Azerbaijan: Geopolitics and challenging dialogue

SUMMARY

Azerbaijan lies in the South Caucasus, a key region where Turkey, Russia and Iran compete for influence. The country is facing complex territorial issues, with the secessionist region of Nagorny Karabakh being the subject of an unresolved conflict with Armenia. This conflict remains Azerbaijan's top foreign and domestic policy priority and is an essential part of its balanced attitude both towards key regional powers and the EU.

The country's neutral geopolitical orientation is supported by its vast energy reserves, which make it an important producer, and transit country for gas and oil from Central Asia to the EU. For many years, this wealth helped sustain vigorous economic growth, yet recently there has been a persistent slowdown which has revealed the need to diversify the economy and invest in non-energy sectors.

Azerbaijan has a vibrant secular Muslim society and its political apparatus is often criticised for the concentration of power in President Aliyev. The European Parliament has repeatedly denounced the situation of political prisoners; negotiations for a new comprehensive agreement were launched on 7 February 2017 following the release of some key prisoners in recent months.

In this briefing:

- A key geopolitical region
- Energy-driven economy and challenges for the future
- Stability and democratisation issues
- Azerbaijan and the EU
A key geopolitical region

Situated in the centre of a region where Russia, Iran and Turkey compete for influence, Azerbaijan is a key member of the Eastern Partnership. The country faces complex territorial issues: its region of Nagornoy-Karabakh is the subject of a frozen conflict and its region of Nakhchivan is an exclave. In addition, Azerbaijan is a platform for the transit of gas from Central Asia to Europe, but its main pipelines, designed to take into account geopolitical realities, bypass Armenia and the zones of unresolved conflict within the region (Nagornoy-Karabakh in Azerbaijan and South Ossetia in Georgia).

Balancing three regional powers: Turkey, Iran and Russia

Turkey: cultural and economic ties
Traditionally, Azerbaijan has language and cultural bonds with Turkey, reflected in the formula 'one nation, two states' used by Azerbaijani President Ilham Aliyev. Today, Turkey remains an important ally to Azerbaijan, supporting it in its conflict over Nagornoy Karabakh. Economic bonds are equally strong, with Azerbaijan having built a number of pipelines linking Central Asia with Turkey.

Iran: religious and ethnic proximity, strategic differences
A large number of ethnic Azeris live in Iran, where they account for approximately a third of the population. In addition, most Azeris in Azerbaijan profess Shia Islam, which also happens to be Iran's official religion. Nevertheless, the two countries have an uneasy relationship, affected by factors such as Azerbaijan's steady commitment to a liberal and tolerant practice of Islam, past suspicions of the Iranian authorities about Azerbaijan's ties with Iranians of Azeri origin, Azerbaijan's strategic choice to export its gas via Turkey and not Iran, and Iran's good relations with Armenia.

Russia: Soviet legacy and unstable partnership
In its recent history, Azerbaijan has been part of the Russian Empire (1813/1828-1917), an independent state (1918-1920), and a Soviet republic (1920-1991), in which Nagornoy Karabakh had autonomous status. Since the fall of the Soviet Union and Azerbaijan's declaration of independence in 1991, the relationship between Moscow and Baku has followed the evolution of the Nagornoy-Karabakh conflict. This relationship is influenced...
by Moscow's role of peacekeeper and balancer in the South Caucasus, a role reflected in the fact that it co-chairs the Minsk group under the auspices of the Organization for Security and Co-operation in Europe (OSCE) in search of a solution to the conflict, supplies arms to both sides to the conflict, and has a military alliance with Armenia. To maintain its geopolitical independence in this context, Baku has made certain that the oil pipelines connecting Central Asia and Europe bypass Russia, has established a good relationship with Israel and the USA, and has refused to join the Eurasian Economic Union, unlike Armenia.

**The Nagorny-Karabakh conflict: Baku's top priority foreign-policy concern**

In the late 1980s, the growing nationalist movements in the then Soviet republics of Armenia and Azerbaijan reignited the age-old dispute over Nagorny Karabakh, the autonomous region in Azerbaijan's territory, populated by an ethnic Armenian majority. This prompted an escalation, culminating in war, between Baku and the predominantly Armenian Nagorny Karabakh, on Azerbaijan's territory. In November 1991, the Azeri parliament revoked the region’s autonomy; a December 1991 referendum in Nagorny Karabakh yielded a 90% vote in support of independence. The war over the region raged on, and in April 1993, Turkey decided to close its border with Armenia in solidarity with Azerbaijan. In May 1994, a ceasefire was agreed and the Minsk group intensified its efforts to find a solution to the conflict. Nagorny-Karabakh forces, backed by Armenia, today occupy 16% of Azerbaijani territory, including seven districts around Nagorny Karabakh. According to the United Nations Refugee Agency (UNHCR), 300 000 Armenians fled Azerbaijan and 185 000 Azeris fled Armenia. In Azerbaijan alone, over 900 000 persons have been displaced by the conflict.

Since 1992, the Minsk group, co-chaired by Russia, France and the United States, has provided the main framework for resolving the conflict. The group has organised a series of informal and secret negotiations between the parties, though without any major breakthrough, and the conflict remains the biggest source of instability in the region. On 2-5 April 2016, a clash occurred between Armenia-backed Nagorny-Karabakh forces and the Azerbaijani army, leading to the largest number of casualties on the two sides since the 1994 ceasefire. On 5 April, Moscow brokered a ceasefire between the two parties outside the Minsk group, a move that has been criticised for running counter to the OSCE spirit and for serving Russia's intention to pressure Baku into joining the Eurasian Economic Union.

To sustain its claim for territorial integrity, the country focuses on its defence (in 2015, it spent 5.6% of its GDP on defence, compared to an average of 1.4% in the EU). The country's fossil deposits provide a generous source for this significant military expenditure.

**Energy-driven economy and challenges for the future**

**Oil, gas and economic development**

In the past decade, the Azerbaijani economy remained mainly energy-driven. Being the world's 23rd oil producer (with Russia at the top and the EU in 18th place), Azerbaijan also...
emerged as a key transit country between Central Asian producers, such as Turkmenistan, and the EU. The steady development of its oil and gas sectors helped Azerbaijan progress faster than other Eastern Partnership countries and attain the same per capita GDP as Belarus (see figure 1). Oil and gas revenues, together with other natural resources, contributed up to 70% of the country’s GDP (see figure 2). However, the recent drop in global oil prices has adversely affected the whole Azerbaijani economy, pushing the national currency, the manat, down to half of its value compared to the US dollar in 2015.

Transit and the need for diversification
As a key transit country for energy to the EU, Azerbaijan provides it with an alternative source of supply to Russia and the Middle East. In time, it will also be able to provide a corridor for Iranian energy to the EU. The 1768 km-long Baku-Tbilisi-Ceyhan (BTC) pipeline became operational in 2006, linking Central Asia to the Mediterranean Sea through Azerbaijan, Georgia and Turkey. The Southern Caucasus pipeline, also launched in 2006, transports gas from Azerbaijan to Turkey. As for the Southern gas corridor, a €42 billion project signed in 2013 and planned to deliver 80-100 billion cubic metres of gas to the EU as of 2020, the sustained low oil prices on the global market are likely to damage its prospects even if it remains an EU priority.

Over the past five years, fluctuating energy prices have had an unsettling effect on Azerbaijan's strongly energy-dependent economy. As a result, growth has declined dramatically, from a peak of 34.5% in 2006 to 5.7% in 2013 and 1.1% in 2015. Furthermore, according to a World Bank forecast, in 2017, the country will plunge into recession, the first since 1996. This dependence on energy, almost to the extent of the 'Dutch disease', is detrimental to the country's long-term economic prospects, because it prevents investment in diversification. Azerbaijan's accession to the World Trade Organization, talks on which are well under way, would open up new trading opportunities for the country.

In its 2016 report on Azerbaijan, the International Monetary Fund pointed out that, despite having put countercyclical measures in place, the country still needs to carry out structural banking and tax reforms in order to boost foreign investment, particularly in its non-energy sectors. Diversification also depends on how attractive Azerbaijan appears to foreign investors; in the World Bank's 2016 'Ease of doing business' study comparing 190 economies, Azerbaijan ranked 65th (neighbouring Armenia and Georgia ranked 38th and 16th, respectively) and was commended for having made some impressive progress with regard to the ease of starting a new business. The Azerbaijan Service and Assessment Network (ASAN), created in 2013 as a one-stop public service shop, has helped in this regard, by cutting corruption and increasing efficiency.

Trade with the EU
The EU is Azerbaijan’s main trading partner. EU imports from Azerbaijan chiefly consist of mineral fuels, machinery and transport equipment, chemicals, food and live animals, with
energy remaining the biggest import commodity. Oil’s prominent place in exports explains why the EU is ahead of Russia as a trading partner for Azerbaijan (see figure 3).

**Figure 3 - Percentage share of EU and Russia in Georgia, Armenia and Azerbaijan exports (left) and imports (right) in 2014/2015.**

![Figure 3](data:image/png;base64,...)

*Data source: World Bank, 2016 (for Georgia and Armenia in 2015) and MIT, 2015 (for Azerbaijan in 2014).*

**Stability and democratisation issues**

Azerbaijan is a key partner for the EU, in terms of being a pole of stability in the South Caucasus and offering the EU energy security. However, while the EU tries to promote, in the Eastern Neighbourhood, both its strategic interests and the universal values it espouses, dialogue with Azerbaijan on the latter remains difficult.

**A vibrant secular society**

Thanks to various historical influences, Azerbaijan has had a modern and open Muslim society since the beginning of the 20th century: women were allowed to vote in 1918, and there is strict separation between state and religious institutions. Azerbaijan ranks third of the six Eastern Partnership countries in the UN gender development index, and the gender gap is narrower than in Georgia, Turkey or Algeria. The country is home to Shia and Sunni Muslims, Jews, Christians – including the various Armenian Churches – and Bahais. In 2014, the government, together with the OSCE, organised a series of workshops and seminars to strengthen interfaith tolerance. Long-established religions enjoy relative freedom; according to a 2015 US State Department report, it is more difficult for new groups, such as Jehova’s Witnesses, Salafists, and Gülenists, to register and assemble. There is no religious education at school, and laws against religious extremism have recently been strengthened.

**Authoritarian tendencies on the political scene**

*A structurally difficult transition*

Situated in a complex geopolitical region, Azerbaijan is an oil-rich and relatively young independent republic (since 1991), which has been party to a regional war over Nagorny Karabakh. These are the key factors that influence the democratisation of the country. A comparison between the list of the world’s biggest oil-producing countries and the 2016 Freedom House ranking of freedom in the world reveals that the majority of these countries are classified as ‘not free’ or ‘partially free’, due to the so-called ‘oil-curse effect’ on democratisation since the 1970s, when oil became a state monopoly. In addition, it is more difficult for a state to shift to democracy if it remains at war, because, by virtue of its nature, war undermines the rule of law.

*Increasingly monopolistic political landscape*

The EU considers the political situation in Azerbaijan as remaining unsatisfactory with regard to democratic standards. Azerbaijan is a presidential republic where the political scene has, for the past 23 years, been dominated by a single political entity, the New...
Azerbaijani Party (NAP). The lack of competitiveness in the Azerbaijani political system is a major source of concern. For the elections to the parliament (Milli Mejlis), a one-round 

**majoritarian** system favours both the ruling party and independent candidates. In the 2010 parliamentary elections, both the OSCE's Office for Democratic Institutions and Human Rights (ODIHR) and the opposition parties that participated in the campaign assessed the process as peaceful. Nevertheless, fundamental freedoms of peaceful assembly and expression were limited, and access to independent media was almost impossible. According to the OSCE, ‘the disparity in access to resources to mount an effective campaign and the misuse of administrative resources as well as interference by local authorities in favour of candidates from the ruling party created an uneven playing field for candidates’. Consequently, opposition parties lost their eight remaining seats in the parliament, which became ‘opposition-free’. Since 2010 and throughout the 2015 parliamentary elections, President Ilham Aliyev's New Azerbaijani Party maintained an absolute majority, the minority consisting of small 'soft opposition' parties and independent members of parliament. In 2015, the OSCE cancelled its observation mission because of the restrictions imposed by the government. The European Parliament did not send a mission to the country either.

In 2009, the constitution was amended following a **referendum**, to lift the limit on the number of presidential terms – a move that created concerns in the Venice Commission. The latter noted that alongside Belarus, Azerbaijan was the only European country not to limit the number of mandates of a directly elected president. According to the OSCE/ODIHR, the 2013 presidential election was fraught with difficulties for the opposition parties, with the state imposing restrictions on opposition candidates and voters. The European Parliament and the Parliamentary Assembly of the Council of Europe (PACE) observation missions disagreed with this OSCE/ODIHR statement and noted possible improvements, especially during the campaigning period. However, the OSCE/ODIHR's conclusions were endorsed by the European Parliament in a resolution of October 2013. Ilham Aliyev, president since 2003 and son of the late President Heydar Aliyev (who held the presidential post between 1993 and 2003), won a third mandate with 85% of votes, securing him his post until 2020.

In 2016, a second series of amendments to the constitution was proposed and approved through a referendum, in which 29 questions were asked. The Venice Commission deplored the lack of consultations prior to the referendum. Among other things, the approved constitutional change involved the extension of the presidential mandate from five to seven years. Furthermore, it authorised the president to nominate two vice-presidents, one of whom, rather than the prime minister, would assume the president's office in the event that he or she became incapable of discharging their duties. Yet again, it gave the president the right – for the first time – to dissolve the parliament in case of two no-confidence votes in a single year against the government, or if it rejects presidential nominees to key government posts. Last but not least, the minimum age for running for president was lowered to 35 years, and for a member of parliament to 18 years. Amnesty International denounced human rights violations and detentions in the run-up to the referendum.

**Human rights: some human rights activists released from jail, yet situation is tough**

Just like the situation of the political opposition, that of human rights has worsened since 2010. In 2013, PACE called on the Azerbaijani government to improve the political participation of the opposition and to increase freedom of expression, assembly and association. The rights of non-governmental organisations have been restricted, and
foreign NGOs' are subject to strict registration procedures, which de facto limit their freedom to operate in Azerbaijan. In 2015, PACE, of which Azerbaijan is a member, expressed concern over the lack of independence of the judiciary, and called on the country to amend its legislation on NGOs to allow more freedom of expression. In 2016, it reiterated its concern about the restrictions placed by Azerbaijan (and by Russia) on the freedom of NGOs to operate. In November 2016, the Council of Europe Commissioner for Human Rights also called upon the authorities to stop harassing human rights defenders and lawyers.

In addition, international organisations are still concerned about the detention of political opponents and human right activists. Leyla Yunus, a well-known human rights activist jailed in 2014, was released in December 2015; her husband, Arif Yunus, was released a month earlier. In recognition of her achievements, Leyla Yunus was shortlisted for the European Parliament's Sakharov Prize for peace in 2014. In May 2016, a number of political prisoners were released, among them journalist Khadija Ismayilova, whose detention had been condemned by the European Parliament in 2015. Nevertheless, at least 80 political figures remain behind bars, among them Ilqar Mammadov, leader of the Republican Alternative movement. The European Court of Human Rights ruled in favour of Mammadov in 2014, but its decision has not yet been enforced, even though the Council of Europe's Committee of Ministers called for this in 2016.

The 2015 report tracking progress on the EU-Azerbaijan European Neighbourhood policy action plan calls on Baku, in its capacity as member of the Council of Europe, to respect and implement its commitments regarding fundamental rights and freedoms and the rule of law (in particular by strengthening the independence of the judiciary and the right of defence/equality of arms); improving democracy and human rights in the country in almost all related areas; and respecting and implementing the rulings of the European Court of Human Rights. Another concern has been the high level of corruption in economic and political life.

Azerbaijan and the EU

The European Parliament and Azerbaijan

The European Parliament has offered continual support to imprisoned human rights activists, free media and NGOs in Azerbaijan. In 2013, it supported Ilqar Mammadov in a resolution asking for his immediate and unconditional release and an end to his prosecution, in accordance with the ruling of the European Court of Human Rights. In 2014, the Parliament called for the liberation of political prisoners and for granting NGOs greater freedom to operate in the country. It deplored the obstacles to contacts between Azerbaijani and Armenian civil societies and the de facto ban on public gatherings in central Baku. The Parliament also called for the EEAS and the European Commission to effectively apply the 'more for more' principle in the European Neighbourhood policy. In 2015, the European Parliament voiced the same concerns again, and added that Azerbaijan’s legislation on NGOs prevented the EU from disbursing 11 of its 13 grants to NGOs in the country. In the two resolutions of 2014 and 2015, the Parliament declared that its consent to any new form of agreement between the EU and Azerbaijan would be subject to concrete steps in advancing respect for universal human rights.

Framework of relations

The EU-Azerbaijan Partnership and Cooperation Agreement (PCA), signed in 1999, remains the basis of cooperation. This agreement was the result of a need to update the bilateral relations which had been governed by rules dating back to the Soviet Union. Under the PCA, the EU recognised the territorial integrity of Azerbaijan and committed
to economic cooperation, while Azerbaijan was open to political dialogue. A cooperation council was established, composed of ministers and senior officials, who started meeting regularly to advance cooperation. Subsequently, Azerbaijan was included in the European Neighbourhood policy (ENP) in 2004 and in the Eastern Partnership in 2009. In 2006, the two partners agreed on an action plan under the ENP; it includes a memorandum of understanding about reforms in the energy sector. In June 2014, Azerbaijan signed an additional protocol to the PCA on participation in selected EU programmes and agencies. The EU and Azerbaijan signed a visa facilitation agreement in November 2013 and a readmission agreement in February 2014. Both agreements entered into force in September 2014. A mobility partnership between the EU and Azerbaijan was signed in December 2013.

On the technical level, cooperation between Azerbaijan and the EU has intensified since 2004. In 2015, at the Riga Eastern Partnership summit, the Azerbaijani government proposed a strategic partnership to the EU. Nevertheless, the intensity of political cooperation between the two parties declined after the European Parliament reaffirmed its position on human rights in 2015. In response, the Azerbaijani Parliament declared it would leave EURONEST (the Eastern Partnership assembly), but eventually did not. In spite of these difficulties, it seems that EU and US cooperation with Azerbaijan is producing results, as evidenced by the release in May 2016 of political prisoners following HR/VP Federica Mogherini’s visit to Azerbaijan, and President Aliyev’s visit to Washington. Since then, cooperation between the EU and Azerbaijan has improved and the two partners have discussed an updated version of their PCA, mainly involving more cooperation and legislative approximation where necessary. In November 2016, the Council of the EU adopted a mandate for the negotiation of this new agreement, and on 6 January 2016, President Aliyev and European Council President, Donald Tusk, met in Brussels to launch the negotiations.

**EU assistance to Azerbaijan**

In 2013, the European Investment Bank signed a framework agreement with the Azerbaijani government, and started its operations in the country as part of its global effort to invest in the Eastern Partnership. Since then, the EIB has invested €76.250 million in Azerbaijan, focusing primarily on small and medium-sized enterprises. In 2016, the European Commission decided to finance cooperation with Azerbaijan up to a total of €13.5 million. The 2014-2017 Single support framework identified three priorities: regional and rural development, justice sector reform, and education and skills development.