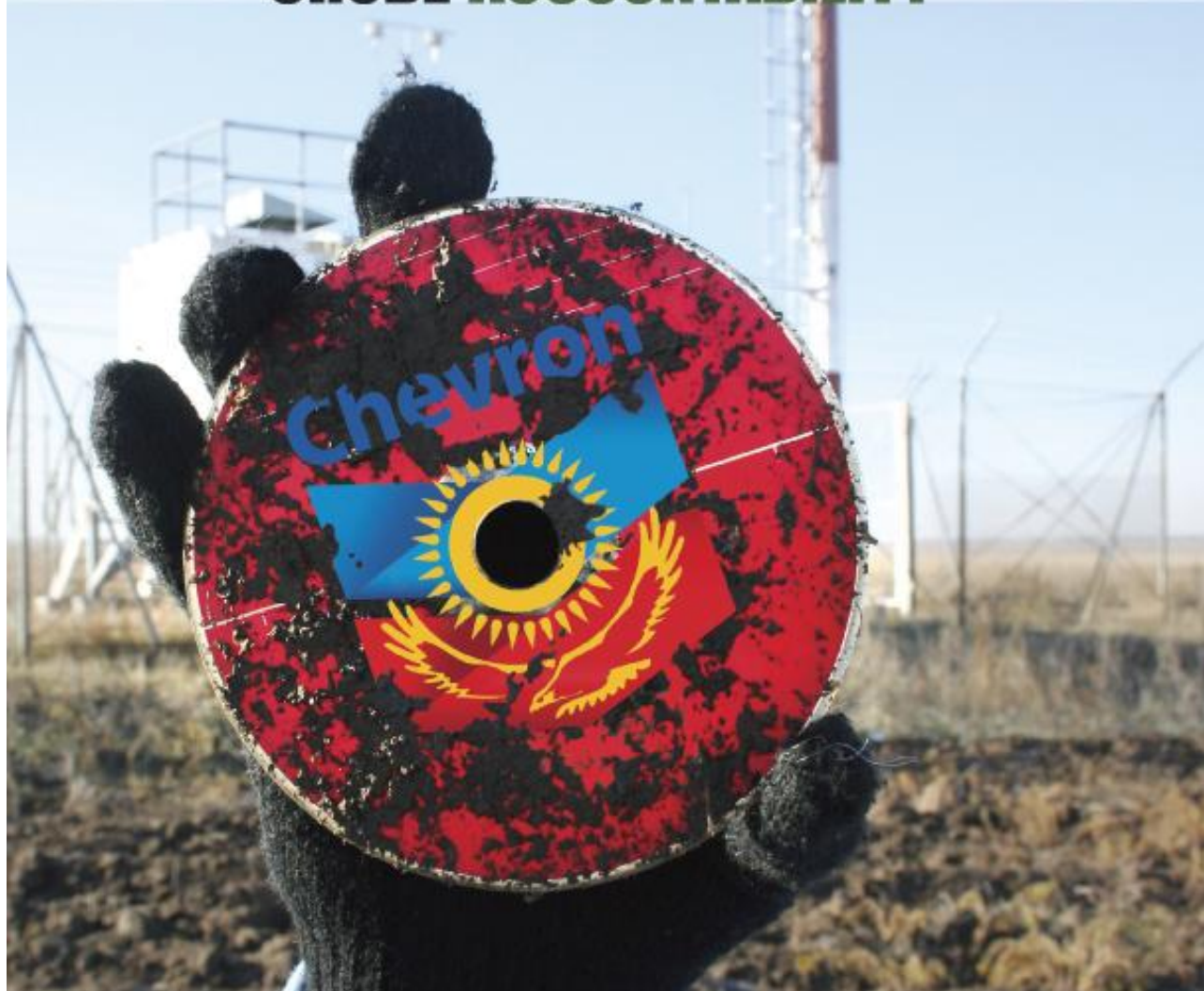


**CRUDE ACCOUNTABILITY**



**REPUBLIC OF CHEVRON**  
**20 YEARS IN KAZAKHSTAN**

# The Republic of Chevron—20 Years in Kazakhstan

June 2013

## **CRUDE ACCOUNTABILITY**

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## **The Republic of Chevron - 20 years in Kazakhstan**

This year marks twenty years of Chevron's operations in the Republic of Kazakhstan. In 1992, the company and the country signed the basic terms for a joint venture to develop the Tengiz field, and on April 6, 1993, they signed a 40-year agreement on the formation of Tengizchevroil, LLP.<sup>1</sup>

This is how Chevron, one of the largest oil companies in the world, based in California, USA, and stemming historically from the well-known company, Standard Oil, was the first major foreign company to be given the opportunity to work in Kazakhstan.<sup>2</sup> The young sovereign state, formed after the collapse of the Soviet Union in 1991, was very appealing to Chevron for its large reserves of oil and gas, which earned the country ranking among the largest oil-producing countries of the world.<sup>3</sup> Currently, Kazakhstan is truly the jewel in the crown of Chevron, containing 21% of the company's proven reserves in the world.<sup>4</sup>

On the occasion of the anniversary, celebrations dedicated to Chevron in the cities of Astana and Atyrau, the official and oil capital of the country, respectively, proclaimed a "sense of social responsibility and ethical principles, respecting the law and supporting universal human rights, protecting the environment and benefiting the people of the region".<sup>5</sup> However, in a stream of congratulatory speeches and remembrances of "how it all began," somehow, numerous facts and events were omitted, without which the portrait of the 'company of honor' would be incomplete. The purpose of this report is to fill in these gaps and to remind the stakeholders of another side of Chevron's involvement in Kazakhstan, one that is not found in the pages of the triumphant reports about the company.

### **The flagship of the oil industry**

Chevron remains the leader in the production of hydrocarbons in the Republic of Kazakhstan (RK), due to its investments in the Tengiz and Karachaganak fields.

The company has a 50% share in the company Tengizchevroil (TCO), which is developing the Tengiz and Korolev fields. The Tengiz field is the world's deepest oil field, a supergiant with oil reserves of 3.1 billion tons. The reserves of the Korolev, a field of internationally recognized

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<sup>1</sup> [http://www.tengizchevroil.com/ru/about/tco\\_history.asp](http://www.tengizchevroil.com/ru/about/tco_history.asp), 14.06.2012.

<sup>2</sup> [http://ru.wikipedia.org/wiki/Standard\\_Oil](http://ru.wikipedia.org/wiki/Standard_Oil), <http://ru.wikipedia.org/wiki/Chevron>, 05.07.2012.

<sup>3</sup> [http://www.akorda.kz/ru/kazakhstan/general\\_information/general\\_information\\_about\\_the\\_republic\\_of\\_kazakhstan](http://www.akorda.kz/ru/kazakhstan/general_information/general_information_about_the_republic_of_kazakhstan), 05.07.2012.

<sup>4</sup> Form 10-K, Chevron Corporation, December 31, 2012, p.29.

<sup>5</sup> [http://www.tengizchevroil.com/ru/about/mission\\_vision.asp](http://www.tengizchevroil.com/ru/about/mission_vision.asp), 09.09.2012.

scale, are estimated at 188 million tons.<sup>6</sup> At the end of 2012, TCO had extracted 24.2 million tons of oil, or more than 30% of the country's production.<sup>7</sup> In the near future, the company plans to raise oil production to 36 million tons per year through projects of future expansion and construction of a third oil refinery at Tengiz.<sup>8</sup>

Chevron has an 18% share in the consortium "Karachaganak Petroleum Operating BV" (KPO). The Karachaganak field is one of the largest natural gas fields in the world, with estimated reserves exceeding 2.4 billion barrels of condensate and 16 trillion cubic feet of gas. KPO is the largest natural gas producer in Kazakhstan, and produces approximately 45% of gas and 16% of liquid hydrocarbons in the country.<sup>9</sup>

Chevron also has a 15% share in the Caspian Pipeline Consortium (CPC), which is the main export route for crude oil from the two fields to the Black Sea coast of Russia.<sup>10</sup> The Atyrau polyethylene pipe plant also belongs to Chevron, and is one of the company's investment projects aimed at diversifying Kazakhstan's economy.<sup>11</sup>

Chevron is making a significant contribution to the economy and welfare of the citizens of Kazakhstan. From 1993 to 2012, the direct financial payments by TCO to the Republic of Kazakhstan amounted to US \$74.2 billion, including the salaries of local employees, the procurement of goods and services from local producers and suppliers, payments to state enterprises, dividends to the Kazakh party, as well as taxes and royalties transferred to the state budget. In 2012, direct payments to the Republic of Kazakhstan amounted to US \$14.2 billion. The amount payable depends on the volume of production, as well as on oil prices, both of which have increased significantly in recent years. In addition to direct payments, TCO funds various social projects for the people of Atyrau Oblast and employees of the company. Since the beginning of operations by TCO, over 800 million dollars were allocated for these purposes.<sup>12</sup> The company employs 3,400 workers, about 85% of whom are residents of Kazakhstan.<sup>13</sup>

The company itself also gets its share from its work in Kazakhstan. In 2012, just from its participation in TCO, Chevron collected US \$4,614 billion in net profit, which amounted to

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<sup>6</sup> [http://www.tengizchevroil.com/ru/about/the\\_tco\\_field.asp](http://www.tengizchevroil.com/ru/about/the_tco_field.asp), 02.08.2012.

<sup>7</sup> [http://www.tengizchevroil.com/ru/about/the\\_tco\\_field.asp](http://www.tengizchevroil.com/ru/about/the_tco_field.asp), 02.08.2012.

<sup>8</sup> Artur Shakhnazarian, "Kazsoderzhanie vyshlo bokom goskazne," <http://www.zakon.kz/4483048-realizacija-proekta-budushhego.html>, 04.04.2012.

<sup>9</sup> <http://www.kpo.kz/about-kpo.html?&L=1>, 29.04.2013.

<sup>10</sup> Chevron, 2012 Annual Report, p.47.

<sup>11</sup> [http://www.kmg.kz/press/company\\_news/press\\_release/5187](http://www.kmg.kz/press/company_news/press_release/5187), 15.02.2011.

<sup>12</sup> Tengizchevroil tsifry i fakty, Itogi 2012, [www.tengizchevroil.com](http://www.tengizchevroil.com), 21.04.2013.

<sup>13</sup> D. Mukhtarov, "Investitsii Chevron v kazakhstanskoe mestorozhdenie, "Tengiz" sostavili \$20 mlrd.," <http://www.trend.az/capital/energy/2135237.html>, 03.04.2013.

almost 18% of all of its international revenues that year.<sup>14</sup> In total, Chevron's net profits from 1998 to 2012 exceeded US \$27 billion. At the same time, the company had invested about US \$20 billion in Tengiz.<sup>15</sup> So, the company really has every reason to celebrate.

The leadership and the stability of the company in the oil business in Kazakhstan are largely due to many years of close ties between Chevron and the other leader of the country—President of the Republic of Kazakhstan, Nursultan Nazarbaev.

### **Friendship between leaders**

The close relationship between Chevron and Nazarbaev began to take shape during the Soviet era, when the Leader of the Nation was the First Secretary of the Central Committee of the Communist Party of Kazakhstan, and the corporation was in talks with the leadership of the USSR regarding the Tengiz and Korolev fields. The ideological differences between a leading representative of the capitalist world, and one of the heads of the Soviet Union, who stood in those times on a solid Marxist-Leninist platform, were not an obstacle to the development of the 'friendship'. As they say, it is not personal, it is just business.

A key role in the establishment and development of informal relations between Chevron and Nazarbaev was played by an individual by the name of James Giffen. As President of the US-USSR Trade and Economic Council, initially, he successfully lobbied the interests of his native Californian company, with which he had worked closely since the early 1970s during the negotiations over the Tengiz field. Then, seeing the growth of national interests and appetites during the fall of the Soviet Union, Giffen bet on the young leader of Kazakhstan, convincing Nazarbaev that Chevron was the most reliable partner and would provide the best possible conditions. As a result, the company acquired half of the Tengiz oil field.

Rumors that the representatives of Chevron had to heartily thank Nazarbaev and his inner circle to get Tengiz have a long history. It has been reported that persistent opponents of the contract with Chevron suddenly, overnight, become its supporters.<sup>16</sup> The commission to Giffen himself, for brokering the contract, began to bring 7.5 cents from each barrel of oil at Tengiz.<sup>17</sup> Although Kazakhstan's civil society raised many questions for Nazarbaev and the officials involved with the Chevron contract, they still have not received any answers. The contract and

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<sup>14</sup> Chevron, 2012 Annual Report, p.46.

<sup>15</sup> Aleksey Tikhonov, "Kakuyu pribyl poluchil "Chevron" ot neftedobychi na Tengize," <http://www.respublika-kz.info/news/business/29843/>, 15.04.2013.

<sup>16</sup> Sangyndyk Mednybaev, Viktor Shelgunov, "Kleptokratiya, Kazakhgate. Novoe rassledovanie," [http://neweurasia.info/archive/book/kleptocratiya/part4\\_2.htm](http://neweurasia.info/archive/book/kleptocratiya/part4_2.htm), 21.06. 2012.

<sup>17</sup> Steve LeVine and Bill Powell, A President and His Counselor, *Newsweek*, 2 July 2000.

any attachments to it are under the veil of ‘commercial secrets’ and are not available to the general public, despite being an issue of national natural resources.<sup>18</sup>

The deal with Chevron at Tengiz strengthened Nazarbaev’s political position in the country. In the autumn of 1991, he publicly announced that the Republic was expecting an investment boom in the coming years, the welfare of its people was expected to grow in connection with the arrival of American capital and technology, and that the empty Soviet shops would soon turn into Western supermarkets. These promises played a key role, and the vast majority of the population voted for Nazarbaev in the first general national Presidential election in December 1991. However, the anticipated imports of US technology did not materialize, and the country was doomed to export raw materials.<sup>19</sup> Nevertheless, the political and economic support of both Chevron and the United States played their part in the development of the young sovereign state.



*The Tengiz Field. © Crude Accountability*

<sup>18</sup> M. Adilov, ““Kommercheskie tainy” Tengizskogo dvora,” *Respublika* 24.10.2003.

<sup>19</sup> Sangandyk Mednybaev, Viktor Shelgunov, “Kleptokratiya, Kazakhgate. Novoe rassledovanie,” [http://neweurasia.info/archive/book/kleptocrazia/part4\\_2.htm](http://neweurasia.info/archive/book/kleptocrazia/part4_2.htm), 21.06. 2012.

Since 1992, Giffen had been Nazarbaev's official consultant. At the same time, he was a consultant to the Minister of Oil and Gas, Nurlan Balgimbaev, then an adviser to the national company, KazakhOil. Mercator Corporation, a company headed by Giffen, brokered contracts between the Government of the Republic of Kazakhstan and the largest oil companies in the 1990s, for which, according to some sources, the company received 60 cents on every barrel of Kazakh oil sold.<sup>20</sup> This continued until 2003, when a corruption scandal broke out loud, later coined 'Kazakhgate'. The US Attorney General's Office accused Giffen of paying bribes to Nazarbaev and Balgimbaev on behalf of the major oil companies in the world, which sought entry into the Tengiz, Karachaganak and CPC projects.<sup>21</sup> Although officially Chevron was not involved in 'Kazakhgate', it seems unlikely that the company was not aware of the corrupt dealings, as they were directly related to the projects in which Chevron was active. It is possible that 'Kazakhgate' was the result of information leaks, organized by an interested party in response to the liberty of the country's leaders in the sale of strategic assets.

The history with Giffen is an illustration of the 'revolving door', which corporations actively use in the US and other countries. This is when government officials get a job in a corporation, and vice versa – then, the most experienced company employees move into positions in the government. Such a flow of people back and forth serves the interests of the firm when it becomes necessary to lobby for the next project or for amendments to legislation.<sup>22</sup>

Kazakhstan is no exception. Well known individuals and officials from Kazakhstan, and Atyrau region in particular, are among the former and current employees of Chevron. Among these are Nurlan Balgimbaev, former Prime Minister and the Minister of Oil and Gas of Kazakhstan, who in 1993-1994 trained and worked at Chevron in the United States.<sup>23</sup> The closeness between Balgimbaev and Giffen is evident in the fact that even in official correspondence, the American adviser addressed the minister simply by his first name.<sup>24</sup> Also, two representatives of the Cherdabaev local oil dynasty served as directors of TCO. Ravil Cherdabaev was the first director of TCO from Kazakhstan (1993), and later served as Minister of the oil and gas industry of Kazakhstan and the head of the Atyrau region; and Boris Cherdabaev (2000-2003) is a former vice-president of the national company, KazakhOil<sup>25</sup>. Among the current employees of TCO are the general manager of public relations, Rzabek Artygaliev, a former mayor of the Zhylyoi

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<sup>20</sup> Sagandyk Medybaev, Nikolai Fomin, Viktor Shchelgunov, "Kak pryatali den'gi d Shveitsarii—1," [http://www.compromat.ru/page\\_9929.htm](http://www.compromat.ru/page_9929.htm), 21.06.2012.

<sup>21</sup> Tikhon Alekseev, "Milliony "zelenykh" dlia Nazarbaeva," *Golos Respubliki*, №16, 30.04.2010.

<sup>22</sup> Effekt "vertushki" i lobbirovanie, <http://www.seu.ru/cci/campaign/gen/evil.htm>, 21.06.2012.

<sup>23</sup> <http://www.munayshy.kz/index.php/component/birthday/?view=person&id=107>, 21.06.2012.

<sup>24</sup> Sangandyk Mednybaev, Viktor Shelgunov, "Kleptokratiya, Kazakhgate. Novoe rassledovanie," [http://neweurasia.info/archive/book/kleptocratiya/part4\\_2.htm](http://neweurasia.info/archive/book/kleptocratiya/part4_2.htm), 21.06. 2012.

<sup>25</sup> [http://online.zakon.kz/Document/?doc\\_id=30103404](http://online.zakon.kz/Document/?doc_id=30103404), 28.07.2012.

district, where the Tengiz field is located, and a native of the city of Kulsary, the administrative center of the district.<sup>26</sup> The head of the Atyrau polyethylene pipe plant, Mendygali Sappaev, was previously the mayor of the Emba district and the deputy head of the Atyrau region.<sup>27</sup>

The close ties with former and current high-ranking officials of the country, coupled with very warm relations between the Leader of the Nation and the company, assist in promoting Chevron's sustainability in Kazakhstan. It has been reported that the President on many occasions personally helped the company solve problems related to tariffs, taxes and environmental regulations.<sup>28</sup>

And when common ground cannot be found on some issues, help in resolving differences comes from the powerful hand of the US government. So it was in the summer of 2010, when in the midst of the conflict between TCO and the Ministry of Oil and Gas in relation to the 'illegal extraction of oil' from the 'wrong depths' in the amount of US \$1.4 billion,<sup>29</sup> the US Special Envoy on Eurasian Energy, Richard Morningstar, suddenly arrived on a business trip to Kazakhstan. He held talks with the Prime Minister of the Republic of Kazakhstan and the other members of the government. Immediately after the visit of the senior US diplomat, the conflict dissipated and it was announced that the dispute would be settled by revising the documents of TCO to include the new depths.<sup>30</sup>

Given the financial and political weight Chevron wields inside and outside of the country, some have claimed that the company acts like an autonomous principality in the Republic of Kazakhstan, that is, in a 'sovereign' manner.

### **Flexible limit**

TCO strategically positions itself as a leader in environmental protection. According to the company, over US \$ 2.5 billion has been spent for this purpose since 2000. During this time, the volume of gas flaring was reduced by 92%, and emissions per ton of crude oil decreased by 68%, amounting to 2.61 kilograms in 2012.<sup>31</sup> In 2012, the World Bank Global Partnership for Gas Flaring Reduction recognized TCO as a world leader in the reduction of gas flaring.<sup>32</sup>

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<sup>26</sup> <http://idwhoiswho.kz/node/2755>, 28.07.2012.

<sup>27</sup> <http://www.ilk.kz/content/41914/?letter=%D4>, 08.08.2012.

<sup>28</sup> Sangandyk Mednybaev, Viktor Shelgunov, "Kleptokratiya, Kazakhgate. Novoe rassledovanie," [http://neweurasia.info/archive/book/kleptocratia/part4\\_2.htm](http://neweurasia.info/archive/book/kleptocratia/part4_2.htm), 21.06. 2012.

<sup>29</sup> Oksana Martyniuk, "Konflikt na ilshode", *Kursiv*, 14.06.2012.

<sup>30</sup> Ibid.

<sup>31</sup> Tengizchevroil tsifry i fakty, Itogi 2012, [www.tengizchevroil.com](http://www.tengizchevroil.com), 21.04.2013.

<sup>32</sup> [http://www.tengizchevroil.com/ru/news/2012/news\\_2011.asp](http://www.tengizchevroil.com/ru/news/2012/news_2011.asp), 20.11.2012.



However, according to government data, TCO is the main polluter in Atyrau Oblast, where the company accounts for 70% of emissions in the oil and gas sector.<sup>33</sup> TCO is one of the leaders in Kazakhstan in the amounts of fines it received for environmental pollution. In 2010 alone, the company paid about 5 billion tenge (about US \$34 million).<sup>34</sup> TCO transferred 1, 146 billion tenge (approximately US \$ 7.8 million) to the national budget I 2010 for excessive gas flaring.<sup>35</sup> Over the past year and a half, TCO has been increasingly responsible for the occurrence of emergency situations, which have been accompanied by emissions of pollutants, for which the Zhaiyk-Caspian Department of Ecology issued fines and regulations on compensation for damage already totaling over 14 billion tenge (about US \$95 million). The Prosecutor's Office in Atyrau region expressed the need to suspend the emissions permit for TCO as the only way to force the company to stop excessive contamination of the environment.<sup>36</sup>

But even these 'record' figures poorly reflect the actual extent of TCO's contamination, as they are the result of manipulation of the environmental legislation and environmental standards, which were established for the development of the Tengiz field.

The work of TCO should abide by a certain limit on the emissions of harmful substances into the atmosphere, which is calculated and coordinated by the Ministry of Ecology of the RK. In the case of exceeding the limit, for each exceeding ton of emissions, the company is obliged to pay a fine. However, the emissions produced by TCO have rarely been within the established norms; especially in the 1990s, when they exceeded the limit numerous times. In 1996, TCO emitted 28,222 tons while having a limit of 12,278 tons.<sup>37</sup> In 1997, it emitted 72,602 tons instead of the allowed 18,120 tons.<sup>38</sup> In 1998, TCO emitted the largest volume of discharge of pollutants into the atmosphere in the entire period of TCO operations: 82,328 tons instead of the allowed 55,043 tons.<sup>39</sup> In 1999, the limit was 36,395 tons and TCO dumped more than 75,000 tons.<sup>40</sup> According to the reported data, in 2012, TCO emissions into the atmosphere were 64,000 tons. Thus, not only has TCO systematically exceeded the established emissions limits, but the amounts are increasing. Over the past 6 years, TCO had 720 cases of exceeding emissions standards.<sup>41</sup>

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<sup>33</sup> Erbol Kuanov, «Ekologicheskie problemy Atyrauskoj oblasti, puti resheniya, vnedrenie sovremennyh tehnologij», 18.04.2013.

<sup>34</sup> "Tri neftnyane kompanii nanesli usherb ekologii RK na 10 mlrd. tenge", *Kursiv*, 26.01.2011.

<sup>35</sup> Laura Sulejmenova, «Tengizshevrojl» vyplatil shtraf v milliard tenge», *Ak Zhajyk*, 14.02.2012..

<sup>36</sup> Lev Guzikov, «Tengizshevrojl» hotjat ostanovit'», *Turan*, 19.06.2012.

<sup>37</sup> Elena Ladikova, «Bud'te zdorovy!», *Jekspress-K*, 10.10.2000.

<sup>38</sup> Ibid.

<sup>39</sup> Ibid.

<sup>40</sup> Ibid.

<sup>41</sup> Erbol Kuanov, «Ekologicheskie problemy Atyrauskoj oblasti, puti resheniya, vnedrenie sovremennyh tehnologij», 18.04.2013.

Reportedly, in the preparation of the Tengiz contract, standards were significantly weakened. One involved flaring during test and trial operations during a period agreed upon with the relevant authorities.<sup>42</sup> This was despite the fact that it was against the rules of the Unified Regulations on the development of oil and gas fields, approved by Government Resolution No. 745 on 18 June 1996, which permits the development of fields only with resolution of issues on the collection and management of gas.<sup>43</sup> Thus, on paper, for a long time, the Tengiz complex was considered a pilot industrial facility, although it worked as a full-fledged company with a substantial amount of annual oil production. Similarly, with the permissiveness of the company and the involvement of the State bodies of Kazakhstan, in 2002, TCO began operations at the Korolev Field without addressing the question of disposal of oil and industrial gases.<sup>44</sup>

Between 1993 -2011, TCO released more than 1 million tons of harmful substances into the atmosphere.<sup>45</sup> At the same time, we must recognize that during its operations at Tengiz, TCO achieved a substantial reduction in emissions per ton of oil; and the company is actively using this fact to advertise its achievements in environmental protection. However, despite the fact that emission rates have been reduced per ton of oil, the rate of extraction is increasing every year and, therefore, the total amount of emissions is in fact increasing. And, if today the company is emitting about 60 tons of pollutants per year, with an increase in production to 36 million tons, this figure will increase by at least a third. Local scientists have long been sounding the alarm about the irreparable damage to the environment and health in the region, and the need to limit the amount of oil production at Tengiz to 15 million tons a year.<sup>46</sup> However, evidence-based and critical figures do not appear to worry TCO or the country's authorities. Along with the growth of oil production, the limits on emissions also 'grow', as successfully negotiated by the company with the relevant authorities of Kazakhstan. In this way, nature and people are sacrificed for profits.

In evaluating the effectiveness of fines, it is easier for TCO to pay the fines than to introduce environmentally friendly and more costly technologies. In addition, the money from the payments of the fines goes towards the state budget. Thus, the air in the Atyrau region does not become cleaner, and people continue to be exposed to toxic emissions.<sup>47</sup> The requirements of environmental authorities to improve the environmental situation often remain on paper, because the law does not include liability for non-compliance.<sup>48</sup>

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<sup>42</sup> Muftah Diarov, «Moguchij Tengizshevrojl», ECOSTAN NEWS #10/2, 01.04.2003.

<sup>43</sup> [http://base.spininform.ru/show\\_doc.fwx?rgn=11033](http://base.spininform.ru/show_doc.fwx?rgn=11033), 14.05.2013.

<sup>44</sup> Muftah Diarov, «Moguchij Tengizshevrojl», ECOSTAN NEWS #10/2, 01.04.2003.

<sup>45</sup> Laura Sulejmenova, «Dollary reshajut vse», *Ak Zhajyk*, 26.04.2012.

<sup>46</sup> Ibid.

<sup>47</sup> Saule Tasbulatova, «Tengizshevrojl» vyplatil ocherednye milliardy za usherb okruzhajushhej srede», *Ak Zhajyk*, 28.10.2011.

<sup>48</sup> Saule Tasbulatova, «Prestuplenija bez nakazanija», *Ak Zhajyk*, 17.06.2010.



Tengiz Field. © Crude Accountability

A major problem is that the government authorities and the public do not have objective data on the impact of TCO on the environment and people of the region. On one hand, there is no complete picture of the contamination, as currently the environmental monitoring on Tengiz is limited to only 5 elements, including hydrogen sulfide (H<sub>2</sub>S), sulfur dioxide (SO<sub>2</sub>), nitrogen dioxide (NO<sub>2</sub>), nitric oxide (NO), carbon monoxide (CO), and hydrocarbons (methane).<sup>49</sup> However, over 70 harmful substances are emitted in the field.<sup>50</sup> On the other hand, there are concerns about the reliability of data provided by TCO, and there is no alternative source of information. Currently, environmental monitoring is implemented at 14 TCO stations, which are located along the perimeter of the Tengiz and Korolev fields as well as in the TCO monitoring settlement and the settlement of Karaton. Industrial monitoring is conducted by a private enterprise, «Gidromet Ltd».<sup>51</sup> There is no governmental monitoring of air quality at Tengiz due

<sup>49</sup> «Proekt budushhego rasshirenija. Tom 3. Predvaritel'naja ocenka vozdejstvija na okruzhajushhuju sredu», str.71-72, [http://www.tengizchevroil.com/docs/FGP/PreEIA/FGP%20PreEIA\\_rus.pdf](http://www.tengizchevroil.com/docs/FGP/PreEIA/FGP%20PreEIA_rus.pdf), 08.08.2012.

<sup>50</sup> Laura Sulejmenova, «Jekologija dlja nas - vopros zhizni i smerti», *Ak Zhajyk*, 02.08.2012.

<sup>51</sup> «Proekt budushhego rasshirenija. Tom 3. Predvaritel'naja ocenka vozdejstvija na okruzhajushhuju sredu», str.71-72, [http://www.tengizchevroil.com/docs/FGP/PreEIA/FGP%20PreEIA\\_rus.pdf](http://www.tengizchevroil.com/docs/FGP/PreEIA/FGP%20PreEIA_rus.pdf), 08.08.2012.

to lack of funding.<sup>52</sup> Although in Soviet times there were 30 environmental monitoring stations established around Tengiz, most of these have been looted and burned.<sup>53</sup> Thus, all of the information on the pollution on Tengiz comes from TCO and its contractors. Even fines issued by the government are based on the information provided by TCO, i.e. whenever and whatever the company decides to admit, and thus there are no records of what has become a tradition of unauthorized emissions at night.<sup>54</sup> Therefore, the local public is skeptical about the TCO claims that emissions do not exceed the maximum allowable limits. For example, the company Monitoring, Ltd., and other organizations commissioned by TCO have conducted research on the quality of the air; and after a 'persuasive' request by the company, the figures were rounded to values below the acceptable limits.<sup>55</sup> This was acknowledged by the contractors themselves after TCO ceased to fund them.<sup>56</sup> Even the Ministry of the Environment recently began to question TCO's emissions measurements, believing that the company had been putting obstacles in their cross-checking, and did not provide necessary information to the Atyrau Department of Ecology.<sup>57</sup>

Finally, TCO appears to have manipulated the facts by stating that since 2000 the company spent over US\$ 2 billion on environmental protection. In reality, this money was spent on the Sour Gas Injection (SGI) project, in order to hold the reservoir pressure.<sup>58</sup> The SGI project had a commercial objective of increasing oil production, although it did yield associated environmental benefits. And with this reinjection of gas lies another questionable side of Chevron in Tengiz.

### **Grafted Tengiz**

Chevron began the development of the Tengiz field in 1993, and with an abnormal formation pressure and the high cost of oil extraction, it did not use any unique technologies.<sup>59</sup> The company did not even have such technologies, despite the claim that Chevron is virtually the only company in the world able to develop fields such as Tengiz.<sup>60</sup> The company began to pump oil from deep depths in the flush production mode, flagrantly violating the planned mode of

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<sup>52</sup> Pis'mo zamestitelja direktora departamenta Strategicheskogo planirovanija i monitoringa MOOS RK O.Suvorovoj, 15.08.2012.

<sup>53</sup> Laura Sulejmenova, «Jekologija dlja nas - vopros zhizni i smerti», *Ak Zhajyk*, 02.08.2012.

<sup>54</sup> Saule Tasbulatova, «Tengizshevrojl» vyplatil ocherednye milliardy za ushherb okruzhajushhej srede», *Ak Zhajyk*, 28.10.2011.

<sup>55</sup> Laura Sulejmenova, «Jekologija dlja nas - vopros zhizni i smerti», *Ak Zhajyk*, 02.08.2012.

<sup>56</sup> Ibid.

<sup>57</sup> Artur Shahnazarjan, «TCO» korrektiruet budushhee Tengiza», <http://www.respublika-kz.info/news/business/28308/>, 31.01.2013.

<sup>58</sup> [http://www.tengizchevroil.com/ru/about/tengiz\\_facilities.asp](http://www.tengizchevroil.com/ru/about/tengiz_facilities.asp), 22.08.2012.

<sup>59</sup> Oksana Martyniuk, "Milliardy—v plast," *Gazeta.kz*, 31.10.2007.

<sup>60</sup> Ibid.

production and development of the Tengiz field.<sup>61</sup> With this predatory extraction, TCO focused on four wells that produced the largest flows of oil, exceeding several times the norms of extraction for each.<sup>62</sup> As a result, the cost of production at Tengiz dropped from 130 to 15 dollars per ton, and the company began to see guaranteed profits.<sup>63</sup>

However, this method of exploitation of the field led to a severe drop in reservoir pressure, almost halving it from 880 to 400, which made, by some estimates, half of Tengiz oil unrecoverable.<sup>64</sup> In 2000, it became clear that if the reservoir pressure continued to fall, the cost of production in the future would increase sharply, and ultimately the development of Tengiz may become unprofitable. A possible solution was found by injecting extracted gas back into the reservoir. This allowed the reservoir to maintain pressure at previous levels, and at the same time reduced the volume of sulfur and levels of emissions.<sup>65</sup> Therefore, until the problem of dropping pressure arose in the field, TCO was not particularly worried about environmental issues and the level of emissions. It has always been cheaper and easier to simply pay the fines.

However, the debate over the injection of gas and maintaining pressure in the reservoir continues in the context of the project to increase oil production, and the construction of the third plant at Tengiz. Analysts at the State Fund, Samruk-Kazyna, oppose the construction of a third plant, as this will significantly raise the costs of the project, and instead advocate for upgrading the existing facilities. Chevron insists on a new technological model, without which the reservoir pressure would drop so low that the oil would turn into sour gas and commercial development of Tengiz would become futile. The key issue is a dispute over the technological model. The period of costs recoupment, and, thus, the financing for the Tengiz project, depend on this decision. The fact is that the money invested is compensated in accordance with the shares in the project, to offset against future income with a 16% profit. Direct payments begin only after the investments have been fully paid off. The terms of the contract expire in 2033. Currently, the government authorities are questioning this financing plan, believing that it does not adequately represent the interests of the Kazakh side.<sup>66</sup>

The SGI project has not only turned out billions in additional costs that need to be offset by Kazakh oil, but has also lowered the prospects of a significant increase in revenues from Tengiz to the country. By the end of the contract in 2033, the geological conditions in the field may change so that the easy oil would have already been extracted, and the rest would be

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<sup>61</sup> Ibid.

<sup>62</sup> Ibid.

<sup>63</sup> Ibid.

<sup>64</sup> Oksana Martynjuk, «Konfliktnyj ob"ekt-450», *Gazeta.kz*, 30.01.2009.

<sup>65</sup> Oksana Martynjuk, «Milliardy—v plast», *Gazeta.kz*, 31.10.2007.

<sup>66</sup> Artur Shahnazarjan, «Tengizshevrojl» nashel put' k peremiriju?», <http://www.respublika-kz.info/news/business/28142/>, 25.01.2013.

categorized as non-retrievable or difficult to retrieve. In such circumstances, Kazakhstan would truly need Chevron, and the conditions of a new contract could be as unprofitable as they are now.<sup>67</sup>

Is it possible that from the very beginning of the development of Tengiz field, experts at Chevron understood the threats of excess oil withdrawal and maintaining false pressure at the field? And if so, did they consciously go ahead, in an effort to recoup investments in a short timeframe, and maximize profits, in light of the high political risk and uncertainty that sovereign Kazakhstan would remain stable over the 40 years of the contract, with its terms and conditions remaining unchanged? Even now, in spite of 20 years of experience in the country and the 'friendship' with the Leader of the Nation, Chevron still includes Kazakhstan in a list of countries where doing business is associated with the risk of political instability and significant changes in the regulatory environment.<sup>68</sup>

### **The battle for sulfur**

Many, many versions of the story of the relatively open block storage of sulfur have been broken at Tengiz, and still the disputes continue.

Sulfur is a byproduct of refining crude oil, and is an associated gas of hydrogen sulfide and other sulfur compounds, the content of which is 14% at Tengiz.<sup>69</sup> Sulfur is stored in open areas in blocks. The volume of open storage of sulfur at TCO is one of the largest in the world.<sup>70</sup> The peak was in 2006, when the field had accumulated nearly 9 million tons of sulfur.<sup>71</sup>

According to paragraph 2.2 of GOST 127.1-93, sulfur is a class IV risk, corresponding to low levels of effects.<sup>72</sup> However, opinions about the relative harm of the Tengiz sulfur on the environment and human health are diametrically opposed.

Local communities and experts believe that under the influence of natural factors, sulfur erodes and decomposes. As a result, the population of the Zhylyoi district, where Tengiz is located, breathes this sulfur, and morbidity among residents of the area is growing steadily.<sup>73</sup> According to the Institute of Public Health, which conducted the impact assessment of open storage of sulfur on the health of TCO workers and the local population, the workers employed in the sulfur pads suffered from diseases that the rest of the workers in Tengiz did not have. But

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<sup>67</sup> Oksana Martyniuk, "Konfliknyi obyekt-450," *Gazeta.kz*, 30.01.2009.

<sup>68</sup> Form 10-K, Chevron Corporation, December 31, 2012, p.29.

<sup>69</sup> Tengizshevrojl, «O sere», [www.tengizchevroil.com](http://www.tengizchevroil.com), str.3.

<sup>70</sup> *Ibid.*, p. 4.

<sup>71</sup> Askar Aukenov, «Sera - bol'shoe preimushhestvo i bol'shoe bremja», *Panorama*, 20.02.2009.

<sup>72</sup> Polina Korn, "Isk na milliard,"

<http://www.oko.kz/index1.php?cont=long&id=537&year=2007&today=16&month=03>, 16.03.2007.

<sup>73</sup> Aleksej Nadymov, «Morskoj desant», *Megapolis*, 01.12.2008.

impacts on the health of local residents have not been identified. The Kazakh Institute of Oil and Gas has come to the conclusion that there is, in fact, an impact, but the data needs to be tested and confirmed. This is despite the fact that the researchers recognize that an increase in the production and storage of sulfur will lead to increasing stress on the environment and risks to public health.<sup>74</sup>

TCO in turn claims that the open industrial storage of sulfur is a common method of storing this byproduct all over the world, and it does not have any significant impact on the environment or on the health of employees and local residents.<sup>75</sup>

In 2006, apparently to put an end to this protracted dispute, the Interagency Coordinating Council on Sulfur was created, which included representatives of various ministries, the Governor of the Atyrau Oblast and TCO. The purpose of the Council was to conduct research in order to determine the impact of open storage of sulfur at Tengiz on the environment and human health, as well as to pave the ground for the creation of the Kazakhstan National Center for Storage of Sulfur. TCO allocated US \$ 1.4 million towards this initiative.<sup>76</sup> The findings were perhaps predictable—open storage of sulfur at Tengiz was determined to be in accordance with the requirements of Kazakhstani environmental protection laws, and no impact from the sulfur blocks was found on people living in the closest population centers 65 kilometers from Tengiz.<sup>77</sup> These conclusions are not accepted by members of local council or the members of the public, who do not consider research funded by TCO to be objective.<sup>78</sup>

Another stumbling block has been the longstanding dispute between the government and TCO on whether to consider sulfur a waste byproduct or a product of the extraction process. According to Government Resolution № 1154 of 06.09.2001, that which is extracted from the depths of the field, and which is stored at the open air facilities for more than 3 months was to be considered a waste byproduct to be disposed of, or the company would face sanctions.<sup>79</sup> This legislation served as the basis for tangible financial claims to TCO for the open storage of sulfur. A fine in the amount of 37 billion tenge (about US \$303 million) was imposed on the company in late 2007.<sup>80</sup>

It is true, however, that the authorities periodically use the "sulfur card" in trying to either force TCO once again to fork over cash, or in achieving other goals. This also touched on the question

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<sup>74</sup> Saule Tasbulatova, «Sernye karty na Tengize nebezopasny», *Ak Zhajyk*, 22.11.2007.

<sup>75</sup> Tengizshevroil, «O sere», [www.tengizchevroil.com](http://www.tengizchevroil.com), str.4, 11.

<sup>76</sup> [http://www.tengizchevroil.com/ru/resources/sulfur\\_resources.asp](http://www.tengizchevroil.com/ru/resources/sulfur_resources.asp), 07.08.2012.

<sup>77</sup> Tengizshevroil, «O sere», [www.tengizchevroil.com](http://www.tengizchevroil.com), str. 11.

<sup>78</sup> Andrej Sokolov, «Na slushaniyah po tengizskoj sere obshhestvennost' usomnilas' v ob"ektivnosti provedennyh issledovaniy», <http://www.nomad.su/?a=4-200711220618>, 22.11.2007.

<sup>79</sup> Askar Aukenov, «Sera - bol'shoe preimushhestvo i bol'shoe bremja», *Panorama*, 20.02.2009.

<sup>80</sup> Ibid.

of what to do with the sulfur owned by TCO. For a long time, TCO had blamed the lack of a market for the huge amounts it accumulated, and slow removal rate thereof. This continued until the summer of 2008, when the local authorities created a scandal, inviting potential buyers to yet another meeting on recycling Tengiz sulfur, who were willing to buy the entire stock accumulated at Tengiz.<sup>81</sup> However, the company did not yield to the will of the government and potential buyers, many of whom were affiliated with government officials, and continued to maintain a monopoly position in the sulfur market.<sup>82</sup> Fines and more favorable prices drove TCO to sell its product, resulting in a reduction of sulfur blocks at Tengiz to 2.6 million tons by January 2013.<sup>83</sup>

As far as criticisms and fines are concerned, TCO has taken the traditional path of solving problems: utilizing their resources and connections to improve their image and to change the legal framework of financial sanctions. Thus, in January 2008, after receiving a fine of 37 billion tenge, ordinance No. 1154 was repealed.<sup>84</sup> In 2009, the Parliament of the Republic of Kazakhstan made a decision that sulfur had suddenly become a "product of insignificant impact on the environment," although previously it was considered waste.<sup>85</sup> Moreover, in 2010, the Government of the Republic of Kazakhstan and TCO signed a special agreement on sulfur, which de facto recognized the illegality of taking from TCO over US \$342 million for the open storage of sulfur, and that company had the right to recoup that amount of their payments from the Kazakhstan side.<sup>86</sup> The solution to the sulfur problem was handed over to a quasi-scientific council with questionable legitimacy, and government officials who were paid for by TCO itself.

In the words of a representative of the local community, "With the participation of Mr. Artygaliev, our deputies released TCO from many billions of dollars of fines for the storage of sulfur."<sup>87</sup> And lamenting, he added, "TCO now feels at full liberty. He who pays the piper calls the tune."<sup>88</sup> The 'Revolving door' is operating properly.

### **Disasters as planned**

TCO regularly declares its "outstanding" achievements in the safety of personnel and the reliability of production. In 2011, the company was recognized as the safest company of the year, among the largest companies in Kazakhstan during the 1st Kazakhstan International

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<sup>81</sup> Aleksej Nadymov, «Morskoj desant», *Megapolis*, 01.12.2008.

<sup>82</sup> «Pod vzorom ministrov», *atyraunews*, 27.11.2008.

<sup>83</sup> Tengizshevrojl cifry i fakty, Itogi 2012 goda, [www.tengizchevroil.com](http://www.tengizchevroil.com), 21.04.2013.

<sup>84</sup> <http://adilet.minjust.kz/rus/docs/P010001154>, 25.08.2012.

<sup>85</sup> Lev Guzikov, «Tengizshevrojl» hotjat ostanovit', *Turan*, 19.06.2012.

<sup>86</sup> Oksana Martynjuk, «Konflikt na ishode», *Kursiv*, 14.06.2012.

<sup>87</sup> Laura Sulejmenova, «Razzhirenje TCO», *Ak Zhajyk*, 16.04.2012..

<sup>88</sup> Arman Temirov, «Sernaja «mina», *Karavan*, 23.04.2010.



Conference on Occupational Health and Safety.<sup>89</sup> However, the reality is far from the optimistic statements of the company.

According to the Ministry of Environmental Protection of the Republic of Kazakhstan, most accidents in the oil and gas industry take place at TCO. In 2008, there were 55; and in 2009, 75 cases.<sup>90</sup> Other estimates from 2007 to 2010 show that there were more than 160 accidents at Tengiz, accompanied by gas flaring and environmental damage.<sup>91</sup> In 2011, 59 such instances were officially recorded, and 7 in the first five months of 2012.<sup>92</sup> The causes of these accidents include the deterioration of production equipment, and interruptions in the power supply system.<sup>93</sup> However, the company explains these occurrences with claims that they were not accidents, but technical faults. As long as nothing explodes or collapses, there is no cause for concern. Everything is going according to plan.<sup>94</sup>

The public has been seriously alarmed by TCO's plans to almost triple the number of deep wells in the field, in order to ensure the growth of oil production. To this end, TCO is going to drill through the entire area of the Tengiz field, which, according to environmentalists, is fraught with accidents similar to the 1985 disaster at well number 37. Then, the giant fire could not be put out for more than a year, and over 3 million tons of oil were burned as a result. In addition, the reservoirs are damaged as it is, and it is projected that the growth of production will worsen the situation, making the area highly prone to earthquakes.<sup>95</sup>

There is scientific evidence that intensive development of large oil and gas fields causes a powerful technogenic impact on the geological environment, leading to a rise in seismic activity. Examples include destructive earthquakes in the Gazly field in Uzbekistan in 1976 and 1984, and on Sakhalin in 1995. The specificity of technogenic earthquakes associated with the development of gas fields is that they occur over a certain amount of time after the start of exploitation and cumulative changes in the environment. Seismological monitoring conducted at Tengiz over a short period of time indicated the presence of weak technogenic earthquakes and increases in their intensity.<sup>96</sup>

On February 21, 2011, there was an earthquake at Tengiz with a force of 4.3 points on the Richter scale, which was recorded by ten international seismic stations. It is noteworthy that

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<sup>89</sup> Tengizshevrojl, Itogi 2011 goda, [www.tengizchevroil.com](http://www.tengizchevroil.com), str.4, 21.04.2013.

<sup>90</sup> [http://ecokomitet.kz/control/rezult\\_prov.php](http://ecokomitet.kz/control/rezult_prov.php), 29.11.2010.

<sup>91</sup> Svetlana Novak, «Tehnogennaja nagruzka, ili problemy bol'shoj nefti», *Prikaspijskaja kommuna*, 29.11.2010.

<sup>92</sup> Lev Guzikov, «Tengizshevrojl» hotjat ostanovit', *Turan*, 19.06.2012.

<sup>93</sup> [http://ecokomitet.kz/control/rezult\\_prov.php](http://ecokomitet.kz/control/rezult_prov.php), 29.11.2010.

<sup>94</sup> Laura Sulejmenova, «Ty kak hochesh' jeto nazovi», *Ak Zhajyk*, 26.04.2012.

<sup>95</sup> Laura Sulejmenova, «Dollary reshajut vse», *Ak Zhajyk*, 26.04.2012.

<sup>96</sup> A.Siyllkanova, «O sejsmichnosti rajona Tengizskogo neftjanogo mestorozhdenija», <http://vestnik.kazntu.kz/?q=ru/node/270>, 10.06.2009.

the information about the earthquake initially appeared on foreign websites. This is not surprising, since the seismic station which used to record the slightest changes in activity in Tengiz was dismantled after the arrival of TCO. Experts do not doubt that this earthquake was of technogenic character, caused by the intensive development of Tengiz. This is not the first earthquake in the field. In early 2000, Tengiz experienced tremors which were recorded as having a 7 point force. The increase in oil production and the formation of new underground cavities increases the risk of much more powerful earthquakes, which should not be forgotten by the company or the authorities.<sup>97</sup>

### **Death of a shift worker**

The so-called abnormal situations or technical failures have become a systematic phenomenon at TCO.<sup>98</sup> When they occur, production activities are stopped, and hydrogen sulfide is automatically fed to the plant's gas flare, where it does not have time to burn, and is released into the atmosphere, according to experts.<sup>99</sup> A study conducted in the mid 2000s found that in the Sarykamys village, the village of TCO's Tengiz shift camp, the daily inhalation load of gas mixtures on the human body exceeded the maximum allowable concentrations up to 12 times, and in the production area of TCO, up to 40 times.<sup>100</sup> These emissions affect the health of workers of TCO and the local people. According to medical research, there is an increase in circulatory system diseases among the population of Zhylyoi region, as well as the workers employed in the field.<sup>101</sup> Doctors are also seeing a 21% increase in respiratory diseases among local residents in the period from 2007 to 2012.<sup>102</sup> Even the analysis funded by TCO recognizes the significant negative impact of developing the Tengiz field on the health of workers and local residents.<sup>103</sup>

Also, over the years at Tengiz, cases of sudden deaths of TCO employees and contractors have been recorded.<sup>104</sup> People usually die at work, often during sleep or at home after returning from their shift.<sup>105</sup> In Atyrau, such deaths are called the "death of shift workers."<sup>106</sup> TCO management tries not to advertise such facts and carefully conceals them from the public,

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<sup>97</sup> Il'jas Dosmukan, «Zemlja sodrognulas'...», *Turan*, 23.02.2011.

<sup>98</sup> Lev Guzikov, «Tengizshevrojl» hotjat ostanovit', *Turan*, 19.06.2012.

<sup>99</sup> Azamat Majtanov, «Posle avarii na zavode TCO umer rabochij», *Radio Azattyk*, 10.06.2009.

<sup>100</sup> Laura Sulejmenova, «Jekologija dlja nas - vopros zhizni i smerti», *Ak Zhajyk*, 02.08.2012.

<sup>101</sup> Lev Guzikov, «Tengizshevrojl» hotjat ostanovit', *Turan*, 19.06.2012.

<sup>102</sup> Erbol Kuanov, «Jekologicheskie problemy Atyrauskoj oblasti, puti reshenija, vnedrenie sovremennyh tehnologij», 18.04.2013.

<sup>103</sup> Kazahskij institut nefti i gaza, «Analiz rezul'tatov issledovanija problem otkrytogo hranenija sery na Tengize», str.54-63, 2007.

<sup>104</sup> Azamat Majtanov, «Na mestorozhdenii Tengiz v den' ot"ezda domoj umer specialist iz Juzhnoj Afriki», *Radio Azattyk*, 31.07.2009.

<sup>105</sup> Ibid.

<sup>106</sup> Ibid.

giving rise to a new wave of hearsay that at Tengiz, they fall asleep forever.<sup>107</sup>

Environmentalists directly link such deaths with severe environmental hazards and periodic emissions of hydrogen sulfide at the enterprise.<sup>108</sup>

However, every time one hears about the growth of disease among the population of Zhylyoi or how a regular, healthy-looking person fell asleep and never woke up, TCO representatives claim that there is no evidence of linkage between these facts and the enterprise.<sup>109</sup> So, after several deaths at Tengiz in summer of 2009, the local press asked TCO to comment on the incidents and provide mortality statistics at the company over the past year and a half. In response, TCO stated: "The law does not allow us to disclose personal information about staff or contractors. However, we can confirm that the deaths of these people were the results of natural causes, which have had bearing on the state of their health, and have nothing to do with the labor conditions in the workplace." As expected, the company did not provide any specific data or statistics.<sup>110</sup>

Not surprisingly, the concealment of disease is a common practice in industrial enterprises in Kazakhstan, as the loss of ability to work due to occupational diseases is paid for by the employer.<sup>111</sup> However, TCO's closed nature with regard to information about illness and death at the enterprise gives rise to rumors and the dissemination of personal opinions. Thus, anonymous witnesses who worked at TCO in the early 2000s said the following about deaths at the enterprise, "If, according to official data, since 1993 250 workers died here, then that figure is an underestimate. They only count those who died at work. And how many people died from hydrogen sulfide poisoning at home? After all, there were many cases when people returned from their shift, fell asleep and never woke up. Information about what diseases the dead had, and what the workers are living with, remains hidden. The management says it is alright."<sup>112</sup> According to data from the special state commission operating at the time, from 1993-2000, 64 TCO employees died at Tengiz. The death of these people, who began their jobs perfectly healthy, in most cases, resulted from cancer and cardiovascular diseases, and acute circulatory disorders.<sup>113</sup> TCO mortality statistics after 2000 are carefully concealed.<sup>114</sup>

But even if the impacts of TCO activities on employee health are proven, there is no reason to hope to receive adequate compensation from the company. A striking example is the story of Gulbanu Abdullayeva, a worker of 'Karat, LLP', one of TCO's contracting companies. On July 2,

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<sup>107</sup> Ibid.

<sup>108</sup> Ibid.

<sup>109</sup> Lev Guzikov, «Tengizshevrojl» hotjat ostanovit', *Turan*, 19.06.2012.

<sup>110</sup> Lev Guzikov, «TShO: «Smert' nashih sotrudnikov ne svjazana s uslovijami truda», *Ak Zhajyk*, 29.07.2009..

<sup>111</sup> Tat'jana Ten, «Bespravnye raby ili zolotoj fond?», *Karavan*, 09.01.2009

<sup>112</sup> [http://vaxta.ru/serious/serious.shtml?rotten\\_place](http://vaxta.ru/serious/serious.shtml?rotten_place), 09.03.2013.

<sup>113</sup> Laura Sulejmenova, «Jekologija dlja nas - vopros zhizni i smerti», *Ak Zhajyk*, 02.08.2012.

<sup>114</sup> Ibid.

2005, due to a power failure at Tengiz which led to a complete shutdown of all production activities, over 30,000 cubic meters of sour and crude gas were released into the atmosphere through the flares. Over 7,000 workers were evacuated from the site, and 183 people reported to the TCO clinic with various ailments.<sup>115</sup> Due to the accident, Gulbanu became disabled, and her poisoning by hydrogen sulfide and the professional nature of the disease were officially confirmed by the forensic medical examination. After several years of litigation, she managed to receive some compensation from Karat, LLP. However, TCO itself never reimbursed the woman for her poor health and suffering.<sup>116</sup>

### **Code of discrimination**

TCO is very proud of its policy in the field of labor relations. The basis for such pride the company finds in its practice of collective agreements, the last of which was signed with the members of the association of workers of TCO and the union of the Tengiz oil and gas complex. In 2009, the TCO collective agreement was voted the best in a national contest for social corporate responsibility, 'Paryz.'<sup>117</sup>

But just how the difficult working conditions in 12 hour shifts and pay discrimination based on nationality at TCO comply with the terms of the collective agreement, cannot be ascertained by anyone.<sup>118</sup> Truly independent trade unions do not exist at Tengiz. The existing independent union collapsed in early 2000 after a long standoff with the management of the company, which refused to recognize it as legal, and transfer contributions of its members. An alternative to the independent union was created with the support of TCO's leadership; it is not trusted by the local population or workers, who believe it is dependent on the company.<sup>119</sup>

TCO also actively and openly opposes the establishment of independent trade unions at its contract companies, although it says it supports collective bargaining and respects the rights of workers in the contracting companies.<sup>120</sup> For example, the head of the Turkish company Senimdi Kurylys said in response to the proposal to create a trade union at the company: "We are TCO contractors, so the establishment of a trade union at the enterprise must be agreed upon with the general contractor."<sup>121</sup> Another contractor, Bolat Jol, was punished by TCO for

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<sup>115</sup> Laura Sulejmenova, «Tengiz slezam ne verit, ili Istorija odnogo otravlenija», *Ak Zhajyk*, 15.04.2010.

<sup>116</sup> Ibid.

<sup>117</sup> [http://www.tengizchevroil.com/ru/documents/TCO%20Signs%20New%20Collective%20Agreement\\_Final.pdf](http://www.tengizchevroil.com/ru/documents/TCO%20Signs%20New%20Collective%20Agreement_Final.pdf), 12.01.2011.

<sup>118</sup> Lev Guzikov, «Do pervoj nefti – do pervoj krovi», *Novosti Atyrau*, 19.10.2012.

<sup>119</sup> <http://www.oilcapital.ru/industry/93388.html>, 31.05.2004.

<sup>120</sup> [http://www.tengizchevroil.com/ru/documents/TCO%20Signs%20New%20Collective%20Agreement\\_Final.pdf](http://www.tengizchevroil.com/ru/documents/TCO%20Signs%20New%20Collective%20Agreement_Final.pdf), 12.01.2011.

<sup>121</sup> «Pervichkami silen profsojuz», *Prikaspijskaja kommuna*, 27.12.2012.

the emergence of an independent trade union with the loss of one of the contracts.<sup>122</sup> The Kazakh-Scottish Enterprise, Denholm Zholdas, which has been one of the main TCO contractors since 1999, has been working at Tengiz for 13 years without a trade union, and this is likely one of the conditions for successful cooperation.<sup>123</sup>

As a result of unregulated labor relations, Chevron's activities are accompanied by a string of labor disputes and clashes between the national and foreign workers in the contracting companies working at TCO facilities. The main causes of conflicts and grievances of local workers are generally low wages, poor working conditions and living conditions, arbitrary dismissal, and discrimination based on nationality. Not all the labor disputes have become public. Here is a list of just a few of them.

2000 - The strike at the Turkish company, Zafer Insaat, which built the TCO village in Atyrau.

2001 – The incident at the construction of the TCO office in Atyrau, which was led by the Turkish company, Fintrako-Tepe.

2004 - The strike at the Indian company, Punj Lloyd, in Tengiz.

2005 - The conflict between Kazakh and Turkish workers in the mentioned company, Senimdi Kurylys, at Tengiz.

2006 - Massive fighting and unrest at Senimdi Kurylys, at Tengiz. According to official data, 339 Turkish citizens suffered in the conflict, 136 of whom were seriously injured. According to unofficial data, some people died. Several cars were burned, and living quarters were destroyed.<sup>124</sup> Immediately after these events, several thousand Turkish workers left Tengiz. Resolution of the conflict involved the Turkish Foreign Ministry.<sup>125</sup>

2012-Another strike at Senimdi Kurylys demanding higher wages.<sup>126</sup>

Although the contracting companies and the relevant government authorities are responsible for conflicts and massive violations of labor laws of Kazakhstan, a degree of responsibility for its contractors also lies with TCO. However, the company prefers to pursue a policy of non-interference and limits its control of relationships to its general contractors, closing its eyes to the fact that major violations have occurred with its sub-contractors.<sup>127</sup>

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<sup>122</sup> «Skandal vokrug sozdaniya profsojuza v odnom iz krupnyh transportnyh podryadchikov TShO TOO «Bolat Zhol» peremestilsja v sudy», Sunkar, 24.08.2010.

<sup>123</sup> Alma Turganova, «Garantii dlja rabotnikov», *Prikaspijskaja kommuna*, 04.10.2012.

<sup>124</sup> Lev Guzikov, «Do pervoj nefi – do pervoj krovi», *Novosti Atyrau*, 19.10.2012.

<sup>125</sup> [http://online.zakon.kz/Document/?doc\\_id=30074592](http://online.zakon.kz/Document/?doc_id=30074592), 26.04.2013.

<sup>126</sup> Vadim Borejko, «Chetyre sboku – vashih net», <http://www.facebook.com/respublika.kaz>, 28.02.2012.

<sup>127</sup> Saniya Tojken, «Linsi Krejn:«Ne trebujte nevozmozhnogo», *Ak Zhajyk*, 31.05.2012.

TCO's hard line against the wage-worker translates into small and large tragedies in the lives of ordinary people. On March 7, 2011, in the shift settlement Shanyrak, inhabited by employees of TCO and its contractors, a driver of the company Yurest Support Services committed suicide. Amangeldy Suleimenov killed himself after dismissal, for concealing the fact that the bus he was driving accidentally hit a road sign.<sup>128</sup> The driver, who was of pre-retirement age and worked 13 hours a day, owed debt in four separate loans, according to colleagues, which he was unable to repay after the loss of his job. He did not have any chance of finding another job at Tengiz, as, like many others who have erred at least once, he was on the black list of TCO and its contractors.

According to reports, codes "400" and "500" were assigned to those fired from the company at Tengiz for various reasons – from being late, to arriving at the workplace under the influence.<sup>129</sup> On the basis of the investigation by the Prosecutor's Office of mass riots in Senimdi Kurylys, it was revealed that on the eve of the events, 98 Kazakh workers were dismissed on the sole ground that they took their lunch break 15-20 seconds too early. The sensor reading information from the passes recorded this, and people were immediately blacklisted under 'code 500'. After such labeling, these people could no longer get a job at Tengiz, as their data was put into a database, to which all the contractors and subcontractors of TCO had access.<sup>130</sup> There have been cases when the workers switched to the last names of their wives, but the security services of TCO caught even this.<sup>131</sup> It is noteworthy that this policy applies only to the local workers of the company, because no foreigner has ever been blacklisted in all the years the operation of the company.<sup>132</sup>

According to the prosecutor's office, TCO has been 'marking' its workers since 1999. However, this was proven only after a surge of discontent and violence in 2006. It is possible that one can become persona non grata at Tengiz not only for drinking and other official misconduct. "Code 400" was most likely appropriated to individuals who had conflicts with management, seekers of justice, union activists and others. The TCO policy of labeling workers is somewhat similar to the branding of cattle.<sup>133</sup>

Illegal actions by the leadership of TCO continued until September 2007, while the Atyrau City Court ordered the company to stop such practices, as they were in violation of the Constitution and the labor laws of Kazakhstan. Over the entire time the codes have been used, more than

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<sup>128</sup> Laura Sulejmenova, «Samoubijstvo na Tengize», *Ak Zhajyk*, 09.03.2011.

<sup>129</sup> Zulfiya Bainekeeva, "Kod 400" —Vne zakona," *Vremia*, 20/09/2007

<sup>130</sup> Aleksej Nadymov, «Tajnaja kodirovka», *Megapolis*, 19.02.2007.

<sup>131</sup> Zulfiya Bainekeeva, "Kod 400" —Vne zakona," *Vremia*, 20/09/2007

<sup>132</sup> Ibid.

<sup>133</sup> Aleksej Nadymov, «Tajnaja kodirovka», *Megapolis*, 19.02.2007.

1,500 people were blacklisted by TCO and its contractors.<sup>134</sup> However, as the tragedy of Amangeldy Suleimenov demonstrates, this practice in Tengiz is likely continuing behind the scenes.

### **The all-powerful “Group 4”**

If management of TCO decides which of its workers to punish, and which to pardon on the basis of its internal rules and not the laws of the country, then the private company, Group 4, which is dedicated to the protection of TCO property, took upon itself the role of law enforcement agencies.

In 2008, the Prosecutor's Office of the Zhylyoi region conducted an audit of Group 4, and revealed that the firm independently took upon itself the functions of the internal affairs agencies.

Over a long period of time, the staff of Group 4 used batons and radars, special devices and signs on their cars, reported traffic violations by TCO drivers, which in some cases became cause for dismissal. De facto they replaced the traffic police. In addition, the audit found that TCO enabled its own rules on exams and issuing of driver's licenses, without which it was impossible to become a driver at TCO and its contractors. According to the prosecutor, this was deemed to be a violation of a number of legislative acts of the country, including the 2000 “Law on Security Activities.” However, Group 4 ignored the Prosecutor’s orders to eliminate these violations of the law. In response, the Prosecutor of the Zhylyoi region filed in the court, which fully satisfied its claims.<sup>135</sup> However, after a year, the court orders have still not been fulfilled, and Group 4 continues to carry out its illegal functions.<sup>136</sup> Additionally, the Prosecutor and law enforcement agencies revealed the illegal use of a satellite tracking system, with which TCO company vehicles were equipped.<sup>137</sup>

Generally speaking about the security at Tengiz, law enforcement agencies do not have opportunities and rights to operate fully in the field. This is despite the fact that Tengiz is of strategic importance and is a primary security risk. From 1996 to 2002, the property was guarded by the police. The number of employees of the local police station reached 50 people, as well as up to 80 individuals from the security department. At the moment, the entire property is protected by the security services of Group 4, and the police have no right of access to the territory of the company. According to the Government Resolution № 901 of 04.09.2001,

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<sup>134</sup> [www.procuror.kz](http://www.procuror.kz), 13.09.2007.

<sup>135</sup> Lev Guzikov, «Prokuratura Zhylyojskogo rajona provela proverku firmy «Group 4», *Ak Zhajyk*, 01.05.2008.

<sup>136</sup> Lev Guzikov, «Poterjali ispolnitel'nyj list», *Ak Zhajyk*, 18.11.2009.

<sup>137</sup> Lev Guzikov, «Sputnikovuju slezhku v TCO priznali nezakonnoj», *Ak Zhajyk*, 19.03.2009.

the list of institutions that are subject to the protection of the police does not include TCO property, with the exception of the water intake at the Tengiz field.<sup>138</sup>

Apparently, neither the authorities nor Chevron fully understand what may happen at Tengiz in the event of a terrorist attack, as occurred in the gas industry joint venture by BP and Statoil in Algeria, in January of this year. As a result of a terrorist attack on the complex, 48 local and foreign experts were killed, and the damage from the termination of the plant activities cost up to about US \$40 million.<sup>139</sup> In a similar situation, TCO's trust in the 'omnipotent' Group 4 may not be justified, as was shown by mass riots at Tengiz in 2006, when private security failed in their tasks. Then, the riots were stopped by the local police department of 11 people.<sup>140</sup> Whether they could handle highly trained and well-armed terrorists, especially given the rise of radicalism in western Kazakhstan, is a big question.

### **Corporate Latitute**

Chevron's policies in the field of human rights purport to respect the rights of local communities.<sup>141</sup> TCO also claims to take a very specific and serious approach to corporate social responsibility, which, according to the company, is stronger than that of other local enterprises, and guarantees that all activities of the company meet the highest standards of ethics and social responsibility.<sup>142</sup> Chevron's implementation of this practice in Kazakhstan is well illustrated by the examples of two villages.

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<sup>138</sup> Novosti press-kluba «Batys – info», <http://www.batys-info.kz>, 24.10.2006.

<sup>139</sup> <http://ria.ru/world/20130121/918939235.html>, 21.01.2013.

<sup>140</sup> Novosti press-kluba «Batys – info», <http://www.batys-info.kz>, 24.10.2006.

<sup>141</sup> Chevron, About Our Human Rights Policy, April 2010.

<sup>142</sup> <http://www.tengizchevroil.com/ru/responsibility/>, 22.04.2013.





Village of Zhana Karaton. © Crude Accountability

Only 10 years after its arrival at Tengiz, Chevron began to address the problems of local populations caught in the zone of impact of the field. In particular, with regards to the village of Sarykamys (3450 people), which was located on the border of the TCO 10 km sanitary protection zone. From the beginning of the development of the field, the villagers began to experience the impacts of the Tengiz complex. Despite repeated assurances by TCO that the impact on the environment was negligible, the health of the residents reportedly started to sharply deteriorate. By the beginning of the 2000s, according to doctors, 90% of the village was sick. The average life expectancy was 46 years.<sup>143</sup> By this time, 189 people had died in Sarykamys, aged 24 to 53 years, since the beginning of the field development.<sup>144</sup> Only when the situation in the village started to resemble a local environmental catastrophe, did the government of the Republic of Kazakhstan pass Resolution no.321, dated 18 March 2002, on the resettlement of the population away from the sanitary protection zone of the field.<sup>145</sup> It should be noted, however, that the issue of resettlement of Sarykamys had been raised even during the Soviet Union, immediately after the discovery of Tengiz. It should also be

<sup>143</sup> Muftah Diarov, «Moguchij Tengizshevrojl», ECOSTAN NEWS #10/2, 01.04.2003.

<sup>144</sup> Laura Sulejmenova, «Jekologija dlja nas - vopros zhizni i smerti», *Ak Zhajyk*, 02.08.2012

<sup>145</sup> <http://adilet.zan.kz/rus/docs/P020000321>, 19.04.2013.

acknowledged that TCO took an active part in the resettlement of Sarykamys, paying for half of the costs, and funding the construction of houses in the village Zhana Karaton, in the Zhylyoi district, and the neighborhood Les-hoz in the city of Atyrau. The total spent on the resettlement program in 2004-2006 amounted to US \$95 million.<sup>146</sup> However, not everything went as smoothly as TCO reports. According to reports, the settlers were not fully compensated for their lost property; in particular, they did not receive land proportionate to what they owned in Sarykamys.

Chevron faces the opposite situation at Karachaganak, where the company has a share in "Karachaganak Petroleum Operating BV" (KPO). The village of Berezovka (1,530 people) is located at the boundary of a 5 km sanitary protection zone around the Karachaganak Oil and Gas Condensate Field, which, like Tengiz, contains high concentrations of hydrogen sulfide. Active development of the field has reportedly led to severe pollution of the environment, to the detriment of the health of residents and livelihood farming practices in Berezovka. However, as was the case with Sarykamys, KPO argues that emissions from the field do not exceed the permissible limits. Incidentally, the monitoring conducted at Karachaganak is done by the same firm «Gidromet Ltd», as at Tengiz.<sup>147</sup> Likewise, there are no governmental environmental monitoring stations.<sup>148</sup> According to an independent study, approximately 45% of the population suffers from chronic disease.<sup>149</sup> Since 2002, the residents of Berezovka have been trying unsuccessfully to be resettled away from the zone of dangerous influence of Karachaganak. However, their repeated requests to the authorities and KPO to resolve this issue of resettlement have been fruitless. The people's attempts to appeal to the leadership of Chevron have also failed. The company refuses to help the villagers of Berezovka, citing the fact that it is not the operator at KPO.<sup>150</sup> It would seem that questions about ethics, as well as moral and ethical management of a company, become superfluous when profits are at stake.

As it turned out, things were also not that simple with Sarykamys. The main reason for the relocation of the residents was apparently not so much the issue of health and lives of the people, as it was Chevron's plans for the Ansagan field, which is close to the village. In 2001-2003, TCO conducted seismic surveys in six oil-rich places, including Ansagan, located within the contract area of the company. In 2006, TCO conducted deep exploration drilling in Ansagan, as the most promising field of the six.<sup>151</sup> It received a positive result with a high influx of oil.<sup>152</sup>

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<sup>146</sup> [http://www.tengizchevroil.com/ru/about/tco\\_history.asp](http://www.tengizchevroil.com/ru/about/tco_history.asp), 19.04.2013.

<sup>147</sup> <http://gidromet.kz/proekti>, 07.08.2012.

<sup>148</sup> Pis'mo zamestitelja direktora departamenta Strategicheskogo planirovanija i monitoringa MOOS RK O.Suvorovoj, 15.08.2012.

<sup>149</sup> <http://crudeaccountability.org/campaigns/karachaganak/the-campaign-2003-today/>, 13.05.2013.

<sup>150</sup> <http://crudeaccountability.org/campaigns/chevron/>, 22.04.2013.

<sup>151</sup> «Portret kompanii: TOO SP «Tengizshevrojl», <http://oilnews.kz/1/tendery/portret-kompanii-too-sp-tengizshevrojl/> 08.04.2013.

Currently, Ansagan belongs to Embamunaigas, a subsidiary of the national company, KazMunaiGas.<sup>153</sup>

Thus, the breadth of Chevron's corporate social responsibility does not appear to extend beyond the interests of corporate profits, especially because TCO payments for social projects, and resolution of resettlement issues are compensated by the Kazakh share of oil revenues, that is, in the end, at the expense of Kazakhstani citizens themselves.<sup>154</sup>

### The Karachaganak share

Chevron holds an 18% share of Karachaganak Petroleum Operating, BV, the consortium that also includes the BG Group (29.25%), Eni (29.25%), LUKOIL (13.5%) and KazMunaiGas (10%).<sup>155</sup> Chevron is not the operator at Karachaganak and tries to distance itself from the existing problems there. However, they are very similar to the problems at Tengiz.



Village of Berezovka. © Crude Accountability

Just like TCO, KPO paints a rosy picture in its reports about how the company is committed to the highest standards of environmental protection, spends hundreds of millions of dollars on environmental projects, and brought the rate of gas utilization at Karachaganak to international levels, which places the leadership of KPO on these issues among global and European oil and gas companies.<sup>156</sup> However, evidence from the local population and government data show alarming levels of pollution near the field. Public monitoring in Berezovka recorded the

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<sup>152</sup> S.Biteuova, «Neftegazogeologicheskoe rajonirovanie jugo-vostochnoj chasti prikaspjskoj vpadiny», <http://vestnik.kazntu.kz/?q=kk/node/262>, 21.04.2013.

<sup>153</sup> Artur Shahnazarjan, «Jembamunajgaz»: zapasy – sud'bonosnyj vopros», <http://www.1akz.ru/articles/embamunaygaz-zapasy-sudbonosnyy-vopros>, 21.04.2013.

<sup>154</sup> Laura Sulejmenova, «Jekologija dlja nas - vopros zhizni i smerti», *Ak Zhajyk*, 02.08.2012.

<sup>155</sup> <http://www.kpo.kz/about-kpo.html?&L=1>, 26.04.2013.

<sup>156</sup> Amina Dzhaliilova, «Karachaganak: itogi goda», *Kazahstanskaja pravda*, 26.02.2013.

presence of more than 25 toxic substances in the air.<sup>157</sup> In 2005, the Regional Department of Ecology temporarily withdrew the KPO's license to operate due to environmental violations, including the emission of 56,000 tons of pollutants into the atmosphere in 2004 alone.<sup>158</sup> During the public environmental review conducted by the Kazakh Society for the Conservation of Nature, it was found that the actual emissions of harmful substances into the atmosphere by KPO exceeded permissible limits by 3.3 times in 2004, and by 2.8 times in 2005.<sup>159</sup> The consortium has been repeatedly fined tens of millions of dollars for emissions exceeding permissible limits.<sup>160</sup> In 2012, heavy fines were imposed on KPO for unauthorized pollution of the surrounding environment. In April of that year, KPO paid US \$51 million for gas flaring in 2010.<sup>161</sup> In July of 2012, the court further fined the company US \$31 million for emissions in 2010-2011.<sup>162</sup> However, no matter how great the fines, they are always compensated from the Kazakh share in the project, according to the agreement for Karachaganak. Therefore, foreign investors do not lose anything. In the end, their negative activities in Karachaganak are paid for by Kazakhstani taxpayers.<sup>163</sup>



*Karachaganak Oil and Gas Condensate Field. Sinkhole near the village of Zhanatalap. © Crude Accountability*

<sup>157</sup> <http://crudeaccountability.org/campaigns/karachaganak/the-campaign-2003-today/>, 13.05.2013.

<sup>158</sup> Ibid.

<sup>159</sup> Laura Sulejmenova, «Riski v razlive», *Ak Zhajyk*, 26.01.2012..

<sup>160</sup> <http://crudeaccountability.org/campaigns/karachaganak/the-campaign-2003-today/>, 13.05.2013.

<sup>161</sup> <http://www.vestikavkaza.ru/news/55443.html>, 05.04.2012.

<sup>162</sup> Gul'mira Kenzhegalieva, «Nakazanie den'goj ne dejstvuet?», *Karavan*, 14.07.2012.

<sup>163</sup> Laura Sulejmenova, «Riski v razlive», *Ak Zhajyk*, 26.01.2012.

In addition to the severe pollution of the environment, a new crisis has recently emerged—sinkholes around the field. The sinkholes began to appear in 2010 in and around the village of Berezovka. Initially, residents found two sinkholes on the steppe, half a kilometer south of the village, with an internal diameter of 5-6 meters, and a depth of 4-5 meters. Then, a pit formed under the foundation of one of the houses in the village. In a couple of weeks it had grown into a small cave, where a person could easily fit. As a result, the house was left in catastrophic condition. Concerned residents appealed to the local authorities. However, they did not receive any satisfactory response. The local Emergency Department only helped fill the pit with soil. KPO representatives also failed to react; they only photographed the sinkhole and left. The residents fear that the sinkholes may be caused by the intensive development of Karachaganak, especially since a few years ago, similar sink holes began to appear near the village of Zhanatalap, on the buffer zone of the field. There, one of the sinkholes has a diameter of 10-12 meters and a depth of 8-9 meters. The phenomenon of sinkholes is fairly common in the oil-producing regions of the world, and can lead to catastrophic consequences for the people living around Karachaganak. However, currently, neither the authorities nor KPO have actively responded to the problem. The company has simply put up warning signs of danger in the area around the village of Zhanatalap.<sup>164</sup>

The case of Berezovka suggests the extent to which KPO is willing to violate national and international law in pursuit to profits. Residents should have been relocated after production started at the field, since according to the legislation of Kazakhstan, a five-kilometer sanitary protection zone (SPZ) was established around the field, which included part of the village. However, in 2003, KPO convinced the government to reduce the SPZ to three kilometers, stating that they employed the "best technology" at the field, thereby depriving the villagers of the legal framework for resettlement. The SPZ was reduced without governmental ecological expertise, without informing the local residents, without consideration of their opinion, or public participation in the decision making process, in violation of the laws of Kazakhstan and the UNECE Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters (Aarhus Convention). After three years of public protests, the Prosecutor General of Kazakhstan recognized the 2003 decision to reduce the SPZ as illegal, and in 2006, the five-kilometer SPZ was restored. However, neither KPO, nor the government compensated any of the residents for the long-term violation of their rights, and have not undertaken any efforts to resettle the village. This attitude of KPO towards the local population is not surprising, since to the question raised by the public, on what the

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<sup>164</sup> <http://crudeaccountability.org/sinkholes-appear-in-and-around-the-village-of-berezovka-near-the-karachaganak-field-in-kazakhstan/>, <http://www.greensalvation.org/index.php?page=berezovka-provaly>, 14.05.2013.

responsibilities of the company would be to the residents of Berezovka in case of an accident at the field, the answer from the leadership of KPO was simple---only moral.<sup>165</sup>

The attempts of the public to seek justice for the residents of Berezovka on the national and international levels have also not been successful. In 2008, three civic organizations in the country filed a lawsuit against the government of Kazakhstan for the violation of the rights of the local residents. The trial lasted nearly two years and was filled with numerous procedural violations.<sup>166</sup> Finally, in 2010, a solution was reached to resettle only two families out of all the residents of the village. However, the court's decision has not yet been fulfilled.<sup>167</sup>

In the period from 2004 to 2008, the residents of Berezovka, with the assistance of non-governmental organizations, sent three complaints to the World Bank mechanism for monitoring compliance with the statutory requirements, Compliance Advisor Ombudsman (CAO), using the fact that the International Finance Corporation (IFC) allocated a loan to the company "LUKOIL" of US \$150 million for the development of the Karachaganak field.<sup>168</sup> According to the first complaint, a CAO audit was conducted, which recognized that the KPO monitoring of air emissions and air quality did not meet the requirements of the IFC. The reports from the data monitoring did not include hydrogen sulfide from 2003 to 2006. And it was precisely during these years that Berezovka residents complained the most about health problems due to emissions of hydrogen sulfide. However, the CAO has not been able to resolve the acute socio-environmental conflict at Karachaganak.<sup>169</sup>

KPO has also not been spared from corruption scandals. In 2007, the Regional Court of Houston, Texas, found the US company, Baker Hughes, which was a KPO contractor, guilty of bribing officials in Kazakhstan. This is why the American entrepreneurs received a lucrative contract to participate in the preparatory work of the Karachaganak field.<sup>170</sup> In June 2012, another scandal broke out after the publication of an article in *The Wall Street Journal* about the investigation of the case in which KPO, via DHL, authorized payments to Kazakh customs officials to ignore errors in the customs documents. KPO conducted its own internal investigation, and the Customs Control Committee of the Ministry of Finance of Kazakhstan made a statement that the facts of bribery have not been confirmed.<sup>171</sup>

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<sup>165</sup> Sergey Solyanik, An Oil Democracy, or the Story of Berezovka, *Green Salvation Herald*, 2006, pp.82-95.

<sup>166</sup> <http://www.greensalvation.org/index.php?page=berezovka>, 14.05.2013.

<sup>167</sup> <http://www.greensalvation.org/index.php?page=berezovka>, 14.05.2013.

<sup>168</sup> [http://www.cao-ombudsman.org/cases/default.aspx?region\\_id=2](http://www.cao-ombudsman.org/cases/default.aspx?region_id=2), 14.05.2013.

<sup>169</sup> <http://crudeaccountability.org/campaigns/karachaganak/the-campaign-2003-today/>, 14.05.2013.

<sup>170</sup> [http://www.greensalvation.org/old/Russian/Facts/H\\_rights/berezovka/baker\\_13.06.2007rus.htm](http://www.greensalvation.org/old/Russian/Facts/H_rights/berezovka/baker_13.06.2007rus.htm), 14.05.2013.

<sup>171</sup> «Proverka ne podtverdila fakty vzjatochnichestva na kazahstanskoj tamozhne s uchastiem krupnyh neftegazovyh kompanij - KTK Minfina», *Interfaks-Kazakhstan*, 15.06.2012.

We believe that Chevron, as an important member of KPO, and with significant ties within the country, carries its share of responsibility for what is happening at Karachaganak.

### Caspian pipeline

The Caspian Pipeline Consortium (CPC) is the largest international oil transportation project involving Russia and Kazakhstan, as well as the world's leading extraction companies. The CPC pipeline carries oil mainly from the Tengiz and Karachaganak fields, which is then transported to a marine terminal in the village of Yuzhnaya Ozereyevka (Novorossiysk, Russia), and then loaded onto tankers for shipment to world markets. Each year, the CPC carries more than a third of the total oil exports of Kazakhstan.<sup>172</sup>



CPC Pipeline and the KPO Export Pipeline. ©Crude Accountability

<sup>172</sup> [http://atyrauinfo.kz/catalog/transport\\_i\\_kommunikacii/kaspijskij\\_truboprovodnyj\\_konsorcium\\_ktk.html](http://atyrauinfo.kz/catalog/transport_i_kommunikacii/kaspijskij_truboprovodnyj_konsorcium_ktk.html), 16.05.2013.

Currently, the CPC shareholders, where Chevron plays an important role include: Russia (Transneft and CPC Company) with 31%, Kazakhstan (KazMunaiGas , 19% and Kazakhstan Pipeline Ventures LLC, 1.75%) with 20,75%, Chevron Caspian Pipeline Consortium Company - 15%, LUKARCO B.V. -12.5%, Mobil Caspian Pipeline Company-7. 5%, Rosneft-Shell Caspian Ventures Limited-7. 5%, BG Overseas Holding Limited-2%, Eni International HA H.V. S.ar.l. -2%, Oryx Caspian Pipeline LLC- 1.75%.<sup>173</sup> In 2012, the CPC exported 30.6 million tons of oil.<sup>174</sup>

The story of Chevron entering into CPC in 1997 is worth telling. CpC was established in June of 1992 by Russia, Kazakhstan and the Sultanate of Oman (Oman Oil Company, OOC) to transport oil from Tengiz.<sup>175</sup> Prior to the practical work on the CPC in 1994, the lack of an export pipeline suited Chevron, which allowed the company to recoup its costs through the production of small quantities of oil, and thus not pay a bonus to Kazakhstan (US \$420 million), which is in the agreement as a safeguard for the use of a pipeline, if any was to be built. Upon the start of the operation, the leadership of Chevron began to actively use the ‘friendship’ with the Leader of the Nation and held negotiations with senior Kazakh and Russian officials, seeking shares in CPC and reductions in future tariffs. Under pressure from the major oil companies, Western banks refused to grant loans to OOC. Further, defamatory material was published in the media, and OOC officials were bribed.<sup>176</sup> These tactics proved successful, and starting in August 1995, the Government of Kazakhstan began actively demonstrating its desire to get rid of the participation of Oman in the consortium, replacing it with its old friend, Chevron. As a result, in March 1996, the CPC was restructured, with Oman having a reduced share, and with the inclusion of the major oil companies with interests in Kazakhstan, including, of course, Chevron.<sup>177</sup>

Currently, CTC is implementing a project worth US \$5.4 billion to expand the capacity of the pipeline up to 67 million tons.<sup>178</sup> This is consistent with Chevron’s plan to increase oil production at Tengiz, and thus generate additional profits from pumping its oil through CPC.

### **Chevronization of the entire country: in place of a conclusion**

It would not be an exaggeration to call the arrival of Chevron and the Tengiz contract important events in the history of the Republic of Kazakhstan. This is not just because it was the first major contract by foreign investors in the country, but also because it has become a model for

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<sup>173</sup> <http://newkaz.ru/economy/20130401/4934457.html>, 01.04.2013.

<sup>174</sup> Ibid.

<sup>175</sup> Chevron, 2012 Annual Report, p.47.

<sup>176</sup> <sup>176</sup> V.Hljupin, «Kaspijskij truboprovodnyj konsorcium (KTK) i problema putej transportirovki uglevodorodov Prikaspija na mirovoj rynek», [http://society.polbu.ru/hljupin\\_kazakhstan/ch12\\_all.html](http://society.polbu.ru/hljupin_kazakhstan/ch12_all.html) 16.05.2013.

<sup>177</sup> Ibid.

<sup>178</sup> <http://newkaz.ru/economy/20130401/4934457.html>, 01.04.2013.



subsequent agreements. Unfortunately, in many respects, it is a negative model from the point of view of the interests of the State and the people of Kazakhstan.

The secrecy and opacity of the Tengiz contract became an example of negotiations for the sale of national natural resources and industrial assets, which were conducted by the leadership of the country in secret not only from the people's representatives in Parliament, but also from the majority of the members of the government. The terms and price of the contract are disadvantageous for the country, and a number of politicians have deemed it a betrayal of national interests. The former Prime Minister of the country, Akezhan Kazhegeldin, called the deal with American giant one "of the most incompetent and unprofitable" for Kazakhstan.<sup>179</sup> No wonder one of the latest initiatives of the Kazakh opposition was to hold a national referendum on the return to state ownership of large metallurgic companies, sold, in their opinion, for pennies in the 1990s.<sup>180</sup> Opaque financial flows from transactions with foreign investors have become the norm in the country. Kazakhstan received a large sum from the Tengiz deal, but few know where that money went. Subsequently, this practice has led to the concealment of foreign accounts of US\$ 1 billion from the sale of 25% shares of TCO of the company Mobil, and the corruption scandal 'Kazakhgate'.<sup>181</sup>

As a result of over-exploitation, a significant part of the unique Tengiz field appears to be lost, something that could have been avoided, and which could have brought more profit to the country for years to come, if Chevron had carried out a systematic and linear development of the field, and did not overexploit the resource. No wonder a conflict flared up in the spring of last year around the technology of the future project for expansion, and financial terms after the expiration of the contract. What will be left at Tengiz after the departure of foreign investors in 2033 was the main concern of the Government of Kazakhstan.<sup>182</sup> On its own, the country will not be able to lead the development of Tengiz, which has also become increasingly complex due to ruined technological and human potential of the oil sector during the years of independent activities. Thus, Kazakhstan authorities do not seem to have any alternatives to Chevron.<sup>183</sup>

Since 1993, Chevron has produced over 250 million tons of oil at the Tengiz and Korolev fields.<sup>184</sup> Considering the cost of oil production at Tengiz, which does not exceed 2 dollars a

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<sup>179</sup> <http://www.nefte.ru/projekt/s1.htm>, 24.04.2013.

<sup>180</sup> Marat Zhanuzakov, «Kazahstancy ne huzhe mongolov», <http://www.respublika-kaz.info/news/politics/29999/>, 22.04.2013.

<sup>181</sup> M.Adilov, «Kommercheskie tajny» Tengizskogo dvora», *Respublika*, 24.10.2003.

<sup>182</sup> «Tengiz do skonchanija veka», *Kursiv*, 24.01.2013.

<sup>183</sup> Artur Shahnazarjan, «Akorda – «Chevron»: situacija idet v tupik», <http://www.respublika-kz.info/news/business/24251/>, 27.07.2012.

<sup>184</sup> Aleksej Tihonov, «Kakuju pribyl' poluchil «Chevron» ot neftedobychi na Tengize», <http://www.respublika-kz.info/news/business/29843/>, 15.04.2013.

barrel, and low taxes for TCO,<sup>185</sup> Chevron reaps huge profits from the difference in the price of oil in the country and on the international market, processing it in-house, and selling petroleum products through its retail network.<sup>186</sup> The company is not only involved in the development of two of the most important oil and gas fields in Kazakhstan, but also controls the transportation of raw materials extracted via the CPC pipeline, in which it also has its share. No wonder Chevron considers Kazakhstan the jewel in its crown, as its oil furthers the prosperity of the company.

The billions of dollars leaking out of the country undoubtedly haunt the Ak-Orda [Presidential Palace], as it periodically pressures TCO and other foreign investors in the country with legitimate and far-fetched reasons, in attempts to receive additional income. However, the government of Kazakhstan is unlikely to take any drastic steps to nationalize Tengiz, not so much because of technological reasons, as political ones. Because of the significant contribution of the Tengiz project to the national economy, Ak-Orda is heavily dependent on the financially powerful and politically influential American corporations, Chevron and ExxonMobil.<sup>187</sup> Attempts to control assets that are already of strategic interest to the US companies are fraught with disgrace for the country's leadership, as shown by Kazakhgate. Moreover, the Arab Spring had taught the leaders of Central Asia an important lesson about how easily and quickly once all-powerful rulers may be left without power and assets, which they worked so hard to acquire. Even the Kazakh opposition, it seems, understands the 'subtleties' of the oil business, as they have not included any enterprise from the oil and gas sectors in their list of objects for nationalization.<sup>188</sup> Kazakhstan has already largely lost its economic and political sovereignty through the transfer of national assets into the hands of large foreign investors, who have turned the country into a raw materials appendage of the developed countries.

In 1993, few of Kazakhstan's citizens imagined that the adversity and misfortunes of the corporate world, as described in Soviet textbooks, would become a reality for their country. In 20 years, Kazakhstan has become an inseparable part of the corporate world. Chevron, the pioneer of the country, only paved the way for other corporations on Kazakhstani soil, who are not very different from them in their activities and readiness for everything in the name of profit. Chevron, jointly with other oil and gas 'leaders', is prominent among the list of polluters of the Kazakhstan environment and violators of the rights of citizens of the country.

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<sup>185</sup> M. Adilov, "Kommercheskiet tainy," Tengizskogo dvora," Respublika, 24.10.2003.

<sup>186</sup> S.Mambetalin, «Pochemu ja protiv Kashagana», [http://forbes.kz/process/pochemu\\_ya\\_protiv\\_kashagana\\_chast\\_1](http://forbes.kz/process/pochemu_ya_protiv_kashagana_chast_1), 10.01.2013.

<sup>187</sup> Artur Shahnazarjan, «Akorda – «Chevron»: situacija idet v tupik», <http://www.respublika-kz.info/news/business/24251/>, 27.07.2012.

<sup>188</sup> Marat Zhanuzakov, «Kazahstancy ne huzhe mongolov», <http://www.respublika-kaz.info/news/politics/29999/>, 22.04.2013.

Chevron behaves like a state within a state in the country, not only tightly controlling production activities, but also all aspects of life in Tengiz, replacing the law enforcement agencies and the legislation of the country. It has its own boundaries, its own security, its own rules and laws, and even its own traffic police. Everything that happens outside the fence of the enterprise and the private, residential TCO village in the center of Atyrau, does not really concern Chevron. Not the high unemployment rates and low social protections of the local population, nor the prices of goods and services, which are much higher in Atyrau than in other regions of the country due to the dominance of oil companies in the region. The situation is similar at Karachaganak. For Chevron and other foreign investors, Kazakhstan has long turned into a kind of field camp, where people come to pump natural wealth and make money, leaving behind large-scale environmental problems, poverty and lawlessness.

Chevron seems quite satisfied with the authoritarian political system in Kazakhstan, where the company feels comfortable thanks to good relations with the Leader of the Nation and his entourage; and its approach to human rights and the law corresponds to that of the country's leadership. As the authorities of Kazakhstan imitate democracy, so Chevron simulates corporate social responsibility and transparency. Similar in spirit, Chevron is a reliable partner of the regime, and therefore bears its share of responsibility for what is happening in the country.

The policy of neo-colonialism, propagated by Chevron, will continue until the people of Kazakhstan, in reality and not just on paper, control the government, and regulate the natural wealth of the country. In such a country there will also be a place for Chevron, but on terms that will be mutually beneficial and mutually acceptable to both parties.

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