



## CONTEMPORARY ENERGY RELATIONS BETWEEN GEORGIA AND AZERBAIJAN

The energy relations between Azerbaijan and Georgia have shown a significant development which serves as a primary factor that have been strengthening their bilateral relations since 1992. Since both countries are located in the South Caucasus, it can be claimed that the geography has laid the foundation for the development of their energy relations. In recent years, they share two main large-scale projects such as the Baku – Tbilisi – Ceyhan (BTC) oil pipeline and Baku – Tbilisi – Erzurum (BTE) gas pipeline. The BTC runs 443 km through Azerbaijan, 249 km through Georgia and 1,076 km through Turkey to the Ceyhan Marine Terminal. The BTC started functioning in 2006 when the first oil pumped from Baku reached Ceyhan. Similarly, the BTE gas pipeline which started functioning in 2007, links Azerbaijan with Turkey through Georgia.

Georgia's role here is to be a transit country for transportation of natural resources from the Caspian Sea to Turkey, and further to Europe. For Azerbaijan, the energy projects allow to diversify its supply routes to Europe. The construction of the BTC oil pipeline in 2006 appeared to be an alternative energy route to Baku – Novorossiysk oil pipeline that goes via Russia's territory, and the BTE gas pipeline also serves as an alternative route for Azerbaijan's gas to Europe in future. Following this, it can be argued that by sharing common energy projects Azerbaijan and Georgia find each other as regional partners.

Moreover, Georgia finds Azerbaijan as a main gas supplier to the country. Therefore, Azerbaijan is of primary importance for Georgia since currently about of 74.9% of natural gas comes from Azerbaijan. Currently, Azerbaijan supplies gas to Georgia via the Hajigabul – Gardabani pipeline with a gas pumping capacity of 6.5 million cubic meters per day. The second way to carry gas to Georgian consumers is the BTE, through which 2.9 million cubic meters of natural gas per day from the first stage of the Shah Deniz field is supplied to Georgia.

Daily gas consumption in Georgia exceeds 11 million cubic meters per day and about 2.5 billion cubic meters per year. In 2015, Georgia's natural gas import from Azerbaijan reached over 1.51 million tons of oil equivalent in the amount of \$314.3 million, as compared to 1.38 million tons of oil equivalent in the amount of \$287.34 million in 2014.

The reason of Azerbaijan's monopolist position in Georgia's energy market is the fact that in 2006 Georgia signed a long-term contract with Azerbaijan to purchase Azerbaijan's natural gas with a considerably discounted price of \$140 per 1,000 cubic meters. As a result, Georgia replaced Russia's natural gas, which had been covering about 100% of Georgia's domestic gas consumption. Nevertheless, Georgia still receives natural gas from Russia as a payment for a transition fee for Russia's gas supply to Armenia through Georgia's territory. However, the volume of natural gas from Russia is not substantial as long as only 10% of Russia's gas to Armenia goes to Georgia, which is 250 million cubic meters of natural gas per year.

Nevertheless, the beginning of 2016 for Georgia started with the idea to diversify its source of gas consumption by considering Russia's Gazprom as an alternative for meeting natural gas consumption. Georgia faced gas deficit because gas consumption was increased during the winter period and Azerbaijan's natural gas was unable to satisfy Georgia's gas needs. Compared with 2012, gas consumption in Georgia increased by 38%, which made it necessary to purchase additional volumes of the natural gas. According to the estimations, annual growth of the Georgian market is over 10% or maximum 250 million cubic meters per year. As a result, gas consumption in the country could reach 5 billion cubic meters in the next 10 years. Thus, the increased gas consumption influenced Georgia's consideration about Russia's gas. Moreover, the fact that the contract between Georgia and Azerbaijan on natural gas will expire in 2017,

Georgia's discussion about purchasing of additional 300-400 million cubic meters of natural gas from Gazprom seems relevant.

However, Baku reached an agreement with Tbilisi on additional gas supplies in the amount of 463 million cubic meters. The relevant agreement was signed on March 4, 2016 between Azerbaijan's state energy giant SOCAR and the Georgian Government. The gas volume from Shah Deniz will be increased from 800 million cubic meters a year to 1.5 billion cubic meters per year through the BTE and up to 1.5 billion cubic meters per year from SOCAR through the Hajigabul – Gardabani pipeline. Moreover, SOCAR expressed its readiness to reduce tariffs on 1000 cubic meters of commercial gas by \$35-40 for the Georgian gas filling stations.

Consequently, Azerbaijan remained a key energy partner for Georgia. Additionally, in order to avoid any gas deficit in future, Georgia is planning to build its first gas storage by the end of 2016 to store 210-280 million cubic meters of natural gas. Here, SOCAR demonstrated its interest to be involved in this project.

To conclude, Georgia – Azerbaijan energy relations have becoming stronger and stable since the shared large-scale energy projects such as the BTC and the BTE requires the countries to ensure security and keep stability in the region. Regarding robust and stable characteristics of the energy relations between Georgia and Azerbaijan, the prospect of their relations will be developing and enhancing. It seems that their perception of each other as energy partners will be continuing in the long-term because external factors such as dispute between Georgia and Russia, and conflict between Azerbaijan and Armenia limit their choices about energy partners. Moreover, there is a huge prospect of expanding of Georgia – Azerbaijan energy relations due to the expected large-scale projects such as TANAP and AGRI.

## Politics, Foreign Affairs and Security

- During his official visit to Poland, the President of Azerbaijan, Ilham Aliyev, met with the OSCE Minsk Group Co-chairs James Warlick, Igor Popov and Pierre Andrieu, and Personal Representative of the OSCE Chairperson-in-Office, Andrzej Kasprzyk. During the meeting, the parties exchanged views on the current developments of the Nagorno-Karabakh conflict settlement.
- During the last plenary meeting of the OSCE Parliamentary Assembly (PA) annual session held in Tbilisi, the member of Azerbaijan's Parliament and the Vice-Chair of the OSCE PA General Committee on Political Affairs and Security, Azay Guliyev, was elected as the Vice-President of the Organization with 119 votes.
- The President of Russia, Vladimir Putin, signed a package of anti-terror laws, which tightens punishment for establishing/participating an illegal armed organization, including abroad, and specifically obliges mobile phone operators and internet providers to keep for three years information in receiving, transmitting, delivering and processing voice data and textual messages, images, audio and video.
- The State Customs Committee of Azerbaijan reported that the congestion at Siniq Korpu customs checkpoint on Azerbaijani – Georgian border caused by high number of people and vehicles moving to Georgia was eliminated after opening additional three crossing lines.
- The Secretary of Defense Council of Kyrgyzstan, Temir Dzhumakadyrov, reported that in order to strengthen the fight against corruption the law enforcement bodies of the country would be radically reformed. It was noted that a package of measures for the forthcoming reform has already been prepared.
- Azerbaijan's state oil company SOCAR reported that the construction of a new tank farm on the company's Black Sea oil terminal in Kulevi was completed. The project envisages the construction of six tanks with a total capacity of 60,000 cubic meters and a two-line railway overpass for simultaneous unloading and loading of 26 tankers. The turnover of the new tank farm is estimated at 1.5 million tons of oil and oil products per year.
- Russian state-owned gas company Gazprom confirmed its plans to demand a retroactive revision of the price, which is paid for Turkmen gas from 2010 to 2015 seeking \$5 billion in reimbursements. Gazprom has already submitted the claim on Turkmen gas to the Institute of the Stockholm Chamber of Commerce.
- The Italian industrial group Salini Impregilo announced about signing a framework agreement worth about \$3.9 billion for construction of the 3,600 megawatt Rogun Hydroelectric Plant in Tajikistan. The first phase of the project totaling \$1.95 billion will include construction of a 335 meters-high dam on the Vakhsh River.
- The First Deputy General Director of the National Electric Network of Kyrgyzstan, Aleksey Borodin Kyrgyzstan, announced the company's plans to reach an agreement with Tajikistan on the supply of 1.5-2 million kilowatt-hours of electricity per day, which would prevent the power shortage in the country during the heating season and reduce the overflow from the Toktogul reservoir.
- The Deputy Minister of Economy of Azerbaijan, Sevinj Hasanova, reported that in January-May 2016 the goods exports to foreign markets were increased by 28% to the amount of 1,826 as compared to 1,424 at the same period in 2015. During the reporting period, Azerbaijan's goods exports amounted to \$3.05 billion with the export to the EU countries accounted for \$1.65 billion.
- The World Bank (WB) Board of Executive Directors approved supplying a grant of \$24 million to Kyrgyzstan as budget support for the implementation of reforms in the public administration and the development of competitiveness. The allocated funds include highly concessional loan of \$13.2 million and a

grant of \$10.8 million from the WB International Development Association.

- The Federal Customs Service of Russia reported that the country's trade balance surplus stood at \$41.5 billion. It was also noted that during the reported period Russia's external turnover reached \$170.8 billion.
- The Ministry of Finance of Kyrgyzstan reported that in July 2016 the public debt reached \$4 billion as compared to \$3.7 billion in March 2016. It was noted that foreign creditors constitute \$3.7 billion of Kyrgyzstan's public debt. For instance, Kyrgyzstan owes \$1.4 billion to China's state-owned Exim Bank and \$642 million to the WB International Development Association.
- According to the new restrictions on currency operations imposed by the commercial banks in Uzbekistan, the Uzbek citizens residing abroad will be able to withdraw only \$300 per month from conversion cards in ATMs compared to the previously set limit of \$100 per day. In addition, terminals of retail and wholesale trade enterprises in Turkey, China and the UAE will no longer accept the credit cards into foreign currency introduced by the Uzbekistan's authorities as a mechanism for non-cash foreign currency sales.

## Society and Culture

- The Head of the National Tourism Administration of Georgia, Giorgi Chogovadze, stated that the number of people travelling to Georgia in January-June 2016 increased by 12.9% to 2,636,313 people. During the reporting period, the number of tourists travelling to the country rose by 18.1% to 1,011,680 people. Most of the travelers were from Azerbaijan, Turkey and Armenia.
- According to the 2016 Trafficking in Persons report of the U.S. State Department, Uzbekistan and Turkmenistan fell within the worst category in blacklist of countries that have failed to combat human trafficking joining Myanmar, Haiti, Djibouti, Papua New Guinea, Sudan and Suriname.
- The Soyuz MS-01 spacecraft carrying the crew members of the Expedition 48, namely, Anatoli Ivanishin of Roscosmos, Takuya Onishi of JAXA, and Kate Rubins of NASA was successfully launched from the Baikonur Cosmodrome in Kazakhstan.