

Working paper

Research Unit Russia/CIS
Stiftung Wissenschaft und Politik
German Institute for International
and Security Affairs



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The EU Policy in the South Caucasus: The Case of Post-Soviet Azerbaijan

New Opportunities and Future
Prospects

FG 5 2007/09, May 2007

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The EU Policy in the South Caucasus: The Case of Post-Soviet Azerbaijan

New Opportunities and Future Prospects

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The views expressed in this research study are personal and do not necessarily reflect those of Government of Azerbaijan or any other organization.

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Problems and Recommendations

Since the collapse of the Soviet Union, the three newly independent states of the South Caucasus – Armenia, Azerbaijan, and Georgia – have been considered the most strife-ridden regions in the European periphery. The European Union (EU) appeared on the South Caucasian scene from the early 1990s, when the transition process towards a market economy and democracy began in these young countries and when a number of conflicts became visible on the political landscape of the Caucasus. The increasing attention of the EU has intensified since late 2001, especially following the September 11th terrorist attacks on the United States of America (USA), culminating with the appointment of the EU Special Representative (EUSR) in July 2003 and the integration of the three post-Soviet states into the European Neighborhood Policy (ENP) in June 2004. As from early January 2007, when Bulgaria and Romania became members of the EU, the entire region would form part of the Union's immediate neighborhood. Consequently, the South Caucasus will figure prominently on the security agenda of the EU in the coming years. This is especially applied to a secular Muslim, oil-rich Azerbaijan that is closely situated to very volatile Middle East where the Western democracies are now facing serious quandary over the nuclear program of the Islamic Republic of Iran.

Likewise, Azerbaijan is seen as a reliable energy partner of Europe and the EU is trying to create a sustained partnership with this post-Soviet state. In effect, the ENP has given new impetus to wide-ranging cooperation between the two sides. In turn, the ENP Action Plan specifying concrete steps forward is viewed as an important tool in terms of Azerbaijan's further integration into the EU. Without greater commitment to reform however, Azerbaijan will despite its energy resources not be able to move closer to Europe. What matters to the EU is tangible progress strongly needed to be made by Azerbaijani authorities especially in fighting pervasive corruption, promoting civil society and strengthening democratic system. Besides, any attempt at a military solution to the Armenian-Azerbaijani conflict over Nagorno-Karabakh will erode the EU's confidence in the stability of the entire region. In other words, the very demanding task of implementing the ENP Action Plan will require Azerbaijan to make a lot of efforts in order to attain European political and economic standards.

From a geopolitical standpoint, the EU is involved, albeit on a lesser scale, in the South Caucasus, but is equally active in the Caspian basin, akin to Russia, Iran, Turkey and the United States. Notwithstanding the EU member states such as the United Kingdom, France, Germany and Italy are engaged in the geopolitical affairs of the South Caucasus at a high level, none of them is able to independently exert significant influence on the region. If these Western European countries would act in concert, the EU could probably be one of the major players in the South Caucasus, and even could become the most influential power in the middle to long-term. However, the incapability and reluctance of the European powers to shape a common and articulated policy toward the South Caucasus has prevented them from fulfilling their potential. But European powers hold all the foreign policy instruments required to promote political stability and economic reformation, the development and strengthening of democracy and the rule of law, and the enhancement of respect for human rights and fundamental freedoms in the small countries of the South Caucasus. Through European democratic institutions such as Parliamentary Assembly of the Council of Europe (PACE), as well as using the current mandate of the EUSR and by means of newly adopted ENP Action Plans, the EU could be more assertive in shaping a reinforced and effective role that will foster good governance, true democratization and durable peace in these post-Soviet states. For this reason, the EU needs a fresh, comprehensive strategic action development plan which could also help to advance the political, security and economic interests of the major European democracies in this rapidly developing region. What can be done to formulate a common strategic vision for the South Caucasian states is suggested in the following recommendations.

General Long-term Recommendations for the European Union

To enhance the EU's assertiveness and political standing in the South Caucasus

1. Reinforce the EUSR's regional presence by strongly activating his participation in the political life of the three South Caucasian states. If the EU has a real stake in making sure that the development of these young societies continues, the EUSR's role in consolidating genuine democratic changes should be more assertive by at least devising a clear strategy program on how to influence the ruling authorities to implement Western norms of democratic governance, civil rights and rule of law.
2. Conduct more active informational campaign focusing on wider public both in the EU and the South Caucasus. There is little information on the EU in the post-Soviet Caucasus. Likewise, the EU public is still not familiar well with what happens in this conflict-ridden part of the world. In order to foster greater public knowledge about the EU, frequent workshops and seminars with focal point on the history of the EU, its institutions and democratic values should be held under the auspices of the EUSR, including his communication with media on a regular basis in each of the three South Caucasian capitals. In order to increase public awareness about the South Caucasus in the EU, the EUSR too should prepare comprehensive annual reports on three countries and further disseminate them in the EU institutions and the European think-tanks, also making the surveys available for major European media agencies.
3. Examine the idea of founding an EU Institute for South Caucasian Regional Studies, a Brussels-based new think-tank, which could develop fresh research projects and educational exchange programs, thus providing significant input into enhancement of an intellectual cooperation between the EU and the South Caucasus.

To develop a concrete work program for contributing toward conflict resolution and foster wider public dialogue in the three countries

4. Establish a South Caucasus Regional Stability Expert Group, a regional network of Western-trained and internationally recognized scholars from each of the three countries. Under the aegis of the EUSR this brainstorming group should be aimed to provide well thought-out policy recommendations and high-level advice both for the perusal of the EUSR and the leaderships of the three states. Targeted at fostering reconciliation and confidence-building, the activities of the expert group could add unique value in preparing of public opinion in the three Caucasian societies, mainly promoting a better understanding of compromising solutions needed for an eventual peace settlement in the region. Perhaps most noteworthy, by creating the regional expert group the EU will prove that the EUSR's commitment to contributing toward conflict resolution is indeed genuine and serious one.

To formulate a strategic development plan centering on EU-Russia-USA trilateral response to regional security challenges

5. Foster effective response to security challenges facing the EU in the South Caucasus by working closely with Russia and the United States. Moscow, Washington and Brussels have repeatedly voiced that they have no conflicting interests in this region. In order to prove the importance of stability in the South Caucasus, the great powers' actions should become actual, not only political wordplay. For this reason, concerted efforts of these three power centers are needed to come up with a coordinated agenda aimed at reducing geopolitical tensions, quenching territorial conflicts and establishing a new regional security architecture. The nature of modern challenges leads inexorably to the increasing use of a trilateral cooperative security policy that could ease divisions within the three small states and would sketch a framework for a real, durable peacemaking in the post-Soviet Caucasus region.

Policy Recommendations for the European Union with regard to the Government of Azerbaijan Republic

To encourage the Azerbaijani government to design a well-defined strategic vision of preparing the country's complete integration into the EU

1. Assist to devise a fresh comprehensive agenda based on building EU awareness and stimulating debates related to Azerbaijan's closer integration with the EU between the state-owned institutions and civil society organizations. The country's integration into the EU is strong aspiration of the Azerbaijani nation. In order to prepare itself to become full member of the European family in the future, it is already time to make clearer and faster decisions on this matter.

2. Propose to establish a special Ministry of European Integration Affairs which will be directly involved in developing and implementing of the EU integration policy of Azerbaijan. More precisely, the main function of this Ministry should include coordination and implementation of the activities conducted under the framework of the ENP Action Plan. The creation of this Ministry will make Brussels even stronger in belief that Azerbaijan shares clearly the European values and the common destiny with all the EU member states.

To pay greater attention to the strengthening of democracy and rule of law

3. Push Azerbaijani authorities for promoting democratization through sustained reform of political system which will consolidate national economy. A major challenge facing Azerbaijan in terms of democracy is the building of a viable civil society and the strengthening of the rule of law. Political stability and national security will be greatly enhanced by increasing the transparency, effectiveness and accountability of public institutions. Legitimate democracy attains its real meaning where strong institutions operate in a coherent and mutually reinforcing way.

4. Encourage the ruling elite to initiate profound judicial reform which is still far from satisfactory. It is essential to establish a reliable judicial system in accordance with European standards. The independence of the judiciary in Azerbaijan must be strengthened and the authorities should introduce a comprehensive program on judicial reform in order to target corruption in the society.

To urge Azerbaijani authorities to launch effective campaign for combating rampant corruption

5. Push the government for elevating the fight against corruption into a high priority of domestic policy. Despite some common measures recently taken by Azerbaijani leadership, corruption and bribery remain rampant in all spheres of life in the country. It is strongly recommended that the authorities establish a coordination mechanism involving governmental and non-governmental institutions which tackle with the detection and investigation of possible corruption cases. The establishment of an independent monitoring council is therefore much desired. In practice, this council could serve as an important solid instrument for testing the accuracy of income declarations made by government officials. The EU should consider supporting the process of reform of Azerbaijan's state-owned agencies by political, technical and financial sponsorship of public monitoring council inside the government structures.

Introduction

Following the disintegration of the Soviet Union, ethnic tensions and civil wars of the early 1990s led to increased international engagement in the South Caucasus. Political mediations, peacekeeping missions, humanitarian aid and a broad variety of assistance programs for the implementation of the rule of law and democratic processes in the three newly independent states so far have not brought final solutions to territorial conflicts in the region. Since the end of the Cold War, the focus of concern for the EU in the post-Soviet territory has been the South Caucasus, which is perceived to impinge directly on European interests and can even be viewed as the European part of the Commonwealth of Independent States (CIS). For the EU, the geopolitical developments in the South Caucasus have touched on questions relating to the future shape of new Europe, the outer borders of the EU, the EU-initiated conception of the Common Foreign and Security Policy (CFSP),¹ future military potential, and access to natural resources of the Caspian Sea.

From the very beginning, the EU promoted two types of security in the region. The first one is an internal security which is threatened by political tensions and separatist conflicts. The second one is an external security that is influenced by geopolitical rivalries and strained relations between states in the region. In order to alleviate the situation, the EU has taken active diplomatic efforts and interacted with the United Nations (UN), the Organization for Security and Cooperation in Europe (OSCE), the Council of Europe (CoE), and North Atlantic Treaty Organization (NATO), as well as with the CIS and GUAM,² all of which are involved in European security. Likewise, the European policymakers realized that a policy of coordination should be devised between the EU and the principal regional powers. Most important, however, EU action depends on the level of coordination it achieves with Russia, Iran, Turkey, and the United States regarding the South Caucasus and the Caspian basin.

In the post-Cold War epoch, nevertheless, the South Caucasian states – Armenia, Azerbaijan and Georgia – have become the object of interest to the EU due to the Caspian oil reserves and the region's important geo-strategic location, thus viewing its potential role as a transit corridor between Europe and Asia. Accordingly, Germany, France, Great Britain, and other member states of the EU established diplomatic relations with the newly independent countries in 1992. Most notably, these three major European powers are also members of the OSCE Minsk Group and the UN-supported Group of Friends on Georgia. In this context, the EU continues to provide its full support to the OSCE and the UN in their efforts to solve the frozen conflicts in the region. Further, the EU stands ready to assist post-conflict reconstruction following peace settlements or to assist measures agreed between the conflicting parties which would raise confidence between the two sides. In so doing, the prime objective of the EU is to avoid mounting tensions and to

¹ More details on the CFSP may be found at http://ec.europa.eu/comm/external_relations/cfsp/intro/index.htm (accessed: October 20, 2006).

² GUAM is an acronym for Georgia, Ukraine, Azerbaijan and Moldova, the leaders of which formed the alliance at the summit of the CoE in Strasbourg in October 1997. Later, in April 1999, at the NATO anniversary summit in Washington, Uzbekistan joined this coalition, and then GUUAM came into existence. In early May 2005, however, Uzbekistan formally withdrew from GUUAM, mainly asserting that the organization had 'significantly changed its initially declared goals and tasks.' Most of political analysts argued that Uzbek withdrawal from GUUAM confirmed a geopolitical turn by this Central Asian country away from the United States towards Russia. Following the withdrawal of Uzbekistan from GUUAM, this regional coalition again returned to being just GUAM. Likewise, at the most recent summit of GUAM, which took place on May 23-24, 2006 in Kiev, this informal regional grouping was turned into an Organization for Democracy and Economic Development with headquarters in Kiev, Ukraine. For further details, see *Echo* newspaper, Baku, May 7, 2005 and *Civil Georgia*, Tbilisi, May 23, 2006; For more about history and recent activities of the GUAM, also see online information which is available at the following websites – http://en.wikipedia.org/wiki/GUAM_Organization_for_Democracy_and_Economic_Development (accessed: October 16, 2006) and <http://www.guam.org> (accessed: October 23, 2006).

maintain stability in the region by supporting the reduction of the scope for conflict and the continuing promotion of peaceful negotiations. The EU expects these objectives to be long-term processes and that it is necessary for the EU to increase its profile throughout the Caucasus and the Caspian basin.

In the post-September 11th era, the concept of European integration has gained a new momentum in the three aspiring democracies of the South Caucasus. In recent years, the South Caucasian societies have discussed essential political and economic conditions of the prospect of closer integration to the EU. In effect, a very intense debate focuses mainly on two key questions concerning what role the EU can assume in territorial conflicts compared to other international security organizations and how the EU can foster regional cooperation through aid programs. Another problem which also relates to the role of the EU is concentrated on the question of complementarities and coordination between the EU and other international organizations, such as the UN and the OSCE, as well as the expectations from and responses to the ENP, including the issue of regional unity in the South Caucasus.

Quite obviously, external influence and renewed rivalries have affected foreign policy orientations and security perceptions of the three South Caucasian countries. Therefore, there are different degrees and levels of integration and cooperation with the EU in the region. Since the EU is formulating new approach to regional security, the importance of relationships with the Union is differed significantly in each republic, thus leading to differing stances on official EU integration strategy. While Georgian leadership is now taking stronger efforts to move closer to the EU, Azerbaijani government has given preferentiality to a phased approach and Armenian authorities currently do not view the EU membership aspiration as a vital element of their country's foreign policy. For that reason, the South Caucasian states have not yet become concrete candidates for EU membership. These young aspiring democracies seem to have no such prospects in the foreseeable future.

Even so, the EU continues to develop closer political and economic ties with the three post-Soviet countries by means of the ENP. More importantly, in 2004, when these states were included in the ENP, the major European powers realized that the EU had certain geopolitical interests in this part of the world, necessitating greater attention and concrete policy strategy. Most notably, oil-rich Azerbaijan deserves special consideration, as this pivotal country is the only Muslim state with the largest population in the entire South Caucasus. Today Azerbaijan has close contact with the Islamic world, but at the same time it is influenced by neighboring Christian countries oriented to Western culture. Such a beneficial position on the junction of the West and East has always allowed Azerbaijan to develop a synthesis of the values of both cultures.

How does the EU define its interests in post-Soviet Azerbaijan in political, economic and security terms? How does Azerbaijani society perceive the ENP? What factors continue to impact the EU's ability to play a more active role in this oil-rich country? And finally, how could the EU contribute to promote stabilization and democratization in Azerbaijan? Although this study focuses more specifically on the EU-Azerbaijan relationships, the research paper generally examines the system of basic strategic trends affecting recent changes in the EU policies toward the South Caucasus. The publication also looks at new elements of the EU's strategy towards this post-Soviet territory and explores some of the dilemmas and security challenges the EU is currently facing in this still-troubled region.

European Neighborhood Policy in the Regional Context

Indisputably, the incorporation of the South Caucasian countries into the ENP is viewed as a positive development, which has generated hope of a larger EU role in the region. In essence, this move sent an important message that the EU is committed to supporting the three states on their way towards building democratic societies and creating viable market economies. In response, the leaderships of these countries consider the ENP to be a solid opportunity for further integration into the EU. But it would be a mistake to assume that the EU's policy has changed significantly. In effect, there is still no clear institutional driving force in the EU for the formulation of a true rational strategy towards the South Caucasus. In other words, the EU needs to outline a strategic vision of its own role for enhancing relationships with these young countries.

Hence, it is unlikely to believe that the EU will seriously engage with the entire region. It will take years to develop a more coherent EU role, as this process is likely to implement gradually and unhurriedly. Nevertheless, the EU recognizes the South Caucasus as a significant component of the Union's foreign policy strategy. Truly, the development and implementation of the ENP is in the vital interest of both sides: the EU will gain more influence through the ENP, which in turn will also enable the three small states to stabilize their fragile societies and integrate them more closely into the EU.

EU Strategy and Profile of Interests

In point of fact, the EU has some stakes and concerns in this volatile region. More exactly, stability and security are indeed of greater importance for the EU. In this manner, the EU faces both real opportunities and obvious challenges in the South Caucasian countries. First and foremost, the current challenges include the issues of extremism, separatism and terrorism as well as the territorial disputes, regional arms race, environmental concerns and the rise of transnational organized crime. Most of all, virtually isolated conflict zones such as Nagorno-Karabakh, Abkhazia and South Ossetia where there is no official international presence, have been directly implicated in transnational criminal activities.³ Moreover, conflicts on the territory of the South Caucasus still remain unresolved and fuel a potential risk of renewed hostilities and new migration flows, thus presenting a persistent threat to human rights in the entire region. In this context, any kind of regional destabilization may have a serious impact on the wider security of the European Union.

On the other hand, opportunities focus on the energy resources of the Caspian Sea and the role of the South Caucasus as both a source-rich area and transit corridor for carrying petroleum and gas to Europe, which remains heavily dependent on Persian Gulf oil and Russian gas supplies. Without doubt, the EU member states seek for economic objectives in the South Caucasus, which is potentially a lucrative and attractive place for foreign direct investment, especially for oil multinational companies. Hence, conflict resolution should be regarded as a prerequisite for securing energy export routes. Further, internal political stability is still another precondition for the development of energy and infrastructure projects each of which have a vital importance for the entire region.

³ In essence, the consequences of transnational crime in the South Caucasus, which is a natural conduit for trafficking, smuggling and drug trade, affect both the region itself and Europe. On several occasions, Azerbaijani and Georgian officials have expressed their concerns over the use of separatist areas in the drug trade and other kinds of transnational crime. On this issue, see *Zerkalo* newspaper, Baku, July 20, 2002; *BBC Monitoring Global Newslines FSU Political File*, February 9, 2002.

Meanwhile, the years 1999-2001 saw the politicization of EU actions in the South Caucasus.

In fact, EU strategy was based on important policy mechanisms which were established through the conclusion of Partnership and Cooperation Agreements (PCA)⁴ with the three independent Caucasian states in June 1999 in Luxembourg. The signature of the PCA with Armenia, Azerbaijan and Georgia formally represented a qualitative breakthrough in EU-South Caucasian relations. Yet, at the Luxembourg quadripartite summit, the three countries were put on notice that the EU would not support the status quo by providing generous amounts of aid. This meant that EU action and assistance were viewed as incentives for positive change. As a result, the EU activities in the South Caucasus reinforced political dialogue with the young states, supported the OSCE in conflict-torn areas through funding of small-scale rehabilitation programs, assisted the OSCE in monitoring sections of the Georgian-Russian border, and declared its readiness to support large-scale rehabilitation in the case of a settlement between Armenia and Azerbaijan.

However, the EU could not act coherently as a single state actor in developing a strategic vision on the region. Despite calls from the European Parliament for a firmer engagement of the EU in the region, member states did not succeed in formulating a common strategy toward the South Caucasus in the last decade. Even though the EU retained an undefined overall strategy to lead policy, European powers had a considerable agenda for the region and might go further to adopt a concerted position within the conception of the CFSP for the South Caucasus. Already in early 2001, pressures increased within the EU member states for a major review of EU policy mechanisms in the South Caucasus. Just then, Chris Patten, the ex-commissioner for the European external relations and the late Anna Lindh, the former Swedish foreign minister published a joint article affirming that ‘the EU cannot afford to neglect the Southern Caucasus,’ and pledging a more targeted EU political role to support conflict resolution in the region.⁵ Under this impetus, the EU took a number of measures to enhance the political dialogue with the three Caucasian states and expressed willingness to play a more active role in the region by providing solid backing for mediation efforts to resolve territorial conflicts.

Unsurprisingly, the events of September 11, 2001 caused a significant modification in European policy toward the South Caucasus. Since then, this post-Soviet region has suddenly returned to the European agenda and EU high-ranking officials have repeatedly visited the three states to examine a progress in the political and economic transition of these new societies and their implementation of the PCA. Further, the appointment of the EUSR in July 2003 became an important step for the EU member states.⁶ In effect, the EU had to redefine its position towards the South Caucasus.⁷ In more practical terms, at the EU summit in Dublin in June 2004, the

⁴ The PCA represent the basic framework for EU relations with the three South Caucasian states. In a broader sense, the EU and South Caucasian states became partners engaged in a regular dialogue on political and economic issues. All of the documents relating to the PCA are available at the EU website – ‘The EU’s Relationship with the Countries of Eastern Europe and Central Asia,’ - http://europa.eu.int/comm/external_relations/ceeca/index.htm (accessed: October 23, 2006).

⁵ Even in the pre-September 11th environment, the EU viewed the South Caucasus as a strategic corridor linking the southern Europe with Central Asia. Recognizing the rich potential of the Caspian hydrocarbon resources, most European policymakers realized that oil and gas development projects could help secure and stabilize world energy supplies in the future. On this issue, see *Financial Times*, February 20, 2001.

⁶ European Council nominated an EU Special Representative for the South Caucasus and the Finnish diplomat Heikki Talvitie became the first to occupy this position in early July 2003. See Decision taken by written procedure, 11027/03, Brussels, July 7, 2003.

⁷ The mandate of the EUSR refers to the necessity to encourage the three countries to cooperate on themes of common interest such as security threats and the fight against terrorism and prepare for the return to peace and stability in the region. Another objective of the EUSR is to better support conflict resolution efforts, but without direct involvement in the mediation process under the aegis of the UN and the OSCE. For details, see *Official Journal of the European Union*, L 169/74 – L 169/75, July 8, 2003.

South Caucasian states were integrated into the ENP,⁸ the individual Action Plans of which have been signed at the end of 2006.⁹ The implementation of EU-regulated rules and institutions in the three countries will take years, and depend mainly upon the ability and readiness of these nations to accomplish them. The EU is keen to see a credible and sustained commitment to market reform and democracy, clearly reflected in concrete steps forward. In the context of the ENP, the EU offers the prospect of further economic integration and launches a new phase of development in closer relationships with these young states.

Certainly, the inclusion of the South Caucasian countries in the ENP pointed exclusively to an increased EU visibility and engagement in this post-Soviet territory. The ENP has offered a marvelous opportunity for these young states to come closer to each other within the region. As yet, much depends on the South Caucasian societies which should take a step forward in order to transform the ENP from a mere concept into an effective model of tangible cooperation. But the main question hinges on whether the ENP will add something substantial to evolution of relationships with the EU. It is also unclear whether the expectations and aspirations of the South Caucasian nations will come true. Another question is centered on whether the EU should apply individual or regional approaches towards the post-Soviet countries of the South Caucasus. The EU seems to provide the three countries with equal opportunities, and Brussels is currently watching how they will manage to exploit their realistic possibilities.

South Caucasian States and Different Security Perceptions

In the early 1990s, there were a lot of debates among the Western policymakers regarding the Europeanness of the South Caucasus and particularly whether there is the relevance of a thesis that the three newly independent states belong to European community of nations. With the admission of these post-Soviet countries into the CoE, they became integral part of the European family. In effect, the membership in the CoE is a significant step forward towards the integration into European structures. Upon the acceptance of these countries as the members of the CoE, this prestigious European organization closed the debate, thereby recognizing the three Caucasian nations as the European countries. From political standpoint however, the incorporation of the three South Caucasian states in the ENP has illustrated a clear picture, testifying to the fact that events in the territory of Armenia, Azerbaijan and Georgia have the potential significantly to impact European security. Likewise, much has still to be done by these aspiring democracies in the economic sphere in order to replace the largely corrupt mixture of command system governed by mafia structures with a functioning viable market economy ruled by law.

Interestingly, religion does not seem to play a major role in devising foreign policy strategies of the South Caucasian states. Muslim Azerbaijan is closely cooperating with Christian Georgia and the two countries have successfully built strategic partnership in the energy field. In turn Christian Armenia has lucratively broadened her energy, trade and economic relations with the Islamic Republic of Iran and the two neighbors in recent years have developed mutually beneficial projects. This means that not religion or politics but economics serves as dominant factor in shaping foreign policy orientations of these young countries.

Nevertheless, different security perceptions are key obstacles the South Caucasian states are facing on their way closer to the EU. All three post-Soviet states seek security, but their vision of

⁸ More information about the ENP is available at http://ec.europa.eu/world/enp/index_en.htm (accessed: October 23, 2006).

⁹ On November 14, 2006, Action Plans within the ENP were officially signed in Brussels between the EU and three countries of South Caucasus – Georgia, Azerbaijan and Armenia. Further details on the issue are available at http://ec.europa.eu/world/enp/documents_en.htm#3 (accessed: January 22, 2007).

security concerns and perception of threats vastly differ.¹⁰ Azerbaijan and Georgia strive at expanding their roles in the framework of internationally-sponsored economic projects, and perceive their future security based on regional economic cooperation. Armenia in turn relies heavily on its special alliance with Russia, because of its hostile relationships to Turkey and its ongoing conflict with Azerbaijan over Nagorno-Karabakh. Thus the region's current geopolitical affairs have ever more complicated the security situation and brought many uncertainties. Different threat perceptions and therefore differing orientations in the foreign relations of the three South Caucasian states are the central barriers for the creation of a stable security environment and broader economic cooperation within the region.

Over the last ten years, national security concerns have been the vital issue on the Caucasian countries' agendas and important aspects of their foreign policy strategies. For Armenia, Russia is seen as her only security guarantor and Moscow in turn has regarded this tiny Caucasian republic as a key strategic ally in the region. Armenia has therefore followed a pro-Russian foreign policy since the declaration of independence. Besides, Armenia's another geopolitical partner is Iran, a counterweight to the Turkish influence in the region. Regardless of intensifying Armenia's relationship with Russia and Iran, Armenian-U.S. interaction is developing too. But Armenia has always sought to balance its ties with the U.S. through retaining a very strong link to Russia and a close Armenian-Iranian relationship as well.¹¹ By maintaining extensive ties with France, Armenia is also very active politically in European countries. Even though Yerevan is cautious with regard to closer cooperation with the Euro-Atlantic structures, Armenia has become a major recipient of international assistance in the post-Soviet transition period.

For Azerbaijan, the restoration of territorial integrity and the resolution of the Armenian-Azerbaijani conflict over Nagorno-Karabakh are the country's dominant foreign policy concerns.

Officially pursuing an even-handed approach in foreign policy, Azerbaijan enjoys warm relations both with the West and Russia and Iran, thus trying to satisfy the interests of all regional powers. The results of opinion poll, recently conducted by Baku-based online website Day.az have shown that 34.9 percent of 1714 respondents in total have supported a balanced foreign policy of the country, while 22.1 percent have expressed their support for policy toward Europe, 14.6 percent voted for policy toward CIS, 12.6 for policy toward Turkey, 12.1 for policy toward the U.S. and only 3.7 for policy toward Iran.¹² But Russia and Iran still regard Azerbaijan's endeavors to enlarge cooperation with Euro-Atlantic structures as a potent challenge. Iran's aggressive stance against Azerbaijan¹³ in the Caspian Sea in 2001 reinforced Azerbaijani-Turkish relations and linked the two countries even closer.¹⁴ Wide-ranging

¹⁰ Both Georgia and Azerbaijan suffered invasions by Russian troops (respectively in April 1989 and in January 1990), whose aim was to repress the democratic movements in both countries. Likewise, these two countries suffered bloody wars with more powerful adversaries as well as several coups d'états which repeatedly threatened their sovereignty and territorial integrity. In addition, Georgia and Azerbaijan are ethnically diverse states that are easily vulnerable to Russian manipulation. All of the aforementioned factors and the unresolved conflicts in Nagorno-Karabakh, Abkhazia and South Ossetia have made the fates of these two Caucasian countries very similar. Compared with Georgia and Azerbaijan however, Armenia became the most homogeneous former Soviet republic after large numbers of ethnic minorities, mainly Azerbaijanis, Kurds, Jews and Russians fled in 1988-1994. For more details, see Elkhan Nuriyev, *The Post-Soviet Caucasus within New Geopolitical Framework: Towards Conflict or Peace?* Working Paper No. 3/2000, Arbeitsstelle Friedensforschung Bonn (AFB), Bonn, November 2000.

¹¹ Private communication with Armenian political scientist who requested anonymity, Yerevan, February 26, 2002.

¹² Further details on this issue are available in the Poll Archive in Russian language at the website – <http://www.day.az> (accessed: on November 8, 2006).

¹³ In July 2001, tensions between Baku and Tehran reached their peak because of the regular violation of Azerbaijan's air space by Iranian jet fighters and Iranian naval forces' attacks on an Azerbaijani oil exploration ship in the Caspian Sea. See *RFE/RL Newslines*, July 26, 2001.

¹⁴ Baku views Turkey's presence as a factor of stability and security in the region, and strongly welcomes Turkish military involvement in the reformation of the Azerbaijani army in accordance with NATO standards.

cooperation with the Western democracies has also taken a special place in Azerbaijan's foreign policy. The launching of several international energy projects stimulated further investment in Azerbaijan's oil industry. To date, Azerbaijan's interaction both with the USA and the EU has extended in many spheres but primarily in the political and economic sectors.

For Georgia, a strong European orientation is a central priority for the country's foreign policy. Since independence, Georgia has advocated a Westward-looking strategy, seeing its future as a key transit country for oil, gas and commerce between Europe and Central Asia and the South Caucasus. Georgia's ruling elite is now ever more striving to expand the country's participation in Euro-Atlantic structures. Compared with Armenia, Georgia's relationship with Azerbaijan and Turkey have become much closer, and all three neighbors have developed strategic cooperation in the energy, transportation, political, economic and military areas. But Georgia's relations with Russia in recent years have been very problematic, as most Georgians regard Russia as an imperial power which seeks to undermine their statehood.¹⁵ Tbilisi accuses Moscow of supporting secessionist regimes in South Ossetia and Abkhazia. Fearing to lose Georgia, Russia is attempting to hinder Georgia's moving closer to Western democracies. Moscow has repeatedly cut off gas and energy supplies,¹⁶ stalled peace talks on Abkhazia, delayed negotiations for the removal of Russian military bases,¹⁷ and imposed a discriminatory visa regime that exempts breakaway regions of Georgia from normal visa requirements.¹⁸ The most recent and noteworthy change in Georgia's foreign policy is that the country's young leadership has been looking for external security guarantees, mainly requesting Western aid in military and security sectors.

Yet lately, a certain inequality in three Caucasian countries' preparedness to cooperate more fully with Euro-Atlantic structures has caused additional obstacles for resolving regional security issues. Differences in their visions, perceptions and orientations do not make economic cooperation straightforward and seriously undermine the idea of a regional unity, thus provoking negative reflections on the EU-South Caucasian relationships. While the ruling elites declared their commitment to joining the EU, they do not seem to make sufficient efforts to reach that goal. Besides, the absence of a consistent European policy for the South Caucasus, lack of resources and more active coordination with other international organizations in the field of conflict resolution have led to an ambiguous position of the EU member states. However, the three countries have often reaffirmed their general orientation toward European integration and each of the South Caucasian nations has built its own bridge to Europe. Azerbaijan has exploited the Caspian hydrocarbon resources to attract European attention to oil business. Georgia has made use of its traditional Western oriented nobility. In turn Armenia has brought the wealthy diaspora into play. The leaderships of all the three nations seem to realize that there is simply no alternative to the European integration.

¹⁵ Private conversation with a Georgian diplomat who requested anonymity, Vienna, August 2002.

¹⁶ Georgian-Russian tensions have steadily grown in recent years. The situation particularly worsened following the escalation of Russia's trade war with Georgia in 2006. For details, see *Civil Georgia*, May 5-6, 2006.

¹⁷ Following Russian-Georgian talks on May 30, 2005 in Moscow, Russia agreed to completely close down its bases in Georgia by 2008, and signed a joint communiqué which outlines the phased process of withdrawal of the two bases, first from Akhalkalaki and then from Batumi. Already in late March 2006, Russian and Georgian high-ranking defense officials signed major agreements on the timeframe, modalities of functioning, rules and withdrawal of the Russian military bases from Georgia and on the transit of Russian military personnel and cargo via Georgia. For details, see *RFE/RL Newslines*, May 31, 2005; *Civil Georgia*, May 30-31, 2005; *Civil Georgia*, March 31, 2006.

¹⁸ Periodically, Moscow undertakes steps to provide Russian citizenship to residents of the secessionist areas of Abkhazia and South Ossetia.

EU-Funded Projects

With the disintegration of the Soviet Union, the EU has become an important aid contributor in the region. Since then, the EU has played a vital role in the transition process towards market economies and democratic societies in the newly independent states. From 1991 until 2004 the EU provided just over a billion euros in assistance to the South Caucasian countries, distributed through a variety of programs.¹⁹ More precisely, these have been bilateral and regional assistance programs such as the Technical Assistance to the CIS (TACIS), Interstate Oil and Gas Transport to Europe (INOGATE) and Transport Corridor for Europe, Caucasus and Asia (TRACECA).²⁰ Indeed, the EU is the largest provider of technical assistance to these small states under the TACIS program,²¹ which fosters the development of harmonious and prosperous economic and political links between the European democracies and the partner countries. In turn, INOGATE, an international cooperation program funded by TACIS, is aimed at fostering regional integration of pipeline systems and facilitating the transport of energy resources within the CIS towards European export markets. Another important project is the EU-supported TRACECA program,²² which corresponds to the global EU strategy towards newly emerged countries and supports political and economic independence of the aspiring democracies by enhancing their capacity to access European markets through alternative transport routes.

In the early post-Soviet years, European community made strong emphasis on regional cooperation through the TACIS and TRACECA projects. By 1999, however, the EU better understood the difficulties of unresolved conflicts and reform efforts in the South Caucasian states and developed a much more political approach. The EU began to express its interest in developing commercial energy projects in the Caspian basin, depending on regional security and diversification of sources. In fact, European stance aimed to defuse debates on the layout of the oil pipelines while promoting a diversity of routes in the framework of the INOGATE program. Afterwards, the ENP has opened up new opportunities to develop regional policy initiatives in the areas of security, energy, transport and communications. In this regard, the ENP is viewed as a new driving force behind regional cooperation in these fields. This means that regional integration via the ENP is of particular importance to increase the competitiveness of the Caucasian transport corridor. For the reason that effective fulfillment of regional projects, such as TRACECA and INOGATE is essential, the EU could think of how to increase its support for further development and implementation of the transport and energy network programs in the region.

¹⁹ In fact, Armenia, Azerbaijan and Georgia received approximately an equal share – about 400 million euros each. Half of the assistance is geared towards poverty reduction and food security objectives. See, Press Release, IP/06/1287, European Commission, September 29, 2006.

²⁰ Further information on these programs may be found on the following websites – <http://www.traceca.org>, <http://www.inogate.org> and http://ec.europa.eu/comm/external_relations/ceeca/tacis/index.htm (accessed: October 24, 2006).

²¹ TACIS was launched by the European Community in 1991, and provides for grant-financed technical assistance to the new countries of Eastern Europe, South Caucasus and Central Asia. This program is mainly aimed at enhancing the transition processes in these newly independent states.

²² TRACECA program was initiated at a conference in Brussels in May 1993, which brought together trade and transport ministers from Central Asian and South Caucasian republics. At the conference, it was agreed to develop a transport corridor on a west-east axis from Europe, across the Black Sea, through the Caucasus and the Caspian Sea to Central Asia. The EU offered this project as an additional itinerary that would complement other routes. See Damien Helly, 'Un corridor de transport Asie-Europe, l'Union européenne et sa Route de la Soie,' *Courrier des pays de l'Est*, No. 1019, October 2001, pp.52-64.

Why Azerbaijan Matters

Sixteen years after the breakup of the Soviet Union, Azerbaijan continues to adjust to the responsibilities of an independent state. However, given both the complexity of the geopolitical environment and the lack of political experience to effectively cope with new challenges, it is not likely that Azerbaijan will be successful in exploiting its economic advantages and in achieving its strategic goals without strong support from the world community. Since independence, the governments of USA, United Kingdom, Germany, Japan, Norway, Canada, Switzerland, and Italy have contributed significantly to the solution of existing problems vital for Azerbaijani population. Major international donors in Azerbaijan in recent years have implemented various programs aimed at the development of a democratic society and an open market economy in this post-Soviet country. Most importantly, Azerbaijan also receives solid political backing from most of the world countries and within international organizations, as this young aspiring democracy strives to restore its territorial integrity and consolidate its national sovereignty.

Indeed, even despite the myriad of problems, including those related to lack of good governance and effective fight against pervasive corruption in the country, Azerbaijan still matters. In this regard, three major factors make Azerbaijan be considered in a special case. These are Azerbaijan's energy resources, conflict resolution over Nagorno-Karabakh, and the country's democratization through profound reform process.

Caspian Pipeline Politics and Energy Security

Being a country of oil and gas, Azerbaijan occupies a strategic location in the South Caucasus. Since the early 1990s, the country's resource-providing role in the pipeline game has regional implications for Europe in terms of energy and economic security. Azerbaijan's perceived willingness to cooperate closely with the enlarged Euro-Atlantic alliance has attracted an unprecedented level of international attention. Azerbaijan is increasingly becoming under the spotlight as its geo-strategic location is critical to the Western democracies and the country's energy wealth constitute a significant alternative to volatile Persian Gulf source of petroleum. More precisely, Azerbaijan's oil and gas resources are important for the EU and certainly will help the diversification of Europe's energy imports.

In recent years, Azerbaijan's economy has showed significant signs of recovery as the late Heydar Aliyev presidency provided comparative stability in the country.²³ Likewise, incumbent President Ilham Aliyev so far has managed to maintain domestic stability and improve socio-economic situation, especially following the presidential elections in 2003 and the parliamentary ballot in 2005.²⁴ Most notably, the coming years will bring considerable oil and gas revenues into Azerbaijan's economy since this South Caucasian state is re-emerging as a pivotal Caspian oil supplier. Already in 2006, Azerbaijan exported some 1.2 million tons of crude oil via Russian port of Novorossiysk to Europe. The newly inaugurated Baku-Tbilisi-Ceyhan (BTC) pipeline, mainly built to relieve the Western world's oil dependency on the unstable Middle East has underscored the geopolitical significance of Azerbaijan for the European market. The key

²³ The late H. Aliyev was very successful at attracting international petroleum giants to invest heavily into the Azeri energy sector. H. Aliyev was able to formulate a new oil strategy due to which involved Azerbaijan in many international projects and trans-regional programs. During his presidency, Azerbaijan signed a series of oil and gas agreements that made the country a new regional player in international energy politics. See Elkhan Nuriyev, *The South Caucasus at the Crossroads: Conflicts, Caspian Oil and Great Power Politics*, LIT Verlag/Publisher, Germany, 2007.

²⁴ For details on this issue, see Elkhan Nuriyev, *Wahlen in Aserbaidzhan: Innenpolitische Machtkämpfe und Strategische Interessen der Großmächte*, SWP-Aktuell, No. 55, Stiftung Wissenschaft und Politik (SWP), Berlin, December 2005.

objective of this main export oil pipeline is to improve American and European security of energy supply. The United States will consume little oil from the Caspian basin, as the bulk will go to Europe. Although the EU has a more direct stake in the development of energy and security sector of this neighboring region, European efforts are scanty in comparison with those of the United States which has given substantial support to the BTC construction and has a strong interest in ensuring a constant military presence in this strategically important post-Soviet territory.

Clearly, BTC links Azerbaijan to Western Europe and gives the country control over own destiny by providing strategic options apart from Russia. At this point, the obvious European interests in the Caspian basin are to preserve stability in European energy market and prevent the monopolization of oil supplies by any one powerful country. BTC will drastically increase the mutual interdependence between the EU and Azerbaijan by adding roughly million barrels of oil a day to the European market. By the end of 2006, the BTC project pumped approximately 400,000 barrels per day of crude to the Mediterranean. In the same year, some 10 million tons of Azeri oil was transported to Europe via the BTC route. In effect, the pipeline has a projected lifetime of 40 years, and when working at normal capacity, beginning in 2009, it will be able to transport 1 million barrels of oil per day.²⁵ Once BTC brings Azerbaijani crude oil into the European energy system, any real risk of break or interruption in supply of petroleum would have an immediate impact on European consumers and possibly will even affect oil prices in global markets. The pipeline runs close to the conflict zones where the separatist regimes and various rebel groups, including the Kurdistan Workers' Party have already threatened to target the regional pipeline network if their demands were not met. This factor could represent a potential destabilizing effect on European markets. In all probability, the BTC will require constant guarding to prevent sabotage, although the fact that almost the entire pipeline is buried will make it harder to attack. In turn, the EU will have a strong necessity for political and economic investment in the stability and security of the entire region.

Another important pipeline, known as Baku-Tbilisi-Erzurum (BTE) runs parallel with BTC and will carry natural gas from Azerbaijan's Shah Deniz field²⁶ to Georgia and then to Turkey, where it will be connected to the Turkish gas network through which Azerbaijan can deliver a natural gas all over Europe. Although BTE has an initial capacity of 1.5 billion cubic feet per day (bcf/d), the pipeline will be expanded to 3 bcf/d in 2007 and is scheduled to be completed in time for the Shah Deniz project's first contracted exports to Turkey by the spring of 2007.²⁷ Recently, Azerbaijan signed a purchase deal with Georgia on buying gas. Turkey is also committed to purchasing Azerbaijani natural gas.²⁸ Baku is currently conducting negotiations with Greece as well, and talks may possibly be extended further to the Balkans and even to Central European countries, which also have a serious market for gas. Azerbaijan's natural gas production from Shah Deniz field will increase dramatically in the next few years. As such, the ongoing development of the Shah Deniz field is expected to make Azerbaijan self-supporting in natural gas and will result in substantial export revenues. The scale of the Shah Deniz project shows that Azerbaijan is firmly positioned to become a major gas exporter in the Caspian basin.

²⁵ Personal communication with Richard Pegge, British Petroleum official, Baku, Azerbaijan, January 16, 2007.

²⁶ The Shah Deniz gas and condensate field is located in the Caspian Sea, approximately 100 kilometers southeast of Baku. For details, see 'Azerbaijan,' *Country Analysis Briefs*, U.S. Department of Energy, Energy Information Administration, August 2006; available at <http://www.eia.doe.gov/emeu/cabs/Azerbaijan/NaturalGas.html> (accessed: November 8, 2006).

²⁷ Precisely by this period, the international consortium expects to begin producing natural gas for export at a rate of 71 bcf per year, increasing to an average rate of 222 bcf per year in 2009. For more detailed information about the BTE pipeline project, see the following websites – <http://www.eia.doe.gov/emeu/cabs/Caspian/ExportIssues.html> and <http://www.eia.doe.gov/emeu/cabs/Azerbaijan/NaturalGas.html> (accessed: November 13, 2006).

²⁸ *Caspian News Agency*, February 28, 2003; also see *IWPR Caucasus Report Service*, CRS No. 183, Institute for War & Peace Reporting (IWPR), June 13, 2003.

What is more, resource-rich Azerbaijan forms the hub of an evolving geo-strategic and geo-economic system that stretches from Europe to the South Caucasus and Central Asia. This post-Soviet country provides unique transit corridor for Caspian energy supplies to the European community where some member states are increasingly dependent on Russian gas. Most notably, Germany and France already have strong strategic dependence on Gazprom, Russia's state-owned monopolistic company. As the majority of European countries' natural gas demand is expected to increase significantly in the near future, the prospective alternative way may be a Trans-Caspian pipeline which will carry a natural gas to Azerbaijan, Georgia, Turkey and then to Europe.²⁹ In this manner, much seems to depend on the presence of political willpower of the EU. What is certain however is the supply of Trans-Caspian natural gas through Azerbaijan to European consumers could reduce dependence on Russian gas and might create a competitive market of multiple options for delivery routes which serves to the long-term interest of the EU.

Accordingly, Azerbaijan's geographic location and the presence of the BTC and BTE pipelines make it a primary transit country for oil and gas from the Caspian basin. In upcoming decades, Azerbaijan will play an increasing role in providing a constant supply of oil and gas to European markets. This means that Azerbaijan will remain a major regional player not only in Caspian pipeline politics but also in East-West trade relations. If and when the conflict in Nagorno-Karabakh is resolved in a peaceful way, Azerbaijan possibly will be even at the very center of European energy politics.

Armenian-Azerbaijani Conflict over Nagorno-Karabakh

Another reason why Azerbaijan matters to the EU has to do with the protracted, 'frozen' conflict in Nagorno-Karabakh,³⁰ the peaceful resolution of which is indeed in Europe's strong interest. Being the longest-running dispute in the CIS space, the eighteen-year-old Armenian-Azerbaijani conflict over Nagorno-Karabakh poses vexing problem for the architects of European security. Recently, Western democracies voiced grave concern over the possible use of the Armenian-occupied territories of Azerbaijan in the drug trade. In fact, the point of entry is the border between Iran and the occupied territories of Azerbaijan from where drugs transit Armenia towards Georgia or to Russia and then on to Central Europe.³¹ Further, this territorial conflict continues to prevent security cooperation and impede economic development within the entire South Caucasus. Most notably, the current situation of no war, yet no peace in the conflict zone and the heavy burden of many hundred of thousands of refugees and internally displaced persons (IDPs) play a crucial role in the political instability of Azerbaijan.

Many attempts have been made to resolve the conflict through negotiations. The OSCE Minsk Group has made slight strides in creating a lasting peace. In recent years, the Presidents of Armenia and Azerbaijan have met a number of times and fighting has subsided. Currently, peace talks continue in the framework of the Prague process, as the foreign ministers of two countries meet on a regular basis in European countries to conduct political consultations under the

²⁹ The problem of Trans-Caspian gas pipeline's construction is currently under the discussion. Also, negotiations on this issue are at the center of the EU attention. Most importantly, the materialization of a Trans-Caspian gas pipeline will help diversify supplies and restrain prices, thus ensuring Europe's energy security and protecting the EU from Russian monopolism. According to some regional analysts, it is not obligatory that Trans-Caspian gas pipeline will go in the direction of Turkey, as the line could be extended over the seabed of the Black Sea to Ukraine and then a natural gas can be supplied onto European market. For details, see *Echo* newspaper, March 29, 2006 and *Zerkalo* newspaper, Baku, May 3, 2006.

³⁰ De jure part of Azerbaijan but claimed by Armenia, Nagorno-Karabakh is largely Armenian-populated region, which proclaimed a self-styled 'independent' republic in 1991, however, with no international recognition. In early 1990s, Armenian troops took control of Nagorno-Karabakh as well as seven predominately Azerbaijani-populated districts outside of Nagorno-Karabakh. So far, these Azerbaijani lands remain occupied by Armenian forces.

³¹ *Zerkalo* newspaper, Baku, July 20, 2002.

mediation of the OSCE Minsk Group co-chairs. The last round of negotiations between the Armenian and Azerbaijani foreign ministers in 2006 was held in mid-November of that year in Brussels where both sides tried to find some common ground.³² The two ministers met again on January 23, 2007 in Moscow to resume their intensive discussions on a peaceful settlement of the Nagorno-Karabakh conflict.³³ New summits are scheduled for Armenian and Azerbaijani presidents who have yet to discuss pivotal issues pertaining to the conflict resolution. The confidentiality of the summits between the two presidents, as well as closed-door meetings between their foreign ministers and the increased efforts of some key European organizations on the Armenian-Azerbaijani conflict settlement have only provided fertile soil for new political speculations. Many in Baku and Yerevan hope for breakthrough in the peace process however one of the key problems concerning a quick conflict resolution is to prepare the public in both countries for compromise in order to reach a final political settlement.

Consequently, the fate of Nagorno-Karabakh has yet to be determined. With citizens in Armenia and Azerbaijan highly sensitive to the terms of any future peace agreement, relations between the two neighboring countries remain strained. If the peace process brings no results in the near future, a renewed war may occur especially under the pretext of actively pursuing retribution for attacks on its own soil. The regional implications of renewed warfare are immense, as several powerful players, most notably Russia and Turkey, are tied militarily to the two small states. The lack of progress in finding a real, durable solution to this territorial conflict is a worrying and destabilizing factor which continues to seriously impact European security. Therefore, peaceful resolution of the Armenian-Azerbaijani conflict requires much greater efforts of the European security organizations and will also depend on how successfully the EU institutions develop multilateral cooperation with the OSCE and the CoE and create new possibilities for enhancing a constructive dialogue-promoting potential through their more active participation in the Armenian-Azerbaijani peace process.

Promoting Democratization through Reform

The development of democracy, good governance and open society is an additional problem with which Azerbaijan has been trying to tackle since regaining independence in 1991. Azerbaijani people are proud that they established the first democracy in the Muslim world as far back as 1918.³⁴ Modern Azerbaijan is a proving ground where the tools and models of breaking old stereotypes and establishing new democratic values are being tested. A secular, oil-rich Muslim country is aspiring to build democratic institutions and create market economy system. Major European organizations such as the OSCE and the CoE are watching closely over democratic processes currently underway in this newly independent state. On several occasions, Europe's leading institutions have criticized the incumbent authorities for their failure in ensuring the protection of human rights and independent media, as well as for the lack of progress in eradicating rampant corruption and pervasive bribery in the state-owned institutions. Although European observers also acknowledged some improvements during the parliamentary

³² *Trend*, Baku-based News Agency, November 15, 2006.

³³ *APA*, Azeri Press Information Agency, Baku, January 23, 2007.

³⁴ An orientation toward political democracy in Azerbaijan was evident during the period 1918-1920, when the Azerbaijan Democratic Republic (ADR), the first republic in the whole of the Muslim East, was established on May 28, 1918. The ADR was recognized by the League of Nations and was a state with a wide spectrum of democratic freedoms, political pluralism, and multiparty structures of power. The ADR was also first among Muslim states to use the Latin alphabet instead of the Arabic script. However, the process of democratic development of Azerbaijani society was forcibly disrupted on April 28, 1920 when the Russian Bolshevik Eleventh Red Army invaded Azerbaijan and overthrew the democratic administration. For details, see Aydin Balayev, *Azerbaijan Democratic Republic*, (in Russian language), Baku, 1991; also see Aydin Balayev, *Azerbaijani National Movement in 1917-1918*, (in Russian language), Elm Publishers, Baku, 1998; Tadeuz Swietochowski, *Russian Azerbaijan, 1905-1920: The Shaping of National Identity in a Muslim Community*, Cambridge: Cambridge University Press, 1985.

ballot in 2005, they generally emphasized that the vote did not meet international standards for democratic elections.³⁵

Notwithstanding some serious impediments, Azerbaijan still can have a true democracy, as the Azeri society is prone to evolutionary democratic change. Certainly, the EU can add unique value in promoting democratic transition of the country, however, the Union's level of relationship and cooperation with Azerbaijan is determined by the policies of the ruling authorities in Baku. Even with its oil and gas riches, Azerbaijan will not be able to move closer to Europe without greater commitment to widespread reform which could lead to political and economic transformation of this post-Soviet Caucasian state. As such, a series of radical reforms notably in the areas of law enforcement, industrial monopolies, human rights, judicial system are still needed to be implemented to strengthen the tendency of democratization in the country. An improved record would even enable Azerbaijan to serve as a role model country to significantly contribute to diffusing democracy further to the post-Soviet Muslim states of Central Asia, particularly Kazakhstan, Uzbekistan, Turkmenistan, Kyrgyzstan and Tajikistan. Azerbaijan's success in the development of democracy and market economy reform might foster the creation of a new 'corridor of democratic values' which would add value in ensuring European security and maintaining stability in Eurasia on the whole.

As is seen from the aforementioned overview, post-Soviet Azerbaijan is at the center of Europe's three major interests: Caspian energy resources, conflict resolution in Nagorno-Karabakh, and sustainable democratization of Azerbaijani society. Accordingly, the EU needs to balance these three crucial interests. So far, the EU has done well with regional energy strategy, but less so with democratic reforms and almost nothing with the conflict settlement in Nagorno-Karabakh. For that reason, Azerbaijan really matters, especially given that the EU wants to see more serious democratic changes in this South Caucasian state. In this regard, the ruling elite in Baku should realize that the EU-Azerbaijan relationship will elevate to a new level of strategic partnership only if more legitimate democracy and free-market economy principles are truly bolstered through implementing deep political and economic reformation in this resource-rich country.

³⁵ For more on this issue, see the OSCE Press Release, November 7, 2005, available at http://www.osce.org/odihr/item_1_16887.html?print=1 (accessed: November 12, 2006); also see Final Report on the Parliamentary Elections in Azerbaijan, OSCE/ODIHR, February 1, 2006, available at <http://www.osce.org/odihr-elections/15649.html> (accessed: November 12, 2006).

EU-Azerbaijan Relationship

Azerbaijan's geographical location at the crossroads of Eurasia is the significant factor which explains strong interest of the EU member states in developing political and economic relations with this newly independent country. One of the main foreign policy priorities of Azerbaijan includes partnership and cooperation with the EU. For Azerbaijan, the EU is one of the most important global players on the international scene. In this sense, the EU possesses a huge political and economic potential and the Union offers Azerbaijan a broad spectrum of opportunities for progressive integration with European market. For this reason, it is worthwhile to discuss the ways of Azerbaijan's all-round interaction with the EU, thus analyzing the main benefits and obstacles of integration processes into the European community.

Political Relations and Trade Cooperation

With the entry of the PCA into force in June 1999, the legal framework for EU-Azerbaijan political relations has been provided. Since then, the EU-Azerbaijan partnership has been focused on basic elements such as the respect for democracy and rule of law, the protection of human rights and market economy principles. In effect, the PCA offers Azerbaijan comprehensive cooperation in all non-military spheres, mainly covering the fields of political dialogue, trade, investment and economic relations, legislative and cultural interaction. Regular political dialogue is being held at ministerial, parliamentary and high-ranking official levels between the EU executives and Azerbaijani authorities. But perhaps most noteworthy, the European Commission (EC) nominated a Special Envoy to Azerbaijan as far back as 1998. In turn Baku established a Permanent Mission to the EU in 2000. A year earlier, in 1999, with the purpose of facilitating the implementation of the PCA, the late H. Aliyev established a State Commission on the Partnership and Cooperation with the EU. In the summer of 2005, the incumbent President I. Aliyev issued a new decree on re-establishing of a State Commission on European integration.

Following the nomination of the first EUSR for the South Caucasus, the EU expanded political relationship with Azerbaijan and began to play a more active role in the region. From the mid-2003 through the early 2006, the EUSR, Ambassador H. Talvitie frequently visited Azerbaijan and mainly tried to assist the country with carrying out political and economic reforms, notably in the spheres of rule of law, democracy, human rights and good governance. Likewise, H. Talvitie paid attention to the problem of conflict resolution in Nagorno-Karabakh, constantly discussing the subject matter with Azerbaijani leadership. During H. Talvitie's term in office, President I. Aliyev visited Brussels in May 2004, and the EU Commissioner Janez Potocnik and President Romano Prodi traveled to Azerbaijan later in the same year. Most importantly, the inclusion of Azerbaijan (together with Armenia and Georgia) in the ENP became a significant step forward in the EU-Azerbaijan relations. In fact, the ENP signifies a new prospect for Azerbaijan which has been given an historic opportunity to enhance closer relationship with the EU, thus enlarging political and economic cooperation.

In March 2005, the EU released a special report on the assessment of progress made by Azerbaijan with regard to political and economic reforms in the country.³⁶ Moreover, according to the report of the European Bank for Reconstruction and Development (EBRD), Azerbaijan has become one of the world's fastest growing economies with a growth of over 26 percent due

³⁶ See 'European Neighborhood Policy,' Country Report for Azerbaijan, SEC (2005), 286/3, Brussels, March 2, 2005; also available at http://ec.europa.eu/world/enp/pdf/country/azerbaijan_country_report_2005_en.pdf (accessed: November 20, 2006).

to the expansion of its oil sector with the materializing of the BTC pipeline.³⁷ Indeed, Azerbaijan has gained a lot from numerous oil agreements signed with many of the leading international companies. Further, the current pipeline developments have helped strengthen the economic partnership with the Western democracies. In recent years, Azerbaijan has been the recipient of high levels of foreign direct investment (FDI), though the country's western districts have the lowest levels of income and the highest rate of poverty.³⁸ Beyond doubt, inflows of FDI into the petroleum sector will have favorable spillover effects in the non-oil sector only if Azerbaijan is able to manage monetary fluctuations linked with increases in oil export revenues.

Nevertheless, there is cautious optimism regarding the future of Azerbaijan's economy which is extremely dependent on the oil sector for its long-term welfare. Still, there are many reasons to believe that Azerbaijan will join the ranks of Norway, rather than Nigeria in terms of management of its oil wealth. Azerbaijan's uniqueness is in that one of its assets is the country's access to international energy markets from the construction of the BTC and BTE pipelines. Even after the oil and gas revenues drop (probably between 2010 and 2015), Azerbaijan will continue to profit from transit revenue source from these two pipeline routes. In addition, the authorities know well that their initiatives to prepare for mass inflows of oil revenues could help them avoid Dutch Disease and its related effects on national economy. But the fact that the country is now becoming increasingly less dependent on foreign petroleum corporations and IMF loans has raised a grave concern about whether there will be strong incentive for economic reform in the near future. Clearly, the continued reform efforts in the field of market economy are very essential, as the EU attaches greater importance to the creation of a liberal business climate in Azerbaijan. Hopefully, the ruling elite in Baku realizes that the continuing progress on economic reform, along with real endeavors to expand the non-oil sector will assist the country in successfully coping with the next phase of market economy transition in the coming years.

At the same time, the EU wants to see credible, sustainable commitment to reform in the wider social and political sphere where the consolidation of democratic values and the respect for human rights remain of paramount significance. In principle, Azerbaijan has succeeded somewhat in adopting international standards of democracy, open society and good governance. However, the country has been less successful in implementing Western norms of democratic governance, civil rights and the rule of law. Even despite slight progress in certain areas of reform, there are some disappointing developments including recent elections which have fallen short of a number of OSCE commitments and CoE democratic standards.³⁹ This means that much still remains to be done to consolidate the basis for a functioning democracy. In this regard, civil society will certainly be crucial in driving forward democratic change in the country.⁴⁰ The rule of law is also a prerequisite for the creation of a free trade and business climate and it is essential for the promotion of interactions between the authorities and civil society activists. Much remains to be done to further consolidate the independent media which is still necessitating financial support and capacity-building. Yet the Azerbaijani authorities are

³⁷ With reference to the Statement of the EBRD Baku Office, *Trend* reported that Azerbaijan has become leader for economic growth rate amongst the EU member states and countries of North American Association of Free Trade (NAAFT). See *Trend*, November 14, 2006. For additional information, see 'Transition Report 2006: Finance in Transition,' EBRD, November 2006; also available at <http://www.ebrd.com/pubs/econo/6813.htm> (accessed: November 20, 2006).

³⁸ See 'Azerbaijan Republic: Selected Issues,' Country Report, No. 05/17, International Monetary Fund (IMF), January 21, 2005.

³⁹ See OSCE/ODIHR Press Release, Warsaw, February 2, 2006; also available at http://www.osce.org/odihr-elections/item_1_17922.html (accessed: November 20, 2006).

⁴⁰ Since independence, civil society in Azerbaijan has certainly grown, but still remains heavily dependent on Western support and funding. For additional information, see 'Nations in Transit 2006,' Country Reports, Freedom House Europe, Budapest, June 13, 2006.

fully aware that democracy attains its real meaning where strong institutions operate in a coherent and mutually reinforcing way.

Another problem is corruption⁴¹ the persistence of which has a negative impact on the effectiveness of both assistance programs and foreign investment opportunities. The authorities have not yet established legal mechanisms and transparent institutions needed to punish deeply ingrained corruption which is identified as the biggest obstacle to widespread reform. As a major factor in distorting the fair distribution of wealth, corruption also subverts efforts to press forward administrative and economic reforms. Such a situation increases social divisions and breeds lack of respect for authority. President I. Aliyev has repeatedly spoken firmly about the need to eradicate corruption and campaign to clean up the government has been launched and many senior officials and ministers have been summarily dismissed. Although there has been little noticeable improvement, people still argue that the tentacles of corruption reach to the very highest echelons of power. Whether this is so or not, it is generally acknowledged that current level of corruption poses the largest threat to the democratic functioning of the country.

On the other hand, the EU has repeatedly expressed concern that Azerbaijan is still hampered by the ongoing territorial conflict with Armenia over Nagorno-Karabakh. Durable stabilization of Azerbaijan requires serious progress in resolving the Armenian-Azerbaijani conflict, which is often wrongly called 'frozen' one. In actual fact, the conflict itself is alive, since people are still dying in sporadic fighting at the ceasefire line. What is exactly 'frozen' though, unfortunately, is the process of conflict resolution, which is usually called the peace process. In this regard, the EU welcomes the dialogue between the Presidents of Azerbaijan and Armenia and the regular meetings between the Foreign Ministers of two countries. The EU also hopes these negotiations can bring progress towards a compromising settlement. In turn, many in Azerbaijan are keen to see the EU institutions' larger role in resolving the conflict in Nagorno-Karabakh, which potentially menaces European security. Compared to the OSCE and the CoE, the EU is a wealthier club of democracies which offers a unique combination of economic power and possibilities for a solid political dialogue. This could certainly be an added value to conventional multilateral diplomacy under the OSCE aegis.

Paradoxically, following the nomination of a Swedish diplomat Peter Semneby as the new EUSR for the South Caucasus in February 2006, the resolution of conflicts in this region represents one of the EU's high priorities. In one of his interviews, P. Semneby particularly emphasized that the EU's mandate has been expanded and the conflict resolution has been included in the agenda,⁴² thus signaling to more active attraction of the Union to the settlement of the problematic situation. Parallel to his statement on an enhanced role for the EU in peaceful resolution of conflicts, P. Semneby does not conceal Europe's grave concerns in connection with recent calls to a renewal of hostilities in the conflict zone.⁴³ Recently, frequent breaches of the ceasefire in Nagorno-Karabakh have demonstrated the fragility and instability of the situation at the front, even if there has been no return to full-scale hostilities. Over half a million IDPs from Nagorno-Karabakh and surrounding districts currently occupied by Armenian forces have become a strong-pro war electorate,⁴⁴ nearly 84 percent of whom call for the use of force to reach a final

⁴¹ In the annual rating of corruption perceptions released by Transparency International in November 2006, Azerbaijan ranked in 130th place with a score of 2.4. According to the Transparency International Baku Office, Azerbaijan's rating this year has risen, noting that last year Azerbaijan ranked 137th. See *Zerkalo*, November 7, 2006; *RFE/RL Newslines*, November 7, 2006.

⁴² *Trend*, March 25, 2006.

⁴³ *Ibid.*

⁴⁴ As a result of the Armenian-Azerbaijani armed conflict during 1988-1994, around 14 percent of Azerbaijan's 8.4 million people became refugees and IDPs.

settlement according to a 2004 opinion poll.⁴⁵ Besides, Azerbaijan's military spending has risen from \$135 million in 2001 to \$300 million by 2005.⁴⁶ After Armenian authorities pledged to respond accordingly with the Azerbaijan's increase, Baku then vowed to spend \$600 million on the military in 2006.⁴⁷

However, President I. Aliyev seems to generally remain faithful to the support of peace strategy, since it is not in Azerbaijan's economic interest to choose a military solution.⁴⁸ The expected windfall from oil and gas revenues has also motivated the European Community to act strongly to reach a speedy resolution of the conflict. At present, the EUSR's mandate is slightly changed and P. Semneby is asked not to assist but to contribute towards conflict settlement in the region. Throughout 2006 the EUSR has worked hard to take a direct part in conflict resolution, although the EU has no formal role in the peace talks over Nagorno-Karabakh under the auspices of the OSCE Minsk Group. Perhaps most importantly, P. Semneby has suggested that the EU could in future assume a peacekeeping mission if a solution to the Armenian-Azerbaijani conflict is found.⁴⁹ Yet most politicians in Baku and Yerevan realize that serious breakthrough is needed in the negotiating process in order to make sustainable progress in finding a mutually acceptable political settlement. One more sensitive issue is related to preparation of wider public opinion for compromise in both societies in which there are certain political disagreements concerning the understanding of a just resolution of the conflict.

Meanwhile, energy sphere has become an important element of European integration and is considered an essential part of Europe's security policy. Hence, energy security has gained a prominent place on the EU agenda and is most likely to determine the EU's relations with Azerbaijan in the coming years. As an exporter of energy resources, as well as an oil-rich country which carries transit deliveries of energy products, Azerbaijan greatly contributes in the energy security of Europe. This factor promotes the proximity between the EU and Azerbaijan. More recently, EC officials and Azerbaijani authorities have started to discuss the issues of role and presence of Azerbaijan in the EU-supported energy security related projects. The implementation of these projects is scheduled to begin from the end of 2007.⁵⁰ Such a state of affairs illustrates how firmly both sides are committed to the development of energy cooperation.

Furthermore, a visit to EU headquarters by Azerbaijani President I. Aliyev on November 7, 2006 opened a new chapter in the EU-Azerbaijani relationship. While in Brussels, Azerbaijani leader held meetings with EC President Jose Manuel Barroso, EU High Representative for CFSP Javier Solana, President of the European Parliament Josep Borrel Fontelles, EU Commissioner for Energy Andris Piebalgs and other EU's high-ranking executives. In the same day, Azeri President I. Aliyev and EC President J. Barroso signed a Memorandum of Understanding on strategic energy partnership between the EU and Azerbaijan.⁵¹ In one of his recent interviews, J.

⁴⁵ Opinion Poll Results, Baku Press Club, Azerbaijan, 2004; also see Sabine Freizer, 'A Last Chance for Peace?' in Laurence Broers (ed.), *Accord: An International Review of Peace Initiatives*, Issue 17: 2005, Conciliation Resources, London, UK.

⁴⁶ *Assa-Irada*, Baku-based News Agency, June 16, 2005.

⁴⁷ *Turan*, Baku-based News Agency, September 17, 2005. Moreover, according to Azerbaijan's projected defense expenditure for 2007, the country will spend \$1 billion on the military next year, up from \$600 million currently. For details, see *Kommersant*, Moscow, November 9, 2006.

⁴⁸ However, the results of opinion poll jointly conducted by several Azerbaijani non-governmental organizations have shown that 29.1 percent of 1496 respondents in total do not believe in the peaceful resolution of the conflict, while 27.9 percent believe but little, 24.4 percent would like to believe, 18.2 percent fully believe and 3.1 percent do not know what to say. For details, see 'Civil Society and Ilham Aliyev's 365 Days of Presidency,' Sociological Survey, Azerbaijan Free Speech Foundation (AFSF), Baku, October 2004.

⁴⁹ *IWPR Caucasus Report Service*, CRS No. 341, May 25, 2006.

⁵⁰ *APA*, Baku, January 18, 2007.

⁵¹ *AzerTag*, Azerbaijan's state-owned News Agency, Baku, November 8, 2006; *RFR/RL Newslines*, November 7, 2006.

Solana specifically pointed out the importance of the treaty on energy partnership aimed at enhancing Azerbaijan's cooperation with the EU at strategic level.⁵² Yet again, a broad energy accord with the EU reflects the growing significance of Azerbaijan as a key energy supplier to Europe as well as a vital transit country for Caspian hydrocarbon resources.

No less importantly, Azerbaijan has become the EU's largest trading partner in the South Caucasus since regaining independence, although their beneficial trade cooperation primarily deals with oil and gas resources. Compared to the CIS countries, however, Azerbaijan's total trade with the EU has grown steadily over the past several years. It is strongly believed that the country's further economic diversification is essential and the development of TRACECA trade route will provide a cornerstone for future economic growth. Right from the start, Azerbaijan requested the EU to support its application to join the World Trade Organization (WTO). The EU responded by giving assistance to help prepare for WTO membership under TACIS. Negotiations on market access are underway on the basis of revised offers in goods and services.⁵³ More recently, the two sides have also held several rounds of talks within the ENP to expand cooperation. Baku and Brussels are determined to deepen trade and economic relations. This means the transport, energy and other economy-related projects will further integrate Azerbaijan closer into the European markets.

ENP Action Plan for Azerbaijan

Quite evidently, the EU considers Azerbaijan a key partner playing vital role in the South Caucasus. In turn Azerbaijani leadership responds very positively to the EU's strategic vision as specified in the ENP which has given new impetus to wide-ranging cooperation between the two sides. Already in March 2005, the EC recommended significant intensification of relations with Azerbaijan through the development of an individual Action Plan under the ENP.⁵⁴ Since then, Azerbaijan has attached a great significance to the ENP Action Plan which creates a very favorable foundation for further implementation of democratic reforms in this post-Soviet country. The formal political consultations on the individual cooperation plan started in December 2005 and successfully ended with its official adoption in Brussels in mid-November 2006.⁵⁵ In reality, the signing of the Action Plan signaled the EU's desire to enhance a special relationship with Azerbaijan. In turn, for Azerbaijan, the Action Plan specifying concrete steps forward is a very important tool in terms of the country's further integration into the EU.

Furthermore, the individual Action Plan lays the foundation for a deep and multifaceted relationship based on shared values, which will contribute towards further transformation of Azerbaijani society. It is a cooperation plan that brings tangible benefits to both sides, mainly offering a closer partnership on many issues of mutual interest. Although there is no membership prospective in the ENP Action Plan, the EU offers a very strong relationship to Azerbaijan. For this reason, the ENP Action Plan is viewed as a political document containing concrete commitments both from the side of the EU and from the part of Azerbaijan. Most notably, these commitments include political reforms in the field of democracy, human rights and the rule of

⁵² From the interview with EU High Representative for CFSP Javier Solana, *Trend*, Baku, November 13, 2006; also see *Zerkalo*, November 13, 2006.

⁵³ Azerbaijan applied for WTO membership in late June 1997, and since then the country has an observer status in this organization. Working Party on the accession of Azerbaijan was established in mid-July 1997 and the first round of negotiations was held in June 2002. The latest meeting of the Working Party took place in March 2006. The next round of meeting is tentatively scheduled for late 2006. More details on this issue are available at http://www.wto.org/english/thewto_e/acc_e/a1_azerbaidjan_e.htm (accessed: November 21, 2006).

⁵⁴ In fact, the EC's recommendation was based on the Country Report which provided a detailed overview of EU-Azerbaijan relationship. For more, see Press Release on the ENP Country Report, European Commission, IP/05/238, Brussels, March 2, 2005.

⁵⁵ *Trend*, November 14, 2006.

law, as well as in the sphere of economy and energy.⁵⁶ Even despite the fact that the Action Plan contains some generalizations, this new document could serve as a road map for accomplishing broader and effective reforms in the country. Clearly, the very demanding task of implementing the Action Plan will require Azerbaijan to make a lot of efforts in order to attain European political and economic standards.

Most importantly, political stability and democratization are the two major priority areas for Azerbaijan. Both factors are essential for the country to derive the full benefits from the ENP Action Plan. Truly, Azerbaijan's perceptibly weak democratic record still hurdles to the expansion of even more intensive strategic relationship between the EU and Azerbaijan. During his recent visit to Brussels however, President I. Aliyev promised more political and economic reforms, specifically indicating that his administration would promote the democratization through encouraging progress in the country's political system.⁵⁷ Likewise, Armenian-Azerbaijani conflict over Nagorno-Karabakh continues to impede a closer European integration of both Caucasian countries. The search for ways of solution to the conflict in Nagorno-Karabakh by Azerbaijani leadership is viewed as a crucial test. The EU is keen to see a peaceful solution and European policymakers believe that any other approach would put the Azerbaijan's EU integration plans in danger. In a broader scale, any attempt at a military solution to the conflict will have very deep consequences and most notably will erode the EU's confidence in the stability of the entire region.

Consequently, the implementation of the Action Plan will require Azerbaijani authorities to demonstrate that their country shares values with the EU in practice. Indeed, the individual cooperation plan opens up new multifaceted opportunities for Azerbaijan. These are opportunities for future productive and beneficial cooperation in which both the EU and Azerbaijan will have to play their own roles. There is a great potential for the deepening of strategic partnership with the EU and Azerbaijan could make the most of this opportunity. But what matters to the EU are practical and sustainable results. This means the process of reform needs to be consolidated and further developed in Azerbaijan. Yet much work is to be done by Azerbaijani authorities who are required to push through a range of concrete reforms in the near future. Tangible progress is strongly needed to be made, especially in promoting civil society, fighting pervasive corruption and strengthening democracy and the rule of law in general.

In turn the EC seems to be ready to mobilize the EU's significant resources to support political and economic reforms in Azerbaijan, since Brussels recently proposed the European Neighborhood and Partnership Instrument (ENPI) as the new cooperation mechanism. The ENPI will include all the financial assistance covered by the ENP and the support currently provided under TACIS. However, it is already now quite clear that Europe's assistance will be conditional because the EC is firmly determined to link the delivery of financial aid with the implementation of democratic reforms. Therefore, what is certain is Azerbaijan's future relationship with the EU will depend on Azerbaijanis themselves and most notably on the citizens' strong determination to reform their country and make it a truly viable democracy. This is a serious challenge that Azerbaijan is facing now. Even more challenges are lurking on the horizon and the authorities have to be adequately prepared to meet them in the coming years.

⁵⁶ The EU-Azerbaijan Action Plan sets out a number of priority areas, all of which are important but particular attention is given to a peaceful resolution of the Nagorno-Karabakh conflict, the strengthening of democratic institutions, the respect for human rights and protection of fundamental freedoms, as well as the improvement of the business climate through combating corruption, the cooperation in the field of energy and the fight against terrorism, etc. For more details on this document, see 'ENP Action Plan for Azerbaijan,' EU Cooperation Council, Brussels, November 14, 2006; available online at http://ec.europa.eu/comm/external_relations/azerbaidjan/intro/index.htm (accessed: November 21, 2006).

⁵⁷ *RFE/RL Newslines*, November 7, 2006; *AzerTag*, November 8, 2006.

EU Financial Assistance

Since regaining independence in 1991, the total assistance provided by the EC to Azerbaijan has amounted to some 400 million euros. From the very beginning of the EU-Azerbaijan cooperation, the EC used the three principal instruments such as TACIS, the Food Security Program and humanitarian aid for refugees and IDPs, including rehabilitation of territories damaged during the armed conflict in Nagorno-Karabakh.⁵⁸ In point of fact, the EU assistance to Azerbaijan through various projects under the TACIS program has been instrumental in fostering the country's reform efforts in a variety of spheres. Since 1998 the TACIS National Indicative Program has focused on support of public sector reform and assistance for economic development. Following the adoption of the National Concept on Poverty Reduction Strategy by Azerbaijan in late 2002, the EC has also given a stronger emphasis to the problem of poverty reduction since early 2003.⁵⁹ Besides, the cooperation program includes financial support for private sector development where the assistance is mainly aimed at enhancing the business investment climate, as well as strengthening of higher education and vocational training in the country. Further, Azerbaijan benefits from grants under the TACIS Regional Program, especially in the fields of transport, energy, environment, as well as justice and home affairs.

With the achievement of rapid economic growth in Azerbaijan, the focus of EC assistance has now shifted from humanitarian aid to rehabilitation programs which are targeted at improving living conditions of the IDPs and refugees. The EU sees the OSCE Minsk Group as the optimal mechanism for the resolution of the Armenian-Azerbaijani conflict and fully supports the recent efforts made by the presidents of two countries to reach a breakthrough in the peace process. If progress is made over Nagorno-Karabakh, the EU assistance will be increased significantly to contribute towards alleviating interaction between the two nations by supporting post-conflict rehabilitation, economic modernization and regional cooperation.

Additionally, with the adoption of the ENP Action Plan, Azerbaijan's cooperation with the EU has taken on a new shape. Under the new assistance instrument ENPI which will replace TACIS in 2007, strategic partnership between the two sides will take a greater variety of forms. Perhaps most noteworthy, the main goal of the ENPI is to help Azerbaijan to attain European standards in certain areas which have been jointly determined by the EU and the Azerbaijani government. The EC delegation traveled to Baku in the summer of 2006 and held a series of meetings with Azerbaijani officials. The subject of their talks is to draft a new national indicative program, a document that deals with certain policy areas in which financial aid will be provided in the next few years. This program covers the period 2007-2010 during which Azerbaijan will start to implement the first phase of the ENP individual cooperation plan. This time period will be a serious test case for the country's ruling authorities who will have to prove that their genuine commitment to profound reforms becomes actual, not only political wordplay.

⁵⁸ In cooperation with other international donors, the EC provided shelter and medical aid to IDPs, as well as rehabilitated housing, schools, rail communications in Fizuli and Aghdam districts of Azerbaijan. For details, see 'Azerbaijan: Country Strategy Paper 2002-2006,' European Commission, Brussels, December 27, 2001; available at http://ec.europa.eu/comm/external_relations/azerbaidjan/csp/index.htm (accessed: November 22, 2006).

⁵⁹ Ibid.

Oil-rich Azerbaijan: EU Influence and Other External Players

In post-September 11th era, oil-rich Azerbaijan has become vitally important to economic and security interests both regionally and globally. The country's foreign policy orientation is greatly affecting the national security planning of large neighboring and distant powers. In recent years Azerbaijan has figured prominently in the foreign policies of many outside powers, which rigorously compete to extend their influence in the South Caucasus. Major rival powers within the region are normally identified as Russia, Iran, Turkey, the USA and the EU, but these five are not equal and their roles and influences are completely different. Whereas Iran and Turkey are regional players, Russia remains a global power and firmly sees the United States as a leading competitor in the Caucasus. In turn the EU takes more or less neutral stance, albeit major European powers also have their own geo-strategic interests in this post-Soviet territory. What follows below is no less important as a scholarly attempt to focus on a comprehensive discussion of the main tendencies in the foreign policy strategies of powerful external actors.

Regional Power Rivalries: Iran and Turkey

Being significant players in the region, both Iran and Turkey have a powerful impact on Caucasus geopolitics and Caspian geo-economics. In the case of Azerbaijan, Iran has been very cautious, and Tehran is concerned with what happens in this post-Soviet Muslim country. The clerical regime seeks to prevent the emergence of a strong and pro-Western Azerbaijan that would act as a magnet for the large community of Azerbaijanis living compactly in Iran's northern part who are potentially able to support independent Azerbaijan. Tehran fears increased nationalism among Azerbaijanis could threaten the integrity of the Iranian state. This is precisely the very factor which has guided Iran's policy toward Azerbaijan. A politically independent and secular Azerbaijan is not in the interests of Iran, as Iranian ruling circles believe that Azerbaijan may also emerge as a wealthy petroleum-producing country in the future. Likewise, Tehran clearly realizes that Azerbaijani ties with Turkey, NATO member state, will decrease Iranian influence in the region.

In principle, Iran sees Turkey as a big competitor despite the fact that Tehran and Ankara have an important, but ambivalent relationship. The clerical regime feels that Turkey threatens Iran geopolitically, and Iran has reasons to fear Turkey and oppose the spread of pan-Turkism not only in Azerbaijan but also in the entire Caucasus. These two regional powers are not simply in direct competition over influence but also represent a delicate set of geopolitical alliances in the region. While Ankara is strongly backed by the United States, Tehran and Moscow not only collaborate in the military sphere but also in the political realm in their attempt to resist growing U.S. and Turkish influence in the Caspian basin. Turkey has chosen Azerbaijan as its strategic ally, and Iran, in turn, collaborates closely with Armenia which has hostility towards Turkey.

In the post-September 11th regional environment, Iran is making every effort to play a more active role in oil-rich Azerbaijan. Tehran's relations with Baku are strongly influenced by the continuing conflict between Iran and the United States. Despite Tehran's well-known anti-American policy, the Islamic Republic is trying to affect the political and economic shape of the region. Still, Iran's success in Azerbaijan remains limited and Tehran has very little to offer Baku in terms of financial assistance and new technology. For this reason, Iran has fewer possibilities to play a leading economic role in this post-Soviet Caucasian state. However, Iran's ability to influence Azerbaijan via Islam is of higher importance. The ruling clerical regime in Tehran continues to serve as an active promoter of Islamic influence in the southern regions of Azerbaijan. This in turn means that Iran remains an important regional player, culturally influencing the Muslim people of the Caucasus.

Nevertheless, the lure of Azeri oil and the need for transportation to Western energy markets provides added incentive for further Turkish involvement. As such, Turkey considers Iran as a potential competitor in oil pipeline politics. The BTC oil pipeline and the BTE gas line have enabled Turkey to act as a strategic window for Azerbaijan seeking more effective integration into the international community. Right from the start, Ankara considered BTC as a valuable strategic and political asset that would highlight the country's position as an energy bridge between the Caspian oil supply center and the European market.⁶⁰ Firmly backed by the U.S., though rebuffed by the EU, Turkey has gone ahead to carve out an area of influence. Despite its desire to become a major player in the negotiations between the Armenians and Azerbaijanis, Turkey's role has been limited due to Russia's emergence as the dominant force in the conflict resolution process. While both Yerevan and Baku are still unwilling to break the current stalemate, Ankara feels that it can only exercise very limited influence regarding a peaceful resolution of the Nagorno-Karabakh conflict. Even in case of renewed armed hostilities between the Armenians and the Azerbaijanis, there is very little likelihood of a direct Turkish military involvement since that would probably bring the Russians and the Iranians into open conflict with Turkey.⁶¹

Unsurprisingly, Turkey's relations with Iran have also experienced the impact of geopolitical rivalry. Both Ankara and Tehran have viewed other's attempts to gain political and economic influence in the South Caucasus with considerable suspicion. Iran has always been concerned that a decrease of Russian influence in the entire region would result in an increase in Turkish influence, or in expansion of American influence.⁶² In effect, Tehran is still worried about Turkey's efforts to forge close political, economic, cultural, and military ties with Azerbaijan. Ankara, in turn, regarded the possibility of increased Iranian influence in Azerbaijan as an obstacle to its foreign policy efforts to pursue political and economic interests in the region. Even though the competition between Iran and Turkey over Azerbaijan has become less intensive since the early 1990s, geopolitical concerns continue to determine their perceptions of each other's regional behavior.

Great-Power Politics: Russia and the United States

The post-September 11th geopolitical environment has witnessed serious changes in Russian-American relations which came together with a revision of their role and foreign policy strategies in the South Caucasus where the spheres of influence of the great powers overlap. In principle, Azerbaijan has become a strategically important country in which the situation is largely defined by the policy conducted by Russia and the United States. The renewed U.S. interest, explained by a high-level of investment in Caspian basin, is taking place alongside a forceful return by Russia in the field of military and security cooperation and a strengthening of its economic and energy policy. Moscow seeks to maintain essential and priority links with Azerbaijan by means of Russia's position in strategic sectors of the economy. The increasing number of cooperative agreements signed between Russia and Azerbaijan for the development of bilateral relations provides further evidence of this policy.

In recent years Russia has made major efforts to increase its influence in Azerbaijan. Since the Putin presidency, however, Moscow has adopted a more pragmatic stance toward Azerbaijan, leading to a more constructive attitude in the OSCE Minsk Group negotiations. This is

⁶⁰ Temel Iskit, 'Turkey: A New Actor in the Field of Energy?' *Perceptions*, Journal of International Affairs, Volume 1, No. 1, March-May 1996.

⁶¹ For more on a view that suggests such a possibility, see Amy Myers Jaffe and Robert A. Manning, 'The Myth of the Caspian 'Great Game': The Real Geopolitics of Energy,' *Survival*, Winter 1998-99, p. 120.

⁶² Fred Halliday, 'Condemned to React, Unable to Influence: Iran and Transcaucasia,' in John F. R. Wright et al (eds.), *Transcaucasian Boundaries*, New York: St. Martin's, 1996, p. 82.

particularly evident in the role Russia is now playing in the peace process.⁶³ The Kremlin has also officially been less vocal toward expanded American influence in the region. Yet, Russia's foreign policy strategy has given abundant evidence to support that Moscow finds the present status quo convenient, and does not wish a quick or sustainable resolution to any conflict in the region. Most notably, the Kremlin seems to fear that a possible Armenian-Azerbaijani peace deal would decrease Armenia's security dependence on Russia.

The U.S. too has extensive geopolitical and geo-economic interests in Azerbaijan. In fact, U.S. interest in this Caspian littoral state intensified even more when American troops were ushered out of Uzbekistan. This incident impacted on the balance of power in the region and also strongly influenced Azerbaijan's foreign policy course. Perhaps most importantly, in January 2002, U.S. government made a strong case for a waiver of Section 907 and the Pentagon embarked on a large program of military cooperation with Azerbaijan.⁶⁴ Further, frequent visits of U.S. high-ranking officials to Baku during recent years have become clear indications of U.S. desire to build a military presence in this country. In late 2005, two American radar stations in Azerbaijan near the Russian and Iranian borders became operational. Moreover, a military center has been set up in Baku that is capable of monitoring all shipping and aircraft transport in and over the Caspian Sea.

Although the changing geopolitical situation during the past several years has made Azerbaijan an increasingly crucial component of U.S. foreign policy, American strategy has thus far been grappling with impediments arising from Russian-Iranian geopolitical maneuverings that hinder any serious U.S. activity in the region. The U.S.-declared campaign against Tehran's nuclear program has increased the strategic importance of independent Azerbaijan, which is depicted by some American policymakers as a geopolitical pivot.⁶⁵ As America's role in the South Caucasus is currently viewed in Moscow with great anxiety, the U.S. government has faced Russia's increasing reaction to the alleged American-generated upheavals in the region.

Presently, the foundation for current American policy in post-Soviet Azerbaijan lies firmly within the parameters of the new U.S.-Russian strategic partnership in the post-September 11 environment. However, while Russia reasserts its position in the face of a broadening U.S. presence in the South Caucasus and the Caspian basin, the entire region has emerged as an immediate arena of great-power competition between Moscow and Washington. Washington is trying to prevent political and economic supremacy by any one rival power in oil-rich Azerbaijan. For this reason, the United States has a keen interest in maintaining the 'geopolitical pluralism' of the region and preventing Russian dominance.⁶⁶ The contrast between this attitude

⁶³ The Kremlin has a strong political standing in Azerbaijan, especially in resolving the Armenian-Azerbaijani conflict over Nagorno-Karabakh. Many in Baku recognize that the resolution of the conflict is simply impossible without active participation of Russian Federation. This factor is particularly reflected in the results of opinion poll which indicate that 66.2 percent of 1496 respondents in total strongly believe that Russia can contribute to the soonest solution to the conflict, while 47.4 percent believe that the U.S. can contribute toward conflict resolution, 36.2 percent voted for Turkey, 16.6 percent chose the CoE, 10.4 percent voted for the EU and only 8.3 percent believe that the OSCE can resolve the conflict. For details, see 'Civil Society and Ilham Aliyev's 365 Days of Presidency,' Sociological Survey, Azerbaijan Free Speech Foundation (AFSF), Baku, October 2004.

⁶⁴ Although Section 907 sanctions have temporarily been suspended over the last several years, the U.S. government has not yet managed to have the measure completely removed by Congress. As a consequence, America's desire to provide substantial assistance to regional security is gravely hindered, since a major irritant in U.S.-Azerbaijani relations remains in place. For more on this issue, see Bradley Graham, 'Rumsfeld Discusses Tighter Military Ties with Azerbaijan,' *Washington Post*, December 4, 2003, p. A23; S. Frederick Starr, *Resolving Karabakh: Strategic Options for the US Government*, Washington, D.C., Central Asia-Caucasus Institute, 2004.

⁶⁵ Zbigniew Brzezinski, *The Grand Chessboard: American Primacy and Its Geostrategic Imperatives*, New York: Basic Books, 1997, p. 139.

⁶⁶ In point of fact, a clear but unofficial American goal in the region is to hinder the emergence of a new and strongly integrated union on the territory of the CIS. In other words, U.S. policy is aimed not simply at reducing

and that of Russia's is very important, since Russia tends to see a new geopolitical game as a low-intensity, soft-power battle for dominance and survival, but the U.S. in turn understands it as merely a grab for usable resources and convenience. The tricky part is that in many ways, Russia is powerless to inhibit the spread of U.S. influence in this post-Soviet territory. Though, Washington often reacts rather cautiously to the increasing pressure the Kremlin puts upon Azerbaijan which is trying to strike a geopolitical balance between the two great powers.

Clearly, how Russia and the U.S. act strategically in the South Caucasus will influence geopolitical alignments throughout post-Soviet territory. The recent convergence of interest on the part of American and Russian security concerns has slightly modified the regional balance. This means that there are the limits to the Russian-American cohabitation in the South Caucasus. The common desire of these two principal powers to combat global terrorism and cut off illegal trafficking is compounded by a certain level of geo-strategic rivalry. Azerbaijan has found itself in a delicate position in the face of incompatible political options, since Moscow perceives growing U.S. military engagement as American expansionism in Russia's natural zone of influence. In practice, these strategic options somewhat remain linked to fluctuations in Russian-American relations. Therefore, Azerbaijani leadership has realized that closer cooperation with Russia over security matters is also vital, even if some aspects of the Kremlin policy are not comfortable. Even so, the near future seems to promise no way to establish a common security system and to begin integration processes in the South Caucasus. Unfortunately, the region has become a solid knot of great-power contradictions that will take decades of effort to undo.

EU at a Neutral Stance

In the post-September 11th era, the presence of important external actors has complicated EU strategic thinking on the South Caucasus. The EU's role in post-Soviet Azerbaijan is not at all comparable with other principal regional powers such as Russia, the U.S., Iran, and Turkey. Compared with these geopolitical players, the EU's political engagement in this country has been minimal. In essence, EU strategy towards Azerbaijan is dominated mainly by considerations of how European policies will affect the EU-Russian relations. Besides, the EU has significant differences with the United States regarding its strategic goals in the South Caucasus. The EU is not intended to isolate either Russia or Iran from the commercial opportunities in the Caspian basin. In contrast, the EU has always tried to build positive relations with both regional powers. Although the EU has no desire to become the key security actor in this region, the Union is seeking to promote a ring of well-governed and stable countries in Europe's southern tier. The fact that the EU seeks stability and security in the South Caucasus perfectly suits Russian and American interests.

Paradoxically, Germany in fact is currently the only EU member state which is trying to discover a fundamentally new understanding of the Caucasus geopolitics in the post-September 11th period. Recently, German government has prepared a new Eastern policy (*Ostpolitik*), which is aimed to launch a new process of cooperation with the post-Soviet states.⁶⁷ Moreover, in April 2006, German newspaper *Die Welt* reported that Chancellor Angela Merkel would present her view on shaping of a 'new EU-Eastern policy' with energy as a focal point and the Caucasus as a regional priority during Germany's presidency of the Union in the first half of 2007.⁶⁸ In this regard, Germany in recent years has displayed growing interest toward Azerbaijan. Germany attaches great importance to Azerbaijan and political relations between the two countries are

Russian influence over Azerbaijan and other South Caucasian states but also putting an effective end to any practical hope for closer integration within the CIS. For an interesting overview on this issue, see Z. Brzezinski, *op. cit.*, in note 65.

⁶⁷ *International Herald Tribune*, October 6, 2006.

⁶⁸ *Die Welt*, April 18, 2006.

developing well. Germany is particularly interested in transportation of hydrocarbon resources from Azerbaijan to Europe and is also keen to deepen the bilateral relationship. An evidence of widening cooperation between the two states is shown in the official visits of President Aliyev to Berlin where Azerbaijani leader met with Federal President Horst Koehler and former Chancellor Gerhard Schroeder, as well as with newly elected Chancellor Angela Merkel and other senior officials.⁶⁹ Germany is the biggest and most important partner of Azerbaijan in Western Europe,⁷⁰ particularly with a view to integration of this Caucasian country into the European community.

Nevertheless, the stabilization of resource-rich Azerbaijan, which depends on an intensification of the EU's support for conflict resolution, is very crucial in the light of the energy issue. As part of the search for greater energy independence, the EU is getting closer to Azerbaijan. The signing of a broad accord on enhancement of bilateral energy cooperation promises to transport large volumes of oil and gas to European market. Likewise, the EU is keen to cooperate with Azerbaijan on the problem of Iran. While the EU is trying to thwart Tehran's ambitions to build nuclear weapons, Azerbaijan is seeking political support for its efforts to improve the standing of ethnic Azerbaijanis living in Iran who constitute a significant part of the population of that country but are deprived of their national rights. Without doubt, the increasing cooperation on energy matters and the growing strategic partnership on geopolitical concerns are likely to strengthen the EU's potential presence in the Caucasus and in Azerbaijan particularly. Such a possible situation however raises an interesting, yet sensitive question on whether the EU can afford to play a clear strategic game in this vitally important region that Russia still perceives as its own sphere of influence.

So far, the EU in effect remains at a neutral stance in this troubled region. Most probably, Brussels wants at all costs to avoid a direct conflict with Moscow, even if there are serious disagreements in EU-Russian relationship. Despite growing European interest in Caspian energy sources and pipeline projects, the EU has not yet played any particularly prominent role in Azerbaijan. Truly, the European community needs to become more consistent in its deployment of political tools and be more connected to the activities of the EU member states in the region. If the EU managed to seize the full range of political opportunities open to it – ranging from diplomatic efforts to regional programs and the provision of more active support in resolving conflicts – such actions would go a long way towards fostering stability and encouraging development in Azerbaijan and throughout the region. In the context of the ENP, the EU should make various efforts to ensure long-term stability by implementing transnational economic projects, actively supporting far-reaching reforms designed to promote the rule of law, combating corruption and organized crime, and developing the free-market economy in Azerbaijan. To this end, it is important that the EU provides support for constructive forces, both within the opposition and in the government, mainly counting on politicians who are adequately prepared to cooperate to reform their country and ensure its full integration into the European community in the long run.

⁶⁹ Moreover, Federal Ministers Joschka Fischer and Heidemarie Wiecezorek-Zeul visited Azerbaijan in 2001. J. Fischer visited Azerbaijan again in 2004 and in the same year President I. Aliyev paid an official visit to Germany. In mid-February 2007, President I. Aliyev visited Berlin to meet with German Chancellor A. Merkel and other high-ranking officials. In the same period, during his diplomatic tour within the South Caucasus, German Foreign Minister Frank-Walter Steinmeier arrived to Baku where he met with top representatives of Azerbaijani leadership and held negotiations on the questions of energy politics, conflict resolution, democratization and human rights protection. On this issue, see *Zerkalo* newspaper, Baku, February 20, 2007.

⁷⁰ While meeting with President I. Aliyev in Berlin in February 2007, German Chancellor A. Merkel pointed out that the EU could improve its energy security with support of oil-rich Azerbaijan. However, she called on President I. Aliyev to respect democratic norms, particularly in the sphere of human rights protection. In turn, Azerbaijani leader responded by promising that his government would improve democratic record under the signed ENP Action Plan within the next five years. See *Deutsche Presse-Agentur*, Berlin, February 15, 2007.

Conclusion

Undoubtedly, with the accession of Romania and Bulgaria to the EU in January 2007, the South Caucasus will become a region of direct concern to Europe's wider strategy in the immediate neighborhood. This means the future of the South Caucasus will affect the interests of the EU member states in the southeastern part of Central Europe. Most notably, Azerbaijan has a special geopolitical place in the Caucasus and the Caspian basin. The prospects for conflict resolution in Nagorno-Karabakh and particularly the danger of broader regional destabilization have emphasized that EU priority must include a revised strategic action plan on Armenian-Azerbaijani peace settlement. Azerbaijan's hydrocarbon resources are also important for European energy strategy. The country's oil and gas fields further reinforce the importance of the trade and energy transport corridor supported by TRACECA and the INOGATE, designed to bypass Russia by crossing Georgian territory, albeit the EU has been in support of multiple pipeline routes chosen on a commercial basis. Major European companies also wish to invest strategically in Azerbaijan's energy sector. Several oil giants, such as British Petroleum, Total Fina Elf, Statoil signed partnership agreements with Azerbaijan where some EU member states have developed a strong presence. This factor points out that oil-rich Azerbaijan is coming closer to the focal point of European politics due to Caspian energy reserves and the unfolding security situation in the South Caucasus.

Still, instability in the South Caucasus is a serious threat to the EU security. The region presents a number of challenges that characterize the post-September 11 geopolitical situation and more precisely, the young countries' political behavior in the context of the U.S.-led war against terror, the risk of renewed hostilities in conflict-torn areas, the difficult processes of democratization in fragile societies, the security of oil and gas pipelines, risks of environmental degradation and humanitarian crisis. For this reason, the EU seems to adopt a rather skeptical wait-and-see approach towards the South Caucasian countries. Yet the EU's common foreign policy, albeit still in its early stages, has provided precious modest political support for the post-Soviet leaders of these young states to address immediate national security concerns linked with separatist regions. However, under the current circumstances, the EU remains ambiguous in its South Caucasian neighborhood policy. Apparently, much will depend on the attitude of the major member states of the EU, which pursue their own national foreign policies towards the three countries, thus affecting the coherence of the EU's external actions.

Presumably, the EU acts tactically, not strategically, in the South Caucasus. European attention has been diverted from the South Caucasus to the Eastern and Central European countries, which have become the primary foreign policy concern of the EU during the past several years. Hence, the EU is currently preoccupied with the problems of enlargement, and emerging significant tasks of ratifying the EU Constitution and deciding on Turkish membership. However, the EU remains gravely concerned about the unresolved conflicts in the South Caucasus and the EC is debating whether it should attach political conditions to its economic aid in order to push the negotiating process forward. It is also believed that a policy of conditionality would not be enough to push South Caucasian leaders to take steps toward real progress in the region. But the arrival of a newly nominated EUSR P. Semneby is a well-timed moment for the EU to become more effective and strengthen its political presence in this post-Soviet territory.

Most importantly, the EU-South Caucasian relations need to be further expanded in the bilateral and regional dimensions of economy and trade, as well as at the diplomatic level. The post-September 11th environment has given a chance to the South Caucasus to exert its importance as a significant geo-strategic pivot, as well as to the EU to play a global role in the region. In order to activate this global role, the EU has to reverse years of neglect of South Caucasus. There are encouraging signs of EU involvement in the region, specifically in improving trade, economic

and energy ties with Azerbaijan. From political standpoint, the ENP can be used by the EU to advance its interest in the region. In turn Azerbaijan (together with Georgia and Armenia) has the opportunity to show tangible progress towards closer integration in the EU.

Acronyms

BTC	Baku-Tbilisi-Ceyhan pipeline
BTE	Baku-Tbilisi-Erzurum pipeline
CFSP	Common Foreign and Security Policy
CIS	Commonwealth of Independent States
CoE	Council of Europe
EBRD	European Bank for Reconstruction and Development
EC	European Commission
ENP	European Neighborhood Policy
ENPI	European Neighborhood and Partnership Instrument
EU	European Union
EUSR	European Union Special Representative
FDI	Foreign Direct Investment
FSA	Freedom Support Act
GUAM	Georgia, Ukraine, Azerbaijan, Moldova
IDPs	Internally Displaced Persons
IMF	International Monetary Fund
INOGATE	Interstate Oil and Gas Transport to Europe
NATO	North Atlantic Treaty Organization
OSCE	Organization for Security and Cooperation in Europe
PACE	Parliamentary Assembly of the Council of Europe
PCA	Partnership and Cooperation Agreements
TACIS	Technical Assistance to the CIS
TRACECA	Transport Corridor for Europe, Caucasus and Asia
UN	United Nations
USA	United States of America
WTO	World Trade Organization

South Caucasus



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