

AZERBAIJAN:
TURNING OVER A NEW LEAF?

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AZERBAIJAN: TURNING OVER A NEW LEAF?

EXECUTIVE SUMMARY AND RECOMMENDATIONS

Oil-rich Azerbaijan, which borders Iran, Turkey and Russia and is still scarred from its defeat by Armenia ten years ago, gives cause for both hope and concern. The October 2003 election of Ilham Aliyev to the presidency that his late-father, Heydar, had held almost from independence, highlighted the stark choices which now face the country. Its government is a carefully designed autocratic system, which the father and former Soviet-era politburo member began to construct in the late 1960s, with heavy reliance on family and clan members, oil revenues and patronage.

While the new President Aliyev, and indeed many in the international community, have stressed continuity and stability with this changing of the guard, fundamental challenges with broad regional implications are now front and centre. First and foremost, Azerbaijan's young and largely untested leader will need to decide whether to embrace the democratic process or try to maintain autocratic rule with just the thinnest of veneers of legitimate political competition. While it has been tempting to sweep international concerns about democracy under the carpet because of strategic concerns related to oil reserves and simmering regional disputes, such an approach would likely exacerbate instability and have high long-term costs.

The presidential election fell well below international standards. There was no genuine campaign, opposition parties were harassed and intimidated, and key opposition candidates were prevented from registering. The media was biased, and there was little opportunity for any party or group to express dissent. Opposition parties were also poorly organised and failed to back a common candidate. Immediately after the badly-flawed elections, violence erupted between the security services and opposition groups calling for a second round of balloting. Several hundred

individuals were arrested, and there is today no visible political opposition in the country.

Foreign criticism was decidedly muted, and it is difficult to escape the conclusion that this was largely due to commercial energy interests and jockeying for strategic advantage in the region. While there was some U.S. and European Union (EU) criticism after the election, it was obviously too little, too late. The U.S. and EU will need to be much more vocal in their commitment to the democratic process if they hope to bolster the young reformers within both the government and the opposition.

Azerbaijan's ruling elite is increasingly divided, with several clans (largely organised along regional and patronage relationships) competing for control of a pyramidal distribution structure that allows substantial funds to be skimmed from the oil business. President Aliyev will also have to address sharp generational cleavages within the government, private sector and even his own family. Anticipating some of these struggles, his father had already started appointing younger officials to key positions. However, some of these may emerge as direct challengers to the new leader if his rule falters.

The importance of encouraging democratisation and combating corruption becomes clear when considering the challenges that Aliyev faces. Cracking down on the opposition and harshly repressing religious groups could boomerang and, combined with general socio-economic discontent, fuel a more radical political and religious opposition and unrest in the northern regions. The new president needs to place high priority on economic development beyond the petroleum sector and outside Baku. His government should consider introducing moderate religious education in schools and allow religious organisations to register. Aliyev's best hope of fulfilling Azerbaijan's commitments to

the Council of Europe is to nurture a new generation of technocratic professionals while steadily dismantling the corrupt patronage network that drives the economy and political system. A credible investigation of the violence surrounding the 2003 election would be a welcome step.

Azerbaijan has a century-long secular tradition in which religion has not had a major role in political life. However, events in 2002 around a mosque in the normally sedate town of Nardaran, just north of Baku, revealed new tensions. The case showed that Azerbaijan's leaders are quick to blame almost any political disturbance on radical Islam, rather than trace their roots back to difficult social and economic conditions driven by corrupt and incompetent governance.

Despite frequent efforts by the government to manipulate religious issues, there were some genuine signs that more radical strains of Islam were developing until 2002. Since then, the security services appear to have extensively penetrated most of the radical networks.

Developing Azerbaijan as a more modern, open, democratic and less corrupt state could help facilitate resolution of the long festering conflict with Armenia over the Nagorno-Karabakh territory. A durable settlement would also be significantly advanced by closer coordination between the U.S., the EU and Russia. France, in particular, should more closely incorporate its negotiating role within EU policy toward the region.

RECOMMENDATIONS

To the Government of Azerbaijan:

1. Implement rapidly a program to create economic growth and reduce social inequalities outside Baku and in non-energy sectors, with a particular emphasis on improving the investment climate for businesses outside the petroleum industry.
2. Use state revenues to boost pensions and salaries while fighting corruption in the health sector.
3. Launch a credible investigation into the behaviour of law enforcement agencies during and immediately after the October 2003 presidential elections and clear the names of political opponents and chairs of election commissions who were arbitrarily arrested.

4. Facilitate registration of religious organisations by the State Committee on Religious Affairs through a more transparent and tolerant procedure and, in general, implement more democratic policies on religion.
5. Implement the Council of Europe's recommendations on treatment of political prisoners and independent media.
6. Establish a genuinely independent anti-corruption structure to investigate use of public resources for private purposes and to propose necessary reform legislation after considering recommendations from civil society and NGOs.

To the International Community:

7. Take a higher public profile on governance matters, in particular by calling on the government to meet its commitments to the Council of Europe and embrace democratisation.
8. Condition development and security assistance to both Azerbaijan and Armenia on the continuation of regular and serious bilateral talks regarding Nagorno-Karabakh.
9. Explore more fully through discussions between Russia, NATO, OSCE, the EU and the U.S. the mechanisms and composition of a peacekeeping force that might help oversee a potential Nagorno-Karabakh settlement.
10. Support independent media in Azerbaijan more actively by funding an independent television channel and an independent printing house in Baku and by supporting regular opinion polls on important national political and economic topics.
11. Assist local non-governmental organisations (NGOs) working in minority-populated areas to generate employment and support community development.

To Russia:

12. Avoid escalating the situation in the South Caucasus by increasing military cooperation with Armenia.
13. Cooperate more actively with Azerbaijan in strengthening border controls between Azerbaijan and Dagestan.

To EU Member States and the European Commission:

14. Raise the profile of human rights issues both in public statements and during Cooperation Council meetings with the Azerbaijan government.
15. Clarify whether France is acting on behalf of the EU as co-chairman of the OSCE Minsk Group dealing with the Nagorno-Karabakh conflict.
16. Place the Nagorno-Karabakh issue on the agenda of each EU-Russia summit and tie appropriate financial matters to constructive efforts to achieve a settlement.

17. Open a European Commission office in Baku, and establish an EU-Caucasus Chamber of Commerce with headquarters in Baku and branches in Tbilisi and Yerevan.

To the United States:

18. Approach expanded military cooperation in the South Caucasus with political sensitivity, understanding that any increased military presence in Azerbaijan, Georgia or elsewhere in the Caspian region could provoke a deterioration of relations between Azerbaijan and Armenia as well as with Russia and Iran.

Baku/Brussels, 13 May 2004

AZERBAIJAN: TURNING OVER A NEW LEAF?

I. INTRODUCTION: THE STRATEGIC CONTEXT

Azerbaijan is involved in three major geopolitical challenges in the region: Caspian oil and gas politics; its unsolved conflict with Armenia over Nagorno-Karabakh; and tensions regarding the large population of ethnic Azeris that stretches into Iran.¹ Though at its southeast corner, Azerbaijan is an integral part of a volatile Caucasus that includes such hot spots as Iran, Georgia, Armenia and the Russian republics of Chechnya and Dagestan. Its autonomous republic of Nakhichevan, which borders Iran and Turkey, is separated from the rest of the country by Armenian territory. Like many states formed out of the Soviet Union, Azerbaijan remains torn between the twin poles of Russian influence and European integration as well as hesitating between modernisation and autocracy.

Azerbaijan gives cause for hope because the new president, Ilham Aliyev, has indicated he wants to move to a more open and democratic system. It gives equal cause for concern because the price of failure would be high; instability that would spill into the rest of the region and tempt powerful neighbours to fill a potential vacuum.

In its thirteen years of independence, Azerbaijan has joined multilateral organisations, including NATO's Partnership for Peace Program, and has signed a Partnership and Cooperation Agreement (PCA) with

¹ Azeri is used to refer to the ethnic group which speaks the Azeri language, whether in Azerbaijan, Iran, Russia, Turkey or elsewhere. The language they speak is known as Azeri Turkish or simply Azeri. Citizens of Azerbaijan (officially the Republic of Azerbaijan) are referred to as Azerbaijanis, whether ethnic Azeris or not. For a more detailed discussion on terminology, see T. Swietochowski, *Russia and Azerbaijan, A Borderland in Transition* (New York, 1995), pp. ix-x.

the European Union (EU). Broader integration into NATO and EU structures, however, has not proceeded with the hoped-for speed.² Indeed, efforts to move closer to the EU, NATO and Turkey will need to strike a careful balance in order not to worry Russia and thus exacerbate the country's most pressing security concerns.³ Azerbaijan's stability and relations with the outside world are also substantially dependent on greater progress in implementing democratic reforms and dismantling clan and family patronage systems that siphon off considerable revenue from the energy sector.

A. CASPIAN ENERGY POLITICS

Azerbaijan produces oil from, and has oil reserves in, the Caspian Sea second only to Kazakhstan.⁴ It

² The country is a member (participating state) of the following organisations: the Commonwealth of Independent States (CIS), Council of Europe, OSCE, BSEC (the Black Sea Economic Cooperation), GUUAM and the Organization of the Islamic Conference (OIC). The main purpose of GUUAM (Georgia, Ukraine, Uzbekistan, Azerbaijan, Moldova) cooperation is to create a belt of newly independent states on the southern flank of Russia. It has accomplished little since its creation. But for efforts of the U.S., which saw it as a counterweight to Russian influence in the Caspian Basin, it would have fallen apart. Uzbekistan suspended its membership in 2002 but was persuaded by the U.S. to rejoin. See "Guuam Makes Comeback Bid with U.S. Support", at eurasianet.org/departments/insight/articles/eav070703.shtml. On GUUAM, see www.guam.org.

³ D. Helly, "L'Azerbaïdjan", in J. Radvanyi (ed.), *Les Etats post-soviétiques, Identités en construction, transformations politiques, trajectoires économiques* (Paris, 2003), pp. 124-135.

⁴ The other states that border the Caspian are Russia, Iran, and Turkmenistan. The Caspian region is composed of five heterogeneous oil basins in terms of hydrocarbon types and reserves: the North Caspian, the North Usturt, the Amu-Dary, the South Caspian, and the Mangyshalk. A. Beloposky, M. Talwani, "Geological Basins and Oil and Gas Reserves of the Greater Caspian Region", Y. Kalyuzhnova, A. M. Jaffe, D.

ranks among the twenty most oil-rich countries in the world, on a par with Angola, Algeria, Brazil and Oman,⁵ with estimated proven reserves of 7 billion barrels in 2002.⁶

Caspian energy resources have been a key force driving greater international engagement in the region. Indeed, U.S. policy in the mid-1990s was strongly influenced by largely unrealistic assessments of possible reserves, including claims that the Caspian might contain up to two-thirds of the world's known reserves.⁷ By 2001, it was generally accepted that Caspian reserves are roughly equivalent to those of the North Sea -- between 40 and 60 billion barrels, about 5 per cent of world resources.⁸

Optimistic forecasts speak of doubling Caspian hydrocarbon production by 2010, but this will depend on a number of uncertainties, such as the efficiency of new export pipelines and transportation infrastructure, Kazakh and Turkmen export strategies, global oil prices and ongoing exploration.⁹ Many investors have been attracted to the region not only by the size of reserves, but also because most Caspian countries, unlike the Gulf states, need considerable foreign money and expertise to exploit their resources.¹⁰

Lynch, R. C. Scikles (eds), *Energy in the Caspian Region -- Present and Future* (London, 2002), pp. 13-33, map p. 14.

⁵ Ibid, p. 27.

⁶ BP website, www.bp.com.

⁷ In December 1995, The American Petroleum Institute announced that Caspian reserves were 659 billion barrels, two-thirds of known world reserves. On 20 April 1997, the *Wall Street Journal* placed Caspian reserves at 178 billion; then U.S. Deputy Secretary of State Strobe Talbott mentioned 200 billion barrels; a good example of U.S. thinking in the mid 1990s can be found in Rosemary Forsythe, "The Politics of Oil in the Caucasus and Central Asia, Prospects for oil exploitation and export in the Caspian basin", Adelphi Paper, IISS, 1996. In 2002, U.S. officials acknowledged that earlier estimates were badly inflated.

⁸ J. Roberts, "Energy reserves, pipeline routes and the legal regime in the Caspian Sea", in G. Chufrin (ed.), *Security in the Caspian Sea Region*, (Stockholm, 2001), pp. 31-68.

⁹ Ibid. Dependency on oil prices is strong since production costs in the Caspian region, for geological and geographical reasons, are much higher (around U.S.\$14 per barrel) than in the Middle East (\$4) or even in the North Sea (\$12-\$13). Caspian states thus favour high oil prices. Experts consider that below \$15, exporting oil from the Caspian is not profitable. Unless otherwise indicated all figures denominated as dollars (\$) in this report are U.S. dollars.

¹⁰ Ibid., p. 35.

The Caspian basin also holds significant natural gas, with the Kazakh, Azerbaijani, Turkmen (and nearby Uzbek) fields estimated to amount to 10 to 15 trillion cubic metres, around 10 per cent of world reserves. Azerbaijan is both a consumer and a transit country for gas from Turkmenistan and Kazakhstan. Since the discovery of the giant Shah Deniz field, it can also be considered a major producer.

Two issues have been of central concern to outside powers dealing with Caspian energy issues: potential export and pipeline routes for gas and oil, and the legal status of the Caspian Sea for exploration and drilling rights. Each bordering country has sought to promote a legal framework that would maximise its access to hydrocarbon reserves.¹¹ By late 2003, many of the legal disputes had subsided as a result of bilateral talks between Russia and other countries, including Kazakhstan and Azerbaijan. A mutually acceptable solution appears increasingly achievable.

1. Transit routes and production

Russia has aimed to concentrate most of the transit infrastructure on its territory in order to control energy flows, while the other former Soviet states (the Newly Independent States, NIS) have generally sought to construct pipelines on their own territories and bypass Russia in order to reduce dependency on their powerful northern neighbour. The U.S. has consistently supported two routes for pipelines to the Mediterranean: the Baku-Tbilisi-Ceyhan (BTC) oil route that would run 1,760 kilometres through Azerbaijan and Georgia and end at the Turkish port; and the Baku-Tbilisi-Erzurum (BTE) gas pipeline that would transit through the same three countries. Critical to the U.S. approach, neither pipeline would transit either Russia or Iran. Indeed, though routes that included Iran were considered by some to be the most economically viable, U.S. opposition remained unwavering.

The Baku-Tbilisi-Ceyhan (BTC) pipeline is under construction, financed by the oil companies involved (primarily BP, the former British Petroleum), as well

¹¹ Legal issues related to the status of the Caspian Sea are complex. Differentiation is made between the seabed, sailing areas and each country's nationally controlled area. For more detailed explanations, see, among others, J. Roberts, "Energy reserves, pipeline routes and the legal regime in the Caspian Sea", in Chufrin, op. cit., and Economic Mission, French Embassy, Baku, "Enjeux énergétiques en Caspienne", 11 March 2003. www.dree.org

as Azerbaijan, Georgia and Turkey.¹² The project has received additional support from the European Bank for Reconstruction and Development (EBRD) and the World Bank's International Finance Corporation. The estimated cost is \$2.95 billion. The massive investments by BP during 2002-2006 will make a new oil and gas boom in the region possible.¹³ The BTC pipeline was long considered unrealistic and opposed by companies such as BP and U.S. Exxon Mobil, which argued it would be more cost-effective to strike deals with Iran or Russia to export Azerbaijani oil.¹⁴ It took sustained U.S. pressure to change this.

The Baku-Tbilisi-Erzurum natural gas pipeline will reach Turkey and, by connections with South Eastern European networks, supply EU markets. Greece and other Balkan states have been involved in negotiations. BP, leading an international consortium, is again the primary investor.

Azerbaijani oil is exploited by two major companies, the State Oil Company of Azerbaijan Republic (SOCAR) and the Azerbaijan International Operating Company, an international consortium led by BP.¹⁵ They produced 4.4 million and 3.3 million tons of crude respectively in the first half of 2003. Some 45 per cent of this was exported, while the rest was consumed domestically by a small group of clients including electricity producers and the national airlines. SOCAR exports its crude via the northwestern pipeline that runs from Baku to the Russian Black Sea port of Novorossisk. Its

competitor's share of exports is largely sent to Western markets via a Baku-Supsa pipeline that transits to a Georgian port on the Black Sea.

Azpetrol, with the benefit of a government license, annually tranships some 20 million tons of Kazakhstani oil and oil products to the Black Sea port of Batumi in the Ajara region of Georgia. These transhipments were formerly handled by Transco, a Turkish company owned by the billionaire Okan Tapan. Azpetrol, which distributes around 30 per cent of the oil circulating on the Caspian Sea, has a privileged position that allows it to manage 40 to 60 per cent of Azerbaijan's domestic oil distribution.¹⁶

Domestic competition from Russia's Lukoil and Abu and other small players remains relatively weak. According to a local analyst, the domestic oil market brings in \$60-70 million annually.¹⁷ Industry experts also note that the total revenue from Azerbaijan's oil industry went from \$239 million in 1995 to \$331 million in 1997, declined to \$232 million in 1998 and recovered in 1999 to \$331 million.¹⁸ While international financial institutions have pushed for privatisation of SOCAR, this is unlikely in the near term given its importance as a source of patronage for key government and business figures. In the early and mid-1990s, Azerbaijani officials had promised to privatise the company, allegedly leaving international investors disgruntled after they had purportedly proffered bribes for shares.¹⁹

Azerbaijan still imports natural gas from Kazakhstan and Turkmenistan to supplement domestic production.²⁰ The gas is transported through Russia by the Russian firms Itera and Transnafta. The giant Shah Deniz field discovered in 2001 is scheduled to come into production by 2007, at which time

¹² Other participants include: SOCAR (the state oil company of Azerbaijan); TPAO (Turkey); Statoil (Norway); Unocal (U.S.); Itochu (Japan); Amerada Hess (U.S.); Eni (Italy); TotalFinaElf (France); INPEX (Japan) and ConocoPhillips (U.S.).

¹³ In 2001, BP announced it would invest \$13 billion in the next three years, "Baku Pages" (208), 2001. In 2003, investments were just under \$4 billion, and \$4.6 billion were announced for 2004. "Energy Watch", UPI, 30 December 2003.

¹⁴ Amy Jaffe, "U.S. policy toward the Caspian region: can the wish list be realized?", SIPRI, 2000, J. Barnes, "Unlocking the Assets: Energy and the Future of Central Asia and the Caucasus", in *U.S. National Interests in the Caspian Basin: Getting Beyond the Hype*, James Baker III Institute for Public Policy of Rice University, April 1998.

¹⁵ The structure of Azerbaijan International Operating Company capital is the following: BP Amoco 34.1 per cent, Unocal 10.3 per cent, SOCAR 10 per cent, Exxon 8 per cent, Statoil 8.6 per cent, Lukoil 10 per cent, Devon Energy 5.6 per cent, Delta Oil 2.7 per cent, Itochu 3.9 per cent, TPAO 6.7 per cent. EIU, Country Report Azerbaijan, August 2003.

¹⁶ ICG interview with an Azpetrol official, Baku, November 2003.

¹⁷ ICG interview with Rasim Musabeyov, Baku, October 2003.

¹⁸ Y. Kalyuzhnova, "Economies and Energy", in *Energy in the Caspian Region*, op. cit., p. 81.

¹⁹ Details of a case involving a Swiss banker, Hans Bodmer, became public in summer 2003, when a New York district court indicted him for bribing high officials. "Azeri president implicated in bribery probe", *Financial Times*, 13 September 2003. "Lawsuit over oil deal accuses Azerbaijan father-son presidents of bribery", *Chicago Tribune*, 4 November 2003.

²⁰ In 2002, Azerbaijan produced around 5 billion cubic meters of gas. Production has slowly declined since independence but is expected to increase by 2007. BP website, www.bp.com.

Azerbaijan will become a major gas producer able to supply European markets.

2. Oil and the dual economy

The importance of the energy sector is difficult to over-state: 40 per cent of budget revenues and 90 per cent of exports came from oil in 2003.²¹ The energy sector accounts for more than 40 per cent of GNP and more than 60 per cent of investment.²² Azerbaijan has entered into more than twenty production sharing agreements with a wide range of international oil companies. This heavy dependence on the energy sector will continue to leave its economy highly vulnerable to external shocks.

Nevertheless, the economy, driven by the energy sector, is one of the most rapidly growing in the former Soviet Union, with GDP growth over 10 per cent in 2002 and 2003. Annual GDP reached \$6.8 billion in 2003, eclipsing that of neighbouring Armenia (\$2.4 billion in 2002) and Georgia (\$4 billion in 2003).²³ Oil and gas have produced a level of foreign investment that is far more intensive than in Armenia and Georgia.

Between 1995 and 2001, investment in Azerbaijan totalled \$6.8 billion, mostly in the oil sector. Inflation has been sharply reduced by tight fiscal policies. Azerbaijan is also in a much better situation with regard to its external debt than many other former Soviet republics.²⁴ In 2002, debt was stable at a relatively modest \$1.3 billion.²⁵

Exports, mostly outside the Commonwealth of Independent States (CIS),²⁶ are also dominated by oil and gas. For example, nearly 90 per cent of Azerbaijan's exports in the first five months of 2003 went to non-CIS, mainly EU, clients.²⁷ Russia and

Turkmenistan are important suppliers (15 per cent and 11 per cent of imports respectively) because of gas sales. Turkey is the third largest supplier, mostly of consumer goods.²⁸ Machinery and base metals for development of oil and gas production continue to be imported in large quantities.

Azerbaijan's draft 2004 budget was set at \$1.5 billion, up by some 50 per cent from 2002.²⁹ This spectacular increase has been possible largely due to oil revenues. These are likely to increase in 2005 as well, though they will be affected by volatile crude prices. The expected 2003 budget deficit is around 1 per cent of GDP and is anticipated to fall in 2005 due to new oil revenues, though there are some fears that government revenue forecasts may be based on overly optimistic estimates of crude oil prices.³⁰

In 2000, the government created the State Oil Fund of Azerbaijan (SOFAZ) under the authority of the president and managed by an expert committee. On 31 October 2003, the new President Aliyev announced that \$800 million had been accumulated in the fund.³¹ The director of SOFAZ is Samir Sharifov, a former vice president of the national bank, who is also in charge of overseeing Azerbaijani funding for the BTC and BTE pipelines. SOFAZ's budget, expected to reach \$1 billion in 2005, has been extensively discussed by international experts, many of whom remain deeply concerned by the potential for institutionalised corruption amid such great natural

total exports) and France (over 5 per cent) are the main markets for Azerbaijani oil of which a significant part is then bought on "Piazza Italia" by other EU countries such as Germany, which has imported some oil on a regular basis through the Trieste-Ingolstadt pipeline. EIU, Country Report Azerbaijan, August 2003. French Embassy Baku, Economic Mission, "Le Commerce extérieur de l'Azerbaïdjan en 2002", April 2003.

²⁸ 9.4 per cent of Azerbaijani imports came from Turkey in 2002. Ibid. For more information on Turkish-Azerbaijani trade relations, see B. Gületkin, "Atteindre la Caspienne, les relations économiques entre la Turquie et l'Azerbaïdjan", Institut Français des Etudes Anatoliennes (IFEA), Istanbul, June 2003.

²⁹ 2002 budget expenditures were \$800 million according to the EIU and around \$1 billion according to the State Statistical Committee of Azerbaijan, "State budget revenues and expenditures", at azstat.org/indexen.shtml. See also Turan Agency, "58 per cent of State Budgetary Expenses to Bear Social Character in 2004", 28 October 2003.

³⁰ EIU.

³¹ Grani.ru, 31 October 2003.

²¹ EIU. This figure includes refined oil products.

²² French Embassy, Baku, Economic Mission, "Les hydrocarbures en Azerbaïdjan", April 2003. See <http://www.dree.org>

²³ EIU.

²⁴ Azerbaijan's situation is much better than that of neighbouring Georgia (whose external debt reached \$1.82 billion in late May 2003), thanks to higher economic growth, larger gross reserves and higher budget revenues from the oil sector.

²⁵ EIU, Country Report Azerbaijan, February 2003.

²⁶ The CIS is a grouping of most of the Newly Independent (formerly Soviet) States.

²⁷ CIS countries absorbed 22 per cent of exports in 1999. This decreased to 11 per cent in 2002. Italy (almost 55 per cent of

resource wealth.³² Unfortunately, energy revenues continue to be used to subsidise uncompetitive sectors rather than as an important resource for reform. In many cases, the government has avoided meaningful restructuring for fear of widespread layoffs. Large-scale privatisation continues to be put on the back burner for fear that it could challenge the vested interests of many in the ruling elite.

Meeting the considerable development needs that have been identified outside Baku is an official priority, reflected in the World Bank's 2001 Poverty Reduction Strategy Paper³³ and reiterated in the 2004 development program of the regions launched in January 2004. The IMF has insisted for several years on the need to develop infrastructure and human resources in the non-oil sector, even if this increases the non-oil deficit.³⁴ Despite much analysis and criticism of long-term oil revenue policy, however, there has been no significant progress.³⁵

B. THE NAGORNO-KARABAKH CONFLICT

Nagorno-Karabakh (literally "mountainous Karabakh") was an autonomous region inside the Azerbaijan Soviet Republic.³⁶ The ethnic Armenians who largely populate this region are often referred to as Karabakhtsis to distinguish them from residents

of Armenia. The 1992-1994 war between Armenia and Azerbaijan over Nagorno-Karabakh left more than 30,000 dead and over 1 million displaced. Armenia now occupies not only Nagorno-Karabakh itself but also a significant portion of southwestern Azerbaijan; a series of mediation and negotiation efforts by different international actors has yet to produce any progress. Only 60,000-80,000 ethnic Armenians are thought to live in Nagorno-Karabakh. There is no recent reliable census.³⁷

The dispute is deeply rooted in historical debates over ownership.³⁸ The territory was given autonomous status inside the Azerbaijan Soviet Republic in July 1923 after intense disputes among the Bolsheviks over whether to attach it to Armenia or Azerbaijan. Tensions resurfaced in the last years of the Soviet Union. Karabakh Armenians had long been unhappy with their treatment within the Azerbaijan Soviet Republic, and Mikhail Gorbachev's *perestroika* and *glasnost* policies gave them an avenue to air their grievances directly with the central authorities in Moscow.

In a non-binding February 1988 referendum, a majority in Nagorno-Karabakh voted to link the territory to Armenia. This sparked inter-communal violence, including anti-Armenian pogroms that were probably assisted by Soviet intelligence and security services in the Azerbaijani city of Sumgait.³⁹ Competition over Nagorno-Karabakh developed in the context of shifting power within the Soviet Union.⁴⁰ Emerging Soviet reformers tilted toward the Armenian nationalist movement and supported its increasing openness. Communist Party stalwarts and other conservative forces were highly wary of any actions that could fuel disintegration and did not wish to antagonise Azerbaijan given its importance as an oil supplier.

³² Y. Kalyuzhnova, "Economies and Energies", op. cit., pp. 58-85. Svetlana Tsalik, Robert Ebel (eds.), "Caspian Oil Windfalls: Who Will Benefit?", *Caspian Revenue Watch*, New York, Open Society Institute, Central Eurasia Project, 2003.

³³ Azerbaijan Republic, "Poverty Reduction Strategy Paper", (Interim Report), Baku, May 2001, available on the World Bank website.

³⁴ IMF Country Report N°04/9, "Third Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility", January 2004, available on the IMF website.

³⁵ IMF staff statement, "Delay in the Completion of the Fourth Review of Azerbaijan Republic's PRGF Arrangement", Press Release N°04/69, 1 April 2004.

³⁶ The autonomous region is known in Russian as "Nagorny Karabakh". It is referred to as Nagorno-Karabakh here, the name most commonly used in English. "Karabakh" comes from Turkish and Persian, and is usually translated as "Black Garden". Armenians sometimes use the older name "Artsakh". "Nagorny" is grammatically preferable to "Nagorno" the more common form. See Tom de Waal, *Black Garden, Armenia and Azerbaijan Through Peace and War* (New York, 2003), pp. ix, 8, and A. Zverev, "Ethnic Conflicts in the Caucasus 1988-1994", in B. Coppieters, *Contested Borders in the Caucasus*, Brussels (VUP Press, 1996). See also P. Goble, "Coping with the Nagorno-Karabakh Crisis", *Fletcher Forum of World Affairs*, 1992, vol. 16, N°2, pp. 19-26.

³⁷ See T. de Waal, op. cit., Appendix I.

³⁸ On the historical debates, see among others, T. Dragadze, "The Armenian-Azerbaijani conflict: structure and sentiment", *Third World Quarterly*, 11 (1), January 1989, and M. P. Croissant, *The Armenia-Azerbaijan Conflict, Causes and Implications* (Praeger, 1998).

³⁹ I. Nolyain, "Moscow's initiation of the Azeri-Armenian conflict", *Central Asian Survey*, 1994, vol. 13, N°4, pp. 541-563. Moscow's role is discussed in a more balanced way by S. E. Cornell, "Undeclared war: The Nagorno-Karabakh conflict reconsidered", *Journal of South Asian and Middle Eastern Studies*, Vol. 20, N°4, 1997.

⁴⁰ See G. Minassian, "Le Haut-Karabakh: la guerre pour une enclave", *Cahiers de l'Orient*, 2000, N°57, pp. 83-105.

In July 1988, the Supreme Soviet of Nagorno-Karabakh declared independence. Increasingly vocal nationalist movements were active in both Armenia (the Karabakh Committee) and in Azerbaijan (the Popular Front). The latter was created by intellectuals from Baku State University in the late 1980s and drew much of its support from the disadvantaged classes challenging the Soviet nomenklatura -- the urban poor, unemployed, refugees from Armenia and students.⁴¹ Nationalist movements in both republics took increasingly extreme positions, triggering mass demonstrations and a refugee movements in both directions during 1988 and 1989.

In December 1989, the Supreme Soviet of Armenia voted to incorporate Nagorno-Karabakh; the Supreme Soviet of Azerbaijan immediately declared this null and void. In early 1990, new pogroms erupted in Baku, and Soviet troops intervened on 20 January, killing 190 demonstrators, an event still referred to as "Black January" in Azerbaijan. Simultaneously, low level clashes erupted in Nagorno-Karabakh, fed by weapons secured from Russian bases and abroad. In late 1991, Armenia and Azerbaijan proclaimed independence as the Soviet Union disintegrated. An internal Soviet conflict was now a major international dispute.

On 2 September 1991, Nagorno-Karabakh proclaimed its independence, a move again rejected by Baku. In 1992, Armenian military forces seized the territory and occupied the surrounding parts of Azerbaijan. Internally unstable and lacking military capacity, Azerbaijan was defeated badly on the battlefield, and hundreds of thousands fled the conflict zone. The devastating military loss brought the Popular Front to power in Baku in early 1992, and President Ayaz Mutalibov was replaced by the Popular Front leader, Abulfaz Elchibey, in a June election. The Popular Front mobilised significant numbers to fight for Nagorno-Karabakh, but continued military setbacks discredited the Elchibey government. Popular discontent reached a crescendo in June 1993 with a rebellion, possibly orchestrated by Moscow, which was led by Surat Huseynov, a dissident army colonel.⁴²

⁴¹ E. Fuller, "Azerbaijan's June Revolution", RFE/RL Research Report, 16 February 1994.

⁴² Surat Huseynov's tale is colourful. The manager of a textile factory in Ganja, he took control of the city and marched on Baku in 1993. Shortly afterwards he was made prime minister by President Aliyev and placed in charge of security and defence. He was dismissed in 1994 for alleged participation in a coup and fled to Russia, from where he was extradited in 1997. He was sentenced to life imprisonment

Separatist sentiments were also emerging in the southern and northern regions of Lankaran and Guba during this period. President Elchibey quickly called upon Heydar Aliyev, a former Soviet Politburo member who was speaker of the Nakhichevani Parliament, to assume the presidency in June 1993.⁴³

Various diplomatic initiatives from Iran, Turkey, Russia, the U.S. and Euro-Atlantic institutions calling for a cessation of hostilities and withdrawal of Armenian troops amounted to little. However, President Aliyev entered into talks with Moscow, which resulted in greater Russian backing, Azerbaijani counter-attacks and a more evenly balanced military situation. As a result of Russian mediation, a ceasefire was signed in 1994. Since then, peace talks have been facilitated by an Organisation for Security and Cooperation in Europe (OSCE) ad hoc body, the Minsk Group, co-chaired by Russia, the U.S. and France.⁴⁴ The 54 OSCE states recognised Azerbaijan's territorial integrity, with only Armenia objecting, at the 1996 Lisbon summit.

The path to a settlement seems blocked.⁴⁵ A 1996 proposal to give Nagorno-Karabakh substantial autonomy within Azerbaijan was rejected by Armenia. A 1997 proposal by the Minsk co-chairs for a step-by-step approach (preliminary liberation of occupied lands by Armenian forces before definition of the final status of Karabakh) was unacceptable to the Karabakhtsis. A Russian proposal in 1998 for a common state with substantial

by an Azerbaijani court in 1999 and was the country's highest-profile political prisoner until President Ilham Aliyev pardoned him in March 2004.

⁴³ For more in-depth analysis, see T. Goltz, *Azerbaijan Diary, A Rogue Reporter's Adventures in an Oil-Rich, War-Torn, Post-Soviet Republic* (M.E. Sharpe, 1998); E. Fuller, "Azerbaijan's June Revolution", RFE/RL Research Report, 13 August 1993; and L. Alstadt, "Azerbaijan's struggle toward democracy", in K. Dawisha and B. Parrott (eds.), *Conflict, Cleavage and Change in Central Asia and the Caucasus* (Cambridge, 1997).

⁴⁴ The Minsk Group was originally a CSCE body convened in Minsk for a peace conference on Nagorno-Karabakh. It is composed of eleven countries: Armenia, Azerbaijan, Belarus, the Czech Republic, Germany, France, Italy, Russia, Sweden, Turkey and the U.S. Since 1997 it has been co-chaired by Russia, the U.S. and France (Russia had previously been the sole chair). See. T. de Waal, op. cit., pp. 229-231, 234-235, 254-255, 258-260, 266-268.

⁴⁵ ICG will describe the Nagorno-Karabakh peace process and likely parameters of a settlement in more detail in future reports.

autonomy inside Azerbaijan for Nagorno-Karabakh was rejected by Azerbaijan.

A different, but so far equally unsuccessful approach, is the concept that Azerbaijan might cede sovereignty of Nagorno-Karabakh to Armenia in exchange for territory elsewhere (probably the Zanguezur region of Armenia, which now separates Azerbaijan from Nakhichevan). Talks on this basis came close to agreement in 1999, before the assassination of eight people, including the prime minister, in the Armenian parliament in October brought the process to a halt. Land swaps again served as the basis for negotiations in 2001, brokered by the Minsk co-chairs. If land were swapped on a kilometre-for-kilometre basis, Azerbaijan could argue that it had suffered no territorial loss.⁴⁶ In any settlement, it will at least want a land corridor across Zanguezur, linking it to Nakhichevan.⁴⁷

Life remains difficult for those in the disputed Nagorno-Karabakh territory. Per capita income remains about \$480 annually, and unemployment is high.⁴⁸ The territory relies heavily on Armenia for financial assistance, including more than half its annual budget. The Armenian diaspora also provides considerable humanitarian aid.⁴⁹

Any resolution of the Nagorno-Karabakh conflict, which has a number of important geo-political elements, will likely require collaboration of an array of international players. Although Russia waited until 1994 to help produce a cease-fire that it was in the best position to broker,⁵⁰ it has shifted from originally strong backing for Armenia to a more neutral position, in recognition of the importance of regional stability and Azerbaijan's energy resources. However, the Armenian diaspora remains influential in Russian politics.

The same is true of the U.S.⁵¹ The Armenian diaspora successfully blocked American aid to Azerbaijan

under Section 907 of the 1992 Freedom Support Act,⁵² until Azerbaijan opened its air space to U.S. warplanes for the allied campaign in Afghanistan in late 2001; Section 907 has been waived annually since 2002.⁵³ The U.S. wants a peaceful resolution to the conflict both to protect its strategic oil and gas investments and to provide a more stable environment in the Caucasus, which it regards as an important potential haven for terrorists.

Iran, which directly borders Nakhichevan, Armenia and Azerbaijan and has a deep interest in regional stability, has tilted toward Russia and Armenia.⁵⁴ Turkey also is a key player. Although the collapse of Azerbaijan's pro-Turkish Popular Front government in June 1993 severely limited its ability to mediate directly, its continuing blockade of Armenia -- a response to the Armenian occupation -- is a key element of the status quo. Turkey and Iran have competed in Azerbaijan, with the former promoting secularism and European integration, the latter trying to gain influence with the Shiite majority.

Within the EU, France, home to several hundred thousand Armenians, has taken the lead on mediation, and shares information as a Minsk co-chair with its partners. Paris has often argued that it represents a unified European approach. However, considerably more could be done to forge a genuinely joint EU position.

C. THE AZERI QUESTION

Ethnologists divide ethnic Azeris into between three and six sub-groups living in different areas and speaking different dialects.⁵⁵ Azeris speak Turkish

⁴⁶ ICG interview with an Azerbaijani diplomat, Baku, 2 March 2004.

⁴⁷ According to T. de Waal, this was the substance of the Paris and Key West talks in 2001. T. de Waal, op. cit., p. 267.

⁴⁸ Moskovsky Novosti, #40, 2003.

⁴⁹ The Armenian diaspora is most numerous in Russia, the U.S., France, Lebanon and Argentina.

⁵⁰ On Russian involvement in the Karabakh conflict, see T. de Waal, op. cit., pp. 195-196, 198-205.

⁵¹ F. Hill, "Une stratégie incertaine : la politique des Etats-Unis dans le Caucase et en Asie centrale depuis 1991", *Politique étrangère*, 2001, N°1, pp. 95-108,

⁵² Section 907 states, "United States Assistance under this or any other act (other than assistance under Title V of this act) may not be provided to the government of Azerbaijan until the President determines, and so reports to Congress, that the government of Azerbaijan is taking demonstrable steps to cease all blockades and other offensive use of force against Armenia and Nagorno-Karabakh".

⁵³ See RFE/RL, "Azerbaijan Report", 5 January 2004.

⁵⁴ See A. Ramezanzadeh, "Iran's Role as Mediator in the Nagorno-Karabakh Crisis", in B. Coppieters, *Contested Borders in the Caucasus*, op. cit., and R. Motika, "Probable Iranian Reactions to an Active European policy in Caucasia", in R. Rummel, C. Zullo, (eds.), *Rethinking European Union Relations with the Caucasus, Baden Baden* (Nomos, 1999), pp. 119-128.

⁵⁵ Afshars, Airum, Karadags, Karapapakhs, Padars and Shahseven. Karadags live in Northwestern Iran, Karapapakhs in North Western Iran, in Nakhichevan and in Turkey,

Azeri, a language similar to what is spoken in Turkey but which incorporates many Persian and Arabic terms.⁵⁶ The Azeri people are spread across Azerbaijan and Iran and, to a lesser extent, Turkey. Their identity has historically been fed by diverse cultural wellsprings: Turkic nomadic epics and language; Shia Islam from Persia; Sunni Islam originating with the Arabs and taken up by the Ottomans; administrative culture and industrialisation from Russia; and Western values from Europe.⁵⁷ Armenians, Kurds and other neighbouring cultures have also played important roles in shaping this identity.⁵⁸

Shahsevens in Eastern Turkey, central Azerbaijan and the southeast of Beylegan city. The Padars are mostly concentrated in Eastern Azerbaijan as are Airums. There are few Afshars in Azerbaijan but more in Central Asia where they lead a nomadic or semi-nomadic life. Regional and tribal classifications are still important in Azerbaijani politics. Beyond ethnic denomination, every Azeri can recognise regional origin by accent, physical appearance or place of birth. T. Swietochoswki, *Russia and Azerbaijan*, op. cit., p. 20.

⁵⁶ Azeri is written in any of three alphabets. Until 1924 it used the Arabic alphabet, as usual in Muslim countries. From 1924 to 1940, the Roman alphabet was used officially. In 1940, the Cyrillic alphabet was made official by Soviet authorities. Since the early 1990s (officially from 2001), it has been written in the Turkish version of the Roman alphabet with an extra letter (ə, usually transliterated "a" - the President's surname is spelt "Əliev" in Azeri). See T. Swietochoswki, *Russia and Azerbaijan*, op. cit., B. Shaffer, *Borders and Brethren, Iran and the Challenge of Azerbaijani Identity* (Cambridge, 2002).

⁵⁷ As the result of the Persian-Ottoman wars in the sixteenth and seventeenth centuries, the northern part of Azerbaijan is more Sunni and the southern part more Shiite. These two branches of Islam appear to co-exist easily in Azerbaijan, and the distinction between them has become increasingly blurred in religious practice. According to Motika, 65 to 75 per cent of Muslims in Azerbaijan are connected with the Shiite tradition. R. Motika, "Islam in Post-Soviet Azerbaijan", *Archives de sciences sociales des religions*, 2001, N°115. For comprehensive studies on Azerbaijani history, see A. L. Altstadt, *The Azerbaijani Turks: Power and Identity under Russian Rule* (Palo Alto, 1992), T. Swietochoswki, *Russia and Azerbaijan*, op. cit., C. Van der Leeuw, *Azerbaijan: A Quest for Identity* (New York, 2000), B. Shaffer, *Borders and Brethren*, op. cit. For a vivid portrayal of life in Baku and Azerbaijan's neighbouring states at the time of World War I, see the Kurban Said novel, *Ali and Nino* (Knopf Publishing Group, 2000).

⁵⁸ T. Swietochowski, *Russian Azerbaijan 1905-1920: the shaping of national identity in a Muslim community* (Cambridge, 1985), M. Saroyan, "The Karabakh Syndrome and Azerbaijani Politics", *Problems of Communism*, Vol. 39, N°5, 1990, D. Russo, K. Yildiz, "Azerbaijan and Armenia", London, Kurdish Human Rights Project, 2000. Several

The 1828 Turkmanchai treaty, which defined the border between the Russian and Persian empires by drawing a boundary along the Aras River, effectively split much of the Azeri population.⁵⁹ The Azeri territories were divided into regional fiefdoms, which traditionally enjoyed semi-autonomous status.

Iranian Azeris mostly reside in Tehran and the northwestern province of Iran, which has been called Azerbaijan since 1918.⁶⁰ Estimates of the Azeris in Iran range widely, from 8 to 25 million (of Iran's total 70 million). The division of the Azeri people between Iran and Azerbaijan has periodically led to tensions.⁶¹ Both groups share the same language and are mainly Shiite Muslims. Nationalist aspirations for reunification have been raised a number of times. In 1945-1946, Moscow supported a short-lived Azerbaijani Republic in Iran. During the 1970s, cultural exchanges developed when Heydar Aliyev ruled the Azerbaijan Soviet Republic.⁶²

The notion of Azerbaijani reunification,⁶³ or "one Azerbaijan", which was popular in the 1940s, and re-emerged under Heydar Aliyev's leadership of Soviet Azerbaijan, was raised again after independence by the Popular Front government. This ideology was potent enough to poison not only Iran-Azerbaijan but also Iran-Turkey relations, especially since pan-Azerbaijani activists were mostly members of pro-Turkish and pan-Turkic movements.⁶⁴ Iran continues

thousand Kurds lived in Nagorno-Karabakh before the conflict started in the late 1980s.

⁵⁹ For more details on the Persian-Russian wars and treaty negotiations, see T. Swietochoswki, *Russia and Azerbaijan*, op. cit., pp. 5-10.

⁶⁰ S. E. Cornell, "Undeclared War, The Nagorno-Karabakh Conflict Reconsidered", *Journal of South Asian and Middle Eastern Studies*, vol. 20, N°4, 1997. Azeris in the U.S. are mostly Iranian and are far fewer than Russia's Azeri population.

⁶¹ R. Olson, "The 'Azerbaijan' Question and Turkey-Iran Relations, 2000-2002", *Nationalism and Ethnic Politics*, Vol. 2, N°4, 2003, pp. 61-85.

⁶² T. Swietochowski, *Russia and Azerbaijan*, op. cit., pp. 135-163. D. Nissman, *The Soviet Union and Iranian Azerbaijan: the use of nationalism for political penetration* (Boulder, 1987).

⁶³ Shireen Hunter, "Greater Azerbaijan: Myth or Reality?", in Mohammad-Reza Djalili, *Le Caucase post-soviétique: la transition dans le conflit* (Bruxelles, Bruylant), pp. 115-142.

⁶⁴ Touraj Atabaki, *Azerbaijan: ethnicity and the struggle for power in Iran* (London, 2000).

to monitor nationalist sentiment carefully in its Azerbaijan province.⁶⁵

The leader of pan-Azerbaijanism during the 1990s was Popular Front party chairman Abulfaz Elchibey. Some commentators have suggested that Heydar Aliyev established NGOs to propagate pan-Azerbaijani rhetoric. This may have been a direct response to alleged Iranian attempts to overthrow him in 1995 after he failed to deliver on a commitment to route a potential oil pipeline through Iran.⁶⁶ The pan-Azerbaijani NGOs are presumably close to the minister of national security, Namik Abbasov, known for frequent anti-Iranian declarations. In speeches and official documents during the 1990s, the old President Aliyev repeatedly emphasised the "national tragedy of the divided Azerbaijani people".⁶⁷ Despite these rhetorical flourishes, pan-Azerbaijanism remains largely theoretical. "One Azerbaijan" is not seriously on the agenda in Baku, although it retains considerable nationalist appeal. Some Western policy makers have also seen the lingering Azeri question as a useful tool for maintaining pressure on Iran.⁶⁸

Russia also hosts a large Azeri population -- officially, 620,000 from independent Azerbaijan, and perhaps as many as 2 million according to unofficial sources. Russian finance minister Aleksey Kudrin has estimated the flow of remittances from Azeris in Russia to Azerbaijan at \$2 billion annually.⁶⁹

II. A FAMILY AFFAIR

Much of Azerbaijan's political and economic systems operate on a pyramidal web of patronage and often-institutionalised corruption where regional and clan influences remain strong. The president and his family sit at the apex of this pyramid. Regionalism provides a crucial under-pinning to the patterns of influence, although outsiders often have a difficult time tracing this, since some families have been in Baku for more than a generation. Many clans are identified by region of origin.⁷⁰ The regional and clan influences that were operative under the late President Aliyev remain largely active. However, since independence in the early 1990s, a portion of the ruling elite quite separate from traditional clan ties has also begun to emerge.

The ruling clan groups -- the Nakhichevanis and Yerazi -- oversee deeply embedded patronage networks which promote nepotism. Analysts have observed that the distribution of bribes to senior officials and the buying of official positions both remain common,⁷¹ often making it difficult to distinguish private wealth from government property.⁷² While private business can operate, substantial sums from any such enterprise are transferred to members of the ruling elite who "cover" the investor. This happens in almost every sector of the economy.⁷³ Moreover, every business is subject to a large number of inspections that are clearly driven by an effort to secure bribes and reduce any chance for legitimate profit.⁷⁴

Political institutions are closely linked to clan structures and the ruling elite. The executive firmly

⁶⁵ R. Olson, op. cit.

⁶⁶ ICG interview with journalist, Baku, November 2003.

⁶⁷ B. Shaffer, *Borders and Brethren*, op. cit.

⁶⁸ See the Southern Azerbaijan National Awakening Movement (SANAM)'s website at <http://www.cehreganli.com>. ICG discussed possible U.S. support for such movements in *Iran: Discontent and Disarray*, ICG Middle East Briefing (15 October 2003) p. 10, and possible U.S. and Israeli support in *Dealing with Iran's Nuclear Weapons*, ICG Middle East Report N°18 (27 October 2003) p. 12.

⁶⁹ A. Bezlepkin, "Gastarbaytleri vyviezli iz Rossii neskolko miliardov", *Ekonomika i Bizness*, 10 February 2004. According to these figures, the average amount sent back home by an Azeri emigrant is \$80 per month.

⁷⁰ These include: the Nakhichevan in the southwest; Azerbaijanis from Armenia (Western Azerbaijanis and Yeraz); Nagorno-Karabakh; Cheki in the northwest; Gusar and Guba in the north; Lankaran in the south; and Baku and Shemalkha in the Shirvan region in the east.

⁷¹ A. Rasizade, "Azerbaijan Descending into the Third World After a Decade of Independence", *Comparative studies of South Asia and the Middle East*, Vol. XXII, N°1&2, 2002.

⁷² I. Huseynova, "Milionery iz Baku skromny i nezametny", *Nezavissimaya Gazeta*, 23 October 2003, quotes an article published in the Russian journal *Expert*, 11 August 2003.

⁷³ Ibid.

⁷⁴ Eurasianet.org, "Azerbaijan Daily Digest", "Azer paper continues story of 'circles of hell' awaiting aspiring businessmen", article from *Zerkalo* newspaper, June 2000. www.eurasianet.org/resource/azerbaijan/hypermail/200006/0024.html

controls the legislature. The president appoints the prime minister and a cabinet. This structure has developed into a sprawling bureaucracy that appears mainly to search for bribes and "official" transaction fees. Most ministers have bought their jobs, and many are directly related to the president. Almost every senior civil servant both secures bribes from lower in the bureaucracy and dutifully passes on a percentage. The 125-member national assembly (Mili Mejlis), is largely a rubber stamp to codify bills drafted by the presidential apparatus, without its own political weight. For example, it voted on the 2004 budget after a twenty minute debate.

Parliamentarians are elected for five-year terms, and most are pro-government and directly loyal to the president. Under Heydar Aliyev, a list of eighteen "untouchables", primarily close relatives and other loyalists, were able simultaneously to serve in parliament and the executive. Very few opposition parties are represented in the Milli Mejlis, and they have only eleven seats.⁷⁵ The executive branch has also often used the parliament to express unofficial statements that reflect its position. For example, pro-government parliamentarians criticised the French President's policies on Karabakh and the Ambassador of Norway for his support of opposition activists in October 2003. Despite the absence of sustained debates in the Mili Mejlis, it did become a setting for confrontation between its few opposition members and the authorities during the 2003 presidential campaign.

The ruling Yeni Azerbaijan Party (New Azerbaijan, YAP) was established in Nakhichevan by Heydar Aliyev in 1991. It continues to be managed much like a Soviet communist party; membership is a precondition for state employment. The YAP has branches all over the country and claims several hundred thousand members. Many high-ranking YAP officials are close Aliyev relatives, with the late president's brothers, Jalal and Agil Aliyev, his nephew, Jamil Aliyev, and his son-in-law, Vasif Talibov, all holding prominent party offices.⁷⁶ President Ilham Aliyev became the YAP's first co-chairman in 1999. The party, which clearly benefits

from broad administrative resources, nurtured something close to a cult of personality around Heydar Aliyev.

The opposition is divided. Its largest parties are heirs to the nationalists who briefly held power between 1918 and 1921. The best known is Musavat (Equality), chaired by a historian from Nagorno-Karabakh, Isa Gambar, who was briefly speaker of the parliament in 1992.⁷⁷ Running under a banner of "Islam, Modernity, Democracy", it has strong historical links with Turkish Kemalism and has emphasised the Turkish strands of Azerbaijani identity.

Other important opposition parties include Etibar Mamedov's National Independence party (AMIP), the two wings of the Popular Front of Azerbaijan and the Azerbaijan Democratic party.⁷⁸ Almost all these parties emerged from the Popular Front nationalist movement that came to the fore in the waning Soviet years. The AMIP is driven less by ideology than the personality of Mamedov,⁷⁹ an Azerbaijani national from Armenia. The Popular Front of Azerbaijan has lost much influence after it split into three wings: reformists, led by Ali Kerimli; conservative supporters of Mirmahmud Fattayev; and Gudrat Hasanguliev's pro-government faction. Opposition parties can benefit from private funding but little information on finances is available. Party headquarters are usually in disrepair, and activists often work in harsh conditions, particularly in the regions.

⁷⁵ Of the opposition parliamentarians, five represent the Popular Front (reformist wing), two Musavat, two the Communist Party, and two the National Independence Party. "Azerbaïdjan 2001-2002, Chronique d'une succession annoncée", *Courrier des Pays de l'Est*, N°1030, 2002. The Azerbaijan Democratic Party is another opposition party.

⁷⁶ Eurasianet, "Azerbaijan Election Watch", 23 October 2000.

⁷⁷ Isa Gambar is a native of the Fizuli district of Nagorno-Karabakh and a co-founder of the Popular Front in the late 1980s. He became a member of the Azerbaijani Supreme Soviet in 1990 and speaker of the parliament in 1992. When Heydar Aliyev returned to Baku, he was jailed until August 1993 and not allowed to leave Baku until 1998. He boycotted the 1998 presidential elections and was the main challenger to Ilham Aliyev in October 2003.

⁷⁸ A former member of the Popular Front movement, Mamedov founded his party in 1992 and supported Heydar Aliyev's return to power. In 1993, he negotiated unsuccessfully with Aliyev for a cabinet post. His party has suffered high-level defections to the YAP. Mamedov, who has always had presidential ambitions, was Aliyev's principal competitor in 1998.

⁷⁹ A former secretary of the presidential apparatus under President Elchibey, Kerimli is one of the youngest and most able leaders of the opposition. He does not seem to lead a particular clan.

A. FROM ALIYEV TO ALIYEV

In considering the influence of the Aliyev family and its relations in Azerbaijan today, it is useful to look briefly back at the life of the late President Heydar Aliyev. He was born in 1923 in Nakhichevan but his family came from the Zangezur region, which is now part of Armenia. Aliyev served on the southern front during World War II and was likely involved in Soviet manoeuvres in northern Iran. He entered the KGB at the age of nineteen and became the first Azeri to reach the rank of General Major in that organisation.

Aliyev became head of the KGB in the Azerbaijan Soviet Republic in 1967. His network in the security structures was an important part of the political patronage structure he subsequently established. His close relationship with the chief of the Soviet KGB and later First Secretary, Yuri Andropov, made him a rising favourite in Moscow, and he was appointed First Secretary of the Azerbaijan Communist Party in 1969, with primary responsibility to combat corruption. Aliyev dismissed a large number of civil servants and replaced them with a handpicked coterie during the 1970s. Through such appointments, he established the groundwork for a patronage system whose benefits would flow directly to him.

In 1982, Aliyev became a member of the Soviet Politburo, chairing a commission overseeing construction of Siberian railways, which allegedly allowed him to amass a considerable personal fortune.⁸⁰ As First Deputy Prime Minister of the Soviet Union, Aliyev also developed international contacts. In 1987, he was forced to resign, ostensibly for health reasons following a heart attack, but most likely due to his strongly pro-Azeri position on the Nagorno-Karabakh question.⁸¹ Shortly afterwards, a strong campaign was initiated in Moscow to give Armenia control of the autonomous region. Aliyev departed Moscow for his native Nakhichevan in 1988, where he was a deputy in the local parliament and campaigned intensively against Gorbachev.

⁸⁰ D. Helly, "Azerbaïdjan: Aliyev et les siens", *Courrier des pays de l'Est*, February 2001, pp. 60-62.

⁸¹ C. Van der Leeuw, *Azerbaijan, a quest for identity* (New York, 2000), pp.132-133 and "According to E. Akhundova, Delo Presidenta", *Izvestia*, 18 September 2003. The fact that the forced resignation was followed in twenty days by a provocative statement on Nagorno-Karabakh in the French Communist newspaper *L'Humanité* is not a coincidence. See T. de Waal, op. cit., p.17.

Aliyev's political revival began when he was elected speaker of the Nakhichevani parliament in September 1991. He used this position to promote the interests of his native region, which was being blockaded by Armenia as a result of the Nagorno-Karabakh conflict, primarily by strengthening relations with neighbouring Turkey and Iran.⁸² His remarkable comeback was completed when President Elchibey, faced with a rebellion by the defeated Azeri army, "invited" him to take over the presidency of the entire country in June 1993.

Between 1993 and 1995, Heydar Aliyev consolidated his hold on power, bringing Azerbaijan into the CIS in September 1993 and eliminating a number of opponents and coup organisers.⁸³ As president, he looked to both Russia and the West for support and was instrumental in forging the 1994 Nagorno-Karabakh ceasefire and an oil diplomacy strategy that attracted foreign investors. In September 1994, Azerbaijan signed the "contract of the century" to explore three off-shore fields with the BP-led oil consortium (now the Azerbaijan International Operating Company).⁸⁴ By giving the West a huge stake in hydrocarbon development, Aliyev ensured his government of extensive Western capital and diplomatic backing.

B. THE ALIYEV FAMILY

President Ilham Aliyev was born in 1961 and graduated from the prestigious Moscow State Institute for International Relations in 1982. Before his father's return to power in 1993, Ilham reportedly

⁸² Aliyev claimed credit for 200 new Nakhichevan mosques. T. Swietochowski, *Russia and Azerbaijan*, op. cit., pp. 222-223.

⁸³ See Danish Immigration Service (Udlændinge Styrelsen), report on fact-finding mission in Azerbaijan -- "Former OPON forces in Azerbaijan", 27 January -- 1 February 2002.

⁸⁴ The contract was a \$7.4 billion investment. The Azeri, Chirag and Guneshli (ACG) oilfields were legally unified for development in June 1993. The consortium included: BP (UK), Amoco (U.S.), Statoil (Norway), Unocal (U.S.), TPAO (Turkey) Exxon Mobil (U.S.), Pennzoil (U.S.), McDermott (U.S.), Lukoil (Russia), and Delta Hess (Saudi Arabia). Amoco and McDermott have been replaced by ITOCHU (Japan) and SOCAR (Azerbaijan). S. Bagirov, "Azerbaijan's strategic choice in the Caspian region", in G. Chufrin (ed.), *The Security of the Caspian Sea Region*, op. cit. "Azerbaijan President Wants Rapid Conclusion to Contract with Western Consortium", BBC Monitoring Service, Former USSR, 25 February 1994. "Reported Statement Caucasus a Stir in Caspian Project", *Platt's Oilgram News*, 30 January 1995.

had business holdings in Turkey. He later served as vice president of the state oil company, SOCAR, and, from 1999, as first deputy chairman of the ruling YAP party. The younger Aliyev is fluent in French and English and inherited from his father not only the presidency but also a personal fortune.⁸⁵

The late president's brother, Jalal, has been one of the most powerful persons in Azerbaijan over the last decade, due to his broad business network and position in the YAP.⁸⁶ A parliamentarian, Jalal also heads the laboratory of the Academy of Sciences' Agriculture Institute and reportedly has full control of that institution. He holds a controlling share of the mobile phone company, Azercell, and owns shares in various other enterprises in the country.⁸⁷ Allegations of corruption have repeatedly been made about Jalal, and some reporters who have sharply questioned his activities have been targets of libel suits.⁸⁸ A second brother, Agil, is the head of department at the Azerbaijani Medical Academy.

Ilham Aliyev's sister, Sevil Aliyeva, has largely stayed out of politics although she does have considerable business interests.⁸⁹ She lives in London and was

married to Mahmud Mamedgulyev, Azerbaijan's former ambassador to the UK and currently deputy foreign minister⁹⁰. Other Aliyev relatives in high government positions include: Minister of Justice Fikrat Mammadov; Communications Minister Nadir Ahmadov; Chairman of the Nakhichevan Supreme Council Vasif Talibov; and several members of the Eyubov family.⁹¹

The president's wife, Mehriban, is a member of the Pashayev family, several members of which already held key posts in his father's government. Mehriban's father, Arif Pashayev, leads the National Aviation Academy. Her uncle, Hafiz, is ambassador in Washington. His son is married to Dilara Seitzade, chief of secretariat in both Aliyev presidencies. Another uncle, Agil Pashayev, is director of the Apsheron Hotel, one of the best known in Baku.

President Aliyev and his wife have three children. The daughter's father-in-law, Heydar Babayev, was chief of the State Committee for Security under the late president, worked in the Most Bank, and is said to have large interests in the Abu petrol company and ties to senior figures in the Russian government. He was rumoured to become prime minister after the October 2003 election. His brother, Yashar, heads the Baku oil depot.⁹²

1. The ruling clan and oligarchs

Around the Aliyev family, power is tightly held by a small group that exploits its administrative positions. Ramiz Mehtiev, the chief of the President's office, is perhaps most notable. He held the senior post of Azerbaijan Communist Party secretary for ideology in the late 1980s. A prominent figure among Western Azerbaijanis (many of whom are from Armenia), he founded in 2001 the NGO Erivan Birliyi (Yerevan Unity). He is given considerable sway over the appointments of regional and local executives. He is also reported to control ATV, a nominally independent television channel. While he is a powerful behind the scenes decision-maker, his

⁸⁵ I. Huseynova, "Milionery iz Baku skromny i nezametny", *Nezavissimaya Gazeta*, 23 October 2003, quotes an article from the opposition newspaper *Yeni Musavat*, 17 October 2003, putting Heydar Aliyev's personal fortune at \$24 billion, but with no supporting evidence.

⁸⁶ "Company with ties to presidential family refuses to repay debt", *Azernews*, 8 January 2004. According to the press, Jalal Aliyev has interests in gas stations (the Azpetrol company), and luxury products (the Azertijaret company). See *L'Express*, "La Gangrène mafieuse", 2 November 2000, *Turkish Daily News*, 19 June 1999, "Situation With The Democratic Freedoms Observance Of The Rule Of Law and Human Rights In Azerbaijan", Delivered by Leyla Yunus, director of the Institute of Peace and Democracy, Congressional Human Rights Caucasus, 2002. He is also said to own villas in the UK and Turkey, and luxurious buildings and fashionable hotels in Baku. I. Huseynova, "Milionery iz Baku skromny i nezametny", *Nezavissimaya Gazeta*, 23 October 2003, quotes *Monitor Weekly* and *Novoye Vremya*.

⁸⁷ Azercell, a branch of Turkcell, controls around 80 per cent of the Azerbaijani mobile phone market.

⁸⁸ The most famous example is Irada Huseynova, who fled after criticising Heydar Aliyev's brother Jalal. She was warned by relatives and friends in Baku not to return. See usembassybaku.org/usis/reports/report38.htm Journalists from *Yeni Musavat*, *Azadliq* and *Monitor* have also been prosecuted after making allegations against the ruling family.

⁸⁹ She is the chair of a charity NGO for women, "Sevil". I. Huseynova, quoting *Yeni Musavat*, states without proof that her fortune is \$13 billion. Some sources told ICG that she may have interests in cotton. Press articles report that she may

control a part of the caviar trade. S. Walker, "Azerbaijan's succession is focus of oil conflict", *Alexander's Gas & Oil Connections*, 17 October 2003.

⁹⁰ The influence of Mamedgulyev apparently diminished after he separated from Sevil.

⁹¹ For more details on the Eyubov family, see below on the Kurdish factor in Azerbaijan.

⁹² BBC Monitoring Central Asia, 19 July 2002, "Azeri paper publishes list of president's high-ranking relatives".

position in the presidential administration is balanced by that of the chief of the presidential apparatus, A. Muradverdiev, and Y. Gumbatov, the chief of the local administration department.⁹³

Law enforcement structures are a pillar of family control. As Heydar Aliyev's popularity waned, he relied increasingly on the security services, a practice continued by his son. Security issues are discussed inside the Security Council, which is under the president's direct authority. Mehtiev is the council secretary.⁹⁴

The security services have three primary structures: the ministries of defence, national security and interior.⁹⁵ When a minister was viewed as becoming overly powerful, the late President Aliyev would appoint trusted deputy ministers to counterbalance this. The interior ministry has often been used to undermine political opposition by discrediting, intimidating or prosecuting political parties and journalists. Minister of National Security Namik Abbasov enjoys strong U.S. support and has made frequent anti-Iranian statements. The defence ministry has received considerable support from the Turkish army, and its training and management have been heavily influenced by Turkish experience. Turkish officers work in the ministry, and about 40 per cent of Azerbaijani officers have been trained in that country. Azerbaijan has also developed military cooperation with Russia, Ukraine, NATO, China, Pakistan and Bulgaria. Military expenditures have increased steadily since 1995, reaching 13 per cent of the state budget in 2002. Corruption is a serious concern in all three security services.⁹⁶

⁹³ R. Musabeyov, "Les élites politiques en Azerbaïdjan, 2003", working paper, to be published in 2004 in *Dossiers de l'Institut Français des Etudes Anatoliennes* (IFEA), Istanbul.

⁹⁴ Security council members are the president, the head of his office, his advisers on foreign policy and military issues, the prime minister, the chairman of parliament, The defence, interior, and national security ministers, and the general prosecutor, Ilham Aliyev's official website. www.ilham-Aliyev.com.

⁹⁵ Reportedly 110,000 people serve in the army, and 15,000 in the interior ministry (10,000 officers, 5,000 border guards) but no figures have been given on the armed forces of the national security ministry. A. Yunus, "Azerbaijan: The burden of history -- waiting for change", in A. Matveeva, D. Hiscock (eds.), *The Caucasus: Armed and Divided, Small arms and light weapons proliferation and humanitarian consequences in the Caucasus*, Safer World, April 2003.

⁹⁶ For two years, army cadets have been protesting working conditions and, implicitly, corruption in their hierarchy.

During his last three years, the elder Aliyev appointed younger ministers, many of them associates of his son. This new generation includes Finance Minister Avez Alekperov, Minister of Taxation Fazil Mamedov, Minister of Foreign Trade and Economic Development Farhat Aliyev, and Minister of Sport Abulfaz Karayev. Kiamaleddin Geydarov, chairman of the state customs committee and close friend of Ilham, owns trading companies in Moscow, a cotton cleaning factory in Uzbekistan, cotton interests in Azerbaijan and properties in Dubai, as well as Baku's Silk Road restaurant.⁹⁷ There are suggestions he owns a major share of the Caspian Fish Company and controls much of the caviar market.⁹⁸ He has put allies in the finance and tax ministries, as well as the pensions committee.⁹⁹ Many of these younger figures, who were formerly active in the Communist youth organisation (Komsomol), helped pave the way for Ilham's ascent to power.

While some oligarchs have political responsibilities, others, such as Iskender Khalilov, are not directly involved in politics. A key businessman in Baku, he owns the ISR Plaza Hotel and represents the Turkish Koc company with its supermarkets (Ramstore). Paolo Perviz is another well-known member of the Baku business elite; an Iranian Azerbaijani who emigrated to the U.S. in the 1970s, he owns the Hyatt Park Hotel and the Baku Steel Company, one of Azerbaijan's biggest non-oil enterprises. Other businessmen with close personal links to the Aliyevs include Jahanguir Askerov (head of Azerbaijan Airlines) and Jahanguir Mushinzade.

2. The media

Although some progress was made after independence, the media situation has dramatically deteriorated since 2002. Increasing government control appears central to efforts to keep power within a fairly narrow circle. Newspapers linked to opposition parties have been persecuted and face considerable financial pressure. While a media council was established in January 2003, it is weak. Six of its nine members are appointed by the

⁹⁷ I. Huseynova, "Milionery iz Baku skromny i nezametny", *Nezavissimaya Gazeta*, 23 October 2003, quotes *Monitor Weekly* and *Novoye Vremya*.

⁹⁸ Officially, Caspian Fish is headed by Manoucher Akhatpur, an Iranian Azeri who emigrated in the 1970s.

⁹⁹ R. Musabeyov, "Les élites politiques en Azerbaïdjan, 2003", op. cit.

president. It is unlikely to be able to prevent power ministry moves against press freedom.

Newspaper circulation is quite limited, with television and radio the primary source of information for almost 90 per cent of the population.¹⁰⁰ Five of the thirteen television channels, including state-owned television and four private channels based in Baku, have a national audience.¹⁰¹ Some of the private stations are difficult to consider independent, however. *Lider*, established in 2000, is owned by Adalat Aliyev, the president's cousin. *Space TV*, established in 1997, is owned by his sister Sevil. *ATV*, which was launched in 2000, is nominally owned by Nazim Ibragimov, the chairman of a state committee that works with Azeris residing abroad, but is controlled by Ramiz Mehtiev. *ANS*, established in 1991, has long been viewed as more independent, but as its owner, Vahit Mustafayev, has become increasingly wealthy, the government has gained means to influence him. Mustafayev owns sixteen offshore companies and a private home in London and has interests in Calvin Klein, Versace, a pasta factory, and a tea factory. If his station were to express views the government disliked, some of these interests could be directly threatened. In addition, Mustafayev's uncle previously served as the elder Aliyev's agricultural adviser. The Media Rights Institute complained during the 2003 election campaign, "the electronic media has become a propaganda tool for the ruling government".¹⁰²

Although newspapers are not extensively read, some are well known and had been genuine outlets for critical views until October 2003.¹⁰³ However, they face an unrelenting campaign of intimidation and harassment. Since late 2002, government loan policies have put increasing financial pressure on newspapers. State publishing houses have essentially blackmailed opposition editors, telling them political allegiance was the price for debt extensions. Once impartial papers have reoriented their editorial policies. In some cases, such as the Russian-language *Ekho*, journalists quit. Only three newspapers remain independent: *Azadliq*, *Yeni Musavat*, and the *Monitor*. However, their situations are precarious. The *Monitor* is managed by only two people, and the chief editor and other *Yeni Musavat* journalists have been arrested.¹⁰⁴

¹⁰⁰ The Media Rights Institute, "Media During Elections and Status of Media Related Laws", 3 November 2003, at www.internews.az. The main radio stations in Azerbaijan are the BBC, Burdj FM, Europa Plus, Radio Antenn, Radio Lider, ANS Radio, Space Radio, Radio 106, and Azadlig Radio. Radio Liberty (RL) was very popular. Mirza Mikaili worked in its Azerbaijani service for ten years. Initially very anti-Heydar Aliyev, after several visits to Baku in 2002, he became less confrontational, though still critical. He was dismissed in 2003 while covering the election campaign. Some journalists assume this may have resulted from objections of the Azeri diaspora (particularly the U.S.-Azerbaijani Chamber of Commerce) who felt his criticism was too harsh.

¹⁰¹ The thirteen are Az TV (state TV), Alternative TV (Ganja region), Aygun TV (Zakatal region), Azad Azerbaijan (ATV), Azerbaijan News Service (ANS), Dunya TV (Sumgait), Khayal TV (Guba region), Kapaz TV (Ganja), Lankaran TV (Lankaran), Mingechevir TV (Mingechevir), Gutb TV (Guba), Simurg TV (Toyuz), Lider TV and Space TV. See www.internews.az.

¹⁰² The Media Rights Institute, op. cit.

¹⁰³ Before the October elections, *Yeni Musavat* published 17,000 copies daily. ICG interview, Baku, October 2003.

¹⁰⁴ "Reporters Without Borders Urges French President to Raise Case of Imprisoned Journalist Rauf Arifoglu During Ilham Aliyev's Visit to France", *Internews, Azer Mas Media Today*, 22 January 2004.

III. OCTOBER 2003 PRESIDENTIAL ELECTIONS

The badly flawed October 2003 election illustrated many of the difficulties the country faces. While Ilham Aliyev easily won and followed in his father's footsteps, repression and political violence were widespread, and the election fell far short of international norms. The international community, eager for stability and continuity in the oil-rich state, offered only the most muted criticism until it was too late to affect anything.

A. NEITHER FREE NOR FAIR

15 October 2003 marked the end of a year-long presidential succession. Hopes that Azerbaijan's accession to the Council of Europe would bring with it better electoral practices proved hollow. Despite certain progressive steps that could have allowed for better-organised voting -- such as the adoption of a unified election code with additional safeguards against fraud -- the ruling elite is still fundamentally unwilling to embrace genuine democracy or representative elections.¹⁰⁵

Preparations for the presidential succession began with passage of a constitutional amendment in mid-2002, which transferred power to the prime minister if the president was incapacitated. This was no routine precaution since Heydar Aliyev was clearly positioning his son to assume the presidency. As his health further deteriorated, he signed a decree from a Turkish hospital on 4 August 2003 appointing Ilham prime minister. Both father and son were listed as presidential candidates, with Heydar the official YAP candidate, and Ilham nominated by a citizens' initiative group. On 2 October -- two weeks before the election -- the father addressed the nation from a Cleveland (U.S.) hospital announcing his withdrawal in favour of Ilham.

Certain improvements in election administration were adopted as part of a unified election code on 27 May 2003, which provided the legal framework for presidential, parliamentary and municipal elections, as well as referendums.¹⁰⁶ The Venice Commission

and the OSCE Office for Democratic Institutions and Human Rights (ODIHR) stressed that their significance would be determined by how they were implemented.¹⁰⁷ However, a controversy quickly erupted between the ruling party and the opposition regarding Article 24, on composition of the Central Election Commission. For some months, the opposition boycotted OSCE round-table meetings aiming at a compromise. Eventually, the government effectively left the pre-existing arrangements in place.¹⁰⁸

The Central Election Commission, which began work on 13 June 2003, was composed of fifteen members elected by the parliament according to the following rather convoluted formula:¹⁰⁹

- ❑ six members representing the political party holding the majority of seats in parliament that were elected through proportional representation;
- ❑ three members representing minority parties elected through proportional representation;
- ❑ three members representing members of parliament from single mandate constituencies; and,
- ❑ three members representing four parties that contested elections without winning a parliamentary seat.

At the local level, 125 Constituency Election Commissions and over 5,000 Precinct Election Commissions were established based on a similar formula. The ruling party had a two-thirds majority on both national and local bodies, decisions were often taken strictly along party lines.¹¹⁰ The Central Election Commission's refusal to register several opposition candidates also seemed to indicate partiality. OSCE officials found its reasons for the disqualifications "not persuasive".¹¹¹ For example,

Republic", "On the elections to the Milli Mejlis of the Azerbaijani Republic", "On the rules of municipal elections" and "On referendum". The first draft of the code was published in November 2002.

¹⁰⁷ See OSCE/ODIHR and Venice Commission, "Joint Final Assessment of the Election Code of the Republic of Azerbaijan", Opinion N°214/2002, issued Strasbourg/Warsaw, 1 September 2003.

¹⁰⁸ Ibid.

¹⁰⁹ OSCE/ODIHR, "Final Report", op. cit., p. 5.

¹¹⁰ Ibid, p. 6..

¹¹¹ OSCE/ODIHR, "Republic of Azerbaijan Presidential Elections, Needs Assessment Report", 24 July 2003, p. 2. NAM expressed particular concern regarding the rejection

¹⁰⁵ OSCE/ODIHR, "Republic of Azerbaijan Presidential Elections, Final Report", 12 November 2003.

¹⁰⁶ Before 2003 elections were governed by several laws: "On the Elections of the president of the Azerbaijani

the candidacies of the former speaker of parliament, Rasul Guliyev, and the former president, Ayaz Mutalibov, were rejected. However, several major opposition party candidates were registered, including Isa Gambar of the Musavat Party, Etibar Mamedov of the ANIP, and Ali Kerimli of the Popular Front of Azerbaijan (reformers faction).¹¹²

The opposition was badly divided and largely ineffectual throughout the campaign. While it could have provided a credible alternative to Ilham Aliyev if it had united, it displayed a decided lack of maturity.¹¹³ The four major opposition leaders had agreed in London in August 2003 to run a single candidate in the second round,¹¹⁴ but this descended into a confusing array of mutual pledges of support that never materialised. For example, Mamedov and Gambar agreed that Mamedov would withdraw in favour of Gambar, but only four days before the election, Gambar made a similar deal with Guliyev.¹¹⁵ Similarly, on 17 September Kerimli and Mamedov signed an agreement that Kerimli would withdraw a week before the election in favour of Mamedov. Personal vanity and greed seem to have been the driving factors in this messy picture. All these candidates appeared to hope that a strong electoral performance would position them to become prime minister, with access to considerable wealth. The failure to unite behind a single alternative may also have resulted from a miscalculation that Ilham was not strong enough to win in the first round.

Besides its dominant position on the election commissions, the ruling party could also count on the

application of Rasul Guliev, the head of the Azerbaijan Democratic Party (ADP) and former speaker of the parliament currently in exile in the U.S.

¹¹² Other registered opposition candidates included Lala Shovket of National Unity, Sabir Rustamkhanli of Civil Solidarity, and Araz Alizade of the Social Democratic Party.

¹¹³ Parliamentary Assembly of the Council of Europe (PACE) Report, "Functioning of democratic institutions in Azerbaijan", Doc 10030, 12 January 2004.

¹¹⁴ Four major opposition party leaders -- Isa Gambar (Musavat Party), Etibar Mamedov (Azerbaijan National Independence Party, AMIP), Ali Kerimli (Azerbaijan Popular Front Party) and Rasul Guliev (Democratic Party of Azerbaijan, ADP) -- met in London on 23-24 August 2003. They failed to reach a consensus on a single presidential candidate, although they agreed on the creating a Union for Democratic Stability. RFE/RL report, at rferl.org/reports/Caucasus-Report/2003/08/31-290803.asp.

¹¹⁵ S. Shermatova, Geidar Baba pederal ne vsio, *Moskovskye Novosti*, #40, 2003.

unfailing support of local executives, many of whom became heavily involved in the campaign for fear of losing their jobs with a change of government. They played a clear role in frustrating the opposition campaigns, and openly supported Ilham, thus helping nurture an unfair election climate.¹¹⁶ Local officials frequently refused to grant opposition candidates adequate venues for rallies and actively dissuaded government employees and students from attending.¹¹⁷ On 21 September 2003, Baku city authorities granted Gambar permission to use two cinemas with capacities of only a few hundred. When several thousand supporters turned out in each case, hundreds of police violently dispersed the crowd, injuring dozens.¹¹⁸ Biased media coverage also heavily distorted the climate. Internews reported cases where newspapers faced lawsuits due to criticism of government officials.¹¹⁹ The OSCE reported systemic harassment and intimidation of journalists, including physical attacks, detentions and substantial editorial interference.¹²⁰

With such widespread problems during the campaign, the actual results were a somewhat foregone conclusion. While the international community did mobilise an unprecedented number of short-term observers -- more than 600 from 35 countries on election day, including more than 40 parliamentarians from two international assemblies -- the OSCE/ODIHR final report found that the elections "failed to meet OSCE commitments and other international standards", with "significant irregularities during voting and widespread fraudulent practices during the counting and tabulation of election results".¹²¹ Ballot-stuffing, multiple voting, voter intimidation, pre-marked ballots and other irregularities were widespread.¹²²

Despite all these problems, the Election Observation Mission's initial press release was surprisingly mild, causing considerable disquiet among some of its members. The Institute for Democracy in Eastern Europe (IDEE), which had provided election

¹¹⁶ "Azerbaijan: Presidential Elections 2003", Human Rights Watch Briefing Paper, 13 October 2003, p. 7.

¹¹⁷ Ibid. p. 12.

¹¹⁸ Ibid. See also "Guide to the Azeri Presidential Elections", Eurasianet, 15 October 2003, eurasianet.org.

¹¹⁹ Internews, "Monthly Media Report", April 2003, at internews.az/ssi_eng/articles/media/200304.pdf.

¹²⁰ OSCE/ODIHR, "Final Report", op. cit., p. 12.

¹²¹ Ibid.

¹²² Ibid.

observers to the OSCE at U.S. request, published a dissent that declared its 188 observers did not wish to be associated with the OSCE preliminary report, which had called the elections "generally well administered". IDEE argued that "none of the criteria for evaluating an electoral process were met".¹²³ The Azeri authorities severely restricted monitoring efforts of local civil society, and NGOs that received more than 30 per cent of their funding from foreign sources to observe the elections were made ineligible.¹²⁴ This restriction effectively excluded the vast majority of NGOs from organised monitoring on 15 October. Although the authorities argued that observers could still register individually, this was not a satisfactory substitute.¹²⁵

The widespread irregularities triggered considerable dissatisfaction among the opposition, with Gambar publicly complaining about "stolen elections".¹²⁶ It was announced that Ilham Aliyev had won with 79.53 per cent of the vote, later revised to 76.84 per cent.¹²⁷ An Azerbaijani political scientist suggested that several weeks before elections, Ilham had relayed orders to local executives not to falsify the electoral process in an overly crude fashion.¹²⁸ Apparently, these instructions fell on deaf ears, and local executives, eager to protect their positions, made sure that little was left to chance.¹²⁹ The officially reported overwhelming victory did not appear to reflect fully voter sentiment on the ground -- some observers asserted that in the run-up to the election, Gambar had around 30 per cent support and Ilham around 50 per cent outside the capital. In Baku, with about 40 per cent of the country's population, those two were believed to be running roughly even. Voters seemed genuinely surprised that Ilham had won by such a large margin in the first round.

Riots broke out in Baku late on 15 October and continued the next day. Musavat supporters, who had heard rumours and exit polls indicating that Gambar had won, gathered in front of their headquarters to

celebrate.¹³⁰ After the first announcement of Aliyev's victory, Gambar claimed to his supporters that the government had stolen the election. While not calling for violence, and even insisting that any rally should be peaceful, he was clearly angered, and some of his statements were received as provocations by his supporters. Some Musavat supporters quickly became engaged in a confrontation with police, and as the crowd thinned, police and army units backed by masked, black-clad men from the Organized Crime Unit surrounded the headquarters. While OSCE monitors tried to separate protestors and security forces, the Organised Crime Unit broke through the cordon and beat many of the Musavat supporters.¹³¹

On 16 October, thousands of Musavat and other opposition supporters gathered near Musavat headquarters and marched to Freedom Square, attacking security officials and vandalising cars and shop windows along the way. Freedom Square was quickly surrounded by the police and army. Several hundred peaceful demonstrators had already started leaving when interior ministry forces stormed the protest. More than 300 were injured, and at least one person died. It remains unclear who gave the order to charge the crowd. Hundreds more were arrested across the country in a general crackdown on the opposition that appeared to be a demonstration that the president-elect was in charge and willing to use force to defend his position.¹³²

An Azerbaijani NGO, The Institute of Peace and Democracy headed by Leyla Yunusova, has listed those arrested. Many people were interrogated for a long period after the demonstrations, including the Democratic Party general secretary, Sardar

¹²³ IDEE, "The Azerbaijan 'Elections'", press releases, and "Votum Separatum - Dissenting Opinion", idee.org/azerbajanelections.html.

¹²⁴ The Law on NGOs and Public Foundations, Article 2.4.

¹²⁵ OSCE/ODIHR, "Final Report", op. cit., p. 16.

¹²⁶ "Azeris Clash as Votes Counted", BBC News, 15 October 2003, at news.bbc.co.uk/2/hi/europe/3192470.stm.

¹²⁷ Grani.ru, 20 October 2003.

¹²⁸ ICG interview, Baku, October 2003.

¹²⁹ Politcom.ru, 6 November 2003, *Moskovskye Novosti*, #39, 2003.

¹³⁰ This information was spread on the basis of private exit polls published by the pro-opposition press agency Turan. "According to an exit poll conducted by the Turan news agency and the ADAM sociological research center, Gambar received a plurality of the vote -- 46.2 per cent. Ilham Aliyev received just over 24 per cent, according to the exit poll. Such a result in the actual election would have forced a second-round run-off between the two". D. Trilling and J. Mielnikiewicz, "Unrest Rocks Baku as Opposition Protests Azerbaijani Election Results", Eurasianet, 7 February 2004.

¹³¹ "Azerbaijan: Presidential Elections 2003", Human Rights Watch Briefing Paper, 13 October 2003, p. 22.

¹³² Party leaders from Musavat (Sulheddin Akber, Ibragim Ibragimli, Arif Gadjili, Mirbab Babayev), Umid (Igbal Aghazade), Democratic Party, Popular Front, and Popular Party (Panakh Huseynov) were among the arrested. Vagif Hadjibeyli, the Musavat deputy chairman's brother and Akhrar party leader and Etimad Assadov, former leader of Nagorno-Karabakh veterans, were also involved.

Jjalaloglu, and the *Yeni Musavat* editor in chief, Rauf Arif Oglu. They are charged with resisting the police, participating in civil disorder and creation of criminal groups.¹³³ Their trial did not begin until 7 May 2004, although they should have been released after the legal maximum term of pre-trial custody expired in mid-April. According to Yunusova, 118 persons have been tried already; 85 were released on probation, and 33 were sentenced to prison terms of between three and six years.

The crackdown was also backed by an intensive official media campaign to portray Isa Gambar as a fascist, nationalist and Islamic fundamentalist.¹³⁴ Gambar was accused of planning a coup and directing the violent unrest.¹³⁵ Human Rights Watch (HRW) reported that hundreds of opposition leaders, supporters and election commission members not directly involved in the riots were victims of a campaign of arrests and torture, often because they had refused to ratify suspect vote counts.¹³⁶ The chairman of the State Religion Committee, looking to deflect attention from the badly flawed ballot, insisted that the riots were likely linked to Wahhabi fundamentalist groups.¹³⁷

On 20 October 2003, the Central Election Commission, possibly as a direct result of U.S. pressure, nullified the results in 694 precincts.¹³⁸ However, this was a relatively easy gesture that did not alter the result. Musavat party representative and Central Election Commission Secretary, Vidadi Mahmudov, asked for the entire election to be nullified and a new vote held.¹³⁹ On 22 October, Etibar Mamedov said the results were unacceptable

but asked for dialogue with the authorities and for political leaders to show responsibility when calling for street rallies, distinguishing himself from Gambar and his connection to the 15-16 October riots.¹⁴⁰

B. FOREIGN SUPPORT AND SIGNS OF CONTINUITY

The tepid international response to the events surrounding the election and widespread evidence of both fraud and human rights abuses made clear that many in the West place a premium on continuity and energy investments. Uncritical backing of an increasingly autocratic strongman often boomerangs over the long-term, creating greater instability and placing investments more directly at risk.

The chairman of the Russian Federation Council, Sergei Mironov, declared that there was no doubt about the legitimacy of the election and that the people had voted for stability and continuity.¹⁴¹ Russian President Putin quickly sent his congratulations and stressed the need for "development and stability in the Caucasian region".¹⁴² U.S. Deputy Secretary of State Richard Armitage called the new President on 17 October to congratulate him on his "strong performance at the polls"; it was not until 21 October, almost a week after the election, that the State Department declared that the United States was "deeply disappointed and concerned" at the election irregularities.¹⁴³ Western states unanimously acknowledged the first round victory, one diplomat even arguing that "it is necessary to push Gambar to accept the results of the elections in order to quiet the situation and legitimise" Ilham's victory.¹⁴⁴ Any reservations the international community may have had about the elections were not stated soon enough in public.

¹³³ Eight other activists are in the same situation according to Yunusova.

¹³⁴ A. Gordienko., "Presidentskaya planka", *Nezavisimaya Gazeta*, 17 October 2003.

¹³⁵ See *Lenta Novostey*, 17 October 2003, and "Baku budet razvivat otnoshenya s Moskvoy I Vashingtonom -- Ilham Aliyev", Interfax, 21 October 2003.

¹³⁶ "Azerbaijan: Presidential Elections 2003", Human Rights Watch Briefing Paper, 13 October 2003. Among the arrested were Sardar Jalaloglu, secretary general of the Azerbaijan Democratic Party; Iqbal Agazadeh, parliamentarian and a leader of the Umid ("Hope") party; Panah Husseinov, a former prime minister (1992-1993) and leader of the Khalg party; and four of Isa Gambar's deputies, including the *Yeni Musavat* editor-in-chief. HRW said over 100 remained in custody in early 2004.

¹³⁷ Interfax, 27 October 2003.

¹³⁸ According to Grani.ru, this affected 673,371 votes, 601,786 were Aliyev's. See also News.ru, 16 October 2003.

¹³⁹ Grani.ru, 20 October 2003.

¹⁴⁰ "Lider Azerbaidjanskoy opozitsionnoy partii osudil nekotoryh kolleg i prizval otmenit prezidentskih vyborov", Interfax, 22 October 2003. According to some journalists, Mamedov did not try to defend his party's activists who were beaten.

¹⁴¹ Grani.ru, 16 October 2003.

¹⁴² *Ros Business Consulting*, 16 October 2003.

¹⁴³ See State Department website (www.state.gov): press statement 2003/1061 for Armitage/Aliyev phone call, and 2003/1072 for deputy spokesman Adam Ereli's characterization of U.S. disappointment and concern.

¹⁴⁴ ICG interview, Tbilisi, November 2003.

Norway was a notable exception.¹⁴⁵ It was quite critical of government behaviour, and the ambassador met with journalists and NGO activists whose objections to the electoral process were well known. While the OSCE mission appeared quite disappointed with Azerbaijan's walk back from democracy, a number of EU member states were unwilling to take Azerbaijan to task. It was clear that the Baku human rights community was a weak minority compared to the well-connected Baku oil community.

While the newly elected president quickly reappointed the same government and other key figures, a dangerous precedent was set by largely giving Azerbaijan a free pass on democracy.¹⁴⁶ There are some important warning signals on the horizon for the Aliyev government, and the international community will have to deal with many of these sooner rather than later.

IV. CHALLENGES AHEAD

The new President Aliyev still faces something of a probationary period, and those around him will carefully gauge if he is up to the task of leading the country and heading off potential rivals who will quickly attempt to fill any perceived power vacuum. His second major challenge will be to restart the process of democratisation, given that over time it will become more and more difficult for Western officials to ignore how badly it has gone awry. In the longer-term, he will also need to address broad and simmering social discontent which, if handled poorly, could lead to a significant increase of religious fundamentalism. In addition, resolving the Nagorno-Karabakh problem is a key to regional stability and Azerbaijan's economic prospects. This will require navigating carefully between U.S., EU and Russian interests.

A. POTENTIAL CRACKS IN THE RULING ELITE

For several years, potential fissures within the ruling elite have been visible. These spring from multiple sources including a generation gap, regional identity, competition between clans and the emergence of powerful business circles. While President Aliyev has admitted he will need to move away from the current patronage system if he hopes to promote long term stability and develop more modern institutions, how successful he will be remains unclear. Opening the business and political process to fresh faces is vital for moving Azerbaijan forward and combating the hold of corruption and clan influence on government.

1. Generational tensions

The late President Aliyev ruled the country, off and on, for more than three decades. Many of his key confidantes and administrators are now in their 60s or 70s. He only relatively recently began to introduce fresh blood into the senior ranks of ministries and the YAP. This was also seen as an important means to facilitate the succession of his son.

Beginning in 1998, a faction within the YAP -- known as the "91 group" because most helped found the party in 1991 -- started to emphasise the importance of younger activists with a more modern approach. This came at a time when the YAP was in something of a crisis, several hundred members

¹⁴⁵ Norway, of course, has its own substantial oil reserves and so is less concerned about access to Azerbaijan's resources.

¹⁴⁶ When appointed prime minister, Ilham said he did not intend to change the government, News.ru, 4 August 2003.

having joined the opposition in protest at corruption.¹⁴⁷ Open criticism was diminishing the influence of the old guard, almost all former Soviet cadre, in the party and government.¹⁴⁸ The former mayor of Baku, Rafael Allakhverdiev, and the media minister, Siruz Tabrizli, spoke out strongly against the YAP and the government.¹⁴⁹ Their coalition seemed to be most directly opposed to Ramiz Mehtiev, head of the president's office Security Council secretary.¹⁵⁰

From 1999 forward, the elder Aliyev pursued moves with a common design: to move Ilham to the top of the YAP in order to legitimise his position as political and financial heir and secure the family's interests. Many of the new faces that entered the party and government hierarchies were not selected for their credentials as reformers or democrats, but to explicitly support Ilham.

As head of the president's office, Mekhtiev seemed to harbour both doubts about Ilham's potential as president and aspirations of his own.¹⁵¹ With the departure of key advisers such as Vafa Guluzade and Eldar Namazov from the presidential apparatus, President Aliyev slowly but steadily overhauled his staff. In 2002, he appointed a 33-year-old adviser on national security, Vahid Aliyev, a native of Nakhichevan educated at St. Petersburg's Counter Intelligence College.¹⁵² This was widely viewed as an effort to tighten control over the security services headed by National Security Minister Abbasov, who had begun to develop an image of increasing independence and had good relations with Mehtiev. It also sent a powerful message to the old guard, and in early 2002, Minister of Interior Ramil Usubov declared his full support for Ilham. However, the tumult surrounding the October 2003 election seemed to call into question the degree to which he was on top of the security situation.¹⁵³

The old guard, headed by Mehtiev, Heydar Aliyev's brother Jalal, Abbasov, and Parliament Speaker Murtuz Aleskerov will likely emerge as rivals to

Ilham. There were some suggestions that even before elections, a number of ministers had reached out to the opposition in case Ilham lost the election or they were forced out of the government. There were also discussions of forming a state committee composed of high-level civil servants and opponents that would have protected old guard interests against the Aliyev clan. Tensions between that old guard and the Aliyev clan remain considerable, and the fact that Ilham reappointed his father's entire cabinet suggests that he and his advisors do not feel the time is opportune to take it on directly.

The president does enjoy more support than the old guard among younger YAP members in Baku, even those not from Nakhichevan.¹⁵⁴ "Young" YAP members have repeatedly stressed the fact that the party is led by Ilham and should rely on a new generation. Within ministries, Ilham has actively promoted younger Azerbaijanis who have been educated abroad as part of an effort to extend his power base. This trend has encompassed lawyers, economists, diplomats and translators, and will likely accelerate.

2. Regionalism and clans

Two clans, the Nakhichevanis and Yerazi, have dominated politics for decades, largely excluding other regional clans from power. However, over the last five years, unity between the Nakhichevanis and Yerazi has begun to erode. The fact that Heydar Aliyev was born in Nakhichevan but his family was from Armenia essentially gave him a double origin and proved a highly useful tool in balancing the interests of the two Western Azerbaijanis clan branches. Each clan created non-political movements. Nakhichevanis have had their "Alindja"¹⁵⁵ movement since 1992. The Yerazi have two Agridag (the Turkish/Azeri name of Ararat), led unofficially by Ali Insanov, and the Yerevan Birliyi (Yerevan Unity) founded in May 2001 by Ramiz Mehtiev.¹⁵⁶ Even if these organisations have not been the centre of media attention and do not play an open role today, they reflect the regional tendencies inside the ruling elite and may be resources in forthcoming political battles.

¹⁴⁷ RFE/RL Caucasus Report, "Azerbaijan's ruling party heads for make-or-break congress", June 1998.

¹⁴⁸ Ibid.,

¹⁴⁹ Tabrizli is also deputy chairman of YAP.

¹⁵⁰ RFE/RL Caucasus Report, "Azerbaijan succession struggle intensifies", 8 June 2001.

¹⁵¹ Ibid.

¹⁵² He is apparently no relation to the president.

¹⁵³ ICG interview, Tbilisi, November 2003.

¹⁵⁴ S. Shermatova, "Geidar Baba peredal ne vsio", *Moskovskye Novosti*, #40, 2003.

¹⁵⁵ Alidja is the name of a historic fortress in Nakhichevan.

¹⁵⁶ "Azerbaijan Succession Struggle Intensifies", RFE/RL Caucasus Report, 8 June 2001. E. Fatulayev, "Odna golova - khorosho, a dvie -- plokho", *Monitor*, N°2 (29), 2003.

Mehtiev is thought likely to compromise with Ilham and serve him by attacking other potential rivals.¹⁵⁷

Less prominent clans also have a strong sense of regional identity. Most natives of Nagorno-Karabakh have become internally displaced and are not a prominent political force. Isa Gambar, who comes from the region of Fizuli, is sometimes described as the leader of this clan. The Baku, or Shirvan, clan has seen its fortunes wane under the Aliyevs. It has a solid core of intellectuals who are more closely aligned to former President Mutalibov. Many from this clan have either emigrated or left politics, and the clan will largely be on the sidelines unless Russia backs a bid by Mutalibov to emerge as the opposition leader. The Lankaran clan is led by Azerbaijan's spiritual leader, Sheikh ul Islam Allahshukur Pashazade. It would be strongly positioned if religious leaders became more prominent in the country's political life, such as occurred in Iran.

There has been some speculation about the role of a supposed Kurdish clan.¹⁵⁸ Many Azeri Kurds used to live around Kelbajar, Lachin, Minkend and Sangelan in a strip of land between Nagorno-Karabakh and the Azeri-Armenian border but most were dislocated by the war. In the mid-1920s, this area had briefly been a Kurdish autonomous province, "Red Kurdistan". The political significance of the Kurds has often been overstated, although the group does play an important economic role along the border with Georgia. The main crossing and trading point between the two countries is the historic brick "Red Bridge", which has been a point for active illegal trading between Azerbaijanis, Georgians and Armenians.

Until mid-2003, a Kurdish group closely related to Beylar Eyubov, the head of President Heydar Aliyev's security detail, was the de facto ruler of Ganja, Azerbaijan's second city, although the official head of the local administration was a presidential appointee. With gasoline and diesel trading still the main elements of trade on the Red Bridge, Kurdish mafia

groups are said to be quite active. Kurds are also allegedly linked to fuel trading in Nakhichevan and illegal alcohol sales, and there have been suggestions they are heavily involved in Azersun Holding, a Turkish corporation operating in Azerbaijan that has been suspected of financing the PKK (Kurdistan Workers' Party) insurgent group in Turkey.

In mid-2003, the national security ministry detained Tapdig Kamalov, the manager of the Kavkaz resort, located in Nabran (a small town in Northern Azerbaijan) on weapons charges. In an effort to escape, Kamalov fired on security agents before being detained, along with a relative, Ali Namazov, and a third man. All three are alleged to have ties to the PKK. Kamalov and Namazov are relatives of Beylar Eyubov, Heydar Aliyev's personal security man. Turkish security officials have included Eyubov on a list of people they consider to maintain ties with the PKK. There were reports that both he and Vasif Talibov were arrested by the national security ministry for such ties in September 2003, although the ministry and the prosecutor general denied this. Later, the Turkish media reported that Eyubov had been arrested and briefly detained by Turkish authorities for smuggling along the Nakhichevan-Turkish border. The head of the customs post at Sadarak on that border was fired several weeks later. In September, it was announced that Vagif Ahkundov was now the head of the president's security and Beylar Eyubov had become his deputy.¹⁵⁹ Since Eyubov's detention in Turkey, he has continued working in the presidential apparatus, but his power has been weakened. This is interpreted as a clear signal of conflict inside the ruling clan¹⁶⁰ and of the presence of an active (if not very influential) Kurdish subclan in the elite.¹⁶¹

There is a continuing danger that Russia will be willing to exploit Kurdish radicalism in Azerbaijan, Georgia and Turkey as a means to slow the flow of Caspian oil through the Baku-Tbilisi-Ceyhan pipeline, part of which travels through Turkish territory populated by Kurds. Indeed, if the Kurdish situation were to grow badly out of control, Azerbaijan would have to explore alternative export routes, including a Russian route through Novorossiysk. However, any effort to exploit Kurdish separatism for economic motives would be incredibly short sighted from a strategic perspective. The last thing that Russia needs,

¹⁵⁷ On 15 April 2004, the government newspaper *Azerbaijan* published an article criticising Minister of Education Misir Mardanov and Minister of Public Health Ali Insanov, who are both linked to the parliament speaker, Murtuz Alesgerov.

¹⁵⁸ Azerbaijan's Kurdish population is estimated at 13,000, although some sources suggest as much as 200,000. The other significant concentrations of Kurds are around Zardaba, in the centre, around Sadarak and Teyvaz in Nakhichevan. Kurds who lived in Armenia (Yezidis) are also in Azerbaijan, like Bailer Eyubov and Elman Gambarov, the former chief of the counter intelligence services.

¹⁵⁹ RFE/RL Newswire, 1 October 2003.

¹⁶⁰ S. Shermatova, "Geidar Baba peredal ne vsio", *Moskovskye Novosti*, #40, 2003.

¹⁶¹ ICG interviews, Baku, October 2003.

given the situation in Chechnya, is more instability and violence on its southern flank. While Moscow would clearly prefer pipelines through its territory, it has the most to gain if it is surrounded by economically prosperous, stable states. That said, it has not always been good at avoiding short-term provocations and focusing on the strategic picture.

President Aliyev will have to take into account the various regional clans in governing Azerbaijan. Most of the public views him as heavily favouring one or two clans at the expense of the broader population, and he has not effectively countered this perception. Again, this underscores the importance of opening up both the political and economic process to a younger and more technocratic elite while taking concrete actions to curb the excesses of patronage, clan and corruption.

Much of the bureaucracy is rightly viewed by the public simply as an administrative tool for the ruling clans. With the huge influx of capital into Azerbaijan, business circles have emerged as a countervailing force, despite their frequent dependence on the ruling elite for daily operations. Oil revenues, although distributed inequitably, have slowly spread wealth, and the business community could become a powerful voice promoting reform. Given the vast profits to be made, it has to date largely been content not to rock the boat, and the bureaucracy continues to benefit richly from oil revenues and corruption.¹⁶² The largest foreign investors already have close ties to the ruling elite, and it will require a far better investment climate for independent entrepreneurs to do business normally. Azerbaijan's oligarchs, who control most of the legal dimensions of business, such as customs, taxes and trade development, are loathe to face genuine competition. Nurturing more robust economic development outside the energy sector and encouraging far greater transparency in the personal finances of public figures would be important steps for breaking this stranglehold.

B. RELIGION

Azerbaijan has a century-long secular tradition during which religion has not played a central role in either political or social life. Soviet authorities largely

eliminated the roots of more radical forms of Islam,¹⁶³ and Baku's multi-ethnic culture has traditionally been characterised by tolerance and friendship between different communities. Post-independence government policies have aimed at developing "national Islam" and diminishing Sunni-Shiite cleavages while strengthening national identity.¹⁶⁴ There has been greater interest in religion, although this has not been driven by any particular political agenda. The government, particularly after 11 September, has often used the spectre of radical Islam as a convenient justification for glossing over social discontent. In future, widespread repression, the increasingly political use of the Islamic hierarchy and socio-economic frustrations may converge to make religion a much more powerful force in political life.

1. Religion and the state

The South Caucasus Board of Muslims was established in the late 1980s by the Muslim community of Azerbaijan. Sheikh ul Islam Hadji Allahshukur Pashazade has managed it ever since. He commanded high respect and undeniable authority in the early 1990s, particularly after the Soviet military intervention in Baku on 20 January 1990, when he risked his life and led public mourning for those killed. He offered to mediate between President Elchibay and rebel commander Surat Huseynov in June 1993, but the dispute was resolved when Heydar Aliyev assumed the presidency.

Pashazade diminished his stature among many in the religious community by supporting in the 1998 and 2003 elections the elder Aliyev, who strongly advocated a "national Islam" as part of Azeri identity rather than of an international religion and minimised Shiite-Sunni differences.¹⁶⁵ The South Caucasus Board of Muslims has been dogged by allegations of corruption.¹⁶⁶ It has unofficial ties with the main firms, Khaly and Kervan, which sell pilgrimage tours to Mecca, and Board members charge believers for weddings and funerals as well as for sending students

¹⁶² R. Musabeyov, "les élites politiques en Azerbaïdjan, 2003", op. cit.

¹⁶³ N. Tohidi, "The intersection of Gender, Ethnicity and Islam in soviet and post-soviet Azerbaijan", *Nationalities Papers*, Vol. 25, N°1, 1997.

¹⁶⁴ R. Motika, op. cit., Bayram Balci, "Islam et education islamique en Azerbaïdjan independent", working paper to be published in 2004 in S. Mervin (ed.), *L'Iran et les mondes chiïtes au vingtième siècle*.

¹⁶⁵ T. Swietochowski, "Azerbaijan: perspectives from the crossroads", *Central Asian Survey*, 18(4), 1999. R. Motika, op. cit.

¹⁶⁶ E. Fatalyev, "Sluga dvux gospod", *Monitor*, 5 July 2003.

to Islamic schools in the Middle East and Iran. Pashazade, who has employed and promoted a substantial number of mullahs from the south where he was born and from where most of his support stems, also has a reputation for nepotism. There is some opposition to him within the Board, mainly from the rector of the Islamic University in Baku, Hadji Sabi, and Vasim Mammad Aliyev. Both men aspire to his position of Sheikh ul Islam. A lesser rivalry also exists between the Board and Hadji Gammam, the imam of the Abu-Bakr Wahhabi mosque in Baku, who is generally more respected by young and affluent Muslims than Pashazade. However, with the election of Ilham Aliyev, Pashazade has retained much of his influence, serving as a personal confidante and open supporter.

The State Committee for Religious Affairs, established in 2001,¹⁶⁷ is run by Rafiq Aliyev. Many felt that the old president created it to counter Pashazade's growing influence and to bring the increasing number of foreign missionaries under control.¹⁶⁸ The Committee and the Board compete fiercely for the proceeds generated by pilgrimages to Mecca and Shiite sacred sites in Iran. The former has sought to end the Board's monopoly over such trips and has established several smaller firms that charge pilgrims less. Rivalry has also sprung up over cash donations collected at mosques during religious festivities. While both the Committee and government have pushed to tax these, the Board has successfully resisted.

2. Nardaran events: social protests and political manipulation

Events in the normally sedate town of Nardaran, just north of Baku, underscore some of today's religious

tensions.¹⁶⁹ The case shows that Azerbaijan's leaders remain quick to blame almost any disturbance on radical Islam, when events may trace more directly to corrupt and incompetent governance, and that similar problems could arise elsewhere in the country.

Since January 2002, inhabitants of Nardaran had repeatedly demanded that the government address a number of social and economic concerns, including chronic shortages of gas and electricity. On 3 June 2002, eight village elders visited the prosecutor of the Sabunchi district on invitation to discuss the potential nomination of Inayat Rustamov as a district representative. Nineteen buses and sixteen passenger cars full of armed security forces arrived in the village and cordoned off the area. The elders were arrested and transferred to a department within the internal affairs ministry dealing with terrorism. In the evening, after police blocked crowds attempting to get to the local mosque for prayer, a riot left at least sixteen wounded, one dead, and several police vehicles torched.

Nardaran residents have a reputation of being strongly religious Shiites. Many have achieved relative affluence in horticulture, primarily in the cut flower business, which was directly threatened by the gas and electricity problem. More generally, the poor state of water, gas, electric and transportation services has been a widespread irritant. It is also likely that residents were eager to nominate their own candidate as district representative rather than accept the choice of the unpopular local administration. The violence might also have had some roots in conflicts over sharing the cash donations to the Nardaran Sacred Mosque.¹⁷⁰

Clearly playing to a Western audience, the government was quick to claim that the events were driven by Islamic extremism. It refused to acknowledge the legitimate grievances that had stoked tensions, which remain because most of the underlying conditions have yet to be dealt with. There are serious concerns that this experience could be repeated in other regions. In December 2003, street protests over power shortages broke out in the

¹⁶⁷ *Ekspress*, "Azeri State Committee accuses spiritual authorities of insulting Islam", 26 January 2004, reported by Azerbaijan Distribution List, 28 January 2004.

¹⁶⁸ Rafiq Aliyev, not related to the president, is a theologian by education who owns the hotel in Baku (Irshad) which hosted Pope John-Paul II during his 2001 visit. Some local observers say he is a moderate Wahhabi, ICG interview, Baku, March 2004. The State Committee for Religious Affairs is mainly composed of appointed bureaucrats and theologians (usually Soviet educated in Tashkent and Bukhara). The South Caucasus Board of Muslims is non-governmental. Its members are clerics and its leaders directly elected by the Muslim community. The Committee's activities are more extensive. It regulates all officially registered religious communities in Azerbaijan.

¹⁶⁹ Most violent repression happened in June 2002 but social discontent has continued in the religious town. For publications on Nardaran events, mitglied.lycos.de/politzek/news/nardpubl.htm.

¹⁷⁰ The Nardaran mosque is the reputed burial place of Rehim Kazim, wife of the seventh Imam.

Yevlakh region.¹⁷¹ Russia is uniquely placed to exploit such domestic pressures, as its suspension of power supplies to Northern Azerbaijan in early January 2004 demonstrated.¹⁷²

After the presidential elections, the government launched a campaign against Ilgar Ibrahimoglu, the imam of Baku's Juma Mosque, who was arrested on 3 December 2003 and released on 2 April 2004. The government announced that the mosque would be closed and converted into a carpet museum. Ibrahimoglu is known for his commitments to inter-religious dialogue and is chairman of the Azerbaijan chapter of the International Religious Liberty Association.¹⁷³ However, he has also delivered anti-Aliyev sermons, and the government accused him of taking part in the 16 October 2003 unrest in Baku.¹⁷⁴

As long as the government turns a blind eye to legitimate social complaints, increasing numbers may turn to religious movements, which are willing to exploit social protests, as demonstrated by the presence of Islamic party members in the Nardaran demonstrations. In short, if the government continues its current course, it may make the bogeyman of religious extremism a reality.¹⁷⁵ The agreement between the International Monetary Fund (IMF) and the government on establishing a social security mechanism to protect low income populations from energy price increases is a good example of the positive role donors can play in blunting social unrest.¹⁷⁶ The same is true of efforts to accelerate growth outside of the energy sector.

¹⁷¹ Shark, "Yevlax residents closed Baku-Kazakh road. Lack of electricity and gas caused protest in the district", in Habarlar, Azeri News Distribution List, 31 December 2003.

¹⁷² "ANS: Russia's Dagestan suspends power supplies to northern Azerbaijan", Habarlar, Azeri News Distribution List, January 2004.

¹⁷³ "Chairman alarmed by Azerbaijani government actions", United States Commission on Security and Cooperation in Europe, 5 February 2004. www.csce.gov.

¹⁷⁴ "Azerbaijani authorities target religious community", RFE/RL Caucasus report, 30 January 2004. "Azerbaijan: pressure mounts on imprisoned imam's supporters", F18 News Service, 9 December 2003.

¹⁷⁵ D. Helly, "Azerbaijan 2001-2002, Chronique d'un succession annoncée", *Courrier des pays de l'Est*, N°1030.

¹⁷⁶ "IMF, Azeri Government agree on social measure before raising diesel prices", Habarlar, Azeri Distribution List, 15 November 2003.

3. Radical Islam and state repression

Apart from government efforts to manipulate religious issues, there were genuine signs that more radical strains of Islam were developing in Azerbaijan up to 2002. Since then, the radical networks appear to have been extensively penetrated by the intelligence services.

Iran, which has concerns about a strong secular Azerbaijan with increasingly close NATO ties, attempted to export Shiite ideology to it in the mid-1990s. Given Iran's interests in Caspian oil, and lingering worries about ethnic Azeri irredentism, there is always a risk that it might try to amplify religious pressures on Baku. There are signs that many young Azeris are turning to Sunni and Wahhabi paths of Islam. This may be partly explained by the corruption and poor image of the local Shiite clergy. Proximity to Chechnya also creates some concerns, and extremist organisations may look to Azerbaijan as a base for operations. On the other hand, there are moderate Islamic networks operating in Azerbaijan, including the Turkish Nurcus movements of Yeni Asya and Fetullah Gullen; the latter is present in many regions and has some true popular support.¹⁷⁷

Radical Wahhabi and Salafi Islamic groups (mainly through the Hizb ut-Tahrir Al-Islami) and those of Shiite orientation (mainly through the Hezbollah and Djeishullah) have been active in Azerbaijan since the early 1990s.¹⁷⁸ A Saudi-style Wahhabi group operates out of Baku's Abu-Bakr Mosque. That mosque has repeatedly been threatened with closure but authorities have avoided acting for fear of driving networks underground.¹⁷⁹ The Salafi movement, advocating a primitive, basic Islam, operates in the Zakatala, Guba and Gusar regions but has no permanent base in the country. The most vocal Wahhabi leaders, except for Hadji Gammad of the Abu Bakr Mosque, have been imprisoned. Hizb Ut-Tahrir Al-Islami opened a clandestine office in Baku in August 2000 that was almost immediately neutralised by the national security ministry.

Shiite radicals operate mainly through the banned Islamic Party of Azerbaijan. Since the vast majority

¹⁷⁷ B. Balci, op. cit.

¹⁷⁸ On Hizb ut-Tahrir, see ICG Asia Report N°58, *Radical Islam in Central Asia: Responding to Hizb ut-Tahrir*, 30 June 2003, ICG Asia Report N°72, *Is Radical Islam Inevitable in Central Asia? Priorities for Engagement*, 22 December 2003.

¹⁷⁹ ICG interview, Baku, 3 March 2004.

of Azeri Muslims are Shiite, these radicals enjoy more support and have a better chance of "exporting" an Islamic revolution to Azerbaijan. But this may change over time as there are more and more reports about Shiites converting to the Sunni faith. In 2001, the security forces neutralised a local Shiite radical group called Djeysnullah, or the Army of Allah, that was active in the south near the Iranian border. It is believed to act as an Azeri affiliate of Hezbollah. Hadjiaga Nuriyev, a leader of the Islamic Party who had been convicted of spying for Iran in 1997, was arrested again on 1 December 2001, when the party was banned. The senior leader of the Islamic Party, Alikram Aliyev, was arrested in January 2003 and accused of receiving \$40,000 from Iranian intelligence services. He denied the allegation. During the arrests, law-enforcement officials confiscated over 100,000 pieces of radical religious literature, in Russian, Azeri, Arabic, English and other languages, in Baku, the north near Dagestan, and the south, near Iran.

Azerbaijan's relatively isolated northern regions, with difficult terrain, limited economic prospects, diverse ethnic communities and general lack of government capacity, are easy targets for fundamentalist groups. The districts of Balakan-Zakatala and Guba-Gusar fall into this category, with a majority population that is ethnically Lezgi and Avar¹⁸⁰ and Sunni by religion. Remote from Baku, these areas are close to hotspots including Dagestan, Chechnya and Georgia's Pankisi Valley.

In the early 1990s, dissent in the northern areas was fuelled in part by ethnic nationalism, mostly propagated by Lezgi belonging to the Sadval group. Sadval insisted that the Lezgis in the northern provinces should unite with their "brothers and sisters" in Dagestan. The movement was effectively neutralised by the security forces by the end of 1996. After Sadval left the scene, the political vacuum was filled by Wahhabi elements. By the end of the 1990s, Salafi and Wahhabi activities were integrated with humanitarian projects and cultural activities to support the underprivileged both in Baku and in the north.¹⁸¹ The Wahhabi and Salafi built mosques and

religious centres, distributed literature and funded the education of aspiring and talented youth in the Islamic centres in the Persian Gulf states.

Starting in 2000, the religious propaganda exported by Salafi centres in the Persian Gulf was augmented by invitations to young men, mostly Lezgi and Avar, to fight for the Chechens in Russia. Around 100 were trained in the Salafi paramilitary camp in Dyuisi, in Georgia's Pankisi Valley. About 30 of those were arrested by Azeri security forces, ten died in Chechnya, and the remainder continue to operate in Chechnya where they are referred to as The Azeri Djamaat (community) of Khamza. This informal recruitment is believed to continue, mainly through the Abu Bakr Mosque in Baku. The Salafi operatives seek to retain a critical mass of trained and experienced fighters who might be deployed in Azerbaijan if the situation were to become appropriate for action. As noted above, the authorities decided to close the Abu Bakr Mosque in late 2003, based on allegations it had become a recruiting centre. However, the mosque remains open, as the authorities fear unrest and more difficulties if the radical groups are driven underground.

Recruitment of fighters is also reportedly ongoing from the Avar communities in Balakan Zakatala, where Salafi commanders have taken advantage of poor economic conditions and high discontent. Salafi centres in Dagestan maintain close ties with those communities. Salafi organisations also began to modify and conceal their activities in Azerbaijan following 11 September. While the security forces have conducted mass arrests and seriously damaged their infrastructure, both financial and military, most foreign leaders (mainly Arabs and Chechens) have been replaced with locals, and meeting spots and financing have largely been moved underground. Corruption among mid-level officials has made it easy for Salafis to operate and gain supporters. While most Azeris are still wary of religious fundamentalism, frustration is rising with government inefficiency and lack of attention. Paramilitary activity is a risk in 2004 around Zakatala-Balakan and even in the Guba region.

Azerbaijan needs a comprehensive strategy that directs a greater portion of national wealth toward social infrastructure, education and pensions rather than allowing it to be siphoned off by the political and business elite. The poverty reduction strategy imposed by the IMF and World Bank has focused on liberalisation and economic growth as the primary factors driving development but Azerbaijan may not

¹⁸⁰ Lezgi and Avar are distantly related to Georgian and to each other. Speakers are concentrated in Dagestan and Azerbaijan.

¹⁸¹ The Salafis advocate the most fundamentalist form of Wahhabism. Their expansion in Azerbaijan coincided with the end of the first phase of the Russian war in Chechnya (1996) and was part of a wider project to establish a foothold in the Caucasus.

be able to withstand the shocks of adjustment. Both government and donors should also give more consideration to establishing transparently managed energy resource trust funds to diminish socio-economic inequities and frustration.

C. GOVERNANCE

President Aliyev has repeatedly asserted he will keep his father's policies but he cannot strictly replicate his leadership. He already has his own style, and many observers nurture hopes he could become a genuine reformer, despite the human rights missteps that marked his ascent to power. To secure his leadership and tackle the many pressing problems Azerbaijan faces, he needs to launch visible reforms in multiple fields or his presidency may dissolve under attacks from old guard YAP leaders and radical movements fed-up with a government that continues to enrich itself while ignoring the legitimate needs of the people.¹⁸²

1. Democratisation and political frustrations

The crackdown on the opposition and political parties raised serious concerns that the government was walking away from its commitment to democracy.¹⁸³ Police repression has been so harsh since October 2003 that it would be easy to conclude democratisation is not on the new president's agenda but it may be the only means for Aliyev to rally significant allies against his enemies inside the ruling elite. An amnesty of political prisoners arrested during the election and its aftermath would be a useful first step. Those responsible for vandalism during the 16 October demonstrations should be punished but many arrests clearly were political. A fact-finding commission should be set up to investigate the role of law enforcement agencies during those days. In late 2003, early 2004, Aliyev showed good will, pardoning under Western pressure several hundred prisoners, including former ministers accused of coup attempts against his father in the early 1990s.¹⁸⁴

Genuine efforts should be made to nurture a free press, train journalists and educate officials about a developed country's need for a free press. Financial and political support is required for a printing house that can make independent newspapers available, free from government pressure.¹⁸⁵ Media legislation should be reformed in accordance with Council of Europe standards, and donors should back an independent TV channel as a balance to state propaganda. The new president's support for this would be vital to avoid legal and technical delays. The experience of Rustavi 2 in Georgia could be a model. It would also be useful to develop clearer rules to discourage officials from owning interests in media concerns. Regional TV stations should be helped or new stations created. One of the eight might be aided to expand its range or branch offices and re-transmitters could be set up in neighbouring regions (for example, one in Tauz to cover Oguz, Ganja, Shamkir, Kazak and beyond). In its final report on the presidential election, the OSCE made such recommendations, which were supported by the U.S. at OSCE Permanent Council meetings.¹⁸⁶

Finally, the authorities need to recognise that an opposition is good for the country. Azerbaijan society is ready and eager for these reforms. Ilham Aliyev can now decide if he wishes to be the first president of his country's more modern era, or the last leader of a Soviet-dominated autocracy.

2. Reform and reliance on the young elite

Like his father, Ilham has been reluctant to give his cabinet a meaningful role.¹⁸⁷ In most cases, father and son have sought to keep ministers, including the

March 2004. "Ilham Aliyev signs first pardoning decree", RFE/RL Azerbaijan Report, 5 January 2004.

¹⁸⁵ Of four publishing houses in Baku, one (Azerbaijan) belongs to the government, another (CBS) to Kiamaleddin Geydarov, and a third to the former privatisation minister. The fourth (Chap Evi), has suffered from various pressures (power cuts, harassment by tax inspectors). ICG interview with Eynulah Fatulayev, Baku, 2 March 2004.

¹⁸⁶ "U.S. Calls on Azeri Authorities to Heed OSCE Election Report", Habarlar, Azerbaijan Distribution List, 25 November 2003. "The recommendations include modifications to the Law on the Freedom of Assembly and the Election Code, as well as the procedures governing election administration. Important reforms are also recommended in the field of freedom of the media". Statement by Bruce Connuck to the Permanent Council.

¹⁸⁷ "Puppet cabinet -- Artur Rasizada re-appointed as premier", *Azadliq*, 5 November 2003.

¹⁸² A. Khranchikhin. "Preventivnye mery dliya sokhraneniya vlasti", *Nezavissimaya Gazeta*, 27 October 2003.

¹⁸³ *Rossiskaya Gazeta*, "Interview with President-elect Ilham Aliyev", 21 October 2003.

¹⁸⁴ On 17 March 2004 and 30 December 2003, the president released 129 and 165 prisoners. "Does Ilham Aliyev want national reconciliation?", RFE/RL Azerbaijan Report, 22

prime minister, weak and pitted against each other as a means to preclude leadership challenges. This is not a particularly efficient way to manage a government.

If the new president intends to implement reforms and prepare for closer EU relations he needs to reduce and reorganise the cabinet along European lines. He should rely on citizens who have studied abroad and hoped for meaningful change from the October 2003 elections. This would help him win over reform forces and impose his policies on conservatives inside the ruling elite. Younger people who have benefited from education abroad are deeply frustrated by the government's recurring authoritarian tendencies, and many of the best and brightest leave because they believe that they have no future in the country. Including them in government would help isolate the old guard and facilitate European integration. The battle against corruption will be most important in determining the future. A special body to investigate corruption and propose legal reforms following civil society recommendations should be set up, composed of a new generation of civil servants from outside existing state structures.¹⁸⁸ Such people exist in Azerbaijan and the diaspora.

Ilham did initiate some changes in early 2004. The telecommunications minister was dismissed and a new ministry of communications and information technology created. He named an associate, Ali Abbasov, rector of the Economic University.¹⁸⁹ However, he made other appointments designed to satisfy elements of the ruling circle. Namik Aliyev, the cousin of the minister, Fazil Mamedov, was appointed deputy minister of taxes.¹⁹⁰ The new deputy chairman of the state committee of securities, Gunduz Mamedov, is a close ally of its chairman, Heydar Babayev. Mikail Jabbarov, the new deputy minister of economic development, used to work in Azpetrol and is close to Rafiq Aliyev. He will be in charge of privatising a number of strategically important

enterprises.¹⁹¹ Ramiz Mehtiev's son, Teymur, was appointed deputy minister of youth and sports.

While many vacancies in ministries remain to be filled, the experience so far is that nepotism and corruption remain strong.¹⁹² Changes are expected in the diplomatic corps and local observers say about twenty new embassies will be created. Some dismissed officials will likely be made ambassadors to ease the blow.¹⁹³

D. CRIME OR POLITICAL INSTABILITY?

Although Azerbaijan is generally stable, there is a danger that significant pockets of instability could spread. Security risks have increased with Ilham's accession; his control of state structures cannot be taken for granted. External players, radical opposition and organised crime could put pressure on the new leadership by creating disorder in the regions. A heavy-handed response would do little to address citizens' daily concerns.

The ethnically diverse Balakan-Zakatala area has been a centre of instability in the northwest since 1990.¹⁹⁴ Central authorities have had a difficult time keeping tight control, and the informal leader of the local Avars, Ali Antsukhski -- a businessman and parliamentarian -- made this even harder. He maintained close ties with Avars in Russia, particularly neighbouring Dagestan. Involved in multiple businesses including illegal arms trafficking, he strengthened his authority in Zakatala and slowly developed a power centre between Kakh and Cheki. After Heydar Aliyev returned to power in 1993, relations with Antsukhski were chilly. The Avars and Lezgins in the area felt they were being discouraged from opening schools and speaking their own language. As more and more displaced from Nagorno-Karabakh relocated to Zakatala and Balakan, discontent grew.

¹⁸⁸ Sabit Bagirov, Rena Safar Aliyeva, Rashid Gajivev and Intigam Aliyev, "Corruption: Manual", Transparency Azerbaijan, Baku, 2001, www.transparency-az.org.

¹⁸⁹ F. Imaizade, "Is Ilham Aliyev fulfilling expectations?", *Central Asia - Caucasus Analyst*, 25 February 2004. Ali Abbasov's daughter is married to Baku Mayor's son, who represented Azerbaijan in the PACE.

¹⁹⁰ Namik Aliyev is vice president of the hockey federation, which is chaired by Fazil Mamedov,

¹⁹¹ "President stakes on young cadres and entrepreneurship development", *The Large Business*, Eurasian Economic Newspaper, 28 February 2004, www.caspianenergy.com.

¹⁹² Ibid. At the time of the article, there were acting fuel and energy and agriculture ministers. There was no ecology minister, and positions were vacant in SOCAR and the customs committee.

¹⁹³ ICG interviews, Baku, 1-3 March 2004.

¹⁹⁴ The area includes: 40,000 Lezgin; 51,000 Avar; 18,000 Tsakhur; and, 300,000 Azeris. All figures are estimates based on the national census of 2000 and data provided by independent media.

After Antsukhski was murdered in Baku in 1997,¹⁹⁵ the local administration heads in Zakatala, Balakan and Kakh, where his influence had been strongest, were replaced but arms trafficking to and from Dagestan carried on largely unabated. Allegedly, the Avars continued to receive money from Dagestan and helped lead Chechen guerrillas in and out of Dagestan. It is difficult to prevent the arms trafficking due to the mountainous terrain. The general lack of local trust in the police and state authorities and motives of revenge for Antsukhski's death have also increased tensions in the region.

This uneasy peace was largely maintained until mid-2001, when unknown militants attacked an interior ministry weapons depot, capturing many weapons. More attacks followed in June 2001, including on local police facilities.¹⁹⁶ In late September 2001 near Katak (an Avar village on the Baku-Balakan highway), militants assaulted the police checkpoint. An investigation implicated two groups of 20-30 and suggested they were led by Gadji Magomadov -- Antsukhski's former driver.¹⁹⁷ After police and border troop raids, 21 people from Magomadov's gang were captured in the Balakan forest.¹⁹⁸ In June 2002, he was killed by border troops in the mountains above Zakatala. Several gang members were captured in Russia by Russian border guards.

In August 2003, the deterioration of Heydar Aliyev's health and Azerbaijan's political uncertainty led Antsukhski's son, Abdulah, to return from Russia and continue his father's work in the Avar clan. Police attributed a kidnapping that month in Balakan to Magomadov's gang. Since then the group has largely been quiet, but fifteen to twenty or more

members are believed to be still operating.¹⁹⁹ Gassab Haybullah, the chief arms supplier to the gang, was arrested by security forces in September 2003.

Social hardship, lawlessness, discrimination against ethnic Avars and illegal business interests have all helped push this proud and belligerent ethnic group into direct confrontation with the government. Weapons continue to be sold to both Dagestan and Georgia, and Chechens are charged high "fees" for crossing the border. Indeed, it may have been disputes over illegal business profits that originally pushed the Avars and local authorities into conflict.

As with many tensions in Azerbaijan, there are concerns about foreign influence. Some have suggested Russia and Armenia have interests in stoking tensions with the Avars to keep pressure on Baku. Captured gang members confessed that Avars from Dagestan participated in a plan for an Avar republic. However, support for such a breakaway entity would make Moscow's own situation in Chechnya more difficult.

Improved border controls are needed. Guards should be deployed to the Dagestan border to cooperate with Russian border guards. Moscow has agreed but implementation has been slow.²⁰⁰ Azerbaijan also needs a more enlightened approach to minorities if it hopes to diminish the discontent that has fuelled tensions. International support for community-based NGOs and local employment initiatives would also help.

E. INTERNATIONAL RESPONSES TO SECURITY ISSUES

1. Background on the Nagorno-Karabakh negotiations

Progress on Nagorno-Karabakh halted in 2003 as Azerbaijan and Armenia focussed on elections. In 2004, with politics more stable in both, some hope for new momentum. That is all the more important given their arms race -- each plans to increase

¹⁹⁵ The killer was arrested. The official account ran that he owed money to Antsukhski. However, many Avars distrust that scenario. Allegedly, Antsukhski could forgive all or part of a debt if the debtor had difficulties. Some experts believe he was murdered by the authorities in order to defuse the dominant "Avar power center" in the northwest. Distinguished Chechens possibly including Shamil Basayev attended the funeral. E. Fatulayev, *Lesnye Bratya*, *Monitor*, 15 November 2003.

¹⁹⁶ A checkpoint and the district police station were hit, resulting in five police deaths and ten injuries. In summer 2001, the group blew up the monument to Sheikh Shamil, who led guerrilla campaigns against the Russian Empire.

¹⁹⁷ Magomadov had presumably taken over the Avar clan after Antsukhski's death and the departure of his sons. E. Fatulayev, *Lesnye Bratya*, *Monitor*, 15 November 2003.

¹⁹⁸ Three were sentenced to life-imprisonment, the remaining eighteen to jail terms from seven to fifteen years. Gadji Magomadov escaped to Dagestan.

¹⁹⁹ Some journalists in Baku estimated that 100 were still active in woods above Zakatala. ICG interview with an Azerbaijani journalist, Baku, November 2003.

²⁰⁰ ICG interview with Russian officials, Baku, November 2003.

defence expenditures by twelve per cent in 2004.²⁰¹ In November 2003, Russian Defence Minister Sergei Ivanov announced at a press conference in Yerevan that Moscow would continue to deliver weapons and military hardware "of defensive nature" to Armenia on privileged terms and that there was a plan to establish joint military units.²⁰² Azerbaijan reacted strongly, with Foreign Minister Vilayat Guliyev saying the steps would lead to "intensification of tension in the region".²⁰³ Given Azerbaijan's increasing income from the energy business, it has the resources to match the perceived threat from Armenia.

Ilham, probably feeling the need for a hard line early in his presidency, has used tough rhetoric, stating, "a strengthened Azerbaijani army can influence positively the negotiation process".²⁰⁴ His first statements on Nagorno-Karabakh echoed his father's on Armenian withdrawal from occupied territories as the only way to improve the situation of the internally displaced and regional cooperation.²⁰⁵ Armenia has repeatedly maintained that improved bilateral economic ties could help facilitate conflict resolution.²⁰⁶ Local Nagorno-Karabakh leaders have insisted on a seat at the table during any OSCE peace talks.²⁰⁷ In January 2004, Armenia also took an assertive posture, insisting that its army was ready for war if necessary.²⁰⁸

Foreign Minister Guliyev said in November 2003 that Azerbaijan was still willing to embrace a gradual solution, although he, too, stressed Armenian withdrawal from occupied territory as a

pre-condition.²⁰⁹ Armenian officials have always preferred more of a package deal encompassing all aspects of the negotiation. The OSCE's Minsk Group has the unenviable task of reconciling these two positions but it has made little progress.²¹⁰ Presidents Aliyev and Kocharian met in Geneva in December 2003, the first summit since August 2002. The Minsk Group's U.S. co-chair, Rudolf Perina, said there were five or six possible acceptable approaches but no "principally new" plan.²¹¹

Azerbaijan's language has hardened. In Paris, after meeting with President Chirac in January 2004, Aliyev declared that Azerbaijan would "never accept Nagorno-Karabakh's independence, nor its integration into Armenia".²¹² This is at odds with the 2001 Key West and Paris discussions that proposed territorial exchanges. Both countries believe time favours them. For Armenia, the longer the Republic of Nagorno-Karabakh functions with de facto autonomy, the more difficult it will be to take that away. The Nagorno-Karabakh clan headed by President Kocharian dominates politics and the economy. While Yerevan has never clearly articulated the relationship it wants with Nagorno-Karabakh, the current "no peace, no war" allows them to avoid hard decisions.²¹³ A similar lack of urgency exists in Baku. President Aliyev declared, "We are not in a rush. We have the truth on our side. We have time on our side. We have international rights on our side".²¹⁴

An additional disincentive to settlement is that any deal must be sold to nationalist public opinion. President Aliyev's opponents have made clear they

²⁰¹ Azerbaijan will spend \$146 million and Armenia \$87 million. RFE/RL Russia, "Russia to continue arms supplies to Armenia", 14 November 2003.

²⁰² Ibid. The Russian base in Gyumri was reinforced in 1999-2000 by "about two dozen MIG-29 fighter jets and S-300 air-defence missiles that can spot high-flying targets hundreds of kilometres away from Armenia's airspace".

²⁰³ Statement of the Ministry of Foreign Affairs, 18 November 2003, Habarlar, Azerbaijan News Distribution List, 20 November 2003.

²⁰⁴ Interfax, 24 October 2003.

²⁰⁵ Grani.ru, 14 October 2003.

²⁰⁶ Interfax, 3 November 2003.

²⁰⁷ Armenian Public TV, reported by Habarlar, Azerbaijan Distribution List, 15 November 2003.

²⁰⁸ *Rosbalt*, 25 February 2004, reported by Habarlar, Azerbaijan Distribution List, 26 February 2004. This happened after the murder (apparently not linked with Nagorno-Karabakh) on 18 February 2004 of an Armenian officer at the military academy in Budapest by an Azerbaijani officer.

²⁰⁹ "Cooperation with Armenia ruled out -- Azeri Foreign Minister", Turan, Habarlar, 15 November 2003.

²¹⁰ "The plethora of European initiatives is confusing and often disheartening as the missions are uncoordinated and lacking in concrete proposals", B. Shaffer, "A conflict that can be resolved in time", *International Herald Tribune*, 29 November 2003.

²¹¹ RFE/RL Caucasus Report, 5 December, "OSCE Minsk Group co-chairmen head for Armenia -- Ambassador Perina is to be replaced by the U.S. envoy to the Caspian Region, Ambassador Steve Mann".

²¹² *Le Figaro*, "Ilham Aliyev: Le Caucase doit etre libre de toutes bases militaires", 23 January 2004.

²¹³ ICG interview with a Western diplomat, Yerevan, November 2003.

²¹⁴ E. Jourand, "France pledges support to help resolve Nagorno-Karabakh dispute", Agence France-Presse, 23 January 2004.

would resist compromise.²¹⁵ The appointment of Almar Mammadyarov²¹⁶ as foreign minister in April 2004 presages serious change inside the ministry²¹⁷ but not on Karabakh. The Minsk Group at least facilitated a meeting between Mammadyarov and his Armenian counterpart, Oskanian, in Prague on 16 April 2004, and the two met again in Strasbourg on 12 May on the margins of a Council of Europe session.

The displaced persons from Nagorno-Karabakh and the surrounding territories voice their discontent on a regular basis but they are not politically well organised or connected. The statements from senior Azerbaijan officials on the use of force to liberate occupied lands are meant for domestic consumption. While the internally displaced are a potential threat to the government if their living conditions do not improve, steps have recently been taken to close a dozen refugee camps and move the displaced into new settlements as part of an effort to defuse the issue.²¹⁸

The various diplomatic initiatives on Nagorno-Karabakh need to be clarified and deconflicted. While the Minsk Group has been criticised, the dynamics of a settlement depend mainly on the parties themselves, whatever framework they choose for talking. There has been reasonable synergy between the OSCE, its Minsk Group and the EU Special Envoy for the Caucasus. Despite wishful thinking in some quarters, it seems unlikely that Turkey is prepared to boost Armenia by

opening their mutual border other than as part of the Nagorno-Karabakh talks.²¹⁹ But Turkey, France and Russia appear increasingly willing to assist bilateral presidential talks between Armenia and Azerbaijan, circumventing the Minsk process.

The visit of U.S. Secretary of Defence Donald Rumsfeld to Azerbaijan in December 2003 provoked considerable concern in Moscow and speculation about deployment of U.S. troops. However, Azerbaijani authorities and U.S. officials say what was discussed has nothing to do with military bases as such but rather a still vague concept of capabilities.²²⁰ Uncertainty about future possible U.S. and Russian moves on military cooperation with Armenia and Azerbaijan complicates the regional environment. The major players should avoid any escalation in military cooperation that could put oil on a simmering fire.

Given its many other pressing foreign policy concerns, the U.S. would like to play a constructive role in peace talks but is unlikely to make this a priority. Russia remains less than convinced that a deal would necessarily be in its best interests, and some reactionaries within the security and intelligence services would prefer to keep the conflict open as leverage to keep Armenia, Nagorno-Karabakh and Azerbaijan from closer cooperation with the EU, NATO and the U.S.

The Minsk Group is largely dominated by its co-chairs. The UK, Germany and Italy seem satisfied with the improved cooperation and information sharing they receive from France.²²¹ The Minsk process should continue but with a simplified format and reduced to five members -- the three co-chairs, Armenia and Azerbaijan. This should be accompanied by clear, regular statements that Paris acts on the behalf of the EU.

The EU should also make clear it is willing to support a peace deal financially. Nagorno-Karabakh should be a regular item on the EU-Russia agenda. EU rehabilitation programs for damaged areas should

²¹⁵ ANS, "Former Interior Minister Isgandar Hamidov calls for war to release occupied Daglig Garabag", 7 January 2004. Iskender Hamidov, who was released from prison in late December 2003, called in March 2004 for war as the only effective option to regain Nagorno-Karabakh. He said he was ready to meet with President Aliyev. This was surprising from an opponent imprisoned for many years and raised suspicions he was being manipulated by the authorities. Such statements may be used by the leadership to avoid compromising in the negotiations.

²¹⁶ Almar Mammadyarov, born in 1960, is a career diplomat, previously ambassador in Rome.

²¹⁷ ICG interview, Baku, 2 March 2004.

²¹⁸ 525th Gazette, "All refugee camps to be closed down this year, according to a special project submitted to presidential administration", 6 January 2004. "Let U.S. recall that five of the twelve camps opened for refugees and displaced persons following the Armenian invasion have been closed down and refugees from Fuzuli and Cabrayil Districts have been moved to new settlements. Seven other refugee camps in Barda, Saatli, Sabirabad and Imisli Districts will be closed down this year".

²¹⁹ Zulfugar Agayev, "Azerbaijan: Turkey could prove spoiler for Nagorno-Karabakh Peace", *Eurasia Insight*, 8 April 2004.

²²⁰ ICG interviews in Baku, 3 March 2004.

²²¹ ICG interview in Berlin with Norbert Baas, German special envoy for the Caucasus, 10 March 2004. ICG interview in Paris with Pierre Cochard, Deputy Director for Eastern Europe, French Ministry of Foreign Affairs, 10 March 2004.

continue but they need to be better focused on boosting growth in these regions as a means to encourage refugees to return.

The EU special envoy, Heikki Talvitie, should continue to assist the Minsk process (not replace it) and to launch ideas for bettering the political climate on the issue. The EU should fulfil its longstanding promise to open an office in Baku. Azerbaijan's economic significance alone justifies such a permanent presence, which would give the EU more credibility on Nagorno-Karabakh. The Minsk Group, the OSCE and the EU should all work to support bilateral policies designed to advance the peace process, such as the recent UK initiative for civil society confidence-building measures between Armenia, Nagorno-Karabakh and Azerbaijan.²²²

The EU has the financial weight to offer Russia some compensation, inside the "Wider Europe" policy it is developing for neighbours, in return for good will on Nagorno-Karabakh. It is in Russia's long-term interest to have stability on its southern flank. More generally, aid to Azerbaijan and Armenia should be conditioned on progress in peace talks, or at least on regular contacts at the highest level. The Minsk Group might also consider proposing a reopening of the Turkish-Armenian border as part of a package in which Armenia would make bigger compromises on Nagorno-Karabakh but this would require careful advance discussions with Ankara as well as careful timing.

V. CONCLUSION

President Aliyev is in an awkward position. He needs to show that he controls the government, not his father's advisers. He also has to satisfy both Western expectations on reforms and democratisation and the interests of domestic oligarchs. He has begun by prudently appointing young deputy ministers and other officials to implement reforms aiming at opening and developing the economy. Under international pressure, he has freed several hundred political prisoners. However, he can only find the new allies he needs against the most conservative circles by opening the political system to give space to a genuine opposition. Establishing truly independent media is crucial.

Most probably he will give economic reforms priority over democratisation. The crackdown on opposition parties and human rights violations during and since his election have not eliminated political frustration and social discontent -- quite the opposite. There is serious risk of the opposition becoming radicalised. Whether linked with marginal but real radical Islamist networks (be they influenced by Shiite Iranian movements or Sunni Wahhabi groups), criminal elements in Balakan-Zakatala, or incidents on the Russian border, violence could return, as after the presidential elections. Freedom of religious education, addressing social hardships and giving opposition room are as important as fighting corruption and liberalising the economy.

There is no hope of a swift settlement on Nagorno-Karabakh, important as this would be for the volatile region. The new administration has sharpened rhetoric toward Armenia and expressed frustration at international failure to facilitate a solution. Even if these declarations are primarily for domestic consumption, they feed belligerent tendencies in a population frustrated by military defeat and unequal distribution of wealth. Long-term programs for confidence-building and dialogue are vital to familiarise people with the very idea of negotiation and compromise. The international community, while supporting Minsk Group efforts to find substantive proposals, should help create a better psychological climate in both countries in order to make any peace deal sustainable. Ultimately, Azerbaijan may be in a much better position to make progress on the painful conflict, of course, if its new leadership can produce genuine social stability by advancing economic and political development.

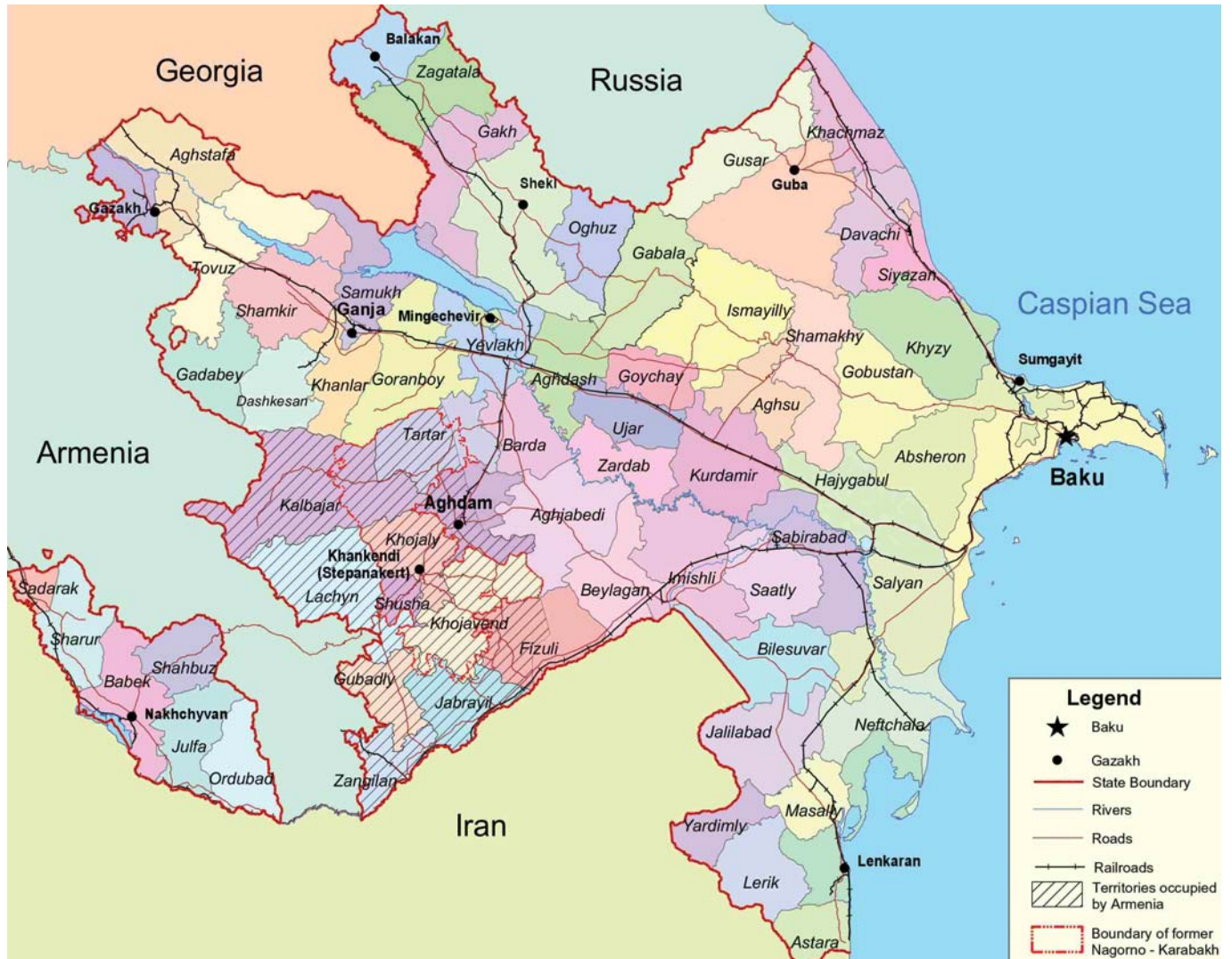
²²² This program is implemented by the Consortium Initiative Project, which includes the Catholic Relief Services/Caucasus, Conciliation Resources, International Alert and LINKS.

With corruption more rule than exception, however, Azerbaijan's system cannot be changed quickly. And change must start from the top. It would be a pity if economic potential were further damaged by squabbles between ruling clans, local disputes, nepotism and corruption. In any event, reforms are needed soon in order to overcome the mistrust recent non-democratic behaviour has caused at home and abroad.

Baku/Brussels, 13 May 2004

APPENDIX A

MAP OF AZERBAIJAN



APPENDIX B

GLOSSARY OF ACRONYMS

ANIP	National Independence Party
BP	oil firm originally named British Petroleum
BTC	Baku-Tbilisi-Ceyhan pipeline
BTE	Baku-Tbilisi-Erzurum pipeline
CEC	Central Election Commission
CIS	Commonwealth of Independent States
EIU	Economist Intelligence Unit
EBRD	European Bank for Reconstruction and Development
EU	European Union
FPA	Popular Front of Azerbaijan
GDP	Gross Domestic Product
GNP	Gross National Product
IDEE	Institute for Democracy in Easter Europe
IMF	International Monetary Fund
KGB	Committee for State Security (Soviet Union)
NAM	Needs Assessment Mission (OSCE/ODIHR)
NATO	North Atlantic Treaty Organisation
NGO	Non-Governmental Organisation
OCU	Organized Crime Unit
ODIHR	Office for Democratic Institutions and Human Rights
OSCE	Organisation for Security and Co-operation in Europe
PACE	Parliamentary Assembly of the Council of Europe
PEC	Precinct Election Commission
PKK	Partiya Karkeren Kurdistan (Kurdistan Workers Party, Turkey)
SOCAR	State Oil Company of Azerbaijan Republic
SOFAZ	State Oil Fund of Azerbaijan
YAP	Yeni Azerbaycan (New Azerbaijan) Party

APPENDIX C

ABOUT THE INTERNATIONAL CRISIS GROUP

The International Crisis Group (ICG) is an independent, non-profit, multinational organisation, with over 100 staff members on five continents, working through field-based analysis and high-level advocacy to prevent and resolve deadly conflict.

ICG's approach is grounded in field research. Teams of political analysts are located within or close by countries at risk of outbreak, escalation or recurrence of violent conflict. Based on information and assessments from the field, ICG produces regular analytical reports containing practical recommendations targeted at key international decision-takers. ICG also publishes *CrisisWatch*, a 12-page monthly bulletin, providing a succinct regular update on the state of play in all the most significant situations of conflict or potential conflict around the world.

ICG's reports and briefing papers are distributed widely by email and printed copy to officials in foreign ministries and international organisations and made generally available at the same time via the organisation's Internet site, www.crisisweb.org. ICG works closely with governments and those who influence them, including the media, to highlight its crisis analyses and to generate support for its policy prescriptions.

The ICG Board – which includes prominent figures from the fields of politics, diplomacy, business and the media – is directly involved in helping to bring ICG reports and recommendations to the attention of senior policy-makers around the world. ICG is chaired by former Finnish President Martti Ahtisaari; and its President and Chief Executive since January 2000 has been former Australian Foreign Minister Gareth Evans.

ICG's international headquarters are in Brussels, with advocacy offices in Washington DC, New York, London and Moscow. The organisation currently operates seventeen field offices (in Amman, Belgrade, Bogotá, Cairo, Dakar, Dushanbe, Islamabad, Jakarta, Kabul, Nairobi, Osh, Pretoria, Pristina, Quito, Sarajevo, Skopje and Tbilisi) with analysts working in over 40 crisis-affected countries and territories across four continents. In Africa, those countries include Angola, Burundi, Côte d'Ivoire, Democratic Republic of the Congo, Eritrea, Ethiopia, Guinea, Liberia, Rwanda,

Sierra Leone, Somalia, Sudan, Uganda and Zimbabwe; in Asia, Afghanistan, Kashmir, Kazakhstan, Kyrgyzstan, Indonesia, Myanmar/Burma, Nepal, Pakistan, Tajikistan, Turkmenistan and Uzbekistan; in Europe, Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Georgia, Kosovo, Macedonia, Moldova, Montenegro and Serbia; in the Middle East, the whole region from North Africa to Iran; and in Latin America, Colombia and the Andean region.

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May 2004

APPENDIX D

ICG REPORTS AND BRIEFING PAPERS ON EUROPE SINCE 2001

EUROPE*

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