

# Why Europe should change its approach to Azerbaijan

by Rem Korteweg

The EU has relied on oil and gas from Azerbaijan to reduce its dependence on Russian energy supplies since the beginning of the 21<sup>st</sup> century. Because of Baku's strategic importance, the EU has not assertively promoted good governance in Azerbaijan through its European Neighbourhood Policy. However, developments in gas exploration and production are changing the EU's relationship with the Azerbaijanis. This could pave the way for a more coherent EU policy that balances energy security with a greater emphasis on democratic reform.

Nestled between Iran and Russia, energy-abundant Azerbaijan is prime geostrategic real estate. Since it gained independence from the Soviet Union in 1991, it has been concerned that its neighbours will interfere in its domestic affairs. In the early 1990s, Azerbaijan fought a war with Armenia, in which Russia sided with the Armenians. During the war, Baku lost control of Nagorno-Karabakh, a contested area that covers one-eighth of its territory. The conflict is still unresolved and the area occupied. In this rough neighbourhood, Azerbaijan needs allies.

Energy is central to these friendships. Georgia and especially Turkey are regional partners. But by tying the country with pipelines to Europe's energy market and attracting US and European investment, Baku has also been developing allies in the West to safeguard its independence.

With its oil production having peaked in 2010, Azerbaijan wants to deepen its energy relationship with Europe by developing an

off-shore natural gas field called Shah Deniz II. In 2013, the state oil company of Azerbaijan (SOCAR), along with its partners including BP, will decide which pipeline will deliver Shah Deniz-gas to Europe, Nabucco-West or the Trans-Adriatic pipeline (TAP). The decision will complete the so-called Southern Gas Corridor which has been a key element in the EU's energy diversification strategy and could deliver roughly 10 per cent of Europe's gas imports by 2020.

The government in Baku is also promoting a European secular image. Last year Azerbaijan signed a major deal with Microsoft, in a drive to become a regional IT hub in an otherwise internet-unfriendly region. Geopolitically, the country supports America's 'new silk road' vision for Central Asia, and Baku has troops in Afghanistan supporting NATO.

But in spite of the flourishing energy relationship and converging geopolitical interests, there

is disappointment on both sides. In Baku, academics and politicians call the EU's policy hypocritical and insincere. They complain about the limited European support for resolving the Nagorno-Karabakh conflict. The issue, in truth, has not figured high on the European agenda. The so-called Minsk group, co-chaired by France, the US and Russia, is the focal point for peace talks. A resolution of the crisis would require Moscow's support, but this is unlikely in the near term. After all, Russia perceives its interests as being best served by maintaining some degree of instability in its renegade 'near abroad'.

Baku also feels that EU countries have accepted the southern Caucasus as part of Russia's sphere of influence. While it is impossible to verify, Azerbaijani politicians even suggest that Moscow could be funding NGOs to highlight human rights violations in Azerbaijan, driving a wedge between the West and Baku. One Azerbaijani politician described it as follows: "Europe is figure-skating, while Russia is playing ice-hockey."

However, the EU is understandably concerned about the slow pace of democratic reform in the country. Brussels points to serious human rights and governance problems: Azerbaijan lacks an independent judiciary, electoral reforms are needed, corruption is widespread and fundamental rights such as the freedom of the media, assembly and association are restricted.

Brussels' annual development budget for Azerbaijan is very small – less than €50 million euros. Baku earns this much every day selling its fossil fuels. But the EU now has an opportunity to be more assertive. America's shale gas

boom means more gas is available globally and liquefied natural gas will give Europe alternatives with which to satisfy its energy needs. In a decade's time, Europe may have developed its own shale gas and new gas could also flow from the eastern Mediterranean. These new resources, together with depressed energy demand, will make gas supplies from Azerbaijan less important to the EU.

The EU has an interest in keeping Azerbaijan in the Western orbit. In return for political reforms by Baku, the EU and its member-states, particularly France, should make a credible effort to resolve the Nagorno-Karabakh conflict. They should cajole Russia (itself weakened by the global gas glut) and build international pressure to get a solution from Armenia and Azerbaijan.

Baku's options are limited. Azerbaijan needs Western support – diplomatically, to remain afloat in the region's turbulent political waters, and economically, to develop its non-hydrocarbon economy and in the meantime to buy its oil and gas. Ultimately gas could flow east instead of west, to the booming markets in East Asia. But for this to happen, the trans-Caspian pipeline would have to be built to connect Azerbaijan with the Central Asia-China pipeline. Neither the economics nor the politics are there yet.

Azerbaijan's example suggests that the changing energy landscape could herald the prospect of a more coherent European foreign policy.

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## CER in the press

### Les Echos

4<sup>th</sup> March 2013  
 Philip Whyte of the CER criticises eurosceptics in his country who claim (according to an increasingly popular expression) that Britain "has shackled itself to a European corpse" and who argue that the economy is crippled by the regulatory burdens that the Brussels bureaucracy is constantly inventing.

### The Guardian

1<sup>st</sup> March 2013  
 "Voters now associate structural reforms with slump, rising unemployment and social stress," said Charles Grant and Simon Tilford of the CER

in a paper published on Friday. "The Berlin-Brussels-Frankfurt consensus on austerity that Monti's government [pursued] has discredited the very reforms that are needed to boost the Italian economy."

### The New York Times

25<sup>th</sup> February 2013  
 "No doubt Italy has an imperfect political culture, but this election I think is the logical consequence of pursuing policies that have dramatically worsened the economic and social picture in Italy," said Simon Tilford of the CER.

### Financial Times

15<sup>th</sup> February 2013

"Supply side reforms are no panacea," said Simon Tilford of the CER. "As austerity continues into 2013, more surprises about the weakness of economic activity in Europe are inevitable", he said.

### Global Finance

12<sup>th</sup> February 2013  
 Katinka Barysch of the CER in London, says the debate [about a British EU referendum] is already having a negative economic impact: Investors are getting nervous. "Rather than chasing UKIP votes, the Conservative party would be better advised to explain to the British people how they benefit from being part of Europe"

### The New York Times

8<sup>th</sup> February 2013  
 "The budget negotiations are the most visible sign of member-states winning and losing from the European Union," said Hugo Brady of the CER. "The result is a totally parochial budget that is poorly adapted to rapidly changing times."

### Christian Science Monitor

29<sup>th</sup> January 2013  
 "In many European countries, there are more restrictions on the duties women can perform in the armed forces than in the US. As a result, women play less of a prominent role," says Clara O'Donnell, of the CER.