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Research Brief

**Assessment of the role of Caspian Basin in reducing of EU's
oil dependence in the light of Russian Ukraine War**

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Introduction

In the background of the Russian invasion of Ukraine, European Union (EU) agreed to ban the overwhelming majority of Russian oil imports. Since the beginning of the invasion, the West decided to make Moscow pay economically for its aggression. Nevertheless, the decision aimed at the energy sector was quite challenging since the bloc relies on Russia for 25% of its oil and 40% of its natural gas.

Reflected in the imposed sanctions, the EU aims to ban around 93% of Russian oil by the end of the year. The figure indicates a ban on all Russian oil delivery by sea, which accounts for two-thirds of the EU's imports from Russia, including a decision by Germany and Poland to stop using oil coming from the northern branch of the Druzhba pipeline.

Countries on the southern route of the Druzhba pipeline, which crosses Ukraine, are specifically dependent on Russian crude, while for those importing by sea, Russian oil accounted for more than 80% of imports in Finland and Lithuania.

It is worth mentioning that even before the EU's decision, many European buyers of Russian oil have voluntarily suspended purchases or announced plans to do so in the future .

Taking into account ongoing processes in the EU's energy market, the role of Caspian Basin countries in the export of energy sources increases. By being a major supplier of oil to the European market, Azerbaijan tends to increase its share in the total energy supplies to the EU ([Mammadov, 2022](#)).

Kazakhstan, in its turn, intends to increase exporting oil to Europe through Azerbaijan, bypassing Russia via the Baku-Tbilisi-Ceyhan (BTC) pipeline.

An analysis of the energy trends occurring due to the Russian invasion of Ukraine illustrates that Caspian Basin countries have great potential for energy diversification in the European market.

Azerbaijan and Kazakhstan could perform significantly potential energy supplies for the EU in its path towards reorienting the direction of its energy supplies. These tendencies create a lucrative economic environment for both countries located in Caspian Basin.

At the same time, it remains crucial for oil-exporting countries of the Caspian Basin to diversify their economies in order to avoid possible crises due to oil price fluctuations ([Bayramov and Abbas, 2017](#)).

EU energy constitution

Before the COVID-19 crisis, oil was the most consumed energy source in the European Union. It accounted for one-third of total energy consumption, followed by gas. For its consumption, the EU demands energy imported from partner countries.

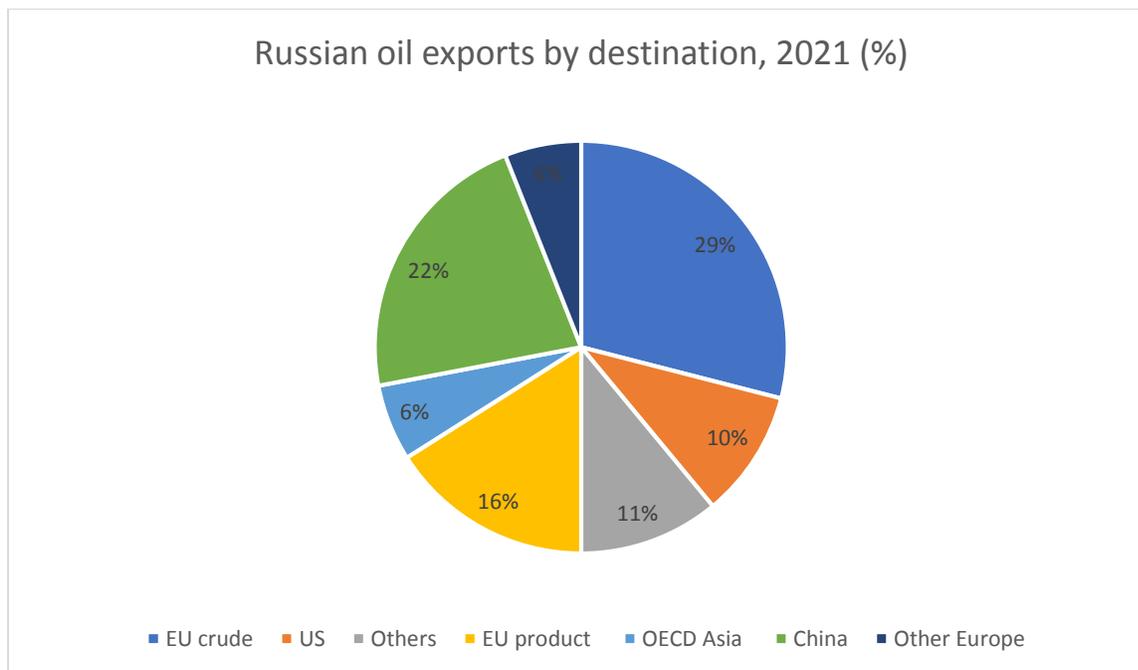
Almost three-quarters of the extra-EU crude oil imports came from Russia (29%), the United States (US) (9%), Norway (8%), Saudi Arabia, and the United Kingdom (UK) (both 7%), including Kazakhstan and Nigeria (both 6%) in 2020¹.

Nearly half of Russian crude and petroleum product exports belonged to Europe before Russia invaded Ukraine. Graph 1 demonstrates Russian oil exports by destination in 2021.

The EU imported 2.2 mln barrels per day of crude in 2021, including 0.7 mln via pipeline. In a meantime, when it comes to refined oil products, the bloc imported 1.2 mln barrels per day from Russia, including 0.5 mln barrels per day of diesel.

¹ <https://ec.europa.eu/eurostat/cache/infographs/energy/bloc-2c.html>

Graph 1. Russian oil exports by destination, 2021 (%)



Source: International Energy Agency, 2022

It goes without a doubt that the EU countries located close to Russia geographically or landlocked, having limited alternatives, depended on Russian oil imports in particular. Germany, Poland, and the Netherlands referred to the EU's top buyers of Russian crude oil in 2021.

The reliance of European Union's countries on Russian fuel was reaffirmed by some Russian companies such as Rosneft and Lukoil.

Azerbaijan and Kazakhstan: oil supply

It is assumed that Azerbaijan created the milestone for delivery of the Caspian oil and natural gas by launching considerable energy projects such as the Baku-Tbilisi-Ceyhan oil pipeline and Southern Gas Corridor (SGC).

The BTC pipeline connects the Caspian oil resources to the Western energy markets directly (Hajiyev, 2021). In 2020 over 27.8 mln tons of crude oil were exported through the Baku-Tbilisi-Ceyhan pipeline.

Recently, Azerbaijan signed a Memorandum of Understanding (MoU) with the European Union on the strategic partnership in the field of energy (Mammadov, 2022). The document emerged as a result of the 15 years of active energy cooperation between the sides. An updated document followed 2 strategic partnership agreements signed in 2006 and Joint Declaration on Southern Gas Corridor signed in 2011.

Over the first quarter of 2022, Azerbaijan exported nearly 5.9 mln tons of oil to 17 countries. Table 1 depicts a list of the countries affiliated with Azerbaijani export of oil in Q1 2022.

Table 1. Azerbaijani export of oil in Q1 2022.

<i>Countries</i>	<i>Quantity (ton)</i>	<i>Amount (\$)</i>
Italy	2 380 799,59	1 489 537,56
Portugal	560 465,29	390 606,14
Israel	521 032,15	328 080,26
Ukraine	506 349,3	304 515,94
Thailand	368 473,28	231 496,55
Great Britain	216 909,17	125 597,1
Tunisia	186 365,64	120 122,11
Germany	171 586,43	106 581,97
Romania	170 203,55	103 202,37
Spain	168 556,98	95 938,08
Czech Republic	163 459,94	89 192,64
India	136 966,25	90 152,11
Ireland	88 077,58	50 060,05
Belarus	84 893,31	57 590,07
Austria	82 901,03	55 781,16
Turkey	80 172,13	41 395,85
Russia	311,9	181,88

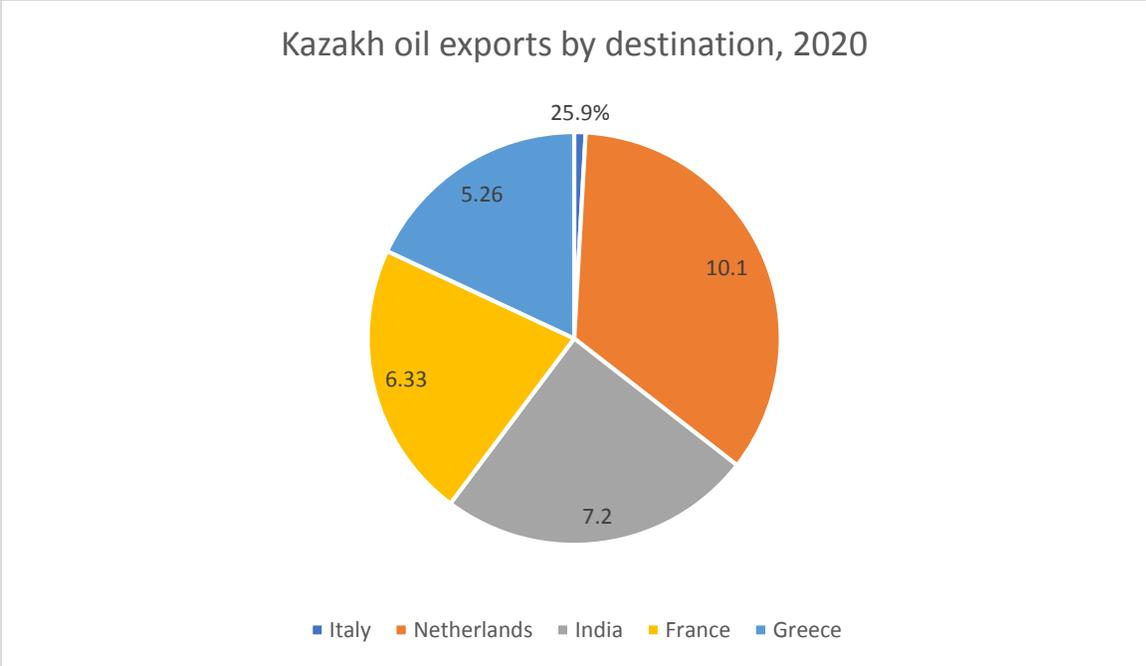
Source: State Statistical Committee, 2022

The economy of Kazakhstan is mainly based on its oil sector, as well as on the extraction of coal and uranium, and other important raw materials.

About 70% of its oil exports go to the EU (6% of EU oil demand). The country is considered the EU's third largest non-OPEC supplier, after Russia and Norway.

In 2020 Kazakhstan exported crude petroleum worth \$ 25.2. The main destinations were Italy, Netherlands, India, France, and Greece. The largest concentration of export destinations is Europe, followed by Asia and North America (Graph 2).

Graph 2. Kazakh oil exports by country, 2020



Source: OEC, 2022

For over 20 years, oil export was implemented through the Caspian Pipeline Consortium (CPC) to Russia's Black Sea port of Novorossiisk, which ensured access to the global market. Recently, the direction of the Kazakh oil export route was changed with an expectation to sell crude oil through Azerbaijan's biggest oil pipeline. Kazakhstan's state oil firm Kazmunaigaz (KMG) had a broad discussion with the trading arm of Azerbaijan's State Oil Company of the Azerbaijan Republic (SOCAR) to allow 1.5 mln tons per year to be sold via the Azerbaijani pipeline that delivers oil to Turkey's Mediterranean port of Ceyhan. Additionally, another 3.5 mln tons of Kazakh crude oil could flow through another Azerbaijani pipeline to Georgia's Black Sea port of Supsa in 2023.

Conclusion

Even though a decision to switch the trajectory of Kazakh oil export may bring benefits to both Azerbaijan and Kazakhstan, some important remaining challenges can not be denied.

Kazakhstan, the world's 9th largest oil exporter ships almost all its oil throughout Russian territory. Russia, in its turn, reflected signs of pressure on Kazakhstan, threatening to shut the CPC, prompting the Kazakh government and major foreign producers to establish links for outlets as a precaution.

The BTC pipeline that lengths from Azerbaijan to Georgia and Turkey's Mediterranean region is an attractive alternative to carry Kazakh oil to Europe. Originally, inaugurated in 2006, the BTC pipeline was primarily used to ship Azerbaijani oil. Nevertheless, the Kazakh oil was pumped through the BTC pipeline on a few occasions. The Kazakh oil flow in the BTC pipeline has increased by three times between 2018 and 2021. Moreover, in the background of problems emerging at the CPC route, the Kazakh government relies more on the BTC pipeline.

From the perspective of energy supply security, the importance of alternative routes is an undeniable fact. From the perspective of Russia, however, the activities on the BTC route may be upsetting.

As it was mentioned above, Kazakhstan is expected to launch selling some of its crude oil via Azerbaijan's largest oil pipeline, which is Baku-Tbilisi-Ceyhan, from September 2022. This underlines the fact that the country seeks alternatives to a route that is threatened by Russia. It is expected that in 2023 another 3.5 mln tons of Kazakh crude oil could flow via another Azerbaijani pipeline to Georgia's Black Sea port of Supsa. In this regard, combined with BTC flows, the volume of oil could equate to just over 100.000 bpd. One of the most important facts is that relying on Azerbaijan will provide an opportunity for Kazakhstan to reduce its dependency on Russian territory.

From the Azerbaijani perspective, this opportunity will significantly contribute to the role of the country in energy security and the development of EU relations. Azerbaijan will strengthen its

position in the energy market and will develop the path for future integration of Caspian Basin oil producers into European market.

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