

## Continuity and Change in Azerbaijan's Energy Diplomacy

By Murad Ismayilov, Baku

### Abstract

Azerbaijan's perceptions about the great powers and its place in the world have changed over time. In the initial post-independence period, Azerbaijan placed great hope on the west in securing its three main goals: retaining independence, restoring territorial integrity, and securing economic recovery and self-sufficiency. Since then, however, it has become disappointed in the west's ability and desire to address its key interests and has begun to diversify its ties, including to Russia and Iran.

### Changing Perceptions

The end of the Cold War and the collapse of the Soviet Union unleashed what is commonly referred to as the “new great game” in Central Eurasia, a contest among great powers—first and foremost the United States, Russia, Turkey, the European Union, China, and Iran—for the control over energy resources in the Caucasus (namely, Azerbaijan) and Central Asia (namely, Kazakhstan, Turkmenistan, and Uzbekistan), as well as—given the landlocked nature of the states in the region—transportation routes for those riches. The outcome of this struggle is largely believed to determine who will dominate Central Eurasia in the 21st century, just as the results of the 19th century great game between Great Britain and Russia in Central and South Asia were largely contingent on the control over, and ownership of, the railroad networks.

Azerbaijan entered the “new great game” with a clear set of objectives in mind, ones that defined the country's initial approach to pipeline diplomacy and conditioned the pipeline choices it made at the early stage of its independence. The pipeline politics, and security practices that came with it, however, provided for a contextual framework which constrained some practices and enabled others, thus prompting a whole array of regional processes unintended originally by the strategists in any of the states involved with the energy politics in the broader region. These security practices and their unintended effects, on the one hand, and the gradual consolidation of the regional states on the other—both associated with the pipeline politics and some broader structural forces (e.g. unexpectedly high energy prices in the 2000s)—worked in conjunction to engender the change in key objectives driving Azerbaijan's energy politics, a process conditioned by the evolution of perceptions Azerbaijan has been holding of the regional and international system, as well as of its potential place therein. This shift in goals and perceptions has worked to define the extent to which

Baku's gas diplomacy today is different from its oil politics in the 1990s.

This being so, this article is an attempt to analyze the ways in which, and the mechanisms through which, Baku's pipeline diplomacy affected and was itself affected by the change in those perceptions.

### Key Objectives behind Azerbaijan's Pipeline Diplomacy

At least three principal objectives were guiding Azerbaijan's pipeline diplomacy—as well as its foreign policy—in the early aftermath of its independence: retaining independence, restoring territorial integrity, and securing economic recovery and self-sufficiency.

First and foremost, Azerbaijan's survival as an independent fully-functioning state was not something that the leaders in Baku could or did easily take for granted. At a minimum, upholding the independence Baku had just secured from Moscow seemed as challenging as gaining it. The danger of losing independence loomed especially large among Azerbaijanis—politicians and civil society alike—in light of the tragic experience that their first statehood suffered in 1920, when Azerbaijan, following a short-lived independence, was forcefully incorporated into the Soviet Union. Fresher memories of what came to be known as “Black January”—an influx of Soviet troops in Baku on January 20, 1990 that left at least 137 people dead—added to the agony of the early post-independence years.

Second, in an effort to secure western support for its territorial integrity in the conflict with Armenia over Nagorno-Karabakh, Baku hoped to instrumentalize pipeline diplomacy and get the west to put pressure on Armenia to withdraw from Azerbaijani territory.

And third, suffering from a severe economic disruption in the early post-independence years, Baku sought to secure the western financial support that proved essential in boosting the Azerbaijani economy in those

years, support that no other side—not even Moscow—was capable of providing at the time.

This triad of objectives upon which Azerbaijan's pipeline diplomacy rested in the early 1990s, was itself rooted in, and derivative of, three underlying realities—perceptual and factual—characteristic of the time: the belief—in Baku and the broader region—that the west, and the US in particular, was committed to the independence and territorial integrity of the post-Soviet states and had the capacity to uphold this commitment; the conviction that western involvement with Azerbaijan and the broader region, unlike Russian, was not driven by colonial or neo-colonial impulses; and the recognition—both by Baku and by other countries in the broader region—of the inherent weaknesses—economic, military and political—of their young polities and, related to that, their incapacity to address on their own the challenges that faced their young post-colonial statehoods at the early stage of independence.

These basic realities, and the multitude of interests and objectives they worked to generate, have overlapped and intersected to create a complex contextual framework in which Baku's decision for westbound export routes was made in the 1990s. Three energy transportation projects—the Baku–Supsa and the Baku–Tbilisi–Ceyhan oil pipelines and the Baku–Tbilisi–Erzerum gas pipeline—were born as a result, effectively linking Azerbaijan, Georgia and Turkey to each other and to the west. The successful completion of the three pipelines, ones that make up the core of the US-inspired east-west energy corridor, led many to suggest that US engagement with the region heralded an approaching end to Russia's historical predominance in this part of the world, with the regional states, including Azerbaijan, ostensibly committed to unconditional and unidirectional pursuit of institutional, economic, cultural and political integration with the west. The post-9/11 American intrusion into Central Asia only worked to reinforce this line of thinking.

### Disappointments

The transformation of, and the evolution in, the perceptual and factual realities that underpinned Azerbaijan's energy diplomacy in the 1990s, however, ensured that these calculations proved rather misleading. The process that those changes worked to unleash engendered the shift in the content and direction of Baku's pipeline and overall energy diplomacy in the 2000s.

There are at least four ways in which the realities of the 1990s have experienced profound transformation over the period of the past two decades. First, as much

as it had hoped its pipeline diplomacy would produce a different result, Baku has failed to secure explicit recognition, either by Washington or by Brussels, of the fact that Armenia occupies part of its territory. The reality of this situation is demonstrated in the voting record on United Nations General Assembly Resolution 10693 (passed on 14 March 2008), reaffirming the territorial integrity of Azerbaijan and demanding “the immediate withdrawal of all Armenian forces from all occupied territories there.” The United States and France voted against, while other EU states chose to abstain in the vote; none of them voted in favour of the resolution. Lack of movement in this direction has significantly undermined both Azerbaijan's interest in the west and the perceived role that pipeline diplomacy could play in addressing Baku's major foreign policy objectives. Azerbaijan's sophisticated energy diplomacy has apparently failed to create a collateral effect leading to a quick resolution to the conflict over Nagorno-Karabakh on terms favorable to Baku; no longer, therefore, does Baku view energy diplomacy as a panacea for all its problems. And the west—no longer viewed as an honest and almighty broker—is now seen as either unwilling or unable to bring about what Baku would consider a fair resolution to the conflict.

Second, Russia's challenge to Georgia's territorial integrity in August 2008, combined with the west's demonstrated inability to block or repel Moscow on that point, have effectively worked to further undermine the credibility of the west, in that it served to jeopardise both the west's commitment to the regional states' security and territorial integrity and its capacity to live up to that commitment. Not only did the west, including the United States, fail to prevent the Russian assault, but—in its aftermath—NATO failed to extend a long-planned invitation for Georgia to join its Membership Action Plan (MAP) and rather chose to delay the country's membership in the organization for an indefinite future.

Third, with multi-billion dollar oil revenues flooding the Azerbaijani economy, Baku has gone through a period of exceptionally strong GDP growth, a fact that immeasurably boosted the country's economy, raised the level of its self-sufficiency and self-reliance, and, consequently, has given Baku the self-confidence that it can make its own way, something Azerbaijan earlier lacked. If anything, Azerbaijan's move to finance the construction of the Baku–Tbilisi–Kars railway in light of both Washington's and Brussels' refusal to do so, is a case in point. On the one hand, both the EU and the United States declined to fund the project and did so for politi-

cal reasons, calling attention to a reality that the west—like Moscow—would not always act in Baku’s best interests and, hence, full reliance on the latter may not be the best strategy for Azerbaijan to employ in the pursuit of its national interests. On the other hand, Azerbaijan’s move to cover a significant portion of project costs on its own highlighted the level of self-sufficiency and independence that Baku had reached over the last two decades.

Finally, with the support—both financial and political—that the west, and the United States in particular, provide being increasingly conditioned upon instituting democratic forms of governance and with the western criticism of Azerbaijan’s performance in this respect becoming ever more persistent, Baku has now come to view this as no less of a threat to its sovereignty—which it has so dearly cherished—as Moscow’s perceived attempts at reversing the collapse of the Soviet Union in the early part of the 1990s. Just as Moscow’s alleged efforts to instrumentalize its energy resources, as well as what is commonly referred to as the “frozen” conflicts in the broader region, have long been perceived as derivative of, and serving, Russia’s neo-imperial ambitions, the way in which, and the extent to which, the west has come to use democratic discourse in its relations with its partners in the east and south, has come to be viewed among the elites in Baku as a mechanism through which western neo-imperialist penetration and control are being effected. In the eyes of Azerbaijan’s political elite, western democratic knowledge, akin to Russian neo-imperialism, has come to be seen as directly threatening regime stability, on the one hand, and constraining the state in its ability to exercise “full” sovereignty and enjoy autonomy in its domestic and foreign policies, on the other, two objectives that formed the rationale behind Baku’s energy politics—and their nearly exclusive western orientation—during the 1990s. Both Moscow and Washington, therefore, have now come to be perceived as neo-imperial powers in pursuit of dominance and control.

### Strategy Change

This transformation of realities on the ground has had a significant bearing on the nature of Azerbaijan’s energy policy at the onset of the twenty-first century, an evolution that can be seen in the very different way Baku is pursuing gas diplomacy now compared to the way it played oil diplomacy in the past. In a regional and international context in which any choice of route and destination for energy exports has come to be perceived as one creating opportunities, but also fraught with challenges,

Azerbaijan’s energy policy has evolved to be guided by two major precepts.

First, in an open effort to further diversify its linkages with the outside world and the ensuing dependencies and interdependencies that come from them, Baku is now keen to have its gas distributed among as many players in the region as possible, rather than limiting its exports to a single (western) market only. In practice, that means engaging in efforts to develop eastern and southern dimensions to the east-west energy transportation network that the first stage of Azerbaijan’s energy policy has produced. And second, economic considerations—more than anything else—have come to drive Baku in its choice of routes through which its gas would be exported. While Baku’s commitment to further develop the western dimension of the energy corridor of which it is a part still holds—something reflected in the country’s unwavering support for the Nabucco gas pipeline project—the evolution of Azerbaijan’s energy policy toward at least two countries—Russia and Iran—is expressive of this change.

With Azerbaijan driven by these two tenets, Russia has now been allowed a greater role in Baku’s energy export calculations, a change reflected in the move by the latter’s state oil company to enter—in late 2009—into a short-term contract with Russia’s Gazprom on export—for market prices—of no less than 500 mcm of Azerbaijani gas annually (1 bcm of gas is actually expected to be exported to Russia in 2010). Guided by the same set of principles, Baku has now moved to open up—if slowly—to Iran, a country that the US has long sought to isolate: the east-west transport corridor was designed to bypass Iran as much as it was meant to undermine Russia’s monopoly over regional transport routes. Azerbaijan’s move to export some of its oil through Iran during and after the August 2008 crisis, as well as the short-term contract it signed with Iran’s National Gas Export Company in January 2010 on the export of 100 mcm of gas to Iran annually through the existing Gazi-Magomed–Astarra gas pipeline is a reflection of Baku’s increasing willingness to develop the southern dimension of its energy diplomacy. In its quest for alternative export routes for its gas, Azerbaijan has now also reached out, in one way or another, to Bulgaria, Italy, Greece and Romania in the west; Israel and Syria in the south; and China in the east.

### Conclusion

The efforts by Azerbaijan to diversify its energy exports should be viewed in a broader context of Baku’s attempts to diversify its economy, including in the non-energy

sector, and expand the range of its partners. The latter, in turn, is a reflection of a growing conviction in Baku

that independence is not only about freedom of land, but is also about freedom of choice.

*About the Author:*

Murad Ismayilov (email: [mismayilov@ada.edu.az](mailto:mismayilov@ada.edu.az)) has recently completed an MSt Program in International Relations at the University of Cambridge and currently serves as Program Manager for Research and Publications at the Azerbaijan Diplomatic Academy. This contribution has been prepared for the research project entitled “The Energy Sector and the Political Stability of Regimes in the Caspian Area: A Comparison of Kazakhstan and Azerbaijan”, conducted by the Research Centre for East European Studies at the University of Bremen and funded by the Volkswagen Foundation.

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## The State Oil Company SOCAR: A Microcosm of Azerbaijani Development?

By Heidi Kjærnet, Oslo

### Abstract

Baku has not shown signs of moving towards resource nationalism, but Azerbaijan’s national oil company SOCAR plays an important role in the country’s petroleum sector. In addition to being partner to the international oil companies present in Azerbaijan, the company is an actor in policy formation. Close ties between the government and the company ensure that SOCAR, in addition to being one of the biggest taxpayers in Azerbaijan, also carries out political and social tasks for the government. At the same time, commercial tasks are intertwined with petroleum policy and regulation, and the Azerbaijani national petroleum sector seems to be moving in a more opaque direction.

### SOCAR as a Microcosm of Azerbaijan

Regimes pursuing resource nationalist policies generally make the national oil companies (NOCs) an important vehicle for increased control over the petroleum sector. Azerbaijan has not followed Russia and Kazakhstan’s example in curtailing the international oil companies’ presence in the country. Studying the national oil company SOCAR nevertheless provides interesting insights into the Azerbaijani regime. Viewed as a microcosm of the challenges that Azerbaijan itself is facing, SOCAR can shed light on the country’s prospects for modernization or stagnation.

### Azerbaijani Petroleum Policy

Petroleum resources have been paramount in Azerbaijan’s economic and political development since independence. The significance of the international oil companies’ (IOCs) presence in Azerbaijan is marked particularly by two events: the signing of the so-called “Contract of the Century” with an international consortium to develop and produce oil from the Azeri-Chi-

rag-Guneshli fields in the Caspian Sea in 1994, and the construction of the Baku–Tbilisi–Ceyhan (BTC) pipeline transporting oil from Baku to Ceyhan in Turkey by a BP-led consortium, which ended the Russian monopoly on the transport of energy resources from the Caspian region. SOCAR was established in 1992 as a merger of Azerneft and Azneftkimiya, two companies with historical roots in the Azerbaijani Soviet Socialist Republic. The company is the national partner to the IOCs in all the production sharing agreements (PSAs) that exist between Azerbaijan and foreign partners. As such SOCAR has a 25 per cent stake in the BTC oil pipeline and in the South Caucasus Gas Pipeline (SCP), and it is partner to over 20 PSAs. Some of the PSAs have been abandoned due to unsatisfactory exploration results. SOCAR manages the production and sale of oil and gas from the old Soviet-era fields in Azerbaijan. These make up a very small share of the country’s total oil and gas production and exports, and SOCAR’s output has been declining by around 1 per cent a year. 80 per cent of the country’s