

# Development of trade and economic cooperation in the oil and gas sectors between Kazakhstan and Russia

Zinat Imangozhina  
*JSC «Financial academy»,  
Master of Economic Sciences, Doctoral  
candidate of PhD, Teacher*  
Nur-Sultan, Kazakhstan  
zeenat@inbox.ru  
<https://orcid.org/0000-0003-1218-0371>

Anna Zuyeva  
*Moscow Lomonosov University,  
IT - Department,  
Associate Professor*  
Moscow, Russia  
dgastin@mail.ru  
<https://orcid.org/0000-0003-4703-6679>

Dinara Satenova  
*Financial Academy, Master of Economic  
Sciences, Doctoral candidate of PhD,  
Senior Lecturer, Master of Economic  
Sciences*  
Kazakhstan, Nur-Sultan  
Lady.satenova@mail.ru  
<https://orcid.org/0000-0002-0529-3039>

Shakizada Niyazbekova  
*Moscow Witte University,  
Finance and Credit Department,  
Associate Professor*  
Moscow, Russia  
shakizada.niyazbekova@gmail.com  
<http://orcid.org/0000-0002-3433-9841>

Bibigul Issayeva  
*Gumilev Eurasian National University  
Economic Department,  
Associate Professor*  
Nur-Sultan, Kazakhstan  
b.isayeva\_78@mail.ru  
<https://orcid.org/0000-0002-8109-2896>

**Abstract - The Republic of Kazakhstan and the Russian Federation are strategic allies and the most important trade and economic partners. The Republic of Kazakhstan and the Russian Federation constantly hold events on the importance of trade-economic relations development between the countries that contribute to the further development of mutually beneficial relationship. Both Kazakhstan and Russia are making efforts to develop their own economy and mutually beneficial trade and economic cooperation. Russia is the largest market for Kazakhstan's exports of processed products. Positive results are shown in the field of investment cooperation in the oil and gas industry, mining and agriculture, chemical industry and other sectors.**

**Keywords - oil; oil products; trade and economic cooperation; gas; oil and gas sector; oil market.**

## I. INTRODUCTION

*Methods of research.* As a part of the system analysis, a structural and functional method was used to study the phenomenon of trade cooperation between the Republic of Kazakhstan and the Russian Federation as a comprehensive phenomenon in modern international relations. The system approach allows us to identify the matrix of trade policy: the internal logic of subordination and the relationship of the main system elements, its structure, direction and format of manifestation in a changing environment, as well as to give a problem-chronological analysis of the research subject in a specific historical context [1]. The method of comparative analysis is used to identify the general and specific in the concepts of trade policy of the studied countries.

*Source base of research.* The authors used the normative and legal documents of the Republic of Kazakhstan and the Russian Federation, the Agreement between the Government of the Russian Federation and the Government of the Republic of Kazakhstan on Trade and Economic

Cooperation in Oil and Oil Product Supply to the Republic of Kazakhstan dated October 9, 2010, the Agreement between the Government of the Russian Federation and the Government of the Republic of Kazakhstan on cooperation and development of fuel and energy complexes dated December 24, 1992, the Agreement on Friendship, Cooperation and Mutual Assistance between the Russian Federation and the Republic of Kazakhstan signed on 25.05.1992, the Protocol Amending the Agreement between the Government of the Russian Federation and the Government of the Republic of Kazakhstan on Trade and Economic Cooperation in Oil and Oil Product Supply to the Republic of Kazakhstan dated December 9, 2010, September 19, 2012, Memorandum between the Ministry of Industry and Trade of the Russian Federation and the Ministry of Industry and New Technology of the Republic of Kazakhstan of understanding on cooperation in the field of industry and others [2], [3], [4].

*Approach.* The authors use a descriptive approach to review published studies on the development of trade and economic cooperation in the oil and gas industry, with particular emphasis on the analyzed elements, scientific journals, which considered the study. The study is based on obtaining, analyzing and summarizing data

## II. RESULTS AND DISCUSSION

The geographical position of Kazakhstan determines the important role of the state as a "transit corridor", additionally the presence of significant amounts of energy resources in the country, allow us to talk about the high degree of integration of Kazakhstan into the world trade and economic relations.

Significant strengthening of Kazakhstan's foreign trade potential is largely facilitated by the presence of a number of

competitive industries, providing opportunities to export not only raw materials but also products of the manufacturing sector.

The geography of Kazakhstan's exports and imports is represented by a wide range of countries, including European countries, countries of the Asia-Pacific region, America, Africa and Australia.

The dynamics of foreign trade turnover in Kazakhstan is quite high, where relations with Russia are established in many areas, such as the oil and gas sector, transport, industry, agriculture and others [5].

Kazakhstan is rich in resources, it has got significant reserves of oil, gas and natural uranium of industrial importance, is one of the leading players in the world market of copper, titanium, ferroalloys, in the regional market is a monopoly on chromium, has significant resources of iron, manganese, coal and aluminum. Russian business has actively tried to enter Kazakhstan. For example, Russia bought shares of the Fedorovskoe oil field.

Until 2025, it is planned to create common markets and spaces: a single energy market, which will include a common market for electricity, oil, oil products and gas, a single transport space and the development of Eurasian transport corridors; a coordinated agro-industrial policy; the elimination of existing barriers to the free circulation of goods and labor.

On July 1, 2017, the common market of medicinal preparations and medical devices began operating. The Customs Code of the Eurasian Economic Union entered into force on January 1, 2018. Efforts are being made for creating common markets of energy resources (electricity, gas, oil and oil products).

TABLE I. DIRECTIONS OF GASOLINE IMPORT BY RAIL FROM THE RUSSIAN FEDERATION (IN TH. TONNES)

Directions	January — August 2017	January — August 2018
Kazakhstan	621.70	389.45

<sup>a</sup>. Source: Gasoline export from Russia. URL: argusmedia.com

The resumption of foreign shipments of motor-fuel will allow Kazakhstan to avoid overstocking of local storage facilities and increase of product excess in the country due to the ongoing modernization of the refinery. Thus, Shymkent Oil Refinery plans to put into operation a new catalytic cracking unit by the end of September, leading to an increase in gasoline production. According to market participants, in mid-term perspective Kazakhstan may be replaced by other countries of Central Asia with an increasing demand for Russian gasoline. Meanwhile, Kazakh companies are also showing interest in these regions. The government of Kazakhstan, in turn, plans to sign joint balances for the supply of motor fuel to other Central Asian countries, in particular to Kyrgyzstan, leading to competition with Russian suppliers [6].

Some market participants suppose that at a lower price of Kazakh gasoline compared to Russian, contractors will give preference to the latter because of lower risks in concluding contracts [7]. In addition, the growing market of

Turkey and other Mediterranean countries may be possible importers of Russian fuel. However, the prospects for the export of Russian gasoline to these directions are slight due to the limited possibilities of segregated fuel storage in the Russian ports of the Black Sea. Transshipment of gasoline is carried out only by the ports of the Azov sea — Azov and Yeysk, but the size of batches at local terminals is limited to 5 thousand tons due to small depths. Kazakhstan is the second largest market for Russian gasoline within the last few years. Meanwhile, for the eight months of 2018, shipments of the product to this country decreased by a third compared to the same period last year, to 389.5 thousand tons, due to the launch of new capacities at local refineries. Deliveries of Russian fuel to Kazakhstan stopped in August, as the local market was experiencing a surplus of gasoline AI-92, and consignments of Russian diesel fuel were more expensive than Kazakhstan's.

Table 2 presents the data of mutual trade in oil and oil products between Kazakhstan and Russia for 11 months, 2017.

TABLE II. MUTUAL TRADE IN OIL AND OIL PRODUCTS BETWEEN KAZAKHSTAN AND RUSSIA OVER A PERIOD OF JANUARY – NOVEMBER, 2017 (MILLION TONS)

Name	the Republic of Kazakhstan import/export	The Russian Federation import/export
Oil export	0.8	0.0
Oil products export	0.08	0.6
Oil import	0.0	0.8
Oil products import	0.6	0.08

<sup>b</sup>. Source: Data of the Eurasian Economic Commission

In addition, Kazakhstan and Russia plan to sign a new agreement regulating the supply of petroleum products between the two countries in the near future. The document will allow Kazakhstan to export gasoline AI-92. The current Russian-Kazakh agreement «On Trade and Economic Cooperation in Oil and Oil Product Supply to the Republic of Kazakhstan», signed in 2010, includes a ban on the export of motor fuel from Kazakhstan in exchange for its duty-free supplies from Russia. The agreement was valid until January 1, 2019.

Oil and oil products. Delivery of 12.1 million tons of oil, 1.5 million tons of burner fuel, 1 million tons of motor gasoline, 2.2 million tons of diesel fuel and 2.4 million tons of diesel oil was agreed from the Russian Federation to the Republic of Kazakhstan in 1993. In turn, the delivery of 14 million tons of oil and gas condensate, 450 thousand tons of burner fuel, 40 thousand tons of motor gasoline and 40 thousand tons of diesel oil was agreed from the Republic of Kazakhstan to the Russian Federation.

In January 1995, Russia and Belarus got to work on the formation of the Customs Union — agree on the goals, principles of operation, as well as the mechanism and stages of its creation. The establishment of any customs Union bodies was not envisaged at this stage. All CIS member States could join this initiative, but only the Republic of Kazakhstan took the opportunity (January 20, 1995).

In parallel with the launch of the Customs Union, Russia and Kazakhstan worked on the formation of common

markets for oil and oil products within the Common Economic Space (hereinafter-the CES), the launch was expected on January 01, 2012. In this context on December 09, 2010, a set of agreements on cooperation in the oil sector, including bilateral and trilateral, was signed [8]. The trilateral document was the Agreement on the Organisation, Management, Operation and Development of Common Markets for Crude Oil and Petroleum Products in the Republic of Belarus, Republic of Kazakhstan and the Russian Federation. This document defined the basic principles and measures aimed at the formation of common markets for oil and petroleum products of the Common Economic Space, as well as the development of competition in these markets. The common market of oil and petroleum products of the CES was understood as a set of trade and economic relations of economic entities of the CES member States in the field of production, transportation, supply, processing and sale of oil and petroleum products in the territories of their States necessary to meet the needs of the CES member States [9]. One of the principles of forming common markets for oil and oil products was the non-use by the Parties in mutual trade of quantitative restrictions and export customs duties (other duties, taxes and charges of equivalent value). During the formation of the common market, the countries agreed to regulate the trade in oil and oil products, including the application of export customs duties and quantitative restrictions, on a bilateral basis.

An agreement was reached with Kazakhstan on the non-application of export customs duties in the mutual trade of oil and oil products. From January 01, 2014, mutual oil supplies are carried out in the equivalent volume. In 2012, the agreements with Kazakhstan were adjusted by supplementing them with the obligation of the Kazakh side to carry out a counter supply of oil to the Russian Federation according to the agreed methodology for Russian oil products delivered to the country, thereby compensating the budget of the Russian Federation for the loss of income from duty-free supplies of oil products.

In December 2013, Russia and Kazakhstan agreed on a new approach to the regime of mutual trade in oil and oil products, involves the completion of the counter supply of oil by the Kazakh side for the oil products supplied by the Russian side on December 31, 2013, as well as the possibility of limiting the supply of certain types of oil products from Russia to Kazakhstan and from Kazakhstan outside the Eurasian Economic Union.

The completion of counter-deliveries can be explained by the position of the Kazakh side, which believed that the supply of goods should be carried out without export customs duties, and therefore the Kazakh side has no obligation to compensate the Russian side for the loss of income from duty-free supplies of petroleum products.

Officially, the introduction of restrictions on the supply of petroleum products was justified by the need to ensure the protection of the natural environment, however, it seems that the true reasons were the incompleteness of the creation of common markets for oil and petroleum products and the unresolved issue with the re-export of Russian petroleum products in conditions of lower rates of export customs duties in the Republic of Kazakhstan.

In relations with Kazakhstan, an agreement was reached in 2018 to update the lists of oil products prohibited for export from Russia to Kazakhstan and from Kazakhstan outside the Customs Union, as well as to coordinate these lists at the level of relevant ministries.

Russian-Kazakh agreements on the ban on the supply of a number of petroleum products, valid from 2015, allowed Kazakhstan to complete the modernization of refining capacities. Under these conditions, updating the list of oil products prohibited for export from Russia to Kazakhstan may lead to a decrease in the share of Russian oil products both in the Kazakhstan market and in the markets of Central Asia.

At the same time, it is important to note that as opposed to the Russian Federation, the Republic of Kazakhstan has no prohibitions on the supply of petroleum products to the Russian market, this creates opportunities for Kazakhstan's oil products to enter the Russian market [10].

Mutual trade in gas between Kazakhstan and Russia is presented in table 3.

TABLE III. MUTUAL TRADE IN GAS BETWEEN KAZAKHSTAN AND RUSSIA OVER A PERIOD OF JANUARY – NOVEMBER 2017 (BILLION CUBIC METERS)

Name	the Republic of Kazakhstan import/export	The Russian Federation import/export
Gas export	13.3	2.4
Gas import	2.4	13.3

<sup>c</sup> Source: Data of the Eurasian Economic Commission. URL: <http://www.eurasiancommission.org/>

Data on the Aggregate indicators of gas industry of Kazakhstan and Russia for 2017 are presented in table 4.

TABLE IV. AGGREGATE INDICATORS OF GAS INDUSTRY OF KAZAKHSTAN AND RUSSIA FOR 2017 (BILLION CUBIC METERS)

Name	the Republic of Kazakhstan	The Russian Federation
Gas reserves	1500.0	32600.0
Gas recovery	33.3	676.4
Gas import	4.9	8.9

<sup>d</sup> Source: Energy statistics of Eurasian Economic Commission for 2017 URL: <http://www.eurasiancommission.org/>

The volume of Russian financial resources, one way or another invested in mining projects in Kazakhstan, is expected to be about 4.5 billion dollars, including approximately 3.1–3.2 billion dollars of acquired assets and at least 1.3–1.4 billion dollars of direct investment.

Expansion of interaction: transportation of hydrocarbons, joint development of production operation projects. First of all, these are the Imashevskoye and Khvalynskoye fields. So, the exploration, which is carried out by the company "Eurasia", in case of showing positive results, makes it possible for Russians to enter the production. Next aspect is the purchase of Russian oil, high-octane gasoline and gas by the Republic of Kazakhstan.

In the mid-2000s, potential routes for Kazakhstan's oil and gas appeared. Kazakhstan is constantly trying to diversify its export directions.

In 2018, the trade turnover between the two countries, excluding the oil and gas component, increased by 3%. In 2019, there has been a slight decline, but this is a temporary phenomenon, the situation is stabilizing.

### III. CONCLUSION

According to official statistics, there is an increase in the import of Russian oil and oil products to Kazakhstan, as well as a shortage of trade. Kazakhstan showed a negative trade balance with Russia. Analysis of 2011 showed that when the sharp increase occurred, it was due to the fact that Kazakhstan began to receive more oil products from Russia. Moscow supplies oil to Kazakhstan refineries, where it is processed. Oil issues are regularly the main questions of bilateral meetings and summits. Hydrocarbon exports are the main item on the economic agenda.

The fuel and energy potential of the Republic of Kazakhstan and the Russian Federation is unique both in terms of the availability of fuel and energy resources and the possibility of transit and export these resources within and outside the countries. The territory of the States allows organization of resources export to all perspective directions: West, East and South-East. Currently, Kazakhstan and Russia have fuel, energy and water resources that are of global importance and extremely attractive to investors. Kazakhstan and Russia are connected by regional pipelines allowing resources transportation. Kazakhstan and Russia are connected by a system of export gas pipelines allowing natural gas export to the countries of Eurasian Economic Union.

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