

Akhmetova Z.B.,
Alikbaeva A.B.,
Zhaksygulova K.O.

**Overview of promising
manufacturers in the oil and
gas sector of the Republic of
Kazakhstan**

Ахметова З.Б.,
Аликбаева А.Б.,
Жақсығұлова Қ.О.

**Қазақстан Республикасының
мұнай-газ секторына қажетті
құрылғыларды жасап
шығаратын мүмкіндігі жоғары
өндірушілерге шолу**

Ахметова З.Б.,
Аликбаева А.Б.,
Жақсығұлова Қ.О.

**Обзор перспективных
производителей оборудования
в нефтегазовом секторе
недропользования Республики
Казахстан**

The oil and gas sector of Kazakhstan at this stage is a key factor of development and has a major role in the socially and economically formation of regions. Due to the increasing importance of this sector will be relevant to consider the scope of the accompanying segment of oil and gas equipment, which is closely related to such processes as the production, processing and transportation of oil and gas. Currently in the domestic market of industrial equipment for the oil and gas operating large industrial facilities for the production of a wide range of oil and gas equipment, but there is a problem of low competitiveness with imported counterparts as a result of a lower quality, inadequate technological characteristics and the lack of marketing in these enterprises. In this regard, this paper provides an overview of the major domestic manufacturers and presents the prospects for the development of their activities.

Key words: oil and gas, oil and gas equipment market, industrial marketing, import and export of equipment.

Қазақстанның мұнай-газ секторы елдің қазіргі даму деңгейінде негізгі фактор болып табылады және аймақтардың әлеуметтік-экономикалық дамуына әсер етеді. Бұл сфераның маңыздылығының артуына байланысты сфераға сәйкес мұнай және газ өндіру, өңдеу және транспорттау процестерімен тығыз байланыста болатын мұнай-газ құралдарының сегментін қарастыру өзекті болып табылады. Қазіргі таңда мұнай және газ сферасы үшін өндірістік құралдардың отандық нарығында мұнай-газ құрылғыларының кең спектрін жасау бойынша ірі өндірістік объектілер жұмыс жасайды, бірақ сапасының төмендігіне, технологиялық сипаттамаларының болмауына және сол кәсіпорындарда маркетингтің жоқ болуына байланысты импортталатын баламалы құрылғылармен салыстырғанда төмен бәсекелестік мәселесі бар. Осыған орай бұл жұмыста негізгі отандық өндірушілерге шолу жасалынып, олардың қызметінің даму болашағының мүмкіндіктері көрсетілген.

Түйін сөздер: мұнай-газ саласы, мұнай-газ құрылғылар нарығы, өндірістік маркетинг, құрылғылар импорты мен экспорты.

Нефтегазовый сектор Казахстана на данном этапе развития страны является ключевым фактором развития и оказывает большую роль на социально-экономическое становление регионов. В связи с возрастающей важностью данной сферы будет актуальным рассмотреть сопутствующую сферу, сегмент нефтегазового оборудования, который находится в тесной связи с такими процессами, как добыча, переработка и транспортировка нефти и газа. В настоящий момент на отечественном рынке промышленного оборудования для сферы нефти и газа функционируют крупные промышленные объекты по изготовлению нефтегазового оборудования широкого спектра, но существуют определенные проблемы, связанные с низкой конкурентоспособностью с импортируемыми аналогами вследствие более низкого качества, недостаточных технологических характеристик и отсутствия маркетинга на данных предприятиях. В связи с этим в данной работе представлен обзор основных отечественных производителей и перспективы для развития их деятельности.

Ключевые слова: нефтегазовая отрасль, рынок нефтегазового оборудования, промышленный маркетинг, импорт и экспорт оборудования.

OVERVIEW OF PROMISING MANUFACTURERS IN THE OIL AND GAS SECTOR OF THE REPUBLIC OF KAZAKHSTAN

At this stage of development oil and gas industry plays a decisive role in the economic structure of the Republic of Kazakhstan. Revenues from oil and gas companies make up the bulk of the state budget. Oil and gas complex has a decisive impact on the socio-economic development of the country and its individual regions, in fact is a donor for the whole economy of the state, it contributes to the development of other sectors of the economy. With work related to oil and gas companies implementation of the most important social programs across the region and the entire state. Significant hydrocarbon reserves, favorable geographical position of the state, a further increase in oil and gas production indicate that in the future oil and gas complex will occupy a leading position in the economy of the Republic of Kazakhstan, and its development are associated certain hopes for further socio-economic development. The Development Strategy of Kazakhstan until 2030 as the long-term priorities identified energy resources, efficient use of which by the rapid increase in production and export of oil and gas in order to generate revenue will contribute to sustainable economic growth and improving the lives of Kazakhstan citizens.

As the President of the Republic of Kazakhstan N.A. Nazarbayev noticed that oil has become not just an important sector of the domestic industry, but also a symbol of independent statehood, the hope for a better future. Undoubtedly, the role and importance of hydrocarbon resources in the republic's great, if only because the development that are the basis of export potential and, therefore, the main source of export revenues of the state. Not surprisingly, the modern Kazakhstan became a state, where the interests of many countries. The main reason for this is the presence of huge reserves of hydrocarbons. In a globalized economy, the large multinational oil companies that are interested in increasing the volume of their business, are increasingly penetrate into the priority areas of the national economy. This shows that the modern commodity markets (in particular this oil and oil products market), turned into a global international space cooperation with all the ensuing consequences.

Significant investment demand potential opportunities in connection with the development of offshore fields of the Caspian Sea. According to estimates of local and foreign experts, the total cost of capital will amount to about 160 billion. Dollars, of

which 10 billion. Dollars should be invested in the initial stage of exploration and evaluation of deposits. The obvious is the need for the joint integrated development and use of communications systems and components of industrial and social infrastructure. Already, a number of enterprises of mechanical engineering and mining industry produced some items of equipment and materials for oil and gas companies. Further expansion of the product range will depend on the availability of financial resources, licenses and certificates.

Intensive development of mineral ores, metals, oil and gas in Kazakhstan promoted active development of heavy, oil and gas, mining and metallurgical engineering, as well as enhance the competitiveness

of products in these segments. So, being productive work to improve the design, introduce new production processes, corresponding to high international standards, increasing the range of Kazakh products, receiving international recognition.

Today in Kazakhstan there are more than 30 promising, domestic enterprises producing equipment for oil and gas country tubular goods; Reinforcing steel products: valves, valves, cranes; capacitive equipment: separators, tanks, furnaces heating oil; pumps; cables; chemical reagents; electrical equipment; drilling equipment.

The following Chart 1 is a brief overview of the companies according to the Ministry of Energy of the Republic of Kazakhstan.

Table 1 – The list of the main producers of oil and gas equipment in Kazakhstan

	Name of company	Type of goods	The share of local content, %
\Piping products	«KSP Steel» LLP	Casing, tubing and oil pipes with diameter up to 13.5 / 8 «(346.1 mm)	95-97
	«ArcelorMittal Tubular Products Aktau» JSC	Pipe diameter 480-1420 mm	94-97
	«Plastic pipes plant» LLP	Pipes, tubing and fittings in diameters from 63 mm to 500 mm	60
	«Aktyubinskii non-metal pipes plant» JSC	Pipes with a diameter of 300-2600 mm	60
	«Petropavlovskii pipes plant» LLP	Seamless pipes with large diameter	60-70
Reinforcing steel products: valves, cranes	«Kazneftegazmash» JSC	Christmas tree, preventers, valves, cranes	60-80
	«Ust'-Kamenogorskiy valve plant» JSC	Christmas tree, preventers, valves, cranes	60-80
	«KZTA» LLP	Taps, valves	60-80
Vessel equipment: separators, tanks, oil heating furnace	«Belkamit» JSC	Separators, reservoirs, tanks	60-80
	«Sewon-Vertex Heavy Industry» JSC	Separators, reservoirs, tanks	60-80
	«Zapadno-Kazakhstanskaya engineering company» JSC	Separators, storage tanks, oil heating furnace	60-80
	«Kaskor-Mashzavod» JSC	Separators, storage tanks, oil heating furnace	60-80
	«Atyrauneftemash» LLP	Separators, storage tanks, oil heating furnace	60-80

Continued Table 1

Pumps	«Prikaspiyskiy machine-building complex» LLP	ESP pumps, drive pumps	60-80
	«Aktauskaya oil company» LLP	ESP pumps, submersible pumps, power-driven pumps	60-80
	«Georgiyevskiy pump equipment plant » LLP	Centrifugal pumps	60-80
	«Munaimash» JSC	Rod pump, deep-well pumps	50-60
	«Kudu Industries Kazakhstan» LLP	Screw pumps	60-80
	«Novomet-Kazakhstan» LLP	ESP pumps, submersible pumps, power-driven pumps	60-80
Drilling equipment	«Petropavlovskiy heavy machine plant» JSC	Mobile drilling rig, cementing installation of equipment for repair of wells	40-60
	«Zhigermunai» LLP	Drill bits, large drilling rigs	80
Electrical equipment	«Kentauskiy transformer plant» JSC	Transformers, circuit breakers, distribution boards	80
	«Camont» JSC	Transformers, circuit breakers, distribution boards	80
	«Ust'-Kamenogorskiy condenser plant » JSC	Capacitors	80
	«Machinery Service Ltd.» LLP	Diesel generators, power plants	60-70

The current situation in the market of oil and gas equipment in Kazakhstan shows that the bulk of the current domestic demand for it, it is satisfied by imports, meanwhile, as the industry itself is characterized by domestic manufacturers producing a wide range of industrial equipment for mining, processing and storage of oil and gas. This situation stems from the fact that approximately 80% of Kazakhstan's oil and gas are produced by international companies-Chevron Texaco, Exxon Mobil, British Petroleum, AGIP, NCOC, and TCO. Almost all large companies are trying to bring the equipment to Kazakhstan from abroad, as more confidence in the quality of the world's leading oil and gas production supplies, and in some cases, preference is given to the countries of production equipment, where the companies originate. The main countries-importers of oil and gas equipment in Kazakhstan are Italy, France, China, India, Russia, and USA. Insufficient experience of enterprises, low technological and qualitative characteristics of the

equipment produced by Kazakhstan's plants have a significant impact on the low demand of domestic products.

According to the experts themselves, and machine builders, the main problem of domestic producers – a lack of working capital and the high cost of production during the development of new products, hence a losing position in tenders held by oil-producing organizations. Today, the oil and gas sector of the republic the policy define the main oil companies, of which only nine companies form 75 per cent of orders for goods and services. However, so far, the tender procedures are on the special regulations and domestic oil and gas engineering companies are «overboard» multibillion-dollar projects. According to the law on public procurement, the company in tenders should give preference to those who offer a lower price, and it is usually lower than that of foreign producers. A major obstacle was the order of payment of taxes and duties on imports of raw materials and semi-finished products. For

example, in the North-Caspian project Kazakhstani enterprises as opposed to foreign do not have to pay customs duties and VAT exemptions.

Most of Kazakhstan's enterprises are now in a difficult financial situation and their equipment lags behind modern requirements. However, the proximity to the main areas of oil production, the availability of production facilities and personnel, which does not require lengthy training, making them attractive in terms of joint ventures. Foreign investors should look more closely at the possibility of establishing joint ventures and service companies based on the Kazakhstan enterprises. The President of Kazakhstan Nursultan Nazarbayev emphasized that the policy of support of Kazakhstani producers is an important element of the modernization of the economy, as participating in major projects, domestic suppliers embracing new technology. In order to support domestic suppliers of oil and gas production, the Government has adopted the Kazakhstan content development program, which guarantees our manufacturers long-term orders, and those, in turn, will need to expand the range of products, not forgetting to raise the quality and reduce the cost. As a successful example of cooperation and support of the domestic oil and gas engineering in the «KazMunayGas» lead work with LLP «KazTurboRemont» (gas turbine equipment) and JSC «West Kazakhstan Engineering Company» (furnace oil heating and heat exchangers). EP participated in the co-financing of these plants by issuing guarantees for \$ 13 million, and to ensure their long-term orders for 2 billion tenge in 2012 and 4 billion tenge in 2014. With this question resolved in Kazakhstan repairing gas turbines and gas compressor units, which had previously been repaired abroad (either in Russia or in Europe). According to representatives of the Ministry of Energy, the Kazakhstan content of the program is now being developed mining companies may include such measures in support of local producers as long-term contracts, promoting their certification prior advances expenses to mobilize equipment and personnel contractors, technology transfer and so on.

Thanks to the active support of the state domestic enterprises have great potential to increase the proportion of presence in the oil and gas sector for different product categories. We are talking about the results of the study of production of the Customs Union and the analysis of TRU purchased large oil and gas projects. It turned out that quite a large number of headings can be recommended for production in Kazakhstan. For example, the pumps, the average annual procurement of more than \$ 5.8 million. At

this moment, we have used pumps manufacturers such as John Crane, Flowserve, Worthington-Batignolles, Sunndyne, Sulzer, Weir, Bornemann Pumps. However, as the potential vendors it can act LLP «AZTM», LLP «Caspian machinery complex» and JSC «Munaymash». Needs major subsoil users in tanks and reservoirs, the average annual volume of purchases on which comes to \$ 12 million, is now covers products Enersul Limited Partnership. Meanwhile, their production is quite ready to JSC «Imstalkon», JSC «Belkamit», JSC «Sewon-Vertex Heavy Industry» and LLC «SPF Montazhspetsstroy». Also in Kazakhstan can be carried out in full stop valves – valves, cranes, latches (size of the market – about \$ 1.9 million). Currently, these products are suppliers Cameron, Emerson Process Management AG, Worley Parsons, Lazaro Ituarte. As local suppliers of these products, according to EP reports can be considered of «PMZ», LLP «Kazarmaprom» and JSC «Ust-Kamenogorskii Valve Plant». As can be seen from the above examples, the domestic oil and gas sector may well go completely to use many categories of equipment manufactured within the country. While the leaders among those providing real support for the domestic machine builders is the national company «KazMunayGas». Thus, according to the department of development of oil and gas engineering, JSC NC «KazMunayGas», the total product group procurement companies of JSC» National Company «KazMunayGas» (KMG) was worth more than 36 billion tenge for 2014 (approximately \$ 240 million).

At the same time, the overall positive dynamics of growth in production volumes of oil and gas equipment in Kazakhstan is still premature to talk about the complete domination of the domestic engineering industry products in the purchases of NC and other subsoil users. Currently, a significant share of KMG buys equipment from domestic manufacturers, such as sucker rod pumps, tubing, furnace-heating oil and many others. However, certain types of equipment is still imported by virtue of the previously listed reasons.

According to many experts, Kazakhstan in the industry has the opportunity in the next 10 years to increase to 60-70% of the production of oil and gas equipment, but it is necessary to improve the quality of products, improve the technological parameters, and especially pay attention to the marketing system in domestic enterprises. Here you can list many reasons that potential customers may turn to the Kazakhstani producer: no extra cost and risk during transport, there is no need of customs

payments, a high percentage of local content, good quality stuff, the ability to attract Russian specialists for installation and service work. Well-established marketing system at the industrial enterprises play a key role in enhancing the competitiveness and efficiency of the enterprise. Industrial marketing will allow the management to make the most effective management decisions regarding prices, assortment, promotion methods, and promotes the production

of competitive products, taking into account the interests and needs of customers. In modern conditions marketing becomes the foundation for long-term and operational planning of production and commercial activities of industrial enterprises, preparation of export production programs, the organization of scientific and technical, technological, investment and production and sales of the enterprise team.

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