

# AZERBAIJAN: THE NEW PRESIDENT TAKES HIS FIRST STEPS

Alexander CHEPURIN

*Envoy Plenipotentiary and Extraordinary,  
first class, Foreign Ministry of the Russian Federation  
(Moscow, Russia)*

---

**I**n the mid-1980s, as newcomer to the U.S.S.R. Foreign Ministry, I took part in the talks between Heydar Aliev, member of the Politburo of the C.P.S.U. Central Committee, First Deputy Chairman of the Council of Ministers of the U.S.S.R., and the Italian premier at that time.

I was immediately struck by Aliev's obvious charisma, which I was further witness to during bilateral talks and contacts within the Caucasian Four. It was the time of his "political Renaissance" as president of independent Azerbaijan.

I should say that nearly all of the almost 80 percent of the votes his son won at the presidential

elections on 15 October, 2003 (a truly Caucasian result) were cast for Heydar Aliev himself, the man who dominated the political scene in Azerbaijan for nearly three and a half decades since 1969. The only time of troubles, which was marked by economic degradation, bloodshed in Nagorny Karabakh, and political chaos, was a very short period between the late 1980s and early 1990s when other people ruled the republic. In fact, there is every reason to call Heydar Aliev the architect of modern Azerbaijan.

The newly elected president described his political course as a policy of continuity.

## Old Problems of the New President

The economic, domestic and foreign policy context in which the new power has found itself are far from unambiguous. In the last decade the oil sector rapidly developed, while other economic sectors (primarily industry) continued to decline. The country's fairly balanced foreign policy is offset by the heavy burden inherited from the ongoing Nagorny Karabakh problem, and domestic stability by an acute social crisis and aggressive opposition.

Hence the new president is faced today with the major tasks of ensuring dynamic growth in oil production and export, reviving the other economic branches, promoting peaceful settlement of the Karabakh conflict, resolving social problems, ensuring the democratic maintenance of domestic stability, and continuing a non-confrontational and balanced foreign policy.

No matter how strong the new power's desire to continue previous policies, it will inevitably introduce something new into the country's domestic and foreign policies.

## The Team

Ilkham Aliev has stated: "I am not going to change the team: it has already demonstrated its ability to work for benefit of Azerbaijan."<sup>1</sup> The new cabinet was the first continuity test: Premier A. Razizade, Foreign Minister V. Guliev, all the heads of the so-called power ministries, and practically all the other ministers retained their posts. So far, no more or less prominent political figures have lost their posts, yet the team is far from homogeneous and is fairly old. Changes must be made, but this process will probably be gradual. There is the opinion that it remains to be seen whether Ilkham Aliev will be able to control the ruling clan.<sup>2</sup> Much depends on how soon the new president gains political weight and prestige.

Speaking at the first cabinet sitting after the elections, Ilkham Aliev pointed out that he respected the old merits of the top state bureaucrats, but would never tolerate sluggishness and lack of initiative. The future of all of them, he added, depended on their service.<sup>3</sup>

## Economic Horizons

Assessments of the Azerbaijanian economy vary greatly. Nevertheless, the years of political stability and the reforms carried out by Heydar Aliev added sustainability and dynamics. The sharp decline in 1991-1995 was followed by gradual economic growth: 5.8 percent in 1997; 10.0 percent in 1998; 7.4 percent in 1999; 11.1 percent in 2000; 9.6 percent in 2001, and 10.6 percent in 2002. According to Ilkham Aliev, the country received, from all sources, \$15 billion in investments over a span of 12 years, \$10 billion of which went to the oil industry.<sup>4</sup> A three-percent inflation rate and a positive foreign trade balance (about \$400 million in 2002) are among the other achievements. At the same time, the number of unemployed is still high. Wages are still very modest, therefore part of the population is destitute. At the cabinet sitting of 25 November, 2003, the new president pointed out that 600,000 new jobs in the next five years was one of his key tasks.<sup>5</sup>

---

<sup>1</sup> *Rossiiskaia gazeta*, 21 October, 2003.

<sup>2</sup> See: Site BBC, 16 October, 2003.

<sup>3</sup> See: *Izvestia*, 26 November, 2003.

<sup>4</sup> See: *Bakinskiy rabochiy*, 1 November, 2003.

<sup>5</sup> See: *Izvestia*, 26 November, 2003.

In the first nine months of 2003, the country's GDP increased by 10.5 percent (on an annual basis); industrial production rose by 5.8 percent; the republic produced 11.5 million tons of oil (an increase of 0.8 percent) (the figures for Kazakhstan and Russia are 37.4 million tons, or an 8 percent increase, and 311 million tons, or an 11 percent increase, respectively); 3.8 billion c m of gas (Kazakhstan and Russia produced 11.5 billion and 453 billion c m, respectively); agricultural production increased; and housing construction grew by 38 percent. Inflation was 2 percent, the minimum pension, 70,000 manats (or about \$15), and retail trade turnover grew by 12.8 percent.<sup>6</sup> Investment activity increased by 64 percent, mainly due to foreign investments in the Baku-Tbilisi-Ceyhan oil pipeline (BTC), and gold-value reserves amounted to about \$750 million, which is a good figure.

Yet the republic's economy depends almost entirely on the oil factor; about 50 percent of population are still living below the poverty level, while average wages barely reach \$80, and the average pension is \$30, with a subsistence minimum of \$105. The same can be said of many other CIS countries.

It is interesting to note that immediately after his election, Ilkham Aliev asked the parliament to cut back his salary five-fold. (In 2004, it should have been about \$85,000 a year.) In the United States the president gets \$400,000 a year; in France, about \$85,000; in Russia, \$30,000; in Ukraine, \$5,000, and in Georgia, \$2,500 a year. All comments aside, this was a sensible step.

On 14 August, 2003, in his interview with *Izvestia* Ilkham Aliev described his economic plans as follows: "The oil sector will undoubtedly remain our priority. We are aware of the economic forecasts in this sector and know what to expect. Money-wise this means a billion dollars annually: the money will be used to improve people's well-being, raise wages, and invest considerable sums in the oil sector, industry, and agriculture. This will create more jobs—so far, I regret to say, there are still unemployed in the republic. But if we use our rich natural resources wisely, we will be able to improve people's welfare within a very short time. This is our main goal."

There is another, no less important goal, to develop the republic's fringes and implement corresponding programs as quickly as possible. Today, two-thirds of the country's economic potential is concentrated in Baku and the Apsheron Peninsula. The Oil Fund set up by Heydar Aliev, which boasts considerable hard-currency reserves, can and should play an important role in social developments.

According to the World Bank, the country's GDP based on the purchasing power parity was \$3,090 per capita in 2001, which is more than in Azerbaijan's neighbors (\$2,560 in Georgia and \$2,650 in Armenia), but less than in Turkey (\$5,890).<sup>7</sup> It should be noted that when it reaches the \$5,000 level, the republic will ascend to a group of more developed countries.

## Oil Dictatorship

Today oil brings in 70 percent of the export revenue and about 50 percent of the budget income.<sup>8</sup> On 20 September, 1994 Azerbaijan signed the first oil contract in Baku; since that time it has been working hard to attract foreign investments to its oil industry. Ilkham Aliev will undoubtedly follow the same course, though it is clear that the Caspian oil fields will never become the second Persian Gulf. Nevertheless, oil revenue will be important for the relatively small country. In his book *Kaspiiskaia neft Azerbajana* (Azerbaijan's Caspian Oil) Ilkham Aliev analyzed in detail the past, present and future of the Caspian Shelf.<sup>9</sup> It should be said that in the past Baku really was a world and national oil center; it has been producing oil since 1848. The Nobel brothers and great Russian scientist Mendeleev contributed to the region's development. In the early 20th century the area yielded 10 million tons of oil a year (nearly the same amount is produced today), which accounted for 95 percent of Russia's oil production and 50 percent of the world oil production.

<sup>6</sup> See: *Ekspress-doklad Statkomiteta SNG*, October 2003.

<sup>7</sup> See: *Vedomosti*, 11 August, 2003.

<sup>8</sup> See: *Ekspert*, 11 August, 2003.

<sup>9</sup> See: I. Aliev, *Kaspiiskaia neft Azerbajana*, Izvestia Publishers, Moscow, 2003.

Azerbaijani oil workers did a lot to develop Siberia's oil fields, the largest in the Soviet Union (known as the Second Baku, Third Baku, etc.). Many of them are still in operation.

According to Ilkham Aliev's book, the region has over 25 billion tons of oil resources (there are about 15 billion tons of oil in the Caspian sections of Azerbaijan and Kazakhstan; 8 billion tons in Russia's; and about 2 billion tons in Turkmenistan's and Iran's). Ten Persian Gulf countries possess nearly 100 billion tons of oil reserves. According to British Petroleum's figures, the republic has 1.1 billion tons of oil reserves.<sup>10</sup> However, Iran and Turkmenistan claim some of the Azerbaijani oil fields as their own. This shows that the assessments vary greatly.

Some people say that in 10 years' time Baku will be able to produce up to 100-120 million tons of oil a year, while others cite a figure of no more than 40 million. According to the AIOC (Azerbaijani International Operating Company), by 2010 it will produce about 40 to 50 million tons of oil annually; it should be said that the republic planned to extract 15 to 16 million tons in 2003 (much more than in the 1990s when it produced 8-9 million tons and about the same amount as in the 1980s.) Gas production dropped from 10 billion c m in 1990 to about 5 billion c m in recent times. Hopes are pinned on the Shah Deniz oil field.

The Caspian and its oil have aroused the strategic interests of many countries. Russia is one of them, yet its participation in the Azerbaijani projects is limited to LUKoil. Economic reasons are responsible for this: Russia's oil companies are busy in Russia, which has much more oil and where the leaders of the oil industry are enjoying extraordinary profits of up to 70 percent, a figure unheard of elsewhere in the world. The currently discussed amendments to the payment system for using mineral resources in the Russian Federation may change the Russian companies' attitude toward Azerbaijan's oil scene, and they may start investing on a bigger scale.

Western companies need Russia's presence in the Azerbaijani oil sector as a factor of greater stability, the most important one after all. This is in keeping with what Ilkham Aliev said about his country having to become a cooperation zone for all kinds of interests.<sup>11</sup>

## Oil Pipelines—Economics and Politics

The situation in oil transportation is different: for 10 years now the Baku-Tbilisi-Ceyhan oil pipeline project has been actively promoted for political reasons. Today, there is no certainty about its implementation; doubts about its workload and profitability are still lingering. The problem will not go away even when the project is completed.

Today, early Azerbaijani oil is transported along two pipelines: the Baku-Supsa (Georgia) line receives about 6 million tons annually, that is, its near total capacity. Today, work is underway to increase its throughput capacity. Two to 2.8 million tons are transported annually along the Baku-Tikhoretsk-Novorossiisk (Russia) pipeline (its present throughput capacity of 5 million tons can be increased to 18 million tons). In other words, after some reconstruction the two pipelines will be able to receive the entire amount of oil extracted by Azerbaijan in the foreseeable future.

Those who oppose the idea of new oil pipelines argue that the throughput capacity of the Black Sea Straits is limited. This argument contradicts, to say the least, the Montreux Convention of 1936, which established free passage through the Straits. To avoid the Straits altogether oil can be transported through the Burgas (Bulgaria)—Alexandroupolis (Greece) pipeline, which is being planned; the integrated Druzhba and Adria pipelines, which will reach the Croatian port of Omišalj; via the Constanța (Romania)—Triest (Italy), Burgas (Bulgaria)—Vlorë (Albania) routes and also through the finished (yet idle for want of oil) Odessa—Brody pipeline with a possible extension to Gdansk.

All the projects are much more profitable than the planned Baku-Tbilisi-Ceyhan line<sup>12</sup> (see Table).

<sup>10</sup> See: *Ekspert*, 11 August, 2003.

<sup>11</sup> See: I. Aliev, *op. cit.*

<sup>12</sup> See: *Ibidem*.

Transportation Costs of 1 Ton of Oil (\$\$)

Routes	When moving 5m tons	When moving 30m tons
Baku-Novorossiisk-Genoa (via Grozny)	24.7	30.6
Baku-Tikhoretsk-Novorossiisk-Genoa	37	31
Baku-Supsa-Genoa	46	32
Baku-Supsa-Burgas-Alexandroupolis-Genoa	58	42
Baku-Ceyhan-Genoa	112	52

This shows that over the next 7 to 10 years the cost of oil transportation from Baku via Ceyhan to Genoa will be four-fold higher than the cost of transporting oil via the Baku-Novorossiisk-Genoa route; when the former reaches full capacity, the cost will still be twice as much.

The reason for the Baku-Tbilisi-Ceyhan route is political: it is intended as an alternative to the Russian routes. Analysts agree that the main aim is to ensure the permanent presence of the United States in this part of the world. In his book Ilkham Aliev said that apart from the mineral wealth of the Caspian, the United States is driven by its desire to destroy Russia's economic and political influence; the U.S. is pursuing a "new containment" policy, which came into being after the Cold War period.<sup>13</sup> He added that the political aspect predominated very much in line with the "geopolitical games" of Zbigniew Brzezinski. Washington is pursuing yet another goal—its lesser dependence on the Gulf oil producers.

The BTC pipeline will be completed and commissioned in 2006; nobody knows so far to what extent it will be loaded. There is another important aspect: how much of its oil Kazakhstan will send to it, if any. Otherwise the line will be underloaded and will be unable to compete with the existing and developing routes of Caspian oil (the Caspian Pipeline Consortium, the Atyrau-Samara Line, etc.). It is hard to forecast developments in highly unstable Georgia, which offers its territory for oil transit, as well as the events on the Turkish section, which will pass through territory in which the Kurdish separatists are active. The pipeline zone is seismically hazardous; the pipeline could cause damage to the Borzhomi Valley in Georgia; and environmentalists are not happy about the situation either.

The Caspian, as a huge geopolitical magnet, will continue attracting regional and extra-regional forces. If the exporters pursue economic rather than political goals, the region may become an area of civilized cooperation.

The above indicates that the role of Azerbaijan as the world's second oil-richest area should not be overestimated: today it occupies 26th place in terms of oil extraction and 13th in terms of known resources.

## The Caspian "Five"

Russia and Azerbaijan are allies when it comes to resolving the Caspian's problems: in September 2002 they signed an agreement on dividing the sea bed in the sea's northern and central parts; in May 2003 three countries (Russia, Azerbaijan and Kazakhstan) signed an agreement on the point at which the dividing lines intercepted. It appears an agreement between Kazakhstan and Turkmenistan on dividing the sea bed should follow.

Today, the Caspian "five" (Russia, Azerbaijan, Iran, Kazakhstan, and Turkmenistan) are drawing up a convention on the Caspian's legal status aimed at deciding how to divide the sea bed and water area.

<sup>13</sup> See: I. Aliev, *op. cit.*

The agreements should not be limited to oil, they should concentrate on multilateral cooperation in individual fields: fishing, environmental protection, shipping, etc. It is important to keep the sea open to all the coastal states outside the convention zones.

Recently, Azerbaijan has been insisting on demilitarizing the Caspian, yet the present international situation and terrorist threats are hardly conducive to this. At the same time, the coastal states are unlikely to profit from the military presence of extra-regional forces. On the whole the Caspian will remain highly prominent in the republic's foreign policy; and the new team will continue Heydar Aliiev's course.

The second Caspian summit is on the agenda, which is to discuss a wide range of questions. The Caspian "five" will become an important instrument of regional interaction.

So far, the prospects for an agreement among Azerbaijan, Turkmenistan, and Iran are vague since their starting positions are divergent. Iran wants to divide the Caspian into five equal sectors (20 percent to each of the countries). According to this principle, Kazakhstan should acquire 29 percent of the coast line; Azerbaijan, 21 percent; Russia, 19 percent; Turkmenistan, 17 percent, and Iran, 14 percent.

In recent years the fact that the sea border with Iran has still not been regulated resulted in several serious incidents. In June 2001 Iranian patrol boats drove back a BP research vessel engaged in geological exploration at the Araz-Alov oil field in agreement with Baku; this field, together with the Azeri-Chirag-Gunashli field, contains up to 90 percent of Azerbaijan's total oil reserves. Tehran is concerned about Washington's rising influence in Baku, while Azerbaijan is worried about the rapidly developing cooperation between Iran and Armenia.

## Settlement of the Nagorny Karabakh Conflict

The still unsettled conflict in Nagorny Karabakh is the most complicated and grievous of the problems Ilkham Aliiev inherited from his father. Today, Nagorny Karabakh and seven districts of Azerbaijan are still controlled by Armenia. In his inauguration speech, on 31 October, 2003 Ilkham Aliiev announced: "Everybody should know that even though we want peace, even though we do not want resumed hostilities and prefer a peaceful settlement, our patience has its limits."<sup>14</sup>

The conflict over Nagorny Karabakh that began in 1988 is the oldest one in the CIS and its results are the most ruinous. The large-scale war of 1991-1994 claimed about 30,000 lives; hundreds of thousands had to flee. The problem is an extremely complicated one; its ethnic and religious overtones make it even harder to resolve; and it is further aggravated by the sides' mutual suspicions.

In May 1994 a cease-fire regime was introduced with Russia's direct participation; the settlement process has already passed through several stages: from the efforts of the OSCE Minsk Group set up in 1992 to formulate an alternative for its settlement acceptable to all the sides (1992-1997) and the "shuttle diplomacy" carried out by the co-chairmen of the Minsk Group (Russia, the U.S. and France), which formulated a "joint state" conception, to the direct dialog at the highest level between Baku and Erevan encouraged by the Minsk "three" launched in late 1998. During the following five years presidents Aliiev and Kocharian met more than 20 times. They managed to smooth out their disagreements somewhat to come close to certain compromises in Key West (U.S., 2002). Later, however, old disagreements returned.

In 2003, when Armenia held its presidential and parliamentary elections in February-March and May, while Azerbaijan elected its new president in October, the sides were satisfied with a "neither war nor peace" stalemate. In addition, each of the countries was convinced that time was on its side. During the election campaign Erevan and Baku avoided sharp statements and talked about peace settlement.

Today, the dialog can be resumed; the conflict should be settled, and this gives rise to the hope that the presidents will demonstrate responsible approaches. It is very important for them to realize as promptly as possible that mutual concessions are inevitable and that they should demonstrate mutual restraint in the

<sup>14</sup> *Bakinskiy rabochiy*, 1 November, 2003.

information war which has been going on for twenty years now, otherwise it will be hard to expect public support of the inevitable compromises. It is unlikely that positive solutions will be reached in the near future, while suggestions from outside will not have a productive influence on the conflict participants either.

It seems that the formula “peace without winners or losers” is the best answer to the problem. The two long-suffering nations can regain peace and avert the threat of turning the region into an arena of political and military rivalry between the world leaders. To reach a historic settlement and compromises both presidents should have the support and respect of their nations. It is also possible that the new leaders in Baku might exercise a selective approach to what they have inherited from Heydar Aliev and start the talks with Erevan from scratch. In any case it is important for a dialog to be resumed as soon as possible and for positive dynamics to be demonstrated from the very first day.

It should be mentioned that during and after the elections, Ilkham Aliev avoided belligerent statements and stressed the need to seek a peaceful solution, although he could not resist criticizing the OSCE Minsk Group and reiterating statements about “Azerbaijan not retreating an inch from its land.” He also pointed out that the old format had not been exhausted. Time alone will show whether the sides will adopt a “step-by-step” or “package” alternative, or whether they will devise another formula acceptable to both.

## Foreign Policy

Before the elections and immediately after them Ilkham Aliev did not say much about his foreign policy priorities. It was only clear that he intended to continue his father’s balanced approach.

There is the desire to continue developing all contacts, yet Azerbaijan’s wider cooperation with Russia, the United States, Turkey, the EU, and international structures able to extend political, economic, financial and other support, together with settlement of the Karabakh conflict, are seen as absolute priorities. According to the newly elected president, “Azerbaijan should not become an arena of rivalry—it should become a launching pad of regional and worldwide cooperation.”<sup>15</sup>

The wide geopolitical support that became obvious during the elections confirmed that the key players did not want destabilization in the country, or an abrupt change in its foreign policy course. The logic is simple: Ilkham Aliev is a fairly predictable and responsible partner; his clan ensures stability and political continuity; cooperation with the new leaders can be counted on; and they are not devising any rash actions in Karabakh. The country is unlikely to make any abrupt changes in its foreign policy course, since the old one suits all those concerned.

Baku is of the opinion that Moscow should become one of the centers of a multipolar world. The official visit of President Putin to Baku in January 2001, President Heydar Aliev’s state visit to Moscow in January 2002 and his working visits to Russia in June and September 2002 initiated a radical shift in the two countries’ bilateral relations. They entered a new stage of their strategic partnership. During his presidential campaign and at the CIS meeting in Yalta on 28-30 September, 2003, Ilkham Aliev clearly stated that this policy would continue unchanged. This stand was reconfirmed by Foreign Minister of Azerbaijan V. Guliev during his visit to Moscow in November 2003. The relations between the two countries will also depend on whether Ilkham Aliev continues the efforts to curb extremist elements in his republic, including those siding with the Chechen separatists.

Moscow’s influence in the Caucasus will increase together with Russia’s continued economic growth and stability. The process will be enhanced by even greater penetration of Russian capital into the region. Baku needs these investments and wants them to be more balanced. Azerbaijan is home to 140,000 ethnic Russians and about 170,000 Lezghians, as well as to Talyshes, Avars, Tartars, and other ethnic groups; and about 2 million Azeris live in Russia. The Russian community in Azerbaijan supported Ilkham Aliev.

---

<sup>15</sup> *Rossiiskaia gazeta*, 21 October, 2003.

It goes without saying that Azerbaijan will obviously develop its relations with the United States, which accounts for over half of the oil investments in the republic. In September 2001, the 907th amendment to the Freedom Act that banned any state support of Azerbaijan was suspended; today cooperation in the military sphere has become possible.

It should be noted that Washington encourages interstate organizations and sub-regional associations that exclude Russia. This raises the question of whether Ilkham Aliev will continue to build up GUUAM, an organization for which Moscow has no warm feelings.

It is interesting to note that what Russia usually calls "Sredniy Vostok" (the Middle East), consisting of Iran and Afghanistan, is described as Greater Western Asia in the West and includes Iran, Turkey, Azerbaijan, Armenia, and "Georgia [that] is so far suspended because of unresolved territorial issues."<sup>16</sup>

Baku obviously intends to further develop its relations with Ankara. Turkey is viewed as the model of a secular state with market economy and as Azerbaijan's closest ally, which is expected to help it integrate into the Euro-Atlantic structures. Both capitals describe their relationship as strategic partnership within the "one nation—two states" formula. It should be added that Ankara's economic and political potential is fairly limited.

Drawing closer to NATO has been and remains one of the key aspects of Azerbaijan's military-political doctrine. In an effort to demonstrate its loyalty to the North Atlantic Alliance, Baku completely endorsed its actions in Kosovo (despite Baku's own ambiguous position in Karabakh). Baku sided with Washington on Afghanistan and Iraq issues; it is seeking wider partnership with NATO structures within the Partnership for Peace Program in the hope of gaining access to the modern models of army reorganization and military training. On 18 April, 2003, when talking to Bruce Jackson, executive director of the U.S. Committee on NATO, in Baku Heydar Aliev stated that his country had decided to "gradually join NATO."

I think that all the above-mentioned questions are gaining importance as America's policy of the use of force is acquiring an Asian bias as NATO moves eastward. If this organization encompasses some of the South Caucasian countries, it will become a potential threat to Russia's national security. This contradicts the logic of the relationship between Moscow and the alliance.

It looks as if the Azerbaijan new leaders will adequately assess the importance of the CIS and will continue objecting to setting up supra-state structures within it; to a great extent this is explained by the present state of the relations between Azerbaijan and Armenia.

## *C o n c l u s i o n*

The new president is expected to strengthen his authority in the republic and concentrate on domestic social and economic issues. At the same time, he will continue maneuvering between Russia, the United States, EU, and the regional powers (Turkey and Iran) in order to gain the most profitable conditions for its energy projects and settlement of the Karabakh conflict.

The new president will have to readjust economic and social policy in order to step up efforts to remove poverty, unemployment, and corruption, diversify the economy, and revive industry. The political system he has inherited will be transformed, while stability, the main trump card that helped him win the election, will lose its importance. To retain power he will need to make significant social and economic achievements.

Stability and development—the key election slogan of both father and son—will remain the political cornerstone. Time will show whether the new leaders will be able to realize it.

---

<sup>16</sup> *Nezavisimaia gazeta*, 12 November, 2003.