

Kazakhstan: A drone strike on a major oil pipeline highlights the country's vulnerability to oil reliance | Credendo

Event

On 17 February, a Ukrainian drone struck a pumping station on Kazakhstan's crucial CPC (Caspian Pipeline Consortium) oil pipeline. Given the necessary time to repair the damage, the strike could impact the country's key exports and government revenues in the coming months.

Impact

Kazakhstan's economy, as it is known, remains very reliant on the oil sector, particularly on oil flowing via the CPC pipeline from the Tengiz oilfield through Russia until the Black Sea. The CPC pipeline is estimated to account for around two thirds of the country's crude exports. This latest incident is a perfect illustration of the structural economic vulnerability, especially in the context of the war in Ukraine, high Russia-Europe tensions and rising Ukrainian strikes targeting Russian energy infrastructures. Moreover, another risk lies in the political leverage Moscow can exploit in case of tensions with Astana, as witnessed in the past years when the transit was suspended for various alleged issues (technical, environmental, etc.). That is why the authorities strive to diversify their economy. However, this process has been slow until now and will not improve with the further expansion of oil volumes from the Tengiz oilfield and with the goal of using alternative oil routes – particularly the “Middle Corridor” – for the CPC to bypass Russia's territory. Though it is hard to assess the exact extent of the recent damage to the pipeline, exports and GDP growth could be hit in the near term. The impact could nevertheless be mitigated by increased production later this year.

Besides the economic impact, the drone strike puts Kazakhstan in an uncomfortable diplomatic and geopolitical position between Russia, Ukraine and the (pro-Ukraine) EU. Since the start of the war in Ukraine, Astana has defended a neutral position, maintaining good relations with Russia, its first trade and investment partner. Therefore, Astana has responded in a measured way to the recent drone strike, opting for bilateral talks with Kyiv. The fact that the CPC is operated by a large consortium of oil majors, including a US oil group, could also create some tensions amid attempts of peace talks, particularly if such a strike should occur again. Looking ahead, a potential ceasefire and peace agreement signed by Ukraine and Russia would mitigate this risk. Kazakhstan would also benefit from a potential lifting of sanctions on Russia – which currently looks likelier to be initiated by the USA than by the EU – as the country has been facing secondary sanction risks for alleged circumvention of Western sanctions by allowing re-exports of sanctioned goods to Russia.

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