



ANALYSIS

The European Union's Energy Security and the
Importance of the Southern Gas Corridor

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About the AIR Center

Established in Baku, Azerbaijan in 2019 the Center of Analysis of International Relations is a think tank, which provides strategic insights and policy recommendations on international affairs, thus making decision-makers, as well as experts in the field better equipped in analyzing outstanding issues. Our mission is to conduct comprehensive analysis of global and regional processes and expand the scope of activities aimed at raising the international community's awareness of Azerbaijan's foreign policy priorities, particularly the Armenia-Azerbaijan conflict and regional security.

Illustrations

Figure 1: Primary energy consumption in 2018

Figure 2: EU natural gas dependence

Image 1: South Stream pipeline

Image 2: TurkStream Offshore Pipeline

Image 3: Nord Stream 2 route

Image 4: EastMed pipeline

Image 5: Southern Gas Corridor

Acronyms and Abbreviations

EU	European Union
EC	European Commission
MSs	Member States
LNG	Liquefied Natural Gas
bcm/a	Billion cubic meters per annum
US	The United States
EastMed	Eastern Mediterranean pipeline
TANAP	Trans-Anatolian Natural Gas Pipeline
TAP	Trans Adriatic Pipeline
SD Stage	Shah Deniz Stage
SGC	Southern Gas Corridor

1. Summary

Today, one of the main concerns for the European Union is energy security and how to address any challenges in this direction. The EU has several concerns regarding energy security, primarily the high dependency on external energy suppliers from the Middle East, Africa and Russia. High dependency on a few energy suppliers may threaten the energy market due to increased vulnerability. With this in mind, the core objectives of the EU energy policy are to make the energy supply sustainable, competitive and secure. Thus, basic elements in promoting long term EU energy security, must include, the diversification of suppliers, supply routes and the establishment of a strong common energy market. Therefore, the main strategic objective of the EU in ensuring energy security is supporting multiple projects that seek to accomplish the goals of EU energy policy. Additionally, a close cooperation is needed with the Middle East and especially the Caspian Sea region—a key point in supplying the EU with natural gas from the Caspian Sea and Central Asia.

2. EU Energy Policy

Energy and politics are interconnected because an effective dialogue is needed between energy producers and consumers to ensure transit of supplies. According to the 2020 energy strategy, the EU aims to acquire energy security for the Union, and become an energy-efficient, low carbon economy. Thus, the key objectives are an energy policy that combats climate change, increases the EU's energy security and strengthens its competitiveness. Another important target of the strategy is sustainable and inclusive growth, working towards achieving “green” growth in Europe. In this context, the 20% renewable energy target is predicted to create additional jobs, constituting the growth aspect.¹

Also, the Energy Union adopted by the European Commission aims to provide households and businesses with secure, sustainable, competitive and affordable energy. Analyzing the main principle of the strategy, one can emphasize the following five closely interrelated and mutually reinforcing dimensions²:

- Energy security, solidarity and trust
- A fully-integrated internal energy market:
- Energy efficiency contributing to moderation of demand:
- Decarbonizing the economy:
- Research, innovation and competitiveness:

Conclusively, the main priorities of the EU common energy policy are the diversification of sources, development of an internal energy market, financially sustainable and affordable energy, a decrease on import dependency and a sustainable and low carbon economy that supports the use of renewable energy, and attracts investments.

3. EU Energy Mix

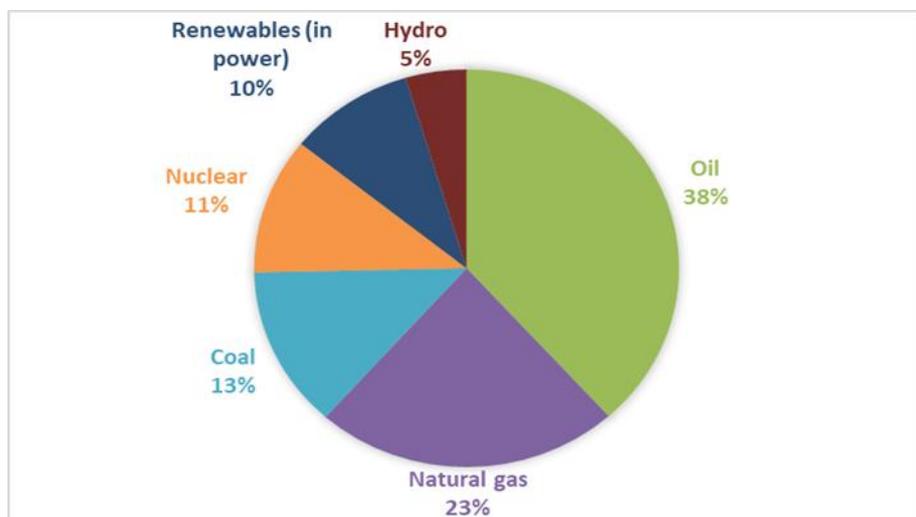
The EU is an important political and economic entity, and when discussing the EU energy market, it is critical to note that the majority of the EU member states depend on external energy imports.

¹ <https://ec.europa.eu/energy/en/energy-strategy/2020-energy-strategy>

² <https://ec.europa.eu/eurostat/cache/infographs/energy/bloc-1.html>

EU Energy imports are sourced from a few regions, creating a high dependence on a few suppliers. This situation is very volatile and leaves the Union's energy security open to threat.

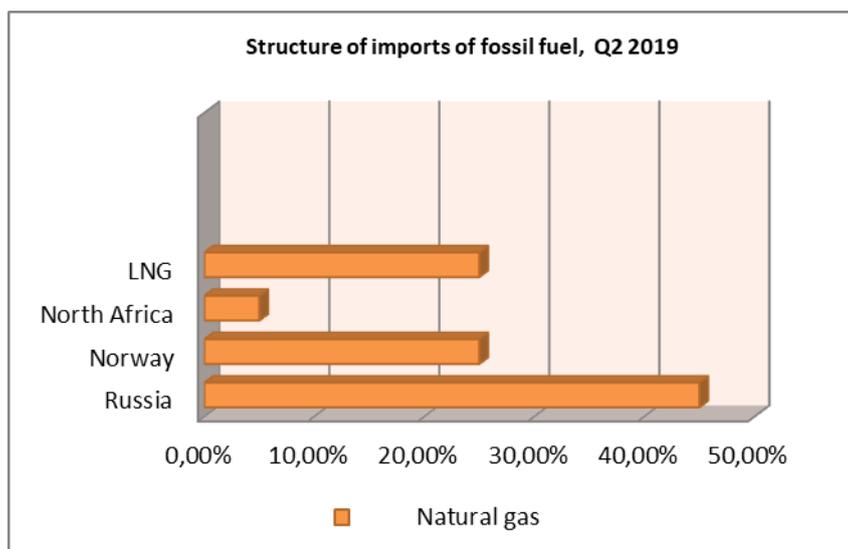
Figure 1: Primary energy consumption in 2018



Source: bp.com/statsreview, 2019

Figure 1 shows the main energy consumption by the EU. In 2018 oil and petroleum consumption contained the largest share; however, the share of natural gas and renewables is growing gradually.

Figure 2: EU natural gas dependence



Source: <https://ec.europa.eu/> and own construction

As one can see from the figure above, in 2019 the main gas exporter to the EU was Russia. Following Russia in pipeline supplies was Norway with 25% and North Africa with 5% whilst LNG imports comprised 25% of total natural gas imports for the EU.³

As Russia is the largest exporter, we can also divide EU MSs into three respective groups according to their import dependence on the Russian natural gas⁴.

- High import ratio like Germany (58.5 bcm/a in 2018).
- Medium import ratio like Austria (12.3 bcm/a in 2018)
- Low import ratio like Bulgaria (3.17 bcm/a in 2018)

Although Germany has the highest import ratio, the energy market of the country does not depend fully on the Russian supplies. Germany also imports energy from Norway, Netherlands, Denmark and Great Britain. However, the other groups depend almost entirely on Russian energy supplies. For example, Bulgaria met all its energy needs using Russian gas.

It is also worth noting that the EU aims to decarbonize the economy, and some EU MSs plan to shut down all nuclear and coal power plants. Due to this, the share of natural gas and renewables will be much higher in the future. EU MSs will need both new pipeline sources and Liquefied Natural Gas to meet growing demand. The growing share of natural gas will require new sources, and thus a diversification of supply routes. Specifically, the share of LNG supply to Europe is growing year by year. It should be mentioned that EU LNG imports showed a huge increase, up by 102% year-on-year in the second quarter of 2019. US LNG supplies to Europe increased following a joint statement issued by the United States' President Donald Trump and the European Commission President Jean-Claude Juncker on further energy links between the EU and the USA. Between July 2018 and March 2019, US LNG imports into the EU rose by 181%. 2019 saw a number of further initiatives to encourage US-to-Europe LNG trade, including the 1st EU-US Energy Council B2B Energy Forum in Brussels on 2 May 2019. US Deputy Secretary of Energy Dan Brouillette's also participated in a German LNG Conference in Berlin. So far, Europe accounts for one third of LNG exports from the US. It is estimated that in the first five months of 2019, about 40% of US LNG exports went to Europe.⁵

In the second quarter of 2019 the three most important LNG suppliers to Europe were Qatar (30% of all LNG imports), Russia (19%) and the US (12%). EU countries France and Portugal import LNG mainly through Nigeria, while Belgium, Poland, Italy and the UK import more than 80% of LNG through Qatar.⁶

In general, the increased use of LNG is mainly due to the increased US market share in energy markets. The share of LNG in the European energy market will largely depend on the demand and prices for LNG in the global energy markets. Further, additional supplies of LNG to Europe will boost the diversification of the European natural gas market and ensure energy security.

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https://ec.europa.eu/energy/sites/ener/files/documents/quarterly_report_on_european_gas_markets_q2_2019_final_v1.pdf

⁴ <http://www.gazpromexport.ru/en/statistics/>

⁵ <https://www.energylegalblog.com/blog/2019/09/16/lng-europe-current-trends-european-lng-landscape-and-country-focus>

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https://ec.europa.eu/energy/sites/ener/files/documents/quarterly_report_on_european_gas_markets_q2_2019_final_v1.pdf

4. Natural Gas Projects

As mentioned above, the EU will need additional sources to meet the demand for energy. Pipeline politics play an important role in this, as exporting energy resources from producer to consumer involves different players, each defending their own interests. Russia is the main energy player in the EU energy market, and has intended to build and has finalized several natural gas pipelines. These projects are an attempt to maintain Russia's dominance on the European energy market. It is indisputable that these projects play an important role for Russia, as through these projects Moscow gains economic and political leverage over Europe.

One of the major proposed natural gas projects of Russia was the South Stream gas project which would have had a transmission capacity of 63 billion cubic meters per year. The project to construct the new South Stream pipeline was announced in June 2007 to deliver Russian natural gas through the Black Sea via Bulgaria and then through Serbia and Hungary to the Baumgarten gas distribution center in Austria.⁷ To justify this project, Gazprom argued that the transit of natural gas to Europe via Ukraine is insecure and unstable.

Image 1: South Stream pipeline



Source: Euractiv.com

This project was a political competition between Moscow and Brussels. Thus, the main aim of the project was to transport Russian gas directly to Europe, bypassing Ukraine, and in doing this cut revenues from gas transit, strengthening Russian "leverage" over Ukraine. It should be emphasized that Ukraine has a significant stake in the supply of Russian natural gas to European energy consumers. In 2018 Russia transported about 87 billion cubic meters of natural gas to Europe via the Ukrainian transit route. As a result, Ukraine receives about \$3 billion a year as a transit fee, which is very important for the economy.⁸

A key feature of the South Stream pipeline was that the pipeline would have been divided into separate sections for each country. The project was intended to be managed by joint ventures between Gazprom and the national gas companies of the participating countries. The joint ventures were to fund, build and operate the South Stream pipeline in each country.⁹ The main purpose of Russia's Gazprom was to become both a natural gas supplier and an owner and operator of large

⁷ <https://www.hydrocarbons-technology.com/projects/southstream/>

⁸ <https://www.brookings.edu/blog/order-from-chaos/2019/08/30/heading-for-another-ukraine-russia-gas-fight/>

⁹ <https://www.gazprom.com/press/news/2013/november/article178376/>

energy infrastructure in Europe. Taking into account these developments, the EC stated that the agreements signed between Russia and the project partners were not supported by European legislation. The EC described the establishment of joint ventures as a violation of the EU's competition rules. As a result, in 2014 the Bulgarian government refused to participate in the South Stream gas pipeline project.¹⁰ With this decision by the Bulgarian government, the South Stream Project became “dead”, and Russia started to seek other options to compensate for the South Stream pipeline.

In 2014, Russian President Vladimir Putin stated that the cancellation of the South Stream gas pipeline was due to the Bulgarian government's failure to guarantee the pipeline construction. From that time Russia began a more dynamic energy cooperation with Turkey to build the TurkStream pipeline with a capacity of 31.5 bcm/a. The TurkStream pipeline project compensates for the canceled South Stream Project, as Gazprom will supply natural gas both to the Turkish domestic energy market and to Europe via Turkey.¹¹ By doing this, Gazprom establishes a center for southern and southeastern Europe by transporting natural gas to the Turkish-Greek border. Evidently, the TurkStream project can be viewed as strengthening Moscow's position in the European gas market.

Image 2: The TurkStream Offshore Pipeline



Source: www.turkstream.info

Gazprom began constructing the offshore section of the TurkStream gas pipeline in 2017, and on January 8, 2020, the TurkStream pipeline was officially launched in Istanbul with the participation of Russian President Vladimir Putin and Turkish President Recep Tayyip Erdogan. The 930-km-long pipeline with a 31.5 bcm/a capacity, through the Black Sea, aims to diversify the Russian gas supply to the European gas market.¹² This project connects Russia's rich gas reserves to Turkey's natural gas network, and with this project, Turkey both meets energy needs and becomes a transit country.

The TurkStream project, which consists of two pipelines, will initially supply 15.75 bcm/a to the Turkish domestic market. After the start of the second phase in mid-2020, the pipeline will supply

¹⁰ <https://ec.europa.eu/energy/en/topics/markets-and-consumers/market-legislation>

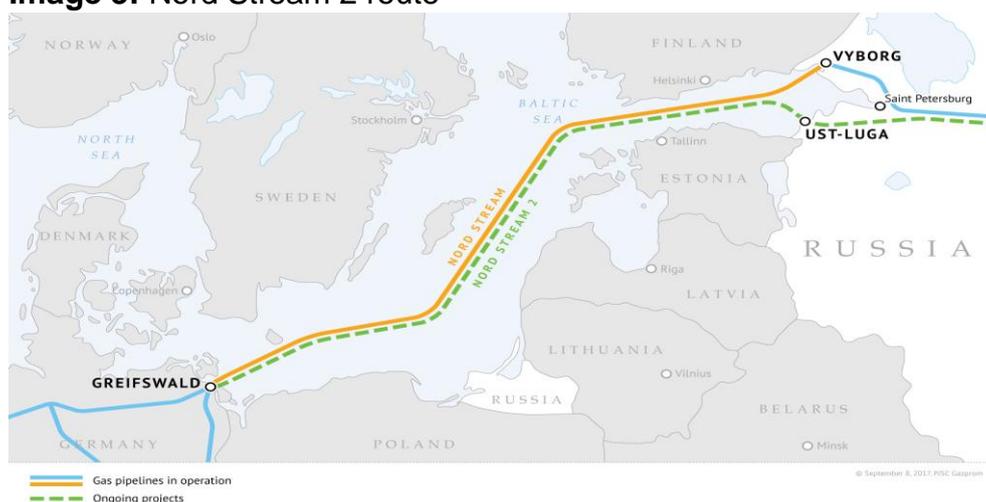
¹¹ <https://www.gazprom.com/projects/turk-stream/>

¹² <https://www.gazprom.com/press/news/2020/january/article497324/>

15.75 bcm/a of gas to the European consumers. Notably, as Turkey is the second-largest buyer of Russian gas after Germany, and is highly dependent on energy imports, this pipeline is crucial for the Turkish energy market. Indicatively, Turkey exported 23.96 bcm/a of natural gas from Russia in 2018.¹³ It should be specifically noted that the energy cooperation between Turkey and Russia creates favorable geopolitical conditions for Russia. Gazprom will be able to supply natural gas to Europe via TurkStream, and increase the share of Russian gas in the European energy market.

Another energy project that Moscow is attempting to implement and that has caused a conflict—mainly between the US and Russia—is the Nord Stream 2 gas pipeline project. This project consists of a new export gas pipeline running from Russia to Europe across the Baltic Sea. The 1,200-kilometer pipeline route starts from Ust-Luga in Russia and ends in the Greifswald area in Germany. The Nord Stream 2 project plans to transport approximately 55 bcm/a of natural gas per year directly to European consumers.¹⁴ This project will allow Gazprom to export natural gas directly to Germany through the Baltic Sea. As Germany is the largest gas importer, it is a very important project for Moscow. Currently, the main transit countries of Russian gas are Ukraine, Poland, and the Baltic States.

Image 3: Nord Stream 2 route



Source: www.gazprom.com

In 2018, pipelaying operations started in the Baltic Sea, and were planned to finish by 2019, however, the project has not been completed as the US has imposed sanctions against the project. Illustrating that competition in the European energy market has recently become a serious confrontation between Moscow and Washington. Various economic sanctions and tough positions from the EU and the US have forced Moscow to either cancel or delay energy projects.

As mentioned above, being the largest Russian gas consumer Germany is interested in Nord Stream 2. In 2018, Germany imported 58.5 bcm/a of natural gas from Russia.¹⁵ The main objective of the Nord Stream 2 pipeline for Germany is to meet the country's growing energy demand, gradually phase-out nuclear power and further diversify its energy supply. Even Bundestag has approved changes to the law governing the Nord Stream 2 gas pipeline to make it compliant with European Union regulations. As it is clear, the German-Russian energy union is interested in the

¹³ <http://www.gazpromexport.ru/en/statistics/>

¹⁴ <https://www.gazprom.com/projects/nord-stream2/>

¹⁵ <http://www.gazpromexport.ru/en/statistics/>

implementation of the Nord Stream-2 project. In contrast, this project has also led to confrontation among the EU MSs, particularly the Eastern European countries. Their main concern is Russia's growing dominance, the high energy market dependence on Gazprom, and the loss of the transit role.

One of the major barriers to this project was the Danish government's position on the Nord Stream 2 pipeline. Denmark was the last country to approve the construction of the pipeline route, and in October 2019 Nord Stream 2 AG was granted a permit to construct natural gas pipelines on the Danish continental shelf by the Danish Energy Agency.¹⁶ However, the US imposed sanctions on companies working on the mega Russian gas project. As a result, Swiss-Dutch company Allseas, which was laying the pipeline, suspended its work. The sanctions are unlikely to stop the project, but it will be delayed as Russia is trying to use its special pipe-laying vessel Academic Cherskiy.

As previously stated, the EU is interested in various energy projects to diversify its energy routes. Of course, the main pipeline gas supplier to Europe is Russia, which controls a big market share in Europe. However, other projects are also attractive for the EU, and European countries that cooperate in this area. In January 2020, the governments of Greece, Israel, and Cyprus signed an agreement for the construction of the Eastern Mediterranean undersea pipeline to supply 10 bcm/a of natural gas from the Eastern Mediterranean to Europe. The final investment decision on this project is expected to be reached by 2022, and the pipeline completed by 2025.¹⁷

It should be noted that the EU is interested in the development of Cyprus-Greece-Israel energy cooperation, and welcomed the agreement between parties. The project aims to transport natural gas from Israel via Cyprus to the Greek island of Crete and connect to the European gas infrastructure in Italy.

Image 4: EastMed pipeline



¹⁶ <https://www.reuters.com/article/us-gazprom-nordstream-2/nord-stream-2-clears-major-hurdle-as-denmark-oks-gas-pipeline-idUSKBN1X91KR>

¹⁷ <https://www.reuters.com/article/us-greece-cyprus-israel-pipeline/greece-israel-cyprus-to-sign-eastmed-gas-pipeline-deal-idUSKBN1Z10R5>

Source: <https://greece.greekreporter.com>

The main interest party in the project is Israel, as the country will become an important energy player in the region, as well as gain significant economic benefits by exporting gas to Europe from its rich Tamar and Leviathan gas fields. Additionally, this pipeline will contribute to the further development of Israel's relations with the European countries, and may change the geopolitical landscape in the Middle East. Further, the Israeli-Egyptian energy cooperation may supply natural gas from Egypt's rich Zohr gas field to Europe via Israel in the future.

Importantly, the EastMed pipeline will transport gas to Europe bypassing Turkey. Ankara is against the EastMed project, though the Turkish-Libyan maritime agreement is an important step in Turkey's geopolitical struggle for energy resources in the Eastern Mediterranean. However, Greece, Cyprus, Israel and Egypt have opposed such an agreement.¹⁸ Turkey also has interests in the Mediterranean Sea and has already started oil and gas exploration.

For Turkey the most profitable supply route of the natural gas from the Mediterranean to the European energy market is via Turkey. Though, the Trans-Anatolian Natural Gas Pipeline, one of the main segments of the Southern Gas Corridor, has been completed, and the final segment the Trans Adriatic Pipeline will be finalized soon. The TAP pipeline will deliver Azerbaijani natural gas to Europe via Turkey. It shows that Ankara wants to play a dominant role in the region, as the main transit hub for gas.

5. The Southern Gas Corridor

The EU has a strong interest in energy supplies from the Caspian countries such as Azerbaijan and Turkmenistan in diversifying its natural gas sources. Azerbaijan's role as net gas producing and exporting country is growing due to the discovery of the giant Shah Deniz field with 1.2 trillion cubic meters of gas in the Caspian Sea. SD 1 is the first phase of the field's development, and gas has been produced there since 2006. SD Stage 2 will add a further 16 bcm/a of gas production to the approximately 10 bcm/a produced by SD Stage 1. So, the total production from the SD field may reach 26 bcm/a of gas and up to 120,000 barrels of condensate a day.¹⁹

Image 5: Southern Gas Corridor



Source: <https://www.sgc.az/en>

¹⁸ <https://www.reuters.com/article/us-turkey-libya-eastmed-tensions-explain/turkey-libya-maritime-deal-rattles-east-mediterranean-idUSKBN1YT0JK>

¹⁹ https://www.bp.com/en_az/caspian/operationsprojects/Shahdeniz/SDstage2.html

The Southern Gas Corridor targets to supply natural gas from SD Stage 2 to the European energy consumers. By doing that, this mega energy project will connect the gas supply of the Caspian basin to the European energy markets. The estimated cost of the project is about US\$40 billion.²⁰

The SGC comprises of four projects, those being;

- Operation of Shah Deniz natural gas-condensate field (“SD1” project) and its full-field development (“SD2” project)
- Operation of the South Caucasus Pipeline (“SCP” project) and its expansion (“SCPX” project)
- Construction of the Trans-Anatolian Natural Gas Pipeline (“TANAP” project)
- and construction of the Trans Adriatic Pipeline (“TAP” project) (SD2, SCPX, TANAP and TAP collectively, the “Projects”)

The total length of all segments will be 3,500 km from Baku to the south of Italy through Georgia, Turkey, Greece, and Albania. Azerbaijan has almost completed the construction of the trans-regional SGC to supply Europe with natural gas, and it is clear that the Caspian states have a huge potential in significantly contributing to the energy security of Europe.

It should be noted that as a net natural gas exporter, transit infrastructure is necessary to export Azerbaijani natural gas to the Turkish and the European energy markets. For this reason, the four projects of the SGC are crucial investments and are some of the key factors in the efficient management of energy resources in the country.

In 2019, Azerbaijan and Turkey finalized the final phase of the TANAP pipeline which will carry Azerbaijani gas from SD Stage 2 to Turkey and Europe. The SGC was launched in May 29, 2018, in Baku, and the official inauguration ceremony of TANAP was held in June 2018 in the city of Eskisehir.²¹ TANAP is also important for Turkey because Turkey will meet the growing demand for natural gas and become a transit country. Energy projects turn Turkey into a regional energy hub and increase its geopolitical importance.

The TAP pipeline will start in Greece at the Greek-Turkish border connecting to the TANAP pipeline and crossing Greece, Albania and the Adriatic Sea with its final destination in Italy connecting to the natural gas network of Snam Rete Gas. TAP was selected as the shortest and most direct way to export Azerbaijani gas from the Caspian Sea to European energy consumers. The pipeline will play an important role in the diversification process for the EU. The TAP pipeline is currently moving further into the project construction phase, and at the end of December 2019, 91% of the project was completed. The pipeline aims to launch a binding market test by the second quarter of 2020.

²²

The SGC is planned to deliver Azerbaijan’s natural gas to Europe in 2020. Azerbaijan will not only be able to export natural gas to European and Turkish energy consumers from the SD field, but also from other gas fields via the TANAP pipeline. In general, the Azerbaijan-Turkey energy union is very important for the diversification of European gas supplies and routes. By 2020, in connecting

²⁰ <https://www.sgc.az/en>

²¹ <https://www.euractiv.com/section/azerbaijan/news/turkey-and-azerbaijan-mark-completion-of-tanap-pipeline-to-take-gas-to-europe/>

²² <https://www.tap-ag.com/>

the TANAP pipeline to the TAP pipeline, Azerbaijan will supply 10 bcm/a of natural gas to European natural gas consumers through Greece, Albania and Italy.

So, one can underline that the TANAP and TAP projects are strategic energy projects that support regional cooperation and energy infrastructure. The projects have both economic and geopolitical importance. Key segments of the SGC are included in the “Common Interest Projects” list for a single European energy system approved by the European Commission²³. As mentioned above, various natural gas pipelines have been constructed to deliver natural gas to European energy consumers, and the SGC will play a strategic role as this route will be a new supply source for energy consumers in addition to the Russian energy projects.

After full finalization of the SGC, Azerbaijan will become a leading energy exporter in the region and contribute to the diversification of natural gas supplies and routes. Azerbaijan-Turkey energy projects are vital for the diversification of European gas supplies and routes. By delivering new gas from the Caspian Sea to European energy consumers, Azerbaijan will contribute to the European Union's energy security.

6. Conclusion

The energy security of the EU and how to address those challenges are always key questions. In analyzing the EU energy market, it is clear that the high dependence on imports harms its interest. EU MSs have to give external energy players such as Russia more leverage, and small individual MSs, cannot compete with big energy players.

The Russian Federation as a major natural gas supplier to the European energy market has both economic and political interests. For instance, Germany, the leading economy of the EU has close economic ties with Russia. Germany is Russia's second-largest trading partner after China. Therefore, it should be emphasized that there are always different approaches to energy projects by individual MSs. The examples of the South Stream and Nord Stream 2 projects clearly support the aforementioned.

The analysis of the EU energy mix shows that in the EU energy market, natural gas and petroleum products are dominant, and a high dependence on a few suppliers is not favorable for energy security. Diversification of supplies and routes, as well as close cooperation between MSs will be an effective way to overcome future challenges.

Interconnectors between MSs and LNG terminals and the use of renewable energy sources are effective mechanisms to ensure the energy security of the Union. So far, the share of renewables in energy supply is around 14% and will be increasing in the future. The share of LNG is growing year by year, and analysis shows that the US is interested in the European LNG market. More LNG supplies from the US will boost the diversification of the European natural gas market and ensure energy security.

Finally, it is very important to underline the SGC as a key part in the diversification of energy sources and routes for the EU. The SGC will initially carry 16 bcm/a of Azerbaijani gas - 6 bcm/a to Turkey and 10 bcm/a to Europe, which is important for EU MSs to decrease dependence on the few suppliers. The SGC will especially contribute to energy security of EU MSs with low import ratio of Russian gas, though having full dependence on Russian gas. For instance, Bulgaria and

²³ <https://en.trend.az/business/energy/3142286.html>

Greece have contracts to import 1 billion cubic meters of natural gas from the SGC. Bulgaria imported 3.17 bcm/a of Russian gas in 2018. The Greece-Bulgaria Interconnector, having an initial transmission capacity of 3 bcm/a of gas, will supply Azerbaijani gas to Bulgaria—1 bcm/a of the Azerbaijani gas will meet about one-third of the country's natural gas needs. Turkey as the second biggest importer of Russian gas has also aimed to reduce dependence on the Russian gas with Azerbaijani gas and LNG imports. Given, countries such as Turkey, Greece and Bulgaria will benefit very much from the SGC and LNG sources. Thus, the gas via SGC and the increasing share of LNG will be important sources in the diversification process

Though, these facts clearly show that there is no real competition between Azerbaijan and Russia in the natural gas market of Europe. The total capacity of 16 bcm/a (6 bcm/a for Turkey) of Azerbaijani gas at the initial stage cannot compete with the Russian gas and change the whole picture of the energy market. However, the alternative sources of gas are fundamental for the diversification process. Only with a possible overall capacity of 31 bcm/a in the future, can the SGC take a big share in the European gas market. The EU fully understands this and supports the SGC projects. These projects are also included in the “Common Interest Projects” list for a single European energy system approved by the EC. The main aim of Azerbaijan is to provide reliable, accessible, secular and competitive natural gas supplies from the Caspian Sea to energy consumers in Georgia, Turkey and the EU. Additionally, the provision of gas supplies from other gas fields in the future can be characterized as main aspects of the “energy security” term.

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