



# Azerbaijan: Recent Developments and U.S. Interests

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## Summary

Azerbaijan is an important power in the South Caucasus by reason of its geographic location and ample energy resources, but it faces challenges to its stability, including the unresolved separatist conflict involving Nagorno Karabakh (NK). Azerbaijan enjoyed a brief period of independence in 1918-1920, after the collapse of the Tsarist Russian Empire. However, it was re-conquered by Red Army forces and thereafter incorporated into the Soviet Union. It re-gained independence when the Soviet Union collapsed at the end of 1991. Upon independence, Azerbaijan continued to be ruled for a while by its Soviet-era leader, but in May 1992 he was overthrown and Popular Front head Abulfaz Elchibey was soon elected president. Military setbacks in suppressing separatism in the breakaway NK region contributed to Elchibey's rise to power, and in turn to his downfall just over a year later, when he was replaced by Heydar Aliyev, the leader of Azerbaijan's Nakhichevan region and a former communist party head of Azerbaijan. In July 1994, a ceasefire agreement was signed in the NK conflict. Heydar Aliyev served until October 2003, when under worsening health he stepped down. His son Ilkham Aliyev was elected president a few days later.

According to the Obama Administration, U.S. assistance for Azerbaijan aims to develop democratic institutions and civil society, support the growth of the non-oil sectors of the economy, strengthen the interoperability of the armed forces with NATO, increase maritime border security, and bolster the country's ability to combat terrorism, corruption, narcotics trafficking, and other transnational crime. Cumulative U.S. assistance budgeted for Azerbaijan from FY1992 through FY2010 was \$976 million (all agencies and programs). Almost one-half of the aid was humanitarian, and another one-fifth supported democratic reforms. Budgeted aid to Azerbaijan was \$26.4 million in FY2011 and an estimated \$20.9 million in FY2012 (including "Function 150" foreign aid and excluding Defense and Energy Department funds). Under the Continuing Appropriations Resolution for FY2013, signed into law on September 28, 2012 (P.L. 112-175), regular foreign aid accounts are funded until late March 2013 at the same level as in FY2012 plus .612%, and most country allocations may be adjusted at agency discretion.

After the terrorist attacks on the United States on September 11, 2001, Azerbaijan granted overflight rights and approved numerous landings and refueling operations at Baku's civilian airport in support of U.S. and coalition military operations in Afghanistan. More recently, the country is a major land, air, and sea conduit of the Northern Distribution Network for supplies entering and leaving Afghanistan to support U.S. and International Security Assistance Force (ISAF) stabilization operations. Azerbaijan has contributed troops for the ISAF since 2003. The country increased its contingent from 45 to 90 personnel in 2009, including medical and civil affairs specialists. From 2003 to 2008, about 150 Azerbaijani troops participated in the coalition stabilization force for Iraq.

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## Political Background

Azerbaijan enjoyed a brief period of independence in 1918-1920, after the collapse of the Tsarist Russian Empire. However, it was re-conquered by Red Army forces and thereafter incorporated into the Soviet Union. It regained independence when the Soviet Union collapsed at the end of 1991. Upon independence, Azerbaijan continued to be ruled for a while by its Soviet-era leader, but in May 1992 he was overthrown and Popular Front head Abulfaz Elchibey was soon elected president. Military setbacks in suppressing separatism in the breakaway Nagorno Karabakh (NK) region contributed to Elchibey's rise to power, and in turn contributed to his downfall. In June 1993, forces in Ganja challenged Elchibey's power, spurring Elchibey to invite Heydar Aliyev—the leader of Azerbaijan's Nakhichevan region and a former communist party head of Azerbaijan—to Baku to mediate the crisis. The Ganja forces marched on Baku, causing Elchibey to flee the city. Heydar Aliyev was elected chairman of the National Assembly of Azerbaijan, and was granted temporary presidential powers. A national referendum held in August 1993 formally stripped Elchibey of the presidency, and Heydar Aliyev was elected president of Azerbaijan in October 1993. In July 1994, a ceasefire agreement was signed in the NK conflict (see below). Heydar Aliyev served until October 2003, when under worsening health he stepped down. His son Ilkham Aliyev was elected president a few days later.

### Azerbaijan: Basic Facts

**Area and Population:** Land area is 33,774 sq. mi.; about the size of Maine. The population is 9.5 million (*The World Factbook*; mid-2012 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:** 91% are Azerbaijani; 2% Lezgins; 1.3% Russian; 1.3% Armenian (estimate for NK), 1.3% Talysh, and others (*State Statistic Committee, 2009 census*). An estimated 12 million or more ethnic Azerbaijanis reside in Iran.

**Gross Domestic Product:** \$98.2 billion; per capita GDP is about \$10,700 (*World Factbook*; 2012 est., purchasing power parity).

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

**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. He was re-elected in 2008.

The Azerbaijani constitution, approved by a popular referendum in November 1995, strengthened presidential power and established an 125-member 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."

After the October 2003 presidential election, 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. In early 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.

A presidential election was held on October 15, 2008. In early June 2008, the legislature approved changes to the electoral code. Some of the changes had been recommended by the Venice Commission, an advisory body of the Council of Europe. However, other recommendations of the Venice Commission were not considered, including those on eliminating the dominance of government representatives on election commissions.<sup>1</sup> The opposition Azadliq (Freedom) party bloc decided on July 20 that it would boycott the election on the grounds that the election laws were not fair, their parties faced harassment, and media were constrained.<sup>2</sup> Incumbent President Aliyev won a resounding victory, gaining nearly 89% of the vote against six other candidates. According to a report by election monitors sponsored by the OSCE, the voting process was peaceful, well organized, and efficient, but there was a “lack of robust competition” and there appeared to be “significant procedural shortcomings [in vote counting] in many cases, and manipulation in some instances.”<sup>3</sup> The next presidential election is scheduled for October 2013.

Proposed amendments to the constitution were overwhelmingly approved by citizens in a referendum held on March 18, 2009. According to a small delegation from PACE, the voting “was transparent, well organized, and held in a peaceful atmosphere.” They criticized the dearth of discussion in the media of the merits of the constitutional amendments and voiced regret that some changes to the amendments proposed by the Venice Commission were not made before they were voted on. Some opposition parties had in particular objected to an amendment lifting term limits on the presidency during a “state of war,” and had called for a boycott of the referendum.<sup>4</sup>

On December 23, 2009, municipal elections were held throughout the country. Opposition parties and local election monitors reported interference in the candidate registration process. A Council of Europe delegation alleged that there were shortcomings in the counting of voters in the polling stations, the legibility of ballot papers, and the reliability of the vote count.

## **The November 2010 Milli Majlis Election**

In June 2010, the Azerbaijani Milli Majlis (National Assembly) approved a bill calling for it to coordinate its yearly agenda with the presidential administration. Oppositionists criticized the law as further demonstrating that the legislature was controlled by the executive branch of government.

A constituency-based election for Azerbaijan’s 125-member Milli Majlis was held on November 7, 2010. Candidates wishing to run were required to gather 450 signatures. About 1,400 individuals were nominated by parties or by voter initiatives or self-nominations, but only about 1,100 reportedly submitted the required signature sheets and other information. Electoral officials

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<sup>1</sup> European Commission for Democracy Through Law (Venice Commission). *Joint Interim Opinion on the Draft Amendments to the Electoral Code of the Republic of Azerbaijan*. 74<sup>th</sup> Plenary Session, March 14-15, 2008, Opinion no. 390/2006, CDL-AD(2008)003, March 18, 2008.

<sup>2</sup> Open Source Center. *Central Eurasia: Daily Report* (hereafter *CEDR*), April 24, 2008, Doc. No. CEP-950216.

<sup>3</sup> OSCE/PACE/EP. Republic of Azerbaijan Presidential Election, 15 October 2008: Statement of Preliminary Findings and Conclusions, October 16, 2008.

<sup>4</sup> *CEDR*, January 23, 2009, Doc. No. CEP-950024 and Doc. No. CEP-950276; February 23, 2009, Doc. No. CEP-950103; March 19, 2009, Doc. No. CEP-950277.

accepted all of the prospective candidates of the ruling New Azerbaijan Party (NAP) but rejected many from other parties and blocs, so that eventually 690 candidates were approved (or won appeals). These rejections seriously impacted the ability of the opposition to field candidates in more than a few constituencies. While the NAP was able to field candidates in 111 constituencies, the opposition PFP-Musavat bloc, for instance, could only field candidates in 38 constituencies. In addition to candidates nominated by parties, 387 were self-nominated “independent” candidates or were nominated by voter initiative groups, although many of these candidates in fact were members of parties. Historically, most independents who have won election have supported the NAP in the legislature.<sup>5</sup>

In the run-up to the election, three major developments appeared to assure that the ruling NAP would retain or increase its dominance in the legislature: (1) media, assembly, and campaign laws and practices greatly restricted the ability of opposition parties to publicize their concerns and counter claims of the ruling party; (2) the numerous opposition parties failed to unite and instead ran as party blocs and as individual parties; and (3) rising incomes for most of the population may have predisposed a large measure of support for the ruling party, despite some stresses caused by the global economic downturn. According to the OSCE, restrictions on an open campaign environment and a free and fair vote included reducing the number of campaign days to about three weeks; eliminating an electoral provision permitting individuals to run by submitting a financial deposit; doing away with public financing of elections; denying the holding of campaign rallies except in far-flung, officially approved locations; filing of defamation lawsuits and carrying out other harassing measures against journalists; providing dominant representation to the ruling NAP on electoral commissions and expert electoral appeal panels; and allowing opaque military voting. As a result of these restrictions, there were no public debates between candidates and virtually no television coverage of opposition candidates except for four minutes of time permitted for candidates to set forth their platforms.

According to the Central Electoral Commission, about 50% of 4.9 million registered voters turned out, and most voted for members of the NAP. The NAP increased its number of seats in the Majlis from 61 in 2005 to 74 in 2010.<sup>6</sup> The number of nominal independents also increased from 37 in 2005 to 39 in 2010. Nine minor parties won 12 seats, down from 20 in 2005. One opposition party candidate—İgbal Agazade of the Umid (Hope) Party—won a seat in the new Majlis. The Popular Front-Musavat bloc, which had won six seats in 2005 (as individual parties), won no seats in 2010. According to one report, about two-thirds of the deputies of the outgoing Majlis were reelected. Many of the reelected and new members are officials or are related to current officials, according to this report.<sup>7</sup>

OSCE election monitors reported that the election was peaceful but “was not sufficient to constitute meaningful progress in the democratic development of the country.” They stated that “fundamental freedoms of peaceful assembly and expression were limited and a vibrant political discourse facilitated by free and independent media was almost impossible. A deficient candidate registration process, a restrictive political environment, unbalanced and biased media coverage,

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<sup>5</sup> One local non-governmental organization (NGO) reported that there were myriad efforts by local officials and others to pressure citizens not to endorse the candidacy of oppositionists and to force prospective opposition candidates to drop out of the race. *Parliamentary Elections in the Republic Of Azerbaijan: Report on the Stage of Candidate Nomination and Registration*, Democracy Learning Public Union, October 22, 2010.

<sup>6</sup> The NAP won 56 seats on November 6, 2005, and 5 more seats in repeat elections held on May 13, 2006.

<sup>7</sup> *CEDR*, November 8, 2010, Doc. No. CEP-950216.

disparity in access to resources to mount an effective campaign, misuse of administrative resources as well as interference by local authorities in favor of candidates from the ruling party created an uneven playing field for candidates.” The OSCE monitors assessed voting procedures negatively in 11% of 1,247 polling stations visited, and the vote count was assessed negatively in over 30% of 152 polling stations visited. In one case, the monitors received a filled-out precinct results sheet before the election that closely matched what the precinct reported after the race. The court of appeals and the Supreme Court rejected all complaints by opposition candidates about the election.<sup>8</sup> The Election Monitoring and Democracy Studies Center, a local non-governmental organization (NGO), alleged that their monitors witnessed ballot-box stuffing in over one-fourth of polling places it covered.<sup>9</sup>

Addressing the newly elected NAP deputies just before the convocation of the Milli Majlis on November 29, 2010, President and NAP head Aliyev hailed the election as “held in a fully transparent and democratic manner.”<sup>10</sup> He reappointed all of the members who held top posts in the previous legislature, including Oqtay Asadov, who was reappointed speaker.

In the run-up to the election, Secretary Clinton had stated during a July 2010 visit to Azerbaijan that the country had made “tremendous progress” in democratization since it gained independence and reported that the United States was providing democratization assistance to help facilitate a free and fair election.<sup>11</sup> Just after the election, however, the U.S. Department of State issued a statement on November 8, 2010, that concluded that while peaceful, the election “did not meet international standards.” The State Department remarked that the inclusion of record numbers of domestic observers and an increase in the number of female candidates were improvements over past elections, but reported that observers from the U.S. embassy witnessed “serious violations of election procedures, including ballot box stuffing.” The State Department urged that the Azerbaijani government “focus now on adjudicating election grievances fairly, transparently, and expeditiously [in order to ensure] accountability for officials who are suspected of interfering with the proper conduct of elections.”<sup>12</sup> The next day, the Azerbaijani Foreign Ministry criticized the State Department’s assessment, viewing it as less favorable than that issued by the OSCE. The Foreign Ministry claimed that the OSCE monitoring report, while noting some shortcomings, “show[ed that] the elections have gained the people’s confidence.”<sup>13</sup>

The Civic Movement for Democracy/Public Chamber was established in early 2011 by the Popular Front, Musavat, and other opposition parties that failed to win seats in the Majlis

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<sup>8</sup> OSCE, Office for Democratic Institutions and Human Rights, *International Election Observation, Republic of Azerbaijan, Parliamentary Elections, 7 November 2010, Statement of Preliminary Findings and Conclusions*, November 8, 2010; *Republic Of Azerbaijan Parliamentary Elections, 7 November 2010, Final Report*, January 25, 2011.

<sup>9</sup> *Preliminary Statement on the Results of the Monitoring of the 7 November 2010 Elections to the Milli Majlis (Parliament) of the Republic of Azerbaijan*, Election Monitoring and Democracy Studies Center, November 8, 2010. See also the report of the Democracy Learning Public Union, a local NGO, *Parliamentary Elections in the Republic Of Azerbaijan: Report on the Stage of Candidate Nomination and Registration*, October 22, 2010.

<sup>10</sup> President of Azerbaijan, *Ilkham Aliyev Met With MPs of the Ruling Party Elected to the Milli Majlis*, November 29, 2010.

<sup>11</sup> U.S. Department of State, *Hillary Rodham Clinton, Secretary of State, Joint Press Availability With Azerbaijani Foreign Minister Mammadyarov*, July 4, 2010.

<sup>12</sup> U.S. Department of State, *Press Statement: Parliamentary Elections in Azerbaijan*, November 8, 2010.

<sup>13</sup> *Azerbaijan Press Agency*, November 10, 2010.

election. The aim of the Public Chamber was proclaimed by Musavat head Isa Gambar to be the establishment of representational government that was denied by the fraudulent Majlis election.<sup>14</sup>

## **Political Developments in 2011-2013**

Accusing foreign-based NGOs of fomenting dissent, on March 7, 2011, the Justice Ministry sent the U.S.-based National Democratic Institute (NDI) a letter referencing permissible actions of NGOs in the country, and police reportedly closed down NDI's Baku office in mid-March 2011. The Cabinet of Ministers subsequently issued a new regulation requiring foreign NGOs applying for registration in Azerbaijan to swear to uphold "national spiritual values and not [to] carry out political or religious propaganda." They also are forbidden to carry out activities in NK.<sup>15</sup> NDI reportedly was permitted to resume some activities in Azerbaijan in late 2011.

An Internet-launched "great people's day" protest was planned for March 11, 2011, reportedly supported by thousands of Internet users. Organizers of the protest stated that the date was set to commemorate the date a month previously that Egyptian President Hosni Mubarek had been ousted. In the days leading up to March 11, up to a dozen or more Internet users reportedly were detained, and some allegedly were held secretly. One organizer, Bakhtiyar Hajiyev, a Harvard-educated resident of Ganja, was arrested on March 4, 2011, on charges of draft evasion. Several dozen people were arrested on March 11, and some received prison sentences of a few days. The next day, the Musavat Party held a protest at Baku's Fountain Square that reportedly involved several hundred people, but many were prevented from entering the square and several activists were detained in advance or arrested the day of the protest.

In the run-up to the Internet-launched protest, authorities reportedly deployed military troops in Baku and teachers at universities and secondary schools reportedly were ordered to lecture their students not to attend protests or otherwise become involved in "anti-Azerbaijani" actions. On March 9, 2011, the Interior Ministry claimed that the protests were fomented by "radical oppositionists" financed by foreign countries aiming to trigger further "color revolutions" in Soviet successor states. Various Azerbaijani officials stated that it would be unpatriotic to protest while Azerbaijan is at war with Armenia and that heavy Internet users were mentally ill. Baku State University allegedly forbade students from leaving the campus on March 11. Reacting to Internet intimations that another protest might be held on March 14, the university closed and deployed police to the campus. This protest did not materialize. On March 18, youth branches of the Popular Front Party, the Hope Party, the Civic Solidarity Party, Democratic Party, Musavat, and various youth groups issued a statement calling on the security services to halt arrests of opposition youth and other activists. The next day, authorities arrested some officials of the Baku branch of Moscow Open University on grounds of fomenting dissent.

The government detained several opposition activists ahead of a planned April 2, 2011, protest by the Public Chamber; a coalition of non-partisan politicians, members, and officials of the opposition Popular Front, Musavat, and National Independence parties; and sympathetic NGOs. Those attempting to gather on April 2, 2011, to call for the government's resignation, new

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<sup>14</sup> "Sideline Azerbaijani Opposition Plans 'Public Chamber,'" *RFE/RL*, December 29, 2010.

<sup>15</sup> "NDI: National Democratic Institute Has Not Been Asked to Close in Azerbaijan," *APA News Service*, March 11, 2011; *CEDR*, March 24, 2011, Doc. No. CEP950161.



legislative elections, and the freedom of speech and assembly were forcibly dispersed and several people were arrested. The U.S. Embassy in Baku raised concerns about the government actions.<sup>16</sup>

The Public Chamber announced that it planned another protest in Baku on April 17, 2011. Authorities denied the group permission for the requested venue. Police control was tightened before the planned protest and dozens who attempted to protest were detained.

In April-May 2012, Azerbaijani security forces reportedly carried out operations against several terrorist cells in towns in the northern part of the country and in Baku, the capital. In Ganja, one security officer was killed by a suicide bomber, said to be the first such bombing in Azerbaijan. Authorities alleged that the suicide bomber was Azerbaijani citizen Vugar Padarov, head of an al Qaeda-linked terrorist group called the “forest brothers,” largely based in the trans-border Dagestan republic of Russia. Azerbaijani state television reported that in early 2011, the “forest brothers” group allegedly had decided to carry out jihad in Azerbaijan and assigned Padarov to head the effort. Targets allegedly included Shiite mosques and shrines; Christian churches; Jewish synagogues; police, defense, and security offices; and hotels and the main hall to be used for the Eurovision singing contest. The group also planned to assassinate Azerbaijani President Ilkham Aliyev. Some of the Azerbaijanis in the group allegedly had been trained at al Qaeda-affiliated Islamic Movement of Uzbekistan camps in Pakistan and had then fought with Taliban forces in Afghanistan against coalition forces and in Dagestan. Other training had been received at al Qaeda camps in Iran and Syria. Over three dozen arrests were reported.<sup>17</sup>

In early May 2011, a protest against the ban on wearing the hijab in public schools by 150 or more people at the Education Ministry was forcibly suppressed. Reportedly, 65 were detained, with the government claiming that the protest was led by “radical” Muslims and resulted in property damage and injuries to 26 policemen. In late May 2011, reportedly 150 women wearing hijab held a march in Baku. In early October 2011, five men received sentences ranging from probation to 2.5 years in prison for organizing the early May 2011 protest and using force against government representatives. The chairman of the banned Islamic Renaissance Party of Azerbaijan, Movsum Samadov, also denounced the ban on the hijab, and he and six other party members subsequently were arrested and convicted in October 2011 on charges of planning a coup.

On June 19, 2011, the Public Chamber attempted to hold an unauthorized protest, but police quickly thwarted the attempts of protesters to gather at various locations in Baku and detained about two dozen.

In October 2011, four more participants in the April 2, 2011, demonstration received sentences ranging from 1.5 to 4 years for violating public order and using force against government representatives, bringing the number of those sentenced for this protest to 14. Those sentenced have included officials and members of the Popular Front and Musavat parties. Reportedly, the trials and sentences have elicited protests from family members and others. In December 2011, outgoing U.S. Ambassador Bryza stated that he did not think the “Arab Spring” would come to Azerbaijan.

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<sup>16</sup> CEDR, March 29, 2011, Doc. No. CEP-950156; U.S. Embassy in Baku, Azerbaijan, *U.S. Embassy Statement on April 2 Protests*.

<sup>17</sup> Open Source Center, *Central Eurasia: Daily Report* (hereafter *CEDR*), April 25, 2012, Doc. No. CEP-950068; June 3, 2012, Doc. No. CEP-950057; *Washington Post*, May 30, 2012.

As in the attempted March 2011 protest, social media appeared to play a large role in triggering a protest in the northern town of Guba on March 1, 2012, against a local official whose filmed comments denigrating the populace were posted on the Internet. Reportedly, one thousand or more citizens rallied and marched to the local government headquarters to demand the official's resignation, but later that day some individuals vandalized government facilities and burned the official's home. Local police and security forces (augmented by forces rushed from Baku) shut down the local Internet and harshly attempted to disperse the crowds. The protesters only completely dispersed when it was announced the next day that the official had been sacked. Police announced that about two dozen residents of the city had been arrested, including several accused of posting the official's comments on the Internet.

Some observers linked some easing of restrictions on assembly and other measures in early 2012 to Azerbaijan's desire to present itself in a good light during the May 22-26, 2012, Eurovision Song Contest in Baku. On March 16, 2012, Aliyev pardoned prisoners, including two regarded by activists as "political prisoners," including one alleged organizer of the April 2011 attempted protest, who reportedly pledged that upon his release, he would join the ruling party.

After some delay, Baku authorities permitted the Public Chamber to hold a protest on April 8, 2012, at an obscure locale in the suburbs under tight security and alleged restrictions on access. The reported 3,000 protesters called for the release of political prisoners, democratic reforms, and other demands. Although seven oppositionists were sentenced for up to two weeks in jail for distributing leaflets, President Aliyev appeared to refer to this rally on April 16 when he stated that "the Azerbaijani public has seen that there is freedom of assembly in our country."<sup>18</sup> Another rally by the Public Chamber, approved by the government, was held on April 22, 2012, also in the Baku suburbs. The government claimed that about 1,200 attended the rally, but the opposition estimated the crowd at between 5,000 and 10,000 individuals. There was a reportedly large police presence, and police allegedly attempted to restrict the number of demonstrators. Musavat Party head Isa Gambar reportedly called for President Aliyev to resign and for new elections to be held.

The Public Chamber held several small demonstrations in the run-up to the May 22-26, 2012, Eurovision Song Contest, including a protest at the Baku mayor's office on May 14 to call for free elections and the freeing of political prisoners and a hunger strike at the Musavat Party headquarters beginning on May 15. During the Eurovision events, however, protests were efficiently prevented or quickly quashed by the authorities, according to some Western reports.

Azerbaijani political and religious authorities were adamant in asserting that no diversity/gay rights demonstration would be permitted on the sidelines of the Eurovision Song Contest, countering rumors circulated by Iranian authorities and media that such an "un-Islamic" demonstration would occur.<sup>19</sup>

Democratic activist Bakhtiyar Hajiyev (mentioned above) was released from prison on probation on June 4, 2012, just before Secretary Clinton visited the country. On June 22, 2012, media reported that Aliyev had granted amnesty for 66 prisoners, including deputy Musavat head Arif Hajily and 8 other individuals who had been sentenced for involvement in the April 2011 demonstration.

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<sup>18</sup> CEDR, April 17, 2012, Doc. No. CEP-950147.

<sup>19</sup> CEDR, May 18, 2012, Doc. No. CEP-950051; May 17, 2012, Doc. No. CEP-950072.

In another apparent effort to discredit opposition Popular Front Party leader Ali Karimli, a pro-government politician alleged in late August 2012 that former President and head of the Popular Front Abulfaz Elchibey had told him shortly before his death that Karimli had poisoned him. Other pro-government politicians and media reportedly supported the allegation. The Baku prosecutor's office opened an investigation of the charges, but Elchibey's family stated that he had died in Turkey after a long bout with cancer and demanded that no exhumation take place.

In October 2012, about 200 individuals protesting an effective ban on wearing the hijab in educational establishments battled with police, raising concerns among some observers that the constrained political environment was leading to violence as an alternative means of expression.<sup>20</sup>

An amendment to the freedom of assembly law was passed in November 2012 greatly boosting the fines for taking part in unauthorized demonstrations, with those deemed to have organized such demonstrations facing fines of up to \$38,000. Critics charged that the increased fines were intended to discourage the holding of rallies in the run-up to the presidential election in October 2013.<sup>21</sup>

In early 2013, several protests were suppressed by police, perhaps indicating rising popular discontent with government policies. On January 12, after a soldier had reportedly died following hazing, several dozen people staged an unauthorized protest in Baku, including many relatives of soldiers who had similarly died. Police arrested over two dozen of the demonstrators and the courts levied heavy fines of up to nearly \$800 against each of them. A fund on the Internet quickly gathered over \$13,000 to pay the fines. On January 19, a protest in Baku by about 2,000 merchants against rising fees for stalls turned violent and was forcibly suppressed, and about 100 individuals were detained. On January 23, a protest broke out in the town of Ismayilli, northwest of Baku, allegedly after the local governor's relative had been involved in a traffic accident and was not detained. Over 2,000 protesters demanded the resignation of the "corrupt" governor and burned property belonging to his family. The protesters were forcibly dispersed two days later and many were arrested. Reacting to what he termed "hooligan" activity by the family, President Aliyev fired the governor. Authorities, however, widely blamed the political opposition for the unrest, and detained Tofiq Yaqublu, the deputy chairman of the Musavat Party, and prospective presidential candidate Ilgar Mammadov, who had visited the town during the protest. The European Union and OSCE raised concerns about the detentions. On January 26, a rally in Baku against police violence was forcibly suppressed and about 100 individuals reportedly were arrested and heavily fined. Among other police actions, a conference in Khachmaz, in northern Azerbaijan, sponsored by the Election Monitoring and Democracy Studies Center, a local non-governmental organization, was forcibly shut down on February 12. The conference had been partly funded by NDI.

## **Human Rights**

In its assessment of political rights and civil liberties in the world in 2012, Freedom House, a non-governmental organization, ranked Azerbaijan as "not free," grouping it among such

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<sup>20</sup> Shahla Sultanova, "Azerbaijan: Does Baku Face Evolving Opposition?" *Eurasianet*, October 25, 2012.

<sup>21</sup> Shahla Sultanova, "Azerbaijan: Can Facebook become a Substitute for Live Opposition Protests?" *Eurasianet*, November 19, 2012.

countries as Angola, Brunei, Cambodia, Djibouti, Kazakhstan, Qatar, and Russia. Azerbaijan was deemed to not have improved its ranking from that of the previous year.<sup>22</sup>

In a vote on January 23, 2013, the Parliamentary Assembly of the Council of Europe (PACE) approved a resolution that raised ongoing concerns about the rule of law and respect for human rights in Azerbaijan and called on the country to step up its democratization efforts. PACE highlighted concerns about increased penalties for organizing and participating in unauthorized gatherings (mentioned above), reports that police were fabricating charges against opposition political activists and journalists, reports of detainee torture, and reports of unjust property expropriations. On the same day, however, PACE failed to pass a draft resolution on political prisoners in Azerbaijan that called for retrying or releasing dozens of listed alleged political prisoners, and for refraining from arresting peaceful demonstrators or criminalizing the expression of religious or political views. The Azerbaijani and Russian delegations reportedly had opposed the draft resolution as subjective.<sup>23</sup>

According to the State Department's most recent *Country Reports on Human Rights Practices for 2011*, there were three significant areas of human rights problems during the year. The first involved the lack of due process, police violence, and politically motivated court cases; the second involved restrictions on freedom of expression, assembly, and association; and the third involved violations of property rights. On the first area, arbitrary arrest, often based on spurious charges of resisting police, remained a problem. There were credible reports that police beat detainees to extract confessions and assaulted demonstrators and journalists. Human rights advocates reported that police tortured or abused 136 persons in custody during the year, slightly fewer than in 2010, and seldom were held accountable. The judiciary remained corrupt and reportedly took orders from the executive branch in sensitive cases. The bar association allegedly also was under government influence. Some NGOs claimed that there were several dozen political prisoners. Police continued to intimidate and harass members of some human rights NGOs and their relatives, and there were reports that individuals were fired from jobs in retaliation for the political or civic activities of other family members.

On the second area, the government continued to limit media independence. Broadcast media adhered almost exclusively to a pro-government line in their news coverage. The government reportedly constricted the publication and distribution of opposition newspapers, including by discouraging businesses from advertising in the newspapers. One media-monitoring group reported that there were 90 physical assaults on journalists, slightly fewer than in 2010, but still very high compared to other countries. Many reporters and newspapers were sued for libel, which remained a criminal offense. Authorities continued to require all rallies to be preapproved and held at designated locations far from city centers, and they usually ignored such requests, effectively barring the freedom to assemble. Unsanctioned rallies were forcibly broken up and demonstrators were detained. The OSCE's Venice Commission complained in late 2011 that the law on NGOs violated civil rights by setting strict constraints on the views, activities, and conduct of NGOs as conditions for granting them legal status. The Ministry of Justice routinely

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<sup>22</sup> *Freedom in the World 2013*, Freedom House, January 16, 2013.

<sup>23</sup> PACE, Resolution 1917 (2013), *The Honoring of Obligations and Commitments by Azerbaijan*, January 23, 2013 (6th Sitting); Doc. 13084, *Report: The Honoring of Obligations and Commitments by Azerbaijan*, Committee on the Honoring of Obligations and Commitments by Member States of the Council of Europe, December 20, 2012; Doc. 13079, *Report: The follow-up to the issue of political prisoners in Azerbaijan*, Committee on Legal Affairs and Human Rights, December 14, 2012; Doc. 13079 Add., *The follow-up to the issue of political prisoners in Azerbaijan, Addendum to the Report*, Committee on Legal Affairs and Human Rights, January 22, 2013.

denied registration to NGOs whose names contained the words “human rights” or “democracy.” The Council of State Support to NGOs provided \$2.5 million to 338 NGOs, a few of which were sometimes critical of the government. The government continued to restrict the religious freedom of some unregistered Muslim and Christian groups. On the third area, according to one international survey, private property rights are only weakly protected in Azerbaijan. One NGO reported that about 20,000 inhabitants of 400 buildings in Baku had lost their residences and had often received compensation well below market value and had few options for legal recourse.

According to the State Department’s 2012 *Trafficking in Persons Report*, Azerbaijan continued to be a source, transit, and destination country for forced labor and sex trafficking, and the government made less progress this year than last year in investigating, prosecuting, or convicting labor trafficking offenses or in identifying victims of forced labor. The government did increase funding and support for victims at its one shelter. Since 2008, the State Department has placed Azerbaijan on its Tier 2 Watch List for countries that do not fully comply with the minimum standards for the elimination of trafficking.<sup>24</sup>

## Economic Conditions

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. Beginning in the late 1990s, rising oil and gas exports (and rising world prices for oil) fueled GDP growth in Azerbaijan. The global economic downturn and decline in oil prices contributed to lower, but still positive, GDP growth in 2008 through 2010. In 2011, however, GDP growth slowed substantially to a scant 0.1%, mainly because maintenance work in the oilfields contributed to reduced oil exports, according to the Economist Intelligence Unit (EIU). This reduced economic activity was compensated somewhat by growth in the construction, agricultural, and service sectors, marking the growing impact of such non-energy sectors on economic growth.

In 2012, the Azerbaijani government reported that the economy grew 2.2% and that inflation was a modest 1.8%. The EIU and other sources suggest that GDP growth rate may actually have been less and inflation may have been more, and that the economy remained sluggish because of lagging oil production, which was mitigated somewhat by growth in the manufacturing sector. Inflation may have eased in 2012 from 8.1% in 2011 partly due to an improved harvest and moderating food prices. The EIU predicts that GDP growth will average about 2.3% per year for the next few years, due to the leveling-off of oil production until new oil and gas fields come on-line. In January 2013, British Petroleum (BP), the main foreign energy firm operating in Azerbaijan, estimated that the Shah Deniz Phase Two offshore gas fields would come on stream in 2018. Until then, the government may continue to draw on the assets of the State Oil Fund—a sovereign wealth fund containing profits from energy exports—to alleviate budget deficits. In 2013, the government plans its largest transfer to date from the wealth fund to support rising social expenditures in the run-up to the presidential election planned for October 2013.<sup>25</sup>

In its 2009 *Doing Business* report, the World Bank commended Azerbaijan as one of the top 10 global economic reformers because of business regulatory reforms it had undertaken over the

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<sup>24</sup> U.S. Department of State, *Country Reports on Human Rights Practices for 2011*, May 24, 2012; *Trafficking in Persons Report 2012*, June 19, 2012.

<sup>25</sup> EIU, *Azerbaijan: Country Report*, February 2013.

previous two years that protected investors and simplified taxes. Azerbaijani authorities had hoped that the reforms would facilitate Azerbaijan's admission to the World Trade Organization (WTO). In its 2013 *Doing Business* report, however, the World Bank raised concerns that reforms had stalled, as indicated by a fall in Azerbaijan's rankings from 33 in 2009 to 67 in 2012 out of 185 countries surveyed. Positive developments included comparative ease in registering business property and resolving contract enforcement cases, but construction permits remained difficult to obtain, and substantial corruption and monopolies continued to constrain business development, according to the World Bank.<sup>26</sup> On February 12, 2013, President Aliyev insisted that local officials step up their support for entrepreneurs and not "interfere" with them by making "illegal demands," perhaps alluding to calls for bribes.<sup>27</sup>

The government claims that the unemployment rate has decreased in recent years to about 5% and the poverty rate to about 8%. About 38% of the population is employed in agriculture, although it contributes to under 10% of GDP. It is reported that there are still substantial numbers of Azerbaijanis who work in Russia—by some estimates up to 1 million—although in recent years Azerbaijan also has hosted varying numbers of legal and illegal migrant workers in the energy, construction, and trade sectors.<sup>28</sup>

The U.S. Commerce Department reports that U.S. exports to Azerbaijan were \$514 million in 2012 and imports were \$1.1 billion. While exports had risen from the previous year, imports had declined by over one-half, mainly due to slowing demand for Azerbaijani oil. The United States exported mainly machinery and transport equipment and food to Azerbaijan in 2012.

## Energy

The U.S. Energy Department reports estimates of 7 billion barrels of proven oil reserves, and 30 trillion cubic feet of proven natural gas reserves in Azerbaijan.<sup>29</sup> In addition, added gas has been discovered in 2011 at the Umid and Apsheron offshore fields. Critics argue that oil and gas from Azerbaijan will amount to a tiny percent of world exports of oil and gas, but successive U.S. Administrations have argued that these exports could nonetheless boost energy security somewhat for European customers currently relying more on Russia. Azerbaijan is hoping that its gas exports will be greatly boosted when phase two production begins at its offshore Shah Deniz gas fields in 2017-2018.

In testimony in June 2011, Richard Morningstar, the then-U.S. Special Envoy for Eurasian Energy, stated that U.S. policy encourages the development of new Eurasian oil and gas resources to increase the diversity of world energy supplies. In the case of oil, increased supplies may directly benefit the United States, he stated. A second U.S. goal is to increase European energy security, so that some countries in Europe that largely rely on a single supplier (presumably Russia) may in the future have diverse suppliers. A third goal is assisting Caspian regional states

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<sup>26</sup> *Doing Business 2013: Smarter Regulations for Small and Medium-Size Enterprises*, World Bank, 2013.

<sup>27</sup> *CEDR*, February 14, 2013, Doc. No. CEP-950090.

<sup>28</sup> *World Bank – Azerbaijan Partnership Program Snapshot*, World Bank, October 2012. According to one Azerbaijani opposition-linked news source, the government's employment data are contradictory. *CEDR*, February 17, 2013, Doc. No. CEP-950005.

<sup>29</sup> U.S. Energy Department. Energy Information Administration. *Azerbaijan: Country Analysis Brief*, January 9, 2012. The *BP Statistical Review of World Energy*, June 2011, reports proven gas reserves of 44.9 trillion cubic feet in Azerbaijan at the end of 2010.

to develop new routes to market, so that they can obtain more competitive prices and become more prosperous. In order to achieve these goals, the Administration supports the development of the Southern Corridor of Caspian (and perhaps Iraq) gas export routes transiting Turkey to Europe. Of the vying pipeline proposals, the Administration will support the project “that brings the most gas, soonest and most reliably, to those parts of Europe that need it most.” At the same time, Morningstar rejected views that Russia and the United States are competing for influence over Caspian energy supplies, stating that the Administration has formed a Working Group on Energy under the U.S.-Russia Bilateral Presidential Commission.<sup>30</sup> According to some observers, the construction of such pipelines will bolster the strategic importance to the West of stability and security in the Caspian region.<sup>31</sup>

U.S. officials have argued that Azerbaijani gas is critical to the development of the Southern Corridor.<sup>32</sup> In March 2007, Azerbaijan and the United States signed a memorandum of understanding on energy cooperation that called for discussions on the proposed ITGI and Nabucco gas pipelines. In August 2007, the U.S. Trade Development Administration granted Azerbaijan \$1.7 million to fund feasibility studies on building both an oil and a gas pipeline across the Caspian Sea to link Central Asia to Azerbaijani pipelines.

### **Building the Baku-Tbilisi-Ceyhan and South Caucasus Pipelines**

During the Clinton Administration, the United States in 1995 encouraged the building of one small oil pipeline (with a capacity of about 155,000 barrels per day) from Azerbaijan to the Georgian Black Sea port of Supsa as part of a strategy of ensuring that Russia did not monopolize east-west export pipelines. As part of this strategy, the United States also stressed building the Baku-Tbilisi-Ceyhan (BTC) pipeline (with a capacity of about 1 million barrels per day) as part of a “Eurasian Transport Corridor.” In November 1999, Azerbaijan, Georgia, Turkey, and Kazakhstan signed the “Istanbul Protocol” on construction of the 1,040-mile long BTC oil pipeline. In August 2002, the BTC Company (which includes U.S. firms Conoco-Phillips, Amerada Hess, and Chevron) was formed to construct, own, and operate the oil pipeline. The first tanker on-loaded Azeri oil at Ceyhan at the end of May 2006. Azerbaijan’s state oil firm SOCAR reported in April 2012 that the BTC pipeline had transported 1.33 billion barrels of oil to the Ceyhan terminal since 2006. Reportedly, some Azerbaijani oil reaches U.S. markets.

A gas pipeline from Azerbaijan to Turkey (termed the South Caucasus Pipeline or SCP) was completed in March 2007. Exports to Georgia, Turkey, and Greece were 53 billion cubic feet of gas in 2007, the first year of operation, and most recently were reported to be 159 billion cubic feet in 2011. The ultimate capacity of the SCP is about 706 billion cubic feet per year, according to British Petroleum. The joint venture for the SCP includes Norway’s Statoil (20.4%); British Petroleum (20.4%); Azerbaijan’s Ministry of Industry and Energy (20%); and companies from

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<sup>30</sup> U.S. House of Representatives, Committee on Foreign Affairs, Subcommittee on Europe and Eurasia, Hearing on European and Eurasian Energy: Developing Capabilities for Security and Prosperity, *Testimony of Ambassador Richard L. Morningstar, Special Envoy for Eurasian Energy*, June 2, 2011. See also U.S. Department of State, *Remarks at The Economist’s Investment Energy Summit, Richard Morningstar, Special Envoy for Eurasian Energy*, The Economist Conference, Athens, Greece, March 28, 2012.

<sup>31</sup> Sedat Laciner, “Turkey’s Pipeline Politics,” *The Journal of Turkish Weekly Online*, International Strategic Research Organization, September 16, 2009.

<sup>32</sup> *Speech to Plenary Session of Caspian Oil and Gas Conference, Ambassador Richard L. Morningstar*, June 8, 2011; “Former U.S. Envoy [Matthew Bryza] Says Gas Project ‘Impossible’ without Azerbaijan,” *APA News Agency*, March 28, 2012.

Russia, Iran, France, and Turkey. Some in Armenia object to lack of access to the BTC and SCP pipelines.

The August 2008 Russia-Georgia conflict did not result in physical harm to the BTC pipeline or the SCP. The BTC pipeline was closed due to other causes. The SCP and the small Baku-Supsa oil pipeline were closed temporarily as a safety precaution. Russian gas shipments via Georgia to Armenia decreased in volume for a few days at the height of the conflict. Rail shipments of oil by Azerbaijan to the Kulevi oil terminal (owned by Azerbaijan) on Georgia's Black Sea coast were disrupted temporarily.

At the end of October 2008, the first oil from Kazakhstan started to be pumped through the BTC pipeline, but a transit price increase by Azerbaijan in 2011 led Kazakhstan to restrict its use of the BTC. Some Kazakh oil is barged to Azerbaijan to be shipped by rail to Georgia's Black Sea port of Batumi, where Kazakhstan owns an oil terminal. Kazakhstan and Azerbaijan continue talks on expanding the barging of oil to the BTC pipeline. Some Turkmen oil began to be transported through the BTC pipeline in June 2010. Some observers argue that the completion of the BTC and SCP boosted awareness in the European Union and the United States of the strategic importance of the South Caucasus.<sup>33</sup>

### **Other Export Pipeline Proposals**

In mid-November 2007, Greek Prime Minister Kostas Karamanlis and Turkish Prime Minister Recep Tayyip Erdogan inaugurated a gas pipeline connecting the two countries. Since some Azerbaijani gas reaches Greece, the pipeline represents the first gas supplies from the Caspian region to the EU. It was proposed that a pipeline extension be completed to Italy—the Interconnector Turkey-Greece-Italy (ITGI) gas pipeline—that would permit Azerbaijan to supply gas to two and perhaps more EU members, providing a source of supply besides Russia.

The Nabucco pipeline faced numerous delays, some of them attributable to Russia's counter-proposals to build pipelines that it asserted would reduce the efficacy of the Nabucco pipeline. In September 2010, the European Investment Bank, the European Bank for Reconstruction and Development, and the World Bank announced a commitment—pending environmental and social feasibility studies—to provide \$5.2 billion to build the Nabucco pipeline. EU planning called for construction of the 1.1 trillion cubic feet capacity Nabucco pipeline to begin in 2012 and for shipments to begin in 2017. In 2011, new higher cost estimates for building the pipeline, and BP's call for building a "South East Europe Pipeline" (SEEP; see below), appeared to seriously threaten these plans.

At a meeting in early May 2009 in Prague, the EU, Azerbaijan, Georgia, Turkey, and Egypt signed a declaration on a "Southern [energy] Corridor" to bolster east-west energy transport. The declaration called for cooperation among supplier, transit, and consumer countries in building the Nabucco gas pipeline, finishing the Italian section of the ITGI gas pipeline, and other projects.

In 2009, Azerbaijan stepped up its efforts to diversify the routes and customers for its gas exports beyond the SCP and the planned Nabucco pipeline. President Aliyev attributed some of this

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<sup>33</sup> Jaba Devdariani and Blanka Hancilova, "EU Broaches Peacekeeping Possibility in Georgia," *Central Asia-Caucasus Analyst*, March 7, 2007; Rovshan Ismayilov, "Azerbaijan, Georgia and Turkey: Building a Transportation Triumvirate?" *Eurasia Insight*, February 7, 2007.



increased interest in added gas export routes—including to Russia and Iran—to the country's difficult negotiations with Turkey over gas transit fees and prices (excluding the agreed-upon arrangements for Nabucco). In October 2009, Azerbaijan's State Oil Company (SOCAR) and Russia's Gazprom gas firm signed agreements that SOCAR would supply 17.7 billion cubic feet of gas per year to Russia beginning in 2010. The gas would be transported by a 140-mile gas pipeline from Baku to Russia's Dagestan Republic that was used until 2007 to supply Azerbaijan with up to 283 billion cubic feet of gas per year. During a visit by then-President Medvedev to Azerbaijan in September 2010, the two countries agreed that Azerbaijan would provide up to 35.4 billion cubic feet of gas per year beginning in 2011 (this increase had been under consideration since the signing of the 2009 accord). President Aliyev stressed that this small supply agreement would not jeopardize plans to supply gas for Nabucco, since Azerbaijan possessed huge gas reserves.<sup>34</sup>

As another alternative to gas shipments through Turkey, a memorandum of understanding was signed by Azerbaijan, Romania, and Georgia in April 2010 to transport liquefied natural gas (LNG) from Azerbaijan to the EU through Georgia and Romania. This Azerbaijan-Georgia-Romania-Interconnection (AGRI) project envisions the construction of a gas pipeline from Azerbaijan to the Georgian port of Kalevi, where the gas would be liquefied, shipped across the Black Sea, and regasified at the Romanian port of Constanta. The output is expected to be 247 billion cubic feet per year, with 71 billion cubic feet of the gas used by Romania and the rest by other EU countries. The presidents of the three countries (and the prime minister of Hungary, which joined the project) met in Baku on September 15, 2010, to sign the Baku Declaration of political support for the project. SOCAR reported in early 2013 that the AGRI project had been placed on the "back burner."

Some of the tensions between Turkey and Azerbaijan involving energy issues appeared resolved in June 2010, during President Aliyev's visit to Turkey, when the two countries signed accords on the sale and transportation of Azerbaijani natural gas to Turkey and to other countries via Turkey. A memorandum of understanding permitting Azerbaijan to conclude direct sales with Greece, Bulgaria, and Syria involving gas transiting Turkey was signed.

In January 2011, President Aliyev and the President of the European Commission, Jose Manuel Barroso, signed a joint declaration committing Azerbaijan to supplying substantial volumes of gas over the long term to the European Union. Nonetheless, some analysts raised concerns that there would not be enough Azerbaijani gas to fill the proposed ITGI and Nabucco pipelines (deliveries would be 406 billion cubic feet per year for ITGI and 158 billion to 459 billion cubic feet per year for Nabucco) and to provide for the proposed AGRI project without a trans-Caspian gas pipeline or participation by Iran or Iraq. Others suggested that Azerbaijan would be able to supply at least most of the needed gas for both the ITGI and Nabucco pipelines and the AGRI project, including because of recent results from exploratory drilling off the Caspian seacoast.<sup>35</sup>

Meeting an October 1, 2011, deadline, the Shah Deniz Export Negotiating Team—led by the State Oil Company of Azerbaijan (SOCAR) and including BP, Statoil, and Total—received what were then claimed to be final proposals for pipelines to export gas from the second phase development of the Shah Deniz offshore oil and gas fields. Proposals were received from consortia backing the ITGI, Nabucco, and Trans Adriatic Pipeline (TAP; from Turkey through Greece, Albania, and the

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<sup>34</sup> CEDR, September 6, 2010, Doc. No CEP-950267.

<sup>35</sup> Eric Watkins, "New USGS Report Confirms Big Caspian Stakes," *Oil & Gas Journal*, January 3, 2011.

Adriatic Sea to Italy) projects, as well as from BP, which reportedly proposed building an 808-mile “South East Europe Pipeline” (SEEP) from western Turkey through Bulgaria, Romania, and Hungary to Austria.

On October 25, 2011, Azerbaijan and Turkey announced that they had signed accords on the final terms for the transit of Shah Deniz phase 2 gas through Turkey. The agreements—signed during President Aliyev’s visit to Turkey—specified that 565-706 billion cubic feet of gas would transit Turkey, of which 212 billion cubic feet would be available for Turkey’s domestic use. Another significant accord provided for the possible construction of a new Trans-Anatolian Pipeline (TANAP; from the Georgian-Turkish border to the Turkish-Bulgarian border), so that the gas from Shah Deniz Phase 2 would not have to go through the existing Turkish pipeline system. This pipeline could link to BP’s proposed SEEP or to a new version of the Nabucco pipeline termed “Nabucco West” (stretching from the Turkish border to Austria).

In late December 2011, the Azerbaijani and Turkish governments signed a memorandum of understanding on setting up a consortium involving SOCAR, the Turkish state-owned TPAO energy firm, and TPAO’s pipeline subsidiary, BOTAS, to construct TANAP. SOCAR is designated initially to hold an 80% share in the consortium, although other members may be invited to join the consortium. Contract negotiations on setting up the consortium reportedly have been contentious, however.

In May 2012, the Nabucco consortium submitted new pipeline proposals to the Shah Deniz consortium, reportedly including the original route as well as the shorter Nabucco West route. The Shah Deniz Export Negotiating Team reportedly indicated in February 2012 that it preferred the TAP proposal over the ITGI pipeline proposal. In mid-2012, it rejected SEEP, leaving TAP and Nabucco West as the choices. The Shah Deniz Team has indicated that it will make a final decision about the pipeline by June 2013.

In late June 2012, the Azerbaijani and Turkish presidents and oil firm heads signed accords to build TANAP. The first stage, with a capacity of 565 bcf per year, is planned to be completed in 2018. Other investors are being invited to participate.

In late 2012, Russia finalized arrangements with transit states for the construction of the South Stream gas pipeline, with a capacity of 2.2 bcf per year, under the Black Sea to European markets, and began construction of the onshore portion in Russia in December 2012. The undersea portion will extend nearly 600 miles. From Bulgaria, the pipeline is planned to transit Serbia, Hungary, and Slovenia to Austria. The first phase of construction is planned to be completed in 2015. According to some analysts, the pipeline is not economically viable, but is being built by Russia to counter proposals to build the Nabucco West pipeline and perhaps a trans-Caspian pipeline, so that Russia may maintain a dominant gas presence in Europe. To bolster prospects for building the Nabucco West pipeline, the Shah Deniz consortium agreed with the Nabucco consortium in January 2013 to finance up to one-half of the pipeline. Azerbaijan also has pledged to provide some financing for TAP if it chooses this pipeline.

### *Discussions on a Trans-Caspian Pipeline*

In 1999, Turkmenistan signed an accord with two U.S. construction firms to conduct a feasibility study on building a trans-Caspian gas pipeline to Azerbaijan, but Turkmenistan failed to commit to the pipeline following objections from Iran and Russia. In September 2011, the Council of the European Union approved opening talks with Azerbaijan and Turkmenistan to facilitate an accord

on building a trans-Caspian gas pipeline. Such a link would provide added gas to ensure adequate supplies for the planned Nabucco and other pipelines. Hailing the decision, EU Energy Commissioner Günther Oettinger stated that “Europe is now speaking with one voice. The trans-Caspian pipeline is a major project in the Southern Corridor to bring new sources of gas to Europe. We have the intention of achieving this as soon as possible.”<sup>36</sup> The Russian Foreign Ministry denounced the plans for the talks, and claimed that the Caspian Sea littoral states had agreed in a declaration issued in October 2007 that decisions regarding the Sea would be adopted by consensus among all the littoral states (Russia itself has violated this provision by agreeing with Kazakhstan and with Azerbaijan on oil and gas field development). It also claimed that the proposed pipeline was different from existing sub-sea pipelines in posing an environmental threat. In Baku in April 2012, Lavrov stated that the EU should show “respect” to the Caspian littoral states, and that it was “unacceptable” for the EU to advocate for a trans-Caspian pipeline before the littoral states have concluded a convention on the legal status of the sea.<sup>37</sup>

In June 2012, a Turkmen survey ship was turned back by Azerbaijani naval forces from areas considered by Azerbaijan to be within its Caspian Sea holdings, raising tensions that appeared to jeopardize a trans-Caspian pipeline. However, in September 2012, President Aliyev appeared conciliatory toward Turkmenistan in stating that “if Turkmenistan considers this [trans-Caspian] project important for itself and views it as a path to the West, then Azerbaijan supports this idea.”<sup>38</sup>

At a meeting of the Frankfurt Gas Forum in November 2012, European Energy Commissioner Guenther Oettinger pointed out that the EU had envisaged the Southern Corridor to carry 45-90 bcm per annum, and that the gas from Shah Deniz phase 2 would only provide a fraction of this gas. He stated that to meet the EU goal for the Southern Corridor, more gas would be needed, and stated that Turkmenistan is viewed by the EU as a possible source.

The United States has supported building a trans-Caspian pipeline and stated that no other country should be able to veto a decision by Azerbaijan and Turkmenistan to build such a pipeline.

### **Regional Energy Cooperation with Iran**

Because of trade obstructions imposed by Azerbaijan and Turkey, Armenia has endeavored to build oil and gas pipelines to Iran as a means to diversify its reliance on Russian supplies that transit Georgia. Azerbaijan sees itself as a regional competitor of Iran in energy development in the Caspian region. Increasing international sanctions on Iran have reduced Iran’s regional energy role, while Azerbaijan increasingly has cooperated with Western energy firms to develop and ship oil and gas to international markets.

At the end of 2005, Azerbaijan began sending about 7 billion cubic feet of gas per year through a section of Soviet-era pipeline to the Iranian border at Astara, partly in exchange for Iranian gas shipments to Azerbaijan’s Nakhichevan exclave. On November 11, 2009, Azerbaijan signed an

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<sup>36</sup> European Commission, *Press Release: EU Starts Negotiations on Caspian Pipeline to Bring Gas to Europe*, September 12, 2011.

<sup>37</sup> *CEDR*, April 4, 2012, Doc. No. CEP-950050.

<sup>38</sup> *Baku News*, September 18, 2012.

accord with Iran to supply 17.7 billion cubic feet of gas annually through the pipeline. These gas supplies could increase in coming years.

Iran's Naftiran Intertrade Company (NICO; a state-owned energy firm) has 10% of the shares in the consortium that developed the SCP. NICO also has a 10% share in the consortium developing the Shah Deniz gas fields. The Iran Threat Reduction and Syria Human Rights Act of 2012 (P.L. 112-158; signed into law on August 10, 2012) has exempted the Shah Deniz gas field project from sanctions imposed on joint energy ventures with Iran.

## **Foreign Policy and Defense**

President Ilham Aliyev has emphasized good relations with the neighboring states of Georgia and Turkey, but relations with these and other countries have often been guided by their stance regarding the NK conflict. Azerbaijan has viewed Turkey as a major ally to balance Russian and Iranian influence, and Armenia's ties with Russia. Relations with Turkmenistan are strained by competing claims over offshore oil and gas fields (see below). Azerbaijan is a member of the OSCE, Black Sea Economic Cooperation group, Council of Europe (COE), Economic Cooperation Organization, and Organization of the Islamic Conference. In May 2011, Azerbaijan joined the Non-Aligned Movement, although it does not claim neutrality and its National Security Concept posits Euro-Atlantic integration as a "strategic goal."

Ethnic consciousness among some "Southern Azerbaijanis" in Iran has grown, which Iran has countered through increasingly repressive actions. Azerbaijani elites fear Iranian-supported Islamic fundamentalism and question the degree of Iran's support for an independent Azerbaijan.

Azerbaijan's relations with Iran were roiled in February 2012 when Iran accused Azerbaijan of harboring Israeli intelligence agents who had crossed the Azerbaijani-Iran border to carry out operations, allegedly including assassinations of Iranian nuclear scientists. That same month, Azerbaijan sentenced seven individuals it had arrested in 2008 that it claimed had been trained in Iran to carry out terrorism, including plans to bomb the Israeli embassy. In late February, Azerbaijan confirmed that it had reached a large arms deal with Israel, but stated that the weapons purchase was aimed not against Iran but to "liberate" occupied territories.

Attempts to ease Azerbaijani-Iranian tensions included a meeting between the foreign ministers of Iran, Azerbaijan, and Turkey in Nakhichevan, Azerbaijan, on March 7, 2012, and a trip by Defense Minister Safar Abiyev to Tehran a week later. Abiyev stressed that Azerbaijani territory would not be used to launch attacks on Iran. Two days later, however, the Azerbaijan National Security Ministry announced that nearly two dozen terrorists trained in Iran had been arrested, who allegedly had been planning attacks on Israeli and U.S. embassies and other Western interests. At the end of the month, the ministry reported that two other Iranian spy networks had been uncovered in 2011. Also in late March 2012, Iran increased its accusations that Azerbaijan was providing Israel with military access to launch attacks on Iran after such allegations appeared in Western media. In early April, Iran arrested some individuals it claimed were Israeli agents being directed from an unnamed nearby country, presumably Azerbaijan. On April 12, Azerbaijani media reported that the government had arrested several Iranians and Azerbaijanis involved in weapons and drug smuggling from Iran.

In early May 2012, Iran recalled its ambassador to Azerbaijan for "consultations" following anti-Iranian protests outside Iran's embassy in Baku against Iranian criticism of the Eurovision Song

Contest to be held on May 22-26, 2012, in Baku. Iran claimed that the recall occurred because the protesters had maligned its Supreme Leader, Grand Ayatollah Sayyid Ali Khamenei, and had made other anti-Islamic statements. The Azerbaijani Foreign Ministry reportedly responded to the recall by announcing that “some people are jealous about Azerbaijan’s development [and] the organization of a grand event such as Eurovision,” and requested that Iran apologize for “insulting statements” about Azerbaijan.<sup>39</sup> On May 8, 2012, Iranians protested against Azerbaijani “immorality” at the Azerbaijani consulate in Tabriz, Iran.

In June 2012, the Azerbaijani Foreign Ministry warned citizens that travel to Iran was not safe, pointing to the holding of two Azerbaijani poets since May. In late June 2012, the Iranian ambassador returned to Baku. The two poets were convicted on spy charges in August 2012, but were released in early September 2012, and Azerbaijan also paroled an Iranian reporter convicted on drug charges just before a visit by the Iranian vice president to Azerbaijan. In October 2012, President Ahmadinezhad met with President Aliyev on the sidelines of the Economic Cooperation Organization summit in Baku, and both leaders reportedly expressed satisfaction with the development of political, economic, and cultural cooperation between their two countries, and called for further expanding economic ties. Azerbaijani officials reportedly have pledged to Iran that Azerbaijan will not be used as a launching pad for third-party aggression against Tehran, but also have vowed to support international sanctions against Iran.

Frictions in Azerbaijani-Russian relations have included 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 2005-2007, Russia 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 10-year Russian lease for the Soviet-era Gabala (Qabala) early warning radar station in Azerbaijan and 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. After the August 2008 Russia-Georgia conflict, Azerbaijan appeared to move toward better relations with Russia. During Russian President Medvedev’s late June 2009 visit to Baku, Azerbaijan agreed to send small amounts of gas to Russia (see below). Azerbaijan’s relations with Russia appeared even closer in 2010 as a reaction against the Turkish initiative to improve relations with Armenia and U.S. Administration backing for this effort. Some strains have appeared in relations, however, since Vladimir Putin returned as Russia’s president in early 2012. These have included Azerbaijan’s demurral of Putin’s invitation for it to join the Eurasian Customs Union and the breakdown of talks on renewing the Russian lease on the Gabala radar site (see below).

According to former Armenian Foreign Minister Vartan Oskanyan, Article 4 of the Commonwealth of Independent States’ Collective Security Treaty (signatories including Russia, Armenia, Belarus, and all the Central Asian states except Turkmenistan) pertains to aggression from outside the commonwealth, and therefore does not pertain to the NK conflict (since Azerbaijan is a member of the commonwealth).<sup>40</sup> After the Collective Security Treaty Organization (CSTO) agreed to form large rapid response forces in February 2009, however, some policymakers in Armenia claimed the forces could be a deterrent to possible Azerbaijani

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<sup>39</sup> *Interfax*, May 22, 2012; May 24, 2012.

<sup>40</sup> CRS interview, October 26, 2006.

aggression.<sup>41</sup> Some policymakers in Azerbaijan likewise viewed the formation of the forces as a threat.<sup>42</sup> The Secretary-General of the Collective Security Treaty Organization (CSTO), Nikolai Bordyuzha, has proclaimed that the CSTO would never intervene in the NK conflict, but also has stressed that Armenia and Russia have close bilateral military ties.<sup>43</sup> In May 2011, Armenian Defense Minister Seiran Oganian reportedly asserted that Armenia would expect CSTO members to support Armenia in case of aggression against NK, which elicited a protest from the Azerbaijani presidential office.<sup>44</sup> The agreement signed in August 2010 that extends the lease on Russia's military facilities in Armenia pledges Russia to defend Armenia's security, which appeared to be interpreted by Armenian President Serzh Sargisyan to include defense against a possible Azerbaijani attack on NK.

In December 2012, President Sargisyan stated that in case of war with Azerbaijan, Armenia was counting on the support of its allies in the CSTO, rhetorically asking "why else are we in the organization?"<sup>45</sup> In January 2013, President Sargisyan stressed in a speech at the Defense Ministry that the strategic partnership between Armenia and Russia is "the nucleus of Armenian security," and that membership in the CSTO also is the "real guarantee of Armenia's security."<sup>46</sup> The CSTO has refused to state what it would do in case of the escalation of conflict between Armenia and Azerbaijan. In September 2012, however, the CSTO Rapid Reaction Forces held an exercise in Armenia that simulated repulsing an invasion of Armenia by "terrorists." One Russian newspaper reported in January 2013 that Russia recently had transformed its forces in Armenia to primarily professional contract troops, in anticipation of possible Azerbaijani military action against Armenia or Israeli action against Iran. The report depicted Azerbaijan as making unfriendly moves against Russia and quoted a Russian lieutenant general as stating that whether Russia will defend Armenia from an Azerbaijani action will be a "political decision," but that the Russian forces should be ready.<sup>47</sup>

In September 2008, Turkey's President Abdullah Gül visited Armenia, ostensibly to see a soccer game, and this thaw contributed to the two countries reaching agreement in April 2009 on a "road map" for normalizing ties, including the establishment of full diplomatic relations and the opening of borders. After further negotiations, Turkish Foreign Minister Ahmet Davutoglu and Armenian Foreign Minister Edvard Nalbandian initialed two protocols "On Establishing Diplomatic Relations," and "On Development of Bilateral Relations" on August 31, 2009, and formally signed them on October 10, 2009. Azerbaijan strongly criticized Turkey for moving toward normalizing relations with Armenia without formally linking such a move to a peace settlement of the NK conflict. This criticism quickly elicited pledges by Turkey's leaders that the Turkish legislature would not approve the protocols until there was progress in settling the NK conflict. On April 22, 2010, the ruling Armenian party coalition issued a statement that "considering the Turkish side's refusal to fulfill the requirement to ratify the accord without

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<sup>41</sup> *CEDR*, February 5, 2009, Doc. No. CEP-950302.

<sup>42</sup> *CEDR*, February 8, 2009, Doc. No. CEP-950079. The head of Azerbaijan's presidential foreign relations department, Novruz Mammadov, however, stated that he did not view the creation of the forces as a threat, because Azerbaijan has good relations with all the CSTO members except Armenia. *CEDR*, February 5, 2009, Doc. No. CEP-950290.

<sup>43</sup> *CEDR*, March 20, 2009, Doc. No. CEP-950105; June 1, 2009, Doc. No. CEP-358003.

<sup>44</sup> Joshua Kucera, "Armenia, the CSTO and Collective Security," *The Bug Pit*, Eurasianet, May 23, 2011.

<sup>45</sup> *CEDR*, December 24, 2012, Doc. No. CEP-950187.

<sup>46</sup> *Interfax*, January 16, 2013.

<sup>47</sup> *CEDR*, January 18, 2013, Doc. No. CEP-305001.

preconditions in a reasonable time, making the continuation of the ratification process in the national parliament pointless, we consider it necessary to suspend this process.”<sup>48</sup>

The United States reportedly actively supported Switzerland in mediating the talks that led to the signing of the protocols. On April 14, 2010, President Aliyev warned that the Obama Administration’s backing of the protocols threatened U.S. interests in Azerbaijan, stating that “how can we defend and support the interests of someone who is acting against our interests?”<sup>49</sup> The next day, Azerbaijani presidential administration official Ali Hasanov asserted that “if the United States continues to demonstrate a biased position on the NK issue, Azerbaijan may reconsider its strategic partnership ties with the United States.”<sup>50</sup> The U.S. State Department responded that the United States remained evenhanded in its mediation efforts. A few days later, Azerbaijan cancelled a military exercise scheduled with the United States for May 2010.

Azerbaijani armed forces consist of 66,940 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. The military budget has greatly increased in recent years, amounting to about \$3.0 billion in 2012 and \$3.7 billion in 2013.<sup>51</sup> Azerbaijan has agreements for military training with Russia, Turkey, and NATO (see below), and purchases arms from Russia, Turkey, Ukraine, Israel, and others. A military doctrine approved by the legislature in mid-2010 terms the continued occupation of Azerbaijani land and external support for the occupation to be the major threats.<sup>52</sup> About 1,400-1,500 Russian troops were deployed at the Gabala radar site (mentioned above) under a lease agreement that expired at the end of 2012, after which the troops were pulled out. Russia purportedly had rejected Azerbaijani requests for an increase in lease payments from \$7 million per year to \$300 million.

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 its first 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 operations in Afghanistan since 2003 (see below). The bulk of Azerbaijani weapons reportedly come from Russia, Ukraine, and Belarus, although some NATO-compatible communications and other equipment has been received.<sup>53</sup> In a June 2011 military parade, Azerbaijan showed S-300 air defense missiles supplied by Russia (following reports in mid-2010 that Russia would sell the S-300s to Baku, Armenia announced that it already had them). In accordance with recommendations by the IPAP, a civilian agency to manage conscription was established in 2012.

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<sup>48</sup> “Armenia Suspends Normalization of Ties with Turkey,” *BBC News*, April 22, 2010.

<sup>49</sup> Open Source Center, “Azerbaijan Rebukes US Stance on Turkey-Armenia Relations,” *OSC Feature*, May 20, 2010, Doc. No. FEA-5172.

<sup>50</sup> *CEDR*, April 16, 2010, Doc. No. CEP-950076; April 15, 2010, Doc. No. CEP-950119.

<sup>51</sup> *The Military Balance*, International Institute of Strategic Studies, March 7, 2012; *CEDR*, January 18, 2013, Doc. No. CEP-950073.

<sup>52</sup> “Azerbaijan Adopts Military Doctrine At Long Last,” *RFE/RL*, June 9, 2010.

<sup>53</sup> Shahin Abbasov, “Azerbaijan Mum About Israeli Spy Plane, Satellite Projects,” *Eurasia Insight*, August 17, 2009.

## 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. Conflict over the status of NK continued until a ceasefire agreement was signed in July 1994 and the sides pledged to work toward a peace settlement. The "Minsk Group" of concerned member-states of what is now termed the Organization for Security and Cooperation in Europe (OSCE) was formed in 1992 to facilitate peace talks. The United States, France, and Russia co-chair the Minsk Group. The U.S. Department of State reports that "ethnic Armenian separatists, with Armenia's support ... control most of the NK region of the country and seven surrounding Azerbaijani territories. The [Azerbaijani] government did not exercise any control over developments in those territories."<sup>54</sup> The non-governmental International Crisis Group (ICG) estimates that this area of control constitutes about 13%-14% of Azerbaijan's land area, while the Central Intelligence Agency estimates about 16%.<sup>55</sup> The conflict resulted in about 30,000 casualties and over 1 million Azerbaijani and Armenian refugees and displaced persons.<sup>56</sup> The U.N. High Commissioner for Refugees reports that there remain over 600,000 individuals considered refugees or displaced persons in Azerbaijan, one of the highest concentrations in the world, most of whom remain economically vulnerable.<sup>57</sup>

On November 29, 2007, then-Under Secretary of State Nicholas Burns, Russian Foreign Minister Sergey Lavrov, and French Foreign Minister Bernard Kouchner presented the Foreign Ministers of Armenia and Azerbaijan with a draft text—*Basic Principles for the Peaceful Settlement of the Nagorno-Karabakh Conflict*—for transmission to their presidents. These officials urged the two sides to accept the *Basic Principles* (also termed the Madrid proposals, after the location where the draft text was presented) that had resulted from three years of talks and to begin "a new phase of talks" on a comprehensive peace settlement.<sup>58</sup>

In the wake of the Russia-Georgia conflict in early August 2008, Armenian President Sarkisyan asserted that "the tragic events in [Georgia's breakaway South Ossetia region] confirm that every attempt in the South Caucasus to look for a military answer in the struggle for the right to self-determination has far-reaching military and geopolitical consequences."<sup>59</sup>

The presidents of the United States, France, and Russia publicized an updated version of the *Basic Principles* in July 2009 and June 2010 that calls for the return of the territories surrounding NK to Azerbaijani control; an interim status for NK providing guarantees for security and self-governance; a corridor linking Armenia to NK; future determination of the final legal status of NK through a legally binding expression of will; the right of all internally displaced persons and

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<sup>54</sup> U.S. Department of State, *Country Reports on Human Rights Practices for 2011*, May 24, 2012.

<sup>55</sup> ICG. *Nagorno-Karabakh: Viewing the Conflict from the Ground*, September 14, 2005. CIA. *The World Factbook*, <http://www.cia.gov>.

<sup>56</sup> The casualty estimate is from the U.S. Department of State, *Background Note: Azerbaijan*, March 23, 2012.

<sup>57</sup> U.N. High Commissioner for Refugees, *Azerbaijan: Statistical Snapshot*, January 2012, at <http://www.unhcr.org/pages/49e48d1e6.html>; World Bank, *World Bank-Azerbaijan Partnership Program Snapshot*, April 2012.

<sup>58</sup> U.S. Department of State, Office of the Spokesman, Media Note: Support for Basic Principles for Peaceful Settlement of the Nagorno-Karabakh Conflict, November 29, 2007.

<sup>59</sup> Open Source Center. *Europe: Daily Report*, August 27, 2008, Doc. No. EUP-085016.



refugees to return to their former places of residence; and international security guarantees that would include a peacekeeping operation.<sup>60</sup>

Then-President Medvedev hosted Aliyev and Sargsisyan in Sochi, Russia, in late January 2010, and the two sides reportedly agreed on many parts of a preamble to an agreement. In December 2010, a declaration by the Minsk Group co-chairing countries and the presidents of Armenia and Azerbaijan was signed during the Astana Summit of the OSCE that pledged the parties to a peaceful settlement of the conflict. However, the presidents of Armenia and Azerbaijan gave speeches criticizing each other's commitment to negotiations and refused to meet at the conclave.

On June 24, 2011, Presidents Sargsisyan and Aliyev met in the Russian city of Kazan, and issued a joint statement that agreement had been reached on some issues and that further talks would be held. A couple of weeks later, then-President Medvedev, reportedly disappointed that there was scant progress at the talks, sent letters to the two leaders calling for suggestions on how to move the talks forward.

During Aliyev's summit with Medvedev in Sochi, Russia, in early August 2011, then-President Medvedev called for "an absolutely frank conversation with you about our future steps" to resolve the NK conflict. Aliyev called for the "settlement of the conflict, so that all displaced persons can return to their homes and peace, tranquility and cooperation are restored in the region." Azerbaijani analyst Khikmet Khadzhezade alleged that Medvedev warned Aliyev against military action against NK at this meeting.<sup>61</sup>

The presidents of Armenia and Azerbaijan denounced each other's perceived unwillingness to settle the NK conflict during the celebratory anniversary meeting of the Commonwealth of Independent States in Dushanbe, Tajikistan, in early September 2011. Mutual denunciations also were delivered at the late September 2011 opening session of the U.N. General Assembly. In his speech, President Sargsisyan alleged that Azerbaijan had tried during the Kazan talks to "reject[] the previously elaborated arrangement and ... in fact, to break down the negotiation process." In his speech, Azerbaijani Foreign Minister Eldar Mammadyarov protested that "Azerbaijan still maintains its interest, motivation and patience in this very hard and sensitive process of negotiations. We believe that the international community will convince the Armenian side to respect the generally accepted norms and principles of international law and cease abusing the right of Azerbaijanis to live within their own territory."<sup>62</sup>

In October 2011, the Minsk Group co-chairs issued a statement after talks with Presidents Aliyev and Sargsisyan that the two presidents had agreed in principle on some border incident investigation procedures that the presidents had called for developing at their meeting in Sochi in March 2011. A call for finalizing these procedures was issued at the OSCE Ministerial Council Meeting in Vilnius in early December 2011.

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<sup>60</sup> The White House. *Joint Statement on the Nagorno-Karabakh Conflict by U.S. President Obama, Russian President Medvedev, and French President Sarkozy at the L'Aquila Summit of the Eight*, July 10, 2009.

<sup>61</sup> The Kremlin, President of the Russian Federation, *Meeting with President of Azerbaijan Ilham Aliyev, 9 August 2011*, August 9, 2011; CEDR, August 25, 2011, Doc. No. CEP-6010.

<sup>62</sup> CEDR, September 26, 2011, Doc. No. CEP-964113; Embassy of Azerbaijan in the United States, *Statement by Elmar Mammadyarov, Minister of Foreign Affairs, at the General Debate of the sixty-sixth session of the United Nations General Assembly*, September 27, 2011; United Nations, U.N. News Center, *Armenia and Azerbaijan Express Views on Nagorno-Karabakh During U.N. Debate*, September 27, 2011.

Before a planned meeting of the Armenian and Azerbaijani presidents in Sochi, Russia, on January 23, 2012, President Aliyev stressed that “no one wants war, least of all Azerbaijan, which has made such great achievements. However, this does not mean that negotiations ... will be focused on the prevention of war.”<sup>63</sup> At the Sochi meeting, the two presidents issued a joint statement pledging to “accelerate” talks to reach a settlement and requesting Russia to act to facilitate humanitarian ties between the two countries. The co-chairs of the OSCE Minsk Group also presented the Armenian and Azerbaijani presidents with a draft plan for setting up a group to investigate incidents along the line of contact, and the presidents called for further work on the plan. In March 2012, however, President Sargisyan reportedly condemned Azerbaijan for refusing to further discuss such an incident investigation mechanism or other “confidence building” measures, allegations that Azerbaijan rejected.<sup>64</sup>

In late March 2012, Azerbaijani presidential administration official Ali Hasanov acknowledged that Baku regards the talks mediated by the president of Russia as the most significant means to settle the NK conflict, given Russia’s close ties to Armenia. Hasanov claimed that Russia has overwhelming influence over Armenia, and appeared to argue that Azerbaijan’s major goal is to persuade Russia to use its influence to settle the conflict.<sup>65</sup>

On June 4-5, 2012, violence on the line of contact between Armenian and Azerbaijani forces resulted in three dead Armenian troops and five dead Azerbaijani troops, according to authorities in the respective countries. Secretary Clinton, visiting the region, deplored the violence and called for both countries to continue to seek a peaceful settlement of the NK conflict. Up to two dozen more casualties were alleged over the next few days.

On June 19, 2012, the presidents of the United States, France, and Russia, meeting on the sidelines of the Group of Twenty (G-20; grouping of major developed and developing countries) summit in Mexico, issued a joint statement regretting that there had not been substantial progress since their last such appeal in mid-2011. The presidents called on both sides to eschew hostile rhetoric and argued that “military force will not resolve the conflict and would only prolong the suffering ... by peoples of the region.”<sup>66</sup> Appearing to reflect the rejection of the creation of an incident investigation mechanism, Azerbaijani Foreign Minister Mammadyarov stated on July 9, 2012 that “the problem is not in mechanisms, it is in the presence of the Armenian troops in the occupied Azerbaijani lands. If troops are withdrawn, both the problems with the incidents and mechanisms will be solved. This is Azerbaijan’s position and we will not change it.”<sup>67</sup>

Tense relations between Armenia and Azerbaijan were heightened at the end of August 2012 when Hungary extradited Azerbaijani citizen Ramil Safarov—who was sentenced to life in prison for killing an Armenian officer during NATO training—and he was immediately pardoned and rewarded by Azerbaijani President Ilkham Aliyev. Hungary protested that it had extradited the prisoner only after receiving assurances from Azerbaijan that he would serve out the balance of his sentence. Armenia broke off diplomatic relations with Hungary, and protests against the treatment of Safarov were held at the Hungarian and Azerbaijani embassies in several countries.

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<sup>63</sup> *Interfax*, January 16, 2012.

<sup>64</sup> *Interfax*, March 6, 2012; March 16, 2012; *CEDR*, April 2, 2012, Doc. No. CEP-950107.

<sup>65</sup> *CEDR*, March 29, 2012, Doc. No. CEP-950123.

<sup>66</sup> The White House, *Joint statement by the Presidents of the United States, the Russian Federation and France on Nagorno-Karabakh*, June 19, 2012.

<sup>67</sup> *CEDR*, July 10, 2012, Doc. No. CEP-950155.

The White House stated that it was communicating its “disappointment” to Azerbaijan and several Members of Congress were critical of the pardon.

After President Aliyev pardoned Safarov, the OSCE Minsk Group met individually with the Armenian and Azerbaijani foreign ministers in Paris on September 2-3, 2012, and raised “deep concern” that the pardon had harmed peace efforts. Appearing to respond to the OSCE statement, President Aliyev argued in a speech on September 11, 2012, that the Minsk Group had been unsuccessful during its two-decade efforts in moving Armenia to settle the NK conflict, so that the solution might depend on Azerbaijan’s use of military force. He asserted that since NK was “occupied” by Armenia, Azerbaijan’s main focus was on “isolating Armenia from all international and regional [economic] projects.”<sup>68</sup>

At the opening session of the U.N. General Assembly in late September 2012, the Armenian and Azerbaijani foreign ministers harshly characterized each other’s positions on the NK conflict as “blatant distortions” and “lies.” At the OSCE Ministerial Council Meeting in Dublin on December 6, 2012, the three Minsk Group co-chairing countries issued a statement regretting that there had been no progress in talks since the Armenian and Azerbaijani presidents had pledged more rapid progress in Sochi in January 2012. They also raised concerns about increased tensions between the two states in recent months, and called on the presidents to “prepare their populations for the day when they will live again as neighbors, not enemies....”<sup>69</sup>

In a presidential campaign speech in January 2013, President Sargsisyan reportedly advised against Armenian recognition of the independence of NK “at the moment,” stating that such recognition would end the peace talks and “in that case, we must be ready for military actions....”<sup>70</sup>

Other tensions between Armenia and Azerbaijan have included Armenia’s plans to open regular civilian air travel between Armenia and NK. Civil Aviation official Arif Mammadov reportedly warned in late March 2011 that Azerbaijan could shoot down airplanes that have not received Azerbaijani permission to land at an airport being constructed in Stepanakert (Xankandi), the capital of NK. Armenia’s defense ministry reportedly responded that its air defenses were capable of protecting the country’s airspace. Then-U.S. Ambassador Bryza reportedly condemned the idea of attacking civilian aircraft and the Azerbaijani Foreign Ministry pledged that the country would not attack civilian aircraft.<sup>71</sup> In late July 2012, however, Azerbaijan’s Civil Aviation Department asserted that air flights into NK without Azerbaijani permission would be considered a violation of airspace and “relevant action” would be taken.<sup>72</sup> As the airport has neared completion, an Azerbaijani air force official in January 2013 reportedly reiterated that “unpermitted flights ... will be prevented.” Reportedly, new Azerbaijani government regulations call for forcing an intruding airplane to land, and if it does not comply and there is no information on civilian

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<sup>68</sup> *APA News Agency*, September 11, 2012.

<sup>69</sup> OSCE, *Press Release: Statement by the Heads of Delegation of the OSCE Minsk Group Co-Chair Countries*, December 6, 2012.

<sup>70</sup> “Licentious Behavior of Azerbaijani Authorities is First of All Harming Them: President of Armenia,” *Armenpress News Agency*, January 21, 2013, at <http://armenpress.am/eng/news>; *CEDR*, January 22, 2013, Doc. No. CEP-950061.

<sup>71</sup> *CEDR*, March 23, 2011, Doc. No. CEP-950100; April 11, 2011, Doc. No. CEP-950112; “Azerbaijan Threatens To Shoot Down Karabakh Planes,” *RFE/RL*, March 16, 2011.

<sup>72</sup> *CEDR*, July 25, 2012, Doc. No. CEP-950156.

passengers, for shooting it down.<sup>73</sup> In early February 2013, however, Azerbaijani Azeri Deputy Foreign Minister Araz Azimov stated that military forces would not shoot down civilian airliners flying over NK, but would “force” them down. He pledged that Azerbaijan would follow the rules on such action in accordance with the Convention on International Civil Aviation, ratified by Azerbaijan in 1992.<sup>74</sup>

## **U.S. Relations**

The United States has endeavored to reassure Azerbaijan that it continues to be a “strategic partner” in counter-terrorism cooperation and energy security and has appeared to balance these U.S. interests against its concerns about democratization in Azerbaijan. According to some observers, relations between the United States and Azerbaijan had cooled after the Administration supported reconciliation efforts in 2009 between Armenia and Turkey which Azerbaijan opposed, and after President Ilham Aliyev was not invited to the U.S. Nuclear Security Summit in early 2010. Although relations may have cooled somewhat during this time, Azerbaijan continued to supply troops for NATO operations in Afghanistan and played a significant role as part of the Northern Distribution Network for the transit of U.S. and NATO supplies to Afghanistan (see below).

To underline the significance of U.S.-Azerbaijan relations, then-Secretary of Defense Robert Gates visited Azerbaijan in June 2010 and Secretary of State Hillary Clinton visited in July 2010, and President Obama met with President Aliyev on the sidelines of the U.N. General Assembly in September 2010. During her July 4, 2010, visit to Azerbaijan, Secretary Clinton stressed that Azerbaijan was an important bilateral partner of the United States. She claimed that Azerbaijan had made “tremendous progress” in democratization and respect for human rights since its independence, but that “there is a lot of room for improvement” on such problems as restrictions on the media and civil society. She argued that such progress also has been a slow and incomplete process in the United States. She stated that “speaking personally, for myself, I would like to see [Section 907] repealed, but that’s up to the [U.S. Congress]. And until the Congress agrees, then we will continue to waive its effects on Azerbaijan.”<sup>75</sup> President Obama also stressed the importance of U.S.-Azerbaijani relations when he met with President Aliyev on September 24, 2010. President Obama expressed his appreciation for Azerbaijan’s contributions to supporting the NATO mission in Afghanistan, and the two presidents pledged to support closer bilateral ties.<sup>76</sup>

U.S.-Azerbaijani relations appeared to generally improve—with some fits and starts—in 2011 and thereafter with the recess appointment of Ambassador to Azerbaijan Matthew Bryza, after more than a year without an ambassador (the appointment expired at the end of the year, however). Perhaps reflecting tensions associated with U.S. criticism of human rights

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<sup>73</sup> Joshua Kucera, “Azerbaijan Again Threatens Karabakh Flights,” *Eurasianet*, January 8, 2013; *CEDR*, January 21, 2013, Doc. No. CEP-950071.

<sup>74</sup> *Interfax*, February 4, 2013.

<sup>75</sup> U.S. Department of State. *Remarks by Secretary Clinton: Joint Press Availability With Azerbaijani Foreign Minister Mammadyarov*, July 4, 2010. She did not directly respond to a question about why she thought democratization was advancing rather than declining.

<sup>76</sup> The White House, Office of the Press Secretary, *Read-out of President Obama’s Meeting with Azerbaijani President Ilham Aliyev*, September 24, 2010.

developments, in April 2011 Azerbaijan canceled participation in the U.S.-Azerbaijani military exercise Regional Response, planned for May 2011 (similarly, a 2010 military exercise was cancelled for reasons also subject to speculation of being linked to the status of bilateral ties). However, Azerbaijani Deputy Foreign Minister Araz Azimov and Assistant Secretary of State Andrew Shapiro met in Baku in June 2011 for the 12<sup>th</sup> session of the U.S.-Azerbaijan security dialogue. Also, Azerbaijan participated in Romania in early August 2011 with U.S. forces in Black Sea Rotational Force training activities, and then in San Antonio, TX, in training for infantry officers.<sup>77</sup>

In October 2011, Deputy Secretary of State William Burns visited the three South Caucasian states. In Baku, he reportedly stated that “Azerbaijan is an important U.S. ally,” praised Azerbaijan’s troop support in Afghanistan and its important role in the diversification of energy exports to Europe, and stressed that resolving the NK conflict is a priority U.S. interest.<sup>78</sup> In late 2011, the United States backed Azerbaijan’s successful bid for a two-year term on the U.N. Security Council (UNSC).

In early 2012, Azerbaijan’s National Security Ministry and other sources reported that alleged Iranian-backed terrorists had planned attacks against the U.S. and Israeli embassies in Baku and their personnel and other targets, but that Azerbaijani security forces had carried out several arrests and operations that appeared to vitiate the threat.<sup>79</sup>

In April 2012, the Obama Administration “re-launched” meetings of the U.S.-Azerbaijan Intergovernmental Commission on Economic Cooperation, which had last convened in 2008. At the session in Washington, DC, Azerbaijani co-head Samir Sharifov reported that President Aliyev had instructed the delegation to “intensify efforts” to expand the current “strategic partnership” between the two countries.<sup>80</sup>

In May 2012, President Aliyev twice visited the United States. He presided at a U.N. Security Council meeting on counter-terrorism on May 4 and attended the NATO Summit in Chicago on May 19-22. In a speech on May 4, he stated that “Azerbaijan is a reliable partner of the United States and these relations have turned into a strategic partnership.” In a speech at the NATO summit, he pledged that Azerbaijan would continue to assist Afghanistan after the pull-out of NATO forces in 2014.<sup>81</sup> An extended meeting with President Obama was not reported.

During her June 6, 2012, visit to Azerbaijan, Secretary Clinton stated that she discussed the key issues of security, energy, and democratization with President Aliyev. She thanked Azerbaijan for its “essential” role in the transit of personnel and supplies to Afghanistan, and its “central role” in Europe’s efforts to diversify sources of energy and transport routes. She called for further democratization and for the release of individuals detained for expressing their views in print or

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<sup>77</sup> U.S. Embassy in Baku, Azerbaijan, Office of Public Affairs, *Media Advisory: Azerbaijani, U.S. Troops Train Side-by-Side in Romania*, August 3, 2011.

<sup>78</sup> Open Source Center, *Central Eurasia: Daily Report* (hereafter *CEDR*), October 19, 2011, Doc. No. CEP-950087.

<sup>79</sup> *The Jerusalem Post*, January 26, 2012; *CEDR*, March 14, 2012, Doc. No. CEP-950162; *Washington Post*, May 27, 2012.

<sup>80</sup> The Ministry of Finance of the Republic of Azerbaijan, *The 3rd Meeting of the Azerbaijan – U.S. Intergovernmental Commission on Economic Cooperation Has Been Finished*, April 19, 2012, at <http://www.maliyye.gov.az/en/node/1323>.

<sup>81</sup> *CEDR*, May 6, 2012, Doc. No. CEP-950004; President of Azerbaijan, *Ilham Aliyev Attended a Meeting of Heads of State and Government on Afghanistan in Chicago*, May 21, 2012, at <http://en.president.az/articles/4918>.

on the streets. She commended the government for releasing Bakhtiyar Hajiyev (mentioned above) and held a meeting with civil society leaders. She also condemned violence along the line of contact between Armenian and Azerbaijani forces, and urged restraint.<sup>82</sup>

At his June 2012 confirmation hearing to become Ambassador to Azerbaijan, Richard Morningstar testified that the “wide range of shared interests” between the United States and Azerbaijan “intersects with many of the United States’ highest foreign policy priorities.” He outlined “three core areas of importance to the relationship: security, energy, and democratic and economic reform,” and stressed that “the Administration believes we must intensify our cooperation in these areas.” He also warned that security and prosperity in the South Caucasus could only be assured by the peaceful settlement of the NK conflict, and he pledged to, if confirmed, support the efforts of the Minsk Group.<sup>83</sup> He was confirmed by the Senate at the end of June 2012 and presented his credentials to President Aliyev in September 2012.

U.S. cumulative budgeted assistance to Azerbaijan from FY1992 through FY2010 was \$975.75 million (all agencies and programs). Budgeted aid to Azerbaijan was \$26.4 million in FY2011 and an estimated \$20.9 million in FY2012 (“Function 150” foreign assistance programs, excluding Defense Department funding). Under the Continuing Appropriations Resolution for FY2013, signed into law on September 28, 2012 (P.L. 112-175), regular foreign aid accounts are funded until late March 2013 at the same level as in FY2012 plus .612%, and most country allocations may be adjusted at agency discretion. Because of Azerbaijan’s substantial economic development, the United States in recent years has cooperated with Azerbaijan to co-finance economic growth and other programs.<sup>84</sup>

In FY2013, the Administration’s budget request called for devoting the largest share of assistance to democratization, followed by peace and security and support for economic growth. In the realm of democratization, the Administration planned to ameliorate “a restrictive environment for democratic activists” by assisting in training journalists, increasing Internet access, and providing legal assistance for citizens and activists. Peace and security assistance was planned to support Azerbaijan’s participation in U.S. and NATO operations in Afghanistan, developing maritime security, and modernizing the military. Other aid was planned to support counter-terrorism and counter-narcotics efforts, prevent trafficking in persons, bolster border security, improve arms stockpile security, and destroy landmines. Economic aid was planned to bolster agricultural income and exports; share best practices on banking supervision; and to increase competitiveness, the investment climate, foreign trade, and Azerbaijan’s efforts to join the WTO.<sup>85</sup>

Since FY2004, Azerbaijan has been designated as a candidate country for enhanced U.S. development aid from the Millennium Challenge Corporation, but it has not been selected as eligible for aid because of low scores on measures of political rights, civil liberties, control of corruption, government effectiveness, the rule of law, accountability, and various social indicators.

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<sup>82</sup> U.S. Department of State, *Remarks With Azerbaijani Foreign Minister Elmar Mammadyarov*, June 6, 2012.

<sup>83</sup> U.S. Senate, Committee on Foreign Relations, *Statement of Richard Morningstar, Ambassador-Designate to Azerbaijan*, June 13, 2012.

<sup>84</sup> U.S. Department of State, *Congressional Budget Justification for Foreign Operations for FY2013, Annex: Regional Perspectives*, April 3, 2012.

<sup>85</sup> U.S. Department of State. *Congressional Budget Justification for Foreign Operations*.

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 directed that aid provided under the waiver not undermine the peace process. Foreign Military Financing (FMF), International Military Education and Training (IMET), and other security programs were launched in Azerbaijan. Congress has called for equal funding each year for FMF and IMET for Armenia and Azerbaijan. 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 over \$36 million expended from FY1998 through FY2011. 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 Counter-Terrorism**

After the terrorist attacks on the United States on September 11, 2001, Azerbaijan “granted blanket overflight clearance, engaged in information sharing and law-enforcement cooperation, and approved numerous landings and refueling operations at Baku’s civilian airport in support of U.S. and Coalition military operations” in Afghanistan.<sup>86</sup> Azerbaijan has contributed troops to the International Security Assistance Force (ISAF) in Afghanistan since 2003. It increased its contingent from 45 to 90 personnel in 2009, and there are currently 94 personnel deployed, including medical and civil affairs specialists. Azerbaijan also has contributed to Afghan demining and civil service training. From 2003-2008, about 150 Azerbaijani troops participated in the coalition stabilization force for Iraq.

Azerbaijan and Kyrgyzstan reportedly are the main overflight, refueling, and landing routes for U.S. and coalition troops bound for Afghanistan, and Azerbaijan also is a major land, air, and sea transport route for military fuel, food, and construction supplies. The Azerbaijani route is one of three main routes through Russia, the South Caucasus, and Central Asia to Afghanistan, together termed the NDN, that have supplemented—and for several months in 2011-2012, supplanted—supply routes through Pakistan. According to former Ambassador to Azerbaijan Matthew Bryza, in recent years, “virtually every U.S. soldier deployed to Afghanistan has flown over Azerbaijan.” He also reported that over one-third of all non-lethal equipment, fuel, clothing, and food used by U.S. troops in Afghanistan transited by ground and sea through the Port of Baku.<sup>87</sup> One media source reported in late 2012 that USCENTCOM was working out plans for shipping equipment and materials out of Afghanistan and across the Caspian Sea to Azerbaijan, where the goods

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<sup>86</sup> U.S. Department of State. *Country Reports on Terrorism 2008*, April 30, 2009.

<sup>87</sup> U.S. Embassy, Baku, Azerbaijan, *Speech to Plenary Session for Caspian Oil and Gas Show 2011* Ambassador Matthew Bryza, June 8, 2011; *Ambassador Matthew Bryza, Press Conference*, December 29, 2011.

would then be transported through Turkey to Europe. According to this account, USCENTCOM envisaged using this route for about 5% of goods exiting Afghanistan in 2013-2014.<sup>88</sup>

Figure 1. Map of Azerbaijan and Region



Source: CRS.

Notes: Administrative borders of the former Nagorno Karabakh Autonomous Region.

<sup>88</sup> Joshua Kucera, "U.S. Mapping Out Afghanistan Exit," *Eurasianet*, November 21, 2012; *APA News Agency*, February 6, 2013.



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