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CRUDE ACCOUNTABILITY

ANALYSIS & POLICY IMPLICATIONS OF AZERBAIJAN'S ENERGY STRATEGY

Gas Laundromat, Sanctions Exposure, & Transition Pathways

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Cover image © NASA: The night lights of Baku, Azerbaijan (2023)

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About Crude Accountability

Crude Accountability is an environmental and human rights non-profit organization that works with communities in the Caspian and Black Sea regions, which struggle against threats to local natural resources and negative health impacts. Crude Accountability works on the local, national, regional, and international levels in partnership with communities and organizations committed to a just and environmentally sustainable world. Based in Northern Virginia, Crude Accountability also collaborates with other environmental organizations in the United States.

About the Author

Dr. Gubad Ibadoghlu

Dr. Gubad Ibadoghlu is a well-known academic, anti-corruption expert, fossil fuel critic, and environmental defender who has taught and conducted research on public finance management, transparency in extractive industries, and good governance. He is currently an affiliated Senior Visiting Fellow at the London School of Economics and Political Science (LSE). Previously, he served as an affiliated visiting professor in the Department of Political Science and Economics at Rutgers University and as a postdoctoral fellow at the Rutgers Center for European Studies (2018–2021).

His research examines the economic, social, environmental, and political implications of oil and gas revenue management, corruption among Azerbaijani elites, and the geopolitical consequences of the EU's gas relations with authoritarian petro-states. His work pays particular attention to elite asset concealment abroad, petro-authoritarianism, and its role in hindering climate action in Azerbaijan, Kazakhstan, and Russia.

A steadfast advocate for transparency, Dr. Ibadoghlu served on the international board of the Extractive Industries Transparency Initiative (EITI) from 2013 to 2019, despite significant government pressure. He is also a member of the Working Group on Grand Corruption and State Capture and Asset Recovery of the UNCAC Coalition, and a national expert contributing to OECD Anti-Corruption Network monitoring in Eastern Europe and Central Asia.

Dr. Ibadoghlu has played a central role in uncovering offshore wealth and illicit property acquisitions by Azerbaijan's ruling elites, particularly in the United Kingdom, including issues highlighted in the Pandora Papers. He promotes asset recovery initiatives and co-founded the Azerbaijani Youth Education Foundation (AYEF) in the UK to support youth education with funds originating from confiscated corrupt assets.

Internationally recognized for his work—including as a Sakharov Prize finalist—he has been subjected to an escalating campaign of repression. On 23 July 2023, less than a month after establishing AYEF, he was arbitrarily arrested in Azerbaijan. After 274 days of pre-trial detention, he was transferred to house arrest, where he continues to face severe restrictions on his movement, professional activity, and personal freedom.

Abstract

Despite hosting COP29 in November 2024 and assuming a leadership role in global climate governance, Azerbaijan is not only increasing its investments in the national oil and gas industry, but also—through its state energy company, the State Oil Company of the Azerbaijan Republic (SOCAR)—expanding investments abroad, and—through its state shipping company, the Azerbaijan Caspian Shipping Closed Joint-Stock Company (ASCO)—participating in the transport of sanctioned Russian oil. These activities undermine the COP's stated goals of moving away from fossil fuels and contradict Azerbaijan's commitments in international climate negotiations.

Accordingly, this paper analyzes how, during a period when it would be expected to lead global calls for decarbonization, the Azerbaijani government presents itself as an expanding petrostate. The paper examines Azerbaijan's intensifying partnerships with major transnational oil companies such as BP, TotalEnergies, Eni, ExxonMobil, Chevron, and Lukoil; the country's oil and gas sector investments abroad; and cases of selling Russian oil and gas under its own brand—both retrospectively and in terms of Azerbaijan's current energy transition prospects.

The study evaluates Azerbaijan's use of COP29 as an opportunity to increase fossil fuel investment, along with its renewed post-COP29 strategies of engaging with energy companies from the United Kingdom, the United States, European Union, Türkiye, UAE and Russia. It argues that Azerbaijan's prioritization of hydrocarbons not only contradicts the spirit of its COP29 presidency but also reflects the broader global failure to reconcile geopolitical energy interests with climate commitments.

List of Abbreviations

ACE – Azeri Central East (platform)

ACG – Azeri–Chirag–Deepwater Guneshli

ADB – Asian Development Bank

ADNOC – Abu Dhabi National Oil Company

AIIB – Asian Infrastructure Investment Bank

ASCO – Azerbaijan Caspian Shipping Closed Joint-Stock Company

AZN – Azerbaijani Manat

BCM – Billion Cubic Meters

BP – British Petroleum

BTC – Baku–Tbilisi–Ceyhan Pipeline

CH_4 – Methane

CO_2 – Carbon Dioxide

COP – Conference of the Parties (to the UNFCCC)

CREA – Centre for Research on Energy and Clean Air

CSD – Center for the Study of Democracy

DWT – Deadweight Tons

EBRD – European Bank for Reconstruction and Development

EDGAR – Emissions Database for Global Atmospheric Research

EITI – Extractive Industries Transparency Initiative

ENOC – Emirates National Oil Company

EU – European Union

EUR – Euro

GDP – Gross Domestic Product

GHG – Greenhouse Gas

GW – Gigawatt

JRC – Joint Research Centre (European Commission)

KWh – Kilowatt-hour

LNG – Liquefied Natural Gas

MCM – Million Cubic Meters

MMT CO_2e – Million Metric Tons of Carbon Dioxide Equivalent

MoU – Memorandum of Understanding

MVM – Hungarian Energy Group MVM

ND-GAIN – Notre Dame Global Adaptation Initiative

NGO – Non-Governmental Organization

OCCRP – Organized Crime and Corruption Reporting Project

PSA – Production Sharing Agreement

RSA – Risk Service Agreement

SCADA - Supervisory Control And Data Acquisition

SDC – Shah Deniz Compression Project

SGC – Southern Gas Corridor

SOCAR – State Oil Company of the Republic of Azerbaijan

SOFAZ – State Oil Fund of the Republic of Azerbaijan

TANAP – Trans-Anatolian Natural Gas Pipeline

TAP – Trans Adriatic Pipeline

TPAO – Turkish Petroleum Corporation

UAE – United Arab Emirates

UK – United Kingdom

UN – United Nations

UNFCCC – United Nations Framework Convention on Climate Change

USD / USD – United States Dollar

Introduction

Azerbaijan hosted the 29th COP in Baku in November 2024. Azerbaijan held this leadership position in the UN climate process until the UN Climate Change Conference (UNFCCC COP 30) in Belem, Brazil, in November 2025. Until then, Azerbaijan's central commitment was to ensure the implementation of the decisions taken at the previous UN Climate Change Conferences. Despite this crucial role, the Azerbaijani government does not appear interested in implementing important climate commitments and COP decisions, instead focusing on extractive measures in the fossil fuel sector.

Prior to COP29 and at the meeting's opening ceremony, Azerbaijan's President Ilham Aliyev, who has ruled Azerbaijan for 22 years and calls natural resources a "gift of God,"[1] declared the importance of the fossil fuel sector to his rule and created a targeted smear campaign in Western media, which he argued unfairly applied the "petrostate" label to Azerbaijan. "It is not fair to call Azerbaijan a 'petrostate'," Aliyev said, pointing out that the country accounts for less than 1% of global oil and gas. A petrostate, in political terms, is "a small oil-rich country in which institutions are weak, and wealth and power are concentrated in the hands of a few."[2] In scientific classification, a "petrostate" is a country with an economy that is heavily reliant on the extraction and export of oil or natural gas.[3] Therefore, petrostate countries are not defined by their specific weight in global oil and gas production.

[1] COP29: Oil and gas 'gift of god', says host Azerbaijan president
[2] https://www.collinsdictionary.com/dictionary/english/petrostate
[3] https://www.cfr.org/backgrounder/venezuela-crisis

Azerbaijan has long relied on its rich oil and gas reserves as pillars of economic development. The country's oil and gas sector contributed 87.36% of the country's export earnings,[4] 30.6% of its GDP,[5] and 49.38% of budget revenues in 2024.[6]

During his most recent US presidential election campaign, Donald Trump, at a Republican town hall on May 11, 2023, declared "Drill, Baby, Drill."[7] The signing of the National Emergencies Act[8] on the first day of office by US President Donald Trump and the US withdrawal from the Paris Agreement indicated that the new administration would continue its previous pro-fossil fuel agenda. Declaring an energy emergency allows the Trump administration to fast-track permits for new fossil fuel infrastructure. There are two ways to increase oil production in the United States. The first is to ease government regulation; the second is to create incentives for oil companies to produce more. Undoubtedly, oil and gas producing companies that are satisfied with the first are not interested in a significant price decrease.

The fossil fuel-oriented agenda of the Trump administration has emboldened resource-rich states such as Azerbaijan, which remain heavily dependent on oil and gas revenues, to intensify efforts to attract investment in hydrocarbon development. In principle, however, Azerbaijan is obligated—both by domestic policy objectives and international climate commitments—to advance the

[4] https://customs.gov.az/uploads/foreign/2024/2024_12.pdf?v=1737520142
[5] https://apa.az/energy-and-industry/mikayil-cabbarov-neft-qaz-sektorunun-udm-de-payi-306-e-enib-888351
[6] https://www.maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/static-pages/files/67989e451f57c.pdf
[7] https://www.npr.org/2024/11/13/nx-s1-5181963/trump-promises-more-drilling-in-the-u-s-to-boost-fossil-fuel-production
[8] https://www.whitehouse.gov/presidential-actions/2025/01/declaring-a-national-energy-emergency/

diversification of its energy portfolio and expand activities in alternative and renewable energy. Contrary to these obligations, Azerbaijan has used the opportunity of hosting COP29 to court increased investment in its oil and gas sector, in direct disregard of the recommendations adopted at COP28.
At COP28 in Dubai, parties agreed on the gradual elimination of inefficient fossil fuel subsidies and the adoption of measures to transition energy systems away from fossil fuels. The Azerbaijani government has shown little commitment to these directives, signaling indifference to the call for structural decarbonization. Instead, it has actively deepened its engagement with major transnational energy corporations, thereby reinforcing its petrostate trajectory.

A striking example of this approach is the Memorandum of Understanding (MoU) signed on August 8, 2025, between SOCAR and ExxonMobil. The signing ceremony was attended by Azerbaijani President Ilham Aliyev and US Presidential Envoy Stephen Witkoff, with the agreement formally executed by Azerbaijan's Minister of Economy Mikayil Jabbarov and ExxonMobil Vice President John Ardill.[9] This high-profile accord epitomizes Azerbaijan's strategy of leveraging the COP29 presidency to secure substantial fossil fuel investment, while also signaling a renewed strategic alignment with major American, European, and Russian energy corporations in the post-COP29 period.

[9] https://caspianpost.com/azerbaijan/socar-and-exxonmobil-signed-a-memorandum-of-cooperation

Post-COP29 Strategies for Engaging with Energy Companies

New Engagement with BP

SOCAR[10] and global energy giant BP[11] (the largest foreign investor in Azerbaijan[12]) are increasing their investments in the oil and gas sector. This comes with other costs: continued reliance on oil and gas, without diversifying the economy, could lead to significant socio-economic and environmental challenges in the future.

On December 18, 2024, less than a month after the end of COP29, in an interview[13] with Dmitry Kiselev, Director General of *Rossiya Segodnya International News Agency*, the President of Azerbaijan announced an increase in oil reserves at the country's largest block, Azeri-Chirag- Deepwater Guneshli (ACG). "According to new estimates, the reserves of the field, which we have been developing for 30 years, have grown to 1.5 billion tons," Ilham Aliyev emphasized.
The government of Azerbaijan cooperates extensively and intensively with BP in this direction. BP has maintained a strong presence in Azerbaijan for 32 years, successfully and reliably managing major oil and gas exploration, development, and transportation projects. To date, in collaboration with its co-venturers, BP has invested over $85 billion in the country's energy sector.[14]

[10] https://socar.az/
[11] https://www.bp.com/
[12] https://www.bp.com/en_az/azerbaijan/home/who-we-are/bp-in-azerbaijan/bp-in-azerbaijan--30-years-together.html
[13] https://president.az/en/articles/view/67537
[14] https://www.bp.com/en_az/azerbaijan/home/news/press-releases/Promoting-Azerbaijans-rich-cultural-heritage.html

BP is the operator of the consortium established to exploit Azerbaijan's main oil (ACG[15]) and gas (Shah Deniz[16]) fields; thus, the government of Azerbaijan cooperates intensively with BP, which is the operator of the ACG project. ACG is beginning oil production from the new Azeri Central East (ACE) platform[17] as part of the ACG field development in the Azerbaijan sector of the Caspian Sea.[18]

Image 1. Opening Plenary at COP29 in Baku, Azerbaijan. Source: UN Climate Change / Kamran Guliyev.

Despite its stated global climate priorities, BP has advanced activities under the USD 6 billion ACE project. The ACE platform,[19] a promising venture, is the seventh

[15] https://www.bp.com/en_az/azerbaijan/home/who-we-are/operationsprojects/acg2.html
[16] https://www.bp.com/en_az/azerbaijan/home/who-we-are/operationsprojects/shahdeniz.html
[17] https://www.bp.com/en_az/azerbaijan/home/who-we-are/operationsprojects/acg2/azeri-central-east-development-project.html
[18] https://www.bp.com/en_az/azerbaijan/home/news/press-releases/ace-sanctioned.html
[19] https://www.bp.com/en_az/azerbaijan/home/who-we-are/operationsprojects/acg2/azeri-central-east-development-project.html

oil-producing platform installed on the giant ACG field in the Caspian Sea. It includes a new offshore platform and facilities designed to process up to 100,000 barrels of oil per day, and is expected to produce up to 300 million barrels over its lifetime.[20]

Initial production from ACE came from the first well spudded from the platform at the end of 2023. By the end of 2024, ACE production had increased to around 26,000 barrels per day (bpd), with two more wells brought online during the year.[21]

BP's Vice President for Wells in the Azerbaijan-Georgia-Türkiye region announced that BP plans to drill 19 wells in the ACG field block in 2025 at the IADC Drilling Caspian 2025 Conference & Exhibition in Baku on February 6-7, 2025. In his announcement, he emphasized BP's commitment to technological innovation and increased productivity.[22] BP also recently decided to build a new platform at the giant Shah Deniz gas condensate field in the Caspian Sea as part of the company's strategic plan to expand its operations and increase its production capacity. An investment agreement is planned to be signed this year.[23]

On September 20, 2024, during an anniversary event, BP signed a memorandum with SOCAR for two additional offshore blocks in the Caspian Sea: the Karabakh block and the Ashrafi-Dan Ulduzu-Aypara block. Additionally, BP is actively evaluating hydrocarbon reserves and planning future exploration activities in the

[20] https://www.bp.com/en/global/corporate/news-and-insights/press-releases/bp-begins-oil-production-from-major-new-platform-offshore-azerbaijan.html
[21] https://www.bp.com/en_az/azerbaijan/home/news/business-updates/2024-full-year-results.html#accordion_1
[22] https://report.az/energetika/bp-bu-il-acg-de-19-quyu-qazmagi-planlasdirir/
[23] https://turan.az/en/economics/bp-azerbaijan-details-plans-for-new-platform-at-shah-deniz-in-2025-789687

Shafag-Asiman offshore block.[24]

On June 3, 2025, BP announced[25] that it had completed its acquisition of participating interests in two offshore exploration and development blocks in the Azerbaijan sector of the Caspian Sea. Agreements finalizing the deal were signed between BP and SOCAR on the same day.

The first block is the Karabagh oil field, which is located 120 km east of Baku, 20-25 km from the Guneshli field at water depths of 150-200 meters. There is an existing risk service agreement (RSA) for the development of the field signed in 2018.

> *Despite its stated global climate priorities, BP has advanced activities under the USD 6 billion ACE project… It includes a new offshore platform and facilities designed to process up to 100,000 barrels of oil per day, and is expected to produce up to 300 million barrels over its lifetime.*

The second block is the Ashrafi–Dan Ulduzu–Aypara (ADUA) area located 90-110 km northeast of Baku at water depths ranging from 80 to 180 meters, containing a number of existing discoveries and prospective structures. The production sharing agreement (PSA) in relation to the ADUA area was also entered into in 2018.

[24] https://www.bp.com/en_az/azerbaijan/home/who-we-are/operationsprojects/shafag-asiman.html
[25] https://www.bp.com/en_az/azerbaijan/home/news/press-releases/bp-acquires-interests-in-two-exploration-and-development-blocks-in-the-Caspian-Sea.html

BP has acquired a 35% participating interest in each of the RSA and PSA from SOCAR, which will retain a 65% participating interest in each agreement. BP will become the operator in each of the RSA and PSA.

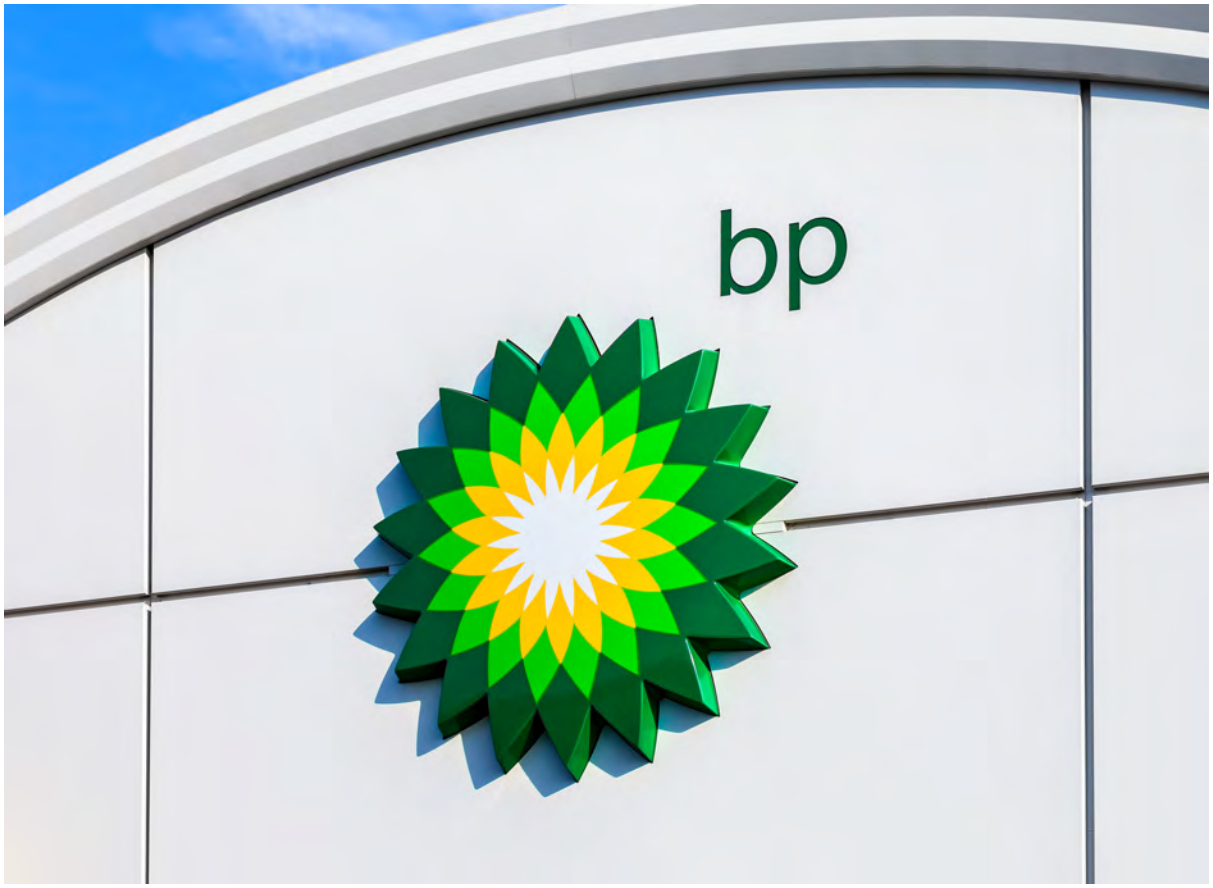

Image 2. British Petroleum (bp) logo. Source: Adobe Stock.

Simultaneously, it appears that BP's financial situation is deteriorating, and that the company is trying to cut costs. According to Bloomberg,[26] BP Plc is eliminating 4,700 positions internally—about 5% of its workforce—and more than 3,000 contractor jobs. More cost-cutting efforts are planned this year and beyond. At the beginning of 2025, BP's capitalization fell to USD 82 billion from approximately USD 152.6 billion in early 2018.[27]

[26] https://www.bloomberg.com/news/articles/2025-01-16/bp-eliminates-thousands-of-jobs-in-cost-cutting-effort-ceo-says
[27] https://www.linkedin.com/posts/ilham-shaban-71770326_bloomberg-activity-7285651895610736640-D9fE/

New Engagement with European Oil and Gas Companies

The Azerbaijani government is negotiating with **France's TotalEnergies** for a second phase of the Absheron field project, following the completion of the first production phase.[28] Progress on these plans is already underway. Currently, SOCAR and TotalEnergies each have a 35% stake in the Absheron project, while **Abu Dhabi National Oil Company (ADNOC)** has 30%.

On September 5, 2024, **Italian Eni** and SOCAR signed three MoUs.[29] The first MoU focused on the expansion of Eni and SOCAR's cooperation on hydrocarbon exploration and production, with the aim of strengthening European and Italian energy security.

A second MoU envisages cooperation between Eni and SOCAR to reduce greenhouse gas emissions and improve energy efficiency in the upstream sector in Azerbaijan, through the application of best available technologies. Finally, a third MoU, to explore potential cooperation in the biofuel production chain, has been signed.

Furthermore, on November 12, 2024, during the COP29 proceedings, SOCAR and the Italian company **Italgas** signed a cooperation agreement,[30] underscoring Azerbaijan's continued focus on expanding its hydrocarbon sector rather than

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[28] Azerbaijan: Inauguration of the Absheron gas field, https://totalenergies.com/media/news/press-releases/azerbaijan-inauguration-absheron-gas-field
[29] https://www.eni.com/en-IT/media/press-release/2024/09/eni-and-socar-sign-agreements-in-the-energy-security-reduction-of-greenhouse-gas-emissions-and-in-the-biofuel-production-chain-sectors.html
[30] COP29: Italgas and SOCAR Sign a Cooperation Agreement for the Gas Distribution Sector, https://www.italgas.it/en/press-release/cop29-italgas-and-socar-sign-a-cooperation-agreement-for-the-gas-distribution-sector/

aligning with international climate action goals.

On June 5, 2024, **Hungarian MVM Group** entered into a sale and purchase agreement with the Azerbaijani state-owned entity Southern Gas Corridor CJSC (SGC) for the acquisition of a 5% stake in the PSA for the Shah Deniz offshore gas-condensate field and a 4% stake in Azerbaijan Gas Supply Company Limited (AGSC), the exclusive special-purpose vehicle established for the marketing and sale of natural gas produced from Shah Deniz gas-condensate field.[31]

Simultaneously, SOCAR signed multiple agreements aimed at solidifying Azerbaijan's intent to monetize its remaining hydrocarbon resources. These agreements included three documents with BP and an MoU with the **Hungarian company MOL**, signaling an emerging strategic partnership. Hungarian Prime Minister Viktor Orbán, a self-declared ally of Azerbaijani President Ilham Aliyev, appears to be fostering closer ties between the two nations.[32]

New Engagement with US Oil and Gas Companies

American companies appear to have a renewed interest in Azerbaijan's oil and gas sector. **Chevron**, the second largest oil and gas company in the US, withdrew from Azerbaijani projects 5 years ago, when on November 4, 2019, it signed an agreement with Hungarian MOL to sell the company's assets in Azerbaijan for USD 1.57 billion—9.57% in the ACG project and 8.9% in BTC. The deal was completed

[31] https://mvm.hu/en/Media/MediaTartalmak/Hirek/20240830_Azerbajdzsan
[32] The celebration of the 30th anniversary of the "Contract of the Century" was marked by new oil and gas agreements with strategic partners, https://turan.az/en/industry/the-celebration-of-the-30th-anniversary-of-the-contract-of-the-century-was-marked-by-new-oil-and-gas-agreements-with-strategic-partners-784887

on April 16, 2020. In October 2020, Chevron announced the liquidation of its representative office (Chevron Azerbaijan Limited) in Azerbaijan.

> *Over the past 30 years, our two nations, both blessed with energy abundance, have enjoyed a tremendously productive partnership in the hydrocarbon sector… we support the right of every nation to leverage its resources for its own prosperity.*

However, Chevron has decided to return to the Azerbaijan oil and gas sector. In October 2024, at a meeting with the President of SOCAR, Chevron Eurasian Business Unit Executive Director Derek Magnes discussed joint activities in production and transportation, as well as cooperation in decarbonization.[33]

American oil giant **ExxonMobil** also plans to expand its business in Azerbaijan. Exxon entered Azerbaijan in 1995, one year after the signing of the Contract of the Century, and soon joined the ACG project before becoming a shareholder in the Baku-Tbilisi-Ceyhan (BTC) oil pipeline. In 2017, ahead of extending the contract for another 30 years, negotiations between BP and ExxonMobil became strained: due to falling global oil prices, the American company was reluctant to renew the deal on previous terms.[34]

It was also the operator of two exploration projects (the Nakhchivan and Zafar/Mashal projects) in Azerbaijan, which were terminated due to the discovery of commercially unattractive volumes of hydrocarbons.

[33] https://report.az/en/energy/socar-and-chevron-discuss-decarbonization/
[34] https://caspianpost.com/analytics/americans-to-explore-onshore-oil-in-azerbaijan

In addition, Exxon signed a contract in December 1999 with SOCAR for the exploration of the Savalan and Dalga offshore structures located in the southern part of the Azerbaijani sector of the Caspian Sea. However, this contract was not implemented at that time due to strong objections from Iran regarding the uncertainty of the legal status of the Caspian.

ExxonMobil is also currently a shareholder in the BTC pipeline. On June 3, 2025, at the Baku Energy Week conference, SOCAR and Exxon signed a memorandum of understanding for the exploration, development, and production of unconventional onshore oil reserves in Azerbaijan. According to the document, the American oil and gas giant will conduct a search for hydrocarbon resources in the central-western part of Azerbaijan.[35] Exxon already holds stakes in ACG.

Exxon's experience in developing unconventional oil could help Azerbaijan boost its onshore output, which currently accounts for just 5% of the country's total oil production, and open a new chapter in its oil industry.

On June 3, 2025, the US Senior Advisor for European and Eurasian Affairs at the Department of State delivered remarks at the Caspian Oil and Gas Exhibition and the Baku Energy Forum 2025. In his remarks,[36] he emphasized the longstanding and strategic energy partnership between the United States and Azerbaijan, noting that bilateral cooperation in the energy sector has spanned several decades.

On August 8, 2025, an MoU was signed between SOCAR and ExxonMobil, witnessed by Azerbaijani President Ilham Aliyev and US Presidential Envoy

[35] https://www.reuters.com/business/energy/azeri-socar-sign-agreements-with-exxon-mobil-bp-soon-three-sources-tell-reuters-2025-06-02/
[36] https://president.az/en/articles/view/69073

Stephen Witkoff in Washington D.C. The Memorandum between SOCAR and ExxonMobil could lead to the discovery a new major oil field in Azerbaijan.[37]

Image 3. State Oil Company of the Azerbaijan Republic (SOCAR). Source: Adobe Stock.

The Senior Advisor reaffirmed the US government's commitment to strengthening this relationship, underscoring shared objectives such as maximizing energy potential and ensuring long-term global energy security. His remarks reflected a strong endorsement of Azerbaijan's role in contributing to regional stability and energy supply diversification. Additionally, the Senior Advisor shared a congratulatory letter from President Donald Trump addressed to the forum's participants. In the letter, President Trump stated: "Over the past 30 years, our two nations, both blessed with energy abundance, have enjoyed a tremendously productive partnership in the hydrocarbon sector. We share the view that natural

[37] https://interfax.com/newsroom/top-stories/113173/

gas will play an essential role in meeting rising global energy demands in the coming decades, and we support the right of every nation to leverage its resources for its own prosperity. The United States values its partnership with Azerbaijan and appreciates the regional energy stability that makes it possible. I look forward to our continued collaboration in this important sector. Together, we can work towards a future of greater energy independence, sustainability, and economic growth."[38]

This message and the remarks delivered at the event underscore the priority the current US administration continues to place on cooperation with Azerbaijan in the oil and gas industry. Notably, neither the speech nor the letter made reference to energy transition, renewable energy development, or decarbonization efforts. This omission suggests a continued emphasis on fossil fuel partnerships, despite broader global calls for accelerated transition to clean energy sources.

New Engagement with Turkish and UAE-based Oil and Gas Companies

On June 3, 2025, the Turkish Petroleum Corporation (TPAO)[39] signed an agreement with SOCAR and BP to join the Shafag-Asiman gas project in the Caspian Sea.[40] According to Türkiye's Minister of Energy and Natural Resources, Alparslan Bayraktar, TPAO will acquire a 30% stake in the project, as he told TRT Haber in an interview.

[38] US president commends three decades of energy cooperation with Azerbaijan | Caliber.Az
[39] https://www.tpao.gov.tr/
[40] https://www.bp.com/en_az/azerbaijan/home/news/press-releases/Shafag-Asiman-set-to-accelerate-evaluation-of-gas-resources.html

The Shafag and Asiman offshore structures cover an area of about 1,100 square kilometers and are located approximately 125 kilometers southeast of Baku. This is a technically challenging site due to its complex geology. The water depth in this region ranges from 620 to 800 meters. The geological formation was first identified through seismic surveys back in 1961. In March 2021, the first exploration well was drilled in waters 623 meters deep, reaching a total depth of 7,189 meters. That effort uncovered modest gas-condensate reserves — but more notably, it marked the most expensive exploration well ever drilled in the Caspian Sea.

The original PSA for Shafag-Asiman was signed in July 2010 between SOCAR and BP, with each company holding a 50% share. Now, with TPAO coming on board, the partnership is set to expand and bring new momentum to Azerbaijan's offshore gas development.

On August 2, 2025, SOCAR confirmed plans to export 1.2 bcm of gas from the Shah Deniz field to **Syria** under a new agreement. The deal follows Syria's post-conflict transition and growing ties between the new government and Türkiye, a key regional ally.[41] There are new developments, and the deal is on hold: SOCAR and **Türkiye's Cengiz Holding** have established a consortium to negotiate the acquisition of a Lukoil refinery in Burgas, Bulgaria.[42]

[41] https://www.reuters.com/business/energy/azerbaijan-export-12-billion-cubic-metres-gas-syria-through-turkey-annually-2025-08-02/
[42] https://euasia.news/2025/08/19/72945/

Image 4. Shah Deniz field. Source: bp.

On November 3, 2025, **UAE-based energy investment platform XRG, part of ADNOC**, signed a non-binding agreement in Abu Dhabi to acquire a stake in Azerbaijan's Southern Gas Corridor (SGC).[43]

According to XRG, the deal was reached with Azerbaijan's Ministry of Economy, which holds 49% of SGC, while SOCAR owns the remaining 51%. The amount of the deal was not disclosed, but the Arab company said the investment aligns with XRG's regional strategy in the Caspian Sea and will facilitate gas supplies from Azerbaijan to the European market.

The planned entry of XRG as an SGC shareholder follows a May 2024 deal in which SOCAR acquired a 3% interest in Abu Dhabi's Umm Lulu and Satah Al

[43] https://www.upstreamonline.com/energy-security/adnocs-xrg-to-take-stake-in-azeri-gas-export-pipelines/2-1-1895588

Razboot (SARB) oil and condensate fields from Adnoc. The agreement reinforces the energy partnership between Azerbaijan and the UAE and deepens SOCAR's collaboration with ADNOC across the energy value chain. The SARB and Umm Lulu concession utilizes advanced digitalization and AI technologies for remote monitoring, smart well operations, and production management, aiming to optimize efficiency, reduce emissions, enhance safety, and increase production capacity.[44]

On November 5, 2025, **Dragon Oil**, a wholly owned subsidiary of the **Emirates National Oil Company (ENOC)**, signed an MoU with SOCAR and its trading arm, SOCAR Trading. The agreement establishes a framework for cooperation in the exploration, production, development, and marketing of hydrocarbon resources, as well as the joint assessment of future projects in the oil and gas sector. This partnership strengthens the emerging energy corridor connecting the United Arab Emirates, Azerbaijan, and Turkmenistan by integrating upstream capabilities, regional logistics, and global marketing expertise.[45]

SOCAR Expands Its Global Production Base

On February 2, 2025, SOCAR expanded its global presence with a new agreement to acquire a 10% stake in Israel's Tamar gas field from Union Energy.[46] Operated by Chevron Mediterranean Limited, a subsidiary of US-based Chevron, Tamar is one of the largest gas reserves in Israel's Mediterranean basin. The deal remains

[44] https://www.adnoc.ae/en/news-and-media/press-releases/2023/adnoc-awards-3-interest-in-sarb-and-umm-lulu-concession-to-socar/
[45] https://interfax.com/newsroom/top-stories/114681/
[46] https://www.timesofisrael.com/azerbaijans-state-oil-company-to-buy-10-stake-in-israels-tamar-gas-field/

subject to regulatory approvals and other conditions. This investment marks the start of SOCAR's engagement in the Mediterranean upstream sector, reinforcing its strategy to secure stakes in key international energy assets.

On June 10, 2025, SOCAR and SEFE (Securing Energy for Europe) signed a 10-year natural gas supply agreement. Annual volumes will gradually rise to 1.5 billion cubic meters (bcm), supporting investments in production and infrastructure to boost pipeline gas flows to Europe and enhance the continent's energy security. Deliveries from SOCAR to SEFE under this contract began in 2025.[47]

On July 28, 2025, **Naftogaz** of Ukraine signed an agreement with SOCAR Energy Ukraine (a subsidiary of SOCAR) for a pilot supply of Azerbaijani natural gas. The gas will be delivered via the Trans-Balkan pipeline, transiting Bulgaria and Romania.[48]

Since June 2024, Azerbaijani gas has reached Bulgaria through two main routes:

1. TANAP–TAP (Azerbaijan–Georgia–Türkiye–Greece–Bulgaria)
2. Southern route (Azerbaijan–Georgia–Türkiye–Bulgaria)

On July 30, 2025, SOCAR finalized a long-anticipated deal to expand its presence in Uzbekistan, agreeing to fund seismic surveys and drill an exploration well at the Ustyurt Plateau—a region with promising hydrocarbon potential.[49]

[47] https://www.sefe.eu/en/newsroom/press-releases/sefe-partners-with-azerbaijans-socar-to-import-up-to-15-twh-of-natural-gas-per-year
[48] https://interfax.com/newsroom/top-stories/112902/
[49] https://www.upstreamonline.com/exploration/azerbaijans-socar-signs-exploration-agreement-for-promising-uzbekistan-block/2-1-1851832

New Engagement with Russian Oil and Gas Companies

Russia's state-level interest in Azerbaijan's energy sector has grown in recent years. Russia aims for gas cooperation with Azerbaijan, and Russia remains one of Azerbaijan's key economic partners, ranking third in the republic's foreign trade. The Republic of Azerbaijan has about 1,800 companies with Russian capital in its market.

> *Baku appears to be adopting a pragmatic strategy: importing Russian gas to satisfy domestic consumption, thereby freeing up more of its own production for export to Europe.*

Russian President Vladimir Putin visited Azerbaijan on August 18-19, 2024, and as a result, Baku and Moscow expanded their joint activities in developing new fields in the Caspian Sea. According to the Russian president, **Lukoil** has invested up to $4 billion in Azerbaijan's energy projects so far. According to President Putin, the Convention on the Legal Status of the Caspian Sea has created new opportunities for mutually beneficial cooperation, and **Rosneft**, in addition to Lukoil, will begin joint activities with SOCAR in the near future to implement an oil and gas production project. Russian Deputy Prime Minister Alexander Novak told the press on July 3, 2024,[50] that "we have a very broad spectrum of issues in the energy sector with Azerbaijan. This includes the development of joint ventures and the participation of Russian companies such as Lukoil, **Tatneft**, **Sibur**, and **Novatek** in

[50] Lukoil, Tatneft, Sibur, Novatek discussing joint projects with Azerbaijan, https://interfax.com/newsroom/top-stories/103989/

new projects with their Azerbaijani counterparts."[51] For example, Tatneft and SOCAR will carry out the development of the Bibi-Heybat onshore field.

The Russian government chose to travel to Azerbaijan not only because of its authoritarian leadership's loyalty to anti-Western policies, but also due to Azerbaijan's strategic geographical position, including access to the Caspian Sea, as well as the development of its energy and transportation infrastructure. The growing negative impact of consecutive sanctions and embargoes imposed on Russia due to its war in Ukraine has weakened the Russian economy,[52] prompting the Putin regime to seek new opportunities in the Global South and East in an attempt to offset the damage caused by the disruption of economic, trade, and financial cooperation with the collective West.

Gazprom CEO Alexey Miller announced that Gazprom and SOCAR have agreed to expand their strategic partnership and that it is developing dynamically. "For example, there is the North-South project or the comprehensive scientific and technical program to be signed in September this year. An agreement has been reached to expand the multifaceted strategic partnership," the company's press service quoted Miller as saying.[53]

The history of gas deals between Azerbaijan and Russia has not been unilateral or regular. From 2000 to 2006, Gazprom supplied gas to Azerbaijan. In 2006, Azerbaijan purchased 4.5 bcm of gas from Russia. After the Shah Deniz field was commissioned in 2007 and Azerbaijan joined the ranks of gas exporters, gas supplies from Russia were halted. Between 2010 and 2014, under a medium-term

[51] https://news.az/news/-russian-companies-aim-to-expand-their-presence-in-azerbaijan
[52] Ibadoghlu, Gubad (2022), What impact would the EU's Russian oil ban have on the Kremlin? LSE European Politics and Policy (EUROPP) blog, https://blogs.lse.ac.uk/europpblog/2022/05/09/what-impactwould-the-eus-russian-oil-ban-have-on-the-kremlin/
[53] https://interfax.com/newsroom/top-stories/105223/

contract signed between SOCAR and Gazprom, Azerbaijan exported gas to Russia to meet Dagestan's gas demand. During these years, Azerbaijan's gas exports to Russia amounted to at least 500 million cubic meters annually. Between 2013 and 2015, Azerbaijan imported small volumes of Russian gas on an irregular basis.

Image 5. Russian pumpjacks in a winter field. Source: Adobe Stock.

In 2015, Azerbaijan's Methanol Plant (AzMeCo) imported gas from Russia for a short period. Later, Gazprom supplied gas to Azerbaijan during the winter months of 2017 and 2018. In 2017, Azerbaijan imported 349 million cubic meters (mcm) of gas through the Mozdok-Gazimammad pipeline, increasing to 998 mcm in 2018. Since 2019, Azerbaijan has significantly ramped up commercial gas production and is projected to be self-sufficient without the need for imported gas through at least 2022.[54]

In 2021, Azerbaijan and Russia agreed on a seasonal supply of gas. In 2022, under

[54] https://caspianbarrel.org/en/2020/11/gas-pipeline-mozdok-gazimammad-to-be-repaired/

an agreement signed between Gazprom Export LLC and SOCAR,[55] Azerbaijan resumed gas imports from Russia, and on November 15, 2022, under a new gas sales contract, the supply of Russian gas to Azerbaijan began. Under this contract, up to one billion cubic meters of gas was delivered to Azerbaijan by March 2023.

On January 17, 2025, Gazprom announced an agreement with SOCAR[56] on the North-South project (most likely, this concerns the supply of Russian pipeline gas through Azerbaijan to the northern provinces of Iran, which experience a shortage of blue fuel in the winter).[57] Russia eyes 55 bcm of gas exports to Iran per year.[58] On August 22, 2025, the 23rd meeting of the Intergovernmental Commission on Economic Cooperation between Russia and Azerbaijan took place in Astrakhan. During the meeting, the Deputy Prime Minister highlighted the mutually beneficial nature of Russian-Azerbaijani relations. Among the priorities, Alexei Overchuk mentioned joint efforts to strengthen transport connectivity in the region, to build up an independent financial architecture for mutual payments, to deepen cooperation in the energy sector and other industries, including shipbuilding, agriculture, and joint projects in the Caspian Sea.[59]

The January 2025 SOCAR-Gazprom arrangement allowed Azerbaijan to meet domestic energy needs while fulfilling its obligations to export more of its own gas to Europe—a move that many interpret as a form of "gas laundering." Under such a

[55] https://report.az/en/energy/russia-to-transport-1b-cubic-meters-of-gas-to-azerbaijan-by-march-2022/
[56] https://www.offshore-technology.com/news/gazprom-and-azerbaijan-socar-to-expand-strategic-partnership/
[57] Why is energy giant Iran facing gas shortages? – DW – 12/19/2024
[58] https://www.reuters.com/business/energy/russia-iran-discussing-supply-russian-gas-putin-says-2025-01-17/
[59] http://government.ru/en/news/56016/

strategy, Russian gas indirectly reaches European markets, circumventing sanctions while technically adhering to EU guidelines.[60]

This dynamic has unfolded against the backdrop of increasing cooperation between Russian and Azerbaijani energy interests. Lukoil, with close ties to the Kremlin, holds a 19.99% stake in the Shah Deniz gas field, Azerbaijan's flagship energy project and the cornerstone of the EU-bound Southern Gas Corridor (SGC). Lukoil is also involved in multiple segments of Azerbaijan's gas value chain, including the Shallow Water Absheron Peninsula (SWAP) exploration project, the South Caucasus Pipeline, and the Azerbaijan Gas Supply Company.[61] Through these stakes, Lukoil stands to gain an estimated $7 billion in profits over the next decade from gas exports that, on the surface, appear to be purely Azerbaijani.[62]

Such developments raise critical questions about the extent to which the European Union has genuinely disentangled itself from Russian energy. Although Brussels signed an MoU with Baku in 2022—aiming to increase Azerbaijani gas exports to the EU to 20 billion cubic meters by 2027—the path to meeting this target is far from straightforward. Azerbaijan faces structural constraints in rapidly scaling up production and export capacity. In response, Baku appears to be adopting a pragmatic strategy: importing Russian gas to satisfy domestic consumption, thereby freeing up more of its own production for export to Europe. This approach enables Azerbaijan to position itself as a "reliable" energy partner to the Europe,[63] even as it maintains discreet energy ties with Moscow.

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[60] https://www.aa.com.tr/en/asia-pacific/russias-gazprom-starts-gas-shipments-to-azerbaijan/2742137

[61] Ibadoghlu, Gubad (2024) : Russia's Energy Interests in Azerbaijan: A Retrospective Analysis and Prospective View, SSRN, Rochester, NY, https://doi.org/10.2139/ssrn.4943332

[62] https://globalwitness.org/en/press-releases/the-eus-gas-love-in-with-azerbaijan-is-a-gift-for-the-russian-oil-giant-lukoil/

[63] https://www.iene.eu/iene-news/announcements/latest-iene-analysis-focuses-on-the-role-of-azerbaijan-in-europes-energy-security-p8096.html

"Gas Laundromat": Russian Gas Imports & EU Commitments

Since 2021, Azerbaijan has been exporting natural gas to European countries via the Southern Gas Corridor (SGC), following the signing of an MoU on a Strategic Partnership in the Field of Energy between the European Union and Azerbaijan in July 2022,[64] which marked a pivotal moment in the EU's strategy to diversify away from Russian energy dependence. While this move is strategically significant, it raises critical concerns about the EU's broader energy transition objectives. It highlights a potential contradiction in the EU's partnership with Azerbaijan, casting doubt on the initiative's long-term feasibility and sustainability. It also raises questions about the possible reintroduction of Russian gas into the European market under the Azerbaijani brand.

> *According to Bruegel's daily import tracker, last updated April 11, 2025, the EU is still receiving slightly more gas from Russia per day than it is from Azerbaijan.*

After signing the MoU, it was immediately clear to both Brussels and Baku that Azerbaijan lacked sufficient domestic natural gas reserves to fully meet its export commitments. Azerbaijan committed to increase its gas exports to Europe to 20 bcm[65] annually by 2027—despite widely acknowledged limitations in both

[64] https://ec.europa.eu/commission/presscorner/detail/en/ip_22_4550
[65] Ibid.

production capacity and transport infrastructure.[66]

To meet this target, Azerbaijan must not only ramp up domestic gas production but also expand the infrastructure of the USD 33 billion SGC,[67] which includes three major transit pipelines transporting Caspian gas to European markets. This scale of infrastructure development requires significant capital investment and time—neither of which are guaranteed under the current memorandum. Financing such expansion depends on long-term, binding purchase agreements rather than diplomatic declarations of intent.[68] On June 10, 2025, SEFE (Securing Energy for Europe, Germany) and SOCAR signed a long-term natural gas supply agreement, securing approximately 1.5 billion cubic meters annually for the next 10 years,[69] but this is far from the stated goal.

Crucially, Europe's own energy trajectory calls into question whether Azerbaijani pipeline gas will be needed over the next decade, despite Azerbaijan's pledge to increase exports to Europe.

One potential workaround involves shifting Azerbaijani gas exports from Georgia to Europe, replacing them with Russian imports into Georgia.[70] SOCAR exports approximately 1.3 bcm of gas annually to Georgia via the Hajigabul–Gazakh–Saguramo pipeline.[71] Azerbaijani gas also travels to Georgia from the Shah Deniz

[66] https://www.iea.org/policies/16134-european-union-and-azerbaijan-mou-to-increase-energy-cooperation
[67] https://english.nv.ua/business/azerbaijan-ups-gas-exports-to-europe-aims-for-14-bcm-annually-by-2026-50504113.html
[68] Ibadoghlu, Gubad (2024), Current State of Azerbaijan's Gas & Oil Cooperation with Europe: Opportunities and Challenges. Available at SSRN: https://ssrn.com/abstract=4931082 or http://dx.doi.org/10.2139/ssrn.4931082
[69] https://www.sefe.eu/en/newsroom/press-releases/sefe-partners-with-azerbaijans-socar-to-import-up-to-15-twh-of-natural-gas-per-year
[70] https://caspianpost.com/opinion/europe-takes-azerbaijani-gas-georgia-turns-back-to-russian-supplies
[71] https://minenergy.gov.az/en/qaz/cenubi-qafqaz-boru-kemeri-cqbk

field via the South Caucasus Pipeline (Baku-Tbilisi-Erzurum).[72] If Georgia were to resume importing Russian gas, Azerbaijani gas currently sold to Georgia could be rerouted to Europe via Türkiye and Bulgaria using the Trans-Anatolian Pipeline (TANAP) and associated interconnectors.

Image 6. Oilfield on the outskirts of Baku, Azerbaijan. Source: Adobe Stock.

The EU's accelerated push towards renewable energy, enhanced energy efficiency, and increased LNG imports suggests a declining role for new pipeline-based gas supply. The European Commission's roadmap for a 90% emissions reduction by 2040 forecasts gas demand to fall to approximately 117 bcm annually—a 66% drop from 2023 levels.[73] This projection diminishes the attractiveness of long-term fossil fuel infrastructure investments, particularly

[72] https://interfax.com/newsroom/top-stories/99656/
[73] Zero Carbon Analytics (2024) Existing gas supplies to meet EU demand under 2040 emissions target, Briefing 16 June 2024

between the EU and peripheral suppliers such as Azerbaijan.

In 2024, Norway and the United States emerged as the primary suppliers of natural gas to the EU, with Norway accounting for 45.6% of pipeline gas and the US providing 45.3% of LNG imports. Other contributors included Algeria (19.3%), Russia (16.6%), the UK (8%), with Azerbaijan accounting for approximately 7.2% of the EU's pipeline gas imports in 2024, with total exports reaching around 12.6 bcm - a slight increase from 11.8 bcm in 2023, 11.4 bcm in 2022 and 8.2 bcm in 2021. According to Bruegel's daily import tracker, last updated April 11, 2025, the EU is still receiving slightly more gas from Russia per day than it is from Azerbaijan.[74]

Image 7. Trans Adriatic Pipeline (TAP) of the Southern Gas Corridor. Source: tap-ag.com.

Azerbaijani natural gas was delivered to Europe primarily via the Trans Adriatic Pipeline (TAP), which transports the gas through Greece and Albania to southern Italy. In recent years, Azerbaijan has made significant strides in expanding the reach of its gas exports to Southern and Central European countries and the Balkan states and has expanded its natural gas exports via interconnectors to 10 European countries: Italy, Greece, Bulgaria, Romania, Hungary, Serbia, Slovenia,

[74] https://eurasianet.org/azerbaijans-energy-relations-with-eu-experiencing-bout-of-uncertainty

Croatia, Slovakia, and North Macedonia.[75] In 2024, the volume of gas exported from Azerbaijan to Italy, Bulgaria, and Greece amounted to 12.6 bcm, which is 97.6% of the gas transported to Europe.[76] These data suggest that, despite political statements, Azerbaijan does not actually export gas to 10 European countries. Instead, it signs agreements with them for this purpose.

In November 2023, Serbia and Azerbaijan signed an agreement for the annual supply of up to 400 million cubic meters (mcm) of Azerbaijani natural gas from 2024 through 2026.[77] Deliveries began later that year, marking a milestone: for the first time, Serbia could partially diversify away from Russian gas during the critical winter heating season.

Despite the contract's provision for 400 mcm, actual deliveries in 2024 amounted to just 72.1 mcm—well below expectations.[78] Given that Serbia's annual gas consumption exceeds 3 bcm, the shortfall is significant.

Since then, the partnership has faced major setbacks. On January 11, 2025, Serbian President Aleksandar Vučić, quoted by the Tanjug news agency,[79] announced that gas supplies from Azerbaijan had been suspended, with no indication of when—or if—they might resume.

In response, Serbia has been forced to reassess its energy strategy. Dušan Bajatović, General Director of the state-owned utility Srbijagas, confirmed the

[75] https://caspiannews.com/news-detail/president-aliyev-highlights-plans-for-gas-supply-expansion-to-europe-investment-growth-2025-4-8-0/
[76] https://customs.gov.az/az/faydali/gomruk-statistikasi/statistics-bulletin
[77] https://seenews.com/news/azerbaijan-to-not-suspend-gas-supplies-to-serbia-vucic-1269213
[78] https://customs.gov.az/az/faydali/gomruk-statistikasi/statistics-bulletin
[79] https://www.dailysabah.com/business/energy/azerbaijans-gas-flows-to-serbia-halted-serbian-president-says

disruption in an interview with TV Prva[80]: "We have essentially negotiated a contract with the Russians, but it will not be signed before September 20, 2025, because at this moment we do not know what Azerbaijan can offer us. There is no gas in Azerbaijan."[81]

Bajatović's remarks point to a broader concern: Azerbaijan's export capacity appears insufficient to meet even modest contractual obligations. This raises serious questions about Baku's reliability as a long-term energy supplier to Europe.

Notably, Serbia has become the first European country to publicly acknowledge that Azerbaijan currently lacks the gas volumes needed to meet its growing export commitments—a troubling signal for other European partners looking to diversify away from Russian energy.

> ***Some EU experts are already taking a hard look at the union's gas import needs and are concluding that Baku's gas is not such a vital element for Europe's energy future.***

Additionally, Azerbaijan has gas supply contracts with Italy, Greece, Bulgaria, Romania, Hungary, Slovenia and Croatia, a short-term contract with Slovakia and a memorandum with North Macedonia. It has long-term contracts with a fixed

[80] https://serbia-business.eu/serbia-delays-signing-new-russian-gas-contract-amid-azerbaijan-supply-uncertainty/
[81] Bajatović: Serbia negotiated a new gas agreement with the Russia

supply volume with Italy, Greece and Bulgaria, and contracts without fixed volumes with the rest.[82]

SOCAR and Slovakian SPP signed a short-term pilot contract on December 1, 2024. The companies intend to develop a long-term partnership, with this supply marking Slovakia as the twelfth country to receive Azerbaijani gas. The initiative is part of efforts by Slovakia to diversify its energy sources, especially as the transit agreement for Russian gas through Ukraine was set to expire at the end of 2024.[83] Slovak Prime Minister Robert Fico acknowledged on March 20, 2025 significant technical difficulties obstructing a proposed gas swap deal with Azerbaijan.[84] "We are negotiating with Azerbaijan. We continue to push for a swap operation but are facing all sorts of technical problems," Fico told a meeting of the Slovak parliament's European Affairs Committee.[85]

Azerbaijan's export earnings from natural gas surged from USD 5.56 billion in 2021[86] to USD 14.98 billion in 2022,[87] reflecting a sharp increase driven by higher global energy prices. However, Azerbaijan's export earnings from natural gas declined from USD 13.68 billion in 2023[88] to USD 8.41 billion in 2024.[89] Although Azerbaijan's natural gas export volumes have increased and its export geography has expanded in recent years, export earnings have declined—mainly due to the stabilization of global gas prices following the previous year's energy market volatility.

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[82] https://interfax.com/newsroom/top-stories/111524/
[83] https://report.az/en/energy/socar-begins-natural-gas-supply-to-slovakia
[84] https://energynews.pro/en/slovakia-fico-slowed-by-technical-hurdles-in-gas-swap-deal-with-azerbaijan/
[85] https://www.spglobal.com/commodity-insights/en/news-research/latest-news/natural-gas/032125-slovakias-pm-fico-admits-problems-negotiating-azerbaijan-gas-swap-deal
[86] https://customs.gov.az/uploads/foreign/2021/2021_12.pdf?v=1643353987
[87] https://customs.gov.az/uploads/foreign/2022/2022_12.pdf?v=1674644815
[88] https://customs.gov.az/uploads/foreign/2023/2023_12.pdf?v=1705581222
[89] https://customs.gov.az/uploads/foreign/2024/2024_12.pdf?v=1737520142

TAP's current capacity remains a key bottleneck to further increases in Azerbaijani gas exports. However, expansion plans aim to raise its annual throughput to 14 bcm by 2026.[90] Supporting Azerbaijan's strategy to boost exports to the European market, an agreement between Turkey's BOTAŞ and SOCAR facilitates the flow of Azerbaijani gas to Europe via the Turkey–Bulgaria interconnector, which already transports up to 600 million cubic meters annually.[91] If this upgrade proceeds on schedule and if the Turkey–Bulgaria interconnector's transmission is increased from 600 million to 1-2 bcm annually, Azerbaijan could realistically supply between 15–16 bcm of gas to Europe by 2026. Moreover, Azerbaijani gas sold to Turkey could be re-exported to Europe via Bulgaria,[92] potentially masking the true origin of the fuel.

The EU's future energy system may have limited space for existing pipeline gas flows from Azerbaijan, especially given the growing role of more flexible and geopolitically aligned LNG supplies. In this context, the EU's embrace of Azerbaijan as a strategic gas partner may reflect more short-term geopolitical calculus than long-term energy strategy. Some EU experts[93] are already taking a hard look at the union's gas import needs and are concluding that Baku's gas is not such a vital element for Europe's energy future. A report published by the Germany-based Heinrich Böll Foundation, stated, "Azerbaijan is an important, but by no means indispensable, energy supplier for Europe."[94]

[90] https://report.az/en/energy/bp-vice-president-work-underway-to-increase-azerbaijani-gas-exports-to-europe-to-14bcm-from-2026/
[91] https://www.botas.gov.tr/Icerik/natural-gas-agreement-with-aze/972
[92] https://caspiannews.com/news-detail/azerbaijan-doubles-gas-supplies-to-bulgaria-strengthening-energy-ties-2025-1-29-0/
[93] https://eurasianet.org/azerbaijans-energy-relations-with-eu-experiencing-bout-of-uncertainty
[94] https://energytransition.org/2024/11/the-eu-and-azerbaijan-as-energy-partners-short-term-benefits-uncertain-future/

In a geopolitical landscape reshaped by the war in Ukraine and the EU's subsequent pivot away from Russian energy, Azerbaijan has emerged as a seemingly reliable alternative supplier of natural gas to Europe. However, beneath the surface of this strategic alignment lies a complex and politically sensitive reality: Baku continues to import Russian gas, effectively preserving energy ties with Moscow despite EU sanctions aimed at curbing Russian fossil fuel influence.[95]

> ***The presence of indirect swap and re-export mechanisms—particularly through Georgia and Turkey—raises credible concerns about the potential for Russian gas to be "rebranded" as Azerbaijani before entering European markets.***

Azerbaijan imports natural gas from both Russia and Turkmenistan to manage its domestic supply-demand balance. In November 2022, Azerbaijan signed an agreement with Gazprom to import up to one billion cubic meters (bcm) of Russian gas through March 2023.[96] The Hajigabul-Shirvanovka-Mozdok pipeline,[97] which facilitates these imports, has an actual transmission capacity of approximately 5 bcm,[98] making it a more practical option for addressing shortfalls in domestic supply. Turkmen gas is imported via swap arrangements involving Iran,[99] but the Hajıgabul-Astara-Abadan pipeline[100]—used for this purpose—has a significantly lower operational capacity of just 2.5 bcm, limiting its ability to offset

[95] Ibadoghlu, Gubad (2024), Russia's Energy Interests in Azerbaijan: A Retrospective Analysis and Prospective View, SSRN, Rochester, NY, https://doi.org/10.2139/ssrn.4943332
[96] https://interfax.com/newsroom/top-stories/85105/
[97] https://www.gem.wiki/Hajigabul-Shirvanovka-Mozdok_Pipeline
[98] https://caspianbarrel.org/en/2020/11/gas-pipeline-mozdok-gazimammad-to-be-repaired/
[99] https://oe.tradoc.army.mil/product/iran-agrees-to-gas-swap-with-azerbaijan-turkmenistan/
[100] https://www.gem.wiki/Hajiqabul%E2%80%93Astara%E2%80%93Abadan_Gas_Pipeline

Azerbaijan's growing export commitments. Thus, it is the import of Russian natural gas to Azerbaijan that raises significant concerns in the context of Azerbaijan's energy deals with the EU.

Image 8. European Parliament, Strasbourg, France. Source: Unsplash.

Crucially, neither the Mozdok–Hajigabul pipeline from Russia nor the Abadan–Hajıgabul pipeline from Iran is integrated with the Sangachal terminal[101] or the SGC infrastructure, which primarily transports gas from the Shah Deniz field[102] to European markets. This structural separation suggests that imported Russian and Turkmen gas is designated solely for domestic consumption. However, the presence of indirect swap and re-export mechanisms—particularly through Georgia and Turkey—raises credible concerns about the potential for Russian gas

[101] https://www.bp.com/en_az/azerbaijan/home/who-we-are/operationsprojects/terminals/sangachal_terminal.html
[102] https://www.bp.com/en_az/azerbaijan/home/who-we-are/operationsprojects/shahdeniz.html

to be "rebranded" as Azerbaijani before entering European markets. Such practices blur the lines of energy provenance, complicating the EU's efforts to fully disengage from Russian fossil fuels.

Image 9. Capsian Pipeline Consortium (CPC). Source: cpc.ru

Azerbaijan has been accommodating increased volumes of Kazakh crude through the BTC pipeline, reflecting Kazakhstan's efforts to diversify its export routes and reduce dependence on the Caspian Pipeline Consortium (CPC). The CPC pipeline is jointly used by both Kazakhstan and Russia, with their crude flows merging along the route—raising concerns about the potential blending of Russian oil into the CPC stream. In response, Kazakhstan has steadily increased the westward transportation of its crude via the BTC pipeline in recent years.[103]

The absence of stricter import controls on gas transmitted from Azerbaijan to Europe via the Turkey-Bulgaria interconnector, coupled with the lack of isotopic tracing at Turkey's export hubs—where SCADA systems[104] prioritize flow efficiency over origin verification—has enabled Ankara to bypass EU sanctions tracing

[103] Azerbaijan and Kazakhstan Deepen Strategic Partnership Through Middle Corridor - The Times Of Central Asia

[104] https://energiesmedia.com/the-role-of-scada-systems-in-enhancing-operational-efficiency-in-oil-and-gas-operations/

mechanisms. These practices have heightened distrust in Brussels, particularly as the REPowerEU plan[105] aims for a complete phase-out of Russian hydrocarbons by 2027.

The strategic partnership among Gazprom, Lukoil, and SOCAR has significantly enhanced opportunities for Russian oil and gas to reach European markets through Azerbaijan, while also presenting new avenues for Russian oil companies to participate in regional energy projects. These collaborations position Russian firms to benefit from increased access to Europe, leveraging Azerbaijan's and Turkey's oil and gas infrastructure belonging to SOCAR.

"According to Alexey Gromov of the Russian Institute of Energy and Finance, Azerbaijan benefited from the arrangement by purchasing 1.53 million tons of Russian Urals crude for domestic use in 2024, while continuing to export its own higher-value Azeri Light oil."[106]

Let us examine four potential channels through which Russian gas and oil could be rebranded and delivered to European markets under the Azerbaijani label.

[105] https://commission.europa.eu/topics/energy/repowereu_en
[106] https://newizv.ru/news/2025-07-03/ekspert-gromov-azerbaydzhan-most-gazproma-v-yuzhnuyu-aziyu-i-na-blizhniy-vostok-437350

A detailed arithmetic analysis of Azerbaijan's natural gas **input-output balance in 2023** offers revealing insights into the potential export of Russian gas under an Azerbaijani label. Here are the key figures:

Item	Volume (bcm)	Notes / Source
Domestic commodity gas production	36.414	Total commodity gas produced in Azerbaijan
Total natural gas imports	2.322	Including 1.517 bcm from Turkmenistan, 0.801 bcm from Russia, and 0.001 bcm from Kazakhstan (State Customs Committee)
→ **Total gas input**	**38.736**	Sum of production and imports
Domestic consumption	13.439	Internal demand
Total natural gas exports	26.623	State Customs Committee data
→ **Total gas output**	**40.062**	Sum of exports and domestic consumption
Input–output imbalance	**1.326**	Output exceeds input by 1.326 bcm, indicating a potential discrepancy or unaccounted gas volume

Table 1. Azerbaijan's Natural Gas Input–Output Balance, 2023 (billion cubic meters, bcm).

Source: Compiled by the author based on data from the State Customs Committee and State Statistical Committee of the Republic of Azerbaijan (2024).

The mathematical calculations based on official statistics do not add up: Azerbaijan's reported commodity gas production is lower than the combined volumes it exports to Europe, Türkiye, and Georgia plus its domestic consumption. This discrepancy suggests the possibility of Russian gas being exported under the Azerbaijani label.

Azerbaijan is unlikely to meet its pledge to supply 20 bcm of gas annually to Europe by 2027 due to production limits and infrastructure constraints. A more realistic export figure is closer to 14 bcm. This shortfall, alongside growing energy ties between Baku and Moscow, raises critical concerns about the potential re-export of Russian gas to Europe under the Azerbaijani label.

> *Europe must confront the contradiction at the heart of its energy strategy: a push to cut dependence on Russian gas while enabling its indirect return through Azerbaijani routes.*

The arithmetic imbalance between Azerbaijan's gas input and output—combined with opaque swap deals and limited EU oversight—adds weight to these concerns. Despite this, Azerbaijan continues to push for EU investment in pipeline expansion, but skepticism in Brussels remains strong. The EU sees Azerbaijan as a short-term stopgap, not a long-term strategic partner.

Complicating matters further is Russia's deepening role in Azerbaijan's gas sector, particularly through Lukoil's almost 20% stake in the Shah Deniz field. That Lukoil remains unsanctioned in this venture highlights a glaring loophole in the EU's efforts to sever Russian energy ties.

Ultimately, Europe must confront the contradiction at the heart of its energy strategy: a push to cut dependence on Russian gas while enabling its indirect return through Azerbaijani routes. Without tighter oversight and clearer supply chain transparency, these contradictions risk undermining the EU's energy and geopolitical goals.

Azerbaijan's Involvement in the Russian Oil Supply Chain

Sanctions Regime against Russia's Shadow Fleet and Azerbaijan's Dilemma

On October 23, the European Union adopted its 19th sanctions package against the Russian Federation, tightening restrictions from previous decisions, and increasing the number of restricted vessels in Russia's shadow fleet to 557.[107] Critical measures in this package also include the elimination of the exemption for **Gazprom Neft** and **Rosneft**. However, the exemption for import of Russian fossil fuels from third countries continues to be in place.[108] The previous sanctions package was important for Azerbaijan's involvement in the Russian oil supply chain, as described below.

On July 18, 2025, the European Union adopted its 18th sanctions package against Russia (Council Decision 2025/1495),[109] which included restrictive measures on 105 tankers engaged in transporting Russian oil. According to the decision of the EU Council No. 2025/1495, these vessels are banned from entering EU ports and locks, as well as from accessing a wide range of maritime services, on the grounds that they contributed to Russia's energy revenues through high-risk or non-transparent shipping practices associated with the so-called "shadow fleet."

[107] EU adopts 19th package of sanctions against Russia - Finance
[108] ibid
[109] https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=OJ:L_202501495

Among the sanctioned vessels are three Azerbaijani-flagged crude oil tankers: *Shusha*, *Karabakh*, and *Zangazur*. Each of these ships has been documented transporting crude oil or petroleum products of Russian origin, primarily between the Russian port of Primorsk and the Turkish port of Nemrut.

- *Shusha* (IMO 9779941) – Built in 2017 in South Korea, the vessel was renamed and reflagged to Azerbaijan in June 2023. It is owned by SA Susha Shipholdings and operated by ASCO Shipmanagement AFEZCO, a subsidiary of the state-owned Azerbaijan Caspian Shipping Company (ASCO-SOCAR).

- *Karabakh* (IMO 9810513) – Constructed in Japan in 2018, this vessel was reflagged to Azerbaijan in June 2023. It is owned by SA Karabakh Shipholdings, with operations managed by ASCO Shipmanagement AFEZCO.

- *Zangazur* (IMO 9420617) – Built in Japan in 2010, the ship has undergone several name and flag changes before adopting its Azerbaijani identity in late 2023. It is owned by SA Zangazur Shipholdings, with technical management by ASCO Shipmanagement AFEZCO and commercial management by SA Maritime AFEZCO, a joint venture between ASCO and SOCAR.[110]

The EU blacklisted the *Shusha* and *Karabakh* tankers on July 18, 2025, while the *Zangazur* had already been sanctioned on May 20, 2025. On May 9, 2025, the UK government sanctioned the *Zangezur*, *Shusha*, and *Karabakh*, Aframax-class oil

[110] https://euasia.news/2025/07/18/72722/

tankers[111] owned by the Azerbaijan Caspian Shipping Closed Joint-Stock Company (ASCO).[112]

The European Union imposed sanctions against the Azerbaijani company **Aqua Fleet Management** as part of a new package of anti-Russian measures. Aqua Fleet Management is engaged in the transportation of oil – it operates two tankers, *Sauri* and *Ederra*, as well as the dry cargo ship *Temirro*.[113]

As part of the restrictions imposed on the Russian shadow fleet, the UK imposed sanctions on *Ederra* in February 2025. In February and March 2025, the EU and Switzerland, respectively, imposed sanctions on the tanker. In June 2025, Canada and Australia imposed sanctions on the vessel. These decisions to impose sanctions[114] on Azerbaijani-affiliated, state-owned enterprises allegedly involved in facilitating Russia's circumvention of international oil sanctions bring into sharp relief the geopolitical sensitivities surrounding Azerbaijan's energy sector.

> *The use of Azerbaijani-flagged vessels… demonstrates how Russian-origin oil continues to circulate through complex ownership structures and reflagging practices, despite Western attempts to curb its trade.*

[111] https://www.eia.gov/todayinenergy/detail.php?id=17991
[112] https://search-uk-sanctions-list.service.gov.uk/designations/RUS2579/Ship?utm_content=&utm_medium=email&utm_name=&utm_source=govdelivery
[113] https://euasia.news/2025/07/19/72513/
[114] https://www.lloydslist.com/LL1153409/UK-sanctions-100-dark-fleet-tankers

The UK also imposed sanctions on two Hong Kong–registered private entities, BX Energy and Nord Axis LTD,[115] both reportedly controlled by corporate interests based in Dubai,[116] and on five individuals – Etibar Eyyub, Tahir Garayev, Ahmad Kerimov, Anar Madatli, and Talat Safarov[117] – who are associated with these companies and others, most notably **Coral Energy**, which was restructured and rebranded as **2Rivers Energy** following a management buyout in 2024.[118]

According to official statements from the UK government, Etibar Eyyub, one of the sanctioned traders, was found to have links to both **BX Energy** and **Nord Axis LTD**, underscoring the interconnected nature of these commercial networks.[119]

Coral Energy, originally established in 2010 by Tahir Garayev, underwent a major organizational transformation in 2024 when its senior leadership—Chief Executive Officer Talat Safarov, Chief Financial Officer Ahmad Kerimov, and Anar Madatli—acquired full ownership of the firm.[120] Following this internal acquisition, the company rebranded as 2Rivers Group, retaining operational headquarters in Dubai and Singapore, and reportedly initiating plans to establish a subsidiary office in Switzerland.

[115] https://www.ft.com/content/29ea334e-3b90-46c9-a4e9-3044d4df40c7
[116] https://www.occrp.org/en/news/exclusive-uk-sanctions-azerbaijan-state-owned-tanker-for-shipping-russian-oil
[117]https://assets.publishing.service.gov.uk/media/681d97c79ef97b58cce3e615/Notice_Russia_090525.pdf
[118] https://www.spglobal.com/commodity-insights/en/news-research/latest-news/crude-oil/050925-uk-targets-azerbaijan-linked-traders-tankers-in-victory-day-sanctions-rampup
[119] https://www.occrp.org/en/news/exclusive-uk-sanctions-azerbaijan-state-owned-tanker-for-shipping-russian-oil
[120] https://www.reuters.com/markets/deals/management-buys-out-oil-trader-coral-energy-2024-06-25/

Following the rebranding, Coral Energy's trading activities were transitioned to a newly established entity, **Safira Global Trading**.[121] The original company, Coral Energy, was previously sanctioned in December 2024[122] for engaging in the sale of Russian-origin crude oil at prices below the internationally agreed price cap, thereby violating the terms of Western-imposed sanctions frameworks.

Image 10. Port of Novorossiysk, Russia. Source: Adobe Stock.

Coral Energy has also been identified as one of the commercial clients of SOCAR Trading S.A., with offtake agreements for the purchase and sale of crude oil at both the Supsa terminal in Georgia and the Ceyhan terminal in Turkey.[123] According to market sources, 2Rivers Energy is believed to maintain informal ties with influential political and economic stakeholders within Azerbaijan's ruling elite.[124]

[121] https://www.africaintelligence.com/west-africa/2025/02/18/sanctions-hit-dubai-trader-coral-energy-reinvents-itself-again,110376635-art
[122] https://oc-media.org/uk-sanctions-azerbaijani-tanker-and-five-nationals-involved-in-russian-oil-trading/
[123] https://www.rns-pdf.londonstockexchange.com/rns/1321X_2-2012-2-9.pdf
[124] https://en.wikipedia.org/wiki/2Rivers

The *Zangezur*, a 115,000-deadweight-ton (DWT) Aframax tanker, and one of the first vessels of its kind in Azerbaijan's maritime fleet, was commissioned approximately two years ago.[125] In the past year alone, it has reportedly called at Russia's Primorsk port—the country's primary Baltic oil export terminal—11 times, while also making six calls to ports in the Eastern Mediterranean and Aegean Sea, notably Turkey's Nemrut Bay, home to the STAR Refinery,[126] which is owned by SOCAR.

According to various media sources,[127] all three Azerbaijani-flagged Aframax tankers— *Karabakh*, *Shusha*, and *Zangezur*—have been actively engaged in the transport of Russian crude oil from Primorsk to Nemrut Bay since November 2023. SOCAR confirmed that these vessels were acquired in 2023 through a joint venture with ASCO. Industry analysts and data from the London Stock Exchange Group suggest that Azerbaijani-linked entities have contributed to lowering logistical costs for Russian oil exports by offering transportation services amid increasingly stringent Western restrictions.[128]

The UK's imposition of sanctions on the *Zangezur* was a forerunner of the sanctions placed against its sister vessels, the *Karabakh* and *Shusha* in forthcoming sanctions packages by the EU. This trajectory places Azerbaijan in a diplomatically delicate position: while it maintains its status as a strategic energy partner to Western states, it is concurrently perceived as a discreet enabler of Russia's shadow oil trade.

[125] https://www.youtube.com/watch?v=DKZGY9IVCXk
[126] https://jam-news.net/shadow-russian-oil-flow-to-europe-via-azerbaijan-the-new-uk-sanctions-explained/
[127] https://www.euractiv.com/section/global-europe/news/azerbaijan-keeps-trade-option-open-amid-sanctions-busting-accusations/
[128] https://www.euractiv.com/section/global-europe/news/azerbaijan-keeps-trade-option-open-amid-sanctions-busting-accusations/

These measures also highlight Azerbaijan's indirect entanglement in Russia's oil export network. The use of Azerbaijani-flagged vessels—operated through companies affiliated with SOCAR and ASCO—demonstrates how Russian-origin oil continues to circulate through complex ownership structures and reflagging practices, despite Western attempts to curb its trade.

In this context, Azerbaijan appears to be navigating a complex geopolitical balancing act – allegedly supporting the re-export of Russian hydrocarbons while deriving economic advantages from gray-market trade.[129] The UK government's formal accusation of Azerbaijan's involvement in the covert delivery of sanctioned Russian oil to European markets[130] underscores the growing international concern regarding the opacity of global energy supply chains.

Previous UK and EU sanctions packages

UK and EU sanctions packages targeting the so-called shadow fleet form a critical component of the International Price Cap Coalition's broader strategy[131] to restrict Russia's oil revenues following its full-scale invasion of Ukraine in 2022. The coalition, comprising G7 nations and allied partners, implemented a price cap on Russian seaborne crude oil effective from December 5, 2022, and on refined petroleum products from February 5, 2023.[132] These measures were designed to

[129] The grey market, a term frequently used in the world of trading, refers to the trade of a commodity through channels that are unofficial, unauthorized, or unintended by the original manufacturer or producer.
https://tiomarkets.com/article/grey-market-guides
[130] https://www.occrp.org/en/news/exclusive-uk-sanctions-azerbaijan-state-owned-tanker-for-shipping-russian-oil
[131] https://home.treasury.gov/news/press-releases/jy1796
[132] https://ec.europa.eu/commission/presscorner/detail/it/ip_22_7468

diminish the Kremlin's fiscal capacity to sustain its war effort while maintaining stability in global energy markets.

Image 11. SOCAR STAR refinery, Aliağa, Türkiye. Source: president.az

However, the actual impact of the price cap mechanism only gained prominence in subsequent assessments, many of which pointed to its limited effectiveness. On December 5, 2022, G7+ countries implemented a ban on imports of Russian crude oil and a USD 60 per barrel price cap on the commodity when transported by Western owned/insured tankers.[133] According to a report published by Center for the Study of Democracy (CSD), a month later, Romania, an EU Member State, received a shipment of gasoil from the STAR refinery in Turkey, which uses Russian crude.[134]

[133] https://ec.europa.eu/commission/presscorner/detail/it/ip_22_7468

[134] https://csd.eu/fileadmin/user_upload/publications_library/files/2024_9/FINAL_CREA_CSD_Analysis_Turkish-Refineries_09.2024.pdf

A report published on February 24, 2025, by the Centre for Research on Energy and Clean Air (CREA)[135] underscores these concerns. According to CREA, during the first three years of the war, Russia earned an estimated EUR 847 billion from global fossil fuel exports. Notably, in the third year alone, Russian revenues from fossil fuels reached EUR 242 billion, with projections for 2025 estimating annual earnings of approximately EUR 237 billion.

Moreover, Russia successfully consolidated its market position in key non-Western economies. China (EUR 78 billion), India (EUR 49 billion), and Türkiye (EUR 34 billion) emerged as the top three importers of Russian fossil fuels, collectively accounting for 74% of Russia's total fossil fuel revenues in the third year of the invasion. The year-on-year growth in import values for India (8%) and Türkiye (6%) further signals deepening energy interdependence.

CREA's analysis also reveals the pivotal role of Russia's shadow fleet in circumventing sanctions. In the third post-invasion year, approximately 558 Russian shadow tankers were involved in transporting 167 million tons of oil—61% of Russia's total seaborne oil exports—valued at EUR 83 billion. Of this, 78% comprised crude oil shipments (EUR 57 billion) and 37% consisted of refined oil products (EUR 26 billion).[136]

In response to these persistent evasions, the European Union adopted its 15th sanctions package[137] on December 16, 2024, targeting an additional 52 vessels, and raising the total number of shadow fleet vessels under EU sanctions to 79.

[135] https://energyandcleanair.org/publication/eu-imports-of-russian-fossil-fuels-in-third-year-of-invasion-surpass-financial-aid-sent-to-ukraine/
[136] https://energyandcleanair.org/wp/wp-content/uploads/2025/03/Presentation-3-years-since-Russias-invasion-EU-stakeholders-19-February-2025.pdf
[137] https://www.consilium.europa.eu/en/press/press-releases/2024/12/16/russia-s-war-of-aggression-against-ukraine-eu-adopts-15th-package-of-restrictive-measures/

Recognizing the evolving sophistication of Russia's circumvention tactics, the EU emphasized the need to bolster enforcement mechanisms.

Further tightening of sanctions followed. In a sweeping attempt to dismantle the structural enablers of Russia's oil export infrastructure, on January 10, 2025, the US Treasury escalated its measures, targeting Gazprom Neft and Surgutneftegas, over the use of 180 vessels, and a broad range of actors, including oil traders, oilfield service providers, insurance firms, and energy sector officials.[138]

On February 24, 2025, the EU[139] adopted a 16th sanctions package, expanding the scope by blacklisting 74 additional vessels, increasing the total to 153.

On May 9, 2025, the United Kingdom targeted nearly 100 additional tankers after having previously listed around 130 vessels tied to the Russian oil trade. This action sent a strong deterrent signal to the shadow fleet and its logistical enablers. Since then, as documented above, sanctions against shadow fleet vessels have grown even stronger.

On May 15, 2025, the EU introduced its 17th sanctions package.[140] Member states agreed to designate 189 additional vessels, bringing the total number of sanctioned ships associated with the shadow fleet to approximately 340. The majority of these vessels were aging tankers, often employed to obscure cargo origin, ownership, and insurance compliance.

[138] https://www.bloomberg.com/news/articles/2025-01-10/us-increases-pressure-on-russia-with-sweeping-energy-sanctions
[139] https://ec.europa.eu/commission/presscorner/detail/en/ip_25_585
[140] https://splash247.com/eu-sanctions-target-nearly-200-russia-linked-ships/

Ironically, despite its significant role in facilitating Russian oil exports through the gray market, the ASCO-owned tanker *Zangezur* had not been included in any sanctions packages targeting vessels linked to the Russian oil trade—until it was finally designated by the United Kingdom. Since November 2023, *Zangezur* has reportedly served as a key conduit for transporting crude oil owned by Russia's Lukoil from the Primorsk port to Türkiye's Nemrut Bay, where the oil is processed at SOCAR's STAR refinery. Nevertheless, the vessel was conspicuously absent from previous sanctions lists issued by the European Union and by the United States in a major round of designations.

Image 12. Palace of Westminster, London, United Kingdom. Source: Adobe Stock.

Significantly, for the first time, in May 2025, the UK extended its sanctions to include vessels, trading companies, and individuals affiliated with Azerbaijan, marking a shift in the enforcement strategy by targeting Azerbaijani linked actors suspected of facilitating the sale and transit of Russian crude oil and petroleum

products. Independent analyst Maximilian Hess describes the UK sanctions as a "warning shot" amid Azerbaijan's close energy ties with the West, "This is a clear signal that if Azerbaijan continues attempts to circumvent sanctions on Russia, its diplomatic standing and overall economy could face serious risks."[141]

The following table highlights a series of sanctions imposed by the United Kingdom and the European Union on Azerbaijani-flagged and state owned vessels for their alleged involvement in transporting Russian-origin crude oil through shadow fleet operations. These cases illustrate growing international scrutiny of Azerbaijan's maritime activities amid efforts to enforce global sanctions on Russian energy exports.

Name of Vessel	IMO Number	Flag	Sanctioning Authority	Date Imposed
Zangezur	9420617	Azerbaijan	United Kingdom	9 May 2025
Shusha	9779941	Azerbaijan	European Union	20 July 2025
Karabakh	9810513	Azerbaijan	European Union	20 July 2025

Table 2. Azerbaijani Flagged and State-owned Vessels Sanctioned for Transporting Russian-Origin Crude Oils.

*Source: Compiled from **OCCRP**, Euro Asia News, and Hetq.am (2025).*

These sanctions against Azerbaijani-flagged and state-owned vessels underscore growing international concern over Baku's role in facilitating Russian oil exports

[141] https://jam-news.net/shadow-russian-oil-flow-to-europe-via-azerbaijan-the-new-uk-sanctions-explained/

through shadow fleet operations. These developments highlight the blurred boundaries between Azerbaijan's national energy interests and Moscow's sanction-evasion strategies, raising questions about Azerbaijan's credibility as a reliable and transparent energy partner for the West.

The Role of SOCAR's STAR Refinery in Sustaining Russian Oil Flows to Europe

The strategic partnership between Russia's Lukoil and SOCAR has significantly expanded the reach of Russian crude oil into European markets via Azerbaijan, while also creating new opportunities for Russian companies to participate in regional energy infrastructure projects. This collaboration enables Russian firms to capitalize on enhanced access to Europe by leveraging SOCAR's extensive oil and gas infrastructure in both Azerbaijan and Türkiye.

In October 2023, SOCAR and Lukoil concluded a comprehensive agreement allowing the processing of up to 200,000 barrels per day of Russian crude at SOCAR's STAR refinery in Türkiye.[142] SOCAR invested almost USD 7 billion in the construction of the STAR refinery.[143] As part of the deal, Lukoil extended a USD 1.5 billion loan to SOCAR.[144] Although STAR temporarily reduced and then suspended Russian oil imports in mid-2023 due to pressure from Western financial institutions,[145] it resumed purchases shortly before finalizing the agreement with

[142] https://oilprice.com/Latest-Energy-News/World-News/Turkish-Refinery-Buying-Russian-Crude-Set-for-2-Month-Maintenance.html
[143] https://interfax.com/newsroom/top-stories/95742/
[144] https://www.reuters.com/markets/commodities/russias-lukoil-lends-socar-15-bln-deal-supply-its-turkish-star-refinery-sources-2023-10-05/
[145] https://www.reuters.com/markets/commodities/azeri-oil-firm-which-took-russian-funds-redeems-us-bank-loans-early-sources-say-2024-03-13/

Lukoil. Since early 2024, the refinery has consistently received Russian crude under this arrangement.

Image 13. Lukoil Headquarters, Moscow, Russia, 2015. Source: Flickr @akk_rus

The STAR refinery[146] sources the majority of its crude oil from Lukoil, refines it, and exports the processed petroleum products primarily to European markets. Following recent capacity upgrades and additional investment, in 2024 the STAR refinery increased its annual processing capacity from 10 million to 13 million tons.[147]

[146] https://www.socar.com.tr/activity-fields/star-refinery
[147] https://interfax.com/newsroom/top-stories/95742/

This expansion enabled Türkiye to increase its energy imports from Russia, with Lukoil maintaining its role as a principal supplier under long-term agreements.

In 2023, STAR emerged as a major supplier of refined petroleum products to the European Union, delivering an estimated 23 million barrels.[148] According to recent analysis by Global Witness based on Kpler data, EU imports of Russian-origin fuels from STAR increased markedly in 2024.[149] Research by the CREA and CSD indicates that during the first half of 2024 G7+ countries imported EUR 1.8 billion worth of oil products derived from Russian crude through three key refineries, including STAR.[150]

As of 2024, STAR's crude feedstock is approximately 98% dependent on Russian oil, with 73% of its supplies coming directly from Lukoil,[151] a company under US sanctions as of October 22, 2025. Notably, around 87% of STAR's seaborne exports are directed to G7+ countries. As a result, a substantial portion of the refinery's export revenues—derived from sales in European markets—ultimately flows back to Russia. The refinery has been a significant purchaser of Russian Urals blend crude under term contracts with Lukoil.[152]

The limited effectiveness of the price cap mechanism has been underscored by the persistent operation of shadow tankers involved in circumventing Western

[148] https://globalwitness.org/en/campaigns/fossil-fuels/eu-purchases-of-laundered-russian-oil-worth-an-estimated-11-billion-to-the-kremlin-in-2023/
[149] https://globalwitness.org/en/campaigns/fossil-fuels/eu-importing-more-russian-origin-fuel-from-azeri-refinery/
[150] https://energyandcleanair.org/publication/sanctions-hypocrisy-g7-imports-eur-1-8-bn-of-turkish-oil-products-made-from-russian-crude/
[151] https://energyandcleanair.org/wp/wp-content/uploads/2024/10/FINAL_CREA_CSD_Analysis_Turkish-Refineries_09.2024.pdf
[152] https://oilprice.com/Latest-Energy-News/World-News/Turkish-Refinery-Buying-Russian-Crude-Set-for-2-Month-Maintenance.html

sanctions. According to the CREA,[153] approximately 558 such vessels continued to transport sanctioned Russian crude oil and petroleum products on the gray market in the third year following the invasion of Ukraine. These shadow fleet vessels operate below the price cap thresholds established by the G7, directly violating the sanctions regime. As a result, over 750 vessels have been subject to sanctions—340 by the EU, 230 by the United States, and 180 by the United Kingdom.

> *The STAR refinery sources the majority of its crude oil from Lukoil, refines it, and exports the processed petroleum products primarily to European markets.*

CREA's analysis reveals that this circumvention strategy is part of a broader framework of Russian energy diplomacy, in which Kremlin-aligned shadow fleets facilitate continued oil exports, thereby sustaining federal revenues. From February 2022 to early 2025, Russia earned an estimated EUR 847 billion from fossil fuel exports.[154] In 2024 alone, revenues reached EUR 242 billion, with projections for 2025 nearing EUR 237 billion. Oil and gas revenues contributed USD 120.3 billion to Russia's federal budget in 2024—30% of total government income—despite a declining share from previous years.[155] These revenues have supported a sharp escalation in military expenditures, which reached an estimated USD 149 billion in 2024—representing 7.1% of GDP and 19% of total government

[153] https://energyandcleanair.org/publication/eu-imports-of-russian-fossil-fuels-in-third-year-of-invasion-surpass-financial-aid-sent-to-ukraine/
[154] https://energyandcleanair.org/publication/eu-imports-of-russian-fossil-fuels-in-third-year-of-invasion-surpass-financial-aid-sent-to-ukraine/
[155] https://www.oxfordenergy.org/wpcms/wp-content/uploads/2025/02/Comment-Fiscal-Flex.pdf

spending—according to the Stockholm International Peace Research Institute (SIPRI).[156]

Moreover, the role of third countries in facilitating indirect imports of Russian-origin fuels has become increasingly prominent. Global Witness[157] and CSD[158] have documented a dramatic rise in EU imports of fuels processed at the STAR refinery in Türkiye, which is owned by Azerbaijan's SOCAR. In 2024, approximately 98% of STAR's crude oil feedstock originated from Russia, with 73% supplied by Lukoil, a sanctioned Russian entity. Despite this, around 87% of STAR's seaborne exports were directed to G7+ countries, undermining the intent of Western sanctions. CREA and CSD estimate that in the first half of 2024 alone, G7+ countries imported EUR 1.8 billion worth of petroleum products derived from Russian crude through three key refineries, including STAR.[159]

Despite sweeping sanctions regimes imposed by the G7+, there has been no significant decline in Russia's oil and gas revenues—a reflection of what many analysts describe as the West's sanctions inconsistency or "sanctions hypocrisy."[160] Evasion mechanisms remain widespread, largely due to the divergent approaches among G7+ countries, often explained under the guise of energy diplomacy.

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[156] https://www.sipri.org/media/press-release/2025/unprecedented-rise-global-military-expenditure-european-and-middle-east-spending-surges

[157] https://globalwitness.org/en/campaigns/fossil-fuels/eu-importing-more-russian-origin-fuel-from-azeri-refinery/

[158] https://csd.eu/fileadmin/user_upload/publications_library/files/2024_9/FINAL_CREA_CSD_Analysis_Turkish-Refineries_09.2024.pdf

[159] https://csd.eu/fileadmin/user_upload/publications_library/files/2024_9/FINAL_CREA_CSD_Analysis_Turkish-Refineries_09.2024.pdf

[160] https://csd.eu/publications/publication/sanctions-hypocrisy/

Image 14. G7 Summit in Kananaskis, Canada, 2025. Source: G7.canada.ca.

In the final quarter of 2025, some media reports claim that sanctions are beginning to have a more significant impact on the Russian economy, with revenue decline at around 20% in 2025.[161] The impact of sanctions is causing fissures in Russia's ability to mobilize resources toward the war in Ukraine.[162] Additional reporting indicates that oil and gas revenues may also be declining as a result of newer rounds of sanctions.[163]

The EU's July 2025 sanctions on Russia quietly extended to the Azerbaijani state-owned STAR Refinery in Türkiye.[164] Under the 18th sanctions package,[165] adopted in July 2025, imports from the refinery are now prohibited. The package specifically bans refined products made from Russian crude when processed in

[161] Russia's Oil Revenues Plunge Just As US Sanctions Hit - Business Insider
[162] The Cracks in Russia's War Economy | Foreign Affairs
[163] Exclusive: Russia's September oil and gas budget revenue seen falling 23% | Reuters
[164] https://oc-media.org/eu-sanctions-quietly-extend-to-azerbaijani-refinery-for-processing-russian-petrol/
[165] https://ec.europa.eu/commission/presscorner/detail/en/ip_25_1840

third countries, as part of Brussels' efforts to prevent circumvention of its restrictions.

Furthermore, other ASCO's Azerbaijani-flagged Aframax tankers and SOCAR Marine have also avoided inclusion in sanctions lists issued by the European Union—across three distinct sanctions packages—and by the United Kingdom in a significant round of designations. The continued omission of these vessels, despite their apparent involvement in the Russian oil trade, underscores the gaps and inconsistencies in current sanctions enforcement. These enforcement failures risk undermining the credibility and efficacy of international efforts to curtail Russia's wartime revenues.

US Sanctions and Their Impacts

Azerbaijan's energy sector continues to play a complex and sometimes contradictory role within the framework of Western sanctions against Russia. Despite public alignment with Western energy diversification goals, Baku's ongoing cooperation with Russian companies, particularly Lukoil, raises questions about the country's role in sanction compliance and enforcement.

On October 22, 2025, the US Department of the Treasury imposed sanctions on Rosneft and Lukoil subsidiaries to pressure Moscow into accepting a ceasefire in Ukraine.[166] However, Lukoil's operations in Azerbaijan were exempted, allowing the company to maintain its substantial presence in the country's energy market.

[166] https://home.treasury.gov/news/press-releases/sb0290

Image 15. US Department of Treasury, Washington, D.C. Source: Pexels.

Since its entry into Azerbaijan in 1993, Lukoil has built a broad commercial and industrial footprint, operating 63 gas stations and an oil depot with a capacity of approximately 6,400 cubic meters. Through **LLK-International LLC**, Lukoil remains a key supplier of lubricants, diesel, and gasoline, commanding an estimated 10% share of the domestic fuel market. Its **EKTO**-branded fuels reportedly account for 98% of retail fuel sales. Lukoil has also played a role in Azerbaijan's financial sector, having founded **Nikoil Investment Bank**, and it holds significant stakes in multiple strategic energy projects, including 25% in the Shallow Water Absheron Peninsula (SWAP),[167] 19.99% in the South Caucasus Pipeline,[168] and 19.99% in the Shah Deniz gas field.[169]

[167] https://www.bp.com/en/global/corporate/news-and-insights/press-releases/bp-to-sell-25-percent-stake-in-swap-exploration-project-in-azerbaijan.html
[168] https://www.lukoil.com/Business/Upstream/Overseas
[169]https://www.bp.com/en_az/azerbaijan/home/news/press-releases/Go-ahead-for-next-phase-of-development-of-giant-Shah-Deniz-gas-field.html

For Azerbaijan and Türkiye, the tightening of US sanctions on Lukoil presents both economic challenges and strategic tests. Türkiye's largest refineries, including STAR, have begun diversifying away from Russian crude in response to new restrictions,[170] but Baku has yet to adjust its position, continuing to cooperate with Lukoil. This hesitation underscores the delicate balance Azerbaijan seeks to maintain between Western partnerships and its enduring economic ties with Russia.

Other UK and European Responses

In parallel, the United Kingdom and the European Union have sanctioned several Azerbaijani-flagged tankers operating within Russia's shadow fleet, allegedly involved in transporting Lukoil's oil. These developments indicate that Azerbaijan's maritime assets may be indirectly facilitating the movement of Russian-origin energy despite Western embargoes.

Ultimately, Europe faces a strategic contradiction: while seeking to reduce dependence on Russian energy, it continues to rely on Azerbaijani transit routes that may serve as indirect conduits for Russian oil and gas. Without tighter oversight, enhanced supply chain transparency, and consistent enforcement of sanctions, these practices risk undermining the EU's energy diversification agenda and geopolitical credibility.

[170] https://www.bloomberg.com/news/articles/2025-11-03/turkey-lowers-oil-purchases-from-russia-as-us-tightens-sanctions

Energy Transition Prospects

Azerbaijan between Green Energy and Oil-Gas Rents

The Azerbaijani government appears ill-equipped to navigate the anticipated decline in oil revenues that even a moderate energy transition could trigger. In response, President Aliyev is intensifying efforts to offset declining oil production by ramping up oil and gas output.[171]

This strategy highlights Azerbaijan's prioritization of maximizing both economic returns and political leverage from its fossil fuel resources, despite the global push toward transitioning to sustainable energy systems.

Beginning in 2026, Azerbaijan is expected to experience a significant construction boom in and around Baku to support expanding oil and gas operations. According to company disclosures, three major offshore platforms are planned for development in the Azerbaijani sector of the Caspian Sea between 2026 and 2029[172]:

1. Shah Deniz Compression (SDC) Project[173] – This will be the first offshore platform in the region to operate fully autonomously, with no personnel on board. The project is a joint venture among BP, SOCAR, LUKOIL, TPAO, Nico S.r.l., and MVM.

[171] https://president.az/en/articles/view/65703
[172] https://www.linkedin.com/posts/ilham-shaban-71770326_shahdeniz-absheron-activity-7336321615636430848-VNCI/
[173] https://www.bp.com/en_az/azerbaijan/home/news/reports/environmental-and-social-documentation/shah-deniz-/Shah-Deniz-Compression-Project.html

2. Oil Production Platform for the Karabakh Field[174] – Operated by BP, this platform will also be unmanned, with the entire production process managed remotely.

3. Gas and Condensate Production Platform under the Absheron-2 Project[175] – Developed by SOCAR, TotalEnergies, and ADNOC Group, this platform will contribute to increased gas output from the Absheron field.

Total investment across these three projects is projected to exceed USD 10 billion. In parallel, extensive underwater gas and oil pipeline infrastructure will also be constructed to support these developments. Collectively, these initiatives are set to drive a renewed wave of industrial growth in Azerbaijan's oil and gas sector through 2030.[176]

Azerbaijan in the Context of Global Greenhouse Gas Emissions

Azerbaijan's future plans make it clear that instead of transitioning away from fossil fuels, the country is intensifying its commitment to hydrocarbons, expanding oil production to offset declining output and boosting natural gas exports to the European Union. Azerbaijan is set to increase its gas production by a third, from 37 bcm in 2024 to 49 bcm in 2033, according to Rystad data.[177] At the official opening of the 30th Caspian Oil and Gas Exhibition, the 13th Caspian Power Exhibition, and the 30th Baku Energy Forum, President Ilham Aliyev announced

[174] https://report.az/en/energy/bp-plans-to-join-karabakh-oil-field-development-in-azerbaijan-by-2025
[175] https://interfax.com/newsroom/top-stories/111876/
[176] https://www.reuters.com/business/energy/bp-says-it-acquires-two-exploration-development-blocks-caspian-sea-2025-06-03/
[177] https://www.rystadenergy.com/

that Azerbaijan exported 25 bcm of natural gas last year and, based on existing contracts and ongoing projects, aims to boost gas exports to 8 bcm annually by 2030 for the international market.[178] According to Global Witness, in total, fossil fuel companies are forecast to extract 411 bcm of Azerbaijani gas over the next 10 years. This would emit 781 million tons of carbon dioxide – more than two times the annual carbon emissions of the UK.[179]

Image 16. Wind generators in an open field, Azerbaijan. Source: Adobe Stock.

However, the country's energy policy now faces growing scrutiny in light of its commitments under the Paris Agreement and its role as host of COP29. While Azerbaijan has positioned itself as a green energy champion on the global stage, domestic trends reveal a starkly different reality.

[178] https://president.az/en/articles/view/69073
[179] https://globalwitness.org/en/press-releases/cop29-host-country-priming-the-pumps-for-a-huge-hike-in-gas-production/

Azerbaijan produced 0.12% of global greenhouse gas emissions in 2021 (the latest date with complete emissions data). This amounted to 56.5m metric tons of carbon dioxide equivalent, or $MtCO_2e$. These emissions represented an increase from 2020 by 5%.[180]

In 2021, Azerbaijan was the world's 72nd largest producer of greenhouse gas emissions, placing the country 79th out of 191 on emissions produced per capita.[181] The Notre Dame Global Adaptation Initiative (ND-GAIN),[182] ranked Azerbaijan in the upper-middle tier, scoring 51.8 out of 100 and placing 77th out of 181 countries. The country's readiness score was 0.444 (80th place), while its vulnerability score stood at 0.409 (84th place).[183] The difference of 0.035 between readiness and vulnerability is minimal. Meanwhile, Azerbaijan's climate commitments under the Paris Agreement remain unambitious, aiming for only a 40% reduction in greenhouse gas (GHG) emissions by 2050,[184] with no net-zero target.

Fossil fuels, particularly oil and gas, remain the country's largest source of emissions. As of the latest available data from 2017, emissions were 38% below 1990 levels, with the energy sector accounting for 75% of total GHG emissions.[185] SOCAR is a major GHG emitter in Azerbaijan. The main greenhouse gasses emitted in Azerbaijan are carbon dioxide (CO2) and methane (CH4).

[180] https://www.emission-index.com/countries/azerbaijan
[181] https://www.emission-index.com/countries/azerbaijan#:~:text=In%202021%2C%20the%20gross%20domestic,while%20emissions%20increased%20by%2021.3%25.
[182] https://gain.nd.edu/our-work/country-index/rankings/
[183] https://gain.nd.edu/our-work/country-index/rankings/
[184] https://unfccc.int/sites/default/files/NDC/2023-10/Second%20NDC_Azerbaijan_ENG_Final%20%281%29.pdf
[185] https://iea.blob.core.windows.net/assets/0528affc-d2ba-49c9-ac25-17fc4e8724f7/AzerbaijanEnergyProfile_2023.pdf

According to a policy report[186] published by the Joint Research Centre (JRC), the European Commission's science and knowledge service, titled *"GHG Emissions of All World Countries,"* rather than decreasing as the climate crisis grows, GHG emissions in Azerbaijan's fuel exploitation sector increased by 54% in 2023 compared to 1990, 37% compared to 2005, and 5% compared to 2022.

Fossil CO_2 and CH_4, a potent GHG linked to the energy sector, are being released at increasing levels due to gas flaring. According to Global Witness,[187] BP's Sangachal terminal set a new gas-flaring record in 2024, flaring an estimated 50.8 million cubic meters of gas between January and September. In just nine months, the terminal recorded its highest annual flaring volume since data collection began in 2012.

Image 17. Sangachal terminal, Azerbaijan. Source: bp.

[186] https://edgar.jrc.ec.europa.eu/report_2024
[187] https://globalwitness.org/en/press-releases/bps-largest-terminal-in-azerbaijan-hit-gas-flaring-record-in-2024/

The majority of this flaring occurred in March and April 2024, with 16.4 million cubic meters flared in March and 24.3 million cubic meters in April.

Budget Allocation and Environmental Protection

Burning fossil fuels has made the earth warmer by about 1.1°C since the industrial revolution. Despite significant oil and gas revenues and the energy sector's harmful impact on the environment, only a small portion is allocated to energy transition and environmental protection.

The allocation of funds under Azerbaijan's Socio-Economic Development Strategy (2022–2026)[188] reveals a significant disparity in spending across the Five National Priorities. As of 2024, only USD 67.82 million (1.63%) of the USD 4.17 billion in implemented funds have been directed toward the 5th national priority: "A Clean Environment and a Country of Green Growth."[189]

This represents the lowest expenditure among all Five National Priorities, underscoring the government's limited financial commitment to environmental sustainability. The first two years of strategy implementation suggest that environmental protection and green growth remain a low priority for Azerbaijan's leadership.

According to the State Statistics Committee,[190] Azerbaijan's expenditures on environmental protection increased 2.9 times in 2023 compared to the previous

[188] https://e-qanun.az/framework/50013
[189] https://sai.gov.az/files/2023_icra_rey-336563546.pdf
[190] https://www.stat.gov.az/news/index.php?lang=az&id=5907

year, reaching 677.4 million AZN (USD 398.5) was directed toward fixed capital investments for environmental protection and the efficient use of natural resources.

- 56.3 million AZN (USD 33.1 million) covered ongoing environmental protection expenditures.

- 26.1 million AZN (USD 15.3 million) was allocated for maintaining forests, reserves, national parks, and wildlife conservation efforts.

However, these figures do include spending on mitigating the impacts of climate change.[191]

> *The allocation of funds under Azerbaijan's Socio-Economic Development Strategy reveals a significant disparity in spending… only USD 67.82 million of the USD 4.17 billion in implemented funds have been directed toward the 5th national priority: "A Clean Environment and a Country of Green Growth."*

In 2024, state budget revenues from the oil and gas sector are projected to total 17 969.6 million AZN (USD 10,570.3 million), with only 361.9 million AZN (USD 212.8 million) allocated to environmental protection.[192] This means that for every dollar earned from oil and gas exports just 2 cents are spent on environmental

[191] https://ssrn.com/abstract=4876642
[192] https://www.maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/static-pages/files/67989e451f57c.pdf

protection—even less than the 1 cent specifically designated for climate change mitigation under the environmental protection budget for 2024.

Climate Finance and Transparency Gaps

Image 18. Opening Ceremony of World Leaders Climate Action Summit at COP29 hosted in Baku, Azerbaijan. Source: UN Climate Change - Kiara Worth

Access to information on environmental damage compensation from extractive companies operating in Azerbaijan has significantly deteriorated since 2017. Following Azerbaijan's withdrawal from the Extractive Industries Transparency Initiative (EITI) on March 9, 2017, transparency in this sector has declined, limiting public access to corporate environmental data.[193]

[193] https://eiti.org/news/azerbaijan-withdraws-eiti

Climate finance from public and private sources also remains insufficient.[194] Large portions of the investment budget—primarily funded by oil and gas revenues—are allocated to major road repairs and beautification projects in Baku,[195] rather than addressing environmental challenges.

According to the Emissions Database for Global Atmospheric Research (EDGAR) data,[196] Azerbaijan's GHG Total Emissions and GDP share have deteriorated since 2000. (See Table 3.)

	1990	2000	2005	2010	2015	2020	2022	2023
GNG Total emission, Mton CO2eq	67.84	39.86	44.83	-	53.36	54.72	59.03	62.55
GNG per GDP emission, t CO2eq/1k$	0.89	0.89	0.54	0.25	0.27	0.28	0.28	0.29
GNG per capita emission, t CO2eq/cap	9.37	4.91	5.25	4.98	5.55	5.42	5.76	6.06

Table 3. GNG total emission, per GDP emission and per capita emission in Azerbaijan

Source: EDGAR

Despite the significant oil and gas revenues that Azerbaijan has enjoyed since 2001, there has been a missed opportunity to make substantial investments in accelerating the energy transition and reducing GHG emissions. From 2001 to 2025, the State Oil Fund of Azerbaijan (SOFAZ) received USD 182.467 billion from the sale of oil and condensate from the ACG field, and from 2007 to 2025, SOFAZ received USD 7.744 billion from the sale of gas and condensate from the Shah

[194] https://hdl.handle.net/10419/301995
[195] https://crudeaccountability.org/wp-content/uploads/The_Empty_Bucket_report_web.pdf
[196] https://edgar.jrc.ec.europa.eu/report_2024?vis=ghgtot#emissions_table

Deniz field.[197] This amounts to a total of USD 190.211 billion in oil and gas revenues by 2025, yet SOFAZ has not financed a single project aimed at energy transition.

Renewable Energy Transition and Green Energy Zone Initiative

Despite possessing oil reserves projected to last 25–30 years, Azerbaijan recognizes the necessity of transitioning to renewable energy. To facilitate this, the government has implemented several policies and initiatives, including the State Program on the Use of Alternative and Renewable Energy Sources (2004)[198] and the establishment of the State Agency for Renewable Energy Sources (2020).[199] Additionally, the Renewable Energy Law (2021) and the Azerbaijan 2030: National Priorities for Socio-Economic Development Strategy[200] underscore the country's commitment to green energy, aiming to increase renewables' share in electricity generation to 24% by 2026 and 30% by 2030.

On May 3, 2021, Azerbaijani President Ilham Aliyev approved an Action Plan for a "Green Energy Zone" in the Karabakh and East Zangezur economic regions. This initiative aims to harness the region's vast renewable energy potential. To support the project, an international consulting company collaborated with Japan's TEPSCO to develop a concept document, which outlines strategies for deploying environmentally friendly and energy-efficient technologies in the area.

[197] https://oilfund.az/fund/press-room/news-archive/1513
[198] https://e-qanun.az/framework/5796
[199] https://president.az/az/articles/view/5071
[200] https://e-qanun.az/framework/50013

Renewable Energy Potential: Preliminary studies[201] highlight the region's significant renewable energy capacity:

- Solar energy: Over 7,200 MW in Gubadli, Zangilan, Jabrayil, and Fuzuli.
- Wind energy: Around 2,000 MW in the mountainous areas of Lachin and Kalbajar.
- Hydropower: Considerable power tributaries of the Terterchay and Hakari Rivers.

Major Renewable Energy Projects:

- Hydropower: Azerbaijan and Iran signed an agreement in 2016 for the joint operation of the Khudaferin (200 MW) and Giz Galasi (80 MW) hydroelectric plants on the Aras River. Azerbaijan's share of these projects is expected to generate 358 million kWh of electricity annually.
- Wind Power: A 240 MW wind power plant in Khizi and Absheron, developed by Saudi Arabia's ACWA Power, will produce 1 billion kWh annually, reduce 400,000 tons of CO_2 emissions, and save 220 million cubic meters of natural gas per year.
- Solar Power: The UAE's Masdar is investing in a 230 MW solar power plant, expected to cut 600,000 tons of CO_2 emissions annually. The total investment for the ACWA Power and Masdar projects is estimated at $500

[201] Ibadoghlu, Gubad, Problems and Prospects of Transition to Alternative Energy in Azerbaijan (October 15, 2022). Available at SSRN: https://ssrn.com/abstract=4249068 or http://dx.doi.org/10.2139/ssrn.4249068

million. Moreover, on June 3, 2021, an Executive Agreement[202] was signed between the Ministry of Energy of the Republic of Azerbaijan and BP on the evaluation and implementation of the 240 MW solar power plant construction project in the Zangilan and Jabrayil zones.

Strategic Green Projects and COP29 Announcements

During COP29 in Baku, Azerbaijan secured key agreements to expand renewable energy:

- Partnerships with China:[203] Deals with China Energy Overseas Investment Co. Ltd. to develop solar projects.

- Offshore Wind Development:[204] MoUs with Masdar and ACWA Power for up to 3.5 GW of offshore wind capacity in the Caspian Sea.

- Regional Green Energy Collaboration:[205] Azerbaijan, Kazakhstan, and Uzbekistan agreed to build a clean energy cable under the Caspian Sea to supply European markets.

- Green Energy Auction:[206] Azerbaijan's first renewable energy auction, backed by the European Bank for Reconstruction and Development (EBRD),

[202] https://area.gov.az/az/page/layiheler/yasil-enerji-zonasi/yasil
[203] https://minenergy.gov.az/en/xeberler-arxivi/00378
[204] https://energynews.oedigital.com/wind-farms/2024/11/16/masdar-socar-and-acwa-set-sights-on-35gw-offshore-wind-projects-in-azerbaijan
[205] https://caspiannews.com/news-detail/azerbaijan-kazakhstan-uzbekistan-enter-green-energy-partnership-at-cop29-2024-11-18-0/
[206] https://www.ebrd.com/news/2024/azerbaijan-launches-first-renewables-auction.html

awarded a 100 MW solar power plant in Garadagh to Universal International Holding Limited, with a record-low tariff of 3.54 cents per kWh.

Financing from International Institutions

The European Bank for Reconstruction and Development (EBRD), Asian Development Bank (ADB), and Asian Infrastructure Investment Bank (AIIB) have agreed to finance two solar power projects in Azerbaijan.[207] These projects have a combined capacity of 760 MW (Bilasuvar (445 MW) and Neftchala (315 MW) Solar Plants). They represent a USD 670 million investment, set to generate 1.7 billion kWh annually, saving 380 million cubic meters of natural gas and reducing 830,000 tons of CO_2 emissions per year.

Green Corridor Initiative: Under a strategic agreement with Georgia, Romania, and Hungary, Azerbaijan is developing a 1,200 km, 1 GW high-voltage transmission cable linking the Caspian and Black Seas to export green energy to Europe.[208] The "Green Corridor" will be the best new route for renewable energy, including offshore wind energy, emerging outside the region.

[207] https://www.ebrd.com/news/2024/ebrd-provides-financing-for-azerbaijans-largest-ever-solar-projects-at-cop29.html
[208] https://balkangreenenergynews.com/azerbaijan-georgia-hungary-romania-establish-firm-for-black-sea-interconnector/

Conclusion

Azerbaijan's post-COP29 trajectory exposes a fundamental contradiction at the core of its energy and climate policy: while publicly championing global decarbonization as the host of COP29, Baku continues to expand its fossil fuel infrastructure and deepen hydrocarbon dependencies. The COP29 presidency, rather than serving as a catalyst for energy transition, has effectively legitimized Azerbaijan's identity as a petrostate under the banner of climate leadership. By framing new oil and gas investments as essential for "energy security" and "transitional stability," Azerbaijan has reinforced a political economy centered on hydrocarbons—securing short-term geopolitical influence at the cost of long-term sustainability.

This contradiction is further sharpened by Azerbaijan's entanglement in regional energy geopolitics. Through partnerships with both Western and Russian energy giants, particularly Lukoil and other Russian oil and gas companies, Baku has positioned itself as a geopolitical hinge between competing energy blocs. While marketed as a reliable supplier for Europe's diversification away from Russian gas, Azerbaijan's simultaneous import of Russian gas for domestic use, alongside the circulation of Russian-origin crude via Azerbaijani-flagged vessels and SOCAR's STAR refinery, exposes its role as a conduit for sanctions evasion. The sanctioning of Azerbaijani tankers such as *Shusha*, *Karabakh*, and *Zangezur* by the EU and UK underscores rising recognition of Baku's role in enabling Moscow's continued access to global markets. The fact that the United States has not sanctioned these three ships creates a loophole in the sanctions regime that enables the shadow fleet's continued operation.

For the European Union, this duality highlights a deeper strategic tension: efforts to secure alternative energy supplies from Azerbaijan risk undermining both the EU's decarbonization goals and the credibility of its sanctions regime. With EU gas demand projected to fall sharply by 2040, the long-term rationale for expanding Azerbaijani gas imports appears increasingly tenuous. Continued reliance on fossil partnerships with Baku therefore risks substituting one dependency for another—weakening Europe's climate leadership while reinforcing Azerbaijan's hydrocarbon inertia.

Domestically, hydrocarbons remain the backbone of Azerbaijan's economy—accounting for roughly 87% of exports, 30% of GDP, and half of state revenues. Despite rhetoric about transition, public investment and governance structures overwhelmingly favor the oil and gas sector. SOCAR remains the central actor, anchoring a model that prioritizes immediate rents over structural reform. Meanwhile, climate commitments remain limited—a 40% emissions reduction by 2050 without a net-zero target—and budgetary allocations for environmental protection are minimal, with less than two cents of each oil-revenue dollar directed toward ecological purposes. Since its withdrawal from the Extractive Industries Transparency Initiative (EITI), oversight has weakened further, and none of the USD 190 billion accumulated in SOFAZ since 2001 has been used to fund decarbonization or renewable projects.

At the same time, fledgling renewable initiatives—such as the Green Energy Zone in Karabakh and East Zangezur, partnerships with ACWA Power, Masdar, and BP, and the proposed "Green Corridor" interconnection between the Caspian and the Black Sea—suggest an awareness of the need for diversification. Yet these projects remain marginal relative to fossil fuel commitments, raising doubts about their ability to meaningfully alter Azerbaijan's energy trajectory.

Looking forward, Azerbaijan faces three plausible pathways. A hydrocarbon maximization strategy would preserve current trends, ensuring fiscal stability but deepening vulnerability to reserve depletion and climate regulation. A hybrid strategy would maintain fossil dominance while selectively advancing renewables for image management rather than transformation. Only a transformative transition, driven by reinvestment of SOFAZ revenues, external climate finance, and political reform, could reposition Azerbaijan as a credible green energy actor and mitigate its exposure to global energy shifts.

Although Azerbaijan's current trajectory aligns largely with the hybrid transition scenario, there are emerging signs of a potential shift toward a transformative pathway. Notably, SOFAZ has recently taken its first tangible step in this direction by acquiring a 49% stake in a portfolio of solar power plants in Italy.[209] This marks a significant evolution in Azerbaijan–Italy energy relations—from a legacy of pipeline-based cooperation to the development of long-term renewable energy partnerships. If sustained and expanded, such investments could contribute meaningfully to Azerbaijan's energy diversification, helping to gradually rebalance its economy away from hydrocarbons toward cleaner and more sustainable sources.

In conclusion, Azerbaijan's COP29 legacy illustrates the inherent fragility of global climate governance when national and geopolitical priorities remain rooted in fossil-fuel dependence. Baku's approach reflects a broader "petro-diplomatic paradox"—leveraging climate diplomacy not to dismantle, but to reinforce, hydrocarbon power structures. Without the implementation of binding policy

[209] https://www.euronews.com/business/2025/07/25/from-molecules-to-electrons-azerbaijans-sofaz-invests-in-italys-solar-future

frameworks, reallocation of fiscal resources toward renewables, and enhanced institutional transparency, Azerbaijan risks remaining entrenched in a declining fossil economy—postponing, rather than preventing, the inevitable disruptions of the global energy transition.

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