REGIME MAINTENANCE IN POST-SOVIET KAZAKHSTAN: THE CASE OF THE REGIME AND OIL INDUSTRY RELATIONSHIP (1991-2005)

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Regime maintenance in post-Soviet Kazakhstan: the case of the regime and oil industry relationship (1991-2005)

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(For Mum and Dad)

ABSTRACT

The main aim of this thesis is to investigate the ways in which the authoritarian regime in post-Soviet Kazakhstan maintained itself in power from 1991 until 2005. This study endeavours to uncover the palette of the regime's methods by analysing the ways in which it went about controlling the oil industry – an industry with which the political and economical future of Kazakhstan is inseparably intertwined. The empirical section of this study investigates the interplay between the regime and the actors located in and around two cores: the National Oil Company and the oil-rich areas. This thesis focuses in particular on instances where players involved with the oil industry, whether directly or indirectly, attempted to challenge the regime's authority in those two centres either due to greed or grievances. It is argued that these moments of crisis reveal the regime's maintenance techniques, and can precipitate the deployment of new methods of maintenance in response to them. In order to account for the techniques that the Kazakh ruling regime applied in structuring its relationships with the oil industry, this thesis shifts the emphasis from the prevalent *zhuz*-horde, tribe, and clan-based approaches to Kazakh politics towards formal (corporatism) and informal (patron-client) mechanisms of control.

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Introduction

> Aid practitioners and policy makers looking at politics in a country that has recently moved away from authoritarianism should not start asking, 'How is its democratic transition going?' They should instead formulate a more open-ended query, 'What is happening politically?' Insisting on the former approach leads to optimistic assumptions that often shunt the analysis down a blind alley. (Carothers 2002: 18)

> There is nothing new in choosing to see the world via a microscope rather than a telescope. So long as we accept that we are studying the same cosmos, the choice between microcosm and macrocosm is a matter of selecting the appropriate technique. (Hobsbawm 1997: 252)

How did the post-Soviet Kazakh regime sustain itself in power in the years 1991–2005? What sort of regime maintenance techniques did the Kazakh regime use in the process of establishing and upholding its position during this period? This thesis attempts to answer these questions by scrutinising the tools that the Kazakh regime applied in order to: a) bring under its control the country's oil industry; and b) to maintain its grasp over it.

In Kazakhstan, an oil-rich country, the oil industry plays a key role in economic and political life due to the country's considerable oil revenues, and accompanying conflicting interests. As an arena of political struggle, this industry provides a good test case for uncovering regime maintenance techniques. In the oil industry, the critical players consist of various interest groups in and around the National Oil Company (NOC), and the oil-rich regions that attempt to capture parts of the industry for their own benefit. An analysis of how the Kazakh regime chose to deal with these groups is at the centre of this study. In order to account for the techniques that the Kazakh regime used in the process of structuring its relationships with the oil industry, this thesis shifts the emphasis from the prevailing *zhuz*-hordes, tribes, and clan-based approaches to Kazakh politics towards formal (corporatism) and informal (patron–client) regime maintenance techniques.

This thesis argues that in order to establish and sustain its control over the oil industry, the Kazakh regime used formal, informal and quasi-formal tools, and entered into a tacit agreement with foreign oil companies. The thesis shows that while informal mechanisms of control dominated regime–oil industry relationships, formal mechanisms also played a role. Formal mechanisms were more used in the first years of independence, when the Kazakh regime still largely relied on inherited Soviet methods of running the oil industry. This arrangement was, however, progressively abandoned in favour of informal mechanisms as the challenges to the regime's dominant position increased. The transition from formal to informal techniques accelerated during the process of privatisation of the oil industry. Significantly, the introduction of the informal tools was accompanied by the gradual Kazakhization of the oil industry, which aimed at strengthening the regime's ties with its clients.

Informal types of relationships proved to be a sufficient tool of control in the late 1990s and early 2000s. However, with the growth of the industry, new actors emerged and began demanding a greater stake in the oil sector. The regime, in order to accommodate and control those new players, began resorting to some previously abandoned formal tools of regime maintenance. As a consequence, recent years have seen a slow rise of quasi-formal relationships between regime and parts of the oil industry. Thus, in some ways the Kazakh regime came full circle in the period 1991–2005: from formal to informal, and then back to formal again. The foreign oil companies were another reason why the Kazakh regime was able to sustain its position. The alliance between the foreign oil companies and the regime has played a pivotal role in oil-rich regions, where various interest groups have attempted to undermine the regime's grip over the oil industry. Nonetheless, as the Kazakh regime had to learn the hard way, this tacit agreement had its limits.

In the majority of cases, the origins of the mechanisms used by the regime in the period under discussion can be traced back to the Soviet period. However, this thesis does not argue that there is a straight line between Soviet and post-Soviet Kazakhstan. For instance, the quasi-formal types of regime–oil industry relationships had their basis in the pre-1991 order. Yet, the implementation of this tool in the first half of the 2000s owed more to the Kazakh regime's attempts at accommodating emerging players than to the Soviet experience *per se*. Whereas in the years 1991–2005 the post-Soviet Kazakh regime did not radically break with the past, it did not entirely live in it either.

1. The Kazakh regime

To study the ways in which a regime sustains itself in power is to attempt to uncover 'the rules of the political game' that determine the distribution of power. It is those rules that in turn shape and define the regime itself, be it democratic or authoritarian (Mozaffar 1989: 54; Bratton and van de Walle 1997: 9; van de Walle 2001: 117). Robert Fishman has argued that a regime 'may be thought of as the formal and informal organisation of the centre of political power, and of its relations with the broader society. A regime determines who has access to political power, and how those who are in power deal with those who are not' (1990: 428; see also Lawson 1993: 185). In this sense, regimes endure for much longer than governments, but are less permanent than the state. This thesis looks at the rules of the game in a regime that has been characterised as authoritarian.

At the beginning of the 2000s, a number of articles were published by leading transitologists (McFaul 2002; Carothers 2002; Diamond 2002; Bunce 2003) in which the authors attempted to define and categorise the political regimes that came to existence in Kazakhstan and other Central Asian republics in the aftermath of the collapse of the Soviet Union. This intellectual endeavour had its basis in the following puzzle: if the Central Asian countries did not follow an evolutionary path towards democracy, what kind of regimes did emerge in those republics? The analysis that followed stressed the authoritarian character of the regimes in Central Asia, and this was reflected in labels that scholars assigned to them, as, for instance: dictatorships, dominant-power systems or competitive authoritarian regimes. Marian Ottaway – who coined the term semi-authoritarian in order to describe some undemocratic regimes that were born in the post-1991 world, including post-Soviet Kazakhstan – is a good example of a transitologist who strongly advocated the use of the authoritarian prism. Ottaway pointed out that on the surface, semi-authoritarian regimes do everything by the democratic book. They hold regular multiparty elections, allow parliaments to function, and recognise, within limits, the rights of citizens to freely form associations. At the same time, all of these mechanisms generally associated with Western democracies are seen by those at the apex of power as the end of the process rather than the initial phase of democratisation. Thus, parliamentary or presidential elections may indeed take place every four or five years.

But regardless of these, it is impossible for the opposition/outsiders – themselves not necessarily dedicated democrats – to challenge the power of the incumbents. Semi-authoritarian regimes pursue their aims in a highly controlled and sophisticated manner when contrasted with more traditional authoritarian regimes that cast their shadows over many corners of the world in the 1960s and 1970s. Rulers and their cronies rarely resort to open repression or the crude stuffing of ballot boxes. Instead, they use subtler tactics – for example, pressuring the independent press into self-censorship. Semi-authoritarian regimes also enjoy a degree of popular support. Due to their Machiavellian-like manoeuvrings, they manage to present themselves as the only capable political forces in their respective countries. They address the issue of widespread poverty – to which at times they have themselves greatly contributed – or ethnic or religious problems, in such a way that 'many citizens believe that they offer some public goods that democratic governments are incapable of delivering' (Ottaway 2003: 17).

The transitologists' findings did not fundamentally diverge from the conclusion reached by other Central Asian scholars, who for some time had already been pointing to these regimes' authoritarian nature (Roeder 1994; Treacher 1996; Kubicek 1998), including Kazakhstan (Bremmer and Welt 1996; Olcott 1997). In recent years, a wide range of other scholarly writings on the political and economic aspects of post-Soviet Kazakhstan have also painted a picture of the ruling regime as essentially authoritarian (Luong and Weinthal 1999; Brauer and Eschment 1999; Cummings 2000, 2002, 2003a, 2005; Olcott 2002; Nazpary 2002; Gleason 2003; Schatz 2004; Luong 2004; Furman 2005; Junisbai and Junisbai 2005; Satpaev 2007). According to these authors, the Kazakh regime is not a *failed* democracy or democracy in transition, but rather a carefully constructed and maintained system. At times, these detailed accounts echo the classical definition of authoritarianism. Juan Linz considered limited pluralism as the most distinctive feature of authoritarianism. According to him, in an authoritarian state one should be able to locate some groups – legal or *de facto* – that are independent of the regime and have some kind of political influence. Moreover, authoritarianism, as opposed to totalitarianism, is largely free of any ideological underpinning, such as Marxist-Leninism in the Soviet Union or National Socialism in Nazi Germany provided. According to Linz, what matters most in authoritarian regimes are certain 'distinctive mentalities', which are apparently more emotional than rational, and not as future-oriented as the utopianism of ideologies. Authoritarian regimes are also very unlikely to politically mobilise large sections of their societies. If some groups are mobilised, it should be always for a very short period of time and under the close supervision of the authorities. Finally, in an authoritarian regime, a leader or a small group exercises power within formally ill-defined, but actually quite predictable limits (Linz 1964: 255–6; 2000: 159–171; see also Purcell 1973: 30).

This thesis aims at contributing to these ongoing debates concerning the authoritarian nature of the Kazakh regime. The oil industry in this thesis is treated as a microcosm, which, examined in a focused way over a period of fourteen years, should allow us to gain some insight into the different strategies adopted by the regime for its survival that a broader analysis might lack sufficient detail to uncover. Such a thorough analysis also provides us with an opportunity to observe more closely the transition from one regime maintenance technique to another. Authoritarian regimes, like all other political systems, develop over time and constantly try to find the 'magic' formula, so to speak, that might assure their durability. Arguably, then, the study of one segment of contemporary Kazakhstan can help to identify the specifics and stages of the regime's evolution.

Leading on, what makes it worthwhile to investigate the oil industry–regime relationship is the fact that this relationship is not only shaped by political developments in Kazakhstan – to an extent reflecting them – but also in turn has an effect on the country's politics. It would be no overstatement to assert that the task of bringing the oil industry under the regime's control is critical to its grip on power, and thus has absolute priority. This in turn means that the oil industry can be a testing ground for clarifying the regime's maintenance techniques which, if successful, can be applied to resolve other political problems outside this realm. Finally, the study of the oil industry in this thesis aims at contributing to the growing oil literature on Kazakhstan and the Caspian Sea region.

2. The politics of oil

So far, scholars have discussed oil in relation to international politics, domestic politics and countries' economies. Students of international politics have focused their attention on the importance of the Caspian Sea region to the neighbouring states, in particular, Russia (Blank 1995; Shoumikhin 1999; Rutland 2000; Dannreuther 2001), Turkey (Bolukbasi 1998; Aras and Foster 1999; Sayari 2000), Iran (Entessar 1999; Efegil and Stone 2001) and China (Gladney 2000; Karasac 2002; Andrews-Speed, Liao and Dannreuther 2002). Much also has been made of US interests in the Caspian (Lenczowski 1997; Starr 1998; Sobhani 1998; Rashid 2001), with some suggesting that in the 1990s, the significance of this region to American foreign policy was grossly exaggerated (Lieven 1999/2000). This however changed in the aftermath of September 11 (Rasizade 2002a; 2002b). Other strands of the broadly understood international politics literature have preoccupied themselves with the headache-inducing problem of how to 'get the oil out'; in other words, with pipeline politics (Appendix 1). The number of scholarly works dedicated to this and related problems is significant (Forsythe 1996; Menon 1998; Molla-Zade 1998; Gorvett 1999; Olcott 1999; DeLay 1999; Manning 2000; Hill 2001; Sinker 2001; Terry 2001; Andrianopoulos 2003; Bahgat 2004). Finally, political scientists and legal experts alike also have spent much time on addressing the issue of the legal status of the Caspian Sea, the problem known as the 'sea or lake dilemma' (Croissant and Croissant 1999; Raczka 2000; Bundy 2001).

The literature that focuses on the relationships between oil and domestic politics looks at the ways in which oil, or more precisely petrodollars, aid the Caspian Sea regimes in sustaining themselves in power. Scholars have tried to demonstrate how the distribution of state prerequisites enabled rulers to capture key elites, thereby reducing the potential threat of political opposition. Most of the work on the empowerment of authoritarian rulers has been conducted in relation to post-Soviet Azerbaijan (Hoffman 2000; Bayulgen 2003, 2005; Rasizade 2002c, 2002d, 2003, 2004; Ottaway 2003); when it comes to Kazakhstan, the study by Eric McGlinchey (2003) is particularly informative. In order to explain the relationships between oil and regime maintenance in the case of Turkmenistan, some authors (Kuru 2002; Ishiyama 2002; Kandiyoti 2002a) advocated the use of the rentier state concept,[1] which focuses on those states in which the economy is dominated by 'rents' rather than by productive enterprises like agriculture and manufacturing, and where the origin of the income is external. In addition, the rents are generated by a small elite, and the state is the principal recipient of these rents (Beblawi 1987: 51–53). Whereas Kazakhstan, Azerbaijan and Russia (Luong 2000; Kim 2003; Wood 2007) also bear features of rentier states, only Turkmenistan comes close to the classic version of this concept, due to the country's excessive dependency on revenues from natural resources (which the regime uses to gain popular support, as in other rentier states, by providing free housing, electricity, water and bread).

Finally, the impact of petrodollars on the Caspian Sea economies has been discussed within the framework of the so-called 'Dutch Disease' economic phenomenon. Dutch Disease is a process whereby favourable price changes in one sector of the economy lead to distress in other sectors, such as agriculture or manufacturing. This is because large-scale petroleum related capital inflows from oil sales result in a long-term sectoral reallocation of capital and labour resources. A persistent Dutch Disease state can provoke a rapid, even distorted, growth of services, transportation, and other non-tradable goods, while simultaneously discouraging industrialisation and agriculture. Moreover, the booming oil sector generates high wages that attract workers from other sectors of the economy, but drain these industries' resources and cause output to decline (Karl 1997: 5). Scholars and commentators throughout the 1990s have been arguing that this kind of Dutch Disease is a realistic threat to Kazakhstan and other Caspian Sea countries (Auty 1997; Beddoes 1998; Amuzegar 1998; Karl 2000). Yet, by the mid-2000s, it was asserted that while during the first decade or so Kazakhstan was susceptible to Dutch Disease, the final outcome is by no means certain (Sabonis-Helf 2004; Pomfret 2005).

The oil literature underscores the importance of oil resources to Kazakhstan's stance on the international stage, the regime's political survival, and the country's economic development. Thus, the existing literature demonstrates that oil plays an important role in shaping post-Soviet Kazakhstan. At the same time, in the scholarly

[1] The rentier state concept has been developed by the Middle East scholars (Mahdavy 1970; Chaudhry 1989; Crystal 1991; Brynen 1992; Shambayati 1994; Okruhlik 1999) and over time has been applied to other parts of the world, pre-revolutionary Iran (Skocpol 1982), Gabon (Yates 1996), Congo (Clark 1997) and Venezuela (Karl 1997).

writings little has been said on how the Kazakh oil industry itself has been shaped over the years. For instance, changes in the structure of the NOC, and its repercussions for the Kazakh oil industry and the country's politics, are rarely (Hoffman Fall 2000; Peck 2004) addressed if at all. Moreover, fundamental events for the development of the Kazakh oil industry, such as the privatisation of key parts, are generally treated in a rather instrumental fashion.

An important exception is an article by Pauline Jones Luong and Erika Weinthal, in which the authors ask why five post-Soviet republics rich in gas and oil, i.e. Russia, Kazakhstan, Azerbaijan, Turkmenistan and Uzbekistan, which inherited very similar political and institutional structures in the 1990s, pursued distinct strategies towards developing their energy resources. In the course of the article, Luong and Weinthal assert that in order to understand the reasons behind the different strategies pursued by these respective republics, we should take under consideration the boundaries within which leaders operate. These include: '(a) the availability of alternative sources of export revenues; and (b) the level of political contestation' (2001: 370).

This thesis demonstrates that while the reasons given by Luong and Weinthal are significant, their analysis is not fully satisfactory in the Kazakh case, as it does not take into consideration the situation in the country's oil sectors with which the Kazakh leadership was confronted on the eve of the independence. In other words, political factors external to the oil industry did not exclusively determine the rulers' strategies: the internal politics of the oil industry also mattered. This thesis argues that in order to better understand the development of the Kazakh oil industry, it is imperative to investigate more closely the obstacles that the Kazakh regime faced in the course of achieving and maintaining its grip over the oil industry.

To sum up, this thesis asks, how did the post-Soviet Kazakh regime sustain itself in power in the years 1991–2005? What sort of regime maintenance techniques did the Kazakh regime use in the process of establishing and upholding its position during this period? This thesis attempts to answer this question by analysing the ways in which Kazakh regime chose to deal with various interests groups in and around the NOC, and the oil-rich regions that attempted to capture part of the oil industry for their own benefits. The thesis focuses on the oil industry (or more precisely the political sociology of the oil industry) because oil plays a key role in the political and economical life of the post-Soviet Kazakhstan. Arguably, the detailed study of this key segment of contemporary Kazakhstan brings to the open the specifics and stages of the regime's evolution in the period under discussion. This thesis argues that in order to establish and sustain control over the oil industry and interests groups in question, the Kazakh regime used formal, informal and quasi-formal tools, and entered into a tacit agreement with foreign oil companies. The thesis demonstrates that the Kazakh regime is far from static, and that its durability and relative stability is largely the result of its ability to respond promptly to the continuously evolving situation in the country.

3. Outline of the chapters

The focal point of this thesis is the broadly understood relationship between the regime and the oil-industry. It is argued here that the oil industry is a good testing ground for the type of relationship that has been developing in post-Soviet Kazakhstan due to the importance that oil plays in the political and economic life of the country. The empirical sections of this thesis predominantly focus on situations where the oil industry creates problems for the regime. This is when oil increases the political risk for the regime. This thesis argues that the process of addressing political threats on the part of the regime brings into the open the dynamics of regime–oil industry relationships, and in addition is likely to lead to the renegotiation of existing relationships between two parties. The thesis is made up of six chapters, which are grouped into four sections, as described in the following.

Part One: Theoretical overview

The first chapter demonstrates that the existing literature from other areas of study points to two sources of threats that the rulers can face, namely: a) the NOC; and b) oil-rich regions. Those two areas qualify as high-risk, since they constitute the entity (NOC) and space (oil-rich regions) that is directly linked to the oil industry. Even the slightest possibility of losing control over any of those areas challenges the rulers' very authority.

In both instances, the most problematic actors are various interest groups (as examples from Venezuela and Russia demonstrate) which, for their own benefit, attempt to wrestle as much control over the oil industry as possible from the regime. In addition, in oil-rich areas, unsatisfied interest groups can turn into political manipulators and attempt to destabilise the situation (the civil wars and resources literature analyses such cases). Thus, an authoritarian ruler has to create a situation in which interest groups are relatively satisfied and remain firmly under his/her control in order to prevent major crises.

Leading on, the second part of chapter 1 proposes to unravel the Kazakh regime–oil industry relationship through the prism of formal (corporatism) and informal (patron–client) mechanisms of control. In doing so, this thesis moves away from the *zhuz*-horde, tribe, and clan-based approaches, which argue that post-Soviet Kazakh politics is predominantly based on the pre-Soviet institutions that survived the Soviet assault. Importantly, this thesis does not argue that existing *zhuz*, tribe, and clan-based explanations are inappropriate *per se*, but rather that the adoption of different approaches can broaden our understanding of the ways in which a regime sustains itself in power. Arguably, formal and informal mechanisms of control can be applied to the analysis of the regime–oil industry relationships, because those two concepts have been used in the past in order to examine the regime–business relationships in countries that are run by authoritarian regimes. Moreover, such formal and informal mechanisms were applied by Sovietologists to explain state–society relationships in the Soviet Union. Bearing in mind that post-Soviet Kazakhstan was marked by continuity on the elite and institutional levels, these analytical tools can still be regarded appropriate.

Part Two: The NOC and the oil men

The second chapter argues that in the first years of independence, the Kazakh regime attempted to control the country's oil industry with the help of corporatist mechanisms. The corporatist type of regime–oil industry relationship was largely a logical continuation of the way in which the oil industry was governed in the Soviet period. However, this arrangement proved unsustainable, due to the challenges from inside the oil industry in which: a) the corporatist structure created the space for the emergence of a 'strong man', who attempted to take over the NOC from the president; and b) some parts of the oil industry in the peripheries were captured by local oil men and notables. The inevitable clash between the Kazakh president and these oil men led to a restructuring of the existing relationships. In the next opening, the Kazakh regime began the slow process of moving away from corporatist mechanisms and towards patron–client techniques. This transition was greatly speeded up during the privatisation process of the oil industry, which to an extent was motivated by the growing challenges to the president. In the following years, the Kazakh president was able to consolidate his position further as he successfully centralised the country's oil industry and turned his adversaries into trusted clients. Finally, the political manoeuvre discussed in the chapter worked largely because of the split between the oil men and other notables over the disagreement concerning the privatisation of the oil sector.

The third chapter argues that the introduction of patron–client mechanisms was accompanied by the gradual Kazakhization of the oil industry, which intentionally and unintentionally strengthened the patron–client ties between the Kazakh president and his clients. This process of Kazakhization is discussed through the examples of: a) major Kazakh sub-contracting companies, which at the beginning of the 1990s fell into the hands of ethnic Russian directors; and b) the NOC KazMunaiGas. In the final section of this chapter, we discuss the negative effects that the Kazakhization *per se* of the NOC KazMunaiGas is having on the Kazakh oil sector. The third chapter should be read as a continuation of, and supplement to, chapter 2. Whereas chapter 2 addresses the struggles for the 'soul' of the Kazakh oil industry at the apex of power, chapter 3 looks at mid-level players, whose submission to the ruling regime is no less important than that of the major players. Finally, this chapter demonstrates the extent to which the study of sub-contracting companies brings into the open the dynamics of the oil sector that a study of NOC alone is not able to address properly.

Part Three: Oil-rich regions: the case of Atyrau

Chapters 4 and 5 concentrate on the relationships between the regime and the oil-rich peripheries, with a special focus on the Atyrau region. These chapters move away from the issue of oil men and concentrate on the larger population and interest groups in the oil-rich regions. These did not gain from the privatisation of the oil industry as the oil men did and, in the case of the interest groups, were further cut off from oil industry related contracts. Chapters 4 and 5 argue that the way in which Nazarbayev's regime went about addressing the challenges that emerged in the oil-rich areas differs significantly from the way in which it dealt with the threats posed by the major players in the Kazakh oil industry. The most important difference between the two was the heavy involvement of external actors (foreign oil companies) in addressing the problem of the interest groups in the oil-rich areas. As a result of this, in the Atyrau region, the regime structured its relationships with interest groups via the involvement of foreign oil companies, which became an indispensable part of the equation. The notion that foreign oil companies play a profound role in post-Soviet Kazakhstan – including the oil-rich areas – is not new (Cummings 2000; Luong and Weinthal 2001). Yet, this thesis elaborates considerably on the question of foreign oil companies as it: a) attempts to demonstrate the genesis of the involvement of the foreign oil companies in the Atyrau region; and b) shows the limits of the co-operation between the relevant foreign oil companies and the regime through the Atyrau example of the local content policy.

Part Four: Renewal and consolidation

The first part of chapter 6 argues that the Kazakh regime, which throughout the 1990s and beyond had been thriving on patrimonial networks, eventually began showing signs of moving away from these established patterns. In the first half of the 2000s, the Kazakh regime attempted to co-opt small- and medium-sized businesses across Kazakhstan in response to the Kazakhgate scandal and the rise of a pro-business opposition. Although the government's initial actions failed to yield desirable results – while also not bringing about any serious political consequences for the regime – the government did not cease its pro-business politics, but persistently put forward new policies. It is argued here that this determination on the part of the regime was a real attempt at gradually moving away from a situation in which patrimonial networks had dominated the Kazakh polity, including earlier regime–oil industry relationships, to one in which quasi-formal mechanisms – controlled by the regime – became the primary regulators.

The new type of relationship stems from a need to accommodate the ever-growing Kazakh middle-classes, which are supposed to become the backbone of the ruling regime by replacing the powerful and unpredictable financial/industrial groups that were favoured before 2002. Thus, the regime pushes for a more coherent relationship between small- and medium-sized businesses and the state in order to assure its long-term stability. At the same time, not all mechanisms of control can be expected to alter significantly. In the second part of chapter 6, we discuss a number of disputes that the Kazakh state has entered into since 2002 onward with foreign oil companies, which could potentially have far-reaching repercussions on the regime–companies' tacit alliance in the oil-rich areas. Yet, we argue that while the disputes over Tenigz and Kashagan were in themselves major developments, they are unlikely to profoundly affect the co-operation between the two parties in the Atyrau region.

Chapter 1: The oil industry and techniques of regime maintenance

In the introduction, it is stated that the main aim of this thesis is to investigate the ways in which the authoritarian regime in post-Soviet Kazakhstan (that came into existence with the collapse of the Soviet Union) maintained itself in power from 1991 until 2005. The techniques of regime maintenance are scrutinized through the example of the Kazakh oil industry–regime relationship. It is argued here that the oil industry, which plays a critical role in the political and economic life of the country, is fertile ground for studying 'the rules of the game' in Kazakhstan. This thesis predominantly focuses on the ways in which the Kazakh regime has brought the oil industry under its control, and how it has managed to maintain its grip over it.

The first part of this chapter draws on the oil sector, political science and regional studies literatures, and attempts to localise potential problem areas for the regime as far as the oil industry and its key players are concerned. The second part argues that in order to analyse the ways in which the Kazakh regime dealt with the possible challenges, we should move away from the *zhuz*-horde, tribe, and clan-based approaches towards alternative regime maintenance techniques – namely corporatism and patron–client networks.

This chapter demonstrates that the regime, in order to ensure the uninterrupted flow of petrodollars and in order to represent itself as a credible partner to the foreign oil companies, had to gain full control over two crucial areas – firstly, the National Oil Company (NOC), and secondly, the oil-rich regions of the country. This remains an ongoing issue. Problematic for the regime in both instances is the fact that the interest groups involved, for example presidents, directors, and managers working for the NOC, and some notables in the remote oil-rich areas, will attempt to wrestle from the regime as much control over the oil spoils as possible for their own benefit. Thus, the rulers at the top of the regime structure have to maintain a delicate balance between all the interest groups: on the one hand, they can not allow any of the groups to became too strong at the peril of losing complete control over the oil industry, and on the other hand, nor can they offer too little in a constant bargaining with interest groups, since this can lead to a variety of political crises. In relation to the latter point, for example, those working in the

National Oil Company (as well as their clients) can obstruct government policies, while unhappy notables in the oil-rich areas – in the most extreme situation – can encourage the creation of secessionist movements.

In order to explain the ways in which the Kazakh regime maintained its grip over the oil industry in the period 1991–2005, this study shifts away from the *zhuz*-horde, tribe, clan-based approaches that were first developed by Kazakh political scientists and also applied in the 1990s by some Western academics in order to analyse post-Soviet Kazakh politics. Whereas this thesis does not argue that these approaches are irrelevant, it does however suggest that other approaches – most notably those emphasizing patron–client networks and corporatism – can greatly enhance our understanding of the regime–oil industry relationships, and should be taken under consideration. Arguably, corporatism and patron–client networks should be utilized, because: a) these two concepts have been widely used by political scientists and political-economists in order to explain regime–business relationships in countries that are run by authoritarian regimes; and b) corporatism and patron–client networks were used by Sovietologists to shed some light on state–society relationships in the Soviet Union. Considering that post-Soviet Kazakhstan was marked by continuity with its past on the elite and institutional levels, these analytical tools can still be deemed to be useful. The second section of the chapter also introduces two additional concepts – which derive from corporatism and patron–client networks – quasi-corporatism and neo-patrimonial regimes, which were not used by Sovietologists in order to analyse state–society relationships in the Soviet Union, but which can prove useful in the study of post-Soviet Kazakhstan. Finally, the last section of this chapter will briefly discuss the fieldwork and the reliability of the interviews with the representatives of the Kazakh oil industry, foreign oil companies and major foreign sub-contractors, on which the empirical part of thesis greatly rely.

1. The oil industry: battlegrounds and key players

In the first part of this section, we will discuss the NOCs, which in the last few decades have become an essential part of the oil industry landscape in oil-producing countries. The special role that NOCs play puts the bosses and managers of these companies in a unique position, which they are likely to abuse. Their greed for money and power leads to the creation of an entire web of informal networks/power bases, which can threaten the very positions of the rulers. The example of the general strike in Venezuela in 2002 is the most striking one. In the second part, we will briefly discuss oil-rich areas in these countries, where marginalised local elites and the local population can challenge the authority of the regime. We will demonstrate the problems that the regime might possibly encounter through the example of Aceh, Indonesia.

1.1. National Oil Companies (NOCs)

The story of the NOCs dates back to the 1920s and 1930s, when Yacimientos Petroliferos Fiscales (YPF) and Petroleos Mexicanos (Pemex) were founded in Argentina and Mexico respectively. The main reason behind the creation of the companies was a drive on the part of the then-ruling regimes to assert their independence in relation to foreign interests, namely, foreign oil companies and Western states which had hitherto controlled the petroleum industry. Likewise, in the 1970s and 1980s, the takeover of the oil industry from foreign companies and the creation of such NOCs were driving elements in the assertion of the independence of some African, Asian, and the Middle Eastern states (Noreng 2002: 54).[2] Thus, bringing the oil industries of these countries under the control of their respective national governments, as Valerie Marcel and John V. Mitchell put it, 'is a story of national emancipation in which the oil was taken back from the foreigners and used to support national economic development and to purchase allegiance to the new state' (2006: 14). Having said all of that, the nationalisation and growth of these NOCs would probably not have been so significant if foreign oil companies had proved to be more flexible in renegotiating the existing oil contracts.

It should be kept in mind that in most of the cases, the tipping point in the disputes between two parties – that eventually led to the creation and solidification of the NOCs – were oil concession agreements, which were made in the first half of the century and gave host countries little or no advantage. Rather, these concession agreements

[2] Prior to 1973, the seven major oil companies, known then as the Seven Sisters, controlled 70 per cent of the total oil produced in the world (excluding the then communist countries) and had 39 per cent and 77 per cent of U.S. and Middle Eastern oil production respectively (Al-Moneef 1998: 205).

> provided foreign oil companies with extensive rights, privileges, and exclusive appropriation of petroleum profits with relatively small royalty payments and few other obligations in return. Consequently, the system did not produce a balanced government–company relationship. This failure led to constant revisions and amendments to the relationship, and the eventual phasing out of such agreements altogether by the producing countries. (Gao 1994: 2)

Over the years, new types of contracts were introduced, such as joint ventures, production sharing agreements (PSA) and service contracts agreements, which offered a role for the host governments and their NOCs to varying degrees.

Kristen Bindemann states that the existing types of oil contracts can be broadly categorised into risk-bearing and non-risk bearing agreements, with most arrangements falling into the former category (1999: 11). The most common type of contractual agreement is the PSA, under which mineral resources are owned by the state, which brings in a foreign company as a contractor to provide technical and financial services for exploration and development operations (Pongsiri 2004: 432). Under PSAs, the foreign oil company carries the entire exploration risk. If no oil is found, the company receives no compensation. The government or NOC usually has an option to participate in different aspects of the exploration and development process. Moreover, the foreign company operating under PSAs is normally obliged to buy 40 per cent of the essential equipment and machines required for its operations from local producers. PSA contracts operate on a profit sharing basis, sharing the volume of oil produced between the chosen Western company and the host state. However, most of the time, almost half of the profit produced goes towards compensation of the investor's expenditure (cost-recovery product), and only the second part is divided between investor and state in the proportion stipulated in the PSAs.[3] In the case of the Joint Venture type of contract, both the foreign oil company and the NOC participate actively in the operation of the oilfield and acquire ownership of specific parts of the production. This means that the host government on the one hand shares the risk of the exploration to some extent – something that it does not under the PSA – and on the other hand, in addition to royalties, taxes, and profit on the

[3] Irina Paliashvili, 'The Concept of Production Sharing,' *Seminar on the Legislation on Production Sharing Agreements*, 14, 1998.
http://www.rulg.com/documents/The_Concept_of_Production_Sharing.htm (Accessed 2 February 2004).

oil produced, it is entitled to a share of profits (Bindemann 1999: 10). Thus, the joint venture – if successful – can in the long run be much more profitable than the PSA.[4]

In the overwhelming majority of oil contract negotiations, the host government's principal representative is the NOC. Somewhat interestingly, the NOC is usually not only a host government's preferred choice, but also that of the foreign oil companies. From the position of the foreign oil companies, the NOCs are the most desirable partners, since they are likely to possess more and better information about the mineral deposits in the country than any other agency and to understand the technological requirements. Moreover, the NOC is sometimes seen as being less politically motivated than the government (Bindemann 1999: 8). Rather ironically, over the years the position of the NOCs has been reinforced by the foreign oil companies that were initially created to replace them.[5]

The leading role that NOCs play in oil producing countries places the bosses and the managers of those companies in 'a privileged position with regard to access to capital, access to economic rent, and competitive positions in the market' (Noreng 1996: 208). Their stand in the country is further strengthened by information asymmetries. The government overseers usually do not possess adequate knowledge about the oil industry, and are unable to sufficiently scrutinise these companies. This allows the managers of the NOCs to pursue their own objectives, such as capturing economic rents for their own benefit to the exclusion of the rest of society.[6] In order to assert their own positions, the bosses of the NOCs strive to build a vast system of personal networks that reach into various segments of the society (Noreng 1996: 208; McPherson 2003: 8). The aim of this exercise is to create, according to some commentators, a 'state within a state' structure

[4] It should be added that most of the time, the PSAs are used when Western oil companies operate in an unstable area which is characterized by: a lack of a sufficient legal framework (most of the time laws contradict themselves), of strong ties between business and political elites, of respect for private property as well as the presence of corruption, high level of crime and in some instances even civil wars. Over the years, such PSAs have been applied in, for example, Angola, Indonesia, Algeria, Nigeria, all of them countries which have been politically and economically unstable. Most of the time, the host government is left without much choice. It can either go along with PSAs, which are not the most lucrative type of contract but guarantee a stable flow of funds into the government coffers, or not see any investments at all. *See also*: Carola Hoyos and Roula Khalaf, 'Oil groups dream of day they can enter Iraq,' *Financial Times*, 7 December 2006.

[5] Justin Blum, 'National Oil Firms Take Bigger Role,' *Washington Post*, 3 August 2005.

[6] Paul Stevens, 'Middle East Oil: State domination in the sector – an asset or a liability in a low price world?' http://www.gasandoil.com/goc/speeches/pstevens.htm (Accessed 27 September 04).

that functions according to its own logic and is extremely difficult to break (Madelin 1975; Philip 1982; Randall 1987; Boue 1993; Gott 2005).

The web of political allies is usually built through awarding long-term exclusive contracts to various subcontracting companies, which are in turn connected to the relevant political actors (Pongsiri 2004: 435; Machmud 2000); as Noreng puts it: ‘established NOCs, such as Pemex in Mexico, Statoil in Norway, and Petroleos de Venezuela S.A. (PDVSA) in Venezuela, all have close links with local subcontractors, which *ex post* are not fully competitive, but which make up an important political constituency’ (1996: 214). The amount of money being plundered by the managers of the NOCs and/or being spent by the company on fuelling informal networks can be truly staggering. McPherson pointed out that the recent audit of Pertamina, Indonesia’s NOC, exposed losses of over US$ 2 billion per year, an amount equal to 10 per cent of the national budget. A similar audit of the Nigeria National Petroleum Company (NNPC) estimated losses at between US$ 800 million and US$ 1 billion annually (2003: 4). In some instances, the government itself enhances the company’s position in society, as it transfers to the NOC some of the responsibility for building schools, hospitals as well as for creating jobs (Al-Rasheed 2002: 96). Finally, besides building a vast patronage network, the bosses of the NOCs relentlessly push for the expansion of their companies, as they ‘realise that the larger the firm, the greater its ability to influence or even to control its social and political environment’ (Grayson 1981: 20).

The strength of the NOCs is most visible at times when rulers of authoritarian or semi-authoritarian countries attempt to change the existing rules of the game. In Venezuela for instance, Hugo Chavez, after coming to power towards the end of the 1990s, decided to bring PDVSA – the company which for years had been run ‘as a corporatist enterprise, a state within the state, a vast conglomerate dispensing favours and bribes’ – under his control (Gott 2005: 170). The sticking point in the disputes between PDVSA’s bosses (or oligarchs) and the new government was the money that the company spent on overseas investments, which the new president wanted to be diverted to social projects at home (2005: 220). In order to impose his authority, Chavez appointed a number of hostile bosses (former soldiers) to the PDVSA’s Board of Directors, a move which did not go down well with the company’s management. In response to Chavez’s interference, the PDVSA managers joined a nationwide general strike in April 2002, which was allegedly initiated by the regime's opponents and made up of opposition political parties, business groups, and the Confederation of Trade Unions (CTV).[7]

The involvement of the PDVSA was crucial as the company bureaucracy and managers mobilised – through the PDVSA's ultra-loyal trade union bosses[8] – around 20,000 of the company's employees. Most of them were skilled staff, including engineers and technicians, and they stopped work for two months. This in turn brought Venezuela to a virtual standstill (Sylvia and Danopoulos 2003: 70). Eventually, Chavez denounced the strikers as saboteurs and sacked most of them – 18,000 in total. The toll was highest amongst skilled workers: two-thirds of managers and technical staff went.[9] In order to consolidate his grip on the NOC, Chavez appointed political allies and members of his family to high positions in the company;[10] his cousin runs the firm's shipping arm, while the president's brother helps to co-ordinate the company's subsidised oil sales around the Caribbean as ambassador to Cuba.[11] The web of sub-contractors connected to the old managers have been increasingly finding themselves being cut out of business, with a new group of sub-contractors loyal to the current ruling regime slowly replacing them (Briceno-Leon 2005: 21–22).

Leading on, Chavez's Venezuela is a somewhat extreme example of a struggle for the NOC, as in most situations the infighting between NOC bosses and the regime for domination of the oil industry takes place behind the scenes. The ruler seeks to get rid of a potentially threatening actor (the president of the company), but upholds the existing relationships with other important players in the company. Only with time will he introduce new clients or attempt to change relationships with the existing ones.

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[7] Some suggest that PDVSA was not merely one of the parties taking part in the strike, but was in fact a key organiser: 'This is clearly an oil strike, not a "general strike," as it is often described. At the state-owned oil company, PDVSA, which controls the industry, management is leading the strike because it is at odds with the Chavez government'. Mark Weisbrot *quoted in* 'Who's to Blame in Venezuela?' *The Power and Interest News Report*, 8 January 2003.

[8] The NOC's trade unions are often one of the most important allies of the companies' managements in oil producing countries. For instance, when in 2005 some politicians in Mexico began taking about the back door privatisation of Pemex, the managers of the company gave the union \$1.3m just to celebrate the annual anniversary of oil expropriation. That moved was aimed at keeping unions on the side of the management. *Source*: 'Pemex Change is needed but far from easy,' *Financial Times*, 12 December 2005.

[9] 'Oil, missions and a chat show,' *The Economist*, 14 May 2005.

[10] Alma Guillermoprieto, 'Don't Cry for Me, Venezuela,' *The New York Review of Books*, 52 (15), 6 October 2005.

[11] 'Oil's dark Secret,' *The Economist*, Aug 10th 2006; 'Global or national?' *The Economist*, 30 April 2005.

Vladimir Putin's first real big test after becoming president of Russia was to remove the Gazprom CEO Rem Vyakhirev from his post, something that his predecessor, Boris Yeltsin, did not dare to do, due to the apparent strength of the company.[12] From the beginning of the 1990s, Gazprom has been a crucial element of the Russian economy, since it is the largest gas supplier on the planet (market capitalization US$6.2 billion, 300,000 employees), controlling a quarter of the world's gas reserves. On top of that, Gazprom controlled hotels, airlines, firms and TV stations. Even more importantly through its vast networks of clients, Vyakhirev headed the energy-industry lobby, which included Prime Minister Viktor Chernomyrdin (whose government was often called 'government of the energy complex'). For instance, during his four years in office, Chernomyrdin protected Gazprom from division into several independent companies (Kim 2003: 81). The money spent on fuelling informal networks at this time was second to none. In 2001, Boris Fyodor, the minister responsible for taxation stated: 'I have evidence that between US$2 billion and US$3 billion a year [of company money] is misused in strange transitions. It is clear there is asset stripping going on'.[13] *Forbes* magazine estimated that during his time in office, Vyakhirev pumped as much as US$8 billion out of the company.[14]

The initial wave of attacks by the Kremlin on Gazprom to impose more transparency and accountability was met with strong opposition from the company's managers. Indeed, some speculated that Putin was politically too weak to take on Vyakhirev.[15] It took more than a year of persistent campaigning against Vyakhirev – that the company boss was being primarily accused of mismanagement, corruption and nepotism – for the company's board to fire its chief executive. The new boss of the company became the Putin loyalist Alexei Miller.[16] Yet other leading officials from the Vyakhirev era remained at the top of the company for a few more years.[17] Their influence only began to weaken once Miller attacked the complex web of companies which owned many of Gazprom's valuable assets, and implemented a reorganisation of the company

[12] 'Gazprom hit by allegations of massive corruption,' *Alexander Oil and Gas*, 24 May 2001.
[13] Ben Aris, 'Gazprom and Rem,' *Alexander Oil and Gas*, 29 May 2001.
[14] Ibid.
[15] Ibid.
[16] Neil Buckley, 'Russia's shy man of energy,' *Financial Times*, 28 April 2006.
[17] 'Vladimir Putin: Corruption Fighter,' *Eurasia Daily Monitor*, 8 (2), 18 January 2002.

and a merger with Rosneft, the state oil company. It was stated that those steps finally diminished the authority of the anti-Putin managers.[18] In some ways, the sequence of events that unfolded in Russia followed a well-established pattern. For instance, Oystein Noreng argued that the reorganisation of a company is a very common outcome of the struggle between the regime and the NOCs (1996: 205). Thus, in order to re-establish its authority over the company, the government has to change institutional arrangements and root out the informal networks on which the previous bosses have relied.

1.2. The oil-rich areas

The presidents, directors, and managers of the NOCs are actors who potentially threaten those at the apex of power because of their access to capital, which they skilfully use to build their own power bases. At the same time, in the oil-rich areas local notables are potentially threatening because they lack privileged access to the capital – access which is instead granted to the groups from the centre of the country. It should be kept in mind that in an oil-rich country, one of the most lucrative ways to enrich oneself is to win a long term contract – for instance for construction – with the foreign oil company. Individuals and groups that are usually awarded those contracts – with the ruler or his inner circle's apparent approval and in co-operation with the foreign companies – are the regime's close allies. In real terms, however, the situation of the local actors is not hopeless – with time, they also establish their own relationships with the foreign oil companies. Locals, however, feel that they are not being treated fairly by the government. This feeling stems from the fact that as inhabitants of oil-rich areas, they should be given special access to contracts rather than being treated as third class clients of the regime.

Furthermore, the feeling of unfair treatment is also widespread among the wider population of the oil-rich areas. People living in those areas assert that they are being treated unfairly, even if their living standards do not necessary differ from those in other areas of the country. Whereas on some occasions the grievances of the local populations are fully justified, their demands – in number of cases – can also be exaggerated. Hence, the population as well as the local notables almost uniformly maintain that the central

[18] Arkady Ostrovsky, 'Chief executive has a vision for Gazprom,' *Financial Times*, 4 April 2005.

authorities neglect their interests, whether this is in fact so or not. The combination of greed on the part of the local notables and imagined or real grievances on the part of the local population can – in the most extreme cases – lead to the emergence of secessionist movements which, once set in motion, tend to endure for a very long time. Thus, from the ruler's perspective, satisfying interests groups and the local populations in the oil-rich areas is as important (if not more) as bringing the NOC under the regime's firm control. The case of Aceh, Indonesia offers a good illustration of the tensions between local notables, the population and the regime in a resource-abundant area that transformed itself into a secessionist movement.

The rebellion in Aceh led by the Aceh Freedom Movement, known by the popular acronym GAM,[19] is often seen as a product of the region's cultural, religious, and primordial differences with other parts of Indonesia. Yet, it was argued that while religious concerns were in fact mentioned by the GAM's leaders, it was only in passing, with the real demands focusing squarely on political and economic independence (Robinson 1998: 132).[20] Hence it was no accident that the secessionist movement was formed in 1976, just as a large natural gas facility was beginning its operations. The leadership and initial members of GAM came from a small, but growing business class, which felt aggravated because outsiders, 'particularly those with good political connections in Jakarta, or with the military in Aceh, appeared to be winning more than their share of [the] lucrative contracts' that were awarded by the foreign companies (Robinson 1998: 132; see also Crouch 1979: 577). For instance, in 1974 none other but GAM's leader, Hasan di Tiro, lost a bid to build a pipeline for Mobil Oil. In addition, intellectuals and local government technocrats were frustrated by the fact that substantial revenues generated by taxes and royalties were channelled directly to the central government rather than being spent locally (Kell 1995: 27–30).[21] This exclusion from the regime's networks left the Aceh elites with little scope for accumulating wealth and status, thereby leading to a situation in which political change became 'the only avenue

[19] Gerakan Aceh Merdeka

[20] A similar sort of argument was made about the Sudan People's Liberation Movement (SPLM). *Source*: 'Special report Sudan: glittering towers in a war zone,' *The Economist*, 9 December 2006.

[21] That money was primary spent by General Suharto and his inner circle on rewarding and buying off a growing circle of beneficiaries, with the result that the stability of the regime was maintained (Crouch 1979: 578).

for satisfying their greed and aspirations, or expressing their grievances' (Le Billon 2001a: 567). The local population came to share the local elites'/rebels' views; however, they were not obvious allies.

It was argued that generally, Aceh's economy was in good shape, and as such did not provide a basis for a widespread rebellion. According to a national survey in 1971, Aceh's per capita GDP was 97 per cent of the national average, and between 1971 and 1975, Aceh's real annual growth rate averaged 5.2 percent (Ross 2003b: 7). Moreover, there were considerable economic benefits for Aceh from the liquefied natural gas (LNG) boom.[22] Yet, the boom also brought a number of undesirable side effects, including the expropriation of land from small farmers without adequate compensation, and a failure to provide adequate social amenities and infrastructure for displaced communities (Robinson 1998: 136). Whereas all those factors were important for the local population themselves, they were not enough to generate sufficient support for the rebellion. Michael Ross states that the locals' belief that the jobs and the revenues from the natural gas plant were not being adequately shared with the people of Aceh pushed them towards more radical elements. These issues were seized upon by GAM, whose 'propaganda suggested that if independent, the Acehnese would become wealthy like the citizens of Brunei' (2003a: 8). Hence, the key factor in gathering the local population behind GAM seems to be the belief that secession would make them richer (2003a: 7). It should be added that in the years to come, the factors sustaining the rebellion – besides greed and grievances – were firstly, random brutality towards the general population, which led to a growing radicalisation of Aceh's people, and secondly, the geographical location of the region itself.

In reference to the latter point, it is important to keep in mind that the rebellion in Aceh, or indeed in other oil-rich regions, for instance, in the Delta region of Nigeria (Watts 2001; Watts 2004; Frynas 2001), or the Cabinda enclave in Angola (Le Billon 2001b), would not have taken place or endured for long if the resource-rich regions were not located far away from the centre of each country (Ross 2004). Philippe Le Billon stated: '[T]he greater the distance or difficulty of access from the centre of control, the

[22] '[D]uring construction, the new facility employed 8,000 to 12,000 people; during the peak years of production, it employed 5,000 and 6,000. Since local infrastructure was poor, Mobil also built roads, schools, medical facilities, and 4,000 to 5,000 new houses' (Ross 2003b: 12).

greater the cost of control and the higher the risk of losing the resource to the adversary. In other words, a resource close to the capital is less likely to be captured by rebels than a resource close to a border. Resources can thus be classified as *proximate* or *distant*' (2001a: 570). Thus, the geographic proximity of the resource-rich areas is as important in analysing the struggle for the soul of these regions as understanding the events that lead to the radicalisation of the local elites and populations.

To sum up, in this section we discussed situations where the oil industry creates problems for the regime. This is when the oil factor increases the political risk for the regime. The existing literature points to two threats that authoritarian rulers can face, namely: NOC and oil-rich regions. Those two areas are qualified as high-risk, since they occur in the entities (NOC) and spaces (oil-rich regions) that are directly linked to the oil industry. The very possibility of losing control over any of those areas challenges the rulers' authority. In both instances, various interest groups constitute the most problematic actors, which will attempt to wrestle as much control over the oil industry as possible from the regime for their own benefit. In addition, in oil-rich areas, unsatisfied interest groups can turn into political manipulators that will attempt to destabilise the situation. Thus, an authoritarian ruler has to create a situation in which interest groups are relatively satisfied and remain firmly under his control in order to prevent major crises.

Leading on, this thesis argues that the process of addressing political threats that the oil industry poses by the regime brings into the open the dynamics of the regime–oil industry relationship. This thesis analyses the development of this relationship through the prism of formal (corporatist) and informal (patron–client network) mechanisms of control. In so doing, this thesis moves away from the dominant explanation, which says that the Kazakh regime, in order to remain in power, relies primarily on *zhuz*-hordes, tribes and clan-based systems (which were adapted to the Soviet power structures and subsequently became a salient feature of Kazakh politics in the post-Soviet period).

The shift from the dominant explanation – as the next section discusses – is predominantly but not solely dictated by growing scepticism towards the *zhuz*, tribe, and clan prism among some key Central Asian scholars including leading anthropologists. Furthermore, a study of the power structure of the Kazakh post-Soviet oil industry – which is at the heart of this thesis – through a dominant prism ran the risk of getting lost in a maze of anecdotes which would be potentially difficult to verify. The outcome of such an undertaking could far too easily end up being sensationalistic and journalistic in nature rather than academic. Having said all of that, the following section concludes that detailed ethnographic study of the Kazakh oil industry – conducted by an anthropologists rather than political scientist - is much needed and that this thesis is a first step rather than a decisive statement on the Kazakh regime-oil industry relationship.

Rather than looking at the regime-oil industry through a *zhuz*, tribe and clan prism, this thesis proposes to reintroduce to the study of the post-Soviet Central Asia the concept of corporatism as well as to build and expand on concepts of patron-clientalism and neo-patrimonial regimes (borrowed by Central Asian scholars from the African studies) which enjoyed a brief spell of interest in the 1990s but failed to make substantial inroads into a Central Asian studies.

In reference to the first point, this thesis reintroduces the concept of corporatism which – as discussed in the following sections of this chapter - was used by some leading Sovietologists in order to analysis regime-society relationships in the post-Khrushchev Soviet Union. Despite being an important and fully recognised tool of analysis corporatism was omitted by the students of post-Soviet Central Asia in favour of kinship and informal networks based explanations as the *zhuz*, tribes and clan driven analysis fully demonstrate. Whereas this thesis does not argue that informal politics did not play a key role in post-Soviet Kazakhstan in the 1990s, it contends however that scholars should make more use of the corporatist prism when analysing – in particular - the first years after the collapse of the Soviet regime. The institutional component of the Soviet Union was far too easily disregarded as unimportant in the aftermath of the Soviet collapse even though it can aid our understanding of the initial behaviour of the post-Soviet Kazakh regime (as this study attempts to demonstrate through the example of the oil industry). Furthermore, this thesis argues that the corporatist prism should be gradually applied in order to explain the current post-transitional period and the survival of authoritarian regimes in Central Asia. Hence while informal politics are a dominant ‘modus operandi’, students of Central Asian regimes should start paying more attention to alternative regime maintenance techniques. This thesis demonstrates that the corporatist prism – at least in the Kazakh case – to a degree explains new ways in which the regime tries to co-opt the ever-growing oil industry related business class that is growing rich due to the sky rocketing oil prices.

In reference to the second point, the following sections will demonstrate that in the 1990s, some Western scholars attempted to understand the direction into which post-Soviet Central Asia was heading by comparing it - most notably – to sub-Sahara Africa. Whereas those comparative studies made some valuable points about for example, the similarities and difference in the structure of the post-colonial states in both regions, the sub-Saharan prism did not endure for long. This thesis suggests that students of Central Asia should not neglect sub-Saharan Africa and the neo-patrimonial prism to hastily. Firstly, comparing Central Asia to sub-Sahara Africa allows us to better understand the motivations behind decisions taken at crucial junctions by the Kazakh regime. Secondly it allows us to uncover the nature of the Kazakh regime today and the course which it is pursuing.

2. Techniques of regime maintenance: *zhuz*, tribe, and clan

It has been asserted that in order to legitimise and consolidate his political position amidst the post-Soviet chaos, the Kazakh president Nursultan Nazarbayev has relied heavily on the *zhuz*-hordes system, the logic of which is based in pre-Soviet structures. The Kazakh hordes were largely ‘political-communal aggregates that were also understood through kinship, although their origins owed little to blood relations’ (Schatz 2001: 20). The traditionally nomadic Kazakh society was divided into three major hordes – separate confederations of nomadic tribes each ruled by their own elected khan – in which membership closely corresponded to distinct geographical areas: the younger or lesser horde [*kishi zhuz*] occupied the western and central regions (including Kyzrloda), the middle horde [*orta zhuz*] occupied the northern as well as the central regions, and the elder or greater horde [*uly zhuz*] controlled eastern and southeastern Kazakhstan (including Almaty and Shimkent). Nazarbayev’s alleged strength lies in his ability to ensure that all *zhuz* receive equal representation in the top levels of government. In addition, he abstains from inter-*zhuz* struggles for political domination by reserving for himself the position of an arbiter, a power broker. At the end of the 1990s, the composition of the country’s power structure – when viewed through *zhuz* lenses – looked as follows: ‘President Nazarbayev [Elder zhus], Chairman of the Senate O. Baigeldi [Elder zhus], Prime Minister N. Balgimbayev [Younger zhus], Chairman of the Majilis M. Ospanov [Middle zhus] and State Secretary A. Kekil’baev [Younger zhus]’ (Hoffman Fall 2000: 245).

Proponents of the *zhuz* approach point to the fact that Nazarbayev did not revive some old, pre-modern political culture, but rather continued to build on the political system that developed in the Soviet Kazakhstan in the form of traditional structures, which merged and co-existed with the Leninist regime (Schatz 2000: 162; Schatz 2004: 98–103), in order to strengthen their point. That is to say, the politics in Soviet times were largely controlled by traditional *zhuz* leaders behind a façade of Communist Party organisation. Nurbulat Masanov, a late Kazakh political scientist turned political activist, noted that Dinmukhammed Kunaev, who ruled Kazakhstan throughout Brezhnev’s era (1964–1986), was partly able to stay in power for a period of more than twenty years because he surrounded himself with party functionaries from the younger *zhuz* who could not seriously compete with him for power, due to their insufficient influence in the capital (itself partly because of their traditional place of residence in the countryside). At the same time, his main rivals from the middle *zhuz* were allowed to occupy various secondary positions, such as chairman of the council of ministers and secretaries of the *oblast* party committees, but were not promoted to any sort of position in the Central Committee Bureau of the Kazakhstan Communist Party.[23]

In recent years, a number of studies – explicitly and implicitly – have reinforced the argument concerning the key positions that the *zhuz* system plays in Kazakh post-Soviet life by trying to understand the ways in which pre-Soviet social organisations survived and adapted to the Soviet reality on the local community level in Kazakhstan and the other Central Asian republics. It has been argued that the Soviet project did not eradicate these traditional social structures, but rather forced them to adapt to the formal institutions. According to Kathleen Collins, ‘clan structure and identity should be more likely to survive repression than other, more institutionalised identities, such as Islam’

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[23] Nurbulat Masanov, ‘Perception of Ethnic and All-National Identity in Kazakhstan,’ *IDE-JETRO*, ‘The Nationalities Question in Post-Soviet Kazakhstan’, 51, March 2002; Nurbulat Masanov, ‘The role of clans in Kazakhstan today,’ in *Prism*, 4 (3), 6 February 1998.

(1999: 133). Bolsheviks could shut down mosques, but they could not shut down clans. Moreover, even though the Soviets treated Central Asia as a special base of resource extraction, there was little overall modernisation carried out there. Instead, both Lenin and Stalin reinforced feudal-like relations, in which the majority of the native population worked for little compensation, effectively creating a situation in which clan networks remained vital for the survival of many (Alimov 1994: 14–17). Moreover the outsiders, namely the Russians and Slavs, lived in the capital and in other big cities, whereas the native populations lived in the countryside and were largely non-integrated, with little regular contact between the two groups, which enabled traditional structures to coexist with the Soviet regime in the peripheries.

It was suggested that the most important factor in sustaining clan structures was 'the process of regionalizing and territorializing pre-Soviet clan and tribal groups within Soviet administrative and political structures [which] left a particular legacy for the transition at both the elite and mass level (…) [reinforcing] the traditional clan-based organization of society and politics' (Schatz 2000: 166). Edward Schatz further asserted that 'the Soviet state was critically responsible for the perpetuation and politicisation of clan divisions in Central Asia' (2001: 7). Moreover, the command economy recreated subethnic clan divisions as networks of access to goods in short supply, and political patronage 'continued along subethnic lines long after the countryside had been Sovietised' (2001: 13; see also Roy 2000: 89–94). In the 1990s, the clans – which are especially likely to be active in the periods of transition or economic hardship, and hence during times of uncertainty when the state is unable to perform its basic functions – came back into the open (Collins 1999: 134). Some argued that clans filled the post-Soviet void and consequently emerged strengthened out of the collapse of the Soviet regime (Collins 2002; Schatz 2000).

The *zhuz*-horde, tribe, and clan-based explanations of the political structures in post-Soviet Kazakhstan and studies that deal with the way in which pre-Soviet institutions survived 'Soviet assault' (Zelkina 2003: 96) imply that in order to maintain in power, the Kazakh regime has been prone to relying on informal techniques of regime maintenance which have their roots in the country's distinctive tradition. This thesis attempts to broaden our understanding of the ways in which the regime sustains itself in a dominant position, as it analyses the regime oil–industry relationships through the prism of alternative tools – primarily formal (corporatism) and informal (patron–clientelism), which were also widely employed in the Soviet Union. It is important to stress that this thesis does not argue that *zhuz* or clan affiliations do not play any role, but rather that different approaches can bring to the open mechanisms that get lost or are omitted in more traditionally based explanations. This study it should be added, is not the first one to propose a move from the *zhuz*-hordes, tribe, clan-based approaches.

David I. Hoffman, for instance, pointed out that in post-Soviet Kazakhstan many ties supposedly based on *zhuz* connections could also be explained by 'regional affiliations, kinship ties, or Soviet-era associations, be they ''Komsomol connections'' between Soviet-era schoolmates, professional associations gained while working in the state economy, or political connections forged within the CPSU' (Fall 2000: 246). Similarly, Sally N. Cummings argues that *zhuz* 'may best be understood as only one of many techniques of power maintenance' (2005: 100). Some anthropologists went one step further, suggesting that the role of the *zhuz* in post-Soviet Kazakh politics has been grossly overstated.

Joma Nazpary stated that 'although the Kazakh elite regional divisions coincide with the old *Zhuz* divisions, the *Zhuz* [in the post-Soviet period] no longer existed as a form of social organisation but only as a myth' (2002: 8). Shirin Akiner asserted that under Soviet rule, 'traditional structures were weakened to such extent that if they retained any power at all (and whether they did or not is still matter of debate), it was largely in the informal, private sphere' (1995: 44). In addition to that, she goes to say that modern 'clans' 'drew on a wide range of social relationships, such as, for example, school-friends, military service comrades, neighbours, people from the same town, work, Komsomol and Party contacts' (1995: 53). Finally, *zhuz*-based explanations imply that post-Soviet Kazakhstan abandoned the Soviet institutions and began building new ones based on traditional structures. Yet this assumption has been recently also called into question by Luong, who argues:

> The process of state-building in Central Asia (…) challenges the presumption that the CARs were merely colonies of the Soviet Union and would thus reject Soviet policies and institutions after independence.

> These states are neither being built from scratch nor being rebuilt based on pre-Soviet or traditional structures. Rather, the Central Asian leaders have consciously employed templates from their Soviet past as well as the international present and often vigorously pursue Soviet policies that counter Western political and economic prescriptions. (24: 2004)

Arguably, this cursory discussion validates the direction which this thesis attempts to take, namely to shift from *zhuz*-horde, clan explanations to other possible tools of regime maintenance. Despite the scepticism towards the role of the *zhuz*, this study acknowledges that the lack of a thorough analysis of the role that these affiliations could possibly play in regime oil–industry relationships is a considerable shortcoming. Hence, this thesis should be seen as a starting point for further studies of the oil industry, including detailed ethnographic work on the Kazakh oil industry power structures, rather than a decisive statement on the Kazakh regime oil–industry relationship.

3. Alternative techniques of regime maintenance

Corporatism and patron–clientism are two concepts that are central to studies that deal with the ways in which authoritarian regimes across time and space structured their relationships with various sections of society. In particular, corporatism and patron–clientism are widely used to illustrate the regime–business relationship, a type of relationship that is also a focal point of this thesis. The universality of these two concepts seems to be confirmed by students of the Middle East monarchies, who do not solely concentrate on tribal interrelationships when unpacking the regime–business relationship in what are traditional societies, but rather have also been applying *broadly* understood corporatistic and patron–client approaches (Ayubi 2001; Chaudhry 1989; Shambayati 1994; Brynen 1992). As the following discussion will demonstrate, corporatistic and patron–client concepts were also used by the Sovietologists in order to unravel the political and economic power structures that traditional totalitarian models failed to grasp. Given that in post-Soviet Kazakhstan the old Soviet elites held on to power throughout the 1990s, analysing the regime–oil industry relationship through such established lenses appears legitimate.

The existing analyses of contemporary Kazakhstan stress the continuity that existed from the Soviet to the post-Soviet political system on the elite and institutional levels. For instance, Mark Beissinger and Crawford Young quote a study of 320 members of the Kazakh political elite in 1997, which indicated that 64 per cent had been members of the old nomenklatura during the Brezhnev era and 41 per cent had worked previously in the Soviet Communist Party apparatus (2002: 43). Luong, in her examination of the electoral systems in Kazakhstan as well as Uzbekistan and Kyrgyzstan, stated that the 'entire process by which the Central Asian states adopted new political institutions indicates the enduring strength of the Soviet system, rather than its impending demise' (2002: 2). Similarly, Schatz pointed out that 'the Soviet collapse brought not radical rupture to the states of the Central Asia region, bur rather an unusual identity with past practices. Elite choices in the construction of political institutions were heavily saddled with institutional baggage from the Soviet period' (2004: 73–74).

In this thesis, corporatism is labelled as a formal type of regime–society relationship while patron–clientism is considered an informal one. The factor that primarily conditions a ruler's choice of structuring the relationship either along formal or informal lines is the level of regime institutionalisation. Examples from different areas of study demonstrate that the informal type of mechanism has been used either by regimes that inherited weak institutions from the colonial powers (e.g. the Middle East), or have seen a breakdown of underdeveloped colonial institutions during their rule (sub-Saharan Africa). The formal type of mechanism emerged in situations in which authoritarian rulers took over fairly strong institutions, either from pluralistic regimes or colonial powers (South America, South East Asia), which in some instances rulers managed to strengthen further during their reigns (South East Asia).

The following pages will discuss the corporatist and patron–client types of regime society relationships in turn, in a parallel fashion. Each of the next two sections initially define the term in question and then proceeds to explain how these were applied by Sovietologists in their analyses of the regime–society relationships in the post-Khrushchev Soviet Union. In addition, the section on corporatism also introduces the concept of quasi-corporatism, which was not applied to the Soviet case, but can be useful in analysing the post-Soviet Kazakh regime–business relationships.

Furthermore, the section on patron–client relationships also looks at the sub-Saharan neo-patrimonial regimes. The example of sub-Saharan Africa demonstrates how a mixture of weak post-colonial institutions and the existence of patron–client relationships before and during colonisation created an environment in which clientelistic networks were able to penetrate almost every aspect of life, including regime–business relations. It has been stated that some of the key structures that underpin neo-patrimonialism also exist in post-Soviet Kazakhstan. In particular, the widespread culture of clientelism across various segments of society and underdeveloped post-colonial institutions must be mentioned here (Beissinger and Young 2002: 1–47; Grzymala-Busse and Luong 2002: 541–546). Due to these factors, the case of neo-patrimonialism should be considered as an additional prism that can also prove useful in analysing some aspects of the regime–oil industry relationships.

4. Formal techniques: corporatism

The formal type of relationship is characteristic for those parts of the world that went through the process of rapid late-industrialisation. Guillermo O'Donnell stated that this rapid late-industrialization led to the breakdown of the traditional patron–client relationships through which the agrarian elite tended to contain a small number of people. Those relationships were impersonal, multifunctional, not meditated by formal or bureaucratic organisations and restricted to a particular territory (1977: 66). With the traditional, agrarian system in decline and new social forces emerging – most notably trade unions – the emerging authoritarian regimes were left with the task of accommodating these new social strata. This new formal type of relationship was generally defined as state-led corporatism. The key to state-based corporatism is the centralised state. Some authors argued that in the state-based corporatist set-up, a state is a body over and above other political and economical actors (Hammergren 1977: 447). Philippe Schmitter asserted that a strong, dominant state is the natural product of the political systems 'in which territorial subunits are tightly subordinated to central bureaucratic power; elections are nonexistent or plebiscitary; party systems are dominated or monopolized by a weak single party; executive authorities are ideologically exclusive and more narrowly recruited and are such that political subcultures based on class, ethnicity, language, or regionalism are repressed' (1974: 105). The principal pattern of these new formal relationships consisted of a vertical articulation between classes, and linkages with the regime. The vertical relationship aimed at eliminating spontaneous interest articulation through incorporating 'societal interests into a decision-making structure that guarantees a minimum of political stability and allows decision makers to launch development-oriented policies' (Malloy 1977: 5-6). In effect, the regime effectively established a limited number of authoritatively recognised groups that interacted with the government through designated leaders. In some other cases, the regime went so far as to take charge of creating and maintaining all corporatist organisations in order to pre-empt the emergence of autonomous organisations. The watchword of state corporatism is top-down control (Unger and Chan 1995: 31).

The new type of relationship that developed, in O'Donnell words, 'has no territorial base, is not in principle multifunctional, can include multitudes, entails a high degree of bureaucratization and formalization of social relations, and corresponds to an active penetration of the state into diverse sectors of civil society' (1977: 67). As stated above, communication with the political centre occurs vertically. Horizontal communication between groups or segments of groups is rare. At the same time, corporations tend to enjoy a fairly high degree of autonomy in internal matters. On this level, the relationship between a designated leader and the group is most likely to take on the character of a patron–client relationship. Thus, when the relationship with the state tends to be highly structured and administrative in nature rather than political, the relation on the intermediate level is personal.

The corporatist type of regime–society relationship in its traditional form – outside southern European countries – emerged in South America. In South America, corporatism was brought about by the military bureaucratic authoritarian (BA) regimes that came to life in the region in the 1960s and 1970s. It has been argued that BA is a product of a political transformation derived from social and political tensions produced by industrialisation and by changes in social structures at both the elite and mass levels (Collier 1979: 25). The most important impulse for the emergence of the BA regimes was the 'exhaustion' of import-subsisting-industrialisation (ISI), which 'convinced the policy elite that certain necessarily unpopular economic changes would have to be made to create the possibility of renewed growth' (Philip 1985: 33). The main obstacle in achieving that end was, in the opinion of the technocrats, a high level of popular sector polarisation, i.e. growing tensions between the working class and the lower middle stratum that had obtained a strong position during the populist period, and those in power (Skidmore and Smith 1997: 57). This environment was far too unstable and unattractive to foreign capital, which was seen as the only way of overcoming the economic crises. Thus, according to O'Donnell, the key incentive for the emergence of the BA regimes was a functional requirement for the change in the production structures in the dependent capitalist economy 'because the basic requirements for the deepening could hardly be met within the political and social order of populism' (quoted in Im 1987: 232).

The authoritarian regimes that structured their relationships with their societies according to a corporatist logic achieved their aims because they had fairly strong institutions at their disposal. In addition, at a time when corporatism was introduced the traditional forces in the society were fragmented and new social forces – for instance, trade unions and non-agrarian business elites were just developing. This, in turn, allowed the regime to develop the kinds of relationships that served its interests best. It should be kept in mind, however, that the corporatist type of regime–society relationships in their traditional form developed under military regimes. Thus it could be said that military regimes, due to their coercive powers, were able to implement new forms of relationships, which could not have come into existence under different circumstances. However, while corporatism is most commonly associated with military regimes, the theory of corporatism does not explicitly say that state-led corporatism cannot emerge in a situation where the country is ruled by non-military authoritarian regimes. Quite on the contrary, the theory alleges that corporatist mechanisms do not define a political system *per se*: 'a polity can contain corporatist elements and at the same time be a dictatorial Communist Party regime, or an authoritarian Third World government, or a liberal parliamentarian state' (Unger and Chan 1995: 31). In both cases the catchword is harmony, regardless of whether this harmony is truly consensual or imposed from above (Schmitter 1974).

4.1. The Soviet Union and corporatism

In the beginning of the 1980s, a debate took place between the pluralists and corporatists, the ultimate aim of which was to understand the way in which the Soviet Union was governed. In the context of the Soviet Union, the pluralist and corporatist schools developed as a reaction to the so-called totalitarian model, which was crafted and advocated by people like Zbigniew Brzezinski.

The totalitarian model described an extreme form of regime in which a single party, itself free of internal conflict, imposes its will on society. This approach came under attack as early as in the 1960s, because in the opinion of many it did not gel any more, if it ever had ever in fact done, with the changing situation on the ground. Sovietologists pointed out that, firstly, the Communist Party was not as monolithically united as had been assumed. Secondly, in a great number of cases policies did not emanate from the top party leadership. Thirdly, the political change in the Soviet Union (or other Communist state) did not have to be initiated by the top leadership, or by a violent overthrow of the system (Brown 1983: 66). The critics of the totalitarian approach were searching for a new paradigm that would help them to interpret events in the Soviet Union, and in the final instance they turned to pluralism.

One of the key advocates of the pluralistic model, which itself is a North American tradition, was Gordon Skilling (1971). Skilling challenged the idea of the hierarchical nature of political control in the Soviet Union by focusing on the existence of autonomous and intermediate associations between the state and society, and through recognising group conflicts outside of the fractional struggles among the top leaders. He argued that since the Khrushchev era, an increasingly vigorous debate on public policy had been taking place in which 'certain specialized elite groups were able to express their views and interests and to exert some influence on the ultimate decisions in areas such as education, military strategy, industrial management, legal reform, science, art, and literature' (1971: 10). The broadening of group participation in the preliminary stages of policy deliberation and in the subsequent phases of implementation led Skilling to believe that what was happening in the Soviet Union could be called a 'pluralism of elites', or in Robert Dahl's terms a 'polyarchical' system. When describing a similar kind of development in the Brezhnev era, Jerry Hough names it ‘institutional pluralism’. The pluralistic approach did not bring an end to the debate that tried to go beyond the totalitarian model, but rather its beginning. Archie Brown argued that the focus on the substantial diffusion of influence within the Soviet Union, i.e. pluralism, should be seen as a general correction to the totalitarian model, but in his opinion it did not constitute a regime that was in anyway pluralistic.

According to Brown, scholars in favour of the pluralistic approach did not pay enough attention to the amount of control which Soviet leaders had over the political agenda (1983: 72). Along the same lines, Valerie Bunce and John M. Echols asserted that institutional pluralism is indeed a very tempting approach, but one that leaves out the conservative element of the Soviet system (1980: 3). Instead, Bunce and Echols proposed the corporatist concept as a way of overcoming the shortcomings of both the totalitarian and the pluralistic models. Corporatism was put forward because, firstly, it emphasised the role of the state in promoting and planning for the common good. Secondly, unlike the totalitarian model, corporatism, similarly to pluralism, focused on interest representation. Thus, it was argued that corporatism finally managed to bridge the gap between totalitarianism and pluralism by providing a new way of conceptualising state–society relationships in the Soviet Union.

Bunce and Echols argued that in the Soviet Union, since the 1960s the state/party had brushed aside Khrushchev’s conflictual approach to politics and tried to replace it with cooperation, consensus, stability, and the inclusion of nongovernmental elements in the policy-making process. Corporatism expressed itself in two ways: ‘as a process whereby experts are regularly consulted in the making of policy and as a more subtle procedure whereby party members take group interests into account by virtue of their being group representatives themselves (‘‘virtual representation’’)’ (1980: 9). The cooperation among major elements in policy-making, society, and the economy was enforced and coordinated by the state/party. As in other corporate systems, this cooperation was ‘designed to ensure continuous economic growth, political and social stability, and the preservation of the existing order with at least incremental adjustments’ (1980: 15). Thanks to this consensus, the Soviet state, which had always projected the image of a welfare state, was for the very first time truly able to deliver the goods.

The above discussion suggests that the post-Soviet Kazakh leadership should have had some experience of structuring its relationships with sectors of the society – most notably key industries – in a corporatist fashion. This in turn implies that the Kazakh regime could make some use of corporatist techniques when establishing its relationships with the oil industry. For instance, Paul Kubicek argued that in the post-Soviet environment, the corporatist type of regime–society relationship 'may find strong appeal among post-communist elites and the public because of their implied promise to reconcile the often conflicting demands of change and control' (1996: 28). One of the most telling examples of corporatist type of relationships between a regime and business in the post-Communist set-up is post-Mao China.

In China, the transition from a planned to a market economy led to the emergence of a new business elite, which has gained a remarkable degree of independence from the state in managing its affairs compared with the level of autonomy that managers working in state owned enterprises enjoy. Margaret Pearson argues that the new business elite is made up of foreign-sector managers and private entrepreneurs. She asserts that the Chinese government was willing to grant the members of this new elite greater authority and control over economic resources because it sees these groups as a crucial force in promoting industrialisation (1997: 1). At the same time, the government fears that the new elite can become too powerful, and the state has been visibly active in establishing business associations through which it hopes to control them. The associations, which at the top are dominated by retired officials from relevant ministries, aim at co-opting potentially autonomous forces (1997: 5). Pearson calls this strategy a kind of 'socialist corporatism'.

The example of China, however specific and unique, demonstrates that a corporatist type relationship can exist in a post-Communist environment. This is not to say that Kazakhstan and the other Central Asian republics (due to their geographical proximity to China and common communist past) are prone to directly copying the Chinese model of relationships. If at all, the inspiration for structuring its relationships along corporatist lines comes from the Asian 'tigers', which not only present examples of authoritarian regimes that manage to stay in power for a considerable amount of time, but are also shining illustrations of rapid economic development (Dong 1976; Im 1987;

Unger and Chan 1995; Fields 1997). While the regime can attempt to structure its relationships in a corporatistic fashion, this does not imply that it will succeed in doing so.

4.2. Quasi-corporatism

Besides South America and Soviet Union, the corporatist type of relationship was also applied by some sub-Saharan African authoritarian regimes that lacked adequate institutions and were unwilling to grant some of its powers to, for instance, trade unions, business or professional associations. In other words, those authoritarian regimes failed to fulfil the basic criteria for fully functioning corporatist relationships to emerge. Michael Bratton and Nicolas van de Walle, when commenting on these sub-Saharan African regimes, stated:

> Leaders of postcolonial African countries may have pursued a corporatist strategy to the extent that they promoted an organic ideology of national unity and attempted to direct political mobilization along controlled channels. But African leaders have rarely used bureaucratic formulas to construct authoritative institutions or granted subsidiary sphere of influence to occupational interest groups within civil society. Contemporary African regimes do not display the formal governing coalitions between organised state and social interests or the collective bargaining over core public policies that characterize corporatism. (1994: 458)

Yet Dwayne Woods argues that those underdeveloped corporatist relationships should not be simply dismissed as an unsuccessful corporatism, but should be rather seen as a distinctive type of corporatism, which Woods calls quasi-corporatism (1998: 215). According to Woods, authoritarian regimes that constructed quasi-corporatist types of relationships, similar to those that make use of corporatist mechanisms, strived to co-opt existing associations – for instance, students or trade unions – into the regime's structures. Moreover, those regimes organised urban professional groups such as journalists, engineers, bankers, lawyers, and doctors into associations. The associations were then recognised by the regime as the sole representative bodies of their professions, and were closely controlled, either by the appointed members of the ruling party or key state ministers (Woods 1998: 216). However, in striking contrast to the South American associations, the sub-Saharan associations did not have much input into the decision making process, and were used instead as another mechanism through which key sections of the society could be controlled.

Arguably, a variant of the quasi-corporatist system also came to existence in the oil-rich Gulf countries as well. Ayubi Nazih argues that to view the Gulf region through the prism of tribal relationships is a mistake, because ‘oil states uniformly practiced corporatism on a grand scale, using distributive policies to create economic groups as a base of social support on the one hand and to ameliorate conflict between sectoral, occupational, economic and social groups on the other’ (2001: 247). Unlike in South America, where the working classes and expatriates were the main targets of the authoritarian regimes, in the Middle Eastern Gulf states the new middle and upper classes were rounded up into different groupings. Moreover, in the Middle Eastern oil-rich states, bureaucracies did not play the fundamental role they did in South America. More likely, it would be a ruler and his immediate family who established direct relationships with different groupings.

In the following section, we will turn to the patron–client type of relationships, which provide another key concept in studies that deal with regime–society relationships. In the case of the Soviet Union, this kind of patron–client relationship was employed to shed light on the informal types of relationship, on the elite and local levels, that formal approaches had not hitherto properly explored.

5. Informal techniques: patron–client relationships

Patron–client relations have been characterised as ‘an enduring dyadic bound based upon informally arranged personal exchanges of resources between actors of unequal status’ (Grindle 1977: 53). The basic idea behind this notion refers to a personalised and reciprocal relationship between an inferior and a superior. These patron–client relations are primarily personal, because ‘unlike institutions, individual patron–client linkages are contingent upon the persons in a relationship and ordinarily cannot outlast them’ (Jackson and Carl 1984: 433). It has been asserted that the patron–client relation emerges ‘out of the sense of generalized insecurity that presumably exists in so-called ‘‘stateless’’ or segmented societies’ (Lemarchand and Legg 1972: 158). At the same time, it has been pointed out that in many societies, above all many Mediterranean, South American and East Asian ones, in which clientelistic relations constituted part of the central mode of institutional arrangements, clientelism ‘persisted despite changes in level of economic development, the structure of political organisation and in their own concrete organizational form’ (Eisenstadt and Roniger 1984: 203). It is often argued that patron–client networks were established because in societies where democratic political organisations and interest groups are weak and non-existent, patrons create clientelistic relations to secure the support of others. A client enters into a tacit agreement with a patron because s/he seeks security in the unstable environment. This relationship is based on loyalty and on trust. In the long run, each must honour the mutual obligations associated with their roles as a patron and a client. The patron must give his/her client a privileged treatment, and in return s/he expects to receive certain benefits.

This dyadic relationship, which involves some form of interaction between two individuals, is at the heart of clientelism. This relationship can be wholly voluntary, or can be obligatory for both members. It can last a very short period of time, a lifetime, ‘or be carried on from generation to generation by descendants of those who created the original dyad’ (Lande: 1977: xvi). Such alliances are created very easily. Favours done on behalf of patrons are of a material nature, while those which the clients provide for their patrons involve the expenditure of labour or effort. Most patrons are able to maintain alliances with numerous clients (1977: xx). Clientelistic relationships can be widely spread out, and it is possible for a large part of a society to be organised into a relatively small numbers of clients. Clientelistic relationships tend to take on a pyramidal shape, with one set of patrons with its clients above another. Thus, it often happens that an individual may be both a patron and a client.

5.1. The Soviet Union and patron–clientelism

It was argued that in the Soviet Union, patron–client type relationships were present among the members of a powerful clique at the top party level as well as among the lower political hierarchy (Fitzpatrick 1999: 62–66; Jowitt 1992: 121–159). A number of closely interrelated factors were responsible for the initial development of these relationships. Firstly, the Communist party, which on the surface promoted impersonal ideological standards of behaviour in every day-to-day business, relied on a web of stable personal networks that it upheld by providing preferential treatment to network members in return for their loyalty and ideological faithfulness. Secondly, patron–client relationships were the safest and most efficient way to move within the party hierarchy (Lubin 1984: 163–164). For instance, Mikhail Voslenski suggested that patron–client thinking was extremely important to the way in which the nomenklatura operated in Soviet times. He says that a ‘loner does not get ahead in the party; one must belong to a clique in which everyone supports everyone else, and one must try to become its leader, for the latter will get the best job going’ (1984: 77). Thirdly, among the top levels of the Communist Party clientelistic practices developed with a view to obtaining access to public or semi-public goods (Eisenstadt and Roniger 1983: 186).

Patron–client relationships not only took roots at the apex of power, but also among factory workers and shop managers or in local party branches (Berliner 1988). Neo-traditionalists argued that Communist regimes – in which political loyalty was rewarded systematically with career opportunities, special opportunities, and other favours – ‘actively’ encouraged the creation of dyadic bonds (Jowitt 1983; Oi 1985). According to Andrew Walder, this resulted in a highly ‘institutionalized network of patron client relations that is maintained by the party and is integral to its rule: a clientelist system in which public loyalty to the party and its ideology is mingled with personal loyalties between party branch and their clients’ (1986: 6). Effectively, the Soviet system led to a metastasising subculture of interpersonal ties through which individuals could obtain flats, cars or better food from that available to the small ‘big man’ as long as they were willing to grant their loyal support. Luong and Weinthal suggested that dependence on patrons at the regional, local level led clients to a gradual identification with the region in which they studied, worked, and/or resided (2001: 381).

The mechanism that has been held responsible for the growth of the clientelist networks was Brezhnev’s policy of the ‘trust in cards’, which stood in firm opposition to the way in which Stalin and Khrushchev used to run the Soviet Union (Gleason 1991a: 616). ‘Trust in cards’ in particular, strengthened the positions of the patrons which, unthreatened by the frequent rotations, could invest into building a vast system of patronage networks. Boris Yeltsin, reflecting on his time as Communist Party secretary of the Sverdlovsk province during the years of Brezhnev's rule, stated: '[the] power of a first secretary within his province is practically unlimited. And the sense of power is intoxicating… In those days, a provincial first secretary of the party was god, a czar – master of his province – and on virtually any issue, the first secretary's opinion was final' (Beissinger and Young 2002: 28).

The proliferation of informal networks created an opportunity for widespread corruption, which 'permeated entire strata of the party and state apparatus, reaching epidemic propositions' (Rumer 1989: 145). Ironically, it was the very nature of the Soviet Union – the monopolistic and absolute authority of the party elite over all spheres of public life and the total control exercised over the nationalised economy – that made theft of the state property possible (Rumer 1989: 147; Gleason 1991a: 619). William Clark argued: 'Soviet officialdom, like society in general, was unable to separate itself from reliance on illegal activities; if society in general came to embrace, if only out of necessity, alternative systems for the distribution of goods and services, so had the class of officials who were charged with the duty of administering Soviet society' (1993: 261).

In Central Asia and the Caucasus, the growth of patron–client networks was helped by the devolution of administration in the post-Stalinist period, which allowed for 'a greater penetration of local and unofficial social networks into party and government affairs' (Beissinger and Young 2002: 29; see also Roeder 1991: 203–210; Gleason 1991b: 350; Roy 2000: 101–109). During the Brezhnev era, Central Asia saw the rise of all-powerful party bosses who, in most cases, managed to hold on to power until the late 1980s, when Gorbachev launched his anti-corruption campaign.[24] It was argued that during this time, all endemic elements of the Soviet system fused with clan and Islamic traditions. At the end of the 1980s, Boris Rumer wrote: '[in Central Asia] clan structure, with extraordinarily high degree of tribal fealty, has created especially propitious conditions for the development of illicit economic activity and its corollary, organised crime. The mafia-like clans form such resilient units that even tough *apparatchiki* from

[24] It is widely agreed that Central Asia and Caucasus were the most corrupted regions in the entire Soviet block (Vaksberg 1991: 137-204).

Moscow are at a loss to smash this sticky web of tribal connections' (1989: 148; see also Trenin**,** Malashenko and Lieven 2004: 5).

In the following section, we will turn to sub-Saharan neo-patrimonial regimes. The case of neo-patrimonialism demonstrates that the post-colonial elites, who with independence inherited fairly weak institutions in order to maintain themselves in power, are prone to resorting to informal rather than formal tools of regime maintenance. This scenario is likely to unfold where previously colonial power structures relied on informal relationships with local notables, both in the centre and in the peripheries. In should be added that a similar scenario to the one in sub-Sahara Africa came into the open in the post-colonial Middle East (Young 1998; Khoury and Kostiner 1990; Tibi 1990; Andreson 1987, 1990). However, due to space constraints, the Middle Eastern case will not be discussed here.

5.2. Neo-patrimonial regimes

The key to understanding mechanisms that govern neopatrimonialism and patron–clientism in sub-Saharan Africa is the legacy of the post-colonial institutions, which left structural constraints on the emerging post-colonial elites. To start with, one of the main problems was the post-colonial elites themselves, who 'had mostly not been adequately trained by the colonial government and had limited experience of operating a governmental system on a national scale' (Tordoff 1997: 82 see also Mansur 1995: 113). Moreover, it must be kept in mind that many of the post-colonial elites were groomed by the colonisers as they 'tried with considerable success to exclude radical social forces from the political playing field' (Boone 1994: 120). Hence in most cases, on the eve of independence, there was very little real alternative to the post-colonial elites, who easily seized power. Another burning problem was the post-colonial administration, which lacked the substantial capacity to run already existing institutions or new institutions, such as a large number of parastatal bodies that post-colonial elites had themselves created in order to 'withstand the intense social pressures to which they were subjected by universally enfranchised electorates' (Tordoff 1997: 82). Finally, leaders had to address the issue of a fragile national unity. It is worth mentioning that the problem of the weak state structures was compounded by the fact that ‘the state in Africa is a set of alien political institutions, originally imported from abroad’, rather than home grown like in the West (Bratton 1994: 238).

In the late 1950s and 1960s, across sub-Saharan Africa, an answer to these problems was supposed to be a highly centralised presidential or one-party system, which was thought to be better suited than a democratic system, be it liberal or socialist. Guenther Roth called the new elites *empire-builders* due to their daunting tasks of integrating greatly disparate elements: ethnic, tribal, religious, linguistic, or even economic (1968: 204)[25]. However, instead of improving and using bureaucratic formulae to construct authoritative institutions and to organise governing coalitions between state and social interest, the post-colonial elites retreated to the pre-colonial logic of patrimonialism, which they then successfully incorporated into their own bureaucratic institutions.

Patrimonialism (*Herrschaft*) is Max Weber’s term, which has been adopted by anthropologists in order to describe the political system of small, isolated communities with rudimentary economies, including African chiefdoms in the pre-colonial era. The most important feature of patrimonialism is a ‘big man’, who rules by dint of personal prestige and power. In that relationship, ‘ordinary folk are treated as extension of the ‘‘big man’s’’ households, with no rights or privileges other than those bestowed by the ruler. Authority is entirely personalised, shaped by the ruler’s preference rather than any codified system of laws’ (Bratton and van de Walle 1997: 61). It has been argued that in modern times, patrimonialism in its purest form could be only found in Haile Selassie’s Ethiopia (Roth 1968: 195). In other parts of Africa, the term was redefined in order to make it compatible with existing bureaucratic institutions and written laws, however weak. The outcome was neopatrimonialism, which Michael Bratton and Nicolas van de Walle described as a ‘hybrid political system in which the customs and patterns of patrimonialism co-exist with, and suffuse, rational-legal institutions’ (1997: 62). In

[25] Roth argues that in Europe, nation-building was a much easier task since it aimed at the integration of population with ‘common culture, especially a common language and common historical legacies shared by various strata’ (1968: 204). According to the author, it is no accident that pluralist democracy has been successful on a large scale, only in family homogenous countries.

essence, neopatrimonialism, like patrimonialism, stood on two pillars: a ‘big man’ and personal relations, i.e. clientelism.

In sub-Saharan Africa were the presidents, the ‘big men’ who had been installed for life; they established extensive chains of patron–client ties extending usually from the centre of a personal regime to the rulers’ inner circle, immediate clients, and other followers, through them to their followers, and through them to their followers, etc. The primary role of the client was to mobilise political support and to refer all decisions upwards as a mark of deference to patrons (Bratton and van de Walle 1994: 458). The system worked, chiefly because of the nature of the narrow, largely incapable post-colonial elites that the president needed to satisfy; this he did. Secondly, modern party mechanisms enabled him to reach out equally to urban as well as remote countryside communities. Thirdly, and most importantly, post-colonial state structures were successfully colonised by the clientelistic logic of neopatrimonialism, and effectively became an ultimate source of enrichment for those who were willing to support the regime.

Officials who occupied bureaucratic institutions used their positions, not to perform public services, but rather to acquire personal wealth and status: ‘although state functionaries received an official salary, they also enjoyed access to various forms of illicit rents, prebends, and petty corruption, which constituted a sometimes important entitlement of office’ (Bratton and van de Walle 1997: 62). The most lucrative positions were given to friends, family members or ethnic fellows, whereas state rules and regulations were abandoned. One of the most effective mechanisms that allowed the ruler to keep his clients satisfied was a rapid turnover of political personnel in order to ‘regulate and control rent seeking, to prevent rivals from developing their own power base, and to demonstrate their own power’ (Bratton and van de Walle 1994: 463). The clientelistic relationship effectively undermined the modern state, where formal rules were replaced with systematic patronage and clientelistic practices that aimed at maintaining political order. Personalistic networks came to fill the void: ‘in different countries, new groups of intermediaries brokers, and emissaries oversaw the exchange of goods for compliance’ (Bratton 1994: 265). As a result of those developments, the state in sub-Saharan Africa lost its powers to penetrate and control the society, which from the outset of the post-colonial era was very fragile.

In a system that favours the ruler, his allies, and his clients, the essential activity involves gaining access to the personal regime's patronage. No one was allowed to (or could) operate outside this relationship – including the business elite, which in fact was one of the most visible products of neopatrimonialism. Nzongola Ntalaja argued that in Mobutu's Zaire, 'the most prominent private entrepreneurs include politicians and former state officials, all of whom rely heavily on state support, encouragement, and sponsorship to promote their business' (1984: 99). Their position at the apex of power enabled them to use the state apparatus to constitute for themselves an economic base to sustain a privileged life for themselves and their families. In most instances, ex-state officials chose to open private businesses in order to invest their savings, or rather bribes, that they have received during their time in office (1984: 99).

Neopatrimonial regimes emphasise the personal charisma of the ruler in their attempts to legalize the rule of the president. In order to do this efficiently, these regimes undercut civil society: they demobilize voters, eradicate popular associations and attempt to weaken all independent centres of power. Harold Crouch asserted that the regime was able 'to rule in the interest of the elite without taking much account of the interests of the masses because the latter were poor, socially backward, politically passive, and kept in check by the regime's military forces' (1979: 572). Such regimes did not tolerate any kind of dissent, because neopatrimonial regimes 'tend to operate within the ''rule'' of zero-sum conflict – that is the expectations of maximum allowable deprivation for losers, their families, and associates' (Le Vine 1980: 659). Bratton and van de Walle argued that in a system structured according to neopatrimonial logic, political protest was not likely to erupt, and when it did it was usually 'spontaneous, sporadic, disorganized, and unsustained' (1994: 462). That effectively made the introduction or reintroduction of the democratic regimes highly problematic.

Trying to understand the astonishing spread of clientelism in sub-Sahara Africa from the perspective of the centre, as we have done up to here, tells only part of the story. As mentioned before, the post-colonial elites retreated to the pre-colonial patrimonial logic, because they lacked sufficient tools and the experience to run the country once the colonisers had left. However, those facts do not fully explain why the creation of a strong, autonomous and capable state failed so badly, where clientelism ‘colonizes’ the societal tissue so easily. Catherine Boone and Naomi Chazan, among others, argued that the answer to this question lies in the way in which colonial powers exercised their rule on the local level.

Colonies were run according to Lord Lugard’s concept of ‘indirect rule’. The aim of indirect rule was to ‘weaken existing African political structures and subordinate them to the colonial state without completely undermining the capacity of the local authorities to control their subjects’ (Boone 1994: 114). European rules bypassed civil associations, establishing control directly over ‘stringently demarcated local communities through their sophisticated employment of local collaborators’ (Chazan 1994: 261). The most important impact that indirect rule had on the local level was the effective confirmation of many of the powers of the ‘big man’/patron over the land and peasants. ‘Big men’ were given free rein on the local level as long as they collected house and head taxes, keeping a cut for themselves (or alternatively being paid by the colonial state). Moreover, chiefs were not only responsible for mediating the flow of resources claimed, but were also responsible for allocating resources coming from the centre.

From the outside, indirect rule looks like the easiest and the most effective way of extracting resources from colonies. It certainly did just that. However, it must be kept in mind that to a certain extent, using the local chiefs to do the ‘dirty’ work, who were using ‘their position in the colonial system to their own advantage, often in ways that were not fully consistent with colonial ambitions’, also displayed a weakness of the colonial states (1994: 118). Bratton argues that ‘the colonial state clearly lacked the political capacity to implement policy in local arenas without collaboration from indigenous auxiliaries’ (1994: 239). Chazan asserted that ‘the British, and in many instances French, ruled through local patrons and were as dependent on their durability as these strong-men were dependent on the colonial state’ (1994: 261). The problems that the colonisers faced, that of strong local chiefs, did not disappear on the various eves of independence, but remerged in post-colonial environments. Thus, postcolonial regime consolidation and ruling-class formation were constrained by the same contradictions that compromised the colonial project (Boone 1994: 119). At the same time, since a great majority of the political notables already stood on the scaffolding of local and regional power bases, it was not in their interest to uproot the existing practices. The lack of a strong state made this maintenance of the *status quo* even more desirable, and naturally easier besides.

In section 4.1, it was argued that the post-Soviet Kazakh ruling elites are familiar with corporatist regime–society relationships, and could and did use them to structure their relationship with the oil industry. This section similarly demonstrated that this also applies to the patron–client type of relationship. During the Soviet era, the patron–client relationships played an important role in maintaining the unity of the Communist Party in the centres and the peripheries. Considering that post-Soviet Kazakhstan is a post-colonial state characterised by weak institutions (Olcott 2002), it could be suggested that it is most likely to follow some form of neo-patrimonial regime. Still, the outcome is far from obvious. While Kazakhstan and the other Central Asian republics inherited fairly weak institutions, they were much more developed than the ones that African leaders were left with by their colonial masters (Luong 1999). In addition, the post-Soviet Kazakh elites were much better prepared to run independent countries than the African elites were.[26] Hence, it can be argued that the Kazakh regime had more room to manoeuvre when structuring its regime–society relationships, including its regime–business relationships than the sub-Saharan African or Middle East regimes. The investigation of Kazakh regime–oil industry relationships in the following chapters will present analysis of the choices that the Kazakh regime has made.

[26] A good illustration of this is the example of Nursultan Nazarbayev himself. He was born in 1940 in the village of Chemolgan in the south of Kazakhstan, an area that is predominantly inhabited by ethnic Kazakhs. He was educated in Kazakhstan and in Ukraine's Higher Technical School as a metallurgist and graduated in 1960. Nazarbayev started being politically active in the Communist Party in the 1960s, first in Komsomol and later on in his local party branch in Karaganda oblast (Karaganda Metallurgical Combine in Temirtau), where he worked his way up to become a second secretary. In 1980, he moved upwards to the post of the second secretary for industry in the republic's central committee in Alma-Ata. In 1984, he was promoted to the number two position in the republic as the chairman of Kazakhstan's Council of Ministers (Olcott 1995: 169; Gleason 1997: 56). It should be said at this point that in comparison to other leaders of the Central Asian republics at that time, Nazarbayev came across as open minded, which in the years of *perestroika* was a very important capital in itself. Furthermore, due to various positions that he had held before arriving to Alma-Ata, he understood well the mechanisms behind the Soviet system which he admitted were in need of reforming (Olcott 1995: 173-174). Olcott wrote: '[Nazarbayev] has an excellent idea of how much Kazakhstan was supplying to Moscow's coffers, and how little the republic was receiving in return, particularly since as chairman of the Council of Ministers he was spending a third of each year travelling about the republic, studying the various industries and enterprises on site' (1997: 206).

6. Researching the Kazakh oil industry

This thesis primarily looks at Kazakh companies involved in the oil industry, both directly (extracting and production) and indirectly (supply and construction). I collected information about these companies in the course of 85 interviews (see Appendix 2), which I conducted during my fieldwork in Kazakhstan.

My fieldwork in Kazakhstan lasted from August until late December 2004. For the first three months, I stayed in Almaty (from August until October); after that, I travelled to Atyrau (November) and Astana (December). I chose those three cities for various reasons. Almaty, which until 1997 was the capital of Kazakhstan, is home to Kazakhstan's biggest and medium-sized sub-contracting companies, as well as to significant Kazakh oil companies and few NOC (KazMunaiGas) subsidiaries. It is also in Almaty that most of the transnational oil and sub-contracting companies have their headquarters and Almaty is where foreign embassies and institutions are located. Moreover, Almaty is the centre of the Kazakhstan's quasi-oppositional parties, newspapers, NGOs, as well as state-owned newspapers and oil journals. In the new capital Astana, the NOC KazMunaiGas and its subsidiaries have their headquarters. It is also where the Ministry of Energy and Resources and the Contract Agency (which deals with the relationships between foreign and local oil companies) are based. Atyrau, widely considered the oil capital of Kazakhstan, is home to Kashagan, the biggest oil discovery that the world has seen in the last 40 years, as well as to TengizChevron JV, the biggest oil project already in operation in Kazakhstan. Moreover the Atyrau region borders another extremely important oil region, Mangistau, about which I had a chance to talk extensively when in Atyrau. Due to financial- and time constraints, I did not visit two other key oil regions: West Kazakhstan and Kyzylorda. In Almaty however I interviewed a number of local and foreign companies working in those regions and obtained agood knowledge of them.

As mentioned earlier, the main focus of my fieldwork were the Kazakh companies working in the oil sector, which I divided into three groups: a) the NOC KazMunaiGas and its subsidiaries; b) local sub-contracting companies varying from the biggest, medium to small and very small; and c) local oil companies. The most useful source of knowledge about foreign and local companies working in the oil and gas sector that I obtained was a directory published annually by the Kazakh oil journal *Petroleum*. I used the newest available edition, which had been published in April 2004, and was entitled ‘Companies Working in the Oil and Gas Industry of Kazakhstan’. The 2004 edition lists 700 local and foreign companies with a very useful short note about each company. Another important source of information about the companies presented itself in the form of the local directory. In Atyrau, where information about local companies was rather slight, the local directory proved to be the most useful source of information. As of 2004, in Kazakhstan, no other widely accessible database that deals with local sub-contracting and oil companies exists to my knowledge. During my interviews, I learned that transnational companies (for instance, Halliburton and Flour, which since 2002 are under legal obligation to work with local sub-contractors) have assembled their own databases. Despite numerous requests, rather predictably, I was denied access to those databases. On a more positive note, I came into direct contact with the biggest foreign as well as Kazakhstani companies during the 12th International Oil and Gas Exhibition KIOGE 2004 (5-8 October, Almaty), which is the most important event of its kind in Central Asia and the Caucasus. The exhibition proved to be very useful, because through this form of direct contact, I managed to secure interviews with the three most important Kazakhstani sub-contracting companies (which for two months prior to this had consistently refused to be interviewed). KIOGE also opened doors to NOC KazMunaiGas, which in Kazakhstan has a reputation of being inaccessible to outsiders, not to mention research students such as myself. Naturally, during my fieldwork I also benefited a great deal from the so-called ‘snowball effect’. Diplomats that I interviewed from various embassies (including the Polish, British, Canadian ones, and the European Commission), proved to be especially supportive and helpful in pointing me to their contacts. The companies themselves, with few exceptions, were unsurprisingly unwilling to recommend me to other companies. Most of the time, their responses were evasive. During my fieldwork I tried to be as open as possible, and when I was not able to secure an interview with a president, a director or a vice-director of the company, I talked to marketing managers, project managers, geologists and even oil workers. On a few occasions, marketing managers who were unable to answer my questions, and felt uncomfortable about answering them, secured interviews for me with their superiors.

Whereas Kazakh companies working directly or indirectly in the oil sector were my main targets, I also interviewed various actors who would allow me to gain a wider perspective on the relationships between regime and oil business and the oil industry in Kazakhstan. The most important of these were the transnational oil and sub-contracting companies which, on a day-to-day basis, interact with Kazakh companies, the NOC KazMunaiGas, and the national as well as local governments. During my fieldwork, I became acutely aware of the fact that foreign companies were far from passive, marginal actors in regard to the way in which the regime-oil industry relationships are shaped. Rather, they are part of the equation - indeed, in some situations they are the dominant actors. Another set of actors that I interviewed were oppositional parties, NGOs working with the oil industry, newspapers and oil magazines, foreign diplomats (especially those working in Economic and Commercial Sections), oil and political experts, and associations of the companies working with the oil industry.

Arranging interviews was one of the most difficult parts of the fieldwork. Presidents, directors, managers which I wanted to interview – in some instances – run fairly large companies and do not – in their words - 'have time for students'. However, I was not put off by this sort of answer and tried to persistently arrange a meeting. In some instance I got the impression that this was part of a powergame in which persistence finally paid off. The most problematic people to deal with were company's secretaries who naturally acted in their capacity as gatekeepers and refused to connect me directly with the directors and managers of the companies. I quickly learned to bypass them, where possible and to insist on taking to the directors and managers directly. This strategy worked very well in the second half of the fieldwork when I learned how to handle the interviewee by relentlessly stressing the importance of the interview for my project. The fact that I was a student at a British university located in Scotland, which due to the North Sea oil resources is seen in those circles as the 'Texas of the north', helped a great deal.

The interviews were conducted in director's and manager's offices. The interviewees themselves insisted that I visit them during office hours. Undoubtedly, this gave them a sense of control and served to underline the strict business nature of the meeting, which also served my purposes. At the beginning of the interviews, I aimed to establish a link with the interviewee and get a sense of how willing s/he would be to talk. While it always took time to establish some sort of a trust relationship, my assurances that I was not going to quote the interviewee helped in establishing this sense trust.

In most instances the interview began in earnest, once the interviewee understood that I am no more than a student who simply wants to learn about the Kazakh oil industry, rather than someone with an agenda of his own. Interviewees were especially fond of initial questions that allowed them to talk about themselves, concerning their education, professional career and their role within the company. This created the necessary framework for the more difficult questions about their company's relationship with the NOC and other foreign oil companies, as well as with the state bureaucracy, tax police or local governors. In addition I asked at length about tenders, licences, business partners etc. Where I could not get answers to my questions immediately, I rephrased them and asked them again a few minutes later. I left the most difficult questions to the end of the interview. In most of the cases, the interviews lasted from about one to one and a half hours.

Most interviewees spoke rather freely about the situation in Kazakhstan. For instance, directors, managers often admitted that it would be silly to deny the fact that corruption is a big problem for their companies since Kazakhstan is one of the most corrupted countries in the world which is an open secret. Yet, it varied from interview to interview how extensively interviewees were prepared to talk about this topic. I found that the interviewees' openness strongly correlated with his/her status in the company. Hence, the presidents and high ranking directors were more open than low-ranking managers. It is worth mentioning that I conducted my interviews around the time of the 2004 parliamentary elections; this fact greatly contributed to the quality of the gathered data as a numbers of interviewees were in a surprisingly critical mindset which they were willing to voice. The situation began to change rather visibly after the 'Orange Revolution' in the Ukraine which was followed by a wave of criticism in the Kazakh official media of the Western 'outsiders' who intrude on the internal politics of the post-Soviet republics.

During my field work I spent as much time as possible on analysing the interviews themselves. I concentrated on the emerging themes which I tried to develop in the course of the following interviews. In other words, I made sure that the picture which was emerging from the initial series of interviews was valid. I found this process very productive as some of my initial findings were proven to be wrong or only partially correct. One of the most productive ways of validating the data was by cross-checking it in subsequent interviews with other Kazakh and foreign interviewees. This method enabled me to assemble a fuller and more reliable picture of the regime-Kazakh oil industry relationship.

This thesis is largely based on interviews conducted in Kazakhstan in late 2004, however they are not the only source of information. It should be stressed that the data gathered during the fieldwork was carefully checked also against the information contained - most importantly – in oil industry journals. The oil journals are a good source of information as they discuss on a monthly basis events that have shaped the oil sector. In instances where there was a lack of reliable information on a particular sequence of events, for example the rise and fall of small and medium sized oil companies in the Atyrau region throughout the 1990s, I made sure to rely on more than the interviews. I also avoided in my thesis the use of anecdotes where there was no way of verifying them.

In conclusion, the aim of the first part of this chapter was to point to the problem areas for the regime as far as the oil industry is concerned, and to identify the key players in that industry. The second part of this chapter dealt with alternative regime maintenance techniques that the Kazakh regime might use in order to: a) bring under its control the country’s oil industry; and b) to maintain its grasp over it. The ensuing discussion dealt with patron–client relationships, corporatism as well as quasi-corporatism and neo-patrimonial regimes. It was argued that these formal and informal mechanisms of control should be applied to the analysis of regime–oil industry relationships, because: a) those concepts have been used in the past in order to shed light on the regime–business relationships in the countries that are run by the authoritarian regimes; and b) corporatism and patron–clientism were used by Sovietologists to explain state–society relationships in the Soviet Union. Since post-Soviet Kazakhstan was marked by political and institutional continuity, these tools can likely still prove useful in the analysis of its regime–oil industry relationship.

Chapter 2: The Kazakh oil industry in transition: de-formalising formal relations

In the first part of this chapter, we will briefly analyse the development of the Kazakh oil industry in the Soviet Union, the legacy of which is crucial for understanding events in the first years of independence. In the second part of this chapter, we will discuss how in the beginning of the 1990s, Nazarbayev attempted to partly privatise the Kazakh oil sector with the involvement of Kazakh oil men. The relationships between the regime and different branches of the oil-industry were structured in a corporatist fashion – a direct legacy of the state–oil industry relationship structure from the Soviet times. However, this relationship proved unsustainable due to challenges from inside of the oil sector in which: a) a corporatist structure created space for the emergence of a 'strong man' who attempted to take over the NOC (Kazakhstanmunaigaz, later renamed Munaigas) from the president; and b) parts of the oil industry in the peripheries were captured by local oil men and notables who were afraid to lose out in the privatisations driven by people associated with oil enterprises created in the 1980s. A collision between Nazarbayev and the oil men sparked the restructuring process of the relationship between the two parties by the regime. In the third part of this chapter, we discuss how, in the latter half of the 1990s, Nazarbayev decided to pursue the almost full-scale privatisation of the oil industry with the help of outsiders and only the minimal involvement of Kazakh oil men. The privatisation of the oil industry was accompanied by a major change in the relationship between the regime and the oil men, at a time when the corporatistic structure was replaced by patrimonialism. In the fourth part of this chapter, we show that since the relationship was restructured, the Kazakh oil men have proven to be dependable allies of the Nazarbayev regime. Their unquestionable support was visible during the 2001 political crises.

The transition from formal to informal mechanisms of control that took place in regime–oil industry relationships echoes the experience of the sub-Saharan regimes, which in order to retain power created a neo-patrimonial political system in which patron–client relationships suffused rational-legal institutions (chapter 1, section 5.1). It is argued in this thesis that the Kazakh ruling regime, similarly to other neo-patrimonial regimes, was able to resort to the informal type of mechanism due to the widespread culture of clientelism on the central and local levels during the colonial period. Be that as it may, neo-patrimonialism was not the path the Kazakh regime was set to follow from the outset.

The corporatist type of regime–oil industry relationship indicates that the Kazakh regime had the capacity to structure relationships in a formal manner. Corporatist regime–oil industry relationships could only emerge because the regime had relevant institutions at its disposal, hand- in-hand with a managerial class that had been socialised into a corporatist mode of running the industry. Arguably, on their respective eves of independence the sub-Saharan African elites lacked both these prerequisites for putting formal relationships in place. Comparatively, the Kazakh regime was in a better position than the African regimes. In spite of that, Nazarbayev chose to turn away from a formal type of relationship and towards patron–clientelism as soon as he realised that any other arrangement would give his opponents ample room to manoeuvre. In view of these factors, this chapter argues that the Nazarbayev regime's choices were largely conditioned by the leadership's fear of being outmanoeuvred, rather than by any structural constraints.

1. The Kazakh oil industry in the Soviet era

Stephen Kotkin, in his book *Armageddon Averted: The Soviet Collapse, 1970–2000*, argued that from the 1970s until the collapse and disintegration of the Soviet Union, abundant oil revenues were the most significant factor that enabled the Kremlin's rulers to sustain the communist system. From 1973 to 1985, mineral resources accounted for 80 per cent of the USSR's expanding hard currency earnings. Two factors bear responsibility for this: first, the 1973 Arab–Israeli War and the oil shock that led to unprecedented increases in the world oil prices, and second, the discovery, between 1961 and 1969, of five dozen new oil-fields in Western Siberia that catapulted the Soviet Union to the undisputed first place among the world's oil producers (2001: 15; see also Kuhnert 1991: 496). The full-scale development of the oil-fields of Western Siberia that commenced in the 1970s marked the beginning of the third generation of development of the Soviet oil industry.

The first generation was based on the oil resources of the North Caucasus and Azerbaijan, particularly, the oil city of Baku, and encompasses the period from 1917 to until the end of the Great Patriotic War (1941–1945). The second generation, which lasted until the end of the 1960s, was associated with the Volga Basin and the Ural Mountains. At the beginning of 1960s, as much as 80 per cent of the Soviet production of crude oil came from fields in the Urals–Volga region (Ebel 1961: 65). The Central Asian region, and most importantly the Kazakhstan SSR, remained largely underdeveloped during the Soviet Union when compared to other regions of the Union (Appendix 3a).[27] This region was the jewel in the crown, and was planned to make it a base for the fourth generation in the development of the Soviet oil industry, possibly some time at the end of the 1990s, together with the Barents and Kara seas north of the Artic Circle (Gustafson 1989: 64; Ebel 2000: 6).

The full-scale development of Kazakh SSR oil resources at an earlier date was significantly hampered throughout the 1980s by several factors. The significant drop in the oil prices in the second half of the 1980s, in tandem with the chronic energy shortages which arose as an effect of wasteful consumption of energy by the Soviet industrial giants, prompted Soviet leaders to hastily increase production from the existing Siberian fields – especially those in Tiumen province – rather than investing into developing the Kazakh fields (Gustafson 1989: 9). This strategic choice was closely linked to the fact that this region was much more technically demanding and required offshore drilling, as a result of which Soviet planners proved reluctant to explore it much more vigorously (1989: 215). In fact, the most significant discoveries in Kazakhstan came in 1979 with the discovery of two gigantic fields Tengiz (oil)[28] and Karachaganak (gas and oil)[29] – both located in the western regions of Kazakhstan. Another important breakthrough came in 1981 with the discovery of the Kumkol field (oil)[30] in the south of the republic. Due to

[27] An exception in the Central Asian region was Turkmenistan, which was a major supplier of natural gas in the Soviet Union with its share exceeding 24 percent as early as 1970, and rising to just under 33 percent by 1975 (Ebel 2000: 4).
[28] A 'giant' field is one that contains between 500 million and 5 billion barrels of oil in reserves. Tengiz is estimated to contain more than 3.3 billion tons of oil (Sagers 1994: 275, 278), which is as much as Algeria's total reserves.
[29] Karachagank contains as much as 1,300 bcm of gas and 6.8 billion barrels of condensate and some crude oil (Skagen 1997: 19).
[30] It contains around 400 million tons of oil (Sagers 1994: 277).

the abovementioned technical problems, however, work on all three fields progressed relatively slowly. Karachagank was put on-steam in 1984, production from the Kumkol field by Yuzhneftegaz enterprise began only in 1989, whereas work on Tengiz by Tengizmunaigaz started as late as 1985, and it did not yield its first commercial oil until 1991 (Ebel 2000: 7).

Having said all of that, whereas the Kazakhstan SSR did not go through the full-scale energy development that Siberia did, it nevertheless was a republic in which: a) over the years necessary geological works were carried out, which gave Soviet specialists a good idea about the republic's potential (including Caspian Sea)[31]; and b) since the mid-1960s,[32] a number of enterprises specialising in drilling and production operations were established, which at the beginning of the 1990s produced between 5–6 per cent of the former Soviet total[33] (Sagers 1994: 271). The bulk of Kazakh oil production came from the republic's oldest producing areas on the Mangyshlak and Buzachi peninsulas that were discovered in the late 1950s and mid-1970s,[34] respectively. Enterprises responsible for developing those fields have been Mangistauneftegaz (1963) (later on renamed Mangistaumunaigaz), and Uzenmunaigaz (1964) located in the western region of Kazakhstan. Another key enterprise had been Aktobemunaigaz, also west of Kazakhstan, which began production in 1967.[35] In the first years of independence, Aktobemunaigaz still employed around 10,000 workers and produced 2.5 million tons of oil annually.[36] Lastly, Kazakhstan also had three fairly small refineries built in the space of 40 years in three corners of the country.[37]

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[31] 'The second largest concentration of oil reserves within the former USSR was in the region surrounding the Caspian Sea, particularly north-western Kazakhstan; the oil resources of Kazakhstan's North Caspian Basin were judged uniformly to be in second place after Western Siberia by Soviet geologists and other knowledgeable experts within the industry' (Sagers 1994: 268).

[32] Kazakhstan's oil production reached 1 million tons annually in 1950.

[33] In 1975, total Kazakh production was believed to be around 23.9 million tons. *Source*: 'News Notes' *Soviet Geography*, 20, 1 (1979), p. 617. However, after that it went through a prolonged phase of decline and began to recover only in the mid-1980s. On the eve of independence, Kazakhstan's oil production stood at around 26.6 million tons (Sagers 1994: 272). In 1991's rating of 55 countries producing hydrocarbon raw materials, Kazakhstan holds 24th place. *Source*: 'Kazakhstan's Oil 1991 – 2001,' *Petroleum Magazine*, December 2001.

[34] The key fields were Uzen, Zhetybay, and Aktas, which, between 1989-1990, produced roughly 9–10 million tons (Sagers 1994: 278).

[35] Principal oil fields: Kenkiyak and Zhanazhol.

[36] 'Caveat Emptor,' *Russian Petroleum Investor*, July/August 1995a.

[37] Shymkent Refinery (1984) – Southern Kazakhstan by the Kyrgyzstan border with 6 million tons annual capacity; Pavlodar Refinery (1976) – Northwestern Kazakhstan by the Russian border; this refinery was

The oil enterprises which started to operate in the 1960s became natural breeding grounds for the 'Kazakh oil men' (*neftyanik*), who typically would grow up in the western regions of Kazakhstan and begin working for the oil enterprises in their late teens. Slowly, over the years, these men would manoeuvre themselves into the top positions. They would obtain their basic technical education in local institutions such as the Oil Technical School in Guryev[38] that opened as early as 1930, and the Geology and Geophysics Institute of the Kazakh Academy of Sciences in Guryev (1960). The most promising ones went to study at the Kazakh Polytechnic Institute in Almaty, and some even travelled to neighbouring republics and Moscow. Moreover, it was not uncommon for young technicians, engineers, and geologists to become members of the Communist party, and in some instances to claim the top positions in their local branches[39]. It is important to keep in mind that Kazakhstan SSR, which did not became a major centre of the Soviet oil industry and lacked major oil academies as the ones in Baku and Grozny, failed to produce a substantial indigenous oil class (Kim 2003: 74; Hoffman Fall 2000: 302–303). Thus, the group of oil men that came into existence was relatively small but well-defined. The fact that Kazakhs who were employed in the oil-industry came from sparsely-populated desert areas, and that working in the oil sector was a family 'business' in which the father or in some instances even grandfather was involved. This created a sense of belonging to a distinct group[40] similar to what happened in other oil-industry dominated parts of the Soviet Union (Lane 2001: 103). Among the key oil families in Kazakhstan, we find: Balgimbayev, Cherdabayev, Mamyrbayev, Utebayev, Karabalin, Khasanov, Saghingaliyev, Batyrbaev, Dauletov, Zhumagaziyev, Nursultanov, Atchibayev, Akhmetov, Kilibayev, and Salikhov.[41]

However, despite the high level of homogeneity of people working in the oil industry in Soviet Kazakhstan since the beginning of the 1980s, divisions between different groups began to emerge. The fraction of the Kazakh oil men who were involved

considered one of the most modern processing plants in the former Soviet Union with 8 million tons annual capacity; Atyrau Refinery (1945) – Western Kazakhstan by the Caspian Sea.

[38] Since 1992, Atyrau.

[39] *Petroleum Encyclopaedia of Kazakhstan,1*. Azholdas & Company Publishing House, Astana (1999), pp. 46–94.

[40] Interview with a business development manager working for a major foreign subcontracting company in Kazakhstan: 14 November 2004.

[41] *Source*: Interviews Kazakhstan Autumn: 2004.

in the discovery of the Tengiz oil field in the initial stages of that project were able to gain considerable prominence over those working on other oil enterprises. This was largely due to the central character of the Tengiz venture for the development of not only the Kazakh, but also the larger Soviet oil industry, which meant that funds and the attention of the decision makers were concentrated on this particular field and those involved in its exploration.[42] The legacy of this state of affairs would become all too visible in the 1990s.

Lastly, the business of running the Kazakhstan SSR's oil industry was in the hands of Moscow, with little involvement of the republic's local authorities. The bodies responsible for governing the Soviet oil industry were horizontally organised within different ministries, and their local divisions were responsible for different aspects of the industry, as opposed to a vertically integrated structure with one ministry in charge of the entire process (Gustafson 1989: 10; Kuhnert 1991: 499–500). The transformation of the Soviet oil industry began as early as the mid-1950s, and was triggered by the incapability of the existing bodies to deal with the excessive work schedules. In the mid-1960s, the Ministry of the Petroleum Industry, USSR was split into two independent divisions – the Ministry of the Petroleum Industry and the Ministry of Gas Industry – which were responsible for development, transmission, and sale of oil and gas. Additionally, the Ministry of Geology was reinstated to oversee the preliminary stages of exploration of the mineral resources (Considine and Kerr 2002: 67–88). The atomisation of the oil industry governing bodies did not stop there and progressed farther over time. In the late 1980s, there were six central ministries responsible for the exploration, extraction, production, refining, export and distribution of oil products (Lane 2001: 103 and 126).

To sum up, towards the end of the existence of the Soviet Union, Kazakhstan was considered by the Soviet planners as the most promising oil-rich region in the Soviet Union, and was identified as a future vehicle for the development of the oil industry due to the discoveries at the beginning of the 1980s and the untapped potential of the Caspian Sea. In the Kazakhstan SSR, full-scale oil production began on several fields in the mid-1960s, and in 1991 the enterprises developing those fields were still responsible for most

[42] Interview with the executive director of a major oil project in Kazakhstan: Atyrau, 17 November 2004; see also: Peck 2004: 44.

of the oil extracted in Kazakhstan. Moreover, those oil producing enterprises were also the birthplaces for the Kazakh indigenous oil men. They constituted a distinct group, but one which was not, however, free from internal divisions and characterised by rivalries between those working on old and new projects. Lastly, the Kazakhstan SSR oil industry was run by a number of Moscow based ministries and their local branches, organised in a horizontal fashion.

2. The Kazakh oil industry after independence: challenges (1991–1994)

Kazakhstan declared its sovereignty on October 25, 1990 and became an independent country on December 16, 1991(Appendix 3b). With Kazakhstan gaining independence, the Kazakhstan SSR oil-industry came under the control of the new state. As the Russian authorities liquidated the All-Union energy related ministries in 1991, Kazakhstan was left, somewhat unexpectedly, in charge of the existing oil enterprises within the borders of the former Soviet republic. The first body to feel this organisational vacuum was the Kazakhstan Oil and Gas Corporation, which came into existence in July 1991. In 1992, the Corporation changed its name to Kazakhstanmunaigaz and became an NOC (or 'holding company').[43] The NOC Kazakhstanmunaigaz was supposed to engage, through various state-owned operating units, in oil and gas exploration, development, production, transportation, and refining throughout the country. In the same year, Kazakhstan set up the Ministry of Energy and Fuel Resources, which was held responsible for regulating oil and gas production and refining. Finally, the Ministry of Geology and Protection of Mineral Resources was set up to regulate the development of Kazakhstan's mineral resources.[44]

Within this rather chaotic structure of the Kazakh oil industry that came to existence on the eve of independence, the jurisdictions of three different bodies overlapped in various areas. This state was: a) a legacy of the horizontally organised Soviet oil industry, where numerous ministries were responsible for different parts of the industry; and b) also an endeavour to accommodate different political and professional

[43] http://eng.kmgep.kz/history (Accessed 3 December 2005).
[44] A.D. Koen, 'Kazakh state oil enterprises move toward privatization,' *The Oil and Gas Journal*, 21 August 1995.

groups through creating institutions that would represent their interests. This will become clearer when we analyse the background of the leading figures involved in running the oil industry, for example, that of Bulat. D. Yelemanov, the president of Kazakhstanmunaigaz. An engineer from western Kazakhstan, he was among the people who discovered the Tengiz field and the first director of the producing enterprise there (Tengizmunaigaz).[45] The Minister of Energy and Fuel Resources was Kadry Baikenov, (also a deputy minister at that time), himself not a professional oil man but a high-ranking Communist Party functionary during the Soviet era, who was put in this position to oversee the actions of the oil men and guard the nomenklatura's interests.[46] A further important figure in the ministry was deputy minister Baltabek Kuandykov, a geologist from the west of Kazakhstan who had studied in Almaty and Moscow. He held the position of Secretary in the 'Guryev regional Committee of Young Communist League', and subsequently held posts in numerous geological associations in the west of Kazakhstan, including Gurievneftegazgeologiya, which worked on the Tengiz oil field. Moreover, he has been also closely affiliated with the Balgymbayev family, one of the key oil families in Kazakhstan.[47] Finally, the minister of Geology was Lev Trubnikov and his deputy was Serikbek Daukeyev, who was in reality the most important official in the ministry. Daukeyev was a mining engineer educated at the Kazakh Polytechnic Institute and participated in introducing advanced technology in various oil-producing enterprises with which he was closely affiliated.[48]

Arguably, what emerged from this mix of Soviet legacy and the effort to contain diverse interests was a corporatistic structure where the people in charge of the industry at the central level were to play the role of intermediaries between the centre and different branches of the oil- industry with which they were involved. Nazarbayev most likely acceded to this arrangement for two reasons. First, he was familiar with it as it follows in a continuous line from the way in which industry was governed in the Soviet Union (see chapter 1, section 4.1), and second, he needed a structure which appeared to take into consideration different interests, something that could be crucial for a further

[45] *Far Eastern Economic Review*, 3 September 2002.
[46] 'Going Vertical,' *Russian Petroleum Investors*, October 1994a; 'Soviet oil investment remains guessing game,' *The Oil Daily*, 15 April, 1992.
[47] 'Someone to watch over them,' *Russian Petroleum Investor*, November 1997.
[48] *Petroleum Encyclopaedia of Kazakhstan*, *2*, p. 145; *Kazakhstan State Directory*, Astana, June 1998.

restructuring of the oil sector.[49] These formal mechanisms, which were to be used to negotiate the future development of the Kazakh oil industry, are in striking contrast to the informal mechanisms which Nazarbayev has been using to run the oil sector from the second half of the 1990s.

It is argued here that the transition from formal to informal mechanisms was dictated by an inherent faultline in the corporatist structure that encouraged competition between different bodies for influence. This competition created space for the emergence of a 'strong man' to seize control over the oil-industry. Another challenge to the way in which the industry would be run emerged from the oil men in the peripheries (most notably the ones that were not involved in Tengiz), who refused to subordinate themselves to the new institutions and began questioning the authority of the centre. They came to the forefront with the 'wild' sales of some parts of the industry to predominantly unknown foreign oil companies.

2.1. The NOC Kazakhstanmunaigaz

The biggest faultline of the corporatistic structure of the post-independence Kazakh oil industry was the NOC Kazakhstanmunaigaz. Kazakhstanmunaigaz was put in charge of administering the Kazakh oil industry,[50] and was thus a body which gathered together all the key enterprises, but it officially did not have a say in the future direction of the Kazakh oil industry. At the same time, the Ministry of Energy and Fuel Resources and the Ministry of Geology, which on paper were responsible for determining the direction of the oil industry, was not directly in charge of oil and gas enterprises.[51] Moreover, due to ill-defined administrative boundaries, they were inherently prone to struggle for influence over Kazakhstanmunaigaz as well as over the direction that it should take.[52]

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[49] To an exten,t a corporatistic nature of the relationship in question was a product of its time. In the first years after gaining independence, Nazarbayev tried to established a quasi-pluralistic political system; however, he found it too unpredictable and hard to control (Cummings 2005: pp. 22–29; Olcott 2002: pp. 87–128; Olcott 222: 1997); see also: chapter 3 (section 1.2).

[50] Its main divisions were: Mangistaumnaigaz (Atyrau region); Embanaft (Atyrau province); Kazakhstancaspishelf (Caspian Sea); and Tengizmunaigaz (Tengiz oil filed). Major Oil fields: Tengiz, Korolev, Tenge. Major Gas Fields: Karachaganak. *Quoted in* 'Kazakhstan: Country Analysis.' *Energy Information Administration*, U.S. Department of Energy, October 1994.

[51] Interview with oil expert: Almaty, 17 September 2004.

[52] 'The Kazakh Oil Labyrinth,' *Russian Petroleum Investor*, September 1993a.

This situation in which ministries which traditionally would control at least some parts of the industry were left standing with nothing came about as a product of two separate trends that came together in the 1990s, and culminated in the creation of Kazakhstanmunaigaz.

By contrast, Kazakhstanmunaigaz, when created, fitted well with the general legacy of the horizontally organised Soviet oil industry, but it nevertheless was an experimental body. The NOCs which, as outlined in chapter 1 (section 1.1), are normally responsible for running the oil industry in oil-producing countries all over the world, did not exist in the Soviet Union. The idea of creating such an organisation came to the surface in Russia only towards the beginning of the 1990s. The plan was to restructure the Russian oil industry into few large, vertically integrated companies, which would combine crude production, refining, and distribution and retailing in one integrated structure (Sagers 1998: 298). The government was to maintain a large stake in the ownership of these companies; however, they were required to compete amongst themselves on a free-market basis (Lane 2001: 124). The central oil body, Rosneft, was designed to hold the state shares in those enterprises; subsequently Rosneft was transformed into a special ‘national’ oil company in 1994–1995 by Yuriy Shafranik, the then Minister of Fuel (Sagers 1998: 298). Rosneft undoubtedly served as a model for creating Kazakhstanmunaigaz; however, the real incentive for the Kazakh NOC to come into existence was the nature of the contracts that Kazakhstan signed with a number of foreign oil companies at the beginning of the 1990s.

In chapter 1 (section 1.1), it was demonstrated that typical oil contracts (joint ventures arrangements, production sharing agreements and service contract agreements) reached between host governments and foreign oil companies require either the existence of an NOC or at the very least an oil ministry to monitor and regulate the activities of foreign companies. The NOC is usually the preferred, if not required, partner, because foreign contractors ideally want to deal with the people that possess all the necessary information about the mineral deposits and the technologies best suited for exploration, and who are able to conduct the required work. In the early 1990s, Kazakhstan signed two types of contracts from the above list (joint ventures arrangements and production sharing agreements).[53]

The preliminary negotiations concerning the involvement of the foreign oil companies in Kazakhstan began well before the collapse of the Soviet Union. In December 1988, the Oil Ministry of the USSR and Chevron Corporation[54] signed a preliminary agreement on carrying out work to survey the Korolevskoye oil field located in the North Caspian basin, east of the Tengiz field.[55] It was also reported at that time that Chevron had formed a local 'consortium', including several local enterprises,[56] to help study the field. Another field under discussion was Tengiz itself. The Soviets, who had tried and failed to develop special-purpose equipment on their own, finally decided to turn to foreign oil companies.[57] It should be added that inviting outsiders to participate in the exploration and development of the Soviet fields was rather unusual, as even in the last years of *perestroika* Western companies were predominantly involved only in petrochemicals, gas treatment, and petroleum refining (Gustafson 1989: 223–224).

Somewhat unsurprisingly, the negotiations proved extremely difficult and meant that terms offered to the outsiders by the Soviets were 'hopelessly complex, and, in the perspective of Western investors, poorly conceived' (Considine and Kerr 2002: 222–224). After gaining independence, the Kazakh authorities decided to cancel all agreements reached between Moscow and Chevron in 1990 as being too favourable towards Western partners. It took yet another two years of negotiations and disputes before a new agreement was reached in April 1992, and named 'Operation

[53] Kazakhstan was not the only country in the post-Soviet space that set up a National Oil Company in order to ease co-operation with the foreign oil companies; another country was Azerbaijan, with its State Oil Company of Azerbaijan Republic (SOCAR) formed in September 1992. *Source*: Interview with a high-ranking specialist of a major foreign oil company: Almaty, 6 October 2004. Also in 1998 in effort to create a better business climate to attract foreign investment Turkmenistan restructured its oil and gas industries into several state-owned companies Turkmenneft, Turkmengeologya, Turkmengas, Turkmenneftegas and Turkmenneftegazstroy. Although the country has attempted to ease restrictions on foreign investments, many sets of regulation remain in place. *Sources*: 'Overview of Oil and Gas sector,' *EC Delegation and Tacis National Co-ordinating Unit*, 2004; Canzi 2004: pp. 181–200; Lubin 2000: pp. 107–123.

[54] Chevron Corporation was part of a bigger consortium of companies that comprised several American firms known as the American Trade Consortium, which included Archer Daniels Midland, Ford Motor Company, RJR Nabisco, Eastman Kodak, Johnson and Johnson, Chevron and the Mercator Corporation.

[55] 'News Notes,' *Soviet Geography*, 30 (3) (1989), pp. 253–254.

[56] Tengizneft (oil production), Gurievneftegazgeologiya (geology), and Prikaspiiburneft (well drilling).

[57] This initial co-operation between Soviet and Western companies was part of a bigger plan that aimed at encouraging Soviet firms 'to attain the efficiency levels prevailing in global industry' (Rutland 1990: 180).

TengizChevrOil Joint Venture'[58] (Munns, Aloquili and Ramsay 2000: 410–411). TengizChevrOil JV was created between Tengizneftegaz, a local enterprise established in 1985, and Chevron Overseas Petroleum. It was estimated at that time that the 50:50[59] limited liability joint venture was worth about $80 billion in revenues to Kazakhstan and $20 billion to Chevron over a period of 40 years. According to the final agreement, the Kazakh government would receive 80.4 per cent of net revenues, while Chevron would receive the remaining 19.6 per cent (Dorian, Zhanseitov and Indriyanto 1994: 691). Another major contract concluded at that time concerned the Karachagank gas oil field. British Gas[60] and Agip were awarded the rights to negotiate a field development plan and production sharing agreement (Skagen 1997: 19).[61] The signing of those two crucial contracts revealed the Kazakh tendency to copy Russian examples, and led to the *ad hoc* creation of Kazakhstanmunaigaz without an apparent understanding the of problems that it would create for the oil industry that for decades had been run by all powerful ministers and not technical entities.[62]

The struggle over Kazakhstanmunaigaz between the Ministry of Energy and Fuel Resources and the Ministry of Geology came into the open in 1993 when the government began talking about a partial privatisation of Kazakhstanmunaigaz.[63] The key disagreement arose over the issue of who should be in charge of negotiating the terms of privatisation with foreign investors. Serikbek Daukeyev from the Ministry of Geology argued that his ministry should monitor the process of negotiations on all key projects

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[58] It was widely argued at that time that Nazarbayev was directly responsible for the fact that the deal was reached at all. If it had not been for his 'political grip', Kazakhstan would most likely have behaved like Russia, which in the beginning of the 1990s, due to internal struggles, failed to open its oil industry to foreign investors. *Source*: 'Tomorrow's gusher,' *The Economist*, July 25 1992.

[59] Chevron agreed to pay $420 million for their 50 per cent interest (Peck 2004:153) and invested $1.5 billion during the first three years of the project (Dorian, Zhanseitov and Indriyanto 1994: 691).

[60] In 1991, Great Britain invited Nazarbayev for a five-day visit to 'encourage oil trading with Kazakhstan.' During the visit, Nazarbayev met BP and British Gas officials and was reported to have discussed at length the involvement of British companies in Kazakhstan. *Source*: 'British wooing underlines immense energy potential in Kazakhstan,' *The Oil Daily*, 24 October 1991.

[61] Initially British Gas and Agip were expecting to spend $5 billion on the further development of the field (Sagers 1994: 281); In addition to those two deals, in accordance with the Resolution of the Republic of Kazakhstan Government, the Kazakhstancaspishelf Company was established in 1992 to conduct exploration works in the Kazakhstan sector of the Caspian Sea. The first foreign partner in the newly formed Kazakhstancaspishelf Consortium became the American major Mobil.

[62] Interview with a general director of a foreign small drilling company: Almaty, 10 September 2004.

[63] The controlling block of Kazakhstanmunaigaz (51 per cent of total stock) was to stay with the state, while only 15 per cent out of the remaining 49 per cent was to be sold to foreign investors. *Source*: 'Big Brother,' *Russian Petroleum Investor*, September 1993b.

until the contracts were finally signed.[64] The right of this particular ministry to preside over the privatisation process derived from the fact that the Ministry of Geology had the power to issue licenses to explore and develop the country's oil and gas resources.[65] Rather understandably, this was greeted with much scepticism by the Ministry of Energy, which thought of itself as the body designated to negotiate the development terms with foreign investors.[66] The situation was further complicated by Kadry Baikenov, the minister of Energy, who began questioning the process of privatisation altogether,[67] somewhat echoing the criticisms expressed by some nationalistic parties at that time. In the opinion of the leader of Zheltoksan, Khasen Kozhakhmetov, 'irreplaceable resources, Kazakhstan's riches, are being sold off cheaply, bringing profits first and foremost to corrupt bureaucrats'.[68]

In response to the tensions that were caused by the increasingly politically driven Ministry of Energy, in the summer of 1994 Nazarbayev disbanded it and formed two ministries to replace it – the Ministry of Energy and the Coal Industry, and the Ministry of the Oil and Gas Industry. Moreover, he signed a decree that greatly enhanced the authority of the Ministry of Geology by delegating to it the right to sign contracts with foreign investors and to cover all aspects of negotiations and explorations.[69] Finally, the NOC Kazakhstanmunaigaz was renamed Munaigas.

At the same time, Nazarbayev did not attempt to merge Kazakhstanmunaigaz with the Ministry of Geology, or in any way to subordinate the national company to the ministry's authority. Although, such a move would have led to full centralisation of the

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[64] *Russian Petroleum Investor*, September 1993a.

[65] For instance, in February 1993 a joint Kazakh–Turkish enterprise, KazakhTurkMunai, was created by the Ministry of Geology and Subsoil Protection of the RK and the Turkish National Petroleum Corporation. KazakhTurkMunai began its subsoil-use activities with seven permits covering an area of about 26,000 sq. km. In addition, on 9 June, 1993, a preliminary contract was signed between the Ministry of Energy and six international oil firms (Agip Corporation, BP, Mobil, Shell and Total) to conduct broad geological and seismic exploration programs aimed at providing more accurate information and helping members to select parts of the Caspian Sea for development and commercial viability (Karibdzhanov and Taishibayev 1998: 558).

[66] *Russian Petroleum Investor*, September 1993a.

[67] *Russian Petroleum Investors*, October 1994a.

[68] Mikhail Ustiugov and Oleg Puzanov, 'Big oil moves in,' *Bulletin of the Atomic Scientists*, October 1993.

[69] *Russian Petroleum Investors*, October 1994a.

decision-making process and arguably would have helped to avoid future crises,[70] he instead left the corporatistic structure in place, indirectly encouraging further struggles over the direction that Kazakhstanmunaigaz should take between the Ministry of Geology and the new/old Ministry of Oil and Gas. The status of the NOC stayed largely unchanged, because Nazarbayev, who considered himself as an enlightened leader in tune with the new demands,[71] was interested – at least rhetorically – in governing the oil industry in a modern, rather than an outdated fashion. As one Western oil executive put it at the time: 'Nazarbayev has a global view, [he] is interested in Westernizing the energy industry and views foreign investment as a way for Kazakhstan to move forward. Nazarbayev is the right man in the right place at the right moment.'[72] Moreover, the corporatistic structure of the oil industry allowed Nazarbayev to uphold the *status quo* rather than antagonising the sectors of the oil industry in the peripheries, which were increasingly unhappy with Nazarbayev's politics. The main problem was the overrepresentation in the decision-making group of people in various technical enterprises that worked on Tengiz, men who were pro top-down privatisation without the involvement of those working in older enterprises.[73]

It should be mentioned here that the clash between the two ministries need not have repeated itself if Nazarbayev had appointed someone fairly weak to the post of the newly created ministry. However, he chose to do quite the opposite and appointed Ravil Cherdabayev from the Atyrau region, western Kazakhstan, as the new minister of Oil and Gas. His initial role was to demonstrate to foreign investors Kazakhstan's commitment to privatisation, which had been shaken by Baikenov. Cherdabayev had studied in Moscow at the Petroleum Institute and at the Higher Party School at the SU Communist Party's Central Committee. Furthermore, he also held a PhD in Economic Sciences. In the beginning of his career, he worked in executive positions in the Communist Party and

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[70] In Azerbaijan, Aliyev's regime, after bringing SOCAR under its control, managed to avoid any challenges from inside or outside of the National Oil Company throughout the 1990s (Hoffman 2000; Heradstveit 2001; Cornell 2001; Fairbanks 2001).

[71] Victoria Pope, 'Back to the future in Central Asia: Kazakhstan is a post-Soviet success story,' *U.S. News & World Report*, 8 March, 1993; 'The U.S. and Kazakhstan: a strategic economic and political relationship. President Bill Clinton, Kazakhstan President Nazarbayev speeches (Transcript),' *US Department of State Dispatch*, 21 February, 1994.

[72] 'The Purge,' *Russian Petroleum Investor*, November 1994.

[73] Interview with a general director of a foreign small drilling company: Almaty, 10 September 2004.

government authorities in the Atyrau and Mangistau region, and later on at Tengizneftegaz. After independence, Cherdabayev became a deputy chairman of the Guryev regional executive committee and took active part in negotiations over the creation of TengizChevrOil and signed its foundational agreement. From April 1993 to June 1994, he was the first director of TengizChevrOil JV.[74] On top of that, Cherdabayev came from one of the most respected oil families in Kazakhstan, whose members had worked on oil enterprises since the beginning of the 20th century. His first deputy minister became Bulat D. Yelemanov, who had previously headed the Kazakhstanmunaigaz. Another oil man, Tulegen Khasanov, was then installed as the new boss of the freshly renamed national oil company, Munaigas. Previously, he had worked as director of one of the key oil enterprises in Kazakhstan, Yuzhneftegaz[75]. Both of them had roots in the oil-rich regions, and from the perspective of the new minister were easy partners to deal with.

Upon his arrival at the Ministry of the Oil and Gas Industry, Cherdabayev reshuffled the staff left over from the defunct Ministry of Energy and Fuel Resources and proposed that Munaigas would be transformed into the NOC the Kazakh Oil Company. His plan was to transform it into a vertically integrated holding company that would consist of numerous production, refining, and transportation joint stock companies in Kazakhstan. Moreover, whereas partial privatisation was envisaged, the majority of the shares of the vertically integrated NOC would be held by the state. Crucially, the Ministry of the Oil and Gas Industry and the State Property Committee would monitor the company's performance. It was then widely assumed that if Cherdabayev's ministry-led plan were introduced, it would spell a significant degree of control over the republic's most important industry and allow the ministry to regain the authority that its predecessor had lost to the Ministry of Geology.[76] Cherdabayev's vision for the oil industry yet again led to the clash between two ministries;[77] however, not just the Ministry of Geology was alarmed by the new plans: Nazarbayev himself, judging by his future steps, was not pleased with the actions of his new minister.

[74] *Petroleum Encyclopaedia of Kazakhstan,* 2, p. 543; *TengizChevrOil Publications,* Almaty, 2003.
[75] *Petroleum Encyclopaedia of Kazakhstan,* 2, p. 514.
[76] *Russian Petroleum Investors,* October 1994a; see also: (Peck 2004: 149).
[77] Ibid.

Firstly, an in-depth reconstruction of the oil industry meant that more time would be spent on bureaucratic infighting, and this would effectively prolong the opening of the industry to foreign investments. Secondly, and much more importantly, going along with Cherdabayev's plan meant handing the oil industry into the hands of one man, something that Nazarbayev had clearly wanted to avoid from the beginning of the 1990s. Cherdabayev was seen particularly dangerous due to his good base in the oil industry and close connections to a number of ex-party officials, with whom he was even willing to negotiate the terms of any privatisations. For example, he demanded that the restructuring plans for the energy sector be subject to debate and approval by the heads of the regional administrations.[78]

Moreover, his brothers clearly began positioning themselves in strategic positions in anticipation of future privatisations. In 1994, Boris Cherdabayev became president of Mangistaumunaigaz, one of the most important oil enterprises in Kazakhstan, whereas his other brother, Magauiya Cherdabayev, has since 1991 held the position of director general of the Embavedoil JV, the first semi-private JV established in Kazakhstan.[79] Finally, and arguably most importantly, Cherdabayev strove for a good relationships with foreign oil companies, especially his former employees TengizChevrOil JV. Thus, when Ravil Cherdabayev was appointed minister, his first decision was to considerably increase Chevron JV's export quotas at the expense of domestic producers.[80] Also, before becoming a minister, he had spent some time in Chevron's headquarters in San Ramon, California where he allegedly underwent 'a capitalist indoctrination'[81] under the watchful eye of Chevron.[82]

It is argued here that with Cherdabayev's arrival, Nazarbayev became exposed to the same problem that so many other either semi-democratic or authoritarian rules face. In chapter 1 (section 1.1), it was demonstrated how presidents and managers in charge of NOCs, due to their strategic positions, tend to emerge as some of the most influential people in their countries, with their own webs of powerful patron–client networks. The

[78] 'Carrot-and-Stick Strategy,' *Russian Petroleum Investor*, February 1995b.
[79] Interview with a general director of a local oil company: Atyrau, 12 November 2004.
[80] 'The Quick Fix,' *Russian Petroleum Investors*, September 1994.
[81] Cherdabayev was not the only person who worked on Tengiz in the 1980s and went to study in the US in the beginning of the 1990s. Other examples include Satybai Duzbayev (chief engineer of the Tengizneftegaz 1984–1993) and Nurlan Shmanov (pipeline specialist 1988–1992).
[82] *Russian Petroleum Investors*, October 1994a.

examples of Gazprom in the 1990s, and the 2002 general strike in Venezuela, are the most telling examples. Nazarbayev was clearly not prepared for this to happen, and was very quick to bring Cherdabayev's plans to a halt. The latter was forced to step down in October 1994 and finished as the controversial head of the Atyrau regional administration, a function that he abused to its limits (chapter 4, section 1.1). In the next opening of the game for the control over the Kazakh oil industry, Nazarbayev would make sure that such a 'mistake' as Cherdabayev did not happen again. Decisive in achieving this goal was a change from corporatistic techniques of running the oil industry to a structure based on informal networks, a process that was greatly accelerated during and after the sell-off of the oil industry to foreign investors.

It should be mentioned at this point in the discussion that the first moves towards creating patron–client relationships in relationship to the oil industry could be observed in the examples of individuals that held top positions in the oil industry at the beginning of the 1990s. All of them, after leaving their posts sometime in the mid-1990s, ended up in high positions that required direct state support and sponsorship. Thus, Bulat Yelemanov became chairman of the Committee of Investments and later on chairman of Azimut Energy Services, one of the biggest companies in Kazakhstan that specialises in geophysical works; among its clients are companies such as Chevron.[83] Another ex-boss of the NOC, Tulegen Khasanov, became a special advisor to TengizChevrOil. The ex-minister Kadry Baikenov, with his brother Aset Baikenov, founded Interconsulting, which assists and supports foreign investors in the selection and implementation of investment projects,[84] whereas his number two Baltabek Kuandykov became an executive consultant to the Euroasian Group of Chevron in the United States. He later on became an executive director of one of the biggest private oil companies in Kazakhstan – Nelson Resources.[85] Finally, Serikbek Daukeyev was first elevated to the position of Minister of Ecology and Natural Resources and later on was moved to the post of Atyrau's *akim* (see also chapter 5).

[83] *Far Eastern Economic Review*, September 3, 2002.
[84] *Interconsulting materials*, Almaty, 2004.
[85] http://www.nelsonresources.com/NR/2_news/2004_06_14.htm (Accessed 9 December 2005).

2.2. Peripheries

If the challenge posed by Cherdabayev had showed Nazarbayev that formal mechanisms can became potentially threatening, it was the peripheries that played a decisive part in Nazarbayev's decisions to re-structure the relationship with the oil industry. As it was said in the beginning of this section, the corporatistic structure was put in place in order to incorporate various groups that worked in the oil sector. However, these mechanisms never became a vehicle for these interests, since the interests of those involved in the newly discovered fields of the late 1970s – primarily Tengiz – were over represented. In reality, this meant that while the Tengiz oil men tried to wrestle from Nazarbayev greater control over the oil sector, they did not in principle object to the process of privatisation *per se*. Yet, top-down privatisation for those working on older oil enterprises – underrepresented ones – meant that they would lose influence over 'their' enterprises and moreover be excluded from the process of privatisation. It should be added that the same applied to local nomenclature.

Hence, immediately after independence, federal government officials, regional administration heads, and heads of departmental working groups and oil enterprises began signing licenses and contracts for subsoil development without coordinating with the Ministry of Geology and Subsoil Protection. This situation spun out of control to such an extent that by 1995, no one knew how many signed contracts existed in the country, much less what their terms might be. On occasion, several companies signed similar contracts for the same area.[86] The companies that were formed during that time were primarily interested in the fields already discovered during the Soviet era, predominantly in the 1980s. However, because those fields had been declared too small for full-scale exploration at the time, they were conserved or only partly explored.

The companies that were issued wild licences were founded by individuals who either held an important position in the local Communist party structures in the 1970s and 1980s, or had already worked in the local oil industry for a number of years. The latter group were oil men who were relatives or had close ties to the major oil families. The initial capital of those companies came from various sources. For instance, in the Atyrau

[86]'Order out of Chaos,' *Russian Petroleum Investor*, 1995 May.

region there were number of companies which, prior to becoming involved in oil exploration, were engaged in oil trading[87] and oil-related products as well as foodstuffs among other things.[88] Another source of obtaining capital was through the formation of joint ventures between Kazakh and outside interests.

In a well-rehearsed pattern, the Kazakh partner provided access to the oil fields (licences) and the outside interests would provide the much-needed capital. However, whereas in some cases foreign capital seemed to be truly foreign, for instance, Hungarian,[89] in other cases this 'foreign' capital was most likely Kazakh. It is common knowledge that in the early nineties in Kazakhstan as in other post-Soviet countries, capital that came from places such as Cyprus[90], was native capital. It had been taken out of the country, sometimes literally in huge suitcases stuffed with dollars and, for tax purposes, was only later to be reinvested as foreign capital (Kryukov and Moe 1999: 67–68; Pleines 1999: 97–111). Thus, a joint venture that from the outside looked like an enterprise combining Kazakh and foreign partners was in fact a Kazakh–Kazakh company. Given the dubious nature of this 'outside capital', one cannot exclude the possibility of criminal elements being heavily involved in those early joint ventures (Satpaev 1999: 98–100)[91]. The biggest joint ventures formed at that time were Embavedoil[92], Kazpromstavba[93], Gyural Oil[94], and Tasbulat Oil Development[95].

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[87] In the beginning of the 1990s, trade in oil was hugely profitable in the oil-producing parts of the former Soviet Union thanks to a number of loopholes that were quickly explored by directors, members of the nomenclature and high ranking military personnel. In the words of Joseph Stiglitz: 'While most of the processes were completely freed, some of the most important prices were kept low – those for natural resources. With the newly declared 'market economy,' this created an open invitation: If you can buy, say, oil and resell it in the West, you could make millions or even billions of dollars. So people did. Instead of making money by creating new enterprises, they got rich from a new form of the old entrepreneurship – exploiting mistake government policies' (2002: 142). It was speculated that Roman Abramovich made his first money in 1992 (at the age of 25) in this fashion. *Source*: Waclaw Radziwinowicz, 'Abramovich – supernew Russian,' *Gazeta.pl*, 9 April, 2004; see also: Adrian Levy and Cathy Scott-Clark, 'Britain's richest man and Russian's millions' *Guardian (Weekend)*, 8 May 2004.

[88] Interview with a director of a local oil company: Atyrau, 8 November, 2004.

[89] Interview with a general director of a local oil company: Atyrau, 12 November, 2004.

[90] Interview with a technical director working for a local oil company: Atyrau, 22 November 2004.

[91] For the involvement of criminal elements in the post-Soviet space see: Volkov (2002), pp. 81–105; Luneev (1999), pp. 71–82; Gustafson (1999), pp. 134–151; Riha (1996), pp. 245 – 268.

[92] Vegyepszer (Hungary) and Embamunaigaz, Akbota.

[93] Promislove Stavitelstvi Brno (Czech Republic) and Tengizneftegas.

[94] Urals Trading (Cyprus) and Akbota, Atyrau refinery.

[95] Gendor Resources (Cyprus) and Mangistaumunaigaz.

In other cases, local officials and oil men challenged the contracts negotiated by the central authorities only to set up their own companies that were designed to develop local oil fields. The most famous example from that era is the one of Biedermann International. In 1993, Biedermann International, a small Californian firm, which had more experience in the banking business that in oil exploration and production – signed a contract with Kazakhstanmunaigaz to develop the Kenbai field[96] located in the Atyrau region. The company was estimated to have made as much as $500 million in after-tax profits over the 30-year life of the project.[97] Rather unsurprisingly, the agreement came under attack from a number of senior Atyrau officials. Sagat Tugelbayev, governor of the Atyrau region (1992–1994), was the biggest critic of the deal. He argued that the US company had been forced on his region by the Almaty government, and that granting the rights to Biedermann was contrary to the interests of not only Atyrau, but to Kazakhstan as a whole.[98] An attempt was made at co-opting regional interests when the Atyrau regional administration and the Embanaft production association became partners in the Kenbai field; however, the oil men were not satisfied with the outcome. Eventually, the government decided to terminate a contract with Biedermann International and argued that the company had failed to live up to its contractual obligations.[99]

Interestingly, once Biedermann International was ousted, the Atyrau administration promptly announced plans to develop the field on its own, with the Atyrau Oil Joint Stock Company (Anaco) in charge. Koblan Dosmukhamedov, Embanaft's deputy director, was appointed president of the new company, while Atyrau's mayor, Sagat Tugelbayev, and Mokhambet Khakimov (who had been the acting general director of the Munai joint venture – established with Biedermann to develop Kenbai before the production-sharing agreement was signed) became the owners of a portion of the 25 per cent of stock already distributed.[100]

The actions of the regional leaders and those surrounding them in the beginning of the 1990s were greatly hampered by the lack of a legal framework which specified the rules of joint ventures and privatisation in the oil sector. The basic petroleum legislation

[96] The Kenbai field contains recoverable reserves of nearly 100 million tons.
[97] 'The Mouse that Roared,' *Russian Petroleum Investor*, September 1993.
[98] 'Biedermann Blues: The Last Note,' *Russian Petroleum Investor*, October 1994.
[99] Ibid.
[100] Ibid.

in Kazakhstan was the ‘Code of the Republic of Kazakhstan on the Subsoil and Refining of Mineral Raw Materials’, dated 30 May 1992. Within the next two years, the original petroleum law was revisited a staggering 18 times, and created confusion that was skilfully exploited by those in the peripheries (Dorian, Zhanseitov and Indriyanto 1994: 689). This initial chaos meant that even those who did not have much to do with the oil industry in the past obtained the necessary licences, something that they admittedly stated would have been virtually impossible previously: ‘we managed to obtain a licence because there was no legal framework, bureaucrats were not aware of what was happening, they gave us a licence without seeing how they could benefit from that’.[101]

The clarification of the rules of the game in the Kazakh oil sector progressed rather slowly. By late 1993, about fifty laws had been passed governing foreign investments, which were seen as moves in the right direction, but still insufficient. Ray Darnell, the director of petroleum services for Price Waterhouse Coopers, said: ‘[t]he ability of the government to put these laws into place is very limited. They are just now learning how to run their own country’.[102] Thus, the lack of a legal framework at the beginning of the 1990s encouraged regional leaders directly and indirectly to act on their own and assert a greater influence over regional affairs, which in turn created problems for the central authorities.

The further empowerment of regional leaders had its roots in: (a) the *perestroika* era’s policy – strong centre and strong republics – that led to the transfer of power from Moscow to the republican-level and inevitably regional levels[103]; and (b) the construction of a ‘mixed political system’ – a response to the northern movements – which spelled the move towards a more politically and economically liberal system on a central and local level (discussed in chapter 3, section 1). In addition, Cummings pointed out that the fiscal crisis which hit Kazakhstan by the mid-1990s led to a widening gap between policy guidelines and the means available to implement them, ‘leaving the central authorities with no better solution than to let provincial administration cope independently’ (2000:

[101] Interview with a director of a local oil company: Atyrau, 8 November, 2004.
[102] Paula Dittrick, ‘Kazakhstan to consider new oil and gas law,’ *The Oil Daily*, 24 May, 1993.
[103] The Law on General Principles of Local Self-government and Local Economy, April 1990; the Law on Property in the Kazakh SSR, 15 December, 1990; the Law on Local Self-government and Local Councils in the Kazakh SSR, 15 February 1991 (Makhmutova 2001: 411); Additionally, in the last years of Gorbachev’s rule, leaders of oil and gas enterprises were given unprecedented prerogatives: their rights over production were extended to finance and marketing (Lane 2001: 104).

18). This strengthened the powers of the regional leaders. In this new reality, the local administration successfully wrestled powers from the local councils that often duplicated its powers, and hence provided some source of checks and balances (Makhmutova 2001: 412). However, whereas in oil-rich areas, the increase in powers of the local elites lead to a wild privatisation, in the other parts of the country the same increase in powers was used to stop the market reforms advocated by the centre. Luong argued that the growing independence of the regional leaders was most visibly expressed in the problems that Nazarbayev encountered when he tried to implement his initial economical reforms (2000a: 3).

The reforms were made up of two key elements. First, they freed the prices for retail goods and services and eliminated subsidies and, second, they led to the privatisation of state-owned enterprises and assets (Kaser 1997: 33). On the local level, reforms were expected to be brought into effect by the regional leaders. During Soviet times, regional first secretaries and their deputies were responsible for fulfilling the production quotas set in Moscow's ministries and solving the economic problems in their regions (Fainsod 1970: 225). In the first years of independence, Nazarbayev continued working within this structural arrangement, demanding that regional leaders implement his economic reforms.

However, those new economic reforms were greeted with much scepticism (Gleason 2003: 46), the main reason being that any rearrangements in the economic structure of the region inevitably meant upsetting the entrenched patronage networks (Luong and Weinthal 2001: 387–388), especially in the rural regions of the south (Rumer 1989: 148; Rakowska-Harmstone 1994: 32). In effect, the regional leaders, on whom Nazarbayev relied to implement economic reforms, failed to follow the Alma-Ata line and seemed to grow even more independent. As Luong put it: 'Rather than following the President's directives, many regional leaders adopted independent courses of action based on what they perceived to be in the best interest of their respective *oblast* [i.e. regions]' (2000a: 5). In real terms, it meant that subsidies on wholesale prices continued to exist, and the privatisation of Kazakhstan's large enterprises was largely brought to halt.

To sum up, during the first years of independence, the relationships between Nazarbayev and oil industry were structured along corporatistic lines. However, this arrangement, from the point of view of the regime, proved to be unsustainable due to the infighting over the control of Kazakhstanmunaigaz by groups in the centre and the peripheries. This dual challenge – especially the one from the oil families in oil-rich peripheries – pushed the regime towards restructuring its relationships with the oil industry. The transformation came into the open during the process of privatisation of the Kazakh oil industry. In the next section, we will discuss how Nazarbayev decided to carry on privatisation without the apparent involvement of the oil men – who proved far too problematic and indeed politically dangerous. At the same time, whereas the oil men were not involved in the process of privatisation, Nazarbayev ensured that the key individuals benefited in different ways from the process.

3. The Kazakh oil industry after independence: privatisation (1994 –1997)

After the abrupt departure of Ravil Cherdabayev, the deeply pro-presidential Nurlan Balgymbayev became the new Minister of the Oil and Gas industry.[104] Essentially, the main task of the new minister was to create an atmosphere in which the anti-reformers in the centre and the peripheries felt that their views were being taken under consideration. At the same time, when Balgymbayev was calming down the heated atmosphere that had developed around the oil industry, Nazarbayev with his new Prime Minister Akezhan Kazhegeldin, were plotting the 'sale of the century' on a scale and speed which came as a surprise to everyone, including the new oil minister of oil and gas.

Balgymbayev, like Cherdabayev, came from the Atyrau region in western Kazakhstan, where he had studied at the Kazakh Polytechnic Institute and held different positions, including that of deputy general director of Aktyubinskneft oil enterprise. From 1986 to 1992, Balgymbayev worked at the USSR Ministry of Oil and Gas, where he became close friends with people such as the future Russian Prime Minister Victor Chernomyrdin, Gazprom Chief Executive Rem Vyakhirev, and Lukoil President Vakit

[104] Nurbulat Masanov, 'Political elite of Kazakhstan Psychology of the regime - "After us the flood" Round Table.' "Political Elite of Kazakhstan", Almaty, 2000. http://kazhegeldin.addr.com/english/iim0j_17_10_00.html (Accessed 5 May, 2004).

Alekperov.[105] Thus, he had strong ties to the most powerful people in the Russian oil and gas sector (Freeland 2001: 70–73). After independence, he worked for the Russian company Rosneftegas. In the years 1993–1994, Balgymbayev became a consultant for Chevron. According to reports, he also studied at the Massachusetts Institute of Technology and then undertook a training stint at Chevron's U.S. headquarters.[106] Last but not least, he comes from one of the most respected and biggest oil families in Kazakhstan.[107] Yet there was one crucial difference between the two ministry heads. Whereas Cherdabayev wanted to bring the oil industry under his sole command, Balgymbayev lacked the drive to challenge Nazarbayev, or indeed the capacity to do so. In the words of his former colleagues from the Soviet ministry, who did not think very highly of his professional and administrative abilities: 'Wherever he went, Balgymbayev seemed to rise no higher then second-in-command.'[108]

Balgymbayev's initial plans for reforming the Kazakh oil sector were grand and in line with what was happening at that time in the Russian oil sector. Until loans for share privatisation came into being[109] – partly reversed in recent years[110] – the managers of Russian oil enterprises managed to resist the general plans for privatisation (Watson 1996: 445–448), which Balgymbayev seemed to favour. Only two weeks after his appointment, the new minister presented the cabinet with an outline of his development plan for the Kazakh oil and gas industry. Its main goal was to increase the production of oil from the projected 26.8 tons in 1995 to 45 million tons by the year 2000. As a result, the annual profit from the oil and gas industry was expected to increase from US$220 million in 1995 to over $2.5 billion by the end of the decade. In order for such an

[105] Interview with the executive director of a major oil project in Kazakhstan: Atyrau , 17 November 2004.
[106] 'Kazakhstan-Nurlan Balgimbayev, President of KazakhOil.' *Review Downstream Trends*, 31 July 2000; Seymour Hersh, 'The Price of Oil,' *The New Yorker Magazine*, 9 July 2001.
[107] For instance, his brother Makhash Balgimbayev was among a group of geologists that discovered the Tengiz oil field. His other brother, Nurbergen Balgymbayev, at the beginning of the 1990s was in charge of foreign relationships in the Ministry of Energy and Fuel Resources.
[108] 'Step on It,' *Russian Petroleum Investor*, December 1994/January 1995c.
[109] For details see: Hoffman (2002), pp. 296–325; Freeland (2001), pp. 161–181; 'Interview Donald Jensen.' *Frontline*. http://www.pbs.org/wgbh/pages/frontline/shows/yeltsin/interviews/jensen.html (Accessed 23 February 2004).
[110] 'Russia's robber barons,' *Le Monde Diplomatique*, December 2003; Don Hill, 'Putin Versus The Oligarchs,' *RFE/RL*, 6 November, 2003; 'A survey of Russia: Taming the robber barons', *The Economist,* 22 May 2004; 'Special report: The Khodorkovsky case', *The Economist,* 21 May 2005.

ambitious plan[111] to get off the ground, the total investment required amounted to $6.6 billion[112]. Moreover, Balgymbayev argued that this massive restructuring of the oil and gas industry would happen without privatisation and without the need to sell shares in energy companies to foreign investors.[113] This new line was evidently received positively by groups in the centre and peripheries that opposed the privatisation of the oil sector.[114]

At the same time, Balgymbayev did not rule out the possibility of future joint ventures between one or more designated Kazakh parties and a foreign oil company. Negotiations in the spirit of corporatism were to be conducted by the interagency working group comprised of representatives of the oil and gas ministries, representatives of the government departments of economics, geology and the preservation of underground resources, as well as finance, ecology, bioresources, and justice. Representatives of all relevant regions were included in the group.[115] In addition, Balgymbayev advocated yet another reform of Munaigaz, which was supposed to then consist of three fully integrated divisions.[116]

However, Balgymbayev's imposing plans, with their taste of Soviet-style planning, had little, if anything, to do with the real strategy that was being prepared in relation to the Kazakh oil industry – a strategy which envisioned the almost full-scale privatisation of the oil sector. The main incentive for a new direction was the steadily worsening economic situation – in the words of an governmental insider at that time, '[t]he government is basically broke'[117] (see also chapter 3, section 1). There was also competition from Azerbaijan. By 1994, Azerbaijan had proved to be much better at

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[111] The plan included: construction of a refinery at Mangystau, rehabilitation of Kazakhstan's second largest oil field (Uzen), expansion of a gas processing plant (Aktyubinsk), reconstruction of Atyrau's refinery, construction of a new refining unit at Chimkent, construction of a western Kazakhstan-Kumkol oil pipeline, development of Kumkol field. *Source*: *The Oil and Gas Journal*, 21 August 1995.

[112] *Russian Petroleum Investor*, December 1994/January 1995c.

[113] *Russian Petroleum Investor*, February 1995b.

[114] Interview with ex-general director of a major foreign oil company in Kazakhstan: Almaty, 27 October 2004; Interview with a general director of a foreign small drilling company: Almaty, 10 November 2004.

[115] *The Oil and Gas Journal*, 21 August 1995.

[116] The first integrated division was to consist of the Atyrau refinery, the Embanaft, Uzenneft, TengizMunaiGaz production associations, and regional branches of Munaionimderi, a petroleum products retailer. The second was to consist of the Chimkent refinery, the Yuzhneftegas, and Aktyubinskneft production associations, and local Munaionimderi units. The third company was to unite the Pavlodar refinery, the Mangistaumnaigaz production association, the local branches of Munaionimderi, and the Kazakhstan Oil Research Institute. *Source*: *Russian Petroleum Investor*, December 1994/January 1995c.

[117] Peg Mackey; Stephen MacSearraigh and Campion Walsh, 'Kazakh Cabinet moves likely to benefit energy investors,' *The Oil Daily*, 14 October 1994.

attracting foreign investors than Kazakhstan[118], much to Nazarbayev's jealousy.[119] The key to understanding the ensuing developments are the figure of the then Prime Minister, Akezhan Kazhegeldin, and the gradual centralisation of power in the presidential office, which are discussed next.

3.1. Setting the stage for privatisation

By 1994, the second phase of privatisation was well under way[120] and encompassed medium-sized firms and factories with more than 200 employees. The third phase, a case-by-case privatisation designed to privatise the largest factories, was scheduled for 1995 (for a detailed discussion concerning privatisation see chapter 3, sections 2 and 2.1). However, during the second phase, the Kazakh parliament consisted of Communist-era legislators who felt entitled to maintain control over the economic transition and who criticised the government's plans. Parliamentarians questioned 'the speed, direction, and objectives of privatisation, echoing many of the criticisms levelled against the privatisation program and its execution' (Haghayeghi 1997: 334). Not surprisingly, the most outspoken critics were 'those who had not directly benefited from the privatization process' (Olcott 2002: 138). In addition, Nazarbayev's popularity began to wane rapidly, with the presidential elections only 18 months away. In response to the looming crisis, Nazarbayev in October 1994 appointed a new cabinet and gave his ministers 15 months to take the nation out its prolonged economic crisis. The reigning Prime Minister

[118] In 1994, Azerbaijan signed a production sharing agreement with eleven shareholders for the development of the Azeri-Chirag-Gunashli (AGG) oil fields, located offshore in the Azeri sector of the Caspian Sea. The project is operated by the Azerbaijan International Operating Company (AICO). At that time when PSAs were finalized, the press called it "the Contract of the Century", as 'almost $8 billion were earmarked for investment over 30 years, during which time 511 million tons of oil were expected to be produced from the three offshore fields' (Nassibli 107: 1999). The actual foreign capital invested in the oil sector by that point was $4 billion (Bayulgen (2003), p. 209; see also: Olsen (2004), pp. 127–145; Nanay (2000).

[119] Interview with a foreign diplomat: Almaty, 15 September 2004.

[120] The initial privatisation in Kazakhstan progressed in two stages: (1) small scale privatisation using voucher coupons, 1991–1992; (2) mass privatisation using investment privatisation coupons, 1993–1995 (Pomfret (2005), pp. 863 – 867; Haghayeghi (1997); Varanese (1995); see also: Richard Pomfret, 'Economic developments during the 1990s and prospects for the future,' *Central Asia 2010 Conference*, UNDP Almaty, Kazakhstan, on 20–22 July 1998; For reforms in Kazakhstan in the broader context of the former Soviet republics see: Schroeder (1994).

Tereshchenko,[121] an ethnic Russian, was replaced by an ethnic Kazakh, Akezhan Kazhegeldin.

According to his personal web page,[122] the new Prime Minister Akezhan Kazhegeldin, comes from the Semipalatinsk area and holds a PhD in Economics. His career began in the Semipalatinsk Region Department of KGB (State Security Committee) in 1976. In subsequent years, he studied at the Officers' Training Courses of the USSR KGB High School (Moscow). Kazhegeldin allegedly retired from the KGB in 1989, and after that openly participated in the Russian democratic movement (Furman 2005: 224). Upon his return to Kazakhstan in the early 1990s, he first became a businessman and soon after – in his own words – 'resumed working for governmental bodies'. In 1992–1993, he held the posts of Deputy Chairman of the Executive Committee of Semipalatinsk Regional Soviet of People's Deputies and Deputy Head of Semipalatinsk Region Administration.[123]

The fact that Kazhegeldin, an ex-KGB officer, became prime minister was not in any way accidental, and should be seen as an expression of a broader trend that began with the collapse of the Soviet Union. Amy Knight has demonstrated that since the second half of the 1980s, as KGB officers began their journey from the security apparatus into politics and business:, '[t]hey professed democratic values, endorsed economic reform, and complained openly about various shortcomings in the Soviet system' (1996: 7). By the mid-1990s, many of those who had previously worked in the KGB became entrepreneurs involved in private security and investigation businesses, and some also found work in the local and central bureaucracy (Volkov 2002: 92–93).[124] Additionally,

[121] Tereshenko's government came under criticism also from other quarters. Foreign investors criticised his government for providing grossly inflated figures about the country's oil and gas reserves as well as for reversing decisions on tax exemption that were already issued. Moreover, ministers in the Tereshenko-led government opposed the reforms, which delayed many decisions related to the privatisation of state companies. However, most important was the fact that in oil-dealing the prime minister favoured John Deuss, an oil trader from the Netherlands who was an adviser to Sultan Qaboos of Oman and the head of Oman's state oil company OOC, which clearly disadvantaged other potential investors. *Source*: *Review Downstream Trends*, 31 July 2000.

[122] http://kazhegeldin.addr.com/biograf_e.htm (Accessed 5 May 2004).

[123] *See also*: *The Economist*, 28 November 1998; Olcott 160: 2002.

[124] Olga Kryshtanovskaya, a Russian sociologist, estimates 'that KGB-trained officials have come to account for up to 25 per cent of civilian administrative posts throughout the Russian bureaucracy, up from just 3 per cent prior to Gorbachev' *Source*: Stephen Kotkin, 'What is to be done?' *FT.com site*; 5 March 2004. http://search.ft.com/s03/search/article.html?id=040305008758 (Accessed 20 April 2004).

secret service operatives acted as facilitators in arranging Western investments in Russian enterprises.

The co-operation between Western companies and the ex-*Chekist* was in no way unique to Russia and could be found all across post-Soviet,[125] and indeed most ex-Socialist countries, as Maria Los and Andrzej Zybertowicz have described with regard to Poland:

> Former secret service operatives were in a unique position to become intermediaries between the global economy and the new Polish economy. The communist obsession with secrecy meant that the secret service were probably the only agencies with comprehensive knowledge of the Polish economy and its individual units. They were in a position to offer strategic information and services sought by foreign actors, and they had powerful networks ready to engage in complex economic operations, arrange deals or peddle influence. (2000: 206)

Nazarbayev hired Kazhegeldin to aid in the process of privatising major enterprises – including the oil sector – due to his ability to attract foreign investors (Furman 2005: 225). In Kazhegeldin's own words: 'When I entered the government in 1993 after having held the position of President of the Entrepreneurs' Union, I considered it my main task to attract foreign investment capital. I travelled the world meeting with businessmen and touting our mineral resources, our highly qualified labour force and engineers, and the possibility of unlimited new markets.'[126] Kazhegeldin become prime minister also due to the fact that he was an outsider, one who constituted a good buffer zone between Nazarbayev and the powerful groups whose interests were to be upset during privatisation. Interestingly, the arrival of Kazhegeldin on the political scene coincided with the appointment in February 1995 of the ex-KGB officer Evhen Marchuk to the post of prime minister of Ukraine. Thus, Kazhegeldin was not an odd case, but part of a larger

[125] For a discussion concerning police reform and related issues in Central Asia see: 'Central Asia: The Politics of Police Reform,' *International Crises Group*, 10 December 2002.

[126] 'Speech by Akezhan Kazhegeldin in the City Club of Cleveland,' 12 November 1999. http://kazhegeldin.addr.com (Accessed 15 February 2005). It is well known that Kazhegeldin had close ties to powerful interests in Russia with a rather dubious past (Olcott 2002: 115).

pattern that culminated with the ex-KGB low-ranking officer Vladimir Putin becoming president of Russia in 2000 (Kryshtanovskaya and White 2003; Barnes 2003).[127]

Kazhegeldin painted himself as a free-market, pro-privatisation politician. His statements in relationship to the oil sector directly contradicted Balgymbayev's position from the outset. Speaking in November 1994, he said, 'I look with profound indifference at who may own the stock of, say, the Pavlodar refinery. It may be Kazakhs, Russians, or Americans. It's the steady production output that matters.'[128] In turn, he was seen by Western investors 'as a guarantor of market reforms and their multi-billon dollar investments in the republic'.[129] A clash between Kazhegeldin and Balgimbayev was inevitable. It was reported at that time that Balgimbayev – a minister in Kazhegeldin's government – 'typically ignores the prime minister, preferring to work directly with President Nursultan Nazarbayev'.[130] However, despite these clashes it was Kazhegeldin's vision that clearly took precedence.

The new cabinet concluded work on a Law on Oil in a speedy fashion, which had been in the pipeline since 1993, and defined the procedures for granting exploration and production licences and outlined the basic tax provisions.[131] Moreover, the allegedly autonomous entity called the State Investment Committee (SIC) was created. SIC was made the sole organisation empowered by law to deal with potential investors in the priority sector. It was designed to become a so-called 'one-stop shop'.[132] In short, SIC is an institution that has allowed foreign investors to bypass Kazakhstan's bureaucratic maze, including most importantly the problematic ministries of geology and oil. This new direction of the Kazakh oil industry was fully unravelled on 8 June 1995 when Kazhegeldin – without any advance notice – announced that Kazakhstan planned to sell Kazakh interests in three oil and gas companies: Yuzhneftegas, Aktyubinskneft, and Shymkentnefteorgistez. The government hoped to receive a total of at least $3 billion in

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[127] *See also*: Ewa Paszyc and Iwona Wiśniewska, 'Big business in the Russian economy and politics under Putin's rule,' May 2002. http://www.osw.waw.pl/pl/get.pl?r=/en/epub/eprace/05/01.HTM (Accessed 29 June 2004). 'Russian reform. Slaying his own dragons.' *The Economist*, 1 May 2004.
[128] *Russian Petroleum Investor*, February 1995b.
[129] *Review Downstream Trends*, 31 July 2000.
[130] 'Sale of the Century,' *Russian Petroleum Investor*, November 1996.
[131] 'One Up on Russia,' *Russian Petroleum Investor,* December 1994/January 1995.
[132] *Review Downstream Trends,* 31 July 2000.

exchange for 90 per cent of its equity holdings in these three enterprises.[133] In addition, the plan virtually eliminated the roles for Munaigas and the Ministry of Oil and Gas in the sector (Peck 2004: 150). Arguably, the main reasons for finally embarking upon the process of privatisation at this particular time was the centralisation and concentration of power by Nazarbayev that had commenced only a few months before.

In March 1995, Nazarbayev utilised a Constitutional Court ruling on the legality of the 1994 parliamentary elections as an excuse to dissolve parliament (Bremmer and Welt 1996: 192). In his next move, in April 1995, he called for a referendum that extended his presidential term until 2000, and finally initiated the process of drafting a new constitution which was adopted on 30 August 1995. The main feature of the new constitution – the previous one dated back to 1993 – was a considerable expansion in the powers of the executive branch. In the new constitution, Kazakhstan's judicial and legislative branches on the national and local levels were to be subordinated to the executive branch. Presidential decrees essentially have the force of law, and the president can disband parliament and appoint and remove key state officers: the prime minister, senior ministers, as well as seven members of the 47-seat strong senate (Anderson 2003: 79; Dosmukhamedov 2002: 150–157).[134] As a result, Zhovtiz points out that 'the powers of the president as well as the activity of the government cannot be controlled by the society. The legislative and representative branches – the parliament and the local legislatures, or *maslikhats* – are deprived of any control and functions' (1999: 57).

It would be wrong to assume that the centralisation of power immediately silenced all critics – far from it. The process of consolidating power would take at least a few more years before Kazakhstan was to truly turn into a republic ruled solely by Nazarbayev himself, his close associates and his family.[135] In relationship to the privatisation of the oil industry, the best testimony to the fact that the critics were not silenced were the criticisms raised by the mid-level industry management, which insisted on ousting foreigners and 'taking business into its own hands' after the plans for privatisation were publicised.[136] Moreover, the preparation of tender documents by

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[133] *Russian Petroleum Investor*, July/August 1995a.
[134] The Majilis is the lower house of parliament and comprises 77 deputies.
[135] *APS Diplomat Operations in Oil Diplomacy*, 25 August 2003.
[136] 'Upping the Ante,' *Russian Petroleum Investor*, July/August 1995.

Kazkommertzbank and its two foreign advisers Merrill Lynch and Price Waterhouse were concluded in secret – after centralisation – precisely because of government concerns about a possible public backlash.[137] Arguably, it is for those very reasons that Nazarbayev, who embarked on the process of privatisation in tandem with Kazhegeldin and with initial minimal involvement of people from the oil and gas industry, ensured that they would also gain from the process. However, not everyone stood to gain from it: whereas those close to the industry did reap substantial rewards, various interest groups at the peripheries that were not directly working for the oil enterprises were largely overlooked. This, in turn, created for the regime a whole host of problems, which are discussed in full in chapter 5.

3.2. Privatisation and the NOC KazakhOil

By 1996,[138] the Kazakh government had further radicalised its position on the privatisation issue,[139] and openly stated its readiness to sell most of its exploration and production companies, refineries, petrochemical enterprises, and domestic gas delivery networks – which were subsidised by the government for the first part of the 1990s – to foreign investors.[140] However, despite the fact that Kazakhstan appeared to be willing to unlock its oil industry to foreign investors, major foreign oil and gas companies were far from ready to simply invest in Kazakhstan – which in the opinion of some was partly due to the unstable political situation. Whereas the concentration of power by the country's leader is considered a good thing from the perspective of foreign investors, the political earthquake taking place in Kazakhstan was proving to be one change too many. Vladimir Dumchev, a political expert and adviser to TengizChevrOil, commented at that time: 'Investors cannot pour any significant amount of money into a country where the

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[137] 'Tender Treatment,' *Russian Petroleum Investor*, December 1995/January 1996.
[138] In 1996. the economy had bottomed with a growth of 1 per cent.
[139] On January 1, 1996 the Law of the RK 'On Privatization' came into force, which formed a base for the sale of state property into the ownership of physical and legal entities. In addition, on January 27 Nazarbayev signed the decree 'On Subsoil and Subsoil Use' that regulated the issues of licensing and contract system. *Source*: 'Kazakhstan's Oil 1991 – 2001,' *Petroleum Magazine*, December 2001; *see also*: Dosmukhamedov (2002), pp. 101–124.
[140] 'Everything Must Go,' *Russian Petroleum Investor*, October 1996a.

president rewrites the constitution with astonishing ease. Capital investment decisions cannot depend on one man's will and mood.'[141]

In other instances, the alleged problem was the Kazakh government's expectations, which were viewed unrealistic when confronted with the reality on the ground.[142] In the early privatisation stages, the Kazakh government planned to grant foreign companies a fifteen-year concession to ship and market gas on its territory. At first, consortia such as Enron, Gaz de France, Agip and Bridas[143] signalled interest, but backed down when it became apparent that Kazakh officials required foreign companies to make a $25 million lump-sum payment immediately and invest at least $125 million over the next five years. All this was expected to take place when the Kazakgaz pipeline system had reported a profit of barely $17.6 million in 1995[144]. However, from the perspective of foreign investors, the most problematic issues – and arguably ones reflecting the actual situation – were the unclear tender procedures which, combined with the fractional struggles that accompany any process of privatisation, made the outcome of the tender highly unpredictable, and hence the future of the investment unstable.

During the tender procedures for the Yuzhneftegaz enterprise, for example – which by the mid-1990s produced 10 per cent of Kazakhstan's oil – the chairman of the interdepartmental tender commission responsible for the oil industry and head of Kazakhstan's Committee for the Management of State Property, Sarybay Kalmurzayev, revealed that Samson International (US) was the likely winner.[145] Yet, only a few months later in the summer of 1996, it was announced that the winner was the little-known Hurricane company[146] instead. No formal explanation was given for this sudden change.

[141] 'Too Much of a Good Thing,' *Russian Petroleum Investor*, October 1995; *see also*: Richard Dion, 'How oil, gas investment prospects compare for Azerbaijan, Kazakhstan,' *The Oil and Gas Journal*, 28 July 1997.

[142] 'Kazakhstan Sets Up Test Case for Oil Privatization,' *Financial Times*, 30 April 1996.

[143] Bridas is a small Argentinean (Buenos Aires) based company, which in the first decade of the 1990s was involved in a whole range of projects across Central Asia including Turkmenistan and Afghanistan (Rashid (2001), pp. 157–170.

[144] 'Betting on the Future,' *Russian Petroleum Investor*, December 1996/January 1997; *See also*: Kuanysh Zhumangazinov, 'Southern gas: from theory to practice.' *Vremia Po*, 18 April 2001.

[145] Indeed, some sources began reporting that the Samson Investment Company had won a 100 per cent stake in the Kazakh producer Yuzhneftegas, together with local investment firm Munainvest. *Source*: 'Samson Blows Away Hurricane, Wins Bid For Kazakh Producer,' *The Oil Daily*, 7 June 1996.

[146] The company was incorporated and registered in Calgary, Canada in 1986. However, some argued that Hurricane was an offshore zone based company. It was reported that it first commenced operations in

Almost immediately, Hurricane Hydrocarbons came under attack from Balgymbayev and other oil men, who believed that the company – which was supposed to invest $280 million in Yuzhneftegaz – was unable to meet its contract obligations.[147] Others called the deal 'the sellout of the motherland'.[148]

According to reports, at that time Nazarbayev himself began adopting the view that investors were doing too little for the development of privatised companies, and that the process of privatisation should yield larger profits.[149] Moreover, he also became alarmed by the amount of power that Kazhegeldin and Kalmurzayev had over the privatisation of oil and gas, and the fact that the pair acted far too independently for his taste.[150] Kazhegeldin's actions were aimed at building his own independent power base (Olcott 2002: 115; Furman 2005: 227–228).[151] In order to speed up privatisation, to regain control over Kazhegeldin,[152] and to demonstrate Kazakhstan's commitment to privatisation, Nazarbayev decided to take charge of the oil sector himself.[153] On 4 March 1997, he signed Decree № 3378 on 'Additional Measures to Reform the Organisation of State Entities in the Republic of Kazakhstan'. The decree dissolved the Ministry of

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Kazakhstan in 1991. (Smirnov (2000), p.163; Kazakhstan Petroleum Association Publication, Almaty, 2004).

[147] The expected amount of royalties to be paid during a 20-year development period of Yuzhneftegas was expected to amount to $530 million, while the cumulative amount of tax payments to the republican budget amounted to $ 1.7 billion (Peck (2004), p. 159).

[148] *Russian Petroleum Investor*, October 1996a.

[149] 'Twisting in the Wind,' *Russian Petroleum Investor*, May 1997a.

[150] 'The Kazak Shuffle,' *Russian Petroleum Investor*, April 1997; For instance, in October 1996 Sarybay Kalmurzayev stated that around half a billion dollars raised from oil sales 'disappeared without trace', which amounted to little more than a direct attack on Balgymbayev and Nazarbayev. *Source*: *Komsomolskaya Pravda Kazakhstan* , 1 March 2002.

[151] Kazhegeldin's prime constituency after becoming PM 'consisted of industrialists, businessmen and the emerging new entrepreneurial class, and it was these groups' interests that the Prime Minister most ardently supported' (Hoffman Fall (2000), p. 301).

[152] At that time, one source in the president's administration commented: 'Kazhegeldin forgot who is the boss in the house, and [he has] paid for his forgetfulness.' *Source*: *Russian Petroleum Investor*, November 1997.

[153] By 1996, a number of key oil projects began entering a decisive stage. In the atmosphere of infighting and instability, Nazarbayev's direct control over those projects – from the perspective of the regime – became indispensable. In April 1996, a multilateral agreement was signed by Kazakhstan, Russia, Oman and a consortium of foreign oil companies on the construction of an export pipeline, the Caspian Pipeline Consortium (CPC) with a throughput capacity of 67 million tonnes. The CPC was designed to provide an alternative route through Russia, which cut transport costs from Tengiz in half. Moreover, in August 1996, Kazakhstancaspishelf finally completed a topographical survey of the oil fields in the Kazakhstan sector of the Caspian Sea shelf, according to which the region's forecasted potential was estimated to have between 26 and 60 billion barrels of recoverable reserves; *For more see*: Sergey Illarionov, 'Politico-economic strategy of Kazakhstan - first fruits,' *Nowyje Izvestia*, 30 August 2001.

Geology and Subsoil Protection, the Ministry of the Oil and Gas Industry, the State Tax Committee, the State Pricing committee, and the State Property Management Committee, and established in their place the KazakhOil National Oil and Gas Company.

The NOC KazakhOil was charged with the control and management of the government's interests in all oil and gas enterprises, including joint ventures and production-sharing projects with foreign inventors. Furthermore, 90 per cent of the shares from Munaigas were transferred to KazakhOil. Crucial for the purposes of our discussion is the fact that the creation of KazakhOil gave Nazarbayev the leverage to 'shift control over the country's oil industry (a sector that provides as estimated 37 percent of state revenues) firmly within the presidential apparatus and away from the jurisdiction of the Prime Minister' (Hoffman Fall 2000: 282; see also Furman 2005: 226). It is worth keeping in mind that since March 1997, the previously autonomous SIC has begun reporting directly to Nazarbayev. SIC most importantly determined which preferences were to be granted to investors and for how long. Balgimbayev became president of KazakhOil, whereas his son-in-law Kuandykov was nominated to the position of vice president.

Balgymbayev was reinstalled in charge of the oil industry for largely the same reasons as during his previous spell as oil and gas minister in 1994: to quieten the oil men who were becoming increasingly wary of the government's rapid sell-out of the oil enterprises. The situation became especially explosive in the Mangistau region – home to Mangistaumunaigas – where the management and a number of employees organised a protest against the prospective privatisation. Mendesh Salikhov, an ex-communist apparatchik and president of the enterprise since 1995, argued that since 1996, the production of oil had begun increasing and that the firm was profitable. Moreover, he demanded that indigenous oil enterprises should be given the same tax breaks as foreign companies, and he also argued for raising 'the capital by placing shares, possibly in the form of depositary receipts, on the London or New York stock exchanges'.[154] In response to those criticisms, the initial trend was brought to a halt, albeit not for long.

[154] 'Kazakh oil barons, government, clash on energy sell-off,' *Reuters Newswire*, 3 February 1997.

Balgymbayev's reinstatement as president of KazakhOil did not stop the privatisation process.[155] Quite to the contrary, he presided over the period of the most aggressive privatisations that took place between March and July 1997.[156] In March, 85 per cent of Mangistaumnaigaz[157] was sold to the Virgin Islands based company Central Asia Petroleum Ltd. (part of Indonesian group of Medco Energy Corporation) for $248 million,[158] and in June and July, 60 per cent of Aktyubinskmunaigas[159] and 60 per cent of the Uzen Oil Field were sold to Chinese National Petroleum Co. for a total of $13.5 billion[160] (Luong 2000: 89; Peck 2004: 165–172; Smirnov 2000: 163). Ironically, at the height of selling key oil enterprises to foreign companies, Kazhegeldin tried to postpone privatisation tenders for Embamunaigas and deleted the announcement of a tender for Tengizmunaigas,[161] However, by that time he felt that he had fallen out of favour, and in October 1997, Kazhegeldin stepped down from the post of Prime Minister, allegedly because of health problems. In reality he was forced to resign but he did not go down quietly. In the late 1998, he formed the Republican People's Party of Kazakhstan, which sought to oust Nazarbayev. Hence, Kazhegeldin turned into Nazarbayev's most visible and strongest opponent. Soon thereafter, Kazakhstani taxation authorities began investigating Kazhegeldin for suspected tax violations and corruption. Kazhegeldin left

[155] Balgymbayev was a Nazarbayev loyalist and acted as instructed by the president. This fact was apparent from 1994: 'If Nursultan Nazarbayev asks him to become a fervent liberal, be will be one, if conservative is the order of the day, he will turn conservative. In his attitude towards foreign investors, state control, privatisation, and other important issues, Balgimbayev will support the president'. *Source*: *Russian Petroleum Investor*, December 1994/January 1995.

[156] By mid-1998, only 41.6 per cent of the country's oil production remained under the auspices of KazakhOil. (Hoffman Fall (2000), p. 292). However, the process of privatising the Kazakh oil sector did not stop there. By 2002, 75 per cent of geological reserves of oil and 79 per cent of gas reserves would be controlled by foreign capital. *Source*: Aldar, Kusainov. 'A Struggle Over Energy May Alter Kazakhstan's National Found,' *EuroasiaNet*, http://www.eurasianet.org/departments/business/articles/eav111302.shtml (Accessed 13 November 2002).

[157] In 1996, Mangistaumunaigas was still the second largest production association after TengizChevrOil.

[158] The expected volume of capital investments within a 20-year investment program were expected to amount to more than $4 billion, of which $2 billion were to be made in the first five years.

[159] The CNPC received the right to develop the Zhanazhol and Kenkiyak fields.

[160] Under the contract, the CNPC would pay a bonus amounting to $320 million and a subscription bonus amounting to $5 million. The company would also pay the debts of Aktyubinskmunaigas JSC to the amount of $81 million; and make investments to the amount of $4 billion within 20 years, of which $585 million would be made in the first five years. Furthermore, $500,000 would be allocated annually to ecological programmes within 20 years.

[161] *Russian Petroleum Investor*, May 1997a.

the country and was banned from taking part in the 1999 presidential elections[162] (see also chapter 6, sections 1, 1.1).

3.3. After privatisation (clients and control)

Nazarbayev wrestled control of the oil industry from his opponents in a process which took six years to accomplish. In order to keep the NOC KazakhOil firmly in check – and not to repeat a Chedabayev-like scenario – in 1998 Nazarbayev appointed Nurlan Kapparov, a neophyte, as president of the company, whereas Balgimbayev was moved to the post of Prime Minister. Moreover, Nazarbayev began introducing members of his family to the highest positions in the country in an open manner.[163] Timur Kulibayev, Nazarbayev's son-in-law (he is married to his second daughter Dinara), became financial director and Vice-President of KazakhOil.[164] At the time of his appointment, Kulibayev's only connection to the oil sector was his father Askar Kulibayev, once a communist boss in the oil-rich Atyrau region in the 1980s.[165]

The arrival of Kapparov and Kulibayev, close business partners who were born in 1970 and 1966 respectively, signalled a generational shift in the Kazakh oil industry (Satpaev 1999: 81). In the name of efficiency and professionalism, it was now to be run by the young group of technocrats whose allegiances rested with Nazarbayev and not with one of the fractions in the oil-rich regions. In order to achieve this end, Nazarbayev

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[162] 'Interpol drops arrest warrant against Kazakhstani opposition Leader,' *Eurasia Insight*, 26 June 2002. http://www.eurasianet.org/departments/insight/articles/eav062602a (Accessed 27 June 2004).

[163] It was a strategy that had been in development already for some time: 'by 1997 Nazarbayev has surrounded himself with a core elite considerably smaller than that of 1991, largely consisting of relatives and close friends. These included, his daughter Dariga's husband, Rakhat Aliev, a surgeon who in October 1997 was made head of the Tax Inspectorate while continuing to own a 60 per cent state in the national sugar company, and Sakharniy Tsentr; (…) and Akhmetzhan Esimov, a more distant relative, who in 1997 was appointed head of the presidential administration' (Cummings (2002), p. 63).

[164] This introduction of members of the president's family to top positions in the oil industry mirrored the situation in Azerbaijan. Azeri President Heidar Aliyev, who brought SOCAR under his control in 1994, put his son Illham Aliyev (currently serving President) in the position of the director of the Foreign Economic Relations Division. In a section entitled 'Tips on dealing with SOCAR' the US Embassy in Baku listed the most useful contacts for any US company interested in establishing Joint Ventures, partnerships. The Embassy suggested that the first contact should be made with Valekh Aleskerov (Head of the Foreign Investments Department), who would report the proposal to Illham Aliyev and Heidar Aliyev. Those two had 'the ultimate authority on all major contracts in Azerbaijan' *Source*: US Embassy Baku, Azerbaijan 'Who's is Who in SOCAR'. http://www.usembassybaku.org/commerce/socar.htm (Accessed 1 June, 2004).

[165] Interview with an oppositional journalist: Atyrau, 22 November 2004; see also: Murphy (2006), pp. 538–539.

recruited sons and daughters of ex-communist apparatchiks to the top positions through Kulibayev, primarily from Almaty. These recruits went to prestigious high schools and in the late 1980s and studied at the Kazakh State University, Almaty Institute of Economy, or other prominent institutions such as Moscow's State University and Leningrad University.[166] At the time of independence, they were in their early 30s, with the Young Communist League being the only network to which they were truly connected. They gained their professional experience, however, in the private sector:[167] Kanat Bozumbayev (1969) became vice-president (economy) of KazTransOil; Berik Kaniyev (1970) vice-president for refining, transportation and marketing KazakhOil; Saule Mamyrbaeva (1969) president of finance KazTransOil; Erzhan Orynbasarov (1969) director of the security KazakhOil; Abai Sadykov (1969) director of the debt restructuring and analysis department KazakhOil; Marat Sapargaliyev (1970) director of department KazakhOil; Askar Smankulov (1964) vice president KazTransOil; and Yerlan Upushev (1969) vice-president of the marketing department KazTransOil[168].

The recruitment of young professionals/clients to top managerial positions that took place in the Kazakh oil industry was not unusual, and was part of a bigger trend during the early years of independence. Whereas in the Soviet Union it was almost unthinkable to see people below the age of 50 becoming part of the state elite, in post-Soviet Kazakhstan this elite became much younger, with a substantial influx of an age group which ranged from 30–40 years (Tulegulov 2000: 259; Cummings 2005: 59). However, this new trend in the oil industry did not mean that those in their 50s could simply be pushed aside and be replaced by Kulibayev's group, since this would imply open warfare with oil men. Instead, Nazarbayev rather skilfully facilitated the transition of potential opponents to the private sector (generally private oil enterprises), politics, local and state administration, and Kulibayev's controlled KazakhOil – and as special

[166] People affiliated with Kulibaev could be also found in all sorts of other top positions in the country: Kiarat Kilembietow (Minister of Economics), Erbolat Dosajew (Minister of Health), Karim Masimow (Deputy Head of the Presidential Administration), Mukhtar Ablyazov (Minister of Energy, Industry and Trade). *Source*: Interview with executive director of a major oil project in Kazakhstan: Atyrau, 17 November 2004.

[167] Ibid.

[168] *Sources*: Interviews Kazakhstan Fall 2004; *Kazakhstan State Directory*, Astana June 1998; see also: Cummings (2005), pp. 61–69.

advisers to various foreign oil companies.[169] They themselves would later on typically say things like: ‘I was invited’ to hold a particular post in for instance, a joint venture.[170]

It is argued here that from Nazarbayev’s point of view, the most problematic groups before and during the privatisation process were the oil men and high-ranking ex-apparatchiks in western Kazakhstan. Not surprisingly, it was those individuals who, since the mid-1990s, could be increasingly found working in various profitable companies and involved in lucrative projects. Numerous examples illustrate this point: Zarip Zhukataev was director of Embaneft, and in 1995 became director general of the Stepnoi Leopard Canadian-Kazakh joint venture; Robert Berdyguzhin was president of Uzhneftegas, and in 1997 became director general of Lukoil-Kazakhstan JV; Mendesh Salikhov was president of Mangistaumunai, and in 1998 became president of the Neftegas insurance company; Keltir Shanenov was president of Atyraumunaigas, and in 1997 became president of CaspiyNeft, a private oil company; Alik Aydarbayev, vice president of Yuzhneftegaz, in 1995 became director general of the Kumkol-LUKoil JV; Kuralbek Kelzhanov held senior positions in the local communist party and in 1994 became director general of American-Kazakh JV; Abenov Islam worked as a communist party executive, and in 1995 rose to director general of the Kazakh–Cyprus company; Gaziz Aldamzharov an ex-communist apparatchik, worked also on Tengiz and in 1996 became director of Kazmalt, a Czech company; Amanzhol Kabdolov was the first vice-president of Munaigas, and in 1997 was appointed head of the central oil and gas industry control department; Saylau Zhylkaidarov, chief geologist of Uzen in 1996, became director general of a British-Kazakh JV; his deputy director was Yermek Marabayev, who had worked for the American company Drilcon. He also belongs to a major oil family in Kazakhstan. [171]

Characteristically for those companies, the Kazakh share in these business ventures seems to have been very small. Thus, the Kazakh partner provided the necessary contacts and political protection, whereas the know-how, equipment and so forth were brought from aboard. Interestingly, in recent years Chinese companies – among others –

[169] Interview with a foreign diplomat: Almaty, 15 September 2004.
[170] Interviews: Kazakhstan Fall 2000.
[171] *Petroleum Encyclopaedia of Kazakhstan, 2* ; Interviews: Kazakhstan Fall 2000.

have attempted and successfully managed to take over some small oil extracting companies from foreign interests, to the dismay of oil men in the oil rich areas.[172]

While the presidents and directors of key enterprises were helped with their transitions to the private sector (or indeed, as in the case of the ex-Atyrau *akim* Sagat Tugelbayev, to keep his company Anaco), mid-level ex-apparatchiks who had managed to obtain a licence almost accidentally at the beginning of the 1990s were slowly squeezed from their businesses. It has been maintained that since the second half of the 1990s, people close to the regime began displaying a growing interest in small oil extracting companies. This forced most of the oil exploring companies into either bankruptcy or into selling their assets and moving into other activities in the space of a few years [173] with the help of the local bureaucrats. In the words of one director: ‘they [high ranking bureaucrats] understood that their signature means money, making life impossible for those without the right connections or unwilling to pay the necessary bribes’.[174] It was reported that in the second half of the 1990s, a typical mid-level oil company had to pay one million dollars in bribes to their operate oil fields.[175] In effect, out of 15 small oil-extracting companies that were created in the beginning of the 1990s, no more than three survived unchanged until 2004.[176] Specialists working in the local oil industry stated that the great bulk of the small oil extracting companies were taken over by people from the centre of the country.[177] It should be noted at this point that those pushed out from their oil ventures came to haunt Nazarbayev’s regime towards the end of the 1990s, when they joined forces with other groups in the oil-rich areas who did not benefit from privatisation and lacked direct access to the foreign oil companies (discussed at length in chapter 5).

Nazarbayev’s regime selected and rewarded its key clients in the region through groups of intermediary brokers, most importantly the local *akims.*[178] In Kazakhstan, on the regional level virtually all power is in the hands of the *akim* (local governor/prefect), who is directly appointed by the president, and in turn appoints local district

[172] Interview with an executive director of a local oil company: Atyrau, 16 November 2004.
[173] Interview with a financial director working for a local oil company: Atyrau, 18 November 2004.
[174] Interview with a director of a local oil company: Atyrau, 8 November 2004.
[175] Interview with a manager working for a foreign drilling company: Almaty, 8 September 2004.
[176] Ibid.
[177] Interview with an executive director of a local oil company: Atyrau, 16 November 2004.
[178] Interview with a foreign diplomat: Almaty, 15 September 2004.

administrators. According to article 87 of the Constitution, the *akim* of each administrative–territorial unit heads the local executive authorities and represents the president and government of the republic. The *akim* is responsible for realising state policy within the local territory, for coordinating the territorial divisions of the central administration agencies, and for administering the executive bodies funded through the local budget. Moreover, the *akim* is also responsible for economic and social development in the regions (Makhmutova 2001: 113–114). In spring 1998, Nazarbayev further consolidated his grip on power when he merged a number of regions, thereby reducing their total number from 19 to 14.

Whereas a vertically integrated executive system had already been in place under the previous 1993 constitution – i.e. *akims* directly appointed by the president – the August 1995 constitution allowed the president to regain powers in the regions by strengthening the position of the executive over other branches of the government. This became manifest in the changing patterns of appointments of *akims*, which in a highly centralised and personalised system is arguably one of the best indicators of the shifts that take place in the balance of power.

As noted above, during the first years after independence, Nazarbayev heavily relied on so-called home-grown governors. After all, these ex-first secretaries had the necessary support within the regions, which Nazarbayev had to take under consideration in the early days. However, they began displaying a level of independence from the centre that was unacceptable to the president. In the post-1995 era, Nazarbayev began appointing more and more ‘new man’ technocrats and former businessmen to the post of *akims*, who would introduce the necessary reforms, but were politically too weak to oppose him. As it turned out, this pattern did not last for a long time. In the late 1990s, Nazarbayev began referring members of the national elite to the provinces – his trusted ‘lieutenants’ who owed him political or economic influence – rather than, for instance, technocrats who in the long run could develop their own power bases in the regions and become potentially politically threatening (Cummings 2000: 43). Trusted ‘lieutenants’ posed the least danger to the president; yet, the high degree of their rotation shows that Nazarbayev tends to be very careful with them, too. On average, in the first decade of independence, an *akim* would spend around 20 months in his post. Following that, he would either continue working for the government, become a parliamentarian, or a private businessman (Schatz 2004: 104). It has been alleged that Nazarbayev tends to appoint to the post of the *akim* only those 'loyalists' who have skeletons in the closet and can be blackmailed because 'KNB[179] has something on them'.[180]

The new breed of *akims* are far from champions of the common good. In today's Kazakhstan, it appears to be a widely held consensus that their time in office is spent on self-enrichment rather than promoting the interests of the regions in which they happen to serve. In the words of Masanov:

> The sole aim is self-enrichment. As soon as an *akim* is appointed he summons the heads of the Committee for National Security and Police and instructs them to insure order in the province; then he summons the *akims* of the various districts under him and tells them they must bring him US$100,000 each every year. How they earn that money is no concern to him. That workers are unemployed, pensioners are half-starving, that's there's no water or electricity, that's also not his problem. (Masanov quote in George 2001: 50)

Moreover, the newly appointed *akims* do not seem to find it too problematic to gain acceptance in the regions, since regional elites are by now accustomed to constant changes at the top, so that there is no backlash from the people who did well under the previous *akims*. Change is part of the system, a reality with which they have to live, and this is something they accept.[181]

To sum up, due to the worsening economic situation, Nazarbayev's regime embarked on the most ambitious privatisation program for the oil and gas industry in the post-Soviet space. The initial privatisation was carried out by PM Kazhegeldin, while the Kazakh oil men were pushed aside. Despite criticism against the privatisation process, Nazarbayev went ahead with his plans and in the process managed to bring the oil industry solely under his own and his family's control. Yet the Kazakh oil men, who had been little involved in the process, had to be accommodated in other ways. Hence the transition of key individuals in the oil sector (presidents, directors of state owned oil and gas enterprises) was facilitated by Nazarbayev's inner circle, and in the course of this

[179] KNB (ex-KGB): the Committee for National Security is responsible for national security, intelligence, and counterintelligence. The Chairman of the KNB reports directly to the President.
[180] Panel discussion 'Kazakhstan in Transition: 200 Years before Democracy,' *Central Eurasian Studies Society, Fourth Annual Conference.* Harvard University, 3 October 2003. Panellists: Martha B. Olcott, Nurbulat Masanov, Zauresh Battalova, Dinissa Duvanova, and Rachid Nougmanov.
[181] Interview with a foreign diplomat: Almaty, 18 October 2004.

transition, they automatically became his clients. Those oil men were watched over by intermediates in the peripheries, most importantly the local *akims* and their deputies. In the next section, it is shown that so far, these accommodated Kazakh oil men have proven to be reliable supporters of the regime, and are ready to back it in times of political crisis.

4. The Kazakh oil industry after independence: the president's company (1997–2005)

The post-privatisation period was marked by a radical change in the regime's attitude towards future privatisation and foreign investors. The new government, headed by the 'patriotic' if not nationalistic Balgymbayev (Surucu 2002: 390), announced that it would suspend the privatisation process in the oil sector and that the government would closely scrutinise investors' actions. A few years later, Balgymbayev summed up his mission in the government as follows: 'We were called upon to ensure the balance of power in relations with foreign partners and to protect state interests.'[182] At least in public, the U-turn was supported by Nazarbayev, who at that time announced that the privatisation in the oil and gas sector was concluded for the next two generations, and that enough deals had already been signed. To use his own words: 'For this generation and the next we have completed all contracts (…) For the third generation of Kazakhs there's still plenty left … we have got to think about them as well'.[183] Whereas the government's tough new line did not endure and was quickly reversed on the eve of the Russian financial crisis and social unrest, it nevertheless had an important impact on the relationship between different parties within the regime's structure and on the further development of the oil industry.

The nationalistic line of the new government created the space for the emergence of a group of politically and economically influential actors – not previously affiliated with the oil industry – that were determined to participate in the oil deals. They would eventually orchestrate the downfall of Balgymbayev, whom they considered as the main obstacle, by using his own nationalistic sword against him. However, in the process of positioning themselves as serious players in the oil industry, they clashed with

[182] 'Nurlan Balgymbayev,' *Oil and Gas of Kazakhstan Magazine*, No 4–5, 2001.
[183] 'Kazakhstan leaves rest oil and gas privatisation to next generations,' *Alexandre's Gas and Oil Connections*, 3 (17), 15 June 1998.

Nazarbayev's family members, who were also keen on widening their influence in the oil sector. During the infighting between these two parties, which also began affecting Nazarbayev, his clients from the oil-rich peripheries firmly backed their patron. Nazarbayev acknowledged their support through awarding key oil men with the highest positions in yet another mutation of the NOC. Moreover, in recent years we can observe the rise of new private oil companies in Kazakhstan, the main owners of which are members of Nazarbayev's family and Kazakh oil men. Thus, while Nazarbayev's family largely appropriated what was left in Kazakhstan in terms of oil, they did share the spoils with the oil men. This in turn perpetuated the patron–clientelistic relationship which was set in place in the mid-1990s.

4.1. The young oligarchs' challenge

The immediate 'victims' of Balgymbayev's government were workers of non-Kazakh sub-contracting companies – primarily Turkish – who were simply accused of taking away Kazakh jobs (discussed in chapter 4, section 2), and small companies that came to the Kazakh market during Kazhegeldin's rule. In 1996, for instance, 85 per cent of shares in the Shymkent refinery were sold in a controversial deal to the little known Vitol (a Dutch oil trading company).[184] In 1997, Vitol was accused of tax evasion, and the Kazakh authorities went so far as to arrest one of its bosses.[185] Eventually, the company was banned from Kazakhstan and its shares made their way to Kazkommertsbank (KKB) and Central Asia Industrial Holding (CAIH). The fact that KKB and CAIH became the owners of the Shymkent refinery heralded the arrival of a group of leading young businessmen-turned-technocrats, in other words, oligarchs (some also call them Young Turks – *mladoturki*),[186] who had been excluded from the privatisation of the oil sector under Kazhegeldin's lead in government (Furman 2005: 225; Henderson 2000). By 1998, people like Uraz Dzhandosov (First Deputy Prime-Minister and Chairman of the State

[184] *APS Review Downstream Trends*, 19 August 2002.
[185] *Review Downstream Trends*, 31 July 2000.
[186] T.B. Umbetalieva, 'Economical elite of Kazakhstan at the present stage,' http://www.kisi.kz/English/Intpol/Umbetalieva_en.html (Accessed 16 September 2004); Nurbulat Masanov, 'Political elite of Kazakhstan: The changes of Kazakhstani political elite during the period of sovereignty,' *Round Table*: *Political Elite of Kazakhstan*, Almaty, 2000.

Investment Committee), Mukhtar Ablyazov (Minister of Power, Industry, and Trade), Anvan Saidenov (Deputy finance minister and executive director of the SIC), Galymzhan Zhakiyanov (Chairman of the Agency for Strategic Resources Control), and Sauat Mynbayev (Minister of Finance) were co-opted by the regime and given top positions in Kazakhstan (Cummings 2005: 122). Their new positions gave them enough political clout to be able to demand stakes in the oil industry for themselves.[187].

For instance, one prominent member of this group – Uraz Dzhandosov – created an image of himself as a dedicated reformer in favour of selling oil and energy assets to foreign companies. Moreover, he emphasised there would be no wholesale review of privatisation: 'We will seek to revise deals only if they are breaking the agreement or breaking the law. We will sit down at the table with them [foreign companies] and discuss it.'[188] Thus, despite the fact that the oligarchs were clearly gaining their initial footing in the oil sector (since some companies had been forced out of the Kazakh market), Dzhandosov indicated that they, as opposed to Balgymbayev, were ready for business. This sort of declaration was crucial and carried real weight, since Dzhandosov took part in the exploration and production depositions with foreign oil companies. However, before a group of businessmen-turned-politicians could position themselves as a real alternative to Balgymbayev – in Kazhegeldin-like fashion – the Prime Minister was yet again forced to step in as the champion of privatisation and foreign investors. Thus, he unintentionally took the wind out of the oligarchs' sails.

Between 1997 and 1998, a wave of social unrest swept through Kazakhstan (discussed in chapter 4, section 1). Most traumatic for the population were the protests staged by pensioners,[189] who opposed a Chilean-style pension reform with private individual cumulative accounts (Aslund 2003: 78; Gleason 2003: 51; Zhukov 2005: 403–409). The protests reached a boiling point in 1997 when pensioners had not received any money for almost a year, the arrears exceeding 36 billion tenge, and with no money in the government's coffers to pay them.[190] The social problems were significantly magnified in

[187] For their business connections see: Satpaev (1999), pp. 80–81; George (2002), pp. 34–37.
[188] *APS Review Downstream Trends*, 31 July 2000.
[189] Interviews, Kazakhstan Fall: 2004.
[190] 'Paying Pensions in Kazakhstan,' *The World Bank*,

the face of Russia's financial crisis in August 1998 (Rutland 2001b: 173–187; Stiglitz 2002: 145–151), which produced rapid aftershocks for the Kazakh economy. It was argued then that a strong incentive for another round of privatisations were falling oil prices[191] and the looming presidential elections (chapter 4, section 1.1). Sergei Paramonov, the Almaty representative of Interconsulting stated: 'The fact that KazakhOil's former president, Nurlan Balgymbayev, is today the prime minister of Kazakhstan, and the company's current vice president, Timur Kulibayev, is the son-in-law of the country's president, Nursultan Nazarbayev, means that Nazarbayev views KazakhOil as a source of support to the national economy and, possibly, as a source of financing for the next presidential elections.'[192]

In response to those mounting crises, the government in 1998 sold off KazakhOil's most promising asset,[193] a 14.28 per cent stake in the Offshore Kazakhstan International Operating Company (OKIOC[194], now know as AgipKOC) for half-a-billon dollars. The scale of the mistake committed by Kazakh decision makers in doing this became visible only a few years later, when OKIOC announced the discovery of the offshore Kashagan field – the largest oil find in the past 30 to 40 years, with oil and gas reserves of over seven billion tons – which overnight catapulted Kazakhstan into the super league of oil-rich countries[195] (for a discussion of Kashagan deal and the events that followed see chapter 6, section 2.2). Balgymbayev's government did not stop here, and in late 1999 announced plans to put up for sale KazakhOil's 30 per cent interest in Mangistaumunaigaz and 25.2 per cent interest in Aktobemunaigaz. This idea was strongly criticised by ex-minister Piotr Svoik and the former Ambassador to China,

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http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/KAZAKHSTANEXTN/0,,contentMDK:20212647~pagePK:141137~piPK:141127~theSitePK:361869,00.html (Accessed 13 February 2005).

[191] 'Kazakhstan needs to sell state assets if oil prices continue,' *Alexandre's Gas and Oil Connections*, 4 (2), 2 February 1999.

[192] 'Musclebound,' *Russian Petroleum Investor*, June/July 1998.

[193] In addition, in order to cushion the crisis, Kazakhstan borrowed heavily from international institutions. By the end of the 1990s, they had become the third largest borrower among the former Soviet Republics, having accepted 13 loans from the World Bank since independence, totalling almost $1 billion (Jafar (2004), p. 207).

[194] OKIOC was previously known as Kazakhstancaspishelf JSC.

[195] Carola Hoyos, '$20bn Kazakh oil project faces two-year delay.' *Financial Times*, 20 August 2003; Yaroslav Razumov, 'What does oil of Eastern Kashagan give to Kazakhstan and its people?' *Panorama*, 14 June 2000.

Murat Auezov, who were the leaders of Azamat (Democratic Party registered in 1999), and who also demanded an investigation of past sell-offs in the Kazakh oil and gas sector.[196]

The criticism voiced by the 'opposition' against Balgymbayev's government was just the tip of the iceberg. By 1999, the oil men's government came under fire from every possible fraction, such as the business community, the ex-Communist elite, and parliament. Balgymbayev's policies were made responsible for the bad performance of the economy, which was now faring worse than it had under Kazhegeldin's administration.[197] On top of that, he was also disliked for his heavy-handed style, a character feature that was laid bare during budget debates.[198] Balgymbayev resigned from the post of Prime Minister on 1 October 1999 and went back to his old post or stronghold as president of KazakhOil, which had been vacant since August 1999. Nurlan Kapparov was moved to a position outside the NOC due to his opposition to the sale of a five per cent Kazakh stake in TengizChevrOil, a sale which Balgymbayev had supported.[199]

The sale of the stake in TengizChevrOil caused a huge controversy, on which the group of oligarchs was quickly to capitalise.[200] Based on already raised resentment, they argued that in the last two years, the value of the project had increased by 100 per cent; hence 'why give it away cheaply today if it could be given tomorrow at a higher price?'[201] At the same time, Balgymbayev stated that the main financial benefits from the operation of the Tengiz field were not expected before 2015, and that it was worthwhile to sell a stake in TCO now, in order to use the funds received for the development of other sectors of the economy.[202] The deal eventually went ahead, bringing the ownership share of Chevron to 50 per cent. However, it backfired badly on Balgymbayev, since the one-time supporter of Kazakh national interests was accused by the newcomers of

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[196] 'Kazakhstan hopes oil stake sales will help revive privatisation drive,' *Alexandre's Gas and Oil Connections*, 5 (16), 11 September 1999.
[197] 'In 1999, per capita GDP stood at $1,058 (the figure for 1990 was $1,741), while the total GDP volume in 1998 barely reached 73 percent of the 1992 levels (Smirnov 2000: 164).
[198] *Komsomolskaya Pravda* , 1 March 2002.
[199] *Diplomat Operation in Oil Diplomacy*, 27 August 2001.
[200] *ITAR-TASS*, 23 August 2000.
[201] 'TCO: The Most Intriguing Deal,' *Oil and Gas of Kazakhstan Magazine*, No 3–4, 2000.
[202] Ibid.

serving the interests of the powerful foreign oil lobby.[203] The main incentive for the attack on 'honorary oil industry worker' was the highly anticipated redistribution of the oil pie, which Balgimbayev openly opposed[204] by simply stating that the further 'privatisation of NOC KazakhOil is not profitable for the state'.[205] Nazarbayev tacitly backed the young technocrats' assault on the ex-Prime Minister.[206]

The most straightforward explanation for his tacit support for them lies in the fact that since Balgymbayev and Nazarbayev had worked together very closely during the most controversial period in the post-independence era, Balgymbayev knew far too much about various backdoor dealings[207], including Kazakhgate (chapter 6, sections 1, 1.1). Olcott stated that 'Balgymbayev succeeded in making KazakhOil strong enough to be viewed as a threat to Nazarbayev' (2002: 158). Moreover, a semi-independent president of the NOC was also intolerable from the standpoint of Nazarbayev's family, which was interested in getting involved in oil deals that Balgymbayev could potentially obstruct.[208] By 2001, not only was Timur Kulibayev[209] heavily drawn into the oil business, but also Nazarbayev's oldest daughter Dariga[210] and her high ambitious husband Rakhat Aliev,[211] who had interests in Mangistaumunaigaz (Peck 2004: 169).

With Balgimbayev considerably weakened, the two groups – namely the oligarchs and Nazarbayev's family – began positioning themselves for the struggle over influence in the oil sector.[212] The clash was accelerated by the ongoing conflict between the oligarchs and Rakhat Aliev (the Deputy Head of the National Security Committee) over

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[203] Dosym Satpaev, 'Kazakh Premier Under Threat,' http://www.iwpr.net/index.pl?archive/rca/rca_200011_30_2_eng.txt (Accessed 20 September 2004).
[204] Dosym Satpaev, 'Bulldogs fight under a carpet: oil track,' *Petroleum Magazine*, February 2001.
[205] 'Nurlan Balgimbayev: Privatisation of KazakhOil is Currently Unprofitable of the State,' *Petroleum Magazine*, November 2000.
[206] Interview with the executive director of a major oil project in Kazakhstan: Atyrau, 17 November 2004.
[207] *Interfax-news*, 19 February 2002.
[208] Kanat Shaymerdenov, 'The inevitable liberalisation of the domestic market for oil products,' *Panorama*, 22 June 2001.
[209] In 2002, Kulibayev expelled the Belgian company Traktebel from Kazakhstan and secured the transfer of its business to the KazTransGaz company, which he controlled. This allowed him to step out of Nazarbayev's shadow and become a serious player in his own right.
[210] For more about Dariga Nazarbayev see: Sergei Blagov, 'Kazakhstan: Let's talk about succession,' www.atimes.com (Accessed 23 January 2004); Jeremy Druker, 'Euroasia Media Forum: Central Asia's Masters of Spin,' www.eurasianet.net (Accessed 24 April 2004).
[211] Sergei Duvanov, 'Rakhat Aliev – Crime Fighter,' *IWPR*, 11 August 2000.
[212] Interview with a high-ranking member of the opposition party, who worked in the presidential apparatus throughout the 1990s: Almaty, 5 November 2004.

business influence in other sectors of the economy such as sugar, banking and prior to that, metallurgy. Nazarbayev made a reconciliatory gesture towards the oligarchs as he shifted Aliev to the ambassadorial post in Austria – a move reminiscent of a Soviet style 'honorary exile'.[213] However, by then they saw Nazarbayev as a partial broker, one who strongly favoured the interests of his family rather than balancing rival fractions. In the oligarchs' opinion, his system had become dysfunctional. As a response, they formed the Democratic Choice of Kazakhstan (DCK) party in November 2001, which was hailed as the first true base for the democratic movement in Central Asia.[214] In reality, it strove to normalise the relationship between business and the state, possibly in a corporatistic fashion.[215] However, the oligarchs failed to understand that the time of quasi-pluralism was long over (chapter 3, section 1). Nazarbayev dealt with dissent in an uncompromising manner. The DCK's two most prominent members, Ablyazov and Zhakyanov, were sent to prison[216], prompting a split of the more 'moderate' wing of the DCK, which was led by Dzhandosov and another wealthy businessman Bulat Abilov. They moved to form the pro-business Ak Zhol (Bright Path)[217] (for details see chapter 6, section 1.2).

Throughout the DCK affair, Kazakh oil men stayed faithful to Nazarbayev despite some attempts by the oligarchs to win them over,[218] an act which should not be underestimated. Aldar Kusainov[219] argued that if the oil men were to throw their weight behind the opposition, they would most likely tip the balance in their favour: 'If Ak Zhol or, more likely, the DCK decides to confront the authorities directly, one key constituency that may prove a deciding factor is the growing number of small- and

[213] Altai Jasulanov, 'Austrian Exile for President's Son-in-Law,' *IWPR*, 26 July, 2002.
[214] Anthony Robinson, 'A Kazakh Drama,' *Prospect*, 81 (Dec 2002).
[215] Dimitrii Furman argued that another major reason behind DCK was a need to create a political system that would respect the rule of law as oligarchs and new bourgeoisie began to understand that 'under the conditions of an authoritarian system, their property was very weakly defended' ((2005), p. 223).
[216] They were convicted on corruption charges and were sent to six and seven years in prison, respectively. Subsequently, Ablyazov was pardoned in mid-2003 as a reconciliatory gesture towards the DCK, whereas Zhakyanov was only released in the beginning of 2006.
[217] In 2005, a fraction led by Dzhandosov, split from Ak Zhol and formed Naghyz Ak Zhol (True Bright Path) as a result of prolonged personal infighting.
[218] Interview with a high-ranking member of the opposition party who worked in the presidential apparatus throughout the 1990s: Almaty, 5 November 2004.
[219] Pseudonym for a Kazakhstan-based commentator.

medium-sized business owners, many of whom are active in the country's oil and gas sector'.[220]

The oil men not only abstained from taking active part, but they were also the first to take steps that would eventually culminate in the outlawing of the DCK. In 2003, Atyrau's authorities banned DCK operations in this oil-rich area for minor violations.[221] By late 2004, there was no sign of either DCK or Ak Zhol in Atyrau city. It is argued here that the oil men supported Nazarbayev because during and after the privatisation process, he assured them of a smooth transition from state-run enterprises to the private sector. In recent years, Nazarbayev has symbolically honoured his alliances by installing representatives of the key oil families and people affiliated with old and new oil projects at the top of the recently formed NOC KazMunaiGas, and by giving Kazakh oil men preferential access to the new oil deals.

4.2. The NOC KazMunaiGas and Nazarbayev's family

On 20 February 2002, Nazarbayev signed the decree[222] on the establishment of the Closed Joint Stock Company 'National Company KazMunaiGas (KMG)' through the merger of the CJSC 'National Oil and Gas Company KazakhOil'[223] and the CJSC 'National Company Transportation of Oil and Gas'[224] (established in May 2001 through the merger of state pipeline companies KazTransOil and KazTransGaz).[225] Kazakh authorities argued that the NOC KazMunaiGas was created to ensure a single state policy

[220] Aldar Kusainov, 'Kazakhstan's Critical Choice,' 13 January 2003 http://www.eurasianet.org/departments/rights/articles/eav011303_pr.shtml (Accessed 29 April 2003).

[221] Alexander Zakharov, 'DCK Facing Oblivion,' 17 October 2003 http://www.iwpr.net/index.pl?archive/rca/rca_200310_241_2_eng.txt (Accessed 24 February 2005).

[222] Decree 811 of the President of the Republic of Kazakhstan 20 February 2000, 'On measures on further securing the interests of the State in the oil and gas sector of the country's economy'.

[223] In 2001, KazakhOil accounted for about one-fifth of oil produced in Kazakhstan, while oil revenues made up one-third of Kazakhstan's budget; *see also*: Constantine Syroezhkin, 'Politics before economy,' *Continent,* 18 February 2001; Valerie Steshin, 'KazakhOil magi blanket.' *Srednaya Aziya Bulletin*, 4 June 2001.

[224] In 2001, the Transportation of Oil and Gas was responsible for transporting up to 80 per cent of the oil extracted in the country. Oil and Gas moreover accounted for half of Kazakhstan's exports; *For more see*: Andrey Zhdanov, 'To be regaled by monster - this so is tasteful. The concentration of the transport of Kazakh hydrocarbons in single hands have begun,' *Express-K*, 8 May 2001

[225] *Kazakhstan News Bulletin Released weekly by the Embassy of the Republic of Kazakhstan*, 1 (6), 27 February 2002; For details concerning the assets of KazakhOil and Transport of Oil and Gas before the merger, see Appendix 4.

in using the country's chief mineral resources, and a single negotiating body. In theory, the company should be capable of implementing more complex projects – in particular in developing the Caspian Shelf – through unified management and organisation.[226] The commentators, on their part, suggested that the main rationale behind the creation of the company was the desire of the Kazakh authorities to streamline relations between the government and major companies, and to ensure greater involvement of the local bourgeoisie in the oil project: '[t]he basic idea of the Kazakh elite, which is now coming to power, is clear: foreigners should forget about being a "big brother" and should settle for being junior partners'.[227] Thus, it was announced that KazMunaiGas would have a mandatory share of 50 per cent in all new oil and gas projects.

Liazzat Kiinov became president of the super-monopoly KazMunaiGas, with an annual turnover of two billon dollars.[228] He, like his predecessors (Yelemanov, Cherdabayev, Balgymbayev) comes from western Kazakhstan. Kiinov studied at the Kazakh Polytechnic Institute, held executive positions in the Communist Party, and after independence was a deputy director general of the Caspian Pipeline Consortium. In the late 1990s, he headed Mangistaumunaigaz and subsequently was promoted to the position of *akim* in the oil-rich Mangistau region.[229] Makhambet Batyrbaev, who had participated in the launch of the development project for the Tengiz field where he served as director general of Tengizneftegaz in the beginning of the 1990s, was appointed as vice-president of the KMG. Subsequently, he became vice-president of Munaigas and president of Embamunaigaz. He belongs to a major oil family in Kazakhstan, as does Uzakbai Karabalin, who first sat on the board of directors of the new company.[230] Karabalin studied in Moscow, worked for Emba, and at the beginning of the 1990s, held the

[226] Azhar Kadrzhanova, 'KazMunaiGas – New Oil and Gas Integrated Company,' *US & Foreign Commercial Service and US Department of State*, 19 April 2002; *Ekspress-K*, 6 Dec 03. *Source*: BBC Monitoring 12 December 2003; Vlad Alpenshtok, 'Decision of №456, or there and back,' *Vremia Po*, 17 May 2001.
[227] Sergei Gribov, 'The Master Has Returned: Kazakh President reinstates KMG oil and gas super-monopoly,' http://www.rusenergy.com/eng/politics/a26022002.htm (Accessed 05 December 2004); see also: 'KazMunaiGas: Domestic Companies Will Get Priority Access to Licenses,' *Petroleum Magazine*, October 2002; 'KazMunaiGas: On Guard of the Interests of the State,' *Petroleum Magazine*, October 2003.
[228] 'An oil giant KazMunaiGas is established in Kazakhstan,' *Oil and Gas Kazakhstan Magazine*, 1 (2002).
[229] *APS Review Downstream Trends*, 26 August 2002.
[230] In 2003, Karabalin replaced Kiinov as president of the company. He was characterised as a highly professional oil man with moderate ambitions. *Source*: 'New President of KazMunaiGas Appointed,' *Oil and Gas Magazine*, 1–2 (2003).

function of deputy minister of the oil and gas industry. During the mid-1990s, he received service training at Agip's office in Italy and later on rose to become vice-president of KazakhOil and eventually president of KazTransGaz. Another member of an oil family to rise to a top position was Zhakyp Marabayev, who became director of investment projects and joint ventures. Finally, Vladimir Miroshnikov was a top-official from the oil rich regions, who in the 1990s became the first vice-president of Mangistaumunaigaz[231].

The composition of top officials of the KMG demonstrates the firm alliances between Nazarbayev and the Kazakh oil men. It is argued here that if Nazarbayev felt threatened by Kazakh oil men and did not consider them his trusted clients, he would not: a) create a highly centralised oil company that oil men could try to capture; and b) appoint so many of them to executive positions. Having said that, the oil men were not left to their own free reigns by Nazarbayev, who appointed Kulibayev[232] to the position of first vice-president of KMG. The latter brought to the company a number of his own associates. For instance, Daniyar Berlibayev, the former first vice-president of KazTransGaz was appointed to the post of managing director on corporate management, and Kanatbek Safinov, (Kulibayev's nephew), the ex-head of the board of directors of KazakhOil, became director of legal security in KMG.[233] It should be added that Kulibayev's high and very public position in the new company was not only that of a watchman, but also that of a guardian of family interests in the new oil deals.[234]

As stated above, one of the intentions behind the creation of the new company was to facilitate the access of the local elites to the oil business. The main benefactors of this policy were members of Nazarbayev's family and the Kazakh oil men. In 2003, commentators began reporting on a new trend of home-grown Kazakh oil companies buying up assets previously owned by foreign investors. In that same year, Nelson Resources, a Canadian-based company registered in the Bermuda Islands, bought a 50 per cent stake in the North Buzachi oil field in the Mangistau region from China's CNPC.

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231 'The Phoenix Bird,' *Petroleum Magazine*, April 2002; *Petroleum Encyclopaedia of Kazakhstan, 2*; Interviews Kazakhstan Fall, 2004.

232 A. Isaev, I. Sarsenov, 'Crown prince and the black gold.' *Eurasia*, 13 April 2001; Another rising star in Kazakh oil sector has been Nazarbayev's nephew Kairat Satybaldy. He has held various important positions (Furman (2005), p. 219).

233 *Petroleum Magazine*, April 2002.

234 In October 2005, Kulibayev (at the age of 39) resigned as vice president of KazMunaiGaz without a formal explanation. 'Timur Kulibayev leaves KazMunaiGas,' *Kazakhstan Today*, 22 October 2005.

One year later, the company also purchased about 60 per cent of Chaparral Resources, which in turn owned a 60 per cent controlling interest in the Karakuduk field that it was developing together with KazMunaiGas. Finally, it was argued that Nelson Resources would be awarded a number of licenses to develop sea blocks on which KazakhOil had already conducted geological surveys.[235] In August 2004, the market capitalisation of Nelson Resources reached about $1 billion.[236] According to commentators, the main financial and political forces behind Nelson Resources were Timur Kulibayev and his associates.[237] Another example of Nazarbayev's family involvement is Canargo Energy, which is headed by Bulat Nazarbayev, the president's brother. The company holds licenses for the exploration of gas fields situated west of the Aral Sea.[238] When it comes to the oil men's involvement, the most recent example is that of the US-based BMB Holding, which owns several Kazakh oil deposits, together with interests in Azerbaijan. The BMB board includes former Kazakh TengizChevrOil director Boris Cherdabayev (brother of Ravil Cherdabayev)[239].

These new domestic oil and gas companies are run by teams of specialists with years of experience in the oil industry. One notable case in point is Nelson's chairman and chief executive Nick Zana, a long-serving Chevron executive, who was responsible for increasing production and opening new export routes for TengizChevrOil (1995–1997). He is also highly respected by the Kazakh oil men.[240] Another example is the former Total executive Aziz Ait-Said, who headed French major operations in the former Soviet Union. Arguably, what has been happening in Kazakhstan in the last few years is an attempt to build highly efficient and transparent oil companies that are able to attract

[235] Sergei Grachev, 'Kashagan Magic: Kazakhstan's national capital claims major role in developing Caspian Reserves,' 16 February 2002 http://www.rusenergy.com/eng/caspian/a04022002.htm (Accessed 20 October 2004).
[236] 'Five Years of Success: Nelson Resources,' *Special Issue: Kazakhstan Oil and Gas*, 2004.
[237] Svetlana Voronina, 'Commercial News Update-Kazakhstan,' *BISNIS Representative for Kazachstan*, 30 October 2003.
http://www.bisnis.doc.gov/bisnis/bisdoc/0312KZ_Comm_Update.htm (Accessed 20 October 2004).
[238] *Nefte Compass*, 6 August 2004.
[239] http://www.bmbmunai.com (Accessed 3 October 2005); 'BMB Munai: build up hydrocarbon reserves,' *Oil and Gas of Kazakhstan Magazine*, 2 (2005).
[240] Interviews Kazakhstan Autumn: 2004; *see also*: Vlad Alpenshtok, 'Nick Zana in Access Industries or a new task for the oil giant.' *Vremia Po*, 4 June 2001.

western investors.[241] Those involved in the Kazakh oil sector follow the path of such people as Mikhail Khodorkovsky, the former CEO of Yukos from 1995–2004, who after bringing Yukos under his control attempted to turn the company around with the help of western specialists. It could be argued that the formation of highly respectable companies is either a way of legitimising the capital that Nazarbayev's inner circle accumulated, or of securing his family's interests against unpredictable political developments.

To sum up, in the late 1990s, a group of young businessmen-turned-technocrats (e.g. Dzhandosov, Ablyazov, Zhaiyanov) began demanding access to the oil sector. They successfully sidelined Balgymbayev, whom they initially saw as the main obstacle. However, in the process they clashed with members of Nazarbayev's family (Rakhat Aliev and Dariga Nazarbayev), with whom they were already engaged in a number of struggles for influence in various sectors of the economy. Resulting from this, the oligarchs went on to form their own political party (DCK) that directly threatened Nazarbayev. The Kazakh oil men did not participate in these struggles against the president and supported their patron. Nazarbayev symbolically rewarded them with high positions in the new oil and gas company (e.g. Kiinov, Batyrbaev, Karabalin, Marabayev), and paved the way for their participation in lucrative new oil deals (e,g. Cherdabayev). By taking such steps, his regime managed to successfully reproduce this existing patron–client relationship.

In conclusion, in the first years after independence, Nazarbayev attempted to partly privatise the Kazakh oil industry with the help of the oil men. The relationship between the regime and various branches of the oil-industry was structured in a corporatistic fashion. However, the attempts in the centre and peripheries (as the example of the Biedermann International explicitly demonstrated) to seize control over the oil industry from Nazarbayev led him to abandon the idea of controlling the Kazakh oil industry through corporatistic methods, and resulted in his gradual move to patron–clientelistic techniques. This transition was greatly sped up during the privatisation process of the oil industry. In addition, it was argued that in the centre of the country, the actions of oil men and other important clients working in the oil industry are monitored

[241] Mark Hollingsworth and David Leigh. 'Ex-BAE chairman is recruited by Kazakhstan,' *Guardian*, 4 December 2006.

closely by the members of the Nazarbayev's family, who have been introduced to the highest posts in the oil industry; in the peripheries, they are monitored by the often-rotated local governors.

Chapter 3: Strengthening the informal ties: the Kazakhization of the oil industry

In previous chapter, we argued that in the first years of independence, Nazarbayev's regime structured its relationship with various branches of the oil industry through corporatist mechanisms. However, due to attempts at the centre and in the peripheries to seize control over the oil industry from Nazarbayev, he was led to abandon the idea of controlling the Kazakh oil industry through corporatist methods, which led to a gradual move towards patron-client techniques. In this chapter, we argue that the introduction of the patron–client 'modus operandi' was accompanied by the gradual Kazakhization of the oil industry, which (intentionally and unintentionally) strengthened the informal ties between Nazarbayev and his clients.

By the intentional strengthening of these informal ties through Kazakhization, we understand a situation in which an oil industry-supporting company, say a construction or assembling company, is only granted access to the oil industry because it is at least partly owned by the regime's client, who is also an ethnic Kazakh. That is to say, a company run by the regime's clients who are not ethnic Kazakhs would not be given oil industry related contracts. By the unintentional strengthening of informal ties through Kazakhization, we understand a situation in which the regime's policies of staffing the NOC with ethnic Kazakhs – a great majority of whom are not professional oil men – and barring other non-Kazakh specialists from joining the company have elevated the status of ethnic Kazakh oil men (the only professionals left in the company). It is argued in this chapter that this unintentional rise is significant, since it allows the oil men to overcome the feeling of inferiority that many of them have had towards Russian and other non-Kazakh specialists. In effect, the oil men not only owe their patron Nazarbayev the high positions they handed, but are also indebted to him for their special, privileged positions in post-Soviet Kazakhstan that go beyond measurable benefits. Finally, in this chapter we will discuss the negative effects that the Kazakhization *per se* of the NOC KazMunaiGas is having on the Kazakh oil sector.

Leading on, in order to better understand the circumstances in which the Kazakhization of the oil industry tool place, as well as to fully recognize its impact in the following section, we will discuss the so-called northern autonomous movements and

Russian–Kazakh relationships. Most importantly, this section explains why this Kazakhization of the oil industry took place in the mid-1990s, and why Russian authorities were willing to accept this policy without any major criticism, despite the fact that it had direct impacted on their influence in Kazakhstan.

1. Containing mobilisation in the north and Russian–Kazakh relationships

On the eve of independence, Kazakhstan, like all other Central Asian republics, was left with its share of colonial baggage, a weight that threatened the very existence of the republic (Rakowska-Harmstone 1994: 23). It has been argued that as in the cases of Kyrgyzstan, Uzbekistan, in Kazakhstan, an ethno-regional challenge, which has its roots in the concentration of European/Slavic communities in the north and east of the country, was the most likely source of political destabilisation (Melvin 2001: 173). According to the last Soviet census, taken in 1989, ethnic Kazakhs constituted 39.7 per cent of the population, while Russians, ethnic Slavs and other 'Russians-speakers' were 50.1 per cent[242] (Olcott 1997: 208). Kazakhstan owed this apparent imbalance, which in the Soviet Union earned it a label of the 'laboratory of the peoples' friendship', to its short modern history,[243] in the course of which its titular nationality was reduced to the minority population (Schatz 2000: 75). Ethnic make-up, as a source of possible political friction, was heightened by the fact that Kazakhstan, which encompasses an enormous territory of 2,717,300 sq km (1,049,155 sq mi, roughly five times the area of France), is divided between two main ethnic groups: Kazakhs and Russians. Kazakhs occupy the south of the country whereas Russians and other non-Kazakhs inhabit the northern parts of Kazakhstan, which economically were (and still are) closely linked to Siberia, i.e. southern Russia.

[242] In the mid-1980s, in other Soviet Central Asia republics Slavs accounted for about 15 per cent of the population (Lubin 1984: 6).

[243] Key events were the extremely violent collectivisation during the Stalin's years, which killed as many as 1.5 million Kazakhs and forced many more to immigrate to China; and the Virgin Lands campaign (1953–65), which called for a rapid increase in the amount of sown land in western Siberia and Kazakhstan. A new wave of non-Kazakh immigrants flooded the republic, and non-Kazakhs became the largest ethnic group in the country.

1.1. The northern autonomous movements' emergence

Potential ethno-regional challenges gained a political face towards the end of the 1980s with the formation of ethnic Russian-oriented groups and parties calling for greater autonomy for the northern and eastern regions. To an extent, the push towards an autonomous path owed much to one of Gorbachev's key *perestroika* era policies – strong centre and strong republics – which meant greater control of Alma-Ata; thus, inevitably ethnic Kazakhs over decision making processes in the republic (Goodman 1994: 77–78). Nazarbayev was also quick to capitalise on this new line, asking rhetorically at the 28th Congress of the CPUS: 'How can Kazakhstan help [in the restructuring of Soviet society] if 90 per cent of its industry is controlled by agencies in Moscow?' (Olcott 1995: 174). Another important element was the formation of Kazakh nationalist groups, which had their roots in the so-called December events of 1986[244] that 'gave rise to a strong sense of the importance of political activism to promote the Kazakh national agenda' (Gleason 1997: 88). Ethnic Kazakh based organisations ranged from nationalist groups such us *Zheltoksan* (December) and *Azat* (Freedom), which wanted Kazakhstan to become a mono-ethnic state, to *Alash Orda*, an extreme religious organisation that in the beginning of the 1990s supported the idea of pan-Turkism and the creation of a Great Turkestan state. In order to achieve their ends, they threatened to resort to terror (Janabel 1996: 16–17; Khazanov 1995: 254).

The first real attempt at constructing an ethno-regional movement to guard the alleged interests of the northern and eastern parts was made by descendants of the earliest Russian settlers from the nineteenth century, who began to join an informal group, the 'Organization for the Autonomy of Eastern Kazakhstan', which managed to gain seats in local and city soviets in the five northern regions (Olcott 1997: 210). Yet another ethno-regional political movement named *Lad* was established at the beginning of the 1990s on the basis of the Russian cultural centres of the north and east, which also openly

[244] On 16 December 1986, thousand to tens of thousands of predominantly young Kazakh students took to the streets of Alma-Ata to voice their discontent with Moscow's decision to appoint *Muscovite* Gennady Kolbin, someone from outside the republic, to head the Communist Party of Kazakhstan (CPK) (Olcott 1990: 66). The protest, which was reported to be peaceful, was interpreted by the Soviet leadership as a riot, and Moscow decided to use the army to quell it at whatever price (1990: 66). Russian troops attacked crowds with dogs and sharpened trench shovels. It is not known how many people died during those tragic events. Estimates range from 200 to up 1,000 and maybe even more (Olcott 1997: 206).

demanded a degree of local autonomy (Melvin 2001: 175). Those demands, when taken to their logical conclusion, aimed at the virtual secession of the Russian-dominated areas. It is important to keep in mind that those movements were indirectly encouraged by voices in Russia. Most notably, in 1990 when Alexander Solzhenitsyn, the legendary dissident and recipient of the Nobel Prize (1970), argued that 'the future of Russia depended on a re-centralization of the Slavic core, and thus on partition of Kazakhstan', his statement created tremendous resentment in Kazakhstan (Roy 2000: 191).

1.2. Nazarbayev's response: a mixed political system and a pact with Russia

After the collapse of the Soviet Union, Nazarbayev's response, to on the one hand, Kazakh nationalists who now openly spoke about removing the 'colonialists' and, on the other hand, to Russians speculating on the possibility of redrawing existing borders, was the construction of a 'mixed political system' (Anderson 1997: 83; Chalidze 1992: 13–14). The main premise of this new system, the legacy of which is still very strong in Kazakhstan's official political discourse, was the prospect of creating in the long-term a democratic polity in which both communities would be able to peacefully co-exist, while stressing the need for a strong executive power that would be able to contain immediate threats from the extreme elements. Nazarbayev's strategy added political weight in the face of the regionally based instability that occurred in other parts of Central Asia, most pronouncedly in Tajikistan, where the state disintegrated under the pressure of powerful regional movements (Janabel 1994: 20; Dannreuther 1994: 25-31; Rubin 1998: 28-61).

The balance system that Nazarbayev began advocating at the beginning of independence gave him a ticket to successfully outlaw both Kazakh and Russian radical organisations by a presidential decree of June 1992, and to co-opt the moderate non-Kazakh elements. First of all, obstacles that could potentially obstruct the participation of the members of the former nomenklatura in the informal privatisation that took place in the beginning of the 1990s were not put in place (Puzanov 1993: 32). Second, a number of pseudo-political pro-presidential parties, such us SNEK, were created that 'contained many leading officials and enterprise directors from the north and east of the country' (Melvin 2001: 174). Finally, an important element that minimised the reach of autonomous rhetoric among the Russian community was the extremely high level of Sovietisation among ethnic Kazakhs. As one author wrote: 'by the 1970s the Kazakhs were arguably the most thoroughly Sovietised of all Soviet citizens – and the overwhelming majority appeared to be proud of this' (Akiner 1995: 51). Arguably, Sovietisation, in other words Russification Bolshevik style, bridged (or rather did not create a gap between) the two communities, at least in the first few years of independence.

For its part, Russia, which at the beginning of the 1990s was gripped by an economic crisis, looked now at Kazakhstan as ballast that it should rid itself off, leaving the Russians living in Kazakhstan largely to fend for themselves.[245] Ethnic Russians featured in the Russian foreign relationship discourse as those left behind, either in the midst of internal struggles within Russia (such as during dual citizenship debates during the 1994 crisis), or when it felt that it needed to assert its stance towards the successor states when confronted with competition from other states, most notably, the US and Turkey (Bolukbasi 1998: 397). In relation to the latter point, in 1993 the Russian foreign minister Andrei Kozyrev, in the face of what was seen to be a growing challenge from new players in the region, did not hesitate to say that 'there may be cases when the use of direct military force will be needed to defend our compatriots aboard', thus sending a clear message to all the Central Asian countries to stay in line (Hunter 1996: 117). It should be pointed out that the Russian's assertive attitude, especially towards Kazakhstan, was largely of a pre-emptive nature, since Nazarbayev never spoke about cutting his ties with Russia – quite the contrary. The president of the new independent Kazakhstan very quickly became the most ardent champion of the Commonwealth of Independent States (CIS). Kazakhstan has been a member since 1991, ever since it emerged from the former USSR, reflecting a widespread perception of Kazakhstan's economic dependency on Russia. Nazarbayev argued that the new loose union with Russia was crucial for the economic development of the Kazakh state (Hale 2005: 20). Moreover, Nazarbayev from the very beginning ensured that Russian oil companies were involved in lucrative oil[246] and gas[247] deals; Lukoil acquired a 20 per cent share in the

[245] Interview with a foreign diplomat: Almaty 15 September 2004.
[246] 'Enter Russia,' *Russian Petroleum Investor,* March 1995.

Kazakh–Chevron deal to explore the Tengiz oil field, and he ensured that the proposed new pipeline,[248] critical from the Russian point of view, went through Russian territory (Anderson 1997: 203). Over the years, Kazakhstan has paid dearly for its dependency on this Russian pipeline system, as the Russian government would, for instance, set up low transit quotas unfavourable from the Kazakh point of view.[249]

With regard to containing extreme ethnic Kazakh elements, Nazarbayev purged from his inner circle those advocating radical ethnic policies,[250] in addition to outlawing them, as mentioned above at the beginning of the 1990s. Whereas those early bans and purges on the surface looked like political manoeuvring aimed at maintaining the stability of the multi-ethnic state (Bremmer and Welt 1996: 186), in reality their aim was to reduce the direct political threat that extreme elements posed to Nazarbayev. Moreover, Nazarbayev began implementing the policies of those that he only recently pushed aside. He forcefully pursued with the Kazakhization of the country's domestic political apparatus and its economic sphere, which traditionally in the Soviet Union had been under Russian and Slavic control. The most visible sign of new politics were the March 1994 parliamentary elections[251] in the new parliament: 'Russians found themselves "represented" by a body which was only 21 percent Russian, and 58 percent Kazakh' (Olcott 1997: 213).[252] Similar processes took place all across the political and economic spectrum and by the mid-1990s, a great part of the Russified elite that was earlier brought into the regime's orbit had been displaced and replaced by southerners (Melvin 2001: 176; Edmunds 1998: 464). In 1998, the four highest posts in the political system (president, vice-president, prime minister and first deputy prime minister) were occupied by Kazakhs (Odgaard and Simonsen 1999: 18). Kazakhization also began taking place at a social and cultural level: 'many old Soviet and Russian street names have been replaced

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[247] 'Playing Hardball,' *Russian Petroleum Investor*, October 1996.
[248] 'Life After Deuss,' *Russian Petroleum Investor*, March 1996.
[249] 'Thorny Problems in Kazakh–Russian Economic Relations,' *Monitor*, 5 (114), 14 June 1999.
[250] Interview with a political expert: Almaty 7 September 2004.
[251] The March parliamentary elections were widely criticised by the international observers for their apparent improprieties. However, in Nazarbayev's opinion, the elections were fully legitimate, even if there were some 'minor' inconsistencies; he added: 'You cannot expect Kazakhstan to traverse the road from totalitarian Communist rule to a French-style democracy in just two years.' *Quoted in* 'Benevolent Dictatorship,' *Russian Petroleum Investor*, April 1995, p. 44.
[252] By 1998, Kazakhs comprised 80 per cent of the presidential apparatus, 64.4 per cent of central government functionaries, and 69.7 per cent of the government (Hoffman Fall 2000: 248).

by the names of Kazakh national heroes, and a new emphasis on a Kazakh historical stance has emerged in the teaching of history in schools' (Edmunds 1998: 463). At the same time, Nazarbayev did not cease, especially during official visits to Russia, to stress the importance of Russia's people and its culture, effectively keeping a façade in place. In his own words: 'It is the Russian language that has given the Kazakhs access to the heights of science and culture and to world literature. Kazakhs need the Russian language just as they need their daily bread.'[253]

This change in Nazarbayev's tactics can be explained through the mounting economic crisis, which by 1994 had led to the climax in emigration of the non-titular segment of society. The major catalyst of this economic crisis was the end of the special economic relationships between Kazakhstan and Russia as Kazakhstan was forced to leave the rouble zone in November 1993[254] (Gleason 2003: 44). In the face of economic destabilisation, Nazarbayev ended the process of 'balance' politics and chose to consolidate his Kazakh political base. The presumed backlash of the northern elites was minimised by the fact that much of the Russian industrial work force was actually leaving Kazakhstan by 1994. It should be added that the first emigrants from Kazakhstan were the representatives of the nomenklatura at the higher, republican, and regional echelons (Kadyrzhanov 1999: 153). Emigration reached its peak in the mid-1990s. Official statistics say that 481,000 people left Kazakhstan in 1994, with 309,600 following in 1995 and 229,400 in 1996 – i.e. a total of 1,846,466 people left Kazakhstan between 1991 and 1999 (Dave 2004: 453). According to the 1999 census, which has been accused of social engineering (Dave 2004; Sinnott 2003), in the space of ten years the Russian population had fallen to only 29.96 per cent of the total population; combined with other Europeans, the total reached only 37.05 per cent of the population total (Sinnott 2003: 140).

While Kazakh official statistics leave much room for improvement, it is a broadly accepted fact that an important section of the Russian community left Kazakhstan in the mid-1990s, thereby minimising the threat of the northern autonomous movements that

[253] 'Nazarbaev in Moscow: Symbolic Concessions, Hard Bargaining,' *Monitor,* 6 (121), 21 June 2000; (see also Kolsto 1998: 56–58).

[254] In 1994, inflation rose 1,945 per cent. Moreover, industrial production shrank by 25 per cent in 1994, and Kazakhstan's GDP in 1995 was 31 per cent below the 1991 level. *Figures quoted in* (Olcott 2002: 136).

emerged at the beginning of the 1990s.[255] However, it appears that President Nazarbayev did not share this optimism. In an unprecedented move, Nazarbayev relocated the capital of the country from the south (Almaty) to the centre of Kazakhstan (Astana), i.e. closer to the north. It has been widely argued that the primary reason for this reallocation 'was the demographic predominance of ethnic Russians in the north and the possibility of separatism' (Schatz 2004: 76). Some have suggested that in the long run, Nazarbayev hoped that the movement of capital would encourage ethnic Kazakhs to move to the northern regions of the country, and hence inevitably change the regional ethnic balance in favour of the Kazakhs (Wolfel 2002: 486).

Despite Nazarbayev's Kazakhization policies, relationships between Russia and Kazakhstan have been surprisingly good over the years, given the nature of some statements by both sides in the early 1990s. In 2004, the *Economist Intelligence Unit* in its annual report argued:

> Kazakhstan's main external ally and security guarantor is Russia. Despite some early tensions over the treatment of the Russian minority in Kazakhstan, relations are good and to an extent facilitated Kazakhstan's decision to assist the US in the counter-terrorism operations that followed the attacks on the US in September 2001.[256]

Arguably, the main reason for the stable relationship is the fact that Nazarbayev has stuck to the informal deal reached between Russia and Kazakhstan, by which Kazakhstan will give Russia a share of its oil pie, whereas Russia will give Nazarbayev a free hand in Kazakhstan's domestic policies. For example, in November 2001, Kazakhstan and Russia concluded a 10-year agreement on cooperation in the gas industry. The parties agreed to achieve a good balance between the delivery and transit of the Russian and Kazakh gas, and to unite efforts in the construction, reconstruction and maintenance of gas pipelines, underground gas storehouses, and other associated facilities.[257] In June 2002, both countries signed yet another agreement, which further ensured a Russian near-monopoly

[255] Interviews, Kazakhstan: Summer and Autumn 2004.
[256] 'Country Profile 2004: Kazakhstan,' *The Economist Intelligence Unit*, London: 2004. p. 16.
[257] 'The Newest Oil History,' *Petroleum Magazine*, October 2002.

on the transit of oil from Kazakhstan for years to come.[258] More recently, in 2005, both countries signed a 55-year production-sharing agreement for the Kurmangazy oilfield in the Caspian Sea, a deal worth 50 billion US dollars.[259]

At the same time, Russian politicians from time to time indicate to Kazakhstan's leadership that the issue of Russians living in Kazakhstan can always be politicised if Kazakhstan were to ever deviate from the current line (Bukkvoll 2004: 642). For instance, in 2003 Russian President Vladimir Putin remarked that Kazakhstan and Russia had 'serious territorial problems'.[260] In January 2005, Vladimir Zhirinovsky, a nationalist politician and deputy speaker in the Russian parliament's lower house, criticized the 2004 border delimitation agreement between the two countries, saying that 'Kazakhstan had never existed as a state', and that by signing the border agreement Russia was giving away its historic lands.[261] Zhirinovsky was not alone in his outlook, and it was reported that at least at the unofficial level, there is little certainty that the signing of the agreement will put an end to territorial claims.[262]

The above discussion demonstrates that Nazarbayev skilfully managed to contain the autonomous movements in the north of the country in the early years of independence by creating a political system which allowed him to co-opt major players in the Russian community. He only pushed with the Kazakhization of the country when the politically threatening managerial strata began to leave Kazakhstan, and even more importantly, after securing indirect support for his policies from Moscow. However, the tacit alliance between Russia and Kazakhstan also re-created and strengthened Kazakhstan's dependency on Russia, which is demonstrated in Russia's involvement in Kazakhstan's oil deals. Moreover, through not dealing with the issue of the north in a sensible fashion but rather through grand manoeuvring, such as moving a capital from the south to the

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[258] Vladimir Socor, 'Lock, Stock and Barrel: Moscow and Kazakh oil transit,' *Russia and Eurasia Review*, 1 (3), 2 July, 2002.
[259] Sergei Blagov, 'Russia eyes stronger clout in Caspian Region,' *EuroasiaNet*, 15 July 2005 (Accessed 14 August 2005) http://www.eurasianet.org/departments/insight/articles/eav071505.shtml; Vladimir Socor, 'Major Russian-Kazakhstan oil production-sharing agreement signed,' *Eurasia Daily Monitor*, 2 (131), 7 July 2005.
[260] Marat Yermukanov, 'Russian-Kazakh Border Agreement Sparks Nationalist Reaction,' *Eurasia Daily Monitor*, 23 (19), 27 January 2005.
[261] 'Kazakhstan declares Russian nationalist lawmaker persona non grata,' *AP Worldstream*, 10 February 2005.
[262] *Eurasia Daily Monitor*, 2 (19), 27 January 2005.

centre of the country, Nazarbayev left the issue of the north unresolved and, arguably, created room for tensions in the future. At the same time, the possibly of the north separating from Kazakhstan made Kazakh elites extremely alarmed about any tensions in the remote regions, including the oil-rich areas, effectively causing them to address these in speedy manner (discussed in chapter 4 and 5).

In the following section, through the example of major erection and assembling companies, we will discuss the way in which the regime's clients gained a stake in the companies that during privatisation had fallen into the hands of predominantly Soviet-era, ethnic Russian directors. It will be shown that in the beginning of the 1990s, newly privatised companies found themselves on the verge of collapse due to: a) the disintegration of the building sector in Kazakhstan; and b) the policy of the Kazakh government that gave outside building and construction companies free access to the Kazakh market – something that the new owners failed to oppose. It will be argued that their situation only changed in the mid-1990s with the arrival of the new minister of the oil and gas industry, who began advocating the involvement of the major companies in the oil sector (co-optation), on the condition that they sold part of their shares to the regime's clients (who happened to be ethnic Kazakhs).

2. The Kazakh oil-supporting industry

In chapter 2 (section 1), it was stated that during Soviet times, the Kazakhstan SSR did not go through the full-scale energy development that Siberia did, and that in Kazakhstan relatively few enterprises specialising in drilling and production operations were fully established by 1991. In addition, this slow development of the republic's oil industry was accompanied by insufficient growth in the oil-related industries within the republic's borders, especially those that specialised in the production of oil and gas equipment.[263] The lack of development of oil and gas machinery building plants in Kazakhstan – crucial

[263] Interview with oil journalist: Almaty 28 October 2004; Interview with a general director of a local oil company: Atyrau 12 November 2004; Interview with a manager of a foreign company that specializes in oilfield systems: Almaty 22 October 2004.

for steady, long-term development of the extractive sector – was due to decisions made at the top levels in Moscow.[264]

Machinery building had been severely neglected by the top-level planners in the Soviet Union since the Brezhnev era.[265] This negative trend accelerated during the 1980s when resources from the civilian machinery sector were channelled to the ministries making military machinery; thus 'the stagnation of the civilian machinery sector was due above to the leaders' own priorities' (Gustafson 1989: 193). Instead of building new plants, the Kazakh and (also the West Siberian Soviet) oil industry had to rely on the existing infrastructure in Azerbaijan SSR, from where in the 1980s 70 per cent of Soviet equipment for producing oil and gas equipment stemmed, together with that in the Volga–Kama Basin, as well as increasingly on outside imports (1989: 189). Already by the late 1970s, the existing plants in and around Baku – called the Glavseftemash[266] – as a result of lack of investment and poor maintenance, found themselves in a severe crisis, leaving those in charge of oil and gas without much choice but to gradually import sophisticated refinery equipment, oil-and-gas-field equipment, and pipes from Eastern Europe (1989: 190). For instance, since 1981 had Romania had accounted for well over half of the Soviet's total field-related imports each year (1989: 199). Having said all of that, the fact that Kazakhstan lacked major machinery building plants and had its oil sector running with outside equipment does not mean that Kazakhstan SSR-based enterprises did not in any way participate in the development of Kazakhstan's oil, gas or chemistry sector, and hence that Kazakhstan lacked any oil-supporting enterprises.

[264] A machine-building complex of Kazakhstan in the structure of the former USSR was oriented to producing soil processing and cattle-breeding machines. *Source*: 'A Billion Market,' *Petroleum Magazine*, July 2000.

[265] Most equipment for the oil and gas industries was manufactured by the Ministry of Chemical and Petroleum Machine-building (Minkimmash). Drilling rigs were the responsibility of the Ministry of Heavy and Transport Machine-building (Mintiazhmash), while most domestic pipes came from the Ministry of Ferrous Metallurgy (Minchermet).

[266] At its peak, Glavseftemash employed 20,000 workers.

2.1. During and after the Soviet Union

As early as 1965, Moscow had established the Kazakh Ministry of Special Construction Works,[267] which was responsible for building large industrial facilities such as the refineries in Pavlodar, Shymkent and Atyrau, the brass works in Balkhash and Zhezkazgan, the lead, titanium and magnesium works in Shymkent and Ust-Kamengorsk, and the phosphor plants in Zhambyl and Shymkent.[268] Moreover, in the 1980s, enterprises that were a part of the ministry carried out works on Tengiz, Kumkol and Karachagank along with enterprises from Russia, Czechoslovakia and Hungary.[269] The involvement of Kazakhstan-based companies in the oil and gas sector gathered speed in the second half of the 1980s with the collapse of the chemistry sector. Thus, an enterprise that had previously been involved in building chemical plants became responsible for building and maintaining a pipeline system as well as gas stations across the republic.[270]

The initial development of major construction and building enterprises in the Kazakhstan SSR derived directly from the so-called equalization policy[271] (Rodgers 1974; Liebowitz 1987; Ozornoy 1991), which aimed at equalising the levels of economic development and the living standards of the country's diverse nationalities and regions.[272] Whereas the success of the equalization policy, which dated back to the Stalinist's period, was highly questionable, Kazakhstan (and especially the north of the republic) has been cited among its main beneficiaries (Capisani 2000: 24–47). In other parts of Central Asia which were supposed to be showcases to the outside world – predominantly to Middle Eastern audiences – of a successful marriage between Islam and Socialism,[273] the equalisation policy failed to bring about the same changes as it did in the north of

[267] The enterprises comprising the ministry were created over a period of twenty years. The earliest was set up in the mid-1950s, the latest in mid-1970s.
[268] Interview with a director of a major steel constructing company: Almaty 21 October 2004; Michail Braznikov, 'Who and how is developing Kazakh oil and gas sector. The growth of foreing construction companies or one more argument for the the local conetent policy,' *Continient*, 22 September 2001.
[269] Interview with a general manager of a major construction company: Almaty 20 October 2004.
[270] Interview with a vice-president of a major sub-contracting company that specialises in the oil and gas sector: Almaty 19 October 2004; Interview with a director of KazMunaiGas' major subsidiary: Almaty 28 October 2004
[271] 'AO Imstalkon – 50 years. Life-long constructions. Interview with Director General Vladimir Kananykhin,' *Kazakhstanskaya Pravda*, 3 March 2006.
[272] The heyday of the equalisation policy fell on the pre-war, early post-war years and a period between 1955–1965 (Khrushchev's era).
[273] This is the so-called Central Asian model of development.

Kazakhstan (Olcott 1982: 488; Anderson 1997: 48–50; Kandiyoti 2002b: 287). Despite the rhetoric on the part of the Soviet leaders about industrialisation, 'agriculture remained at the heart of Moscow's vision for the fourth southern republic' (Anderson 1997: 39).[274]

Yet, the apparent gap between Kazakhstan and other Central Asian republics was a superficial one, since the increased industrialisation in Kazakhstan had few effects on the employment pattern of the Kazakh population (Olcott 1987: 236). In Kazakhstan, as in other Central Asian republics during the Soviet Union, '[i]ndustrial management and skilled labour were primarily comprised of Russians and other Slavs, while members of the titular nationality largely remained in rural areas engaged in unskilled agriculture labour' (Luong 2002: 68).[275] In Kazakhstan, this pattern began as early as in the 1920s and 1930s, and remained largely unchanged for the decades that followed. In 1959, for instance, 53 per cent of industrial specialists in Kazakhstan were Russians while only 24 per cent were Kazakhs, and in 1965, a report of government awards for 'good work' showed that awards went overwhelmingly to non-Kazakhs (Peck 2004: 54–55). It was stated that the Kazakh Ministry of Special Construction followed the established pattern and was also run by Russian specialists as well as Ukrainians and Belarusians.[276] The overwhelming dominance of Russians in the ministry was reinforced by the fact that the ministry fell under the realm of the prestigious industrial sector, which meant that it was under Moscow's direct control (Melvin 2001: 173). The situation only began to change in

[274] For instance in the mid-1980s, around 65 per cent of cultivated land in Uzbekistan was devoted to cotton production. Thus Uzbekistan was described as 'monoculture economy'. The situation was similar in Turkmenistan, and to a lesser degree in Tajikistan. In Kyrgyzstan, which produces only a small amount of cotton, it was the industry of the republic that linked it with the 'cotton production complex', as it mainly produced goods such as fertilizers and agricultural machinery (Gleason 1991b: 342–343, see also Stringer 2003: 149–152). It should be added that twenty years later, the situation seemed to remain unchanged. In 2005, ICG stated: 'Cotton dominated the exports of Turkmenistan, Tajikistan and Uzbekistan, a monoculture with profound political, economic and social consequences. (…) [L]ack of political openness, failure to reform economies, large-scale poverty and social deprivation – have their roots in the cotton economy'. *Quoted in* 'The Cure of Cotton: Central Asia's Destructive Monoculture,' *International Crises Group*, 28 February 2005.

[275] On the basis of this situation, during the 1980s observers concluded that the Slavs comprised a privileged elite in Soviet Central Asia. However, Lubin in *Labour and Nationality in Soviet Central Asia* (1984) argued that the situation in which Central Asians found themselves was not solely due to Moscow's imperial policies, but was also based on sound economic reasons. Central Asians, according to the author, preferred to work outside the socialized sector because these offered much better prospects for higher incomes earned as unofficial employment for scarce services, or as the result of parallel actives on unofficial markets.

[276] Interview with a special advisor to the president of a major construction company: Almaty 20 October 2004.

the mid-1970s when the ranks of the lower levels specialists were filled with graduates of the Kazakhstan-based academies in Karaganda, Pavlodar, Rudny and Ust-Kamengorsk. Young Kazakh specialists were mainly recruited from demobilised military personnel and the Communist Union of Kazakhstan's Youth.[277]

In the early 1990s, the ministry went through the process of the so-called state-by-state privatisation (Appendix 5a), which occurs 'when public officials, using their formal powers, privatised those sections of the state for which they are themselves responsible' (Krishtanovskaya and White 38: 1999). Others named this process political capitalism (Staniszkis 1992), and it is most likely to happen when privatisation relies on the free distribution of shares to citizens (vouchers privatisation) as opposed to direct sale of assets on public tenders. During voucher privatisations, shares are distributed to a large number of adult citizens without putting in place any mechanisms of control:

> Under such a situation, it is more likely that over time individuals will emerge who are able to use their networks with government officials in state-owned banks and other government institutions to receive capital. This will enable them to establish one or more investment funds to purchase these vouchers, thereby gaining control of large amount of property. (King 2001: 516)

In the case of a single enterprise or a group of enterprises, the winners are most likely to be incumbent managers who, thanks to their knowledge, access to financial instruments and political connections, are able to appropriate sufficient numbers of shares only to emerge 'as modern corporate executives, freed of the restraints of command economy, who may now allocate to themselves vastly increased pay and benefits' (Walder 2003: 903).

In 1991–1992, the enterprises that made up the Kazakh Ministry of Special Construction Works were reorganised into stock-holding companies. Their stocks were issued to those employees who had worked in any given enterprise for more than five years. Once the stocks were issued, the enterprises became independent of the ministry. The entire operation of transforming the ministry into a stock-holding company took place at a time when no adequate legislation and no legal framework were in place. The people directly responsible for the privatisation process were directors of the enterprises that comprised the ministry. Thus, rather unsurprisingly, they turned out to be the main

[277] Interview with a director of a major steel constructing company: Almaty 21 October 2004.

beneficiaries. Through various intermediaries, they bought shares from employees who were willing to sell them almost immediately. Another group that gained from the privatisation process were the managers and engineers.[278] It should be kept in mind that the ex-directors of the ministry were able to carry on the privatisation process in a speedy manner, since they fell into the category of the so-called influential Russians, a group that the Nazarbayev tried to keep on his side in the first years of independence[279] (section 1 of this chapter). Thus, the main rationale behind the ministry's privatisation was to maintain the status quo under the new conditions.

The old structures were also upheld by the new owners. Whereas fifteen companies that emerged form the process of privatisation became independent entities, they were, however, linked to one another. For example, company A bought five to eight per cent of the company B, and vice-versa. This reciprocal cross-ownership has been reinforced through various interlockings of the Boards of Directors and Supervisory Boards of the biggest companies in the group.[280] Hence, the ministry might have ceased to exist in an official form, but those who took over attempted to sustain it. In the new environment, this was increasingly difficult to achieve, however. In the first years after gaining independence, the construction-building and assembling companies that used to be part of the ministry – as most of the other enterprises with a similar profile in Kazakhstan – found themselves on the verge of collapse. Two factors played a role in this: a) the building and construction sector in the republic came to a virtual standstill;[281] and b) the oil, gas sector overnight became off-limits to the major Kazakh companies.

With reference to the latter point, firstly the companies that conducted works on major projects in the 1980s were unable to compete with the major sub-contractors that began arriving in Kazakhstan with foreign oil companies. The main problems included

[278] Interview with a special advisor to the president of a major construction company: Almaty 20 October 2004; Interview with a vice-president of a major sub-contracting company that specialises in oil and gas sector: Almaty 19 October 2004; Interview with a director of a major steel constructing company: Almaty 21 October 2004.

[279] Duisenbekov Daulet; Tholen Jochen and Ken Roberts, 'Post-Soviet Management: Evidence from Kazakhstan,' Working Paper, *INTAS*, July 2002; Douglas Bartley and Michael Minor, 'Pitfalls in privatisation in Kazakhstan,', *Business Forum*, Winter-Spring 1994.

[280] Interview with a special advisor to the president of a major construction company: Almaty 20 October 2004; Interview with a vice-president of a major sub-contracting company that specialises in oil and gas sector: Almaty 19 October 2004; Interview with a director of a major steel constructing company: Almaty 21 October 2004.

[281] Interview with a general director of major construction company: Atyrau 11 November 2004.

lack of funds[282], lack of experience and insufficient technology[283]. Secondly, the Kazakh government did not show much interest in promoting Kazakh enterprises, which the bosses of the newly privatised companies were expecting the government to do.[284] This lack of interest on the part of the authorities in promoting major local companies was motivated by their sole concern with attracting as many international companies as possible to Kazakhstan by giving them and their sub-contractors far-reaching provisions, even if it meant leaving behind Kazakh companies[285] (chapter 5, section 1.1).

The apparent indifference of the Kazakh government meant that the oil–supporting industry, as well as enterprises that could potentially work in the oil and gas sectors, were left to their own devices. It was stated that in the first few years after 1991, major companies survived mainly due to the renovation works of the enterprises in whose building or construction works they had been involved in previous years, including oil enterprises such as Yuzneftegaz and Uzenmunaigaz.[286] In addition, the new owners of, for instance, assembling companies simply began selling technical devices at low prices, together with production bases, systems etcetera.[287] Hence, what took place was a classic case of asset stripping by the bosses of the newly privatised companies, who were eager to reap the benefits.

The silent policy of keeping Kazakh companies away from the oil sector, or not directly encouraging their direct participation, was formalised in the 1995 Subsoil law (chapter 2, section 3.1). The Subsoil Law and Petroleum Law stated that an operator (foreign oil company) was obliged to use: a) 'materials and equipment produced in Kazakhstan, *provided* they were competitive in terms of ecological, technical, pricing, delivery and operational considerations; and b) and the services of Kazakhstan businesses *to the extent* that they were competitive in terms of price, effectiveness and quality

[282] Interview with ex-general director of a major foreign oil company in Kazakhstan: Almaty 27 October 2004.
[283] Interview with a journalist specialising in oil: Almaty 1 November 2004
[284] Interview with an ex-general director of a major foreign oil company in Kazakhstan: Almaty 27 October 2004.
[285] Ulbosyn Kozhantaeva, 'National features of the international contracts,' *Delowaia Nedelia*, 7 April 2006.
[286] Interview with a special advisor to the president of a major construction company: Almaty 20 October 2004; Interview with a vice-president of a major sub-contracting company that specialises in the oil and gas sector: Almaty 19 October 2004.
[287] *Kazakhstanskaya Pravda*, 3 March 2006.

[italics mine].'[288] The law, formulated in such a way, gave foreign oil companies a free hand in picking up the companies they wanted to co-operate with in the oil-rich regions. Moreover, the law allowed companies to avoid working with the Kazakh companies if they so preferred. For instance, Kazakh equipment could be easily called into question on the basis of its low technical and ecological standards. By the same token, the services provided by Kazakh businesses could be considered as less effective than those of a western company, because local companies did not work within the ISO standard recognized worldwide.

Thus a contractor, as *Petroleum* magazine put it: 'could use foreign products or services and employ foreign citizens claiming that domestic products and services and are not competitive in prices, quality or in other terms'.[289] This point was common currency to such an extent that the 1998 Investment Climate Statement produced by the staff of the US Embassy in Almaty openly said that: 'investors usually are not required to purchase from local sources.'[290] Such far-reaching provisions for foreign investors were due to the apparently vital role that foreign interests played in drafting the 1995 law: 'It is well known that the preparation of the 1995 Petroleum Law involved not only the best Kazakhstan lawyers but also major Western petroleum companies and lawyers: their professional advice contributed a lot to the methodology of the lawmaking. As a result, when enacted, the Law received a high appraisal of the investors for its quality' (Chentsova 2003: 10).

On the domestic front, the 'winners' of the new structural set-up in which the centre became the only partner of the oil companies were the groups which had direct or indirect access to the apex of power, thanks to their links to members of the national elite including high-ranking directors of the Ministry of the Oil and Gas industry. Those links allowed individuals close to the regime to guarantee protection to the various non-Kazakh service companies that tried to win predominantly the construction contracts commissioned by the foreign oil companies. Thus, whereas the oil company could work

[288] Abai Shaikenov and Anthony Cioni, 'Changes in Kazakhstan's Local Content Rules For Oil Operators', *Investors' Voice*. American Chamber of Commerce in Kazakhstan. http://amcham.kz/article.php?article_id=155 (Accessed 18 June 2005).

[289] 'Will the new fields appear in Kazakhstan?' *Petroleum Magazine*, November 2001.

[290] 'Kazakhstan: 1998 Investment Climate Statement,' US Embassy Almaty, *Business Information Services for the Newly Independent States*, 30 June 98. http://www.bisnis.doc.gov/bisnis/country/980630kz.htm (Accessed 12 June 2005).

with whomsoever it wanted, a sub-contractor that it employed nevertheless needed to be shielded against the central bureaucracy, tax police and so forth. The 'umbrella' which protected those non-Kazakh companies was provided by the people from the centre.[291] Arguably, Nazarbayev favoured empowering groups from the centre, i.e. those close to him, since it was they who constituted his hardcore power base.

It should be added at this point that foreign oil companies on their part favoured non-Kazakh companies for a very simple reason, namely, that they had worked with many of them before. Hence, if foreign oil companies could, they would in most instances favour their close collaborators over local companies. As Paul Domjan put it in a *World Bank* paper:

> International oil companies (IOCs) prefer to deal with their global suppliers for a number of well justified reasons (including the fact that they do not have the infrastructure to deal with small suppliers in many countries). For cost-savings reason, they are reluctant to break these supplier relationships in order to source locally in each country where they operate (…) forming ties with global suppliers is one way in which many Turkish firms have themselves become global suppliers. In Kazakhstan, for example, Enka, one of Turkey's largest construction companies, has formed an alliance with Bechtel, a key global supplier to ChevronTexaco, to supply the TengizChevrOil project.[292]

A similar scenario unfolded in other major projects. In Karachaganak, for instance, the main supplier was an Athens-based contractor company.

2.2. Nurlan Balgymbayev and Kazakhization

The introduction of the 1995 Subsoil law, which went directly against the interests of the Kazakh companies, showed the extent to which Russian directors and presidents – who were once viewed as a serious threat to the new regime and indeed to the unity of the Kazakh state – became demobilised. It was asserted that the main reason for this state of apathy was the fact that Russians and other Slavs, by the mid-1990s, had begun leaving

[291] Interview with a high-ranking member of the opposition party who worked in the presidential apparatus throughout the 1990s: Almaty 5 November 2004; Interview with an oil journalist: Almaty 29 October 2004.

[292] Paul Domjan, 'The Supplier Development in the Oil and Gas Sector of Kazakhstan,' *Background Paper No. 5*. April 2004, p.5. http://siteresources.worldbank.org/INTKAZAKHSTAN/Resources/Backgroundpaper5_SupplierDevelopment_April2004.pdf (Accessed 4 September 2005)

Kazakhstan[293] (see section 1 of this chapter). This, in turn, undermined the bargaining power of the Russian strongmen (directors of large enterprises, the nomenklatura), vis-à-vis an increasingly assertive regime.[294] The outbursts of discontent were short-lived and rather sporadic and did not make any substantial headway. For instance, in January 1995, the top managers of Almaty-based commercial enterprises published a declaration calling for a referendum on land ownership and other important issues, such as the status of the Russian language and the republic's relationship with Russia. In response, some conservative-minded media reacted with a hostile campaign against the 'traitors to the Nation and the Motherland'.[295] In light of those events, it is highly ironic that Nurlan Balgymbayev, who was characterised by many as a Kazakh nationalist (chapter 2, section 4), became the main advocate of the still predominantly Russian owned-oil-supporting industry.

In chapter 2 (section 3.2), it was argued that in the mid-1990s, Nazarbayev appointed Balgymbayev to the post of the Minister of the Oil and Gas industry in order to create an atmosphere in which those at the centre and in the peripheries that were hostile towards the privatisation of the Kazakhstan oil industry felt that their views were being taken under consideration. On his part, Balgymbayev proposed the development of the Kazakh oil sector with the use of the existing enterprises, and initially strongly opposed the privatisation of the oil sector that was advocated by then Prime Minister Akezhan Kazhegeldin. Whereas Balgymbayev's vision was clearly abandoned in favour of the Kazhegeldin-backed sell-out of the oil industry, it however opened a window of opportunity for those enterprises that for four years had been starved of any major state contracts.

Balgymbayev began lobbying the major companies because he saw them as crucial for the healthy development of the Kazakh oil industry.[296] He argued for the involvement of local companies in the construction works in Almaty and Astana, which would allow them to rebuild their strength and prepare them for cooperation with foreign

[293] Interview with a foreign diplomat: Almaty 15 September 2004.
[294] Interview with a foreign diplomat: Almaty 18 October 2004.
[295] 'Benevolent Dictatorship,' *Russian Petroleum Investor*, April 1995.
[296] Interview with a executive director of a major oil project in Kazakhstan: Atyrau 17 November 2004; Interview with a high ranking member of the opposition party: Almaty 5 November 2004; Interview with a vice-president of a major sub-contracting company that specialises in the oil and gas sector: Almaty 19 October 2004.

companies (see also chapter 5, section 1.2).[297] Given the close relationship between Balgymbayev and Nazarbayev, we can assume that major companies were brought back into the orbit with the president's consent; in other words they became the regime's clients. It was suggested that the main incentive for Nazarbayev to aid the companies was the fact that they employed thousands of people, who in some instances had not been paid for months. This in turn was seen as a potential source of social unrest.[298]

At the same time, facilitating the access of the companies/new clients to state contracts was not value free. According to some interviewees, the co-operation between the regime and companies could only go ahead because the owners agreed to sell parts of their shares or an entire branch of a company to the people with links to the regime (ethnic Kazakhs).[299] In some instances, the new partners – who after some time would become presidents of their companies – were ex-oil men that had worked with Balgymbayev throughout the 1970s and 1980s.[300] The Russian bosses, on their part, were left without much choice but to go ahead with the new rule, which simply said: 'if you do not look Kazakh today you will not become a senior player'.[301] As a result of those reshuffles, the issue of the ownership and structure of the companies was only finally settled in 1999. Nevertheless, we do not argue that the Russian directors were completely pushed aside: at worst they became junior partners, but their interests were still taken into consideration.[302] For instance, in late 2004, several children of ex-directors still held important positions in major companies.[303]

In the years to come, construction, building and assembling companies – the regime's new clients – enjoyed exceptional access to the apex of power, which reached its climax at the time when Balgymbayev held the post of president of the NOC

[297] Interview with a director of a major steel constructing company: Almaty 21 October 2004 .
[298] Interview with an ex-general director of a major foreign oil company in Kazakhstan: Almaty 27 October 2004.
[299] Interview with a foreign diplomat: Almaty 18 October 2004; Interview with a vice-president of a major sub-contracting company that specialises in oil and gas sector: Almaty 19 October 2004.
[300] Interview with a vice-president of a major sub-contracting company that specialises in the oil and gas sector: Almaty 19 October 2004; Interview with a high ranking foreign specialist working on major projects in Kazakhstan since mid 1990s: Almaty 21 October 2004.
[301] Interview with a high-ranking foreign specialist working on major projects in Kazakhstan since the mid-1990s: Almaty 21 October 2004.
[302] Interview with a person close to the Kazakh business community: Almaty 14 September 2004.
[303] Interview with a business development manager working for a major foreign subcontracting company in Kazakhstan: Almaty 14 October 2004.

Kazakhoil, and later when he became Prime Minister (Appendix 5b). In the words of one director: 'in Kazakhstan the most difficult task is to get to those at the top but once you achieve that Kazakhstan is a fairly stable environment to work in'.[304] This preferential treatment of the companies that used to be part of the ministry was an object of much envy and criticism by those who were not part of the structure.[305] However, privileged access had its price: companies were required to pay massive bribes to the web of officials, and in particular to the top-level managers in the NOC, who were in charge of awarding building and construction contracts [306] (this issue is discussed in the second part of this chapter). It should be kept in mind that the companies did not have much choice but to pay the necessary the bribes, since there were no alternatives open to them. In the second half of the 1990s, all major construction and assembling enterprises were still barred from working with foreign oil companies.

The involvement of Kazakh companies on major construction projects,[307] and the growing Kazakhization of those companies,[308] did not mean that Kazakh companies would be given automatic access to foreign oil projects. Arguably, whereas the Kazakh regime was keen on facilitating the access of its clients to various branches of the oil industry and the oil supporting industry, it did not want to create a situation in which the companies would grew overly independent on the regime's patrimonial networks. In other words, Nazarbayev wanted to keep his clients happy, but also close to himself. In line with the 1995 Subsoil law, the main reason cited over and over again for the lack of access of the Kazakh construction companies to the foreign projects was the ISO standard.[309] The situation of the major companies would eventually change around 2000–

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[304] Interview with a director of a foreign oil trading company: Almaty 20 September 2004.
[305] Interview with a marketing manager of a major company that specializes in producing equipment for the oil and gas industry: Almaty 22 September 2004.
[306] Interview with a vice-president of a major sub-contracting company that specialises in the oil and gas sector: Almaty 19 October 2004.
[307] The Companies that used to be part of the Kazakh Ministry of Erection and Special Construction Works since the mid-1990s were involved in all major construction projects in Kazakhstan, ranging from the Almaty International Airport to the somewhat bizarre symbol of new Kazakhstan, the 97m high 'Astana-Baiterek' monument.
[308] For instance, in the case of a major construction company such as Kazkhimmontazh, the president and two first vice-presidents of the company are ethnic Kazakhs, and the two other vice-presidents are, respectively, a Ukrainian and a Russian.
[309] Interview with an area manager of one the world-wide major drilling companies: Almaty 4 October 2004; Interview with business development manager working for major foreign subcontracting company in

2001 onwards, when the regime began amending the 1995 Subsoil law. The key catalyst for this adjustment was discontent among various interests groups in the oil-rich areas, whose interests had been omitted during the privatisation process (chapter 2, section 3.3.), and who were further excluded from participating in the oil industry due to the far-reaching provisions that were written into the 1995 Subsoil Law (discussed at length in chapter 5).

To sum up, in the first years of independence, major Kazakhstan-based construction and assembling companies were privatised by Soviet-era directors, who in most cases were ethnic Russians. In the following years, those companies, starved of both state and oil industry related contracts, were forced to take on ethnic Kazakh partners that had the regime's backing as a precondition for obtaining new contracts. This operation on the part of the regime demonstrated that those who functioned within oil or oil-related industries had to be both the regime's clients and ethnic Kazakhs, and that Russians and other Slavs on their own would not be able to successfully carry on with their businesses, even if they were co-opted by the regime. This, in turn, reinforced Nazarbayev's position as a defender of ethnic Kazakh interests. At the same time, the regime was keen on limiting companies that either had new partners or became entirely owned by the regime's clients to the contracts that were out of its reach, namely, the foreign oil companies.

3. The Kazakh NOC

In chapter 2 (section 4.2), it was argued that the main rationale behind the creation of the NOC KazMunaiGas (KMG) was a desire on behalf of the Kazakh authorities to establish a vertically integrated structure which would act as a vehicle for greater control of foreign oil companies, and in addition would strive to uphold the interests of the Kazakhstan-based oil companies in future oil deals. The importance assigned to the NOC in defending and promoting national interests placed it – at least on a symbolic level – among the most important institutions in the country, together with the Ministry of

Kazakhstan: Almaty 14 October 2004; Interview with a high-ranking foreign specialist working on major projects in Kazakhstan since the mid-1990s: Almaty 21 October 2004.

Foreign Affairs or the KNB. In turn, this implied that the NOC, just as any other institution of national significance, would be run by ethnic Kazakhs – something not unprecedented.

The Kazakhization of the top levels of the NOC KazMunaiGas was already well underway in the company's previous incarnations – for instance, under Kulibayev's group that came to control KazakhOil in the late 1990s, or indeed during Balgymbayev's reign (chapter 2, section 3.3). However, we argue that with the creation of KazMunaiGas, the process of Kazakhization took on a new dynamic. As my research shows, ethnic Kazakhs in KazMunaiGas not only hold key positions in the company (president, vice-presidents, departmental directors), but have been also appointed to managerial positions and those of lesser importance. Moreover, in recent years non-ethnic Kazakh specialists have been barred from joining or rejoining the NOC. We argue that the latter point plays a key role in reinforcing the relationship between the oil men and Nazarbayev, as it unintentionally underscored the oil men's position. In a company overwhelmingly run by ethnic Kazakhs, they evidently constitute the group of greatest importance. What is more, the tacit policy of not rehiring Russians and other Slavs – in most instances – allows the oil men and other ethnic Kazakh specialists to overcome the feelings of inferiority that many of them have had towards non-Kazakh specialists.

Leading on, this section also argues that the Kazakhization of the oil sector gave Nazarbayev the opportunity to co-opt those elements (we will call them young professionals) that were seeking access to the oil sector (petrodollars) but did not have either a link to the oil families or lacked a professional education. Moreover, we will demonstrate that whereas co-optation served the regime's short-term aims, the introduction of predominantly rent-seeking-oriented outsiders to the NOC KazMunaiGas deepened the corruption in company.

3.1. Kazakhization

As argued in chapter 2 (section 4.2), Nazarbayev in 2002 staffed key positions (president, vice-presidents, board of directors) in the newly formed KazMunaiGas with his loyal oil men (Appendix 5c), a move that was aimed at sealing the alliances between the regime and the oil men. It was stated that their first act in office was to appoint their fellow oil men – mainly from the oil-rich provinces[310] to the positions of deputies, departmental directors and directors of the company's numerous sub-subsidiaries (more than fifty in total).[311] During my fieldwork, I interviewed four KazMunaiGas directors who were all appointed between 2002 and 2003. All of them were ethnic Kazakhs – approximately fifty years old – from the Atyrau, Mangistau region, and all worked in the oil industry all their lives. They typically started at the bottom and, over a period of thirty years or so, worked their way up to fairly high positions in the oil enterprises. Their appointment to high posts in the NOC was for all of them the ultimate honour (Appendix 5d).[312]

Another group of professional oil men that had been appointed to high posts in the company came from the southern regions (Atyrau, Zhambyl) and the north (Pavlodar) of the country. Thus, whereas those specialists do not originate in the west of Kazakhstan, they nevertheless can be classified as oil men, since they had worked in the oil industry all of their lives and are part of this somewhat specific group. For instance, Kairgeldy Kabyldin (Pavoldar region), who since 2002 holds the post of Managing Director, Transport Infrastructure and Service Projects, worked for Transmission Oil Pipeline, Pavoldar from the late 1970s onwards, and later on in the Ministry of Energy and Fuel Resources and KazTransOil; Galiusat Keshubayev (Pavoldar region) was appointed to the post of Managing Director Technological Development in 2004. He was educated at the Institute of Oil and Gas (Ukraine), and has worked in the Kazakh oil industry since the beginning of the 1990s.[313]

The appointment of the oil men, especially those from the west of the country, across the top levels (president, vice-president) and lower levels (directors) of the company has been seen by some interviewees as evidence that the NOC KazMunaiGas

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310 Interview with a vice-president of a major sub-contracting company that specialises in the oil and gas sector: Almaty 19 October 2004.

311 The most important subsidiaries for the company's work are the following: KMG Exploration & Production, KazTransOil (oil transportation), KazTransGas (gas transportation), Atyrau refinery (oil refining), Kazmortransflot (shipping by tankers), Atyrau International Airport, Eurasia-Air Helicopter Company, KazTransCom Telecommunications Company. *Source*: http://www.kmg.kz (Accessed 2 September 2006).

312 Interview with director of KazMunaiGas' subsidiary: Astana 11 December 2004; Interview with KazMunaiGas' director: Astana 6 December 2004; Interview with a KazMunaiGas' director: Almaty 6 October, 2004; Interview with a director of KazMunaiGas' subsidiary: Almaty 4 November 2004.

313 http://www.kmg.kz (Accessed 2 September 2006).

has been captured by the younger *zhus*.[314] They argued that the top-level officials brought with them to the company their clients/directors, and that the directors did the same: they brought with them members of their extended families as well as people that they were affiliated to, for instance, colleagues, friends etc. In the opinion of two of the interviewees, the fact that a person from the west of Kazakhstan surrounds themselves with people that belong to his/her 'clan' is hardly a surprise, since this area of the country is seen as one of the most traditional ones, and where tribal and family affiliations have been particularly strong.[315] An interviewee from the Atyrau region went further than that and suggested that a person from the region who goes to work in Astana is obliged to find a position for his compatriots.[316] At the same time, a few of other interviewees were quick to point out that whereas the west of the country is a stronghold of traditionalism, in other parts of Kazakhstan such as Almaty, the importance of family ties has been considerably weakening.[317] According to them, 'clan' affiliations played a crucial role across Kazakhstan after the collapse of the Soviet Union. However, in the years that followed, ability and professionalism became increasingly important – especially in the private companies. As one manager pointed out, 'people who are serious about making money try to separate business from the family'.[318]

Given the fact that the KazMunaiGas is a state-run institution and that the directors who joined the high ranks in the company had spent their lives in the western regions, one cannot rule out the possibility that they – or at least some of them – 'brought' to Astana their nephews, cousins, friends etc. However, the notion that the younger *zhus* captured the KMG seems to overstate the power of clans in the company. Most importantly, it does not explain why in various managerial and lower positions in

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[314] Interview with a high representative of a governmental agency: Astana 8 December 2004; Interview with an oppositional journalist: Almaty 27 October 2004.
[315] Interview with a person close to the Kazakh business community: Almaty 14 September 2004; Interview with a high-ranking member of the opposition party: Almaty 5 November 2004.
[316] Interview with a local specialist working for the foreign embassy: Atyrau 10 November 2004.
[317] Interview with a marketing manager of a company that specializes in supplying equipment to the oil and gas industry: Almaty 28 September 2004; Interview with a foreign diplomat: Almaty 18 October 2004**;** Interview with an executive director of a foreign company that specializes in delivering technical equipment to oil industry: Atyrau 15 November 2004; Interview with a vice-president of a major sub-contracting company that specialises in the oil and gas sector: Almaty 19 October 2004.
[318] Interview with a marketing manager of a company that specializes in supplying equipment to the oil and gas industry: Almaty 28 September 2004.

KazMunaiGas, we find people that do not have either ties to the oil-rich regions or have no experience of working in the oil industry, a point to which we will turn next.

Numerous interviewees stated that the reorganization of the Kazakh oil industry was accompanied by the unimpeded influx of young – i.e. of age thirty years old or so – professionals who did not have any previous experience of working in the oil sector.[319] The official explanation given by one of the NOC KazMunaiGas's directors was that these young lawyers, economists, accountants were recruited into the company with the aim of turning KMG into a Western style NOC; the most desirable outcome being Norway's Statoil.[320] While transforming KazMunaiGas into an efficient and transparent NOC is undoubtedly a good idea, a number of Kazakh and Western interviewees proved to be rather sceptical of the whole undertaking, including young ethnic Kazakh professionals that joined the company after it was restructured in 2002.

In their view, the majority of new managers that were appointed to important positions in the company could be characterized as 'political' appointees that found their way to the NOC thanks to their connections or influential relatives'.[321] For the young managers, the main incentive for getting into KazMunaiGas has been the prestige associated with the oil business and the opportunities that it affords.[322] For instance, working in KazMunaiGas is seen as useful stop in one's career or a source of enrichment: 'It is only in the last few years that oil and gas became fashionable because this is where the money is.'[323] While not all the managers were hired solely on the basis of their connections, in most instances this was true. Some interviewees who work closely with KazMunaiGas on a day-to-day basis argued that one of the most positive developments in recent years has been the arrival of a group of professionals in their late thirties and early

[319] Interview with a foreign diplomat: Almaty 18 October 2004; Interview with local specialist working for the foreign embassy: Almaty 27 September 2004; Interview with general manager working for a foreign building sub-contracting company: Almaty 11 October 2004; Interview with director of KazMunaiGas' subsidiary: Astana 11 December 2004; Interview with the director of the Engineering Companies Union of the Republic of Kazakhstan: Almaty 13 October 2004; Interview with a foreign diplomat: Almaty 13 October 2004.
[320] Interview with KazMunaiGas' director: Astana 6 December 2004; see also: Isabel Gorst, 'KazMunaiGas: Oil producer sets its sights high,' *Financial Times*, 15 December 2004.
[321] Interview with a general director of a foreign small drilling company: Almaty 10 September 2004; Interview with a director of a medium sized subcontracting company: Atyrau 15 November 2004; Interview with the business development manager working for a major foreign subcontracting company in Kazakhstan: Almaty 14 October 2004.
[322] Interview with a technical director working for a local oil company: Atyrau 22 November 2004.
[323] Interview with a local specialist working for the foreign embassy: Almaty 27 September 2004.

forties that have the necessary experience and skills. These people – mostly ethnic Kazakhs – worked in the private sector throughout the 1990s, and in some instances owned private companies.[324]

It was stated that the occupation of the top ranks of the NOC (president, directors and managers) by ethnic Kazakhs is a reflection of a wider trend within the company. According to one director who is, it is important to stress, a non-Kazakh, the reshuffle that accompanies the transition from KazakhOil to KazMunaiGas served as an excuse for 'purifying' the company.[325] Whereas such statements can be easily qualified as biased, other interviewees complained at length about the bureaucratic nature of KazMunaiGas – including a KMG's director[326] – and on occasions added that NOC is an ethnic Kazakh institution from top to the bottom.[327] According to a more sober and balanced account, ethnic Russians and other Slavs can be still found working in KMG, but they constitute a minority. The numbers of non-ethnic Kazakhs in the NOC is between five to ten per cent.[328] It should be stressed that this number stands in sharp contrast to the situation in the 1990s, when Slavs held a number of bureaucratic positions and dominated the technical departments of the Minister of the Oil and Gas industry or the NOC Munaigas.[329]

3.2. Unintended outcomes

It is a fact that the Kazakhization of the NOC took place. However, the present situation should not be seen solely as an outcome of a well orchestrated tacit strategy but also – if not primarily – as result of a long-term process that accompanied the development of the Kazakh oil industry after the collapse of the Soviet Union. For instance, the fact that the Kazakh government had wanted to turn the NOC into a modern capitalist enterprise

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[324] Interview with a high-ranking specialist of a major foreign oil company: Almaty 6 October 2004; Interview with a director working for a major foreign sub-contracting company: Almaty 11 October 2004.
[325] Interview with a vice-president of a major sub-contracting company that specialises in the oil and gas sector: Almaty 19 October 2004.
[326] Interview with a KazMunaiGas director (Exploration and Production): Almaty 6 October 2004.
[327] Interview with a local specialist working for the foreign embassy: Almaty 27 September 2004; Interview with a general director of a local oil company: Atyrau 12 November 2004.
[328] Interview with a high-ranking specialist of a major foreign oil company: Almaty 6 October 2004; Interview with a director working for a major foreign sub-contracting company: Almaty 11 October 2004.
[329] Interview with a general director of a foreign small drilling company: Almaty 10 September 2004.

implied that Soviet era bureaucrats would be either forced into retirement or pushed to lower positions, if not laid off.[330] It was only 'natural' that in post-Soviet Kazakhstan, the young managers – allegedly accustomed to capitalism – have been recruited from among ethnic Kazakhs rather than non-Kazakhs. Arguably, the same pattern repeated itself with the lower-level employees of KazMunaiGas. In the case of the non-Kazakh specialists, the situation is even more complicated. We argue that Russians and other Slavs were not pushed from the NOC in order to 'purify' the company, but rather had been leaving state run oil industries throughout the 1990s for jobs in other sectors which at the time seemed more promising. Initially, only few found positions in private oil companies, whether local or foreign. Hence, the de-Russification of the technical ranks initially took place independently of the regime's Kazakhization strategy.

As stated in the previous section, at the beginning of the 1990s the Kazakh government's number one objective was to attract as many foreign oil companies as possible, which were seen as crucial for the development of the Kazakh oil sector. This trend had negative effects on the oil supporting industries as well as on the oil industry itself. For instance, geological research was brought to a standstill. Specialists employed in the institutes across Kazakhstan were left without much choice but to go and seek employment outside their professions.[331] In the most extreme cases, they worked in the local bazaars or turned taxi drivers.[332] The same situation occurred in the case of oil drilling specialists: 'In the beginning of the 1990s, the government said that now we are going to work on the fields that were discovered in the past and that for the years to come there will not be any drilling in Kazakhstan. What were we supposed to do?'[333]

In other instances, the specialists working in a design institute found themselves out of work because the bosses of the institutes drove them into bankruptcy. In the beginning of the 1990s, a director of an institute would establish a private business, the nominal owner of which was a relative or a friend. The director would then use the institute's space, equipment, as well as workforce to work on projects that he had

[330] Ibid.
[331] For instance, in the mid-1990s the staff strength of a major design institute in Atyrau was reduced from 400 to 250. *Source*: Interview with vice-director of a design institute: Atyrau 25 November 2004.
[332] Interview with a technical director of a company which specializes in supplying high-tech technology to the oil and gas sector: Almaty 27 September 2004; Interview with a director working for a major foreign sub-contracting company: Almaty 11 October 2004.
[333] Interview with a geologist working for an oil exploration company: 5 October 2004.

managed to obtain for his company. Moreover, as starting capital, a director diverted institute funds as short-term loans to his company: loans that the director's company never repaid. In a short while such institutes, stripped of their assets, found themselves on the verge of collapse and the staff was simply laid off.[334]

It was stated that the situation for geologists, designers, and drilling specialists began to improve from 2001–2002 onwards. The single most important contributing factor was the buoyant world oil prices in the early 2000s that led to the creation (and in some instances revitalization) of various mid-sized companies[335] that were keen on gaining access to the oil industry[336] (discussed further in the next section). One of the major problems that the new companies faced was a lack of trained specialists with sufficient experience who would be able to supervise complex projects; hence people who for a great part of the 1990s were out of a job become eagerly-sought assets almost overnight. A technical director stated that about 80 per cent of his colleagues that used to work with him in a design institute now worked for private companies.[337] The position of the specialists was further strengthened when it emerged that throughout the 1990s, Kazakhstan not only failed to educate a new generation of professionals,[338] but the ones that it actually did educate needed thorough retraining.[339] Consequently a number of interviewees spoke about a lost decade or ten-year gap.[340]

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[334] Interview with a director of company that specializes in designing and building gas stations: Almaty 29 September 2004; Interview with a director working for a major foreign sub-contracting company: Almaty 11 October 2004.

[335] 'Ai-Dan Ltd. To the Single Aim,' *Petroleum Magazine* May 2000, 'Kazneftegasmash: A Reliable Partner of Oilmen,' *Petroleum Magazine*, October 2004.

[336] Another important factor contributing to the speed development of the oil supporting companies was the local content policy (chapter 5).

[337] Interview with a technical director of a company which specializes in supplying high-tech technology to the oil and gas sector: Almaty 27 September 2004.

[338] In Kazakhstan, as in all others post-Soviet, socialist countries, law and economics become the most popular degrees, whereas the technical universities, the former bastions of education, were deserted. *See also*: Daulet Duisenbekov; Jochen Tholen and Ken Roberts, July 2002.

[339] The education of future engineers became one of the government's priorities at around 2000–2001. *For more see*: 'Education According to the 21st Century,' *Petroleum Magazine*, October, 2002; 'Centre for Education and Science,' *Petroleum Magazine*, May 2000.

[340] Interview with a deputy director of a designing institute: Almaty 23 September 2004; Interview with a commercial director of a designing institute: Almaty 23 September 2004; Interview with an area manager of one the world wide major drilling companies: Almaty 04 October 2004; Interview with a director of a medium-sized subcontracting company: Atyrau 15 November 2004; Interview with a general director of a local oil company: Atyrau 12 November 2004; Interview with general manager working for a foreign building sub-contracting company: Almaty 11 October 2004.

The aforementioned KazMunaiGas directors, in a similar fashion to other interviewees, spoke during the interviews about the issue of specialists in Kazakhstan; however, with two major differences. Whereas for companies aiming to get into the oil industry, the most urgent problem was to find and employ as many Soviet-era specialists as possible – irrespective of their ethnicity[341] – the directors instead placed a stress on training the younger generation – that is to say, ethnic Kazakhs. Moreover, according to them, there were enough top-level specialists from the Soviet era working in KazMunaiGas already – a view not shared by a number of other interviewees[342] – and they could cope with workloads without any major problems.[343] This statement indirectly implies that KMG is not interested in hiring non–Kazakh specialists. Given the secrecy of KMG, it is virtually impossible to prove beyond any reasonable doubt that this is the case; however, some evidence supports this claim. One of the interviewees – an ethnic Russian whose life history does not divert from that of other KMG directors – was told that he could not be employed by KMG because he did not speak English;[344] needless to say, none of the other KMG directors spoke English either.

In addition, two specialists that worked for foreign companies spoke about situations in which, during meetings with KMG concerning technical matters, the company was represented by a manager (ethnic Kazakh) who was accompanied by a group of specialists that was employed from outside of the NOC. The group of specialists – predominantly made up of ethnic Russians (however, not exclusively) – were people who actually knew 'what they were taking about', whereas the manager played the role of a guardian. According to both interviewees, a situation in which KMG sub-contracts

[341] Interview with a deputy director of a designing institute: Almaty 23 September 2004; Interview with a commercial director of a designing institute: Almaty 23 September 2004; Interview with a director of an engineering and designing company: Almaty 27 September 2004; Interview with a vice-president of a company that specializes in geographical services: Almaty 28 September 2004.

[342] Interview with a high-ranking specialist of a major foreign oil company: Almaty 6 October 2004; Interview with a director working for a major foreign sub-contracting company: Almaty 11 October 2004; Interview with a regional manager of one of a major foreign sub-contracting company: Atyrau 10 November 2004.

[343] Interviews with KazMunaiGas' directors: Astana 11 December 2004; Astana 6 December 2004; Almaty 6 October 2004; Almaty 4 November 2004.

[344] Interview with a geologist working for an oil exploration company: 5 October 2004.

specialists from outside of the KMG (non-Kazakh) rather than employing them on a permanent basis was self-explanatory[345].

The policy of not hiring or rehiring Russian and other non-Kazakh era specialists to work in KMG is perfectly in line with the Kazakhization of the NOC, and as such is not in any way surprising. However, what is special about this situation is the fact that people who do not get hired are not just ordinary Russians and other Slavs, but those who used to directly or indirectly run industries or head institutes; in other words, they had been in the first row. In post-Soviet Kazakhstan, the axis turned one hundred eighty degrees, and those who used to be in a second row and those in the oil-rich peripheries in the third row are now in the first one. The special place that the directors and others like them (real experts) hold in a new company is further highlighted by the fact that the new young professionals – 'political appointees' – are not engineers by training, but rather lawyers and economists who do not know anything about the oil sector. During the interviews, the directors spoke rather dismissively about these young professionals, who only do a bureaucratic job and who have never seen an oilfield in their lives.[346] It is argued here that the special position that the oil men – the regime's clients – held in the NOC reinforces their bond with the regime, and especially with Nazarbayev. While there is no tangible evidence to even suggest that not employing non-Kazakh specialists was the regime's official policy in order to please its clients, it is certainly the result.

The repercussions of this unintentional outcome – which came about as a result of the Kazakhization of the oil industry – can be only fully understood and appreciated if we take under consideration the importance that working in the top levels of the state-owned enterprises had in the Soviet Union. The clout that it once had not only included better housing conditions and access to goods that were outside the reach of an average person, but crucially meant immeasurable prestige and respect within one's community – something that ethnic Kazakhs were overwhelmingly denied and arguably had been longing for. Hence, it is not surprising that during the interviews, the directors were very keen on stressing the special place that the NOC plays in building new independent

[345] Interview with a high-ranking specialist of a major foreign oil company: Almaty 6 October 2004; Interview with business development manager working for major foreign subcontracting company in Kazakhstan: Almaty 14 October 2004.
[346] Interviews with KazMunaiGas' directors: Astana 11 December 2004; Astana 6 December 2004; Almaty 6 October 2004; Almaty 4 November 2004.

Kazakhstan, for which – as one of them put it – ‘my ancestors fought with sword and fire’.[347]

As a result of this, Nazarbayev, from the point of view of the oil men and other ethnic Kazakh specialists, is not just a patron who assures their well being, but is also someone who ended decades of living in the shadows of Russians and other non-Kazakhs.[348] Arguably, this puts Nazarbayev on an equal footing with Dinmukhamed Kunaev (chapter 1, section 2), who ruled the Kazakhstan SRR from 1964 until 1986, and who is held responsible for actively promoting the Kazakh ethnic elite to the key posts across the republic. It was stated that thanks to Kunaev, by the 1980s the Kazakhstan SSR had developed ‘a genuine Kazakh infrastructure, in which Kazakhs held many of the important jobs, especially in party politics, the republic’s government, and agriculture and in the cultural networks and educational systems’ (Olcott 1997: 205). Arguably, then, Nazarbayev is – not always intentionally – finishing what Kunaev began during the Soviet years.

3.3. Paying the price

The NOC KazMunaiGas has been an effective mechanism in the regime’s hands insofar as it allows the regime to co-opt to the sphere’s important players. This has been the case for insiders (oil men) as well as outsiders (young professionals). While for the oil men working in the NOC has been above everything else a matter of pride, they as young professionals also joined the company on the premise that they would be able to gain financially. In chapter 2 (section 4.2) it was argued that top levels of KazMunaiGas (president, vice-presidents, board of directors) were given access to the oil business deals in which Nazarbayev’s family played a leading role. In this section, we will discuss the ways in which deputies, departmental directors and directors of the company’s sub-subsidiaries, as well as managers, went about enriching themselves with the regime’s unquestionable support (Appendix 6).[349]

[347] Interview with a KazMunaiGas director: Almaty 6 October 2004.
[348] Interview with a foreign diplomat: Almaty 15 September 2004; Interview with a foreign diplomat: Almaty 15 September 2004.
[349] Interview with a high-ranking specialist of a major foreign oil company: Almaty 6 October 2004.

In section 1.2 of this chapter, it was argued that the major Kazakhstan-based construction and building companies were granted access to the oil industry because they acceded to the regime's request and took on ethnic Kazakh partners. That, however, did not mean that the companies would be spared from paying extra 'tax': far from it. A top-level official working for one of the companies stated that a company that wins a KazMunaiGas tender – similar situations occurred in the case of KazakhOil – has to pay a bribe which equals ten per cent of a contract's total value. In the situation when a company is awarded a contract and defaults on a payment, the deal is cancelled – under a petty excuse – and a short while thereafter, a new tender is set up. The money obtained is then divided between directors and managers of the KazMunaiGas subsidiary with which the company is supposed to co-operate on a project. The next level involves KazMunaiGas's top-level officials, and in the case of the biggest deals the most sizable share goes 'to the most important person in the country'.[350] In some instances, the role of the intermediate/broker between different parties involved is played by a manager who in the past, for example, worked for a construction company and is now employed by KazMunaiGas.[351]

According to interviewees who own or work for mid-sized companies – which specialize in supplying fire equipment among other things – the precedent of setting up tenders is not in any way unique to major companies and applies across the board. In their experience, as many as ninety-five per cent of tenders have been either set up or won by people with whom managers in charge of tenders are acquainted.[352] On most occasions, tenders have been organised in such a way that on average only one company in ten would meet all the conditions. As in the case of major companies, managers responsible for tenders get a sizable percentage of a contract – sometimes as much as twenty per cent.[353] It is important to keep in mind that the lower-level managers have

[350] Interview with a vice-president of a major sub-contracting company that specialises in oil and gas sector: Almaty 19 October 2004.
[351] Interview with a special advisor to the president of a major construction company: Almaty 20 October 2004.
[352] Interview with a marketing manager of a company that specializes in supplying equipment to the oil and gas industry: Almaty 28 September 2004; Interview with a marketing director of a company that specializes in supplying equipment to the oil and gas industry: Almaty 24 September 2004; Interview with a director of company that specialises in designing and building gas stations: Almaty 29 September 2004; Interview with local sub-contractor: Almaty 29 October 2004.
[353] Ibid.

been particularly prone to rent-seeking, even when it comes to smaller deals, since due to the rotation dynamic in the KazMunaiGas they do not know for how long they will stay in their positions.[354]

Another way of enriching oneself and one's colleagues is to go 'shopping' immediately after becoming a manager, as demonstrated by a high-ranking director of one of the KazMunaiGas's numerous subsidiaries. Thus, a director might try to purchase new computers for the offices, safety equipment, alarms and so on, and grossly inflate the actual costs of these goods in which the subsidiary is interested. The difference between the estimated costs and real costs would then split between a supplier and the managers and directors involved. Needless to say, the supplier is a trusted person – for example a member of the manager's immediate family.[355] In some instances, the real benefits of working for the NOC evaporate once a director actually stops working for the company and moves to a private business.

Due to their contacts in the NOC and the government, top-level ex-directors are a valuable acquisition for both local as well as foreign companies, to which we can now turn. A foreign company that enters the Kazakh market and is interested in either oil exploration or in selling equipment worth million of dollars has to forge links with the local elite. However, for that to happen, the company needs to employ a local player who is going to lobby for its interests.[356] During my fieldwork, I came across one Western company which did exactly that. The company in question has been on the Kazakh market for a greater part of the 1990s, and in recent years has decided to step up its activities. In effect, a manager of the company, who also has been working in the Kazakh market for a number of years and has a good understanding of the local dynamics, 'invited' to the company an ex-KazMunaiGas director. His role has been to facilitate access to the KazMunaiGas contracts, a task that he has carried out successfully, as the company has obtained the contracts that it was aiming at. The payoff to the ex-KazMunaiGas director as well as his colleagues in the NOC (and the government officials, most likely) has been taking place on the level of a foreign company's

[354] Interview with an executive director of a foreign company that specializes in delivering technical equipment to oil industry: Atyrau 15 November 2004.
[355] Interview with local sub-contractor: Almaty 29 October 2004.
[356] Interview with oil journalist: Almaty 28 October 2004.

subsidiary – which the Western company and the ex-director jointly created – through which the equipment is sold to the NOC KazMunaiGas.[357]

The corruption in KazMunaiGas has had an extremely negative effect on the development of the various oil industry-supporting companies that came to the market in 2000–2001. Those companies, which are predominantly owned by middle-aged ethnic Kazakhs – who in most instances have not had any experience of working in the oil industry before – tried to get their initial footing in the oil sector by getting hold of KazMunaiGas contracts[358]. During my fieldwork, I interviewed two companies that fitted the above description. Both companies were created in the beginning of the 2000s on the basis of either a Soviet era institute or on the basis of Soviet era enterprises that were privatised at the beginning of the 1990s (and by the end of the decade went bankrupt). At the core of these two companies are Soviet specialists that are in charge of the technical departments, most of whom have been there for six years or longer.

In the case of both companies – due to their apparent contacts with the KazMunaiGas managers – they managed to obtain their first contracts with the NOC.[359] While 'winning' those tenders was a positive development from the perspective of the companies, the interviewees however complained directly and indirectly about the corruption and lack of transparency of KazMunaiGas. What seemed to particularly annoy the interviewees were the constant demands on the part of the KazMunaiGas managers to give them some extra money, even though the necessary bribes had presumably already been paid, well in advance.[360] This constant harassment by the KazMunaiGas officials inevitably hampered the development of the companies in question, as they had to keep allocating a substantial part of their profits to the KazMunaiGas people. In the long run, this will either drive those companies from the oil sector altogether or lead to their closure, as the companies will not be able to deal with this ever-growing demand for bribes.

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[357] Interview with a manager of a foreign company that specializes in the oilfield systems: Almaty 22 October 2004.
[358] Interview with general manager working for a foreign building sub-contracting company: Almaty 11 October 2004.
[359] Interview with president of a small building company: Almaty 7 September 2004.
[360] Interview with a deputy director of a designing institute: Almaty 23 September 2004; Interview with a commercial director of a designing institute: Almaty 23 September 2004; Interview with a director of an engineering and designing company: Almaty 27 September 2004.

In conclusion, in chapter 2 it was argued that at the beginning of the 1990s, the most serious threat to Nazarbayev's hegemonic position in the oil industry came from oil men in the centre as well as the peripheries of the country. Nazarbayev managed to successfully minimize this threat through firstly, privatising the oil industry and secondly, by turning the oil men into his clients. In this chapter, we have discussed how the bond between Nazarbayev and his clients has been deepened (ethnic Kazakhs are the only ones that have access to the oil deals) and reinforced (the oil men are the only specialists left in the NOC). Such upholding of the ties between the regime and the oil men means that they have been allowed to enrich themselves, even where it has led to a negative effect on the oil industry.

In the next two chapters, we will move away from the issue of oil men and concentrate on the larger population and interest groups in the oil-rich regions who did not gain from the privatisation of the oil industry as the oil men did, and in the case of the interest groups were further cut off from the oil industry related contracts. In chapters 4 and 5, we will discuss the way in which the regime went about addressing the challenges that emerged in the oil-rich areas, mainly focusing here on the Atyrau region. The strategy here differs significantly from the way in which Nazarbayev's regime dealt with the threats posed by the major players in the Kazakh oil industry. The most important difference between the two is the heavy involvement of the external actors (foreign oil companies) in addressing the problem of the interest groups in the oil-rich areas such as Atyrau. As a result of this, we argue that in the Atyrau region, the regime structured the relationships with interest groups via the involvement of foreign oil companies, which thus became an indispensable part of the equation.

Chapter 4: Controlling the oil-rich regions: the genesis of the co-operation between the regime and foreign oil companies

In this chapter and in the following one, we will focus on the second type of problem that oil has been creating for Nazarbayev's regime – dissatisfaction in the oil-rich areas. Chapter 1 (section 1.2) demonstrated how resources can motivate secession movements in the resource-rich regions, manipulated by dissatisfied interest groups, which on occasion led to violent uprisings and effectively prolonged civil wars. Scholars who deal with problems of the resource-rich areas argue that for a violent situation to emerge, at least a few requirements from a long list have to be fulfilled: first, the resource-rich region is located far away from the centre; second, the resources are extracted by 'outsiders' who are perceived to extract 'local' resources without sharing the wealth; third, a highly centralised nature of procedures for economic decision-making; fourth, lack of economical diversification in the resource-rich regions; fifth, widespread poverty; sixth, a local population which is displaced by the extractive industry or suffers from its environmental costs; and finally, the resource-rich region is inhabited by an ethnic minority (Le Billon 2001; Robinson 1998).

Whereas in Kazakhstan a number of criteria from the above list are fulfilled, a radical movement which would seek some sort of autonomy for the oil-rich parts did not emerge – in fact, not even a moderate one that would attempt to represent the interests of the disadvantaged. Thus, it can be assumed that the regime was able to satisfy local public and interest groups which did not seek to capitalise on the problems that emerged in the oil-rich regions. In order to understand how Nazarbayev's regime managed to achieve this, in this and the next chapter, we will attempt to uncover the complicated dynamics that developed between regime, oil-rich regions and foreign oil companies at the end of the 1990s.

This chapter seeks to understand the genesis of the involvement of foreign oil companies. In order to understand how this involvement came about, this chapter proposes to analyse the initial problem that the regime encountered in the Atyrau region, namely the dissatisfaction of the local population with the lack of economic development. The blame for this situation was placed directly on Nazarbayev and the central government, who were accused of taking away from the region its due share of oil revenues. It is argued here that the regime dealt with the discontent among the local population by shifting the burden of responsibility for the lack of economic development from itself to the foreign oil companies with their tacit acceptance; this, in turn, spelt the beginning of the co-operation between the regime and foreign oil companies in addressing the problems in the oil-rich areas. In the next chapter, we will demonstrate how disadvantaged local interest groups attempted to build on the regime's initial response as they began demanding a greater share of the oil spoils for themselves. The Nazarbayev's regime reply to this growing dissatisfaction was the deepening of its co-operation with the foreign oil companies.

Furthermore, in order to demonstrate that the initial co-operation between two parties was not accidental, we will demonstrate in this chapter how this co-operation also played itself out in addressing the problem of the local labour in the oil-rich regions. Finally, in this and the following chapters, we will argue that the Kazakh regime responded to the crises in the oil-rich regions in an extremely speedy fashion – and became willing to enter into co-operation with the foreign oil companies – due to the existence of the threat in the northern part of the country at the beginning of the 1990s (chapter 3, section 1). This threat made the regime extremely attuned to any signs of crises in the remote regions of Kazakhstan, particularly the oil-rich areas.

1. The oil-rich regions and foreign oil companies

In chapter 2 (section 3.2.), we discussed how during Prime Minister's Akezhan Kazhegeldin's time in office (1995–97), Kazakhstan went through a process of 'mass privatisation'. The most controversial was the third stage in the so-called case-by-case privatisation, during which the country's largest and most valuable major factories, mines and assets were privatised. From March to May 1997 alone, the government sold off the bulk of its shares in oil and gas enterprises to numerous foreign companies. Nazarbayev tried to silence the critics of his actions by painting a picture of a glorious future ahead. For example, in February 1997 he argued that Kazakhstan would receive some US$76 billion from the Tengiz deal alone (quoted in Luong 83: 2000b).[361] However, in the midst of the economic crisis, which was further aggravated by Russia's 1998 crisis and a severe drop in the oil prices on the international markets, the gap between future gains and reality on the ground proved to be too wide.[362]

In the years 1997–98, a wave of strikes and protest actions swept through Kazakhstan. The two main groups that took to the streets were pensioners (discussed in chapter 2, section 4.1), and workers whose wages had not been paid for months, sometimes for periods as long as one year or even longer.[363] Fifteen hundred workers at the Achisay Polymetal Plant in Kentau, Southern Kazakhstan, in October 1997, demanded the payment of ten-months' wage arrears, totalling 100 million tenge – US$1.35 million.[364] The epicentre of the protests was Karaganda Oblast, where 13,000 miners became unemployed as mines in the region were closed.[365] It was reported that most of the industrial facilities that had seen labour unrest had been sold or ceded in part to nominally foreign companies.[366] Foreign companies were not only accused of paying overdue wages too slowly, but also of a failure to invest in facilities, as they had agreed to do when the industrial plants were sold. For instance, the offshore-registered Global Minerals Reserves Company that bought Shubarkol coal mine in Karaganda region had agreed to invest the equivalent of US$5 million in the facilities each year. But in 1997, it spent less than $1 million on the facility's infrastructure[367].

The situation in the oil-rich regions largely followed a pattern that was emerging all across Kazakhstan. Foreign oil and gas companies which bought oil and gas enterprises that had been already operating for some time were accused of laying off the local workforces. Instead, they brought in new staffs from abroad, which were said to be better suited to operating the equipment, which was allegedly brought from abroad.

[361] 'Divergent views on Kazakhstan's Economic Performance,' *Monitor*, 4 (10), 16 January 1998, p. http://www.jamestown.org/publications_details.php?search=1&volume_id=21&issue_id=1221&article_id=12148 (Accessed 13 June 2005).
[362] Hugh Pope, 'Kazakhstan Weathers Worst of Turmoil,' *The Wall Street Journal*, 8 January 1999.
[363] Seventy workers of Shahan Autoenterprise in Karaganda were not paid their wages for 36 months (Human Rights, January 2000).
[364] Kazakh commercial TV, 24 October 1997. *Quoted in* 'Kazakhstan's Most Politicized Labour Unrest Continues,' *Monitor*, 3, 205 (3 November 1997).
[365] 'Kazakh miners demonstrate,' *RFE/RL Newsline*, 1 (54), 17 June 1997.
[366] Merhat Sharipzhan, 'Kazakhstan: Labour Unrest Has Roots in Failed Privatisation,' *RFE/RL*, 12 March 1998.
[367] Ibid.

Equipment was brought over, however, only in a few instances, and most of the time companies were using old Soviet equipment.[368] The site of most serious unrest was in the Aktyubinsk region. The Chinese National Petroleum Corporation (CNPC), which in 1997 bought 60 per cent of the shares in Aktobemunaigas (AMG), was accused of having a particularly negative impact on the local population. Three years after acquisition, the CNPC was still refusing to repay overdue wages or fulfilling the social obligations specified in the contract. The company argued that it was told by the Chinese government to operate on a strictly for-profit basis, and that the original Chinese investments contracted in the takeover deal were deemed to have covered wage arrears and other debts, ecological rehabilitation and other social costs as well as personnel training, all on top of investments in production.[369] Resentment towards the CNPC was translated into a protest when, in 1999, AMG Chinese managers laid off 2000 Kazakh workers under the banner of restructuring. During the protest, workers demanded their jobs back or financial compensation from CNPC. It was also reported that during the protests, the issue of social obligations was brought up on number of occasions[370] (for further discussion concerning Chinese involvement see chapter 6, section 2.3). Similar resentment to the Aktyubinsk situation was mounted in the Kyzylorda region, where the Canadian company Hurricane Hydrocarbons Ltd[371] (which in 1996 bought the regional oil producer Yuzhneftegas, the most important enterprise in the region, see also chapter 2, section 3.2), in the space of four years, reduced staff from over 5,100 to 1,900 (for further discussion of this, see chapter 5, section 1.2).

1.1. Early elections and discontent in the Atyrau region

Nazarbayev's response to the growing social and industrial unrest across Kazakhstan's major industrial centres was to call elections 18 months early. It is widely agreed that early elections were calculated at catching Nazarbayev's political opponents off guard,

[368] Interview with oil expert: Almaty, 2 November 2004.
[369] Robert M. Cutler, 'How Shah-Deniz is changing the equation – Part 2,' *Alexandre's Gas and Oil Connections*, 5 (14), 7 August 2000. http://www.gasandoil.com/goc/company/cnc03266.htm (Accessed 15 September 2004).
[370] Interview with oil expert: Almaty, 17 September 2004.
[371] Renamed PetroKazakhstan in 2003.

giving them little time to organise.[372] The strategy paid off, and in the January 1999 elections, which were widely criticised for somewhat unexpected heavy-handedness, Nazarbayev 'won' 78.3 per cent of the vote.[373] At the same time, in 1999 the presumption that Nazarbayev would easily win a fair contest was quite common.[374] It was speculated that he would take as much as 60 per cent of the vote[375] in a free contest. This meant that on average, Nazarbayev got at least 20 per cent more than his presumed actual support. However, this support for Nazarbayev was not evenly spread out across Kazakhstan - far from it.

Nazarbayev got the least votes in three regions: in Atyrau and Mangistau, two of the centres of Kazakhstan's oil industry, and in Zhambly (George 2001: 50). In the Atyrau region, which is home to Kazakhstan's two biggest oil projects Tengiz and Kashagan[376], Nazarbayev (according to the official statistics) received only 50 per cent of the vote. However, some claim that 50 per cent was a heavily inflated figure, and that in reality Nazarbayev got only 25 per cent of the vote.[377] The blame for such a disastrous performance was put directly on Nazarbayev and the central government, amid accusations that they were taking away from the region its due share of oil revenues[378] and in turn hampering the economic development of the region. The allocation of oil revenues was perceived as unjust for two reasons. Firstly, the oil bonuses that oil companies paid to the Atyrau region were not allocated to the region directly, but instead to the centre of the country. Secondly, the system of financial centralisation in Kazakhstan meant that central authorities collected all taxes, which were then distributed amongst the regions of Kazakhstan. In such a system, oil-rich regions are bound to get less from the centre than the amount which they contribute to the national budget, since

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[372] Carlotta Gati, 'Kazakhstan: Leader certain to win one-horse race,' *Financial Times*, 9 January 1999.
[373] *Reuters*, 11 January 1999.
[374] Nazarbayev's closest opponent in the elections was Gani Kasymov, the ex-general and chief of the State Custom Committee and a former presidential adviser.
[375] 'Report on Kazakhstan's Presidential Elections,' *Helsinki Commission*, 10 January 1999.
[376] In 2003, 44% of oil and over 50% of natural gas of the Republic's total volume were produced in the territory of the Atyrau oblast (*quoted in* Petroleum Magazine, April 2003), whereas oil enterprises constituted 95.6% of regional GDP (*quoted in* BISNIS Report, 31 May 2004).
[377] Interview with an oppositional journalist: Atyrau 22 November 2004; Interview with member of the Ak Zhol party: Almaty 5 November 2005.
[378] Interview with a local specialist working for the foreign embassy: Atyrau 10 November 2004.

the greater bulk of the money will be spent on those parts of the country in the south and in the centre which are oil-poor.

With regard to the first cause of complaint, it is speculated that the Atyrau region annually receives from Chevron 30 to 60 million US dollars in bonuses.[379] Whereas no one claims that Chevron does not pay this money, it is argued that a very small percentage of the bonuses, if any, has stayed in Atyrau, and that the money has gone instead to the state's budget.[380] It is widely claimed that bonuses were allocated later on to the development of Astana; in 1998, official figures said that US$2 billion was spent on the building of the new capital (quoted in George 2001: 18). However, it was also rumoured that the money was not spent on the new capital, but was simply seized by Nazarbayev and his inner circles,[381] which politically was much more damaging (chapter 6, section 1.1). According to foreign diplomats, one-third to one-half of the over US$1 billion in privatisation bonuses from foreign companies to the government of Kazakhstan has disappeared.[382] An observer in Atyrau argued that the question of bonuses was the single most important issue around which oppositional groups close to ex-Prime Minister Akezhan Kazhegeldin (see chapter 2, sections 3.1, 3.2) organised their anti-Nazarbayev campaign during the 1999 presidential elections. The message of the campaign, which was largely conducted on the grass-roots levels, was simple and loud 'you are living in poverty because all the money is going into the president's pockets'.[383]

With regard to the second cause for complaint, Kazakhstan, like most developing countries, has a fairly decentralised system of expenditure, but the central government collects all taxes, which are shared with lower level governments (Stein 1999). Collection of taxes in Kazakhstan is carried out by various governmental organisations, which submit all collected taxes to the central authorities. Decisions concerning how funds are to be allocated are then made at the central level in accordance with the idea of central

[379] Interview with a general director of a local oil company: Atyrau 12 November 2004.
[380] Interview with an executive director of a local oil company: Atyrau, 16 November 2004.
[381] R.M. Auty, 'Reforming Resource-Abundant Transition Economies: Kazakhstan and Uzbekistan', *IMF Working Papers*, 9913. Paper Presented to the DSA Annual Conference, University of Bath (September 1999), pp.7–8.
[382] Steve Levine, 'Caspian Logic: Democracy? Sure, Sure. Now Buy Our Oil,' *New York Times*, 3 January 1999.
[383] Interview with an oppositional journalist: Atyrau 22 November 2004; Dmitriy Maslov, 'Kazakhstan's big oil: myth or reality,' *Continent*, 1-14 September 1999; Akezhan Kazhegeldin, 'Big problems of big oil,' *Eurasia*, 10 March 2001.

redistribution. The inevitable ‘losers’ of such a structural arrangement are the richer regions of the country, which subsidise the development of poorer parts of Kazakhstan (Makhmutova 2001: 437–138).

> Atyrau and Mangystau oblasts, and the city of Almaty, have faced the maximum absolute reduction of the development opportunities as a result of state budget redistribution, and Astana, Kyzylorda, Taldykorgan and Torgai oblasts – the maximum absolute increase. (Human Development Report: Kazakhstan (UNDP, 1998), p.8 quoted in Cummings 2000: 22)

Moreover, local authorities have no independent taxation powers and no source for independent revenue generation other than local service fees, which themselves are subject to central approval (Gleason 58: 2003).

On the local level, the direct blame for relocating bonuses to the centre was laid on the *akim* Ravil Cherdabayev.[384] Ravil Cherdabayev, as already mentioned in chapter 2 (section 2.1), was appointed as *akim* of Atyrau region in 1994. Judging from the posts that he had held prior to 1994 – director of TengizChevrOil JV (1992–93); Minister of Oil and Gas Industry (1993–94)[385] – and his close connections to other major oil families in Atyrau and Mangistau, it seems that Cherdabayev served as an intermediate between Nazarbayev and the oil companies. However, Cherdabayev, a home-grown *akim* and ex-apparatchik,[386] and thus a sort of regional leader who at the beginning of the 1990s had rebelled against Nazarbayev’s economic reforms, was also among those politically and economically powerful *akims* who since 1996 had lobbied for tax-raising powers that would allow them to ensure speedier development of their regions.[387] This challenged the whole notion of financial centralisation, an idea unsurprisingly favoured by Nazarbayev. It is not entirely clear if Cherdabayev’s motives were to wrestle more power from the centre for his own benefit,[388] or simply to genuinely promote the development of the region. In any case, such attempts politicised the issue of unequal distribution between

[384] Ibid.
[385] *Petroleum Encyclopaedia of Kazakhstan*, Astana: Azholdas & Company Publishing House. (1999), p. 543.
[386] He worked in executive positions in the Communist Party (1992–93).
[387] ‘President says "NO" to regional autonomy,’ *Monitor*, 4 (128), 6 July 1998; Other powerful *akims* were Galymzhan Zhakiyanov (Pavlodar region), Mazhit Esenbayev (Karaganda region), Vladimir Gartman (Akmola region); *quoted in* ‘Regional Rules,’ *Russian Petroleum Investor*, May 1998.
[388] In chapter 2 (sections 2.1; 2.2.) I discussed how, during the second half of the 1990s, Atyrau’s families attempted to gain control over the oil industry in Kazakhstan by attempting to seize control of the NOC.

Atyrau and other regions, and this was also reflected in the election results.[389] As one director in Atyrau put it, 'our region makes up 30 per cent of the budget. We are feeding one-third of Kazakhstan, that is not right'[390]. For example, in accordance with the Law on State Budget for the year 2003, the Atyrau oblast transferred over US$20 billion to the republican budget,[391] effectively becoming one of the largest donors to this budget.[392]

The scale of the discontent among the local population that the elections results revealed was magnified by the fact that the Atyrau region is mainly populated by ethnic Kazakhs. In 2000, Kazakhs made up 79.5 per cent of the population in the region; the other major ethnic group was the Russians, constituting 15 per cent.[393] Moreover, the Atyrau region is one of the least Sovietised western provinces, where 'many cultural practices remain largely unchanged from the prerevolutionary period' (Olcott 1987: 251). Thus, the people that were voting against Nazarbayev in the 1999 elections were those that in post-Soviet Kazakhstan were supposed to be a bedrock of the new state, and Nazarbayev's hardcore support base. In addition, from the perspective of the regime, any sign of dissatisfaction in the Atyrau region was problematic, since the town of Atyrau, the capital of the region, is over 2,600 kilometres west of Almaty, i.e. the centre of the country.[394]

1.2. The regime's response: shifting the responsibility

The main source of discontent in the Atyrau region was Nazarbayev's regime rather than the foreign oil companies. They had been the main targets of protests in other resource-rich provinces such as Aktyubinsk and Kyzrloda. In the Atyrau region, Tengiz, the major oil enterprise, had already gone through a phase of restructuring – a process not without its problems[395] – initiated by the American oil company Chevron in 1993. By 1999, this so-called 'first phase' of restructuring was largely over. In September 1999, Kazakh

[389] Interview with a journalist working for a local newspaper: Atyrau 23 November 2004.
[390] Interview with a director of a medium-sized subcontracting company: Atyrau 11 November 2004.
[391] 'The "Big" Oil of Atyrau: Hopes and Reality,' *Petroleum Magazine*, April 2003.
[392] 'Black Gold of Atyrau,' *Petroleum Magazine*, February 2002.
[393] 'Kazakhstan's Regions,' *Eastern Research Group*, *Research & Analytical Papers*, Foreign and Commonwealth Office (London, May 2000), p. 17.
[394] Ibid.
[395] 'Workers Unite,' *Russian Petroleum Investor*, April 1996.

citizens held – at least on paper – 71 per cent of TengizChevrOil staff positions, compared with 55 per cent in 1993. Investment in employee training had risen from approximately US$1.8 million in 1994 to approximately US$6.2 million in 1998.[396] Moreover, workers at Tengiz are said to be well fed and are given proper safety clothing, and 'should hence consider themselves lucky'.[397] In the cases of the other oil enterprises that were sold off to foreign interests in the second half of the 1990s, the process of restructuring had just begun, and attention, arguably, was focused on the oil companies rather than on the regime. This is not to say, however, that the local population in Atyrau did not feel any grievances towards foreign oil companies; they did, but their dissatisfaction in the Atyrau region with oil companies was of a secondary importance.

At the end of the 1990s, one main source of resentment towards foreigners was the legendarily disproportionate wages for local and foreign specialists. In the late 1990s an English, American or Italian specialist working for Tengiz was allegedly earning between 15,000 to 20,000 American dollars monthly, whereas Kazakh specialists earned no more than 1000 dollars for the same work. In Aktyubinsk, Chinese specialists working for the Chinese National Petroleum Co. earned 8,000 dollars monthly compared to the 800 dollars[398] paid to a Kazakh specialist. In 2001, the central authorities argued that foreign specialists working on the Karachagank project on an average earned US$14,500 dollars monthly, whereas the average monthly pay of a Kazakh specialist was 1200 dollars.[399] It is beyond the scope of this chapter to judge to what extent the claims concerning the disproportion in wages are founded or unfounded. Yet, the mythical status that they assumed in the public imagination undoubtedly had an impact on the way in which the foreign oil companies and Nazarbayev, who after all had invited them to Kazakhstan, were seen by the local population.

Specific service companies that came with foreign oil companies at the beginning of the 1990s were received with a similar amount of suspicion and discontent. The fact

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[396] *Figures quoted in* 'Oil Development in the Caspian: A critical investigation of California oil companies in Azerbaijan and Kazakhstan,' by Pamela Sumner Coffey. *California Global Corporate Accountability Project*, (Berkley, Fall 1999); see also Peck 2004: 156.

[397] Interview with a journalist working for a local newspaper: Atyrau 23 November 2004; Interview with a director of a small supplying company: Atyrau 17 November 2004.

[398] Interviews with oppositional and pro-government journalists Atyrau 22—23 November 2004; Rysty Alibekova, 'Oil producers reach new heights.' *Kazakhstanskaya Pravda*, 31 May 2001

[399] 'Karachagank Import Substitution Program,' *Oil and Gas Kazakhstan Magazine*, 1–2, 2001.

that foreign companies were bringing their own cooks, food and security people was widely perceived as a real affront to Kazakhstan and the Kazakh people.[400] According to one estimate, by late 2004 Chevron was bringing about 60 per cent of its foodstuffs from aboard, whereas the rest was purchased locally – primarily vegetables, bread and the like.[401]

To sum up, in the oil-rich Atyrau region, the blame for the lack of economic development was put on Nazarbayev and his local representative Ravil Cherdabayev, which significantly increased the political risks from the perspective of the regime. Given the distance of the Atyrau region from the centre, this dissatisfaction could potentially translate into protests, and in the long run even into autonomous movements and perhaps secession. In the following pages, we will argue that the regime's response to the growing dissatisfaction in the Atyrau region was to shift back the burden of responsibility for the lack of economic development from the government to the foreign oil companies, thereby effectively containing the growing dissatisfaction.

The foreign oil companies were a perfect scapegoat for the regime, since they are an external force or 'outsiders'. Naturally, the regime is responsible for selling various oil enterprises to them, but it can always cast itself as an innocent 'victim' that did not know that these oil companies will, for instance, severely reduce employment at an enterprise.[402] It should be added that the Kazakh government was not alone in its thinking, and that this sort of 'victim' rhetoric was in fact used all across the post-Socialist block, especially at the beginning of the 1990s.

What is unique in the Kazakh case is the extent to which the foreign oil companies in the Atyrau region aided the government in shifting the responsibility to them by not actively protesting against the regime's actions; this was because stability in the Atyrau region (in which foreign oil companies are after all investing billions of dollars) is also in *their* interest. I base this claim on a number of interviews in Almaty and Atyrau (2004) with people working for the foreign oil companies in the capacities of director and regional manager, who openly admitted that they were closely co-operating

[400] Interview with a director of a small machinery plant: Atyrau 11 November 2004.
[401] Interview with a marketing manager of a major company that specialises in remote sites services: Almaty 2 December 2004.
[402] Interview with a local specialist working for the foreign embassy: Almaty 27 September 2004.

with the representatives of Nazarbayev's regime on the local level. A justification given for such co-operation was that a situation in Kazakhstan was not abnormal from their point of view, and that they had encountered similar scenarios before in other parts of the world – notably Africa and the Middle East. The line of reasoning of those directors and managers seems to be that it is all part of working in a difficult environment.

1.3. Imangali Tasmagambetov and pacts with foreign oil companies

Nazarbayev's response to the election results in three regions where he received the least votes in the 1999 elections, rather predictably, was swift. The *akims* of the Mangistau region (Nikolai Bayev), the Zhambly region (Sarybai Kalmyrzayev) and the Atyrau region (Ravil Cherdabayev), were all dismissed within weeks after the elections. Imangali Tasmagambetov became the new *akim* of the Atyrau region in February 1999. He stayed in his post until 15 December 2000, and played a vital role in appeasing the dissatisfied population in the Atyrau region by shifting the responsibility for the lack of economic development from the regime to the foreign oil companies. In order to understand his impact better, we will first trace his career up to his appointment as Atyrau's *akim*, and then his subsequent role in the political life of post-Soviet Kazakhstan. Our brief analysis will most importantly demonstrate the close proximity of Tasmagambetov to Nazarbayev, which in turn lead to the assumption that the strategy of 'shifting the responsibility' came directly from the apex of power.

Imangali Nurgaliyevich Tasmagambetov comes from the Atyrau region,[403] where he began his political career in the mid-1980s with his appointment as first secretary of the Guryevsky city committee for LKSMK (Lenin Communist Union of Kazakhstan's Youth), i.e. the Komsomol. Interestingly enough, just before him, the post of first secretary of Guryevsky city committee of the CP was occupied by the aforementioned Ravil Cherdabayev, who at that time was Tasmagambetov's patron.[404] In the late 1980s, Tasmagambetov became a Politburo member, a member of the Central Committee of the CP of Kazakhstan, and deputy of the 12th Supreme Soviet. From the beginning of the

[403] Atyrau until 1992 was called Guryevsky.
[404] 'Imangali Nurgaliyevich Tasmagambetov,' *Petroleum Magazine*, February 2002.

1990s, he closely co-operated with Nazarbayev; first as a chairman of the republican state committee for youth affairs, and later on as a presidential adviser. In the mid-1990s, Tasmagambetov became deputy prime minister, subsequently education and culture minister, and finally deputy head of the presidential administration. One year before his appointment as Atyrau's *akim*, Tasmagambetov served as a chief assistant to the president,[405] which meant that he undoubtedly was one of Nazarbayev's closest associates and hence one of the president's trusted 'lieutenants' who received *akim* appointments in the late 1990s.

The fact that further illustrates that Tasmagambetov was a trusted enforcer of the president's will was his appointment to the post of Prime Minister in January 2002. During his time in office, he became most famous for disclosing information about a secret fund established by the authorities, which later snowballed into a scandal which came to be known as 'Kazakhgate' (chapter 6, section 1.1), and for taking on himself the initial wave of attacks around this scandal.[406] The intimate relationship between Nazarbayev and Tasmagambetov was said to be so close that he was tipped as the most likely next president of Kazakhstan.[407] In 2002, he famously revealed: 'I would never have become the Tasmagambetov I am today, if it has not been for the President (…) That's why, I am a product of Nazarbayev'.[408] In 2003, the KazRating national agency listed him as the second most important man in Kazakhstan.[409]

This brief analysis illustrates that Tasmagambetov had all the attributes to address the crisis in the Atyrau region. He was a local person with good connections to the regional oil families and ex-Communist party people. Moreover, from Nazarbayev's point of view Tasmagambetov could be trusted with implementing new strategies without risking that his 'lieutenant' would abuse the trust placed in him; he would not use his time in the region to construct his own patronage networks or power bases, as seemed to the case with the previous *akim* Cherdabayev. It was reported that shortly after

[405] http://www.rferl.org/specials/kazakhelections/bios/tasmag.asp (Accessed 10 May 2004).
[406] Aldar Kusainov, 'Kazakhstani prime minister admits to existence of secret government fund,' *EurasiaNet*, 5 April 2002. http://www.eurasianet.org/departments/insight/articles/eav040502a.shtml (Accessed 25 May 2005).
[407] 'Kazakh opposition sees premier as obvious successor to president'. *Eurasia web site*, 14 February 2002. *Source*: BBC Monitoring Service, 28 February 2002.
[408] Marea Beat, 'Central Asian tiger in turmoil,' *Turkish Daily News*, 19 February 2002.
[409] *Karavan*, 2 May 2005, p.5. Source: BBC Monitoring Service, 20 June 2003.

Tasmagambetov's arrival in the Atyrau region, during a series of meetings with the representatives of the local administration he ordered the regional departments to tighten control over investor activities; 'his reason was the need to increase benefits for the province from the presence of foreign oil operators'.[410] It is alleged that the new *akim* made similar remarks during sessions of the local *maslikhats*, which resonated very well with the local population: 'he is a person that was not afraid to take unusual decisions'.[411] Yet, on another occasion, he spoke about the challenge facing Kazakhstan to secure a well-coordinated working relationship between the local government and the operating joint stock companies.[412]

Tasmagambetov's time in office was marked by a set of spectacular actions, all of which had only one aim: to demonstrate to the local population that the government was not neglecting them. In the spring of 1999, the regional division of the natural resources halted operations on six Tengiz wells on the grounds that they violated existing regulations of oil recovery. The operation was resumed after TengizChevrOil (TCO) JV agreed to contribute US$4 million for the improvement of quality of life in the province. In a similar case in late summer 1999, local authorities in the Atyrau region blocked the drilling of the first exploratory well at Kashagan under the excuse that Agip KCO Consortium[413] did not have the necessary permits. Operations were resumed once the Consortium agreed to build a huge sporting complex in Atyrau free of charge.[414] Moreover, in 1999 Agip KCO founded a project for gasification of the central part of Atyrau, modern building construction and installation of heating systems and water supplies. In the health sector, the Consortium funded the supply of modern medical equipment in the rural areas throughout the Atyrau region.[415] Finally, at the beginning of the 2000s, the Agip KCO Consortium transferred its office from Almaty to Atyrau. It was

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[410] Gribov Sergei, 'Xenophobic Hard Liners Gain Inside-Support from Kazakh Government,' *RusEnergy.com*, 4 Febuary 2002. http://www.rusenergy.com/eng/caspian/a04022002.htm (Accessed 25 May 2004).
[411] Interview with a director of a medium size subcontracting company: Atyrau 11 November 2004.
[412] Marea Beat, *Turkish Daily News*, 19 February 2002.
[413] Agip KCO Consortium subsequently was renamed the Offshore Kazakhstan International Operating Company (OKIOC).
[414] Sergei Gribov, *RusEnergy.com*, 4 Febuary 2002.
[415] 'Obligations strengthened by deeds,' *Petroleum Magazine*, September 2002.

suggested at that time that the main reason for transferring the company's head office to Atyrau was the tough stance by Tasmagambetov, who declared in September 1999

> the management of the OKIOC, whose activity is giving rise to controversy amongst the public due to fears of an accident on the Sunkar drilling platform, should be based where it carries out the work, and not in the southern capital.[416]

Moreover, foreign oil companies were also made to build new roads, and to renovate the main bridge in Atyrau city as well as the local mosque and the Orthodox Church. According to one account, Tasmagambetov would visit a church or go to the area where a local road was in very poor state and ask the local officials to do something about it: 'get money from the oil companies'.[417] Notably, it was not only the biggest foreign companies that were obliged to contribute to local development, but less significant companies were also 'persuaded' to open a school or provide English classes.[418] Since the Atyrau region is Kazakhstan's second smallest in terms of population – roughly half a million people were living there in 2000 – information about good deeds of the new *akim* spread quickly and strengthened the impact of Tasmagambetov's actions.

The biggest publicity stunt was the '100th Year Celebration of Kazakhstani Oil' in September 1999, which aimed at demonstrating how high on the national agenda the Atyrau region ranked. In the words of then Prime Minister Nurlan Balgymbayev: 'I believe Atyrau is the third capital of Kazakhstan – the oil capital. Astana is the administrative capital, Almaty the commercial capital, and Atyrau the oil capital'.[419] The celebrations emphasised the fact that the region's first oil development dated back to 1911, and that even the Nobel brothers had visited the region. Thus, Atyrau by definition became something grander, linking Kazakhstan to the great history of world oil. It should be added that the celebration was sponsored by various foreign oil companies, which spent around U $2–$3 million dollars each on this 'project'.[420]

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416 *Interfax*, 24 January 2000.

417 Interview with a director of a medium size subcontracting company: Atyrau 11 November 2004.

418 Interview with a marketing manager of a major company that specialises in remote sites services: Almaty 2 December 2004.

419 *Quoted in* Eastern Research Group, Research & Analytical Papers (2000), p. 17.

420 Interview with a general director of a local oil company: Atyrau 12 November 2004.

Threats of halting projects and intimidating oil companies, especially small ones,[421] were not new in Kazakhstan. Tasmagambetov's 'approach', however, was truly novel and seemed unprecedented when it came to the magnitude of the players that he was now taking on. No one living in Atyrau, or indeed in the other oil-rich areas, had employed this tactic before. Most importantly however, the strategy worked:

> Tasmagambetov introduced rules for the oil companies operating in Atyrau – if you are living here then you should treat it like a home and help Kazakh people. You see oil companies do not want to do anything for Atyrau. Everything they did in the city was through forced sponsoring. Now, if they are not willing to build something for us then they will have problems with the local authorities.[422]

The opinion cited above is not unusual in Atyrau, and most of the local business people, journalists and experts that I talked to, agreed that things began to change significantly after Tasmagambetov came to Atyrau. It indicates that during his short time in office, perceptions began to shift. Nazarbayev's regime became the solution to the local population's problems rather than the problem, which it had been seen as during the 1999 elections. The real problem now was 'the foreign oil companies that did not care about the Kazakh people'. It is argued that in subsequent years, the new *akims*, Serikbek Daukeyev and Aslan Musin, carried on with Tasmagambetov's approach,[423] which further strengthened the shift of the perceived problematic entity from the regime to the companies in the public imagination. The ultimate effect of such actions is that in the Atyrau region, foreign oil companies began taking over some of the functions that are normally performed by the state.[424]

Naturally, not everyone was completely dazzled with Tasmagambetov. One director, commenting on what happened in 1999, rather soberly pointed out: 'something needed to be done in Atyrau and they [Nazarbayev and his inner circle] gave him such an

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[421] 'Paying the Piper,' *Russian Petroleum Investor,* August 1996; 'British oilman facing "ruin and bankruptcy" after Kazakh fine,' *Alexandre's Gas and Oil Connections*, 3 (13), 24 April 1998.

[422] Interview with a director of a medium-sized subcontracting company: Atyrau 11 November 2004.

[423] For instance, in 2004 Kazakh authorities in a highly publicized case temporarily impounded an oilrig belonging to U.S.-based Parker Drilling because of the company's failure to pay customs duties. *Source*: 'Kazakhstan Impounds U.S. Oil Rig,' *Moscow Times*, 9 July 2004.

[424] Interview with a foreign diplomat: Almaty 12 October 2004.

opportunity, but it was just a drop'.[425] In 2001, local officials were estimating that they needed around US$350 for their long-term plans.[426] Those that claimed to be representatives of the opposition in the Atyrau region were unsurprisingly much more sceptical, since the only 'lasting effect on the 100th Celebration are painted facades in the center of the town'.[427] This point is supported by the 2004 UNDP report, which estimated that in Kazakhstan the highest urban poverty was in the Atyrau region, while the highest rural poverty was registered in yet another oil-rich region, Mangystau.[428] This downturn began in the mid-1990s, and it has so far proved to be irreversible. For example, in 2001 nearly one-third of the population had a per capita income below the sustenance level, which was lower than in 1997, when the share of the poor in the total population was 43 per cent.[429]

The foreign oil companies, on their part, were willing to go along with the regime's strategy for various reasons. Firstly, the regime's demands from the perspective of the oil companies did not appear to be extraordinary, since they largely consisted of fulfilling social obligations as stated in the contracts. John Morrow, a director general of Karachaganak Petroleum Operating, argued that in 2002 his Consortium would allocate US$2.9 million to social projects in the Western Kazakhstan and Atyrau regions, which in the majority were 'obligatory projects to be carried out under the final production sharing agreement'.[430] In some instances, however, such spending on social projects exceeded contract obligations. In 2002, the new *akim* of the Atyrau region, Serikbek Daukeyev, pointed out that TCO allocates about US$8 million annually to develop social programmes. He admitted that these funds were above and beyond what TCO had stipulated in its contract.[431] A similar situation seemed to occur in the neighbouring Mangistau region, where the *akim* Bolat Palymbetov stated in his interview that 'many

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[425] Interview with a executive director of a local oil company: Atyrau 16 November 2004.
[426] David Stern, 'Rude awakening for sleepy oil town,' *FT.com site*, 21 August 2001.
[427] Interview with oppositional journalist: Atyrau 22 November 2004.
[428] 'Kazakhstan: Poverty persists despite impressive economic growth,' *IRIN* (Ankara, 13 May 2004). http://www.irinnews.org/report.asp?ReportID=41037&SelectRegion=Central_Asia&SelectCountry=KAZAKHSTN
(Accessed 5 July 2005).
[429] *ITAR/TASS* (4 April 2001).
[430] 'Karachagank Project: Advanced Equipment Plus High Technologies,' *Petroleum Magazine*, December 2002.
[431] 'Akim Seikbek Daukeev: "Oil Enterprises are Vital for Us," *Petroleum Magazine*, February 2002.

companies fulfil their obligations and even exceed them'.[432] At first glance, those increases suggest that oil companies in some instances bent under Tasmagambetov's pressure. In reality the situation was arguably somewhat different, for reasons that we will discuss in the second part.

Foreign oil companies were willing to exceed their contract obligations, which effectively meant taking most of the blame for the lack of economic development, since from their perspective, stabilisation in the oil regions in which they invest billon of dollars is the most important factor. In other words, it is also in their interests to minimise the political risks that authoritarian regimes face. It appears that oil companies are extremely sensitive to any sign of instability, mainly due to their experiences in other parts of the world where political friction, in the most extreme cases, has led to violent conflicts and had negative effects on oil exploration and recovery, as for instance, in Chad in the late 1970s.[433] One director stated that in his opinion Kazakhstan is a friendly place, much better than Nigeria or Turkmenistan.[434]

Moreover, the way in which Nazarbayev's regime went about addressing problems that mounted in the Atyrau region, by casting itself as a defender of the people's interests vis-à-vis the foreign oil companies, was a familiar scenario to the representatives of the companies in Kazakhstan, and something that they were willing to accept.[435] Whereas Tasmagambetov, and later on other *akims*, posed as uncompromising figures in public, during private meetings with representatives of the oil companies they were much more 'reasonable'. One director stated that local authorities were not forcing them to do anything, but rather *asking* the company to sponsor various events such as the festivities commemorating the end of the Great Patriotic War;[436] other activities included giving financial support to pensioners, mothers with many children, and orphans.[437] The

[432] 'Mangistau Creates a New Petrochemical Complex,' *Petroleum Magazine*, October 2002.
[433] Interview with a high-ranking foreign specialist working on major projects in Kazakhstan since the mid-1990s: Almaty, 21 October 2004; Interview with a high ranking specialist of a major foreign oil company: Almaty 6 October 2004.
[434] Interview with general manager of a foreign building sub-contracting company: Almaty 11 October 2004.
[435] Interview with a regional manager of a major foreign sub-contracting company: Atyrau 10 November 2004.
[436] Interview with a director working for a major foreign sub-contracting company: Almaty 11 October 2004.
[437] 'Black Gold of Atyrau,' *Petroleum Magazine*, February 2002.

same goes for the move of the headquarters of the oil companies from Almaty to Atyrau, which, as was shown, appears to have been one of Tasmagambetov's major victories during his short time in office. Hence, the oil companies, rather than being forced to move their headquarters to Atyrau, were requested to do so. What is more, they viewed this request, however costly, to be perfectly reasonable.[438]

Moreover, at the end of the 1990s, foreign oil companies could be rather certain that the regime would go only so far in its demands, which made companies more willing to accept them. Towards the end of the first decade of independence, Kazakhstan's economy was in a deep economic crisis,[439] and the companies knew that the regime had tried to do everything to attract foreign investors rather than to antagonise them. Certainly, the government spoke loudly about scrutinising foreign investors, as when Prime Minister Nurlan Balgimbayev on one occasion said: 'We are looking into how foreign investors carry out their obligations under the contracts'.[440] However, it did not indicate that it wanted to, for instance, reverse privatisation in the oil or indeed any other sectors. Quite to the contrary, President Nazarbayev seemed to reassure foreign investors that the rules of the game were not going to change: 'Private companies will carry on as they were – there will be no change in the course (of privatisation)'.[441] Finally, it is important to keep in mind that foreign oil companies are not willing to be passive scapegoats to the Nazarbayev's regime forever, and that in the long run they could well use their social projects to their own advantage. This is a point which was, ironically, made by the aforementioned *akim* Palymbetov: 'Many companies are serious in making their reputation; that's why they render social assistance irrespective of their contract obligations. It is the community opinion that is important to them.'[442]

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[438] Ibid.
[439] Additionally, prices of oil in 1999 had fallen to almost 10 US dollars per barrel.
[440] 'Kazakhstan evaluating privatisations,' *Alexandre's Gas and Oil Connections*, 3 (20), 24 April 1998.
[441] 'Kazakh privatisation wants to prevent mistakes made elsewhere,' *Alexandre's Gas and Oil Connections*, 3 (20), 24 August 1998.
[442] *Petroleum Magazine*, October 2002.

2. Continuing playing the blame game: the case of local labour

As it was stated in section 1.2 above, in the oil regions such as Aktyubinsk and Kyzrloda, the main source of discontent at the end of the 1990s was not so much in Nazarbayev's regime, as was clearly the case in Atyrau, but rather the foreign oil companies that laid off local staff and even worse, began replacing them with foreign workers and specialists. The Nazarbayev's regime's response to these problems, which potentially could transform themselves into protests against the regime,[443] was to introduce new measures – active promotion of the local labour – which allowed it to yet again cast itself as a defender of the local population vis-à-vis outside companies.[444] The main targets of the regime's attack, however, were not foreign oil companies *per se* and the predominantly Western specialists working for them, but rather workers of medium-sized sub-contracting companies, for instance, from Turkey and other non-Western countries, which were being sub-contracted by the foreign oil companies.[445] The blame for the decrease in employment was put on those companies, primarily because people working for them were not highly skilled workforces and could be replaced by Kazakh citizens without much danger of hampering the oil projects,[446] which would be the case if Nazarbayev's regime tried to replace Western specialists with local people.[447] The architect of this strategy was Nursultan Balgymbayev,[448] whose extremely close contacts with the major oil companies (chapter 2, section 3.2) would suggest that this shifting of the blame towards non-Western sub-contracting companies happened, at least to some extent, with the tacit approval of the foreign oil companies. After all, it was also in the foreign oil companies' interests to shift the responsibility for the unemployment in the oil-rich areas from themselves to third parties.

Having said all of that, we do not try to suggest that solely non-Kazakh companies were targeted by the Kazakh officials to employ more Kazakh citizens; far from it. Major

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[443] Interview with a local specialist working for the foreign embassy: Almaty 27 September 2004.
[444] *Country Commercial Guide Kazakhstan, Fiscal Year 2004*, July 2003, p.7. www.bisnis.doc.gov (Accessed 23 January 2004.)
[445] Interview with oil expert: Almaty 17 September 2004.
[446] Interview with general manager of a foreign building sub-contracting company: Almaty 11 October 2004.
[447] Interview with a director of a medium size subcontracting company: Atyrau 11 November 2004.
[448] Ibid.

foreign oil companies and their sub-contractors were also under pressure to employ Kazakh citizens; however, in their case, there were only certain citizens involved. A director of a major sub-contracting company argued that every time his company would start a new project, open a new office and the like, it would inevitably find itself under pressure from the local authorities in the oil-rich regions to employ their cousins, sons, daughters, brothers-in-law and so on. He said that the mechanism was very simple: 'You come to the their office and you want something to be done and they say no problem just here it is my brother-in-law could you help him out?'[449] As a result of this, every tenth person that the company employed was due to the pressure from the local authorities. The General director of a small extracting company spoke about a similar experience; in his own words:

> There is a pressure to employ relatives of those that work in local bureaucracy, especially the ones that carry out some sort of inspection, for example, health inspectors. They would ask me would you not give a job to my son or some other relative. That happens all the time. The only way to deal with this sort of pressures is to give up to their demands and employee a relative. But then I am extra strict with such person and after a while they themselves quit. They know that they do not have any qualifications and that they were employed because of those pressures and they quit.[450]

In the case of the non-Western sub-contracting companies, the pressures coming from the authorities were of a much more severe and far-reaching nature.

2.1. Non-western sub-contracting companies

At the beginning of 1997, the Kazakh government began talking about the need to boost local employment by limiting the issuance of work permits to foreigners. Those debates quickly found their reflection in the Law on Employment of the Population (1998). Under the new law, the government limited the number of work permits available to foreigners

[449] Interview with a director working for a major foreign sub-contracting company: Almaty 11 October 2004.
[450] Interview with a general director of a foreign drilling company: Almaty 10 September 2004.

based on their areas of specialisation and geographic regions of origin.[451] In 1998, the US Embassy stated that: 'Keeping out cheap, foreign labour that could potentially add to Kazakhstan's already significant number of unemployed was the original intention of the law'.[452] In August 2000, the government went one step further, and for the first time fixed a quota for the foreign workforce,[453] which until then had not been limited. According to the Resolution, the quota for foreigner workforce imports in 2000 was fixed in the amount of 7,000 persons, broken down into 5,025 in the sphere of engineering and 1,635 in the finance and economics fields.[454] It is argued here that the prime target of those new measures were the workers of sub-contracting companies all across oil-rich areas including the Atyrau region, which had seen a considerable influx of non-Western sub-contracting companies (chapter 5, sections 1.1, 1.2).

Thus in late 2000, shortly after the introduction of the quota system, the Prosecutor's Office in the Atyrau region brought to light a number of cases in which foreign companies operating in the oil sector had breached Kazakh law by bringing in foreign workers and specialists in those professions where they could be provided by local labour. The Prosecutor of the Atyrau region, Mukhtar Zhorgenbayev, pointed out that many of these companies were contractors of the TengizChevrOil joint venture.[455] A good example of a TengizChevrOil's sub-contractor which was subsequently accused of breaking the law is the Turkish Fintraco-TEPE construction company, which at the beginning of the decade was in charge of building the ultra-modern administrative headquarters for TengizChevrOil in the centre of Atyrau city. In November 2001, the National Security Committee for the Atyrau region stated that during a routine check, they had discovered that 91 employees of Fintraco-TEPE did not have permits to work in Kazakhstan.[456] Those 91 workers, together with 57 others who were also accused of

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[451] '2005 Investment Climate Statement – Kazakhstan,' *The Bureau of Public Affairs, U.S. Department of State*, http://www.state.gov/e/eb/ifd/2005/42065.htm (Accessed 21 August 2005).
[452] 'Kazakhstan: 1998 Investment Climate Statement' US Embassy Almaty, *Business Information Services for the Newly Independent States,* 30 June 1998. http://www.bisnis.doc.gov/bisnis/country/980630kz.htm (Accessed 12 June 2005).
[453] Resolution 1219 'On fixing quota for employment of foreign citizens hired by the employers outside Kazakhstan for the year 2000, and by profession groups.'
[454] 'Employment of Foreign Workforce in Kazakhstan: What changed with the introduction of quota for 2000,' *Petroleum Magazine*, November 2000.
[455] *Khabar Television*, 24 November 2000, *Source*: BBC Monitoring Service, 24 November 2000.
[456] *Interfax,* 13 November 2001.

lacking the necessary papers, were deported to Turkey in December 2001.[457] It should be pointed out that oil companies themselves, at least on some occasions, appeared to try to bar such incidents from happening. For example, in April 2001, TengizChevrOil laid off 44 Ukrainian citizens who were also thought not to have the necessary documents.[458]

The co-operation between the regime and foreign oil companies on the issue of local labour was reflected in the figures released by the foreign oil companies. When oil companies issue data about the involvement of local labour, they should only include people directly working for them. However in Kazakhstan, foreign oil companies actually included non-Western subcontractors, which in turn allowed them to present a picture of a considerable shift.[459] For instance, in the Kyzrloda region, by 2002 over 1,700 local staff were working at the oil-producing enterprises, and together with the servicing companies this figure reached more than 5,000 employees.[460] A director of one non-Western company that worked in the Kyzrloda region – at the time when the data quoted above were issued – stated that his company employed 1,000 people, of which Kazakhs made up 80 per cent. Kazakh workers were mostly employed on a short-term contract basis, and once their contracts were concluded they were dismissed. It should be added that when the company came to Kazakhstan for the first time, it brought its own workers.[461] In 2001, it was also reported that on the Karachagank Project (Western Kazakhstan) there were 12,000 people, of which only 3,278 were foreign specialists[462].

Whereas in reality the increase in local labour working for the oil companies was perhaps not as staggering as the numbers might suggest, it seemed to be enough to convince people that the government cared for them. Those who lived and worked in the Atyrau region and were very sceptical of the foreign companies admitted that the change was real, and that more local people had begun working for the sub-contracting companies after the measures were introduced.[463] According to the *official* statistics, the

[457] *Khabar Television*, 5 December 2001, *Source*: BBC Monitoring Service, 5 December 2001.
[458] *Interfax-Kazakhstan*, 3 April 2001.
[459] Interview with a high representative of a governmental agency: Astana 8 December 2004.
[460] ‘Serikbai Nurgisayes: The Subsoil Users Form the Basis of the Oblast’s Economy,’ *Petroleum Magazine*, December 2002.
[461] Interview with general manager of a foreign building sub-contracting company: Almaty 11 October 2004.
[462] ‘Karachaganak Import Substitution Program,’ *Oil and Gas Kazakhstan Magazine*, 1–2, 2001.
[463] Interview with a specialist working for the local Oil Trade Union: Atyrau, 19 November 2004; Interview with a journalist working for a local newspaper: Atyrau 23 November 2004.

level of officially registered unemployment in the region was 4.5 per cent in 2001, as compared 7.3 per cent in 1999.[464]

In subsequent years, attacks on non-Western sub-contracting companies did not die out, but rather seemed to become part of the daily life in the oil-rich regions.[465] For instance, in early 2005 in the Atyrau region, local authorities discovered 45 Turkish citizens working illegally for a construction company which conducted work for TengizChevrOil.[466] Later on in the month, authorities accused 40 Indian citizens working for an Indian construction company Punj Lloyd Kazakhstan, which is also a TengizChevrOil sub-contractor, of lacking the necessary business visas.[467] In March of the same year, yet another group of 37 Turkish employees working for a Turkish sub-contracting company were declared illegal.[468] To some extent, non-Western sub-contracting companies, at least in recent years, have made the attacks on local authorities on them much easier due to their apparent mistreatment of the local labour.[469] It was reported that non-Western sub-contracting companies that actually hire a certain amount of local labour often violate labour laws, do not provide social benefits, and have much worse working conditions than Western companies. As one journalist put it: 'social benefits in the European company are on the European level, whereas in the Indian and Pakistani companies they are on Indian or Pakistani level'.[470] However, the most problematic issue is the one of equal pay: non-Western sub-contracting companies refuse to pay the same wage to local and outside workers. For instance, a Turkish, Indian, or Chinese worker can earn per month as much as US $800, whereas Kazakh worker for the same job will get only US $200.[471]

The issue of unequal pay was the main reason behind a strike of the Kazakh workers in the village of Shanyrak in Atyrau Region, where 370 local workers employed

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[464] 'Akim Serikbek Daukeev: Oil Enterprises are Vital for US,' *Petroleum Magazine*, February 2002.
[465] In recent years Turkish companies were not only accused of favouring Turkish citizens over local labour in Kazakhstan but also in neighbouring Turkmenistan and Azerbaijan: **'**Turkmen Riled by Turkish Firms' Hiring Policies,' *IWRP***,** RCA No. 391, 28 June 2005; Simon Ostrovsky, '1,000 strike at US oil firm in Azerbaijan,' *AFP*, 22 November 2005.
[466] *Kazakh Television first channel*, 19 January 2005. *Source*: BBC Monitoring Service, 21 January 2005.
[467] *Interfax-Kazakhstan*, 9 February 2005.
[468] *Interfax-Kazakhstan*, 3 March 2005.
[469] Interview with a specialist working for the local Oil Trade Union: Atyrau 19 November 2004.
[470] Interview with a journalist: Almaty 29 October 2004.
[471] Ibid.

by the Indian company refused to work, arguing that Indian workers earned more than they did and that the company did not provide them with the proper technical equipment.[472] In some instances, the discrepancies in wages even led to violent clashes between two parties. One of the most vivid examples of tensions running high between Kazakh and outside workers was a clash between the Kazakh and Turkish employees of the Turkish construction company GATE Inssat, which was taking part in the reconstruction of the Atyrau refinery. In April 2005, Kazakh workers accused Turkish managers of mistreatment, and this dispute turned into a scuffle involving about 500 people, some of whom were armed with metal rods and bricks.[473] The scuffle was followed by an inspection of the local authority, which resulted in the deportation of some of the Turkish workers.

2.2. A new approach?

So far we have argued that the main targets of the local authorities in the oil-rich regions have been non-Western sub-contracting companies, not foreign oil companies or Western sub-contractors and the like. That, however, began to change a few years after fixed quotas were introduced for the first time. The growing confidence on the part of the Kazakh authorities – which was brought about by the increase in oil prices, an influx of various sub-contracting companies, (chapter 5, section 2.3; chapter 6, section 2.1), and commitment of the foreign oil companies to Kazakhstan[474] – resulted in spillovers of the regime's strategy from exclusively non-Western sub-contractors to Western sub-contractors broadly understood, with one significant difference. In the case of non-Western sub-contractors, the idea was to get as many Kazakh citizens working in effectively low-skilled jobs. With regard to Western sub-contractors, however, the government not only wants them to employ local labour, but also to train Kazakh citizens

[472] *Kazakhstan Television first channel*, 26 October 2004. *Source*: BBC Monitoring Service, 26 October 2004.
[473] Bagila Bukharbayeva, 'Kazakh oil workers clash with Turkish supervisors over alleged mistreatment,' *AP Worldstream*, 12 April 2005.
[474] Interview with a high-ranking foreign specialist working on major projects in Kazakhstan since mid 1990s: Almaty 21 October 2004.

so that they will obtain new skills, and in the long run will be able to replace Westerners and others altogether.[475]

At the same time as the Kazakh authorities have increased their demands towards Western sub-contractors, they have also steadily begun relaxing the fixed quota system, which foreigners see as a major obstacle and complain about, at central as well as local authority levels.[476] In 2004, Kazakhstan allowed twice as many foreigners to work in the country than in 2000, and the total number had risen to 16,500. A foreign diplomat asserted that these strategies – on the one hand, the growing pressure on Western sub-contractors, and on the other hand, the changes in the government's policy – have been elements of a carrot-and-stick approach that allows Nazarbayev's regime simultaneously to portray itself as the champion of the foreign investors and also uphold its image as a defender of local labour.[477] This admittedly clever strategy, however, yet again places responsibility on the outsiders, whose own goal is not to train Kazakh workers but, to put it crudely, to make money. Hence, the result is a rather mixed one.

A project manager working in the Kyzylorda region stated that in the last two years, members of the local administration had been often visiting his firm, invoking the government's new guidelines, openly demanding of him that he employ Kazakh citizens, and on occasions even suggesting in a straightforward fashion to install some of themselves or their relatives, into managerial positions. These demands, however, have proven difficult to realise, since it was pointed out that the representatives of the local administration lacked the necessary work skills. Disputes ended in a sort of 'compromise', with the project manager agreeing to employ few workers and to pay them relatively high wages while referring them to low skilled jobs. The project manager pointed out that he favoured such settlements since it cost him less time and money than to train local workers from scratch.[478] Another area manager of a foreign sub-contracting company, one that mainly operates in the the Aktyubinsk and Mangistau regions and specialises in drilling, argued that in principle his company did not have any problem with employing local labour, since they were after all cheaper than non-Kazakh labour.

[475] Interview with a foreign diplomat: Almaty 12 October 2004.
[476] Interview with an area manager of one of the world's wide major drilling companies: Almaty 4 October 2004.
[477] Ibid.
[478] Interview with a project manager of a medium size drilling company: Almaty 8 September 2004.

What constituted a problem, however, for the company was the low qualifications of the local labour or their unfamiliarity with Western equipment. Moreover, those who on paper seemed to be qualified for the job were not always so in reality:

> All the people that come to me they have the right papers. They all come with their book in which it will say that they are qualified labour. For example lets take an assistant driller. The definition of the assistant driller in a Kazakh, Soviet industry is entirely different from the definition of the assistance driller in a Western oil business. An assistance driller on the North Sea, in the Far East can actually work as an assistant to the driller in the event that the driller is taken ill or has to go to the bathroom or something like that. The definition of the assistance driller here is someone that helps the driller and that can be anyone of the rig floor. But we do not have that, we define what a person is supposed to do. In our system an assistant to the driller is defined as assistant to the driller, a floor man is defined as floor man. Well you can say that it is a play on terminology but everyone that you ask here will tell you "Yes of course I am an assistant to the driller.[479]

Whereas the issue of who is a qualified driller in Kazakhstan and who is not should be left to those that are authorities on the subject, from the political point of view one thing is certain: the regime, in order to maintain its position as a defender of Kazakh interests, has to come across as constantly putting the pressure on foreigners. This strategy can easily work in relation to soft targets such as non-Western sub-contracting companies, but will require the considerable agreement of foreign oil companies if it is to be effective, as in the case of shifting the responsibility in the Atyrau region (section 1.3). However, since the latter approach demands active pacting with oil companies, which are difficult partners (discussed further in chapter 5, section 2.2), the regime will most likely look for additional soft targets to address the issue of unemployment in the oil-rich regions.[480] For instance, in 2004 Atyrau's local authorities argued that in recent years as many as 33,000 Uzbek citizens had arrived in the region, most of whom were in Kazakhstan illegally.[481] Those Uzbek citizens were accused of destabilising the local labour market, i.e. of taking jobs from the locals. It was suggested that whereas in Atyrau the local workforce earned between 20,000 and 25,000 tenge per month [130–160 US

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[479] Interview with an area manager of one the worldwide major drilling companies: Almaty 4 October 2004.
[480] *Kazakhstan Television first channel*, 20 January 2004. *Source*: BBC Monitoring Service 21 January 2004.
[481] *Quoted* in *Vremya*, 8 January 2004, p. 2.

dollars], Uzbek citizens were willing to work for two or three time less – between 12,000 and 15,000 tenge [77–97 dollars], thus depressing the local labour market.[482]

In conclusion, the purpose of this chapter was to demonstrate the development of the co-operation between Nazarbayev's regime and foreign oil companies that allowed the regime to address the problems which mounted in the oil-rich areas during the late 1990s. In the following chapter, we will see that the dissatisfaction of the local population was exploited by certain interest groups, which began demanding a greater share of the oil spoils that in their opinion, in a highly centralised system, were going solely to the people closest to the president. We will also see that the regime, in response to those demands, further strengthened its co-operation with the foreign oil companies, which in turn allowed it to successfully contain growing discontent.

[482] *Khabar Television*, 1 Feb 2003. *Source*: BBC Monitoring Service, 1 February 2003; It was also reported that behind such a large influx of outside labour are organised criminal gangs from the south of Kazakhstan (*Interfax-Kazakhstan*, 31 August 2005).

Chapter 5: The balancing act: the case of local content policy

In chapters 2 and 3, it was argued that the regime, in order to keep the NOC and major engineering companies under its control, primarily used two mechanisms: clientelism and Kazakhization. In this chapter, we argue that in the case of the local groups in the oil-rich regions, the picture becomes somewhat more complicated as the equation of the oil industry–regime is broadened by an additional actor: the foreign oil companies. The involvement of outside actors in controlling oil-rich areas in Kazakhstan is not unique. In chapter 4, we argued that the regime, in co-operation with foreign oil companies, managed to 'address' grievances among the local population.

In this chapter, firstly, we will discuss the situation of the so-called local interest groups in the oil-rich regions whose interests were largely omitted during the privatisation phase. In addition, in the post-privatisation period, local interests – such as major companies in Almaty (chapter 3, section 2.1) – were denied access to foreign oil companies' contracts due to far-reaching provisions written into the Subsoil law. Thus, tensions between the regime and local interests developed as a result of the regime's actions. In the following pages, we will argue that discontent in the oil-rich areas (the 1999 Presidential elections discussed in chapter 4, section 1.1) allowed those interest groups to voice their dissatisfaction with the position in which they found themselves. We will further demonstrate that the dissatisfaction of the local interest groups with the lack of sufficient business opportunities for themselves was one of the major reasons for the introduction of the local content policy, which was partially aimed at appeasing local interest groups. We will argue that another important motive for applying the local content policy by 1999 was the pressure coming from major engineering companies in Almaty and the north of the country (chapter 3, section 2.2).

Secondly, we will discuss the entire host of problems that the regime encountered once it tried to implement the local content policy. Those problems stem from the fact that in the second half of the 1990s, the Kazakh government gave foreign oil companies far reaching provisions that were written into the oil contracts it signed with them, which in turn made the introduction of the local content extremely problematic. The clash of interests between companies and the regime led to a tug-of-war which was resolved through a compromise similar to the one discussed in chapter 4 (section 1.3.): foreign oil companies were willing to give some concessions to the regime, and in turn the regime let foreign oil companies carry on with their business in a largely unchanged fashion. We will call this compromise a rapprochement process.

Thirdly, we will discuss the rise of local companies in the oil-rich regions since the local content policy was introduced, along with the problems that they and other small and medium-sized companies in Kazakhstan usually encounter. Next, we will argue that Nazarbayev's regime structured its relationship with local companies through indirect co-operation with the foreign oil companies and their major sub-contractors. By indirect co-operation, we understand a situation in which the regime, rather than controlling local companies directly, has instead chosen to control them through intermediates, namely the foreign oil companies and their sub-contractors. Thus, departments of the foreign oil companies responsible for selecting local companies employ people close to the regime structures. This has a direct impact on the decision-making process that determines which local company the foreign oil company is going to employ and which not. Moreover, we will demonstrate that foreign oil companies that forged alliances of convenience with local authorities also tend to listen to their suggestions about which local companies foreigners should co-operate with. We will argue that the roots of the co-operation between the regime and the foreign oil companies follow in a straightforward line from the rapprochement process.

1. Local interest groups and their discontents

The centralisation of power in the mid-1990s (chapter 2, sections 3.1 and 3.3) denied regional leaders in the oil-rich regions 'a sphere of influence to which they believed they were entitled – [playing a substantial role in determining] the terms of privatisation and foreign investment' (Luong 2000a: 7). In real terms, this development meant that all the major decisions concerning foreign investment were going to be made on a central level, and that regional leaders in effect would have little influence over the future dealings of foreign oil companies in their respective regions. It should be mentioned that in this centralised system, decisions concerning the course of the Kazakh oil sector were made in very close co-operation with the foreign oil companies, since the regime was desperate to attract further investments and was willing to give oil companies far-reaching concessions in order to do so (chapter 3, section 2.1).

The post-1995 structural arrangement, in which local leaders were isolated from the decision making process further down the local network ladder, initially spelled out no (or very little) access to the oil money for various local interest groups (clients) (who depended on the regional leaders (patrons) to pave the way to the 'corridors' of petrodollars).[483] The local interest groups – at least in the Atyrau region on which we will primarily focus in this chapter – at the end of the 1990s were made up of various cross-cutting networks that consisted of local businessman (mostly ex-directors of medium size state owned enterprises), senior bureaucrats, ex-apparatchiks (including their children and relatives) as well as criminal elements.[484] This reliance of the local interest groups on regional leaders should not be underestimated. Luong (2002) argued that Soviet policies and institutions in Kazakhstan and other Central Asian republics

> created structural incentives for elites and masses alike to shift the locus of their identities from tribe and Islam to region, and to personally invest in regional rather than national political identities by simultaneously fostering interregional political and economic competition at the republican level and creating an intricate system of patronage networks at the regional level. (p.62) [Within this system…] the chief executive in a given territory, the obkom first secretary became the prime dispenser of political and economic resources at the regional and local level, and skilfully used this position to build loyalty and support throughout his oblast. (p. 67)

In the case of the Kazakh oil-rich regions, the monopoly of the centre on the relationships with the oil companies, and the sparse involvement of the regional leaders, meant that the leaders would not be able to influence the process of allocating small service, construction and supply contracts by the oil companies or their major sub-contractors.[485] It should be kept in mind that the oil industry related contracts were highly desired, since

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[483] The regional leaders such as Atyrau's *akim*, Cherdabayev, and other key oil families established their own networks with foreign oil companies that were discussed in chapters 2 (section 3.3) and 3 (section 3.3). However, it should be said that during my fieldwork, I did not find any substantial evidence that the alliance between Cherdabayev, his brothers and oil companies ensured access of the local interests groups to oil or oil connected ventures in any meaningful way.
[484] Interviews Kazakhstan: Autumn 2004.
[485] Interview with business development manager working for a major foreign subcontracting company in Kazakhstan: Almaty 14 October 2004.

they meant that locals would have a stable income for a considerable amount of time in what was and still is a highly unstable business environment.[486]

1.1. Local interest groups in the oil-rich regions: the case of the Atyrau region

Due to the shift from the peripheries to the centre in the late 1990s, local officials, ex-apparatchiks and emerging businesspeople in the Atyrau region had seen little if any of the petrodollars about which President Nazarbayev spoke in his speeches by the end of 1990s, and the chances for any economic improvements seemed slim. Firstly, the most lucrative venture in the oil-rich areas was for the oil exploration of the small oil fields that were discovered during the Soviet era, and in some instances partly exploited; however, these were taken over from the locals by various people with close ties to the officials in Almaty or Astana (chapter 2, section 3.3). Secondly, most of the small- and medium-sized service contracts that foreign oil companies granted in the late 1990s overwhelmingly went to what Kazakhs call third world companies. In the 1990s, those ‘third world companies’ were, in most cases, Turkish in origin. Moreover, the regime tacitly supported such arrangements, through not openly criticising the lack of opportunities for local business. In some instances in the mid-1990s, ‘third world companies’ or non-Western sub-contractors secured the protection of people close to Nazarbayev by bribing them. However, apart from bribes, the conditions structurally set up by the far-reaching provisions in the Subsoil law of 1995 were the main reasons why non-Kazakh companies were allowed to enter the Kazakh market (chapter 3, section 2.1).

In the Atyrau region, the first small- and medium-sized service firms began emerging in the years 1995–1996. The intention behind the creation of many of those firms was to obtain small service contracts – especially in the area of drilling – from the foreign oil companies’ major sub-contractors.[487] However, this proved rather difficult. The foreign oil companies and their subcontractors argued that those newly created companies had at their disposal only outdated equipment, and suffered from the lack of new technologies. Another major problem was the shortage of qualified specialists able

[486] Interview with a director of a small machinery plant: Atyrau 11 November 2004.
[487] Interview with a executive director of a local oil company: Atyrau 16 November 2004.

to work in the oil industry. One commentator put it down to the fact that many Russians, who allegedly had the necessary expertise, had left the Atyrau region in the mid-1990s.[488] Some of those who were involved in major projects, such as Tengiz in the second half of the 1980s, strongly disagreed with the oil companies' point of view. One director pointed out that Tengiz was built with the participation of companies from all across the Soviet Union, and that in the initial stages Americans as well as their sub-contractors were using actual equipment from Soviet times.[489] Hence, in his view, the foreign oil companies were applying double standards – on the one hand working on Soviet equipment while on the other discriminating against it. Another example that he quoted was the Pavlodar refinery, which was built – almost exclusively – by Kazakh companies in the 1980s. At its peak, 8,000 people worked on the site of the project, and 'it does not seem that they've done such a bad job'.[490]

The view quoted above, however worth keeping in mind, seems to be held only by a minority who tend to speak with unhidden nostalgia about Soviet industry. In chapter 3 (section 2.1), it was demonstrated that the majority of directors that I talked to, who were working in the 1980s on projects such as Tengiz and Pavlodar, openly admitted that the equipment they were using was largely inadequate, especially when confronted with the demands of Western companies. Moreover, in Atyrau, businesspeople that happened to work with local service companies in the mid-1990s stated that those early attempts at setting up firms that specialised in such activities as drilling were largely a failure.[491] Thus, the lack of co-operation between small-sized service companies and foreign oil companies in the mid-1990s was put down to the reasons presented by the oil companies, and did not seem to produce any substantial grievances among local interest groups. In other words, it was poor technical capability rather than a lack of connections that disqualified those small-sized service companies.

At the same time, ex-apparatchiks, local businessman (and most likely criminal elements) were not willing to reconcile this so easily with the fact that the great bulk of the construction works, especially those commissioned by the foreign oil companies,

[488] Interview with journalist specialising in oil: Almaty 1 November 2004.
[489] Interview with a general director of a major construction company: Atyrau 11 November 2004.
[490] Ibid.
[491] Interview with a financial director working for a local oil company: Atyrau 18 November 2004.

were not going to Atyrau's companies but to non-Kazakh ones, of which the overwhelming majority came from Turkey. Those companies were sub-contracted by Bechtel to build virtually everything in the case of Tengiz, as well as later on during the Kashagan project[492] (chapter 3, section 2.1). The discontent of local interest groups originated from observing the way in which these non-Kazakh companies were working. It should be recognised that at the beginning of the nineties, any outside companies were assumed to be superior to Kazakh ones in every respect: 'but then you see how they work and you understand that they are not doing it any better than you would do it. People see these things'.[493]

It was stated that the people responsible for this situation were those in the centre of the country, who granted access to the Kazakh market to foreign firms without paying any attention to regional interests.[494] As one director put it:

> In principle people in Atyrau are very tolerant. But why to bring companies from the third world countries if Kazakh companies can do the same for less money (…) The way how it happened was that he [Turkish, Indian, Pakistani businessman] came to Kazakhstan with a suitcase full of money which he gave to two, three people that make all the important decisions. They did it because they knew that in a few years time they will leave Kazakhstan with ten suitcases. They [non-Kazakh companies] had very good personal contacts with many important people in Astana[495].

It should be added that at the end of the 1990s, this view was shared by other businesspeople who felt that their construction, transport, assembling and service companies scattered all around Kazakhstan were losing contracts to non-Western sub-contracting companies.[496] Some of them also argued that the investments made in Atyrau and other oil-rich regions were not real investments in the first place: 'let's say a company comes to Kazakhstan and they declare that they will invest US$100; however,

[492] Interview with a high-ranking foreign specialist working on major projects in Kazakhstan since the mid-1990s: Almaty 21 October 2004.
[493] Interview with the chief accountant working for a major foreign oil company: Atyrau 23 November 2004.
[494] Interview with a local specialist working for the foreign embassy: Atyrau 10 November 2004.
[495] Interview with a director of a medium size subcontracting company: Atyrau 11 November 2004.
[496] Interview with an oil expert: Almaty 17 September 2004.

out of this $100 as much as $90 will be taken by the non-Kazakh companies who will buy foreign equipment and employ foreign labour'.[497]

Others fiercely complained about companies from outside of Kazakhstan, which only specialised in supplying foreign oil companies and their subcontractors: 'after all it is not so difficult to call a British or German company that produces, for instance, spare parts, to sign a contract with them and bring that stuff over to Kazakhstan'.[498] Arguably, it was supplying companies that most of the local notables had their eyes fixed on, since this sort of activity does not require a big investment, but promises quick and lucrative returns, provided that foreign oil companies or their subcontractors are willing to enter into long-term contracts.

1.2. Discontent

Ironically, it was Nazarbayev and those close to him who allowed the criticism of this situation, in which outsiders were favoured over locals, to become openly pronounced through their decision to send Tasmagambetov to the Atyrau region to implement the 'shifting the responsibility strategy' in 1999 (see chapter 4, section 1.3). Recall that the premise behind this shifting of the responsibility was that the oil companies did not do enough for the oil-rich regions, which inevitably implied that the regime was admitting that the mistakes had been made during the privatisation process. By the end of the 1990s, the view that regional interests were ignored during privatisation became acceptable to such extent that it was openly pronounced by various officials, including those who were directly appointed by Nazarbayev to the regions. For example, the *akim* of the Kyzrloda region, Serikbai Nurgisaye, stated:

> I believe that during privatization the interests of regions were not taken into account at all. For instance, in the privatization contract on JSC Yuzhneftegas our interest was recognized by one point, i.e., that the investor would allocate $10 m. to complete the construction of hospital. The contracts' provisions do not

[497] Interview with a director of a small machinery plant: Atyrau 11 November 2004.
[498] Interview with an oil journalist: Almaty 29 October 2004.

> contain obligations to make payments for social and economic development of the region, or deductions to municipal facilities.[499]

To some extent, such open criticism of the government's actions could arguably take place since the regime's shifting the responsibility strategy created room for it; but it also simultaneously took the sting out of those criticisms. After all, shifting the responsibility was all about the centre finally caring for the welfare of the oil-rich regions at the expense of the foreign oil companies (with their tacit agreement, as we have seen).

Having said all of that, statements as the one made by Kyzylorda's *akim* nevertheless reflected the mounting dissatisfaction of the local interest groups. The oil experts[500] and people working for the national agency[501] that I interviewed argued that the growing criticism of the regime's action in the oil-rich regions – which pronounced itself so vividly during the 1999 presidential elections – gave those groups a perfect opportunity to voice their dissatisfaction against the centralised post-1995 system that favoured those with close ties to the centre rather than the peripheries. Hence, this was a system in which local groups were the inevitable losers. Moreover, the regime's actions, which were aimed at appeasing dissatisfaction among ordinary people in the oil-rich regions, were not sufficient from the local interest groups' point of view. Whereas these interest groups, as it was said in chapter 4 (section 1.3), saw this shifting the responsibility strategy to be a positive development, they argued that it nevertheless did not create sufficient business opportunities for them.[502]

This boldness on the part of local interest groups, to a very large extent, can be assigned to Tasmagambetov's actions in lifting the barriers separating locals from the foreign oil companies, which now became tangible.[503] Moreover, Tasmagambetov in some ways showed the way in which money can be made when foreign oil companies are pushed by the political heavyweights. According to an opposition journalist, the public works that were carried out for the 100th anniversary – at the expense of the foreign oil

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[499] 'Serikbai Nurgisayev: "Our Aim is to Get into the Top Three Oil Producing Regions in the Country," ' *Petroleum*, May 2000.

[500] Interview with an oil expert: Almaty 2 November 2004; Interview with oil expert: Almaty 17 September 2004.

[501] Interview with a high representative of a governmental agency: Astana 8 December 2004.

[502] Ibid.; At the end of the 1999, in the Atyrau region there were 55 joint ventures and 158 foreign companies. (numbers *quoted in*) *Alexander's Gas and Oil Connections*, 4 October 1999.

[503] Interview with a director of a medium size subcontracting company: Atyrau 11 November 2004.

companies – were done by companies connected to Tasmagambetov, which considerably inflated the costs they incurred. For instance, the renovation of the bridge in the city-centre were reported to cost 3.5 million dollars, whereas in reality the costs did not surpass even half of the sum. Moreover, the renovation of the small Orthodox Church alone supposedly amounted to 3 million dollars, when in Atyrau (taking under consideration labour costs) one could build at least one new church for the same amount of money. Finally, the cost of laying asphalt on six streets was around 42 times higher than it should have been.[504]

The steadily growing discontent among local interest groups in the oil-rich regions with the existing arrangements can be demonstrated through the example of the Kyzylorda region, where local interest groups began aggressively targeting the Canadian company Hurricane Hydrocarbons. Thus, they took the initiative in their own hands despite the state policy which said that the centre had a monopoly on all dealings with the foreign oil companies. As it was noted in chapters 2 (section 3.2) and 4 (section 1), in 1996 Hurricane Hydrocarbons acquired Yuzhneftegas, which had begun developing the Kumkol oil fields in 1989. However, it should be recognised that when Hurricane took over Yuzhneftegas, it not only became the owner of the fields, but also acquired a wide range of supporting operations including

> a road building company, a farm covering some 2,500 square miles (6,400 square kilometres) with 25,000 sheep, 450 camels, and a number of cattle (…), a transportation company responsible, among other things, for transporting employees from Kyzl Orda to Kumkol, a trading company to sell items receive as payment in barter transactions, 11 gasoline stations, and a construction company to build facilities at the field as well as housing in Kyzl Orda. (Peck 2004: 159)

One of the first changes that Hurricane made in 1996 was to remove ‘autonomy from all individual division managers and centralise all purchase and sales decisions’ (Peck 2004: 160). This rearrangement in the structure of the company inevitably led to the removal of the Soviet bosses from the company, which in turn upset the networks that had been developing since the beginning of the 1990s.[505] In response to that, ex-directors and local

[504] Interview with oppositional journalist: Atyrau 22 November 2004.
[505] Interview with a local specialist working for the foreign embassy: Almaty 27 September 2004.

officials attempted to wrestle from Hurricane some of the assets over which they used to have control. Thanks to their connections with the local police and officials from the *akim*'s office etc., the ex-directors were able to constantly harass Hurricane and take over the transport division and the road construction units,[506]: 'it was impossible for them to put up with the pressure'.[507] Their next demand was for Hurricane to sub-contract what used to be its transport division, which now became a private transport company. It should be added that the new owners of the transport company substantially increased the costs of transport services when compared to what they had cost Hurricane before it was forced to sell the transport unit.[508] It was also reported that the transport company was the first case of wrestling from Hurricane various assets; in subsequent years other units also shared the fate of the transport company.[509]

The dissatisfaction expressed by the local interest groups took on a new dimension once they were joined by the major construction and engineering companies based primarily in Almaty and the north of Kazakhstan (chapter 3, sections 2.1 and 2.2). It was reported that the main pressure came from the 'Association of Equipment and Service Providers for Oil and Gas Industry', which consists of about 25 companies.[510] The members of the association argued that they had every right to greater co-operation with foreign oil companies, since by 1999–2000, most of them had managed to obtain ISO certificates, which were seen as a sort of passport enabling the engineering companies to work with the foreign companies. Moreover, in the second half of the 1990s, some of those companies had already managed to obtain substantial contracts from the foreign oil companies' subcontractors with the help of people close to the President.[511] During the duration of those contracts, the directors and managers of the companies had the time to observe and adjust their companies to a Western way of working. Moreover, they began to see space for themselves in a growing Kazakh oil

[506] Ibid.
[507] Interview with an oil engineer working for the foreign company in Kyzylorda region: Almaty 8 September 2004.
[508] Ibid.
[509] Ibid.
[510] Interview with oil journalist: Almaty 28 October 2004; Interview with a local specialist working for the foreign embassy: Almaty 27 September 2004.
[511] Interview with vice-director of NOC KazMunaiGas subsidiary: Atyrau 25 November 2004.

sector.[512] The companies that obtained those contracts were predominantly those that used to be a part of the industrial–military sector in the Soviet Union.[513] What those companies demanded foremost from the government now was some sort of coherent strategy that would aim at promoting local companies.[514]

The criticism voiced by local interest groups, and later on also groups from the centre, gained additional weight with the change at the apex of power, namely the arrival of the team (chapter 3, section 2.2.) which – at least in terms of rhetoric – strongly supported Kazakh national interests. In Balgymbayev own words:

> The state should always think about its own production and resource base and domestic operators, who can give reasonable odds in a competition with foreign operators. The domestic operators should be given access to new technologies in organisation of production and management; in other words, to learn to work effectively like the leading foreign companies.[515]

Balgymbayev's government spelled bad news for the non-Kazakh companies, whose authorities were now willing to replace Kazakh companies;[516] as one director put it when referring to the late 1990s: 'we squeezed Turks from the Kazakh market'.[517] In chapter 4 (section 2.1), it was demonstrated that the Nazarbayev's regime did not feel in any way obliged to protect the interests of the non-Kazakh companies or to campaign strongly for replacing foreign workers with Kazakhs when the issue of employment became a serious matter. However, the end of the support from the people close to the apex of power for the non-Kazakh companies did not mean that now foreign oil companies and their major subcontractors would automatically begin employing Kazakh companies. For that to happen, foreign oil companies would have to give up the far-reaching concessions that

[512] Interview with a director of a major engineering company: Almaty 22 September 2004.
[513] Ibid.
[514] Interview with a general director of a local oil company: Atyrau 12 November 2004.
[515] 'Nurlan Balgymbayev: Privatisation of KazakhOil is Currently Unprofitable for the State,' *Petroleum Magazine*, November 2000.
[516] Interview with person close to Kazakh business community: Almaty 14 September 2004.
[517] Interview with a director of a medium-sized subcontracting company: Atyrau 15 November 2004. This statement is somewhat overoptimistic, as in late 2004 in Astana Turkish flags waved on every major construction site. That can be explained by the fact that Turkish companies that were still in Kazakhstan signed their contracts in the mid-1990s. Thus, they would remain in Kazakhstan until their contracts were concluded. *See also* chapter 4 (section 2.1).

the Kazakh government had made to them in the mid-1990s, which initially they were not willing to do.

To sum up, in this section we have discussed the basis for the discontent among local interest groups that erupted at the end of the 1990s. This discontent, as has just been demonstrated, was treated seriously by the regime once these groups were joined by the major engineering companies from other parts of the country. The response of the regime in the shape of its local content policy will be the focus of the next section. This will further advance our argument that the grievances of the local interest groups were seen by the regime as potentially dangerous.

2. Nazarbayev's response: enforcing local content policy and rapprochement

In order to fully understand nature of the regime's response to the mounting dissatisfaction in the oil-rich regions, we have to focus on the boundaries that the regime had to manoeuvre within; in effect, we have to understand what the regime could do and what it could not in order to address the issue of the interest groups. By the boundaries that conditioned Nazarbayev's regime actions, we mean the legal framework – made up of two key elements: a) the Subsoil Law; and b) provisions in the oil contract – that were developed by Tereshchenko's and Kazhegeldin's governments throughout the 1990s with Nazarbayev's unquestionable approval. We will demonstrate that the regime, due to constraints written in the oil contracts, very early on accepted the fact that it can exert only a certain amount of pressure on the foreign oil companies and began a process of rapprochement with the companies. The process of rapprochement, in its fundamental nature, was a logical continuation of the pact that Tasmagambetov had made with the foreign oil companies during his short reign as an *akim* of an Atyrau region.

2.1. Enforcing local content policy

So far, it has been argued that since the centralisation of power in 1995, groups from the centre (due to their proximity to the president and the national oil company) were able to secure access for predominantly non-Kazakh sub-contracting companies to the Kazakh market, in turn creating dissatisfaction among locals (Section 1.1; see also chapter 3, section 2.1). The line of argument of the local interest groups seemed to be that if they enjoyed a similar kind of protection, they would benefit more equally from the presence of the foreign oil companies in the regions. However, whereas by 1999–2000 the regime was willing to shift its support from non-Kazakh to local companies, a new obstacle emerged, namely the issue of concessions that the regime gave to the foreign oil companies. This included granting them the sole right to decide with whom they wanted to work.

The first major sign that the government had begun addressing the issue of the local interest groups – and hence, that it was viewing discontent among those groups to be serious – came in September 1999 with a number of amendments to the Subsoil Law (chapter 3, section 2.1). The 1999 amendments most importantly gave the state a greater role in the process of allocation of the sub-contracting contracts by the foreign oil companies. This revised Subsoil law, similarly to the 1995 version, required subsoil users to use equipment, materials, and products manufactured in Kazakhstan, and the services of Kazakh enterprises. Moreover, amendments also said that foreign services could only be used when the required services did not exist within the Republic of Kazakhstan; further, it stressed that this could only happen when the authorised state body had granted prior permission.[518] This point was further reinforced in the Resolution of the Republic of Kazakhstan from 31 July 2001, which specified that ‘in the absence of this or that equipment, material, service or qualified labour force on the domestic market, subsoil users can use services of foreign organizations only after approval of authorised state bodies’.[519] In order to underscore its commitment to the new measure, in early 2000 the Kazakh government announced that it had set up a special commission to monitor the activity of foreign companies investing in the oil industry.[520] Moreover, at the beginning of 2001, implementation of the local content policy was listed by Nazarbayev as a third

[518] Marla Valdez, Almas Zhaiylgan, ‘A Legal Overview of Mining in Kazakhstan,’ May 2002, http://www.dentonwildesapte.com/assets/L/LegalOverviewMiningKazakhstan_May02.pdf (Accessed 15 September 2004); Marla Valdez, ‘Commentary on Amendments to Petroleum Law in Kazakhstan,’ 3 April 1999. http://www.dentonwildesapte.com/PDF/Commentary_PetrLawInKazakh_Apr1999.pdf (Accessed 23 February 2004).
[519] *Petroleum Magazine*, November 2001.
[520] ‘Kazakhstan sets up commission to monitor oil companies’ activities,’ *Alexander’s Gas and Oil Connections*, 5 (7), 27 April 2000.

priority task for the government in the upcoming year, while the development of small business and entrepreneurship was in fourth position.[521]

In addition to introducing crucial changes in the legal framework, the regime initiated a series of high profile actions aimed at promoting the vital interests of the Kazakh local companies in the oil-rich regions. Those actions were carried out in spirit: 'we [the authorities] knew that the problem of sub-contractors did exist, however, we were preoccupied with much more important issues such as sky rocketing unemployment. Now we will pay more attention to the problem of local content'.[522] Thus, in 2001 the Kazakh authorities organised a conference in Atyrau city entitled 'Western Kazakhstan Local Content and Infrastructural Development' which was designed to 'bring together representatives of Kazakhstan enterprises and foreign oil industry investors to learn of each other's capabilities and requirements, in line with the Kazakhstan Government's programme'.[523] One year later, yet another exhibition took place, with a special focus on the construction 'North Caspian Infrastructure Development Exhibition'.[524] In addition, Balgymbayev on numerous occasions toured Kazakhstan and met with representatives of various major construction and machine-building companies.[525] Finally, and most importantly, the government: a) carried out so-called amnesties so that Kazakhs 'would invest money into their country';[526] and b) in 2002, for the first time, Kazakh authorities tried to come to grips with the most important issue, namely, that of international standards (especially ISO 9000 and ISO 14000), whose implementation was activated after an adoption of the government resolution, 'On Republican Programme: Quality' as of 2 May 2002.

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[521] 'Seven Tasks of the Government,' *Petroleum Magazine*, February 2001.
[522] Interview with journalist specialising in oil: Almaty 1 November 2004.
[523] 'Atyrau hosts major import substitution conference', *Kazakhstan News Bulleting Released weekly by the Embassy of the Republic of Kazakhstan to the USA and Canada*, 2 (10), 3 May 2001.
[524] Marina Kuanysheva, *Kazakhstanskaya Pravda*, 2 April 2002.
Exhibitions in other oil-rich regions followed. For example, in June 2002 National Import Substitution Conference took place in Aktau, Mangystau region.
http://www.kazpravda.kz/archive/02_04_2002/e_e.html#e_e5 (Accessed 27 May 2005).
[525] 'KazakhOil Develops Co-operation with Domestic companies,' *Oil and Gas of Kazakhstan Magazine*, No 1-2, 2001.
[526] Interview with a high-ranking foreign specialist working on major projects in Kazakhstan since mid 1990s: Almaty 21 October 2004; In 2001, some 200 million US dollars were transferred from the shadow economy to the legal one. About 1,000 people were affected by the campaign. (*Quoted in*) *ITAR/TASS*, 13 July 2001; *See also*: Kazat Berentaev, 'Legalising the illegal,' *Vremia Po*, 25 May 2001.

The government's actions were followed by sporadic attacks by officials on the foreign oil companies. For example, in 2001 Prime Minister Kasymzhomart Tokayev expressed his dissatisfaction with the low level of involvement of Kazakh companies in sub-contracted work at the Karachaganak oil and gas condensate deposit. The share of these companies, in Tokayev's opinion, should have increased from 21 per cent to 40 per cent. He also demanded the establishment of a joint commission for the management of the Karachagank project, which had to include four Kazakh government representatives and four representatives from Karachagank Integral Company (KIO).[527] Tokayev's demands concerning the percentage of the local companies employed by foreigners was a considerable shift in the position of the Kazakh government. Only in 2000, the vice-president of NOC KazakhOil, Zhakyp Marabayev, had said that 'the Kazakhs companies will be granted access to this major project without any priorities or preferences, but on the conditions that they will fully meet Western standards'.[528] A quota system was not even on the agenda. This substantial radicalisation, conveyed in the comments of the top officials who now not only demanded greater involvement of the state but also argued for a quota system, signalled a major shift that took place in Kazakhstan, reaching its peak in 2002.

In 2002, the aforementioned Imangaly Tasmagambetov (chapter 4, section 1.3), speaking in his capacity as Prime Minister, openly called for the renegotiation of contracts as well as advocating the exertion of control over the foreign oil companies' procurement practices. He argued that they should at least source 25 per cent of their content locally. Moreover, the tender process should be overlooked by the representatives of the Ministry of Energy and Mineral Resources, who would also have the power to approve the terms and results of tenders (Tsalik 2003: 133). Tasmagambetov remarks were reflected in the decree adopted in June 2002, 'Rules for the Procurement of Goods, Works and Service When Carrying out Petroleum Operations'. In essence, the decree further reinforced the 1999 amendments to the Subsoil law, as it established mandatory procedures for procurement by a contractor when carrying out petroleum operations: 'project operators will organise the tenders and define the suitable provider, and Kazakh

[527] *Interfax*, 3 April 2001; Altynay Mukhambedyarova, 'Kazakhstan presses the oil companies.' *Navigator*, 14 February 2001.
[528] *ITAR-TASS*, 10 November 2000.

government agencies will endorse or annul the contract'.[529] The measure concerning the fact that a ministry should monitor the performance of concluded contracts was reinforced in yet another resolution passed in November 2002.[530]

The changes introduced by the Kazakh government between 1999 and 2002 created widespread anger among western investors, who saw the increasing government control over their operations as an infringement of their right to free entrepreneurial activity (Chentsova 2003). Some argued that the new regulations contained a number of provisions contradicting the Constitution, Civil Code and other Kazakh laws.[531] The foreign oil companies went so far as to mobilize the support of their own home governments for the abrogation of the new rules. In mid-2002, the ambassadors of the USA, Canada and several European nations sent a joint letter to the Kazakh government asking it to cancel the new measures it had introduced.[532] The US companies were particularly unhappy with the changes in the legislations, since as early as 1994 they had received special provisions in the U.S.–Kazakhstan Bilateral Investment Treaty (BIT), which explicitly states in Article II Paragraph 5, 'neither party shall impose performance requirements…which specify that goods be purchased locally…'[533]. Protests on behalf of the foreign governments, especially the US one, gained added significance in the light of the fact that in the 1990s, two senior officials, Condoleezza Rica and Dick Cheney, had worked for the companies which were now coming under attack in Kazakhstan.[534] Despite these protests, the Kazakh government did not revoke its controversial measures, and even tried to strengthen its position vis-à-vis the foreign oil companies and their subcontractors. In 2002, Nurlybek Imanbyave, the Minister for Industry and Trade, advanced further the 'cause' of promoting Kazakh companies through setting up a

[529] Sergei Gavrichev, 'Kazakhstan Rulez: Private companies in Kazakhstan will have to choose contractor with Government consent,' *RusEnergy*, October 2002.
[530] 'Resolution 1204 of the Government of Kazakhstan of 14 November 2002. On measures strengthening the state support of domestic manufactures', *Petroleum Magazine*, 2002 December.
[531] Zhumageldy Yelubayev, 'The hierarchy of legal acts or once again about the omnipotence of departmental instructions.' *Petroleum Magazine*, December 2003.
[532] Sergei Gavrichev , op. cit., October 2002.
[533] Judith Robinson, '1999 Amendments to Law on Petroleum,' *BISNIS International Trade Specialist*, January 2000.
http://www.bisnis.doc.gov/bisnis/country/000112kzlg.htm (Accessed 3 May 2004).
[534] Nicholas Lemann, 'Profiles: Without Doubt. Has Condoleezza Rica changed George W. Bush or has he changed her?' *The New Yorker*, 7 October 2002; Jane Mayer, 'Contract Sport. What did the Vice-President do for Halliburton?' *The New Yorker*, 9 February 2004; for more about Halliburton and Dick Cheney, see Briody 2004: 191—239.

Contract Agency devoted to the issue of the participation of domestic manufacturers in Kazakh oil and gas projects[535] (see also section 2.3).

At first glance, it appears that the magnitude of the regime's attacks on foreign oil companies was disproportionate. After all, the Kazakh government had changed the 1995 Subsoil law and the foreign companies, however unhappy they might be with the new situation, could not do anything about it apart from protesting. Chapter 4 (section 1.3) showed that representatives of the regime and foreign oil companies were perfectly capable of reaching agreements without the need for disputes turning into open warfare. It is argued here that the regime was so aggressive in its attack because whereas it could change the Subsoil Law and play a greater part in monitoring the process of selecting the companies, it however could not directly force foreign oil companies into working with a designated percentage of the local companies. For this to happen, the issues of quotas would have to be raised in the oil contracts themselves, which had hitherto not been the case.[536]

In chapter 1 (section 1.1), it was argued that provisions concerning local content are a standard clause, which by the mid-1990s were automatically written into any PSA or JV contract. In most of the cases, requirements to use local content do not exceed 40 per cent, but in some cases such as Russia, Western investors operating under PSAs have to buy 70 per cent of essential equipment and machines from local producers.[537] The provisions made in the contracts are essential, since once the deal is done it is virtually impossible for the host country to go back and renegotiate the contracts without taking drastic steps such as the re-nationalisation of the oil sector. The director of a major sub-

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[535] *Interfax-Kazakhstan*, 16 May 2003.

[536] An alternative explanation to the one put forward here, was provided by Sergei Gavrichev, who in 2002 argued that the Kazakh government was so aggressive in enforcing local content policy because in the last two years (2000-2001) foreign companies had substantially decreased their payments to the central budget. The companies argued that the payments decreased because of low world oil prices. However, Prime Minister Tasmagambetov seemed to believe that low prices were just a pretext for tax evasion. Thus, he decided to apply non-standard methods of increasing the influx of petrodollars (RusEnergy, October 2002). Whereas I do not argue that this decrease of the budgetary payments was one of the additional reasons for the aggressive behaviour of the Kazakh government, I suggest that it was not the only one, and in fact most likely not the most important when viewed from the perspective of the local interest groups and large engineering companies. Moreover, in my opinion the Kazakh government attempted to address the issue of budgetary payments by starting its discussion with Chevron (chapter 6, section 2.1) and not through the local content policy.

[537] 'A Note on Production Sharing in Russia,' *United Nations Survey*: *Economic Survey of Europe*. 3, 1998. http://www.unece.org/ead/pub/surv_993.htm (Accessed 4 June 2004).

contracting company noted that oil contracts include the so-called grandfather clauses 'which protect the contract from any subsequent change in the legislation, otherwise the government changes next month and they can change your PSA agreement'.[538] A high-ranking person working for one of the major projects in Kazakhstan argued along the same lines: 'this PSA was signed in 1997 and changes in laws do not really affect us. We are protected against changes in the law. We are sort of untouchable'.[539]

Moreover, oil contracts in most cases are kept secret – they are not disclosed to third parties – especially those sections that deal with the issue of taxes, royalties, bonuses and the like. The Kazakh regime also chose to follow the path of secrecy, and to date has not disclosed any information about either JV or PSAs that it concluded with foreign oil companies throughout the 1990s, including any provisions concerning local content. Whereas all paragraphs regarding local content are kept secret, Kazakh businesspeople in Almaty and Atyrau are deeply convinced that each contract has a clause that deals with the issue of local content. Yet, they 'naturally' could not provide any detail, since contracts are not disclosed to the public.[540]

However, we assert that provisions concerning local content were not made in those contracts themselves, and that the regime's attacks – discussed in this section – stem from that very fact. By that, we mean that a regime aware of the lack of necessary conditions attempted to force foreign oil companies into working with local companies by changing the Subsoil law and attacking foreign oil companies. Nevertheless, foreign oil companies do not have to co-operate with local companies even after the Subsoil Law has been substantially revisited, since they are protected by oil contracts that effectively override all national laws. I base this claim on the number of interviews that I conducted with a Kazakh journalist,[541] a high representative of a government agency,[542] a foreign diplomat,[543] an ex-director of a foreign oil company,[544] and a well-informed foreign

[538] Interview with an area manager of one the world wide major drilling companies: Almaty 4 October 2004.
[539] Interview with the chief accountant working for a major foreign oil company: Atyrau 23 November 2004.
[540] Interviews with various Kazakh businessman: Kazakhstan, Fall 2004.
[541] Interview with journalist specialising in oil: Almaty 1 November 2004.
[542] Interview with a high representative of a governmental agency: Astana 8 December 2004.
[543] Interview with foreign diplomat: Almaty 27 September 2004.
[544] Interview with ex-general director of a major foreign oil company in Kazakhstan: Almaty 27 October 2004.

specialist.[545] During the interviews, all five noted[546] that in the oil contracts there was no provision concerning local content, a fact that the government was desperate not to make public.[547] Moreover, a manager working for a major oil company in the world, one which works in Kazakhstan under the PSA agreement, openly stated that even after the Subsoil Law had been amended, the company did not feel any pressure to employee local companies.[548] Hence, if a foreign oil company chooses to work with the local company, it does so because it suits the company and not because it is obliged to do so.

The claim concerning the lack of necessary provisions was also expressed in an article written in 2003 by two oil lawyers, Chentsova and Brainina, in which they argued that the great majority of contracts negotiated and concluded prior to September 1999 'expressly stipulate that the Contractor has a right to free purchase of work, services and goods, including from foreign manufacturers' (2003: 20). Domjan argued along the same lines: 'local companies do not know what opportunities a particular PSA affords them, nor whether there are any special provisions for the oil company meeting their requirements that might help local companies access the oil company's value chain'.[549] Having said all of that, a contract manager working for a major sub-contracting company in the Atyrau region, during my interview with him, affirmed that in the contract of the company for which he works, there is a clause which specifies how many local companies they should co-operate with. However, rather peculiarly – after numerous requests – he refused to give me even a rough estimate what this number might be.[550]

One of the interviewees, who himself was involved in drawing one of the major contracts, emphasised during our interview that the Kazakh side is directly responsible

[545] Interview with high-ranking foreign specialist working on major projects in Kazakhstan since mid 1990s: Almaty 21 October 2004.
[546] Four of those interviewed claimed that they had read two or even three major oil contracts in their entirety (Tengiz, Karachaganak, Kashagan). Two interviewees, in order to prove that they were telling the truth, went so far as to show me a copy of an oil contract that they had in their office.
[547] During the privatisation process of Mangistaumnaigaz (chapter 2, section 3.2), Zamanbek Nurkadilov, a deputy in the Kazakh parliament, argued that the workforce was against privatisation because nowhere in the contracts was it written that foreign investors should continue with social programmes. *Source*: *Reuters Newswire*, 3 February 1997.
[548] Interview with a manager working in the contracting and procurement department of one of the major oil companies in the world: Almaty 14 September 2004.
[549] Paul Domjan, 'The Supplier Development in the Oil and Gas Sector of Kazakhstan,' *Background Paper No. 5*. April 2004, p. 5.
[550] Interview with a contract manager of a major foreign subcontracting company: Atyrau 16 November 2004.

for a lack of necessary provisions: ‘They did not want local companies to be involved into the North Caspian initially. The government did not. They did not trust them, they did not trust anybody.’[551] Another person working in a high position for a major foreign oil company asserted that ‘between 1991 and 1997 no one could be bothered with local content because government was busy with other things and the country was half ruined’.[552]

2.2. Escalation

It was stated that around 2000–2001, the regime was unable to force foreign oil companies into working with the particular percentage of local companies that Tokayev and Tasmagambetov had spoken about, and it turned its attention to the very sub-contractors that in previous years had helped it to access the Kazakh market. That was done through the introduction of all sorts of taxes that drove up the costs of foreign sub-contractors operating in Kazakhstan, thereby increasing the costs of the foreign oil companies. By doing so, the regime hoped that foreign oil companies would begin sub-contracting the cheaper Kazakh companies. In the words of one director:

> They [Kazakh government] cannot play with actual wording and advantages, privileges included in the PSA, JV. But what they can do is to introduce new laws and new legislations that will have a knock effect on that PSA. So they cannot change the PSA but they can make it more expensive for the operator to work through changing the law that affect the subcontractor who works for the operator. In principle they do not mess with the PSA at all. The sub-contractor in his contract with the operator will have what they call escalation clause which allows him then to go to the operator and say that the legislation has changed, which means that I am paying more for my fuel, for the property tax and therefore I have to increase my rate to you for the fact that it cost me now more to do my business. So physically they did not change the PSA but it now costs operators more money to do the actual work.[553]

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[551] Interview with a high-ranking foreign specialist working on major projects in Kazakhstan since the mid-1990s: Almaty 21 October 2004.
[552] Interview with chief accountant working for a major foreign oil company: Atyrau 23 November 2004.
[553] Interview with an area manager of one the worldwide major drilling companies: Almaty 4 October 2004.

Besides introducing new laws, the regime also began to closely scrutinise the non-Kazakh subcontractors, as another example demonstrates:

> Taxation is very complicated in this country. So if I am a tax authority and you are a foreign company, I will come to you and I will begin checking you and I can very quickly find a large number of violations. I can easily make you a law breaker. How, because of the way in which I interpret certain articles of the tax code, code which is complicated enough. And then I will make you to pay penalties, fines, for example, half a million dollars - what would you do ?[554]

One accountant, who works for a foreign company, argued that it is apparent to him that tax inspectors agree with their superiors in advance which areas they are going to investigate and eventually fine a company for – on one occasion, for as much as US $200,000. He said that when such a situation occurs, it is better to settle matters with a tax inspector immediately. i.e. to bribe them before it is pursued any further, since it is impossible for a non-Kazakh company to win a dispute in a Kazakh court. Interestingly, it is not non-Kazakh citizens that are 'settling' these disputes but ethnic Kazakhs who work for the company: 'Kazakhs are the ones who give money to the officials'.[555]

From the above examples, it would appear that the regime is powerless to introduce changes into the oil contracts and to force foreign oil companies into working with a particular percentage of local companies, but has nonetheless found a way of disadvantaging non-Kazakh sub-contractors. However, these half-measures could never bring far-reaching changes to the way in which foreign oil companies operate; the key after all is the oil contract. Thus, the regime could eliminate some of the smaller non-Western sub-contracting companies, but not the most important players, especially the ones from the West.[556] Moreover, the replacement of even smaller sub-contracting companies was being obstructed by the authorities on the local level.

The authorities, who were given a free hand in their dealings with the non-Kazakh companies, rather than trying to push them from the Kazakh market instead preferred to establish relationships with many of those companies, some of which indeed looked very

[554] Interview with local specialist working for the foreign embassy: Atyrau 10 November 2004.
[555] Interview with an accountant working for a medium-sized drilling company: Almaty 10 September 2004.
[556] Interview with a business development manager working for major foreign subcontracting company in Kazakhstan: Almaty 14 October 2004.

lucrative. For instance, an oil worker working for a mid-sized company admitted that his company paid local authorities a sum of 10,000 dollars every year. When, on one occasion, the company was late with a payment, local inspectors stormed the company and sealed their equipment. The company was allowed to resume its work once the payment was made. He said that the same held for other companies, which are constantly harassed by the local officials who either demand cash payments upfront (up to $1,000 at a time) or presents such as refrigerators or washing machines. He finished by saying: 'They are restless in their demands. There is always something that they want from us'.[557]

2.3. Rapprochement in the times of 'crises'

The regime, unable to push oil companies any further on the issue of local content and facing opposition from the local authorities, began looking for ways of settling its dispute with the foreign oil companies when it was still at its height (2001–2002). As an ex-general director of a major foreign oil company summed it up: 'at the end of the day the government cares more about investors' money that goes to the central budget than the local content policy'.[558] The foreign companies, on their part, were hardly interested in battling the Kazakh government, and made some concessions which allowed the regime to save face. This was in itself important for Nazarbayev, since the government was seen by interest groups in the regions as finally doing the right thing: 'a lot of good, hard work was done by the Kazakh government at the end of the 1990s'.[559]

The regime, in turn, had to contain itself with the low degree of business opportunities that foreign oil companies offered to the local companies. Moreover, the government has been willing to not openly criticise the inflated statistics issued by the foreign oil companies about the involvement of the local companies. Even more, the government has been consciously obstructing the work of its own agency that was set up to monitor those very statistics. This rapprochement between foreign oil companies and Nazarbayev's regime, in essence, is a logical culmination of the deal that

[557] Interview with an oil worker working for a foreign medium-sized drilling company: Almaty 8 September 2004.
[558] Interview with an ex-general director of a major foreign oil company in Kazakhstan: Almaty 27 October 2004.
[559] Interview with a general director of a major local constructing company: Atyrau 11 November 2004.

Tasmagambetov and foreign companies made during his time in office (chapter 4). The foreign oil companies were willing to partly accept the regime's demands to take greater responsibility for the social and economic development of the oil-rich regions, while the regime on its part largely left the companies to carry on with their business as usual.

In 2001, Nazarbayev, during his speech at the conference in the Atyrau region aimed at the executives of the foreign oil companies, proposed a way out of the crises in which the two parties found themselves in these words:

> I have called on and I am once again calling on all investors operating in Kazakhstan to fully help Kazakh enterprises, otherwise why have we invited you here [Kazakhstan]? As soon as you face problems with [oil] transportation and quotas and as soon as you need to tackle some issues you run to the government and I step in and help. And I have the right to expect you all to be attentive to the requests of the Kazakh head of state. I ask that we should not use any sanctions against each other because there is no need to do so. You are like Kazakhs to us. You have come here to develop the Kazakh economy and to make profits – we understand this.[560]

Whereas on their part foreign oil companies were not willing to give up on the provisions that the Kazakh government had made in their contracts, they nevertheless began showing signs of being 'attentive to the request of the Kazakh head of state'.

As early as 2000, the Atyrau association, Prikaspiyburneft [Caspian oil drilling] won a tender to drill wells at the Tengiz oil field; the value of the contract was estimated at 869,500 dollars. It should be added that Prikaspiyburneft was the first Kazakh company to be involved in drilling deep wells at Tengiz.[561] In the same year, TengizChevrOil began organising seminars for Kazakh suppliers which aimed at briefing locals on the requirements placed by foreign companies for goods and equipment.[562] During the seminars, local companies were told how to fill application forms and what the exact tender procedures were.[563] Those seminars were received very well by the locals in the Atyrau region, who for the first time began seeing the direct benefits of local

[560] *Kazakh Television first channel* 30 October 2001. *Source*: BBC Monitoring Service, 31 October 2001.
[561] *Interfax-Kazakhstan*, 1 September 2000.
[562] 'Import Substitution Program: Challenges and Dilemmas,' *Oil and Gas of Kazakhstan Magazine*, No 5-6, 2002.
[563] Interview with a director working for a major foreign sub-contracting company: Almaty 11 October 2004.

content policy.[564] Moreover, in 2001, Flour, the main sub-contractor of the TCO, commissioned a high-profile project at the prestigious Kazakhstan Institute of Management, Economic, and Strategic Research (KIMEP). It was named the 'Oil and Gas Local Content', and aimed at seeking and analysing companies with which TCO could potentially co-operate. During the project, the institute collected data for about 400 companies.[565] The Operator also set up various special projects such as the Small Business Development (SBD) scheme, which since 2001 has focused on 'small businesses that could provide goods and services to TCO'.[566] The TCO's rapprochement with the local companies, however widely welcomed at the time, was modest – at least on paper – when compared to other consortia in oil-rich regions.

For instance, OKIOC Business Development Manager Murat Mukashev announced that in 2001 alone, OKIOC intended to sign contracts with Kazakh companies to the tune of US $33–35 million[567]. The OKIOC also claimed that already in the year 2000, contracts with domestic companies totalled US $17.7 million[568]. In 2002, the Karachagank Integrated Organisation (KIO) announced that by the end of the development phase of the Karachagank project, the total value of contracts that would have been placed with Kazakh companies was estimated at a staggering US $1.3 billion.[569] By 2003, TCO considerably caught up with KIO and OKIOC; in that year the consortium claimed that it exceeded its 39 per cent local content goal, reaching 42 per cent. This represented a sum of US$564 million spent with Kazakh suppliers, up from $415 million in 2002.[570]

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[564] Interview with a director of a small supplying company: Atyrau 17 November 2004.

[565] Interview with an oil expert: Almaty 2 November 2004

[566] 'Developing Small Business in Kazakhstan,' *ChevronTexaco 2002 CR Report*. http://www.chevron.com/cr_report/2002/economic_issues/procurement/kazakhstan_small_business.asp (Accessed 24 May 2005).

[567] *Oil and Gas of Kazakhstan Magazine*, No 3, 2001.

[568] 'OKIOC plans to nearly double import substitution investment in 2001', *Kazakhstan News Bulleting Released weekly by the Embassy of the Republic of Kazakhstan to the USA and Canada*, 2 (10), 3 May 2001.

[569] 'KIO spends $1.3 billion to boost national industrial production', *Press Release: Karachagank Petroleum Operating B.V.* 18 June 2002. http://www.kpo.kz/cgi-bin/index.cgi/13?id=86 (Accessed 7 February 2005)

[570] 'Local Content,' *ChevronTexaco 2003 CR Report*. http://www.chevron.com/cr_report/2003/local_content.asp (Accessed 2 November 2005). According to the same report, in 2003 Chevron spent, on local suppliers, in Angola $177 million, Indonesia $650 million, Thailand $120 million, and in Venezuela $120 million.

This alleged increase in the co-operation between local companies and foreign oil companies was also reflected in the data issued by some branches of the government. In 2001, according to the Ministry of Economy, the government of Kazakhstan anticipated that no less than US $340 millions worth of contracts would be fulfilled in the framework of its local content policy, a growth of 9 per cent over the 1999 results.[571] In the same year, an *akim* of the Atyrau region argued that TCO placed more than 700 orders totalling US$281.2 million with 449 different Kazakh companies for the purchase of goods and services, which was considered to be a 'sign of progress in implementing the import substitution program'.[572] In 2002, Nazarbayev, during his visit to the Atyrau region, praised the local content policy programme and its impact on the region: 'The creation of conditions and the state's constant care about this region are producing good results (…) That is why I hope that all people – nor only the people of Atyrau, but also people of the region – will feel an improvement in their lives through opening small and medium-sized businesses'.[573]

However, not everyone has been so optimistic about the co-operation between local companies and foreign oil companies. Arguably, one of the main problems with the statistics that have been issued by foreign oil companies – and which are reproduced by the Kazakh government – is the way in which foreign oil companies actually calculate what local content is and what it is not. A high representative of a government agency argued that whereas he understood by local content a share of the contract that was served by the local company, from the perspective of the foreign oil companies the local content included all their expenditures made in Kazakhstan, in another words 'every single cent that they spend here'.[574] Thus, local content includes salaries that companies pay to the local staff, sponsorship or bonuses (including social spending), electricity payments, payments to the national budget, penalty payments, oil purchases locally and so on. This, in turn, puts in a different light the numbers released by the foreign oil companies. For example, in 2004 Karachagank Integrated Operation reported that 43 per cent of the works done were carried out by local companies; however, representatives of

[571] 'Government's import substitution program bears fruits', *Kazakhstan News Bulleting Released weekly by the Embassy of the Republic of Kazakhstan to the USA and Canada*, 2 (12), 10 May 2001.
[572] 'Akim Serikbek Daukeev: Oil Enterprises are Vital for US', *Petroleum Magazine*, February 2002.
[573] *Khabar Television*, 18 December 2002. *Source*: BBC Monitoring Service 12 December 2002.
[574] Interview with a high representative of a governmental agency: Astana 8 December 2004.

the governmental agency argued that it was 21 per cent at best. In the case of Agip, KCO the gap is even wider: AGIP said that it was 44 per cent, and according to the representative it was around 15 per cent.[575] Moreover, the statistics issued by the foreign oil companies also include all the work that is carried out by branches of the foreign sub-contracting companies, which are registered in Kazakhstan as Kazakh companies. Those companies are seen by the Kazakh businessmen as a major obstacle to the co-operation between themselves and foreign oil companies.

As early as 2000, the director of the gas industry department of the Energy and Mineral Resources Ministry, Musabek Isabaev, argued that KIO, in its calculations of local content, 'took into account subcontractor works executed by Kazakhstani branches of foreign organisation (…) 23 Kazakhstani companies were selected on the tender last year and 5 of them turned out to be branches of foreign companies'.[576] Thus, companies which on paper were Kazakh in reality were part of a bigger foreign entity. One year later, Sagat Tugelbayev, who was an *akim* of the Atyrau region in the years 1992–1994[577] said: 'Foreign subsurface users operating in Kazakhstan still employ operator firms that import everything, goods and small-scale services. It is silly to say that the republic's oil industry receives huge foreign investments as these amounts go aboard as payments for imported equipment and services'.[578]

These remarks, made by Isabaev and Tugelbayev at the beginning of the second decade of independence, were still relevant in 2004[579]. It was argued that many foreign sub-contracting companies that came under pressure in the second decade of independence changed the names of their companies and registered them as Kazakh companies; as one director put it: 'and everybody knows that it is the case, but the government is not doing anything about it; they closed their eyes and pretend that nothing is happening'.[580] Turkish construction companies, which were heavily targeted from the

[575] Ibid.
[576] *Oil and Gas of Kazakhstan Magazine*, No 3, 2001.
[577] *Petroleum Encyclopaedia of Kazakhstan*, Azholdas & Company Publishing House, Astana: 1999. p. 495.
[578] 'Import Substitution and Infrastructure Development in Western Kazakhstan,' *Oil and Gas of Kazakhstan Magazine*, No 3, 2001.
[579] 'It is difficult for the Kazakh subcontracting companies to take part in the TengizChevrOil tenders.' *Kazakstanrevenuewatch*, 15 January 2004.
[580] Interview with a general director of major construction company: Atyrau 11 November 2004.

end of the 1990s onwards were among the first ones that became ‘Kazakh’.[581] However, they were not singular in that respect, and many others followed suit. During my interviews, I came across a few Western supplying companies from Holland, Germany, Switzerland, USA – that have been in Kazakhstan for no more than five years – that turned out to be branches of major foreign companies that were registered in Kazakhstan as ‘Kazakh’ companies. Ironically, the executive director of one of those companies, which specialises in delivering electric and heating equipment, stated that his company filled the gap in the market that was left by the Turkish company that was pressured to leave Kazakhstan.[582] Thus, whereas the Kazakh government was initially pressing outside sub-contractors to leave Kazakhstan in order to create space for Kazakh companies, this room, instead of being filled by a Kazakh company or Kazakh and non-Kazakh JV, was simply replaced by another non-Kazakh company. However, on paper this non-Kazakh company still counts as a major Kazakh sub-contractor.

The apparent disinterest on the part of the authorities in the statistics issued by the foreign oil companies is best demonstrated using the example of the Contract Agency, which was set up to monitor those very statistics. Additionally, the agency was also supposed to gather information about local companies and ideally to create a database which could be then used by the foreign oil companies interested in working with local companies.

The Contract Agency was set up in 2002 under the Ministry of Industry and Trade as one of its departments. The idea was that the Ministry, which on a monthly basis receives reports from foreign oil companies concerning participation of local companies in their oil contracts, would pass them to the agency. For instance, in 2002, the *akim* of the Kyzylorda region stated that monthly monitoring was being conducted by his office as well as by the Ministry of Industry and Trade.[583] However, the Ministry was unwilling to display that information, arguing that all matters concerning oil and gas are handled by the Ministry of Oil and Gas and the NOC KazMunaiGas. KazMunaiGas, which as shown in chapter 3 receives monthly reports from all Kazakh companies working directly or

[581] Interview with ex-general director of a major foreign oil company in Kazakhstan: Almaty 27 October 2004.
[582] Interview: Atyrau 15 November 2004.
[583] ‘Serikbai Nurgisayev: the subsoil users form the basis of the oblast economy,’ *Petroleum Magazine*, December 2002.

indirectly in the oil sector. It was not inclined to co-operate on its own part, since the agency was outside its structure. In order to smoothen the co-operation, a decision was taken in 2003 that the agency should come under joint supervision of the Ministry and KMG. However, joint jurisdiction seems to be only a cosmetic makeover, since the agency still reports having problems with obtaining sufficient information from the Ministry or KMG.

All of this leads to a situation in which representatives of the agency themselves are not sure how many local companies are working in the oil and gas sector, or can work in this sector. The National Statistics Agency estimated that in 2004, around 200,000 local companies in Kazakhstan were able to work with oil companies and their subcontractors. Out of these 200,000 companies, between 3 per cent to 4 per cent, i.e. about 6000, were allegedly working directly or indirectly with the oil or gas companies. The representatives of the agency themselves are not as optimistic as the official statistics, since they frankly do not know how many companies are out there. Those working for the agency can only be 100 per cent certain whether the company is able to work with foreign oil companies or is actually working with a foreign entity if they visit and assess the situation themselves. As a result, representatives of the agency have visited 168 local companies in all the regions of the country within last two years. However, until December 2004, they had only found 43 signed contracts with local companies that met all the necessary standards.

In addition to the challenges of getting sufficient information on the condition of the local companies and their participation in oil projects, the agency also encountered more prosaic problems. For example, for one-and-a-half year years, it did not have its own office or access to computers. Moreover, the web page of the agency, which was meant to be a key tool used in promoting local companies, was still under construction three years after its creation. Consequently, the time of those working in the agency is mostly spent on travelling all around Kazakhstan and giving 25-minute-long presentations about the agency and what it wants to do in the future. In the last two years, representatives of the agency, according to their own estimates, gave a staggering 818 presentations. This amounts on average to at least one presentation every day since it came into existence. The reason for the underperformance of the agency can be found within the agency. The Contract Agency is staffed with young graduates from US Universities, particularly Austin, Texas, who come from oil families and for whom work in the agency is just a short stop in their careers.[584]

To sum up, in this section we discussed the situation in which Nazarbayev's regime found itself at the end of the 1990s. On one hand, there was growing pressure from the oil-rich regions to create more space for co-operation between local interests and foreign oil companies; on the other hand, there was reluctance on the part of the foreign oil companies to co-operate. This resistance originated in the far-reaching provisions that the regime granted to foreign oil companies in the oil contracts. It was demonstrated that the regime tried to push foreign oil companies into co-operation with local interests through introducing measures aimed at either increasing the costs of the foreign sub-contracting companies operating in the country, or by pushing them out of the Kazakh market altogether. However, these *ad hoc* actions could not enforce the changes that the regime had hoped for, since the ultimate decision as to which foreign oil companies want to co-operate with is in the companies' hands. Finally, we argued that the regime, aware of this fact, began a process of rapprochement with foreign oil companies, which allowed it to save its face. This rapprochement process, in its spirit, was a continuation of a deal that Tasmagambetov reached with the companies during his time as Atyrau's *akim*.

3. Co-operating with foreign oil companies

In this section, we will demonstrate that the introduction of the local content policy, as well as the business opportunities that came about in the rapprochement period, led to the growth of the local companies, which now wanted to explore whatever opportunities there were. However, we argue that the regime could not allow for the co-operation between foreign oil companies and local companies to go unchecked, as it could lead to the development of an entire host of networks that would be outside the regime's control. In order to avoid this scenario, Nazarbayev's regime began indirectly co-operating with

[584] Interviews with a high representative of a governmental agency: Almaty 8 October 2004 and Astana 8 December 2004; *See also*: Kalymbet Beysenkulov, 'Kazakh gambit. The Kazakh government deliberately uses information which does not correspond to reality,' *Fergana. ru*, 3 May 2001.

the foreign oil companies on one crucial matter: that of which local companies foreign oil companies should work with and which ones to leave aside.

This indirect approach, in its essence, is a logical continuation of the way in which Nazarbayev's regime had already dealt with grievances among the local population in the oil-rich areas. Thus rather than deal straightforwardly with the local population or local companies, it preferred to shift the burden of responsibility from itself to the foreign oil companies, making them the targets of any future criticism for the lack of economic development or the creation of sufficient business opportunities. In doing so, Nazarbayev can maintain a role of an arbiter rather than that of a party directly involved in any of the issues. The willingness of the foreign oil companies to yet again go along with Nazarbayev's regime should be seen as an extension of the rapprochement process (section 2.3.) – an additional concession that foreign oil companies gave to the regime for the possibility of carrying on with their business in a largely unchanged fashion.

3.1. Local companies

From 1999 onwards, the people that constituted local interest groups which, from the mid-1990s, had lobbied for greater involvement of the Kazakh companies began setting up their own companies, which they now hoped that foreign oil companies would sub-contract. It was stated that very few local sub-contracting companies existed prior to 1999 and 2000; however, since the government began enforcing local content policy, they 'sprang up like mushrooms after rain'.[585] Thus, whereas in 2001 the US embassy in its annual report spoke about no more than six companies with which foreign oil companies could co-operate,[586] by 2003 (according to the statistics issued by the foreign oil companies), more than 150 local companies from the Atyrau region alone took part in the seminars organised by the oil companies.[587] This speedy development of the local companies was greatly helped by the increase in oil prices since 2000 onwards, which encouraged many to set up same sort of company and try their luck in the oil industry

[585] Interview with local specialist working for the foreign embassy: Atyrau 10 November 2004.
[586] 'Kazakhstan: Oil and Gas Equipment,' *BISNIS Representative in Kazakhstan*, September 2001. http://www.bisnis.doc.gov/bisnis/bisdoc/010917kazoilgas.htm (Accessed 29 February 2005).
[587] Interview with oil expert: Almaty 17 September 2004.

supporting sectors.[588] Also, since 2001—2002, the creation of the local companies in the regions was encouraged by the local *akims*[589] – on direct orders from Astana[590] – who hoped that 'oil and gas would give an impulse to local businesses and productions'[591] and eventually lead to the increase of the tax revenues in their respective regions.[592] However, as we will see, the most important reason behind the *akims'* support for the local companies was self-enrichment more than anything else.

It was reported that local companies in the oil-rich regions were formed by two distinguishable groups, which in some ways is a testimony to the changes that had occurred in post-Soviet Kazakhstan. The first group is made up of the ex-apparatchiks and ex-directors who created their companies on the basis of existing enterprises, which in the Soviet Union were part of the big conglomerates.[593] In the case of this group – rather unsurprisingly – most important are the connections that have their roots in the communist area.[594] The second group is made of 'young entrepreneurs' – people in their 30s who had some prior experience in various business ventures, for instance, those dealing in used cars.[595] In this case, the most important are: a) family connections; and b) all sort of friendships that were formed in the school or at the university.[596]

Local companies in the oil-rich regions mainly specialise in construction work, building roads, transport and supplying basic services such as catering.[597] The range of capabilities and competences of those companies varies a great deal. It was reported that

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[588] Interview with a general director of a local oil company: Atyrau 12 November 2004; Interview with a general director of a foreign drilling company: Almaty 10 September 2004.
[589] Interview with the chief accountant working for a major foreign oil company: Atyrau 23 November 2004
[590] Nazarbayev, considerably weakened by the Kazakhgate scandal (chapter 6, section 1.1), needed to paint himself as the champion of the local companies.
[591] *Petroleum Magazine*, May 2000.
[592] Interview with a director working for a major foreign sub-contracting company: Almaty 11 October 2004; Interview with an oil journalist: Almaty 29 October 2004.
[593] Interview with a general manager working for a foreign building sub-contracting company: Almaty 11 October 2004.
[594] Interview with business development manager working for major foreign subcontracting company in Kazakhstan: Almaty 14 October 2004; Interview with a general director of a foreign small drilling company: Almaty 10 September 2004.
[595] Interview with a director working for a major foreign sub-contracting company: Almaty 11 October 2004.
[596] Ibid.
[597] Interview with a regional manager of one of a major foreign sub-contracting company: Atyrau 10 November 2004; Interview with an oil engineer working for the foreign company in Kyzylorda region: Almaty 8 September 2004.

some of the companies, despite the fact that they work using old Soviet equipment and within Soviet standards, deliver quality work and on time.[598] Moreover, they also try to invest in new equipment. For instance, the local transport company in the Kyzylorda region, which in the past had only old trucks at their disposal, in recent years has invested into a whole fleet of new German trucks and is now by far the most competitive company of this sort in the whole region.[599] At the same time, there is a whole range of companies that aim only at making a quick profit. Those are mainly companies that are interested in supplying foreign oil companies or their sub-contractors with basic goods. If they fail to obtain a contract, they mostly disappear from the market in an instant.[600] In late 2004, on one estimate there were more than 100 companies in the Atyrau region that solely specialised in supplying the foreign oil companies.[601]

The creation of these local companies has been a far from smooth process. The local companies in the oil-rich regions, despite the local content policy, have been confronted with similar obstacles in conducting business as all the other small- and medium-sized companies (SMEs) in Kazakhstan.[602] First of all, banks in Kazakhstan usually do not provide any financing for business start-ups, regardless of which industry sector the proposed venture is supposed to operate in. That is mainly due to the fact that companies or people involved do not have any credit history.[603] Moreover, the vast majority of SME representatives find it extremely difficult to prepare acceptable business plans conforming to the standards established by the banking sector. For instance, banks are said to demand too many guarantees from their clients.[604] Many other companies are unwilling to approach banks, because the books and tax declarations of their companies do not meet the established requirements and cannot be adequately evaluated by credit

[598] Interview with general manager working for a foreign building sub-contracting company: Almaty 11 October 2004.
[599] Interview with an oil engineer working for the foreign company in Kyzylorda region: Almaty 8 September 2004.
[600] Interview with a manager of a foreign company that specializes in the oilfield systems: Almaty 22 October 2004.
[601] Interview with a director of a small supplying company: Atyrau 17 November 2004.
[602] For additional overview see: 'Kazakhstan social protection concept (KAZ/99/004),' *Kazakhstan UN Report*. www.ilo.org/public/english/bureau/dwpp/download/kazakhstan/kazreport.pdf (Accessed 2 November 2005) pp. 58–62.
[603] Interview with a director of a medium size subcontracting company: Atyrau 15 November 2004.
[604] Interview with a director of a local oil company: Atyrau 8 November 2004.

officers.[605] However, the most important problem for the SMEs is that banks offer business development loans at 18–24 per cent interest rates for a six- to 24-month period, which local companies cannot afford.[606] In addition, the special privileged loans granted by the local governments go to people close to the local bureaucracy, 'in order to get this privilege loan you need to know somebody, you have to be supported, lobby by somebody'.[607] As a result of this of lack of access, for bank credits or special loans, local companies are forced to raise money through extended family networks: 'people borrow money from one another this is how they get the capital, it is a common practice here'.[608] As one western specialist put it, 'Kazakhstan is a village it is one of the biggest villages that you can imagine'.[609]

Secondly, the process of obtaining the necessary licences takes from two to six months. Most of the licences have to be renewed every year, requiring a necessary fee, which for a small construction company adds up to 1000 dollars. It also requires the stacking up of all the necessary documents that need to be stamped by the authorised bureaucrats. For some companies, obtaining a licence is such a time-consuming process that they actually employ a special person who deals with all necessary paperwork involved.[610] Naturally, these overly bureaucratised procedures leave much room for error, and in turn place the licensing bodies in a privileged position. Hence, it is a common practice to bribe bureaucrats, who expect to receive payments every time the licence is being issued or renewed. Another way of speeding up the process of obtaining a licence is to find a relative in the local administration who can help to lobby for company interests so that the process of obtaining a licence will take two weeks rather than five months.[611] Also problematic is the lack of technical centres, i.e. specialised institutes that can issue the necessary certificates for obtaining licences.[612]

[605] Interview with person close to Kazakh business community: Almaty 14 September 2004.
[606] Interviews with various Kazakh companies: Kazakhstan, Autumn 2004.
[607] Interview with local specialist working for the foreign embassy: Atyrau 10 November 2004.
[608] Ibid.
[609] Interview with a high-ranking foreign specialist working on major projects in Kazakhstan since mid 1990: Almaty 21 October 2004.
[610] Interview with a director of a medium size subcontracting company: Atyrau 15 November 2004.
[611] Interview with a local specialist working for the foreign embassy: Atyrau 10 November 2004.
[612] Interview with a director of a small machinery plant: Atyrau 11 November 2004.

Thirdly, the way in which licensing authorities are abusing their powers is not an exception to the rule in Kazakhstan. Government officials often demand bribes from SME owners. This procedure is especially widespread among tax and customs officers, and regional administrations and local fire departments. In the vast majority of cases, officials interpret the law in whatever way they please. Officials also deny the opportunity to the entrepreneurs or their staffs to familiarise themselves with the internal instructions and rules defining the scope of responsibilities, rights and obligations of the various government agencies and services. One of the reasons for this is that the officers themselves are not familiar with those rules.[613] Thus, what companies normally try to do it is to establish 'good relationships' with, for instance, the tax police, and to avoid any conflicting situations.[614] Finally, another major problem for SMEs is changing the legal framework, which often creates a sense of lack of stability crucial for any business to function normally.[615] Moreover, there are also contradictions within existing legislations; as one director put it: 'on the first page legislation can say one thing and on the tenth page quite something different. Sometimes I think to myself that legislations are written in such a way so that a person will make a mistake'.[616]

3.2. Local companies and foreign oil companies

Despite these obstacles, an increase in the numbers of local companies in the oil-rich regions did happen. Moreover, notwithstanding the initial resistance from the foreign oil companies, some co-operation between local companies and foreign companies, however limited, has also been taking place. This co-operation has become part of everyday life in the oil-rich regions. In 2004 and 2005, the US, Canadian and UK embassies, in their reports for prospective investors, did not omit to mention that in recent years the Kazakh government had been pursuing the development of local oil and gas support services that should be taken under consideration when conducting business in Kazakhstan. At the

[613] Interview with a person close to Kazakh business community: Almaty 14 September 2004.
[614] Interview with a director of a medium size subcontracting company: Atyrau 15 November 2004.
[615] Ibid.
[616] Interview with a director of a small machinery plant: Atyrau 11 November 2004

same time, the local content policy was not presented as a major obstacle[617] to taking up a business venture in the oil-rich regions.[618] It could be argued that Nazarbayev's regime successfully manoeuvred between foreign oil companies and local companies, and in the final analysis managed to keep both parties – at least partially – satisfied.

Having said all this, the increase in the number of local companies and their apparent co-operation with foreign oil companies is highly problematic when assessed from the regime's perspective. When the regime leaves the co-operation between local companies and foreign oil companies uncontrolled, this situation can lead to the development of an entire system of patronage networks that would bypass the regime – a situation that poses a direct political threat to the regime's authoritarian rule. Arguably, that is why Nazarbayev did not include local content quotas in the oil contracts themselves, and instead was willing to extend to foreign oil companies' the far-reaching provisions they contain. The uncontrolled co-operation between locals and foreigners became especially unwelcome at the beginning of the second decade of independence, when parts of the business elite split from the regime and went to build their own political party DCK, Ak Zhol (discussed in chapter 6, section 1.2). Thus, for the first time those armed with money had created a direct threat for the regime.

By the introduction of the local content policy, Nazarbayev's regime made sure that it would have a say in the process of selecting Kazakh companies that could co-operate with foreign oil companies. In section 2.1, it was demonstrated that during the early days of local content, the Kazakh government began demanding the creation of joint commissions made up of representatives of the Kazakh government and the foreign oil companies. The Kazakh government got its way, and the Joint Management

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617 On occasion, even quite on the contrary. In 2003, the representative of the US embassy in Kazakhstan wrote: 'Plenty of opportunities exist for U.S. companies producing oil and gas field equipment and machinery such as drilling and wellhead equipment, valves, pumps, motors, compressors. Good prospects also exist for U.S. small- and medium-size firms offering downstream engineering and such services as fabrication, welding, engineering services.' *Azhar Kadrzhanova*, '2nd North Caspian Regional Oil and Gas Exhibition,' *BISNIS* 15—17April 2003. http://www.bisnis.doc.gov/bisnis/bisdoc/030417NCaspianOilGas.htm (Accessed 27 May 2005).

618 Svetlana Voronina, 'Atyrau Regional Reports,' *BISNIS Representative*, Astana, Kazakhstan. 31 May 2004; Arthur Iralin. 'The Caspian's black gold. Kazakhstan taps into massive oil and gas deposits,' *The Trade Sections at the Canadian Embassy in Kazakhstan*. 24 March 2004; Jafferi Shozey. 'Steppe Forward. The British Embassy's Commercial Newsletter,' *The Trade and Investment, British Embassy, Almaty*. January 2005, Issue No. 4.

Committee (JMC) for the Karachagank project was established.[619] In addition, other bodies were created on the state level. Most important is the Authorised State Agency (ASA), whose key authorities are: control over procurement of commodities, works and services; and approval of terms and results of tenders. The state bodies that have a direct say in the selection process have been accused of corruption and favouritism (Tsalik 133: 2003), and of being used by bureaucrats to satisfy their private interests.[620] The regime, in addition to setting up bodies that would scrutinise the process of selecting local companies, has also displayed considerable interest in certain key institutions – namely departments of the foreign oil companies that have been on the frontline of selecting local companies.

In 2002, Atyrau's *akim* Daukeyev (chapter 2, section 2) praised foreign oil companies for creating departments for working with local suppliers and studying the local market for goods and services.[621] These departments are directly responsible for choosing local companies as partners, which in the next phase are managed by the foreign oil companies' major sub-contractors. However, in some instances it is a sub-contractor and not the foreign oil company that is directly responsible for the selection process. That depends on the arrangement between the two parties. Those working either for the foreign oil companies or their major sub-contractors assert that in principle, the way they go about selecting local companies does not differ in any sense from the process the company uses in any other area of the world; it is a mechanistic process from their point of view. The most important criteria are: competitiveness, ability to do work on time, and high standards and safety.[622] Naturally, the selection procedure is not easy, and one contract manager himself admitted that the application 'can be the size of Tolstoy's *War and Peace*', which can produce substantial problems for a small local

[619] On the Kazakh side, the state's authorised representatives were the Vice-Minister of Energy and Mineral Resources Uzakbai Karabalin, the West Kazakhstan *akim* Krymbek Kusherbaev, KazTransOil First Vice President Erlan Upushev and KazTransGaz Vice President Bulat Nazarov. *Source*: *Oil and Gas Kazakhstan Magazine*, No 1-2, 2001.
[620] *RusEnergy*, October 2002.
[621] *Petroleum Magazine*, February 2002.
[622] Interview with a manager working in the contracting and procurement department of one of the major oil companies in the world: Almaty 14 September 2004; Interview with a contract manager of a major foreign subcontracting company: Atyrau 16 November 2004; Interview with a regional manager of one of a major foreign sub-contracting company: Atyrau 10 November 2004; Interview with a director working for a major foreign sub-contracting company: Almaty 11 October 2004.

company.[623] This transparent process of selecting local companies takes on a new dimension once we look at who actually works in the departments that conduct selections, as well as their own rationales for selecting one company rather than another.

The departments that specialise in selecting local companies predominantly employ ethnic Kazakhs in their mid-30s who are usually the children of important officials in the oil-rich regions, and in the case of Atyrau and Mangistau also include members of the oil families.[624] One interviewee stated that locals without any doubt exert a great influence over the selection process, and that 'foreign companies have to listen to their recommendations'.[625] At the same time, an expert who often comes into close contact with the managers of the various foreign oil companies stated that companies themselves dislike this situation in which a third party interferes in the selection process, which they find very frustrating. However, there is not much that they can do about it: 'if they want to do business they have to employ these people'.[626] During my field-work, I interviewed a couple of employees of the departments in question. They stated that whereas issues such as international standards and the track record of a local company are important for the selection process, it is equally important who recommends a company and whether they know the people that run it. One of the interviewees openly and proudly admitted that he looks at the landscape of the local companies through family lenses: 'When I have a choice of employing your company or the company of this man [ethnic Kazakh], it is normal that I will employ his company because I know his father, his father's father and so on […] Clans and family names are very important here'.[627]

The situation in which foreign oil companies delegate considerable powers to their local employees (who select companies according to a specific key) is, according to one commentator, a tragic development. Foreign oil companies, which are supposed to be agents of modern, new ways of doing business for their own convenience, follow the

[623] Interview with a contract manager of a major foreign subcontracting company: Atyrau 16 November 2004.
[624] Interview with a local specialist working for a foreign embassy: Atyrau 10 November 2004.
[625] Interview with a director of a local oil company: Atyrau 08 November 2004.
[626] Interview with a local specialist working for a foreign embassy: Atyrau 10 November 2004.
[627] Interview with a business development manager working for major foreign subcontracting company in Kazakhstan: Almaty 14 October 2004; interview with another business development manager working for the same subcontracting company: 14 October 2004.

‘local rules of the game’.[628] At the same time, the idea of locals playing an important role in foreign consortia is not new. In chapter 2 (section 2.1), we saw how foreign oil companies at the beginning of the 1990s employed or sponsored various ‘big men’ of the Kazakh oil industry. In return, these companies were largely given a free hand to conduct their business in the way that suited them, at least until the second decade of the 1990s. In addition it was established in the previous section that local companies are but a very small part of these projects, and that foreign oil companies can simply afford to employ companies that are being recommended even if this means incurring losses. The example of companies backed up by the local administration demonstrates this point vividly.

The regional administration, which at the end of the 1990s was given a green light to exercise greater pressure on foreign oil companies, became an ever more important force with which the foreign oil companies had to establish a ‘working’ relationship.[629] This liaison, in something that can be broadly understood as the post-Tasmagambetov era, expressed itself in contracts that companies directly or indirectly connected to local authorities were able to secure. As one oil journalist put it: ‘Few years ago, TengizChevrOil would not work with a small local company that provides services of very poor quality. But nowadays, many companies are owned by influential people. Oil companies have to work with those companies’.[630]

Those working in foreign oil companies, or their sub-contractors, stated that the promotion of the companies favoured by the local authorities takes place under the cover of their lobbying the interests of the companies from an oil-rich region.[631] Hence, a high official approaches a foreign oil company and makes a case for local companies, which in itself is seen as unsurprising and comprehensible.[632] After all, it is the job of any local authority to lobby the interests of local companies. However, after that he/she points to a specific group of companies that are widely known to be either owned by local

[628] Interview with local specialist working for the foreign embassy: Atyrau 10 November 2004.
[629] Interview with a high-ranking specialist of a major foreign oil company: Almaty 6 October 2004; Interview with oil journalist: Almaty 28 October 2004.
[630] Interview with oil journalist: Almaty 29 October 2004.
[631] Interview with an oil engineer working for the foreign company in Kyzylorda region: Almaty 8 September 2004.
[632] Interview with a director working for a major foreign sub-contracting company: Almaty 11 October 2004.

authorities' members' relatives, friends, or people closely associated with them.[633] According to some interviewees, companies supported by the local authorities are easily recognised since they, as opposed to most of the others companies of the same profile, do not have any problems with local authorities – and most importantly they can easily obtain all the necessary documentations, including licences.[634]

The companies favoured by the authorities are relatively small in size and primarily specialise in basic construction works; they employ only few people and work directly with the foreign oil companies.[635] Moreover, these companies tend to keep a very low profile: 'they do not want to be too visible'.[636] It was also asserted that a characteristic of the companies owned by local authorities is their apparent lack of professionalism.[637] This is due to the fact that these 'construction' companies are (most of the time), created for the purpose of a particular project, and tend to disappear from the market once the contract expires.[638] As one technical director put it

> many companies in Atyrau only come to actual existence once they win a tender for, for example, some building works. What happens next is that this company very quickly employ various specialists such as designers, mechanics, ecologists, building engineers etc. Those quickly created companies most of the time cease to exist once a project is completed.[639]

However, this does not necessarily mean that the work was actually completed. One director pointed to numerous situations in which a foreign oil company employed a small construction company, but very little or no actual work was done on the site. Even more interestingly, a few months later the same people managed to win yet another tender, and the familiar procedure was repeated all over again: 'oil companies know that they have to

[633] Interview with a high-ranking specialist of a major foreign oil company: Almaty 6 October 2004.
[634] Interview with business development manager working for major foreign subcontracting company in Kazakhstan: Almaty 14/10/04; Interview with oil expert: Almaty 17 September 2004.
[635] Interview with an oil journalist: Almaty 28 October 2004.
[636] Ibid.
[637] Interview with a general manager working for a foreign building sub-contracting company: Almaty 11 October 2004.
[638] Interview with an oil journalist: Almaty 28 October 2004.
[639] Interview with a technical director of a small designing and building company: Atyrau 8 November 2004.

employ those companies; for them it is part of their costs, and as long as the oil prices are high they do not find it problematic'.[640]

This apparent failure by the local company, which is supported by the local authorities to do any proper work, seems to be very common – especially when it comes to works that are being paid for from the regional budget. For instance, in Atyrau in late 2004, the local drama theatre was being renovated for a third time: 'The theatre is not being used at all, but for the third time the budget is paying for the renovation. Every time they have different contractors, and no one is being punished for not finishing the work. Do you think that if I tender for this project I would win it, no! If I had someone in the administration then it would happen'.[641] The enrichment of the local authorities is meaningfully reflected in their high standards of living. Whereas a local official working for a regional administration earns on average only about US$200 per month, the family of a top official can live in a three-storeyed house worth one hundred thousand dollars or even more.[642]

Another example of the co-operation between foreign oil companies and local authorities is a mid-sized company that primarily specialises in supplying building materials to TengizChevron, and which is owned by an ex-tax police officer. The link between the two parties becomes somewhat apparent, since throughout the greater part of the 1990s, the owner of the company worked in the section of the tax police which scrutinised TengizChevron. A privileged relationship of a company with TengizChevron is reflected in the fact that whereas in order to obtain a contract normally a company has to go through lengthy tender procedures, the company under discussion is on TCO's special lists of contractors. In reality, this means that a company gets a list of products in advance that the TCO needs, as well as a set price for their supply. Its only competitors are other local companies on the TCO's list. The owner of the company also tried to participate in tenders of other major companies such as KazMunaiGas and AGIP; however, without much success. According to him 'procedures are far too complicated and there is too much of paperwork involved'.[643] The latter point demonstrates that the

[640] Interview with a director of a local oil company: Atyrau 8 November 2004.
[641] Interview with local specialist working for the foreign embassy: Atyrau 10 November 2004.
[642] Interview with a director of a medium size subcontracting company: Atyrau 11 October 2004.
[643] Interview with a director of a small supplying company: Atyrau 17 November 2004.

company would most likely not be able to survive on the market without its special arrangement with TengizChevron.

The situation looks somewhat different in the case of regional *akims* and their deputies who are parachuted – to use Cummings' term (2000) – from, for instance, Almaty to the oil-rich regions. These *akims*, who on an average spend less than two years in a post (chapter 2, section 3.3), have to focus on big projects that guarantee quick returns. In order to achieve this aim, the *akims*' deputies set up front companies – registered in an ordinary fiat – that secure a relatively big contract from foreign oil companies. After that, such a 'company' simply sub-contracts engineering and construction companies from others parts of Kazakhstan to carry out all the necessary works.[644] On some occasions, the *akims*' front companies went so far as to sub-contract foreign construction companies.[645] As one (admittedly very frustrated) director put it:

> Atyrau is a very competitive place and I just could not understand from where this company came from, it is like it fell from the sky. The company won three tenders on the road, I investigated for quite some time who the people are behind this company and it turned out that the owners of the company are three deputies of the local *akim*. They created a company, won tenders and now they are in the process of delegating work to different companies. It is a 50-50 percent split arrangement.[646]

Local companies that are not connected to the regional office or local notables find doing business in the oil-rich areas extremely difficult: 'those companies are left on their own without any help either from the government or *akims* who do not take any interest in them. Programmes indeed are in place, but they are not working as local companies would like them to (…) *akims* are not interested in helping local companies but rather what those companies can do for the social sphere'.[647] There are numerous examples of *akims* not fulfilling their obligations towards local companies, but quite to the contrary taking advantage of them. For example, the local regional office forces local companies in Atyrau to remove the garbage from designated parts of the city without

[644] Interview with an oil journalist: Almaty 29 October 2004.
[645] Interview with a business development manager working for major foreign subcontracting company in Kazakhstan: Almaty 14 October 2004; Interview with a marketing manager of a major company that specialises in remote sites services: Almaty 2 December 2004.
[646] Interview with a general director of major construction company: Atyrau 11 November 2004.
[647] Interview with an oil journalist: Almaty 28 October 2004.

payment, while the funds that are allocated for that purpose go to the officials' own pockets.[648] Work done for the city depends on the size of the company. Thus, one of the biggest construction companies in Atyrau, with no apparent ties to the *akim's* office, in 2004 had to build a small bridge and 60 kilometres of road outside Atyrau for free. If the company refused to do as it was asked, it would be plagued with harassment from different local agencies 'and it is not a problem they will always find something, this is the Soviet way of thinking. They still have lots of power and they use it in the old Soviet way. They can say to me you are not a local patriot. You have to help'.[649]

In conclusion, in this chapter we discussed the roots of the discontent among local interests groups in the oil-rich areas of Kazakhstan, and the way in which Nazarbayev's regime chose to address this problem through an attempt to introduce a local content policy. Furthermore, we demonstrated that far-reaching provisions in the oil contracts made the full-scale introduction of the local content policy highly problematic. The regime, in the face of the opposition coming from the foreign oil companies, allowed them to carry on with their business in a largely unchanged fashion, while the foreign oil companies on their part were willing to begin co-operating with a limited percentage of local companies. Moreover, we showed that the deal reached between the regime and foreign oil companies had a direct effect on the way in which Nazarbayev's regime controls local companies, and how that process has been unfolding in the last few years.

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[648] Interview with a director of a medium size subcontracting company: Atyrau 15 November 2004.
[649] Interview with a general director of major construction company: Atyrau 11 November 2004

Chapter 6: Beyond the 1990s: quasi-formal relationships and consolidation

In the first decade of independence, the ruling regime in post-Soviet Kazakhstan proved to be highly resilient in the face of the threats posed by the oil industry broadly understood. As demonstrated in chapter 2, Nazarbayev, once confronted with the direct challenge to his grip on the NOC, was quick to substitute the ill-serving corporatist technique with the patron–client instrument which, as discussed in chapter 3, was further strengthened in the process of the Kazakhization of the oil industry. Moreover, as shown in chapters 4 and 5, in order to address the growing sense of crises in the oil-rich regions, besides using patron-client patterns on the local level the regime also entered into a tacit agreement with foreign oil companies. As a result, by the early 2000s the mechanisms used by Nazarbayev's regime to control the oil industry could be characterised as being highly personalised, with informal networks strongly favoured over formal institutions.

In the first part of this chapter, we argue that Nazarbayev's regime, which throughout the 1990s and beyond had been thriving on patrimonial networks, began showing signs of moving away from established patterns in the first half of 2000s. In 2003 the Kazakh regime, in response to the Kazakhgate scandal and the rise of a pro-business opposition, attempted to co-opt small- and medium-sized businesses across Kazakhstan. Whereas the government's initial actions failed to yield desirable results – and did not bring about any serious political consequences for the regime – it did not cease its pro-business politics, but persistently put forward new policies that favoured business interests. We argue that this determination on the part of the regime is a real attempt at gradually moving away from a situation in which patrimonial networks dominate the Kazakh polity, including the earlier regime–oil industry relationships, to one in which quasi-formal mechanisms – controlled by the regime – become primary regulators. The new type of relationship stems from a need to accommodate the ever-growing Kazakh middle-classes, which are supposed to become the backbone of the ruling regime, replacing the powerful and unpredictable financial/industrial groups that were favoured before 2002. Thus, the regime pushes for a more coherent relationship between small- and medium-sized businesses and the state in order to assure its long-term stability. At the same time, not all mechanisms of control are likely to alter as significantly.

In the second part of this chapter, we will discuss a number of disputes that the Kazakh state entered into since 2002 onwards with foreign oil companies, which potentially could have far-reaching repercussions on the regime–companies' tacit alliance in the oil-rich areas (chapter 4 and 5). Yet we argue that while disputes over Tengiz and Kashagan in themselves were a major development, they are unlikely to profoundly affect the co-operation between the two parties in the Atyrau region, since it is in their mutual interest to maintain the status quo. Thus, what we can expect to see is the oil companies serving intermittently as scapegoats for the regime's unpopular policies on the one hand, and on the other, the implementation of the local content policy in its current form for a considerable time. The situation can change significantly, however: for instance, consider the Kyzylorda region, where a Chinese company purchased the Kumkol oil field, which was previously owned by the Canadian company PetroKazakhstan. As the existing record of the Chinese oil company's activities in Kazakhstan demonstrates, they are much more forceful in introducing their own labour, and most importantly, their own sub-contracting companies. This in turn can have negative consequences for the regime's relationship with the Kyzylorda region.

1. Kazakhgate

In late 1998, the Kazakh authorities charged the ex-Prime Minister Akezhan Kazhegeldin with money laundering and tax evasion (chapter 2, section 3.2). The charges against the ex-PM, which in themselves were not unfounded, were largely seen as being of political nature, with the aim of eliminating him and his Republican People's Party of Kazakhstan from Kazakh political life. The main reason for this political assassination was Kazhegeldin's proven ability to transform himself in a relatively short time into the most serious opponent to Nazarbayev in the presidential elections that were scheduled for the beginning of 1999 (chapter 4, section 1.1). Subsequently, Kazhegeldin left Kazakhstan and was banned from standing in the elections. Whereas Nazarbayev's short term political aims were achieved, the ex-PM, due to his vast knowledge about the inner workings of the ruling regime, still posed a danger and could potentially seriously undermine Nazarbayev's stand on both the domestic and the international scenes. In order to fully discredit Kazhegeldin, the Kazakh authorities began another investigation into his alleged secret accounts outside Kazakhstan.[650]

1.1. Crisis and their containment

In April 1999, Kazakh officials contacted the authorities in Belgium and Switzerland, where Kazhegeldin apparently had his financial holdings. The investigation took an unexpected turn when the Swiss investigators discovered 'a pattern of suspicious transactions involving American and European oil companies' dealings with Kazakhstan'.[651] These took place between May 1997 and September 1998, i.e. at the time of the rapid sell-out of the oil enterprises which brought the Kazakh oil sector under the control of Nazarbayev and the then-head of NOC KazakhOil, Nurlan Balgymbayev (chapter 2, section 3.2). The investigators alleged that more than US$1 billion dollars from ExxonMobil, Amoco Kazakhstan Petroleum (BP Amoco), and Philips Petroleum were channelled through escrow accounts, shell companies and foundations located in Switzerland, the British Islands and Lichtenstein to accounts held by Kazakh officials including Nazarbayev, Balgymbayev, Kazhegeldin and their families.[652] It quickly emerged that the key part in this elaborate scheme was played by American lawyer James H. Giffen, who was directly responsible for funnelling money from these oil companies to the secret accounts of the abovementioned Kazakh officials.

James H. Giffen's involvement in Kazakhstan dates back to the late 1980s, when he was initially involved in Chevron-Soviet government negotiations concerning field studies in the west of Kazakhstan[653] (see chapter 2, section 2.1). Whereas his role in the signing of the final deal between Kazakhstan and Chevron over a stake in the Tengiz oil

[650] Interview with an oppositional journalist: Atyrau 22 November 2004; see also: *Vremya Novostei*, 2 April 2003; Daniiar Ashimbaev, 'Oligarchy and democracy,' *Kazakhstanskaia Pravda*, 14 November 2003.
[651] David Johnston 'Kazakh Mastermind, or New Ugly American?' *New York Times*, 17 December 2000.
[652] Larry Chin 'Part 2: Big Oil, the United States and corruption in Kazakhstan' OnLine Journal, 16 May 2002; David McKeeby 'Crude Business: Corruption and Caspian Oil' *Caspian Energy Update*, 31 August 2000.
[653] In the 1980s Giffen led the American Trade Consortium, an organization created to promote regional trade and investment.

field (1992) is not exactly clear, it was reported that Chevron agreed to pay Giffen personally US$0.75 for every barrel produced, for his early role in the deal.[654] Giffen's involvement in Kazakhstan became more apparent in the 1990s, when he became a special counselor to Nazarbayev. It was stated that Giffen was responsible for establishing contacts between Washington's establishment and the Kazakh president. For instance, he was allegedly in charge of organising Nazarbayev's first presidential visit to Washington in May 1992, when he met with President George Bush, and of acquainting Nazarbayev with Al Gore, who later on chaired a U.S.-Kazakhstan joint commission.[655] He could be most aptly described as a gatekeeper between Nazarbayev and the foreign oil companies in business and political circles; as Robert Baer, a former CIA officer put it: 'James Giffen was Mr Kazakhstan. If you wanted an oil concession in Kazakhstan, you went to Giffen'.[656]

Giffen's role in the money transfers was brought to light by the US Justice Department, which in 2000 began investigating him for possible violations of the Foreign Corrupt Practices Act, which prohibits bribery of foreign officials. The US investigation initially focused on Mobil's purchase of a 25 per cent stake in the Tengiz field in 1996 for about $1 billion. Giffen earned a US$51m 'success fee' for brokering the deal, and allegedly stuffed more than $20m of this sum into the Kazakhs' Swiss bank accounts.[657] Subsequently, in 2003 he was charged with funnelling more than $78m in unlawful payments between 1995 and 2000 into these accounts from deals that included Amoco, Mobil, Texaco and Phillips.[658] On his part, Giffen denied that he had violated any US law since he had only acted at the direction of senior Kazakh officials.[659]

The unravelling scandal, which was now being widely reported by the international press, caught Kazakh officials by surprise, as their actions demonstrated. In

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[654] Joshua Chaffin and David Stern, 'Kazakhstan's gatekeeper become a legal liability,' *Financial Times*, 15 April 2003.

[655] Michael Dobbs, David Ottaway and Sharon LaFraniere, 'American at Center of Kazakh Oil Probe,' *Washington Post*, 25 September 2000.

[656] Joshua Chaffin, 'US businessman charged over Kazakh oil deal,' *FT.com site*, 2 April 2003.

[657] Joshua Chaffin and David Stern,'Mobil falls under eye of Kazakh probe,' *Financial Times*, 8 April 2003.

[658] Joshua Chaffin, 'ExMobil executive charged over kickbacks,' *FT.com site*, 3 April 2003; for more details see 'Kazakhstan bribery scandal investigation biggest ever undertaken,' *Alexandre's Gas and Oil Connections*, 30 April 2003.

[659] For more about corruption and the oil industries see*:* Tomas Catan and Joshua Chaffin, 'Bribery has long been used to land international contracts,' *Financial Times*, 8 May 2003.

the early stages of the investigation, the Swiss authorities froze several of the bank accounts believed to be available for the benefit of Nazarbayev and Balgymbayev. In September 2000, Nazarbayev, on a visit in the United States, appealed directly to the then Secretary of State Madeleine Albright to unfreeze the funds, reportedly repeating his embarrassing request during a series of consecutive meetings with her.[660] Kazakh officials also later attempted to lobby the Bush administration, which they saw as being well-disposed towards oil-rich countries and in a position to appreciate Kazakhstan's strategic position after 9/11, once the investigation by the US court got underway. According to the *Financial Times*, in late 2001 Kazakh officials made an aggressive effort to target Vice President Dick Cheney by appealing to him in person to shut down the ongoing criminal investigation. The Kazakhs also attempted to apply pressure on him through the construction company Halliburton, of which he used to be the CEO. Moreover, the Kazakh authorities also held meetings with Richard Armitage, Colin Powell's State Department deputy, concerning the Giffen case.[661] Yet, whereas accusations related to the scandal caused a substantial embarrassment to Nazarbayev and some top officials in the US, it was the attention that the case received in Kazakhstan that proved a real source of concern for the regime.[662]

To start with, the allegations – which were not entirely new in Kazakhstan – related to missing royalties from oil deals[663] that did not reach the Treasury. The rumours first began to circulate on the eve of 1999 elections;[664] as a US consultant who worked in the country at the time put it: 'It was beginning to smell. The word was around that maybe there were secret accounts in Switzerland'.[665] The direct impact of those early charges – on which Kazhegeldin's loyalists tried to capitalise politically in the absence of their leader – was manifested in Nazarbayev's poor performance during the elections in the Atyrau and Mangistau regions (chapter 4, section 1.1). However, it was the joint investigation conducted by Swiss-American authorities concerning secret accounts that finally gave substantial weight to the accusations. In mid-2000, media outlets supported

[660] *New York Times*, 17 December 2000.
[661] Joshua Chaffin 'The Kazakh connection,' *FT.com site*, 25 June 2003.
[662] 'Nazarbayev cornered,' *Economist Intelligence Unit - ViewsWire*, Number: 301, 2003.
[663] The main source of concern was the so-called social component of the oil deals, a percentage that meant to be spent on social issues (like schools and hospitals).
[664] A. Guliaev, 'A new scandal. Chevron's payment,' *Izvestiia*, 26 October 1999.
[665] *FT.com site*, 25 June 2003.

by Akezhan Kazhegeldin and Mukhtar Abliazov, who would later become the co-founder of DWK (chapter 2, section 4.1), began to publish claims that high-level government officials had received kickbacks from foreign oil companies. The claims voiced in the media were verified by a former Geneva prosecutor, Bernard Bertossa, who in an interview with the *Soldat* newspaper (May 2000) confirmed that Switzerland had frozen the bank accounts of not only the Kazakh president but also two former prime ministers,[666] and that the nature of these accounts was highly dubious.

The regime's response to the scandal-related publications was decisive. The editor-in-chief of *Soldat*, Emurat Bapi, was sentenced in 2001 to one year in prison for 'insulting the dignity and honour of the president'.[667] Moreover, in September 2000 the newspaper's journalist Lira Baysetova, who wrote about the secret accounts, lost an eye after being beaten up by unidentified thugs.[668] In addition, the newspaper *Vremia Po* that had also run articles concerning the case – now widely know as Kazakhgate – was forced to stop its publications in 2001 when the state-owned printer refused to produce the paper.[669] This heavy-handed approach[670] calculated at achieving short-term gains, in other words silencing the press, was accompanied with the installation of a special 'crisis group' within the regime structure. Its main task was to develop a more sensitive strategy for dealing with Kazakhgate. The pivotal role was played by Bulat Utemuratov, a Nazarbayev loyalist and an ex-ambassador to Switzerland and the UN.[671] The group drew up a two-tier plan, which stated that Nazarbayev and his daughter Dinara[672] should admit

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666 Kazhegeldin admitted being the beneficiary of $6 million shortly before leaving office but he claimed that he returned the money to the Kazakh government accounts from which it originated. *Source*: *AFX*, 17 July 2001.

667 A criminal offense under Article 318 of the criminal code.

668 It was also alleged that the death of Baysetova's daughter in police custody, three weeks after the article concerning officials' accounts was published, was not accidental. *Source*: *Swissinfo*, 10 July 2002.

669 *A Human Rights Watch Report*, http://hrw.org/reports/2004/kazakhstan0404/3.htm (Accessed 26 October 2004), Dimitry Chirkin, *Pravda.Ru*, 4 April 2002.

670 The regime's prosecution against independent journalists that wrote about Kazakhgate, however, did not stop at this. In 2002, Kazakh officials infamously accused Sergie Duvanov, who had published articles concerning the secret accounts, of raping a 14-year-old girl. It was widely assumed at that time that the charges against Duvanov were fabricated. *For more see*: 'Prominent opposition journalist convicted in Kazakhstan on rape charges,' *EurasiaNet*, 28 January 2003. http://www.eurasianet.org/departments/civilsociety/articles/eav012803.shtml (Accessed 5 December 2004).

671 'Kazakhgate under way,' *Eurasia-Internet*, 5 June 2002.

672 Dinara is married to Timur Kulibayev, the ex-vice president of KazMunaiGas (see also chapter 2 sections 3.3; 4.1; 4.2).

the existence of bank accounts in their names, while at the same time categorically stating that the accounts were opened without Nazarbayev's knowledge by Giffen and Balgymbayev. It should be then suggested that by doing so, those two 'partners in crime' hoped to convince foreign oil companies that they were acting on Nazarbayev's orders.[673]

The need for such elaborate explanations was deemed necessary in the face of the political opposition which, though weakened by the arrest and conviction of its two prominent faces Ablazov and Zhakyanov (chapter 2, section 4.1), was hoping to regain momentum hot on the heels of Kazakhgate. The scandal created a perfect opportunity and pointedly demonstrated the corrupt nature of the regime and its careless attitude towards the well being of its citizens. After all, top officials had gone as far as stealing money that was supposed to be spent on social projects.[674] Assylbeck Kozhametov, a member of the DCK Political Council, said:

> Nazarbayev had lost the "moral right" to govern Kazakhstan. This has to do with 'Kazakhgate' and the political prisoners [Ablyazov and Zhakiyanov], as well as the fact that the country has some of the highest [economic] indicators in the region, but it does not share [the wealth] with its population,' (…) 'Only between 3 percent and 5 percent of the total population, and probably major international investors, have access to the country's wealth, while the majority of the population lives in poverty.[675]

As a result, Utemuratov's plan – with substantial modifications – was finally put into action on 4 April 2002, when the then Prime Minister Imangali Tasmagambetov (chapter 4, section 1.3.) disclosed to members of parliament that the authorities had used revenues from the Tengiz oil field to establish a secret fund holding US$1.4 billion. The fund was presented as having been vital for the survival of Kazakhstan in 1997 and 1998, when Nazarbayev made a decision to withdraw, on two separate occasions, $480 and $400 million dollars in order to pay off pension arrears, thereby alleviating social tensions and covering the budget deficits stemming from the collapse of the Russian rouble.[676] Tasmagambetov also admitted the possible existence of foreign accounts (totalling more

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[673] *Eurasia-Internet*, 5 June 2002.

[674] Interview with a top adviser to the major oppositional party: Almaty 29 November 2004

[675] *Quoted in*: Justin Burke, 'Kazakhstani opposition movement prepares to renew battle with Nazarbayev,' *EurasiaNet*, 17 October 2002. http://www.eurasianet.org/departments/insight/articles/eav101702.shtml (Access 15 October 2003).

[676] 'Kazakhstan's national bank justifies creation of secret oil fund,' *Alexandre's Gas and Oil Connections*, 24 April 2002.

than $100 million) in Nazarbayev's name, but denied that the president had a role in opening them. Finally, the authorities dropped the idea of using Balgymbayev as a scapegoat and instead blamed Kazhegeldin for all wrongdoing.[677]

Tasmagambetov's address to parliament created as many problems as it resolved from the regime's perspective. On the one hand, putting forward its own version of the Kazakhgate scandal gave authorities a breathing space, as they could now argue that the investigation by the US-Swiss officials was just a big misunderstanding rather than having to relentlessly deny the existence of any accounts.[678] On the other hand, the very fact that the powers that be *had* admitted the existence of secret accounts was to an extent self-incriminating, and as such politically damaging. Nazarbayev's response to the looming crisis, which was only growing with the 2004 parliamentary elections approaching, was to reinforce his domestic position and to appropriate – at least on paper – the opposition's proposals for further political and economical reforms.[679]

1.2. The impact of Kazakhgate: the case of small and medium businesses

The regime went on a full offensive in 2003. Nazarbayev's annual state-of-the-nation address[680] on April 4 was interpreted by local commentators as a direct response to the

[677] Aldar Kusainov, 'Kazakhstani prime minister admits to existence of secret government fund,' *EurasiaNet*, 5 April 2002. http://www.eurasianet.org/departments/insight/articles/eav040502a.shtml (Accessed 25 May 2005); see also *Delovaia nedelia*, 5 April 2002.

[678] For instance, this sort of argument was used by Alexander Pavlov, a deputy chairmen of pro-presidential Otan (Fatherland) party, during televised debates between political parties that took place before parliamentary elections in 2004. *Kazakh Television first channel*, 27 Aug 2004. *Source*: BBC Monitoring Service, 27 August 2004.

[679] For oppositions platform see*: Speech of cochairman of the AK ZHOL Democratic Party of Kazakhstan Bolat Abilov at the III Congress of the Party*.
Source: http://www.akzhol.kz/eng/publications/publ_080104_3.htm (Accessed 25 August 2006)

[680] In his speech, Nazarbayev indicated that a large government budget surplus, created mainly by the country's vast wealth in natural resources, would help the state expand its infrastructure, investment, and job creation programs in both the agricultural and industrial sectors. He also declared major increases in pensions, wages and social payments, including a 20 per cent average pension increase, 32 per cent minimum wage increase, and 50 per cent increase in public sector salaries. Moreover, the president spoke about the need for a more transparent and open electoral system, and also advocated that more rights and powers should be given to political parties. *Khabar Television*, 4 April 2003. *Source*: BBC Monitoring Service, 4 April 2003.

Kazakhgate scandal.[681] One of the main points in the speech was the creation of a favourable development climate for Kazakh businesses. During his address, Nazarbayev made the case for carrying out a substantial corporate tax cut in the upcoming year, and also announced new tax cuts for VAT as well as social and individual income taxes. VAT was to be cut from 16 to 15 per cent; the social tax on companies would be reduced regressively to from 20 to 7 per cent, and the highest personal income tax rates were to be cut by 10 per cent. Moreover, he revealed that the Kazakh government would set up an investment fund and innovation fund as the driving forces for a competitive economy. Finally, he called for a greater partnership between the state and the private sector.

It was stated that businesses came under the special interest realm of the regime during Kazakhgate, because it was among their entrepreneurs that the knowledge about the scandal and awareness of its implications was most widespread.[682] In turn, this fact could be easily used by Ak Zhol, the moderate wing of the opposition,[683] which strove to organise small- and medium-sized businesses against the regime.[684] Whereas Ak Zhol was often described as being relatively temperate in outlook, with its focus being economic reforms, it was however suggested that the president was not certain of the party's collaboration in the 2004 elections,[685] and that the relationship between the two was in fact far from comfortable. For instance, on the eve of the Ablazov and Zhakyanov trials, Bulat Abilov, the co-chairman of Ak Zhol, criticized the authorities for trying to appropriate businesses across Kazakhstan. In particular, he focused his attention on the

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[681] Ibragim Alibekov, 'Nazarbayev embraces reforms, seeks to undermine support for political opposition in Kazakhstan,' *EurasiaNet*, 8 April 2003. http://www.eurasianet.org/departments/insight/articles/eav040803_pr.shtml (Accessed 9 April 2003).

[682] Interview with a high-ranking member of the opposition party who worked in the presidential apparatus throughout the 1990s: Almaty 5 November 2004.

[683] Kazakhgate was widely used by other political parties as well. For instance, in mid-2003, three influential parliamentarians – Communist Party leader Serikbolsyn Abdildin, Vlasislav Kosarev, and Tolen Tokhtasynov – wrote a letter to Nazarbayev, calling on him to reveal the names of the high-level Kazakh functionaries allegedly involved in the bribery scandal known as 'Kazakhgate,' because the affair was damaging the image of the country at home and abroad. The letter was read to a joint session of parliament. *Source*: 'Kazakh Parliament Calls for openness on Kazakhgate,' *Central Asia-Caucasus Analyst*, 4 July 2003.

[684] By 2002, Ak Zhol had as many as 65,000 members. Moreover, by 2003 there were 490,000 small- and medium-sized businesses in Kazakhstan. *Sources*: *Novoye Pokoleniye* 15 November 2002 and *Interfax-Kazakhstan* 31 October 2003; see also Aldar Kusainov, 'Opposition in Kazakhstan press campaign to dilute president's authority.' *EurasiaNet*, 19 March 2002. http://www.eurasianet.org/departments/rights/articles/eav031902.shtml (Accessed 4 November 2004).

[685] Aldar Kusainov, 'Kazakhstan opposition party showing new stridency' *EurasiaNet*, 13 November 2003. http://www.eurasianet.org/departments/insight/articles/eav111303a.shtml (Accessed 20 November 2003).

law-enforcement bodies, which in his opinion were unashamedly taking away small businesses from entrepreneurs.[686] On his part, Nazarbayev famously stated that while Kazakhstan needed large- and medium-sized businesses for pulling the country's economy forward, the business community 'should not interfere either directly or indirectly, through their people, in power, in taking political decisions'.[687]

The state-of-the-nation speech was not a one-off event, but rather the beginning of a process which aimed at co-opting Ak Zhol's potential power base into the regime's structures, thus diminishing Kazakhgate's potential impact.[688] The first signs of this policy had begun to surface already in 2002.[689] In August of that year, Nazarbayev stated that ensuring the development of small- and medium-sized business was among the government's top seven priorities.[690] Furthermore, in September, Tasmagambetov, speaking at the Kazakhstan business forum in Astana, assured the attending businessmen that the country's government was paying close attention to the development of businesses, and that the middle class was the basis of Kazakhstan's stability. Moreover he called for a constructive dialogue to produce specific ways to support small- and medium-sized businesses.[691] Still, it was only in 2003 that the government's campaign fully took off, with declarations slowly giving ground to more concrete proposals.

One of the government's flagship initiatives was aimed at the state institutions themselves, which were criticized for putting pressure on private businesses and entrepreneurs. The government accused its own officers – of the financial police, interior affairs, custom service agencies, local executive bodies, the Agriculture Ministry's territorial bodies, and those of the State Agency for the Management of Land Resources – of arbitrariness in their dealing with the private sector, and called for a radical change to their 'monitoring' of business and private property transactions.[692] On his part, Nazarbayev famously remarked that 'private property is a holy cow, not a milky cow'.[693]

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[686] *Interfax-Kazakhstan*, 27 July 2002; see also *Kazmonitor.kz* **,** 14 November 2003.
[687] *Khabar Television*, 30 Mar 2002, *Source*: BBC Monitoring Service, 2 March 2002.
[688] *See also*: Marat Yermukanov, 'Nazarbayev hijacks oppositions plans for electing governors,' *Eurasia Daily Monitor*, 1 (147), 15 December 2004.
[689] *RFE/RL*, 28 February 2002.
[690] *Interfax-Kazakhstan*, 7 August 2002.
[691] *Interfax-Kazakhstan*, 18 September 2002.
[692] *Interfax-Kazakhstan*, 18 April 2003.
[693] *Interfax-Kazakhstan*, 31 October 2003.

The government was also very keen to show that its new policies were yielding desirable results. In mid-April 2003, it was reported that the number of checks on economic entities by controlling bodies in the first quarter fell by 40 per cent compared with the same period in 2002, and that various measures were taken against 467 officials who were accused of needlessly interfering in business activities.[694] The next targets were the private banks, which were criticized for charging high interest rates on loans (20–22 per cent) when inflation stood at 6 per cent; Nazarbayev went so far as to call it a ‘conspiracy’. Moreover, he threatened banks with detailed inspections to check their tax payments, which in his opinion were nothing short of ‘ridiculous’.[695]

Leading on, further proposals for reinvigorating private businesses were presented in late 2003, when Nazarbayev condemned the robust system of technical regulations, rules, and differing standards in the sphere of manufacturing and trade, which in his view had became ‘a gold mine’ for bribe takers. What was needed, he suggested, was a specific constitution for business and trade.[696] Moreover, the Kazakh president disapproved of the number of registration procedures, which had became unacceptably unwieldy; in his own words: ‘Ministries and governors have virtually started establishing prices for their services and for the services of their state-run enterprises. The antimonopoly committee used to establish prices for these services before’.[697] In effect, Prime Minister Daiyal Akhmetov was publicly told by the president to reduce the number of licenses and permits required to run businesses.[698]

The bosses of the small- and medium-sized businesses were also strongly encouraged by the regime to actively participate in resolving the private sector’s problems in the future. In Nazarbayev’s view, the Chamber of Trade and Industry (CTI) needed to become a connecting link between government and business. Nazarbayev, who was himself impressed by the CTI’s activities in Austria and Germany, spoke about the urgent necessity to adopt appropriate laws that would provide the chamber with much-needed authority.[699] The calls for rapprochement between businesses and authorities were

[694] *Interfax-Kazakhstan*, 16 April 2003.
[695] *Interfax-Kazakhstan*, 31 October 2003.
[696] Ibid.
[697] *Khabar Television*, 31 October 2003, *Source*: BBC Monitoring Service, 31 October 2003.
[698] *Interfax-Kazakhstan*, 31 October 2003.
[699] *Interfax-Kazakhstan*, 31 Octber 2003.

again repeated in 2004 and 2005 by Akhmetov, as well as by Nazarbayev, in whose opinion the co-operation between the two parties should not be treated with suspicion. After all, this was how business was being conducted in any developed state,[700] he argued. Moreover, in 2004 Nazarbayev proposed to reorganize the Council of Entrepreneurs into the Council of Business Circles of Kazakhstan, and assigned it authority over the consultative and advisory body.[701]

The impact of the government's initiatives on the day-to-day business activities of Kazakh entrepreneurs was mixed at best. In Atyrau in late 2004 (as shown in chapter 5, section 3.1), the problems that the authorities had pledged to address since 2003 were still very much in place, and the effect of the reforms was nowhere to be seen. The situation was somewhat different in Almaty, where some interviewees admitted that visits from the tax police had become rarer in the last year or so, and that the various investment funds established by the state were a providing a chance for developing their businesses in the future.[702] The discrepancy between Atyrau and Almaty has most likely to do with the fact that the bureaucrats in the centre, out of fear that action would be taken against them, were more inclined to implement at least some of the government's policies. Authorities in the remote regions however, took a rather relaxed approach to the directives coming out of Astana. At the same time, most of the interviewees in Almaty, Atyrau and Astana were equally sceptical about joining any private or state-created associations, which they considered as yet another mechanism of control.[703] As Raimbek Batalov, the chairman of the eleventh forum of Kazakh businessmen noted, 'some laws that have been adopted recently which are really vital for the economy in fact play into hands of bureaucrats'.[704]

Although the economic reforms that Nazarbayev and his inner circle had tried to initiate in 2003 failed to make any headway, and despite the fact that knowledge of the Kazakhgate scandal[705] was growing, oppositional parties failed to make use of these

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700 *Interfax-Kazakhstan*, 4 May 2004; *Interfax-Kazakhstan*, 5 September 2005.
701 Dosym Satpayev, 'The political elite is preparing for presidential elections,' *Petroleum Magazine*, October 2005.
702 Interview with a marketing manager of a company that specializes in supplying equipment to the oil and gas industry: Almaty 28 September 2004; Interview with a marketing director of a company that specializes in supplying equipment to the oil and gas industry: Almaty 24 September 2004; Interview with local sub-contractor: Almaty 29 October 2004.
703 Interviews: Kazakhstan Fall 2004.
704 *Quoted* in: http://www.continent.kz/eng/2003/21/2e.html (Accessed 22 August 2006).
705 Interview with a top adviser to the major oppositional party: Almaty 29 November 2004.

issues in the run-up to the 19 September 2004 parliamentary elections. Instead of focusing on Kazakhgate *per se*, Ak Zhol and DCK spoke about the widespread corruption in the country in general terms. A few months later, Kazhegeldin, in an interview for *Respublika*, criticized the opposition openly for their rather ‘timid’ attitude towards Kazakhgate.[706] Moreover, Ak Zhol departed from its strictly pro-business line one month before the elections and focused on the growing inequality in the Kazakh society, which they proposed to address in a truly populist fashion. Ak Zhol’s leaders stated that if they were to win the elections and form a new government, they would start from 2005 onwards ‘transferring into each citizen’s bank account three quarters of the revenue it earns from taxes on the extraction of mineral resources’.[707]

The fact that neither of the parties spoke more openly about Kazakhgate derived from a miscalculation on the part of the oppositional forces that the scandal sooner or later would catch up with Nazarbayev anyway.[708] As Piotr Svoik from DCK expressed it, somewhat inappropriately, for Nazarbayev, Kazakhgate ‘is like AIDS: it doesn’t kill you right away, but you can’t live with it’.[709] The fact that Ak Zhol’s leaders chose to abandon their key constituency, namely the business lobby, and tried to appeal to a wider audience was primarily motivated by the necessity to widen the party’s political base. After all, small- and mid-sized business votes alone would hardly put Ak Zhol in power, even if the elections happened to be free and fair – which they were not.[710] Yet, one cannot completely rule out the possibility that Ak Zhol’s leaders could not rely on business support prior to 2003. Whereas the government’s actions failed to yield desirable results, the small- and medium-sized businesses were now being wooed by other pro-presidential forces such as the Democratic Party of Kazakhstan (DPK)[711] and

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[706] http://kazhegeldin.addr.com/2004en/engl_27_12_04.html (Accessed 6 December 2006).
[707] *Quoted in*: AP Worldstream, 19 August 2004; *see also*: http://www.continent.kz/eng/2004/19/2e.htm (Accessed 25 August 2006).
[708] This despite the fact that Kazakhgate was widely seen as an issue that offered the opposition their best chance of wrestling parliamentary control from pro-Nazarbayev forces. *See for example*: Ibragim Alibekov, ‘Kazakgate fires up Kazakhstan’s election campaign.’ *EurasiaNet* 20 May 2004. http://www.eurasianet.org/departments/insight/articles/eav052004.shtml (Accessed 10 July 2004).
[709] Quoted in: *Wall Street Journal*, 16 September 2004.
[710] ‘PARLIAMENTARY ELECTIONS, 19 September and 3 October 2004.’ http://www.osce.org/documents/odihr/2004/12/3990_en.pdf (Accessed 29 January 2005);
[711] On the eve of the elections DPK chairman, Maksut Narikbayev argued that: ‘the government and the former parliament had not paid enough attention to developing small- and medium-size business (…) numerous regulatory acts and inspections from the state agencies were preventing the development of small

most importantly the Asar Party (All Together),[712] which was headed by the Kazakh president's daughter Dariga Nazarbayev (chapter 2, section 4.1). As a result, the so-called centre ground became very crowded.

To sum up, the efforts on the part of Kazakh top officials to appeal to small- and medium- sized businesses was motivated by their concern about the potential impact that Kazakhgate might have. In September 2004, it turned out that regardless of the poor implementation of the regime's policies, the opposition not only not used Kazakhgate, but also turned away from businesses and looked for a new source of support within the electorate. Thus it was a win–win situation for Nazarbayev's regime.

In the next section, it will be shown that despite the relatively comfortable situation the regime found itself in, it did not cease in its efforts to co-opt Kazakh businessmen. We argue in this chapter that what seemed to be a short-term rapprochement with Kazakhstan's growing middle class was in fact a part of a bigger strategy which as aimed at moving from patrimonial-based relationships towards quasi-formal ones in order to guarantee long-term stability for the regime.

1.3. Enduring change or mirage?

In the months following the 2004 elections, Nazarbayev's regime did not cease in its efforts to appeal to Kazakh businessmen, but rather tried in ever more assertive fashion to portray itself as their defender. Yet, some of those early steps were heavy on populist rhetoric and thin on substance. For instance, in November during the joint session of the Majlis and Senate, Nazarbayev stated that 80 per cent of the Kazakh economy was controlled by ten 'mega-holding companies', which by definition stifled competitiveness. Since they brought about a negative effect on the development of a wide range of businesses in the country, Nazarbayev suggested that the secondary functions of major

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and medium-sized business.' *Kazakh Television first channel*, 20 August 2004, *Source*: BBC Monitoring Service, 20 August 2004.

[712] Altynbek Sarsenbayev, the co-chairman of the Ak Zhol party and former media minister and envoy to Russia, argued before the 2004 elections that the main reason for creating Asar was to draw away potential Ak Zhol voters and to facilitate a further split within the Kazakh elite. *Respublika Assandi Times*, 5 March 2004, *Source*: BBC Monitoring Service, 22 March 2004.

industrial holdings should be transferred to small- and medium-sized businesses.[713] In other words, he advocated demonopolization. A few days after Nazarbayev's speech, his advisor Yermukhamet Yertysbayev, in his own speech, made the same point in a much more forcible manner: 'Oligarchs hate competition and they represent the main obstacle in developing small and medium-sized businesses'.[714] The condemnation of the owners of the industrial holdings was widely seen by local observers as little more than an attack on the opposition.[715] Ak Zhol, which had failed to make any political gains during the elections campaign,[716] was being further undercut by a series of personal attacks.

Yet, Nazarbayev's and Yertysbayev's addresses showed that small- and medium-sized businesses were still very much on the agenda and it was intended that they should become one of the corner-stones of the Kazakh regime in the future. This point was fully pronounced by Nazarbayev in 2005 during a joint parliament session:

> The success of our economic and, particularly political programs depends on strengthening a layer of [private] owners, and I tell you about this all the time. They represent the middle class that is currently being formed. This is precisely what states with developed democracy have and this is precisely why those states are stable irrespective of replacement of the elite. This is why I always deal with the development of small and medium businesses in the country and support them. We have done a lot together but this is only the start.[717]

Subsequently, the Kazakh government, in line with Nazarbayev's recommendations, began drafting and implementing a number of laws, the main aim of which was the protection of small and medium-sized business. Firstly, the government began drafting a law that would lower to a minimum the number of reports that needed to be filed by small- and medium-sized business.[718] Secondly, Nazarbayev signed a decree on strengthening measures to fight corruption and improve discipline within government agencies. At the time of the implementation of the decree, the government also spoke about the need for greater transparency in procurement, the reduction of government

[713] *Interfax-Kazakhstan*, 3 November 2004.
[714] *Khabar Television*, 7 November 2004, *Source*: BBC Monitoring Service, 7 November 2004.
[715] Interviews: Kazakhstan Fall 2004.
[716] The final elections results were: Otan (42), Ak Zhol (1), Asar (4), Agrarian and Industrial Union of Workers Block (11), Democratic Party (1). *Source*: http://www.kazelection2004.org/theresults.htm
[717] *Kazakh Television first channel*, 1 September 2005, Source: BBC Monitoring Service, 1 September 2005.
[718] *Interfax-Kazakhstan*, 17 November 2004.

interference in business activities, and the introduction of trial by jury.[719] Thirdly, the government drafted laws on issuing all types of licenses and permissions which were accompanied by the creation of the Fund for Developing Small and Medium-Sized Businesses, which assumed the functions of a financial supermarket to provide private businesses with a full range of services (the initial budget of the fund was 22.7 million dollars).[720] Fourthly, Nazarbayev stated that state bodies should serve businesses and not vice versa, and that the development of businesses must be one of the important criteria for assessing state bodies' activities, particularly those of local state bodies.[721] Fifthly, the Kazakh regime took the lead in establishing a business body that would serve as a forum for dialogue between the state and the country's entrepreneurs.

In March 2005, with active approval from the presidential administration, a group of businessmen created Atameken, the Nationwide Union of businessmen and employers of Kazakhstan.[722] The executive director of the union, Serik Akhmetov, had previously served as head of the state inspection department in the presidential administration.[723] Shortly after the Atameken creation, it emerged that one of the main functions of the union was to bring under its umbrella various Kazakh business associations – around 200 in total[724] (for a list of major associations and unions in Kazakhstan, see Appendix 7). The promised reward for joining the union was the acquisition of favourable treatment from the authorities. Nazarbayev set an example of this during his visits in 2005 to the Pavlodar and Zhambly regions, where he met with representatives of the regional branches of Atameken, who were described as the representatives of local business community.[725] As a result, as many as eleven major business associations entered the union two months after its formation.[726] The bosses of the union invested much time in crafting policies that would demonstrate to its potential members that they were not merely followers of the government's line, while stressing that the union was a body that

[719] *RFE/RL Newsline*, 9 (72), Part I, 18 April 2005.
[720] *Kazakh Khabar TV*, 26 April 05, *Source*: BBC Monitoring Service, 26 April 2005.
[721] *Interfax-Kazakhstan*, 28 October 2005.
[722] Marat Yermukanov, 'NAZARBAYEV LINES UP HIS MEN AHEAD OF ELECTION CAMPAIGN.' *Eurasia Daily Monitor*, 2 (150), 2 August 2005.
[723] *Kazinform*, 1 April 2004.
[724] *Source*: http://www.kazpravda.kz/print.php?chapter=1140523171.
[725] *Interfax-Kazakhstan*, 25 May 2005; *Interfax-Kazakhstan*, 9 August 2005.
[726] *Kazachstan Today*, 6 June 2005.

would make constructive comments for the long-term development of the Kazakh economy. One of Atameken's early initiatives was that of coming out in favour of introducing elected judges in the republic.[727]

The main motivation behind the creation of Atameken, however, was a desire on the part of the regime to establish a sort of quasi-institutionalized control over the country's entrepreneurs. The Kazakh government, which since 2004 had put forward a number of proposals that aimed at reassuring businessmen that the state was on their side, now demanded their co-operation. It should be said here that such an approach towards business was not entirely new in Kazakhstan, and had been already tried in the oil industry at the beginning of the 2000s.

In chapter 3 (section 1.2), we discussed some of the major Kazakh subcontracting companies, which Nazarbayev's regime in the late 1990s brought under its control by giving them preferential treatment in winning tenders set up by the NOC KazakhOil. It was argued that the regime established control over those major subcontracting companies because they were in the hands of ex-nomenklatura, whose political support Nazarbayev had preventively maintained throughout the 1990s. In the 1990s there was little, if any real danger that those subcontracting companies would break away from their dependent relationship with the regime. In order to become independent, they would have to have find alternative sources of contracts. Through the 1990s, in Kazakhstan there was only one such alternative, namely the foreign oil companies. However, there was little chance for co-operation between these oil companies and local sub-contractors, since none of the companies had the ISO certificates that would act as a pass for working with foreign oil companies.

At the beginning of the second decade of independence, the situation began to change considerably. First of all, all major sub-companies acquired ISO certificates,[728] as well as number of other Western standards. Secondly, due to contracts with NOC and other, less important contracts, mainly with their Uzbek, Turkmen and Kyrgyz counterparts, companies gained considerable financial strength, which in turn allowed

[727] *Interfax-Kazakhstan*, 11 May 2005.
[728] By 2005 in Kazakhstan, over 250 companies had implemented the ISO 9000 management quality system. 'Kazakhstan's companies implement ISO 9000' http://www.infomrm/kz, 3 March 2005.

them to raise their technological standards.[729] The local content program (chapter 5, section 2.1), which aims at promoting local companies, was the final piece of a puzzle that opened the doors to co-operation between foreign oil companies and these subcontractors.

Whereas the regime did not block the development of co-operation between international oil companies and the major local subcontractors, it also did not actively support it.[730] Obstructing the co-operation could lead to open friction between the regime and major local construction and engineering companies, and hence potentially become a source of problems for the regime. Thus, rather than interfering in the developing relationships, the regime created a new structure through which it could monitor the relationship between the two parties. In 2001, the 'Engineering Companies Union of the Republic of Kazakhstan' was created. A key function of this Union has been to help Western companies that want to bring their investments and technology to Kazakhstan to adjust to Kazakh (meaning old Soviet) standards. The idea is that the process of adjusting to Kazakh standards will encourage co-operation between Western companies and major local sub-contractors that are part of the Union. Co-operation with the Union is compulsory for Western engineering companies, since they are also obliged to pay for the Union's services. Major Almaty companies too, on their part, pay an annual fee for the privilege of being part of the Union.[731]

From the outside, the Union looks like a rent-seeking body which aims at the indirect taxation of Western and local companies working in the oil and gas sector, and without doubt this is partly its role. However, it is important to recognize that besides collecting money from the companies, the Union also closely co-operates with the Ministry of Oil and Gas, which reviews the process of adjusting foreign companies to Kazakh standards based on the reports sent to it by the Union.[732] The Ministry closely monitors those procedures, and in some instances even helps in negotiations between

[729] 'The Renaissance of Domestic Oil and Gas Automation,' *Petroleum Magazine*, November 2001; Olga Steblova, 'The sector is alive,' *Gazeta.kz*, 19 January 2006.
[730] Interviews with number of major engineering and construction companies: Almaty, Fall 2004.
[731] Interview with director of the Engineering Companies Union of the Republic of Kazakhstan: Almaty 13 October 2004.
[732] Ibid.

Kazakh and international companies.[733] While none of the major engineering or construction companies that I interviewed said that membership in the Engineering Companies Union was compulsory, all them are part of the organization. Moreover, interviewees admitted that their companies did not benefit in anyway from being part of it. When asked why they did not revoke their memberships, that answer was 'it would not be an appropriate thing to do'.[734]

Significantly, the President of the Engineering Companies Union is Kadry Karkabatovich Baikenov. At the beginning of the 1990s, Baikenov was the Minister of Energy and Fuel Resources, and as Deputy Prime Minister he was officially responsible for negotiations with Western investors.[735] In late 2004, besides being president of the Union, Baikenov was also chairman in the Board of Confederation of Employers of Kazakhstan, as well as president of the Investconsulting Company. It is argued here, that the fact that Baikenov is head of the Union is not accidental – it indicates that the Union's real function goes well beyond promoting Kazakhstan's major companies, and it actually aims at monitoring their activities. One interviewee who closely observes the developments in Kazakh business stated that the Engineering Companies Union is a prototype of a business association (about which Nazarbayev has talked for some time but has been slow at implementing).[736]

The organisation, which assembles together a particular group of companies and is headed by the ex-high ranking official, bears resemblances to the business associations that have been emerging in recent decades in China (chapter 1, section 5). Margaret Pearson (1997) has argued that the ruling regime in the post-Mao China, in order to control the activities of the business community, which has gained a relative level of the autonomy from the state, set up associations that are controlled by retired officials from relevant ministries in order to monitor them. Moreover, in Kazakhstan as in the Chinese case, companies that are particularly scrutinised by the regime are those that work with foreign, outside companies.

[733] Interview with ex-general director of a major foreign oil company in Kazakhstan: Almaty 27 October 2004.
[734] Interviews with number of major engineering and construction companies: Almaty, Fall 2004.
[735] *Oil Daily*, 15 April 1992; In 1994 Ravil Cherdabayev took over from Baikenov as the Minister of Energy (see chapter 2, section 2.1).
[736] Interview with person close to Kazakh business community: Almaty 14 September 2004.

The actions on the part of the regime described in the above section are early attempts at bringing Kazakh businesses under the regime's control through the use of quasi-formal mechanisms. In order to achieve its aim, the regime uses the 'stick and carrot' approach, with the stick outweighing the carrot. If quasi-formal institutions such as Atameken and the Engineering Companies Union were to develop into more equal partnerships, the regime would have to give up some of its powers, which is unlikely to happen. Hence what is expected to happen in the long run – given that the regime is committed to staying on its current course – is the growing coercion of different economic groupings into various quasi-formal institutions that will be controlled through regime-appointed intermediaries.

This scenario is most likely to unfold in the oil business, where the ever growing group of entrepreneurs working directly or indirectly in the oil sector will become Nazarbayev's greatest asset, but also a source of major problems. Another important instrument of control of the oil business – at least in the oil-rich areas – will be the developing alliance between the regime and foreign oil companies, which despite all the odds, is likely to endure for a considerable length of time. We will discuss this issue in following sections.

2. Kazakhstan versus foreign oil companies

In chapters 4 and 5, it was argued that in the years 1998—2001, the tacit alliances between the Kazakh regime and foreign oil companies allowed the regime firstly to defuse crises in the Atyrau region, and secondly to co-opt and control various local interest groups. The partnership was viewed by both parties as beneficial, since the concessions they had to make in order to bring relative stability to the oil-rich regions were rather minor. In other words, the gains outweighed the costs. The collaboration between the companies and the regime, however, became somewhat questionable after 2002. This happened when the Kazakh regime decided to enter into a number of disputes with foreign oil companies aimed at renegotiating some parts of the contracts that were signed in the 1990s.

In the following section, we will argue that while some of the actions of the Kazakh regime challenged the status quo, they did not, however, affect the existing cooperation between the regime and the companies in the Atyrau region *per se*. We base this claim on the fact that while the companies and the regime had their differences, the issues on which both parties collaborated in the oil-rich regions – such as the social sphere, local labour and local content policy – did not enter into the realm of discussion. In our view, this is the case because the Kazakh ruling regime is relatively satisfied – at least as far as the Atyrau region goes – with the arrangements that it reached with foreign oil companies in the late 1990s. After all, at least in the public's perception the companies had appeared to bow to the regime's pressure as it painted itself as the defender of local people. The foreign oil companies, as much as they were dissatisfied with the regime's actions, had little interest in undermining the existing tacit alliance, since it guaranteed stability in the key oil-rich areas.

In order to demonstrate this point, we will refer to the debates that took place in the globalisation literature in the 1990s in the following sub-section. Also, we will discuss the Kyzylorda region, where the Kazakh regime set out to outmanoeuvre PetroKazakhstan from Kazakhstan all together. The social component, local labour and the environment were the issues that the local notables used actively to mobilise the local population against PetroKazakhstan.

Moreover, in this section we argue that the relationship in the oil-rich areas between the regime and foreign oil companies is heavily dependent on the origins of the foreign oil companies involved. While most western companies, which have a great deal of experience in operating in oil-rich countries, know when one has to give into the host country's demands regarding local labour or local content, the Chinese oil companies – which have only recently entered the global arena – are much more aggressive in their actions. Consequently, they do not pay sufficient attention to upholding the delicate balance in the oil-rich areas in which they operate. This in turn can create substantial problems for the ruling regime, especially in the south of Kazakhstan.

2.1. Tengiz

Since 1998/9 onwards, Kazakh top officials, above all Balgymbayev and Tasmagambetov, made a number of statements to communicate to foreign investors and the Kazakh people that although the country's oil industry was now in foreign hands, the Kazakh state was still the 'boss' (chapters 2, 4 and 5). While on a few occasions this tough-talking was followed by actions, these were not intended at changing the rules of the game between the Kazakh state and foreign oil companies that had been established in the years 1992–1998. A telling example was the case of the local content policy (chapter 5). The fact that both of those ultra-patriotic ex-Prime Ministers were actively involved in working out common positions with foreign oil companies on such issues as the social sphere or the involvement of local labour meant that in real terms their rhetoric – most of the time – amounted to little more than hot air (chapter 4). The situation began to change only in late 2001 when Nazarbayev, during the session of the Kazakhstan's Foreign Investors Council, explicitly stated that 'the balance between the interests of the state and business' should be observed.[737] What set Nazarbayev's statement apart from the previous ones was the fact that the president himself, and not just one of his loyal henchmen, was speaking about establishing a new order. Secondly, the environment had become transformed due to rapidly changing oil prices on the international market. In 2000, oil prices jumped from 10 to 30 US dollars per barrel, naturally giving Kazakh officials a kind of leverage that they previously did not have[738]. It should be added that in the following years, the oil prices have continued on this upwards trend, breaking through the 'magic' threshold of 50 dollars per barrel in 2005.

Initially, Nazarbayev's main concern was the privileges that foreign oil companies had been granted earlier, primarily the reduction– over a period of 10 years – of VAT and social taxes from 20 per cent to 16 per cent, and from 26 per cent to 21 per

[737] *Interfax-Kazakhstan*, 15 December 2001.

[738] In April 2001, TengizChevrOil released the results of additional research on the Tengiz field, which said that the field's total reserves are about 2.7bn tonnes of oil, while only three years earlier the JV had claimed that the field's oil reserves were estimated at 1.2bn tonnes. The figure of 2.7bn tonnes of oil allowed Tengiz to be considered one the world's major land fields, and this inevitably strengthened the Kazakh position even further.

cent, respectively.[739] These low taxes were designed to attract foreign oil companies to Kazakhstan at a time when the prices of oil were hovering at around 9 to 15 dollars a barrel – that is, when oil extraction seemed hardly profitable from the companies' point of view. As the price of oil grew, the Kazakh government wanted oil companies to increase their royalties and relevant taxes to match their greater profits.[740] While many foreign companies, under growing pressure from the authorities,[741] quietly renegotiated their contracts and returned some of their more generous incentives, it quickly became apparent that the tax issue was a prelude to a longer struggle rather than being an end in itself.[742] As one of the specialists from the Cambridge Association of Energy Research put it: 'There is a feeling that Kazakhstan is pushing and pressuring foreign investors in order to let them know how much pressure they can put on them'.[743]

Firstly, KazTransOil, which had monopoly control over oil exports and was headed by Kulibayev in October 2001, increased its pipeline tariffs by 50 per cent.[744] Secondly, in the companies' opinion, the new draft of the investment law compromised the so-called 'contract stability'. The sticking points were the international arbitration bodies to which investors could take their disputes with the Kazakh government if they chose to do so under the previous law, which dated back to 1994. According to the new

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[739] *Interfax-Kazakhstan*, 15 December 2001.

[740] It was argued at that time that one of the main reasons behind Nazarbayev's decision to open the issue of taxes and other incentives – from which foreign investors allegedly earned almost as much as from their basic activities – was political pressure from the oppositional group DCK, for which the issue of inadequate tax payments by foreign investors became central to its political platform. Hence, the argument goes that Nazarbayev was pushed by his political opponents into opening the thus far closed issue of oil contracts, rather than willingly entering the dispute with the companies that he himself had attracted to Kazakhstan only few years earlier. *Sources*: Dosym Satpayev, 'Will the New Government Introduce the New Rules of Game?' *Petroleum Magazine*, February 2002; Erbergen Salykov, 'Government RK protects the petroleum magnates from the Kazakh nation,' *Zonakz.net*, 24 November 2003; Sabrina Tavernise and Christopher Pala, 'Energy-rich Kazakhstan is suffering growing pains,' *The New York Times*, 4 January 2003.

[741] For instance, in addition to Nazarbayev's demands, the Almaty Tax Committee accused foreign oil companies of 'tax-dodging'. Officials argued that a significant amount of Kazakh oil was supplied to false firms registered in the Caribbean islands. These firms then resold the oil to real customers at higher prices. Such machinations yielded large profits, since duty was not imposed on trade operation under Caribbean laws. *Source*: BBC Monitoring Service 10 April 2002; see also S. Smirnov, 'Kazakhstan's Oil Mirage.' *Oil and Gas Vertical*, no. 11, 2000.

[742] Michael Lelyveld. 'Bitter feelings failed $3bn Kazakh oil deal'. *Asia Times*, 23 November 2002; For details, see 'Kazakhstan Oil and Gas Tax Guide.' *Ernst&Young Tax Services*, 2002 Edition.

[743] Alexander Zakharov. 'Authorities pressure foreign investors.' *Alexandre's Gas and Oil Connections*, 16 December 2002.

[744] Andrew Apostolou, 'Kazakhstan's New Oil Policy Places New Burdens on Foreign Firms,' *EuroasiaNet*, 2 December 2001. http://www.eurasianet.org/departments/business/articles/eav021201.shtml (Accessed 30 June 2003).

draft, the disputes could be transferred outside the country's courts only with the consent of 'the state body'.[745] Thirdly, and most importantly, there was a disagreement between the Kazakh government – represented in the dispute by KazMunaiGas – and ChevronTexaco over funding the expansion of TengizChevrOil's activities.[746] ChevronTexaco insisted that the project be funded from oil revenues, as stipulated in the original contract (Peck 2004: 158), while Kazakh officials insisted that the company should rather borrow money from financial institutions. This, in turn, would allow Kazakhstan to preserve its share of the revenues – as much as $200 million.[747] In addition, local officials in Atyrau accused the consortium of violations in storing sulphur – a by-product of the oil production[748] – and threatened the TCO with a fine of up to $70 million, clearly in order to exercise further pressure on the company. We will return to this case later in this section.

The standoff between ChevronTexaco and Kazakhstan led to the temporary suspension of a $3 billion venture in November 2002, which took oil industry insiders and commentators by surprise.[749] The quarrel between the two, despite efforts on the Kazakh side to end the dispute as soon as possible,[750] lasted until late January 2003. While the details of the horse-trading behind the scenes are unknown, it seems that the Kazakh government emerged as the winner. The TengizChevrOil agreed to pay $810 million in additional tax payments through 2005, and also consented to helping KazMunaiGas in financing its 20 per cent share of expansion costs.[751] Moreover, ChevronTexaco's representatives revoked their statements about a worsening investment environment in Kazakhstan and proclaimed that the agreement was 'a positive statement

[745] Michael Lelyveld, 'International Compromise Sought on Investment Law,' 18 November 2002, http://www.rferl.org/features/2002/11/18112002161501.asp

[746] TengizChevrOil second generation and sour gas injection projects (SGP/SGI) were designed to raise Tengiz output from 260,000 to 480,000 oil barrels per day by 2005. *Source*: Dmitoriy Solovyev, 'TengizChevrOil announces its expansion in Kazakhstan,' *Vremia Po*, 26 June 2001.

[747] (*Quoted in*) *FT.com site*, 4 December 2002.

[748] The TCO alleged that sulphur was a product and stacked the substance in blocks near the Tengiz oilfields since 1993. Local officials argued, though, that sulphur constituted waste and therefore required permission for storage.

[749] Michael Lelyveld, 'Huge Oil Venture Abruptly Suspends Expansion,' http://www.rferl.org/features/2002/11/18112002161501.asp, 18 November 2002.

[750] Michael Lelyveld, 'Oil Project Remains Murky,' Murky.'http://www.rferl.org/features/2002/12/11122002184031.asp, 11 December 2002.

[751] *Interfax-Kazakhstan*, 30 January 2003.

about Kazakh investment climate'.[752] In many ways, the Tengiz affair looked like a classic example of power shift in the relationships between TNCs and the host country, as described by globalisation theorists.

These theorists allege that developing countries, in order to attract FDI, are willing to make far-reaching provisions to outside firms. In other words, TNCs can initially extract maximum concessions from the economies in which they are considering investing (Tarzi 1995: 154; Lairson and Skidmore 1997: 317). For the most radical theorists – notably those working within the dependency school – the moment of entering into a long-term contracts is, so to speak, the beginning of the end for the host country (Sklar 1979: 531), since from that point on the TNCs will do everything to stop the state from achieving genuine autonomous development. Thus the TNCs, for example

> prevent local firms and entrepreneurs from participating in the most dynamic sector of the economy; they appropriate local capital rather than bringing in a new capital from the outside; they increase income inequalities in the host country, and they use inappropriate capital-intensive technologies that contribute to unemployment. (Cohn 2000: 287)

Yet other studies suggest that the positions of the host states do not indefinitely have to be as gloomy as dependency theorists seem to suggest. They argue that while in early stages of investment the host states are indeed in a much weaker position, 'once the investment is actually in place, bargaining power shifts towards the host economy' (Gilpin 2000: 147). This is most likely to happen when FDI is concentrated in resource extraction, as the case of the OPEC countries demonstrates (Balaam and Veseth 2001: 371; Noreng 2002: 54; Hinnebusch 2003: 38). Thus, once the investment has been 'sunk' and the project becomes profitable, 'foreign firms may be exposed to the threat of nationalization, or more likely, the renegotiation of the original terms of the investments' (Tarzi 1995: 159).

Having said all of that, this model has a one major drawback, as 'it ignores the constraints posed by the host country's domestic politics [which] may hinder host countries in their efforts to exploit the bargaining advantages once gained from the

[752] (*Quoted in*) *Financial Post*, 28 January 2003.

relative demand for its resources' (1995: 159). The biggest problem is the political elite, which often lacks the political will to do so, because companies use their considerable resources to win favours through bribery and corruption. For instance in the Middle East, despite nationalistic pressure from beneath and expanding bargaining powers, the vast majority of local elites continued to accept that the activities of the companies should be tolerated unchanged, at least until the end of the 1960s (Turner 1978: 89). We argue that a similar situation developed in Kazakhstan.

Thus, while the model cited above – as put forward by moderate globalisation theorists – is a good explanation of the debate between the Kazakh government and the foreign oil companies, it does not present us with the full political outcome. Instead, it focuses solely on: a) the conflict between two parties; and b) host governments' gains, but omits the fact that despite all the tensions between the foreign companies and Kazakhstan, at least some of the groups within the regime structure were interested in upholding friendly relationships with the foreign companies – including full co-operation in the oil-rich regions.

To begin with, the drive to strengthen investment laws in favour of Kazakhstan was strongly contested at the apex of power. For instance, Foreign Minister Kasymzhomart Tokayev was against the revision of contracts with foreign investors, arguing that if the Kazakh side had any claims against foreign companies, it could use mechanisms such as conducting consultations and negotiations with the companies. He also pointed out that foreign investment companies had not refused to hold talks with the government on amending contracts previously;[753] hence there was no need for the radical changes that some parliamentarians proposed.[754] Nazarbayev, on his part, told the parliament that Kazakhstan would not revise existing oil-production-sharing contracts with foreign investors, but would change its tax policy on new oil projects.[755] Moreover, just a few months before the Kazakhstan–Chevron dispute reached its breaking point, the head of the Kazakh state awarded the ChevronTexaco chairman David O'Reilly with a

[753] *Interfax-Kazakhstan*, 24 June 2002.

[754] The new law of Kazakhstan 'On Investments' was finally adopted on 8 January 2003. While the new investment law was not welcomed by the foreign oil companies with fanfare, it gave them what they wanted, however, since the law did not provide for retroactively altering relations based on existing agreements. *Source*: *Interfax-Kazakhstan*, 2 November 2003; *For details see*: 'Definition of investments in subsoil use Contracts,' *Petroleum Magazine*, December 2004.

[755] *Interfax-Kazakhstan*, 2 September 2003.

high government award, the Order of Kurmet, for 'great contributions to developing Kazakhstan's economy'. He held talks with members of the board of directors of ChevronTexaco, telling them in person about the possibilities of conducting continued business in Kazakhstan.[756] However, the most telling example of the good relationships between the Kazakh elite and foreign companies – in the midst of the heated atmosphere – was the conclusion of the environmental debate initiated by an Atyrau court.

The case concerning sulphur storage was primarily aimed at ChevronTexaco, which Kazakh officials tried to pressure into giving in to their demands. The Kazakh authorities chose also to concentrate on this particular problem in order to get the local population, which for a long time had suspected the consortium of polluting the environment, on the regime's side.[757] Hence, Nazarbayev's regime yet again became the defender of Atyrau's interests and tried to capitalise on them. For instance, Energy Minister Vladimir Shkolnik, when speaking at the Caspian Ecology 2003 international environmental conference, said that the tightening of environmental rules for the companies working in the Caspian Sea area was one of the key topics on which Kazakh government would be focusing.[758] In addition, the environment was used as a platform for co-opting various regional groups. For instance in early 2003, the local branches of the pro-presidential as well as oppositional parties formed an association which submitted a number of appeals against burying waste sulphur in the region.[759] Despite these anti-Chevron declarations and campaigns, the outcome was somewhat puzzling.

Chevron was indeed fined, but not for illegal sulphur storage. Rather, it was fined for excessive wastewater discharges and other discharges into the atmosphere, and was ordered to pay barely more than one million US dollars in fines, instead of $70 million as previously assumed.[760] Moreover, in the spirit of previous agreements between Kazakhstan and the companies – as discussed in chapter 4 – in 2002 Chevron initiated a long-term umbrella program called 'We Share the Planet Earth: '[t]he program includes

[756] *Interfax-Kazakhstan*, 15 April 2002. One should add that in 2002, US exports to Kazakhstan exceeded $600 million. The large total for U.S. exports mostly consisted of Boeing aircraft and satellite defense equipment. *Source*: 'Doing Business in Kazakhstan,' http://www.buyusa.gov/kazakhstan/en/doing_business_kazakhstan.html
[757] Interviews: Atyrau 2004.
[758] *Interfax-Kazakhstan*, 11 November 2003.
[759] *Interfax-Kazakhstan*, 19 February 2003.
[760] *Interfax-Kazakhstan*, 17 November 2003.

developing and implementing a nationwide environmental curriculum in the primary and secondary schools, an annual ecology art contest, a nationwide contest of scientific-practical projects of high school students and volunteer environmental actions'.[761] Thus, Chevron was let off the hook by the Kazakh authorities after it made some minor concessions (see also Zhukov 2005: 395–396). Arguably, the status quo had been re-established.

The Chevron affair was a major turning point in the Kazakh regime and foreign oil companies' relationship. The regime, by pressing oil companies into giving in to its demands, crossed the boundaries that hitherto had been uncontested. As oil expert Richard Orange put it:

> Times have changed since the innocent early 1990s when the Caspian state doled out contracts to big international majors on terms that many locals now argue were far too generous. Now, with little chance of foreign investors walking away from some of the world's largest undeveloped oil fields, Kazakhstan, led by authoritarian president, Nursultan Nazarbayev, is throwing its weight around.[762]

At the same time, the mutual dependency between Chevron and the Kazakh officials and their common interests – especially in the oil-rich areas which are pivotal for both – meant that neither of the two had any interest in changing the existing situation. Thus, neither social issues, nor local labour, nor the local content policy entered into the realm of the discussion. Quite the opposite: once the debate was concluded, both parties happily returned to the pre-established patterns. This involved the regime's fiercely attacking the company and winning the support of the local people, while the company made a public show of eventually bowing to the regime's pressures and making a necessary but insubstantial contribution to the area. These points are substantiated further when we analyse the clash between foreign companies and Kazakhstan over a stake in the Kashagan oil field.

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[761] http://www.chevron.com/operations/docs/kazakhstan.pdf#search=%22Chevron%20Kazakhstan%20environment%22

[762] 'Oil companies face tough measures in Kazakhstan,' *Alexandre's Gas and Oil Connections*, 18 August 2004.

2.2. Kashagan

On 28 June 2002, after a two-year appraisal programme undertaken by the contracting companies of the North Caspian Sea Production Sharing Agreement[763] (now known as Agip-KOC), the Kashagan oil field was declared commercial. While the Kashagan field had been hailed as the greatest discovery of the last few decades – with preliminary estimates putting producible reserves at 7-9 billion barrels[764] – from the outset, it had all the trappings of an engineering nightmare.[765] It was estimated that the companies would have to invest $29 billion over the next 15 years in order to eventually bring the field's output up to 1.2m barrels per day.[766] Due to the technical difficulties and the need for massive investments in the future,[767] British Gas decided to sell an 8.33 per cent interest in the consortium to the Chinese company CNOOC North Caspian Sea, a subsidiary of CNOOC, for US$615m[768]. A few days later, the remaining 8.33 per cent were sold for another $615m to the Sincopec Group, China's number two oil producer.[769] This deal was openly embraced by Nazarbayev during a meeting with Chinese officials, who visited Astana to make a formal announcement. Simultaneously, the management of KazMuniGas announced that it was also contemplating the possible admittance of Chinese oil companies to major projects in Kazakhstan.[770]

The deal, however, did not go through: it was blocked by others members of the consortium, who chose to exercise their right to pre-empt the sale and to buy the BG share and divide it among themselves. The leading opponent of the Chinese involvement was Royal Dutch Shell, which in turn was threatened with the suspension of its projects

[763] Companies involved: Eni (16.67 per cent), ExxonMobil (16.67 percent), BG (16.67 per cent), Inpex (8.33 percent), Phillips (8.33 per cent), Shell (16.67 percent), and TotalFinaElf (16.67 per cent).
[764] Two years later Kashagan's reserves were estimated at 13bn barrels; *See also:* Alexander Constantinov and Rashid Dyusembaev, 'How much oil we do not know, but the strategy is ready,' *Vremia Po*, 10 August 2001
[765] David Buchan. 'Are the oil giants out of their depth?' *FT.com site*, 13 July 2001; *See also*: Ulbolsyn Kozhantaeva, 'The prospects of the gas sector,' *Delovaia Nedelia*, 8 March 2001.
[766] In late 2000, Kazakhstan produced 500,000-600,000 barrels a day. *Source*: Financial Times, 11 December 2000.
[767] Interview with a high-ranking specialist of a major foreign oil company: Almaty 6 October 2004; In addition, analysts argued that the company had become over-exposed to Kazakhstan, with its investments there at one point accounting for up to 30 per cent of its net asset value. *Source*: FT.com site, 11 March 2003.
[768] *Interfax-Kazakhstan*, 7 March 2003.
[769] Jeo Leahy. 'Sinopec buys into Caspian project.' *FT.com site*, 11 March 2003.
[770] 'China is not yet admitted to Kashagan.' *Oil and Gas of Kazakhstan* 3, 2003.

in China.[771] One interviewee, who has been working on the Kashagan project, stated that the reasons for blocking the Chinese bids were: a) the fact that Chinese companies had been seen as extremely difficult partners to work with and that none of the Western companies involved liked to have them on board; and b) that the Kashagan PSA was probably the most complicated oil deal ever concluded due to the number of companies involved, which made the running of the project extremely complicated. Hence: less partners, fewer problems.[772] Alternatively, and much more soundly, it was argued that the most important reasons for keeping Chinese companies away from the project were geopolitical concerns, and more specifically the possible routes of transportation of the Kashagan oil. While Western companies – especially US ones – favoured the BTC direction,[773] it was thought that the Chinese companies would push for a West Kazakhstan-West China pipeline.[774]

Leading on, it was because of the pipeline issue that the Kazakh government – which strongly supported the Chinese option – decided to step in and announce that it now wanted the Kashagan stake for itself.[775] This in turn sparked a battle of epic dimensions, since the foreign companies were not keen on having KazMunaiGas as a partner either. As one specialist pointed out at the time, 'the prospect of the Kazakh government as an equal partner in such an expensive and complex project is not an appealing one'.[776] Secondly, the Kazakh government stated that it would not pay the full $1.23 billion that had been agreed upon with the other partners in the project, which was not met with much sympathy by British Gas.[777] Thirdly and most importantly, the foreign oil companies could block the Kazakh bid and there was little that the Kazakh government could do about it. The problem was the lack of any legal grounds for the

[771] Lina Saigol. 'Battle lines drawn for Caspian oil.' *Financial Times*, 8 May 2003.
[772] Interview with a high-ranking specialist of a major foreign oil company: Almaty 6 October 2004; see also Christopher Pala. 'Kazakhstan Turns on Oil Majors.' *The Moscow Times*, 29 June 2004.
[773] 'Kashagan oil field can grow into legend.' *Alexandre's Gas and Oil Connections*. 2 April 2001; Ulbolsyn Kozhantaeva, 'On the oil crossroads,' *Delovaia Nedelia*, 18 May 2001.
[774] *Oil and Gas of Kazakhstan* 3, 2003; In May 2004, Kazakhstan and China signed an agreement to build an $840 million pipeline that would funnel up to 70 million tons per year from the Caspian Sea to China; *See also*: Bakhytzhan Mukushev, 'Kazakhstan's oil fate and directions its takes,' *Navigator*, 27 February 2001.
[775] Interview with the president of a major Kazakh newspaper: Astana 8 December 2004.
[776] 'Kazakhstan makes hostile bid to oil majors.' *Alexandre's Gas and Oil Connections*, 21 July 2004.
[777] *Neft Compass*, 8 July 2004.

Kazakh bid, since the Kashagan PSA did not give Kazakhstan's KazMunaiGas the same pre-emptive right to buy stakes as it did to the member of the consortium.[778]

In response to those problems, the Kazakh government cited an article in the constitution which declares that the subsoil is 'the exclusive property' of the state, and hence the asset first and foremost of the Republic of Kazakhstan. In the opinion of the Kazakh government, this gave them a pre-emptive right to buy the stake. Secondly, the Kazakh authorities began a hostile campaign against British Gas and other members of the consortium in order to pressure them into giving in to their demands. But at no time did they try to mobilize the local population in the oil-rich areas or the wider Kazakh society by referring to social issues or to the local content policy.

In June 2004, a Kazakh customs official impounded an oilrig that belonged to Parker Drilling Company, a US Agip KCO contractor, for the alleged non-payment of some US$6 million in customs duties, and also imposed a fine of $1.7 million for breaking customs regulations.[779] Also, in June, British Gas was accused by the Kazakh financial watchdog of helping to 'smuggle' up to $2.7 billion worth of gas condensate to Russia from the Karachagank field, in which BG had been involved since 1992.[780] The Kazakh Agency for Combating Economic and Corruption Crime stated that the damage inflicted on the state was to the tune of $5.4 million.[781] It is important to mention that these accusations against foreign oil companies arrived hot on the heels of another dispute concerning the Kashagan field, which was only resolved in February 2004. The Agip KCO, which initially had agreed to start commercial production in 2005, announced in late 2003 that the production would not start until 2007–2008. This in turn meant that the consortium would have to pay a fine, which Kazakh officials were quick to jack up to hundreds of millions of dollars.[782] While the dispute was somewhat separated from the

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[778] *Alexandre's Gas and Oil Connections*, 18 August 2004.

[779] Ibragim Alibekov. 'Kazakhstan asserts state interests in Kashagan oil field.' *EurasiaNet*, 7 September 2004.
http://www.eurasianet.org/departments/civilsociety/articles/eav070904.shtml (Accessed 9 September 2004).

[780] *Neft Compass*, 22 July 2004.

[781] *Interfax-Kazakhstan*, 19 May 2004.

[782] The exact payment made by the AGIP consortium has not been so far disclosed to the public. However, some speculated that Agip KOC offered to pay a bonus of $100 m as compensation for the delay. *Source*: 'Kazakhstan strikes deal with consortium on Kashagan oil field.' *Alexandre's Gas and Oil Connections*. 25 March 2004.

whole issue of who had a pre-emptive right to buy the stake, it added considerably to the worsening situation.[783]

The dispute concerning the Kashagan field climaxed in late 2004, when Kazakhstan's parliament unanimously approved a bill giving the government priority in buying stakes in energy projects that were put up for sale in the country. Simultaneously, the Kazakh financial police filed new charges against British Gas for unpaid taxes from 2000 and 2003.[784] Parallel to those changes in legislation and the attack on the companies, the Kazakh Oil Minister, Vladimir Shkolnik, began speaking about finding 'a mutually beneficial' solution that would satisfy both the Kazakh government and the foreign oil companies.[785] One of these steps on the part of the Kazakh government was KazMunaiGas's declaration suggesting that the company was interested in buying only half of the British Gas stake of 8.33 per cent for the market price of $615 millions.[786] Moreover, during the 12th meeting of the Council of Foreign Investors, Nazarbayev stressed again that Kazakhstan was determined to improve the investment climate rather than the other way around.[787] Finally, Shkolnik countered the view widely held by Kazakhs and foreigners alike,[788] concerning the re-selling of a block of shares to the Chinese companies, that 'Kazakhstan is not going to re-sell anything to anyone'.[789]

It appears that Shkolnik's assurance about the non-Chinese involvement constituted a turning point in the dispute. With the passing of the new law, it became apparent that the Kazakh government was determined to participate in the deal, and would stop at nothing to achieve its goal.[790] In addition, with the presidential elections in sight for Nazarbayev and his inner circle, Kashagan increasingly became more of a domestic political issue than an economic one.[791] In such a situation, the Kazakh

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783 Interview with ex-general director of a major foreign oil company in Kazakhstan: Almaty 27 October 2004.
784 *Interfax-Kazakhstan*, 6 October 2004.
785 Bagila Bukharbayeva. 'Kazakh government optimistic on its bid to get stake in international oil consortium.' *AP Worldstream*, 5 October 2004.
786 *RFE/RL Newsline* 9 (85), Part I, 5 May 2005.
787 *Interfax-Kazakhstan*, 10 December 2004; see also 'Kazakhstan ready to discuss taxes with oil majors.' *Alexandre's Gas and Oil Connections*. 29 June 2004.
788 Interviews Almaty: Fall 2004.
789 'Kazakhstan bid for Kashagan natural deposit.' *Time of Central Asia*, 2 October 2004.
790 It is important to keep in mind that the new legislation did not affected the contracts concluded in the 1990s since – as it was already pointed out in the Chapter Five – those contracts are above Kazakh law.
791 Interview with a president of a major Kazakh newspaper: Astana 8 December 2004.

authorities' pledge concerning Chinese companies became crucial from the perspective of the foreign oil companies, as it established the boundaries within which the agreement could be reached. The fact that KazMunaiGas wanted to acquire only half of the stake was acceptable to the foreign oil companies, but not ideal. Arguably due to those factors, the dispute over the Kashagan stake was finally resolved on 5 May 2005.

In the course of the Kashagan dispute – as in the case of the Tengiz affair – the Kazakh authorities, which used every other trick in the book to push foreign oil companies to play according to the new rules of the game, did not speak of either social issues or the local content policy. As the case of PetroKazakhstan, discussed in the following sub-section, shows, this tactic could have easily mobilized the local population against the companies and strengthened the Kazakh authorities' position in those negotiations. Hence, we argue the Kashagan dispute again forcibly demonstrates the degree to which the tacit co-operation between the companies and the regime has become entrenched in the oil-rich regions, and underlines its importance from the perspective of Nazarbayev's regime.

Furthermore, the extent to which the regime is keen on relying on co-operation with the outside companies in the oil-rich areas in order to maintain the social and political peace is confirmed by the example of Chinese oil companies. We argue that the Chinese companies, which were not interested in assisting the Kazakh regime to the same extent as Western oil companies, became the targets of attacks by various officials. That is to say, that the regime tried to pressure the Chinese into the same sort of tacit alliance that it enjoyed with the US and European companies. The need for this alliance became ever more important in 2005 when China National Petroleum Company (CNPC) bought the third biggest oil field in Kazakhstan, Kumkol.

2.3. PetroKazakhstan and CNPC

The disputes between the Kazakh regime and foreign oil companies that we have so far discussed in two previous sub-sections, were aimed primarily at changing the existing rules of the game. Moreover, from the outset of those debates it was clear that the Kazakh regime – even if tried to buy a stake in the oil consortium – was not aiming at outmanoeuvring those companies from the country altogether. The situation was different in the case of PetroKazakhstan, against which Kazakh authorities launched an extremely hostile wave of attacks from 2003 until 2005 even by Kazakh standards – the principal objective of which was to chase the company out of Kazakhstan.[792]

In late 2003, the Anti-Monopoly Agency fined PetroKazakhstan US$97 million for a number of alleged violations, such as hiking the prices of fuel oil.[793] The sum came on top of outstanding penalties over unpaid taxes, royalties and unjustified revenues that totalled $100 million. In addition, the Kazakh Agency for Regulation of Natural Monopolies fined the company $6.3 million, and shortly thereafter, another $31 million for the alleged overpricing of the refined petroleum products that it sold in Kazakhstan[794]. In 2004, the Kazakh financial police launched a criminal case against the managers of seven companies affiliated with PetroKazakhstan for monopolistic activities and for limiting competition.[795] In 2005, the Kazakh authorities went one step further and issued warrants against the president and chief financial officer for violating Kazakhstan's antimonopoly legislation.[796]

The attacks on the company by central and local authorities were accompanied by demonstrations staged in Kyzylorda and Shymkent, which were managed by Asar and the youth movement *Vybor molodykh* (the Choice of the Young). The demonstrators focused on all the issues that were not raised in previous debates, i.e. social contributions, local labour and local content. For instance, according to Makhmut Izembetov, the acting secretary of Asar's Kyzylorda branch: 'PetroKazakhstan Company exploits the local population, paying people meagre wages. They do not allocate money for developing business or infrastructure in the region, they damage the environment, and all this

[792] The Hurricane deal, next to TengizChevrOil, was the most controversial oil contract that the Kazakh authorities signed with a foreign oil company in the 1990s. The project ran into many problems over the years (Peck 158–165: 2004), primarily because this relatively small company was an easier target than the major oil companies. Now, with the huge increase in oil prices and the growing confidence on the part of the Kazakh officials, the regime set to oust the company once and for all. *Source*: 'Kazakhstan's economy: The pushy partner.' *Alexandre's Gas and Oil Connections*, 10 November 2005; Isabel Gorst. 'China takes a great leap forward into its neighbor's oil business.' *Financial Times*, 23 August 2005; Keith Bradsher. 'Chinese Company to buy Kazakhstan oil Interests for $4 billion.' *New York Times*, 22 August 2005.
[793] *Neft Compass*, 25 July 2004.
[794] *Interfax-Kazakhstan*, 4 October 2003; *Financial Post*, 4 November 2003.
[795] *Interfax-Kazakhstan* 27 October 2004.
[796] *RFE/RL Newsline* 9 (63), 5 April 2005.

compels the population to appeal to People's Control'.[797] Finally, in July 2005, an Astana court fined the company yet another $54 million for violating tax legislations.[798]

PetroKazakhstan gave in to Kazakh pressure in August 2005, when it decided to sell its enterprise to the Chinese company CNPC for a staggering $4.18 bn, making it the most expensive oil acquisition ever in Central Asia. It was a widely held view then that CNPC could not have bought PetroKazakhstan without the blessings of the Kazakh government.[799] The latter, it is argued here, was inclined to open up access to the Kazakh market, especially since the Chinese bid for the British Gas stake in the Kashagan oil field had failed so spectacularly. Furthermore, it was argued that CNPC involvement was only logical, since in 2004 KazMunaiGas and CNPC had teamed up to build the 1,000km pipeline from Kumkol to Urumchi in northwest China.[800] All this took place in the background of the visit in July 2005 of Chinese President, Hu Jintao, to Kazakhstan, during which he signed an agreement with Nazarbayev to develop a 'strategic partnership'.[801] In the long run, the Chinese involvement has turned to be a mixed blessing for the Kazakh regime, especially when it comes to social and political peace in Kyzylorda. We make this claim on the existing records of the Chinese-Kazakh relationships in other oil-rich regions.

The involvement of Chinese companies in Kazakhstan dates back to 1997, when CNPC acquired a 60.3% state in state-run Aktyubinskmunaigas (chapter 2, section 3.2). From the very beginning, the relationship between CNPC and the local population was one of the most problematic ones in Kazakhstan. For instance, in April 1999 the company infamously fired 2,000 employees, and despite pledges on the part of the Chinese managers to rehire workers at a later date they never in fact did so (chapter 4). The relationships worsened further in early 2000, when employees of Aktyubinskmunaigas

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[797] Marat Yermukanov, 'Kazakhstan's establishment and oligarchs on collision course.' *Eurasia Daily Monitor*, Volume 2 (45), 7 March 2005.
[798] *Interfax-Kazakhstan*, 13 July 2005.
[799] Ian Austen, 'From Canadian Bankruptcy to the Riches of Kazakhstan.' *New York Times*, 23 August 2005.
[800] *RFE/RL Newsline* Vol. 9, No. 159, 23 August 2005; Bruce Pannier, 'Kazakhstan/China: Oil Deal Marks Beijing's 1st Foreign Energy Takeover.' *RFE/RL*, 23 August 2005.
[801] The two governments are also partners in the Shanghai Cooperation Organization – a six-nation security group led by Beijing and Moscow that is meant to combat Islamic extremis in Central Asia. *Source*: Associated Press, 22 August 2005; Yuri Kirinitsiyanov, 'Water and oil – new realities in the Kazakh-Chinese relationships' *Business in Russia*, 20 Febuary 2001.

publicly called for the CNPC contract to be cancelled (Peck 2004: 170–171). By 2003-04, there was little evidence that the situation had improved in any way; quite on the contrary.

It was reported that CNPC business executives largely employed Chinese specialists brought in from China, ignoring their commitment to train and hire the local workforce. The excuses for not employing local workers were the alleged lack of qualified oil specialists in Kazakhstan. Moreover, the few who actually were employed by the Chinese company complained that they were paid only half the salary received by Chinese workers.[802] The 'cruelty' of the Chinese bosses – in the public imagination – reached its climax when rumours circulated that some of them went as far as demanding from the Kazakh workers that they sing Chinese songs.[803] Another major problem from the Kazakh regime's perspective – and a much more serious one – was created by the Chinese sub-contracting companies, around 40 in total – that had been working for CNPC–Aktyubinskmunaigas. Those companies not only employed solely Chinese labour, but also successfully blocked the access of the Kazakh sub-contracting companies to Aktyubinskmunaigas contracts.[804]

Leading on, Chinese companies were also not willing to dissolve the tense atmosphere that their actions created. Except for organizing a few charitable campaigns and giving a few handouts to the poor, the CNPC was a rather uncooperative partner[805] compared to Western foreign oil companies, as demonstrated in chapter 4 and 5. This led to an inevitably negative assessment of the Kazakh regime amongst the local populations where these companies operated, which caused in turn a great deal of frustration within the regime on the national as well as local levels. In response, in mid-2004 Astana pressurized the CNPC and demanded that it cut the number of Chinese personnel by 40 per cent that year, repatriating them to China. Also, the government urged the company to train local workers for high-qualified jobs to replace them.[806] On the local level, the managers of a number of Chinese companies were accused of inflicting economic

[802] Marat Yermukanov, 'Kazakhs fear Chinese creeping expansion.' *Central Asia-Caucasus Analyst*, 2 June 2004.
[803] Interviews with various oil specialists: Almaty Fall 2004.
[804] Ibid.
[805] *Central Asia-Caucasus Analyst*, 2 June 2004.
[806] Marat Yermukanov, 'A thorny road to Sino-Kazakh partnership.' *China Brief*, Volume 4 (14), 8 July 2004.

damage on Kazakhstan. The CNPC–Aktyubinskmunaigas managers were charged with economic crimes to the tune of US$21.5m, and of evading customs taxes and duties. Moreover, two of CNPC's sub-contracting companies were accused of illegal business activities and a failure to pay customs duties for equipment brought from China.[807]

More research is needed to investigate the impact that the Kazakh regime's *ad hoc* policies have had on the relationships between CNPC–Aktyubinskmunaigas and the local authorities. However, judging from the information available by 2005, there was little evidence to suggest that Chinese companies were willing to change their behaviour. For instance, rumours circulated that CNPC intended to hire 10,000 Chinese workers to construct the Atasu–Alashankou oil pipeline, while the Kazakh local population had been given to believe that the pipeline would create hundreds of jobs in western and southern Kazakhstan and effectively help to alleviate long-standing social problems.[808]

In conclusion, during the first part of 2000s, the ruling regime in Kazakhstan began showing signs of moving away from its established methods of regime maintenance; in other words it moved from purely patron–client based systems to a quasi-formal 'modus operandi'. As the prime motivation behind this particular modification lies the attempt to build a more coherent type of relationship with Kazakh society in order to prolong the reign of the Kazakh president. The new mechanisms also increase the chances of a smooth transition from Nazarbayev to his successor, assuming that the president chooses to hand over power voluntarily. The absence of any change in the relationship between the Western oil companies and the Kazakh regime in the oil-rich areas – despite major disagreements between the two – shows the extent to which those companies have become an integral part of Nazarbayev's Kazakhstan. Foreign oil companies that came to the country at the beginning of the 1990s not only revolutionized the Kazakh oil industry, but also left their imprint on the Kazakh state (oil laws) and the regime's behaviour (taking for granted bribery in dealings with foreign investors). It is argued here that these strong ties between the two are not likely to be cut as long as

[807] *Interfax-Kazakhstan*, 8 December 2004.
[808] Marat Yermukanov, 'Sino-Kazakh pipeline project has demographic, as well as economic dimensions.' *Eurasia Daily Monitor*, 2 (75), 18 April 2005; Stephen Blank, 'China's difficult search for Central Asian energy.' *China Brief*, 12 December 2005.

Nazarbayev is in power, since after all the foreign oil companies are probably his most stable long-term partners.

Conclusion

The main purpose of this study was to explore the techniques that the Kazakh regime – headed by the authoritarian ruler Nursultan Nazarbayev – used to maintain itself in power from 1991 until 2005. This thesis has endeavoured to uncover the range of the regime's methods by analysing the ways in which it went about controlling the oil industry, an industry with which the political and economical future of Kazakhstan is inseparably intertwined. The empirical section of this study has investigated the interplay between the regime and the actors located in and around two cores: the NOC and the oil-rich areas. This thesis has focused in particular on instances when the other players involved with the oil industry directly or indirectly attempted to challenge the regime's authority in those two centres, either because of their greed or grievances. It was argued that it is in these moments of crisis that the regime's maintenance techniques are most visible, and even more importantly, likely to be replaced by new methods. In order to account for the techniques that the Kazakh ruling regime applied when structuring its relationships with the oil industry, this thesis shifted the emphasis from *zhuz*-horde, tribe and clan-based approaches to Kazakh politics: it sought instead to unravel the relationship through the prism of formal (corporatism) and informal (patron–client) mechanisms of control.

1. The Kazakh regime–oil industry relationship

This thesis has argued that in order to establish and uphold its control over the oil industry, the Kazakh regime used formal, informal and quasi-formal regime maintenance techniques, and also entered into a tacit agreement with foreign oil companies. The formal mechanisms of control were used in the first years of independence, and were largely a logical continuation of the way in which the oil industry had been governed in the Soviet Union. Yet, these formal types of relations proved unsustainable, due to the challenges from inside of the oil industry, which was headed by professional oil men. The conflict between the Kazakh president and the oil men led to a restructuring of the existing relationships. From the mid-1990s on, the regime began the slow process of moving from formal to informal techniques.

The use of the patron-client relationships as a main mechanism of control throughout the 1990s and beyond did not come as a surprise. In the Soviet Union patron-client links were crucial to obtaining anything from a refrigerator, furniture or food products without queuing for hours if not days, to getting a good job and advancing one's career in the work place or in the Communist party. Patron-client relationships were a part of the daily life into which all the key players were socialised into. Hence, patrimonialism *per se* has constituted for the Kazakh regime – as it indeed still does for so many other post-Soviet regimes - a sort of safety net which it can always rely on in times of uncertainty or political crises. Over the years, an important element in strengthening these old/new informal relationships was the gradual Kazakhization of the oil industry, which intentionally and unintentionally reinforced a bond between the regime and its clients. Furthermore, Nazarbayev's regime preferred to use patron-client techniques because of their dyadic character as opposed to a relationship based on kinship, in other words, regional sub-clans or more appropriately in the Kazakh case, extended oil families.

Whereas throughout the 1990s and beyond Nazarbayev recognised that interests of particularly important oil families had to be taken under consideration in his dealings with the oil industry, he did not overemphasise this fact or indeed did not attempt to form open alliances with the key families. Even if such options were initially on the table they were scrapped rather quickly in the beginning of the 1990s after one of the more important families began positioning itself strategically in anticipation of a future privatisation of the oil sector which they planed to hijack. As a result, kinship began to be seen as a threat to Nazarbayev's hegemony over the oil industry, rather than an asset or advantage. Excluding Kazakh indigenous oil men from the privatisation process was made possible largely due to the internal split between different fractions especially in the Atyrau region. If it had not been for this infighting, oil families would have had a much better chance at capturing the oil industry in the mid-1990s. Eventually, Nazarbayev went to award important oil men with various high level positions (including key posts in the NOC) but kept them at an arms length from the decision making process and preferred to deal with them as his clients. For instance, it was not accidental that the Kazakh president pushed with the restructuring of the oil industry with the help of the Prime Minister who did not have any experience of working in the oil sector and chose to control the oil industry vis-à-vis his son in law and his clients. Even so, this thesis did not conclude that in the years to come the importance of the oil families in the Kazakh oil industry was completely diminished.

The relatives of key oil men who in recent years have been appointed to mid-level positions in the NOC 'brought' with them to Astana members of their own extended families, but not in such great numbers as was generally predicted in Kazakhstan. Oil families have played an important role - at least in the Atyrau region - in selecting local companies with which foreign oil companies could work with. There is little doubt that the entry of the oil families took place with Nazarbayev's and his inner circle's knowledge. By allowing the relatives of important oil families to enter into the NOC and to play a role in selecting local sub-contractors, the regime tried to demonstrate that the interests of the representatives of the oil-rich regions are still being taken under consideration. At the same time, thanks to frequent reshuffles and rotations the managers and directors who heavily rely on family ties have been successfully prevented from using their connections in any way that could seriously threaten the regime's grip over the oil industry. In other words, they have not been allowed to stay in their positions for long enough to develop networks based on kinship and patrimonialism that would allow their patrons/relatives to grow substantially in strength. Finally, the presence of people from the oil rich regions - particularly in the case of the NOC - have been counterbalanced by the presence of other actors, for instance, 'political' appointees in whose interests it is to weaken the influence of the oil families in order to strengthen their own position.

Leading on, this thesis argued that the first half of the 2000s to some degree signalled a return to the previously abandoned types of formal techniques. It was argued that in Kazakhstan, as in the case of other authoritarian regimes, the new attempts at recreating a formal type of relationship have been initiated by the propertied elites intent upon preserving their hegemonic authority and their rights against oppositional forces (Haynes 1988: 136). The process of creating a formal type of relationship in post-Soviet Kazakhstan was greatly accelerated once the oppositional forces (which until early 2000s played a marginal role in the country's political life) were joined by all powerful oligarchs who now openly challenged the regime and President Nazarbayev himself. The key group which the regime aimed to accommodate through the development of the formal relationships was the ever-growing Kazakh middle-class which the oligarchs initially hoped to win over on their side. Thus, if the young oligarchs had not defected from the regime, Nazarbayev and his inner circle would not have been as eager as it became to structure new type of relationships. Furthermore, the restoration of the formal types of relationships was facilitated and accelerated by the rise in oil prices since the beginning of the 2000s. Hence, the Kazakh regime not only used these massive oil windfalls to merely conserve the *status quo*, but also seemed to seize the emerging opportunities to restructure its relationships with the oil industry and the wider business community.

The corporatist logic has a very long tradition in Kazakhstan and Central Asia *per se*, since it was one of the key pillars of the Bolshevik/Leninist state. However, the present day endeavours arguably have their source in East Asian and Chinese regimes – both with strong corporatist leanings – which are reputed to be amongst the inspirations, if not models, for the Kazakh regime. That is to say, the Kazakh regime first used the Asian example of Singapore, and the Malaysian style of 'enlightened (benevolent) authoritarianism', to legitimise its rule. In fact, in recent years it has begun increasingly to see itself as a part of the Asian, rather than the Eurasian 'world', and has started to pay closer attention to their regime maintenance techniques.[809]

It is worth noting that the formal type of relationships that began emerging in Kazakhstan since 2003 does not amount to a fully-fledged corporatism but rather a quasi-corporatism. The post-Soviet Kazakh brand of corporatism lags behind its authoritarian counterparts across time and space in two important respects. Firstly the level of institutionalisation is relatively low and secondly the associations put in place by the Kazakh state (which attempts to maintain a dominant position in structuring of social relationships) do not have any input into the decision making process. However, some aspects of state led corporatism - as understood by Latin American or Asian scholars can emerge in the foreseeable future.

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[809] Fiona Hill, 'Whither Kazakhstan ? (Part I),' http://www.brookings.edu/views/papers/hillf/20051031_kazakhstan.pdf, pp. 4—5 (Accessed November 20 2006).

A low level of institutionalisation stems from the fact that the process of structuring relationships with the country's business community (in particular the broadly understood oil industry) has been put into motion very recently. Given the developments of the last few years, one can expect a considerable increase in the level of institutionalisation. Amongst the most important events are, a) the active involvement of the Kazakh president in constructing a new type of relationship, b) a number of new laws which aimed at actively promoting formal type of relationships, c) the creation of some high profile bodies such as Atameken (the Nationwide Union of business and employers of Kazakhstan) which aims at incorporating existing business associations which are scattered all over the country. The question concerning the involvement of the members of the business associations in the decision-making process is however more complicated. On the one hand, as this thesis argued, there were no signs as of 2005 that the regime is actively interested in businesses' input into decision-making processes. On the other hand, given the dynamic movement of the members of the members of the business elite into governmental- and political posts and of high-ranking bureaucrats into business posts, it could be argued that the Kazakh style of quasi-corporatism does not have the capacity to develop into a partnership characteristic of a fully fledged corporatist system. This however is not likely to happen in the immediate future.

The developments of the last few years have signalled an important departure for the Kazakh regime from a situation in which informal politics based on personal contacts dominate virtually every aspect of the regime-business relationships. In order to account for how far this process has travelled further studies of various business associations and their interaction with the respective state structures across today's Kazakhstan are called for.

Finally, this thesis argued that the regime in order to maintain itself in power in the oil-rich areas formed tacit alliances with foreign oil companies. Initially, the main objective of these alliances was to shift the burden of responsibility for the lack of development in the oil-rich areas from the regime to the foreign oil companies. Later on the objective was to jointly decide which local sub-contracting companies should be granted access to the foreign oil companies' contracts (thus implementing the local content policy). The need for the latter stemmed from the concern on the part of the regime that if the process of awarding companies with contracts were not sufficiently monitored, it would lead to the development of powerful interests outwith the regime's control. Nazarbayev's regime was not the only one suffering from this kind of anxiety as is evident from Thad Dunning's studies of authoritarian rulers, which concentrated on Mobutu's Zaire and Suharto's Indonesia. Dunning concludes that while authoritarian rulers might wish to promote diversification of the economy – in Kazakhstan, the local content policy was also partly introduced to achieve this goal – such diversification can create a societal basis of power outside the control of political elites. He goes on to argue that these may then facilitate future challenges to the political power of state incumbents. Hence the rulers in the most extreme cases such as Zaire can instead favour de-diversification of the economy in order to remain in power (2003: 4–5).

Leading on, the involvement of foreign oil companies in controlling oil-rich areas is also hardly unique to Kazakhstan. Augustine Ikelegbe stated that in the Niger Delta, foreign oil companies had paid off the traditional rulers, local elites and businessmen for decades in order to preserve the social and political peace. Unfortunately, their actions had quite the opposite effect, as access to these benefits has fuelled a deadly struggle among many different groups and fractions (2005: 216). The Nigerian scenario is unlikely to unfold in Kazakhstan, however, since the regime itself, through its local agents, is directly involved into how contracts are being distributed amongst local players.

2. A soft neo-patrimonial regime

The constant manoeuvring between different regime maintenance techniques is a distinct feature of those authoritarian or semi-authoritarian regimes that tend to stay in power for a considerable amount of time, as the examples of Indonesia (Crouch 1979), Panama (Ropp 1992), Angola and Sierra Leone (Reno 1997) and Uganda (Mwenda and Tangri 2005) demonstrate. Although the Kazakh regime is engaged in a continuous process of renegotiating its position, the label which in 2005 still best captured its essence was put forward by Barbara Junisbai and Azamat Junisbai (2005): 'post-Soviet neo-patrimonial regime'. The authors' description is accurate not only because patron–client relationships and corruption in Kazakhstan overwhelmingly dominate regime–society relationships (an indispensable feature of any neo-patrimonial regime) – but also because of the systemic use of other regime maintenance techniques that put Nazarbayev's regime into the neo-patrimonial category.

Most importantly, Nazarbayev's regime conducts zero-sum politics, i.e. it does not tolerate any kind of dissent. In the last decade or so media, political parties, and civil society groups that display any degree of independence from the official line have been either co-opted, divided or outlawed, and in the case of powerful political and economic actors, also imprisoned. A good example of how far this policy has travelled can be given with the case of Nazarbayev's daughter Dariga, whose party Asar was forced to merge with the presidential party Otan, and whose media 'empire' was thus brought under the government's direct control. Not even the president's family is allowed to function independently any more.[810] The groups that still operate outside the regime structure exist because they usefully contribute to the political legitimacy of the overall polity. At the same time, they do not pose any direct threat to the regime *per se*. Indeed, the opposition in Kazakhstan, as in the Middle East, seems to largely work as a support cast for the authoritarian rulers (Zartman 1988). As an effect of this policy, in recent years all protests against the regime have been disorganised and sporadic. On its part, the regime mobilises its supporters only during election time, and tightly controls them through the local bureaucracy and the expanding security apparatus when the elections are over. Finally, in recent years Kazakhstan has seen an increase in political violence, which while not uncommon in post-Soviet Kazakhstan, has been steadily rising. Notably it has not reached the same levels as in the most extreme versions of neo-patrimonial regimes, the so-called *Sultanistic* regimes (Chelabi and Linz 1998). It should be added that when it comes to the use of brutal force, the Kazakh regime also lags far behind its regional counterparts.[811]

[810] The spectacular downfall of Dariga Nazarbayev means that the 'monarchist' option, which was successfully implemented in Azerbaijan in 2003, has been ruled out in Kazakhstan. Yet it is unclear which scenario Nazarbayev will now decide to pursue. According to the opinions expressed by a number of interviewees in late 2004, the president himself did not know who might potentially succeed him.

[811] While Nazarbayev openly supported the uncompromising use of force by Karimov's regime during the Andijan events of 13 and 14 May 2005, it is highly unlikely that the Kazakh president would be prepared to use the Kazakh security apparatus and army in the same way.

Rather than resorting to hard coercion, in Kazakhstan soft coercion is being applied on a day-to-day basis (Furman 2005). Nazarbayev's regime, as any other petro-state, in order to preserve the social and political peace, strives to negotiate some form of social contract with the wider society.[812] It was not accidental that when commenting on the Georgian, Ukrainian and Kyrgyz 'revolutions', Nazarbayev stated: 'As clear-headed people, we understand the deeper reasons for these events. These reasons lie not in some mythical plots by outside forces, but are the result of the logic of internal developments. Poverty and unemployment ... are fertile grounds for people's dissatisfaction with the authorities'[813]. This statement, and numerous others that followed, are indirectly aimed at communicating to the Kazakh people that they have no need to protest, since they are in a much better condition than their counterparts. What is more, their prospects for the future are bright. Still, what this petro-driven social contract is going to look like once it arrives is not clear, and requires additional study.

3. Oil, regime maintenance and development

What has been much more visible is the way in which oil *per se* has enabled the Kazakh regime to pursue a multi-vectorial foreign policy – one which aims at balancing the so-called Eastern and Western interests (Cummings 2003b). This highly pragmatic approach has won the regime the support of virtually every important player and greatly enhanced its stability over the years. The most telling – though not the most important – relationship that the Kazakh regime has conducted has been the one with the US. In the midst of the US campaign against dictatorships and authoritarian regimes as part of the bigger "war on terror", Nazarbayev received a letter from President George W. Bush which praised Kazakhstan's stability and prosperity, citing it as 'a model for other countries in the region'.[814] The regime received similar endorsements from Western oil companies who, despite all the rows, still see the president as the best guarantor of their

[812] 'Kazakh president pledges political, economic reforms and better living standards,' *AP Worldstream*, 18 February 2005.
[813] *RFE/RL NEWSLINE*, 9 (7), Part I, 22 April 2005.
[814] *Kazakhstan News Bulletin*, Released weekly by the Embassy of the Republic of Kazakhstan, 1 August 2005 Vol. 5, No. 30 http://www.kazakhembus.com/080105.html. (Accessed October 13 2005).

investments.[815] According to a recent assessment by Martha Olcott: 'Given the key role of Western firms in developing Kazakhstan's strategically important oil and gas reserves, Western leaders will not press hard for democratic reform in Kazakhstan until they believe that the non-democratic nature of the Kazakh regime is undermining its own short-term security' (2005: 205). However, the support of foreign oil companies and Western governments has not been obtained cheaply.

The Kazakh regime, in order to originally attract foreign oil companies into Kazakhstan, was willing to grant them far-reaching provisions – including low taxes or exemptions from the oil contracts' notations concerning the local content policy. While some of those early provisions have been at least partly renegotiated in recent years, the problems still remain in place. Significantly, local companies suffer from a lack of proper access to contracts sanctioned by the foreign oil companies and their major sub-contractors. The fact that this situation did not change radically after the increase in oil prices – which gave the regime a substantial room for manoeuvre – places a question mark on many issues, in particular that of diversification.

Local content, even if properly implemented, does not bring about a sound alternative to the oil sector *per se*, but is a good start and as such, perhaps an illustration of the direction in which the country would like to move in the long run. For instance, Noreng Oystein (2004) stated that in Norway, the government policies that encouraged partnerships between foreign and domestic companies contributed greatly to the diversification of the country's economy and its technological advancements. Kazakhstan, however, seems to be heading in the opposite direction, mirroring the example of Equatorial Guinea[816] where: 'The oil industry itself has generated few linkages to the local economy, as most supplies, including even basic foodstuffs and prefabricated buildings for expatriate compounds, are imported into the country' (Frynas 2004: 540). Thus, Kazakh policy makers, despite all their knowledge about the failures of the petro-state, still follow in its footsteps. So, while the Kazakh regime glances at the example of the 'Asian tigers' and hopes to emulate them, it's trajectory also bears strong

[815] Bagila Bukharbayeva, 'Revolution wave in ex-Soviet republics worries investors in oil-rich Kazakhstan,' *AP Worldstream*, 17 May 2005.

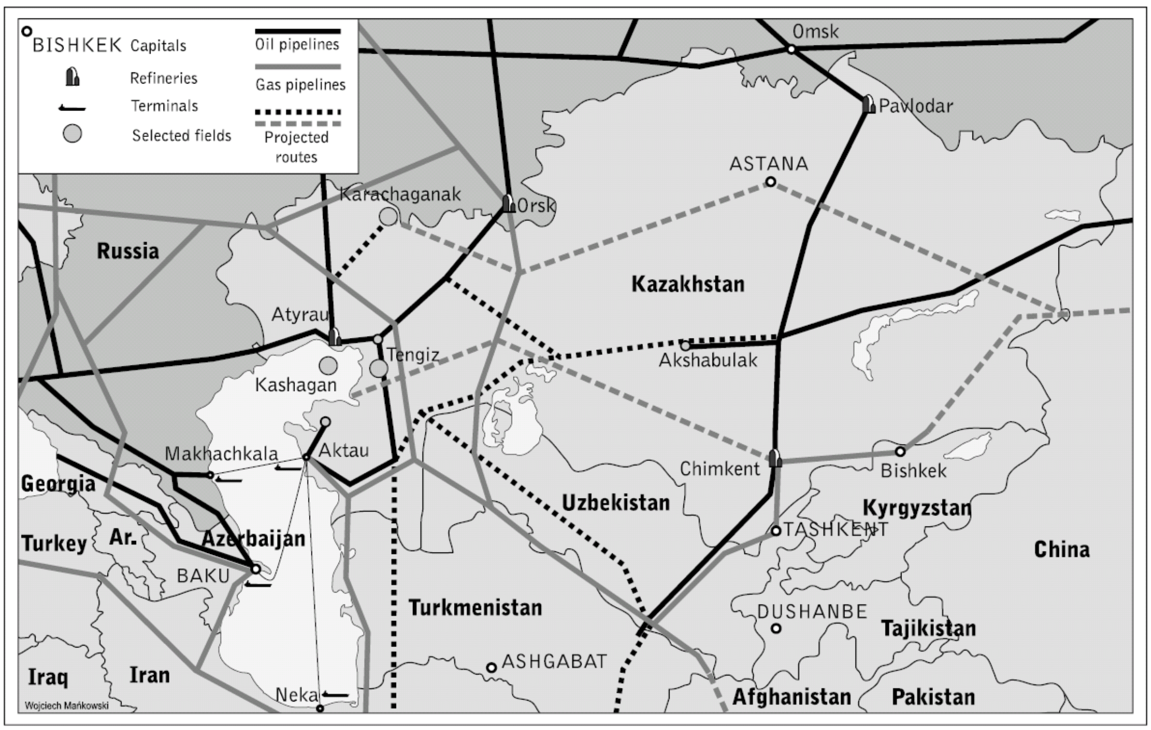
[816] In recent years, Equatorial Guinea has been undergoing a period of an oil boom that, although not on the same scale as Kazakhstan's, nevertheless resembles it.

resemblances to the sub-Saharan regimes. In the years to come, it is more likely to follow the latter.

Appendices:

Appendix 1: Introduction, Section 2.

Pipelines in Central Asia



Source: CES Studies, Warsaw June 2006

Appendix 2: Chapter 1, Section 6.

Interviews

Kazakhstan August-December 2004

During my fieldwork I interviewed:

1. Companies Working in the Oil and Gas Industry of Kazakhstan – Local

Almaty: 18   Atyrau: 10

2. Companies Working in the Oil and Gas Industry of Kazakhstan – Foreign

Almaty: 14   Atyrau: 4

3. National Oil Company KazMunaiGas' subsidiaries and governmental agencies

Almaty: 5   Atyrau: 3   Astana: 4

4. Associations and Trade Unions

Almaty: 2   Atyrau: 1

5. Opposition and NGOs

Almaty: 4

6. Embassies

Almaty: 7   Atyrau: 1

7. Oil Experts and Political Experts

Almaty: 3

8. Newspapers and Oil Magazines

Almaty: 4   Atyrau: 2   Astana: 1

9. Companies not working in the oil sector (General background)

Almaty: 2

Appendix 3: Chapter 2, Sections 1 and 2.

History of the Kazakh Oil Industry

a) Kazakh Oil industry in the Soviet Union

1920 Nationalisation of the Kazakh oil industry

1930 Oil Technical School opens in Guryev (since 1992 Atyrau)

1931-35 Construction of the Emba (*Caspiy*)-Orsk oil pipeline 847 km

1934 Mechanical plant opens in Guryev, producing equipment for the oil industry

1943-45 Construction of the Guryev Oil Refinery

1950 Kazakh oil production reaches 1 million tons annually

1963 Production begins on the oil enterprise Mangistauneftegaz

1964 Production begins on the oil enterprise Uzenmunaigaz

1965 Creation of the Kazakh Ministry of Special Construction Works

1967 Production begins on the oil enterprise Aktobemunaigaz

1969 First oil and gas engineers graduate from the Kazakh Polytechnic Institute
Oil production in Kazakhstan reaches more than 10 million tons annually

1976 Opening of the Pavlodar Refinery

1974 Oil production in Kazakhstan reaches 21 million tons annually

1979 Discovery of the Tengiz and Karachaganak oil and gas fields

1981 Discovery of the Kumkol oil field

1984 Opening of the Shymkent Refinery

1985 Tengizmunaigaz begins work on Tengiz

1988 The Oil Ministry of the USSR and Chevron Corporation sign a preliminary agreement on carrying out work to survey the Korolevskoye oil field located in the North Caspian basin

1989 Production from the Kumkol field by the Yuzhneftegaz begins

1990 The Oil Ministry of the USSR and Chevron Corporation sign an agreement on the development of the Tengiz oil field

b) Kazakhstan Oil Industry since Independence (1991-2005)

1991 In a rating of 55 countries producing hydrocarbon raw materials Kazakhstan is listed as the 24th largest producer

Creation of the Kazakh Oil and Gas Corporation, the Ministry of Energy and Fuel Resources and the Ministry of Geology and Protection of Mineral Resources

Kazakh authorities cancel all agreements reached between Moscow and Chevron in 1990

Establishment of the Embavedoil, the first semi-private Joint Venture in Kazakhstan

1992 Kazakhstan Oil and Gas Corporation is renamed NOC Kazakhstanmunaigaz

Kazakhstan and Chevron Corporation reach a new agreement which culminates in the establishment of the TengizChevrOil Joint Venture

Kazakhstan signs a contract with British Gas and Agip concerning the development of the Karachagank gas oil field

Kazakhstan, Russia and Oman fund the Caspian Pipeline Consortium (CPC) to build a new export pipeline in order to carry crude oil from the Tengiz field

Kazakhstan adopts a Code on Subsoil Use and the Processing of Mineral Resources which aims at regulating relations with foreign investors

Privatisation of the Kazakh Ministry of Special Construction Works

1993 Ravil Cherdabayev becomes minister of the Oil and Gas Industry (until 1994)

Establishment of the Kazakhstancaspishelf Company to conduct exploration works in the Kazakh sector of the Caspian Sea

Creation of the Kazakh-Turkish enterprise KazakhTurkMunai

Biedermann International signs a contract with Kazakhstanmunaigaz to develop the Kenbai field in the Atyrau region

First annual Kazakh Oil and Gas exhibition KIOGE (Almaty)

1994 The Ministry of Energy is disbanded and replaced by the Ministry of Energy and the Coal Industry, and the Ministry of the Oil and Gas Industry

The NOC Kazakhstanmunaigaz is renamed Munaigas

Nurlan Balgymbayev becomes Minister of the Oil and Gas industry (until 1997)

Akezhan Kazhegeldin becomes the Prime Minister of Kazakhstan (until 1997)

The Kazakhstan Government adopts a program for the development of the Kazakhstan oil and gas complex. The programme's major priorities are as follows: expansion of oil refining capacities, full supply of the country's demand in oil products and accumulation of export potential

1995 Nazarbayev dissolves parliament and strengthens powers of the executive branch

Creation of the State Investment Committee (SIC)

Kazakh parliament adopts Subsoil Law and Petroleum Law which aims at regulating relations connected with the conduct of oil operations in the territory within the Republic of Kazakhstan's jurisdiction, including sea and internal reservoirs

Government announces a tender for the sale of state shareholdings in the joint stock companies Yuzhneftegas, Aktubinskneft and Shymkentnefteorgsintez

1996 The Canadian company Hurricane Hydrocarbons Ltd. and the State Property Management Committee of Kazakhstan sign an agreement on the sale of a 90 percent interest in Yuzhneftegas JSC

Kazakhstan signs an agreement with Russia, Oman and a consortium of foreign oil companies on the construction of the CPC export pipeline

Kazakhstancaspichelf completes topographical survey of the oil fields in the Kazakhstan sector of the Caspian Sea shelf

1997 Creation of the NOC KazakhOil and the transport company KazTransOil

Nurlan Balgymbayev becomes the first president of the KazakhOil and later on in the year Prime Minister of Kazakhstan (until 1999)

Timur Kulibayev becomes financial director and vice-president of KazakhOil (until 2000)

60 percent controlling interests of the Aktobemunaigaz are sold to the Chinese National Oil Company (CNPC)

KazTransOil signs a contract with the CNPC on oil pipeline construction from the Aktubinsk fields to Western China

60 percent controlling interests of the Mangistaumunaigas are sold to Central Asia Petroleum Ltd.

Final PSA for the Karachaganak field is signed in Washington

Signing of a PSA for the Caspian Shelf between Agip, British Gas, British Petroleum and Statoil, Mobil, Shell, Total, and Kazakhstancaspishelf

A wave of social unrest sweeps through Kazakhstan including in the oil rich regions

Nazarbayev promulgates the message: 'Kazakhstan - 2030. Prosperity, peace and well-being for the people of Kazakhstan'

1998 The 'Offshore Kazakhstan International Operating Company' (OKIOC), is set up to carry out exploration work in the northern part of the Caspian Sea

Kazakh parliament passes the Law on Employment of the Population which aims at limiting the number of work permits available to foreigners

Russia and Kazakhstan reach a consensus on the issue of the division of the Caspian Sea bed with common use of water surface

The foundation for an artificial island is laid in the open sea at the East Kashagan structure

1999 Early parliamentary elections

Imangali Tasmagambetov becomes Atyrau's *akim* (until the end of the 1999)

Attacks on the foreign oil companies in the Atyrau region begin

100th Year Celebration of Kazakhstani Oil

Kazakh parliament passes an amendment to the Subsoil Law which gives states a greater role in the process of allocation of the sub-contracting contracts by the foreign oil companies

Beginning of the Kazakhgate scandal: Swiss authorities begin investigating Nazarbayev's and Balgymbayev's secret accounts

The CPC project enters the stage of its practical realisation, the cost of which is estimated at $854 million

2000 The creation of a Consortium for infrastructural development of Kazakhstan's oil and gas industry

Further amendments to the Subsoil Law which aim at forcing foreign oil companies to work with Kazakh companies primarily in the oil rich regions

The unravelling of Kazakhgate: Justice Department begins investigating the role of James Giffen in the Mobil deal

2001 Formation of first major oppositional party; the Democratic Choice of Kazakhstan (DCK)

Creation of the Engineering Companies Union of the Republic of Kazakhstan

During the session of Kazakhstan's Foreign Investors Council Nazarbayev declares that 'the balance between the interests of the state and business' should be observed

KazTransOil increases its pipeline tariffs by 50 per cent

Beginning of the dispute between Kazakhstan and Chevron over funding on the expansion of TengizChevrOil's activities

Kazakhstan produces approximately 800,000 barrels of oil per day from 55 fields

Oil and gas industry of Kazakhstan provides about 16% - 18% of GDP, 30% of export and more than 40% of payments to the republican budget

2002 Establishment of the NOC KazMunaiGas (KMG)

Timur Kulibayev becomes the first Vice-President of KMG (until 2005)

Creation of the Contract Agency

Kazakhgate's comes to the open: Prime Minister Imangali Tasmagambetov disclose to members of parliament that the authorities have used revenues from the Tengiz oil field in order to establish a secret fund

In an unprecedented move Chevron suspends works for three months on the Tengiz field

2003 Chevron and KazMunaiGas finally reach an agreement, however the dispute between the two marks a major turning point between Kazakh and foreign oil companies' relation

Agip-KOC blocks British Gas sale of its stake in the North Caspian Sea Production Sharing Agreement to the Chinese companies

The Anti-Monopoly Agency fines PetroKazakhstan US$97 million for a number of alleged violations, such as hiking the prices of fuel oil

Small- and medium-sized business become one of the government's top priorities

2004 Parliamentary elections Kazakhgate fails to make an impact

Nazarbayev persistently criticises mega-holdings

Kazakh authorities begin a hostile campaign against British Gas and other members of the Agip-KOC

Kazakhstan's parliament unanimously approves a bill giving the government priority in buying stakes in energy projects that were put up for sale in the country

2005 KazMunaiGas's acquires half of the British Gas stake of 8.33 per cent for the market price of $615 millions

PetroKazakhstan acquires by the Chinese company CNPC for $4.18 bn

Establishment of Atameken, the Nationwide Union of businessmen and employers of Kazakhstan

Appendix 4: Chapter 2, Section 4.2.

Assets of the NOC KazakhOil in 2001

Name	Profile	Share
Uzenmunaigas JSC	Production of hydrocarbons	90%
Kazakhoil-Emba OJSC	Production of hydrocarbons	85%
Atyrau Refinery	Oil processing	86%
Kherson Refinery	Oil processing	60%
Kazakhoilpromgeophyzika OJSC	Geophysical	90%
Kazakhstancaspichelf OJSC	Geophysical	90%
Zhambai OJSC	Geophysical	100%
Kazakhoil-Bureniye OJSC	Drilling	100%
Kazakhoil-Trans LTD	Transport-forwarding	100%
Aksaigasservice LTD	Servicing	82,5%
Kazakhoil-Kurylys LTD	Construction	100%
Kazakhoil-Telf JV	Production of hydrocarbons	69%
Gyural JV	Production of hydrocarbons	37,2%
Embavedoil JV	Production of hydrocarbons	52,69%
Arman JV	Production of hydrocarbons	50%
Karakudukmunai JV	Production of hydrocarbons	40%
Tenge JV	Production of hydrocarbons	69%
Kazakhturkmunai JV	Exploration and production of hydrocarbons	51%
Steppe Leopard JV	Production of hydrocarbons	50%
Aktobe Preussag JV	Exploration of hydrocarbons	50%
KOS-Cementing JV	Cementing of wells	50%

Source: Petroleum Magazine, April 2002

Assets of the NC Transport of Oil and Gas in 2001

Name of the Company	Share
KazTransOil CJSC	100%
KazTransGas CJSC	100%
MunaiImpex CJSC	99%
Aktubneftesvyaz OJSC	90%
KazTransSvyaz CJSC	90%
International Airport of Atyrau OJSC	100%
Helicopter Aircompany Euro-Asia Air OJSC	100%
Transpetroleum CJSC	100%
KasMorTransFlot CJSC	50%
Intergas Central Asia CJSC	100%
Atyrau Aue Zholy OJSC	43,79%
KazStroyService CJSC	90%
KazTransCom OJSC	90%
North-West Pipeline Company MunaiTas CJSC	51%
Bailanys OJSC	3,5%

Source: Petroleum Magazine, April 2002

Appendix 5: Chapter 3, Sections 2.1. ; 2.2. ; 3.1.

a) Privatisation and Kazakhization of the Kazakh Ministry of Special Construction Works

During the Soviet Union	**Privatisation**	**After privatisation main companies**	**Kazakhization**
1965: Kazakh Ministry of Special Construction Works Major projects in the Soviet Union related to the oil and gas: Refineries in Pavlodar and Shymkent; Tengiz, Kumkol and Karachaganak Managerial class: ethnic Russians	1991-1992 voucher privatisation Main beneficiaries: ethnic Russian directors Link between different companies maintained through reciprocal cross-ownership reinforced by the interlocking of the Boards of Director of the biggest companies in the group	Montazhspetsstroy Kazkhimmontazh Imstalkon Kazmontazhstory Symkenthimmontazh Kazstorytransgaz Yughimmontazh Kazneftegazstory Mehanomontazh Kazspecmonthazhstory Promhimmonthazh Montazhproekt Trazhimmonthazh Caspyneftemonthazh Structural Units Plant	Key event: departure of high ranking ethnic Russians; Key legislation: 1995 Subsoil Law; Key player: Nurlan Balgymbayev Outcome: ethnic Kazakhs with a background in the oil industry take charge of the companies

b) Kazakh Oil-Supporting Industry: Key Companies in 2004

Name	Management
Byelkamit	Chairman of the Board Directors: Pavel I. Beklemishev
Montazhspetsstroy	Director General: Uderbayeva Raya Prmagambetovna
KazGiproNefteTrans	President: Vitaly Kolomeyets
ABE Corporation	Director: Alibek Kh. Tupushev
DANK	M. Kurmanbayev
Kazkhimmontazh	President: Aityshev Sergey Moldagalievich First Vice-President: Tuleutayev Serikkazy Kadyrzhanovich First Vice-President: Borissov Vladimir Ivanovich
Imstalkon	President: Vladimir Kananykhin
Atyrauneftemash	General Director: N. Burlirbaev
Prommontage	General Director: Anatoly Zhivoglyadov
Gaszhobalau	President: S.M. Kamalov
Azimut Energy Services	President: Bulat Yelemanov
Munay Grafika	Chairman of the Board of Directors: A.N. Mindeyev
KazSelEnergoProject OJSC	President: A.S. Trofimov

Mekensak SPC	General Director: E.K. Ayazbayev
NIPIneftegas CJSC	Chairman of the Board of Directors: O.S. Gershtansky
NIPI CaspiMunayGas OJSC	President: A.A. Prosvirnov
Severodonetsky ORGCHIM CJSC	General Director: N.V. Koshovets
Kazakhstan Engineering	Director: A.L. Tulegenov
S2 Research&Engineering LLP	Director: Makhtab Sarvar
Gidromash-Orion	President: Valeryi A. Minchukov
Ziksto OJSC	President: Arktika Glubina
Petropavlovsk	Not Available
FMD Heavy Machinery	Not Available
Zenit	General Director: Vladimir P. Panfilov
Montazh Engineering	President: Aidyn Tumyshev
ERC Holdings	Not Available
SAM-EMRKZ LLC	Not Available
Almaty Heavy Machine Building Plant	General Director: Alexander T. Filipishin
Kaskor-Mashzavod	Not Available

Source: Oil journals and companies' web pages

c) NOC KazMunaiGas: Key Players 2003-2004

Name	Position
Uzakbai Karabalin	President
Timur Kulibaev	First Vice President
Makhambet Batyrbayev	Vice President
Bakhytkozh Izmukhambetov	Managing Director, Investment Projects and Shares in JVs
Zhakyp Marabaev	Managing Director, PSA Projects
Bakhytkozha Izmukhambetov	Managing Director, Investment Projects and Shares in JVs
Zhakyp Marabaev	Managing Director, PSA Projects
Iskander Beisembetov	Managing Director, Corporate Development
Daniyar Berlibayev	Managing Director, Finances

Kairgeldy Kabyldin	Managing Director, Transport Infrastructure and Service Projects
Vladimir Miroshnikov	Managing Director, Production and Technical development
Kanatbek Safinov	Managing Director, Legal Issues

Source: Oil journals and KMG web page

d) Kazakhization of the NOC KazMunaiGas 2002-2003

In KazMunaiGas	**Description**
KazMunaiGas directors	Ethnic Kazakh: professional oil men from the Atyrau and Mangistau region
KazMuaniGas directors' affiliates	Ethnic Kazakhs: family members and friends from the oil- rich regions
Young professionals	Ethnic Kazakhs: children of ex-nomenclatura, predominantly from Almaty and Astana
Soviet times professionals	Ethnic Kazakhs: worked in the oil related industries throughout the Soviet era
Out of KazMunaiGas	**Description**
Soviet times professionals	Non-ethnic Kazakhs: worked in the oil related industries throughout the Soviet era
Bureaucracy	Non-ethnic Kazakh: bureaucrats, many close to retirement

Appendix 6: Chapter 3, Section 3.3.

Assets of KazMuaniGas (Subsidiaries and JVs) in 2003

NAME	**SHARE %**
Production:	
KazMunayTeniz	100
Uzenmunaigas OJSC	90
Embamunaygas OJSC	85
Tengizchevroil LLP	20
Amangeldy Gas CJSC	100
Kazakhoil-Telf LLP	69
Kazakhoil-Aktobe LLP	50
Gyural LLP	37.2
Embavedoil LLP	52.69
Aktobe-Preussag LLP	50
Arman LLP	50
Karakudukmunai CJSC	40
Tenge LLP	69
Kazakhturkmunai LLP	51
Stepnoi Leopard LLP	50
Zhambai LLP	100
Refineries:	
Atyrau Refinery CJSC	86.7
KazTransGas LNG CJSC	50
Transportation:	
KazTransOil CJSC	100
KazTransGas CJSC	100
Kazmortansflot CJSC	50
CPC CJSC	19
Kazakhstan Pipeline Ventures LLP	51
MunayTas LLP	51
Marketing:	
Kazmunaygas Trade House LLP	100
KazRosGas	50

Kazakhoil Petrol LLP	100
Kylysh Commercial Partnership	100

Services:	
Kazakhoilpromgeophyzika OJSC	85
Kazakhstancaspishelf OJSC	90
KazMunayGas-Bureniye LLP	67
Aksaigasservice OJSC	82.4
KazStroyService LLP	100
Atyrau International Airport OJSC	100
Kazakhoil Service LLP	51
KazTransCom OJSC	47.2
Euro-Asia Air OJSC	100
Munaymash OJSC	90
Astanaenergoservice OJSC	0.05
Komakinvest CJSC	10
CTS KazMunayGas LLP	51
Nefteconsulting CJSC	100
Kazakhoil-Security CJSC	50
G-Media OJSC	3.5
Finance:	
Kazakhoil-Finance B.V.	100
Kazakhoil-Ukraine CJSC	34
Kazakhinstrakh CJSC	6.02
HSBK Pension Fund CJSC	20.8

Source: 'Kazakhstan oil and Gas', British Embassy/UK Trade and Investment: Almaty: September 2003 Update

Appendix 7: Chapter 6, Section 1.3.

Associations and Unions in Kazakhstan

Name	Management
Forum of Entrepreneurs	Chairman: Raimbek Batalov, Executive director: Timur Nazykhanov
Confederation of the Employers of Kazakhstan	President: Baikenov Kadyr
Kazakhstan Bank Association	Chairman: Bajseitov Bahytbek, Vice-president: Bajtukov Marat
Financial Association	Chairman of the Council: Dzhandosov Uraz, Executive director: Sembaev Daulet
Kazachstan Businesswoman Association	President: Sarsembaeva Raushan
Pharmaceutical Products Importers Association of Kazakhstan	President: Jozenas Audrius
Association of Medical Businessman («Otandastar Farmatsiya» LLP)	President: Zaika Anna
Association of National expeditors	Chairman: Esengarin Nigmadzhan
Association of independent electronic mass media	President: Taukina Rozlana
Association of pension funds	Chairman: Alibaev Ajdar
Association of best business enterprises	President: Shamsutdinova Svetlana
Association of Light industry enterprises	Chairman: Apenko Sergey
Association “KazAlko” /alcohol producers/	President: Manaev Ersain
Association of non-alcohol drinks producers	President: Dnishev Timur Vice-President: Ryabova Zoya
Association of packing companies	President: Bilseitov Galym
Association of furniture and wood processing	President: Bessonov Evgeny

enterprises	
Auditors' Chaber	1st Vice-President: Mamleev Etsher
Union of food producers	President: Popelyushko A.V.
Association of machine building enterprises «Agromash Center»	President: Suleimenov Muratbek
Ecological Union of Associations and Enterprises of Kazakhstan	Chairman: Eleusizov Mels
Association of medical doctors and pharmacists of Kazakhstan	President: Ajzhan Sadykova
Union of automobile dealers of Kazakhstan	President: Lim Yurij
EAN (Europe Article Number) Kazakhstan	Director: Abdrahmanov Azat
Association of Poligrafists	President: Aleksandrov Vyacheslav
Association of stationery enterprises	Chairman: Kozhahmetov Talgat Executive Director: Esengeldinov Kajrat
Association of Customs brokers	Director: Shestakov Gennady, Executive Director: Ajzhulov Tursun
National PR Association of Kazakhstan	President: Mataev Seitkazy
Association of Businessman of Almaty (Metallurgists Committee)	President: Elshibekov Serikbek
«Secret+Servis» service centre for businessman»	General Director: Ermakov Vladimir
Association of Investors of Kazakhstan	Chairman: Zhabagin Asygat
Kazakhstan Association of Marketing	Executive Direktor
Exchange Union of Kazachstan	President: Sherman Alexander
Oil Union of Kazakhstan	President: Tovshtein Valeriy
Association of TV and radio broadcasters	President: Zhumabaev Ajdar
Almaty Association of	Chairman: Temirbaev Maksut

dentists	
Mining Association of Kazachstan	Director: Dennis Prajs
Association of milk and milk products of Kazakhstan	President: Soloveva Ajgul
Leasing Association of Kazachstan	President: Issyk Tatiana
Association «Machine builders of Kazakhstan»	President: Sulejmenov M.

Source: http://www.kazakhstanembassy.org.uk/cgi-bin/index/211

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