

EU Policy in the South Caucasus A view from Azerbaijan

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Abstract

Since the accession of Romania and Bulgaria to the EU in January 2007, the South Caucasus has become a region of direct concern to the EU's strategy in its wider neighbourhood. This study examines the trends affecting EU policies in the South Caucasus, with a specific focus on EU–Azerbaijan relations. It argues that in the three main areas in which Azerbaijan affects Europe's interests – cooperation in the energy sector, democratisation and conflict resolution – so far the EU has engaged well on a regional energy strategy, but less so on democratic reforms and almost not at all on conflict settlement in Nagorno Karabakh. The study concludes that the EU needs to balance its involvement in all three areas, especially given the deeper democratic changes it wishes to see in Azerbaijan, with a list of recommendations for doing so.

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EU POLICY IN THE SOUTH CAUCASUS: A VIEW FROM AZERBAIJAN

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Source: Enlargement of Central Asia and Caucasus Map from the *Perry-Castañeda Library Map Collection*, University of Texas at Austin.

1. Introduction

Since the collapse of the Soviet Union, the three newly independent states of the South Caucasus – Armenia, Azerbaijan and Georgia – have been considered the most strife-ridden regions on the European periphery. The European Union appeared on the South Caucasian scene in the early 1990s. From the outset, the EU promoted two kinds of security in the region: internal security, which is threatened by political tensions and separatist conflicts; and external security, which is influenced by geopolitical rivalries and strained relations among regional actors. To alleviate the situation, the EU has undertaken diplomatic efforts in conjunction with the UN, the OSCE, the Council of Europe (CoE) and NATO, as well as the Commonwealth of

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Independent States (CIS) and GUAM.¹ EU policy-makers have further realised that a coordination policy is needed with each of the principle regional powers. Most importantly, effective EU action regarding the South Caucasus and the Caspian basin depends on the level of coordination it achieves with Russia, Iran, Turkey and the United States.

In the post-11 September era, the concept of European integration has gained new momentum in the three aspiring democracies of the South Caucasus. Discussions are underway in South Caucasian societies about the essential political and economic conditions for closer EU integration. A very intense debate focuses on the role the EU can assume in territorial conflicts compared with other international security organisations and how the EU can foster regional cooperation through aid programmes. Other issues include complementarities and collaboration between the EU and other international organisations, such as the UN and OSCE, as well as expectations and responses related to the European Neighbourhood Policy (ENP), including the matter of regional unity in the South Caucasus.

Obviously, external influences and renewed rivalries have affected the foreign policy orientations and security perceptions of the three South Caucasian countries. The importance of the EU relationship differs significantly in each republic, leading to diverging stances on official EU integration strategies. While Georgia is endeavouring to move closer to the EU, Azerbaijan is giving priority to a phased approach and Armenia currently does not view EU membership as a vital element of its foreign policy. The South Caucasian states have not yet become concrete candidates for EU membership, nor do they seem to have such prospects in the foreseeable future.

Even so, the EU continues to develop closer political and economic ties with them by means of the ENP. The inclusion of these states in the ENP in 2004 signalled the EU's geopolitical interests in this part of the world, although more specific and practical policies are needed. Oil-rich Azerbaijan deserves special consideration, as a pivotal country with the largest population in the region. Today this Muslim state has close contact with the Islamic world, while it is simultaneously influenced by neighbouring Christian countries oriented towards Western culture. Its position on the junction of the West and East has enabled Azerbaijan to develop a synthesis of the values of both cultures.

How does the EU define its interests in post-Soviet Azerbaijan in political, economic and security terms? How does Azerbaijani society perceive the ENP? What factors continue to affect the EU's ability to play a more active role there? And finally, how could the EU contribute to stabilisation and democratisation in Azerbaijan? Although this study focuses more specifically on the EU–Azerbaijan relationship, it generally examines the strategic trends affecting EU policies in the South Caucasus. The study also looks at new elements in the EU's strategy and explores some of the dilemmas and security challenges in the troubled region.

2. European Neighbourhood Policy in the regional context

The incorporation of the South Caucasian countries into the ENP is viewed positively, generating hope of a larger EU role in the region. This move sent an important message that the EU is committed to supporting the three states on their way towards democratisation and

¹ GUAM refers to Georgia, Ukraine, Azerbaijan and Moldova. At the most recent GUAM summit on 23–24 May 2006 in Kyiv, this informal grouping became the Organisation for Democracy and Economic Development with headquarters in Ukraine. For further details, see the online news magazine, *Civil Georgia*, 23 May 2006. For more on the history and recent activities of GUAM, see also the following websites: <http://www.guam.org> (accessed 23.10.2006) and http://en.wikipedia.org/wiki/GUAM_Organisation_for_Democracy_and_Economic_Development (accessed 16.10.2006).

creating viable market economies. In response, these countries consider the ENP a solid opportunity for further EU integration. But it would be mistaken to assume that the EU's policy has changed substantially. The EU still lacks a clear institutional force driving the formulation of a strategic vision for the South Caucasus. Nevertheless, the South Caucasus is a significant component of EU foreign policy. As discussed in this section, the development and implementation of the ENP is important to both sides: the EU will gain more influence through the ENP, which in turn will enable the three small states to stabilise their fragile societies and forge closer ties with the EU.

EU strategy and profile of interests

The EU has some stakes in this volatile region, particularly in terms of energy and security. Regional challenges include extremism, separatism and terrorism as well as territorial disputes, a regional arms race, environmental concerns and the rise of transnational organised crime. The virtually isolated conflict zones such as Nagorno Karabakh, Abkhazia and South Ossetia, where there is no official international presence, have been directly implicated in transnational crime.² Moreover, the unresolved conflicts risk renewed hostilities and new migration flows, thus posing a threat to human rights across the South Caucasus. In this context, any kind of regional destabilisation may seriously affect security in the EU's wider neighbourhood.

On the other hand, there are opportunities related to the energy deposits of the Caspian Sea and the role of the South Caucasus as both a resource-rich area and a transit corridor for carrying petroleum and gas to Europe, counterweighing dependence on Persian Gulf oil and Russian gas supplies. EU member states have increasing economic interests in the region – a potentially lucrative and attractive place for foreign direct investment (FDI), especially for multinational oil companies. Therefore, conflict resolution should be regarded as a prerequisite for securing energy export routes. Internal political stability is another precondition for the development of energy and infrastructure projects, both of which are vital for the region.

The years 1999–2001 saw the politicisation of EU actions in the South Caucasus. EU strategy was based on specific policy mechanisms, as set out in the Partnership and Cooperation Agreements (PCAs)³ concluded with Armenia, Azerbaijan and Georgia in June 1999 in Luxembourg. The PCAs represented a qualitative breakthrough in EU–South Caucasian relations. But at the Luxembourg summit, the three countries were put on notice that the EU would not support the status quo with generous amounts of aid – EU action and assistance were to be viewed as incentives for positive change. As a result, EU activities in the South Caucasus reinforced political dialogue with the young states, supported the OSCE in conflict areas by funding small-scale rehabilitation programmes, helped the OSCE to monitor sections of the Georgian–Russian border and declared its willingness to support large-scale rehabilitation in the event of an Armenian–Azerbaijani settlement.

Yet during this period, the EU did not act coherently in developing a more concrete vision for the South Caucasus. Despite calls from the European Parliament for firmer engagement,

² In essence, the consequences of transnational crime in the South Caucasus, which is a natural conduit for trafficking, smuggling and the drug trade, affect both the region and Europe. On several occasions, Azerbaijani and Georgian officials have expressed concerns over the use of separatist areas in the drug trade and other kinds of transnational crime. On this issue, see the *Zerkalo* newspaper, 20 July 2002 and the BBC Monitoring Global Newline FSU Political File, 9 February 2002.

³ The PCAs represent the basic framework for EU relations with the three states. All of the Commission documents relating to the PCAs are available on the European Commission's website – see “The EU's Relationship with the Countries of Eastern Europe and Central Asia” (retrieved from http://europa.eu.int/comm/external_relations/ceeca/index.htm; accessed 23.10.2006).

member states did not succeed in further elaborating EU policy. Although the EU retained an overall strategy for the region, specific EU member states had clearer agendas with the possibility of adopting a concerted approach under the common foreign and security policy (CFSP). In early 2001, pressures increased for a major review of EU policy mechanisms in the region. At that time, the then Commissioner for External Relations Chris Patten and the late Anna Lindh, the former Swedish foreign minister, published a joint article affirming that “the EU cannot afford to neglect the Southern Caucasus”, and pledging a more robust EU role in helping to resolve the territorial conflicts.⁴ Under this impetus, the EU took a number of measures to enhance political dialogue with the three states and expressed readiness to play a more active part in backing mediation efforts.

Unsurprisingly, the tragic events of 11 September 2001 brought changes to EU policy, in which the EU effectively redefined its stance towards the South Caucasus. EU officials have repeatedly visited the three states to examine progress in their political and economic transitions and their implementation of the PCAs. The appointment of an EU special representative (EUSR) in July 2003 was another important move.⁵ More practically, at the EU summit in Dublin in June 2004 the three states were integrated into the ENP,⁶ signing individual Action Plans at the end of 2006.⁷ The implementation of EU rules and institutions in the three countries will take years, and depends mainly upon the ability and readiness of these nations to incorporate them. The EU is keen to see a credible and sustained commitment to market reforms and democracy, clearly reflected in tangible progress. In the context of the ENP, the EU offers the prospect of further economic integration and launches a new phase of development in closer relations with these young states.

Certainly, the inclusion of these countries in the ENP points to increased EU visibility and engagement in this post-Soviet territory. The ENP also offers a marvellous opportunity for these states to develop their interregional relations. As yet, much depends on the ability of the South Caucasian societies to transform the ENP from a mere concept into an effective model of cooperation. But the main questions are whether the ENP will substantially advance the relations between these states and the EU and whether the EU should apply individual or regional approaches towards the three countries. The EU seems to provide them with equal opportunities, and Brussels is watching how they manage to exploit these.

⁴ Even prior to 11 September, the position of the South Caucasus as a strategic corridor linking southern Europe with Central Asia and its endowment of rich hydrocarbon resources led to the view among EU policy-makers that oil and gas development projects there could help secure world energy supplies in the future. On this point, see the *Financial Times*, 20 February 2001.

⁵ Based on the European Council Decision (11027/03) of 7 July 2003, the EU created the EUSR post for the South Caucasus. The role was first filled by Finnish diplomat Heikki Talvitie in early July 2003. The mandate of the EUSR involves encouraging the three countries to cooperate on themes of common interest such as security threats and the fight against terrorism, and to prepare for a return to peace and stability in the region. Another objective of the EUSR is to better support conflict-resolution efforts, but without direct involvement in the mediation process currently under the aegis of the UN and the OSCE. For details, see European Council, Joint Action 2003/496/CFSP of 3 July 2003 concerning the appointment of an EU Special Representative for the South Caucasus, OJ L 169/74 – L 169/75, 08.07.2003.

⁶ More information about the ENP is available on the European Commission’s website (http://ec.europa.eu/world/enp/index_en.htm; accessed 23 October 2006).

⁷ On 14 November 2006, Action Plans under the ENP were officially signed in Brussels between the EU and Georgia, Azerbaijan and Armenia. For further details, see the European Commission’s website (http://ec.europa.eu/world/enp/documents_en.htm#3, accessed 22 January 2007).

South Caucasian states and different security perceptions

In the early 1990s, there was much the debate among Western policy-makers on the degree to which the South Caucasus is European and particularly whether the three newly independent states belong to the European community of nations. With the admission of Armenia, Azerbaijan and Georgia into the CoE, they became an integral part of the European family, closing the debate. In effect, CoE membership is a significant step towards integration into European structures, although politically the incorporation of these states into the ENP more clearly illustrated the view that events in the region have the potential to impact wider European security.

Still, the different security perceptions of the three post-Soviet states are key obstacles in forging closer relations with the EU and with each other in the interest of regional stability. Their varying orientations make economic cooperation less straightforward and undermine regional unity, negatively affecting relations at the EU–South Caucasus level. All three countries seek security, but their security concerns differ vastly.⁸ While Armenia retains stronger ties with Russia, Azerbaijan and Georgia are striving to expand their roles in the framework of internationally-sponsored economic projects, and have a greater tendency to see their future security as based on regional economic cooperation.

Armenia relies heavily on its special alliance with Russia because of its hostile relationship with Turkey and the ongoing conflict with Azerbaijan over Nagorno Karabakh. Russia is seen as its only security guarantor and Moscow in turn regards this tiny republic as a key strategic ally in the region. Armenia has therefore followed a pro-Russian foreign policy since its independence. Armenia's other geopolitical partner is Iran, a counterweight to Turkish influence in the region. Despite Armenia's intensifying relations with Russia and Iran, Armenian–US interaction is developing too (although Armenia has always sought to balance its ties with the US through very strong links to Russia and Iran).⁹ By maintaining extensive links with France, Armenia is also politically active in the European sphere. Even though Yerevan is cautious with regard to closer cooperation with Euro-Atlantic structures, Armenia has become a major recipient of international assistance in the post-Soviet transition period.

For Azerbaijan, the restoration of territorial integrity and the resolution of the Armenian–Azerbaijani conflict over Nagorno Karabakh are the country's chief foreign policy concerns. With respect to external regional powers, Azerbaijan enjoys warm relations with the West, Russia and Iran, officially pursuing an even-handed approach in trying to satisfy their interests. The results of an opinion poll recently conducted by the Baku-based website Day.az, showed that 34.9% of 1,714 respondents supported a balanced foreign policy orientation for the country, while 22.1% expressed their support for an orientation towards Europe, 14.6% towards the CIS,

⁸ More specifically, in the recent past both Georgia and Azerbaijan have suffered invasions by Russian troops (respectively in April 1989 and in January 1990), who sought to repress the democratic movements in both countries. These two countries have suffered bloody wars with more powerful adversaries as well as several *coups d'états*, which repeatedly threatened their sovereignty and territorial integrity. In addition, Georgia and Azerbaijan are ethnically diverse states that are vulnerable to Russian manipulation. All of these factors and the unresolved conflicts in Nagorno Karabakh, Abkhazia and South Ossetia have made the fates of these two Caucasian countries very similar. Compared with Georgia and Azerbaijan, Armenia became the most homogeneous former Soviet republic after large numbers of ethnic minorities, mainly Azerbaijanis, Kurds, Jews and Russians, fled in 1988–94. For more details, see E. Nuriyev, *The Post-Soviet Caucasus within New Geopolitical Framework: Towards Conflict or Peace?*, Working Paper No. 3/2000, Arbeitsstelle Friedensforschung Bonn, Bonn, November 2000.

⁹ Derived from private communication with an Armenian political scientist who requested anonymity, Yerevan, 26 February 2002.

12.6% towards Turkey, 12.1% towards the US and only 3.7% towards Iran.¹⁰ But Russia and Iran still regard Azerbaijan's endeavours to enlarge cooperation with Euro-Atlantic structures as a potent challenge. Iran's aggressive stance against Azerbaijan¹¹ in the Caspian Sea in 2001 substantively reinforced Azerbaijani–Turkish relations.¹² Wide-ranging cooperation with Western democracies also holds a special place in Azerbaijan's foreign policy. The launch of several international energy projects has stimulated further investment in Azerbaijan's oil industry. To date, Azerbaijan's interaction with both the US and the EU has extended to many areas but primarily to the political and economic spheres.

For Georgia, a strong European orientation is a main priority for the country's foreign policy. Since independence, Georgia has advocated a westward-looking strategy, seeing its future as a key transit country for oil, gas and commerce between Europe and Central Asia and the South Caucasus. Georgia has focused much effort on expanding the country's participation in Euro-Atlantic structures. Compared with Armenia, Georgia's relationship with Azerbaijan and Turkey has grown much closer, and all three neighbours have developed strategic cooperation in the energy, transportation, political, economic and military domains. Meanwhile, Georgia's relations with Russia in recent years have been very problematic, as most Georgians regard Russia as an imperial power seeking to undermine their statehood.¹³ Tbilisi accuses Moscow of supporting secessionist regimes in South Ossetia and Abkhazia. Fearing a loss of power in Georgia, Russia is attempting to hinder Georgia's closer alignment with Western democracies. Moscow has repeatedly cut off gas and energy supplies,¹⁴ stalled peace talks on Abkhazia, delayed negotiations for the removal of Russian military bases,¹⁵ and imposed a discriminatory visa regime that exempts breakaway regions in Georgia from normal visa requirements.¹⁶ The most recent and noteworthy change in Georgia's foreign policy is that the country's leadership has been looking for external security guarantees, mainly requesting Western aid in military and security sectors.

Lately, the inequality in the three Caucasian countries' preparedness to cooperate more fully with Euro-Atlantic structures has impeded efforts to resolve regional security issues. While the ruling elites have declared their commitment to a closer alliance with the EU, they do not seem to invest sufficient effort towards reaching that goal. At the same time, the absence of a

¹⁰ Further details are available on the Today.az website, Poll Archive (in Russian) (<http://www.day.az>; accessed 8 November 2006).

¹¹ In July 2001, tensions between Baku and Tehran reached their peak because of the regular violation of Azerbaijan's air space by Iranian jet fighters and Iranian naval forces' attacks on an Azerbaijani oil exploration ship in the Caspian Sea (see *RFE/RL Newslines*, 26 July 2001).

¹² Baku views Turkey's presence as a stabilising factor in the region, and strongly welcomes Turkish military involvement in the reformation of the Azerbaijani army in accordance with NATO standards.

¹³ Derived from a private conversation with a Georgian diplomat who requested anonymity, Vienna, August 2002.

¹⁴ Georgian–Russian tensions have steadily grown in recent years. The situation particularly worsened after the escalation of Russia's trade war with Georgia in 2006. For details, see the online magazine *Civil Georgia*, 5–6 May 2006.

¹⁵ Following Russian–Georgian talks on 30 May 2005 in Moscow, Russia agreed to shut down its military bases in Georgia by 2008, and signed a joint communiqué outlining phased withdrawal from the two bases, first from Akhalkalaki and then from Batumi. In late March 2006, Russian and Georgian defence officials signed major agreements on the timeframe, modalities and rules for the withdrawal and on the transit of Russian military personnel and cargo via Georgia. For details, see *RFE/RL Newslines*, 31 May 2005; see also *Civil Georgia*, 30–31 May 2005 and also *Civil Georgia*, 31 March 2006.

¹⁶ Periodically, Moscow takes steps to provide Russian citizenship to residents of the secessionist areas of Abkhazia and South Ossetia.

consistent EU strategy for the South Caucasus, along with the lack of resources and active coordination with other international organisations for resolving regional conflicts has led to some perceived ambiguity on the part of the EU in this respect. Still, the three countries have often reaffirmed their general EU orientations and each has built its own bridge to Europe, with Azerbaijan exploiting its energy resources, Georgia making use of its traditional Western-oriented elite and Armenia bringing its wealthy diaspora into play.

Interestingly, religion does not seem to play a major role in shaping the foreign policies of the South Caucasian states. Muslim Azerbaijan cooperates closely with Christian Georgia and the two countries have successfully built a strategic partnership in the energy field. Christian Armenia has lucratively broadened its energy, trade and economic relations with the Islamic Republic of Iran and in recent years the two neighbours have developed mutually beneficial projects. Thus, neither religious nor political factors but economic ones appear to be predominant in these ties.

On the internal security front, these aspiring democracies still have much to do in the economic sphere to replace their largely corrupt mixtures of command systems governed by mafia structures with functioning, viable market economies ruled by law.

3. Why Azerbaijan matters

Sixteen years after the break-up of the Soviet Union, Azerbaijan continues to adjust to the responsibilities of an independent state. Given both the complexity of the geopolitical environment and the lack of political experience to cope effectively with new challenges, it is not likely that Azerbaijan will successfully exploit its economic advantages and achieve its strategic goals without strong support from the world community. Since independence, the governments of the US, the UK, Germany, Japan, Norway, Canada, Switzerland and Italy have been instrumental in helping to solve problems that are important to the Azerbaijani population. Major international donors in Azerbaijan have implemented various programmes in recent years aimed at cultivating a democratic society and an open market economy. Moreover, Azerbaijan also receives solid political backing from most of the world and within international organisations, as it endeavours to restore territorial integrity and consolidate national sovereignty.

Despite the myriad of problems, including a lack of good governance and an effective fight against corruption, Azerbaijan still matters. This section discusses three major factors that make Azerbaijan a special case: its energy resources, the contribution of a settlement over Nagorno Karabakh to regional stability and democratisation through profound reform.

Caspian pipeline politics and energy security

Since the early 1990s, Azerbaijan's geo-strategic location and resource-provider role in the pipeline game has had growing implications for Europe in terms of energy and economic security. Azerbaijan's perceived willingness to cooperate closely with the enlarged Euro-Atlantic alliance has attracted an unprecedented level of international attention for the country. The country's energy wealth constitutes an important counterpoint to the volatile Persian Gulf for Western democracies, which will help Europe to diversify its energy imports.

In recent years, Azerbaijan's economy has shown considerable signs of recovery, encouraged by the comparative stability engendered by the late Heydar Aliyev presidency.¹⁷ Likewise, the incumbent President Ilham Aliyev has so far managed to maintain domestic stability and improve the socio-economic situation, especially following the presidential elections in 2003 and the parliamentary ballot in 2005.¹⁸ The coming years will bring considerable oil and gas revenues to Azerbaijan's economy given its re-emergence as a pivotal Caspian oil supplier. In addition, the newly inaugurated Baku–Tbilisi–Ceyhan (BTC) pipeline, mainly built to relieve the Western world's oil dependency on the Middle East, underscores Azerbaijan's geopolitical importance for the European market. It also gives the country more control over its own destiny by providing strategic alternatives to Russia.

As an energy supplier, in 2006 Azerbaijan was already exporting some 1.2 million tonnes of crude oil to Europe via the Russian port of Novorossiysk. In addition, some 10 million tonnes of Azeri oil were transported to Europe in 2006 via the BTC route. By early April 2007, the BTC project had pumped approximately 14 million tonnes of crude to the Mediterranean. As time goes by, the BTC pipeline is set to increase the mutual interdependence of the EU and Azerbaijan dramatically. The pipeline has a projected lifespan of 40 years. Currently working at normal capacity, the BTC pipeline is already capable of exporting maximum 50 million tonnes of oil per year to the European market.¹⁹

At this point, the obvious European interests in the Caspian basin are to preserve the security of European energy supplies and prevent the monopolisation of oil resources by any one powerful country. As the BTC pipeline brings more Azerbaijani crude oil into the European energy system, any real risk of an interruption or break in supplies would have an immediate impact on European consumers and possibly even affect oil prices in global markets. The pipeline runs close to the conflict zones where the separatist regimes and various rebel groups, including the Kurdistan Workers' Party, have threatened to target the regional pipeline network if their demands are not met. This risk could pose a potentially destabilising effect on European markets. Although the US will consume little oil from the Caspian basin and the EU has far more interests at stake, EU efforts are scant compared with those of the US. The US has given substantial support to the BTC construction project and has made it clear that America wants to ensure a military presence in this geo-strategic territory. In all probability, while most of the pipeline is buried and thus harder to attack, the BTC will require constant guard to prevent sabotage. The necessity of increasing the EU's political and economic investment in the stability and security of the region will inevitably grow stronger.

Another important energy transit, the Baku–Tbilisi–Erzurum (BTE) pipeline, runs parallel to the BTC and will carry natural gas from Azerbaijan's Shah Deniz field²⁰ to Georgia and then to

¹⁷ The late President Heydar Aliyev was very successful in attracting international petroleum giants to invest heavily in the Azeri energy sector. He was able to formulate a new oil strategy and involve Azerbaijan in many international projects and trans-regional programmes. During his presidency, Azerbaijan signed a series of oil and gas agreements that made the country a new regional player in international energy politics. See E. Nuriyev, *The South Caucasus at the Crossroads: Conflicts, Caspian Oil and Great Power Politics*, Hamburg: LIT, 2007.

¹⁸ For details on this issue, see E. Nuriyev, *Wahlen in Aserbaidschan: Innenpolitische Machtkämpfe und Strategische Interessen der Großmächte*, SWP-Aktuell No. 55, Stiftung Wissenschaft und Politik, Berlin, December 2005.

¹⁹ Derived from personal communication with Richard Pegge of British Petroleum, Baku, 27 June 2007.

²⁰ The Shah Deniz gas and condensate field is located in the Caspian Sea, approximately 100 kilometres southeast of Baku. For details, see Energy Information Administration, "Azerbaijan", Country Analysis Briefs, US Department of Energy, Washington, D.C., August 2006 (retrieved from <http://www.eia.doe.gov/emeu/cabs/Azerbaijan/NaturalGas.html>; accessed 8 November 2006).

Turkey, where it will connect to the Turkish gas network through which Azerbaijan can deliver natural gas all over Europe. The newly commissioned BTE (also known as the South Caucasus Gas Pipeline) is expected to be operational by late summer 2007. The contracted capacity of the BTE pipeline is currently 7.2 billion cubic metres (bcm).²¹ Recently, Georgia signed a deal to buy Azeri natural gas and Turkey is committed to doing the same.²² Baku is currently conducting negotiations with Greece and talks may extend further to the Balkans and even to Central European countries, which constitute a serious market for gas. Azerbaijan's natural gas production from the Shah Deniz field will rise sharply in the next few years, the scale of which is not only expected to make the country self-supporting in natural gas but also to result in substantial export revenues and position the country as a major gas exporter from the Caspian basin.

What is more, resource-rich Azerbaijan forms a transit hub in an evolving geo-strategic and geo-economic system that stretches from Europe to the South Caucasus and Central Asia. The country provides another route for transporting Caspian energy supplies to European member states, some of which are increasingly dependent on Russian gas. Most notably, Germany and France are reliant on Gazprom, Russia's state-owned monopolistic company. Given that the majority of European countries' natural gas demand is expected to burgeon in the near future, the prospective alternative could be a trans-Caspian pipeline carrying natural gas to Azerbaijan, Georgia, Turkey and then to Central Europe. Despite the new energy deal signed on 12 May 2007 between Russia, Turkmenistan and Kazakhstan for a rival Caspian gas pipeline, Turkmen President Gurbanguly Berdymuhammedov specifically indicated that the trans-Caspian pipeline project had not been cancelled. Moreover, the recent announcement on the possible joint exploration of an offshore Caspian Sea field, named Kapaz by Azerbaijan and Serdar by Turkmenistan, and the two countries' willingness to investigate the proposed export option keep construction plans alive. Both the EU and the US have used the promising rapprochement to resume lobbying for the trans-Caspian gas pipeline between Turkmenistan and Azerbaijan, seeing it as a vital energy link to the European market.²³ Perhaps, the special case of the shared, offshore Caspian field is the most plausible source of gas for Azerbaijan to transit, but it largely depends on a demarcation agreement, which so far has not been signed between the Caspian littoral states.

²¹ The first phase of the South Caucasus Pipeline project envisages a total capacity of 7.6 bcm per year. The BTE pipeline capacity can be increased in the second phase up to 20 bcm per year (data derived from personal communication with Richard Pegge of British Petroleum, Baku, 27 June 2007). For details about the BTE pipeline, also see the website for the Energy Information Administration (<http://www.eia.doe.gov/emeu/cabs/Caspian/ExportIssues.html> and <http://www.eia.doe.gov/emeu/cabs/Azerbaijan/NaturalGas.html>; accessed 13 November 2006).

²² See the *Caspian News Agency*, 28 February 2003; see also N. Guliev and R. Abbasov, "Azerbaijan: Gas Pipeline Under Fire", *IWPR Caucasus Reporting Service*, CRS No. 183, Institute for War & Peace Reporting, London, 13 June 2003.

²³ The problem of the trans-Caspian gas pipeline route has long been under discussion. While visiting Azerbaijan in early June 2007, US Assistant Secretary of State Matthew Bryza emphasised that transportation of natural gas from Turkmenistan to European markets via a trans-Caspian pipeline route would be "50 percent cheaper" than via the proposed route linking Turkmenistan with Kazakhstan and Russia. In this regard, the materialisation of a trans-Caspian gas pipeline will help diversify supplies and restrain prices, thus ensuring Europe's energy security and protecting the EU from a Russian monopoly. For more details on this issue, see "Putin Deal Torpedoes Trans-Caspian Gas Pipeline Plans", *New Europe*, The European Weekly, Belgium, 17 May 2007; see also *Interfax*, 13 May 2007; *RFE/RL Newslines*, 13 May 2007; *APA*, 12 June 2007; *Zerkalo*, 3 May 2006.

The Armenian–Azerbaijani conflict over Nagorno Karabakh

Another reason Azerbaijan matters to the EU relates to the protracted, ‘frozen’ conflict in Nagorno Karabakh,²⁴ the peaceful resolution of which is indeed in Europe’s interest. The conflict is often wrongly called ‘frozen’: the conflict itself is alive, since people are still dying in sporadic fighting at the ceasefire line. What is ‘frozen’ though, unfortunately, is the peace process. Being the longest-running dispute in the CIS space, this 18-year-old Armenian–Azerbaijani conflict poses a vexing problem for the architects of European security. Recently, Western democracies voiced concern over the possible use of the Armenian-occupied territories of Azerbaijan in the drug trade. In fact, the point of entry is the border between Iran and the occupied territories of Azerbaijan, from where drugs transit Armenia towards Georgia or Russia and then on to Central Europe.²⁵ Furthermore, this territorial conflict continues to prevent security cooperation and impede economic development across the region. The current situation of no war, yet no peace in the conflict zone and the heavy burden of many hundreds of thousands of refugees and internally displaced persons (IDPs) play a crucial role in Azerbaijan’s political instability.

Many attempts have been made to resolve the conflict through negotiations. The OSCE Minsk Group has made some strides towards a lasting peace. In recent years, the presidents of Armenia and Azerbaijan have met a number of times and fighting has subsided. Currently, peace talks continue in the framework of the Prague process, with the foreign ministers of the two countries meeting regularly for political consultations under the mediation of the OSCE Minsk Group. In the last round of negotiations between Armenian and Azerbaijani foreign ministers in November 2006, both sides tried to find some common ground.²⁶ The two ministers met again on 23 January 2007 in Moscow to resume intensive discussions on a peaceful settlement.²⁷ New summits are scheduled for the Armenian and Azerbaijani presidents, who have yet to discuss the pivotal issues for resolving the conflict. So far, the confidentiality of the negotiations and increased efforts by some key European organisations have provided fertile ground for new speculations. Many in Baku and Yerevan hope for a breakthrough; however, one of the awkward issues concerning a quick resolution is how to prepare public opinion for compromise in both societies, given disagreement about what a just resolution entails.

Consequently, the fate of Nagorno Karabakh has yet to be determined. With citizens in Armenia and Azerbaijan highly sensitive to the terms of any future peace agreement, relations between the two neighbours remain strained. If the peace process brings no results in the near future, a renewed war may be triggered, for example under the pretext of pursuing retribution for incidents on the front line between Armenian and Azeri forces. The regional implications of renewed warfare are immense, as several powerful players, most notably Russia and Turkey, are tied militarily to the two small states. The lack of progress in finding an enduring solution to this conflict is a worrying and destabilising factor that continues to impact wider European security and calls for far greater efforts by the European security organisations. Much will also depend on how successfully EU institutions develop multilateral cooperation with the OSCE and the CoE and create new possibilities for enhancing constructive dialogue.

²⁴ While *de jure* part of Azerbaijan, Nagorno Karabakh is also claimed by Armenia. The territory is largely populated by Armenians who themselves proclaimed a self-styled ‘independent’ republic in 1991, which did not receive international recognition. In the early 1990s, Armenian troops took control of Nagorno Karabakh as well as seven predominately Azeri-populated districts on its perimeter. So far, these lands have remained occupied by Armenian forces.

²⁵ See *Zerkalo*, 20 July 2002.

²⁶ See *Trend*, 15 November 2006.

²⁷ See *APA*, 23 January 2007.

Promoting democratisation through reform

The development of democracy, good governance and an open society is an additional problem Azerbaijan has been facing since regaining independence in 1991. Azerbaijanis are proud that they established the first democracy in the Muslim world as far back as 1918.²⁸ Modern Azerbaijan is a proving ground where tools and models for breaking old stereotypes and establishing new democratic values are being tested. This secular Muslim country aspires to build democratic institutions and create a market economy. Major European organisations such as the OSCE and the CoE are keeping watch over the democratic processes underway. On several occasions, Europe's leading institutions have criticised the incumbent authorities for their failure to adequately protect human rights and foster an independent media, as well as for lack of progress in eradicating the rampant corruption and bribery in state-owned institutions. Although European observers acknowledged some improvements during the parliamentary ballot in 2005, they generally emphasised that the vote did not meet international standards for democratic elections.²⁹

Notwithstanding some serious impediments, Azerbaijan can still attain a true democracy, as Azeri society is prone to evolutionary democratic change. Certainly, the EU can add unique value in promoting the country's democratic transition, but EU relations and cooperation with Azerbaijan are partly going to be determined by the advances made by the authorities in Baku towards political and economic transformation. Even with its oil and gas riches, Azerbaijan will be unable to move closer to the EU without a series of radical reforms, notably in law enforcement, industrial monopolies, human rights and the judicial system. Success in developing democratic standards and a market economy in Azerbaijan could serve as a model for diffusing similar reforms across the post-Soviet Muslim states of Central Asia, particularly Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan and Tajikistan – creating a new 'corridor of democratic values' that would add to the security and stability of Eurasia as the whole.

4. EU–Azerbaijan relations

Azerbaijan's geographical location at the crossroads of Eurasia stimulates interest by the EU, which offers Azerbaijan a broad spectrum of opportunities for progressive integration into the European market. Azerbaijan places partnership and cooperation with the EU among its principle foreign policy priorities. This section considers all-round interaction between the two parties, analysing the main advantages and obstacles associated with closer relations.

²⁸ An orientation towards political democracy in Azerbaijan was evident during the period 1918–20, when the Azerbaijan Democratic Republic (ADR) was established on 28 May 1918. The ADR was recognised by the League of Nations and had a wide spectrum of democratic freedoms, political pluralism and multiparty structures of power. The ADR was also first among Muslim states to use the Latin alphabet instead of Arabic script. The democratic development of Azerbaijani society was forcibly disrupted on 28 April 1920, when Russia's 11th Red Army invaded Azerbaijan and the Bolsheviks overthrew the democratic administration. For details, see A. Balayev, *Azerbaijan Democratic Republic* (in Russian), Baku: Elm, 1991; see also A. Balayev, *Azerbaijani National Movement in 1917–1918* (in Russian), Baku: Elm, 1998; and also T. Swietochowski, *Russian Azerbaijan, 1905–1920: The Shaping of National Identity in a Muslim Community*, Cambridge: Cambridge University Press, 1985.

²⁹ For more on this issue, see OSCE, "Elections in Azerbaijan did not meet international standards despite some improvements", Press Release, OSCE, Warsaw, 7 November 2005 (retrieved from http://www.osce.org/odihr/item_1_16887.html?print=1; accessed 12 November 2006); see also OSCE/ODIHR, *Final Report on the Parliamentary Elections in Azerbaijan*, OSCE/ODIHR, Vienna, 1 February 2006 (retrieved from <http://www.osce.org/odihr-elections/15649.html>; accessed 12 November 2006).

Political relations, economic prospects and trade cooperation

The entry into force of the PCA in June 1999 set the legal framework for EU–Azerbaijan political relations. In effect, the PCA offers Azerbaijan comprehensive cooperation in all non-military spheres, encompassing political dialogue, trade, investment and economic relations, and legislative and cultural interaction. Regular political dialogue between the two sides occurs at senior official levels. As early as 1998, the European Commission (EC) nominated a special envoy to Azerbaijan. In turn, Baku established a permanent mission to the EU in 2000. A year earlier, in 1999, to help implement the PCA, the late President Heydar Aliyev established a State Commission on Partnership and Cooperation with the EU. In the summer of 2005, the incumbent President Ilham Aliyev issued a new decree re-establishing a State Commission on European Integration.

Following the appointment of Heikki Talvitie as the first EUSR for the South Caucasus, the EU bolstered its political ties with Azerbaijan and began to play a more active role in the region. From mid-2003 to early 2006, Mr Talvitie frequently visited Azerbaijan and mainly tried to assist the country with undertaking political and economic reforms. He gave attention to conflict resolution in Nagorno Karabakh, constantly discussing the matter with the Azerbaijani leadership. During Mr Talvitie’s term in office, President Aliyev visited Brussels in May 2004, and EU Commissioner Janez Potocnik and President Romano Prodi travelled to Azerbaijan later that year. Most importantly, the inclusion of Azerbaijan (together with Armenia and Georgia) in the ENP was a crucial step forward, signifying new prospects for cooperation.

Progress on economic and political reforms was assessed by the EU in a special report in March 2005.³⁰ Another report, by the European Bank for Reconstruction and Development (EBRD), highlighted Azerbaijan’s growth rate of 26%, making it one of the world’s fastest growing economies thanks to its oil sector and the BTC pipeline.³¹ Major European companies have invested in Azerbaijan’s energy sector; several oil giants, such as British Petroleum, Total Fina Elf and Statoil have signed partnership agreements with the country, coinciding with the expanding presence of some EU member states. The pipeline developments have helped reinforce the perception of Azerbaijan as a reliable energy partner and bolstered its economic cooperation with Western democracies.

In recent years, Azerbaijan has received high levels of FDI, although the benefits have yet to trickle across the country, with the western districts having the lowest levels of income and the highest rates of poverty.³² Beyond doubt, inflows of FDI into the petroleum sector lead to favourable spillover effects on other sectors – but only if Azerbaijan can manage monetary fluctuations linked with increases in oil export revenues.

Nevertheless, there is cautious optimism regarding the future of Azerbaijan’s economy, despite its extreme dependence on the oil sector for its long-term welfare. There are many reasons to

³⁰ See European Commission, “*European Neighbourhood Policy*”, *Country Report, Azerbaijan*, Commission Staff Working Paper, SEC(2005), 286/3, Brussels, 2 March 2005 (retrieved from http://ec.europa.eu/world/enp/pdf/country/azerbaijan_country_report_2005_en.pdf; accessed 20 November 2006).

³¹ With reference to the statement by the Baku office of the EBRD, the Baku news agency *Trend* reported that by comparison Azerbaijan is ahead of economic growth rates among EU member states and the countries of North American Free Trade Association. See *Trend*, 14 November 2006; see also European Bank for Reconstruction and Development (EBRD), *Transition Report 2006: Finance in Transition*, EBRD, London, November 2006 (retrieved from <http://www.ebrd.com/pubs/econo/6813.htm>; accessed 20 November 2006).

³² See International Monetary Fund (IMF), *Azerbaijan Republic: Selected Issues*, Country Report No. 05/17, IMF, Washington, D.C., 21 January 2005.

believe that Azerbaijan will join the ranks of Norway rather than Nigeria in terms of managing its oil wealth. The country's access to international energy markets via the BTC and BTE pipelines is unique. Even after projected falls in oil and gas income (probably between 2010 and 2015), Azerbaijan will continue to profit from pipeline transit revenues. Azeri authorities know well that their initiatives to prepare for mass inflows of oil revenues could help them avoid the 'Dutch disease' and its related effects on the economy. But the fact that the country is increasingly less reliant on foreign petroleum corporations and International Monetary Fund (IMF) loans has raised concerns about whether the near future holds any strong incentives for economic reform. Clearly, a continued push towards a market economy is essential, and the EU attaches much importance to the creation of a liberal business climate in Azerbaijan. It can be hoped that the ruling elite in Baku realises that continuing efforts to reform the economy and expand the non-oil sectors will help the country to cope successfully with the next phase of economic transition.

Energy security is gaining prominence on the EU agenda as previously noted and it is likely to guide the EU's relations with Azerbaijan in the coming years. More recently, EC and Azerbaijani officials have begun talks on Azerbaijan's involvement in energy security projects supported by the EU, scheduled to start at the end of 2007.³³ President Aliyev's meetings in November 2006 with EC President Jose Manuel Barroso, EU High Representative for CFSP Javier Solana, President of the European Parliament Josep Borrell Fontelles, EU Commissioner for Energy Andris Piebalgs and other officials in Brussels opened a new chapter in bilateral relations. The two sides signed a Memorandum of Understanding (MoU) in Brussels on 7 November 2006 on the strategic energy partnership between the EU and Azerbaijan.³⁴ In a recent interview, Mr Solana underscored the importance of the energy accord, which will enhance Azerbaijan's cooperation with the EU at the strategic level.³⁵

Although their trade cooperation primarily deals with oil and gas, since regaining independence Azerbaijan has become the EU's largest trade partner in the South Caucasus. By overall comparison with the CIS countries, Azerbaijan's total trade with the EU has grown steadily over the past several years. The development of the Transport Corridor for Europe, Caucasus and Asia (TRACECA) will underpin economic diversification and future economic growth. Early on, Azerbaijan asked the EU to support its application to join the World Trade Organisation (WTO). The EU responded with assistance for WTO membership preparation under the TACIS programme. Negotiations on market access are underway based on revised offers in goods and services.³⁶ More recently, the two sides have held talks under the ENP on deepening trade, with further projects having the potential to enhance Azerbaijan's integration into the EU market.

At the same time, the EU wants to see credible, sustained commitment to reforms in the wider social and political spheres, where the consolidation of democratic values and the respect for human rights remain paramount. In principle, Azerbaijan has succeeded somewhat in adopting international standards of democracy, an open society and good governance. The country has been less successful in implementing Western norms of democratic governance, civil rights and

³³ See *APA*, 18 January 2007.

³⁴ See *AzerTag*, Azerbaijan's state-owned news agency, 8 November 2006; see also *RFR/RL Newslines*, 7 November 2006.

³⁵ Derived from an interview with Mr Solana by *Trend*, 13 November 2006; see also *Zerkalo*, 13 November 2006.

³⁶ Azerbaijan applied for WTO membership in late June 1997, after which it has held observer status in the organisation. A working party on Azerbaijan's accession was established in mid-July 1997 and the first round of negotiations was held in June 2002 (see http://www.wto.org/english/thewto_e/acc_e/a1_azerbaidjan_e.htm; accessed 21 November 2006).

the rule of law. Regardless of slight progress in certain areas, disappointing developments include the recent elections, which fell short of a number of OSCE commitments and CoE democratic standards.³⁷ Much remains to be done to consolidate the basis for a functioning democracy and civil society is crucial in driving forward democratic change.³⁸ The rule of law is also a prerequisite for free trade and an open business climate and is essential for promoting interaction between the authorities and civil society activists. An independent media has yet to coalesce, and still necessitates financial support and capacity-building. The Azerbaijani authorities are fully aware, however, that democracy attains its real meaning where strong institutions operate in a coherent and mutually reinforcing way.

The persistence of corruption³⁹ has a negative impact on the effectiveness of both assistance programmes and foreign investment opportunities. The authorities have not yet established the legal mechanisms and transparent institutions needed to punish deeply ingrained fraud, and it remains the biggest obstacle to widespread reform. As a major factor distorting the fair distribution of wealth, it also increases social divisions and breeds lack of respect for authority. President Aliyev has repeatedly asserted the need to eradicate corruption. A campaign to clean up the government has been launched and many senior officials and ministers have been summarily dismissed, although there has been little noticeable improvement and people still argue that the tentacles of corruption reach the highest echelons of power. Whether or not this is so, it is generally acknowledged that the current level of corruption poses the largest threat to the democratic functioning of the country.

Durable political stabilisation in Azerbaijan is still hampered by the conflict in Nagorno Karabakh, about which the EU has repeatedly expressed concern. In this regard, the EU welcomes the previously mentioned dialogue between the presidents of Azerbaijan and Armenia and the regular meetings between the foreign ministers, hoping these negotiations will result in a peace deal. Many in Azerbaijan are keen to see a larger EU role in resolving the conflict. Compared with the OSCE and the CoE, the EU offers a unique combination of economic power and possibilities for solid political dialogue, adding value to conventional multilateral diplomacy under the OSCE's aegis.

After Swedish diplomat Peter Semneby became the new EUSR for the South Caucasus in February 2006, regional conflict resolution was given higher EU priority. In an interview, Mr Semneby emphasised that the EU's mandate had been expanded,⁴⁰ thus signalling more active EU interest in seeing a peaceful settlement. In this context, he revealed the EU's concern about threats of renewed hostilities in the conflict zone.⁴¹ Recently, frequent breaches of the ceasefire in Nagorno Karabakh have demonstrated the fragility and instability of the situation at the front, even if there has been no return to full-scale hostilities. The over half million IDPs from Nagorno Karabakh and the surrounding districts currently occupied by Armenian forces have

³⁷ See OSCE/ODIHR, "OSCE/ODIHR issues its final report on elections in Azerbaijan", Press Release, OSCE/ODIHR, Warsaw, 2 February 2006 (retrieved from http://www.osce.org/odihr-elections/item_1_17922.html; accessed 20 November 2006).

³⁸ Since independence, civil society in Azerbaijan has grown but remains heavily dependent on Western support and funding. For additional information, see Freedom House Europe, *Nations in Transit 2006*, Country Reports, Freedom House Europe, Budapest, 13 June 2006.

³⁹ In the ratings for corruption released by Transparency International in November 2006, Azerbaijan ranked 130th with a score of 2.4. According to Transparency International's Baku office, Azerbaijan's rating had risen, noting that in the previous year it had ranked 137th. See *Zerkalo*, 7 November 2006; see also *RFE/RL Newslines*, 7 November 2006.

⁴⁰ See *Trend*, 25 March 2006.

⁴¹ *Ibid.*

become a fervent pro-war electorate,⁴² nearly 84% of whom call for the use of force to reach a final settlement according to a 2004 opinion poll.⁴³ Azerbaijan's projected defence expenditures for 2007 are \$1 billion, up from only \$135 million in 2001.⁴⁴ President Aliyev nonetheless seems generally faithful to supporting a peace strategy, since it is not in Azerbaijan's economic interest to invoke a military solution.⁴⁵ In addition, any attempt at a military solution would erode the EU's confidence in the stability of the entire region.

Throughout 2006, the EUSR worked hard to take a direct part in conflict resolution, although the EU has no formal role in the peace talks over Nagorno Karabakh under the auspices of the OSCE Minsk Group. Under the recently altered EUSR mandate, Mr Semneby is asked not to assist but to contribute towards conflict settlement in the region. Perhaps most importantly, P. Semneby has suggested that the EU could in future assume a peacekeeping mission if a solution to the conflict is found.⁴⁶ Yet most politicians in Baku and Yerevan realise that a serious breakthrough is needed in the negotiating process to make sustainable progress in finding a mutually acceptable political settlement.

The ENP Action Plan for Azerbaijan

In March 2005, the EC recommended intensifying its relations with Azerbaijan through the development of an individual Action Plan under the ENP,⁴⁷ adopted in November 2006.⁴⁸ In turn, Azerbaijan's leadership has responded positively to the strategic vision the Action Plan articulates, attaching importance to it as a tool for EU integration.

Although the Action Plan does not hold a membership prospect, it offers practical benefits to both sides on many issues of shared interest and has given impetus to wide-ranging cooperation. As a political document, it sets out mutual, concrete commitments, some of which will help contribute to the further transformation of Azerbaijani society. The Action Plan creates a favourable foundation for the further implementation of democratic reforms, most notably connected with human rights and the rule of law. The commitments also extend to the economy

⁴² As a result of the Armenian–Azerbaijani armed conflict during 1988–94, around 14% of Azerbaijan's 8.4 million people became refugees and IDPs.

⁴³ See the Opinion Poll Results, Baku Press Club, Baku, 2004; see also S. Freizer, "A Last Chance for Peace?", in L. Broers (ed.), *Accord: An International Review of Peace Initiatives*, Issue 17, Conciliation Resources, London, 2005.

⁴⁴ Azerbaijan's military spending rose from \$135 million in 2001 to \$300 million in 2005. After Armenian authorities pledged to respond accordingly with Azerbaijan's increase, Baku vowed to spend \$600 million on the military in 2006. For details, see *Assa-Irada*, the Baku-based news agency, 16 June 2005; see also *Turan*, the Baku-based news agency, 17 September 2005; and also *Kommersant*, Moscow, 9 November 2006.

⁴⁵ Nonetheless, the results of an opinion poll jointly conducted by several Azerbaijani non-governmental organisations showed that 29.1% of 1,496 respondents do not believe a peaceful resolution to the conflict can be found, while 27.9% believe somewhat, 24.4% would like to believe, 18.2% fully believe and 3.1% do not know. For details, see Association for Civil Society Development in Azerbaijan (AFSF), *365 Days of Ilham Aliyev's Presidency and Civil Society – Sociological Survey*, AFSF, Baku, October 2004.

⁴⁶ See T. de Waal, "EU Could Assume Peacekeeping Role", *IWPR Caucasus Report Service*, CRS No. 341, Institute for War & Peace Reporting, London, 25 May 2006.

⁴⁷ In fact, the European Commission's recommendation was based on the Commission's country report, which provided a detailed assessment of the EU–Azerbaijani relationship. See European Commission, "European Neighbourhood Policy: Azerbaijan", Press Release IP/05/238, European Commission, Brussels, 2 March 2005.

⁴⁸ See *Trend*, 14 November 2006.

and energy sector.⁴⁹ Despite containing some generalisations, this new document could serve as a road map for accomplishing broader and effective changes in the country. Clearly, the very demanding task of implementing the Action Plan will require Azerbaijan to undertake major efforts to attain European political and economic standards.

Political stability and democratisation are the two priority areas for Azerbaijan, and are essential for the country to derive the full benefits from the Action Plan. Among the difficulties, Azerbaijan's perceptibly weak democratic record still hampers closer relations with the EU. During a recent visit to Brussels, President Aliyev promised to step up political and economic reforms, with specific reference to the country's political system.⁵⁰ But what matters to the EU are real and far-reaching results. As such, the process of reform needs to be consolidated and further developed in Azerbaijan, with the onus on the country's authorities to push through concrete measures. Likewise, the conflict over Nagorno Karabakh continues to impede the European integration of both countries and the Azerbaijani leadership's search for solutions to the conflict is viewed as a crucial test.

Consequently, implementation of the Action Plan will require Azerbaijani authorities to demonstrate that their country shares values with the EU in practice. There is great potential for the deepening of the strategic partnership, which Azerbaijan should exploit. In turn, the EU seems ready to mobilise resources to support reforms, brought together under the new European Neighbourhood and Partnership Instrument (ENPI). It is already clear that EU assistance will be conditional, however, as the delivery of financial aid is linked to tangible results in the implementation of democratic reforms.

EU financial assistance

Since regaining independence in 1991, the total assistance provided by the EU to Azerbaijan has amounted to some €400 million. From the outset, the EU used the three principal instruments of TACIS, the Food Security Programme and humanitarian aid to assist refugees and IDPs, along with the rehabilitation of territories damaged during the armed conflict in Nagorno Karabakh.⁵¹ In fact, EU assistance to Azerbaijan through various projects under the TACIS programme has been instrumental in fostering the country's reform efforts in a variety of spheres. Since 1998, the TACIS National Indicative Programme has focused on support of public sector reform and assistance for economic development. Following Azerbaijan's adoption of a poverty reduction strategy in late 2002, the EU has also given greater emphasis to this area since early 2003.⁵² The cooperation programme includes financial support for private sector development, in which assistance mainly seeks to improve the business investment climate, higher education and vocational training. Azerbaijan also benefits from grants under the TACIS Regional Programme, especially in the fields of transport, energy, the environment, and justice and home affairs.

⁴⁹ See European Commission, ENP Action Plan for Azerbaijan, European Commission, Brussels, 14 November 2006 (retrieved from http://ec.europa.eu/comm/external_relations/azerbaidjan/intro/index.htm; accessed 21 November 2006).

⁵⁰ See *RFE/RL Newslines*, 7 November 2006; see also *AzerTag*, 8 November 2006.

⁵¹ In cooperation with other international donors, the EC provided shelter and medical aid to IDPs, as well as rehabilitated housing, schools and rail communications in the Fizuli and Aghdam districts of Azerbaijan. For details, see European Commission, *Azerbaijan: Country Strategy Paper 2002–2006*, European Commission, Brussels, 27 December 2001 (retrieved from http://ec.europa.eu/comm/external_relations/azerbaidjan/csp/index.htm; accessed 22 November 2006).

⁵² *Ibid.*

Since the achievement of rapid economic growth in Azerbaijan, the focus of EU assistance has shifted from humanitarian aid to rehabilitation programmes, to help raise living conditions for the IDPs and refugees. The EU sees the OSCE Minsk Group as the optimal mechanism for resolving the Armenian–Azerbaijani conflict and fully supports recent efforts by the leaders of the two countries to reach a breakthrough. If progress is made over Nagorno Karabakh, EU financial assistance to help alleviate tensions in the interaction between the two nations will grow substantially, in support of post-conflict rehabilitation, economic modernisation and regional cooperation.

Replacing TACIS assistance in 2007, the ENPI will encompass all of the financial assistance provided under the ENP and enable the strategic partnership between the two sides to take a greater variety of forms. The main goal of the ENPI is to help Azerbaijan attain European standards in jointly agreed areas. The EU delegation travelled to Baku in the summer of 2006 for a series of meetings with Azerbaijani officials, aimed at drafting a new National Indicative Programme, dealing with certain policy fields in which financial aid will be provided over 2007–10. This timescale coincides with Azerbaijan’s implementation of the first phase of the ENP Action Plan, during which the country’s officials will have to prove that their commitment to widespread reform is genuine and goes beyond political wordplay.

5. Oil-rich Azerbaijan: EU influence and other external players

Recent years have seen growing prominence given to energy-rich Azerbaijan in the foreign policies and national security plans of many outside powers, which are vigorously competing to extend their influence in the South Caucasus. Major rival powers within the region are normally identified as Russia, Iran, Turkey, the US and the EU, but these five are not equal and their roles and influences are completely different. Whereas Iran and Turkey are regional players, Russia remains a global power and firmly sees the US as a leading contender for advantage in the Caucasus. In turn, the EU takes a more or less neutral stance, albeit individual EU member states have their own geo-strategic interests in this post-Soviet territory. This section attempts to give an overview of the main tendencies in the foreign policy strategies of these powerful external actors.

Regional power rivalries: Iran and Turkey

Being significant players in the region, Iran and Turkey have a powerful impact on Caucasian geopolitics and Caspian geo-economics. In the case of Azerbaijan, Iran has been very cautious, although Tehran is evidently concerned with what happens in this post-Soviet Muslim state. The clerical regime seeks to prevent the emergence of a strong and pro-Western Azerbaijan, which would act as a galvanising force for the large community of ethnic Azerbaijanis living in Iran. Although constituting some 24% of the population, Iranian policies prohibit the use of the Azerbaijani language in schools, the press and local government, thus depriving this group of cultural rights. Tehran worries that increased nationalism among Azerbaijanis could threaten the integrity of the Iranian state, a risk that has guided Iran’s policy towards Azerbaijan.

Tehran also realises that Azerbaijani ties with Turkey, a NATO member state, will reduce Iranian leverage in the region. In principle, Iran sees Turkey as a major competitor despite the fact that Tehran and Ankara have an important, if ambivalent relationship. The clerical regime feels that Turkey threatens Iran geopolitically, and opposes the spread of pan-Turkism not only in Azerbaijan but also throughout the Caucasus. These two regional powers are not simply in direct competition over influence but also represent a delicate set of geopolitical alliances in the region. While Ankara is strongly backed by Washington, Tehran and Moscow collaborate in the military and political realms in their attempt to resist growing Turkish and American weight in

the Caspian basin. Turkey has chosen Azerbaijan as its strategic ally, and Iran, in turn, collaborates closely with Armenia, whose relations with Turkey are hostile.

Against this background, Iran is making every effort to play a more active role in Azerbaijan. Tehran's relations with Baku are strongly affected by the continuing conflict between Iran and the US. Despite Tehran's well-known anti-American policy, the Islamic Republic is trying to influence the political and economic shape of the region. Still, Iran's success in Azerbaijan remains limited and Tehran has very little to offer Baku in terms of financial assistance or new technology. For these reasons, Iran has fewer possibilities to play a leading role economically in Azerbaijan. Iran's ability to have a bearing on Azeri affairs through Islam is altogether another matter, however. Tehran actively continues to promote Islamic influence in the southern regions of Azerbaijan. Thus, Iran remains an important regional player, with a cultural impact on the Muslim people of the Caucasus.

Meanwhile, the lure of Azeri oil and Azerbaijan's need for transportation to Western energy markets adds incentives for further Turkish involvement. As such, Turkey considers Iran a potential rival in pipeline politics. The BTC oil pipeline and the BTE gas line have enabled Turkey to open a strategic window for Azerbaijan in the latter's quest for more effective integration into the international community. From the outset, Ankara considered the BTC a valuable strategic and political asset that would highlight the country's position as an energy bridge between the Caspian oil supply centre and the European market.⁵³ Despite its desire to become a major player in the negotiations between the Armenians and Azerbaijanis, Turkey's role has been limited owing to Russia's emergence as the more dominant force in the conflict resolution process. While both Yerevan and Baku are still unwilling to break the current stalemate over Nagorno Karabakh, Ankara feels that it can only have very limited say about a peaceful resolution to the conflict. Even in the case of renewed armed hostilities between the Armenians and Azerbaijanis, there is very little likelihood of a direct Turkish military involvement since that would probably bring the Russians and the Iranians into open conflict with Turkey.⁵⁴

Unsurprisingly, Turkey's relations with Iran have also experienced the effects of geopolitical competition. Both Ankara and Tehran have viewed the other's attempts to gain political and economic footing in the South Caucasus with considerable suspicion. Iran has always been concerned that a decrease of Russian predominance in the region would result in an increase in Turkish advantage or in an expansion of American influence.⁵⁵ In effect, Tehran is still worried about Turkey's efforts to forge close political, economic, cultural and military ties with Azerbaijan. Ankara regards the possibility of greater Iranian clout in Azerbaijan as an obstacle to its foreign policy efforts to pursue political and economic interests in the region. Even though the competition between Iran and Turkey over Azerbaijan has become less intense since the early 1990s, geopolitical concerns continue to determine their perceptions of each other's regional behaviour.

Great-power politics: Russia and the US

The geopolitical environment in recent years has witnessed serious changes in Russian–American relations, which came together with a revision of their role and foreign policy

⁵³ See T. Iskit, "Turkey: A New Actor in the Field of Energy?", *Perceptions: Journal of International Affairs*, Vol. 1, No. 1, March–May 1996.

⁵⁴ For more on a view that suggests such a possibility, see A. Myers Jaffe and R.A. Manning, "The Myth of the Caspian 'Great Game': The Real Geopolitics of Energy", *Survival*, Winter 1998–99, p. 120.

⁵⁵ See F. Halliday, "Condemned to React, Unable to Influence: Iran and Transcaucasia", in J.F.R. Wright, S. Goldenberg and R. Schofield (eds), *Transcaucasian Boundaries*, New York: St. Martin's, 1996, p. 82.

strategies in the South Caucasus, where the spheres of influence of the great powers overlap. In principle, Azerbaijan has become a strategically important country in the region, in which the situation is largely defined by the policy conducted by Russia and the US. Renewed US interest, explained by a high level of investment in Caspian basin, is taking place alongside a forceful return by Russia in the field of military and security cooperation and a strengthening of its economic and energy policies. Moscow seeks to maintain its priority links with Azerbaijan by means of Russia's position in strategic sectors of the economy. The increasing number of cooperative agreements signed between Russia and Azerbaijan for the development of bilateral relations provides further evidence of this policy.

In recent years, Russia has set out to increase its sway in Azerbaijan. Since the Putin presidency, however, Moscow has adopted a more pragmatic stance towards Azerbaijan, leading to a more constructive attitude in the OSCE Minsk Group negotiations and the role Russia is now playing in the peace process.⁵⁶ The Kremlin has also officially been less vocal towards an expanded American presence in the region. Yet, Russia's foreign policy strategy has given abundant evidence to support the idea that Moscow finds the status quo convenient, and does not wish a quick or sustainable resolution to any conflict in the region. More specifically, the Kremlin seems to fear that a possible Armenian–Azerbaijani peace deal would reduce Armenia's security dependence on Russia.

The US too has extensive geopolitical and geo-economic interests in Azerbaijan, which intensified when American troops were ushered out of Uzbekistan. This incident affected the balance of power in the region and also strongly influenced the course of Azerbaijan's foreign policy. Perhaps most importantly, in January 2002, the US government made a strong case for a waiver of Section 907 and the Pentagon embarked on a large programme of military cooperation with Azerbaijan.⁵⁷ Frequent visits by senior US officials to Baku during recent years point to American desire to build a military presence in the country. In late 2005, two American radar stations in Azerbaijan near the Russian and Iranian borders became operational. Moreover, a military centre has been set up in Baku that is capable of monitoring all shipping and aircraft across the Caspian Sea.

Although the changing geopolitical situation during the past several years has made Azerbaijan increasingly important for US foreign policy, American strategy has thus far been grappling with impediments arising from Russian–Iranian geopolitical manoeuvrings that hinder any serious US activity in the region. The US-declared campaign against Tehran's nuclear programme has increased the strategic importance of independent Azerbaijan, which is depicted by some American policy-makers as a geopolitical pivot.⁵⁸ As America's role in the South Caucasus is currently viewed in Moscow with great anxiety, the US government has

⁵⁶ The Kremlin has strong political standing in Azerbaijan, especially in resolving the conflict over Nagorno Karabakh. Many in Baku recognise that resolution of the conflict is simply impossible without the active participation of Russia. This factor is reflected in the results of the opinion poll reported by the AFSF (2004, op. cit.), which indicated that 66.2% of 1,496 respondents believed Russia can help achieve the most rapid solution to the conflict. Some 47.4% attributed such a role to the US, 36.2% to Turkey, 16.6% to the CoE and 10.4% to the EU. Only 8.3% believed that the OSCE could resolve the conflict.

⁵⁷ Although Section 907 sanctions have temporarily been suspended over the last several years, the US government has not yet managed to have the measure completely removed by Congress, hampering further US assistance to the country. For more on this issue, see B. Graham, "Rumsfeld Discusses Tighter Military Ties with Azerbaijan", *Washington Post*, 4 December 2003, p. A23; see also S.F. Starr, *Resolving Karabakh: Strategic Options for the US Government*, Central Asia-Caucasus Institute, Washington, D.C., 2004.

⁵⁸ See Z. Brzezinski, *The Grand Chessboard: American Primacy and its Geostrategic Imperatives*, New York: Basic Books, 1997, p. 139.

encountered Russia's increasing reaction to alleged American-generated upheavals in the region, such as Georgia's Rose Revolution of 2004.

Presently, the foundation for current American policy in post-Soviet Azerbaijan lies firmly within the parameters of the new US–Russian strategic partnership in the post-11 September environment. Nevertheless, as Russia reasserts its position in the face of a broadening US presence in the South Caucasus and the Caspian basin, the entire region is emerging as an arena of great-power competition between Moscow and Washington. Washington is trying to prevent political and economic supremacy by any one rival power in oil-rich Azerbaijan. For this reason, the US has a keen interest in maintaining the 'geopolitical pluralism' of the region and preventing Russian ascendancy.⁵⁹ Russia is powerless to inhibit the spread of US influence in this post-Soviet territory. Still, Washington often reacts rather cautiously to the increasing pressure the Kremlin puts upon Azerbaijan, which is trying to strike a geopolitical balance between the two great powers.

How Russia and the US act strategically in the South Caucasus will affect geopolitical alignments throughout the post-Soviet territory. The common desire of these two principal powers to combat global terrorism and cut off illegal trafficking is complicated by geo-strategic rivalry. Azerbaijan has found itself in a delicate position amidst incompatible political options, since Moscow perceives growing US military engagement as American expansionism in Russia's natural zone of influence. In practice, these strategic options remain somewhat linked to fluctuations in Russian–American relations. Therefore, the Azerbaijani leadership has realised that closer cooperation with Russia over security matters is also vital, even if some aspects of Kremlin policy are uncomfortable. Even so, the near future seems to promise no way of establishing a common security system and embarking on integration processes in the South Caucasus. Unfortunately, the region has become a solid knot of great-power contradictions that will take decades of effort to undo.

The EU taking a neutral stance

The presence of important external actors has complicated EU strategic thinking on the South Caucasus. In terms of foreign and security policy, the EU's role in Azerbaijan is not at all comparable with other principal powers such as Russia, the US, Iran and Turkey. Against these geopolitical players, the EU's political engagement in Azerbaijan has been minimal. In essence, the EU's foreign policy towards Azerbaijan is dominated by considerations of how European policies will affect EU–Russia relations. Additionally, the EU has significant differences with the US regarding its strategic goals in the South Caucasus. The EU does not intend to isolate either Russia or Iran from commercial opportunities in the Caspian basin. In contrast, the EU has always tried to build positive relations with both of these regional powers. Although the EU has no desire to become the key security actor in this region, it seeks to promote a ring of well-governed and stable countries in Europe's southern tier, which perfectly suits Russian and American interests.

Interestingly, in recent years Germany has been the only EU member state that has tried to discern a fundamentally new understanding of Caucasian geopolitics. The German government launched a new Eastern policy (*Ostpolitik*) to initiate fresh cooperation with the post-Soviet

⁵⁹ In point of fact, a clear but unofficial American goal in the region is to hinder the emergence of a new and strongly integrated union on the territory of the CIS. In other words, US policy is aimed not simply at reducing Russian influence over Azerbaijan and other South Caucasian states but also putting an effective end to any practical hope for closer integration within the CIS. For an interesting overview on this issue, see Z. Brzezinski (1997), *supra*.

states.⁶⁰ Moreover, in April 2006, the German newspaper *Die Welt* reported that Chancellor Angela Merkel would present her view on shaping a “new EU Eastern policy” with energy as a focal point and the Caucasus as a regional priority during Germany’s presidency of the EU in the first half of 2007.⁶¹ Germany has expressed a desire to deepen its bilateral relations with Azerbaijan and political relations between the two countries are developing well. Particular German interest is given to the transportation of hydrocarbon resources from Azerbaijan to Europe. Evidence of widening cooperation between the two states is shown in the official visits of President Aliyev to Berlin, where he met with Federal President Horst Koehler and former Chancellor Gerhard Schroeder, as well as with newly elected Chancellor Angela Merkel and other senior officials.⁶² Germany is Azerbaijan’s largest and most important partner in Western Europe,⁶³ especially with respect to Azerbaijan’s integration into the European Community.

At the same time, the stabilisation of Azerbaijan, which depends on an intensification of EU support for conflict resolution, is crucial given the EU’s search for greater energy independence. The signing of the MoU between the EU and Azerbaijan in Brussels on 7 November 2006 enhances bilateral energy cooperation and promises to transport large volumes of oil and gas to the European market. The EU is also keen to cooperate with Azerbaijan on the problem of Iran. While the EU is trying to thwart Tehran’s ambitions to build nuclear weapons, Azerbaijan is seeking political support for its efforts to improve the standing of ethnic Azerbaijanis living in Iran. Undoubtedly, the increasing cooperation on energy matters between Azerbaijan and the EU and the growing strategic partnership on geopolitical concerns are likely to strengthen the EU’s potential presence in the Caucasus overall and in Azerbaijan in particular. This possibility raises an interesting, yet sensitive question, of whether the EU can afford to play a strategic hand in the region, which Russia still perceives as its sphere of influence.

So far, the EU holds a neutral stance in this troubled region. Most probably, Brussels wants at all costs to avoid a direct conflict with Moscow, even if there are serious disagreements in the EU–Russian relationship. Despite growing European interest in Caspian energy sources and pipeline projects, the EU has not yet played any particularly prominent role in Azerbaijan. Surely the EU needs to become more consistent in its deployment of political tools and more connected to the activities of the EU member states in the region. If the EU managed to seize the full range of political opportunities open to it – ranging from diplomatic efforts to regional programmes and the provision of more active support in resolving conflicts – such actions would go a long way towards fostering stability and encouraging development in Azerbaijan and throughout the region. In the context of the ENP, the EU should endeavour in various ways to engender long-term stability by implementing transnational economic projects and actively supporting far-reaching reforms designed to promote the rule of law, combat corruption and

⁶⁰ See the *International Herald Tribune*, 6 October 2006.

⁶¹ See *Die Welt*, 18 April 2006.

⁶² In addition, German federal ministers Joschka Fischer and Heidemarie Wieczorek-Zeul visited Azerbaijan in 2001. Mr Fischer visited Azerbaijan again in 2004 and in the same year, President Aliyev paid an official visit to Germany. In mid-February 2007, President Aliyev visited Berlin to meet with Chancellor Merkel and other senior officials. In the same period, during his diplomatic tour in the South Caucasus, German foreign minister Frank-Walter Steinmeier arrived in Baku for meetings with top Azerbaijani officials and held negotiations on energy politics, conflict resolution, democratisation and human rights (see *Zerkalo*, 20 February 2007).

⁶³ While meeting with President Aliyev in Berlin in February 2007, Chancellor Merkel pointed out that the EU could improve its energy security with the support of Azerbaijan, but called on President Aliyev to respect democratic norms and human rights. The Azerbaijani leader promised improvements in accordance with the ENP Action Plan within the next five years (see *Deutsche Presse-Agentur*, Berlin, 15 February 2007).

organised crime, and develop the free-market economy in Azerbaijan. To this end, it is important that the EU supports constructive forces, within both the opposition and the government, mainly counting on politicians who are adequately prepared to cooperate to reform their country and ensure its full integration into the European Community in the long run.

6. Conclusions and recommendations

Since the accession of Romania and Bulgaria to the EU in January 2007, the South Caucasus has become a region of direct concern to the EU's strategy in its wider neighbourhood, with the future of the South Caucasus affecting the interests of EU member states in the south-eastern perimeter. Instability in this increasingly strategic region presents a number of challenges characteristic of the post-11 September geopolitical situation. Against this background are specific issues related to the young countries' political behaviour in the context of the US-led war against terror, the threat of renewed hostilities in conflict areas, the difficult processes of democratisation in fragile societies, the security of oil and gas pipelines, risks of further environmental degradation and humanitarian crises. Nevertheless, the EU seems to adopt a rather sceptical wait-and-see approach towards the region. The EU's common foreign policy, albeit still in its early stages, has provided little political support for the leaders of these post-Soviet states to address immediate national security concerns linked to separatist regions.

Presumably, the EU acts tactically, not strategically, in the South Caucasus. Notwithstanding the fact that EU member states such as the UK, France, Germany and Italy are engaged in South Caucasus at a high level, none of them is able independently to exert substantial influence in the region. The fact that key member states pursue their own national foreign policies towards the three Caucasian countries affects the coherence of the EU's external actions. If these European countries were to act in concert, the EU could become a major player in the South Caucasus – even the most influential one in the middle to long term. But the incapability and reluctance of the European powers to shape a common and articulated policy towards the South Caucasus has prevented them from fulfilling their potential.

As a pivotal country in the region, Azerbaijan is a plausible location from which to influence economic and political trends not only in Central Asia and the Caspian basin but also in the Middle East, where Western democracies are in a serious quandary over Iran's nuclear programme. With respect to energy and trade, the country's oil and gas fields further reinforce the importance of the TRACECA route, designed to bypass the Russian Federation by crossing Georgian territory. Investments by major European energy companies and the growing presence of some EU member states demonstrate that Azerbaijan is seen today as a reliable partner with which the EU is trying to cultivate trade. Yet in the three main areas in which Azerbaijan affects Europe's interests – energy, conflict resolution and democratisation – so far the EU has engaged well on a regional energy strategy, but less so on democratic reforms and almost not at all on conflict settlement in Nagorno Karabakh. The EU needs to balance its involvement in all three areas, especially given the deeper democratic changes it wishes to see in Azerbaijan.

The EU holds all the foreign policy instruments required to promote political stability and economic reform, develop and strengthen democracy and the rule of law, and enhance the respect of human rights and fundamental freedoms in the small countries of the South Caucasus. Alongside democratic institutions such as the Parliamentary Assembly of the Council of Europe, the EU could assert a more vigorous role in fostering good governance, democratisation and enduring peace through the mandate of the EUSR and the newly adopted ENP Action Plan. For this to occur, the EU needs a fresh, comprehensive strategy, to advance its political, security and economic interests in this rapidly developing region. Specific recommendations for formulating a common strategic vision for the South Caucasus and Azerbaijan are outlined below.

General long-term recommendations for the EU regarding the South Caucasus

- 1) ***Assert a more active EU role and enhance EU political standing in the South Caucasus***
 - Reinforce the EUSR's regional presence in the political life of the three South Caucasian states. Given that the EU has a real stake in making sure that these young societies continue to develop, the EUSR's role in consolidating genuine democratic changes should be bolstered, at least with a clear work programme on how to prevail upon the ruling authorities to implement European norms of governance, civil rights and the rule of law.
 - Conduct more active information campaigns focusing on the wider public in both the EU and the South Caucasus. There is little information on the EU in the post-Soviet Caucasus. Nor is the EU public very familiar with what happens in this conflict-ridden part of the world. To increase public knowledge about the EU, frequent workshops and seminars on the history of the EU, its institutions and democratic values should be held under the auspices of the EUSR, alongside regular communications with the media in each of the three South Caucasian capitals. To raise public awareness about the South Caucasus in the EU, the EUSR should also prepare comprehensive annual reports on the three countries for dissemination to EU institutions and think tanks, and also make them available to major European media agencies.
 - Examine the idea of founding an EU institute for South Caucasian studies based in Brussels for developing new research projects and educational exchange programmes, thus enhancing intellectual cooperation between the EU and the South Caucasus.
- 2) ***Take practical steps to contribute to conflict resolution and encourage wider public dialogue in the three countries***
 - Establish an expert group on regional stability in the South Caucasus, in the form of a regional network of Western-trained and internationally recognised scholars from each of the three countries. Under the aegis of the EUSR, the remit of the brainstorming group would be to provide considered policy recommendations and advice to both the EUSR and the leaderships of the three states. With reconciliation and confidence-building at the forefront of its agenda, the activities of the expert group could add unique value in preparing public opinion in the three Caucasian societies for the compromise solutions needed for an eventual peace settlement in the region. Perhaps most importantly, the establishment of such a group would demonstrate a genuine commitment on the part of the EUSR to contribute towards conflict resolution.
- 3) ***Formulate an EU–Russia–US response to regional security challenges***
 - Foster an effective response to the security challenges in the South Caucasus by working closely with Russia and the US. Moscow, Washington and Brussels have repeatedly voiced that they have no conflicting interests in this region. But stepped-up and concerted efforts are needed on their part to come up with a coordinated agenda to reduce geopolitical tensions, end territorial conflicts and build new regional security architecture. The nature of modern challenges leads inexorably to the increasing use of trilateral, cooperative security policies, which could ease divisions within the three small states and erect a framework for lasting peace in the post-Soviet Caucasus.

Policy recommendations for the EU regarding Azerbaijan

1) Encourage the Azerbaijani government to set out a well-defined policy for preparing the country's complete integration into the EU

- Assist the development of a fresh, comprehensive agenda in Azerbaijan for building EU awareness and stimulating debates between the state-owned institutions and civil society organisations on closer EU relations. EU integration is a strong aspiration of the Azerbaijani nation. To prepare itself for becoming a full member of the EU family in the future, it is time to make clearer and faster decisions in this regard.
- Propose the establishment of a special ministry for EU integration affairs to help develop and implement Azerbaijan's EU integration policy. More precisely, this ministry should be charged with coordinating and ensuring the implementation of the tasks specified by the ENP Action Plan. The creation of this ministry would increase confidence in Brussels that Azerbaijan clearly shares European values and that the country believes it has a common destiny with the EU member states.

2) Increase efforts to help strengthen democracy and the rule of law

- Prevail upon Azerbaijani authorities to promote democratisation through sustained reforms of the political system, which will help to consolidate the national economy. A major challenge facing Azerbaijan in terms of democracy is building a viable civil society and shoring up the rule of law. Political stability and national security will be greatly enhanced by increasing the transparency, effectiveness and accountability of public institutions. Legitimate democracy attains its real meaning where strong institutions operate in a coherent and mutually reinforcing way.
- Encourage the ruling elite to initiate profound reform of the judiciary, which is still far from satisfactory. It is essential to establish a reliable judicial system in accordance with European standards. The independence of the judiciary in Azerbaijan must be reinforced and a comprehensive programme is needed in order to better target corruption.

3) Urge Azerbaijani authorities to launch an effective campaign for combating corruption

- Persuade the government to elevate the fight against corruption to a high priority in domestic policy. Despite some common measures recently taken by the Azerbaijani leadership, corruption and bribery remain rampant across all spheres of life in the country. It is strongly recommended that the authorities establish a coordination mechanism involving governmental and non-governmental institutions, to detect and investigate possible instances of fraud. The establishment of an independent monitoring council is also desirable. Among other things, this council could serve as an important instrument for testing the accuracy of income declarations made by government officials. The EU should consider supporting the reform of Azerbaijan's state-owned agencies through political, technical and financial sponsorship of such a public body within the governmental structures.

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Glossary of Acronyms

| | |
|---------|---|
| ADR | Azerbaijan Democratic Republic |
| bcm | Billion cubic metres |
| BTC | Baku–Tbilisi–Ceyhan pipeline |
| BTE | Baku–Tbilisi–Erzurum pipeline |
| CFSP | Common foreign and security policy |
| CIS | Commonwealth of Independent States |
| CoE | Council of Europe |
| EBRD | European Bank for Reconstruction and Development |
| ENP | European Neighbourhood Policy |
| ENPI | European Neighbourhood and Partnership Instrument |
| EU | European Union |
| EUSR | European Union special representative |
| FDI | Foreign direct investment |
| GUAM | Georgia, Ukraine, Azerbaijan and Moldova |
| IDPs | Internally displaced persons |
| IMF | International Monetary Fund |
| MoU | Memorandum of Understanding |
| NATO | North Atlantic Treaty Organisation |
| OSCE | Organisation for Security and Cooperation in Europe |
| PCAs | Partnership and Cooperation Agreements |
| TACIS | Technical Assistance to the CIS |
| TRACECA | Transport Corridor for Europe, Caucasus and Asia |
| UN | United Nations |
| US | United States |
| WTO | World Trade Organisation |

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