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The Dilemma of Azerbaijan's Security Strategy: Energy Policy or Territorial Integrity?

Azerbaijan, the strongest state of the South Caucasus, at the same time is one of the most vulnerable countries in the region. On the one hand, the country has faced the problem of territorial integrity for more than two decades already because of frozen conflict with Armenia over Nagorno Karabakh. On the other hand, Azerbaijan's importance in European energy policy is constantly growing. If Azerbaijan would start a war with Armenia in order to restore its control over Nagorno Karabakh, the ambitious energy policy aiming to turn Azerbaijan into important oil and gas transportation link between East and West that has been developed for a decade, would end without a success. Thus at the same time the problem that Azerbaijan does not control part of its territory is a major obstacle for sustainable development of the country and for Azerbaijan's international cooperation. In this context, Azerbaijan faces a dilemma – to take up measures of hard security for restoring its territorial integrity, what has been frequently stated by high politicians, or to rely on the measures of soft security, focusing on the development of EU-orientated energy policy that has a positive impact on Azerbaijan's international prestige. Moreover, maybe a „third way“, enabling Azerbaijan to reach both abovementioned goals at the same time, exists? In this research paper, using the conceptions of relational and structural powers, the factors of Azerbaijan's security balance are analysed and suggestions on the stabilisation of the country's security situation are provided.

Introduction

Azerbaijan could be called the most important state of the South Caucasus: due to a beneficial geostrategic situation, the ability to maintain dialogue with the East as well as with the West and an ambitious energy policy the state managed to transform itself from a typical “grey zone” country that finds itself in a difficult transition and suffers from internal conflicts to an important partner of the US and the EU. Talking about the South Caucasus as a “bridge“ between East and West, Azerbaijan is the first state to have in mind, because without Azerbaijan, the „link“ function of the South Caucasus would make practically no sense. According to Zbignev Brzezinski, Azerbaijan is a geopolitical centre of the South Caucasus¹.

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¹ Вжезинский З., *Великая шахматная доска* [„The Grand Chessboard“]. Москва: Международные отношения, 1999, p. 172-173 (in Russian).

Nevertheless, Azerbaijan finds itself in the epicentre of intersecting geopolitical interests, and it seeks to keep a healthy balance between different geopolitical powers as much as possible in order to maintain its neutrality. The country is quite far from the theoretical model of neutrality, not least because it fails to fulfil the main criterion for a neutral country – the absence of any foreign military forces in its territory. As for today, about one fifth of the territory of Azerbaijan is controlled by the military forces of Armenia.

After regaining its independence in the last decade of the twentieth century, Azerbaijan became a typical „complicated“ post-soviet state suffering from a painful frozen conflict – a distinctive problem for post-soviet space. When Azerbaijan failed to win the war for Nagorno Karabakh, the country was faced with permanent threat for its territorial integrity, which was accompanied by an avalanche of economic and social problems. It is important to emphasize that Baku not only lost the physical control of the part of its territory but also was defeated by Yerevan in an informational war – a competition for consolidating its own version on the conflict of Nagorno Karabakh within wide international community.

Thus during the first decade of the twenty-first century Azerbaijan managed to retrieve its prestige in the eyes of international community – after combining its strategic geostrategic position and great potential in the energy sector with the interests and policy directions of the USA and the EU, Azerbaijan became an important element in the USA-led antiterrorist campaign and the vital link in large scale oil and gas transportation routes.

On the one hand, unresolved conflict of Nagorno Karabakh still persists. Moreover, as it has been noticed by the experts, time in the process of regulation of Nagorno Karabakh conflict runs against Baku – anymore there is no real control of Azerbaijan authorities in the territory of the frozen conflict, as it will become more difficult to reintegrate this region into the political, economic and social environment of the Azerbaijan which has moved forward a lot. Moreover, for the successful realization of Azerbaijan's long-term development strategy based on the transportation of energy sources, peace and stability are vital. Unresolved frozen conflict permanently forces Baku to balance on the edge between peace and war, which fails to increase the trust of the international community and the investors in Azerbaijan. The war between Georgia and Russia that broke out in August 2008 demonstrated the price of instability for Azerbaijan – during the war, due to security reasons the main oil and gas pipelines that cross Georgia were temporarily stopped. At this time the only operating oil pipeline pumping Azeri oil was Baku-Novorossiysk, which Azerbaijan authorities intended to close several years before the war because it was economically inexpedient.

On the other hand, a single-sided and rushed attempt to force the problem of territorial integrity could end up with not only one more defeat of Azerbaijan in the front of Nagorno Karabakh but also with the collapse of the country's energy policy – the main „window to the world“ of Azerbaijan that was being developed for more than a decade. Azerbaijan realizes that in case of war for Nagorno Karabakh, it will find not only Armenia, but also Russia on the other side of the front. In addition, an attempt to solve the Nagorno Karabakh problem by force not only would fail to offer a fast solution but also would complicate the situation even more. Finally, in case of war in Nagorno Karabakh, Baku would be seen by the international community as an aggressor that stepped away from the principles of peaceful resolution of conflicts and non-usage of force. The decrease of trust in Azerbaijan in international arena would definitely limit the potential of Azerbaijan's energy policy – the main engine of Azerbaijan's development. At the same time Azerbaijan understands the negotiation with Armenia on the peaceful resolution of the conflict is purely the simulation of the process of negotiations that fails to lead to the resolution of the problem, since until now both conflicting sides have failed to find any compromise on the main principles of the regulation of the Nagorno Karabakh conflict.

The rise in importance of the energy policy “rescued” Azerbaijan from the status of “a single-problem state” that is characteristic for the states suffering from frozen conflicts. In the academic literature both the conflict of Nagorno Karabakh and Azerbaijan's energy policy receive proper attention. International Crisis Group, Warsaw-based Centre for East European Studies and Defence Academy of the United Kingdom, has contributed greatly to the analysis of Nagorno Karabakh conflict. The Defence Academy of the United Kingdom has made significant input in the analysis of Caspian energy issues. Nevertheless in the most of the research studies the issues of frozen conflict of the Nagorno Karabakh and Azerbaijan's quickly developing energy policy are being analyzed separately, giving the impression that these issues do not influence each other.

The aim of the research presented in this paper is to analyze Azerbaijan's energy policy, which catalyzes the development of the state, and the frozen conflict of the Nagorno Karabakh, which serves as a brake for Azerbaijan's development as two discrete but closely interconnected elements of the same security strategy, the combination of which determines Azerbaijan's fragile security balance. The main goal of the research presented is to identify the factors of Azerbaijan's security balance and to evaluate their impact for the state's security strategy. The concepts of the relative and structural power serve as a theoretical background for the analysis that allows an evaluation of Azerbaijan's security policy in the context

of growing global interdependence and multilateralism. In the empirical part of the research, the analysis of Azerbaijan's global and regional security environment and the country's security strategy as well as the overview of Azerbaijan's energy policy are provided.

1. Power and Security: The Aspects of Relational and Structural Power

According to the representatives of realism, if the main goal of the state is survival (programme minimum) and the ability to influence other actors of international relations (programme maximum), so the increase of power is the necessary presumption for successful functioning of the state in the international system.

The term "power" has intentionally been split into two categories – structural power and relational power, which is proposed by the representatives of the neo realistic approach in international relations when analysing the impact of a state's power for its security in the context of growing interdependence in the international arena.

Relational power, or power-potential, is an aggregative indicator of a state's potential in the international arena from the comparative perspective. According to Susan Strange, relational power is the ability of state A to force state B to behave in a way that it would not do otherwise². Relational power includes physical characteristics (territory, number of inhabitants, valuable excavations, etc.), military (size of the army, military budget, infrastructure, ect.), economic (GDP, size of the national market, etc.) parameters, the whole of which shows the state's "weight" in comparison to other states. Although relational power, unless it is easy to operationalize and evaluate, is a static indicator, it shows only the potential of the state but is silent about state's ability to use this potential for the sake of realisation of its national interests.

Structural power, or power-influence, could be considered the dynamic element of the term "power". Structural power is described as a state's ability to set or to influence the rules of inter-state relations, the international agenda or international decision-making procedures.³ Structural power includes such parameters as a state's status, its international prestige, the importance of the state for global geopolitical players, the control of particular sector or structure, etc. Structural power is measured by qualitative parameters, and at the same time relational power

² Strange S., *Valstybės ir rinkos* [„*The States and the Markets*“], Vilnius: Eugrimas, 1998, p. 44 (in Lithuanian).

³ Statkus N. et al, *Geopolitiniai kodai: tyrimo metodologija* [„*Geopolitical Codes: the Methodology for the Research*“]. Vilnius: Vilniaus universiteto leidykla, 2003, p. 85 (in Lithuanian).

is decided by quantitative ones. In other words, structural power shows the ability of the state to act in the international arena for the sake of its national interests. Structural power can also be divided into two dimensions: aggregated structural power (the position of the state in international arena) and specific structural power (the position of the state in the context of particular question or issue)⁴.

Nevertheless structural power is not easy to evaluate general, this parameter is crucial in contemporary international relations because it shows the state's ability to act in the context of growing interdependence in the international arena – the sociability of the state.

According to neorealists, structural power arises from repeatedly using relational power and can positively impact the rise of the latter. In the contemporary international system, which can be characterised by the growing importance of multilateral relations, the importance of structural power is constantly growing. Structural power not only reflects repeated usage of relational power but creates additional value for the state's power. For example, the prestige of the state in the international arena can be created without using the “material base” of relational power; instead it can come from the state's foreign policy guidelines, know-how in the particular field, and the willingness to support international decisions based on particular norms and values. At the same time the gaining of prestige could bring particular material benefits for the state by facilitating the inflow of foreign investments or promoting the inclusion of the state in broad international projects.

Moreover, it is important to mention that for a small state the element of structural power is of crucial importance. For a small state, the growth of relational power is limited – even if the state seriously improves its relational power components, in the context of international arena the change would hardly influence the position of the small state. At the same time the limits for the spread of its structural power in the international arena are much broader and more flexible. In other words, even if the state has fewer resources at its disposal, but directs its actions in the appropriate direction, it can achieve a high spread of its structural power despite its relational power remaining modest. The rise of structural powers makes a positive impact on the rise of overall state's power.

Looking at the dilemma of Azerbaijan's security strategy from the perspective of relational and structural power, two ways of action can theoretically be distinguished. The first way of action would consist of increasing the state's military power – an important component of relational power. With the help of enhanced military power Azerbaijan could manage to resolve the frozen conflict

⁴ Aquirre F. J. G., *Power, Asymmetry and Negotiation: a Theoretical Analysis*, Kent Papers in Politics and International Relations, 1995, p. 20–22.

of Nagorno Karabakh quickly, and, after restoring its control over the occupied regions, Azerbaijan would eliminate the threat to its territorial integrity. After resolving the main hard security threat, Azerbaijan would become more stable and attractive in the eyes of the international community for enhanced political and economic cooperation. This trend would lead to an increase in Azerbaijan's structural power. Realised growth of the state's structural power would lead to the increase of Azerbaijan's relational power.

However this scheme would function in the way shown if and only if the conflict over Nagorno Karabakh with Armenia would be resolved in a peaceful way – due to the sharp increase of military power the strategy of deterrence would play its role. If Azerbaijan attempted to solve the problem of Nagorno Karabakh in the military way, the state's structural power would decrease and this fall would not depend on the result of these attempts; therefore the increase of Azerbaijan's aggregated power would become frozen. Moreover, the increase in Azerbaijan's military power could provoke the so-called security dilemma phenomenon – the state of play when the state increases its military power in order to strengthen its security but its security, in reverse, decreases due to the fact that neighbouring countries (in the case of Azerbaijan – Armenia, Iran, potentially – Russia) begin to view the state as a threat. This phenomenon would create additional tensions in the region, and could provoke an arms race that would diminish the security of all players included in the phenomenon of the security dilemma⁵.

The second possible way of action for Azerbaijan is the concentration on the growth of structural power. In the case of Baku, one of the most important elements of structural power is the West-oriented energy policy. It is useful to note that energy policy is considered an element of the structural power; for example, mineral resources by themselves are indicators of relational power, but the energy policy indicates the behaviour of the state when choosing between several alternatives when one or other choice can influence state's international position.

Achieving a favourable image and solid status in the international community (aggregated structural power) could be transformed into increased international support for Azerbaijan's position on the Nagorno Karabakh issue (specific structural power). In this case Azerbaijan would get additional leverage in soft power for the faster resolution of Nagorno Karabakh conflict. The result of the increase in structural power would be the fastest possible growth of relational power, which would also generate a further increase in the structural power. However the most

⁵ Tickner J. A., „Saugumo re-vizijos“ [„Re-visions of the Security“] žr.: Booth K., Smith S., sudar., *Tarptautinių santykių teorija šiandien* [„The Theory of International Relations Today“], Vilnius: Algarvė, 2000, p. 172 (in Lithuanian).

problematic moment is that the increase of structural power is reflected in the growth of Azerbaijan's power only in a medium-long term, which means that it is not possible to reach a desirable result immediately.

As far as we can see, in the case of Azerbaijan (or any other small state) the growth of relational power does not necessarily lead to a notable increase in structural power due to size (smallness) factor. At the same time the increase in structural power always has a positive impact on the steady upgrade of relational power, but the positive effect could be observed only in a medium-long term.

2. International Environment of the Azerbaijan's Security

The external environment of Azerbaijan's security could be described as very heterogeneous. On the one hand, the external relations of Azerbaijan could seem to be trapped in historical grievances and multi-decaded inter-state disagreements. On the other hand, several questions of international cooperation policy agenda, such as energy policy or fight against terrorism, are developing very quickly. In order to better understand the choices of Azerbaijan's security strategy, it is important to become acquainted with the global and regional context of Azerbaijan's security.

2.1. The Place of Azerbaijan in the Strategies of the USA and the EU

The importance of Azerbaijan for the West – the USA and the EU – could be called a phenomenon of XXI SE century since earlier Azerbaijan did not play an important role in the global strategies of these grand geopolitical players. The importance of Baku for the West is decoded by three main factors – fight against terrorism, energy security and global spread of democracy.

After 9/11 Baku was actively involved in the USA-led fight against terrorism. Baku gave permission to the USA for using its air space and airports in support of Washington's actions against the Taliban regime in Afghanistan⁶. Supplementary to favourable geostrategic position, Baku's importance for the West was enhanced by the

⁶ Mehtijev E., "Perspectives of the Security Development in the South Caucasus", Peace and Cooperation Resolution Center, Baku, http://www.bmlv.gov.at/pdf_pool/publikationen/10_ssg_10_meh.pdf, 14 10 2011.

fact that Azerbaijan is a secular Muslim state⁷. Baku's importance for Washington's fight against the states belonging to the "axis of evil" today also remains relevant, since Iran has refused to stop its nuclear programme. In light of the tensions in bilateral relations between Azerbaijan and Iran, Baku support for Teheran in the case of the Iran-USA conflict would be hardly presumable. Nevertheless Washington also would not benefit from direct support from Baku in case of conflict with Teheran since Azerbaijan and Iran have a bilateral agreement in which both states commit not to permit using their territories for fighting against each of the countries⁸.

The approval of Azerbaijan's importance in the USA-led fight against terrorism serves the fact that since 2002 Azerbaijan receives annual USA financial support for the modernisation of its military forces.⁹ In order to maintain regional parity, Armenia and Nagorno Karabakh also receive parallel military support from Washington (the latter enjoys the direct support from 1998)¹⁰. Georgia also receives direct assistance from Washington for enhancing its military sector, but this support could be considered a result of the close bilateral cooperation and does not come under Washington's efforts to maintain parity in the South Caucasus.

It is worth mentioning that the policy of the USA regarding Azerbaijan is based on permanent balancing. On the one hand, Azerbaijan is a very important partner of Washington in the region of South Caucasus. On the other hand, the USA has a very strong and powerful Armenian diaspora, which has strong lobbyist groups. As a result of their activity, a pro-Armenian policy direction (which at the same time in most cases is anti-Azerbaijan) is strongly promoted in USA.

Currently one of the most important fields of bilateral cooperation for Washington is energy. The function of Azerbaijan as the supplier of hydrocarbonates (oil and gas) for the West presently is realised quite well. The oil pipeline Baku-Tbilisi-Ceyhan (BTC), which pumps Baku oil to the Turkish port of Ceyhan with the capacity of 50 m tones of oil per annum (1 m of barrels oil daily) began to operate in 2005. After one year, in 2006, the gas pipeline Baku-Tbilisi-Erzurum (BTE) with the capacity of 20 bn cubic meters of natural gas was set into operation. The successful realization of both projects is considered to be the most important geopolitical victory of the USA in the South Caucasus.

The function of Azerbaijan in the Western energy strategy that is still not

⁷ Kotanijan H., "Armenian Security and U.S. Foreign Policy in the South Caucasus". *The Quarterly Journal*, Vol III, No.2, June 2004, p. 26-27.

⁸ Blandy C. W., "Azerbaijan: Permanently between Scylla and Charybdis?", Defence Academy of the United Kingdom, August 2006, p. 4.

⁹ German T., "Untagling the Karabakh Knot", Defence Academy of the United Kingdom, June 2005, p. 7.

¹⁰ Socor V., "US-Azerbaijan Partnership: What It Has Delivered and Where It Falts", US-Azerbaijan Relations: Stage of the "Strategic Partnership", The Jamestown Foundation, November 9 2010, p. 12.

realized but which has a great potential is a link between oil and gas rich Central Asian states (particularly – Kazakhstan and Turkmenistan) and the final beneficiaries in the EU. The transportation of the hydrocarbonates (oil and gas) from the Eastern Caspian shoreline via Azerbaijan would add to the diminishing of EU energy dependence on Russia and unstable states in the Middle East¹¹.

One more reason for enhanced involvement of the USA and the EU in Azerbaijan is the objective to promote democracy, universal norms and values. The efforts of the USA and the EU in democratization of Azerbaijan fulfil two functions – negative (democratic Azerbaijan would serve as a barrier from the West from the threats spreading from the Middle East) and positive (democratic Azerbaijan would serve as a bridge between Europe and Asia). The USA and the EU are seeking to minimize Azerbaijan’s “permeability” to the activities of international organized crime by supporting political, legal and administrative reforms, civil society initiatives, and promoting an open society.

In addition, the USA and the EU receive criticism and accusations related to a double-standard policy regarding Azerbaijan for turning a blind eye to the processes in the Azerbaijan’s domestic policy. According to the critics, Azerbaijan together with Belarus are the two Eastern Partnership states that are most far away from the EU standards and values¹².

The processes in Azerbaijan’s domestic policy could become a serious obstacle in the country’s enhanced cooperation with the West down the road. In early 2009 Azerbaijan approved constitutional reform which abolished the limitation of two consequential terms for the same person in the post of the president¹³. In 2008 the incumbent president Ilham Aliyev was elected for the second term, and the constitutional reform which was negatively assessed by the West, has opened the way for Mr. Aliyev to remain in the post of the president for an unlimited number of terms. Azerbaijan also fails to implement the division between military and civil authorities – the country’s Ministry of Defence is being headed by colonel general Safyr Aliyev. Moreover, the authorities of Azerbaijan are systematically limiting the freedom of speech, press and assembly, especially regarding the opposition.

Nevertheless it can be said that Azerbaijan’s cooperation with the West is well institutionalized and has already moved from the political-declarative level to the practical level.

¹¹ Herd G. P., Moutsakis F., *Black Sea Geopolitics: Dilemmas, Obstacles and Prospects*. Conflict Study Research Centre, UK Ministry of Defence, G84, July 2000, 16.

¹² Pelczynska-Nalecz K., *Integration or Imitation? EU Policy Towards its Eastern Neighbours*, Centre for Eastern Studies, Warsaw, April 2011, Issue 36, p. 18.

¹³ The Constitution of the Republic of Azerbaijan, http://www.azerbaijan.az/portal/General/Constitution/constitution_01_e.html.

Azerbaijan and NATO signed the first Individual Partnership Action Plan (IPAP) in 2005, the second IPAP was signed in 2008, the third – in late 2011¹⁴. Azerbaijan also supports International Security Assistance Forces (ISAF) – presently 94 troops from Azerbaijan serve in the ISAF. Moreover, Azerbaijan has given permission to NATO to use its air space, land and sea passages in order to implement the supplying of the ISAF. In addition, the centre for training of Afghan specialists in various fields is operating in Azerbaijan¹⁵. In the past Azerbaijan actively supported ISAF in Iraq and Kosovo.

Azerbaijan, together with Armenia and Georgia, was included in European Neighbourhood Policy in 2004, and the first Action Plan between EU and Azerbaijan was signed in 2006. The signing of the Action Plan in the framework of European Neighbourhood Policy was delayed almost by a year because Azerbaijan's business entities affiliated commercial and communicational relations with unrecognized Northern Cyprus; so, due to the veto from Greece it was decided that they should wait until Azerbaijan resolves this problem¹⁶. The possibility for the EU to sign the Action Plans with Armenia and Georgia which were ready in 2005 already first and with Azerbaijan later, when it ceases all connections with Northern Cyprus, was considered. Nevertheless the EU decided to maintain the regional approach towards the Southern Caucasus and to wait for Azerbaijan to resolve the problem. From 2010 Azerbaijan and the EU are negotiating the Association Agreement.

In May 2009, Azerbaijan, together with other five Eastern European and South Caucasian states (Belarus, Ukraine, Moldova, Armenia and Georgia) was included into EU's Eastern Neighbourhood initiative.

Nevertheless, regarding cooperation with the EU, Azerbaijan's position is weaker than those of other states of the South Caucasus – Armenia and Georgia. The fact that Azerbaijan is the only state in the South Caucasus that is not a member of the World Trade Organization (WTO) could be one of the reasons for this. The absence of WTO membership serves as an obstacle for liberalization of trade relations between EU and Azerbaijan – and the negotiations on Deep and Comprehensive Free Trade Agreement (DCFTA) cannot be initiated¹⁷.

In light of the cooperation between Azerbaijan and the West, which is a new phenomenon, it is worth to mentioning that in this case the absence of a

¹⁴ RFE/RL, *Azerbaijan Steps Up Cooperation With NATO*, 11 January 2012.

¹⁵ Socor V., "US-Azerbaijan Partnership: What It Has Delivered and Where It Faltered" (note 10), p. 9.

¹⁶ International Crisis Group, *Conflict Resolution in the South Caucasus: the EU's Role*, European Report No. 173, 20 March 2006, p. 9.

¹⁷ Sadowski Rafal, *Progress in Interacting the South Caucasus countries with Europe*, Centre for Eastern Studies, Warsaw, 03 07 2012.

common history serves as a strength since this factor allows the development of mutually beneficial cooperation that is not interrupted by painful historical memory or disagreements.

An important feature of the policy of the USA and the EU regarding Azerbaijan is the regional approach – the Western powers apply a single formula of cooperation for all states of the South Caucasus. A similar trend is also observed from the side of Azerbaijan – Baku seeks to be involved in all forms of cooperation with the USA and the EU in order not to be left behind Georgia and Armenia in this field.

2.2. Regional Peculiarities of the Security of Azerbaijan

In contrast to neutral, interest-based Azerbaijan's relations with the West, Baku's regional relations are strained and oversaturated with various disagreements and historical grievances.

The relations with neighbouring Armenia could be called the most problematic regional relations of Azerbaijan – because of the unresolved conflict of Nagorno Karabakh the countries have failed to hold any inter-state relations since 1992, the beginning of the war in Nagorno Karabakh.

It can be observed that the Armenian factor affects the relations between Azerbaijan and its strategic partner Turkey. As a sign of support for Baku in the Nagorno Karabakh war, in 1992 Ankara closed the state border with Armenia that remains closed until present. From 2008 efforts to normalize the mutual relations both from the side of Turkey and Armenia have been observed and called "soccer diplomacy"¹⁸. The efforts of Ankara to normalize its relations with one neighbour led to the serious deterioration of relations with the strategic partner Azerbaijan, which resulted in various disagreements over the conditions of the transportation of energy resources through the territory of Turkey.

Azerbaijan's relations with another neighbour, Georgia, could be evaluated as very good. Georgia is an important partner for Azerbaijan in the implementation of large-scale regional energy and transportation projects. The only disagreement between the countries has erupted due to disagreement over delimitation of the state border, which runs through the historical heritage site in Georgia called the monastery of David Gareja. Nevertheless, this issue has not been escalated in the bilateral relations.

¹⁸ The appellation of „soccer diplomacy“ came from the fact that the first meeting of the presidents of Armenia and Turkey took place in Armenia at the soccer match that was played between Armenian and Turkish teams.

Azerbaijan's relations with Iran could be evaluated as the most trouble-spotted ones in the region. First of all, Iran provided assistance for Armenia during the war in Nagorno Karabakh in 1992-1994. Moreover, presently Teheran holds close relations with Yerevan. Second, nevertheless both Azerbaijan and Iran are Muslim states; Baku emphasizes its secularity and religious moderation, avoiding any affiliations with radical Islam in Iran. Third, Iran and Azerbaijan are involved in the disagreement over the legal status of the Caspian Sea. The unresolved legal status of the Caspian Sea freezes the development of energy projects in the Caspian basin and limits the growth of the power of Azerbaijan.

One of the factors that forces both Baku and Teheran to be committed to moderate positions in relation to each other is the huge Azeri diaspora that lives in Northern Iran. According to different sources, from 20 to 30 of ethnic Azeri live in Iran (Azerbaijan has 9 m of inhabitants). On the one hand, Iran is afraid of the rhetoric of "Great Azerbaijan" from the side of Baku that could stimulate separatist trends inside Iran. In fact, the idea of restoring of "Great Azerbaijan" was quite popular in the early 1990s¹⁹. Moreover, in February 2012 several of Azerbaijan's parliamentarians made the proposal to rename the country to „Northern Azerbaijan" in order to emphasize that a large part of Azeri live in South (contemporary Iran)²⁰. On the other hand, Baku is highly interested in Teheran not worsening the living conditions for ethnic Azeri. One of the fields of cooperation between Azerbaijan and Iran is supplying Iranian energy resources for Azerbaijan's exclave – Nakhichevan Autonomous Republic.

The relations between Russia and Azerbaijan also fit into the framework of regional rivalization. Russia's strategy of "divide and rule" and a difference-based Moscow policy towards the South Caucasus also adds to the high sensitivity of bilateral relations.

Firstly, the mutual cooperation between Baku and Moscow has been slowed by the fact that Russia supported Armenia during the war over Nagorno Karabakh in 1992-1994. The Russian army was fighting at Armenia's side, Moscow supplied Yerevan with weapons, food, and also provided financial assistance. Moreover, Yerevan remains Moscow's strategic partner in the South Caucasus.

Secondly, Moscow still views the relations with Azerbaijan through the

¹⁹ Ergun, „International Challenges and Domestic Preferences in the Post-Soviet Political Transition of Azerbaijan", in. Aminah M. P, Houweling H. (eds.), *Central Eurasia in Global Politics: Conflict, Security and Development*, 2nd ed, Boston: Brill, 2005, p. 334.

²⁰ Paul Goble, *Azerbaijan Republic Should Be Renamed Northern Azerbaijan*, *Milli Majlis Deputies Say*, Azerbaijan in the World. An Electronic Publication of Azerbaijan Diplomatic Academy, Vol V No 4, 15 February 2012.

lenses of imperial memory; at the same time Baku does not agree with the status of the object of Russia's exceptional interests. For Moscow it is still difficult to bear the fact that it has only a few points of leverage for influencing Baku's policies. One of the sound examples of such a trend is the case of the Gabala radar station in Azerbaijan. Moscow has been renting the radar station in Azerbaijan, and the agreement runs out in 2012. Despite Russia's efforts to maintain its presence in Azerbaijan's radar station, Baku seems decided on not prolonging the agreement.

Thirdly, Moscow finds it difficult to accept the fact that Baku is an active and enthusiastic participant in large scale regional energy supply projects that bypass Russia²¹. Russia seeks to control the routes of energy transportation so that the pipelines would run through its territory. In this light one of the most powerful leverages of Moscow regarding Azerbaijan – the issue of the legal status of Caspian Sea. Regarding this issue, Russia supports the rigid position of Iran, which “freezes” the development of the energy projects in the Caspian basin, serves as an obstacle for trans-Caspian cooperation and slows the development of the alternative energy transportation routes towards the EU.

2.3. Azerbaijan's Security Strategy

In this research the security strategy is defined as the complexity of state's long-term political choices in the field of foreign and security policy that are fixed in strategic documents and are constantly observed in the political practice. It is important to mention that the security strategy is composed of two categories – the guarantees and the aspirations in the fields of state's foreign and security policy.

If the principles of the state's security policy are not fixed in the strategic documents (for example, such documents are not adopted), then monitoring of the political practice is usually used. Nevertheless one of the functions of the strategic documents in the field of foreign and security policy is to help maintain the continuity of the foreign and security policy directions, especially during the rotation of the political elites. Another core function of the strategic documents is to inform the international community about state's intentions regarding the foreign and security policy.

The main principles of the security strategy of Azerbaijan are fixed in The

²¹ Falkowski M, *Russia's Policy in the Southern Caucasus and the Central Asia*, Centre for Eastern Studies, Warsaw, June 2006, p. 75.

Concept of National Security adopted in 2007²². The main threats for Azerbaijan's security that are named in the document are as follows²³:

- attempts against the independence, sovereignty, territorial integrity and constitutional order of the Republic of Azerbaijan;
- actions undermining the ability of the State to ensure the rule of law, maintenance of public order and the protection of human rights and fundamental freedoms;
- separatism, ethnic, political and religious extremism (this threat includes the existence of territories occupied by Armenia that Azerbaijan is not controlling);
- terrorism and proliferation of weapons of mass destruction;
- regional conflicts and transnational organized crime;
- actions against energy infrastructure of the Republic of Azerbaijan (defining this threat, the big attention is paid to the importance of the income from the trade and transportation of energy resources²⁴, but the importance of the status of Azerbaijan as stable and reliable partner in energy field in international arena is ignored);
- external political, military or economic dependence (dependence on external forces is defined as a threat – it explains why Azerbaijan chose neutral security strategy);
- economic destabilization (the threat of overdependence from oil and gas is emphasized);
- inadequate professional human resources;
- regional militarization (it is stressed that disproportionate accumulation of weapons and the existence of foreign military bases in the country is a threat to regional security. It is paradoxical but in several past years Azerbaijan has been the state that had the fastest scope of militarization in the region nevertheless it has no foreign military bases in its territory);
- environmental challenges.

Experts say that Azerbaijan's Concept of National Security is a very loose document that is very close to a sampler documents of this type. Before the adoption of the Concept of National Security, Baku faced accusations by the international

²² National Security Concept of the Republic of Azerbaijan, approved by the instruction No. 2198 of the President of the Republic of Azerbaijan on 23 May 2007, <http://merln.ndu.edu/whitepapers/Azerbaijan2007.pdf>, 17 08 2011.

²³ Ibidem (note 22), p. 5.

²⁴ Ibidem (note 22), p. 6.

community that the country protracted the adoption of the main security policy document on purpose, avoiding disclosing its priorities in the field of foreign and security policy. Having in mind the loose content of the adopted Concept of National Security, it could be said that Baku has successfully avoided the need for clear-cut choices even after adoption of the document. Thus the Concept of National Security discloses several special features of Azerbaijan's security strategy.

The first group of threats includes the attempts against independence, sovereignty, territorial integrity and the constitutional order of the Republic of Azerbaijan (this threat opens the list of threats and is set as the threat of highest priority), the threat of separatism. It is interesting that the list of threats includes the threats the source of which is Azerbaijan itself (the threat of regional militarization).

The second group of threats that included separatism, ethnic, political and religious extremism, terrorism and proliferation of weapons of mass destruction, actions against energy infrastructure of the Republic of Azerbaijan, indicates Azerbaijan's attempt to be stable and reliable partner in the international community.

Finally, in Azerbaijan's Concept of National Security a lot of attention for the maintenance of Azerbaijan's independence from external forces and self-sufficiency in the international arena is paid. The emphasis on the threat of political or economic dependence on external forces allows us to make an assumption that Azerbaijan chooses neutral security strategy nevertheless the word "neutrality" is not directly mentioned in the document.

Azerbaijan's efforts to remain outside the epicentre of intersection of different geopolitical forces are better felt in the political practice that is reflected in the Concept of National Security. Azerbaijan has neither any external security guarantees (Armenia has security guarantees provided by Russia) nor aspirations for receiving them in the future (Georgia is aspiring for NATO membership). Azerbaijan's participation in IPAP with NATO is more the result of NATO's regional approach in South Caucasus, and not the result of the efforts from the side of Baku²⁵. Moreover, Baku openly declares that it is not interested in the membership in the Alliance but rather views the cooperation with NATO as an opportunity to modernize its military forces.²⁶ In addition, for Baku cooperation with the Alliance helps to form positive image of the country in the international arena and the international prestige is a viable source for enhancing structural power of the state.

²⁵ Grigoryan S., "The future of Southern Caucasus in the light of new geopolitical reconfiguration". *Lithuanian Foreign Policy Review*, No. 20, 2008, p. 102-111, p. 104.

²⁶ Iš pokalbio su Azerbaidžano karinių pajėgų atstovu plk. Vugar Asgarov tarptautinio seminario "Enlargement experience course: Lithuania's experience of integration into transatlantic community". Political science department, Military Academy of Lithuania, Vilnius, 2007 05 18

In mid-2010, three years after the adoption of the Concept of National Security, Azerbaijan adopted the Military doctrine²⁷. Two ideas dominate the document – Azerbaijan’s neutrality and the problem of the unresolved conflict over Nagorno Karabakh. Experts say that the Military Doctrine of the Azerbaijan could be understood as a warning to the international community that, if no viable measures for rapid peaceful resolution of Nagorno Karabakh conflict will be found in the meantime, Azerbaijan could consider a military solution of the conflict.

One of the main reasons why Azerbaijan, the country that encounters the threat for its territorial integrity, has chosen a neutral security strategy is its willingness to develop its energy policy in all directions possible. Streaming to maximize the possibilities provided by the existence of vast oil and gas deposits, Azerbaijan is forced into a permanent balance between two major geopolitical powers – Russia and the West.

3. The Conflict over Nagorno Karabakh as the Core Threat for Azerbaijan’s Security

The conflict over Nagorno Karabakh between Armenia and Azerbaijan could be described as the major source of tensions in the region of South Caucasus. The conflict of Nagorno Karabakh is the reason for the existence of the rigid and inflexible regional division of “friends” and “enemies”.

The protracted frozen conflict over Nagorno Karabakh serves as a threat of the highest intensity for Azerbaijan - a threat to its territorial integrity. The situation is even more complicated by the fact that Armenia and Azerbaijan have failed to find a “positive sum” solution for this situation.

In this chapter internal (processes among conflicting Armenia and Azerbaijan) and external (direct and indirect involvement of the international community in the process of resolution of the conflict) aspects of the frozen Nagorno Karabakh conflict are analyzed.

3.1. The Conflict over Nagorno Karabakh – the Evolution and Specifics

The conflict over Nagorno Karabakh was “programmed” at the beginning of formation of the Soviet Union already. In 1921 it was decided that the region

²⁷ RFE/RL, *Azerbaijan Adopts Military Doctrine At Long Last*, 9 June 2010.

with the majority of Armenian inhabitants and complicated history would be attached to the Azerbaijan Soviet Socialist Republic. The attachment of the ethnically disputed region to the state was a typical Soviet practice based on the “divide and rule” principle that was supposed to deter states from leaving the Soviet Union.

In 1998 the representatives of the Armenian community of the Nagorno Karabakh Autonomous Region decided to approach Armenian SSSR and Azerbaijan SSR with the request to let Nagorno Karabakh autonomous Region join the Armenian SSR. At this time the first signs of ethnic tension in the region were observed. On the 1st of December 1989 the supreme Council of the Armenian SSR adopted the decision regarding the attribution of the Nagorno Karabakh Autonomous Region to Armenian SSR. Nevertheless, the Supreme Council of the USSR rejected this move by the Armenian SSR since the agreement of the Azerbaijan SSR was not received²⁸.

Azerbaijan proclaimed its independence on August 30, 1991, with no territorial claims from the Armenian side. Nevertheless, ethnic tension in the Nagorno Karabakh was further escalated. Military actions in the territory of Azerbaijan began early in 1992 and lasted until May 1994, when a cease-fire agreement between Armenia and Azerbaijan was signed. This agreement is still in force. From May 1994 the conflict of Nagorno Karabakh can be considered as “frozen”.

Military forces of Armenia, receiving direct assistance from the Soviet Union (and later – Russia’s) military forces and indirect assistance from Iran, managed to overtake the control not only of the disputed Nagorno Karabakh, but also of other seven Azerbaijan’s regions that form a cordon among Nagorno Karabakh. Presently Azerbaijan fails to control about one-fifth of its territory.²⁹

The war over Nagorno Karabakh resulted in the loss of 22-25 thousand people³⁰. About 17 thousand Azeri became refugees, and about 660 thousand of Azeri became internally displaced persons (IDPs)³¹. From the Armenian side, 18 thousand Armenians became refugees, and 8 thousand became IDPs³². After the end of the military actions in Nagorno Karabakh, Azerbaijan has the highest

²⁸ Avakyan S., *Nagorno-Karabakh Legal Aspects*, French University of Armenia, 2005, p. 9.

²⁹ Ministry of Foreign Affairs of the Republic of Azerbaijan, Map „The Results of Armenin Aggression“, http://mfa.gov.az/images/stories/ermenistan_tecavuzu.jpg, 25 10 2011.

³⁰ International Crisis Group, *Armenia and Azerbaijan: Preventing War*, Policy Briefing, European Briefing No. 60, 8 February 2011, p. 2.

³¹ Internal Displacement Monitoring Centre, Azerbaijan, [http://www.internal-displacement.org/8025708F004CE90B/\(httpCountries\)/2E505E95ABC577FA802570A7004C6378?OpenDocument](http://www.internal-displacement.org/8025708F004CE90B/(httpCountries)/2E505E95ABC577FA802570A7004C6378?OpenDocument), 20 07 2011.

³² Internal Displacement Monitoring Centre, Armenia, [http://www.internal-displacement.org/8025708F004CE90B/\(httpCountries\)/BDE4E7B8F3758AE6802570A7004C38A1?OpenDocument](http://www.internal-displacement.org/8025708F004CE90B/(httpCountries)/BDE4E7B8F3758AE6802570A7004C38A1?OpenDocument), 20 07 2011.

share of refugees and IDPs (about 10 percent of total population) in the world³³. Azerbaijan's state committee for the affairs of the refugees and IDPs provided calculations that due to the conflict of Nagorno Karabakh since the beginning of military actions Azerbaijan has experienced the damage of the amount of 87 bn US dollars³⁴.

Presently the situation at the contact line is far from calm – the cross-fire from both conflicting sides causes about 25-30 troop deaths annually³⁵. Moreover, Baku is constantly rejecting the demands of the international community to redraw its snipers.

As a result of the frozen conflict, Nagorno Karabakh is functioning as de facto state. During a referendum held in 1991 the local population of the Nagorno Karabakh voted for the full independence of the region although still not a single state has officially recognized Nagorno Karabakh. Armenia periodically uses the leverage of the possible recognition of Nagorno Karabakh in order to blackmail Azerbaijan and to press international community³⁶.

It is worth noting that the conflict over Nagorno Karabakh is specific in the overall context of the frozen conflicts in post-soviet space. First and foremost, the conflict is the only frozen inter-state conflict (the others are intra-state ones). Second, Russia is involved in this conflict indirectly – through the participation in OSCE Minsk Group and overall support to Armenia. Third, no peacekeeping forces are dislocated in the region. Russia seeks its peacekeepers under the mandate of OSCE to be dislocated in the conflict zone, at the same time Azerbaijan does not support such an idea. Azerbaijan first of all sees no necessity for peacekeeping forces in Nagorno Karabakh, but if such a decision would have to be taken, Baku supports the dislocation of neutral (not dominated by Russia) multinational peacekeeping forces. Moreover, Azerbaijan is an active participant of GUAM – an international organisation established by Georgia, Azerbaijan, Ukraine and Moldova (GUAM is claimed to be anti-Russian block). Baku supports the formation of peacekeeping forces within GUAM that would primarily be used in the zones of frozen conflicts in the organization's members (Azerbaijan, Georgia, Moldova), but also could be used in wider international context.

Finally, the behaviour of unrecognized Nagorno Karabakh seems to be different from the way of action of other unrecognized entities within the post-soviet space (Abkhazia, South Ossetia and Transnistria). Nagorno Karabakh rejected

³³ Socor V., „US-Azerbaijan Partnership: What It Has Delivered and Where It Faltered“ (note 10), p. 12.

³⁴ RFE/RL, *Azerbaijan Evaluates Costs of Nagorno-Karabakh War*, 18 June 2010.

³⁵ International Crisis Group, *Conflict Resolution in the South Caucasus: the EU's Role* (note 16), p. 3.

³⁶ Asbarez., *Armenia will Recognize Karabakh if Azerbaijan Resorts to Aggression, Says Sarkisian*, 2 December 2010.

the offer to join the Community for Democracy and Human Rights, established in 2006 in Sukhumi that unites the de facto republics of the post-soviet space³⁷. Moreover, Nagorno Karabakh avoids any kind of affiliation with these entities.

3.2. Positions of Armenia and Azerbaijan Regarding the Frozen Conflict

The scope of interference of outside forces (Russia) in the frozen conflict over Nagorno Karabakh is smaller in comparison to other frozen conflicts in the post-soviet space; never the less the process of the resolution of Nagorno Karabakh conflict is highly complicated.

The first obstacle to progress in the process of conflict resolution is the opposite positions of Armenia and Azerbaijan, which lack any point of accord. In the process of peaceful resolution of Nagorno Karabakh conflict, Armenia points at the principle of peoples' right to self-determination and calls for settling the status of the disputed region via referendum. In the aftermath Armenia claims to be ready to redraw its military forces from the occupied territories of Azerbaijan. At the same time Azerbaijan does not reject the idea of a referendum, although it could be held only after Armenia withdraws its military forces from the territory of Azerbaijan and all refugees and displaced persons that left their homes during the war are returned to the occupied territories. Until the breakthrough of hostilities in Nagorno Karabakh, 21.5 per cent of local inhabitants were Azeri. Moreover, Azerbaijan would agree only with the status of Nagorno Karabakh that is in line with the principle of the territorial integrity of Azerbaijan. Accordingly, the greatest amount of freedom for the disputed region that Azerbaijan would agree with is vast autonomy.

The second obstacle in the process of searching for a compromise regarding the problem of Nagorno Karabakh is the high level of sensitivity of both societies regarding the question of Nagorno Karabakh. Both Armenian and Azerbaijani societies are much more radical regarding the Nagorno Karabakh than the political elites of the responding countries and the slightest compromise in the front of the conflict is being viewed as the betrayal of the national interests. Because of this the politicians are trying to overcome the threat of becoming unpopular and to be voted out of the political scene by committing to rigid positions regarding Nagorno Karabakh. "Windows of opportunity" – the periods when huge political

³⁷ Kapitonenko M., „Resolving Post-Soviet „Frozen Conflicts“, *Per Concordiam, Journal of European Security and Defence Issues*, Vol 1, No. 2, June 2010, p. 36.

events (elections, referendums) are taking place neither in Armenia nor in Azerbaijan – are a rare phenomenon that adds only a few to the speed of the resolution of the frozen conflict since the way to the compromise is a long process based on mutual concessions.

Finally, Azerbaijan holds no direct dialogue with Nagorno Karabakh itself³⁸ - the zone of frozen conflict was excluded from the table of the negotiation by the initiative of Baku in 1998 and since then has not been returned to. In the negotiations the interests of Nagorno Karabakh are being represented by Armenia. On the one hand, the seat for unrecognized entity at the table of negotiations could provoke the problem of “permanent brake” (as in the case of Transnistria). On the other hand, if the solution found on the peaceful regulation of Nagorno Karabakh conflict will not satisfy the region itself, this would leave the threat of separatism open even after the final agreement by Armenia and Azerbaijan will be negotiated.

So for nearly two decades both conflicting sides have stuck to their rigid positions, which have absolutely no common touching points. The main reason why they are not moving towards a compromise is that Azerbaijan refuses to compromise on its territorial integrity; and, at the same time Armenia is satisfied with the *status quo* situation. The current balance over Nagorno Karabakh is on Armenia’s side. Firstly, the frozen conflict is not in the territory of Armenia, so in the case of breakthrough of military actions the war would be fought on the Azerbaijan’s soil. Second, the unresolved conflict over Nagorno Karabakh serves as one of the strongest leverages of Armenia in the international community and helps to maintain the appropriate level of international attention for the country.

Azerbaijan has repeatedly announced its readiness to use military force for the resolution of the conflict over Nagorno Karabakh if Armenia does not stop the simulation of the negotiations. In other words, if the negotiations remain fruitless, Azerbaijan does not exclude the option to leave the table of negotiations and to use military force for the resolution of multi-decade conflict³⁹.

The dynamics of Azerbaijan’s military budget serves as a justification of bellicose statements by Baku. In late 2003, former president of Azerbaijan Heydar Aliyev was replaced by his son Ilham Aliyev who has stricter approach regarding the resolution of the conflict over Nagorno Karabakh⁴⁰. From 2004 a sharp increase in the military spendings of Azerbaijan can be observed – in 2003 Azerbaijan’s annual military budget amounted to 135 m US dollars, although in 2011 military spendings jeopardized to the level of 3,12 bn US dollars resulting in the increase

³⁸ German T., (note 9), p. 2.

³⁹ International Crisis Group, *Conflict Resolution in the South Caucasus: the EU’s Role* (note 16), p. 8.

⁴⁰ German T. (note 9), p. 3

over 23 times. In 2011 the military budget of Azerbaijan consisted 20 per cent of country's GNP⁴¹. Moreover, in 2005 Azerbaijan established two new power ministries – Military Industry Ministry⁴² and Ministry of Emergency Situation⁴³.

In the context of the fast growing military potential of Azerbaijan, the military spendings in Armenia have also tended to increase. Thus the potential of Yerevan to accumulate military power is much more limited in comparison to Baku, so the enhancement of Armenia's military power could be considered as the tactical move in order to resist the pressure from the side of Azerbaijan.

Evaluating the attitude and the behaviour of both conflicting sides, it can be observed that Armenia fills the gap of minor military potential by external security guarantees from Russia.

At the strategic level the guarantee of Armenia's security is the country's membership in the Russia-led Collective Security Treaty Organization (CSTO). The Collective Security Treaty includes the provision of collective security that the attack against one of the members of the organisation is considered as an attack against all members⁴⁴. Nevertheless Nagorno Karabakh and other Azerbaijani regions controlled by Armenia are not in the territory of Armenia. And taking into consideration the precedent of Russia's actions against Georgia in August 2008, Moscow's actions in the context of a possible war between Armenia and Azerbaijan can be unpredictable. This unpredictability is strengthened by the insight that Moscow is interested to maintain the problem of Nagorno Karabakh which serves as a leverage for permanent interference in the region of South Caucasus, especially in order to influence the policy of Azerbaijan. Moreover, Russia's military forces have quite strong positions in Armenia. The 102nd Russian military base is dislocated nearby Gyumri, near the border with Turkey and Russian troops are participating in the in the Armenian-Turkish border guard activities. The term of the presence of this base was extended in 2010 until 2049 in interchange of Russia's direct security guarantees for Armenia⁴⁵.

As previously mentioned, Azerbaijan has chosen a neutral security strategy so the country has no external security guarantees and does not demonstrate any aspirations in receiving ones in the short-medium term. In the case of military conflict with Armenia over Nagorno Karabakh, Azerbaijan could expect the support from its strategic partner Turkey; although Turkey is a member of NATO, its possibilities of unilateral direct support for Azerbaijan are very limited.

⁴¹ Jarosiewicz A., Strachota K., „Nagorno-Karabakh – Conflict Unfreezing“, OSW Commentary, p. 3.

⁴² Regnum, *Создано Министерство оборонной промышленности Азербайджана*, 16 December 2005.

⁴³ Regnum, *В Азербайджане создано Министерство чрезвычайных ситуаций*, 16 December 2005..

⁴⁴ Договор о коллективной безопасности, <http://www.dkb.gov.ru/b/azb.htm>, 26 11 2011.

⁴⁵ Express.am, *Russia Gave Guarantees to Armenia After Clinton's Visit: Ariel Cohen*, 11 August 2010.

In this context, the “classical” deterrence strategy applied by Azerbaijan has been overcome by Armenia’s external security guarantees. In other words, in the framework of frozen conflict over Nagorno Karabakh Azerbaijan, it seems it is not Armenia that is deterred – Armenia occupied and controls a huge part of Azerbaijan’s territory. Moreover, the external security guarantees enjoyed by Armenia stop Azerbaijan from a military resolution of the Nagorno Karabakh conflict. Azerbaijan recognizes that in case of the renewal of military actions in Nagorno Karabakh it would have to fight with Russia, not with Armenia, as it was two decades ago. In this case the war over Nagorno Karabakh would lead not only into one more defeat of Azerbaijan, but also to the interruption in the energy policy. Interruption of the trading of oil and gas would be a huge hit for Azerbaijan’s economy, power accumulation and would make the country’s neutral security strategy meaningless.

In the presence of tensions over the contact line and arms race between the conflicting sides, the frozen conflict can be turned into a “hot” phase at any time. The fragility of the situation is jeopardized by the drastical increase of Azerbaijan’s military budget. Baku believes that the enhancement of its military capabilities serves as a pressure tool for Armenia to turn to compromise, but in reality Yerevan responds to such a trend not by mitigating its position over the resolution of Nagorno Karabakh conflict but by efforts to align its military spendings in order to minimize the gap in comparison with Azerbaijan and in search for new external security guarantees. The external security guarantees enjoyed by Armenia stop Azerbaijan from a radical solution of the conflict situation but has no value added in the search for compromise. It could even be concluded that Russia’s security guarantees provided for Armenia are the factor that “freezes” the conflict over Nagorno Karabakh. Negotiations over a peaceful resolution of the conflict are stuck in the deadlock also due to ignorance from both Armenia and Azerbaijan of the demands of the international community to redraw the snipers from the contact line and to refrain from hostilities⁴⁶.

The frozen phase of the Nagorno Karabakh conflict hides the growing gap between Nagorno Karabakh and Azerbaijan and the growing dissatisfaction by the latter about what could overgrow to the readiness for unilateral means of actions in order to change the harmful *status quo* situation⁴⁷.

⁴⁶ RFE/RL, *US: Armenia, Azerbaijan „Must Pull Out Snipers“*, 19 March 2011.

⁴⁷ Kapitonenko M., (note 37), p. 36.

3.3. The Scope of Involvement of the International Community in the Peaceful Resolution of the Conflict over Nagorno Karabakh

The involvement of the international community in the process of regulation of the conflict of Nagorno Karabakh, as well as in the resolution of other frozen conflicts in the post-soviet space, has been and remains of a limited character.

The only international organization to be directly involved in the process of peaceful resolution of Nagorno Karabakh conflict is the Organisation for Security and Cooperation in Europe (OSCE). In 1992 the Minsk conference regarding the Nagorno Karabakh issue should have been held under the auspices of Conference for Security and Cooperation in Europe (contemporary OSCE). Nevertheless, the Minsk conference never took place, and the states that should have participated in the conference formed so-called OSCE Minsk group which took over the role of mediator between Armenia and Azerbaijan regarding the peaceful resolution of Nagorno Karabakh conflict. In 1994 it was decided to name three chairmen of the OSCE Minsk group – diplomats from the USA, Russia and France. Until 2008 all three states acted as mediators between Armenia and Azerbaijan, by the principle of rotation hosting the bilateral meetings of the presidents of Armenia and Azerbaijan. From mid-2008, after Dmitry Medvedev came to the post of the president of Russia, Moscow became a mediator for the highest level bilateral meetings between Armenia and Azerbaijan.

Regular direct meetings between two presidents of the conflicting sides have taken place from the end of 2003, when Ilham Aliyev became the president of Azerbaijan. Nevertheless, the progress achieved during these interactions is moderate since both countries remain committed to their rigid positions.

Since 2005 Armenia and Azerbaijan were negotiating on the principles for further negotiations on the peaceful resolution of Nagorno Karabakh conflict. The result of these negotiations were named the Madrid principles under the OSCE meeting in Madrid in 2007. The Madrid principles include three main ideas: abstain from the use of force, respect for the principle of territorial integrity and the acceptance of the right of self-determination⁴⁸. Despite the fact that both Armenia and Azerbaijan have formally accepted Madrid principles, the disagreements over the area persist.

Moreover, it is important to emphasize that it was agreed to keep the course of negotiations as well as the progress reached behind closed doors. Due to

⁴⁸ International Crisis Group, *Nagorno-Karabakh: Getting to a Breakthrough*, Policy Briefing, European Briefing No. 55, 7 October 2009, p. 5.

the high level of sensitivity of this issue in both societies, it was decided to make public only the final set of conflict regulation measures on which both Armenia and Azerbaijan has agreed.⁴⁹ Negotiations over Nagorno Karabakh are grounded on the principle that nothing is agreed until everything is agreed.

The international community supports Azerbaijan's territorial integrity. In 1993 four resolutions calling Armenia to cancel the occupation of Azerbaijan's territory were adopted by the United Nations. In these resolutions Nagorno Karabakh is recognized as an integral part of Azerbaijan⁵⁰.

Thus despite the wide support for Azerbaijan's territorial integrity, the Armenian position regarding Nagorno Karabakh has not encountered any stronger opposition in the international arena. It can be concluded that Armenia's efforts to persuade the international community with its own version of the conflict over Nagorno Karabakh was successful. According to Yerevan, Nagorno Karabakh is a historical region of Armenia populated by the people of Armenian ethnicity. The roots of the conflict, according to Armenian version, lies in the mistreatment of ethnic Armenians in Nagorno Karabakh by Baku and the refusal by Azerbaijan to grant the local inhabitants the right to self-determination. One curious moment is that only Nagorno Karabakh receives the attention of the international community; yet at the same time the fact that the Armenian military forcefully occupied and holds under control seven more districts of Azerbaijan that have no relation to Armenian population, is not widely escalated and does not cause proper reaction of the international community. The conclusion could be made that the international support for Azerbaijan's territorial integrity is a part of the "general formula", thus Armenia managed to spread its own version of the conflict in the international community. This paradox shows that specific structural power at the disposal of Armenia is bigger than the one of Azerbaijan.

The process of the negotiations regarding the Nagorno Karabakh conflict emphasizes the core weakness of Azerbaijan – a weak ability to accumulate specific structural power (particular problem connected structural power). Nevertheless Azerbaijan has greater power as well as stronger international positions in comparison with Armenia, Yerevan managed to embed and maintain its own version regarding the conflict over Nagorno Karabakh in the international community. This paradox is even more complicated by the permanent demonstration of its militaristic tone by Azerbaijan – starting from the thesis of Military Doctrine,

⁴⁹ *Ibidem* (note 48), p. 7.

⁵⁰ Blandy C. W. „Azerbaijan: is war on Nagorny Karabakh a realistic option?“ Defence Academy of the United Kingdom, May 2008, p.4.

bellicose statements of the highest state officials and ending with jeopardisation of state's military budget. The military rhetoric only makes Baku an aggressor in the eyes of international community and indirectly facilitates the way for Armenian version of the conflict to further strengthen its positions. It is impossible that Azerbaijan could start military actions regarding Nagorno Karabakh and skip sharp international reaction. If Baku chooses the military solution for the problem of the Nagorno Karabakh, it risks losing all the capital of its international cooperation.

4. Energy Policy – The Main Source of Power for Azerbaijan

Energy policy as the main source for the enhancement of both relational and structural power of Azerbaijan became a priority when several factors simultaneously came to light. These factors were: the readiness by Azerbaijan to explore its vast resources of oil and gas, the efforts by Baku to play significant role in international energy policy and the demand of alternative energy transportation routes from the side of the USA and the EU in order to diminish the dependence on non-stable energy suppliers.

The unique combination of physical potential, aspirations and high interest of the international community created favourable conditions for Azerbaijan to become one of the key players in the regional schemes of oil and gas supplies routes from the Caspian basin towards the West. Although the development of Azerbaijan's energy policy during the past decade has gained the speed of geometrical progression, it is worth mentioning that still several obstacles in international arena still persist that can slowen the development of Azerbaijan's energy policy. In the case of realization of the negative scenario, Azerbaijan would not only encounter serious domestic problems but would also lose the main leverage in its foreign policy.

4.1. The Development of the Energy Sector: A Success Story From Baku

In 1993 Heydar Aliyev, former long-standing first secretary of the Central committee of Azerbaijan SSR Communist Party, became the president of Azerbaijan. H. Aliyev clearly recognized the direct connection between the development of energy sector and overall progress and international position of the country. So, under the initiative of Aliyev Azerbaijan oil and gas sector was opened for foreign

investors what brought foreign investments to Azerbaijan's energy sector - the factor that helped to shape the fundamentals for modern energy sector.

During the last decade of the twentieth century the most important international agreements between Azerbaijan and foreign companies were signed concerning the exploitation of Azerbaijan's oil and gas fields. In 1994 Millennium Contract that foresees the exploitation of Azeri-Chirag-Guneshli oil and gas field was signed. Such energy giants as BP, Amoco, Statoil, Exxon and others were signatory parties of the Millennium Contract. The agreement regarding the exploitation of Karabakh field was signed in 1995, the deal regarding the exploitation of Shakhdeniz field was inked in 1996, and in 1997 the deal on Lenkoran-Deniz field was concluded⁵¹. The State Oil Company of the Azerbaijan Republic (SOCAR) has been participating from the side of Azerbaijan in exploitation of the aforementioned fields.

Presently Azerbaijan's inspected oil deposits amount to 7 bn. barrels⁵², inspected gas deposits – 849,5 bn cubic meters of natural gas⁵³. Annual oil production is esteemed to be over 50 m tones (in 2010 – 50,8 m tonnes, in 2009 – 50,4 m tonnes)⁵⁴, gas production in 2010 amounted to 26,3 bn cubic meters, in 2009 – 23,6 bn cubic meters⁵⁵. Azerbaijan is exporting its oil and gas to Russia, Georgia, Iran, Turkey. In 2005 the oil pipeline Baku-Tbilisi-Ceyhan (BTC) was put into operation. Annual capacity of the BTC pipeline is 50 m tonnes (1 m barrels daily). Since 2006 gas pipeline Baku-Tbilisi-Erzurum (BTE) with the annual capacity of 20 bn cubic meters of gas is operating. Oil pipelines Baku-Novorossiysk, Baku-Poti and Baku-Supsa are also operating.

Since the beginning of twenty-first century, when the USA and the EU began to search for alternative energy transportation routes, Azerbaijan encountered even wider opportunities to realize its energy potential. The EU formulated the ambitious plan of the "Southern Corridor" for gas transportation. The "Southern Corridor" should be a set of four gas pipelines – Nabucco, which should bring the Caspian gas and transport them via Turkey, Bulgaria, Romania, Hungary and Austria to the final consumers in the EU; "White Stream" that would bring the

⁵¹ Blandy C. W., *The Caucasus Region and Caspian Basin: Change, Complication and Challenge*, <https://da.mod.uk/colleges/arag/document-listings/caucasus/S36.pdf>, p. 3-5.

⁵² Central Intelligence Agency, *The World Factbook*, <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2178rank.html>, 15 12 2011.

⁵³ Central Intelligence Agency, *The World Factbook*, <https://www.cia.gov/library/publications/the-world-factbook/geos/aj.html>, 15 12 2011.

⁵⁴ SOCAR, <http://new.socar.az/socar/en/economics-and-statistics/economics-and-statistics/oil-production>, 17 12 2011.

⁵⁵ SOCAR, <http://new.socar.az/socar/en/economics-and-statistics/economics-and-statistics/gas-production>, 17 12 2011.

gas of Azerbaijan via Georgia, through the bottom of the Black Sea to Ukraine and Romania; Turkey-Greece-Italy (TGI) interconnector of 8 bn cubic meter annual capacity that would be connected to BTE gas pipeline; and Trans-Adriatic pipeline (TAP) that would bring 10 bn cubic meters of gas annually from Greece via Albania, Adriatic Sea to Italy.

Nabucco is the most important project of the “Southern Corridor”. The gas pipeline is planned to set into operation in 2017 (the project end term has already been postponed for several times from the initial schedule). The capacity of Nabucco at the initial stage would amount to 8 bn cubic meters of natural gas, at the final stage the capacity should be increased to 31 bn cubic meters of natural gas annually.

Moreover, Azerbaijan, Georgia and Romania had contracted the deal on the gas pipeline AGRI (*Azerbaijan-Georgia-Romania International*). According to the project the gas of Azerbaijan should reach Poti port in Georgia where it should be liquefied and would reach Romania by tankers. In Romania LNG would be transformed back into natural gas and would reach consumers in the EU. AGRI gas transportation line is planned for the annual capacity of 6-8 bn cubic meters of natural gas and is expected to start operating in 2014.

Azerbaijan’s attractiveness for huge scale regional energy projects in the first place is decided by the favourable geostrategic position that allows the transportation of Caspian oil and gas bypassing both Russia and Iran.

Another strength of Azerbaijan regarding energy cooperation is that the country’s energy sector is not politicised. At the beginning of active external energy policy Azerbaijan’s neutrality played its role and allowed to develop energy cooperation in new directions (for example, Western direction).

Moreover, willingness to support Western energy transportation projects demonstrated by Baku also brings some dividends for Azerbaijan. The permanent demonstration of support for Western energy needs is a big challenge for Azerbaijan because the implementation of these initiatives after remains protracted and stuck in inner discussions. In case of realization of pessimistic scenario, in the medium-long term Azerbaijan could face the situation that the country would have more hydrocarbonates produced than possibilities for their realization in the international markets. Willingness by Russia and Iran to increase the amount of purchase of Azerbaijan hydrocarbonates serves as an additional challenge for Baku. Thus presently, despite the existing challenges, the support of Azerbaijan for EU-oriented energy transportation routes is the most stable in all the supply and transit chain.

And finally, the status of Azerbaijan as the supplier of energy resources was

strengthened by the successful implementation of the oil pipeline BTC and gas pipeline BTE. The smooth functioning of these pipelines proved Azerbaijan to be reliable partner in the energy sector and confirmed that alternative oil and gas transportation routes are much more than theoretical option.

Azerbaijan views its energy policy as the main source for enhancing its independence from external forces.⁵⁶ In this light, strong energy policy is the main assumption for country's neutral security strategy. At the same time neutrality provides Azerbaijan with wider opportunities to develop energy cooperation in all directions possible. Moreover, Azerbaijan's passive stance in foreign policy caused by neutrality is partly compensated by active energy policy. In this context, energy policy for Baku serves as a substitute for foreign policy.

The energy sector serves as the main source of the growth of both relational and structural power of Azerbaijan. Oil and gas account for about 90 percent of Azerbaijan exports, energy sector is the main attractor of foreign investments in Azerbaijan. Successful experience of the implementation of large scale region pipelines and the number of new projects marks the growth of Azerbaijan's structural power.

Still, the energy sector being the only engine of the development of the country raises the threat of "Dutch disease" – the phenomenon when the industry sector of the hydrocarbonates exporting states is less competitive due to the currency fluctuations. Moreover, Azerbaijan's economic welfare directly depends from the unstable factor of the prices of oil and gas in the international market. At the same time sectors that are generating more stable value added are underdeveloped. The need for Azerbaijan to develop non-hydrocarbonates sectors is emphasized in the report of International monetary Fund (IMF). According to IMF, in 2011 oil and gas sector generated less profit than expected due to what the government of Azerbaijan receives less income. Similar tendencies should be maintained for several forthcoming years, so economic diversification and increased attention for the development of non-hydrocarbonates sectors should be the priority for the authorities of Azerbaijan in the short term.⁵⁷

⁵⁶ Alieva L, "Delivering Oil to the Countries of the Black Sea and Baltic Sea Regions: Interests and Possibilities for Azerbaijan", Building Energy Security: Cooperation among the Baltic, Black and Caspian Sea regions. International conference, 5 December 2006, Vilnius, Lithuania, Centre for Strategic Studies, 2007, p. 79-80.

⁵⁷ International Monetary Fund, Republic of Azerbaijan- Concluding Statement of the 2011 Article IV Consultation Mission, Baku, October 30, 2011, <http://www.imf.org/external/np/ms/2011/103011.htm>, 12 11 2011.

4.2. External Obstacles for Azerbaijan's Pro-Western Energy Policy

Neutral security strategy enables Azerbaijan to trade hydrocarbonates (oil and gas) in all directions possible although the decisive impact for the growth of Azerbaijan's relational and structural power has particularly the development of energy policy westwards. It is interesting that after successful realization of the oil pipeline BTC and gas pipeline BTE such states as Russia and Iran began to view the opportunity to buy Azerbaijan's hydrocarbonates as more attractive than before.

Although Azerbaijan's pro-Western energy policy is marked with stories of success, the development of Baku's energy policy based on enhanced cooperation with the West could encounter with several external obstacles – the factor of unresolved legal status of Caspian Sea and the factor of sharp competition among regional energy projects.

4.2.1. Unresolved Legal Status of Caspian Sea

The problem of the legal status of the Caspian Sea is an underlying obstacle that can freeze the development and implementation of large-scale regional energy projects, bypassing Russia and Iran for an unlimited period.

The disagreements over the legal status of the Caspian Sea among five littoral states – Azerbaijan, Kazakhstan, Turkmenistan, Russia and Iran – erupted in the second half of 1990s when the states found the opportunity of exploring the oil and gas rich Caspian fields. Until present, Caspian basin countries fail to find an agreement on whether the Caspian Sea, which geographically is a lake, legally should be considered a sea or a lake. If the Caspian Sea legally would be considered a lake, all the resources would have to be divided equally among five littoral states (or in other proportion on which all five countries have agreed). If Caspian Sea would be decided to consider a sea, then a state would own only these resources that are in its territorial waters and in its Caspian sector⁵⁸. The only legal agreements concerning the division of Caspian resources were signed in 1921 and in 1940 between the USSR and Iran⁵⁹. According to the agreements, all the Caspian resources were divided equally between those two littoral states.

Azerbaijan and Kazakhstan are the states that have the biggest shares of

⁵⁸ Andianopoulos A., „The economics and politics of Caspian oil” in Hunter S. (ed.), *Strategic developments in Eurasia after 11 September*. London, Frank Cass, 2004, p. 84-85

⁵⁹ Blandy C. W., *The Caucasus Region and Caspian Basin: Change, Complication and Challenge* (note 51), p. 16.

Caspian hydrocarbonates in its national sectors – Kazakhstan manages 4,5 bn tons, Azerbaijan – 4 bn tons of hydrocarbonates⁶⁰. So Baku and Astana are deeply interested in the Caspian Sea being legally considered a sea. At the same time Iran, which has no hydrocarbonates in its national sector, calls for the Caspian Sea to be considered a lake. Turkmenistan still has no firm position regarding this question due to several reasons. Firstly, Turkmenistan has several unresolved issues with Azerbaijan and Iran over the right to disputed oil and gas fields. Secondly, Ashkhabad, which is rich of land gas and has a right to comparatively moderate amount of Caspian oil and gas - 1,5 bn tons of hydrocarbonates – is considering the option to use Caspian shore for the development of tourism.

Russia is playing a double card in this situation. On the one hand, Moscow signed bilateral agreements with Azerbaijan and Kazakhstan setting the limits over national sectors of the Caspian Sea. On the other hand, Russia is the main supporter of Iran in its rejection of any other status for Caspian Sea except the status of lake. The overall goal of Russia that has a right to 2 bn tons of Caspian hydrocarbonates in the Caspian basin is the control of transit routes of the hydrocarbonates, not the control of the deposits of oil and gas. Since the legal status of the Caspian Sea is not agreed upon, no wide-range trans-Caspian energy projects bypassing Russia can be accelerated.

For the successful realization of the Western-backed regional oil and gas transportation projects, it is necessary to extend the pipeline running through the bottom of the Caspian Sea and connecting Azerbaijan with Kazakhstan and Turkmenistan. This pipeline would guarantee the cheapest and the most efficient way for vast energy resources of Kazakhstan and Turkmenistan to reach final consumers in the EU. Nevertheless if Trans-Caspian pipeline would be constructed before the final agreement on the legal status of the Caspian sea is reached the investments laid into this project would be insecure because if the Caspian Sea legally would be considered a lake, the pipeline would become the common property of all five littoral states, and in the worst case scenario the pipeline could be demolished. In light of this the investors avoid these insecure investments, and at the same time transportation of hydrocarbonates form Kazakhstan and Turkmenistan by tankers is economically inexpedient.

The hydrocarbonates (especially gas) that are produced by Azerbaijan solely presently satisfies only existing demand. Although Baku promises to increase the production of oil and gas in the nearest future, the production of hydrocarbonates by Azerbaijan would hardly increase in such amount that could respond the growing demand in the EU. The successes of the implementation and operation

⁶⁰ *Ibidem*, p. 19

of pipelines carrying Caspian hydrocarbonates towards Europe depends directly from the participation of Kazakhstan and Turkmenistan in these projects.

4.2.2. Competition between the EU and Russia for the Implementation of New Energy Projects in the Region

Moscow employs all its efforts to block the development of EU-backed pipelines bypassing Russia. An alternative for the EU-backed Nabucco project, Russia has proposed the “South Stream” gas pipeline project. A gas pipeline with the initial annual capacity of 31 bn cubic meters that could be further enhanced to 63 bn cubic meters of natural gas is planned to be implemented by 2015. The route of “South Stream” should go from Russia via the bottom of the Black Sea and Bulgaria, from where the pipeline would be divided into two branches, one of which would run via Serbia and Hungary to Austria, the other one via Greece to Italy.

As we see, the routes of Nabucco and “South Stream” are almost identical, and the same can be said about the capacity. Accordingly it is hardly believable that both of them could be implemented simultaneously. So it is most likely that Caspian gas will be brought to Europe by the pipeline that will be the first to be implemented.

On the one hand, the main problem of Nabucco is that the suppliers of the gas are still unclear – due to unresolved legal status of the Caspian Sea and political indifference of the Central Asian states the participation of Kazakhstan and Turkmenistan in the project is not guaranteed. Moreover, disagreements between Azerbaijan and Turkey on the conditions of transportation of Azerbaijan gas via Turkey that have already taken place several times raise additional concerns over the success of Nabucco project. The fact that disagreements between Baku and Ankara over transit fees and amounts of transit gas erupts from the political tension over Turkish-Armenian reconciliation, not from the economic reasons, adds fragility to the overall environment of Nabucco. It is noticed by experts that the domination of national interests in the negotiations on regional energy projects is one of the biggest risk factor.⁶¹

On the other hand, transit states demonstrate an active support for the Nabucco project. In June 2011 five transit states – Turkey, Romania, Bulgaria, Hungary and Austria – and the Nabucco consortium signed a project support

⁶¹ Cornell Ph., „Turkey on the Energy Crossroads“, *Per Concordiam, Journal of European Security and Defence Issues*, Vol. 1 No. 1, March 2010, p. 31.

agreement⁶², in which transit countries committed to apply the most favourable legal regulation for the Nabucco pipeline construction works and not to diminish the conditions during the construction period. Two years earlier, in June 2009, the same five transit countries had signed intergovernmental agreement regarding the construction of Nabucco pipeline. In this agreement the political support of the transit countries for the project was officially expressed for the first time⁶³.

One more step from the side of Russia in order to win the “race” of the energy transportation towards the EU routes – to buy as much gas as possible from the potential gas suppliers for Nabucco in order to weaken overall gas supply capacity. Until 2007 Azerbaijan purchased Russian gas, but presently Russia has become a buyer of Azerbaijan gas. According to gas purchase agreement signed between Russia and Azerbaijan in mid-2009, Azerbaijan committed to sell Russia 500 m cubic meters of natural gas in 2010.⁶⁴ Thus in 2011 the amount of Azeri gas purchased by Russia increased four times and amounted to 2 bn cubic meters per annum⁶⁵. In 2012 Russia plans to purchase already 3 bn cubic meter of Azeri gas.⁶⁶ Moreover, in early 2011 Baku and Teheran inked five-year contract over the supply by Azerbaijan of the minimum of 1 bn cubic meters of gas per annum to Iran⁶⁷.

Presently the position of Azerbaijan in the context of competition between the EU and Russia is quite favourable – Baku’s importance for both competing sides is big, and the premises of this trend lie in the increase of Azerbaijan’s structural power. Thus, if gas transportation projects promoted by Russia will come before Russia-bypassing energy transportation routes, the importance of Azerbaijan both for the EU and for Russia would significantly decrease.

Conclusions

The frozen conflict of the Nagorno Karabakh and Azerbaijan’s aspirations in its energy policy have coexisted all the time and have influenced each other, although a particularly positive impact of this interaction has not been observed. The Millennium contract that is considered to be the beginning of the contem-

⁶² New Europe, *Nabucco Project Support Agreement Signed by Each Transit Country*, 12 June 2011.

⁶³ Balcer A., *Intergovernmental agreement on Nabucco case signed*, CEWEEKLY, Centre for Eastern Studies, Warsaw, 2009 07 15.

⁶⁴ Socor V., *Azerbaijan-Russia Gas Agreement: Implications for Nabucco Project*, Eurasia Daily Monitoring, Volume: 6, Issue: 189, The Jamestown Foundation, 15 October 2009.

⁶⁵ Ria Novosti, *Russia’s Gazprom Ready to buy all of Azerbaijan’s gas – CEO Miller*, 19 June 2010.

⁶⁶ Ria Novosti, *Russia Extends Gas Purchase Contract with Azerbaijan*, 23 January 2012.

⁶⁷ Bloomberg, *Azerbaijan Signs Gas Supply Contract with Iran Before EU visit*, 12 January 2011.

porary energy policy of Azerbaijan was signed in fall 1994 – just after Baku signed the cease-fire agreement with Armenia, freezing the conflict of Nagorno Karabakh. In mid-1990s Baku thought that the power enhanced by successful energy policy will facilitate the resolution of Nagorno Karabakh conflict.

As can be presently observed, despite the impressive developments in Azerbaijan's energy sector and various successes of Baku in international energy game, the negotiations over the peaceful resolution of the frozen conflict over Nagorno Karabakh have not brought desirable results yet. In contrast, the unresolved conflict over Nagorno Karabakh and interrupted Azerbaijan's control of nearly one-fifth of its territory serve as obstacles to further development of Baku's energy policy. Moreover, the regional tensions arising in connection with the frozen Nagorno Karabakh conflict bring additional concerns over Azerbaijan's stability and reliability – the qualities that are crucially important in the field of global energy policy.

Azerbaijan's lack of external security guarantees remain the core problem in the protracted process of the regulation of Nagorno Karabakh conflict. At the same time Armenia enjoys the external security guarantees since it became a member of the Russia-led CSTO. In addition, Moscow has pledged direct security guarantees for Yerevan in exchange for the extension of the term for the presence of Russian military base in the territory of Armenia. Classical strategies of deterrence do not work on Armenia, so the constant sharp increase in Azerbaijan's military spendings is not intentional in this situation. To the contrary, the enhancement of the military power by Azerbaijan not only fails to give any value added in the process of the resolution of Nagorno Karabakh conflict, but even serves as a destructive factor.

Firstly, the increase of military spendings, together with bellicose announcements of the highest Azerbaijan's officials shows Baku as an aggressor in the eyes of international community. The bellicose image of Baku leads to the diminishment of Azerbaijan's prestige (structural power) in the international arena.

Second, the armament by Azerbaijan increases the overall fragility and vulnerability of the whole region. Taking into consideration high tensions over the regional relations in the South Caucasus, in the context of enhanced militarization a new conflict can break anytime anywhere.

Finally, in this situation the income from the successful energy policy are directed mainly towards the increase of the military spendings that redraws potential financing from the other sectors of Azerbaijan's public life where additional funding would create value added.

A pro-Western energy policy is the main source for the enhancement of Azerbaijan's structural power and partially serves as a substitute for the absence of

external security guarantees. Thus the prospects of an EU-oriented energy policy of Azerbaijan are highly dependant on the factors that Baku has no leverage to influence – from the development of the issue of legal status of Caspian Sea, also – from the outcome of the competition between the EU and Russia over the energy transportation routes. If a pessimistic scenario would be realized, Baku would lose the only leverage in the international community.

Azerbaijan's declared neutrality as a presumption for highly diversified energy policy does not fulfil its function anymore. Presently the bigger part of Azerbaijan's oil and gas are being transported via pipelines BTC and BTE, running westwards. In addition, the presence of external security guarantees would not serve as an obstacle to further development of the directions in the sphere of energy cooperation that are already consolidated. The results of the analysis show that the function fulfilled by Azerbaijan's neutral security strategy is not to serve as presumption for diversification of the directions of energy cooperation but to separate the cooperation in energy field from the overall wide cooperation. In other words, Azerbaijan remains committed to a neutral security strategy seeking to maintain close partnership with the West in the field of energy policy at the same time avoiding the western pressure regarding democracy and human rights and other spheres of public life.

Baku is following the assumption that it should choose between the possibility to implement a diversified energy policy and the opportunity to enjoy external security guarantees. This assumption reflects the essence of the dilemma of Azerbaijan's security strategy. Nevertheless, presently the situation is favourable for Baku to have these both since Azerbaijan's energy policy, as well as the sources of potential external security guarantees, are moving in coinciding directions. Using the opportunity to match both the diversified energy policy and the external security guarantees would be the way to resolve the dilemma of Azerbaijan's security strategy.

This is the "third way" open to Baku, which would help Azerbaijan to escape the "zero-sum" situation in its dilemma of the security strategy and would allow it at the same time to maintain neutrality.

Azerbaijan's structural power is constantly growing; nevertheless, the specific structural power regarding the conflict over Nagorno Karabakh remains moderate. The existence of this gap causes the paradox that despite the growing importance of Azerbaijan's energy policy for the West, the attention of the USA and the EU for the solution of the problem of Azerbaijan's territorial integrity tries to speed up the regulation of the Nagorno Karabakh problem or the increased pressure on Armenia maintain constancy. Presently the West is concerned about democracy

domestic policy processes and human rights situation in Azerbaijan. Still Armenia has seemed more democratic than its neighbour Azerbaijan, and this is one of the explanations why the international community is not inclined to condemn Armenians as an aggressor.

In order to overcome the gap between aggregated structural power and specific structural power, Azerbaijan should position itself in the eyes of the international community not only as a strong, but also as an open and reliable state. In other words, Baku should be aligning itself westwards not only its energy policy but also the processes of the domestic policy. If Baku would decide to choose the “third way”, the bellicose statements should be abandoned immediately; also the need of permanent increase in military spending should be reconsidered. Further, Baku should strive for an open, transparent domestic policy together with the respect for human rights and freedom of speech. Ambitious energy policy implemented by peaceful and democratic Azerbaijan should bring dividends for Baku in the medium-long term and facilitate the process of the peaceful resolution of the Nagorno Karabakh conflict.

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