



The Importance of South Caucasus Energy Corridor in the Context of the War in Ukraine

By Valeri Chechelashvili

Russia's unprovoked aggression against Ukraine and the ongoing devastating war, among other things, has highlighted the urgent need for diversifying energy supply routes for Europe. It is clear that economic and energy cooperation between the EU and Russia cannot continue as business as usual. Russia cannot be considered a reliable partner anymore, let alone the fact that importing Russian energy equals supporting the Russian war effort. Europe is undergoing a severe test on political unity and its success will depend a lot on its ability to reduce dependence on Russia and find new, sustainable energy sources. The South Caucasus energy corridor can become one of the alternative routes.

Reducing Europe's dependence on Russian oil turned out to be an easier task. An embargo has been imposed, a price limit of \$60 per barrel for Russian oil has been set, and a similar mechanism approval for petroleum products of Russian origin is in progress. As for natural gas, In the year of 2021, Russia produced 510 billion cubic meters, of which 144 billion cubic meters were exported to Europe (40% of European import)ⁱ. To tackle this problem the EU outlined a new strategy focused on the reduction of natural gas consumption, diversifying away from Russian fossil fuels and investing massively in renewables. The strategy has already led to a radical increase of liquefied natural gas imports from the US and Qatar and also in exploring the potential of alternative energy supplies to Europe (which implies the diversification of both sources and pipeline routes).

The South Caucasus energy corridor has already been selected as one of the major alternative routes. Under the terms of the Memorandum of Understanding on Strategic Partnership in

the Field of Energy signed on July 18, 2022 between the EU and Azerbaijan the latter is supposed to raise significantly natural gas supplies to Europe increase (already by the end of 2022 they were to increase to 12 billion cubic meters from 8.1 billion cubic meters in 2021)ⁱⁱ. Also, on 17 December 2022, the leaders of Azerbaijan, Georgia, Hungary, and Romania signed an agreement in Bucharest on Saturday to build an underwater electric cable under the Black Sea. The European Commission committed 2.3 billion euros to the implementation of the project. The 1,100-kilometer cable from Azerbaijan to Romania is to provide Azeri energy for the European continent. It will also benefit Moldova and Ukraine having seen their energy security compromised by Russia's supply cuts and the attacks on critical infrastructure.

As big the current potential of the South Caucasus energy corridor is the development of Trans-Caspian projects would exponentially increase its role as an alternative supply route for Europe.

Legal basis for Transcaspean projects was established by Convention on the Legal Status of the Caspian Seaⁱⁱⁱ signed by five Caspian littoral states on August 12, 2018 and ratified by all, except Iran. Part 1 of Article 14 reads: The Parties may lay submarine cables and pipelines on the bed of the Caspian Sea. This means that theoretically there is a possibility that Iran (alone or with Russia's unofficial support) may try to undermine Trans-Caspian projects. However, strong political support from the West should neutralize such a threat.

Actually, so far, the main obstacle for the development of Trans-Caspian projects has been not as much Iran's resistance but tension between Azerbaijan and Turkmenistan. But starting from 2018 their relations have started to improve and quite a few bilateral agreements have been signed that focus on strengthening cooperation in the transport and transit sector, as well as the fuel and energy sector^{iv}. Also, Azerbaijan and Turkmenistan have agreed on the joint exploration and development of the Dostluk hydrocarbon field in the Caspian Sea (proven reserves - 60 million tons of oil and 100 billion cubic meters of natural gas). Importantly, Turkmenistan has already built a gas pipeline from its natural gas fields to the Caspian Sea shore. More than that, there are already operational gas and oil pipelines in the Caspian Sea. For example, a system connecting the Azerbaijani Azeri-Chirag-Gunashli field (located at a distance of 90 kilometers from the coast), with continental Azerbaijan.

As for the potential investors, interest was expressed by a Consortium of European and Chinese companies, including Edison Technologies GmbH, MMEC Mannesmann GmbH, Air Liquide Global E&C Solutions (EU), together with SINOPEC Engineering Group (China); readiness was expressed to build a 300 km Trans-Caspian gas pipeline along the bottom of the Caspian Sea, connecting Turkmen fields with the Southern Gas Corridor. The plan is to

supply annually 30 billion cubic meters of gas from Turkmenistan to the EU through Azerbaijan for 30 years^v.

As far as Georgia is concerned, it can benefit from these projects in both energy sufficiency and energy security terms. For example, with the transit of 60 billion cubic meters of natural gas, Georgia can cover its own needs; and with a possibility of acquiring some amounts of natural gas at a preferential tariff, can even become a natural gas exporting country. On top of that, Georgia can position itself as even more important transit country, valuable for the EU and part of the EU energy network too. Among other things, this (along with such tool as DCFTA) can play an important role in the Georgia's EU integration process.

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References

ⁱ <https://www.eia.gov/todayinenergy/detail.php?id=53379>

ⁱⁱ <https://kavkazplus.com/en/news.php?id=13482#.Y8VPdnYzaUk>

ⁱⁱⁱ <http://en.kremlin.ru/supplement/5328>

^{iv} <http://en.kremlin.ru/supplement/5328>

^v <https://neftegaz.ru/news/finance/197561-es-gotov-proinvestirovat-stroitelstvo-transkaspiskogo-gazoprovoda/>