



CRS Report for Congress

Azerbaijan: Recent Developments and U.S. Interests

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Summary

This report discusses political, economic, and security challenges facing Azerbaijan, including the unsettled conflict in the breakaway Nagorno Karabakh region. A table provides basic facts and biographical information. This report may be updated. Related products include CRS Report RL33453, *Armenia, Azerbaijan, and Georgia, Political Developments and Implications for U.S. Interests*, by Jim Nichol.

U.S. Policy

According to the Administration, Azerbaijan needs to bolster its commitment to democratization and respect for human rights in order “to continue to be a partner of the United States on security issues and to ensure that the country’s energy revenues are used to improve the lives of its citizens.” Although Azerbaijan is making progress in developing its energy resources, lagging democratic and economic reforms “are major obstacles to Azerbaijan’s advancement.” Another impediment is the unresolved conflict with the separatist Nagorno Karabakh region. “The ceasefire is frequently violated,” the Administration asserts, “thereby inhibiting the ability of the United States to provide robust security assistance” (*Congressional Budget Justification for Foreign Operations, FY2008*).



Source: Map Resources. Adapted by CRS. (K.Yancey 3/10/05)

Cumulative U.S. aid budgeted for Azerbaijan from FY1992 through FY2006 was \$636.6 million (FREEDOM Support Act and agency funds). Almost one-half of the aid was humanitarian, and another one-fifth supported democratic reforms. In FY2006, U.S. budgeted assistance to Azerbaijan was \$47.9 million (FREEDOM Support Act and other Function 150 foreign aid, excluding Defense and Energy Department funds), and the

Administration requested \$27.4 million for FY2008 (FREEDOM Support Act and other foreign aid, excluding Defense and Energy Department funds and food aid). The highest priorities for FY2008 aid will include combating corruption, encouraging freedom of the media, strengthening the legislature, enhancing electoral administration, and helping non-governmental organizations (NGOs) improve their advocacy. Ensuring peace and security will be the next-highest priority, and will focus on developing Azerbaijan's maritime security, airspace management, armed forces interoperability with NATO, military and border security to combat the spread of weapons of mass destruction (WMD), and ability to combat trafficking in persons. Another priority is economic aid to encourage non-energy private sector growth, government budgetary transparency, poverty reduction, job creation, and anti-inflationary strategies. The requests for health and humanitarian aid are reduced since the Azerbaijani government is sharing costs and moving to address the needs of internally displaced persons.

Basic Facts

Area and Population: Land area is 33,774 sq. mi.; about the size of Maine. The population is 7.96 million (*The World Factbook*; mid-2006 est.). Administrative subdivisions include the Nakhichevan Autonomous Republic (NAR) and the Nagorno ("Mountainous") Karabakh Autonomous Region (NK). NK's autonomy was dissolved in 1991.

Ethnicity: 90.6% are Azerbaijani; 2.2% Dagestani; 1.8% Russian; 1.5% Armenian, and others (1999 census). An estimated 6-12 million Azerbaijanis reside in Iran.

Gross Domestic Product: \$58.1 billion; per capita GDP is about \$7,300 (*World Factbook*; 2006 est., purchasing power parity).

Leaders: *President:* Ilkham Aliyev; *Chairman of the Milli Mejlis (legislature):* Oqtay Asadov; *Prime Minister:* Artur Rasizade; *Foreign Minister:* Elmar Mamedyarov; *Defense Minister:* Safar Abiyev.

Biography: Ilkham Aliyev, born in 1961, graduated with a kandidata (advanced) degree from the Moscow State Institute of International Relations in 1985 and then taught history. In 1991-1994, he was in business in Moscow and Baku, then became head of the State Oil Company (SOCAR). He was elected to the legislature in 1995 and 2000. In 1999, he became deputy, then first deputy chairman, of the ruling New Azerbaijan Party. In August 2003, he was appointed prime minister, and was elected president in October 2003.

Since FY2004, Azerbaijan has been designated as a candidate country for enhanced U.S. development aid from the Millennium Challenge Corporation, but the country has not been selected as eligible for aid because of its low scores on measures of civil liberties, control of corruption, government accountability, and the rule of law. In February 2007, the United States and Azerbaijan announced that they were forming an Economic Partnership Commission to mark a more intense level of cooperation. Several agreements were signed to boost U.S. technical advice on customs affairs, treasury information management, healthcare, and the State Oil fund. In March 2007, the United States and Azerbaijan agreed to explore how Azerbaijani gas might be routed to help Europe bolster its energy security by diversifying its supplies.

Congressional concerns about the ongoing NK conflict led in 1992 to Section 907 of the FREEDOM Support Act (P.L. 102-511) that prohibited most U.S. government-to-government assistance to Azerbaijan until the President determined that Azerbaijan had made "demonstrable steps to cease all blockades and other offensive uses of force against Armenia and Nagorno-Karabakh." Congress eased many Section 907 restrictions on a year-by-year basis until the terrorist attacks on the United States in September 2001, after which it approved an annually-renewable presidential waiver (P.L.107-115). The conference managers stated that the waiver was conditional on Azerbaijan's cooperation with the United States in combating terrorism, and that they intended to "review and reserve the right to amend the waiver language." Other congressional initiatives have

included the creation of a South Caucasus funding category in FY1998 to encourage an NK peace settlement, provide for reconstruction, and facilitate regional economic integration. Congress also has called for humanitarian aid to NK, which has amounted to \$27 million from FY1998 through FY2006, with an estimated \$2 million planned for FY2007. Congress passed “The Silk Road Strategy Act” in FY2000 (as part of consolidated appropriations, P.L. 106-113) calling for enhanced policy and aid to support conflict amelioration, humanitarian needs, democracy, economic development, transport and communications, and border controls in the South Caucasus and Central Asia.

Contributions to the Global War on Terrorism

After the terrorist attacks on the United States on September 11, 2001, Azerbaijan “approved numerous landings and refueling operations at its civilian airport in support of U.S. military operations in Afghanistan,” according to the State Department’s *Country Reports on Global Terrorism 2005* (released April 2006). Azerbaijan participated in coalition peacekeeping in Afghanistan beginning in late 2002 (about 30 Azerbaijanis were deployed there as of early 2007). Azerbaijan “aggressively apprehended and tried” terrorists and their supporters, marking “some success” in reducing the numbers of terrorists transiting the country, according to the *Report*. Azerbaijan was among the “coalition of the willing” countries that openly supported the U.S.-led Operation Iraqi Freedom (OIF). In August 2003, Azerbaijani troops began participating in the coalition stabilization force for Iraq (as of early 2007, 150 Azerbaijanis were deployed in Iraq).

Foreign Policy and Defense

President Ilkham Aliyev has emphasized good relations with the neighboring states of Georgia and Turkey, but relations with foreign states have often been guided by their stance regarding the NK conflict. According to some observers, Ilkham Aliyev initially had emphasized closer relations with Russia, but this stance appeared to have been altered in late 2006 when Russia demanded higher prices for gas exports to Azerbaijan (see below). Azerbaijan views Turkey as a major ally against Russian and Iranian influence, and as a balance to Armenia’s ties with Russia. Ethnic consciousness among some “Southern Azerbaijanis” in Iran has grown, which Iran has countered through repressive actions and by limiting trans-Azerbaijani contacts. Azerbaijani elites fear Iranian-supported Islamic fundamentalism and question the degree of Iran’s support for an independent Azerbaijan. Azerbaijan is a founding member of GUAM (an acronym of members Georgia, Ukraine, Azerbaijan, and Moldova), which has discussed energy, transport, and security cooperation, partly to counter Russian influence. Azerbaijan is a member of the Black Sea Economic Cooperation group, the Council of Europe (COE), the Economic Cooperation Organization, and the Organization of the Islamic Conference.

Frictions in Azerbaijani-Russian relations include Azerbaijan’s allegations of a Russian “tilt” toward Armenia in NK peace talks. In 1997, Russia admitted that large amounts of Russian weaponry had been quietly transferred to Armenia, and in 2000 and since 2005, Russia has transferred heavy weaponry from Georgia to Armenia, fueling Azerbaijan’s view that Russia supports Armenia in the NK conflict. Azerbaijani-Russian relations appeared to improve in 2002 when the two states agreed on a Russian lease for the Soviet-era Gabala early warning radar station in Azerbaijan and they reached accord on delineating Caspian Sea borders. Perhaps seeking Russian support for his new rule,

Ilkham Aliyev in March 2004 reaffirmed the 1997 Azerbaijani-Russian Friendship Treaty. Putin's March 2006 visit to Azerbaijan was described as "friendly," but Aliyev reportedly would not agree to support the creation of a Russia-led Caspian Sea naval security alliance or commit to greater use of Russian pipelines for exports. In late 2006, Russia's demands for Azerbaijan and Georgia to pay substantially higher gas prices appeared to contribute to cooler Azerbaijani-Russian relations.

According to *The Military Balance* (February 2007), Azerbaijani armed forces consist of 66,740 army, air force, air defense, and navy troops. There also are about 5,000 border guards and more than 10,000 Interior (police) Ministry troops. Defense spending has been increasing in recent years, to about \$1 billion in 2007 (about 16% of budget expenditures). Under a 10-year lease agreement, about 1,400-1,500 Russian troops are deployed at Gabala. Azerbaijan reportedly received foreign-made weapons of uncertain origin and armed volunteers from various Islamic nations to assist its early 1990s struggle to retain NK. In 1994, Azerbaijan joined NATO's Partnership for Peace (PFP) and began an Individual Partnership Action Plan (IPAP) in 2005, but President Aliyev has not stated that the country seeks to join NATO. Some Azerbaijani troops have participated in NATO peacekeeping in Kosovo since 1997 and coalition and NATO operations in Afghanistan since 2002. The U.S. European Command coordinates some U.S. security aid under a Caspian Guard initiative to help Azerbaijan better control maritime borders.

The NK Conflict. In 1988, NK petitioned to become part of Armenia, sparking ethnic conflict. In December 1991, an NK referendum (boycotted by local Azerbaijanis) approved NK's independence and a Supreme Soviet was elected, which in January 1992 futilely appealed for world recognition. The conflict over the status of NK resulted in about 30,000 casualties and over one million Azerbaijani and Armenian refugees and displaced persons. The non-governmental International Crisis Group (ICG) estimates that about 13-14% of Azerbaijan's territory, including NK, is controlled by NK Armenian forces (the Central Intelligence Agency estimates about 16%).¹ A ceasefire agreement was signed in July 1994 and the sides pledged to work toward a peace settlement. Reportedly, four peace plans have been proposed by the Organization for Security and Cooperation's (OSCE's) "Minsk Group" countries. Since 2005, negotiations have centered around a fourth "hybrid" peace plan. The Minsk Group co-chairs issued a statement and made other remarks in April-July 2006 that revealed some of their proposals for a settlement. These include the phased "redeployment of Armenian troops from Azerbaijani territories around Nagorno-Karabakh, with special modalities for Kelbajar and Lachin districts (including a corridor between Armenia and NK); demilitarization of those territories; and a referendum or population vote (at a date and in a manner to be decided ...) to determine the final legal status of NK." International peacekeepers also would be deployed in the conflict area.²

Disagreeing with the Minsk Group settlement proposals, President Aliyev in July 2006 stated that the withdrawal of NK forces from occupied territories (including NK

¹ ICG. *Nagorno-Karabakh: Viewing the Conflict from the Ground*, September 14, 2005. CIA. *The World Factbook*, [<http://www.cia.gov>]. The casualty estimate is from the State Department, *Background Note: Azerbaijan*, July 2006.

² U.S. Embassy in Armenia, *Statement by the Minsk Group Co-Chairs to the OSCE Permanent Council*, June 22, 2006; OSCE. *Statement by the Minsk Group Co-Chairs*, July 3, 2006.

itself) must be followed by the return of Azerbaijani displaced persons. Then, he averred, Azerbaijani (including NK) citizens would discuss the status of NK, but its secession from Azerbaijan was forbidden.³ At a meeting of the Armenian and Azerbaijani foreign ministers in Paris in October 2006, Armenian Foreign Minister Vartan Oskanyan proposed that all occupied territories around NK (including Kelbajar and Lachin) could be returned if there was clarity on the plan for a referendum to be held in NK on its status. However, he reported in mid-March 2007 that “deep differences” remained between the two sides. Armenian President Robert Kocharyan reportedly stated in late February 2007 that the problem of NK’s status had been solved *de facto* and that the aim of the talks was to legitimize the current situation.⁴

Political and Economic Developments

The Azerbaijani constitution, approved by a popular referendum in November 1995, strengthened presidential power and established an 125-member unicameral legislature (Milli Mejlis) with a five-year term for deputies. The president appoints and removes cabinet ministers (the Milli Mejlis consents to his choice of prime minister), submits budgetary and other legislation that cannot be amended but only approved or rejected within 56 days, and appoints local officials. The U.S. State Department viewed an August 2002 constitutional referendum as flawed and as doing “very little to advance democratization.” Some opposition party leaders objected to provisions eliminating party list voting in future legislative races and designating the prime minister as the next in line in the case of presidential incapacity, death, or resignation, which they predicted would facilitate a succession from then-President Heydar Aliyev to his son, Ilkham.

Marking the closing of an era, Heydar Aliyev suffered serious cardiac problems in April 2003 and was mostly in hospital up through the expiration of his term in October. Both father and son were candidates for the scheduled October 15, 2003 presidential election. In early October, the ailing Heydar withdrew from the race. Ilkham Aliyev handily won the election, beating seven other candidates with about 77% of the vote. Protests alleging a rigged vote resulted in violence, and spurred reported government detentions of more than 700 opposition party “instigators.” Trials reportedly resulted in several dozen prison sentences. The U.S. State Department expressed “deep disappointment” with “serious deficiencies” in the election and “extreme concern” about “politically-motivated arrests” after the race. In February 2005, the OSCE issued a report that raised concerns about credible allegations of use in the trials of evidence derived through torture. Aliyev in March 2005 pardoned 114 prisoners, including many termed political prisoners by the OSCE.

Changes to the election law were approved by the legislature in June 2005, including some making it easier for people to become candidates for a November 6, 2005, legislative election. Azerbaijan’s Central Electoral Commission (CEC) declared that the ruling Yeni Azerbaijan Party won 54 seats and independents, 40 seats. Opposition party candidates were declared the winners in a handful of constituencies. The U.S. Embassy in Azerbaijan issued a statement urging the government to investigate and rectify some

³ Leyla Tavshanoglu, Interview with the President of Azerbaijan, *Cumhuriyet*, July 4, 2006.

⁴ Open Source Center. *Central Eurasia: Daily Report*, February 22, 2007, Doc. No. CEP-950100.

voting irregularities but also praised the election as evidence of democratization progress. The CEC and courts eventually ruled that 625 (12.2%) of precinct vote counts were suspect, and repeat races were scheduled for May 2006 in ten constituencies. The opposition Azadliq electoral bloc refused to field candidates in what it claimed were “rigged” elections. OSCE monitors judged the repeat race as an improvement over the November election but stated that irregularities still occurred.

According to the U.S. State Department’s *Report on Human Rights Practices for 2006* (released March 2007), the Azerbaijani government’s human rights record remained poor, and it continued to commit numerous abuses. Police arbitrarily arrested or detained some individuals, particularly those considered political opponents, and tortured and beat some persons in custody, usually with impunity. Prison conditions generally were harsh and life threatening. Individuals continued to be jailed for politically motivated reasons. Pervasive corruption continued in the judiciary and in law enforcement. Freedom of the media and freedom of assembly worsened during the year. The government set up a shelter for victims of trafficking and a stand-alone anti-trafficking special police unit. Some individuals viewed as political prisoners were pardoned in March 2005 and March 2007.

The collapse of the Soviet Union and the NK conflict in the early 1990s contributed to the decline of Azerbaijan’s GDP by over 60% by 1995. The economy began to turn around in 1996-1997. GDP growth in 2006 was an estimated 32.5% and consumer price inflation was an estimated 8% (*World Factbook*), but inflation reportedly is increasing in 2007. The energy sector accounts for most GDP growth, and the non-oil economy is fragile. A State Oil Fund provides some accountability for revenues. Azerbaijan reports that foreign investment has increased dramatically, from \$129 million in 2000 to \$3.7 billion in 2006, of which the U.S. share was about \$640 million. Azerbaijan is attempting to address the problem of widespread corruption.⁵ Up to one-fourth of the population lives and works abroad because of high levels of unemployment in Azerbaijan.

Energy. The U.S. Energy Department in June 2005 reported estimates of 7-13 billion barrels of proven oil reserves and 30 trillion cubic feet of proven natural gas reserves in Azerbaijan. U.S. companies are shareholders in three international production-sharing consortiums that have been formed to exploit Azerbaijan’s Caspian Sea oil and gas fields, including the Azerbaijan International Operating Company or AIOC, led by British Petroleum (developing the Azeri, Chirag, and Gunashli fields). The United States backed the construction of a large (one million barrels per day capacity) oil pipeline from Azerbaijan through Georgia to Turkey’s Ceyhan seaport on the Mediterranean (the Baku-Tbilisi-Ceyhan or BTC pipeline) as part of Azerbaijan’s economic development, and because this route neither allows Russia to gain undue control over Azerbaijan’s resources nor forces Azerbaijan to seek export routes through Iran. Construction began in 2003 and the first tanker was filled in Ceyhan in mid-2006. A gas pipeline from Azerbaijan’s offshore Shah Deniz field to Turkey was completed in March 2007.

⁵ The World Bank. *Anti-corruption in Transition 3-Who is Succeeding and Why*, July 2006; Transparency International. *Corruption Perceptions Index*, [<http://www.transparency.org>].