



**ҚазМұнайГаз**  
NATIONAL COMPANY ҰЛТТЫҚ КОМПАНИЯСЫ



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## Kazakhstan-China Oil Pipeline Project

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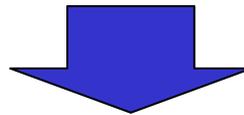
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# Rationale for Kazakhstan-China Oil Pipeline

- **Oil and gas production will grow to 150 mty by 2015**
  - Development of the Kazakhstan Sector of the Caspian Sea
- **Development of oil and gas transport facilities is one of the major strategic goals**
  - No direct access to major world oil and gas markets and deep-water terminals
- **Multivector principle is applied to the development of hydrocarbons export options**
  - Diversification of export routes and access to new markets
- **Oil and gas consumption in China is growing**
  - Rapidly increasing demand for oil in China is one of the major factors contributing to the growing need for energy resources worldwide
- **China shows interest in importing oil from Kazakhstan**



**Kazakhstan-China Oil Pipeline**

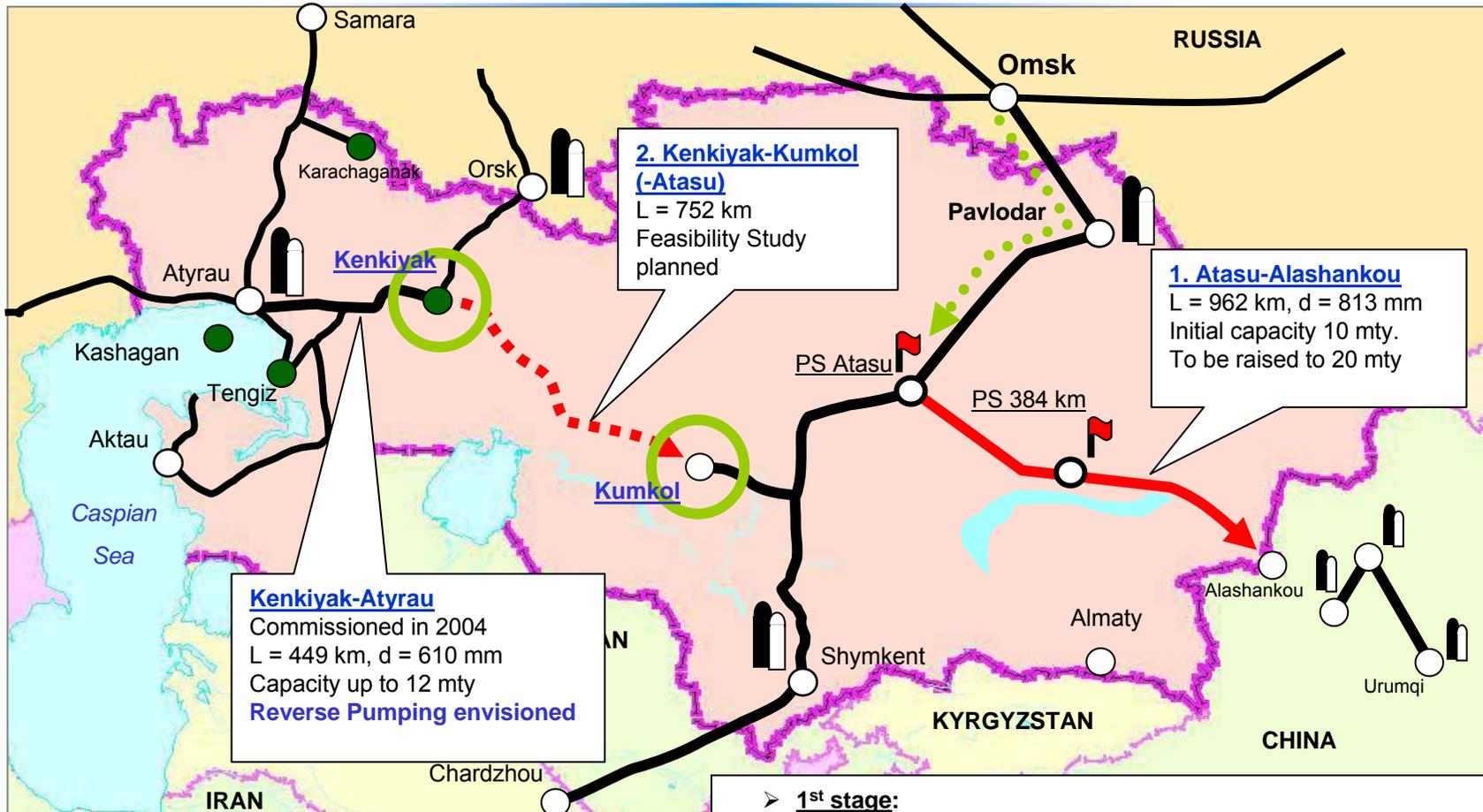


# Legal Arrangements between Kazakhstan and China

- **September 1997: Framework Agreement on Projects for Fields Development and Construction of West Kazakhstan-China Oil Pipeline between CNPC and Ministry of Energy and Natural Resources of Kazakhstan**
  - Pipeline to go from Atyrau to Alashankou
  - CNPC will secure minimal guaranteed transportation volume of 20 mty and financing for the project
- **June 1998: Agreement to conduct joint study for the West Kazakhstan –China Oil Pipeline between CNPC and KazTransOil**
- **September 1999: Agreement on Cooperation in the Oil and Gas Sector between the Governments of Kazakhstan and China**
  - Support for construction of the West Kazakhstan – China Oil Pipeline
  - CNPC is responsible for pipeline construction, arrangement of financing and project study
  - Kazakhstan will allot land for pipeline construction, provide safety and security guarantees, stability of the legal regulation for oil export duties and equipment import duties
- **June 2003: Agreement on Joint Study of the Two-Stage Construction of the Kazakhstan-China Pipeline between KMG and CNPC**
  - Agreed to prepare Feasibility Study for two-stage construction of the pipeline
- **August 2003: Memorandum on Accelerating Construction of the First Stage of Kazakhstan-China Pipeline between CNODC and KMG**
  - Construction to be done by the end of 2005
- **May 2004: Agreement on the Main Principles for Construction of the Atasu-Alashankou Pipeline between KMG and CNPC**
- **May 2005: Agreement on Joining KazTransOil's and Atasu-Alashankou Pipeline Systems**
- **March 2006: Agreement on Operation and Maintenance of the Atasu-Alashankou Pipeline between Kazakhstan-China Pipeline company and KazTransOil**



# Kazakhstan-China Oil Pipeline Map



**Kenkiyak-Atyrau**  
 Commissioned in 2004  
 L = 449 km, d = 610 mm  
 Capacity up to 12 mty  
**Reverse Pumping envisioned**

**2. Kenkiyak-Kumkol (-Atasu)**  
 L = 752 km  
 Feasibility Study planned

**1. Atasu-Alashankou**  
 L = 962 km, d = 813 mm  
 Initial capacity 10 mty.  
 To be raised to 20 mty

- Oil Pipelines
- Kazakhstan-China Pipeline Stages
- Possible Oil Supplies from West Siberia
- Resources for Atasu-Alashankou

- **1<sup>st</sup> stage:**  
**Construction of the Atasu-Alashankou Pipeline with 10 mty capacity**
- **2<sup>nd</sup> stage:**
  - construction of the Kenkiyak-Kumkol section
  - modernization of the existing Kumkol-Karakoin-Atasu section
  - reverse of the Kenkiyak-Atyrau Pipeline
  - capacity expansion to 20 mty for Atasu-Alashankou section

# Atasu-Alashankou Pipeline

## ➤ Pipeline Parameters

- Length 962 km, diameter 813 mm
- Initial capacity 10 mty, to be increased to 20 mty
- Route crosses Karaganda, East Kazakhstan, and Almaty regions
- Seismic zone 6-9 points on MSK-64 scale. Pipeline sections in seismic areas were designed according to Kazakhstan standards
- Two pump stations constructed: Atasu and 384 km

## ➤ Atasu-Alashankou Pipeline construction cost \$806 million

## ➤ Financing for the Atasu-Alashankou Pipeline:

- Equity and debt financing
- \$600 million loan from JP Morgan secured by CNPC
- Maturity 15 years
- Eurobonds in two tranches \$300 million each

## ➤ Project Schedule

- September 28, 2004: construction started
- December 15, 2005: construction completed, filing started
- Currently filling nears completion, crude supplies will start in mid-2006

## ➤ Resource base for Atasu-Alashankou

- Kumkol crude – field location close to the pipeline that is most viable
- Kenkiyak (Aktobe) crude (by railroad)
- Possibly, west siberian crude (via Omsk-Pavlodar-Shymkent pipeline to Atasu)



## Atasu-Alashankou Pipeline (cont'd)

- KMG and CNPC agreed to develop Feasibility Study for two-stage construction of the Kazakhstan-China Pipeline
- Engineering Design for Atasu-Alashakou was done by Kazakhstan Institute of Oil and Gas and China Petroleum Pipeline Engineering Corporation (CPPE)
- For pipeline design, construction, operation, and oil transportation purposes a Project Company was established – Kazakhstan-China Pipeline (KCP) joint venture:
  - 50% owned by KazTransOil – KMG's oil pipeline subsidiary
  - 50% owned by China National Oil and Gas Exploration and Development Corporation – CNPC's subsidiary
  - KCP's capital \$100 million
- Construction of the Atasu-Alashankou Pipeline completed in December 2005, currently filling nears completion
- As agreed with KCP, KazTransOil is responsible for operation and maintenance of the Atasu-Alashankou Pipeline



# Atasu-Alashankou Pipeline: Addressing the Energy Charter Principles

- **Non-discrimination as to the origin, destination, and ownership of energy resources**
  - Guarantee of free access to the pipeline, acceptance and transportation of oil to China including transit
  - Intentions to attract any resources, particularly, Russian oil supplies from West Siberia
  
- **Rules for pipeline access**
  - All potential shippers are guaranteed equal access to the pipeline when capacity is available
  - CNPC and KMG have priority rights of accessing the pipeline capacity
  - Pipeline capacity, first of all, will be used to fulfill the obligations under long-term oil transportation agreements
  - If one of the parties does not use its pipeline capacity in full, the other party has the right to use such unused capacity
  - In case transportation volumes under contracts exceed the pipeline capacity, the rights for transportation will be executed according to the shares of KMG and CNPC in the Project Company
  
- **Tariffs for transit/transportation**
  - The tariff should be competitive and non-discriminatory compared to other options for exporting oil from Kazakhstan
  - The following principles are observed when calculating the tariff:
    - 1) Compensation of economically sound costs (including cost of financing);
    - 2) Payment of taxes and other duties imposed in accordance with the Kazakhstan laws;
    - 3) Profit made should ensure effective operation of the company (being a natural monopoly);
    - 4) The transportation option should be competitive compared to other options;
    - 5) The existing pipeline capacity should be utilized to full extent



# Other Issues of Interest

## ➤ Resources for the Pipeline

- CNPC is in charge of finding oil for transportation via the Atasu-Alashankou pipeline
- Oil for Atasu-Alashankou will be supplied from Aktobe (Kenkiyak field - operated by CNPC's subsidiary) and Kumkol (PetroKazakhstan owned by Chinese)
- West Siberian oil supplies envisioned

## ➤ Pricing

- CNPC is planning to buy oil for Atasu-Alashankou at prices corresponding to those for alternative options available to prospective shippers (transportation costs will be taken into account)

## ➤ Investment Protection

- The Kazakhstan-China project is done by two state-owned companies – CNPC and KMG, which means government support. Investment for pipeline construction was done by way of debt financing guaranteed by CNPC

## ➤ Dispute Settlement

- The main agreement for the Atasu-Alashankou Pipeline (the Agreement on the Main Principles for Construction of the Pipeline) between KMG and CNPC provides for dispute settlement by way of negotiations





**Thank You**