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Conference Notes

"The Role of Azerbaijan in the European Energy Security Strategy"

Institut français des relations internationales (IFRI)

Paris, France, April 13, 2012

On April 13 2012, the European Azerbaijan Society (TEAS), the Institut Français des Relations Internationales (IFRI) and the Center for Strategic Studies, under the Azerbaijani President (SAM) co-organized the conference: "The Role of Azerbaijan in the European Energy Security Strategy". Around 90 diplomats, academics and participants from international organizations and the private sector attended the conference at the IFRI headquarters in Paris in order to be briefed about Azerbaijan's role in the European energy sector.

Executive Summary

The Caspian Region has substantial hydrocarbon reserves. Recently, the geopolitical interest in this region became more evident due to international oil and gas companies that are increasingly interested in the Caspian Region: in fact, Azerbaijan is one of the best strategically located places with proven hydrocarbon reserves. The government of Azerbaijan has expressed its willingness to sell its gas to Europe, whereas the European Union is ready to create the necessary political and legal framework to enable the gas deliveries.

A joint declaration was signed between Azerbaijan (President Aliyev) and the European Commission (Jose Manuel Barroso) in January 2011. The Southern Gas Corridor aims at supplying Europe with gas coming directly from the Caspian Basin and the Middle East. It will strengthen the security of supply for European households and the entire industry by diversifying gas sources and routes. Potentially, this might minimize the dependence on few suppliers and potential gas cuts. During the conference at IFRI, the European, Russian and Azerbaijan perspectives were presented by different authors and representatives. Europe wants to secure its gas supply seeking different possible routes. Azerbaijan tries to sell as much volumes of gas as economically advantageous. Russia is eager to keep Gazprom's position very strong in this complex geopolitical game.

Laura Parmigiani, Research Fellow, Center for Energy, IFRI

Gas consumption will most probably increase in the future: Europe actively needs to seek more routes and sources to satisfy its demand. To give an example, Bulgaria and Romania are 100% dependent countries on Russian gas supply. As a consequence, in October 2011, the European Commission proposed an Infrastructure Package which would allow the identification of projects of common interest in key areas such as the Southern Corridor. This will include bringing gas at first from Azerbaijan, then even from Turkmenistan and Middle East countries to the European market. Mrs. Parmigiani made clear that there is an urge for fast development of the Southern Corridor connecting Europe to Azerbaijan due to Europe's internal energy production decline and the EU energy policy regarding the gas infrastructure.

Gulmira Rzayeva, Research Fellow, Center for strategic studies under the President of Azerbaijan

Ms. Rzayeva explained in detail the advantages and disadvantages of different pipelines. Each project considerably differs in terms of strategic importance for gas consuming and producing countries, commercial viability and the market share of Gazprom in South Eastern countries. It is very probable that the final decision to deliver Azeri gas to the South East European market will be made between SEEP and Nabucco West, though TANAP might be a game changer in the Southern Corridor as it will be regulated by international law and will provide the Azerbaijan state owned company SOCAR with a safer route through Turkey. The remaining question is where Azeri gas should go: to the Italian or South Eastern European Market (SEE)? The main criterion of the EU is to reduce Gazprom's market share. It seems logical that Gazprom would not like to see Azeri gas in neither Italian nor SEE destinations. Azerbaijan would face a considerably smaller risk by diversifying its supply with several different SEE countries rather than depending only on a single Italian market.

Konstantin Simonov, Director General of The National Energy Fund, Russia

Sooner or later, Azeri gas will come to the European market. Nevertheless, Mr. Simonov does not consider Azeri gas to be a game changer. The volume of Azeri gas is just 10 bcm comparing with EU demand which will increase up to 600 bcm by 2020. Mr. Simonov also gave a comparison of Russian and Azeri gas prices and concluded that Azeri gas will not be cheaper for Europe both in terms of economic and political price.

Nathalie Komatisch, Vice President Azerbaijan, Total SA

Mrs. Komatisch explained how the company TOTAL contributes to the sustainability of the energy sector and to the development of gas reserves in Azerbaijan. She presented in detail TOTAL's exploratory and production activities in Azerbaijan and mentioned the extensive resources of the Absheron field. The hydrocarbon potential in Azerbaijan has not finished being appreciated and it is expected to have further discoveries. Due to gas and routes diversification needs, there is a strong potential for cooperation with the European Union. In fact, the Azerbaijani market shows a particular attractiveness for European investors, because of the contractual framework for investments which is considered to be transparent and efficient.

Ellio Ruggeri, Head of International Gas Infrastructures within Edison S.p.A.

Mr. Ruggeri believes that the Interconnector-Turkey-Greece-Italy (ITGI) is the only "multidestination" pipeline as it accommodates the possibility to spread the gas coming from Caspian Basin and the Middle East to France, Germany and Austria through the Italy-Greek interconnection and to Bulgaria, Romania, Hungary and Serbia through the Greece-Bulgaria interconnections relatively. ITGI would become an opener of such route. In addition, the ITGI project is fully supported by the Greek-Italian governments which makes all regulation and permitting procedures easier. Mr. Ruggeri claims that ITGI project is the most advanced, secure and multidimensional pipeline compared to the other projects competing for the Azeri gas.

Discussion and Outlook

The participating audience focused its attention mostly on the latest developments of shale gas in Europe and the Israel-Cyprus-Greece energy triangle. Ms. Rzayeva admitted that those are extremely serious challenges that face the Southern Gas Corridor; there might be a real competition for Azeri gas to arrive to Europe. On the contrary, Mr. Simonov was not very optimistic neither about shale gas development nor Israel-Cyprus-Greece gas discoveries pointing out that none of those projects are more realistic to be carried out in the short run than the Southern Corridor ones. In fact, from discoveries to supply, permits have to be granted, pipelines have to be constructed, and the whole process will take quite a few years.

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