Kashagan oil project Kazakhstan

Sectors: oil and gas

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Project website

Description

An offshore oil project in the north Caspian Sea, Kashagan is part of the North Caspian Sea Production Sharing Agreement (PSA), a 40-year contract that was signed in 1997 and includes the development of 11 offshore blocks. Kashagan is estimated to hold 13 billion recoverable barrels of crude, making it the largest new oil found worldwide in over a decade.

Phase I of Kashagan's development has been extended twice, and current reports put the end of Phase I and the beginning of commercialization anywhere from 2008 to 2011. Construction costs have spiraled from $27 billion to $60 billion in 2006. In July 2007, the latest projection made by the consortium was $136 billion.

In addition to the offshore extraction itself, a number of supporting infrastructure projects throughout western Kazakhstan and the Caspian Sea, pose great environmental and social risks. These projects include the development of the Bautino Supply Base north of Aktau, the Koshanai Cuttings, Oily water treatment Facility (near Bautino) the construction of the Bolashak Onshore Processing Facility (commonly called the Karabatan Refinery, the largest processing area ever planned) near Atyrau, oil pipeline construction and extension projects, and a future trans-Caspian transportation system linking Kashagan to BP's Baku-Tbilisi-Ceyhan pipeline.

Kashagan and its supporting infrastructure projects combine a dangerous mix of new untested technologies, a fragile environment, a multinational oil consortium operating under a confidential agreement with the government of Kazakhstan and the prospect of financing by the world's largest international finance institutions.

Brief history

On 24 January 2007, a Memorandum of Understanding was signed by the participant companies in the Agip KCO consortium, those in the TengizChevroil consortium and KazMunaiGaz to create an estimated $3 billion trans-Caspian oil transport system.

As reported by the Jamestown Foundation's Eurasia Daily Monitor, the "agreement envisages a shuttle system of sea tankers to carry oil from Kazakhstan to Azerbaijan and into the Baku-Tbilisi-Ceyhan (Turkey) pipeline. The tanker system's capacity is projected at 25 million tons per year in the first stage and 38 million tons in the second stage. The oil port on the Kazakh side will be built in Kuryk."

On July 30th, the government of Kazakhstan warned Agip KCO that it will demand better terms on Kashagan to compensate for soaring costs and the delayed launch of production announced by Eni in April. According to what Baktykozha Izmukhambetov, Kazakhstan's energy minister, told a government meeting and reported by the FT, Eni had lifted its estimate of the full cost of developing Kashagan from $57bn (€41.6bn, £28bn) to $137bn after encountering technical difficulties in the field.

-readmore-
On August 21st, at a government meeting the Kazakh Minister of Environment announced that "development of Kashagan field may be halted due to violations of environmental protection legislation by the project operator Agip KCO consortium.

On August 27th, the government of Kazakhstan called a three-month halt of the development of Kashagan field, on the grounds of environmental violations and evasion of customs duties on imported equipment by the consortium.

On January 13th 2008, the re-negotiation of the North Caspian Production Sharing Agreement was concluded - with the Kazakh government demanding up to 40% of shares in the project for the national oil company KazMunaiGaz plus a compensation to cover the costs suffered due to delays in starting the extraction in Kashagan by the operator Agip KCO. Re-negotiations took over three months.

The main changes after the new agreement - still unbalanced in favour of foreign companies - includes new distribution of shares in the project, new operator (Agip KCO will have to conclude the construction phase by the end of 2011, when it will be sided by Shell, Total, Exxon in joint-operation of the project), and new deadline, from third quarter of 2010 (announced in July 2007) to end of 2011. This latest announcement may be hiding another bad news, on the side of the extra costs for both companies and the Kazakh government: Agip KCO probably have not solved yet the technical problems connected with the exploration of the field, which caused the spiralling of costs and ultra-delayed beginning of operations (from the first deadline of 2005 to 2008, 2010, 2011) and which is source of concerns among local communities, ngos and public officials for the connected risks at which the people and the fragile Caspian environment are exposed.

What must happen

International financing of Kashagan and the other components of the North Caspian PSA must be halted or conditional to stringent compliance with the highest international standards for environmental protection and corporate responsibility.

Issues

Social impact

Kashagan not only threatens the environment, it also threatens the livelihoods of millions of residents of the Caspian region. Oil development in the north Caspian places the tourism and fishing industries at risk and prevents investment in other economic ventures that could contribute to the sustainability of the region.

Though Kashagan's expected profit is approximately $600 billion, 90 percent of residents in the nearby oil boomtown of Atyrau live below the poverty line (the corresponding figure for the country as a whole is 20 percent). According to unofficial data, unemployment in Atyrau is at 70 percent.

Environment

The Kashagan oil field is located within a protected territory—the shallow nature reserve zone of the north Caspian Sea. Most notably, the endangered sturgeon migrate through this area to their spawning grounds, the endangered Caspian Seal's whelping grounds are found here, and numerous bird species migrate through this area.

The shallow water depths (2-10 meters) and extreme weather conditions (summer highs of 45 degrees Celsius/winter lows of –40 degrees Celsius), create a situation in which oil extraction and transport is extremely difficult and bears high risk of causing irreparable environmental devastation.

Of particular concern are the winter ice floes that threaten to overrun the artificial islands constructed for extraction activities and the undersea pipelines that transport the crude to shore. In 2005/2006, construction was forced to stop for four months due to ice movement.

Further complicating matters, Kashagan crude contains high levels of sulphide impurities, which must be removed before oil can be exported. Sulfur removal is extremely polluting, and carries major risks for nearby communities. According to local experts interviewed during the most recent FFM (September 2007) a technology good enough to allow a sustainable treatment of sulphur emissions and storage may not exist at the moment.

Adding concern to the project is the fact that Agip KCO and the Kazakhstan Ministry of the Environment are in conflict regarding a waste management plan for the project, despite the fact that the PSA requires zero discharge. There is also no emergency plan for local residents living near the Karabatan Refinery.

Finally, there has been little to no project information made available to the public despite repeated requests from local activists, and the public was not involved in the development of the project's Environmental Impact Assessment.

Governance

Updates

Latest update

Jun 28 2011

Recently, ExxonMobil has been offered $5 billion for half its 16.8 percent stake. It is argued that if Exxon is to sell anything to ONGC, which made the bid, it would sell the whole stake rather than only part, since it is unlike Exxon to reduce itself to such a small interest (all major Kashagan shareholders hold 16.8 percent, making Exxon an equal partner).

On May 26th, 2011, it was announced that at the end of the month Royal Dutch Shell will shut its Caspian office for the Kashagan oil field. This decision is explained to be "putting the crucial $50bn project on ice for at least two years" and said to be based on the decision made by the Kazakh government to reject a new lower-cost design. To find out more, please go here.

In July 2010, KazMunaiGas announced that the second phase of development of the Kashagan oil field has been postponed until 2018-2019. The delay would also affect the start of the Kazakh Caspian Transport System (KCTS), designed to carry Kazakh oil across the Caspian to Azerbaijan and on to foreign markets.

On November 5, 2009 Italy's Eni group and Kazakhstan's London-listed KazMunaiGas signed a preliminary agreement that could result in up to $50bn of investments in Kazackstan's upstream and downstream oil and gas sectors. This memorandum of understanding signed in Rome reflects Eni's growing ambitions in the region and Kazakhstan's intention to move away from being just an exporter of raw materials and to lessen its dependence on Russia. The four-part agreement includes construction of a gas sweetening plant in Kazakhstan. The MOU also foresees upgrading Kazakhstan's Soviet-era Pavlodar refinery, construction of a shipyard on the Caspian, and joint Eni-KazMunaiGas exploration of the Isatay and Shagala oil blocks in the Caspian.

Financiers

Banks

BNP Paribas France profile — Details ▼

Debt – corporate loan — September 2007
KazMunaiGaz paid loan early in October 2008

Bank of Tokyo Mitsubishi UFJ Japan profile — Details ▼

Debt – project finance — November 2005

Debt – corporate loan
KazMunaiGaz paid loan early in October 2008, September 2007
source: International Herald Tribune, 2 October 2008

Citigroup United States profile — Details ▼

Debt – corporate loan — September 2007
KazMunaiGas repaid loan October 2008

DZ Bank Germany profile — Details ▼

Debt – corporate loan — September 2007
KazMunaiGaz paid loan early in October 2008

ING Group Netherlands profile — Details ▼

Advisor — April 2010
adviser to Kazmunaigaz (KMG) on its Kazakhstan Caspian Transportation System (KCTS) project
source: Project Finance Issue 431

Debt – corporate loan — September 2007
KazMunaiGaz paid loan early in October 2008
source: International Herald Tribune, 2 October 2008

Mizuho Japan profile — Details ▼

Debt – corporate loan — September 2007
KazMunaiGaz paid loan early in October 2008
source: International Herald Tribune, 2 October 2008

Debt – project finance — November 2005

Natixis France profile — Details ▼

Debt – corporate loan — September 2007
KazMunaiGaz paid loan early in October 2008

Société Générale France profile — Details ▼

Approached, interested — 2008
As of 2009 Société Générale is no longer involved in the project.
source: link

Sumitomo Mitsui Banking Corporation Japan profile — Details ▼

Debt – corporate loan — September 2007
KazMunaiGaz paid loan early in October 2008

Debt – project finance — November 2005

Export credit agencies

Japan Bank for International Cooperation (JBIC) — Details ▼

Uncategorised

Multilateral development banks

European Bank for Reconstruction and Development (EBRD) — Details ▼

Uncategorised

Japan's JBIC provided financing for Phase 1, including a $649 million loan to INPEX North Caspian Sea co-financed by Japanese private banks (Mitsui, Mitsubishi and Mizuho) in November 2005.

In January 2006, KazMunayGaz concluded a US$ 800 million one-year bridge loan with a banking syndicate arranged by BNP Paribas, Citi and Société Générale to finance its 8.33% stake in the Kashagan consortium.

In November 2006, the EBRD pledged to finance construction of the Bautino Supply Base, making it easier for private banks, particularly Equator Principle signatories to join a project finance deal. Export credit agencies are also likely to become involved.

On 19 January 2007 Project Finance International (PFI) reported that KazMunaiGaz was seeking a financial advisor to help structure its $1.6 billion project financing for Kashagan.

In March 2007, Banktrack members CRBM and FoE France, together with Crude Accountability and Atyrau based NGOs: Globus, Tan and Caspian Press Club, wrote to the private banks potentially involved (see documents). With its reply dated March 6th 2007, BNP Paribas confirmed to be the leading structuring bank. In the meantime, Citigroup was setting the environmental standards for Kashagan as a Category A project. In the letter BNP Paribas stated: "As far as the Kashagan project is concerned, the structuring banks (Citigroup, BNP Paribas and Société Générale) are requiring that for the financing to be put in place, provisions should be include for the project to be compliant with the Equator Principles. This will entail the preparation and public disclosure of a full Environmental and Social Impact Assesment (EISA) and associated Action Plans to comply with IFC Performance Standards and World Bank/IFC Pollution Prevention and Abatement standards. The structuring banks will also require that this transaction's environmental and social documentation be subject to independent review by a qualified firm acceptable to them."

However, the bridge loans provided turned up to be guaranteed by the parent company KazMunayGaz and therefore, the project now is part of corporate finance rather than project finance so, it would not be considered in the scope of the Equator Principles anymore.

In September 2007 the deal was refinanced by a US$1.05 billion-15 month loan from a banking syndicate arranged by the mentioned bridge loan banks. This loan will mature at the end of December 2008. The following banks participated in the banking syndicate: Bank of Tokyo-Mitsubishi UFJ, BNP Paribas, Citi, DZ Bank, HSH Nordbank, ING Bank, KfW, Mizuho Bank, Natexis, Societe Generale and Sumitomo Mitsui Banking.

Kazakh state energy firm KazMunaiGas repaid the US$1 billion loan provided by BNP Paribas, Societe Generale, and Citibank NA Bahrain in September 2007 for the development of the Kashagan field ahead of time (October 2008) (International Herald Tribune).

Related companies

Agip Italy

Agip KCO Kazakhstan

ConocoPhillips United States

ENI Italy show profile
oil and gas

ExxonMobil United States show profile
oil and gas

Inpex Japan

Kazmunaigaz (KMG) Kazakhstan

Royal Dutch Shell Netherlands show profile
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Total France