

Caucasian Regional Studies



The International Association For Caucasian Regional Studies
Law Politics Sociology Economics Modern History International Relations

Caucasian Regional Studies, Issue 1, 1996

ENERGY RESOURCES OF AZERBAIJAN: POLITICAL STABILITY AND REGIONAL RELATIONS

Vladislav Shorokhov *
(Russia)

Introduction

Oil riches have been playing and continue to play a great role in the fate of Azerbaijan which has the most significant prospected resources among the countries of the CIS after Russia. Following the dismantling of the USSR and the creation of independent states on its territory, the geopolitical situation in the region has essentially changed. Azerbaijan turned out to be at the centre of the geopolitical interests of the regional and super-powers: Russia, USA, Great Britain, Turkey and Iran. At the present moment Azerbaijan, possessing prospected oil resources amounting to about 4 billion tons (80 per cent of which are sea deposits), together with Kazakhstan and Turkmenistan may create the third largest region of oil extraction in the world after Siberia and the Persian Gulf (the total sea reserves in the region of the Caspian Sea amount to 10 billion tons of oil and 6 billion cubic meters of gas). As a result the Republic can become a strong regional economic, and that means political, power. It is unlikely that such a prospect is in line with the interests of Russia, which link the oil extraction and transportation with the status of the Caspian Sea and its ecological problems. Preserving the monopoly on oil transportation could give Russia the possibility to control the resources of Azerbaijan, which guarantee its economic independence. In their turn the Western countries, the USA and the Great Britain in the first place (the main opponent of Russia in the Middle East during the last two centuries), have also announced their (mainly) economic and political interests in the region of the Caucasus and Central Asia adjoining the 'shat-ter belt' (the focus of conflict of interests of the superpowers for many years) from the North. Turkey, having its own regional interests, is also moving forward ecological demands concerning

the control of shipping in the zone of the Black Sea straits. In this way the contradictions between these states, which externally look like a clash between the thermo-energy complex (TEC) of Russia and the Western oil companies for the energy resources of post-soviet Azerbaijan, are linked with the search for its external political orientation, which will form its transport and political space. As the transport infrastructure will define the future links of Azerbaijan (and possibly of the whole region of the Transcaucasus and Central Asia) with the external world, the choice between the transport routes has become aggravated.

The Problem of the Status of the Caspian Sea

However, oil extraction from the Caspian Sea has not been legitimate so far due to the unregulated nature of use of the reservoir. Two agreements define the regime of exploitation of the Sea - the Russian and Persian one of 1921 and the Soviet - Iranian one of 1940. But these agreements do not contain provisions about utilising the resources of the sea bed. Thus, it is impossible to blame the coastal countries for not maintaining the existing legal regime of the Caspian Sea if that does not exist juridically. The work of the Caspian coastal states on new agreements about the Caspian sea started on the initiative of Iran in February 1992, i.e. almost immediately after the USSR fell apart. Already in autumn, 1993 Russia moved a question about the status of the Caspian suggesting that its territorial waters be limited to the 10-mile zone and the colossal oil reserves (120-miles from the coast) would stay within it. If the Caspian Sea is juridically considered to be a lake then none of the norms of international maritime law are applicable to it. On the other hand, if the Caspian Sea is not a lake bordered by different states but a sea it should have a free passage to the world oceans, exempted from all taxes - and Russia (since the spring of 1994) imposes a tariff on all international vessels passing through the Volga-Don channel at international rates - \$10,000. Russia also offers to conclude a bilateral agreement about the protection of biological resources and the environment without defining the status of the reservoir and of the responsible parties. In the opinion of Mr.A.Kozirev, the former Minister of Foreign Affairs of Russia, 'The Caspian Sea is only called a sea, but in essence it is an internal reservoir. When the word 'sea' is applied to the Caspian, it is a literary epithet, nothing else'. Azerbaijan, Kazakhstan and Turkmenistan are trying unilaterally to activate the exploitation of the resources on the territory of the sea sectors adjoining to them. While not denying verbally the international character of the Caspian, Baku, Alma-Aty and Ashkhabat actually strive for the realisation of the idea of the division of the sea into economic zones. The position of Azerbaijan and Kazakhstan is that consideration of the Caspian as a lake or a sea does not change to any extent the results of its division into sectors which are formed by means of drawing a line down the middle. Moreover, each coastal state uses its sovereign rights to exploit the sector belonging to it. According to the approach of Russia and Iran, it is necessary to accept the principle of common utilisation of the Caspian (the principle of condominium). The circumstance that the Caspian was the sea of two states - the USSR and Iran - is used as an argument. But the practice of making use of the Caspian by the Soviet Union and Iran suggested the separate utilisation of

the resources of the reservoir in two sectors divided along the line of Astara - Gassan Kuli. Besides, the Union republics composing the USSR have been exploiting the riches of the Caspian according to the principle of division through the middle and this practice has existed since the 70s. Finally, the Iranian side would have preferred to maintain valid the agreements concluded by Soviet Russia and the Soviet Union, otherwise Iran would have had significant losses. All the states consider that unilateral actions of Azerbaijan before an agreement on the status of the Caspian are not legitimate, although this is the only way of expressing the solidarity of Turkmenistan and Kazakhstan with Russia and in reality they are striving for the same thing. Turkmenistan has abstained so far from making definite pronouncements. Each state makes an attempt to adhere only to those agreements which are beneficial for it. Russia considers that only the agreements of 1921 and 1940 are legitimate. But on another part of its frontier - with Estonia and Latvia, the agreements of 1920 are considered to be obsolete by Russia (to say nothing about the Treaty on Conventional Armed Forces in Europe (CFE Treaty, 1990). Moreover, the Ministry of Foreign Affairs announced that it proceeds from 'the border and the international norms in this sphere which exist today'. On the other hand the Caspian coastal countries call on Russia to recognise only whatever has existed since the 70s. Meanwhile the Convention of the UN on Marine Law (1982) signed by more than 150 states, the USSR among them, unequivocally strengthens the sovereign rights of the coastal state on the 'prospecting and exploitation of the natural resources of the continental shelf'. In compliance with the Convention, jurisdiction of the coastal state is applicable to the creation, exploitation and utilisation of artificial islands, installations and equipment and the carrying out of maritime scientific research on the continental shelf. The coastal state is specially entitled to allow and to regulate, using its own discretion, the 'carrying out of drilling works and the creating of artificial installations for economic objectives'. A Portrait of the Sides - the interests of the super- and regional states A further issue, the most important geopolitical crux for making use of the energy resources, is the route of the export pipeline. The Asian-Caucasian Region (ACR) is located deep in continental Eurasia and there were many alternatives for constructing the pipeline depending on physical and geographical, political and economic factors. Political considerations, no doubt, played a great role, when Heidar Aliev's government was finally making decisions about the routes for the pipeline. The main factors in these developments were conflict regulation and the military presence of Russia in the Caucasus. The line of confrontation between the East and the West has shifted towards the Transcaucasus and come closer to the 'cold war' for oil. The problem of the energy resources of the Caspian became the 'key' to the Asian-Caucasian Region, which can influence the foreign policy orientation of these states for the next decades. From this point of view regulation of the Caucasian conflicts is seen in a new light: those of Karabakh, Abkhazia and Chechnya; and the possibility of the manipulation of the route of the pipeline in order to clarify the territorial arrangements of Azerbaijan and Georgia. This is exactly what Turkey and the Transcaucasus are striving for - for the union of Georgia and Azerbaijan (like the Benelux). The alternative viewpoint of Russia is directed to a greater extent at Georgia and Armenia. Furthermore Azerbaijan falls out with its interests in the regulation of the Karabakh conflict. And this has turned out to be the main blunder of the foreign

policy of Russia in Transcaucasia in the 90s. The territorial issues of Kurdistan in Turkey and South Azerbaijan in Iran adjoining the Caucasian conflicts proper significantly influence this problem. A potential menace to the security of Russia is the Asian-Caucasian Region with its conflicts, and due to this the south wing of the peacekeeping forces of Russia has been strengthened, exceeding the quotas of restrictions of the conventional armed forces in Europe (CFE Treaty, 1990). But Russia made many attempts in the Transcaucasus to create that very instability which it condemns now. In its turn, Turkey as a regional power endeavouring to unite Turkish states into a union, is against reconsideration of the CFE Treaty. Azerbaijan in the Transcaucasus, in this way, plays a role similar to the analogous role of Ukraine in the east European region of the CIS, constituting a buffer between Russia, Iran and Turkey. The groups of western corporations, first of all, Anglo-American, in union with Turkey, endeavour to promote the latitudinal direction towards Central Asia. Another one - a meridional - is being formed as a counterbalance to this oil alliance: Armenia has been chosen as a strategic ally of Russia. By 1996 the Russian pipeline system will no longer be able to satisfy the export needs of Russia, Kazakhstan, Azerbaijan and other countries of the CIS. On the territory of Russia there are neither new super-big deposits, nor oil-bearing regions which could become the strategic basis for the development of oil extraction. That indicates the necessity of maintaining to the maximum good relations with the southern neighbours - these countries can be considered to be the object of expansion for the Russian TEC. The TEC and the government do not support any attempt of pressure from Russia upon the countries of the CIS which have energy resources; particularly the announcement that they are zones of special interest, because this is considered to be ineffective. It is necessary to have a chance of expansion now while everything has not been divided yet. That was the moot point between the Ministry of Foreign Affairs (MFA) and the Government. The MFA insisted on trade and financial sanctions against Azerbaijan, nevertheless the Government of Chernomyrdin supported the contract. The attitude of Russia towards the problem of oil extraction depends on the extent of the agreement of the MFA, the government of the Russian Federation and the Ministry of Fuel and Energy on this matter. On the other hand, the western companies themselves are not interested in the immediate elaboration of the structure of the CIS and justifying themselves by the pressure from Russia are carrying out their long-term and not short-term interests. It will take 30-50 years for Asian-Caucasian oil to find its place on the world market. Thus except for the oil-extracting states nobody is interested in the immediate utilisation of the resources. In the beginning the West favours the passage of the pipeline via the Karabakh part of Azerbaijan, Armenia, the Nakhichevan part of Azerbaijan and Turkey -hoping in this way to regulate the Karabakh conflict and free Armenia from Russia's influence. Although after the active intervention of the West in the conflict settlement: the creation of the Minsk Group of the CSCE in 1992; the joint American-Turkish-Russian initiative (3+1) in 1993; and the replacement of three states - the chairmen of the Minsk Group (Italy, Sweden, Finland), it became finally obvious that Armenia does not intend to give its consent to that route. Azerbaijan is categorically against it too following the activation of the peacekeepers in autumn 1994 (adding the OSCE, a new status of mediator, the provision for bringing in the separating troops) now a

sluggish, sometimes interrupted negotiatory process is being observed. In 1994 Azerbaijan was successfully lobbying for the Iranian route - although after the exclusion of Iran from the consortium in spring 1995 this option became unreal. At the same time Azerbaijan categorically repudiated the route via Karabakh, Armenia, and Nakhichevan to Turkey considering that this would make the republic strongly dependent on the position of Armenia which is unacceptable for Heydar Aliiev. Proceeding from this the only routes left were the Georgian and the Russian - and these very routes will be realised. The position of Armenia and the attitude of Azerbaijan and Turkey towards it are defined by the regulation of the Karabakh conflict. However, Turkey and Azerbaijan have different attitudes towards the Armenian route of the pipeline. As before, Ankara is tying up the normalisation of Armenian and Turkish relations with settling the Karabakh conflict. But the demands of Turkey became no less categorical despite the unconcealed efforts of Azerbaijan to frustrate the rapprochement that had started. The new approach of Turkey in its attitude towards Armenia, apart from other things, are linked with the striving of Ankara to take part in the peacekeeping process in Karabakh in the composition of international forces to separate the two sides. For the sake of carrying out this goal Turkey has agreed that the future oil pipeline can pass through the territory of Armenia. It was assumed that this option, apart from the economic benefit, would have established the interdependence of Armenia and Azerbaijan and this dependence could have been a pledge of stability. Armenia would not be against this apportionment, but not at the expense of the interests of Karabakh and its own strategic unionist relations with Moscow, striving for a full control of the future oil pipeline. It is considered to be 'mauvais ton' in official circles in Yerevan to discuss this problem - neither the consortium, nor the countries represented in it with offers about constructing the pipeline, did not address Armenia. But as Jirair Liparityan, adviser to the president, has stated 'the question of the pipeline construction does not affect the position of Armenia'. Security for Nagorno Karabakh has not been guaranteed in order to risk it for the sake of a second-rate factor. It would have been a mistake to think that Armenia proceeding from the desire to correct the route of the pipeline could have made such concessions that will lead to a risk to its security. Money and security are different categories. But abstractly speaking, no doubt, the continuing work on the oil pipeline requires security, an atmosphere of cooperation and interaction. The Turkish 'Sabakh' has enumerated all possible prerequisites of the development of Armenian-Turkish friendship: owing to the joint initiative of Turkey and the USA to get closer to the end of the Armenian-Azerbaijan war. 'A new stage of relations starts between these two countries as well as between Ankara and Yerevan'. Turkey is opening an air corridor to Armenia, the USA influences the government of the Republic of Armenia and the Republic of Nagorno Karabakh, the President of the USA and the President of the Republic of Armenia emphasise the significance of the future neighbourly relationship within the trio Baku-Yerevan-Ankara, 'and then Armenia will leave the occupied territories, the USA will raise the blockade against Azerbaijan, Turkey will raise the blockade against Armenia, diplomatic relations will be established between Baku and Yerevan, at the negotiations the autonomy of the Republic of Nagorno Karabakh will be broadened, and the USA and Turkey will present credits to both sides'. Iran, which holds an ambiguous position towards Azerbaijan, during the rule of the Popular

Front of Azerbaijan restricted cooperation to a minimum. And though under Aliiev the relationship between the two countries started to actively develop - they are strongly dependent on the development of the situation. The problem of the Iranian route lay heavily on the problem of South Azerbaijan. If this option were realised, South Azerbaijan would have received the stimulus of being united with the North. Meanwhile the Popular Front of Azerbaijan as a political party does not intend to deny the idea of struggling for the unification of the Southern (Iranian) and Northern Azerbaijan into a unified state. In May 1995, Elchibei stated that in his opinion in the next two to three years the Azeris will be organised into a powerful monolithic Turkish state. He called on seven political organisations acting in South Azerbaijan (their representatives were taking part in the work of the Third Congress of the Popular Front of Azerbaijan), to unite their efforts with forty organisations of North Azerbaijan that want 'the reunification of the native land'. After the autumnal abrupt improvement of relations with Iran and the spring worsening it was not considered serious to take this route into account. Recently the policy of Georgia was activated (after Armenia, and then Iran), which has convinced the consortium of its political stability and of the possibility of building the oil pipeline via Georgia to Turkey or to Poti using afterwards tanker transportation or to Samsun (Turkey), or to Frakia (Turkey), or to Burgas (Bulgaria) or to Odessa (Ukraine). While implementing this project Georgia will get the possibility of reliable provision of energy resources. At the same time the influence of the West and Turkey will be increased and they are striving for the creation of the transport corridor Turkey - Georgia - Azerbaijan - Central Asia and Kazakhstan. In this case the weakening of the influence of Russia in the republic and the freezing of the Abkhaz as well as the Ossetian conflicts are inevitable. But in its own turn Russia may get a bridgehead for Chechenian fighters in Georgia too. The merit of the Georgian route is its compromise: the pipeline would not be passing on the territory of the main rivals - Russia, Turkey and Iran. In summer 1995 Tansu Ciller, the Prime Minister of Turkey was lobbying for the Georgian alternative. Kazakhstan held a dual position in the matter of the oil route by signing an agreement with Turkey and remaining a member of the Caspian oil pipeline consortium. On one hand, the Kazakh officials state that there are no alternatives to the construction of the pipeline Kazakhstan-Novorossiisk for the delivery of the Tengiz oil. On the other hand, as the volumes of oil extraction in the next century will be very big, Kazakhstan is looking for an additional entry to the world market. In this case the most realistic version of the transportation to the Mediterranean is via Azerbaijan and Turkey. On the whole, the struggle of the West and Russia has been concentrated on two routes: the Russian and the Georgian.

Development of the problem: 1990-1994

During the last 5 years in the political arena of Azerbaijan a struggle between three blocks has developed. The supporters of the first (Elchibei - the Azerbaijani Popular Front, APF) held the position of the full independence of Azerbaijan from Russia, its exclusion from the CIS, and its orientation towards the USA, Europe and Turkey. The representatives

of the second trend (Aliiev, Hassanov, Guliev) were for the balance of the traditional interests of Russia and the West, and membership of the CIS side by side with the development of the relationship with other countries. And finally, the third block (Mutalibov, Husseinov) were for the maximally close integration with Russia.

The rule of each side was reflected in the foreign policy of Azerbaijan, talks about the elaboration of the oil deposits that lasted four years and about the route of the export oil pipeline. The cooperation of Azerbaijan with the Western Companies started already in 1990 during Mutalibov's rule. In the first tender the right for working on the Azeri part of the shelf was given to Amoco (40 per cent). The share of the USSR also consisted of 40 per cent, that of Azerbaijan - 20 per cent. In the course of multilateral negotiations (Russia, Azerbaijan, Kazakhstan and Oman) a decision was taken about the creation of the consortium for pipe laying from Kazakhstan (Tengiz) via Astrakhan to Novorossiisk (going round Chechnya).

Within the framework of this project the construction of separate branches of the pipeline was envisaged for transportation of Azerbaijani oil, with a length of 1,5 thousand kilometres (half of which are old active pipelines), with a capacity of 40 million tons per annum (subsequently 75 million tones per annum) costing \$1,5 - 2 billion during a three year construction period. A line (with a capacity of 40 million tons per annum) has already been operating for 20 years in the opposite direction, providing the oil refineries of Baku with Grozno oil. Reconstruction of the oil pipeline and increasing of the export capacity of Azerbaijani oil has been planned. But implementation of this route would have led to the accumulation of large volumes of oil in Novorossiisk from Kazakhstan and Azerbaijan and that would have demanded a significant modernisation of the oil terminals.

Now Novorossiisk accepted in fact all the transport burden for Russia on the Black Sea - the crude oil alone amounts to about 800 thousand barrels being daily transported from here and farther via the Black Sea straits. Nevertheless, in autumn 1991 Mutalibov took the decision to exclude Russia from the framework of the contract: obviously it was of definite significance in the development of the Armenian-Azerbaijan conflict (the loss of the city of Khojali), during the governmental crisis of spring 1992 and Mutalibov's replacement by Elchibei. The question of the transportation of the Tengiz oil has also been solved: the negotiations between the 'Chevron' and the 'Caspian pipeline' consortium were frozen and the American company preferred not to invest.

After Elchibei came to power in May 1992 work on the project of the Novorossiisk pipeline was carried out without Azerbaijan. Elchibei (President from May 1992 to June 1993), with his pro-western disposition was inclined towards the joint elaboration of three oil deposits (Gjuneshli, Azeri, Chirag) with the consortium of the leading oil companies of Great Britain, USA, Norway and Turkey (it was precisely during A.Elchibei's rule that the Turkish company joined the project). The alliance of 'British Petroleum (BP)' - 'Statoil' started to play a leading role: in autumn 1992 a joint venture was formed together with the Azerbaijan state associations 'Azeroil' (Azerneft) and 'Casporneftegas'

(Caspaseoilgas). It was assumed that the foreign firms would own 50 per cent of the statutory capital of the joint venture, moreover the share of BP was two thirds, that of 'Statoil' - one third. In this way the interests of Russia were ignored (in the consortium as well as in the route of the oil exporting pipeline). Out of all the seven options for the pipeline the preference was given to a Turkish one (Baku - Tebriz - Nakhichevan - Jeykhan, the other route via Turkey being Baku - Tebriz - Nakhichevan - Trabzon). The Georgian option of the pipeline (Baku - Poti, stretching for 850 kilometres, costing \$1,2 billion) from the technical point of view is the simplest and the most obvious - the length would have been significantly less than for the other options and the locality of the layout of the route much more convenient. It would have been the most economical as well. The main problems of this route were: the political instability in Georgia, the closeness to the cease-fire line of the Armenian-Azeri conflict in Karabakh (at one stage it seemed inevitable that the Armenians would attack Gyanje) and increasing the loading on the Black Sea straits. Two Iranian options (Baku - Hark and Baku - Tebriz - Hark, with lengths of 1060 and 1150 kilometres respectively), with a cost of \$2,5 billion, with a capacity of 40 million tons per annum) were supposed to be attached to the already existing 750-kilometres pipeline Tebriz - Hark.

However, the Iranian options did not suit the companies of the USA and Great Britain (the majority in the consortium) which due to political reasons did not wish the pipeline to pass through Iran. The 'cool' relations between Azerbaijan and Iran, Elchibei's harsh statements, and his frank pro-Turkish orientation, were not conducive to these options either. From the technical point of view the Turkish option is the most difficult because the pipeline should pass through a mountainous locality, but it had an important advantage - direct access to the Mediterranean for the filling of tankers (the oil terminals Dirtoil and Yumurtalik). The chief problem of this route lay in the fact that the pipeline from Azerbaijan to Turkey would have to pass either across Armenia or Iran or Georgia, but each of these countries was considered to be politically inconvenient. The Armenian-Azeri conflict, hostilities in Eastern Turkey against the Kurdish rebels (although the route bypassed the region of such activity), and political chaos in Georgia made implementation of this project difficult. The cost of the pipeline Baku - Jeykhan (project power of 40-55 million tons per annum, costing \$1,25 - 2,5 billion, length - one thousand kilometres, construction time - two years) depended on whether it would be possible or not to link up with the existing pipeline Iraq - Turkey, which is closed at present due to the oil embargo against Iraq. The Turkish state company 'BOTASH' offered the western consortium access to this pipeline, which would have significantly reduced the common cost of the project, removing the necessity to build a new branch 600 kilometres in length. There are juridical doubts about whether Turkey was entitled or not to offer the pipeline to other consortiums when it so far had a juridically obligatory agreement with Iraq. Moreover, within the UN Security Council the mood is changing in favour of the abolition of the embargo against Iraq. The passage of the pipeline was envisaged to be along the Iran - Azerbaijani border (occupied by Armenia), through the 'Megrinski Corridor' in northern Armenia, or through Tebriz going round southern Armenia, and after, Sadarak in Nakhichevan on the territory of Turkey. Having already resigned, Elchi-bei confessed in his interview

with 'Moscow News' that Armenia's joining the pipeline project would have meant the end of the war in Karabakh and multimillion profits for Yerevan, which would have led to the weakening of Russian influence in Armenia as well.

Rumours persisted in favour of it as well about the agreement on the exchange between Armenia and Azerbaijan of the 'Lachinsky' and 'Megrinski' corridors (this project was known as the 'The Gobble Plan'). Thus Azerbaijan (and possibly Armenia as well) was farther and farther distancing itself from Russia. On 12 June the leadership of the state oil company ('Azerioil' - Azerineft) in London together with the leaders of the consortium signed a declaration about the joint elaboration of the deposits. But the Armenian attack in spring 1993 and the demarche of Suret Husseinov brought Heidar Aliev to power (two weeks before Adulfaz Elchibei should have signed a contract in London about the creation of the oil consortium), which meant replacement of the foreign political orientation (joining the CIS) and a new stage in the negotiations about the creation of the consortium. The reaction of the interested states to the change of leader was a very characteristic one: if Russia and Iran welcomed Aliev's coming, the USA, Great Britain and Turkey took a series of diplomatic measures against him, and in Elchibei's defence, as the only legitimate President. The new leadership announced its intention to re-consider the contract with the consortium and to postpone the signing for a couple of months. In these circumstances Turkey, interested in the implementation of the pipeline project, undertook some diplomatic steps to attract Russia to its realisation. In the course of Prime Minister T. Ciller's visit to Moscow in September 1993 it was decided to create a joint working group to study the most optimal ways for oil transportation from Russia, Central Asia and the Caucasus to the Mediterranean via the territory of Turkey.

An agreement about joint oil extraction in the Azeri section of the Caspian Sea was signed between Russia and Azerbaijan (23 October, 1993 - Iyri Shafranik's - the Minister of Fuel and Energy of the RF - visit) and out of the 30-per cent share of Azerbaijan in the consortium, 10 per cent was passed onto the Russian state company 'Lukoil'; furthermore, for the joint elaboration the Gjunesli deposit was singled out (with a capacity of \$1, 4 billion barrels), which till October 1993 was assumed to have been included in the contract with the western companies. Thus, distinct from the rejected option of June 1993, in the new project the working out of two and not three deposits has been considered, those of Azeri and Chirag, estimated at \$7 - 10 billion (the peak of extraction, several years after the beginning of implementation, will be approximately 30-40 million tons per annum). In December 1993 sources in Baku referring to the opinion of experts of the Azerbaijani government were assuming that the contract with the consortium of the western companies did not correspond to the economic interests of Azerbaijan and most likely would be rejected. Probably they were close to the truth: representatives of the Turkish government supposed that Aliev had already given consent for the transportation of most or all of the oil via Novorossiisk. Natig Aliev, the President of the State Oil Company of the Azerbaijani Republic (SOCAR) had to deny information that in the course of Shafranik's visit to Baku a secret agreement has been signed which envisaged the implementation of the project of the oil pipeline

construction according to the Russian version.

In February 1993 the some sources ('Izvestia', 30 March, 1994) considered that the government of Azerbaijan would additionally give 'Lukoil' 12 per cent in the consortium apart from the promised 10 per cent. But the hope of Russia that Heidar Aliev will fully refuse to participate in the consortium and would choose the Russian version, did not come true, although the signing itself was postponed several times. No doubts this was connected with the process of regulation of the Armenian-Azeri conflict (namely in March-April Sweden took the functions of chairman at the negotiations within the Minsk Group of the CSCE, replacing Italy) and with the 'specific approach' of Russia insisting on deployment of its military 'peacekeeping' force, getting back the Caspian Fleet, the border troops and the creation of the joint anti-aircraft system in the Transcaucasus.

It is obvious that Russia did not support Azerbaijan in solving the Karabakh crisis -in these circumstances Aliev's government did not see any point in giving in to Russia in the matter of participation in the consortium and in the oil transportation route. A decisive step was an intergovernmental agreement in the field of oil extraction, signed during Aliev's February visit to Great Britain. According to this agreement Great Britain became entitled to invest in the extraction project. The governments of Azerbaijan and Great Britain acted as guarantors in the implementing of the commitments of BP and the SOCAR. At the April meeting of the Heads of States of the CIS in Moscow the leadership of Azerbaijan for the first time (after joining the Commonwealth) openly turned down the scheme for Karabakh reconciliation offered by Russia. An official point of discord was the statement by the MFA of Russia to the British Ambassador at the end of April 1994 - at that moment it seemed that contradictions about the problems of the contract, the route of the pipeline, the peacekeeping process and the military presence led to qualitative changes in the official policy.

Based on the thesis about the vagueness of the status of the Caspian Sea, and accordingly its utilisation, the MFA of Russia announced that the contract would not have any juridical force without a preliminary agreement with Russia. Paradoxically, during Shafranik's visit to Baku a protocol had been signed which stated that Gjuneshli, Azeri and Chirag belonged to Azerbaijan, i.e. in November 1993 nobody doubted in Moscow that Aliev would turn down if not the whole contract, at least the Turkish version of the route. Thus, rivalry between the West and Russia for the energy resources of the southern post-soviet republics till recently indirectly shown in the Caucasian conflicts shifted from the land to the sea. Furthermore, if in the land conflicts the participation of Russia and the West was not so evident, in the 'sea' ones the sides revealed themselves - since 1 July Turkey, referring to the Convention of Montre (1936) which does not take into account modern ecological demands, had established national regulations for shipping in the Black Sea straits, which restrict the passage of the super-tankers carrying oil, oil products, natural gas, or chemical fertilisers. In this case the Russian version of the pipeline (Baku - Novorossiisk) was losing sense and becoming blocked at the outlet in Novorossiisk. It is true, that Turkey proposed the idea of pipeline construction from the Black Sea (from Zonguldak and Samsun)

to the Mediterranean coast of Anatolia (Samsun - Jeikhan, length - 1050 kilometres and cost \$1,47 billion), or via Thrace (from the Black Sea coast to the Aegean Sea: length - 110 kilometres, cost - \$0,3 billion) going round the straits. At present 70-100 million tons of oil are being transported through the straits per annum mainly by Russian vessels. In the Memorandum to the Turkish Embassy of 30 June the MFA of Russia actually announced its refusal to observe the restrictions.

In summer several rounds of negotiations were held in Turkey about the contract and the route of the pipeline and each time signing was postponed. On 12 May (as if to appease the Azerbaijan side) a truce in the Armenian-Azeri conflict was reached and the intention was announced to sign a major political accord. In April, at the meeting of the Security Council of Russia a decision was taken about its readiness to bring in the separation forces of the Ministry of Defence of the Russian Federation into Nagorno Karabakh. If before that the peacekeeping forces that had been discussed included observers of the CSCE and the UN, by summer 1994 the position of Moscow became more ruthless. Russia was making an attempt to carry out a script of bringing in peacekeeping forces into Azerbaijan as it had in Georgia, which agreed upon a later participation of the UN and the CSCE control and where the peacekeeping process in fact turned out to be really 'frozen'. In these circumstances, after the final Houston round of negotiations on the contract, when by the efforts of the Azerbaijan side the role of the USA grew in the project preparation, and after the meetings in Cairo, where Aliev was persuading Gore, the Vice-President, and Ciller, the Prime Minister on the reasonableness of 'working on' the version of building the pipeline from Baku to Europe not via Karabakh but via Iran, the peacekeeping process abruptly slowed down - the unofficial visit of the Presidents of Armenia and Azerbaijan on 8 September to Moscow resulted in nothing.

The success of the Houston and Cairo negotiations was the basis of Aliev's tough position at the Moscow meeting. The delaying of the regulation cast doubts upon the peacekeeping mission of Russia in Azerbaijan. It was considered earlier in Moscow that Russia would have to play the role of chief peacekeeper in this conflict and achieve the granting of a UN mandate for the implementation of the peacekeeping operation in Nagorno Karabakh. Thus, a compromise between Russia and the West was not reached by giving Russia the freedom of action in the conflict settlement in exchange for non-interference in the implementation of the oil 'project of the century'.

During Madeleine Albright's (the Ambassador of the USA in the UN) visit to Baku (5-6 September) she stated that the USA does not recognise 'the special role' of Russia in the Caucasus and emphasised that if Russian troops were even present in Karabakh, they should be under the control of the CSCE (a definite percentage of the peacekeeping forces should be composed of the military forces of other European countries). The failure of the Moscow negotiations logically led to the signing of a contract between the SOCAR and the consortium of the western companies in Baku on 20 September. The document did not significantly differ from the February project except for a return to the field of the joint exploitation of the Guneshli deposits (reserves - 50 million tons of oil); it

was planned to extract 511 million tons of oil (assessed at \$118 billion), 253 million tons of them (\$34 billion) and 55 billion cubic meters of gas released with it for Azerbaijan and after 58 months (almost three years) from when the contract came into force, it was planned to take out the raw materials through the new pipeline, which should have been built by that time. According to the preliminary prognosis, during the first years after the beginning of exploitation by the western consortium, Azeri and Shirag alone would give approximately 30-40 million tons of oil per annum, which would mainly be used for export to European countries. According to the calculations of the Azeri experts, through its oil dollars the Republic will turn into one of the richest countries of the ex-USSR by the end of this century, independent from Russia in the financial respect.

Aliev's government, counting on oil as one of the main driving force of its economic future and that of rapprochement with the West, considers that the contract is absolutely vital for the economy of the Republic, which is connected with the Armenian-Azeri conflict regulation (a discrepancy in the approaches of the CSCE and Russia) - each aggravation of which coincided with the next stage of the negotiations about the consortium. The contract, which will bring the oil extraction in the Republic (at present - 10, 25 million tons per annum) to the level of a small Persian Gulf state, will take Azeri interests into account. Thus, transnational oil companies (USA: 'Amoco' 17,01 per cent, 'Pennzoil' - 9,82, 'Unocal' - 9,52, 'McDermott' - 2,45; Great Britain: 'British Petroleum' - 17,13, 'Ramco' - 2,08; Norway: 'Statoil' - 8,56; Russia: 'Lukoil' - 10; Azerbaijan: 'SOCAR' - 20; Turkey: 'Turkish Petroleum' - 1, 75; Saudi Arabia: 'Delta Nimirand' - 1,68) investing finance and technology will be interested in peace and political stability in Azerbaijan. Negotiations also continued with the alliance of 'BP' - 'Statoil' and with Turkish Petroleum about the right to prospect and cultivate the gigantic deposits of Shakh-Deniz (estimated at 5-6 billion barrels of accessible oil). The contract also has great political significance - the leading countries of Europe and the USA will pay significant attention to the problem of provision of stability in Azerbaijan and throughout the region, because destabilisation of the situation in this Transcaucasian republic will threaten the activity of the western oil companies.

Thus the contract fixes the long-term orientation of Azerbaijan towards the West and launches a new stage of relations with the USA and Russia, which was clearly shown by the negotiations at the 49-th General Assembly of the UN. After the meeting of 26 September between Presidents Clinton and Aliev, at which the prospects of implementation of the oil extraction contract as well as the problem of Karabakh conflict regulation were discussed, another meeting between Clinton and Yeltsin took place at which Azeri-American relations were considered to be of great importance. For the first time at a Russian-American summit the question of the situation in Azerbaijan was included in discussions. On 27-28 September Clinton and Yeltsin discussed the problem of regulation of the Karabakh situation and the question of the Caspian's status. Calling for the disavowing of the statement made by the MFA of Russia (20 September) that Russia does not recognise the contract concerning the exploitation of the deposits of the Caspian, Clinton intended to provide political support to the four largest oil companies of the USA which were

united in the consortium. At the same time the oil extraction project may be carried out only if the leading countries of the world, participating in the project, will take more active steps to bring the wars in this region to an end. Stanislav Kondrashov, a Russian journalist wrote: '...only in the course of a united 'civilised' integration of Russia into the world economy, to everybody's content, may the suspicions be allowed to be born out of the Baku agreement about the Caspian oil. Otherwise this is a delayed-action mine under the Russian-American relationship' ('Izvestia', 8 October 1994).

Disagreement about the American-Azeri regulation has been revealed as well: to Yeltsin's demand to recognise Russia as the main peacekeeper in Karabakh, the President of the USA emphasised that all actions taken by the Russian side in this region ought to correspond to international norms and to be taken under UN and CSCE control: the Russian regulation plan in many ways contradicts the mandate of the Minsk Group of the CSCE and its acceptance would have meant the capitulation of Azerbaijan in the conflict with Armenia and that is not within the interests of many countries that the Minsk Group consists of. Nagorny Karabakh was of greater importance at the meeting than the conflict between Georgia and Abkhazia or Tajikistan - moreover through the Minsk Group the western representatives resist actively the prevailing role of Russia in attempts to regulate this conflict. At the same time the peacekeeping activity of the USA became more active: on 27 September with the mediation of Madeleine Albright a meeting between Presidents Aliiev and Ter-Petrosyan was held. When in May-June 1993 Azerbaijan officially agreed with the peace formula supported by the USA (3+1: the USA, Russia, Turkey, CSCE), offered by the CSCE, Armenia and the non-recognised 'NKR' refused to sign the peace plan, the representative of the USA in the Minsk Group was allowed to leave and nobody was appointed in his place. Therefore, the very holding of this meeting can be assessed as a sign of the activation of the US role in this region.

The regulation of the Karabakh conflict should be recognised as one that has become on a level with the Bosnian one, a prioritative trend of American diplomacy, competing here with the Russian one is the most obvious way. In July 1994 Armitage (coordinator of American aid in the countries of the CIS from January 1992 to May 1993) energetically objected to Russian interference in the Transcaucasus, using for it all the diplomatic means at her disposal: to appoint its own representative to the Minsk Group of the CSCE; to insist on the government of Azerbaijan's signing the agreement on oil extraction; to act as a mediator in the reaching of an agreement about unimpeded transportation of humanitarian aid; to achieve the abolition of a ban on rendering assistance to Azerbaijan; to involve Russia in a high-level dialogue about this region, clearly stating that American aid to Russia in the [IMF](#) and the [World Bank](#) cannot be taken for granted while Russia creates a threat to the interests of the USA. Thus the attitude of the USA towards the settlement of conflicts and integrational tendencies on the territory of the former USSR has one aim - to avert the spreading of Russian influence into the post-Soviet space and especially in such 'key' republics as Azerbaijan, neighbouring with Iran, Turkey, Georgia, Russia, and Central Asia and possessing significant energy resources. The American administration let Yeltsin know that the USA has its own interests in the

Transcaucasus and will protect them. It is understood both in the USA and Russia that control over Azerbaijan will mean control over oil transportation from this region to Europe. Therefore with the improvement of the relationship with the USA at the same time the Azerbaijan-Russian relationship became complicated in the immediate aftermath of signing the contract. On 16 September the MFA of Russia once again informed the British FCO that the question of the Caspian resources cannot be examined without the determining of the Caspian's status. Inter-Russian contradictions referring to this matter were revealed (they had been brewing throughout the whole year): the Ministry of Fuel and Energy and the government of Chernomyrdin, supporting the contract, were against the MFA. According to Karasin, the Head of the Department of Information and Press, (20 September), the Caspian, '...from the point of view of international law is an intercontinental reservoir and the object of joint utilisation by all coastal states'. He stated that Russia officially recognises neither the contract nor 'the consequences proceeding from it', in the light of fears concerning the environment, and threatened 'serious international political consequences' if the project is implemented in its present state.

All this has predetermined the development of the internal political situation in Azerbaijan and led to a political crisis in the republic (as has already happened several times during the last five years), marking the external political orientations of political groupings in Azerbaijan. Aliev assessed the events in the Republic as part of a large-scale action to destabilise the situation in the Republic planned beforehand, blaming its organisation on Ayaz Mutalibov and Vagif Husseinov 'entrenched in Moscow'. Baku considered that events directly regulated from abroad were inspired by specific forces in Moscow, striving by hook or by crook to hamper the implementation of the contract on oil extraction in the Caspian Sea. A characteristic difference in the comments is as follows: 'The question is whether Heydar Aliev will be able to play off the Kremlin. There are a lot who doubt that' (Moscow News, No 17, 1994) and: 'middle-aged, ageing, who could think, a man from the political arena with seeming ease has played off a regional superpower and already today, only a few days after his success, the disposition of forces in the Transcaucasus has started to change unrecognisably' ('Nezavisimaya Gazeta', 12 October 1994). Such assessments are understandable: in former times Aliev himself was considered to be 'a man of Moscow' - in February 1993 he left for Moscow to meet with Russian politicians and western ambassadors, after which Elchibei offered him one of the key positions in the state. And in June 1993 Suret Husseinov (who was under the protection of General Scherbak commanding the 104-th Parachute Division in Gianje which was striving to acquire the status of 'peacekeeping') made an attempt to bring back to power in Baku not Aliev (who as a strong leader, working in the KGB, was not desirable for the 'power' ministries) but Mutalibov - rumours about his activities were spread by the end of May. But Aliev's invitation by Elchibei ruined these plans and during 1993 nobody had any doubts about Aliev's pro-Russian orientation.

It was again Vagif Husseinov (ex-Chairman of the KGB) who was released from the Bailov prison by the same Aliev, during the abrupt improvement of relations with Russia and the strengthening of its

positions in the consortium in summer and autumn 1993. But already in January 1994, on the eve of Aliev's visits to Turkey and Great Britain, Mutalibov met Evgeni Primakov, the then leader of the Service of External Intelligence of Russia. In opposition circles till June-July 1994 it was considered that Aliev would carry out the demands of Russia. When in May 1994 Jalilov signed the Bishkek protocol, on the initiative of the Inter-Parliamentary Assembly of the CIS, Suret Husseinov failed to exploit the political situation in the Republic. The weakening of Suret Husseinov's positions indicates a more important tendency that has been observed throughout the last year and a half - the weakened position of Russia in Azerbaijan.

In September, immediately before the signing of the contract, repressions started against the Party of Labour, the activity of which step by step was directed at the destabilisation of the situation in the Republic according to 'the script of ex-president Mutalibov - the 'labourers' are considered to be the mouthpiece of Russian policy' and the 'mutalibovtsi'. In September Aliev and Husseinov also openly criticised each other (mildly). Husseinov as well as Mutalibov could return to the political arena of Azerbaijan provided one condition is taken into consideration: external support. It is obvious that the political basis for S.Husseinov's and A.Mutalibov's serious support in the regions as well as in the spectrum of political parties and blocks was absent during recent time. It is not right to say that events at the beginning of October are evidence of the struggle of regions, regional clans (those of Baku and Gianje).

The cultural and political traditions of the Azerbaijan khanate became the basis for regional protectionism during the Soviet times. However, in modern Azerbaijan it is difficult to single out regional clans in politics (while there are regional differences). Therefore, as distinct from Tajikistan, Chechnya or neighbouring Georgia, one cannot clearly identify political leaders with specific regions, although the example of Aliev or Husseinov seemed to have shown the opposite. In fact, in the political establishment a whole range of politicians act without the support of a particular region: for example, Rasul Guliev (Head of the Milli Mejlis), Gassan Gas-sanov (Minister of Foreign Affairs). At the same time the only famous politician identified with 'his' region, Suret Husseinov, walked out of the political game in the Republic. The same Mutalibov who was leaning on the Mafia and clerical structures of Baku and Shemakhin regions, supported by specific circles in Russia and Iran, pulled strings for Husseinov (from a Gianje clan?) against Aliev (Nakhichevan clan?), Guliev (Nakhichevan?) and Gassanov (born in Tbilisi, worked in Gianje for a long time) - where is the struggle of the regional clans here? At the same time the NFA has quite strong positions in the Nakhichevan region - despite the fact that it is Aliev's motherland. In another region - Talish -Aliev's actions to suppress Husseinov's protege Aliakram Gumbatov, who proclaimed a Talish-Mugan Republic, were approved by an overwhelming majority of the Azeris as well as the Talish people. Thus, the modern elite of Azerbaijan is based not only on regional differentiation. The main leaders of the political groupings are Aliev, Guliev, Gassanov, Husseinov. Already in 1990 Gassanov aspired to power in the republic, along with Mutalibov (who became the first leader) and Vagif Husseinov (Chairman of the KGB of Azerbaijan).

Some journalists consider Gassanov to be the most 'pro-western' leader in Azerbaijan (among those who have real power). During the last two years Gassanov has been strongly pressed by Guliev, although both of them have reached their positions owing to the oil operations. Guliev (in the past the manager of the largest oil refinery) has concentrated in his hands nearly half of the real power of Azerbaijan. But now, according to the opposition, the division of spheres of influence and revenues between the governmental groups is in full swing. After the signing of the contract the political orientation has been defined: the President's team may be symbolically called a pro-Western one, and that of the opposition -pro-Russian. If Russian peacekeeping forces are brought in, the prospect of actual federalisation of Azerbaijan (on the pattern of Georgia) would become absolutely possible: while its territorial integrity would be officially recognised, with the creation of autonomies politically and economically oriented towards Moscow, the threat of their destabilisation could be used as a lever of pressure upon the central government. Aliev's opinion, different from that of Shevardnadze, is categorical on this matter: 'Federalism is a delayed-action bomb under the statehood of the Republic of Azerbaijan' (Moscow news, No 38 1994). On the whole it is not right to consider that the regional contradictions in Azerbaijan are such that may lead to an internal political crisis.

Thus, in the near future one cannot expect significant changes in the foreign policy of the Azerbaijan establishment. At the same time a rebellion or a coup d'etat may be provoked at any moment in Azerbaijan - all 6 coups during the last 5 years were caused not only by internal political crises, but by an open struggle of foreign powers for the orientation of Azerbaijan: the internal struggle is exacerbated due to the rivalry of the West and Russia for control over the oil resources. The diplomatic steps taken to regulate the status of the Caspian Sea, the refusal to recognise the 'contract of the century' by the MFA of Russia, Mutalibov's secret support (and consequently that of Husseinov) showed that Russia strived not to lose economic and political control over such a complicated and key region of the world as the Transcaucasus.

Meanwhile, Aliev managed to obtain such international security guarantees that despite expressing displeasure, Russia did not resort to 'illegitimate actions', although the contract and the route of the oil pipeline had great significance for the position of Russia in the Transcaucasus. Therefore, immediately after the 'crisis' week in Azerbaijan, on 11 October in Moscow consultations of the representatives of Russia, Iran, Azerbaijan, Kazakhstan, and Turkmenistan were held linked with the shipping, the order of usage of the bio-resources of the Caspian and the problem of the water surface. Making a speech on 9 October in the Russian TV programme 'Itogi' ('Results'), the First Deputy Director of the Law Department of the MFA of Russia, Ostrovski emphasised that 'the Caspian is an intercontinental reservoir having no links with the world oceans, and due to that fact all oil deposits in this sea are equally the property of all Caspian states (although Iran is known to carry out oil and gas exploration and extraction on its part of the shelf without any agreement - and that did not cause any objections in Moscow).

It is characteristic that already in the autumn of 1993 one of the

departments of the MFA of Russia advised: 'It could be expedient to pursue a policy of uniting the material and financial means of the Caspian states with the idea of creating a Caspian Union of oil-extracting states in future for the joint prospecting extracting, refining, transporting and exporting of the oil'. But of the five Caspian states, three (Kazakhstan, Azerbaijan, Turkmenistan) are interested in the division of the Caspian Sea into economic sectors and therefore the attempt to implement the legitimisation of Russian demands is unlikely. The only supporter of Russia in this matter was Iran (due to tactical reasons). That is why the most important and unexpected step (at least for the West and Russia) was Iran joining the consortium on 11 November. In the course of the visit to Baku, the Minister for Oil of Iran signed an agreement about Azerbaijan's consent to transfer to Iran 25 per cent of its share in the contract. Thus, for the second time Azerbaijan decreased its share in the Caspian project, the initial volume of which was 30 per cent. It is obvious that the agreements with 'Lukoil' and Iran were signed with the aim of strengthening the political positions of Azerbaijan in its attitude towards its Caspian neighbours.

Also, if 'Lukoil' was allowed to participate in the contract in its initial preparatory stage, Iran became one of the participants of the contract after 20 September. It is not impossible that it was done deliberately in order to frighten the western companies with an unpredictable partner. On the other hand Russia, for a long time unsuccessfully trying to oppose the signing of the contract, announcing its non-recognition, was devoid now of its only potential ally in this matter. Moreover, Iran's joining the oil project caused an additional threat to the plans of Moscow to secure the route of the future pipeline through the territory of Russia - with the exit to the Black Sea. The new situation, clearly, influenced the position of Russia in respect of the contract ratified by the Milli Mejlis on 15 November. It was also confirmed by the visit of President Aliyev to Moscow which took place on 17 November.

According to the speeches made by the Ambassador of Azerbaijan in Russia Ramiz Rizaev, immediately after the meeting in the Kremlin, the President of Russia stated about the absence of pretensions of Russia towards Azerbaijan in connection with the oil agreement. And from 19 November the Head of the Russian MFA Kozirev stated that his office 'in principle has nothing against' the contract (although on 12 October, delivering a speech at a meeting with Foreign Affairs Deputies of the five Caspian states, he called the contract a 'so-called' one), and limited the pretensions of Russia to the necessity 'to regulate the legal status of the Caspian sea'.

The weakening of the position of Russia in the negotiations about the status of the Caspian Sea coincided with strengthening of the mediatory efforts of the West in Azerbaijan. In November the question of sending peacekeeping forces to Karabakh became the subject matter of lively debates between Russia and the countries of the West. The main cause of the activation of the Western mediation was the oil contract and linked with that the commitment of the Western partners to render assistance to Azerbaijan (which, wary of the growth of influence of Russia in the Transcaucasus, insisted on the priority of the CSCE-OSCE in the conflict settlement). It was not accidental that during these months the attention of

the Washington administration towards the Karabakh problem suddenly grew, which was expressed in Clinton's promise to render financial support to the future peacekeeping operation of up to 30 per cent of the expenses). The new programme of Karabakh conflict regulation worked out by the CSCE envisaged the deployment of international separation forces in the conflict zone amounting to the number of 1600 to 2000 military servicemen.

Sweden, in the role of coordinator in the activity of the Minsk Group of the CSCE, held intensive consultations on this matter with the countries of the West, hoping to form the peacekeeping forces under the protection of the CSCE. Germany partly expressed its readiness to provide troops for this objective. All this caused anxiety in Moscow. But Russia continued to insist on the recognising of her prioritative role in the process of conflict regulation, understanding that this role (and with it influence in this region) would be defined mainly by whose troops finally made up the basis of the future peacekeeping forces.

On 3-4 November, Andres Bruner, not long before being appointed to the post of Chairman at the sessions of the Minsk Group of the CSCE, held negotiations in Moscow with the First Deputy Minister of Foreign Affairs of Russia, Igor Ivanov and with the special representative of the President of Russia on Nagorny Karabakh Vladimir Kazimirov (the latter on the eve of the sessions openly accused 'some members of the Minsk Group' in the Russian mass media of trying to create 'artificial obstacles to the peacekeeping efforts of Russia'). Judging from all this, the attempt to reach a full understanding at this meeting was a failure. While the prioritative aim of the Russian plan remains the cease-fire, the plan of the CSCE suggests continuing the negotiating process and at the same time sending international observers into the region. Earlier Russia has already rejected the idea of the former chairman of the Minsk Group Ian Eliasson about the Russian troops in the conflict zone being under international control from the European observers' side, preferring to retain all the key positions in the leadership of the peacekeeping process.

There was a failure to overcome the Russian-European discrepancies on the question of peacekeeping in Karabakh even in the course of the meeting of the representatives of the Minsk Group on 15-16 November in Moscow. Russian diplomacy according to Kazimirov, expected this meeting to solve the problem of the regulation of the activity of the Group, particularly the defining of its mandate. This matter has not been resolved and to what extent the contradictions between the Russian and Western mediators have been aggravated one may judge from the text of the special joint statement of the Ministry of Defence and the MFA of Russia, issued at the end of the first day of the Moscow session of the Minsk Group.

In this statement it is said that any attempts to press Russia and the CIS in their efforts for Karabakh conflict settlement 'mean in fact to undermine the very core of the peace process no matter what is said about the importance of other international efforts'. It is stated in the document that only Russia was able effectively to participate in the conflict regulation and that the continuing truce was Russia's doing alone. A worsened situation during the trilateral (Armenia-Azerbaijan-Karabakh)

negotiations on Karabakh conflict regulation with Russia as mediator, seemed to be conducive to a new crisis in the relationship of Russian diplomats with their colleagues and mediators from the CSCE. On the eve of the Moscow meeting of the Minsk Group here in Moscow, the next round of these negotiations was completed without any results. Commenting upon the toughening of the Azerbaijan position (guaranteed return of Shusha and Lachin, participation of representatives of the Azeri community of Karabakh in the negotiations - the leaders and experts of the Minsk Group adhere to this position as well), the opponents of Baku assume that this is linked with the cardinal external political orientation of Azerbaijan with its rejection of the former 'Aliev' course to get closer to Russia and, after the conclusion of the 'contract of the century', increased hopes for the support of the West. Briefly speaking, it is not excluded that one of the consequences of 'ousting' Russia from the Caspian shelf will also be her 'ousting' from the process of Karabakh regulation.

In this respect the decision to send an international military force of three and a half thousand soldiers and officers made up by the countries which are participants in the programme 'Partnership for Peace' on 17 November had great importance. The control over the implementation of this peacekeeping mission was given to the CSCE. And on 26 November the Head of the Committee of Superior Officials of the CSCE, Paulo Bruni, confirmed at the meeting of the Committee in Budapest the readiness of the 'blue helmets' to start peacekeeping functions in Nagorny Karabakh. The total number of the troops should amount to 3300 people (and 1100 military men were allotted by Turkey). An agreement was reached by the partners-peacekeepers to allocate expenses amounting to \$400 million for keeping the 'blue helmets' in Nagorny Karabakh for six months - in this period the CSCE hoped to complete the operation of conflict regulation. In this respect the Russian side placed definite hopes on the stability of the military-strategic positions of its real allies - Armenia and the Nagorno Karabakh Republic (NKR), without the agreement of which no projects and measures on the achievement of peace in Karabakh can be implemented today.

1995: 'New' Policy of Russia?

The situation in 1995 revealed the complete hopelessness of the approach of Russia (Iran joining the consortium and the West joining the conflict regulation at the Karabakh-Budapest summit) and demanded a 'new' policy. The anti-Iran campaign of the USA played a significant role in it. By the end of January relations between Azerbaijan and the USA were aggravated concerning the matter of the participation of Iran in the oil consortium. At the very first session of the steering committee of the consortium Aliev confessed that the practical implementation of the contract would not be less hard than the signing of the agreement itself. After Iran 'joined' the contract, its implementation had clearly come to a standstill.

Azerbaijan encountered difficulties in finding guarantees for providing its financial share (\$1,7 billion): the Republic should have presented such guarantees by 9 February but this deadline was to be postponed for 60 days. Activation of the opposition within the Republic (the March

rebellion) and outside its borders (in January the Azeri opposition leaders in Russia formed a sort of 'Union of the Exiled' for the displacement of Aliev, which included ex-President Ayaz Mutalibov, living in Moscow since May 1992; ex-Prime Minister Suret Husseinov, ex-Minister of Defence during Elchibey's Presidency - Ragim Kaziev and the leader of the Talish separatist movement - Aliakram Gumbatov), and the continuing conflicts in Karabakh and Chechnya created the preconditions for turning Azerbaijan into a seat of permanent destabilisation. Obviously, the internal political crises in February concerning the detachments of the APF in Nakhichevan and the March rebellion of the militia to a definite extent were caused by the position of Russia and Turkey towards Aliev. Thus, Turkey was forced to replace its Ambassador in Baku. In March were postponed the visits of the Director of the Russian Federal Border Service Andrei Nikolaev to Baku and the assistant of the President of Russia in international affairs Dmitri Rjurikov (held in April), and this the observers were inclined to link with the friction between Azerbaijan and Russia.

This was happening, it was considered in Baku, against a background of effective sanctions by Moscow against Azerbaijan. Since the very beginning of the Chechen crisis the railway connection between Baku and Moscow had ceased to operate (September 1994). Russia has completely closed its borders to its Transcaucasian neighbours. All this caused a great deal of harm to the economy of Azerbaijan as 70 per cent of the whole export and import trade was carried out through the territory of Russia and the industry worked at only 5 per cent of its power and 30 per cent of manufactured production had not been sold but was kept in warehouses.

It is worth mentioning that the signs of strengthening of the tension in the relations between Azerbaijan and Russia have been revealed against the background of the border clashes with Armenia and the lack of progress in the negotiating process in the Karabakh conflict regulation. At the beginning of March the Russian MFA made a harsh statement in which speeches by officials of Azerbaijan were greatly condemned for negatively assessing the role of Moscow in the Karabakh regulation: 'It is extremely offensive to state that Russia is not interested in the resolution of the conflict and is attempting to take peacekeeping process out of the aegis of the OSCE. Is this an attempt at covering up the unrealistic aims which are hampering the progress of peace?'

Many considered that the appearance of this document was linked with the unusually harsh statement of Vaffa Guluzade, the Azerbaijani State Advisor on foreign political affairs, who announced in the course of a visit to Turkey at the end of February (at the conference on the problems of the South Caucasus): 'Armenia is the military base of Russia in the Transcaucasus and carries out the will of Moscow'. Nevertheless, there were preconditions for an improvement of Russian and Azerbaijani relations: Iskender Gamidov's arrest (the leader of 'Boz Gurd') was possibly caused not only by the wish to deal with the opposition - he was accused several times of sending arms and mercenaries to Chechnya to help Dudaev. And by the end of March - beginning of April it became known that Azerbaijan was ready to examine the options of transportation of its oil through the Russian system of pipelines, 'if the Turkish version

of the route does not find sources of finance' - this was stated by the office of the Azerbaijani Government.

At the same time a trade economic agreement with Russia has been signed - at present Iran is the leading foreign economic partner of Azerbaijan, although if an inter-governmental agreement is implemented, Russia will occupy the leading place again. In the same period the USA campaign for the boycotting of Iran has become stronger - apart from Europe, Russia and Japan the pressure has been put upon Azerbaijan as well. On 3 April Heidar Aliev announced that American Exxon would be given 5 per cent of the Azeri share in the oil consortium, and also that the share of 'Turkish Petroleum' would be increased from 1,7 per cent by 5 per cent of this.

On 6 April the President of 'SOCAR', Nattig Aliev, stated that Iran would not join the consortium for exploitation of the Azeri, Chirag and Gjunesli deposits. According to his words, the position of the US companies which announced that they are categorically against participation in the same consortium with Iran was the main reason for that. Characteristically enough, it coincided in time with the emerging of the previously unknown Front of National Independence of South Azerbaijan. Probably in this way a mechanism for pressure upon Iran was created. On 11 April Ali Akbar Velayati, Minister of Foreign Affairs of Iran stated: 'Abrogation of the Iran-Azerbaijani agreement about Iran joining the consortium does not serve the interests of Azerbaijan and contradicts its commitments. Until the question of the legal status of the Caspian Sea has been finally solved, the agreement on the consortium is invalid and cannot be implemented unilaterally'. In response, Gassan Gassanov, Minister of Foreign Affairs stated: 'As far as the parallels are concerned referring to the status of the Caspian Sea and the right of Azerbaijan to exploit its own oil deposits, that is not lawful. Moreover, when Iran itself was holding negotiations about participation in the consortium, it did not raise this problem. ...We offer Iran cooperation throughout the whole Caspian Sea. ...Velayati's statement is a little emotional and cannot be seen as a threat'. The Minister said that Azerbaijan will take all necessary measures so as to avert complications in the relationship between Baku and Tehran.

According to Mekhti Gusseini, Head of the Department of International Relations of the Oil Ministry of Iran, Iran and Russia intend in the near future to raise the question of elaboration of the status of the Caspian Sea with international organisations. On 19 April the Deputy Minister of Energy of the USA William White (who visited the countries of the CIS and Turkey) and Heidar Aliev took part in the ceremony of signing the agreement about the transfer to Exxon of 5 per cent. The President stated that while making the decision to transfer the share to Exxon the Azeri side took into account the opinion of the USA and that the long-term presence of the American companies in Azerbaijan would lead to a strengthening of the strategic interests of the USA in the Republic. Exxon became the 13-th participant of the consortium and increased the joint American share to 45 per cent which has become a great political success for the USA in the region. And 'SOCAR' intends already to put the exploitation of the Shakhdeniz deposit out to tender.

As regards this matter negotiations are being held with three companies: 'British Petroleum' (Great Britain); 'Statoil' (Norway) and 'Turkish Petroleum' (Turkey). The French 'Elf Aquitaine' intends to manage the Lenkoran-Deniz deposit, American 'Chevron' -Araz Dashi and Mamedaliev, 'Exxon' - Sabail and D-9, located in the southern part of the Azeri sector. In these circumstances the government of Chernomyrdin took definite steps to strengthen the position of Russia in Azerbaijan. 'Russia is going to increase its share in the international consortium for harnessing oil deposits of the Caspian shelf' - said Iuri Shafranik, the Minister of Fuel and Energy of Russia, stating that from 1997 Russia will be ready to pump 5 million tons of Caspian oil annually ('Financial News', 20 April 1995).

On the basis of the results of the Azerbaijan-Russia negotiations in Moscow the government of the Russian Federation adopted a resolution about lifting restrictions on the movement of transport between the two countries. Significant progress at the intergovernmental negotiations on the problems of economic relations and transport communications was achieved only after the Kremlin and Baku took steps to meet each other half way in solving the political problems. On the instructions of the Russian President his assistant for international affairs Dmitri Riurikov made a long-planned visit to Baku on 9 April where he held negotiations with President Heidar Aliiev. 'Moscow ascribes great significance to the development of the bilateral relationship and it is necessary to carry it onto a new level' - said Riurikov. Riurikov's visit was caused by the wish of Russia to clarify the position of Azerbaijan on a series of questions: the Karabakh problem; protection of the borders of Azerbaijan; the status of the Gabbalin radio-location station (RLS); and the status of the Caspian Sea. It was noted that the Azerbaijan side considers it possible to examine all these questions only in the context of the rapid regulation of the Armenian-Azerbaijani conflict. And almost immediately after this the committee for CIS affairs matters in the State Duma held hearings on 11 April 'Concerning the State of the Conflict in the Zone of Nagorno-Karabakh'. Invitations to participate in them were accepted by MPs from Armenia and the delegation of NKR with the President Robert Kocharyan at the head. The speaker of the Milli Mejlis Rasul Guliev sent a telegram asserting that the wish to examine the question of Nagorny Karabakh in the Duma 'is an unfriendly act towards Azerbaijan', and 'the carrying out of this action is fraught with a threat to peace and calm in the Transcaucasus'. The leadership of the Parliament of Azerbaijan recalled that despite the demands of some forces and organisations within the Republic to discuss the Chechen problem at the session of the Milli Mejlis, the authorities of Azerbaijan were categorically against it. 'The invitation to these hearings of representatives who are not recognised by the World Community, Russia among them, by a self-proclaimed NKR inflicts a serious blow to the bilateral relationship. In reality it is nothing but the rejection of friendly relations with Azerbaijan ...and is a direct interference into the internal affairs of Azerbaijan'. The negotiations about the Karabakh conflict regulation in fact had reached a deadlock owing to the reluctance of the Armenian side to agree to withdraw its troops from occupied Lachin and Shusha, and also owing to the unwillingness of Baku to recognise Nagorno Karabakh as an independent party in the conflict. By the summer an alternative to the Turkish route had finally been formed. More and more analysts in the West assumed

that Russia would succeed in the struggle for control over the export of oil from Azerbaijan. Russia took steps to neutralise Turkish ecological demands on shipping in the Black Sea straits. In mid June representatives of Russia, Greece and Bulgaria took the decision to create a consortium to build a pipeline Burgas-Alexandropolis from the Black Sea coast to the Aegean Sea (length - 317 kilometres, cost - \$0,7-1,43 billion, capacity 30 million tons per annum).

Implementation of the project will allow Russia to transport oil to European consumers avoiding the Bosphorus and the Dardanelles, where Turkey had imposed strict restrictions on the passage of large tankers. The 'Transbalkan Pipeline Company' will comprise the Greek firms 'Latsis Group' and 'Copelousos Group', the national energy corporation 'DEPA', the Russian-Greek 'Iraklius' and the Russian joint-stock company 'Gazprom'. At the same time since November 1994 an alternative project of the Albanian, Macedonian and Bulgarian oil corporations has been examined on building a transbalkan pipeline from Burgas to Brindisi (Italy via Bulgaria, Macedonia and Albania. In his turn, the President of the International Operational Company of Azerbaijan (IOCA) Terry Adams in May held negotiations in Moscow with the Minister of Fuel and Energy Iuri Shafranik about the possibility of transportation of the early oil. As Adams stated, 'in the course of visits to Tbilisi and Moscow and discussions held with Eduard Shevardnadze and Iuri Shafranik, we have become convinced of the reality of both options of export of early oil - through the territory of Georgia as well as via Russia'. He said that IOCA had created two working groups - in Tbilisi and in Moscow which had started thorough research into the profitability of each of the options. 'A final decision will be made exclusively on the basis of commercial considerations although we should be receptive towards the political situation' - said the head of IOCA.

Since in April Iran was refused access to the oil consortium, it to a great extent limited the purchase of Azeri production, which greatly worsened the position of the oil sector of Azerbaijan. Iran also stopped all deliveries of raw materials, fuel and gas to Nakhichevan and that threatened all enterprises of the autonomous region with a complete halt. Azerbaijan, in its turn, took the decision to raise customs taxes on Iranian goods. The unregulated status of the Caspian Sea also influenced the problem of oil export. Haze O'Leary, the Minister of Energy of the USA, expressed anxiety about the unsettled question of the status of the Caspian. In her opinion, 'as the contract for financing is being brought onto the international plane, it is absolutely intolerable for any obscurities to remain, or the possibility to interpret it wrongly. The fact that the contract has been signed without defining the status of the Caspian Sea is one thing, but financing the contract - this is a separate article which should be mainly governed by international norms'. Officially Baku considers that the status of the Caspian Sea has nothing to do with the oil contract. Thus, according to Gassan Gassanov, Minister of Foreign Affairs, resolving the question of the Caspian Sea's status will not influence the financing of the contract. This was clearly stated in US President Bill Clinton's message to the President of Azerbaijan. All members of the consortium are of the same opinion and they will work out a corresponding 'antidote' to attempts to freeze the contract. He emphasised that 'no doubt it is not bad that the status of the Caspian Sea

is defined as soon as possible, but the very existence of the oil contract to some extent answers this question'.

Important changes took place in June, which probably indicate a strengthening of the position of Russia in Azerbaijan. This is especially noticeable against the background of the cooling of the relationship with Iran. Immediately after the meeting of the leaders of security of the countries of the CIS in Tbilisi, the then Head of the Federal Security Service of Russia Sergei Stepashin visited Baku and together with Namic Abbasov, the Head of the Ministry of National Security, signed an agreement on the interaction of both services. At the same time Abbasov emphasised that the question of the extradition of ex-President Ayaz Mutalibov is being examined: 'The Russian side has already extradited to us one of the participants of the October attempted coup d'etat and I hope that the process will continue'. In his opinion 'there is no other alternative but to hand over the Gabbalin military base to the Russians'. At the same time Azerbaijan hopes that this step will be properly appreciated by Russia, and 'that Russians will start to make concessions in the Karabakh matter and will help Azerbaijan in recovering lands occupied by Armenians'.

At the meeting with Aliev Stepashin stated that the Federal Service of Security intends to share information about the interests of foreign special services in Azerbaijan. And on 7 June the Head of the Federal Border Service, Andrei Nikolaev signed an agreement in Baku about defending the borders between Russia and Azerbaijan 'On the Defence of the State Borders'. A new stage in Russian-Azerbaijani relations was marked by the visit of the Deputy Minister of the MFA of Russia, Albert Chernishev, on 6 June, when an agreement was signed about cultural and scientific cooperation, about bilateral political consultations as well as the Consular Convention concerning the protection of citizens. The sides called for the deepening of integration in the economic and manufacturing fields. Russia offered the drafts of two agreements: 'Concerning citizens of one country, permanently residing on the territory of the other country' and 'Concerning the principles of organised resettlement'.

Mr.Chernishev raised the question of the lawfulness of the export by the oil consortium from the deposits of Azerbaijan without determining the status of Caspian Sea. But Gassan Gassanov, the Minister of Foreign Affairs of Azerbaijan, stated that 'the oil contract is already an international juridical document which has defined the Azerbaijan sector of the Caspian Sea as it has been signed not only by the leaders of the oil companies but by the governments of several countries'. According to Gassanov, the impression was formed that Russia has finally started to understand: a settlement is impossible without solving the problem of Shusha and Lachin.

Meanwhile, the development of political processes in the Transcaucasus seemed to be more and more transferring to an integrational and stabilising basis: in summer elections were held in Armenia, in autumn in Georgia and Azerbaijan. The transition of the Chechen conflict resolution to the negotiating stage would positively influence the whole region. On 11-15 July Vladimir Shumeiko, the Speaker of the Council of the Russian Federation visited the Transcaucasus, which was of great importance for

these processes and which served to speed up the peacekeeping actions in the conflict zones and for the integration of economic relations within the framework of the CIS.

The main subject-matters of the negotiations between Shumeiko and President Aliiev were Russian and Azerbaijan relations and the resolution of the Karabakh conflict. Shumeiko said that the temporary restrictions on the transit of the Russia-Azerbaijan border, established in connection with the events in Chechnya, have been eased. The right to passage of the residents of the adjacent regions, the transportation of humanitarian aid and household equipment, and the driving of cattle to their pastures have all resumed. Gradually, on the basis of the stabilisation of the situation in Chechnya, Russia will be lifting restrictions on the crossing of the border with Azerbaijan. V.Shumeiko stated that the Russian leadership examines these questions in the context of turning the region of the Caspian Sea into the object of joint utilisation and reciprocally beneficial cooperation of all the Caspian states. 'Azerbaijan will not make any territorial concessions in the process of the Armenian- Azerbaijani conflict settlement for the sake of Nagorny Karabakh' - emphasised Aliiev and connected the Republic's membership of the CIS with the settlement of the Karabakh conflict: 'The participation of Azerbaijan in the CIS depends on the prospects of the conflict regulation with Armenia'. 'If the Armenia's aggression continues and appeals of Azerbaijan are not heard, what do we need such a Commonwealth for?'

In response, Shumeiko assured the Azeri side, that he will do every-thing possible as Chairman of Inter-Parliamentary Assembly of the CIS for the refugees to return to their lands. The decision about the statehood and legal status of Nagorno Karabakh can be taken only after the refugees return to the occupied territories, stated Shumeiko warning about 'a real threat to preservation of the conflict', as a result of which 'it may transfer onto another stage at any moment'. 'In a political sense our states are not strong yet; many political forces are still able to come to power. It not known who can win in the forthcoming elections and how the situation should be developed then for Nagorny Karabakh, therefore the problem should be immediately solved peacefully'. According to his words 'the returning of the refugees - is the first step which it is necessary to take, literally in the near future'.

Before Shumeiko's statement, no Russian official had promised a quick return of Azeri refugees to Karabakh and to the adjacent territories occupied by the unrecognised NKR for two years. Shumeiko's visit to the region coincided with the softening of the position of Russia towards the status of the Caspian Sea. Albert Chernishev, Deputy Minister of Foreign Affairs stated that during a visit to Ankara he also discussed the matter of the oil pipeline with the Turkish leadership: 'If the Turkish option of the pipeline is economically beneficial and the political situation is stable in the country, Moscow is not against it'. However, the Russian side is against the monopolisation of the 'pipeline' and considers that for oil transportation from the Caspian Sea a whole network of small pipelines should be constructed.

Immediately after that a high ranking representative of the MFA of Russia stated that the MFA offered 'a whole series of measures, including tough

ones' aimed at 'convincing Azerbaijan and some other Caspian countries to take a more realistic stand' towards the problem of the Caspian Sea. But on 27 July at the meet-ing with Ramiz Rizzaev, the Ambassador of Azerbaijan in Russia, at his request, the Russian first Deputy Minister of Foreign Affairs Igor Ivanov announced that this statement 'does not reflect the official position of the Russian side'. On the contrary, the leadership of Russia is firmly disposed towards the regulation of full-scale cooperation with Azerbaijan, on the basis of equal rights.

The Government of the Russian Federation had other tactics. On 11 July Victor Chernomyrdin, Prime Minister of Russia, held a meeting at which the question of utilisation of the resources of the Caspian Sea was discussed. Mikhail Tarasov, Deputy Prime Minister of Russia for International Affairs stated that Russia's being against the 'reckless squandering' of the Caspian resources proceeds from the 'realities of the present day'. And the reality is as follows: exploitation of the Caspian is a profitable business. According to his words, the Russian company 'Lukoil' was absolutely right in joining the international consortium for the exploitation of the oil deposits. 'The aim of politicians is to solve relevant problems concerning the Caspian Sea and the businessmen should be doing their business'. It seems that Bolshakov, Vice-Premier of Russia, held exactly this position during the negotiations in Moscow with Guliev, the Prime Minister of Azerbaijan. And on July 18 Parliamentary hearings 'On Legal, Economic and Ecological Problems of the Caspian Sea' were held in the Council of the Federation. During these hearings Yakov Ostrovski, Deputy Director of the Legal Department of the MFA of Russia stated that it is 'impossible to solve the Caspian problems if one is out of touch with reality' In his opinion, there is no reason to talk about the preservation and utilisation of the bioresources of the Caspian Sea by the five Caspian states - Russia, Iran, Azerbaijan, Turkmenistan and Kazakhstan - nor to discuss any other matters while 'the process of the tearing away of the Caspian Sea from Russia has started'. 'If this process continues, the Caspian Sea will be lost for Russia'. Azer-baijan and Kazakhstan 'in fact have established 'national sectors' in the Caspian Sea'. And although, in the diplomat's opinion, this is illegal, one should proceed from whatever has already been done. Precisely because of that Azerbaijan refused to sign an agreement about regional cooperation in the Caspian Sea and the agreement about the utilisation of the bioresources. As the representative of the MFA of Russia explained, 'it should not be forgotten that there are monopolies of the USA and Great Britain behind Azerbaijan and Kazakhstan, and they call on them not to con-clude treaties with Russia'. The diplomat considers the position of the ex-Soviet re-publics will be defined in future under the dictation of foreign monopolies (despite this at the end of June the Congress of the USA let amendment 907 to the 'Act on Freedom' prohibiting Humanitarian Aid to Azerbaijan remain in force). The fact of recognising the Azerbaijani sector of the Caspian Sea was dele-gated by Ostrovski to the Ministry of Fuel and Energy, the Head of which (Iuri Shafranik) having the authority of neither the MFA nor that of the Government at-tended the ceremony of signing the contract for the assimilation of the Caspian de-positions between Azerbaijan and the international consortium. According to the repre-sentative of the Ministry of Fuel and Energy, 'while we are waiting, they will be pumping the oil', and Russia ought to do the same as it is already impossible to stop the process that has started. The Ministry of Fuel and

Energy considers the most important step to be the creation of a Committee of all the Caspian states which would divide the quotas for the extraction of oil, would define the pipelines, etc. In autumn 1995 the question of the transportation route for the early oil was solved. The consortium examined two versions - the Northern (with the exit through Novorossiisk) and the Western (with the exit through Poti). The export of the main oil, according to the consortium and Azerbaijan, should pass through the territory of Turkey. The transit via Iran at present is out of the question due to the disagreement of the USA. Therefore there remains the option for oil delivery to Turkey via Georgia. However, Russia states her readiness to transport the main oil too. Turkey, competing with Russia, also took definite steps. In July Tansu Ciller, the Prime Minister, visited Azerbaijan. She is considered to have been lobbying for the 'Georgian' oil route. At the meeting with Heidar Aliiev, Tansu Ciller announced a gigantic project for the construction of the Eurasian transport main line via Baku, which would join the Turkish-speaking states of the former USSR with Turkey, Europe and Asia. During the visit, Ciller conducted negotiations with representatives of the oil companies composing the international consortium. Terry Adams, Head of the steering committee of the consortium, expressed readiness on behalf of the companies to support any project if it turns out to be economically beneficial and will guarantee the security of the pipeline. However, the fact that part of the early oil from the Chirag deposits will be transported via the Black Sea ports of Georgia does not solve all the problems. Ciller emphasised that Turkey and Azerbaijan are unanimous in this opinion: Azerbaijan's oil should be transported to the West through the territory of Turkey. In the course of the visit of the President of Ukraine, Leonid Kuchma, from 27-28 July, the plans for Caspian oil transportation to the West were also discussed: Ukraine suggests building the pipeline Baku-Poti, from which it will be possible to transport oil by tankers to Odessa too.

Implementation of the 'Georgian version' will need more than \$1, 1 billion, and Ukraine is ready to participate in the construction. The capacity of the pipeline should be approximately 30 million tons per annum, and that in future will give a chance to pump Iranian as well Kazakh oil through it. During recent years trade and economic cooperation between Ukraine and Azerbaijan has effectively ceased. Great damage was done to the economy of Azerbaijan, breaking economic and manufacturing links with the countries of the CIS and Western Europe. Therefore the partners of the CIS - Ukraine, Azerbaijan and Georgia, being interested in protecting their national economies, agreed about the organisation of a holding transport company which would create a network of communications with the function of linking the Black Sea and the Caspian coast. A new main transport line, the implementation of which has been supported so far by Ms. Ciller, will become an alternative to the North-Caucasian highway blocked due to the war in Chechnya. 'It is very important for us, emphasised Heidar Aliiev, that both countries adhere to such principles of international law as political and economic independence, territorial integrity and integrity of borders'. The Presidents emphasised the necessity of a tighter coordination of actions while preparing the matters for discussion at the summit of the CIS. 'We have discovered a complete coincidence of opinions and positions in many problems of international cooperation, including the activity of the CIS'. Referring to the question of the viability of the CIS, Kuchma stated that 'the CIS still has a future

provided there is the necessary condition that the opinion of each country-member is taken into account. And if it is taken into account, then conflicts, like the Karabakh one, will not take place at all, as they will be jointly solved'. As regards the participation of Ukraine in the settlement of the Karabakh conflict, Kuchma stated that 'the place and the role of Ukraine in this matter today are not adequate to our possibilities'. He promised that in the near future Ukraine would announce its stand on this matter in the OSCE and expressed readiness to guarantee the military presence of peacekeeping forces from Ukraine in the conflict zone. In his turn, Aliyev stated: 'The key to solving the Karabakh problem is in Russia, which is able to settle this conflict'. Meanwhile one of the leaders of Azerbaijan, the speaker of the Milli Mejlis Rasul Guliyev expressed his personal viewpoint concerning the route of oil transportation: 'Early oil will flow through the territory of the Russian Federation to the port of Novorossiisk, the main oil should flow through Georgia with the outlet to the Mediterranean terminals of Turkey. This is my view and I think that precisely this decision will be taken'.

Alternative and Prognosis

Thus, three countries, striving particularly to influence Azerbaijan, have taken serious military and diplomatic steps during the past year and a half: Russia in Chechnya, Turkey in Kurdistan and the USA towards Iran. For Iran as well as for Russia, Azerbaijan represents a competitor in the field of oil. For the USA Azerbaijani oil should replace Iranian oil; at the same time the USA hopes to play in two directions simultaneously: to limit the transport and economic links of Russia with Georgia (due to the conflicts) and Iran, by actualising the problem of south Azerbaijan (the Front of National Independence), which coincided in time with pushing Iran out of the consortium.

By controlling Transcaucasian-Asian oil, the USA would control its export-competitors: Russia, Iran, Arabic countries and importers in Europe at the same time. Taking into consideration the experience of the political games connected with Tengiz and the three Azerbaijani deposits, one has to confess that Russia aims not so much at the route of the exporting pipelines but at the oil itself (in competition with Russian oil), as the independent financial source for Azerbaijan, Kazakhstan and Turkmenistan.

Thus, an optimal version of the development of the situation for Russia is the 'freezing' and ceasing of the projects - as happened in Tengiz and as is being required from Azerbaijan. In essence, throughout all these years the position of Azerbaijan has inevitably been considered to be one of the most important problems for Russia and the Transcaucasus. Many analysts, indicating the ethno-confessional values (Islamic fundamentalism), and peculiarities of the political culture, were immediately negatively disposed towards any support of Azerbaijan in the Karabakh conflict. Such an inflexible wait-and-see indifference concerning when the Republic will be as split like Georgia, let the relationship of Russia and Azerbaijan reach deadlock.

In fact, if the policy of Azerbaijan was one of the central questions of the 'Near Abroad' for Russia, and during all these years considered to be

unfriendly and automatically accounted as a 'minus', then what perspectives for improvement of these relations can one speak about?

The analysts assure us that Azerbaijan will never again be oriented towards Russia (but only towards the West and Turkey). And this is correct, because Russia never sided with the Republic in the Karabakh conflict. Proceeding from this, the strategy of supporting the opposition was chosen and that of turning Azerbaijan into Georgia number two, split into regions. But the regional ethno-political structure of the republic was not taken into consideration - disagreements between the regional elites were exaggerated. Is there an optimal way out of this situation for all sides and how will further events develop?

'Despite everything we are not kept in doubt: the USA does not give a damn for the 'success of the reform', for Russian overcoming its economic crisis and even less - for her future extraordinary economic flourishing. American politicians and American public alike are afraid of a strong and healthy Russia - some are afraid sincerely, some - owing to time-serving considerations. Today our Western partners face a weak and sick Russia and that is absolutely convenient for them' (Michael Leontiev, in the newspaper 'Segodnia', 25 May 1995). This is the best characterisation that reflects (practically coincides with) the situation in the relationship of Russia and Azerbaijan. Diminishing the importance of Russia in the export-import operations of Transcaucasia (due to both subjective as well as objective reasons) will lead to the economic ousting of Russia from Georgia too. In a similar way to Eastern Europe, it may result in the formation of a political alliance oriented towards the West.

It is necessary to return to staking on the development of reciprocally beneficial economic relations. Setting up normal economic transport links with Azerbaijan and through it with Georgia and Iran may contribute to Russia making her position stronger in the Republic. After the failure of the gamble on Suret Husseinov and Ayaz Mutalibov it is high time to start working with politicians acting in the real world. It is obvious that leaders of the Ministry of National Security, Ministry of Internal Affairs and Ministry of Defence of Azerbaijan who have a similar orientation towards Russia to that which Igor Giorgadze has, do not exist.

Inside the Republic it is necessary to have the support if not of the security bodies, at least of the influential economic forces. In our opinion such an alternative to Aliev's grouping was the grouping of the speaker of Parliament, Rasul Guliev. It is already clear that the strategy of splitting Azerbaijan, the opposition of the regional elite and oppositional groupings to Aliev did not bring and would not bring any changes in the foreign policy orientation of Azerbaijan. Russia cannot solve this problem by 'Chechen peacekeeping'. Such a result should be a basis for an alternative Russian policy towards Azerbaijan: it is necessary to restore a normal economic relationship, transportation through Azerbaijan to Georgia and Iran (as the alternative to the Turkmenistani route), and to regulate a complicated package of matters in the triangle of Russia - Armenia - Azerbaijan concerning the Karabakh conflict, the Caspian Sea status and military cooperation (radio-location station, anti-aircraft system, border troops). The policy towards the internal political groupings was a blunder despite Mutalibov's pro-Russian course;

Moscow did not influence Yerevan, on the contrary, the Karabakh tragedy speeded up his fall.

Thus, the coming of the APF to power was indirectly caused by the stand of Moscow. Approximately for half a year after the APF period and Aliev's return it had been expected that the positions of the two countries would get closer. But despite this Moscow has again ignored the demands of Azerbaijan to settle the conflict. The only logical step in these circumstances was the signing of the oil contract. Taking into account the regional political differentiation did not help either - it was shown by the August (1993), October (1994), and March (1995) rebellions and the August attempt at a rebellion (1995). Despite contradictions between the regions in the present Azerbaijan it is impossible to create a 'Zviadist Megrelia' and thus change the foreign policy orientation. It is clear that the attitude of Russia towards Azerbaijan was an error and those who think that by stubbornly adhering to it something may be achieved are deeply deluded (especially by statements about fundamentalism, drawing from Gor-bachev's arsenal of 1990). By offering measures causing to a great extent an increase in the influence of the West and Turkey they consequently wrongly present the interests of Russia. Due to the unskilful actions of the MFA, Russia now faces a real chance of diminishing its influence not only in Azerbaijan, but in Georgia and even in Armenia.

The attempt on Eduard Shevardnadze's life is a serious warning to Moscow: one may talk about the 'strategic partnership' as much as possible but the actual situation is much more complicated. It should be understood: that authoritarianism in the Transcaucasian countries, caused by the support of Russia or vice versa (in Azerbaijan) positively assessed by some political scientists, is a threat to Russia and creates even more instability in the conflict region. The absence of opposition as such in Parliaments should not please not only from the point of view of democracy, but also from the point of view of strengthening the 'parties of power', which are less and less dependent on Russia. The best illustration of this is the banning of 'Dash-naktsutiun' in Armenia, which held a much more pro-Russian position than governing Armenian National Movement (ANM) and was a counter-balance for holding Ter-Petrosian in check. Now the constitutions and elections, and new state managements solve problems which those in power face in Transcaucasia: suppressing the opposition in Armenia and Azerbaijan, and apart from this, bringing in federalism for the settlement of the Abkhazian problem in Georgia.

What alternatives might there be? There might be a desire to play on the definite contradictions between Aliev and Guliev, which become more and more obvious. There will be a desire to activate the South Azerbaijan problem. However, at present Russia has got one more chance to regulate the relationship with Azerbaijan: the anti-Iran campaign of the USA has pushed Iran aside from Azerbaijan although Iran's relationship with Azerbaijan was not very close even before that and was based only on Aliev's personal contacts. In view of the severing of the transport and economic links with Iran, Russia may return to Azerbaijan. It is obvious that Russian foreign policy in Azerbaijan should be that of exclusively economic expansion, energetically striving to get closer to Iran, avoiding confrontation with Turkey and the West. Apart from the development of

the transport-economic relationship, the aspiration of Azerbaijan to free the occupied Azeri region should be supported (as the implementation of the resolutions of the UN Security Council); by bringing in peacekeeping forces, Russia should at the same time solve the problems of joint protection of the Iran-Azerbaijan border, securing the status of the Russian military entity and not the base for the Gabbalin RLS, and connecting the anti-aircraft system up with the common Caucasian one.

Thus, the consequences of the oil contract for Russia will in many ways be neutralised. The main question remains the route of the oil pipeline. The interests of the oil-extracting countries of Central Asia should be taken into account and the possibility of their connecting up with the new pipeline alternative to the Russian one.

None of the routes discussed absolutely suits all the interested sides. A Turkish route may mean Russia's being excluded from the region in the near future and the Western orientation of Georgia and Armenia, and later the re-orientation of the whole oil flow from the Caspian region and Central Asia from the Russian transit route to the Transcaucasian-Turkish one. In Kazakhstan and Turkmenistan a drop in oil extraction is occurring (prospected reserves amount to 3,3 billion tons excluding the Caspian ones - 4, 5 billion tons), which to some extent is the consequence of the absence of alternative means of delivery to importers. The appearance of the big main line for oil export from Azerbaijan, Turkmenistan and Kazakhstan going round the Russian territory would limit the state interests of Russia and would undermine her influence in Central Asia and the southern part of the Caspian region. Therefore the only acceptable version for Russia is a Northern one, with the outlet to Novorossiisk. Besides, compromises and concessions are possible already not according to the contract itself, but on the question of the oil transportation. In any case the question of transportation of energy carriers from Southern post-Soviet republics grips the interests of many countries and none of them is interested in their limitation. It is more logical to look at these questions from the point of view of cooperation and not confrontation.

It is likely that the whole system of oil transportation to the West will be set up - Russia, Turkey and the oil extracting Azerbaijan and Kazakhstan have already come to this conclusion. As regards the reality of the change of course of Aliev's Azerbaijan, it does exist and is significant. Leaning towards Armenia, the foreign policy of Russia in the Transcaucasus during recent years has suffered from being one-sided, having split Georgia to such an extent that it was not obvious any more who it was better to conclude treaties with, and despite the military victories of Karabakh, it has led Azerbaijan to create the consortium and to construct the oil pipeline to the West. Only rejecting idealistic schemes, establishing an equally beneficial, realistic relationship not only with Armenia, but with Azerbaijan and Georgia, will Russia be able to come out of this deadlock which she has reached due to her 'hopeless' peacekeeping policy. It is time to stop perceiving them as the 'failed states'.

Today the majority of observers can clearly see that Russia desperately needs to find points of contact with these states, as well as with Turkey,

Iran and the Western countries - otherwise she will have a relationship with permanently conflicting regions of the Caucasus, not obtaining stability and security in this central part of the 'Near Abroad'. The failure to consider alternatives for the foreign policy of Russia, following in the steps of the Russian Empire and the USSR, is a big mistake. Extremely straight forward, tactical steps of Russian diplomacy have no strategic perspective.

Notes:

* Vladislav Shorokhov is a Fellow of the Institute of Europe at the Russian Academy of Sciences

Next Article 