

## The Bear and the Pipe Dream? Diversifying Kazakhstan's Oil Exports from Russia

### Introduction

Traditionally, Kazakhstan transported most of its oil exports to Europe through Russian territory. Russia's war with Ukraine had a profound impact on Kazakhstan's oil exports. The conflict jeopardised the stability of the established oil export route, due to the European Union's (EU's) sanctions against Russia's oil sector and Russia's strategic use of its pipeline networks as a tool to exert pressure on the Kazakh government. Consequently, disruptions in Kazakh oil exports occurred intermittently throughout 2022 and 2023. In response to these challenges, the Kazakh government actively sought alternative oil export routes, with the development of the so-called Middle Corridor emerging as the most viable option. However, the progress of the Middle Corridor faced its own set of obstacles. In this context, what actions could the Kazakh government take to mitigate the adverse consequences of the war on its oil sector?

This case study examines the impact of the Russia-Ukraine War on Kazakh oil exports, followed by an exploration of the alternatives to the main traditional export channel of the Caspian Pipeline Consortium (CPC) Pipeline running through Russia, and the resulting implications for Kazakhstan's foreign policy. It concludes with a discussion of potential longer-term economic and foreign policy strategies for Kazakhstan.

### Background

#### *Economy and Trade*

Kazakhstan is the largest landlocked country in the world, and the largest of five Central Asian states in terms of land area and Gross Domestic Product (GDP) with the second largest population of about 20 million in 2023. It is rich in natural resources such as fossil fuel and mineral deposits, which constitutes a significant share of its economy and exports. Fuel and energy exports (i.e. oil and gas) constituted 61.3% of Kazakhstan's total exports, and the oil and gas industry contributed 19.5% of Kazakhstan's GDP in 2022 (Table 1).<sup>1</sup> About 78.1% of Kazakhstan's crude oil and crude oil products in 2023 was exported,<sup>2</sup> mainly to markets in Europe and East Asia. Kazakhstan's main trading partners in 2021 were Russia, China, Italy, the Netherlands and Türkiye (Table

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<sup>1</sup> Kazakhstan Bureau of National Statistics, "Structure of Exports and Imports", January 2024, <https://stat.gov.kz/en/industries/economy/foreign-market/>; and "Gross Domestic Product by the Production Method with Highlighting Share of Oil and Gas, Raw Sources Sectors (2022)", July 2023, [https://stat.gov.kz/en/industries/economy/national-accounts/publications/75518/?sphrase\\_id=353947](https://stat.gov.kz/en/industries/economy/national-accounts/publications/75518/?sphrase_id=353947).

<sup>2</sup> Kazakhstan Bureau of National Statistics, "Resources and Use of Certain Types of Products (Goods) and Raw Materials in the Republic of Kazakhstan January-November 2023", January 2024, <https://stat.gov.kz/en/industries/economy/foreign-market/>.

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2).<sup>3</sup> Its main fuel export markets in 2021 were Italy,<sup>4</sup> the Netherlands,<sup>5</sup> China, France and Türkiye. Kazakh exports to Italy, the Netherlands, France, South Korea and several other European countries consisted overwhelmingly (more than 85%) of fuel, primarily crude oil (Table 3). Oil exports contributed substantially to Kazakhstan's overall trade surplus with the rest of the world.<sup>6</sup>

**Table 1: Oil and Gas Sector Contribution to Kazakhstan's GDP (Gross Value Added), 2022**

Sector	Gross Value Added (Millions, Tenge*)	Share in GDP (%)
Oil and gas	20,172,444	19.5
Non-oil and gas	76,195,072	73.4
Raw sources <sup>#</sup>	20,655,615	19.9
Non-raw sources <sup>#</sup>	75,711,901	73.0

Source: Kazakhstan Bureau of National Statistics, "Gross Domestic Product by the Production Method with Highlighting Share of Oil and Gas, Raw Sources Sectors (2022)", July 2023.

\*As of April 5, 2024, US\$1 = 446.46 Kazakhstan Tenge (KZT). [www.xe.com](http://www.xe.com)

<sup>#</sup> Raw sources includes crop and animal production, hunting and related service activities; forestry and logging; fisheries and aquaculture; and mining industry (including extraction of crude oil and natural gas).

**Table 2: Kazakhstan's Main Trading Partners, 2021**

Country	Total Trade (US\$ Thousands)	% of Total Trade	Trade Balance (US\$ Thousands)	Exports (US\$ Thousands)	Imports (US\$ Thousands)
World	101,736,424	100.0	18,905,625	60,321,024	41,415,399
Russia	24,624,244	24.2	-10,586,752	7,018,746	17,605,498
China	18,000,962	17.7	1,544,049	9,772,506	8,228,457
Italy	9,675,398	9.5	8,102,794	8,889,096	786,302
Netherlands	4,611,817	4.5	4,156,565	4,384,191	227,626
Türkiye	4,111,048	4.0	1,818,283	2,964,666	1,146,382
Uzbekistan	3,833,914	3.8	1,719,828	2,776,871	1,057,043
France	3,059,459	3.0	1,729,862	2,394,660	664,799
South Korea	2,643,335	2.6	1,111,118	1,877,227	766,108
United States	2,233,743	2.2	-489,439	872,152	1,361,591
Germany	2,213,367	2.2	-1,416,292	398,538	1,814,830

Source: World Bank, World Integrated Trade Solution (WITS) Data, accessed March 5, 2024.

<sup>3</sup> World Bank, World Integrated Trade Solution (WITS) Data, accessed March 5, 2024, <https://wits.worldbank.org/>.

<sup>4</sup> Most of Kazakhstan's oil exports via the Caspian Pipeline Consortium and Black Sea to Italy were unloaded at the Italian port Trieste, where it took the Transalpine Pipeline to final destinations in Austria, Czechia and Southern Germany; "Company Profile", Transalpine Pipeline, accessed on March 14, 2024, <https://www.tal-oil.com/en/tal-group/company-profile>.

<sup>5</sup> The Netherlands reexported a significant amount of petroleum to neighbouring countries such as Germany, Belgium and France; "Dutch Trade in Facts and Figures: Exports, Imports and Investment 2023", Statistics Netherlands, accessed March 18, 2024, <https://longreads.cbs.nl/dutch-trade-in-facts-and-figures-2023/international-trade-in-goods-composition-and-geography/>.

<sup>6</sup> World Bank, World Integrated Trade Solution (WITS) Data.

Table 3: Kazakhstan's Main Fuel Export Markets, 2021

Country	Exports (US\$ Thousands)	% of Total Fuel Exports	Export Product Share (%)
World	34,820,9117	100.0	57.7
Italy	8,675,597	24.9	97.6
Netherlands	4,277,957	12.3	97.6
China	2,977,149	8.6	30.5
France	2,088,067	6.0	87.2
Türkiye	1,887,595	5.4	63.7
South Korea	1,706,947	4.9	90.9
Spain	1,561,981	4.5	95.6
India	1,528,588	4.4	94.0
Romania	1,482,041	4.3	97.4
Singapore	1,115,091	3.2	99.9

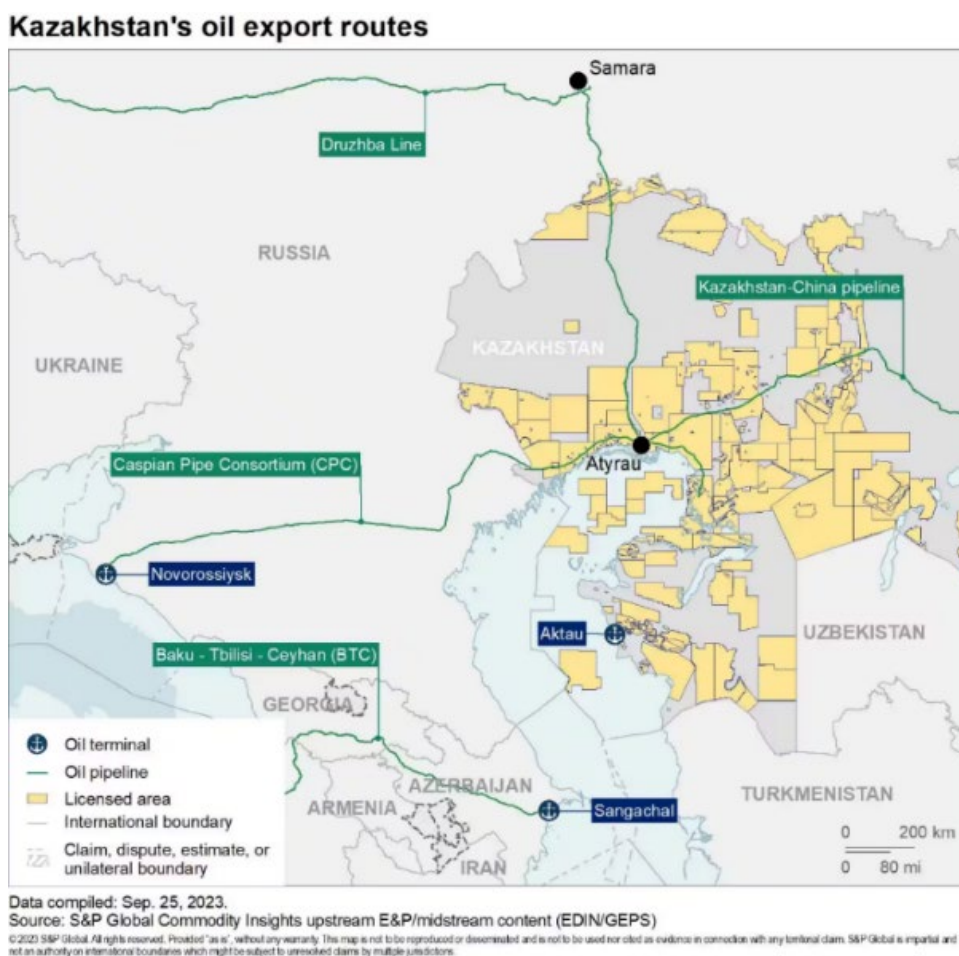
Source: World Bank, World Integrated Trade Solution (WITS) Data, accessed March 5, 2024.

Kazakhstan's oil was exported via various channels, e.g., oil pipelines, tankers and railroads (Annex A). These channels included the Caspian Pipeline Consortium (CPC) Pipeline, the Atyrau-Samara and Druzhba Pipelines, the Kazakhstan-China Pipeline (KCP), and the Middle Corridor via Aktau port on the Caspian Sea and the Baku-Tbilisi-Ceyhan (BTC) Pipeline. The two main westward pipelines – CPC and Druzhba – run through Russian territory (Figure 1).

Out of 64.3 million tonnes of oil exported by Kazakhstan in 2022, 52 million tonnes (80.8%) were transported through the CPC Pipeline, 8.4 million tonnes (13.1%) through Atyrau-Samara Pipeline, 2.3 million tonnes (3.6%) through Aktau port, 1.2 million tonnes (1.9%) through the Kazakhstan-China Pipeline, and 0.4 million tonnes (0.6%) by rail transport. Due to various challenges and constraints, Kazakhstan's Energy Ministry estimated that, under current conditions, Kazakhstan could only export a maximum of 16.5 million tonnes of oil annually if it did not use the CPC Pipeline.<sup>7</sup>

<sup>7</sup> "Kazakhstan on its Way to Oil Supply Diversification", *The Astana Times*, March 25, 2023, <https://astanatimes.com/2023/03/kazakhstan-on-its-way-to-oil-supply-diversification/>.

Figure 1: Map of Kazakhstan's Oil Export Pipelines



Source: S&P Global Commodity Insights, “Kazakhstan’s Oil Supply Reshaping: Is There a Viable Alternative to the CPC Pipeline”, October 9, 2023.

**History and International Relations**

*Demography and Language*

Before 1991, Kazakhstan was the Kazakh Soviet Socialist Republic, a part of the Union of Soviet Socialist Republics that was also known as the Soviet Union. During the Soviet years, there was sizeable influx of Russian migrants to Kazakhstan, which led to ethnic Russians outnumbering ethnic Kazakhs for several decades in the mid-20<sup>th</sup> century.<sup>8</sup> After Kazakhstan achieved independence in 1991, with the dissolution of the Soviet Union, many Russians left Kazakhstan in the 1990s. By 2023, Kazakhs made up 70.6% of the population and ethnic Russians comprised 15.1%. Other minor population groups included Uzbeks, Ukrainians, Uighurs, Germans, Tatars and Azerbaijanis.<sup>9</sup> Kazakh is the official language of Kazakhstan, but due to its history and demography, Russian is also spoken as a language for interethnic communication.<sup>10</sup> Both languages are used in business and government communications.

<sup>8</sup> Census Data (various years) for Kazakhstan, from <http://pop-stat.mashke.org>, accessed March 5, 2024.

<sup>9</sup> “About Us”, Government website of Kazakhstan, accessed March 5, 2024, <https://www.gov.kz/article/19305?lang=en>.

<sup>10</sup> Ibid.

### *Multi-Vector Foreign Policy*

Since independence, Kazakhstan had adopted a multi-vector approach to foreign policy, which meant that it aimed to balance its relationships with different powers and not be overly dependent on any single bloc or alliance. Kazakhstan positioned itself as a diplomatic hub that collaborated with various nations and organisations to foster international cooperation and dialogue.<sup>11</sup> This approach was officially declared as one of the basic principles in Kazakhstan's foreign policy, together with commitment to openness and multilateralism, in 2020.<sup>12</sup> President Kassym-Jomart Tokayev of Kazakhstan reaffirmed the nation's commitment to this principle in January 2024,<sup>13</sup> even as the international environment was becoming increasingly challenging with conflict in Ukraine and rising geopolitical tensions among rival powers.

### *Security Relations*

The Commonwealth of Independent States (CIS) was formed by the former Soviet Republics in 1991 and has 12 members including the five Central Asian states. In 1993, six members of the CIS formed a military alliance known as the Collective Security Treaty Organization (CSTO). The CSTO was established to be a counterweight to the North Atlantic Treaty Organization (NATO) which counts many European countries, Canada and the United States (US) as its members. Like NATO, the CSTO is led by a Secretary General, and establishes that an aggression against one member will be considered an aggression against all members.<sup>14</sup> The six members of CSTO are Armenia, Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan.

### *Economic Relations*

Kazakhstan also had significant economic ties with Russia and other countries in the former Soviet bloc. In 2011, several CIS states including Kazakhstan and Russia signed an agreement establishing a CIS Free Trade Area that eliminated export and import duties on trade in various goods among members. The Eurasian Economic Union (EAEU), which came into force in 2015, further strengthened the economic linkage between Kazakhstan and Russia. The five members of the EAEU are Armenia, Belarus, Kazakhstan, Kyrgyzstan and Russia. The aim of the EAEU is to promote regional economic integration by providing for the free movement of goods, services, capital and labour, and pursuing coordinated, harmonised and single trade policy in the sectors determined by the Treaty and agreements of the Union.<sup>15</sup> Kazakhstan's trade with CIS and EAEU members accounted for 27.4% and 21.7% of total trade respectively, with the lion's share going to Russia at 19.9% in 2022.<sup>16</sup>

Kazakhstan also traded heavily with the rest of Europe. Kazakhstan signed the Enhanced Partnership and Cooperation Agreement (EPCA) with the European Union (EU) in 2015, which entered into force in 2020, replacing the 1999 Partnership and Cooperation Agreement. The EPCA created a better regulatory environment for businesses in areas such as trade in services; establishment and operation of companies; capital movements; raw materials and energy; government procurement; and intellectual property rights.

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<sup>11</sup> Assel Satubaldina, "No Alternative: Kazakhstan Continues Multi-Vector Foreign Policy", *The Astana Times*, January 3, 2024, <https://astanatimes.com/2024/01/no-alternative-kazakhstan-continues-multi-vector-foreign-policy/>.

<sup>12</sup> "On the Concept of Foreign Policy of the Republic of Kazakhstan for 2020-2030", Kazakhstan Ministry of Foreign Affairs, accessed March 5, 2024, <https://www.gov.kz/memleket/entities/mfa/documents/details/488540?directionId=93&lang=en>.

<sup>13</sup> Assel Satubaldina, "No Alternative: Kazakhstan Continues Multi-Vector Foreign Policy".

<sup>14</sup> "From the Treaty to the Organization", Collective Security Treaty Organization, accessed March 5, 2024, <https://en.odkb-csto.org/25years/>.

<sup>15</sup> "About the Union", Eurasian Economic Union, accessed March 5, 2024, <http://www.eaeunion.org/?lang=en#about>.

<sup>16</sup> Kazakhstan Bureau of National Statistics, "Main Indicators of Foreign Trade of the Republic of Kazakhstan", January 2024, <https://stat.gov.kz/en/industries/economy/foreign-market/>.

Trade with Europe and EU countries in 2022 stood at 32.1% and 30.9% of total trade respectively.<sup>17</sup> The EU was also the biggest foreign investor in Kazakhstan, with a total foreign direct investment (FDI) stock of €61.5 billion in 2021.<sup>18</sup>

Kazakhstan's trade with Asia in 2022 was 36.2% of total trade, and dominated by China at 17.9%. Other trading partners in Asia included Türkiye, South Korea, India, Japan and Singapore.<sup>19</sup> According to the World Bank, Kazakhstan was well placed to benefit from the China-sponsored Belt and Road Initiative (BRI), especially if the Kazakh government implemented complementary reforms, such as liberalising FDI, reducing trade restrictions and improving connectivity. BRI improvements in infrastructure had already reduced Kazakh shipment time and trade costs, and could potentially raise Kazakhstan's GDP.<sup>20</sup>

Table 4: Main Indicators of Foreign Trade of the Republic of Kazakhstan, 2022

Region	Trade turnover	
	Total (US\$ Thousands)	Share of Total Trade Volume (%)
<b>World</b>	<b>135,527,430.8</b>	<b>100.0</b>
<b>CIS countries</b>	<b>37,134,304.7</b>	<b>27.4</b>
<b>EAEU countries</b>	<b>29,354,069.6</b>	<b>21.7</b>
Russia	26,972,021.4	19.9
<b>Europe</b>	<b>43,454,573.7</b>	<b>32.1</b>
<b>EU countries</b>	<b>41,875,385.2</b>	<b>30.9</b>
<b>Asia</b>	<b>49,032,584.2</b>	<b>36.2</b>
China	24,203,945.2	17.9

Source: Kazakhstan Bureau of National Statistics, "Main Indicators of Foreign Trade of the Republic of Kazakhstan", January 2024

## Chronology of the Russia-Ukraine War and Implications for Kazakhstan

### ***CSTO Assists Kazakhstan***

In January 2022, Kazakhstan was rocked by civil unrest following a sharp increase in the price of liquefied petroleum gas after the government lifted a price cap. Peaceful protests spread across the country and turned into violent riots in Kazakhstan's largest city, Almaty. President Tokayev declared a state of emergency, and CSTO troops were deployed to the capital Astana and Almaty. Order in the country was largely restored after a few days.<sup>21</sup>

<sup>17</sup> Ibid.

<sup>18</sup> "EU Trade Relations with Kazakhstan. Facts, Figures and Latest Developments.", European Commission's Trade Department, accessed March 5, 2024, [https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/kazakhstan\\_en](https://policy.trade.ec.europa.eu/eu-trade-relationships-country-and-region/countries-and-regions/kazakhstan_en).

<sup>19</sup> Kazakhstan Bureau of National Statistics, "Main Indicators of Foreign Trade".

<sup>20</sup> *South Caucasus and Central Asia: The Belt and Road Initiative - Kazakhstan Country Case Study*, The World Bank, June 2020, <https://elibrary.worldbank.org/doi/abs/10.1596/34117>.

<sup>21</sup> Alexander Libman, Igor Davidzon and Rhea Saggar, "How to Intervene Symbolically: The CSTO in Kazakhstan", *Chatham House Interview*, June 27, 2023, <https://www.chathamhouse.org/2023/06/how-intervene-symbolically-csto-kazakhstan>.

### **Outbreak of Russia-Ukraine War**

About a month later, the Russia-Ukraine war broke out when Russia invaded neighbouring Ukraine on 24 February 2022. Russian President Vladimir Putin considered Ukraine, a former Soviet Republic, to be within the Russian sphere of influence, and had been distrustful of Ukraine's increasing shift towards the West and NATO.<sup>22</sup> Already in 2014, Russia had annexed the Crimean Peninsula in southern Ukraine, and Russian-backed separatists had captured parts of eastern Ukraine bordering Russia and established the Donetsk People's Republic and the Luhansk People's Republic. Days before the 2022 invasion, Russia officially recognised the independence of the two Republics. President Putin said in a televised speech that "Ukraine is not just a neighbouring country for us. It is an inalienable part of our own history, culture and spiritual space."<sup>23</sup>

### **International Sanctions on Russia**

Russia was swiftly condemned by many countries for the invasion of Ukraine, especially countries in NATO but also several traditionally non-aligned countries. Many of these countries imposed sanctions on the Russian government, as well as Russian businesses and individuals. In particular, the European Commission (EC) in May 2022 decided to impose an embargo on crude oil imports by sea from Russia from December 2022. The EC simultaneously imposed a price cap on other Russian crude oil imports in December 2022. The EU also committed to reducing its reliance on Russian energy exports including oil, gas and coal within a few years. The measures against Russian energy exports led to temporary increases in energy prices in Europe in 2022 and adversely affected national economies, pushing European countries to look for alternative fuel sources.

The Russia-Ukraine war and resulting sanctions also had implications for oil exports from Kazakhstan. Although most of Kazakhstan's oil exports were transported through the CPC Pipeline, a portion of exports to Europe used the pipelines owned by Russia's Transneft company. Sanctions on Transneft threatened to disrupt Kazakh oil exports through their pipelines, including the Druzhba Pipeline. Previously, Kazakh oil exports via Transneft were branded together with Russian oil exports under the Russian Export Blend Crude Oil (REBCO) brand, while those that utilised the CPC Pipeline had their own CPC Blend branding. To differentiate its oil exports and prevent disruptions, Kazakhstan rebranded its oil exports via Transneft from REBCO to Kazakhstan Export Blend Crude Oil (KEBCO) in June 2022.<sup>24</sup>

### **Unstable Kazakhstan-Russia Relations**

The war affected diplomatic relations between Kazakhstan and Russia. In April 2022, Kazakh Foreign Minister Mukhtar Tileuberdi stated that Kazakhstan did not recognise the independence of Donetsk and Luhansk.<sup>25</sup> President Tokayev reiterated this position in the presence of President Putin at the 25<sup>th</sup> St Petersburg International Economic Conference in June 2022.<sup>26</sup>

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<sup>22</sup> Jonathan Masters, "Ukraine: Conflict at the Crossroads of Europe and Russia", *Council on Foreign Relations Backgrounder*, February 14, 2023, <https://www.cfr.org/backgrounder/ukraine-conflict-crossroads-europe-and-russia>.

<sup>23</sup> Molly Hennessy-Fiske, "Why is Russia Attacking Ukraine? Five Things You Need to Know", *Los Angeles Times*, February 24, 2022, <https://www.latimes.com/world-nation/story/2022-02-24/why-is-russia-invading-ukraine>.

<sup>24</sup> Nick Coleman, "Kazakhstan Rebrands Crude Exports via Russia Transneft System", *S&P Global Commodity Insights*, June 7, 2022, <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/oil/060722-kazakhstan-rebrands-crude-exports-via-russia-transneft-system>.

<sup>25</sup> "Kazakhstan Says It Does Not Recognize Separatist-Controlled Territories In Ukraine As Independent", *Radio Free Europe/Radio Liberty*, April 5, 2022, <https://www.rferl.org/a/kazakhstan-ukraine-separatists-russia-recognition/31787134.html>.

<sup>26</sup> Vusala Abbasova, "President Tokayev Says Kazakhstan Will Not Recognize Donetsk, Lugansk as Independent States", *Caspian News*, June 20, 2022, <https://caspiannews.com/news-detail/president-tokayev-says-kazakhstan-will-not-recognize-donetsk-lugansk-as-independent-states-2022-6-20-0/>.

At the same time, there were reports that Russia had circumvented international sanctions by importing goods through neighbouring countries such as Kazakhstan. Observers cited the phenomenal increase in exports of specific goods from Kazakhstan to Russia after the sanctions were imposed.<sup>27</sup> The EU and the US threatened the use of secondary sanctions against countries that abetted reexports to Russia.<sup>28</sup> This led President Tokayev to declare that Kazakhstan would not violate sanctions against Russia in June 2022 and again in September 2023.<sup>29</sup>

After Russia announced a military mobilisation of reserves in September 2022 to support the war, many Russians fled to Kazakhstan to dodge the draft. President Tokayev said that “many people from Russia have been coming to us. Most of them are forced to leave because of the current hopeless situation. We must take care of them and ensure their safety.”<sup>30</sup> By January 2023, more than 930,000 Russians had fled to Kazakhstan.<sup>31</sup> The Kazakhstan government announced in January 2023 that it was tightening visa rules to prevent fleeing Russians from overstaying in Kazakhstan.<sup>32</sup>

### **Disruptions to CPC Pipeline and Novorossiysk Port**

Most of Kazakhstan's oil exports to Europe were transported via the CPC Pipeline, followed by tankers at Russia's port Novorossiysk in the Black Sea. Since the outbreak of the war, there were a few major disruptions to CPC's operations. In March 2022, Russia, whose Transneft company was the largest shareholder of CPC, said that oil supplies from Novorossiysk were temporarily suspended for repairs to storm-damaged facilities.<sup>33</sup> Operations were significantly reduced in August 2022 due to damage discovered during inspection,<sup>34</sup> and suspended again in November 2023 due to stormy weather.<sup>35</sup>

<sup>27</sup> Anatolij Weisskopf, “Kazakhstan: Small Businesses Profit from Russia Sanctions”, *Deutsch Welle*, May 18, 2023, <https://www.dw.com/en/kazakhstan-small-businesses-profit-from-russia-sanctions/a-65663621>.

<sup>28</sup> Sophia Nina Burna-Asefi, “Kazakhstan Is Vulnerable to Secondary Sanctions”, *The Diplomat*, June 23, 2023, <https://thediplomat.com/2023/06/kazakhstan-is-vulnerable-to-secondary-sanctions/>.

<sup>29</sup> “Kazakh President Vows Not To Violate Sanctions Against Russia”, *Radio for Europe/Radio Liberty*, June 15, 2022, <https://www.rferl.org/a/kazakhstan-toqaev-sanctions-russia/31899734.html>; AFP, “Kazakhstan Won't Help Russia to Bust Sanctions – President”, *The Moscow Times*, September 28, 2023, <https://www.themoscowtimes.com/2023/09/28/kazakhstan-wont-help-russia-to-bust-sanctions-president-a82599>.

<sup>30</sup> Alice Taylor, “By Welcoming Draft-Dodgers Kazakhstan Increases Distance from Russia”, *Euractiv*, September 29, 2022, <https://www.euractiv.com/section/central-asia/news/by-welcoming-draft-dodgers-kazakhstan-increases-distance-from-russia/>.

<sup>31</sup> Farangis Najibullah, “Living In Fear Of The Draft, Russian Emigres In Kazakhstan Have No Plans To Go Home”, *Radio Free Europe/Radio Liberty*, January 22, 2023, <https://www.rferl.org/a/kazakhstan-russian-emigres-ukraine-Francesca Ebel-war/32234453.html>.

<sup>32</sup> Francesca Ebel, “Kazakhstan Tightens Visa Rules, Setting Limits for Russians Fleeing War Duty”, *The Washington Post*, January 17, 2023, <https://www.washingtonpost.com/world/2023/01/17/kazakhstan-visas-russia-war-ukraine/>.

<sup>33</sup> Derek Brower, Myles McCormick, Justin Jacobs and Nastassia Astrasheuskaya, “Russia Chokes Major Oil Pipeline in Further Threat to Global Supplies” *Financial Times*, March 23, 2022, <https://www.ft.com/content/c7b4cc17-3258-43e5-ba3d-c006f5843f0d>.

<sup>34</sup> “Kazakh Crude Exports Hit by Russian Terminal Repairs”, *Euractiv*, August 23, 2022, <https://www.euractiv.com/section/central-europe/news/kazakh-crude-exports-hit-by-russian-terminal-repairs/>.

<sup>35</sup> “Suspension of Oil Lifting from Marine Terminal Due to Weather Conditions”, *CPC Press Release*, November 27, 2023, <https://www.cpc.ru/en/press/releases/2023/pages/20231127-1.aspx>.

On 5 July 2022, a Russian court ordered the 30-day shutdown of the Russian Novorossiysk oil terminal of the CPC Pipeline over “environmental concerns”.<sup>36</sup> This happened the day after President Tokayev reassured EU Council President Charles Michel that Kazakhstan would make hydrocarbons available on global and European markets to stabilise prices, as the EU sought to reduce dependence on Russia.<sup>37</sup> After CPC appealed the ruling, the shutdown was lifted on 11 July and replaced with a fine.<sup>38</sup>

### ***Kazakhstan Decides to Diversify Oil Exports***

Following the July 2022 court ruling, President Tokayev declared that it was a priority for Kazakhstan to diversify its oil export routes away from Russia. He saw transporting oil across the Caspian Sea as the most promising alternative, and also instructed the government to increase capacity on the Atyrau-Kenkiyak and Kenkiyak-Kumkol sections of the KCP (Figure 2) which would carry oil eastwards towards China. In August 2022, Kazakhstan's national oil and gas company KazMunayGas (KMG) launched talks with the State Oil Company of the Republic of Azerbaijan (SOCAR) to export 1.5 million tonnes per year of oil through Aktau and the BTC Pipeline.<sup>39</sup> KMG signed an agreement with the China National Petroleum Corporation in May 2023 to expand cooperation and increase the volume of the KCP.<sup>40</sup>

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<sup>36</sup> Alice Taylor, “Russia Shuts Down Terminal after Kazakhstan Offers to Send More Oil to the EU”, *Euractiv*, July 6, 2022, <https://www.euractiv.com/section/central-asia/news/russia-shuts-down-terminal-after-kazakhstan-offers-to-send-more-oil-to-the-eu/>.

<sup>37</sup> Eurasianet, “Kazakhstan: President Seeks To Diversify Oil Export Routes Away From Russia”, *Eurasian Review*, July 11, 2022, <https://www.eurasiareview.com/11072022-kazakhstan-president-seeks-to-diversify-oil-export-routes-away-from-russia/>.

<sup>38</sup> “On Court Ruling Change”, *CPC Press Release*, July 11, 2022, <https://www.cpc.ru/EN/press/releases/2022/Pages/20220711.aspx>; “Due to Breakdowns, CPC Again Sharply Reduced the Pumping of Oil through Novorossiysk”, *Russia's News*, August 22, 2022, <https://russiasnews.com/due-to-breakdowns-cpc-again-sharply-reduced-the-pumping-of-oil-through-novorossiysk/>.

<sup>39</sup> Aybek Nurjanov, “Kazakh, Azerbaijani Energy Giants Sign Cooperation Deal”, *Caspian News*, August 26, 2022, <https://caspiannews.com/news-detail/kazakh-azerbaijani-energy-giants-sign-cooperation-deal-2022-8-25-0/>.

<sup>40</sup> Tsvetana Paraskova, “Kazakhstan And China Discuss Expanding Oil Pipelines”, *Oilprice.com*, May 29, 2023, <https://oilprice.com/Latest-Energy-News/World-News/Kazakhstan-And-China-Discuss-Expanding-Oil-Pipelines.html>.

Figure 2: Map of Kazakhstan-China Pipeline



Source: Kazakhstan China Pipeline LLP, "Unified Map of Pipelines in Kazakhstan", accessed March 5, 2024. <https://www.kcp.kz/company/map>.

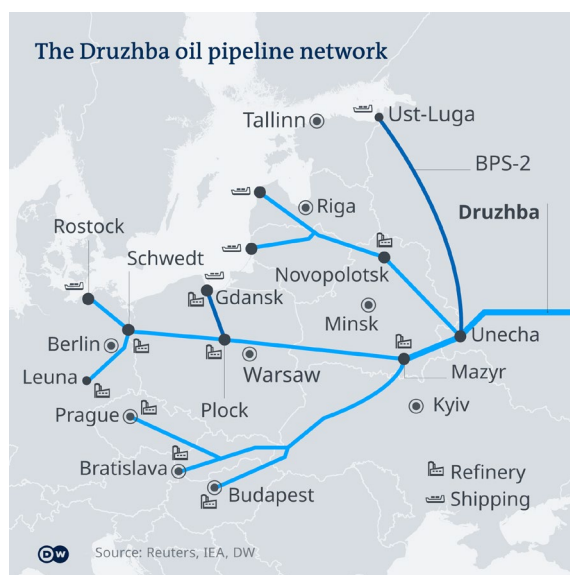
### **Kazakhstan Supplies Oil to Germany via Druzhba Pipeline**

In December 2022, Kazakhstan agreed to supply Germany with 1.2 million tonnes of oil through the Druzhba Pipeline (Figure 3) in 2023 when Germany would stop importing Russian oil. Ironically, the Druzhba Pipeline passed through Russian territory between Kazakhstan and Germany. Kazakhstan's oil pipeline operator KazTransOil received approval from Russia's Transneft to transport the oil over Druzhba, in return for a fee.<sup>41</sup> An estimated 993,000 tonnes of Kazakh oil were delivered to Germany in 2023. KazTransOil planned to ship 1.2 million tonnes of oil to Germany in 2024, with the possibility of increasing to 2 million tonnes.<sup>42</sup>

<sup>41</sup> Ashutosh Pandey, "Germany: How Does its Kazakh Oil Deal Benefit Russia?", *Deutsch Welle*, January 3, 2023, <https://www.dw.com/en/germany-how-does-its-kazakh-oil-deal-benefit-russia/a-64849621>.

<sup>42</sup> Vusala Abbasova, "Kazakhstan Supplies One Million Tonne Oil to Germany in 2023", *Caspian News*, January 16, 2024, <https://caspiannews.com/news-detail/kazakhstan-supplies-one-million-tonne-oil-to-germany-in-2023-2024-1-15-17/#>.

Figure 3: Map of Druzhba Pipeline



Source: Deutsch Welle, "Germany: How Does its Kazakh Oil Deal Benefit Russia?", January 3, 2023.

### **Disruptions to Black Sea Exports**

Kazakh's oil exports through Black Sea ports also faced threats of disruption from both Russia and Ukraine. In July 2023, Russia withdrew from the Black Sea grain initiative which allowed Ukraine to export grain via the Black Sea, and issued a warning that ships heading to Ukrainian ports would be considered military targets. Russia also attacked grain infrastructure and supplies in key Ukrainian cities and ports. In retaliation, the Ukrainian Defence Ministry said that ships using Russia's Black Sea ports would be considered targets. Novorossiysk contained a Russian naval base, and was a key node in Kazakhstan's oil exports to Europe as it was linked to the CPC Pipeline. In August 2023, a Ukrainian sea drone attacked Novorossiysk and hit a Russian naval landing ship. Shortly after, one of Russia's largest oil tankers in the Black Sea was also hit by a Ukrainian drone.<sup>43</sup>

### **Cooperating with Azerbaijan and Georgia to Develop the Middle Corridor**

To circumvent Russia, Kazakhstan cooperated with Azerbaijan and Georgia to develop the Trans-Caspian International Transport Route (TITR), also known as the Middle Corridor, as a trade and transport route between East Asia and Europe. In addition, international interest in and support for the Middle Corridor, especially from Europe and China, as an alternative to the Northern Corridor through Russia had been increasing since the imposition of sanctions on Russia. In June 2023, Kazakhstan, Azerbaijan and Georgia agreed to establish a joint logistics company to unify tariffs and handle cargo through their countries and the Caspian Sea. This initiative built on the substantial increase in cargo traffic (64%) over the Middle Corridor at the beginning of 2023 compared to 2022,<sup>44</sup> which in turn saw a more than twofold increase in cargo volumes

<sup>43</sup> Tim Lister, "Analysis: Ukraine Opens Up New Frontier by Unleashing Powerful Maritime Drones", *CNN*, August 5, 2023, [https://edition.cnn.com/europe/live-news/russia-ukraine-war-news-08-05-23/h\\_51fa5e3647d93c85ae7e50c2b38bcc74](https://edition.cnn.com/europe/live-news/russia-ukraine-war-news-08-05-23/h_51fa5e3647d93c85ae7e50c2b38bcc74).

<sup>44</sup> "Kazakhstan, Azerbaijan, Georgia to Set Up Joint Logistics Company to Facilitate Cargo Transportation Process", *The Astana Times*, June 23, 2023, <https://astanatimes.com/2023/10/azerbaijan-georgia-kazakhstan-create-joint-venture-to-develop-middle-corridors-multimodal-service/>.

compared to 2021.<sup>45</sup> Kazakhstan also signed a memorandum of strategic cooperation on the transit of Kazakh oil through Azerbaijan.<sup>46</sup> The three countries planned to increase the volume of oil exports using the BTC Pipeline from Baku in Azerbaijan to Ceyhan in Türkiye en route to Europe. The target was to carry 1.5 million tonnes of Kazakh oil per year over the BTC Pipeline.<sup>47</sup>

### Alternative Oil Export Arrangements to CPC, and Foreign Policy Implications

According to Kazakhstan's Ministry of Energy, 64.3 million tonnes or 93.9% of all oil exported from Kazakhstan passed through Russia in 2022 via the CPC and the Atyrau-Samara-Druzhba Pipelines.<sup>48</sup> As Kazakhstan sought to reduce reliance on Russia, it considered several alternatives to the CPC Pipeline. There were four main alternatives, with each presenting specific challenges and foreign policy implications:

1. Middle Corridor (MC) through Aktau or Kuryk ports, the Caspian Sea and Baku port
2. Northern Corridor (NC) through Atyrau-Samara and Druzhba Pipelines
3. Kazakhstan-China Pipeline via Atasu-Alashankou
4. Southern Alternative

#### **Alternative 1: The Middle Corridor (MC)**

In July 2022, President Tokayev said that the MC was the most promising alternative to the CPC Pipeline, because it ran westward to Kazakhstan's main oil export markets in Europe while bypassing Russian territory. The oil would first be transported from Kazakhstan's oil fields to its Aktau or Kuryk ports via railroad, then loaded onto tankers that shipped the oil over the Caspian Sea to Azerbaijan's capital and port at Baku, where it was unloaded and transported on the BTC Pipeline to Ceyhan port in Türkiye, the Baku-Supsa Pipeline to Georgia or via rail to the Georgian Black Sea ports of Batumi, Poti or Kulevi before continuing its journey to Europe.

The Russia-Ukraine war increased international interest in the MC as an alternative to the NC through Russia and the Asia-Europe maritime route (MR) through the Indian Ocean, which are the main trade routes between East Asia and Europe (Figure 4). The MC consists of 4,250km of land route and 500km of seaway, which is about 2,000km shorter than the NC. It took about 19 days to traverse Asia and Europe over the NC, and about 22 to 37 days over the MR, while the MC potentially could move goods over as little as 12 days when fully developed.<sup>49</sup> The MC was widely discussed in many international forums, and gained support from the Central Asian countries, China, Europe, Türkiye, the US and multilateral development banks.<sup>50</sup>

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<sup>45</sup> Nigar Jafarova, "The Rise of the Middle Corridor", *FrontierView Insights*, May 25, 2023, <https://frontierview.com/insights/the-rise-of-the-middle-corridor/>.

<sup>46</sup> "Kazakhstan, Azerbaijan, Georgia to Set Up Joint Logistics Company", *The Astana Times*.

<sup>47</sup> "Kazakhstan to Start Oil Sales via Azeri Pipeline to Bypass Russia", *Euractiv*, August 12, 2022, <https://www.euractiv.com/section/central-asia/news/kazakhstan-to-start-oil-sales-via-azeri-pipeline-to-bypass-russia/>.

<sup>48</sup> "Kazakhstan on its Way to Oil Supply Diversification", *The Astana Times*.

<sup>49</sup> Felix Chang, "The Middle Corridor through Central Asia: Trade and Influence Ambitions", *Foreign Policy Research Institute*, February 21, 2023, <https://www.fpri.org/article/2023/02/the-middle-corridor-through-central-asia-trade-and-influence-ambitions/>; Meray Ozat and Haley Nelson, "The Middle Corridor: The Beginning of the End for Russia's Northern Corridor?", *Caspian Policy Center*, June 30, 2023, <https://www.caspianpolicy.org/research/energy-and-economy-program-eeep/the-middle-corridor-the-beginning-of-the-end-for-russias-northern-corridor>.

<sup>50</sup> Ibid.

Figure 4: Main Asia-Europe Trade and Transport Routes



Source: The World Bank, *Middle Trade and Transport Corridor: Policies and Investments to Triple Freight Volumes and Halve Travel Time by 2030*, November 2023.

However, the reality was that “the MC, with its numerous border crossings, transshipments between modes and operational inefficiencies, takes three times longer than the Northern route (via Russia) and is comparable in duration to the maritime route.”<sup>51</sup> In a World Bank survey conducted in May 2023, stakeholders responded that the costs of using the MC were high and unstable and the time taken was long when compared to the NC.<sup>52</sup> This explained the low attractiveness and trade volumes on the MC.

### *Physical Challenges*

There were several challenges to increasing oil export volumes via the MC. First, there were physical and infrastructural challenges to transporting oil over the MC. The MC is a multi-modal transport route over land and sea, which requires transfer of cargo between different modes that could add to time and costs. To facilitate the transportation of larger volumes, experts recommended construction of an oil pipeline connecting the oil fields in Kazakhstan to the oil terminals at the port of Aktau.<sup>53</sup> This would reduce reliance on lower-volume and more expensive rail transport and the costs of loading oil onto the terminals.

Transporting oil across the Caspian Sea was also hindered by physical constraints. The maritime legs of the MC were the main cause of delays.<sup>54</sup> As of end 2023, the Caspian Integrated Maritime Solutions company (CIMS), a joint venture between Abu Dhabi-based AD Ports Group and Kazakhstan’s national shipping company KazMorTransFlot (KMTF), had only five oil tankers for the Caspian Sea.<sup>55</sup> The main objective was to increase oil capacity to 8-10 million tonnes per year in the medium term.<sup>56</sup> However, CIMS’s fleet was insufficient and more tankers were required to meet substantial increases in volume with the development of the MC. The Azerbaijan Shipping Company (ASCO) had a larger fleet of tankers than CIMS, and a Baku-Aktau-Baku round trip for cargo by ASCO took five days compared to the seven-day Aktau-Baku-Aktau round trip by KMTF.<sup>57</sup>

The ports of Aktau and Baku also had limited capacity to handle increases in oil volumes. As of 2023, Aktau’s oil terminal had a loading capacity of 12 million tonnes per year. If the MC was to be a viable alternative to the CPC Pipeline, oil loading capacity at the Aktau and Baku ports had to be increased.<sup>58</sup> To upgrade transport and logistics capacities and abilities, the ports of Aktau and Kuryk were integrated into the Seaport Aktau Special Economic Zone in June 2023.<sup>59</sup> In April 2023, Kazakhstan infrastructure company Semurg Invest announced its intention to build an oil terminal at Kuryk port which could increase Kuryk’s oil capacity to 10-20 million tonnes per year. There was already a rail link to move oil to Kuryk, and a pipeline could be constructed to the oil fields if there was sufficient interest.<sup>60</sup>

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<sup>51</sup> *Middle Trade and Transport Corridor: Policies and Investments to Triple Freight Volumes and Halve Travel Time by 2030*, The World Bank, November 2023, <https://www.worldbank.org/en/region/eca/publication/middle-trade-and-transport-corridor>.

<sup>52</sup> Ibid.

<sup>53</sup> “Kazakhstan on its Way to Oil Supply Diversification”, *The Astana Times*; Natalia Sleta, “Kazakhstan’s Oil Supply Reshaping: Is There a Viable Alternative to the CPC Pipeline?”, *S&P Global Commodity Insights*, October 9, 2023, <https://www.spglobal.com/commodityinsights/en/ci/research-analysis/kazakhstans-oil-supply-reshaping-is-there-a-viable-alternative.html>.

<sup>54</sup> *Middle Trade and Transport Corridor*, The World Bank.

<sup>55</sup> “AD Ports and KazMorTransFlot J/V Names Two New Caspian Sea Tankers”, *Shipping Telegraph*, November 27, 2023, <https://shippingtelegraph.com/tankers/ad-ports-and-kazmortransflot-j-v-names-two-new-caspian-sea-tankers/>.

<sup>56</sup> Meray Ozat and Haley Nelson, “The Middle Corridor: The Beginning of the End?”.

<sup>57</sup> *Middle Trade and Transport Corridor*, The World Bank.

<sup>58</sup> “Kazakhstan on its Way to Oil Supply Diversification”, *The Astana Times*.

<sup>59</sup> Saniya Sakenova, “Aktau and Kuryk Ports Included in Seaport Aktau Special Economic Zone”, *The Astana Times*, June 19, 2023, <https://astanatimes.com/2023/06/aktau-and-kuryk-ports-included-in-seaport-aktau-special-economic-zone/>.

<sup>60</sup> Nick Coleman, “Interview: Kazakh Port Developer Semurg Invest Offers 'Plan B' for Country's Crude Exports”, *S&P Global Commodity Insights*, April 11, 2023, <https://www.spglobal.com/commodityinsights/en/market-insights/latest-news/oil/041123-interview-kazakh-port-developer-semurg-invest-offers-plan-b-for-countrys-crude-exports>.

Another challenge was the declining water levels of the Caspian Sea, which led to a reduction of the depth of littoral ports such as Aktau and Baku and their vessel tonnage capacity. On 7 June 2023, Aktau declared a state of emergency over the shrinking Caspian Sea.<sup>61</sup> Experts proposed dredging works to be carried out on Aktau and Baku ports so that they could accommodate vessels of increasing tonnage to meet the projected increase in trade volumes with the development of the MC.<sup>62</sup>

### *Soft Barriers and Other Challenges*

There were also soft barriers to development of the MC. The MC runs across Kazakhstan, Azerbaijan and Georgia, and each country's government agencies and service operators had their own policies and procedures. Long delays were observed at all border crossings on the MC.<sup>63</sup> In addition to physical constraints, stakeholders pointed specifically to poor transparency of procedures and practices in Kazakhstan ports, lack of coordination and management among operators and interfaces along the MC, inefficient processes due to lack of integration of information technology systems, excessive paperwork, and errors in shipping documents as contributing to delays.<sup>64</sup>

In their November 2023 report on the MC, the World Bank proposed a few measures to address the soft barriers of the MC. First, adopt an institutional mechanism that transcended country boundaries and was empowered to develop, effectively promote, and maximise utilisation of the corridor. Second, offer seamless corridor-length logistics solutions through end-to-end service standards and tariffs. This required services providers to prioritise reliability and predictability of operations and logistics services, transparency of tariffs, and development of facilities to consolidate traffic and maximise gains from scale. Third, reform and simplify processes and procedures, such as better coordination between border agencies, but especially customs administration, to simplify the processing of goods in transit. Fourth, digitise processes and data flows to ensure speedy and accurate sharing of information between services providers.<sup>65</sup>

There were also concerns that political instability in the South Caucasus could disrupt trade along the MC. Azerbaijan and Armenia had a territorial dispute over the Nagorno-Karabakh region, which erupted into war in the early 1990s and again in late 2020. Most recently, there were border clashes in 2021-23 before Azerbaijan launched an offensive into Nagorno-Karabakh in September 2023.

### *Trans-Caspian Gas Pipeline*

There were also plans to build a Trans-Caspian Gas Pipeline (TCGP) across the Caspian Sea since the 1990s. The TCGP would run from Balkanabat and Turkmenbashi in Turkmenistan to Sangachal terminal near Baku in Azerbaijan, and could potentially carry gas from Kazakhstan and Turkmenistan to Türkiye and Europe. As the TCGP would bypass Russia (which supplied most of Europe's gas demand) and Iran (which had plans to export gas to Europe), both countries opposed the earlier proposals for TCGP by arguing that the TCGP would require the approval of all five littoral states of the Caspian Sea. However, the Convention on the Legal Status of the

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<sup>61</sup> Rachana Mattur, Nathan Hutson and Jahan Taganova, "Merging the Ecological and Trade Challenges of the Caspian", *Caspian Policy Center*, December 14, 2023, <https://www.caspianpolicy.org/research/environment/merging-the-ecological-and-trade-challenges-of-the-caspian>.

<sup>62</sup> "Kazakhstan on its Way to Oil Supply Diversification", *The Astana Times*; Natalia Sleta, "Kazakhstan's Oil Supply Reshaping?".

<sup>63</sup> *Middle Trade and Transport Corridor*, The World Bank.

<sup>64</sup> Ibid.

<sup>65</sup> Ibid.

Caspian Sea signed by the five states in 2018 stated that two littoral states with a common border could construct an undersea pipeline. Russia and Iran had also voiced environmental concerns over the TCGP.<sup>66</sup>

Developments in recent years provided impetus for the TCGP. In 2021, Azerbaijan and Turkmenistan resolved their demarcation issue in the Caspian Sea. The Russia-Ukraine war also renewed interest in the TCGP, especially from the EU which sought to reduce reliance on Russia for fuel. In August 2023, Turkmenistan signed an agreement to supply gas to the EU. Turkmenistan's Ministry of Foreign Affairs had announced in July 2023 that Turkmenistan was ready to continue cooperating with partners to implement the TCGP.<sup>67</sup> Progress made on the TCGP might have relevant lessons for a potential oil pipeline across the Caspian Sea to reduce transport time for Kazakh oil exports using the MC.

### *Closer Cooperation and Integration with Neighbours*

Kazakhstan, Azerbaijan and Georgia needed to enhance cooperation and integration to increase oil capacity and reduce transport time and costs along the MC. There had been some progress in this direction. In November 2022, the foreign ministers and transport ministers of Azerbaijan, Georgia, Kazakhstan and Türkiye signed a Roadmap for elimination of bottlenecks and development of the MC for 2022-2027 that included agreed principles of work and specific projects with precise parameters, deadlines and responsible performers. This would increase the capacity of the MC to 10 million tonnes by 2025.<sup>68</sup> In June 2023, Azerbaijan, Georgia and Kazakhstan agreed to set up a joint logistics company to reduce operational delays, eliminate bottlenecks and streamline the tariff process along the MC.<sup>69</sup> The company was expected to significantly reduce cargo delivery time between China and Europe.<sup>70</sup>

In March 2024, KMG and SOCAR agreed to increase oil volumes through Aktau and the BTC Pipeline from 1.5 million tonnes to 2.2 million tonnes annually.<sup>71</sup> In addition, Georgia announced plans to cooperate with Azerbaijan to restart the Baku-Supsa Pipeline that ran from Baku to Supsa in Georgia, whose operations had been suspended following the outbreak of the Russia-Ukraine war. The plan was to pump 1 million tonnes of oil each year, and the pipeline had a capacity of 5 million tonnes per year.<sup>72</sup> In April 2022, when oil to Novorossiysk port was disrupted due to storm repairs, a small amount of Kazakh oil exports was redirected by rail to the Georgian Black Sea port of Batumi.<sup>73</sup> It was estimated that rail deliveries of oil to Batumi could be

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<sup>66</sup> Bruce Pannier, "Russia, Iran Cite 'Ecological Concerns' In Opposing Trans-Caspian Pipeline", *Radio Free Europe/Radio Liberty*, August 15, 2019, <https://www.rferl.org/a/russia-iran-trans-caspian-pipeline-turkmenistan/30111805.html>.

<sup>67</sup> Haley Nelson, "Turkmenistan Signs its First-Ever Energy Deal with the EU", *Caspian Policy Center*, August 24, 2023, <https://www.caspianpolicy.org/research/energy-and-economy-program-eeep/turkmenistan-signs-its-first-ever-energy-deal-with-the-eu>.

<sup>68</sup> "Kazakhstan, Azerbaijan, Georgia and Turkey Discussed the Development of Transport Routes through the Caspian Sea", Ministry of Foreign Affairs of the Republic of Kazakhstan, accessed March 12, 2024, <https://www.gov.kz/memleket/entities/mfa/press/news/details/466518?lang=en>.

<sup>69</sup> Meray Ozat and Haley Nelson, "The Middle Corridor: The Beginning of the End?".

<sup>70</sup> "Kazakhstan, Azerbaijan, Georgia to Set Up Joint Logistics Company", *The Astana Times*.

<sup>71</sup> "KMG and SOCAR Sign Agreement on Phased Increase in the Transit Volumes", *KMG Press Release*, March 12, 2024, <https://www.kmg.kz/en/press-center/press-releases/kmg-i-socar/>.

<sup>72</sup> Lada Yevgrashina, "Baku-Supsa Oil Pipeline May Resume Operation in 2024 with Kazakhstan's Oil", *Trend News Agency*, March 13, 2024, <https://en.trend.az/business/energy/3873613.html>.

<sup>73</sup> "Kazakhstan to Start Oil Sales via Azerbaijan's BTC Pipeline Next Month", *Report News Agency*, August 12, 2022, <https://report.az/en/energy/kazakhstan-to-start-oil-sales-via-azerbaijan-s-btc-pipeline-next-month/>.

increased to 5 million tonnes per year.<sup>74</sup> Kazakh oil exports could also be delivered by rail to Georgia's Kulevi oil terminal and port on the Black Sea.<sup>75</sup>

### *Interest from Europe and China*

The MC had generated interest from Europe and China. It would provide European countries with an alternative to Russia for energy and trade. In June 2023, the European Bank for Reconstruction and Development released its study report on Sustainable Transport Connections between Europe and Central Asia which identified the actions required to enhance the operational efficiency and economic attractiveness of Trans-Caspian transport networks.<sup>76</sup> During the Investors Forum for Europe-Central Asia Transport Connectivity in January 2024, the EU and international financial institutions committed €10 billion in support and investments towards transport connectivity in Central Asia.<sup>77</sup>

Through its Belt and Road Initiative, China had invested in improving transport connectivity with and in Central Asia.<sup>78</sup> Following the sanctions on Russia, China also redirected some of its trade with Europe from the NC to the MC: cargo travelling along the MC skyrocketed from 350,000 tonnes in 2020 to 3.2 million tonnes in 2022.<sup>79</sup> In light of rising US-China tensions, the MC could also be an alternative to the MR which could be interdicted by the US.<sup>80</sup>

Despite the potential of the MC, it still had some distance to becoming a major trade and transport route. The target for the MC to triple its capacity to 10 million tonnes of cargo by 2027<sup>81</sup> was dwarfed by over 1 billion tonnes of cargo transported over the MR in 2023 and 144 million tonnes of cargo moved over the Russian Trans-Siberian Railroad in 2020.<sup>82</sup>

### **Alternative 2: The Northern Corridor (NC)**

The NC was the second main oil export artery of Kazakhstan, accounting for 13.1% of Kazakhstan's total oil exports in 2022. It was the route taken by Kazakhstan's oil exports to Germany in 2023. The oil was piped from Atyrau in Kazakhstan to Samara in Russia, then took the Druzhba Pipeline that reached many European countries including Germany, Poland, Czechia, Slovakia and Hungary (Figure 3). The presence of established oil pipelines along the NC could potentially reduce the transport time and costs of Kazakhstan's oil exports to Europe, compared with the MC which is a multi-modal, cross-country route with limited capacity.

<sup>74</sup> "Kazakhstan on its Way to Oil Supply Diversification", *The Astana Times*.

<sup>75</sup> "The Transportation of Oil", The Ministry of Energy of the Republic of Azerbaijan, accessed March 18, 2024, <https://minenergy.gov.az/en/neft/baki-novorossiysk-neft-kemerj>.

<sup>76</sup> *Sustainable Transport Connections between Europe and Central Asia*, European Bank for Reconstruction and Development and European Union, June 16, 2023, [https://transport.ec.europa.eu/system/files/2023-06/Sustainable\\_transport\\_connections\\_between\\_Europe\\_and\\_Central\\_Asia.pdf](https://transport.ec.europa.eu/system/files/2023-06/Sustainable_transport_connections_between_Europe_and_Central_Asia.pdf).

<sup>77</sup> "Global Gateway: €10 billion Commitment to Invest in Trans-Caspian Transport Corridor Connecting Europe and Central Asia Announced at Investors Forum", European Commission, accessed March 19, 2024, [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_24\\_501](https://ec.europa.eu/commission/presscorner/detail/en/IP_24_501).

<sup>78</sup> Stefan Wolff, "How China is Increasing its Influence in Central Asia as Part of Global Plans to Offer an Alternative to the West", *The Conversation*, May 24, 2023, <https://theconversation.com/how-china-is-increasing-its-influence-in-central-asia-as-part-of-global-plans-to-offer-an-alternative-to-the-west-206035>; *South Caucasus and Central Asia: The Belt and Road Initiative - Kazakhstan Country Case Study*, The World Bank.

<sup>79</sup> Genevieve Donnellon-May, "Beijing's Interest in the Middle Corridor", *Lowy Institute The Interpreter*, October 26, 2023, <https://www.lowyinstitute.org/the-interpreter/beijing-s-interest-middle-corridor>.

<sup>80</sup> Felix Chang, "The Middle Corridor through Central Asia: Trade and Influence Ambitions".

<sup>81</sup> Meray Ozat and Haley Nelson, "The Middle Corridor: The Beginning of the End?".

<sup>82</sup> Felix Chang, "The Middle Corridor through Central Asia: Trade and Influence Ambitions".

### *Reliance on and Managing Relations with Russia*

However the main problem with the NC was its passage through Russia, which had already posed problems with the CPC Pipeline. Although Russia's Transneft had approved the piping of oil from Kazakhstan to Germany in 2023, there were risks of disruption if Kazakh-Russian relations dipped or if there were fresh sanctions on Russia. If Kazakhstan intended to continue using the Atyrau-Samara and Druzhba Pipelines, it had to find ways to manage and stabilise its relations with Russia or to insulate its oil exports from fluctuations in the relationship.

### **Alternative 3: Kazakhstan-China Pipeline**

Another alternative was for Kazakhstan to consider exporting oil eastwards to markets in Asia. Currently, East Asian countries such as China, South Korea and Singapore were already importing large volumes of Kazakh fuels (Table 3). During 2013-2023, China accounted for almost two-thirds of the rise in global oil use.<sup>83</sup> There is also an existing KCP that runs from Atyrau to Atasu, then to Alashankou in China (Figure 2), which would lower costs of transporting oil to China.

### *Limited Capacity and Competition from Other Oil Exporters*

The maximum capacity of the KCP was about 20 million tonnes per year. However, this was the capacity of only the final section of the KCP from Atasu to Alashankou; the pipeline from Kenkiyak to Kumkol only had a capacity of 10 million tonnes, and the Kenkiyak-Atyrau Pipeline's capacity was 6 million tonnes. To enable increased oil exports from Kazakhstan to China, KazMunayGas and China National Petroleum Corporation signed an agreement in May 2023 to expand the capacity of the Kenkiyak-Atyrau Pipeline to 12 million tonnes and the Kenkiyak-Kumkol Pipeline to 15 million tonnes at a cost of US\$200 million in two to three years.<sup>84</sup>

There was competition from discounted Russian oil exports to China, which remained one of the key importers of Russian oil because of Russia's reduced exports to Europe.<sup>85</sup> As of 2023, the KCP already operated at about half capacity, composed primarily of Russian oil exports of about 10 million tonnes, which left Kazakhstan oil exports with only a spare capacity of 9 million tonnes.<sup>86</sup> In May 2023, KazTransOil extended an agreement to deliver Russian oil to China via Kazakhstan for 10 years to 1 January 2034.<sup>87</sup> In addition, China's western region had its own oil production, while its eastern and central regions received oil from the MR.<sup>88</sup>

### **Alternative 4: The Southern Alternative**

Another possible avenue for Kazakh oil exports was to look south towards Uzbekistan, South Asia and the Indian Ocean. In November 2023, Kazakhstan commenced construction on a new railway line between Darbaza and Maktaaral in southern Kazakhstan. As part of the project, a new checkpoint on the Kazakh-Uzbek border would be created, which would ease the load of the current interstate Saryagash junction station that

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<sup>83</sup> *World Energy Outlook 2023*, International Energy Agency, October 2023, <https://iea.blob.core.windows.net/assets/86ede39e-4436-42d7-ba2a-edf61467e070/WorldEnergyOutlook2023.pdf>.

<sup>84</sup> Tsvetana Paraskova, "Kazakhstan and China Discuss Expanding Oil Pipelines"; "Kazakhstan on its Way to Oil Supply Diversification", *The Astana Times*.

<sup>85</sup> Laura He, "China's Largest Oil Supplier in 2023 was Russia", *CNN*, January 22, 2024, <https://edition.cnn.com/2024/01/22/business/china-top-oil-supplier-2023-russia-intl-hnk/index.html>.

<sup>86</sup> "Kazakhstan on its Way to Oil Supply Diversification", *The Astana Times*.

<sup>87</sup> Vladimir Afanasiev, "Kazakhstan Risks Greater Energy Ties with Russia", *Upstream*, May 17, 2023, <https://www.upstreamonline.com/production/kazakhstan-risks-greater-energy-ties-with-russia/2-1-1452740>.

<sup>88</sup> Natalia Sleta, "Kazakhstan's Oil Supply Reshaping?".

operated at the limit of capacity, and allow for greater cargo volumes to Uzbekistan, Tajikistan, Afghanistan and Iran.<sup>89</sup>

Uzbekistan, Afghanistan and Pakistan had also agreed in July 2023 to build a railway that would reduce cargo delivery time between Uzbekistan and Pakistan to five days and transport costs by 40%. The railway would run from Termiz in Uzbekistan, via Mazar-e-Sharif and Logar in Afghanistan, to Kharlachi in Pakistan. It would be completed in 2027 and link Central Asia closer to the Arabian Sea in the Indian Ocean.<sup>90</sup> The combination of new rail projects in Central Asia could provide Kazakhstan with an avenue to export oil via rail towards South Asia and the MR.

As the third largest oil consumer and dependent on imports for 85% of oil requirements, India was a potential export market for Kazakh oil. Kazakhstan and India could also collaborate through investments in transport infrastructure and enhancing Kazakhstan's oil extraction and refining capabilities.<sup>91</sup> However, as in the case of China, Kazakh oil exports faced competition from discounted Russian oil exports to India.<sup>92</sup>

### *Short-Term Infrastructural and Political Challenges*

In the short term, capacity along this route could be constrained, as the projects were new and ongoing and the infrastructure might be inadequate. There were also the added challenges associated with political instability risks in involved countries such as Afghanistan and Pakistan. Kazakhstan would have to consider how it could facilitate improved transport connectivity in Central Asia and South Asia to access the MR and new export markets.

### **Potential Longer-Term Strategies for Kazakhstan**

Kazakhstan's reliance on oil exports to European markets via pipelines through Russia presented potential risks of disruption, which could adversely affect its economic growth and fiscal revenues. While, in the short term, Kazakhstan could consider other routes to export its oil, in the longer term, an alternative strategy was to reduce this reliance by diversifying its export markets and structure to non-European markets and non-oil sectors.

### *Diversifying Oil Export Markets*

In the medium term, Kazakhstan could consider increasing oil exports to markets outside Europe, such as to East and South Asia where economic growth and resulting fuel demand was high. Oil demand in China, India

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<sup>89</sup> "Landmark Megaproject: Kazakhstan and Uzbekistan to be Connected via New Railroad", Official Information Source of the Prime Minister of the Republic of Kazakhstan, November 27, 2023, <https://primeminister.kz/en/news/landmark-megaproject-kazakhstan-and-uzbekistan-to-be-connected-via-new-railroad-26408#>.

<sup>90</sup> Robert Preston, "Uzbekistan, Afghanistan and Pakistan Agree to Build UAP Railway", *International Railway Journal*, July 21, 2023, <https://www.railjournal.com/infrastructure/uzbekistan-afghanistan-and-pakistan-agree-to-build-uap-railway/>.

<sup>91</sup> Tatyana Kudrenok, "India and Kazakhstan Can Build a Strong and Mutually Beneficial Partnership in the Oil Sector - Ambassador Nagendra Prasad", *"Kazinform" International News Agency*, March 14, 2024, <https://en.inform.kz/news/india-and-kazakhstan-can-build-a-strong-and-mutually-beneficial-partnership-in-the-oil-sector-ambassador-nagendra-prasad-4ba194/>.

<sup>92</sup> Nick Paton Walsh and Florence Davey-Attlee, "The Kremlin Has Never Been Richer – Thanks to a US Strategic Partner", *CNN*, February 19, 2024, <https://edition.cnn.com/2024/02/19/europe/russia-oil-india-shadow-fleet-cmd-intl/index.html>.

and Southeast Asia was projected to rise and peak around 2030, if they kept to their pledges to reduce fossil fuel reliance. In comparison, oil demand in Europe and the US was projected to have already peaked.<sup>93</sup>

### *Diversifying Export and Economic Structure*

Most countries were adopting serious measures to reduce reliance on fossil fuels in response to climate change. As worldwide oil demand was projected to peak around 2030,<sup>94</sup> Kazakhstan had to look beyond fuel (oil and gas) production and exports in the longer term. As of 2023, Kazakhstan's exports were dominated by fuel, metals, minerals, agriculture and food products.<sup>95</sup> One important consideration for the future would be whether Kazakhstan should continue to focus on production and export of primary products, or move into manufacturing and services exports.

As part of the National Development Plan 2025, several Kazakh Ministries announced their respective national projects in 2021. These projects included technological modernisation of manufacturing to increase manufacturing production by 1.5 times and non-resource exports by 2 times in 2025; increasing agricultural exports by 2 times and the share of processed products to 70%; raising IT exports and the level of Asia-Europe transit data through Kazakhstan; and strengthening the contribution of science to development.<sup>96</sup>

Kazakhstan's strategic position along the MC and NC presented opportunities for it to be the hub of trade, transport and logistics in Central Asia. Several rail and road corridors along the east-west route between Asia and Europe and the north-south route between Russia and the Persian Gulf passed through Kazakhstan. In February 2023, the Kazakh government adopted a vision for the development of transport and logistics until 2030. According to the Kazakh Ministry of Transport, transit traffic in Kazakhstan between 2015 and 2021 rose by 14.8% annually. Cargo transit was 26.8 million tonnes in 2022 and expected to increase to 35 million tonnes by 2030. President Tokayev set the target of increasing the transport and logistics sector's contribution to GDP from 6.2% in 2022 to 9% in 2025.<sup>97</sup>

## **Conclusion**

As of 2024, the Russia-Ukraine war had dragged on for two years, without signs of abating. Russia's relations with the EU and NATO would likely remain strained for the foreseeable future. There was also heightened geopolitical tension between China, on the one hand, and the US and EU, on the other, that threatened to divide the world. In this volatile climate, Kazakhstan had to strike a delicate balance between retaining close strategic relations with its giant neighbours Russia and China, while keeping European markets open to its oil exports. It might be timely to review whether Kazakhstan needed to recalibrate its foreign policy and economic strategy in light of current international circumstances.

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<sup>93</sup> *World Energy Outlook 2023*, International Energy Agency.

<sup>94</sup> *Ibid.*

<sup>95</sup> Kazakhstan Bureau of National Statistics, "Structure of Exports and Imports".

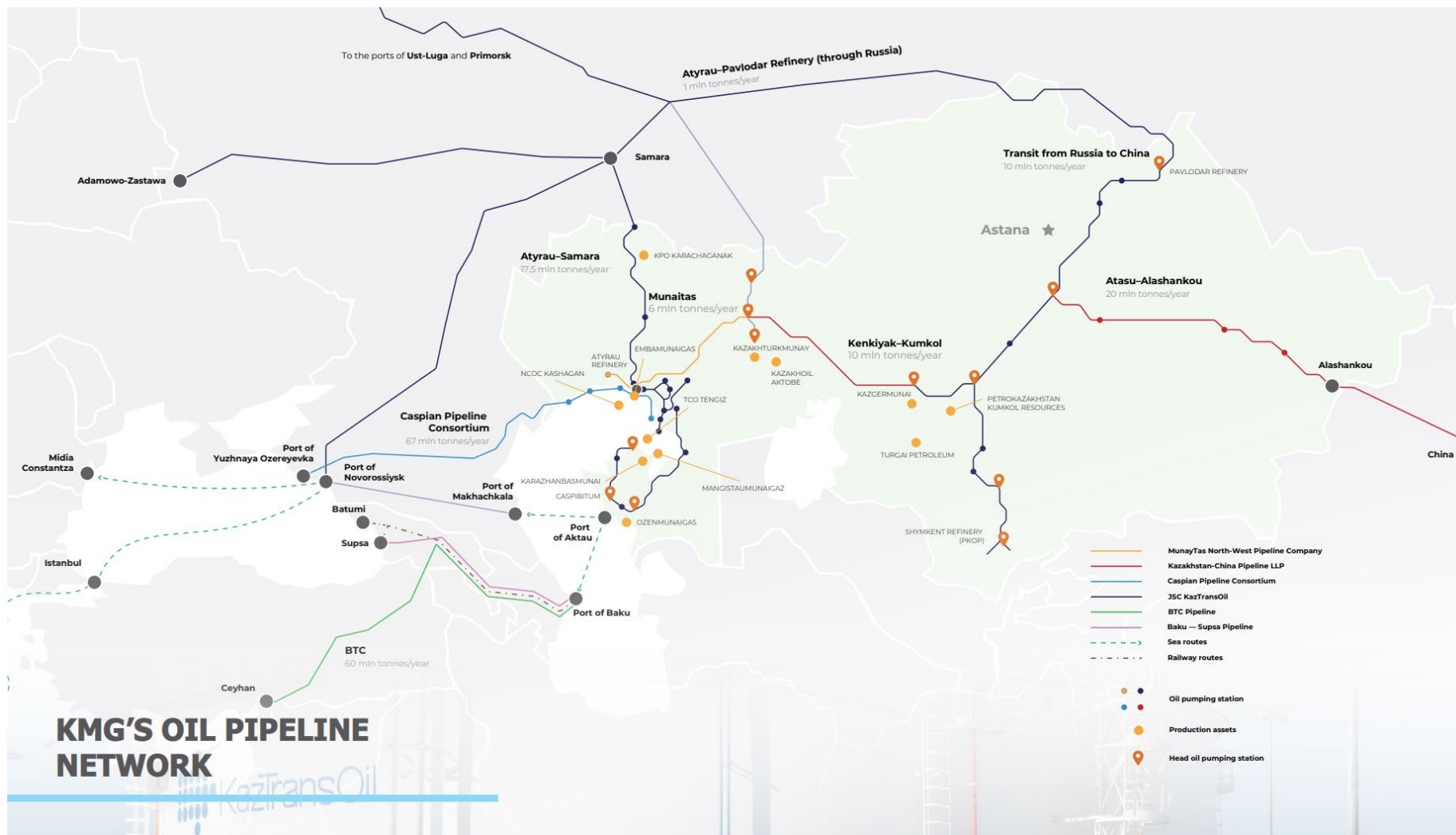
<sup>96</sup> "Government Presents National Projects for Development of Kazakhstan", Official Information Source of the Prime Minister of the Republic of Kazakhstan, October 12, 2021, <https://primeminister.kz/en/news/memlekketik-vedomstvolar-kazakstannyn-ulttyk-damu-zhobalaryn-usyndy-1295818>.

<sup>97</sup> Assel Satubaldina, "Kazakhstan Capitalizes on Geopolitical Shifts to Emerge as Eurasia's Transport and Logistics Hub", *The Astana Times*, November 17, 2023, <https://astanatimes.com/2023/11/kazakhstan-capitalizes-on-geopolitical-shifts-to-emerge-as-eurasias-transport-and-logistics-hub/>.

### **Discussion Questions**

1. What are the foreign policy and trade implications for Kazakhstan arising from the Russia-Ukraine war and the imposition of sanctions on Russia?
2. Evaluate the success of Kazakhstan's multi-vector foreign policy and its current and future relevance.
3. How can Kazakhstan's foreign policy adapt to and facilitate the diversification of oil exports through alternative routes?
4. What role can Kazakhstan foreign policy play in the diversification of export markets and economic and export structure? What are the challenges to foreign policy?

**Map of Kazakhstan's Oil Pipelines**



Source: KazMunayGas, Annual Report 2022, accessed April 3, 2024, [https://ar2022.kmg.kz/download/full-reports/ar\\_en\\_annual-report\\_pages\\_kmg\\_2022.pdf](https://ar2022.kmg.kz/download/full-reports/ar_en_annual-report_pages_kmg_2022.pdf).