

MEMORANDUM OF UNDERSTANDING
ON A STRATEGIC PARTNERSHIP IN THE FIELD OF ENERGY
BETWEEN
THE EUROPEAN UNION REPRESENTED BY THE EUROPEAN COMMISSION
AND THE REPUBLIC OF AZERBAIJAN
TOGETHER HEREINAFTER REFERRED TO AS THE "SIDES",

The Sides concur that strategic energy relations and cooperation between the European Union and Azerbaijan are a key factor contributing to open, competitive, diversified and secure energy markets.

The Sides also recall the objectives defined under the Paris Agreement that has been ratified by the Sides and, consequently, intend to pursue efforts to limit the temperature increase to 1.5 °C by reducing their respective greenhouse gas emissions. The Sides aim to cooperate towards meeting the objectives of the Agreement and ensuring its full implementation, including via regular NDCs updates aiming at rapid, deep and sustained reductions in greenhouse gas emissions by 2030 and designing Long Term Low Emission Development Strategies aligned with the aims of achieving net zero emissions by 2050.

The European Union acknowledges that natural gas will continue to play an important role in terms of energy consumption and electricity generation in the European Union until 2030. Going forward natural gas will continue to be used in the European Union while being progressively replaced in line with its climate neutrality commitment by 2050.

The Sides also acknowledge the importance of the Global Methane Pledge that requires its signatories to reduce methane emissions collectively by at least 30% by 2030; and to take necessary steps to reduce methane emissions across supply chains. Since Azerbaijan produces fossil natural gas, and the European Union imports it, the Sides recognise that the collective responsibility is to make this supply chain as efficient, environment and climate friendly as possible.

The Sides acknowledge the importance of green electricity in fighting global warming and mitigating climate change and its potential for increasing the security and resilience of the energy systems, and consider that there is an important cooperation potential in the renewable and energy efficiency areas including electricity exchanges.

The Sides recall the importance of recent declarations, initiatives and agreements in implementing the cooperation of the Sides in the field of energy, in particular:

- The Memorandum of Understanding on a Strategic Partnership in the Field of Energy signed in 2006 by the European Union and the Republic of Azerbaijan;
- The EU-Azerbaijan Partnership Priorities adopted via Recommendation No 1/2018 of the EU-Azerbaijan Cooperation Council of 28 September 2018. On 22 December 2021,

through an exchange of notes, the validity of the Partnership Priorities has been extended until 2024¹;

- The Joint Declaration on the Southern Gas Corridor signed on 13 January 2011 by the European Commission and Azerbaijan;
- The REPowerEU plan², which recognises that the expansion of the Southern Gas Corridor will play a major role to secure gas supply for South Eastern Europe;
- Azerbaijan 2030 National Priorities for Socio-Economic Development.

The Sides also emphasise their commitment to the respect for and support to the territorial integrity, inviolability of international borders, independence, sovereignty of each other, including all EU Member States, as well as to the principle of good neighbourly relations.

With a view to recording their intention to work together on a strategic partnership in the field of energy to facilitate the transport, trade and export of natural gas and green energy to the European Union and to enhance their cooperation on their respective energy transitions, the Sides have decided to conclude the following Memorandum of Understanding:

Section 1

(Affordable, Stable and Secure Natural Gas Supply)

The Sides endeavour to work collectively towards enabling the stable and predictable delivery of natural gas to the European Union in a manner that is consistent with its long-term decarbonisation objectives and is based on the long-term partnership between the Sides and the principle of market-oriented pricing.

This goal includes the shipment of Caspian natural gas to the European Union and, potentially, to Western Balkan countries, with a view to supporting the conditions for the expansion of the Southern Gas Corridor to increase diversification of supply in accordance with commercial viability and market demand.

The Sides underline the importance of long-term, predictable and stable contracts in order to underpin security of demand for producers, exporters and infrastructure owners, and security of supply for importers and buyers. The duration of the contracts should correspond to the role of natural gas in the European Union's decarbonisation agenda while supporting the economics of the development of the required export infrastructure investments.

The European Union may propose aggregated demand purchase schemes to Azerbaijan such as via the EU Energy Platform.

The Sides aspire to support bilateral trade of natural gas, including through exports to the European Union, via the Southern Gas Corridor, of at least 20 billion cubic metres of gas annually by 2027, in accordance with commercial viability and market demand.

¹ Recommendations for the EU-Azerbaijan Cooperation Council adopted by the Council on 9 November 2021, doc. ST13432/21

² COM(2022) 230

Section 2

(Promotion of Renewable Energy Generation, Energy Efficiency and Renewable Hydrogen)

The Sides endeavour to provide the conditions for open and competitive domestic and international energy markets and to encourage the Sides' public and private sector corporations to cooperate on the means for achieving renewable energy goals and combatting climate change in the following areas:

Renewable Energy – The Sides concur on the importance of continuing cooperation to ensure competitive markets for scaling up renewable energy generation capacity, in particular in the high-potential offshore energy sector, developing new renewable energy technologies, and identifying innovative ideas for enhancing incentives for promoting the use of renewable energy including within their respective territories and finding solutions relating to their integration into the energy grid. In order to use in the most efficient way the renewable potential of both Sides and with a view to underpinning the uptake of renewable electricity generation and trade in accordance with open and competitive markets, the Sides also concur on the need to examine the development of electricity interconnections between the EU and Azerbaijan, including through the Black Sea and through the Nakhchivan Autonomous Republic of the Republic of Azerbaijan, and to discuss the potential cooperation for adaptation of electricity networks and exchanges to ENTSO-E standards. The Sides also endeavour to cooperate to develop safe and sustainable energy technologies and identify innovative ideas for enhancing incentives for promoting the use of green energy and find climate-neutral solutions related to their integration into the energy grid, including through Projects of Common Interest and Projects of Mutual Interest.

Energy Efficiency – The Sides concur that energy efficiency is a key linchpin of policy efforts to strengthen security of supply, reduce the environmental impact of the energy sector and ensure a transition to a net-zero economy. Building on the support provided via EU-funded programmes, which contributed to the significant reforms achieved in Azerbaijan with regard to energy efficiency, including the adoption of a Law on Efficient Use of Energy Resources and Energy Effectiveness via the Presidential Decree of 20 August 2021 which will set a clear framework for further reforms with regard to energy efficiency, establishment and transparent operations of the Energy Efficiency Fund, eco-design and labelling requirements for energy using products as well as minimum energy efficiency norms for buildings and rules for energy efficiency certification of buildings. The Sides concur to continue cooperation towards implementation of energy efficiency measures.

Hydrogen and other renewable gases – The Sides concur on the importance of renewable hydrogen and other renewable gases as a sustainable solution to reduce greenhouse gas emissions in hard-to-decarbonise industrial processes, economic sectors and applications such as power generation, and of creating the conditions for a pick-up in investment into capacity and usage of renewable hydrogen and other renewable gases underpinned by competitive domestic and international markets. The Sides concur on continued cooperation on: 1) discussing prospects for the development of generation capacity, transport and trade of renewable hydrogen and other renewable gases; 2) using renewable hydrogen and its derivatives in a large number of applications such as industrial processes and energy storage; and 3) identifying and implementing appropriate means to ensure that bilateral trade and investment is not distorted.

Section 3

(Methane Emissions, Environmental Protection and Safety Hazards)

The Sides concur on the importance of addressing methane emissions as a powerful global warming contributor, and of cooperating in advancing intermediate steps to consider Azerbaijan's accession to the Global Methane Pledge.

The Sides should promote the reduction of methane emissions throughout the entire supply chain, and in particular advance projects to measure methane emissions within the scope of an internationally accepted measurement, reporting and verification standard in line with the UN Oil and Gas Methane Partnership, examine new technologies for reducing venting and flaring, and explore possibilities for the utilisation of methane captured throughout the entire supply chain.

To this end, the Sides also support the creation of schemes to collect natural gas that would otherwise be vented, flared or released into the atmosphere, or leaked through existing infrastructure, either in the gas supply chain, or from oil activities that produce uncollected associated gas. The aim should be to incentivise fossil natural gas collection through price mechanisms and the ability of the European Union to absorb the collected volumes.

The European Commission intends to work with the International Methane Emissions Observatory (IMEO) to set up a 'Methane Supply Index', as explicitly referred to in the Communication on the EU Methane Strategy,³ and may give guidance to potential purchasers of natural gas from Azerbaijan as to how to address methane emission issues properly.

The Sides endeavour to ensure, jointly and separately, that future investments in projects or activities developed within the framework of this Memorandum of Understanding shall include robust requirements with respect to preventing pollution of the marine or land environment and preventing damage by pollution to a coastline, shore facilities or amenities.

The Sides may consult one another with a view to preventing safety hazards as necessary for natural gas infrastructure used for the extraction, trade, transport and export of natural gas between the Sides, in accordance with each Sides' domestic laws, regulations, policies and procedures.

Section 4

(Infrastructure and Assets)

The Sides acknowledge that any further exports of natural gas to the European Union beyond those that are being delivered to date will require significant investments to the expansion of the Southern Gas Corridor pipeline network and the upstream project development.

The Sides endeavour to encourage financing of the expansion of the Southern Gas Corridor pipeline network taking into consideration the EU's climate policies and its REPowerEU strategy, including through cooperation with international financial institutions.

³ COM(2020) 663 final

The Sides endeavour to support infrastructure, to the extent possible, to be conversion-ready with a view to transporting renewable gases, including hydrogen and its derivatives, so as to avoid lock-in of resources. This entails that new infrastructure should be capable of carrying renewable and low-carbon gases, including hydrogen and its derivatives, as well as making existing infrastructure future proof and hydrogen ready.

The Sides endeavour to promote mutually beneficial natural gas trade, anticipating future trade in hydrogen, hydrogen-derivatives and other renewable gases (bio-methane, etc.), and renewable electricity. To this end, the Sides, within their powers and legislative constraints, endeavour to support the optimal use of existing energy infrastructure. This would also entail support in making the existing infrastructure, to the extent possible, capable of carrying new energy sources like hydrogen and the development of the necessary additional, future infrastructure and assets.

The Sides endeavour, when legal and feasible, to expedite necessary licenses, authorisation, approvals and consents necessary to accelerate the purposes of this memorandum, in full compliance with national and/or international permitting and environmental requirements.

Section 5

(Meetings of the Sides)

The Sides intend to monitor the adequate implementation of this Memorandum of Understanding and regularly evaluate the progress by way of technical and Ministerial level meetings.

Section 6

(Applicability)

Nothing in this Memorandum of Understanding should create any binding legal or financial obligations or commitments between the Sides or in relation to any third party under domestic or international law. This Memorandum of Understanding does not constitute an obligation to allocate funds.

Signed in on the....., in two original copies in English, both having equal validity.

For the European Union

For the Republic of Azerbaijan

Ursula von der Leyen

Ilham Aliyev

President of the European Commission

President of the Republic of Azerbaijan