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The South Caucasus-EU green electricity bridge plan

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On 17 December, the president of Azerbaijan and the prime ministers of Georgia, Hungary and Romania signed a strategic partnership agreement in Bucharest on the development and transport of green energy. The event was also attended by the European Commission president Ursula von der Leyen and the Romanian president Klaus Iohannis. The document envisages the construction of a 1 GW undersea electricity line connecting Azerbaijan, Georgia, Romania and Hungary, among other projects. The planned connection will be 1195 km in length. Work on the investment, which is valued at €2.3 billion and will be funded by the EU, will take six years (a feasibility study is due by September 2023).

The project will ultimately allow the EU to import 'green' electricity produced by Azerbaijan. According to von der Leyen's declaration in Bucharest, it is part of the strategy of becoming independent from Russian fossil fuels and diversifying supply sources in cooperation with 'reliable energy partners'. As she put it, the investment will also enable the supply of electricity to Moldova, the Western Balkans and Ukraine, which will aid the latter's reconstruction. It will also transform Georgia into an energy hub and allow its integration into the EU energy market.

The Romanian president stressed that implementing the project will strengthen European energy security and enhance cooperation in the region, which is particularly important in the context of the ongoing Russian aggression. He also noted that the agreement will form the basis for long-term cooperation between the signatories in both energy transport and trade, as well as the development of future projects such as green hydrogen. For his part, Hungarian prime minister Viktor Orbán stated that "the days of cheap raw material imports from Russia are over", and that the investment is part of the process of finding new energy sources for Europe, access to which is crucial to maintain its economic growth and ensure its security.

Commentary

- The project is part of the EU's policy of seeking new sources of energy supply from outside Russia and strengthening cooperation with its non-European partners and, more broadly, expanding infrastructure links with the countries of the Caucasus and Central Asia. The involvement of the European Commission and the signing of the agreement at the highest level suggests that there is considerable political determination to implement the project. For Azerbaijan, the agreement is important in the context of its desire to make the state budget independent of revenues from hydrocarbon exports. However, the project faces a number of challenges. Baku has not yet made sufficient investments to

be able to produce and export green energy on a large scale. President Ilham Aliyev has announced that its production is expected to reach 3 GW in 2027, with 1 GW of solar energy (80% of the energy generated from renewable sources is to be exported). According to Aliyev, the country's overall potential in this field is over 27 GW on land (wind and solar energy) and 157 GW offshore (wind energy in the Azerbaijani sector of the Caspian Sea: strong winds are very common over this body of water). The security situation in the Black Sea basin related to Russia's aggressive policy will also affect the implementation of the investment. The agreement also strengthens the position of Georgia, which, due to its location, is an essential participant in all regional transport and communication projects.

- For Romania, the signing of the agreement in Bucharest is of both economic and political significance. The connection to the South Caucasus will enable it to sell the electricity it obtains from abroad, as well as increasing its access to additional sources of energy which it will need to make up for its power shortfall. Although the country is almost self-sufficient in terms of electricity production, it has been a net importer of electricity for the past three years (Romania produced 59 TWh in 2021, while consumption was 61 TWh). From Bucharest's perspective, it is also important to note that the project will improve the energy security of Moldova, which on its own only supplies around 20% of its electricity needs. The agreement is another recent sign of strengthening energy cooperation between Romania and the countries of the South Caucasus. On 16 December, the Romanian state-owned gas company Romgaz concluded a contract with Azerbaijan's SOCAR to supply up to 300 mcm of gas in the first quarter of 2023. In October, they also signed a memorandum of understanding to explore the possibility of a joint LNG project in the Black Sea.
- Hungary's participation in the project and Prime Minister Orbán's statements indicate a gradual evolution in the country's approach to energy security. Budapest still wants to maintain the supply of Russian hydrocarbons and has opposed their inclusion in EU sanctions, but at the same time it fears high prices and supply problems. It has recently stepped up talks with transit countries (including Croatia and Romania) and potential new suppliers (including Azerbaijan and Qatar). Increasing electricity imports may also be a response to the possible failure of the plan to expand the Paks nuclear power plant; this investment has come into question due to doubts about Russia's current technological & financial capabilities and the willingness of Western suppliers to supply the relevant components. The recent political decision to prepare to extend the life of the existing nuclear units by another 10–20 years is probably related to this. Orbán's attendance at the signing ceremony also represented his first visit to Bucharest in eight years (relations between Hungary and Romania have been strained due to issues including a dispute over Budapest's policy towards the Hungarian minority in Transylvania and differences in the two countries' attitudes towards Russia).