petrol crisis is now infecting other economic sectors”.

The three refineries in Atyrau, Pavlodar and Shymkent are still unable to meet domestic demand and export requirements, which explains why Kazakstan still imports a quarter of the fuel and lubricants it consumes from Russia, where these items cost more.

Among ordinary citizens of Kazakstan, there is some resentment at the perception that the authorities did not do more to avert the pricing crisis.

“For some reason, the government always reacts too late,” said Murat, a taxi driver in Almaty. “It’s as if nobody knew that consumption would peak in spring and the price of oil products would go up sharply.”

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