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Kazakhstan is set to supply oil to Germany

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Germany and Kazakhstan struck an oil supply deal during German President Frank-Walter Steinmeier's visit to Kazakhstan on 20 June. The contract was signed by KazMunaiGaz (KMG), a Kazakh state-owned company engaged in the extraction, transport and refining of oil and gas, and Rosneft Deutschland (RND), a company holding shares in three German refineries, which is formally still owned by Russia's Rosneft but has been under German government trusteeship since September 2022 (see '*Germany: the state takes control of Rosneft's assets*'). It was agreed that 100,000 tonnes of oil would be supplied monthly from the Karachaganak field in western Kazakhstan to the PCK refinery in Schwedt, Brandenburg, in which RND has a controlling stake. Oil will be transported to Germany via the Druzhba pipeline which runs through Russia, Belarus and Poland.

The exact timeframe of the contract is unclear. The German side claims that supplies have been agreed until the end of 2024. According to information released by KMG, the contract is valid until the end of 2023, and its extension is still awaiting negotiation (the company's CEO Magzum Myrzagaliev has confirmed that the parties intend to extend it). According to Bloomberg, the parties have agreed to continue supplies next year, but it is not clear in what form or whether the deal is binding.

An agreement on Kazakh oil exports to the Schwedt refinery was reached at the end of 2022. The initial plan was to send a total of 1.2 million tonnes this year (10% of PCK's annual processing capacity). The Russian transmission system operator Transneft granted consent to send this volume in December 2022 at the request of its Kazakh counterpart, KazTransOil. As KMG confirmed, the transmission began only in February (initially in smaller batches) and by the end of May 190,000 tonnes had reportedly been delivered. By the end of this year, the volume is expected to increase to at least 890,000 tonnes (100,000 tonnes per month in the period from June to December). According to information provided by Michael Kellner, Secretary of State at the Federal Ministry for Economic Affairs and Climate Action, the supplies so far have been contracted on an ongoing/ad hoc basis.

The PCK refinery in Schwedt is co-owned by Rosneft Deutschland (which owns a 54.17% stake, partly through RN Refining & Marketing, RNRM), Shell (37.5%) and Eni (8.33%). Rosneft's assets in Germany are currently under BNetzA's (effectively the federal government's) trusteeship at least until mid-September this year; the trusteeship may thereafter be extended for another six months. The rules for selling companies under government trusteeship were liberalised in May, should Germany's energy security require this (currently only RND and RNRM are under government trusteeship). Government representatives have revealed that talks with prospective investors have been underway for

several months.

Commentary

- The PCK refinery in Schwedt has heavily relied on oil supplies from Kazakhstan since Germany discontinued importing Russian oil in January, and Russian oil used to cover all needs of this refinery before the invasion of Ukraine. Since oil imports from Russia ceased, the refinery has mainly received its oil via the Rostock oil port, but it can only import up to 7 million tonnes of oil annually from this direction. Therefore, the refinery was operating at just 60% of its capacity at the beginning of this year without Russian oil supplies. To increase production, oil must be transported via the Druzhba pipeline: either via Naftoport in Gdańsk and the Pomeranian Oil Pipeline (although the infrastructure has quite a limited capacity), or from the east, where Kazakhstan is the only option if Russia is excluded. PCK is currently operating at 75–80% of its capacity thanks to the monthly supplies of 100,000 tonnes of oil from Kazakhstan (this volume reportedly reached Schwedt in May) and imports via Gdańsk. Both the federal and local governments have declared that they intend at least to maintain this level over the coming months (according to experts, the refinery must engage a minimum 70% of its capacity to remain profitable). Ultimately, it is planned to modernise the Rostock–Schwedt oil pipeline, which would enable up to 9 million tonnes of oil to be transported annually. The project is to be fully financed from the German budget. However, its implementation must first be approved by the European Commission, which is examining whether Berlin's plans comply with the rules on state aid in the EU.
- The decision to import Kazakh oil via the Druzhba pipeline has raised controversy in Germany due to the Russian context. Firstly, the oil from Kazakhstan must be supplied via the Russian transmission system, and is thus inevitably mixed with Russian gas, which as a result is supplied to Germany in large quantities. It is also possible that companies from Kazakhstan and Russia are carrying out SWAP transactions. Secondly, Moscow receives fees for oil transit. Most likely, Kazakhstan pays for the transit directly but then includes the fees in the price its German partner pays. As a result, Russia indirectly receives funds from Germany. Although Berlin is not breaching the letter of EU sanctions law by doing so, it may face accusations of acting against its spirit.
- The deal between KMG and RND confirms that Kazakhstan's government is determined to resolve the issue of oil supplies to the Schwedt refinery. Earlier, President Kassym-Jomart Tokayev expressed his approval of the talks with the German side. Since the Russian invasion of Ukraine, Astana has presented itself as a reliable partner which can replace Moscow in the supply of raw materials and the development of transport & trade routes to the European Union and China. Kazakhstan views strengthening its contacts with Germany, which is perceived as a pillar of the EU, as more important than the revenues the sale of the relatively small amount of oil covered by the contract will generate. The contract has no major impact on the oil and mining sector, which is a strategic branch of Kazakhstan's economy, while Russia still has ways to destabilise it. Last year, for example, it suspended the transmission of oil four times, officially due to repairs, via the KTK pipeline which transports about 80% of Kazakh oil exports to Western countries from the port of Novorossiysk.

- Oil supplies from Kazakhstan via the Druzhba pipeline are a convenient tool for Moscow to put pressure on Astana, and potentially on Berlin. In the past, the Kremlin has repeatedly used its control over transport infrastructure to political ends by interrupting the transport of raw materials under various pretexts. Given the controversy over supplies via the pipelines running through Russian territory, and the impossibility of replacing them with imports from other directions, the influence of this instrument of pressure may grow, if Moscow actually decides to block the transit.