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Azerbaijan's Growing Role in Europe's Gas Security

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Abstract

Ensuring Europe's energy security and supply with energy resources primarily means providing natural gas. As is known, natural gas is one of the main resources that Europe imports. The continental countries' need for natural gas is quite large. According to experts' calculations, gas demand in Europe will double in the next decade. Although the total consumption of renewable energy is expected to reach 32 percent by 2030, natural gas will still be of great importance to Europe. Continental nations are trying to diversify gas supplies to Europe to reduce coal use and high greenhouse gas emissions. In this case, the competition for gas supply to the continent increases even more. In energy diversification, the main focus is on intensifying relations with the countries of the Caspian Sea region, that is, Azerbaijan, Kazakhstan and Turkmenistan. Geographically located in the southeast of Russia, the region has a double advantage in terms of laying pipelines that will ensure the transportation of large undiscovered gas and oil reserves directly to Europe.

Keywords: Europe, Azerbaijan, gas, security, alternative, renewable

1. Introduction

The easing of restrictions related to the coronavirus pandemic at the end of 2021, lower domestic renewable energy production due to adverse weather conditions and increased gas demand in Asia have led to higher gas prices. Russia's military intervention in Ukraine has destabilized existing European gas supply chains and led to European economies looking for alternatives to Russian gas imports, resulting in higher gas prices in 2022. By April 2022, fuel imports from non-EU countries were 193 percent higher than in 2021. The EU imports 90 percent of the gas it consumes. In 2021, 45 percent of EU natural gas imports were transported

from the Russian Federation. The vast majority of Russian gas is supplied through pipelines passing through Belarus, Ukraine and Turkey, or through the Nord Stream 1 pipeline, which provides a direct connection to Germany. In 2021, gas imports from Russia amounted to approximately 155 billion cubic meters. (EU gas storage, 2022) In general, the picture of the current location of gas fields gives reason to conclude that Russia will occupy the main place in supplying Europe with gas for a long time. (Feizieva, 2019, p.114) For this reason, Europe is more worried about being supplied with natural gas, not oil, and dependence on Russia.

Russia remains Europe's largest supplier of coal, oil and gas. This poses a particular challenge for European countries that are urgently trying to reduce their energy dependence. Demand for large volumes of natural gas imports will remain high in the short to medium term for the EU, which is promoting the use of renewable energy sources and energy efficiency as part of a long-term solution.

In the long term, Russia will remain the main source of gas, accounting for about a third of Europe's supply requirements. Thus, Europe should diversify its energy supply by providing alternatives to Russian gas. More alternatives mean more choices. Because dependence on a single transport route threatens the uninterrupted gas supply of some European countries due to interruptions. Interruptions in gas supply can be caused by technical or human factors, natural disasters, cyber-attacks and other emerging risks, as well as geopolitical disputes. Diversified natural gas supply, reducing dependence on a dominant supplier, could increase Europe's energy security.

2. Azerbaijan As A Reliable Partner

By exporting hydrocarbon resources to Turkey and European markets at favorable prices and diversified export routes, Azerbaijan has taken its place in these markets and has also started to play an important role in the energy security of the Eurasian space. Recently, Russia, abusing its monopolistic position for political purposes and often testing and putting pressure on importing countries with price increases, has led European countries to look for more reliable partners and efficient energy sources. Azerbaijan's new energy policy in the region created more favorable conditions for those countries than Russia and gave them the opportunity for a reliable, efficient and equal partnership. As a result, European countries turned to the Republic of Azerbaijan to get rid of Russia's energy dependence and ensure their own energy security.

3. Gas potential of Azerbaijan

Studies show that 70 percent of the territory of Azerbaijan is rich in oil and gas resources. So far, 81 oil and gas fields have been discovered in the territory of the Republic of Azerbaijan, and exploitation works are ongoing in 61 of them. (Report, 2014, p.16) 41 fields of hydrocarbon resources are located on land and 20 fields are located in sea territory of the Republic of Azerbaijan. Currently, discovered gas reserves are 2.6 trillion cubic meters, and predicted reserves are 3 trillion cubic meters. Therefore, Azerbaijan will be a reliable supplier of hydrocarbons for more than a hundred years. Gas production with a total volume of 350 billion cubic meters is expected to start soon from the Absheron field. SOCAR is actively developing the Umid-Babak field. (SGC, 2021) Currently, 3 million cubic meters of gas is produced from the Umid field, which has a potential of more than 200 billion cubic meters.

According to experts, one of the main geo-economic tasks facing Azerbaijan's energy policy in the new century is the search for new energy export routes in the region and the world, especially the search for a profitable natural gas sales market, and the continuation of the policy of diversification of energy exports. (Hasanov, 2016, p.88) The successful implementation of the "Contract of the Century" created opportunities for the development of other oil and gas fields in the part of the Caspian Sea belonging to the Azerbaijani sector. One of such projects is the "Shahdeniz", which is considered one of the most promising hydrocarbon fields in the world.

Shahdeniz, located in the Azerbaijani sector of the Caspian Sea and one of the largest gas-condensate fields in the world, is the focus of attention of European countries. The agreement on the exploration, development and production sharing of the "Shahdeniz" field was signed in 1996. (Aliyev, 1998, p.412) It is envisaged that the duration of this agreement, which has a working period of 30 years, can be extended for another 5 years. According to the agreement on the "Shahdeniz" gas field, the South Caucasus Pipeline (SCP) was built to export gas from Azerbaijan to Georgia and Turkey. (Xalq, 2013, p.1) Gas has been exported to Georgia and Turkey since 2006 through the pipeline starting from the Sangachal terminal near Baku within the framework of the first stage of development of the "Shahdeniz" field. The maximum production capacity of "Shahdeniz" facilities is currently more than 20 billion cubic meters per year.

The European Union, which considers the diversification of sources important for ensuring Europe's energy security as a top priority, supports energy projects implemented in

the South Caucasus and interested in bringing the hydrocarbon resources of the Caspian Sea to Europe. The Southern Gas Corridor project, which will increase the continent's energy security by transporting Caspian, Middle Eastern and Eastern Mediterranean gas to European markets, is very important in this regard.

The Southern Gas Corridor project consists of 4 parts:

1. Full-scale development of "Shahdeniz" gas-condensate field;
2. Expansion of the South Caucasus Pipeline (SQPCG);
3. Implementation of the TANAP project;
4. Implementation of TAP.

As a result of the serious efforts of President Ilham Aliyev, in 2011, a Joint Statement was signed between the European Union and Azerbaijan supporting the creation of routes that transport Caspian gas directly to Europe. On December 17, 2013, the State Oil Company of Azerbaijan (SOCAR) and British Petroleum (BP) signed an investment agreement on the operation of the second stage of the "Shahdeniz" project in Baku (BP, 2013) and a Memorandum of Understanding on the Southern Gas Corridor between Azerbaijan, Albania, Croatia and Montenegro. This decision gave impetus to plans for the expansion of the South Caucasus Pipeline passing through the territory of Azerbaijan and Georgia, the construction of the Trans-Anatolian Gas Pipeline through the territory of Turkey, and the Trans-Adriatic Pipeline extending through Greece and Albania to Italy. The foundation of the Southern Gas Corridor project was laid on September 20, 2014, and the project's opening ceremony was held on May 29, 2018. (Minenergy, 2022) Work on the expansion of the South Caucasus Pipeline began in 2013. One of the three segments of the Southern Gas Corridor is the Trans-Anatolian natural gas pipeline project. On October 24, 2011, in the city of Izmir, a protocol of intent was signed between the governments of the Republic of Azerbaijan and the Republic of Turkey, which stipulates that Azerbaijani gas, which will reach an annual capacity of approximately 50 billion cubic meters, will be exported in a safer, more efficient and shorter way, under agreed free transit conditions, to Turkey and through its territory directly to European markets. (Sabah, 2011) Following this, in 2012, the Trans-Anatolian gas export agreement was signed with the participation of the government leaders of Azerbaijan and Turkey, and the two countries agreed on the main conditions for the export of Azerbaijani gas to European markets through the new transnational gas pipeline that will be built through the territory of Turkey.

The project foundation ceremony was held on March 17, 2015 in Kars. With the

implementation of this project, the role of the Republic of Azerbaijan in terms of European energy security has increased. The opening ceremony was held on June 12, 2018 in Eskişehir, Turkey. TANAP, which is part of the Southern Gas Corridor and connects seven countries and many companies, is an indispensable infrastructure project for solving energy security issues today and in the future. The first commercial gas was sent to Turkey through TANAP on June 30, 2018. On November 30, 2019, President Ilham Aliyev, speaking at the opening ceremony of the European part of the TANAP gas pipeline in Ipsala, Edirne province, Turkey, noted that TANAP and the Southern Gas Corridor are both energy security projects. (President.az, 2019)

The Republic of Azerbaijan has finally decided on the Trans-Adriatic Pipeline (TAP) after considering several options for the selection of a pipeline for the delivery of natural gas to Europe from the “Shahdeniz” consortium. For the first time in history, TAP delivered Caspian gas to Europe along the borders of Greece and Turkey. (Euratom, 1957) The total cost of this project, which is 878 kilometers long, is about 4.5 billion euros. Natural gas transported through TAP supplied 33 percent of Bulgaria’s needs, 20 percent of Greece’s and 10.5 percent of Italy’s. As the last segment of the Southern Gas Corridor and of strategic importance, TAP plays an important role in strengthening energy security and diversifying supply by ensuring Europe’s reliable access to a new source of natural gas, and also serves the goals of a carbon-free economy. 10.9 million cubic meters of natural gas were transported to Europe through TAP, which started the flow of natural gas to Europe from December 31, 2020. The completion of the TAP project, the last segment of the Southern Gas Corridor, is a historic achievement.

There are also opportunities to expand the TAP project, the European segment of the Southern Gas Corridor. After the expansion of the Southern Gas Corridor, the full capacity of TAP will be 20 billion cubic meters. The completion of the Southern Gas Corridor will allow Turkmenistan’s gas to reach Europe. Especially against the background of the Ukrainian war, the existence of such a potential has become more important for European states in terms of reducing dependence on Russian energy resources. On the other hand, the EastMed (Eastern Mediterranean Sea) natural gas pipeline, which provides for the transport of Eastern Mediterranean resources to Greece, is planned to be connected to TAP, which will deliver Azerbaijani gas to Europe. The Prime Minister of Italy noted that the EastMed pipeline can be connected to the Trans-Adriatic Pipeline. (Reuters, 2019) Thus, the TAP pipeline is seen as a way to reduce Europe’s overdependence on Russian gas. Especially, taking into account the global energy crisis that took place in the world after the war of aggression started by Russia against Ukraine in early 2022 and the effects of this crisis mainly on the European continent,

the role of Azerbaijan as a reliable partner has increased even more.

4. Azerbaijan's Role in Europe's Gas Security

Energy security was declared one of the three main priorities by the European Council at an informal meeting held in Versailles on March 10-11, 2022. In April 2022, the European Parliament passed a new resolution on Ukraine, demanding an immediate and complete embargo on oil, coal, nuclear fuel and gas imports from Russia and a complete shutdown of the Nord Stream 1/2 pipelines. However, even the full filling of gas reservoirs or the presence of liquefied gas potential is not enough to impose a complete embargo on Russian gas. According to the REPowerEU plan, presented on May 18, 2022, with the aim of reducing dependence on Russian energy resources and diversifying supplies, such a policy needs additional measures, including energy conservation measures and a rapid increase in renewable sources. It is claimed that about two-thirds of Russian gas imports could be replaced by the end of 2022 thanks to gas diversification and reduced energy consumption. The commission estimates that more than 50 billion cubic meters of liquefied natural gas could be imported from the United States, Qatar, Egypt and West Africa, supplemented by approximately 10 billion cubic meters of gas from alternative pipelines in Azerbaijan, Algeria and Norway.

In 2021-2022, the increase in natural gas production in Azerbaijan by more than 28 percent (or 3.4 billion cubic meters) allowed to increase gas supply to the European Union by 3.35 billion cubic meters through TAP. (Gas market report, 2022, p.50) On July 18, 2022, a Memorandum of Understanding was signed between the European Commission and Azerbaijan, which envisages doubling natural gas imports to at least 20 billion cubic meters per year by 2027. The new Memorandum of Understanding has opened a new page in energy cooperation with Azerbaijan, Europe's main partner in its efforts to distance itself from Russia's fuel reserves. Azerbaijan currently supplies more than 8 billion cubic meters of gas per year through the Trans-Adriatic Pipeline. This agreement will increase its transmission capacity to 20 billion cubic meters by 2027. Next year, the import of Azerbaijani gas will already increase to 12 billion cubic meters, which will help compensate for the interruption of Russian gas supplies and will make a significant contribution to Europe's security of supply.

Today, Azerbaijan is discussing with European countries the prospects of exporting "green energy" to Europe, including the possibilities of cooperation in other directions in the field of energy. Azerbaijan shares the EU's ambition to accelerate the transition to clean energy, and the development and deployment of renewable energy production and transmission potential. Azerbaijan has significant renewable energy potential as it is relatively sunny and

windy, as well as has large hydro, biomass, and geothermal resources.

By signing the Memorandum of Understanding, the EU and Azerbaijan undertook to continue cooperation in discussing the prospects for the development of production potential, transportation and trade of renewable hydrogen and other renewable gases. New strategies such as the REPowerEU Plan combine Russia's efforts to reduce dependence on fossil fuels with a commitment to accelerate the green transition. In this context, Azerbaijan acts as a reliable and predictable source of European gas supply. Although in the short term it is ambitious to rely solely on Azerbaijan as the only alternative to Russian gas, in the long term its potential to satisfy Europe's growing interest in green energy is quite large. Azerbaijan is one of the most promising candidates to save Europe at a time when Europe needs new sources of energy supply more than ever in the current energy supply crisis caused by the war in Ukraine.

5. Conclusion

In modern times, the attention of the world's leading energy companies is focused on gas pipelines, which are the main component of energy exchange between the Republic of Azerbaijan and European countries. As mentioned above, the main role here falls on new transnational projects such as "Shahdeniz-2", TANAP and TAP, which aim to directly transport Azerbaijani gas to Europe. In addition to the operation of the TAP pipeline, the Southern Gas Corridor project has actually been completed. For the first time, Azerbaijan began to directly transport its natural gas to the European market, which is the world's largest gas importer. By diversifying its routes through the Southern Gas Corridor, Azerbaijan has increased its important role in strengthening Europe's energy security by transporting natural gas to one of the world's most consumed markets. Natural gas extracted from countries such as Turkmenistan and Kazakhstan, as well as from the Eastern Mediterranean Sea, can be transported to European markets through this project.

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