

AZERBAIJAN'S GEOPOLITICAL ROLE IN THE BLACK SEA-CASPIAN BASIN REGION: CHALLENGES AND OPPORTUNITIES

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Introduction

Being an energy-rich country located at a strategic crossroad along the ancient Silk Road in the Southern Caucasus, between Black Sea, Caspian Sea and Central Asia from West to East and between Russia and Iran from North to South, Azerbaijan's role in this region is far from negligible. After the full commissioning of the Baku-Tbilisi-Ceyhan (BTC) oil pipeline in May 2006¹ and the Baku-Tbilisi-Erzurum (BTE) gas pipeline² in September 2006³ the construction of the Baku-Tbilisi-Kars (BTK) railroad was inaugurated on 21 November 2007⁴. These projects have further increased Azerbaijan's role in the energy and transportation sector and strengthened its ties with Georgia and Turkey.

Furthermore, Azerbaijan is cooperating closely with the European Union (EU) on energy matters. In the context of the European Neighborhood Policy (ENP) Action Plan, the EU and Azerbaijan established a partnership in the energy sector by signing a Memorandum of Understanding on 7 November 2006⁵. This is a very interesting development in light of the EU Central Asia Strategy which states that "*The EU will lend political support and assistance to Central Asian countries in developing a new Caspian Sea – Black Sea – EU energy transport corridor.*"⁶ Given the strategic position of Azerbaijan on this route, Azerbaijan will also play a decisive role in the EU's relations with Central Asia.

However, although Azerbaijan's strategic weight is growing in the region⁷, several areas can be identified which could pose problems for Azerbaijan's future geopolitical role in the region. Examples are Azerbaijan's conflict with Armenia over Nagorno-Karabakh, difficulties between Azerbaijan, Turkmenistan and Iran concerning the division of the southern part of the Caspian Sea and the connected conflict over property rights of oilfields, the energy poker between Azerbaijan and Russia with regard to pipeline constructions like Nabucco⁸ and export of energy resources from Central Asia to the world markets.

Geopolitical Determinants of Azerbaijan's Foreign and Security Policy

According to the National Security Concept of the Republic of Azerbaijan from 23 May 2007 and the annual report of the Ministry of Foreign Affairs of the Republic of Azerbaijan, the following main geopolitical determinants of Azerbaijan's Foreign and Security Policy can be identified:^{9,10}

1. The Nagorno-Karabakh conflict
2. Azerbaijan's energy resources
3. Close ties with Europe and a strong will to further integrate into the Euro-Atlantic security structure
4. Islamic heritage, cultural relatedness with Turkic countries and cooperation with multilateral institutions

The Nagorno-Karabakh Conflict

The country's main concern in the domain of foreign and security policy focuses on its conflict with Armenia

¹ <http://www.bp.com/genericarticle.do?categoryId=9006615&contentId=7020655>.

² Also referred to as the South Caucasian Pipeline.

³ <http://www.bp.com/sectiongenericarticle.do?categoryId=9006670&contentId=7015095>.

⁴ Stefan BOCIOACA: *The Baku-Tbilisi-Kars Railway: The First Step in a Long Process*, (13 December 2007), http://www.pinr.com/report.php?ac=view_report&report_id=733&language_id=1.

⁵ http://ec.europa.eu/external_relations/azerbaijan/eu_azerbaijan_summary/index_en.htm.

⁶ *The EU and Central Asia: Strategy for a New Partnership*, <http://www.carec.kz/English/news/23.07.2007/EU-CentralAsia-Strategy.pdf>, p. 11.

⁷ *Leading Think-Tank Analyses Azerbaijan's Role in 2007*, BBC Monitoring Central Asia, (14 January 2008), <http://www.redorbit.com/news/display/?id=1214131>.

⁸ See <http://www.nabucco-pipeline.com>.

⁹ http://www.mfa.gov.az/ssi_eng/foreign_policy/inter_affairs/nsc/NSC.pdf.

¹⁰ <http://www.today.az/news/politics/42125.html>, (29 December 2007).

concerning Nagorno-Karabakh and the restoration of Azerbaijan's territorial integrity. The long lasting conflict about Nagorno-Karabakh broke out in 1988/89 when the majority Armenian population of Nagorno-Karabakh demanded that Moscow incorporate their territory into Armenia. From this followed bloody assaults and displacements on both sides before Nagorno-Karabakh declared its independence on 2 September 1991 and eventually war broke out. In the course of this war, Armenia conquered a corridor connecting Nagorno-Karabakh with Armenia as well as a wide cordon sanitaire of Azerbaijani territory around Nagorno-Karabakh. This led to the displacement of many Azerbaijanis. Today, the number of internally displaced persons (IDPs) and refugees amounts to almost one million according to Azerbaijani government sources¹¹ whereas the UNHCR counted around 584,000 persons it assisted and protected in 2005¹². Given Azerbaijan's 8.1 million population, it hosts the largest IDP population in the world¹³.

After the cease-fire in May 1994, Azerbaijan lost 20 percent of its territory. This military defeat shaped the collective memory of the Azerbaijanis and has a direct impact with regard to Azerbaijan's foreign policy. The Azerbaijani- Armenian rivalry for instance accounts for a large part of the emergence of the two geopolitical alliances in the Southern Caucasus. Although this is a very rough categorization, a pro-Azerbaijani and a pro-Armenian group can be distinguished. The pro-Armenian group consists of Russia, Armenia and Iran while the pro- Western group is represented by Azerbaijan, Georgia and Turkey.

Russia – Armenia – Iran

Russia helped Armenia militarily during the Nagorno-Karabakh war while Iran supported Armenia at least economically for several reasons. One being the fact that, since Azerbaijan and Iran were once one state before the Turkmenchay Peace Treaty in 1828, about 11.5 million ethnic Azerbaijanis – the equivalent of approximately 25% of the Iranian population – were living in the north of Iran in 1986 and today almost 50%.¹⁴ Accordingly, it is not very unreasonable to hold the view that Iran has feared a reinvigorated independent Azerbaijan, being by far the biggest country in the Southern Caucasus in terms of surface area and population.

Another reason why relations between Iran and Azerbaijan have been strained consists in ideological differences. Already during the 23 months of independence from 1918 to 1920 Azerbaijan proclaimed the first republic in the Muslim East. While Azerbaijan has been developing a lay Muslim tradition, reinforced by the secularization during the Soviet period from 1920 to 1991, the Islamic Republic of Iran became a theocracy in 1979. Furthermore, Azerbaijan and Iran disagree on the partitioning of the Caspian Sea. While Azerbaijan is advocating a plan to allocate parts of the Caspian Sea according to shoreline length, Iran realized that such a plan would leave it with the smallest share (between 12 to 16 percent) and most probably without a share of the oil-rich South Caspian oilfields. Therefore Iran is insisting on a condominium use of the sea or a solution which proposes to allocate one fifth of the Caspian Sea to each of the five abutters^{15,16}. The Azerbaijani- Iranian dispute over the division of the Caspian Sea has already surfaced in several situations in which Iran has violated Azerbaijani territorial waters and airspace (July 2001, February and November 2007).¹⁷

Armenia, being a member of the Commonwealth of Independent States (CIS) and the Collective Security Treaty Organization has strong political ties with Russia. It sees its cooperation with Russia and especially the presence of Russian military bases and border troops as well as the Friendship and Cooperation Treaty signed in 1997 as a security guarantee with regard to neighboring countries Turkey and Azerbaijan. Moreover, Russia supplies Armenia with energy, arms and is its main investor. One reason for Russia to support Armenia was to prevent Azerbaijan from becoming a predominant power in the South Caucasus¹⁸. Russian-Armenian cooperation as well as the construction of the BTC pipeline has created much trouble for Russian-Azerbaijani relations. Moscow saw the construction of the BTC pipeline as a U.S. project aimed at reducing Russian influence in the region and tried to impede it. Since 1999, Azerbaijani-Russian relations have considerably improved and have led to increased economic transactions, a bilateral accord concerning the delimitation of the Caspian Sea and an

¹¹ http://www.mfa.gov.az/ssi_eng/foreign_policy/inter_affairs/nsc/NSC.pdf, p. 4.

¹² <http://www.unhcr.org/statistics/STATISTICS/464183605.pdf>, 2005.

¹³ UNHCR – Refugees by numbers, Edition 2006, <http://www.unhcr.org/basics/BASICS/3b028097c.html>.

¹⁴ Arif YUNUS (2006): *Azerbaijan – Between America and Iran*, in: Russia in Global Affairs, No. 3, July- September 2006, <http://eng.globalaffairs.ru/numbers/16/1044.html>.

¹⁵ Andrew KATEN: *Iran's Territorial Disputes with its Caspian Sea Neighbors*, (31 May 2006), http://pinr.com/report.php?ac=view_report&report_id=499&language_id=1.

¹⁶ For a detailed analysis of the legal status of the Caspian Sea, see: Barbara JANUSZ: *The Caspian Sea - Legal Status and Regime Problems*, in: Chatham House Briefing Papers, August 2005, REP BP 05/02, <http://www.isn.ethz.ch/pubs/ph/details.cfm?lng=en&id=18937>.

¹⁷ Lasha TCHANTOURIDZE (2008): *The Three Colors of War: Russian, Turkish, and Iranian Military Threat to the South Caucasus*, in: *Caucasian Review of International Affairs*, Vol. 2 (1) - Winter 2008, http://www.cria-online.org/j2_2.php.

¹⁸ Alexander RAHR (2008): *Russland gibt Gas*, p. 106, Munich.

agreement on the Qabala Radar station^{19,20}.

Azerbaijan – Turkey – Georgia

As a result of this pro-Armenian coalition, a pro-Azerbaijani coalition formed up almost naturally as well. Based on common cultural, historical, ethnic, religious and linguistic roots Azerbaijani-Turkish relations are cordial. Turkey was the first state to recognize Azerbaijan's independence in January 1992 and to establish full diplomatic relations shortly after.²¹

Georgia and Azerbaijan see themselves both united together in their efforts to reduce the Russian grip on their autonomy. The Azerbaijani-Georgian-Turkish cooperation is visible in many different aspects, e.g. with regard to economic, transportation and energy matters like the BTC oil pipeline, the BTE gas pipeline and the BTK railroad project.

Since Russia has been a close partner of Armenia during the Nagorno-Karabakh conflict, Azerbaijan chooses to intensify its integration into Euro-Atlantic security structures. Azerbaijani-U.S. rapprochement came automatically since Azerbaijan on the one hand has been looking for a strong security guarantor and the U.S. on the other hand has been looking for a strategic partner in the region in order to expand its influence in the Caucasus, to get hold of a strategic position to put pressure on Iran and to diversify its energy sources²². Since 2002 as US Presidents have suspended paragraph 907 of the Freedom Support Act²³, bilateral cooperation between the US and Azerbaijan, based on an energy dialogue, has become more and more substantial²⁴. Since then the USA provides millions of dollars in order to modernize the Azerbaijani military and to improve its interoperability with NATO units, focusing especially on aerial defense²⁵.

Azerbaijan's Energy Resources

Azerbaijan is one of the oldest oil producers in the world. Already in 1846 – more than a decade before oil was discovered in Pennsylvania – Azerbaijan, had drilled the first oil well in Bibi-Heybat and in the early 20th century Azerbaijan accounted for more than 50 percent of the world wide supply of oil^{26,27}. Today, Azerbaijan is reported to possess approximately 0.6 percent of the world gas reserves and 0.8 percent of the world oil reserves²⁸. The importance of oil and gas for Azerbaijan becomes evident if one looks at the following figures: oil products (mainly crude oil) accounted for 90 percent of Azerbaijan's export value in the first quarter of 2007 and the 2006 oil revenues exceeded the overall 2004 government revenues²⁹. In 2010, nominal oil revenues will likely reach the total nominal GDP for 2006³⁰. Moreover, oil revenues helped to fill the State Oil Fund of Azerbaijan up to the amount of \$2.16 billion (US) as of 1st October 2007³¹.

Azerbaijan provides Georgia and Turkey with energy supplies and therefore could help to reduce Georgia's and Turkey's unwanted quasi-total dependence on Russian gas³². Moreover, the importance of Azerbaijan's energy reserves in combination with the energy resources makes Azerbaijan a strategically important transit country for the EU's and USA's energy diversification strategies.

Currently, Azerbaijan uses the following methods to export oil and gas: via the Baku-Supsa oil pipeline to Georgia, via the Baku-Novorossiysk oil pipeline to Russia, via the main export oil pipeline BTC to Georgia, Turkey and the world market and via the BTE gas pipeline to Georgia and Turkey. Additionally, there exists a gas pipeline to Russia (Gadjikabul-Mosdok) through which Azerbaijan imported Russian gas until Azerbaijani self-production

¹⁹ Svante E. CORNELL, Fariz ISMAILZADE (2005): *The Baku-Tbilisi-Ceyhan Pipeline: Implications for Azerbaijan*, in: Frederic STARR, Svante E. CORNELL (Eds.): *The Baku-Tbilisi-Ceyhan Pipeline: Oil Window to the West*, pp. 61-84, Uppsala.

²⁰ See Michael MARGELOV (2002): *Russia's National Interest in the Caspian Region*, p. 196, in: Yelena KALYUZHNOVA, Amy MYERS JAFFE, Dov LYNCH, Robin SICKLES (Eds.): *Energy in the Caspian Region*, pp. 195-211, Basingstoke and others.

²¹ <http://countrystudies.us/azerbaijan/36.htm> (U.S. Library of Congress).

²² In May 2007 the U.S. Energy Information Administration reported that the USA imported 2.677 million barrels of oil and oil products from Azerbaijan. See John DALY: *Caspian pipeline wars*, (17 August 2007), http://www.upi.com/International_Security/Energy/Analysis/2007/08/17/analysis_caspian_pipeline_wars/5034.

²³ In view of the Nagorno-Karabakh conflict and the resulting Azerbaijani trade blockade, the Armenian lobby in the USA achieved a prohibition of American aid to Azerbaijan. This prohibition is laid down in paragraph 907 of the Freedom Support Act of the USA of 1992.

²⁴ Sebastian MAYER (2007): *Der Südkaukasus als Nachbar der erweiterten EU: Problemlagen, Entwicklungslinien und Kooperationspotentiale*, p. 11, Friedrich-Ebert-Stiftung, <http://library.fes.de/pdffiles/id/04431.pdf>.

²⁵ *Ibid.*, p. 12.

²⁶ Mir Yusif MIR-BABAYEV (2002): *Azerbaijan's Oil History*, in: *Azerbaijan International*, 10.2 (Summer 2002), http://www.azer.com/aiweb/categories/magazine/ai102_folder/102_articles/102_oil_chronology.html.

²⁷ Kamalia BEUTEL (2004): *Ulpolitik in Aserbajdschan*, Wissenschaftlicher Verlag Berlin, pp. 87f.

²⁸ Crisis Group Europe Report Nr. 187, op. cit., p. 8.

²⁹ *Ibid.*, p. 9.

³⁰ *Ibid.*

³¹ <http://www.oilfund.az>.

³² Jeronim PEROVIC (2008): *Russian Energy Power Abroad*, p. 3, in: *Russian Analytical Digest* Nr. 33, (22 January 2008), pp. 2-5, www.res.ethz.ch/analysis/rad.

became sufficient^{33,34}. Azerbaijan also exports gas to Europe via the Turkish-Greek pipeline, filled with Azerbaijani gas through the BTE pipeline for the first time in July 2007 and to be extended to Italy in 2012³⁵. Furthermore, additional pipeline projects are under consideration: a pipeline to Iran over 190 miles, the proposed Nabucco pipeline and the Transcaspien gas pipeline (TCP) which is supposed to transport 16 billion m³ of gas from Turkmenistan and Azerbaijan to Turkey and 14 billion m³ to Europe³⁶.

Close Ties with Europe

Although Azerbaijan has no common border with an EU country it has been forging close links with Europe for more than a decade. In April 1996 Azerbaijan signed a Partnership and Cooperation Agreement with the EU – which entered into force in July 1999 – and in January 2001 it became a member of the Council of Europe. The importance of the South Caucasian countries to the EU was underlined by the creation of an EU Special Representative in 2003. In view of the EU's enlargement policy Azerbaijan was integrated into the ENP in 2004, even before the region of the South Caucasus and the EU became geographical neighbors with the accession of Bulgaria and Romania to the EU in 2007. At the EU-Azerbaijan Cooperation Council on 14 November 2006 the five - year ENP Action Plan for Azerbaijan was adopted and is currently being implemented. With the help of the TACIS³⁷-funded EU infrastructure programs INOGATE³⁸ and TRACECA³⁹ Azerbaijan is strengthening its connections with Europe. INOGATE aims at bridging gaps in the oil and gas infrastructure leading towards Europe, at improving existing transport corridors and at increasing options for transporting hydrocarbons from the Caspian region to European and Western markets.

Azerbaijan has also been working towards closer integration into the Euro-Atlantic security structure. In 1994, for instance, Azerbaijan joined the NATO Partnership for Peace Program (PfP). Azerbaijan's integration into the PfP serves simultaneously as a security guarantee with regard to the Nagorno-Karabakh conflict and as protection for its transport infrastructure. The USA has been vigorously advocating the integration of the three South Caucasian countries into NATO structures because of its geopolitical interests in the region⁴⁰. Azerbaijan is also cooperating closely with NATO on improving border security in the sea area and closer cooperation in the area of pipeline security is being envisaged⁴¹. However, in contrast to Georgia, Azerbaijan has not filed an official application for NATO accession yet. This is because the Azerbaijani leadership is well aware of the country's geopolitical position between important regional players like Russia and Iran with whom Azerbaijan exerts itself to develop good neighborly relations^{42,43}.

Islamic Heritage, Cultural Relatedness with Turkic Countries and Cooperation with Multilateral Institutions

Religion and culture have a strong impact on Azerbaijan's geopolitical role. Around 93.4 percent of the Azerbaijani population is Muslim⁴⁴. Therefore, it is natural that Azerbaijan seeks to develop close ties with other Muslim countries. This will be reflected by Azerbaijan's membership in the Organization of the Islamic Conference (OIC). An important aim of Azerbaijan is to benefit from the Islamic solidarity of the OIC in order to raise awareness of the Azerbaijani position in the Nagorno-Karabakh conflict and to create a general awareness of Azerbaijani perspectives in the international arena.

Also in cultural terms Azerbaijan seeks cooperation with other like-minded states. As a Turkic country Azerbaijan is also aiming at enhancing cooperation and solidarity among Turkic states like Turkey, Turkmenistan, Kazakhstan, Kyrgyzstan and Uzbekistan. After the collapse of the Soviet Union these countries are discovering their linguistic as well as cultural resemblances and voices can be heard that are promoting the idea of closer cooperation on economic, cultural and political levels. Azerbaijan and Turkey, however, are assuming the leading role in this respect. Further examples for enhanced Turkic cooperation are the annual Friendship, Brotherhood and

³³ Jeronim PEROVIC : Russian Energy Power Abroad, op. cit., p. 3.

³⁴ *Gazprom makes lucrative offer to Azerbaijan*, Nezavisimaya Gazeta, (22 January 2008), <http://en.rian.ru/analysis/20080122/97542839.html>.

³⁵ Samed GUSEJN: *EC verbyet Azerbaidzhan*, (04 February 2008), <http://www.vz.ru/economy/2008/2/4/142446.html>.

³⁶ John DALY: *Caspian pipeline wars*, (17 August 2007), http://www.upi.com/International_Security/Energy/Analysis/2007/08/17/analysis_caspian_pipeline_wars/5034.

³⁷ Technical Assistance to the Commonwealth of Independent States, <http://www.tracecaorg.org/default.php?l=en>.

³⁸ Interstate Oil and Gas Transport to Europe, <http://www.inogate.org/en/>.

³⁹ Transport Corridor Europe – Caucasus – Asia, <http://www.traceca-org.org>.

⁴⁰ Sebastian MAYER: *Der Sdkaukasus als Nachbar der erweiterten EU: Problemlagen, Entwicklungslinien und Kooperationspotentiale*, op. cit., p. 11.

⁴¹ *Ibid*, p. 12.

⁴² See Michael MARGELOV (2002): *Russia's National Interest in the Caspian Region*, p. 196/197, in: Yelena KALYUZHNOVA, Amy MYERS JAFFE, Dov LYNCH, Robin SICKLES (Eds.): *Energy in the Caspian Region*, pp. 195-211, Basingstoke and others.

⁴³ *Aserbaidzschans Prsident will nicht vor der Wahl zwischen Russland und dem Westen stehen*, (22 February 2007), <http://russland.ru/aserbaidzschan/morenews.php?iditem=91>.

⁴⁴ <https://www.cia.gov/library/publications/the-world-factbook/geos/aj.html>.

Cooperation Congress of the Turkic States and Communities, the Turkish-Speaking States' and Communities' Friendship, Fraternity and Cooperation Foundation, the concept of a Parliamentary Assembly of Turkic States and a Council of Elders and the International Confederation of Turkic Associations.

Azerbaijan is a member of 32 international and regional organizations. The most important are: the United Nations and specialized agencies (accession in 1992), the Council of Europe (March 2001), the Organization of Security and Cooperation in Europe (January 1992), the Commonwealth of Independent States (September 1993), the Organization of the Islamic Conference (1992), GUAM (1997), the Organization of Economic Cooperation (1992), the Organization of the Black Sea Economic Cooperation (1992) etc.

Statements made by Azerbaijani government officials clearly show the realistic character of Azerbaijani foreign policy. International organizations are seen as instruments which should be used in order to promote the national interest of the Republic of Azerbaijan. Since the restoration of Azerbaijan's territorial integrity has been identified as lying at the heart of the country's national interest, international organizations are considered to serve as arenas where Azerbaijan's position in the Nagorno-Karabakh conflict should be diffused in order to achieve a solution of the conflict that corresponds to the Azerbaijani national interest.

However, the Azerbaijani leadership is well aware of the fact that alliances have to be built on the international arena in order to leverage the Azerbaijani position. Although Azerbaijan is a strategically important country, it is relatively weak in economic and military terms compared to other bigger regional and global players that are attempting to influence Azerbaijani policies, i.e. Iran, Russia, USA, Turkey and to a certain extent the EU. Therefore, Azerbaijan has not the means to enforce a solution of the Nagorno-Karabakh conflict that would be in its national interest. In the absence of means to enforce a solution, Azerbaijan relies on cooperation in international organizations in order to forge alliances with interested countries and powers in order to achieve the desired result.

Opportunities and Risks Associated with Azerbaijan's Geopolitical Role

Pipeline race in Eurasia

Within the next two decades, Europe's energy stocks in the North Sea are running out of supplies while energy consumption is steadily increasing. *Ceteris paribus*, this development will result in an energy deficit for Europe which has to be filled with energy supplies from other parts of the world which possess enough hydrocarbons that can be exported. One of these regions is the landlocked and therefore not easily accessible Caspian region, from where gas and oil have to be transported through pipelines. Since pipelines are of high politico-strategic importance, a construction race has been taking place in the Black Sea-Caspian region with far-reaching implications for Azerbaijan. Azerbaijan is an ardent advocate of the EU's Nabucco gas pipeline project⁴⁵ since the course of Nabucco would provide it with an outstanding strategic role: at the same time as producer, because Azerbaijani gas could be shipped to Europe via Turkey, but also as transit country because the construction of Nabucco would require further gas deliveries from other countries since Azerbaijani gas production alone could not satisfy the demand of Nabucco in order to make it cost-effective, at least within the first few years. Azerbaijan could provide Nabucco with 3 billion m³ from 2015⁴⁶ whereas Nabucco is planned to start in 2012 with an initial pipeline capacity up to 8 billion m³⁴⁷. This means that additional gas from the gas-rich Central Asian countries Kazakhstan, Turkmenistan and Uzbekistan would have to be delivered. Admittedly, the infrastructure to deliver Central Asian gas to BTE in order to connect it to Nabucco without transiting Russia or Iran does not currently exist. The direct way of delivering Kazakh and Turkmen gas to the Nabucco pipeline would be the TCP, a project which would link Turkmenbashi and Baku and could include Kazakh and Turkmen gas directly via Azerbaijan into the Nabucco pipeline. But the TCP faces several obstacles on its way to realization.

Firstly, the legal status of the Caspian Sea which is still not decided poses a problem. Russia and Iran are working to prevent the TCP because it would reduce their control over the region's gas exports and therefore are insisting that a submarine pipeline would need the approval of all littoral states. However, Azerbaijan, Kazakhstan and Turkmenistan hold the view that a pipeline in the Caspian Sea concerns only the countries through whose sectors the pipeline will be built. Secondly, Russia has just concluded a major deal with Kazakhstan and Turkmenistan over the extension of the Central Asia Center (CAC) pipeline system by building a new pipeline from Turkmenistan via Kazakhstan to Russia along the east coast of the Caspian Sea with an expected volume of 20 billion m³ per year⁴⁸. Additionally, this deal has to be seen in the light of the 25-year agreement Turkmenistan and Russia signed in April 2003 on exporting Turkmen gas to Russia. Thirdly, Kazakhstan and Turkmenistan have already started to build a gas pipeline to China which is supposed to be completed in 2009 and to transport 30

⁴⁵ Vladimir SOCOR: Azerbaijan at the Forefront of Caspian Basin Energy Initiatives, (22 March 2007), http://www.jamestown.org/edm/article.php?article_id=2372033.

⁴⁶ Vladimir MISHIN: Илг к экспорту газа, in: *Nezavisimaya Gazeta*, (10 July 2007), http://www.ng.ru/energy/2007-07-10/11_shag.html.

⁴⁷ <http://www.nabucco-pipeline.com/project/project-timeline/index.html>.

⁴⁸ Isabel GORST: *Russia seals Caspian gas pipeline deal*, (20 December 2007), http://www.ft.com/cms/s/0/674201a6-aeef-11dc-880f-0000779fd2ac.html?nclink_check=1.

billion m³^{49,50}. This means that it is not clear whether Kazakhstan and Turkmenistan could produce enough additional gas to feed the TCP. Moreover, non-transparency of official Turkmen data concerning the amount of total gas reserves nourishes speculations about whether Turkmen gas will suffice to fulfill additional contracts. Russia has apparently managed to absorb the Central Asian gas into its pipeline network in order to export it to Europe. Thus, it looks as if Russia is on the verge of winning the pipeline race and to ensure that it will be exporting the bulk of Caspian and Central Asian gas to Europe. Is this the end of Nabucco? Hearing that Gazprom and the Norwegian group Statoil would be negotiating about gas supplies from the Azerbaijani Shah Deniz field to Russia could make one draw such a conclusion⁵¹. These negotiations do not show a high level of confidence concerning the realization of the Nabucco pipeline. This is certainly a highly unexpected development since Azerbaijan has been working for a long time to export its oil and gas production independently of Russia. Contrariwise, it would be very easy to deliver gas from Shah Deniz into the Russian pipeline system because of the still existing Gadjikabul-Mosdok pipeline between Azerbaijan and Russia. Azerbaijan would not have to bother with new, costly pipeline projects.

On the other hand, the EU does not seem to want to give up Nabucco since it is reviewing supplies of natural gas from Iraq⁵² and since it is especially flattering to Azerbaijan and Turkmenistan in view of future energy supplies to Europe which would bypass Russia⁵³. Turkmenistan has concluded major deals with Russia on the export of Turkmen gas to Russia but is still interested in the TCP because it would help to become more independent from Russia. Turkmenistan, but also Kazakhstan would gain a better negotiation position and eventually – *compütition oblige* – could sell their gas at a higher price. Azerbaijan would profit from not letting Turkmenistan participate in a European energy project since its gas would then become even more valuable for European energy hunger. This is especially because until 2015 the extraction of the project “Stadiya-2” in the Shah Deniz gas field is supposed to amount to 20 billion m³ and in 2020 to even 50 billion m³⁵⁴. However, the TCP would give Azerbaijan a precious outlet to the Asian market. Anticipating that the Caspian region would enter a new phase of development with new energy production possibilities and high potential for building new energy transport corridors, the US government aims to enhance cooperation among Azerbaijan, Kazakhstan, Turkmenistan and Ukraine in the energy sector⁵⁵. These efforts are very likely to be based upon projections made by the U.S. Energy Information Administration in May 2007 which foresees that by 2015 the energy production of the Caspian basin could amount to 4.3 million barrels per day⁵⁶. In addition to the region’s proven reserves of 17 billion to 49 billion barrels the region would be comparable to Qatar – worst case scenario – or Libya – best case scenario⁵⁷. According to a U.S. Energy Information Administration hypothesis the Caspian region could contain additional energy resources of up to 235 billion barrels of oil – nearly corresponding to a quarter of the Middle East’s total proven reserves⁵⁸. The USA thinks that it needs to develop a more active role in order to be more successful than during the first phase of its energy diplomacy⁵⁹. Thus there is evidence that the USA could play an even more active role in the Black Sea-Caspian Basin region in order to weaken Russia’s energy power. It seems that countries like Azerbaijan and Kazakhstan will have a difficult time maneuvering between Russian and US carrots and sticks. The different evaluation of the future gas and oil production prospects of the region lead to diverging pipeline scenarios. Azerbaijan, however, will assume a key role in any scenario.

Towards a renewed outbreak of the Nagorno-Karabakh conflict?

The efforts which have been undertaken over the past 13 years in order to find a peaceful solution to the Nagorno-Karabakh conflict have not been crowned with success. Furthermore, the possibility of finding a peaceful solution has been endangered since “*a massive arms build-up has started*”⁶⁰. With the help of revenues realized through oil and gas exports, Azerbaijan has raised its military budget by a record 51 percent in 2004/5 and then increased it by a further 82 percent in 2006⁶¹. The arms build-up and an increasing professionalism of the

⁴⁹ Roland GOTZ (2007): *Europa und das Erdgas des Kaspischen Raums*, op. cit., p. 8.

⁵⁰ CNPC Starts Building Turkmenistan-China Gas Pipeline, (30 August 2007), <http://www.newscentralasia.net/Regional-News/160.html>.

⁵¹ Sokhvet MAMEDOV: “Газпром” заинтересовался Шахденизом, (22 January 2007), http://www.ng.ru/cis/2008-01-22/8_azerbajdgan.html#.

⁵² Aleksandr SHISHLO: EC хочет получить иракский газ по трубопроводу Nabucco, (31 January 2008), <http://rian.ru/world/europa/20080131/98099523.html>.

⁵³ EU ruft Baku zur Unterstützung europäischer Energieprojekte auf, (04 February 2008), <http://de.rian.ru/business/20080204/98347498.html>.

⁵⁴ Samed GUSEJN: EC вербует Азербайджан, article cit.

⁵⁵ Samed GUSEJN: EC вербует Азербайджан, article cit.

⁵⁶ John DALY: Caspian pipeline wars, (17 August 2007), http://www.upi.com/International_Security/Energy/Analysis/2007/08/17/analysis_caspian_pipeline_wars/5034.

⁵⁷ Ibid.

⁵⁸ Ibid.

⁵⁹ Samed GUSEJN: EC вербует Азербайджан, article cit.

⁶⁰ Sabine FREIZER: Nagorno-Karabakh – A Frozen Conflict That Could Boil Over, in *European Voice*, (31 January 2008), <http://www.crisisgroup.org/home/index.cfm?id=5277&l=1>.

⁶¹ Ibid.

Azerbaijani army are accompanied and underlined by statements of high Azerbaijani officials. In 2007 President Aliyev mentioned that he would make Azerbaijan's military spending equal to Armenia's entire state budget⁶². Azerbaijani Foreign Minister Mammadyarov wrote in an article that "Azerbaijan is not going to negotiate on its territorial integrity and the government stands ready to defend its sovereignty as stated and supported by the charter of the United Nations. A military settlement is not our preferred option of resolving the Nagorno-Karabakh conflict nor do we believe it will necessarily lead to a stable outcome. It will surely undermine our efforts to move towards more regional integration and regional openness. So we need to solve this problem peacefully and now, but Azerbaijan is prepared to defend its territory"⁶³. And further: "Progress on this issue [unresolved Nagorno-Karabakh conflict; SR] is long overdue and Azerbaijan cannot wait forever for its resolution, although we remain supportive of a peaceful approach to conflict settlement and the OSCE Minsk process"⁶⁴. Finally, President Aliyev told the 'EU troika' during its visit to the South Caucasus in February 2008 that Azerbaijan is ready to "wage war" with Armenia over the territory of Nagorno-Karabakh⁶⁵.

Yet, Azerbaijan is not the only one who is rearming in the Nagorno-Karabakh conflict. Armenia spent a record high US\$ 280 million on weapons in 2008⁶⁶. If we add to this that Armenia receives Russian armaments at low prices because of its membership in the Collective Security Treaty Organization (CSTO), this is more than alarming news. On 21 January 2008 Director General of the Russian state corporation Rostekhnologii, Sergey Chemezov, claimed that Russia supplied Armenia since 2002 with military technology worth US\$ 25 million. According to Chemezov, Armenia received during this period two Ilyushin-76 aircrafts, diverse auto technology, replacement parts for air defense systems, for helicopters, various fire-arms and ammunition. Furthermore, Chemezov announced the opening of a Rosoboronexport branch in Yerevan which is scheduled for February⁶⁷. However, Armenia's military budget represents only approximately one quarter of Azerbaijan's. Therefore, Azerbaijan is expected to gain a considerable military advantage in the foreseeable future which could convince Azerbaijani officials to seek a military solution to the Nagorno-Karabakh conflict.

In a nutshell, the possibility of a new armed conflict in the short to mediumterm future is far from being ruled out. Although the belligerent rhetoric can be partly attributed to the fact that 2008 is an election year for both, Armenia and Azerbaijan, military upgrades and harsh words could prepare fertile ground for military confrontation.

Azerbaijan – a prototypical mediator between cultures?

It is no secret that Azerbaijan has still a long way to go where democracy, human rights and corruption issues are concerned. However, Azerbaijan is working closely together with the USA, the EU and NGOs on these issues. Besides the aforementioned problems Azerbaijan has to struggle with economic and social difficulties like poverty, IDPs, low salaries and pensions etc. Yet, in cultural and religious terms Azerbaijan appears to contain a vast potential it could use for further strengthening cooperation and mutual understanding between the West and Islam, between Islam and Judaism, between religion and politics. According to Svante E. Cornell, Azerbaijan, where operas, theater plays, and a democratic republic have been established for the first time in the Muslim world, is among the most progressive and secular Islamic societies⁶⁸. In view of Azerbaijan's close links to Europe, the USA and Israel as well as to other Muslim nations it seems that Azerbaijan could serve as a prototype mediator between Western and Muslim cultures in order to promote dialogue and cooperation, to prevent misunderstandings and conflicts from emerging and to remedy prejudices and extremism. It is clear that Azerbaijan's role as a mediator between cultures is affected by its protracted conflict with Armenia over Nagorno-Karabakh. Increasing frustration can be perceived among the Azerbaijani population. As long as this conflict is not settled between Armenia and Azerbaijan, Azerbaijan will not be able to tap its full potential of being a bridge between cultures. But also the already addressed internal problems such as poverty, corruption, semi-authoritarian government and the ineffectiveness of government policies concerning Islam and Islamic radicalism harm Azerbaijan's mediator role. We hope that Azerbaijan does everything possible to tackle these problems and to overcome these difficulties in order to become a prototypical mediator between cultures.

⁶² Sabine FREIZER: *Nagorno-Karabakh – A Frozen Conflict That Could Boil Over*, article cit.

⁶³ Elmar MAMMADYAROV (2007): A new way for the Caspian region: cooperation and integration, p. 6, in: Turkish Policy Quarterly Vol 6, No. 3 (Fall 2007), Europe's East: Changing Landscapes and Mindscapes in the Caucasus, http://www.esiweb.org/pdf/esi_turkey_tpq_id_104.pdf, accentuation SR.

⁶⁴ Ibid, accentuation SR.

⁶⁵ Ahto LOBJAKAS: *Nagorno-Karabakh: Azerbaijan up for a fight, but Armenia unbowed*, (09 February 2008), <http://www.eurasianet.org/departments/insight/articles/pp020907.shtml>.

⁶⁶ Sabine FREIZER: *Nagorno-Karabakh – A Frozen Conflict That Could Boil Over*, article cit.

⁶⁷ *Russland versorgte Armenien seit 2002 mit Militärtechnik für 25 Millionen Dollar*, (22 January 2008), <http://ruslandonline.ru/schlagzeilen/morenews.php?iditem=41921>.

⁶⁸ Svante E. CORNELL (2006): *The Politicization of Islam in Azerbaijan*, p. 8, Silk Road Paper October 2006, <http://www.silkroadstudies.org/new/docs/Silkroadpapers/0610Azer.pdf>.

Conclusion

Azerbaijan's geopolitical role has permanently and considerably increased since its independence in 1991, first and foremost due to the countries' enormous wealth in energy resources. This constitutes a big opportunity for Azerbaijan. Smartly used, the oil and gas revenues are at the basis of a prosperous future for Azerbaijan. They can contribute to further cut down poverty, to increase the living standards of its population, to create a modern infrastructure and to boost the countries scientific potential. They can contribute to increased cooperation and mutually beneficial relations with Azerbaijan's neighbors as it could be the case with Turkmenistan for instance. Positively used, oil and gas revenues could make Azerbaijan a regional integrator and a magnet for the whole region. It will be also interesting to see how the GUAM states will cooperate on energy matters in the future. Will they build a ring of non-Russian energy supply infrastructure around Russia? Will they be joined by Kazakhstan and Turkmenistan – if not permanently, then on an ad hoc basis? The Great Game in the Caspian region seems far from being over.

On the other hand however, the revenues generated by oil and gas exports also represent a great risk: this is fertile soil for corruption, poor administration, envy as well as incentives to invest in armaments. This is especially linked to the protracted conflict with Armenia over Nagorno-Karabakh. Azerbaijan must understand that trying to solve this conflict by military means would seriously harm its bilateral and multilateral relations with its neighbors and partners. Relations with Russia and Iran, and those with the EU and the USA as well as its standing within the United Nations and OSCE would be gravely damaged. Embargos and sanctions could be a consequence with further negative repercussions for Azerbaijan.

Azerbaijani officials have declared on repeated occasions that they are seeking good and friendly relations with their neighbors. Azerbaijan should continue its diplomacy in this direction. This is the right way. However, Azerbaijan should also continue its diplomacy in order to convince the international community of the importance of a settlement of the Nagorno-Karabakh conflict. The ceasefire which was signed in 1994 is not stable and frequently violated. This conflict constitutes a serious wound in the South Caucasus and prevents the region from transforming into an area of stability and prosperity. Yet, it appears unavoidable that the Armenians and the Azerbaijanis find a compromise on the Nagorno-Karabakh issue.

Azerbaijan is a country blessed with a plethora of gifts and potential beneficial to itself, the region and the international community. It must not risk this chance to become an even more valuable partner in the international arena for an uncertain victory on the battlefield.