Rystad Energy

ENERGY insights & analytics

To cut or not to cut – Kazakhstan’s quandary

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Executive summary

Kazakhstan's recent non-compliance with OPEC+ production quotas has drawn scrutiny and even criticism from within the alliance, leading to the country being labelled by some in the group as a "cheater". This situation highlights a pressing issue for Kazakhstan's policymakers: to address the perception of unreliability in adhering to OPEC+ commitments. As Kazakhstan approaches the 38th OPEC+ Ministerial meeting in early December, it must clarify its stance on future cooperation and compliance with OPEC+ standards, considering its dependence on oil revenues and strategic production goals. The decision it makes could affect its position and reputation within the alliance, as well as its broader economic strategy.

The OPEC+ alliance, formed in 2016, was designed to stabilize global oil markets through coordinated production cuts. However, this has been challenging for Kazakhstan, which is committed to quota adherence yet economically reliant on rising production levels. With a state budget tied to oil revenue and ambitious national projects under way, Kazakhstan faces unique challenges in meeting OPEC+ production restrictions.

Alliance forged after oil price crash

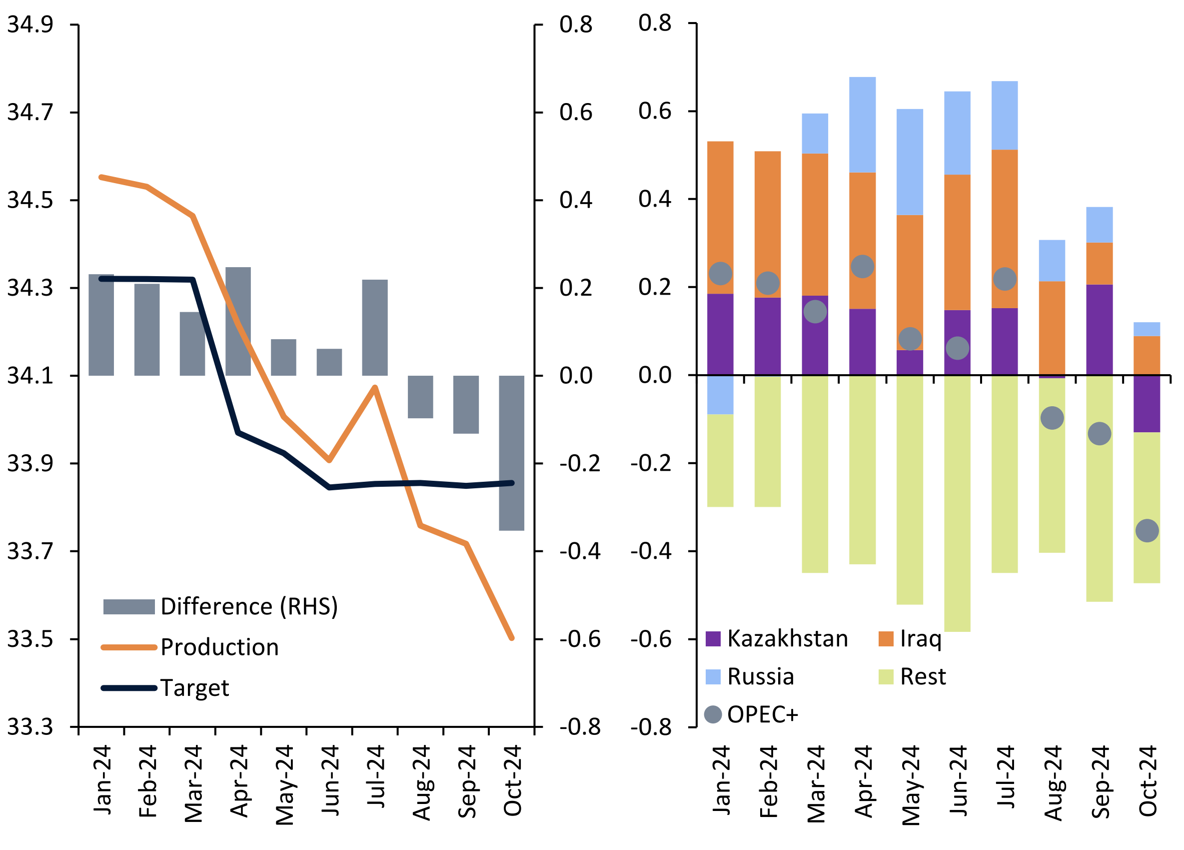
The OPEC+ group is an alliance of 22 oil-producing countries that was formed in late 2016 (refer to Appendix below for more details). It comprises the 12 OPEC countries (Algeria, Congo-Brazzaville, Equatorial Guinea, Gabon, Iran, Iraq, Kuwait, Libya, Nigeria, Saudi Arabia, the UAE and Venezuela) and 10 non-OPEC countries (Azerbaijan, Bahrain, Brunei, Kazakhstan, Malaysia, Mexico, Oman, Russia, Sudan and South Sudan). The alliance was formed as a consequence of the sharp decline in oil prices seen after 2014 in a concerted effort to accelerate the stabilization of the oil market. Oil prices had fallen from $112 per barrel in the second quarter of 2014 to less than $40 per barrel in the first quarter of 2016 on the back of strong US production and a rapid increase in OPEC crude output.

The pivotal role that OPEC+ has played in stabilizing oil markets since 2016 has come at a cost. When the alliance was formed in 2016, its crude output accounted for 51% of global oil supply, equating to 46.81 million barrels per day (bpd). But continuous production cuts to support oil prices has meant that the group has been steadily giving away market share. As of this year, the group's crude output accounts for less than 43% of global oil output (40.97 million bpd). While OPEC+ crude output has declined 5.8 million bpd between 2016 and 2024, oil production from outside the group has increased by 9 million bpd during this period. In particular, US oil production has increased by an astonishing 7.7 million bpd during this period, going from 12.3 million bpd in 2016 to 20 million bpd in 2024.

Compliance and cohesion are key to future of OPEC+

Since the start of the latest round of production cuts that started in January this year – which came with an updated target production for each OPEC+ country – compliance has been put into question. During the first four months of the year, the group as a whole overproduced by around 210,000 bpd. Since then, compliance has gradually improved and the latest production figures show that in October the group's output fell short of its target by 353,000 bpd (Figure 1).

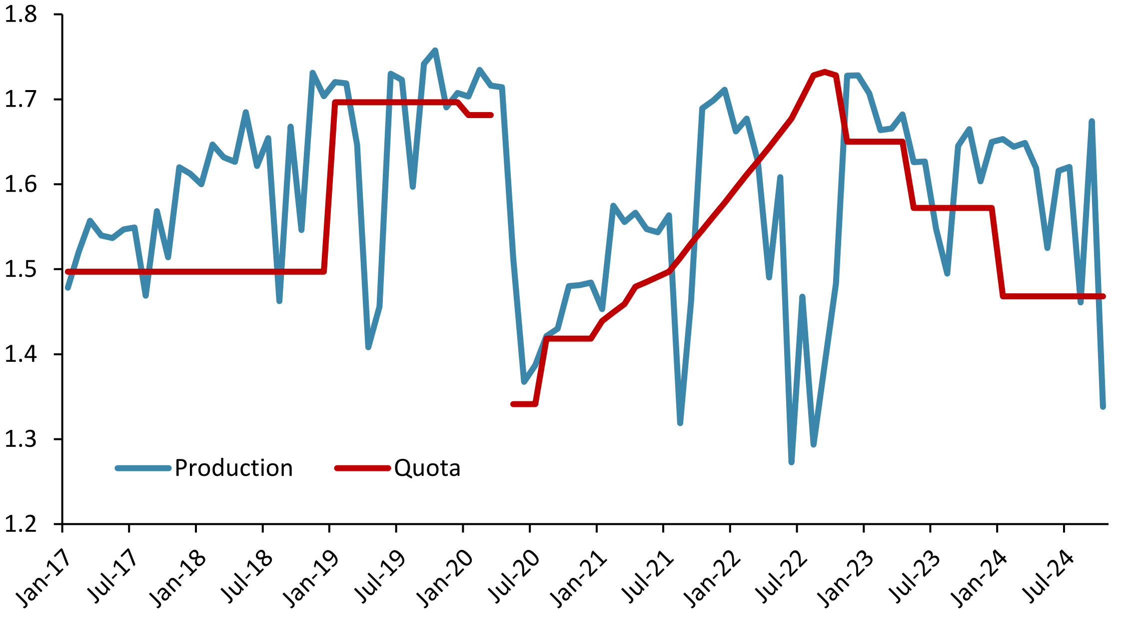
Figure 1. OPEC+ compliance
Million barrels per day



Source: Rystad Energy research and analysis

Specifically for Kazakhstan, its compliance has been noticeably low since the start of the alliance. Between January 2017 to October 2024, Kazakhstan has on average overproduced by 30,000 bpd each month (Figure 2). Overproduction was especially pronounced in 2018 (134,000 bpd on average) and during this year (average of 139,000 bpd until September). Более того, с начала года Казахстан недодобыл только в августе, всего 7 000 баррелей в сутки, и в октябре, когда производство было на 130 000 баррелей в сутки ниже запланированного. Этих объемов, недодобытых за эти два месяца, существенно не хватает, чтобы компенсировать перепроизводство в этом году.

Figure 2. Kazakhstan production and target production
Million barrels per day



Source: Rystad Energy research and analysis

This low compliance seen in Kazakhstan (together with Iraq) has raised some concerns among OPEC+ peers that see lack of compliance as a structural problem for the alliance. Kazakhstan has submitted a detailed production plan to compensate for the overproduction seen since January 2024, to be implemented from August this year to September 2025. However, production figures for September this year show that the compensation plan has not been implemented as the country continues to overproduce.

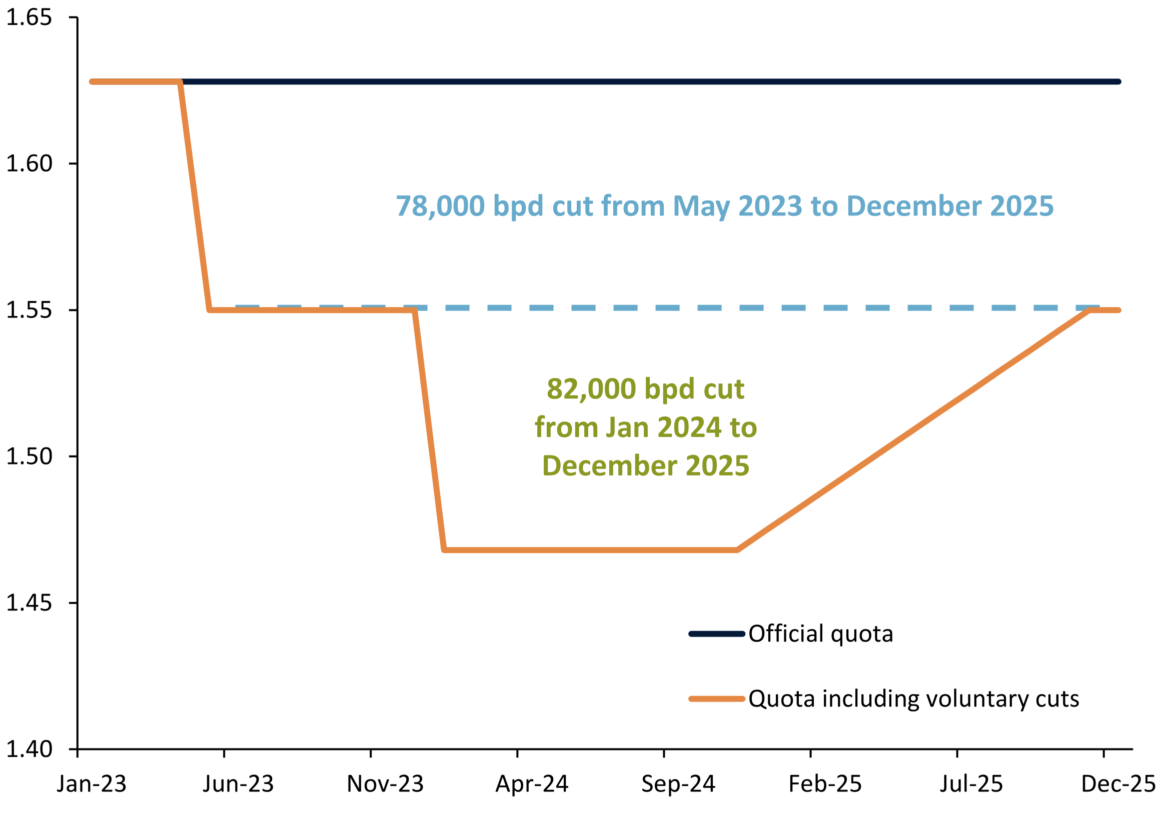
While the OPEC+ alliance does not have an explicit enforcement mechanism to ensure compliance with the production cuts, there are two important tools that the group (or group's kingpin, Saudi Arabia) can use instead. The first one is peer pressure through the regular OPEC+ related vehicles such as the bimonthly Joint Ministerial Monitoring Committee (JMMC) and the biyearly OPEC+ Ministerial meetings. The second tool, which is far less explicit, is through the subtle threat of a price war if compliance slips.

In March 2020, the group failed to agree on a common production policy and a brief but intense price war saw Brent crude prices falling below $20 per barrel on 21 April 2020 as Saudi Arabia sharply increased production by almost 2 million bpd in a few weeks, reaching an all-time-high 11.7 million bpd in April 2020. The UAE and Kuwait also increased production by 1 million and 500,000 bpd, respectively. In the collective OPEC+ memory, that episode serves as a reminder of the power that Saudi Arabia – and the other Gulf Cooperation Council (GCC) countries – have in the oil markets.

Kazakhstan has been an active member of the OPEC+ alliance since its inception in December 2016. It is the eighth largest crude oil producer in the group, accounting for 3.8% of total OPEC+ production. Its share has increased since 2016 when it represented just 3% of the total. Additionally, Kazakhstan is one of the eight countries within the alliance that have implemented official but also voluntary cuts (twice in the last 18 months).

Its official production target (excluding voluntary cuts) for 2025 is 1.628 million bpd, similar to the official target for 2024. The process of setting the target production for each country has not been transparent and was mostly a result of internal discussions. For establishing the 2025 targets (in June this year), the OPEC Secretariat commissioned a study by three independent sources (Rystad Energy, Platts, and Wood Mackenzie) to assess the production capacity of each country. Kazakhstan also implemented voluntary cuts from May 2023 of 78,000 bpd (extended until the end of 2025) and an additional 82,000 bpd from January 2024 that, in principle, it is scheduled to start gradually unwinding in January 2025 until December 2025 (Figure 3).

Figure 3. Kazakhstan production target
Million barrels per day



Source: Rystad Energy research and analysis

Currently, OPEC+ oil production quotas do not align with either actual output or the planned volumes for the coming years. Oil and condensate production in Kazakhstan is increasing, and according to the Socio-Economic Development Forecast for 2025–2029, presented by Kazakhstan's Ministry of National Economy in August this year, output is expected to rise from 1.795 million barrels per day (bpd) in 2024 to 1.944 million bpd in 2025 and 2.096 million bpd by 2029 (see the table below). For comparison with OPEC+ quotas, only oil production is relevant. In this context, forecast oil output is expected to be 1.559 million bpd in 2024, rising to 1.72 million bpd in 2025 and reaching 1.9 million bpd by 2029.

Kazakhstan crude oil production 2024-2029

	UoM	forecast 2024	plan 2025	plan 2026	plan 2027	plan 2028	plan 2029
Oil and condensate production	mln ton	88.4	97.2	101.5	105.5	103.9	104.8
Condensate production (Karachaganak)	mln ton	11.8	11.2	11.9	12.1	12.1	9.8
Oil production	mln ton	76.6	86.0	89.7	93.4	91.8	95.0
Days	q-ty	366	365	365	365	366	365
Barrelization coef.	bbl/ton	7.3	7.3	7.3	7.3	7.3	7.3
Oil and condensate production	mln bpd	1.763	1.944	2.030	2.110	2.072	2.096
Oil production	mln bpd	1.527	1.720	1.793	1.868	1.831	1.900

Source: Ministry of Energy, Ministry of National Economics, EXia / ENERGY Insights & Analytics

Kazakhstan's economy is heavily reliant on oil, and budget expenditures are built up on a growing production profile, assuming a Brent crude price of $75 per barrel as the base case. A reduction in production, and/or a decline in Brent prices, would increase the non-oil budget deficit, raising financing costs and/or reducing social spending—outcomes that are likely to be viewed unfavorably by the public.

The projected growth in oil production is driven by three key projects: the Future Growth Project/Wellhead Pressure Management Project (FGP/WPMP) at Tengiz, the construction of gas processing plants at Kashagan, and the development of the Kalamkas-sea and Khazar oilfields. Below is a brief overview of each project.

Tengiz FGP/WPMP. The FGP/WPMP is a major expansion of the Tengiz oilfield, involving a total investment of approximately $46.7 billion, aimed to bring oil production output toward 850,000 bpd. FGP/WPMP expected to begin operations in the first half of 2025, with a gradual ramp-up in production over two to three years, potentially adding up to 260,000 bpd. Madi Takiyev, RoK Minister of Finance, explicitly states that the FGP/WPMP will add additional taxes for another $3 billion [KZT 1.4 trillion] in 2025 alone[1]

[1] as per Interfax-Kazakhstan agency https://interfax.kz/?lang=rus&int_id=22&news_id=116546

Upward trend for Kazakhstan's oil production

Kashagan Gas Processing Plants. Two gas processing plants with capacities of 1 billion cubic meters per annum (Bcma) and 2.5 Bcma are planned at the Kashagan oilfield. Both plants intended to debottleneck oil production, because flaring is strictly prohibiting in Kazakhstan. The first plant, with a 1 Bcma capacity, is expected to be launched in 2026, contributing an additional 20,000 bpd of oil production. The second plant, with a 2.5 Bcma capacity, is projected to start in 2028–2029, adding another 50,000 bpd. Investment in these plants is estimated at between $3 billion and $3.5 billion. While delays have been a concern, progress may accelerate following the involvement of UCC Holding (a Qatari investor) confirmed in May this year.

Kalamkas-sea and Khazar oilfields. The project is scheduled to begin oil production in 2028, with peak output expected to reach 80,000 bpd. An Improved Model Contract for the development of these fields was signed in February 2024, and front-end engineering design (FEED) is currently under way. The project is expected to attract $6 billion in direct investment.

In these projects, KazMunayGas, Kazakhstan's national oil company, holds stakes of 20%, 16.877%, and 50% in Tengiz, Kashagan, and Kalamkas-Khazar, respectively. This limited ownership constrains the state's ability to make corporate decisions to reduce production in line with OPEC+ quotas. Moreover, the contracts governing subsoil use provide (obviously) shareholders with the authority to make operational decisions.

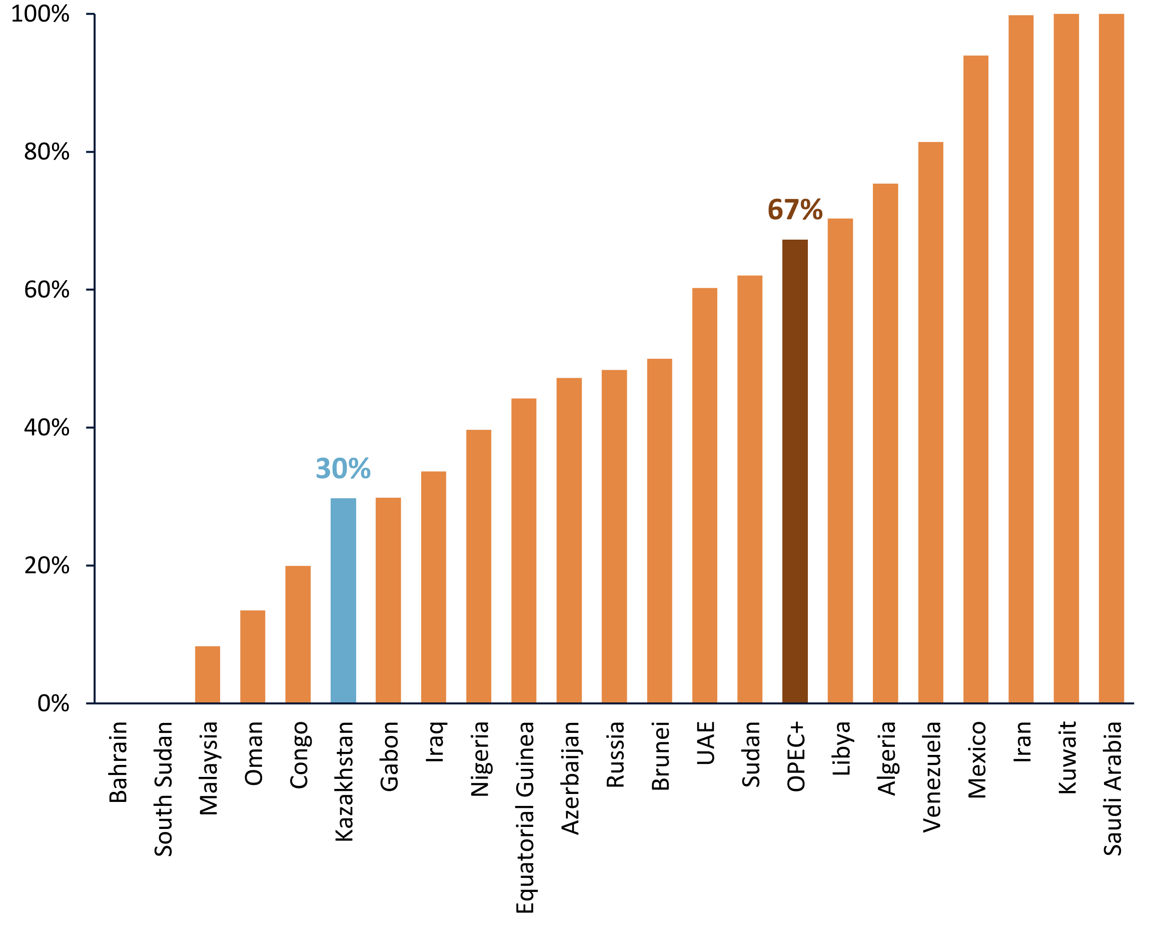
Government's dilemma

Kazakhstan faces a dilemma in balancing compliance with voluntary OPEC+ quotas and its economic dependence on growing oil production. On the one hand, the Ministry of Energy has reaffirmed its commitment to adhering to quotas, with plans to return to the established production levels and even compensate for accumulated overproduction. On the other, the Ministry of National Economy has based the state budget on projections of increased oil output. Additionally, the natural gas that will accompany this increase in oil production is already allocated for new gas chemical projects and to meet the rising population's domestic demand.

Given Kazakhstan's limited capacity to directly limit production through KazMunayGas, which accounts for only 30% of national crude production in 2024, the government will eventually need to clarify its stance on OPEC+ quotas. Achieving this will require balancing domestic economic goals with foreign policy commitments in the hydrocarbon sector, including the mandate of the oil and gas regulator.

In fact, Kazakhstan is among the OPEC+ countries with the lowest share of production from its national oil company. On average, national oil companies produced 67% of the group's crude output in 2024 (Figure 6). And in the case of the group's kingpin, Saudi Arabia, the share is 100%. This significant difference in the composition of the oil industry in Kazakhstan with respect to its fellow OPEC+ countries is an important element to consider when thinking about the future of Kazakhstan inside the group.

Figure 4. Share of crude production in 2024 by national oil companies
Percentage



Source: Rystad Energy research and analysis

As shown above, OPEC+ has prioritized supporting prices in detriment of market share since the group was formed in 2016 (with the exception of 2021 and 2022 when OPEC+ gradually unwound the massive Covid-19 pandemic-related cuts implemented in May 2020). This strategy is supportive of maximizing short and medium-term revenues. But a fundamental question in the next few years for OPEC+ is if the group will ever be able to regain market share that has been lost since 2016 – and if so, how and when will this be achieved.

While between 2025 and 2027 it is estimated that OPEC+ crude production capacity will remain roughly constant at around 50 million bpd, only three countries will increase their capacity during the next three years: Saudi Arabia (800,000 bpd), the UAE (300,000 bpd), and Kazakhstan (150,000 bpd). The other 19 OPEC+ countries will see their production capacities decline in the medium-term. As such, from the strategic point of view, regaining market share in in the next few years is less of a concern for these 19 countries, simply because they would not have additional capacity available.

But for Saudi Arabia, the UAE and Kazakhstan, increasing production capacity in the next few years open the fundamental question of when, if at all, this new capacity will be used. For Kazakhstan, the puzzle is even more complicated due to the low share of production from the national oil company, which implies the imperative nature of attracting private investment into the oil sector.

Much of the discussion about the future of OPEC+ as a cohesive group is dependent on medium-term market fundamentals. From the demand side, while oil demand growth is expected to decelerate in the next few years as the energy transition progresses, there is still a significant degree of uncertainty about the pace of demand destruction. Rystad Energy's scenarios show that by 2030 oil demand could drop to less than 100 million bpd in a very fast transition scenario or keep increasing to 113 million bpd in a very slow transition scenario (demand this year is estimated at 104 million bpd). The prospects for non-OPEC+ supply in the next few years is somewhat less uncertain and the expectation is that growth will moderate rapidly to reach 52 million bpd by 2030, up from less than 47 million bpd in 2024.

In other words, in a slow energy transition scenario where oil demand remains resilient in the next few years, OPEC+ would be able to regain market share in a coordinated fashion. But in a world where the energy transition is fast, OPEC+ would not be able to regain market share and would need to continue implementing production cuts to support prices.

For Kazakhstan, in particular, that opens the question of the value in the medium term of being part of OPEC+. Game theory shows that the cohesion of a cartel is stronger in a growing market. However, as oil demand growth decelerates and starts declining in the coming years, the incentives to remain part of a cartel diminish over time as the incentives to deviate – and increase production – become increasingly stronger.

While these are important medium-term issues, looking into the next few weeks, OPEC+ ministers will gather for the 38th OPEC+ Ministerial meeting on 1 December. There will be three main topics on the table for the group to discuss.

The first one will be the low compliance level seen during this year by Iraq and Kazakhstan. It is anticipated that these countries will face strong peer pressure to deliver on their voluntary cuts and implement the compensation mechanism for past over-production. The second topic will be the confirmation of the country level production targets for next year that were initially agreed in the previous Ministerial meeting in June 2024. And finally, ministers will discuss the plan to unwind (or not) voluntary cuts during the course of next year. It is widely anticipated among oil market analysts that unwinding the voluntary cuts would move the market into a significant surplus next year pushing prices below $60 per barrel.

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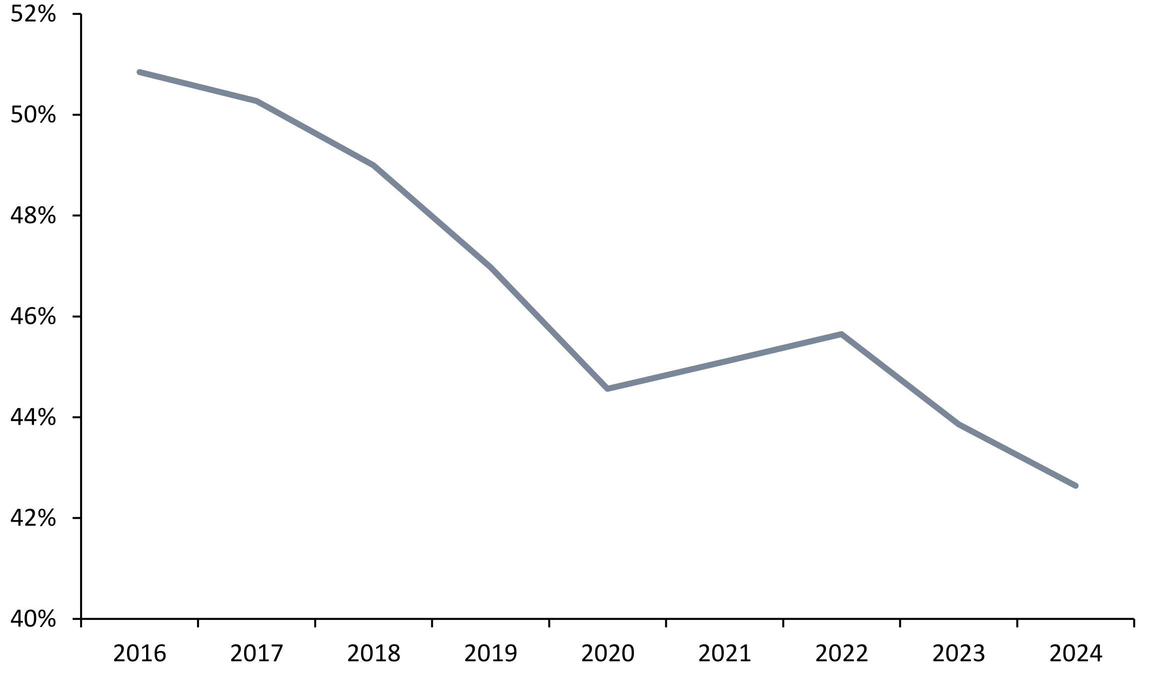
Since then, active market management from OPEC+ helped oil prices recover, averaging around $63 per barrel between 2017 and 2019 and prompting a much-needed rebound in oil-related upstream investment around the world, which increased from $343 billion in 2016 to $413 billion in 2019.

The Covid-19 pandemic that unfolded from early 2020, and its massive impact on oil demand, put the alliance to the test. Following a few weeks of disagreements inside the group that triggered a short price war, the alliance agreed to implement a production cut of almost 10 million bpd. It is widely recognized in the oil industry the crucial role that OPEC+ played at the height of the pandemic to balance to oil market.

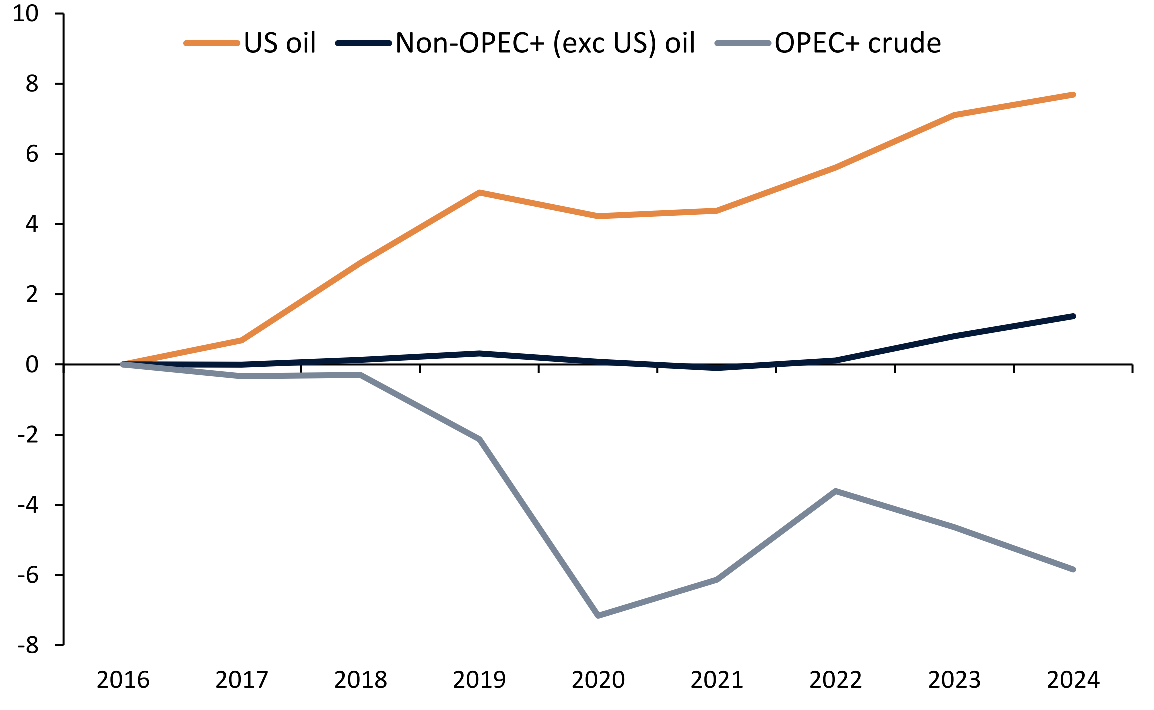
However, the pivotal role that OPEC+ has played in stabilizing the oil markets since 2016 has come at a cost. When the alliance was formed in 2016, its crude output accounted for 51% of global oil supply (46.81 million bpd). But continuous production cuts to support oil prices has meant that the group has been steadily giving away market share (Figure 1). As of this year, the group's crude output accounts for less than 43% of global oil output (40.97 million bpd). While OPEC+ crude output has declined 5.8 million bpd between 2016 and 2024, oil production from outside the group has increased by 9 million bpd during this period (Figure 2). In particular, US oil production has increased by an astonishing 7.7 million bpd during this period, going from 12.3 million bpd in 2016 to 20 million bpd in 2024.

Figure 5. OPEC+ crude share over global oil supply
Percentage



Source: Rystad Energy research and analysis

Figure 6. Change in supply from 2016
Million barrels per day



Source: Rystad Energy research and analysis

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The key tool and product of ENERGY Insight & Analytics is internally developed software - the Analytical Platform EXia, aimed to identify, localize, format, and present data most efficiently for the specified use cases.

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