

Briefing · November 2024

# Azerbaijan's energy and climate policies dominated by gas export expansion plans

## Key points:

- Azerbaijan is the world's 28th-largest oil and gas producer. It has been increasing exports with gas shipments rising more than 13% in the first seven months of 2024.
- Expanding production comes as European countries continue seeking to reduce dependence on Russian gas.
- Azerbaijan has agreed with the EU to increase gas exports to 20 billion cubic metres (bcm) a year by 2027, up from 11 bcm in 2022, but this agreement is coming under greater scrutiny over concerns of human rights abuses.
- In mid-2024 gas exports began flowing to Slovenia and there are ongoing discussions about supplying Slovakia, Bulgaria and Czech Republic.
- Azerbaijan has been proposed as a transit country for gas via Ukraine once Russia's access to its pipelines expires at the end of the year.
- Azerbaijan is importing Russian gas for its own domestic use, enabling it to meet its export commitments.
- The government has explicitly stated its intention to increase renewable energy so that it can free up gas supplies to export to Europe.
- In July 2024 Elnur Soltanov, the Azerbaijan deputy energy minister and COP29 chief executive said that fossil fuel production could be aligned with a 1.5C pathway and that the focus should be on emissions.

## Azerbaijan's economy is dominated by oil and gas

Azerbaijan is the world's [28th-largest oil and gas producer](#), with production of around 1 million barrels of oil equivalent per day in 2023. The country holds around [0.4% of global oil reserves](#). Between 2000 and 2021 natural gas supply [grew by 128%](#). During the next ten years the country is planning on expanding its gas production from around 37 billion cubic metres (bcm) to [49 bcm in 2033](#). Oil and gas make up [98% of total energy supply, over 90% of exports and one-third of GDP](#). Gas exports increased by [29,290%](#) between 2006 and 2021. According to the energy ministry, exports rose more than 13% in the first seven months of 2024, reaching [7.5 bcm](#) between January and July 2024, up from 6.6 bcm over the same period in 2023. The country is set to increase gas production [by a third](#) over the next decade.

## Europe is Azerbaijan's largest market for gas exports

Europe is a key export market, accounting for more than half of gas sales. Data from the Azerbaijan energy ministry shows that around [11.4 bcm](#) of a total 22.3 bcm of natural gas exports went to the EU in 2022. In 2023 exports to the EU reached [12 bcm](#) out of a total 23.9 bcm.

Russia's invasion of Ukraine increased the EU's goal of finding alternative sources of energy supply. In 2022 the EU and Azerbaijan signed an agreement to increase exports of natural gas to [20 bcm a year by 2027](#). This is now coming under [greater scrutiny from MEPs](#) who cite [human rights abuses](#) as a reason to suspend this agreement. This is [raising diplomatic tensions](#) between Azerbaijan and the EU.

Doubts have been raised about the country's ability to [double its contribution](#) to the EU's gas supplies due to infrastructure and investment shortfalls. However, production is expected to increase at certain locations such as the [Azeri-Chirag-Gunashli](#) and [Umid fields](#). In July 2024 Azerbaijan called on the EU to commit to [longer gas contracts](#) to provide certainty to investors, but was facing reluctance in light of the bloc's climate targets.

Europe's dependence on Azerbaijan's gas continues to evolve:

- In March 2024 the EU and Azerbaijan [reaffirmed their commitment](#) to work together to develop the infrastructure required to increase gas exports through what is known as the Southern Gas Corridor. [Analysts say](#) that significant investment will be needed to develop new gas fields and upgrade infrastructure to enable larger export volumes. Current plans are for the 10-bcm capacity Trans Adriatic Pipeline running between Greece and Italy to [increase its flows by 1.2 bcm per year from 2026](#). There are also plans to build an [electricity cable under the Black Sea](#) to enable Azerbaijan to export electricity to Europe but technical challenges and the [distance to European markets](#) remain obstacles
- Azerbaijan is currently [importing Russian gas for domestic use](#) to enable it to meet its export commitments. Though this policy is likely to come under greater scrutiny from European policymakers in future, in May 2024 EU Energy Commissioner Kadri Simson said this was not against the EU's rules "[because Russian gas is not sanctioned](#)".
- In April 2024 President Ilham Aliyev criticised the [reduced ability of the EU to finance](#) greater gas production through institutions such as the European Investment Bank.
- In May 2024 Slovakia said it would like to [import gas from Azerbaijan](#) to [reduce Russian imports](#). Other countries seeking to increase gas imports include [Bulgaria](#) and the [Czech Republic](#).
- In August 2024 Azerbaijan [began](#) supplying Slovenia with gas following an agreement in July.
- Azerbaijan has been [involved](#) in talks about the potential to extend the deal that sees gas flow from [Russia via Ukraine](#) to European markets beyond the end of 2024. However, Ukraine has said this deal [will not continue](#) and [reported it was in talks](#) about it being a [transit country](#) for gas from Azerbaijan to the EU. Ukraine's incursion into Russia since August 2024 has included taking control of the Sudzha interconnection point, a [major gas distribution hub](#).

## SOCAR deals support growing production

The state oil company SOCAR is involved in increasing [exports to Europe](#) and has been expanding its operations alongside global majors, including [Gazprom](#). Fossil fuel companies are forecast to invest more than [USD 41 billion](#) into the country's gas fields. Recent deals include:

- Agreement with Russian firm [Tatneft](#) on oil extraction and petrochemicals development signed in March 2024.
- [Contracts](#) signed in June 2024 to advance a March 2024 deal with Kazakhstan's national oil company [KazMunayGas](#) to increase [shipments](#) of oil [across Azerbaijan](#)

towards Turkey and Europe. The two companies also agreed to partner on [geological exploration](#) in Kazakhstan.

- [Acquisition Equinor's assets](#) in the country in December 2023.
- Loan of \$1.5 billion from [Lukoil](#) to enable its refinery in Turkey to resume processing of Russian crude oil in October 2023.
- A partnership [with BP](#) established in July 2023 on gas works in its [Azeri-Chirag-Gunashli](#) oil field (ACG) in the Caspian Sea, which [began production](#) in April 2024. In September 2024 SOCAR and BP signed further MoUs on [exploration and production](#) which are [expected](#) to significantly increase production from the field.
- Commencement of production at the [Absheron field](#) in July 2023 with [TotalEnergies](#) and [ADNOC](#), which acquired a share in August that year.
- An MoU signed with Italian firm [Eni](#) in mid-2024 could lead to future collaboration on extraction.

The country's economic reliance on gas is not without risks. The [World Bank warned in a November 2023 report](#) that "Azerbaijan's development trajectory remains exposed to global energy markets' volatility" and that the country will not be able to achieve strategic priorities outlined in Azerbaijan Vision 2030 if it remains reliant on oil and gas rents. The World Bank states: "Remaining prey to commodity cycles and facing a depleting oil asset base, Azerbaijan's economy will be tested by the headwinds brought by global decarbonization". An October 2024 [assessment by Chatham House](#) highlights the country's reliance on oil and gas as the bedrock of its role on the international stage is likely to be undermined by declining reserves, and rising costs for production and financing. The government reports that the [non-oil economy](#) is growing and claims it is [diversifying away](#) from fossil fuels.

## COP29 hosts see a future of fossil fuels

As the COP Presidency, Azerbaijan has [defended](#) the continued production of oil and gas:

- In March 2024, Samir Nuriyev, Chairman of the COP29 Organizing Committee, called for a [fair approach](#) for countries with large oil and gas sectors.
- In April 2024, President Ilham Aliyev said: "As a head of the country, which is rich with fossil fuels, of course, we will [defend the right of these countries](#) to continue investments and to continue production" because the country's fossil fuel reserves were a "gift of the gods".
- In late May 2024, US Democrat senators and members of congress wrote to the Biden administration [warning COP29 risked being co-opted by the fossil fuel industry](#).
- In July 2024, Elnur Soltanov, COP chief executive and deputy energy minister, suggested fossil fuel production could be aligned with a 1.5C degree pathway and that [the focus should be on emissions](#).
- Also in July, Azerbaijan proposed a [Climate Finance Action Fund](#) with an initial goal of raising [\\$USD 1 billion](#) based on voluntary financing from [fossil fuel producing companies and nations](#). The proposal was [criticised](#) by climate NGOs.
- In September 2024, Yalchin Rafiyev, the country's lead climate negotiator repeated the government line that [the focus should be on reducing emissions](#) rather than fossil fuel production.

## Climate targets and renewable energy in the shadow of gas exports

Azerbaijan's [Nationally Determined Contribution](#), submitted to the UNFCCC three years late in 2023, states the aim to reduce greenhouse gas emissions by 40% by 2050 (using 1990 as the baseline reference year, which is controversial because at the time the country was part of the Soviet Union and had [lower emissions](#)). The COP29 president said in March 2024 that the climate target could be [strengthened](#) and that the country aimed to [maximise investment](#) in [green energy production](#). In September 2024, the civil society organisation Climate Action Tracker concluded the country's NDC to be "[critically insufficient](#)" and offered [recommendations](#) to upgrade it.

In April 2024 President Aliyev said the country aimed to build 2 GW of renewable energy capacity by 2027, and [5 GW by 2030](#), and that it was "[working on](#)" a national climate plan that would be aligned with the 1.5C warming goal of the Paris agreement. In August 2024 it was reported that SOCAR had [joined](#) the Oil and Gas Methane Partnership, which aims to reduce methane emissions. Meanwhile, the country's gas production was revealed to be getting dirtier, with the [volume of gas being flared](#) at oil and gas installations increasing by 10.5% between 2018 and 2023.

Gas is the primary feedstock for domestic energy. In 2021 renewable sources – hydro, solar, wind and biofuels – made up [1.4%](#) of national energy supply. Hydropower dominates the country's renewable energy generation, with a capacity of more than 1,300 MW. However, its long-term role could be affected by increasing water scarcity due to climate change. [Government statistics](#) show wind capacity is 66 MW, solar energy 282 MW and bioenergy 38 MW.

New [capacity is being developed](#). In 2022 construction began on a 240-MW wind farm with Saudi Arabia's ACWA Power, and on a 230-MW solar power plant with the UAE's Masdar. In 2023 implementation agreements were signed with ACWA Power on a 1.5-GW wind power project, a 1-GW onshore solar power plant and on energy storage systems. [SOCAR](#) is a partner in these projects. In April 2024 the country launched its [first auction](#) for the design, financing, construction and operation of a 100-MW solar power plant, [with support](#) from the European Bank for Reconstruction and Development (EBRD). In June 2024 the government said the aim was for [33% of installed capacity](#) to be from renewable energy by 2027. The country has agreed to work with [China](#) on installing renewable energy.

The government has plans to turn Nagorno-Karabakh, the area it took [full control over](#) in September 2023, into a [green energy zone](#) with solar, wind and hydro electric power projects in development. BP is [reported](#) to be planning to build a solar farm in the region. SOCAR has so far connected 23 villages via [gas pipelines](#).

One driver of the country's push for renewables is to free up supply to increase gas exports to Europe, which are targeted to double by 2027. In November 2023, Azerbaijan's [deputy energy minister Samir Valiyev](#) said: "By the end of 2027, wind and solar power plants with a capacity of 1,862 MW are planned to be put into operation, which frees up more than 1 bcm of gas". In April 2024 President Aliyev reinforced this point at a speech in Berlin where he said increasing green energy would mean that "at least five additional billion cubic metres of gas will be exported to Europe. [So it's actually a win-win situation](#)".