



Michael Liesener  
Berlin Centre für Caspian Region Studies  
Freie Universität Berlin  
liesener@hotmail.com  
[www.fu-berlin.de/bccare](http://www.fu-berlin.de/bccare)  
[www.fu-berlin.de/crees](http://www.fu-berlin.de/crees)

Escaping the landlockedness – The Kazakh multi-vector oil export policy

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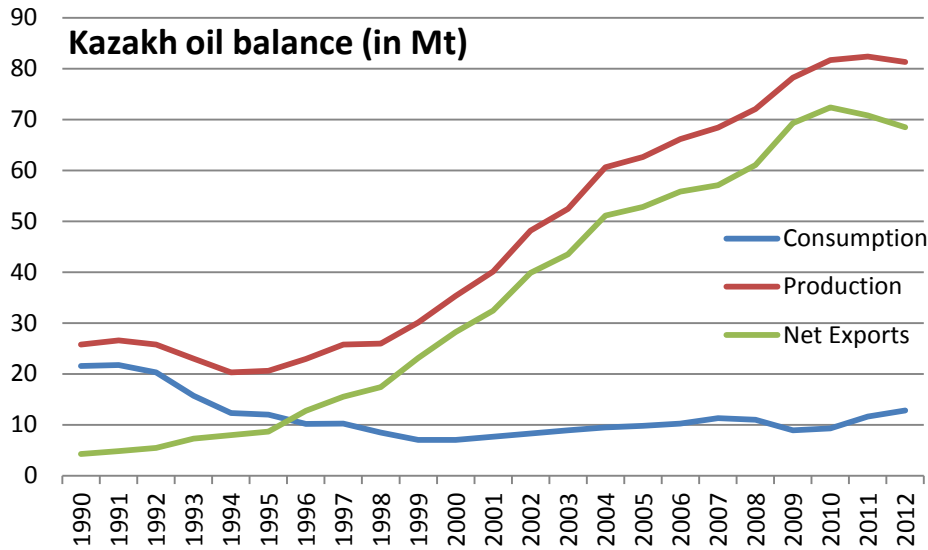
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# Structure

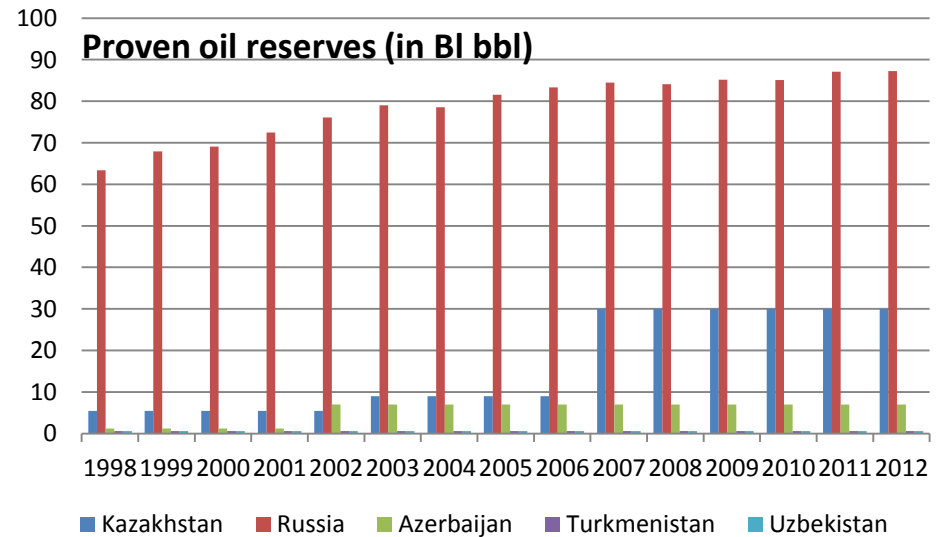
- Basic overview
- Starting point (situation in the early 1990s)
- Kazakh oil export policy
- Results (infrastructural achievements)
- Some summarizing comments



# Basic overview

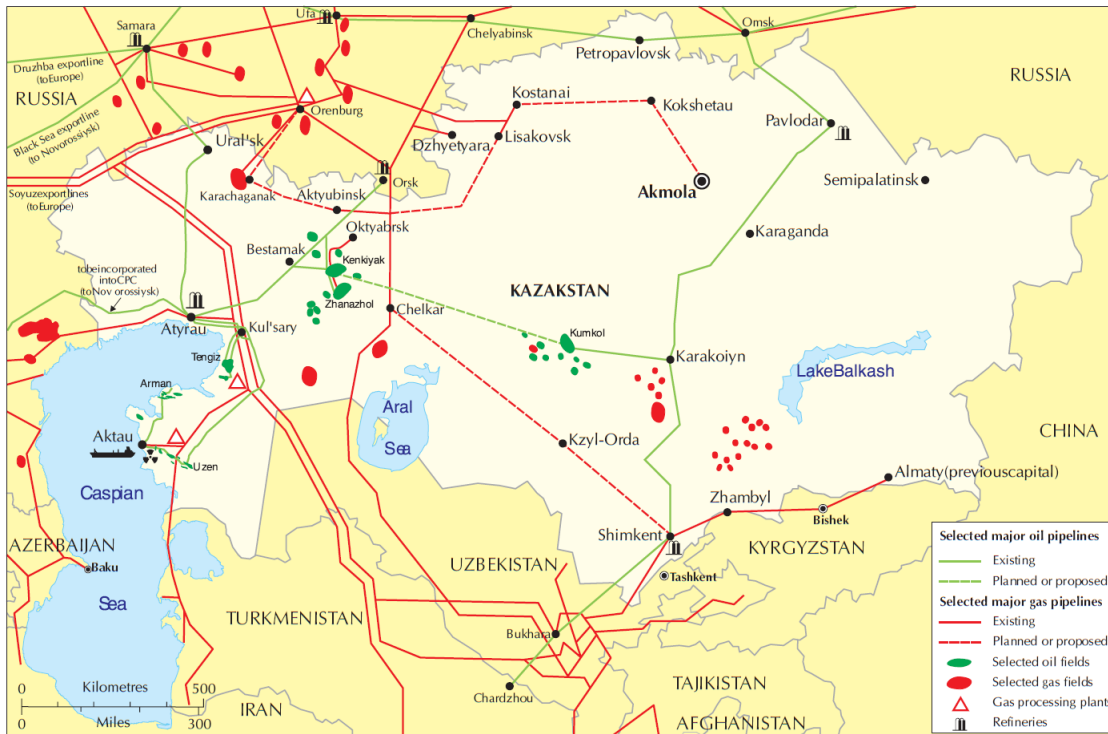


- Kazakh oil sector contributes:
- 28.3% to GDP
  - 68.5% to exports
  - 53.7% to budgetary revenues



Source: BP Statistical Review of World Energy 2013

# Starting Point



## Soviet heritage

- limited export capacity
- dependence on Russia (not only in terms of transport but also for domestic supplies)

## Geopolitics of exports

- landlocked country (depending on neighbors, high transport costs, interests of external actors)

Source: IEA

	Capacity Mt/y	Comments
Atyrau-Samara	10.5	Depending on Transneft-quota; Oil quality loss
Kenkiyak-Orsk	6.5	Only swaps with Orsk-refinery; limited to ca. 2.5 Mt
Karachaganak-Orenburg	Ca. 5	Only Karachaganak condensate
Aktau	Up to 5	Limited import destinations (mainly Baku)
Total	Ca. 27	+ possible rail exports

# Starting point – political challenges

Kazakh depending on Russia in transport terms (only Russian/Transneft controlled pipeline routes), but additionally also facing:

- zero-sum-game-logic against CIS producers
- capacity limitations (especially at ports)
- quota-regulations (CIS/Non-CIS)
- limited prices on Russian domestic market (+ discriminating practices)
- discriminating tariff policy
- quality loss (through blending with heavy Russian oil)
- political instrumentalization (access to fields etc.)



Necessity of improving export conditions at existing routes + creating new export routes = **diversification**

Russian levers against Kazakhstan:

- demography (ethnic composition)
- economy (industry, trade/transit, energy supply)
- security/military (borders, neighborhood)



Necessity of creating new export routes and in the same time respecting Russian interests in the region/Kazakhstan

# Export policy – goals and strategies

- Improving transport conditions on existing routes (access/quota, reliability, tariff parity, oil quality etc.)
- Expansion of existing routes
- General support for new infrastructure out of the region regardless of the routing (commercial diversification)
- Limiting Russian political influence on every day export operations:
  - creating routes without Transneft/Russian regulatory control (geo-economical diversification)
- Increasing political and economic independence from Russia:
  - creating routes avoiding Russian territory (geopolitical diversification)
- Political strategy components:
  - Balancing
  - Bandwagoning



## Multivectoralism

	Policy strategy	Diversification		
		commercial	geo-economical	geopolitical
Using/Expanding existing Routes, improving transport conditions	Bandwagoning	no	no	no
New routes (via Russia)	Bandwagoning	yes	no	no
New routes via Russia beyond control of Transneft or Russian regulatory agencies	Bandwagoning	yes	yes	no
New routes avoiding Russia	Balancing	yes	yes	yes



# Results – new infrastructure



Source: IEA

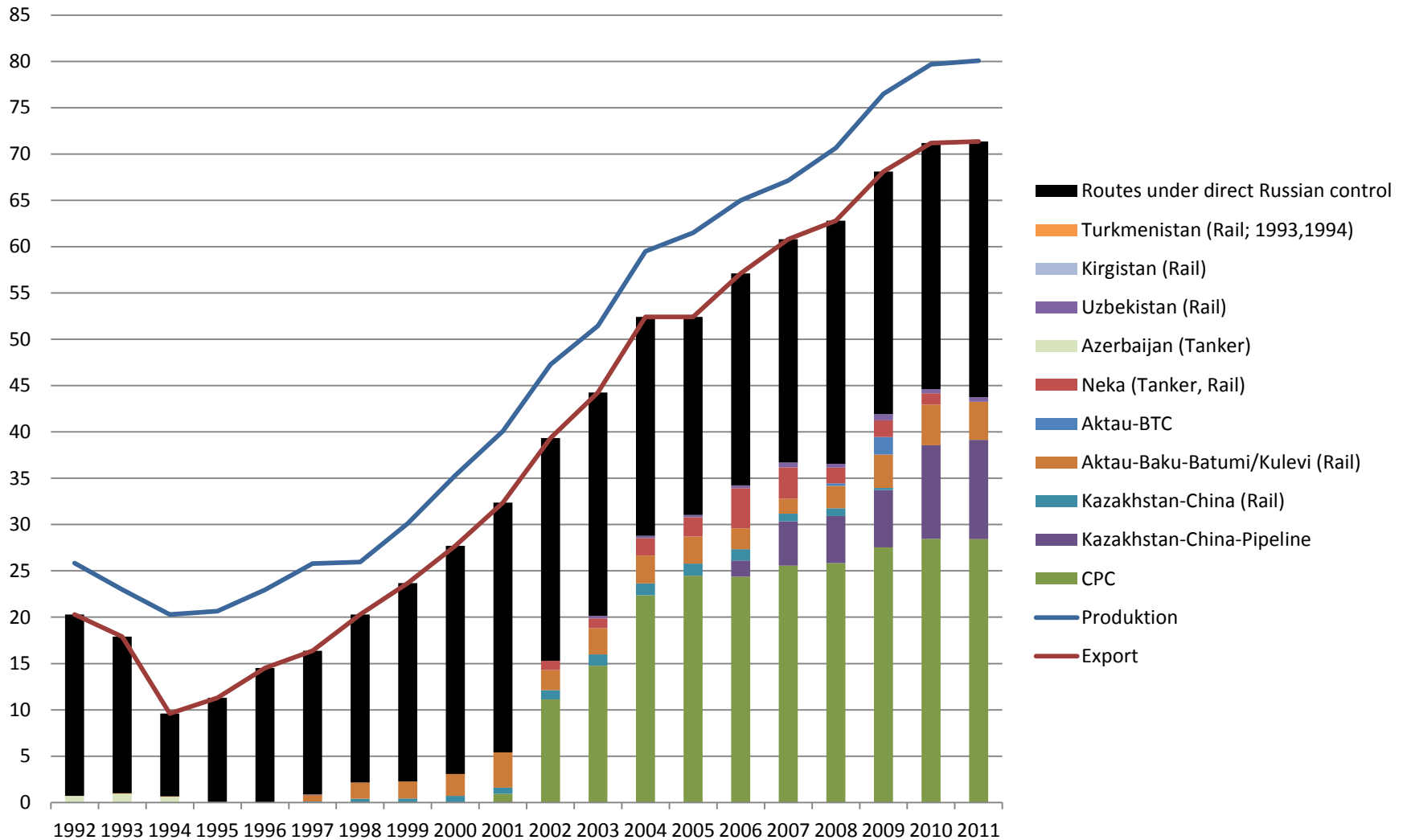
# Results – new infrastructure

Route	Capacity (Mt/y)	Comments
Atyrau-Samara-Pipeline	17.5-18	Depending on Transneft quota ; Expansion to 25-30 Mt depending on Kazakh throughput guarantees
Kenkiyak-Orsk-Pipeline	6.5	Abandoned (real capacity around 2.5 Mt)
Karachaganak-Orenburg-Pipeline	Up to 5	Only for Karachaganak condensate
Makhachkala–Novorossiysk Pipeline	Up to 5	Access via tanker from Aktau; also used by Azerbaijan (from Baku) and Turkmenistan
CPC-Pipeline	28.5	Expansion to 52.5 Mt (with DRA up to 61 Mt) expected in 2015
Aktau	12	Expansion to 13-14 Mt; Exports to Makhachkala, Baku, Neka
Baku-Batumi/Kulevi - Rail	13 (real ca. 5)	Also used by Azerbaijan, Turkmenistan; Access via tanker from Aktau; costly
Baku-Supsa-Pipeline	7.5	Owned by AIOC; not used by Kazakhstan
BTC-Pipeline	60	Used by Azerbaijan and Turkmenistan; quality restrictions; not used at present by Kazakhstan; expansion to up to 90 Mt depending on KCTS
KCTS	25–36–56 (planned)	Connected with Kashagan Phase II; transport from Baku via BTC, rail, possibly Baku–Supsa Pipeline or a new pipeline to Batumi or Supsa
Kazakhstan-China-Pipeline	12	Expansion to 20 Mt depending on available volumes (expected 2014)
Neka	Up to 25	Not used at present by Kazakhstan; Depending on Aktau; Iran plans an expansion to Neka (50 Mt)
Rail	10+	Exports to ports in Ukraine and Baltic's; small exports in within the Region



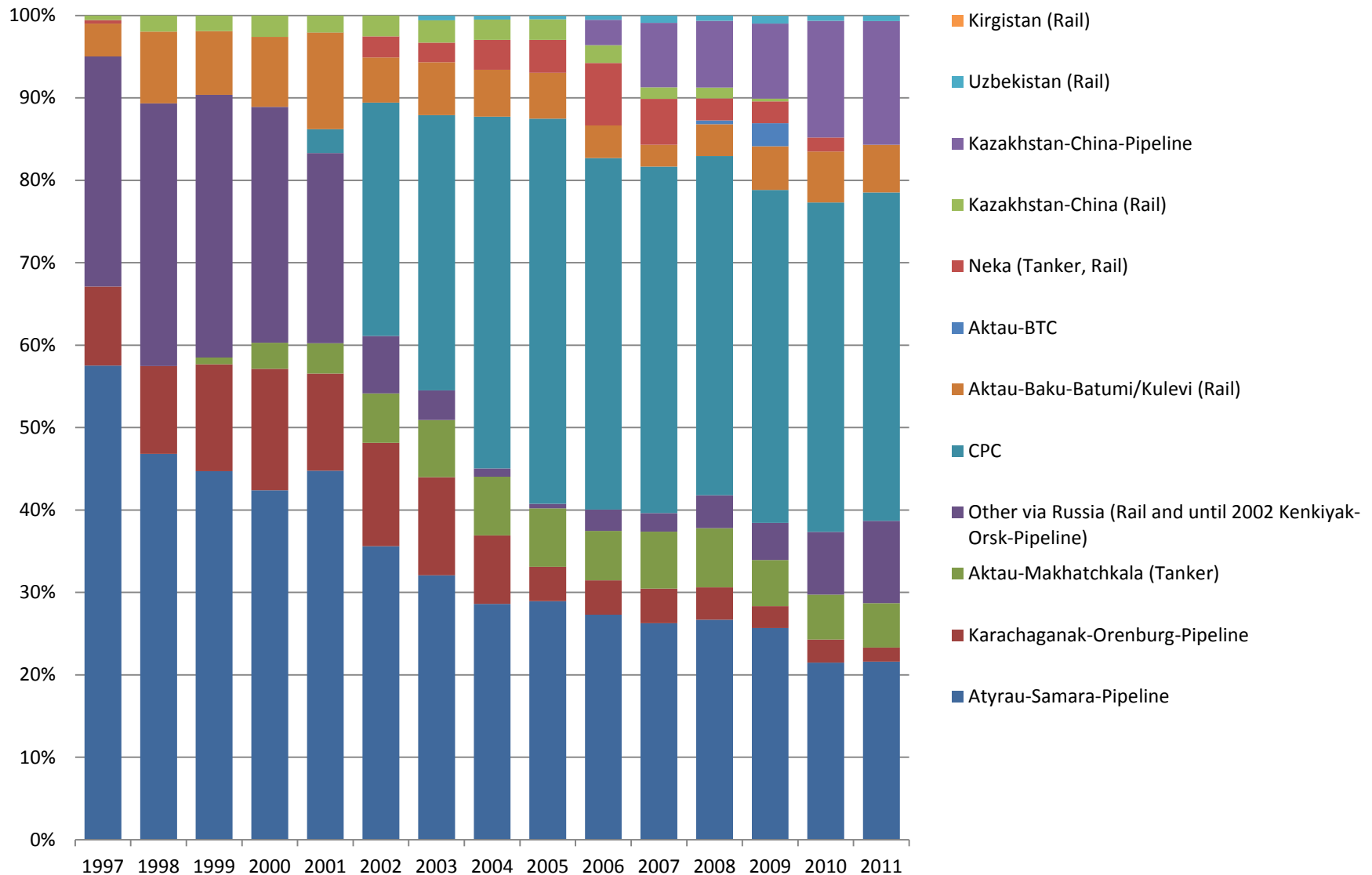


# Results – Kazakh oil exports by route (Mt)



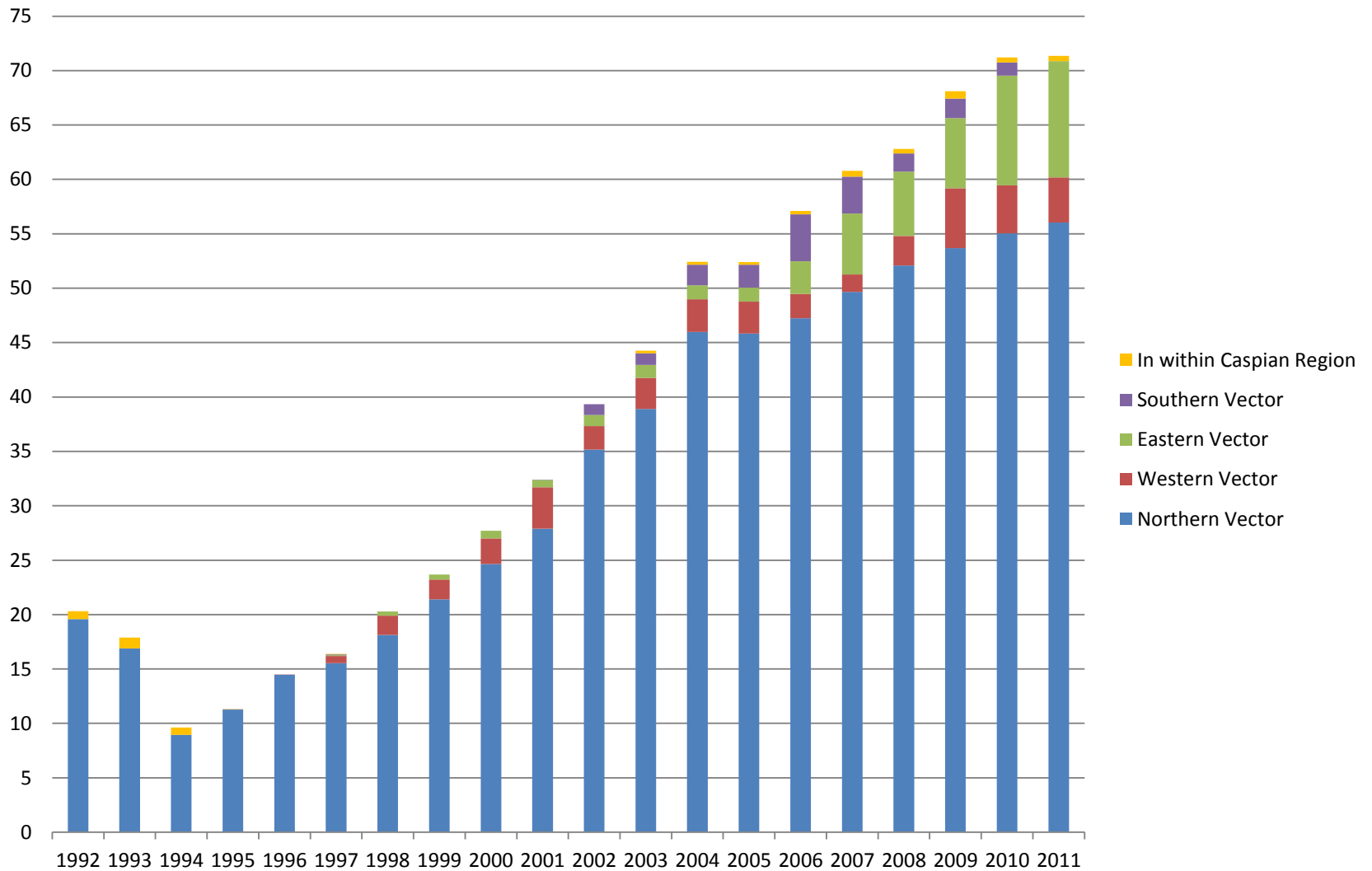


# Results – exports by route (relative)



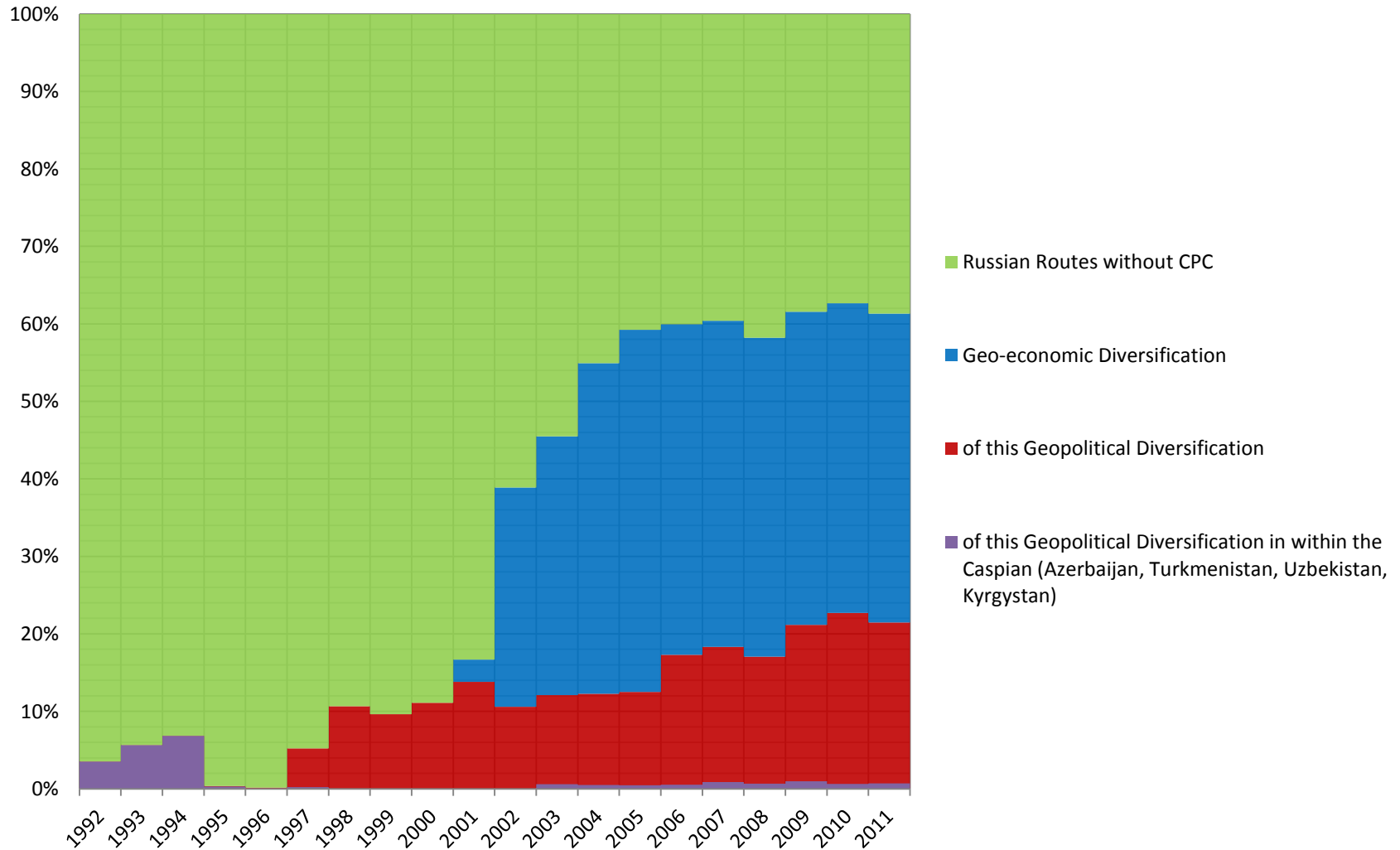


# Results – exports by geographic vectors (Mt)





# Results – exports by diversification types



# Summarizing comments

- Russia still dominates Kazakh oil exports, but Kazakhstan was able to develop multiple routes reducing its dependence in the last two decades
- The balancing-component of Kazakh multivectoralism is subordinated to the bandwagoning-behavior against Russia
- Kazakhstan doesn't use the balancing-strategy against Russia in an offensive way, i.e. to force Russia to fulfill Kazakh conditions, but in a rather defensive way, i.e. in situations when extensive concessions have been already made without a change in Russian behavior
- The pursued geo-economic diversification away from Transneft controlled pipelines must not be mistaken with an aspiration of geopolitical renunciation from Russia; the same is true for the geopolitical diversification
- Kazakh infrastructural policy has a pragmatic character, i.e. Kazakhstan doesn't force „geopolitical diversification“ at all costs. But, because of its role for the Kazakh internal supply security the Chinese route enjoys a special position (= in this case costs played no role)
- Kazakh government is ready to subordinate the implementation of an export route to interests in the national oil sector
- Kazakhstan uses the balancing-strategy not only against Russia, but also against partners with whom it pursues its diversification policy
- General: (geo)political character of regional infrastructural policy - under existing (geo)political circumstances Kazakhstan can't implement even a commercially attractive export option without political support from an influential political actor, if this route is at the same time opposed by an other influential political actor



Thanks for attention