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CONTENT

RESOURCE NATIONALISM AS A KEASTONE FACTOR IN KAZAKHSTANI FOREIGN POLICY

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Abstract. This article seeks to identify country-specific peculiarities of the factors affecting foreign policy formation in petro-states taking the case of Kazakhstan including domestic ones as society and state institutions, as well as external factors containing policy of great powers, transnational organizations and international system etc. Energy factor being a key geopolitical motivation for many powers located even far outside the neighborhood urges Kazakhstan to continuously lineup its foreign policy strategy in accordance with contemporary conjuncture in the market.

Keywords: Kazakhstan's foreign policy, resource nationalism, energy factor, policy revision.

Introduction. Foreign policy formation is reported to be dependent on various factors such as the size of territory, geographical position, level and nature of economic development, socio-cultural and historical legacy, governmental culture and structure.

However, it is worth noting that territorial size of a country influences the psychological and operational environment within which the foreign policy-makers and public respond. It includes, as Rosenau says, both human and non-human resources. Nations with large human and non-human (natural) resources always try to be big powers and they have better chances of becoming big powers in international relations.

Being relatively most permanent and stable factor of its foreign policy, geography of a state determines both the needs as well as the capability to fulfill the needs of the people of a nation. Suitable geographical factors and availability of natural resources can help and encourage the nation to adopt and pursue higher goals. *(Rietveld M., Toledano P. 2017).*

Since the end of communism, Kazakhstan has consistently pursued 'multivector foreign policy' that emphasizes maintaining good relations with Russia while also courting the interest of other great powers. In the 1990s, this policy focused on developing relations with the US and Western Europe. Today it extends to include growing worldwide interest in Kazakhstan. It emerged as an independent state with neither the political institutions nor the staff needed to guarantee basic state's functions. The country had few diplomats, and its diplomatic representation was initially handled almost entirely by Russian embassies. In 1992, 1993 and 1994, President Nazarbayev signed major agreements with Russia, China and the US. While Russia came first, Kazakhstan made a concerted effort to reach out to China and the US in order to achieve balance in its foreign policy. This early expression of multilateralism developed into the multivector approach, which was enshrined as the core doctrine of Kazakh foreign policy and incorporated into Nazarbayev's Kazakhstan 2030 strategy. *(Н.А. Назарбаев. Июль 2007).*

Discussion. The multi-vector policy was then, and remains to this day, a key driver of the international component of Kazakhstan's energy policy.

Under difficult conditions between 1992 and 1997 the Kazakh elite signed agreements with TOCs to exploit certain large oil fields (Tengiz, Karachaganak), to explore those with the greatest potential (Caspian Sea), and to build transport routes from aforementioned fields to foreign markets.

This was the groundwork that led Kazakhstan to become (from 1998 to 2000) a new international oil actor. Commencement of drilling in Karachaganak and Tengiz prompted a rapid increase in overall oil production, while the opening of the Caspian Pipeline Consortium (CPC) allowed much of that oil to flow for export. During this time, two happy coincidences arose that helped to change expectations about Kazakhstan oil potential: international oil prices began to spike (from $13 per barrel in 1998 to over $28.5 in 2000).

As the economic situation improved, increasing oil export revenues strengthened the ruling elite. Oil revenues rose from $6 billion to $41.5 billion between 2000 and 2007, making possible GDP growth at an average rate of 10% annually. These economic results gave more credit to government policies and fed Nazarbayev's "modernizing" propaganda. In turn, oil sales favored the extension of rent-seeking through budgetary activity.

Public revenues and expenditures rose rapidly, and the government proved willing to share these rents with local and regional leaders. In addition, a growing share of public expenditures (up from $4 billion to $25 billion between 1999 and 2007) was earmarked for social services, housing, and transportation, as well as for fostering public employment. This extended network of territorial and social clientelism, very much favored by the country's small population, at 15.5 million, increased the power stability. At the same time, the population felt the benefits of the oil boom through other channels, as export growth enabled increased imports of consumer goods. *(Daly, J., 2008).*

On the one hand, the Kazakh government's capacity for policy implementation has increased steadily since independence and was arguably at its greatest under the government of Prime Minister Karim Massimov. On the other hand, as government professionalism has increased, international oil companies have faced escalating pressure on their terms in increasingly sophisticated ways. It is important to build long-run international investors' confidence which can be done by protecting and safeguarding their interests against risk and uncertainty stemming from the oil market and by reducing their stock market's oil dependency.

As oil prices rose from the end of the 1990s, the government became gradually more assertive, most notably in 2002 when it alleged environmental damages at Chevron's Tengiz field. This resource nationalism came to its peak in 2007 when the Kazakh government accused the consortium developing the massive Kashagan field of failing to meet their obligations under the production sharing agreement (PSA) and threatened to nationalize the project. When it was initially drilled in 2000, Kashagan, the biggest oil field discovered worldwide in more than 20 years, was hailed as an unprecedented find that would revitalise interest in the Caspian and produce oil as early as 2005. While project delays and cost overruns have been endemic in the oil industry, Kashagan is, in the view of the International Energy Agency (IEA), a truly exceptional case, delaying roughly five times the aggregate oil volume of the next largest delay surveyed by the IEA. More importantly, the general global trend of cost overruns and project delays does not reduce the immediate pain the Kashagan delay has caused Kazakhstan. *(Gorst, I. & Crooks E. Financial times, July. 2007).*

Kazakh resource nationalism is best understood as essentially economic in character. The aim has been to improve economic terms and long-term economic benefit for the country. Kazakhstan has done this in three ways: first, by increasing the state share of ownership in major projects; second, by placing more of the burden of cost overruns and delays on the international oil companies; and third, by increasing the state's control of the project through Kaz Munai Gaz company (KMG).

Resource revenues are a source of public funds and, as is widely recommended, these can be used to fund public investments complementary to private investment, such as investment in human capital, in public infrastructure, and possibly also in utilities. *(Parra, F. 2004).*

At length, Kazakhstan arrived at a new economic and oil scenario, where the consolidation of the political elite and the opportunities offered by Russian and Chinese oil interest enabled Kazakhstan to propose new objectives. The weakness of the Kazakh government during the nineties did not prevent it from trying to revise oil contracts *(Olcott, M., 2007).*, but under the new scenario government goals became more ambitious, and qualitatively different. The new objectives were to develop a policy specifically oriented toward revision of oil agreements with TOCs, to strengthen national share in the oil sector, enhancing the role of KazMunaiGas (KMG) as a stakeholder, and to obtain greater income from production and oil exports. (Campaner, N., Yenikeyeff, S., 2008).

Renegotiation of oil agreements. The government's attitude began to change in 2002, when Chevron was accused of environmental crimes. This set off increasing tensions in the major fields, some of which have given rise to intense conflicts that are motivated by three main issues.

Compliance with environmental legislation. Chevron agreed to pay a fine of $600 million, followed by another fine in 2007 for ignoring rules on sulfur storage. Another environmental conflict in 2005 with Canada's Hurricane led to that company's decision to sell Petro Kazakhstan, which was later acquired by China's CNPC.

The continuous amendment of tax laws. The new code adopted in 2004 altered the tax regimes of both Production Sharing Agreement (PSA) contracts and the Excess Profit Tax. At the same time, the government has introduced new taxes on natural resource exploitation and oil exports, with subsequent revisions that left open the option of applying the general tax regime to PSA contracts that had been initially exempt. Moreover, oil companies are now forced to fund social programs and other bonuses to local communities, beyond previous agreements.

Forcing the entry of the national company (KMG) into private oil projects. In 2004, a law was passed on PSA agreements which replaced the 1995 law and stated that KMG would thereafter take a 50% stake in future consortia.

Moreover, demands for goods and services by these consortia were to meet a minimum of local content. A year later, when British Gas (BG) decided to sell its share (16.7%) in Kashagan, the government claimed that KMG should obtain this quota, thereby ignoring the right of partners to first refusal, accorded by the contract. After a period of negotiation, agreement was reached on the purchase of 8.3% by KMG, with the other companies in the consortium permitted to buy the remaining 8.3%. But the controversy gained new force when in 2007 the leader of the consortium, Agip, announced that oil drilling in Kashagan would be again delayed due to technical difficulties. *(Jeffrey, D., Ossowski, R., Fedelino, A., 2003).*

After rejecting Agip's explanation, the Kazakh government demanded a payment to compensate the country for the negative effects of this new delay, also proposing to increase KMG's share in the consortium. After several months in which Kashagan activities remained stalled, an agreement was reached in January 2008 that included the main government demands. Above all, parties accepted a leading role in the consortium for KMG, which share rose to 16.81% (for an additional $1.8 billion), or just slightly above the shares held by the largest original partners: Agip, ExxonMobil, Shell, and Total (16.66%). Meanwhile, ConocoPhillips and Inpex reduced their shares to 8.28%. *(Philip, D., Keen, M., McPherson, Ch, 2010).*

Thus, the revision of TOC agreements has led to ensuring the primacy of Kazakh law, increasing government oil revenues and enhancing KMG's role as a player in Kashagan and other fields. This has called into question two basic principles that had initially attracted Western investors: property rights and the stability of the tax regime. The irony was that the bargaining position of said investors was now much weaker, merely because they were the owners of very high-value specific assets that had been invested in Kazakhstan in the 1990s.

Enhancing methods to collect oil rents to develop the rentier economy. The new government bargaining position and the reorganization of the national sector have expanded the state's capacity to collect oil revenues. On one side, royalties and other fees were replaced in 2008 by the Mineral Extraction Tax (MET) that taxes both domestic and foreign production by from 5% to 18% (in different steps ranging from 5,000 to more than 100,000 b/d). In turn, the VAT levies domestic transactions at a uniform 12%, while export duties have been converted (since 2008) into a tax ranging between 7% and 32% that becomes effective when international prices rise above $50/barrel. Finally, companies must pay a small fee for employees' social security, while the profit tax has fallen in recent years from 30% to 20%. To all these contributions must be added fines, bonuses, and advance payments from foreign companies.

It is difficult to measure the impact of the tax burden on businesses, since fiscal measures undergo continuous changes both in tax rates and in which companies are subject to tax payment. *(Angelier, J.-P., 2008).*

Often a general provision is followed by bilateral negotiations between the government and each company, giving rise to specific and diverse agreements and making the tax act discretionary. The information provided by government and businesses does not allow analysis of the tax impact on foreign companies. However, there is evidence that these obligations are not overly burdensome to TOCs, even despite late changes, as it is estimated that national actors (government, KMG, and local communities) will receive 60% and TOCs 40% of long-run cumulative profits from Karachaganak and Kashagan. This means that the Kazakh share will be significantly lower than in Middle Eastern and European countries. For example, the Norwegian ratio is 80%–20%.

It is easier to assess the impact of oil taxes on the state budget [4,5]. Public revenues from the oil sector rose from 2.2% of GDP in 1999 to 12,7% in 2015, and from 18% to 44% of the state budget. (Kalyuzhnova, Y., 2006).

In developing its oil and gas resources, Kazakhstan has had two key goals: avoiding reliance on Russia and ensuring that economic growth delivers tangible benefits to the growing middle class. In order for Kazakhstan to pursue an independent foreign policy that allowed it to balance Russian influence with the interest of other powers and to maximise its return on its oil and gas resources, Kazakhstan needed to ensure that it was not exclusively dependent on Russia for the key strategic oil and gas sector of its economy. In addition to its obvious concern to avoid extending Soviet-era reliance on Moscow by encouraging international investment and developing international political alliances, Kazakhstan is landlocked, leaving it reliant on international pipelines to reach international markets. In 2004, while Azerbaijan was completing the Baku–Tbilisi–Ceyhan pipeline, which gave it access to international markets without transiting Russia, Kazakhstan relied on Soviet-era pipelines and the new CPC pipeline that connected the Tengiz field with the Russian port of Novorossiisk. President Nazarbayev's strategy for Kazakhstan has been based on using natural resource wealth to fund improvements in standards of living, economic competitiveness, infrastructure and the functioning of government institutions.

The results. These twin goals of economic independence and development have driven Kazakhstan to encourage international competition both to produce and to export its oil and gas. In the first place, competition to produce oil and gas enables the Kazakh government to maximise its share of revenue and to force firms into adopting strict local content policies, which are seen to benefit economic development. In the second place, competition for exports ensures that, although Kazakhstan is landlocked, it is not forced by lack of substantial alternative export options to take a below-market price for its oil.

The focus on the energy sector as a springboard for Kazakhstan's economic development is particularly clear in value-added activities like equipment manufacture, financing and refining. Although these activities usually occur outside the borders of Kazakhstan, the government and its state companies are attempting to expand domestic activity and acquire equity participation in value-added activities abroad. This can be seen through local content requirement, the policy of establishing International Financial Centre in Astana, and the emphasis of KMG taking a leading role in future projects.

In addition to expanding its activities throughout the value chain, the Kazakh government appears to want domestic firms, most notably KMG, to take an active technical role in most energy projects to develop local expertise, similar to Saudi Arabia's prescription for 'participation, not nationalisation' in the late 1960s and 1970s.

Conclusion. This is shown in the policy of reserving new operatorships for Kazakh companies, while leaving open the option of foreign companies jointly participating with the Kazakh operator. This approach may be designed to help KMG gain the necessary technical and project-management capability to work in the shallow water Kazakh zone of the Caspian to develop future projects. As such, this approach is consistent with Kazakhstan's policy of economic resource nationalism, as the goal is to capture a larger share of the value of its energy production.

However, this pressure on international oil companies was driven by primarily economic concerns enabling Kazakhstan's state companies to take a larger share in the industry. These changes did not represent a rejection of the multi-vector foreign policy that originally led Kazakhstan to welcome Western investment, but rather a rebalancing of the fiscal terms in view of oil prices and rising project costs.

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