

The *heat* is on

| by Rudolf ten Hoedt

In Kazakhstan, western oil majors managed to gain hold of some of the world's largest oil and gas fields. But the Kazakh government is taking back what it says belongs to them. 'We want a fair deal and equal treatment so we can create income for our country.'

Maksat Idenov creates the impression that he's on the warpath. According to the first vice-president of state oil company KazMunayGas (KMG), foreign oil multinationals working in Kazakhstan are sometimes slapdash in the quality of their work and remiss in settling accounts. He's been appointed to put a stop to this. Idenov was head-hunted from Shell two years ago by the president of Kazakhstan in person, specifically in order to regain control of the derailed Kashagan project. Kashagan is an immense field under the bed of the Caspian Sea that, once up and running, would make a major contribution to the goal of doubling Kazakhstan's oil production and helping it become a major gas exporter.

From his office on the fifteenth floor of the KMG building, Maksat Idenov has an impressive view of the endless Kazakh steppe. He is an ambitious man with an extensive international network. He proudly displays a picture of himself with Qatar's Oil Minister Abdullah bin Hamad Al-Attiyah and international financier George Soros. Many key players in the oil and gas sector in North Africa, the Middle East, South Asia and the Caspian Sea region were added to his address book when he worked for Shell as vice-president for strategy and business development. He joined Shell in 2004. Before that, he worked himself up to the position of advisor to the minister of energy. 'I was promoted on the strength of my abilities, not by pulling strings,' he says. He went on to gain international experience, first with Akin, Gump, Strauss, Hauer & Feld LLP, one of the biggest lawyer and lobby firms in the US, and then with the energy department of the World Bank which gave him a grant to study at Harvard and obtain a MBA. 'Otherwise I could not have afforded it,' he remarks modestly. In 2004 Malcolm Brinded, then head of global exploration and production, asked him to join Shell. 'He needed people from outside with a different perspective and culture which he thought Shell lacked,' relates Idenov. After almost four years with Shell he received a phone call from Kazakhstan. 'The President called me. He said Maksat, I need your help here to address these problems with Kashagan.'

Call me Maksat |

On the Saturday morning in June when EER spoke to him in Astana, the first vice president of KMG was impeccably dressed in a blue suit and matching tie. Idenov couples a severe exterior with great charm. 'Call me Maksat.' But appearances are deceptive. Charm and an immaculate public image in the case of Maksat Idenov are the attributes of an effective fighting machine. The four big oil majors experienced this last year in their negotiations with KazMunayGas about the stranded \$130 billion Kashagan project, one of the largest oil projects the world has ever seen. Idenov is only too willing to clarify his part in the Kashagan shake-up. The underlying message of his explanation is: the domination of the oil majors is over. Kazakhstan now calls the shots.

'The project was in a desperate position', says Idenov. 'Fundamental principles governing quality control, technical integrity, health and safety, security and environmental protection were not heeded. An example: they constructed the island (the island for operations in the Caspian Sea, ed.) in the wrong place using incorrect standards! These mistakes cost us more than \$3 billion! So I said guys, we can't work in this kind of organizational structure.'



Maksat Idenov. Photo: KazMunayGas

'I was promoted on the strength of my abilities, not by pulling strings'

Idenov, as chairman of the management committee, subsequently sent all representatives of the participating oil companies home with the message: I will only work with people who have a proper mandate. When these people were assembled, he reallocated tasks and responsibilities. 'I asked, who is the best driller? ExxonMobil, in sub-surface equipment. So I said ExxonMobil, you are responsible for the drilling. If you are behind schedule, it will be your responsibility. Then I asked, who is good in building offshore facilities and infrastructure. It turned out to be Shell. So I said Shell, you will be accountable for that. Turning around I said to Total: You must choose whether you want to take on the responsibility for the offshore interface or take control of one of the onshore assets. They opted to become interface project leader. Then I turned to AGIP and said, you must give up your position as operator. You lack the resources to manage the job properly. I understand that your reputation is at stake, but you must relinquish it nonetheless. I continued by saying that Kazakhstan was going to lead this project based on industrial standards. Everybody was happy.'

Idenov's intervention resulted in a thorough shake-up of the consortium at the end of last year, doubling KazMunayGas' stake against half of the book value. In addition, the oil companies must pay compensation for damages that could rise to \$5 billion. According to Idenov, the new deal reflects a necessary 'respect for the Republic of Kazakhstan and its resources.' Is the project now meeting proper industrial standards? Idenov: 'We are not quite there yet but we're rapidly catching up. It will be a race to the finish.'

Accusing finger |

Neither Shell nor Total, two of the oil companies concerned, wished to comment on the Kashagan affair. But in Atyrau, the oil centre of Kazakhstan on the shores of the Caspian Sea against the European-Asian border, an over-worked senior staff member of the Kashagan consortium agrees to talk to EER anonymously. 'They underestimated Kashagan. The technical complications were not properly assessed. That's the most important reason why the project was delayed and became so much more expensive.' According to this high-ranking official, it is not fair to shift all blame to former contractor Agip (or ENI). 'The project was really too big for one contractor. Shell and Exxon would have been in a better position. But if it was so obvious that things could go wrong, why didn't they sound the alarm sooner?'

‘The president called me. He said I need your help with Kashagan.’

However, he also points an accusing finger at the Kazakh authorities. The tedious bureaucracy the oil companies have to deal with also contributes to the problems. ‘We have teams of people at work arranging work permits. We have an office full of staff translating documents. That all costs so much time and money. If the Kazakh authorities really believe that Kashagan is a project of national strategic importance, they could start by making things a bit simpler.’

The growing will of the country to take into its own hands the running of the gas and oil sector seems unchanged despite the economic crisis. A western oil executive in Almaty is convinced that the state is busy strengthening its grip on the oil and gas industry. ‘There is growing pressure on the oil industry to involve local industry and to buy supplies locally. Production sharing agreements are still formally respected but oil companies are under increasing pressure to renegotiate them. Some oil companies are forced to sell their products locally to one of the national refineries.’

The president’s men |

Stricter monitoring of IOCs and the growing stake of the national oil company in the energy sector is part of what Julian Lee, analyst at the Centre for Global Energy Studies in London, calls Kazakhstan’s increasing assertiveness. ‘Their overriding concern is to ensure a significant and sustainable revenue stream through the development of hydrocarbons. Kazakhstan started off at the beginning of the 1990s by recognizing that the only way to realistically achieve this was to bring in a significant number of foreign investors. We saw how several predominantly Western companies were offered very attractive terms to explore and develop Kazakhstan. With the development of a governmental infrastructure and the stabilisation of the country after the breakup of the Soviet Union, Kazakhstan has become more assertive in dictating the conditions under which its own natural reserves are exploited. It wants to see a greater share of the revenue benefiting Kazakhstan and Kazakh companies.’

The man behind this growing assertiveness is president Nursultan Nazarbayev. ‘We are blessed with this president,’ says a top Kazakh diplomat during an interview at the Ministry of Foreign Affairs in Astana. ‘Number One’ or ‘Papa’ as he’s often referred to by his subjects, plays a very dominant role in the country. KazMunayGas (KMG), the symbol of Kazakhstan’s growing oil-backed power, is the president’s key instrument. And Maksat Idenov is one of the president’s men.



ENI headquarters in Astana.
Photo: Rudolf ten Hoedt

Idenov for his part makes clear that his mission is not yet finished. He is now targeting a second consortium that in his view is pulling the wool over his eyes. This is KPO, led by British Gas and ENI, which exploits the super gas field Karachaganak with estimated gas reserves of 1180 billion m (about 40% of total Norwegian reserves) and 1 billion tons of oil (equal to total Norwegian oil reserves). KazMunayGas is not a stakeholder. The question is – for how long.

KGO accounts are not in order, says Idenov. ‘More than \$150 million worth of expenses are not backed up by documents. British Gas, AGIP, Lukoil and Chevron should balance their books according to facts! I cannot complete my accounts because receipts for \$150 million are not forthcoming. I have sent those concerned a letter of complaint. I have also consulted with the British ambassador and asked him to intervene. If irregularities like this continue, certain measures will have to be taken. This is about integrity and shareholders’ interests. I am fighting for transparency here.’

At the same time, Idenov denies that the state is trying to take control of the oil and gas sector. ‘We have zero share in Karachaganak, zero share in the pipeline from Karachaganak to the CPC pipeline. In Tengiz we own no more than 20%. We did increase our share in Kashagan. But remember, they (the oil majors, ed.) screwed up the project. That’s why they had to compensate us. You can’t keep the management of the project to yourself and at the same time blame the Kazakhs.’ ■