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To cite this article: Elkhan Nuriyev (2008) Azerbaijan and the European Union: new landmarks of strategic partnership in the South Caucasus–Caspian basin, *Southeast European and Black Sea Studies*, 8:2, 155-167, DOI: [10.1080/14683850802117773](https://doi.org/10.1080/14683850802117773)

To link to this article: <http://dx.doi.org/10.1080/14683850802117773>



Published online: 11 Jul 2008.



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Azerbaijan and the European Union: new landmarks of strategic partnership in the South Caucasus–Caspian basin

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(Received 28 March 2008; final version received 9 May 2008)

Since the last enlargement of the European Union (EU) in January 2007, the South Caucasus has become a region of direct concern to the EU's strategy in its wider neighbourhood. This article examines the trends affecting EU policies in the South Caucasus, with a specific focus on EU–Azerbaijan relations. It argues that in the three main areas in which Azerbaijan affects Europe's interests – cooperation in the energy sector, democratization and conflict resolution – so far the EU has engaged well on a regional energy strategy; but less so on democratic reforms, and almost not at all on conflict settlement in Nagorno Karabakh.

Keywords: European neighbourhood policy; EU–Azerbaijan relations; EU energy security

Introduction¹

In the post-9/11 era, the concept of European integration has gained new momentum in the three aspiring democracies of the South Caucasus – Armenia, Azerbaijan and Georgia. Discussions are underway in South Caucasian societies about the essential political and economic conditions for closer integration with the EU. A very intense debate focuses on the role the EU can assume in territorial conflicts compared with other international security organizations, and how the EU can foster regional cooperation through aid programmes. Other issues include complementarities and collaboration between the EU and other international organizations, such as the United Nations (UN) and Organization for Security and Co-operation in Europe (OSCE), as well as expectations and responses related to the European Neighbourhood Policy (ENP), including the matter of regional unity in the South Caucasus.

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

Even so, the EU continues to develop closer political and economic ties with them by means of the ENP. The inclusion of these states in the ENP in 2004 signalled the EU's geopolitical interests in this part of the world, although more specific and practical policies

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are needed. Oil-rich Azerbaijan deserves special consideration, as a pivotal country with the largest population in the region. Today this Muslim state has close contacts with the Islamic world, while it is simultaneously influenced by neighbouring Christian countries oriented towards Western culture. Its position on the junction of the West and East has enabled Azerbaijan to develop a synthesis of the values of both cultures.

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

ENP in the regional context

The incorporation of the South Caucasian countries into the ENP is viewed positively, generating hope for a larger EU role in the region. This move sent an important message that the EU is committed to supporting the three states on their way towards democratization and creating viable market economies. In response, these countries consider the ENP a solid opportunity for further EU integration. But it would be mistaken to assume that the EU's policy has changed substantially. The EU still lacks a clear institutional force driving the formulation of a strategic vision for the South Caucasus. Nevertheless, the South Caucasus is a significant component of EU foreign policy. As discussed below, the development and implementation of the ENP is important to both sides: the EU will gain more influence through the ENP, which in turn will enable the three small states to forge closer ties with the EU.

EU strategy and profile of interests

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

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

Unsurprisingly, the inclusion of the South Caucasian countries in the ENP points to increased EU visibility and engagement in this post-Soviet territory. The ENP also offers a

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

Lately, the inequality in the three Caucasian countries' preparedness to cooperate more fully with Euro-Atlantic structures has impeded efforts to resolve regional security issues. While the ruling elites have declared their commitment to a closer alliance with the EU, they do not seem to invest sufficient effort towards reaching that goal. At the same time, the absence of a consistent EU strategy for the South Caucasus, along with the lack of resources and active coordination with other international organizations for resolving regional conflicts, has led to some perceived ambiguity on the part of the EU in this respect. Still, the three countries have often reaffirmed their general EU orientations and each has built its own bridge to Europe, with Azerbaijan exploiting its energy resources, Georgia making use of its traditional Western-oriented elite and Armenia bringing its wealthy diaspora into play.

Geopolitical determinants of Azerbaijan's foreign and security policy

Recognition of being an integral part of a wider and closely interlinked Black Sea–Caspian region has enabled the Azerbaijani ruling elite to pursue a balanced interest-based policy in foreign relations with major regional powers. Azerbaijan enjoys warm relations with Russia, Turkey, Iran, the United States (US) and the EU, thus trying to satisfy the interests of all nearest and distant powerful actors. From a geopolitical standpoint, only through such a balanced diplomatic stance has Azerbaijan been able to guarantee national security and good economic prospects. This small Caucasian state has always been able to play a more independent role because of Caspian energy riches and a very experienced political leadership (Nuriyev 2007b). But Russia and Iran still regard Azerbaijan's endeavours to expand cooperation with Euro-Atlantic structures as a potent challenge. In recent years the Azerbaijani–Iranian dispute over the division of the Caspian Sea has already caused several complicated situations in which Iran has violated Azerbaijani territorial waters and airspace.³ Iran's aggressive stance against Azerbaijan has solidified Azerbaijani–Turkish relations, thus linking Baku and Ankara even closer.

Nevertheless, Azerbaijani leadership wants to foster better relations with Iran while maintaining strong strategic partnership with the US. Striking the proper diplomatic balance is proving tricky for Baky, given the long-standing animosity that exists between Washington and Tehran. Since the US position toward Iran is hardening, Azerbaijani authorities realize that they must tread carefully as they seek to improve ties between Baky and Tehran. For this reason, balancing Azerbaijani interests between the US and Iran will be a major test for the country's ruling elite, since it is going to be difficult to abstain from US policy towards Iran.

On the other hand, Azerbaijan is looking towards Russia for support in its regional interests, as President Ilham Aliyev tries to strengthen already warm ties between the two countries. In recent years Azerbaijani–Russian relations have considerably improved and led to increased economic transactions, including a bilateral deal on the delimitation of the Caspian Sea and an agreement on the Qabala radar station (Margelov 2002). Therefore, Baky's tactics seem dedicated to addressing Moscow's immediate strategic interests. More exactly, relations between Azerbaijan and Russia have presently been brought to a new

strategic level. Both Azerbaijan and Russia recognize each other as important neighbours and strategic partners. The two countries are bound by commercial and economic ties, and from this perspective the friendly relations that exist between Azerbaijan and Russia can only be strengthened.

For Azerbaijan, national interests have indeed begun to take on a more pronounced role in the country's strategy for developing bilateral and multilateral ties. Azerbaijan's strong support of the anti-terrorism campaign has significantly extended security ties with the US, mainly deepening American strategic interests in the entire region. The strengthening of US–Azerbaijani security relations has also cleared the way for wide-ranging cooperation with other Western democracies, most notably the EU member states such as Germany, Great Britain, France and Italy. Azerbaijan's participation in the transnational energy projects is aimed at protecting its strategic interests in the wider Black Sea–Caspian basin area and moving forward in accomplishing measures for closer integration into the European community. Today, the EU seeks alternative energy supplies that could satisfy its growing consumption. More precisely, the EU strongly supports the multiplicity of both suppliers and transport pipelines as a means of diversifying its supply of energy resources and lowering energy prices. Accordingly, the EU seeks to enhance its relations with Central Asian states in order to establish a long energy corridor that could bring Eastern Caspian hydrocarbon resources to Western Europe via Azerbaijan, Georgia, Turkey and Southeastern Europe.

Azerbaijan at the core of international relations

Azerbaijan has become one of the most frequently discussed countries in international circles. Since independence, the international community has been instrumental in helping to solve problems that are important to the Azerbaijani population. In recent years, major international donors in Azerbaijan have implemented various programmes aimed at cultivating a democratic society and an open market. Likewise, Azerbaijan receives solid political support from most of the world and international organizations, as it endeavours to restore territorial integrity and consolidate national sovereignty.

Indeed, Azerbaijan is growing closer to the Western world for the three major reasons that make this Caucasian state a special case. These are Azerbaijan's energy resources, the contribution of a settlement over Nagorno-Karabakh to regional stability and the country's democratization through profound modernization. It is the combination of these issues that has placed Azerbaijan at the core of international relations.

Azerbaijan – Caspian keystone of the wider Black Sea region

The wider Black Sea–Caspian basin area is increasingly becoming a place of utmost importance in terms of energy production, transportation and distribution. The entire region finds itself on the crossroads of transportation corridors to connect Europe with the South Caucasus, Central Asia and the Middle East. From an economic viewpoint, the wider Black Sea–Caspian basin is one of the fastest growing regions globally. In this context, the South Caucasus–Caspian basin offers enormous strategic benefits to member states of the EU. This strategically vital region is not only energy-rich, but also links Central Asia with Europe. Most importantly, Azerbaijan serves as a hub connecting energy and transportation infrastructure between Asia and Europe. The entire region has the huge potential to become a gateway between the Balkans and the South Caucasus, linking Romania to Georgia, and, via energy-rich Azerbaijan, to the Caspian Sea basin.

Azerbaijan's perceived willingness to cooperate closely with the enlarged Euro-Atlantic alliance has attracted an unprecedented level of international attention to the country. The country's energy wealth constitutes an important counterweight to the volatile Persian Gulf for Western democracies, which will help Europe to diversify its energy imports. Currently, Azerbaijan uses the possibilities to export oil and gas via the Baky–Supsa oil pipeline to Georgia, the Baky–Novorossiysk oil pipeline to Russia, via the main export oil pipeline Baky–Tbilisi–Ceyhan (BTC) to Georgia, Turkey and the world market and the Baky–Tbilisi–Erzurum (BTE) gas pipeline to Georgia and Turkey, where it connects to the Turkish gas network through which Azerbaijan can deliver natural gas all over Europe. Besides, there is a gas pipeline to Russia (Hajikabul–Mosdok), through which Azerbaijan imported Russian gas until its production became self-sufficient.⁴ Azerbaijan also exports gas to Europe via the Turkish–Greek pipeline. The Turkish–Greek pipeline was filled with Azerbaijani gas through the BTE pipeline for the first time in July 2007, and it is planned that the pipeline will be extended to Italy until 2012.

In fact, the newly inaugurated BTC and BTE pipelines, built mainly to relieve the Western world's oil and gas dependency on the Middle East, underscore Azerbaijan's geopolitical importance for the European market. This development also gives the country more control over its own destiny by providing strategic alternatives to Russia. As an energy supplier, in 2006 Azerbaijan was already exporting some 1.2 million tons of crude oil to Europe via the Russian port of Novorossiysk. In addition, some 10 million tons of Azerbaijani oil were transported to Europe in 2006 via the BTC route. By early April 2007, the BTC project had pumped approximately 14 million tons of crude to the Mediterranean. As time goes by, the BTC pipeline is set to increase the mutual interdependence of the EU and Azerbaijan dramatically. The pipeline has a projected lifespan of 40 years. Currently working at normal capacity, the BTC pipeline is already capable of exporting maximum 50 million tons of oil per year to the European market.⁵

Obviously, Azerbaijan's natural gas production from the Shah Deniz field will rise sharply in the next few years, the scale of which is expected not only to make the country self-supporting in natural gas, but also to result in substantial export revenues and position the country as a major gas exporter from the Caspian basin. According to local media reports, the State Oil Company of Azerbaijan Republic (SOCAR) is planned to produce 8 billion cubic meters of natural gas from the Shah Deniz field in 2008. It was also announced that the annual production will make up 20–22 billion cubic meters in 2020. The Shah Deniz field, with its huge gas reserves, is the most important field not only in Azerbaijan but also in the world. By recent estimates, the reserves of the field top 1.2 trillion cubic meters of gas.⁶

Interestingly, resource-rich Azerbaijan forms a transit hub in an evolving geo-strategic and geo-economic system that stretches from Europe to the South Caucasus and Central Asia. The country provides another route for transporting Caspian energy supplies to European member states, some of which are increasingly dependent on Russian gas. Most notably, Germany and France are reliant on Gazprom, Russia's state-owned monopolistic company. Given that the majority of European countries' natural gas demand is expected to burgeon in the near future, the prospective alternative could be a trans-Caspian pipeline carrying natural gas to Azerbaijan, Georgia, Turkey and then to Central Europe. Despite the new energy deal signed on 12 May 2007 between Russia, Turkmenistan and Kazakhstan for a rival Caspian gas pipeline, Turkmen President Gurbanguly Berdimuhamedov specifically indicated that the trans-Caspian pipeline project had not been cancelled. Moreover, the recent announcement on the possible joint exploration of an offshore Caspian Sea field, named Kapaz by Azerbaijan and Serdar by Turkmenistan, and the two countries'

willingness to investigate the proposed export option keep construction plans alive. Both the EU and the US have used the promising rapprochement to resume lobbying for the trans-Caspian gas pipeline between Turkmenistan and Azerbaijan, seeing it as a vital energy link to the European market.⁷ Perhaps, the special case of the shared, offshore Caspian field is the most plausible source of gas for Azerbaijan to transit; but it largely depends on a demarcation agreement, which so far has not been signed between the Caspian littoral states.

The challenge of a ‘frozen conflict’: the case of Nagorno-Karabakh

Restoration of the territorial integrity of Azerbaijan and return of the internally displaced people (IDP) to their homeland remain a chief priority in the foreign policy of the country. The lack of resolution of the Armenian–Azerbaijani conflict prevents security cooperation and impedes economic development across the region. The current situation of no war, yet no peace in the conflict zone plays a crucial role in Azerbaijan’s political instability. In recent years Azerbaijan has tried its utmost to use every opportunity to move the negotiation process forward in the peace talks on the conflict settlement. The negotiations have been held at the level of presidents and ministers of foreign affairs in the framework of the so-called Prague process. New summits are scheduled for the Armenian and Azerbaijani presidents, who have yet to discuss the pivotal issues for resolving the conflict. This means that the fate of Nagorno-Karabakh⁸ has yet to be determined.

At the same time, diplomatic efforts continue to further consolidate the position of international community based on support of territorial integrity and the inviolability of Azerbaijan’s internationally recognized borders, as well as condemnation of the occupation and ethnic cleansing. EU, OSCE, Council of Europe (CoE) and principal powers declared the so-called presidential and municipal elections in the occupied Nagorno-Karabakh region of Azerbaijan illegal and with no legal effect. In turn, this proves that the international community expresses support and respect for Azerbaijan’s territorial integrity and demonstrates that international organizations and leading nations send a clear signal to those destructive forces who try to attempt to lead the peace process into a deadlock and accept the occupation of Azerbaijani lands as a *fait accompli*.

Indeed, the lack of progress in finding an enduring solution to this protracted ‘frozen’ territorial conflict is a worrying and destabilizing factor that continues to impact upon wider European security and calls for far greater efforts by the European security organizations. Certainly, much will also depend on how successfully EU institutions develop multilateral cooperation with the OSCE and the CoE and create new possibilities for intensifying constructive dialogue.

Promoting democratization through profound modernization

The development of democracy, good governance and an open society is an additional problem that Azerbaijan has been facing since regaining independence in 1991. Azerbaijanis are proud that they established the first democracy in the Muslim world as far back as 1918.⁹ Modern Azerbaijan is a proving ground where tools and models for breaking old stereotypes and establishing new democratic values are being tested. This secular Muslim country aspires to build democratic institutions and create a market economy. Azerbaijani authorities strongly believe that the main task faced by the ruling elite during recent years has been the formation of a new political space of the country where citizens would realize their own rights and obligations.¹⁰ Currently, Azerbaijani leadership is formulating a new comprehensive

strategy, aimed at bringing about drastic political change and extensive economic modernization of the society. Much of the work is to be done by Azerbaijanis themselves, although the international organizations should also come up with their part of the new agenda as the major contributors to Azerbaijan's future success. It is about a new vision of how to respond to existing and future challenges in an ever-changing world. The restoration of territorial integrity and the consolidation of national sovereignty are absolutely necessary to keep that vision strong.

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

EU–Azerbaijan relations

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

EU–Azerbaijan cooperation and energy security

Major European companies have invested in Azerbaijan's energy sector; several oil giants, such as British Petroleum, Total Fina Elf and Statoil have signed partnership agreements with the country, coinciding with the expanding presence of some EU member states. The pipeline developments have helped reinforce the perception of Azerbaijan as a reliable energy partner and bolstered its economic cooperation with Western democracies. In recent years, Azerbaijan has received high levels of FDI and inflows of FDI into the petroleum sector lead to favourable spillover effects on other sectors – but only if Azerbaijan can manage monetary fluctuations linked with increases in oil export revenues.

Clearly, there is optimism regarding the future of Azerbaijan's economy, despite its extreme dependence on the oil sector for its long-term welfare. There are many reasons to believe that Azerbaijan will join the ranks of Norway rather than Nigeria in terms of managing its oil wealth. The country's access to international energy markets via the BTC and BTE pipelines is unique. Even after projected falls in oil and gas income (probably between 2013 and 2015), Azerbaijan will continue to profit from pipeline transit revenues. Azerbaijani authorities know well that their initiatives to prepare for mass inflows of oil revenues could help them avoid the 'Dutch disease' and its related effects on the economy. But the fact that the country is increasingly less reliant on foreign petroleum corporations and International Monetary Fund (IMF) loans has raised concerns about whether the near

future holds any strong incentives for economic reform. For this reason, a continued push towards a market economy is essential, and the EU attaches much importance to the creation of a liberal business climate in Azerbaijan. However, the ruling elite in Baky realizes that continuing efforts to reform the economy and expand the non-oil sectors will help the country to cope successfully with the next phase of economic transition.

Energy security is gaining prominence on the EU agenda and it is likely to guide the EU's relations with Azerbaijan in the coming years. More recently, European Commission (EC) and Azerbaijani officials have begun talks on Azerbaijan's involvement in energy security projects supported by the EU.¹¹ President Aliyev's meetings in November 2006 with EC President Jose Manuel Barroso, EU High Representative for Common Foreign and Security Policy (CFSP) Javier Solana, President of the European Parliament Josep Borrell Fontelles, EU Commissioner for Energy Andris Piebalgs and other officials in Brussels opened a new chapter in bilateral relations. The two sides signed a Memorandum of Understanding (MoU) in Brussels on 7 November 2006 on the strategic energy partnership between the EU and Azerbaijan.¹² In a recent interview, Mr. Solana underscored the importance of the energy accord, which will enhance Azerbaijan's cooperation with the EU at the strategic level.¹³

In the context of developing strategic partnership with the EU, the role of Azerbaijan in ensuring global energy security has increased, while the authorities clearly manifested the country's direction towards the integration into the European transport system. Azerbaijan has made its contribution to strengthening energy security on regional and global levels by providing effective and safe transport corridors connecting Caspian and Mediterranean basins and developing the trans-regional pipeline infrastructure. The materialization of the Turkish–Greek gas pipeline in 2007 created additional opportunities for supplying Azerbaijani gas to the European markets. Besides, in the framework of development of the 'East–West' transportation corridor in the Caspian basin, serious practical steps aimed at fulfillment of the strategically important project of constructing Baky–Tbilisi–Kars railway were taken in 2007.

Still, durable political stabilization in Azerbaijan is hampered by the conflict in Nagorno-Karabakh, about which the EU has repeatedly expressed concern. In this regard, the EU welcomes the dialogue between the presidents of Azerbaijan and Armenia and the regular meetings between the foreign ministers, hoping these negotiations will result in a peace deal. Many in Azerbaijan are keen to see a larger EU role in resolving the conflict. Compared with the OSCE and the CoE, the EU offers a unique combination of economic power and possibilities for solid political dialogue, adding value to conventional multilateral diplomacy under the OSCE's aegis. After Swedish diplomat Peter Semneby became the new EU Special Representative for the South Caucasus in February 2006, regional conflict resolution was given higher EU priority. In an interview, Mr. Semneby emphasized that the EU's mandate had been expanded, thus signalling more active EU interest in seeking a peaceful settlement. In this context, he revealed the EU's concern about threats of renewed hostilities in the conflict zone.¹⁴ Recently, frequent breaches of the ceasefire in Nagorno-Karabakh have demonstrated the fragility and instability of the situation at the front, even if there has been no return to full-scale hostilities.

Throughout 2006–2007, the EU Special Representative worked hard to take a direct part in conflict resolution, although the EU has no formal role in the peace talks over Nagorno-Karabakh under the auspices of the OSCE Minsk Group. Under the recently altered EU Special Representative mandate, Mr. Semneby is asked not to assist but to contribute towards conflict settlement in the region. Perhaps most importantly, Mr. Semneby has suggested that the EU could, in future, assume a peacekeeping mission if a solution to the

conflict is found.¹⁵ Yet most politicians in Baky and Yerevan realize that a serious breakthrough is needed in the negotiating process to make sustainable progress in finding a mutually acceptable political settlement.

The ENP action plan for Azerbaijan

In March 2005, the EC recommended intensifying its relations with Azerbaijan through the development of an individual Action Plan under the ENP,¹⁶ adopted in November 2006.¹⁷ In turn, Azerbaijan's leadership has responded positively to the strategic vision the Action Plan articulates, attaching importance to it as a tool for EU integration. Although the Action Plan does not hold a membership prospect, it offers practical benefits to both sides on many issues of shared interest and has given impetus to wide-ranging cooperation. As a political document, it sets out mutual, concrete commitments, some of which will help contribute to the further transformation of Azerbaijani society. The Action Plan creates a favourable foundation for the further implementation of political and economic reforms. Despite containing some generalizations, this new document could serve as a road map for accomplishing broader and effective changes in the country. Clearly, the very demanding task of implementing the Action Plan will require Azerbaijan to undertake major efforts to attain European political and economic standards.

Political stability and democratization are the two priority areas for Azerbaijan, and are essential for the country to derive the full benefits from the Action Plan. Consequently, implementation of the Action Plan will require Azerbaijani authorities to demonstrate that their country entertains common values with the EU in practice. There is great potential for the deepening of the strategic partnership, which Azerbaijan should exploit. In turn, the EU seems ready to mobilize resources to support reforms, brought together under the new European Neighbourhood and Partnership Instrument (ENPI). The main goal of the ENPI is to help Azerbaijan attain European standards in jointly agreed areas. It is already clear that EU assistance will be conditional, however, as the delivery of financial aid is linked to tangible results in the implementation of democratic reforms.

Oil-rich Azerbaijan: influence of the EU and other external actors

Recent years have seen growing prominence given to energy-rich Azerbaijan in the foreign policies and national security plans of many outside powers. Major geopolitical players – Russia, Iran, Turkey, the US and the EU – are vigorously competing to extend their influence in the South Caucasus–Caspian basin. While Iran and Turkey are regional actors, Russia and the US are seen as key contenders for advantage in the entire region. In turn, the EU takes a more or less neutral stance, albeit individual EU member states have their own geo-strategic interests in this post-Soviet territory.

Regional power rivalries: Iran and Turkey

Being significant players in the region, Iran and Turkey have a powerful impact on Caucasian geopolitics and Caspian geo-economics. In the case of Azerbaijan, Iran and Turkey are evidently concerned with what happens in this post-Soviet Muslim state. In reality, Tehran realizes that Azerbaijani ties with Turkey, a NATO member state, will reduce Iranian leverage in the region. For this reason, Iran sees Turkey as a major competitor despite the fact that Tehran and Ankara have an important, if ambivalent, relationship. The clerical regime feels that Turkey threatens Iran geopolitically, and these two regional

powers are not simply in direct competition over influence but also represent a delicate set of geopolitical alliances in the region. While Ankara is strongly backed by Washington, Tehran and Moscow collaborate in the military and political realms in their attempt to resist growing Turkish and American weight in the Caspian basin. Turkey has chosen Azerbaijan as its strategic ally, and Iran, in turn, collaborates closely with Armenia, whose relations with Turkey are hostile.

Unsurprisingly, Turkey's relations with Iran have also experienced the effects of geopolitical competition. Both Ankara and Tehran have viewed the other's attempts to gain a political and economic footing in the South Caucasus with considerable suspicion. Iran has always been concerned that a decrease of Russian predominance in the region would result in an increase in Turkish advantage or in an expansion of American influence.¹⁸ In effect, Tehran is still worried about Turkey's efforts to forge close political, economic, cultural and military ties with Azerbaijan. Ankara regards the possibility of greater Iranian clout in Azerbaijan as an obstacle to its foreign policy efforts to pursue political and economic interests in the region. Though competition between Iran and Turkey over Azerbaijan has become less intense since the early 1990s, geopolitical concerns continue to determine their perceptions of each other's regional behaviour.

Great-power politics: Russia and the United States

Paradoxically, the foundation for current American policy in post-Soviet Azerbaijan lies firmly within the parameters of the new US–Russian strategic partnership in the post-9/11 environment. Nevertheless, as Russia reasserts its position in the face of a broadening US presence in the South Caucasus and the Caspian basin, the entire region is emerging as an arena of great-power competition between Moscow and Washington. Washington is trying to prevent political and economic supremacy by any one rival power in oil-rich Azerbaijan. For this reason, the US has a keen interest in maintaining the 'geopolitical pluralism' of the region and preventing Russian ascendancy (Brzezinski 1997). Russia is powerless to inhibit the spread of US influence in this post-Soviet territory. Still, Washington often reacts rather cautiously to the increasing pressure that the Kremlin puts upon Azerbaijan, which is trying to strike a geopolitical balance between the two great powers.

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

The EU's neutral stance

The presence of important external actors has complicated EU strategic thinking on the South Caucasus. In terms of foreign and security policy, the EU's role in Azerbaijan is not at all comparable with other principal powers such as Russia, the US, Iran and Turkey.

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

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

So far, the EU holds a neutral stance in this troubled region. Most probably, Brussels wants at all costs to avoid a direct conflict with Moscow, even if there are serious disagreements in the EU–Russian relations. Despite growing European interest in Caspian energy sources and pipeline projects, the EU has not yet played any particularly prominent role in Azerbaijan. Surely the EU needs to become more consistent in its deployment of political tools and more connected to the activities of the EU member states in the region. If the EU managed to seize the full range of political opportunities open to it – ranging from diplomatic efforts to regional programmes and the provision of more active support in resolving conflicts – such actions would go a long way towards fostering stability and encouraging development in Azerbaijan and throughout the region. In the context of the ENP, the EU should endeavour in various ways to engender long-term stability by implementing transnational economic projects and actively supporting far-reaching reforms designed to promote the rule of law, combat corruption and organized crime, and develop the free-market economy in Azerbaijan. To this end, it is important that the EU supports constructive forces, both within the opposition and the government, mainly counting on politicians who are adequately prepared to cooperate to reform their country and ensure its full integration into the European community in the long run.

Conclusion

Since the accession of Romania and Bulgaria to the EU in January 2007, the South Caucasus has become a region of direct concern to the EU's strategy in its wider neighbourhood, with the future of the area affecting the interests of EU member states in the south-eastern perimeter. Instability in this increasingly strategic region presents a number of challenges characteristic of the post-9/11 geopolitical situation. Against this background are specific issues related to the young countries' political behaviour in the context of the US-led war against terror, the threat of renewed hostilities in conflict areas, the difficult processes of

democratization in fragile societies, the security of oil and gas pipelines, risks of further environmental degradation and humanitarian crises. Nevertheless, the EU seems to adopt a rather sceptical wait-and-see approach towards the region. The CFSP, albeit still in its early stages, has provided little political support for the leaders of these post-Soviet states to address immediate national security concerns linked to separatist regions.

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

As a pivotal country in the region, Azerbaijan is a plausible location from which to influence economic and political trends not only in Central Asia and the Caspian basin but also in the Middle East, where Western democracies are in a serious quandary over Iran's nuclear programme. With respect to energy and trade, the country's oil and gas fields further reinforce the importance of the Transport Corridor Europe–Caucasus–Asia (TRACECA) route, designed to bypass the Russian Federation by crossing Georgian territory. Investments by major European energy companies and the growing presence of some EU member states demonstrate that Azerbaijan is seen today as a reliable partner with which the EU is trying to cultivate trade. Yet in the three main areas in which Azerbaijan affects Europe's interests – energy, conflict resolution and democratization – so far the EU has engaged well on a regional energy strategy, but less so on democratic reforms and almost not at all on conflict settlement in Nagorno-Karabakh. The EU needs to balance its involvement in all three areas, especially given the deeper democratic changes it wishes to see in Azerbaijan. Alongside democratic institutions such as the Parliamentary Assembly of the Council of Europe (PACE), the EU could assert a more vigorous role in fostering good governance, democratization and enduring peace through the mandate of the EU Special Representative and the newly adopted ENP Action Plan. For this to occur, the EU needs a fresh, comprehensive strategy, to advance its political, security and economic interests in this rapidly developing region: a strategy that will aim at asserting a more active EU role and enhancing EU political standing in the South Caucasus, as well as taking practical steps to contribute to conflict resolution and encourage wider public dialogue in the three countries, and formulating an EU–Russia–US response to regional security challenges.

Notes

1. This is an updated version of the research work that was conducted in late 2006 in Stiftung Wissenschaft und Politik/German Institute for International and Security Affairs, Berlin. For a more comprehensive analysis of this study, see Elkhan 2007a.
2. In fact, the consequences of transnational crime in the South Caucasus, which is a natural conduit for trafficking, smuggling and the drug trade, affect both the region and Europe. In recent years, Azerbaijani and Georgian officials have expressed concerns over the use of separatist areas in the drug trade and other kinds of transnational crime. On this issue, see the *Zerkalo* newspaper, 20 July 2002; and the BBC Monitoring Global Newline FSU Political File, 9 February 2002.
3. See *RFE/RL Newline*, 26 July 2001. Also see Tchantouridze 2008.
4. See *Nezavisimaya Gazeta*, Moscow, 22 January 2008.

5. Derived from personal communication with Richard Pegge from British Petroleum (Baky, 27 June 2007).
6. *Azerbaijan Press Agency* (APA) (Baky, 9 January 2008).
7. For more details on this issue, see 'Putin Deal Torpedoes Trans-Caspian Gas Pipeline Plans' in the European weekly, *New Europe* (Belgium, 17 May 2007).
8. While, *de jure*, a part of Azerbaijan, Nagorno-Karabakh is claimed by Armenia. The territory is largely populated by Armenians who themselves proclaimed a self-styled 'independent' republic in 1991, which did not receive international recognition. In the early 1990s, Armenian troops took control of Nagorno-Karabakh as well as seven predominately Azeri-populated districts on its perimeter. So far, these lands have remained occupied by Armenian forces.
9. An orientation towards political democracy in Azerbaijan was evident during the period 1918–1920, following establishment of the Azerbaijan Democratic Republic (ADR) on 28 May 1918. The ADR was recognized by the League of Nations and had a wide spectrum of democratic freedoms, political pluralism and multiparty structures of power. The ADR was also first among Muslim states to use the Latin alphabet instead of Arabic script. The democratic development of Azerbaijani society was forcibly disrupted on 28 April 1920, when Russia's 11th Red Army invaded Azerbaijan and the Bolsheviks overthrew the democratic administration. For details, see Balayev 1991, 1998; Swietochowski 1985.
10. For an interesting overview on this issue, see Mehdiyev 2008.
11. See *APA*, 18 January 2007.
12. See *Azertag*, Azerbaijan's state-owned news agency, 8 November 2006; see also *RFR/RL Newline*, 7 November 2006.
13. Derived from an interview with Mr Solana by *Trend*, 13 November 2006; see also *Zerkalo*, 13 November 2006.
14. See *Trend*, 25 March 2006.
15. See de Waal, T. 'EU Could Assume Peacekeeping Role.' *IWPR Caucasus Report Service*, CRS 341, Institute for War & Peace Reporting, London, 25 May 2006.
16. In fact, the European Commission's recommendation was based on the Commission's country report, which provided a detailed assessment of the EU–Azerbaijani relationship. See European Commission, 'European Neighbourhood Policy: Azerbaijan' Press Release IP/05/238, European Commission (Brussels, 2 March 2005).
17. See *Trend*, 14 November 2006.
18. For a comprehensive analysis on this issue, see Nuriyev 2007c.

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