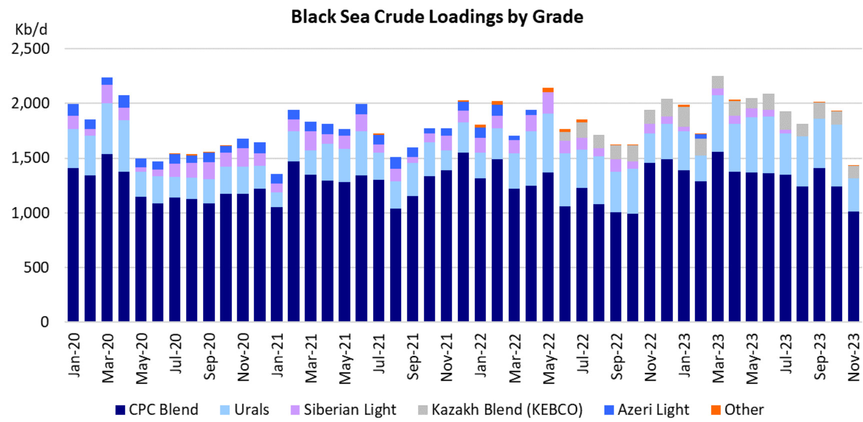
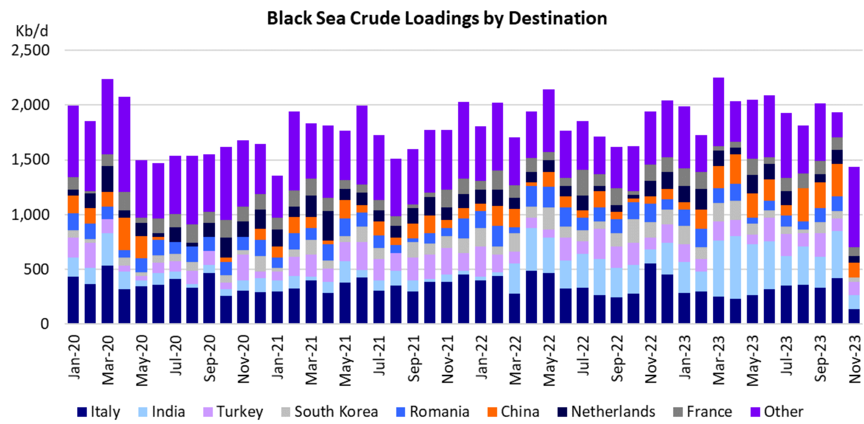
Weathering The Storm





Source: Vortexa

Black Sea disruptions bring Kazakhstan production in focus

A storm in the Black Sea last week disrupted crude oil flows from both Russia and Kazakstan. Up to 2 million barrels per day (Mb/d) of production from Kazakhstan and Russia was affected as crude oil tankers were unable to load. This had a significant impact on the Caspian Pipeline Consortium (CPC), pipeline, which is the main export conduit for crude oil from Kazakhstan's Tengiz, Kashagan and Karachaganak fields. Kazakh exports have been disrupted on several occasions in 2023 due to a variety of issues, including damage to loading infrastructure, and legal and geopolitical issues. This week we will take a look at the production and exports from Kazakhstan as well as other crude oil exports from the Black Sea.

The IEA estimates that Kazakhstan produces about 1.92 Mb/d of crude oil in 2023 and they forecast a similar production for 2024. Production is concentrated in the large onshore Tengiz and Karachaganak fields in the Northwestern part of the country and in the offshore Kashagan field in the Caspian Sea.

The country has three main export routes: Through the 1.4 Mb/d Caspian Pipeline Consortium (CPC) line to the Black Sea; through the 120 Kb/d Kazakhstan–China pipeline into Northwestern China and through the 350 Kb/d Uzen-Atyrau-Samara pipeline which provides access to the Russian Druzhba system. Kazakhstan also exports small volumes of crude via the BTC pipeline after shipping it on tankers across the Caspian Sea. There are press reports that a local company acquired two new small tankers to increase the capacity to ship Kazakh volumes via the Caspian Sea.

Many of these export routes are under-utilized, either due to geopolitical issues related to the Russia - Ukraine conflict and associated sanctions or for other reasons. The pipeline to China is underutilized as the North-West of China has local oil production and it is often more efficient for eastern refiners to use maritime imports and Kazakhstan focuses more on European buyers. Exports through Russia are complicated due to EU sanctions on Russia, although German refiners have imported 690,000 tons (about 17,000 b/d) through the Atyrau-Samara and the Druzhba pipelines in the first 10 months of 2023. There are discussions to increase this volume in 2024.

The CPC blend exported through the Black Sea port of Novorossiysk contains up to 20% of Russian crude, but does not fall under EU and US sanctions. Both Chevron and Exxon are involved in Kazakh oil production and they have every incentive to keep CPC exports outside of the sanctions. Novorossiysk has two load terminals (the CPC Pipeline terminal and the Northern Route Export Pipeline from Baku) and Russia also exports other crudes (about 430 Kb/d in 2023, predominantly Urals).

According to Vortexa, in 2023 about 1.33 Mb/d of CPC blend crude was loaded in the Black Sea. Italy was the single largest buyer, taking 21%, followed by China (10%) and India (9%). About 67% of CPC blend is shipped to European destinations and almost all of the remainder goes to Asia.

Not surprisingly, the destinations of Russian Ural exports have changed dramatically since the beginning of the Russian invasion of Ukraine. In 2023 India was by far the largest buyer of Urals loaded in the Black Sea with a 49% market share, followed by Bulgaria with 22% and China with 18%. Bulgaria has an exemption in EU sanctions to buy Russian seaborne crude as Lukoil is a large refiner in the country, but they have announced recently that they will stop importing Russian crude by March 1st, six months earlier than initially planned. Long haul exports will likely increase further after Bulgaria stops importing Russian barrels.

Kazakhstan is an important producer in a strategic location. It supplies both Europe and Asia. Sanctions against Russia have made Kazakhstan a more important supplier for Europe. Any disruption of its crude flows, through bad weather or as a result of geopolical tensions will worry both European oil companies and western owners.