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# Azerbaijan's Foreign Policy and Challenges for Energy Security

Pinar Ipek

*This article examines Azerbaijan's foreign policy by demonstrating the interplay between the oil-led development process and early post-independence regional conflicts that enforced a Western orientation in the country's foreign policy. It is argued that geopolitics continue to prevail in the strategic goals of Azerbaijan. However, the new challenges in the emerging framework of energy security, which extends beyond the revitalized geopolitical rivalries and preeminent concern over securing energy supplies, put Azerbaijan's foreign policy at a crossroads and require a new trans-Atlantic partnership to promote human security and to manage the risk entailed in the unpredictable policy environments of the Caspian region.*

Azerbaijan is of crucial importance to the world energy market. The proven and potential reserves in the Azerbaijani sector of the Caspian Sea are expected to diversify, secure, and stabilize world energy supplies, as North Sea resources did in the past. However, the land-locked energy resources in the Caspian region pose additional challenges to the transport of oil and gas resources, particularly to the European energy markets. Today, long-distance transnational pipelines have grown increasingly central in efforts to ensure energy security, in large part because they provide an alternative to a number of vulnerable maritime chokepoints.<sup>1</sup> Thus, a broadened understanding of energy security is imperative not only to understand the new challenges of Azerbaijan's foreign policy but also to cope with any potential instability or geopolitical rivalries in the Caspian region.

This article examines Azerbaijan's foreign policy using the oil-led development process and the country's relations with multinational oil companies as a framework for analysis and addresses the challenges for energy security in the Caspian. The recent war between Russia and Georgia and the ongoing Karabakh conflict between Azerbaijan and Armenia not only renewed awareness of geopolitical rivalries, but also further multiplied the nodes of vulnerability along the energy infrastructure and cross-border

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1. About two-thirds of the world's crude oil and refined products travel by tanker. Along the way, tankers pass through "chokepoints" or narrow channels. These include the Strait of Hormuz (Oman/Iran, connects the Persian Gulf with the Gulf of Oman and the Arabian Sea), Bab al-Mandab (Yemen/Eritrea, connects the Red Sea with the Gulf of Aden and the Arabian Sea), Bosphorus and the Dardanelles Straits (Turkey, connects the Black Sea with the Mediterranean Sea), Suez (Egypt, connects the Red Sea and Gulf of Suez with the Mediterranean Sea), Malacca (Malaysia/Singapore, connects the Indian Ocean with the South China Sea and the Pacific Ocean), and the Panama Canal (Panama, connects the Pacific Ocean with the Caribbean Sea and the Atlantic Ocean).

pipelines in the world energy market. Although there was no immediate attack on, or threat to, the oil and gas pipelines bypassing Russia through the Caucasus region and reaching the Mediterranean in Turkey (the Baku-Tbilisi-Ceyhan pipeline), Russia clearly expressed itself as a regional power by not allowing any changes in the *status quo* of the region or any individual attempts to solve “frozen conflicts” in the Caucasus.

The first section of this article demonstrates how the oil-led development process and Azerbaijan’s relations with multinational oil companies have enforced the country’s Western-oriented foreign policy. The second section examines the linkages between Azerbaijan’s foreign policy and the challenges for energy security in the Caspian region. In the third section, it is concluded that geopolitics has prevailed in Azerbaijan’s foreign policy; however, a new trans-Atlantic partnership is required to meet the new challenges of energy security in the Caspian region.

### *THE ROLE OF OIL IN AZERBAIJAN’S WESTERN-ORIENTED FOREIGN POLICY*

Security threats in the early years of Azerbaijan’s independence were critical in setting the course of the country’s foreign policy, which has been largely driven by the economic and political preferences toward Azerbaijan’s prioritizing relations with multinational oil companies and utilizing an oil-led development process. Azerbaijan’s economy was in severe crisis after the collapse of the central economic system of the former Soviet Union. Foreign direct investment in the oil and gas sectors was crucial to boost the country’s economic recovery. As part of the collapsed Soviet system, Azerbaijan’s economic activities had been focused on the extraction and production of raw materials. The experience of Azerbaijan, however, was somewhat different from those of other former Soviet republics due to its geographic location and cultural context. Azerbaijan has a Turkish Muslim population, and is located between powerful neighbors — Iran and Russia. In fact, several regional conflicts, which took place shortly after Azerbaijan’s independence, emphasized the importance of economic recovery for its national security. Thus, Azerbaijan had to secure its political independence and economic development amid complex geopolitics that reflected the conflicting interests of different stakeholders, while finalizing its oil and gas projects, particularly for pipeline routes. These stakeholders included multinational oil companies, Azerbaijan’s neighbors (including Iran, Russia, and Georgia), and Turkey and the United States.

Within this framework, two major regional conflicts were influential in setting the strategic goals for Azerbaijan’s foreign policy in order to maximize its national security: 1) the Armenian-Azerbaijani conflict, and 2) the legal status of the Caspian Sea. An examination of events in these conflicts is given to demonstrate the interplay between the interests and foreign policy concerns of Azerbaijan and its relations with oil companies that enforced a Western orientation in its foreign policy.

### *THE ARMENIAN-AZERBAIJANI CONFLICT: NATIONAL SECURITY, POLITICAL LEADERSHIP, AND THE OIL CARD*

The Armenian-Azerbaijani conflict over the Karabakh (Nagorno-Karabakh) has been an important factor in setting the strategic goals for Azerbaijan’s foreign policy.

Since its independence, the successive Presidents of Azerbaijan have faced the security dilemma of preserving the stability of their regimes through the prism of the Karabakh problem. First, the Karabakh conflict was a threat to internal stability since the strong pressure of opposition groups highly politicized the Karabakh issue, which in turn caused consecutive changes in political leadership. For example, in the short period between 1991 and 1993, Azerbaijan had three Presidents, who either had to resign following the atrocities against civilians in the Khodjaly massacre in the Karabakh region in 1992 or left the presidency because of an insurgency following defeats against Armenian forces in Karabakh in the winter of 1992. Thus, the first President of independent Azerbaijan, Ayaz Mutalibov, had to resign in March 1992 following public protests against the Khodjaly massacre in February, while Abulfaz Elchibey was elected in June 1992 after the interim presidency of Yakub Mamedov. However, President Elchibey had to leave Baku on June 21, 1993 following an anti-government insurgency that started on June 4 and resulted in Haydar Aliyev's taking power and becoming President on June 25.

Second, the Karabakh conflict remained critical in determining priorities in Azerbaijan's foreign policy as well as setting a course with different regional powers in the short period between 1991 and 1993. Third, Azerbaijan needed to begin oil exports to increase its revenues. A financially stronger Azerbaijan could have a modern army, which in turn would enable stronger leverage against Russia and Armenia. However, exporting oil from the landlocked Caspian region through Russia would increase Russia's leverage over Azerbaijan.

The Karabakh conflict had its roots during the Soviet period, in which Moscow initially opposed Armenian demands concerning the region, and considered them a threat to the fragile regional ethnic map in the Caucasus.<sup>2</sup> However, Armenian claims in 1988 led thousands of people to fight over the Karabakh, jeopardizing Azerbaijan's territorial unity. As a reaction to Armenian demands for Karabakh's independence, anti-Armenian riots occurred in Sumgait, Azerbaijan in 1988. Following the heightened ethnic tension, there were Armenian-Azerbaijani clashes in Baku in January 1990.<sup>3</sup> In response, President Mikhail Gorbachev of the Soviet Union sent Russian troops to Baku in January 1990. The entrance of the Russian troops into Baku resulted in the death of many civilians. Thus, this event, known as "Black January," was the turning point in Azerbaijan's history. It facilitated pro-independence and anti-Russian feelings among Azeris and had a critical impact on Azerbaijan's foreign policy orientation as well as its domestic politics.<sup>4</sup>

The Karabakh conflict between Armenia and Azerbaijan is one of the most dramatic human tragedies in the post-Soviet era in the Caucasus. The total number of refugees and internally displaced people from the occupied territories in Karabakh and the seven districts outside the region<sup>5</sup> is 1,010,000, while there were 20,000 casualties,

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2. Vicken Cheterian, "Dialectics of Ethnic Conflicts and Oil Projects in the Caucasus," Program for Strategic and International Security Studies, Occasional Paper Number 1, 1997, p. 24.

3. Tamara Dragadze, "Azerbaijan and the Azerbaijanis," in Graham Smith, ed., *The Nationalities Question in the Post Soviet States* (London: Longman, 1996), pp. 269-290.

4. Ceylan Tokluoglu, "Definitions of National Identity, Nationalism and Ethnicity in post-Soviet Azerbaijan in the 1990s," *Ethnic and Racial Studies*, Vol. 28, No. 4 (2005), p. 727.

5. Lachin, Kalbajar, Aghdam, Fizuli, Jabrayil, Gubadly, and Zangilan.

50,000 people disabled, and 4,866 people missing.<sup>6</sup> Furthermore, the 1992 Khodjaly massacre, which has been portrayed by Azerbaijani officials as the ethnic cleansing of the occupied territories, provoked anger and sorrow among all Azeris and is a major source of distrust with regards to Armenia. During the height of clashes in the Karabakh region, Khodjaly's civilians could not flee and were brutally attacked by Armenian armed forces over the night of February 25-26, 1992. As a result, 613 people were killed, including 106 women, 63 children, and 70 elderly people; 1,275 people were taken hostage, and the fate of 150 people remains unknown.<sup>7</sup>

The demise of the Soviet Union brought a radical change in the balance of power in the Karabakh conflict.<sup>8</sup> The Soviet Army, which between 1988-1991 had buffered the increasing violence between Armenian and Azerbaijani fighters, withdrew between November 1991 and February 1992.<sup>9</sup> Thus, the Azeris and Armenians were left alone, which led to a full-scale war in the region. Ayaz Mutalibov, who had been the last President of the Azerbaijan Soviet Socialist Republic, became the first President of the independent Republic of Azerbaijan when Azerbaijan declared its independence on October 18, 1991. President Mutalibov paid more attention to strategic cooperation with Iran and Russia during his administration. However, the military defeats on the Karabakh front destabilized his regime. In March 1992, after the Khodjaly massacre, public resentment turned into a mass protest in Baku against his presidency. Mutalibov accused Azerbaijani opposition groups of having exaggerated the Khodjaly massacre in order to bring him down. Mutalibov's declaration increased public anger against him, as well as accusations about Russian influence on his presidency. Finally, Mutalibov was forced to step down in March 1992.<sup>10</sup> Yakub Mamedov took over as interim President, but instability and a power struggle continued in Baku. A presidential election was held in June 1992. The Azerbaijan Popular Front leader, Abulfaz Elchibey, won and stabilized the presidency.

During Elchibey's administration, Russian demands for the return of its military bases and control over Azerbaijan's energy exports in return for military assistance to Azerbaijan led his administration to follow a clear anti-Russian strategy that reflected pan-Turkism as the ideology of his Azerbaijan Popular Front.<sup>11</sup> The Russian demands were unacceptable for the sovereignty of independent Azerbaijan.<sup>12</sup> Thus, Russia supported the Armenian side and the shift in the balance of power to Armenian forces led to

6. Haydar Aliyev Foundation, *Consequences of Armenian Aggression against Azerbaijan*, in the series of *True Facts about Garabagh* (Baku: Haydar Aliyev Foundation, 2005), pp. 1-2.

7. Haydar Aliyev Foundation, *The Khodjaly Genocide*, in the series of *True Facts about Garabagh* (Baku: Haydar Aliyev Foundation, 2005), pp. 7-8.

8. Emmanuel Karagiannis, *Energy and Security in the Caucasus* (New York: Routledge, 2002), pp. 40-41.

9. It was reported that Russian forces began to withdraw from the Karabakh enclave in November 1991, except for the 366<sup>th</sup> regiment in Stepanakert. In March 1992, the 366<sup>th</sup> regiment fell to pieces while the Armenian officers seized the light and heavy weapons and joined the Karabakh forces. *The Economist*, April 10, 1993.

10. Suzanne Goldenberg, *Pride of Small Nations* (London: Zen Books, 1994), pp. 119-120.

11. Tokluoglu, "Definitions of National Identity, Nationalism and Ethnicity in post-Soviet Azerbaijan in the 1990s," pp. 725-727.

12. Robert V. Barylski, "The Caspian Oil Regime: Military Dimensions," *Caspian Crossroads*, Vol. 1, No. 2 (Spring 1995), <http://ourworld.compuserve.com/homepage/usazerb/casp.htm>.

Armenian victories over Azerbaijan's forces. Elchibey's major campaign promise was to defeat the Armenians in Karabakh and to unite Karabakh as part of Azerbaijani territory. Elchibey initially achieved some military victories. He gave priority to developing a strategic partnership with Turkey, and considered radical solutions to overcome Azerbaijan's security dilemma. He prioritized expanding contacts with the West as a key factor in strengthening national independence. Accordingly, Elchibey's administration set a pro-Western course for Azerbaijan's foreign policy. The country's rich oil resources were an important policy instrument, as emphasized by the then-President of the State Oil Company of the Azerbaijan Republic (SOCAR), Sabit Bagirov: "The only way to accomplish improving Azerbaijan's economic and political relations with the West was to resort to the 'oil card' and to offer the territory of Azerbaijan for the West's new strategic routes to Central Asia."<sup>13</sup>

Likewise, Elchibey's administration gave priority to the acceleration of negotiations with Western oil companies.<sup>14</sup> Elchibey made clear to all representatives of foreign oil companies that Azerbaijan's new government was ready to sign mutually beneficial contracts. Rapidly following the statements of his government's willingness to work with foreign companies, two contracts were signed, with BP-Statoil in September 1992 and with Pennzoil-Ramco in October 1992 for the Chirag and Guneshli fields, respectively. One important immediate political outcome of these oil agreements was that they supported the pro-Western course in Azerbaijan's foreign policy in addition to the potential economic benefits they promised. The agreements also demonstrated to Russia that Elchibey was determined to work with Western companies in his oil strategy. The American stake in the initial agreements was particularly important considering that Amoco had the largest interest, followed by Unocal.<sup>15</sup> Russia was totally excluded from these contracts.

Azerbaijan's government had been moving, so far, in solid steps in pursuit of its strategic goals of strengthening the economic and political independence of the country by signing various interim memoranda and agreements.<sup>16</sup> However, by the winter of 1992-93, the Karabakh forces had launched a counterattack and had defeated the Azerbaijani Army, occupying new territories in the Azerbaijani region outside of the Karabakh enclave. The defeats of the Azerbaijani Army provoked another round of power struggles in Baku. A military leader, Surat Huseyinov, refused to obey Elchibey's orders. In June 1993, an anti-government insurgency in Azerbaijan began, which accused the government of responsibility for the defeats against Armenian forces.<sup>17</sup> In fact, diplomatic sources viewed Surat Huseyinov as a coup leader against President Elchibey.<sup>18</sup> For example, the US State Department cautiously drew a distinction be-

13. Sabit Bagirov, "Azerbaijan's Strategic Choice in the Caspian Region," in Gennady Chufirin, ed., *The Security of the Caspian Sea Region* (London: Oxford University Press, 2001), pp. 179-180.

14. Negotiations with Western firms had been started by the Ministry of Oil and Gas in Moscow and Caspmorneftegaz of the Soviet Republic of Azerbaijan and continued slowly during Mutalibov's administration.

15. "Amoco Concludes Deal to Develop Oil Field in Azerbaijan Republic," *Eastern Europe Report*, Vol. 1, No. 36 (October 7, 1991).

16. Bagirov, "Azerbaijan's Strategic Choice," p. 180.

17. "Azerbaijani Quits; Ex-Communist Steps In," *The New York Times*, June 14, 1993, p. A6 and "Prime Minister of Azerbaijan Quits," *Washington Post*, June 8, 1993, p. A17.

18. Martin Sieff, "Azeri Seeks Censure of June Coup Plotters," *Washington Times*, August 12, 1993, p. A9.



tween Haydar Aliyev and the rebel leader Huseyinov.<sup>19</sup>

The timing of the Russian withdrawal from Ganja and Huseyinov's rebellion against President Elchibey clearly emphasized the conflicts in the Caucasus and the geopolitics of Caspian oil. Despite the optimism that overtook Baku as major foreign capital was invested in Azerbaijan, the West was not prepared to directly support the Elchibey Administration against Russia. The Armenian community in the US effectively lobbied to gain American support for the Armenian position in the Karabakh conflict.<sup>20</sup> In April 1992, the US Congress passed the "Freedom Support Act" that determined the assistance to be given by the US to the former Soviet republics in their transition to democracy and to a market economy. However, Section 907 of the Freedom Support Act restricted the US government's assistance to Azerbaijan and became a major obstacle for Azerbaijan in seeking further American assistance in strengthening its economy and national security.

Following the insurgency of Huseyinov against President Elchibey, Haydar Aliyev returned to power.<sup>21</sup> The Karabakh forces took further advantage of the chaos in Azerbaijan and occupied several districts adjacent to Karabakh. Several hundred thousand Azerbaijanis had to flee their villages, creating a dramatic refugee problem. At the same time, the Talish minority in the southern town of Lenkoran started an upheaval. The Lezgin minority, inhabiting the North, was also tense, concerned about being involved in turmoil.<sup>22</sup> In the summer of 1993, Azerbaijan was in chaos and threatened to collapse into a multitude of regions fighting against the central authorities in Baku. The new President, Aliyev, succeeded in repressing the Talish rebellion and in asserting the central authority over various regions of Azerbaijan in a short time.

President Aliyev's foreign policy opted for closer relations with Russia. He visited Moscow and agreed to join the Commonwealth of Independent States in September 1993. Aliyev also invited the Russian oil company Lukoil to join the oil projects in the Caspian offshore fields. Consequently, ten percent of SOCAR's share of the Azeri, Chirag, and Guneshli offshore fields was transferred to Lukoil. President Aliyev's strategic approach to Russia was to gain its support, particularly with regards to the Karabakh conflict.<sup>23</sup> Aliyev's approach to Russia bore some fruit,<sup>24</sup> including the signing of the "deal

19. Sieff, "Azeri Seeks Censure."

20. F. Wallace Hays, "The US Congress and the Caspian," *Caspian Crossroads*, Vol. 3, No. 3 (Winter 1998), <http://ourworld.compuserve.com/homepage/usazer/casp.htm>.

21. Haydar Aliyev was the leading Azerbaijani Communist and the fourth-ranking leader in the Soviet Union during the Brezhnev era.

22. According to the last Soviet census in 1989, the Lezgin and Talish minorities constitute 2.4% and 0.3% of the total Azerbaijan population, respectively. According to the 1999 census of Azerbaijan, the Lezgin and Talish minorities constitute 2.2% and 1.0% of the total population, respectively. The Lezgin minority is the third largest minority group in Azerbaijan, following Russians (5.6% in 1989 and 1.8% in 1999) and Armenians (5.6% in 1989 and 1.5% in 1999). The State Statistical Committee of the Republic of Azerbaijan, *Demografik gostericiler [Demographic Indicators]*, *Ahalinin Milli Terkibi [Population by Nationalities]*, <http://www.azstat.org/statinfo/demographic/az/006.shtml#s7>.

23. Nasib Nassibli, "Azerbaijan: Oil and Politics in the Country's Future," in Michael P. Croissant and Bulent Aras, eds., *Oil and Geopolitics in the Caspian Sea Region* (Westport, CT: Praeger Publications, 1999), pp. 104-107.

24. Cheterian, "Dialectics of Ethnic Conflicts and Oil Projects in the Caucasus," pp. 11-37, and Kamer Kasim, "The Nagorno-Karabakh Conflict, Caspian Oil and Regional Powers," in Bulent Gokay, ed., *The Politics of Caspian Oil* (New York: Palgrave, 2001), pp. 185-198.

of the century” that established the Azerbaijan International Operating Company (AIOC) to develop the country’s offshore oil and gas fields.<sup>25</sup> In November 1993, the Azerbaijani Army began a new offensive on the Karabakh front, but it did not achieve any progress, and a cease-fire was signed in May 1994. By the time of the cease-fire, Armenia had captured the Karabakh region and seven other districts forming a supply corridor between the region and Armenia, an area that accounted for 20% of Azerbaijan’s sovereign territory.

Aliyev’s long-term strategy was to bring in multiple countries’ investment in the oil and gas sector to strengthen national security. The investment of various companies from the US and Europe tried to catalyze the formation of an international pro-Azerbaijani lobby to strengthen Azerbaijan’s position in the Minsk Group, the diplomatic platform for negotiations on the Karabakh conflict.<sup>26</sup> In an interview, Vafa Gulizade, who was Aliyev’s foreign policy adviser, related the importance of oil as more than just a revenue producing commodity: “Oil is our strategy, it is our defense, and it is our independence. Iran is dreaming dreams of Azerbaijan, and if the Russians were strong, they would colonize Azerbaijan. But they can’t because Aliyev invited the whole world in to watch.”<sup>27</sup>

A senior officer from the US Department of Energy emphasized Aliyev’s specific strategy as follows: “Azerbaijan’s strategy has been to bring in as many large companies from different countries as possible. So this is why you see first Amoco, now BP-Amoco, BP, Exxon, Statoil, AGIP, just almost every major company. Almost every major company from major countries has a position in Azerbaijan. That was very purposeful because Aliyev’s strategy was to try to gain as much support for Azerbaijan and its development plans from as many countries as possible. Not just the US.”<sup>28</sup>

Strengthening Azerbaijan’s independence and national security always has been at the core of Azerbaijan’s foreign policy despite some swings under four different Presidents between 1992 and 2003. Its rich oil resources and relations with Western oil companies were an important policy instrument in achieving these foreign policy goals.

#### *LEGAL STATUS OF THE CASPIAN SEA: THE CHALLENGE FOR AZERBAIJAN AGAINST RUSSIA*

The dispute over the demarcation of the Caspian Sea was another important issue in setting the strategic goals for Azerbaijan’s foreign policy. The conflict over the legal status of the Caspian and the ownership of its oil became an issue particularly after Azerbaijan signed its first oil contract in September 1994 under the presidency of Hay-

25. The Azerbaijani Army received large quantities of arms, including tanks and assault helicopters, and more than 200 Russian military experts moved to Ganja to reorganize the army.

26. A subset of OSCE (Organization for Security and Co-operation in Europe) members, referred to as the Minsk group after the location of its first convening, formed to supervise the negotiations between Azerbaijan and Armenia on the Karabakh conflict in 1992. The group is jointly co-chaired by Russia, France, and the US.

27. Jeffrey Goldberg, “Getting Crude in Baku: The Crude Face of Global Capitalism,” *The New York Times Magazine*, October 4, 1998.

28. Interview by the author with a senior US government officer in the Department of Energy, Office of Policy Analysis, Trade and Investment for Europe, NIS and the Middle East, Washington DC, April 27, 2001.



dar Aliyev. Russia and Iran, on one hand, have contended that the Caspian is actually an inland lake and thus subject to joint control by all the littoral states. Azerbaijan, on the other hand, has argued that the Caspian is a sea that should be divided into national sectors over which each state has exclusive sovereignty. The other two littoral states, Kazakhstan and Turkmenistan, have supported Azerbaijan.

Russia has argued that historic treaties with Iran in 1921 and 1940 imply that the sea cannot be divided.<sup>29</sup> Although Azerbaijan and Kazakhstan did not sign these treaties, the Alma Ata Declaration of December 1991 that established the Commonwealth of Independent States, and which was signed by all the former Soviet Republics, included a specific provision recognizing the validity of all treaties and agreements signed by the USSR. There was, therefore, a case for keeping the treaties between Russia and Iran in force. Nevertheless, Azerbaijan has claimed that the 1982 United Nations Convention on the Law of the Sea should be applied to the Caspian.

By giving an important stake to Lukoil, Aliyev's administration expected that Russia would take a softer stand about the dispute on the Caspian Sea's legal status. After the signing ceremony of "the deal of the century" that established the Azerbaijan International Operating Company (AIOC) and included eight Western companies, a Saudi Arabian firm, and a Russian firm,<sup>30</sup> Russian politicians and officials have issued public warnings that opening up the Caspian Sea to international oil and gas developments over which Russia had no control would not be officially recognized.<sup>31</sup> However, despite the strong opposition of, and sometimes threatening statements made by the Russian Ministry of Foreign Affairs, Russia's Fuel and Energy Minister backed Lukoil's participation in the AIOC agreement and downplayed territorial disputes over the Caspian Sea.

Early production of the AIOC was important for Azerbaijan to stabilize its economy, promote internal stability by generating revenues from exporting oil, and secure its territorial integrity. Following the strong Russian stand against the unilateral oil contracts with Western oil companies to develop offshore fields in the Caspian Sea, Azerbaijan put all its diplomatic efforts into securing the rights to develop its national sector of the Caspian Sea. In November 1994, the littoral states established a Caspian coordinating committee to work on demarcation and related issues, including navigation and fishing rights. Nevertheless, Azerbaijan was all alone in the lack of direct and

29. The Treaty of Turkmanchai (February 21, 1828) established that the land boundary between Russia and Persia would end at the Caspian Sea, thus implying that the sea was not subject to delimitation at the time. Article 8 of the treaty also established freedom of navigation on the Caspian for merchant vessels of both sides, but reserved for Russia the sole right to deploy warships there. The Soviet-Persian Treaty of Friendship (February 26, 1921) established freedom of navigation for all Soviet and Persian ships on the Caspian. The Treaty on Trade and Navigation between the USSR and Iran (March 25, 1940) reiterated the freedom of navigation rights of the 1921 treaty. Moreover, a ten nautical mile offshore fishing zone was recognized. See Cynthia M. and Michael P. Croissant, "The Legal Status of the Caspian Sea: Conflict and Compromise," in Croissant and Aras, eds., *Oil and Geopolitics in the Caspian Sea Region*, pp. 21-42.

30. Amoco (US), BP (UK), Statoil (Norway), the Turkish Petroleum Corporation (TPAO, Turkey), Pennzoil (US), Ramco (UK), Delta (Saudi Arabia), McDermott (US), Unocal (US), and Lukoil (Russia). Later on some of these companies sold their equity to other companies partially or fully.

31. "Kozyrev reinforces objections to Azerbaijan-Western Oil Deal," *Radio Free Europe*, September 22, 1994.

active involvement of Western governments, so that it had no option other than to play the oil card to leverage Russian pressure in its foreign policy.

Within this framework, when we look at Azerbaijan's preferences in signing new oil contracts or considering different pipeline routes, we observe a reflection of certain strategic choices by the Azerbaijani government in building a Western-oriented foreign policy. Azerbaijan signed two further deals in 1995 in which the Russian oil firm Lukoil had a stake. However, Azerbaijan continued to face Russian opposition in the demarcation of the Caspian Sea. Thus, in November 1995, Aliyev further tried to appease Russia by giving it the biggest share in the development of the Karabakh oil field.<sup>32</sup> Later, in June 1996, the third major consortium, to develop the Shah Deniz field, was established, in which Iran was included.<sup>33</sup> The Azerbaijani government had been deliberately giving concessions to the oil companies of its powerful neighbors like Russia and Iran to lessen the pressure coming from these countries regarding the demarcation of the Caspian Sea. Aliyev's concessions also worked as a catalyst in forming a pro-Azerbaijan lobby of powerful Russian oil and energy circles within the Russian government.<sup>34</sup> Nevertheless, President Aliyev's policy was to use relations with Western oil companies and the oil agreements to strengthen Azerbaijan's Western-oriented foreign policy in achieving its strategic goals.

In subsequent years, Azerbaijan has consistently rejected Russia's proposal on the legal status of the Caspian Sea. Aliyev's success in resisting Russian pressure was due in large measure to the diplomatic support of the US<sup>35</sup> on the issue.<sup>36</sup> After proclaiming neutrality on the legal status of the Caspian Sea for more than two years, the US gave its support in favor of sectoral division in November 1996, because in the mid-

32. This included 45% to LukAgip, an Italian-Russian joint venture, and 12.5% to Lukoil. Other participants in the Caspian International Petroleum Company to develop the Karabakh field were Pennzoil (30%, US), Agip (5%, Italy), and SOCAR (7.5%, Azerbaijan). "Azerbaijan Production Sharing Agreements as of February 1999," *US-Azerbaijan Chamber of Commerce*, <http://www.usacc.org/content.php?type=news&chi=13&par=12>.

33. Iran 10%, BP 25.5% (UK), Statoil 25.5% (Norway), Lukoil 10% (Russia), Elf 10% (France), TPAO 9% (Turkey), and SOCAR 10% (Azerbaijan).

34. Two contradictory policy groups contributed to Russia's policy towards the Caucasus and Central Asia in the initial five years after the collapse of the Soviet Union. The first group was led by the Ministry of Foreign Affairs (both when Yevgeny Primakov and Andrei Kozyrev were Foreign Ministers), which interpreted Russian policy within a traditional balance of power framework. They viewed the development and export of oil in zero-sum terms and took Russia's historical hegemony more into consideration for its relations with the newly independent states. Prime Minister Viktor Chernomyrdin and Oil Ministry officials formed the second group. They welcomed Western participation in the development of Caspian reserves as a means of accessing capital and technology and establishing a Russian foothold in world oil markets. Thus, they had more focus on adjusting to the realities of a free market. Consequently, inter-ministry contradictions in Russian policy towards the Caucasus and Central Asia seemed to be the result of power diffusion in the still emerging post-Soviet new order in Russia.

35. The US support came in the form of a note from President Bill Clinton conveyed by Special Ambassador to the NIS James Collins, stating the US government's support of American investment companies and of the idea of sectoral division of the Caspian Sea. Azerbaijan was later given assurances from US Vice President Al Gore.

36. Jennifer DeLay, "Baku Knows What's At Stake – Aliyev walks Fine Line on New Oil Deal," *Pipeline News*, No. 42 (December 14-January 10, 1996) and Jennifer DeLay, "US Delegation Visits Baku for Political, Economic Talks," *Pipeline News*, No. 38 (November 16-22, 1996).

1990s, American policy had been proceeding with two major issues: NATO expansion and encouraging Russian political and economic reform. Thus, the US government did not want to challenge Russian policy on the legal status of the Caspian Sea to balance the broader goals in American foreign policy in its relations with Russia.<sup>37</sup> The US had opposed Russia's idea of joint development of the Caspian Sea, particularly after the Iranian national oil company got a stake in the major Shah Deniz consortium.

President Aliyev's overall strategy regarding oil agreements was to resist Russian pressure by combining Azerbaijan's national interests with the US government's regional policy and the large volume of foreign investment by American and other Western oil firms. An expert US government officer clearly emphasized the strategy of Aliyev as follows:

In Azerbaijan Aliyev made a strategic decision that the future of his country will be the oil and the West. And the way to do that is to bring in Western oil companies and to create a balance between European and American companies. So he created a geopolitical safety net for Azerbaijan ... The presidents try to use the national nature and national identity of the companies to balance their geopolitical interests, and to maximize their independence from Russia but not only from Russia. Similarly they attract Europeans. But I think these leaders don't really trust Europeans very much. They like having Americans because they think that it is important to have a strategic partnership with Americans ... They wanted American companies, I think, because they thought that would bring the American government into the equation by orienting towards Europe and against Russia. I think Azerbaijan worried about a Russian reaction, a Russian backlash. So if you want to push Russia away you can't rely on Europeans because they have a long record of cooperating with Russia [the interviewee was referring to World War I and to the beginning of World War II]. But probably they thought, 'Oh, we have Americans to push the Russian backlash away. They perceive it that way.'<sup>38</sup>

The issue is no longer whether the seabed should be divided but how that division might be accomplished. All littoral states now favor sectoral division of the Caspian Sea. In May 2003, Azerbaijan, Kazakhstan, and Russia concluded bilateral agreements with each other based on a Russian-developed principle known as the "modified median line."<sup>39</sup> Consequently, Azerbaijan successfully utilized the large amount of investment by Western oil companies in achieving its foreign policy goals, as evidenced in the case of the demarcation of the Caspian Sea.

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37. Rosemarie Forsythe, *The Politics of Oil in The Caucasus and Central Asia* (New York: Oxford University Press, *Adelphi Paper* No. 300, 1996), pp. 17-18; also see Jean-Christoph Peuch, "Private and National Interests in the Caspian Region," in Gokay, ed., *The Politics of Caspian Oil*, pp. 173-174.

38. Interview by the author with a US government official in the National Security Council, Washington, DC, April 26, 2001.

39. These three littoral states divided the northern 64% of the Caspian Sea into three unequal parts, giving Kazakhstan 27%, Russia 19%, and Azerbaijan 18%. US Department of Energy, "Country Analysis Briefs, Caspian Sea," <http://www.eia.doe.gov/emeu/cabs/Caspian/Background.html>.

*AZERBAIJAN'S FOREIGN POLICY AND THE CHALLENGES FOR ENERGY SECURITY IN THE CASPIAN REGION*

While the previous section outlined the importance of the oil-led development process and relations with multinational oil companies in setting Azerbaijan's strategic goals and enforcing a Western-oriented foreign policy to cope with regional conflicts, this section examines the linkages between Azerbaijan's foreign policy and the new challenges for energy security in the Caspian. Accordingly, it argues that the oil-led development process and geopolitics continue to prevail in the strategic goals of Azerbaijan's foreign policy, though within an emerging framework of energy security that extends beyond just the revitalized and understandably preeminent concern over securing non-OPEC oil and alternative gas supplies to Russian gas exports, which is a particular concern for the European Union.

The Azerbaijani government has relied on the support of the US government and Turkey to satisfy both the completion of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the South Caspian gas pipeline as well as the geopolitical stability of the region in favor of Azerbaijan. Likewise, Azerbaijan's leadership has exploited a number of issues in its favor, both in foreign policy and domestic politics, including: the geopolitical rivalry over pipeline routing; the strategic location of the region in the global fight against terrorism; the country's neutral status in the dispute over Iran's nuclear proliferation despite its strategic alliance with the US; and the distributive nature of its state-building practices based on the possession of hydrocarbon reserves. Nevertheless, the new energy security *problematique* entails looking not only at securing energy infrastructure and transnational pipelines, but also at the new challenges to foreign policy decision-making stemming from issues affecting human development, such as geopolitical rivalries, fluctuating oil prices due to recession in the world economy, and democratization.

Accordingly, while the democratization process and economic and social development in Azerbaijan constitute challenges in domestic politics, nuclear proliferation in Iran, the Karabakh conflict, and energy security in the Caspian region are the major issues for Azerbaijan's foreign policy. Since Azerbaijan's independence in 1991, the larger oil revenues and oil-led economic development have created a rentier state instead of a market economy. Thus, the democratization process has been slow, as the political leadership in Azerbaijan distributes selective benefits to certain political and social groups in exchange for political acquiescence. The dependence of prominent state bureaucrats, regional administrators, and businessmen on the allocation of revenues and resources that are strictly controlled by President Ilham Aliyev (who succeeded his father Haydar Aliyev in 2003) and his extended network of loyal family/clan members further strengthens undemocratic governing institutions.<sup>40</sup> President Aliyev does not depend on his constituents, because the Azerbaijan government does not need to extract resources from a domestic economy that lacks diversified sectors. The economy of Azerbaijan is heavily dependent on growth in the oil and gas sector, which accounts

40. Pinar Ipek, "Azerbaijan: Oil Boom and Challenges," in Mustafa Kibaroglu, ed., *Turkey's Neighborhood* (Ankara: Foreign Policy Institute, 2008), pp. 129-131.

for nearly 90% of total exports.<sup>41</sup>

Furthermore, although the completion of the BTC pipeline project was carried out successfully by Azerbaijan, Turkey, the US, and Georgia despite changes in these countries' governments, crucial issues such as endemic poverty or long-standing authoritarian rule, coupled with nepotism and corruption in Azerbaijan and Georgia, complicates the prospects for regional stability which was proven to be fragile in the aftermath of the war between Russia and Georgia.<sup>42</sup> Similarly, failure to fulfill domestic economic and political expectations may provoke instability in the region, given the oil price fluctuations in a recessed world economy. For example, closer scrutiny of key human development indicators for Azerbaijan highlights the economic vulnerability of a considerable part of the population living under the relevant poverty line, despite high economic growth rates or ample oil and gas export revenues.<sup>43</sup>

Consequently, Azerbaijani foreign policy is at a crossroads, not only because of emerging threats stemming from the revitalized geopolitical rivalry between Russia and Caspian countries but also because of the new challenges in a broadened concept of energy security entailing issues related to human development and security.

## CONCLUSION

Foreign policy-making is influenced by numerous domestic and international factors. In Azerbaijan, a wide range of determinants should be assessed in terms of their influence on foreign policy. These include the nature of the regime in its post-Soviet state-building process; questions of national identity; the influence of domestic groups; Azerbaijan's landlocked geography; the interests of neighboring powers; and the investment of multinational oil companies. Above all, state contingencies and Azerbaijan's oil-led development process and its relations with multinational oil companies have driven foreign policy-making. The argument suggests that geopolitics has been important in setting the strategic goals of Azerbaijan's Western-oriented foreign policy, largely driven by the interplay between the oil-led development process and regional conflicts. Moreover, in comparison, for example, to Kazakhstan's multi-vector foreign policy,<sup>44</sup> the combination of security threats in the early years of Azerbaijan's independence and the historical turning point known as "Black January," which created pro-independence and anti-Russian feelings among Azeris and influenced its emerging national identity, were critical in setting a Western orientation in Azerbaijan's foreign policy.

It is further argued that a new trans-Atlantic partnership is required to meet the

41. The State Statistical Committee of the Republic of Azerbaijan, *Azerbaijan in Figures 2007*, <http://www.azstat.org/publications/azfigures/2007/en>.

42. Pinar Ipek, "Challenges for Democratization in Central Asia: What Can The United States Do?," *Middle East Policy*, Vol. 14, No.1 (Spring 2007), pp. 96-99.

43. The UN human development index (HDI) values for Azerbaijan in 2005 is 0.746 and ranked 98, as medium human development. However, the proportion of the population living below the national poverty line between 1990-2006 was 49.6%. Similarly, the population living below \$4 a day (1990 PPP\$) in the 2000-2004 period was 85.9% in Azerbaijan. United Nations Development Program, *Human Development Report 2007-08*, Country Tables, <http://hdrstats.undp.org/countries>.

44. Pinar Ipek, "The Role of Oil and Gas in Kazakhstan's Foreign Policy: Looking East or West?," *Europe-Asia Studies*, Vol. 59, No. 7 (2007), pp. 1179-1199.

challenges and to manage the risk entailed in the unpredictable policy environments of the Caspian region within a broadened energy security framework. In the midst of a tight and volatile global oil market despite the slowdown in world economy, other salient events and trends, such as the war in Iraq, dramatic growth in China and India's energy imports and foreign direct investments, the growing consolidation of Russia's position as a major supplier of European Union gas, and the crisis over Iran's nuclear program, have renewed awareness of energy security. Accordingly, pipelines bypassing Russia and transporting alternative oil and gas resources from the Caspian region are important to diversify, secure, and stabilize world energy markets. However, obtaining particular alternative gas supplies for Europe requires not only a common external European Union energy policy but also potentially a trans-Atlantic partnership in energy security to protect critical infrastructure from terrorist threats and to improve upon low levels of human security that pose associated security risks in geopolitical rivalries and regional stability.

Likewise, to the extent that earnings from export activity can be directed to raising economic welfare and stimulating further reform in the democratization process, projects like Nabucco, which in its present form intends to pipe gas from Azerbaijan's offshore Shah Deniz field via Baku and Tbilisi, Georgia into Turkey's national gas pipeline grid and then onwards to Bulgaria, Romania, Hungary, and Austria's gas trading hub, may provide an important infrastructural pillar for poverty reduction and preserving peace and stability in the Caspian countries.<sup>45</sup> Specifically, Turkey may serve an increasingly important role as a hub for diversifying and securing the transportation of pipeline gas from Caspian and Middle East countries (such as Iraq and Iran) to the EU as well as for the export of LNG (from Ceyhan on the Mediterranean) deriving from these same source regions.<sup>46</sup> However, there has been a starker divergence in the energy policies of the EU members, which impedes the formation of a common EU external energy policy as well as a potential trans-Atlantic partnership to promote the wider concept of energy security.<sup>47</sup> Thus, the emerging challenges for Azerbaijan's foreign policy and the fragile stability in the Caspian region should be reconsidered through the nexus of power politics surrounding energy security, the EU's common external energy policy, and the leading role of large American and British oil companies in the Caspian region that requires a new trans-Atlantic partnership to enforce not only stability but also human security.

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45. The pipeline, with a projected capacity of 31 billion cubic meters per year by the year 2011, has political backing from the European Commission.

46. The overcrowded energy transport traffic in the Persian Gulf, particularly in the Strait of Hormuz, does not allow the safe and efficient transportation of potential additional LNG exports from Iraq and Iran. Iran currently lacks an LNG terminal.

47. Pinar Ipek and Paul A. Williams, "Divergence in EU Member-State Energy Policies: A challenge to the EU's Common Energy Policy and a Trans-Atlantic Partnership in Human Security," paper presented at the German Marshall Fund of the United States Policy Research Conference on Energy Security, Trento, Italy, April 18-19, 2008.