



## ANALYSIS

# **ENERGY COOPERATION BETWEEN AZERBAIJAN AND EU: RECENT DEVELOPMENTS AND ACHIEVEMENTS**

The current energy crisis in Europe has changed the traditional energy map of the continent. Most European countries are net importers of fossil fuels, and the ongoing Russia–Ukraine war has strongly impacted global energy markets, posing serious challenges for European energy consumers. European countries have already started to look for alternative energy supplies from reliable energy partners.

European dependence on Russian natural gas differs significantly by country, therefore, since the outbreak of the Russia–Ukraine war, the volatility in the European energy markets has impacted EU member states differently, depending on their energy mix. The diversification of gas supplies and routes will contribute positively to the security of energy supplies. To this end, the export of Azerbaijani natural gas to Europe via the inter-regional Southern Gas Corridor (SGC) project has become highly important for Europe's energy security. Azerbaijan is a strategic energy partner for the EU. Azerbaijan is gradually increasing its gas exports as in 2021, the country exported around 19 bcm of gas, in 2022 this number was equal to 22.6 bcm, and in 2023 gas export is expected to be around 24.5 bcm.

In recent years, the EU and Azerbaijan have started intensive negotiations on increasing natural gas exports as well as developing green energy cooperation. EU and Azerbaijan signed the “Memorandum of Understanding on a Strategic Partnership in the Field of Energy” on July 18, 2022. In this, the parties agreed to increase the share of Azerbaijani natural gas transmitted to Europe via the Trans Adriatic Pipeline (TAP) as soon as possible and reach at least 20 bcm per year by 2027. Azerbaijan will slightly increase its natural gas exports to Europe this year to reach “at least” 11.6 bcm.

After signing of this important document, many EU MSs aim to buy the Azerbaijani gas and diversify energy sources and supply routes. For instance, Hungary, Romania, Serbia, Albania and others are interested in buying Azerbaijani gas as soon as possible. Towards this end, Hungary is interested in deepening energy cooperation with Azerbaijan to buy around 1-2 bcm of gas. In view of developments

in Hungary, during a recent official visit, Mikayil Jabbarov, Minister of Economy of Azerbaijan, and Minister Péter Szijjártó signed a “Memorandum of Understanding on Natural Gas Cooperation between the Ministry of Economy of the Republic of Azerbaijan and Ministry of Foreign Affairs and Trade of Hungary.”

Moreover, Azerbaijan and Romania signed an agreement on gas supply the last year. According to agreement between SOCAR and Romgaz S.A., the supply of Azerbaijani natural gas starts from January, 2023. This agreement was short-term spot contact which envisages to supply around 300 million cubic meters of gas from SOCAR from January 1 to April 1, 2023. Azerbaijan and Romania signed another gas purchase contract of February 2023 to buy additional volumes of Azeri gas during 2023-2024 years. According to agreement up to 1 bcm of gas will be delivered from Azerbaijan to Romania in 2023-2024. By this, Romania has joined the Southern Gas Corridor and diversifies its supply sources.

It should be underlined that the TAP is the strategic energy project which supports Europe's diversification efforts. It also supports Europe's initiative to develop gas Interconnectors across Europe. To this end, the opening of Gas Interconnector Greece-Bulgaria (IGB) on October, 2022 in Sofia is another important development which will further support diversification of supplies in Europe. It will enable the diversification of imported gas supplies through Greece, including complementary supply sources from the Caspian, the Middle East, the eastern Mediterranean, and LNG supply via new and existing terminals in Greece and/or Turkey. At the same time, the existence of this interconnector strengthens the position of Azerbaijan. With the launch of the IGB project, Bulgaria can also become an energy hub, because states such as Serbia, Romania, and North Macedonia are very interested in the purchase of Azerbaijani natural gas. In fact, the IGB project is supported by the Trans-European Networks for Energy, and it is a project of common interest and a priority project under the Central and South Eastern Europe Energy Connectivity High-Level Group.

Meanwhile, renewable energy sources are also important for EU, and on 18 May 2022, the European Commission published the REPowerEU plan, which is based on three pillars: saving energy, producing clean energy and diversifying the EU's energy supplies. As part of its scaling up of renewable energy in power generation, industry, buildings and transport, the Commission proposes to increase the target in the directive to 45% by 2030. Thus, supporting green energy initiatives in Azerbaijan will strengthen mutually beneficial cooperation between parties.

To this end, the signed “MoU on a Strategic Partnership in the Field of Energy” that also opened up new opportunities for the development of green energy and electricity transmission between Europe and Azerbaijan. The tremendous green energy potential of Azerbaijan is the basis for creating a renewable energy platform between Europe and the region. Azerbaijan's renewable energy potential is about 157 gigawatts of offshore wind in the Azerbaijani sector of the Caspian Sea, 27 gigawatts of onshore wind and solar as well as 10 gigawatts of the potential of wind and solar in Karabakh region. In addition, there is huge potential in the Nakhchivan Autonomous Republic to develop solar power stations.

On December 17, 2022, at the Bucharest plenary meeting, where Azerbaijan, Georgia, Romania, and Hungary signed an “Agreement on Strategic Partnership on Green Energy” supports effective long-term green energy cooperation. This agreement envisages the export of electricity from Azerbaijan via an underwater electric cable under the Black Sea from Georgia to southeastern Europe. Azerbaijan will be not only an exporter of fossil fuels, but also of green energy to the EU via Romania and Hungary. This green energy deal is highly important for Romania and Hungary as the electricity mix of these countries, especially Hungary, mainly relies on fossil fuel. Therefore, imports from Azerbaijan will allow them to balance electricity mix by reducing natural gas for the electricity production.

It is also favorable for Azerbaijan to support green energy projects in order to diversify its energy production. In recent years, the country has started sustainable development in the energy sector through the creation of green energy zones and the gradual process of decarbonization. Renewable energy production in the country aims to support a sustainable energy future by producing more electricity from renewable energy sources. This process will be an important target to decrease the use of natural gas in electricity production and further its export to Europe. In this regard, two important renewable energy projects were signed with Saudi Arabia’s ACWA Power and United Arab Emirates’ (UAE) Masdar energy companies. The 230 MW solar power plant to be built by Masdar and 240 MW Khizi-Absheron wind power plant to be built by ACWA Power will support the sustainable energy future and green energy export potential of the country. Also, one project - 240 megawatts solar power plant is planned with bp in Jabrayil district. All these projects will play an important role in increasing the share of renewable energy sources in the country’s energy system up to 30 percent by 2030.

It is clear that all signed documents between EU member states and Azerbaijan show strategic partnership, and great opportunity to further develop bilateral relations. Touching upon successful energy cooperation between Azerbaijan and EU, it is important to underline the role of the Southern Gas Corridor Advisory Council, which was established in 2013 by the President of the Republic of Azerbaijan. One of the main aims of the Advisory Council was efficient implementation of all measures related to transportation of Azerbaijani natural gas to Europe along the Southern Gas Corridor.

This year’s the Southern Gas Corridor Advisory Council 9th Ministerial Meeting and the Green Energy Advisory Council 1st Ministerial Meeting held on 3 February, 2023 in Baku reaffirmed the strategic energy partnership between Azerbaijan and the EU. It is worth noting that the Green Energy Advisory Council Ministerial meeting was held for the first time under umbrella of Southern Gas Corridor Advisory Council. The first meeting of the Steering Committee on the implementation of the “Agreement on a strategic partnership in the field of green energy between the Governments of Azerbaijan, Georgia, Hungary and Romania” as part of the Advisory Council further strengthened green deal initiatives between these countries. The plenary session the “Green Energy: Delivery of Caspian Sea Wind Energy to European Energy Markets” was very important to discuss future plans in this direction. It opened up new opportunities for all involved partners to develop further green energy deals. In brief, Azerbaijan initiated green platform between the South Caucasus and Europe.

It should be specially underlined that the Southern Gas Corridor Advisory Council was a very important step towards the future cooperation between the countries involved. This important meeting also happened after January announcement of the managing director of the TAP about the start of the process to increase the pipeline's capacity. TAP AG, has confirmed that it will trigger the first level of capacity expansion, following the completion of the first binding bidding phase of the 2021 Market Test. So, the second binding phase is expected during 2023. Also, EU and Azerbaijan agreed to support future development of renewable hydrogen, and TAP official confirmed that new volumes of hydrogen and other renewable gases could also be transported through TAP's capacity expansion to foster long-term sustainability and enable energy transition in the region.

In the end, today, Europe's energy system urgently needs diversification of sources and routes, and it is also noteworthy that both natural gas and electricity exports from Azerbaijan to Europe will contribute to continent's sustainable development and energy security. For Europe, first of all, TAP pipeline is a diversification of gas sources and supply routes. Azerbaijani gas supplies will reach South Eastern, Central and Western Europe, and those regions have high gas dependence on a few suppliers. Another point is green energy from Azerbaijan. As noted above, Azerbaijan has huge potential to support European Green Deal initiatives, therefore the Green Energy Advisory Council 1st Ministerial Meeting strengthened the backbone of future cooperation. Both electricity and renewable hydrogen will be important source of energy from Azerbaijan to Europe. Last but not least, for Azerbaijan, exporting both natural gas and green energy to Europe, is beneficial as the country aims to deepen strategic partnership with the EU.

**Author:**

**Shahmar Hajiiev, senior advisor at the Center of Analysis of International Relations (AIR Center)**