DECEMBER 2024
N.003
CENTRAL ASIA
CONFINDUSTRIA KAZAKHSTAN
SAIPEM

How Geopolitics Reshapes Oil Routes Across Eurasia

By Aiman Nakispekova - The Astana Times

In recent years, geopolitical shifts have redrawn trade routes and significantly impacted global energy markets. One notable development is the rising relevance of delivering Russian oil to Europe while bypassing Ukraine. As global energy markets shift, Kazakhstan, Azerbaijan and Türkiye are poised to become critical players in this segment.

Russia remains a vital oil supplier to European markets, relying on several major logistical corridors, including the Druzhba Pipeline. Historically, Russian oil has been transported to Europe through the Druzhba pipeline, which crosses Ukraine, connecting oil fields to Central and Eastern Europe. The pipeline splits into two branches: a Northern Route through Belarus, Poland, Germany, Latvia, and Lithuania, and a Southern Route through Ukraine, Czech Republic, Slovakia and Hungary.

The Baltic Pipeline System (BPS) is another significant route, transporting oil from Russia's Timan-Pechora, Western Siberian and the Volga-Urals Regions to the port of Primorsk on the Baltic Sea. From there, oil is shipped to Rotterdam, a major European oil hub.

The Caspian Pipeline Consortium (CPC) links Kazakhstan's Tengiz and Karachaganak oil fields to Russia's Black Sea coast, near Novorossiysk. This route enables Kazakh oil to be transported by tanker through the Bosporus and Dardanelles straits.

The Northern Route conveys oil via the Baltic Sea to European ports, such as Primorsk and Ust-Luga. The Southern Corridor operates in the Black Sea, with terminals in Novorossiysk, Kulevi, Supsa, Odessa, Constanța, Sulina and Bursa, providing access to the Bosporus Strait.

A newer option, the Middle Corridor, involves shipping oil across the Caspian Sea to Baku, then using rail or pipeline transit through Azerbaijan and onward transport via Georgia, Türkiye or the Mediterranean.

Pipeline transport remains the most cost-effective method, averaging \$2–\$4 per barrel, depending on distance and infrastructure. In contrast, maritime transport through the Baltic or Black Sea costs \$5–\$10 per barrel, due to freight rates and insurance fees. Rail transport, including the Middle Corridor, is significantly more expensive, ranging from \$10 to \$15 per barrel.

Potential changes in logistics

Global oil logistics could undergo substantial changes if Russia loses access to Ukrainian routes. The Baku-Tbilisi-Ceyhan (BTC) pipeline may absorb some of the redirected volumes, although capacity constraints and pricing challenges could arise.

Increasing tanker traffic through the Bosporus and Dardanelles straits could lead to congestion and environmental risks, necessitating stricter regulations.

In this context, the Middle Corridor, which involves the Trans-Caspian route, holds promise for enhanced viability through investments, but significant infrastructure upgrades are necessary to accommodate large-scale transport demands.

Northern routes are also being explored as alternatives. Expanding Baltic Sea ports and the ice-class tanker fleet may contribute to an increase in volumes.

Europe's diversification efforts may shift reliance toward suppliers from the Middle East, the United States and Africa, ensuring continued supply security.

Russia currently exports approximately 4.5 million barrels of oil per day to Europe. Analysts estimate that if Ukrainian routes are bypassed, the Northern and Baltic Routes could handle 1–2 million barrels daily, while the Black Sea and Bosporus routes are limited to one million barrels daily due to tanker and port constraints. The Middle Corridor may accommodate 500,000–700,000 barrels daily with infrastructure investments.

As the geopolitical and logistical landscape continues to evolve, strategic investments in alternative routes are poised to play a crucial role in securing energy supply chains.

For Russia, the primary advantage of these shifts lies in reducing dependence on Ukrainian infrastructure and improving supply security. However, increased reliance on expensive maritime routes and the potential for market share losses due to Europe's diversification efforts could present significant challenges.

Azerbaijan stands to benefit from increased transit revenues and strategic importance, with the BTC pipeline playing a pivotal role. However, the existing infrastructure may be strained.

Türkiye could experience both benefits and risks. On the positive side, increased transit revenues from Bosporus shipments and investments in the Middle Corridor present economic opportunities. However, heavier tanker traffic poses environmental and security challenges.

Kazakhstan may see the BTC pipeline as a key alternative, with plans to increase oil shipments through this corridor to 20 million tons annually.

Ilham Shaban, head of the Center for Oil Studies in Azerbaijan, highlights the significant advantages Azerbaijan could gain as a key player in the regional energy transport network through increased utilization of the BTC pipeline or other existing routes.

"This could lead to higher transit revenues and bolster Azerbaijan's geopolitical influence in energy markets. Collaborative efforts with Türkiye on alternative routes could strengthen regional partnerships and drive economic growth. Türkiye, in turn, stands to benefit both economically and strategically. As an energy transit hub, increased oil flows through Turkish ports and pipelines could generate substantial transit revenues. Moreover, Türkiye's role in energy negotiations spanning Europe, the Caucasus and the Middle East would likely expand, further solidifying its status as a regional power," he said.

For countries consuming Russian oil, the shift in logistics could result in mixed outcomes.

"While logistical complexities may lead to minor cost increases, bypassing conflict zones enhances energy security," Shaban added.

Benefits and risks for Kazakhstan's economy

In July 2022, following a month-long suspension of the CPC that links Kazakhstan's Tengiz and Karachaganak oil fields to Russia's Black Sea coast, President Kassym-Jomart Tokayev emphasized the need to diversify oil supply routes.

Kazakhstan began exporting oil through the BTC pipeline in 2023 after an agreement between Kazakhstan's national oil company KazMunayGas and Azerbaijan's SOCAR to transport 1.5 million tons of Kazakh oil annually. Exports via the BTC pipeline started in April 2023.

Energy Minister Almassadam Satkaliyev recently announced plans to increase shipments through the BTC pipeline from 1.5 million tons to 20 million tons annually. Kazakhstan currently transports oil to Baku by tankers across the Caspian Sea. Talks are also underway to use the Baku-Supsa route, which has a capacity of three million tons per year.

Oil and gas analyst Abzal Narymbetov described the BTC pipeline as a critical alternative as it bypasses Russian territory. With a capacity of up to 60 million tons annually, the BTC pipeline is operating at less than half its potential.

"Approximately 98% of Kazakhstan's oil exports transit through Russia. Any disruption to these routes would pose significant economic risks. Oil and gas revenues account for half of Kazakhstan's national budget, and 60% of export earnings come from oil sales. Expanding the BTC route helps mitigate risks and protect the economy from potential disruptions," said Narymbetov.

He noted that Kazakhstan could benefit as Azerbaijan's domestic oil production declines and internal consumption rises, allowing Kazakhstan to utilize unused BTC capacity.

However, Narymbetov highlighted the financial challenge: transporting oil through the BTC pipeline costs about $120 per ton, compared to $38 via the CPC. Additional costs arise from transporting oil by rail to Aktau and shipping it to Baku.

Significant infrastructure modernization would be required for Kazakhstan to increase shipments to 20 million tons annually. Experts caution that higher costs associated with the BTC route could pose economic risks unless oil prices increase.

In 2024, Kazakhstan plans to export 68.8 million tons of oil. Of this, 55.4 million tons will be transported via the CPC to Novorossiysk, 8.6 million tons through the Atyrau-Samara pipeline, 3.6 million tons across the Caspian Sea and 1.1 million tons to China.