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Azerbaijan: Aspirations, Regional Issues, and Global Concerns

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Today, I would like to discuss Azerbaijan's aspirations, regional issues, as well as some global concerns we have in our part of the world.

Azerbaijan restored its independence in 1991. Since then, we have been conducting an active foreign policy, engaging the international community as a member of the major international organizations. Thus, our relations with Western nations, and in particular with the United States, are one of the crucial components of our foreign policy priorities. This is very important to stress. Having lived in the United States for almost twelve years, I witnessed U.S. policy with regard to Azerbaijan moving from what they refer to as a "country of interest" to "strategic ally." It is indeed very important that our cooperation programs, particularly in the energy sector as well as the security areas, are deepening every year. It brings with it very positive elements: for example, our latest cooperative efforts in the area of democracy-building and protection of human rights.

Rule of law is also extremely important for us, especially keeping in mind our past. We were a member of the Union of Soviet Socialist Republics and had our own parliament and constitution. But the major factors of being independent are a foreign and defense policy; these were delegated to Moscow. And because of the Soviet style of command economy, we had little experience as to what a real democracy meant, or for that matter, what the rule of law or even protection of human rights actually meant.

This year we will celebrate the fifteenth anniversary of our independence. I can say that we have spent a

Talking Points

- In the 15 years since regaining its independence, Azerbaijan has moved from a "country of interest" to the United States to a strategic ally. It has sent peacekeepers to Iraq, Afghanistan, and Kosovo, and has a cooperative relationship with NATO.
- The country's energy wealth has fueled considerable economic development, from infrastructure such as oil and gas pipelines and railroads to agriculture and agribusiness. GDP growth has been strong while high inflation rates are being reduced.
- The territorial dispute with Armenia, with its large numbers of the refugees, is a huge political, economic, and social burden. In addition to caring for the refugees, Azerbaijan is seeking a durable solution to the conflict based on international law.

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great deal of time and energy on introducing the basic elements of what we call the process of democracy-building in the country. Sometimes it's not an easy process. Honestly speaking, our efforts sometimes need to be doubled. But this is what we call a generational issue; we need to work on the human capital in the country so that people also recognize what democracy truly means.

Developing Energy Wealth

We're continuing to do a good job in the area of economic development. Most people here know that Azerbaijan is a region of oil and gas. The signing of a major oil contract in 1994 with the big oil companies—we called it the contract of the century—created a solid foundation for our economic development.

Investment into the economy over the last 10 years was about \$20 billion, which is pretty good for a population of 8 million. In the initial years, it came mostly to the energy sector, of course, and was around \$15 billion. And we are really proud to say that \$5 billion came to the non-oil sector. The development of the non-oil sector is one of the major tasks the government faces right now. And we already defined the niches where major efforts should be made: agriculture, agribusiness, infrastructure, and tourism. Indeed, I'm going to talk about them a little bit later.

After signing the "contract of the century," we immediately started to think about how to deliver these huge volumes of oil to the world markets. The point is that Azerbaijan is a landlocked country. We have a water roads connection with the Black Sea and through the Black Sea to the major ports of the world. But the Russian port of Astrakhan, on the Volga, is under the ice almost four months a year. So we started thinking how to deliver oil to the warm ports of the world.

Then the idea to build a new pipeline came along. Of course, we already have two existing pipelines. The first was built during the Soviet Union, and it runs from Baku to the Russian port of Novorossiysk on the Black Sea, with the capacity of 70 million tons per year. That's around 490 million barrels a year. It's not so big, but it was sufficient for the exploration of our oil resources at this time.

Then after signing the contract for the initial production of oil, we built another pipeline which connects Baku offshore with the Black Sea port of Supsa. The pipeline itself, because it's an earlier oil pipeline, holds 5 million tons. That's about 35 million barrels a year.

Then we started to recognize that there is too much oil, particularly in the Azerbaijan sector of the Caspian Sea. So the decision was made to build up a huge pipeline running from Azerbaijan through Georgia to the Turkish Mediterranean port of Ceyhan. The capacity of the pipeline is 50 million tons of crude oil, which is roughly 1 million barrels per day.

It is also possible that the capacity can be increased, even up to 1.2 million or 1.4 million barrels per day, and with the addition of chemicals, it could reach 1.7 million barrels per day.

So the pipeline is a very big project. The cost is small—\$3 billion. Currently, we are pumping oil inside the pipeline, and we are expecting in the coming months—most probably this summer—that it will be finally inaugurated with the first tanker of oil which will run from Ceyhan.

We have inaugurated our part. The Georgians have inaugurated their part of the pipeline. And now we are looking at all of us—that is, Azerbaijan, Georgia, and Turkey—to inaugurate the last portion (the Turkish part) of the pipeline. The route is approximately 1,720 kilometers. So if I'm not mistaken, after the Alaskan pipeline, it's the second longest pipeline in the world.

Besides oil, we also have gas. And so we decided to build a gas pipeline. Again, being landlocked, we have to build a pipeline which can deliver gas to the consumers. And the pipeline, which runs parallel with the oil pipeline, will deliver the natural gas supplies from Baku to Georgia and then to the Turkish city of Erzurum, where it will be connected to the Turkish gas network. And through the Turkish gas network we can deliver our gas all over Europe.

We signed a purchase agreement with Georgia on buying gas. And the Turks are also committed to buying Azerbaijani gas. Negotiations with Greece are going on, and they could be extended further to

the Balkans, even to Central Europe, which also has a serious market for gas.

Fueling Economic Growth

This, of course, definitely brings a lot of economic development into the country. I can tell you that over the last three years, our GDP growth has been more than 20 percent. In 2004, it was 19.5 percent. In 2005, it was 25.5 percent. In 2006, this year, we are expecting it to be around 27 percent.

From another point of view, it is also a serious challenge for the government. For example, last year we faced high rates of inflation in the double digits. After strong, conservative efforts to curb this inflation, we succeeded in closing the year with a 9.6 percent inflation rate. In the first months of this year, we curbed the inflation rate to 6 percent, which is also pretty high, but nonetheless visible progress.

The government is also focusing on developing the non-oil sector. This is a very crucial element. Traditionally we were very strong in agriculture and agribusiness. Land privatization successfully continues. Indeed, we have a lot of success stories. We restored and increased the production of cotton, which is very important as a strategic material.

And now we are heavily investing in vineyards. Unfortunately, these vineyards were ruined during the Soviet anti-alcohol campaign and are located in an area where you have to invest heavily and then wait for five years before the first yield.

In order to support farmers with agricultural equipment, the government created special programs and funds. The government signed a contract with Japan to buy agricultural equipment and machinery. The government put \$100 million into the fund for agro-leasing. Beyond this, we established a fund to support farmers purchasing fertilizers. The fund was established last year with an initial investment of \$50 million.

So in the agriculture sphere, we have a huge market and we're optimistic that it will prove to be an important revenue stream for the budget.

The other area is, of course, infrastructure. We're investing heavily in our infrastructure. We began with our roads and now we're increasing the capacity of our railroads. Azerbaijan is a member of the North-

South Consortium together with the Russians, Indians, and Iranians. Right now the Iranians are building a railroad that they want to connect through Azerbaijan to Russia and the north of Europe.

On the other hand, together with the Georgians and Turks, we finished a feasibility study on a railroad between Georgia and Turkey, which goes through Kars to Akhalkalaki (Kars is the Turkish city and Akhalkalaki is the Georgian city). The feasibility study shows that the project could cost \$320 million, which is not a large amount considering the figures in our region, and it can be done within two years. We expect that each of the three governments—Azerbaijan, Georgia, and Turkey—will approve this project connecting their countries, and then through to Europe.

This is very important from the point of view of delivering commodities, including oil. For example, our railroad companies recently signed a contract with Chevron to deliver the oil by railroads—almost 20 million tons from the Tengiz onshore field in Kazakhstan that will come from Kazakhstan by barges and then go to Azerbaijan and Georgia. Now we're thinking that in Georgian ports they will transfer the oil into tankers and then later to a railroad. But the railroad will be built; you can imagine that it will come not only through Georgia—because there also still an issue of the Bosphorus—it will come through the Turkish ports on the Mediterranean. And I think it's very, very serious window, too, for the development of the economy.

Security Partner

When we talk about economic development, security issues arise. Let me offer just a few words about security. Azerbaijan is a member of the "coalition of the willing," having sent a contingent to Iraq. Thank God, they are working quite successfully. We do not have any casualties so far, and I hope that we will continue our duty there to bring peace and stability into Iraq, which is very, very important for the greater Middle East.

We also sent a contingent to Kosovo and to Afghanistan. This is very, very important for our transition to a regional leader in our part of the world, and indeed we are behaving as regional leaders in our part of the world. Our involvement in peacekeeping

operations, and supporting and maintaining international peace and security, is one of the commitments and obligations which we took on our shoulders.

Our cooperation with NATO within the Individual Partnership Action Plan is developing quite successfully. It's very important for us to reform our army. It's very important for us to increase the capability of our army. We are working hard at doing this. Just last month we made a round assessment with regard to the Partnership Action Plan programs and found areas in which we need to continue and deepen our cooperation

Besides that, of course, we have bilateral security relations and programs. With the United States we're developing it quite successfully, starting with in the Foreign Military Finance Program, and also the International Military Education and Training (IMET) program for Azerbaijani officers in United States military institutions. So I think it runs within the national interest of Azerbaijan for the general reforming of the whole country.

Seeking a Solution with Armenia

Now I am giving you this good picture of the development, but there is always a problem. I should talk about the problem. And the major problem is the conflict with our neighbor, Armenia.

With the occupation of Nagorno-Karabakh and the large numbers of the refugees, it is, of course, a huge political, economic, and social burden. From an economic perspective, we can handle the issue. From the perspective of the social burden, we have already approved programs that assist the internally displaced people and the refugees with a special allocation of money from the oil fund of Azerbaijan. The only spending so far has been done to support the refugees. Instead of the tent camps where they used to live, we are building mobile villages so that when we achieve the liberation of the territories, they can return to their homes. Last year there was a fact-finding mission, which visited the occupied territories. They clearly indicated and filed a report that everything that can be stolen has been stolen, everything that can be destroyed has been destroyed, and everything that can be looted has been looted. So at least they will take these mobile houses when they return to their villages.

The peace talks are, unfortunately, not as successful as one would like, and I think that we need to double our efforts, mostly our educational efforts. We have to explain—and we speak about this at every meeting on the level of foreign ministers—that one cannot live back in the 20th century. Indeed, the world has changed. The idea that you can decide the fate of the territory by forcibly changing borders, by ethnic cleansing, or by expelling the people is gone. Everyone knows that this is the phenomenon of Yalta 1945, when the three leaders came together and started drawing the lines that ended up dividing the world.

Now it's gone. International relations have changed. The people have changed. And the role of the borders is diminished.

So the major priority—what we need to do—is to create the possibility for the normalization of the lives of those who used to live there for centuries, both Armenians and Azerbaijanis. No one can just expel them from the territory.

That's why I'm saying that 2006 can definitely be a window of opportunity. As soon as Azerbaijan is developing successfully from the economic point of view, we'll definitely develop the military as well. And when frustration comes to the society and people ask why should we keep our eyes closed on the occupation of our territories, then it can be a very serious challenge to the peace and stability in the region.

And that's why we ought to begin to clear the table for finding a real, durable solution. And a durable solution works only within a legal context. We have definitely found out that any agreement, any decision-making with regard to the conflict resolution should be based on the law, particularly the international norms and principles of this law.

Nagorno-Karabakh is a part of Azerbaijan, and no one can change the territorial integrity by force. We will move slowly and find out the way in which to normalize the life between the two communities, because the hatred which has existed now is definitely not productive for the development of the region.

—His Excellency Elmar Mammadyarov is Minister of Foreign Affairs of the Republic of Azerbaijan.