Working paper

Resource Nationalism Trends in Kazakhstan, 2004–2009

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Executive summary

Resource nationalism has made a comeback in the 21st century, and Kazakhstan has not been immune to this trend. This report explores some of the ways that the Kazakhstani state has asserted itself in the oil and gas industry since 2004. One important development has been the change in the government's negotiating power since the 1990s, when many of the large production-sharing agreements (PSAs) were signed. These were designed to ensure company profits in what was then considered a highly unstable atmosphere and when low oil prices made the developments less attractive. As prices for oil have risen and the Kazakhstani state has proven more durable, the structure of these PSAs has become increasingly outdated.

The government has expanded its role in the sector in several ways. (1) It has increased its revenue share from the subsoil sector through changes in the tax codes; levying new royalties on extraction firms, limiting the application of tax stabilization agreements, raising export duties and heightening penalties for transfer pricing. (2) At the same time, the government has increased regulation of the industry, particularly concerning the environment, the hiring of Kazakhstani workers and transfer pricing. (3) It has also substantially expanded the role of the state-owned oil company, Kazmunaigas, in the industry by reserving a prior right of refusal on any sales of assets, bargaining with PSA partners for a larger share of existing projects, and reserving a larger role for the company in future projects.

This growing assertiveness of the Kazakhstani state can be attributed to several factors. First, the objective changes in both the strength of the state and the value of oil since 2001 have prompted reconsideration of early contract terms. Second, its actions reflect a popular perception that the deals of the early 1990s were unfair, giving too many benefits to international oil companies. Third, the government has set a clear goal of maximizing revenues from the industry, driven by the limited employment gains from the oil development and a desire to boost the revenues available for redistribution and diversification. And finally, the government has set forth the objective of increasing the expertise, resources and prestige of Kazmunaigas, with the hope that it will evolve into a major player in international oil markets.

While the government is likely to continue its assertiveness in what it considers a strategic sector, this intervention will be qualitatively different from interventions in Russia, Venezuela and Bolivia. Resource nationalism in Kazakhstan should be seen as a tactic for improving its domestic and international economic status, not a strategy for governance.

Introduction

Resource nationalism, a phenomenon thought all but dead in the 1980s and 90s, has experienced a comeback in the 21st century. *Petroleum Intelligence Weekly* (2007) summed up the situation for international oil companies (IOCs) succinctly: 'The big theme of the oil and gas business in 2006 was resource nationalism…host countries find that oil market forces have shifted in their favour, enabling them to advance their interests much more effectively.' Nationalizations in Venezuela, Bolivia, Russia and elsewhere grabbed international headlines and demonstrated the fragility of contracts negotiated in low oil prices and with weak states.

Despite assurances by Prime Minister Karim Massimov that 'resource nationalism is not the policy of Kazakhstan' (Global Insight 2007), the country has made significant moves to limit the operations of international oil companies, assert greater national control over oil and gas resources, and extract greater revenues. While none of these efforts has amounted to full nationalization, as in Venezuela or Russia, they are clear signs of growing national assertiveness on the part of the Kazakhstani government.

This paper surveys actions from 2004 to 2009 that fall under the rubric of resource nationalism in Kazakhstan, as well as some of the motivations for these actions. It is divided into four sections. The first section deals with major challenges to oil company contracts. Section two describes the changes in how IOCs are taxed and regulated. Section three explores the expanding role of Kazmunaigas. Finally, the last section focuses on some of the motivations for oil nationalism, the domestic political support for resource nationalism in particular.

Contracts and Profits

Both the domestic political circumstances of Kazakhstan's government and the profitability of oil developments have changed dramatically since independence in 1991. In the 1990s, when many of the most significant contracts were signed, global oil prices ranged from a high of USD 20 in 1991 to a low of USD 12.72 in 1998 (BP 2008). Domestically, President Nursultan Nazarbayev was deeply concerned about challenges to his leadership, the sharp downturn in production following independence and the potential social instability. From 1991 to 1998, average growth in per capita GDP was –5.57% (World Bank 2009a). Politically, Nazarbayev expressed serious concerns about political stability, going so far as to indicate in 1991 that Kazakhstan was in danger of falling into civil conflict: 'God grant that no one should stir up Kazakhstan on ethnic grounds. It would be far worse than Yugoslavia' (quoted in Olcott 1995, p. 298).

Given these circumstances of uncertainty and the government's need for immediate revenues, IOCs were able to negotiate very favourable contract terms (Luong and Weinthall 2001; Muttitt 2007). Production sharing agreements (PSAs) with seven leading companies account for nearly 86%

of Kazakhstan's oil output (Nurmakov 2009). These PSAs were a new breed, often referred to as the 'World Bank model', and were utilized intensively in the former Soviet states. In these contracts, the sharing of profit oil and the rate of taxation were based on sliding scales, involving complex formulas, based on the profitability and volume of oil extracted. The design of the contracts was such that, if the venture was successful, Kazakhstan would receive a larger share of the profits than under previous PSA models, but, if there were delays and cost increases, the state would also have to bear most of the burden (Muttitt 2007).

Additionally, the contracts gave significant guarantees to the IOCs. The economic terms were set for an extended period of time (40 years in the Kashagan development). The government was not given the ability to renegotiate the contracts if conditions changed, although the IOCs might do so under extraordinary conditions. The contracts provided for adjustments to maintain the IOCs' level of profit if these were adversely affected by any new laws or judicial decisions (except those dealing with the environment, health, or safety). Muttitt (2007, p. 20) argues that these contracts 'gave greater rights to the investors than anything since the colonial era'. Strong guarantees of IOC profits made sense in the 1990s, when concerns about instability and the urgent need for foreign investment were high. Later, as the economic and political situation changed, and several projects faced higher costs, these contracts became increasingly outdated.

The Kashagan contract is a paradigmatic example of these changes. This field is located on the Caspian Sea near Atyrau in western Kazakhstan. The commercial reserves for Kashagan have been estimated anywhere from 9 billion to 16 billion barrels of oil, making it the largest discovery in the last 30 years, the largest oil field outside of the Middle East and the fifth largest field in the world (EIA 2008a). A consortium of Eni, Shell, Total, ExxonMobil, ConocoPhillips, Kazmunaigas (KMG) and Inpex are working on the project, with Italy's Eni acting as the operator. In 2007, Eni announced delays and cost overruns in the project that changed the start of production from 2008 to 2010, raised the costs of first-stage development from USD 10 billion to USD19 billion, and revised peak production from 1.2 million barrels per day in 2016 to 1.5 million barrels per day in 2019 (Muttitt 2007). Eni also revised its estimate for the total costs of the development, from USD 27 billion to 60 billion. The Kazakhstani government indicated in its own analysis that Eni's revisions might still be too optimistic and that costs could run as high as USD 136 billion (Cutler 2007). Some of the companies involved in the project have privately suggested that 2011 or 2012 may be a more likely date for the start of production ('Kazakhstan Cut Output Forecast' 2008). These cost overruns were indeed exceptional: the International Energy Agency rated them as the second largest globally from 2004 to 2008 (IEA 2008).

While the contract for developing Kashagan was never formally released, the British firm PLATFORM obtained a copy (Muttitt 2007). Their analysis of the contract revealed that, under the conditions of the PSA, the Kazakhstani state was to bear the primary burden for the cost overruns and delays at the Kashagan project. Using US Energy Information Agency (EIA) projections of future oil prices and estimating total capital expenditure at USD 78 billion, they found that the higher costs could cut state revenues up to 2017 from USD 28.1 billion to USD 8.4 billion. A further rise in capital costs to USD 98 billion would reduce state revenues to USD 5.8 billion. Certainly the IOCs would also be hurt by delays and cost overruns, but, because of the structure of the PSA, their losses would be much lower. The internal rate of return under the USD 78 billion scenario would be cut from 20.6% to 14.5%. This is a significant loss, but still higher than the 12% internal rate of return that is considered good for risky projects. Even under the USD 98 billion scenario, the IOCs would still receive an above-average rate of return of 13.9%.

The response of Kazakhstan's government was not surprising. In September 2007, the Kazakhstani parliament (Majilis) passed a law giving the government the right to renegotiate, amend, or annul past contracts deemed a threat to Kazakhstan's national security – although the threat to previous contracts from this law was muted by international treaty protections for most of these PSAs. Prime Minister Massimov backed up the threat by stating in an interview with the *Wall Street Journal* (Chazan 2007): 'We are very disappointed with the execution of this project. If the operator [Eni] can't resolve these problems, then we don't exclude their possible replacement.' In a separate interview, however, he made it clear that 'the dispute over Kashagan has nothing to do with nationalization of resources' (Antelava 2007). The controversy was resolved in January 2008, when the parties reached an agreement whereby state-owned KMG would purchase additional stakes (bringing it to 16.81% ownership) for USD 1.78 billion, to be paid from future extraction. Estimates of the impact of this change indicate that it will have little impact on either IOC returns or state revenues. Muttitt (2007) estimates that IOC rates of return under the new conditions will remain relatively stable at 14.5%, while pre-2017 state revenues will increase from about USD 8.4 billion to USD 9.3 billion.

The Kashagan situation illustrates the influence of previous contracts on subsequent actions by the Kazakhstani government. PSAs intended to offset state instability, locking in contract terms for a generation or more, were unlikely to remain stable as those conditions and costs are subject to change. In June 2008, the Kazakhstani government proposed completely abandoning the PSA as a relationship with investors. Professor Oleg Egorov, a senior researcher at Kazakhstan's Institute of Economy under the Academy of Sciences, summarizes the attitude of the government toward some of the PSA contracts: 'We can afford to restore what we gave away earlier for small amounts of money.'[1]

Nevertheless, as demonstrated by the Kashagan case, the government has stopped short of wholesale renegotiation of contracts or nationalization. Rather it has preferred to revise the taxation system, using its influence to

1 Interview conducted 24 December 2009 in Almaty.

expand the share of state-owned KMG in projects, as discussed in the next two sections.

Tax and Business Climate

The government of Kazakhstan has consistently argued that the development of the oil industry in the country is of 'strategic' importance. For example, in his February 2008 State of the Nation address, President Nursultan Nazarbayev stated: '[T]he main focus in the oil and gas sector is the consolidation of the state's position as an influential and responsible player in the international petroleum and energy markets…by strengthening the state's influence in strategic industries.' Such an interpretation is only to be expected, since government tax revenues from oil in 2008 amounted to 12.4% of GDP (IMF 2009, p. 31). This strategic importance has often been invoked in the taxation and regulatory changes discussed in this section.

IOCs in Kazakhstan pay several types of taxes – including corporate income taxes, windfall levies, royalties, bonuses, PSA interest, and a rent tax for export of oil. Since 2004, the government has attempted to modify the tax regime for many oil and gas extracting enterprises. In January 2004, several amendments to the Tax Code of the Republic of Kazakhstan signalled the state's desire for greater oversight. Among the amendments was a clarification of the investment costs not subject to compensation as production expenditures. In particular, investors could not expect compensation for costs from non- or improper fulfilment of contract commitments due to violations of Kazakhstani legislation. The amendments also introduced a mechanism to guarantee the state a share of profits under PSAs, irrespective of any deterioration in contract implementation. Finally, the 2004 amendments instituted a rent tax for export oil (RTEO), calculated on a floating scale based on oil prices. In 2005, the state introduced additional changes in taxation, including an increase in royalty payments by 0.5 to 2%, the introduction of royalties for gas condensate, and simplification of windfall tax calculations.

The most comprehensive change has been the new tax code, which entered into force in January 2009. The new tax code was designed to substantially ease the tax burden on small and medium enterprises and the non-extractive sector, while increasing revenues from extractive industries (Nurmakov 2009). Among other provisions, it replaces royalties with a natural resource extraction tax (NRET), calculated on a progressive scale based on the amount of recoverable reserves and world prices for crude oil (Nurmakov 2009). With the new tax code, the government has estimated that corporate profitability, the estimated returns on corporate investments, will be around 20 to 25%.

The impact of the new tax code is debated among Kazakhstani experts. According to Professor Egorov, 'Taxation in correlation with world market prices is correct. It should have been introduced long ago.' He worries, however, about the efficacy of taxing oil companies, 'I can't say that oil companies suffer from heavy tax burdens. They conceal a lot of data about their operations, including the profits that were not taxed.'[2] Oraz Jandosov, the director of the Centre for Economic Research 'Rakurs,' was even more pessimistic: 'Oil- and gas-mining companies succeeded in lobbying for some changes in the draft, when it was in parliament. Those made the suggested increase of tax burden on subsoil users inefficient. Therefore, there will be no substantial increase of the tax burden on extractive companies.'[3] Similarly, Murat Laumulin, a senior researcher at the Kazakhstan Institute for Strategic Studies, argues that the changes in the tax code 'did not affect the Western multinational companies.'[4]

Officially, changes in the tax code should not affect some of the larger PSAs which had incorporated tax stabilization clauses into their contracts. At the 2008 Asia Society International Business Conference, Prime Minister Massimov pointed out: 'Past contracts will not be affected by the new tax code provisions if they are ratified by parliament; if any such contracts are not confirmed by the parliament, they will be subject to the provisions of the new tax code.' Nevertheless, in July 2008, the consortium developing the natural gas field in Karachaganak had USD 83 million in export duties levelled on them. The government threatened the Karachaganak Petroleum Operating (KPO) consortium with a ban on all of their exports if they did not pay the extra duties. That same month, the government voiced its intention to introduce the export duty on TengizChevrOil, once considered an 'untouchable investor', and began formulating plans to cancel the taxation stability regime and extend the 2009 tax code to all subsoil users.

Recent administrative actions by the government have also addressed concerns about transfer pricing and tax evasion. The Finance Ministry accused more than 100 extractive companies of misusing tax benefits and tax evasion through transfer pricing. In January 2009, a new law on transfer pricing entered into force, aimed at depriving subsurface developers of the opportunity to export their production to offshore firms for undervalued prices and then resell it at world prices. Additionally, in the first half of 2008, the Energy and Mineral Resources Ministry cancelled 20 contracts on subsurface operations for failure to meet agreed conditions, charging more than USD 125 million in additional taxes and other compulsory payments.

From a regulatory perspective, the government of Kazakhstan has introduced several important changes to the regulatory framework for IOCs. In October 2005, modifications were introduced to the Law on Subsurface Operations, which increased the government's ability to regulate the sale and development of subsoil resources. One of the main provisions gave the state a priority option to purchase any stakes in companies involved in developing subsoil resources at the price offered to other bidders. Coming at the height of the PetroKazakhstan affair, this was inter-

2 Interview conducted on 24 December 2009 in Almaty.
3 Interview conducted on 10 January 2010 in Almaty.
4 Interview conducted on 10 January 2010 in Almaty.

preted by many observers as an attempt by the state to purchase all or part of the company (see below). The modification also empowered the government to suspend operations on subsurface resources if investors breached contractual obligations – including the failure to satisfy the rules on hiring of Kazakhstani workers and on grounds of 'security and environmental protection' (Article 11-1). These changes were taken a step further by the November 2007 amendment to the Law on Subsurface Operations, enacted at the height of the Kashagan conflict. This amendment gave the government the right to cancel contracts unilaterally if the subsurface user's actions should 'lead to considerable change to the economic interests of the Republic of Kazakhstan that pose a threat to national security, and also with respect to the fields of strategic importance to the county' (Nurmakov 2009; Cutler 2007).

The government has also introduced significant regulations for environmental protection. In December 2004, it introduced a ban on flaring of associated gas. This new regulation caused a slowdown in production at several fields, including Tengiz. The government has also urged companies to find ways to move their large sulphur stores indoors (Nurshayeva and Golovnina 2008). The government has justified these regulations by pointing to serious concerns about environmental and living conditions in oil-producing areas. A group of European NGOs reported substantial environmental problems associated with the Kashagan oil development (Urbaniak et al. 2007). They found that the high levels of toxins in Kashagan oil pose a very real threat to the fragile ecosystem of the Caspian Sea, while the local population in Atyrau has reported increasing health problems related to the oil development project.

These regulations have an additional impact, though, allowing the government to place pressure on IOCs. One of the few exceptions to the inability of the government to modify the PSAs from the 1990s is if operations threaten the health and safety of Kazakhstani citizens. This is one of the reasons why environmental concerns played a large role in asserting the need for greater state involvement in Kashagan. The case of PetroKazakhstan, a Canadian company, provides a good example. Shortly after the passage of the ban on flaring, PetroKazakhstan was singled out for violations of this statute, although the development of PetroKazakhstan's fields had started well before the law was passed. Moreover, PetroKazakhstan was far from being the largest problem in terms of gas flaring. A company memo circulated by CEO Bernard Isautier cited statistics which put PetroKazakhstan in the bottom third of companies operating in Kazakhstan in terms of gas flared per unit of production.[5] The fines for flaring were one of a dizzying array of charges brought against PetroKazakhstan in 2005 by environmental and tax authorities, with the obvious intention of forcing the company out of the market.[6]

5 Personal interview with PetroKazakhstan executive in November 2006 in Almaty. Name withheld at informant's request.

6 For a full list of these legal actions see PetroKazakhstan (2005).

As a strategic asset, the oil and gas industry has come under greater regulatory and tax scrutiny by the Kazakhstani government. The importance of the oil industry, and government's goal of greater state involvement, is further apparent in the rapid rise in importance of the national oil company, KMG, as discussed in the next section.

Role of National Oil Companies

Perhaps nowhere has resource nationalism been expressed more clearly in Kazakhstan than in the growing role of the state-owned company, KMG, in major oil and gas development projects. However, an important distinction should be made. In their review of resource nationalism in Russia and Kazakhstan, Domjan and Stone (2010, p. 53) argue that KMG has primarily pushed for greater participation, rather than outright nationalization. The underlying purpose of these actions has been to increase the capabilities of the company and allow it to develop into an internationally competitive player in the oil industry. Additionally, the government hopes that expansion of KMG and the role of Kazakhstani labour in the oil sector will help to improve social conditions in the country. While oil and gas exports accounted for 66% of merchandise exports in 2007 (World Bank 2009a), the sector accounted for only 0.25% of employment (International Crisis Group 2007). Moreover, poverty has remained high, especially in the oil-producing regions. For example, a March 2009 survey by the Kazakhstani Research Centre 'Sandj' (2009) found that 23 to 37% of respondents in the main oil-producing regions had barely enough money to buy food or clothing.

According to rough estimates from the US Energy Information Agency, KMG currently owns about 30% of production and about 40% of proved reserves in Kazakhstan (EIA 2008b; Kennedy 2009).[7] KMG is also the leading company in Kazakhstan by volume of sales of products (USD 21 billion in 2008), and its growth has been remarkable (79.5% compared year-on-year to 2007). These figures reflect a considerable expansion of KMG's role in the oil sector since 2004 (Smirnov 2009). The case of Kashagan, where KMG increased its stake from 8.33% to 16.81%, has already been noted above. This section will explore three additional cases where KMG has taken on a greater role: MangistauMunaiGas (MMG), PetroKazakhstan, and the most recent dispute in Karachaganak.

The MMG takeover has sometimes been compared to the takeover of Yukos in Russia (Domjan and Stone 2010, p. 55). The business had been owned by Central Asia Petroleum Ltd. since 2007. Many experts, however, have linked the business to the interests of Dariga Nazarbayeva, a daughter of President Nazarbayev, and Rakhat Aliyev, her former husband (Silk Road Intelligencer 2010). In February 2007, Aliyev became entangled in a salacious legal scandal involving the disappearance of two

7 Calculating ownership of proved reserves is not straightforward, since estimates of reserves may vary substantially and some PSAs are either not published or have not been concluded. To give a general idea of proves reserves, this figure has been derived using the high-end estimates of field reserves where there is a range available, and estimates a 50/50 split in ownership for future PSAs.

former executives of the bank 'Nurbank.' After a bitter and public back-and-forth between Nazarbayev and his son-in-law, the president issued decree N-333, which stripped Aliyev of his official position, and the Kazakh government requested Austria to extradite him to Kazakhstan to face trial. In January 2008, he was found guilty *in absentia* and sentenced to 20 years in prison for kidnapping the executives. Two months later, he was sentenced to another 20-year term for his involvement in plotting a coup against the president. He and Dariga were divorced in June 2007.

Rakhat Aliyev's spectacular fall from grace corresponded with the sale of MMG. In December 2007, Central Asia Petroleum Ltd. announced that it would sell a majority stake in MMG. The company eventually decided to sell the entirety of the company to KMG (51%) and CNPC (49%) on the Kazakhstani Stock Exchange for USD 2.6 billion, which was substantially less than the USD 3.3 billion originally announced (Kalabin 2009). While Domjan and Stone (2010) argue that the transition was relatively polite, there were several major legal activities taken against the company, including the arrest of CEO Sagyn Krymkulov on charges of organized crime. There are certainly some similarities with the Yukos affair in Russia. Both involved powerful business oligarchs, both involved potential challenges to the president's power, and both resulted in extended jail sentences for the head people in the companies (though, unlike Khordorkovsky, Aliyev remains a free man in Austria). Nevertheless, the MMG takeover was carried out in a much more civil manner, within the confines of accepted legal practice, than the case of Yukos.

The sale of PetroKazakhstan was a more complicated situation for Kazakhstan's government and for KMG. As noted, Kazakhstan's government and Lukoil combined to impose significant legal costs on PetroKazakhstan. In the second quarter of 2005, PetroKazakhstan reported a USD 1.30 per barrel rise in administrative costs over the same period in 2004. Of that, USD 0.47 was due to new legal costs and USD 0.28 was due to decreased production in response to the new flaring regulations (PetroKazakhstan 2005, p. 8). The pressure succeeded in convincing PetroKazakhstan to leave the country, but, instead of just selling some of its Kazakhstan subsoil assets, which would have granted Kazakhstan the priority right of purchase, CEO Isautier put the entire company up for sale. After an intense bidding war between India's ONGC and China's CNPC, CNPC was awarded the purchase for USD 4.18 billion. It was in this context that the above-mentioned 2005 modifications to the Law on Subsurface Operations were introduced. Among the modifications, the government would have the pre-emptive right not only to purchase subsoil development rights, but also to the transfer of shares in any legal entity having subsoil use rights. Kazakhstan's parliament also proposed that subsoil use contracts could be terminated if the company did not comply with the new provisions (Mitrofanskaya 2005; Kenjebayeva 2006). Instead of pushing this legal pre-emption, the Chinese reached a negotiated compromise whereby KMG would acquire about a third of the company at a somewhat discounted price.

Finally, the most recent expansion of KMG in the oil sector involves the gas field of Karachaganak. The project, containing an estimated 1.2 trillion cubic meters of gas and 1.2 billion metric tons of oil and condensate, is currently being operated by British Gas (32.5%) and Eni (32.5%), with additional investments by Chevron (20%) and Lukoil (15%). It is the only major oil and gas field in which KMG does not have a stake. As noted above, despite taxation stabilization articles in the final PSA for the company, Kazakhstan has levelled substantial export duties, threatening to stop exports if they did not comply. In response, the consortium, Karachaganak Petroleum Operating (KPO), has sought a refund of over USD 1 billion in already paid export duties through international arbitration. While the dispute is still outstanding, the outlines of an agreement emerged at the end of December 2009, when Prime Minister Masimov said that the government had entered into talks with KPO over KMG obtaining a stake in the consortium (probably 10%) (Toktogulov 2009). Clear parallels can be drawn between the strategies pursued by the government in this case and in Kashagan. As of this writing, it is unclear whether the strategy will prove equally successful this time.

There are some substantial similarities between these cases. Most of them involved the application of regulations passed since 2004: environmental and security in Kashagan, environmental and taxation in PetroKazakhstan, and taxation in Karachaganak. In each case, the government showed little interest in outright nationalization and avoided punitive measures. As noted in the first section, IOC profits in Kashagan are not likely to suffer heavily from greater KMG involvement, PetroKazakhstan executives made a heavy profit on the sale of the company, and even in the MMG case the sale price amounted to about USD 2 per barrel of reserves.

On the other hand, there were also substantial differences in the government actions. In particular, the government appears willing to utilize more severe measures with smaller IOCs and those related to domestic interests that challenge the current administration. The latter was further illustrated in the government's takeover of firms connected with Mukhtar Ablyazov, a former opposition leader and Chairman of BTA Bank.

The goals of Kazakhstan's government were spelled out quite clearly in the 2003 *State Programme for the Development of the Kazakhstan Sector of the Caspian Sea* (Ministry of Energy and Mineral Resources of the Republic of Kazakhstan 2003), which called for 'import substitution' policies favouring Kazakh producers (p. 23), 'eventual substitution' of foreign workers with 'qualified local specialists', and 'national company's stake in the project (not less than 50%)' (p. 12). This was further reflected in the July 2005 Law on PSAs, which was intended to set the standards for all further PSAs. Among its provisions, it specified that KMG was to be provided at least a 50% stake in all future developments.

In addition to its increasingly important domestic role, KMG is expanding outside of Kazakhstan. In 2007, KMG purchased 75% of Romania's second largest oil company, Rompetrol Group NV, for USD 3.6 billion.

This was not the first attempt by KMG to break into the European market. In 2006, the company tried to gain control of Lithuania's Mazeikiu Nafta MNF1L.VL refinery, but was outbid by a Polish company.

Kazakhstan's actions indicate its hope that KMG can become a global oil powerhouse in the future through the experience it gains in domestic oil and natural gas developments. As Martha Brill Olcott of the Carnegie Endowment for International Peace has stated, 'The one thing that is really critical [for Kazakhstan] is making KMG one of the flagship companies for the country' (quoted in Nurshayeva and Zhdannikov 2007). Domestic support for this goal, as well as some suspicion of outside investment, has further encouraged the government to pursue more nationalistic policies with regard to its subsoil resources.

Domestic Politics

Politics in Kazakhstan is dominated by President Nazarbayev, who has held office since 1990 and won the last presidential election with 91% of the vote. He is supported in office by the Nur-Otan political party, which currently controls all of the seats in the parliament. Prime Minister Massimov, one of the most influential figures in the president's inner circle, has been at the centre of most policy pronouncements regarding the IOCs. Despite the relative unity of the government, not all members of the party are satisfied with the current direction of policies. In April 2009, Member of Parliament Maral Itegulov expressed concerns that KMG's financial situation was 'very uneasy', which pointed to the company's 'low effectiveness.' Similarly, Senator Leonid Burlakov argued in 2008 that sharp rises in export duties would make investment in the oil sector less attractive, slow down growth in the sector', curtail exports and production, and reduce the scale of new deals and capital investments. These voices, however, remain a distinct and small minority within the party.

IOCs also find little sympathy among opposition groups and the general populace. In previous elections, the accusation that Nazarbayev and Nur-Otan had signed contracts that were too lenient to the oil companies was much more common than the inverse. For example, Bulat Abilov, chairman of the Azat Democratic Party, painted a dire picture of the oil sector: 'Social rights of the workers of the oil industry are often unprotected, working conditions are poor; the employers' commitments under the labour agreement are often neglected.' Mels Yeleusizov, a former presidential candidate and Chairman of the Ecological Movement 'Tabigat', argued that the government 'gives away our strategic resources to foreigners'.

The general population also remains somewhat suspicious of foreign investment in major businesses. In a 2008 Gallup poll, 63% of respondents in Kazakhstan said that their government should prohibit foreign companies from buying big businesses (Ray and Esipova 2008). Similarly, in an October 2009 poll by the International Republican Institute (IRI), 85% of the respondents agreed with the statement that the government should do more to redistribute the oil wealth to ordinary citizens (IRI 2009). This, however, does not necessarily reflect an overarching poor opinion of foreign firms. When asked about corruption in various institutions, only 30% of the respondents said that there was ‘a great deal’ or ‘some’ corruption in foreign companies: this figure was a mere 1% higher than the rating of corruption in the office of the president, which was the lowest of all institutions in the poll.

The stronger stance of the government towards IOCs does not seem to have hurt its popularity. The October IRI poll reported that about 74% of Kazakhstanis felt the country was on the right track. This was up from its lowest point of 67% in August 2008, but still below its high of 90% in September 2005. The favourable ratings for President Nazarbayev were even higher, around 92% in the poll, whereas the favourability ratings for the government stood at about 68%. These figures are even more impressive since, in the same poll, 78% of Kazakhstani respondents said that the country was in a serious economic crisis, and 68% said that they felt these effects in their city or village (IRI 2009).

Thus, the domestic political climate in Kazakhstan appears generally favourable to the tougher governmental stance toward international oil companies. Moreover, the strength of the government in popular opinion provides the stability necessary for demanding a greater role in the oil sector, even if that means adopting policies that might decrease production and current revenues.

Conclusions

Stanislav Zhukov of the Russian Institute of World Economy and International Relations described Kazakhstan’s economic situation succinctly: ‘It’s not a secret that economic growth of Kazakhstan is fully and utterly determined by the boom of the oil and gas sector. All dominating macro-indices of the national economy – exports, FDI, gross capital investment, etc. – reflect the dominating role of oil’ (2006, p. 159). Given the importance of oil and gas development, it is not surprising that Kazakhstan’s government has attempted to take a larger role in this sector. As we have seen above, the contracts that were negotiated when oil prices were low and the Kazakhstani state relatively weak have not held up particularly well now that these conditions have changed. Tanya Costello, an analyst at the Eurasia Group, warns: ‘Contract revision remains a serious investment risk in Kazakhstan, including for major energy multinationals involved in projects based on production sharing agreements’ (quoted in Lesova 2007).

Nevertheless, some important distinctions remain between the type of resource nationalism that has taken root in Kazakhstan, as opposed to the activities in Russia, Venezuela, Bolivia and elsewhere. Kazakhstan has avoided full-scale nationalization or unilateral contract revision. While it may raise concerns among some investors, most attempts at quantifying these risks indicate that worries about property rights and regulatory quality have not been heightened since 2004, and may be marginally improving as the economy grows and the government remains stable. In all but one survey tracked by the World Bank's *Governance Matters* index on regulatory quality, Kazakhstan's ratings have improved since 2000. Similarly, in all but one survey for rule of law, its position either remained stable or improved (World Bank 2009b).

Additionally, it is important to note that, unlike Venezuela and Bolivia, the government in Kazakhstan is not primarily motivated by ideology and that, unlike Russia, it is not interested in controlling the oil and gas sector in order to promote its domestic and international political position. Rather, the main goals appear to be: (1) to boost government revenues for social and economic spending, (2) to increase the involvement of the Kazakhstani workforce in oil development, and (3) to expand the role of KMG so that it can gain the experience to become internationally competitive – in the mould of Statoil, CNPC or ONGC. While these motivations may prompt additional actions in the future, Kazakhstan will probably remain cautious of taking actions that would make IOC projects unprofitable or that would discourage future investment. Resource nationalism in Kazakhstan is likely to remain a tactic for improving its domestic and international economic status, not a strategy for governance.

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