



POLICY PAPER

No. 32 (134), October 2015 © PISM

Editors: Wojciech Lorenz (Managing Editor)

Jarosław Cwiek-Karpowicz • Aleksandra Gawlikowska-Fyk • Dariusz Kała
Piotr Kościński • Sebastian Płóciennik • Patrycja Sasnal • Marcin Terlikowski

Azerbaijan's Risky Game between Russia and the West

Kamran Ismayilov, Konrad Zasztowt

Azerbaijan recently had to face a wave of criticism from the European institutions (the OSCE and the European Parliament) due to its government's undemocratic practices. In response, Baku accused its European partners of Islamophobia and declared the suspension of parliamentary cooperation in the framework of the EU's Euronest. The Azerbaijani ruling elite also blames the West of supporting a "fifth column" in Azerbaijan (meaning civil society organisations) as well as of giving political support to its arch-enemy Armenia in the Nagorno-Karabakh conflict. At the same time authorities in Baku are displaying their developing political partnership with Russia. This paper examines the consequences of the crisis in relations between the EU and Azerbaijan and Azerbaijani-Russian rapprochement for the prospects for EU-Azerbaijan energy projects and regional security in the South Caucasus.

A Widening Gap between Azerbaijan and Europe

On 10 September the European Parliament adopted a resolution demanding from Azerbaijani authorities the unconditional release from jail of all political prisoners, human rights defenders, journalists and other civil society activists, including Ilgar Mammadov, Khadija Ismayilova, Leyla Yunus and Arif Yunus. The resolution demands conditioning further negotiations on the EU's Strategic Partnership Agreement with Azerbaijan on its government's "concrete steps in advancing respect for universal human rights."¹ On 11 September Michael Georg Link, Director of the OSCE Office for Democratic Institutions and Human Rights (ODIHR), stated that the institution will not send a mission to observe the 1 November parliamentary elections in Azerbaijan, due to restrictions imposed by the Azerbaijani authorities (there is a limit to the number of observers allowed).² Unsurprisingly, Baku's response was "defence through attack." Ali Hasanov, deputy prime minister, accused members of the European Parliament of Islamophobia and suggested they should focus, instead of on Azerbaijan, on the refugee crisis in the EU.³ On 14 September the Azerbaijani parliament voted to suspend the country's participation in Euronest, a parliamentary forum of the European Union and members the EU's Eastern Partnership (EaP).⁴

¹ "European Parliament resolution of 10 September 2015 on Azerbaijan (2015/2840(RSP))," www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//TEXT+TA+P8-TA-2015-0316+0+DOC+XML+V0//EN&language=EN.

² "Restrictions imposed by Azerbaijan compel cancellation of parliamentary election observation mission, says ODIHR Director Link," 11 September 2015, www.osce.org/odihr/elections/azerbaijan/181611.

³ A. Hasanov, "European Parliament Lost Its Sense of Reality," 11 September 2015, www.azadliq.org/content/article/27240944.html.

⁴ "Azerbaijan to Quit Key Forum for EU Cooperation," 15 September 2015, www.eurasianet.org/node/75096.

A Change to Azerbaijan's Foreign Policy Paradigm?

After restoring its state independence in 1991, Baku adopted a balanced foreign policy approach given the country's challenging geopolitical location between Russia, a former suzerain, Iran and Turkey, the latter two of which are regional powers culturally close to Azerbaijan. The newly independent state from the very beginning started to develop good relation with its U.S. and European partners, which were particularly interested in energy cooperation with Baku due to its rich oil and gas reserves. Azerbaijan presented its commitment to integrate with the European and Euro-Atlantic institutions (although it did not declare any will to join the EU or NATO). In theory, Baku was sticking to the fundamental values praised by the West, such as the rule of law, respect for human rights, a free market economy, democracy, a secular approach to politics, and so on. Although these values, apart from secularism, were increasingly ignored by the government, they were still officially acclaimed.⁵

Now, fears of a "colourful revolution" are growing in Baku, even though such a thing has never happened in Azerbaijan. Azerbaijani officials and official media outlets have already for some time been embracing anti-West rhetoric, even to the point of accusing the office of the U.S Secretary of State John Kerry of planning to overthrow of government in Azerbaijan.⁶ According to the country's president, Ilham Aliyev, "foreign circles" (implying Western governments) are spending "dozens of millions of dollars" through NGOs in order to organise a new "Maidan" in Baku.⁷ Thus, the authorities are taking more oppressive measures to control the civil society, which is perceived by them as nest of revolutionaries. They are also eager to adopt ideology similar to the one propagated in Vladimir Putin's Russia—anti-Westernism combined with relativist approach to human rights. The latter are presented as not universal, but purely a Western construct, which is "cynically" used by the West to bully, manipulate or punish non-Western governments.

Yet the Azerbaijani authorities still count on the development of lucrative energy cooperation with European countries (which could never be so profitable with Russia). No matter how critical the EU institutions may be about human rights violations in Azerbaijan, that does not affect the interests of some European energy companies and governments in imports of Azerbaijani gas. Moreover, the crisis in EU-Russia relations due to Ukraine pushed the European Commission to support the Southern Gas Corridor (SGC) more actively, and this is so far confined to the import of Azerbaijani gas to EU countries.

The EU-Azerbaijan Gas Business

The energy relationship between Azerbaijan and the EU is often described by the authorities in Baku (and their sympathetic experts) as mutual dependency. In fact it is very much asymmetric. Azerbaijan needs access to the EU markets much more than those markets need Azerbaijani hydrocarbons. The supplies of Azerbaijani gas resources will account for only around 2% of EU gas demand and will not diversify the market significantly.⁸ Gas imports from Azerbaijan may only be helpful in diversification of gas sources for Greece and Bulgaria, which are overly dependent on Russian gas and are geographically closer to Azerbaijan. Nevertheless, Azerbaijan has been regarded by the EU as a strategically important supplier at least since the initiation of the SGC concept in 2008, envisaged by the European Commission as a means to diversify the Union's energy supplies. The SGC goal is to link the Caspian Sea (home to 4% of the world's proven oil reserves and 3% of its natural gas) and the EU Member States through a new gas pipeline system. Additionally, the EU is negotiating with Turkmenistan about the possibility that the latter could join the SGC through the planned Trans-Caspian Pipeline, which could possibly supply some additional 30 billion cubic metres to the Azerbaijani volumes delivered to Europe.

⁵ Such values are stated as Azerbaijan's foreign policy goals, for instance at the official website of Azerbaijan's Embassy in the United States. See: www.azembassy.us/foreign-policy/foreign-policy-priorities.html, accessed on 12 September 2015.

⁶ "Anti-Azerbaijani campaign led by John Kerry's office in Congress," 28 April 2015, http://en.apa.az/xeber_anti-azerbaijani_campaign_led_by_john_ke_226342.html.

⁷ I. Aliyev: "They spent dozens of millions to overthrow me," 8 September 2015, <http://azeridaily.com/politics/10675>.

⁸ A. Jarosiewicz, „Południowy Korytarz Gazowy. Azersko-turecki projekt w rozgrywce Rosji i UE,” 20 August 2015, www.osw.waw.pl/pl/publikacje/punkt-widzenia/2015-08-20/poludniowy-korytarz-gazowy-azersko-turecki-projekt-w-rozgrywce.

In 2013 Azerbaijan announced two giant pipeline projects, which are to be a cornerstone of SGC. These are the Trans-Anatolian Pipeline (TANAP), and Trans-Adriatic Pipeline (TAP), to export its natural gas from the Shah Deniz II Caspian gas field through Georgia and Turkey to the European Union. The Azeri-Georgian-Turkish link, TANAP, is currently under construction and projected to export six billion cubic metres of gas to Georgia and Turkey by late 2018. The TAP is projected to link to the TANAP at the Turkish-Greek border, and to cross Greece, Albania and the Adriatic Sea before reaching Italy. Its construction was expected to start in summer 2016, with an initial delivery of 10 billion cubic metres of Azerbaijani gas scheduled for the first half of 2019. However, towards the end of 2014, the TAP company officially announced that the finalisation of the project had been postponed to 2020, so the first delivery to Europe will be probably in 2021. The shareholders of the TAP are BP (20%), SOCAR (20%), Belgian Fluxys (19%), Spanish Enagas (16%), and Swiss Axpo (5%). The other 20% is owned by Norway's Statoil, which, however, has declared it will quit the project.⁹

The Turkish Stream Challenge

The TANAP might face competition in the Turkish as well as South East European gas markets in the event that the Turkish Stream project, launched by Russia and Turkey in December 2014, is successful. The plan is to construct the pipeline for exports of Russian natural gas through the Black Sea to the European shore of Turkey by 2018. The planned capacity of the project is 63 billion cubic metres, of which some 10 to 13 bcm is planned to be sold in the Turkish market while the rest is to be distributed to other countries. It is not clear whether Turkish Stream will be implemented or is only part of Russia's political game. If a paper project, it could have been designed by the Kremlin to politically involve Turkey in order to convince Ankara not to join European sanctions against Russia after the annexation of Crimea. There are already objections on the Turkish side regarding the capacity of the planned pipeline, particularly the number of legs.¹⁰ The terms and price of gas are being negotiated. Talks on Turkish Stream will not end before a stable government is formed in Ankara after the 1 November parliamentary elections.¹¹

However, no matter what the outcome of these negotiations, South Stream has already had an impact on the TANAP. This was acknowledged by Aliyev when he made a statement on 28 May about "artificial obstacles" to the implementation of the TAP project. He asserted that, should the Azerbaijani gas fail to reach the European market, Azerbaijan could still export the remaining amount for Turkish domestic consumption. The president's statement came after the new Syriza-led government in Greece revealed its intentions to revise the terms and conditions of the project. The Greek government started to bargain, suggesting that it may consider joining the Turkish Stream project instead of the TAP. Subsequently, authorities in Athens were pressured by the U.S. and EU Member States to avoid involvement in the Russian project and to support the TAP fully. Nevertheless, the Greek side's declarations probably had an impact on the Shah Deniz II consortium's decision to delay its planned first gas delivery to Europe. Thus, with the launch of the Turkish Stream project, Russia became Azerbaijan's competitor in the struggle for the European gas market.¹²

⁹ Italy's Snam and Malaysia's Petronas are listed among the companies that may buy Statoil's shares in the TAP. See: "Statoil to Leave TAP Gas Pipeline Project—Azerbaijan's SOCAR," 23 July 2015, www.oilandgaseurasia.com/en/news/reutersupdate-l-statoil-leave-tap-gas-pipeline-project-azerbaijans-socar#sthash.AVwxB6TN.p73j4ieQ.dpuf, Petronas Said to Mull Buying Statoil's Stake in TAP Project, 1. 09. 2015, www.bloomberg.com/news/articles/2015-09-01/petronas-said-to-consider-buying-statoil-s-stake-in-tap-project.

¹⁰ The Turkish side opted for a more realistic version, with one leg instead of four, which means reducing the pipeline's capacity significantly.

¹¹ M. Erdil, "Turkey, Russia 'freeze Turkish Stream talks,'" 11 September 2015, www.hurriyetdailynews.com/turkey-russia-freeze-turkish-stream-talks.aspx?pageID=238&nID=88349&NewsCatID=348.

¹² Similar competition lasted until the 2013 decision of the TANAP consortium to export Azerbaijani gas through the TAP to Greece and Italy instead of connecting to Nabucco West and exporting gas to Central Europe. This decision was probably based not only economic calculations, but also seen as a way to avoid competition with Russian Gazprom in Central Europe. Such competition was for sure perceived by Moscow not only as purely economic, but also as geopolitical rivalry.

Russian-Azerbaijani Rapprochement

Even though Azerbaijan and Russia are fated to be geopolitical (or at least economic) rivals because of their competition for the same European gas markets, significant rapprochement in political relations between the two countries has been taking place for several years. Azerbaijan cannot risk ignoring Russia, as the latter can play a decisive role in the solution of the Nagorno-Karabakh conflict. At the same time this issue, besides the rift with the West over human rights violations in Azerbaijan, has had an impact on Baku's shift from balanced foreign policy in favour of building bridges with Russia.

The Russian-Georgian War in 2008 was a turning point in Azerbaijan's foreign policy strategy, as Russian military aggression did not meet with any serious reaction from the EU or NATO. Azerbaijan, disappointed with the West's weak stance towards Russia's military aggression in Georgia, found itself in an insecure position. Baku was convinced that it should not allow any Russian military presence in its territories, and, as a result, relations between the countries chilled when Azerbaijan decided to substantially increase the rent on the Russian radar station in Gabala in 2012. This eventually led to the Russian decision to stop using the station.¹³

However, in the past few years, relations between Russia and Azerbaijan have been increasingly improving, to the point that Azerbaijani foreign policy strategy now seems to be more compatible with that of Russia than that of the West. Bilateral cooperation, especially in the military sphere, has moved up a level. In October 2014 the two states reached an agreement to expand military cooperation in 2015.¹⁴ As a first step, Russia and Azerbaijan conducted a joint military exercise in the Caspian Sea, together with Kazakhstan, in August.¹⁵ It came as no surprise when, during the Shanghai Cooperation Organisation meeting in Ufa, Putin announced that Azerbaijan has become an SCO "dialogue partner country."¹⁶ Not long after this, the Russian military TV channel Zvezda announced plans to build new radar station in Gabala. Such a decision (so far unconfirmed by officials in Baku) may seem to be surprising, especially in the wake of the annexation of Crimea, as Azerbaijan's position is in favour of Ukraine's territorial integrity. However, this media leak may reflect ongoing real negotiations between Moscow and Baku.

The Nagorno-Karabakh Issue: A Ticking Time Bomb

Azerbaijan has for years been involved in a diplomatic struggle for recognition by the West of the illegal nature of Armenia's occupation of Nagorno-Karabakh (a territory, which according to the Armenian side's claims constitute the "Nagorno-Karabakh Republic," not related *de jure* to Armenia but also not recognised by Yerevan as an independent state). Baku claims to be a target of double standards, accusing the U.S. and the EU of their tacit approval of Armenian occupation of Nagorno-Karabakh and surrounding regions. The Azerbaijani elite, disappointed in the U.S. and the EU in this matter, is counting on Russia's favour. However, Moscow's policy in this regard is ambiguous.

On the one hand, Russia is a deterrent to any potential attempt by Azerbaijan to take military action to regain Nagorno-Karabakh. Although the Kremlin has never admitted it openly, it may act militarily if Baku does make such an attempt, as in happened in Georgia in August 2008, when Tbilisi tried to regain control of the separatist Tskhinvali region. Thus, Moscow may intervene even without an international mandate, explaining its actions as a peacekeeping operation.

On the other hand, the violation of Ukraine's territorial integrity by the Russian military convinced officials in Baku that Moscow is setting the rules in the post-Soviet area. The logical implication of this assumption is that, with the Kremlin's consent, using the military to regain control of Nagorno-Karabakh is possible. Such

¹³ J. Kucera, "What Will Gabala Closure Mean for Russia—Azerbaijan Ties?," 16 December 2012, www.eurasianet.org/node/66307.

¹⁴ "Russian, Azerbaijani defence ministers sign plan on cooperation for 2015," 13 October 2014, <http://tass.ru/en/russia/754192>.

¹⁵ A. Lidgett, "Russian Navy Drills with Kazakhstan, Azerbaijan Planned for Training, Stopping Security Threats," 13 August 2015, www.ibtimes.com/russia-navy-drills-kazakhstan-azerbaijan-planned-training-stopping-security-threats-2052837.

¹⁶ P. Tase, "Azerbaijan becomes a dialogue partner of Shanghai Cooperation Organisation," 13 July 2015, <http://foreignpolicynews.org/2015/07/13/azerbaijan-becomes-a-dialogue-partner-of-shanghai-cooperation-organization>.

“consent” may mean Moscow taking a neutral stance in the event that Baku makes a military attempt to recover the region. It is an open secret that Russia has traditionally used the so-called “frozen conflict” to pursue its interests in both Azerbaijan and Armenia. The Kremlin may, however, allow a controlled “defreezing” of the Nagorno-Karabakh conflict in order to strengthen its influence over Azerbaijan.

It is not totally unlikely that the Kremlin will give the green light to a Baku military attempt to regain Nagorno-Karabakh. The spark inciting war may be a provocative signal from Moscow, sent through informal communication channels to Baku, that it will not intervene militarily. The Kremlin’s “strategic gain” in such a scenario would be military control of Nagorno-Karabakh, after sending Russian “peacekeepers” to the region. However, a serious, unplanned resumption of fighting may also occur as result of casual clashes in the region between Azerbaijani and Armenian forces. On the small scale, the war continues, for there are no peacekeepers dividing hostile parties, and dozens of soldiers on both side died in recent years as the result of sniper activity on the line of contact.

How to Approach Azerbaijan

Russia’s policy towards the South Caucasus is based on resistance to the EU’s Eastern Partnership programme, which is aimed at helping the EaP states to enhance their reforms, and reach political and economic stabilisation. Thus, the EU (although unwillingly) found itself in a geopolitical confrontation over influence in the shared neighbourhood. Azerbaijan is a crucial country in the South Caucasus, as it has the biggest population and economy in the region, and vast hydrocarbon resources. Any EU political strategy designed to develop economic ties and stabilise this volatile region must involve Azerbaijan. That also means the EU’s regional policies will have to rebalance Baku’s convergence with Moscow.

The EU’s dialogue with the Azerbaijani authorities should continue, and the strategic partnership offer should stay on the table. However, such a partnership has to be based on shared values such as democracy and the rule of law. In this respect, the EU should continue to push the Azerbaijani government for reforms, which will prove, in the short term, at least some progress towards transparency in fields such as public administration and the judiciary. Any restart of the discussion on a strategic partnership document should be conditioned on an immediate release of political prisoners. On this issue, neither the European Commission nor the EU Member States should compromise. Even if energy cooperation with Azerbaijan is a lucrative business for many European companies, the energy lobby’s voice should not be taken into account while the EU’s official position on violations of human rights in Azerbaijan is being formulated.

The EU’s energy cooperation with Azerbaijan, which is based on mutual economic benefits (not on geopolitical calculations), will continue regardless of political tensions between Brussels and Baku. It is clear that the EU countries (and their energy companies) are Azerbaijan’s most valuable customers in terms of gas purchase. Thus, the EU is Azerbaijan’s natural partner in energy projects. On the other hand, Azerbaijan is aware that Russia will continue to attempt to block Azerbaijani–European energy cooperation, and this is already visible in the form of the Turkish Stream project, created to allow Russian gas exports to bypass Ukraine and at the same time to have a negative impact on the SGC project. Russia, as country willing to export gas to the same European gas markets, is a natural competitor for Azerbaijan. To make it worse, Russia treats this competition as a geopolitical struggle, not simply economic rivalry.

In the context of Russia’s aggressive actions against post-Soviet countries (especially evident in Ukraine’s case), the EU should support the principle of a state’s territorial integrity. The EU’s stance on Nagorno-Karabakh is perceived as ambiguous in Baku, although such a perception is, to a great extent, an exaggeration. In its 2013 resolution, the European Parliament reminded both sides in the conflict that the occupation of one Eastern Partnership country’s territory by another violates the fundamental principles and objectives of the EaP, and that the resolution of the Nagorno-Karabakh conflict should comply with UN Security Council resolutions as well as the OSCE Minsk Group Basic Principles, enshrined in the L’Aquila joint statement of 10 July 2009.¹⁷ The European Commission constantly underlines that the EU

¹⁷ *European Neighbourhood Policy, working towards a stronger partnership: EP’s position on the 2012 progress reports*, paragraph 16, www.europarl.europa.eu/sides/getDoc.do?type=TA&reference=P7-TA-2013-0446&language=EN.

does not recognise the legality of elections held in the de facto Nagorno-Karabakh Republic, including the recent local government elections on 11 September. In highlighting Brussels' alleged unwillingness to criticise the status quo in Karabakh, the Azerbaijani government has found a way to continue the "blame game". Such a stance is probably designed to influence an internal, Azerbaijani audience, rather than international partners. Yet the European Council (and individual Member States) should now refute such accusations by being even more vocal on Nagorno-Karabakh, as this could help generate a positive image of the EU, thus countering Russian propaganda.

The EU should convince the ruling elite in Baku that its current alignment with Russia involves higher risks than cooperation with the West. While the Kremlin has on many occasions shown respect for the Azerbaijani authorities (such as when Putin visited Baku in June during the first European Games, as one of only a few European leaders), it is nevertheless obvious that this respect derives only from Azerbaijan's status as a relatively strong "sparring partner." For Kremlin strategists, Russia's policy in the South Caucasus (and elsewhere in the post-Soviet area) is a geopolitical zero-sum game, the ultimate goal is to re-establish Moscow's political dominance. To reach this end, Moscow may meddle in Azerbaijan's internal affairs and return swiftly to assertive or even aggressive policies towards Baku.

Even under the extremely difficult circumstances of a rift with Russia, the United States, the EU and its Member States should maximise their activities in the region to prevent resumption of hostilities, such as by facilitating dialogue between Azerbaijani and Armenian civil societies. To this end, existing instruments such as the Eastern Partnership Civil Society Platform can be used more effectively. Azerbaijan's Western partners should also spare no effort in defending repressed Azerbaijani NGO activists, and should push the government in Baku to release political prisoners. Even if democracy does not turn out to be an immediate solution to the Nagorno-Karabakh issue, lack of political freedom is certainly preventing any escape from the current quagmire.