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Energy, Ecology, and Climate Finance Issues on Eve of COP29

By Gubad Ibadoghlu, a senior policy analyst at the Economic Research Center

Abstract

This article examines the challenges Azerbaijan faced on the Eve of COP29. Assessing the situation in Azerbaijan regarding energy, ecology, and climate finance issues, the author systematizes the critical problems to be solved in this field and draws attention to Azerbaijan's policy on the Eve of COP29.

Keywords: COP29, Azerbaijan, oil, gas, energy, ecology, climate change, climate finance, green growth, environmental security

Introduction

Hosting COP29 necessitates Azerbaijan to take several steps in the energy sector, environmental protection, and climate finance. Therefore, the Azerbaijani government should establish a National Agenda before COP29. This agenda should not only focus on mitigating the negative impacts of climate change and protecting environmental balance but also on accelerating the energy transition. Crucially, it should outline strategies for securing the necessary financing, as this is a key determinant of the success of these initiatives.

The National Agenda should include the urgent and immediate restructuring of the national economy, which is currently built on an oil and gas strategy. This restructuring, a matter of utmost urgency, will ensure sustainable economic development during the post-oil-gas period. In 2023, the oil and gas sector accounted for 33.82% of the GDP, attracting 30.87% of total investments in fixed capital[1]. The growth rate of investments in the oil and gas sector (10.9%) outpaced that of the non-oil and gas sector (9.3%) when compared to 2022. Over the past two decades, the oil and gas sector has maintained a leading role in the national economy, particularly in foreign trade, exports, and state revenues. In 2023, Azerbaijan's foreign trade turnover amounted to $51.2 billion, of which $33.9 billion came from exports, with 90.12% of this being from the sale of oil and gas

[1] https://economy.gov.az/storage/files/files/6335/Q1ZgEcbYOzmjeSBtc60PbF6bjQUJ5Kw6Wl8aE5bz.pdf

sector goods[2]. Additionally, revenues from the oil and gas sector made up 51.52% of the actual state budget income in 2023[3].

These figures underscore the importance of Azerbaijan's role as a potential example for other countries. As a COP29 host country, Azerbaijan is expected to reduce its reliance on fossil fuels and lead negotiations on this issue. However, its policy of increasing fossil fuel production and planning new projects with foreign companies such as BP[4] and TotalEnergies[5], and actively boosting investments in the traditional energy sector undermines this potential. For instance, BP has recently launched new production activities within the $6 billion Azeri Central East (ACE) project[6], with production expected in the first quarter of 2025[7]. Additionally, BP is completing work on a deep gas project in the Azeri-Chirag-Gunashli (ACG) fields[8]. BP is also continuing its work to assess hydrocarbon reserves discovered in the first exploratory well (SAX01) in the Shafag-Asiman offshore block and planning future activities[9]. TotalEnergies has completed the first phase of work on the Absheron field, with production already underway, and is currently discussing investment plans for the second phase[10]. SOCAR[11] is planning work on the Umid-2 phase within UBOC. The Azerbaijani government is also discussing financing the expansion of the transmission capacities of the TAP and TANAP pipelines with the European Union. All these activities in the traditional energy sector are taking place in Azerbaijan, hosting COP29 after COP28 decided on the phased reduction of fossil fuels.

The slow pace of the energy transition in Azerbaijan and the challenges faced in implementing renewable energy initiatives are not only a concern for the environment[12] but also significantly impact economic indicators. This impact is not to be underestimated, underscoring the gravity of the situation and the need for a more rapid transition to renewable energy.

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[2] https://customs.gov.az/uploads/foreign/2023/2023_12.pdf?v=1705581222

[3] https://sai.gov.az/files/2023_icra_rey-227333293.pdf

[4] https://www.bp.com/en_az/azerbaijan/home.html

[5]https://totalenergies.com/azerbaijan#:~:text=Gas%20%26%20green%20gas,south%2Deast%20of%20the%20coast.

[6] https://www.bp.com/az_az/azerbaijan/home/who-we-are/operationsprojects/acg2/Azeri-Merkezi-Serqi-layihesi.html

[7] https://interfax.com/newsroom/top-stories/99983/

[8] https://interfax.com/newsroom/top-stories/99983/

[9] https://www.bp.com/en_az/azerbaijan/home/news/business-updates/First-half-2024-results.html#accordion_6

[10] https://totalenergies.com/media/news/press-releases/azerbaijan-inauguration-absheron-gas-field

[11] https://uboc.az/en

[12] Ibadoghlu, Gubad, Current State of Azerbaijan's Gas Cooperation with Europe: Opportunities and Challenges (August 20, 2024). Available at SSRN: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4931082

National Agenda before COP29

Furthermore, Azerbaijan's National Agenda before COP29 must urgently address several critical problems arising from poor management in the oil and gas sector that are affecting the environment. Let's examine these issues:

1. **Abandoned and Decommissioned Oil and Gas Wells**: In Azerbaijan, substantial work is not being done to decommission oil and gas wells that have exhausted their reserves and are no longer viable. The process of decommissioning outdated facilities and underground gas pipelines in the country's gas supply system is progressing slowly. Most of the responsibility in this area lies with SOCAR. Between 1987 and 2000, SOCAR drilled 1,355 wells. From 2000 to 2020, SOCAR drilled up to 2.8 million meters and over 1,550 production wells[13]. However, due to financial constraints in recent years, SOCAR has reduced the volume of drilling activities, resulting in a significant decrease in the number of operational wells and an increase in the number of inactive wells, which now make up 38.8% of the production fund. Normally, the proportion of inactive wells should not exceed 12%[14]. Although SOCAR's efforts to address the environmental and health impacts of oil spills and ponding in inactive well areas have been satisfactory, numerous long-standing unresolved problems remain[15]. While stabilizing production by drilling new wells and rehabilitating old ones, SOCAR's efforts in this area do little to support green growth or strengthen ecological security.
2. **Inactive and Depleted Fields**: SOCAR's Azneft Production Union currently operates 47 fields in Azerbaijan, 28 of which are onshore. Most of these onshore fields are located on the Absheron Peninsula, with the largest being the Balakhany-Sabunchu-Ramana field block. Currently, the Umbaki and Naftalan fields have been put into conservation. Additionally, 25 of Azerbaijan's onshore fields are operated by joint ventures and operating companies[16]. As of January 1, 2021[17], Azerbaijan had 81 oil and gas fields, of which 28 were offshore and 53 were onshore. Of these, 57 fields are operational, while 9 remain inactive and 6 are under exploration. Although decommissioning inactive or depleted fields is vital to minimizing their environmental impact, little progress has been made in this area in Azerbaijan.

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13 https://azertag.az/xeber/azerbaycan_neft_qaz_senayesinde_qazma_islerinin_tarixi_bu_gunu_ve_perspektivleri-1327329

14 https://hajizada.com/upload/aqroI.pdf

15 https://tv.ikisahil.az/post/86579-news-86579

16 https://caspianbarrel.org/2021/09/socar-in-qurudaki-yataqlari-n-d-r-c-d-perspektivlidir/

17 https://report.az/energetika/qurudaki-karbohidrogen-yataqlari-uzun-iller-perspektivliyini-qoruyacaq/

3. **Flaring of Unprocessed Gas**: Despite Azerbaijan's internal gas consumption totaling 15.1 billion cubic meters in 2023, only 3.5 billion cubic meters were processed at the Qaradagh Gas Processing Plant. This means that over 10 billion cubic meters of gas were supplied directly to consumers without any processing. Gas used in both households and industries must undergo preliminary processing to remove impurities. Built in 1958 and operational since 1961, the Qaradagh Gas Processing Plant[18] continues to operate beyond its intended lifespan, contributing to environmental pollution with outdated technologies. Although a new gas processing plant with a capacity of 10-15 billion cubic meters is planned for 2023-2025[19], the project continues to be delayed for unknown reasons.

   Additionally, the volume of flared gas at the Sangachal terminal and offshore continues to increase. According to the Energy Institute[20], the amount of flared gas in Azerbaijan reached 0.8 billion cubic meters in 2023, which is double the amount compared to 2022 and 2.6 times higher compared to 2021 and 2020. Furthermore, carbon dioxide equivalent emissions from energy, process emissions, methane, and flaring amounted to 54.3 million tons in 2023. This represents an increase of 10.3% compared to 2022, 17.5% compared to 2021, and 25.1% compared to 2020. These factors pose challenges to Azerbaijan's goal of reducing carbon emissions by 35% by 2030 and 40% by 2050.
4. **Expenditures on Environmental Protection**: According to the State Statistics Committee[21], expenditures on environmental protection in Azerbaijan increased 2.9 times in 2023 compared to the previous year, reaching 677.4 million AZN (398.5 million USD), which accounted for 0.6% of GDP. Of this amount, 595 million AZN (350 million USD) was allocated to fixed capital for environmental protection and efficient use of natural resources, 56.3 million AZN (33.1 million USD) was spent on current environmental protection expenditures, and 26.1 million AZN (15.3 million USD) was allocated for the maintenance of forests, reserves, national parks, and the protection and reproduction of wild animals and fish. However, these figures do not include costs associated with mitigating the negative impacts of climate change[22].

[18] https://socar.az/en/page/gas-processing-plant

[19] https://turan.az/az/iqtisadiyyat/neft-qaz-emali-zavodu-ve-neft-kimya-kompleksi-resmi-qeydiyyata-alinib

[20] https://www.energyinst.org/__data/assets/pdf_file/0004/1055542/EI_Stat_Review_PDF_single_3.pdf

[21] https://www.stat.gov.az/news/index.php?lang=az&id=5907

[22] Ibadoghlu, Gubad and Bayramova, Zhala, Challenges and Opportunities Created by COP29 for Azerbaijan (June 25, 2024). Available at SSRN: https://ssrn.com/abstract=4876642 or http://dx.doi.org/10.2139/ssrn.4876642

Access to information on the compensation for environmental damage and losses by mining companies operating in Azerbaijan has deteriorated since 2017[23]. After Azerbaijan announced its withdrawal from the Extractive Industries Transparency Initiative (EITI) on March 9, 2017, access to data from companies operating in this area has remained limited.

5. **Insufficient Climate Finance**: The current scale of climate finance from public and private sources in Azerbaijan needs to be revised. Although Azerbaijan has created the Climate Finance Action Fund as part of a set of comprehensive initiatives for COP29, the current funding allocation could have a significant impact. The Azerbaijani government is focusing more on form than substance ahead of COP29. Significant amounts from the investment budget are being spent on major road repairs and beautifying streets and parks in the capital city.

   The 2024 budget[24] allocates 814.5 million AZN (479.1 million USD) for international relations under the "General Government Services" section, with 80 million AZN (47 million USD) allocated for foreign aid. Although it is known that 350 million AZN (205.8 million USD) will be spent under the sub-section "Other Expenditures on International Relations and International Activities,"[25] there is no breakdown of the foreign aid expenditures, leaving the allocation and distribution of funds unclear. In addition, 300 million AZN (176.5 million USD) has been allocated from the current year's budget to the President of Azerbaijan's reserve fund, over which the head of state has exclusive control.

In conclusion, the abovementioned issues should be included in Azerbaijan's National Agenda before COP29 is prepared.

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

[24] https://www.maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/static-pages/files/6683f1d4a5cdf.pdf

[25] https://www.maliyye.gov.az/scripts/pdfjs/web/viewer.html?file=/uploads/static-pages/files/6683f29acf2a9.pdf