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CONTRACT OF THE CENTURY (The Problem in an Historical Retrospective) Elkhan Polukhov *

The break-up of the Soviet Union and the emergence of the Newly Independent States (NIS) have confronted the latter with the need to work out their own doctrines of integration into the international community. Possessing varied natural, material and manpower resources, each of them has prioritized those branches of their economies that were most developed in the period of the so-called "developed socialism". However, unlike the vast Soviet potential, the potential of the newly independent republics to develop these branches on their own has as a rule proved to be limited, which has spurred the newly-born governments to create favourable conditions for foreign investment. The winning of sovereignty stimulated the appearance of economic interests, which in Azerbaijan were embodied in the process of the participation of Western capital in the development of the republic's oil industry.

The oil industry had been one of the most ancient and most developed in this region. Oil began to play a role in the life of Azerbaijan as far back as the period of antiquity. According to Karl Marvin, who mentioned this in 1887, there is incontrovertible evidence of the export of oil from the Apsheron Peninsula to the Middle East and India 2,500 years ago (1). Prisc the Pontian (5th century A.D.), Masudi (10th century), Marco Polo (13-14th centuries) and many others wrote about oil extraction (of course, in the primitive sense of the word).

If already since the beginning of the present century about ten thousand tons of crude oil was extracted annually at the Apsheron Peninsula, which made up half of the world total, while in 1940 the republic accounted for 71.5 per cent of the USSR's oil output (2), by 1993 its share had dwindled to 2.62 per cent of the total in the Commonwealth of Independent States (CIS) (Table 1) (3). In the 1970s and 1980s, major oil deposits in Kazakhstan and Western Siberia were explored and opened with the participation of Azerbaijani scientists and oilmen. This substantially decreased Baku's role as an oil supplier but enhanced its

significance as a centre for oil processing and the manufacture of oil-production equipment. However, data published by the middle of 1992 present a rather optimistic picture. According to preliminary estimates of Azerbaijani scientists, the prospected and forecasted oil deposits in the republic amount to approximately 960 million tons (or about 7 billion barrels) (4). The greater part of the prospected deposits is not yet in operation, and they may be regarded as the country's reserve potential. In the opinion of Yu. Fedorov, a professor of the Moscow State Institute for International Relations under the Foreign Ministry of the Russian Federation, "Azerbaijan may turn into an outstanding oil exporter, to be compared, for instance, with present-day Oman" (5).

Such a state of affairs has made it necessary to analyse the process of the penetration of foreign capital into the oil industry of Azerbaijan, for which the question of economic survival is closely linked to oil industry and, in the first place, with the extraction and transportation of oil. Of special political import is the fact that Western businessmen began to put their capital into a region with what they consider to be an unstable power regime. The cataclysms shaking the republic find their reflection in the stages of the negotiation processes taking place between Azerbaijan's authorities and foreign oil companies. The causes of the difficulties that occur are seen in the complex geopolitical struggle for a redivision of the spheres of influences in the Transcaucasus region that started in the wake of the dissolution of the USSR. These and some other questions that have become exceptionally topical today are analysed in this article.

The first stage in the formation of the contract (1989-1993)

Starting from the 1970s, the oil output of Azerbaijan was falling steadily and by the time of the break-up of the USSR accounted for a paltry share of the total volume. The policies of glasnost and perestroika proclaimed by Gorbachev allowed the world oil giants to turn their attention again to the Caspian region, which they had already visited at the beginning of the 20th century and where they had enjoyed the fruits of the oil boom. The steadily falling volume of extracted oil did not lessen the interest of Western businessmen in the Azerbaijani bowels of the earth (6). Among the first businessmen who appeared in Azerbaijan in search of profits in the oil business one may cite Stephen Remp. Born in the United States, he seemed to be born for the oil business (7). In the 1970s this enterprising young man travelled to the European continent and settled in Aberdeen, Scotland. Working in the Ramco oil firm and well-versed in the business world, Stephen managed to make his fortune out of the oil boom in the North Sea that happened at the end of the 1970s and the beginning of the 1980s. From 1986, Remp vigorously roamed about the Soviet Union until fate brought him to Azerbaijan in 1989. Later he recalled: "Everywhere we could see the signs of the great oil boom of the turn of the century... Hundreds and hundreds of rigs, all in disrepair. But no Western presence at all. It was a time warp" (8). He was undeterred by the opinion, prevalent among Western experts, that the Apsheron oilfields had exhausted themselves, and he began the lengthy and wearisome process of negotiations with government officials of the then Soviet Azerbaijan. As a result he was even invited to engage in a search for firms ready to start co-operating with the republic in this business, in exchange for a certain undeclared share in future oilfields (9).

Rampâs efforts soon bore fruit: by 1990 the Azerbaijani government was already having talks with several large oil companies such as British Petroleum/Statoil, Amoco and UNOCAL, while in winter 1991 concrete steps were taken to create conditions for starting oil exploitation at Apsheron. By a joint resolution of the Ministry for Oil and Gas Industry of the USSR and the Council of Ministers of the Azerbaijan SSR of 18 January 1991 No. 25/25 it was decided to hold a tender for the creation of a joint venture with the production association Kasporneftegaz to study and develop the off-shore deposit of Azeri (earlier called ÎThe 26 Baku Commissarsâ). Until relatively recently Azeri was an open deposit with still badly explored data and, in addition, quite far removed from the shore; however, all these seeming disadvantages did not lessen the interest of the oil business in the project. And although out of 15 firms and companies invited, only three (British Petroleum, Amoco and UNOCAL) took part in the tender, one has to take into account the novelty of this event for Azerbaijan, the badly organised advertising campaign, the lack of experience in this kind of affairs, the great watchfulness of the West towards the USSR and the still continuing pressure from Moscow, with which one had to co-ordinate everything, including the list of invited firms (10). The results of the competition were promising: one of the leaders in the oil business, the American Amoco company, won the tender for the conduct of explorations on that deposit in June 1991 (11). Soon after that, some more European and American firms offered their services for the study and subsequent exploitation of Azerbaijani oil deposits. The alliance of BP/Statoil as well as UNOCAL, McDermott and Ramco companies were attracted to participate in the project. Amoco kept its leading position and reserved 45 per cent of the total share of all the Western companies. On the whole, the share distribution was contemplated as follows: 85 per cent was left to Azerbaijan, while the newly-founded group disposed of 15 per cent (12). It cannot be said that work on the project proceeded at an intensive rate, but nevertheless by the beginning of 1992 the question of choosing the routes for bringing the future oil to the international market were already being examined (13). However, changes in the power structures of Azerbaijan spoil the whole game.

The events we are describing happened in the period when the republic, which had already proclaimed its independence (14), was headed by the former First Secretary of the Azerbaijan Communist Party Ayaz Niyazovich Mutalibov. He had already been elected first (after the break-up of the USSR) President of the Azerbaijan Republic. Having occupied that post, Mutalibov, along with this, inherited the problems bequeathed by the former Union. Armeniaâs war against Azerbaijan (15), a deep economic crisis, the consolidation of newly-won sovereignty, and the clear-cut definition of internal and foreign-policy reference-points were just some questions that required prompt examination. However, the mistakes made in tackling them, coupled with military setbacks on the Karabakh front, aggravated the situation in the republic. As a result, mass demonstrations started in Baku in March 1992, ending in the flight of Ayaz Mutalibov to Moscow. The political vacuum in the republic lasted until 14 May, when Mutalibov made an abortive attempt to regain power but was ousted again. As a result of all these developments, the Azerbaijan Popular Front (APF) headed by its leader Abulfaz Elchibey took over power. The new authority, which cultivated the idea of national

sovereignty, had its own views on questions of the country's internal and foreign-policy development, which were totally at variance with those of Mutalibov. Its leader, an Orientologist by profession, had spent three years in jail for his liberal outlook in the Brezhnev stagnation period. This apparently shaped his strong pro-Turkish orientation along with an absolute dislike for any kind of close links with Russia, while the idea of joining the CIS was considered nothing less than treason in his circle.

From the first days the APF government actively applied itself to the realization of economic reform. The oil question was put in the forefront and major steps were taken in that direction. The state Azneft association (16) continued talks with Western companies on the question of exploring and exploiting the natural resources of the Azerbaijani section of the Caspian Sea. The talks were increasing in intensity, and already in June 1992 the first report about oil jointly extracted in Azerbaijan appeared in the American press. True, the case in question was not off-shore fields, and the oil was extracted at fields already opened and exploited, but still this was a fact confirming the evolution of the process (17).

On 7 September the same year, one more contract was signed, this time with the alliance of two European firms, BP/Statoil, in which BP occupied a leading position. The alliance was given the exclusive right to explore the deposit of Dostlug (the former Kaverochkino) and to the exploitation of the Shakh-Deniz oil area. The shares in the newly-founded joint venture were allocated on a fifty-fifty basis. Besides, the BP/Statoil alliance agreed to pay 30 million dollars (40 million according to other data) for the exclusive right to exploit these deposits. Concrete proposals for their study and exploitation were to be presented by BP/Statoil in the course of six months, while the study plan was scheduled for two years. Inside the alliance itself, the interests of the parties were determined as follows: two-thirds for BP and one-third for Statoil. A separate agreement was also signed to study the Dostlug deposit (18); later the name Dostlug was changed to Chirag (19). In March 1993 came the signing of the second preliminary treaty between the BP/Statoil alliance and SOCAR on joint work over the Chirag and, as was later determined, Shakh-Deniz oil areas (20). In addition, BP's share constituted 19 per cent in the Azeri exploitation project (21).

Soon after that, at the beginning of October 1992, the third agreement in a row was signed - this time with Pennzoil, one of the largest international companies, which occupies a leading position in the world oil business. In accordance with the treaty, the company was granted the right to develop the off-shore deposit of Guneshli where the Azerbaijani oilmen had been pursuing oil exploitation since 1980 (22).

Thus the attention of foreign companies and investors was called to the four biggest off-shore oil deposits of Azerbaijan: Azeri, Shakh-Deniz, Chirag and Guneshli, of which Guneshli alone had been in operation. On that deposit twelve platforms had been erected which extracted about 125.000 barrels of oil per day (23).

In this way the West was given to understand that the gates to Azerbaijan's oil business were open. Negotiations with Western investors

on the extension of the number of areas offered for development or the enlargement of the compass of participants in the deals continued to be pursued by the leaders of the republic and SOCAR representatives. The project put forward by UNOCAL to unite research work on all three deposits was viewed with approval by the SOCAR leadership. This unification allowed for an economy of means, and also gave the possibility of revising the distribution of shares in the new version of the project, which in turn presupposed an enlargement of the number of future participants in the deal. The proposition was further developed in October 1992, and already in November five memoranda of mutual understanding on the single supply base and a single system of sea pipelines and terminals were signed with all the parties to the contracts (24).

A few months after, Azerbaijan informed Pennzoil, Amoco and BP of its wish to unite all three projects into one, with a single management. The companies treated this news in a quite restrained manner; however, no one expressed disagreement in principle with the prospect of working as part of a single consortium (25). During further negotiations, the corps of participants in the prospective deal was joined by the Turkish Petroleum company, to which BP conceded a part of its share. In the opinion of the former president of the SOCAR, Sabit Bagirov, BP made that move knowing the Turkophile sentiments of Elchibey and therefore tried to achieve two aims: to increase the possibility that the contract would come about and to safeguard its investments (26). Stephan Ramp, one of the owners of Ramco, thinks that the government sanctioned the entry of the Turkish oil company into the list of future partners, basing itself on the growing pan-Turkist lobby in the republic (27). Most likely, both factors had influence on this kind of rearrangements. The significance of the event is underscored by the fact that at the same period Azerbaijan refused a similar request by such companies as Total, the Russian LUKoil firm and Iran (28). That was one of the many mistakes by the APF that subsequently led to a change in the political situation in the republic.

In mid-May the companies signed the sixth and last memorandum on a single working programme on all three deposits, and the question of unification entered its last stage. By that time its participants were as follows: British Petroleum Co/Norway's Den norske stats oljeselskap AS (36,7 per cent), Pennzoil Caspian Corporation/Ramco Energy Ltd (17 per cent), Amoco Caspian Sea Petroleum Co. (24,3 per cent), UNOCAL Corporation (16 per cent) (29), Turkish Petroleum and McDermott.

On 5 June the SOCAR Board of Directors adopted a declaration on the amalgamation of all the operations carried out at Guneshli, Azeri and Chirag. Out of all the foreign companies, only Turkish Petroleum did not signal its public agreement with the SOCAR plans (30), but subsequently acceded to the joint statement. As per the new terms, the SOCAR reserved a 30 per cent share, with the remaining 70 per cent distributed among the participants in the consortium. As SOCAR president Sabit Bagirov said at a press-conference in early May, all three deposits have reserves estimated at 4.4 billion barrels of oil and great reserves of gas and gas condensate (31). The draft contract envisaged an increase in oil production to 23 million tons a year by 1997 (compared to 11 million tons produced in 1992) and to 40-50 million tons by 2000-2003 (32). The

date of the final signing of the contract was set, and even a trip to Great Britain by the president of the republic Abulfaz Elchibey for this purpose was planned, but political troubles again prevented this (33). Power in the republic changed hands....

Problems of oil transportation

Concurrently with the emergence of the question of oil production in Azerbaijan jointly with the West, the question arose of its transportation to the world market. The possession of large stocks of petroleum without the prospects of its transportation would hardly be of interest to the leading oil companies, which studied different options in connection with this question. Geographically, the republic is conveniently located directly on the border of Europe and Asia, having common overland borders with Russia and Georgia (through which it reaches out to the Black Sea), and also with Armenia and Iran. The whole eastern part of the republic is washed by the Caspian Sea and is an outlet to Russia, Kazakhstan, Turkmenistan and Iran. Besides, the Nakhichevan Autonomous Republic located in the south-west is separated from Azerbaijan by the territory of Armenia and borders on Turkey.

In the republic there were two pipelines constructed at the beginning and in the middle of the present century, which connected it to Russia and Georgia (34). However, they proved insufficient for the planned volume of oil production. Negotiations on the construction of a new pipeline had begun as early as 1992, when the head of the Turkish oil company AD Petrosan, Oguz Kapan, having arrived in the republic, began an active search for his place in Azerbaijan's petroleum business. Kapan was active not only in the study of oil deposits but also in the question of oil delivery. As he said, he was the first to propose a project for the construction of an oil pipeline from Azerbaijan to Turkey, which would pass through Armenia. "When I first proposed this idea to the Azerbaijanis, they said that I was mad, but when for the third or fourth time I spoke about it, some agreed, and others started to listen", declared Kapan in an interview with the newspaper The Washington Times (35). Possibly it was Iran's refusal to allow the transit of crude oil through Armenia's territory that prompted him to choose such a route, but simultaneously with this the Iranian side offered to Azerbaijan the services of its oil pipeline running to the Persian Gulf. As estimated by Kapan, the construction would take three to four years and would cost about 3-4 billions of dollars (36). Shortly after the coming to power of the APF representatives, Azerbaijan joined the Caspian Pipeline Consortium Limited for the joint construction of an oil pipeline from the Caspian region to terminals outside the former USSR. The contract on the creation of the consortium had been signed on 17 June in Muscat, the Oman Kingdom, between the representatives of Oman and Kazakhstan. Azerbaijan joined the contract on 6 June, that is, less than a month after. According to the terms of the contract, the parties contemplated construction of an oil pipeline from Kazakhstan and Azerbaijan to one of the three locations: the Mediterranean, the Persian Gulf or the Black Sea. The cost of the oil pipeline depended on the choice of the route and ranged from 700 million dollars to 1.6 billion dollars. The Oman side

assumed obligations for the financial provision of the contract, while Azerbaijan and Kazakhstan were to ensure credit support with their petroleum resources. In addition, the republics undertook to proffer their installations and pre-existing oil pipelines for the fulfilment of the objectives set. The American Chevron Corporation, engaged in Kazakhstan with exploration of the Tengiz oil deposit for its subsequent development and operation, confirmed its readiness to join the consortium if an oil pipeline were constructed. Amoco, in its turn, displayed an interest in the project, seeing in it one of the possible ways of delivery of oil to the world market (37).

However, the matter was not limited to this contract alone. The companies working in Azerbaijan examined other variants as well, one of which was a route from Baku to Georgia, to city of Batumi located on a coast of the Black sea. This route was more to Amoco's liking (38). The third route, the most convenient for all the participants in the consortium, presumed the construction of a new thread of the oil pipeline from Azerbaijan through the territory of Georgia or Iran to the Turkish port of Ceyhan. Its extent would be about 1.060 kilometres (39).

Turkey, as one of the parties most interested in this question, stepped up its actions at government level, and concrete results were not long in coming: on 9 March, a structural agreement on the question of an oil pipeline from Azerbaijan to Turkey was signed in Ankara. On the Turkish side, the contract was signed by the prime minister of Turkey, Suleiman Demirel, while the Azerbaijani side was represented by Sabit Bagirov. The contract provided for the construction of a new oil pipeline from Baku through Iran and Nakhichevan as far as the Turkish oil pipeline running to terminals in the port of Yumurtalik. The Turkish oil pipeline represented two lines, and was intended for the transportation of Iraqi oil, but had been inactive since August 1990, when the UN imposed an embargo on trade with Iraq because of its aggression against Kuwait. The new pipeline provided for a capacity of 800 thousand barrels a day, and its length was to be 660 kilometres. The project was estimated at 1.25-1.50 billion dollars, and work on its construction was scheduled to begin in the following year and to be finished in two years. It was to be carried out by the Turkish firm Botas. The contract left an opportunity to other Caspian states to join the project later (40).

These steps were undertaken by Turkey against the background of no less vigorous efforts to expand its influence in Central Asia. In October 1992 Turkey and Turkmenistan initiated their agreement on the construction of a pipeline between the two countries (41). In April 1993 Chevron Oil and Kazakhstan founded a joint venture for the development of the Tengiz deposit, a fact that also played into the hands of Turkey (42). Earlier, in March, the head of Botas, Mete Goknel, speaking in London, declared that his firm was examining various possibilities for transporting petroleum from Kazakhstan and Turkmenistan to Europe through Turkey. In his opinion, the most favourable option represented a pipeline that would go from the Turkmenian gas deposits up to the city of Krasnovodsk located on the Caspian Sea coast, and from there by sea to Azerbaijan. Further on it was to pass into Turkey, crossing Armenia and Nakhichevan, and proceed to Europe through Bulgaria, Romania and Austria. Its length was to be 3,000 miles, and its construction would cost

15.3 billion dollars (43).

Why was the contract not signed?

In the opinion of one of the former chiefs of the SOCAR, the petroleum contract could have been prepared and signed as far back as November 1992, but this was prevented by several factors, the main among which he considers as follows:

- the passing by the US Congress of Section 907 of the Freedom Support Act (44);
- the poor level of competence of the Azerbaijani experts working on the preparation of the contract, on questions of economic analysis, and also the participation in negotiations on the side of the SOCAR of a certain John Doyce -a representative of the Oman petroleum company (45);
- the growing attractiveness of the idea of amalgamating the operations in all the deposits (46).

In addition, the analysis of all the projects which had been submitted by the SOCAR, undertaken by a financial adviser of the Morgan-Greenfield Bank company, revealed a number of errors that also took a few months to correct (47). Before they were eliminated, new political upheavals began in the country. One of the Azerbaijani field commanders, Suret Guseinov, raised a military revolt in Ganja, the second-largest city of the republic. The rebel colonel demanded the resignation of a number of persons in the Popular Front government, and also the transfer to him of substantial power functions. On 18 June, the forces of the rebel colonel, formerly a national hero of the Azerbaijan Republic, were ten kilometers from Baku. In the judgement of some researchers, the rebel had close connections with Russian military bodies and used their support (48).

On the same day, President Abulfaz Elchibey left the capital of the republic and flew to his home area of Nakhichevan. He motivated this step by an unwillingness to unleash a civil war in the country. However, before his departure from Baku he summoned for mediation efforts Geidar Aliev, Chairman of the Milli-Mejlis of Nakhichevan, who immediately accepted this offer and arrived in the capital (49). The labyrinth of diplomatic steps are sometimes untangled for years; however, in any business one may find a party for whom this step is profitable.

The involvement of European and American firms in the economic life of Azerbaijan shows that these countries were not opponents of the political course pursued by the APF, which is evidenced by the multibillion contract (50) which was by then ready to be signed. At the same time the pro-Turkish and pro-Western orientation of the APF ran counter to the interests of Russia and Iran. Of the three major neighbouring powers only Turkey occupied key economic and political positions in the republic. The government of the Popular Front had very tense relations with Iran, motivated by the infringement of the rights of the 25-million Azeri population living there. Iran, in turn, was worried by the slogans, periodically cropping up behind the APF scenes, calling for the unification of Northern and Southern Azerbaijan (51). For this reason, the Rafsanjani government toughened its policy with regard to the republic,

while occupying a slippery position on the issue of the settlement of the Armenian-Azeri conflict and introducing tough sanctions concerning the realization through Iran of overland communication between Azerbaijan and Nakhichevan.

The disagreements with Russia went even deeper. Having paid a bloody price for its freedom in 1990 (52), the country lost faith in the fair "northern brother". Due to APF activity, out of all republics of the former USSR only Azerbaijan managed to withdraw completely the formerly Soviet, and later Russian, troops from its territory. The republic has strengthened its own army, set in motion the political and economic ties with the West and the East, but has sharply cut them with Russia, a fact that cost the Popular Front its authority. Keeping its military presence in Armenia, Russia, by sustaining the conflict between Azerbaijan and Armenia, exerted every kind of pressure on the APF government, trying to bring the republic back into the CIS (53). Mutalibov's desire to have the country included in the framework of the newly-founded commonwealth cost him power, while merely a year later, a refusal to join it cost Abulfaz Elchibey his power.

The internal political instability of Russia in the period from 1992 till 1993, along with economic problems, may have somewhat distracted its attention from the "near abroad", not giving an opportunity to control the march of events in rebellious Azerbaijan. However, the situation changed abruptly by the summer of 1993. Russia, having lost its former satellites in Europe and the Middle East, could not tolerate the division of resources that had just recently entirely belonged to it. The situation was even becoming dangerous for it against the background of the expanding influence of Turkey, a member of NATO, in the Transcaucasus and Central Asia, and therefore it began to take concrete steps to prevent this. In April 1993, Armenia began the occupation of Azerbaijani areas adjacent to Nagorno-Karabakh and Armenia. Making use of the fact that the offensive lasted until February 1994, Russia stepped up its "peace-keeping" efforts to settle the Armenian-Azerbaijani conflict. These facts testify that at least two neighbouring superpowers, Russia and Iran, opposed the APF regime, whereas Turkey could not resist their pressure in the matter of resolving the Karabakh conflict and, as consequence of these factors, the conclusion of the contract was frustrated. The positions of the APF were weakened even more by the fact that the President of Turkey Turgut Ozal, who died in April 1993, was succeeded by Suleiman Demirel, who was very cautious in dealing with Russia, preferring to be on good terms with it and to not aggravate the situation because of Azerbaijan.

The oil question after Elchibey. The signing of the contract

An experienced politician, Geidar Aliev managed to find a common language with Colonel Guseinov, and as a result he soon became head of state and was later elected president. It was precisely President Aliev's point of difference from the previous two that he could precisely determine who and what was lacking in the draft oil contract. Besides, it was clear to him that the negotiations with the future partners in business

were being conducted by the wrong people, and all that, coupled with the political disarray in the republic, prompted him to postpone the signing of the contract. He himself explained this step by the fact that "on 6 June 1993, Panakh Guseinov submitted his resignation from the post of prime minister, but on 11 June he gave government approval for the signing of the contract. On 12 June a member of the Popular Front, Sabit Bagirov, who headed the state petroleum company, signed this contract. However, a few days after, as soon as I became Head of the Supreme Council, they came to me from the Council of Ministers and informed me that something was wrong with these contracts. After that I gave the instruction to stop this enterprise" (54).

The investors themselves were patiently waiting for the end of the political confusion in the republic, not even thinking of abandoning this market. A decision was even taken to give a boost to the authorities in the petroleum business, and on 22 June eight oil companies agreed to offer Aliev "upon a word of honour" a bonus of 70 million dollars for Azerbaijan as part of the payment planned to be made after the signing the contract (55).

However, despite all the contrivances, the question of signing the deal was postponed. Soon Aliev gave new explanations for the delay in signing the contract which was seemingly ready. "I understand that the oil companies involved in Azerbaijan have their own economic interest. It is quite natural. But at the same time we should put the interest of our country above the interests of the companies", the new chief of state declared in an interview (56). He explained that he was surprised by the great anxiety of the foreign companies concerning the government's desire to get more closely acquainted with the terms of the contract. It was also announced that people incompetent in the question had been engaged in the contract before, and that henceforth more attention would be given to the contract (57). In addition, Aliev made an unambiguous declaration at a meeting with representatives of the oil companies, which was held in Baku in August 1993. Its essence was that "... if the oil companies of large countries display an interest to the oil deposits of Azerbaijan,... the official bodies of these countries should display an interest in the present political situation in the republic" (58).

The majority of observers believe that Aliev took that step to soften the position of Russia in relation to Azerbaijan and let it understand that he was actively seeking to find a place for it in the petroleum contract. The idea that military setbacks on the Karabakh front, which cost Mutalibov, and after him Elchibey, their power, could have the same effect for Aliev, looks very convincing (59). The continuing Armenian offensive, which led to the occupation of more than twenty per cent of the territory of the republic, would be a perfect occasion for this purpose, and stopping it became a problem of paramount gravity. No international and diplomatic demarches had any effect on the Armenian side, and it was only after the new president toughened discipline in the Azerbaijani army that it became possible to stop the Armenian advance. Aliev also undertook other steps to achieve a cease-fire, including numerous intense negotiations with all the countries participating in the settlement of the Armenian-Azerbaijani conflict, the suppression of internal opposition, the improvement of ties with Iran, but the main thing was that by securing

the approval of the decision for the republic to enter the CIS structure from the Azerbaijani parliament, and by suspending consideration of the petroleum contract, he partially satisfied Russia's desires.

After the postponing of the date of the signing of the contract, a special commission of foreign experts was set up which was to carry out its detailed checking. Also, a radical purge of the administrative structure of the SOCAR was carried out, and Natig Aliev (a namesake of the President of the republic) was nominated its new chief. On 4 February 1994, by a presidential decree, SOCAR was given back its functions (60).

Exactly as had been promised by the speaker of the republic's parliament, Rasul Guliev, the negotiations resumed in a few months (61). However, the conditions changed somewhat, and now Azerbaijan offered not three petroleum deposits but only two, holding back Guneshli. The shares in the contract were distributed as follows: 80 per cent was left to Azerbaijan and 20 per cent to representatives of foreign firms (according to other sources, 65 and 35 per cent) (62). The latter accordingly divided their share among themselves as follows: Amoco - 24,3 per cent, BP/Statoil - 36.7 per cent, Pennzoil/Ramco - 17 per cent, UNOCAL - 16 per cent, McDermott - 3,5 per cent and Turkish Petroleum - 2,5 per cent. The bonus for development was lifted to 500 million dollars, half of which was to be paid out at once after ratification by the country's parliament (63).

Such changes did not prove a surprise for the Western oil companies, though they did not particularly delight them either. It was logical to assume that the membership of the consortium would inevitably be widened, and it would be necessary to make room. In the opinion of a Professor of the US Institute of Strategic Research, Stephen Blank, only pressure by Russia could explain Aliev's refusal to open up the Guneshli deposit for development. He further considers that Russia wanted a 10 per cent share in the Azeri and Chirag deposits (64). Russia's plans also included taking under control the pipeline along which Caspian oil was to flow to Europe.

Aliev realized the objectives pursued by his northern neighbour, as well as the fact that way out of the situation had to be found as soon as possible. The republic's entry into the CIS in September 1993 and the removal of Guneshli from the list under examination probably had to satisfy Russia. Later the Russian petroleum company LUKoil was to join the consortium as an equal partner, but for now the country's leader had to find a way to moderate Moscow's appetites (65). Besides, it was impossible to overlook the other participants of the consortium: thus, according to the prime minister of Turkey Tansu Ciller, by the beginning of 1994 her country had already provided aid to Azerbaijan to the tune of 1.5-2 billion dollars (66), while Britain was the sponsor of large humanitarian programmes in the republic and protected its interests on the international arena.

Geidar Aliev singled out precisely these two countries as the force capable of resisting the insatiable appetite of Russia on the oil question. However, at first he made a trip to France, which went off from December 19 to December 23, during which a Friendship and

Cooperation Treaty between the two countries was signed.

President Aliev also proposed that the French oil firm Elf Aquitaine should take part in Azerbaijan's petroleum business, thus wishing to win over to his side one more of the G7 member-countries. Even before the start of the trip, another French firm, Schulmberger, had been invited to carry out additional geophysical exploration at the Guneshli deposit (it had been withheld from the contract and therefore remained vacant) (67).

On returning from France, the head of the republic made a trip to friendly Turkey in the first third of February 1994 and visited London immediately after that, on 22-25 February. During these visits he secured the support of these countries on the question of increasing their involvement in the oil deal and on the Karabakh problem. In London he achieved the greater success, signing eight documents, under two of which - the Treaty of Friendship and Co-operation and on joint action in the petroleum industry - stood the signature of the British Prime-Minister John Major. In exchange for that Aliev confirmed the agreement concluded earlier on the granting to BP of exclusive rights on the development of the Shakh-Deniz deposit (however, the participation of LUKoil in the project for the development of the Azeri and Guneshli deposits was stipulated) (68).

In the face of Russia's mounting pressure on Azerbaijan and the republics of Central Asia, Turkey also took concrete steps. After the Armenian offensive, going beyond the limits of Nagorno-Karabakh, had led to the seizure of areas through which it had been planned to lay the pipeline from Central Asia and Azerbaijan to Turkey and further on to Europe, the Turkish authorities declared that they would demand a new regime of navigation through the Straits of the Bosphorus and the Dardanelles, justifying it by the fact that navigation in the Straits is fraught with great difficulties (12 points for manoeuvres on one side and 14 on the other), and also with ever more frequent shipwrecks, which have a catastrophic influence on the ecology (69).

The new schedule proposed by Turkey in March 1994 substantially limited the tonnage and quantity of vessels that could pass through the Straits, which contravened the Montreux Convention of 1936, according to which the Bosphorus was declared open for passage through it to merchant vessels of all states. Turkey's arguments were supported by statistics: from 1988 to 1992, 157 accidents occurred in the Straits; besides, the passage of petroleum tankers or other vessels with a dangerous load through Istanbul posed a grave threat for the population and the ecology of the city (70).

Such a statement of the problem sharply undermined Russia's hopes for the laying of an oil pipeline from Central Asia and Azerbaijan to the Black Sea port of Novorossiisk, from where the oil would be reloaded on tankers and transported through the Straits to Europe. Russia resorted to pressure on Turkey by addressing the UN (71); however, on 21 May the International Maritime Organization under the UN approved the Turkish schedule (72), and in June the Turkish delegation transmitted to the Russian side the necessary information on the new regime of navigation, declining to discuss this problem further (73).

In response to this, Russian politicians raised the question of the status of the Caspian Sea. On 27 April, the Russian Foreign Ministry handed a note to the British Ambassador Sir Brian Fall, which protested against the term "the Azerbaijani sector of the Caspian Sea" in the memorandum "On Cooperation in the Field of Energy" signed between Azerbaijan and Great Britain in February that year. The note said that any project concerning the exploitation of oil deposits in the Caspian and transportation of the oil to the countries of Europe would not have legal force without the prior agreement of all the countries bordering the sea. Such an approach was motivated by the fact that the Caspian has a uniform ecological structure, and also by the absence of any legislative acts admitting such a formulation. Notes of corresponding content were not sent to any of the Caspian republics (74). Actually, after the disintegration of the USSR not a single act remained on the basis of which this question could be tackled. All the littoral Caspian republics converge in the opinion that the problem of the status of the Caspian should be resolved by general consent. Turkmenistan and Kazakhstan, whose interests are also at stake in this question, made, under pressure from Russia, a declaration on the recognition of a special status for the Caspian, the decision on which has to be taken by all the littoral states in concert (75); however, their positions later came closer to the Azerbaijani one. Azerbaijan claims that in the approach to this question it proceeds from the assumption that the Caspian is a border lake (geographically, the Caspian is the largest lake in the world), and that for its division the principle of a mean line is quite acceptable, when a line equidistant from the opposite shores is taken for a basis. Such a principle is incorporated in the division of the Great Lakes between the USA and Canada (76). Besides that, operations on Neftyanje Kamni (an oil-field close to the Apsheron Peninsula), were already conducted in the USSR period and without any due legal understanding with Iran. The treaties between the USSR and Iran of 1920 and 1940 laid down a 12-mile zone in which fishing was allowed; they also stipulated that foreign military vessels could not enter this water basin, which thus indicated that the Caspian was an inner reservoir. No clauses were adopted to determine the procedure of exploitation of the natural resources of the reservoir or its status. Besides, in 1970 the USSR Ministry for Oil Production divided the Caspian basin into sectors, in each of which the appropriate republic ministries carried out exploration (77). The usefulness of the sectoral division of the Caspian water area is also attested to by the fact that after the break-up of the USSR, representatives of the border departments of Russia, Turkmenistan and Azerbaijan signed an agreement on the protection of maritime borders on the Caspian, providing for the delimitation of borders along the mean line (78). To this one may also add the fact that almost all the countries bordering on the reservoir, including Russia, have carried out off-shore exploration and oil production on the Caspian without coordination with other littoral states (79).

In response, the British Foreign Office held a number of consultations with the Foreign Ministry of Azerbaijan; the British energy minister Tim Eggar even made a visit to Baku, during which he met the President, the SOCAR leadership and Foreign Ministry officials. The decision was taken "not to take the note of the RF Foreign Ministry into consideration". Britain declared, that it "intends to continue negotiations with Azerbaijan about joint development of sea petroleum deposits in the

Caspian" (80). After this Aliev went to Istanbul, where on May 3 he met the head of Turkey's Foreign Ministry Mr Cetin, and President Demirel, enlisting their support on the given question, and promising to speed up the process of negotiations about the deposits and the development of a route of an oil pipeline (81).

Work on the conclusion of the new contract proceeded, and in May a joint Azeri-LUKoil venture was set up, which included the Russian company in the negotiating process, already drawing to a close. On 6 June, representatives of LUKoil were to take part in the work of the consortium for the first time (82). Immediately after that, Guneshli was again entered on the list of deposits under examination.

It testified to the inconsistency of Russia's policy in relation to Azerbaijan. In the opinion of the American professor Robert Barylski, in the Kremlin there were two contradictory strategies: one of them was upheld by the former RF Minister of Foreign Affairs Andrei Kozyrev and the Director of the Foreign Intelligence Service Yevgeni Primakov (present head of the RF Foreign Ministry), and presupposed a rigid policy in relation to Azerbaijan (83). The other line was backed by the RF Prime Minister Victor Chernomyrdin, who represented the interests of Russia's fuel and energy complex and was more inclined to build relations with neighbours on the basis of economic cooperation. It was he who resisted the pressure by Kozyrev and Primakov, having refused to withdraw the Russian LUKoil company from the Azerbaijani contract (84). The same information is confirmed by the statement of President Geidar Aliev, made by him at a meeting with the British Ambassador Thomas Young, in which he said that he had had a telephone conversation with Chernomyrdin, and that he (Chernomyrdin) did not know anything about this note. Besides, Russia's prime minister made it known to Aliev that "Azerbaijan may officially on his behalf publish a statement in which to indicate clearly that the Russian government was unconcerned with the question of the status of the Caspian" (85).

The period from February to June 1994 was marked by intense work on the terms of the contract, and also by numerous meetings and consultations involving all participants of the project that were held in Houston, USA, and Istanbul. Western companies began to display discontent with the delayed negotiating process and the constant changes which accompanied it. As a result, after the next in a series of meetings, in Istanbul, it was declared that if the contract were not signed in the near future, "Western companies might leave Azerbaijan, loudly slamming the door" (86).

Aliev, not interested in such a turn of events, was nevertheless compelled to delay, being afraid of new demarches on the part of Russia. Besides, he was attempting to play on the emerging contradictions between the West and Russia and to achieve the conditions which would be more favourable for Azerbaijan.

Soon the membership of the prospective consortium increased by yet another participant - Delta-Nimir - a firm from Saudi Arabia, which was able to enter the project by purchasing from UNOCAL 15 per cent of its share (1.68 per cent of participation in the consortium) (87). The work

took its normal course, the press continued to make comments on the course of negotiations and to offer suggestions on the time of the signing of the contract, when suddenly a precise date for this event - September 20 - was announced. The bargain was signed, and its conditions were as follows:

- Term of the contract - 30 years;
- Deposits intended for operation - Guneshli, Azeri, Chirag;
- Estimated stocks - 511 million tons (4 billion barrels) of oil;
- Property of the republic - 258 million tons of oil and all the passing gas in the volume of 55 billion of cubic meters;
- Property of the foreign companies - 64 million tons of oil;
- To compensate for capital, operational and transport charges - 194 million tons of oil;
- Volume of investments - 7.4 billion US dollars;
- Profit of Azerbaijan - 34 billion US dollars (without regard for inflation);
- Profit of the companies - 8 billion US dollars;

The shares of the participants of the contract were distributed as follows:

- About 80 per cent was to remain in the republic;
- Share of all companies - 20 per cent.

In turn, this 20 per cent was to be distributed as follows (also in percentage): SOCAR - 20; BP - 17,1267; Amoco - 17,01; LUKoil - 10; Pennzoil - 9,8175; UNOCAL - 9,52; Statoil - 8,5633; McDermott - 2,45; Remco - 2,08; Turkish Petroleum - 1,75; Delta-Nimir - 1,68.

Besides, the republic was granted a bonus at the rate of 300 million US dollars, out of which 80 million had already been paid, 70 million was to be paid after the ratification of the contract by parliament, with another 75 million to be paid after the production of petroleum reached 40.000 barrels a day (in the course of 18 months), and the last 75 million to be paid after the main petroleum would go into the pipeline. The contract also specified that the oil pipeline was to be constructed in a period of 54 months (88). The Western consortium donated 5 million dollars to the presidential medical fund and more than 50 million dollars to the republic's social security fund (89). Soon after the signing of the contract, a new body, the AIOC (Azerbaijan International Operating Company), was founded, under whose authority was transferred the supervision of the process of the contract's achievement. Its members were representatives of the government of the republic and of all the companies. The SOCAR and the government of Azerbaijan had fifty per cent representation on the Board of Directors; Terry Adams, head of the BP office in the republic, was elected head of the Board. In November the Parliament of Azerbaijan approved the contract at the first reading, without even starting to discuss it.

It is impossible to underestimate the importance of this event for the republic. Aside from direct economic benefits, the contract was created favourable ground for investments in other areas, such as telecommunications, consumer goods, the service sector and many others. The contract revived the petroleum industry of Azerbaijan and

created a multitude of jobs, which was of no small account for a republic with more than one million refugees. Another benefit from the contract consists in creating a favourable atmosphere for attracting Western investments in various branches of the national economy, such as mechanical engineering, agriculture, and the chemical industry. Owing to the fact that the companies of the USA, Great Britain, Norway, Russia, Turkey, and Saudi Arabia form part of the consortium, the cultural and scientific ties of the republic have become more varied. At present, several thousand joint ventures operate in the republic and more than 25 Azerbaijani cultural centres function in America, England, France and many other countries (90). The most significant achievement of the contract was its contribution to the increased political weight of the republic in the international arena. Azerbaijan received the political support of the great powers through their involvement in the country's economy, and such support was necessary almost in all the foreign-policy tasks the republic had to accomplish. The West demonstrated its attitude to the republic as to a partner equal in rights, whose stability permitted investment in its industry. Subsequent evolution of events has shown that the "contract of the century" was only a first step in that direction.

The problem of realization of the contract

The signing of the petroleum contract was viewed with approval in many countries of the world. The British *Observer* even ventured a prediction that the republic would soon turn into a new Kuwait (91), while the liberal Rotterdam newspaper *NRS Handelsblad* noted that if after the collapse of the Soviet Union almost all news about Azerbaijan in the international press had been confined to items pertaining to the war with Armenia, this may have changed for ever after September 1994 (92). However, the Russian Foreign Ministry still continued to adhere to the line of non-recognition of the "contract of the century" (93), which it officially declared a day after its signing (94). On the face of it, the situation looked tragicomic - Russia's foreign-policy department was refusing to recognize the bargain, under which the head of Russia's Ministry for Fuel and Energy put his signature with the knowledge and approval of the RF government and prime minister. However, Kazakhstan and Turkmenistan had also conducted off-shore development in the Caspian, but without taking stock of "Russia's special interests", and if in "the contract of the century" Russia received something, the question concerning the route of transportation of petroleum from the Caspian region to the West was not yet decided in its favour - it is much easier to control one or several oil pipelines than to participate in all the contracts concluded or offered for signing.

The Azerbaijani deal did not give a precise definition of the route of the oil pipeline, either. The contract provided for two stages in this question: transportation of early oil, expected in 18 months, and transportation of the main petroleum, planned towards 2000. This question was discussed on the eve of the arrival in America of the President of Russia Boris Yeltsin, and, probably, it was necessary for the head of the Azerbaijani state to take his bearings more precisely in choosing future priorities between North and West (95). He managed to secure a promise from Bill

Clinton to help in the question of curbing the Armenian occupation and the definition of the role of Russia in the peace-keeping process, as also in the question of recognition of the "contract of the century" on the part of the latter. The delicate role assumed by the US President implied the purpose of reducing the negative influence of the Russian side on the process of the peace settlement of the Nagorno-Karabakh issue and the creation of favorable conditions for the American oil companies that operated in the Caspian region.

However, even before the arrival of Boris Yeltsin in Washington, one of the members of the staff of the Russian President preparing his trip to the USA, Sergei Karaganov, declared that "there is no chance that the bargain will be endorsed if the oil pipeline is to go south" through Turkey. "Russia is interested in controlling the oil pipeline", he added (96). B. Yeltsin himself supported a similar idea when he appeared in Washington, emphasizing that it was a trivial legislative case whose solution would take many years (97).

Besides, at the beginning of October 1994 there was an attempted coup in Azerbaijan, and Geidar Aliev had to come back urgently from the USA. This time the role of a rebel was played by the Group of Special Purpose Police (OPON) under the direction of Deputy Minister of the Interior Rovshan Dzhavadov. The rebels were seconded to Ganja, while the mutineers themselves took a wait-and-see attitude, staying at the Baku base. Some reports said that a group of Russian forces was concentrated in the north, and in the night of 4 to 5 October Aliev called on the people to come to a meeting and rally in the face of a threat of intervention by Russian troops in Azerbaijan coming from Dagestan. The OPON members, not wishing to be the cause of new political cataclysms, declared their complete loyalty to the authorities (true, they had never demanded a replacement of the head of state but only that of some government members). The local mass media reported that during the night of 4 to 5 October, the US Ambassador to Azerbaijan, Richard Kozlarich, visited the OPON base and had an informal dialogue with the head of the rebels, after which the OPON men made the above declaration.

Having made the political situation in the republic clear, Aliev was confronted with a new problem. On 12 October, Russia called a closed meeting of all the Caspian states, where it proposed to set up a regional organization which would examine all questions concerning the Caspian and its development. Iran supported the Russian proposals; however, Azerbaijan came out against the Russian plan about the right of any country of the Caspian region to veto the development projects of another side without the preliminary coordination with all the participants in the organization. In the same period Aliev met Chernomyrdin in Moscow, who confirmed his complete support for the "contract of the century" (98).

Amid all these peripeteia, the head of the republic did not lose sight of another neighbour - Iran, the importance of which the APF so sorely underestimated. Aliev had already made a trip to Iran at the end of June 1994 and discussed with President Rafsanjani questions of bilateral relations. Now it was planned to include Iran in the "contract of the

century". On 12 November 1994, a document was signed in Baku between the Iranian and the Azerbaijani sides, according to which Iran could become one of the participants in the petroleum deal at the expense of conceding to it a portion of the Azerbaijani share. Azerbaijan took that step for political and economic reasons. The blockade of the railway in the Northern Caucasus on the part of Russia, motivated by the conflict in Chechnya, forced the republic to search for other trade routes for communication with West and South. Unstable Georgia was the not best alternative, and besides, it strongly depended on Russia. There remained Iran, through which lay the shortest of feasible routes to Nakhichevan, Turkey and Middle East. Already by the middle of 1995, Iranian exports to the republic made up 51.14 per cent of the total volume, overtaking Russia (8.19 per cent) and Turkey (8.19 per cent) (99). Cargo and passenger traffic to Nakhichevan, Turkey and Europe began to run through the territory of Iran. Politically, Iran's support in tackling the Nagorno-Karabakh issue was necessary to Aliiev. In the Islamic Republic there lives more than 25 million Azeris, with whom, too, it was necessary to build and strengthen contacts.

In accordance with the terms of the "contract of the century", Azerbaijan was to guarantee its share of investments in the development project at a rate of 1.7 billion US dollars. The absence of such means forced the leadership of the country to search for external partners, and Iran could become one of them. But an unsolvable problem had arisen. The American side sharply opposed the inclusion of Iran in the contract. The US ambassador in Azerbaijan Richard Kozlarich officially stated that if Iran received a share in the project to develop Azerbaijani oil deposits, the American companies would leave the consortium (100). Such a declaration made in connection with the fact that Washington accused Iran of supporting international terrorism meant that the American oil companies could not receive state credits for the realization of joint operations with Iran. This approach looks a little strange against the background of the contract, made on 6 March 1995 by the American petroleum company Conoco with the National Iranian Petroleum Company for the development and export of Iranian oil and gas (101).

The Board of Directors of the consortium also supported the US demand not to have Iran included in the contract, which was not surprising, as four of the eleven companies were American (102). Under pressure of these factors, the head of the SOCAR had to refuse the Iranian side (103), but this did not solve the question of financing the Azerbaijani share in the contract. By the middle of April Azerbaijan had to present financial guarantees of its participation, otherwise its share would be automatically distributed among the other parties that had signed the contract. Interest in its purchase was displayed by LUKoil, Agip, Exxon, and Germany's Grunewald and Co., the heads of which visited Baku in the course of January and carried out negotiations on this occasion with the leadership of the republic and with the SOCAR (104). The result of these meetings was the concession by the republic of five per cent of its share to the American Exxon company. This decision was confirmed at a meeting of the AIOC management with the participants of the consortium which took place in Istanbul on 21-22 May (105). The next change in the structure of the consortium took place in March 1996, when McDermott sold its whole share to the Japanese firm Itochu. The latter also purchased

5 out of the 9.82 per cent share of Pennzoil by paying 130 million US dollars (106).

The contract on the transportation of early oil

The resolution of the question of the transportation of early oil from the republic became a major political problem. Russia demanded that the oil pass through the already existing oil pipeline via the Northern Caucasus to the Black Sea port of Novorossiisk, whereas Turkey tried to realize its plan for laying the pipeline to the Mediterranean coast. Both countries took active steps in this direction, holding meetings with the leadership of Azerbaijan and the AIOC.

Both variants had their "pros" and "cons". Thus the route proposed by Turkey passed through Kurdish-populated regions and could be the object of their attacks. Besides, it was longer and, accordingly, more expensive. The Russian route, too, was not the best: the existing pipeline passes through Chechnya, where since 1994 active hostilities had been in progress and there were already several instances of pipeline explosions. The case of Chevron, when that company was forced to reduce the production of oil at the Kazakhstani Tengiz oilfield because Russia cut down the quotas for utilizing its oil pipeline for transporting oil to the Black Sea terminals, did not count in favour of Russia either. Russia, which joined the Caspian Oil-Pipeline Consortium in 1995, together with Oman began to impose its terms on Kazakhstan and Chevron, proposing the construction of the new pipeline through its territory. The question of the status of the Caspian called into question another possible route which could pass through the sea and join the Azerbaijani oil pipeline, while the way through Iran, around the Caspian, would face opposition from the USA. And as a result, in April 1996 a contract was signed between Russia, Oman, Kazakhstan and the eight Western petroleum companies on the construction of a new pipeline to Novorossiisk costing 1.2 billion US dollars, in which the Russian side secured leading positions (107). This contract was at variance with the position of Turkey, which had interests of its own in the region (108).

There still remained the Georgian option, which presupposed a reconstruction of the old oil pipeline from Baku to the Georgian port of Supsa located near Batumi. Turkey, which occupies a leading place in Georgian foreign trade turnover, supported this project, and even offered to assume all the costs of its realization (250 million US dollars) if, in addition to this, a decision on the laying of the main oil pipeline to the port of Ceyhan (109) were adopted.

To solve the problem of the pipeline route to their own advantage, all three countries (Georgia, Russia, Turkey) took concrete steps. The Russian military intensified their push for the prompt resolution of the Chechen problem, while simultaneously the Russian Foreign Ministry renewed its demarches on the non-recognition of any bargains concerning the Caspian and threatened Georgia with withdrawing its peace-keeping forces from the area of the Georgian-Abkhazian conflict, whereas Armenia, under pressure, began shelling Azerbaijani territories, through

which the oil pipeline was planned to be laid to Georgia (110). In conjunction with this, Russian politicians began the active study of a plan to construct a pipeline through Bulgaria to Greece, which would allow it to bypass the Turkish Straits. This question was discussed during the March visit to Moscow by the Bulgarian premier Zhan Videnov (111).

In turn, Turkey, after Russia signed a contract on constructing a pipeline from Kazakhstan to the Black Sea, threatened to toughen the regime of ships' passage through the Straits even more (112). Besides, large-scale military actions were undertaken for the destruction of military bases of the Kurdish Workers Party on the territory of Iraq. For its part, Georgia tried to stabilize the domestic political situation and curb the crime that had become rampant in the republic.

In March 1995 the same forces as the year before attempted a new coup d'etat in Azerbaijan. This time the President suppressed the mutiny by using military force. Possibly it might have been a warning on the part of Russia about the necessity of acceptance of the northern route. In the beginning of October, the US President, in a telephone conversation with Geidar Aliev, expressed the opinion that the Russian route was not the only one and that the existence of two pipelines would be a good solution to this problem (113). In the same period, the members of the consortium met in Houston and agreed upon the use of two routes - the Georgian and the Russian (114). Such a solution of the problem suited Turkey, which hoped to have the main oil pipeline, the decision on which was to be taken before the end of 1996. During his December visit to Azerbaijan, the President of Turkey, Suleiman Demirel, mentioned this problem, speaking about it as an already solved question (115). Geidar Aliev, however, treated this prospect coolly during the two-day visit to Baku of the Turkish premier Mesut Yilmaz that took place on 14-15 April (116). In January 1996 Aliev came on a visit to Moscow, where he signed a package of documents concerning the prospects for economic cooperation between the two countries. In particular, an agreement was signed on the transit of part of the "early oil" through Russia (117). That route provided for the use of a 1250-kilometre oil pipeline from Baku to Tikhoretsk (a city near Novorossiisk). Under the agreement, Russia's Transneft company, which was to carry out the transporting of the oil, would receive 15.67 US dollars for each metric ton (118). In March Aliev signed a similar contract with Georgia, in which the construction of an oil pipeline from Baku to Batumi was mentioned. Under the terms of that contract, the pipeline's length would be 920 kilometres (480 kilometres on the territory of Azerbaijan and 440 kilometres on the territory of Georgia). The transit tariffs were determined at a level of 0.43 dollars per barrel, from which 0.26 dollars would belong to Azerbaijan and 0.17 dollars to Georgia (119). These events were preceded by another - namely, the note of the Foreign Ministry of Russia concerning the entrenchment in Article 12 of the new Constitution of Azerbaijan of the concept of the "Azerbaijani sector of the Caspian Sea" (120). The Russian politicians possibly proceeded from the assumption that it would not be out of place to remind Azerbaijan once again of its precarious position on the eve of the discussion of the main oil route issue.

The negotiations concerning the main oil pipeline are still in progress, though the support of the Turkish route is clearly discerned on the part of

the main body of the participants in the consortium. Turkey is trying in every possible way to win Azerbaijan over to its side on this question and seeks financial and political support from the USA in the resolution of this problem. As the former speaker of the Azerbaijani Parliament Rasul Guliev declared at a press conference in Baku, the Russo-Kazakhstani contract on the construction of an oil pipeline made the Baku-Ceyhan route even more important. At the same time, President Aliyev expressed criticism of Turkey, accusing it of supporting forces in opposition to the present regime (121), and at a recent meeting with Russian MPs in Baku he emphasized that Azerbaijan "prefers relations with Russia" (122). In confirmation of this Russia received a large share of participation in two other projects on the development of the Shakh-Deniz and Karabakh deposits. In turn, the Russian side stepped up its efforts for the resolution of the Karabakh conflict, as a result of which, through the mediation of the new head of the Foreign Ministry Yevgeni Primakov, an exchange of POWs between Azerbaijan and Armenia took place. However, Moscow does not trust this kind of declaration by President Aliyev, especially against the background of his persistent desire not to allow the stationing of Russian military bases on the country's territory (123).

Probably Turkey would have to accept the situation in which Azerbaijan finds itself, squeezed between Russia, Iran and Armenia and compelled to make external overtures to the first two. Geidar Aliyev tries in every possible way not to allow the realization of the "contract of the century" to come to a halt. Iran, which was refused participation in the "contract of the century", was nevertheless invited to take part in the project on the development of Shakh-Deniz, from which the American companies are absent (124). This step was probably dictated by the growing influence of Russia in this Islamic republic, especially after it (Russia) began the realization of a project for the construction of a nuclear power station in Iran, despite opposition from Washington.

US policy in relation to Azerbaijan is not marked by clarity and consistency either. The administration of Bill Clinton, obviously supporting the expansion of ties with the republic, appears to have its hands tied by the notorious Section 907 and is under strong pressure from the US Congress, where pro-Armenian sentiment prevails over reality.

It is possible to assume that the oil question in the republic will develop into a lingering issue with many unexpected turns, but to stop this process is impossible. The attempt to exert military and political pressure on Azerbaijan on the part of Russia is likely to give place to attempts to pressure the republic by means of control over the negotiating process in the Karabakh conflict and on the question of the status of the Caspian Sea. A more pragmatic position was taken by representatives of the Russian oil industry preferring to receive profit from the development of the Caspian and bypassing the question of its status. The two lines of Russia's policy taken together should result in a restoration of its dominant role in Azerbaijan in the next year or two, when the question of the route of the main oil pipeline will become most urgent. As Russia's Minister for Fuel and Energy Yuri Shafranik declared, "it is not only its own oil that should bring profit to Russia but also the oil of its nearest neighbours: Kazakhstan, Turkmenistan, Azerbaijan" (125). Yet this would become possible only if the routes of the oil pipelines were to run

through its territory.

In the resolution of the oil question, Azerbaijan pursues both political and economic objectives. The leadership of the republic tries to gain political dividends at the expense of granting economic freedom to the great powers. Petrodollars could bend world public opinion in favour of Azerbaijan in the resolution of the Armenian-Azerbaijani conflict. The policy of avoiding the taking of sides and the use of moments of confrontation between the states involved in the oil project gives the political elites of the republic some leeway for manoeuvring at the international level. Economically, Azerbaijan would obtain the following: the sale of Azerbaijani oil in Europe would enable the development of other prospective deposits; in the eyes of international investment and credit organizations, the republic would find a more stable position; there would be an opportunity for wider investment in adjacent areas; the republic would manage to create currency stocks and carry out its own investment policy; the process of integration of Azerbaijan into the world economic community would be speeded up; the level of technological development of the country would be raised.

Principal contracts concluded by the SOCAR with foreign companies on the development and exploitation of Azerbaijan's oil fields from 1995 to the beginning of 1997:

- In October 1995 a consortium was formed which engaged in the study of the Shakh-Deniz deposit. The structure of the consortium was determined as follows (in percentage): BP - 25; Statoil - 20; Turkish Petroleum - 15; SOCAR - 40. Later the distribution of shares changed as follows: BP - 25; Statoil - 25; Turkish Petroleum - 10; LUKoil - 10; Elf Aquitaine - 10; SOCAR - 10; Iran Oil - 10.
- November 1995 was marked by the signing of another contract for the development of the Karabakh deposit. The following companies form part of the new consortium: LUKoil - 32 per cent; Pennzoil - 30; Agip - 30; SOCAR - 7,5. The contract was ratified by the Azerbaijani Parliament in February 1996. The consortium expects to invest 1.7 billion US dollars in the project (126).
- The new year 1997 brought the fifth contract in a row for the development and exploration of the Lenkoran and Talysh-Deniz deposits, which was signed on 13 January in Paris. The members of the new consortium are as follows: Elf Aquitaine (40 per cent), SOCAR (25 per cent), Total (10 per cent). The 25-per cent share still remains vacant and awaits an owner (127).

Notes:

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1. Togrul Aydin, *Azerbaijani Oil*, CASPIANâ95, London, 1995, p. 182.
2. I bid, p. 189.
3. Sagers J. Matthew, "The Oil Industry in the Southern-Tier Former Soviet Republics" in *Post-Soviet Geography* 35, No 5, 1994, p. 269.
4. I bid, p. 271.
5. Yuri Fedorov, "Caspiiskyi uzel" in *Mirovaya ekonomika I mezhdunarodnye otnosheniya*, No 4, 1996, p 82.
6. The following data show the dynamics of the changing rates of oil extraction in the off-shore and on-shore areas.

The geophysical distribution of oil production in Azerbaijan (mln. metric tons) (Sagers, p. 284)

	1970	1975	1980	1985	1986	1988	1989	1990	1991	1992	1993
General	20.2	17.2	14.7	13.1	13.3	13.7	13.2	12.5	11.7	11.2	10.3
In-shore	7.6	5.8	5.1	3.8	3.8	4.1	3.6	3.1	2.7	2.0	2.0
Off-shore	12.6	11.4	9.6	9.3	9.5	9.6	9.6	9.4	9.0	9.2	8.3

The opening of new oil deposits at sea stimulated the development of the off-shore method of extraction. As of today, 80 per cent of the whole volume of oil produced in the republic is extracted from off-shore areas (Independent News Agency ASSA-IRADA, special issue of 25 June 1994).

- Paul Klebnikov, "The Quietly Determined American" in *Forbes*, October 24, 1994, p. 48.
- I bid, p. 49.
- I bid, p. 50.
- *Ayna*, 17 June 1995, p. 9.
- *The Wall Street Journal*, 2 October 1994, p. A 4:4; *The Economist*, 14 November 1992, p. 85.
- Togrul Aydin, p. 199; *The Houston Post*, 28 September 1991, p. C-3.
- *The Washington Times*, 9 March 1992, p. A, 9:5.
- The Azerbaijan Republic had been proclaimed on 28 May 1918 but in April 1920 Baku was seized by the Eleventh Red Army. On 18 October 1991, a constitutional act on the restoration of sovereignty of the Azerbaijan Republic was adopted.
- Starting from 1988, Azerbaijan has been in a state of undeclared war with Armenia over Nagorno-Karabakh, where Azerbaijani citizens of Armenian and Azeri nationality lived side by side. As per today, the Armenian Expeditionary Corps has occupied 25 per cent of the republic's territory, having advanced far beyond Nagorno-Karabakh. International organizations have repeatedly demanded that the seized territories be vacated, but this has been ignored by Armenia.
- Later, in 1992, by a decree of President Abulfaz Elchibey (he was elected president in June the same year), a new body was formed, the State Oil Company of Azerbaijan (SOCAR), under whose jurisdiction were transferred the functions of several organizations dealing with the questions of extraction, processing and transporting of oil.
- *Chicago Tribune*, 21 June 1991, p. 7, 1:1.

- *Interfax Petroleum Report*, 4-11 September 1992, p. 7.
- *O&GJ*, 30 January 1995, p. 32.
- Sagers, p. 286.
- *O&GJ*, 14 September 1992, p. 24.
- Togrul Aydin, p. 199; *WSJ*, 2 October 1992, A 4:4.
- *O&GJ*, 30 January 1995, p. 32.
- Togrul Aydin, p. 198; *Ayna*, 17 June 1995, p. 9.
- *WSJ*, 21 May 1993, p. A 6:1.
- *Ayna*, 11 March 1995, p. 7.
- Klebnikov, p. 49.
- *Ayna*, 18 February 1995, p. 7.
- In the first half of June UNOCAL joined the agreement on amalgamation with a 16 per cent share of participation (*O&GJ*, 14 June 1993, p. 18).
- *O&GJ*, 21 June 1993, p. 34.
- *O&GJ*, 14 June 1993, p. 18.
- *Interfax Petroleum Report*, 11-18 December 1992, p. 8.
- Stephen J. Blank, 'Energy and Security in Transcaucasia', *US Army War College Strategic Studies Institute*, 1994, p. 7.
- Part of the pipeline running from Baku to Georgia had been dismantled and taken out in the period of the Second World War.
- *The Washington Times*, 9 March 1992, p. A 9:5.
- I bid.
- *Chicago Tribune*, 7 July 1992, p.3, 3:3; *WSJ*, 6 July 1992, p. A, 26:6.
- Sagers, p. 289.
- I bid.
- *O&GJ*, 15 March 1993, p. 32; *O&GJ*, 22 March 1993, p. 30; Philip Robins, 'Between Sentiment and Self-Interest: Turkey's Policy Towards Azerbaijan and the Central Asian States' in *Middle East Journal* 47, No 4, Autumn 1993, p. 605.
- Philip Robins, 'Between Sentiment and Self-Interest: Turkey's policy towards Azerbaijan and the Central Asian States' in *Middle East Journal*, 47, No 4 Autumn 1993, p. 605.
- Robert V. Barylski, 'Russia, the West and the Caspian Energy Hub' in *Middle East Journal*, 49, No 2, 1995, p. 227.
- *O&GJ.*, 22 March 1993, p. 30.
- In October 1992, the US Congress passed Section 907 of the Freedom Support Act, which prohibited the rendering of any kind of aid to the Azerbaijani government as long as civil rights were violated in the republic, that is, as long as the blockade of Armenia continued and hostilities against Nagorno-Karabakh were pursued. Azerbaijan is the only one among all the republics of the former USSR that even now is not receiving humanitarian aid from the US government. Such an approach only set the local authorities against the American oil companies taking part in the tender.
- At that time Azerbaijan had a treaty with Oman and Kazakhstan on the creation of the Caspian Pipeline Consortium. John Doyce actively lobbied the idea of laying the Azerbaijani pipeline to Novorossiisk, whereas the Elchibey government preferred the Turkish route. Thus John Doyce served as a kind of trouble-maker in the negotiating process between the SOCAR and the Western companies.
- *Ayna*, 17 June 1995, p. 9.
- I bid.
- Suzanne Goldenberg, *Pride of Small Nations*, Zed Books Ltd., London

and New Jersey, p. 124; Stephen J. Blank, p. 8.

- Geidar Alirzyza Oglu Aliev was born on 10 May 1923 in the village of Nakhichevan. He trained as an engineer-architect and has the diploma of historian. In 1944 he began to work in the state security bodies and from 1967 to 1969 he headed the KGB of Azerbaijan. He was the first Azeri KGB general in the former USSR. From 1969 to 1982 he was First Secretary of the Communist Party of Azerbaijan and in the same year was elected Member of the Politburo of the Central Committee of the CPSU and appointed to the position of First Deputy Chairman of the Council of Ministers of the USSR, which he held until 1987. In 1990 he returned to Baku where he was soon elected Deputy of Azerbaijan and then, in 1991, Chairman of the Supreme Mejlis of the Nakhichevan Autonomous Republic (See *Geydar Aliev otkryvaet miru Azerbaijan*, Azerbaijan Press, 1994, pp. 7-23).

- An exception is provided by the US Congress which adopted Section 907, but this did not prevent the American companies from taking part in the Azerbaijani business.

- *Ayna*, 18 February 1995, p. 6.

- On 20 January 1990, the Soviet Army entered Baku under the pretext of defending the Armenian minority that lived in the city. The real reason was the prevention of the APF representatives' attempt to take over power and oust the Communist government of Abdurakhman Vezirov.

- Alexei Zverev, 'Ethnic Conflicts in the Caucasus' in Bruno Coppieters (ed.), *Contested Borders in the Caucasus*, VUBPress, Brussels, 1996, p. 36; Suzanne Goldenberg, p. 166; Human Rights Watch/Helsinki, 'Azerbaijan, Seven Years of Conflict in Nagorno-Karabakh', December 1994, p. 4-5.

- *Izvestia*, 4 August 1993, p. 5.

- *O&GJ*, 28 June 1993, pp. 33-34.

- *Chicago Tribune*, 18 June 1993, p. 7, 1:5.

- I bid.

- *Azerbaijan*, 18 August 1993, p. 2.

- *Chicago Tribune*, 18 June 1993, p. 7, 1:5.

- SOCAR section, *Azerbaijan International*, No 2.4, 1994.

- *Chicago Tribune*, 18 July p. 7, 1:5.

- *Financial Times*, February 23, 1994.

- *O&GJ.*, 8 November 1993, p. 38.

- Stephen J. Blank, p. 14-17.

- Negotiations on the inclusion of the Russian company LUKoil started as early as September 1993 and ended on 20 November 1993 with the signing of a package of documents on cooperation between LUKoil and the SOCAR. On the Russian side the document was signed by the Minister for Fuel and Energy Yuri Shafranik. Later he declared that Russia's share in the Caspian project made up 20 per cent; however, the Azerbaijani side soon denied this information by presenting another figure - 10 per cent (Sagers, p. 289).

- Stephen J. Blank, p. 19.

- *Interfax Petroleum Report*, 3-10 December 1993, p. 5.

- See *Geydar Aliev otkryvaet miru Azerbaijan*, p. 32; *Current Digest of the Post-Soviet Press*, 30 March 1994, p. 22; Sagers, p. 287.

- *Financial Times*, 2 November 1993, p. 6.

- *O&GJ.*, 7 March 1994, p. 34.

- *NIA ANS-press*, 21 June 1994, Special Issue, p. 3.

- Freddy De Pauw, 'Turkey's Policies in Transcaucasia' in Bruno

Coppieters (ed.), *Contested Borders in the Caucasus*, VUB Press, Brussels, 1996, p. 188.

- *NIA ANS-press*, 27 July 1994, Bulletin No. 360, c. 4.
- *NIA Khabar Service*, 7 June 1994, Bulletin No. 904, p. 1; *NIA ANS-press*, 21 June 1994, special issue, p. 2; Stephen J. Blank, p. 23.
- *Ayna*, May 20, 1995, p. 1-3.
- *NIA ASSA-IRADA*, 4 July 1994.
- *Ayna*, 1 February 1997, p. 14; The Status of the Caspian, *Azerbaijan International*, No. 2.4, 1994.
- *Ayna*, January 6, 1996, p. 22.
- *O&GJ.*, 30 June 1995, pp. 30-36. More detailed information on this problem may be found in: Khoshbakht Yusifzade, 'The Status of the Caspian', *Azerbaijan International*, No. 2.4, 1994; Brice M. Clangett, 'Ownership of Seabed and Subsoil Resources in the Caspian Sea Under the Rules of International Law' in *Caspian Crossroads*, No. 3, 1995, pp. 3-12; Blanche Sas, 'Disputed Legal Issues and Practical Consequences' in *Caspian 95*, c. 248-52.
- *NIA ASSA-IRADA*, July 4, p. 1.
- Stephen J. Blank, p. 22; *Middle East Journal (MEJ)*, No 4, 1994, p. 701.
- *NIA Sharg*, 31 May 1994, Bulletin No. 37.
- Barylski considers that it was they who convinced Boris Yeltsin to sign, on July 21 1994, confidential instruction No. 396 "On the Protection of the Interests of the Russian Federation in the Caspian Sea", which stipulated that that area was Russia's sphere of influence. They encouraged Prime Minister Victor Chernomyrdin to exert greater economic pressure on Azerbaijan so as to compel it to make concessions on the question of the stationing of military bases in the republic, the transfer of the borderguard service to the control of Russia and the exclusive use of the Russian peace-keeping force in the Karabakh conflict.
- Barylski V. Robert, p. 223.
- *NIA ASSA-IRADA*, 7 June 1994, p. 2.
- *NIA Khabar Service*, 7 June 1994, Bulletin No. 971, p. 2.
- Azerbaijan's 'Contract of the Century' Finally Signed with Western Oil Consortium, *Azerbaijan International*, No. 2.4, 1994.
- For more details see: *Zerkalo*, 25 February 1995, p. 12; 11 March 1995, p. 1, 7; Azerbaijan's "Contract of the Century" Finally Signed With Western Oil Consortium, *Azerbaijan International*, No 2.4, 1994.
- Will Azerbaijan Really Benefit From the Consortium Contract?, *Azerbaijan International*, No 3.2, 1995.
- *Azerbaijan International*, No 3.2, 1995, p. 86.
- *World Press Review*, November 1994, p. 28.
- *World Press Review*, January 1995, p. 34.
- With the happy touch of President Geidar Aliev, the petroleum contract of 20 September 1994 was named "the contract of the century".
- *WSG*, 23 September 1994, p. A, 10:1; *The Economist*, 24 September 1994, p. 71.
- *The Washington Post*, 27 September 1994, p. A 21.
- *The Washington Post*, 27 September 1994, p. A 21.
- Rob Sobhani, 'President Clinton's Iran Option' in *Caspian Crossroads*, No. 1, 1995.
- Barylski V. Robert, p. 224.
- *Ayna*, 1 July 1995, p. 5.

- *NIA Khabar Service*, 7-30 January, 1995.
- *MEG*, No. 2, 1995, p. 493.
- *Ayna*, 3 March 1995, p. 5.
- *MEJ*, 1995, No. 2, p. 491.
- *NIA Habar Service*, 7-30 January 1995.
- *Ayna*, 20 May 1995, p. 6.
- *WSJ*, 2 April 1996, p. A 4:4.
- *The New York Times*, 29 April 1996, p. A 8; *Omri Digest*, 12 May 1996, No. 90.
- See *Turkish Daily News*, 26 October 1995.
- *Omri Digest*, May 13, 1996, No 91.
- *Ayna*, 11 March 1995, p. 6.
- Radio Free Europe/Radio Liberty (RFE/RL), 18 March 1996.
- *Omri Digest*, 17 May 1996, No. 95.
- *The Washington Post*, 10 October 1995, p. A, 16:3; *WSJ*, 9 October 1995, p. A 8; *Ayna*, 7 October 1995, p. 9.
- *The Washington Post*, 10 October 1995, p. A, 16:3.
- *Ayna*, 16 December 1995, p. 6.
- *Omri Analytical Brief*, 17 April 1996.
- *Ayna*, 27 January 1996, p. 6.
- *O&GJ.*, 11 March 1995, p. 104.
- *OMRI - Pipeline News*, 9-15 March 1996, No. 4.
- *Ayna*, 6 January 1996, p. 4.
- *Omri Digest*, 3 June 1996, No. 106.
- *Omri Digest*, 13 June 1996, No. 114.
- *Omri Digest*, 5 June 1996, No 108; *Zerkalo*, 27 January 1996, p. 6.
- *Omri Digest*, 14 May 1996, No. 92.
- S. Kolchin, 'Neftyanoy faktor v rossiyskoy ekonomike i politike' in *Mirovaya ekonomika i mezhdunarodnye otnosheniya*, No. 5, 1996. p. 32.
- 'Oil development in Azerbaijan', *Azerbaijan International*, 1996, No. 4.2; *Omri*, 14 May 1996, No 92; *Omri - Pipeline News*, 9-15 March 1996, No 4.
- *Ayna*, 21 December 1996, p. 7; *Ayna*, 18 January 1997, p. 5; *Caspian Basin*, February 1997, p. 15-17.

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