

THE INFLUENCE OF ENERGY RESOURCES IN DEVELOPING “PRAGMATIC” RELATIONS BETWEEN AZERBAIJAN AND THE WEST

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Abstract: *The aim of the paper is to research the way energy resources shaped Azerbaijan’s foreign policy and contributed to developing its strategic relations with western actors trying, at the same time, to bring arguments whether or not the democratic deficit in Azerbaijan is related to the “resource nationalism”. The author makes a retrospective analysis of the most important events that have influenced Azerbaijan’s foreign policy since the collapse of USSR. In this regard, it is assessed the impact of the “Contract of the Century” on the evolution of the country, forasmuch the signing of the document is considered the first strategic move made by Azerbaijan since 1991. Because Nagorno-Karabakh is a crucial priority for the country’s territorial integrity, it is examined the manner in which Azerbaijani authorities are trying to make use of the energy resources projects in order to speed up the settlement of the protracted conflict, but without success so far. Last but not least, are analysed the EU-Azerbaijan relations, both on the energy and political level, highlighting on the one hand, the reluctance of Azerbaijan towards the democratic reforms promoted within the Eastern Partnership, but on the other hand, the interest of Baku to negotiate the unwanted agreements with Brussels, counting on its advantage as a supplier of energy resources on the European market. Consequently, some key questions have emerged: Is the EU’s strategic objective to ensure its energy security more important than promoting and encouraging its partners to adopt the fundamental values of the EU? What impact may have the Strategic modernization partnership on the EU-Azerbaijan relations? Is European Union’s credibility in danger, by having so diverse approaches towards the Eastern Partnership countries?*

Keywords: Democracy; energy; European Union; Azerbaijan; Nagorno-Karabakh

Introduction

Azerbaijan is one of the former Soviet republics that succeeded to become an actor of vital importance today, due to its crucial location at the crossroads of Europe and Asia, but also thanks to its energy wealth. Even though, Azerbaijani people are linked to the Turkic world by their languages, to Iran by their Shi’a religion, and to the Caucasus by geography, they are considering themselves to be Europeans by their way of thinking. Following the disintegration of USSR, this last perception has become a defining element for Azerbaijan’s domestic and foreign policy.

Starting from these basic facts and the current geopolitical metamorphosis, the author analyses the way Azerbaijan managed to follow an independent and pragmatic policy, comparing to other former soviet republics, highlighting the interdependent relation between the energy resources and Azerbaijan’s foreign policy. In this equation, it has great influence Western powers, which through

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the United States of America and the European Union have contributed to the development of Azerbaijan, which has now become a key energy player in Europe. But on the other hand, the strategic importance of Azerbaijan as an energy supplier hasn't an overall positive impact on the country's domestic situation. The fact that Azerbaijan's energy resources are controlled and managed by the president and its influential partners, has led to the situation in which power is held by a small number of people, and the discrepancy between the level of democracy in Azerbaijan's political institutions and the theoretical ideal of a democratic government has increased. In this equation is analysed the government's interest for energy issues than for democratic ones, while the EU-Azerbaijan relations are assessed through the lens of conditionality approach. To answer the main research questions, the author has resorted to the qualitative research method, using semi-structured interviews. The target group is composed of Azerbaijani experts in energy and political field.

1. "Contract of the Century" and its impact on drawing up Azerbaijan's foreign policy

After the independence, at the helm of the Republic of Azerbaijan have been three presidents, in a period of just three years. The following chairmen: Ayaz Mutalibov (1991-1992), Abulfaz Elchibey (1992-1993) and finally Heydar Aliyev (1993-2003) have tried to pull the country out of the deadlock, facing at that time with significant challenges both internally and externally. Heydar Aliyev remained in the history of the country not only for the implementation of the so-called *balanced foreign policy* concept, but also because he is the leader who used the hydrocarbon resources of the country for the restoration of Azerbaijan's foreign policy and economy.

In 1994 was created the Oil strategy, *a long-term national development program aimed at drawing the country's energy resources to the economic turnover by cooperation with big foreign companies on the principle of mutual benefit* (Strimbovschi, 2015a). In the same year, in September president Aliyev signed the "Contract of the Century", an event that marked the beginning of the real balanced foreign policy. The document was signed not only for economic reasons, but rather political ones. In this respect, the foremost goal of the government was to contribute to the economic growth of the country by attracting foreign investors and companies. *By developing a competitive economy, Azerbaijan has more opportunities to become an independent country in decisions concerning its resource management*, asserted Mr. (Strimbovschi, 2015a).

Due to the fragile regional circumstances, Azeri experts argue that while shaping its foreign policy, Azerbaijan had to take into account the interests and concerns of its neighbours, in order to prevent undesirable situations, which ultimately may be translated into a genuine balanced and pragmatic foreign policy (Strimbovschi, 2015b). Apparently, a significant objective of Azeri

authorities consisted in developing close relationships with its neighbours, apart of Armenia with which will continue to be in conflict, until a favourable solution regarding Nagorno-Karabakh will be found. On account of this, Azerbaijan sought to strengthen its ties especially with Georgia and Turkey, which have been seen as the main transit countries for Baku's energy, commercial and transport projects. Furthermore, Azerbaijan considered Georgia's stability as part of its own security interests. Due to these reasons, Baku went a long way toward ensuring the economic stability of Tbilisi, by selling natural gas at a relatively low price or by investing in the transport or communication sector of Georgia (Shaffer, 2013, p. 238), and consequently becoming the biggest foreign direct investor to Georgia, followed by Turkey, Russia, and the Netherlands. At the same time, the partnership with Ankara is highly important for Baku from two obvious reasons: (1) Turkey was seen from the beginning as a model for Azerbaijan, which has transformed into a modern, democratic country with a market economy that shares European values (Strimbovschi, 2015b) but also (2) is Azerbaijan's most safe gate to the European markets. Furthermore, Turkey is the only country in the vicinity of Azerbaijan that can have the power to deal with Russia, especially in the South Caucasus region. Thus, the partnership with Ankara is literally essential for the security and prosperity of Azerbaijan, since it proved to be the main supporter of Baku when it came to energy and economic initiatives. Beyond Baku's intentions to create a stable, secure and favourable environment for the country's development was to attract foreign investments and simultaneously strengthen its partnerships with actors like the EU and the U.S. in the economic and energy field, and foster cooperation with NATO in security and defence sector reforms.

In spite of huge endeavour to build harmonious and beneficial relationships for country's economic progress, Azerbaijan continue to design a proper environment for itself, by trying to maintain a considerable degree of independence from any international actor in terms of politics and security. This cautious approach would allow it to rely on its own capabilities, and in case of need enable it to cope independently with unexpected challenges in the region. At the same time, in order to gain respect from its partners and achieve an effective balanced foreign policy, Azerbaijan is trying to respect some of the key principles of international law, such as the respect for sovereignty, territorial integrity and non-interference in the internal affairs, working hard to become a stable and predictable actor in bilateral and multilateral relations.

2. The prospects of the East-West energy corridor

During the Soviet period, Azerbaijan's economy was based in large part on agriculture, oil production, and oil refining, from which mostly benefited Kremlin, as the core power of USSR. Three

years before and three years after getting independence, between 1988-1994, Azerbaijan's economy experienced severe contractions because of the outbreak of the Karabakh conflict, but also on grounds of economic stagnation of the Soviet Union. The partial recovery of economy was due to the oil and gas reserves, and the significant foreign investments in these sectors.

As mentioned above, the "Contract of the Century" represented the starting point in the economic improvement and simultaneously balancing the state's foreign policy. Azeri experts argue that the successful measures taken by Heydar Aliyev in this field led to the prevention of destroying the oil and gas industry of the state (Strimbovschi, 2015c). On the contrary, succeeded to transform it into an attractive one through the notable "Contract of the Century", the first Production Sharing Agreement, which regulated the operation of the Azeri, Chirag and Guneshli oil fields, with estimated reserves of 900 milion tons. As with regard the gas fields, in 1996 was signed an agreement about the operation of Shah Deniz, and in 1999 British Petroleum ranked it as the second largest field, after Prudhoe Bay in Alaska, which was discovered in 1970 (Ibrahimov, 2013, p. 121). So far, Azerbaijan has signed over 30 Production Sharing Agreements for the development of its energy fields, which turned out to be highly profitable for the country's economic progress. Even though, Baku received the first revenues only in 1999, two years after the first operations in oil and gas sector started, the government was content with the evolution of procedures, and the long-term benefits represented the main goals of Heydar Alyiev's strategy. Due to these measures and regulations, Azerbaijan became the second country from the former Soviet Union by capital investment. At the same time, it managed to become a reliable, trustful and attractive partner for the foreign companies in the energy sector, which eventually brought significant changes in the republic, but also crucial opportunities on external plan. Because foreign investors were looking to develop projects that would bypass the territory of Russia, and since Azerbaijan was interested to reduce the economic and political dependence on Moscow, the western proposals in this respect have been positively embraced. Thus, Azerbaijan became the first former Soviet country that found tactical options to export its own energy resources to European markets, as an alternative to the Russian route.

With respect to Baku-Novorossiysk oil pipeline, Azeri authorities, backed by western companies, proposed the construction of a Western Route Export Pipeline, known as Baku-Supsa pipeline, which runs from the Sangachal Terminal to the Supsa terminal in Georgia. The main disadvantage of this pipeline is its limited capacity to only 5.5-6 million tons of oil per year. From this consideration was recommended to build a new pipeline with a capacity of up to 50 million tons per year from Azeri-Chirag-Guneshli fields under the Contract of Century that would pass through Georgia and Turkey (Ibrahimov, 2013, p. 128). In this regard, Baku-Tbilisi-Ceyhan was seen as the first serious alternative oil pipeline, which carries oil from the Azeri-Chirag-Deepwater Gunashli

(ACG) field and condensate from Shah Deniz across Azerbaijan, Georgia and Turkey. The pipeline became operational in June 2006, and was built by the Baku-Tbilisi-Ceyhan pipeline company (BTC Co) operated by British Petroleum. The project remains an attractive transportation route for the Central Asian states as well, which take into account the opportunity to deliver their oil to European markets. Thus, crude oil from Turkmenistan continues to be transported via the pipeline, and starting in October 2013, have been resumed the transportation of some volumes of Tengiz crude oil from Kazakhstan through the BTC pipeline (BP Caspian website, *n.a.*). Concerning the European version to Baku-Mozdok gas pipeline is the Baku-Tbilisi-Erzurum gas pipeline, which is of significant importance for the European Union, from the energy security point of view. The gas project, also known as South Caucasus Pipeline was completed in 2006, and in March 2007, the first export gas was pumped from Shah Deniz field and shipped to Georgia, and then Turkey. South Caucasus Pipeline Company, the consortium that is led by BP and SOCAR (State Oil Company of Azerbaijan Republic), owns Baku-Tbilisi-Erzurum gas pipeline.

The implementation of these two energy projects has been possible with the support of Western actors, and especially of foreign companies like BP, AzBTC, Chevron, Statoil TP, ENI, TPAO (Turkish Petroleum) and SOCAR, which are the main shareholders of the pipelines.

From economic and political point of view, the realization of East-West energy corridor became a great historical event for Azerbaijan, Georgia and Turkey. Through these two energy projects, Azerbaijan gained more independence from Russia in the energy sector, and ultimately in other significant fields. When Baku-Tbilisi-Ceyhan and Baku-Tbilisi-Erzurum have been completed, everybody became confident that the future of Azerbaijan is linked to the West through Turkey (Strimbovschi, 2015d).

3. The evolution of the EU - Azerbaijan relations. Current trends and future perspectives

In South Caucasus region, Azerbaijan has tried to develop cordial relations with every neighbour but less with Armenia. Due to the sensitive context of the region, created as a consequence of the tumultuous history among the neighbouring countries, Azerbaijan decided to extend its cooperative relations beyond the Caucasus zone. As it was mentioned above, after independence, the United States of America became a strategic partner of Azerbaijan due to the common interest in developing energy projects, while the European Union's reputation as the biggest player on the global trading scene, determined Azerbaijan to get involved in different projects of cultural, social, economic or energy nature. However, when it comes to issues like democracy, rule of law or respect for human rights, we will see that Azerbaijani authorities are getting reluctant.

The EU-Azerbaijan cooperation started in the early 1990's via the TACIS program, a technical assistance program meant to help members of the Commonwealth of Independent States in their transition to democratic market-oriented economies. The key TACIS multi-country network projects related to Azerbaijan is TRACECA and INOGATE. TRACECA (Transport Corridor Europe – Caucasus – Asia) was initiated in 1993 with the purpose of developing the regional transport corridor from Europe, crossing the Black Sea, Caucasus, the Caspian Sea and reaching the Central Asian countries. The ultimate goal was to enhance the regional economy (TRACECA Official website). The development of transport system, in the framework of TRACECA is of great importance for Azerbaijan, since it created opportunities for strengthening the economic relations between Azerbaijan and Europe, which, eventually, contributed to the process of integration into the world economics. One of Azerbaijan's priorities is to restore and develop the Great Silk Road that would connect China to the European Union, through Kazakhstan, Azerbaijan, Georgia and Turkey. For an oil-based economy, as is the case of Azerbaijan, transport and logistics represent a sustainable alternative.

INOGATE (Interstate oil and gas transportation to Europe) laid the foundation for development of energy cooperation between Azerbaijan and the EU. It was initiated in 1997, as an international energy cooperation program between the European Union, Eastern Europe, the Caucasus and Central Asia. The program aims *to ensure the convergence of energy markets on the basis of the EU principles; to enhance energy security; support sustainable energy development and attract investments towards energy projects of common and regional interests* (INOGATE 15th Anniversary Edition, February 2012, p.3). In addition, INOGATE supports the Energy Security Platform within the framework of the Eastern Partnership. Through it, gave a further impulse to the energy dialogue between the EU and the countries of Eastern Europe and the Caucasus (INOGATE 15th Anniversary Edition, February 2012, p.3). The goals of this program coincide with the EU's target of improving the security of supply by creating alternative transport corridors (Ibrahimov, 2013, p. 94), aiming to provide sustainable and secure transportation of hydrocarbons from the Caspian region to its markets. However, some Azerbaijani representatives consider that EU played a minor role through TACIS and INOGATE programs, while Russia succeeded to monopolize the transit route to consumer countries (Ibrahimov, 2013, pp. 94-95). Accordingly, Europe as a consumer ended up in a position of double dependence on Russia, being dependent on its resources, but also on Russia as a transit country for the Caspian and Central Asia oil and gas (Umbach, 2011, p. 28). Rovshan Ibrahimov argues that the implementation of projects under INOGATE initiative, like Northern Gas Pipeline, Nabucco, Odessa - Boryd oil pipeline or Constanta – Omisalj - Trieste pipeline, has been largely unsuccessful because the EU has shown insufficient political will to achieve them (Ibrahimov, 2013, pp. 94-95). On the

other hand, the EU is offering its financial assistance and to some extent its political support, but in order to implement projects has to receive, as well, positive signals from the stakeholders. Despite criticism, since 1996 Azerbaijan has benefited from 33 of INOGATE's 69 projects, and through this program the EU continues to provide sustenance for Azerbaijan in various areas of the energy sector (The INOGATE Programme and the Republic of Azerbaijan, p. 2).

In 2004, the EU suggested to Azerbaijan to join the European Neighbourhood Policy (ENP) together with other 15 countries from the southern and eastern vicinity of the EU, in order to enhance their cooperation on political, economic and social level. In 2006, the EU and Azerbaijan signed a Memorandum of Understanding in the field of energy, which represented the basis for strengthening the energy relations between both actors. Later on, in 2009 was proposed the Eastern Partnership initiative for South Caucasus countries, Moldova, Ukraine and Belarus, due to the Russia's revanchist attitude in its near neighbourhood, in particular as a result of the August 2008 war between Russia and Georgia. Within the new initiative, the European Neighbourhood and Partnership Instrument complemented TACIS program.

Beyond the EU's goal to develop strategic partnerships with Central Asia and Caspian Region, especially in the energy field is to democratize these states, according to the European standards, by carrying out political and structural reforms that would enable governments to work efficiently and improve the standard of living. Azerbaijan is part of the Organization for Security and Cooperation in Europe since 1995 and member of the Council of Europe since 2001. It follows that the values of human rights, democracy and rule of law should be fully respected, underpinning the relation between Azerbaijan and Europe. However Baku often ignores its obligations in the field of political reforms and human rights undertaken when joining these organizations (Abbasov, 2014, p. 50). In promoting its values and policies, the European Union applies the principle of Conditionality as one of the main instruments for advancing democracy. Conditionality is a mechanism whose aim is to disseminate the governing rules of the European Union, which are set as conditions that external actors must fulfil in order to get rewards on the one hand, and to prevent sanctions from the EU, on the other hand (Schimmelfennig, 2010, p. 8). The most relevant rewards offered by the EU consist of benefits involving the signing of various agreements, such as trade agreements, association agreements and financial aid. While the EU sanctions consist of discontinuation of such agreements (Schimmelfennig, 2010, p. 9). In the case of Azerbaijan – a partner with strategic assets for the EU - the principle of conditionality was influenced for the mutual benefits of both actors. Thus, the status of energy supplier for European countries has offered a high degree of confidence for Azerbaijani leadership, while the EU, from the need to diversify its energy sources and reduce the dependence on Russia, tends to remain silent about the democratic deficits in the Caspian nation (Goncharenko, October

2013). Although western actors have been vocal about democracy in Azerbaijan, individual member states and the EU institutions have in reality co-operated with the regime in Baku without imposing conditionality (Kobzova and Alieva, 2012, p. 2).

At the same time, the outcomes of the Country Progress Report of 2014 in the framework of the EU-Azerbaijan European Neighbourhood Policy (ENP) Action Plan are by no means positive: *no legislation was adopted to protect human rights and fundamental freedoms. Only limited progress was reached in the fight against corruption and there was a lack of coherence in initiatives and continuing actions. There was no progress regarding actual judicial independence* (Implementation of the European Neighbourhood Policy in Azerbaijan, 2015, p. 2) On the contrary, Azerbaijan's presidency of the Council of Europe from April to November 2014 coincided with a new wave of arrests of representatives of civil society and human rights defenders like Intigam Aliyev, Rasul Cafarov, Leyla and Arif Yunus (Zasztowt, 2015, p. 1). Fearing the outbreak of a "colourful revolution", Azerbaijani authorities have been determined to take the "proper" measures, in order to prevent it, typical for a "managed democracy", as Russia has proved to be so many times. But this conditionality - free approach has brought Europe few benefits and continues to discredit the EU in the eyes of Azerbaijani society (Kobzova and Alieva, 2012, p. 2).

On the other hand, the European attempts to democratize Azerbaijan are seen as an infringement of sovereignty. For these reasons, European Union enjoys of a limited influence on these states compared to Russia, China, India or Iran with whom Azerbaijan and the countries from Central Asia share similar values. While the EU is focused on the need for comprehensive reforms across a range of sectors, especially those related to human rights and democracy, Azerbaijan is looking for a strategic relationship based on mutual interests and objectives, while implementing a part of the economic reforms (Mammadov, 2015, p. 10). As Maja Kocijancic, Spokesperson of the European Commission for neighbourhood policy and enlargement negotiations, has described this approach: *Azerbaijan has expressed its interest in a strategic relationship with the EU without the high degree of political association and economic integration sought by some of the other Eastern Partners* (Dadashova, 2015). Thus, in contrast to neighbouring Georgia, where integration with the EU is a political goal, Baku's leaders seek to create its own economic and political model with the European Union.

3.1. From Association Agreement to Strategic Modernization Partnership

In 2010, the EU had discussions with all three countries of the South Caucasus about the perspectives of signing association agreements, which include a free trade area, but a precondition

for signing such an agreement is the country's prior accession to the World Trade Organization (Zasztowt, 2015, p. 2). Since Azerbaijan is reluctant in implementing this process because of the potential implications on the monopolized economy, results that such an agreement is not that welcomed by Baku. But instead of the Association Agreement, Baku prefers a Strategic Modernization Partnership (SMP), similar to that signed by Russia with the EU in 2010, which is not legally binding but offers opportunities to develop cooperative partnerships in those areas that are of concern to Azerbaijan. The draft document dated 4 April 2013 stipulates softer political reforms than those set out in Azerbaijan – EU Action Plan of 2006. Notwithstanding, the new document prioritizes the security cooperation, trade and business environment, energy, environment and transport, and people-to-people contacts (Rettman, 2013). Azerbaijan planned to sign the SMP in November 2013, at the Eastern Partnership Summit in Vilnius. Nevertheless the former Commissioner for Enlargement and European Neighbourhood Policy, Štefan Füle, proposed to continue the negotiations on the Association Agreement and the draft of the Strategic Modernisation Partnership in parallel, pointing out the character of complementarity of the two documents (Fineko Informational & Analytic Agency, 2013). In 2013, during a meeting between the former Commissioner, Štefan Füle, and Minister for Economic Development of Azerbaijan, Shahin Mustafayev, where have been discussed ways to widen the EU – Azerbaijan cooperation, Füle expressed its hopes in *a future relationship built around shared values, good governance, human rights and democracy, stressing that the ultimate beneficiaries should be citizens (EU-Azerbaijan: Commitment to widen cooperation and support modernization, Brussels, 29 August 2013)*. Thus, from the European perspective, modernization is closely linked to a democratic society.

At the same time, the EU is encouraging Azerbaijan to intensify its work towards the WTO accession, ultimately aiming to establish a Deep and Comprehensive Free Trade Area (EU Reporter Correspondent, 2013). From Baku's perspective, a free trade agreement with the EU would bring little economic gain, since Azerbaijan does not have competitive industrial or agricultural products for export to EU markets (Socor, 2013). On the contrary, it considers that will expose itself to the risk of importing from the EU, a phenomenon that would hinder the development of Azerbaijani industry (Socor, 2013). However, we can see that the main obstacle against the diversification of the economy is the corruption and the domination of the political and economic system by Aliyev family (European Forum for Democracy and Solidarity).

Through modernization, Azerbaijan understands the development of various sectors of its economy, other than oil and gas (Socor, 2013), since the national oil production is in decline while the oil prices have experienced a continuous drop, beginning with June 2014. Baku's priority is to get new technologies, to develop industry, agriculture and to continue the development of energy sector.

In sum, Azerbaijan is trying to translate the income from oil exports to sustainable development and diversification of the economy (Zasztowt, 2015, p. 3). But in this equation, the EU plays a crucial role, while the Deep and Comprehensive Free Trade Agreement would be the most important instrument for achieving these goals.

3.2. The thorn in the relationship between the European Union and Azerbaijan

According to Azerbaijan, the ideal relationship with the European Union should be based on ‘mutual respect and equality of rights of the parties’ (Socor, 2013), yet some sensitive issues are making it difficult.

For years Baku has been involved in a diplomatic struggle for the West to recognize Nagorno-Karabakh illegal occupation by Armenia. However, the international community has started to pay greater importance once it has proved that Azerbaijan could become a significant energy partner. But a favourable solution has not been found so far. The fruitless mediation efforts of the OSCE Minsk Group and the EU’s failure to recognize Azerbaijan’s territorial integrity in the same way it did with other EaP countries that have territorial disputes (Moldova, Georgia and Ukraine) (Mammadov, May 2015 p. 33) has increased over time the discontent of Azerbaijani authorities. Due to the ambiguous approach of the EU, which is trying to maintain a neutral position between Azerbaijan and Armenia, Baku is accusing the EU of playing by double standards. But the EU is not very inclined to take part in a dispute settlement because it understands that if demonstrates a preference for one side over another that would have negative consequences for its reputation (Abbasov, 2015, p. 61). This issue became the most significant thorn in the relationship of the two actors, because of which Azerbaijan decided to abandon the Association Agreement. In the context of negotiating the Strategic Modernisation Partnership, Azerbaijan’s EU ambassador, Fuad Iskandarov, pointed out that one of Azerbaijan’s priorities for the EU is to show respect for the country’s territorial integrity (Rettman, 2013). The elite, being disappointed in the U.S. and the EU is counting on Russia’s favour. But the 2014 illegal annexation of Crimea and the war in the eastern Ukraine *convinced officials in Baku that Moscow is setting the rules in the post-Soviet area and may intervene even without an international mandate, explaining its actions as a peacekeeping operation* (Ismayilov, Zasztowt, 2015, p. 4). Meanwhile, Azerbaijan was looking to upgrade its military capabilities by buying weapons from Turkey, Israel and Russia. The economic development of the country, highly dependent on the export of energy resources, allowed it to increase the defence budget from \$175 million in 2004 to \$3.7 billion in 2015, which is twice as large as Armenia’s overall state budget (Altstadt and Menon, 2016). By contrast, Armenia’s military budget amounted to \$448 million. Thus, Azerbaijani authorities are

getting prepared to take the risk, when the diplomacy will fail, thereupon the military option to recover the occupied territory, remains on the table.

Although, the EU is accused by lack of involvement in solving this conflict, the EU is present in the region since 2003 through the EU Special Representative for the Southern Caucasus, which is closely working with the Co-Chairs of the OSCE (EUEA, *n.a.*). In this respect, the EU had a peripheral role, however has endeavoured to promote economic integration, consolidate democratic structures, and improve respect for human rights in Azerbaijan. Nevertheless, Azerbaijan has treated superficially most of the EU recommendations related to the rule of law and fundamental values of democracy. Despite this, European Union continues to call Azerbaijan a strategic partner due to its vast hydrocarbon resources and crucial geographical position between Central Asia and Europe. But the pragmatic nature of the EU-Azerbaijan relations will contribute to the deterioration of democracy in the concerned country if the EU will not adopt a firmer stance regarding the protection of its values and principles. Baku is trying to negotiate, by playing its card as an energy security supplier for the EU and develop relations based on ‘mutual respect and equality of rights of the parties’. Although, Azerbaijan has shown its interest in enhancing cooperation with Euro-Atlantic institutions, so far it did not declare any will to join the EU or NATO (Ismayilov and Zasztowt, 2015, p. 2). The reluctance of Azerbaijani leaders can be explained both from political and security considerations. The Georgian and Ukrainian precedent determined Baku to act with caution in foreign policy, as not to disturb the ‘Eastern bear’. On the other hand, the required reforms for a complete European integration could represent a real danger for the political power and elite’s monopoly on oil resources, while non-integration enables state leaders *to balance the interest of regional and extra-regional players, using full control over its energy resources both for commercial and political purposes* (Alieva, 2015). Unless the EU will condition future partnerships with Azerbaijan by the need to carry out certain reforms or show respect for key democratic values, the EU’s credibility will suffer, while the democratic deficit in Azerbaijan will increase.

However, the current situation of instability, caused by the decline of oil prices may have a positive impact on the EU-Azerbaijan economic cooperation (Alieva, 2015). In order to avoid the collapse of the country’s economy, Azerbaijan could be more determined to perform the required economic reforms to accede to WTO and later to enhance the economic integration with the EU, by signing the Deep and Comprehensive Free Trade Agreement.

3.3. Energy - a sphere of common interest

Within the European initiatives, the only progress registered by the EU with Azerbaijan is in the energy sphere. Azerbaijan is looking to connect its pipelines to Europe, which is one of the most attractive consumers, while the EU is seeking to diversify its suppliers, aiming to develop energy projects with predictable actors from the Caspian Sea, Central Asia and North Africa.

In 2006 after the first Ukrainian gas crisis, energy security became a top matter on the EU agenda. The major challenge for Europe is that none of the countries of South and Eastern Europe hold significant hydrocarbon resources and inevitable are obliged to import. Likewise, the fact that Gazprom is the leading provider for these countries, and because are geographically placed at the crossroads between Eurasia and Middle East, the transfer of fuel resources on the European market is perceived as critical and volatile (Cehulic *et al.*, 2013, p. 118). The security of the EU's energy supplies has become particularly complicated due to the 2004 enlargement wave, when 10 countries from the Central and Eastern Europe joined the EU. Accordingly, the EU's strategic objective to ensure its energy security became more difficult to achieve. Thus, the diversification of suppliers became a prerequisite in order to ensure the energy security of the whole EU. On that account, between 2003 and 2013 new partner countries emerged. Even though their export volumes are relatively small, they became an alternative for the EU. The other options for crude oil imports would be from Nigeria, Kazakhstan, Azerbaijan and Iraq, and for natural gas imports - Qatar, Libya, Azerbaijan and maybe Turkmenistan or Iran. In this context, would be useful to consider the 2004 International Energy Agency report, where has been forecasted that until 2030 the diversification of European suppliers will be as the following: Russia (79 bcm of natural gas), Central Asia and Caspian (51 bcm of natural gas), Middle East (40 bcm of natural gas and 117 bcm of LNG), Africa (70 bcm of natural gas, 61 bcm of LNG) and Latin America (18 bcm of LNG). Total projected consumption in Europe in 2030 is put at 667 bcm/y. Of this, a projected 27 bcm/y will be supplied in the form of LNG (4 percent of the total consumption); 200 bcm/y produced domestically, and a large proportion, over 400 bcm/y will be imported from Russia, the Caspian, and from North Africa through pipeline gas (Bilgin, 2013, p. 314).

3.3.1. Azerbaijan – a potential supplier of energy security for the EU

Considering the above-mentioned data, Caspian Sea and North Africa are among the top regions outside the Europe, which will contribute to the diversification of the EU's hydrocarbon sources. The energy reserves of Kazakhstan, Uzbekistan, Turkmenistan and Azerbaijan that are located in the

Caspian Basin represent a solution for the EU’s highly dependence on one provider. Kazakhstan and Azerbaijan leads in the production of oil and together hold 92 percent of total oil reserves in the region, while Uzbekistan and Turkmenistan are the largest producers of natural gas in Central Asia, with 27 percent and 40 percent respectively (Umbach, 2011, p. 27).

Following the Russo-Ukrainian gas dispute of January 2009, Azerbaijan has expressed its interest to export gas to Europe through different projects, either through Nabucco, ITGI (Interconnector Turkey-Greece-Italy), TAP (Trans-Adriatic Pipeline) or even to ship liquefied natural gas on the Black Sea to Romania. Despite a long potential list of projects, in January 2011, the president of Azerbaijan, Ilham Aliev and the president of European Commission, Jose Manuel Barroso signed a formal declaration in Baku, where Azerbaijan assumed the responsibility to provide gas to EU through Southern Gas Corridor (Roberts, 2011, p. 185). One year later, in October 2012, Azerbaijan took the responsibility to build Trans-Anatolian Pipeline (TANAP) from the Turkish – Georgian border through the whole territory of Turkey up to its western border, through which Azerbaijani gas will be delivered to the markets of Greece, Albania, Italy and Bulgaria. With a similar purpose, was planned the Trans Adriatic Pipeline (TAP) through which gas will be transported from Turkey to European markets (Ibrahimov, 2013, p. 130).

At the moment, Azerbaijan is considered the only Caspian riparian state that can safely supply gas to European markets through Southern Gas Corridor, and eventually improve the European energy security, without creating additional geopolitical tension. *Azerbaijan’s current gas reserves stand at almost three trillion cubic meters (tcm) following a large discovery in Shah Deniz field a decade ago (some 1.3 tcm) and recent discoveries in the Absheron and Umid fields, each containing 400 bcm* (Bilgin, 2013, p.320). Starting with 2018-2020 Azerbaijan will be able to channel 15-20 bcm of gas to European markets, but plans to increase its production to 30-50 bcm/y from 2025 onward following successful field developments in Umid, Absheron, and Shafag-Asiman offshore fields, which would represent an effective solution to guarantee the EU energy security. At the same time, the EU is negotiating with Turkmenistan in order to join SGC through the Trans-Caspian Pipeline, which could possibly supply some additional 30 billion cubic meters to the Azerbaijani volume delivered to Europe (Ismayilov and Zasztowt, 2015, p. 2).

The illegal annexation of Crimea and Russia’s interference in Eastern Ukraine, have affected the relationship between Moscow and Brussels, representing the official moment when Russia stepped into a geopolitical competition with the European Union. The new context, determined the European Commission to provide more support for the Southern Gas Corridor since TANAP and TAP may cover 20 percent of European gas needs in the long term (Kusznir, 2015, p.6) and would represent the fourth big axis for diversification of gas supplies in Europe after Northern Corridor from

Norway, the Eastern corridor from Russia and the Mediterranean Corridor from Africa. In these circumstances, Baku was seen as an indispensable partner in the EU's energy security plans and eventually took advantage of this, managing to temper those voices in the EU that were more critical of the regime and instead focused on the sectors that are most beneficial for the current elite (Kobzova, Alieva, 2012, p. 3) If the European Union will continue to accept this situation and remain silent on democratic deficit in Azerbaijan, should take into consideration that its goals of Europeanizing / democratizing eastern vicinity will fail and consequently its credibility as a normative and soft power will be considerably affected.

Final remarks

In the early years of independence, the strategy proposed by the president Heydar Aliyev represented the decisive formula for Azerbaijan's political sovereignty and economic prosperity. But, as the country has progressed in economic terms due to the oil and gas reserves, it has regressed in terms of rule of law, democracy and human rights. Baku is not willing to advance its relations with Brussels in the political sector, the reason for which the Association Agreement with the EU will not be signed in the near future, instead it seems that the Strategic Modernization Partnership represents a better option for Azerbaijani leadership since it does not put political obligations. At the same time, it seems that the principle of conditionality - a mechanism for promoting EU's values and principles - has failed in Azerbaijan, having priority the EU's strategic interest in energy security. Beyond the intentions of developing these projects of strategic nature, the EU has to continue the negotiation on the Association Agreement with Azerbaijan and ensure the effective implementation of the commitments undertaken in their bilateral agreements, pressing for issues of democracy and human rights to occupy the same crucial place as the energy does in the current European agenda in the dialogue with Baku.

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