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Kazakhstan Freight Transport Report Q1 2011

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Abstracts

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Caspian Pipeline Consortium (CPC) would invest up to US$4.6bn to increase the capacity of the pipeline between Tengiz oilfield in Kazakhstan and the Russian port of Novorossiysk by 2014, reported Reuters in late August 2010. The consortium was expected to borrow around US$1bn in 2012-2013, according to CPC's head Aleksander Tarakanov. Russia, Kazakhstan and private shareholders agreed, in 2008, to expand the pipeline's capacity to 67mn tonnes of oil by 2014 from 34.57mn tonnes a year in 2009. CPC is a privately owned pipeline - Russia holds 31% stake, Kazakhstan holds 20.75% stake and the rest is shared among private companies united in a consortium led by Chevron and including two joint ventures (JVs). The 1,577km CPC pipeline connects Kazakhstan's Caspian Sea area oil deposits with Russia's Black Sea port of Novorossiysk. The governments of Russia, Kazakhstan and Oman developed the CPC project in conjunction with a consortium of international oil companies. The CPC pipeline exported around 690,000b/d of crude oil in 2007.

Kazakhstan, a strong economic performer in recent years, was nevertheless quite hard hit by the 2009 recession, which reduced prices for its key mineral exports and weakened the country's financial sector.

The country goes into 2011 benefitting from a somewhat uneven global recovery. Improving world trade levels helped restore a trade surplus in 2010, but the pace of global demand growth is set to ease. Against this, the government's medium-term strategy of diversifying the non-oil sector of the economy and investing in strategic industries appears well-placed to succeed. As a result of our analysis, BMI estimates a 2010 GDP growth rate of 7.0% (following on from the lower 1.2% growth rate experienced the previous year). Our outlook for 2011 is for lower GDP growth of 5.5%, edging up to 6.5% in 2012. In the five years to 2015, we expected growth to average an

impressive 6.7% per annum, implying that Kazakhstan will continue to be a regional outperformer.

After two-years of significant contraction (with falls of 11.7% and 3.1% respectively in 2008 and 2009), in 2010 total cargo volume carried by air increased by an estimated 3.9% to 22,850 tonnes. For 2011, we are predicting that the industry will see accelerating growth at 5.8% to 24,170 tonnes. Although starting from a small base, we believe the Kazakhstan airfreight sector has major potential for development over the next few years.

BMI is predicting freight carried on Kazakhstan's small inland waterways will grow by 11.1% in 2011 to reach 1.277mn tonnes, continuing the recovery begun in 2010 from a two-year contraction across 2008 and 2009.

New investment in the country's rail system is beginning to materialise. In October 2010 Kazakhstan's national rail company Kazakhstan Temir Zholy (KTZ), signed a contract with France's Alstom and Russia's TransMashHolding (THM) to manufacture electric locomotives. In terms of cargo volume carried by rail, Kazakhstan's railway system experienced one year of decline, a drop of 7.8% in 2009, when the total came down to 248.0mn tonnes. BMI estimates that a recovery began in 2010 with 5.0% growth; for 2011 we foresee the pace slowing marginally to 4.5% growth to 272.09mn tonnes. At the end of September 2010, the Asian Development Bank (ADB) extended a US$800mn loan facility to Kazakhstan to upgrade the country's road network - an important step to improve the country's chances of being a transit hub between Europe and Asia. In 2011, we expect total tonnage volume carried by road to increase by 4.0% to 1.763bn tonnes, following a standstill year in 2010 (+0.4%).

In real terms, Kazakh trade slumped by a massive 22.7% in 2009, had a moderate recovery in 2010 (estimated growth of 5.1%) and is set to maintain that level in 2011 (+5.1% again). This means that the country's trade value remains significantly below its pre-2009 peak. Looking ahead, Kazakh trade will experience moderate-to-strong growth in the five years to 2015 (+6.8%), with imports slightly ahead of exports. In nominal terms, we are expecting imports to total US$54bn in 2011, with exports higher at US$61.32bn. Kazakhstan will therefore register a trade surplus, mainly because of its oil and gas exports.

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