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Kazakhstan

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Introduction

The Fuel and Energy Complex is one of the major sectors of the Kazakhstani economy. Kazakhstan ranks sixth in the world in terms of natural resources. In the periodic table of 110 elements, 70 of them have been explored, extracted and 60 elements are used. According to the calculations of explored depths, they are estimated to be worth about US$10trn. Therefore, for Kazakhstan it is very important to explore its energy resources and to obtain the greatest economic benefit.

Overview of the current energy mix, and the place in the market of different energy sources

The total amount of extractive reserves of fuel resources in Kazakhstan is about 34.9 billion tonnes of oil equivalent (toe).

In the structure of extractive natural energy resources of Kazakhstan, the main share is coal and uranium reserves (46% and 30% respectively), while carbon is 25% of the total.

The largest export volume in energy equivalent is uranium (225.8 million toe or less than US$2.5bn), and in cost equivalent – oil (79.2 million toe or US$56.4bn).

Below, we provide an overview of certain sectors of the Kazakhstan Fuel and Energy Complex.

Overview of the oil industry

During the period January-June 2014, oil companies in Kazakhstan processed 7,204,200 tonnes of oil (100.6% for the respective period in 2013; 100.0% planned in 2014) through three petroleum refineries (Gasoline – 1,471,900 tonnes (119.6% by 2013); Aviation kerosene – 201,500 tonnes (111.4% in 2013); Diesel fuel – 2,008,500 tonnes (99.5% in 2013); and Black oil – 1,637,900 tonnes (87.4% in 2013)).

For 2014, the detailed plan of oil extraction in the Republic of Kazakhstan is 81.8 million tonnes. As of January 6, 2014, the cumulative oil extraction from the beginning of the year is 33,507 tonnes (100.9% of the plan from the beginning of the year, and 99.5% over the same period in 2013). The export volume of oil and gas condensate for the first five months of 2014 amounted to 26.79 million tonnes.

Overview of the gas industry

In 2013, natural gas production in the country amounted to 42.3 billion nm^3 (105.3% by 2012). The volume of production of marketable gas was 22.8 billion nm^3 (105.1% in 2012). Natural gas-producing regions of the country for 2013 amounted to 10.9 billion nm^3 (103.8% in 2012). In accordance with the Agreement on the Counter Delivery of Gas between "Gazprom", "Uzbekneftegaz" and "NC KazMunaiGas" JSC dated December 27, 2006, the entire gas imports "swaps" with exports from the Karachaganak gas condensate field (see below) at the same price and in equal volumes.

Gas exports from the country amounted to 8.6 billion nm^3 (101.7% by 2012). Through the territory of the country, gas is transited in the volume of 99.146 billion nm^3 (102.7%). In all

2,448 million tonnes (109%) of liquefied petroleum gas (LPG) was produced.

During the implementation of programmes of gas utilisation by subsoil producers, the amount of flared gas amounted to 0.9 billion nm^3 in 2013, which is 93% in comparison with 2012.

As of January 1, 2013, the amount of natural gas reserves in underground gas storage facilities amounted to 0.9 billion nm^3.

The Amangeldi gas field in Zhambyl region is now in production, with 2013 natural gas production amounting to 321.8 million nm^3.

In accordance with the historically settled system of transmission and distribution pipelines, natural gas supplies are sourced in nine out of 14 regions of the country. In 2013, the budget programme 024, "Targeted Transfers on the Development of Regional Budget and the Budget of Astana and Almaty on the Development of the Gas Transmission System" has been allocated 15.583bn Tenge from the national budget; construction work was carried out on 24 projects and a pipeline with a total length of over 600 km was built.

Exports and international transit of gas

In order to improve transit and export of gas, there is a project to build a Kazakhstan–China gas pipeline in progress. At this moment, two lines of the first gas pipeline section have been built and about 70 billion nm^3 of transit gas transported to China as of today. Moreover, in April 2013, the construction of the third line of the pipeline was started with the capacity of 25 billion nm^3 per year.

In addition, on September 7, 2013, there was an official ceremony of gas filling of MG "Beyneu-Bozoi-Shymkent" in the "Bozoi-Shymkent" site with the participation of the Heads of States of Kazakhstan and China. At the end of October 2013, the "Bozoi-Shymkent" site of the "Beyneu-Bozoi-Shymkent" gas pipeline was launched in a start-up mode. Commercial gas sales will begin after the resolution of the pricing issue, while the "Beyneu-Bozoi" site's financing issues remain under discussion.

Overview of the petrochemical industry

Since 2000, the Kazakhstani economy has continued to grow its revenues derived from the export of oil only. Oil revenues in 2012 amounted to about 51% of the consolidated revenues of the State, and the budget deficit, excluding those revenues, reached 9.3% of GDP.

The construction of world-class petrochemical complexes in Kazakhstan is one of the main areas of diversification of the economy, through comprehensive, major processing of hydrocarbon materials.

Currently, within the State Program on Forced Industrial-Innovative Development of Kazakhstan for 2010-2014, and the Strategic Plan of the Ministry of Oil and Gas of the Republic of Kazakhstan for 2011-2015, the following investment projects on world-class petrochemical operations are being implemented:

1. Construction of an integrated chemical complex in Atyrau region with a production line of 500,000 tonnes per year of polypropylene (Operator – Kazakhstan Petrochemical Industries Inc.) and 800,000 tonnes per year of polyethylene (Operator – JV KLPE LLP).
2. Construction of a complex for the production of aromatic hydrocarbons in Atyrau Oil Refinery with a production line of 133,000 tonnes per year of benzene and 496,000 tonnes per year of paraxylene (Operator – Sinopec Engineering).

In addition, the "Production of Road Bitumen in Aktau Plastics Plant" project, with the production of 400,000 tonnes per year of road bitumen, is being implemented.

Coal industry

Considering its large volume of undeveloped reserves (Kazakhstan has sufficient reserves of coal for 250 years), there is low activity in terms of geological research of coalfields. A large amount of coal is excavated by surface mining with attendant low costs, but because of its high ash-content and unusual structure, export potential is limited.

Uranium industry

Kazakhstan is second in the world in terms of uranium reserves, which presents a significant growth potential. At the end of 2012, uranium production in Kazakhstan was 21,240 tonnes − about 37% of global production.

Changes in the energy situation in the last 12 months which are likely to have an impact on future direction or policy

Energy is considered the most important industry in Kazakhstan, which contributes to the economic growth of the country. However, for development and efficiency to continue at a high rate, there is a need for reform and the elimination of some deficiencies. Over the past few years there has been a lot done to modernise this sector and even greater transformation is expected in the future. For instance, there were a number of changes and amendments to the legislation, foreign investment regime, and anti-corruption regulation.

The President of the Republic of Kazakhstan has repeatedly made policy statements regarding changes in the industry, pointing out that: "Kazakhstan is moving towards a new State policy in the subsoil sector, where the priority must be the exchange of the latest technology."

Thus, there is an increase in funding prioritised geological exploration work, as well as construction of a centre for geological work, and amendments to the Law "On Subsoil and Subsoil Use" aimed at the simplification of procedures for granting exploration rights within the framework of the adopted five-year programme for the development of the mineral resources sector. In this regard, Kazakhstan is committed to the implementation of best global practices in this field, with 90% of investment directed to oil exploration − as stated by the Head of State in one of the specialised forums in 2013. In particular, he emphasised in the statement to the nation, "Kazakhstan's Way − 2050: The Common Goal, Common Interests and Common Future", that it is important to grow the development of rare earth metals, given their importance for knowledge-based industries, such as electronics, laser technology, communication and medical equipment. Kazakhstan is aiming to enter the world market in the field of exploration. By simplifying the legislation, this industry is expected to attract investments from foreign engineering companies.

Changes in the geological approach to energy

Over the past 20 years, the production and exploration industry has undergone a number of radical changes, and not all innovations have benefited the business. Specialised committees, ministries and agencies have repeatedly collapsed or closed, the scientific basis of exploration has been technically destroyed, production of equipment has ceased, and many exploration organisations have ceased to exist. There was also a serious imbalance in the legislation, in particular concerning the work with foreign investors, which led to speculative resale deposits, non-fulfilment of obligations by investors, and ultimately a moratorium on the issuance of licences for subsoil use (repealed in 2013). In addition, the industry had serious problems with corruption, as well as an acute shortage of personnel. In the last 3-4 years, these flaws that threaten to destroy the most profitable industry in the country have gradually been eliminated; many areas have been modernised and reformed.

The results of the measures taken can be seen easily. The first changes were reflected in the State programme of accelerated industrial and innovative development of the Republic of Kazakhstan for 2010-2014. Along with the other goals in the programme, there were presented in detail the tools of modernisation of these industries. Within the framework of this programme, the programme on the mineral complex in 2010-2014 has been developed and approved, and the concept of development of the geological industry of Kazakhstan until 2030. Also, the programme of development of the resource base of the mineral complex for 2015-2019 has been developed and gradually implemented with a budget of 160bn Tenge. Under this programme, the state geological study of solid minerals of 175 projects will be carried out at the expense of the State budget.

Preliminary efforts in these changes have already given results. The explored reserves of gold in

Kazakhstan in 2013 increased to 325 tonnes. In 2013, more than 120bn Tenge was invested by investors, and more than 20bn Tenge from the budget in 2010-2013. Among them, one can see a gain of stocks in the main priority types of minerals, such as gold – 314 tonnes at the expense of investors, 11 tonnes at the expenses of the budget; copper – 1.7 million tonnes at the expense of investors, 580,000 tonnes at the expense of the budget; lead – 481,000 tonnes at the expense of investors, 259,000 tonnes at the expense of the budget; and zinc − 986,000 tonnes at the expense of investors, 310,000 tonnes at the expense of the budget.

After the USSR collapse, exploration funding was carried out on a budgetary basis. As a result, there was a sharp decrease in exploration work. Later on in 1995-2002, all exploration work was carried out mainly at the expense of investors. As a consequence, there was a certain imbalance between the post-mining and incremental reserves. This issue has been taken into account in the Program of Development of the Resource Base of the Mineral Complex of the Country for 2003-2010.

Then, a new programme for 2010-2014 was adopted with consideration for the country's industrialisation, posing more ambitious goals to the industry and transferring geological studies to the category of State importance. Over the last four years, exploration expenses have increased by 3.5 times, i.e. from 5 to 18bn Tenge. This has brought positive results. Thus today, according to the State commission, there are 5,536 deposits of all types of minerals on the balance sheet and in the inventory of the country.

Eurasia as a new large project

Kazakhstan's hydrocarbon reserves can be doubled in the event of implementation of the "Eurasia" project. This project contemplates the exploration of deep water horizons of the Caspian Basin, both on- and offshore in the territory of Kazakhstan and Russia. The depth of the basin is approximately 20-25,000 metres and there is a huge amount of oil-bearing rock. This is a vast region which, according to experts, has a great potential to generate hydrocarbons, but only the so-called "pre-board" area of the basin has been explored so far. Within the framework of the "Eurasia" project, it is proposed to create a consortium of oil companies to participate in project financing and a work programme, which should begin as early as 2015. At the end of 2013, following the decision of the Government of Kazakhstan, an interdepartmental commission was established in order to coordinate the implementation. The implementation of the project itself is planned for 2015-2020. The resource potential of the Caspian region and especially of the Caspian Basin is estimated by independent research institutes in Russia as "up to 40 billion tonnes of oil equivalent". About two dozen large hydrocarbon deposits have been identified with reserves of over 300 million tonnes. One-third of the Caspian depression geographically belongs to Russia; two-thirds or a little more belongs to Kazakhstan. The first stage of the project is collection and processing of geological and geophysical materials from previous years. The second stage includes conducting large-scale geophysical studies on selected new regional profiles. The third stage includes drilling of a new support-parametric well named "Caspian 1". The approximate cost of the planned exploration work, according to the three stages of the work, will be about US$500m.

Changes in state authorities structure in the energy sector

In August 2014, the Ministry of Energy was established, pursuant to the President's Decree. All functions and powers of the Ministry of Oil and Gas, Ministry of Industry and New Technologies in terms of energy, environment and water resources; all issues on development of the green economy, including policy coordination; and control issues were assigned to this new ministry in order to duly concentrate the energy sector in one place.

Developments in government policy/strategy/approach

Petrochemicals as a priority

Despite the fact that the country has sufficient oil and gas reserves which will last for decades,

its purpose today is to change its status, i.e. to be not only a reliable supplier of raw materials, but also to produce goods of a higher added value. That is why for a long time the development of the petrochemical industry has been considered a priority. If earlier it has been at the level of debate, today it is in the priority list of activities for the government. Thus, the development of petrochemical enterprises has become a priority in developing a State programme for accelerated industrial and innovative development of the Republic of Kazakhstan for the second five-year plan.

This programme has been designed in accordance with the long-term priorities of the "Kazakhstan-2050" Strategy in the implementation of the key "Accelerating Economic Diversification" Strategic Development Plan of the Republic of Kazakhstan until 2020, and pursuant to the Decrees of the President issued at the XXVI plenary meeting of the Foreign Investors' Council by the President of the Republic of Kazakhstan, and as part of the Statement of the President of the Republic of Kazakhstan to the People of Kazakhstan, "Kazakhstan's Way − 2050: The Common Goal, Common Interests and Common Future" dated January 17, 2014. The programme is a logical extension of the State programme for accelerated industrial and innovative development of the Republic of Kazakhstan for 2010-2014 (SPAIID) and takes into account the experience of its implementation. The programme is part of the industrial policy of Kazakhstan and focuses on the development of manufacturing industry with a concentration of efforts and resources on a limited number of sectors, regional specialisation using the cluster approach, and effective regulation of the industry. Within the framework thereof, the following solutions are aimed at the development of this industry:

- elimination of unproductive intermediaries in the coal market;
- simplification of licensing procedures for the activities of wholesale and retail sale of liquefied petroleum gas, including abolishing the requirements for the availability of base storage capacity of 300 tonnes, as well as abolishing the Declaration of Industrial Safety in gas-line organisations with storage base capacity of less than 200 tonnes; and
- abolition of the use of vehicles for the sale of petroleum products by two or more individuals and/or legal entities, under the Law of the Republic of Kazakhstan "On State Regulation of Production and Turnover of Certain Types of Petroleum Products".

Hence, the achievement of the goals of the State programme is aimed at creating the following fiscal rule:

- Government infusion of 1.3trn Tenge is expected to encourage private investment in the amount of 5.3trn Tenge, providing leverage of 1:4. The effectiveness of such a "lever" depends on the achievement of target indicators on the investment climate. The 1.3trn Tenge required for 2015-2019 from public sources will be raised on the principles of irretrievable subsidies and service support, repayment financing (loans and direct investments), as well as the financing of the infrastructure in the Special Economic Zones and Investment Zones.

The power system for wind energy development

In a joint project of the Government of the Republic of Kazakhstan with the United Nations Development Program ("**UNDP**"), "Kazakhstan – Wind Power Market Development Initiative" dated March 10, 2011 was presented as an "Assessment of Power System for Wind Energy Development in Kazakhstan" in the Ministry of Industry and New Technologies of the Republic of Kazakhstan. Representatives of the UNDP, "KEGOC" JSC, "Kazakhstan Industry Development Institute" JSC, "Kazdorproject" JSC, "New University of Astana" JSC (Nazarbayev University) and "KazNIPITES Energy" JSC attended this presentation. During the meeting, the final report of the Finnish company "VTT", commissioned by the UNDP, was presented in respect of the assessment of integrating wind energy into the power system of the country. This was the first such kind of research in Kazakhstan aimed at assessing the existing generating capacity.

Forecast scenarios for wind power generation are that it could provide about 250 MW per year in 2015 and about 2,000 MW per year in 2030. The level of integration of wind energy in the total electricity production will be less than 1% of total electricity production in 2015 and about

4% in 2030. The results of modelling of the disruption to the adjusted power system show that the scenarios of wind power considered in this research do not jeopardise the safety of the power system. Only the "Shelek" wind farm, with 300 MW in 2030, shows the need for strengthening the power supply. A loss analysis of energy power demonstrates that wind energy can reduce losses in the power system of Kazakhstan. The cost of wind energy balances at the level of 2030 and will increase the cost of wind energy in the range €0.3-0.6/MW/h.

Developments in legislation or regulation

Due to the fact that among certain subsoil users there were inefficient companies that did not invest in exploration and field development, and it was difficult to make such companies fulfil their obligations, the President of Kazakhstan urged this industry to work out a more efficient procedure. Thus, in 2007, Kazakhstan introduced a moratorium on the issuance of subsoil use contracts for solid minerals. That moratorium was lifted in 2013. For the period when the moratorium was effective, the Government of Kazakhstan along with the experts of the World Bank and large companies scrutinised the entire industry, completed inspections of the existing contracts and the fulfillment of obligations thereunder, as well as screening all subsoil users. As a result of such inspections, 179 out of 600 contracts with the defaulting investors were cancelled.

During the moratorium period, 185 amendments were introduced to the subsoil regulations. The existing subsoil use law was adopted back in 2010, and it was drafted by the Ministry of Gas and Oil. That is why most provisions of the law were related to the gas and oil industry and did not address those issues that had arisen in connection with exploration and mining of solid minerals. Thus, for example, a company that was wiling to produce crushed stone had to go through the same complicated procedure for collecting all required permits as it was prescribed for obtaining a contract for development of an oil and gas field. This was one of the reasons for amending and simplifying the law. One of the main initiators thereof were subsoil users themselves, who pointed out the following loopholes in the then existing law:

1. There were too many examinations that an investor had to pass in order to obtain a contract for geological exploration (i.e. a subsoil user had to obtain expert opinions twice for two types of examinations: (i) ecological, and (ii) economic). In a new draft law, however, the number of required examinations is reduced by 60%, which in its turn, will reduce the timeframes for the conclusion of contracts as well as administrative barriers.
2. The so-called model (basic) contract was considerably amended, where 98% of all provisions reiterated those norms that were already set out in law. As a result, those provisions were excluded, and now it has only 8 clauses as opposed to 28.
3. The existing field database was formed during the Soviet period. Geological information is not for free and some part of certain geological data is secret, which has become a serious obstacle for development of the geological exploration industry in general. To avoid that, under the draft law, investors have free access to geological information and the timeframes for obtaining it are reduced. A feasibility study is excluded from the list of required project documents.
4. Under the existing law, the approaches for exploration and mining of minerals are the same, which is wrong, as exploration and mining require absolutely different approaches and conditions. There are many risks in exploration and only a small part of subsoil may be commercially efficient. Nevertheless, investors engaged in exploration have to pay taxes at the same level as those engaged in mining of minerals. Such inconsistencies are expected to be eliminated.

In addition, the subsoil use rights are expected to be granted through a competitive bidding process aimed at simplification of the existing procedures in the subsoil use industry. Expenses on infrastructure development of a region will be set by competent authorities in the form of fixed rates. Potential subsoil users will be aware fully thereof before commencement of a competitive bidding. The subsoil use right will be granted to the one who will offer the State the greatest

amount of subscription bonuses during the bidding. This will ensure bidding transparency and exclude corrupt practices.

All abovementioned amendments are expected to be introduced in the autumn of 2014.

Judicial decisions, court judgments, results of public enquiries

Over the past few years, Kazakhstan courts of different levels have considered a wide range of cases involving the energy sector. Generally, those cases can be divided into the following most common categories:

- ecological issues;
- land use issues, such as a legal (or illegal) use of land for the subsoil use purposes. In this regard, courts pay close attention to the proper allocation of land by local authorities ("*akimat*") to subsoil users, a period within which land is being allocated, and for what exact purpose; and
- taxation issues.

Ecological issues

The most common issue is calculation of damage caused to environment.

In its Decree No. 3гп-58-14 dated January 29, 2014, the Court Supervisory Board for Civil and Administrative Cases of the Supreme Court of the Republic of Kazakhstan stated that under the Ecological Code of the Republic of Kazakhstan dated January 9, 2007, persons that commit ecological offences shall compensate damages caused to the environment as a result of unauthorised use of natural resources, where such damages shall be assessed pursuant to the Rules on Economic Assessment of Damages Derived from Environmental Pollution ("**Rules**").

According to the Rules, economic assessment of damages caused by unauthorised extraction of common minerals or unauthorised use thereof equals 10 times the value of extracted minerals and/or commercial products obtained from common minerals.

The value of extracted common minerals and produced commercial products is determined based on the average market price for such commercial products for a period not exceeding three months from the date when the violation has been revealed.

In the absence of the price for commercial products, the value of extracted common minerals is determined based on the average market price set by natural resource users engaged in similar activities in a given administrative unit for a three-month period preceding the quarter when the violation has been revealed. Such information must be requested from the authorised body for study and use of mineral resources or local executive bodies, and not from an entity in breach.

Taxation issues

One of the common tax issues that arises between the tax authorities and subsoil users is the calculation of royalty payments in respect of solid minerals.

Thus, for example, the tax authorities insist that royalty payments should be calculated based on the value of the total volume of extracted gold contained in a given ore, calculated in terms of the value based on the average selling price for metals on the international metal exchange for a given tax period.

On the other hand, subsoil users argue that royalty payments must be calculated based on the value of the already processed products, based on the average price for metals on the international metal exchange for a given tax period.

In its Decree No. 3гп-240-14 dated April 23, 2014, the Court Supervisory Board for Civil and Administrative Cases of the Supreme Court of the Republic of Kazakhstan supported the position of the tax authorities by ruling that the object of royalty payment on all types of minerals is the amount of the extracted minerals or the amount of the first commercial product derived from the actually extracted minerals. That is to say, the object of royalty payment is the amount of extracted gold, silver or copper contained in ore, where such amount is calculated in terms of

its value based on the average selling price on the international metal exchange for a given tax period.

Major events or developments

Achievement of the objectives set for the energy sector is based on implementation of a number of large projects, such as Tengiz, Karachaganak, and Kashagan.

Tengiz

In 2013, the Tengiz oil field reaches its peak of 27 million tonnes in oil production. The project is implemented by Chevron, ExxonMobil, LukArco, and KazMunaiGaz.

Payments to the State budget during 20 years of the project implementation exceeded US$61bn, including over US$11bn in 2013. Dividends of KazMunaiGaz have reached US$9bn .

In the autumn of 2013, the Government of the Republic of Kazakhstan and TengizChevrOil signed the Memorandum with regard to the projects for future expansion. This Memorandum is supposed to contribute to:

- increase in oil production up to 38 million tonnes per year;
- creation of over 20,000 new jobs;
- development of the metalwork sector in Kazakhstan;
- provision of raw materials for the gas and chemical complex in Atyrau; and
- other benefits.

Karachaganak

The Karachaganak project is implemented within the framework of the Final Production Sharing Agreement between the Government of the Republic of Kazakhstan and the Alliance of Foreign Companies represented by British Gas with 32.5% equity interest, Agip with 32.5%, Chevron with 20%, and LukOil with 15% equity interest. The Agreement was signed on November 18, 1997 for the period of 40 years, and became effective on January 27, 1998.

In 2013, almost 12 million tonnes of liquid hydrocarbons and over 17 billion cubic metres of gas were produced. Payment to the State budget during 15 years of the project implementation amounted to about US$12bn, where profitable raw materials for Kazakhstan amounted to about US$6bn.

The project is expected to be fully implemented by 2022.

Kashagan

The Kashagan project has great significance for Kazakhstan. It is an offshore oil field in the Caspian Sea. The project is implemented by Eni, Shell, Total, ExxonMobil, Inpex, KazMunaiKaz, and CNPC that replaced ConocoPhillips in 2013.

Currently there are a number of problems revealed in the pipeline infrastructure. Work on the elimination of the existing problems is still ongoing. It is claimed that certain pipeline issues will not affect the system in general, and the difficulties encountered will be carefully considered for their minimisation in the future.

The initial oil production is expected to be about 59,000 cubic metres a day and to reach a final production rate of 240,000 cubic metres a day.

Proposals for changes in laws or regulations

The existing legislation of Kazakhstan on subsoil use, since its adoption in the early 1990s and up until now, is the result of legal regulation of the appropriate scope of public relations at the empirical level, based on the short-term rather than long-term interests of the industry. Characteristically, since the time when the current Law "On Subsoil and Subsoil Use" dated 24 June, 2010 ("**Subsoil Law**") became effective, it has been amended 20 times and the existing practice of its application has already identified a number of disadvantages. Moreover, in order to implement the Subsoil Law about 70 subordinate laws were introduced, which is one of

the indications of a low degree of force of the Subsoil Law as a legislative act of direct force. It is known that the control, supervision and regulation of subsoil users are carried out by a number of different government agencies on the basis of numerous (special/sectoral) laws and subordinate regulations. This fact negatively affects both the conditions for doing business in mineral resources, and the investment climate in the country as a whole.

It appears that an effective measure for the real improvement of subsoil legislation could be to codify the legislation on subsoil and subsoil use. The need for the development and adoption of a code as a fundamental branch of the legislation is supported by the fact that almost all other important areas of natural resources (land, forests and water) are regulated in Kazakhstan by the relevant codified laws. The sector of hydrocarbons and solid minerals requires clearer differentiation and regulation which must be specific to these industries. In order to improve the subsoil legislation, it is necessary to legitimise it as an independent legal area, and to form a codified set of interrelated laws and regulations, the main of which should be the Code of the Republic of Kazakhstan, "On Subsoil and Subsoil Use" ("**Code**").

Conceptual innovations that the Code will bring:

1. Simplification of exploration, including the simplification of procedures associated with obtaining exploration rights in order to attract investment, create the market of junior companies, and transition to methods of economic incentives.
2. Improving governance in the subsoil use sector, i.e. rejecting the concept of the entire State control over subsoil and mining companies, and transition to the new principles in the field of sustainable and multiple use, including the adoption of international standards for the calculation of reserves.
3. Guarantees to investors, i.e. establishment of mechanisms to protect investments by guaranteeing return on investment and granting rights from the exploration phase to the production phase; creation of favourable conditions for investment by guaranteeing stability of the law for at least 10 years.
4. Improving the fiscal system.
5. Optimising the tax regime during an exploration period, introducing fiscal stimulus during an exploration period, and improving the taxation system.
6. New ways of granting rights, i.e. contracts (hydrocarbons, production of solid minerals in strategic fields), licences (common minerals, exploration and production of solid minerals in non-strategic fields), and resolution (exploration of solid and common minerals).

As of today, only the concept of the Code has been developed and the first draft is to be released for discussion in the Parliament early next year.

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