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ELEMENTS OF AZERI'S INDEPENDENT FOREIGN POLICY: ENERGY, GEOGRAPHY, AND
GLOBAL POWERS RIVALRY

by

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B.S. Universidad de Lima, Peru, 2004

A thesis submitted in partial fulfillment of the requirements
for the degree of Master of Arts
in the Department of Political Science
in the College of Sciences
at the University of Central Florida
Orlando, Florida

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ABSTRACT

This work applies geopolitical concepts to elucidate how geography, energy, and rivalries among global powers affect the Azeri foreign policy. This research work uses a deductive method of qualitative research and a longitudinal analysis of qualitative variables.

This study first reviews the most significant academic works in the field to delineate the framework of Azerbaijani foreign policy. Next, it discusses the geographical features of the Azeri landlocked territory and its influence over foreign policy. Then the study presents how Azerbaijan uses its energy as a leverage tool in its foreign policy. The fourth chapter analyzes the current competition between two global powers, the US and Russia, for influence over Azeri oil and gas resources, seeking to balance the power in the South Caucasus and Central Asian regions.

Finally, this research work lists the findings, showing that the Azeri foreign policy is affected by geography, energy, and global power competition variables. The transit states that encircle the landlocked territory of Azerbaijan reduce the Azeri ability to export its energy resources to international markets. The economic and political involvement of foreign companies and states in the Azeri energy industry also reduces the economic and political independence of Azerbaijan. The competition between the US and Russia for influence over the Azeri territory and its energy resources also affects the foreign policy of Azerbaijan. Thus, in order to achieve economic, political, and military stability, Azerbaijan has to be constantly balancing regional and global powers.

To Arbel Renato Vera and María Antonieta Muñiz, my parents

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LIST OF ACRONYMS/ABBREVIATIONS

ACG	Azeri-Chirag-Guneshli oilfield
AIOC	Azerbaijan International Operating Company
APEC	Asia-Pacific Economic Cooperation
BA	Baku-Astara Pipeline
BN	Baku-Novorossiysk Pipeline
BP	British Petroleum
BS	Baku-Supsa Pipeline
BTC	Baku-Tbilisi-Ceyhan Pipeline
CIS	Commonwealth of Independent States
EU	European Union
GMM	Gazi-Magomed-Mozdok Pipeline
ILSA	Iran-Libya Sanctions Act
IMET	International Military Education and Training Program
IMF	International Monetary Fund
MG	Minsk Group
MNC	Multinational Corporations
NAFTA	North American Free Trade Agreement
NATO	North Atlantic Treaty Organization
OSCE	Organization for Security and Cooperation in Europe
PfP	Partnership for Peace
SCP	South Caucasus Pipeline

SOCAR	State Oil Company of Azerbaijan
US	United States
UN	United Nations
UNSC	United Nations Security Council
WB	World Bank
WMD	Weapons of Mass Destruction
WTO	World Trade Organization

CHAPTER ONE: INTRODUCTION

1.1 Azerbaijan and Global Background

Two principal political and economic changes occurred in the last decades of the 20th century, the fall of the Berlin Wall in 1989 and the collapse of the Soviet Union in 1991. As a result of those changes, the United States (US) consolidated its supremacy in the world and Russia lost its status as a superpower. Since the competition between the US and the Soviet Union was no longer possible, international institutions acquired more importance in international affairs. The end of the bipolar world, however, did not represent a complete change in the relationship among states in international politics because the relationship between the US and the Western powers—such as Great Britain, France, and Germany—remained virtually intact.¹

The end of the Soviet Union consolidated the institution-building process designed by the US at the end of the Second World War and defined the current global order.² Washington created an economic, political, and legal framework for fluent interaction between states and multilateral institutions in economic, political, and military affairs.³

¹ The end of the Cold War has meant the end of the bipolar order and the containment of the Soviet Union. The basic Western liberal principles and organizations endured and became more robust than before. John G. Ikenberry, "The Myth of Postwar Chaos," *Foreign Affairs* 75 (1996): 79-91. Democracies endured and even became more robust than before. John G. Ikenberry *After Victory: Institutions, Strategic Restraint, and the Rebuilding of Order After Major Wars* (Princeton: Princeton University Press, 2000), 215.

² Ikenberry, "Postwar Chaos," 79-91.

³ International organizations, such as the North Atlantic Treaty Organization (NATO), the International Monetary Fund (IMF), the World Bank (WB), the North American Free Trade Agreement (NAFTA), the Asian-Pacific Economic Cooperation (APEC), and the World Trade Organization (WTO) reinforced the new global economy, rule of law, and military order. John G. Ikenberry, "Globalization as American Hegemony," In *Globalization Theory: Approaches and Controversies*, ed. David Held and Anthony McGrew:

Thus, international cooperation among states and institutions became the new common practice for international relations. States were no longer unique actors in international relations because globalization reshaped global political, economic, and military affairs.⁴

In recent decades, the intensification of the interconnection between economic, ecological, political, and security affairs has affected the decision-making process in world politics. Cooperation increased its importance as a tool to mitigate the contradictions of the new global economy. In other words, societies constituted as nation-states are 'opening' themselves to an economically driven world society,⁵ where world connectivity and interdependence are the most significant manifestation of the global economy.⁶

Under this framework, the Republic of Azerbaijan has become a critical country where power competition between Western and non-Western states takes place. This work attempts to explain how geographic features, energy resources, and global powers' competition for influence in the region of Azerbaijan can affect the independence of Azeri foreign policy.

(Cambridge: Polity, 2007): 41-61. John G. Ikenberry, "American Power and the Empire of Capitalist Democracy." *Review of International Studies* 27 (2001): 191-212. Ikenberry, *After Victory*, 216.

⁴Globalization is "a process or set of processes which embodies a transformation in the spatial organization of social relations and transactions –assessed in terms of their extensity, intensity, velocity and impact-generating transcontinental or interregional flows and networks of activity, interaction, and the exercise of power." David Held et al., *Global Transformations: Politics, Economics, and Culture* (Palo Alto: Stanford University Press, 1999), 16.

⁵ Jürgen Habermas, *The Postnational Constellation* (Cambridge: MIT Press, 2001), 61.

⁶This new economic and political approach claims that Western legal, economic, and military supremacy over non-Western states is unparalleled. See: Sophie Bessis, *Occidente y los Otros: Historia de una Supremacia* (Madrid: Alianza Editorial, 2002), 17.

Cox, Robert. "Democracy in Hard Times : Economic Globalization and the Limits to Liberal Democracy." In *The Transformation of Democracy? Globalization and Territorial Democracy*, edited by Anthony McGrew (London: The Open University Press, 1997),49.

1.1.1 Geography

Azerbaijan is a landlocked territory bordering Russia to the north, Iran to the south, Armenia and Georgia to the west, and the Caspian Sea to the east. The Azeri region of Nakhchevan is also landlocked, encircled by Iran to the south and west, Armenia to the north and east, and Turkey to the northwest. The collapse of the Soviet Union presented a new and complex reality for Azerbaijan, which left behind its Soviet history to become an independent state, assuming economic and geopolitical challenges. Economically speaking, Azerbaijan was not able to reduce its economic dependency from Russia when it became an independent state due to its lack of infrastructure and industry. Under Soviet rule, Azerbaijan did not develop either its national industry or alternative routes to transport its products, which consolidated its economic dependency on the Soviet Union. The existing transport routes that connect Azerbaijan with the outside world were in bad condition, and their lack of maintenance increased the transport costs of the Azeri commodities to international markets. These unrepaired highways connect the Azeri capital, Baku, with the Georgian port of Batumi in the Red Sea and with the Russian Southern Federal District of Rostovna-Donu, which also has access to the Red Sea through different Russians highways. The high cost of maintenance of the Azeri highways and the region's singular geographic features have limited the commerce between Azerbaijan and the international world.⁷

The development of the railway in the late 19th Century represented an alternative to transport Azeri freight to Georgia, Armenia, Russia, Turkey, and the Red Sea. During the Soviet era, the railway gained more significance as the major transport system for people and goods.

⁷ Frederik Coene, *The Caucasus: An Introduction* (New York: Routledge, 2010), 21.

However, the end of the Soviet Union and the constant military conflicts among the Caucasus states reduced the transport of commodities by railway.⁸ For instance, a railway network that runs from Azerbaijan to Armenia and then to Turkey is not currently operating due to the economic blockade made by Azerbaijan against Armenia, in response to the military conflict between the two countries over the Azeri territory of Nagorno-Karabakh.⁹ The collapse of the Soviet Union also affected the commerce throughout railways between the South Caucasus states and Russia, reducing the traffic and trade by almost 80 percent of the regular freight. After the end of the Soviet Empire, Azeri authorities, multilateral development banks, and private companies invested in the rehabilitation and maintenance of both transport systems, highways and railways, due to their importance for Azeri economic development.

The geographical features of Azerbaijan and the other South Caucasus countries have made a buffer zone for the Russian, Persian, and Ottoman empires. The economic, political, and military ambition of those empires changed over time, and those changes influenced the current South Caucasus states' foreign policies. Azerbaijan, for instance, has been considered a peripheral state within the Soviet centralized economic system, but its peripheral classification changed after the collapse of the Soviet Union when Western states and private companies became interested in the Azeri energy resources and its geostrategic location. The incursion of these new players increased the great powers' competition for influence, and it also reshaped the foreign policy of Azerbaijan. The Azeri government had to deal with traditional powerful neighbors—Russia, Iran, and Turkey—leading Azerbaijan to develop a more sophisticated multilateral foreign policy to include the new economic, political, and military Western partners.

⁸ Coene, *The Caucasus*, 22.

⁹ The Nagorno-Karabakh conflict lasted from 1988 until 1994, leaving 20,000 dead and over 1 million refugees and displaced persons. Coene, *The Caucasus*, 145.

The Azeri authorities found that cooperation was the key strategy to achieve national and regional stability in the South Caucasus region, and they pursued a strategy of balancing global and regional power competition

In geopolitical terms, Azerbaijan is crucial for regional and global powers. Halford Mackinder stated that the world history is a struggle for power and for the dominance of land and sea. Referring to Eurasia (the South Caucasus and Central Asian regions), he claimed that land would predominate over sea, and it would be due to the importance of Eurasia as a physical link between Europe and Asia, where significant natural resources and big populations would ensure the economic and military development of the state that succeeds in dominating the Eurasian region. The hegemonic position of a European or Asian state would be gained by control of the Eurasian landmass.

According to Mackinder's analysis, the geographic location of the Eurasian states has been crucial for the expansionism of Western and Russian powers. Over time, these global powers have increased and redefined their economic, political, and military interests over the South Caucasus and Central Asian countries. The most recent approach made by the US and Russia within these regions occurred after the collapse of the Soviet Union, when both powers began their competition for influence over Azeri energy resources. This competition for influence, in a global perspective, represented an opportunity for the Azeri government to take advantage of its geographical location to balance these two global powers.

Under the president Heydar Aliyev's government, Azerbaijan attempted to reduce its dependency on Russia by strengthening political, economic, and military ties with Western countries, especially with the US. During Bill Clinton's presidency, the American government and the major American oil companies made significant investments in the oil and gas industry

of Azerbaijan, financing the development of new oil and gas pipelines, which run from Azerbaijan to Western markets through Georgia and Turkey. This international partnership sought to reduce the Azeri dependency on the Russian pipeline network by creating alternative pipeline routes to export the Azeri energy resources to international markets. It also benefited Western countries because they become new consumers of the Azeri oil and gas, and it allowed European states to diversify their energy suppliers, decreasing their energy dependency on Russia and the Middle East.

The geographical location of the Azeri territory is not only a matter of American and Russian competition for influence over Azerbaijan, but it is also a matter of regional struggle for power between Turkey and Iran. Both countries have sought to improve their economic, political, and military relations with Azerbaijan, using different means to ensure their economic involvement in the Azeri energy industry. Turkey and Iran intensified their competition for influence when the two major regional powers joined the US and Russian approach to the Azeri energy resources, respectively. Since Turkey developed a pro-Western policy, the Turkish-Azeri relationship is smoother and stronger than the Azeri-Iranian relationship. Turkey supported Azerbaijan during the Nagorno-Karabakh conflict while Iran sided with Armenia, and the political and military support strengthened Turkey-Azerbaijan relations and weakened Azerbaijan's relations with Iran. The pro-Western economic policy of Azerbaijan and Turkey allowed them to materialize energy projects for the exploitation and commercialization of Azeri oil and gas. Two of the most prominent industrial projects sponsored by the US government and the major Western oil companies in the South Caucasus region were the Baku-Tbilisi-Ceyhan (BTC) oil pipeline and the Baku-Tbilisi-Erzurum (BTE) gas pipeline. These pipelines diversified the Azeri oil and gas routes by transporting its energy resources from the Caspian Sea to

international markets through Georgia and Turkey. The development of these alternative routes to the existing Russian oil and gas pipelines decreased the Azeri economic dependency on Russia, and it also represented an opportunity to reduce the impact that geography has over the landlocked territory of Azerbaijan.

In addition to the global and regional powers' interests in the Azeri geographical location, Azerbaijan has dealt with the challenges that its neighbor states, Georgia and Armenia, represent for Azeri economic development. The geographical position of Azerbaijan in the South Caucasus reduces the Azeri chances of becoming a fully independent state in political and economic terms. As a landlocked territory, Azerbaijan had to negotiate possible outlets to the sea with Georgia and Armenia, which became transit states for Azeri energy resources. Even though Armenia represented an excellent candidate for becoming an official transit state for the Azeri oil and gas, due to its proximity to Turkey and the Mediterranean Sea, Azerbaijan chose Georgia after the military confrontation between Azerbaijan and Armenia over the Azeri region of Nagorno-Karabakh.

Most of the Western countries supported the Azerbaijan-Georgia partnership in the commercialization of the Azeri energy resources. Georgia, once it became an independent state, developed a pro-Western foreign policy, which helped it to gain strategic allies in the Western hemisphere. Georgia became an important link between Western states and Azerbaijan, and it allowed the Azeri government to gain economic benefits from the Western powers, especially from the US and the EU. Military conflicts in Georgia and Azerbaijan increased the political and economic instability in the South Caucasus region, and these states have attempted to reduce this instability by increasing their security through partnerships with Western powers.

In the case of Georgia, Georgian authorities sought to consolidate economic, political, and military ties with the US, showing its pro-Western tendencies, which created concerns within Russia. Azerbaijan, on the other hand, did not go as far as Georgia did regarding its Western partnerships. Azerbaijan improved its political and economic relationship with the US, but it also sought to strengthen its political and economic ties with Russia, seeking to balance both global powers to Azerbaijan's benefit.

In brief, the geographical features of Azerbaijan have played an important role in Azeri economics, politics, and defense. On one side, the landlocked territory of Azerbaijan has limited its economic and political development due to its lack of outlets to international seas, increasing the influence of Russia and its South Caucasus neighbors over Azeri policies. On the other hand, the location of Azerbaijan increases the interests of Western powers to exploit and commercialize the Azeri energy resources, and it represented an opportunity for Azerbaijan to commercialize its oil and gas to international markets regardless the Azeri geographical factors. The conjunction of these two factors (the limitations and the opportunities produced by landlocked features of the Azeri territory) affected the foreign policy of Azerbaijan on different levels. Therefore, the Azeri government realized that its geographical constraints could only be overcome by developing a multi-vector policy¹⁰ based on multiple pipelines,¹¹ which would

¹⁰ The "multi-vector foreign policy" is a Russian phrase used to describe the balance of power. The Balance of power seeks to ensure equilibrium of power in which case no one state is threatened by a hegemonic state. Although the balance of power seeks to prevent rise of a hegemon state, it does not mean that states follow anti-hegemonic alliances because there would be the case where two sets of alliances will become a competing alliances that establish a balance of power, as Richard Little argues. Within the realism tradition, Classic Realism claims that the state as the key actor in international politics must pursue power. Hans J. Morgenthau argues, "International politics, like all politics, is a struggle for power" and that struggle has its roots in human nature (competition, fear and war). On the other hand, Structural Realism argues that it is not human nature but the anarchical system that creates insecurity in the international politics. Structural realists believe that security/power competition depends on the lack of predominant authority above states. Kenneth Waltz claims that states are security maximizers because their major concern is not power but

increase the Azeri economic possibilities to become a more independent country in a region where global powers compete for influence.

1.1.2 Energy

As the previous section described at length, Azerbaijan is a landlocked territory, with energy resources that are exported through Georgia and Turkey to reach international markets. The transportation of the Azeri oil and gas has increased the power of these transit states over the Azeri foreign policy.¹² Georgia became a key element within the Azeri and Western states' energy businesses, especially since the Azeri government and Western oil companies decided to build oil and gas pipelines that would avoid Armenian territory due to the Azeri-Armenian military confrontation over Nagorno-Karabakh. These pipeline projects positively affected the Georgian economy, decreasing Georgia's energy dependency on Russia. Azerbaijan became an energy supplier of Georgia, the US, and European states. It encouraged some Europeans to speculate about the possibility of including Georgia in NATO, and Georgia, as a transit state, obtained economic revenues for the transit fee of the Azeri oil and gas. Under these circumstances, the Azeri government developed and strengthened economic and political ties

security. John Mearsheimer, on the other hand, disagrees with Walt's theoretical approach, claiming that an anarchical system encourages states to maximize their relative power position. This approach, called offensive realism, highlights that states are constantly seeking to gain power at the expense of other states, and it means that global power competition will be the rule in the international system where there would not be a global hegemon. Little, Richard. *The balance of power in International relations. Metaphors, myths and models*. (London: Cambridge University Press, 2007), 4 Dunne, Tim, and Brian C Schmidt. "Realism." In *The Globalization of World Politics: An introduction to international relations*, edited by John Baylis, Steve Smith and Patricia Owens. (New York: Oxford University Press, 2008), p.106

¹¹ Avinoam Idan and Brenda Shaffer, "The Foreign Policies of Post-Soviet Landlocked States," *Post-Soviet Affairs* 27 (2011): 241-68.

¹² Idan and Shaffer, "Post-Soviet Landlocked States," 241.

with Georgia in order to ensure transportation of its energy resources to international markets through Georgian territory.

In addition, Azerbaijan found a second crucial economic partner in Turkey, which became a transit state for the Azeri oil and gas sold to Western countries. The geographical location of Turkey is decisive for Azeri economic interests, especially since Azerbaijan has no outlet to the sea, while Turkey, located in the Mediterranean Sea, has direct access to the Western markets. The Azeri-Turkish relations reinforced Baku independence from Moscow, and they increased the Azeri-Turkish economic interdependence since part of the oil and gas that Azerbaijan exports through the Baku-Tbilisi-Ceyhan oil pipeline and the Baku-Tbilisi- Erzurum gas pipeline satisfies the Turkish local consumption,¹³ expanding the distribution of Azeri energy resources to regional and global markets.

In a global context, Azeri energy resources are essential for global powers and European states, which have been seeking to decrease their energy dependency on Russia and the Middle East. This reality created an excellent opportunity for the Azeri government to trade its oil and gas with Western states, which have been attempting to diversify their energy suppliers. The commercialization of the Azeri energy resources to Western markets has decreased the Russian influence over Western countries due to the loss of Russia's monopoly of the gas supply to Western states.

Russia increased its concern over Azerbaijan when the American government and private companies participated actively in the trade and exploitation of the Azeri energy

¹³ It allows Turkey to diversify its oil and gas dependence from Libya and Russia respectively. Ali Karaosmanoglu. "Turkey's Objectives in the Caspian Region," In *The Security of the Caspian Sea Region*, ed. Gennady Chufirin (Oxford: Oxford University Press, 2001), 153.

resources. Since then, Russian authorities have been very active dealing with Azeri leaders in order to maintain Russia's predominant position as a hegemonic power in the South Caucasus region.

The US, on the other hand, has watched closely the political, economic, and military development of Azerbaijan and Georgia since they became independent states. The initial American approach to Azerbaijan reflected the economic interests that the Western oil companies had in the early 1990s after the collapse of the Soviet Union. Once these companies obtained data about the size of the Azeri energy resources, they decided to invest millions of dollars to exploit and transport the Caspian oil and gas to international markets. The magnitude of the investment and the geopolitical features of Azerbaijan persuaded the US government to get involved in the negotiation of the different oil and gas pipelines that would take the Azeri energy resources to international markets.¹⁴ Washington realized that the development of oil and gas pipelines that avoid Russian and Iranian territories would decrease the influence of these two states in the South Caucasus. It would also allow the Western states to decrease their energy dependency from Russia. Thus, Azeri energy resources play a crucial role in determining the foreign policy of Azerbaijan, especially since global and regional powers compete for influence over Azeri energy resources.

¹⁴ Ehsan Ahrari. "The Strategic Future of Central Asia: A View from Washington," *Journal of International Affairs* 56 (2003): 157-166.

1.1.3 Competition among Powers

In the early 1990's, the territorial and ethnic conflict in the Azeri region of Nagorno-Karabakh affected the political and economic stability of Azerbaijan.¹⁵ This instability represented an opportunity that allowed Western states to get involved in a military conflict within the Russian sphere of influence through the internationalization of the Nagorno-Karabakh conflict.¹⁶ After the terrorist attacks on September 11, 2001, Washington reinforced its participation in the South Caucasus region by seeking access to military facilities to conduct military attacks over Afghan territory during the War on Terror.

Russia and Western powers have competed for influence in the South Caucasus region, and Azerbaijan represented the key state for this competition due to the Azeri geographical location and energy resources. The competition among global powers over Azerbaijan has followed two different perspectives: the American and the Russian. Under the American perspective, Washington has attempted to reduce Russian influence over the South Caucasus and Central Asian regions, reduce the EU dependence on Russian energy supply, spread politically and economically liberal values in the region, and increase the American influence in Azerbaijan through economic and military support. On the other

¹⁵ Gayane Novilova, "Unresolved Conflicts in the Regional Security System: The Case of the South Caucasus," *Transition Studies Review* 11 (2004): 213-23.

¹⁶ Alexander Krylov, "The Georgian-Abkhazian Conflict," in *The Security of the Caspian Sea Region*, Gennady Chufrin (Oxford: Oxford University Press, 2001), 281-94. Dina Malysheva, "The Conflict in Nagorno-Karabakh: Its Impact on Security in the Caspian Region," in *The Security of the Caspian Sea Region*, ed. Gennady Chufrin (Oxford: Oxford University Press, 2001), 257-80. Sabit Bagirov, "Azerbaijan's Strategic Choice in the Caspian Region," in *The Security of the Caspian Sea Region*, ed. Gennady Chufrin (Oxford: Oxford University Press, 2001), 178-94. Alexander Rondeli, "The Choice of Independent Georgia," in *The Security of the Caspian Sea Region*, ed. Gennady Chufrin (Oxford: Oxford University Press, 2001), 195-211.

hand, the Russia has sought to consolidate its position as a superpower, increase Russian influence in the South Caucasus and Central Asian regions, discourage NATO expansion in the South Caucasus region, and take part in the Azeri energy business to improve Russia's status as a major energy supplier.

After the collapse of the Soviet Union, Azerbaijan sought to increase its economic and military independence from Russia, seeking partnerships with Western states, especially with the US. Azeri authorities noticed that by balancing the US and Russia, Azerbaijan would be able to achieve political, economic, and military stability in the South Caucasus region. The global powers' competition for influence over Azerbaijan would play in favor of Azeri interests, but it also would affect the economic development of Azerbaijan whether Russia and the US plays against Azerbaijan. Therefore, the Russian and American foreign policies in the South Caucasus are determining factors for Azerbaijan's foreign policy.

1.2 Thesis

The economic repercussions for landlocked states is a topic widely developed in the political science field, but the potential influence of the landlocked geographic condition in foreign policy is still an undeveloped subject.¹⁷ The existence of substantial energy resources would likely increase the wealth and independence of any state, but in the case of Azerbaijan its geographic features, as a landlocked state, affect its political and economic independence. Since energy resources became crucial commodities for industrialized

¹⁷ Idan and Shaffer, "Post-Soviet Landlocked States," 24.

countries, global powers are likely to ensure the supply of oil and gas for their consumption. In addition to these two variables (geography and energy), the competition among global powers for influence over Azerbaijan is another variable to consider in the analysis of the independence of Azeri foreign policy. Thus, this thesis attempts to show the pragmatic face of Azeri policy by explaining Azerbaijan's energy resources and landlocked geography make it dependent on regional neighbors for trade and a target for exploitation by Russia and the West. Azerbaijan has managed to both profit from its resources by selling to both the US and Russia, and Baku uses this balance to hold back attempts by either major power to exert too much control over Azeri governance."

1.3 Significance of Research

Recent works on the South Caucasus and Central Asia have attempted to explain the economic importance of geopolitics to decision makers, but they did not examine how independent Azeri foreign policy can be despite its landlocked geography. This work attempts to explain how the landlocked feature of Azerbaijan affects the independence of its foreign policy. To develop a more complete analysis of this claim, this study accounts for energy resources and global powers' competition for influence in Azerbaijan. Thus, this study's claims attempt to define the current importance of geography, energy, and the global powers' competition for influence over Azerbaijan to determinate how these factors affect the independence of Azeri foreign policy.

1.4 Research Question, Variables, and Hypothesis

1.4.1 Research Question

How do geography, energy, and global powers' competition for influence over Azerbaijan affect the independence of Azerbaijan's foreign policy?

1.4.2 Variables

This work analyzes three different variables: geography, energy, and global powers' competition. The first variable refers to Azerbaijan's landlocked geography. The geographic location of Azerbaijan can affect its foreign policy in the long run. States without sea outlets might struggle to keep their economic independence by comparison to states with sea outlets. Transit states might take advantage of their geographic location to achieve economic and political benefits from landlocked states. Thus, the landlocked states have to develop a pragmatic foreign policy, seeking to meet the transit states' claims and balance the power of those transit states.

The second variable analyzes the influence that the energy resources have in Azeri foreign policy. The energy resources have the capability to intensify the political instability of any region, as has happened in the South Caucasus. The controversy over the oil and gas routes that transport Azeri energy resources to Western markets increased the competition among the regional states and global powers. Thus, the evaluation of the impact that Azeri natural resources have in Azeri foreign policy is a crucial matter in order

to elucidate whether energy resources can increase or decrease the independence of Azeri foreign policy.

The last variable analyzes the competition of global powers—the US and Russia. The relationships between these powers and Azerbaijan vary according to their own interests. The US seeks to increase its influence over Azerbaijan in economic and military aspects. The American participation in the trade of the Azeri energy resources decreases the Russian position as an energy supplier of Western states. It also increases Azeri economic independence from Russia, providing more influence to the US over the Azeri politics. In the Russian case, Moscow would attempt to maintain its status as hegemonic regional power over its sphere of influence, the former Soviet Republics. Russia also would oppose NATO expansion into the South Caucasus states, using military actions if needed, as happened in August 2008 when Russia invaded Georgia. Therefore, by analyzing geography, energy, and global powers' competition variables, this study attempts to elucidate the degree of independence of Azerbaijan's foreign policy.

1.4.3 Hypothesis

The hypothesis of this research proposes that the landlocked features of Azerbaijan, its energy resources, and the global powers' competition for influence over the South Caucasus region affect Azerbaijan's foreign policy.

The first factor, Azerbaijan's landlocked geography, potentially alters Azeri foreign policy. Since transit states play a key role for any landlocked state, the latter finds some constrictions to develop an independent foreign policy. Three of the four states that

surround the Azeri territory can provide an outlet for Azeri natural resources. These states are Russia in the north, Iran in the south, and Georgia in the West. Russia and Iran have a developed energy industry with oil and gas pipeline networks to transport the Caspian energy resources to world markets by carrying or swapping them. However, Baku chose Georgia as a transit state for its oil and gas due to political and security factors.

The energy resource, the second factor, is critical to understanding how Azerbaijan has developed its foreign policy after the collapse of the Soviet Union. Azeri authorities have sought to strengthen Azeri political and military independence from Russia through the exportation of its energy resources to Western markets using new pipelines. Azeri oil and gas became a tool to increase Baku's leverage in the South Caucasus. However, the Azeri energy resources increased the Russian and Western states' interests in the exploitation and commercialization of the Azeri oil and gas.

Finally, the third factor explains the competition between global powers for influence over Azerbaijan. Although Azerbaijan gained its independence in 1991, it did not materialize entirely in economic, political, and security fields, especially since Russia considers the Caucasus region its sphere of influence. The presence of Western powers reduces Russian leverage in economic and security fields. The Western states' involvement in the South Caucasus region increases Azeri economic, political, and military independence from Russia, and it strengthens Western influence over Azerbaijan and the other Caspian and Central Asian states.

1.5 Methodology

This work applies geopolitical concepts to analyze the degree of independence of Azeri foreign policy based on geography, energy, and competition among global powers. This study uses a deductive method of qualitative research to evaluate the hypotheses in different chapters. Each chapter follows a longitudinal analysis of qualitative variables, using historical data analysis in order to provide a historical framework of the South Caucasus region and Azerbaijan.

The first chapter reviews the most significant academic works in the field in order to delineate the political framework of Azerbaijan's foreign policy. The second chapter discusses how the Azeri territorial features, as a landlocked state, have played a key role in the development of Azeri foreign policy. The lack of sea outlets has affected Azeri international relations with its neighbors, forcing Baku to maintain strong relations with the transit states that encircle Azerbaijan. This landlocked feature of Azerbaijan allowed it to balance regional and global powers' interests in the South Caucasus region. The Western states' interests in Azeri energy resources have increased Azeri leverage to deal with non-Western states such as Russia and Iran. Thus, this chapter explores and discusses the geographical advantages and disadvantages of the Azeri location in regard to its foreign policy, analyzing the features of Azerbaijan as a landlocked territory.

Since the world is under a global transformation in terms of extensity, intensity, velocity, and impact, the exploitation and commercialization of energy resources became a significant source of wealth and conflict. The third chapter discusses the implications of Azeri energy, highlighting the importance of alternative oil and gas pipeline routes to

transport Azeri oil and gas, reducing its dependency from transit states, especially Russia. This chapter also presents how Azerbaijan has used its energy resources as a tool of influence in its relationship with Western and non-Western powers. This proved to be a pragmatic policy developed by the Azeri government to deal with global powers.

The fourth chapter analyzes the current competition between global powers, the US and Russia, for influence over Azerbaijan due its oil and gas resources. The Azeri government has balanced the US and Russia in order to gain more political, economic, and security stability to develop its economy. This policy based on a balance of powers also allowed Azerbaijan to gain influence in the Caspian and Central Asia regions.

Finally, the chapter five summarizes the main conclusions of each chapter, highlighting the necessity of a pragmatic foreign policy in this region due to geography, energy, and competition among global powers. To illustrate how independent Azeri foreign policy is, it is necessary to explain how the existing interaction between geopolitics, energy trade, and global powers' competition for influence in Azerbaijan works in order to understand of how those factors can affect Azeri foreign policy.

1.6 Literature Review

In recent decades, the intensification of economic, political, cultural, and military affairs has affected decision-making processes in world politics. The increase of world connectivity and interdependence in the global economy¹⁸ goes along with the growing of global threats, such as terrorism groups, separatist movements, climate change, energy

¹⁸ Cox, "Economic Globalization," 49.

scarcity, and religious fundamentalism. In a semi-anarchic system, every state seeks to ensure its national unity and interests through alliances or self-help policies,¹⁹ taking into consideration how some geographical features might affect the national security of each state. Since states' security depends on controlling territorial borders, pursuing control of resources, and securing trade routes with centers of resources,²⁰ geography is a defining factor for understanding how the distribution of power between states affects the foreign policy of any state. Geography provides a theoretical framework to understand the physical composition of some regions and how political institutions interact in those regions.

Geography plays a key role in the design of foreign policy despite the determinist features assigned by some political scientists. Under the determinist point of view, some regions are richer in natural resources than others, and those resources influence the distribution of power between states. It means that the course of history and its future are based on geographic causes, which cannot be fully changed by human beings.

Technological advances might help human beings to modify some geographic features of specific places, but it would not change the major geological characteristics of any region.

Although the use of technology seeks to connect distant places, making them more accessible for human beings and trade and changing the value of these specific locations, it does not mean that technology reduces the importance of geography.

¹⁹ Tim Dunne and Brian C. Schmidt, "Realism," in *The Globalization of World Politics: An Introduction to International Relations*, ed. John Baylis, Steve Smith, and Patricia Owens (New York: Oxford University Press, 2008), 92-94.

²⁰ Grygiel defines geography as "a combination of immutable geological facts (such as patterns of lands, seas, rivers, mountain ranges, and climatic zones) and the human capacity to adapt to them through changes in production and communications technology." Jakub J. Grygiel, *Great Powers and Geopolitical Change* (John Hopkins University Press, 2006), 1.

The natural scientific approach, followed by Halford Mackinder, claims that geography determines the fate of nations with a limited input of human actions.²¹ Mackinder highlights the importance of the natural resources of the Eurasian region (Eastern Europe, South Caucasus, and Central Asia), claiming that the future world power will belong to the state that controls Eurasia. As Grygiel points out, Mackinder's analysis states that the geographic location of Eurasia is what determines its importance, reinforcing the natural scientific argument that geographic reality remains unaltered.

However, this theoretical approach changed when geography, as a determinist feature of international analysis, lost its position as the explanatory variable in politics, and it became one variable among others that influence power.²² Thus, under the Classic Realist's perspective, power replaced geography as the independent variable in international relations, and geography became an irrelevant explanatory variable. This affirmation lies in the realist principle that states, as the main political actor in world politics, expand when they have power and when no other state is capable of limiting the expansion. Therefore, geography is no longer a source of power, because human beings, through technological advances, are able to reduce the impact that geography has in foreign policy.

By the early 1960s geography moved from natural science to social science, highlighting the ability of people and states to overcome the geographical restrictions created by nature. This shift decreased the determinist nature assigned to geography

²¹ Grygiel, *Great Powers*, 6.

²² Classic Realists came up with the idea that geography is only one of many factors affecting power. Grygiel, *Great Powers*, 8-11.

regarding the importance of geography in the analysis of foreign affairs. The realist perspective also argues that distance, as a geographic feature, is no longer a variable that decreases or increases human or state power in international politics, because power defines the capacity of each state to face world politics, especially since new technologies increased the capacity of states to project power to any remote area without decreasing effectiveness.²³

A third perspective about geography's role in foreign affairs includes defensive and offensive realists' perception. Since states do not interact in an abstract world but in a real one, geographical distance and location matter. Therefore, political scientists have to analyze how geography affects states' interaction. Policy makers have to include geography as a potential variable to evaluate their political, economic, and military calculations in the design of a national geo-strategy. It means that geography affects foreign policy in a peculiar fashion, especially since distance affects the perception of threat. Indeed, geographical distance between states does not necessarily isolate states from possible military confrontations with other states that are distant from the zone of conflict. In recent decades the increasing demand of energy resources, for example, has increased the possibility of military confrontations in different zones.²⁴

Mackinder wrote some of the initial works on geopolitics at the beginning of the 20th century. His theory states that world history is a struggle for the dominance of land and sea. He argues that dominance over land is more significant than dominance of the sea,

²³ Grygiel, *Great Powers*, 13.

²⁴ Beyond financing wars, energy resources have become a motive of several wars in the 1990s, as is the case in the Iraq-Kuwait War in 1990 and West Africa. Philippe Le Billon, "The Geopolitical Economy of "Resource of Wars," *Geopolitics* 9 (2004): 1.

referring to the Eurasian region. The territory that links Europe and Asia, Eurasia, has enough natural resources and population to provide hegemonic power to the state that controls that region.²⁵ Although Mackinder's concepts were applied to a wider geographic area than the South Caucasus, which he named the Heartland (Eurasia), this research employs Mackinder's concepts to analyze the foreign policy of Azerbaijan in the South Caucasus region.

Mackinder's work on geopolitics, *The Geographical Pivot of History*, delivered in 1904, described the British anxiety about its imperial future in the 20th century. He stated that "the development and expansion of railway networks had shifted the balance of power away from sea faring imperial nations—most obviously Britain—toward nations that were better positioned to exert land-based authority over continental interiors . . . whichever power controlled the world's landmasses would henceforth have access to the vast and largely untapped resource wealth of the continental interiors."²⁶ For Mackinder, Eurasia was the geographic area that all the global powers attempted to control due to its strategic relevance for trade and security between Western and Asian civilizations. In late 1837, the Russian advance in Central Asia represented the first hostile action between these two imperial powers.²⁷

²⁵ Brian W. Blouet, "Halford Mackinder and the Pivotal Heartland," in *Global Geostrategy: Mackinder and the Defense of the West*, ed. Brian W. Blouet (London: Frank Cass, 2005), 1.

²⁶ Sarah O'hara, Michael Heffernan, and Georgina Endfield, "Halford Mackinder, the 'Geographical Pivot,' and British Perceptions of Central Asia," in *Global Geostrategy: Mackinder and the Defense of the West*, ed. Brian W. Blouet (London: Frank Cass, 2005) 90-91.

²⁷ O'hara, Heffernan, and Endfield, "Geographical Pivot," 93-94.

Mackinder depicts three main aspects of the Heartland: control of resources, transportation infrastructure, and inaccessibility.²⁸ Eurasia's natural resources were relevant since the late 1890's, when Western powers became aware of the importance of Azeri energy resources, and they discussed the Black Sea-Azerbaijan-Caspian Sea corridor. The political and economic influence over Azeri natural resources is still a matter of competition between global powers. Coene states that in the case of infrastructure for transportation,²⁹ railways played a crucial role for trade during the late 1890's and early 1900's. Those routes allowed Eurasian countries to develop their agricultural, manufacturing, pastoral, and mining industries.³⁰ In late 1800, the first oil companies showed their interests in Azeri oil, which emerged as a valuable commodity during that time. Since then, states and private companies have sought to improve the infrastructure of the Azeri energy industry to exploit and trade its oil and gas.

According to David Hooson, the South Caucasus increased its importance due to existing energy resources, terrorist groups, and ethnic conflicts. These factors have made it difficult to forecast the future of Azerbaijan.³¹ As Mackinder showed one hundred years ago, the Azeri energy resources have been a key factor for global powers in the struggle to control Central Asia and the Caucasus regions. The oil and gas reserves found in Azerbaijan and the other Caspian states highlighted the significance of the region for commerce and security. On the other hand, international terrorism has become a new political, economic,

²⁸ O'hara, Heffernan, and Endfield, "Geographical Pivot," 97.

²⁹ Coene, *The Caucasus*, 22.

³⁰ O'hara, Heffernan, and Endfield, "Geographical Pivot," 97.

³¹ David Hooson. "The Heartland—Then and Now," in *Global Geostrategy: Mackinder and the Defense of the West*, ed. Brian W. Blouet (London: Frank Cass, 2005) 170.

and military factor for strengthening cooperation among Russia, the US, the EU, Turkey, South Caucasus state, and Central Asian countries, renewing the importance of Eurasia.

CHAPTER TWO: GEOGRAPHY

2.1 Geography and Geopolitics in International Relations

The South Caucasus called “lands in-between,”³² as a corridor between Europe and Asia, has connected the Black and Caspian Seas for centuries, showing the cultural link between Western and Asian civilizations, the religious encounter between Christianity and Islam, and the trade link between the West and East. Azerbaijan, Armenia, and Georgia are the three former Soviet republics that belong to the South Caucasus region. After the collapse of the Soviet Union, Azerbaijan and Georgia attempted to enhance their economic, political, and military independence from Russia, and they began a multi-vector foreign policy in order to balance power in the region against Russia. In the early 1990s, Western states increased their interest in the South Caucasus states, specifically for geographic, energy, and security reasons. Armenia became a pro-Russian state, gaining military, political, and economic support from Russia while Azerbaijan and Georgia, which have faced different ethno-political conflicts, became pro-Western states.³³

As a landlocked nation, Azerbaijan has attempted to create robust and friendly relations with all its neighbors, except with Armenia due to the Nagorno-Karabakh conflict, in order to have alternatives routes to export its energy resources through transit states, such as Georgia, Russia, Turkey, and Iran. The pro-Western Azeri foreign policy, however, made possible the construction of new pipeline routes, which run from Baku to Tbilisi

³² Thomas De Waal, *The Caucasus: An Introduction* (Oxford: Oxford University Press, 2010), 1.

³³ Eldar Ismailov and Vladimer Papava. *The Central Caucasus: Problems of Geopolitical Economy*. (New York: Nova Science Publishers, 2008), 1.

(Georgia), then to Ceyhan (Turkey), and finally to Western markets through the Mediterranean Sea.³⁴

Azeri oil and gas resources increase the global and regional power interests in Azerbaijan, decreasing Azerbaijan's landlocked geographic constrictions. Access to Azeri energy resources produce four outcomes: 1) it allows Western states to diversify their energy suppliers; 2) it increases the American influence over European and South Caucasus states; 3) it compels Russia to redesign its energy policy with Azerbaijan; and 4) it increases Iranian interests in the commercialization of the Azeri energy resources. It seems that Azeri oil and gas are capable bringing regional and global powers to compete for influence, and it allows the Azeri government to balance power in the South Caucasus region. The four outcomes also imply that military confrontations might be expected in the South Caucasus region.

In the geopolitical field, a number of new studies have investigated how the landlocked feature of Azerbaijan affects Azeri foreign policy.³⁵ As Idan and Shaffer's analysis demonstrates, Azerbaijan follows a multi-directional foreign policy characterized by the cooperation with Russia (e.g. keeping a Russian strategic radar station in Qabala) and with the US (e.g. taking an active role in NATO's Partnership for Peace program). Azerbaijan is also a member of several strategic-international institutions,³⁶ showing its

³⁴ Bulent Aras, *The New Geopolitics of Eurasia and Turkey's Position* (London: Frank Cass, 2002), 21.

³⁵ Sarah J. Lloyd, "Land-Locked Central Asia: Implications for the Future," in *Land-locked States of Africa and Asia*, ed. Dick Hodder, Sarah J. Lloyd, and Keith McLachlan (London: Frank Cass, 1998), 97-133. , Martin Ira Glassner, "Resolving the Problems of Land-lockedness," in *Land-locked States of Africa and Asia*, ed. Dick Hodder, Sarah J. Lloyd, and Keith McLachlan (London: Frank Cass, 1998)

³⁶ Idan and Shaffer, "Post-Soviet Landlocked States," 255.

awareness of the important role of cooperation with global and regional organizations to achieve stability in the South Caucasus.

The geographic location of Azerbaijan increases the chances of a military confrontation in the South Caucasus region, where global powers are competing for influence. In the case of the Western powers, the geographic distance between those states and Azerbaijan is broad enough to assume that Western states are unlikely to participate in a war in the South Caucasus on a regular basis because Western states have no territory at risk. Nevertheless, it is likely that Western states might take part in any military confrontation where their energy supplies from Azerbaijan or Caspian states are affected. For that reason, global powers would not limit their political, economic, and military intervention to their home territory but to other geographical locations where energy resources are held. It shows that geographical areas rich in natural resources would not remain isolated because the current geographical extension of any state is not limited to its home territory but in fact extends beyond to where vital resources are located. In the Azeri case, the geographical features of Azerbaijan affect the balance of power between the US and Russia, opening the possibility of future confrontations between Azerbaijan and its neighbor states.

The dynamics created by the combination of energy resources and landlocked geography strengthen the argument that geographical features³⁷ affect the balance of power and create the scenery for possible military confrontations where global and

³⁷ Grygiel, *Great Powers*, 18.

regional powers take part in order to defend their national interests, in this case energy consumption.

2.2 Geopolitics in International Relations

The geographical location of Azerbaijan³⁸ imposes serious constraints on the Azeri government's ability to design a predictable foreign policy. The Azeri borders with Russia in the North, Iran in the South, Armenia and Georgia in the West, and the Caspian Sea in the East elucidate the complex relationships that Azerbaijan has created with its neighbor states. Azeri leaders realized that the balance of power between global and regional powers is a pragmatic strategy to achieve political, economic, and military stability in the region. Azerbaijan did not design an ideological foreign policy as many buffer states did during and after the Second World War. Instead, it designed a pragmatic one that took advantage of Azerbaijan's geography and energy resources and of global powers' competition for influence.

The rising demand for energy resources in recent decades increased the importance of Azeri oil and gas for Western and Non-Western industrialized states. The newly exploited Azeri oil and gas fields and the modern routes (the BTC and BTE pipelines) have persuaded global powers to take part in the commercialization and exploitation of the Azeri energy resources. In the early 20th century, Mackinder claimed that Eurasia³⁹ has the potential to develop the major industrial power in the world due to the size of the population and the natural resources located

³⁸ Chuck Fahrner, and Martin Ira Glassner, *Political Geography*, 3rd ed. (New York: Wiley, 2003), 284-85.

³⁹ Eurasia includes Europe, Central Asia, and the Asian-Pacific Region. Milan L. Hauner, "The Division of the Soviet Eurasian Empire: An Ongoing Debate," in *Central Asia and the Caucasus after the Soviet Union: Domestic and International Dynamics*, ed. Mohiaddin Mesbahi (Gainesville: University Press of Florida, 1994), 229.

in Eurasia. He argued that the nation, which controls Eurasia would be able to build an incomparable military force to ensure its hegemonic position in the world.⁴⁰

After the collapse of the Soviet Union, the US has been redesigning its foreign policy, seeking to avoid the ascending of any hegemonic state in Eurasia. The American approach to this region has been less confrontational, seeking to spread American influence in former Soviet Republics of the South Caucasus and Central Asia. Within the American strategy fitted Azerbaijan, whose geographical location and energy resources were crucial for Western interests. Since Azerbaijan was not able to reduce the Russian influence as a regional and global power in the South Caucasus, the Azeri government persuaded Western powers and investors to participate in the Azeri energy business, ensuring profitable gains in the exploitation of Azeri oil and gas and their export to Western markets. Western involvement in the Azeri energy industry would ensure the transportation of energy to international markets through the construction of pipelines, highways, and other communication networks. This pro-Western policy increased the political stability, economic development, and military security of Azerbaijan in recent decades, regardless of Russian complaints and concerns about the Azeri-American relationship.

Within the geopolitical issues that affect international relations in the South Caucasus region, territorial conflicts have altered the development of energy centers and pipelines routes in Azerbaijan. The military conflict between Azerbaijan and Armenia over

⁴⁰ Stephen Van Evera, "A Farewell to Geopolitics," in *To Lead the World: American Strategy After the Bush Doctrine*, ed. Melvyn P. Leffler and Jeffrey W. Legro (New York: Oxford University Press, 2008), 12.

the Nagorno-Karabakh region⁴¹ in the early 1990's changed the initial Azeri plans to develop an oil pipeline that would have run Azeri oil from Azerbaijan through Armenia and Turkey. After the conflict, Azeri authorities chose Georgia as a transit state for its oil and gas, seeking to ensure the continuous supply of the energy to international markets. This strategic change, however, increased the cost of the pipelines. The territorial conflict in Nagorno-Karabakh remains unsolved, and Armenians fear that Azeri authorities might be prolonging the unresolved conflict to rebuild the Azeri military capabilities for future confrontations. Some speculate that Azerbaijan intends to begin a military attack on Armenia should Baku not succeed in the Nagorno-Karabakh negotiations with Yerevan.⁴² Armenians and Azeri are suspicious of one another, and they have been equipping their military forces to protect their national interests.⁴³

Since geopolitical factors change, states are continuously adapting themselves to the new centers of resources, as happened after the collapse of the Soviet Union. In this regard, Azerbaijan became a new energy center in a region where Russia was the hegemonic state in the trade and production of oil and gas. In the 1990's, Caspian oil and gas gained

⁴¹ In the Nagorno-Karabakh conflict, geopolitics, geography, demographics, and politics converged after the collapse of the Soviet Union. At the end of the 1980's, Yerevan authorities attempted to use their demographic majority in the Nagorno-Karabakh region to drive out the Azeri population and build a military fortress to repel the Azeri retaliation. The Baku government, on the other hand, sought to force Armenian surrender by blockading the Nagorno-Karabakh region. In May 1994, both Armenia and Azerbaijan recognized the end of the Nagorno-Karabakh War, and since then the Minsk Group has led negotiations between Azeri and Armenian authorities. De Waal, *The Caucasus*, 115.

⁴² Svante E. Cornell, *Azerbaijan Since Independence* (New York: M. E. Sharpe, 2011), 161. The Russian participation in the Armenia-Azerbaijan conflict in the Nagorno-Karabakh region affected the balance of power in the Caucasus, and it also set a precedent of changing borders by force. Mohiaddin Mesbahi, "Russia and the Geopolitics of the Muslim South," *Central Asia and the Caucasus after the Soviet Union: Domestic and International Dynamics*, ed. Mohiaddin Mesbahi (Gainesville: University Press of Florida, 1994), 299.

⁴³ De Waal, *The Caucasus*, 115.

importance in the world, which created the opportunity for a possible change in the balance of power in Eurasia after the Russian withdrawal of the former Soviet republics.

Once Azerbaijan became a new center of energy resources, the Azeri government developed new routes to transport its oil and gas to international markets.⁴⁴ The location and transportation of Azeri energy became the main reason for Western states' involvement in Azerbaijan and the South Caucasus. The Azeri government developed a foreign policy balancing regional and global powers, seeking to keep regional stability, economic development, and national security.

⁴⁴ I use the word "route" in a wide sense, which means that it also includes lines of communication, referring to railways, highways, telecommunication networks, and other instruments of communication and infrastructure that are required to connect the center of resources with international markets, civilian locations, and military zones. Grygiel, *Great Powers*, 27.

CHAPTER THREE: ENERGY

3.1 Energy Background

Azeri geography is crucial for international energy interests. Azerbaijan supplies oil and gas to Western markets through the transit states of Georgia and Turkey. Since Azerbaijan is a landlocked state, transit states influence Azeri foreign policy, allowing Baku to export its energy resources to international markets.⁴⁵ While the last chapter talked about the landlocked features and their impact on Azeri foreign policy, this chapter analyzes how energy affects Azeri interaction in international politics.

Economic factors based on energy-related issues have strengthened the Azeri relationship with its neighbor states and global powers. Georgia and Armenia, in a regional perspective, have poor and undeveloped economies, and those states have seen the need to transport Azeri natural resources as an economic opportunity to improve their fragile economies. Georgia and Armenia, like many other former Soviet Republics, have depended on Russia as an energy supplier and policy maker for decades, and the collapse of the Soviet Union increased their uncertainty about their economic future. However, when Azerbaijan became an independent state, the South Caucasus states realized the benefits they could obtain by strengthening their economic ties with Azerbaijan. The Azeri neighbor states, including Turkey, negotiated different possible routes with Azeri authorities to transport Azeri oil and gas to Western markets. These states knew that they were key players within

⁴⁵ Idan and Shaffer, "Post-Soviet Landlocked States," 241.

the Azeri energy projects, and it would allow these transit states to gain significant economic revenues for the transit fee, improving their economic situations.⁴⁶

Since energy is the most prominent resource and the hardest to ensure for industrial purposes, global powers have been attempting to diversify energy suppliers to meet their economic goals. The importance of oil and gas for industrialized states has reached significant levels in the last two decades. In a global perspective, the Western European states' energy dependency on Russian and Middle Eastern energy is a clear example of the significance of Azeri oil and gas for Western markets. Azerbaijan's energy resources fit within Western economic interests because access to Azeri oil and gas decreases the European states' dependency on Russian energy and increases the US influence in the South Caucasus region. It also decreases the Russian hegemonic position as an energy supplier for European countries. Western states, for their part, collaborate economically and politically with Azerbaijan, promoting democracy, rule of law, human rights, conflict resolution campaigns, and free markets. Thus, energy is a major factor in maintaining Azeri political, economic, and military stability, while also increasing its independence by balancing regional and global powers in the South Caucasus region.

After the collapse of the Soviet Union, Azerbaijan became an energy exporter state, making oil and natural gas exploitation its main source of income. Through the participation of international oil companies, Azerbaijan developed different energy projects to increase its oil and gas exploitation capacity. Azeri oil and gas runs through modern pipeline networks, which take the Azeri energy from its offshore and gas fields in

⁴⁶ Zeyno Baran and Robert A. Smith, "The Energy Dimension in American Policy towards the Black Sea Region," *Southern European and Black Sea Studies* 7 (2007): 265-74.

the Caspian Sea and Azeri territory, respectively. By 2009, Azerbaijan was producing 1.3 percent of the oil⁴⁷ in the world,⁴⁸ with a reserves-to-production ratio of 18.6 years.⁴⁹ It also produced 0.5 percent of the natural gas of the world, possessing reserves for up to 88.8 years.⁵⁰

The Azeri Ministry of Industry and Energy is the government institution that supervises the exploitation and administration of Azeri natural resources. To meet the industrial and commercial demands of oil and gas, the Azeri government created the State Oil Company of Azerbaijan Republic (SOCAR), which is responsible for the production of Azeri oil and gas. SOCAR's participation in the production of energy includes other industrial activities related to the operation of refineries, running national pipeline systems, and the managing of the oil and gas imports and exports.

The largest Azeri hydrocarbon resource is the Chirag Guneshli (ACG) oil field, located 100 km east of Baku, covering 432 square km. British Petroleum (BP) operates this oil field, which produced almost 80 percent of the total Azeri oil output in 2010.⁵¹ The Shah Deniz field, on the other hand, is an offshore natural gas field located in the southern part of

⁴⁷ This production includes crude oil, shale oil, oil sands, and NGLs (the liquid content of natural gas where this is recovered separately). Excludes liquid fuels from other sources such as biomass and coal derivatives.

⁴⁸ This consumption includes inland demand plus international aviation and marine bunkers and refinery fuel and loss. Consumption of fuel ethanol and biodiesel is also included.

⁴⁹ Reserves-to-production (R/P) ratio – If the reserves remaining at the end of any year are divided by the production in that year, the result is the length of time that those remaining reserves would last if production were to continue at that rate.

⁵⁰ All these statistics were taken from "BP Statistical Review of World Energy June 2010," accessed on February 20, 2012,

<http://www.bp.com/sectiongenericarticle800.do?categoryId=9037128&contentId=7068555>

⁵¹ "Azerbaijan: Country Analysis Brief," US Energy Information Administration, accessed February 20, 2012, <http://www.eia.gov/countries/country-data.cfm?fips=AJ&trk=pl>.

the Azeri Caspian Sea zone. It is the major Azeri natural gas field, and it is under BP administration and operation. This field is 64 km southeast of Baku.⁵²

Although SOCAR's participation in the Azeri energy field is significant, Figure 1 and Figure 2 show that the Azeri state company produces less than 20 percent of Azerbaijan's national resources while the international consortium produces the remaining 80 percent.⁵³ These figures show that international oil companies are the leading exploiters of Azeri energy resources, implying that foreign interests are part of Azeri energy development.

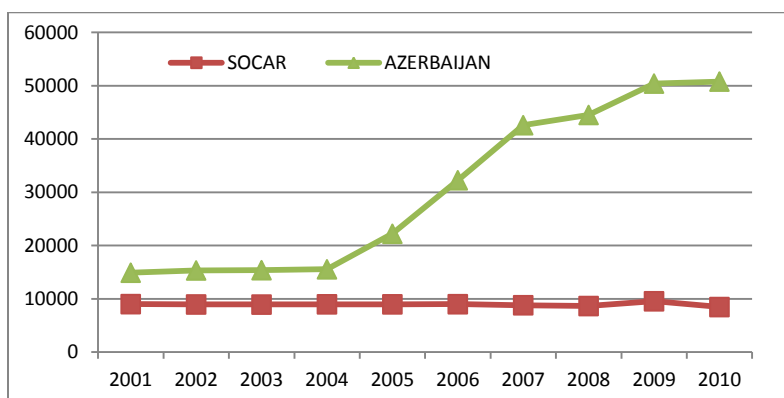


Figure 1: Oil production (annual in 1000 t)⁵⁴

⁵² "Azerbaijan: Country Analysis Brief," US Energy Information Administration, accessed February 20, 2012, <http://www.eia.gov/countries/country-data.cfm?fips=AJ&trk=p1>.

⁵³ British Petroleum operates the AIOC consortium. "Azerbaijan: Country Analysis Brief," US Energy Information Administration, accessed February 20, 2012, <http://www.eia.gov/countries/country-data.cfm?fips=AJ&trk=p1>.

⁵⁴ Source: "Economics & Statistics, Oil Production" State Oil Company of the Azerbaijan Republic, accessed June 25 2012, <http://new.socar.az/socar/en/economics-and-statistics/economics-and-statistics/oil-production>.

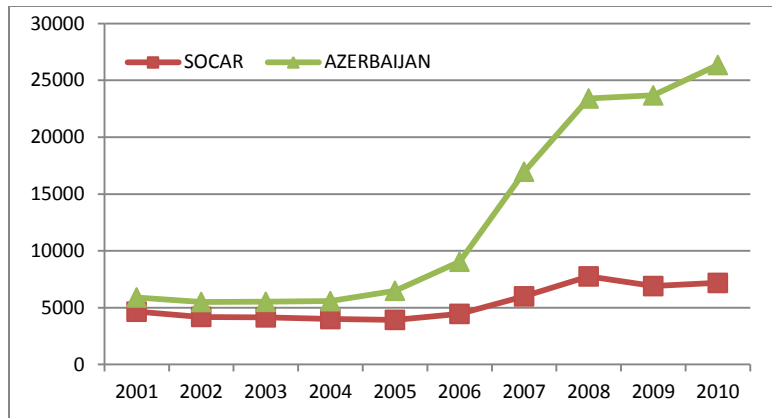


Figure 2: Gas production (annual in millions m³)⁵⁵

These figures show that the Azeri government wants to consolidate its energy industry in order to develop its economy and to ensure its security. The Azeri government designed pro-Western routes to export its oil and gas to international markets to increase its economic and energy independence from Russia.⁵⁶ The Azeri authorities distanced themselves from Moscow and became closer to the Western states, since some American oil companies invested heavily in the Azeri oil industry. Washington authorities also got involved in the Azeri energy business when they participated in the negotiations and design of different pipeline projects to transport the Azeri oil and gas to international markets, bypassing Russian territory, as is the case of the Baku-Tbilisi-Ceyhan oil pipeline.⁵⁷ Baku has developed a multi-vector foreign policy using multi-pipeline routes⁵⁸

⁵⁵ Source: "Economics & Statistics, Gas Production" State Oil Company of the Azerbaijan Republic, accessed June 25 2012, <http://new.socar.az/socar/en/economics-and-statistics/economics-and-statistics/gas-production>.

⁵⁶ Eldar Ismailov and Vladimer Papava, "A New Concept for the Caucasus," *Southern European and Black Sea Studies* 8 (2008), 283-98.

⁵⁷ Alexei Bogaturov, "The Time of Central Asia," *International Affairs: A Russian Journal of World Politics, Diplomacy & International Relations* 51 (2005): 74-84.

⁵⁸ Idan and Shaffer, "Post-Soviet Landlocked States," 241-68.

to export its oil and gas to international markets, balancing regional and global powers. The Azeri government applied a pragmatic foreign policy, which did not follow ideological and cultural tendencies.⁵⁹ As Idan and Shaffer explain, Azerbaijan's landlocked geography resulted in a foreign policy that was multidirectional, that relied on multiple pipelines for oil export, that implemented distinctive policies toward its transit states, and that treated transportation as a major foreign policy issue.⁶⁰

This multi-vector foreign policy was a response to the Azeri necessity of expanding its energy export infrastructure. The Azeri foreign minister Elmar Mammadyarov has stated that Baku has attempted to diversify its energy export capabilities. This claim follows the ongoing Azeri energy export policy, which allows Baku to export its energy resources from Baku to Georgia (Port of Supsa), to Russia (Novorossiysk), and to Iran (using swaps).⁶¹ In addition to these energy outlets, the Baku-Tbilisi-Ceyhan pipeline, which became operational in 2005, is the most significant route for transporting Azeri oil to international markets. Thus, this multi-vector policy and multiple pipeline routes have been successful for Azerbaijan because they increased the nation's economic independence and security in the South Caucasus regions by balancing the economic and political interests of the regional and global powers.

⁵⁹ Houman A. Sadri, *Global Security Watch: The Caucasus States* (Santa Barbara: Praeger, 2010), 53-55.

⁶⁰ Idan and Shaffer, "Post-Soviet Landlocked States," 254-55.

⁶¹ Idan and Shaffer, "Post-Soviet Landlocked States," 258.

3.2 Oil and Natural Gas Pipelines

Azerbaijan has a modern pipeline network to export its energy resources. The Azeri oil infrastructure includes three different pipelines: the Baku-Tbilisi-Ceyhan pipeline (BTC), the Baku-Novorossiysk pipeline (BN), and the Baku-Supsa pipeline (BS), as Figure 3 shows. Azeri natural gas on the other hand, runs through three pipelines: the Baku-Tbilisi-Erzurum or the South Caucasus pipeline (SCP), the Gazi-Magomed-Mozdok pipeline (GMM), and the Baku-Astara pipeline (BA).



Figure 3: Oil and gas pipelines from Azerbaijan

3.2.1 Oil Pipelines

The Baku-Tbilisi-Ceyhan (BTC) pipeline, sponsored by the US government, provides Azerbaijan significant economic and political independence from Russia because it avoids Russian territory, taking the Azeri oil from Baku to Tbilisi, and then to the Ceyhan port in

the Mediterranean Sea.⁶² As a consequence of the Azeri-Turkish energy relationship, both countries have strengthened their commercial ties. These nations have also strengthened their relationship in other areas, including military support when Turkey supported Azerbaijan in the Azeri-Armenian conflict over Nagorno-Karabakh.⁶³ This relationship has also increased Baku's independence from Russia by increasing the Azeri leverage in energy.

The BTC is a 1,768 km pipeline that runs through Azerbaijan (443 km), Georgia (249 km) and Turkey (1,076 km). It starts in the Sangachal terminal, located offshore in southern Azerbaijan in the Caspian Sea, and it finishes in the Ceyhan terminal at the Turkish coast of the Mediterranean Sea. The British company BP operates this pipeline, which started exporting oil with a capacity of 1.2 million bbl/d by July 2006. The BTC exports about 80 percent of Azeri oil. Additionally, the BTC also transports Kazakh oil to Western markets. Kazakh oil travels through the Caspian Sea in tankers to reach the Azeri oil terminal in Sangachal near Baku, and then it runs through the BTC to Western markets.⁶⁴

The Baku-Novorossiysk (BN) pipeline runs from the Azeri Sangachal terminal in the Caspian Sea to the Russian port Novorossiysk in the Black Sea. At 1336 km in length, it is the second longest Azeri oil pipeline. The state oil company SOCAR operates this pipeline in

⁶² During Bill Clinton's presidency, the US firmly opposed an alternative pipeline to transport Azeri oil, especially if it had to go through Iranian territory. Marcus Menzel, *Doomed to Cooperate?: American Foreign Policy in the Caspian Region* (Frankfurt Main: Peter Lang GmbH, 2003), 99-101.

⁶³ Turkish officials have stated that "[Turkish] relations with Azerbaijan constitute the most important strategic axis not only in the Caucasus but also in . . . [Ankara's] entire foreign policy . . ." See: Saban Kardas, "Turkish-Azerbaijan Energy Cooperation and Nabucco: Testing the Limits of the New Turkish Foreign Policy Rhetoric," *Turkish Studies* 12 (2011): 55-77. Turkey has provided military equipment and training for the Azeri army. See: Emre Iseri and Oguz Dilek, "The Limitations of Turkey's New Foreign Policy Activism in the Caucasian Regional Security Complexity," *Turkish Studies* 12 (2011): 48.

⁶⁴ "Azerbaijan: Country Analysis Brief," US Energy Information Administration, accessed February 20, 2012, <http://www.eia.gov/countries/country-data.cfm?fips=AJ&trk=p1>.

the section that runs over Azerbaijan while Transneft operates the Russian section. Baku-Novorossiysk has a capacity of 100,000 bbl/d.⁶⁵

Finally, the Baku-Supsa (BS), which runs for 837 km, is the shortest Azeri oil pipeline, and it runs from the Azeri Capital of Baku to the Georgian port Supsa in the Black Sea. BP operates this pipeline on behalf of the AOIC members. The Baku-Supsa pipeline has an estimated capacity of 145,000 bbl/d.⁶⁶

3.2.2 Natural Gas Pipelines

The South Caucasus pipeline (SCP) or Baku-Tbilisi- Erzurum pipeline is a gas pipeline which transports natural gas from the Azeri Shah Deniz gas field in the Caspian Sea to Georgia. Then it goes to its final destination in the Turkish city of Erzurum. This pipeline is 690 km long and runs parallel to the BTC oil pipeline. BP operates this gas pipeline and it began exporting gas in 2007.⁶⁷ The construction of the Baku-Tbilisi-Erzurum pipeline was intended to supply natural gas to Turkey and Georgia exclusively, but there have been some recent speculations about Azeri government interests in supplying gas to Western markets through Turkey-Greece and Italy-Greece pipelines. However, BP closed the pipeline for several days in August 2008 when Russia invaded the southern Georgian region of South Ossetia. After the Russian-Georgian war ended, BP reopened the BTE.

⁶⁵ "Azerbaijan: Country Analysis Brief," US Energy Information Administration, accessed February 20, 2012, <http://www.eia.gov/countries/country-data.cfm?fips=AJ&trk=p1>.

⁶⁶ "Azerbaijan: Country Analysis Brief," US Energy Information Administration, accessed February 20, 2012, <http://www.eia.gov/countries/country-data.cfm?fips=AJ&trk=p1>.

⁶⁷ "Azerbaijan: Country Analysis Brief," US Energy Information Administration, accessed February 20, 2012, <http://www.eia.gov/countries/country-data.cfm?fips=AJ&trk=p1>.

The Gazi-Magomed-Mozdok (GMM) pipeline runs from Azerbaijan to Russia, and extends 241 km. This pipeline is part of a Russian and Azeri pipeline project that runs from the Russian regions of Mozdok in North Ossetia, Chechnya, and Dagestan to the Azeri capital of Baku. This pipeline became inactive when Azerbaijan became a natural gas supplier. However, in 2008, the Russian energy company Gazprom decided to diversify its imports of natural gas from the Azeri Shah Deniz gas field. In June 2009, the Russian president Dmitry Medvedev and the Chairman of Gazprom, Alexey Miller, met with Illham Aliyev, the president of Azerbaijan, in Baku to discuss energy projects between Gazprom and SOCAR, including the recent Russian purchase of Azeri natural gas. The Russian and Azeri authorities agreed to sign energy contracts over the existing pipeline infrastructure and Azerbaijan would sell 500 million cubic meters annually to Russia.⁶⁸ The Gazi-Magomed-Mozdok (GMM) pipeline, operated by SOCAR, began exporting natural gas to Russia in 2010.⁶⁹

The Baku-Astara (BA) pipeline originally built in 1965 as part of an energy agreement made between Iran and the Soviet Union. Iran provided natural gas to the South Caucasus states through this pipeline until the Iranian revolution cut off the energy agreement. In 2006 Azerbaijan and Iran agreed to a swap where Azerbaijan provides natural gas to northern Iranian through the Baku-Astara pipeline, and Iran supplies gas to the Azeri enclave of Nakhchivan. Iran had to build a new gas pipeline with an extension of

⁶⁸ "Gazprom and SOCAR Sign Agreement on Azerbaijani Gas Purchase and Sale Terms," Gazprom, accessed March 12, 2012, <http://www.gazprom.com/press/news/2009/june/article66713/>.

⁶⁹ "Azerbaijan: Country Analysis Brief," US Energy Information Administration, accessed February 20, 2012, <http://www.eia.gov/countries/country-data.cfm?fips=AJ&trk=p1>.

48 km to be able to supply natural gas to the Azeri enclave, and Azerbaijan is paying a 15 percent commission to Iran for transit fees.⁷⁰

3.3 Oil and Natural Gas Imports and Exports⁷¹

Table 1 and Figure 4 illustrate Azerbaijan’s crude oil exports and their main destinations—Italy, France, Israel and the US—during the period from 2005 to 2010. Azerbaijan exported crude oil for a value of \$44,171 million in 2008, which was the highest profit received in those five years.

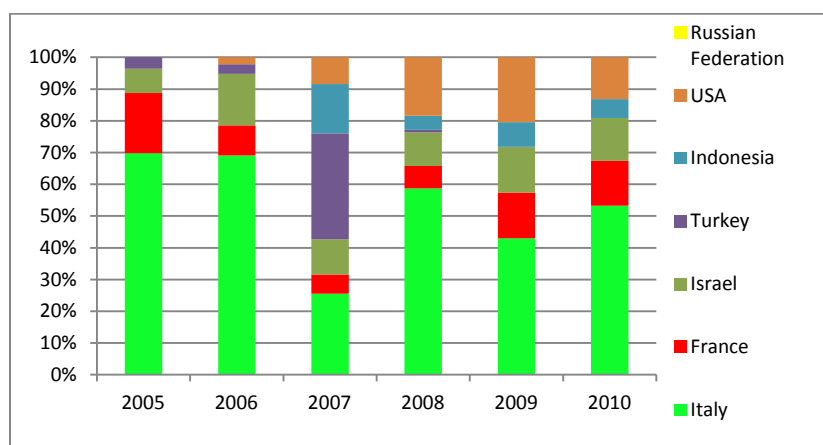


Figure 4: Exports of petroleum crude oil—code 2709⁷²

⁷⁰ "Azerbaijan: Country Analysis Brief," US Energy Information Administration, accessed February 20, 2012, <http://www.eia.gov/countries/country-data.cfm?fips=AJ&trk=p1>.

⁷¹ The data regarding imports and exports were extracted from the UN Trade Website. To obtain this information, we selected the data reported by Azerbaijan between the years 2005 and 2010, for codes 2709, 2710, and 2711. <http://unstats.un.org/unsd/databases.htm>

⁷² This chart includes only the main energy partners.

Table 1: Exports for petroleum crude oil—code 2709

Exports Code 2709	2005 (MM\$)	2006 (MM\$)	2007 (MM\$)	2008 (MM\$)	2009 (MM\$)	2010 (MM\$)
Italy	\$1,218	\$2,443	\$642	\$19,011	\$3,646	\$6,904
France	\$331	\$334	\$153	\$2,281	\$1,229	\$1,839
Israel	\$132	\$574	\$278	\$3,418	\$1,215	\$1,745
Turkey	\$63	\$110	\$839	\$274	\$0	\$0
Indonesia	\$0	\$0	\$390	\$1,411	\$661	\$782
USA	\$0	\$75	\$211	\$5,972	\$1,735	\$1,703
Russian Federation	\$0	\$0	\$0	\$0	\$0	\$0
World	\$2,219	\$3,848	\$3,214	\$44,171	\$11,990	\$18,490
These countries represent	79%	92%	78%	73%	71%	70%

The crude oil imported to Azerbaijan, by comparison, was not as significant as Azerbaijan’s crude oil exports during the same period, as Table 2 and Figure 5 illustrate. The main Azeri providers of crude oil were the United Kingdom and Austria during the period between 2005 and 2010. However, these energy suppliers exported petroleum to Azerbaijan in the relatively insignificant amount of \$112,000. From 2006 to 2007, Azerbaijan did not report any importation of crude oil.

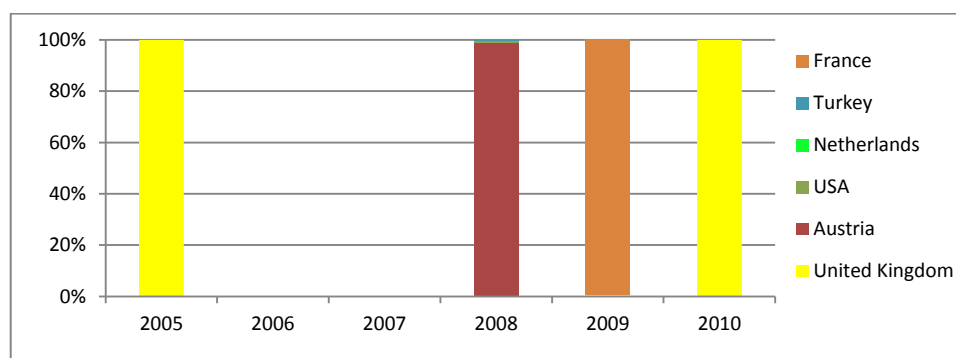


Figure 5: Imports of petroleum crude oil—code 2709⁷³

⁷³ This chart includes only the main energy partners.

Table 2: Imports of petroleum crude oil—code 2709

Imports Code 2709	2005	2006	2007	2008	2009	2010
United Kingdom	\$127				\$11	\$795
Austria				\$111679		
U.S.				\$522		
Netherlands				\$339		
Turkey				\$262		
France					\$1728	
World	\$127	0	0	\$112802	\$1739	\$795
These countries represent	100%			100%	100%	100%

During the period between 2005 and 2010, Azerbaijan exported only petroleum to five main destinations: Georgia, Turkey, Italy, Iran, and Malta. They did not import crude oil during this period. Table 3 and Figure 6 illustrate the different export incomes that Azerbaijan received during those five years, gaining the highest amount of income in 2008, when Azerbaijan received \$2.054 billion.

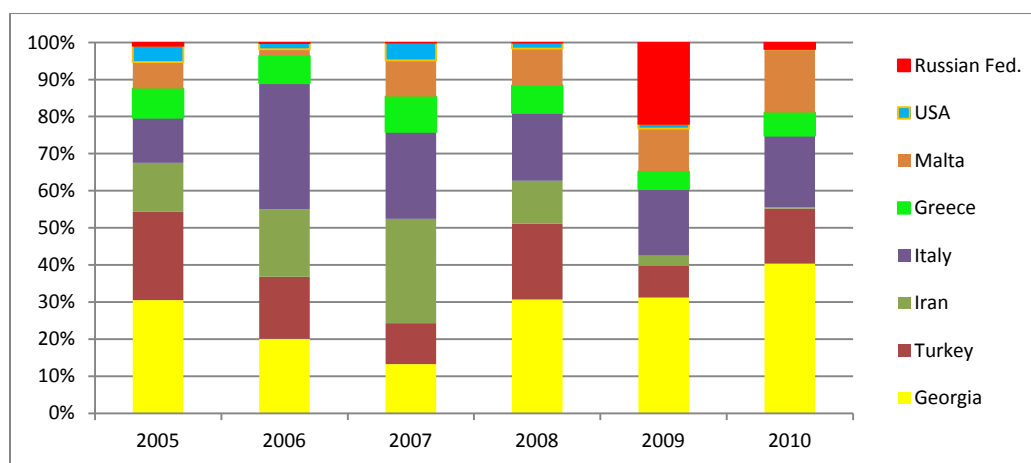


Figure 6: Export of petroleum oils except crude—code 2710⁷⁴

⁷⁴ This chart includes only the main energy partners.

Table 3: Export of petroleum oils except crude—code 2710⁷⁵

Exports Code2710	2005 (MM\$)	2006 (MM\$)	2007 (MM\$)	2008 (MM\$)	2009 (MM\$)	2010 (MM\$)
Georgia	\$178	\$229	\$161	\$341	\$224	\$275
Turkey	\$139	\$191	\$133	\$228	\$61	\$101
Iran	\$76	\$208	\$340	\$128	\$20	\$3
Italy	\$71	\$388	\$284	\$203	\$129	\$132
Greece	\$46	\$84	\$115	\$83	\$34	\$43
Malta	\$42	\$21	\$118	\$111	\$83	\$116
USA	\$26	\$19	\$58	\$18	\$9	\$1
Russian Fed.	\$5	\$2	\$0	\$0	\$157	\$12
World	\$1,090	\$1,505	\$1,669	\$2,054	\$1,483	\$1,284
These countries Represent	53%	76%	72%	54%	48%	53%

All petroleum oil except crude imported by Azerbaijan was not as prominent as the Azeri's exportation of the same commodity during the same period of time. Turkmenistan, Belgium, Turkey, and Russia are the most significant and constant providers for the period between 2005 and 2010, as Table 4 and Figure 7 illustrate. The highest level of importation was in 2005, which reached \$162 million.

⁷⁵ Petroleum oils and oils obtained from bituminous minerals, other than crude; preparations not elsewhere specified or included, containing by weight 70% or more of petroleum oils or of oils obtained from bituminous minerals, these oils being the basic con [HS2007 code 2710]

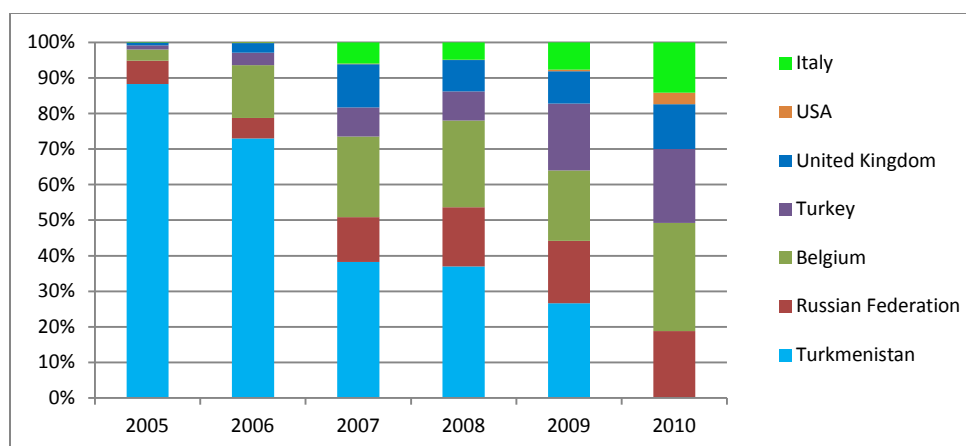


Figure 7: Import of petroleum oils except crude—code 2710⁷⁶

Table 4: Import of petroleum oils except crude—code 2710

Imports Code 2710	2005 (MM\$)	2006 (MM\$)	2007 (MM\$)	2008 (MM\$)	2009 (MM\$)	2010 (MM\$)
Turkmenistan	\$140	\$58	\$21	\$31	\$13	\$0
Russian Federation	\$10	\$5	\$7	\$14	\$8	\$9
Belgium	\$5	\$12	\$13	\$20	\$9	\$15
Turkey	\$2	\$3	\$5	\$7	\$9	\$10
United Kingdom	\$1	\$2	\$7	\$7	\$4	\$6
USA	\$0	\$0	\$0	\$0	\$0	\$2
Italy	\$0	\$0	\$3	\$4	\$4	\$7
World	\$162	\$86	\$64	\$97	\$54	\$66
These countries Represent	98%	93%	88%	87%	87%	77%

Between 2005 and 2010, Azerbaijan had three main destinations for its natural gas, Georgia, Bulgaria, and Albania, as Table 5 and Figure 8 illustrate. However, Russia became the major destination of the Azeri natural gas in 2010, buying almost \$304 million worth of Azeri gas.

⁷⁶ This chart includes only the main energy partners.

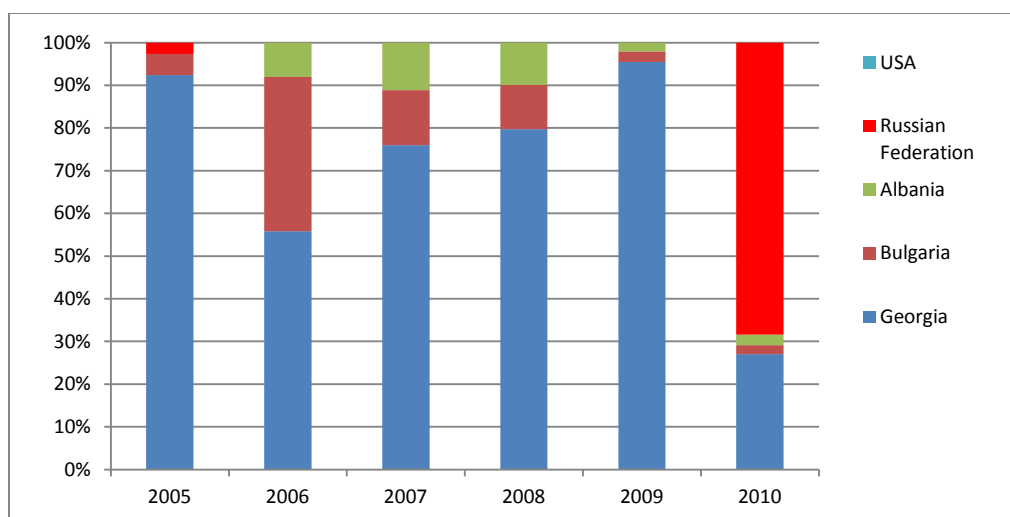


Figure 8: Export of natural gas in gaseous state—code 2711⁷⁷

Table 5: Export of natural gas in gaseous state—code 2711

Exports Code 2711	2005 (MM\$)	2006 (MM\$)	2007 (MM\$)	2008 (MM\$)	2009 (MM\$)	2010 (MM\$)
Georgia	\$2.5	\$4.4	\$19.9	\$66.8	\$125.8	\$74.6
Bulgaria	\$0.1	\$2.8	\$3.4	\$8.7	\$3.3	\$5.7
Albania	\$0.0	\$0.6	\$2.9	\$8.3	\$2.7	\$6.8
Russian Federation	\$0.1	\$0.0	\$0.0	\$0.0	\$0.0	\$188.5
USA	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
World	\$3.4	\$9.9	\$26.3	\$92.6	\$131.8	\$303.9
These countries represent	80%	80%	99%	90%	100%	91%

The amount of natural gas imported by Azerbaijan between 2007 and 2010 was not as great as the Azeri's exportation of natural gas. The main Azeri suppliers of natural gas during the years 2005 and 2006 were Turkmenistan, Russia, and Kazakhstan, as Table 6 and Figure 9 illustrate. The peak of importation was in 2006, which reached \$465 million.

⁷⁷ This chart includes only the main energy partners.

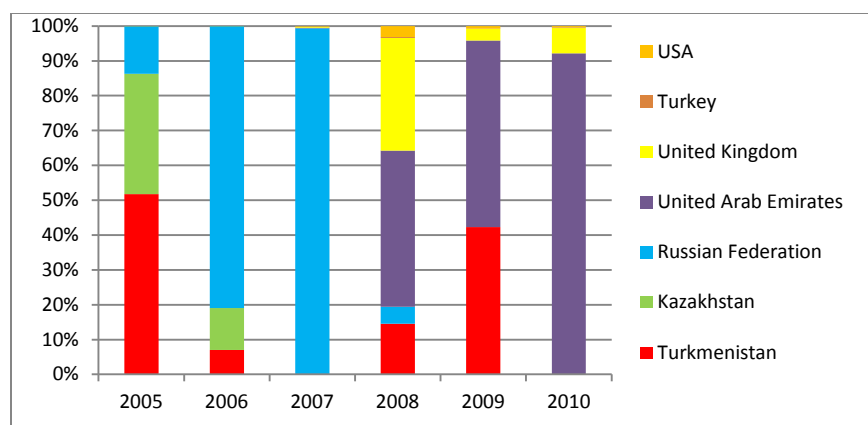


Figure 9: Import of natural gas in gaseous state—code 2711⁷⁸

Table 6: Import of natural gas in gaseous state—code 2711

Import Code 2711	2005 (MM\$)	2006 (MM\$)	2007 (MM\$)	2008 (MM\$)	2009 (MM\$)	2010 (MM\$)
Turkmenistan	\$96.58	\$31.10	\$0.00	\$0.03	\$0.15	\$0.00
Kazakhstan	\$64.38	\$54.03	\$0.00	\$0.00	\$0.00	\$0.00
Russian Federation	\$25.43	\$360.60	\$51.71	\$0.01	\$0.00	\$0.00
United Arab Emirates	\$0.04	\$0.16	\$0.09	\$0.09	\$0.20	\$0.38
United Kingdom	\$0.03	\$0.08	\$0.15	\$0.06	\$0.01	\$0.03
Turkey	\$0.02	\$0.00	\$0.02	\$0.00	\$0.00	\$0.00
USA	\$0.01	\$0.01	\$0.09	\$0.01	\$0.00	\$0.00
World	\$277.30	\$465.38	\$52.09	\$0.20	\$0.38	\$0.42
These Countries represent	67%	96%	100%	98%	96%	98%

In brief, this chapter portrays Azerbaijan as a producer and exporter of oil and natural gas. The tables and figures presented show that the major Azeri energy partners are European states, Turkey, Georgia, and Russia. The role of Western states in the Azeri energy resources is significant due to the influence exerted by their investments in Azeri energy. BP, for instance, controls the principal Azeri reserves of oil and natural gas as well

⁷⁸ This chart includes only the main energy partners.

as the pipeline networks that transport the oil and gas that is sold to international markets. The information depicted in the tables and figures also shows that Azerbaijan changed its status from an importer of energy resources to an exporter of energy resources between 2005 and 2007, when the construction of major international projects, such as pipelines, refineries, and exploration platforms ended. The Azeri pipelines that run through Georgia, Turkey, Iran, and Russia carry Azeri oil and natural gas to international markets. Therefore, the Azeri government has to maintain a good relationship with all its major economic investors, including the US, the UK, and Russia. Azerbaijan must also maintain a good relationship with transit states, including Russia, Georgia, Turkey, and Iran, thus balancing the power among regional and global powers in order to achieve stability and economic prosperity.

CHAPTER FOUR: COMPETITION AMONG GLOBAL POWERS

Azerbaijan, as a landlocked country, needs economic and security partners to strengthen its independence from Russia and to balance global powers' influence in the Caucasus. The global and regional powers compete for influence in the South Caucasus region, organizing themselves into pro-Western and non-pro-Western states. The first group is led by the US and includes the EU and Turkey, while the second group is headed by Russia includes Iran and Armenia.⁷⁹

The American presence in the South Caucasus attempts to gain influence by decreasing Russian power in the region. After the collapse of the Soviet Union, the new independent states of Armenia, Azerbaijan, and Georgia attempted to strengthen their economic and military independence from Russia. The US became the principal Western country supporting the South Caucasus states. The exploitation and commercialization of Azeri energy resources in the early 1990's became the most important reason for the American immersion in the region. From the non-pro-Western side, Russia has been the principal oil supplier for Europe, which has increased Moscow's leverage over Western states. The participation of Western states and oil companies in the trade of Azeri oil and gas has represented a threat for Russia's hegemonic position as a supplier of oil and gas to Western markets.

⁷⁹ Ismailov Papava, "A New Concept," 283-98.

Therefore, this chapter will analyze the global powers' competition for influence over Azerbaijan in isolation from geographic and energy factors that affect the Azeri foreign policy in the interaction among Azerbaijan, the US, and Russia.

4.1 The Azerbaijan-Russia Relationship

4.1.1 Background

After the collapse of the Soviet Union, Russia debated the meaning of the Russian identity at local, regional, and global levels.⁸⁰ Although Russian's elite knew Russian power had decreased by the end of the 1990's, Russian leaders realized that the former Soviet Union was still important due to Russia's location, energy resources, and military capabilities. Thus, Russia has used bilateral and multilateral relations to preserve its hegemonic power in the South Caucasus and Central Asia, where Russian power remains largely unchallenged.

As Breslauer claims, Russian foreign policy has developed two cyclical phases between the last years of the Cold War and the early years of the 21st Century. These transitional phases are called transformation and consolidation. When Vladimir Putin took power in Russia, the major challenge that Moscow faced was to rebuild its image as a superpower, seeking to strengthen its territorial integrity and economic development. Putin's administration sought to develop a responsible and predictable foreign

⁸⁰ Robert Legvold, "Russia's Unformed Foreign Policy," *Foreign Affairs* 80 (2001): 62. The problem with identity is still a matter of discussion among experts in Russia who highlight the importance of how Russian people and elites see and describe themselves in world affairs. George W. Breslauer, "Reflections on Patterns of Leadership in Soviet and Post-Soviet [Russian] History," *Post-Soviet Affairs* 26 (2010): 264.

policy,⁸¹ ensuring that Russia was no longer seen as a Western enemy but as an equal partner.⁸² Russian leaders know that Russia's status as a global power depended in part on Moscow's capability to deal with new local movements and secessionists groups in the Caucasus region. The Chechnya and Georgia wars, in 1994 and 2008 respectively, were examples of the new Russian reality, where territorial conflicts within Russia and along its borders became a serious matter for Moscow because they affect the Russian status as a superpower.

Under these circumstances, Vladimir Putin decided to restore Russian power and authority in domestic and international affairs. Putin did not share Gorbachev's and Yeltsin's beliefs about Russian weakness. Gorbachev and Yeltsin shared a pessimistic perspective about how Russia was perceived in the world, especially after the collapse of the Soviet Union when Russia lost its status as a global power. This perspective depicted the Soviet Union as an economically and politically weak state, asking for the West's acceptance.⁸³ Putin believed that Moscow had to take advantage of its economic and military resources. In the economic field, Moscow authorities, led by Putin, decided to improve the commercialization and production of Russian oil and gas to export these energy resources to Europe, seeking to increase Russian leverage over the European states, especially since Russia was the major energy supplier for Europe. During Putin's first presidential term, the Russian economy had an average growth of seven percent due to the

⁸¹ Christian Thorun, *Explaining Change in Russian Foreign Policy: The Role of Ideas in Post-Soviet Russia's Conduct Towards the West* (London: Palgrave and Macmillan, 2009). 36.

⁸² Thorun, *Explaining Change*, 36.

⁸³ George W. Breslauer, "Observations on Russia's Foreign Relations under Putin," *Post-Soviet Affairs* 25 (2009): 370.

constant growth of the oil and gas prices and the liberal policies implemented by Putin. In addition, Russia reinforced its process of political consolidation as a great power.

In the military field, Russia holds a significant variety and quantity of Weapons of Mass Destruction (WMD), which are rivaled only by the US. The Russian military capacity and technology are recognized around the world, and Russian leaders have used other states' awareness of those weapons and technology to increase its leverage in world affairs.

Russian military and economic assets can easily persuade other states to avoid confrontation with Russia. Moscow also announced to the former Soviet republics that Russia would defend its regional and global interests using force if that is needed, as it did during the Russia-Georgia War in 2008. This war proved that Russia was committed to being recognized as a powerful leader in international affairs, and it showed that the Western involvement in the South Caucasus was not strong enough to decrease Russian leverage in the region.⁸⁴ These aggressive actions were part of the pragmatic foreign policy developed by Putin to reestablish Russia as a great power.

Within Russia's global goals, its geographical location allows it to be in permanent connection with the most influential regions, including Europe, the Middle East, Central Asia, and the Asia-Pacific markets.⁸⁵ Russia's location encouraged Moscow to create a multi-vector⁸⁶ and pragmatic policy to consolidate its status as a great power. Thus, Russia

⁸⁴ Breslauer, "Observations," 374.

⁸⁵ Irina Isakova, *Russian Governance in the Twenty-First Century, Geo-strategy, Geopolitics and Governance* (London: Frank Cass, 2005): 18.

⁸⁶ The Russian Foreign Minister Sergei Lavrov stated that Russia has a foreign policy in favor of pragmatism and common sense, and it has renounced to its imperial ambitions. Moscow authorities refuse interstate confrontation, highlighting the importance of multi-polarity and rejecting the idea of a unipolar world, because it fails to materialize due the complex economic, political, and military interdependence that the globalization process has created in recent decades. Lavrov went beyond to the multilateral new world order

designed a complex and broad foreign policy to balance the US, the EU, and China⁸⁷ in a global perspective, and the South Caucasus and Central Asia⁸⁸ in a regional perspective.⁸⁹ The disagreements among regional and global powers have become a common issue in recent decades, and for that reason Russian foreign policy cannot be a one-vector policy, choosing only one region because there are several vectors (regions and states),⁹⁰ that are highly dynamic.

Regional policy became a crucial field for Russian foreign policy in order to achieve international recognition and political, economic, and military stability. The Caucasus and Central Asia obtained significance in a global perspective not only by their strategic proximity to rogue states, such as Iran and Afghanistan, but also due to their natural resources, which can be exported to Western markets. Another strategic region for Russian interests is East Asia, especially China and India, where Moscow had dedicated significant attention through diplomatic channels to strengthen the multi-vector foreign policy that Putin's government has pursued since he took power.

Russian economic improvement, its military capability, its direct involvement in international organizations, its cultural and religious links with the former Soviet republics, its energy interests, and its geographic location, are some of the major features that

and proposed that international relations work in an environment that refuses anarchy. See: Sergei Lavrov, "Containing Russia: Back to the Future," *Russia in Global Affairs* 5 (2007) 13.

⁸⁷ Isakova, *Russian Governance*, 19.

⁸⁸ Sergei Lavrov, "The Rise of Asia and the Western Vector of Russia's Foreign Policy," *Russia in Global Affairs* 4 (2006): 67.

⁸⁹ By 2000, Russian partnerships with regional powers such as China and India were unlikely to happen because those states were not interested in close ties with Russia, and that pushed Moscow to focus on its regional interests, improving its relationships with the former Soviet republics of the Caucasus and Central Asia. Robert Legvold, "Russia's Unformed Foreign Policy," *Foreign Affairs* 80 (2001): .65.

⁹⁰ Lavrov, "The Rise of Asia," 71.

influence the design of the Russian foreign policy regarding the South Caucasus region. Moscow manipulated those factors in its economic, political, and military interests during the Soviet era, and after the collapse of the Soviet Union, it is still seeking to keep that leverage over the South Caucasus region. The geographical condition of Azerbaijan, as a landlocked state, allows Russia to increase its power over Azeri oil and gas resources.

The following sections will discuss the geographic and energy factors that affect the Russian-Azeri relationship and the need for a cooperative policy between Russia and Azerbaijan in order to ensure an independent Azeri foreign policy.

4.1.2 Territorial factors in the Relationship between Russia and Azerbaijan

Russians and people of the Caucasus have lived together for centuries, and that created a constant social, economic, political, and cultural interaction among the different ethnic groups who inhabit the Caucasus region. This constant communication has created the conditions for collaboration based on singular interests. The first years after the Caucasus states gained their independence from Russia in the early 1990's were crucial to establish open bilateral and multilateral ties with Russia. By June 1996, Russian leaders and the main leaders of the Caucasus region signed the "Declaration for International Concord, Peace, and Economic and Cultural Cooperation in the Caucasus" in Kislovodsk, Russia. This declaration of cooperation in a federative fashion was the most significant attempt to keep Caucasus states as a unique community of nations.⁹¹

⁹¹ Stanislav Cherniavskii, "Russian Diplomacy in Transcaucasia," *Russian Politics and Law* 39 (2001): 6.

Since Russia considered the South Caucasus as part of its sphere of influence, Moscow sought to consolidate the political and military stability of the region by strengthening ties with Armenia, Azerbaijan, and Georgia. Russian-Caucasus relationships did not improve significantly after the collapse of the Soviet Union except for in the case of Armenia. Azerbaijan and Georgia sought to strength their economic, political, and military independence from Russia by developing a pro-Western foreign policy, which increased Russian concerns about the EU and NATO expansion into the Russian sphere of influence. Once Russia realized that Western states were establishing security ties with Georgia and Azerbaijan, Moscow decided to intensify its political ties with former Soviet republics through the Commonwealth of Independent States (CIS), seeking to decrease Western military presence in the South Caucasus region.⁹²

During Imperial and Soviet times, the South Caucasus was a buffer zone that protected Russia from the outside world, and the collapse of the Soviet Union did not change this characteristic. Russia increased its concerns when Azerbaijan designed oil and gas pipelines that would take Azeri energy resources to Western markets without passing through Russian territory. This Azeri measure would decrease the Russian hegemonic position as an oil supplier for Europe, and it also increased the Azeri economic and political independence from Russia, especially since the BTC pipeline had economic and political support from Western states, led by the US.⁹³

⁹² Elkhan Nuriyev, *The South Caucasus at the Crossroads: Conflicts, Caspian Oil and Great Power Politics* (Berlin: LIT, 2007), 268.

⁹³ Nuriyev, *The South Caucasus at the Crossroads*, 269.

In the case of the Russian-Azeri relationships, the Nagorno-Karabakh conflict played a crucial role in how both countries built their political and military ties. The Azeri-Armenian conflict goes back to 1921 when Soviet authorities rejected the Armenian claim over the unification of the Nagorno-Karabakh region with Armenia. The Soviet government decided to keep that region within Azerbaijan, but that decision did not persuade Armenians to give up in their interest in annexing the Nagorno-Karabakh region to the main Armenian territory. After the collapse of the Soviet Union, Nagorno-Karabakh claimed its independence from Azerbaijan and Armenia recognized it, creating a subsequent military confrontation between Armenia and Azerbaijan. By February 1992, Armenian troops had taken over Khojaly territory, an Azeri enclave in Nagorno-Karabakh. Azerbaijan claimed that Armenian forces massacred more than 1,000 civilians during this military occupation, which had the Russian army's support.⁹⁴ The Russian approach to this conflict intensified the Azeri confrontation with Moscow, and it also divided the regional powers in the South Caucasus. Turkey directly supported Azerbaijan, closing its borders and imposing economic sanctions against Armenia. Iran, on the other hand, took diplomatic measures to mediate in the Azeri-Armenian conflict. Russia, in the meantime, dissolved the military regiment that it had in the battlefield and ordered its troops to withdraw from the Nagorno-Karabakh region.

During mid-May 1992, Armenia already controlled the whole region of Nagorno-Karabakh, and by 1993, the Armenian army took almost the twenty percent of Azerbaijan's territory, including the cities of Kebajar, Agdam, Fizuli, Jabrayil, Gubadly, and Zangilan.

⁹⁴ Nuriyev, *The South Caucasus at the Crossroads*, 164.

International organizations began working on resolving the conflict in 1993. The Organization for Security and Cooperation in Europe (OSCE)⁹⁵ demanded an immediate ceasefire and the Armenian withdrawal from Azeri territory. The Azeri and Armenian claims regarding Nagorno-Karabakh conflict have two different roots. While the Azeri government claims territorial integrity, Armenian authorities ask for the conservation of their historical heritage.

By the end of 1999, Russia encouraged Azerbaijan and Armenia to begin with bilateral negotiations under the framework of the Minsk Group (MG) in order to work together to solve the military conflict in Nagorno-Karabakh. In 2000, Russia, in its role as co-chair of MG, proposed the creation of a special commission of experts to evaluate the conditions for the inhabitants of the Nagorno-Karabakh, proposing the creation of a peace mission. Russia worked directly with Robert Kocharian and Heidar Aliyev, the presidents of Armenia and Azerbaijan respectively, showing Moscow's interest in strengthening political ties with its new independent neighbors. In mid-August 2000, Korichan and Aliyev met in Yalta under Russia's mediation, and both presidents confirmed their intentions to continue the dialogue to solve the territorial confrontation.⁹⁶ As of June 2012, Armenia and Azerbaijan are still in negotiations for the final resolution to the Nagorno-Karabakh conflict.

The geographic location of Russia provides Moscow with significant power to influence Azerbaijan, which is a landlocked territory with significant energy resources to export to international markets. However, the Azeri geographical location limits its

⁹⁵ Organization for Security and Co-operation in Europe (OSCE). See: <http://www.osce.org/who>

⁹⁶ Nuriyev, *The South Caucasus at the Crossroads*, 171.

possibilities to become a major oil and gas exporter, and for that reason Azerbaijan has had to strengthen its ties with Russia, since Moscow had developed an integrated pipeline system to transport Caspian oil and gas to international markets. The construction of the pipeline shows the Russian commitment to extend its influence over Azerbaijan and the South Caucasus through cooperative policies and soft power, or by coercive means and hard power. The Russia-Georgia War in 2008 was an example for the latter.

4.1.3 Energy factors in the Relationship between Russia and Azerbaijan

The Russian-Azeri relationship in regard to oil began in 1920 when Bolsheviks captured Baku, but it acquired geopolitical significance during the Second World War when Nazi Germany designed a military offensive against the South Caucasus, seeking to take the Baku oilfields, which represented 90 percent of Soviet fuel as of March 1942.⁹⁷

Russia and Azerbaijan maintained bilateral relations after the collapse of the Soviet Union in 1991. Those relations, however, based on military, economic, political, and cultural cooperation did not reach a significant level due to the preexisting mistrust between both countries. Some scholars explain that the strategic partnership between Russia and Armenia,⁹⁸ the latter considered the principal enemy of Azerbaijan, increased the Azeri mistrust of Russia, especially after Armenia seized the Azeri region of Nagorno-Karabakh in 1992. It meant that Russia attempted to renew its influence over the South

⁹⁷ Geoffrey Roberts, *Stalin's Wars: From World War to Cold War, 1939-1959* (New Haven: Yale University Press, 2006): 118. Rob Johnson, *Oil, Islam and Conflict: Central Asia Since 1945* (London: Reaktion Books, 2007)

⁹⁸ Bagirov, "Azerbaijan's Strategic Choice," 182.

Caucasus region, taking advantages of the territorial and ethnic conflicts in Abkhazia and South Ossetia in Georgia and Nagorno-Karabakh in Azerbaijan.

Russian foreign policy in the South Caucasus attempted to prevent the growth of Western influence in the region, centralizing the transportation of Azeri oil and gas through Russian territory.⁹⁹ However, after Western states and oil companies began working with Azeri and Georgian authorities, Russian leaders changed their approach to Azerbaijan and Georgia, seeking to increase Moscow's participation in the exploitation and commercialization of the Azeri energy resources.

To meet these goals, Russia developed a multilateral and bilateral policy where supranational organizations, such as CIS, led by Moscow, played a key role in regional affairs between the former Soviet republics and Russia. This multi-vector policy, however, did not succeed in strengthening Russian-Azeri relations because Baku developed a pragmatic foreign policy balancing Western powers against Russia. Azerbaijan was able to reduce the Russian leverage due its oil and gas, but that was not the case for Armenia, which has substantially depended on Russia due to Armenian's lack of energy resources.

Russian support of Armenia during Nagorno-Karabakh conflict increased the tension between Russia and Azerbaijan. The Azeri government realized that its economic, political, and military independence from Russia relied on its energy resources, and for that reason it had to develop economic and security ties with Western powers. The Baku-Tbilisi-Ceyhan (BTC) and Baku-Tbilisi-Erzurum (BTE) pipelines built by Azeri and Western oil companies sought to avoid Russian territory, creating a route that runs from Azerbaijan

⁹⁹ Menzel, *Doomed to Cooperate?*, 86.

to Georgia, Georgia to Turkey, and then from Turkey to Western markets. Once the pipeline started working at full capacity, the Azeri government received more than US\$20 billion in revenues. From 2006 to 2008, Azeri revenues increased by almost a third every year.¹⁰⁰

The current Azeri oil fields under exploitation are Azeri, Chirag, and Guneshli (ACG), with estimated reserves estimated at five billion barrels of oil. By 1994, the Azeri president Heidar Aliyev and nine international oil companies¹⁰¹ signed the “Contract of the Century.” The companies involved in this contract came from six different countries including Russia and Turkey.¹⁰² Azeri authorities sought to use this contract to please global and regional powers without creating a chaotic relationship among all of them. Because the economics, politics, and national defense of Azerbaijan were under Russian influence after the collapse

¹⁰⁰ De Waal, *The Caucasus*, 171.

¹⁰¹ BP from the United Kingdom, AMOCO, Pennzoil, Unocal, McDermott, and Amerada Hess (formerly Delta Nimir) from the US, LUKOIL from Russia, STATOIL from Norway, RAMCO from Scotland, and TPAO from Turkey. BP stands for British Petroleum, which is the third largest energy company in the world. It was founded in 1909 as Anglo-Persian Oil Company. A detailed history of the British Petroleum Company can be found in Ronald W. Ferrier, *The History of the British Petroleum Company, Volume 1*, (Cambridge University Press, 1982), and J. H. Bamberg, *The History of the British Petroleum Company, Volume 2*, (Cambridge: Cambridge University Press, 2009). AMOCO stands for American Oil Company, which originally was a chemical and oil company called Standard Oil Company. AMOCO was acquired by British Petroleum (BP) in 1998. See: “Business: The Company File BP and AMOCO in Oil Mega-Merger,” *BBCNews*, August 11, 1998, accessed May 8, 2011, <http://news.bbc.co.uk/2/hi/business/149139.stm>. PENNZOIL is an American oil company founded in 1913. It merged with Quaker State to form Pennzoil-Quaker State, which was purchased by the Royal Dutch/Shell Group in 2002, and it became SOPUS-Shell Oil. UNOCAL stands for Union Oil Company of California, which merged with Chevron in 2005. See: Chevron Corporation. “Chevron Corporation and Unocal Corporation Announce Preliminary Results of Election for Merger Consideration,” Accessed July 6 2011, http://www.chevron.com/chevron/pressreleases/article/08102005_chevroncorporationandunocalcorporationannouncerepreliminaryresultsofelectionsfomergerconsideration.news. LUKOIL is the largest Russian oil company whose sales of petroleum products in 2009 were distributed as follows: 34.85% Russia, 27.9% Europe, 19% USA, 11.6% CIS, 3.8% Turkey, and 2.9% Baltic states. See: “Petroleum Product Marketing,” LUKOIL Oil Company, accessed May 8 2011, http://www.lukoil.com/static_6_5id_2173_.html. Nasser Sagheb and Masoud Javadi, “Azerbaijan’s ‘Contract of the Century’ Finally Signed with Western Oil Consortium,” *Azerbaijan International*, Winter 1994, accessed January 8, 2011, http://azer.com/aiweb/categories/magazine/24_folder/24_articles/24_aioc.html.

¹⁰² The Contract of the Century excluded Iran, as the American government requested to the Azeri leaders during the negotiations for the pipeline projects.

of the Soviet Union, Heidar Aliyev had to negotiate carefully with Moscow, Washington, and Tehran in order to balance their interests over Azerbaijan and the South Caucasus region.

Thus, Heidar Aliyev as an expert negotiator knew that Azeri independence would depend on bringing Russia and the Western powers to the South Caucasus region. The best way to achieve that goal was by creating an economic consortium where Western and non-Western oil companies joined the State Oil Company of Azerbaijan (SOCAR) in the exploitation and commercialization of Azeri energy resources. Thus, SOCAR and the principal oil companies from Great Britain, the US, Russia, Norway, and Turkey created the consortium Azerbaijan International Operation Company (AIOC).¹⁰³ The exclusion of Iran from this consortium created significant resentment among Iranian authorities because Baku and Tehran had signed an agreement before the establishment of the AIOC about Iranian participation in the new consortium, but American objections to the Iranian participation in the Contract of the Century forced Azerbaijan to remove Iran. President Aliyev understood the importance of the American and Iranian confrontational interests in the South Caucasus, and he used the Azeri-Iranian relationship to obtain some economic and political concessions from the US. This strategy also allowed Azerbaijan to gain some concessions from Iran, especially when Baku allowed American troops to stay near the Azeri-Iranian border, increasing the uncertainty about a possible American attack on Iran from Azeri soil.¹⁰⁴

¹⁰³ De Waal, *The Caucasus*, 172.

¹⁰⁴ The Iranian public supported Baku in the territorial conflict in Nagorno-Karabakh, which increased Armenian concern over Tehran's foreign policy in the South Caucasus region. This Iranian policy persuaded Yerevan to get closer to Turkey and Israel in order to balance the Iranian relationship with Azerbaijan. Shiree

For the transportation of Azeri oil and gas, the Iranian and Russian infrastructures represented viable outlets for the Azeri energy resources before Azerbaijan opted for the construction of the BTC and BTE. Iran proposed an oil swap to Azerbaijan. Since the quality of the Iranian oil is similar to the Azeri oil, Tehran offered to transport the Azeri oil from the southern regions of Azerbaijan to the northern provinces of Iran in order to satisfy the demands of Iranian consumption of oil, and in exchange Iran offered to export its own oil to international markets in favor of Azerbaijan.¹⁰⁵ However, this offer did not satisfy US interests, and Azerbaijan had to refuse it. Another proposal was the Russian offer, which offered to transport Azeri oil through Russian pipelines from Baku to the Russian Black Sea port of Novorossiysk. Yet, Baku dismissed this option initially because it would increase Russian leverage over Azerbaijan by centralizing the commercialization of the Azeri oil, and Baku and Western authorities were focused on decreasing Moscow's energy monopoly in order to increase Azerbaijan's economic and political independence.

Under these circumstances, a multiple-pipelines policy was implemented to ensure Azeri oil trade independence. Azerbaijan agreed to negotiate with Georgia the construction of an oil pipeline that runs from Baku to the Georgian port of Supsa in the Black Sea. By 1998, the oil pipeline of Supsa began working, and it became the initial solution for the export of Azeri oil to international markets while avoiding Russian territory.¹⁰⁶

In 1998, following the policy of diversifying oil outlets, the Azeri government evaluated the Turkish offer of building a new pipeline that runs from Baku to Tbilisi and

T. Hunter, *Iran's Foreign Policy in the Post-Soviet Era: Resisting the New World Order* (Santa Barbara: Praeger, 2010) 180.

¹⁰⁵ Menzel, *Doomed to Cooperate?*

¹⁰⁶ De Waal, *The Caucasus*, 174.

then from Tbilisi to Ceyhan (BTC), reaching the Mediterranean sea in southern Turkey. This project presented significant political and environmental benefits. The oil transported to the Black Sea and then to the Mediterranean Sea had ecological risks, especially since the ships that carry the Azeri oil increased the transit over the Bosphorus Strait and the risk of possible ship accidents in the Black Sea that could cause significant ecologic damage. On the other hand, the construction of the BTC, politically speaking, avoids the Russian territory, diminishing the Russian predominant position as an oil supplier for Europe and increasing the Azeri economic and political independence from Russia. However, the Azeri foreign policy based on multiple pipeline routes created fears of a military intervention in the aftermath of the Russia-Georgia war in 2008, when Russia invade Georgia. This military conflict in August 2008 created concern among the members of the AIOC consortium, when Georgia's government and BP authorities decided to shut down the BTC pipeline as a preventive measure, fearing a possible Russian attack on the pipeline.

Regardless the recent Russia-Georgia War in 2008, Russia has attempted to strengthen its economic and political ties with Azerbaijan in the South Caucasus, especially since Vladimir Putin became a president of Russia. The Russia-Georgia war in 2008 represented a polemical approach made by Russia to the South Caucasus region. The Russian government reformulated its foreign policy regarding the Caucasus states since Vladimir Putin took power, seeking to strengthen the common interests that Russia shares with Armenia, Azerbaijan, and Georgia. This multi-vector policy developed under the Putin presidency did not find a great partner in Azerbaijan, especially after Russia threatened to attack the BTC oil pipeline.

Azerbaijan and its economic partners in the exploitation and commercialization of Azeri oil distrusted Russian intentions in the South Caucasus. Armenia, on the other hand, took advantage of the Russian-Azeri mistrust. Armenian authorities strengthened economic ties with Russia and Iran through energy agreements. The Russian government sponsored the construction of a gas pipeline that runs from Iran to Armenia, ensuring energy for Armenia. The strong Russia-Armenia relationship has concerned Azeri authorities since Russia supported Armenia during the Nagorno-Karabakh conflict, and it increased the Azeri skepticism about the Russian intentions in the South Caucasus.

The Azerbaijan-US relationship has affected the Russian interests in the Caucasus region and it promoted Russian hostility against Azerbaijan. The Russian-Azeri relationship improved when the Azeri government stated that Azerbaijan would not pursue membership in NATO as Georgia did. This measure showed the Azeri foreign policy's pragmatism and flexibility in dealing with its neighbor states to ensure its survival.

Therefore, the Azeri leaders proved to have the ability to design and re-design the Azeri policy based on new circumstances and needs. Azerbaijan has been able to balance global powers through diversified export of its energy resources and its geographical location. The multi-vector policy designed by Azerbaijan has allowed it to develop a cooperative policy with the global powers and its neighbor states, increasing political, economic, and military stability. Azerbaijan has developed a more pragmatic foreign policy than Georgia in the sense that Azeri authorities created a policy that avoids confrontations with global power and neighbor states.

4.2 The Azerbaijan-US Relationship

4.2.1 Background

The significant growth of worldwide energy consumption raises question about control over energy resources. The international competition to obtain energy resources has become one of the major issues driving international relations. Under these circumstances, it seems that political and military intervention in countries that hold energy resources would become a widespread practice. The biggest military power on the earth, the US, seeks to ensure energy supplies for the coming decades due its increasing energy demand. This increasing demand will increase the American energy dependence on foreign oil and gas suppliers. This energy dependence has also significantly affected the Western European states and the new economic powers, China and India, which are also trying to diversify their energy suppliers in order to ensure their industrial and economic development.

After the collapse of the Soviet Union, the Western powers, led by the US, attempted to get involved in the South Caucasus and Central Asia regions. The Western states initially promoted free markets, democracy, and rule of law in those regions. This approach changed when Western states and oil companies realized the revenues and power that they would gain by exploiting and trading Azeri oil and gas to international markets. The Azeri oil and gas became one the most critical issues for US foreign policy when Western oil companies and the Azeri government signed the “Contract of the Century” in 1996 to exploit the Chirag-Guneshli oil field. This contract strengthened the commercial

relationship between Azerbaijan and the US, allowing American oil and industrial companies to develop different energy projects related to the energy industry, such as the construction of the Baku-Tbilisi-Ceyhan (BTC) and Baku-Tbilisi-Erzurum (BTE) oil and gas pipelines, which bypass Russia. The Contract created the possibility that Azerbaijan could become an alternative oil and gas supplier for Western markets.

The terrorist attacks in Washington D.C. and New York on September 11, 2001, shifted American foreign policy in different aspects. Washington changed its approach to the South Caucasus, seeking to increase its influence in that region. The American strategy included increasing influence over the Azeri energy resources,¹⁰⁷ reducing Russian leverage in the South Caucasus, decreasing Iranian influence in the region, balancing power among South Caucasus states, ensuring European diversification of energy suppliers, strengthening the role of international organizations in the region, and ensuring the spread of free markets, democracy, and rule of law.

The achievement of these goals depended on how the US redesigned its foreign policy, taking into account Azerbaijan's landlocked geography and its energy resources. Washington realized that the Azeri government was aware of its geopolitical importance and had already taken advantage of that position, developing a pragmatic foreign policy balancing the US, Russia, and Iran.¹⁰⁸

¹⁰⁷ Sadri claims that the US interests in Azeri energy are in response to three major interests from Washington: 1) decrease American dependence on OPEC oil, especially from the Persian Gulf, 2) obtain more influence over Caspian oil and gas, increasing American power in the global energy market, and 3) increase opportunities for American oil companies, which are already operating in Azerbaijan. Houman A. Sadri, "Elements of Azerbaijan Foreign Policy," *Journal of Third World Studies* 20 (2003): 184-185.

¹⁰⁸ James Nixey, "The South Caucasus: Drama on Three Stages," in *America and a Changed World: A Question of Leadership*, ed. Robin Niblett (Chichester: Blackwell Publishing, 2010), 125-42.

4.2.2 Energy Factors in the Relationship between Azerbaijan and the US

In the early 1990's, the US established diplomatic relationships with the new independent states of the South Caucasus region after the collapse of the Soviet Union. At the beginning, Washington did not have a definite policy regarding these states, so the US government developed bilateral relations with Armenia, Azerbaijan, and Georgia independently. Washington had some difficulties delineating a coherent foreign policy with these states because the US was more focused on Russia than in the new independent states that emerged from the Soviet Union. The US, like the rest of the international community, was not ready to deal with a new reduced power, Russia, and with fifteen new unstable states. The American approach to the Caucasus states became more complicated due to the Americans' lack of information about the geography, history, politics, and culture of Azerbaijan, Armenia, and Georgia. Thus, when the US decided to deal with Azerbaijan and the other two South Caucasus states, it struggled to determine the best strategy for advancing US interests because American authorities did not have a strong understanding of the role and influence of each of those states in the region.¹⁰⁹

During the Clinton administration, Washington pursued political, economic, and military stability in the South Caucasus region by spreading democracy, free markets, and

¹⁰⁹ Washington has made two major mistakes in its initial approach to the South Caucasus and Caspian Sea states: 1) It viewed the Caucasus and Caspian Sea states as one extended union without considering their historical backgrounds and political-cultural features, and 2) Washington failed to recognize the historical interests of their neighboring powers in the region, such as Russia, China, Iran, and Turkey. Washington could have avoided these mistakes if the American administration would have had the geopolitical perspective to understand the energy and military interests involved in the Caucasus and Caspian Sea regions. Fiona Hill, "A Not-So-Grand-Strategy: U.S Policy in the Caucasus and Central Asia since 1991," in *Politique étrangère* 66, (2001): 95-108. Accessed February 19, 2012 from http://www.brookings.edu/articles/2001/02foreignpolicy_hill.aspx, http://www.persee.fr/web/revues/home/prescript/article/polit_0032-342X_2001_num_66_1_5047.

liberal values. Those measures attempt to ensure the flow of the Caspian oil and gas to international markets (excluding Iran from the energy business), decrease Russia's dominant position as a military power and energy supplier¹¹⁰ to the Western markets,¹¹¹ help Western European states to diversify their oil and gas suppliers, and increase American leverage in the South Caucasus region.

The American economic/energy approach to Azerbaijan began in the early 1990's when the principal American oil companies signed the first contract with the Azeri government to exploit and export Azeri energy resources. The geopolitical importance of Azerbaijan to US interests persuaded Washington to begin a broader involvement in the South Caucasus region. The political, economic, and military roles of Russia, Iran, and Turkey in the South Caucasus region became the main concern for Washington, and the US had to adapt its foreign policy to contain Russia and Iran by supporting Turkey in the early 1990's.¹¹²

The terrorist attacks of September 11, 2001, brought a new perspective on how the Americans approached the South Caucasus region. When president George W. Bush began the War on Terror, the American government sought different access points to Central Asia to deal with the terrorist groups hosted in Afghanistan. The first American military deployments began at the end of September 2001 when NATO and the US established military air bases in Kyrgyzstan and Uzbekistan, and when they positioned military forces

¹¹⁰ Neil MacFarlane, *Western Engagement in the Caucasus and Central Asia* (London: The Royal Institute of International Affairs, 1999)

¹¹¹ Menzel, *Doomed to Cooperate?*, 71.

¹¹² Cater Page, "U.S. Involvement in the Business and Politics of the Caspian Sea Region," in *The Caspian: Politics, Energy, and Security*, ed. Shirin Akiner (New York: Routledge, 2004), 263-64.

in Tajikistan.¹¹³ Moscow leaders expressed their support for the American War on Terror and for the American military campaigns against the Taliban and Al-Qaeda forces in Afghanistan. The Russian support of Washington included military assistance, intelligence support, military equipment, and military advice in Central Asia.¹¹⁴

Once the US government discovered the potential for Azeri energy resources to increase its influence over world markets, the US sought to diversify its energy suppliers. Washington realized that in the coming decades, Asian countries, especially China and India, would increase their energy demand due to their constant economic and industrial growth, and that growing demand would create a complex competition for energy resources.

Because the price of oil and gas responds to fluctuations between supply and demand, that price has been unstable, and that instability is likely to intensify in the coming years due to the increasing demand for energy resources in Asia and the potential military confrontations in the Middle East.¹¹⁵ Oil and gas as global products respond to the market's

¹¹³ Ariel Cohen, "U.S. Security Policy in Central Asia After the 9/11 Attack," in *Prospects for Democracy in Central Asia*, ed. Birgit N. Schlyter (London: Swedish Research Institute in Istanbul, 2005)

¹¹⁴ The reasons behind the Russian diplomatic and military support of the U.S after the terrorist attacks in Washington and New York in 2001 have created controversy due to the instrumental reasons in which Moscow based its foreign policy in the early 2000s. Thorun, *Explaining Change*, 111-19. On the other hand, Svante Cornell suggests that Russia provided limited airspace access to the US during the American incursion in Central Asia. Svante E. Cornell, *The Politicization of Islam in Azerbaijan*, (Washington: The Central Asia-Caucasus Institute, 2006): 30-31.

¹¹⁵ On February 19, 2012, The Iranian government decided to stop exporting oil to Britain and France in response to the European Union's decision to cut off Iranian oil imports beginning in July 2012. Tehran took this measure after the European Union expressed its concerns over Iran's nuclear program. This political measure affected the price of oil, which has risen to its highest level since May 2011.

Steven Erlanger, "Iran Halts Oil Exports to Britain and France," *The New York Times*, February 19, 2012, accessed February 21, 2012, <http://www.nytimes.com/2012/02/20/world/middleeast/iran-halts-oil-shipments-to-britain-and-france.html?scp=3&sq=STEVEN%20ERLANGER&st=Search>. "Oil Price Highest for Nine Months," *BBC*

rules instead of political tendencies. During the Clinton presidency, the US developed a cohesive policy to spread democracy, free markets, and rule of law in the former Soviet republics, which became new independent states. This policy based on political and economic cooperation¹¹⁶ also sought to mitigate regional military conflicts, seeking to integrate the new independent states with the international community, where they can embrace liberal-democratic values.¹¹⁷

These liberal initiatives, however, did not benefit Azerbaijan at the beginning, especially after the American Congress issued the Freedom Support Act in 1992.¹¹⁸ The American Congress included the Section 907 in the Act, and it stated that Azerbaijan would not receive any assistance from the US until the Azeri government demonstrates that it is working to cease all blockades and other offensive uses of force against Armenia and the Nagorno-Karabakh region.¹¹⁹ The inconsistency of Section 907 appeared when the Security Council of the United Nations issued a resolution condemning the Armenian occupation of the Azeri territories.¹²⁰

Business, February 21, 2012, accessed on February 21, 2012, <http://www.bbc.co.uk/news/business-17119823>.

¹¹⁶ The US government provides economic support to new independent states through the Freedom Support Act, which excluded Azerbaijan through Section 907 of the Act because the US supported Armenians fighting for independence in Nagorno-Karabakh at the beginning of the conflict.

¹¹⁷ Menzel, *Doomed to Cooperate?*, 72.

¹¹⁸ Democratic Senator John Kerry introduced that bill, and it was supported by the Armenian lobby, which has significant influence over the American Congress in comparison to the Azeri lobby. Cornell, "The Politicization of Islam," 30-31. Pinar Ipek, "Azerbaijan's Foreign Policy and Challenges for Energy Security," *Middle East Journal* 63 (2009): 232.

¹¹⁹ Due to the reduced military power of the Azeri army at the end of the Soviet Union, it is difficult to prove that Azerbaijan had the capability and capacity to impose a blockade on Armenia because Azerbaijan was not able to prevent Armenia from trading with other countries. Cornell, *Azerbaijan since Independence*, 406.

¹²⁰ Husein Baghirov, the Azeri Minister of Trade, claimed that even though Azeri people want to be part of Western society and democratic society, they find themselves disappointed with the American government because Section 907 of the Freedom Support Act represents an unfair political and economic punishment to Azeri citizens, who in this case are victims of the small but powerful Armenian lobby in the U.S.

Clinton was aware of the negative consequences of Section 907 for the American national and global interests, and he advocated its repeal to protect American interests in the South Caucasus region. However, he did not gain enough support in the Congress to revoke it during his presidential term. After the terrorist attacks in Washington D.C. and New York in September 2001, president George W. Bush revoked the Section 907 of the Freedom Support Act, improving the economic, political, and military relationship between the US and Azerbaijan.

The US and Azerbaijan based their economic relationship on the exploitation and export of Azeri oil and gas to international markets. Once the Western oil companies began negotiations with Azeri authorities about the energy resources of Azerbaijan, Washington designed a specific foreign policy focused on advancing the Western influence in the trade of Azeri oil and gas. The American incursion into the energy business in Azerbaijan included the design and construction of new pipeline routes, which would bypass the Russian territory in order to decrease the Russian leverage over Azeri energy. The major American pipeline project was the Baku-Tbilisi-Ceyhan oil pipeline,¹²¹ which became the second longest pipeline in the world at a length of 1,110 miles and with an investment of \$4 billion.¹²² The complexity of the development of this pipeline project did not only lie in the cost of its construction but in the consensus that Azerbaijan had to achieve with Georgia

Husein Baghirov, "Who Governs America?" *Azerbaijan International*, Winter 2000, accessed February 9, 2012, http://azer.com/aiweb/categories/magazine/84_folder/84_articles/84_quotes_baghirov.html.

¹²¹ This pipeline was a response to the Russian offer to transport Azeri oil from Baku to Grozny and Tikhoretsk in Russia, and then from Grozny and Tikhoretsk to the Russian port of Novorossiysk in the Black Sea. The Russian offer was refused due to the military conflicts that Russia was facing in the Northern Caucasian regions of Chechnya and Grozny. Amy Jaffe, "US Policy Towards the Caspian Region: Can the Wish-List Be Realized?" in *The Security of the Caspian Sea Region*, ed. Gennady Chufirin (New York: SIPRI - Oxford University Press, 2001), 142.

¹²² De Waal, *The Caucasus*, 170-71.

and Turkey to build the pipeline that would run through those two transit states, generating a revenue of around \$20 billion for Azerbaijan. The BTC pipeline attempted to put Azerbaijan on the world energy map and create one of the fastest growing economies in the world.

The economic relations between Washington and Baku included the participation of both Ankara and Tbilisi for the development of the Baku-Tbilisi-Ceyhan pipeline, which takes oil from the Caspian Sea to the Mediterranean Sea and Western markets. This pipeline put Azerbaijan on the world energy map and within the international economic system.

In the political field, the construction of the BTC, on one hand, benefited Azerbaijan by increasing its political and economic autonomy from Russia, improving Azeri relationships with Western states, strengthening the Azeri position in the South Caucasus relative to Georgia and Armenia, ensuring Azeri economic growth, and balancing the regional and global powers in the South Caucasus to Azerbaijan's benefit. On the other hand, the political benefits for America included decreasing the Russian hegemonic position as an energy supplier; increasing American involvement in the economy, politics, military of the South Caucasus region; diversifying Western energy suppliers; decreasing Iranian influence in the energy resources of the South Caucasus region; and increasing Turkey's influence in the region.

4.2.3 Military Factors in the Relationship between Azerbaijan and the US

The first American approach to Azerbaijan was vague in the sense that Washington did not develop a clear foreign policy toward the South Caucasus region in the early 1990's. The collapse of the Soviet Union generated new independent states, which attempted to consolidate their independence from Russia, seeking new allies and investors to balance the predominant Russian influence in the region. By 1993 and 1994, the Azeri and Kazakh governments and the principal US oil companies began signing the first oil contracts, opening the South Caucasus and Caspian Sea energy resources to American interests.¹²³

The US used liberal measures to approach Azerbaijan in two different ways. The first American approach was unilateral, seeking bilateral compromises in energy and military aspects, while the second approach was multilateral through international organizations, such as the UN, the OSCE,¹²⁴ and NATO. In both approaches, the US government used economic and military means to increase its influence over Azerbaijan, mediating in military conflicts in Georgia (Abkhazia, Ajdaria, and South Ossetia) as well as Azerbaijan and Armenia (Nagorno-Karabakh). The American involvement sought to

¹²³ There is some suspicion about how the US developed its bilateral relationships with the new independent states of the South Caucasus and Caspian Sea regions. Fiona Hill claims that the American recognition of the independence of Armenia in January 1992 and the establishment of diplomatic ties with Azerbaijan in February 1992 represented some kind of hierarchy of states in the U.S policy. She believes that the Freedom Support Act, approved by the American Congress in 1992, did not benefit Azerbaijan in the same fashion as it did for Armenia due to Section 907. However, Hill points out that the members of Congress were the ones who decided to put Azerbaijan in a different category, rather than the U.S executive branch. Hill "Not-So-Grand-Strategy," 95-108.

¹²⁴ The OSCE, led by European states and supported by the American government, is the world's largest security-oriented intergovernmental organization focused on arms control, human rights, freedom of the press, fair elections, and solving regional conflicts.

internationalize¹²⁵ those conflicts by engaging the international community for the benefit of the South Caucasus states and Western powers.

The American military presence in the South Caucasus region increased after the deployment of American troops in the region during mid-1990's. The international community's participation in the resolution of the Azeri-Armenian conflicts hid the US involvement in the region. The American participation in the Caucasus conflicts through international organizations allowed Washington to avoid confrontation with Russia in any conflict-resolution process in the South Caucasus region. Since international organizations are working together with the Azeri, Armenian, Georgian, American, and Russian authorities to solve the military conflicts in the region, any military confrontation between the US and Russia would mean a direct confrontation against the international organizations, and that would likely affect the Russian image in the international community.¹²⁶

The Azeri government supported the US military campaign against Al-Qaeda in Afghanistan providing access to its airspace, since transit over Iranian air space was unthinkable, and transit over Russian airspace was limited. The US-Azeri relationship reached a new level when the American Congress waived Section 907 of the Freedom Support Act and encouraged Baku to support American military intervention in Iraq by sending Azeri troops.¹²⁷ Washington, for its part, increased its participation in Azeri energy

¹²⁵ Jaffe, "US Policy Towards the Caspian Region

¹²⁶ Bagirov, "Azerbaijan's Strategy Choice," 178-94. Rondeli, "The Choice of Independent Georgia," 195-211.

¹²⁷ Cornell, *Azerbaijan since Independence*, 410. The Azeri population did not see a radical change in the way they see and describe American actions in the South Caucasus, especially in regard to Armenia. When the American Congress waived Section 907, the Azeri realized that they did not obtain more independence from a

projects, such as the Baku-Tbilisi-Ceyhan pipeline, which increased the Azeri economic, political, and military independence and influence in the region.

The geographical distance between the US and the South Caucasus states reduces the risk of any military attack against the US, and it has provided Washington some distance to analyze and adapt its foreign policy to the current reality of the South Caucasus and Caspian Sea regions. Evaluating the American-Azeri relationship also requires attention to the American intention of monitoring Russian and Iranian policies regarding Azerbaijan's energy resources.

The current American grand strategy depends on basic goals, which go along with the selective engagement strategy.¹²⁸ This strategy relies on Washington's defense of US national interests through effective use of its military power. This military power has served the national interests successfully, not only defending the American territory but also its political, economic, and military interests all over the world. Thus, the notion that military force no longer serves American interests is false.¹²⁹ Although the international order seems to become more interdependent with the spread of democracy, free markets, human rights, and the rule of law, it does not mean that states should not have efficient military forces, especially in a world where there is no global government institution with a significant military power to enforce its decisions.

foreign state but became dependent on a new kind of influence, the American one. Cornell, "The Politicization of Islam," 30-31.

¹²⁸ Robert J. Art, *America's Grand Strategy and World Politics* (New York: Routledge, 2009), 234.

¹²⁹ Art, *America's Grand Strategy*, 7.

The American primary interests¹³⁰ are (1) preventing an attack on the American homeland; (2) preventing war and security competition among the Eurasian great powers; (3) maintaining secure oil supplies in oil-rich Gulf states and the Caspian Sea; and (4) supporting the spread of democracy, free markets, rule of law, global institutions, and liberal values. To achieve all of these goals, Washington has been applying realist and liberal measures. For instance, the American attacks on Afghanistan and Iraq represent a realist response to the military threats that Washington faced on September 2001, especially due to the circumstances in which Washington decided to wage those wars avoiding the UN Security Council's decision. The liberal aspect of the wars in Afghanistan and Iraq lies in the arguments elaborated by Washington officials stating the importance of spreading democracy, human rights, free markets, and rule of law in Central Asia and the Middle East.

Within the primary American interests, Eurasia is one of the most important regions for the US foreign policy. A war between two superpowers is not impossible in Eurasia, but it is unlikely to happen. A war between South Caucasus states is likely to occur, as it did when Armenia invaded Azerbaijan in 1990, where global and regional powers, such as the

¹³⁰ Robert J. Art depicts the American's national interests listing them in three major categories: vital (defense of the homeland), highly important (deep peace among great powers and secure access to Persian Gulf oil at stable and reasonable prices), and important (international economic openness, consolidation of democracy and spread and observance of human rights, and no severe climate change). However, his ranking has changed and instead of three categories, now there are only two categories: vital interests (homeland security, Eurasian great power peace, division of Gulf reserves) and desirable interests (international economic openness, the spreading of democracy, human rights protection, and global environmental protection). This shift in the ranking of the American's national interests strengthens the position of energy resources and the regions that hold those resources. Thus, the South Caucasus and the Caspian Sea regions as a whole have acquired more significance than before for American foreign policy. Robert J. Art, *A Grand Strategy for America*, (Ithaca: Cornell University Press, 2003), 45-81, and Art, *America's Grand Strategy*, 234-250.

US, the EU, Russia, and China, could increase the already existing political and military instability in the region. For instance, during the Nagorno-Karabakh War, Russia militarily supported Armenia against Azerbaijan,¹³¹ showing its interests in regaining its status as a global and regional power, keeping its territorial integrity, and increasing its influence in the Caspian Sea energy markets.¹³²

The American political, economic, and military support for Azerbaijan and Georgia, on the other hand, has not reached the level that can compromise the American involvement in any possible military confrontation against Russia. For instance, the Russia-Georgia War of August 2008 did not involve the US or Western European military participation, leaving Georgia alone. Even, the official statement made by the Georgian president Shevardnadze in 2002 about his country's intention of seeking full NATO membership did not receive Western support during the war. Indeed, even the US's official endorsement of the admission of Georgia as new NATO member in 2007, through the Freedom Consolidation Act,¹³³ did not persuade Washington to get involved in the Russia-Georgia War.

After the Azeri-Armenian conflict over Nagorno-Karabakh, the US government provided military training and weapons to Azerbaijan through NATO. The Partnership for Peace (PfP) program, one of the main NATO programs in the South Caucasus region, sought

¹³¹ Piner Ipek, "Azerbaijan's Foreign Policy and Challenges for Energy Security," *Middle East Journal* 63, (2009): 230-231. Alec Rasizade, "Azerbaijan's Prospects in Nagorno-Karabakh," *Journal of Balkan and Near Eastern Studies* 13 (2011): 219.

¹³² Sadri, "Elements of Azeri Foreign Policy," 185-86. While Azerbaijan no longer hosts Russian military troops and bases in its territory, Armenia does, and Yerevan and Moscow have agreed to extend the Russian military presence in Armenia until 2044. Dmitri Trenin, *Post-Imperium: A Eurasian Story* (New York: Carnegie Endowment for International Peace, 2011), 122.

¹³³ Sadri, *Global Security Watch*, 121.

to improve Azeri military capabilities, training Azeri officials for NATO peacekeeping and humanitarian operations.¹³⁴ Since political and military instability were the rule in the South Caucasus region, the PfP program attempted to bring security and stability to the region, encouraging prosperity and democratization through economic development.¹³⁵

The PfP program encouraged Azerbaijan and Georgia to strengthen ties with Western states, pursuing a significant partnership with NATO and increasing the Azeri and Georgian expectation of becoming a NATO member, which would ensure their political, economic, and military independence from Russia. Another program led by the US government was the International Military Education and Training (IMET) program, which sought to prevent illicit transfer of nuclear materials through the Caspian region. The Azeri commitment to work together with NATO in the South Caucasus made possible that 250 NATO servicemen arrived in Azerbaijan in August 2000 to protect the southern Azeri border, due to the possible Iranian military attack after Tehran planned to deploy more than 6,000 soldiers, 75 tanks and vehicles, and fighter aircraft to the Azeri-Iranian border.¹³⁶

In brief, Washington has sponsored different military and economic programs in the South Caucasus and Caspian Sea regions, and Azerbaijan has represented one of the key strategic states for American economic and military interests. This was reflected in Secretary of State Madeleine Albright statement to the US Congress that US foreign policy

¹³⁴ Jaffe, "US Policy Towards the Caspian Region," 137.

¹³⁵ Nuriyev, *The South Caucasus at the Crossroads*, 103.

¹³⁶ Nuriyev, *The South Caucasus at the Crossroads*, 106.

should focus on strategic locations that are energy-rich,¹³⁷ seeking to diversify American energy suppliers that rely on trade routes through the Strait of Hormuz in the Persian Gulf and the Bosphorus Strait in Turkey.¹³⁸ By developing economic, political, and military ties with Azerbaijan, Washington not only reduced the Russian hegemonic position in the energy trade, but also contained Iranian influence in the Caspian Sea's energy resources.

Azeri geography and energy resources became crucial factors for American foreign policy in the South Caucasus and Eurasia. Azerbaijan has used its economic partnership with the US to balance Russia, and this balance allowed Azerbaijan to gain economic stability, ensuring the transportation of Azeri energy resources to international markets while bypassing Russian territory. This American-Azeri economic partnership has gone along with a military partnership that attempted to strength the Azeri military forces through military trainings and the sale of weapons. The military links between Azerbaijan and the US showed the increasing American influence and role in Azerbaijan and in the South Caucasus. Therefore, the US and Azerbaijan's economic and military relationship affects the American approach to the Caucasus region, and that also influences the Azeri foreign policy due to the Russian factor.

¹³⁷ Robin Bhatti and Rachel Bronson, "NATO's Mixed Signals in the Caucasus and Central Asia," *Survival* 42, (2000) 129-145.

¹³⁸ Jaffe, "US Policy Towards the Caspian Region," 137-38.

CHAPTER FIVE: CONCLUSIONS

This research has evaluated how Azerbaijan's landlocked geography, its energy resources, and the global powers' competition for influence affect the independence of Azeri foreign policy. Azerbaijan's landlocked position connecting Europe and Asia sets physical limitations on its ability to export its energy resources to the Western markets.

Azerbaijan has attempted to enhance its economic, political, and military independence from Russia, developing a multi-vector foreign policy to balance global powers in the South Caucasus region through cooperative economic and military measures. Among these cooperative military measures are the Azeri-Russian agreements over the Russian radar station in Gabala and the Azeri-US cooperation through the Partnership for Peace program developed by NATO. These agreements have ensured military stability between Azerbaijan and its neighbor states.

Another feature of the Azeri landlocked state is the influence that transit states have over the Azeri energy trade. Since Azerbaijan lacks an outlet to the sea, its energy resources have to transit over Russia, Georgia, Iran, and Turkey to reach international markets. These transit states could constrict Azeri foreign policy due their geographical locations and access to international seas. The Azeri government implemented a sophisticated energy relationship with Georgia, Turkey, and Russia to reinforce its multi-vector policy, ensuring diverse routes to export Azeri oil and gas to international markets, thus reducing the influence of any single regional partner or global power.

Azeri oil and gas play a key role in Azerbaijan's economic development. After the collapse of the Soviet Union, Baku sought to consolidate its independence from Russia by

exporting its energy resources to Western markets. Azeri oil and gas became a tool to increase Azerbaijan's leverage in the energy market. The Western states were part of the Azeri plan for bringing together global and regional powers to balance Russia and Iran, creating four major outcomes that encouraged the political, economic, and military involvement of Western powers: 1) allowing Western states to diversify their energy suppliers, 2) increasing the American influence over European and South Caucasus states, 3) compelling Russia to redesign its energy policy with Azerbaijan, and 4) increasing Iranian interests in the commercialization of Azeri energy resources.

Economic agreements based on energy have strengthened the Azeri relationship with its neighbor states and global powers. Georgia and Armenia, in a regional perspective, have seen in Azeri natural resources an opportunity to improve their fragile economies. These states, as is the case for many other former Soviet republics, depended on Russia as an energy supplier for decades, and the collapse of the Soviet Empire created different opportunities and challenges for those new independent states. In the cases of Georgia and Armenia, the Azeri energy resources represented an opportunity to gain economic benefit for the transit fee that Azerbaijan would pay for transporting its oil and gas through these countries to international markets, so both states sought to consolidate their economic ties with Azerbaijan. The military conflict between Armenia and Azerbaijan eliminated the Armenian chances to become a transit state for the Azeri energy resources. This conflict benefited Georgia, which became the official transit state for the Azeri oil and gas that run from Azerbaijan to Georgia, then from Georgia to Turkey, and finally from Turkey to

Western markets. Thus, Georgia and Turkey became the pro-Western transit states for Azeri energy resources.

Global powers, on the other hand, have attempted to diversify their energy suppliers to meet their economic goals. The Western European states' energy dependency on Russian and Middle Eastern energy is a clear example of the significance of the Azeri oil and gas for Western markets. By strengthening energy ties with Western states, Azerbaijan obtains assistance with economic matters (free markets, international financial aid), politics (democratization, human rights, conflict resolution assistance regarding the Nagorno-Karabakh conflict, and rule of law), and security (military training, military equipment, and weapons), strengthening Azerbaijan's independence from Russia.

Azerbaijan's role as a producer and exporter of oil and natural gas delineated the global and regional importance of Azerbaijan for international politics. The power that Western states (especially the US), Turkey, Georgia, and Russia have over Azeri energy resources is significant due to the capacity of these states to affect Azeri energy policy. Baku authorities are also aware of the power that foreign oil companies have in the exploitation and export of Azeri oil and gas to international markets, as is the case with British Petroleum, which operates the major Azeri pipelines and oil and gas fields. Therefore, the Azeri government has to maintain good relationships with all its major economic partners and investors (the US, the UK, and Russia), and its transit states (Russia, Georgia, Turkey, and Iran), creating a balance among regional and global powers in order to achieve stability and economic prosperity.

The competition between global powers, namely the US and Russia, for influence in the South Caucasus region also affects the development of Azeri foreign policy. Azerbaijan, as a landlocked state, needs economic and military partners to strengthen its independence from Russia, balancing the regional and global powers in the Caucasus. The US-Russia competition for influence in the South Caucasus region created two groups: pro-Western states and non-pro-Western states. The first group, led by the US includes Western European states, Turkey, and Georgia, while the second group, led by Russia, includes Iran and Armenia.

After the collapse of the Soviet Union, the new independent states of the Caucasus region attempted to strengthen their economic and military independence from Russia by seeking economic and military partnerships with the US. The exploitation and commercialization of Azeri energy resources in the early 1990's became the first reason for American involvement in Azerbaijan.

Washington sponsored military and economic programs in the South Caucasus and Caspian Sea regions because Azerbaijan represented a key strategic state for American economic and military interests. As American Secretary of State Madeleine Albright stated, the US has to diversify its energy suppliers from the Middle East, and it has to develop economic, political, and military ties with countries like Azerbaijan, which has a strategic location which is rich in oil and gas.

By developing economic, political, and military ties with Azerbaijan, Washington not only diminished Russia's hegemonic position in the energy trade, but it also sought to contain the increasing interest of Iran in Azeri energy resources. The American

involvement in Azerbaijan relies not only on the bilateral relations between Azerbaijan and the US government, but also on multilateral relations between Azerbaijan and international organizations, such as NATO and the OSCE, which indirectly increase the influence of Washington in the South Caucasus region through economic and military support. These American approaches, bilateral and multilateral, provide significant freedom to Washington to shift its foreign policy with Azerbaijan without engaging in meaningful commitments.

On the non-pro-Western side, Russia has been the principal energy supplier for European states for decades, and it has increased Moscow's leverage over Western states. The exploitation and export of Azeri oil and gas to Western markets and the American incursion in the Azeri energy industry threaten Russia's hegemonic position as a supplier of oil and gas to Western markets. The development of the Baku-Tbilisi-Ceyhan pipeline for transporting oil and the South Caucasus Pipeline for transporting gas are clear examples of the pro-Western energy policy developed by the Azeri government.

However, Russia committed itself to regaining its status as an unchallengeable economic and military power in the South Caucasus. The Russia-Georgia War in August 2008 represented a clear example of how Moscow's military power overwhelms Western economic and military aid to the Caucasus states. It also depicted how committed Russia is to extending its influence in the region through either cooperative policies and soft power or coercive means and hard power.

The presence of Western states and companies in Azerbaijan increased Russian concerns about Western economic and security expansion into the Russian sphere of

influence. In order to increase Russia's leverage in these regions, Moscow designed a bilateral and multilateral policy where supranational organizations, such as the Russia-led CIS, played a key role in the affairs of Central Asia and the Caucasus.

In the security aspect, Russia supported Armenia during the military conflict in Nagorno-Karabakh between Armenia and Azerbaijan. This Russian approach increased the Azeri mistrust of Moscow, and it divided the regional powers' support regarding Azerbaijan. Turkey gave military and economic support to Azerbaijan by providing weapons and closing the Turkish-Armenian border, while Iran initially supported Armenia and then took diplomatic measures to mediate in the conflict.

The geographic location of Russia provides Moscow with a significant power over the landlocked territory of Azerbaijan, which is compelled by its geography to maintain close relations with Russia. Azerbaijan has to keep outstanding relations with Moscow in particular because Russia has an integrated pipeline system for transporting Azeri oil and gas to Western markets, and the military capability to initiate a military confrontation with any neighbor-state, as happened in 2008 with Georgia.

Therefore, since Russia is ready to increase its influence in Azerbaijan's energy business and regain its position as an unchallengeable global power, Baku has to keep a close relationship with Moscow, balancing the regional and global powers in order to consolidate economic development and military stability. This means that Azeri foreign policy is affected by Russian economic and military measures in the South Caucasus region.

In brief, this research work has demonstrated that Azerbaijan's landlocked geography, its energy resources, and the global powers' competition for influence in the

South Caucasus affect the independence of Azeri foreign policy. Thus, the Azeri government has to keep excellent relationships with its principal economic partners and investors (the US, the UK, and Russia), and its transit states (Russia, Georgia, Turkey, and Iran), balancing the power among regional and global powers in order to achieve political stability and economic prosperity.

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