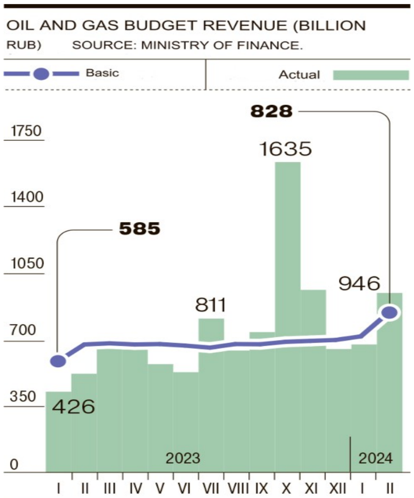
OIL MARKETS SWEEP ANTI-RUSSIAN SANCTIONS UNDER CARPET

Oil has become a key item which is pivotal for Russia to defend its interests against attempts by western politicians to undermine its economy. In working closely together with the two other oil-exporting ex-soviet states Kazakhstan and Azerbaijan, Russian oil companies (both private and state-controlled) have managed to fence off any attempt to ground its oil industry. And the funny thing is that western oil multinatioans working in the region are fully complying with it.

By Charles van der Leeuw*)

Photo by Han Schipper

Russia produced 527 million tonne of crude oil in 2023, down from 535 million through the previous year. For this year, output is expected to stay within the same range – meaning that export volumes remain by and lare unaffected by boycott attempts waged by western purchasers. “Oil and gas revenues of the federal budget in February exceeded the monthly baseline level (828 billion rouble) and amounted to 946 billion rouble after two months of shortfall in December and January, a recent report by Kommersant [https://www.kommersant.ru/doc/6553285?from=main] reads. In January, the Urals grade (companies calculate taxes based on the price of oil and the rouble exchange rate in the previous month) cost an average of $65. This is slightly more than December's $63.5 per barrel.

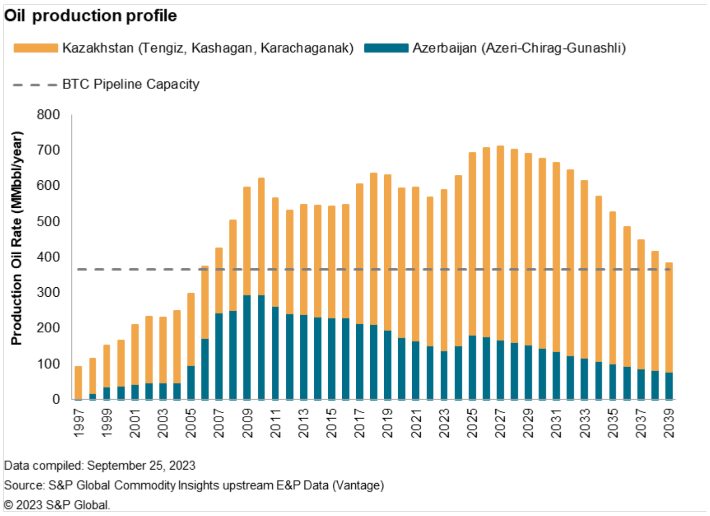


And it looks very much as though the target will be met. “Russia’s February oil and gas revenues showed a significant increase plus 40% compared to January, when 675 billion rouble were collected,” the article reads further down. “The increase was ensured by collections of the main oil and gas tax, the mineral extraction tax on oil, which increased to 1.022 trillion rouble from 716 billion rouble, or 43%. Such expenses for subsidies to oil refiners increased in February to 133 billion from 111 billion rouble, but payments for fuel dampers decreased by a comparable amount from 147 billion to 128 billion rouble.”

With a price oscillating between $65 and $70 per barrel, the price setting for Urals is back to normal at an average discount on the global benchmark Brent of $10 per barrel due to the difference in quality – Urals is a heavy crude and has a high level of sulfur. And the decision in autumn last year by the G7 cartel to set a maximum price for it at $60 per barrel has become utterly futile, which Russia shifting from European markets to other customers around the globe, and its remaining European customers simply ignoring the political flurry.

Production sharing agreements

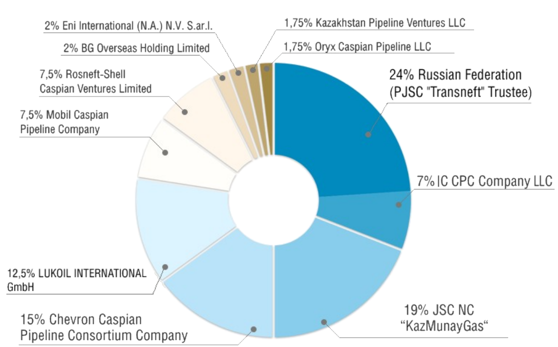
On top of that, Kazakhstan and Azerbaijan have entered swap deals with Russian oil companies by providing transport diversions and jumping in where Russian westbound oil deliveries are concerned. The heavily integrated transportation grids which survived the USSR make that easy to fix and hard to scrutinise. Besides, since outputs in Kazakhstan and Azerbaijan are based on so-called production sharing deals between state companies KazMunayGaz and Azerbaijan’s SOCAR and western partners, led by BP in Azerbaijan and Shell, Chevron and Italy’s Eni in Kazakhstan, neither Washington nor London nor Brussels will ever have the clout to ruin their own oil multinationals’ business.



In 2023, Kazakhstan produced 90 million tonnes of crude oil, 70.5 million tones of which were exported, according to the government. The bulk of the exports pass through a pipeline from Atyrau, the northwestern town on the Ural river south to which Kazakhstan's onshore field Tengiz and its offshore counterpart Kashagan are located, to the Russian Black Sea terminal of Novorossisk. The pipeline, built in the 1990s by the French construction company Bouyges, has an annual capacity of 67 million tonnes.

A tangled web of pipelines

Tengiz is co-owned by US Chevron (50%), ExxonMobil and Kazakhstan's stwte oil and gas company KazMunayGaz (25% each), Kashagan is owned by KMG Kashagan B.V. (16.9%), CNPC Kazakhstan B.V. (8.3%), Inpex North Caspian Sea (7.6%), Shell Kazakhstan Development B.V. (16.8%), Total EP Kazakhstan (16.8%) and ExxonMobil Kazakhstan (16.8%). KPO, which operates in the Karachaganak field to Atyrau's east, has five shareholders - namely KazMunayGas (10%), Shell (29.25%), Eni (29.25%), Chevron (18%) and Lukoil (13.5%).
The pipeline itself operates in the form of a consortium named CPC (Caspian Pipeline Consortium), shareholders in which are led by Russia's oil transportation grid Transneft, which is also the consortium's operator.



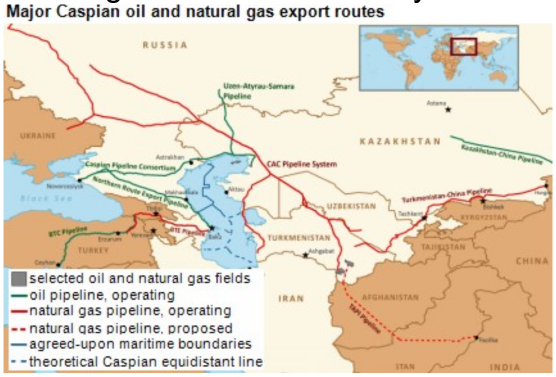
Since summer 2022, with the start of severed westesn "sanctions" aimed against Russia, Kazakhstan began to sell its oil under the brand KEBCO (Kazakh Export Blend Crude Oil), meant to distinguish it from Russia's Urals brand. Whereas oil delivered to Novorossysk is marked CPC blend, which contains both KEBCO and Eastern Russia's

Siberian Light, a mix of KEBCO and Urals is transported through a pipeline from Atyrau to Samara on the midstream Volga and from there to Russian terminals on the Baltic Sea.

A reshuffle of crossborder supplies

“In February 2024, the volume of transportation of Kazakh oil through the trunk oil pipeline system of Transneft towards the Adamova Zastava oil delivery point for further delivery to Germany amounted to 100 thousand tonnes,” Kazakhstan’s economic weekly Kapital [https://kapital.kz/economic/123790/v-fevrale-kaztransoyl-postavil-v-germaniyu-100-tysyach-tonn-nefti.html] reported on March 6. “Since the beginning of 2024, 200 thousand tonnes of Kazakh oil have been supplied to Germany. In March, KazTransOil plans to supply 100 thousand tonnes of Kazakh oil to Germany, citing the company’s press service. In 2024, KazTransOil plans to ship up to 1.2 million tonnes of Kazakh oil via the Transneft oil trunk pipeline system towards the Adam's Outpost oil delivery point for delivery to Germany. In 2023, the volume of transportation of Kazakh oil along this route for delivery to Germany amounted to 993 thousand tonnes.”

Major Caspian oil and natural gas export routes



The “Kazakh” crude replaces its “Russian” counterpart, which in turn is now delivered to China across Kazakhstan. According to a 10-year transit agreement recently signed by Russia, Kazakhstan and China, 10 million tonnes of oil will be supplied annually through the TON-2 oil pipeline to the Kazakh terminals Priirtyshsk and Atasu, and from there to the Chinese Alashankou transit point, Kazakh media reported last week. Kazakhstan’s KazTransOil is due to pocket a handsome $170 million a year for the service. On top of that, KTO is to receive another million dollar for the transit of 170,000 tonnes of crude to Uzbekistan.

OPEC+: a barrier against barriers

Finally, there is the Azerbaijan connection. Traditionally, Azerbaijan’s oil was exported through a pre-Soviet pipeline to Batumi in southwest Georgia, built in the late XIX Century by the Swedish Nobal brothers who at the time dominated Baku’s oil industry through a concession granted by the Russian Czar. A second, Soviet-built pipeline transported (and still transports) Azeri oil to Novorossisk. But in the mid-1990s two new pipelines were built from the terminal of Sangachal just south of Baku: one to a newly opened terminal at Supsa on the Georgian Black sea coast, and another one across Georgia to the southeastern Turkish Mediterranean port of Ceyhan. The latter alone has a capacity of a million barrels a day, which is more than Azerbaijan ever produced dof ever will produce. Both Kazakhstan and Turkmenistan (which produces minor quantities of oil in its Caspian provinces and waters) have jumped in.

Russia, Kazakhstan and Azerbaijan are all members of the so-called OPEC+ group, an expanded cartel using methods similar to those of the Organisation of Oil Producing Countries led by Saudi Arabia, Iran and Venezuela which consists of output limits with the aim to prevent oil prices from plummeting. Set up back in 2016, the group accounts for well over half of the world's oil production and virtually controls supply and demand curves in the entire upstream business. As long as it exists and western oil companies comply with it, western politicians have pretty little chance to ruin the global oil business amidst their hate campaign against the Russian Federation.

) Charles van der Leeuw was born in The Hague, The Netherlands, in 1952. He started working as an independent reporter on cultural issues in a wide variety of publications back in 1977. Ten years later, he settled down in war-torn Beirut as an international war correspondent, following a first experience in Iraq in 1985 which resulted in his first book on the Iraq-Iran war. After his kidnapping and release in 1989, his second book "Lebanon - the injured innocence" came out, followed, in early 1992, by "Kuwait burns" – both written in Dutch. Later in the year, he settled down in Baku, Azerbaijan, as a war correspondent. "Storm over the Caucasus" on the southern Caucasus geopolitical conflicts, came out in 1997 in the Dutch language and two years later in the first English edition. It was followed by "Azerbaijan - a quest for identity" and "Oil and gas in the Caucasus and Caspian - a history", both published in 2000, and "Black&Blue" published in Almaty in summer 2003 about the stormy rise of Russia's present-day oil and gas companies. In 2012, L'Harmattan in Paris published his book "Haut-Karabagh: la guerre oubliée du monde."His latest publication before this work was "Cold War II: cries in the desert - or how to counterbalance NATO's propaganda from Ukraine to Central Asia" (Herfordshire Press, London 2015).