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**CPC IS READY TO ACCEPT OVER 50 MILLION TONNES OF OIL A YEAR, INCLUDING KASHAGAN OIL.**

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28.09.2016

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The New Europe , 27 September 2016

The rapidly approaching date of re-start of production at Kashagan on October 23 automatically reanimates the question of the need for construction of another major project, namely, the Kazakhstan Caspian Transport System (KCTS).

KSTC, otherwise known as the TransCaspian System, had been created specifically with Kashagan oil in mind. The system was supposed to consist of oil unloading terminals on Kazakhstans coast of the Caspian Sea, tankers, vessels, oil loading terminals on Azerbaijans coast of the Caspian Sea, and connecting facilities to the Baku-Tbilisi-Ceyhan system.

The idea of this route first arose some years ago, back in 2007, when the oil prices were going up, and Astana was looking forward to a restart of Kashagan after yet another delay.

Under the then favourable hydrocarbon market conditions, the countrys leadership was excited about the future lucrative profits from the sale of its oil, including Tengiz oil and future Kashagan oil.

In 2008, in Baku, the national oil companies of Kazakhstan and Azerbaijan □ KazMunaiGas and SOCAR □ signed a KCTS agreement. The main feature of that agreement was that Kashagan oil would ship through the Caspian Sea to the Caucasus, and not through Russia.

But before we discuss the future of KCTS any further, lets talk about the overall transport policy of the Kazakh authorities. It is generally known that for the oil-rich but land-locked Kazakhstan the question of oil delivery to the world markets has always been of high priority.

The two pipe lines that existed at the dawn of Kazakhstans independence (CPC and Atyrau-

Samara) had not enough capacity at the time to accept the ever growing annual volumes of Kazakhstan oil from Tengiz and Karachaganak.

How it had all started...

It was at that time that the President of Kazakhstan Nursultan Nazarbaev raised the question of expanding the Caspian Pipeline Consortium (CPC), one of the countrys main export routes that delivered over 50% of Kazakhstans oil to the world markets.

One of the respected elders of Kazakhstans oil industry and currently Deputy Chair of the KazEnergy Association, Uzakbai Karabalin, told New Europe in an interview about a fact that is little known to the public.

It was the head of state, Nursultan Nazarvaev himself, who was responsible for the expansion of CPC. During a regular visit to Moscow he learnt that his Russian counterpart at the time, Boris Yeltsin, had been hospitalized, Karabalin said.

According to him, right in the hospital ward, the Kazakh President raised the CPC question yet again and finally managed to convince the bedridden Yeltsin of the need for its expansion.

The Russian President had agreed, promising to make formal instructions after his recovery. But Nursultan Abishevich Nazarbaev had insisted that the decision be sealed in writing right there and then. Since there was no stamp paper or letterhead available at hand, the Russian leader wrote Approve CPC expansion on a hospital napkin and put his signature under it. Boris Yeltsins good to go on that document gave birth to a new major project – the CPC expansion project, Karabalin said.

Another development in favour of CPC expansion had been a rapid increase of Tengiz production in 2008, which had almost doubled from 14 million tonnes to 25 million tonnes a year. The Russian pipeline could no longer swallow those volumes.

It had taken another two years, thought, for a final decision on CPC expansion to be taken in late 2010. The throughput capacity of the pipeline was supposed to almost double to 67 million tonnes of oil. But the project did not escape its difficulties, either. All the expansion work was supposed to be completed two years ago, in 2014.

Just a week ago, a month before the restart of Kashagan, CPCs Director General Nikolai Gorban told a press conference in Astana that the expansion of CPC was expected to be completed by the middle of next year. Having said that, he noted, the pipeline would be ready to accept the first barrels of Kashagan oil as early as in October this year.

We plan to bring the physical capacity of the pipeline up to 67 million tonnes as a result of the expansion project (by mid-2017). The preliminary orders (for next year) have so far totalled 65 million, but that's all preliminary and will be confirmed before the year is out, Gorban told the Astana journalists.

According to him, Kazakhstan's oil accounts for 52.5 million tonnes out of those 65 million tonnes. The total production of oil in Kazakhstan varies from 78 million to 81 million tonnes a year. The remaining oil will go on the Russian side of the CPC pipe.

With a view to a future growth of oil prices, Kazakhstan sticks to its plans to increase oil production. Apart from the restart of Kashagan, new expansion projects are in the works at Tengiz and Karachaganak. That is precisely why Astana continues to steer the earlier course of diversification of export routes for its oil.

How, in that case, will the produced volumes of crude be distributed in the nearest future among the existing pipelines? Will the KCTS project be reanimated in connection with the expected restart of Kashagan? The Deputy General Director of Government Relations of CPC-K Kairgeldy Kabyldin answered these questions.

In his opinion, the restart of Kashagan will not create any problem with the delivery of all oil produced in Kazakhstan to the world markets. As has been said above, the CPC is ready to accept over 50 million tonnes of oil a year, including Kashagan oil.

Kashagan is at the stage of pilot commercial development. The production is expected to be at the level of 350 thousand barrels, of the order of 16 to 17 million tonnes a year. We are already prepared to accept these volumes, Kabyldin said.

He believes, however, that the capacities of the Caspian pipeline alone will not be able to handle the further increase of oil production.

After the expansion, Tengiz will produce 39 million tonnes a year. At the peak of production,

Kashagan is expected to produce 60 million tonnes a year. No doubt, CPCs capacities will not be able to accept these volumes, Kabyldin said.

But lets not forget about the Atyrau-Samara pipeline. Also, over all these years of talk about Kashagan, quickly and inconspicuously, a 20 million tonnes a year Kazakhstan-China pipeline has been built.

Today, the pipe to the Celestial Empire is filled with seven million tonnes of Russian oil and with an equal volume of Kazakhstans oil. It is capable of accepting six million tonnes more.

In addition, there is a top-level agreement between Astana and Beijing to increase the throughput capacity of the Kazakhstan [ ] pipeline. Chinas oil company CNPC holds an 8.4% interest in Kashagan and has the right to send Kashagan volumes to China under a production sharing agreement.

If the Chinese side offers commercial terms that are consistent with the western direction, then Kashagan oil will be pumped into the Kazakhstan-China pipeline, Kabyldin said.

As far as KCTS is concerned, in his opinion, any discussion is premature.

The strategy of development of Kazakhstans oil transport system includes the KCTS project, but time will show to what extend and when it is will be needed, Kabyldin said.

Kazenergy Association Director General Bolat Akchulakov is more optimistic about the future of the KCTS.

The TransCaspian route can work. Excess capacity for transportation is better than a shortage thereof. You will agree that having an alternative is always a plus Akchulakov said.

An expert on the oil and gas projects of the Caspian region Igor Ivahnenko believes that the future of many regional projects, not just TransCaspian, will depend on the level of success of development of the super gigantic, but extremely challenging field Kashagan.

Kashagans shareholders refrain from any forecast of production rate for the next stages of

development because of the unpredictability of the results. Such situation, of course, is not conducive to a reanimation of the processing or transport projects tailored for the big Kashagan oil, including the TransCaspian project KCTS, especially against the background of the surplus capacity of both the CPC and the pipeline to China, Ivahnenko said.

In his opinion, for the idea of construction of KCTS to get traction again, high level of production at Kashagan and high oil prices will be necessary to repay the investment in this additional gigantic route.

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