

Better research, better policy, better reform

CESD | CENTER FOR ECONOMIC
& SOCIAL DEVELOPMENT

Global Think-Tank

Two-tailed Benefits of the Memorandum of Understanding in Energy Field

Emin Mammadov

Researcher

Center for Economic and Social Development (CESD)

44 Jafar Jabbarly str.

Baku, Az1065

AZERBAIJAN

Phone; (99412) 594 36 65

Fax (99412) 594 36 65

Email; info@cesd.az

URL; www.cesd.az

CESD PRESS

July 2022

The European Union recently has been working with key international partners to diversify its energy supplies minimizing the risks to a minimum level and reducing the burden on prices. In the face of the ongoing Russia-Ukraine war that poses severe economic repercussions with obstacles to the energy security of the continental union, the EU is in the way towards the diversification of energy supplies and towards the seek of reliable sources. In this vein, on July 18, 2022 the President of the European Commission Ursula von der Leyen with the President of Azerbaijan Ilham Aliyev signed a new memorandum of Understanding on a Strategic Partnership in the Field of Energy that includes a commitment to double the capacity of the Southern Gas Corridor in the upcoming years.

As stated by Ursula von der Leyen, with this new Memorandum of Understanding, Azerbaijan and the EU are opening a new chapter in the energy cooperation with Azerbaijan, which is deemed to be a key partner in the EU's efforts to diversify away from the dependency on Russian fossil fuels. The new memorandum not only envisages to bolster the existing partnership of both parties, which guarantees stable gas supplies to the EU, it also lays down the foundations of the long-term partnership on energy efficiency and in other directions of mutual interest. The current memorandum plans to expand the delivered gas volumes through the SGC to at least 20 billion cubic meters by 2027. Based on the strengthened energy cooperation, Azerbaijan is increasing its gas exports to the European market with a high probability to account for an expected 12 bcm in 2022. It has been furthermore mentioned that the cooperation goes beyond the energy field taking into account the deployment of renewables that will meet and comply with the requirements of the Paris agreement. The EU and Azerbaijan share the ambition to accelerate the development and deployment of renewable energy generation and transmission capacity to fully

exploit the synergies between the EU's energy transition and Azerbaijan's strong untapped renewable energy potential.

The newly signed memorandum of understanding appears to be of crucial significance both in terms of geopolitical relevance and economic opportunities. With this agreement, the role of Azerbaijan in the EU energy security increases, and the sources of energy revenues are being diversified reaching more customers. Following the start of the Russia-Ukraine war, Azerbaijan increased its gas exports to the EU the most. Compared to the same period in the last year, in the first half of 2022 gas exports to the EU experienced an upsurge of 68.7% from 3.2 bcm to 5.4 bcm. Azerbaijan is the largest trade partner in the region with Europe and the main spot of EU investments. The memorandum of Understanding not only provides Azerbaijan with highly lucrative access to the EU market but also establishes room for long-term beneficial and reliable economic cooperation for both sides taking into consideration the importance of the EU market for Azerbaijan and the importance of reliable Azerbaijani energy sources for the EU.

In political terms, in light of the war in eastern Europe, the geopolitical relevance of the South Caucasus, in particular Azerbaijan, is gaining momentum in the eye of Europe and new countries with the demand for Azerbaijani gas increasingly emerge. Along with the Shahdaniz platform, other five gas platforms are planned to be extracted and exported strengthening the role of Azerbaijan in the energy security of Europe. Apart from the cooperation in the energy field, in general, strategic relations between the union and Azerbaijan are deepening that

stipulates the need for all parties to speed up the process of signing of comprehensive EU-Azerbaijan strategic partnership agreement. The emerging tendencies lay down the foundations to consolidate joint actions in the field of the diversification of the Azerbaijani economy bringing more European companies and enlarging EU investments in Azerbaijan. The new memorandum of understanding is considered to be a remarkable step in the inviolability of territorial integrity and sovereignty of Azerbaijan avoiding negative consequences of regional interests that will guarantee sustainable peace in the Caucasus.

The new strategic agreement between the largest trade ally of Azerbaijan and the strategic energy and trade partner of the European Union comes into the light with mutual benefits for all sides with political implications. With constraints in the EU's energy market, a fundamental question arises concerning the timely supply of Azerbaijan with increasing demand. Based on a collective commitment, both sides need to make joint efforts in a coordinated fashion to accelerate the development and construction of necessary projects to realize the envisaged output.

References

<https://president.az/en/articles/view/56690>

<https://president.az/en/articles/view/56689>

https://energy.ec.europa.eu/eu-azerbaijan-mou-energy-strategic-partnership_en

https://ec.europa.eu/commission/presscorner/detail/en/IP_22_4550

<https://eurasianet.org/azerbaijan-and-eu-agree-to-strategic-energy-partnership>

<https://caspiannews.com/news-detail/azerbaijan-eu-sign-new-energy-partnership-deal-to-increase-gas-supplies-to-europe-2022-7-18-0/>

<https://apa.az/en/official-news/president-energy-projects-promoted-by-azerbaijan-and-supported-by-eu-have-completely-changed-energy-map-of-europe-381044>