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ENERGY OPPORTUNITIES IN THE GREATER CASPIAN REGION:

UNLOCKING STRATEGIC GAINS FOR EUROPE

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Energy Opportunities in the Greater Caspian Region: Unlocking Strategic Gains for Europe

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Energy Opportunities in the Greater Caspian Region: Unlocking Strategic Gains for Europe

Amid the ongoing war in Ukraine and the urgent need to reduce dependency on the Russian energy sector, the EU has intensified the diversification of its fossil fuel imports and expanded renewable energy sources in line with the REPowerEU plan to enhance overall energy security. A key aspect of this strategy has been increasing liquefied natural gas (LNG) supplies from the United States, Norway, and North Africa. However, the need for diversified energy sources persists. The Greater Caspian Region, in particular, offers substantial potential for rapidly boosting exports within a short timeframe.

The Caspian Sea and its energy resources have elevated the region to a place of significant international importance. Forecasts indicate the presence of approximately 48 billion barrels of oil and 292 tcm (trillion cubic metres) of natural gas in proven and probable reserves. Three Caspian Sea littoral countries—Azerbaijan, Kazakhstan, and Turkmenistan—boast significant energy resources. They currently export oil and gas to European and Mediterranean markets and are, to varying extents, pursuing efforts to increase their contributions.

European companies show increasing interest in the region's energy market, but their involvement remains at an early stage. Notable firms such as BP, TotalEnergies, Siemens Energy, Equinor and ENI are exploring opportunities to expand their presence. Although the Caspian coastal countries have the potential to strengthen European energy security, economic and infrastructural challenges could impede the swift production and export of additional supplies from the region. Securing financing for oil and gas production and transportation has become increasingly challenging, as international financial institutions are curtailing funding for fossil fuel projects, and the European Commission is ramping up investments in the energy transition, focusing on renewables and green hydrogen.

To fully capitalise on the opportunities in the Greater Caspian Region, European companies and governments should navigate a complex landscape of geopolitical dynamics and infrastructural commitments. Balancing the urgent need for energy security with the long-term goals of sustainable development will be crucial for the success of these endeavours.

Turkmenistan's Role in Meeting Europe's Energy Needs

Turkmenistan has significant potential to address Europe's energy needs, thanks to its extensive gas reserves which could provide a relatively quick and cost-effective solution. Turkmenistan ranks 4th globally in natural gas reserves and has indicated its intention to realign its energy policy towards the West. On 24-25 April 2024, Turkmenistan organised the Turkmen Energy Investment Forum (TEIF 2024) in Paris to attract investment into its energy sector. The event saw the participation of two major European giants, the UK's BP and Italy's ENI. Following this, Ashgabat, the capital of Turkmenistan, is set to hold a number of events to boost investment and foster energy cooperation.

The Turkmenistan Investment Forum (TIF 2024), organised on 10-11 September 2024, provided a platform to engage leaders from major foreign investors, international financial organisations and companies interested in entering the Turkmen market. TIF 2024 resulted in 18 agreements and memoranda of understanding (MoU) being signed between Turkmen and foreign companies. These agreements encompass a wide range of sectors, including energy, textiles, chemicals, shipbuilding, railway equipment, ecology, and logistics. The invited European companies come from various countries across the continent, each bringing expertise from key sectors. From the United Kingdom, BP and Euro Gas (Pvt) Limited participated. Belgium was represented by Jan de Nul NV and John Cockerill. France's presence included major players like TotalEnergies and Technip Energies. Germany had a strong delegation with companies such as Siemens Energy LLC, Klöpper-Therm GmbH & Co.KG, Compressor Products International GmbH, BASF, DynaEnergetics Europe GmbH, KCA Deutag Drilling GMBH, and Schmidt + Clemens Group. Austria was represented by Voestalpine Tubulars GmbH & Co KG, while Italy contributed with Eurotecnica Contractors and Engineers S.p.A and SIAD Macchine Impianti.

Additionally, on 23-25 October 2024, Ashgabat welcomed the 29th International Conference and Expo on Oil and Gas of Turkmenistan (OGT 2024), offering another opportunity to discuss energy cooperation with European enterprises. OGT 2024 saw significant participation from numerous European companies in the oil, gas, energy technology and construction sectors. Key players included Denmark's Danoil Energy LLP and Topsoe, Luxembourg's Danuba Petrol Trade S.A., Slovakia's Transpetrol, the UK's Shell plc, BP, and IHS Markit, Germany's Siemens Energy LLC, Siemens, and Klöpper-Therm GmbH & Co. KG, as well as France's Vallourec, Technip Energies, and CIFAL Group. These companies played a key role in the discussions and business opportunities emerging from the event.

Many prominent European companies in the oil, gas and infrastructure sectors are keen to engage with the Turkmen energy market. Although these companies are exploring opportunities, their presence in the region is currently still at an early stage. Shell plc is the only European company listed among the top leaders in the Turkmenistan oil and gas market. It holds the tenth position in the market rankings. The leading companies in the oil and gas sectors come from a range of countries, including Turkmenistan's JSC Türkmengaz, Uzbekistan's JSC Uzbekneftegas and Russia's PJSC Gazprom and LUKoil. China's energy sector is represented by the China National Petroleum Corporation (CNPC) and Sinopec Oilfield Service Corporation, while Halliburton Company represents the US. The Emirati Dragon Oil PLC and the Anglo-Cypriot Buried Hill Energy also play key roles in the industry.

While European companies' entry into the Turkmen gas market presents potential benefits for both sides, it also requires political efforts and strategic actions to effectively integrate Turkmen gas into the EU supply chains. In April 2024, Turkmenistan sent an energy delegation to Brussels to discuss diversifying gas supply routes, methane reduction, renewable energy development, and energy efficiency. This mission was succeeded by a visit from the EU's Special Representative for Central Asia, Terhi Hakala, to Ashgabat from 12-16 May 2024, to explore potential collaborations in the energy and transport sectors. These recent developments suggest a serious push to facilitate this transport to Europe.

Meanwhile, on 13 May 2024 in Istanbul, Azerbaijan and Turkey signed an agreement to facilitate the transit of Turkmen gas to Turkey. This followed a Turkish-Turkmen Memorandum of Understanding (MoU) signed on 1 March 2024 in Antalya aimed at transporting gas from Turkmenistan to Turkey and then to Europe, likely utilising the Southern Gas Corridor (SGC) system through Azerbaijan and Georgia. Additionally, on 4 June, Turkey's Botas Petroleum Pipeline and Azerbaijan's State Oil Company (SOCAR) signed an agreement to jointly facilitate the delivery of natural gas from Turkmenistan to Azerbaijan, and subsequently through Turkey to other European destinations. These developments suggest that Europe views Turkmenistan as a crucial long-term energy partner.

Turkmenistan has aimed to export up to 32 bcm of gas to Europe via the Trans-Caspian Pipeline (TCP), but building the necessary infrastructure to connect its Caspian export terminal at Turkmenbashi with major European import terminals could cost as much as 30 billion USD. The challenges are not just economic and technical but also geopolitical. Iran and Russia have obstructed the project for years, citing environmental concerns, such as the potential harm to the already fragile Caspian ecosystem. Current discussions focus therefore on leveraging existing infrastructures rather than constructing new systems. Furthermore, Turkmenistan could potentially supply around 5 billion cubic metres per annum (bcma) of gas from the Magtymguly

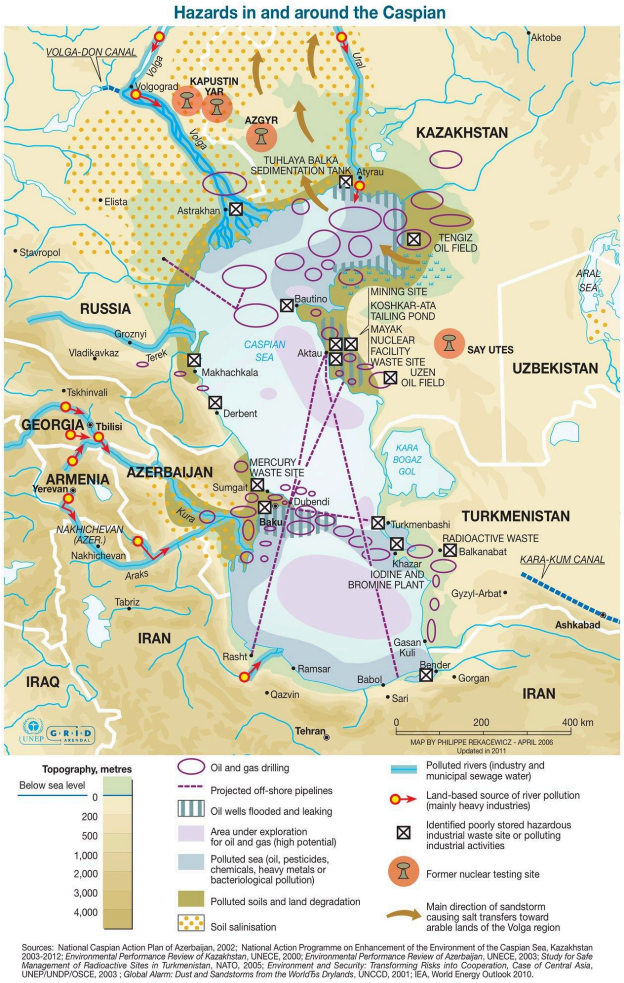
field, operated by Malaysia's Petronas Carigali in the Turkmen sector of the Caspian Sea, to existing gas facilities in the adjacent Azeri-Chirag-Gunashli (ACG) field in Azerbaijani waters. This would require a 78 km connector pipeline, which SOCAR officials estimate would cost between 400 million USD and 600 million USD and could be completed within four to five months once approved. Additionally, the current pipeline infrastructure between Azerbaijan and Turkey has reportedly 4-5 bcm of available capacity. Turkey, which has an MoU to import gas from Turkmenistan, could use this additional supply to reduce its LNG imports, thereby allowing more LNG to be redirected to other European customers.

Given the EU's strategy of using gas as a short-term solution while working to reduce long-term dependence due to climate concerns, the European Commission might support Turkmenistan's gradual entry into the European gas market. This, in turn, could incentivise European companies to invest in the Central Asian country's oil and gas sector and develop new facilities.

Kazakhstan's Energy Partnership with Europe

As a major energy supplier to the European Union, Kazakhstan plays a crucial role in diversifying the EU's sources of supply. With more than 70% of its oil exports directed to the EU—meeting 6% of the EU's oil demand—Kazakhstan ranks as the EU's third-largest non-OPEC supplier, following Russia and Norway. European multinational companies play a significant role in Kazakhstan's hydrocarbon production. Major oil and gas companies, including TotalEnergy, Shell plc, and ENI, collectively hold just over 50% of the Kashagan Field, each having a 16.81% stake. ENI and Shell plc also own a 29.25% stake each in the Karachaganak Field, while Shell plc holds 50% in the Arman Field, among other interests.

Nonetheless, the bulk of Kazakhstan's oil exports to the EU still pass through Russia. 80% of the Kazakhstan oil supplies are transported via the Caspian Pipeline Consortium (CPC), which runs from Atyrau to the Russian Black Sea port of Novorossiysk and serves as the primary export route for the Tengiz and Karachaganak oil fields. In the CPC, European companies hold a combined stake of 11.5%. This ownership primarily includes Shell, part of the Rosneft-Shell Caspian Venture Limited, holding 7.5%. ENI and the British BG Overseas Holdings Limited contribute 2% each. CPC provides the shortest and most efficient route to the Black Sea, ensuring high export profitability due to its minimal operational requirements. Currently, there are no fully viable alternatives to the CPC; only about one-third of the annual volume of 54 mt (million tonnes) can be transported through other routes.



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This situation presents a significant challenge in light of Europe's efforts to reduce overall reliance on Russia. This is especially apparent in the gas sector, where the supply of Kazakh gas to European markets risks being hindered due to its partial reliance on infrastructure passing through Russian territory such as via the CPC. Kazakhstan is thereby facing uncertainty about the future of its oil exports which may affect Kazakhstan-EU economic relations and Kazakhstan's socioeconomic development. As a result, Kazakhstan is looking to increase its use of the Baku-Tbilisi-Ceyhan (BTC) pipeline, which has significant spare capacity due to Azerbaijan's main oil field, ACG, currently producing just over 60% of its peak output. Kazakhstan hoped that this project would provide access to the Mediterranean Sea via Turkey. Transportation through the BTC pipeline commenced under an agreement between SOCAR and KazMunayGas to transit 1.5 mt of oil annually. To support this, SOCAR upgraded the pipeline network at the Sangachal Terminal in 2022. In January 2024, 287,000 tonnes of oil were exported from the port of Aktau, of which 116,000 tonnes were sent to the port of Baku. This represents double the amount sent to Baku compared to the previous year and accounts for nearly half of the total export volume.

On 18 July 2022, BP Azerbaijan declared its intention to redirect flows from the Baku-Supsa pipeline to the larger BTC pipeline to facilitate the transportation of Kazakh oil through the pipeline network. This shift leverages the 150 million USD investment BP made in 2016 to upgrade the BTC pipeline and enhance its environmental standards. Before its suspension due to the military conflict between Russia and Ukraine and the resulting decrease in tankers operating in the Black Sea, the Baku-Supsa pipeline had the capacity to transport up to 5 mt of oil per year. Moreover, BTC capital costs are high compared to the CPC. While the CPC tariff is approximately 38 USD per tonne, the tariff for the BTC pipeline exceeds 90 USD per tonne, more than double that of the CPC. The higher BTC rates are attributed to the substantial costs of multimodal transportation. The EU could assist in reducing significantly the costs of the BTC by improving the efficiency of multimodal transportation, which would streamline logistics and enhance coordination between various transport modes, ultimately lowering overall expenses.

Building a new pipeline between Kazakhstan and Azerbaijan presents challenges. Technically, the pipeline would need to cross a deep trench or navigate through Turkmenistan's maritime sector. Politically, while Kazakhstan, Azerbaijan, and Turkmenistan believe that pipelines between adjacent Caspian states do not require approval from other littoral countries, Russia might argue that environmental concerns necessitate the support of all five Caspian states. This could effectively give Russia and Iran veto power over the project, allowing them to potentially block or delay construction through political means. Furthermore, by 2030, the EU is projected to cut imports of coal by 71-77%, oil by 23-25%, and natural gas by 13-19%. This reduction in European demand for oil and gas could impact investments in fossil fuel infrastructure in the Greater Caspian Region. Therefore, the EU should be well aware of this in safeguarding its long-term energy supply strategies by mitigating the investor risks for related infrastructure projects in the region.

Moreover, oil from major Kazakh fields like Tengiz, Karachaganak, and Kashagan would need to be transported by tanker across the Caspian Sea. At the Investors Forum for EU-Central Asia Transport Connectivity held in Brussels on 29-30 January 2024, Kazakhstan proposed European investors to manage its Caspian Sea ports of Aktau and Kuryk, as well as 22 airports, to develop a robust transit hub between Asia and Europe. Currently, six Kazakh and Azeri tankers transport 100,000 b/d (barrels per day) of crude oil to the BTC terminal at Sangachal, south of Baku. The potential construction of a new tanker fleet in Baku, discussed in July 2023 with Kolin, a Turkish construction and engineering firm, could significantly enhance these volumes. This new fleet could transport 300,000 b/d to the BTC, with the first vessels anticipated to be operational within three years of the project's final investment decision.

Azerbaijan's Strategic Position in European Energy Security

At a crucial geostrategic juncture, Azerbaijan plays a key role in energy supply routes between the Greater Caspian Sea Region and Europe. The country has been exporting crude oil to Europe since 1994 when SOCAR signed a Production Sharing Agreement (PSA) on the Joint Development of the Deep-Water Reserves of Azeri, Chirag, and Gunashli (ACG) with 11 international energy giants of which two European: BP and the Norwegian Equinor (former Statoil). The others include American companies such as Amoco, Unocal, Pennzoil, ExxonMobil and McDermott; the Russian LUKoil; Turkey's TPAO; Canada's Ramco; and the Saudi firm Delta Nimir. Azerbaijan extracted more than 607 mt of oil from ACG and Shah Deniz (SD) between 1994 and 2023, of which nearly the totality was supplied to European countries.

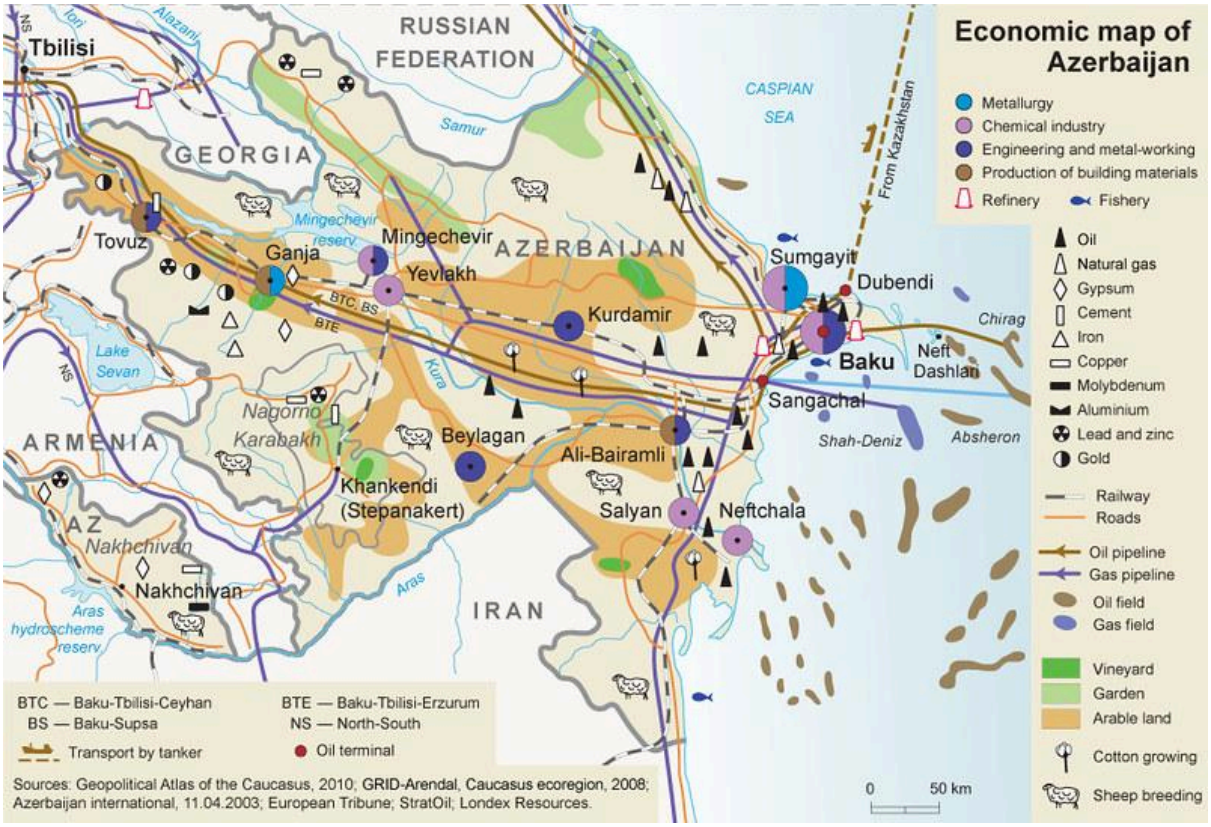
Since 2006, the majority of the country's oil exports have been routed to Europe via the BTC pipeline. In 2017, Azerbaijan and the stakeholders in the ACG venture—BP (Operator, 30.37%), SOCAR (25.00%), Chevron from the US (9.57%), INPEX from Japan (9.31%), Equinor (7.27%), ExxonMobil (6.79%), TPAO (5.73%) and ONGC Videsh Limited from India (2.31%)—signed an amended and revised agreement for the joint development of the ACG fields in the Azeri sector of the Caspian Sea. This agreement extended the development and exploitation of the ACG fields through to 2050. Nevertheless, Azerbaijan's oil production is gradually declining due to the natural depletion of the ACG field. As a result, the primary concern for both Azerbaijan and potential European buyers is the country's capacity to boost gas production and exports to make up for the decrease. Over the next three to five years, there is a strong potential for a consistent rise in gas deliveries from Azerbaijan, which could become a crucial new factor in the energy partnership between Caspian producers and Europe.

Azerbaijan has extracted approximately 203.4 bcm of gas from the ACG field and over 182.8 bcm from the SD field as of 2023. Efforts to increase and diversify Europe's energy supply by bringing gas resources from the Caspian Sea are being carried out through the SGC project. Key components of the SGC include the comprehensive development of the SD gas condensate field, the expansion of the South Caucasus Pipeline (SCP), the construction of the Trans-Anatolian Natural Gas Pipeline (TANAP), and the Trans-Adriatic Pipeline (TAP). These three interconnected pipelines span seven countries—Azerbaijan, Georgia, Turkey, Bulgaria, Greece, Albania and Italy—making the SGC a unique and ambitious project.

European companies' stakes vary markedly across key pipelines, reflecting their strategic engagement in the region's energy sector. In TAP, European players are prominent: Snam, an Italian energy infrastructure company, owns 20%; Fluxys, a Belgian company, holds 20% and Enagás from Spain controls 20%. These European

holdings underscore the strategic interest of European countries in strengthening their energy security by accessing the Greater Caspian Sea Region's gas reserves, aligning with broader EU energy diversification strategies. The ownership structure of SCP is dominated by SOCAR which holds a 58% share. BP has a significant 29.99% stake, indicating strong international involvement, while TPAO, Turkey's state oil company, holds 12%, highlighting Turkey's strategic interest in regional energy transit. This distribution underscores the collaborative efforts between regional and international stakeholders to enhance European energy security through diverse gas supplies from the Caspian region. This contrasts with TANAP, where Turkish BOTAŞ and SOCAR hold the primary shares, indicating more localised regional control before the pipeline crosses into Europe.

On 18 July 2022, Azerbaijan and the European Union signed a Memorandum of Understanding (MoU) on a Strategic Partnership in the Field of Energy to boost the country's gas exports to the EU. This agreement aims to significantly increase the volume of gas exported from Azerbaijan to Europe over the next four years, with plans to increase exports to 11.6 bcm by 2023 and 20 bcm by 2027 under the SGC framework. To fulfil the MoU and double its gas supply, Baku is focusing on four key fields to increase input into the expanded SGC. These fields are Ümid-Babek, Absheron, the deep gas reservoirs beneath the ACG oilfield, and the existing large gas field, SD.



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Ümid-Babek

Babek is generally considered a geologically challenging extension of the Ümid field. One platform, Umid-1, is currently operational, producing 1.98 bcma for domestic consumption. The field is operated by a single company, Umid-Babek Exploration and Production, in which SOCAR holds an 80% stake, while the remaining 20% is owned by Azeri Nobel Oil, a small, locally affiliated company.

Production is expected to more than double by the third quarter of 2026 with the addition of a second platform, Umid-2, which will involve drilling three exploitation wells and one exploration well. If drilling is successful, combined production from Umid-1 and Umid-2 is anticipated to reach a peak of 4.3 bcma between 2024 and 2033. The operation of the Umid-1 and Umid-2 platforms will also allow for the future integration of production from the Umid-3 platform, potentially maintaining plateau production until 2036, after which a gradual decline is expected.

Alternatively, SOCAR might attract international oil companies with their expertise, resources, and capital necessary to manage the geologically complex field. If a global oil company assumes technical operatorship and conducts exploration and development activities, it could potentially bring gas production from the Babek structure online sooner, depending on the outcomes of exploration wells.

Absheron

The Absheron field began production in early July 2023 and is currently producing at a rate of 1.5 bcma, with all output allocated for domestic use. On 1 September 2023, TotalEnergies announced a plan for the full-field development of the Absheron project aimed at export purposes. Phase 1 of this development involves drilling exploration and development wells in deeper layers after the Absheron Early Production Scheme (EPS) becomes operational. The final investment decision for Phase 1 is expected by 2025, contingent on the results of exploration and appraisal wells, as well as marketing arrangements. Production from Phase 1 could reach an annual plateau of an additional 4.3 bcma starting from 2028-29, on top of the initial 1.5 bcma.

TotalEnergies is not the only major oil company interested in the development of the Absheron field. In August 2023, the Emirati ADNOC acquired a 30% stake in Absheron, causing TotalEnergies and SOCAR to reduce their shares from 50% to 35% each. This acquisition underscores the increasing strategic importance of the Absheron field to international energy players.

Azeri-Chirag-Gunashli (ACG) Deep Gas

The deep gas reserves located beneath the existing ACG oilfield complex represent a significant new resource for Azerbaijan. These reserves are governed by a separate agreement from the original PSA that was signed for oil development at ACG in 1994.

BP, the operator of the ACG oilfield, drilled its first appraisal well in the ACG Deep area in 2023, confirming the presence of gas reserves in January 2024. BP has stated that it is currently conducting further data analysis and plans to drill the first well specifically for deep gas production in 2024. The total recoverable gas volumes projected for the ACG Deep Gas reserves are estimated to be around 155 bcm. SOCAR, BP's largest partner in this project, has engaged in extensive discussions with BP throughout late 2023. The talks expressed a strong interest in finalising both the technical requirements for full field development and the key commercial and financial aspects needed to secure a final investment decision in 2024, as the evaluation of the initial well is still ongoing. Previous assessments have indicated that the gas is highly pressurised, suggesting that development could be both complex and costly, which would also impact financing. Despite these uncertainties, ACG Deep Gas production is expected to begin later this year or in the first quarter of 2025.

Shah Deniz (SD)

SD is the cornerstone of Azerbaijan's gas industry, with its first two phases, SD 1 and SD 2, currently having a production capacity of approximately 26 bcma. While most of the gas from SD is exported, a portion is used for injection into the ACG oilfield to enhance crude oil production. To significantly boost export volumes, an additional development phase is needed. In January 2023, BP drilled a new exploration well on the periphery of the existing field and discovered gas reserves comparable to those in the current production zones. This flank development progressed, with production from five wells beginning on 13 February 2024.

SD has a great resource potential for further development. The next development stage involves two projects to increase gas and condensate volumes. In 2022, gas production from SD Phases 1 and 2 was 25.3 bcm. A compression project is currently in the pre-FEED stage, the preliminary phase before basic engineering work, to sustain production levels from SD1 and SD2 at the plateau. The project plans to drill 26 wells; 21 have already been drilled, 19 are completed, and 15 are in production. All wells are expected to be drilled by 2025-2026, which will substantially increase gas production.

The second project involves exploring the pre-Fasila reservoirs. The consortium is drilling the exploration well SDX-8, targeting deeper horizons beneath the current producing reservoirs on the field's eastern flank to boost production. If successful, this well will provide valuable information on the drillability, producibility, and resource potential of the field. This could allow the SD partnership to further enhance the field's ultimate resource potential and support its ongoing development plans.

However, the SD partners—BP, SOCAR, LUKoil, Turkish Petroleum and the National Iranian Oil Company (NIOC)—have not yet reached a consensus on the priority in which those two projects will progress. In June 2024, BP announced that the field had reached plateau production but provided no substantial details on plans. Without an agreement among the partners, the development of the SD field could be delayed, impacting Azerbaijan's gas production and regional energy leadership. Consensus on investment is crucial to avoid inefficiencies, maximise resource use, and enhance gas supply to Europe, as stated in the recent MoU.

Capitalising on the Greater Caspian Sea Region's Resources

European companies stand at a critical juncture as they play a pivotal role in unlocking the potential of the vast energy reserves of the Greater Caspian Sea Region. Their decisions and strategies will significantly influence the region's future energy landscape.

Particularly in Azerbaijan, the exploration wells at both ACG Deep and SD are expected to transition into production wells, allowing these fields to commence production quickly. However, achieving full production capacity will require additional time and investments. BP and SOCAR should first assess the exploration wells to determine the expected rate and volume of future output. The same considerations apply to the Babek and Absheron fields. A major challenge for all four projects is securing financing. To enhance their role in upstream activities, European companies such as Snam, Fluxys, Enagás, and Axpo could be interested in increasing their equity stakes in key projects managed by SOCAR and BP, forming strategic alliances, and leveraging their expertise in exploration and development. At the same time, European companies need to advocate for more favourable regulations—streamlined permitting processes and incentives for renewable energy projects—and invest in long-term partnerships. These actions could help them and the EU to secure a more significant position in the Greater Caspian Sea Region's energy sector.

Nevertheless, European companies would need more guarantees especially from the EU to mitigate their investment risks. One key strategy could involve the EU offering financial backing or risk-sharing mechanisms to protect investments in regional critical infrastructure projects. This could include the development of alternative transport routes, such as expanding the BTC pipeline or supporting trans-Caspian pipeline initiatives, which would lessen dependence on Russian infrastructure and provide more stability for long-term projects. European investors could also benefit from collaborative frameworks between the EU and host countries that secure favorable investment conditions and safeguard assets against political and market volatility. Such agreements could involve guarantees on financial risks, terms of transit agreements, protection from abrupt policy changes, as well as enhanced diplomatic support to address challenges related to local regulations or geopolitical developments.

The EU's long-term strategy for energy security should address both immediate and future needs, particularly in light of its shift towards greener energy sources under the European Green Deal. The importance of fossil fuel resources for Europe's industries cannot be overstated. While the EU is committed to decarbonizing its energy system, the role of fossil fuels remains crucial—not only for meeting energy demands but also as essential feedstocks for key industries, such as chemicals and manufacturing. Germany, for example, still relies heavily on affordable Russian gas—not only for energy but as a critical feedstock for its chemical sector. A radical shift away from fossil fuels could create challenges for this industrial foundation and its competitiveness, increase costs, and potentially lead to supply chain bottlenecks.

Given the current geopolitical tensions, especially the war in Ukraine and Europe's subsequent decision to phase out Russian gas supplies, securing alternative sources of energy and feedstocks becomes even more urgent. Access to the Greater Caspian Sea Region's resources is crucial for the EU to maintain industrial stability and competitiveness. However, this will require not only financial and political commitments to fossil fuel investments but also the EU's ability to balance the short-term energy and feedstock needs with its long-term climate goals.

While financial institutions like the European Investment Bank (EIB) and the European Bank for Reconstruction and Development (EBRD) have started pulling back from funding fossil fuel projects, Europe must consider how these investments fit into broader economic security. The EU should keep a certain impact on these infrastructure and supply frameworks to avoid overreliance on regional actors' own agendas. Therefore, thoughtful engagement and continued investments in both fossil and renewable energy sources will be necessary for the EU to ensure energy security and support its industries during the transition. Without it, the EU risks jeopardising its economic competitiveness and its ability to maintain industrial resilience.

In addition to boosting production, further infrastructure development will be necessary to ensure the efficient transport of the next generation of oil and gas from the Greater Caspian Sea Region to prospective customers interested in importing fossil fuels from the Caspian littoral countries. To transport an additional 10 bcma starting in 2027, the capacity of the SGC pipelines—SCP, TANAP and TAP—will need a sizable expansion. To fully leverage the expanding significance of gas, European companies should strategically enhance their roles in these crucial energy corridors. Given their substantial existing stakes in TAP—where companies like Snam, Fluxys, Enagás, and Axpo collectively hold a significant share—they can leverage their positions to advocate for further integration into these critical energy infrastructures. Regarding TANAP and SCP, European firms could deepen their involvement by increasing their stakeholdership and forming strategic partnerships with existing shareholders, such as SOCAR and BOTAŞ. Investing in complementary infrastructure projects and enhancing technical collaboration would also be beneficial. By taking these steps, European stakeholders can align more closely with the EU's goals of improving energy security and diversification, ensuring a stable supply of Caspian gas to European markets.

European companies could boost their equity in key upstream projects, further establish strategic partnerships, and apply their expertise to strengthen their presence in the region. They could also push for supportive regulatory frameworks and invest in essential infrastructure to ensure the efficient transport of Caspian energy. It will be crucial to address financing challenges, particularly in light of the withdrawal of financial institutions from fossil fuels. Through these efforts, European companies could strengthen energy and feedstock security while advancing the EU's goals of diversification and stable energy supplies. In addition, implementing de-risking strategies will be crucial for reducing geopolitical and financial vulnerabilities, as well as fostering simultaneously sustainable growth in the transport and energy sector across the Greater Caspian Sea Region.

Given the geopolitical issues with both Iran and Russia, Azerbaijan became indeed the only gateway left from the Caspian to the Mediterranean. This strategic importance was highlighted during Ursula von der Leyen's visit to Baku in July 2022, which led to the signing of a MoU, as well as during Terhi Hakala's recent visit in April 2024. While the EU has acknowledged Azerbaijan's role as a key energy partner, the country's role as a strategic hub should also be emphasised, as it serves as a crucial link to the Greater Caspian Region and the broader Indo-Pacific through the Trans-Caspian International Transport Route (TITR), or 'Middle Corridor.' Therefore, the EU needs to go beyond agreements and invest more significantly in Azerbaijan's energy and logistics infrastructure to fully capitalise on this partnership and dedicate the necessary financial commitments.

However, the short-term prospects of such investments may not seem immediately profitable, particularly when weighed against the significant capital required and the growing focus on the EU's Green Deal and sustainability efforts. To persuade investors, it would be essential to highlight the long-term benefits of securing reliable energy and feedstock supplies, reducing dependence on volatile suppliers, and maintaining Europe's strategic autonomy. Investments in cleaner energy infrastructure, such as enhancing efficiency and reducing the carbon footprint of Caspian energy transport, can align these projects with sustainability objectives, positioning them as key components of the EU's transition to a balanced and secure energy future.

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