

The Increasing role of Azerbaijan in the Energy Security of Europe

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Introduction

The start of the Russia-Ukraine war has significantly affected the global energy market by increasing the prices of the main hydrocarbon resources, such as oil and gas. The sanctions that are being implemented against Russia, especially in its energy sector, increase the impact of the war on energy markets. The war-related crisis in energy markets is more noticeable in Europe, as most of the continent's countries have a high dependence on Russia's energy resources. Because of the war and the implemented sanctions, European countries have had to decrease the import of gas and oil from Russia, which in turn has created problems in domestic markets.

Taking into account the shortage of natural gas and risks related to the country's dependence on Russia, European countries started to look for alternative sources. It raised their interest in Azerbaijan as well. Considering the existence of sustainable and safe infrastructure and Azerbaijan's readiness to increase its gas exports, new agreements were signed between Azerbaijan and European institutions. Azerbaijan also works on increasing its role in the green energy sector of Europe by exporting electricity, and several agreements were also signed in this direction. As a result of the evolving geopolitical situation in Europe, Azerbaijan's role in Europe's energy security is increasing.

Recent developments in the European energy market

Before the start of the Russia-Ukraine war, Russia was the main supplier of oil and petroleum products to European countries. For many years, Russian oil and petroleum products played an important role in the development of the industry in Europe, especially in countries like Germany. According to the International Energy Agency, in 2021, imported natural gas from Russia accounted for around 45% of the European Union's (EU) gas imports and close to 40% of its total gas consumption¹. Also, Russia accounted for 26.9% of the EU's imported crude oil and almost half of its supplies of solid fuel, such as coal. Simultaneously, Europe is the biggest market for Russia's energy exports. According to the US Energy Information Agency, in 2021, up to 75% of Russia's gas exports and 49% of its crude oil exports went to Europe.

However, after the start of the Russia-Ukraine war, European countries began to decrease the import of Russia's energy resources due to political risks and implemented sanctions. On March 8, 2021, the EU announced a plan to end all Russian energy imports by 2030². EU states stopped the import of Russian oil brought in by sea and, starting from February 5, 2023, put a ban on the imports of refined oil products³. The United Kingdom's ban on Russian crude oil and refined products took effect on December 5, 2022. In March of last year, the US banned the imports of

¹ <https://www.iea.org/news/how-europe-can-cut-natural-gas-imports-from-russia-significantly-within-a-year>

² https://ec.europa.eu/commission/presscorner/detail/en/ip_22_1511

³ <https://www.npr.org/2023/02/03/1153833640/europe-russian-oil-products-ban>

crude oil, liquified natural gas, and coal from Russia and restricted investments in Russian energy companies⁴.

Also, from December 2022, the G7 allies agreed to apply a price cap to the imports of crude oil, preventing Russia from earning more than \$60 per barrel⁵. The EU has also prohibited EU vessels from transporting Russian crude oil and petroleum products to third countries. All oil-related restrictions cover almost 90% of Russian oil exports to Europe.

After the implementation of sanctions, a more noticeable change has been observed in the natural gas imports from Russia. In November 2022, the share of Russia in EU natural gas imports fell to 12.9%, compared to 51.3% in January⁶. Instead, the EU increased liquefied natural gas (LNG) imports, which made up about 25.7% of total gas imports in 2022. LNG was mainly supplied by the United States, Qatar, and Nigeria. Currently, Russia is losing about \$175 million a day from fossil fuel exports⁷.

All these sanctions and changes in the structure of the EU's energy market show that the dependence of the European countries on Russia's energy resources is noticeably decreasing. This process also creates a shortage of energy resources, keeping their prices high.

Azerbaijan's increasing role in the European gas market

Along with eliminating their dependence on Russian energy resources, European countries started to find alternative sources of energy, especially natural gas. As we earlier mentioned, the share of LNG in the European energy market is increasing, but it is not enough to compensate all the losses. Thus, along with other resources, European countries are also interested in increasing their gas imports from Azerbaijan.

The active Azerbaijan-Europe cooperation in the energy sector started in 1994, when "The Contract of the Century" was signed between Azerbaijan and leading energy companies around the world, including European companies. The \$7.4 billion agreement involved 11 international oil companies representing seven countries⁸. Moreover, in 2006, the Baku-Tbilisi-Ceyhan pipeline (BTC) became operational, and Azerbaijan started to export its oil to Europe.

The export of Azerbaijani gas to Europe started on December 31, 2020, when the Trans Adriatic Pipeline (TAP), the last part of the Southern Gas Corridor (SGC), became operational⁹. The SGC was founded in 2014 and consists of three parts: Caucasus Pipeline Expansion, Trans-Anatolian Pipeline, and TAP. SGC is a \$33 billion megaproject that aims to increase and diversify European

⁴ <https://www.whitehouse.gov/briefing-room/statements-releases/2022/03/08/fact-sheet-united-states-bans-imports-of-russian-oil-liquefied-natural-gas-and-coal/>

⁵ <https://www.reuters.com/business/energy/g7-led-coalition-sets-price-cap-russian-oil-products-2023-02-04/>

⁶ <https://www.euronews.com/green/2023/02/24/europes-energy-war-in-data-how-have-eu-imports-changed-since-russias-invasion-of-ukraine>

⁷ <https://egyptoil-gas.com/features/one-year-after-russia-ukraine-war-ripple-effects-of-conflict-reshape-global-energy-scene/>

⁸ <https://president.az/en/pages/view/azerbaijan/contract#:~:text=%E2%80%9CThe%20Contract%20of%20the%20Century,oil%20reserves%20at%201%2C072%2C000%2C000%20tons.>

⁹ <https://www.socar.az/en/page/southern-gas-corridor>

energy supply by exporting Azerbaijani gas from the Shah Deniz Gas Condensate Field to Türkiye and the EU.

After the start of the Russia-Ukraine war, within the framework of finding alternative suppliers, the EU started negotiations with Azerbaijan. As a result of these negotiations, on July 22, 2022, the Presidents of the European Commission and Azerbaijan signed a Memorandum of Understanding (MOU) on a Strategic Partnership in the Field of Energy¹⁰. The new MOU includes a commitment to double the level of natural gas exported to the EU through the SGC, up to 20 billion cubic meters (bcm) by 2027. According to the European Commission, the MOU underlines the strategic role of the SGC in the diversification efforts of the EU.

Azerbaijan's efforts in recent years to increase its natural gas exports are yielding positive results. In 2022, the natural gas exports of Azerbaijan increased by more than 3 bcm compared to the previous year and reached 22.6 bcm. It is expected to reach 24.5 bcm in 2023¹¹. According to the EU, at the height of the energy crisis in 2022, the SGC became a crucial source of piped natural gas supply for the EU, as the gas deliveries from Azerbaijan increased by more than 40% compared to 2021 and reached 11.4 bcm¹².

In recent years, several European countries have started to receive gas from Azerbaijan. Bulgaria has already finished an interconnector with Greece that connects it to TAP and currently transports 1 bcm of Azeri gas annually¹³. Serbia, on the other hand, is building a pipeline with Bulgaria for such an option¹⁴. Also, on December 20, 2022, Azerbaijan signed another agreement for exporting natural gas to Romania¹⁵, and starting in January 2023, Romania began to receive Azerbaijani gas. Until April 1, a total of 300 million cubic meters of gas will be supplied. In general, Azerbaijan's natural gas reserves are sufficient for domestic needs and those of its partners for at least another 100 years¹⁶.

Cooperation in green energy

The cooperation of Azerbaijan with the EU in the energy sector is not only limited to exports of natural gas. Along with increasing the gas exports, Azerbaijan also works on projects for exporting electricity to the EU to expand cooperation in the green energy sector. For this purpose, on December 17, 2022, Azerbaijan signed an agreement with Georgia, Romania, and Hungary for the construction of an electric cable that will run under the Black Sea and carry green energy

¹⁰ https://ec.europa.eu/commission/presscorner/detail/en/ip_22_4550

¹¹ <https://balkangreenenergynews.com/azerbaijan-on-track-to-double-gas-exports-to-eu-start-green-energy-supply/#:~:text=Azerbaijan%20plans%20to%20double%20natural,green%20energy%20to%20European%20country,es>.

¹² https://energy.ec.europa.eu/news/commissioner-simson-azerbaijan-co-chair-9th-southern-gas-corridor-advisory-council-2023-02-03_en

¹³ <https://news.az/news/bulgarian-president-serbia-is-getting-access-to-new-sources-of-gas-coming-from-the-southern-gas-corridor>

¹⁴ https://www.azernews.az/oil_and_gas/203191.html

¹⁵ <https://caspiannews.com/news-detail/azerbaijan-boosts-gas-supplies-to-european-markets-2023-2-6-0/#:~:text=In%20December%202022%2C%20Azerbaijan%20and,to%20the%20southeast%20European%20country>.

¹⁶ <https://www.aa.com.tr/en/world/azerbaijan-plans-to-double-gas-exports-by-2027/2805333#:~:text=President%20Ilham%20Aliyev%20says%20Azerbaijan's,partners%20for%20another%20100%20years&text=Baku%20plans%20to%20double%20gas,Ilham%20Aliyev%20said%20on%20Friday>.

from Azerbaijan to Europe¹⁷. This cable is going to become a new power source for the EU, which will help reduce the reliance on Russian energy.

With 1,100 km of length and 1,000 MW of capacity, this cable will connect Azerbaijan with Romania and provide Azeri energy for the rest of the continent. Taking into account the importance of this project, the European Commission plans to spend about \$2.4 billion on the construction of the cable¹⁸. The feasibility study of the project is going to be finished by the end of 2023, and then it would take 3 to 4 years to build the cable.

It is also worth mentioning that the signed MOU between the European Commission and Azerbaijan on a strategic partnership in the field of energy also includes provisions about cooperation in the green energy sector. According to the MoU, the EU and Azerbaijan share the ambition to accelerate the development of renewable energy generation and transmission capacity to fully reap the synergies between the EU's clean energy transition and Azerbaijan's strong, untapped renewable energy potential. In general, Azerbaijan's on-land wind and solar energy resources is more than 27 gigawatts and by 2027, it plans to produce 3 gigawatts of wind and 1 gigawatt of solar energy, 80% of which will be exported¹⁹.

Conclusion

As the European countries started to decrease their dependence on the energy resources of Russia due to political risks and sanctions, they started to look for alternative resources. Despite the fact that the EU increased the LNG imports from countries like the United States, Qatar, and Nigeria, it was not enough to compensate all the losses associated with the decreasing imports from Russia.

Therefore, the EU started negotiations with Azerbaijan for increasing the export of natural gas to Europe, and on July 22, 2022, the European Commission and Azerbaijan signed a new MOU on a Strategic Partnership in the Field of Energy. According to the MOU, until 2027, Azerbaijan will double its gas exports to the EU. Gas exports from Azerbaijan to the EU are already increasing. In 2022, gas deliveries from Azerbaijan to the EU increased by more than 40% compared to the previous year.

In recent years, the interest of the Southeastern European countries in Azerbaijani gas has also increased. Bulgaria has already finished an interconnector with Greece and currently receives 1 bcm of Azeri gas annually. Serbia, on the other hand, is building a pipeline with Bulgaria for such an option. Based on the other signed document, starting in January 2023, Romania began to receive Azerbaijani gas, and until April 1, about 300 million cubic meters of gas will be supplied.

Azerbaijan is also expanding cooperation with the EU in the green energy sector. In 2022, Azerbaijan signed agreement with Georgia, Romania, and Hungary for carrying green energy from Azerbaijan to Europe through the underneath of the Black Sea. All these agreements and processes demonstrate that the role of Azerbaijan in the energy security of Europe is increasing, and in the coming decade, Azerbaijan will become one of the main providers of natural gas and green energy in Europe.

¹⁷ <https://civil.ge/archives/519125>

¹⁸ <https://caspiantpost.com/en/post/news/caspian-region/four-leaders-sign-agreement-to-bring-green-azerbaijani-energy-to-europe>

¹⁹ <https://aze.media/azerbaijan-and-europe-speed-up-the-green-energy-deal/>