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## **Caspian Energy Contracts: A Comparative Analysis of Legal Application Issues With the Experience of Azerbaijan and Kazakhstan**

### **Abstract**

The main purpose of this article is to compare the legal and economic aspects of energy contracts in the Caspian Sea and, in particular, analyzes the experiences of Azerbaijan and Kazakhstan in this field. The Caspian Sea, with its rich oil and gas reserves, places the exploitation of energy resources and corresponding international agreements at a very important position in this region.

Azerbaijan began to widely exploit the oil and gas reserves in the Caspian Sea in collaboration with international oil companies under the "Contract of the Century" signed in 1994. This agreement also integrated Azerbaijan into the international energy market and had a significant impact on the country's economic development.

Kazakhstan, for its part, holds an important position in the international market with large oil fields such as "Tengiz" and "Kashagan." Cooperation with foreign investors in Kazakhstan's energy sector has become an important factor in the country's economic development.

**Keywords:** Caspian Sea, Kazakhstan, energy, oil, gas

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## **Xəzər enerji müqavilələri: hüquqi tətbiq məsələlərinin Azərbaycan və Qazaxıstan təcrübəsi ilə müqayisəli təhlili**

### **Xülasə**

Bu məqalənin əsas məqsədi Xəzər dənizində enerji müqavilələrinin hüquqi və iqtisadi aspektlərini müqayisə etmək və xüsusilə bu sahədə Azərbaycan və Qazaxıstan təcrübələrini təhlil etməkdir. Zəngin neft və qaz ehtiyatlarına malik Xəzər dənizi enerji ehtiyatlarının istismarını və müvafiq beynəlxalq müqavilələri bu regionda çox mühüm mövqeyə qoyur.

Azərbaycan 1994-cü ildə imzalanmış "Əsrin müqaviləsi" çərçivəsində beynəlxalq neft şirkətləri ilə əməkdaşlıq edərək Xəzər dənizindəki neft və qaz ehtiyatlarının geniş şəkildə istismarına başlayıb.

Qazaxıstan isə öz növbəsində "Tengiz" və "Kaşağan" kimi iri neft yataqları ilə beynəlxalq bazarda mühüm mövqeyə malikdir. Qazaxıstanın enerji sektorunda xarici investorlarla əməkdaşlıq ölkənin iqtisadi inkişafında mühüm amilə çevrilib.

**Açar sözlər:** Xəzər dənizi, Qazaxıstan, enerji, neft, qaz

### **Introduction**

There were some developments at the last summit held within the Caspian framework. The 4th Caspian Summit took place on 29 September 2014 in Astrakhan, Russia. Five Caspian coastal countries sought solutions to issues related to legal status at the summit. Iran, which signed an oil exploration agreement with Azerbaijan before the 4th Caspian Summit held in Russia in September, aimed to increase its influence in the Caspian Sea. Considering that oil and natural gas resources are

located in the central and northern parts of the Caspian Sea, the natural resources that Iran has are far from where they could be. As far as is known, there are not many oil and natural gas resources in the south of the Caspian Sea, in the border region of Iran (Sönmezoğlu & Faruk, 2005). He points out that the ongoing Shah Deniz Project has a 10 percent share of Iran, and also stated that Iran's main goal in the Caspian is to increase its economic interests and that the party states are not close to agreement. A cooperation protocol was recently signed between the Azerbaijan State Oil Company (SOCAR) and the Iran Caspian Oil Exploration and Production Company on oil exploration and production in the Caspian Sea. These recent developments herald that the Caspian Status issue can be resolved. It is a sign that Iran may now give up its harsh attitude (Nauşbayeva & Assem, 1999).

The fifth summit on the status of the Caspian Sea was expected to be held in Astana in 2016. However, the summit was postponed during the meeting of foreign ministers of the Caspian countries held in Astana in July.

### **Research**

In general, the signing of the convention on the legal status of the Caspian Sea will lead to foreign investment growth in all Caspian countries. In Kazakhstan, the contract impact will be felt primarily in the ports of Aktau, Bautino and Kuryk. Kazakhstan politician Mirlan Nurtazin: "The signing of the document in Astana this year will contribute to the political situation in the world (Yalçinkaya & Alaeddin, 2006). The geopolitical situation requires the agreement. "Russia's missile launch towards Syrian territory, passing through the Caspian, requires the agreement to be accepted and signed as quickly as possible" (Ongarova & Yerkinay, 2015).

### **Caspian Energy Contracts**

Central Asia-Central Gas Pipeline System (CAC) plays an important role in the region. With a capacity of 90 billion cubic meters, the Central Asia-Central Natural Gas Pipeline carries Turkmenistan natural gas to Russia via Uzbekistan and Kazakhstan. This line, built during the USSR period, is in a critical position as it is the only line that provides natural gas transfer between the countries in the region. Caspian Pipeline Consortium (CPC) and Atyrau-Samara oil pipelines, which carry the oil extracted from Kazakhstan's Tengiz field to Russia, are other important oil transfer lines in the region (Baycaunova & Saule, 2000). While the total oil transport capacity of the two lines is over 1.2 million barrels per day, the lines are also important as they enable the transfer of a large portion of Kazakhstan's oil exports. Other lines that transfer oil in the Caspian Region are the Kazakhstan-China Pipeline with a daily capacity of 240 thousand barrels and the Baku-Novorossiysk-Northern Route, which carries Azerbaijani oil to Russia with a daily capacity of 100 thousand barrels. Export Pipeline) is an oil pipeline (Karagül, Kizilkaya, Kaya, & 2016, p. 11). Kazakhstan's cooperation with China in the field of energy was established on September 24, 1997, cooperation in the field of oil and natural gas, the exploration of Kazakhstan's underground resources and the oil pipeline from Kazakhstan to China between the Minister of Energy of Kazakhstan and China's National Petroleum Corporation (CNPC). It started with the general agreement signed regarding the construction of the line. During the visit of the Chinese President to Astana on July 4, 2005, the "Declaration on the establishment and development of joint strategic cooperation between China and Kazakhstan" was signed. Then, on December 20, 2006, the "Strategic Cooperation between China and Kazakhstan in the 21st Century" agreement was signed (Əsgərov, 2014). With these agreements, it was envisaged to build the Atasu-Alashankau oil pipeline between the two countries and to implement the Trans-Kazakhstan railway project between the two countries, thus ensuring the shipment of oil to the Uyghur-Xinjiang region of China via this route. In addition, Kazakhstan's "SNPS-Aktobemunaygaz" and "PetroKazakhstan" oil companies were purchased by Chinese companies. It was decided that the "Kenkiyak-Atirau", "Atasu-Alashankoy" oil pipelines would be financed by China, and the "Kenkiyak-Aralsk-Kumkol" oil route project, the construction of which started in 2009, started operating in 2011 (Jiznin & Quliyev, 2012).

The largest and most productive oil and natural gas fields of the Caspian region are concentrated in the southern region of the Caspian, especially in a region extending to the Tengiz region of Kazakhstan. It is known that the most productive fields today are the Tengiz and Karacahanak regions of Kazakhstan. Unlike Azerbaijan, oil in Kazakhstan consists of both offshore and onshore reserves.

In addition to the Tengiz region, which is the tenth largest oil field in the world with a reserve amount of 6-7 billion barrels, the approximately 10 billion barrel reserves found in the Karacahanak region in recent years have made this field the largest oil reserve in the world (Acar, 2013). Therefore, according to BP Amoco's 1999 determinations, Kazakhstan's total producible oil reserves were over 8 billion barrels, while according to the International Energy Agency's 2000 reports, they were 10 billion barrels. However, it should be noted that Kazakh oil has a reserve of over 20 billion barrels as a result of the ongoing oil exploration in the Karacahanak field. Kazakhstan, which is within the CIS, is also included in the Shanghai Five (Kyrgyzstan, Tajikistan and Uzbekistan (2001)), which was established in 1996 and includes China (Baycaunova, 2000, p. 253).

• Since the oil volume coming from the Tengiz Field is also taken into account, it is expected that the process of increasing the capacity of the CPC Pipeline from 35 million tons/year to 67 million tons/year will be completed by the end of the year.

• Kazakhstan aims to produce 77 million tons of oil in total in 2016.

• In 2015, it produced a total of 79.4 million tons of oil and 45.3 billion m<sup>3</sup> of gas. This shows that the decline in oil prices did not affect production expectations much.

• 38 million tons of this oil produced was exported to the world markets via the CPC pipeline, 12.4 million tons to the world markets via the Atyrau-Samara Pipeline, and 4.8 million tons to the Chinese markets.

• The capacity of the Atyrau-Samara Pipeline is planned to be increased from 30 billion m<sup>3</sup> to 35 billion m<sup>3</sup> in 2017. Of course, one of the main factors of all these plans will be oil prices.

• It is predicted that oil production will increase to around 130 million tons in 2020, especially with the Kashagan Field being put into production.

It is estimated that Kazakhstan has 39.8 billion barrels of oil and 2.4 trillion cubic meters of natural gas reserves. A new (American and Kazakh partnership) company called Tengizchevroil, established within the framework of joint investment agreements with Chevron, has undertaken the operation of Tengiz oil. It is worth noting that Tengizchevroil, which alone produces approximately 50 % of Kazakhstan's oil production, has a production capacity approaching half a million barrels per day (Derman & Ongarova, 2014). In this initiative, the Kazakh oil company Tengizneftgaz and Chevron are half-partnered, and an estimated 6-7 billion barrels of Tengiz and Korolev fields will be developed over 40 years and oil will be explored in a field of 4 thousand km<sup>2</sup> (Sultanov, 2012).

On December 14, 2009, Kazakhstan leader N. Nazarbayev; He went to Turkmenabat city of Turkmenistan with the leaders of Turkmenistan, China and Uzbekistan and attended the opening ceremony of the "Turkmenistan-Uzbekistan-Kazakhstan-China" gas pipeline. The gas pipeline will pass through the territory of these four countries. The general length of the line is 7000 km. (188 km in Turkmenistan, 525 km in Uzbekistan, 1293 km in Kazakhstan and 4860 km in China) (Karagül, Kizilkaya, & Kaya, 2016). N. Nazarbayev said the following at the opening ceremony of the gas pipeline: "The gas pipeline will connect the mineral deposits of Turkmenistan, Uzbekistan and Kazakhstan. This line has strategic importance for the Chinese and Central Asian markets and the future of the economy of the entire region. "The implementation of the Turkmenistan-Uzbekistan-Kazakhstan-China gas pipeline will respond to the interests of all participating parties (Dikkaya & Mehmet, 1999/2000)".

### Conclusion

The comparative analysis shows that energy contracts and legal enforcement mechanisms in the Caspian region are of great importance for Azerbaijan and Kazakhstan. International agreements such as the "Contract of the Century" of Azerbaijan have had a great impact on the economic development of the country. At the same time, Kazakhstan has a significant position in the global energy market with its rich energy resources and international cooperation strategies. Kazakhstan's proven hydrocarbon reserves make it a leader in terms of energy resources in the Caspian region.

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