

## Azerbaijan – a growing problem for the West

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Azerbaijan's cooperation with the West, launched two decades ago, has helped it become a relatively strong and ambitious actor on the international stage. It has become a key country in the region from the Western (USA and the EU) and Turkish points of view, as well as an important partner in the energy sector. The strategic EU concept of the Southern Gas Corridor, also supported by the United States, is among the initiatives based on cooperation with Azerbaijan. Surprisingly, however, Azerbaijan's increased ambition and importance have caused its policy to diverge ever farther from the expectations and plans formulated by the West. The changes in the balance of power in the South Caucasus, occurring in the context of the conflict in Ukraine, have forced Azerbaijan to revise its assessment of its position in the region. The main impetus for Azerbaijan's actions is fear of Russia, as well as the weakness of the West which has become particularly apparent in the recent stages of the Ukrainian crisis.

Azerbaijan's actions so far have displayed its tendency to deepen its self-isolation in foreign affairs and consolidate its authoritarian system. This comes as a challenge to the West, whose ability to shape its relations with Azerbaijan has weakened considerably. This state of affairs poses the threat that in the current situation, the Southern Gas Corridor concept, which Azerbaijan amended in 2012 in its own favour, might become totally blocked.

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### **Azerbaijan and the West: a strategic alliance**

From the point of view of both the West (USA and the EU) and Russia, Azerbaijan is a country of key importance in the South Caucasus. This is due to Azerbaijan's deposits of natural resources (oil and gas), the largest population potential in the region, and the country's strategic location at the intersection of the east-west and north-south axes. This predestines Azerbaijan to play an important role in the shaping of regional security, which was confirmed by Baku's support to Georgia in its conflicts with Russia over gas issues in 2007 and 2008, among other decisions. Azerbaijan is also a potentially significant transit territory for natural resources

from Central Asia – a project which the West is interested in and which Russia opposes. Despite the policy of equal distance towards the major international actors present in the region (Russia, USA, Iran), which has been officially declared by the government of Azerbaijan since the 1990s, in practice the state's development and independence have been based on cooperation with USA, the EU and Turkey. The result of this decision (made by the previous president Heydar Aliyev, who was in office from 1993 to 2003) was granting access to Western oil companies, especially the British BP, to Azeri oil deposits and the creation of energy routes originating in Azerbaijan and bypassing Russia. Furthermore, cooperation with the West was supposed to secure Azerbaijan against Russia, which supports

Armenia. Baku lost Nagorno-Karabakh and the adjacent territories to Armenia as a result of the still unresolved conflict (the military phase of the conflict took place in 1991–1994).

In the last two decades Azerbaijan has continued to develop its relations with the West to the detriment of its cooperation with Russia. This policy is illustrated by the following acts:

**The cooperation with Baku has enabled the West to gain access to fuels and strengthen the statehood of Azerbaijan, at the same time weakening Russia's influences in the Caucasus.**

directing the export of fuels to the West via the newly created routes, and thereby eliminating Russia as a recipient and intermediary in export projects; the significant position of the EU in Azerbaijan's trade exchange<sup>1</sup>; and the inflow of Western investments<sup>2</sup>. The West has been perceived as a source of incentives to modernisation in several sectors of the economy, and to some extent as a civilisational model – Azerbaijani citizens study mainly in the United Kingdom, Germany and Canada (ca. 50%) and Turkey (ca. 20%) as part of a government-funded foreign scholarship programme. Russia is the destination for only around 5% of Azerbaijanis benefiting from government-funded scholarships<sup>3</sup>.

<sup>1</sup> The EU's share of Azerbaijan's exports is 48.3%, and 27.7% of its imports. Russia's shares are 3.9% and 14.2% respectively, and Turkey's 2.5% and 15.8%. Other important recipients of goods exported from Azerbaijan include: India (7.9%), Indonesia (7.4%) and Israel (7%). Data for 2012: [http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc\\_113347.pdf](http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113347.pdf)

<sup>2</sup> In 2013 the main investor countries operating in Azerbaijan were Turkey (39%), the United Kingdom (13%), the Netherlands and the UAE (both 11%). Russian investments accounted for 3% of the total number; data from <http://www.azpromo.az> No official data is available concerning the accumulated foreign investments in Azerbaijan; most researchers assume that the country's largest investor is the British company BP.

<sup>3</sup> Only one student out of 122 studied in Russia as part of the foreign scholarship programme funded by SOCAR. Azerbaijan does not sponsor scholarship programmes in the USA, fearing that this might strengthen domestic democratic movements. See <http://xaricdetehsil.edu.gov.az/uploads/Statistika.pdf>

However, Russia remains an important country in the context of economic migration; around 1–1.5 million Azerbaijanis work in Russia.

Cooperation with Azerbaijan enabled the West to gain access to fuel, launch the import of oil independent of Russia, and thereby strengthen the newly-created post-Soviet states such as Georgia and Azerbaijan, while at the same time weakening Russia's influences in the Caucasus. Contrary to the original assumptions, Azerbaijan has not become an important transit territory for natural resources from Central Asia<sup>4</sup>. Nor have the goals connected with a systemic transformation modelled on Western standards been achieved; unlike the case of Georgia, the authorities in Baku have consistently built up the state's authoritarian system. This system impedes any effective resolution of problems associated with political, social and religious issues<sup>5</sup>, and focuses on stepping up the level of control over society.

### Higher stake – bigger problems

Azerbaijan's cooperation with the West has resulted in the development of the oil sector and a sharp increase in the country's income (the launch in 2006 of the Baku–Tbilisi–Ceyhan oil pipeline connecting Azerbaijan with the Mediterranean Sea basin was a project of key impor-

<sup>4</sup> In 2006 an agreement on the transit of Kazakh oil via the Baku–Tbilisi–Ceyhan pipeline was signed. According to original plans, c. 35 million tons of Kazakh oil was supposed to be transported via this pipeline. In practice, however, the Kazakh transport was minor (c. 3 million tons a year), which was a result of the policy pursued by both Azerbaijan (high tariffs, unwillingness to give access to competitors) and Kazakhstan (an overly assertive approach towards foreign investors who were discouraged from constructing the Caspian Oil Transport System). Since the decision was made to expand the CPC route, and in the context of the current problems with the Kazakh Kashagan deposit, there are no prospects for increasing the export of Kazakh oil via the BTC pipeline at least in medium-term prospect.

<sup>5</sup> In 2013 unprecedented, two-day riots motivated by socio-political factors took place in the town of İsmayilli, directly caused by the authorities' arrogant attitude. In 2013 several similar demonstrations were also organised in Baku. The authorities' response was to detain some of the activists, but also to launch limited reforms, e.g. in the army.

tance, strengthened further by the opening of the Baku–Tbilisi–Erzurum gas pipeline) which Baku used to finance the ‘arms race’ in the Caucasus: in the meantime Armenia also began to develop its military potential using support from Russia. Military spending was important because the government used the possible threat of war to consolidate society. Financial assets have also translated into an improvement of Azerbaijan’s position in the region, as demonstrated for example by its successful economic expansion in Georgia and Turkey<sup>6</sup>. This has increased the political importance of Azerbaijan in these countries<sup>7</sup>. Baku has also developed its cooperation with Israel (arms purchases), based on both countries’ hostile attitude towards Iran.

The rising position of Azerbaijan on the international stage began to be demonstrated in the country’s increasingly assertive policy towards the West and its direct rejection of the West’s criticism of the Azerbaijani government<sup>8</sup>. Azerbaijan’s conviction of its right to its own vision of the country’s development, and its tendency to limit the foreign policy agenda to issues connected with the economy and Karabakh<sup>9</sup>, have become particularly strong. A symbolic illustra-

tion of this tendency was Azerbaijan’s decision in 2011 to join the Non-Aligned Movement, an initiative with no real political significance.

These processes have resulted in a deep transformation of the nature of the relations between Azerbaijan and the West; the country has moved from the position of an applicant hoping to start cooperation to that of a legitimate actor. This change is well illustrated by the evolution of the Southern Gas Corridor concept promoted by the EU; when Azerbaijan became the only supplier of gas to the corridor, it rejected the gas transport projects which the EU had been promoting and lobbying for over many years (Nabucco) to replace them with its own project (the Trans-Anatolian gas pipeline TANAP). As a result,

**The nature of the relations between Azerbaijan and the West has been radically changed – the country has moved from the position of an applicant hoping to start cooperation to the position of a legitimate actor.**

it was Azerbaijan, not the West, which became the main architect, executor and the largest shareholder of the planned infrastructure<sup>10</sup>. This means that if TANAP is created (in its currently planned form), Baku and Ankara would gain control of the transit not only of its own gas but also gas from Central Asia, Iran and Iraq via the territory of Turkey (as long as no other additional infrastructure is created, which however would not have any economic sense for now). Such a major role for Azerbaijan in the implementation of the EU’s strategic concept makes the country ever more important for Moscow, which has been attempting to torpedo the Southern Gas Corridor initiative for years<sup>11</sup>.

<sup>6</sup> Azerbaijan is one of the main investors in these two countries; it is also a major gas supplier (90% of Georgia’s demand). In Georgia SOCAR owns regional gas distribution companies, an oil terminal in Kulevi and a chain of petrol stations; it provides over half of oil products. In Turkey SOCAR owns the petrochemical company Petkim (61.3% of the shares) and several gas distribution companies, and is involved in the construction of the Star refinery (as a sole shareholder). In both countries Azerbaijan is the co-owner of key transmission infrastructure: the BTC oil pipeline and the Heydar Aliyev oil terminal in Ceyhan, the Baku–Supsa oil pipeline, and the BTE gas pipeline. Moreover, Azerbaijan has granted Georgia an extremely favourable loan to construct the Georgian section of the Baku–Tbilisi–Kars railway connecting the three countries and deepening the infrastructural isolation of Armenia.

<sup>7</sup> This is illustrated by Azerbaijan forcing Turkey to break off talks on normalising relations with Armenia in 2009 by threatening to withdraw deposits from Turkish banks.

<sup>8</sup> This became apparent for the first time in the context of Baku’s extremely sharp reaction to the OSCE’s rather neutral preliminary assessment of the results of the 2010 parliamentary elections.

<sup>9</sup> This concerned the major actors present in the region. At the same time Azerbaijan began to deepen its cooperation with Asian countries, which was most probably connected with the expansion of the Azeri SOCAR oil company onto new markets.

<sup>10</sup> Azerbaijan holds 58% of shares in TANAP.

<sup>11</sup> This is confirmed by the fact that Russia is promoting a competing project (South Stream) and has expressed its interest in purchasing the entire volume of gas extracted from the Shah-Deniz II deposit, which is the resource base for the Southern Corridor.

In the political dimension, despite the inclusion of Azerbaijan in the Eastern Partnership programme, Baku's cooperation with the West has been limited to energy and economic issues and Baku's attempts to win support in the talks over the Karabakh question<sup>12</sup>. Azerbaijan has treated the West as a recipient of natural resources, and is not interested in political cooperation unless it is favourable to its own interests (support in the Karabakh issue).

### The Russian shadow over Azerbaijan

The results of Azerbaijan's cooperation with the West have included a decrease in Russia's importance in Baku's policy, and the achievement of the country's economic independence from Moscow. Baku has attempted to limit its relations with Russia mainly because of its permanent doubts as to Moscow's intentions, as well as the support Russia has granted to Armenia (for example, the Russian troops stationed at the military base in Gyumri, Armenia; the air defence

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system; and the cooperation within the Collective Security Treaty Organisation, including weapons supplies). The dialogue between Baku and Moscow has continued mainly due to Russia's role as a mediator in the Karabakh conflict<sup>13</sup>. Moscow has also been a beneficiary of contracts for the sale of weapons for Azerbaijan, which is determined to develop its military potential.

<sup>12</sup> This approach has been illustrated by Azerbaijan's lack of interest (declared in September 2013) in signing an Association Agreement with the EU because it contained certain political aspects, as well as Baku's intention to join the Strategic Modernisation Partnership, which is focused on state modernisation projects and does not require any democratisation initiatives.

<sup>13</sup> Baku has been increasingly open in its questioning of Moscow's impartiality in these talks.

In this context, any activity by Russia to revive the relations between the two states or strengthen its position in the region has been perceived by Baku as dangerous. This is how several events have been perceived, including the Russian invasion of Georgia in 2008, the strengthening of the Russian presence in Armenia (through the CSTO) and the integration processes (the Eurasian Union) which Moscow has promoted, forcing Armenia to join in. Pressure has been put on Azerbaijan directly, for example by the participation of Rustam Ibragimbekov in the presidential election in October 2013. Ibragimbekov, a Russian citizen, was the main opposition candidate for president (however, he eventually withdrew from the presidential race). In Moscow the Azeri Billionaires' Union was created, remaining beyond Baku's control. Another disturbing event was President Vladimir Putin's visit to Baku shortly before the presidential election, during which a wide-ranging cooperation proposal (including in the energy sector) was presented. It seems that Baku's positive reaction to this proposal convinced Russia to withdraw its support for the opposition candidate. Finally, an important sign of the pressure exerted by Russia is the repeated suggestions and invitations extended to Azerbaijan to join the Eurasian Union (for example, in June 2014), despite Baku's consistent rejection of such a possibility and its declared unwillingness to deepen its relations with the European Union (Baku has no plans to join). This policy is intended to symbolise Azerbaijan's neutrality in relations between Russia and the West. From Baku's perspective, Russian activity connected with the Eurasian Union has strikingly resembled Moscow's attempts to include Ukraine in this organisation in 2013. Russia has maintained its interest in developing economic cooperation, and is counting on Azeri investments, as it hopes to replace Turkey as their recipient<sup>14</sup>.

<sup>14</sup> In 2014 AzPromo (Azerbaijan's Promotion Agency) organised six economic forums with Russia, whereas in 2013 there was only one such forum (based on information from the website [www.azpromo.az](http://www.azpromo.az)).

## The Ukrainian context

Russia's activity has gained another dimension in connection with the events in Ukraine, intensifying Azerbaijan's fears. From Baku's point of view, the developments in Ukraine have demonstrated the costs of taking too liberal an approach towards society (the toppling of Yanukovich), Moscow's determination to pursue its own interests, and Russia's impunity in the post-Soviet area. This is all the more important as Baku has become aware that, contrary to Moscow's hopes and offers, there has been no real intensification of cooperation in the strategic areas (mainly in the energy sector<sup>15</sup>). Russia may be disappointed by Azerbaijan's unwillingness to join the Eurasian Union. It seems that Baku is particularly afraid of Russia's interference in its home affairs, for example by exploiting the pro-Western non-governmental and opposition circles<sup>16</sup> or fuelling tensions within society (e.g. using the ethnic minorities such as the Lezgins, who live in the northern part of Azerbaijan near the Russian border; the Russian minority in Azerbaijan is very small). Bearing in mind the riots and demonstrations which took place before the 2013 presidential election, Baku is also particularly sensitive to any potential social tensions. The fears among the ruling elite are inspired by the example of Georgia, where (among other factors) under Western pressure the camp centred around Mikheil Saakashvili lost power as a result of democratic elections, which from Baku's perspective was a demonstration of the lack of the West's loyalty towards its allies. Surprisingly, domestic

<sup>15</sup> Baku suspended the delivery of gas to Russia for five months, and the transport of Azeri oil via the Baku-Novorossiysk route decreased by nearly 60% y/y in the period between January and August; the plans for the transit of Russian fuels through Azeri infrastructure have not been put into practice either. On the other hand, the volume of trade exchange has increased in Russia's favour.

<sup>16</sup> From Baku's perspective, Moscow's support of the joint opposition candidate for president was the first example in many years of Russian interference in the domestic political affairs of Azerbaijan.

turbulences in Azerbaijan, which could be initiated by Moscow and referred to as democratic movements, could gain support from the West. The government's almost paranoid approach to the issue of internal stability has been combined with the increasing potential of the authoritarian system.

The Ukrainian crisis has also changed the situation around the disputed area of Nagorno-Karabakh. It has modified the regional balance of power between Russia and the West, which so far has been one of the basic conditions and guarantees for the freezing of this conflict. The talks on resolving the Karabakh issue held within the OSCE Minsk Group have been presided over by the countries involved in the conflict over Ukraine: Russia, the USA and France. This has reduced the permanently weak chances for reaching a compromise to almost nil.

### **Russia can be disappointed by Azerbaijan's unwillingness to join the Eurasian Union.**

A change has also been observed in both Baku's and Yerevan's perception of Karabakh as an instrument of Moscow's policy. This became particularly apparent when Russia demonstrated its readiness and ability to pursue its goals in Ukraine using military methods, ignoring the costs of such actions and the position of the West. Baku fears that a new, Russian-inspired phase of the conflict over Karabakh could be a realistic instrument for exerting pressure on Azerbaijan.

The changing balance of power and the distrust of Russian policy on the part of Baku and Yerevan (which is subject to Moscow and completely dominated by the Kremlin), have made the parties to the conflict revise their calculations concerning Karabakh. The tension has been further increased by the rumours spread by

Armenian media that Russia might hand over a part of Karabakh to Azerbaijan in exchange for Baku's joining the Eurasian Union (which perfectly illustrates the Armenians' distrust of Russia). These factors have strengthened the fears and the nervous attitudes of both sides, resulting in an escalation of the conflict along the ceasefire line which was unprecedented in the recent decade; at least 22 soldiers were killed in acts of sabotage staged between 30 July and 6 August.

Azerbaijan's response to these threats has been to consolidate the authoritarian regime by way of an unusually sharp campaign of repression focused on all independent circles (the opposition, ethnic minorities, Islamic fundamentalist groups, and international organisations), and targeted mainly at prominent and well-known

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human rights activists<sup>17</sup> and the non-governmental sector. Such a harsh campaign aimed at independent groups shows Baku's disrespect for the West and Western values<sup>18</sup>. On the other hand, the West's inability to influence Baku's actions demonstrates the inefficiency of its policy; the repression was stepped up when Azerbaijan assumed the presidency of the Council of Europe.

<sup>17</sup> The list of political prisoners in Azerbaijan, compiled by Leyla Yunus and Rasul Jafarov, contains 98 names. The authors of the report (published in August 2014) are currently in prison.

<sup>18</sup> In his address to the heads of Azerbaijani posts abroad, President Ilham Aliyev has stated that no foreign leader had ever put pressure on him in matters of democracy.

## A problem for Europe

By distancing itself from the European values and principles, Azerbaijan has moved even further away from Europe in the civilisational sense. By eliminating all signs of opposition against the system, the state has deprived itself of important channels of communication with society, as well as certain 'safety valves'. This makes potential crises and social tensions all the more unpredictable and dangerous. At the same time, the Baku government's growing authoritarian tendencies and the stepping up of repression are bringing Azerbaijan closer to Russia in the political sense, which is likely to complicate cooperation between the West and the regime in Baku. On the other hand, the growing pressure exerted by Russia and the lack of confidence in the effectiveness of the actions carried out by the West (which is evident in the current Ukrainian crisis), along with certain suspicions as to the intentions of both sides, will convince Baku to continue its isolation from the outside world and pursue a foreign policy which would be limited to selected sectors only. Azerbaijan is likely to become more interested in developing solely technical cooperation with the West. This would lead to converting the state model into an 'oil company' owned by a ruling elite for whom society is a burden, not an asset.

Another challenge to the West would be Azerbaijan's increased vulnerability to Russian pressure, which is likely to result in further complications in relations between Baku and the West. In the maximal version the Kremlin's goals are to include Azerbaijan in Russia's integration projects and to impede the implementation of the Southern Gas Corridor project supported by the West. In the minimal version, Russia would most probably attempt to disturb any rapprochement between Azerbaijan and the West, and to gain influence over the

Southern Corridor, for example by participating in it. This means that a measurable, negative consequence of Russian pressure could be the increased level of complications connected with implementing the Southern Gas Corridor project promoted by the West.

Finally, the growing risk of a renewal of the Nagorno-Karabakh conflict between Azerbaijan and Armenia could be another problem for the West. The freezing of the conflict seemed to be

favourable for Western investments in Azerbaijan and for the implementation of energy projects (about which Baku has repeatedly reminded the Western representatives in the Minsk Group, accusing them of in fact being interested in keeping the conflict frozen). A renewal of the war over Karabakh could at least impede the current cooperation in the energy area, and in this way guarantee Russia's geopolitical victory over the West in the South Caucasus.

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